JM FINANCIAL

Tata Motors | BUY

4QFY18: JLR subdued; standalone gains traction

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In 4QFY18, Tata Motors reported consol. EBITDA margin of 13.1% (-220bps YoY), impacted by subdued performance at JLR lead by higher marketing expense, and one-time charges for projects de-prioritized under "Fit for Future". Higher sales volumes in China, favourable mix and adoption of accrual accounting in China, partially blunted the impact from higher D&A and marketing expense. At the standalone level, EBITDA margin improved 250bps YoY to 6.9% due to positive operating leverage arising from 34% volume growth in CV sales. Also, strong growth in new models, helped improve the market share to 5.7% (+50bps YoY) in PVs. The Company's focused 'Impact' program ranging from plugging gaps in CV portfolio, reducing vehicle platforms in PVs and other cost reduction efforts also aided standalone business performance. Basis the current headwinds in major market like UK, Europe and to some extent US, we estimate 9% CAGR in JLR volumes over FY18-20E. During the same period, domestic PVs are likely to record 11%+ CAGR, driven by new models covering wider segments in PVs. We maintain BUY with a revised TP of INR 400. Higher-than-estimated stress in JLR volume / margin and adverse currency movements are key risks to our view.

- **4QFY18 – standalone gains traction; JLR challenges remain:** In 4QFY18, JLR reported revenues of GBP 7.6bn (+4%YoY) driven by wholesale volume growth of 2.4%YoY and realisation growth of 1.5%. JLR EBITDA margin stood at 12.2% (-210bps YoY). Consequently, JLR reported PAT (incl. China JV) stood at GBP 264mn. In the standalone business, net sales grew by 46%YoY to INR 198bn. Robust growth in MHCV led to positive operating leverage, leading to a sharp recovery in EBITDA margin to 6.9% (+250bps YoY). At the consol. level, company recorded EBIDTA of INR119bn with a 13.1% margin.

- **Key con-call takeaways:** In the JLR business, operating performance was subdued largely due to headwinds in UK and Europe markets, with respect to concerns of tax hike on diesel cars. This reflects in the FY18 retail sales for UK (-12.8% YoY) and Europe (-5.3% YoY), with majorly China (+20%) pulling up the overall sales. In China, CJLR EBITDA margin during the quarter improved to 36.7% (+930bps), due to adoption of accrual accounting for local market incentives in Q4. Under "Fit for Future" program the Company is selecting suitable projects based on affordability, while has resulted in onetime expense of INR 16.4bn at the consolidated level during 4QFY18. Vehicle incentives remain in the range of 6% of revenues. The new Slovakia plant will commence operations from end CY18. Standalone business is staging a good comeback. Domestic market, revenue growth was robust at +45% YoY, supported by improvement in both CV and PV segment. The Company has been able to arrest the fall in CV market share and improved share in PVs. Company's cost reduction program is also aiding standalone performance. Outlook for MHCV growth remains healthy. Going ahead, JLR has revised its dividend payout to 25% (from 20% earlier).

- **Maintain BUY:** Maintain BUY with a revised Mar'19 target price of INR 400 (standalone/JLR business valued at 10x/4x EV/EBIDTA).

Recommendation and Price Target	
Current Reco.	BUY
Previous Reco.	BUY
Current Price Target (12M)	400
Upside/(Downside)	29.3%
Previous Price Target	490
Change	-18.4%

Key Data – TTMT IN	
Current Market Price	INR309
Market cap (bn)	INR983.0/US$14.4
Free Float	57%
Shares in issue (mn)	3,396.1
Diluted share (mn)	3,396.1
3-mon avg daily val (mn)	INR3,724.5/US$54.4
52-week range	488/295
Sensex/Nifty	34,345/10,430
INR/US$	68.4

Price Performance %	1M	6M	12M
Absolute	-7.4	-27.4	-31.3
Relative*	-7.1	-29.0	-39.3

