

BSE SENSEX
57,556

S&P CNX
16,972

CMP: INR411

TP: INR540 (+31%)

Buy

TATA MOTORS

Bloomberg	TTMT IN
Equity Shares (m)	3598
M.Cap.(INRb)/(USDb)	1472.1 / 17.8
52-Week Range (INR)	495 / 366
1, 6, 12 Rel. Per (%)	-2/-3/-2
12M Avg Val (INR M)	7072
Free float (%)	53.6

Financials & Valuations (INR b)

Y/E March	2023E	2024E	2025E
Net Sales	3,392	4,193	4,426
EBITDA	304.2	489.9	541.8
Adj. PAT	-20.2	103.8	127.9
Adj. EPS (INR)	-5.3	27.1	33.4
EPS Gr. (%)	-81.3	-613.5	23.3
BV/Sh. (INR)	115.8	142.9	176.3

Ratios

Net D/E (x)	1.2	0.8	0.5
RoE (%)	-4.5	20.9	20.9
RoCE (%)	-1.1	9.4	9.9
Payout (%)	0.0	0.0	0.0

Valuations

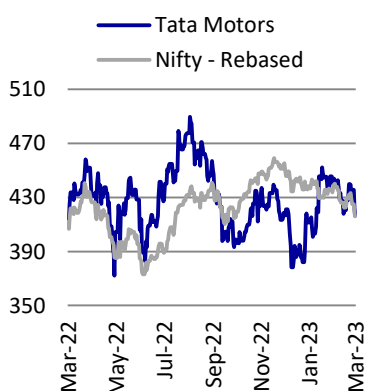
P/E (x)	-77.9	15.2	12.3
P/BV (x)	3.6	2.9	2.3
EV/EBITDA (x)	7.2	3.8	3.2
Div. Yield (%)	0.0	0.0	0.0
FCF Yield (%)	7.8	20.3	9.8

Shareholding pattern (%)

As On	Dec-22	Sep-22	Dec-21
Promoter	46.4	46.4	46.4
DII	15.4	14.9	13.8
FII	18.2	14.1	14.6
Others	20.1	24.6	25.2

FII Includes depository receipts

Stock Performance (1-year)



JLR's luxury premium positioning largely achieved

Healthy demand for JLR, CVs; India PV growth likely to moderate in FY24

We interacted with the management of Tata Motors (TTMT) to get an update on the demand scenario, the state of the global supply chain, JLR's path to sustainable growth, and the outlook for its India CV/PV businesses. For JLR, supplies are gradually improving and demand is healthy. As supplies improve, JLR should reach near the zero net debt level by FY25, aided by improved production, better margins and working capital release. JLR will structurally continue its journey from being a premium brand to a premium luxury brand by focusing on its brand pull strategy and redefining Jaguar with premium positioning in the era of EVs with new launches starting from CY25. While its India businesses are already on a sustainable growth path, JLR is turning the corner and would be the key driver of the stock. Further, the monetization of its stake in Tata Technologies (possible value of INR25-47/share for TTMT) could also act as a catalyst for the stock. Maintain BUY with a TP of INR540 (Mar'25E based SOTP).

- JLR – supplies improving gradually, demand robust:** The supply of chips has been gradually increasing and should continue to improve in FY24 as well. The order book is strong, led by a stable demand environment and strong brand pull of the recently launched models. Defender's commercial activity has just begun, while the company is yet to exercise multiple levers for RR/RR Sports (RRS). Variable marketing expenses (VME) are expected to rise as the supply continues to improve, resulting in an increase in demand for other LR models as well.
- JLR achieves premium luxury positioning:** The company has purposefully moved away from "pushing" its goods into the market and leveraged supply issues to elevate its standing from premium to luxury premium. The company has defocused on models through its brand pull strategy and is not pushing other models through discounts. The management is prioritizing revenue over volume to gauge progress; revenue is only 15% below the FY18 peak even as volumes are down 43%. It will continue to focus on profitable growth and does not just want to be a niche player.
- Jaguar brand to be revolutionized:** With an emphasis on revitalizing the brand, JLR is redefining Jaguar with premium positioning in the era of electric vehicles. In CY25, it would introduce the first BEV Jaguar, which would be significantly different from the current model. It will be followed by several EV product launches.
- EVs – all key models to have BEV offerings by CY26:** Unlike its competitors, JLR is beginning its BEV journey with its key RR/RRS products in CY24. By CY26, all of its important models would come with a BEV option. It has a busy timeline of BEV launches, with the RR (RR/RRS) in CY24 and Jaguar in CY25.

