Sharekhan by BNP PARIBAS

Powered by the Sharekhan 3R Research Philosophy

Tata Motors Ltd

JLR brightens Q3; growth prospects positive

Automobiles	Sharekhan code: TATAMOTORS
Reco/View: Buy ↔	CMP: Rs. 513
Price Target: Rs. 610 ↔	

↑ Upgrade ↔ Maintain ↓ Downgrade

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 31.08

Updated Jan 08, 2022

High Risk

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

Source: Morningstar

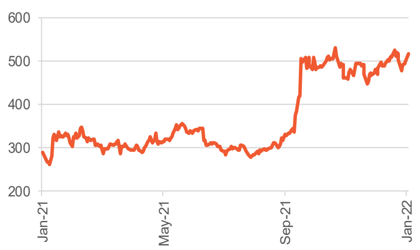
Company details

Market cap:	Rs. 1,70,332 cr
52-week high/low:	Rs. 537 / 256
NSE volume: (No of shares)	317.3 lakh
BSE code:	500570
NSE code:	TATAMOTORS
Free float: (No of shares)	285.6 cr

Shareholding (%)

Promoters	46.4
FII	14.6
DII	13.8
Others	25.3

Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	8.8	7.6	75.0	78.8
Relative to Sensex	8.4	10.9	65.5	60.1

Sharekhan Research, Bloomberg

Summary

- Tata Motors' (TAMO's) Q3FY22 results were ahead of expectations, led by JLR's strong operational performance through a favourable product mix and cutting costs.
- TAMO's overall performance and FCF is expected to improve gradually, driven by a positive business outlook, new launches, easing chips shortage situation, and favourable macro outlook. Management maintains its long-term targets.
- TAMO to become earnings' positive in FY2023E with a PAT of Rs 11,708 crore, driven by a 16.7% revenue CAGR during FY2021E-FY2023E and a 120 bps improvement in EBITDA margin to 13.4% in FY23E from 12.2% in FY21.
- We maintain a Buy on TAMO with an unchanged PT of Rs.610, driven by an expected recovery in volumes and operational improvement across its business verticals and geographies.

Tata Motors Ltd's (TAMO's) Q3FY22 results beat expectations, driven largely by JLR's strong operational performance. JLR reported Q3FY22 revenue at GBP 4,716 million, 11% higher to our estimates with EBIT margins at 1.4% versus our estimates of negative 1.2%, largely on the back of a favourable product mix (higher share of Range Rover) and lower costs (led by the company's refocus strategy). The standalone business reported a net loss of Rs 602 crore, while consolidated loss was at Rs 1,451 crore. The management indicated that the availability of semiconductor chips is easing, which will lead to higher production in Q4. Retail sales and orders remained robust, which is likely to keep wholesales strong going forward. We have fine-tuned our estimates and expect overall volumes to recover, including that of JLR's going forward. Domestic CV and PV segments are expected to remain healthy led by new launches. Driven by an all-round strong performance, we expect TAMO to become earnings' positive in FY2023E with a PAT of Rs 11,708 crore, driven by a 16.7% revenue CAGR during FY2021E-FY2023E and a 120 bps improvement in EBITDA margin to 13.4% in FY23E from 12.2% in FY21. The management stays positive on product delivery, launches and capex programs as planned earlier. We reiterate our Buy rating on the stock with an unchanged PT of Rs. 610.

Key positives

- Free cash flow (FCF) was £164 million in Q3FY22 versus FCF of negative £664 million in Q2FY22, reflecting prioritized production of higher-margin products and cost controls to reduce the cash break-even point further.
- The chip supply situation is gradually improving with production volumes of 72,184 units up 41% in Q3FY22 over Q2FY22 and wholesales of 69,182 units up 8% in Q3FY22 on Q2FY22.
- JLR's order book hit a new record of 155,000 units, up 30,000 units, reflecting strong demand for the New Range Rover. Deliveries of new Range Rovers to start in Q4FY22.
- PV business continued its turnaround journey and strengthened its double-digit market share. EV business recorded three-fold growth and the highest quarterly sales of 5,592 units in Q3.

