October 9, 2018

Tata Motors (TATMOT)

₹ 184

Challenging times continue at JLR…

Tata Motors' owned Jaguar and Land Rover (JLR) came out with volume numbers for September 2018. Total JLR retail sales were at 57,114 units, down 12.3% YoY. For the quarter i.e. Q2FY19, total JLR retail sales were at 1.3 lakh units, down 13.2% YoY. On a YTDCY18 basis, retail sales were down 4% YoY to 448,106 units. Furthermore, media reports suggest that JLR is taking a two-week shutdown at its Solihull (UK) plant to align itself with the global supply & demand scenario. Solihull is one of the major plants for JLR as it accounts for ~48% of its overall volumes. Also, in the recent past it has announced a three-day working week at its Castle Bromwich plant (accounts for ~11% of its volumes) during October-December 2018. Hence, JLR is experiencing a challenging demand scenario in some key markets like China, which was impacted by import tariff while Europe was marred by new Worldwide Harmonised Light Vehicle Test standards (WLTP) norms and lower diesel demand.

JLR volumes revised downward, pressure on margins to persist!

The initial estimate of production cut considering the closure at both plants would be >15,000 units and will impact its Q3FY19E performance. Furthermore, with retail volumes for YTDCY18 already down 4% YoY, we revise our volumes estimates. We cut our wholesale volume forecast by ~10% & ~12% for FY19E & FY20E, respectively. Adverse product mix, rising input costs & intensifying competition amid subdued demand environment will eventually result in negative operating leverage thereby impacting its margins. Additionally, adverse foreign currency movement will also have a translation impact on the consolidated financials of TML.

Negative FCF; subdued return ratios; retain HOLD!

JLR is investing aggressively in technologies amid an uncertain business outlook, thereby generating negative free cash flows & stressing its balance sheet. This is likely to result in muted return ratios with RoCE<10%. Going forward, revising our estimates, on consolidated basis, over FY18-20E we expect sales to grow at a CAGR of 5.9%. On the margins front, we expect ~140 bps contraction in EBITDA margins with a consequent drop in PAT over FY18-20E. We revise our target price to ₹ 200/share on SOTP basis and maintain our **HOLD** rating on the stock. The only saviour for TML is the up trending domestic segment wherein the company is witnessing robust prospects both in the M&HCV space as well as PV segment.

Exhibit 1: Valuation on SOTP method

	Parameters	Basis	Multiple	Per Share
Tata Motors Core business	FY20E EBITDA	7,538	5	104
JLR	FY20E Adj EV/EBITDA	19,394	2.6	57
China JV @50% stake	FY20E EPS	7.2	4.0	29
Subsidiary valuation				
Tata Daewoo	FY19E EPS	0.4	7.0	3
Tata Motor Finance	FY19E Adj BV	4.7	1.0	5
Tata Technologies	FY19E EPS	1.3	6.0	8
Value of investments	0.1x BV of unquoted invst			3
Value of subsidiaries, investments				20
Value post discount	Holding co discount @ 50%			10
Total value per share				200
TML DVR inferred target value @ 35% discount				130

Source: Company, ICICI Direct Research

Rating matrix

Rating	:	Hold
Target	:	₹ 200
Target Period	:	12 months
Potential Upside	:	9%

What's Changed?

Target	Changed from ₹ 290 to ₹ 200
EPS FY19E	Changed from ₹ 17.1 to ₹ 7.0
EPS FY20E	Changed from ₹ 31.8 to ₹ 28.4
Rating	Unchanged

Key Financials

₹ Crore	FY17E	FY18E	FY19E	FY20E
Net Sales	269,693	294,619	304,445	330,165
EBITDA	33,002	38,058	33,254	41,318
Net Profit	7,557	9,091	2,387	9,637
EPS (₹)	22.3	26.8	7.0	28.4

Valuation summary

	FY17E	FY18E	FY19E	FY20E
P/E (x)	7.0	6.3	10.5	5.0
Target P/E (x)	9.0	7.5	28.5	7.1
EV/EBITDA (x)	2.5	2.0	2.8	2.5
P/BV (x)	1.1	0.7	0.6	0.6
RoNW (%)	15.3	10.3	5.9	11.0
RoCE (%)	12.0	10.5	6.9	9.1

