Tata Motors Limited

Ratings

Facilities	Amount (Rs. crore)	Ratings[1]	Remarks
Non-Convertible Debentures	6,600	CARE AA+ [Double A plus]	Reaffirmed
Total	**6,600**		

Rating Rationale

The reaffirmation of rating assigned to the various instruments of Tata Motors Limited continues to positively build in the continued robust performance of Jaguar Land Rover (JLR), key brands of TML in global premier and luxury cars segment on back of strong response for newly launched products such as new Range Rover Sport, new Range Rover, Jaguar F Type and variants of Jaguar XF & XJ. This has resulted into richer product mix and improvement in operating margins in FY14 (refers to period from April 01 to March 31).

The rating continues to favourably consider the long and established track record of TML as the largest Indian automobile Original Equipment Manufacturer (OEM), its well-diversified product portfolio across categories, widespread geographical presence aided by a strong sales and distribution network, its dominant market position in the domestic Commercial Vehicle (CV) segment and the strategic importance of TML to the Tata group.

The above rating strengths are however tempered by the significant capital expenditure planned for product development at JLR, subdued operating performance of the domestic business on account of the slowdown in demand and increasing competition especially in the passenger vehicle (PV) segment and inherent cyclical nature of the automobile industry.

Larger than anticipated capital expenditure resulting into increase in gearing levels remains the key rating sensitivities.

Background

Incorporated in 1945, TML is one of the leading automotive manufacturers in India. Essentially a CV manufacturer, TML forayed into manufacturing of passenger vehicles across all product segments viz compact, mid-size and utility in 1998-99, broadening the business horizon of the company. TML forayed into the premium luxury car segment through acquisition of JLR in June 2008, which has presence across various geographies such as Europe, US, China, Russia and Brazil. The company’s manufacturing base in India is spread across Jamshedpur (Jharkhand), Pune (Maharashtra), Lucknow (Uttar Pradesh), Pantnagar (Uttarakhand), Sanand (Gujarat) and Dharwad (Karnataka). In addition, JLR has three manufacturing units and two product development centers in the UK.

Credit Risk Assessment

Long and established track record of TML; strategic importance of TML for the Tata group

TML is a part of the Tata Group which comprises over hundred operating companies in seven business sectors namely communications and information technology, engineering, materials, services, energy, consumer products and chemicals. The group has operations in more than 80 countries across six continents, and its companies export products and services to 85 countries. The combined market capitalization of Tata Group companies is around Rs.750,000 crore (USD 129 bn) as on June 11, 2014.

Largest Indian OEM with a well-diversified product portfolio across categories, widespread geographical presence aided by a strong sales and distribution network

TML offers a broad portfolio of automotive products, with CVs ranging from sub-1 ton to 49-ton gross vehicle weight, or GVW, trucks (including pickup trucks) to small, medium, and large buses and coaches to passenger cars. By volume, TML is the world’s fifth-largest truck manufacturer and the fourth-largest bus manufacturer. TML has six principal automotive manufacturing facilities in India at Jamshedpur, Pune, Lucknow, Pantnagar and Sanand and Dharwad. The company has a widespread sales and distribution network operating in 182 countries with over 6,600 sales and services touch points across the world.

TML is the largest automobile manufacturer as well as largest commercial vehicle manufacturer by revenue in India, and among the top five PV manufacturers in terms of units sold in India during FY14.

---

[1] *Complete definitions of the ratings assigned are available at www.careratings.com and other CARE publications*

JLR's significant expansion in volumes and richer product mix driving TML's operating performance

A strong product mix, widespread geographic presence, and higher demand in China and other emerging markets contributed to robust performance by JLR consequently during FY13 and FY14 thereby helping to offset to some extent the subdued domestic performance of TML. JLR registered retail sales volume growth of 15.93% in FY14 over FY13 with Land Rover posting growth of 12% and Jaguar product line growing at 37%.

Accordingly TML's consolidated revenue posted growth of 23% in FY14 over FY13 and PBILDT margin also expanded by 180 bps to 15.20% for FY14.

Moreover, JLR has posted considerable growth across geographies thereby maintaining diversification of revenue across globe.

