Tata Motors Ltd 500570 (XBOM) | ★★★★★

Last Price	Fair Value	Consider Buy	Consider Sell	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Industry Group
331.60 INR	650.00 INR	390.00 INR	1,007.50 INR	High	Narrow	Negative	Standard	Autos

JLR China Volume Decline and Increased Expenses Dent Tata's First-Quarter Profitability

See Page 2 for the full Analyst Note from 13 Aug 2015

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The primary analyst covering this company does not own its stock.

Research as of 13 Aug 2015
Estimates as of 08 Jul 2015
Pricing data through 21 Sep 2015
Rating updated as of 21 Sep 2015

Currency amounts expressed with "$" are in U.S. dollars (USD) unless otherwise denoted.

Contents

Investment Thesis 14 Jul 2015

Tata Motors benefits from substantial profitability and returns generated by its premium brands: Jaguar and Land Rover. Over the past five years, JLR's revenue has grown at a compound annual rate of 40%, with global volume growing 21%. Though JLR accounted for 43% of Tata's total vehicle sales in 2014, it accounted for 103% of EBITDA. Over the past five years, JLR's EBITDA margin has averaged 11.0% but was 17.7% for fiscal 2014, owing to richer product and market mix driven by new model launches. This drove an impressive 26% return on invested capital in fiscal 2014, meaningfully surpassing our 9.9% cost of capital estimate.

From a 2008 peak of 26%, Tata's share of the total India vehicle market has retreated to 17%. The decline was largely due to a drop in passenger vehicle market share. This was driven by Tata taking longer to introduce new models versus its peers, deregulation of diesel prices compromising its diesel range, and higher growth in motorcycle sales versus passenger car sales in a weak Indian economy. Tata's commercial vehicle share has also declined, but the firm continues to retain an industry-leading 54% of the medium and heavy commercial market. We think the planned government spending of USD 1 trillion on infrastructure will boost the commercial vehicle market and benefit Tata's India business.

In our view, Tata is positioned to gain from the continued growth in Indian automotive sales, and from the expansion of luxury markets in emerging economies, especially China. Still, the imperative remains for Tata to keep investing in new models across brands and vehicle platforms. The company also needs to improve on its ability to execute vehicles at world-class quality levels. Quality issues plagued the Nano model, leading to disappointing sales. While improving, some JLR products still suffer from perceived poor quality. Growing industry overcapacity and fierce domestic competition, along with capital-intensive operations and the industry's cyclicality, pose serious challenges to Tata's ability to consistently earn returns above its cost of capital.

Vital Statistics

Market Cap (INR Mil)	1,077,048
52-Week High (INR)	605.57
52-Week Low (INR)	304.10
52-Week Total Return %	-35.4
YTD Total Return %	-32.4
Last Fiscal Year End	31 Mar 2014
5-Yr Forward Revenue CAGR %	8.5
5-Yr Forward EPS CAGR %	12.1
Price/Fair Value	0.51

Valuation Summary and Forecasts

Fiscal Year:	2013	2014	*2015(E)*	*2016(E)*
Price/Earnings	9.8	9.7	—	*6.9*
EV/EBITDA	4.1	3.2	—	*3.6*
EV/EBIT	6.0	4.9	—	*5.4*
Free Cash Flow Yield %	5.6	14.7	—	*-7.0*
Dividend Yield %	2.1	0.9	—	*0.7*

Financial Summary and Forecasts (INR Mil)

Fiscal Year:	2013	2014	*2015(E)*	*2016(E)*
Revenue	1,889,860	2,341,761	*2,627,963*	*2,620,414*
Revenue YoY %	13.5	23.9	*12.2*	*-0.3*
EBIT	161,604	208,918	*258,500*	*271,948*
EBIT YoY %	0.3	29.3	*23.7*	*5.2*
Net Income, Adjusted	86,604	130,717	*137,037*	*162,260*
Net Income YoY %	-25.1	50.9	*4.8*	*18.4*
Diluted EPS	27.16	40.66	*42.62*	*47.84*
Diluted EPS YoY %	-23.0	49.7	*4.8*	*12.2*
Free Cash Flow	76,996	142,803	*-35,965*	*-40,297*
Free Cash Flow YoY %	-41.8	85.5	*-125.2*	*12.0*

Historical/forecast data sources are Morningstar Estimates and may reflect adjustments.
Analyst Note: We normally model automakers with the finance sub on an equity basis but Tata does not publish separate complete financial statements for the finance sub.

Profile

Tata Motors owns iconic brands Jaguar and Land Rover, while offering a broad product line of motor vehicles including micro-compact cars, sport utility vehicles, luxury passenger vehicles and large semi trucks. It sold about 0.6 million vehicles in 2014 with USD 39 billion in fiscal 2014 revenue. Tata's operations include 16 production facilities in nine countries and sales distribution in more than 100 countries in five continents. Tata also operates a financial services business, which supports vehicle sales.

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Morningstar Analysis

JLR China Volume Decline and Increased Expenses Dent Tata's First-Quarter Profitability 13 Aug 2015

Narrow-moat Tata Motors released results for the first quarter of fiscal 2016 that marginally missed our earnings expectations, as unfavourable product and market mix pulled profitability lower than we anticipated. We maintain our narrow moat rating but we do expect to downgrade our INR 650 per share fair value estimate. This will be driven by an earlier-than-estimated move of Chinese margins towards normalisation in line with other developed markets. This is owing to higher dealer rebates, a change in product mix and an increase in the price-competitive intensity in the market in line with our negative moat trend.

Tata Motors' consolidated first-quarter revenue and net profit fell year over year by 6% and 45% to INR 610 billion and INR 29 billion, respectively. With higher marketing and new plant launch costs (+20%) and increased model depreciation cost (+28%), plus a 33% drop in China's sales volume of J aguar and Land Rover, or JLR, versus last year, group adjusted operating margins dropped to 8.7% from 12.6% a year ago. For China, the company is guiding for a better fiscal 2017, after a transition to domestic manufacturing of two models in 2016. However, due to a slower ramp-up in Chinese plant operations, we believe operating margins and China's sales volumes could remain subdued in fiscal 2016 due to lower operating leverage.

We believe investors should look beyond China to understand the current performance. Looking more closely at JLR performance outside of China, JLR sales volumes grew by 15% versus a year ago. New launches have surpassed their predecessors' sales volumes, such as Discovery Sport and its predecessor Freelander. Tata Motors' Indian operations have turned EBITDA positive, as the turnaround of the truck market and new launches in the passenger car segment have led to a gain of 1.4% market share. We expect Tata India to be net profit positive in fiscal 2017.

Valuation, Growth and Profitability 14 Jul 2015

We have cut our fair value to INR 650 per share from INR 700. This is driven by lowering our volume growth estimates for Tata India and JLR to 11% and 7%, respectively, from 14% and 9%. The JLR estimate cut reflects economic weakness in key developing markets such as Russia, Brazil and South Africa and a slower production ramp-up in China.

We view this 5-star-rated stock as undervalued with the shares trading at a 40% discount to our fair value estimate. The steep discount is primarily due to the concerns on the volume growth in the Chinese luxury market owing to a slowdown in Chinese economy and poor response to the domestically produced Evoque in the China market. While the first concern is largely overplayed, we have incorporated the second concern in our negative 8% volume growth forecast in China for this year. We believe that over the time, JLR should be able to demonstrate consistent quality in locally manufactured vehicles. The current stock price is incorporating a highly unlikely scenario of 0% JLR volume growth and a 2%-3% fall in margins over the five-year forecast period. Our fair value estimate assumes a U.S. dollar/Indian rupee exchange rate of 60. Our assumptions include consolidated annualized revenue growth of 9%, below the trailing three-year average revenue growth rate of 24%, while the five-year adjusted EBITDA margin forecast stands at 15.6%, above the trailing three-year average of 13%. Our fair value estimate also takes into consideration margin expansion from the Indian business, as the Indian vehicle market rebounds and JLR's volume growth and profitability normalize.

