

JLR's volume outlook remains strong!

Tata Motors (TAMO) is India's largest CV manufacturer with 55% market share in M&HCV segment. Besides, it also manufactures passenger cars and utility vehicles. With the acquisition of Jaguar Land Rover (JLR) from Ford in 2008, TAMO now has presence in the global luxury car market. Importantly, TAMO derives about 82% of its revenue from JLR.

Investment Rationale

JLR volume growth to stay healthy: We expect JLR's volume growth to remain healthy, driven by recent launches (F-pace, Jaguar XFL) & upcoming products. While TAMO will start wholesales of all new Discovery in Q4FY17, mid-sized RR would be launched in FY18. These new launches will help JLR (ex-China) in achieving volume growth of 10.2% CAGR over FY17-19E. Notably, the management has guided that the hedging losses of GBP 450 mn could continue for the next few quarters. However, it has maintained its medium-long term margin guidance of 14-15%.

Domestic business on the revival mode: We expect standalone business to witness improved performance on the back of pick-up in M&HCV growth (pre-buying due to rollout of BS-4 norms & government thrust on infra development), continued growth momentum in PV segment & revival in LCV segment. Thus, we estimate standalone volumes to grow at 12% CAGR over FY17-19E. TAMO is hopeful of gaining market share in the PV segment with new launches including Hexa (waiting period of 2 months). The launch pipeline also looks strong with Tata Tigor and Nexon. More importantly, the management targets to achieve 60% market share in M&HCV space (from ~55% currently) over the next 2 years, led by the launch of the new Signa range of trucks.

China JV to improve JLR's profitability: China JV reported a strong financial performance in FY16 despite being in a ramp up mode. The China JV's contribution to FY16 JLR's PAT was GBP 64 mn (9MFY17 PAT contribution:119 GBP mn) as against a loss of GBP 7 mn in FY15. Importantly, the volume growth in China is gradually recovering and we are factoring in 68,000/82,000/95,000 units by China JV in FY17E/FY18E/FY19E (FY16 sales stood at 34,751 units). We expect China JV to witness robust volume growth led by Jaguar XFL & new launches.

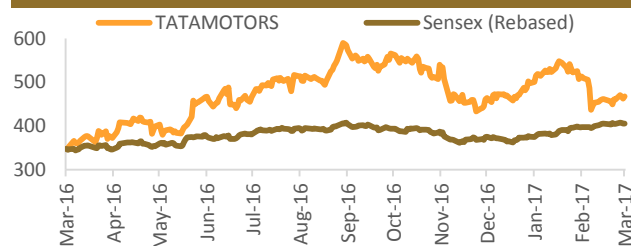
Valuation: We maintain positive stance on the stock given its healthy product pipeline for JLR coupled with revival of standalone business. We expect revenue & PAT to grow at a CAGR of 11% and 56% respectively over FY17-19E. We expect overall EBITDA margin would expand to 13.9% by FY19E from 11% in FY17. We value the stock on SOTP basis, ascribing separate values to JLR (3.5xEV/EBITDA), China JV (3.5x EV/EBITDA), Standalone (8x EV/EBITDA) and investments in subsidiaries (using P/E, P/BV), we arrive at a TP of Rs. 518. Maintain BUY.

Market Data

Rating	BUY
CMP (Rs.)	469
Target (Rs.)	518
Potential Upside (%)	~10
Duration	Long Term
Face Value (Rs.)	2.0
52 week H/L (Rs.)	599/342
Adj. all time High (Rs.)	599
Decline from 52WH (%)	21.7
Rise from 52WL (%)	37.1
Beta	1.9
Mkt. Cap (Rs.Cr)	159,251

Fiscal Year Ended

Y/E	FY16	FY17E	FY18E	FY19E
Revenue (Rs.Cr)	275,561	279,646	311,419	347,034
Adj. Profit (Rs.Cr)	13,143	7,510	13,373	18,325
EPS (Rs.)	38.7	22.1	39.4	54.0
P/E (x)	12.1	21.2	11.9	8.7
P/BV (x)	2.0	1.8	1.6	1.3
ROE (%)	19.2	8.9	14.2	16.7

