

# Tata Motors (TELCO)

₹ 1209

## WHAT'S CHANGED...

PRICE TARGET ..... Changed to ₹ 1523  
 Console EPS (FY11E) ..... Introduced at ₹ 140.8  
 Console EPS (FY12E) ..... Introduced at ₹ 149.4  
 RATING..... Changed from Buy to Strong Buy

## JLR lifts Tata Motors into orbit...

Tata Motors (TML) reported stellar Q3FY11 numbers on the back of another impressive Jaguar Land Rover (JLR) performance. The consolidated topline was at ₹ 31,685.2 crore (up 21.3% YoY and 10.3% QoQ) driven by JLR's topline growth (up 35.6% YoY) and standalone performance (up 28.3% YoY). Standalone net sales were slightly above our expectations at ₹ 11,519.6 crore, a 28.3% YoY jump (I-direct estimate: ₹ 11,006.1 crore) aided by volume and realisation jump of 17.3%, 9.4% YoY, respectively. On the margins front, TML's standalone soared as they improved 70 bps QoQ on higher low cost inventory and SG&A costs management. On a consolidated basis, TML continues to surprise positively with impressive margins at 15.2% (up 70 bps QoQ and 380 bps YoY) as JLR, which contributes ~71% of EBITDA, had an impressive 17.4% margin. The JLR business contributed ~59% on topline and ~79% on bottomline as volume growth remained strong in Q3FY11 (13.6% YoY), a richer product mix and favourable geographies. On bottomline, the standalone and consolidated numbers were at ₹ 410.0 crore (2.5% YoY jump) and ₹ 2,424.4 crore (277% QoQ jump), respectively. It has improved on higher accumulated tax credits.

### Key highlights of the quarter

Tata Motors continued to show a strong growth momentum at the standalone and subsidiary level. On the standalone front, volumes grew at 14.3% YoY to touch 1,94,085 units driven by 21.5% YoY growth in the CV segment and 55% YoY rise in the export segment. JLR continued the impressive performance with a volume growth of 11% in the wholesale segment at 63,155 units due to strong growth in North America, China and Russia (together contributing YTD 39% of volumes). The ripening product mix with the new XJ and growing sales in the top-end Range Rover segment along with improving geographical sales led to average realisation improvement of ~14.4% on a QoQ basis.

### Valuation

We have valued TML on an SOTP basis. We have valued the standalone business at ₹ 569, JLR at ₹ 836 and other major subsidiaries at ₹ 73. We have also valued the investment book at ₹ 45/share and maintain our target price of ₹ 1523. We change our rating from BUY to **STRONG BUY**.

### Exhibit 1: Financial Performance (Standalone)

(₹ Crore)	Q3FY11	Q3FY11E	Q3FY10	Q2FY11	YoYchg(%)	QoQchg(%)
Net Sales	11459.0	10954.1	8929.8	11449.6	28.3	0.1
EBITDA	1196.0	1089.6	1129.3	1117.6	5.9	7.01
EBITDA Margin (%)	10.4	9.9	12.6	9.7	(220) bps	70 bps
Depreciation	337.1	340.0	264.1	331.6	27.6	1.6
Interest	274.9	300.0	386.8	307.2	-28.9	-10.5
Reported PAT	410.0	423.7	400.1	432.7	2.5	-5.3
EPS (₹)	6.5	6.7	6.3	6.8	2.5	-5.3

Source: Company, ICICIdirect.com Research

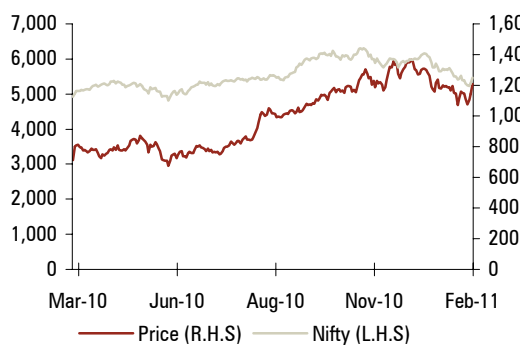
Rating matrix	
Rating	: Strong Buy
Target	: ₹ 1523
Target Period	: 12 months
Potential Upside	: 26%

Key Financials (Consolidated)				
	FY09	FY10	FY11E	FY12E
Net Sales	70881.0	92519.3	118986.8	134264.4
EBITDA	2995.5	10407.3	16629.0	18480.3
Net Profit	-2465.0	2516.9	8912.4	9469.3
EPS	-49.2	43.8	140.8	149.4

