

July 25, 2019

Q1FY20 Result Update

☒ Change in Estimates | ☒ Target | ☒ Reco

Change in Estimates

	Current		Previous	
	FY20E	FY21E	FY20E	FY21E
Rating	HOLD		ACCUMULATE	
Target Price	139		189	
Sales (Rs. m)	3,151,251	3,258,265	3,298,989	3,471,538
% Chng.	(4.5)	(6.1)		
EBITDA (Rs. m)	286,830	305,374	377,379	385,277
% Chng.	(24.0)	(20.7)		
EPS (Rs.)	5.5	16.8	6.9	20.2
% Chng.	(20.0)	(16.9)		

Key Financials - Standalone

Y/e Mar	FY18	FY19	FY20E	FY21E
Sales (Rs. bn)	2,916	3,019	3,151	3,258
EBITDA (Rs. bn)	338	298	287	305
Margin (%)	11.6	9.9	9.1	9.4
PAT (Rs. bn)	70	8	19	57
EPS (Rs.)	20.7	2.4	5.5	16.8
Gr. (%)	10.6	(88.2)	127.9	203.0
DPS (Rs.)	-	0.3	0.3	0.3
Yield (%)	-	0.2	0.2	0.2
RoE (%)	9.1	1.1	3.1	8.8
RoCE (%)	5.7	1.2	3.6	6.2
EV/Sales (x)	0.3	0.3	0.4	0.4
EV/EBITDA (x)	2.3	3.3	4.1	4.0
PE (x)	7.0	59.3	26.0	8.6
P/BV (x)	0.5	0.8	0.8	0.7

Key Data

TAMO.BO | TTMT IN

52-W High / Low	Rs.282 / Rs.129
Sensex / Nifty	37,831 / 11,252
Market Cap	Rs.451bn / \$ 6,538m
Shares Outstanding	2,887m
3M Avg. Daily Value	Rs.8170.36m

Shareholding Pattern (%)

Promoter's	38.54
Foreign	19.14
Domestic Institution	16.10
Public & Others	26.22
Promoter Pledge (Rs bn)	9.13

Stock Performance (%)

	1M	6M	12M
Absolute	(10.3)	(16.9)	(44.2)
Relative	(6.4)	(20.8)	(45.6)

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Multiple headwinds remain, downgrade to HOLD

We downgrade TTMT to HOLD citing uncertainty in S/A and JLR led by key headwinds like a) Brexit uncertainty and b) weak demand in domestic markets. Consolidated performance for TTMT over Q1FY20 was below expectations, with margin disappointment at both JLR (OPM at 4.2% v/s PLe at 7.5%) as well as Standalone India business (OPM at 6.4% v/s PLe at 7.8%). With China stabilizing and expected to recover hereon, the management has reiterated their EBIT guidance for full year FY20E at ~3%. However, given Q1FY20 EBIT margins at -5.5%, along with Brexit uncertainties ahead, we feel this would be an uphill task (PLe of 2.3% in FY20). Standalone margins are expected to remain under pressure owing to the weakness in demand, uncertainties around pre-buy and increasing discounting, especially in the CV segment. We currently factor in 5%/6% volume growth for JLR with EBIT margins of 2.3%/4.2% for FY20/21E. We downgrade the stock to "HOLD" with the target price of Rs139, where we value JLR at 3x Mar'21E EV/EBITDA and Standalone entity at 8x Mar'21E EPS.