During our five-year forecast period, we estimate 7% annualized revenue growth for JLR. We expect stronger JLR volume on Chinese and emerging-market vehicle sales performance, owing to model introductions by JLR in the sedan and crossover sports utility vehicle categories. Our

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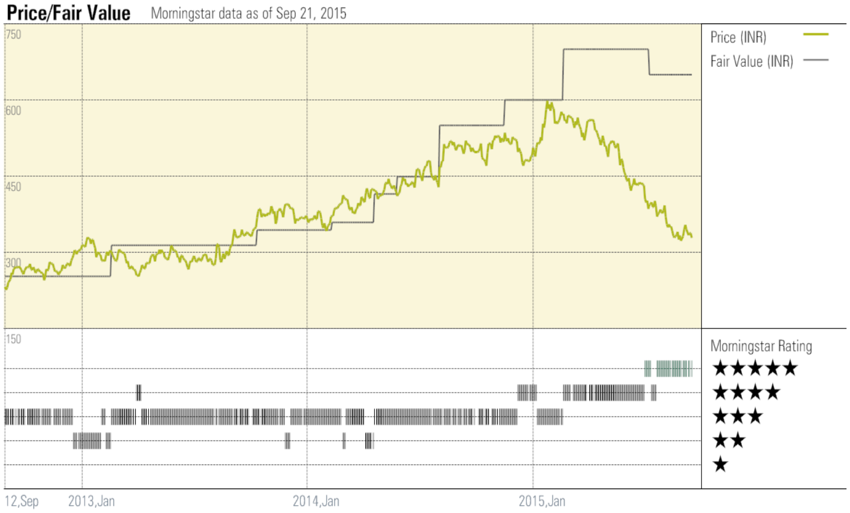
Price/Fair Value Morningstar data as of Sep 21, 2015



JLR growth assumption is supported by the ramping up of production from the Chinese assembly plant and an increase in the distribution footprint in fiscal 2015. This, coupled with a well-filled product pipeline, should help the company gain Chinese market share.

Our long-term weighted average cost of capital assumption stands at 9.4% This incorporates improvement in the capital structure toward a more balanced equity/debt mix of 60%/40% versus 45%/55%.

Scenario Analysis

Our base-case fair value estimate is INR 650 per share. In this scenario, we forecast compound annual revenue to increase 11% for Tata-branded vehicle operations and to grow about 7% (about 12% for GBP) annually for the JLR business, which results in an annual revenue growth rate of 7% for the consolidated operations across our 2015-19 forecast period. The 9% growth rate for our Tata India vehicle sales volume assumption includes 5% growth in fiscal 2016 volume on improving Indian economic conditions and further acceleration from there. This also infers an expected economic recovery in India.

Including the acquisition of JLR and the launch of the financial services subsidiary, consolidated revenue has grown at an annualized rate of 34.8% during the past 10 years. During the same time frame, Tata-only revenue has grown annually at a rate of 19.0%. Since the company was acquired in fiscal 2009, JLR annual revenue growth has been 36.7%. We think India represents a growth opportunity for car manufacturers and, as such, we estimate that the new launches such as Bolt and Zest will boost the rate of Tata's annual volume increase to 8% at the end of our five-year forecast. After a 17% increase in volume last fiscal year, we estimate total JLR volume increases 12% this fiscal year, with the rate of increase tapering off to 4% at the end of our five-year forecast period.

Our base-case scenario also assumes a midcycle adjusted EBITDA margin of 15.6% at the end of our five-year forecast period. For fiscal 2016, we estimate EBITDA margin expands to 15.5% from 14.9% in the past fiscal year. The increase is mainly due to the shift in product blend as the more profitable JLR and Tata utility vehicles become a larger part of the sales mix. Historically, Tata Motors has generated EBITDA margins in excess of 12%, while JLR is currently producing EBITDA margins in excess of 17%. Since Tata's EBITDA margin is less than 5% for the last two years, as the Indian economy recovers, we think it's reasonable to estimate 15% consolidated EBITDA margin by the end of our five-year forecast.

Our bear-case fair value estimate is INR 358 per share. Weaker demand could result from a worse-than-expected economic recovery in India and Europe. This, coupled with intense price competition to retain market share would lead to muted revenue growth. We have also built in higher cost of sales in this scenario because of the resulting inflationary pressure on raw material costs. This results in Tata and JLR annualized revenue growth of 10% and growth of 2.2%, respectively. In this bear-case scenario, consolidated revenue is forecast around INR 2.8 trillion in 2019 versus INR 2.3 trillion in 2014. We assume EBITDA margins rise to 13.8% in fiscal 2015 on cost-cutting measures but then deteriorate to 13.5% on poor cost absorption from weaker-than-expected volume.

Our bull-case fair value estimate is INR 738 per share. This scenario is modeled around 10% average annual top-line expansion. Assuming Indian and European economies rebound more strongly, we estimate consolidated revenue jumping average 11% over fiscal 2015-17, tapering to a 7% growth rate in fiscal 2019. Tata and JLR average annualized revenue growth is assumed to be 16.5% and 10% (12% in British pound terms), respectively, across our five-year forecast period. We base the robust growth on Indian demand for passenger cars rapidly increasing combined with solid growth in JLR revenue from developing markets. In this scenario, we estimate Tata's EBITDA margin increasing from 13.6% in fiscal 2014 to 16.5% in fiscal 2019, with Tata/JLR's capacity being fully and efficiently utilized. Margin expansion is partially offset by higher commodity costs, with worldwide demand rising for raw materials on more favorable global economies.

Economic Moat

Tata Motors' narrow economic moat rating is driven by the strength and global recognition of its Jaguar and Land Rover brands. This allows premium pricing. The low-cost advantage enjoyed by its Indian business is driven by low labour costs and the favourable tax structure for the domestic manufacturers.

In fiscal 2013, Tata motors derived more than 90% of its operating profit from its Jaguar and Land Rover brands. JLR's profitability has helped Tata Motors to consistently generate excess returns.

While premium, luxury, ultra-luxury and exotic brands command high prices and are quite often purchased to make a personal statement, consumers of these products can still easily switch to one of many competing products. Premium and luxury brand consumers can readily choose from include Acura, Alfa Romeo, Audi, BMW, Cadillac, Infiniti, Jaguar, Land Rover, Lexus, Lincoln, Mercedes and Porsche. Ultra-luxury and exotic brands include Aston Martin, Bentley, Bugatti, Ferrari, Lamborghini, Maserati and Rolls-Royce. These vehicle consumers have the financial wherewithal to simply add more cars to their personal fleet if they so desire.

Automakers in this segment do not necessarily have an economic moat just because of brand strength and premium pricing. Even though Bentley (owned by Volkswagen) is globally recognized as an ultra-luxury brand that commands a commensurate price, poor margin performance would suggest that the company has not earned its cost of capital since 2007.

However, based on Jaguar Land Rover's profitability in the last three fiscal years, Tata's luxury brands contribute significantly towards building an economic moat, in our view. We are confident that company would be able to manage the Jaguar and Land Rover brands, as indicated by its initiative to make its brand experience and marketing uniform in all the 177 markets worldwide. With new facilities in China by end of fiscal 2015 and in Brazil by 2017, the company will have a manufacturing presence in the world's top seven automobile markets. Global growth would be coupled with increased capital expenditure to regularly roll out new products to maintain JLR's brand image and premium pricing, supporting our narrow economic moat rating.

JLR's focus on premium segments, with an obsessive attention to design and detail, has driven substantial excess returns over its weighted average cost of capital. Overall,

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Morningstar Analysis

Tata Motors has generated returns higher than its cost of capital during 10 of the past 11 years. During eight of those years, excess returns were more than 5%. In our view, this is an outstanding performance for an automotive manufacturer.

Tata's domestic mass-market passenger vehicle and its commercial vehicle operations enjoy substantial growth potential and a low-cost manufacturing base. Global automobile manufacturers face a steep import duty in India ranging from 60% to 200% based on the price tag which, when coupled with insurance and domestic inland tax of 20%-30%, makes their products an unattractive option for domestic buyers. More than 40% depreciation in the Indian rupee over the past few years has further raised the prices for the imported automobiles for the domestic market. In our view, this provides a competitive advantage to the domestic manufacturers including Tata Motors.

We do acknowledge that global automobile manufacturers such as Ford, Renault and Nissan may choose to set up manufacturing plants or assembly lines in India, which could give them a level playing field versus domestic manufacturers such as Tata Motors. Still, it takes about two years to apply, receive various approvals, build a plant and start production. Also, immediate market acceptance is not guaranteed and usually requires more than one model. For example, Renault saw success with its third model launch after eight years of existence in India. Jaguar and Land Rover are assembling two models in India, which lowers the cost for those luxury vehicles sold in India. We believe Tata's efforts to export its small car Nano to Asian countries would also help leverage its low-cost India manufacturing base. In addition, a fully operational Jaguar and Land Rover manufacturing plant in China by the end of 2014 provides a low-cost advantage for export to Asian countries. Given the time it takes for competitors to establish a presence, and because Tata is already well positioned to benefit from significant growth potential, we think the company will enjoy a moat from its cost advantage for at least 10 years.

