Sharekhan by BNP PARIBAS

Powered by the Sharekhan 3R Research Philosophy

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		↔	

ESG Disclosure Score NEW

ESG RISK RATING 30.05

Updated Oct 08, 2021

High Risk

NEGL	LOW	MED	HIGH	SEVERE
0-10	10-20	20-30	30-40	40+

Source: Morningstar

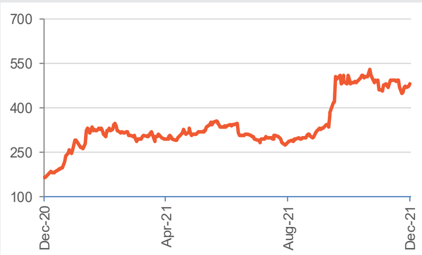
Company details

Market cap:	Rs. 1,58,047 cr
52-week high/low:	Rs. 537 / 179
NSE volume: (No of shares)	354.1 lakh
BSE code:	500570
NSE code:	TATAMOTORS
Free float: (No of shares)	285.6 cr

Shareholding (%)

Promoters	46.4
FII	13.4
DII	13.4
Others	26.8

Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	4.3	51.0	43.6	191.8
Relative to Sensex	2.9	54.6	33.5	164.7

Sharekhan Research, Bloomberg

Tata Motors Ltd

Tata on a strong track

Automobiles	Sharekhan code: TATAMOTORS
Reco/View: Buy ↔	CMP: Rs. 476 | Price Target: Rs. 610 ↔

↑ Upgrade ↔ Maintain ↓ Downgrade

Summary

- Tata Motors Limited (TAMO) to benefit from the CV upcycle and renewed focus on the PV segment in the domestic business, while easing of chips shortage to benefit JLR's performance.
- TAMO's aggressive plans of launching 10 EV products in India by 2026; likely to maintain its dominancy in the fastest growing EV segment.
- TAMO to become earnings positive in FY2022E with 64.8% y-o-y PAT growth in FY2023E, driven by a 16.7% revenue CAGR during FY2021E-FY2023E and a 120-bps improvement in EBITDA margin to 13.4% in FY2023E from 12.2% in FY2021.
- We maintain Buy on TAMO with an unchanged PT of Rs. 610, driven by overall improvement in its operational performance. The stock trades at P/E multiple of 17.1x and EV/EBITDA multiple of 5.2x its FY2023E estimates.

We continue to remain positive on Tata Motors Limited (TAMO), driven by expected robust operational performance by the company across its business segments. The company continues to report strong monthly sales in November 2021, with commercial vehicle (CV) sales up 15.2% y-o-y and passenger vehicle (PV) sales up 37.6% y-o-y. Chips shortage issue is easing and is expected to gradually improve from H2FY2022, which would help Jaguar and Land Rover (JLR) and PV vehicle (domestic) businesses to improve, driven by operating leverage benefits. Management stays positive and maintains its timelines on product delivery, new launches, and capex programmes for all business verticals. Recently, the private equity (PE) investor agreed to invest US$1 billion (~Rs. 7,500 crore) on the valuation of electric vehicle (EV) subsidiary pegged at US$6.7 billion-9.1 billion for 11-15% stake. Investments in the EV company have come at the right time, as the company plans to launch 10 EV models by FY2026, including born-EV platforms in the future. We maintain our Buy rating on the stock with an SOTP-based price target (PT) of Rs. 610.

- **Direct beneficiary of increasing economic activities:** We expect TAMO to be a direct beneficiary of recovery in domestic CV sales, led by improving macro environment, higher infrastructure spending, and replacement demand. We expect the domestic CV industry to post a 22% CAGR from FY2022E-FY2025E, where we expect TAMO to continue its dominancy across sub-segments, led by new product launches, diversified product portfolio, and strong sales and distribution network.
- **Gradual easing of chips shortage to help JLR production:** Leading global suppliers of chips such as Renesas Electronics (Japan), NXP Semiconductors (Dutch supplier), Infineon Technologies (Germany), STMicroelectronics (Switzerland), and Texas Instruments (US) are witnessing increased inventories for the first time in three quarters, despite demand for auto chips increasing. This implies easing of chips shortage situation globally, though the market is expected to remain dynamic. We expect JLR's production to improve in H2FY2022, with gradual easing of chips situation going forward and improving operational performance.
- **EV to form 20% of TAMO's PV sales over the next five years:** PE investors, TPG and ADQ are investing US$ 1 billion (~Rs. 7,500) in the EV subsidiary of TAMO for a stake of 11-15%, with valuation pegged at US$ 6.7 billion-9.1 billion. TAMO targets double-digit market share in the EV industry's segments and expects ~20% of its sales from EVs in the next five years, led by its plan to launch 10 EVs by FY2026 across price points with different body styles and driving ranges, including born-EV platforms in the future. The contribution margin of EVs is like that of its traditional PV (ICE technology). Management expects its EV business to be EBITDA breakeven by FY2023.

