

June 8, 2023

Analyst Meet Update

■ Change in Estimates | ■ Target | ■ Reco

Change in Estimates

	Current		Previous	
	FY24E	FY25E	FY24E	FY25E
Rating	BUY		BUY	
Target Price	605		605	
Sales (Rs. m)	41,27,070	43,67,867	41,27,070	43,67,867
% Chng.	-	-	-	-
EBITDA (Rs. m)	4,97,803	5,52,672	4,97,803	5,52,672
% Chng.	-	-	-	-
EPS (Rs.)	33.5	44.9	33.5	44.9
% Chng.	-	-	-	-

Key Financials - Consolidated

Y/e Mar	FY22	FY23	FY24E	FY25E
Sales (Rs. bn)	2,785	3,460	4,127	4,368
EBITDA (Rs. bn)	248	318	498	553
Margin (%)	8.9	9.2	12.1	12.7
PAT (Rs. bn)	(107)	7	128	172
EPS (Rs.)	(28.0)	1.9	33.5	44.9
Gr. (%)	654.5	(106.7)	1,680.0	34.2
DPS (Rs.)	-	-	-	-
Yield (%)	-	-	-	-
RoE (%)	(21.5)	1.6	25.0	26.2
RoCE (%)	0.0	3.8	11.9	13.6
EV/Sales (x)	1.1	0.9	0.7	0.6
EV/EBITDA (x)	12.1	9.3	5.7	4.8
PE (x)	(20.3)	302.2	17.0	12.6
P/BV (x)	4.9	4.8	3.8	2.9

Key Data

TAMO.BO | TTMT IN

52-W High / Low	Rs.575 / Rs.375
Sensex / Nifty	63,143 / 18,726
Market Cap	Rs.2,037bn / \$ 24,673m
Shares Outstanding	3,321m
3M Avg. Daily Value	Rs.5979.57m

Shareholding Pattern (%)

Promoter's	46.39
Foreign	16.91
Domestic Institution	17.78
Public & Others	18.92
Promoter Pledge (Rs bn)	-

Stock Performance (%)

	1M	6M	12M
Absolute	19.0	35.2	30.3
Relative	15.1	33.6	13.7

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Increasing focus on EVs and profitability

Quick Pointers:

- Largely maintained its volume growth and margin guidance for India businesses
- New models in the Electric PV space to drive higher EV market share

We attended Tata Motors' India Investor Day and came out positive on Tata Motors India strategy. Management highlighted continued growth in the CV and PV segment but with moderation in the growth rate. M&HCV demand outlook is strong and TTMT is confident of maintaining its lead in SUVs. We liked the strong focus on the margins across division to grow in a profitable manner by disrupting standard industry practices in the CV segment. EVs have become a big focus point for TTMT with a separate session being planned for highlighting increased awareness within the company related to climate change and holistic measures being adopted by the company to become net zero by 2040 in PV and 2045 in CV division.

We remain positive on TTMT given (1) JLR's volume ramp-up resulting in strong revenue, profitability and FCF (aided by high order book), (2) CV segment (on domestic side) benefitting from ongoing upcycle, operating leverage and tailwinds from lower commodity costs & lower discounting and (3) strong market share in PV segment (13.5% vs 8% in FY21) led by revamped portfolio, rising SUV share and rising EV penetration. We expect revenue/EBITDA CAGR of 12%/32% over FY24/25E. We have a 'BUY' rating with SoTP based TP of Rs 605 (Mar-25).

- **Volume expectation:** Management expects volume growth in the PV and CV segment to moderate to single digits in line with industry volumes. EVs are expected to grow substantially in FY24 helped by launch of its new Gen2 EVs.
- **Margins outlook:** Management expects double-digit EBITDA margin and positive FCFs in PV segment in the medium term, with target to improve by 300bp from current levels of 7.5% in FY23. In the CV segments double digit EBITDA margin is expected in FY24, and strong double digit in medium term. In EV division, positive EBITDA margin (pre-PLI benefit) is expected in the medium term from -4.6% in FY23.
- Capex spends of Rs. 80bn in FY24 with up to INR25bn in CVs, up to INR30bn in PVs in FY24. India EV capex expected at USD2bn till FY27.
- TTMT is targeting near-zero consolidated net-automotive debt for India business in FY24 and consolidated level by Mar-25.
- TTMT has scaled up its manufacturing capacity to 1mn unit in the PV segment and aspires to reach those levels of volumes driven by new model launches, network expansion and increased traction in the EV space, which it plans to constitute 25-30% of total PV volumes by FY27.