Tata's Indian vehicle sales constituted 57% of group unit volume. We think Indian vehicle growth will most likely outpace the global averages over the next 10 years. Over the past decade, GDP per capita has doubled. This has helped Tata’s India volume to increase at an annual rate of 18.1%. The International Monetary Fund forecasts an annual average 6% GDP growth over our forecast period. As a result, we think disposable income will continue to increase, driving vehicle demand in India. Demand growth should be supported by the Indian planning commission's pegged infrastructure spending of USD 1 trillion for the five-year period ending 2017. In our opinion, the execution of USD 50 billion invested every year should result in a well-developed road network and reduced traffic congestion. We estimate construction of more than 20,000 kilometers of new roads, including more than 10,000 kilometers of new expressways.

At 17 vehicles per 1,000 in population, India has the lowest vehicle density of all the BRIC emerging markets. In contrast, U.S. and Europe vehicle densities are more than 600 and more than 400, respectively. However, part of the challenge to India passenger car penetration has been the popularity of motorcycles. As road infrastructure develops, consumer safety awareness grows and traffic as well as safety laws develop, we think demand will gradually shift to passenger cars. This will be supported by rising income levels and an expanding middle-class population to more than 350 million.

Commercial vehicles are the mainstay of Tata’s Indian domestic vehicle business. The company will be a beneficiary of the industrial and economic growth as it commands more than 50% share in the Indian commercial vehicle market. We forecast it will continue to hold 45% market share in 2019. Also, as highways get developed,

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Morningstar Analysis

demand for large multi-axle commercial vehicles would increase versus single axle. Similarly, government efforts to improve public transport for easing traffic congestion in cities propels demand for bus transit systems. This would be supported by migration of workers to large metropolitan areas. These workers would probably be dependent on public transportation as they become established. As a result of India's economic expansion, an increase in infrastructure and rising need for public transportation, we believe Tata Motors is well positioned to leverage growth in commercial vehicle demand.

Moat Trend

Even though Tata Motors has expanded margins in JLR's premium segment, its passenger and commercial vehicles are seeing growing competitive pressure and loss of market share. Our negative moat trend rating reflects the growing competitive intensity in the Indian passenger and commercial vehicle market and increasing capacity in the global automotive market.

Tata has maintained Land Rover's premium brand image, improved the Jaguar brand image and successfully expanded JLR margins. JLR effectively competes in global markets but does not have any discernible, prominent competitive advantage other than individual brand images that currently resonate well with consumers in many regions of the world. However, consumers easily substitute automotive brands and, under inauspicious conditions, brands can quickly lose their luster. Given the industry's highly competitive nature, manufacturers must consistently and frequently execute in design and development of manufacturing processes and the vehicles that they produce.

For the next several years, global capacity additions will be driven by the growth in vehicle production, primarily in China but also in India, Brazil and Russia. Capacity is also being added in North America, especially in Mexico. Utilization rates are likely to keep pace with the increase in capacity, but as capacity grows, the risk of underutilization grows too. As excess capacity increases, the potential for irrational pricing behavior will also expand, which will eventually threaten operating leverage, profit margins, and excess returns.

Tata brand passenger vehicles have experienced pricing pressure while India's economic conditions have deteriorated. Since motorcycles are widely used for personal transportation, new car pricing comes under substantial pressure when India's economy declines. In our view, over the years, new entrants such as Daimler in the commercial category and Hyundai, Honda and Ford in the passenger category have put pressure on the Tata Motors by necessitating faster model introduction and new technologies in the Indian market. This trend should persist and only accelerate as new assembly lines of the competitors start producing over our forecast period.

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Bulls Say/Bears Say

Bulls Say

- Tata, as the largest commercial vehicle manufacturer in India, should gain from an upswing in government spending on infrastructure and the long-term growth potential for light commercial vehicles.
- India's vehicle density per 1,000 people is less than 20, and Tata has the means to meet growing demand in the domestic passenger vehicle market.
- Jaguar Land Rover will continue to achieve strong international growth. We expect emerging markets to provide significant opportunity.

Bears Say

- Increased penetration by global OEMs in domestic passenger and commercial vehicles could result in market share deterioration.
- Stricter environmental laws and greater consumer preference for fuel-efficient vehicles entail higher research and development costs that make vehicles more expensive to produce and sell.
- Further passenger car market penetration is challenging since motorcycles are the predominant form of personal transportation in India.

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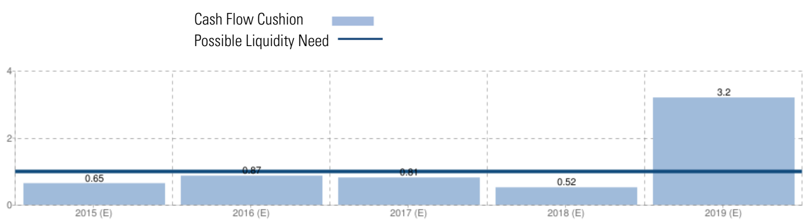
Five Year Adjusted Cash Flow Forecast (INR Mil)

	2015(E)	2016(E)	2017(E)	2018(E)	2019(E)
Cash and Equivalents (beginning of period)	*159,922*	*164,150*	*156,706*	*114,116*	*104,628*
Adjusted Available Cash Flow	*-36,087*	*-45,309*	*-5,952*	*27,181*	*56,263*
Total Cash Available before Debt Service	*123,835*	*118,841*	*150,754*	*141,297*	*160,891*
Principal Payments	*-143,383*	*-86,783*	*-135,010*	*-221,045*	—
Interest Payments	*-48,552*	*-50,106*	*-50,154*	*-50,202*	*-50,250*
Other Cash Obligations and Commitments	—	—	—	—	—
Total Cash Obligations and Commitments	*-191,935*	*-136,889*	*-185,164*	*-271,247*	*-50,250*

Cumulative Annual Cash Flow Cushion



Adjusted Cash Flow Summary

	INR Millions	% of Commitments
Beginning Cash Balance	159,922	19.1
Sum of 5-Year Adjusted Free Cash Flow	-3,903	-0.5
Sum of Cash and 5-Year Cash Generation	156,018	18.7
Revolver Availability	103,202	12.4
Asset Adjusted Borrowings (Repayment)	—	—
Sum of Cash, 5-Year Cash Generation, Revolver and Adjustments	259,220	31.0
Sum of 5-Year Cash Commitments	-835,487	—

Financial Health

Tata's current capital structure is reasonable. The firm held about USD 6.3 billion or INR 380 billion in cash and cash equivalents at the end of fiscal 2014. Total debt stood at USD 10.3 billion or INR 620 billion, which is reasonable given our strong EBITDA forecast and an implied fiscal 2016 net debt/EBITDA multiple of 0.5. In May 2014, JLR successfully refinanced its higher-coupon borrowings worth GBP 910 million due in 2018. The new coupon rates were USD 700 million 4.125% 2018 notes and GBP 400 million 5% 2022 notes compared to about 8% earlier for the cumulative borrowing. We believe the improving cash flow profile will lead to further improvement in its capital structure by more such transactions in the future.

The short-term bridge loan of $3 billion used to acquire the Jaguar Land Rover operations in June 2008 has already been repaid through a combination of rights issues, secured nonconvertible, credit-enhanced rupee debentures, new equity share offerings in the form of global depositary shares and an offering of convertible notes. At the end of fiscal 2014, the consolidated operations were funded primarily by equity of $10.5 billion or INR 632 billion, current financial liabilities of $2.8 billion or INR 166 billion, and noncurrent financial liabilities of $7.6 billion or INR 454 billion.

Tata's accounts consolidate the financial services operations and the automotive operations, but even based on these consolidated accounts the company has reasonably good financial health.

Consolidated balance sheet leverage and liquidity are in line with other international automotive companies, including the company's financial services operations on a comparable consolidated basis. The total debt/EBITDA ratio has averaged 3.9 times over the past 10 years but has averaged 2.2 over the past three years. At 0.75 times, the net debt/EBITDA ratio demonstrates the impact of Tata's substantial cash position. EBITDA covers net interest by 6.9 times. Debt maturities appear fairly laddered over the next four years but are quite manageable given the company's liquidity.

On a book value basis, Tata's current total debt/total capital is at 50% below the last 10-year average of 56%. The company's indebtedness has typically included a significant amount of commercial paper but mostly bank loans, unsecured nonconvertible debentures and callable senior notes. The capital structure appears reasonable, given some of the short-term funding requirements for an automotive finance company. We do not anticipate Tata needing to raise additional equity in the next three to five years.

