

BUY **Tata Motors**

ASIAMONEY BROKERS POLL - 2023

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Strong show by JLR; likely to beat FY24 EBIT guidance

Auto & Auto Ancillaries ▶ Result Update ▶ July 26, 2023

TARGET PRICE (Rs): 750

TTMT's consolidated Q1 performance beat our estimates, driven by ~210bps QoQ JLR EBIT margin expansion to 8.5% (higher than the 6% FY24 guidance; underlying margins at 7.5%, adjusted for the higher ~10K units production for planned shutdown in 2Q). While domestic CVs are likely to peak-out over FY23-25E, JLR outlook remains healthy, given the strong focus on mix, realizations and profitability, supported by a high order book; similarly, 2 new SUV launches are expected to drive performance in the Indian PV business 4QFY24 onwards. We introduce FY26 estimates and upgrade FY24E/FY25E consol EPS by 84%/45% (reflecting sustained higher margins at JLR) and maintain BUY, with revised SOTP-based TP of Rs750/share (Rs605 earlier), based on FY25E.

Tata Motors: Financial Snapshot (Consolidated)

Y/E Mar (Rs mn)	FY22	FY23	FY24E	FY25E	FY26E
Revenue	2,784,536	3,459,670	4,260,094	4,620,996	4,956,518
EBITDA	248,132	318,296	580,972	599,116	655,702
Adj. PAT	(107,188)	7,336	200,498	210,824	250,842
Adj. EPS (Rs)	(28.0)	1.9	52.3	57.3	68.2
EBITDA margin (%)	8.9	9.2	13.6	13.0	13.2
EBITDA growth (%)	(18.8)	28.3	82.5	3.1	9.4
Adj. EPS growth (%)	NM	NM	762.3	9.5	19.0
RoE (%)	(21.5)	1.6	36.4	28.1	25.8
RoIC (%)	NM	3.0	27.1	28.6	31.7
P/E (x)	(22.8)	333.8	12.2	11.2	9.4
EV/EBITDA (x)	13.9	9.8	5.0	4.4	3.5
P/B (x)	5.5	5.4	3.8	2.8	2.1
FCFF yield (%)	(0.2)	5.6	12.8	9.1	16.7

Source: Company, Emkay Research

Beat in Q1: Consolidated margins rose ~120bps QoQ to 13.3% (Emkay: 11.8%), largely driven by strong margin expansion at JLR on preponing of production of ~10K units. JLR's FCF stood at GBP451mn in Q1FY24. Consolidated net automotive debt reduced by Rs20bn to Rs417bn. Company approved capital reduction of DVR shares at ~23% premium to the last closing price, resulting in ~4% EPS accretion (to close in 12-15M).

Earnings call KTAs: (A) India CV business – i) Expects double-digit growth in MHCVs, led by the Bus segment, with the ILCV category being muted; Company remains focused on driving recovery in retail (*Vahan*) market share and ramping up EV supplies. ii) TTMT is committed to growing profitably, while regaining market share via delivering value enhancements in its products; targets double-digit EBITDA in FY24, through better realizations and cost savings. **(B) India PV business** – i) Aims to deliver higher than industry growth, driven by new trims/powertrain options in products; Company is being served well by a multiple-powertrain strategy in hatchbacks, even as the entry segment remains under pressure, overall; India PV portfolio (incl. EVs) currently lists a waiting period of 3-12 weeks. ii) Targets double-digit EBITDA in PVs in coming years, along with sustained positive FCF. iii) Q1 EV margins (-9.7%) were impacted by ~35% higher lithium prices and one-off marketing spends; would improve from 2H, on reduction in cell costs, higher localization of low-cost aggregates and PLI benefits. **(C) JLR** – i) FY24 volume guidance unchanged at ~400K units. ii) While 2Q wholesales would be similar to 1Q at ~95K, production would be lower by ~10K (pre-poned to Q1 due to planned annual shutdown); while cash flow would be lower QoQ, profitability would come in line with the recent run-rate. iii) Orderbook of 185K to continue being run down; currently, ~76% is comprised of *Range Rover*, *Range Rover Sport* and *Defender*. iv) Underlying EBIT margin in Q2 stood at 7.5% vs. the reported 8.6% on account of preponement of production; going forward, slightly lower material costs are seen offsetting higher marketing spends (though marketing spends would not retrace earlier levels). v) Capitalization rate would remain at 50-60% levels.

