

# Tata Motors (TTMT IN)

Rating: REDUCE | CMP: Rs323 | TP: Rs255

March 1, 2021

## JLR Investor Meet

■ Change in Estimates | ■ Target | ■ Reco

### Change in Estimates

	Current		Previous	
	FY22E	FY23E	FY22E	FY23E
<b>Rating</b>	REDUCE		REDUCE	
<b>Target Price</b>	255		255	
Sales (Rs. m)	31,66,893	35,82,906	31,66,893	35,82,906
% Chng.	-	-	-	-
EBITDA (Rs. m)	4,70,864	5,39,103	4,70,864	5,39,103
% Chng.	-	-	-	-
EPS (Rs.)	22.0	34.8	22.0	34.8
% Chng.	-	-	-	-

### Key Financials - Consolidated

Y/e Mar	FY20	FY21E	FY22E	FY23E
Sales (Rs. bn)	2,611	2,535	3,167	3,583
EBITDA (Rs. bn)	239	348	471	539
Margin (%)	9.2	13.7	14.9	15.0
PAT (Rs. bn)	(91)	(23)	79	125
EPS (Rs.)	(25.3)	(6.5)	22.0	34.8
Gr. (%)	480.5	(74.2)	(436.9)	58.3
DPS (Rs.)	-	-	-	-
Yield (%)	-	-	-	-
RoE (%)	(14.8)	(3.8)	12.2	16.7
RoCE (%)	(1.1)	4.1	9.3	12.1
EV/Sales (x)	0.7	0.8	0.6	0.5
EV/EBITDA (x)	7.4	5.5	4.1	3.4
PE (x)	(12.8)	(49.5)	14.7	9.3
P/BV (x)	1.8	1.9	1.7	1.4

### Key Data

TAMO.BO | TTMT IN

52-W High / Low	Rs.342 / Rs.64
Sensex / Nifty	49,100 / 14,529
Market Cap	Rs.1,138bn / \$ 15,486m
Shares Outstanding	3,320m
3M Avg. Daily Value	Rs.53362.09m

### Shareholding Pattern (%)

Promoter's	42.39
Foreign	15.61
Domestic Institution	12.56
Public & Others	29.43
Promoter Pledge (Rs bn)	13.58

### Stock Performance (%)

	1M	6M	12M
Absolute	15.7	134.2	123.4
Relative	13.9	86.4	81.5

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## Profit over volumes reiterated

Tata Motors (TTMT) hosted an Investors Day for the JLR business ([Link for PPT](#)). The management re-iterated key focus areas over medium term such as 1) positive cash-flow from FY23 (v/s FY22 targeted earlier due to one-time write down of GBP1.5b), 2) double-digit EBIT margin by FY26 and 3) to achieve 20% EV contribution in volumes by FY26. The main focus is on profit over volumes while doubling market share in strong profitability segments like LR (such as Range Rover and Velar). But we believe this strategy is not apt as it will significantly reduce competitive positioning, which will not only impact market share but also brand reach in the medium term. Concerns on JLR scale continues to remain for us and we are not confident that this business would be able to meet its targets of double digit EBIT margins, positive FCF and net debt neutral over medium term. Our consol EPS remain unchanged besides maintain reduce on the stock with SoTP based TP of Rs255 (unchanged) as we value S/A at 11x (unchanged) and retain JLR multiple to 2x EV/EBITDA. The key upside risk is global car alliance boosting scalability issues as JLR volumes remain static at -1% CAGR over FY16-20.

### Aims to improve EBIT margins from current 4% to 10% in FY26

- JLR aims to achieve 7% EBIT by FY24 and 10% by FY26 driven by volumes, higher contribution from profitable models of Land Rover, low breakeven (at ~400-450K units v/s ~600K units in FY19) and cost efficiency (lower capacity, raw material, warranty, platform sharing).
- Capex is estimated at GBP2.5bn till FY24 and inch up to GBP3.0bn by FY26. Some past FCF drags include - higher capacity due excess focus on volumes, higher warranty costs (product issues) and issues in China. However, the current focus is on getting it right in first time on all aspects. This being the key driver of margin and FCF guidance.

