

Evolutionary transformation 'Reimagine'd...

We attended the virtual Jaguar Land Rover (JLR) investor event, wherein the company expanded upon the implications of its recently unveiled 'Reimagine' strategy for product portfolio, vehicle architecture, powertrain technology and finances. We came away enthused by its aggressive push towards electrification with **JLR being transformed into all EV brand by 2026** along with **first BEV Land Rover to be launched in 2024**. JLR also intends to be **FCF positive starting FY23** with **FY25 seen as net cash (B/S) positive**.

Electrified future in the offing

JLR said (1) it will focus on profitable growth by **enhancing global market share from present 9% to 16% by FY26** via faster expansion in high profitability models (e.g., Range Rover, Velar) – with China, Europe & RoW seen leading the charge, (2) Electrified offerings (i.e., mild hybrids (MHEV), plug-in hybrids (PHEV) and battery electric (BEV) share in total volumes would rise to 100% by FY26 vs. 27% currently – with **BEV forming 60% of total volumes by FY30**, (3) **Jaguar would become all BEV by 2025 while Land Rover would welcome 6 BEV in the next five years**, (4) electrification drive would be underpinned by **separate electric vehicle architectures for the two brands** (present six architectures would get reduced to three, including one exclusive to Jaguar), (5) **partnerships would be leveraged within the Tata group & from outside (for electric Jaguar platform)**, (6) focus on efficiencies would result in 25% reduction in manufacturing capacities over the next five years and (7) it would be CO2 compliant across geographies beyond 2020.

Sharp profitability improvements envisaged, retains FCF focus

JLR said (1) **it is targeting >= 10% EBIT margins by FY26** (vs. ~4% currently) via sales quality improvements (lower warranty costs), structured cost, efficiency, delivery improvements under 'Refocus' and new architectures (latter two seen constituting half of margin uptick each), (2) **cost, cash savings made under Charge, Refocus are expected to return JLR back to FY14 levels of breakeven volumes (~4-4.5 lakh units p.a. vs. 6 lakh units in FY19)** while capex spends are seen at present ~£2.5 billion p.a. level from now on, (3) **Reimagine would result in restructuring cash and non-cash costs of £0.5 billion & £1 billion, respectively (cash flow impact, £0.5 billion - FY22)**, (4) it would be near FCF breakeven in FY21E, FCF positive for FY22E (before restructuring costs) and sustainably FCF positive thereon, (5) net debt is set to reduce significantly from FY23E, with **net cash positive B/S on anvil from FY25E** & (6) revenues to touch > £30 billion in FY26 on sales of ~6 lakh units

Valuation & Outlook

Reimagine marks a bold and necessary step change in evolution for JLR in what is set to be a transformational decade for its business worldwide given the ongoing rise of EVs. We are enthused by its commitment towards phasing out of solely fossil fuel powered vehicles by FY26E while maintaining financial discipline on the deleveraging and capex fronts. Revising our forward estimates, we arrive at an SOTP-based target price of ₹ 375 for Tata Motors (3.5x, 12x FY23E EV/EBITDA for JLR, India respectively, earlier TP ₹ 350) and maintain our **BUY** rating on the stock.

Key Financial Summary

Key Financials	FY19	FY20	FY21E	FY22E	FY23E	CAGR (FY21E-23E)
Net Sales	3,01,938.4	2,61,068.0	2,45,021.7	3,22,158.6	3,51,105.9	19.7%
EBITDA	29,794.8	23,914.1	31,595.2	45,722.3	51,535.0	27.7%
EBITDA Margins (%)	9.9	9.2	12.9	14.2	14.7	
Net Profit	(28,724.2)	(11,975.4)	(19,447.3)	8,831.4	12,467.7	LP
EPS (₹)	(79.8)	(33.3)	(50.8)	23.1	32.6	
P/E	(4.0)	(9.7)	(6.4)	14.0	9.9	
RoNW (%)	(47.3)	(18.7)	(41.3)	15.8	18.2	
RoCE (%)	3.7	1.3	4.7	11.6	13.8	

