

Tata Motors Ltd



Tata Motors Ltd

JLR continues its strong run, CV financials strong despite weak volumes

CMP INR 644	Target INR 743	Potential Upside 15.4%	Market Cap (INR Mn) INR 21,40,276	Recommendation BUY	Sector Automobile
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Result Highlights of Q1FY24

- TTMT's consolidated revenue for Q1FY24 was INR 10,22,361 mn, a growth of 42.1% YoY but a decline of 3.5% QoQ.
- EBITDA for the quarter was INR 1,35,595 mn, which is a growth of 326.3% YoY/ 6.0% QoQ. EBITDA margin expanded by 884 bps YoY/ 118 bps QoQ to 13.3%.
- As per the company's definition, consolidated EBITDA margin improved by 700 bps YoY, JLR EBITDA margins improved by 960 bps YoY, TML-CV EBITDA margin improved by 390 bps YoY while TML-PV EBITDA margin contracted by 80 bps YoY.
- PAT was INR 32,028 mn, a growth of 164.0% YoY from a loss of INR 50,066 mn reported in Q1FY23, and a decline of 40.8% QoQ.

MARKET DATA

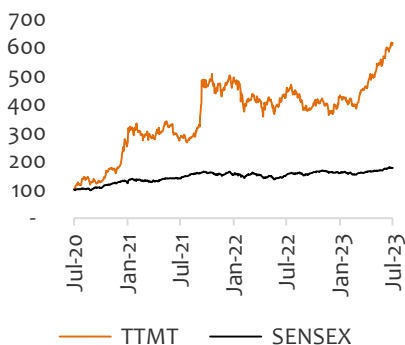
Shares outs (Mn)	3,830
Mkt Cap (INR Mn)	21,40,276
52 Wk H/L (INR)	655/375
Volume Avg (3m K)	12,807
Face Value (INR)	2
Bloomberg Code	TTMT IN

KEY FINANCIALS

Particulars (INR Mn)	FY21	FY22	FY23	FY24E	FY25E
Revenue	24,97,948	27,84,536	34,59,670	44,28,414	47,73,918
EBITDA	3,05,553	2,47,988	3,18,158	5,45,423	6,24,388
PAT	-1,34,514	-1,14,415	24,143	1,57,874	1,92,843
EPS (INR)	-35.1	-29.9	6.3	41.2	50.3
EBITDA Margin	12.2%	8.9%	9.2%	12.3%	13.1%
NPM	-5.4%	-4.1%	0.7%	3.6%	4.0%

Source: Company, KRChoksey Research

SHARE PRICE PERFORMANCE



Strong revenue growth led by JLR: TTMT's consolidated revenue for Q1FY24 was INR 10,22,361 mn, a growth of 42.1% YoY but a decline of 3.5% QoQ. Volume and mix were the main contributors to growth at 29.8% YoY while price growth was 8.1% YoY. JLR revenue in INR terms grew by 65.8% YoY while it was almost flat QoQ. JLR wholesale volumes were +29.9% YoY/ -1.5% QoQ. TML-CV revenue grew by 4.4% YoY but declined by 20.0% QoQ, while wholesale volumes declined by 15.0% YoY/ 26.1% QoQ, impacted by seasonality and the transition to BS 6 Phase 2 emission norms. Despite the YoY volume decline, revenue grew YoY due to an improved mix and better market operating price. TML-PV continued to witness robust demand and saw revenue growth of 11.1% YoY/ 6.2% QoQ, with underlying volumes growing by 7.8% YoY/ 3.5% QoQ.

Sequential margin improvement for JLR, while CV and PV margins lower QoQ: Calculated consolidated EBITDA for the quarter was INR 1,35,595 mn, which is a growth of 326.3% YoY/ 6.0% QoQ. EBITDA margin expanded by 884 bps YoY/ 118 bps QoQ to 13.3%. TTMT's consolidated EBITDA/ EBIT margins as reported by the company improved by 700 bps/ 880 bps YoY, respectively. JLR's reported EBIT margin of 8.6% was the highest in 6 years while excluding one-offs it was at 7.5%. JLR's reported EBITDA margin was at 16.3%, the highest in 8 years. JLR's profitability improvement YoY was aided by favourable volume, mix, pricing and foreign exchange revaluation offset partially by higher inflation and supplier claims. TML-CV margins were lower QoQ due to seasonality but were higher YoY (+390 bps/ +370 bps YoY for EBITDA/ EBIT margins, respectively) led by improved pricing, superior mix, and stable commodity costs. TML-PV reported EBITDA margin declined by 80 bps YoY, while EBIT margin improved by 10 bps YoY, impacted by a higher mix of EVs and higher fixed expenses.