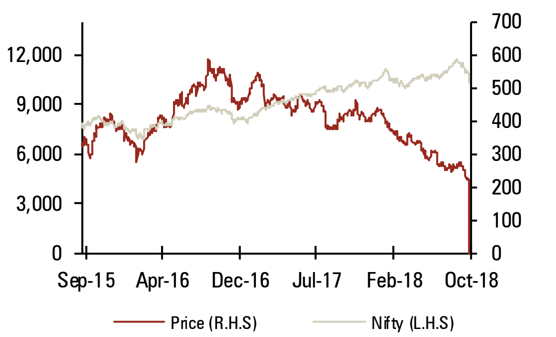
Stock data

Particular	Amount
Market Capitalization	₹ 62479 Crore
Total Debt (FY18)	63,938.6
Cash and Investments (FY18)	49,775.0
EV (FY18)	76,642.7
52 week H/L (₹)	468 / 172
Equity capital (₹ crore)	₹ 679.2 Crore
Face value (₹)	₹ 2

Price performance (%)

	1M	3M	6M	12M
Tata Motors	-23.4	-21.6	-41.7	-50.0
M&M Ltd	-20.4	-16.2	0.4	18.9
Maruti Suzuki India	-21.0	-26.1	-25.2	-12.8

Price Chart



Research Analyst

Shashank Kanodia, CFA
Shashank.kanodia@icicisecurities.com
Vidrum Mehta
vidrum.mehta@icicisecurities.com

Financial summary

Profit and loss statement				₹ Crore
(Year-end March)	FY17E	FY18E	FY19E	FY20E
Total operating Income	269,693	294,619	304,445	330,165
Growth (%)	-2.1	9.2	3.3	8.4
Raw Material Expenses	165,894	185,850	193,706	208,179
Employee Expenses	28,333	30,300	34,690	35,203
Marketing Expenses	59,340	58,999	64,120	66,480
Capitalised Expenses	-16,877	-18,588	-21,325	-21,016
Total Operating Expenditure	236,690	256,561	271,191	288,847
EBITDA	33,002	38,058	33,254	41,318
Growth (%)	-21.1	15.3	-12.6	24.3
Product development Expenses	3414	3532	3885	3783
Depreciation	17905	21554	21311	23112
Interest	4238	4682	5120	5220
Other Income	755	889	903	889
PBT	11614	12712	5578	13875
Minority Interest	0	0	0	0
Total Tax	3251	4342	696	2624
Reported PAT	7,557	9,091	2,387	9,637
Growth (%)	-40.2	20.3	-73.7	303.7
EPS (₹)	22.3	26.8	7.0	28.4

Source: Company, ICICI Direct Research

Cash flow statement				₹ Crore
(Year-end March)	FY17E	FY18E	FY19E	FY20E
Profit after Tax	8,944.1	9,911.8	5,937.9	12,436.8
Add: Depreciation	17,905	21,554	21,311	23,112
(Inc)/dec in Current Assets	-1,779	-21,197	4,312	-6,566
Inc/(dec) in CL and Provisions	16,033	27,590	-16,818	5,544
Others	0	0	0	0
CF from operating activities	41,103	37,858	14,743	34,527
(Inc)/dec in Investments	0	0	0	0
(Inc)/dec in Fixed Assets	-18,024	-53,915	-45,000	-45,000
Others	2,666	-4,833	10,994	-3,652
CF from investing activities	(15,357)	(58,748)	(34,006)	(48,652)
Issue/(Buy back) of Equity	0	0	0	0
Inc/(dec) in loan funds	8,939	-8,100	15,000	10,000
Dividend paid & dividend tax	0	0	0	0
Inc/(dec) in Sec. premium	0	0	0	0
Others	-33,101	27,526	-934	-409
CF from financing activities	(24,162)	19,426	14,066	9,591
Net Cash flow	1,583	-1,464	-5,197	-4,534
Opening Cash	34,495	36,078	34,614	29,417
Closing Cash	36,078	34,614	29,417	24,883

