

<b>INDUSTRY</b>	<b>AUTOS</b>
<b>CMP (as on 22 Sept 2015)</b>	<b>Rs 316</b>
<b>Target Price</b>	<b>Rs 445</b>
Nifty	7,812
Sensex	25,652

**KEY STOCK DATA**

Bloomberg	TTMT IN/TAMO.BO
No. of Shares (mn)	3,396
MCap (Rs bn) / (\$ mn)	1,352/21,455
6m avg traded value (Rs mn)	3,425

**STOCK PERFORMANCE (%)**

<b>52 Week high / low</b>	<b>Rs 606/302</b>		
	3M	6M	12M
Absolute (%)	(28.3)	(41.7)	(40.9)
Relative (%)	(20.8)	(32.5)	(35.2)

**SHAREHOLDING PATTERN (%)**

Promoters	34.35
FIs & Local MFs	16.45
FIIIs	20.49
Public & Others	28.71

Source : BSE

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## Challenges persist, but appear priced in

*In our recent meeting, Tata Motors' (TTMT) management appeared to be cautious about China's market conditions. However, it expects a double-digit growth in the US/Europe markets. The company is fairly confident of achieving more than 500k sales volume for the year at JLR. Profitability, though, is likely to remain under pressure because of weak pricing in China. Outlook for FY17 appears more promising with volume ramp-up of XE/D-Sport and soon-to-be-launched F-Pace, better utilisation of its engine facility (250k capacity), and incremental benefits from JLR's platform consolidation efforts.*

*Tata Motors' stock price has cracked by ~40% on account of China demand concerns. We believe the stock has more than adequately priced in these concerns. However, it is ignoring JLR's strong new product cycle. We have cut our consol earnings estimates by 14%/7% for FY16/FY17, as we lower our volume and EBITDA margin estimates for JLR, based on current demand and pricing headwinds in China. We have also lowered our TP to Rs 445 as we assign 4x EV/EBITDA (earlier 4.5x) on FY17E for JLR business given its muted earnings momentum in the medium term. We highlight that even if JLR's China EBITDA/vehicle premium diminishes to ROW levels, we see ~30% upside to current levels. Maintain BUY.*

- **China concerns persist:** JLR's China volumes are down 34% YoY on YTD basis. JLR seems to have partially addressed its internal issues related to pricing and marketing of the Evoque model. Current volume run-rate at CJLR has risen to ~2.5k/month (vs. 1.5k in June-

15). However, the management appears to be cautious about pricing of its imported models, including RR/RR Sport. Incentives have been rising and further margin impact of the same could be felt in the coming quarters. We have tried to capture the weaker pricing by lowering China premium/vehicle for JLR.

- **Margin outlook:** JLR's FY16 margins are likely to see more pressure on account of weak pricing in China, inferior model/region mix, and additional costs from the recently started ingenium engine facility. However, in FY17, JLR should witness margin tailwinds from its platform consolidation efforts and operating leverage benefits from higher volumes in addition to better utilisation of the engine facility.
- **Healthy outlook for standalone business:** In India, TTMT's MHCV volumes continue to witness a decent pickup and pricing is gradually improving. Net realisations should further improve after 1-1.25% price hike in Aug-15. The company expects LCV volumes to recover from 4QFY16. PV volumes should also see a boost with the launch of Kite 3 and 4 over the next few months. New launches on the Nexon platform are likely to take place in FY17.

**FINANCIAL SUMMARY (CONSOLIDATED)**

(Rs bn)	FY14	FY15	FY16E	FY17E
Net Sales	2,328	2,628	2,634	3,040
EBITDA (adj.)	348	395	373	453
APAT	150	145	133	181
Diluted EPS (Rs)	46.5	45.0	39.2	53.3
P/E (x)	11.9	14.1	24.8	11.2
EV / EBITDA (x)	3.7	3.5	4.2	3.2
RoE (%)	29.0	23.8	19.9	21.0

