Tata Motors (TATMOT)

ICICI direct Research

CMP: ₹ 172 | Target: ₹ 185 (⬆ 8%) | Target Period: 12 months | HOLD

June 6, 2019

Company Update

JLR tie-up with BMW, directionally correct…

Tata Motors' luxury car unit and overseas subsidiary i.e. JLR has announced a collaboration with the BMW group to jointly develop technology and mechanics (electric drive units) for electric vehicles. Their collaboration seeks to advance development of electrification technology to support transition to Autonomous, Connected, Electric, Shared (ACES) platform. Both companies will jointly pull resources (labour+ capital) for research and development, engineering and procurement of essential components of EV vehicles and broader ACES domain.

Out take: Tie-up need of the hour, following global peers!

- We view this as a positive development amid high investment required in the ACES domain. It will limit the cash burn at JLR thereby resulting in controlled leverage, going forward
- Both companies have one running EV model in the marketplace (BMW: I-3; JLR: I-Pace) and possess certain advance research capabilities to jointly invest in the ACES domain
- JLR sells its I-Pace at ~US$70,000/unit and is currently selling at a quarterly run rate of ~5,000 units/month. BMW i-3, on the other hand, is being sold at ~US$45,000/unit and has sold nearly 1.5 lakh units till date (since 2013)
- Sharing of costs (billions of dollars) is a more prudent way of investment in a technology (autonomous driving) that lacks a regulatory framework and possesses uncertain demand prospects. However, is widely acknowledged as the future of driving
- Some global tie-ups/collaboration in a similar space include: Ford-Volkswagen; Honda-General Motors; Ford- Rivian among others

Valuation & Outlook

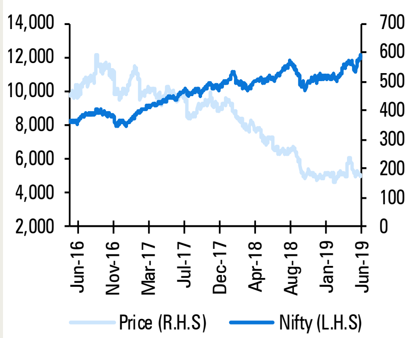
JLR witnessed demand concerns starting June 2018 amid uncertainty over Brexit, tariff barriers in China, a general auto slowdown in China among others. This led to a decline in sales, which continued until April 2019. Going forward, as the base effect kicks in from June 2019, we expect its performance to normalise from here on amid conscious efforts to reduce cash costs, improve brand perception, control working capital cycle and capex outgo. However, we await positive commentary from JLR on volume as well as cash costs savings perspective before any meaningful change in our stance. However, the present collaboration mitigates risks over cash flow burn at JLR on upcoming technologies over a longer timeframe. We stick to our **HOLD** rating on the stock with a target price of ₹ 185.

TATA MOTORS
Connecting Aspirations

Particulars

Particular	Amount
Market Capitalization	₹ 58404.3 Crore
Total Debt (FY19P)	102,080.0
Cash and Investments (FY19P)	42,178.6
EV (FY19P)	118,305.7
52 week H/L (₹)	315 / 142
Equity capital (₹ crore)	₹ 679.2 Crore
Face value (₹)	₹ 2

Price Chart



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Key Financial Summary

Key Financials	FY17	FY18	FY19P	FY20E	FY21E	CAGR (FY19P-21E)
Net Sales	269,692.5	294,619.2	301,938.4	319,797.2	344,163.0	6.8%
EBITDA	33,002.3	38,058.3	29,794.8	37,483.2	43,911.5	21.4%
EBITDA Margins (%)	12.2	12.9	9.9	11.7	12.8	
Net Profit	7,556.6	9,091.4	(28,724.2)	4,910.9	8,017.8	NM
EPS (₹)	22.3	26.8	(84.6)	14.5	23.6	
P/E	7.7	6.4	(2.0)	11.9	7.3	
RoNW (%)	15.3	10.3	7.1	13.5	16.4	
RoCE (%)	11.5	9.1	5.6	10.2	12.1	

