

Tata Motors (TTMT)

No major supply issues foreseen in JLR ahead

Valuation and View

TTMT's 2QFY23 though consol results were operationally in-line to our estimates, S/A EBITDA missed our estimates by 18% as there was margins miss in both PV and CV segments. This was led by residual impact of RM inflation (~70bp impact) and one-off cost in PV (~50-60bp impact). While the same to neutralize in coming quarters with decline in RM. JLR performance was better led by better than estimated ASPs and gross margins. The key positive from JLR results is 1) its EBIT margins turned positive to 1% (v/s -4.4% in 1QFY23 and management guidance of positive EBIT for FY23), 2) expect 3QFY23 wholesales to be modestly better than 2QFY23 while ASP to increase >GBP70k led by favorable product mix, 3) near FCF break even at -GBP15m (v/s -GBP768m in 1QFY23) and guides for FCF of GBP750m in 2HFY23 (v/s -GBP784m), 4) not seeing major cuts in demand of premium PVs globally yet, indicating gradual volume ramp-up ahead

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 consol EPS by 22% to factor in for unfavorable currency and increased RM/non RM inflation while we raise FY24E consol EPS by 14% to factor in for better product mix and controlled VME. We estimate revenue/EBITDA CAGR of 12%/17% in FY22-25E and introduce FY25E. We maintain BUY with TP of Rs534.

Result Highlights- Consol EBITDA in-line while Adj. losses were higher

- Consol revenues grew 10.7% QoQ (+30% YoY) at Rs796b (est Rs780b). S/A revenues grew 0.5% QoQ at Rs149.5b. The miss was led by lower ASPs at Rs614.1k/unit (est Rs652.9k/unit). JLR's revenues grew 19% QoQ at GBP5.2b.
- Consol EBITDA came in-line at Rs61.9b with margins expanded 340bp QoQ (+120bp YoY) at Rs7.8%. S/A EBITDA margins remained flat at 5.7% (est 6.5%) impacted by RM inflation and one-off costs. JLR's EBITDA margins expanded 400bp QoQ at 10.3% (est 9%). Consol Adj.PAT loss came in higher at Rs11.4b (est loss Rs7.5b) led by lower other income and higher tax and fx loss.
- Net Auto debt declined marginally QoQ at Rs599b (v/s Rs607b as of 1QFY23). However, external debt declined by Rs25b QoQ to Rs325b.
- JLR near FCF break even at -GBP15m (v/s -GBP768m in 1QFY23) with breakeven volumes at 70k units for 2Q and annualized for FY23 at 300k units. Guides for FCF of GBP750m in 2HFY23 (v/s -GBP784m).

Exhibit 1: Actual vs estimates

Rs mn	Actual	Estimate		% variation		Remarks
		Yes Sec	Consensus	Yes Sec	Consensus	
Sales	796,114	790,000	767,580	1	3.7	JLR's margins surprised positively while S/A were week despite volume increase
EBITDA	61,962	60,771	68,530	2.0	(9.6)	
EBITDA margins %	7.8	9.7	8.9	(190bp)	(110bp)	
Adjusted PAT	(11,764)	(7,527)	(15,480)	NM	NM	

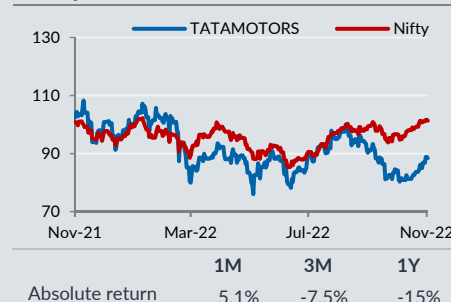
Source: Company, YES Sec

Reco	: BUY
CMP	: Rs 433
Target Price	: Rs 534
Potential Return	: +23%

Stock data (as on November 9, 2022)

Nifty	18,157
52 Week h/l (Rs)	537 / 366
Market cap (Rs/USD mn)	1,55,8715/19,142
Outstanding Shares (mn)	3,321
6m Avg t/o (Rs mn):	6,908
Div yield (%):	-
Bloomberg code:	TTMT IN
NSE code:	TATAMOTORS

Stock performance



Shareholding pattern (As of Sept'22 end)