Our Call

Valuation – Maintain Buy with an unchanged PT of Rs. 610: We believe TAMO is taking the right steps towards increasing its focus on the EV business in India. Funding from external investors would help the company to aggressively develop and launch EV models. Moreover, TAMO is likely to benefit from the re-rating of valuation multiples, driven by improved ESG ratings and its focus on EV technology. Besides the EV business, we expect TAMO to benefit from all its business verticals – JLR, CVs, and PVs. H2FY2021 saw strong volume growth and better operational efficiencies aided by aggressive product launches, market positioning, product differentiation, cost savings, and investments in R&D. We expect operational performance to improve strongly in H2FY2022, as supply constraints are expected to ease gradually. We expect TAMO to benefit from the improving macro-environment in India and globally, post normalisation of the economy. The company is generating strong free cash flow (FCF), which will help it pursue its business plans and reduce high debts. We expect TAMO to become earnings positive in FY2022E and post 64.8% y-o-y PAT growth in FY2023E, driven by a 16.7% revenue CAGR during FY2021-FY2023E and a 120-bps improvement in EBITDA margin to 13.4% in FY2023E from 12.2% in FY2021. The stock is trading at P/E multiple of 17.1x and EV/EBITDA multiple of 5.2x its FY2023E estimates. We maintain our Buy rating on the stock with an unchanged PT of Rs. 610.

Key Risks

Any significant lockdowns due to the third wave of COVID-19 pandemic in India and globally can impact our volume estimates and, thus, earnings. Moreover, the company's performance can be impacted by ongoing global chips shortage if it aggravates further.

