

Sustainable profitable growth envisaged for TML India

We attended the 'Tata Motors Investor Day 2021 for India Business', in which Tata Motors' (TML) senior management provided an update on the business environment and future outlook for the two India facing business segments. We came away enthused by the exciting progress that the company has been making in its domestic CV, PV turnaround efforts. TML reiterated its commitment towards **near zero automotive net debt level by FY24E** and is open to **partnership in domestic PV business** given segment's capex needs.

CV segment: "Win Decisively"; highlights from investor event

TML said –(1) **higher infra spends, improved consumer sentiment, continued e-commerce strength and replacement demand are CV tailwinds but peak FY19 volumes are two to three years away**, (2) **it wants to achieve double-digit EBITDA margins in a typical seven-year CV business cycle**, with gross margins seen normalising by H2FY22E, (3) **India M&HCV, CV industry volumes have been pushed back by 20 years, 10 years, respectively**, (4) **BS-VI related cost increases have been passed on via price hikes (50%) and reduction in discounts (50%), with ASPs now up 10% vs. BS-IV**, (5) **CV EBIT breakeven points have reduced by 30% in 9MFY21, with cash costs per day also down 25% this year**, (6) in SCV and pickups, introduction of Ace petrol (at prices equivalent to BS-IV) has helped improve performance, (7) breakeven volumes for CV dealers have come down by 25%, (8) **India CV sales points (1,556) and service points (2,892) are 1.5x, 3x of closest rivals**, (9) in exports, TML would continue to play to its strengths (ILCV, M&HCV), (10) **TML has orderbook of 500 electric buses**, (11) **EV penetration in SCVs is seen at 20-25% by 2025**, & (12) **it expects domestic CV industry volumes to decline 20-22% in FY21E and, thereafter, grow in healthy double digits in FY22E (reinforcing our view of cyclical bottom having been surpassed).**

PV segment: "Win Sustainably"; highlights from investor event

TML said, (1) **introduction of sub-compact SUV Hornbill and seven-seater Safari is set to expand market coverage to ~70-75% vs. 60% currently**, (2) it aims to achieve 2x rural sales growth, (3) VA/VE initiatives, product mix improvement and higher localisation are among measures being taken to bolster profitability, (4) **Nexon EV forms 72% of EV industry, and is either the sole/primary vehicle for 46% of its users**, (5) it aims to achieve double-digit market share in the future vs. 7.8% in 9MFY21, and (6) **battery costs are coming down faster than anticipated, with EV penetration seen moving to 7-10% of industry in next few years (higher at 15-20% for TML).**

Valuation & Outlook

For TML, India business contributed ~18% of FY20 sales (CV 14%, PV 4%). With impending investor day for JLR scheduled on February 26, 2021; our present estimates factor in our positivity on the changing India landscape, and hence we do not alter them. However, given the management intent on FCF generation and profitable growth journey that lies ahead we upgrade our valuation multiples across business segments, retaining our **BUY** rating on the stock with a revised target price of ₹ 350 (earlier ₹ 301) on SOTP basis (12x, 3.5x FY23E EV/EBITDA for standalone, JLR businesses).

Key Financial Summary

Key Financials	FY19	FY20	FY21E	FY22E	FY23E	CAGR (FY21E-23E)
Net Sales	3,01,938.4	2,61,068.0	2,38,096.0	2,95,987.6	3,37,462.2	19.1%
EBITDA	29,794.8	23,914.1	30,692.9	39,530.8	46,190.9	22.7%
EBITDA Margins (%)	9.9	9.2	12.9	13.4	13.7	
Net Profit	(28,724.2)	(11,975.4)	(5,644.0)	3,431.2	8,322.6	LP
EPS (₹)	(79.8)	(33.3)	(14.7)	9.0	21.7	
P/E	(3.8)	(9.1)	(20.6)	33.9	14.0	
RoNW (%)	(47.3)	(18.7)	(9.3)	5.3	11.5	
RoCE (%)	3.7	1.3	3.7	7.9	11.1	