Source: Company, HDFC sec Inst Research

**China's premium car market is under pressure on account of anti-corruption crack downs and moderating macro growth**

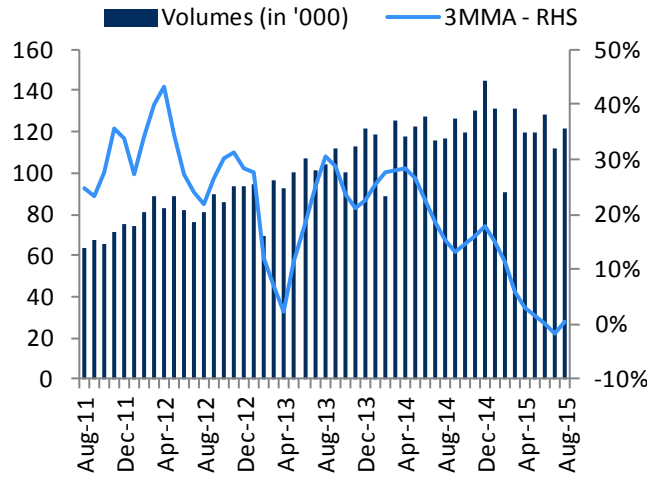
**Pricing environment is yet to stabilise. JLR witnessing rising incentives on imported models**

**CJLR volumes witnessing pick-up with Evoque volumes at ~2.5k/month in Aug-15**

**JLR has a solid new product launch pipeline, which should aid volume growth recovery from 2HFY16**

**We estimate that bulk of incremental volumes growth for JLR in China is likely to be driven by new model launches**

**China: Volume growth for luxury carmakers**



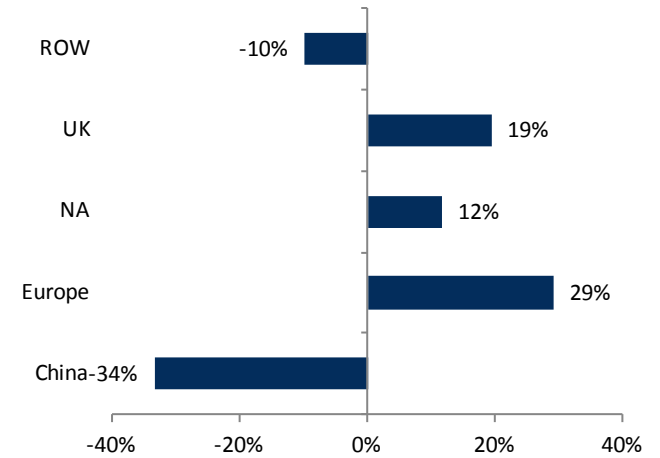
Source: Companies, HDFC sec Inst Research  
\* Above volumes represent China sales for BMW, Mercedes, Audi and JLR

**JLR: New product pipeline**

Timeline	Model
2QFY16	XF replacement
3QFY16	F-Pace
3QFY16	Evoque convertible
FY17	Discovery replacement
FY17	Mid-sized RR
FY17	XJ replacement
FY18	Defender replacement

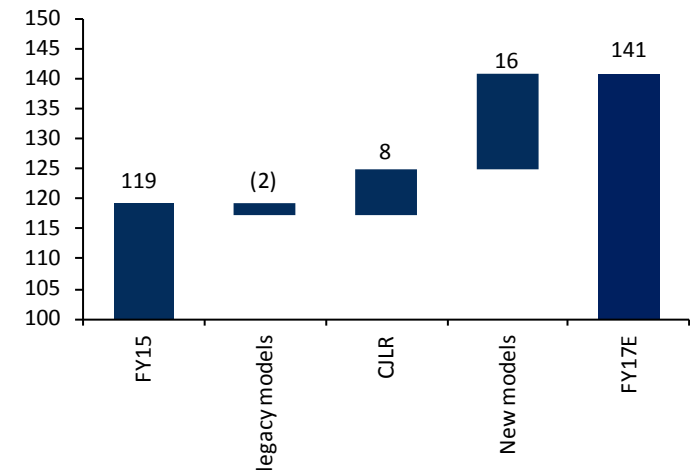
Source: Company, HDFC sec Inst Research

**JLR's FY16 YTD retails sales growth across regions**



Source: Company presentation, HDFC sec Inst Research

**JLR: Volume ramp-up in China (in '000)**



Source: Company, HDFC sec Inst Research

**Despite JLR's China EBITDA/vehicle premium diminishing, we see ~25% upside in TTMT's stock price from current levels**

**We have cut our consol earnings to reflect softening demand and weak pricing environment in China**

**Our TP reduction from Rs 515 to Rs 445 is based on downward revision in EBITDA forecast and target multiple for JLR and its China JV**