* To the BSE Sensex

Financial Summary (INR mn)					
Y/E March	FY16A	FY17A	FY18A	FY19E	FY20E
Net Sales	27,30,456	26,96,925	29,46,192	32,43,950	35,52,663
Sales Growth (%)	3.9	-1.2	9.2	10.1	9.5
EBITDA	4,17,763	3,69,124	3,69,730	3,80,870	4,35,154
EBITDA Margin (%)	15.3	13.7	12.5	11.7	12.2
Adjusted Net Profit	1,34,297	63,398	70,138	65,593	78,282
Diluted EPS (INR)	39.5	18.7	20.7	19.3	23.1
Diluted EPS Growth (%)	-14.4	-52.8	10.6	-6.5	19.3
ROIC (%)	20.4	11.5	6.2	6.5	6.8
ROE (%)	19.9	9.3	9.1	6.7	7.4
P/E (x)	7.8	16.6	15.0	16.0	13.4
P/B (x)	1.3	1.8	1.1	1.0	1.0
EV/EBITDA (x)	2.7	3.4	3.7	3.4	3.2
Dividend Yield (%)	0.1	0.0	0.3	0.3	0.3

Source: Company data, JM Financial. Note: Valuations as of 23/May/2018

Exhibit 1. Quarterly financial results – Consolidated (INR mn)

	4QFY18	4QFY17	% YoY	3QFY18	% QoQ
Net Sales	9,12,791	7,72,172	18.2	7,41,561	23.1
EBITDA*	1,19,252	1,17,875	1.2	94,671	26.0
EBITDA Margin (%)	13.1	15.3	-220bps	12.8	30bps
PAT (Adjusted, Post MI, before exceptionals)	34,098	43,315	-21.3	10,766	216.7

Source: Company, JM Financial

Exhibit 2. Quarterly financial results – JLR (GBP mn)

	4QFY18	4QFY17	% YoY	3QFY18	% QoQ
Sales	7,555	7,268	3.9	6,310	19.7
EBITDA	924	1,044	-11.5	685	34.9
EBITDA Margin (%)	12.2	14.4	-213bps	10.9	137bps
Reported PAT	264	557	-52.6	89	196.6

Source: Company, JM Financial

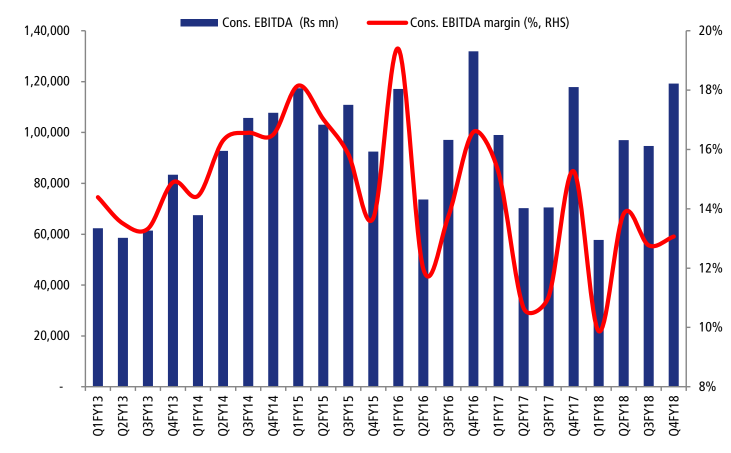
Exhibit 3. Quarterly financial results – Standalone (INR mn)

	4QFY18	4QFY17	% YoY	3QFY18	% QoQ
Net Sales	1,97,793	1,35,741	45.7	1,60,893	22.9
EBITDA	13,611	5,908	130.4	14,251	-4.5
EBITDA Margin (%)	6.9	4.4	253bps	8.9	-198bps
PAT (Adjusted)	5,574	-7,729	-1.7	730	663.7

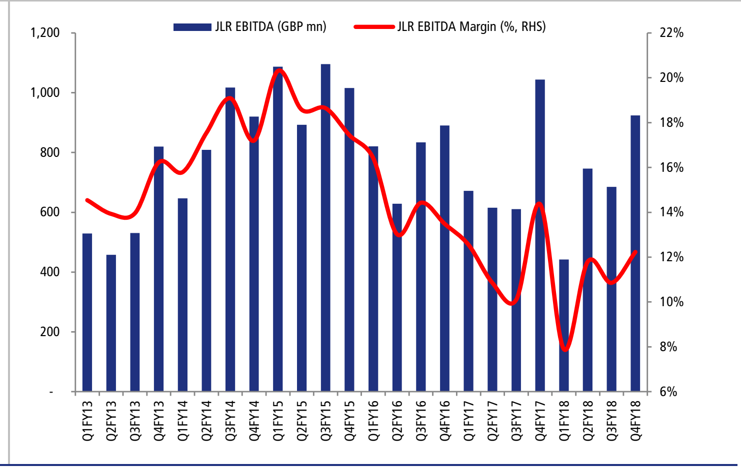
Source: Company, JM Financial.

