

Tata Motors (TTMT IN)

Rating: REDUCE | CMP: Rs305 | TP: Rs255

February 22, 2021

Analyst Meet Update

■ Change in Estimates | Target | ■ Reco

Change in Estimates

	Current		Previous	
	FY22E	FY23E	FY22E	FY23E
Rating	REDUCE		REDUCE	
Target Price	255		231	
Sales (Rs. m)	3,166,893	3,582,906	3,166,893	3,582,906
% Chng.	-	-	-	-
EBITDA (Rs. m)	470,864	539,103	470,864	531,804
% Chng.	-	1.4	-	-
EPS (Rs.)	22.0	34.8	22.0	32.9
% Chng.	-	5.7	-	-

Key Financials - Consolidated

Ye Mar	FY20	FY21E	FY22E	FY23E
Sales (Rs. bn)	2,611	2,535	3,167	3,583
EBITDA (Rs. bn)	239	348	471	539
Margin (%)	9.2	13.7	14.9	15.0
PAT (Rs. bn)	(91)	(23)	79	125
EPS (Rs.)	(25.3)	(6.5)	22.0	34.8
Gr. (%)	480.5	(74.2)	(436.9)	58.3
DPS (Rs.)	-	-	-	-
Yield (%)	-	-	-	-
RoE (%)	(14.8)	(3.8)	12.2	16.7
RoCE (%)	(1.1)	4.1	9.3	12.1
EV/Sales (x)	0.7	0.7	0.6	0.5
EV/EBITDA (x)	7.1	5.3	3.9	3.3
PE (x)	(12.0)	(46.7)	13.9	8.8
P/BV (x)	1.7	1.8	1.6	1.4

Key Data

TAMO.BO | TTMT IN

52-W High / Low	Rs.342 / Rs.64
Sensex / Nifty	49,744 / 14,676
Market Cap	Rs.1,000bn/ \$ 13,787m
Shares Outstanding	3,089m
3M Avg. Daily Value	Rs.51653.84m

Shareholding Pattern (%)

Promoter's	42.39
Foreign	15.61
Domestic Institution	12.56
Public & Others	29.43
Promoter Pledge (Rs bn)	13.58

Stock Performance (%)

	1M	6M	12M
Absolute	5.1	151.6	91.9
Relative	3.3	94.4	58.8

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Turnaround efforts to accelerate for PV and CV

Tata Motors (TTMT) hosted 'Investors Day' for the India business ([Link for PPT](#)). The management's re-iterated key target areas over next 2-3 years are 1) continued market share gains both in PV and CV led by competitive launch, 2) double digit EBITDA in CV and high single digit EBITDA in next 3 years, 3) FCF break even by FY23 and 4) retaining leadership in EV business. We believe sharp focus on execution both in CV and PV business will help to drive strong operating performance in S/A business. Hence we build in strong margin recovery in S/A to ~9.2% by FY23E from ~3% in FY21E. However, concerns on JLR scale remain, for which detailed action plan will be known on JLR investor day i.e. on Friday. We raise consol EPS by ~6% to factor in better S/A cost control initiatives and maintain reduce on the stock with revised SoTP based TP of Rs255 (v/s Rs231). We value S/A at 11x (unchanged) & retain JLR multiple to 2x EV/EBITDA. The key upside risk is global car alliance boosting scalability issues as JLR volumes remain static at -1% CAGR over FY16-20.

CV - Alternate power trains to help address product gaps, outlook positive

- Due to increased competition, TTMT has lost market share in ICV and SCV segment by ~200-300bps in FY21 to 45.7%/33.7%. However, it aims to gain back lost market share with the launch of alternate fuel options such as petrol/CNG in addition to launch of modular platforms such as Ultra and Intra over last 2 years. It added 84/269 sales/service touch points widening network gap by 1.5x/3x over AL, which should also help.
- The domestic MHCV outlook is positive where industry is expected to grow 60-65% in FY22 with increased demand from MHCV segment led by tippers, trailers and ICVs.
- Material cost reduction by 4-6% of average purchase value, fixed cost reduction and tight working capital cycle helped lower EBIT breakeven by ~30% in YTD FY21 (v/s FY20). Management indicated target of double digit EBITDA margins for CV business in 1-2 years (v/s 8% in 3QFY21).