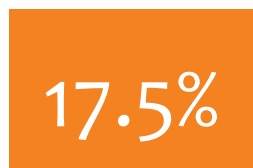
Free cash flow and debt: JLR generated FCF of GBP 451 mn in Q1FY24, its highest Q1 cash flow on record. JLR's cash on hand increased to GBP 4 bn and net debt was reduced by GBP 0.5 bn QoQ to GBP 2.5 bn at the end of Q1FY24. TTMT has maintained all of its earlier guidance, with the possibility of revising upwards in the coming quarter.

MARKET INFO

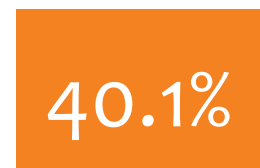
SENSEX	66,528
NIFTY	19,754

SHARE HOLDING PATTERN (%)

Particulars	Jun-23	Mar-23	Dec-22
Promoters	46.4	46.4	46.4
FIs	19.1	16.9	18.2
DIs	17.5	17.8	15.4
Others	17.1	18.9	20.1
Total	100.0	100.0	100.0



Revenue CAGR between FY23 and FY25E



EBITDA CAGR between FY23 and FY25E

ANALYST

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KRChoksey Research

is also available on Bloomberg KRCS<GO> Thomson Reuters, Factset and Capital IQ

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Key Concall Highlights:

JLR – (1) Q1FY24 was the second consecutive quarter with over 100,000 retail sales. (2) JLR's order book has remained strong at 185,000 with 76% share of Range Rover, Range Rover Sport and Defender. (3) Range Rover / Range Rover Sport production ramped up to over 2,800 units per week in the quarter. A 2nd body shop is being installed in Solihull, which will increase the capacity by 30% in future quarters. (4) JLR is seeing supply chain shortages in its PHEV supply chain, specifically in Europe and UK. (5) A favourable change in product mix vs. last year, where Range Rover moved from 8% of the mix to 18%, and Range Rover, Range Rover Sport and Defender moved from 45% to 63%, has led to improved profitability. Higher Parts and Accessories profits also contributed to overall PBT improvement. (6) JLR has started investing more in fixed marketing to aid demand generation at the back end of this year. (7) Engineering capitalization rate increased to 61% in Q1FY24 from 53% in Q4FY23 owing to the product cycle plan. (8) The China JV-CJLR, had a good performance with strong EBITDA margin and PBT on a YoY and QoQ basis. (9) All 2,000 units of the Range Rover Sport SV, Edition One priced between GBP 160,000 and GBP 190,000, have been reserved before production has even started. (10) JLR has 2 weeks of planned shutdowns in August which will lead to lower production in Q2FY24E. Cash flow will also be lower QoQ while wholesales and profitability will be more in-line QoQ. (11) JLR will see an increase in marketing costs, which it will offset with lower material costs, operating leverage, and improvement in product quality and warranty costs. (12) Adrian Mardell and Richard Molyneux were confirmed as Chief Executive Officer and Chief Financial Officer respectively. (13) Tata Son's newly announced GBP 4 bn UK gigafactory will provide JLR with stable and secure supply of battery cells to electrify JLR's next-generation modern luxury vehicles.

TML-PV & EV – (1) TML-PV's domestic market share improved to 14.2% in Q1FY24 from 13.5% in FY23, even in the face of a significant competitive onslaught on multiple fronts. TML-PV maintained #1 position in the compact SUV segment and #2 in the high SUV segment. After more than a decade, TML-PV attained #2 position in hatches. (2) EV penetration is now at 14% of the portfolio, and CNG at 8% of the portfolio, both auger well for the future. (4) Vahan market share for EVs declined to 76% vs. 83.9% in FY23 as a significant competitive intervention that happened during the quarter (5) EBITDA margin of PV business continued to be higher at 8.6% vs. 8.5% for FY23. EBITDA margin for EV was -9.7% in Q1FY24 vs. -4.9% in FY23, impacted by higher marketing spending during IPL and higher lithium prices in the last 9 months. EV margins will improve in H2FY24E as the higher marketing spends have already been frontloaded, lithium prices have started declining, the benefit of localization will start to come in, and the expectation of PLI benefits for Tiago EV. (6) EV adoption is now growing beyond the top 20 cities.

TML-CV – (1) TML-CV's domestic market share declined to 39.1% in Q1FY24 from 41.7% in FY23. Market share performance was impacted due to the lower availability of BS6 Phase 2 vehicles in the quarter. (2) The entire product range was migrated to BS-6 phase 2 with a high level of change content which led to a slower ramp-up of production. This started improving from June onwards and TML-CV has now reached the required levels of production. (3) The decline in wholesales in Q1FY24 was expected on account of seasonality and pre-buying seen in Q4FY23. Volumes are expected to normalize going ahead. (4) Post CNG price correction, the CNG retail sales of SCVs have seen some improvement. TML-CV expects a gradual pick up in CNG sales. (5) The sentiment index has gone up for M&HCVs and marginally for SCVs, while it has remained lower for ILCVs. (6) TML-CV expects to see market share recovery in Q2FY24E with improved vehicle availability, focus on realization improvement and retail growth. (7) TML-CV has improved margins in the international business on a YoY basis. (8) TML-CV has a total of 600 EV buses operational and has covered more than 75 mn km.

