

July 8, 2015

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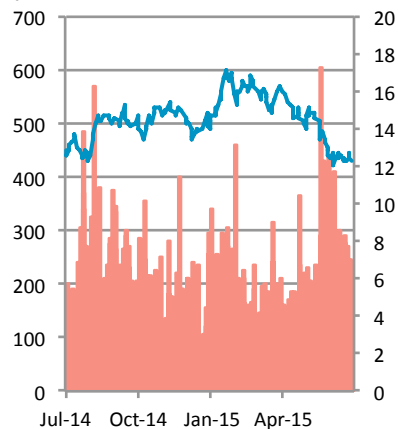
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## Tata Motors (TTMT IN; TTM US)

Price	INR 431.55
<b>Rating</b>	<b>SELL</b>
<b>Price Target</b>	<b>INR 380</b>
Market Cap	INR 1.32 TLN USD 20.9 BLN
Avg. Volume	2.99 MLN
P/E	9.65x
Float	64%

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



Source: Bloomberg, July 7, 2015

## Tata Motors (TTMT IN; TTM US) Broken Record: JLR June Sales Weak

### ► We estimate a 20-30% YoY sales decline in June

We have just interviewed seven JLR dealers across China. Sales continue to be negative, with some dealers seeing sales fall up to 70% YoY.

### ► Prices are down by up to 15%, but dealers are bearing the cost

JLR has so far been spared the hit to margins, but dealers are becoming increasingly disgruntled. We think it's only a matter of time before JLR will have to provide some relief.

### ► Valuation: INR 380

We now assume China sales fall 23% YoY in FY 2016 and revise our target price down to INR 380 from INR 390.

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A Shenzhen dealer said his sales were down 62% YoY.

## June: We Estimate a 20-30% YoY Decline

We have just interviewed seven Jaguar Land Rover (“JLR”) dealers across China and sales continue to be negative. Based on this limited sample size, we estimate JLR’s June sales were down 20-30% YoY.

Some of the declines were as much as 70%: A Shenzhen dealer said his sales were down 62% YoY, while a Chengdu dealer had a 70% YoY decline. There were smaller falls in Eastern regions. A Zhejiang dealer saw flat YoY sales, while a Xiamen dealer saw sales fall 13-15% YoY, due to the buffering effects of a local car show.

Most dealers said their sales targets had been cut. The gloomy Shenzhen dealer’s sales target has been cut by 50%.

**Evoque demand still low:** Slow recovery since product recall: Dealers noted that the negative impact from the product recall had started to diminish. A couple of dealers were not happy with the high price of the domestically manufactured Evoque and blamed the high price in part for weak demand.

**Low inventory levels:** Inventory does not seem to be an issue. This is likely because some dealers are ordering from the manufacturer only when they have a solid order. In other words, dealers are taking less inventory risk. A Beijing dealer said that he has to wait 1.5 months to receive an Evoque. We don’t know why there is such a lengthy delay, particularly as demand is down. Perhaps JLR’s factories are not operating at full capacity, given the demand slowdown and the unwillingness of dealers to stock inventory.

**Prices down (up to 15%), dealers bearing cost:** The majority of dealers reported price cuts of up to 15%. They are all bearing the hit to margins and this is not passed on to the manufacturer. While this is positive for JLR in the short term, in the medium term further price cuts could lead to disgruntled dealers calling for JLR to provide some relief. Therefore, we expect JLR’s margins to fall in the medium term.

**Flat sales of Range Rover and Range Rover Sport:** Dealers said Range Rover (“RR”) and Range Rover Sport (“RRS”) were more profitable to sell than Evoque (which is loss-making for some dealers). While dealers from Shenzhen, Xiamen, and Zhejiang reported flat sales, a Changzhou dealer

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had a 20% increase, while a Chengdu dealer had a 50% fall. A Guangdong dealer who had low demand and had already cut prices by RMB 100,000 said buyers were watching and waiting for further price falls.

RR and RRS accounted for 50% of a Beijing dealer's sales and was around 20-30% of sales for Eastern province dealers.

**Bonded zone imports are marginal:** While a couple of dealers estimated that tax-free bonded zones account for up to 20-30% of the market, even these dealers thought bonded zones had a low impact on their sales, as prices are not significantly cheaper and cars don't have warranties.

**Mixed view on stock market impact:** One dealer said that stock market gains may have accounted for 10% of buyers, while another said the stock market had a large impact on demand. However others said there was little impact.