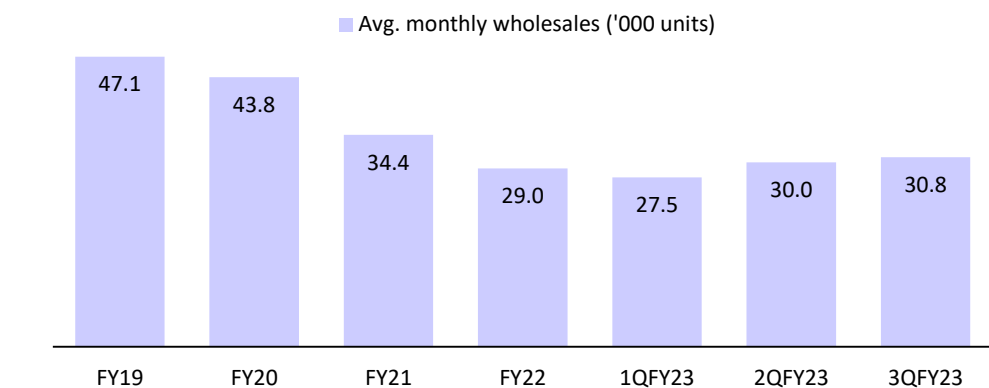
- **JLR – focusing on driving double-digit EBIT margin by FY26; likely to reach near net debt zero by FY25:** The management is confident of achieving 10% EBIT margin by FY26 (v/s 3.7% in 3QFY23), driven by 1) the normalization of many discontinuities like the premium cost of chips, vendor compensation for lower volumes, commodity/energy costs; 2) richer mix; 3) favourable FX; and 4) operating leverage. This is after factoring in some dilution in the mix as well as an increase in VME. Apart from this, we believe working capital release (negative working capital business) and controlled capex should help JLR inch closer to the zero net debt level by FY25E (v/s EUR3.85b in Dec'22), which is delayed by a few quarters v/s earlier guidance of FY24.
- **India CV demand holding up:** Stable freight rates, profitability of fleet operators and collection data from financiers indicate healthy demand. Moreover, the anticipation of healthy replacement demand and scrappage policy would be additional growth drivers. The management focuses on increasing value through innovations in terms of goods, services and other solutions, rather than increasing the market share through discounts. LCVs, which have witnessed a robust post-Covid recovery, are likely to moderate.
- **India PV business – expect 5-7% industry growth in FY24:** The management indicated that pent-up demand and post-Covid euphoria seen in the PV segment are slowly abating. Hence, it expects the PV industry to grow by 5-7% in FY24. The company plans to follow an aggressive strategy in the EV segment as it is focusing on creating this segment.

