

Buy

Tata Motors



Industry: Auto and Auto Components

Industry View: Neutral

Result Update

“JLR puts Tata Motors in a sweet spot”

Standalone business disappoints again, JLR excels

Tata Motors(TAMO) consolidated sales was up by 43% yoy in Q2 FY12, majorly led by strong sales performance on the JLR business. JLR volumes grew by 37% yoy to 86,322 units, while EBITDA margins were at 18% post adjusting for currency gain. Standalone sales were up by 16% yoy and 3% qoq, as volumes grew by 22% yoy, driven by strong performance at LCV segment while PV segment continued to underperform over major part of the quarter. Consolidated margins came in at 15% while standalone margins sunk to 6.8% v/s 7.2% qoq, lowest in the recent past. Adverse product mix, high RM costs, higher discounts on the PVs & declining PV business led to fall in margins of the domestic business to fall. Consolidated PAT came in at Rs34.2mn, a growth of 42% yoy and 79% qoq.

Evoque proved the street wrong as being a margin dampener

JLR sold 2.46 lakh units in the first ten months of the year driven by China and other developing countries like Brazil, Russia and Middle East. Contribution from China has shot up from 13% in Q3 FY11 and 16% in Q2 FY12 to 17.1% in Q3 FY12 and the absolute volumes have grown 81% yoy. Launch of Evoque in September across all geographies showed significant impact in the volumes of JLR (wholesale volumes of ~24,000 units in Q3). With Evoque expected to form 15-20% of volumes in FY13E, we expect a strong growth in JLR volumes going forward. Traction happening in emerging markets and steady performance in the US will be able to offset any weakness in the European continent and UK. Evoque was launched in China in the month of November, due to which the impact of Evoque sales in China was felt partially. We could see the complete effect from Q4, which would witness a further surge in Evoque volumes. Evoque was considered to be a margin dampener for JLR, however, with differential pricing in different geographies it has proved the street wrong. In Q3, in fact JLR reported one of their highest EBITDA margins at 18%. New model variants from JLR's stable along with Evoque are the future growth drivers for JLR. Application of smaller diesel engines in Jaguar vehicles will also lead to volume improvement, for e.g. Jaguar XF model launched in July is receiving a good response. We expect JLR to report 300K units in FY12E and 343K in F 2013E.

Domestic LCV volumes to remain strong, PVs are on recovery trend

On the domestic front, CV sales are expected to hold up in the rest of the year as well. In difficult operating environment especially in South India, MHCV sales were up 7% in the first 10 months of the year FY 12, while LCV sales were up by 25% in the same period. Going forward, we expect MHCV sales to hold up on issues in South Indian markets getting resolved and interest rate cycle getting reversed. On the LCV front, the demand for Tata Ace family is expected to remain robust. With increasing capacities for Tata Ace at Dharwad facility, TAMO will keep pace with the increasing demand for the model. On the PV side, we have seen improvement off

Stock Data

Current Market Price (₹)	275
Target Price (₹)	318
Potential upside (%)	15
Reuters	TAMO.BO
Bloomberg	TTMT IN

What's Changed

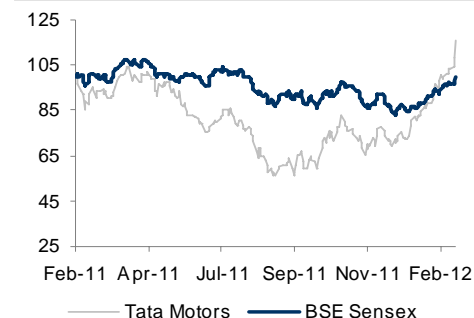
12 month PriceTarget (₹)	253 to 318
F2012 EPS (₹)	28 to 32
F2013 EPS (₹)	31 to 38

Key Data

Market Cap (₹bn)	745
52-Week Range (₹)	292 / 138
Avg. Daily Trading Value (₹mn)	3,386
Promoters (%)	35
FII Holding (%)	25
DII Holding (%)	14
Public & Others Holding (%)	26

Fiscal YE	FY 10	FY 11	FY 12E	FY 13E
Revenues (₹mn)	925,193	1,231,333	1,576,007	1,834,689
EBITDA (%)	9.8	14.4	13.2	13.6
PAT (%)	3.0%	7.3%	6.8%	6.9%
EPS (₹)	8.9	28.5	32.1	38.1
EPS growth (%)	N/A	221.8	12.6	18.6
P/E (x)	31.5	9.8	8.7	7.3
P/B(x)	2.2	0.9	0.6	0.5
EV/EBITDA (x)	4.8	2.2	1.7	1.2
ROCE(%)	42%	71%	64%	58%
ROE(%)	34%	47%	37%	31%

