

Chip shortage to limit near term growth at JLR...

In a business update, Jaguar Land Rover (JLR) flagged the global semiconductor supply shortage as an area of concern that has impacted Q1FY22 performance (wholesales lower than anticipated by ~27%) and is set to adversely affect near-term outlook as well (Q2FY22E wholesale volumes now seen ~50% lower than earlier expected).

Gradual easing on the cards

JLR's retail sales in Q1FY22 were at 1.24 lakh units, up 68% YoY and flattish QoQ. However, at the wholesale level, volumes (excluding the China JV) were at 84,442 units, ~30,000 units i.e. 27% lower than planned, hampered in part by the supply constraints surrounding semiconductors globally. The company said the shortage is difficult to forecast at present, with the situation set to worsen in Q2FY22E leading to possible ~50% reduction in planned wholesale volumes. While H2FY22E is set to fare better, it expects underlying structural supply issues to be resolved in a gradual manner over the next 12-18 months as new capacities come on board. Accordingly, JLR anticipates that some level of shortages would continue into the next year also. The company, on its part, would prioritise production of higher margin vehicles taking into account chip availability and specification changes, etc.

Volume disappointment leads to lowering of margin estimates

Post Q4FY21, the company had guided for >20% YoY volume growth at JLR in FY22E. **Building in the latest commentary, we now expect FY22E volumes of 4.28 lakh units, up ~4% YoY.** Amid the significant near-term hit on the topline, the company now expects negative EBIT performance in Q1FY22E as well as in Q2FY22E along with possible operating cash outflow of ₹1 billion in each quarter. We believe the steep reduction in volumes is bound to impair margin performance in FY22E on account of negative operating leverage. **However, JLR's solid delivery on cost and cash savings in recent times, structural shift towards lower warranty and variable marketing expenses and reduced breakeven points (from ~6 lakh units per annum in FY19 to < 4 lakh units per annum currently) lead us to limit downward revision in JLR and Tata Motors (TML) margins.**

Valuation & Outlook

We now expect TML's FY21P-23E sales CAGR of 18.4% with FY23E EPS of ₹ 37.6. The chip shortage-led production warning comes as a negative surprise and is likely to impact CFO generation in FY22E. However, we retain our positive stance on TML for the medium to long term given its intent to reduce automotive net debt to near zero levels (from ~₹ 41,000 crore as of FY21), alertness to global automotive mega change of electrification (Jaguar to be all-electric by 2025, Land Rover to introduce 6 BEVs in the next five years; EV leader in India 4-W currently via Nexon) and focus on sustainable FCF generation, going forward. Accordingly, we maintain **BUY** with a revised SOTP based target price of ₹ 375 (12x, 3.3x FY23E EV/EBITDA to India, JLR businesses respectively; earlier TP ₹ 400).

Key Financial Summary

Key Financials	FY19	FY20	FY21P	FY22E	FY23E	CAGR (FY21P-23E)
Net Sales	3,01,938.4	2,61,068.0	2,49,794.8	2,81,372.7	3,50,418.2	18.4%
EBITDA	29,794.8	23,914.1	35,782.0	36,772.3	52,228.3	20.8%
EBITDA Margins (%)	9.9	9.2	14.3	13.1	14.9	
Net Profit	(28,724.2)	(11,975.4)	(13,395.0)	2,092.8	14,394.9	LP
EPS (₹)	(79.8)	(33.3)	(35.0)	5.5	37.6	
P/E	(4.0)	(9.5)	(9.1)	58.0	8.4	
RoNW (%)	(47.3)	(18.7)	(23.6)	3.6	19.6	
RoCE (%)	3.7	1.3	6.4	6.6	14.3	

Source: Company, ICICI Direct Research

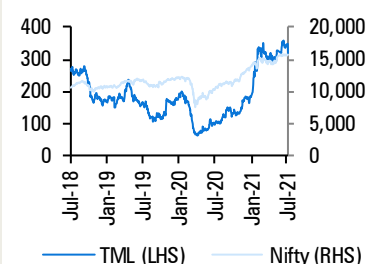
TATA MOTORS

Connecting Aspirations

Particulars

Particular	₹ crore
Market Capitalization	1,14,047
Total Debt (FY21P)	1,33,776
Cash and Investments (FY21P)	65,844
EV (FY21P)	1,81,979
52 week H/L (₹)	360 / 100
Equity capital (₹ crore)	765.8
Face value (₹)	2.0

