

Investment Idea
Automobiles

Tata Motors Limited

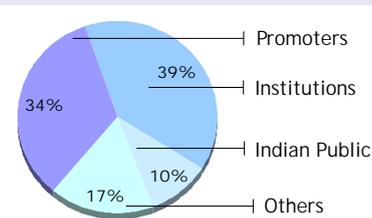
CMP : Rs. 700.0

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Stock Codes

Bloomberg : TTMT.IN
Reuters : TELC.BO
BSE Code : 500570
NSE Code : TATAMOTORS
BSE Group : A

Share Holdings (%)
As on 31st March, 2006.



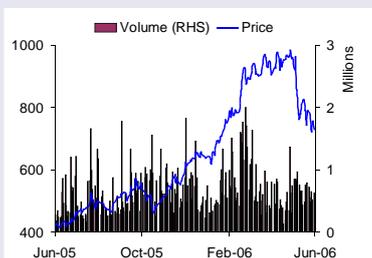
Stock Data

Sensex : 10293.2
Nifty : 3007.5
52 W High Rs. : 997.0
52 W Low Rs. : 412.0
Mkt Cap Rs. Crs : 26800.0
Face Value : Rs 10.0

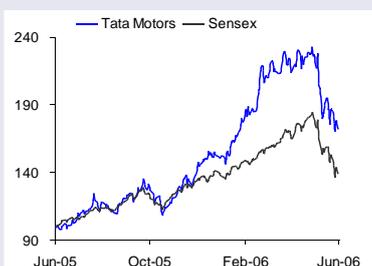
Absolute Returns

%	1M	3M	6M
Tata	-24.45	-18.64	16.11
Sensex	-22.86	-12.27	2.29

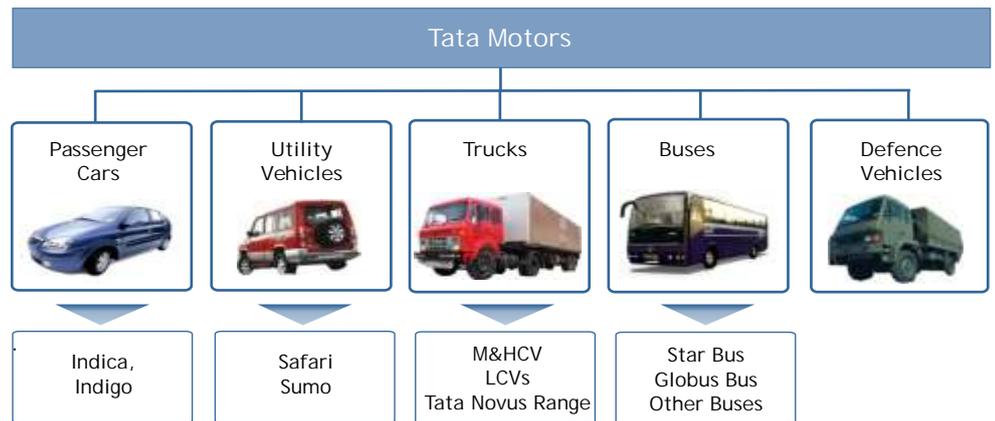
Price/Volume



Price Comparison



Tata Motors Limited (TM) is one of the largest companies in Tata Group with total income more than US\$ 5.5bn. Tata Motor is India's only fully integrated automobile manufacture with a portfolio that covers trucks, buses, utility vehicles and passenger cars. It is the world's fifth largest medium and heavy truck manufacturer and the second largest heavy bus manufacturer. The company operates out of plants at Pune, Jamshedpur and Lucknow. Its key export markets include South Africa, Turkey, Europe, Australia, South East Asia and Middle East.