One year Price Chart

Shareholding Pattern

	Dec-16	Sep-16	Change
Promoters (%)	34.7	33.0	1.7
FII (%)	24.2	26.1	(1.9)
DII (%)	14.9	14.5	0.4
Others (%)	26.2	26.4	(0.2)

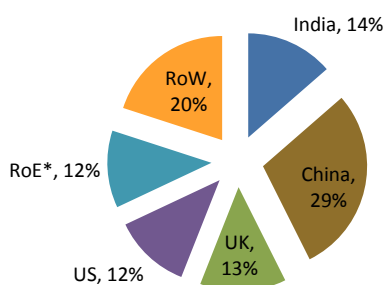
TAMO is world's fourth largest truck manufacturer and world's third largest bus manufacturer.

TAMO: Company Overview

Tata Motors manufactures and sells commercial vehicles, utility vehicles and passenger cars in India. It is a leading company in the Indian commercial vehicles segment, with a 55% market share in the medium and heavy commercial vehicle market. TAMO entered the passenger car market in 1998 with Indica model. In 2003, it launched the mid-size sedan, Indigo, followed by Nano (2009), Zest (2014), Bolt (2015), Tiago (2016) and Hexa (2017).

Further, with the acquisition of Jaguar Land Rover (JLR) from Ford in 2008, TAMO now has presence in the global luxury car market. JLR contributes ~82% to the total revenues of TAMO. JLR markets products in about 170 countries, through a global network of 19 national sales companies, 73 importers, 53 export partners and 2,674 franchise sales dealers, of which 915 are joint Jaguar and Land Rover dealers.

Geographywise Revenue Breakup



Source: Company, In-house research; *: Rest of Europe (RoE) is geographic Europe excluding UK & Russia

JLR volume growth to stay healthy

We expect JLR's volume growth to remain healthy, driven by recent launches (F-pace, Jaguar XFL) & upcoming products. While TAMO will start wholesales of all new Discovery in Q4FY17, mid-sized RR would be launched in FY18. These new launches will help JLR (ex-China) in achieving volume growth of 10.2% CAGR over FY17-19E. Additionally, a favorable market mix (rising contribution from China) and sourcing from low-cost countries will enable JLR to achieve margins of 14.6% by FY19E (from 11.4% in FY17).

Product portfolio of JLR

Jaguar products	Land Rover products
Jaguar XF (executive car)	Land Rover Defender (off-road vehicle)
Jaguar F-Type (sports car)	Land Rover Freelander (compact SUV)
Jaguar XK (grand tourer)	Land Rover Discovery (mid-size SUV)
Jaguar XJ (luxury car)	Range Rover Evoque (compact SUV)
Jaguar XE (entry-level luxury sedan)	Range Rover (full-size SUV)

JLR's new product pipeline

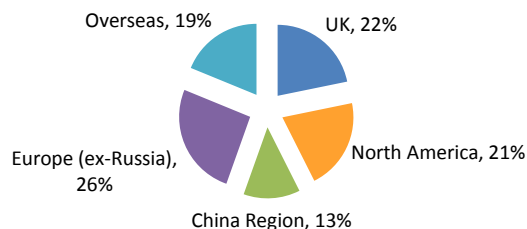
Timeline	Model
Q1FY17	Jaguar F-Pace
Q1FY17	Evoque convertible
Q2FY17	XFL (CJLR)
Q4FY17	All new Discovery
CY18	I-PACE