Key negatives

- Domestic operations reported EBIT of negative 1.7% and pre-tax loss (before exceptional items) of Rs 0.8K Cr in Q3FY22, largely impacted by commodity price inflation.

Management Commentary

- JLR's management maintained medium to long-term targets and continued to execute its reimagine strategy. Demand remains strong for this division.
- The Refocus transformation programme delivers £1 billion of value in 9MFY22 and is now expected to achieve £1.4 billion of value in FY22, beating JLR's earlier guidance of £1 billion target.
- The management gave a positive outlook for CV and PV volumes going forward, despite near-term concerns of Omicron spread. Overall, the company expects Q4FY22 to be better than Q3 in volumes and operational performance.
- Semiconductor chip shortage likely to continue with gradual improvement through 2022 as expected increases in capacity start to come on line combined with ongoing proactive engagement.

Our Call

Valuation – Maintain Buy with an unchanged PT of Rs. 610: TAMO is witnessing an improvement in all business verticals - JLR, CVs and PVs. H2FY21 saw strong volume growth and better operational efficiencies aided by aggressive launches, market positioning, product differentiation, cost savings and investments in R&D. We expect operational performance to improve strongly in Q4FY22, as the supply constraints are expected to ease gradually, while demand continues to remain strong for both JLR and domestic operations. Domestic CV and PV segments are expected to remain healthy on back of new launches. Driven by an all-round strong performance, we expect TAMO to become earnings' positive in FY2023E with a PAT of Rs. 11,708 crore, driven by a 16.7% revenue CAGR during FY2021E-FY2023E and a 120 bps improvement in EBITDA margin to 13.4% in FY23E from 12.2% in FY21. The management stays positive on product delivery, launches and capex programs as planned earlier. The stock is trading at valuations at P/E multiple of 17.7x and EV/EBITDA multiple of 5.3x its FY2023E estimates. We reiterate a Buy rating on the stock with unchanged PT of Rs 610.

Key Risks

TAMO's business is dependent upon cyclical industries such as CVs and PVs. Moreover, the company operates across the globe. Any slowdown or cyclical downturn in any of the locations, where the company has a strong presence, can impact business and profitability. The company's performance can also be impacted by ongoing global chips shortage if the situation further worsens.

Valuation (Consolidated) Rs cr

Particulars	FY21	FY22E	FY23E	FY24E
Net Sales	2,49,795	29,495	3,40,277	3,82,437
Growth (%)	-4.3	-88.2	1053.7	12.4
EBIDTA	30,555	32,195	45,537	52,221
OPM (%)	12.2	109.2	13.4	13.7
PAT	(1,366)	(1,875)	11,078	14,424
Growth (%)	NA	NA	NA	30.2
FD EPS (Rs)	-3.6	-4.9	28.9	37.7
P/E (x)	NA	-104.8	17.7	13.6
P/B (x)	3.6	3.2	2.8	2.4
EV/EBIDTA (x)	8.2	7.6	5.3	4.6
RoE (%)	-2.4	10.1	18.3	17.9
RoCE (%)	4.7	6.6	8.5	8.4

