Tata Motors

Performance Highlights

Y/E March (₹ cr)	2QFY16	2QFY15	% chg (yoy)	1QFY16	% chg (qoq)
Net Sales	61,318	60,641	1.1	61,302	0.0
EBITDA	6,880	9,569	(28.1)	9,109	(24.5)
EBITDA Margin (%)	11.2	15.8	(460 bp)	14.9	(370 bp)
Adj. PAT	2,223	3,273	(32.1)	2,847	(21.9)

Source: Company, Angel Research

Operating results below estimates: Tata Motors' 2QFY2016 results have come in below our estimates on the operating front. Consolidated revenues grew marginally by 1% yoy to ₹61,318cr (coming slightly ahead of our estimates of ₹57,484cr). Growth was subdued, mainly due to flattish top-line at JLR. JLR's volumes grew a healthy 12% yoy during the quarter but an adverse product (higher sales of relatively lower priced cars in the company's product portfolio) and regional mix (lower China sales) led to lower realization, thus dragging the top-line. The consolidated operating margin at 11.2% was below our estimate of 13.4%. JLR's EBIDTA margin at 12.2% was significantly below our estimate of 15%. JLR's margins were impacted by lower China sales, adverse product mix and higher launch expenses. During the quarter, Tata Motors reported a loss at the net level due to a one-off charge of ₹2,493cr related to damage caused by fire explosions caused at the China port location, which affected JLR vehicles. However, Tata Motors had a tax credit to the tune of ₹704cr which resulted in the Adj profit coming in at ₹2,223cr for the quarter (better than our estimate of ₹2,041cr).

Outlook and valuation: JLR's volumes are likely to recover from 2HFY2016 on back of new product introductions, tapping of new segments, and production ramp up at the China JV. We expect JLR's volumes to grow at 13% CAGR over the FY2015-2017 period. JLR aims to widen its presence across product segments and is poised to become a stronger luxury car player in the next four to five years. Also, the standalone business is expected to turn profitable at the operating level in FY2016 on back of pick up in the commercial as well as passenger vehicle segments and with gradual reduction in discounts. However, JLR margins are likely to remain under pressure as the company enters new segments which would lead to direct competition with established luxury players viz BMW, Audi and Mercedes. We expect JLR margins to be in 14-15% range as against 18% range in the last two years. Also, the stock currently trades at 28.9x its FY2016 and 14.9x its FY2017 adjusted earnings respectively, leaving limited scope of upside from current levels. **Thus, we have a Neutral view on the stock.**

Key financials (Consolidated)

Y/E March (₹ cr)	FY2014	FY2015	FY2016E	FY2017E
Net Sales	**232,834**	**262,796**	**255,254**	**301,772**
% chg	*23.3*	*12.9*	*(2.9)*	*18.2*
Adj Net Profit*	**11,790**	**10,544**	**4,698**	**9,098**
% chg	*41.0*	*(10.6)*	*(55.4)*	*93.7*
EBITDA (%)	*15.0*	*14.9*	*12.9*	*13.4*
Adj EPS* (₹)	**36.6**	**32.8**	**13.8**	**26.8**
P/E (x)	10.9	12.2	28.9	14.9
P/BV (x)	2.0	2.3	2.0	1.7
RoE (%)	18.0	18.7	7.4	12.1
RoCE (%)	18.8	19.0	12.3	14.5
EV/Sales (x)	0.7	0.6	0.8	0.7
EV/EBITDA (x)	4.6	4.3	6.1	5.2

*Source: Company, Angel Research; *Adj for deficient R&D*

NEUTRAL

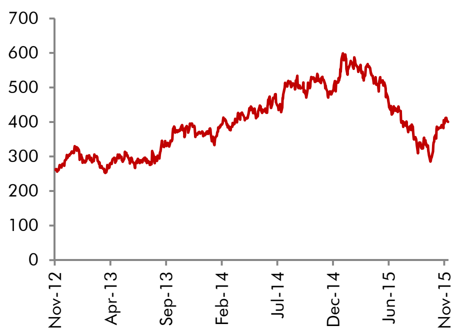
CMP	₹400
Target Price	-
Investment Period	-

