



Investor's Delight: Tata Motors Ltd. (TML) – Regaining lost ground "BUY" 19th June, 2015

Financial Summary - Consolidated (Rs. Mn)

Particulars	FY13	FY14	FY15	FY16E	FY17E
Total Income	1,888,176	2,328,337	2,627,963	3,022,157	3,566,146
Growth (%)	14.0	23.3	12.9	15	18
Operating Profit	265,689	374,029	421,138	492,611	606,245
OPM (%)	14.1	16.1	16.0	16.3	17
PAT	99,560	141,986	140,465	181,329	249,630
Growth (%)	(16.3)	42.6	-1.1	29	38
PAT (%)	5.27	6.09	5.34	6.00	7.00
Equity cap.	6,381	6,438	6,438	6,792	6,792
Reserves	369,992	649,597	556,181	737,510	987,140
Networth	376,373	656,035	562,619	744,302	993,932
Dil. EPS	30.9	44.1	43.6	53.3	73.51
Book Value (Rs.)	103	118	203.8	219	293
P/E (x)	14	10	10	8	6
Price/Book (x)	4.2	3.7	2.1	1.98	1.5
ROE(%)	28.3	27.5	23.1	24.4	25.1
D/E (x)	1.5	0.8	1.2	1.0	0.8

Source: Company, Ajcon Research

Investment Rationale

Domestic business to turnaround..

On the domestic business, increasing thrust by new government on infrastructure and reforms in mining sector will result in higher CV demand where Tata Motors is the market leader. Passenger Vehicle business too will witness significant uptick. With two new models expected to be launched every year till 2020, the company is hopeful of a strong recovery in its passenger car business. While the new-generation Nano is beginning to find its footing in the market, its bigger siblings, the Zest and Bolt, are challenging the established players. Since its launch last month, the new Nano has attracted potential buyers in big numbers, say dealers and Tata Motors officials. Within two weeks of its commercial debut, Tata Motors showrooms witnessed 35,000-40,000 walk-ins and enquiries. Typical industry standards show that around 15 per cent of the enquiries turn into sales. The interest in the Nano has been so high that some dealers have reportedly requested the company to postpone the advertising campaigns. "Dealers say they have more than enough customers to deal with. This is very comical because it does not happen (like this)," says Delna Avari, head (marketing communication & services) passenger vehicles business unit, Tata Motors. "Normally, dealers ask me for more print ads because they want to see their name on them." Besides normal buyers, more than 11,000 existing owners of the Nano (260,000-odd units of the small car have sold till date) have decided to try out the new model under Tata Motors' promotional campaign called "Power of 1+1". The transformation of the Nano from a no-frills vehicle to a feature-rich city car has been undertaken keeping the new generation customer in mind. With add-ons

CMP	Rs. 434
Target Price	Rs. 588
Upside	35%
Sector	Auto
Beta vs Sensex	1.61
BSE/NSE Code	500570/TATAMOTORS
Bloomberg Code	TTMT:IN
52 Week High/low	Rs. 606.34 (3rd Feb. 2015)/Rs. 417.25 (12th June, 2015)
Face Value	Rs. 2
Share Capital	Rs. 6,438 mn (FY15)
Total Debt	Rs. 692,115 mn (FY 15)
Market Capitalization	Rs. 1,397,046 mn
Book Value	Rs. 259 per share (FY15)
Shareholding Pattern (%)	As on March 2015
Promoters	34.35
FII's	26.30
DIIs	11.04
Others	28.31
	Price Performance %
Tata Motors	1M: -14.3, 3M: -21.3, 6M: -11.6, 12M: -0.9



such as Bluetooth connectivity, music system and even a sunroof, Tata Motors has attempted to completely alter the perception of the Nano in the customer's mind. Zest, the compact sedan that is competing with the Dzire, has sold an average of 4,000 units per month since its launch in August. This is not too distant from Honda's Amaze (5,500 units) and Hyundai's Xcent (5,200 units). The Bolt, a premium hatchback countering the market attraction for Maruti's Swift and Hyundai's Grand i10, has, however, faced stiffer resistance. Average monthly sales of the Bolt settled just under 2,000 units following the launch in January.

New launches yielding good results

The recent launches have already started to show results for Tata Motors. From an average of around 7,000 units a month, sales of passenger vehicles has climbed to 11,500 a month. According to the management, the Company would be aiming for a higher figure than even 20,000 units a month. While Tata Motors is beginning to get its footing right in the passenger vehicle segment, it will have to continue to depend on its cash cow, the commercial vehicle division, for robust figures. Fortunately, it has shown a strong pick-up in demand since October after being in hibernation for three straight years.

Focus on increasing distribution network

The company is expanding its distribution network on a war footing. The Company would be adding one new dealership every day for the rest of the year. According to the management, the initial response to the Nano has been very good as young professionals in urban areas are showing interest. Last year, the Company added just 39 outlets, but this year it will add 200 dealers. At present, the Company has 400-odd dealerships, which is not enough. Tata Motors would require the additional reach to be able to match expectations from the two launches slated before March 2016. One is an all-new hatchback, while the other is a sedan based on the hatchback. The company will launch a compact sports utility vehicle to rival the Ford EcoSport next year.