Promoter	46.4%
FII+DII	28.9%
Others	19.7%

Δ in stance

(1-Yr)	New	Old
Rating	BUY	BUY
Target Price	534	499

Δ in earnings estimates

	FY23e	FY24e
EPS (New)	12.3	42.1
EPS (Old)	15.8	37.0
% change	(21.9%)	13.8%

Financial Summary

Y/E March (Rs bn)	2022	2023E	2024E
Net Sales	2,785	3,099	3,609
EBITDA	340	397	561
Net Profit	(104)	47	161
Adj. EPS (INR)	(27.2)	12.3	42.1
EPS Gr. (%)	(385)	(145)	241
BV/Sh. (INR)	116.4	128.7	170.8
RoE (%)	(20.9)	10.1	28.1
RoCE (%)	10.1	9.3	14.4
Payout (%)	-	-	-
P/E (x)	(15.9)	35.1	10.3
P/BV (x)	3.7	3.4	2.5
EV/EBITDA (x)	7.1	5.8	3.7
Div. Yield (%)	-	-	-

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Exhibit 2: Quarterly snapshot

Y/e Mar (Rs.mn)	Q2FY23	Q2FY22	YoY chg	1QFY23	H1FY23	H1FY22	YoY chg
Net Revenues	796,114	613,788	29.7	719,347	1,515,460	1,277,853	18.6
Raw Materials	525,950	410,905	28.0	482,217	1,008,167	836,406	20.5
% of Net Sales	66.1%	66.9%		67.0%	66.5%	65.5%	
Personnel	78,979	71,334	10.7	77,864	156,843	151,281	3.7
% of Net Sales	9.9%	11.6%		10.8%	10.3%	11.8%	
Manufacturing & Other Exp	170,633	125,856	35.6	165,258	335,891	267,227	25.7
% of Net Sales	21.4%	20.5%		23.7%	22.2%	20.9%	
Expenses capitalised	41,411	34,805	19.0	37,797	79,208	70,136	12.9
Total Expenditure	734,151	573,290	28.1	687,542	1,421,693	1,184,779	20.0
EBITDA	61,962	40,498	53.0	31,805	93,768	93,074	0.7
EBITDA Margin (%)	7.8%	6.6%		4.4%	6.2%	7.3%	
Depreciation	58,973	61,233	(3.7)	58,410	117,384	123,255	(4.8)
EBIT	2,989	(20,735)		(26,605)	(23,616)	(30,180)	(21.7)
Interest Expenses	24,873	23,273	6.9	24,207	49,080	45,306	8.3
Non-operating income	10,385	8,669	19.8	8,874	19,259	14,485	33.0
Forex gain	(6,239)	668	(1,034.6)	(7,678)	(13,917)	519	
Extraordinary Exp/ Income	(3,126)	45	(7,125.4)	(14,936)	(18,063)	70	(26,014.6)
PBT	(14,611)	(34,716)		(34,681)	(49,292)	(60,552)	
Tax-Total	(4,571)	10,051	(145.5)	15,190	10,619	27,470	(61.3)
Tax Rate (%) - Total	31.3%	-29.0%		-43.8%	-21.5%	-45.4%	
Minority Interest / Share in Associates	1,520	871		917	2,437	(416)	
Profit after MI	(8,521)	(43,895)	(80.6)	(9,124)	(17,645)	(89,948)	(80.4)
Adj. PAT	(11,764)	(43,849)	(73.2)	(64,448)	(76,212)	(88,366)	(13.8)
PAT Margin	-1.5%	-7.1%		-1.6%	-5.0%	-6.9%	

Source- Company, Yes Sec

Exhibit 3: SOTP

Rs/Share	FY24E
Tata Motors - Standalone	326
Tata Motors - India EV business	98
JLR	154
Other Subs	33
Total EV	611
Less: Net Debt	77
Total Equity Value	534