Enterprise Risk

Risks include economic uncertainty in the United States, United Kingdom and other European markets, vehicle mix, cyclicality, changing customer preferences, input prices and supply chain. A shift in the model mix toward smaller vehicles with lower margins could pressure returns on invested capital. Inherent risk in the supply chain is the financing risk where there could be a rise in customer defaults. Non-uniform branding across more than 150 markets could affect the brand image. High operating leverage resulting from high fixed costs affects profitability in response to changes in demand. The company's operations are also subject to fluctuations in exchange rates with respect to the countries in which it operates. JLR operations in particular have significant exposure to foreign currency movements. Stringent government regulations related to the environment (including greenhouse gas emissions), vehicle safety, fuel economy and energy security could lead to higher costs such as increased capital expenditure and R&D expenses to upgrade products and manufacturing facilities, having an adverse impact on the company's profitability. The legal and political framework has a considerable impact on Tata Motors business. Regulations concerning vehicles exhaust emissions, fuel consumption and safety play an important role. In India, changes in duties and fuel prices affect the demand of the vehicles.

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Management & Ownership

Management Activity

Name	Position	Shares Held	Report Date*	InsiderActivity
NA	NA	NA	NA	NA

*Represents the date on which the owner's name, position, and common shares held were reported by the holder or issuer.

Fund Ownership

Top Owners	% of Shares Held	% of Fund Assets	Change (k)	Portfolio Date
Hansard EU Carmignac Patrimoine	0.65	0.40	—	31 Jul 2015
Vanguard Emerging Markets Stock Idx Fund	0.56	0.18	—	31 Jul 2015
VA CollegeAmerica EuroPacific Growth	0.37	0.07	-6,688	30 Jun 2015
Hansard EU Carmignac Investissement	0.40	1.03	—	31 Jul 2015
T. Rowe Price Emerging Markets Stock	0.31	0.78	2,057	30 Jun 2015
Concentrated Holders				
JM Core 11	—	8.27	13	31 Jul 2015
Future Gen Life-Grp Maximise	—	8.17	0	30 Jun 2015
Future Gen Life-Grp Balance	—	7.46	0	30 Jun 2015
ICICI Pru Life-Maximiser	0.26	6.70	586	31 Jul 2015
ICICI Pru Life-Maximiser II	0.07	6.70	227	31 Jul 2015

Institutional Transactions

Top 5 Buyers	% of Shares Held	% of Fund Assets	Shares Bought/ Sold (k)	Portfolio Date
Reliance Capital Asset Mgmt Limited	0.74	2.87	4,582	31 Jul 2015
ICICI Prudential Life Insurance Co. Ltd.	1.36	3.54	3,365	31 Jul 2015
J P Morgan Asset Management (UK) Ltd	0.31	3.15	3,338	30 Jun 2015
T. Rowe Price Associates, Inc.	0.35	0.79	2,261	30 Jun 2015
Putnam Investment Management, LLC	0.11	0.21	2,062	30 Jun 2015
Top 5 Sellers				
Capital Research and Management Company	0.43	0.07	-7,723	30 Jun 2015
Fidelity (FIL Fund Management Limited)	0.78	1.20	-6,700	31 Jul 2015
Fidelity Management & Research Company	0.08	0.04	-5,563	31 Jul 2015
Baillie Gifford Overseas Limited	0.03	0.16	-5,460	30 Jun 2015
Reliance Life Insurance Company Limited.	—	2.90	-4,259	31 Jul 2015

Management 14 Jul 2015

Tata Motors' stewardship rating is Standard. The company's 2008 acquisition of JLR during the global auto depression that followed the global financial crisis was particularly fortuitous and has proved to be highly profitable. Following the acquisition, the company carefully exercised cash management and cost controls while working with the turnaround of Jaguar and Land Rover.

The company has consistently paid out dividends in the past decade, but the dividend payout ratio has averaged a low 12%-14% in the past four years. Dividend payouts have been as high as 34%, and we would prefer to see the payout ratio remain in this range in future. The company does not have a history of share repurchases and we do not anticipate it launching any in the next three to five years.

Cyrus P. Mistry is the current chairman of the board of Tata Motors. He has been a director of the company since May 2012 and has been on the board of Tata Sons Limited, the promoter of major Tata companies including Tata Motors, since 2006. Mistry succeeded Ratan Tata, the previous chairman of Tata Group and the nonexecutive chairman of the board of Tata Motors from 2001 to 2012.

Ratan Tata is widely credited with the acquisition of Jaguar Land Rover in 2008 and the development of the ultra-low-cost Nano car. Ralf Speth, CEO of the Jaguar Land Rover operations, also has vast automotive industry experience, having worked for BMW and Ford's Premier Automotive Group. Ravi Pisharody, executive director and head of the commercial business unit has been with the Tata Group since 2007.

The board consists of 11 members, with a mix of executive and nonexecutive directors, six of whom are independent. In our view, the board was instrumental in providing management the freedom to further develop the Jaguar and Land Rover brands and has been prudent in maintaining the capital spending on new platforms and products necessary for maintaining the growth momentum. The result was a turnaround that was far ahead of market expectations.

However, we are slightly disappointed by Tata Motor's strategy for the Indian market. For many years, there has been a lack of vision for the Indian passenger business; this is evident from lack of foresight on new models, technology and platform introduction.

We believe this was one of the reasons why Tata Motors could not match its rivals over the last three to five years, as new competitors introduced new models in every segment. Nonetheless, Tata Motors has been able to maintain its dominance in the commercial segment despite losing market share in its passenger segment in India. While the company provides information on the annual compensation paid to its directors and executive officers, we would prefer more disclosure including on metrics to determine bonuses.

Although Tata's financial statements conform to International Financial Reporting Standards, the firm does not provide separate financial statements for its financing business, preventing separate comprehensive analysis of the automotive operations and the financing company. In the U.S., Tata trades as an American depositary receipt, with one ADR equal to five common shares of the Indian stock. We would like to see more consistent, comprehensive disclosures from Tata and JLR.

Tata Motors Ltd 500570 (XBOM) | ★★★★★

Last Price	Fair Value	Consider Buy	Consider Sell	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Industry Group
331.60 INR	650.00 INR	390.00 INR	1,007.50 INR	High	Narrow	Negative	Standard	Autos

Analyst Notes

Lowering Fair Value for Tata Motors to INR 650 on Share Dilution, Volume Cuts in Emerging Markets 14 Jul 2015
Tata Motors has completed its INR 75 billion rights issue offering, which implies a 5.5% dilution to share capital. We have adjusted our share count assumption for the rights issue. Due mainly to the change in shares and cuts in volume estimates for emerging markets, we have lowered our fair value estimate to INR 650 per share from INR 700. However, this 5-star-rated Morningstar Best Idea still trades at a 35% discount to our new fair value estimate. Since our last report in April, narrow-moat Tata's stock has fallen 25%, driven by fears regarding a slowdown in Chinese volume and geopolitical concerns.

We have reduced our volume growth estimates for Tata India and Jaguar Land Rover to 11% and 7%, respectively, from 14% and 9%. The JLR estimate cut reflects economic weakness in key developing markets such as Russia, Brazil and South Africa and a slower production ramp up in China. However, we believe the volume demand is simply being pushed out to future years on an expanded global distribution footprint. In India, we continue to see challenging market conditions but expect the company's return to profitability over our forecast period. We estimate a 0.9% expansion in operating margin on demand recovery, sufficient to offset the impact from a changing product mix.

Despite Tata's share price weakness since fourth-quarter results, we reiterate our narrow moat rating. Our thesis remains intact: strong high-single-digit volume growth owing to market share gains through new model launches in new segments. We are enthusiastic about Tata's entry into high-volume luxury through the Jaguar XE. We incorporate about 3% market share or 50,000 incremental XE units over our five-year forecast. JLR should also reap positive operating leverage from new models on fewer platforms. In our view, the market incorrectly assumes flat JLR growth over the next five years, an unlikely outcome. We believe the risk/reward ratio in Tata is now tilted in favour of long-term investors.

Tata's Underlying Result Better than Market Realizes; Fair Value Estimate Remains INR 700 per Share 28 May 2015
Tata reported fourth-quarter adjusted net income (adjusted for special items) of INR 42.3 billion, representing a 17% increase on the comparable year-ago result and is in line with our estimates. Sales came in at INR 675 billion, 2.5% below our estimate of INR 690 billion, largely owing to a change in geographic market mix, as Chinese share in sales volume fell to 19% from 24% a year ago. Similarly, adjusted EBITDA margins contracted to 14.7%, versus 15.3% a year ago, as China is a high-margin region for Tata. However, Tata ended the full year with adjusted EBITDA margins at 15.7%, above our long-term 15% EBITDA margin assumption, and we currently do not see any need to change our forecasts. We maintain our narrow moat rating and fair value estimate of INR 700 per share. We believe the market has largely overreacted to the special items (namely, foreign exchange mark-to-market losses, debt prepayment penalty and right issue expenses) and has ignored the robust underlying numbers. We see this stock as undervalued with the shares trading at more than a 30% discount to our fair value estimate based on five-year discounted cash flow estimate and a 25% to 30% discount to other covered luxury peers such as BMW and Volkwagen.