Stock Info	
Sector	Automobile
Market Cap (₹ cr)	115,039
Net Debt (₹ cr)	41,495
Beta	1.3
52 Week High / Low	605/279
Avg. Daily Volume	884,305
Face Value (₹)	2
BSE Sensex	25,760
Nifty	7,807
Reuters Code	TAMO.BO
Bloomberg Code	TTMT@IN

Shareholding Pattern (%)	
Promoters	33.0
MF / Banks / Indian FIs	17.8
FII / NRIs / OCBs	21.9
Indian Public / Others	27.3

Abs. (%)	3m	1yr	3yr
Sensex	(8.2)	(8.2)	40.7
TAMO	12.6	(22.8)	52.6

3-Year Daily Price Chart



Source: Company, Angel Research

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Exhibit 1: Quarterly financial performance (Consolidated)

Y/E March (₹ cr)	2QFY16	2QFY15	% chg (yoy)	1QFY16	% chg (qoq)	1HFY16	1HFY15	% chg (yoy)
Net Sales	61,318	60,641	1.1	61,302	0.0	122,620	125,324	(2.2)
Consumption of RM	37,275	36,968	0.8	35,063	6.3	72,338	76,704	(5.7)
(% of Sales)	60.8	61.0		57.2		59.0	61.2	
Staff Costs	7,012	6,231	12.5	6,979	0.5	13,991	12,054	16.1
(% of Sales)	11.4	10.3		11.4		11.4	9.6	
Other Expenses	10,152	7,873	28.9	10,151	0.0	20,303	15,855	28.1
(% of Sales)	16.6	13.0		16.6		16.6	12.7	
Total Expenditure	54,438	51,072	6.6	52,193	4.3	106,631	104,612	1.9
Operating Profit	6,880	9,569	(28.1)	9,109	(24.5)	15,989	20,711	(22.8)
OPM (%)	11.2	15.8		14.9		13.0	16.5	
Interest	1,159	930	24.7	1,117	3.8	2,277	1,875	21.4
Depreciation	4,428	3,213	37.8	3,823	15.8	8,251	6,193	33.2
Other Income	245	218	12.3	307	(20.2)	552	432	28.0
Minority interest	19	16		20		38	31	
PBT	1,520	5,628	(73.0)	4,456	(65.9)	5,975	13,044	(54.2)
(% of Sales)	2.5	9.3		7.3		4.9	10.4	
Provision for Taxation	(704)	2,364	(129.8)	1,570	(144.8)	867	4,479	(80.6)
(% of PBT)	(46.3)	42.0		35.2		14.5	34.3	
PAT before exceptional	2,223	3,264	(31.9)	2,886	(23.0)	5,109	8,565	(40.4)
Exceptional items	(2,653)	26		(117)		(2,770)	120	
Reported PAT	(430)	3,291		2,769		2,339	8,685	
Adj PAT	2,223	3,273	(32.1)	2,847	(21.9)	5,070	8,605	(41.1)
Adj. PATM	3.6	5.4		4.6		4.1	6.9	
Equity capital (cr)	679.2	643.8		679.2		679.2	643.8	
Adjusted EPS (₹)	6.5	10.2	(35.6)	8.4	(21.9)	14.9	26.7	(44.2)

