

India volumes picking up pace, EV optimism persists

About the stock: Tata Motors (TML) is an auto OEM from the house of Tatas, operating in domestic (PV, CV) as well as global markets (Jaguar Land Rover i.e. JLR)

- JLR is a luxury car brand, which includes two prominent names i.e. Jaguar (models like I-pace, etc.) & Land Rover (models like Defender, Evoque, etc)
- FY21 consolidated revenue mix – JLR 78%, India CV ~13%, India PV ~7%

Company Update:

- TML India reports robust volumes for Q2FY22 at 1.7 lakh units, up 49% QoQ
- India PV business posted decade-high quarterly sales of ~84,000 units in Q2FY22 despite ongoing semiconductor supply shortages. Domestic EV sales were higher than 1,000 units for second successive month in September 2021 driven by Nexon EV; 1,078 units for the month & 2,704 units for Q2FY22 represented best-ever monthly & quarterly EV sales
- India CV volumes jumped 73% QoQ in Q2FY22 to 86,887 units
- JLR wholesale volumes for Q2FY22 were at 64,032 units

What should investors do? TML's stock price has underperformed Nifty Auto index in past five years, having de-grown at ~9% CAGR (~| 555 in October 2016).

- We maintain **BUY** on continued EV proactiveness

Target Price and Valuation: Retaining our forward estimates, we now value TML at a revised target price of ₹ 450 on SOTP basis (15x, 3.3x FY23E EV/EBITDA on India, JLR businesses, respectively). We revise upwards our target multiples for India business amid continued outperformance at TML India and is in line with its peers.

Key triggers for future price performance:

- We expect healthy 20.9% revenue CAGR over FY21-23E backed by 17% volume CAGR; margins seen at 14.9% in FY23E along with RoCE of ~15%
- Cost control, efficiency improvement-led FCF generation targets for ongoing deleveraging push (FY21 net automotive debt at ~₹ 41,000 crore)

Alternate Stock Idea: Apart from TML, in our OEM coverage we also like M&M.

- Focused on prudent capital allocation, UV differentiation & EV proactiveness
- BUY with target price of ₹ 1,000

TATA MOTORS
Connecting Aspirations

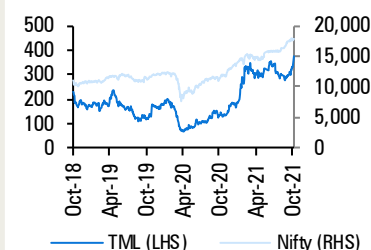
Particulars

Particular	₹ crore
Market Capitalization	1,46,651
Total Debt (FY21)	1,35,905
Cash and Investments (FY21)	65,844
EV (FY21)	2,16,712
52 week H/L (₹)	398 / 126
Equity capital (₹ crore)	765.8
Face value (₹)	2.0

Shareholding pattern

	Sep-20	Dec-20	Mar-21	Jun-21
Promoter	42.4	42.4	46.4	46.4
FII	15.8	15.6	13.8	14.3
DII	13.1	12.6	11.9	11.5
Other	28.7	29.4	27.9	27.8

Price Chart



Recent event & key risks

- Posted healthy Q2FY22 volumes at the Indian operations
- Key Risk:** (i) Slip up in maintaining product offering-capex need balance on EVs, (ii) Delay in outlined debt, FCF plans

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Key Financial Summary

Key Financials	FY19	FY20	FY21	5 year CAGR (FY16-21)	FY22E	FY23E	2 year CAGR (FY21-23E)
Net Sales	3,01,938.4	2,61,068.0	2,49,794.8	-1.9%	2,98,745.4	3,65,331.5	20.9%
EBITDA	29,794.8	23,914.1	35,782.0	-3.1%	39,966.2	54,498.3	23.4%
EBITDA Margins (%)	9.9	9.2	14.3		13.4	14.9	
Net Profit	(28,724.2)	(11,975.4)	(13,395.0)	PL	329.7	14,518.8	LP
EPS (₹)	(79.8)	(33.3)	(35.0)		0.9	37.9	
P/E	(4.8)	(11.5)	(10.9)		444.8	10.1	
RoNW (%)	(47.3)	(18.7)	(23.6)		0.6	20.3	
RoCE (%)	3.7	1.3	6.3		7.9	14.8	