We continue to expect January and Land Rover, or JLR, sales volumes to grow at an annualized average of 9% across our 2016-2019 forecast period versus the past three-year average of 14%. This will be driven by added capacity enabling JLR to meet excess demand in the higher-volume entry-level luxury segment, with the global launch of the Jaguar XE. Overall, the Indian business is steadily improving while JLR business remains stable.

Tata Motors Ltd 500570 (XBOM) | ★★★★★

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Analyst Notes

Although Tata has missed our full-year sales volume growth estimates, we are still satisfied with flat fourth-quarter volume as it reflects strong growth across all major markets. except China where ramp-up of local production has been slower than our expectations.

Three vehicle models constituting about 50% of Chinese sales have been moved into the Chinese plant and the import of these models has been halted in the fourth quarter. Due to the slower-than-anticipated launch, we lower our estimated fiscal 2016 Chinese sales volumes and push the estimated volumes into 2017.

Tata's narrow economic moat is supported by the strength of the JLR brands, which command premium pricing and the cost advantages enjoyed by Tata's Indian business, arising from low labour costs and a favourable tax structure. Our negative moat trend rating reflects the growing competitive intensity in the Indian passenger and commercial vehicle market, and increasing capacity in the global automotive market.

Tata Announces Rights Offering; We Maintain Fair Value at INR 700 29 Mar 2015

Tata Motors recently announced the terms of a proposed rights issue. Total proceeds from the issue should be about INR 75 billion. We expect equity dilution of about 5.1%, or about 177 million shares. However, the higher dilution relative to our expectations is not materially significant to cause any change in our fair value estimate of INR 700 per share.

We believe the issue is attractively priced as Tata will offer the rights at INR 450 per share. The proceeds will be used to fund capital expenditure and repayment of maturing debt. We view this four-star-rated stock as undervalued with the shares trading at a substantial discount to our fair value estimate. Our narrow moat and high fair value uncertainty ratings remain. Tata's narrow economic moat is supported by the strength of the Jaguar Land Rover, or JLR, brands, which command premium pricing, as well as the cost advantages enjoyed by Tata's Indian business arising from low labor cost and a favorable tax structure.

Our fair value is based on a five-year discounted cash flow forecast including our assumptions with respect to common architecture, market penetration, and the India commercial truck market. We expect higher operational leverage to result from an increased number of models on fewer platforms, enhancing economies-of-scale. New models in new segments will ensure incremental volumes during the next couple of quarters. In our view, the launch of Jaguar XE and other new models in the relatively lower-priced, higher-volume luxury segment will help JLR gain market share in the overall luxury segment. We think a developing turnaround in heavy commercial vehicles segment (MHCV) in India, will improve operating margin. Market share gains in the passenger vehicle segment increases volume leverage which we expect to also enhance operating performance. We forecast a normalized sustainable mid-cycle operating margin of 9.9%, 60 basis points higher than the past four years' average margin of 9.3%.

The company's recent subdued Chinese volumes largely reflect the phasing out of imported models as Tata starts introducing the Evoque and other models that are locally produced in China. Overall, luxury vehicle manufacturers in China have registered positive sales volume growth in February. Audi, the market leader, recorded 4% sales growth in February, while other brands such as Mercedes-Benz and Cadillac grew by 14% and 36%, respectively.

Tata Motors Ltd 500570 (XBOM) | ★★★★★

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Morningstar Analyst Forecasts

Financial Summary and Forecasts

Fiscal Year Ends in March

Growth (% YoY)	3-Year Hist. CAGR	2012	2013	2014	*2015* (Forecast)	*2016* (Forecast)	*5-Year Proj. CAGR*
Revenue	*23.9*	35.1	13.5	23.9	*12.2*	*-0.3*	*8.5*
EBIT	*18.6*	28.6	0.3	29.3	*23.7*	*5.2*	*13.3*
EBITDA	*23.7*	27.7	10.1	34.6	*22.9*	*3.4*	*12.2*
Net Income	*21.2*	57.6	-25.1	50.9	*4.8*	*18.4*	*13.3*
Diluted EPS	*-30.8*	-71.3	-23.0	49.7	*4.8*	*12.2*	*12.1*
Earnings Before Interest, after Tax	*18.6*	33.4	-4.4	30.9	*-35.5*	*22.1*	*2.2*
Free Cash Flow	*10.3*	24.4	-41.8	85.5	*-125.2*	*12.0*	*-15.5*

Profitability	3-Year Hist. Avg	2012	2013	2014	*2015*	*2016*	*5-Year Proj. Avg*
Operating Margin %	*9.1*	9.7	8.6	8.9	*9.8*	*10.4*	*10.5*
EBITDA Margin %	*13.1*	13.0	12.6	13.6	*14.9*	*15.5*	*15.6*
Net Margin %	*5.7*	7.0	4.6	5.6	*5.2*	*6.2*	*6.3*
Free Cash Flow Margin %	*6.0*	8.0	4.1	6.1	*-1.4*	*-1.5*	*0.0*
ROIC %	*17.8*	19.5	16.6	17.3	*17.1*	*14.9*	*14.9*
Adjusted ROIC %	*17.9*	19.6	16.7	17.5	*17.2*	*15.0*	*15.0*
Return on Assets %	*7.2*	9.4	5.6	6.8	*5.9*	*6.4*	*6.7*
Return on Equity %	*31.4*	43.1	24.8	26.2	*19.6*	*18.5*	*17.7*

Leverage	3-Year Hist. Avg	2012	2013	2014	*2015*	*2016*	*5-Year Proj. Avg*
Debt/Capital	*0.57*	0.61	0.60	0.50	*0.48*	*0.41*	*0.38*
Total Debt/EBITDA	*2.22*	2.35	2.38	1.94	*1.76*	*1.71*	*1.51*
EBITDA/Interest Expense	*6.88*	6.56	7.19	6.88	*8.08*	*8.09*	*9.38*

Valuation Summary and Forecasts

	2013	2014	*2015(E)*	*2016(E)*
Price/Fair Value	0.85	1.10	—	—
Price/Earnings	9.8	9.7	—	*6.9*
EV/EBITDA	4.1	3.2	—	*3.6*
EV/EBIT	6.0	4.9	—	*5.4*
Free Cash Flow Yield %	5.6	14.7	—	*-7.0*
Dividend Yield %	2.1	0.9	—	*0.7*

Key Valuation Drivers

Cost of Equity %	12.0
Pre-Tax Cost of Debt %	7.5
Weighted Average Cost of Capital %	9.3
Long-Run Tax Rate %	29.6
Stage II EBI Growth Rate %	6.0
Stage II Investment Rate %	54.6
Perpetuity Year	10

Additional estimates and scenarios available for download at http://select.morningstar.com.

Discounted Cash Flow Valuation

	INR Mil	Firm Value (%)	Per Share Value
Present Value Stage I	-5,239	-0.3	-1.54
Present Value Stage II	370,275	17.6	109.16
Present Value Stage III	1,742,292	82.7	513.65
Total Firm Value	**2,107,328**	**100.0**	**621.26**
Cash and Equivalents	380,409	—	112.15
Debt	-620,099	—	-182.81
Preferred Stock	—	—	—
Other Adjustments	-1,850	—	-0.55
Equity Value	**1,865,789**	**—**	**550.06**
Projected Diluted Shares	3,392		
Fair Value per Share (INR)	—		

The data in the table above represent base-case forecasts in the company's reporting currency as of the beginning of the current year. Our fair value estimate may differ from the equity value per share shown above due to our time value of money adjustment and in cases where probability-weighted scenario analysis is performed.

