

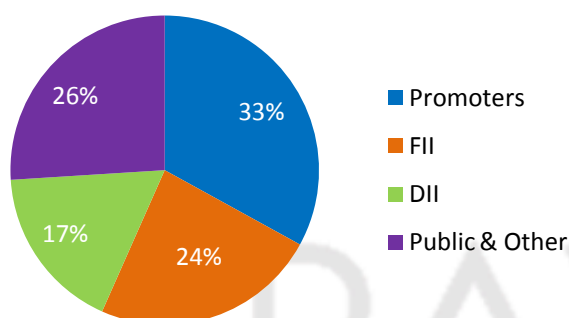
TATA MOTORS AUTO

MARCH 2016

TATA MOTORS

Rating	Accumulate
CMP	Rs 350
Target Price	Rs 413
Potential upside	18%

Shareholders



Market Data

No. Of Shares	2887 mn
Free Float	67 %
Market Cap	905 bn
52 week high/low	Rs 594/266
Avg Daily Vol	10.5 mn
Bloomberg code	TTMT IB

Strong JLR margin

Tata Motors' (TTMT) consolidated EBITDA was broadly in line with our/consensus est. with JLR EBITDA margin at 14.4% beating our est. of 14.1% (Street was 14.5%) and standalone margin at 4.6% missing our est. of 5%. We were happy with JLR margin considering it was impacted by a GBP 87 mn loss on revaluation of forex and commodity hedges.

TTMT stock continues to offer best risk-reward in the sector with its favorable product cycle and scope for recovery in FY17-18. Our EBITDA estimates are unchanged, but higher than expected depreciation and interest has resulted in an FY17 PAT cut of ~10%. Given the recent crack in global luxury car stocks, we have further reduced our adj FY17 EBITDA multiple on JLR from 3.5x to 3.25x (BMW at ~4x). Our TP of Rs 413/sh still provides a 60% upside and hence we reiterate BUY.

Key take aways :

- JLR EBITDA margin at 14.4% (vs. est of 14.1%) was impacted by (1) GBP 87mn realized loss on forex hedges and monetary assets/ liabilities; and (2) higher variable marketing spends. Management indicated that variable marketing spends continue to be high and could inch up further over next 2 years if markets remain tough.
- New launches: JLR will launch the new Jaguar XE in the US in early CY16. This shall be followed with global launches of F-pace and Evoque convertible in 2016
- China JV: JLR China JV has commenced local production of Discovery Sport and sale of imported XE started during the month. JV declared maiden profits of GBP 22 mn at production level of 13k units which indicates healthy profitability (driven by lower component costs, lower taxes)
- Lowers capex guidance for FY16: JLR has lowered capex guidance to GBP 3.3 bn for FY16. However, expects FY17E capex to inch higher and above GBP 3.5 bn guidance.

Y/E March	FY15	FY16E	FY17E	FY18E
Sales	2628	2732	3200	3580
Adj PAT	185	152	191	223
Con EPS	0	34.1	48.4	57.5

EPS	54.4	44.6	56.3	65.7
Change yoy	22.8	-17.9	26.3	16.7
P/E	5.1	6.2	4.9	4.2
ROE	30.3	23	23	22.3
ROCE%	24.8	18	19.5	20.3
EV/E	2.9	3.4	2.6	2
DPS	4.7	7	10	10

- FCF during the quarter was GBP 454 mn (vs. -GBP 29 mnYoY/ -GBP 225 mnQoQ) owing to favorable working capital (dispatches of newly launched XE, XF)

India

- EBITDA margin for the standalone business at +4.6% (vs. -6.2% YoY/+5.8% QoQ) missed our estimate of 5%. Hence EBITDA at Rs 4.6 bn missed our estimate by 11%
- CV volume outlook on Indian trucks/cars is positive with HCVs seeing revival and should post healthy growth in FY17E as well (driven by replacement demand). The company now expects LCVs to post recovery and plans to refresh its existing product portfolio
- Cars: The company launched four new products in the Auto Expo 2016 – namely Zica (hatchback), Kite 5 (compact sedan), Nexon (compact UV) and Hexa (SUV). Management indicated it has received strong response for its launches and would help gain market share
- Discounts: Management indicated that discounts still remain high in the system and have nearly doubled from FY10-11 levels

Ray Research & Consulting Pvt Ltd

Rs mn	Q3FY16	Q3FY15	Yoyo%	Q2FY16	QOQ %	FY16E	FY15	Yoyo %
Net sales	722564	699733	3.3	613182	17.8	2732221	2627963	4
Raw material	435890	426977	2.1	372748	16.9	1647049	1599200	3
% of net sales	60.3	61	-69	60.8	-46	60.3	60.9	-57
staff expenditure	74380	67122	10.8	70115	6.1	308092	255490	20.6
% of net sales	10.3	9.6	70	11.4	-114	11.3	9.7	155
other expenditure	118495	101998	16.2	101515	16.7	418910	344706	21.5
% of net sales	16.4	14.6	182	16.6		15.3	13.1	222
total expenditure	628765	596097	5.5	544379	15.5	2374050	2199396	7.9
EBITDA	93800	103636	-9.5	68804	36.3	358171	428568	-16.4
EBITDA Margin%	13	14.8	-183	11.2	176	13.1	16.3	-320
Depreciation	43391	33389	30	44279	-2	171454	133886	28.1
EBIT	50408	70247	-28.2	24524	105.5	186717	294681	-36.6