Source: Company, ICICI Direct Research

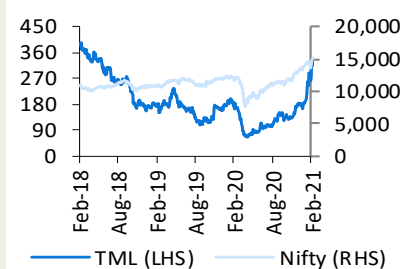
TATA MOTORS

Connecting Aspirations

Particulars

Particular	₹ crore
Market Capitalization	1,09,370
Total Debt (FY20)	1,18,811
Cash and Investments (FY20)	44,588
EV (FY20)	1,83,592
52 week H/L (₹)	307 / 64
Equity capital (₹ crore)	719.5
Face value (₹)	2.0

Price Performance



Key Highlights

- CV demand environment is improving, with margin ambition set at double-digits for the next cycle
- New PV product launches expand addressable market to 75%. In EVs, TML penetration at 15-20% in future to be much higher than industry

Key risks to our call

- Slower than anticipated recovery in volumes especially at JLR
- Commodity price pressures could elongate path to profitability in India

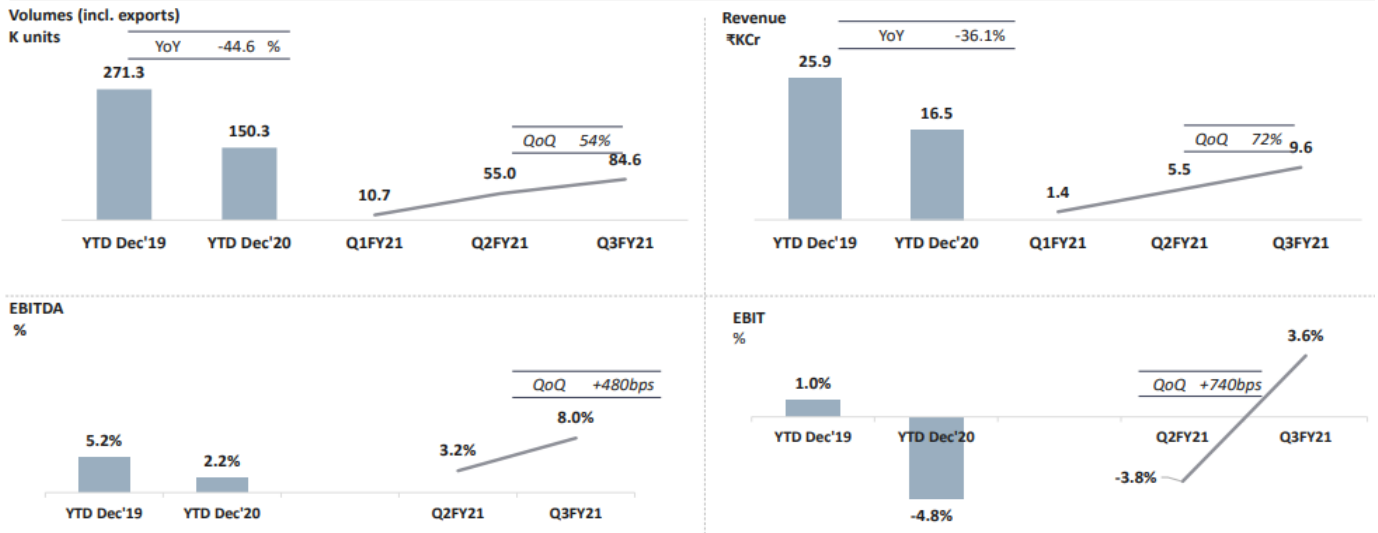
Research Analyst

Shashank Kanodia, CFA
shashank.kanodia@icicisecurities.com

Jaimin Desai
jaimin.desai@icicisecurities.com

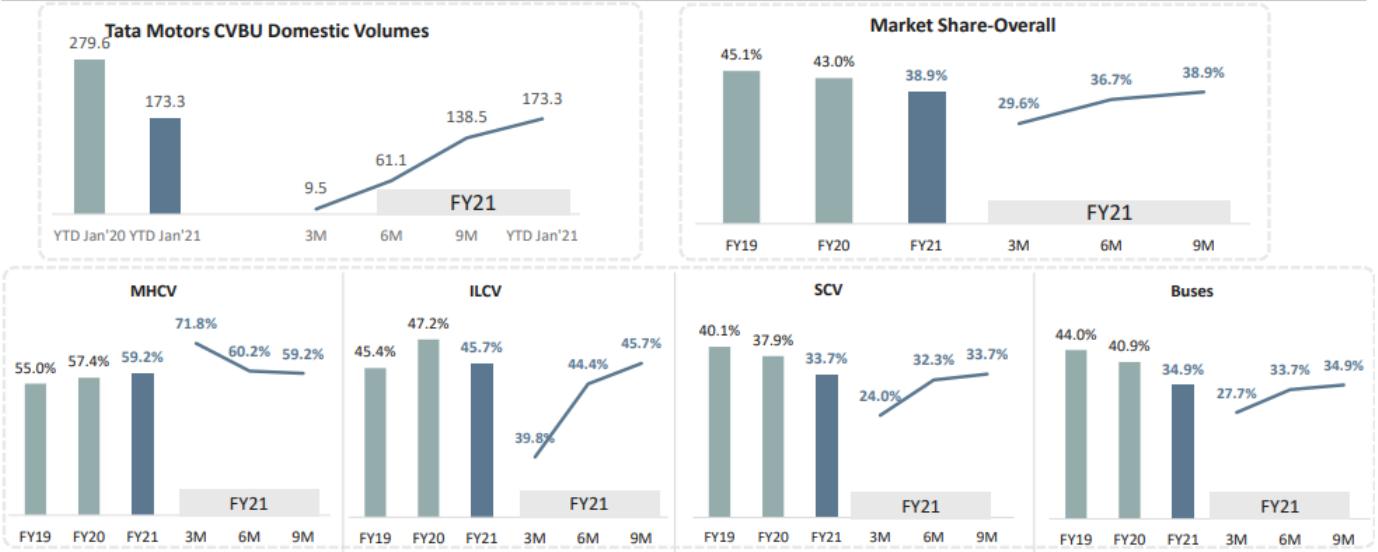
Story in charts

Exhibit 1: 9MFY21 CV segment financials



Source: Company, ICICI Direct Research

Exhibit 2: 9MFY21 CV segment market share movement



Above market shares do not include 3961 vehicles supplied to A P State Civil Supplies Corp. Ltd awaiting inspection by the authorities. CV MS including these stood at 39.6% (SCV at 34.7%)

Source: Company, ICICI Direct Research

Exhibit 3: Focus on holistic aftermarket offering and service support

Enhancing customer experience through Sampoorna Seva



Sampoorna Seva 2.0 Holistic aftermarket offering

Universe of services includes

- Repair time assurance
- Breakdown assistance
- Insurance and accidental repair time
- Extended Warranty
- Add-on services (TATA OK, Prolife, Loyalty programme)

Uptime Guarantee

- Industry First comprehensive service offering
- Reinforcing superior product and service capability

Fleet Management Solution

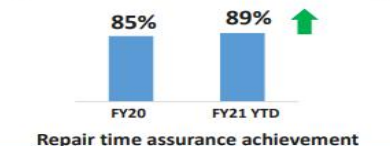
- 3000+ buses managed for 10 STUs with >95% availability
- 10 fleet owners onboarded covering 200+ trucks