PV - Aim market share gains and high single digit EBITDA in three years

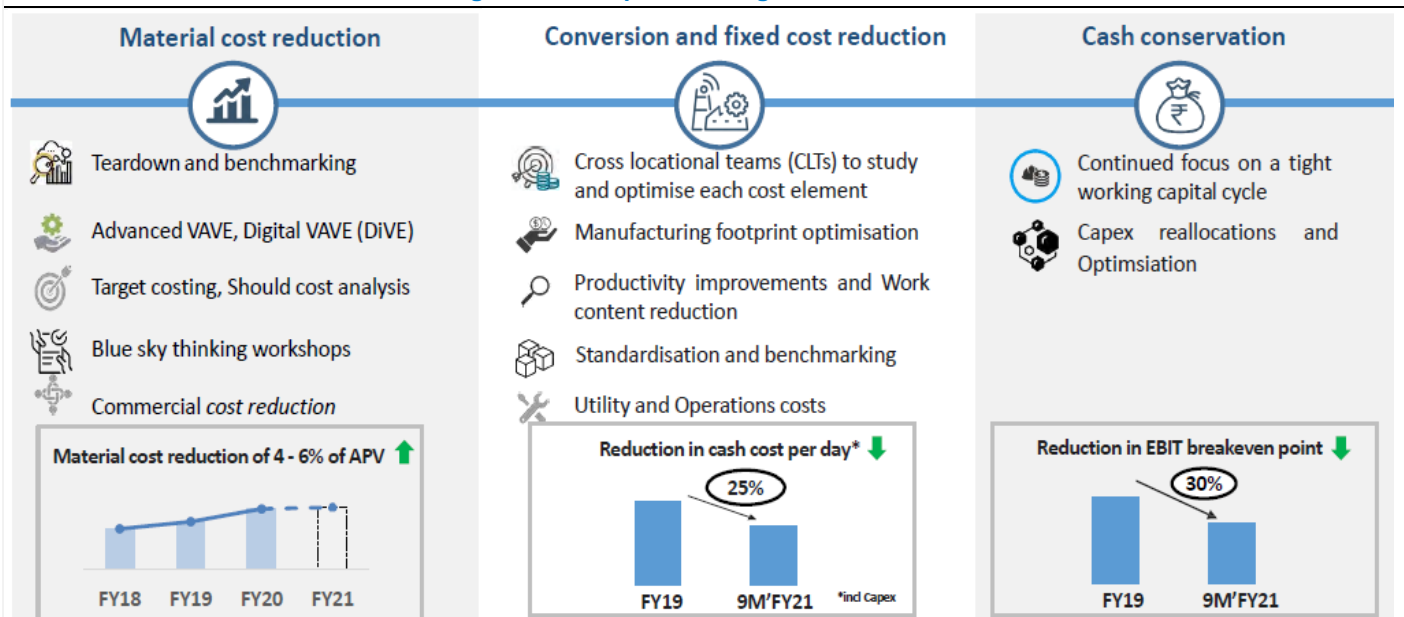
- TTMT PV targets double digit market share in 1-2 years from ~8% currently as it expects to plug product gaps (expanding coverage from ~60% to ~75%) and network expansion. This will be done through combination of, 1) launch of new products such as Hornbill micro SUV in CY21, 2) 2x sales growth in rural sales and 3) network expansion to ~1,100 outlets (from ~850-900 outlets in FY21).
- This confidence stems from the substantial improvement in the net promoter scores to 28 in 2021 from 23 in 2019. According to management, with complete product portfolio and market coverage, the market share (~8% in YTD FY21) should converge going forward.