JLR Volumes trend

JLR (volumes)	FY11	FY12	FY13	FY14
in 000s	244	314	375	434
y-o-y growth(%)	-	28.7	18.5	15.9

JLR sales volumes: geographical dispersion

Country	Volume growth in % (FY14)	FY14 (Volume share in %)	FY13 (Volume share in %)
China	34	23.7	20.6
Europe (excluding UK and Russia)	2	19.2	21.6
UK	6	17.7	19.3
North America	20	17.4	16.8
Asia Pacific	28	5.2	4.8
Others	15	16.8	16.9
Overall	16	100.0	100.0

TML established a 50:50 joint venture in China with Chery Automobile Company Limited (Chery Automobile), a Chinese automotive manufacturer in October 2012 to build a manufacturing plant in Changshu, near Shanghai, with an annual capacity of over 1,30,000 units at a total investment of 10.9 billion RMB. The project envisages manufacturing of certain JLR vehicles, and also includes the creation of a new JV brand, specifically for the Chinese market, including the marketing and distribution.

Comfortable debt protection matrices

TML's key debt protection measures have improved on consolidated level on back of strong operating performance of JLR. TML's adjusted overall gearing improved from 1.05x as at March 31, 2013 to 0.66x as on March 31, 2014 and adjusted total debt to gross cash accruals improving from 2.02x as on March 31, 2013 to 1.69x on March 31, 2014. For arriving at the rating of TML, CARE has considered consolidated financials of TML and its key subsidiaries including JLR. During FY14, JLR contributed 85% to TML's total revenue as against 76% in FY13. However necessary adjustments are made to networth and debt position of TML after excluding the debt of Tata Motors Finance Ltd. (TMFL), the wholly owned subsidiary of TML, a Non-Banking Financial Company (NBFC) involved in the activity of captive financing of its vehicles. However equity commitments to take care of TMFL's compliance requirement are considered in the overall analysis.

Large Capex notwithstanding TML likely to maintain favorable financial risk profile in medium term

To meet the growing demand and bridge the gap in product offering, JLR is undertaking high capital expenditure (capex) towards R&D, Product development and capacity creation (engines manufacturing, China JV, new plants in Brasil). JLR planned to incur capital outlay of around 3.3 bn GBP in FY15 and is likely to incur further capex thereafter in order to maintain growth momentum. Furthermore, standalone business is likely to incur capital expenditure of about Rs.3,000 crore per year for new product development to revive PV business. Thus, Capex as % of operating income is likely to remain at 15-17% for TML which is relatively higher compared to other established players in global premier cars segment.

TML has strong liquidity of Rs.29,711 crore as on March 31, 2014 and JLR has no scheduled repayments uptill FY16. Thus, at consolidated level, the company is likely to have adequate cash flows to support expansion plans.

Standalone performance continues to get impacted by cyclical downturn

Standalone performance was under severe pressure due to challenging market environment and loss in market position especially in PV and in some categories of LCV. The total operating income of TML on a standalone basis further declined by 23.4% in FY14 in continuation of 17.6% decline in FY13. The trend of volumes sold on a standalone basis across various vehicle segments was as under:

Category	2013-14	2012-13	2011-12
M& HCV	122,498	152,505	221,298
LCV	298,799	428,643	363,756
Utility	32,400	48,617	56,464
Cars	112,894	180,355	265,254
Total Volume	**566,591**	**810,120**	**906,772**
Total Income	34,288	44,766	54,307

The turnaround in standalone performance would be linked to improvement in economic environment and market response to new models (new hatchback called BOLT and Sedan ZEST) slotted to be launched in FY15.

In CARE's opinion TML is likely to maintain favourable financial risk profile in medium term despite the large planned capital expenditure outlay at JLR and weak demand outlook for domestic business due to cyclical downturn on back of expected growth in sales volumes for JLR and richer product mix.

Financial Performance

(Rs. Cr)

For the period ended / as at March 31,	2012 (12m, A)	2013 (12m, A)	2014 (12m, A)
Working Results			
Net Sales			
Total Operating income	1,66,494	1,89,547	2,33,539
PBILDT	22,862	25,392	35,495
Interest	3,760	4,824	6,209
Depreciation	5,625	7,569	11,078
PBT	13,532	13,747	18,815
PAT (after deferred tax)	13,573	9,976	14,050
Gross Cash Accruals	16,926	18,600	25,525
Financial Position			
Equity Capital/Partners' Capital	634.75	638.07	643.78
Networth	30,538	35,559	65,968
Key Ratios			
Growth			
Growth in Total income (%)	29.82	13.85	23.21
Growth in PAT (after D.Tax) (%)	47.19	-26.50	40.84
Profitability			
PBILDT/Total Op. income (%)	13.73	13.40	15.20
PAT (after deferred tax)/ Total income (%)	8.15	5.26	6.02
ROCE (%)	25.11	20.66	21.78
Solvency			
Debt Equity ratio (times)	1.19	1.18	0.77
Overall gearing ratio(times)	1.68	1.64	0.92
Interest coverage(times)	7.67	7.15	7.50