TATA alert Service-Anytime, Anywhere

Reach time anywhere
2 hours in day
4 hours in night

TATA Zippy

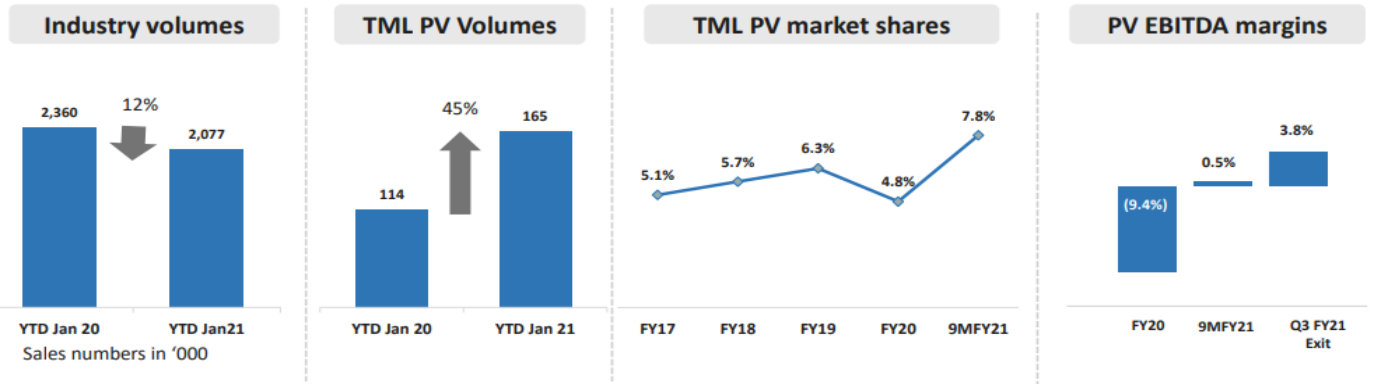
Repair time assurance
4 hours for SCVs
8 hours for all other vehicles under warranty



Delivering 'Peace of mind' for the end customers, with enhanced productivity and earnings