Source: Company, Angel Research

Exhibit 2: 2QFY2016 - Actual vs Angel Estimates

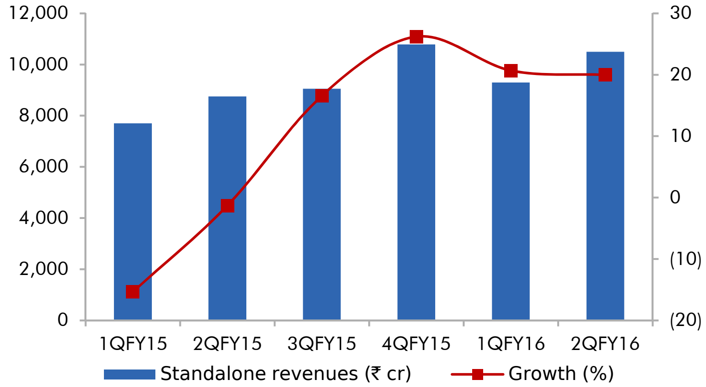
Y/E March (₹ cr)	Actual	Estimates	Variation (%)
Net Sales	61,318	57,484	6.7
EBITDA	6,880	7,695	(10.6)
EBITDA margin (%)	11.2	13.4	(220 bp)
Adj. PAT	2,223	2,042	8.9

Source: Company, Angel Research

- Tata Motors’ standalone revenues continued to recover, reporting the fourth consecutive quarter of double-digit growth. In 2QFY2016, the standalone top-line grew a healthy 20% yoy to ₹10,501cr. While the volumes were flat yoy, the realization/vehicle grew by 20% yoy led by a better product mix (higher proportion of MHCV) and price hikes.

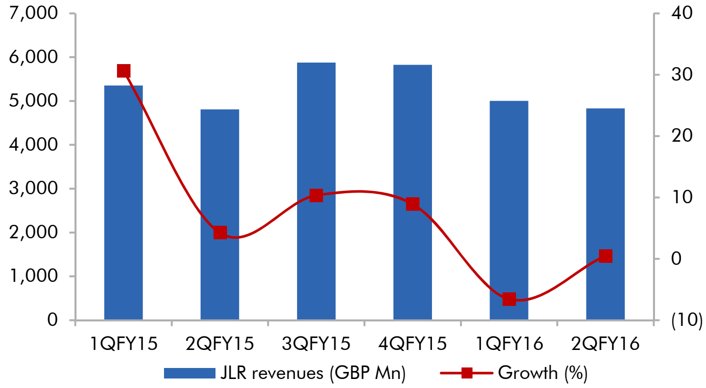
- JLR reported flat revenues in 2QFY2016. While volume growth was healthy at 12% yoy, realization/vehicle dipped sharply by 11% yoy on account of adverse product and regional mix. Higher proportion of low priced models (Jaguar XE, Land Rover Defender and Discover Sport) and lower proportion of China sales impacted the realization.

Exhibit 3: Standalone revenues recover



Source: Company, Angel Research

Exhibit 4: JLR revenues under pressure

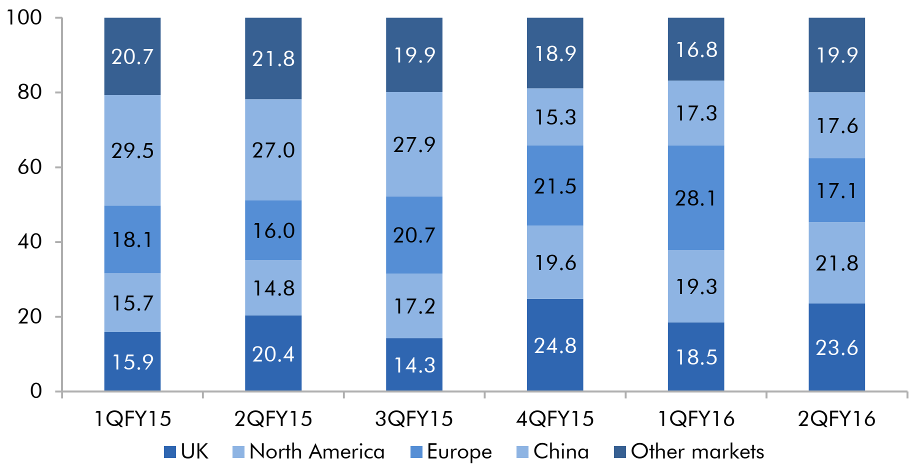


Source: Company, Angel Research

- JLR's regional mix has undergone a huge change in the last one year. Given the slowdown in China, its share in JLR volumes has gone down from 27% in 2QFY2015 to 17.6% in 2QFY2016. Also, given the slowdown in oil producing and commodity nations such as Russia, Brazil and Middle East countries, the share of other regions has fallen from 22% in 2QFY2015 to 20% in 2QFY2016. The share of developed nations such as US and UK to overall volumes increased by 7% and 3% respectively.

