



## 3R MATRIX

	+	=	-
Right Sector (RS)	✓	✗	✗
Right Quality (RQ)	✓	✗	✗
Right Valuation (RV)	✓	✗	✗
+ Positive = Neutral - Negative			

## What has changed in 3R MATRIX

	Old		New
RS	✓	↔	✓
RQ	✓	↔	✓
RV	✓	↔	✓

Reco/View	Change
Reco: Buy	↔
CMP: Rs. 304	
Price Target: Rs. 365	↑

↑ Upgrade ↔ Maintain ↓ Downgrade

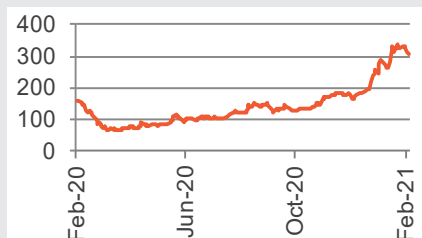
## Company details

Market cap:	Rs. 93,905 cr
52-week high/low:	Rs. 42/64
NSE volume: (No of shares)	853.1 lakh
BSE code:	500570
NSE code:	TATAMOTORS
Free float: (No of shares)	266.5 cr

## Shareholding (%)

Promoters	42.4
FII	15.6
DII	12.7
Others	29.3

## Price chart



## Price performance

(%)	1m	3m	6m	12m
Absolute	10.7	81.3	142.2	88.2
Relative to Sensex	80.7	147.2	203.5	151.8

Sharekhan Research, Bloomberg

## Tata Motors Limited

## Wheels of growth roll ahead

## Automobiles

## Sharekhan code: TATAMOTORS

## Company Update

## Summary

- We maintain our Buy rating on Tata Motors (TAMO) with a revised PT of Rs. 365, factoring better outlook for the domestic businesses, robust FCF for the standalone businesses, sharp fall in debt, and better earnings visibility.
- TAMO held an investor day conference, where management discussed about its product strategy, revenue drivers, and profitability expectations for commercial and passenger vehicle businesses.
- We expect TAMO's earnings to become positive in FY2022E and 33.1% in FY2023E, driven by a 15.3% revenue CAGR during FY2021E-FY2023E and a 140 bps improvement in EBITDA margin.
- The stock trades at an attractive P/E multiple of 11.7x and EV/EBITDA multiple of 3.0x its FY2023E estimates.

We maintain our Buy rating on Tata Motors (TAMO) with a revised PT of Rs. 365, factoring better outlook for domestic businesses, robust free cash flow (FCF) for the standalone businesses, sharp fall in debt, and better earnings visibility. TAMO held an investor day conference, where management discussed about its product strategy, revenue drivers, and profitability expectations for commercial and passenger vehicle businesses. The structural growth story of the company remains intact with the turnaround of passenger vehicle (PV) business and beneficiary of the domestic CV upcycle. The outlook for domestic commercial vehicle (CV) business is at the cusp of a sharp cyclical rebound, with notable demand arising from infrastructure, mining, and e-commerce activities. The PV business has improved significantly because of strong sales momentum with the 'New Forever' portfolio. During 9MFY2021, the company gained market share of 300 bps in the PV segment from 9MFY2020 levels, led by the launch of New Altroz hatchback during Q4FY2020. The company expects high single-digit EBITDA in the next three years for the PV business and FCF breakeven in FY2023. TAMO's focus on product strategy, increased customer engagement, new product launches, and increased EV penetration are key drivers for the PV business. Management is committed towards reaching zero debt for its automotive business division. The company had highlighted three key strategies for becoming a zero-debt company – FCF generation through higher sales and profitability, divestment of non-core businesses, and equity top-up for remaining debt. A strong result turnaround in key businesses during Q3FY2021 has a strong reason to believe that the company is on the right track towards achieving the zero-debt level. We are positive on Jaguar Land Rover (JLR) business as well. Outlook for the JLR business is positive, aided by macro-environment improving in Europe, UK, America, and China. Rolling out of COVID-19 vaccination programmes in many countries is keeping the overall outlook positive for the coming months, following the respective approval of various vaccines. We expect all-round improvement in the company's business and, thus, maintain our Buy rating on the stock. The JLR will also hold investor conference later this week, post which it will update on the JLR business.

