Sharekhan by BNP PARIBAS

Powered by the Sharekhan 3R Research Philosophy

Tata Motors Ltd

Focus on de-leveraging, business outlook improving

Automobiles	Sharekhan code: TATAMOTORS

Reco/View: Buy	↔	CMP: Rs. 560	Price Target: Rs. 633	↑

↑ Upgrade ↔ Maintain ↓ Downgrade

Summary

- The management has shared an optimistic outlook for both its PV and CV business in the domestic market.
- Going forward, Tata Motors is targeting double digit EBITDA margin for CV as well as for PV business.
- The EV business continues to gain traction and the management is expecting it to be EBITDA positive in the near to medium term.
- We maintain a Buy with a revised PT of Rs. 633 in expectation of continued improvement in JLR, PV and CV business along with a reduction in net automotive debt from current levels.

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 27.50

Updated May 08, 2023

Medium Risk

NEGL	LOW	MED	HIGH	SEVERE
0-10	10-20	20-30	30-40	40+

Source: Morningstar

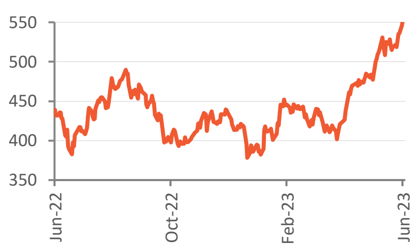
Company details

Market cap:	Rs. 1,85,957 cr
52-week high/low:	Rs. 576 / 375
NSE volume: (No of shares)	127.6 lakh
BSE code:	500570
NSE code:	TATAMOTORS
Free float: (No of shares)	285.7 cr

Shareholding (%)

Promoters	46.4
FII	16.9
DII	17.8
Others	18.9

Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	11.2	33.1	29.2	27.5
Relative to Sensex	9.4	26.4	29.0	14.9

Sharekhan Research, Bloomberg

We have attended Tata Motors 'analyst day' and came with its positive outlook on its domestic PV and CV business. Further TML has well defined road map to cater to electric PV segment. The CV & PV industry is expected to grow by single digits in FY24. The management is eyeing double-digit EBITDA margin in both CV & PV business. It is also looking for a positive EBITDA in the electric PV business in near to medium term. Further, the company is planning to set up Li-ion cell plant. An EV battery cell plant within the group would help the company in achieving speedy product validation and reduce the dependence on third party supplier. Further, Tata Motors is committed to both long term and near-term deep decarbonisation pathway and targets its PV business and CV business to be net-Zero carbon by 2040 and 2045, respectively.

- **CV business:** Looking for double-digit margins: TML has strategically shifted its focus from discount driven market share expansion strategy to profitable lead volume growth and hence, TML is looking more towards retail sales performance in place of building inventory at dealer's end for wholesales market share expansion. TML has not increased prices in CV segment since Sep 22 but reducing discount and delivering improvement in EBITDA margin. In place of discounts, TML is focussing more on offering value proposition and strategically launching variants/ products according to demand and requirements. Further, it is accelerating spare penetration and service penetration to enhance overall profitability. The management is optimistic on the CV industry performance in FY24 and assumes a single digit growth in FY24 on the back of rise in expenditure on infrastructure sector in a pre-election year. However, CV industry is expected to deliver slow growth in retails in Q1FY24 due to robust pre buying in Q4FY23. Going forwardly, is aiming to deliver double-digit EBITDA margin in CV business (7.4% in FY23).
- **PV business:** Gaining market share: With new launches and a shift in demand from SUV segment, TML market share in PV segment has increased from 4.8% in FY20 to 13.9% In FY23. TML's aspirational product portfolio has been well accepted in the market. It targets to be a amongst top three players in each of its operating segment. TML is no.1 player in compact SUV segment (Nexon & Punch), no.2 player in high end SUV segment (Harrier & Safari), No.2 player in mid-hatch segment (Tiago). The company is continuously expanding its network. Sales outlet has increased from 806 in FY20 to 1410 in FY23 and after sales outlet has increased from 653 in FY20 to 855 in FY23. With rise in volumes the dealer's financial situation has also been improving and supporting the overall growth plans of TML in PV segment. In FY23 99% of its dealers were profitable compared to 43% in FY20. Including the recently acquired capacity of 420,000 units in Sanand, the total manufacturing capacity has reached to 10,20,000 units. The continued focus on cost reduction and efficiency build up is reflecting in marginal improvement in profitability. The PV segment has reported EBITDA margin at 6.4% in FY23 as compared to 2.0% in FY21. Going forward the management is looking for a double-digit EBITDA margin in Its domestic PV business. TML is focusing on multi-power train business model in PV segment.
- **EV business:** Rising penetration: In a short span of time TML has successfully expanded its electric PV segment. With 250 dealers it has presence in 165 cities. Along with top cities, EV adoption has been gradually increasing in beyond top 20 cities. As per the management 50% of the bookings are coming from outside of top 20 cities. Further 56% of the buyers are below 40 years of age. While EV business was loss-making in FY23, the company is aiming for a double positive EBITDA margin in electric PV business in near to medium term.

