Sharekhan by BNP PARIBAS

Powered by the Sharekhan 3R Research Philosophy

Tata Motors Ltd

Revved up and rolling

Automobiles	Sharekhan code: TATAMOTORS
Reco/View: Buy ↔	CMP: Rs. 640 / Price Target: Rs. 748 ↑

↑ 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 27.5

Updated June 08, 2023

Medium Risk

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

Source: Morningstar

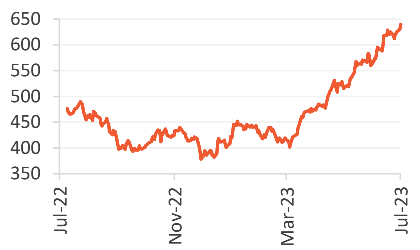
Company details

Market cap:	Rs. 212,522 cr
52-week high/low:	Rs. 640/375
NSE volume: (No of shares)	121.1 lakh
BSE code:	500570
NSE code:	TATAMOTORS
Free float: (No of shares)	285.7 cr

Shareholding (%)

Promoters	46.4
FII	19.1
DII	17.5
Others	17.1

Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	3.5	25.6	44.3	34.4
Relative to Sensex	1.9	18.5	32.7	20.3

Sharekhan Research, Bloomberg

Summary

- We maintain our Buy on Tata Mootors (TML) with a revised PT of Rs 748 on expecting continued improvement in JLR, PV and CV business and reduced net automotive debt from current levels.
- JLR reported a robust EBITDA margin at 16.3% with an FCF of GBP 451 mn in Q1FY24 and guided for a steady demand outlook supported by an order book of 185,000 units.
- Despite 26% q-o-q decline in volumes, CV business reported an EBITDA margin at 9.4% in Q1Fy24 against 10.1% in Q4FY23.
- Net automotive debt decreased from Rs 43,700 crore in Q4FY23 to Rs 41,700 cr in Q1FY24.

TML reported strong operating performance in Q1FY24, led by robust operational performance in JLR business, while consolidated revenue came in line with estimates. Consolidated EBITDA exceeded our estimates by 10% and consolidated EBITDA margin beat estimates by 120 bps. Along with substantial EBITDA margin (at 16.3%), JLR reported an FCF of GBP 451 mn in Q1FY24. Though JLR's cash flow and production would be impacted in Q2FY24 due to the summer holidays in the UK, the company maintains its optimistic outlook for FY24, backed by steady demand (order book of 185,000 units) and expectation of gradual improvement in supply chain issues. With a shift in focus from discount-driven volume growth to profitability CV business has reported a decent EBITDA margin at 9.4% in Q1FY24 and continues to double- digit EBITDA Margin for the FY24. While PV business reported subdued EBITDA margin at 5.3% in Q1FY24 on a negative EBITDA Margin (-9.7%) in the EV business due to front load of cost in EV business, its traditional PV business has registered decent EBITDA Margin at 8.6%. The management assumes that the operating performance in the EV business will improve in the coming quarters. Further, the net automotive debt has reduced from Rs 43,700 crore in Q4FY23 to Rs 41,700 cr in Q1FY24. Additionally, TML has also decided to cancel DVR shares and allocated seven ordinary shares for every 10 DVRs. While cancelling DVRs would reduce the outstanding shares by 4%, it would increase the free float of common shares at exchanges. We believe that recovery in JLR volumes and improvement in domestic business would heldTML reduce its net automotive debt sharply in coming quarters. We maintain our BUY rating on the stock with an upward revised PT of Rs 748.

Key positives

- While volumes were down by a mere 1.5% q-o-q, JLR's EBITDA margin expanded by 170 bps q-o-q to 16.3% on better pricing and mix.
- Although the domestic CV segment witnessed a 26.1% q-o-q decline in volumes, but it registered mere 70 bps q-o-q contraction in EBITDA margin at 9.4% as TML is focussing more on profitability in CV business than registering plain vanilla volume growth
- Net automotive debt come down from Rs 43,700 crore in Q4FY23 to Rs 41,700 cr in Q1FY24.