- Increased VME, warranty cost drag JLR margins at lowest level of 4.2%:** JLR net revenues for Q1FY20 were down ~3% YoY to GBP5.07bn (PLe: Rs4.7bn), with volumes declining 4.2% YoY. In addition to negative operating leverage, higher variable marketing cost at ~9% (v/s 6% average) and warranty cost at ~6% (average 4%) dragged OPM at 4.2%, lower 200bps YoY / 560bps QoQ, (PLe at 7.5%). EBIT for JLR stood at -5.5% (lower 180bps YoY / 850bps QoQ). Adj. Loss was at GBP391mn (PLe: loss of GBP95mn).
- S/A business loss at Rs971mn:** SA revenues were lower 20% YoY to Rs133.5bn (sharp 22% YoY volume decline), with EBITDA at Rs8.6bn and OPM at 6.4% (PLe: 7.8%). Adj. loss stood at Rs904mn (below PLe). EBITDA margin for CVs dipped 310bps YoY to 8.6% (high discounting & negative operating leverage) while OPM for PVs is now +1.2%, up 190bps YoY (cost reduction efforts & improved product mix).
- Consol margins at 4.9%:** Consol revenues were lower ~8% YoY at Rs614.7bn (PLe: Rs558.5bn). OPM was at 4.9%, lower 270bps YoY, below PLe of 7.6%. EBITDA declined 41% YoY to ~Rs30bn. Consol loss at Rs37bn (PLe: loss of Rs17bn).
- Con-call takeaways:** (1) EBIT margin for FY20 expected to be at the lower end of the guided 3-4% for JLR. (2) China is stabilizing and is expected to recover hereon. Dealer inventory in China at multi-year low of 1.5-2 months. July wholesales in China higher YoY. New *Evoque* to be launched in China by Aug'19. (3) Going ahead for JLR, China & US should aid volumes while Europe & UK can be impacted by Brexit. Management confident of overall outperforming the premium industry. (4) Project Charge has led to cost savings of ~GBP100mn for JLR operations in Q1FY20. (5) Investment spending for JLR in Q1FY20 stood at GBP1.07bn and FY20 spend is expected to be ~GBP3.8bn. (6) For India business, retail growth outpaced wholesales in Q1FY20. (7) RM cost benefit of ~80bps on Q1FY20 S/A margins.

Exhibit 1: Q1FY20 Result Overview - Consolidated (Rs m)

Y/e March	Q1FY20	Q1FY19	YoY gr. (%)	Q4FY19	FY20E	FY19	YoY gr. (%)
Net Revenues	614,670	667,011	(7.8)	864,220	3,151,251	3,019,384	4.4
Raw Materials	397,755	430,269	(7.6)	571,461	2,024,779	1,963,212	3.1
<i>% of Net Sales</i>	<i>64.7</i>	<i>64.5</i>		<i>66.1</i>	<i>64.3</i>	<i>65.0</i>	
Personnel	77,196	85,232	(9.4)	79,994	320,213	349,735	(8.4)
<i>% of Net Sales</i>	<i>12.6</i>	<i>12.8</i>		<i>9.3</i>	<i>10.2</i>	<i>11.6</i>	
Manufacturing & Other Exp	150,834	152,134	(0.9)	177,010	298,746	211,893	41.0
<i>% of Net Sales</i>	<i>24.5</i>	<i>22.8</i>		<i>20.5</i>	<i>9.5</i>	<i>7.0</i>	
Expenses capitalised	41,069	51,129	(19.7)	44,437	220,683	196,596	12.3
Total Expenditure	584,715	616,506	(5.2)	784,028	2,864,421	2,721,436	5.3
EBITDA	29,955	50,504	(40.7)	80,193	286,830	297,948	(3.7)
<i>EBITDA Margin (%)</i>	<i>4.9</i>	<i>7.6</i>		<i>9.3</i>	<i>9.1</i>	<i>9.9</i>	
Depreciation	51,117	58,571	(12.7)	53,531	189,446	235,906	(19.7)
EBIT	(21,163)	(8,067)		26,662	97,385	62,042	57.0
Interest Expenses	17,116	13,753	24.5	15,880	57,975	57,586	0.7
Non-operating income	8,360	6,050	38.2	8,636	26,571	29,653	(10.4)
Forex gain	(1,375)	(10,073)	NA	4,303	0	(9,059)	NA
Extraordinary Exp/ Income	1,088	0	NA	11,072	1,088	296,516	NA
PBT	(32,382)	(25,842)	NA	12,649	23,820	(313,712)	NA
Tax-Total	1,961	(4,156)	NA	1,115	4,764	(24,375)	NA
<i>Tax Rate (%) - Total</i>	<i>-6.1</i>	<i>16.1</i>		<i>8.8</i>	<i>20.0</i>	<i>7.8</i>	
Reported PAT	(34,343)	(21,686)	NA	11,535	19,056	(289,337)	NA
Minority Interest / Share in Associates	(2,641)	2,662	NA	(360)	(1,338)	1,075	NA
Adj. PAT	(36,766)	(19,024)	NA	21,140	18,589	(14,785)	NA