## Our Call

**Valuation - Maintain Buy with a PT of Rs. 365:** TAMO is witnessing improvement in all its business verticals - JLR, CV, and PV businesses. We expect TAMO to benefit from improving macro-environment in India and globally. The company is generating strong FCF, which will help it pursue its business plans and reduce high debts. We expect TAMO's earnings to become positive in FY2022E and 33.1% in FY2023E, driven by a 15.3% revenue CAGR during FY2021E-FY2023E and a 140 bps improvement in EBITDA margin. Our SOTP-based valuation provides a PT of Rs. 365 for TAMO. The stock is trading attractive valuations at P/E multiple of 11.7x and EV/EBITDA multiple of 3x its FY2023E estimates. We maintain Buy on the stock.

## Key Risks

TAMO's business is dependent upon cyclical industries – CV and PV. Moreover, the company's business is present across the globe. Any slowdown or cyclical downturn in any of the locations, where the company has a strong presence, can impact its business and profitability.

## Valuation (Consolidated)

Particulars	FY19	FY20	FY21E	FY22E	FY23E
Net Sales	3,01,938	2,61,068	2,55,579	3,17,438	3,40,024
Growth (%)	3.6	-13.5	-2.1	24.2	7.1
EBIDTA	24,664	19,726	29,207	39,067	43,588
OPM (%)	8.2	7.6	11.4	12.3	12.8
PAT	(1,834)	(10,156)	(3,447)	7,469	9,938
Growth (%)	NA	NA	NA	NA	33.1
FD EPS (Rs)	-5.4	-26.5	-9.0	19.5	26.0
P/E (x)	NA	NA	NA	15.6	11.7
P/B (x)	1.9	2.3	1.8	1.7	1.5
EV/EBIDTA (x)	7.1	10.9	4.5	3.2	2.8
RoE (%)	-3.0	-20.3	-5.0	10.6	13.0
RoCE (%)	1.9	-0.2	7.7	6.1	7.3

Source: Company; Sharekhan estimates

**TAMO held an investor day conference on February 22, 2021, to discuss its strategy, plan, and business outlook for its domestic CV and PV businesses. The salient features of the discussion are mentioned below:**

**Positive view on the PV business:** TAMO's PV business has transformed significantly over the past couple of quarters, after complete washout in Q1FY2021, backed by market share gains, profitability turnaround, and FCF generation. The company has taken various measures to gain in order to get its PV turnaround. The company is focussed its PV division in many ways, including measures such as improvement in product strategy, value engineering, increased sales penetration, efficient supply chain management, and sustainable cost reductions.

**Transforming product strategy:** The PV business witnessed strong financials in Q2 and Q3 of FY2021, showing 45% sequential volume growth. TAMO's market share improved to 7.9% in Q3FY2021 as against 4.8% in Q3Y2020. A big swing was also witnessed in operating profit margin (OPM), which improved from negative 9.4% in Q3FY2020 to positive 3.8% in Q3FY2021. The company was able to manage volume growth, led by focus on few products. The company is focused on its five products, viz. Nexon, Tiago, Tigor, Altroz, and Harrier, in the PV segment and has doubled its sales in most of the products. TAMO's competitors have 8-10 products in the same segment. The product portfolio was focussed on volume growth and market share gains. The products were successful in direct engagements with dealers and customers. TAMO increased its engagements with customers on digital platforms and doubled its conversion levels. The company plans to launch new products or refreshed versions at regular intervals to keep its market shares and volumes growth increasing.

**Support to dealers and expanding networks:** During difficult times in the COVID pandemic, TAMO took various steps to ensure that dealers are less affected. The company helped dealers in getting support from banks and change in margin structure. The dealers' margin structure was made attractive so that dealers make higher margins on higher sales. Moreover, the company has identified 41 micro markets, where TAMO has a low market share. TAMO intends to introduce micro dealership, which will have lower breakeven for dealers. This programme is intended to penetrate in new markets.