Valuation summary (Consolidated)				
	FY09	FY10	FY11E	FY12E
PE (x)	-24.6	27.6	8.6	8.1
Target PE (x)	-31.0	34.8	10.8	10.2
EV to EBITDA (x)	35.9	9.9	6.0	5.3
Price to book (x)	10.6	8.4	3.6	2.6
RoNW (%)	-42.6	30.5	41.6	32.1
RoCE (%)	3.0	18.3	21.4	22.2

Stock data	
Mcap	₹76565.2crore
Debt (FY10)	₹35192crore
Cash (FY10)	₹8743.3crore
EV	₹103013.8crore
52 week H/L	1362 / 661
Equity cap	₹ 633.1 crore
Face value	₹10
MF Holding	13.9%
FII Holding	24.2%

### Price movement



### Analyst's name

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## Result analysis

### Domestic economic environment

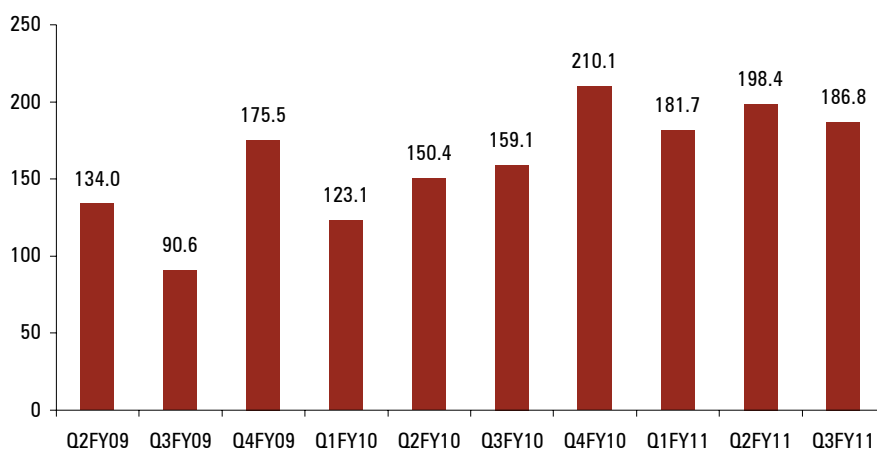
The macro scenario looks positive as the IIP growth for the “transport equipment” segment has been the strongest YTD. Again, on a positive note, freight rates continue to be firm reflecting the strong nature of demand. We expect stronger traction in the CV industry in FY12 with the construction and infrastructure space witnessing traction with higher degree of governmental project awarding. Though the economic environment has been strong and GDP growth is expected to be above 8% for FY11, rising inflation and rising interest rates are expected to be an area of concern

### Standalone business

TML has continued on the strong growth trend set up in FY11 in both the passenger vehicles (PV) and commercial vehicle (CV) segments with volumes increasing 4.7% and 21.5% YoY to 64,501 units and 1,13,622 units, respectively. However, the dip in Nano sales in October and November 2010 led to a softening of PV volumes towards the end of the year. However, with stronger marketing and easing production hassles the management is confident of maintaining a Nano run rate of ~10,000 units.

The market share in the CV segment has seen a degree of stabilisation at ~58.3% even as competition in both the LCV (56.7% market share YTD) and MHCV (~60% market share YTD) segment continues to rise with newer entrants like M&M Navistar. The ACE family continues to be the leading driver in the sub-1 tonne LCV segment and would see higher volume growth with the ramp up of the Pantnagar facility. TML is looking to expand the capacity of the ACE family. It is expected to set up a new facility for the same. CV demand is expected to get the next push through the haulage segment as railways continues to remain a laggard and would continue to witness a higher shift of railway freight to road freight. The market share of the PV segment has not seen a strong move and remains at ~14% as Nano sales had seen a short-term decline even as the Indigo family continues to do well in the entry level sedan. The latest launch of the Aria in the mid-priced UV segment has received a strong response. With the launch of the Winger Platinum, the company is expected to witness better volumes in the UV segment.

