

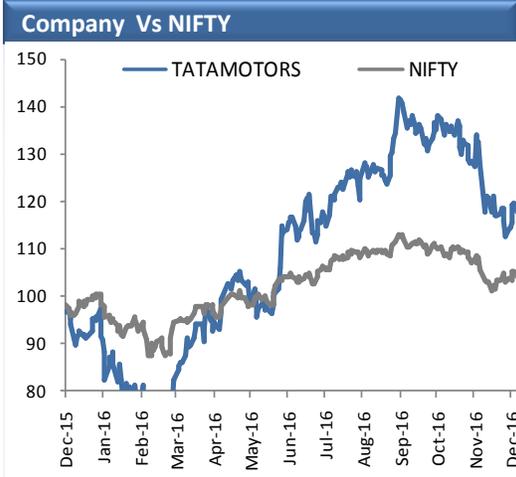
TATA MOTORS LTD

Result Update	
CMP	454
Target Price	530
Previous Target Price	
Upside	17%
Change from Previous	-

Market Data	
BSE Code	500570
NSE Symbol	TATAMOTORS
52wk Range H/L	599/266
Mkt Capital (Rs Cr)	130,662
Av. Volume	530992
Nifty	8,171

Stock Performance			
	1Month	1Year	YTD
Absolute	-10.4	-18.0	16.8
Rel.to Nifty	-8.9	-11.7	10.4

Share Holding Pattern-%			
	2QFY17	1QFY17	4QFY16
Promoter	33.0	33.0	33.0
Public	67.0	67.0	67.0
Others	--	--	--
Total	100.0	100.0	100.0



Tata Motors posted a growth of 7% YoY in the net revenue to Rs.65900 crore in 2QFY17. Passenger vehicles volume grew by 23% YoY due to higher sales of Tiago, which has a waiting period of 8 to 12 weeks. Commercial vehicle segment remained sluggish during the quarter due to heavy rain and freight issue and posted 1% growth YoY. Jaguar and Land Rover sales volumes were up by 84% and 15% respectively on account of low priced model launches in both the brands during the quarter. Recently launched F-Pace and Evoque convertible have received well response across regions and XF long wheel base launched in China have also shown strong volumes during the quarter. EBITDA Margin was declined by 110 bps to 9.5% in 2QFY17 due to adverse foreign exchange impact of GBP274 mn.

Result Highlights

Gross Margin improved by 190 bps due to soft commodity prices and favourable product mix.

EBITDA Margin contracted by 90 bps during the quarter due to higher other expenses. Higher advertising & promotion expenses on new and awaiting launches, Forex impact and one time provision of customer quality program led to increase in other expenses.

Company reported net profit of Rs.848 crore in 2QFY17 vs net loss of Rs.1740 crore in the same quarter last year.

Outlook

Going ahead, we expect that the current demonetization issue may be hampering the automotive industry for next couple of months. But we are hopeful about the recovery very soon due to strong infrastructure activity and new emission norms in the CV space which will result in pre-buying in 4QFY17. The company has plans to launch new models in the Passenger Vehicle segment in 2HFY17. The management has started restructuring of its passenger vehicle segment by increasing its supplier base and increasing operational efficiencies by various cost cutting initiatives. New model launches in Jaguar and Land Rover brands will provide further boost in the volumes of JLR. Based on the above arguments, we recommend 'BUY' on this stock with a target price of Rs.530, an upside of 17%.

	Rs. In crore				
Financials	2QFY17	1QFY17	2QFY16	QoQ	YoY
Sales	65900	65895	61524	0%	7%
EBITDA	6283	7613	6519	-17%	-4%
Net Profit	848	2260	-1740	-62%	-149%
EBIDTA%	9.5%	11.6%	10.6%		
PAT %	1.3%	3.4%	-2.8%		

Investment Argument

- ◆ **Strong Product Pipeline-** Tata Motors have strong pipeline of new launches going ahead. New launches in India business include Nexon and Hexa SUVs in FY17. On the JLR side New Land Rover Discovery is expected to launch in the 4QFY17, mid-size Range Rover is expected to launch in 2QFY18 and Range Rover Sport expected launch in 4QFY18. These launches will make Land Rover portfolio even stronger. JLR contributes 80% of the total revenue.
- ◆ **Restructuring of Passenger Vehicle segment-** The management has started restructuring its passenger vehicle segment. Earlier, not having a robust supplier base has cost the company in terms of production losses when parts did not reach factories on time or did not arrive at all. So the company is now working on making its supplier base strong. The management is also working on various cost cutting initiatives to improve operational efficiency of India Business.
- ◆ **Increasing Infrastructure activity and BS-IV norms to drive volumes-** Being the largest CV player in the country, Tata Motors is all set to take advantage of the new emission norms. Indian Automobile sector is upgrading itself to BS-IV from 1st April 2017, which will be further upgraded to BS-VI by 2020. So we assume pre-buying to happen in the 4QFY17.
- ◆ **Exports and Defence future growth drivers -** Export growth in FY17 is expected to be in the range of 20-25 percent and over the next couple of years the management aims to take the export contribution to the total CV revenue to about 25%. Company continues to have a good pipeline of defence orders both which have been received as well as expected.
- ◆ **Expanding presence in China-** China looks a sweet spot for JLR in SUV space. The company has started production of Land Rover and Range Rover models there through Cherry JV. Sales volume have also improved from 2700 units in November 2015 to 6000 units in November 2016. Manufacturing these models in China may result in low cost of production for the company.