### JLR – expects FCF positive by FY23 (v/s FY22 earlier) and net cash by FY25

- JLR expects to be FCF neutral by FY22 and FCF positive by FY23 (v/s FY22 earlier) and net cash by FY25. The deviations v/s earlier targets are impacted by restructuring costs of Re-imagine strategy of GBP500mn equally divided over FY21/22.
- Additionally, exceptional charge of GBP1b for higher spending on certain planned products will not be completed in Re-imagine strategy.

### EV – Jaguar to be 100% EV by FY25 while all LR to be available as EV by FY30

- The second pillar of the strategy is the electrification of fleet. Jaguar is expected to be totally electrified by 2025. Jaguar BEV (battery EV) is a natural and easy choice as Jaguars design / style suits BEV style. Six EV Land Rovers by 2025, all electric Jag portfolio by 2025 and all nameplates to have BEVs by 2030. We believe this strategy lags competition plans of having all EV variants by FY25/26 (v/s JLR's plant of FY30).

- To ramp up the pace of EV development, we believe JLR will need higher than envisaged investment of GBP2.5b per year. Additionally, clarity is also needed on in-house investments made in EV components – such as motors, invertors, battery technologies etc.

#### Intend to increase JLR market share from ~9% to ~16% by FY26

- With its broad strategy of profit over volumes, JLR targets to increase market share by ~6%/~7% in profitable segments like Range Rover/ Velar while reducing focus on low profitable brand Jaguar (XE). This as per management would take overall JLR market share from ~9% in FY21 to ~16% in FY26.
- The management indicated scope of raising market share by 4-10% in key regions such as China, UK, Europe, North America and Overseas markets. This will be backed by combination of EMA products (Electrified Modular Architecture) from FY24, Defender and Discovery sports.

#### Other highlights

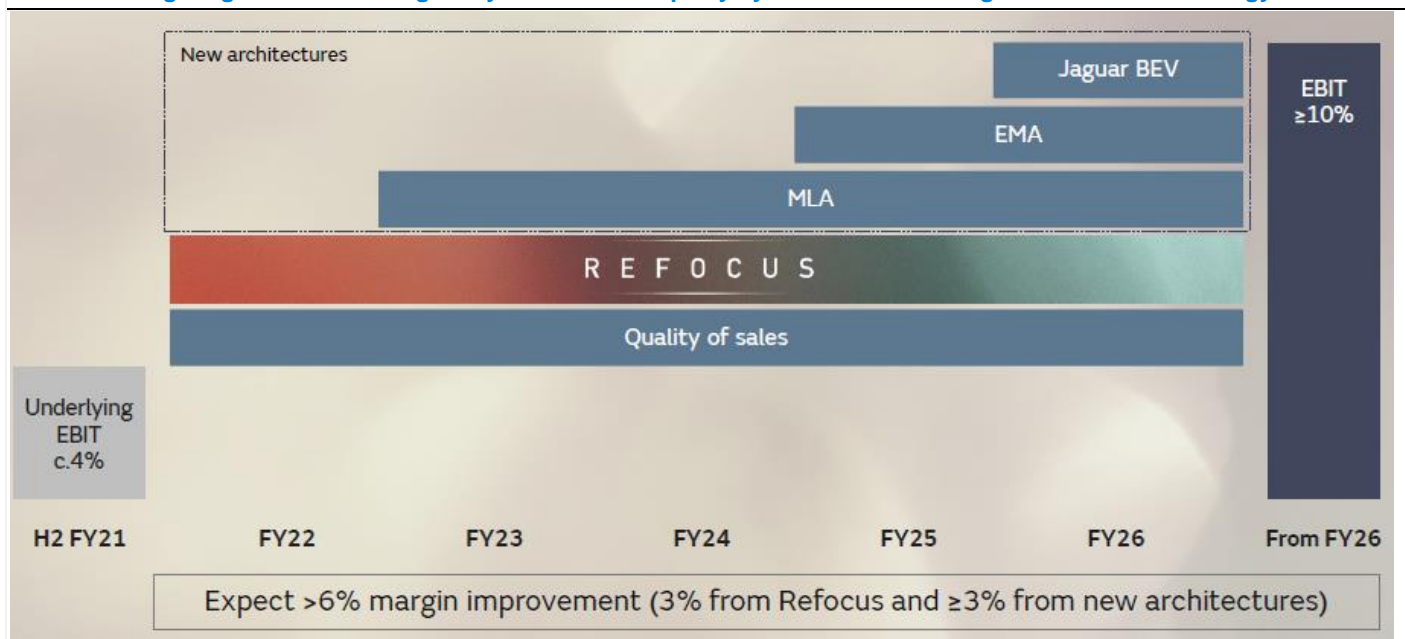
- **Refocus strategy-** will deliver GBP2bn savings in 3 years and another GBP2bn in next 2 years. It is expected to drive incremental 3% EBIT margin by FY26. A key focus on the strategy is to improve quality of sales (lower warranty costs, material cost saving and value creation).
- **Modular Longitudinal Architecture (MLA)** - In the next 12-18 months, JLR will launch new RR, RR Sport and Defender 130. These will help drive an incremental 3% EBIT margin by FY24. New products will be focused on China, USA and Middle East. JLR to bring down the number of architectures from 6 to 3. This should help capex spend under check. Three architectures to exist are 1) MLA, 2) EMA (for developing BEVs) and 3) Pure BEV architecture for Jaguar.
- **Confident of bringing warranty costs down to 3.0-3.5%** (v/s about 6% few years back and at 4% currently).

