

July 27, 2022

RESULT REPORT Q1 FY23 | Sector: Automobile

Tata Motors

JLR impacted by supply issues; S/A by RM cost

Valuation and View

TTMT's 1QFY23 results missed our/street estimates led by 1) JLR - inferior product/market mix as supply constraints led to slower than expected ramp-up in RR/RR sports ramp up, 2) JLR - unfavorable fx and 3) S/A - higher op. expense. While net auto debt increased to Rs607b in 1QFY23 (v/s Rs487b) led by WC change, the same will be normalized with production normalization in 2QFY23. Some of these variables to improve in near-term as 2QFY23 to see dual impact of easing chip shortages benefitting production with China market opening up. However, several internals continue to remain healthy with VME spends declined to ~1.4% (v/s 3.1% YoY), JLR order book at 200k units (v/s 168k in 4Q with ~65% of orders are for high margin new launches such as Defender, RR and RR sport). Despite underperformance in 1QFY23, JLR's guidance of positive EBIT (5%) and positive FCF (GBP1b) is unchanged.

We like TTMT given it's improving India franchise, early leadership in EVs in India, and JLR's aggressive cost controls. Standalone business is in sweet spot led by healthy cyclical recovery both in PV and CV whereas favorable product cycle to help drive JLR outperformance. We cut FY23/24 EPS by ~14.5%/0.5% to factor in RM inflation and negative fx movement and estimate revenue/EBITDA CAGR of 14%/29% in FY22-24E. We maintain BUY with TP of Rs521 (v/s Rs515 earlier).

Result Highlights- Margins miss largely led by weak JLR performance

- Consol revenue de-grew 8% QoQ/ (+8% YoY) at Rs719.3b (est at Rs630.6b). TTMT CVs/JLR revenue de-grew ~12% QoQ/~8% QoQ while TTMT PV revenue grew ~10% QoQ.
- Gross margins contracted 175bp QoQ at 33%. EBITDA came in lower at Rs31.8b (-64% QoQ/-40bp YoY, est at Rs84.5b) led by negative operating leverage and cost inflation. Consequently, margins miss our/street est at 4.4% (-670bp QoQ, est at 13.2%, cons at 9.2%).
- Segmental EBIT margins-** CV at 2.4% (+160bp QoQ), PV at 0.6% (v/s 1.3% QoQ), JLR at -4.4% (+2% QoQ).
- Adj. loss came in at Rs64.4b (v/s Rs3.9b in 4Q, est PAT of Rs2.4b, cons loss of Rs10.4b).
- Net auto debt has increased to Rs607b as on June'22 (v/s Rs487b as on Mar'22). This is largely led by increase in working capital debt at Rs185b as on June'22 (v/s 96b as on Mar'22).

Exhibit 1: Actual vs estimates

Rs mn	Actual	Estimate		% variation		Remarks
		Yes Sec	Consensus	Yes Sec	Consensus	
Sales	719,347	635,344	715,097	13.2	0.6	Weak JLR performance dragged EBITDA margins at 4.4% (-670bp QoQ).
EBITDA	31,805	84,450	66,085	(62.3)	(51.9)	
EBITDA margins %	4.4	13.3	9.2	(890bp)	(480bp)	
Adjusted PAT	(64,448)	2,408	(10,396)	-	-	

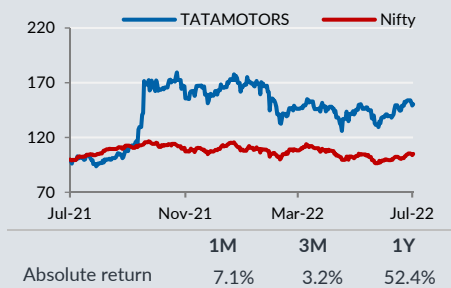
Source: Company, YES Sec

Reco	: BUY
CMP	: Rs 444
Target Price	: Rs 521
Potential Return	: +18%

Stock data (as on July 27, 2022)