Exhibit 4. EBITDA and EBITDA margin trend

Consolidated



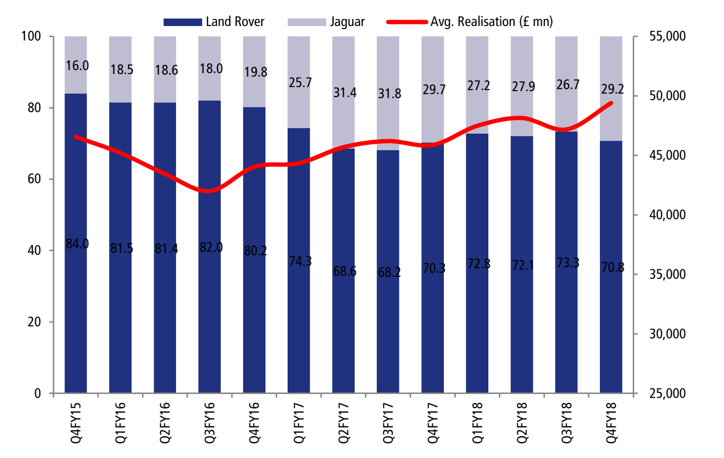
JLR



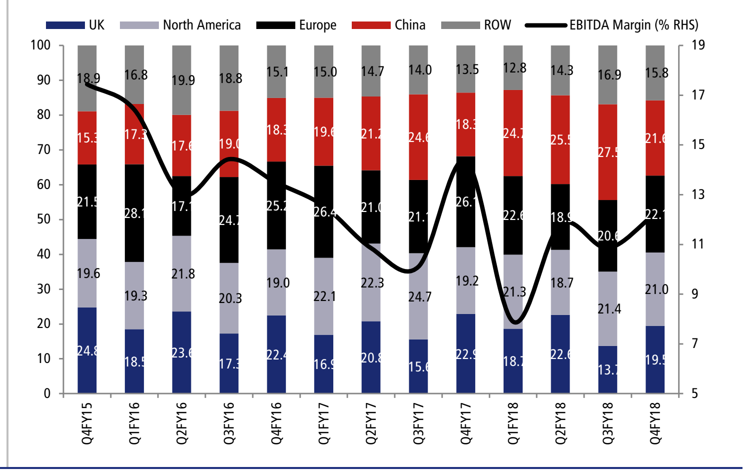
Source: Company, JM Financial

Exhibit 5. JLR volume, profit margin and wholesale volume mix trend

Volume contribution vs realisation



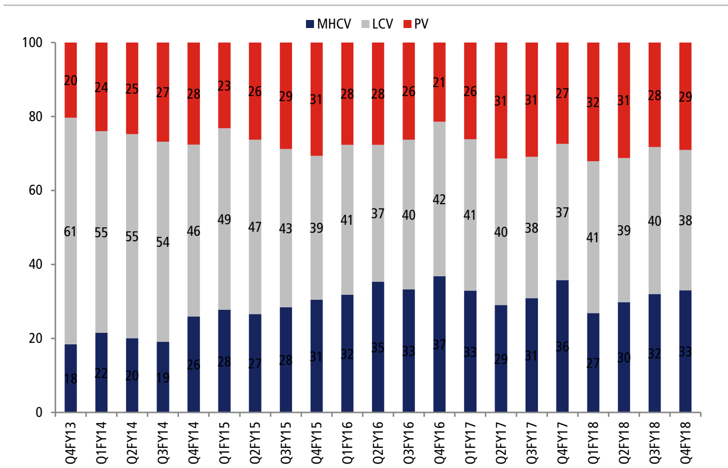
Geography wise mix (%) vs EBITDA margin



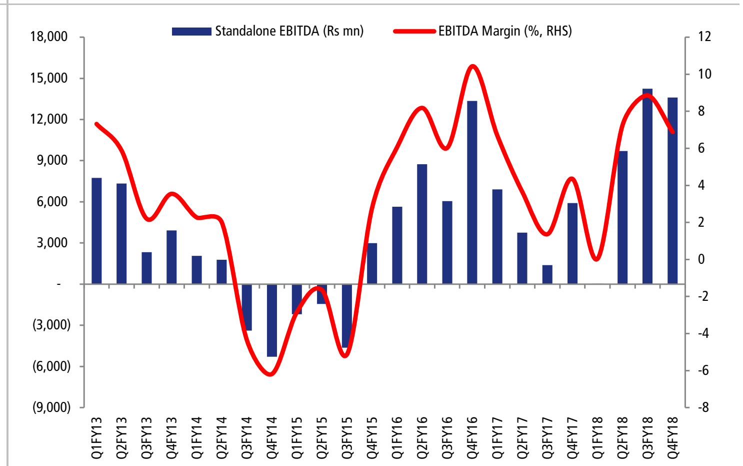
Source: Company, JM Financial;

Exhibit 6. Standalone volume-mix, EBIDTA and EBIDTA margin trend

Volume-mix



EBITDA and EBIDTA margin



Source: Company, JM Financial

Company background

- Tata Motors Limited is India's largest automobile company, with consolidated revenues of INR 2,700bn in 2016-17. While the company dominates the domestic CV segment, it has healthy presence in domestic PV segment. Tata Motors is also expanding its international footprint, established through exports since 1961. The company's commercial and passenger vehicles are already being marketed in several countries in Europe, Africa, the Middle East, South East Asia, South Asia, South America, CIS and Russia. It has franchisee/joint venture assembly operations in Bangladesh, Ukraine, and Senegal.
- TTMT acquired Jaguar Land Rover (JLR) in 2008. JLR is UK's largest premium automotive manufacturer, representing two of the most iconic British motoring brands. While Jaguar Cars is one of the world's premier manufacturers of luxury sports saloons and sports cars, Land Rover is a world-renowned manufacturer of premium 4x4s. JLR operates three automotive manufacturing facilities in the United Kingdom and is setting up another facility in Slovakia. JLR also has two product development, design and engineering facilities at Gaydon and Whitley in the UK. JLR markets products in 178 countries, through a global network of 17 national sales companies (NSCs), 85 importers, 62 export partners and 2,500+ franchise sales dealers.

Investment Rationale