Source: Company, PL

Financials

Income Statement (Rs m)

Y/e Mar	FY18	FY19	FY20E	FY21E
Net Revenues	2,915,505	3,019,384	3,151,251	3,258,265
YoY gr. (%)	8.1	3.6	4.4	3.4
Cost of Goods Sold	1,858,500	1,963,212	2,024,779	2,088,686
Gross Profit	1,057,005	1,056,172	1,126,472	1,169,579
Margin (%)	36.3	35.0	35.7	35.9
Employee Cost	303,001	332,439	320,213	325,954
Other Expenses	415,961	425,785	519,429	538,250
EBITDA	338,043	297,948	286,830	305,374
YoY gr. (%)	(8.4)	(11.9)	(3.7)	6.5
Margin (%)	11.6	9.9	9.1	9.4
Depreciation and Amortization	250,855	278,152	230,519	201,767
EBIT	87,188	19,796	56,311	103,607
Margin (%)	3.0	0.7	1.8	3.2
Net Interest	46,818	57,586	57,975	59,423
Other Income	51,429	20,594	26,571	26,571
Profit Before Tax	111,550	(313,712)	23,820	70,755
Margin (%)	3.8	(10.4)	0.8	2.2
Total Tax	43,419	(24,375)	4,764	14,151
Effective tax rate (%)	38.9	7.8	20.0	20.0
Profit after tax	68,131	(289,337)	19,056	56,604
Minority interest	1,025	1,020	1,187	1,288
Share Profit from Associate	22,783	2,095	(150)	1,674
Adjusted PAT	70,138	8,253	18,806	56,991
YoY gr. (%)	10.6	(88.2)	127.9	203.0
Margin (%)	2.4	0.3	0.6	1.7
Extra Ord. Income / (Exp)	19,751	(296,516)	(1,088)	-
Reported PAT	89,889	(288,262)	17,718	56,991
YoY gr. (%)	20.6	(420.7)	(106.1)	221.7
Margin (%)	3.1	(9.5)	0.6	1.7
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	89,889	(288,262)	17,718	56,991
Equity Shares O/s (m)	3,396	3,396	3,396	3,396
EPS (Rs)	20.7	2.4	5.5	16.8

Source: Company Data, PL Research

Balance Sheet Abstract (Rs m)