**Exhibit 1: Key financial targets- expect 10% EBIT by FY26**

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

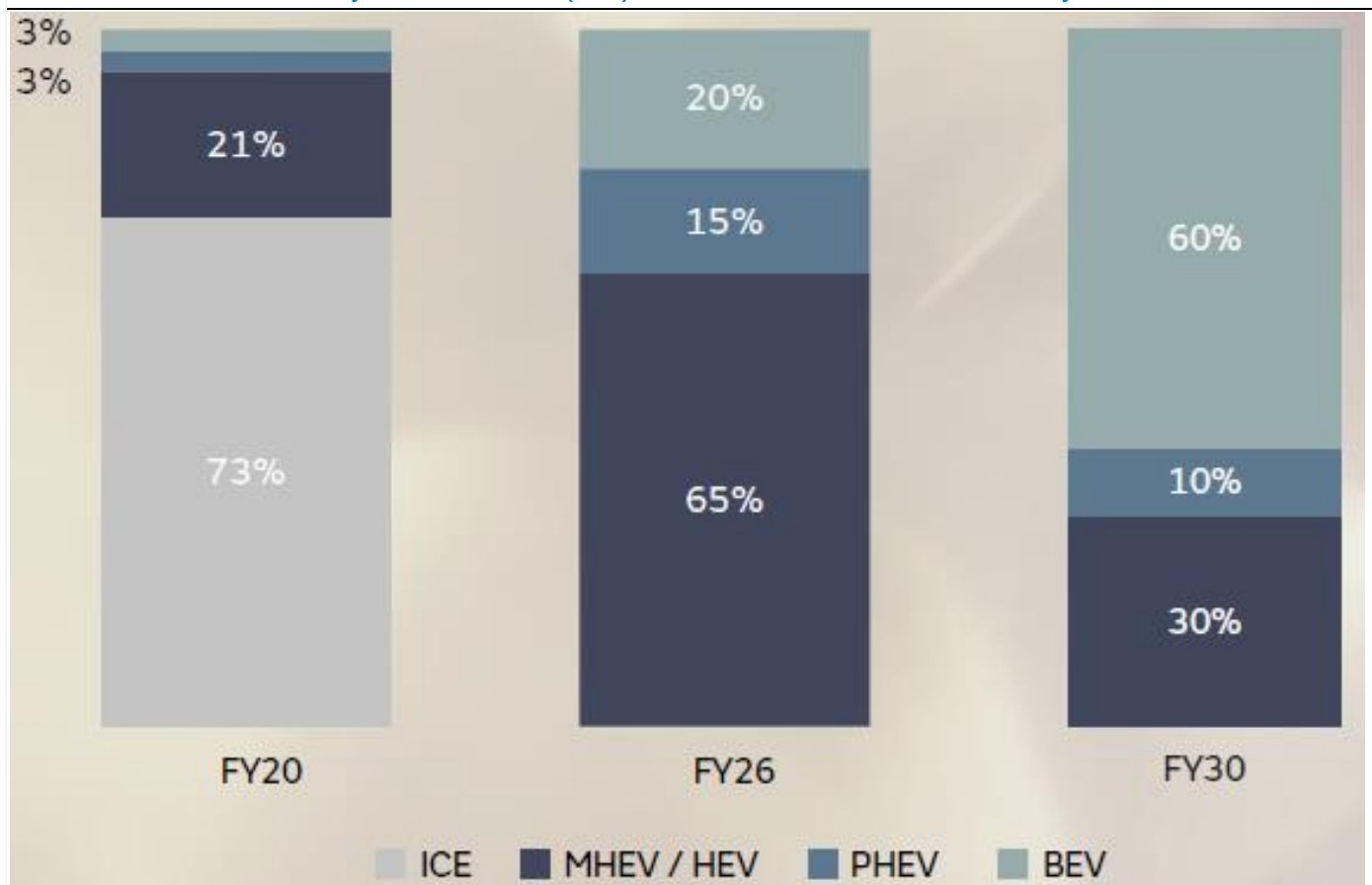
Source: Company presentation

Exhibit 2: Targeting 10%+ EBIT margins by FY26 driven equally by refocus and reimagine architecture strategy