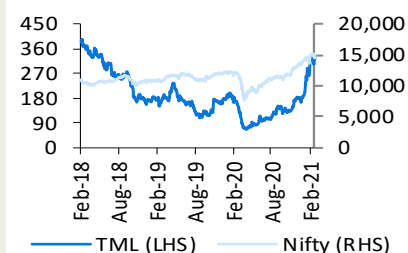
Source: Company, ICICI Direct Research

TATA MOTORS

Connecting Aspirations

Particulars	₹ crore
Market Capitalization	1,16,206
Total Debt (FY20)	1,18,811
Cash and Investments (FY20)	44,588
EV (FY20)	1,90,428
52 week H/L (₹)	342 / 64
Equity capital (₹ crore)	719.5
Face value (₹)	2.0

Price Performance



Key Highlights

- Reimagine set to expedite JLR's electric transformation. JLR being transformed into all EV brand by 2026 along with first BEV Land Rover to be launched in 2024
- JLR targets >=10% EBIT margins by FY26 vs. 4% at present along with positive FCF generation from FY23 & net cash positive B/S from FY25

Key risks to our call

- Slip up in maintaining product offering – capex need balance on EVs
- Delay in outlined progress plan on FCF, debt fronts

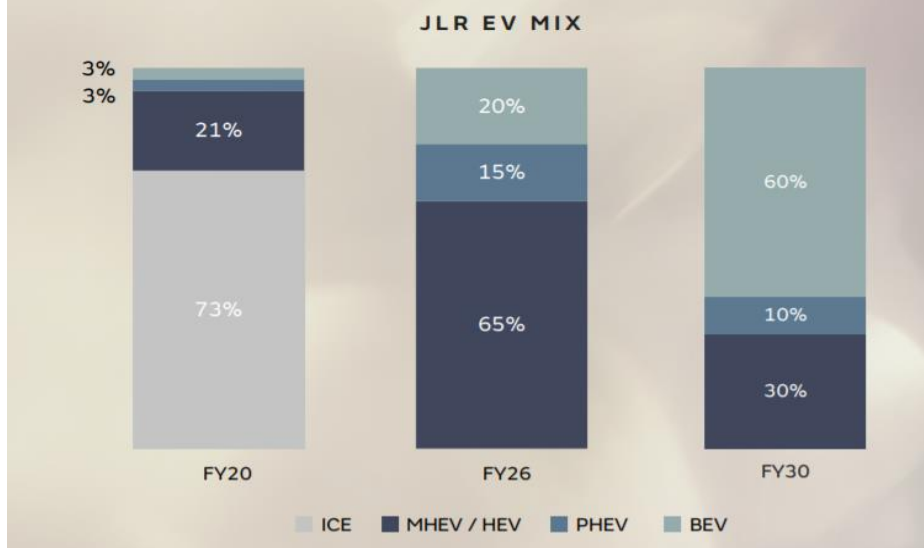
Research Analyst

Shashank Kanodia, CFA
shashank.kanodia@icicisecurities.com

Jaimin Desai
jaimin.desai@icicisecurities.com

Story in charts

Exhibit 1: Powertrain mix evolution over next decade at JLR



Source: Company, ICICI Direct Research

Jaguar is set to be all battery electric vehicle (BEV) from 2025 onwards, with Land Rover set to welcome six BEV variants over the next five years

