

**October 15, 2008**
**CMP Rs. 298**
**Tata Motors – What if the rights devolve?**

We believe the Ordinary rights issue of Rs 340 is difficult to get subscribed as the share price now is below Rs 300. Consequently, neither individuals nor institutions will buy these ordinary shares with full voting rights. The company said Tata Sons, along with group companies Tata Steel Ltd and Tata Industries Ltd, have urged the rights issue underwriters, JM Financial Consultants Pvt. Ltd, not to sell their shares for 90 days from the date of devolvement notice if more than 35% of the “A” ordinary shares are unsold. Tata Sons announced that it will not only buy ‘A’ shares, but any unsold Ordinary shares too. As for Ordinary ‘A’ shares, there is a slight possibility that retail investors may subscribe to it as it could pay higher dividends.

**We have considered three scenarios as follows-**

		<b>Devolvement %</b>	<b>Amount to be raised (Deficit)</b>	<b>Issues involved in devolvement</b>	<b>Options</b>
Scenario 1	Base case	76%	31.67 bn	Ordinary shares @ 340/ share + 50% of ordinary 'A' shares @ Rs 305/ share	Major involvement will be of Tata Sons, while the balance will be raised through stake sale in subsidiaries
Scenario 2	Optimistic case	53%	21.86 bn	Ordinary shares @ 340/ share	A mix of stake sale in Tata Motors' subsidiaries, investments along with Tata Sons raising the balance amount
Scenario 3	Pessimistic case	100%	41.4 bn	Ordinary shares @ 340/ share + Ordinary 'A' shares @ 305/ share	Tata Sons subscribing to the whole issue

We do not believe that a part of issue will get transferred from Ordinary shares to Ordinary 'A' shares as the filing with SEBI cannot be changed and if the issue price has to be revised, the whole process must be repeated, which is time consuming and tedious.

If Tata Motors raises money through its holding company Tata Sons it will damage Tata Motors' image and credibility in the market and reflect its inability to raise money on its own. Secondly, Tata Sons itself will face cash issues as the other companies within the Tata Group – Tata Steel and TCS are facing problems, the former due to the softening steel prices and the latter due to concerns over US software industry. Also, most Tata group companies are capex intensive or are in the process of acquiring other companies and hence subscribing to whole of Tata Motors issues may put more pressure on Tata Sons.

We maintain our SELL rating on Tata Motors with a target price of Rs 394. The stock is under review and we will revise the stock price downwards due to concerns over rights issue and lackluster volume performance.

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