Valuation (Consolidated) Rs cr

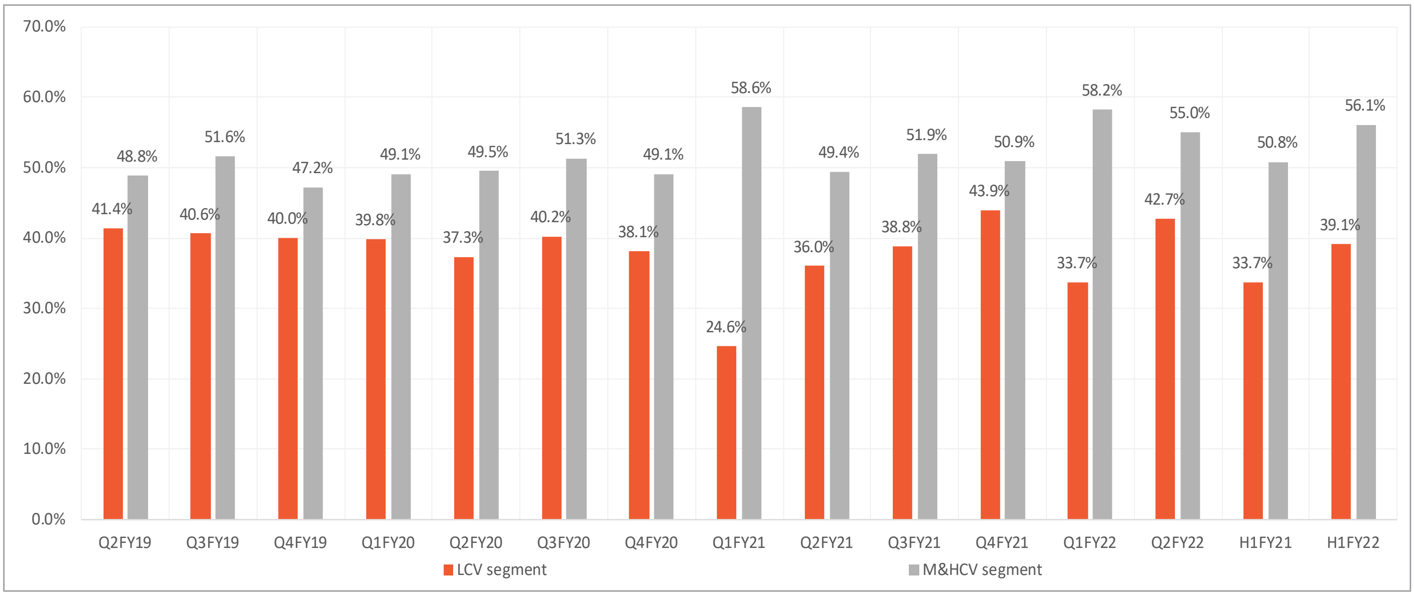
Particulars	FY21	FY22E	FY23E	FY24E
Net Sales	2,49,795	3,26,580	3,40,277	3,82,437
Growth (%)	-4.3	30.7	4.2	12.4
EBIDTA	30,555	39,458	45,537	52,221
OPM (%)	12.2	12.1	13.4	13.7
PAT	(1,366)	6,720	11,078	14,424
Growth (%)	NA	NA	64.8	30.2
FD EPS (Rs)	-3.6	17.5	28.9	37.7
P/E (x)	NA	28.1	17.1	13.1
P/B (x)	3.4	3.1	2.7	2.3
EV/EBIDTA (x)	7.9	6.0	5.2	4.4
RoE (%)	-2.4	10.1	18.3	17.9
RoCE (%)	4.7	6.6	8.5	8.4

Source: Company; Sharekhan estimates

Stock Update

Direct beneficiary of increasing economic activities: We expect TAMO to be a direct beneficiary of recovery in domestic CV sales, led by improving macro environment, higher infrastructure spending, and replacement demand. We expect the domestic CV industry to post a 22% CAGR from FY2022E-FY2025E, where we expect TAMO to continue its dominancy across sub-segments, led by new product launches, diversified product portfolio, and strong sales and distribution network. The company witnessed faster growth in higher tonnage trucks, led by increased construction and mining activities.

TAMO continues to dominate in CV segment (market share)