Tata Motors Ltd 500570 (XBOM) | ★★★★★

Last Price	Fair Value	Consider Buy	Consider Sell	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Industry Group
331.60 INR	650.00 INR	390.00 INR	1,007.50 INR	High	Narrow	Negative	Standard	Autos

Morningstar Analyst Forecasts

Income Statement (INR Mil)
Fiscal Year Ends in March

				Forecast	
	2012	2013	2014	*2015*	*2016*
Revenue	**1,664,853**	**1,889,860**	**2,341,761**	***2,627,963***	***2,620,414***
Cost of Goods Sold	1,222,607	1,372,289	1,658,849	*1,951,336*	*1,933,866*
Gross Profit	**442,246**	**517,571**	**682,911**	***676,628***	***686,548***
Selling, General & Administrative Expenses	212,861	260,007	337,880	*255,490*	*254,756*
Research & Development	13,860	20,193	25,651	*28,752*	*26,204*
Other Operating Expense (Income)	—	—	—	—	—
Depreciation & Amortization (if reported separately)	54,435	75,768	110,463	*133,886*	*133,641*
Operating Income (ex charges)	**161,090**	**161,604**	**208,918**	***258,500***	***271,948***
Restructuring & Other Cash Charges	—	—	—	*1,847*	*2,000*
Impairment Charges (if reported separately)	—	—	—	—	—
Other Non-Cash (Income)/Charges	—	—	—	—	—
Operating Income (incl charges)	**161,090**	**161,604**	**208,918**	***256,653***	***269,948***
Interest Expense	32,864	32,992	46,438	*48,552*	*50,106*
Interest Income	-7,079	-1,883	16,926	*8,987*	*1,509*
Pre-Tax Income	**121,148**	**126,729**	**179,405**	***217,088***	***221,350***
Income Tax Expense	4,707	39,239	48,227	*80,429*	*59,764*
Other After-Tax Cash Gains (Losses)	—	—	—	—	—
Other After-Tax Non-Cash Gains (Losses)	—	—	—	—	—
(Minority Interest)	-781	-886	-462	*-785*	*-785*
(Preferred Dividends)	—	—	—	—	—
Net Income	**115,659**	**86,604**	**130,717**	***135,874***	***160,800***
Weighted Average Diluted Shares Outstanding	3,280	3,189	3,215	*3,215*	*3,392*
Diluted Earnings Per Share	**35.26**	**27.16**	**40.66**	***42.26***	***47.41***
Adjusted Net Income	115,659	86,604	130,717	*137,037*	*162,260*
Diluted Earnings Per Share (Adjusted)	**35.26**	**27.16**	**40.66**	***42.62***	***47.84***
Dividends Per Common Share	4.47	4.65	2.12	*2.12*	*2.12*
EBITDA	**215,525**	**237,371**	**319,380**	***390,539***	***403,589***
Adjusted EBITDA	**215,525**	**237,371**	**319,380**	***392,387***	***405,589***

Tata Motors Ltd 500570 (XBOM) | ★★★★★

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331.60 INR	650.00 INR	390.00 INR	1,007.50 INR	High	Narrow	Negative	Standard	Autos

Morningstar Analyst Forecasts

Balance Sheet (INR Mil)

Fiscal Year Ends in March	2012	2013	2014	*Forecast* *2015*	*2016*
Cash and Equivalents	145,952	116,910	159,922	*164,150*	*156,706*
Investments	86,995	144,148	220,488	*220,488*	*220,488*
Accounts Receivable	156,094	177,251	200,477	*226,104*	*226,582*
Inventory	180,834	210,496	272,736	*294,037*	*292,861*
Deferred Tax Assets (Current)	4,504	2,658	3,420	*3,420*	*3,420*
Other Short Term Assets	78,851	80,144	96,667	*96,667*	*96,667*
Current Assets	**653,230**	**731,607**	**953,709**	***1,004,865***	***996,723***
Net Property Plant, and Equipment	282,716	364,980	494,610	*678,707*	*911,924*
Goodwill	4,253	5,311	7,449	*7,449*	*7,449*
Other Intangibles	282,347	351,667	492,184	*492,184*	*492,184*
Deferred Tax Assets (Long-Term)	41,170	45,205	39,151	*39,151*	*39,151*
Other Long-Term Operating Assets	150,428	170,915	173,663	*173,663*	*173,663*
Long-Term Non-Operating Assets	15,068	17,481	24,010	*24,010*	*24,010*
Total Assets	**1,429,213**	**1,687,167**	**2,184,776**	***2,420,029***	***2,645,104***
Accounts Payable	334,559	417,314	544,197	*577,381*	*572,212*
Short-Term Debt	218,342	234,897	165,961	*131,401*	*132,058*
Deferred Tax Liabilities (Current)	—	—	—	—	—
Other Short-Term Liabilities	171,702	186,764	200,432	*201,434*	*202,441*
Current Liabilities	**724,603**	**838,975**	**910,590**	***910,217***	***906,712***
Long-Term Debt	287,148	330,718	454,139	*560,713*	*560,713*
Deferred Tax Liabilities (Long-Term)	10,902	16,056	35,272	*35,272*	*35,272*
Other Long-Term Operating Liabilities	27,962	58,709	77,097	*77,097*	*77,097*
Long-Term Non-Operating Liabilities	47,254	68,803	75,983	*75,983*	*75,983*
Total Liabilities	**1,097,869**	**1,313,261**	**1,553,080**	***1,659,282***	***1,655,777***
Preferred Stock	—	—	—	—	—
Common Stock	6,348	6,381	6,438	*6,438*	*6,438*
Additional Paid-in Capital	173,947	178,972	187,341	*187,341*	*262,319*
Retained Earnings (Deficit)	146,808	197,577	308,089	*437,141*	*590,743*
(Treasury Stock)	—	—	—	—	—
Other Equity	1,311	-12,660	125,609	*125,609*	*125,609*
Shareholder's Equity	**328,413**	**370,269**	**627,478**	***756,529***	***985,109***
Minority Interest	2,931	3,637	4,219	*4,219*	*4,219*
Total Equity	**331,344**	**373,906**	**631,696**	***760,748***	***989,327***

Tata Motors Ltd 500570 (XBOM) | ★★★★★

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Morningstar Analyst Forecasts

Cash Flow (INR Mil)
Fiscal Year Ends in March

				Forecast	
	2012	2013	2014	*2015*	*2016*
Net Income	116,440	89,557	131,179	*136,659*	*161,585*
Depreciation	54,435	75,768	110,463	*133,886*	*133,641*
Amortization	—	—	—	—	—
Stock-Based Compensation	—	—	—	—	—
Impairment of Goodwill	46	—	—	—	—
Impairment of Other Intangibles	7,080	3,721	11,388	—	—
Deferred Taxes	—	—	—	—	—
Other Non-Cash Adjustments	37,993	75,960	85,537	—	—
(Increase) Decrease in Accounts Receivable	-44,607	-53,934	-139	*-25,627*	*-478*
(Increase) Decrease in Inventory	-29,084	-30,006	-31,764	*-21,301*	*1,175*
Change in Other Short-Term Assets	-12,906	1,980	16,252	—	—
Increase (Decrease) in Accounts Payable	78,936	63,474	47,075	*33,184*	*-5,169*
Change in Other Short-Term Liabilities	9,893	-970	1,440	*1,002*	*1,007*
Cash From Operations	**218,227**	**225,549**	**371,432**	***257,804***	***291,762***
(Capital Expenditures)	-138,745	-186,948	-258,814	*-317,984*	*-366,858*
Net (Acquisitions), Asset Sales, and Disposals	926	633	-815	—	—
Net Sales (Purchases) of Investments	-79,752	-68,409	-46,475	—	—
Other Investing Cash Flows	14,226	16,536	9,774	—	—
Cash From Investing	**-203,344**	**-238,188**	**-296,330**	***-317,984***	***-366,858***
Common Stock Issuance (or Repurchase)	-1,660	9	-3	—	*74,978*
Common Stock (Dividends)	-14,649	-14,842	-6,823	*-6,823*	*-7,198*
Short-Term Debt Issuance (or Retirement)	-16,780	14,769	-25,509	*-34,559*	*657*
Long-Term Debt Issuance (or Retirement)	98,238	38,161	52,096	*106,575*	—
Other Financing Cash Flows	-36,167	-58,793	-68,009	*-785*	*-785*
Cash From Financing	**28,983**	**-20,696**	**-48,248**	***64,408***	***67,651***
Exchange Rates, Discontinued Ops, etc. (net)	11,416	2,688	16,157	—	—
Net Change in Cash	**55,282**	**-30,647**	**43,012**	***4,228***	***-7,444***

Tata Motors Ltd 500570 (XBOM) | ★★★★★

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Comparable Company Analysis

These companies are chosen by the analyst and the data are shown by nearest calendar year in descending market capitalization order.