Source: Company; Sharekhan estimates

Key Highlights of the conference call

- **JLR's Q3 operational performance beats expectations:** TAMO's Q3FY22 results were ahead of expectation, driven largely by JLR's strong operational performance. JLR reported Q3FY22 revenue at GBP 4,716 million, 11% higher to our estimates with EBIT margin at 1.4% versus our estimates of negative 1.2% largely on the back of a favourable product mix (higher share of Range Rover) and lower costs (led by refocus strategy). The standalone business reported a net loss of Rs. 602 crore, while consolidated loss was at Rs 1,451 crore. The management indicated that the availability of semiconductor chips is easing, which will boost production in Q4. The standalone revenue grew 12.3% q-o-q, while EBITDA margin expanded 20 bps q-o-q to 2.2%. PV business continued its turnaround journey and strengthened its double-digit market share. EV business recorded three-fold growth and recorded highest quarterly sales of 5,592 units in Q3FY22. The chip supply situation is gradually improving with production volumes of 72,184 units up 41% in Q3FY22 over Q2FY22 and wholesales of 69,182 units up 8% in Q3FY22 on Q2FY22 for JLR. JLR's order book hits new record of 155,000 units, up 30,000 units, reflecting strong demand for new Range Rovers, for which deliveries would start in Q4FY22. JLR's free cash flow (FCF) was £164 million in Q3FY22 versus FCF of negative £664 million in Q2FY22, reflecting prioritised production of higher margin products and cost controls to reduce the cash break-even point further.
- **Focus on electrification continues:** JLR's management has laid down its plans and strategies for electrification of its iconic brands, Jaguar and Land Rover over the next decade. The Jaguar model is expected to be totally electrified by 2025 and the company should launch its first battery electric vehicle (BEV) in 2025 on a new dedicated architecture. Jaguar's ICE variants are expected to be phased out by FY26, with the total BEV mix rising over 60% by FY30. In respect of Land Rover, the company plans to introduce six BEV variants in the next five years through a family of three models – the Defender, Discovery and Range Rover. With the electrification to be the next motivation for the company over the next decade, JLR targets net zero carbon emission by 2039.
- **Guidance maintained:** The management maintained its positive guidance for the JLR business, expecting positive cashflow by FY23, net debt to be zero by FY24, and EBIT margins of above 10% by FY26. The company maintains its capex guidance of GBP 2.5 billion per annum from FY22 onwards, using which it expects to manage to shift from ICE to BEV models efficiently by deploying the GBP 2.5 billion capex annually. The company expect double-digit EBIT margin by FY26 to be driven by refocus and reimagine architecture strategy. Refocus transformation programme delivers £1 billion of value in 9MFY22 and is now expected to achieve £1.4 billion of value in FY22, beating JLR's earlier guidance of £1 billion target.

TAMO maintains earlier guidance

	FY22 OUTLOOK		MEDIUM AND LONG TERM TARGETS	
	Q4 FY22	FULL YEAR	FY24	FY26
REVENUE	Above Q3	Lower YoY	Increasing	> £30b
EBIT MARGIN	Positive	Around breakeven	≥ 7%	≥ 10%
INVESTMENT	c.£0.6b	c.£2.2b	c. £2.5b	c. £3b
FREE CASH FLOW	Positive	Negative	Positive	Positive

Source: Sharekhan Research

- **EVs 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 81.6% market in electrified vehicles in the passenger segment, with EV penetration at ~6% of its PV portfolio. The Nexon EV is a leader in the segment. The company started its EV journey in FY2018, with a major focus on government sales and garnered 81.6% market share in 9MFY22 from 47.1% in FY20. 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. 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.

- **Healthy financial growth model:** 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.
- **Strong volume momentum for CVs:** 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 brand equity. The CV passenger segment (buses) will be aided by opening of schools and corporate offices, as the impact of COVID-19 reduces over time. The company has gained market share across all segments with market share improving 300 bps y-o-y to 45.4%.
- **Debt-free status:** The management is committed to make its automotive business division completely debt free. The company had highlighted three key strategies for the same – FCF generation through higher sales and profitability, divestment of non-core businesses, and equity top-up for the remaining debt. Robust turnaround in key businesses during FY2021 has a strong reason to believe that the company is on the right track towards achieving the zero-debt level.
- **Management remain positive; expect chip shortage to ease:** JLR's management maintained medium to long-term targets and continued to execute its reimagine strategy. Demand remains strong. The management gave positive outlook for CV and PV volumes going forward, despite near term concerns of Omicron spread. Overall, the company expects Q4FY22 to be better than Q3 in volumes and operational performance. Chip shortage likely to continue with gradual improvement through 2022 as expected increases in capacity start to come on line combined with ongoing proactive engagement.