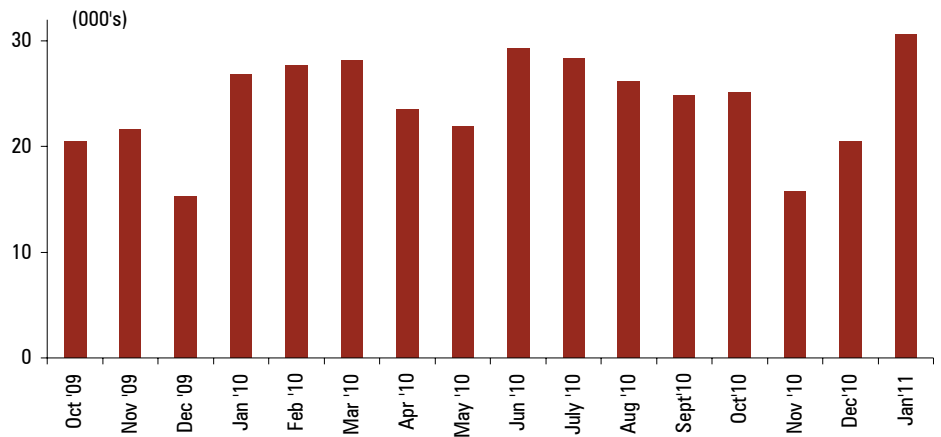
### Exhibit 2: Quarterly standalone volume trend



Source: Company, ICICIdirect.com Research

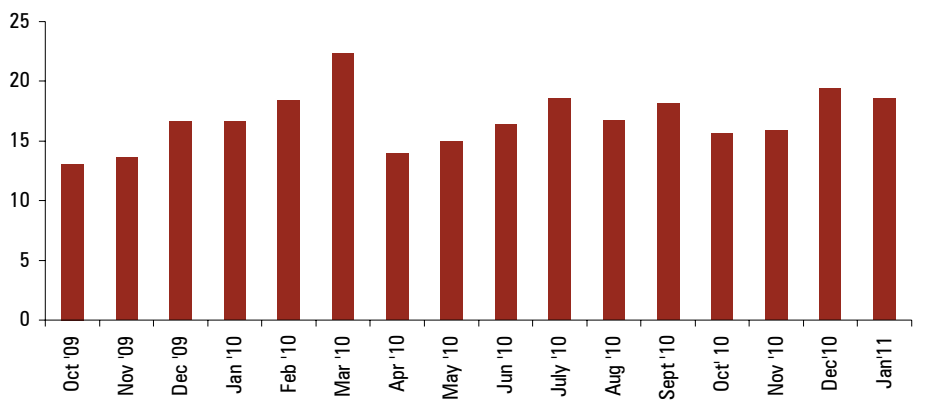
Tata Motors has shown a continued improvement in all segments since the steep decline in Q1FY10 due to the economic slowdown and has maintained strong volumes all through the nine-months FY11

### Exhibit 3: Passenger vehicles volume trend



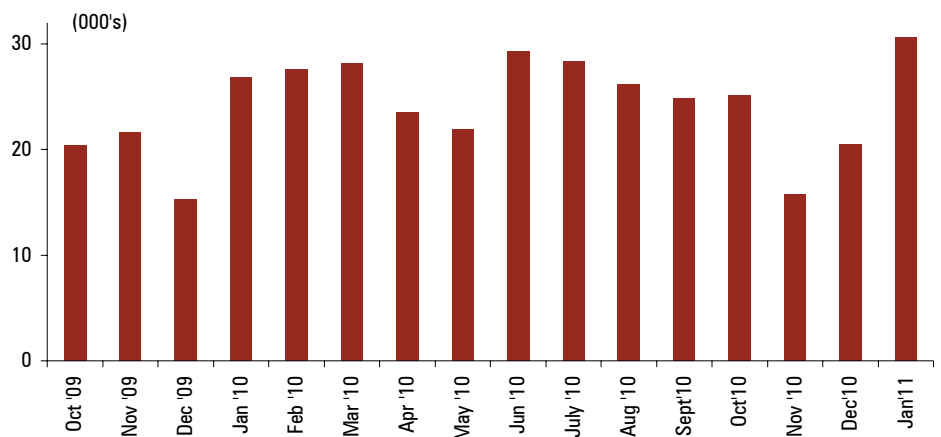
Source: Company, ICICIdirect.com Research