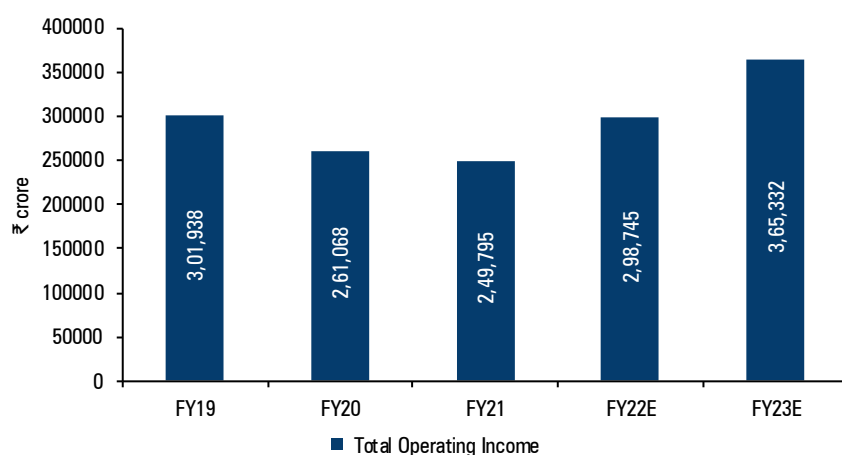
Source: Company, ICICI Direct Research

Key takeaways from FY21 Annual Report

- FY21 revenue mix – JLR 78%, India CV 13.3%, India PV 6.8%, Others 1.9%
- India PV segment recorded its highest volumes in eight years and grew market share to 8.2%
- BEV penetration in TML's India product portfolio is currently at 2% and is set to increase exponentially in coming years. By 2025, TML will have 10 new BEVs and as a group Tatas will invest proactively to set up charging infrastructure across the country
- The Tata Group is exploring partnerships in India and Europe in cell and battery manufacturing to secure its battery supplies and is also evaluating setting up of automotive software and engineering vertical within the group to help it take the lead in connected and autonomous vehicles
- JLR would focus on profit over volumes and aims to deliver double-digit EBIT margins in future. Both Jaguar & Land Rover brands will be transformed by electrification, with six new all-electric Land Rover models in next five years & Jaguar completely transformed as a pure electric brand, from 2025
- Net automotive debt reduced by ₹ 7,400 crore YoY to ₹ 40,876 crore in FY21
- JLR powertrain mix (FY21); ICE 48.9%, MHEV 42.9%, PHEV 4.6%, BEV 3.6%
- TML, thus far, has supplied more than 350 electric buses to STUs under FAME I & II scheme. It has also received orders for another 500 such buses
- The company is mitigating semiconductor risk by engaging with suppliers, aligning production, altering designs, and changing product configurations
- India CV EBIT breakeven levels have reduced by 25%. Going forward, the division aims to achieve double digit EBITDA margins and strong positive FCF with long term capex pegged at 3-4% of sales
- India PV absolute EBITDA was the highest in 10 years. Going forward, TML is aiming for it to achieve high single digit EBITDA in the next three years and turn FCF positive after FY23. Long term capex guidance is at 5-6% of sales
- Nexon EV is driving the growth of EV industry in India with 65% of total sales in FY21
- JLR aims to have a positive cash b/s by 2025

Financial story in charts

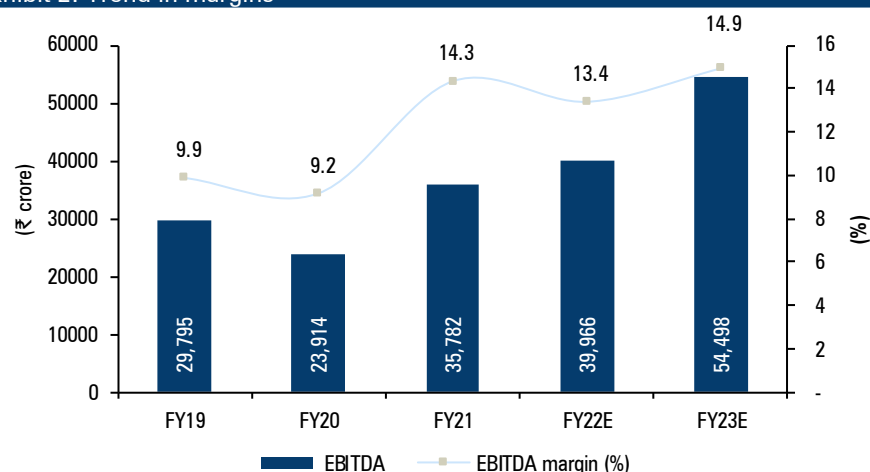
Exhibit 1: Trend in topline



We expect net sales to grow at 20.9% CAGR over FY21-23E on the back of 17.2% volume CAGR