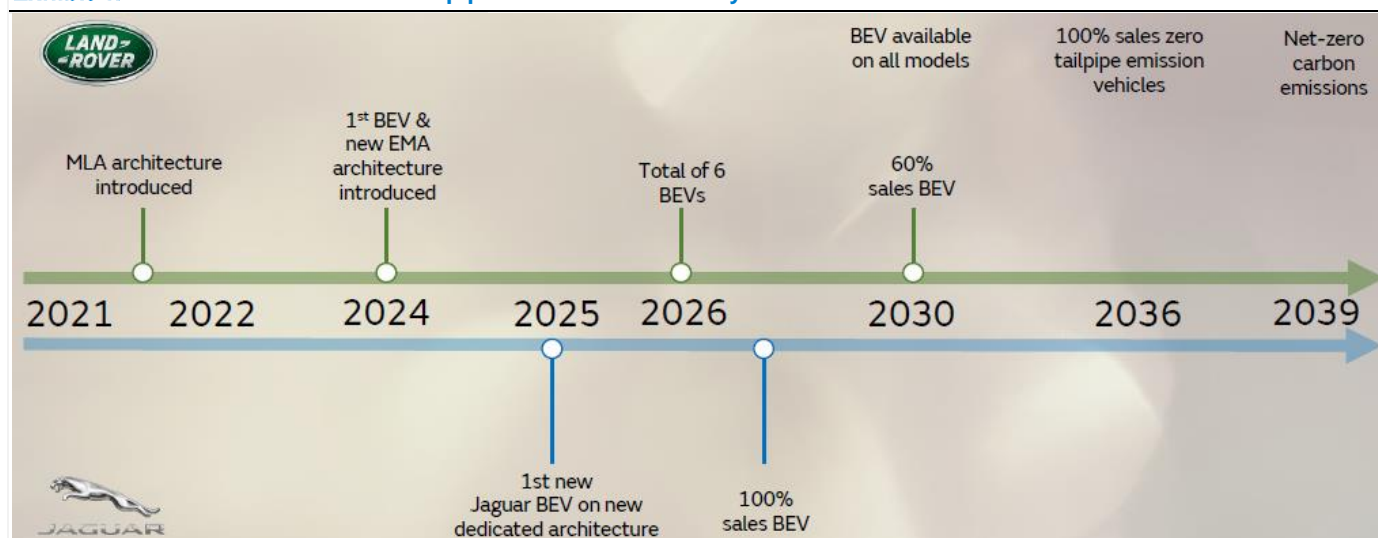
Source: Company presentation

Exhibit 3: Product mix - Battery Electric Vehicles (BEV) share to increase ~60% in sales mix by FY30



Source: Company presentation

Exhibit 4: JLR – Path to 100% zero tailpipe emission vehicles by 2036



Source: Company presentation

Exhibit 5: SOTP valuation

Rs/Share	Valuation Parameter	Multiple (x)	FY23E
Tata Motors - Standalone	EV/EBITDA	11	219
JLR	EV/EBITDA	2	156
Other Subs			23
<b>Total EV</b>			<b>397</b>
Less: Net Debt			142
<b>Total Equity Value</b>			<b>255</b>

Source: PL

## Financials

### Income Statement (Rs m)

Y/e Mar	FY20	FY21E	FY22E	FY23E
<b>Net Revenues</b>	<b>26,10,680</b>	<b>25,34,508</b>	<b>31,66,893</b>	<b>35,82,906</b>
YoY gr. (%)	(13.5)	(2.9)	25.0	13.1
Cost of Goods Sold	16,71,310	16,37,202	20,75,966	23,79,551
Gross Profit	9,39,370	8,97,306	10,90,928	12,03,356
Margin (%)	36.0	35.4	34.4	33.6
Employee Cost	3,21,868	2,97,571	3,16,141	3,39,011
Other Expenses	3,78,359	2,52,047	3,03,922	3,25,242
<b>EBITDA</b>	<b>2,39,143</b>	<b>3,47,688</b>	<b>4,70,864</b>	<b>5,39,103</b>
YoY gr. (%)	(19.7)	45.4	35.4	14.5
Margin (%)	9.2	13.7	14.9	15.0
Depreciation and Amortization	2,56,139	2,80,030	3,16,813	3,31,012