Target Price – 12M	Jun-24
Change in TP (%)	24.0
Current Reco.	BUY
Previous Reco.	BUY
Upside/(Downside) (%)	17.3
CMP (25-Jul-23) (Rs)	639.5

Stock Data	Ticker
52-week High (Rs)	643
52-week Low (Rs)	375
Shares outstanding (mn)	3,321.9
Market-cap (Rs bn)	2,315
Market-cap (USD mn)	28,270
Net-debt, FY24E (Rs mn)	428,690
ADTV-3M (mn shares)	13
ADTV-3M (Rs mn)	7,155.0
ADTV-3M (USD mn)	87.4
Free float (%)	53.6
Nifty-50	19,681
INR/USD	81.9
Shareholding, Jun-23	
Promoters (%)	46.4
FPIs/MFs (%)	17.7/18.8

Price Performance

(%)	1M	3M	12M
Absolute	14.3	35.0	42.2
Rel. to Nifty	8.4	21.9	20.2

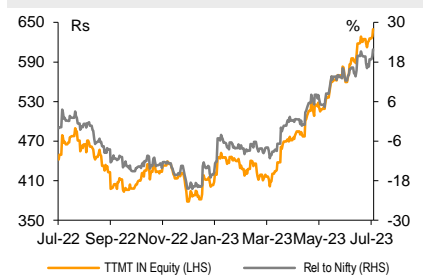
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Exhibit 1: Actual vs Estimates (Q1FY24)

(Rs mn)	Actual	Emkay Est	% var	Consensus	% var
Net revenue	1,022,361	1,032,840	(1.0)	1,012,897	0.9
EBITDA	135,595	115,330	17.6	119,647	13.3
Margin (%)	13.3	11.2	210 bps	11.8	145 bps
Adj net income	42,216	30,628	37.8	25,523	65.4
FDEPS (Rs)	11.0	8.0	37.8	6.7	65.4

Source: Company, Emkay Research

Exhibit 2: Consolidated Quarterly Snapshot

(Rs mn)	Q1FY23	Q2FY23	Q3FY23	Q4FY23	Q1FY24	YoY (%)	QoQ (%)
Revenue	719,347	796,114	884,886	1,059,324	1,022,361	42.1	(3.5)
Expenditure	687,542	734,151	788,456	931,225	886,766	29.0	(4.8)
as % of sales	95.6	92.2	89.1	87.9	86.7		
Consumption of RM	482,217	525,950	574,585	681,944	637,835	32.3	(6.5)
as % of sales	67.0	66.1	64.9	64.4	62.4		
Employee Cost	77,864	78,979	85,929	93,775	98,518	26.5	5.1
as % of sales	10.8	9.9	9.7	8.9	9.6		
Other expenditure	127,461	129,222	127,942	155,506	150,413	18.0	(3.3)
as % of sales	17.7	16.2	14.5	14.7	14.7		
EBITDA	31,805	61,962	96,430	128,098	135,595	326.3	5.9
EBITDA margin (%)	4.4	7.8	10.9	12.1	13.3		
Depreciation	58,410	58,973	60,718	70,502	66,332	13.6	(5.9)
EBIT	-26,605	2,989	35,712	57,596	69,264	(360.3)	20.3
Other Income	8,874	10,385	11,304	15,769	13,605	53.3	(13.7)
Interest	24,207	24,873	26,758	26,417	26,154	8.0	(1.0)
PBT	-41,939	-11,498	20,257	46,949	56,715		
Total Tax	15,190	-4,571	2,628	-6,207	15,630	2.9	
Adjusted PAT	-57,129	-6,928	17,629	53,155	41,085		
MI and Inc from JV	196	-595	-179	-30	-1,131	(677.3)	
Adjusted PAT after MI	-57,324	-6,333	17,808	53,185	42,216		
Extra ordinary items (Loss)/Gain	7,258	-3,113	11,769	893	-10,188	(240.4)	
Reported PAT	-50,066	-9,446	29,577	54,078	32,028		
Adjusted EPS (Rs)	(15.0)	(1.7)	4.6	13.9	11.0		
(%)						(bps)	(bps)
EBITDAM	4.4	7.8	10.9	12.1	13.3	884	117
EBITM	(3.7)	0.4	4.0	5.4	6.8	1,047	134
EBTM	(5.8)	(1.4)	2.3	4.4	5.5	1,138	112
PATM	(8.0)	(0.8)	2.0	5.0	4.1	1,210	-89
Effective Tax rate	(36.2)	39.8	13.0	(13.2)	27.6	6,378	4,078