Source: ICICI Direct Research, Company

ICICI Securities – Retail Equity Research

Exhibit 1: Valuation as per SOTP method

	Parameters	Basis	Multiple	Per Share
Tata Motors Core business	FY21E EBITDA	6,633	7.0	104
JLR	FY21E Adj EV/EBITDA	25,293	2.8	56
Other Subsidiaries + Investments				25
Total value per share				**185**
TML DVR inferred target value @ 35% discount				**120**

Source: Reuters, ICICI Direct Research

Exhibit 2: Valuation Summary

	Sales (₹ cr)	Growth (%)	EPS (₹)	Growth (%)	PE (x)	EV/EBITDA (x)	RoNW (%)	RoCE (%)
FY17	269,693	-2.1	22.3	-40.2	7.7	2.6	15.3	11.5
FY18	294,619	9.2	26.8	20.3	6.4	2.6	10.3	9.1
FY19P	301,938	2.5	-84.6	NA	NA	4.0	7.1	5.6
FY20E	319,797	5.9	14.5	NA	11.9	3.2	13.5	10.2
FY21E	344,163	7.6	23.6	63.3	7.3	2.8	16.4	12.1

Source: Bloomberg, ICICI Direct Research

Financial Summary

Exhibit 3: Profit and loss statement				₹ crore
(Year-end March)	FY18	FY19P	FY20E	FY21E
Total operating Income	**294,619**	**301,938**	**319,797**	**344,163**
Growth (%)	9.2	2.5	5.9	7.6
Raw Material Expenses	185,850	196,321	209,541	224,931
Employee Expenses	30,300	33,244	32,149	33,077
Marketing Expenses	58,999	62,238	61,203	64,390
Capitalised Expenses	-18,588	-19,660	-20,578	-22,146
Total Operating Expenditure	256,561	272,144	282,314	300,252
EBITDA	**38,058**	**29,795**	**37,483**	**43,911**
Growth (%)	15.3	-21.7	25.8	17.1
Product development Expenses	3532	4225	4542	4879
Depreciation	21554	23591	21746	23403
Interest	4682	5759	6155	6215
Other Income	889	2965	1716	1287
PBT	**12,712**	**2,505**	**10,618**	**15,071**
Minority Interest	0	0	0	0
Total Tax	4342	-2437	1519	2548
Reported PAT	**9,091**	**(28,724)**	**4,911**	**8,018**
Growth (%)	20.3	-416.0	-117.1	63.3
Adjusted PAT	8,944	9,912	4,320	8,827
Growth (%)	-48.4	10.8	-56.4	104.4
EPS (₹)	**26.8**	**(84.6)**	**14.5**	**23.6**

Source: Company, ICICI Direct Research

Exhibit 4: Cash flow statement				₹ crore
(Year-end March)	FY18	FY19P	FY20E	FY21E
Profit after Tax	9,911.8	(28,724.2)	4,910.9	8,017.8
Add: Depreciation	21,554	23,591	21,746	23,403
(Inc)/dec in Current Assets	-21,197	4,945	-505	-4,484
Inc/(dec) in CL and Provisions	17,814	-1,117	7,019	7,124
Others	0	27,838	0	0
CF from operating activities	**28,082**	**26,532**	**33,171**	**34,061**
(Inc)/dec in Investments	0	0	0	0
(Inc)/dec in Fixed Assets	-53,915	-32,468	-35,000	-35,000
Others	-13,504	-2,633	-201	181
CF from investing activities	**(67,419)**	**(35,101)**	**(35,201)**	**(34,819)**
Issue/(Buy back) of Equity	0	0	0	0
Inc/(dec) in loan funds	10,346	13,130	1,000	1,000
Dividend paid & dividend tax	0	0	0	0
Inc/(dec) in Sec. premium	0	0	0	0
Others	27,526	-6,526	0	0
CF from financing activities	**37,872**	**6,603**	**1,000**	**1,000**
Net Cash flow	-1,464	-1,965	-1,030	241
Opening Cash	36,078	34,614	32,649	31,619
Closing Cash	**34,614**	**32,649**	**31,619**	**31,860**