Summary Arguments:

- Overloading curbs and significant fillip to road development projects to boost CV demand. Tata Motors with 62% market share would benefit most.
- LCV growth expected to continue with super success of Tata Ace. The company to double its capacity from 30,000 units to 60,000 units and will launch Ace across the country.
- Passenger cars growth to be triggered by new launches.
- Diesel car segment to grow to 40% from present 20%. TM's focus on diesel cars (80% of cars sold) will not only boost its sales but also help it to insulate against rivalry.
- Well placed cost reduction strategy, price hike, suitable product mix to absorb cost pressures and improve operating margins.
- Exports up 81%. They form 16% of consolidated revenues (target of 25% by 2010). Focus on global initiatives to reduce dependence on cyclical domestic CV market.
- Robust performance of subsidiaries and opportunity for value unlocking to provide significant upside to stand-alone valuations.

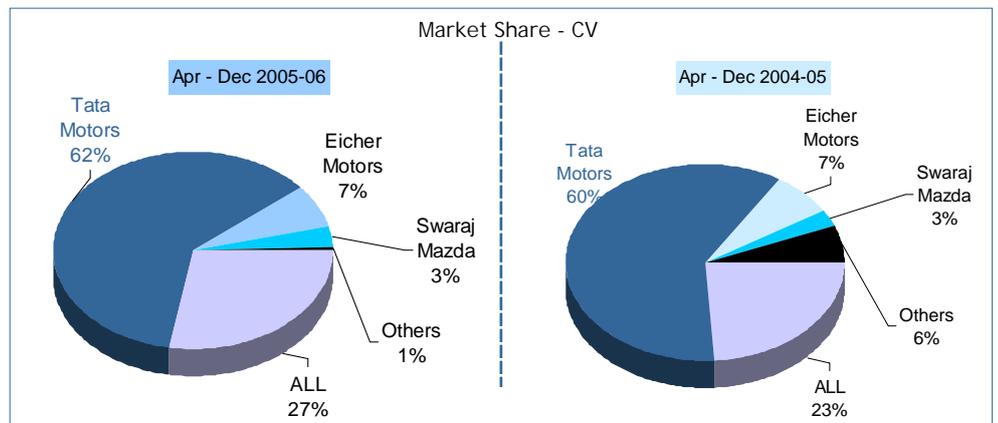
Financial Summary (Stand-alone)

(Rs. Crores) Mar -End	2005	2006	2007E	2008E
Net Sales	17,419.13	20,602.20	24,822.38	29,732.98
EBDITA	2,270.06	2,795.02	3,484.59	4,153.41
EBDITA margins(%)	13.03	13.57	14.04	13.97
PAT	1,236.95	1,528.88	2,108.78	2,464.15
EPS	34.19	39.93	51.79	60.52
P/E	20.47	17.53	13.52	11.57
EV/EBDITA	11.37	10.24	7.72	6.37
MCAP/SALES	1.45	1.30	1.15	0.96
ROCE(%)	31.73	30.77	33.01	31.90
RONW(%)	30.22	27.68	22.14	20.56

Investment Arguments Overloading Curbs to led significant demand for CVs:

Supreme court ruling on disallowing overloading of vehicles would led to increase in demand of commercial vehicles in coming days. This ruling is expected to followed stringently as evident by increase in freight rates. This is expected to lead to an increase in incremental demand of commercial vehicles in next 8-9 months. The additional demand in M&HCV segment would benefit high tonnage vehicles like trailers and trucks. TATA MOTORS (TM) being leader in M&HCV with market share of 62% would benefit most from this additional demand.

Tata Motors is already set to double its MCV and HCV production capacity in the country in the next four years. Presently the auto major produces 380 units per day. This figure thus expected to touch at around 800 units a day in the next four years. The management expects huge demand for its MCVs and HCVs in coming years. While work on its MCV and HCV expansion plant at Lucknow has already been started, the company is also rationalizing its product range there. Th company has only 30% indigenisation on its Tata Novus at present. It only makes the Novus tipper here. It is currently busy in developing different other types of applications for it too.