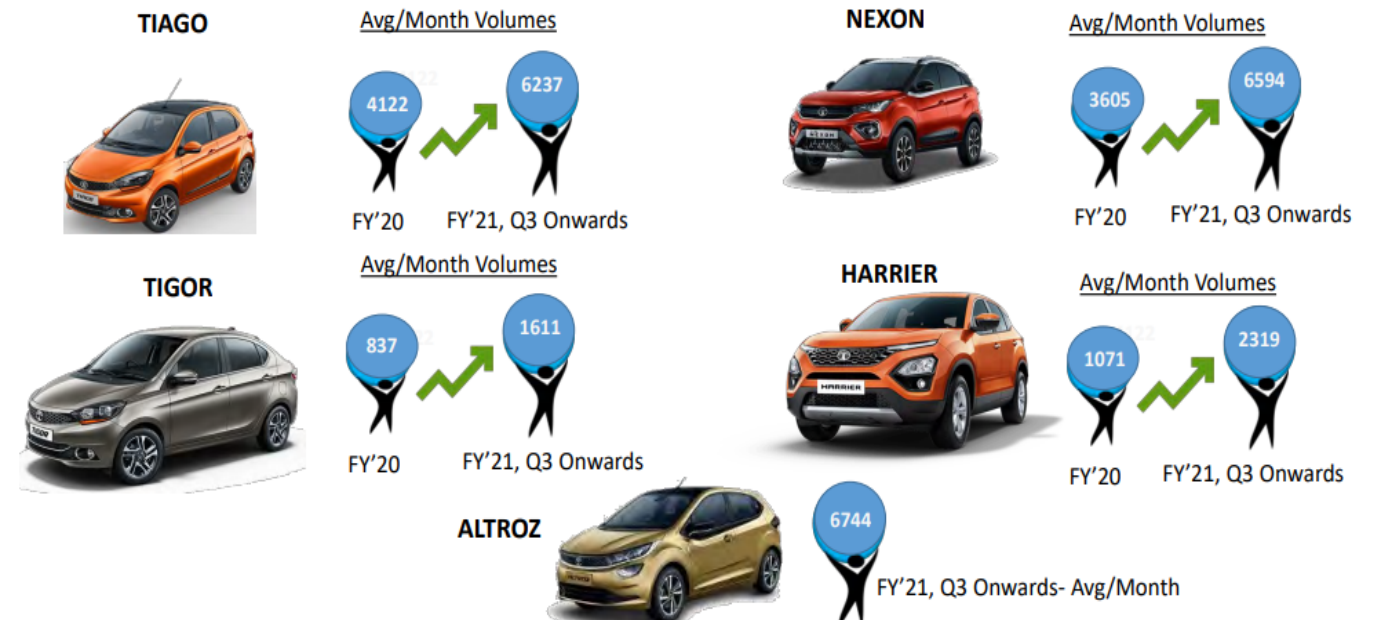
Source: Company, ICICI Direct Research

Exhibit 4: 9MFY21 TML PV volume and market share movement



Source: Company, ICICI Direct Research

Exhibit 5: Sharp uptick in PV model ("new forever range") offtake



Source: Company, ICICI Direct Research

Exhibit 6: TML PV offerings vis-à-vis market segmentation

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				

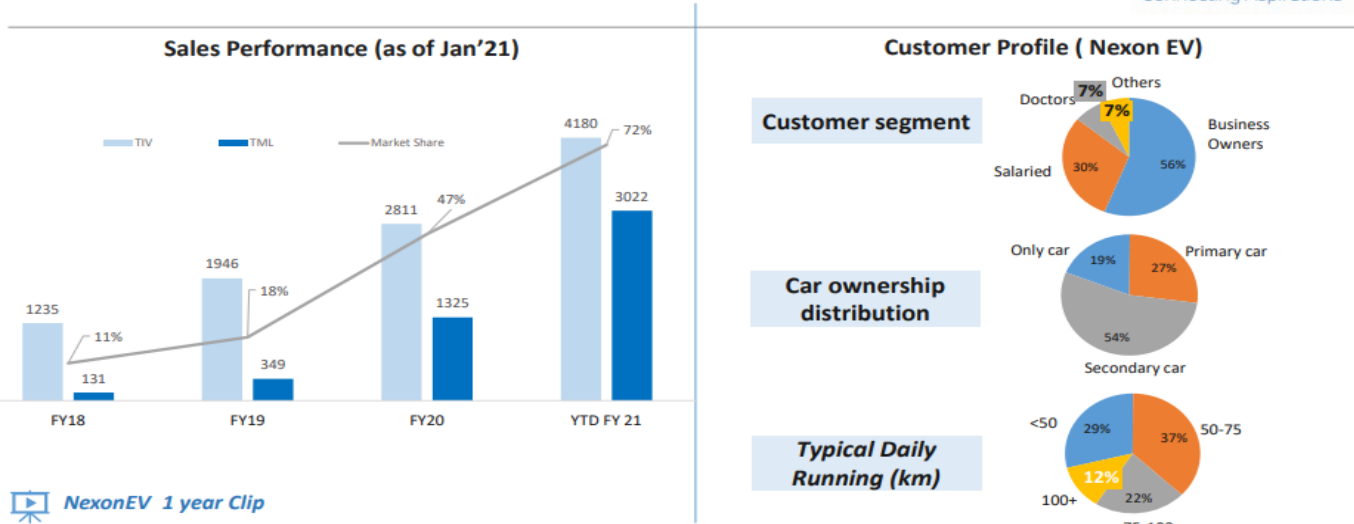
Legend: Lower performance & Potential (light green) to Highest Performance & Potential (dark blue)

Source: Company, ICICI Direct Research

TML currently has ~60% market coverage with strong positions in growing segment. With the recent launch of "Tata Safari" and a scheduled launch in sub-compact SUV segment i.e. "HBX" in CY21E, market coverage will increase to ~70-75%.