Interest	10915	10604	2.9	11694	-6.7	44864	40079	11.9
other income	1806	2220	-18.6	2452	-26.3	51312	8987	470.9
forex gain/loss	49	-4539	-101.1	-18842	-100.3	-14868	-37098	-59.9
And exceptionals								
PBT	41349	57324	-27.9	-3559	-1262	160500	225562	-28.8
Tax	6105	21404	-71.5	552	1006	40707	78136	-47.9
Tax rate	14.8	37.3	-2257	-15.5	3027	25.4	34.6	-928
adjusted PAT	35364	40571	-12.8	14918	137.1	156704	184586	-15.1
Reported PAT	35075	35807	-2	-4298	-916.2	124039	139863	-11.3
Reported EPS	10.9	11.1	2	-1.3	-916.2	36.5	43.5	-15.9

Exhibit 2: Results update (JLR)

GDP mn	Q3FY16	Q3FY15	Yoyo%	Q2FY16	QOQ%	FY16E	FY15	Yoyo%
Net sales	5781	5879	-1.7	4831	19.7	21750	21866	-0.5
Raw material	3496	3565	-1.9	2916	19.9	13050	13185	-1
% of net sales	60.5	60.6	-17	60.4	11	60	60.3	-30
staff expenditure	582	535	8.8	539	8	2393	1977	21
% of net sales	10.1	9.1	97	11.2	-109	1	9	196
other expenses	792	618	28.2	712	11.2	2904	2319	25.2
% of net sales	13.7	10.5	319	14.7	-104	13.4	10.6	275
R&D Expensed	77	65	18.5	75	2.7	251	253	-0.9
% of total R&D	19.3	17.7	158.7	19.7	-43.5	19	17.9	106.9
Total expenditure	4947	4783	3	4242	17	18598	17734	5
EBITDA	834	1096	-23.9	589	41.6	3152	4132	-23.7
EBITDA Margin%	14.4	18.6	-421.6	12.2	223.4	14.5	18.9	-440.4
depreciation	357	265	34.7	365	-2.2	1419	1051	35
EBIT	477	831	-42.6	224	112.9	1733.5	3081	-43.7
Interest	10	8	25	22	-54.5	50	6	733.3
forex gain/loss	-20	-138	-85.5	-114	-82.5	15	-373	-104
PBT	447	685	-34.7	88	408	1683	3075	-45.3
Tax	59	92	-36	-4	-1673	340	594	-43
tax rate%	13.2	13.4	-1.7	-4.3	-409.7	20	22	-9
Reported PAT	440	593	-25.8	-92	-578.3	1257	2038	-38.3

Adjusted PAT	388	593	-34.6	92	322.9	1344	2481	-45.8
Total volumes	137631	122467	12.4	111160	23.8	503262	470523	7
Net realization	42004	48005	-12.5	43460	-3.4	43219	46472	-7
EBITDA/Vehicle	6060	8949	-32.3	5299	14.4	6264	8782	-28.7

Exhibit 3: Results update (Standalone)

GDP mn	Q3FY16	Q3FY15	Yoyo%	Q2FY16	QOQ%	FY16E	FY15	Yoyo%
Net sales	100006	90561	10.4	105011	-4.8	425272	362947	17.2
Raw material	71596	69912	2.4	74138	-3.4	299817	270417	10.9
% of net sales	71.6	77.2	-561	70.6	99	70.5	74.5	-401
staff expenditure	7811	7647	2.1	7311	6.8	32460	30915	5
% of net sales	7.8	8.4	-63	7	85	7.6	8.5	-88
other expenses	15986	18618	-14.1	17445	-8.4	70404	73991	-4.8
% of net sales	16	20.6	-457	16.6	-6.3	16.6	20.4	-383
R&D Expensed	95393	96177	-0.8	98894	-3.5	402681	375322	7.3
% of total R&D	4613	-5616	-182.1	6117	-24.6	22591	-12375	-282.6
Total expenditure	4.6	-6.2	1081	5.8	-121	5.3	-3.4	872
EBITDA	6054	6256	-3.2	6226	-2.8	24470	26032	-6
EBITDA Margin%	-1441	-11872	-87.9	-109	1220.4	-1879	-38407	-95.1
depreciation	356	4184	-17.4	3640	-5.1	15321	16117	-4.9
EBIT	4733	584	709.8	2179	117.2	18921	18814	0.6
Interest	251	2475	-89.9	282	-11	532	-3205	-116.6
forex gain/loss	86	-12997	-100.7	-1289	-106.7	2252	-38915	-105.8
PBT	461	181	154.4	26	1648.1	258	7642	-96.6
Tax	-111.2	-1	-11019	-1.4	7704	11.5	-19.6	3109
tax rate%	-626	-15788	-96	-1597	-60.8	1462	-43487	-103.4
Reported PAT	-0.6	-6.6	-91	-0.8	-30.1	0.6	-14.7	-104.2
Adjusted PAT	-2009	-21227	-90.5	-2875	-30.1	2118	-47389	-104.5
Total volumes	121390	126273	-3.9	125849	-3.5	512182	473336	8.2
Net realisation	823842	717183	14.9	834419	-1.3	830315	766786	8.3
EBITDA/Vehicle	38004	-44476	-185.4	48603	-21.8	44107	-26144	-268.7