**Table 1. June JLR Dealer Checks**

City	June Sales	Evoque	Range Rover & RRS	Pricing	Inventory	Bonded Zones	Stock Market Impact
<b>Beijing (North)</b>	Down 20-30%, but due to lack of inventory.	Not enough Evoque to sell now. Have to wait 1.5 months to get delivery. Sales target up 10-20%, but won't hit target.	50% of sales. Larger cars make more profit. Evoque loses money.	Due to lack of cars, prices up 3-8%.	Very low inventory.	~1/3 of market, but low impact because only 30-50k cheaper.	Maybe could have accounted for 10% of buyers.
<b>Shenzhen (South)</b>	Down 62% (sold 30 cars, vs 80 last year). Sales target cut 50%. Uncertain about 2H.	Demand has fallen 30-40%. Recall had an impact, now a slow rebound.	Flat sales. Prices down 10-15%. 30-40k higher profit vs Evoque.	All car prices down 7-15%. Dealer bears cost.	Low pressure. Previously 50-60 cars, now 20-30. Asking for less cars from manufacturer.	Small impact.	Large demand impact.
<b>Xiamen (South)</b>	Down 13-15%. Car show, so relatively better. Sales targets adjusted down.	A small recovery post recall, but won't get back to previous levels.	Flat sales. 10-20k higher profit vs Evoque.	Hasn't changed.	Smaller cars have more pressure.	No view.	Some influence.
<b>Guangdong (South)</b>	Down 20%. Market bad. Sales targets cut.	Recall had impact. Small recovery. Evoque has higher profit vs Range Rover.	Low demand. ~20% of sales. Range Rover price cut by 100k. Buyers are watching and waiting for more price cuts.	All cars have had price cuts. ~80k cut. Dealer bears cost.	Low pressure.	Small influence, only 10% of market. Not many buyers as no warranty.	Small influence.
<b>Zhejiang (East)</b>	Flat.	Evoque flat. No big impact from recall.	Flat sales. 30-40% of sales.	Prices cheaper by a few thousand.			

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<b>Changzhou (East)</b>	Down 20%. Mainly due to Evoque's high price. April worst month. Slow rebound since then. Same sales target, but likely to change in 2H.		Up 20% YoY. ~30% of sales. Profit higher by 20-30k vs Evoque.	Range Rover price down 10%.	Low pressure.	Small influence as price not much cheaper and no warranty. At most 20% of market.
<b>Chengdu (South-West)</b>	Down 70%. Market is bad and management's pricing strategy has issues.	Weak demand.	Volumes have fallen 50%. Price cut 10%. 2014 could increase price.	All car prices down 10%. Dealer bears cost.	Only place order with factory when they have an order. Hold 20 cars of less popular colours/style.	20-30% of market. Stores opened quickly. But small impact. Small influence.

Source: J Capital Research

### Some Cuts to Street Estimates, Though the Street Remains Bullish

The Street remains bullish on Tata Motors. While there have been downgrades to estimates, they haven't been too harsh.

**Still BUYERS:** While the Street's 12-month target price has fallen 7%, to INR 604.60 from INR 651.11 (as at 15 May 2015), 92.7% of analysts still say BUY.

**EPS estimates cut:** As per Bloomberg EPS estimates for FY2016 (March 31, 2016) have been cut by 12% to INR 58.05, from INR 65.86.

**12% revenue growth:** The Street is forecasting FY2016 revenue of INR 2.93 tln, up 12% from FY 2015 revenue of 2.61 tln. We think this assumption is fanciful given JLR's fiscal YTD May 2015 sales are negative 1% and as June will also be negative. Furthermore, China sales were down 32% YoY in May and we expect a 20-30% decline in June. Moreover, given China's ultra-high margins, a China slowdown will have significant negative operating leverage.

### SELL: Target price of INR 380

We now assume China sales will fall 23% YoY vs 15% and reduce our target price to INR 380 from INR 390. This is 7x our forecast FY2016e EPS and 12% downside from Tata's price as of July 7, 2015.

We have little visibility on ex-China market and so assume double-digit growth rates for most of these markets, including a 17% growth rate for the US.

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### Risks

- ▶ JLR China sales are resilient.
- ▶ **Markets outside of China outperform:** We caution that we have little visibility on these markets, but have compensated for this by assuming higher growth in our estimates. In addition, margins in 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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