### Exhibit 4: M&HCV volume trend



Source: Company, ICICIdirect.com Research

### Exhibit 5: LCV volume trend

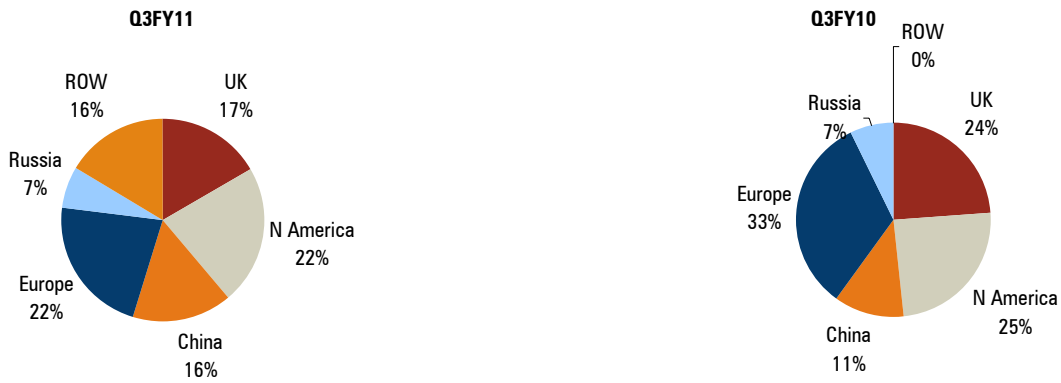


Source: Company, ICICIdirect.com Research

Volumes have been stronger in the higher tonnage haulage trucks. This has coupled itself with the increasing freight activity in the country leading to strong 32.3% YTD growth in the quarter

The LCV segment grew above 22.8% YoY due to the positive traction in the sub-one tonne category even though the Ace family received competition from M&M and TVS

## Exhibit 6: Land Rover region wise segmental share movement



Source: Company, ICICIdirect.com Research

## Exhibit 7: Jaguar region wise segmental share movement



Source: Company, ICICIdirect.com Research

## Subsidiaries performance highlights

### Exhibit 8: Q2FY11 financials of subsidiaries

₹ crore	Revenues			EBITDA			Net profit		
	Q3FY11	Q3FY10	%chg	Q3FY11	Q3FY10	%chg	Q3FY11	Q3FY10	%chg
Tata Daewoo Motors	658.2	586.0	12.3	24.0	20.6	16.5	-4.4	-1.9	NC
Tata Technologies	313.3	279.0	12.3	39.2	35.5	10.4	28.3	21.8	29.8
HV Transmission	73.4	54.3	35.2	42.0	30.5	37.7	21.5	14.4	49.3
HV Axles	72.6	60.7	19.6	39.4	35.2	11.9	20.0	16.2	23.5
Total	1117.5	980.0	14.0	144.6	121.8	18.7	65.4	50.5	29.5
Tata Motor Finance	331.8	344.6	-3.7	35.7	36.7	-2.7	32.8	39.0	-15.9
Total	1449.3	1324.6	9.4	180.3	158.5	13.8	98.2	89.5	9.7
JLR	18716.3	15675.4	19.4	3446.0	1747.1	97.2	1915.8	160.7	1092.2
Total	20165.6	17000.0	18.6	3626.3	1905.6	90.3	2014.0	250.2	705.0

Source: Company, ICICIdirect.com Research , LP~loss to profit, JLR ₹ values have been derived

**Jaguar and Land Rover (JLR)**

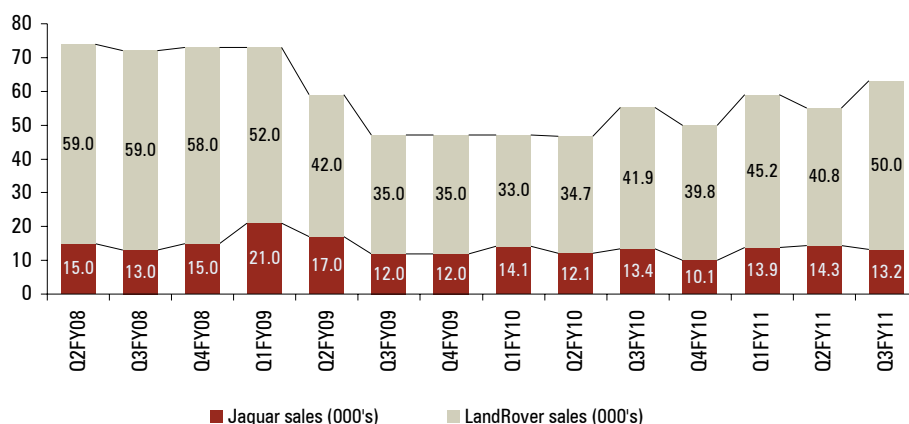
The JLR turnaround has been a unique success story. The volume growth continues to be positive for the retail (58,409 units; 13.6% YoY jump) as well as wholesale (63,155 units; 6% YoY jump) segment for Q3FY11. These saw strong growth in markets like China, Russia and North America, which have improved the volume share to 11.7%, 5.1% and 22.2% from 7%, 4% and 21%, respectively, in June 2010. This geographical shift has helped in improving the sales mix and realisations. The positive model mix has been driven by the new XJ, XK gaining market share and Range Rover’s growing popularity, which ultimately reflected in the realisation jump of 14.4% QoQ.