Investor Day: Key Takeaways

Passenger vehicles - New model launch pipeline in EVs to help maintain market leadership

PV industry volume is expected to grow in single-digits, SUVs are expected to outperform and Tata Motors is targeting to gain market share. TTMT is focusing on new products and intelligent market interventions, and upcoming models include Curvv (EV/ICE), Sierra (EV), Avinya (EV) and another undisclosed model. EV penetration is expected to increase to 25%-30% by FY27 for TTMT, helped by new model launches, improving infrastructure and increasing customer acceptance. TTMT has maintained its double-digit EBITDA margin and positive FCFs for PVs and EBITDA positive guidance in Electric PVs over the medium-term.

Growth across segments:

- Tata Motors has witnessed volume growth in the passenger vehicle segment led by introduction of advanced safety features ahead of regulatory requirements and world-class designs. TTMT's PV market share across all segments and products has improved. Tata Motors has been proactive in introducing safety features ahead of regulatory requirements, meeting the demands of customers who seek new technologies
- Intelligent market interventions have helped remain fresh in customer's mind: Instead of launching new vehicles or refreshes, Tata Motors has continuously brought in innovative interventions to keep their portfolio fresh. This approach has helped maintain customer excitement and contributed to the company's holistic growth, leading to an improvement in market share across all segments and products

Manufacturing and Capacity:

- Tata Motors has scaled up its manufacturing capacities nearly threefold in the past three years.
- The recent acquisition of Ford Motors' Sanand plant has increased total capacity to over 1 million units per annum.
- Potential savings of 5,000 crores have been achieved through the prudent capital deployment in acquiring the plant.

Network Growth and Customer Experience:

- Sales outlets increased from 862 in FY20 to 1,410 in FY23, making Tata Motors the second-largest in terms of sales outlets in India.
- The percentage of profitable dealers rose from 43% in FY20 to 99% in FY23.
- Service outlets increased from 653 in FY20 to 855 in FY23.
- Net Promoter Score (NPS) improved from 28 in FY20 to 40 in FY23.

Electric Vehicles (EVs):

- Tata Motors offers a diverse EV portfolio ranging from mid-hatch to compact SUVs in the EV space.
- Tiago EV received 10,000 bookings in a single day and delivered approximately 10,000 cars within four months.
- Nexon EV, a compact SUV, has delivered over 50,000 units in the last three years.
- 23% of EV buyers are first-time buyers, 24% are women (twice the industry average), and 56% are aged under 40 years.

Charging Infrastructure:

- Tata Power supports charging infrastructure with over 5,000 public charging points.
- Home charging facilities are distributed across more than 170 cities, and community charging points are deployed in 175 societies in the top five metros.

EV Development Approach:

- Tata Motors has categorized their EV programs into three generations:
- Generation 1: Quick conversion of established models into EVs with an average driving range of up to 450 km.
- Generation 2: EV-first modular platform with new body styles and a driving range of up to 500 km.
- Generation 3: Optimized dedicated EV platform with a driving range of over 550 km per charge.

Electric Vehicles battery partnership with Aqratas:

- Focus on different battery chemistries for EVs in different regions (LFP batteries in India, NMC batteries in Europe).
- Plan to establish an EV lab in Bengaluru.
- Recognition of the need for sustainable energy sources, including solar energy, in battery manufacturing.

Margin Improvement Program:

- Tata Motors has implemented a structured margin improvement program focused on mix realization, cost reduction, leverage, and better utilization.
- They aim to achieve a 3% increase in margins in the medium term.

Growth Aspirations:

- Tata Motors aims to sustain market share gains, expand the product portfolio, achieve double-digit EBITDA margin, and positive free cash flow in the passenger vehicle business.
- In the EV business, they aim to create a wide product portfolio, expand the charging and manufacturing ecosystem, achieve positive EBITDA, and increase network expansion and marketing campaigns.
- Overall, Tata Motors is focused on innovation, expanding their EV portfolio, improving customer experience, and driving profitability in both the passenger vehicle and EV businesses.

Commercial vehicles - Structural drivers for continued CV upcycle remain

CV industry growth was driven by higher total freight traffic in the country, with India's GDP outlook remaining positive TTMT sees the CV growth story to continue in FY24 with single digit growth in industry volumes. Tonnage growth is expected to grow higher than volume growth in the FY24. TTMT and the CV industry changed its discounting led volume growth strategy and has cut down on discounts which have steadily increased over the last 15 years, and is now focusing on improving profitability. TTMT has focused on communicating higher total cost of ownership, improving customer experience, expansion of service network, to retail market share. TTMT has guided for double digit EBITDA margin in FY24 and retained its medium term guidance of strong double-digit EBITDA margin and strong positive FCFs over the medium-term.

