Stock Update

Result Update

Sharekhan by BNP PARIBAS

Powered by the Sharekhan 3R Research Philosophy

Tata Motors Ltd

All-round strong show

Automobiles	Sharekhan code: TATAMOTORS
Reco/View: Buy ↔	CMP: **Rs. 422** / Price Target: **Rs. 516** ↔

↑ 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 31.18

Updated Dec 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. 1,40,132 cr
52-week high/low:	Rs. 519/366
NSE volume: (No of shares)	147.5 lakh
BSE code:	500570
NSE code:	TATAMOTORS
Free float: (No of shares)	285.7 cr

Shareholding (%)

Promoters	46.4
FII	13.9
DII	19.6
Others	20.1

Price chart

Price performance

(%)	1m	3m	6m	12m
Absolute	8.9	3.6	-6.7	-18.8
Relative to Sensex	9.5	2.4	-16.6	-20.0

Sharekhan Research, Bloomberg

Summary

- Consolidated Q3FY23 results beat expectations, led by strong operational performance, across its key verticals. Consolidated EBITDA was ahead of our estimates by 33%.
- Overall performance and FCF are expected to improve gradually, driven by a positive business outlook, new launches, easing chips shortage situation, cooling commodity prices, and favourable macro-economic outlook. Management maintained its long-term targets with a caution on inflation and geopolitical situations.
- TAMO's focus on EVs continues to grow multifold in Q3FY23; electric CVs are getting ready for the next leg of growth.
- We maintain Buy with an unchanged PT of Rs. 516, driven by continued growth momentum in volumes and operational improvement across business verticals and geographies.

Tata Motors Ltd.'s (TAMO's) consolidated Q3FY23 results beat expectations on operation performance, which was primarily led by JLR's performance and sustained growth in the domestic CV and PV business verticals. Consolidated EBITDA margin was up 90 bps y-o-y at 11.1% in Q3FY23, led by a 580 bps improvement in CV division at 8.4%, and a 370 bps improvement in PV division at 6.9%, partially offset by a 10 bps decline in JLR division. Consolidated EBITDA margins improved led by a favourable product mix, easing chip supply chain and softening of raw material prices. JLR's order book remained at a record high of 2,15,000 units, with 74% share of profitable model. TAMO aims at reaching 10% EBITDA margin in domestic trucks and PV businesses, led by scale and commodity deflation turning favourable. Management is cautiously positive on the growth path and expects to deliver strong improvement in EBIT and free cashflows in Q3FY23. The management stays positive on product delivery, launches, and capex programs as planned earlier. We reiterate a Buy on the stock with an unchanged price target (PT) of Rs. 516.

Key positives

- JLR's order book hit a new record of 2,15,000 units in Q3, with ~74% of orderbook for its most profitable models, viz., Range Rover, Range Rover Sport and Defender.
- JLR's refocus strategy continues to drive value generation of £850 million in Q3FY23.
- PV and CV business segments saw robust sales, with increased market share across segments.

Key negatives

- Inflation accounted for £660m increased cost in 9MFY23 for JLR.
- Lock down in China has impacted volumes in Q3FY23, as retail sales in China was down sequentially.

Management Commentary

- Improved visibility of chip supply through senior vendor engagement combined with ramp-up of new RR and RRS to improve JLR's wholesales to >160,000 units in H2FY23 from 147,000 units in H1FY23.
- Refocus programme, including price hikes, would help save over £1bn to offset cost inflation. Management aims to deliver positive EBIT margin and free cash flow (FCF) in FY2023.
- The management has given a positive outlook for CV and PV volumes going forward, led by new launches and favourable macro outlook.
- The management expects commodity prices to remain stable in the medium term and Q4FY23E to witness better volumes and margin expansion.