Source: Company, In-house research

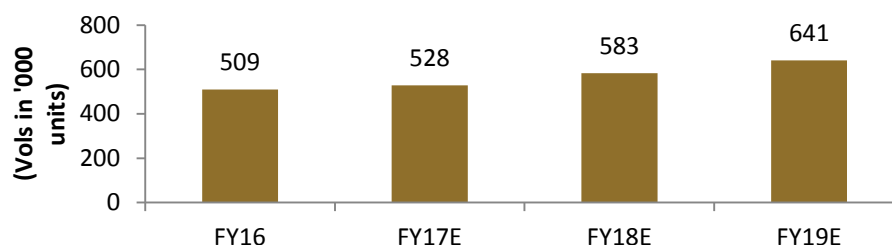
JLR's new product pipeline remains robust and includes hybrids and electric vehicles.

We expect China volume mix to improve with better demand environment for imported models and steady ramp-up at CJLR.

Breakup of JLR wholesale volumes by geography



JLR volumes (excluding China JV) to grow at a CAGR of 10.2% over FY17-19E



Source: Company, In-house research

JLR's growth strategy

The JLR growth strategy hinges on new product introduction to capture market share of the peers, refurbishing the old models with new ones and most importantly, aggressively expanding manufacturing base to high growth geographies like China. TAMO globally faces competition primarily from Audi, BMW & Mercedes.

Capex plans to drive growth ahead

For FY17E, the management has guided capex of about GBP 3.34 billion in its JLR business, while Rs. 35 billion would be invested in its domestic operations. The company has guided for higher capex in FY18/FY19E & most of it would be invested in PV business. Importantly, JLR continues to invest in new products, technology and manufacturing capacity. We believe, the current capex will support the introduction of new/refreshed products for the coming years.

China JV to improve JLR's profitability

In November 2012, JLR has inked a 50:50 JV with Chery Automobile (CJLR) with an equity investment of USD 350 mn (share of JLR). This JV currently manufactures Range Rover Evoque, Land Rover Discovery Sport & Jaguar XFL for the local Chinese market. Despite being in a ramp up mode, CJLR reported a strong financial performance in FY16. The China JV's contribution to FY16 JLR's PAT was GBP 64 mn (9MFY17 PAT contribution:119 GBP mn) vs a loss of GBP 7 mn in FY15. Importantly, volume growth in China is gradually recovering and we are factoring in 68,000/82,000/95,000 units by China JV in FY17E/FY18E/FY19E (FY16 sales stood at 34,751 units). We expect China JV to witness robust volume growth led by Jaguar XFL & new launches.

Domestic business on the revival mode

We expect standalone business to witness improved performance on the back of pick-up in M&HCV growth (pre-buying due to rollout of BS-4 norms & government thrust on infra development), continued growth momentum in PV segment & revival in LCV segment. Thus, we estimate standalone volumes to grow at 12% CAGR over FY17-19E. TAMO is hopeful of gaining market share in the PV segment with new launches including Hexa (waiting period of 2 months). The launch pipeline also looks strong with Tata Tigor and Nexon. Likewise, the management targets to achieve 60% market share in M&HCV space (from ~55% currently) over the next 2 years, led by the launch of the new Signa range of trucks.

We expect top-line of the company to grow at a CAGR of 11.4% over FY17-19E.

TAMO standalone volumes to grow at a CAGR of 12% over FY17-19E

Particular	FY16	FY17	FY18E	FY19E
M&HCV	156,961	149,113	158,060	170,705
LCV	170,244	180,459	202,114	226,367
PV	126,471	142,912	164,349	189,001
Total Domestic	453,676	472,484	524,522	586,073
Exports	58,036	67,322	78,766	92,157
Total Sales Volumes	511,712	539,806	603,289	678,230
YoY Growth	1.9%	5.5%	11.8%	12.4%

Source: Company, In-house research

EBITDA margin to rise to 13.9% by FY19E

We expect JLR EBITDA margins to increase from 11.4% (in FY17) to 14.6% by FY19E given the improving product mix (supported by new launches) & strong volume growth. Likewise, we believe standalone EBITDA margin to improve to 6.8% levels by FY19E (from 4% in FY17) led by recovery in M&HCV volumes and pick-up in LCV segment. Hence, we estimate overall EBITDA margin would expand to 13.9% by FY19E from 11% in FY17.

