Sharekhan by BNP PARIBAS

Powered by the Sharekhan 3R Research Philosophy

Tata Motors Ltd

JLR on the comeback trail

Automobiles	Sharekhan code: TATAMOTORS
Reco/View: Buy ↔	CMP: **Rs. 618**
	Price Target: **Rs. 720** ↑

↑ 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 27.50

Updated Jun4 08, 2023

Medium Risk

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

Source: Morningstar

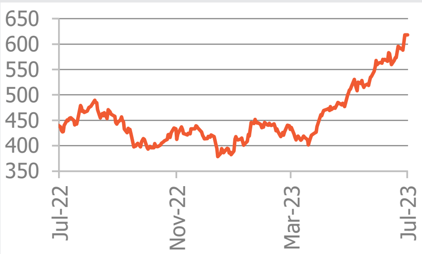
Company details

Market cap:	Rs. 205,217 cr
52-week high/low:	Rs. 634 / 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	8.8	44.9	57.9	49.7
Relative to Sensex	5.3	35.4	50.6	26.2

Sharekhan Research, Bloomberg

Summary

- In Q1FY24, JLR reported a robust 29.9% y-o-y rise in volumes and is likely to report a positive FCF of over GBP 400 mn.
- JLR continues to enjoy strong demand reflected in the order book of 185,000 units.
- The demand for JLR's most profitable models has been strong as 76% of its order book is constituted by Range Rover, Range Rover Sport and Defender
- We maintain a Buy with revised PT of Rs 720 in expectation of continued improvement in JLR, PV and CV business along with reduction in net automotive debt from current levels.

As semiconductor chip supply improves, JLR sees an improvement in production as was reflected in 29.4% y-o-y growth (-1.5% q-o-q) in JLR wholesales in Q1FY24. This was in line with management's earlier indication as JLR was looking for a flat volume on q-o-q basis in Q1FY24. Generally, Q4 used to be a better quarte in comparison to Q1. Considering this we believe TML is expected to report a decent show in Q1FY24. On sequential basis, we expect TML to register flat EBITDA margin at 12.1% on consolidated basis lead by 100 bps contraction in JLR's EBITDA margin, 160 bps q-o-q contraction in CV's EBITDA margin and 30 bps contraction in PV's EBITDA margin due to seasonality. JLR continues to witness strong demand as the current order book stands at 185,000 units. With increase in production and order execution JLR is looking for a positive FCF of GBP 400 million in Q1FY24 against GBP 521 mn in FY23. The net automotive debt has already come down from Rs 60,700 in Q1FY23 to Rs 43,700 crore in Q4FY23. We believe that recovery in JLR volumes along with improvement in domestic performance would hold TML in reducing its net automotive debt sharply in coming quarters. We maintain our BUY rating on the stock with an upward revised PT of Rs. 720.