Valuation Analysis

		Price/Earnings			EV/EBITDA			Price/Free Cash Flow			Price/Book			Price/Sales		
Company/Ticker	Price/Fair Value	2014	2015(E)	2016(E)	2014	2015(E)	2016(E)	2014	2015(E)	2016(E)	2014	2015(E)	2016(E)	2014	2015(E)	2016(E)
Toyota Motor Corp TM USA	0.88	12.2	12.6	9.6	10.6	12.2	10.0	8.4	16.4	11.6	1.4	1.8	1.4	0.8	1.0	0.8
Ford Motor Co F USA	0.65	13.4	8.3	7.4	17.3	13.1	11.4	44.3	49.0	19.2	4.4	3.3	2.8	0.5	0.4	0.4
Honda Motor Co Ltd HMC USA	1.04	13.6	14.2	12.0	11.7	10.7	8.4	76.4	37.4	42.0	1.3	1.2	1.1	0.6	0.6	0.5
Average		13.1	11.7	9.7	13.2	12.0	9.9	43.0	34.3	24.3	2.4	2.1	1.8	0.6	0.7	0.6
Tata Motors Ltd 500570 IN	**0.51**	**9.7**	**—**	**6.9**	**3.2**	**—**	**3.6**	**6.8**	**—**	**NM**	**1.2**	**—**	**1.1**	**0.3**	**—**	**0.4**

Returns Analysis

		ROIC %			Adjusted ROIC %			Return on Equity %			Return on Assets %			Dividend Yield %		
Company/Ticker	Last Historical Year Total Assets (Mil)	2014	2015(E)	2016(E)	2014	2015(E)	2016(E)	2014	2015(E)	2016(E)	2014	2015(E)	2016(E)	2014	2015(E)	2016(E)
Toyota Motor Corp TM USA	— JPY	10.3	10.7	11.5	10.3	10.7	11.5	13.9	14.1	14.1	7.5	7.8	8.0	2.2	2.1	3.1
Ford Motor Co F USA	89,582 USD	5.9	10.1	11.1	5.9	10.1	11.1	11.2	34.1	33.1	1.9	5.9	6.8	3.1	4.3	5.1
Honda Motor Co Ltd HMC USA	— JPY	7.3	5.6	8.2	7.3	5.6	8.2	10.7	7.4	6.8	6.0	4.3	4.0	2.2	2.2	2.5
Average		7.8	8.8	10.3	7.8	8.8	10.3	11.9	18.5	18.0	5.1	6.0	6.3	2.5	2.9	3.6
Tata Motors Ltd 500570 IN	— INR	**17.3**	**17.1**	**14.9**	**17.5**	**17.2**	**15.0**	**26.2**	**19.6**	**18.5**	**6.8**	**5.9**	**6.4**	**0.9**	**—**	**0.7**

Growth Analysis

		Revenue Growth %			EBIT Growth %			EPS Growth %			Free Cash Flow Growth %			Dividend/Share Growth %		
Company/Ticker	Last Historical Year Revenue (Mil)	2014	2015(E)	2016(E)	2014	2015(E)	2016(E)	2014	2015(E)	2016(E)	2014	2015(E)	2016(E)	2014	2015(E)	2016(E)
Toyota Motor Corp TM USA	24,343,613 JPY	16.2	5.3	10.0	96.9	17.9	13.8	89.3	19.6	11.2	56.4	92.7	72.2	108.2	40.6	25.0
Ford Motor Co F USA	135,782 USD	-2.6	1.0	5.0	-51.5	88.9	24.0	-27.5	47.8	12.6	-12.6	-29.4	164.3	25.3	24.3	20.0
Honda Motor Co Ltd HMC USA	11,144,266 JPY	19.5	5.6	10.6	55.1	5.4	24.1	56.7	-11.4	13.3	NM	-8.7	28.1	9.7	11.4	7.0
Average		11.0	4.0	8.5	33.5	37.4	20.6	39.5	18.7	12.4	21.9	18.2	88.2	47.7	25.4	17.3
Tata Motors Ltd 500570 IN	**2,341,761** INR	**23.9**	**12.2**	**-0.3**	**29.3**	**23.7**	**5.2**	**49.7**	**4.8**	**12.2**	**85.5**	**-125.2**	**12.0**	**-54.4**	**—**	**—**

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Last Price	Fair Value	Consider Buy	Consider Sell	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Industry Group
331.60 INR	650.00 INR	390.00 INR	1,007.50 INR	High	Narrow	Negative	Standard	Autos

Comparable Company Analysis

These companies are chosen by the analyst and the data are shown by nearest calendar year in descending market capitalization order.

Profitability Analysis

	Last Historical Year Net Income	Gross Margin %			EBITDA Margin %			Operating Margin %			Net Margin %			Free Cash Flow Margin %		
Company/Ticker	(Mil)	2014	2015(E)	2016(E)	2014	2015(E)	2016(E)	2014	2015(E)	2016(E)	2014	2015(E)	2016(E)	2014	2015(E)	2016(E)
Toyota Motor Corp TM USA	1,823,151 JPY	17.8	*18.4*	*18.7*	12.2	*13.2*	*13.3*	8.8	*9.9*	*10.2*	7.5	*8.5*	*8.6*	9.0	*6.3*	*6.9*
Ford Motor Co F USA	4,708 USD	9.5	*11.3*	*12.0*	5.3	*6.8*	*7.5*	2.0	*3.7*	*4.4*	3.5	*5.1*	*5.4*	1.0	*0.8*	*2.1*
Honda Motor Co Ltd HMC USA	574,670 JPY	4.8	*4.0*	*4.4*	8.8	*10.1*	*10.9*	4.8	*4.8*	*5.4*	5.2	*4.3*	*4.4*	0.8	*1.6*	*1.2*
Average		10.7	*11.2*	*11.7*	8.8	*10.0*	*10.6*	5.2	*6.1*	*6.7*	5.4	*6.0*	*6.1*	3.6	*2.9*	*3.4*
Tata Motors Ltd 500570 IN	**130,717** INR	**29.2**	***25.8***	***26.2***	**13.6**	***14.9***	***15.5***	**8.9**	***9.8***	***10.4***	**5.6**	***5.2***	***6.2***	**4.8**	***-2.3***	***-2.9***

Leverage Analysis

	Last Historical Year Total Debt	Debt/Equity %			Debt/Total Cap %			EBITDA/Interest Exp.			Total Debt/EBITDA			Assets/Equity		
Company/Ticker	(Mil)	2014	2015(E)	2016(E)	2014	2015(E)	2016(E)	2014	2015(E)	2016(E)	2014	2015(E)	2016(E)	2014	2015(E)	2016(E)
Toyota Motor Corp TM USA	1,245,522 JPY	9.8	*8.5*	*7.8*	8.9	*7.8*	*7.2*	110.0	*138.6*	*143.2*	0.4	*0.4*	*0.3*	1.8	*1.8*	*1.7*
Ford Motor Co F USA	13,824 USD	97.5	*66.3*	*51.3*	49.4	*39.9*	*33.9*	9.0	*13.3*	*16.7*	1.9	*1.2*	*1.0*	6.3	*5.2*	*4.5*
Honda Motor Co Ltd HMC USA	565,319 JPY	11.3	*10.0*	*9.6*	10.1	*9.1*	*8.8*	122.0	*159.2*	*159.4*	0.6	*0.5*	*0.4*	1.7	*1.7*	*1.7*
Average		39.5	*28.3*	*22.9*	22.8	*18.9*	*16.6*	80.3	*103.7*	*106.4*	1.0	*0.7*	*0.6*	3.3	*2.9*	*2.6*
Tata Motors Ltd 500570 IN	**620,099** INR	**98.8**	***91.5***	***70.3***	**49.7**	***47.8***	***41.3***	**6.9**	***8.1***	***8.1***	**1.9**	***1.8***	***1.7***	**3.5**	***3.2***	***2.7***

Liquidity Analysis

	Market Cap	Cash per Share			Current Ratio			Quick Ratio			Cash/Short-Term Debt			Payout Ratio %		
Company/Ticker	(Mil)	2014	2015(E)	2016(E)	2014	2015(E)	2016(E)	2014	2015(E)	2016(E)	2014	2015(E)	2016(E)	2014	2015(E)	2016(E)
Toyota Motor Corp TM USA	186,973 USD	1,003.50	*1,244.32*	*1,590.18*	1.27	*1.37*	*1.51*	1.00	*1.08*	*1.22*	4.43	*5.75*	*7.35*	24.3	*28.6*	*31.9*
Ford Motor Co F USA	56,661 USD	5.37	*4.39*	*4.15*	1.96	*1.85*	*1.77*	1.59	*1.45*	*1.37*	8.68	*7.11*	*6.71*	113.4	*45.6*	*47.0*
Honda Motor Co Ltd HMC USA	56,213 USD	637.30	*764.88*	*750.43*	1.81	*1.63*	*1.63*	1.25	*1.09*	*1.07*	3.06	*3.11*	*3.05*	28.9	*39.1*	*41.6*
Average		548.72	*671.20*	*781.59*	1.68	*1.62*	*1.64*	1.28	*1.21*	*1.22*	5.39	*5.32*	*5.70*	55.5	*37.8*	*40.2*
Tata Motors Ltd 500570 IN	**1,077,048** INR	**49.74**	***51.06***	***46.20***	**1.05**	***1.10***	***1.10***	**0.75**	***0.78***	***0.78***	**0.96**	***1.25***	***1.19***	**5.2**	***5.0***	***4.5***