Key negatives

- EBITDA margin in PV business has come down from 7.3% in Q4FY23 to 5.3% in Q1FY24 on EBITDA losses in EV business
- Market share in the CV segment (retail segment) decreased from 41.7% in FY23 to 39.1% in Q1FY24 due to change in emission norms.

Management Commentary

- The profitability in domestic EV (PV) business would improve in coming quarters on cost reduction, PLI benefits and a rise in localisation.
- CV business continues to target a double-digit EBITDA margin in FY24.
- JLR maintains its volume target of 4 lakh units for FY24 with improvement in volumes performance in H2FY24 compared to H1FY24.

Our Call

Valuation - Maintain Buy with a revised PT of Rs. 748: TML has reported strong operating performance in Q1Fy24 on the back of a recovery in JLR's production and a healthy profitability trend in the domestic CV business. Along with a robust EBITDA margin at 16.3%, JLR has reported a FCF of GBP 451 mn and guided for healthy demand traction in high-margin models as 76% of its order book is constituted by Range Rover,Range Rover Sport and Defender. JLR expects its performance in H2FY24 will be better than that of its performance in H1FY24. 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). The management is looking for double-digit EBITDA margins 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 company in achieving speedy product validation and reduce the dependence on the third-party suppliers. We maintain a Buy rating on the stock with an SOTP-based revised PT of Rs. 748.

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 location where the company has a strong presence can affect business and profitability. The company's operations can be further affected if the global chip shortage worsens.

Valuation (Consolidated) Rs cr

Particulars	FY21	FY22	FY23	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
Adj EBIDTA	30,555	24,813	31,830	48,898	58,241
OPM (%)	12.2	8.9	9.2	11.7	12.0
Adj PAT	(1,366)	(10,719)	734	9,789	12,649
Growth (%)	-	684.6	-	1234.4	29.2
FD EPS (Rs)	(4)	(28)	2	26	33
P/E (x)			-	25.0	19.4
P/B (x)	4.4	5.5	5.4	4.5	3.7
EV/EBIDTA (x)	9.5	12.9	9.9	6.4	5.5
RoE (%)	-2.5	-24.1	1.6	17.8	18.8
RoCE (%)	6.9	2.6	5.0	9.6	10.6

Source: Company; Sharekhan estimates

Cancellation of DVR: improve free float in exchanges

- While DVRs were issued at 10% discount to ordinary shares in 2008 with lower voting rights (1/10th) and higher dividend (by 5%), historically the discounts have been consistently increasing. The average discount between DVR and ordinary shares stands at 45.1% for last ten years.
- Hence,TML has decided to cancel the DVRs and would issue 7 ordinary shares for every 10 DVR shares - in consideration for cancellation of DVRs. The swap ratio between DVRs and ordinary shares would remain the same despite price movement.
- Considering the ordinary share price at Rs 629 and DVRs share price at Rs 357 (on 24th July), the swap ratio values DVR at a 23% premium and reduces the discount from 43% to 30%.
- The pretax value/unit of DVRs works out to be ~Rs 440 on assuming ordinary share value at Rs 629, swap ratio as 7 ordinary shares for every 10 DVRs.
- Post cancellation of DVRs, the outstanding shares would reduce by 4% from 383 cr (ordinary shares: 332cr + DVRs :51 cr) to 368 cr shares. They hence would be EPS accretive, while it would increase the overall market cap of the Tata Motors on removal of differential pricing of stocks. Further it would increase the free float of ordinary shares on exchanges.
- The transaction is expected to be completed in the next 12- 15 months and would not impact TML's financials as it would not require any cash outflow.
- The transaction is taxable in the hands of DVR shareholders as wwithholding taxes applicable for deemed dividend & capital gains

JLR: Optimistic outlook

- While JLR has reported a mere 1.5% decline in volumes it reported 170 bps q-o-q improvement in EBITDA Margin at 16.3% on improvement in better mix and pricing.
- In Q1FY24, JLR's FCF stood at 451 mn against FCF of 551 mn in FY23.
- Sequentially, the volume contribution from UK, China and Europe has come down marginally, while the volume contribution from the US and the 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%.
- JLR continues to enjoy a 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 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 that 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 constitute 76% of the total order book.
- While JLR has guided for a muted production and cash flow in Q2FY24 with steady volumes and profitability, it continues to maintain its volume target of 4 lakh units for FY24. The performance in Q2FY24 would be impacted due to summer holidays / plant shutdowns. JLR is continuing to be optimistic on its growth prospects in FY24 despite near-term challenges.
- Total investments in Q1FY24 investment stands at GBP 697mn, and it maintains its investment guidance of GBP 3 mn for FY24.