- The management indicated high single digit EBITDA for PV business in next 3 years (v/s 3.8% in 3QFY21). We believe strong focus on cost reduction should help however, target is aggressive given rising competitive intensity in domestic PV segment.

EV - Target to sustain first mover advantage by offering complete ecosystem

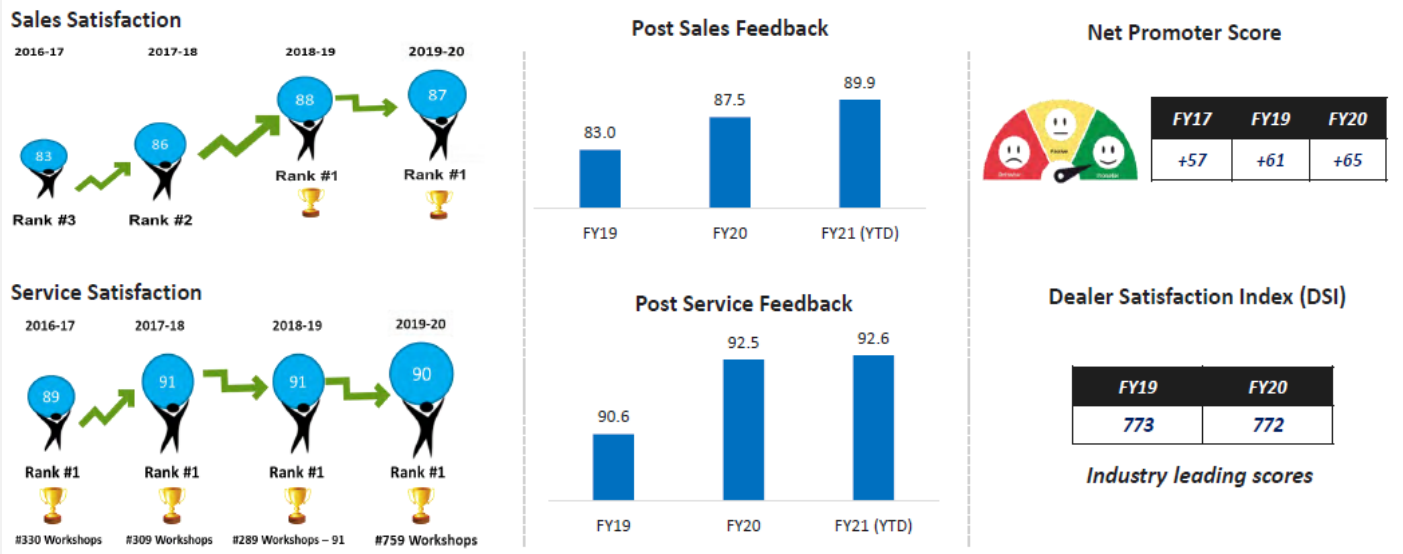
- TTMT's approach towards EV is to 1) build a comprehensive range in EVs to create excitement among consumers, 2) deliver compelling value proposition that breaks barriers, and 3) leverage partnerships and new business models to develop full EV ecosystem.
- The target is to retain first mover advantage in the e-mobility ecosystem by 1) developing dedicated electric platform, 2) focus on personal segment (v/s fleet) and (c) leveraging 'One Tata' by involving other group companies (e.g. TCS for data platform, Tata Auto comp for battery manufacturing, Tata Chemicals for lithium ion cell manufacturing, TCS for cloud management, Tata Power for charging infra and Tata Finance for retail finance).

