

**July 24, 2014**

**BSE Code:** 500570      **NSE Code:** TATAMOTORS      **Reuters Code:** TAMO.NS      **Bloomberg Code:** TTMT:IN

Established in 1945, Tata Motors Ltd is engaged in engineering & automotive solutions, automotive vehicle components manufacturing & supply chain activities, vehicle financing, and machine tools & factory automation solutions. The company operates primarily in two segments, namely, automotive operations and all other operations. Internationally, it has expanded its footprints in several countries in Europe, Africa, Middle East, South East Asia, South Asia, South America, CIS and Russia. During FY14, Tata Motors posted a healthy performance with a 23.3% YoY growth in revenue to ₹2,328.3 bn led by strong demand for new products, growth in volumes, richer product and geographic mix at Jaguar Land Rover (JLR). The company seems confident of delivering improved performance in the coming quarters. Further, the company's owned JLR gaining traction in the luxury car market, especially in the US and China, augers well for the stock in the long term and will keep Tata Motors ahead of the competition.

### Investor's Rationale

**JLR's strong product development cycle - key to tap global markets:** Tata Motors owned JLR's strong product pipeline and investment in product development has significantly increased its market share in the global luxury car market and is expected to improve further in the coming three to four years. A large portion of Tata Motor's total revenue comes from JLR (~82% in FY14). We believe that a strong product pipeline, and continued investment in R&D/product development is expected to keep the market share of JLR in an uptrend.

**Expansion of JLR business in China bolsters long term earnings outlook:** China, the major market for Tata motors' JLR sales, contributed nearly 24% of the total JLR sales during FY14. JLR's China JV with Chery Automobile is expected to be operational by FY16. As import duty in China is currently pegged at 30-50%, setting up a plant in China would lead to savings, which according to the company, would lead to lower prices for its vehicles. After witnessing a 18.3% and 15.5% growth in sales volume in FY13 and FY14 respectively, we expect the company's JLR sales to grow around 14% in FY15 and nearly 20% in FY16 riding on its sales in Chinese market and on the back of new launches, led by the smaller Jaguar car.

**Domestic operations likely to pick up as economic growth showed some signs of revival:** Tata Motors' domestic operations continued to be challenging both in commercial vehicle (CV) and passenger vehicle (PV) segments. But despite the grey clouds, a silver lining has emerged out of CV space, as the management has indicated that the pricing environment seems to be improving due to lower discounts and new models. New products in the CV and PV space will help the company to gain market share. Further, investor and business sentiments have also improved after the outcome of recent general elections in India as the newly elected government raised hopes for a revival in the economy.

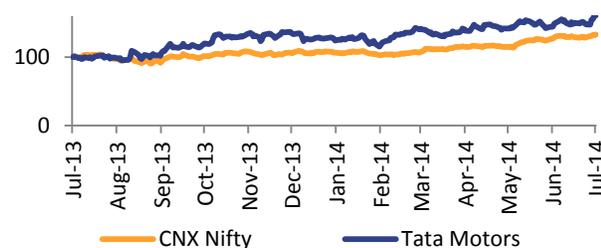
### Market Data

<b>Rating</b>	<b>BUY</b>
<b>CMP (₹)</b>	461.1
<b>Target (₹)</b>	<b>535</b>
<b>Potential Upside</b>	~16%
<b>Duration</b>	Long Term
Face Value (₹)	2.0
52 week H/L (₹)	488.2/271.8
Adj. all time High (₹)	1,321.7
Decline from 52WH (%)	5.6
Rise from 52WL (%)	69.6
Beta	1.1
Mkt. Cap (₹bn)	1,481.2
Enterprise Value (₹bn)	1,740.8