**Focus on the EV business:** TAMO has 65% market in electrified vehicles in the passenger segment. Nexon EV is a leader in the EV segment. The company started its EV journey in FY2018, with major focus on government sales, and garnered 47% market share in FY2020. In FY2021, the company started to focus on the PV segment as well, where incentives from the government are not as attractive as for E-2Ws and E-3Ws. The company has been building up an ecosystem for EV infrastructure through support from group companies, such as Tata Automotive company (TACO), Tata Power, Tata Chemicals, and Tata Motor Finance. Tata Power is helping it in creating charging infrastructure. Tata Power has 355+ public chargers in inter and intra-cities and has plan to take it to 700 by mid-FY2022. With Tata Chemicals, TAMO is evaluating technical partners for establishing a Lithium ion cell manufacturing plant. The pilot plant is operational for Lithium-ion battery. Through TACO, TAMO is manufacturing batteries for Nexon and Tigor models. Moreover, the company is exploring EV Motor manufacturing facility in India with a global partner. Through Tata Motor Finance, the company is providing structured solutions for large fleets to adopt EVs.

**Healthy financial growth model:** The company expects high single-digit EBITDA in the next three years for the PV business and FCF breakeven in FY2023. The long-term capex is expected to be 5%-6% of revenue.

**Strong volume momentum for the CV division:** TAMO is optimistic about the CV business. The company is gaining market share across the CV segment, except the SCV segment, where it has lost its market share. The company expects the CV industry to grow at 37%-38% growth in FY2022 because of increased e-commerce penetration, increased industrial activities, urban demand revival, rural stability, and infrastructure push by the government. In the SCV and pick-up segment, the company plans to leverage Ace petrol at a price point equivalent to BS4; and reinforce Ace diesel brand equity. The company expects the M&HCV segment to be the key driver, with this segment's growth to be more than 40% in FY2022. The CV passenger segment (buses) will be aided by opening of schools and corporate offices, as the COVID impact reduces over time.

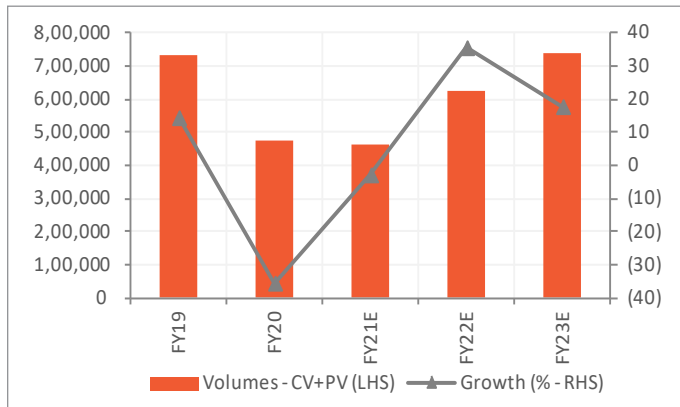
**A 'Positive' view:** The operational performance of TAMO's standalone business witnessed strong improvement, with reported EBITDA at Rs. 850 crore in Q3FY21 versus loss of Rs. 53 crore in Q3FY20. The turnaround at EBITDA level was possible due to 86% y-o-y surge in PV volumes control measures and operating leverage benefits. Gross profit margin improved by 39 bps y-o-y and 60 bps q-o-q at 25.6%, aided by product mix, partially offset by rise in raw-material prices. Outlook of the domestic CV business is at the cusp of a sharp cyclical rebound, with notable demand arising from infrastructure, mining, and e-commerce activities. TAMO's PV business has transformed significantly because of strong sales momentum with the 'New Forever' portfolio. During 9MFY2021, the company gained 300 bps market share in the PV segment from FY2020 levels, led by launch of New Altroz hatchback during Q4FY2020.

**Zero debt company:** Management is committed to make its automotive business division completely debt free. The company had highlighted three key strategies for the same – FCF generation through higher sales and profitability, divestment of non-core businesses, and equity top-up for the remaining debt. Robust turnaround in key businesses during Q3FY2021 has a strong reason to believe that the company is on the right track towards achieving the zero-debt level.