On further evaluation, some regions have shown a drop in sales like the UK and Europe that have both seen a drop of 12-13% mainly due to the cessation of the classic X-type, which used to contribute ~20% of Jaguar’s total volume. On the Land Rover front, in the UK, the Defender and Freelander products saw segment growth of 11% and 19%, respectively.

The decline in Jaguar’s overall volumes was partly attributable to X-type volumes cessation and supply constraints for the recently launched XJ. On the Land Rover front, demand remained high even as Discovery, Range Rover saw similar hassles while Freelander and RR Sport continue to see 17-18% kind of YoY growth. The demand outlook remains healthy with average waiting period ranging from three to five weeks as the company continues to ease out supply constraints with various models. The JLR performance, on the whole, continues to be stunning with stronger EBITDA margin and strong cash flows compared to global peers.

The pick-up in volumes of JLR in the past three quarters has set the tone for growth in volumes in the coming quarters. With newer model launches and new initiatives, the company is expected to reach higher volumes comparable to the FY08-09 numbers

**Exhibit 9: JLR wholesale volumes**



Source: Company, ICICIdirect.com Research

**Tata Daewoo Commercial Vehicle (TDCV)**

The company reported Q3FY11 net sales of ₹ 658.2 crore, a ~12.3% YoY increase due to higher realisations even as volumes slowed down ~2.4% in Q3FY11 at 1,905 units, mainly on account of lower domestic market sales. EBITDA margins declined 310 bps QoQ at 3.6% as higher input prices dented profitability. The company had earlier launched TDSC as the sole distributor. Thus, in the process, it has been unable to ramp up the network. The company, thus, reported a loss of ₹ 4.4 crore against a profit of ₹ 7.7 crore in the previous quarter.

**Tata Technologies (TTL)**

The net sales of TTL for Q3FY11 increased 12.3% YoY from ₹ 279 crore to ₹ 313.1 crore as the growth momentum remained strong in the North America and Asia Pacific (APAC) regions from marquee clients in the automotive and aerospace business. EBITDA margins remained flat at 12.5% as higher employee costs and rising attrition remain a challenge in the competitive atmosphere. The PAT reported in Q3FY11 has been at ₹ 28.3 crore (29.5% YoY jump) while the nine-month PAT came at ₹ 91.5 crore (76.6% YoY increase).

**HV Axles (HVTL) and HV Transmission (HVTL)**

The rise in demand in the domestic CV market has propelled the axles and gear boxes demand, thereby increasing the topline of HVTL and HVAL. HVAL had net sales of ₹ 72.6 crore, a 19.7% YoY growth with net profit growth of 23.4% at ₹ 20.0 crore. HVTL reported a topline jump of 35.1% to ₹ 73.4 crore and a net profit rise of 49.3% to ₹ 21.5 crore. Both companies undertook cost control exercises successfully to help improve PAT margins by 280 bps, 80 bps at 29.3%, 27.5% for HVTL and HVAL, respectively. The companies are mulling an amalgamation of both companies into one entity. This would be helpful in servicing the clients and provide better cost efficiencies.

**Tata Motors Finance (TMFL)**

TMFL, the non banking financial arm of TML, had a sequentially weaker Q3FY11 as net revenue declined 2.8% QoQ to ₹ 331.8 crore. The number of disbursements at 37,190 saw a 6.4% QoQ rise and is not properly reflected in the revenue comparison YoY as Q3FY10 had a ₹ 107.5 crore securitisation income included. The book size at the end of Q3FY11 for TMFL stood at ₹ 8,294 crore while for TML it was at ₹ 331 crore. TMFL has a market share of 19.5% for nine months while the net interest margins of the vehicle financing business stood at 10.3%. On the PAT front, the company reported a 26.8% QoQ decline in Q3FY11 at ₹ 32.8 crore.

**Outlook and valuation****Outlook**

The outlook for the standalone operations remains positive even as concerns over inflation and rising interest rates remain immediate. On the CV segment, the rising freight rates and demand in the haulage segment continue to be positive indicators for the future. We expect FY12 to witness a stronger pick-up in infrastructure and construction related activities as NHAI is expected to clear pending orders of the previous year along with fresh orders for FY12E.

On the PV front, the company has witnessed challenges emerging from the intermediate slowdown in Nano's volumes. TML has started to address the issue with stronger marketing and better product positioning. The management is confident of maintaining a run rate of ~10,000 units for the same. TML has launched a variety of new launches like Indigo Manza, Aria and Winger Platinum. These are expected to help volume traction in the mid-sized sedan segment as well as in the UV segment.