CV division: continue to target double digit EBITDA margin for FY24

- Domestic CV business has registered a 15.0% y-o-y and 26.1% q-o-q volume decline due to high base.
- The performance of the CV division was impacted in Q1FY24 due to the implementation of BSVI phase 2 norms. However, production has been normalised now, and TML assumes a sequential recovery in volumes in Q2FY24 though the volumes in July are assumed to be muted due to ongoing monsoon trends.

- The q-o-q decline in CV volumes was expected as CV industry has witnessed robust volumes in Q4FY23 due to pre buying ahead of implementation of BSVI phase 2 norms from April 2023.
- The management continues to target a double-digit EBITDA margin in CV business in FY24 via improving ASPs and controlling costs.

PV division: margins in EV segment to improve in coming period

- Domestic PV business continues to maintain traction and has registered 7.9% y-o-y and 3.5% q-o-q increase in volumes.
- The EBITDA Margin in the PV business was impacted due to upfront cost in EV business. PV business reported EBITDA Margin of 5.3% in Q1FY24 compared to 7.3% in Q4Fy23 as the electric car business reported a negative EBITDA margin at 9.7% compared to 8.6% margin reported by traditional PV business.
- Going forward the management is optimistic on the performance in PV business and assumes the losses in EV business would come down in coming quarters on reduction in input cost including battery cost, rise in localization and PLI benefit.

Results (Consolidated) Rs cr

Particulars	Q1FY24	Q4FY22	% YoY	Q3FY23	% QoQ
Revenue	1,02,236	71,935	42.1	1,05,932	(3.5)
Total Expenses	88,677	68,754	29.0	93,123	(4.8)
Operating Profit	13,560	3,181	326.3	12,810	5.9
Core PBT	5,672	(4,194)	-	4,695	20.8
Tax	1,563	1,519	2.9	(621)	-
Share Of profit from Associates/MI	113	(20)	-	3	-
Reported PAT	3,203	(5,007)	-	5,408	(40.8)
Adj Net Profit	4,222	(5,732)	-	5,319	(20.6)
Adjusted EPS (Rs)	11.0	(15.0)	-	13.9	(20.6)

Source: Company, Sharekhan Research

Key Ratios (Consolidated)

Particulars	Q1FY24	Q4FY22	YoY (bps)	Q3FY23	QoQ (bps)
Gross Margin (%)	37.6	33.0	460	35.6	200
EBITDA Margin (%)	13.3	4.4	880	12.1	120
PAT Margin (%)	4.1	(8.0)	1,210	5.0	(90)

Source: Company, Sharekhan Research

Quarterly performance trend

Particulars	Q4FY22	Q1FY23	Q2FY23	Q3FY23	Q4FY23	Q1FY24	YoY chg	QoQ chg
JLR (GBP mn)								
Volumes (units)	76526	71815	75307	79591	94649	93253	30%	-1%
Revenue	4767	4406	5260	6041	7102	6903	57%	-3%
REBIDTA	599	279	541	716	1035	1123	303%	9%
REBIDTA %	12.6%	6.3%	10.3%	11.9%	14.6%	16.3%		
CV business Rs cr								
Volumes (units)	119870	100921	100536	95914	116168	85795	-15%	-26%
Revenue	18529	16270	16420	16886	21240	16991	4%	-20%
REBIDTA	1093	895	821	1418	2145	1597	78%	-26%
REBIDTA %	5.9%	5.5%	5.0%	8.4%	10.1%	9.4%		
PV business Rs cr								
Volumes (units)	123590	130125	142851	132255	135654	140450	8%	4%
Revenue	10491	11556	12547	11671	12093	12839	11%	6%
REBIDTA	724	705	740	805	883	680	-3%	-23%
REBIDTA %	6.9%	6.1%	5.9%	6.9%	7.3%	5.3%		
Consolidated Rs cr								
Revenue	78439	71935	79611	88489	105932	102236	42%	-3%
Adj. EBIDTA	8741.57	3181	6196	9643	12810	13560	326%	6%
Adj. EBIDTA margin	11.1%	4.4%	7.8%	10.9%	12.1%	13.3%		