### Fiscal Year Ended

Y/E	FY13A	FY14A	FY15E	FY16E
Revenue (₹bn)	1,888.2	2,328.3	2,643.0	3,115.2
EBITDA (₹bn)	245.5	348.4	397.4	468.1
Net Profit (₹bn)	99.0	139.9	160.2	196.9
EPS (₹)	31.0	43.5	49.8	61.1
P/E (x)	14.9	10.6	9.3	7.5
P/BV (x)	3.9	2.3	1.9	1.6
EV/EBITDA (x)	7.0	5.0	4.5	3.8
ROCE (%)	21.2	19.3	18.9	19.4
ROE (%)	27.7	20.2	20.7	21.6

### One year Price Chart



### Shareholding Pattern

	Jun'14	Mar'14	Diff.
Promoters	34.3	34.3	-
FII	27.5	27.5	-
DII	9.7	9.4	0.3
Others	28.5	28.8	(0.3)

*Tata Motors is the market leader in commercial vehicles, and among the top in passenger vehicles with successful products in the compact, midsize car and utility vehicle segments.*

*Internationally, the company has operations in the UK, South Korea, Thailand, South Africa and Indonesia.*

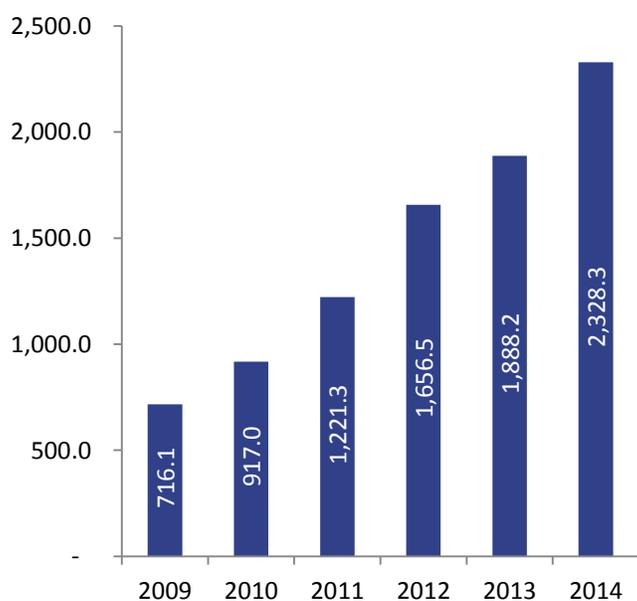
### Tata Motors-India's largest automobile company

Tata Motors Ltd is the country's largest automobile company, with consolidated revenues of ₹2,328.3 bn in FY'14. It is the market leader in commercial vehicles, and among the top in passenger vehicles with successful products in the compact, midsize car and utility vehicle segments. It is the world's fifth largest truck manufacturer and fourth largest bus manufacturer. The company's manufacturing base in India is spread across Jamshedpur (Jharkhand), Pune (Maharashtra), Lucknow (Uttar Pradesh), Pantnagar (Uttarakhand), Sanand (Gujarat) and Dharwad (Karnataka).

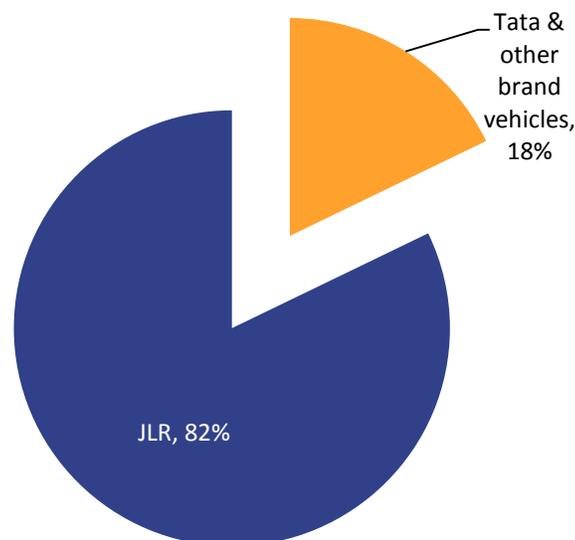
Tata Motors has also emerged as an international automobile company. Through subsidiaries and associate companies, Tata Motors has operations in the UK, South Korea, Thailand, South Africa and Indonesia. The company's principal subsidiaries include Jaguar Land Rover (JLR), Tata Daewoo and Tata Hispano. The company further plans to establish plants in Turkey, Indonesia and Eastern Europe. Through its subsidiaries, the company is engaged in engineering and automotive solutions, automotive vehicle components manufacturing and supply chain activities, vehicle financing, and machine tools and factory automation solutions. Tata Motors is also expanding its international footprint, established through exports since 1961. The company's commercial and passenger vehicles are already being marketed in several countries in Europe, Africa, the Middle East, South East Asia, South Asia and South America, CIS and Russia. It has franchisee/joint venture assembly operations in Bangladesh, Ukraine and Senegal. Tata Motors divides its operation into three major segments - JLR, Commercial Vehicles and Passenger Vehicles.