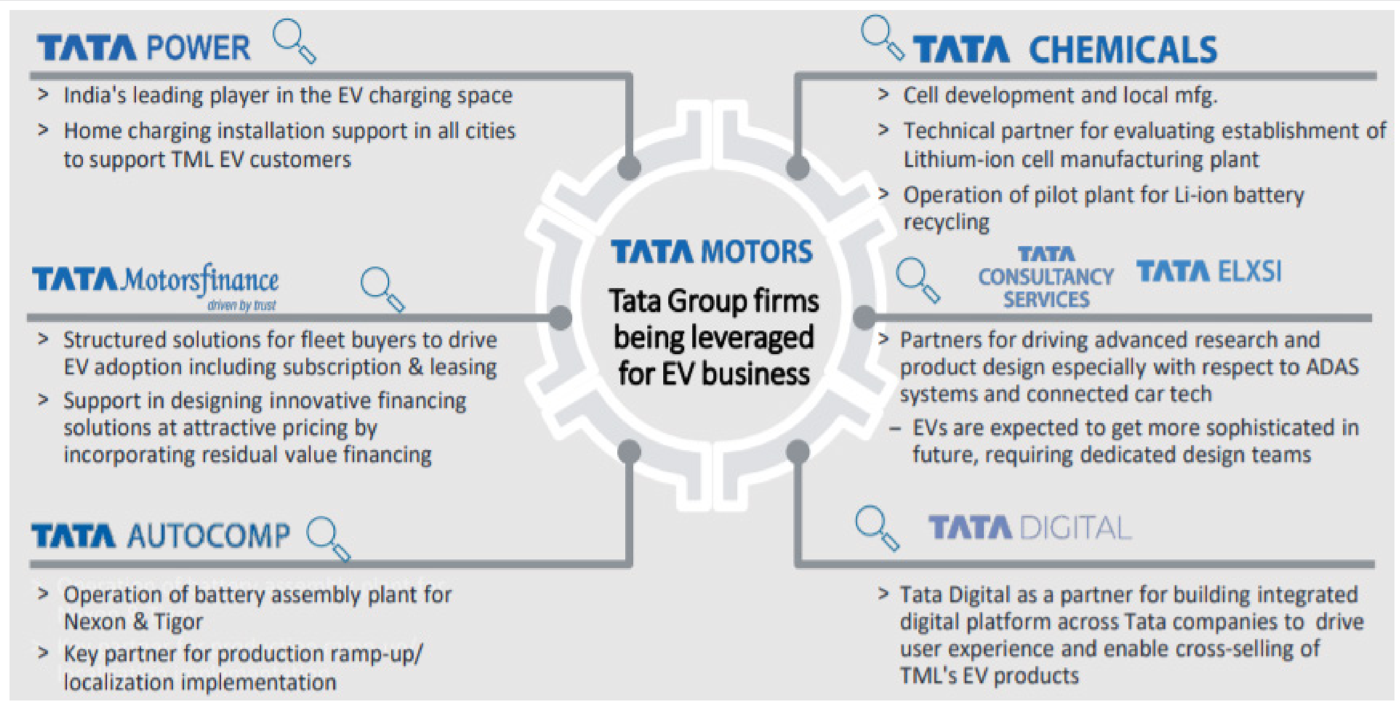
Source: Industry; Sharekhan Research

Strong volume momentum for the CV division: TAMO is optimistic about the CV business and is gaining market share across the CV segment. The company expects the CV industry do well 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-ups segment, the company plans to leverage Ace petrol at a price point equivalent to BS-IV; and reinforce Ace diesel's brand equity. The CV passenger segment (buses) will be aided by opening of schools and corporate offices, as COVID-19 impact reduces over time.

Transforming product strategy in the domestic PV business: The PV business witnessed strong financials in Q2-Q4 of FY2021, showing robust sequential volume growth. TAMO has been gaining market share in the PV segment, led by 144% y-o-y growth in Q4FY2021. The company witnessed highest sales in the last 34 quarters with its 'New Forever' portfolio. 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 conversion levels. The company plans to launch new products or refreshed versions at regular intervals to drive up market share and volume growth. The company has improved its market share in PV by 340 bps to 8.2% in FY2021. We expect PV sales to continue to do well from Q2FY2022. 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 at 5-6% of revenue.

PE investors value TAMO's EV subsidiary at US$ 6.7 billion-9.1 billion: PE investors, TPG and ADQ, are investing US $1 billion (~Rs. 7,500) in the EV subsidiary of TAMO for a stake of 11-15%, depending upon revenue thresholds, which is not disclosed. Valuation of the EV business is, thus, pegged at US $6.7 billion-9.1 billion, depending upon the stake. TPG has committed funding of 50% by FY2023 and the balance 50% by CY2022. The investment would be through compulsory convertible preference shares (CCPS). The EV company is planned to be created as an asset-lite new subsidiary of TAMO and will house all dedicated EV talent and design capabilities of the parent company.

Leveraging and creating ecosystem with support from Tata Group companies



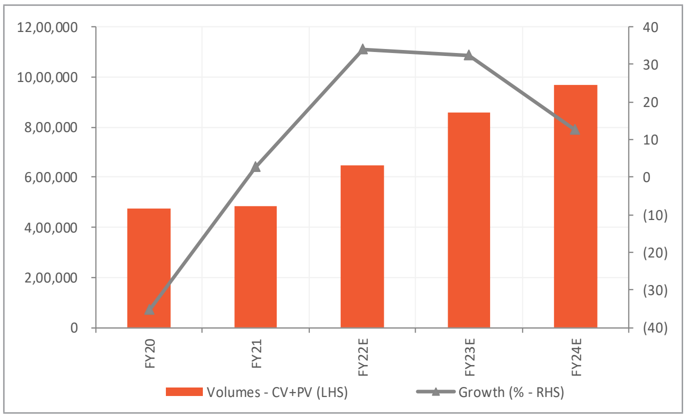
Source: Company IR Presentation; Sharekhan Research