On the subsidiaries front, JLR continues to show the hidden value of a strong brand, which TML is now effectively encashing along with high quality products and increasing geographical presence. The demand, at present, is not witnessing any slowdown worries as the variable incentives and discounts for JLR products have remained minimal. It has continued to increase its contribution and stands at a whopping 59% (up ~810 bps QoQ) to the consolidated topline and an even more impressive 79% (up 450 bps QoQ) to the consolidated bottomline. On the margins front, JLR continues to surprise as at 17.4% it is one of the strongest among all global auto behemoths. The management, in turn, remains positive on the margin maintenance due to higher degree of value-added content in JLR products even while being apprehensive on rising commodity prices across the globe.

The company has seen a certain degree of currency benefit towards JLR. Even though it continues to have forward covers to a certain degree it continues to remain a challenge. On the overall net auto-debt front, TML has successfully brought the D/E level to 0.8 with the net debt at ~₹ 21,300 crore post the successful completion of QIP to the tune of ~\$750 million through ordinary and "A ordinary" shares.

JLR is expected to turn aggressive and launch newer 2011 models to enrich its product mix further (Range Rover Evoque slated to be launched by mid-CY11). Also, it would continue to focus increasingly on the ever growing Chinese market where volumes have jumped highest by ~72% and contribution has risen to double digits in CY10. Meanwhile, among other subsidiaries, Tata Motors Finance has continued to show a strong turnaround on the operating front as it is expected to keep its momentum going with sales growth of parent company Tata Motors. However, TDCV has seen a seasonal decline in profits and would be closely monitored in the coming quarters as it is a significant contributor to revenues apart from JLR.

### Valuation

We have upgraded our standalone volumes and sales estimates for FY11 and FY12 on the back of the volume performance demonstrated in 9MFY11. However, we have factored in higher input cost pressures by slightly lowering our standalone EPS estimates by 1% in FY11 to ₹ 28.6. We have factored in consolidated revenues from JLR and value the per share contribution of JLR at ₹ 836 per share (~55% of target price). We expect JLR to continue to see stronger volume growth and a richer product mix with the launch of newer models in FY11. However, the increase in product development expenses would also restrict higher profit jump. However, in FY13E we would see the strong topline and operational efficiencies coming into full effect. The main concerns for JLR would arise from higher input prices and any adverse currency fluctuations. This could further reduce domestic profitability and erode JLR's margins.

We have valued the stock on an SOTP basis. We have valued the standalone business at 14x FY12 EPS of ₹ 40.7 to arrive at ₹ 569, JLR at 5.0x EV/EBITDA to arrive at ₹ 836 and other major subsidiaries at ₹ 73 post 15% holding company discount. We have also valued the investment book of the company at 0.1x BV for unquoted investments and market value of quoted investments to reach ₹ 45 per share and maintain our target price of ₹ 1523. We have upgraded the stock from BUY to **STRONG BUY**.

#### Exhibit 10: Valuation on SOTP method

	Parameters	Basis	Multiple	Per Share
Tata Motors Core business	FY12E EPS	40.7	14.0	569
JLR	FY12 Adj EV/EBITDA	10089.0	5.0	836
Subsidiary valuation				
Tata Daewoo	FY12E NP	99.4	11.0	17
Tata Motor Finance	FY12E NP	169.8	7.0	19
Tata Technologies	FY12E NP	146.4	11.0	21
HV Axles	FY12E NP	104.7	11.0	15
HV Transmission	FY12E NP	88.3	11.0	13
Value of other subsidiaries				85
Value post discount	Holding company discount @15%		15%	73
Value of investments	0.1x BV of unquoted investments			45
	market value of quoted investments			
Total value per share				1523

Source: Company, ICICIdirect.com Research

#### Exhibit 11: Jaguar Land Rover metrics

GBP mn	FY09	FY10	FY11E	FY12E
Total Volumes	145200	210121	233684	261715
Jaguar(nos)	42100	52,718	50541	52909
Land rover (nos)	103100	157,403	183143	208806
Net sales	4974.0	6554.8	9607.5	10975.0
EBITDA	-40.8	432.2	1582.7	1714.6
EBITDA margin(%)	-0.8	6.6	16.5	15.6

Source: Company, ICICIdirect.com Research

**Exhibit 12: Valuation table**

	Sales	Growth	EPS	Growth	PE	EV/EBITDA	RoNW	RoCE
	(₹ cr)	(%)	(₹)	(%)	(x)	(x)	(%)	(%)
FY09	70881.0	106.5	-49.2	NC	-24.6	35.9	-42.6	3.0
FY10	92519.3	30.5	43.8	NC	27.6	9.9	30.5	18.3
FY11E	118986.8	28.6	140.8	221.4	8.6	6.0	41.6	21.4
FY12E	134264.4	12.8	149.4	6.2	8.1	5.3	32.1	22.2