Research Methodology for Valuing Companies

Components of Our Methodology
- Economic Moat™ Rating
- Moat Trend™ Rating
- Moat Valuation
- Three-Stage Discounted Cash Flow
- Weighted Average Cost of Capital
- Fair Value Estimate
- Scenario Analysis
- Uncertainty Ratings
- Margin of Safety
- Consider Buying/Selling
- Stewardship Rating

We believe that a company's intrinsic worth results from the future cash flows it can generate.
The Morningstar Rating for stocks identifies stocks trading at a discount or premium to their intrinsic worth—or fair value estimate, in Morningstar terminology. Five-star stocks sell for the biggest risk-adjusted discount to their fair values, whereas 1-star stocks trade at premiums to their intrinsic worth. Four key components drive the Morningstar rating: our assessment of the firm's economic moat, our estimate of the stock's fair value, our uncertainty around that fair value estimate and the current market price. This process ultimately culminates in our single-point star rating. Underlying this rating is a fundamentally focused methodology and a robust, standardized set of procedures and core valuation tools used by Morningstar's equity analysts.

The concept of the Morningstar Economic Moat™ Rating plays a vital role not only in our qualitative assessment of a firm's investment potential, but also in our actual calculation of our fair value estimates. We assign three moat ratings—none, narrow, or wide—as well as the Morningstar Moat Trend™ Rating—positive, stable, or negative—to each company we cover. Companies with a narrow moat are those we believe are more likely than not to achieve normalized excess returns on invested capital over at least the next 10 years. Wide-moat companies are those in which we have very high confidence that excess returns will remain for 10 years, with excess returns more likely than not to remain for at least 20 years. The longer a firm generates economic profits, the higher its intrinsic value. The assumptions that we make about a firm's economic moat play a vital role in determining the length of "economic outperformance" that we assume in the terminal sections of our valuation model. To assess the sustainability of excess profits, analysts perform ongoing assessments of what we call the moat trend. A firm's moat trend is positive in cases where we think its sources of competitive advantage are growing stronger; stable where we don't anticipate changes to competitive advantages over the next several years; or negative when we see signs of deterioration.

At the heart of our valuation system is a detailed projection of a company's future cash flows. The first stage of our three-stage discounted cash flow model can last from 5 to 10 years and contains numerous detailed assumptions about various financial and operating items. The second stage of our model—where a firm's return on new invested capital (RONIC) and earnings growth rate implicitly fade until the perpetuity year—can last anywhere from one year (for companies with no economic moat) to 10-15 years (for wide-moat companies). In our third stage, we assume the firm's RONIC equals its weighted average cost of capital, and we calculate a continuing value using a standard perpetuity formula. In deciding on the rate at which to discount future cash flows, we use a building block approach,

Morningstar Research Methodology for Valuing Companies

Economic Moat
Financial Health
Stewardship
Uncertainty
Moat Trend

Morningstar Fair Value

Margin of Safety
Market Pricing

Morningstar Rating™ For Stocks
★★★★★

Source: Morningstar, Inc.

Detailed Methodology Documents and Materials*

- Comprehensive Equity Research Methodology
- Uncertainty Methodology
- Cost of Equity Methodology
- Morningstar DCF Valuation Model
- Stewardship Rating Methodology

*Please contact a sales representative for more information.

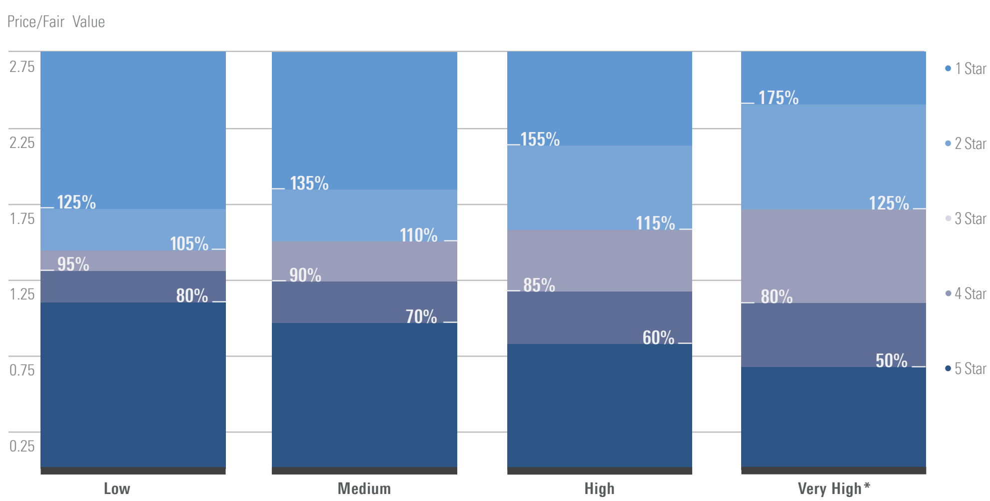
which takes into account expectations for market real return, inflation, country risk premia, corporate credit spread, and any additional systematic risk.

We also employ a number of other tools to augment our valuation process, including scenario analysis, where we assess the likelihood and performance of a business under different economic and firm-specific conditions. Our analysts model three scenarios for each company we cover, stress-testing the model and examining the distribution of resulting fair values.

The Morningstar Uncertainty Rating captures the range of likely potential fair values and uses it to assign the margin of safety required before investing, which in turn explicitly drives our stock star rating system. The Uncertainty Rating represents the analysts' ability to bound the estimated value of the shares in a company around the Fair Value Estimate, based on the characteristics of the business underlying the stock, including operating and financial leverage, sales sensitivity to the overall economy, product concentration, pricing power, and other company-specific factors.

Our corporate Stewardship Rating represents our assessment of management's stewardship of shareholder capital, with particular emphasis on capital allocation decisions. Analysts consider companies' investment strategy and valuation, financial leverage, dividend and share buyback policies, execution, compensation, related party transactions, and accounting practices. Corporate governance practices are only considered if they've had a demonstrated impact on shareholder value. Analysts assign one of three ratings: "Exemplary," "Standard," and "Poor." Analysts judge stewardship from an equity holder's perspective. Ratings are determined on an absolute basis. Most companies will receive a Standard rating, and this is the default rating in the absence of evidence that managers have made exceptionally strong or poor capital allocation decisions. M

Morningstar Margin of Safety and Star Rating Bands



* Occasionally a stock's uncertainty will be too high for us to estimate, in which case we label it Extreme.

Source: Morningstar, Inc.

Tata Motors Ltd 500570 (XBOM) | ★★★★★

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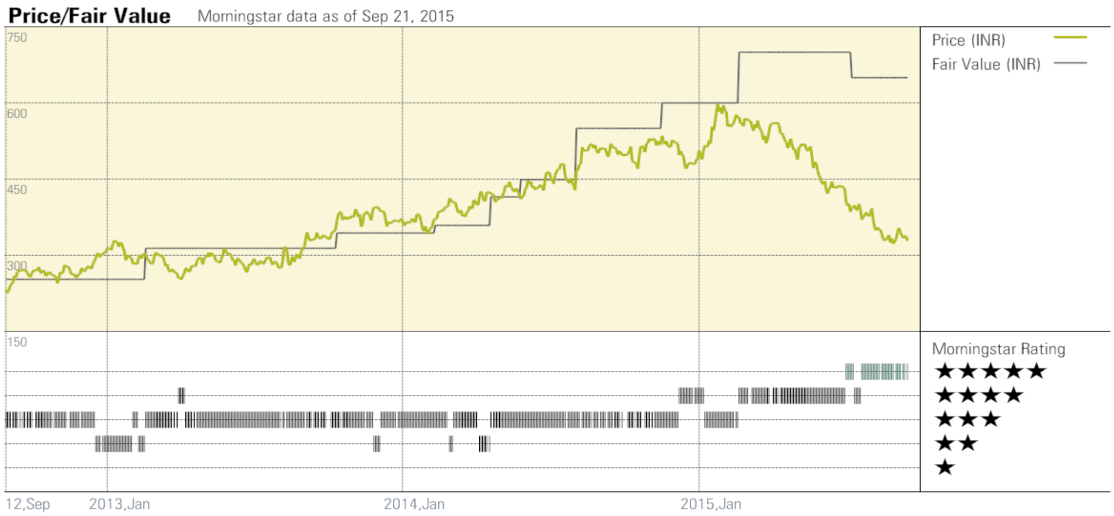

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