EV to form 20% of TAMO's PV sales over the next five years: TAMO targets double-digit market share in the EV industry and expects ~20% of its sales from EVs in the next five years. Contribution margin of EVs is like that of its traditional PV (ICE technology). Management expects its EV business to be EBITDA breakeven by FY2023. The EV company will leverage all existing investments in technologies, brands, manufacturing capacities, and sales network of TAMO's PV company. TAMO has 71.4% market share in electrified vehicles in the passenger segment, with EV penetration at 2% of its PV portfolio. Nexon EV is a leader in the segment. The company has been building up an ecosystem for EV infrastructure through support from group companies, such as Tata Automotive Company, Tata Power, Tata Chemicals, and Tata Motor Finance. Tata Power is helping it in creating charging infrastructure. Tata Power has over 355 public charging points on an inter-city and intra-city basis 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.

Gradual easing of chips shortage to help JLR production: Leading global suppliers of chips such as Renesas Electronics (Japan), NXP Semiconductors (Dutch supplier), Infineon Technologies (Germany), STMicroelectronics (Switzerland), and Texas Instruments (US) are witnessing increased inventories for the first time in three quarters, despite rising demand for auto chips. This implies easing of chips shortage situation globally, though the market is expected to remain dynamic. We expect JLR's production to improve in H2FY2022, with gradual easing of chips situation going forward and improving operational performance.

Financials in charts

Volumes Trends (Standalone)

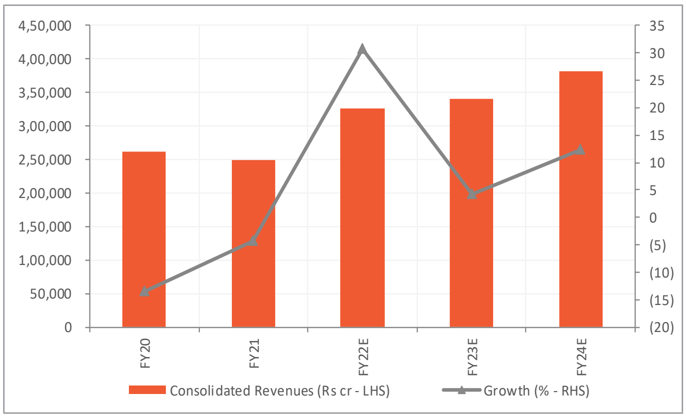


Source: Company, Sharekhan Research

Volumes Trends (JLR, including China JV)