Source: Company, ICICI Direct Research

Exhibit 5: Balance Sheet				₹ crore
(Year-end March)	FY18	FY19P	FY20E	FY21E
Liabilities				
Equity Capital	679	679	679	679
Reserve and Surplus	94,749	59,500	64,411	72,429
Total Shareholders funds	**95,428**	**60,180**	**65,090**	**73,108**
Total Debt	88,950	102,080	103,080	104,080
Deferred Tax Liability	6,126	1,491	1,579	1,700
Long term provisions	10948	11855	12556	13513
Minority Interest / Others	14,429	17,238	18,227	19,575
Total Liabilities	**215,882**	**192,843**	**200,532**	**211,976**
Assets				
Gross Block	261,534	274,314	311,814	349,314
Less: Acc Depreciation	140,236	163,827	185,573	208,976
Net Block	121,297	110,487	126,240	140,337
Capital WIP	40,034	31,884	29,384	26,884
Total Fixed Assets	**161,331**	**142,370**	**155,624**	**167,221**
Investments	20,813	15,771	16,021	16,271
Inventory	42,138	39,014	39,427	42,431
Debtors	19,893	18,996	19,275	20,744
Loans and Advances	710	2,280	1,269	1,344
Other Current Assets	120,812	113,901	113,376	118,102
Cash	**34,614**	**32,649**	**31,619**	**31,860**
Total Current Assets	120,812	113,901	113,376	118,102
Creditors	72,038	68,514	74,473	80,148
Provisions	7,954	10,197	10,935	11,608
Total Current Liabilities	115,469	114,351	121,370	128,494
Net Current Assets	**5,343**	**(450)**	**(7,994)**	**(10,393)**
Deferred Tax Asset	4,159	5,151	5,456	5,871
Application of Funds	**215,882**	**192,843**	**200,532**	**211,976**

Source: Company, ICICI Direct Research

Exhibit 6: Key ratios				
(Year-end March)	FY18	FY19P	FY20E	FY21E
Per share data (₹)				
EPS	26.8	-84.6	14.5	23.6
Cash EPS	90.2	-15.1	78.5	92.5
BV	282.6	178.8	193.2	216.8
DPS	0.0	0.0	0.0	0.0
Cash Per Share	101.9	96.2	93.1	93.8
Operating Ratios				
EBITDA Margin (%)	12.9	9.9	11.7	12.8
PBT / Net sales (%)	5.6	2.1	4.9	6.0
PAT Margin (%)	3.1	2.3	1.5	2.3
Inventory days	52.2	47.2	45.0	45.0
Debtor days	24.6	23.0	22.0	22.0
Creditor days	89.2	82.8	85.0	85.0
Return Ratios (%)				
RoE	10.3	7.1	13.5	16.4
RoCE	9.1	5.6	10.2	12.1
RoIC	19.2	9.0	20.0	22.6
Valuation Ratios (x)				
P/E (adjusted)	5.9	13.5	6.6	4.8
EV / EBITDA	2.6	4.0	3.2	2.8
EV / Net Sales	0.3	0.4	0.4	0.4
Market Cap / Sales	0.2	0.2	0.2	0.2
Price to Book Value	0.6	1.0	0.9	0.8
Solvency Ratios				
Debt/EBITDA	2.3	3.4	2.8	2.4
Debt / Equity	0.9	1.7	1.6	1.4
Current Ratio	0.7	0.6	0.6	0.6
Quick Ratio	**0.3**	**0.3**	**0.3**	**0.3**

Source: Company, ICICI Direct Research

Exhibit 7: ICICI Direct coverage universe (Auto & Auto Ancillary)