**Resilient operational performance in Q3FY2021 results:** TAMO reported resilient operational performance in Q3FY2021, with adjusted earnings growing by 91.4% y-o-y to Rs. 3,329 crore versus Rs. 1,739 crore in Q3FY2020. The company reported an earnings loss of Rs. 319 crore. Stellar earnings growth was driven by greater-than-expected gross margin expansion and strong cost-control measures in the JLR and standalone businesses. Consolidated revenue growth was 5.5% y-o-y to Rs. 75,654 crore. However, sequential revenue growth for the consolidated business was up by 41.3% q-o-q, driven by strong recovery in volumes for both JLR, growing 39.7% q-o-q and standalone business (CV and PV volumes) by 43.3% q-o-q. Consolidated EBITDA margin improved by 517 bps y-o-y and 463 bps q-o-q to 15.2% in Q3FY2021 due to turnaround in standalone businesses, led by volume recovery, cost-cutting initiatives, and operating leverage benefits. The strong operational performance resulted in EBITDA growth of 59.9% y-o-y and 103.2% q-o-q at Rs. 11,510 crore. The company generated 2.6x automotive FCF of Rs. 7,900 crore in Q3FY2021 over its FCF in Q3FY2020. TAMO reduced its net debt by Rs. 7,000 crore in Q3FY2021 to Rs. 54,654 crore.