Exhibit 7: Nexon EV sales performance and customer profile

Tata Motors has established itself as a leader in EV market



[NexonEV 1 year Clip](#)

Nexon EV has changed the perception of EVs amongst Indian consumers

Source: Company, ICICI Direct Research

Exhibit 8: Tata Group EV ecosystem

Tata Group EV ecosystem collaboration in place

Will support phased localization and charging infrastructure 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 AUTOCOMP SYSTEMS LIMITED

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



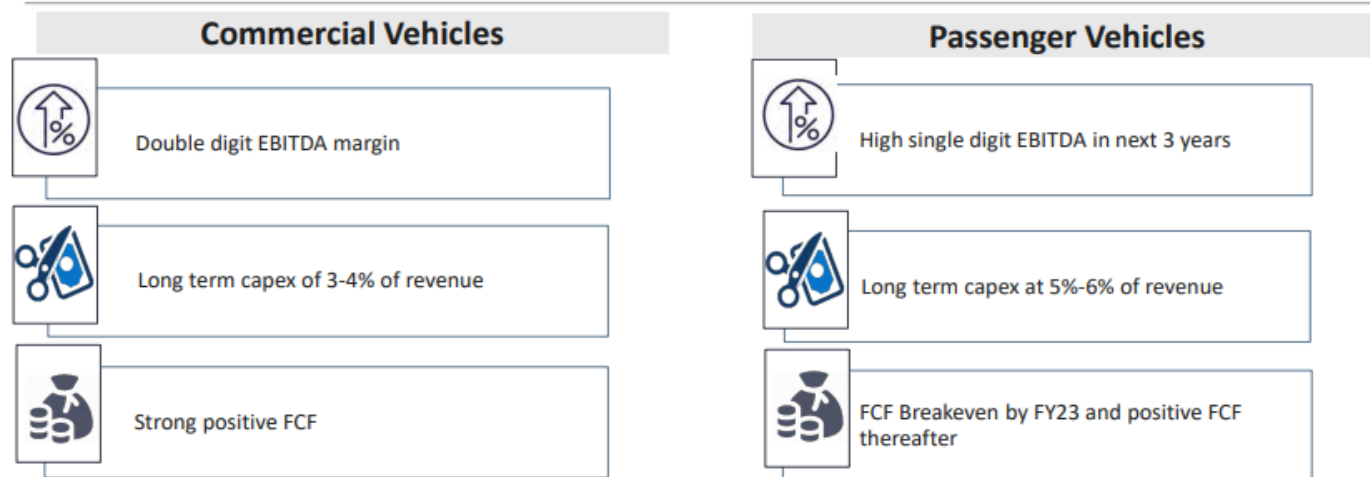
TATA Motorfinance

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

Group companies working in sync with Tata Motors to develop the EV ecosystem in India