Results (Consolidated) Rs cr

Particulars	Q3FY22	Q3FY21	Y-o-Y %	Q2FY22	Q-o-Q %
Revenue	72,229	75,654	-4.5	61,379	17.7
Total Expenses	65,465	64,144	2.1	57,329	14.2
Operating Profit	6,764	11,510	-41.2	4,050	67.0
PBT	(1,012)	4,590	NA	(3,534)	NA
Tax	726	945	-23.2	1,005	-27.8
Share Of profit from Associates	113	(246)	NA	(61)	NA
Adj Net Profit	(1,851)	3,329	NA	(4,478)	NA
Reported PAT	(1,451)	2,906	NA	(4,416)	NA
Adjusted EPS (Rs)	(4.8)	9.3	NA	(11.7)	NA

Source: Company; Sharekhan Research

Key Ratios (Consolidated) Rs cr

Particulars	Q3FY22	Q3FY21	Y-o-Y %	Q2FY22	Q-o-Q %
Gross Margin (%)	36.2	36.7	(40 bps)	33.1	(320 bps)
OPM (%)	9.4	15.2	(580 bps)	6.6	(280 bps)
NPM (%)	(2.6)	4.4	NA	(7.3)	NA
Effective Tax rate (%)	(71.7)	20.6	NA	(28.4)	NA

Source: Company; Sharekhan Research

Results (Standalone) Rs cr

Particulars	Q3FY22	Q3FY21	Y-o-Y %	Q2FY22	Q-o-Q %
Revenue	12,353	14,631	-15.6	10,996	12.3
Total Expenses	12,052	13,781	-12.5	10,755	12.1
Operating Profit	301	850	-64.6	241	24.8
PBT	(548)	(548)	NA	(521)	NA
Tax	54	38	43.6	4	NA
Adj Net Profit	(602)	(585)	NA	(525)	NA
Reported PAT	(635)	(638)	NA	(576)	NA
Adjusted EPS (Rs)	(1.6)	(1.6)	NA	(1.4)	NA

Source: Company; Sharekhan Research

Key Ratios (Standalone) Rs cr

Particulars	Q3FY22	Q3FY21	Y-o-Y %	Q2FY22	Q-o-Q %
Gross Margin (%)	21.8	25.6	(380 bps)	23.5	(170 bps)
OPM (%)	2.4	5.8	(340 bps)	2.2	20 bps
NPM (%)	(4.9)	(4.0)	NA	(4.8)	NA
Effective Tax rate (%)	(9.8)	(6.8)	NA	(0.7)	NA

Source: Company; Sharekhan Research

Outlook and Valuation

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

The macroeconomic 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 going forward.

■ Company outlook – On a strong growth path

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 margins by FY2026 to be driven by the Refocus and Eeimagine 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.

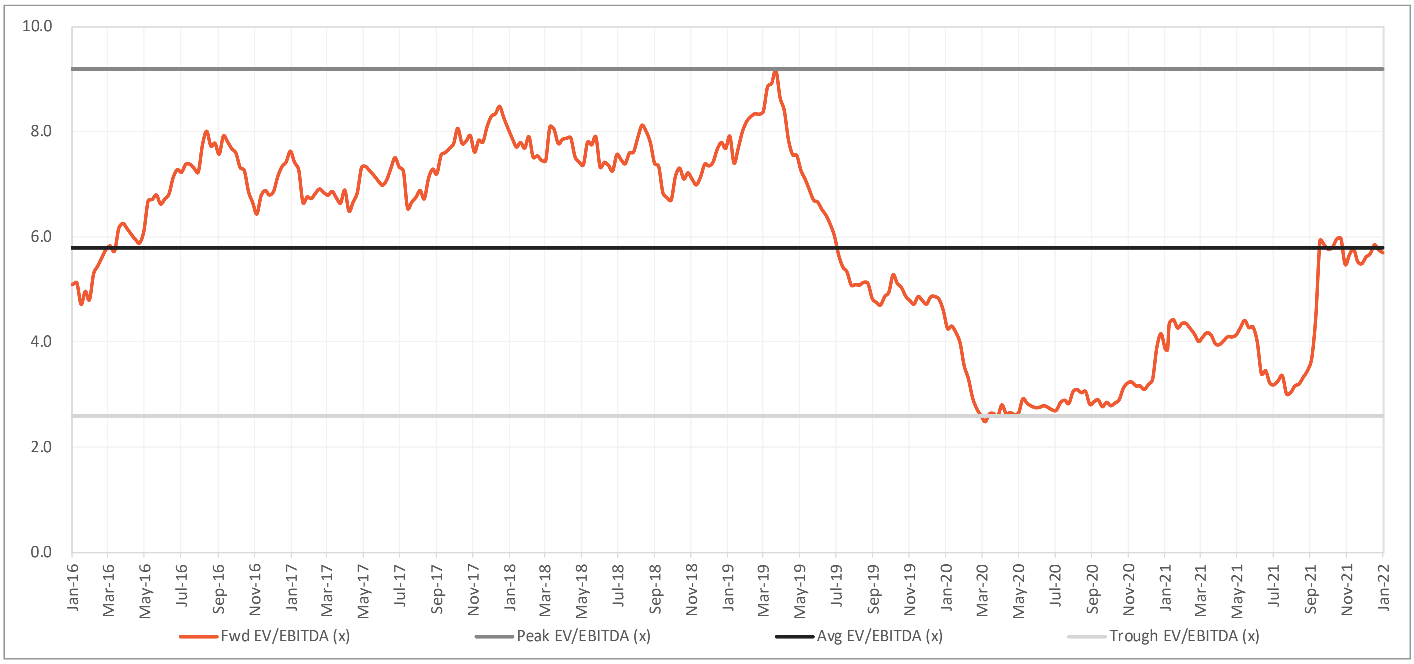
■ Valuation – Maintain Buy with an unchanged PT of Rs. 610:

TAMO is witnessing an improvement in all business verticals - JLR, CVs and PVs. H2FY21 saw strong volume growth and better operational efficiencies aided by aggressive launches, market positioning, product differentiation, cost savings and investments in R&D. We expect operational performance to improve strongly in Q4FY22, as the supply constraints are expected to ease gradually, while demand continues to remain strong for both JLR and domestic operations. Domestic CV and PV segments are expected to remain healthy on back of new launches. Driven by an all-round strong performance, we expect TAMO to become earnings' positive in FY2023E with a PAT of Rs. 11,708 crore, driven by a 16.7% revenue CAGR during FY2021E-FY2023E and a 120 bps improvement in EBITDA margin to 13.4% in FY23E from 12.2% in FY21. The management stays positive on product delivery, launches and capex programs as planned earlier. The stock is trading at valuations at P/E multiple of 17.7x and EV/EBITDA multiple of 5.3x its FY2023E estimates. We reiterate a Buy rating on the stock with unchanged PT of Rs 610.

SOTP-based PT of Rs. 610

Particulars	Ratioanle	Value (in Rs Crore)	Value per Share (Rs)
Standalone business (excl. EV business)	6x EV/EBITDA	43,729	114
Electric Vehicle business	5x EV/Sales	59,292	155
JLR UK	4.5x EV/EBITDA	1,50,850	394
JLR China	5x EV/EBITDA	10,265	27
Total Enterprise Value		**2,64,136**	**690**
Net Debt		45,654	119
Automotive Business Value		**2,18,482**	**571**
Value of Subsidiaries and investments			**39**
TAMO's Equity Value			**610**
Current market price			**519**
Upside (%)			**19**

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	513	NA	29.2	17.7	8.2	6.2	5.3	4.7	6.6	8.5
Ashok Leyland Limited	133	NA	43.9	17.8	75.4	19.0	10.0	-	10.7	21.5
Maruti Suzuki India Limited	8608	61.5	74.0	33.1	49.0	49.1	24.4	9.4	7.8	15.6

Source: Company, Sharekhan Research

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 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 macro-environment improving 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

Girish Wagh	Executive Director
Thierry Bolloré	CEO, Jaguar & Land Rover
P B Balaji	Group Chief Financial Officer
Shailesh Chandra	President - Passenger Vehicles Business Unit

Source: Company Website

Top 10 shareholders

Sr. No.	Holder Name	Holding (%)
1	Tata Sons Private Limited	43.7
2	Tata Industries Limited	2.2
3	Tata Investment Corporation Limited	0.3
4	Citibank N.A. New York Nyadr Department	7.3
5	Life Insurance Corporation Of India	4.5
6	Jhunjhunwala Rakesh Radheshyam	1.2
7	Sbi-etf Nifty 50	1.4
8	Hdfc Trustee Company Limited-hdfc Flexi Cap Fund	1.3
9	Ewart Investments Limited	0.1
10	Tata Chemicals Ltd	0.1

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

Know more about our products and services

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