M&HCV business – a key growth driver

The M&HCV business of Tata Motors posted growth of 35 per cent in the October-March period as large fleet buyers returned to showrooms confident of a turnaround in demand boosted by a stable central government. Fleet owners, who were sweating their assets much longer than usual, have begun cashing in on the heavy discounts doled out by manufacturers. Growth in M&HCV is expected to be more comprehensive and sustainable in FY 16 owing to improved freight availability, improved profit ability of operators, and fleet replacement demand, mainly in the high tonnage segments. Up to 70 per cent of Tata Motors' standalone revenue is generated by M&HCVs, where the company's market share is around 55 per cent. In the overall commercial vehicles business, Tata Motors is ahead with a share of 47 per cent. To maintain its stranglehold in this segment, Tata Motors has lined up 100 launches till 2018 which is more than any of its rivals and should help the company keep competition at bay. For LCVs, the company expects H1 FY16 to remain muted, while recovery can be expected from H2FY16.

EBITDA margin entering into positive territory..

The success of the Nano and the Zest and a rebound in commercial vehicle demand in the second half of last year catapulted Tata Motors' EBITDA (earnings before income depreciation taxation and amortisation) margin into positive territory last quarter after five consecutive quarters in the red. While its standalone net loss widened to Rs 1,164 crore for the quarter ended March 31 from Rs 817 crore reported for the same quarter in 2013-14, its EBITDA margin turned positive at 1.5 per cent in the same quarter against - 4.2 per cent earlier. Standalone margin turned EBITDA positive due to lower raw material costs and better M&HCV (medium and heavy commercial vehicle) mix. We believe gross margins can further improve if recovery in M&HCV volumes continues at current pace. The management is confident of the domestic passenger vehicle segment doing well, with two new launches every year, following the success of the Zest and Bolt.

Overseas business performance

Commenting on the retail performance, Andy Goss—JLR Group Sales Operations Director—said: "I am personally delighted to see that three of our key regions, the UK, Europe and North America have delivered their best ever May sales this month. Following our fifth successive year of growth in sales, we anticipate retailing over half a million vehicles this year for the first time in the company's history. As expected, initially there will be some short term change in our sales as we gear up for our new product launches, during what will be a landmark year for Jaguar Land Rover."

The Company's flagship business JLR volumes remained flat and declined by 4 percent on yoy basis. Owing to pressure in Chinese geography (Chery JV in China). Land Rover business remained under pressure too. Volumes de-grew by ~2% YoY to 31,532 units (v/s street est. of 36,500 units), while Jaguar grew by ~7% YoY to 7,347 units (est. of 8,400 units).



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Recently launched Discovery Sport's order book stands at over 50,000 units. Jaguar XE has an order book of 25,000 units—with deliveries starting this month in the UK, to be followed by Europe and then the Overseas markets. In terms of regional retail sales performance, China volumes declined 32% YoY (due to slower ramp-up of locally made Evoque), US volumes grew 13% YoY, UK Volumes were up 16.5% YoY and Europe volumes grew 20.6% YoY. Jaguar's retail volumes continued to decline (~13% YoY), led by de-growth across models. We believe JLR is set to see strong momentum in volumes given its lineup of launches in the next couple of years driven by rising penetration of luxury cars in emerging economies coupled with economic recovery in the western world. Presently, JLR's valuations are cheap against its immediate cash-rich global peer BMW. BMW has ~25% of its market capitalisation in cash (~€15 billion FY17E consensus) while vis-à-vis JLR it is only ~14% (implied JLR market capitalisation ~£18 billion) vis-à-vis ~£2.0 billion cash & cash equivalents in FY16E.

Financial Performance & Valuation

Over the period FY12-FY15, the Company's Total Income has witnessed a CAGR of 16.6 % and bottomline CAGR of 6%. At CMP, the stock trades at a PE multiple of 10x at FY15 EPS of Rs. 43.6.



Recommendation parameters for fundamental reports:

Buy – Absolute return of 20% and above

Accumulate – Absolute return between 15% and above

Book profits: On achieving the price target given in the research report for a particular Company or on a occurrence of a specific event leading to change in fundamentals of the Company recommended

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For research related queries contact:

Mr. Akash Jain – Vice President (Research) at research@ajcon.net, 022-67160431 (D)

CIN: L74140MH1986PLC041941

Website: www.ajcononline.com

Corporate and Broking Division

408 - (4th Floor), Express Zone, "A" Wing, Cello – Sonal Realty, Near Oberoi Mall and Patel's, Western Express Highway, Goregaon (East), Mumbai – 400063. Tel: 91-22-67160400, Fax: 022-28722062

Registered Office:

101, Samarth, Off. Hinduja Hospital, 151 Lt. P.N. Kotnis Road, Mahim (West), Mumbai – 400016. Tel: 022-24460335/36/40