Our Call

Valuation - Maintain Buy with an unchanged PT of Rs. 516: TAMO is witnessing improvement in all business verticals – JLR, CVs, and PVs. The company is witnessing robust demand and is expected to deliver better operational efficiencies, aided by aggressive launches, market positioning, product differentiation, cost savings, and investments in research and development (R&D). We expect operational performance to improve strongly in Q4FY23E and FY24E, as supply constraints are expected to ease gradually, while demand remains strong for both JLR and domestic operations. Domestic CV and PV segments are expected to remain healthy because of new launches and operating leverage benefits. Driven by an all-round strong performance, we expect TAMO to become earnings positive in FY2023E with PAT of Rs. 1,771 crore, driven by robust sales growth and better margins. The management stays positive on product delivery, launches, and increased allocation to capex programmes. At CMP, the stock is trading at attractive valuations of P/E of 12.6x and EV/EBITDA of 4.6x its FY2024E estimates. We reiterate our Buy rating on the stock with an unchanged price target (PT) of Rs. 516.

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 affect business and profitability. The company's operations can be further affected if ongoing global chip shortage worsens.

Valuation (Consolidated) Rs cr

Particulars	FY21	FY22	FY23E	FY24E	FY25E
Net Sales	2,49,795	2,78,454	3,35,482	3,93,113	4,32,437
Growth (%)	-4.3	11.5	20.5	17.2	10.0
EBIDTA	30,555	24,813	31,755	46,008	51,424
OPM (%)	12.2	8.9	9.5	11.7	11.9
PAT	(1,423)	(10,719)	1,771	12,570	16,419
Growth (%)	NA	NA	NA	609.9	30.6
FD EPS (Rs)	-3.7	-28.0	4.6	32.8	42.9
P/E (x)	NA	NA	22.9	13.3	12.6
P/B (x)	2.9	3.6	3.5	2.9	2.3
EV/EBIDTA (x)	7.8	9.6	7.5	5.2	4.6
RoE (%)	-2.4	-21.5	1.6	23.4	24.6
RoCE (%)	4.7	-3.9	2.3	12.9	15.7

Source: Company; Sharekhan estimates

Key Highlights of the conference call

Strong results: Consolidated Q3FY23 results beat expectations on operation performance, which was primarily led by JLR's performance and sustained growth domestic CV and PV business verticals. Consolidated EBITDA margins were up 90 bps y-o-y at 11.1% in Q3FY23, led by 580 bps improvement in CV division at 8.4%, and a 370bps improvement in PV deivion at 6.9%, partially offset by a 10 bps decline in JLR division. Consolidated EBITDA margins improved on back favourable product mix, easing chips supply chain and softening of raw material prices. The company reported a PAT of Rs. 2,958 crore, after registering losses in the last six quarters.

JLR's strong show: JLR delivered on its plans and achieved positive free cash flow and profitability in the quarter as supplies improved. Revenues were £6.0 billion, up 28% y-o-y and 15% q-o-q, reflecting better supplies, strong model mix and pricing. Profit before tax in the quarter was £265 million, up from a loss of £(9) million a year ago with a positive EBIT margin of 3.7%, up from 1.4% in Q3 FY22. The higher profitability reflects increased wholesale volumes with favourable mix, pricing and foreign exchange offset partially by higher inflation and supplier claims largely related to constrained volumes. Free cash flow was £490 million in Q3 FY22. JLR order book stood at 215,000 units. New Range Rover, New Range Rover Sport & Defender accounted for 74% of the order book. Commodity inflation and high prices for premium chips translating into RM cost pressure which may flatten out in coming period. Inflation has costed GBP 660 mn in 9mFY23.

Focus on electrification continues: JLR's management maintained its EV 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-operated electric vehicle (BEV) in 2025 on a new dedicated architecture. Jaguar's ICE variants are expected to be phased out by FY2026, with the total BEV mix rising over 60% by FY2030. In respect of Land Rover, the company plans to introduce six BEV variants in the next five years through a family of three models – Defender, Discovery, and Range Rover. With electrification to be the next driver for the company over the next decade, JLR targets net zero carbon emissions by 2039.

In-line performance for domestic businesses: TAMO's CV and PV business continues to perform in-line with expectations. CV business had an EBITDA margin of 8.4% (up 580 bps y-o-y) in Q3, while PV business had an EBITDA margin of 6.9% (up 370 bps y-o-y). TAMO aims at reaching 10% EBITDA margin in domestic trucks and PV businesses, led by scale and commodity deflation turning favourable now.