Strong growth to continue:

- Tonnage-wise, the industry surpassed FY19 levels by 6% in FY23.
- Passenger vehicle segment expected to grow the fastest, followed by medium and heavy commercial vehicles (M&HCV), Small commercial vehicle (SCV) segment expected to grow marginally, while intermediate and light commercial vehicle (ILCV) segment may remain flat.
- Expect increase in penetration of compressed natural gas (CNG) in the industry.
- Government spending and the previous general election had an impact on CV industry growth.

Reduction in discounting to continue:

- Reduction in discounting practices to achieve realization of about 90% of the list price.
- Focus on improving customer value and reducing discounts, resulting in improved margins and market stabilization.

Working on communicating TCO to increase value for customers:

- Improved customer-facing metrics: increased top-of-mind awareness, net promoter score, and composite satisfaction score.
- Cost reduction efforts, improved after-sales business, and growth in non-vehicle business revenue has helped achieve higher revenue and margins
- Partnership with Cummins for developing emissions reduction technologies, including zero emissions.

Investment and Future Plans:

- Capex of Rs. 8,000 crores earmarked for FY24, with over 50% dedicated to green technology.
- Target of 25-30% EV portfolio and launch of 10 electric car models by FY25.
- Aim to achieve near-zero net automotive debt in the Indian automotive business by FY24.
- Plans to bring down Jaguar Land Rover (JLR) net automotive debt from GBP3bn to GBP1bn in FY24.
- Overall, Tata Motors is focused on the growth and sustainability of the CV industry, cost reduction, EV development, and achieving financial targets for both the CV division and JLR.

Financials

Income Statement (Rs m)

Y/e Mar	FY22	FY23	FY24E	FY25E
Net Revenues	27,84,536	34,59,670	41,27,070	43,67,867
YoY gr. (%)	11.5	24.2	19.3	5.8
Cost of Goods Sold	18,08,858	22,64,696	26,92,670	28,46,282
Gross Profit	9,75,678	11,94,973	14,34,400	15,21,586
Margin (%)	35.0	34.5	34.8	34.8
Employee Cost	3,08,085	3,36,547	3,87,356	4,04,393
Other Expenses	4,19,605	5,40,268	5,49,242	5,64,521
EBITDA	2,47,988	3,18,158	4,97,803	5,52,672
YoY gr. (%)	(18.8)	28.3	56.5	11.0
Margin (%)	8.9	9.2	12.1	12.7
Depreciation and Amortization	2,48,357	2,48,604	2,76,352	2,81,043
EBIT	(369)	69,554	2,21,450	2,71,629
Margin (%)	0.0	2.0	5.4	6.2
Net Interest	93,119	1,02,255	1,09,499	1,09,895
Other Income	29,750	47,371	47,722	50,585
Profit Before Tax	(70,034)	11,817	1,59,673	2,12,319
Margin (%)	(2.5)	0.3	3.9	4.9
Total Tax	42,313	7,041	31,935	42,464
Effective tax rate (%)	(60.4)	59.6	20.0	20.0
Profit after tax	(1,12,347)	4,777	1,27,738	1,69,855
Minority interest	1,327	2,756	2,783	2,811
Share Profit from Associate	(741)	3,364	3,184	4,936
Adjusted PAT	(1,07,332)	7,199	1,28,139	1,71,980
YoY gr. (%)	-	-	-	-
Margin (%)	(3.9)	0.2	3.1	3.9
Extra Ord. Income / (Exp)	(6,296)	(2,853)	-	-
Reported PAT	(1,14,415)	5,385	1,28,139	1,71,980
YoY gr. (%)	(14.9)	(104.7)	2,279.7	34.2
Margin (%)	(4.1)	0.2	3.1	3.9
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	-	-	-	-
Equity Shares O/s (m)	3,829	3,830	3,830	3,830
EPS (Rs)	(28.0)	1.9	33.5	44.9

Source: Company Data, PL Research

Balance Sheet Abstract (Rs m)