For the period ended / as at March 31,	2012 (12m, A)	2013 (12m, A)	2014 (12m, A)
Term debt/Gross cash accruals (years)	2.24	2.41	2.07
Total debt/Gross cash accruals (years)	3.04	3.14	2.58
Liquidity			
Current ratio (times)	0.88	0.86	1.04
Quick ratio (times)	0.63	0.61	0.74
Turnover			
Average collection period (days)	17	20	18
Average creditors (days)	86	89	93
Average inventory (days)	45	48	47
Operating cycle (days)	(24)	(21)	(28)

Analyst Contact
Name: Dhaval Patel
Tel: 022-67543438
Mobile: 9821530066
Email: dhaval.patel@careratings.com

(This follows our brief rational for entity published on 27 June 2014)

Disclaimer:

CONTACT

Head Office Mumbai

Mr. D.R. Dogra
Managing Director
Mobile: +91-98204 16002
E-mail: dr.dogra@carerating.com

Mr. Rajesh Mokashi
Dy. Managing Director
Mobile: +91-98204 16001
E-mail: rajesh.mokashi@careratings.com

Ms. Meenal Sikchi
Vice President - Bank Loan & Instrument Rating
Mobile: +91-9819009839
E-mail: meenal.sikchi@carerating.com

Mr. Ankur Sachdeva
Vice President - Bank Loan & Financial Services
Mobile: +91-9819698985
E-mail: ankur.sachdeva@careratings.com

CREDIT ANALYSIS & RESEARCH LIMITED
Corporate Office: 4th Floor, Godrej Coliseum, Somaiya Hospital Road, Off Eastern Express Highway, Sion (East), Mumbai - 400 022
Tel: +91-22-6754 3456 | Fax: +91-22-6754 3457 | E-mail: care@careratings.com

Other Office:
503, Kaledonia, Sahar Road, Near Andheri Railway Station, Andheri (E), Mumbai - 400 069
Tel: +91-22-6144 3456 | Fax: +91-22-6144 3556

AHMEDABAD
Mr. Mehul Pandya
32, Titanium, Prahaladnagar Corporate Road,
Satellite, Ahmedabad - 380 015
Cell: +91-98242 56265
Tel: +91-79-4026 5656
E-mail: mehul.pandya@careratings.com

BENGALURU
Mr. Dinesh Sharma
Unit No. 1101-1102, 11th Floor, Prestige Meridian II,
No. 30, M.G. Road, Bangalore - 560 001.
Cell: +91-99000 41975
Tel: +91-80-4115 0445, 4165 4529
E-mail: dinesh.sharma@careratings.com

CHANDIGARH
Mr. Sajan Goyal
2nd Floor, S.C.O. 196-197, Sector 34-A,
Chandigarh - 160 022.
Cell: +91 99888 05650
Tel: +91-172-5171 100 / 09
Email: sajan.goyal@careratings.com

CHENNAI
Mr. V Pradeep Kumar
Unit No. O-509/C, Spencer Plaza, 5th Floor,
No. 769, Anna Salai, Chennai - 600 002.
Cell: +91 98407 54521
Tel: +91-44-2849 7812 / 0811
Email: pradeep.kumar@careratings.com

HYDERABAD
Mr. Saikat Roy
401, Ashoka Scintilla, 3-6-502, Himayat Nagar,
Hyderabad - 500 029.
Tel: +91-40-4010 2030
E-mail: saikat.roy@careratings.com

JAIPUR
Mr. Rahul Jain
304, Pashupati Akshat Heights, Plot No. D-91,
Madho Singh Road, Near Collectorate Circle,
Bani Park, Jaipur - 302 016.
Cell: +91 – 93149 21496
Tel: +91-141-402 0213 / 14
E-mail: rahul.jain@careratings.com

KOLKATA
Ms. Priti Agarwal
3rd Floor, Prasad Chambers, (Shagun Mall Bldg.)
10A, Shakespeare Sarani, Kolkata - 700 071.
Cell: +91-98319 67110
Tel: +91-33- 4018 1600
E-mail: priti.agarwal@careratings.com

NEW DELHI
Ms. Swati Agrawal
13th Floor, E-1 Block, Videocon Tower,
Jhandewalan Extension, New Delhi - 110 055.
Cell: +91-98117 45677
Tel: +91-11-4533 3200
E-mail: swati.agrawal@careratings.com

PUNE
Mr. Rahul Patni
9th Floor, Pride Kumar Senate,
Plot No. 970, Bhamburda, Senapati Bapat Road,
Shivaji Nagar, Pune - 411 015.
Cell: +91-78754 33355
Tel: +91-20- 4000 9000
E-mail:rahul.patni@careratings.com

CIN - L67190MH1993PLC071691