Our Call

Valuation – Maintain Buy with a revised PT of Rs. 633: TML is witnessing an 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). Q4FY24 was the second consecutive quarter in a row when JLR, PV, and CV businesses, simultaneously reported a sequential improvement in margins. Going forward, the management has shared optimistic outlook on volume performance in JLR business due to gradual improvement in supply chain issues and aims to register double-digit EBITDA margin in domestic CV and PV business. Further the management is looking for a positive EBITDA margins in its EPV business in near term. We maintain Buy rating on the stock with SOTP-based revised PT of Rs. 633. The stock trades at EV/EBITDA multiple of 5.1x its FY25E estimates.

Key Risks

TML'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 chips shortage worsens.

Valuation (Consolidated) Rs cr

Particulars	FY21	FY22	FY23P	FY24E	FY25E
Net Sales	2,49,795	2,78,454	3,45,967	4,19,192	4,84,260
Growth (%)	-4.3	11.5	24.2	21.2	15.5
EBIDTA	30,555	24,813	31,830	49,408	59,154
OPM (%)	12.2	8.9	9.2	11.8	12.2
APAT	(1,366)	(10,719)	734	9,045	12,126
Growth (%)	-	-	-	1133.0	34.1
AEPS (Rs)	(4)	(28)	2	24	32
P/E (x)			292.4	23.7	17.7
P/B (x)	3.9	4.8	4.7	3.9	3.2
EV/EBIDTA (x)	8.5	11.7	9.0	5.9	5.1
RoE (%)	-2.5	-24.1	1.6	16.6	18.3
RoCE (%)	6.9	2.6	5.0	9.3	10.4

Source: Company; Sharekhan estimates

PVs

- With a healthy response to its new products and it's market penetration strategies the market share in PV segment has improved from 4.8% in F20 to 13.8% in FY23. Along with operating profit Matrix has also improved significantly.
- In order to remain relevant in the market the company has been continuously launching refreshes and new version of the existing products.
- TML has been focussing on achieving top 3 position in each of it's operating segment.
- Upcoming products : Curve, Sierra, Avinys and CNG versions.
- 99% of the dealers are profitable in PV segment.
- Post integration of Ford's sanand plant the manufacturing capacity would increase from 600k units to 1020k units.
- Management targets double digit margin in medium term

CVs

- CV industry is expected to grow by single digits in FY24 on expectation of increase in infra spending and assumption of positive pre-election year impact.
- While Q1FY24 is expected to witness slow growth in retail growth due to robust volumes in Q4FY23 led by prebuying before implementation of BSVI phase 2 norms in April 2023, the management expects the CV industry to start picking up from Q2FY24 onwards.
- The company has shifted its strategy from discount driven market share expansion to profit driven volume growth and hence focussing more on offering total cost of ownership benefits and associated value propositions in place of plain-vanilla products.
- Since September 2022 the company has not increased prices but decreasing discount levels, which in turn resulting in better operating profitability.
- No major benefit from announcement of scrappage policy has been seen yet.
- Demand for additional features in CV is also increasing and hence TML is launching CVs in multiple variants.
- Going forward, the management expects double digit margin in CV business compared to 7.4% in FY23.

EVs

- TML has been gaining healthy market penetration in EV segment.
- While the demand has been strong in the urban centres, the company has been receiving almost 50 % of the bookings from outside the top 20 cities.
- EV network : Reached to 165 cities compared to 51 in FY21 and dealership has increased to 250 cities compared 97 in FY21
- PEV would have 25-30 % penetration in its portfolio in few year down the line
- PEV order backlog : 2-3 month.
- Management targets EBIDTA in PEV business to be positive in near to medium term

EV battery project (Tata group)

- Tata group aspires to be forefront of global battery manufacturing industry.
- Tata group company - Agratas is setting up Li ion cell manufacturing plant.
- Agratas is aiming to design and develop affordable battery suitable for Indian ecosystem.
- Cell manufacturing needs more value addition and technology than module pack design.
- key customers in initial phase would be JLR (40 GWH) and TML (20 GWH).
- It aims to cater to a wide range of vehicles over the period.
- The battery business would have separate chemistry for Indian business and JLR.
- Initially, it would work on NmC and LFP in short term and then move to advanced technologies going forward.