Source- Company, Yes Sec

KEY CON-CALL HIGHLIGHTS

Standalone

Commercial vehicles

- As per Vahan, lost 150bp market share in CV to 43.2% in 2QFY22 (v/s 44.7%)
- Expect CNG growth to comeback in CVs which did see minor correction due to higher CNG cost v/s diesel. Sequential rise in CNG prices led to drop in CNG fuel mix to ~17% and ~15% in ILCV and SCVPU respectively vs 44% and 18% in Q2 FY22.
- Residual impact of RM was ~200bp on EBITDA of CB division.
- Non-vehicle-business revenue grew by 50% in H1FY23 vs H1FY22
- Bus segment saw comeback in volumes from STUs, schools and office applications.
- Keeping net retail pricing stable by reducing discounts and increasing market operating pricing. Transporter sentiment index is positive as there profitability is intact.
- EV – actual deliveries will start from 3QFY22 for ACE EV.
 - CESL 3.6kk EV buses for Delhi, Kolkata (under review though) and Bengaluru supply will start from 1QFY24. LOA for 200 E-Buses to be operated in Jammu and Srinagar where delivery will start from FY24.
 - > 96% uptime delivered for the fleet of 500 E-buses managed under pay per use mode
 - Revenue attributable to EV business in H1FY23 at >Rs2b.
- E-dukaan, online marketplace for spares, clocked 3X revenue in H1FY23 vs H1FY22.
- BS6 phase 2 cost increase to be lower than BS4 to BS6, however depending on technology. Gasoline will have much lower cost impact of RDE transition.

Passenger vehicles

- QoQ decline in margins was led by residual impact of RM and one-off expense.
- Have taken further price hikes effective 1st Nov,2022.
- 1HFY23 market share at 14.1% (v/s 12.1% in 1HFY22).
- Will execute migration to BSVI Ph2 by end of 3QFY22.
- EV
 - Highest ever quarterly sales at 12k units in 2QFY23.
- Don't expect significant price hikes for BS6 phase 2 transition. Though depend on technology selected.
- EV adoption triggers? – biggest proposition is low operating cost, performance, drivability, more young customers etc.
- Margins for EV is not different than ICE PV and should further improve next year with PLI benefits coming in.
- **Market share in PVs ahead?** – Expect 2HFY23 to be better and industry will do 3.8m units in FY23 with some moderation in off-take in 3QFY23 due to year end effect. Demand ahead will be triggered through new launches and hence it will be more of segment play.
- EV – Nexon ~65-70% of sales is for primary car (v/s 25-30% earlier). Don't see any impact on Nexon EV post launch of Toago EV.

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- Ford plant acquisition transaction is targeted to close by end of CY22. FY24 end will see start of production.

JLR

- JLR – double digit EBITDA to continue ahead led by increased volumes and favorable mix. EBIT positive at 1% and close to cash BE of -GBP15m. Hence BE point reduced to 70k units.
- Range Rover / Range Rover Sport production ramped up to over 2400 in Oct'22 (v/s 2,000 per week as of Sep'22 and 1100 in Jun'22). Long term supply commitment is there for chips supply and don't expect any shortage. Oct'22 production back on track while Sep'22 production impacted due to decommitment of chips supply by vendor leading to miss in Sep'22 dispatches.
- Expect 3QFY23 wholesales to be modestly better than 2QFY23 while ASP to increase >GBP70k led by favorable product mix.
- JLR order book record at 205k units (v/s 200k in 1QFY23) with net new orders addition at 92k in 2QFY23 (v/s +100k units in previous quarters) with JLR and retailer inventory remain below normal levels. New Range Rover, New Range Rover Sport & Defender account for over 70% of order book. Not stimulating new demand but for New RR that will now be increased leading to increase in net orders. Confident to stimulate 100k+ net orders in coming quarters.
- JLR EV mix stable QoQ at 65% with BEV contribution at 11% v/s 12% in 1QFY23.
- VME was at 1.7% of sales (v/s 1.1% QoQ) however still at lower level. Expect decline in VME will offset RM inflation. Expect VME to remain lower even in 2HFY23. Not seeing pressure on non RR portfolio in China as yet.
- JLR near FCF break even at -GBP15m (v/s -GBP768m in 1QFY23) with breakeven volumes at 70k units for 2Q and annualized for FY23 at 300k units. Guides for FCF of GBP750m in 2HFY23 (v/s -GBP784m).
- JLR - GBP550m saved from Refocus initiatives in 1HFY23 (v/s GBP250m in 1QFY23).
- JLR's EBIT margins to be positive for FY22 and 2HFY22 (v/s -1.5% in 1HFY23).
- Total investments spend in 2QFY23 increased to GBP526m (v/s GBP489m in 1QFY23) as total engineering spend increased to GBP392m (v/s GBP349m in 1QFY23).
- Expect WC to be in favor with ramp in volumes...expect investment to increase in 2HFY23 (GBP200m higher v/s 1HFY23).
- Revised wage settlement will be effective from 3QFY22.
- There will be some spends to meet E7 emission but part of investment plan.
- Not seeing component shortages due to energy inflation or gas shortages. Not seeing any production issues either.