EVs to form 20% of TAMO's PV sales in 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 similar to that of its traditional PV (ICE technology). The 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 87% market in electrified vehicles in the passenger segment, with EV penetration at ~8% of its PV portfolio. Nexon EV is a leader in the segment. 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.

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 FY2023 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-up segment, the company plans to leverage Ace petrol at a price point equivalent to BS-IV; and reinforce Ace diesel's 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 increased its market share across segments. TAMO's management continues to focus on EVs for both segments, PVs as well as CVs. There has been a substantial drop in CNG products, which has hit volumes in Q3FY23.

Guidance stays strong: The management has maintained its positive guidance for the JLR business, expecting positive cashflow by FY2023, while EBIT margin is expected to be above 10% by FY2026. The company maintains its capex guidance of GBP 2.5 billion per annum going forward, 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 expects double-digit EBIT margin by FY2026 to be driven by refocus and reimagine architecture strategy. Refocus programme, including price increases, is expected to save over £1 billion to offset cost inflation.

Management outlook for FY2023

Outlook

- We remain cautiously optimistic on the demand situation despite global uncertainties.
- Chip supply to improve further; volumes to ramp up steadily
- Stable commodity prices and focus on profitable growth to aid improvement in underlying margins
- Aim to deliver strong EBIT and free cash flows in Q4.

Jaguar Land Rover priorities

- Continue to secure chip supplies through strategic tie ups
- Continue to ramp up production of the New Range Rover and the New Range Rover Sport
- Improve wholesales* in Q4 FY23 to over 80k and step up further in FY24
- Refocus savings, including price increases, of £1bn+ in FY23 to offset cost inflation
- Deliver positive EBIT margin and positive free cash flow in Q4 FY23

Tata Motors priorities

CV
- Drive market beating revenue growth through product innovation, service quality and thematic brand activation
- Continue to improve realisations and EBITDA margins
- Successfully deliver the new business models

PV
- Continue to deliver market beating growth
- Continue to improve profitability and cash flows

EV
- Increase EV penetration with exciting new launches and capacity enhancement

Source: Company Investor PPT; Sharekhan Research

Results (Consolidated) Rs cr

Particulars	Q3FY23	Q3FY22	% YoY	Q2FY23	% QoQ
Revenue	88,489	72,229	22.5	79,611	11.2
Total Expenses	77,668	65,151	19.2	74,039	4.9
Operating Profit	10,820	7,078	52.9	5,572	94.2
PBT	3,203	(698)	NA	(1,774)	NA
Tax	263	726	(63.8)	(457)	NA
Share Of profit from Associates	189	(48)	NA	152	24.2
Reported PAT	2,958	(1,516)	NA	(945)	NA
Adj Net Profit	2,958	(1,602)	NA	(1,257)	NA
Adjusted EPS (Rs)	7.7	(4.2)	NA	(3.3)	NA

Source: Company, Sharekhan Research

Key Ratios (Consolidated)

Particulars	Q3FY23	Q3FY22	YoY (bps)	Q2FY23	QoQ (bps)
Gross Margin (%)	35.1	36.2	(120)	33.9	110
EBITDA Margin (%)	12.2	9.8	240	7.0	520
EBIT Margin (%)	5.4	1.4	400	(0.4)	NA
PAT Margin (%)	3.3	(2.2)	NA	(1.6)	NA
Effective Tax rate (%)	8.2	(104.0)	NA	25.8	(1,760)

Source: Company, Sharekhan Research

Results (Standalone) Rs cr

Particulars	Q3FY23	Q3FY22	% YoY	Q2FY23	% QoQ
Revenue	15,794	12,353	27.9	14,947	5.7
Total Expenses	14,473	12,085	19.8	14,394	0.6
Operating Profit	1,321	267	393.9	553	138.9
PBT	560	(582)	NA	(248)	NA
Tax	54	54	0.4	41	31.8
Reported PAT	506	(635)	NA	(293)	NA
Adj Net Profit	506	(635)	NA	(289)	NA
Adjusted EPS (Rs)	1.3	(1.7)	NA	(0.8)	NA