- **JLR volumes:** JLR reported a 29.9% y-o-y increase and 1.5% q-o-q decline in wholesales volumes to 93,253 units in Q1FY24 – in line with the management's indications. The management was looking for flat q-o-q volume growth in Q1FY24. The mix has improved sharply y-o-y as Land Rover contributed 88.9% to total JLR volumes compared to 84.8% in Q1FY23 (89.7% in Q4FY23). A flat growth in volumes on q-o-q basis indicates a gradual ease out of semiconductor chip issue. Sequentially the volume contribution from the UK, China and Europe has come down marginally, while volume contribution from US and rest of the world has increased. In Q1FY23- geography mix stood as (vs mix in Q4FY23) - (1) US: 24% (vs 20%) , (2) UK : 18% (vs 21%), (3) China : 12% (vs 13%), (4) Europe: 22% (vs 23%) (5) rest of world : 24% (vs 22%). During the quarter the retail sales (including China JV) has also increased by 29.4% y-o-y and flat (-0.9%) q-o-q to 101,994 units. Geography wise q-o-q growth in retail sales: US: -11.3%, China: +2.9%, UK: -17.9%, Europe: +1.6%, rest of world : 27.7%.
- **Healthy order book:** JLR continues to enjoy healthy order book as the demand for its most profitable models has been continuously strong. The order book stands at 185,000 units at the end of Q1FY24 as compared to 200,000 lakh units in Q4FY23. The reduction in the order book on q-o-q is due to an increase in production, given the management has been continuously looking for a reduction in the waiting period in the market. Further the order book for the most profitable models constitutes a significant portion of the overall order book as Range Rover, Range Rover Sport and Defender constitutes 76% of the total order book. Along with that JLR is looking for a positive FCF of GBP 400 million in Q1FY24 as compared to FCF of GBP 521 mn in FY23.
- **Margin to expand on y-o-y in CV/ PV business:** In domestic business, TML has registered 15.0% y-o-y and 26.1% q-o-q decline in volumes due to high base. The q-o-q decline in CV volumes was expected as the segment witnessed a robust volume in Q4FY23 due to pre buying ahead of implementation of BSVI phase 2 norms from April 2023. Earlier the management guided for a muted growth in CV industry in Q1FY24 and uptick in CV volumes from Q2FY24 onwards. The CV industry is expected to register high single digit to low double-digit growth in FY24 due to high base. We expect TML's CV division to register 300 bps y-o-y expansion and 160 bps q-o-q contraction in EBITDA margin in Q1FY24. Further, PV business continue to maintain traction and has registered 7.9% y-o-y and 3.5% y-o-y increase in volumes. We expect domestic PV business to register 90 bps y-o-y expansion and 30 bps q-o-q contraction in EBITDA margin to 7.0% in Q1FY24.

Our Call

Valuation – Maintain Buy with a revised PT of Rs. 720: TML is expected to report decent numbers in Q1FY24 on account of improvement in JLR's production. Further the JLR has guided for a positive FCF of GBP 400 mn in Q1FY24, which in our view would help TML in reducing its net automotive debt. TML is witnessing improvement in all business verticals – JLR, CVs, and PVs. The company is seeing 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). The management is looking for double digit EBITDA margin in both CV and PV business. It is also looking for a positive EBITDA in the electric PV business in near to medium term. Further Tata group 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. We maintain a Buy rating on the stock with SOTP-based revised PT of Rs. 720. The stock is trading at EV/EBITDA multiple of 5.4x its FY25E estimates.

Key Risks

TML's business depends upon cyclical industries such as CVs and PVs. Moreover, the company operates across the globe. Any slowdown or a 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
AEBIDTA	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 (%)	-81.4	684.6	-106.8	1133.0	34.1
FD EPS (Rs)	(4)	(28)	2	24	32
PE (x)			322.6	26.2	19.5
P/BV (x)	4.3	5.3	5.2	4.3	3.6
EV/EBIDTA (x)	9.2	12.6	9.7	6.3	5.4
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

Outlook and Valuation

■ Sector View – 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 as compared to FY23 on improved supply chain situation. While pent demand has been playing out in domestic PV market the same would continue to play out in global luxury market for some time. Domestic PV and CV segments 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. 720

TML is expected to report decent numbers in Q1FY24 on account of improvement in JLR's production. Further the JLR has guided for a positive FCF of GBP 400 mn in Q1FY24, which in our view would help TML in reducing its net automotive debt. TML is witnessing improvement in all business verticals – JLR, CVs, and PVs. The company is seeing 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). The management is looking for double digit EBITDA margin in both CV and PV business. It is also looking for a positive EBITDA in the electric PV business in near to medium term. Further Tata group 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. We maintain a Buy rating on the stock with SOTP-based revised PT of Rs. 720.

About the 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. TML also manufactures small cars and sports utility vehicles (SUVs). The company is a leading CV manufacturer in India. TML 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 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

Chandrasekaran Natarajan	Chairman
Girish Wagh	Executive Director
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 Pvt Ltd	43.7
2	Life Insurance Corp of India	5.2
3	SBI Funds Management Ltd	2.2
4	TATA Industries Ltd	2.2
5	Vanguard Group Inc/The	1.7
6	Jhunjhunwala Rekha Rakesh	1.6
7	BlackRock Inc	1.6
8	Jhunjhunwala Rakesh	1.1
9	HDFC Asset Management Co Ltd	1.1
10	Republic of Singapore	1.0

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

Sharekhan

by BNP PARIBAS

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