Source: Company, ICICI Direct Research

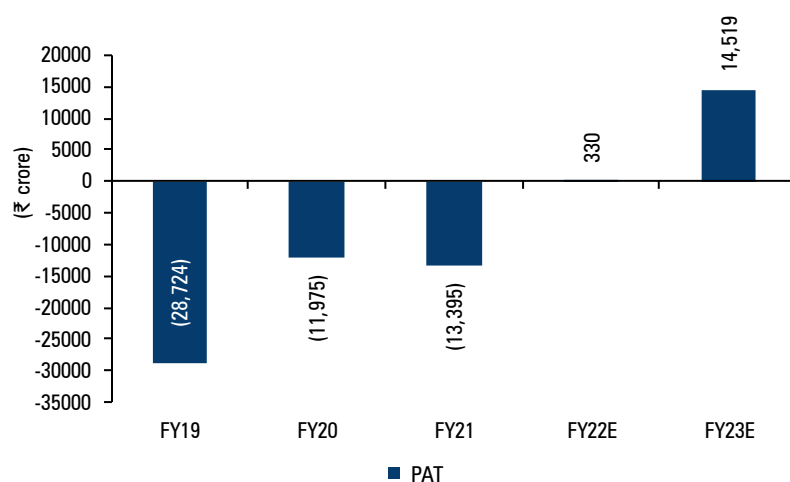
Exhibit 2: Trend in margins



Margins are expected to rise to 14.9% by FY23E on the back of cost controls, lowered breakeven levels and higher operating leverage

Source: Company, ICICI Direct Research

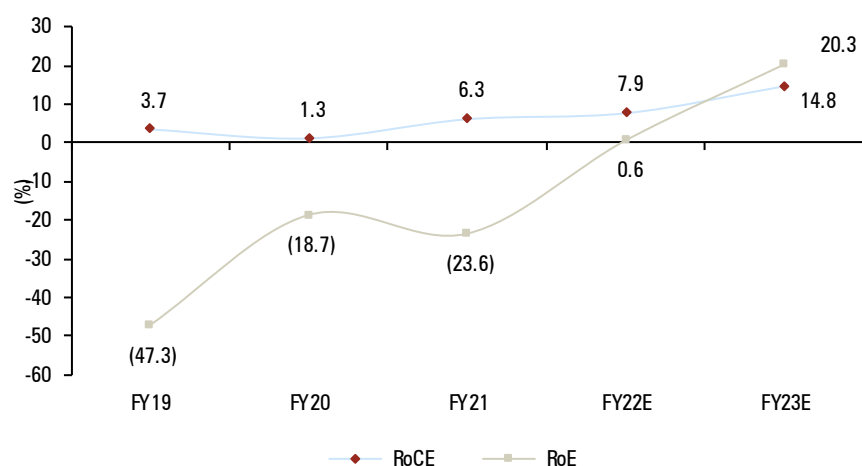
Exhibit 3: Trend in profitability



We expected consolidated PAT of | 14,519 crore in FY23E

Source: Company, ICICI Direct Research

Exhibit 4: Trend in return ratios



Higher margins and lower interest outgo on reduced debt is seen leading to return to double digit return ratios in FY23E

Source: Company, ICICI Direct Research

Exhibit 5: SOTP valuation

Particulars	Parameters	EBITDA	Multiple	Per Share Equity Value
Tata Motors Core business	FY23E EV/EBITDA	6,911	15.0	246
JLR	FY23E Adj EV/EBITDA	38,898	3.3	187
Other Investments	3x P/B on FY21	2,369	3.0	18
Total value per share				450

Source: ICICI Direct Research

Financial Summary

Exhibit 6: Profit and loss statement					₹ crore
(Year-end March)	FY20	FY21	FY22E	FY23E	
Total operating Income	2,61,068	2,49,795	2,98,745	3,65,332	
Growth (%)	-13.5	-4.3	19.6	22.3	
Raw Material Expenses	1,67,131	1,58,291	1,94,397	2,37,917	
Employee Expenses	30,439	27,648	31,292	32,351	
Marketing Expenses	57,087	40,922	47,079	54,738	
Capitalised Expenses	-17,503	-12,849	-13,988	-14,173	
Total Operating Expenditure	2,37,154	2,14,013	2,58,779	3,10,833	
EBITDA	23,914	35,782	39,966	54,498	
Growth (%)	-19.7	49.6	11.7	36.4	
Product development Exp	4189	5227	6192	6543	
Depreciation	21425	23547	24646	25573	
Interest	7243	8097	8494	8025	
Other Income	2973	2643	2650	2703	
PBT	(3,520)	8,513	9,461	23,603	
Minority Interest	0	0	0	0	
Total Tax	395	2542	2912	3412	
Reported PAT	(11,975)	(13,395)	330	14,519	
Growth (%)	-58.3	NM	LP	4,303.2	
EPS (₹)	(33.3)	(35.0)	0.9	37.9	