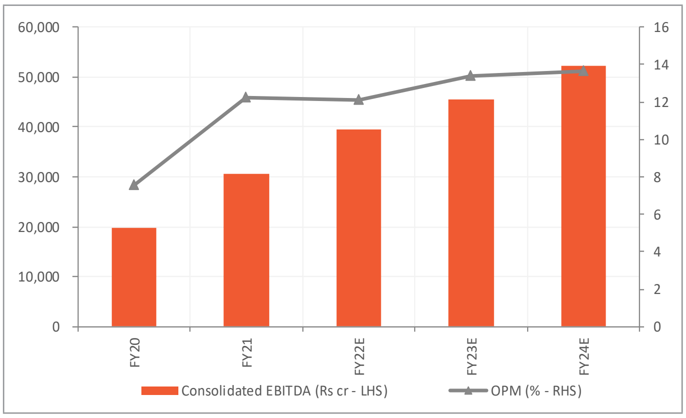
Source: Company, Sharekhan Research

Revenue and Growth Trend



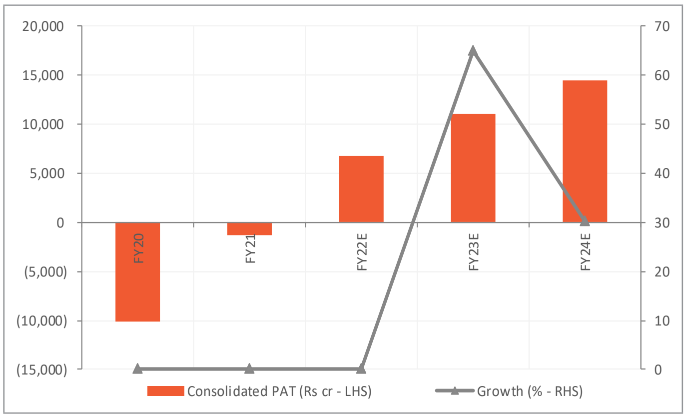
Source: Company, Sharekhan Research

EBITDA and OPM Trends



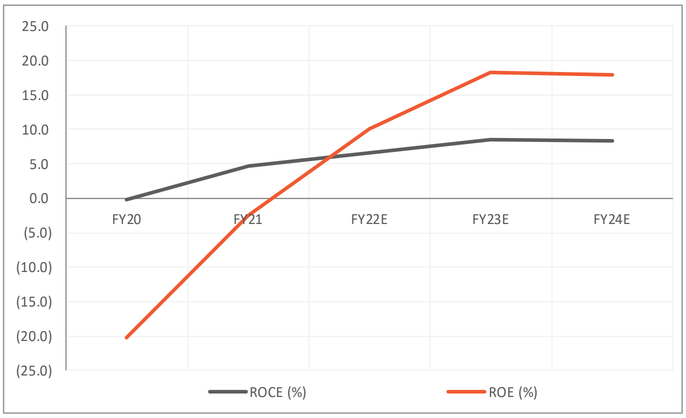
Source: Company, Sharekhan Research

PAT and Growth Trends



Source: Company, Sharekhan Research

Return Ratios Trends



Source: Company, Sharekhan Research

Outlook and Valuation

■ Sector Outlook – Positive outlook on the automobile industry in India and globally

The macro environment is improving in Europe, UK, America, and China. The rollout 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. The medium-term outlook of the domestic CV business is strong, with notable demand arising from infrastructure, mining, and e-Commerce activities. Domestic PV volumes recovered strongly, driven by rural and semi-urban demand. However, the near term remains challenging due to lockdowns and restrictions imposed by the government. We expect strong recovery in demand post the normalisation of the economy and speedy rollout of vaccination programmes in India. The concern of chips shortage remains a lag for global PV business. It is expected to gradually improve from H2FY2022.