Y/e Mar	FY18	FY19	FY20E	FY21E
Non-Current Assets				
Gross Block	2,156,778	2,258,724	2,693,563	3,048,151
Tangibles	2,156,778	2,258,724	2,693,563	3,048,151
Intangibles	-	-	-	-
Acc: Dep / Amortization	917,952	1,153,858	1,343,304	1,502,127
Tangibles	917,952	1,153,858	1,343,304	1,502,127
Intangibles	-	-	-	-
Net fixed assets	1,238,826	1,104,866	1,350,259	1,546,024
Tangibles	1,238,826	1,104,866	1,350,259	1,546,024
Intangibles	-	-	-	-
Capital Work In Progress	400,335	318,838	250,000	250,000
Goodwill	1,165	7,478	7,478	7,478
Non-Current Investments	59,250	61,345	61,195	62,869
Net Deferred tax assets	(19,671)	36,601	36,601	36,601
Other Non-Current Assets	-	-	-	-
Current Assets				
Investments	148,878	96,362	-	-
Inventories	421,377	390,137	410,094	419,557
Trade receivables	198,933	189,962	198,572	187,462
Cash & Bank Balance	346,139	326,488	301,853	313,303
Other Current Assets	11,088	12,089	17,089	22,089
Total Assets	3,271,918	3,020,434	3,149,408	3,401,651
Equity				
Equity Share Capital	6,792	6,792	6,792	6,792
Other Equity	947,487	595,003	611,618	667,504
Total Network	954,279	601,795	618,409	674,296
Non-Current Liabilities				
Long Term borrowings	779,944	911,239	981,239	1,051,239
Provisions	-	-	-	-
Other non current liabilities	-	-	-	-
Current Liabilities				
ST Debt / Current of LT Debt	-	-	-	-
Trade payables	769,398	716,907	733,853	758,774
Other current liabilities	743,376	821,863	846,089	946,236
Total Equity & Liabilities	3,271,918	3,020,434	3,149,408	3,401,651

Source: Company Data, PL Research

Cash Flow (Rs m)

Y/e Mar	FY18	FY19	FY20E	FY21E
PBT	90,914	(287,242)	17,718	56,991
Add. Depreciation	215,536	235,906	189,446	158,823
Add. Interest	39,542	78,819	26,571	26,571
Less Financial Other Income	51,429	20,594	26,571	26,571
Add. Other	(12,869)	260,141	99	1,288
Op. profit before WC changes	333,123	287,624	233,834	243,673
Net Changes-WC	(64,337)	(72,123)	(32,395)	81,715
Direct tax	(30,212)	(26,594)	(4,764)	(14,151)
Net cash from Op. activities	238,574	188,907	196,676	311,237
Capital expenditures	(350,486)	(352,363)	(366,000)	(354,588)
Interest / Dividend Income	-	-	-	-
Others	88,470	549,474	96,512	(1,674)
Net Cash from Invst. activities	(262,016)	197,111	(269,488)	(356,262)
Issue of share cap. / premium	-	-	-	-
Debt changes	75,183	159,302	70,000	70,000
Dividend paid	(960)	(947)	(1,104)	(1,104)
Interest paid	(54,106)	(70,051)	(57,975)	(59,423)
Others	-	-	-	-
Net cash from Fin. activities	20,117	88,304	10,921	9,473
Net change in cash	(3,325)	474,322	(61,890)	(35,553)
Free Cash Flow	(111,912)	(163,456)	(169,324)	(43,351)

Source: Company Data, PL Research

Quarterly Financials (Rs m)

Y/e Mar	Q2FY19	Q3FY19	Q4FY19	Q1FY20
Net Revenue	721,121	769,159	864,220	614,670
YoY gr. (%)	2.5	4.8	(3.9)	(7.8)
Raw Material Expenses	459,587	501,895	571,461	397,755
Gross Profit	261,534	267,265	292,759	216,915
Margin (%)	36.3	34.7	33.9	35.3
EBITDA	67,576	59,557	80,193	29,955
YoY gr. (%)	(21.6)	(23.2)	(16.0)	(40.7)
Margin (%)	9.4	7.7	9.3	4.9
Depreciation / Depletion	59,412	64,393	53,531	51,117
EBIT	8,164	(4,836)	26,662	(21,162)
Margin (%)	1.1	(0.6)	3.1	(3.4)
Net Interest	12,269	15,685	15,880	17,116
Other Income	1,174	8,377	12,939	6,985
Profit before Tax	(8,234)	(292,284)	12,649	(32,382)
Margin (%)	(1.1)	(38.0)	1.5	(5.3)
Total Tax	2,719	(24,052)	1,115	1,961
Effective tax rate (%)	(33.0)	8.2	8.8	(6.1)
Profit after Tax	(10,953)	(268,232)	11,535	(34,342)
Minority interest	393	317	(88)	187
Share Profit from Associates	859	(1,376)	(448)	(2,454)
Adjusted PAT	(5,185)	10,215	22,247	(35,895)
YoY gr. (%)	(120.9)	(15.1)	(40.9)	88.7
Margin (%)	(0.7)	1.3	2.6	(5.8)
Extra Ord. Income / (Exp)	(5,303)	(280,140)	(11,072)	(1,088)
Reported PAT	(10,488)	(269,925)	11,175	(36,983)
YoY gr. (%)	(142.2)	(2,351.9)	(47.4)	94.4
Margin (%)	(1.5)	(35.1)	1.3	(6.0)
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	(10,488)	(269,925)	11,175	(36,983)
Avg. Shares O/s (m)	3,219	3,219	3,219	3,219
EPS (Rs)	(1.6)	3.2	6.9	(11.2)