Source: Company, ICICI Direct Research

Exhibit 7: Cash flow statement					₹ crore
(Year-end March)	FY20	FY21	FY22E	FY23E	
Profit after Tax	(11,975.4)	(13,395.0)	329.7	14,518.8	
Add: Depreciation	21,425	23,547	24,646	25,573	
(Inc)/dec in Current Assets	6,254	-6,045	-10,756	-18,004	
Inc/(dec) in CL and Provisions	-6,111	9,999	8,478	25,579	
Others	11,743	21,444	3,494	8,025	
CF from operating activities	21,336	35,549	26,193	55,692	
(Inc)/dec in Investments	-538	-8,312	9,750	-750	
(Inc)/dec in Fixed Assets	-41,007	-33,809	-28,500	-28,000	
Others	5,230	4,317	-2,643	3,561	
CF from investing activities	(36,315)	(37,803)	(21,393)	(25,189)	
Issue/(Buy back) of Equity	40	46	0	0	
Inc/(dec) in loan funds	12,635	17,094	0	-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	-5,244	-8,494	-8,025	
CF from financing activities	16,057	15,320	(8,494)	(23,025)	
Net Cash flow	1,078	13,066	-3,694	7,478	
Opening Cash	32,649	33,727	46,792	43,098	
Closing Cash	33,727	46,792	43,098	50,577	

Source: Company, ICICI Direct Research

Exhibit 8: Balance Sheet					₹ crore
(Year-end March)	FY20	FY21	FY22E	FY23E	
Liabilities					
Equity Capital	720	766	766	766	
Reserve and Surplus	61,492	54,481	54,811	69,330	
Others	1,681	1,574	1,574	1,574	
Total Shareholders funds	63,892	56,820	57,150	71,669	
Total Debt	1,18,811	1,35,905	1,35,905	1,20,905	
Deferred Tax Liability	1,942	1,556	1,861	2,276	
Long term provisions	14,737	13,607	13,286	16,247	
Minority Interest / Others	18,595	21,095	22,241	27,199	
Total Liabilities	2,17,976	2,28,982	2,30,442	2,38,295	
Assets					
Gross Block	3,11,583	3,46,703	3,85,203	4,18,203	
Less: Acc Depreciation	1,85,252	2,08,799	2,33,446	2,59,019	
Net Block	1,26,330	1,37,904	1,51,757	1,59,184	
Capital WIP	35,622	20,964	15,964	10,964	
Total Fixed Assets	1,61,952	1,58,868	1,67,721	1,70,148	
Investments	16,308	24,620	14,870	15,620	
Inventory	37,457	36,089	42,561	52,047	
Debtors	11,173	12,679	14,733	20,018	
Loans and Advances	935	1,749	2,092	2,559	
Cash	33,727	46,792	43,098	50,577	
Total Current Assets	1,08,726	1,27,836	1,34,898	1,60,380	
Creditors	63,627	68,180	73,663	90,082	
Provisions	10,329	12,848	13,881	16,975	
Total Current Liabilities	1,04,145	1,14,143	1,22,622	1,48,201	
Net Current Assets	4,581	13,693	12,277	12,180	
Deferred Tax Asset	5,458	4,520	5,406	6,611	
Application of Funds	2,17,976	2,28,982	2,30,442	2,38,295	

