AXIS DIRECT

TATA MOTORS

AUTO

31 MAY 2017 Quarterly Update

BUY

Target Price: Rs 570

JLR margin recovers; model cycle strong

JLR's EBITDA margin at 14.5% positively surprised partly as hedging losses eased (GBP 315 mn vs. GBP 455 mn QoQ) and was on-par with the underlying operating exchange (overall net gain of GBP 10 mn). From a forex angle, margin is likely to remain at current levelsin FY18, and improve in FY19 as hedging losses start reducing. From a business angle, variable marketing expense (VME) would taper with new models, which would offset rising competition and ramp up of new technologies.

With relatively lower margin volatility expected, focus shifts to volumes which is positive going into the strong model cycle – Discovery ramp up, Velar, new RR/RR Sport, and E-Pace (over next 12-15 months). We largely maintain FY19 estimates; Upgrade to BUY (HOLD previously) with a TP of Rs 570 (vs. Rs 500 previously) as we roll forward to FY19.

CMP	: Rs 450
Potential Upside	: 27%

MARKET DATA

No. of Shares	: 2,887 mn
Free Float	: 65%
Market Cap	: Rs 1,434 bn
52-week High / Low	: Rs 599 / Rs 381
Avg. Daily vol. (6mth)	: 7.2 mn shares
Bloomberg Code	: TTMT IB Equity
Promoters Holding	: 35%
FII / DII	: 23% / 15%

Key takeaways (JLR)

- **JLR EBITDA margin beat:** JLR EBITDA margin came in at 14.5% (+86 bps YoY, +450 bps QoQ) vs. our/consensus est of 12%. Resultantly, reported EBITDA at GBP 1,057 mn (+17% YoY/+73% QoQ) was 20% higher than est. This was driven by (1) operating leverage benefits (volumes +21% QoQ); (2) favorable operating exchange (+GBP 325mn) offsetting the realized hedge losses and revaluation of commodity and currency hedges (resulting in a net gain of GBP 10 mn)
- **Change in forex accounting policy**: Given the volatility in currency, the company has changed its accounting policy on foreign exchange hedges. Going forward gains and losses on hedges are now in the revenue line, which gives a better measure on the performance of the business. This will reduce the volatility in margin
- **Target EBIT margin**: The company plans to maintain EBIT margin in the 8-10% range (9% currently) as positive scale and new model benefits offset rising competition

Financial summary (Consolidated)

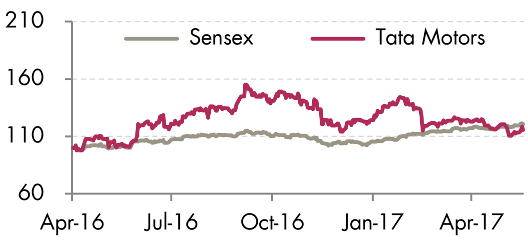
Y/E March	FY16	FY17	FY18E	FY19E
Sales (Rs bn)	2,730	2,697	3,133	3,823
Adj PAT (Rs bn)	145	102	133	202
Con. EPS* (Rs)	-	-	22.0	39.1
EPS (Rs)	42.6	30.2	39.2	59.6
Change YOY (%)	(21.6)	(29.2)	29.9	52.0
P/E (x)	10.6	14.9	11.5	7.6
RoE (%)	21.4	15.0	17.2	19.3
RoCE (%)	16.9	12.0	14.1	17.4
EV/E (x)	4.7	5.5	4.5	3.1
DPS (Rs)	1.0	-	9.0	9.0

Source: *Consensus broker estimates, Company, Axis Capital

Key drivers

(%)	FY16	FY17E	FY18E
Parent EBITDA margin	2.8	5.3	7.8
JLR EBITDA margin	12.1	14.3	14.8
Consol EBITDA margin	12.4	12.9	13.6

Price performance



(...Continued from page 1)