Nifty	16,642
52 Week h/l (Rs)	537 / 268
Market cap (Rs/USD mn)	1,586,689/19,858
Outstanding Shares (mn)	3,321
6m Avg t/o (Rs mn):	9,281
Div yield (%):	-
Bloomberg code:	TTMT IN
NSE code:	TATAMOTORS

Stock performance



Shareholding pattern (As of June'22 end)

Promoter	46.4%
FII+DII	28.8%
Others	24.6%

Δ in stance

(1-Yr)	New	Old
Rating	BUY	BUY
Target Price	521	515

Δ in earnings estimates

	FY23e	FY24e
EPS (New)	15.8	37.0
EPS (Old)	18.5	37.2
% change	(14.5%)	(0.5%)

Financial Summary

Y/E March (Rs bn)	2022	2023E	2024E
Net Sales	2,785	3,129	3,646
EBITDA	340	438	564
Net Profit	(104)	60	142
Adj. EPS (INR)	(27.2)	15.8	37.0
EPS Gr. (%)	(385)	(158)	134
BV/Sh. (INR)	116.4	132.2	169.2
RoE (%)	(20.9)	12.7	24.6
RoCE (%)	10.1	10.0	13.8
Payout (%)	-	-	-
P/E (x)	(16.3)	28.0	12.0
P/BV (x)	3.8	3.4	2.6
EV/EBITDA (x)	7.2	5.5	3.9
Div. Yield (%)	-	-	-

DEEP SHAH

Lead Analyst

deep.shah@ysil.in

+91 22 68850521



AMBER SHUKLA, Associate

Exhibit 2: Quarterly snapshot

Y/e Mar (Rs.m)	Q1FY23	Q1FY22	YoY chg (%)	Q4FY22	FY22	FY21	YoY chg (%)
Net Revenues	719,347	664,065	8.3	784,391	2,784,536	2,497,948	11.5
Raw Materials	482,217	425,501	13.3	511,964	1,808,858	1,582,915	14.3
% of Net Sales	67.0%	64.1%		65.3%	65.0%	63.4%	
Personnel	77,864	79,947	(2.6)	80,294	308,085	276,485	11.4
% of Net Sales	10.8%	12.0%		10.2%	11.1%	11.1%	
Manufacturing & Other Exp	165,258	141,371	16.9	143,930	563,434	461,486	22.1
% of Net Sales	23.0%	21.3%		18.3%	20.2%	18.5%	
Expenses capitalized	37,797	35,330	7.0	39,214	143,973	128,491	12.0
Total Expenditure	687,542	611,489	12.4	696,975	2,536,404	2,192,395	15.7
EBITDA	31,805	52,576	(39.5)	87,416	248,132	305,553	(18.8)
EBITDA Margin (%)	4.4%	7.9%		11.1%	8.9%	12.2%	
Depreciation	58,410	62,021	(5.8)	64,321	248,357	235,467	5.5
EBIT	(26,605)	(9,446)		23,095	(225)	70,086	-
Interest Expenses	24,207	22,033	9.9	23,805	93,119	80,972	15.0
Non-operating income	8,874	5,816	52.6	9,026	30,536	26,432	15.5
Forex gain	(7,678)	(149)	-	(4,443)	(787)	17,322	
Extraordinary Exp/ Income	(14,936)	25	-	7,283	6,491	137,610	(95.3)
PBT	(34,681)	(25,837)		(3,411)	(70,085)	(104,743)	-
Tax-Total	15,190	17,420	(12.8)	7,582	42,313	25,419	66.5
Tax Rate (%) - Total	(43.8%)	(67.4%)		-222.3%	-60.4%	-24.3%	-
Minority Interest / Share in Associates	917	(1,287)		1,481	587	(3,227)	-
Profit after MI	(48,953)	(44,544)	-	(9,513)	(111,811)	(133,388)	-
Adj. PAT	(64,448)	(44,517)	-	(2,230)	(104,350)	(27,010)	-