Price Performance



Key Highlights

- Global chip supply shortage lowers Q1FY22E, Q2FY22E plan volumes by ~27%, ~50% respectively
- Negative EBIT expected in Q2FY22E along with further cash outflows
- Medium to longer term drivers (deleveraging intent, alertness to EV change) remain intact

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

Exhibit 1: Change in estimates – JLR (volumes, EBIT margins)

	FY22E			FY23E			Comments
	Old	New	% Change	Old	New	% Change	
JLR Sales Volume	4,96,004	4,28,084	-13.7	5,55,481	5,15,410	-7.2	Given the supply constraint warning issued by the company our sales volume estimates at JLR stand revised downward by ~14% for FY22E & ~7% for FY23E
EBIT margins (%)	5.3	3.0	-230 bps	7.0	7.0	0 bps	EBIT margins get downward revised to 3% for FY22E

Source: ICICI Direct Research

Exhibit 2: Change in estimates – Consolidated (sales , margins & PAT)

₹ Crore)	FY22E			FY23E			Comments
	Old	New	% Change	Old	New	% Change	
Revenue	3,15,639	2,81,373	-10.9	3,68,140	3,50,418	-4.8	Downward revision in sales volumes at JLR leads to decline in consolidated sales estimates for FY22E-23E
EBITDA	44,536	36,772	-17.4	55,956	52,228	-6.7	
EBITDA Margin (%)	14.1	13.1	-103 bps	15.2	14.9	-30 bps	Operating leverage benefits are expected to be modest in nature amidst pressure on sales volume at JLR
PAT	6,751	2,093	-69.0	14,677	14,395	-1.9	
EPS (₹)	17.6	5.5	-69.0	38.3	37.6	-1.9	Given high incidence of fixed expenses i.e. interest as well as depreciation in P&L account, PAT estimates are sharply revised downwards for FY22E. Broadly maintained FY23E estimates. Expect TML to clock an EPS of ₹38 for FY23E

Source: ICICI Direct Research

Exhibit 3: Valuation as per SOTP method

Particulars	Parameters	EBITDA	Multiple	Per Share Equity Value
Tata Motors Core business	FY23E EV/EBITDA	6,371	12.0	170
JLR	FY23E Adj EV/EBITDA	37,547	3.3	190
Other Investments	3x P/B on FY20	2,047	3.0	15
Total value per share				375

Source: Company, ICICI Direct Research

Exhibit 4: Valuation Summary

	Sales	Growth	EPS	Growth	PE	EV/EBITDA	RoNW	RoCE
	(₹ cr)	(%)	(₹)	(%)	(x)	(x)	(%)	(%)
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	7.9	-18.7	1.3
FY21P	2,49,795	-4.3	(35.0)	NA	NM	5.1	-23.6	6.4
FY22E	2,81,373	12.6	5.5	NA	58.0	5.4	3.6	6.6
FY23E	3,50,418	24.5	37.6	587.8	8.4	3.3	19.6	14.3

Source: Company, ICICI Direct Research

Financial Summary

Exhibit 5: Profit and loss statement					₹ crore
(Year-end March)	FY20	FY21P	FY22E	FY23E	
Total operating Income	2,61,068	2,49,795	2,81,373	3,50,418	
Growth (%)	-13.5	-4.3	12.6	24.5	
Raw Material Expenses	1,67,131	1,58,291	1,86,340	2,29,885	
Employee Expenses	30,439	27,648	27,307	29,385	
Marketing Expenses	57,087	40,922	43,816	52,061	
Capitalised Expenses	-17,503	-12,849	-12,863	-13,141	
Total Operating Expenditure	2,37,154	2,14,013	2,44,600	2,98,190	
EBITDA	23,914	35,782	36,772	52,228	
Growth (%)	-19.7	49.6	2.8	42.0	
Product development Exp	4189	5227	4391	5426	
Depreciation	21425	23547	23917	24529	
Interest	7243	8097	8361	7892	
Other Income	2973	2643	2705	2759	
PBT	(3,520)	8,513	7,200	22,566	
Minority Interest	0	0	0	0	
Total Tax	395	2542	562	3428	
Reported PAT	(11,975)	(13,395)	2,093	14,395	
Growth (%)	-58.3	NM	LP	587.8	
EPS (₹)	(33.3)	(35.0)	5.5	37.6	