Profit and loss				
Y/E March	FY15	FY16E	FY17E	FY18E
Net sales	2628	2732	3200	3580
other operating income	0	0	0	0
total operating income	2628	2732	3200	3580
cost of goods sold	-1599	-1647	-1948	-2196
gross profit	1029	1085	1252	1384
gross margin %	39.1	39.7	39.1	38.7
Total operating expenses	-600	-727	-820	-896
EBITDA	429	358	432	487
EBITDA Margin%	16.3	13.1	13.5	13.6
Depreciation	-134	-171	-202	-224
EBIT	295	187	231	263
Net interest	-40	-45	-45	-47
other income	9	51	57	65
profit before tax	264	193	242	281
total taxation	-78	-41	-50	-56
tax rate%	29.6	21.1	20.5	20
profit after tax	185	152	192	224
minorities	-1	-1	-1	-1
profit/loss associate	0	0	0	0
adjusted netprofit	185	152	191	223
Adj.PAT Margin%	7	5.5	6	6.2
Net non recurring items	-44	-10	7	9
Reported net profit	141	142	198	232

Balance sheet				
Y/E March	FY15	FY16E	FY17E	FY18E
Paid up capital	6	7	7	7
reserves and surplus	556	746	905	1082
net worth	567	757	916	1093
borrowing	692	661	635	611
other non current liabilities	-14	-14	-14	-14

total liabilities	2359	2540	2854	3124
gross fixed assets	1664	1957	2266	2581
Less:depreciation	-774	-945	-1147	-1365
net fixed assets	891	1012	1119	1216
Add:capital WIP	233	233	233	233
Total fixed assets	1124	1245	1353	1450
Total investment	153	188	198	209
inventory	293	324	380	409
debtors	126	142	165	174
cash and bank	321	321	409	503
Loans and advances	257	279	303	329
current liabilities	1114	1135	1316	1434
net current assets	-79	-28	-13	31
other non current assets	47	0	0	0
total assets	2359	2540	2854	3124

Cash flow

Y/E March	FY15	FY16E	FY17E	FY18E
Profit before tax	264	193	242	281
Depreciation and amortisation	-134	-171	-202	-224
chg in working captial	175	-51	73	50
cash flow from operations	225	300	376	401
capital expenditure	-284	-292	-310	-315
cash flow from investing	-322	-275	-263	-261
equity raised/repaid	0	0	0	0
debt raised/repaid	143	-31	-26	-24
dividend paid	0	0	0	0
cash flow from financing	121	-47	-31	-32
net chg in cash	24	-23	81	108

Key ratios

Y/E March	FY15	FY16E	FY17E	FY18E
OPERATIONAL				
FDEPS	54.4	44.6	56.3	65.7
CEPS	80.9	92.3	117.7	134.3
DPS	4.7	7	10	10

Dividend payout ratio	11.4	16.8	17.1	14.6
GROWTH				
Net sales%	12.9	4	17.1	11.9
EBITDA%	23	-16.4	20.7	12.7
Adj net profit	22.8	-17.9	26.3	16.7
FDEPS%	22.8	-17.9	26.3	16.7
PERFORMANCE				
ROE%	30.3	23	23	22.3
ROCE%	24.8	18	19.5	20.3
EFFICIENCY				
Asset turnover	3.1	2.9	3	3.2
sales/total assets	1.2	1.1	1.2	1.2
Working capital/sales	-0.1	-0.1	-0.1	-0.1
Receivable days	17.5	18.9	18.8	17.8
inventory days	48.6	49.8	50.1	48.2
payable days	149.8	138.7	139.5	135.6
FINANCIAL STABILITY				
Total debt/equity	1.1	1	0.8	0.6
net debt/equity	0.5	0.4	0.2	0.1
current ratio	0.9	1	1	1
interest cover	7.4	4.2	5.1	5.6
Valuation				
PE	5.1	6.2	4.9	4.2
EV/EBITDA	2.9	3.4	2.6	2
EV/Net sales	0.5	0.4	0.3	0.3
PB	1.7	1.2	1	0.9
Dividend yield%	1.7	2.5	3.6	3.6
free cash flow yield%	-6.4	0.8	7.1	9.2