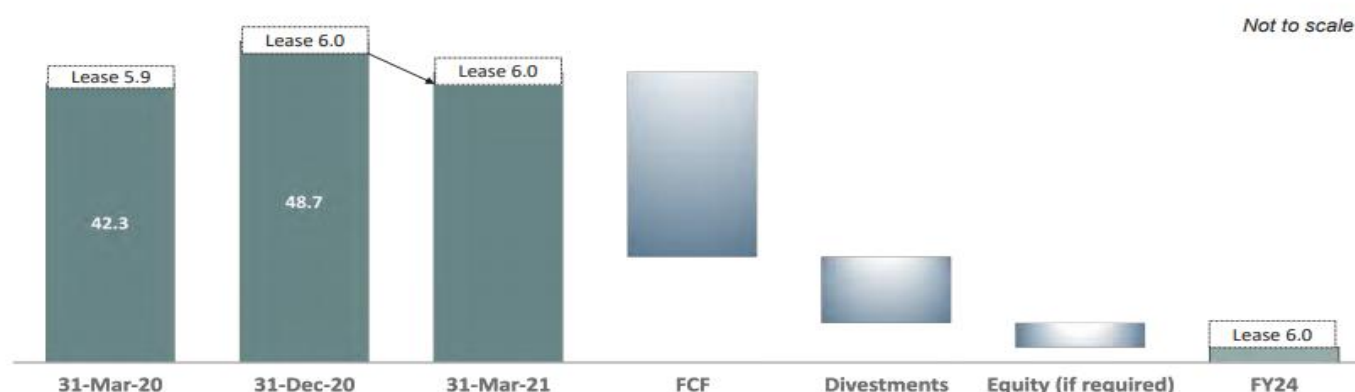
Source: Company, ICICI Direct Research

Exhibit 9: CV, PV forward operational guidance



Source: Company, ICICI Direct Research

Exhibit 10: Roadmap for net automotive debt reduction at TML



Operating cash-flows, divestments to contribute majorly towards debt reduction

Source: Company, ICICI Direct Research

Exhibit 11: Valuation as per SOTP method

Particulars	Parameters	EBITDA	Multiple	Per Share Equity Value
Tata Motors Core business	FY23E EV/EBITDA	5,595	12.0	135
JLR	FY23E Adj EV/EBITDA	31,758	3.5	200
Other Investments	3x P/B on FY20	2,047	3.0	15
Total value per share				350

Source: ICICI Direct Research

Exhibit 12: Valuation Summary

	Sales	Growth	EPS	Growth	PE	EV/EBITDA	RoNW	RoCE
	(₹ cr)	(%)	(₹)	(%)	(x)	(x)	(%)	(%)
FY19	3,01,938	2.5	(79.8)	NA	NM	5.8	-47.3	3.7
FY20	2,61,068	-13.5	(33.3)	NA	NM	7.7	-18.7	1.3
FY21E	2,38,096	-8.8	(14.7)	NA	NM	6.3	-9.3	3.7
FY22E	2,95,988	24.3	9.0	NA	33.9	4.5	5.3	7.9
FY23E	3,37,462	14.0	21.7	142.6	14.0	3.5	11.5	11.1

Source: Company, ICICI Direct Research

Exhibit 13: 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 14: Profit and loss statement				
	₹ crore			
(Year-end March)	FY20	FY21E	FY22E	FY23E
Total operating Income	2,61,068	2,38,096	2,95,988	3,37,462
Growth (%)	-13.5	-8.8	24.3	14.0
Raw Material Expenses	1,67,131	1,52,138	1,95,197	2,22,814
Employee Expenses	30,439	27,141	30,195	33,809
Marketing Expenses	57,087	41,253	48,824	54,896
Capitalised Expenses	-17,503	-13,129	-17,759	-20,248
Total Operating Expenditure	2,37,154	2,07,403	2,56,457	2,91,271
EBITDA	23,914	30,693	39,531	46,191
Growth (%)	-19.7	28.3	28.8	16.8
Product development Exp	4189	4517	4518	5213
Depreciation	21425	23572	25159	26997
Interest	7243	8031	7582	6613
Other Income	2973	2460	2522	2572
PBT	(3,520)	2,653	9,312	15,153
Minority Interest	0	0	0	0
Total Tax	395	2785	959	1988
Reported PAT	(11,975)	(5,644)	3,431	8,323
Growth (%)	-58.3	-52.9	-160.8	142.6
EPS (₹)	(33.3)	(14.7)	9.0	21.7

Source: Company, ICICI Direct Research

Exhibit 15: Cash flow statement				
	₹ crore			
(Year-end March)	FY20	FY21E	FY22E	FY23E
Profit after Tax	(11,975.4)	(5,644.0)	3,431.2	8,322.6
Add: Depreciation	21,425	23,572	25,159	26,997
(Inc)/dec in Current Assets	6,254	9,133	-12,088	-8,504
Inc/(dec) in CL and Provisions	-6,111	-8,129	22,672	16,242
Others	11,743	8,031	7,582	6,613
CF from operating activities	21,336	26,963	46,756	49,671
(Inc)/dec in Investments	0	0	0	0
(Inc)/dec in Fixed Assets	-41,007	-27,000	-27,000	-27,000
Others	4,692	-1,812	2,186	1,070
CF from investing activities	(36,315)	(28,812)	(24,814)	(25,930)
Issue/(Buy back) of Equity	40	46	0	0
Inc/(dec) in loan funds	12,635	9,500	-14,000	-17,000
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	-7,582	-6,613
CF from financing activities	16,057	4,071	(21,582)	(23,613)
Net Cash flow	1,078	2,222	360	128
Opening Cash	32,649	33,727	35,949	36,310
Closing Cash	33,727	35,949	36,310	36,438

