

August 13, 2015

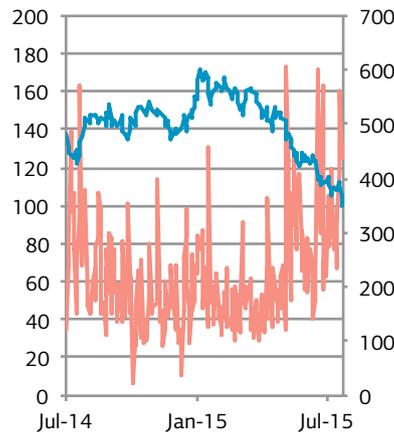
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Tata Motors (TTMT IN; TTM US)

Price	INR 349.40
Rating	SELL
Price Target	INR 380.00
Difference	-8%
Market Cap	INR 1.13 TLN USD 17.3 BLN
Simple Moving Avg.	10.3 mln
P/E	8.13x
Float	61%

Tata Motors (TTMT IN; TTM US) last share price in INR (blue) and volume (pink, in 100,000 shares)



Source: Bloomberg, August 13, 2015

Tata Motors (TTMT IN; TTM US) China's Annus Horribilis

- ▶ **Jaguar Land Rover ("JLR") had negative operating cash flow** in Q1 FY2016 due to China inventory build-up and cash-starved dealers asking for shorter payment cycles.
- ▶ **JLR's EBITDA margins fell to 16.4% from 20.3%** a year ago. Price cuts and marketing expenses will continue to hit margins.
- ▶ **Since our initiation, the Tata Motors stock price in India has fallen 32%, while the US-listed ADR has fallen 37%.** Given that Tata Motors has hit and actually fallen past our target price, we close our coverage.

Facing Up to the China Reality? Not Really

Tata Motors recently hosted its Q1 FY2016 conference call, which was dominated by questions on JLR's China slowdown, suggesting that Street analysts have finally woken up to the massive cratering in demand for JLR vehicles in China.

Despite this, analyst estimates remain stubborn. The mean 12-month target price for Tata is INR 519.25 vs a current market price of INR 355.20 (August 12, 2015). Amazingly, Bloomberg shows that 90% of analysts still retain a Buy recommendation.

Highlights of JLR's Q1 FY2016 results include:

- ▶ JLR's China sales falling 33.4% YoY in Q1 FY16.
- ▶ EBITDA margin falling to 16.4% from 20.3%.
- ▶ **Negative operating cash flow due to China inventory build-up and shorter payment cycles:** Slower China sales saw finished goods inventory up 27% YoY to GBP 2.58 bln. Accounts payable were down 10% as JLR's customers requested shorter payment cycles. This suggests that the cashflow positions of JLR's customers are hurting, which is flowing upstream and hitting JLR's cashflow management.
- ▶ Confirmation of 5-6% price cut for JV Evoque.
- ▶ Expectation of higher marketing expenses in both China and elsewhere in the coming quarters.

Clearly, the outlook for China continues to be quite dire with low visibility. In contrast, JLR management continues to put on a brave face, wishfully (or naively) stating that:

"JLR believes China will continue to be a growing market for premium vehicles and JLR – it is the largest car market in the world with a growing GDP and increasingly affluent consumers who will aspire to own premium vehicles."

Closing Coverage

Since our initiation, the Tata Motors stock price in India has fallen 32%, while the US-listed ADR has fallen 37%. Given Tata Motors has hit and actually fallen further than our target price, we are closing our coverage.

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