

Our detailed conference call with one of the largest multi-brand luxury car dealer group in China (which is also *the largest JLR dealer* accounting for ~ 15% its China's volumes) reaffirms our positive view on the Chinese luxury car market. Further, JLR, particularly Land Rover with its strong brand equity and refreshed product line up are likely to continue to significantly outpace the market growth (we build in a volume growth of 22% for JLR from FY14-16). Reiterate BUY with a target price of Rs429.

China offers significant growth opportunities; JLR well placed. The dealer group estimates that the luxury car market in China could continue to grow by 15-20% p.a. at least for the next 3 years. The two key target customers for luxury cars – (a) mid to senior level executives and (b) wealthy businessmen – are growing at a rapid pace as the economy grows. Further, JLR which largely caters to the latter category (which is expanding at a faster rate) could report growth rates in excess of twice that of the market given its latent demand and new product launches.

In a market with discounts, Land Rover commands a significant premium. In China, while discounts on luxury cars have narrowed down in the last few months, it is significant to note that virtually all Land Rover models (barring the Evoque, whose new model is due shortly) command a premium. The premium remains highest on the Range Rover Sport (~15% premium with a 6-12 month waiting period) and Range Rover (6 month waiting period). Apart from the Land Rover models only the BMW X3 and Cayenne are selling at a premium. This underlines the brand equity that the Land Rover enjoys in the Chinese market.

Jaguar improving but still has some way to go. Over the past year, Jaguar's volumes have shown a sharp jump partially on account of the launch of the 3L gasoline engine (which reduces the government taxes). However, unlike the Land Rover, Jaguar vehicles are sold at a discount to the MSRP (upto 20%). While Jaguar is now perceived to be "more premium" than Audi or BMW, nonetheless, feedback suggests that Jaguar tends to be unreliable with inadequate servicing levels. An improvement in either of these parameters coupled with new product launches could significantly improve volumes.

Commission structure could leaves room for surprises. JLR offers the highest commission rates to dealers amongst the luxury car makers in China – 13% on Land Rover and 15% on the Jaguar. This compares to 8% for BMW and 9% for Audi. We note that as volumes increased for BMW the commission rates declined from 10% two years ago to 8% currently. We believe that as JLR sales rise, we are likely to witness a similar trend – this could benefit profitability going forward.

Tata Motors- JLR remains strong. Our interaction indicates that JLR has the potential to surprise on the upside, particularly in the Chinese market. In addition, its strong pipeline of new products adds to our comfort. We revise our estimates/target price to account for (a) higher capex (b) revision in INR/GBP assumption from 95 to 100 and (c) upward revision of our JLR estimates. Overall we reduce our target price to Rs429 (from Rs 440). **Maintain BUY.**

BUY

TTMT IN | CMP RS 375

TARGET RS 429 (+15%)

Company Data

O/S SHARES (MN) :	2694
MARKET CAP (RSBN) :	1012
MARKET CAP (USDBN) :	16.3
52 - WK HI/LO (RS) :	405 / 252
LIQUIDITY 3M (USDMMN) :	49.1
FACE VALUE (RS) :	2

Share Holding Pattern, %

PROMOTERS :	34.3
FII / NRI :	46.9
FI / MF :	11.6
NON PROMOTER CORP. HOLDINGS :	0.4
PUBLIC & OTHERS :	6.7

Price Performance, %

	1mth	3mth	1yr
ABS	0.4	11.4	22.4
REL TO BSE	-4.0	5.5	12.8

Price Vs. Sensex (Rebased values)



Source: PhillipCapital India Research

Other Key Ratios

Rs bn	FY13	FY14E	FY15E
Net Sales	1,877	2,406	2,780
EBIDTA	266	366	436
Net Profit	99	154	180
EPS, Rs	31.0	48.1	56.4
PER, x	12.1	7.8	6.7
EV/EBIDTA, x	5.7	4.2	3.6
P/BV, x	0.8	0.6	0.6
ROE, %	25.5	28.8	25.5

Source: PhillipCapital India Research Est.