Exhibit 1: CV – Cost reduction across segments to help drive margins



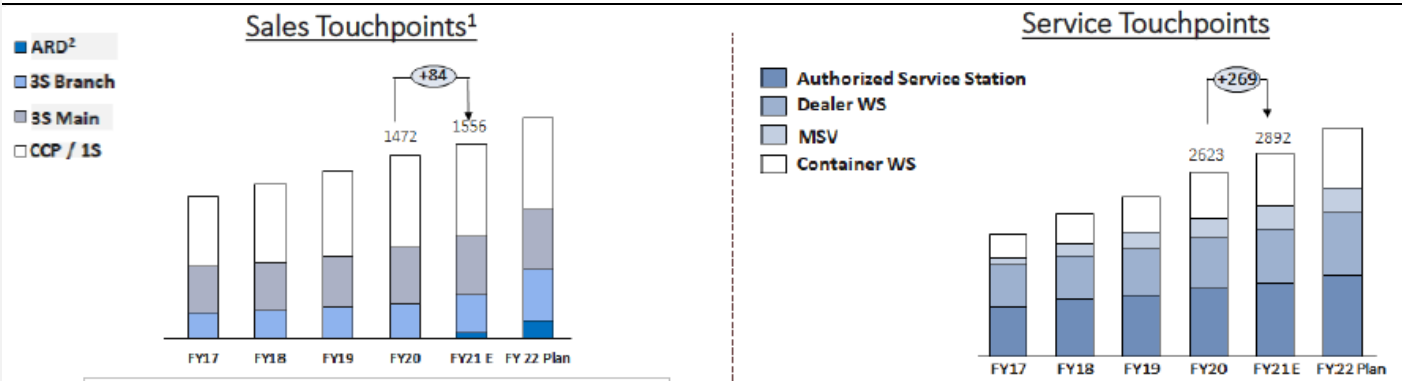
Source: Company presentation

Exhibit 2: CV – Improving sales and service satisfaction to help drive market share gains



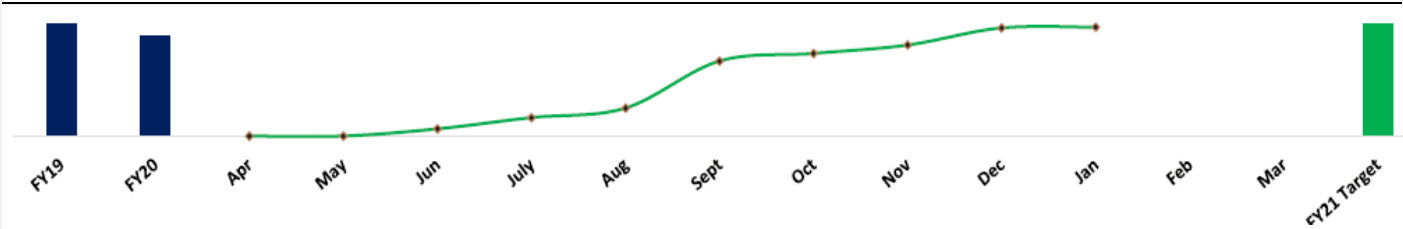
Source: Company presentation

Exhibit 3: CV – Aggressive network expansion plan to help drive market share gains










Source: Company presentation

Exhibit 4: CV – Average breakeven volume for dealers reduced by 25% leading to improved profitability in YTD FY21



Source: Company presentation

Exhibit 5: PV – Comprehensive portfolio planning to improve market coverage and share