**On adjusted EV/EBITDA, TTMT is near -1 SD based on past 5-year valuations. We believe current valuations offer favorable risk-reward**

### Scenario analysis of JLR's China premium/vehicle on Tata Motors SOTP valuations

	China EBITDA/veh premium @60%	China EBITDA/veh premium @25%	China EBITDA/veh premium @0%
China EBITDA/veh premium FY17 (000' GBP/veh)	4.20	1.40	-
JLR FY17E EBITDA (GBP bn)	4.00	3.78	3.68
OFC in GBP bn (FY16E/FY17E)	6.37	6.10	5.95
Capex in GBP bn (FY16E/FY17E)	6.50	6.50	6.50
FCF in GBP bn (FY16E/FY17E)	(0.13)	(0.40)	(0.55)
<b>SOTP value (INR)</b>	<b>445</b>	<b>427</b>	<b>417</b>

Source: HDFC sec Inst Research

### Tata Motors: Changes to estimates

In Rs bn	New		Old		% chg	
	FY16E	FY17E	FY16E	FY17E	FY16E	FY17E
Net Sales	2,634	3,040	2,702	3,105	(2.5)	(2.1)
EBITDA	373	453	405	472	(7.9)	(4.0)
Adj PAT	133	181	155	195	(14.2)	(7.2)
Adj EPS	39.2	53.3	45.7	57.5	(14.2)	(7.2)

Source: HDFC sec Inst Research

### Tata Motors: SOTP VALUATIONS

	Valuation methodology	Multiple	Per share
Standalone	EV/E on FY17E	8.0	84
JLR	EV/E on FY17E	4.0	353
China JV	EV/E on FY17E	4.0	11
Other subsidiaries	P/E, PBV on FY17E		28
Net Auto Debt			(31)
<b>Target Price</b>			<b>445</b>

Source: HDFC sec Inst Research

### Tata Motors: One year forward EV/EBITDA band chart



Source: Company, HDFC sec Inst Research

**JLR: VOLUME GROWTH ASSUMPTIONS**

(in units)	FY13	FY14	FY15	FY16E	FY17E
<b>Jaguar</b>					
XF	38,303	46,662	45,921	41,400	50,000
XJ	15,703	19,271	16,332	16,500	18,000
XK	3,792	3,245	2,078	600	500
F-Type	14	10,129	12,165	13,500	14,000
XE	-	-	-	46,000	60,000
F-Pace	-	-	-	5,000	36,000
<b>Total Jaguar</b>	<b>57,812</b>	<b>79,307</b>	<b>76,496</b>	<b>123,000</b>	<b>178,500</b>
<b>% YoY</b>	<b>7</b>	<b>37</b>	<b>(4)</b>	<b>61</b>	<b>45</b>
<b>Land Rover</b>					
Defender	15,318	16,679	20,036	23,500	22,000
Discovery	43,813	44,343	50,601	45,000	55,000
Range Rover Sport	56,708	66,123	85,762	82,000	90,000
Range Rover	30,134	45,786	61,418	56,000	62,000
Freelander/Discovery Sport	51,986	56,712	52,347	70,500	80,000
Evoque	116,291	120,911	123,863	110,000	120,000
Mid-sized RR					8,000
<b>Total Land Rover</b>	<b>314,250</b>	<b>350,554</b>	<b>394,027</b>	<b>387,000</b>	<b>437,000</b>
<b>% YoY</b>	<b>21</b>	<b>12</b>	<b>12</b>	<b>(2)</b>	<b>13</b>
<b>Total JLR</b>	<b>372,062</b>	<b>429,861</b>	<b>470,523</b>	<b>510,000</b>	<b>615,500</b>
<b>% YoY</b>	<b>18</b>	<b>16</b>	<b>9</b>	<b>8</b>	<b>21</b>
<b>- of the above from China JV</b>	<b>-</b>	<b>-</b>	<b>4,044</b>	<b>31,000</b>	<b>65,000</b>

