

Tata Motor



Current Price : 404(30/04/2014)

52 Week High/ Low: 465/263.1

Target Price : 543

Industry Overview

The Indian auto industry has been recording tremendous growth over the years and has emerged as a major contributor to India's gross domestic product (GDP). The industry currently accounts for almost 7 per cent of the country's GDP and employs about 19 million people both directly and indirectly. In addition, with Government's backing and a special focus on exports of small cars, multi-utility vehicles (MUVs), two and three wheelers and auto components, the automotive sector's contribution to the GDP is expected to double reaching a turnover worth US\$ 145 billion in 2016. The passenger vehicles production in India is expected to reach 10 million units by 2020–21. The industry is estimated to grow at a compound annual growth rate (CAGR) of 13 per cent during 2012–2021. In addition, the industry is projected to touch US\$ 30 billion by 2020–21. The cumulative foreign direct investment (FDI) inflows into the Indian automobile industry during the period April 2000 to January 2014 was recorded at US\$ 9,344 million, an increase of 4 per cent to the total FDI inflows in terms of US\$, according to data published by Department of Industrial Policy and Promotion (DIPP), Government of India. The overall automobile exports grew by 6.39 per cent during April–February 2014. Passenger vehicles, three wheelers and two wheelers registered growth at 6.44 per cent, 16.40 per cent and 5.41 per cent respectively, compared to the same period last year.

Company Overview

Tata Motors is a leading automobile company with Jaguar and Land Rover (JLR) being a crown jewel along with presence in the Indian passenger vehicle (PV)/commercial vehicle (CV) business. JLR has a strong product portfolio as it continues to focus on improving the product cycle with investments to the tune of ~£3.5-3.7 billion. The Indian business is undergoing a transition phase on the PV side while the CV segment has witnessed a severe decline in the last two years. JLR to continue to perform robustly with ~13.5% volume CAGR (FY14E- 16E) at 5.65 lacs units and post profits in excess of £2.4 billion. The domestic business witnessed negative profit and EBITDA performance in FY14E though we do not expect it to witness any sharp turnaround in FY15E. However, we are buoyed by new products like Zest and Bolt, which were showcased in Auto Expo. On the CV side, we believe volume recovery will be back ended in nature from H2FY15E (~5% in FY15E). However, the standalone business is less than 10% of overall revenues/valuation. On the valuation side Tata Motors looks attractive considering it has strong financials (return ratios >25%, net debt<0.5x, EPS CAGR (FY14E-16E) ~19%, cash flow yield of ~20%. On EV/EBITDA, it is at ~3x/PE~6x on FY16E.

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Key Ratio's

	FY13	FY14	FY15(e)
EPS	32.90	50.00	64.40
P/E	8.20	7.80	6.00
ROE (%)	27.9%	37.9%	43.6%
ROA (%)	59.98	62.40	64.70
P/BV	2.30	2.90	2.60

Peer Comparison

Name	Market Cap (Rs. Cr.)	Sales Turnover	Net Profit	Total Assets	P/E	D/E	EPS	Market Cap/Sales Turnover
Tata Motors	138,660.10	44,765.72	301.81	33,403.53	164.90	22.36	2.61	3.09
Eicher Motors	19,756.03	1,702.47	278.62	825.34	56.64	0.15	128.98	11.63
Ashok Leyland	7,689.36	12,481.20	433.71	7,959.92		13.17		0.62
SML Isuzu	655.78	881.27	17.4	426.18	38.17	11.19	12.02	0.66

Conclusion: Buy With target price of Rs. 543

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