Source- Company, Yes Sec

Exhibit 3: SOTP

Rs/Share	FY24E
Tata Motors - Standalone	316
Tata Motors - India EV business	98
JLR	173
Other Subs	33
Total EV	619
Less: Net Debt	98
Total Equity Value	521

Source- Company, Yes Sec

KEY CON-CALL HIGHLIGHTS

JLR-

- **Outlook-** Improvement in chip shortage situation is visible along with reduced impact of COVID in China, should help ramp up of new Range Rover and new Range Rover sports.
 - Expect wholesale of ~90k units in 2Q and should continue going forward in FY23.
 - Aim to deliver positive EBIT margins of 5% and positive FCF of GBP1b in FY23.
- **Further order bank growth v/s last quarter as orders rose to ~200k** (v/s ~168k in 4Q).
 - Out of the total orderbook, ~20k/62k/47k units is contributed by New Range Rover Sport/New Range Rover and Defender respectively. Build rate of new Range Rover at the end of 1Q is already double than the start of the quarter.
 - The company will start building new Range Rover from 8th Aug'22.
- **Breakeven in 1QFY23 at ~320k units (v/s ~3L/3.3L units in 4QFY22 and FY22).** Expect FY23 BE at ~3.5L with quarterly run rate of ~85k units.
- **Other KTAs-**
 - The company hinted towards price hike actions in future and Refocus actions to recover cost inflation.
 - Engineering capitalization rate was 25% in 1QFY23 which shall increase going forward.
- **Electrified mix at 66%** (QoQ comparison)- ICE 34% (v/s 36%), MHEV 54% (v/s 50%) and BEV/PHEV - 12% (v/s 14%).

Commercial vehicles

- **Outlook- Sentiments positive, demand from small fleet operators look positive as well**
 - Trucker's sentiment index at 2 years high in MHCVs and ILCVs. Growth estimates are backed by increased activity in construction, mining, agriculture and e-com.
 - Bus demand grew by ~60% QoQ led by surge in tours & travel, return of staff movement and opening of schools/educational institutions.
- **While market share in MHCV has declined to 54.6% in 1QFY23 (v/s ~58.2% in FY22),** the company is confident of gaining back the lost market share led by new launches and improving demand scenario. Market share within bus & van segment inched up to 46.9% (v/s 44.8% in FY22)
- CNG and EV mix stands at ~13% in 1QFY23 (v/s ~17% in FY22).
- Spare and service revenue grew ~75% YoY in 1QFY23.

Passenger vehicles

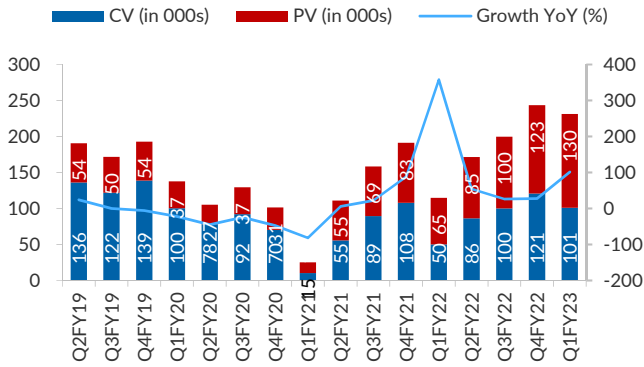
- Overall market share in 1QFY23 at ~14.3% (v/s 12.1% in FY22). 1QFY23 EV/CNG mix stands at ~11%/7% (v/s 5%/3% in FY22).
- Currently operating at full capacity. Waiting period for ICE model range between 4 weeks to 3 months while waiting for Nexon EV is ~7 months.