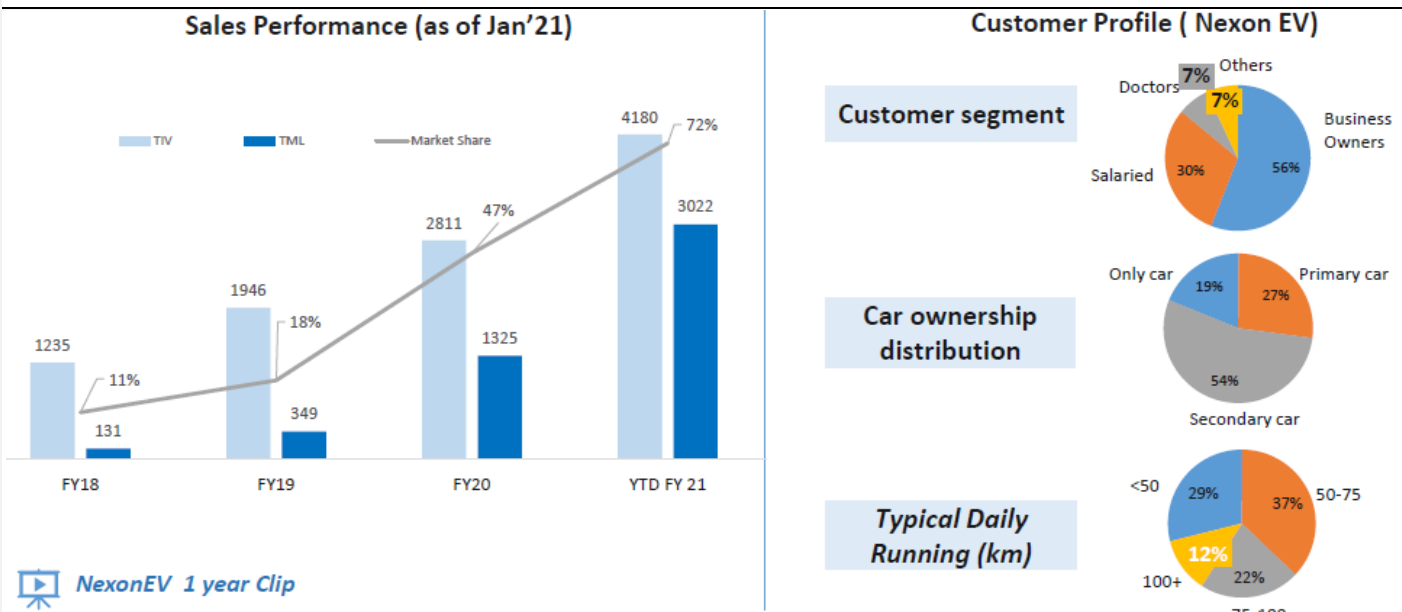
Segments	Sub-Segments					
Hatch	Entry	Midsize	High	Premium		
						
		Tiago #3 with MS 17%		Altroz #3 with MS 18%		
Sedans	Entry	Midsize	Executive	Premium		
						
	Tigor #3 with MS 6%					
SUV	Sub-Compact	Compact	Midsize 5 Str	Prem Mid. 5 Str	Midsize 7 Str	Premium
						
	HBX- Launch in CY21	Nexon #4 with MS 15%		Harrier #2 with MS 30%	Safari- Launched Today	
MPV	Compact	Midsize	High	Premium		
Van	Van	Premium				

Lower performance & Potential

Highest Performance & Potential

Source: Company presentation

Exhibit 6: EV – Success of Nexon EV helped achieve volumes and market leadership



Source: Company presentation

Exhibit 7: EV – Tata group EV ecosystem in place for higher penetration

TATA POWER

- **355+ public chargers** inter & Intra - cities & plan to take it to **700 by mid of FY22**
- Home charging installation support in all cities to support TML EV customers

TATA CHEMICALS

- Evaluating technical partners for establishing **Lithium ion cell manufacturing plant**
- Pilot plant operational for **Lithium ion battery recycling**

TATA MOTORS

TATA AUTOCOMP SYSTEMS LIMITED

- **Battery Manufacturing plant operational** for Nexon & Tigor
- Exploring EV Motor manufacturing facility in India with global partner

TATA Motorfinance

- **Structured solutions** for large fleets to adopt EVs
- **Low risk offerings** due to increased financing risk of customers (during COVID)

Source: Company presentation

Exhibit 8: SOTP valuation

Rs/Share	Valuation Parameter	Multiple (x)	FY23E
Tata Motors - Standalone	EV/EBITDA	11	219
JLR	EV/EBITDA	2	156
Other Subs			23
Total EV			397
Less: Net Debt			142
Total Equity Value			255

Source: PL

Financials

Income Statement (Rs m)