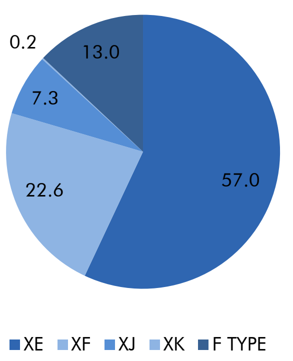
- Jaguar XE sales have started to pick up and currently constitute about 57% of the overall Jaguar volumes. Launch of the new XF and XJ has led to fall in the volumes of the current model. Share of Land Rover Evoque has fallen from 32% in 2QFY2015 to 24% now due to slowdown in the key market - China. Successful launch of Discovery Sport which replaces Freelander has gone up from 15% in 2QFY2015 to 24% of overall Land Rover volumes.

Exhibit 5: JLR regional sales mix



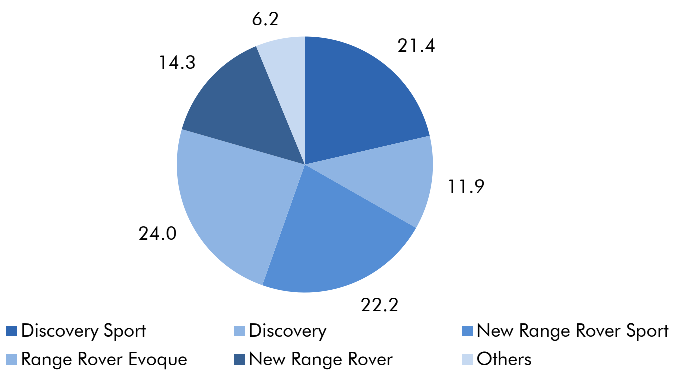
Source: Company, Angel Research

Exhibit 6: Jaguar sales mix



Source: Company, Angel Research

Exhibit 7: Land Rover mix

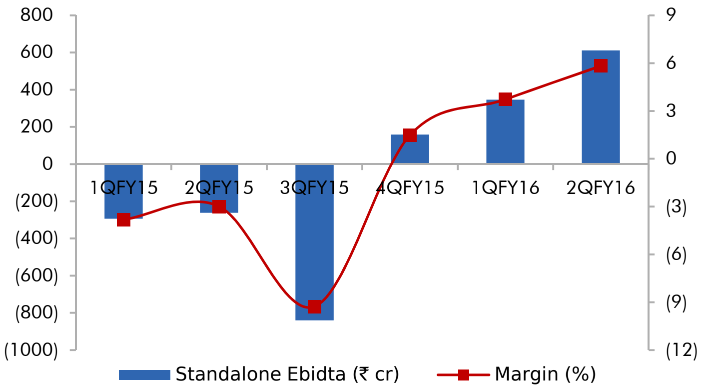


Source: Company, Angel Research

- Standalone EBIDTA margins continued to recover, reporting a third consecutive quarter of positive margins. In 2QFY2016, standalone margins stood at 5.8% as against -3% in corresponding quarter last year. Robust revenue growth (20% yoy) coupled with cost control initiatives led to a steep margin improvement.

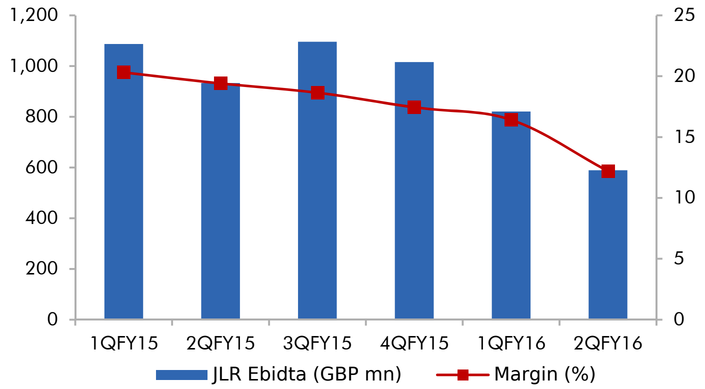
- JLR margins continued to remain under pressure declining steeply by 720bp yoy to 12.2%. Adverse product and regional mix, higher marketing expenses and new product launches (new model and engine upgrades) dented margins. Further, forex loss of 40mn Euros on commodity hedges also impacted the margins.