Sector / Company	CMP			M Cap	EPS (₹)			P/E (x)			EV/EBITDA (x)			RoCE (%)			RoE (%)		
	(₹)	TP(₹)	Rating	(₹ Cr)	FY18	FY19P	FY20E	FY18	FY19P	FY20E	FY18	FY19P	FY20E	FY18	FY19P	FY20E	FY18	FY19P	FY20E
Amara Raja (AMARAJ)	635	590	Reduce	10846	27.6	28.3	30.0	22.8	22.3	21.0	12.0	11.0	10.2	23.3	21.2	20.2	16.0	14.5	13.9
Apollo Tyre (APOTYR)	195	180	Hold	11152	12.7	11.9	15.3	14.9	15.8	12.3	7.5	7.5	7.3	7.8	8.2	8.0	7.4	8.3	8.2
Ashok Leyland (ASHLEY)	92	100	Hold	26948	5.9	6.8	6.4	15.6	13.6	14.3	7.7	8.1	7.9	29.7	27.5	25.9	24.0	24.4	20.7
Bajaj Auto (BAAUTO)	3068	2800	Reduce	88790	140.6	161.6	165.6	21.7	18.9	18.4	15.2	14.3	13.0	22.9	21.0	20.0	21.5	19.9	19.7
Balkrishna Ind. (BALIND)	854	740	Hold	16517	40.5	40.3	45.9	19.2	19.3	16.9	11.8	10.6	9.0	20.4	18.8	19.5	16.7	18.8	19.5
Bharat Forge (BHAFOR)	498	535	Buy	32590	16.2	22.2	23.9	28.7	21.0	19.5	13.7	11.9	10.9	18.2	18.4	18.5	17.3	19.1	17.9
Bosch (MICO)	16910	15550	Reduce	51611	449.1	523.6	538.7	37.9	32.5	31.6	23.4	23.3	21.9	14.4	17.5	15.9	21.4	25.8	23.6
Eicher Motors (EICMOT)	20811	19000	Hold	56731	718.9	808.1	912.5	26.1	23.2	20.5	16.8	16.6	14.3	39.1	32.5	29.6	29.9	24.8	22.8
Escorts (ESCORT)	634	600	Hold	7773	28.1	39.6	43.1	23.5	16.7	15.3	13.1	10.6	8.9	18.8	19.6	19.8	13.5	16.0	15.0
Exide Industries (EXIIND)	216	200	Reduce	18360	8.2	9.1	10.1	27.3	21.7	21.2	14.5	12.7	11.2	19.0	18.4	18.7	12.9	12.9	12.9
Hero Moto (HERHON)	2760	2700	Hold	55117	185.1	169.5	171.2	13.6	14.8	14.7	8.2	9.2	8.7	42.4	37.1	34.2	31.4	26.3	24.1
JK Tyre & Ind (JKIND)	83	100	Buy	1889	2.9	7.8	8.2	27.5	10.3	9.8	9.3	6.3	6.2	7.8	10.9	10.7	3.7	10.3	9.8
Mahindra CIE (MAHAUT)	243	275	Buy	9193	13.2	15.1	17.4	17.1	14.9	12.9	8.9	7.6	6.5	12.4	11.8	12.0	13.2	13.9	14.9
Maruti Suzuki (MARUTI)	7067	5815	Sell	213480	255.6	248.3	256.3	27.0	27.8	26.9	14.5	15.8	14.4	21.1	16.3	15.9	18.5	16.3	15.2
Motherson (MOTSUM)	120	125	Hold	37895	5.1	5.1	5.1	23.7	23.5	23.4	8.7	8.5	8.4	16.3	13.5	12.5	17.4	14.7	13.5
Tata Motors (TELCO)	172	185	Hold	51307	26.8	-84.6	14.5	6.7	NA	12.4	2.6	4.1	3.3	9.1	5.6	10.2	10.3	7.1	13.5
Wabco India (WABTVS)	6227	6510	Hold	11812	143.8	148.8	168.7	43.1	41.7	36.7	27.8	26.6	22.8	17.9	15.9	15.4	25.1	23.0	22.6

Source: Reuters, ICICI Direct Research

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Buy: >15%

Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%

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