Source: Company, ICICI Direct Research

Exhibit 9: Key ratios				
(Year-end March)	FY20	FY21	FY22E	FY23E
Per share data (₹)				
EPS	-33.3	-35.0	0.9	37.9
Cash EPS	26.3	26.5	65.2	104.7
BV	177.6	148.4	149.3	187.2
DPS	0.0	0.0	0.0	0.0
Cash Per Share	123.9	172.0	136.2	157.0
Operating Ratios				
EBITDA Margin (%)	9.2	14.3	13.4	14.9
PBT / Net sales (%)	1.0	4.9	5.1	7.9
PAT Margin (%)	-4.6	-5.4	0.1	4.2
Inventory days	52.4	52.7	52.0	52.0
Debtor days	15.6	18.5	18.0	20.0
Creditor days	89.0	99.6	90.0	90.0
Return Ratios (%)				
RoE	-18.7	-23.6	0.6	20.3
RoCE	1.3	6.3	7.9	14.8
RoIC	2.4	11.4	12.1	23.4
Valuation Ratios (x)				
P/E (adjusted)	NM	NM	NM	7.4
EV / EBITDA	9.2	6.1	5.8	3.8
EV / Net Sales	0.8	0.9	0.8	0.6
Market Cap / Sales	0.6	0.6	0.5	0.4
Price to Book Value	2.2	2.6	2.6	2.0
Solvency Ratios				
Debt/EBITDA	5.0	3.8	3.4	2.2
Debt / Equity	1.9	2.4	2.4	1.7
Current Ratio	0.6	0.6	0.6	0.7
Quick Ratio	0.2	0.3	0.3	0.3

Source: Company, ICICI Direct Research

Exhibit 10: ICICI Direct coverage universe (Auto & Auto Ancillary)

Sector / Company	CMP	TP	Rating	M Cap (₹ Cr)	EPS (₹)			P/E (x)			EV/EBITDA (x)			RoCE (%)			RoE (%)		
	(₹)	(₹)			FY21P	FY22E	FY23E	FY21P	FY22E	FY23E	FY21P	FY22E	FY23E	FY21P	FY22E	FY23E	FY21P	FY22E	FY23E
Apollo Tyre (APOTYR)	235	275	BUY	14,924	5.5	10.2	16.6	42.6	23.0	14.2	7.0	7.2	5.3	7.6	6.1	9.1	6.4	5.5	8.4
Ashok Leyland (ASHLEY)	135	160	Buy	39,516	-1.1	0.4	4.6	-126.3	305.2	29.0	79.4	35.5	14.6	-1.9	3.2	16.5	-4.4	1.9	17.7
Bajaj Auto (BAAUTO)	3,818	4,275	Hold	1,10,481	157.4	167.7	193.6	24.3	22.8	19.7	18.0	16.7	14.1	18.2	19.3	22.5	18.1	18.9	21.4
Balkrishna Ind. (BALIND)	2,572	2,825	Buy	49,721	59.8	67.0	78.4	43.0	38.4	32.8	28.1	24.6	21.4	19.3	19.9	21.0	19.2	18.7	19.0
Bharat Forge (BHAFOR)	760	1,000	Buy	35,383	-2.7	17.2	25.1	NM	44.2	30.3	43.9	20.7	16.2	2.2	9.3	12.7	3.3	14.0	16.8
Eicher Motors (EICMOT)	2,819	2,920	Hold	77,043	49.3	64.9	96.4	57.2	43.5	29.2	39.0	30.0	20.4	11.3	13.7	17.8	11.8	14.0	18.0
Escorts (ESCORT)	1,500	1,325	Hold	18,387	71.2	67.7	78.2	21.1	22.2	19.2	13.7	14.6	12.1	18.7	14.7	15.1	16.2	13.6	13.8
Hero Moto (HERHON)	2,842	3,115	Hold	56,755	148.4	155.9	188.8	19.1	18.2	15.1	12.0	11.4	9.2	20.8	20.1	22.3	19.5	18.6	20.3
M&M (MAHMAH)	880	1,000	Buy	1,09,402	2.3	33.6	39.1	390.9	26.2	22.5	16.3	15.3	13.4	9.5	9.8	10.9	2.7	10.9	11.4
Maruti Suzuki (MARUTI)	7,426	6,400	Reduce	2,24,325	140.0	153.1	228.5	53.0	48.5	32.5	33.8	28.3	19.3	4.3	5.9	9.5	8.2	8.5	11.7
Minda Industries (MININD)	780	835	Buy	22,277	7.6	10.7	19.4	102.6	72.8	40.1	31.8	25.6	18.2	9.1	10.3	15.9	9.2	9.5	14.8
Motherson (MOTSUM)	237	270	Buy	74,843	3.3	5.4	9.0	NM	43.7	26.4	16.5	12.0	8.7	6.7	12.4	19.5	8.8	12.7	18.8
Tata Motors (TATMOT)	383	450	Buy	1,46,651	-35.0	0.9	37.9	NM	444.8	10.1	6.1	5.8	3.8	6.3	7.9	14.8	-23.6	0.6	20.3

Source: Company, ICICI Direct Research

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Sell: <-15%



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