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The dealer group was extremely excited about new product launches

Other points from the concall

Dealer excited about new models. JLR has been aggressive in its product launches and refreshes in recent times to address specific to markets. In China, it has introduced more gasoline engines, lower engine sizes (2.2ltr and 3.0ltr) and transmission options keeping in mind local market tastes and preferences. It will be launching all new small Jaguar (Rival to BMW 3 Series and Mercedes C Class), F-Type Coupe, new Freelander and Discovery in the next two years. Likewise the company is planning to introduce higher wheelbase option in Jaguar XF (to compete with BMW 5 Series and Cadillac CTS) and Jaguar SUV/Crossover (from the Cherry JV) over the next couple of years. The dealer group was particularly excited about the small Jaguar, Jaguar Crossover and XF long wheelbase apart from the recent Ranger Rover Sport.

Exciting new launches planned in the China market

Future launches	FY14E	FY15E	FY16E
Jaguar	F-Type Coupe	Baby Jaguar, XF (Large wheelbase in China)	Jaguar SUV/Crossover
Land Rover	Range Rover Sport	Freelander	Discovery

Source: PhillipCapital India research

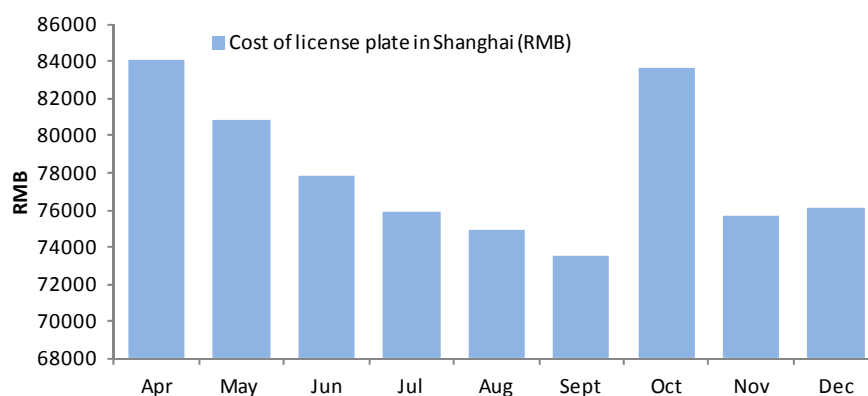
Proportion of LR volumes could rise in the second half – positive for margins. The dealer indicated that the proportion of Land Rover in JLR's volumes has risen in the past few months (when compared to the first half) as the supplies to the Chinese markets have improved. Given that the Land Rover has substantially higher margins, this is likely to be a positive for JLR as a whole.

Despite interiors catching up, the incremental growth is still likely to come from coastal areas

Growth to be concentrated in coastal areas. Despite the coastal areas accounting for the bulk of luxury car volumes, the dealer group expects growth to continue to be driven by the coastal market rather than the interiors. The group expects mid car segments to be grow in the interiors where incomes have risen but are not yet at the "critical threshold" for luxury and ultra luxury cars. The dealer is slowly establishing bases in the interiors but is still concentrating on expanding the dealership network in coastal areas. In all the dealership expects to expand its JLR network from 16 to 25 in two years.

License plate caps have minimal negative impact on luxury car makers. Currently a few cities in China have a cap on the number of cars that can be registered. The license plates are auctioned with the average price of a plate being in the region of ~RMB 80,000. While this impacts demand of mid sized and small sized (priced in the range of >RMB 150,000); the impact on the luxury/ultra-luxury cars from JLR (in excess of RMB 5,00,000) is likely to be fairly limited.

Cost of a license plate in Shanghai remains high despite government intervention

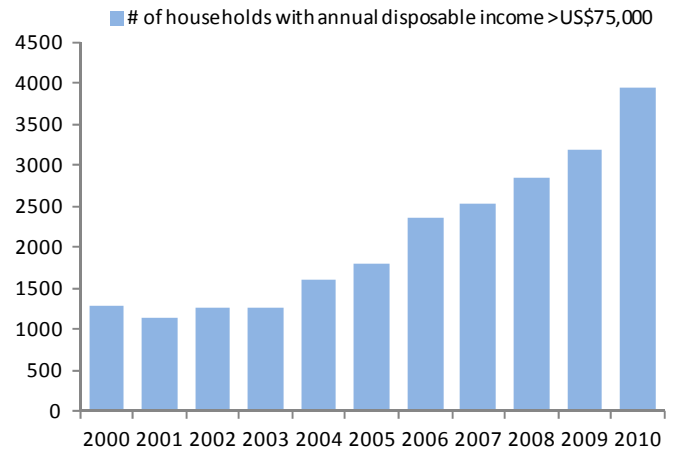
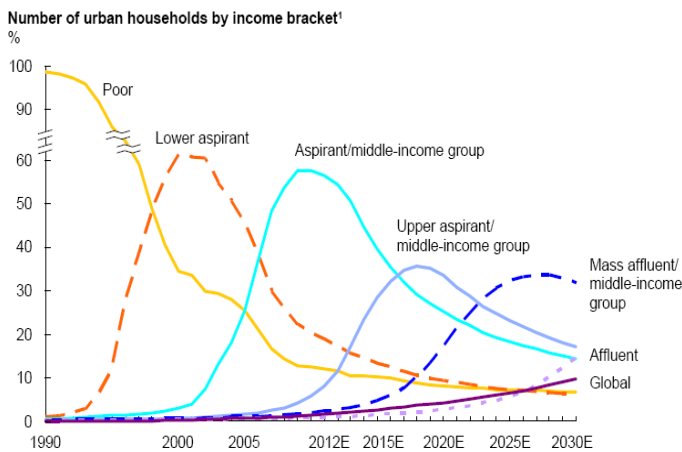