The company is working on a slew of new products, with a plan running up to 2020; this includes an appropriate focus on alternate fuels, hybrids and electric vehicles. The organization is resolved to foster a culture of customer centricity and innovation, so that the company's products and services consistently exceed customer expectations. In the commercial vehicle segment, Tata Motors expects to remain the preferred brand for customers. Given the company's scale, it is in the best position to efficiently integrate its products and services and deliver the maximum value to its customers at the best prices.

**Tata Motors consolidated revenue trend ( in ₹bn)**



**Segment wise revenue (FY14)**



*Tata Motors posted a 23.4% YoY decline in net sales in FY14 at ₹342.9 bn mainly impacted by lower sales volume, which declined by nearly 30% YoY to 567,398 units in FY14.*

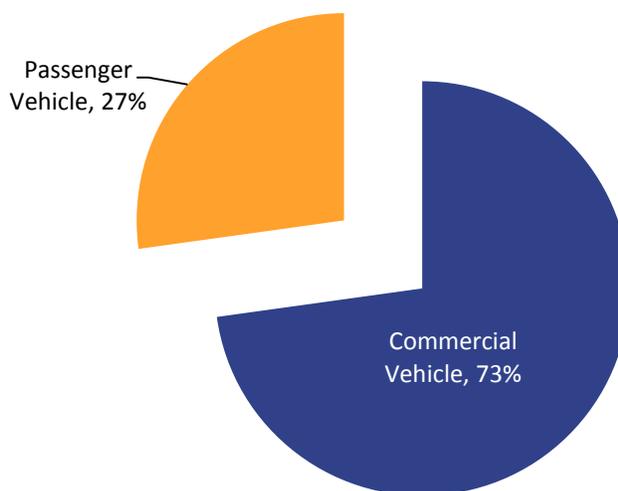
*JLR wholesale and retail volumes in FY14 grew by 15.5% and 15.9%, over the corresponding period last year and stood at 429,861 units and 434,311 units, respectively.*

### Domestic performance is expected to improve in H2FY15

On a standalone basis, the company's operations continued to be hit hard with 23.4% YoY decline in net sales for FY14 at ₹342.9 bn as compared to ₹447.7 bn in FY13, mainly impacted by lower sales volume, which declined by nearly 30% YoY to 567,398 units in FY14 as against 810,086 units in FY13. In the domestic market, the commercial vehicle sales for the year ended March 31, 2014, stood at 377,831 units and the company's overall market share in commercial vehicles stood at 54.1% for the year. The passenger vehicle sales in FY'14 stood at 141,846 units and the overall market share in the passenger vehicle segment stood at 5.8% in FY14. The sustained deceleration in the economic growth, high inflation, higher fuel prices, reduced availability of lower cost-finance, elevated interest rate regime, continued to impact the demand for the entire auto industry in general and commercial vehicle industry in specific. However, the company managed to report a growth of nearly 10.9% YoY in its net profit at ₹3.35 bn in FY14 as compared to ₹3.02 bn in FY13.