<b>EBIT</b>	<b>(16,996)</b>	<b>67,658</b>	<b>1,54,051</b>	<b>2,08,091</b>
Margin (%)	(0.7)	2.7	4.9	5.8
Net Interest	72,433	81,188	91,591	94,149
Other Income	12,344	(11,223)	23,671	23,671
<b>Profit Before Tax</b>	<b>(1,05,800)</b>	<b>(24,754)</b>	<b>86,131</b>	<b>1,37,613</b>
Margin (%)	(4.1)	(1.0)	2.7	3.8
Total Tax	3,953	(1,238)	6,890	11,009
Effective tax rate (%)	(3.7)	5.0	8.0	8.0
<b>Profit after tax</b>	<b>(1,09,752)</b>	<b>(23,516)</b>	<b>79,240</b>	<b>1,26,604</b>
Minority interest	956	1,288	1,398	1,520
Share Profit from Associate	(10,000)	1,349	1,181	21
<b>Adjusted PAT</b>	<b>(90,921)</b>	<b>(23,455)</b>	<b>79,023</b>	<b>1,25,105</b>
YoY gr. (%)	515.0	(74.2)	(436.9)	58.3
Margin (%)	(3.5)	(0.9)	2.5	3.5
Extra Ord. Income / (Exp)	(29,787)	-	-	-
<b>Reported PAT</b>	<b>(1,20,709)</b>	<b>(23,455)</b>	<b>79,023</b>	<b>1,25,105</b>
YoY gr. (%)	(58.1)	(80.6)	(436.9)	58.3
Margin (%)	(4.6)	(0.9)	2.5	3.5
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	(1,20,709)	(23,455)	79,023	1,25,105
<b>Equity Shares O/s (m)</b>	<b>3,598</b>	<b>3,598</b>	<b>3,598</b>	<b>3,598</b>
<b>EPS (Rs)</b>	<b>(25.3)</b>	<b>(6.5)</b>	<b>22.0</b>	<b>34.8</b>