Source: Company, ICICI Direct Research

Balance sheet				₹ Crore
(Year-end March)	FY17E	FY18E	FY19E	FY20E
Liabilities				
Equity Capital	679	679	679	679
Reserve and Surplus	57,383	94,749	100,278	112,306
Total Shareholders funds	58,062	95,428	100,957	112,985
Total Debt	72,039	63,939	78,939	88,939
Deferred Tax Liability	1,174	6,126	6,330	6,865
Long term provisions	9004	10948	11314	12269
Minority Interest / Others	17,846	11,690	11,538	12,512
Total Liabilities	158,125	188,131	209,077	233,570
Assets				
Gross Block	237,466	285,424	346,517	391,517
Less: Acc Depreciation	118,683	140,236	161,548	184,659
Net Block	118,783	145,188	184,970	206,858
Capital WIP	10,187	16,143	50	50
Total Fixed Assets	128,970	161,331	185,020	206,908
Investments	20,338	20,813	25,813	30,813
Inventory	35,085	42,138	43,543	47,222
Debtors	14,076	19,893	20,557	22,293
Loans and Advances	14,757	710	2,280	2,356
Other Current Assets	101,079	120,812	111,303	113,335
Cash	36,078	34,614	29,417	24,883
Total Current Assets	101,079	120,812	111,303	113,335
Creditors	57,698	72,038	58,387	63,319
Provisions	5,808	7,954	6,446	6,991
Total Current Liabilities	115,630	143,219	126,401	131,945
Net Current Assets	-14,551	-22,408	-15,098	-18,611
Deferred Tax Asset	4,457	4,159	4,297	4,660
Application of Funds	158,125	188,131	209,077	233,570

Source: Company, ICICI Direct Research

Key ratios				
(Year-end March)	FY17E	FY18E	FY19E	FY20E
Per share data (₹)				
EPS	22.3	26.8	7.0	28.4
Cash EPS	75.0	90.2	69.8	96.4
BV	172.3	282.6	297.3	332.7
DPS	0.0	0.0	0.0	0.0
Cash Per Share	106.2	101.9	86.6	73.3
Operating Ratios				
EBITDA Margin (%)	12.2	12.9	10.9	12.5
PBT / Net sales (%)	5.6	5.6	3.9	5.5
PAT Margin (%)	2.8	7.6	8.2	5.2
Inventory days	47.5	52.2	52.2	52.2
Debtor days	19.0	24.6	24.6	24.6
Creditor days	78.1	89.2	70.0	70.0
Return Ratios (%)				
RoE	15.3	10.3	5.9	11.0
RoCE	12.0	10.5	6.9	9.1
RoIC	18.9	16.7	7.6	10.1
Valuation Ratios (x)				
P/E	6.9	6.3	10.5	5.0
EV / EBITDA	2.5	2.0	2.8	2.4
EV / Net Sales	0.3	0.3	0.3	0.3
Market Cap / Sales	0.2	0.2	0.2	0.2
Price to Book Value	1.1	0.6	0.6	0.5
Solvency Ratios				
Debt/EBITDA	2.2	1.7	2.4	2.2
Debt / Equity	1.2	0.7	0.8	0.8
Current Ratio	0.6	0.6	0.7	0.8
Quick Ratio	0.2	0.3	0.3	0.3

Source: Company, ICICI Direct Research

RATING RATIONALE

ICICI Direct endeavours to provide objective opinions and recommendations. ICICI Direct assigns ratings to its stocks according to their notional target price vs. current market price and then categorises them as Strong Buy, Buy, Hold and Sell. The performance horizon is two years unless specified and the notional target price is defined as the analysts' valuation for a stock.

Strong Buy: >15%/20% for large caps/midcaps, respectively, with high conviction;
Buy: >10%/15% for large caps/midcaps, respectively;
Hold: Up to +/-10%;
Sell: -10% or more;

Pankaj Pandey | Head – Research | pankaj.pandey@icicisecurities.com

ICICI Direct Research Desk,
ICICI Securities Limited,
1st Floor, Akruti Trade Centre,
Road No 7, MIDC,
Andheri (East)
Mumbai – 400 093
research@icicidirect.com

ANALYST CERTIFICATION

We /I, *Shashank Kanodia*, CFA MBA (Capital Markets) and *Vidrum Mehta*, MBA (Finance) Research Analysts, authors and the names subscribed to this report, hereby certify that all of the views expressed in this research report accurately reflect our views about the subject issuer(s) or securities. We also certify that no part of our compensation was, is, or will be directly or indirectly related to the specific recommendation(s) or view(s) in this report.

Terms & conditions and other disclosures:

ICICI Securities Limited (ICICI Securities) is a full-service, integrated investment banking and is, *inter alia,* engaged in the business of stock brokering and distribution of financial products. ICICI Securities Limited is a Sebi registered Research Analyst with Sebi Registration Number – INH000000990. ICICI Securities Limited Sebi Registration is INZ000183631 for stock Broker. ICICI Securities is a wholly-owned subsidiary of ICICI Bank which is India's largest private sector bank and has its various subsidiaries engaged in businesses of housing finance, asset management, life insurance, general insurance, venture capital fund management, etc. ("associates"), the details in respect of which are available on www.icicibank.com.