Upcoming road projects to boost CV demand:

The Union Budget 2006-07 has provided a significant fillip to the roads development, given its higher focus on infrastructure. The rise in allocations for NHDP to the tune of Rs. 99.45 bn from Rs. 93.20 bn in 2005-06 and announcement of six Access Controlled Expressways entailing a total length of 1,000 kms to be implemented on Design, Build, Finance and Operate (DBFO) basis will boost not only this programme but also demand of commercial vehicles. Besides, Demand for CVs is expected to rise as Golden Quadrilateral Project is in its advance stage (90% complete) and NSEW project is around 12% complete. Up to 36% of the target 18,372 km of road development was completed as on 31st December, 2005.

Status of the NHDP as on 31st December, 2005:

Particulars	Total Length (in kms)	Planned Date of Completion	Completed	Under Balance to Implementation	Under Balance to be Awarded
GQ	5,846	Dec-06	90.00%	10.00%	0.00%
NSEW	7,300	Dec-07	12.00%	63.00%	25.00%
Port connectivity	1,211	Dec-07	32.00%	64.00%	04.00%
Phase III	4,015	Dec-12	1.00%	27.00%	72.00%
Total	18,372		36.00%	38.00%	26.00%

LCV growth continues with TATAACE and 207DI pickups:

New TATAACE, India's first indigenously made mini truck, has fueled 103% growth in up to 3.5T LCV goods segment and more than 5% of TM's total volumes. In LCV segment, TM registered

41.9% Y-o-Y volume growth mainly driven by TATA ACE. TM 's market share in this segment increased by 950bps to 60.2% in FY06 from 50.7% in FY05. The ACE was launched only in five states initially. Now, with more roll-outs and capacity expansion from 30,000 units to 60,000 units, growth momentum is expected to sustain through out FY07. Also, Tata Motor has launched this sub-one tonne mini truck in Sri Lanka as well. Tata Ace is meant for both intra-city goods movement and last mile distribution chain and has both the ability to carry a variety of payloads and the agility to navigate narrow by-lanes with its turning radius of 4.3 metres. It has successfully competed against existing successful three-wheeler goods carriers such as M&M's champion.

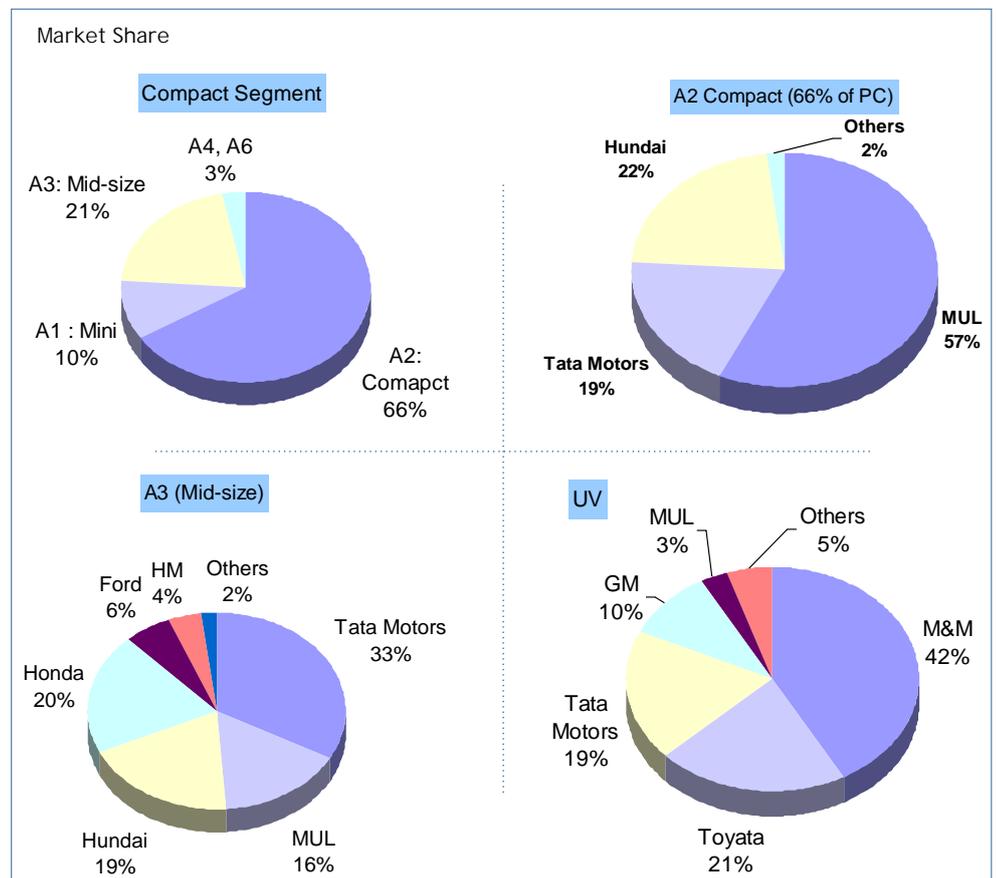
Also, volumes in pick-up segment of the company grew by 129.2% Y-o-Y with sale of 47,995 units in FY06 as compared to 20,939 units sold in FY05. TM became market leader in the pick-up segment with a market share of 59.4% in FY06 as compared to 38.1% in FY05.

