

Tata Engineering
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Out Performer
Rs165

Tata Engineering (Telco) has reported Net Profit of Rs757mn and Net Sales of Rs21.9bn for the quarter ended December 2002. Net profit is below both our and consensus estimates primarily because the huge deferred tax expense was incurred during the quarter (similar to Q2FY03). As a result, the effective tax rate for the company in Q3 stood at 42.3% as opposed to the widely expected rate of 29-32%. On a before tax basis, profits grew Rs1.31bn, a 3% variance from our estimates of Rs1.27bn.

Strong operating performance

Telco continued to post strong operating profit growth during Q3 driven by continuous cost rationalisation on the raw materials front and scale efficiencies. The effect of high operating leverage in Telco's cost structure shows up again this quarter as well, with EBITDA growing by 62.6% YoY and 9.9% QoQ to Rs2.87bn, well ahead of our expectations of Rs2.76bn. However, there was an increase in stock (WIP and finished goods) during Q3 amounting to Rs360mn. We haven't been able to clarify the nature of the stock pileup with the company (we will revert after the conference call later in the day). The strong performance at the operating level resulted in OPMs expanding by 310 bps YoY and 100 bps QoQ to 13.1% during the current quarter.

Cost reduction continues in full steam

Despite hardening of certain input prices during Q3, notably steel, Telco has been able to continually squeeze its cost structure. As a result, in Q3FY03, the company saved Rs554mn in material and variable costs. Telco also continued to reduce interest costs by retiring borrowings as well as repayment of costly debt. Consequently, interest costs at Rs671mn were lower by 31% YoY.

Other Highlights

- Telco has raised its FY03 CV guidance from 15-18% to around 25%. Given the 33% YTD growth in HCVs and 21% growth in LCVs, this number should be easily achieved. Passenger vehicles guidance has been maintained at 100,000 units, though we think that the company will beat its guidance.
- Telco continues to reduce its total capital employed. In the current quarter, capital employed declined a further Rs1.2bn to Rs46.2bn. This was despite capitalisation of the *Indigo* project during the latter half of Q3.
- Telco's working capital position remained constant as net working capital position stood at less than one day of turnover.
- Other income stood at Rs2mn during Q3 against our expectations of Rs50mn. Telco had recorded other income of Rs69mn and Rs39mn in Q1 and Q2 FY03, respectively.

We are in the process of reviewing our estimates and price target and will be releasing a note on the same post the company's conference call.

	Rs Mn				
	Q3 FY02	Q2 FY03	Q3 FY03	% chg YoY	QoQ
Gross Sales	20803	25757	25858	24.3%	0.4%
Excise Duty	3076	4145	3926	27.6%	-5.3%
Net Sales	17727	21612	21932	23.7%	1.5%
<u>Total Expenses</u>	<u>15961</u>	<u>19002</u>	<u>19062</u>	19.4%	0.3%
(Inc)/Dec in stock in trade	346	491	-360	-	-
Raw Material	11010	12945	13725	24.7%	6.0%
Staff cost	1503	1760	1857	23.5%	5.5%
Other exp.	3102	3805	3841	23.8%	0.9%
EBITDA	1765	2611	2870	62.6%	9.9%
Interest	979	672	671	-31.4%	0.0%
Gross Profit	786	1939	2199	179.7%	13.4%
Depreciation	922	899	884	-4.1%	-1.6%
Amortisation of Def. Exp.	334	0	4	-98.8%	-
Other Income	2	39	2	40.0%	-94.6%
Extra-ordinary income	0	0	0	-	-
Extra-ordinary exp.	87	0	0	-100.0%	-
PBT	-555	1079	1312	-	21.6%
<u>Total tax</u>	0	491	555	-	13.1%
Current tax	0	56	73	-	30.5%
Deferred tax	0	435	482	-	10.8%
Net Profit	-555	588	757	-	28.7%
OPM (%)	10.0	12.1	13.1		
GPM (%)	4.4	9.0	10.0		
NPM (%)	-3.1	2.7	3.5		
<u>Total volumes</u>	<u>43428</u>	<u>55163</u>	<u>51147</u>		
M&HCVs	14847	16958	19953		
LCVs	7606	8709	8844		
UVs	6286	5960	5116		
Cars	14689	23536	17234		

Stock Ratings Absolute Returns

Buy	:	> 25%
Out Performer	:	16 - 25%
Market Performer	:	0 - 15%
Under Performer	:	< 0%

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