Source: Company, Emkay Research

Exhibit 3: Standalone Quarterly Snapshot (India CV business)

(Rs mn)	Q1FY23	Q2FY23	Q3FY23	Q4FY23	Q1FY24	YoY (%)	QoQ (%)
Revenue	148,744	149,468	157,940	201,421	158,326	6.4	(21.4)
Expenditure	141,826	142,955	144,065	180,619	145,043	2.3	(19.7)
<i>as % of sales</i>	95.3	95.6	91.2	89.7	91.6		
Consumption of RM	112,626	115,372	116,337	148,393	114,371	1.5	(22.9)
<i>as % of sales</i>	75.7	77.2	73.7	73.7	72.2		
Employee Cost	10,629	9,644	9,723	10,221	10,645	0.2	4.1
<i>as % of sales</i>	7.1	6.5	6.2	5.1	6.7		
Other expenditure	18,572	17,938	18,005	22,005	20,027	7.8	(9.0)
<i>as % of sales</i>	12.5	12.0	11.4	10.9	12.6		
EBITDA	6,918	6,513	13,874	20,803	13,283	92.0	(36.1)
<i>EBITDA margin (%)</i>	4.7	4.4	8.8	10.3	8.4		
Depreciation	4,230	4,461	4,302	4,676	4,959	17.2	6.1
EBIT	2,688	2,052	9,573	16,127	8,324		(48.4)
Other Income	2,108	1,951	1,732	2,419	2,991	41.9	23.6
Interest	5,288	5,494	5,034	4,659	4,117	(22.1)	(11.6)
PBT	-492	-1,491	6,270	13,887	7,197		
Total Tax	414	410	540	-16,097	859	107.6	(105.3)
Adjusted PAT	-905	-1,901	5,730	29,984	6,339		(78.9)
Extra ordinary items (Loss)/Gain	-905	-1,025	-668	-3,028	-6,979		
Reported PAT	-1,810	-2,926	5,062	26,956	-640		
Adjusted EPS (Rs)	(0.2)	(0.5)	1.5	7.8	1.7		
PAT from discontinued operations (PV)	0	0	0	0	0		
Adjusted PAT incl discontinued ops	-905	-1,901	5,730	29,984	6,339		
Reported PAT incl discontinued ops	-1,810	-2,926	5,062	26,956	-640		

(%)						(bps)	(bps)
EBITDAM	4.7	4.4	8.8	10.3	8.4	374	-194
EBITM	1.8	1.4	6.1	8.0	5.3	345	-275
EBTM	(0.3)	(1.0)	4.0	6.9	4.5	488	-235
PATM	(0.6)	(1.3)	3.6	14.9	4.0	461	-1,088
Effective Tax rate	(84.1)	(27.5)	8.6	(115.9)	11.9	9,599	12,784