Source: Company, Sharekhan Research

Key Ratios (Standalone)

Particulars	Q3FY23	Q3FY22	YoY (bps)	Q2FY23	QoQ (bps)
Gross Margin (%)	26.3	21.8	450	22.8	350
EBITDA Margin (%)	8.4	2.2	620	3.7	470
EBIT Margin (%)	5.6	(1.5)	NA	0.7	490
PAT Margin (%)	3.2	(5.1)	NA	(1.9)	NA
Effective Tax rate (%)	9.6	(9.3)	NA	(16.6)	NA

Source: Company, Sharekhan Research

Results

Particulars	Q3FY23	Q3FY22	% YoY	Q2FY23	% QoQ
Revenue	15,794	12,353	27.9	14,947	5.7
Total Expenses	14,473	12,085	19.8	14,394	0.6
Operating Profit	1,321	267	393.9	553	138.9
PBT	560	(582)	NA	(248)	NA
Tax	54	54	0.4	41	31.8
Reported PAT	506	(635)	NA	(293)	NA
Adj Net Profit	506	(635)	NA	(289)	NA
Adjusted EPS (Rs)	1.3	(1.7)	NA	(0.8)	NA

Source: Company, Sharekhan Research

Results (JLR) GBP mn

Particulars	Q3FY23	Q3FY22	% YoY	Q2FY23	% QoQ
Revenue	6,041	4,716	28.1	5,260	14.8
Total Expenses	5,322	4,196	26.8	4,890	8.8
Operating Profit	719	520	38.3	370	94.3
PBT	265	(9)	NA	(173)	NA
Tax	4	58	(93.1)	(75)	NA
Reported PAT	261	(67)	NA	(98)	NA
Adjusted PAT	261	(67)	NA	(98)	NA

Source: Company, Sharekhan Research

Key Ratios (JLR)

Particulars	Q3FY23	Q3FY22	YoY (bps)	Q2FY23	QoQ (bps)
Gross Margin (%)	38.6	41.0	(240)	38.9	(30)
EBITDA Margin (%)	11.9	11.0	90	7.0	490
EBIT Margin (%)	3.7	0.8	290	(2.3)	NA
PAT Margin (%)	4.3	(1.4)	NA	(1.9)	NA
Effective Tax rate (%)	1.5	NA	NA	43.4	NA

Source: Company, Sharekhan Research

Outlook and Valuation

Sector view - Demand outlook remains strong

Geopolitical tensions could impact PV sales globally, if the situation further worsens. However, demand remains strong, which can be reflected in improving order bank. 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. We expect strong recovery in demand post the normalisation of the economy and speedy rollout of vaccination programmes in India. The concern of chip shortage remains a lag for global PV business. It is expected to gradually improve going forward.