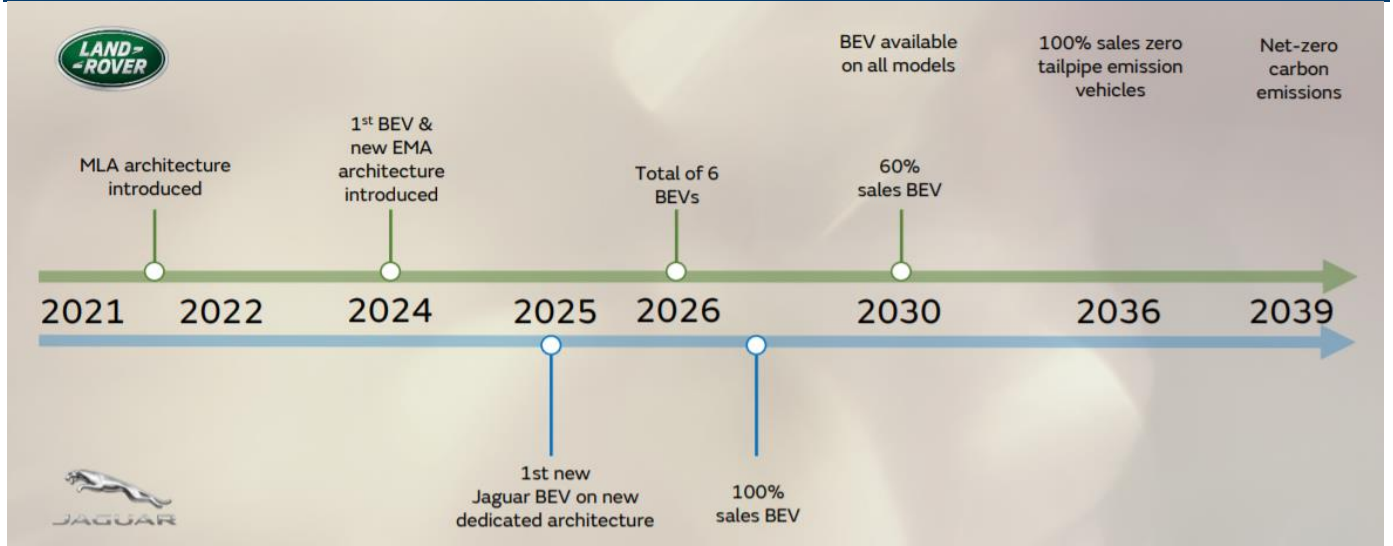
Exhibit 2: BEV offerings for Land Rover in next five years



Source: Company, ICICI Direct Research

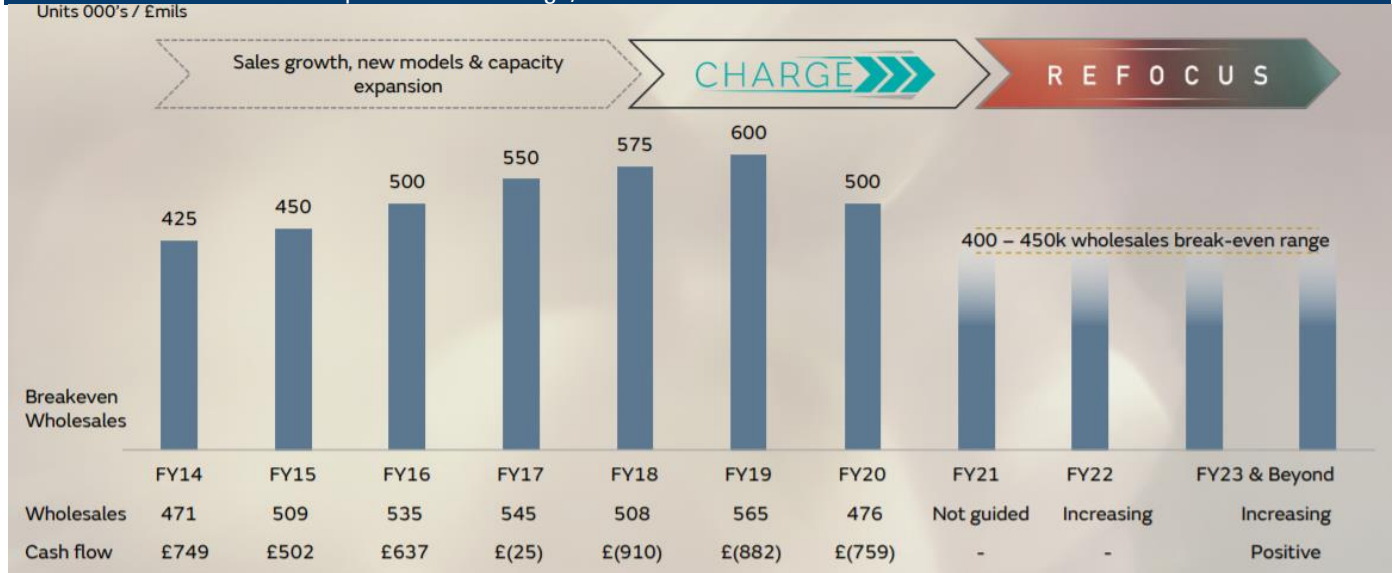
The first Land Rover BEV is set to arrive in FY24