Source: Company, Emkay Research

Exhibit 4: JLR Quarterly Snapshot

£ mn	Q1FY23	Q2FY23	Q3FY23	Q4FY23	Q1FY24	YoY (%)	QoQ (%)
Revenue	4,406	5,260	6,041	7,102	6,903	56.7	(2.8)
Expenditure	4,127	4,719	5,325	6,067	5,780	40.1	(4.7)
as % of sales	93.7	89.7	88.1	85.4	83.7		
Consumption of RM	2,762	3,212	3,707	4,327	4,026	45.8	(7.0)
as % of sales	62.7	61.1	61.4	60.9	58.3		
Employee Cost	570	604	654	696	716	25.6	2.9
as % of sales	12.9	11.5	10.8	9.8	10.4		
Other expenditure	795	903	964	1,044	1,038	30.6	(0.6)
as % of sales	18.0	17.2	16.0	14.7	15.0		
EBITDA	279	541	716	1,035	1,123	302.5	8.5
EBITDA margin (%)	6.3	10.3	11.9	14.6	16.3		
Depreciation	477	493	494	578	538	12.8	(6.9)
EBIT	-198	48	222	457	585	(395.5)	28.0
Interest	107	112	117	104	98	(8.4)	(5.8)
Share of JV	2	6	3	4	10		150.0
PBT	-303	-58	108	357	497		
Total Tax	113	-75	4	115	112	(0.9)	
Adjusted PAT	-416	17	104	242	385		59.1
Extra ordinary items (Loss)/Gain	-66	-115	157	17	-62	(6.1)	
Reported PAT	-482	-98	261	259	323		
(%)						(bps)	(bps)
EBITDAM	6.3	10.3	11.9	14.6	16.3	994	169
EBITM	(4.5)	0.9	3.7	6.4	8.5	1,297	204
EBTM	(6.9)	(1.1)	1.8	5.0	7.2	1,408	217
PATM	(9.4)	0.3	1.7	3.4	5.6	1,502	217
Effective Tax rate	(37.3)	129.3	3.7	32.2	22.5	5,983	-968

Source: Company, Emkay Research

Exhibit 5: Change in estimates

Consolidated (no. of units)	FY24E				FY25E				FY26E	
	Earlier	Revised	% chg	% YoY	Earlier	Revised	% chg	% YoY	Introducing	% YoY
JLR Volume (excl China JV)	397,990	397,990	-	23.8	419,223	419,223	-	5.3	441,677	5.4
Standalone Volume	440,293	422,204	(4.1)	2.4	467,880	443,950	(5.1)	5.2	471,905	6.3
Cons. Revenue (Rs mn)	4,355,175	4,260,094	(2.2)	23.1	4,748,598	4,620,996	(2.7)	8.5	4,956,518	7.3
Cons. EBITDA (Rs mn)	457,403	580,972	27.0	82.5	503,051	599,116	19.1	3.1	655,702	9.4
Cons. Margin (%)	10.5	13.6	314 bps	444 bps	10.6	13.0	237 bps	(67) bps	13.2	26 bps
Cons. PAT (Rs mn)	108,818	200,498	84.3	NM	145,757	210,824	44.6	5.2	250,842	19.0
Cons. EPS (Rs)	28.4	52.3	84.3	NM	37.1	57.3	54.5	9.5	68.2	19.0