- **Hedging losses**: Based on its hedge book, there is an additional GBP 2 bn worth of unrealized losses in the balance sheet (assuming currency stays where it is) which would be realized over next 12 months. However, this would be offset by a positive operating exchange. However, based on its hedge book, hedging losses are expected to start reducing in Q4FY18
- **Forex hedges:** Most German luxury car makers have a natural hedge given multiple plants abroad, while JLR is only now getting there. Its total hedge book stands at GBP 25 bn. As a policy, the company hedges 80%/60%/40%/30%/15% of its 1/2/3/4/5 year net exposure. However, it is reviewing if it should reduce first year hedges from 80% to 60% of net exposure
- **Capex** for FY18 will be >GBP 4 bn mainly on new products, technologies and new plants (mainly investment in Slovakia)
- **JLR model cycle strong:** Growth will be driven by new models. Starting with new Discovery launched mid Q4FY17 (volume potential of 60k p.a.) followed by RR Velar in September 2017 (volume potential of 45-70k p.a.), a mid-cycle refresh of the RR and RR Sport (will help languishing sales as product life of both models near 5 years), the Jag E-Pace by Q4FY18 (volume potential of 45-75k) and finally the all-electric I-Pace (2018; volume potential unknown). The E-Pace is an XE based crossover, sharing platforms with the Evoque and Discovery Sport. The Velar and E-Pace are new models which add to volume incrementally
- **VME reducing with model cycle:** VME (Variable Marketing Expenses) is a key driver for margin. All products go through a 7 year life cycle and as vehicles age, the VME increases. For e.g. the outgoing Discovery had a VME of 9%, while the newly launched one has nil. The management expects weighted average discounts to move up as Jaguar share increases in sales (as Jaguar is competing in large selling sedan/ compact SUV categories)
- **Other highlights**: The company expects a GBP 400 mn pound gain in 1QFY18 due to changes in legacy defined benefit pension plans – mainly moving the basis from final salary to career average. JLR declared an interim dividend of GBP 150 mn to Tata Motors

India

- **India CV sector**: was impacted by confusion in Q4 around the emission deadline – whether on production or on registration. Lack of clarity on the ground had led to an increase in discounts (12-14%). Post the SC verdict, the one-time discount to liquidate unsold BS-3 inventory was Rs 1.5 bn
- **EBITDA margin** for standalone business (adjusting for the one-time discount) was 2.7% (-682 bps YoY, +194 bps QoQ) vs. our estimate of 2.3%.
- **Internal restructuring:** The Company has taken 6 new strategic initiatives (Project ImpAct – Improvement by Action) to improve efficiency, lower cost, reduce management layers and improve customer servicing. The company has been able to reduce the managerial levels from 14 to 5, headcount reduction of ~12% from baseline (June 2016). The various actions have resulted in gross benefit of ~Rs 3 bn
- **Channel strategy:** For PVs, the company targets to increase the sale and service touch points from 1173 now to 1410 (20% increase) by FY18. Further, it will

increase its focus on newer rural customer segment like rural teachers and public sector bank branches

(a) **CVs:** The company plans to launch 6 new products in the MHCV space and 4 new products in the LCV segment in FY18. New investments for CVs will be ~ Rs 15 bn in FY18

(b) **PVs:** With the aim of achieving no 3 position in the PV segment, the company has its product pipeline ready till FY22. The new products will take benefit of the modular platform and structural cost reduction. With the upcoming 'Nexon', the company will enter the compact SUV segment

Exhibit 1: Results update (Consolidated)

(Rs mn)	4QFY17	4QFY16	YoY (%)	3QFY17	QoQ (%)	FY18E	FY17	YoY (%)
Net Sales	**772,172**	**795,099**	(2.9)	**675,313**	14.3	**3,132,854**	**2,696,925**	16.2
- Raw Material	477,850	460,353	3.8	400,123	19.4	1,873,038	1,658,942	12.9
(% of Net Sales)	61.9	57.9	399	59.2	263	59.8	61.5	(173)
- Staff Expenditure	70,274	77,209	(9.0)	70,446	(0.2)	325,720	283,329	15.0
(% of Net Sales)	9.1	9.7	(61)	10.4	(133)	10.4	10.5	(11)
- Other Expenditure	118,735	132,021	(10.1)	153,132	(22.5)	529,956	419,667	26.3
(% of Net Sales)	15.4	16.6	(123)	22.7	(730)	16.9	15.6	136
Total Expenditure	666,858	669,582	(0.4)	623,701	6.9	2,728,715	2,361,937	15.5
EBITDA	**105,314**	**125,517**	**(16.1)**	**51,612**	**104.0**	**404,139**	**334,988**	**20.6**
EBITDA Margin (%)	**13.6**	**15.8**	**(215)**	**7.6**	**600**	**12.9**	**12.4**	**48**
Depreciation	46,702	43,455	7.5	42,300	10.4	206,522	179,050	15.3
EBIT	58,612	82,062	**(28.6)**	9,313	**529.4**	197,617	155,938	**26.7**
Interest	11,640	13,794	(15.6)	8,707	33.7	41,607	42,380	(1.8)
Other Income	2,342	2,117	10.6	1,674	39.9	5,269	7,545	(30.2)
Forex Gain/(Loss) & exceptional	2,342	(11,503)	-	3,706	(36.8)	-	(39,101)	-
PBT	**51,655**	**58,883**	(12.3)	**5,986**	763.0	**161,279**	**93,148**	73.1
Tax	12,396	11,366	9.1	8,670	43.0	43,906	32,512	35.0
Tax Rate (%)	24.0	19.3	469	144.8	(12,084)	27.2	34.9	(768)
Adjusted PAT	**40,617**	**54,778**	**(25.9)**	**(2,769)**	-	**133,143**	**102,499**	**29.9**
Reported PAT	**42,959**	**51,759**	**(17.0)**	**938**	**4,481.8**	**133,143**	**74,544**	**78.6**
Reported EPS (Rs)	**12.7**	**15.2**	**(17.0)**	**0.3**	**4,481.8**	**39.2**	**21.9**	**78.6**