Source: PhillipCapital India Research, Media reports

Chinese market: strong demographics; JLR extremely well placed

Demographics extremely favourable: The income demographics suggest that the luxury car segment seem to indicate that growth in the market could continue in the coming years. The affluent households (an income of over RMB 200,000) are slated to more than triple from 7mn units in 2012 to 23mn by 2020 (source: McKinsey). A rising affluent population is directly linked to demand for luxury goods.

The affluent class is rising at a fast pace

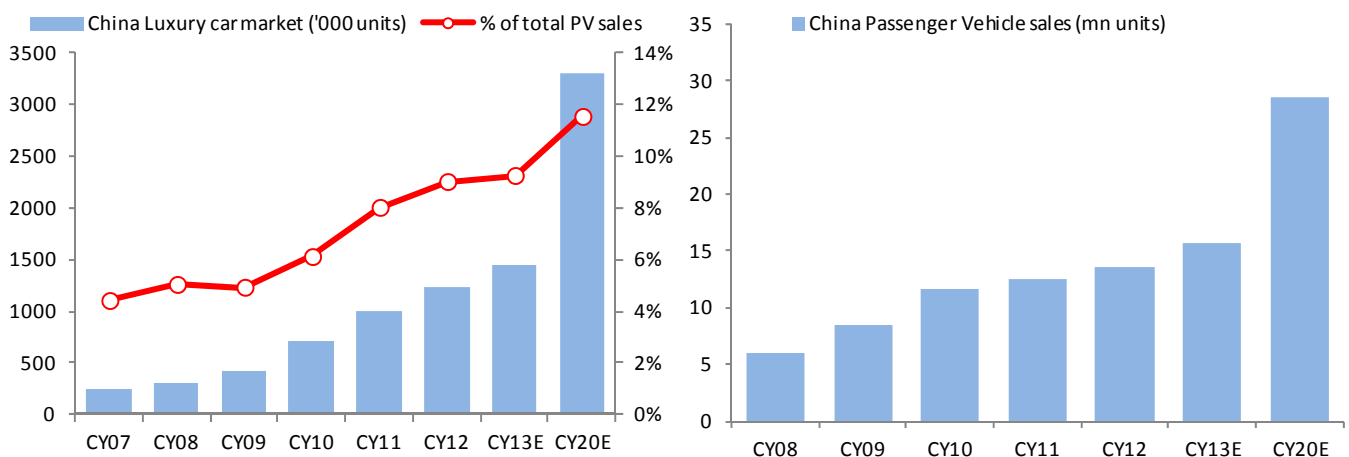


Source: McKinsey, Euromonitor

We expect the Chinese luxury car market to grow at ~13% CAGR

We expect the Chinese luxury car market to grow at ~13% CAGR between FY12-FY20; thereby expanding the market to ~3.1mn units per annum – this would be ~11.5% of China’s total market size (currently ~9.5%). This would make China the largest luxury car market in the world.