With booming consumer goods segment, rationalization of transportation industry and restrictions on the large vehicles in metropolitan areas and wide implementation of hub and spoke model, LCV segments is likely to grow helping to reduce impact of volatile M&HCV segment.

Passenger cars : Growth with new launches:

The passenger car volumes of the company has increased by 5.6% Y-o-Y with overall market share of 16.5%. The growth in passenger car business is expected to come from new launches especially from 'Indica' platform and its expected 'People Car'. This much-touted Rs1 lakh car would be launched in early 2008. The company had completed its styling and designing and tested the prototypes within the plant. It will be rear engine, 4-5 seats, four door car with about 30 horse-power engine.

Besides, TM has announced that the first models based on the new car and UV platforms will roll out in 2007-08. Given the company's past record in model development, new models are expected to enjoy better cost advantage against its competitors. Also, the company will strengthen its relationship with FIAT and explore new areas of collaboration.



Fiat tie-up : win-win deal:

Recent tie-up between TM and Fiat is a Win-Win deal for both players. As per the deal, TM will share its dealer network with Fiat to sell Palio Hatchback and Palio Adventure Wagon. Similarly, selected Fiat dealers will sell TM's products. In future, this deal has scope to explore potential to work together on product development, procurement and sourcing, joint manufacturing and overseas marketing. TM will be able to access Fiat's distribution network to sell its cars and utility vehicles in Europe. TM may also get access to underutilized manufacturing facilities of Fiat India which will reduce its capital outlay. TM would also have access to Fiat's sophisticated diesel engine technology. In turn, Fiat will benefit from TM's cost competitiveness in manufacturing and distribution network. Tie up with TM is in line with Fiat's turnaround strategy.

Diesel engine advantage to give edge over rivals:

The competition from Hyundai, Maruti, General Motors and Honda will become more cut throat in coming days as rival companies are getting into diesel products. At present, the diesel car segment accounts for 20% of passenger cars. It is expected to increase to 40% of passenger cars in next three years. TM would have an edge over its rivals as it has already stabilized in terms of technology as well as launching CRDi versions with Fiat's alliance since globally Fiat has the best diesel engine technology. Thus, TM is well positioned to roll out with CRDi versions at much competitive costs. Also, TM's focus on diesel cars (80% of cars sold) will insulate it against rivalry. Besides, with TM launch of Indica Xeta (Petrol) last year, the company is now being seen as a serious player in the petrol segment too.