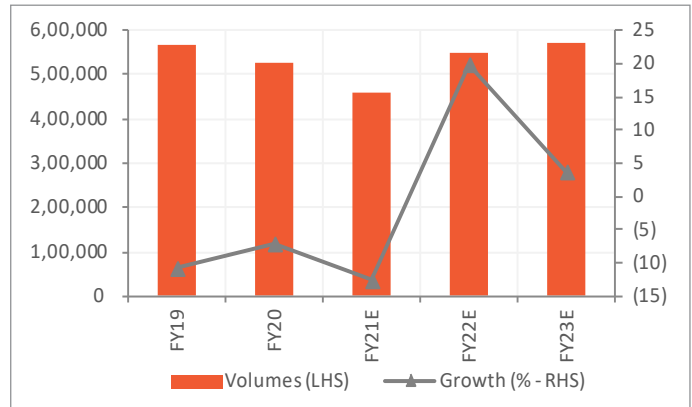
## Financials in charts

### Volumes Trends (Standalone business)



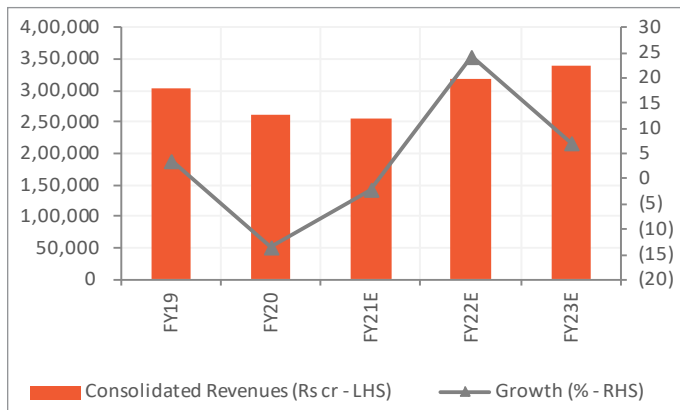
Source: Company, Sharekhan Research

### Volumes Trends (JLR, including China JV)



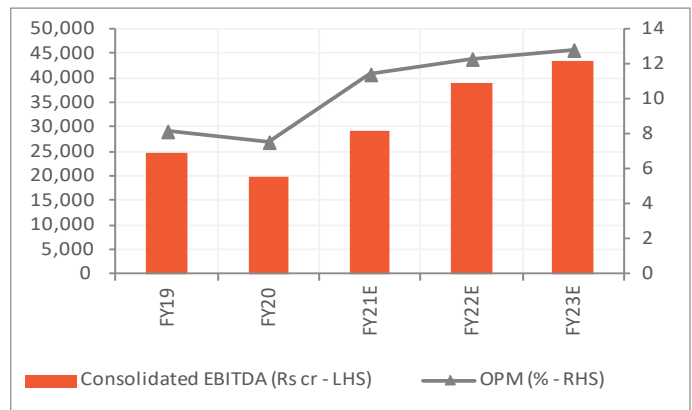
Source: Company, Sharekhan Research

### Revenue and Growth Trend



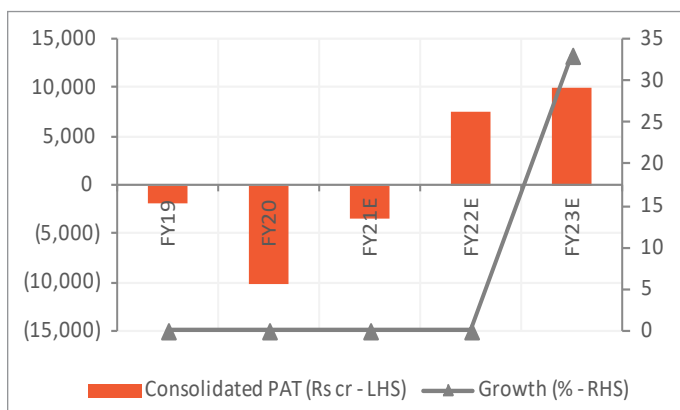
Source: Company, Sharekhan Research

### EBITDA and OPM Trend



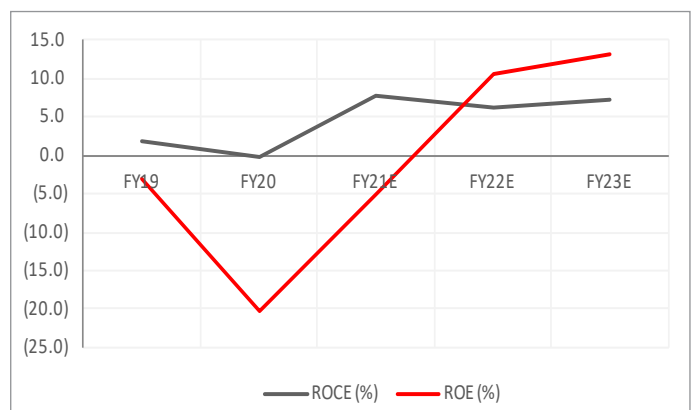
Source: Company, Sharekhan Research

### PAT and Growth Trend



Source: Company, Sharekhan Research

### ROE and ROCE Trend



Source: Company, Sharekhan Research

## Outlook and Valuation

### ■ Sector view - Positive outlook on the automobile industry in India and globally

The macro-environment is improving in Europe, UK, America, and China. The roll-out of COVID-19 vaccination programmes in many countries is keeping the overall outlook positive over the coming months following the respective approval of various vaccines. Moreover, Brexit trade agreed between UK and European Union has resolved the risk of tariffs on automotive parts and finished vehicles. The outlook of domestic CV business is at the cusp of a sharp cyclical rebound, with notable demand arising from infrastructure, mining, and e-commerce activities. Volumes of domestic PV recovered strongly by more than 90% of pre-COVID levels, driven by rural and semi-urban demand. Recovery in urban areas is also picking up strongly.

### ■ Company outlook - Strong outlook

TAMO showed resilient operational performance in Q3FY2021, seeing robust FCF in JLR and standalone businesses, reducing debt amply. Earnings visibility has also improved. The results have witnessed a strong turnaround in the operational performance on all its three key automotive businesses, JLR, PV business, and CV business. The company has generated FCF of Rs. 7,900 crore from its automotive businesses and has reduced its net debt by Rs. 7,000 crore to Rs. 54,654 crore in Q3FY2021. We expect the company's operational performance to continue in the medium term, with recovery in all verticals of automotive businesses. Outlook for JLR business is positive, aided by macro-environment improving in Europe, UK, America, and China. Outlook of domestic CV business is at the cusp of a sharp cyclical rebound, with notable demand arising from infrastructure, mining, and e-commerce activities. TAMO's PV business has transformed significantly because of strong sales momentum with the 'New Forever' portfolio. During 9MFY2021, the company gained 300 bps market share in the PV segment from FY2020 levels, led by the launch of New Altroz hatch during Q4FY2020.