China’s luxury car market is likely to grow faster than the overall passenger vehicle segment

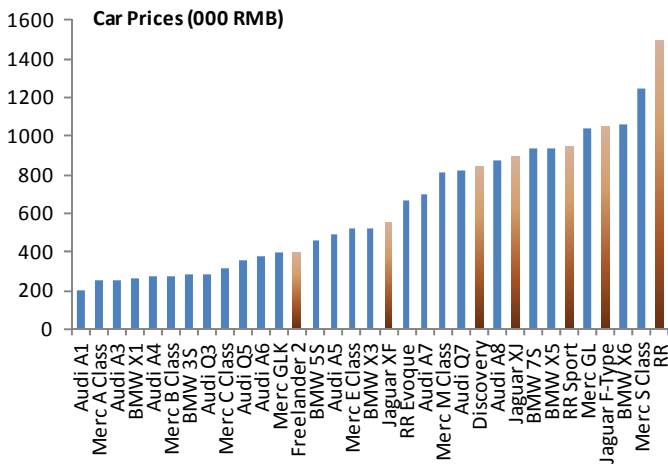


Source: PhillipCapital India Research

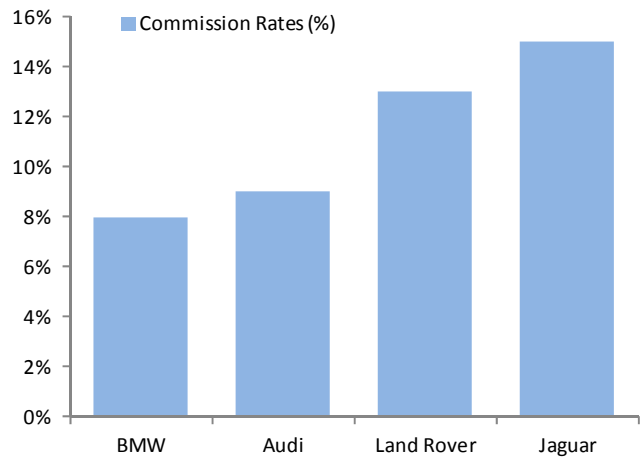
We expect JLR to grow at a CAGR of 22%; market share to rise from 8%

JLR well placed: Our discussions with the dealer further strengthen our faith in the ability of JLR to deliver. With the launch of new models, a potential disproportionate growth in the ultra-luxury car market and the production from the JV we believe JLR could gain substantial marketshare in the years ahead. For FY14 -16, we expect JLR to register a CAGR of 22% - implying a marketshare of ~8% in the luxury car market (from ~6.5% currently). An expansion in volumes could potentially lead to lower commission rates for JLR.

JLR products are at the higher end of the luxury car market

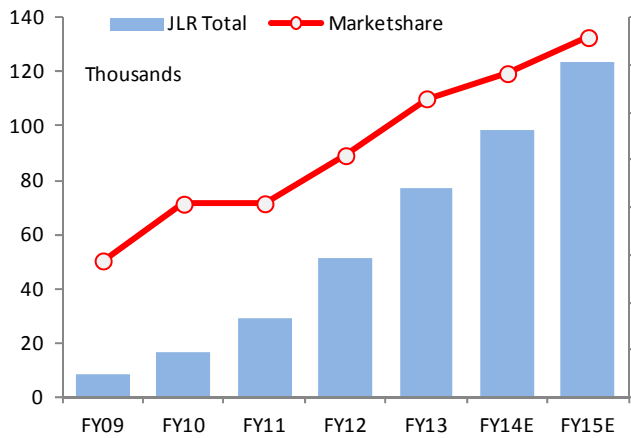


Commission rates for JLR are higher than competitors

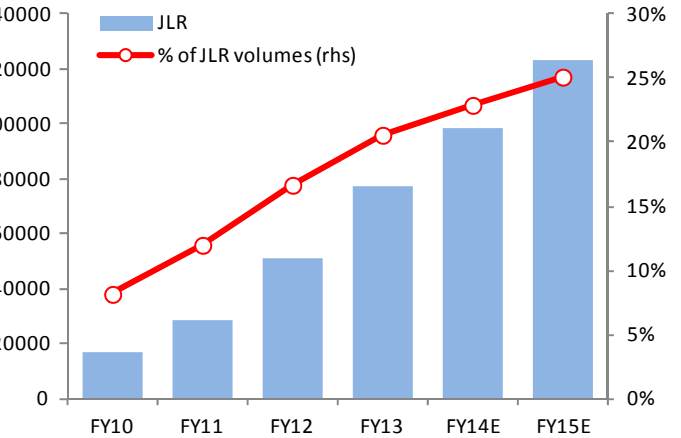


Source:Company, JLR Dealer

JLR has gained marketshare in the Chinese luxury car market



The share of the Chinese market in JLR sales is rising



Source:PhillipCapital India Research, Company

Maintain BUY, revise target price to Rs 429

We continue to believe that JLRs strong product pipeline can drive the company's growth in the coming. We marginally increase our volume estimates for FY15 post our discussion with the dealer. However, on account of higher depreciation/interest cost (emanating from JLRs higher capex guidance for FY15), we reduce our EPS and target price marginally. Maintain a BUY with a target price of Rs429.