Source: Company Data, PL Research

Key Financial Metrics

Y/e Mar	FY18	FY19	FY20E	FY21E
Per Share(Rs)				
EPS	20.7	2.4	5.5	16.8
CEPS	94.5	84.3	73.4	76.2
BVPS	281.0	177.2	182.1	198.6
FCF	(33.0)	(48.1)	(49.9)	(12.8)
DPS	-	0.3	0.3	0.3
Return Ratio(%)				
RoCE	5.7	1.2	3.6	6.2
ROIC	5.1	1.5	3.6	6.1
RoE	9.1	1.1	3.1	8.8
Balance Sheet				
Net Debt : Equity (x)	0.3	0.8	1.1	1.1
Net Working Capital (Days)	(19)	(17)	(15)	(17)
Valuation(x)				
PER	7.0	59.3	26.0	8.6
P/B	0.5	0.8	0.8	0.7
P/CEPS	94.5	84.3	73.4	76.2
EV/EBITDA	2.3	3.3	4.1	4.0
EV/Sales	0.3	0.3	0.4	0.4
Dividend Yield (%)	-	0.2	0.2	0.2

Source: Company Data, PL Research

Key Operating Metrics

Y/e Mar	FY18	FY19	FY20E	FY21E
JLR volume (units)	545,298	507,878	528,675	557,329
TTMT CV volume (units)	448,582	519,777	578,104	520,443
TTMT PV volume (units)	190,175	211,482	229,638	239,863

Source: Company Data, PL Research

Price Chart

Recommendation History



No.	Date	Rating	TP (Rs.)	Share Price (Rs.)
1	4-Jul-19	Accumulate	189	165
2	28-May-19	Accumulate	192	181
3	21-May-19	Accumulate	192	178
4	5-Apr-19	BUY	207	205
5	11-Feb-19	BUY	207	153
6	7-Jan-19	BUY	267	175
7	31-Oct-18	BUY	267	179
8	5-Oct-18	BUY	352	223
9	1-Aug-18	BUY	352	264

Analyst Coverage Universe

Sr. No.	Company Name	Rating	TP (Rs)	Share Price (Rs)
1	Ashok Leyland	BUY	106	90
2	Bajaj Auto	Reduce	2,823	2,895
3	Bharat Forge	Hold	513	476
4	CEAT	Reduce	886	936
5	Eicher Motors	Hold	19,318	19,825
6	Exide Industries	Accumulate	231	200
7	Hero Motocorp	Accumulate	2,729	2,606
8	Mahindra & Mahindra	BUY	815	672
9	Maruti Suzuki	BUY	7,100	6,544
10	Motherson Sumi Systems	Accumulate	131	127
11	Tata Motors	Accumulate	189	165
12	TVS Motors	Hold	405	380

PL's Recommendation Nomenclature (Absolute Performance)

Buy	: > 15%
Accumulate	: 5% to 15%
Hold	: +5% to -5%
Reduce	: -5% to -15%
Sell	: < -15%
Not Rated (NR)	: No specific call on the stock
Under Review (UR)	: Rating likely to change shortly

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