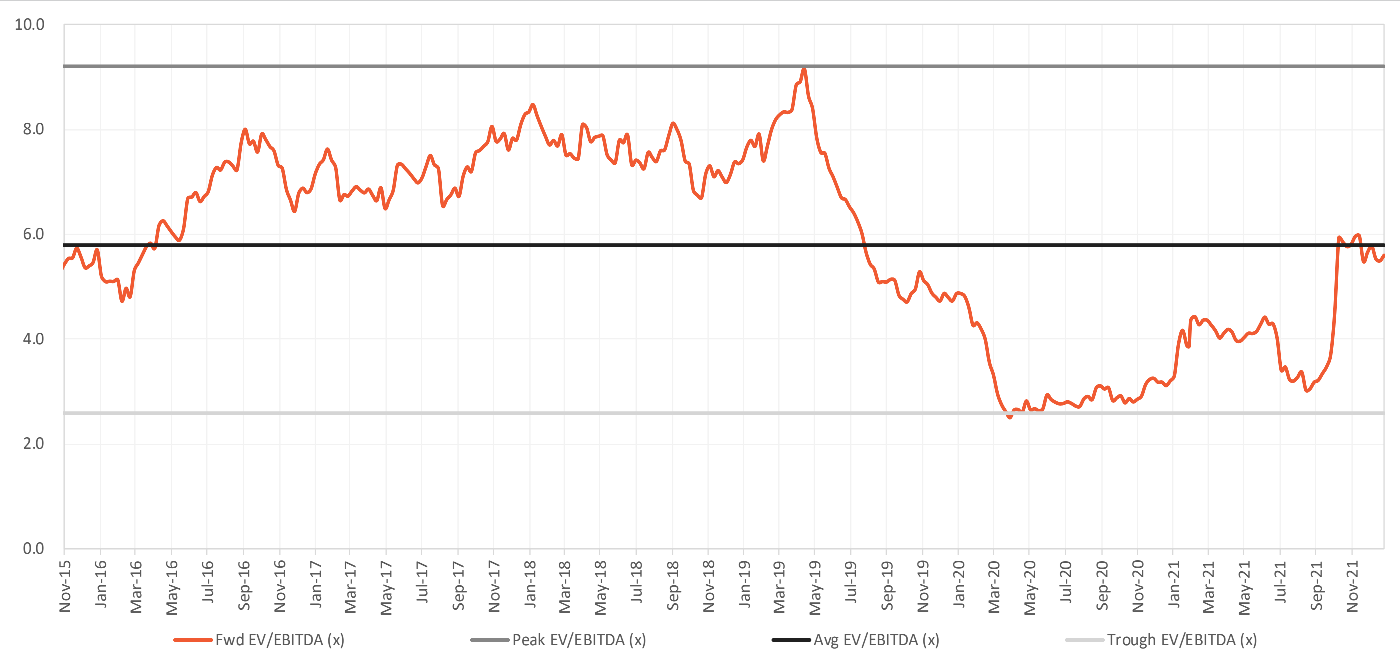
■ Company outlook – Strong outlook

We expect TAMO to benefit from all its business verticals – JLR, CVs, and PVs. H2FY2021 saw strong volume growth and better operational efficiencies aided by aggressive product launches, market positioning, product differentiation, cost savings, and investments in R&D. We expect operational performance to improve strongly in H2FY2022, as supply constraints are expected to gradually ease out. The JLR business is expected to be positive cashflow by FY2023, net debt is likely to be zero by FY2024, and EBIT margin is expected to be greater than 10% by FY2026. The company expects double-digit EBIT margin by FY2026 to be driven by refocus and reimagine architecture strategy. Outlook of the domestic CV business is at a cusp of strong recovery post normalisation of economic activities, 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 FY2021, the company gained 340 bps y-o-y in market share at 8.2% in the PV segment. With its strong focus and investments in the EV business, we expect TAMO to retain its dominant market share in the domestic EV market.

■ Valuation – Maintain Buy with an unchanged PT of Rs. 610

We believe TAMO is taking the right steps towards increasing its focus on the EV business in India. Funding from external investors would help the company to aggressively develop and launch EV models. Moreover, TAMO is likely to benefit from the re-rating of valuation multiples, driven by improved ESG ratings and its focus on EV technology. Besides the EV business, we expect TAMO to benefit from all its business verticals – JLR, CVs, and PVs. H2FY2021 saw strong volume growth and better operational efficiencies aided by aggressive product launches, market positioning, product differentiation, cost savings, and investments in R&D. We expect operational performance to improve strongly in H2FY2022, as supply constraints are expected to ease gradually. We expect TAMO to benefit from the improving macro-environment in India and globally, post normalisation of the economy. The company is generating strong free cash flow (FCF), which will help it pursue its business plans and reduce high debts. We expect TAMO to become earnings positive in FY2022E and post 64.8% y-o-y PAT growth in FY2023E, driven by a 16.7% revenue CAGR during FY2021-FY2023E and a 120-bps improvement in EBITDA margin to 13.4% in FY2023E from 12.2% in FY2021. The stock is trading at P/E multiple of 17.1x and EV/EBITDA multiple of 5.2x its FY2023E estimates. We maintain our Buy rating on the stock with an unchanged PT of Rs. 610.

One-year forward EV/EBITDA (x) band



Source: Sharekhan Research

Peer Comparison

Particulars	CMP	P/E (x)			EV/EBIDTA (x)			RoCE (%)		
	Rs/Share	FY21	FY22E	FY23E	FY21	FY22E	FY23E	FY21	FY22E	FY23E
Tata Motors	476	NA	28.1	17.1	7.9	6.0	5.2	4.7	6.6	8.5
Ashok Leyland Limited	121	NA	39.9	16.2	68.8	17.3	9.1	-	10.7	21.5
Maruti Suzuki India Limited	7300	52.1	45.3	26.5	41.5	32.5	19.4	9.4	11.0	16.9

Source: Company, Sharekhan estimates

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 (JLR) 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. H2FY2021 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 the improving macro environment 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 H2FY2021 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 Website

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 NY ADR 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

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 detoriating 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

Sharekhan

by BNP PARIBAS

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