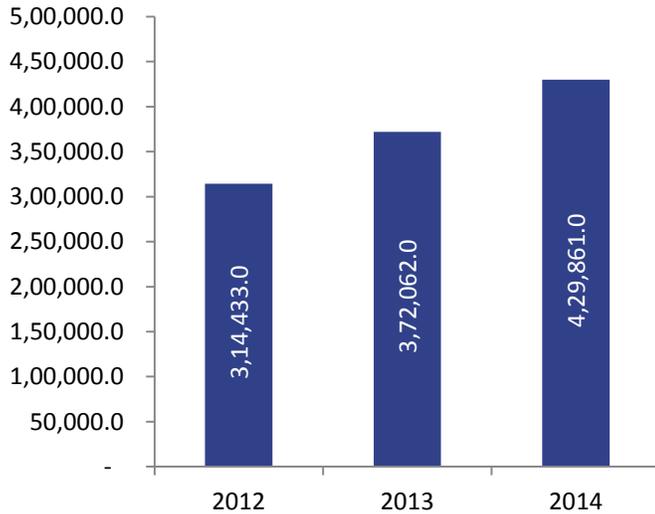
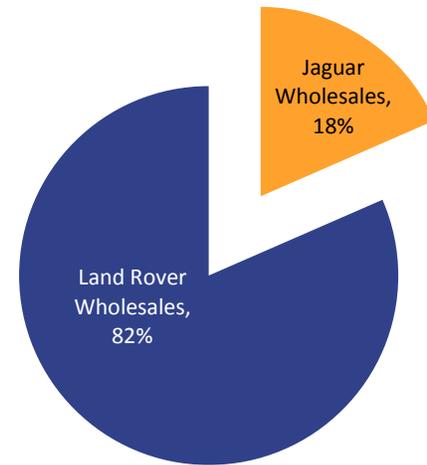
Slowdown in industrial activity and decline in MHCV volumes continued to dent the volume performance for the last couple of years. However, we expect the company's sales in domestic business to recover beginning from H2FY15 supported by an expected revival in economic activity. To deal with lower sales volume, Tata motors plans to launch a couple of new models, which could further support the company to improve its dismal performance reported on the passenger and commercial vehicle side.

#### Standalone sales volume distribution (FY14)



### JLR sales growth continued to aid profitability

Tata Motors' consolidated revenues (net of excise) grew by 23.3% YoY to ₹2,328.3 bn in FY14 as against ₹1,888.2 bn in FY13, despite a weak operating and economic environment in the standalone business, which was more than offset by strong demand for new products, growth in volumes, richer product and geographic mix at JLR. During FY14, the company reported a robust 38.9% YoY growth in PBT to ₹188.7 bn in FY14 as against ₹136.3 bn in FY13, while the company reported a consolidated PAT (after tax and post minority interest and profit in respect of associate companies) of ₹139.9 bn in FY14 as against ₹98.93 bn in FY13. The company's consolidated performance continued to ride on JLR business. JLR wholesale and retail volumes for FY'14 grew by 15.5% and 15.9%, over the corresponding period last year and stood at 429,861 units and 434,311 units, respectively. We expect the company's JLR business will further gain momentum and improve profitability supported by increasing footprint and expansion of JLR manufacturing capacity.

**JLR wholesale sales volume trend (in units)**

**JLR sales volume distribution (FY14)**


*The launch of baby jaguar - a totally fresh product by the Tata Motors in the mass segment, is expected to boost the company's sales volume.*

**Baby Jaguar (XE).....a game changer for JLR**

JLR is all set for the launch of its entry-level sedan, baby jaguar (Jaguar XE) which will cost somewhere between ₹21-28 lakhs, slated to be launched in the third quarter of CY14. The baby jag is likely to be pegged against Audi A4, BMW 3 series. This is the entry-level segment, where the cost of the cars ranges between USD 35,000 to USD 50,000 (₹19-28 lakh) and is almost equally divided among the German troika: Mercedes, BMW and Audi. Each sells 13-15 times as many luxury cars as Jaguar. With the launch, of this car, JLR is targeting 3-5% market share indicating 45,000 - 65,000 units. In FY16, the company is planning a replacement of Jaguar XF and is also looking at launching Jaguar Crossover vehicle. Given the wider gaps in the Jaguar portfolio, the completely new brands on the Jaguar front (F-type, Baby Jag and new Crossover) will contribute to incremental 70,000 –80,000 units from FY13 to FY17.