Source: Company, ICICI Direct Research

Exhibit 16: Balance Sheet				
	₹ crore			
(Year-end March)	FY20	FY21E	FY22E	FY23E
Liabilities				
Equity Capital	720	766	766	766
Reserve and Surplus	61,492	59,271	62,702	71,025
Others	1,681	814	814	814
Total Shareholders funds	63,892	60,851	64,282	72,604
Total Debt	1,18,811	1,28,311	1,14,311	97,311
Deferred Tax Liability	1,942	1,771	2,202	2,510
Long term provisions	14737	13440	16708	19049
Minority Interest / Others	18,595	16,959	21,082	24,036
Total Liabilities	2,17,976	2,21,331	2,18,584	2,15,510
Assets				
Gross Block	3,11,583	3,43,583	3,75,583	4,07,583
Less: Acc Depreciation	1,85,252	2,08,824	2,33,983	2,60,980
Net Block	1,26,330	1,34,759	1,41,600	1,46,603
Capital WIP	35,622	30,622	25,622	20,622
Total Fixed Assets	1,61,952	1,65,381	1,67,222	1,67,225
Investments	16,308	15,558	16,308	17,058
Inventory	37,457	30,659	38,113	43,454
Debtors	11,173	10,437	12,975	14,793
Loans and Advances	935	853	1,060	1,209
Other Current Assets	1,08,726	1,01,815	1,14,263	1,22,894
Cash	33,727	35,949	36,310	36,438
Total Current Assets	1,08,726	1,01,815	1,14,263	1,22,894
Creditors	63,627	58,709	72,983	83,210
Provisions	10,329	9,531	11,848	13,508
Total Current Liabilities	1,04,145	96,016	1,18,687	1,34,930
Net Current Assets	4,581	5,799	(4,425)	(12,036)
Deferred Tax Asset	5,458	4,978	6,188	7,055
Application of Funds	2,17,976	2,21,331	2,18,584	2,15,510

Source: Company, ICICI Direct Research

Exhibit 17: Key ratios				
(Year-end March)	FY20	FY21E	FY22E	FY23E
Per share data (₹)				
EPS	-33.3	-14.7	9.0	21.7
Cash EPS	26.3	46.8	74.7	92.2
BV	177.6	158.9	167.9	189.6
DPS	0.0	0.0	0.0	0.0
Cash Per Share	123.9	119.6	121.9	123.5
Operating Ratios				
EBITDA Margin (%)	9.2	12.9	13.4	13.7
PBT / Net sales (%)	1.0	3.0	4.9	5.7
PAT Margin (%)	-4.6	-2.4	1.2	1.8
Inventory days	52.4	47.0	47.0	47.0
Debtor days	15.6	16.0	16.0	16.0
Creditor days	89.0	90.0	90.0	90.0
Return Ratios (%)				
RoE	-18.7	-9.3	5.3	11.5
RoCE	1.3	3.7	7.9	11.1
RoIC	2.9	7.6	15.9	21.8
Valuation Ratios (x)				
P/E (adjusted)	NM	NM	16.5	9.3
EV / EBITDA	7.7	6.3	4.5	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	1.7	1.9	1.8	1.6
Solvency Ratios				
Debt/EBITDA	5.0	4.2	2.9	2.1
Debt / Equity	1.9	2.1	1.8	1.3
Current Ratio	0.6	0.6	0.6	0.6
Quick Ratio	0.2	0.2	0.2	0.2

Source: Company, ICICI Direct Research

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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

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