Source: Company, ICICI Direct Research

Exhibit 6: Cash flow statement					₹ crore
(Year-end March)	FY20	FY21P	FY22E	FY23E	
Profit after Tax	(11,975.4)	(13,395.0)	2,092.8	14,394.9	
Add: Depreciation	21,425	23,547	23,917	24,529	
(Inc)/dec in Current Assets	6,254	-6,045	-6,438	-18,533	
Inc/(dec) in CL and Provisions	-6,111	12,128	2,074	27,112	
Others	11,743	21,444	3,361	7,892	
CF from operating activities	21,336	37,678	25,007	55,395	
(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	-3,833	3,730	
CF from investing activities	(36,315)	(37,803)	(22,583)	(25,020)	
Issue/(Buy back) of Equity	40	46	0	0	
Inc/(dec) in loan funds	12,635	14,965	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	-8,361	-7,892	
CF from financing activities	16,057	13,191	(8,361)	(22,892)	
Net Cash flow	1,078	13,066	-5,937	7,483	
Opening Cash	32,649	33,727	46,792	40,855	
Closing Cash	33,727	46,792	40,855	48,338	

Source: Company, ICICI Direct Research

Exhibit 7: Balance Sheet					₹ crore
(Year-end March)	FY20	FY21P	FY22E	FY23E	
Liabilities					
Equity Capital	720	766	766	766	
Reserve and Surplus	61,492	54,481	56,574	70,969	
Others	1,681	1,574	1,574	1,574	
Total Shareholders funds	63,892	56,820	58,913	73,308	
Total Debt	1,18,811	1,33,776	1,33,776	1,18,776	
Deferred Tax Liability	1,942	1,556	1,753	2,183	
Long term provisions	14737	13607	12513	15584	
Minority Interest / Others	18,595	21,095	20,948	26,088	
Total Liabilities	2,17,976	2,26,853	2,27,902	2,35,938	
Assets					
Gross Block	3,11,583	3,46,703	3,85,203	4,18,203	
Less: Acc Depreciation	1,85,252	2,08,799	2,32,716	2,57,245	
Net Block	1,26,330	1,37,904	1,52,487	1,60,958	
Capital WIP	35,622	20,964	15,964	10,964	
Total Fixed Assets	1,61,952	1,58,868	1,68,451	1,71,922	
Investments	16,308	24,620	14,870	15,620	
Inventory	37,457	36,089	40,086	49,923	
Debtors	11,173	12,679	13,876	19,201	
Loans and Advances	935	1,749	1,971	2,454	
Cash	33,727	46,792	40,855	48,338	
Total Current Assets	1,08,726	1,27,836	1,28,337	1,54,353	
Creditors	63,627	68,180	69,380	86,404	
Provisions	10,329	12,848	13,074	16,282	
Total Current Liabilities	1,04,145	1,16,272	1,18,346	1,45,458	
Net Current Assets	4,581	11,564	9,991	8,895	
Deferred Tax Asset	5,458	4,520	5,092	6,341	
Application of Funds	2,17,976	2,26,853	2,27,902	2,35,938	

Source: Company, ICICI Direct Research

Exhibit 8: Key ratios				
(Year-end March)	FY20	FY21P	FY22E	FY23E
Per share data (₹)				
EPS	-33.3	-35.0	5.5	37.6
Cash EPS	26.3	26.5	67.9	101.7
BV	177.6	148.4	153.9	191.5
DPS	0.0	0.0	0.0	0.0
Cash Per Share	123.9	172.0	130.3	151.2
Operating Ratios				
EBITDA Margin (%)	9.2	14.3	13.1	14.9
PBT / Net sales (%)	1.0	4.9	4.6	7.9
PAT Margin (%)	-4.6	-5.4	0.7	3.2
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	3.6	19.6
RoCE	1.3	6.4	6.6	14.3
RoIC	2.4	11.6	10.0	22.1
Valuation Ratios (x)				
P/E (adjusted)	NM	NM	21.7	6.5
EV / EBITDA	7.9	5.1	5.4	3.3
EV / Net Sales	0.7	0.7	0.7	0.5
Market Cap / Sales	0.4	0.5	0.4	0.3
Price to Book Value	1.8	2.1	2.1	1.7
Solvency Ratios				
Debt/EBITDA	5.0	3.7	3.6	2.3
Debt / Equity	1.9	2.4	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

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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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