Valuations – SOTP of Rs. 518

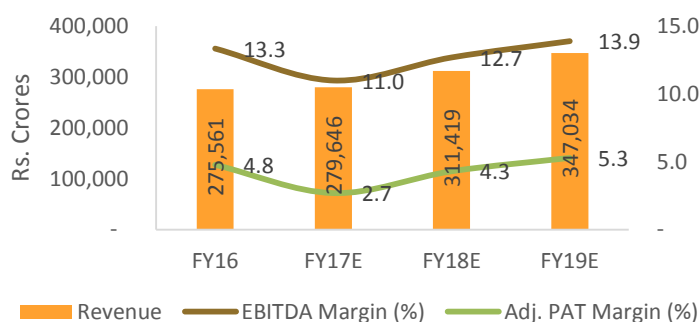
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Sum-of-the-parts Valuation

	Basis	Multiple (x)	Value (Rscr)	Value/share (Rs)
Standalone	Mar-19 EV/E	8.0	29,251	86
JLR	Mar-19 EV/E	3.5	139,200	410
China JV	Mar-19 EV/E	3.5	9,966	29
Other Subsidiaries	Mar-19 P/BV, Mar-19 P/E		11,865	35
Less: Net Debt			14,472	43
Target Price				518

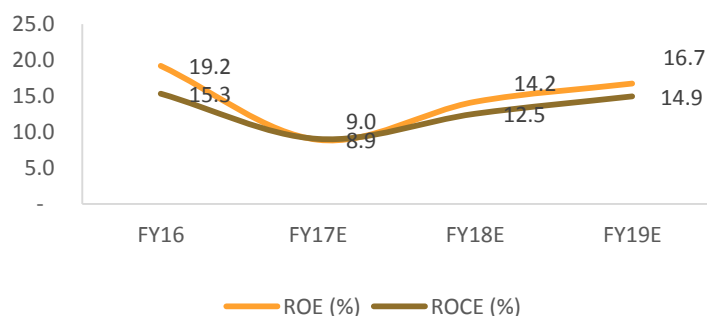
Source: Company, In-house research

Revenue to grow at a CAGR of 11.4% over FY17-19E



Source: Company, In-house research

Return ratios trend



Key Risks:

- 1 Slower-than-expected growth in the Chinese markets.
- 2 Sedate response to the new model launches.
- 3 Adverse currency movement (GBP vs other currencies) remains a key headwind.

Profit & Loss Account (Consolidated)

Y/E (Rs.Cr)	FY16	FY17E	FY18E	FY19E
Total operating Income	275,561	279,646	311,419	347,034
Raw Material cost	162,419	169,186	188,720	207,179
Employee Cost	29,199	30,202	32,388	35,744
Other operating expenses	47,187	49,540	50,809	55,926
EBITDA	36,756	30,718	39,502	48,185
Depreciation	17,014	18,059	20,468	23,075
EBIT	19,742	12,660	19,034	25,109
Interest cost	4,623	4,291	4,291	4,291
Other income	982	726	799	847
Profit before tax	16,100	9,095	15,542	21,665
Tax	2,873	3,001	3,886	5,416
Profit after tax	13,228	6,094	11,657	16,249
Minority Interests	106	84	84	84
P/L from Associates	21	1,500	1,800	2,160
Adjusted PAT	13,143	7,510	13,373	18,325
E/oincome/ (Expense)	(2,120)	872	-	-
Reported Profit	11,024	8,382	13,373	18,325

Balance Sheet (Consolidated)