Management Highlight

- ◆ M&HCV segment volume growth in single digit for full year.
- ◆ Buses and LCV segment will continue their positive growth trend for the rest of the year.
- ◆ Exports growth in the range of 20-25%
- ◆ Export contribution to the total CV revenue to about 25% in next couple of years.
- ◆ Company continues to have a good pipeline of defence orders both which have been received as well as expected.
- ◆ The management aims to capture more than 60% market share in next 2 years in 15 tons and above.
- ◆ China joint venture was profitable in the quarter, declared its first dividend, which will mostly be reinvested back into the joint venture.
- ◆ The all-new XF Long wheel base that has been launched in the China market. Production has started and we look forward to ramping up over the next couple of quarters.
- ◆ 50% of raw material cost is Euro denominated. Depreciation in GBP will have negative impact.
- ◆ Production of XE has shifted to castle bromwich from Solihull and this will free up more capacity at Solihull to produce F-Pace. XE, XF and F-Pace share the same platform.
- ◆ The new discovery would be launched in 4QFY17.
- ◆ Capex less than GBP 3.75 billion.
- ◆ Rs.3500 to 4000 crore for research and new product development in FY17 for India business.
- ◆ The company will be increasing prices of its passenger vehicles starting from Rs.5000 upto Rs. 25000, depending on the model, effective from January 1,2017.

Key Risks

- ◆ 80% revenue of the company comes from exports and any adverse movement in currency may impact margins directly.
- ◆ 50% of raw material is Euro denominated and depreciation of GBP may have negative impact.

Financials Snap Shot

INCOME STATEMENT

	FY14	FY15	FY16	FY17E
Revenue (Net of Excise D	232,834	262,796	275,561	283,390
Other Income	829	899	982	1,107
Total Revenue	233,662	263,695	276,543	284,497
COGS	143,586	159,920	162,419	166,620
GPM	38%	39%	41%	41%
Other Expenses	43,826	50,618	60,425	68,337
EBITDA	34,838	39,239	36,756	32,818
EBITDA Margin (%)	15%	15%	13%	12%
Depreciation	11,078	13,389	17,014	20,668
EBIT	23,760	25,850	19,742	12,150
Interest	4,734	4,861	4,623	4,215
PBT	19,854	21,887	16,100	9,041
Tax	4,765	7,643	2,873	2,343
Tax Rate (%)	24%	35%	18%	26%
Reported PAT	13,991	13,986	11,024	8,449
Dividend Paid	640	-	169	129
No. of Shares	274	274	289	289

RATIOS

	FY14	FY15	FY16	FY17E
EPS	51	51	38	29
Book Value	240	206	280	309
DPS	2.3	-	0.6	0.4
Payout (incl. Div. Tax.)	5%	0%	2%	2%
Valuation(x)				
P/E	7.8	9.3	8.7	15.5
Price / Book Value	1.7	2.3	1.2	1.5
Dividend Yield (%)	0.59%	0.00%	0.18%	0.10%
Profitability Ratios				
RoE	21%	25%	14%	9%
RoCE	21%	23%	15%	9%
Turnover Ratios				
Asset Turnover (x)	1.1	1.1	1.0	1.0
Debtors (No. of Days)	16.6	17.5	17.2	17.2
Inventory (No. of Days)	69.3	66.8	75.1	75.1
Creditors (No. of Days)	89.9	79.7	84.3	84.3
Net Debt/Equity (x)	0.7	1.0	0.6	0.6

BALANCE SHEET

	FY14	FY15	FY16	FY17E
Share Capital	644	644	679	679
Reserves	64,960	55,618	80,103	88,423
Net Worth	65,603	56,262	80,783	89,102
Long term Debt	45,259	56,071	51,876	51,876
Short term Debt	9,696	13,140	11,224	9,919
Deferred Tax	1,572	1,343	3,166	3,166
Total Capital Employed	110,862	112,333	132,659	140,979
Net Fixed Assets	97,375	112,423	128,851	143,157
Capital WIP	10,137	9,330	7,809	7,809
Debtors	10,574	12,579	12,990	13,359
Cash & Bank Balances	29,712	32,116	32,880	29,052
Trade payables	57,316	57,407	63,633	65,441
Total Provisions	20,161	21,171	20,519	20,856
Net Current Assets	13,185	14,626	15,718	9,391
Total Assets	219,998	238,658	269,298	280,107

CASH FLOW STATEMENT

	FY14	FY15	FY16	FY17E
OP/(Loss) before Tax	13,991	13,986	11,024	9,041
Depreciation	11,074	13,386	17,014	20,668
Direct Taxes Paid	4,308	4,194	1,994	2,343
OP before WC changes	34,685	43,049	38,609	35,676
CF from Op. Activity	36,151	35,183	39,167	35,835
	-	-	-	-
Capex	(26,975)	(31,614)	(32,682)	(34,974)
CF from Inv. Activity	(29,893)	(34,519)	(38,611)	(34,014)
Repayment of Long Term	23,321	27,393	10,887	-
Interest Paid	(6,171)	(6,307)	(5,704)	(4,215)
Divd Paid (incl Tax)	(689)	(681)	(86)	(129)
CF from Fin. Activity	(3,883)	5,201	(3,193)	(5,650)
Inc/(Dec) in Cash	2,375	5,865	(2,637)	(3,828)
Add: Opening Balance	12,351	16,628	21,128	32,880
Closing Balance	16,628	21,128	19,350	29,052

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