
Citigroup downgrades TATA Motors risk rating to High

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ET reported that Citigroup Global Markets has downgraded TATA Motors risk rating from Medium to High. It has also revised its target price for the company sharply by 66% to INR 163 and is cautious on the company despite severe price correction in the stock.

The target price is based on the sum of parts valuation wherein Tata Motors' core business is valued at INR 120 per share on diluted equity while investments and subsidiaries is valued at INR 35 per share and rest coming from Jaguar/Land Rover.

Citigroup has reduced its consolidated profit estimates by 69% and 37% respectively for FY 2009 and FY 2010. This is to reflect concerns over the domestic CV cycle, cut in Nano volumes factoring in transfer of the plant to Gujarat and decline in JLR volumes. EBITDA Margins are expected to decline by 40 basis points in FY09E; however they will inch up by 50 bps in FY 2010 to reflect lower steel and aluminum prices.

The outlook for recently acquired JLR has deteriorated due to recession in its key markets namely the US and EU and the funding risks from refinancing USD 3 billion of JLR debt will remain an overhang on the company's stock.

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