Other highlights

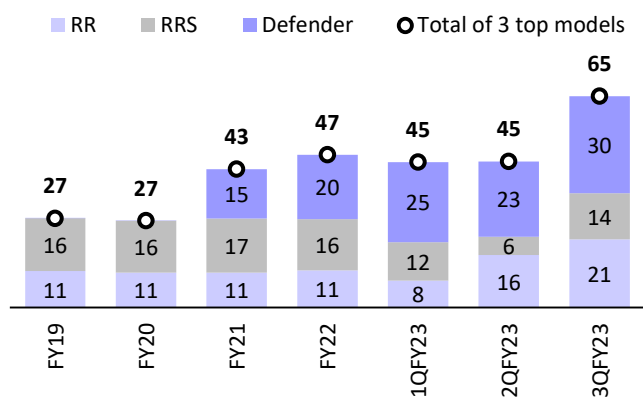
- **CNG is more effective than diesel if CNG price is at least 25% cheaper:** Demand for CNG CVs has been hampered by rising CNG prices. However, the growth strategy for TTMT will involve a variety of powertrains (ICE, CNG, EV).
- **India capex largely focused on product development:** Capex of INR20-30b p.a. in M&HCV is mainly aimed at products as current capacity utilization stands at 55-60%. In the ICE PV business, TTMT will be able to fund capex from cash flows. The company will continue to invest aggressively in the e-PV business, which is well funded currently as the last tranche of INR37.5b (out of total INR75b) has come from the TPG deal.
- **The ramp-up in the PV/CV businesses, along with a possible fund raise at Tata Technologies, would help the India business move closer to becoming net debt free by FY24.** JLR's journey to reach closer to the zero net debt level is delayed by a few quarters due to chip shortages (expects to achieve by FY25).

Valuation & view

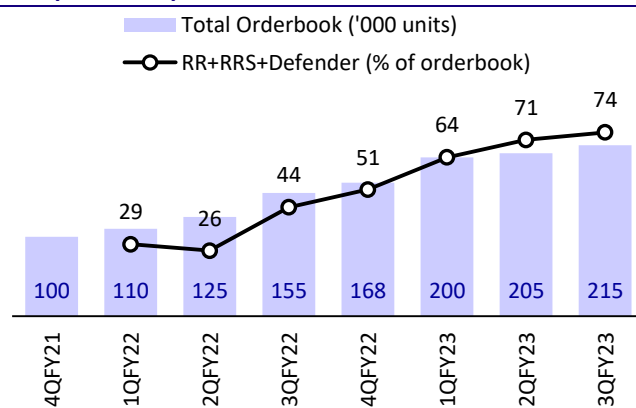
TTMT should witness a gradual recovery as supply-side issues ease (for JLR) and commodity headwinds stabilize (for the India business). It will benefit from: 1) a macro recovery in India, 2) company-specific volume/margin drivers, and 3) a sharp improvement in FCF and leverage in JLR as well as the India business. The stock trades at 15.2x/12.3x FY24E/FY25E consolidated P/E and 3.8x/3.2x EV/EBITDA. We reiterate our BUY rating on the stock with a TP of ~INR540 (Mar'25E-based SoTP).

Exhibit 1: JLRs wholesales were materially hit by chip shortages since 1QFY22

Source: Company, MOFSL

Exhibit 2: Contribution of RR/RRS/Defender going up sharply (% of total wholesales ex JV)...

Source: Company, MOFSL

Exhibit 3: ...with 74% of order book coming from these three most profitable products

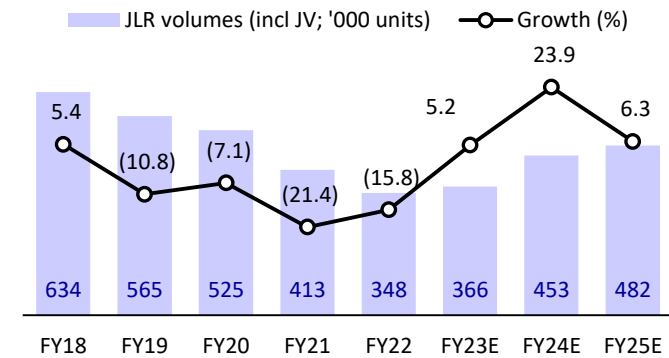
Source: Company, MOFSL

Exhibit 4: SoTP valuation

INR B	Valuation Parameter	Multiple (x)	FY23E	FY24E	FY25E
SOTP Value					
Tata Motors – Standalone	SOTP		1,111	1,502	1,599
CVs	EV/EBITDA	11	585	813	805
ICE PVs	EV/EBITDA	8	253	367	421
EV PVs	DCF		273	322	373
JLR (Adj for R&D capitalization)	EV/EBITDA	2	439	700	753
JLR - Chery JV EBITDA Share	EV/EBITDA	2	23	26	28
Tata Motors Finance	P/BV	1.0	42	46	51
Total EV			1,615	2,273	2,430
Less: Net Debt (Ex TMFL)			525	440	364
Total Equity Value			1,091	1,833	2,066
Fair Value (INR/Sh) - Ord Sh	Fully Diluted		285	479	540
Upside (%)			-30.7	16.4	31.2