SOTP- target price Rs429

Particulars	Value (INR)	Methodology
Tata Motors Standalone	54	8x FY15E EV/EBITDA
JLR	420	4.5x FY14E EV/EBITDA
Tata Motors Subsidiaries	22	Valuation of top 6 subsidiaries
Net Automotive Debt	(67)	Net Automotive Debt
Net value	429	

Tata Motors Standalone	Value (INR)	Methodology
FY15E EBITDA	21,421	Estimated EBITDA margin of 5% in FY15
Multiple	8.0	Inline with historical valuations
EV	171,368	
Value per share	54	

JLR	Value (INR)	Methodology
FY15E EBITDA	377,784	Without any charge for R&D amortisation
Less: R&D expenses capitalised	(80,000)	GBP 800mn R&D expenses capitalised every year.
Adjusted EBITDA	297,784	
Multiple (x)	4.5	Inline with global peers
EV	1,340,030	
Value per share	420	

Source:PhillipCapital India Research

Financials

Income Statement

Y/E Mar, Rs mn	FY12	FY13	FY14E	FY15E
Net sales	1,648,545	1,876,528	2,405,737	2,780,463
Growth, %	35	14	28	16
Other income	8,000	11,648	11,786	11,119
Total income	1,656,545	1,888,176	2,417,523	2,791,582
Raw material expenses	-1,094,676	-1,203,211	-1,536,357	-1,758,689
Employee expenses	-122,985	-165,841	-200,080	-226,541
Other Operating expenses	-201,880	-253,436	-314,710	-370,715
EBITDA (Core)	237,005	265,689	366,377	435,637
Growth, %	33.3	12.1	37.9	18.9
Margin, %	14.4	14.2	15.2	15.7
Depreciation	-56,254	-75,693	-115,758	-148,446
EBIT	180,751	189,996	250,618	287,191
Growth, %	37.7	5.1	31.9	14.6
Margin, %	11.0	10.1	10.4	10.3
Interest paid	-29,822	-35,533	-42,913	-44,212
Other Non-Operating Income	6,618	8,115	9,314	8,684
Non-recurring Items	0	0	0	0
Pre-tax profit	143,654	142,362	217,019	251,663
Tax provided	400	-37,710	-63,733	-71,968
Profit after tax	144,055	104,652	153,286	179,695
Others (Minorities, Associates)	-823	-837	-886	-982
Net Profit	143,480	104,953	153,539	179,851
Growth, %	38.1	(26.8)	55.2	17.1
Net Profit (adjusted)	135	99	154	180
Unadj. shares (m)	3,189	3,190	3,190	3,190
Wtd avg shares (m)	3,189	3,190	3,190	3,190

Balance Sheet

Y/E Mar, Rs mn	FY12	FY13	FY14E	FY15E
Cash & bank	182,381	211,127	145,051	167,495
Debtors	82,368	109,427	118,639	137,119
Inventory	182,160	209,690	263,642	304,708
Loans & advances	177,892	208,915	225,648	245,059
Other current assets	86,877	90,380	90,380	90,380
Total current assets	711,679	829,538	843,361	944,761
Investments	89,177	90,577	115,685	98,204
Gross fixed assets	938,729	1,066,731	1,330,481	1,720,481
Less: Depreciation	-495,125	-515,048	-630,806	-779,252
Add: Capital WIP	159,458	184,177	184,177	184,177
Net fixed assets	603,062	735,860	883,852	1,125,406
Total assets	1,403,919	1,655,975	1,842,897	2,168,370
Current liabilities	497,698	603,361	682,844	764,976
Provisions	128,418	160,717	160,662	160,662
Total current liabilities	626,116	764,078	843,506	925,637
Non-current liabilities	443,233	500,481	461,042	531,042
Total liabilities	1,069,348	1,264,559	1,304,547	1,456,679
Paid-up capital	6,348	6,381	6,381	6,381
Reserves & surplus	325,152	381,331	527,379	699,739
Shareholders' equity	334,571	391,417	538,350	711,691
Total equity & liabilities	1,403,919	1,655,975	1,842,897	2,168,370