**Our Take:** *We expect Baby jag will gain buyer's interest due to its high end features and brand image. Entry level market is a mass segment and product differentiation is the major criteria among buyers to select a specific product. Three major players (Audi, Mercedes and BMW) are currently catering mostly to this segment. The launch of baby jaguar - a totally fresh product by the Tata Motors in the mass segment, is expected to boost the company's sales volume.*

**JLR's production capacity to reach 7,00,000 units by 2017**

In order to meet the rising demand out of China and Brazil, where the company has entered into joint ventures with the local players, JLR is planning to raise its manufacturing capacity to 7,00,000 units by the end of FY17 from the overall capacity of 4,50,000 units in FY14. The production output of JLR in China is likely to be set at 1,10,000 to 1,30,000 units spread over the period of next three years. Also, JLR's joint venture with Chery Automobile in China is expected to start operations in 2016. Owing to the low import duty in that country, the company expects to make a lot of savings, which in turn will help it to reduce the price of its vehicles.

JLR's overall capacity of 4,50,000 units in FY14 comprises of 85,000 Jaguar cars and 3,50,000 to 3,70,000 Land Rover vehicles. The Range Rover, Range Rover Sport, Discovery and the Defender are currently manufactured at the automaker's Solihull plant in the UK.

*JLR is planning to increase its manufacturing capacity in order to meet the growing demand by the company's JV in China and Brazil.*

*With Horizonext, a four-pronged customer-focused strategy, the company has embarked on a journey with a commitment to excite its customer globally and it looks forward to unfold its strategy in Philippines for a deeper presence in this market across several product segments.*

*Tata Motors is well poised to gain market share and give cut throat competition to its rivals with the launch of Jaguar XJ 3.0L in India, at a price starting at ₹92.1 lakh.*

This facility has a production capacity of 2,00,000 units of these cars only. It is widely expected that there will be a shortage in the supply of the Discovery, which in turn will hamper sales volume. To overcome the supply constraints, the company is planning to increase its manufacturing capacity to 7,00,000 units till the end of FY17.

### **Tata Motors forays into the Philippines automotive market to expand global footprint**

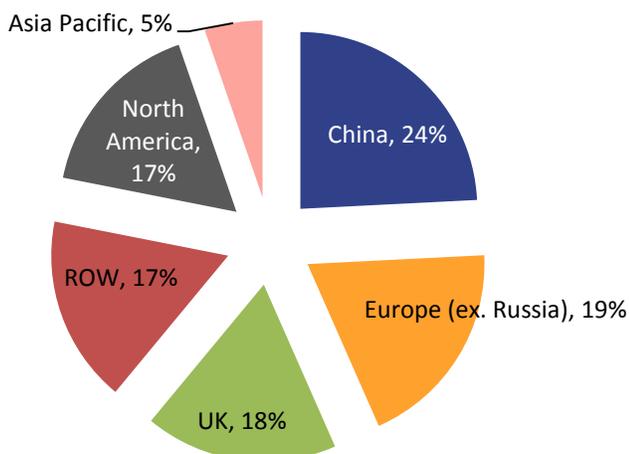
In a move to expand its global horizon, Tata Motors recently announced its entry into the Philippines market at the Manila International Auto Show (MIAS), 2014, held at the World Trade Centre. The company will commence its business in Philippines with exports of the Manza, the Vista, the Indigo and the Indica from its passenger vehicle portfolio and the Xenon, the Ace and the Super Ace from its commercial vehicles range. Tata Motors has appointed Pilipinas Taj Autogroup Inc., as its distributor in Philippines. Philippines is one of the key markets for Tata Motors in the ASEAN Region. With Horizonext, a four-pronged customer-focused strategy, the company has embarked on a journey with a commitment to excite its customer globally and it looks forward to unfold its strategy in Philippines for a deeper presence in this market across several product segments. To start with, the company has lined up the Xenon, the Super Ace and the Ace at MIAS based on intense study and understanding of the customers and their requirements in Philippines.

