Tata Motors

Short-term Investment

SHARES & STOCKS PRIVATE LIMITED

Snapshot

CMP	380 (04 Aug 2015)
Target price	440/540
1 year High/Low	612/366
Market Cap: (in cr)	129,358
Face Value	2
Rating	Buy
Risk rating	Medium
Weightage	Overweight
NSE SYMBOL	TATAMOTORS

Shareholding Pattern (%)

	Current	Q4FY15	Q3FY15
Promoters	34.33	34.35	34.33
MF's & FI's	13.77	16.45	12.34
FII's	23.44	20.49	24.76
Others	28.46	28.46	28.57

Price Performance

	Stock	Nifty
1 Month	-5.2	4.3
3 Month	-22.5	-1.2
12 Month	-6.8	10

Preferable buying Level: Between 380 - 350

Valuation

JLR's valuations are still subdued vis-à-vis cash-rich global peers like BMW. BMW has ~25% of its market capitalisation in cash (~€15 billion FY17E consensus) while vis-à-vis JLR it is only ~14% (implied JLR market capitalisation ~£18 billion) vis-à-vis ~£2.0 billion cash & cash equivalents in FY16E. We remain positive on sustained earnings growth for the JLR business as the product pipeline grows and market share increases across geographies. We value the stock on an SOTP basis, with JLR at 3.5x EV/EBIDTA basis contributing ₹ 459/share while domestic business contributes ₹ 41/share. Inclusive of other subsidiaries and China JV, we arrive at a target price to ₹ 540.

Investment Highlight:

- **Commenting on the retail performance, Andy Goss—JLR Group Sales Operations Director—said: "I am personally delighted to see that three of our key regions, the UK, Europe and North America have delivered their best ever sales in last quarter. Following our fifth successive year of growth in sales, we anticipate retailing over half a million vehicles this year for the first time in the company's history. As expected, initially there will be some short term change in our sales as we gear up for our new product launches, during what will be a landmark year for Jaguar Land Rover."**
- **We believe that Street is already factoring in a worst case scenario for JLR. While we agree that there is a likelihood of downgrade in profits from China, we do not expect it to be more than 50% (for EBIDTA), in a worst case scenario. Our confidence stems from the fact that: (1) even during the 2009 period, US/Europe profitability would not have declined by more than 50%; (2) unlike 2009, global footprint of China's crisis is still contained (US/EU demand remains strong); (3) high local production/sales ratio in China protects operating profitability of non-China plants of global OEMs; and (4) major currencies are reasonably stable. Hence, unless there is a contagion risk (2009-like scenario), we believe JLR will surprise positively.**
- **The current volume mix across players is much diversified and therefore lowers the risks from volume decline in one region. While China's share is reasonably high (>20%), share of Europe has fallen below 45% levels. Another pertinent point to note is that JLR's product mix is skewed towards utility vehicles (UVs). This allays risks to JLR's demand in China as UVs continue to see robust traction in China (YTD industry 4.8%, UV 46% YoY).**
- **Stable demand in US/Europe can provide further cushion to profitability as the OEMs will be required to focus only on managing the China risk. Similarly, a stable currency (versus 2009) can cushion profitability.**
- **We believe street is ignoring the strong product pipeline for JLR. Recent launches continue to see waiting list - XE has order book of ~25K units from (UK and EU) and Discovery Sports has an order book of ~50K, implying a wait list of ~7 to 8 months.**

Contact details

Ambalal Shares & Stocks Pvt Ltd

Plot No.2, Kewal Chand Plaza,

Brindavan Street,

Ambalal Green City, Old Bye Pass Road,

Vellore- 632 004

Email ID: vijayababum@ambalalshares.com

Contact No: 0416-2227751-55. Ext- 321,322,323

Disclaimer:

The document contains the opinions/view of the author that are not to be taken as investment advice. The above opinions are based on the information which is believed to be precise and we are not responsible for the results of the positions taken based on the opinions expressed above. Past results are no indication of future performance. The information or data or analysis provided in this report is solely for informative purposes and is obtained from the sources believed to be reliable.

There is a risk of loss in trading in shares & stocks. Ambalal Shares & Stocks Pvt Ltd and its associates cannot be held answerable/responsible for any losses in trading.