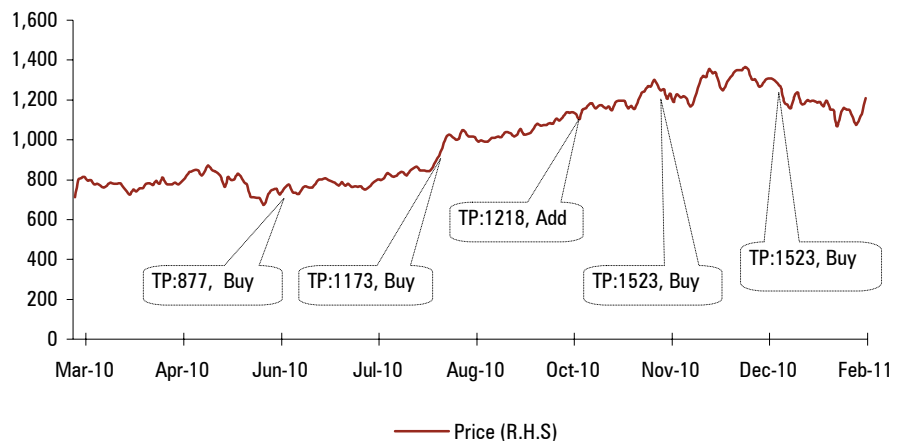
Source: Company, ICICIdirect.com Research

**Exhibit 13: ICICIdirect.com Research coverage universe**

Tata Motors				Sales (₹ cr)	EPS (₹)	PE(x)	EV/E (x)	RoNW (%)	RoCE (%)	
Idirect Code	TELCO	CMP(₹)	1,209	FY09	70,881.0	-49.2	-24.6	35.9	NC	3.0
		Target(₹)	1,523	FY10	92,519.3	43.8	27.6	9.9	30.5	18.3
Mcap (₹cr)	62166.6	% Upside	26.0	FY11E	118,986.8	140.8	8.6	6.0	41.6	21.4
				FY12E	134,264.4	149.4	8.1	5.3	32.1	22.2
Maruti Suzuki				Sales (₹ cr)	EPS (₹)	PE(x)	EV/E (x)	RoNW (%)	RoCE (%)	
Idirect Code	MARUTI	CMP(₹)	1154	FY09	20,358.3	42.2	27.4	16.5	13.7	18.4
		Target(₹)	1390	FY10	28,958.5	86.4	13.4	8.7	23.6	31.7
Mcap (₹cr)	33350.6	% Upside	20.5	FY11E	35,517.3	79.1	14.6	9.5	17.7	23.3
				FY12E	42,602.8	100.7	11.5	7.5	18.9	25.3
M&M				Sales (₹ cr)	EPS (₹)	PE(x)	EV/E (x)	RoNW (%)	RoCE (%)	
Idirect Code	MAHMAH	CMP(₹)	680	FY09	13,093.7	15.3	44.3	37.7	17.4	9.9
		Target(₹)	741	FY10	18,602.1	36.9	15.9	13.5	31.9	25.8
Mcap (₹cr)	37068.1	% Upside	9.0	FY11E	23,340.5	46.3	14.7	11.2	29.1	26.9
				FY12E	27,195.0	48.0	14.2	9.9	23.8	25.7
Bajaj Auto				Sales (₹ cr)	EPS (₹)	PE(x)	EV/E (x)	RoNW (%)	RoCE (%)	
Idirect Code	BAAUTO	CMP(₹)	1,298	FY09	8,932.2	15.5	83.6	87.8	27.0	29.3
		Target(₹)	1,398	FY10	12,043.5	52.5	24.8	26.0	59.8	60.5
Mcap (₹cr)	18780.9	% Upside	7.7	FY11E	17,183.6	88.5	14.7	15.2	65.8	61.8
				FY12E	19,949.7	99.9	13.0	13.4	56.8	57.8
Escorts				Sales (₹ cr)	EPS (₹)	PE(x)	EV/E (x)	RoNW (%)	RoCE (%)	
Idirect Code	ESCORT	CMP(₹)	115	FY09	2,189.6	9.4	12.2	9.4	8.5	10.4
		Target(₹)	136	FY10	2,764.8	11.7	9.8	7.7	7.7	9.5
Mcap (₹cr)	1087.5	% Upside	17.8	FY11E	3,509.9	16.0	7.2	5.8	9.1	12.0
				FY12E	3,928.9	19.0	6.1	4.3	11.5	15.4