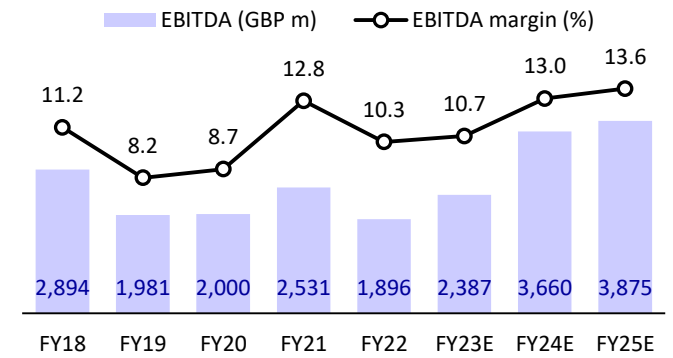
Story in charts

Exhibit 5: Volume growth trajectory for JLR



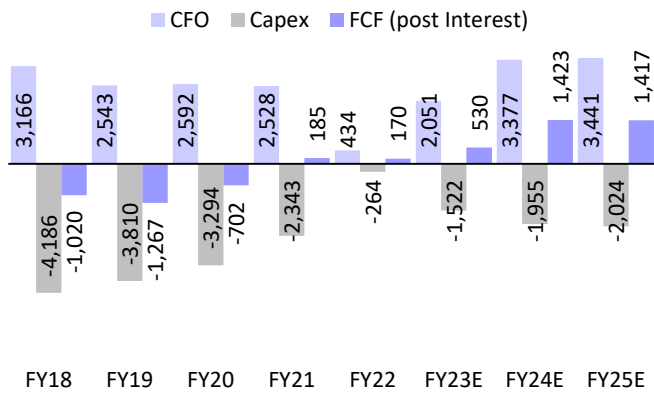
Source: Company, MOFSL

Exhibit 6: EBITDA and EBITDA margin trends for JLR



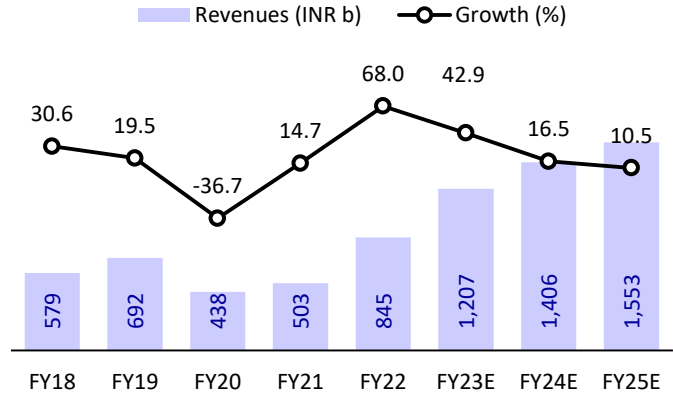
Source: Company, MOFSL

Exhibit 7: CFO/capex/FCF trends for JLR (GBP m)