Electric mobility

- TML-Smart city mobility solutions Ltd. Incorporated as wholly owned subsidiary of TTMT. Revenue contribution in 1QFY23 was Rs1.45b.
- TTMT has forayed into cargo E-mobility with the launch of ACE EV. It currently has MoU for ~39k units.

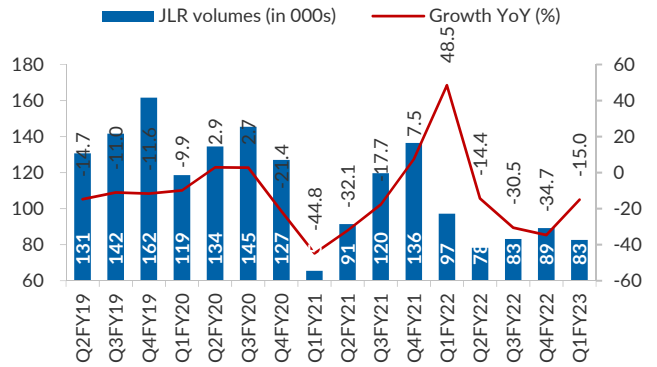
CHARTS

Exhibit 1: 1QFY23 CV & PV volumes declined 5% QoQ



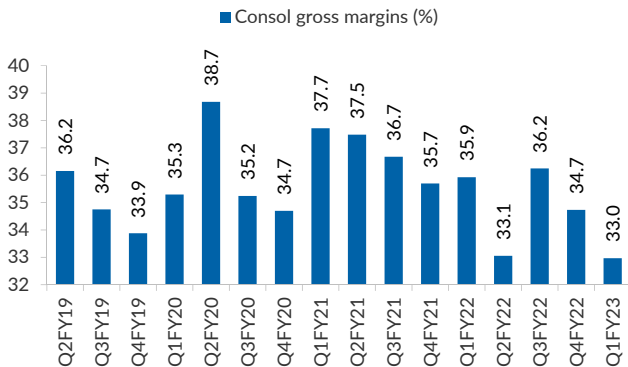
Source: Company, YES Sec

Exhibit 2: JLR volumes impacted due to chip shortage



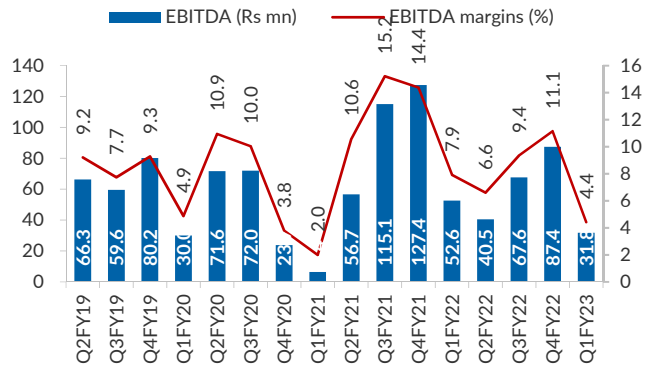
Source: Company, YES Sec

Exhibit 3: 1QFY23 gross margin at multi quarter low



Source: Company, YES Sec

Exhibit 4: Margins contracted ~670bp QoQ at 4.4%



Source: Company, YES Sec

FINANCIALS

Exhibit 5: Balance Sheet

Y/E March (Rs m)	2020	2021	2022	2023E	2024E
Share Capital	7,195	7,658	7,659	7,659	7,659
Reserves	623,590	544,809	437,954	498,444	640,115
Net Worth	630,785	552,467	445,612	506,103	647,774
Loans	1,056,553	1,421,306	1,464,490	1,421,990	1,391,990
Minority Interest	8,136	15,735	42,711	44,231	45,885
Deferred Tax	(35,160)	(29,645)	(23,124)	(22,564)	(22,004)
Capital Employed	1,660,313	1,959,863	1,929,689	1,949,760	2,063,645
Gross Fixed Assets	2,680,152	3,128,886	3,232,889	3,468,599	3,858,463
Less: Depreciation	1,416,851	1,749,847	1,852,406	2,106,802	2,396,846
Net Fixed Assets	1,263,301	1,379,039	1,380,483	1,361,798	1,461,617
Capital WIP	356,223	209,639	102,511	250,000	250,000
Goodwill	7,771	8,037	8,072	8,072	8,072
Investments	163,085	246,203	293,795	200,932	176,326
Curr.Assets	1,376,255	1,543,136	1,482,630	1,740,782	2,045,340
Inventory	374,569	360,886	352,403	428,676	499,391
Sundry Debtors	111,727	126,791	124,421	257,206	299,634