ICICI Securities is one of the leading merchant bankers/ underwriters of securities and participate in virtually all securities trading markets in India. We and our associates might have investment banking and other business relationship with a significant percentage of companies covered by our Investment Research Department. ICICI Securities generally prohibits its analysts, persons reporting to analysts and their relatives from maintaining a financial interest in the securities or derivatives of any companies that the analysts cover.

The information and opinions in this report have been prepared by ICICI Securities and are subject to change without any notice. The report and information contained herein is strictly confidential and meant solely for the selected recipient and may not be altered in any way, transmitted to, copied or distributed, in part or in whole, to any other person or to the media or reproduced in any form, without prior written consent of ICICI Securities. While we would endeavour to update the information herein on a reasonable basis, ICICI Securities is under no obligation to update or keep the information current. Also, there may be regulatory, compliance or other reasons that may prevent ICICI Securities from doing so. Non-rated securities indicate that rating on a particular security has been suspended temporarily and such suspension is in compliance with applicable regulations and/or ICICI Securities policies, in circumstances where ICICI Securities might be acting in an advisory capacity to this company, or in certain other circumstances.

This report is based on information obtained from public sources and sources believed to be reliable, but no independent verification has been made nor is its accuracy or completeness guaranteed. This report and information herein is solely for informational purpose and shall not be used or considered as an offer document or solicitation of offer to buy or sell or subscribe for securities or other financial instruments. Though disseminated to all the customers simultaneously, not all customers may receive this report at the same time. ICICI Securities will not treat recipients as customers by virtue of their receiving *Shashank Kanodia*, CFA MBA (Capital Markets) and *Vidrum Mehta*, MBA (Finance) this report. Nothing in this report constitutes investment, legal, accounting and tax advice or a representation that any investment or strategy is suitable or appropriate to your specific circumstances. The securities discussed and opinions expressed in this report may not be suitable for all investors, who must make their own investment decisions, based on their own investment objectives, financial positions and needs of specific recipient. This may not be taken in substitution for the exercise of independent judgment by any recipient. The recipient should independently evaluate the investment risks. The value and return on investment may vary because of changes in interest rates, foreign exchange rates or any other reason. ICICI Securities accepts no liabilities whatsoever for any loss or damage of any kind arising out of the use of this report. Past performance is not necessarily a guide to future performance. Investors are advised to see Risk Disclosure Document to understand the risks associated before investing in the securities markets. Actual results may differ materially from those set forth in projections. Forward-looking statements are not predictions and may be subject to change without notice.

ICICI Securities or its associates might have managed or co-managed public offering of securities for the subject company or might have been mandated by the subject company for any other assignment in the past twelve months.

ICICI Securities or its associates might have received any compensation from the companies mentioned in the report during the period preceding twelve months from the date of this report for services in respect of managing or co-managing public offerings, corporate finance, investment banking or merchant banking, brokerage services or other advisory service in a merger or specific transaction.

ICICI Securities or its associates might have received any compensation for products or services other than investment banking or merchant banking or brokerage services from the companies mentioned in the report in the past twelve months.

ICICI Securities encourages independence in research report preparation and strives to minimize conflict in preparation of research report. ICICI Securities or its associates or its analysts did not receive any compensation or other benefits from the companies mentioned in the report or third party in connection with preparation of the research report. Accordingly, neither ICICI Securities nor Research Analysts and their relatives have any material conflict of interest at the time of publication of this report.

It is confirmed that *Shashank Kanodia*, CFA MBA (Capital Markets) and *Vidrum Mehta*, MBA (Finance) Research Analysts of this report have not received any compensation from the companies mentioned in the report in the preceding twelve months.

Compensation of our Research Analysts is not based on any specific merchant banking, investment banking or brokerage service transactions.

ICICI Securities or its subsidiaries collectively or Research Analysts or their relatives do not own 1% or more of the equity securities of the Company mentioned in the report as of the last day of the month preceding the publication of the research report.

Since associates of ICICI Securities are engaged in various financial service businesses, they might have financial interests or beneficial ownership in various companies including the subject company/companies mentioned in this report.