Source: Company Data, PL Research

### Balance Sheet Abstract (Rs m)

Y/e Mar	FY20	FY21E	FY22E	FY23E
<b>Non-Current Assets</b>				
<b>Gross Block</b>	<b>26,80,152</b>	<b>31,78,927</b>	<b>35,61,480</b>	<b>39,50,007</b>
Tangibles	26,80,152	31,78,927	35,61,480	39,50,007
Intangibles	-	-	-	-
<b>Acc: Dep / Amortization</b>	<b>14,16,851</b>	<b>16,52,371</b>	<b>19,19,727</b>	<b>22,01,065</b>
Tangibles	14,16,851	16,52,371	19,19,727	22,01,065
Intangibles	-	-	-	-
<b>Net fixed assets</b>	<b>12,63,301</b>	<b>15,26,557</b>	<b>16,41,753</b>	<b>17,48,941</b>
Tangibles	12,63,301	15,26,557	16,41,753	17,48,941
Intangibles	-	-	-	-
Capital Work In Progress	3,56,223	2,50,000	2,50,000	2,50,000
Goodwill	7,771	7,771	7,771	7,771
Non-Current Investments	51,345	52,694	53,875	53,896
Net Deferred tax assets	35,160	35,160	35,160	35,160
Other Non-Current Assets	-	-	-	-
<b>Current Assets</b>				
Investments	1,11,740	91,740	71,740	51,740
Inventories	3,74,569	3,33,305	3,90,439	4,90,809
Trade receivables	1,11,727	1,38,877	2,16,911	2,94,485
Cash & Bank Balance	3,37,270	1,72,443	1,64,558	2,45,303
Other Current Assets	12,949	17,949	22,949	27,949
<b>Total Assets</b>	<b>31,66,633</b>	<b>30,91,076</b>	<b>32,79,735</b>	<b>35,90,635</b>
<b>Equity</b>				
Equity Share Capital	7,195	7,195	7,195	7,195
Other Equity	6,23,590	6,00,135	6,79,158	8,04,263
<b>Total Network</b>	<b>6,30,785</b>	<b>6,07,331</b>	<b>6,86,354</b>	<b>8,11,459</b>
<b>Non-Current Liabilities</b>				
Long Term borrowings	10,56,553	10,16,553	9,86,553	9,56,553
Provisions	-	-	-	-
Other non current liabilities	-	-	-	-
<b>Current Liabilities</b>				
ST Debt / Current of LT Debt	-	-	-	-
Trade payables	6,36,269	6,59,666	6,94,114	7,85,295
Other current liabilities	8,70,052	8,33,263	9,37,053	10,60,148
<b>Total Equity &amp; Liabilities</b>	<b>31,66,634</b>	<b>30,91,076</b>	<b>32,79,735</b>	<b>35,90,635</b>