Source: Company, Axis Capital

Exhibit 2: Results update (JLR)

(GBP mn)	4QFY17	4QFY16	YoY (%)	3QFY17	QoQ (%)	FY18E	FY17	YoY (%)
Net Sales	**7,268**	**6,601**	10.1	**6,082**	19.5	**29,460**	**24,339**	21.0
- Raw Material	4,507	3,868	16.5	3,869	16.5	17,558	15,071	16.5
(% of Net Sales)	62.0	58.6	341	63.6	(160)	59.6	61.9	(232)
- Staff Expenditure	652	648	0.6	648	0.6	3,005	2,490	20.7
(% of Net Sales)	9.0	9.8	(85)	10.7	(168)	10.2	10.2	(3)
- Other expenses (excl R&D)	953	1,080	(11.8)	858	11.1	4,207	3,455	21.8
(% of Net Sales)	13.1	16.4	(325)	14.1	(99)	14.3	14.2	9
- R&D Expensed	99	102	(2.9)	96	3.1	464	368	26.1
(% of Total R&D)	0.2	0.3	**(3.6)**	0.2	**1.6**	25.0	20.5	**448.7**
Total Expenditure	6,211	5,698	**9**	5,471	**14**	25,235	21,384	**18**
EBITDA	**1,057**	**903**	17.1	**611**	73.0	**4,226**	**2,955**	43.0
EBITDA Margin (%)	**14.5**	**13.7**	**86.3**	**10.0**	**449.7**	**14.3**	**12.1**	**220.3**
Depreciation	449	378	18.8	409	9.8	1,954	1,656	18.0
EBIT	**608**	**525**	15.8	**202**	201.0	**2,272**	**1,299**	74.9
Interest	11	13	(15.4)	5	120.0	39	35	10.0
Forex Gain / (Loss)	17	(42)	-	(62)	(127.4)	0	36	-
PBT	614	470	30.6	135	354.8	2,233	1,264	76.7
Tax	119	105	13	88	35	514	338	52
Tax Rate (%)	0.2	0.2	(13.2)	0.7	(70.3)	23.0	26.0	(11.5)
Reported PAT	**557**	**472**	**18.0**	**167**	**233.5**	**1,918**	**1,272**	**50.8**
Adjusted PAT	**495**	**365**	**35.6**	**47**	**953.2**	**1,719**	**926**	**85.7**
Total Volumes (Nos)	**154,535**	**149,895**	**3.1**	**130,910**	**18.0**	**628,475**	**534,800**	**17.5**
Net Realisation (GBP)	**47,031**	**44,037**	**6.8**	**46,459**	**1.2**	**46,876**	**45,510**	**3.0**
EBITDA/vehicle (GBP)	6,840	6,024	13.5	4,667	46.5	6,724	5,525	21.7

Source: Company, Axis Capital

Exhibit 3: Results update (Standalone)