By entering into new markets, the company will strengthen its image as a global player in auto industry. Further, the company plans to add new products into existing portfolio to cater to large population and thereby improving sales volume and profitability.

### **JLR launches Jaguar XJ luxury saloon to compete with rivals**

In May 2014, Tata Motors-owned JLR has launched locally manufactured Jaguar XJ 3.0L in the country, with price starting at ₹92.1 lakh. The diesel powered luxury saloon, which is being manufactured at the company's Pune plant, will be available in two variants - premium luxury and portfolio. This locally made Jaguar XJ will attract people who are looking for a luxury car at a seemingly affordable price. The XJ currently competes with cars from the German carmakers such as the Mercedes-Benz S-Class, the BMW 7 Series and the Audi A8. With the launch of this vehicle at a very competitive price, the company is well poised to gain market share and give cut throat competition to its rivals.

#### **Geography wise revenue segmentation (JLR)**



*Tata Motors has received an order for 2,000 passenger vehicles from SVLL Connect.*

*To revive sales in domestic market, the company has started focusing on Horizonext, a four-pronged customer-focused strategy, which provides the best customer experience — from best vehicle experience to superlative purchase experience and followed by technology-intense after-market service support.*

### **Tata Motors gets 2,000 car bulk order from SVLL connect**

Tata Motors has bagged an order of 2,000 passenger vehicles from SVLL Connect, a group company of Siddhi Vinayak Logistics. The 2,000 cars to be delivered by Tata Motors spanning a year will be a mix of the Manza, Indigo eCS and the refreshed Aria that was launched recently. The order underlines the strong relationship that Tata Motors and SVLL Connect have developed over the years and it look forward to a long and fruitful relationship with them. Starting May 2014, SVLL Connect commenced taking delivery of these vehicles. We expect this relationship to be fruitful for the company and will give some support to the sales volume and thereby revenue and profitability.

### **Tata Motors' strategy to revive domestic business will reap benefits soon..**

Tata Motors' domestic business performance continues to be impacted due to slowing economic activity, weak consumer sentiment, increased competition and high interest rates. To revive sales in domestic market, the company has started focusing on Horizonext, a four-pronged customer-focused strategy, which provides the best customer experience — from best vehicle experience to superlative purchase experience and followed by technology-intense after-market service support. The four pillars of this strategy are:

- Intense product focus
- Focus on world-class manufacturing practices
- Enriched customer purchase experience
- Consistent quality of service

As part of this strategy, the company recently showcased an extensive range of 18 stunning vehicles and concepts (including passenger and commercial vehicles) at the Auto Expo 2014 to demonstrate its product strategy for Horizonext. The company unveiled an exciting new premium hatchback, the BOLT and a dynamic and stunning, sub 4-metre compact sedan, the ZEST. On the commercial vehicle side, the company unveiled the Prima CX 1618.T, setting design standards for the Medium Commercial Vehicles, the Ultra 614 with a narrow cab for better maneuver ability and the LPS 4923 LA – the first tractor in India with a lift axle, offering better drivability, longer axle-life and lesser wear and tear.

Also, the company plans to launch new passenger vehicles from July 2014 to improve sales volume performance. We expect company's continuous efforts to focus on consumer taste and preferences will bear fruit in the future. Also, the company is well poised to deliver on its commitments supported by new product launches and customer focused approach.