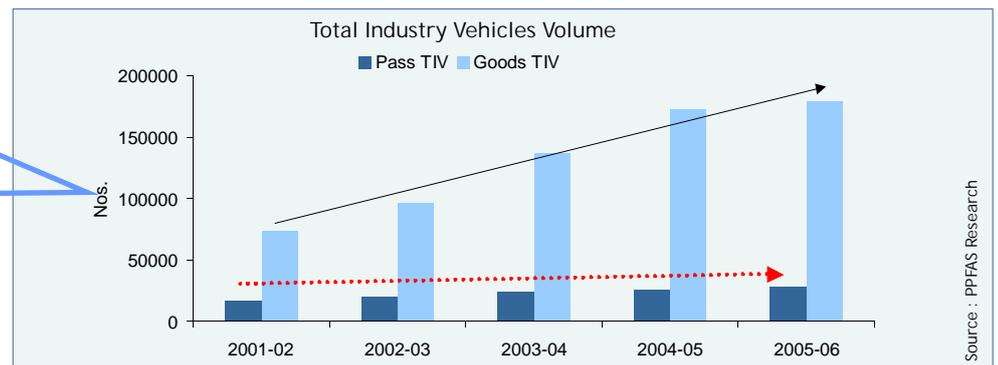
Disel Share in total cars

Segments	2004	2005	H106
A2	23.6	22.4	18.4
A3	33.0	36.0	39.0

Bus segment : surprises lie ahead:

TM's bus segment registered a decline in volume growth of 7% Y-o-Y and market share of the company stood at 43.9%. In November 2005, the company lost STU orders to Ashok Leyland. However, it was successful in retaining market share on increased sales to BPO and school bus segment. The company has strengthened its product portfolio with successful launch of 'Starbus' and 'Globus' range of buses (16-67 seats). Also, The company acquired 21% equity stake in Hispano Carrocera SA, a leading Spanish bus manufacturing company. This acquisition is expected to provide the company with High- end luxury buses and related technology to address the luxury bus segment in various geographies. The company has planned to launch buses from Hispano platform both in India and Outside India.

Also, TM has entered into joint venture with Marcopolo, the Brazil-based global leader in body-building for buses and coaches, to manufacture and assemble fully-built buses and coaches in India. Tata Motors will hold 51% of the equity and Marcopolo will hold 49%, will set up a new manufacturing facility in India. It will go on stream in a year's time and produce a variety of buses including 16 to 54-seater standard buses, 18 and 45-seater luxury buses, luxury coaches, and low-floor city buses. The joint venture with Marcopolo, which is one of the largest bus body builders, will enable TM to successfully address the growing demand in India, as well as relevant markets abroad.



The chart reveals stagnant growth in passenger vehicles over the years as compared to goods vehicles. This signifies growing untapped opportunities in Bus segment..

Source : PPFAS Research

Increasing judicial activism regarding pollution, emission norms, improved urban road infrastructure, inadequate railway infrastructure and increase in domestic tourism could increase domestic opportunities ahead by boosting fleet addition by private transporters and fleet replacement demand by STUs. Big surprises lie ahead as far as bus segment is concerned.

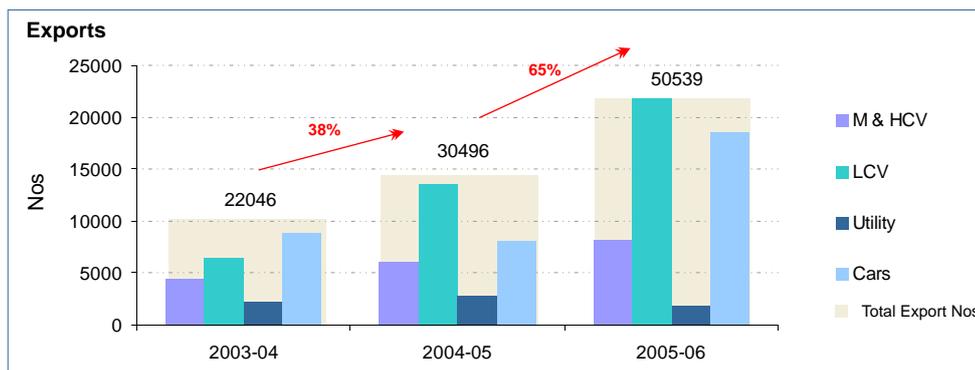
Cost reduction, Price hikes and better Product mix absorb rising costs:

TM took a price hike of around 2% in April 2005 and another hike of around 2.5% in December 2005. With fresh cost cutting initiatives to the tune of Rs. 10 bn over next three years from target costing, e-sourcing, Suppliers base rationalisation, Outsourcing, Vendor rationalization, Value engineering, Productivity and Process improvement, operating margins will improve further. Cost reduction achieved from above initiatives for FY06 was Rs. 470 crs. Lower import duties and FTA effect would throw up further cost saving opportunities from imported parts from Thailand. Besides, the product mix help to neutralize slow growth in M&HCV segments as the growth trend in passenger vehicles segment has become less cyclical due to rising per capita income and aggressive financing.

Global Initiatives:

TM's export volume is up 65% Y-o-Y led by 54% growth in Commercial Vehicles segment and 84% growth in Passenger Vehicles segment. Despite failure of the Land Rover alliance, TM's car exports have been robust as new markets like South Africa, Turkey and Middle East have turned successful. The company is stretching to newer markets like Russia, Eastern Europe etc. Revenues from international business formed around 16% of the consolidated revenues of the company during the year ended March 2006. Increased penetration in UK, Russia, Italy, Spain, Middle East, Eastern Europe and Senegal would keep expanding international business revenues. TM has target of increasing international business revenues up to the 25% of the consolidated revenues of the company by the end of 2010.

Besides, TM is exploring opportunity to set up facility for pick-ups in Thailand which is the second largest market for pick-ups after US. Also, post FTA, Thailand has become an attractive outsourcing hub for cost competitive auto components. TM is also setting up an assembly unit in South Africa and bus building facility in Turkey. Through acquisitions, strategic tie-ups and other initiatives TM has not only attempted to fill key gaps in its product range, technology and market capabilities but also unveiled its aspiration to be global leader.



Robust performance of subsidiaries

Subsidiaries has shown robust performance during last year.

Tata Daewoo has recorded 35% Y-o-Y growth in net revenues and 160% Y-o-Y growth in PAT in FY06. It has captured a 28% overall market share in Korea and has successfully launched new MCV trucks in 4.5-7 tonne categories. It has achieved 13.5% Market Share in MCV in Jan'06-Mar'06. It's exports are up 112% Y-o-Y to 1850 units forming over 2/3rd of Korea's Heavy Truck exports.

Telcon Construction Equipments Co Ltd. continued its dominance in excavator segment with market share of 53% in FY06. It improved its market share in wheel loader up to 23% in FY06 from 22% in FY05 and backhoe loaders up to 10% in FY06 from 7% in FY05. It has recorded

39% Y-o-Y growth in net revenues and 113% Y-o-Y growth in PAT in FY06. Hitachi Construction Machinery (HCM) with 40% stake in Telecon, plans to outsource machines and components from Telcon for its global network. HCM and Telcon has planned to set up a joint product development facility in India.

Tata Technologies has recorded 202% Y-o-Y growth in net revenues and 51% Y-o-Y growth in PAT in FY06. Tata Technologies now well poised in Engineering design and PLM space with the right onsite -offshore mix. It has now access to a broader customer base in the automotive, aerospace and manufacturing industries. It is now focusing for wider presence in all major geographies and markets in North America, Europe and Asia Pacific. The company acquired UK based engineering design and PLM services company INCAT. It will now have a access to INCAT's high end consulting skills and project management capabilities.

HVTL has recorded 11% Y-o-Y growth in PAT for FY06, while HVAL has recorded 8% growth in PAT for the same period. HVAL/HVTL will now support Tata Motors in its advanced power train implementation strategy. The management has planned investments for capacity expansion, productivity, quality improvement. The management is also discussing to bring the strategic partners at an advanced stage.