### ■ Valuation - Maintain Buy with a PT of Rs. 365

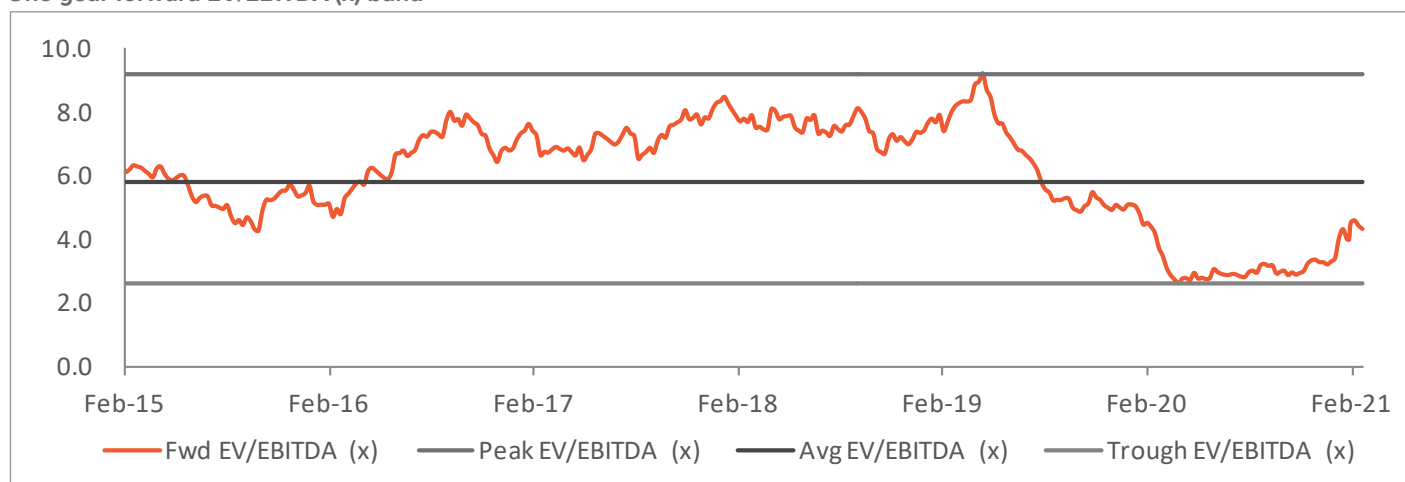
TAMO is witnessing an improvement in all its business verticals - JLR, CV, and PV businesses. We expect TAMO to benefit from improving macro-environment in India and globally. The company is generating strong FCF, which will help it to pursue on its business plans and reduce high debts. We expect TAMO's earnings to become positive in FY2022E and 33.1% in FY2023E, driven by a 15.3% revenue CAGR during FY2021E-FY2023E and a 140 bps improvement in EBITDA margin. Our SOTP-based valuation provides a PT of Rs. 365 for TAMO. The stock is trading at attractive valuations and P/E multiple of 11.7x and EV/EBITDA multiple of 3x its FY2023E estimates. We maintain Buy on the stock.

#### SOTP based PT of Rs 365

Particulars	Ratio/le	Value (in Rs Crore)	Value per Share
Standalone business	6x EV/EBITDA	47,056	123
JLR UK	4x EV/EBITDA	1,24,230	324
JLR China	5x EV/EBITDA	10,069	26
Total EV		1,81,355	474
Net Debt		44,654	117
Automotive Business Value		1,36,701	357
Value of Subsidiaries			8
TAMO's Equity Value			365
Upside			20%

Source: Company Data; Sharekhan Research

#### One-year forward EV/EBITDA (x) band



Source: Sharekhan Research

## About company

TAMO manufactures cars and commercial automotive vehicles. The company designs, manufactures, and sells heavy, medium, and small CVs, including trucks, tankers, vans, buses, ambulances, and minibuses. TAMO also manufactures small cars and sports utility vehicles (SUVs). The company is a leading CV manufacturer in India. TAMO acquired Jaguar and Land Rover brands in 2008; and Jaguar and Land Rover brands merged to form one unified company in 2013.