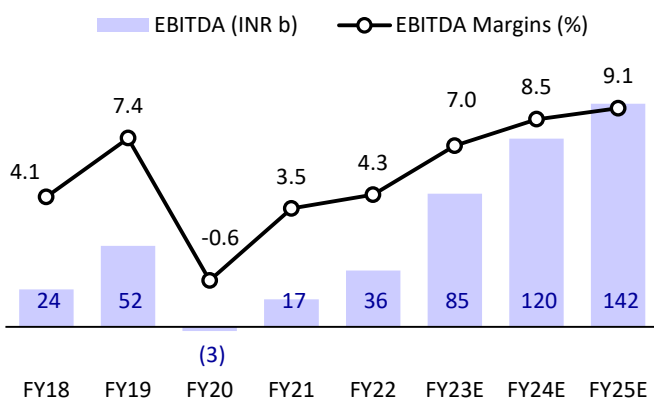
Source: Company, MOFSL

Exhibit 8: India business growth trajectory over FY22-25E



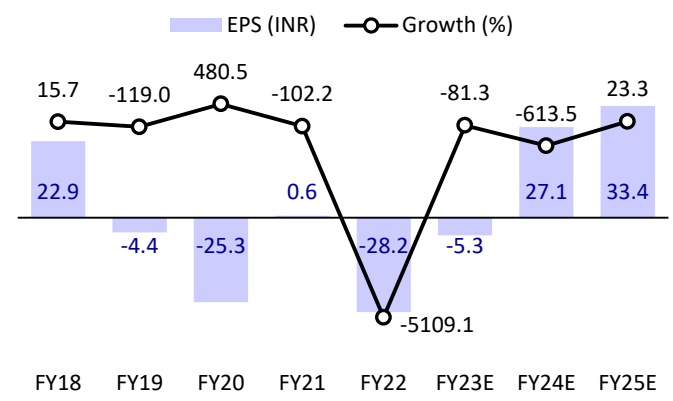
Source: Company, MOFSL

Exhibit 9: India EBITDA and margin trends



Source: Company, MOFSL

Exhibit 10: Consolidated earnings trajectory



Source: Company, MOFSL

Financials and valuations

Income Statement (Consolidated)							(INR b)		
Y/E March	2018	2019	2020	2021	2022	2023E	2024E	2025E	
Total Income	2,915.5	3,019.4	2,610.7	2,497.9	2,784.5	3,391.8	4,192.7	4,425.6	
Change (%)	8.1	3.6	-13.5	-4.3	11.5	21.8	23.6	5.6	
EBITDA	302.7	255.7	197.3	305.6	248.1	304.2	489.9	541.8	
% of Net Sales	10.4	8.5	7.6	12.2	8.9	9.0	11.7	12.2	
Depreciation	215.5	235.9	214.3	235.5	248.4	242.2	261.9	282.6	
EBIT	87.2	19.8	-17.0	70.1	-0.2	62.1	228.0	259.2	
Product Dev. Exp.	35.3	42.2	41.9	52.3	92.1	94.7	101.8	106.5	
Interest	46.8	57.6	72.4	81.0	93.3	101.1	98.5	104.7	
Other Income	39.6	29.7	29.7	26.4	30.5	37.9	31.2	31.6	
EO Exp/(Inc)	-19.8	296.5	28.7	137.6	6.3	-18.1	0.0	0.0	
Forex Gain/ (Loss)	11.9	-9.1	-17.4	17.3	-0.8	-0.8	-14.7	-5.0	
PBT	111.6	-313.7	-105.8	-104.7	-70.0	16.1	146.0	181.1	
Effective Rate (%)	38.9	7.8	-3.7	-24.3	-60.4	120.3	30.5	31.0	
Reported PAT	68.1	-289.3	-109.8	-130.2	-112.3	-3.3	101.5	125.1	
Change (%)	12.4	-524.7	-62.1	18.6	-13.7	-97.1	-3,201.2	23.3	
Minority Interest	-1.02	-1.02	-0.96	-0.56	-1.3	-1.3	-0.9	-1.0	
Share of profit of associate	22.78	2.10	-10.00	-3.79	-0.7	2.4	3.2	3.9	
Net Profit	89.9	-288.3	-120.7	-134.5	-114.4	-2.1	103.8	127.9	
Adj. PAT	77.8	-14.8	-90.9	2.2	-108.1	-20.2	103.8	127.9	
Change (%)	15.7	-119.0	515.0	-102.4	-5,109.7	-81.3	-613.5	23.3	