(Rs mn)	4QFY17	4QFY16	YoY (%)	3QFY17	QoQ (%)	FY18E	FY17	YoY (%)
Net Sales	**135,867**	**127,997**	6.1	**102,199**	32.9	**525,752**	**443,640**	18.5
- Raw Material	95,608	83,551	14.4	74,791	27.8	365,135	313,489	16.5
(% of Net Sales)	70.4	65.3	509	73.2	(281)	69.5	70.7	(121)
- Staff Expenditure	9,325	7,854	18.7	8,454	10.3	41,279	35,585	16.0
(% of Net Sales)	6.9	6.1	73	8.3	(141)	7.9	8.0	(17)
- Other Expenditure	27,286	24,433	11.7	18,189	50.0	91,702	82,103	11.7
(% of Net Sales)	20.1	19.1	99	17.8	228	17.4	18.5	(106)
Total Expenditure	132,220	115,837	14.1	101,434	30.4	498,115	431,178	15.5
EBITDA	**3,647**	**12,160**	(70.0)	**765**	377.0	**27,637**	**12,462**	**121.8**
EBITDA Margin (%)	**2.7**	**9.5**	**(682)**	**0.7**	**194**	**5.3**	**2.8**	**245**
Depreciation	4,545	4,336	4.8	4,137	9.9	38,116	29,694	28.4
EBIT	**(898)**	**7,824**	**(111.5)**	**(3,373)**	-	**(10,480)**	**(17,232)**	-
Interest	8,096	5,660	43.0	7,290	11.1	13,799	15,902	(13.2)
Other Income	1,143	1,108	3.2	940	21.7	11,257	9,788	15.0
Forex Gain / (Loss)	(2,553)	(97)	2,534.4	0	-	0	2,525	-
PBT	**(10,404)**	**3,175**	-	**(9,723)**	7.0	**(13,023)**	**(20,821)**	-
Tax	109	(613)	-	143	-	(1,302)	592	-
Tax Rate (%)	(0.0)	(0.2)	16	(0.0)	40	10.0	(2.8)	1,284
Adjusted PAT	**(7,960)**	**3,885**	-	**(9,866)**	-	**(11,720)**	**(23,937)**	-
EPS (Rs)	(2.4)	1.2	-	(2.7)	-	(3.5)	(7.3)	-
Reported PAT	(8,290)	3,979	-	(9,273)	-	(11,720)	(24,800)	-
Total Volumes (Nos)	**151,067**	**148,443**	**1.8**	**128,263**	**17.8**	**629,054**	**522,627**	**20.4**
Net Realisation (Rs)	**899,382**	**862,262**	**4.3**	**796,789**	**12.9**	**835,782**	**848,865**	**(1.5)**
EBITDA / Vehicle (Rs)	24,144	81,917	(70.5)	5,961	305.0	43,934	23,845	84.2

Source: Company, Axis Capital

Exhibit 4: Standalone financials

(Rs mn)	FY15	FY16	FY17E	FY18E	FY19E
Revenues	362,947	428,455	443,640	525,752	626,516
EBITDA	(12,375)	29,486	12,462	27,637	48,710
EBITDA margin (%)	-3.4%	6.9%	2.8%	5.3%	7.8%
Adjusted PAT	(43,487)	4,345	(23,937)	(11,720)	7,437
Adjusted EPS	(13.5)	1.3	(7.0)	(3.5)	2.2

Source: Company, Axis Capital

Exhibit 5: JLR financials

(GBP mn)	FY15	FY16	FY17E	FY18E	FY19E
Jaguar volumes	76,496	102,106	169,400	208,125	260,255
Land Rover volumes	394,027	407,228	365,400	420,350	495,824
Total volumes	470,523	509,334	534,800	628,475	756,079
Revenues	21,866	22,208	24,339	29,460	36,328
EBITDA	4,132	3,313	2,955	4,226	5,382
EBITDA margin (%)	18.9%	14.9%	12.1%	14.3%	14.8%
PAT	2,038	1,312	1,272	1,918	2,585

Source: Company, Axis Capital

Exhibit 6: SoTP-based valuation

		Methodology	Value per share
Tata Motors Standalone	A	10x FY18E EV/EBITDA	115
Jaguar Land Rover	B	4x FY18E EV/AdjEBITDA	418
Key Subsidiaries & Investments	C	After 20% hold co discount	38
SOTP Value of Tata Motors	A + B + C		570

Source: Company, Axis Capital

Exhibit 7: Target price sensitivity

EV/ EBITDA (x)			Standalone (x)				
			6.5	7.5	8.0	8.5	9.5
EV/EBITDA (x)	JLR (x)	2.50	429	444	451	458	472
		3.00	489	503	510	518	532
		3.50	549	563	570	577	592
		4.00	608	623	630	637	651
		4.50	668	682	690	697	711

Source: Company, Axis Capital

AXIS DIRECT

Financial summary (Consolidated)

Profit &loss (Rs bn)