Exhibit 3: Electrification timeline in detail at JLR



Source: Company, ICICI Direct Research

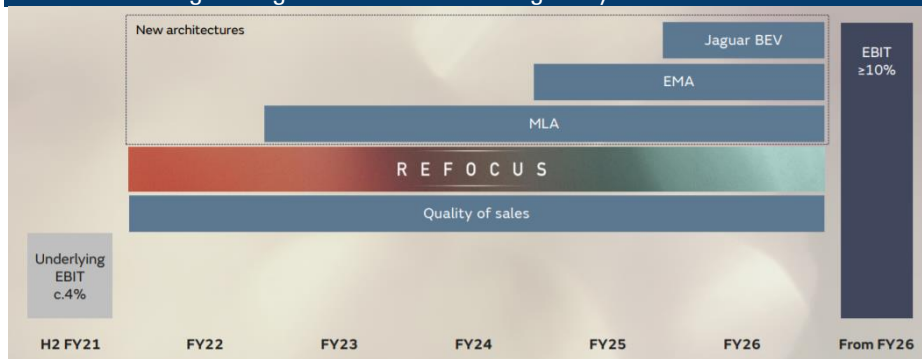
Exhibit 4: Reduced breakeven points under Charge, Refocus



Source: Company, ICICI Direct Research

Amid sharp ~25-30% reduction in breakeven points over FY19, maintenance of capex outgo at £2.5 billion per annum is set to lead to substantial FCF generation from FY23E.

Exhibit 5: Reimagine targets >= 10% EBIT margins by FY26E



Source: Company, ICICI Direct Research

Refocus programme is seen delivering 3% of the margin uptick while new architecture is seen providing the rest of the upward differential from present 4% EBIT levels

Exhibit 6: Forward guidance on key metrics

Key metrics	FY21	FY22	FY24	FY26
Revenue	Not guided	Increasing	Increasing	> £30b
EBIT margin <i>Positive PBT* throughout</i>	Positive	≥4%	≥7%	≥10%
Investment	< £2.5b	c. £2.5b	c. £2.5b	c. £3b
Free cash flow	Near break-even	Break-even After ~£500m restructuring costs	Positive	Positive
Net cash / (Net debt)	Negative	Negative	0	Positive

Source: Company, ICICI Direct Research

Exhibit 7: Valuation as per SOTP method

Particulars	Parameters	EBITDA	Multiple	Per Share Equity Value
Tata Motors Core business	FY23E EV/EBITDA	6,260	12.0	160
JLR	FY23E Adj EV/EBITDA	35,613	3.5	200
Other Investments	3x P/B on FY20	2,047	3.0	15
Total value per share				375

Source: ICICI Direct Research

Exhibit 8: Valuation Summary

	Sales (₹ cr)	Growth (%)	EPS (₹)	Growth (%)	PE (x)	EV/EBITDA (x)	RoNW (%)	RoCE (%)
FY19	3,01,938	2.5	(79.8)	NA	NM	6.0	-47.3	3.7
FY20	2,61,068	-13.5	(33.3)	NA	NM	8.0	-18.7	1.3
FY21E	2,45,022	-6.1	(50.8)	NA	NM	6.3	-41.3	4.7
FY22E	3,22,159	31.5	23.1	NA	14.0	4.3	15.8	11.6
FY23E	3,51,106	9.0	32.6	41.2	9.9	3.5	18.2	13.8

Source: Company, ICICI Direct Research

Exhibit 9: Shareholding pattern

	Dec-19	Mar-20	Jun-20	Sep-20	Dec-20
Promoters	41.7	42.4	42.4	42.4	42.4
FII	18.3	16.8	15.6	15.8	15.6
DII	14.9	13.5	13.2	13.1	12.6
Others	25.1	27.3	28.8	28.7	29.4