The summary of the performance of the subsidiaries is as below:

Subsidiaries	Holding	Turnover (Rs Crs)		PBT (Rs Crs)		PAT (Rs Crs)	
		FY 06	FY 05	FY 06	FY 05	FY 06	FY 05
Tata Daewoo CV Ltd. Korea (TDCV)	100%	1,584.9	1,178.0	77.7	29.5	58.3	22.5
Telco Construction Equipment Co Ltd. (Telcon)	80%	1,289.5	926.3	136.8	60.2	86.8	40.8
Tata Technologies Ltd (TTL)	94.60%	545.0	180.4	19.4	10.7	11.6	7.7
HV Transmissions Ltd. (HVAL)	100%	127.6	126.6	45.5	46.5	30.1	27.0
HV Axles Ltd (HVCL)	100%	143.9	144.0	69.3	65.0	46.3	42.7
TAL Mfg Solutions Ltd. (TAL)	100%	112.8	90.3	5.0	2.4	4.7	2.4

Risk Factors

- Fuel accounts for more than 50% of operating cost of truck operators. Rising oil prices poses a key threat to operator's profitability and thus CV demand.
- Rising interest rate is a cause of concern as sales through financing accounts for 90% of trucks sold.
- Increasing commodity prices like rubber will reduce operating margins
- The competition from Hyundai, Maruti, General Motors and Honda will become more cut throat in coming days as rival companies are getting into diesel products. Though TM's focus on diesel cars (80% of cars sold) and already stabilised player in terms of technology (with Fiat's Alliance) will insulate it against rivalry.

Valuation Tata Motors is the largest automobile company in India with ambitious global plans. It is the world's fifth largest medium and heavy truck manufacturer and the second largest heavy bus manufacturer. TM is expected to witness growth of 20% CAGR in its top line for FY06-08E because of its product-mix, leadership position in CV segments, positive growth in passenger car segment, surprises in bus segment, aggressive cost cutting strategies, robust growth in exports and proposed launches of new products in both CVs and passengers car segments in next five years. At present, the stock is trading at 11.57 x FY08E earnings, 0.96 Mcap/Sales FY08E and 2.38 x P/BV FY08E on stand alone basis.

TM has strategic investments in several subsidiaries which has attained maturity in their respective businesses and have shown robust performance. The management also has shown their interest to unlock the value in these subsidiaries via either induction of a strategic partner or through public listing of the same in near future. We envisage around at least 13% increase in EPS on account of these subsidiaries. There is significant upside over present valuation.

We recommend 'BUY'.

Consolidated valuation (presuming only 13% increase in EPS)

	2006	2007E	2008E
EPS (Rs.)	43.15	58.52	68.38
P/E (x)	16.22	11.96	10.24

Financials (Stand-alone)

P&L A/C (Rs Crs)	2005	2006	2007E	2008E
NET SALES	17,419.1	20,602.2	24,822.4	29,733.0
MATERIAL COST	12,341.1	14,632.7	17,127.4	20,515.8
MANUFACTURING EXPS	1,867.6	2,246.7	2,730.5	3,270.6
EMPL COST	1,039.3	1,143.1	1,489.3	1,784.0
PRODUCT DEVELOPMENT	67.1	73.8	94.3	113.0
TOTAL EXPENDITURE	15,315.2	18,096.3	21,441.6	25,683.4
OPERATING PROFIT	2,104.0	2,505.9	3,380.8	4,049.6
OTHER INCOME	166.1	289.1	103.8	103.8
PBDIT	2,270.1	2,795.0	3,484.6	4,153.4
INTEREST	154.2	226.4	92.9	92.9
PBDT	2,115.9	2,568.7	3,391.7	4,060.5
DEPRECIATION	450.2	520.9	580.0	775.0
PBT	1,665.8	2,047.7	2,811.7	3,285.5
EXCEPTIONAL ITEMS	13.9	5.7	-	-
TAX	415.0	524.5	702.9	821.4
PAT	1,237.0	1,528.9	2,108.8	2,464.2