Source: Company, HDFC sec Inst Research

**TATA MOTORS: STANDALONE VOLUME ASSUMPTIONS**

	FY13	FY14	FY15	FY16E	FY17E
MHCV	143,381	110,187	127,011	149,423	178,617
LCV	396,743	271,225	202,932	200,449	230,517
PV	219,139	135,287	133,304	180,000	211,000
<b>Total Domestic</b>	<b>759,263</b>	<b>516,699</b>	<b>463,247</b>	<b>529,872</b>	<b>620,134</b>
<b>% YoY</b>	<b>(10.0)</b>	<b>(32)</b>	<b>(10)</b>	<b>14</b>	<b>17</b>
<b>Exports</b>	<b>50,217</b>	<b>49,892</b>	<b>49,917</b>	<b>56,298</b>	<b>63,415</b>
<b>% YoY</b>	<b>(16)</b>	<b>(1)</b>	<b>0</b>	<b>13</b>	<b>13</b>
<b>Total sales</b>	<b>809,480</b>	<b>566,591</b>	<b>513,164</b>	<b>586,170</b>	<b>683,549</b>
<b>% YoY</b>	<b>(10.5)</b>	<b>(30)</b>	<b>(9)</b>	<b>14</b>	<b>17</b>

Source: Company, HDFC sec Inst Research

**Strong order book for XE/Discovery Sport, launch of F-Pace in Jan-16 and recovery in CJLR volume run-rate should see overall volume growth momentum recovering for JLR from 2HFY16**

**Expect strong MHCV volume growth on back of cyclical recovery. LCV volumes growth is expected to recover from 4QFY16 onwards. New launches to drive growth in the PV business**

**INCOME STATEMENT: CONSOLIDATED**

As at March (Rs bn)	FY13	FY14	FY15	FY16E	FY17E
<b>Net Sales</b>	<b>1,888</b>	<b>2,328</b>	<b>2,628</b>	<b>2,634</b>	<b>3,040</b>
<b>Growth (%)</b>	<b>14.0</b>	<b>23.3</b>	<b>12.9</b>	<b>0.2</b>	<b>15.4</b>
Material Expenses	1,201	1,436	1,599	1,544	1,792
Employee Expenses	166	216	255	290	315
Product Development Expenses	20	26	29	35	43
Other Operating Expenses	255	303	349	392	436
<b>EBIDTA</b>	<b>246</b>	<b>348</b>	<b>395</b>	<b>373</b>	<b>453</b>
<b>EBIDTA (%)</b>	<b>13.0</b>	<b>15.0</b>	<b>15.0</b>	<b>14.2</b>	<b>14.9</b>
<b>EBIDTA Growth (%)</b>	<b>10.2</b>	<b>41.6</b>	<b>13.5</b>	<b>(5.7)</b>	<b>21.5</b>
Other Income	8	8	9	12	11
Depreciation	76	111	134	161	188
EBIT	178	246	271	224	276
Interest	36	47	49	36	34
PBT	143	199	222	188	242
Tax	38	48	76	52	62
<b>PAT</b>	<b>104.7</b>	<b>150.9</b>	<b>145.5</b>	<b>135.9</b>	<b>179.7</b>
<b>APAT Growth (%)</b>	<b>(17.0)</b>	<b>44.1</b>	<b>(3.5)</b>	<b>(6.6)</b>	<b>32.2</b>
Profit in respect of investments in Associate Companies	1	(1)	0	(2)	2
Minority Interest	(1)	(1)	(1)	(1)	(1)
<b>Adj PAT (after MI)</b>	<b>105</b>	<b>150</b>	<b>145</b>	<b>133</b>	<b>181</b>
EO items (net of tax)	(6)	(10)	(5)	15	-
Reported PAT (after MI)	99	140	140	148	181
<b>Adj EPS (after MI)</b>	<b>32.9</b>	<b>46.5</b>	<b>45.0</b>	<b>39.2</b>	<b>53.3</b>
<b>Adj EPS Growth (%)</b>	<b>(16.8)</b>	<b>41.4</b>	<b>(3.3)</b>	<b>(12.9)</b>	<b>36.2</b>

