



May 19, 2014

India | Autos

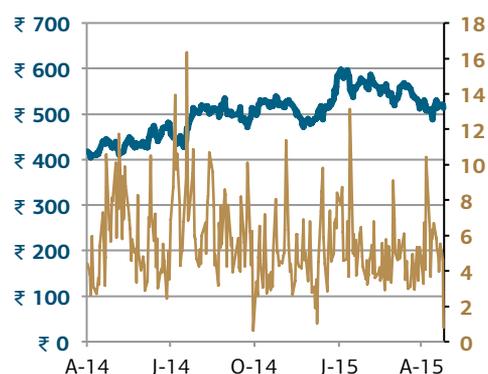
# Tata Motors (TTMT IN; TTM US)

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## China's slide continues

Tata Motors (TTMT IN) one-year share price in INR (blue, left) and volume (gold, in mln shares)



Source: Bloomberg May 19, 2015

### + JLR's April China sales down 21% YoY

JLR's China sales have now been in decline for five months. It is hard to see JLR even achieving flat China sales growth in FY2015.

### + The Street still isn't convinced

Street estimates remain bullish and are still straight-lining Tata and JLR's sales growth. They don't take into account a China slowdown and moreover, the negative operative leverage that will result from price cuts and lower Chinese margins.

### + Valuation: INR 390

Our target price is 7x our forecast FY2016e EPS of INR 55.72. This assumes JLR China sales fall 15% in FY2016.

### Tata (TTMT IN)

Price	INR 520.70
Rating	SELL
Price target	INR 390.00
Difference	-25%
Market Cap	IND 1,621.2 bln
Simple Moving Avg.	5.55 mln
P/E	11.95x
Float	64%

Source: Bloomberg May 19, 2015

## China sales continue to crater

### JLR's April retail sales fell 21% YoY.

Jaguar Land Rover's ("JLR") April China retail sales were 8,289 units, down 21% YoY. For the 2015 calendar year to date, JLR's China retails are also down 21% YoY.

While the April volumes are clearly bad, they are relatively better than March, which saw a 35% YoY decline.

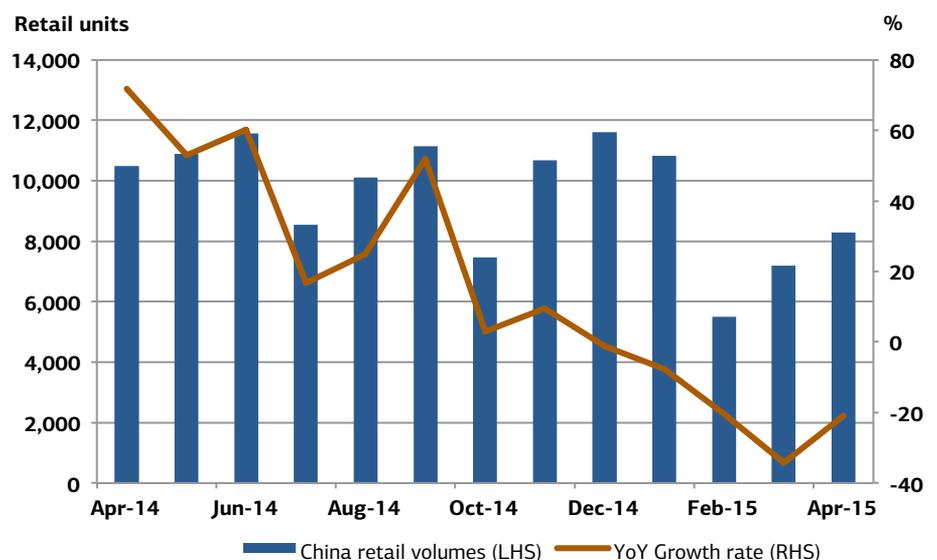
In any case, it is hard to see how JLR will achieve even flat sales growth in China. For the end-March 2015 fiscal year, Tata sold 115,969 units in China. This is a monthly average of 9,664 units.

In contrast, during the first four months of the 2015 calendar year, Tata has sold 31,815 units, a monthly average of 7,953 units. This is 18% below FY2015's 9,664 monthly average.

**Therefore, we reaffirm our expectation of JLR's sales to fall 15% YoY in China during FY2015.** We don't expect to see any significant recovery and note that JLR's sales fall has been ongoing since December 2014.

### Chart 1. JLR's retail sales have been negative since December 2014

JLR's China sales have been negative for 5 months



Source: Company financials, J Capital Research

### Other markets had growth

JLR had a better time in other markets. UK sales were up 20% YoY, US was 14% and Europe was up 16%. However given China's

dismal performance and a 13% fall in “Overseas” sales, JLR’s April 2014 sales were flat YoY. Similarly for the 2015 calendar year, JLR’s sales are flat.

In addition, ex-China markets have much lower margins vs China, so do not make up for China’s poor sales.

### The Street still isn’t convinced

The Street remains bullish on Tata Motors and we think these positive estimates have to come down.

**Consensus estimates will come down once a realistic view of China is adopted.**

- JLR contributes 83% of Tata Motors revenue. China contributes 34% of JLR’s revenue. In particular, JLR earns super fat margins in China, so any downturn in China will have a large impact on JLR and Tata’s EBITDA margins.
- **88% say BUY:** The Street has 45 Buy ratings, 5 Holds and 1 Sell (Bloomberg consensus).
- **26% price upside:** As per Bloomberg, the 12-month target price is INR 651.11, or 25% upside from Tata’s price of INR 519 (as at May 15, 2015).
- **18% EPS growth:** EPS estimates for FY2016 (March 31, 2016) are INR 65.86 up 17% from INR 56.498.
- **15% revenue growth – assuming straight-line growth:** The Street is forecasting FY2016 revenue of INR 3 tln, up 15% from forecast FY2015 revenue of INR 2.62 tln. This is essentially a **blind assumption of constant growth**, given Street estimates for FY2015 are 14% revenue growth. Analysts appear simply to have extended their Excel model an additional year without giving much thought to the potential downside. Moreover, given the ultra-high margins in China, a China slowdown will have **significant negative operating leverage**.

### **SELL: Target price of INR 390**

We reiterate our price target of INR 390, which is 7x our forecast FY2016e EPS and 26% downside from Tata’s price as at 22 April 2015. This assumes -15% China growth.

We have little visibility on ex-China markets and so assume double-digit growth rates for most of these markets, including a

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17% growth rate for the US.

### Risks

- JLR China sales are resilient.
- The fall in sales in 4Q2015 is actually related to the Evoque recall and once the air clears, sales will rebound.
- **Markets outside of China outperform.** We caution that we have little visibility on these markets, but have compensated for this by assuming higher growth rates in our estimates. In addition, margins in markets like the US and UK are much lower than China, so any significant increase in US or UK sales may not buffer a China slowdown.
- **Macro-stimulus targeted at luxury cars:** Unlikely given the anti-corruption crackdown. However if the Chinese economy continues to crash, all types of stimulus cannot be ruled out.
- **RMB appreciation vs GBP:** This would be a tailwind for JLR's business, however we don't think the impact would be that large given JLR hedges its currency exposure.

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