Y/e Mar	FY20	FY21E	FY22E	FY23E
Net Revenues	2,610,680	2,534,508	3,166,893	3,582,906
YoY gr. (%)	(13.5)	(2.9)	25.0	13.1
Cost of Goods Sold	1,671,310	1,637,202	2,075,966	2,379,551
Gross Profit	939,370	897,306	1,090,928	1,203,356
Margin (%)	36.0	35.4	34.4	33.6
Employee Cost	321,868	297,571	316,141	339,011
Other Expenses	378,359	252,047	303,922	325,242
EBITDA	239,143	347,688	470,864	539,103
YoY gr. (%)	(19.7)	45.4	35.4	14.5
Margin (%)	9.2	13.7	14.9	15.0
Depreciation and Amortization	256,139	280,030	316,813	331,012
EBIT	(16,996)	67,658	154,051	208,091
Margin (%)	(0.7)	2.7	4.9	5.8
Net Interest	72,433	81,188	91,591	94,149
Other Income	12,344	(11,223)	23,671	23,671
Profit Before Tax	(105,800)	(24,754)	86,131	137,613
Margin (%)	(4.1)	(1.0)	2.7	3.8
Total Tax	3,953	(1,238)	6,890	11,009
Effective tax rate (%)	(3.7)	5.0	8.0	8.0
Profit after tax	(109,752)	(23,516)	79,240	126,604
Minority interest	956	1,288	1,398	1,520
Share Profit from Associate	(10,000)	1,349	1,181	21
Adjusted PAT	(90,921)	(23,455)	79,023	125,105
YoY gr. (%)	515.0	(74.2)	(436.9)	58.3
Margin (%)	(3.5)	(0.9)	2.5	3.5
Extra Ord. Income / (Exp)	(29,787)	-	-	-
Reported PAT	(120,709)	(23,455)	79,023	125,105
YoY gr. (%)	(58.1)	(80.6)	(436.9)	58.3
Margin (%)	(4.6)	(0.9)	2.5	3.5
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	(120,709)	(23,455)	79,023	125,105
Equity Shares O/s (m)	3,598	3,598	3,598	3,598
EPS (Rs)	(25.3)	(6.5)	22.0	34.8

Source: Company Data, PL Research

Balance Sheet Abstract (Rs m)

Y/e Mar	FY20	FY21E	FY22E	FY23E
Non-Current Assets				
Gross Block	2,680,152	3,178,927	3,561,480	3,950,007
Tangibles	2,680,152	3,178,927	3,561,480	3,950,007
Intangibles	-	-	-	-
Acc: Dep / Amortization	1,416,851	1,652,371	1,919,727	2,201,065
Tangibles	1,416,851	1,652,371	1,919,727	2,201,065
Intangibles	-	-	-	-
Net fixed assets	1,263,301	1,526,557	1,641,753	1,748,941
Tangibles	1,263,301	1,526,557	1,641,753	1,748,941
Intangibles	-	-	-	-
Capital Work In Progress	356,223	250,000	250,000	250,000
Goodwill	7,771	7,771	7,771	7,771
Non-Current Investments	51,345	52,694	53,875	53,896
Net Deferred tax assets	35,160	35,160	35,160	35,160
Other Non-Current Assets	-	-	-	-
Current Assets				
Investments	111,740	91,740	71,740	51,740
Inventories	374,569	333,305	390,439	490,809
Trade receivables	111,727	138,877	216,911	294,485
Cash & Bank Balance	337,270	172,443	164,558	245,303
Other Current Assets	12,949	17,949	22,949	27,949
Total Assets	3,166,633	3,091,076	3,279,735	3,590,635
Equity				
Equity Share Capital	7,195	7,195	7,195	7,195
Other Equity	623,590	600,135	679,158	804,263
Total Network	630,785	607,331	686,354	811,459
Non-Current Liabilities				
Long Term borrowings	1,056,553	1,016,553	986,553	956,553
Provisions	-	-	-	-
Other non current liabilities	-	-	-	-
Current Liabilities				
ST Debt / Current of LT Debt	-	-	-	-
Trade payables	636,269	659,666	694,114	785,295
Other current liabilities	870,052	833,263	937,053	1,060,148
Total Equity & Liabilities	3,166,634	3,091,076	3,279,735	3,590,635