Source: Company, ICICI Direct Research

Financial Summary

Exhibit 10: Profit and loss statement					₹ crore
(Year-end March)	FY20	FY21E	FY22E	FY23E	
Total operating Income	2,61,068	2,45,022	3,22,159	3,51,106	
Growth (%)	-13.5	-6.1	31.5	9.0	
Raw Material Expenses	1,67,131	1,56,552	2,12,105	2,31,602	
Employee Expenses	30,439	27,845	28,657	30,568	
Marketing Expenses	57,087	42,505	55,004	58,466	
Capitalised Expenses	-17,503	-13,475	-19,330	-21,066	
Total Operating Expenditure	2,37,154	2,13,427	2,76,436	2,99,571	
EBITDA	23,914	31,595	45,722	51,535	
Growth (%)	-19.7	32.1	44.7	12.7	
Product development Exp	4189	4490	4971	5433	
Depreciation	21425	23277	24162	26333	
Interest	7243	8031	7988	7488	
Other Income	2973	2460	2522	2572	
PBT	(3,520)	3,850	16,094	20,286	
Minority Interest	0	0	0	0	
Total Tax	395	3029	2225	2971	
Reported PAT	(11,975)	(19,447)	8,831	12,468	
Growth (%)	-58.3	NM	LP	41.2	
EPS (₹)	(33.3)	(50.8)	23.1	32.6	

Source: Company, ICICI Direct Research

Exhibit 11: Cash flow statement					₹ crore
(Year-end March)	FY20	FY21E	FY22E	FY23E	
Profit after Tax	(11,975.4)	(19,447.3)	8,831.4	12,467.7	
Add: Depreciation	21,425	23,277	24,162	26,333	
(Inc)/dec in Current Assets	6,254	5,608	-18,688	-4,242	
Inc/(dec) in CL and Provisions	-6,111	-5,417	21,858	10,586	
Others	11,743	22,814	3,061	7,488	
CF from operating activities	21,336	26,834	39,223	52,633	
(Inc)/dec in Investments	0	0	0	0	
(Inc)/dec in Fixed Assets	-41,007	-26,800	-27,500	-28,000	
Others	4,692	-1,341	-2,949	-361	
CF from investing activities	(36,315)	(28,141)	(30,449)	(28,361)	
Issue/(Buy back) of Equity	40	46	0	0	
Inc/(dec) in loan funds	12,635	9,500	-1,000	-15,000	
Dividend paid & dividend tax	0	0	0	0	
Inc/(dec) in Sec. premium	2,984	3,424	0	0	
Others (incl finance costs)	397	-8,899	-7,988	-7,488	
CF from financing activities	16,057	4,071	(8,988)	(22,488)	
Net Cash flow	1,078	2,764	-213	1,784	
Opening Cash	32,649	33,727	36,491	36,278	
Closing Cash	33,727	36,491	36,278	38,062	

Source: Company, ICICI Direct Research

Exhibit 12: Balance Sheet					₹ crore
(Year-end March)	FY20	FY21E	FY22E	FY23E	
Liabilities					
Equity Capital	720	766	766	766	
Reserve and Surplus	61,492	45,468	54,299	66,767	
Others	1,681	814	814	814	
Total Shareholders funds	63,892	47,047	55,879	68,346	
Total Debt	1,18,811	1,28,311	1,27,311	1,12,311	
Deferred Tax Liability	1,942	1,823	2,396	2,612	
Long term provisions	14737	13831	14964	16308	
Minority Interest / Others	18,595	17,452	19,725	21,497	
Total Liabilities	2,17,976	2,08,463	2,20,274	2,21,074	
Assets					
Gross Block	3,11,583	3,28,600	3,66,028	3,99,028	
Less: Acc Depreciation	1,85,252	2,08,530	2,32,691	2,59,024	
Net Block	1,26,330	1,20,070	1,33,336	1,40,003	
Capital WIP	35,622	30,622	25,622	20,622	
Total Fixed Assets	1,61,952	1,50,693	1,58,958	1,60,625	
Investments	16,308	15,558	16,308	17,058	
Inventory	37,457	33,565	44,131	46,173	
Debtors	11,173	10,741	15,887	17,315	
Loans and Advances	935	878	1,154	1,258	
Cash	33,727	36,491	36,278	38,062	
Total Current Assets	1,08,726	1,05,883	1,24,357	1,30,383	
Creditors	63,627	60,416	75,023	81,764	
Provisions	10,329	9,808	12,179	13,273	
Total Current Liabilities	1,04,145	98,728	1,20,586	1,31,172	
Net Current Assets	4,581	7,155	3,772	(789)	
Deferred Tax Asset	5,458	5,122	6,735	7,340	
Application of Funds	2,17,976	2,08,463	2,20,274	2,21,074	