Source: Company, Phillip Capital India Research Estimates

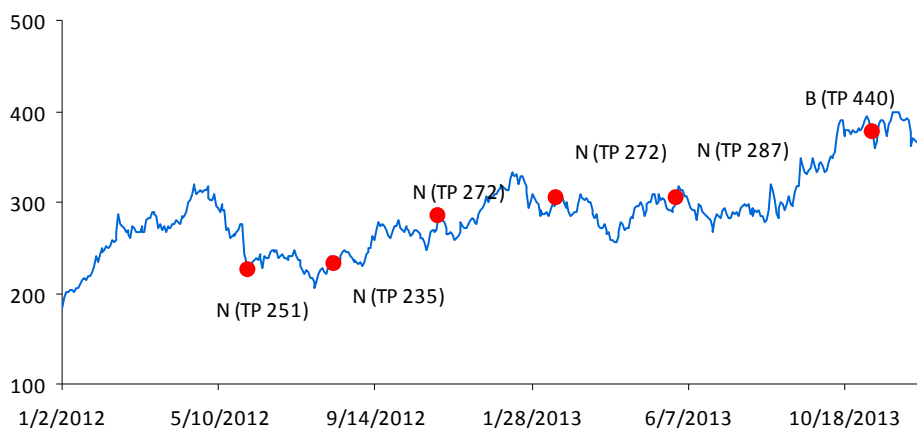
Cash Flow

Y/E Mar, Rs mn	FY12	FY13	FY14E	FY15E
Pre-tax profit	143,654	142,362	217,019	251,663
Depreciation	56,254	75,693	115,758	148,446
Chg in working capital	26,145	48,849	-471	3,176
Total tax paid	400	-37,710	-63,733	-71,968
Other operating activities	6,541	0	0	0
Cash flow from operating activities	232,994	229,194	268,574	331,316
Capital expenditure	-191,258	-208,490	-263,750	-390,000
Chg in investments	-63,735	-1,400	-25,107	17,481
Cash flow from investing activities	-254,992	-209,891	-288,857	-372,519
Free cash flow	-21,998	19,304	-20,283	-41,203
Equity raised/(repaid)	-27,050	-33,099	1,074	1,138
Debt raised/(repaid)	132,329	52,449	-39,439	70,000
Dividend (incl. tax)	-14,777	-14,856	-7,427	-7,491
Cash flow from financing activities	90,284	4,291	-45,792	63,647
Net chg in cash	68,285	23,595	-66,075	22,444

Valuation Ratios & Per Share Data

	FY12	FY13	FY14E	FY15E
Per Share data				
EPS (INR)	42.4	31.0	48.1	56.4
Growth, %	38.1	(26.8)	55.2	17.1
Book NAV/share (INR)	104.0	121.5	167.3	221.3
FDEPS (INR)	42.4	31.0	48.1	56.4
CEPS (INR)	60.0	54.7	84.4	102.9
CFPS (INR)	73.3	75.6	81.3	101.1
DPS (INR)	4.0	2.0	2.0	2.0
Return ratios				
Return on assets (%)	13.6	8.3	10.3	10.4
Return on equity (%)	40.8	25.5	28.8	25.5
Return on capital employed (%)	21.8	13.4	16.7	16.6
Turnover ratios				
Asset turnover (x)	2.9	2.7	2.9	2.7
Sales/Total assets (x)	1.4	1.2	1.4	1.4
Sales/Net FA (x)	3.1	2.8	3.0	2.8
Working capital days	0.8	(2.0)	(1.5)	(1.7)
Liquidity ratios				
Current ratio (x)	1.4	1.3	1.2	1.2
Quick ratio (x)	1.0	1.0	0.8	0.8
Interest cover (x)	6.1	5.3	5.8	6.5
Dividend cover (x)	10.6	15.6	24.2	28.3
Total debt/Equity (%)	140.9	135.3	90.9	78.6
Net debt/Equity (%)	85.9	80.8	63.7	54.9
Valuation				
PER (x)	8.8	12.1	7.8	6.7
Price/Book (x)	3.6	3.1	2.2	1.7
EV/Net sales (x)	0.9	0.8	0.6	0.6
EV/EBITDA (x)	6.2	5.7	4.2	3.6
EV/EBIT (x)	8.2	7.9	6.1	5.5

Recommendation Chart



Source: PhillipCapital India Research

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