Exhibit 8: Standalone margins continue to recover



Source: Company, Angel Research

Exhibit 9: JLR Margins under pressure



Source: Company, Angel Research

Conference call – Key highlights

- JLR's margins in the quarter at 12.2% were lower by 720bp yoy and by 420bp on a sequential basis. The margins were impacted by adverse product and geographical mix, higher launch expenses (upgrades and new engine variants) and a forex charge of Euro 40mn on Euro payables.
- JLR is ramping production at the China JV. Apart from ramp up of Evoque, it plans to commence production of Discovery Sport in JV. The loss in the JV in 2QFY2016 stood at GBP 1mn.
- JLR has a strong product pipeline which would drive the growth ahead. JLR recently launched new XF and is scheduled to launch new XJ which would boost the respective models' sales. Further it aims to enter the crossover segment with the launch of the Jaguar F-pace in CY2016.
- Given the new product launches and capacity expansion, the capex is likely to remain at elevated levels. JLR has guided for a capex of more than GBP 3.5 bn for FY2016.
- The standalone commercial vehicle business is likely to recover in 2HFY2016. Tata Motors reported robust double-digit growth in the MHCV segment due to improved economic growth and pent up demand from fleet operators along with recovery in the LCV segment on account of pick up in MHCVs and economic recovery.
- The standalone passenger vehicle segment would continue with its strong growth on back of strong product pipeline. Tata Motors has planned to introduce two new products in the passenger vehicle space every year till 2020.

Investment arguments

- **New product launches and entry into new segments to drive growth at JLR:** JLR volumes are likely to grow at a healthy 13% CAGR over FY2015-17 period on back of new product launches viz Jaguar XJ and XF which would boost the respective model sales. Also the launch of Land Rover Evoque 16 MY would also lift sales. Further, JLR's entry sedan (Jaguar XE) has opened up a new segment and the company is ramping sales by entering new geographies viz North America, China and other global markets. Further, JLR will also enter the crossover segment with the launch of Jaguar F pace in 2016. We believe the new product launches coupled with entry into new segments would help maintain double digit volume growth momentum for JLR.
- **Standalone business performance to improve:** After three consecutive years of double-digit volume decline, the standalone business (comprising of commercial and passenger vehicles) returned to the growth path in 1HFY2016. The recovery was led by the passenger vehicle segment (forms about 30% of volumes) which grew 16% yoy. New product launches (Zest and Bolt) helped bolster sales, leading to market share gains. Also, with a sharp recovery in the MHCV segment due to revival in the economy, the commercial vehicle segment's volumes also recovered. The commercial vehicle segment's

volume decline moderated to 4% in 1HFY2016 as against a 16% decline in FY2015.

Tata Motors has lined up new launches in the passenger vehicle segment which would enable it to further gain market share. Also, the commercial vehicle segment would continue to recover given the improving MHCV volumes, on back of better economic growth and due to low base of the previous year. Further, the LCV segment is also expected to recover from 4QFY2016 due to pick up in MHCV volumes, improving rural consumption and low base of the previous years. We expect the passenger and the commercial vehicle segment to grow by 21% and 7%, respectively, in FY2016. We estimate the company to report profits at the operating level; we estimate margins at 4.6% in FY2016 as against an operating loss in FY2015.