Cash & Bank Bal.	337,270	467,925	406,692	490,786	717,201
Loans & Advances	539,741	568,849	584,547	544,547	504,547
Others	12,949	18,686	14,566	19,566	24,566
Current Liab. & Prov.	1,506,320	1,426,191	1,337,802	1,611,824	1,877,709
Sundry Creditors	636,269	681,798	599,704	685,882	799,025
Other Liabilities	619,394	479,845	500,876	685,882	799,025
Provisions	250,657	264,548	237,222	240,059	279,659
Net Current Assets	(130,066)	116,945	144,829	128,958	167,630
Appl. of Funds	1,660,313	1,959,863	1,929,689	1,949,760	2,063,645

Source: Company, YES Sec

Exhibit 6: Income statement

Y/E March (Rs m)	2020	2021	2022	2023E	2024E
Total Income	2,610,680	2,497,948	2,784,536	3,129,338	3,645,553
Change (%)	(13.5)	(4.3)	11.5	12.4	16.5
EBITDA	239,143	357,819	340,227	437,746	564,070
% of Net Sales	9.2	14.3	12.2	14.0	15.5
Depreciation	214,254	235,467	248,357	254,396	290,045
EBIT	24,889	122,352	91,870	183,350	274,025
Product Dev. Exp.	41,885	52,266	92,095	50,971	53,795
Interest	72,433	80,972	93,119	87,486	87,097
Other Income	29,732	26,432	30,536	27,433	27,662
EO Exp/(Inc)	28,714	137,610	6,440	-	-
Forex Gain/ (Loss)	(17,387)	17,322	(787)	-	-
PBT	(105,800)	(104,743)	(70,035)	72,326	160,795
Tax	3,953	25,419	42,313	5,786	12,864
Effective Rate (%)	(3.7)	(24.3)	(60.4)	8.0	8.0
Reported PAT	(109,752)	(130,161)	(112,348)	66,540	147,932
Change (%)	(62.1)	18.6	(13.7)	(159.2)	122.3
% of Net Sales	(4.2)	(5.2)	(4.0)	2.1	4.1
Minority Interest	(956)	(563)	(1,327)	(1,520)	(1,654)
Share of profit of associate	(10,000)	(3,790)	(741)	(4,530)	(4,606)
Net Profit	(120,709)	(134,514)	(114,415)	60,490	141,671
Adj. PAT	(90,921)	36,491	(104,084)	60,490	141,671
Change (%)	515.0	(140.1)	(385.2)	(158.1)	134.2