Source: Company, Emkay Research

Exhibit 6: Tata Motors – SOTP based Valuation

	Basis of valuation	Equity value (Rs mn)	Equity value (Rs/share)	Contribution to SOTP (%)	Remarks
India CV	EV/EBITDA 10x	697,868	190	25	In line with AL's multiple
India ICE-PV	EV/Sales 1.3x	641,326	174	23	15% discount to MSIL's multiple of ~1.5x EV/Sales
India E-PV	Transaction value	309,750	84	11	Taking Pre-money transaction valuation fixed during the TPG deal at 40% discount
JLR	EV/EBITDA 2x	847,965	231	31	EV/EBITDA multiple is at ~70% premium to present valuation of European peers, amid significantly higher earnings growth
JLR China JV	EV/EBITDA 4x	57,699	16	2	Stake stands at 50%
Tata Sons	NAV 1x	67,692	18	2	Holding company discount at 80%, as stake may not be monetized
Tata Motors Finance	P/B 1x FY22	45,905	12	2	Holding company discount at 20%
Tata Technologies	P/E 30x FY22	78,050	21	3	Holding company discount at 20%
Total			747		
Total			750		

Source: Company, Emkay Research

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Exhibit 7: Revenue model

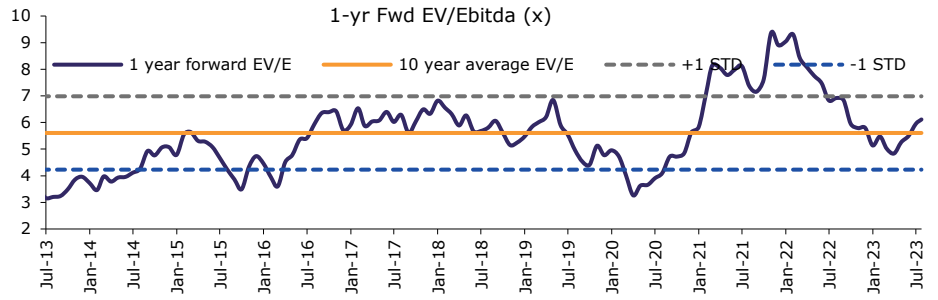
(Rs mn)	FY22	FY23	FY24E	FY25E	FY26E
CV revenue	472,637	657,573	728,961	798,595	831,602
Growth (%)	56.6	39.1	10.9	9.6	4.1
PV revenue	325,722	488,671	511,319	591,529	654,891
Growth (%)	94.9	50.0	4.6	15.7	10.7
CV EBITDA	16,357	48,108	70,345	82,255	86,902
EBITDA margin (%)	3.5	7.3	9.6	10.3	10.5
PV EBITDA	9,150	27,862	35,889	43,579	50,250
EBITDA margin (%)	2.8	5.7	7.0	7.4	7.7
CV EBIT	5,351	38,649	59,009	67,924	68,930
EBIT margin (%)	1.1	5.9	8.1	8.5	8.3
PV EBIT	(9,324)	7,571	17,960	23,783	28,780
EBIT margin (%)	(2.9)	1.5	3.5	4.0	4.4
JLR Business (GBP mn)	FY22	FY23	FY24E	FY25E	FY26E
JLR Revenue	18,320	22,809	29,154	30,890	33,191
Growth (%)	-7.2	24.5	27.8	6.0	7.4
JLR EBITDA	1,896	2,571	4,383	4,543	4,882
EBITDA margin (%)	10.3	11.3	15.0	14.7	14.7
JLR EBIT (incl China JV)	(48)	529	2,182	2,178	2,272
EBIT margin (%)	-0.3	2.3	7.5	7.1	6.8
JLR PAT	-793	(53)	1,374	1,460	1,624
Consolidated Financials (Rs mn)	FY22	FY23	FY24E	FY25E	FY26E
India revenue	798,359	1,146,244	1,240,280	1,390,124	1,486,493
JLR revenue	1,864,976	2,213,460	2,886,211	3,089,012	3,319,142
Consolidated revenue	2,784,536	3,459,670	4,260,094	4,620,996	4,956,518
Growth (%)	11.5	24.2	23.1	8.5	7.3
India EBITDA	25,507	75,971	106,234	125,834	137,153
JLR EBITDA	193,013	249,498	433,903	454,259	488,208
Consolidated EBITDA	248,132	318,296	580,972	599,116	655,702
Growth (%)	-18.8	28.3	82.5	3.1	9.4
EBITDA margin (%)					
India	3.2	6.6	8.6	9.1	9.2
JLR	10.3	11.3	15.0	14.7	14.7
Consolidated EBITDA margin	8.9	9.2	13.6	13.0	13.2
India EBIT (Rs mn)	(3,973)	46,220	76,969	91,707	97,711
JLR EBIT (Rs mn)	(4,886)	51,336	216,064	217,815	227,186
Consol EBIT (Rs mn)	30,312	116,024	357,624	356,936	382,864
Consol EBIT margin (%)	1.1	3.4	8.4	7.7	7.7
Consol PAT (Rs mn)	(107,188)	7,336	200,498	210,824	250,842
No of shares (mn)	3,829	3,830	3,830	3,677	3,677
Consol EPS (Rs)	-28.0	1.9	52.3	57.3	68.2
Consol Net Debt/(Cash) (Rs mn)	1,008,381	698,066	440,374	293,715	(20,430)
Consol FCF (Rs mn)	(6,555)	175,774	367,828	239,001	388,865
ROE (%)	(21.5)	1.6	27.3	21.1	19.3
ROCE (%)	0.7	4.0	14.5	13.7	13.6