RATIOS:	2005	2006	2007E	2008E
PBDIT %	13.03	13.57	14.04	13.97
PBT %	9.56	9.94	11.33	11.05
PAT %	7.10	7.42	8.50	8.29
INTEREST COVERAGE	11.81	10.05	31.27	36.37
RONW (%)	30.22	27.68	22.14	20.56
ROCE (%)	31.73	30.77	33.01	31.90
INVENTORY T/O DAYS	33.55	35.65	33.58	33.58
DEBTORS T/O DAYS	14.46	10.88	14.75	14.75
DEBT / EQUITY (x)	0.61	0.53	0.11	0.09
CREDITORS T/O DAYS	160.05	144.64	158.70	158.70
EPS (Rs.)	34.19	39.93	51.79	60.52
P/E (x)	20.47	17.53	13.52	11.57
P/ BV (x)	6.19	4.85	2.99	2.38
BVPS (Rs.)	113.14	144.25	233.91	294.43
MKT. CAP (Rs. Crs)	25325.30	26800.90	28501.20	28501.20
EV (Rs.crs)	25809.56	28612.15	26916.05	26475.59
EV/EBITDA (x)	11.37	10.24	7.72	6.37
M CAP/Sales (x)	1.45	1.30	1.15	0.96
EV/Sales(x)	1.48	1.39	1.08	0.89

BALANCE SHEET (Rs Crs)	2005	2006	2007E	2008E
EQUITY CAPITAL	361.8	382.9	407.2	407.2
RESERVES	3,749.6	5,154.2	9,116.7	11,580.8
MISC EXP ETC	18.2	14.1	-	-
ACTUAL RESERVES	3,731.4	5,140.1	9,116.7	11,580.8
SHAREHOLDERS FUNDS	4,093.2	5,523.0	9,523.8	11,988.0
DEBENTURES	301.3	75.5	-	-
TERM LOANS	188.6	747.3	-	-
SECURED LOANS	489.8	822.8	822.8	822.8
UNSECURED LOANS	2,005.6	2,114.1	209.5	209.5
TOTAL BORROWED FUNDS	2,495.4	2,936.8	1,032.2	1,032.2
DEFERRED TAX LIABILITY	565.3	622.5	-	-
TOTAL LIABILITIES	7,153.9	9,082.3	10,556.1	13,020.2
GROSS BLOCK	6,612.0	7,971.6	8,922.7	11,922.7
ACC DEPRECIATION	3,454.3	4,401.5	4,981.5	5,756.5
NET BLOCK	3,157.7	3,570.0	3,941.3	6,166.3
CWIP	538.8	951.2	3,000.0	3,000.0
FIXED ASSETS	3,696.5	4,521.2	6,941.3	9,166.3
INVESTMENTS	2,912.1	2,015.2	2,015.2	2,015.2
WORKING CAPITAL				
INVENTORY	1,601.4	2,012.2	2,283.7	2,735.4
SUNDRY DEBTORS	811.3	715.8	1,166.7	1,397.5
CASH & BANK BALANCE	2,011.2	1,125.6	2,617.4	3,057.8
LOANS & ADVANCES	2,722.4	5,807.7	4,468.0	5,351.9
CURRENT ASSETS	7,146.2	9,661.3	10,535.7	12,542.7
LIABILITIES	5,474.8	5,900.3	7,446.7	8,919.9
PROVISIONS	1,126.1	1,215.0	1,489.3	1,784.0
CURRENT LIABILITIES	6,600.8	7,115.4	8,936.1	10,703.9
NET WORKING CAPITAL	545.4	2,546.0	1,599.7	1,838.8
TOTAL ASSETS	7,153.9	9,082.3	10,556.1	13,020.2

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