Source: Company, YES Sec

Exhibit 7: Cash Flow Statement

Y/E March (Rs m)	2020	2021	2022	2023E	2024E
OP/(Loss) before Tax	(119,752)	(133,961)	(113,088)	60,490	141,671
Int/Div. Received	11,913	5,109	6,594	27,433	27,662
Depreciation	214,254	235,467	248,357	254,396	290,045
Direct Taxes Paid	(17,849)	(21,046)	(19,096)	(5,226)	(12,304)
(Inc)/Dec in WC	50,663	(926)	(104,737)	99,964	187,743
Other Items	110,039	54,278	131,238	1,520	1,654
CF from Op Activity	249,267	138,922	149,269	438,578	636,471
Extra-ordinary Items	17,062	151,083	(6,440)	-	-
CF after EO Items	266,329	290,005	142,828	438,578	636,471
(Inc)/Dec in FA+CWIP	(295,306)	(198,558)	(149,383)	(383,200)	(389,864)
Free Cash Flow	(28,976)	91,447	(6,555)	55,378	246,607
(Pur)/Sale of Invest.	(46,397)	(62,704)	101,632	92,863	24,606
CF from Inv Activity	(341,702)	(261,263)	(47,751)	(290,337)	(365,258)
Issue of Shares	38,888	26,025	37,686	-	-
Inc/(Dec) in Debt	70,761	154,549	22,026	(42,500)	(30,000)
Interest Paid	(75,184)	(81,229)	(92,514)	(87,486)	(87,097)
Dividends Paid	(568)	(303)	(999)	-	-
CF from Fin Activity	33,896	99,042	(33,802)	(129,986)	(117,097)
Inc/(Dec) in Cash	(41,477)	127,785	61,275	18,255	154,117

Source- Company, Yes Sec

Exhibit 8: Growth and Ratio matrix

Y/E March	2020	2021	2022	2023E	2024E
Basic (INR)					
EPS	(25.3)	9.5	(27.2)	15.8	37.0
EPS Fully Diluted	(25.3)	9.5	(27.2)	15.8	37.0
EPS Growth (%)	480.5	(137.7)	(385.2)	(158.1)	134.2
Cash EPS	34.3	71.0	37.7	82.2	112.7
Book Value (Rs/Share)	175.3	144.3	116.4	132.2	169.2
DPS	-	-	-	-	-
Payout (Incl. Div. Tax) %	-	-	-	-	-
Valuation (x)					
Consolidated P/E	(17.5)	46.5	(16.3)	28.0	12.0
EV/EBITDA	9.0	6.7	7.2	5.5	3.9
EV/Sales	0.8	1.0	0.9	0.8	0.6
Price to Book Value	2.5	3.1	3.8	3.4	2.6
Dividend Yield (%)	-	-	-	-	-
Profitability Ratios (%)					
RoE	(14.8)	6.2	(20.9)	12.7	24.6
RoCE	3.6	10.2	10.1	10.0	13.8
RoIC	3.5	16.5	13.6	15.8	26.1
Turnover Ratios					
Debtors (Days)	15.6	18.5	16.3	30.0	30.0
Inventory (Days)	52.4	52.7	46.2	50.0	50.0
Creditors (Days)	89.0	99.6	78.6	80.0	80.0
Asset Turnover (x)	1.6	1.3	1.4	1.6	1.8
Leverage Ratio					
Debt/Equity (x)	1.7	2.6	3.3	2.8	2.1

Source- Company, Yes Sec

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Registered Address: 2nd Floor, North Side, YES BANK House, Off Western Express Highway, Santacruz East, Mumbai - 400 055, Maharashtra, India.

Correspondence Address: 4th Floor, AFL House, Lok Bharti Complex, Marol Maroshi Road, Andheri East, Mumbai - 400059, Maharashtra, India.

☎ +91 22 68850521 | ✉ research@ysil.in
Website: www.yesinvest.in

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Details of Compliance Officer: Name: Dhanraj Uchil, Email id: compliance@ysil.in, Contact No: +91-22- 6507 8122

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Analysts assign ratings to the stocks according to the expected upside/downside relative to the current market price and the estimated target price. Depending on the expected returns, the recommendations are categorized as mentioned below. The performance horizon is 12 to 18 months unless specified and the target price is defined as the analysts' valuation for a stock. No benchmark is applicable to the ratings mentioned in this report.

BUY: Upside greater than 20% over 12 months

ADD: Upside between 10% to 20% over 12 months

NEUTRAL: Upside between 0% to 10% over 12 months

REDUCE: Downside between 0% to -10% over 12 months

SELL: Downside greater than -10% over 12 months

NOT RATED / UNDER REVIEW

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