Balance Sheet (Cons.)						(INR b)		
Y/E March	2018	2019	2020	2021	2022	2023E	2024E	2025E
Sources of Funds								
Share Capital	6.8	6.8	7.2	7.7	7.7	7.7	7.7	7.7
Reserves	947.5	595.0	623.6	544.8	438.0	435.8	539.6	667.5
Net Worth	954.3	601.8	630.8	552.5	445.6	443.5	547.2	675.2
Loans	779.9	911.2	996.8	1,147.8	1,396.8	1,396.8	1,396.8	1,396.8
Deferred Tax	19.7	-36.6	-35.2	-29.6	-23.1	-23.1	-23.1	-23.1
Capital Employed	1,759.1	1,481.7	1,600.5	1,686.3	1,862.0	1,861.1	1,965.8	2,094.7
Gross Fixed Assets	2,130.9	2,317.7	2,698.0	3,128.9	3,232.9	3,270.3	3,498.9	3,736.7
Less: Depreciation	918.0	1,212.8	1,434.7	1,749.8	1,852.4	2,094.6	2,356.5	2,639.0
Net Fixed Assets	1,213.0	1,104.9	1,263.3	1,379.0	1,380.5	1,175.7	1,142.5	1,097.7
Capital WIP	400.3	318.8	356.2	209.6	102.5	250.0	250.0	250.0
Goodwill	1.2	7.5	7.8	8.0	8.1	8.1	8.1	8.1
Investments	208.1	157.7	163.1	246.2	293.8	49.2	52.4	56.3
Curr.Assets	1,449.3	1,431.5	1,376.3	1,543.1	1,482.6	2,004.3	2,534.5	2,780.2
Inventory	421.4	390.1	374.6	360.9	352.4	436.7	574.3	606.3
Sundry Debtors	198.9	190.0	111.7	126.8	124.4	204.4	252.7	266.8
Cash & Bank Bal.	346.1	326.5	337.3	467.9	406.7	729.0	1,038.3	1,203.1
Loans & Advances	395.2	512.9	539.7	568.8	584.5	614.5	644.5	674.5
Current Liab. & Prov.	1,512.8	1,538.8	1,566.1	1,699.7	1,405.5	1,626.2	2,021.7	2,097.6
Sundry Creditors	769.4	716.9	664.0	681.8	599.7	817.7	987.9	1,042.8
Other Liabilities	554.4	601.3	651.5	753.4	568.6	622.6	804.1	812.4
Net Current Assets	-63.5	-107.2	-189.8	-156.6	77.1	378.1	512.8	682.6
Appl. of Funds	1,759.1	1,481.7	1,600.5	1,686.3	1,862.0	1,861.1	1,965.8	2,094.7

E: MOFSL Estimates

Financials and valuations

Ratios (Con.)

Y/E March	2018	2019	2020	2021	2022	2023E	2024E	2025E
Basic (INR)								
EPS	22.9	-4.4	-25.3	0.6	-28.2	-5.3	27.1	33.4
EPS Fully Diluted	22.9	-4.4	-25.3	0.6	-28.2	-5.3	27.1	33.4
EPS Growth (%)	15.7	-119.0	480.5	-102.2	-5,109.1	-81.3	-613.5	23.3
Cash EPS	86.4	65.1	34.3	62.1	36.6	58.0	95.5	107.2
Book Value (Rs/Share)	281.0	177.2	175.3	144.3	116.4	115.8	142.9	176.3
DPS	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Payout (Incl. Div. Tax) %	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Valuation (x)								
Consolidated P/E	17.9	-94.5	-16.3	729.6	-14.6	-77.9	15.2	12.3
EV/EBITDA	5.4	7.1	10.0	6.6	9.2	7.2	3.8	3.2
EV/Sales	0.6	0.6	0.8	0.8	0.8	0.6	0.4	0.4
Price to Book Value	1.5	2.3	2.3	2.9	3.5	3.6	2.9	2.3
Dividend Yield (%)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Profitability Ratios (%)								
RoE	10.1	-1.9	-14.8	0.4	-21.7	-4.5	20.9	20.9
RoCE	5.0	2.8	0.9	7.3	2.7	-1.1	9.4	9.9
RoIC	8.6	2.5	-2.5	11.6	0.0	-1.3	21.7	29.6
Turnover Ratios								
Debtors (Days)	25	23	16	19	16	22	22	22
Inventory (Days)	53	47	52	53	46	47	50	50
Creditors (Days)	96	87	93	100	79	88	86	86
Asset Turnover (x)	1.7	2.0	1.6	1.5	1.5	1.8	2.1	2.1
Leverage Ratio								
Net Auto Debt/Equity (x)	0.8	0.5	0.8	0.7	1.1	1.2	0.8	0.5