Consol

- Net Auto debt declined marginally QoQ at Rs599b (v/s Rs607b as of 1QFY23). However, external debt declined by Rs25b QoQ to Rs325b.
- Net debt free target remains unchanged as of now.
- India business - ~70bp residual inflation impacted margins and expect to reverse. Want to take CV business to double digit margins while for PV have taken one-off charge of 60bp. Going forward for PV, while operating leverage won't be available much, increase in contribution margins and mix will play positive on margins recovery QoQ.
- No plans to delist DVRs.
- Capex – Rs60b envisaged in India for FY23.

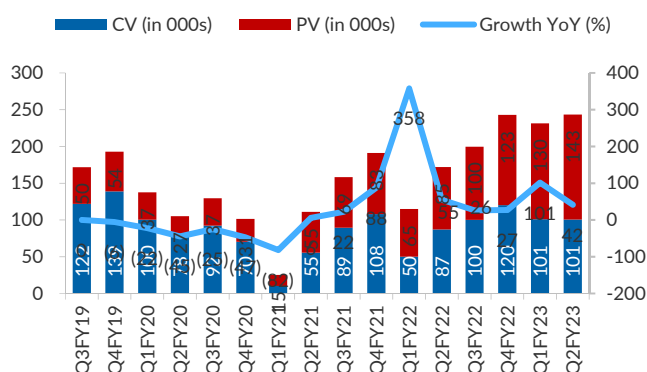
Tata Motors finance

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- AUM of Rs463b – GNPA at 8.5% in 1HFY22 (v/s 8.1% in 1HFY22) with PBT loss of Rs770m (v/s Rs150m).
- H1 loss primarily due to sharp slippages in the COVID linked restructured book. Capital adequacy at 22.6% and Tier-1 capital at 13.0%. DE ratio at 5.5x as on 30th Sep 2022.