Source: Company, ICICIdirect.com Research

**Exhibit 14: Recommendation history**



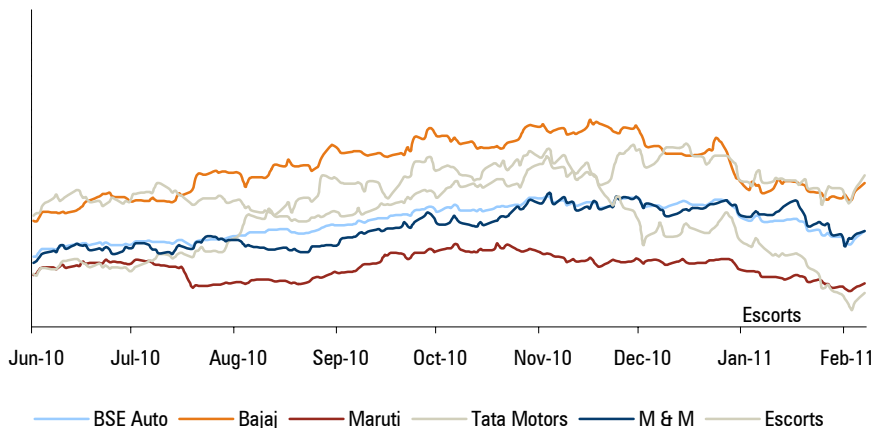
Source: Company, ICICIdirect.com Research

## ICICIdirect.com Universe price movement vis-à-vis BSE Auto index

The chart compares the movement of OEM stocks in the ICICIdirect.com Universe with the BSE Auto index, thereby reflecting the degree of mimicking of the index

Since mid-February 2010, Bajaj Auto, Tata Motors and Escorts have outperformed while Maruti Suzuki has underperformed in comparison to the index by being divergent on the upside and downside, respectively

### Exhibit 15: OEM comparison with BSE Auto

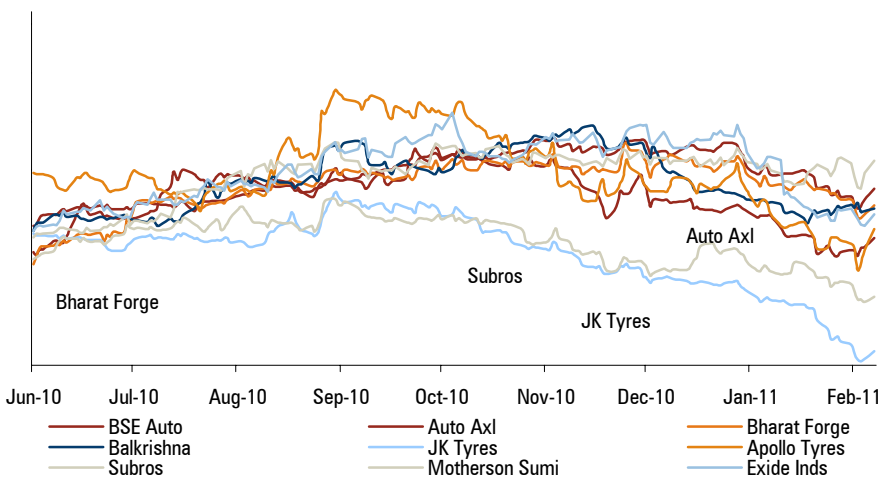


Source: Company, ICICIdirect.com Research

The chart compares the movement of auto ancillary stocks in the ICICIdirect.com universe with the BSE Auto index

The volatile nature of smaller ancillary companies is reflected. These have met with numerous fluctuations with the exception of larger market capitalisation companies like Bharat Forge and Exide Industries, which mimic the index greatly. The tyre companies post November 2010 have grossly underperformed due to the intense rubber price overhang

### Exhibit 16: Ancillaries comparison with BSE Auto



Source: Company, ICICIdirect.com Research

## **RATING RATIONALE**

ICICIdirect.com endeavours to provide objective opinions and recommendations. ICICIdirect.com assigns ratings to its stocks according to their notional target price vs. current market price and then categorises them as Strong Buy, Buy, Add, Reduce and Sell. The performance horizon is two years unless specified and the notional target price is defined as the analysts' valuation for a stock.

Strong Buy: 20% or more;  
 Buy: Between 10% and 20%;  
 Add: Up to 10%;  
 Reduce: Up to -10%  
 Sell: -10% or more;

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## **ANALYST CERTIFICATION**

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