Cash Flow Statement

Y/E March	2018	2019	2020	2021	2022	2023E	2024E	2025E
(INR b)								
OP/(Loss) before Tax	90.9	-287.2	-119.8	-134.0	-113.1	-2.1	103.8	127.9
Int/Div. Received	39.5	-4.4	-11.9	-5.1	-6.6	37.9	31.2	31.6
Depreciation	215.5	235.9	214.3	235.5	248.4	242.2	261.9	282.6
Direct Taxes Paid	-30.2	-26.6	-17.5	-21.0	-19.1	-19.4	-44.6	-56.1
(Inc)/Dec in WC	-64.3	-72.1	50.6	-0.9	-104.7	21.3	174.6	-5.0
Other Items	23.3	65.0	125.1	234.0	144.3	1.3	0.9	1.0
CF from Op Activity	274.8	-89.5	240.8	308.5	149.1	281.2	527.8	382.0
Extra-ordinary Items	-36.2	278.4	25.5	-18.5	-6.3	18.1	0.0	0.0
CF after EO Items	238.6	188.9	266.3	290.0	142.8	299.2	527.8	382.0
(Inc)/Dec in FA+CWIP	-350.5	-352.4	-295.3	-198.5	-149.4	-184.9	-228.7	-237.8
Free Cash Flow	-111.9	-163.5	-29.0	91.5	-6.6	114.3	299.2	144.2
(Pur)/Sale of Invest.	99.1	143.6	-35.8	-58.2	104.9	244.6	-3.2	-3.9
CF from Inv Activity	-251.4	-208.8	-331.1	-256.7	-44.4	59.7	-231.9	-241.7
Issue of Shares	0.0	0.0	38.9	26.0	37.7	0.0	0.0	0.0
Inc/(Dec) in Debt	75.2	159.3	70.8	154.5	22.0	0.0	0.0	0.0
Interest Paid	-54.1	-70.1	-75.2	-81.2	-92.5	-101.1	-98.5	-104.7
Dividends Paid	-1.0	-0.9	-0.6	-0.3	-1.0	0.0	0.0	0.0
CF from Fin Activity	20.1	88.3	33.9	99.0	-33.8	-101.1	-98.5	-104.7
Inc/(Dec) in Cash	7.3	68.4	-30.9	132.3	64.6	257.8	197.5	35.6
Add: Beginning Bal.	139.9	147.2	215.6	184.7	317.0	381.6	639.4	836.8
Closing Balance	147.2	215.6	184.7	317.0	381.6	639.4	836.8	872.5

E: MOFSL Estimates

Explanation of Investment Rating	
Investment Rating	Expected return (over 12-month)
BUY	>=15%
SELL	< - 10%
NEUTRAL	< - 10 % to 15%
UNDER REVIEW	Rating may undergo a change
NOT RATED	We have forward looking estimates for the stock but we refrain from assigning recommendation

*In case the recommendation given by the Research Analyst is inconsistent with the investment rating legend for a continuous period of 30 days, the Research Analyst shall be within following 30 days take appropriate measures to make the recommendation consistent with the investment rating legend.

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