Source: Company Data, PL Research

Cash Flow (Rs m)

Y/e Mar	FY20	FY21E	FY22E	FY23E
PBT	(119,752)	(23,455)	79,023	125,105
Add. Depreciation	214,254	235,519	267,356	281,338
Add. Interest	11,913	15,863	23,671	23,671
Less Financial Other Income	12,344	(11,223)	23,671	23,671
Add. Other	127,101	1,288	1,398	1,520
Op. profit before WC changes	233,516	229,215	371,449	431,634
Net Changes-WC	50,663	35,722	38,071	71,330
Direct tax	(17,849)	1,238	(6,890)	(11,009)
Net cash from Op. activities	266,329	266,175	402,629	491,955
Capital expenditures	(295,306)	(392,553)	(382,553)	(388,527)
Interest / Dividend Income	-	-	-	-
Others	(46,397)	18,651	18,819	19,979
Net Cash from Inv. activities	(341,702)	(373,902)	(363,734)	(368,548)
Issue of share cap. / premium	38,888	-	-	-
Debt changes	82,529	(40,000)	(30,000)	(30,000)
Dividend paid	(568)	-	-	-
Interest paid	(86,953)	(81,188)	(91,591)	(94,149)
Others	-	-	-	-
Net cash from Fin. activities	33,896	(121,188)	(121,591)	(124,149)
Net change in cash	(41,477)	(228,915)	(82,696)	(742)
Free Cash Flow	(28,976)	(126,377)	20,076	103,428

Source: Company Data, PL Research

Quarterly Financials (Rs m)

Y/e Mar	Q4FY20	Q1FY21	Q2FY21	Q3FY21
Net Revenue	6,24,930	3,19,831	5,35,300	7,56,538
YoY gr. (%)	(27.7)	(48.0)	(18.2)	5.5
Raw Material Expenses	4,08,096	1,99,212	3,34,673	4,79,097
Gross Profit	2,16,833	1,20,618	2,00,627	2,77,441
Margin (%)	34.7	37.7	37.5	36.7
EBITDA	23,733	6,356	56,653	1,15,096
YoY gr. (%)	(70.4)	(78.8)	(20.9)	59.9
Margin (%)	3.8	2.0	10.6	15.2
Depreciation / Depletion	58,149	55,994	56,015	61,288
EBIT	(34,415)	(49,638)	638	53,809
Margin (%)	(5.5)	(15.5)	0.1	7.1
Net Interest	19,528	18,768	19,496	21,259
Other Income	(11,180)	6,537	10,662	13,351
Profit before Tax	(93,130)	(61,837)	(8,147)	41,674
Margin (%)	(14.9)	(19.3)	(1.5)	5.5
Total Tax	3,583	22,005	(4,714)	9,452
Effective tax rate (%)	(3.8)	(35.6)	57.9	22.7
Profit after Tax	(96,713)	(83,842)	(3,433)	32,222
Minority interest	305	60	(72)	(350)
Share Profit from Associates	(1,925)	(598)	360	(2,807)
Adjusted PAT	(70,936)	(84,532)	(3,050)	33,991
YoY gr. (%)	(418.9)	135.5	19.3	95.4
Margin (%)	(11.4)	(26.4)	(0.6)	4.5
Extra Ord. Income / (Exp)	(28,007)	32	49	(4,226)
Reported PAT	(98,943)	(84,500)	(3,001)	29,765
YoY gr. (%)	(985.4)	128.5	38.6	71.2
Margin (%)	(15.8)	(26.4)	(0.6)	3.9
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	(98,943)	(84,500)	(3,001)	29,765
Av g. Shares O/s (m)	3,598	3,598	3,598	3,598
EPS (Rs)	(19.7)	(23.5)	(0.8)	9.4