Source: Company, Emkay Research

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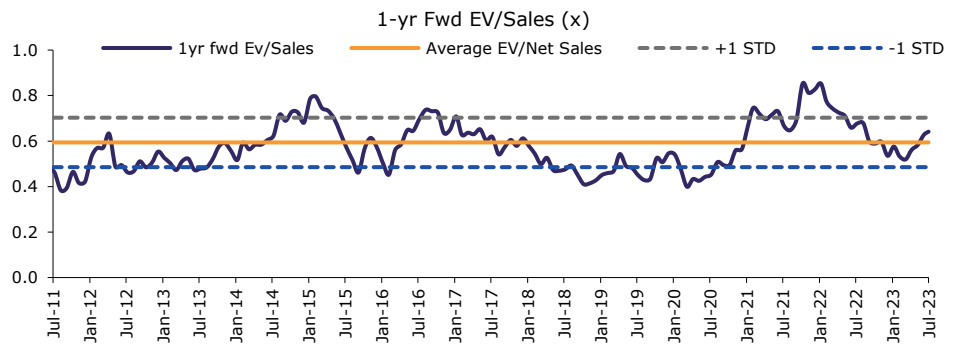
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Exhibit 8: Tata Motors – One-year forward EV/EBITDA at 6.1x; above the 10-year average of 5.6x, while on par with the 5-year average of 6.1x



Source: Company, Emkay Research

Exhibit 9: Tata Motors – One-year forward EV/sales at 0.6x; on par with the 10-year average EV/sales



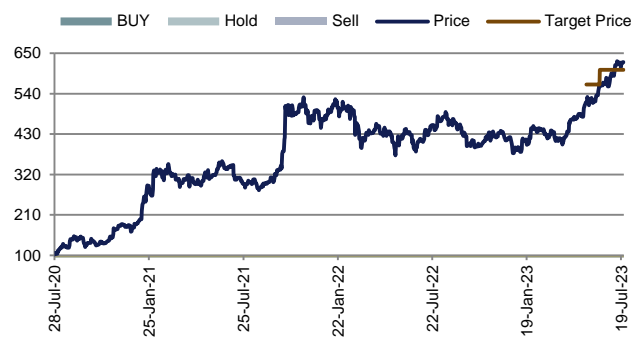
Source: Company, Emkay Research

RECOMMENDATION HISTORY - DETAILS

Date	CMP (INR)	TP (INR)	Rating	Analyst
08-Jun-23	560	605	Buy	Chirag Jain
13-May-23	516	565	Buy	Chirag Jain

Source: Company, Emkay Research

RECOMMENDATION HISTORY - TREND



Source: Bloomberg, Company, Emkay Research

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