Source: Company Data, PL Research

### Cash Flow (Rs m)

Y/e Mar	FY20	FY21E	FY22E	FY23E
PBT	(1,19,752)	(23,455)	79,023	1,25,105
Add. Depreciation	2,14,254	2,35,519	2,67,356	2,81,338
Add. Interest	11,913	15,863	23,671	23,671
Less Financial Other Income	12,344	(11,223)	23,671	23,671
Add. Other	1,27,101	1,288	1,398	1,520
Op. profit before WC changes	2,33,516	2,29,215	3,71,449	4,31,634
Net Changes-WC	50,663	35,722	38,071	71,330
Direct tax	(17,849)	1,238	(6,890)	(11,009)
<b>Net cash from Op. activities</b>	<b>2,66,329</b>	<b>2,66,175</b>	<b>4,02,629</b>	<b>4,91,955</b>
Capital expenditures	(2,95,306)	(3,92,553)	(3,82,553)	(3,88,527)
Interest / Dividend Income	-	-	-	-
Others	(46,397)	18,651	18,819	19,979
<b>Net Cash from Inv. activities</b>	<b>(3,41,702)</b>	<b>(3,73,902)</b>	<b>(3,63,734)</b>	<b>(3,68,548)</b>
Issue of share cap. / premium	38,888	-	-	-
Debt changes	82,529	(40,000)	(30,000)	(30,000)
Dividend paid	(568)	-	-	-
Interest paid	(86,953)	(81,188)	(91,591)	(94,149)
Others	-	-	-	-
<b>Net cash from Fin. activities</b>	<b>33,896</b>	<b>(1,21,188)</b>	<b>(1,21,591)</b>	<b>(1,24,149)</b>
<b>Net change in cash</b>	<b>(41,477)</b>	<b>(2,28,915)</b>	<b>(82,696)</b>	<b>(742)</b>
Free Cash Flow	(28,976)	(1,26,377)	20,076	1,03,428

Source: Company Data, PL Research

### Quarterly Financials (Rs m)

Y/e Mar	Q4FY20	Q1FY21	Q2FY21	Q3FY21
<b>Net Revenue</b>	<b>6,24,930</b>	<b>3,19,831</b>	<b>5,35,300</b>	<b>7,56,538</b>
YoY gr. (%)	(27.7)	(48.0)	(18.2)	5.5
Raw Material Expenses	4,08,096	1,99,212	3,34,673	4,79,097
Gross Profit	2,16,833	1,20,618	2,00,627	2,77,441
Margin (%)	34.7	37.7	37.5	36.7
<b>EBITDA</b>	<b>23,733</b>	<b>6,356</b>	<b>56,653</b>	<b>1,15,096</b>
YoY gr. (%)	(70.4)	(78.8)	(20.9)	59.9
Margin (%)	3.8	2.0	10.6	15.2
Depreciation / Depletion	58,149	55,994	56,015	61,288
<b>EBIT</b>	<b>(34,415)</b>	<b>(49,638)</b>	<b>638</b>	<b>53,809</b>
Margin (%)	(5.5)	(15.5)	0.1	7.1
Net Interest	19,528	18,768	19,496	21,259
Other Income	(11,180)	6,537	10,662	13,351
<b>Profit before Tax</b>	<b>(93,130)</b>	<b>(61,837)</b>	<b>(8,147)</b>	<b>41,674</b>
Margin (%)	(14.9)	(19.3)	(1.5)	5.5
Total Tax	3,583	22,005	(4,714)	9,452
Effective tax rate (%)	(3.8)	(35.6)	57.9	22.7
<b>Profit after Tax</b>	<b>(96,713)</b>	<b>(83,842)</b>	<b>(3,433)</b>	<b>32,222</b>
Minority interest	305	60	(72)	(350)
Share Profit from Associates	(1,925)	(598)	360	(2,807)
<b>Adjusted PAT</b>	<b>(69,890)</b>	<b>(84,533)</b>	<b>(3,051)</b>	<b>33,033</b>
YoY gr. (%)	(414.2)	135.8	18.7	89.9
Margin (%)	(11.2)	(26.4)	(0.6)	4.5
Extra Ord. Income / (Exp)	(28,007)	32	49	(4,226)
<b>Reported PAT</b>	<b>(98,943)</b>	<b>(84,500)</b>	<b>(3,001)</b>	<b>29,765</b>
YoY gr. (%)	(985.4)	128.5	38.6	71.2
Margin (%)	(15.8)	(26.4)	(0.6)	3.9
Other Comprehensive Income	-	-	-	-
<b>Total Comprehensive Income</b>	<b>(98,943)</b>	<b>(84,500)</b>	<b>(3,001)</b>	<b>29,765</b>
Avg. Shares O/s (m)	3,598	3,598	3,598	3,598
<b>EPS (Rs)</b>	<b>(19.4)</b>	<b>(23.5)</b>	<b>(0.8)</b>	<b>9.2</b>