- We remain positive on demand outlook for JLR in the long-term, supported by new launches, network expansion and capacity increase. Although, JLR growth in the near term would be subject to sales recovery in the US, their China JV has been witnessing strong volume growth. JLR margins would be supported by volume growth even as forex movements remain volatile.
- India business growth momentum is on track and would get better as the CV recovery in domestic market gains further traction.

Key Risks

- Higher-than-estimated stress in JLR volume/margin
- Prolonged weakness in India profits
- Adverse currency movement (Brexit impact)

Financial Tables (Consolidated)

Income Statement (INR mn)

Y/E March	FY16A	FY17A	FY18A	FY19E	FY20E
Net Sales	27,30,456	26,96,925	29,46,192	32,43,950	35,52,663
Sales Growth	3.9%	-1.2%	9.2%	10.1%	9.5%
Other Operating Income	0	0	0	0	0
Total Revenue	**27,30,456**	**26,96,925**	**29,46,192**	**32,43,950**	**35,52,663**
Cost of Goods Sold/Op. Exp	16,33,830	16,58,942	18,58,500	20,49,659	22,45,003
Personnel Cost	2,88,809	2,83,329	3,03,001	3,23,256	3,49,999
Other Expenses	3,90,054	3,85,531	4,14,961	4,90,165	5,22,508
EBITDA	**4,17,763**	**3,69,124**	**3,69,730**	**3,80,870**	**4,35,154**
EBITDA Margin	15.3%	13.7%	12.5%	11.7%	12.2%
EBITDA Growth	-1.5%	-11.6%	0.2%	3.0%	14.3%
Depn. & Amort.	2,01,796	2,13,186	2,51,855	2,66,654	3,06,404
EBIT	2,15,967	1,55,938	1,17,875	1,14,216	1,28,750
Other Income	8,854	7,545	8,889	10,400	12,168
Finance Cost	48,891	42,380	46,818	41,824	39,733
PBT before Excep. & Forex	1,75,930	1,21,103	79,946	82,792	1,01,185
Excep. & Forex Inc./Loss(-)	-16,169	-39,101	11,853	0	0
PBT	1,59,761	82,002	91,799	82,792	1,01,185
Taxes	30,251	32,512	43,419	24,838	30,356
Extraordinary Inc./Loss(-)	-18,504	11,146	19,751	0	0
Assoc. Profit/Min. Int.(-)	-4,786	-13,908	-21,758	-7,638	-7,452
Reported Net Profit	1,15,793	74,544	89,889	65,593	78,282
Adjusted Net Profit	**1,34,297**	**63,398**	**70,138**	**65,593**	**78,282**
Net Margin	4.9%	2.4%	2.4%	2.0%	2.2%
Diluted Share Cap. (mn)	3,396.1	3,396.1	3,396.1	3,396.1	3,396.1
Diluted EPS (INR)	**39.5**	**18.7**	**20.7**	**19.3**	**23.1**
Diluted EPS Growth	-14.4%	-52.8%	10.6%	-6.5%	19.3%
Total Dividend + Tax	784	0	3,922	3,922	3,922
Dividend Per Share (INR)	0.2	0.0	1.0	1.0	1.0