Source: Company, HDFC sec Inst Research

**BALANCE SHEET: CONSOLIDATED**

As at March (Rs bn)	FY13	FY14	FY15	FY16E	FY17E
<b>SOURCES OF FUNDS</b>					
Share Capital	6.4	6.4	6.4	6.8	6.8
Reserves	370	650	556	770	941
<b>Total Shareholders' Funds</b>	<b>376</b>	<b>656</b>	<b>563</b>	<b>777</b>	<b>948</b>
Minority Interest	4	4	4	5	6
Long Term Debt	536	606	736	690	716
Short Term Debt	-	-	-	-	-
<b>Total Debt</b>	<b>536</b>	<b>606</b>	<b>736</b>	<b>690</b>	<b>716</b>
Deferred Taxes	(24)	(8)	(14)	5	11
Long Term Provisions & Others	-	-	-	-	-
<b>TOTAL SOURCES OF FUNDS</b>	<b>892</b>	<b>1,259</b>	<b>1,289</b>	<b>1,476</b>	<b>1,680</b>
<b>APPLICATION OF FUNDS</b>					
Net Block	511	641	838	1,021	1,187
CWIP	186	336	289	289	284
Goodwill	41	50	47	47	47
Investments, LT Loans & Advances	91	107	153	153	153
Inventories	210	273	293	288	332
Debtors	109	106	126	110	127
Cash & Equivalents	211	297	321	276	286
ST Loans & Advances, Others	298	367	293	321	353
Total Current Assets	828	1,043	1,032	995	1,098
Creditors	603	716	858	812	863
Other Current Liabilities & Provns	161	202	212	217	226
Total Current Liabilities	764	918	1,070	1,029	1,089
<b>Net Current Assets</b>	<b>64</b>	<b>125</b>	<b>(38)</b>	<b>(34)</b>	<b>9</b>
Misc Expenses & Others	-	-	-	-	-
<b>TOTAL APPLICATION OF FUNDS</b>	<b>892</b>	<b>1,259</b>	<b>1,289</b>	<b>1,476</b>	<b>1,680</b>

Source: Company, HDFC sec Inst Research

**CASH FLOW: CONSOLIDATED**

As at March (Rs bn)	FY13	FY14	FY15	FY16E	FY17E
Reported PAT	99	140	140	148	181
Non-operating & EO items	-	-	-	-	-
PAT from Operations	99	140	140	148	181
Interest expenses	36	47	49	36	34
Depreciation	76	111	134	161	188
Working Capital Change	49	25	187	(49)	(32)
Other Operating Items	0	17	(6)	20	7
<b>OPERATING CASH FLOW ( a )</b>	<b>259</b>	<b>339</b>	<b>503</b>	<b>315</b>	<b>378</b>
Capex	(209)	(400)	(281)	(344)	(350)
Free cash flow (FCF)	51	(61)	223	(29)	29
Investments	(1)	(16)	(47)	-	-
<b>INVESTING CASH FLOW ( b )</b>	<b>(210)</b>	<b>(416)</b>	<b>(327)</b>	<b>(344)</b>	<b>(350)</b>
Debt Issuance	64	71	130	(47)	26
Interest expenses	(36)	(47)	(49)	(36)	(34)
FCFE	115	10	352	(76)	55
Share capital Issuance	1	4	(233)	74	-
Dividend	(7)	(7)	-	(8)	(10)
Other Financing Items	(44)	143	-	-	-
<b>FINANCING CASH FLOW ( c )</b>	<b>(21)</b>	<b>163</b>	<b>(152)</b>	<b>(17)</b>	<b>(18)</b>
<b>NET CASH FLOW (a+b+c)</b>	<b>29</b>	<b>86</b>	<b>24</b>	<b>(46)</b>	<b>11</b>
Non-operating and EO items	-	-	-	-	-
Closing Cash & Equivalents	211	297	321	276	286