Relative Price Performance



One Year Indexed

(%)	1 Month	3 Months	12 Months
Absolute	34	57	16
BSE Relative	22	49	16

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late coming from products like Nano and Indica Vista variant launched recently. The segment has posted a flattish growth in the first ten months of FY 12, as compared to a negative high single digit growth in the first half of the year. Also, going forward, the festive discounts are expected to reduce, thus improving PV margins. We expect MHCV/LCV/PV to grow by 6.5%/23%/-1% in FY 12E and 8%/17%/15% in FY 13E respectively.

Outlook and valuation

Although JLR margins peaked this quarter, we do not believe it is sustainable. However, we are confident that Evoque is not a margin dampener and hence improve our margin estimates from previous expectations to 15.5%/15.9% for JLR in FY12E/FY13E. With Evoque getting launched in China and given the good response it has got globally, we are raising our JLR estimates and hence value per share from JLR is moving up to Rs217. We believe the improvement in PV segment on domestic side is commendable and hence improve the volume estimates along with the higher expectations from LCV segment. Therefore, we value the stock at Rs 117 for its domestic business. We value TAMO at Rs318, which we have arrived by adding Rs21 for other subsidiaries to JLR and standalone businesses .

SOTP Valuation

Standalone	
FY '13E EBITDA (Rs mn)	48928
EV/EBITDA multiple (x)	8
EV (Rs mn)	391423
EV/share (Rs)	117
JLR	
FY '13E EBITDA (Rs mn)	181288
EV/EBITDA multiple (x)	4
EV (Rs mn)	725152
EV/share (Rs)	217
FY '13E Consolidated Net debt (Rs mn)	125868
Net debt/share (Rs)	38
Subsidiary value (Rs)	21
Target price (Rs)	318
CMP (Rs)	275
Upside (%)	15%

Financial Highlights

(₹ mn)	Q3 FY12	Q2 FY12	% qoq	Q3 FY11	% yoq
Net sales	451,993	359,384	25.8%	315,063	43.5%
Other operating income	610	2,591	-76.5%	1,789	-65.9%
Total income	452,603	361,975	25.0%	316,852	42.8%
RM costs	299,943	241,368	24.3%	202,415	48.2%
Employee costs	32,072	28,656	11.9%	24,266	32.2%
Other expenses	71,103	63,417	12.1%	55,705	27.6%
Exp. Trnsfd to cap.	18,786	16,525	13.7%	10,429	80.1%
EBITDA	68,271	45,059	51.5%	44,894	52.1%
<i>EBITDA Margins</i>	<i>15.1%</i>	<i>12.5%</i>	<i>260 bps</i>	<i>14.2%</i>	<i>90 bps</i>
Other income	240	606	-60.4%	99	142.7%
Interest exp.	5,769	5,251	9.9%	4,993	15.5%
Depreciation	16,159	13,308	21.4%	12,388	30.4%
PBT	44,939	22,717	97.8%	27,285	64.7%
Tax	10,711	3,630	195.0%	3,188	236.0%
Share of minority interest	210	335	-37.5%	108	93.7%
Share of profit from assoc. cos	38	40	-3.5%	263	-85.5%
Adjusted PAT	35,700	23,181	54.0%	24,579	45.2%
Exceptional items	1,643	4,390	-62.6%	327	N/A
Rep PAT	34,056	18,791	81.2%	24,252	40.4%

Financial Summary (Consolidated)

Income statement

YE Mar (₹mn)	FY10	FY11	FY12E	FY 13E
Total Revenues	925,193	1,231,333	1,576,007	1,834,689
Raw Material Cost	539,228	686,175	1,030,026	1,196,286
Employee Cost	87,518	93,427	107,973	112,554
Other Exp	172,845	227,436	280,063	329,968
Expenses trnsfd	45,925	57,412	49,956	53,856
EBITDA	91,124	177,799	207,902	249,737
<i>EBITDA Margin(%)</i>	9.8	14.4	13.2	13.6
Other Income	17,931	896	4,776	4,900
Depreciation	43,853	56,179	67,894	81,263
Exceptional items	2,596	-	-	-
Interest	22397	20454	17678	20152
PBT	40,208	102,062	127,106	153,222
Tax	10,058	12,164	19,992	26,213
PAT	30,151	92,208	107,114	127,009
Adj PAT	28,097	90,426	107,114	127,009
<i>Adj PAT Margins (%)</i>	3.0%	7.3%	6.8%	6.9%