Outlook and valuation

JLR's volumes are likely to recover from 2HFY2016 on back of new product introductions, tapping of new segments, and production ramp up at the China JV. We expect JLR's volumes to grow at 13% CAGR over the FY2015-2017 period. JLR aims to widen its presence across product segments and is poised to become a stronger luxury car player in the next four to five years. Also, the standalone business is expected to turn profitable at the operating level in FY2016 on back of pick up in the commercial as well as passenger vehicle segments and with gradual reduction in discounts. However, JLR margins are likely to remain under pressure as the company enters new segments which would lead to direct competition with established luxury players viz BMW, Audi and Mercedes. We expect JLR margins to be in 14-15% range as against 18% levels in the last two years. Also, the stock currently trades at 28.9x its FY2016 and 14.9x its FY2017 adjusted earnings respectively, leaving limited scope of upside from current levels. **Thus, we have a Neutral view on the stock.**

R&D treatment adopted by JLR

We have analysed the R&D expenses recognized by JLR in the profit and loss statement. We have benchmarked the same with other global peers such as Volkswagen and BMW and have found that the R&D expenses recognized by JLR are at 3.6% of sales as against above-5.7% and 5.1% recognized by Volkswagen and BMW, respectively.

Exhibit 10: R&D Treatment

	CY2014		
	Volkswagen	BMW	JLR*
Revenues	202,458	80,401	21,866
R&D Costs	13120	4566	1411
R&D expensed to P&L… (a)	**8519**	**3067**	**253**
Capitalised R&D expenses	4601	1499	1158
Capitalised %/R&D	35%	33%	82%
Overall R&D exps/sales	**6.5%**	**5.7%**	**6.5%**
Depn exps (Amortisation of Capitailsed Devp cost)… (b)	**3026**	**1068**	**526**
Gross Block (Capitalised prod devp and prod development in progress)	27837	9341	5226
Overall Gross Block	241158	95213	12713
Overall P&L exps (R&D chg+Amortisation)..(a+b)	**11545**	**4135**	**779**
% of sales	**5.7%**	**5.1%**	**3.6%**

*Source: *JLR nos are for FY2015, Company, Angel Research*

Company background

Tata Motors (TTMT) is the largest commercial vehicle manufacturer in India with a domestic market share of ~55% and ~43% in the MHCV and LCV segments, respectively. The company also has a domestic market share of ~6% in the passenger vehicle segment. The company operates from its plants in Jamshedpur, Pune, Lucknow, Sanand, Pantnagar and Dharwad. TTMT acquired UK based luxury car manufacturer Jaguar Land Rover (JLR) in June 2008; it now accounts for ~80% of its consolidated revenue.

Profit & Loss Statement (Consolidated)

Y/E March (₹ cr)	FY2012	FY2013	FY2014	FY2015	FY2016E	FY2017E
Total operating income	**165,654**	**188,818**	**232,834**	**262,796**	**255,254**	**301,772**
% chg	*35.6*	*14.0*	*23.3*	*12.9*	*(2.9)*	*18.2*
Total Expenditure	**143,343**	**164,270**	**197,980**	**223,558**	**222,326**	**261,274**
Net Raw Materials	109,468	120,321	143,586	159,920	154,939	184,383
Personnel	12,298	16,584	21,556	25,549	25,270	28,065
Other	21,577	27,365	32,837	38,089	42,117	48,827
EBITDA	**22,311**	**24,547**	**34,853**	**39,239**	**32,928**	**40,498**
% chg	*32.7*	*10.0*	*42.0*	*12.6*	*(16.1)*	*23.0*
(% of Net Sales)	*13.5*	*13.0*	*15.0*	*14.9*	*12.9*	*13.4*
Depreciation & Amort.	5,625	7,569	11,078	13,389	17,099	20,130
EBIT	**17,348**	**17,790**	**24,604**	**26,749**	**16,862**	**21,608**
% chg	*37.8*	*2.5*	*38.3*	*8.7*	*(37.0)*	*28.1*
(% of Net Sales)	*10.5*	*9.4*	*10.6*	*10.2*	*6.6*	*7.2*
Interest & other Charges	2,982	3,553	4,749	4,861	4,340	4,216
Other Income	662	812	829	899	1,034	1,240
PBT (recurring)	**14,365**	**14,236**	**19,854**	**21,887**	**12,522**	**17,392**
% chg	*40.8*	*(0.9)*	*39.5*	*10.2*	*(42.8)*	*38.9*
Tax	(40)	3,771	4,765	7,643	3,506	4,870
(% of PBT)	*(0.3)*	*26.5*	*24.0*	*34.9*	*28.0*	*28.0*
Minority interest	107	197	6	100	118	143
Exceptional items	(832)	(603)	(985)	(185)	(2,770)	-
PAT (reported)	**13,517**	**9,893**	**13,991**	**13,986**	**6,164**	**12,425**
ADJ. PAT*	**11,894**	**8,362**	**11,790**	**10,544**	**4,698**	**9,098**
% chg	*52.4*	*(29.7)*	*41.0*	*(10.6)*	*(55.4)*	*93.7*
(% of Net Sales)	*7.2*	*4.5*	*5.1*	*4.0*	*1.9*	*3.0*
Basic EPS (₹)	**44.3**	**32.3**	**45.5**	**43.8**	**23.7**	**37.3**
Adj EPS* (₹)	**37.5**	**26.2**	**36.6**	**32.8**	**13.8**	**26.8**
% chg	*54.3*	*(27.2)*	*41.0*	*(3.7)*	*(45.9)*	*57.4*