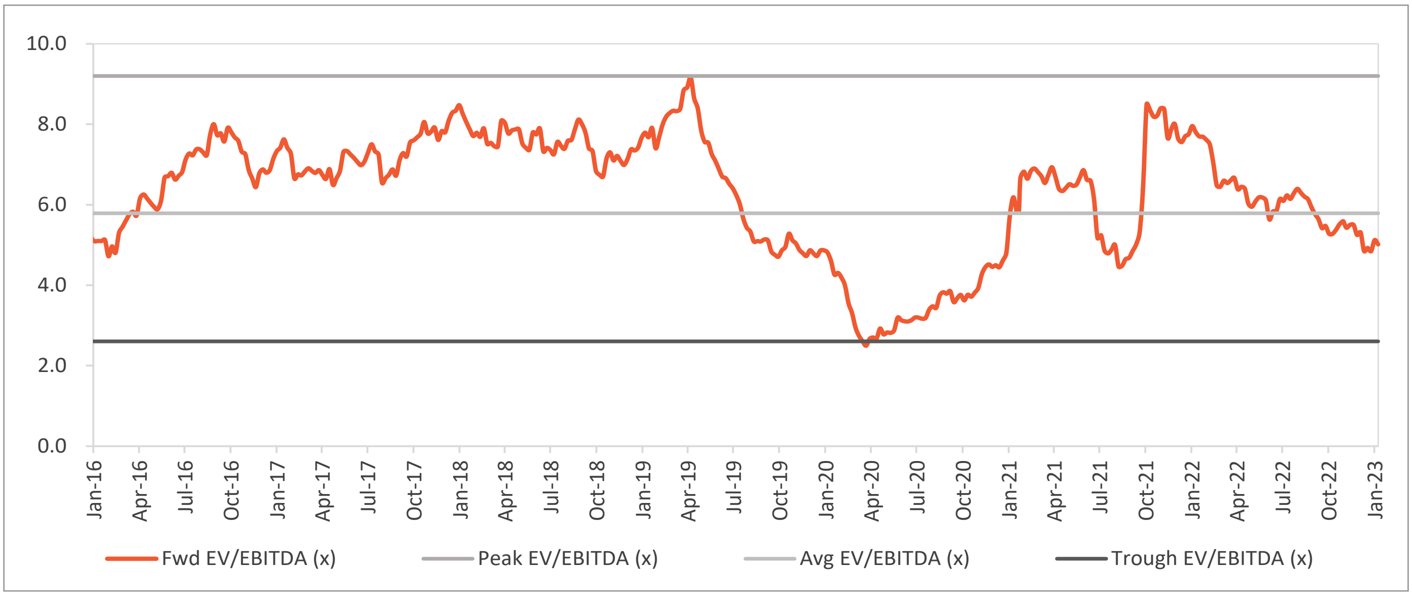
Company outlook - On a strong growth path

We expect TAMO to benefit from all its business verticals – JLR, CVs, and PVs. H2FY23 is expected to be strong as compared to H1FY23, aided by volume growth and better operational efficiencies aided by aggressive product launches, market positioning, product differentiation, cost savings, and investments in R&D. The JLR business is expected to have positive cashflow by FY2023 and EBIT margin is expected to be greater than 10% by FY2026. Outlook of the domestic CV business is positive, 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 and gaining EV traction.

Valuation - Maintain Buy with an unchanged PT of Rs. 516

TAMO is witnessing improvement in all business verticals – JLR, CVs, and PVs. The company is witnessing robust demand and is expected to deliver better operational efficiencies, aided by aggressive launches, market positioning, product differentiation, cost savings, and investments in research and development (R&D). We expect operational performance to improve strongly in Q4FY23E and FY24E, as supply constraints are expected to ease gradually, while demand remains strong for both JLR and domestic operations. Domestic CV and PV segments are expected to remain healthy because of new launches and operating leverage benefits. Driven by an all-round strong performance, we expect TAMO to become earnings positive in FY2023E with PAT of Rs. 1,771 crore, driven by robust sales growth and better margins. The management stays positive on product delivery, launches, and increased allocation to capex programmes. At CMP, the stock is trading at attractive valuations of P/E of 12.6x and EV/EBITDA of 4.6x its FY2024E estimates. We reiterate our Buy rating on the stock with an unchanged price target (PT) of Rs. 516.

One-year forward EV/EBITDA (x) band



Source: Sharekhan Research

Peer Comparison

Companies	CMP (Rs/ Share)	P/E (x)			EV/EBITDA (x)			ROCE (%)		
		FY22	FY23E	FY24E	FY22	FY23E	FY24E	FY22	FY23E	FY24E
Tata Motors	422	NA	22.9	13.3	9.6	7.5	5.2	(3.9)	2.3	12.9
Ashok Leyland Ltd	146	79.1	31.6	20.3	44.3	15.9	11.4	2.1	15.9	20.6
Maruti Suzuki India Ltd	8,782	70.4	34.5	25.4	47.2	25.2	18.9	8.0	15.7	19.0

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 is 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
Adrian Mardell	Interim CEO, JLR
P B Balaji	Group Chief Financial Officer
Shailesh Chandra	MD, Passenger Vehicle and Electric Mobility

Source: Company

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

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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

Sharekhan

by BNP PARIBAS

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