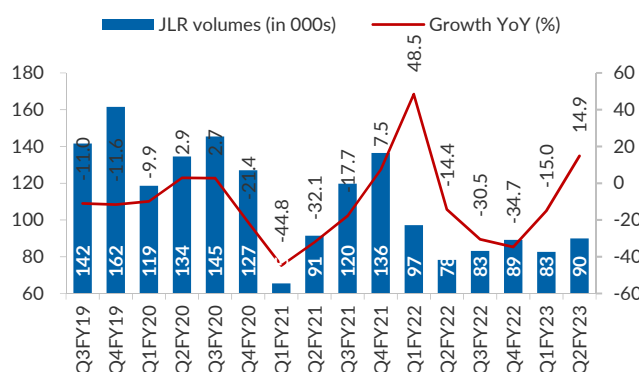
CHARTS

Exhibit 1: 2QFY23 CV & PV volumes grew 41.6% YoY



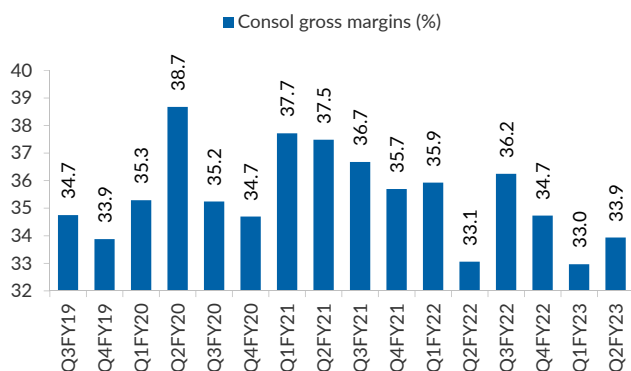
Source: Company, YES Sec

Exhibit 2: Q2FY23 JLR volumes grew 15% YoY



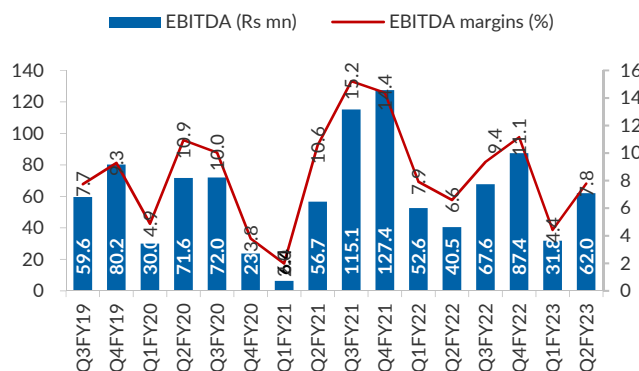
Source: Company, YES Sec

Exhibit 3: Consol Gross margin grew 90bp QoQ at 33.9%



Source: Company, YES Sec

Exhibit 4: Margins increased ~340bp QoQ at 7.8%



Source: Company, YES Sec

FINANCIALS

Exhibit 5: Balance Sheet

Y/E March (Rs m)	2020	2021	2022	2023E	2024E	2025E
Share Capital	7,195	7,658	7,659	7,659	7,659	7,659
Reserves	623,590	544,809	437,954	485,176	646,426	782,187
Net Worth	630,785	552,467	445,612	492,835	654,085	789,846
Loans	1,056,553	1,421,306	1,464,490	1,421,990	1,391,990	1,361,990
Minority Interest	8,136	15,735	42,711	44,231	45,885	47,688
Deferred Tax	(35,160)	(29,645)	(23,124)	(22,564)	(22,004)	(21,444)
Capital Employed	1,660,313	1,959,863	1,929,689	1,936,492	2,069,957	2,178,080
Gross Fixed Assets	2,680,152	3,128,886	3,232,889	3,344,399	3,723,859	4,103,319
Less: Depreciation	1,416,851	1,749,847	1,852,406	2,090,516	2,364,517	2,664,833
Net Fixed Assets	1,263,301	1,379,039	1,380,483	1,253,884	1,359,343	1,438,487
Capital WIP	356,223	209,639	102,511	250,000	250,000	250,000
Goodwill	7,771	8,037	8,072	8,072	8,072	8,072
Investments	163,085	246,203	293,795	207,589	190,305	173,765
Curr.Assets	1,376,255	1,543,136	1,482,630	1,813,351	2,121,162	2,305,603
Inventory	374,569	360,886	352,403	424,576	494,395	531,342
Sundry Debtors	111,727	126,791	124,421	254,745	296,637	318,805
Cash & Bank Bal.	337,270	467,925	406,692	569,917	801,017	961,342
Loans & Advances	539,741	568,849	584,547	544,547	504,547	464,547
Others	12,949	18,686	14,566	19,566	24,566	29,566
Current Liab. & Prov.	1,506,320	1,426,191	1,337,802	1,596,404	1,858,926	1,997,846
Sundry Creditors	636,269	681,798	599,704	679,321	791,032	850,147
Other Liabilities	619,394	479,845	500,876	679,321	791,032	850,147
Provisions	250,657	264,548	237,222	237,762	276,861	297,552
Net Current Assets	(130,066)	116,945	144,829	216,948	262,237	307,757
Appl. of Funds	1,660,313	1,959,863	1,929,689	1,936,492	2,069,957	2,178,080

Source: Company, YES Sec

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Exhibit 6: Income statement

Y/E March (Rs m)	2020	2021	2022	2023E	2024E	2025E
Total Income	2,610,680	2,497,948	2,784,536	3,099,401	3,609,084	3,878,797
Change (%)	(13.5)	(4.3)	11.5	11.3	16.4	7.5
EBITDA	239,143	357,819	340,227	397,392	561,326	548,934
% of Net Sales	9.2	14.3	12.2	12.8	15.6	14.2
Depreciation	214,254	235,467	248,357	238,110	274,001	300,316
EBIT	24,889	122,352	91,870	159,282	287,325	248,618
Product Dev. Exp.	41,885	52,266	92,095	51,620	54,568	57,564
Interest	72,433	80,972	93,119	92,408	85,944	80,927
Other Income	29,732	26,432	30,536	35,417	27,305	35,638
EO Exp/(Inc)	28,714	137,610	6,440	-	-	-
Forex Gain/ (Loss)	(17,387)	17,322	(787)	-	-	-
PBT	(105,800)	(104,743)	(70,035)	50,670	174,118	145,765
Tax	3,953	25,419	42,313	4,054	13,929	11,661
Effective Rate (%)	(3.7)	(24.3)	(60.4)	8.0	8.0	8.0
Reported PAT	(109,752)	(130,161)	(112,348)	46,616	160,188	134,104
Change (%)	(62.1)	18.6	(13.7)	(141.5)	243.6	(16.3)
% of Net Sales	(4.2)	(5.2)	(4.0)	1.5	4.4	3.5
Minority Interest	(956)	(563)	(1,327)	(1,520)	(1,654)	(1,803)
Share of profit of associate	(10,000)	(3,790)	(741)	2,127	2,716	3,459
Net Profit	(120,709)	(134,514)	(114,415)	47,223	161,250	135,761
Adj. PAT	(90,921)	36,491	(104,084)	47,223	161,250	135,761
Change (%)	515.0	(140.1)	(385.2)	(145.4)	241.5	(15.8)