Y/e Mar	FY22	FY23	FY24E	FY25E
Non-Current Assets				
Gross Block	32,32,889	34,54,454	37,09,980	39,64,078
Tangibles	32,32,889	34,54,454	37,09,980	39,64,078
Intangibles	-	-	-	-
Acc: Dep / Amortization	18,52,406	21,01,009	23,77,361	26,58,405
Tangibles	18,52,406	21,01,009	23,77,361	26,58,405
Intangibles	-	-	-	-
Net fixed assets	13,80,483	13,53,445	13,32,618	13,05,673
Tangibles	13,80,483	13,53,445	13,32,618	13,05,673
Intangibles	-	-	-	-
Capital Work In Progress	1,02,511	1,42,745	1,57,020	1,72,721
Goodwill	8,072	8,406	8,406	8,406
Non-Current Investments	66,703	75,409	79,179	83,138
Net Deferred tax assets	(15,584)	(14,070)	(15,336)	(16,716)
Other Non-Current Assets	-	-	-	-
Current Assets				
Investments	2,27,092	1,88,383	1,97,802	2,17,582
Inventories	3,52,403	4,07,554	5,08,817	5,38,504
Trade receivables	1,24,421	1,57,380	2,26,141	2,39,335
Cash & Bank Balance	4,06,692	3,70,156	4,60,782	6,54,806
Other Current Assets	6,37,822	6,98,390	7,61,063	8,29,430
Total Assets	33,06,199	34,01,867	37,31,828	40,49,596
Equity				
Equity Share Capital	7,659	7,660	7,660	7,660
Other Equity	4,37,954	4,45,558	5,63,918	7,35,898
Total Networkth	4,45,612	4,53,218	5,71,578	7,43,558
Non-Current Liabilities				
Long Term borrowings	14,64,490	13,41,134	13,41,134	13,41,134
Provisions	-	-	-	-
Other non current liabilities	-	-	-	-
Current Liabilities				
ST Debt / Current of LT Debt	-	-	-	-
Trade payables	5,99,704	7,20,558	8,93,256	9,51,357
Other current liabilities	7,38,098	7,59,057	8,34,963	9,18,459
Total Equity & Liabilities	33,06,199	33,60,814	37,31,828	40,49,596

Source: Company Data, PL Research

Cash Flow (Rs m)

Y/e Mar	FY22	FY23	FY24E	FY25E
PBT	(70,775)	15,181	1,62,857	2,17,255
Add. Depreciation	2,48,357	2,48,604	2,76,352	2,81,043
Add. Interest	93,119	1,02,255	1,09,499	1,09,895
Less Financial Other Income	29,750	47,371	47,722	50,585
Add. Other	(23,454)	(44,518)	(47,722)	(50,585)
Op. profit before WC changes	2,47,247	3,21,522	5,00,986	5,57,608
Net Changes-WC	(2,93,911)	(6,864)	15,908	30,349
Direct tax	(42,287)	(8,556)	(30,668)	(41,084)
Net cash from Op. activities	(88,951)	3,06,102	4,86,226	5,46,874
Capital expenditures	(1,42,707)	(2,21,081)	(3,10,854)	(2,69,800)
Interest / Dividend Income	-	-	-	-
Others	(24,139)	74,521	34,532	26,846
Net Cash from Inv. activities	(1,66,846)	(1,46,559)	(2,76,321)	(2,42,954)
Issue of share cap. / premium	33,209	29,532	(9,779)	-
Debt changes	2,54,474	(1,23,356)	-	-
Dividend paid	-	-	-	-
Interest paid	(93,119)	(1,02,255)	(1,09,499)	(1,09,895)
Others	-	-	-	-
Net cash from Fin. activities	1,94,564	(1,96,079)	(1,19,278)	(1,09,895)
Net change in cash	(61,233)	(36,536)	90,626	1,94,024
Free Cash Flow	(2,31,658)	85,021	1,75,372	2,77,074

Source: Company Data, PL Research

Quarterly Financials (Rs m)