**Adjusted for deficient R&D*

Balance sheet statement

Y/E March (₹ cr)	FY2012	FY2013	FY2014	FY2015	FY2016E	FY2017E
SOURCES OF FUNDS						
Equity Share Capital	635	638	644	644	644	644
Reserves& Surplus	32,064	36,999	64,960	55,618	62,927	74,859
Shareholders Funds	32,699	37,637	65,603	56,262	63,571	75,503
Total Loans	47,149	53,716	60,642	73,610	62,000	62,000
Minority interest	307	370	421	433	533	653
Deferred tax liab	2,165	2,048	1,572	1,343	1,343	1,343
Other long term liab	2,298	3,284	2,597	9,142	9,142	9,142
Total Liabilities	84,617	97,056	130,836	140,791	136,590	148,642
APPLICATION OF FUNDS						
Gross Block	89,779	103,132	132,928	158,207	196,207	240,207
Less: Acc. Dep.	49,512	51,723	68,815	74,424	91,523	111,653
Net Block	40,267	51,409	64,113	83,783	104,684	128,554
Capital WIP	15,946	18,454	33,263	28,640	28,640	28,640
Investments	8,918	8,765	10,687	15,337	9,200	9,200
Other long term asset	575	1,024	5,068	858	858	858
Current Assets	70,593	82,195	99,542	102,610	78,361	83,978
Cash	18,238	21,115	29,712	32,116	6,255	56
Other	52,355	61,081	69,830	70,495	72,107	83,922
Current liabilities	60,314	73,322	89,163	97,867	92,584	110,019
Net Current Assets	10,279	8,873	10,379	4,743	(14,222)	(26,040)
Total Assets	84,617	97,056	130,836	140,791	136,590	148,642

Cash flow statement

Y/E March (₹ cr)	FY2012	FY2013	FY2014	FY2015	FY2016E	FY2017E
Profit before tax	13,537	13,727	19,854	21,887	12,522	17,392
Depreciation	9,814	2,210	17,093	5,609	17,099	20,130
Change in Working Capital	(2,852)	(4,283)	(7,091)	(8,040)	6,895	(5,619)
Others	(3,090)	(3,694)				
Direct taxes paid	4	(377)	(476)	(764)	(351)	(487)
Cash Flow from Operations	17,412	7,583	29,380	18,692	36,166	31,416
(Inc.)/ Dec. in Fixed Assets	(22,805)	(15,861)	(44,605)	(20,656)	(38,000)	(44,000)
(Inc.)/ Dec. in Investments	(6,373)	153	(1,922)	(4,650)	6,137	0
Cash Flow from Investing	(29,179)	(15,708)	(46,527)	(25,306)	(31,863)	(44,000)
Issue of Equity	(3)	3	6	0	0	0
Inc./(Dec.) in loans	14,338	6,567	6,927	12,968	(11,610)	0
Dividend Paid (Incl. Tax)	(1,481)	(741)	(748)	(748)	(748)	(748)
Others	-	-	-	-		
Cash Flow from Financing	12,855	5,829	6,184	12,220	(12,358)	(748)
Inc./(Dec.) in Cash	6,829	2,877	8,597	2,404	(25,861)	(6,199)
Opening Cash balances	11,410	18,238	21,115	29,712	32,116	6,255
Closing Cash balances	18,238	21,115	29,712	32,116	6,255	56