Y/E (Rs.Cr)	FY16	FY17E	FY18E	FY19E
Paid up capital	679	679	679	679
Reserves and Surplus	80,103	87,225	100,031	117,789
Net worth	80,783	87,904	100,710	118,468
Minority Interest	888	972	1,056	1,140
Total Debt	63,100	63,100	63,100	63,100
Other non-current liabilities	21,764	21,764	21,764	21,764
Total Liabilities	166,535	173,740	186,630	204,472
Net fixed assets	121,042	122,984	133,016	142,941
CWIP	7,809	12,809	12,809	12,809
Goodwill	4,837	4,837	4,837	4,837
Investments	20,466	25,466	30,466	35,466
Net Current assets	(3,495)	(8,231)	(10,373)	(7,456)
Deferred tax assets	(440)	(440)	(440)	(440)
Other non-current assets	16,316	16,316	16,316	16,316
Total Assets	166,535	173,740	186,630	204,472

Cash Flow Statement (Consolidated)

Y/E (Rs.Cr)	FY16	FY17E	FY18E	FY19E
Pretax profit	11,024	10,595	17,342	23,825
Depreciation	17,014	18,059	20,468	23,075
Chg in Working Capital	2,552	1,636	2,284	3,068
Others	10,571	3,565	3,492	3,444
Tax paid	(1,994)	(3,001)	(3,886)	(5,416)
Cash flow from operating activities	39,167	30,853	39,701	47,996
Capital expenditure	(32,682)	(25,000)	(30,500)	(33,000)
Chg in investments	(4,603)	(5,000)	(5,000)	(5,000)
Other investing cashflow	(1,326)	726	799	847
Cash flow from investing activities	(38,611)	(29,274)	(34,701)	(37,153)
Equity raised/(repaid)	7,433	-	-	-
Debt raised/(repaid)	(5,177)	-	-	-
Dividend paid	(174)	(388)	(567)	(567)
Other financing activities	(5,275)	(4,291)	(4,291)	(4,291)
Cash flow from financing activities	(3,193)	(4,679)	(4,858)	(4,858)
Net chg in cash	(2,637)	(3,100)	142	5,985

Key Ratios (Consolidated)

Y/E	FY16	FY17E	FY18E	FY19E
Valuation (x)				
P/E	12.1	21.2	11.9	8.7
EV/EBITDA	5.2	6.3	4.9	3.9
EV/Net Sales	0.7	0.7	0.6	0.5
P/B	2.0	1.8	1.6	1.3
Per share data (Rs.)				
EPS	38.7	22.1	39.4	54.0
DPS	0.2	1.0	1.5	1.5
BVPS	237.9	258.9	296.6	348.9
Growth (%)				
Net Sales	4.9	1.5	11.4	11.4
EBITDA	(6.3)	(16.4)	28.6	22.0
Net Profit	(7.3)	(42.9)	78.1	37.0
Operating Ratios (%)				
EBITDA Margin	13.3	11.0	12.7	13.9
EBIT Margin	7.2	4.5	6.1	7.2
PAT Margin	4.8	2.7	4.3	5.3
Return Ratios (%)				
RoE	19.2	8.9	14.2	16.7
RoCE	15.3	9.0	12.5	14.9
Turnover Ratios (x)				
Sales/Total Assets	1.1	1.0	1.1	1.1
Sales/Working Capital	(8.1)	(7.5)	(8.0)	(8.3)
Liquidity&Solvency Ratios (x)				
Current Ratio	1.0	0.9	0.9	0.9
Debt/Equity	0.8	0.7	0.6	0.5

Rating Criteria

Large Cap.	Return	Mid/Small Cap.	Return
Buy	More than equal to 10%	Buy	More than equal to 15%
Hold	Upside or downside is less than 10%	Accumulate*	Upside between 10% & 15%
Reduce	Less than equal to -10%	Hold	Between 0% & 10%
		Reduce/sell	Less than 0%

* To satisfy regulatory requirements, we attribute 'Accumulate' as Buy and 'Reduce' as Sell.

* Tata Motors is a large-cap company

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