Y/e Mar	Q1FY23	Q2FY23	Q3FY23	Q4FY23
Net Revenue	7,19,347	7,96,114	8,84,886	10,59,325
YoY gr. (%)	8.3	29.7	22.5	35.1
Raw Material Expenses	4,82,217	5,25,950	5,74,585	6,81,944
Gross Profit	2,37,129	2,70,164	3,10,301	3,77,381
Margin (%)	33.0	33.9	35.1	35.6
EBITDA	58,724	87,178	1,22,796	1,56,080
YoY gr. (%)	(19.6)	41.3	35.6	36.0
Margin (%)	8.2	11.0	13.9	14.7
Depreciation / Depletion	85,329	84,189	87,084	98,621
EBIT	(26,605)	2,989	35,712	57,460
Margin (%)	(3.7)	0.4	4.0	5.4
Net Interest	24,207	24,873	26,758	26,417
Other Income	1,196	4,146	23,077	18,953
Profit before Tax	(34,680)	(14,612)	32,026	47,842
Margin (%)	(4.8)	(1.8)	3.6	4.5
Total Tax	15,190	(4,571)	2,628	(6,207)
Effective tax rate (%)	(43.8)	31.3	8.2	(13.0)
Profit after Tax	(49,870)	(10,041)	29,398	54,049
Minority interest	556	463	854	883
Share Profit from Associates	360	1,057	1,034	913
Adjusted PAT	(65,002)	(12,572)	29,581	56,232
YoY gr. (%)	46.0	(71.7)	(284.6)	(1,862.6)
Margin (%)	(9.0)	(1.6)	3.3	5.3
Extra Ord. Income / (Exp)	14,936	3,126	(4)	(2,153)
Reported PAT	(50,066)	(9,446)	29,577	54,079
YoY gr. (%)	12.5	(78.7)	(295.1)	(623.6)
Margin (%)	(7.0)	(1.2)	3.3	5.1
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	-	-	-	-
Avg. Shares O/s (m)	3,830	3,830	3,830	3,830
EPS (Rs)	(17.0)	(3.3)	7.7	14.7

Source: Company Data, PL Research

Key Financial Metrics

Y/e Mar	FY22	FY23	FY24E	FY25E
Per Share(Rs)				
EPS	(28.0)	1.9	33.5	44.9
CEPS	36.8	66.8	105.6	118.3
BVPS	116.4	118.3	149.2	194.1
FCF	(60.5)	22.2	45.8	72.3
DPS	-	-	-	-
Return Ratio(%)				
RoCE	0.0	3.8	11.9	13.6
ROIC	0.0	2.2	14.8	19.3
RoE	(21.5)	1.6	25.0	26.2
Balance Sheet				
Net Debt : Equity (x)	1.9	1.7	1.2	0.6
Net Working Capital (Days)	(82)	(70)	(64)	(66)
Valuation(x)				
PER	(20.3)	302.2	17.0	12.6
P/B	4.9	4.8	3.8	2.9
P/CEPS	15.4	8.5	5.4	4.8
EV/EBITDA	12.1	9.3	5.7	4.8
EV/Sales	1.1	0.9	0.7	0.6
Dividend Yield (%)	-	-	-	-

Source: Company Data, PL Research

Key Operating Metrics

Y/e Mar	FY22	FY23	FY24E	FY25E
Volume (units)	3,56,972	4,13,429	4,71,666	5,16,754
Net realisation (Rs/unit)	12,78,177	15,50,352	16,00,614	16,24,881

Source: Company Data, PL Research

Price Chart
Recommendation History


No.	Date	Rating	TP (Rs.)	Share Price (Rs.)
1	15-May-23	BUY	605	516
2	12-Apr-23	BUY	590	459
3	27-Jan-23	BUY	520	419
4	05-Jan-23	BUY	520	386
5	10-Nov-22	BUY	520	433
6	06-Oct-22	BUY	570	408
7	28-Jul-22	BUY	535	444
8	08-Jul-22	BUY	555	431

Analyst Coverage Universe

Sr. No.	Company Name	Rating	TP (Rs)	Share Price (Rs)
1	Ashok Leyland	BUY	215	150
2	Bajaj Auto	Hold	4,130	4,342
3	Bharat Forge	BUY	940	760
4	CEAT	Accumulate	1,800	1,717
5	Eicher Motors	BUY	4,030	3,404
6	Endurance Technologies	BUY	1,670	1,385
7	Exide Industries	UR	-	185
8	Hero Motocorp	BUY	3,200	2,547
9	Mahindra & Mahindra	BUY	1,585	1,282
10	Maruti Suzuki	BUY	10,300	8,507
11	Tata Motors	BUY	605	516
12	TVS Motor Company	BUY	1,300	1,169

PL's Recommendation Nomenclature (Absolute Performance)

Buy	: > 15%
Accumulate	: 5% to 15%
Hold	: +5% to -5%
Reduce	: -5% to -15%
Sell	: < -15%
Not Rated (NR)	: No specific call on the stock
Under Review (UR)	: Rating likely to change shortly

ANALYST CERTIFICATION

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