Key ratios

Y/E March	FY2012	FY2013	FY2014	FY2015	FY2016E	FY2017E
Valuation Ratio (x)						
P/E (on FDEPS)	9.0	12.4	8.8	9.1	16.9	10.7
P/E (on Adj EPS)	10.7	15.3	10.9	12.2	28.9	14.9
P/CEPS	7.2	8.0	5.6	5.4	5.9	4.4
P/BV	4.0	3.4	2.0	2.3	2.0	1.7
Dividend yield (%)	1.0	1.0	0.5	0.5	0.5	0.5
EV/Sales	0.9	0.8	0.7	0.6	0.8	0.7
EV/EBITDA	7.0	6.5	4.6	4.3	6.1	5.2
EV / Total Assets	1.8	1.7	1.2	1.2	1.5	1.4
Per Share Data (₹)						
EPS (Basic)	44.3	32.3	45.5	43.8	23.7	37.3
Adj EPS*	37.5	26.2	36.6	32.8	13.8	26.8
Cash EPS	55.2	49.9	71.0	74.4	67.7	90.8
DPS	4.0	4.0	2.0	2.0	2.0	2.0
Book Value	101.0	116.0	201.8	172.8	195.5	232.6
Dupont Analysis						
EBIT margin	10.5	9.4	10.6	10.2	6.6	7.2
Tax retention ratio	1.0	0.7	0.8	0.7	0.7	0.7
Asset turnover (x)	2.5	2.5	2.3	2.4	2.0	2.0
ROIC (Post-tax)	26.2	17.2	18.5	16.0	9.3	10.5
Cost of Debt (Post Tax)	6.3	4.9	6.0	4.3	5.0	4.9
Leverage (x)	0.9	0.9	0.5	0.7	0.9	0.8
Operating ROE	43.8	27.9	24.4	24.7	13.1	15.0
Returns (%)						
ROCE (Pre-tax)	20.5	18.3	18.8	19.0	12.3	14.5
Angel ROIC (Pre-tax)	26.1	23.4	24.3	24.6	12.9	14.5
ROE	36.4	22.2	18.0	18.7	7.4	12.1
Turnover ratios (x)						
Asset Turnover (Gross Block)	1.8	1.8	1.8	1.7	1.3	1.3
Inventory / Sales (days)	40	41	43	41	41	41
Receivables (days)	18	21	17	17	18	18
Payables (days)	10	11	11	11	10	10
WC cycle (ex-cash) (days)	(18)	(24)	(30)	(38)	(29)	(32)
Solvency ratios (x)						
Net debt to equity	0.9	0.9	0.5	0.7	0.9	0.8
Net debt to EBITDA	1.3	1.3	0.9	1.1	1.7	1.5
Interest Coverage (EBIT / Int.)	5.8	5.0	5.2	5.5	3.9	5.1

**Adjusted for deficient R&D*

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Disclosure of Interest Statement	**Tata Motors**
1. Analyst ownership of the stock	No
2. Angel and its Group companies ownership of the stock	No
3. Angel and its Group companies' Directors ownership of the stock	No
4. Broking relationship with company covered	No

Note: We have not considered any Exposure below ₹ 1 lakh for Angel, its Group companies and Directors

Ratings (Based on expected returns over 12 months investment period):	*Buy (> 15%)*	*Accumulate (5% to 15%)* *Reduce (-5% to -15%)*	*Neutral (-5 to 5%)* *Sell (< -15)*