Source: Company, ICICI Direct Research

Exhibit 13: Key ratios				
(Year-end March)	FY20	FY21E	FY22E	FY23E
Per share data (₹)				
EPS	-33.3	-50.8	23.1	32.6
Cash EPS	26.3	10.0	86.2	101.3
BV	177.6	122.9	145.9	178.5
DPS	0.0	0.0	0.0	0.0
Cash Per Share	123.9	121.1	121.8	127.8
Operating Ratios				
EBITDA Margin (%)	9.2	12.9	14.2	14.7
PBT / Net sales (%)	1.0	3.4	6.7	7.2
PAT Margin (%)	-4.6	-7.9	2.7	3.0
Inventory days	52.4	50.0	50.0	48.0
Debtor days	15.6	16.0	18.0	18.0
Creditor days	89.0	90.0	85.0	85.0
Return Ratios (%)				
RoE	-18.7	-41.3	15.8	18.2
RoCE	1.3	4.7	11.6	13.8
RoIC	2.4	8.3	19.0	22.2
Valuation Ratios (x)				
P/E (adjusted)	NM	NM	9.7	7.4
EV / EBITDA	8.0	6.3	4.3	3.5
EV / Net Sales	0.7	0.8	0.6	0.5
Market Cap / Sales	0.4	0.5	0.4	0.3
Price to Book Value	1.8	2.6	2.2	1.8
Solvency Ratios				
Debt/EBITDA	5.0	4.1	2.8	2.2
Debt / Equity	1.9	2.7	2.3	1.6
Current Ratio	0.6	0.6	0.6	0.6
Quick Ratio	0.2	0.2	0.3	0.3

Source: Company, ICICI Direct Research

RATING RATIONALE

ICICI Direct endeavors 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 categorizes them as Buy, Hold, Reduce and Sell. The performance horizon is two years unless specified and the notional target price is defined as the analysts' valuation for a stock

Buy: >15%

Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



Pankaj Pandey

Head – Research

pankaj.pandey@icicisecurities.com

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

ANALYST CERTIFICATION

I/We, Shashank Kanodia, CFA, MBA (Capital Markets) and Jaimin Desai, CA, 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. It is also confirmed that above mentioned Analysts of this report have not received any compensation from the companies mentioned in the report in the preceding twelve months and do not serve as an officer, director or employee of the companies mentioned in the 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 is Sebi registered stock broker, merchant banker, investment adviser, portfolio manager and Research Analyst. ICICI Securities is registered with Insurance Regulatory Development Authority of India Limited (IRDAI) as a composite corporate agent and with PFRDA as a Point of Presence. ICICI Securities Limited Research Analyst SEBI Registration Number – INH000000990. ICICI Securities Limited SEBI Registration is INZ000183631 for stock broker. ICICI Securities is a 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 and its analysts, persons reporting to analysts and their relatives are generally prohibited from maintaining a financial interest in the securities or derivatives of any companies that the analysts cover.

Recommendation in reports based on technical and derivative analysis centre on studying charts of a stock's price movement, outstanding positions, trading volume etc. as opposed to focusing on a company's fundamentals and, as such, may not match with the recommendation in fundamental reports. Investors may visit icicidirect.com to view the Fundamental and Technical Research Reports.

Our proprietary trading and investment businesses may make investment decisions that are inconsistent with the recommendations expressed herein.

ICICI Securities Limited has two independent equity research groups: Institutional Research and Retail Research. This report has been prepared by the Retail Research. The views and opinions expressed in this document may or may not match or may be contrary with the views, estimates, rating, and target price of the Institutional Research.

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, 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 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 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.

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 and ICICI Securities as a entity 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.

ICICI Securities may have issued other reports that are inconsistent with and reach different conclusion from the information presented in this report.

Neither the Research Analysts nor ICICI Securities have been engaged in market making activity for the companies mentioned in the report.

We submit that no material disciplinary action has been taken on ICICI Securities by any Regulatory Authority impacting Equity Research Analysis activities.

This report is not directed or intended for distribution to, or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction, where such distribution, publication, availability or use would be contrary to law, regulation or which would subject ICICI Securities and affiliates to any registration or licensing requirement within such jurisdiction. The securities described herein may or may not be eligible for sale in all jurisdictions or to certain category of investors. Persons in whose possession this document may come are required to inform themselves of and to observe such restriction.