Source: Company, JM Financial

Balance Sheet (INR mn)

Y/E March	FY16A	FY17A	FY18A	FY19E	FY20E
Shareholders' Fund	7,89,524	5,80,619	9,54,279	10,15,949	10,90,308
Share Capital	6,792	6,792	6,792	6,792	6,792
Reserves & Surplus	7,82,732	5,73,827	9,47,487	10,09,157	10,83,516
Preference Share Capital	0	0	0	0	0
Minority Interest	4,328	4,532	5,251	7,112	9,160
Total Loans	6,19,612	7,44,891	7,79,944	7,40,946	7,03,899
Def. Tax Liab. / Assets (-)	-1,713	-30,864	-30,864	-30,864	-30,864
Total - Equity & Liab.	**14,11,752**	**12,99,177**	**17,08,609**	**17,33,143**	**17,72,503**
Net Fixed Assets	13,23,909	12,89,696	16,13,309	17,80,960	19,32,612
Gross Fixed Assets	20,06,842	20,73,880	25,49,682	31,28,636	35,22,100
Intangible Assets	0	0	0	0	0
Less: Depn. & Amort.	9,42,123	11,21,172	13,36,708	15,66,680	18,36,035
Capital WIP	2,59,189	3,36,988	4,00,335	2,19,005	2,46,547
Investments	2,37,670	2,03,379	2,03,154	2,08,233	2,13,439
Current Assets	10,56,137	11,87,939	13,89,329	13,44,900	12,67,463
Inventories	3,26,557	3,50,853	4,21,376	3,99,939	4,38,000
Sundry Debtors	2,93,224	3,16,388	4,37,745	3,55,501	3,89,333
Cash & Bank Balances	3,04,604	3,60,779	2,91,101	3,26,559	1,51,056
Loans & Advances	1,24,153	1,53,185	2,37,942	2,61,736	2,87,910
Other Current Assets	7,598	6,733	1,165	1,165	1,165
Current Liab. & Prov.	12,05,964	13,81,836	14,97,183	16,00,949	16,41,010
Current Liabilities	0	0	0	0	0
Provisions & Others	12,05,964	13,81,836	14,97,183	16,00,949	16,41,010
Net Current Assets	-1,49,827	-1,93,897	-1,07,854	-2,56,049	-3,73,547
Total – Assets	**14,11,752**	**12,99,177**	**17,08,609**	**17,33,143**	**17,72,503**

Source: Company, JM Financial

Cash Flow Statement (INR mn)