**Balance Sheet (Consolidated)**

Y/E (₹bn)	FY13A	FY14A	FY15E	FY16E
Share Capital	6.4	6.4	6.4	6.4
Reserve & Surplus	370	649.6	766	902.8
<b>Net Worth</b>	<b>376.4</b>	<b>656</b>	<b>772.4</b>	<b>909.2</b>
Minority Interest	3.7	4.2	4.8	4.8
Loans	437.2	549.6	623.3	714.7
Provisions	160.7	201.6	222.5	256.5
Current Liability	669.2	746.9	821.4	950.9
Net deferred tax liability	20.2	15.7	15.7	15.7
Other long-term liability	32.8	26	26	26
<b>Capital Employed</b>	<b>1,700.2</b>	<b>2,200.0</b>	<b>2,486.1</b>	<b>2,877.8</b>
Fixed assets	694.8	973.8	1,149.00	1,321.40
Goodwill	41	49.8	49.8	49.8
Investments	90.6	106.9	112.2	117.8
Deferred tax assets	44.3	23.5	23.5	23.5
Long-term loans and advances	154.7	132.7	148.6	166.4
Other non-current assets	10.2	50.7	50.7	50.7
Current assets	664.6	862.6	952.3	1148.2
<b>Capital Deployed</b>	<b>1,700.2</b>	<b>2,200.0</b>	<b>2486.1</b>	<b>2877.8</b>

**Key Ratios (Consolidated)**

Y/E	FY13A	FY14A	FY15E	FY16E
EBITDA Margin (%)	13.0	15.0	15.0	15.0
EBIT Margin (%)	9.4	10.6	10.5	10.6
NPM (%)	5.2	6.0	6.1	6.3
ROCE (%)	21.2	19.3	18.9	19.4
ROE (%)	27.7	20.2	20.7	21.6
EPS (₹)	31.0	43.5	49.8	61.1
P/E (x)	14.9	10.6	9.3	7.5
BVPS(₹)	118.0	203.8	240.0	282.5
P/BVPS (x)	3.9	2.3	1.9	1.6
EV/Operating Income (x)	0.9	0.7	0.7	0.6
EV/EBITDA (x)	7.0	5.0	4.5	3.8

**Profit & Loss Account (Consolidated)**

Y/E (₹bn)	FY13A	FY14A	FY15E	FY16E
<b>Total income</b>	<b>1,888.2</b>	<b>2,328.3</b>	<b>2,643.0</b>	<b>3,115.2</b>
Operating expense	1,642.7	1,979.9	2,245.6	2,647.1
<b>EBITDA</b>	<b>245.5</b>	<b>348.4</b>	<b>397.4</b>	<b>468.1</b>
Other income	8.1	8.3	8.7	8.3
Depreciation	75.7	110.8	127.4	146.5
<b>EBIT</b>	<b>177.9</b>	<b>245.9</b>	<b>278.7</b>	<b>329.9</b>
Interest	35.5	47.3	57.8	66.4
<b>Profit before tax</b>	<b>142.4</b>	<b>198.6</b>	<b>220.9</b>	<b>263.5</b>
Tax	37.7	47.7	59.6	65.5
Share of profit of associates	1.1	(0.5)	(0.5)	(0.5)
Minority Interest	0.8	0.6	0.6	0.6
Exceptional item	6.0	9.9	0	0
<b>Net Profit</b>	<b>99.0</b>	<b>139.9</b>	<b>160.2</b>	<b>196.9</b>

**Valuation and view**

Tata Motors' standalone business performance continued to be hit by unfavourable economic conditions, higher interest rate, lower GDP and lower business confidence. We expect the company's performance to improve from FY15 onwards supported by new launches. Also, an expected recovery in the economy will give the much needed boost to CV sales. While, JLR's performance continued to be robust in FY14, strong product pipeline will provide a further boost in the next couple of years. We expect these new products coupled with enhanced capacities to most likely increase sales volume and profitability.

At a current CMP of ₹461.1, Tata Motors is attractively placed at P/E of ~7.5x FY16E. Considering the above aspects, we rate the stock as 'BUY' with a target price of ₹535, a potential upside of ~16% for the coming 1 year.



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