Source: Company, HDFC sec Inst Research

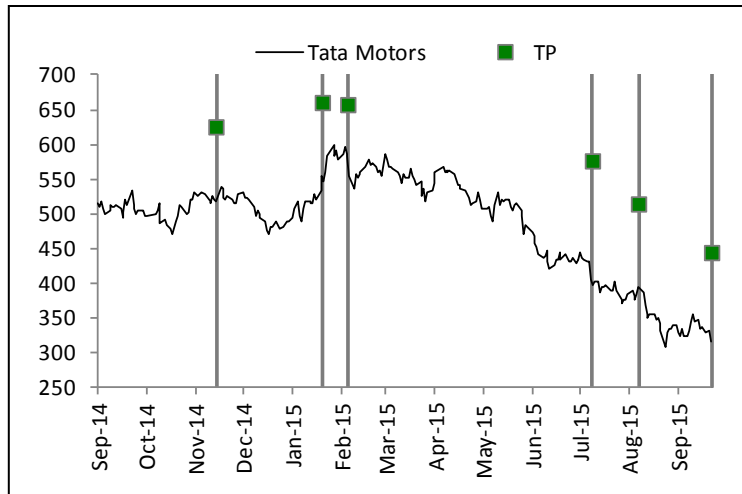
**KEY RATIOS: CONSOLIDATED**

	FY13	FY14	FY15	FY16E	FY17E
<b>PROFITABILITY (%)</b>					
GPM	36.4	38.3	39.1	41.4	41.1
EBITDA Margin	13.0	15.0	15.0	14.2	14.9
APAT Margin	5.2	6.0	5.3	5.6	6.0
RoE	29.8	29.0	23.8	19.9	21.0
RoIC	20.6	20.8	20.7	14.5	15.7
RoCE	15.3	17.0	13.8	11.5	13.1
<b>EFFICIENCY</b>					
Tax Rate (%)	26.5	24.0	34.4	27.7	25.7
Asset Turnover (x)	2.1	1.8	2.0	1.8	1.8
Inventory (days)	41	43	41	40	40
Debtors (days)	21	17	17	15	15
Payables (days)	117	112	119	113	104
Cash Conversion Cycle (days)	(55)	(53)	(61)	(57)	(49)
Debt/EBITDA (x)	2.2	1.7	1.9	1.8	1.6
Net D/E	0.2	0.1	0.2	0.2	0.1
Interest Coverage	5.0	5.2	5.6	6.2	8.1
<b>PER SHARE DATA</b>					
EPS (Rs/sh)	32.9	46.5	45.0	39.2	53.3
CEPS (Rs/sh)	51.3	72.7	78.8	83.7	100.5
DPS (Rs/sh)	2.0	2.0	-	2.0	2.5
BV (Rs/sh)	118.0	203.8	174.8	228.7	279.1
<b>VALUATION</b>					
P/E*	17.3	11.9	14.1	24.8	11.2
P/BV	2.7	1.6	1.8	1.4	1.1
EV/EBITDA*	5.5	3.7	3.5	4.2	3.2
OCF/EV (%)	23.8	32.2	44.8	26.5	32.0
FCF/EV (%)	4.7	(5.8)	19.8	(2.4)	2.4
FCFE/mkt cap (%)	11.4	1.0	34.6	(7.0)	5.1
Dividend Yield (%)	0.6	0.6	-	0.6	0.8

Source: Company, HDFC sec Inst Research

\*P/E and EV/EBITDA adjusted for R&amp;D capitalisation at ~30%, which is in line with other luxury carmakers

**RECOMMENDATION HISTORY**



Date	CMP	Reco	Target
17-Nov-14	524	BUY	626
21-Jan-15	559	BUY	661
6-Feb-15	589	BUY	658
10-Jul-15	398	BUY	577
8-Aug-15	393	BUY	515
23-Sep-15	316	BUY	445

**Rating Definitions**

- BUY : Where the stock is expected to deliver more than 10% returns over the next 12 month period
- NEUTRAL : Where the stock is expected to deliver (-)10% to 10% returns over the next 12 month period
- SELL : Where the stock is expected to deliver less than (-)10% returns over the next 12 month period

**Disclosure:**

We, Navin Matta, MBA & Sneha Prashant, MBA authors and the names subscribed to this report, hereby certify that all of the views expressed in this research report accurately reflect our views about the subject issuer(s) or securities. We also certify that no part of our compensation was, is, or will be directly or indirectly related to the specific recommendation(s) or view(s) in this report.

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