## Investment theme

We are positive on TAMO, considering its resilient operational performance lately, robust FCF for JLR, and standalone businesses led by the company's all-round strong performance, falling debt, and better earnings visibility. Q3FY2021 results saw a strong turnaround in operational performance in all three key automotive businesses - JLR, PV, and CV. We expect the company's operational performance to continue in the medium term, with recovery in all verticals of automotive businesses. Outlook for JLR business is positive, aided by macro-environment improving in Europe, UK, America, and China. Outlook of the domestic CV business is at the cusp of a sharp cyclical rebound, with notable demand arising from infrastructure, mining, and e-commerce activities. TAMO's PV business has transformed significantly because of strong sales momentum with the 'New Forever' portfolio. TAMO's management is committed towards reaching zero debt for its automotive business division. Robust result turnaround in key businesses during Q3FY2021 has a strong reason to believe that the company is on the right track towards achieving zero debt level. We expect all-round improvement in the company's business and, hence, recommend Buy on the stock.

## Key Risks

TAMO's business is dependent upon cyclical industries – CV and PV. Moreover, the company's business is present across the globe. Any slowdown or cyclical downturn in any of the locations, where it has a strong presence, can impact its business and profitability.

## Additional Data

### Key management personnel

Guenter Butschek	CEO and Managing Director
Thierry Bolloré	CEO, Jaguar & Land Rover
P B Balaji	Group Chief Financial Officer
Girish Wagh	President- Commercial Vehicles Business Unit
Shailesh Chandra	President - Passenger Vehicles Business Unit

Source: Company

### Top 10 shareholders

Sr. No.	Holder Name	Holding (%)
1	Tata Sons Private Limited	43.73
2	Tata Industries Limited	2.18
3	Tata Investment Corporation Limited	0.33
4	Citibank N.A. New York Nyadr Department	10.67
5	Life Insurance Corporation of India	4.77
6	Jhunjhunwala Rakesh Radheshyam	1.21
7	SBI Arbitrage Opportunities Fund	1.02
8	Alternate Investment Funds	0.14
9	Ewart Investments Limited	0.09
10	Tata Chemicals Ltd	0.06

Source: Bloomberg

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## Understanding the Sharekhan 3R Matrix

Right Sector	
Positive	Strong industry fundamentals (favorable demand-supply scenario, consistent industry growth), increasing investments, higher entry barrier, and favorable government policies
Neutral	Stagnancy in the industry growth due to macro factors and lower incremental investments by Government/private companies
Negative	Unable to recover from low in the stable economic environment, adverse government policies affecting the business fundamentals and global challenges (currency headwinds and unfavorable policies implemented by global industrial institutions) and any significant increase in commodity prices affecting profitability.
Right Quality	
Positive	Sector leader, Strong management bandwidth, Strong financial track-record, Healthy Balance sheet/cash flows, differentiated product/service portfolio and Good corporate governance.
Neutral	Macro slowdown affecting near term growth profile, Untoward events such as natural calamities resulting in near term uncertainty, Company specific events such as factory shutdown, lack of positive triggers/events in near term, raw material price movement turning unfavourable
Negative	Weakening growth trend led by led by external/internal factors, reshuffling of key management personal, questionable corporate governance, high commodity prices/weak realisation environment resulting in margin pressure and deteriorating balance sheet
Right Valuation	
Positive	Strong earnings growth expectation and improving return ratios but valuations are trading at discount to industry leaders/historical average multiples, Expansion in valuation multiple due to expected outperformance amongst its peers and Industry up-cycle with conducive business environment.
Neutral	Trading at par to historical valuations and having limited scope of expansion in valuation multiples.
Negative	Trading at premium valuations but earnings outlook are weak; Emergence of roadblocks such as corporate governance issue, adverse government policies and bleak global macro environment etc warranting for lower than historical valuation multiple.

Source: Sharekhan Research

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Compliance Officer: Mr. Joby John Meledan; Tel: 022-61150000; email id: [compliance@sharekhan.com](mailto:compliance@sharekhan.com);

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