Source: Company Data, PL Research

Key Financial Metrics

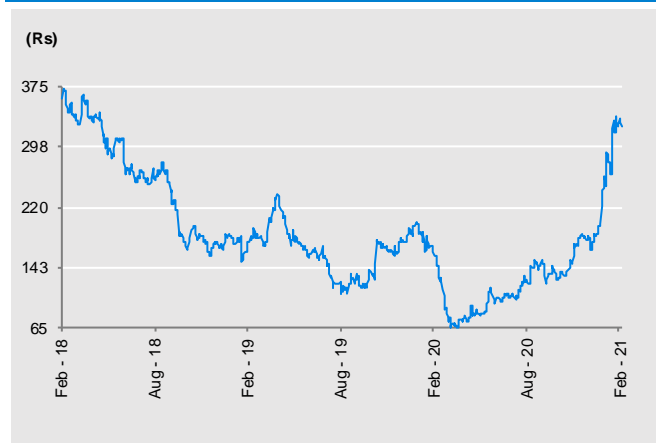
Y/e Mar	FY20	FY21E	FY22E	FY23E
Per Share(Rs)				
EPS	(25.3)	(6.5)	22.0	34.8
CEPS	45.9	71.3	110.0	126.8
BVPS	175.3	168.8	190.8	225.5
FCF	(8.1)	(35.1)	5.6	28.7
DPS	-	-	-	-
Return Ratio(%)				
RoCE	(1.1)	4.1	9.3	12.1
ROIC	(1.5)	4.6	10.0	13.4
RoE	(14.8)	(3.8)	12.2	16.7
Balance Sheet				
Net Debt : Equity (x)	1.0	1.2	1.1	0.8
Net Working Capital (Days)	(21)	(27)	(10)	-
Valuation(x)				
PER	(12.0)	(46.7)	13.9	8.8
P/B	1.7	1.8	1.6	1.4
P/CEPS	6.6	4.3	2.8	2.4
EV/EBITDA	7.1	5.3	3.9	3.3
EV/Sales	0.7	0.7	0.6	0.5
Dividend Yield (%)	-	-	-	-

Source: Company Data, PL Research

Key Operating Metrics

Y/e Mar	FY20	FY21E	FY22E	FY23E
JLR volume (units)	475,952	361,177	433,412	475,697
TTMT CV volume (units)	340,700	262,409	401,474	470,270
TTMT PV volume (units)	132,677	212,008	256,884	284,361

Source: Company Data, PL Research

Price Chart
Recommendation History


No.	Date	Rating	TP (Rs.)	Share Price (Rs.)
1	1-Feb-21	Reduce	231	263
2	11-Jan-21	Hold	172	198
3	28-Oct-20	Hold	146	136
4	9-Oct-20	Hold	138	138
5	2-Aug-20	Hold	108	105
6	11-Jul-20	Hold	100	108
7	16-Jun-20	Hold	87	101
8	9-Apr-20	Hold	84	75

Analyst Coverage Universe

Sr. No.	Company Name	Rating	TP (Rs)	Share Price (Rs)
1	Ashok Leyland	BUY	155	128
2	Bajaj Auto	Hold	3,489	3,727
3	Bharat Forge	Hold	581	640
4	CEAT	Accumulate	1,434	1,310
5	Eicher Motors	Accumulate	3,129	2,901
6	Endurance Technologies	BUY	1,662	1,483
7	Exide Industries	BUY	238	194
8	Hero Motocorp	Accumulate	3,753	3,429
9	Mahindra & Mahindra	BUY	1,011	866
10	Maruti Suzuki	BUY	8,428	7,589
11	Motherson Sumi Systems	BUY	247	197
12	Tata Motors	Reduce	231	263
13	TVS Motors	Sell	437	529

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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