Source: Company Data, PL Research

### Key Financial Metrics

Y/e Mar	FY20	FY21E	FY22E	FY23E
<b>Per Share(Rs)</b>				
EPS	(25.3)	(6.5)	22.0	34.8
CEPS	45.9	71.3	110.0	126.8
BVPS	175.3	168.8	190.8	225.5
FCF	(8.1)	(35.1)	5.6	28.7
DPS	-	-	-	-
<b>Return Ratio(%)</b>				
RoCE	(1.1)	4.1	9.3	12.1
ROIC	(1.5)	4.6	10.0	13.4
RoE	(14.8)	(3.8)	12.2	16.7
<b>Balance Sheet</b>				
Net Debt : Equity (x)	1.0	1.2	1.1	0.8
Net Working Capital (Days)	(21)	(27)	(10)	-
<b>Valuation(x)</b>				
PER	(12.8)	(49.5)	14.7	9.3
P/B	1.8	1.9	1.7	1.4
P/CEPS	7.0	4.5	2.9	2.5
EV/EBITDA	7.4	5.5	4.1	3.4
EV/Sales	0.7	0.8	0.6	0.5
Dividend Yield (%)	-	-	-	-

Source: Company Data, PL Research

### Key Operating Metrics

Y/e Mar	FY20	FY21E	FY22E	FY23E
JLR volume (units)	4,75,952	3,61,177	4,33,412	4,75,697
TTMT CV volume (units)	3,40,700	2,62,409	4,01,474	4,70,270
TTMT PV volume (units)	1,32,677	2,12,008	2,56,884	2,84,361

Source: Company Data, PL Research

## Price Chart

## Recommendation History



No.	Date	Rating	TP (Rs.)	Share Price (Rs.)
1	22-Feb-21	Reduce	255	305
2	01-Feb-21	Reduce	231	263
3	11-Jan-21	Hold	172	198
4	28-Oct-20	Hold	146	136
5	09-Oct-20	Hold	138	138
6	02-Aug-20	Hold	108	105
7	11-Jul-20	Hold	100	108
8	16-Jun-20	Hold	87	101
9	09-Apr-20	Hold	84	75

## Analyst Coverage Universe

Sr. No.	Company Name	Rating	TP (Rs)	Share Price (Rs)
1	Ashok Leyland	BUY	155	128
2	Bajaj Auto	Hold	3,489	3,727
3	Bharat Forge	Hold	581	640
4	CEAT	Accumulate	1,434	1,310
5	Eicher Motors	Accumulate	3,129	2,901
6	Endurance Technologies	BUY	1,662	1,483
7	Exide Industries	BUY	238	194
8	Hero Motocorp	Accumulate	3,753	3,429
9	Mahindra & Mahindra	BUY	1,011	866
10	Maruti Suzuki	BUY	8,428	7,589
11	Motherson Sumi Systems	BUY	247	197
12	Tata Motors	Reduce	255	305
13	TVS Motors	Sell	437	529

## PL's Recommendation Nomenclature (Absolute Performance)

<b>Buy</b>	: > 15%
<b>Accumulate</b>	: 5% to 15%
<b>Hold</b>	: +5% to -5%
<b>Reduce</b>	: -5% to -15%
<b>Sell</b>	: < -15%
<b>Not Rated (NR)</b>	: No specific call on the stock
<b>Under Review (UR)</b>	: Rating likely to change shortly



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