Y/E March	FY16	FY17	FY18E	FY19E
Net sales	2,730	2,697	3,133	3,823
Other operating income	-	-	-	-
Total operating income	**2,730**	**2,697**	**3,133**	**3,823**
Cost of goods sold	(1,634)	(1,659)	(1,873)	(2,280)
Gross profit	1,097	1,038	1,260	1,543
Gross margin (%)	*40.2*	*38.5*	*40.2*	*40.4*
Total operating expenses	(714)	(703)	(856)	(1,023)
EBITDA	**383**	**335**	**404**	**520**
EBITDA margin (%)	*14.0*	*12.4*	*12.9*	*13.6*
Depreciation	(167)	(179)	(207)	(238)
EBIT	**216**	**156**	**198**	**282**
Net interest	(49)	(42)	(42)	(43)
Other income	9	8	5	6
Profit before tax	**176**	**121**	**161**	**245**
Total taxation	(30)	(33)	(44)	(62)
Tax rate (%)	*17.2*	*26.8*	*27.2*	*25.4*
Profit after tax	146	89	117	183
Minorities	(1)	(1)	(1)	(1)
Profit/ Loss associate co(s)	-	15	17	21
Adjusted net profit	145	102	133	202
Adj. PAT margin (%)	*5.3*	*3.8*	*4.2*	*5.3*
Net non-recurring items	(10)	(39)	-	-
Reported net profit	134	63	133	202

Balance sheet (Rs bn)

Y/E March	FY16	FY17	FY18E	FY19E
Paid-up capital	7	7	7	7
Reserves & surplus	783	574	959	1,127
Net worth	790	581	966	1,134
Borrowing	620	745	612	581
Other non-current liabilities	5	(33)	6	6
Total liabilities	**1,419**	**1,297**	**1,588**	**1,726**
Gross fixed assets	2,199	2,475	2,759	3,049
Less: Depreciation	(941)	(1,120)	(1,326)	(1,564)
Net fixed assets	1,258	1,355	1,432	1,484
Add: Capital WIP	66	102	69	72
Total fixed assets	1,324	1,457	1,501	1,557
Total Investment	238	203	210	203
Inventory	327	351	372	454
Debtors	136	141	154	188
Cash & bank	305	361	254	451
Loans & advances	16	15	17	18
Current liabilities	1,213	1,396	1,266	1,522
Net current assets	(143)	(363)	(123)	(34)
Other non-current assets	-	-	-	-
Total assets	**1,419**	**1,297**	**1,588**	**1,726**

Source: Company, Axis Capital

Cash flow (Rs bn)

Y/E March	FY16	FY17	FY18E	FY19E
Profit before tax	176	121	161	245
Depreciation & Amortisation	167	179	207	238
Chg in working capital	*47*	*109*	*(180)*	*109*
Cash flow from operations	**543**	**243**	**269**	**519**
Capital expenditure	*(367)*	*(312)*	*(251)*	*(294)*
Cash flow from investing	**(442)**	**(270)**	**(252)**	**(280)**
Equity raised/ (repaid)	-	-	-	-
Debt raised/ (repaid)	*(73)*	*125*	*(133)*	*(31)*
Dividend paid	-	-	-	-
Cash flow from financing	**(117)**	**83**	**(139)**	**(38)**
Net chg in cash	(17)	56	(122)	201

Key ratios

Y/E March	FY16	FY17	FY18E	FY19E
OPERATIONAL				
FDEPS (Rs)	42.6	30.2	39.2	59.6
CEPS (Rs)	88.8	71.4	100.0	129.7
DPS (Rs)	1.0	-	9.0	9.0
Dividend payout ratio (%)	2.5	-	23.0	15.1
GROWTH				
Net sales (%)	3.9	(1.2)	16.2	22.0
EBITDA (%)	(10.6)	(12.6)	20.6	28.6
Adj net profit (%)	(21.6)	(29.2)	29.9	52.0
FDEPS (%)	(21.6)	(29.2)	29.9	52.0
PERFORMANCE				
RoE (%)	21.4	15.0	17.2	19.3
RoCE (%)	16.9	12.0	14.1	17.4
EFFICIENCY				
Asset turnover (x)	2.8	2.7	2.9	3.1
Sales/ total assets (x)	1.1	1.0	1.1	1.3
Working capital/ sales (x)	(0.2)	(0.2)	(0.2)	(0.1)
Receivable days	18.1	19.0	17.9	17.9
Inventory days	50.8	54.2	49.8	50.2
Payable days	167.3	192.8	147.0	147.8
FINANCIAL STABILITY				
Total debt/ equity (x)	0.9	1.1	0.8	0.6
Net debt/ equity (x)	0.4	0.5	0.4	0.1
Current ratio (x)	0.9	0.7	0.9	1.0
Interest cover (x)	4.4	3.7	4.7	6.5
VALUATION				
PE (x)	10.6	14.9	11.5	7.6
EV/ EBITDA (x)	4.7	5.5	4.5	3.1
EV/ Net sales (x)	0.7	0.7	0.6	0.4
PB (x)	1.9	2.6	1.6	1.3
Dividend yield (%)	0.2	-	2.0	2.0
Free cash flow yield (%)	11.5	(4.5)	1.2	14.7

Source: Company, Axis Capital

Disclosures:

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