Y/E March	FY16A	FY17A	FY18A	FY19E	FY20E
Profit before Tax	1,59,761	82,002	91,799	82,792	1,01,185
Depn. & Amort.	2,01,796	2,13,186	2,51,855	2,66,654	3,06,404
Net Interest Exp. / Inc. (-)	48,891	42,380	46,818	41,824	39,733
Inc (-) / Dec in WCap.	34,178	1,31,293	-1,56,065	1,78,420	-63,211
Others	-13,723	25,257	42,228	9,500	9,500
Taxes Paid	-30,251	-32,512	-43,419	-24,838	-30,356
Operating Cash Flow	**4,00,653**	**4,61,606**	**2,33,216**	**5,54,352**	**3,63,255**
Capex	-4,01,479	-1,78,972	-5,75,468	-4,34,305	-4,58,055
Free Cash Flow	-826	2,82,634	-3,42,252	1,20,047	-94,800
Inc (-) / Dec in Investments	-127	2,378	-5,000	154	0
Others	-48,891	-42,380	-46,818	-41,824	-39,733
Investing Cash Flow	**-4,50,496**	**-2,18,975**	**-6,27,286**	**-4,75,975**	**-4,97,789**
Inc / Dec (-) in Capital	354	0	0	0	0
Dividend + Tax thereon	-784	0	-3,922	-3,922	-3,922
Inc / Dec (-) in Loans	-1,29,381	1,25,280	35,052	-38,997	-37,047
Others	1,63,101	-3,11,736	2,93,262	0	0
Financing Cash Flow	**33,290**	**-1,86,456**	**3,24,392**	**-42,920**	**-40,970**
Inc / Dec (-) in Cash	**-16,553**	**56,175**	**-69,678**	**35,457**	**-1,75,503**
Opening Cash Balance	3,21,158	3,04,604	3,60,779	2,91,101	3,26,559
Closing Cash Balance	3,04,604	3,60,779	2,91,101	3,26,559	1,51,056

Source: Company, JM Financial

Dupont Analysis

Y/E March	FY16A	FY17A	FY18A	FY19E	FY20E
Net Margin	4.9%	2.4%	2.4%	2.0%	2.2%
Asset Turnover (x)	2.0	2.0	1.9	1.9	2.0
Leverage Factor (x)	2.0	2.0	2.0	1.8	1.7
RoE	19.9%	9.3%	9.1%	6.7%	7.4%

Key Ratios

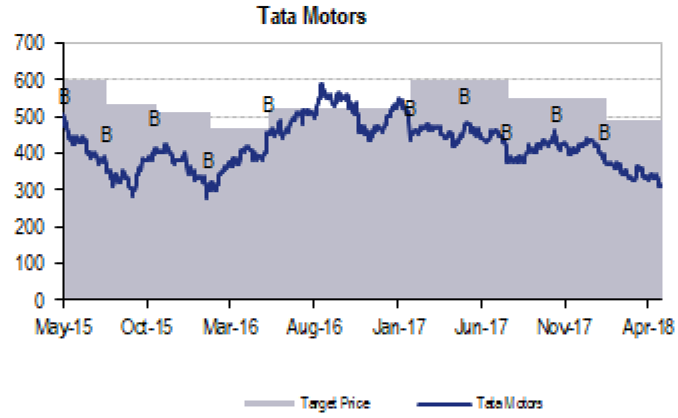
Y/E March	FY16A	FY17A	FY18A	FY19E	FY20E
BV/Share (INR)	232.5	171.0	281.0	299.2	321.0
ROIC	20.4%	11.5%	6.2%	6.5%	6.8%
ROE	19.9%	9.3%	9.1%	6.7%	7.4%
Net Debt/Equity (x)	0.1	0.3	0.3	0.2	0.3
P/E (x)	7.8	16.6	15.0	16.0	13.4
P/B (x)	1.3	1.8	1.1	1.0	1.0
EV/EBITDA (x)	2.7	3.4	3.7	3.4	3.2
EV/Sales (x)	0.4	0.5	0.5	0.4	0.4
Debtor days	39	43	54	40	40
Inventory days	44	47	52	45	45
Creditor days	0	0	0	0	0

Source: Company, JM Financial

History of Earnings Estimate and Target Price

Date	Recommendation	Target Price	% Chg.
27-May-15	Buy	600	
11-Aug-15	Buy	535	-10.8
9-Nov-15	Buy	510	-4.7
14-Feb-16	Buy	465	-8.8
1-Jun-16	Buy	520	11.8
15-Feb-17	Buy	600	15.4
24-May-17	Buy	600	0.0
11-Aug-17	Buy	550	-8.3
10-Nov-17	Buy	550	0.0
6-Feb-18	Buy	490	-10.9

Recommendation History



APPENDIX I

JM Financial Institutional Securities Limited

(formerly known as JM Financial Securities Limited)

Corporate Identity Number: U67100MH2017PLC296081
Member of BSE Ltd., National Stock Exchange of India Ltd. and Metropolitan Stock Exchange of India Ltd.
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Rating	Meaning
Buy	Total expected returns of more than 15%. Total expected return includes dividend yields.
Hold	Price expected to move in the range of 10% downside to 15% upside from the current market price.
Sell	Price expected to move downwards by more than 10%

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