Key Ratios

YE Mar	FY10	FY11	FY12E	FY 13E
Per Share Data (₹)				
Adj. EPS	8.9	28.5	32.1	38.1
CEPS	113.4	231.0	262.2	312.0
BVPS	129.3	302.1	434.4	617.1
DPS	15.8	23.3	21.4	32.0
Growth Ratios(%)				
Total revenues	30.5	33.1	28.0	16.4
EBITDA	314.9	95.1	16.9	20.1
PAT	N/A	221.8	18.5	18.6
EPS Growth	N/A	221.8	12.6	18.6
Valuation Ratios (X)				
PE	31.5	9.8	8.7	7.3
P/CEPS	2.5	1.2	1.1	0.9
P/BV	2.2	0.9	0.6	0.5
EV/Sales	0.5	0.3	0.2	0.2
EV/EBITDA	4.8	2.2	1.7	1.2
Operating Ratios (Days)				
Inventory days	45	42	43	46
Receivable Days	28	20	22	26
Payables day	231	197	150	135
Net Debt/Equity (x)	3.21	1.14	0.60	0.31
Profitability Ratios (%)				
ROCE	42	71	64	58
ROE	34	47	37	31
Dividend payout	28	14	12	15

Source: Company, LKP Research

Balance sheet

YE Mar (₹mn)	FY10	FY11	FY12E	FY 13E
SOURCES OF FUNDS				
Equity Share Capital	5,706	6,370	6,677	6,677
Reserves & Surplus	76,358	185,333	283,298	405,245
Total Networth	82,064	191,715	289,975	411,922
Total debt	351,084	327,914	326,091	297,100
Net Deferred Tax Liability	17,708	20,961	21,961	23,961
Minority interest	2,135	2,466	2,466	2,466
Total Liabilities	452,991	543,056	640,492	735,449
APPLICATION OF FUNDS				
Net block	295,904	317,643	369,748	378,485
Capital WIP	89,159	117,289	112,289	107,289
Goodwill	34,229	35,848	35,848	35,848
Investments	22,191	25,443	25,443	25,443
Current Assets				
Cash and Bank	87,433	109,479	152,184	171,232
Inventories	113,120	140,705	185,667	231,221
Sundry Debtors	71,912	68,774	94,992	130,690
Loan, Advances	151,993	191,391	204,900	211,008
Current Liab & Prov				
Current liabilities	340,773	371,147	423,298	442,462
Provisions	76,435	98,692	123,603	119,629
Net Current Assets	7,250	40,511	90,841	182,061
Total Assets	452,992	543,056	640,492	735,449

Cash Flow

YE Mar (₹mn)	FY10	FY11	FY12E	FY 13E
PAT	30,693	92,736	107,114	127,009
Depreciation	38,826	46,510	67,894	81,263
Interest	23,055	19,781	17,678	20,152
Chng in working capital	31,220	(16,943)	(7,626)	(72,171)
Tax paid	10,058	12,164	19,992	26,213
Other operating activities	(38,898)	(41,848)	(8,455)	(11,593)
CF from operations (a)	94,953	112,401	196,597	170,873
Capital expenditure	(84,532)	(81,128)	(115,000)	(85,000)
Chng in investments	(4,441)	(10,136)	0	0
Other investing activities	13,643	20,607	0	0
CF from investing (b)	(75,331)	(70,657)	(115,000)	(85,000)
Free cash flow (a+b)	19,623	41,745	81,597	85,873
Inc/(dec) in borrowings	23,438	(12,051)	(1,823)	(28,991)
Dividend paid (incl. tax)	(3,496)	(10,195)	(13,030)	(19,227)
Other financing activities	8,475	8,234	(15,195)	(18,606)
CF from financing (c)	28,417	(14,013)	(30,048)	(66,824)
Net chng in cash (a+b+c)	48,040	27,732	51,549	19,049
Closing cash & cash equiv.	70,282	100,634	152,184	171,232

LKP

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