SOTP valuation

Business	Valuation basis	Multiple	Per share value (Rs)
PV business	FY25E EBIDTA	10.0	142
CV business	FY25E EBIDTA	9.5	204
JLR business	FY25E EBIDTA	3.0	326
Total EV			673
Net automotive debt			-72
Total equity value			601
China JV	FY25E sales	0.5	32
Total value per share			633

Source: Company; Sharekhan Research

Domestic PV business Rs cr

	FY22	FY23E	FY24E	FY25E
Volumes units	372176	541087	609486	682570
growth		45%	13%	12%
Revenue	31515	47868	55537	64062
growth		52%	16%	15%
REBIDTA	1659	3085	4165	5445
growth		86%	35%	31%
EBIDTA %	5.3%	6.4%	7.5%	8.5%

Source: Company; Sharekhan Research

CV business Rs cr

	FY22	FY23E	FY24E	FY25E
Volumes units	356972	413539	447027	487481
growth		16%	8%	9%
Revenue	52287	70816	78847	88562
growth		35%	11%	12%
EBIDTA	1932	5270	6544	8236
growth		173%	24%	26%
EBIDTA %	3.7%	7.4%	8.3%	9.3%

Source: Company; Sharekhan Research

JLR business IFRS GBP mn

	FY22	FY23E	FY24E	FY25E
Volumes units	294182	321362	380000	435000
growth		9%	18%	14%
Revenue	18320	22809	27510	32122
growth		25%	21%	17%
REBIDTA	1570	2571	3452	4082
growth		64%	34%	18%
REBIDTA %	8.6%	11.3%	12.5%	12.7%

Source: Company; Sharekhan Research

Outlook and Valuation

■ Sector Outlook – Demand outlook remains strong

With easing of semiconductor chip supply issues, production has been recovering. We believe that the global vehicle production would see less headwinds in FY24 compared to FY23 on improved supply chain situation. While pent-up demand has been playing out in domestic PV market the same would continue to play out in global luxury market for some time. The domestic PV and CV segment are continue to witness uptick in near term as CV cycle is assumed to be in cyclical uptick phase and PV segment is observing a structural uptick.

■ Company Outlook – On a strong growth path

We expect TML to benefit from all its business verticals – JLR, CVs, and PVs. H2FY24 is expected to be strong as compared to H1FY24, aided by volume growth and better operational efficiencies aided by aggressive product launches, market positioning, product differentiation, cost savings, and investments in R&D. Outlook of the domestic CV business is positive, with notable demand arising from infrastructure, mining, and e-commerce activities. TML's PV business has transformed significantly because of strong sales momentum with the 'New Forever' portfolio and gaining EV traction.

■ Valuation – Maintain Buy with a revised PT of Rs. 633:

TML is witnessing an 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). Q4FY24 was the second consecutive quarter in a row when JLR, PV, and CV businesses, simultaneously reported a sequential improvement in margins. Going forward, the management has shared optimistic outlook on volume performance in JLR business due to gradual improvement in supply chain issues and aims to register double-digit EBITDA margin in domestic CV and PV business. Further the management is looking for a positive EBITDA margins in its EPV business in near term. We maintain Buy rating on the stock with SOTP-based revised PT of Rs. 633. The stock trades at EV/EBITDA multiple of 5.1x its FY25E estimates.

Peer Comparison

Particulars	CMP	P/E (x)			EV/EBITDA (x)			RoCE (%)		
	Rs/ Share	FY22	FY23E	FY24E	FY22	FY23E	FY24E	FY22	FY23E	FY24E
Tata Motors	560	-	292.4	23.7	11.7	9.0	5.9	2.6	5.0	9.3
Maruti Suzuki India Limited	9,654	77.4	36.2	28.0	43.5	22.3	16.8	8.8	9.1	9.1

Source: Company, Sharekhan estimates

About company

TML 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 TML, 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. 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. TML's PV business has transformed significantly because of strong sales momentum with the 'New Forever' portfolio. TML'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

TML'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 Website

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

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

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