Source: Company, Sharekhan Research

Segment-wise expectations

Domestic PV business Rs cr	FY22	FY23	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	FY23	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	FY23	FY24E	FY25E
Volumes units	294182	321362	380000	435000
growth		9%	18%	14%
Revenue	18320	22809	27510	32122
growth		25%	21%	17%
REBIDTA	1570	2227	3452	4082
growth		42%	55%	18%
REBIDTA %	8.6%	9.8%	12.5%	12.7%

Source: Company, Sharekhan Research

CJLR business IFRS GBP mn	FY22	FY23	FY24E	FY25E
Volumes units	53468	50900	65000	75400
growth		9%	18%	14%
Revenue	1669	1683	2049	2401
growth		0.8%	21.8%	17.2%

Source: Company, Sharekhan Research

Outlook and Valuation

■ Sector view - The demand outlook remains strong

With ease out of the semiconductor chip supply issue, production has been recovering. We believe that global vehicle production would see fewer headwinds in FY24 compared to FY23, on improved supply chain situation. While pent demand has been playing out in the domestic PV market the same would continue to play out in the global luxury market for some time. Domestic PV and CV segment are continuing to witness an uptick in the near term as the CV cycle is assumed to be in a 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. 748

TML has reported strong operating performance in Q1Fy24 on the back of a recovery in JLR's production and healthy profitability trend in the domestic CV business. Along with a robust EBITDA margin at 16.3%, JLR has reported an FCF of GBP 451 mn and guided for a healthy demand traction in high-margin models as 76% of its order book is constituted by Range Rover, Range Rover Sport and Defender. JLR expects its performance in H2FY24 will be better than that of its performance in H1FY24. 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). The management is looking for a double-digit EBITDA margin in both CV and PV business. It is also looking for a positive EBITDA in electric PV business in near to medium term. Further, the 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. 748.

SOTP valuation

Business	Valuation basis	Multiple	Per share value (Rs)
PV business	FY25E EBIDTA	12.0	171
CV business	FY25E EBIDTA	11.0	237
JLR business	FY25E EBIDTA	3.5	380
Total EV			788
Net automotive debt			-72
Total equity value			716
China JV	FY25E sales	0.5	32
Total value per share			748

Source: Company, Sharekhan Research

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. 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 recent resilient operational performance, robust FCF for JLR, and standalone businesses led by its 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. The Outlook for JLR business is positive, aided by improving macro-environment in Europe, the UK, America, and China. The 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 to 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. We expect all-round improvement in the company's business and 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

Top 10 shareholders

Sr. No.	Holder Name	Holding (%)
1	TATA Sons Pvt Ltd	43.72%
2	Life Insurance Corp of India	5.21%
3	SBI Funds Management Ltd	2.24%
4	TATA Industries Ltd	2.17%
5	Vanguard Group Inc/The	1.65%
6	BlackRock Inc	1.58%
7	Jhunjhunwala Rekha Rakesh	1.57%
8	Jhunjhunwala Rakesh	1.11%
9	Republic of Singapore	1.01%
10	HDFC Asset Management Co Ltd	0.98%

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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Registration and Contact Details: Name of Research Analyst - Sharekhan Limited, Research Analyst Regn No.: INH000006183. (CIN): - U99999MH1995PLC087498. Registered Office: The Ruby, 18th Floor, 29 Senapati Bapat Marg, Dadar (West), Mumbai – 400 028, Maharashtra, INDIA. Tel: 022-6115000.

Other registrations of Sharekhan Ltd.: SEBI Regn. Nos.: BSE / NSE / MSEI (CASH / F&O / CD) / MCX - Commodity: INZ000171337; DP: NSDL/CDSL-IN-DP-365-2018; PMS: INP000005786; Mutual Fund: ARN 20669.

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