Source: Company, YES Sec

Exhibit 7: Cash Flow Statement

Y/E March (Rs m)	2020	2021	2022	2023E	2024E	2025E
OP/(Loss) before Tax	(119,752)	(133,961)	(113,088)	47,223	161,250	135,761
Int/Div. Received	11,913	5,109	6,594	35,417	27,305	35,638
Depreciation	214,254	235,467	248,357	238,110	274,001	300,316
Direct Taxes Paid	(17,849)	(21,046)	(19,096)	(3,494)	(13,369)	(11,101)
(Inc)/Dec in WC	50,663	(926)	(104,737)	91,106	185,810	114,805
Other Items	110,039	54,278	131,238	1,520	1,654	1,803
CF from Op Activity	249,267	138,922	149,269	409,882	636,652	577,222
Extra-ordinary Items	17,062	151,083	(6,440)	-	-	-
CF after EO Items	266,329	290,005	142,828	409,882	636,652	577,222
(Inc)/Dec in FA+CWIP	(295,306)	(198,558)	(149,383)	(259,000)	(379,460)	(379,460)
Free Cash Flow	(28,976)	91,447	(6,555)	150,882	257,192	197,762
(Pur)/Sale of Invest.	(46,397)	(62,704)	101,632	86,206	17,284	16,541
CF from Inv Activity	(341,702)	(261,263)	(47,751)	(172,794)	(362,176)	(362,919)
Issue of Shares	38,888	26,025	37,686	-	-	-
Inc/(Dec) in Debt	70,761	154,549	22,026	(42,500)	(30,000)	(30,000)
Interest Paid	(75,184)	(81,229)	(92,514)	(92,408)	(85,944)	(80,927)
Dividends Paid	(568)	(303)	(999)	-	-	-
CF from Fin Activity	33,896	99,042	(33,802)	(134,908)	(115,944)	(110,927)
Inc/(Dec) in Cash	(41,477)	127,785	61,275	102,180	158,531	103,375

Source- Company, Yes Sec

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Exhibit 8: Growth and Ratio matrix

Y/E March	2020	2021	2022	2023E	2024E	2025E
Basic (INR)						
EPS	(25.3)	9.5	(27.2)	12.3	42.1	35.5
EPS Fully Diluted	(25.3)	9.5	(27.2)	12.3	42.1	35.5
EPS Growth (%)	480.5	(137.7)	(385.2)	(145.4)	241.5	(15.8)
Cash EPS	34.3	71.0	37.7	74.5	113.7	113.9
Book Value (Rs/Share)	175.3	144.3	116.4	128.7	170.8	206.3
DPS	-	-	-	-	-	-
Payout (Incl. Div. Tax) %	-	-	-	-	-	-
Valuation (x)						
Consolidated P/E	(17.1)	45.4	(15.9)	35.1	10.3	12.2
EV/EBITDA	8.8	6.6	7.1	5.8	3.7	3.4
EV/Sales	0.8	0.9	0.9	0.7	0.6	0.5
Price to Book Value	2.5	3.0	3.7	3.4	2.5	2.1
Dividend Yield (%)	-	-	-	-	-	-
Profitability Ratios (%)						
RoE	(14.8)	6.2	(20.9)	10.1	28.1	18.8
RoCE	3.6	10.2	10.1	9.3	14.4	12.3
RoIC	3.5	16.5	13.6	14.4	30.4	28.2
Turnover Ratios						
Debtors (Days)	15.6	18.5	16.3	30.0	30.0	30.0
Inventory (Days)	52.4	52.7	46.2	50.0	50.0	50.0
Creditors (Days)	89.0	99.6	78.6	80.0	80.0	80.0
Asset Turnover (x)	1.6	1.3	1.4	1.6	1.7	1.8
Leverage Ratio						
Debt/Equity (x)	1.7	2.6	3.3	2.9	2.1	1.7

Source- Company, Yes Sec

DISCLAIMER

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