Other updates – (1) Overall CV + PV saw a cash outflow of almost INR 20 bn, almost entirely explained by working capital. This is a seasonality impact, driven by CVs and will reverse going forward. (2) Tata Motors Finance is on track to deliver double-digit ROE in the medium term and its focus will be on improving NIMS, lowering credit losses, and tight controls on costs. (3) Credit ratings have continued to improve and TTMT would be engaging with the agencies proactively. (4) Steel prices which had increased in Q1FY24, are expected to go back to the Q4FY23 levels. Additionally, there is a reduction in the prices of batteries for electric vehicles.

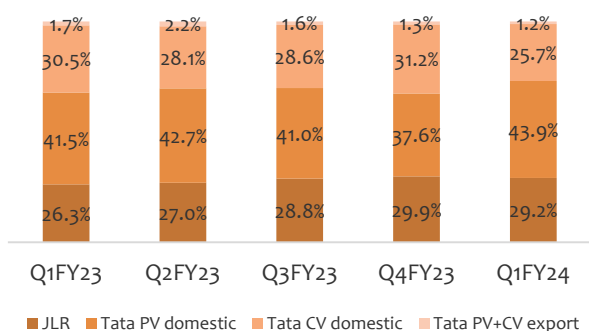
Scheme of arrangement for DVRs – (1) TTMT Board of Directors approved an NCLT scheme of arrangement for cancellation of "A" ORD shares and issuance of ORD Shares as consideration for the cancellation/capital reduction. (2) Every "A" ORD shareholder will receive 7 ORD shares for every 10 "A" ORD shares held. (3) At the time of the announcement, this translated to a 23% premium to the previous day's closing price of "A" ORD shares; and a 30% discount to ORD share price vs. ~43% discount prevailing at the time and ~50% average discount for the last 5 years. (3) There is no cash outgo to the transaction. (4) The scheme is subject to various approvals including SEBI, stock exchanges, NCLT and shareholders, and will likely take almost 12 to 15 months to complete. (5) The consideration, even though non-cash in nature, is going to be taxable in the hands of the shareholders depending on the shareholder's tax status and resident status. The distribution of the shares by TTMT to the shareholders will be treated as a deemed dividend, and there will be certain withholding taxes on those deemed dividends as is applicable in the case of a normal dividend (6) The scheme calls for the formation of a trust which will carry out the sale of ORD shares to settle tax liabilities of the "A" ORD shareholders and credit of the net ORD shares to those shareholders. (7) The scheme will benefit the "A" ORD shareholders in the form of higher liquidity for their shares. (8) ORD shareholders will benefit from a 4% EPS accretion on account of lower share capital. (9) TTMT will benefit from simplifying, streamlining, and consolidating its share capital. Market capitalization will increase due to removal of discount of the "A" ORD shares.

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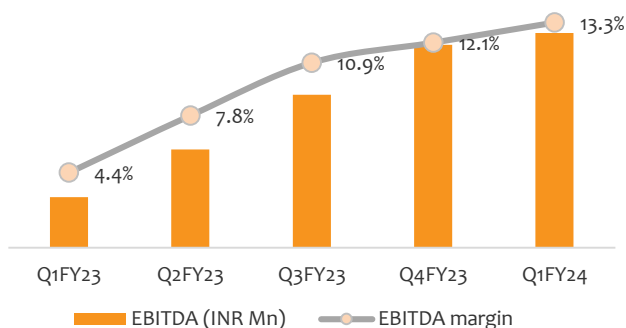
Valuation and view

TTMT has reported yet another quarter of stellar performance, led by JLR and CV business. The JLR business has seen sustained performance improvement and will see further benefits in H2FY23E from higher volumes, lower material costs and operating leverage. The improvement in profitability on account of product mix and cost rationalization is leading to strong FCF generation and a reduction in net debt. The TML-CV business has shown resilient performance, beating our estimates for the quarter, despite seeing weak volumes in the quarter. Recovery CV volumes in the coming quarters along with margin expansion from operating leverage, lower input costs, and better realizations will lead to continued strong performance. Within PV, recovery in margins for the EV business will push up overall margins. On a consolidated level, we increase our EBITDA estimates for FY24E/ 25E by 11.8%/ 7.0%, respectively to factor in the strong margin performance expected in all 3 businesses. **We expect the company will grow at a CAGR of 17.5%/ 40.1% in revenues/EBITDA over FY23-25E. We value the JLR & Chery-JLR JV businesses at 2.4x EV/EBITDA, TML-CV at 13.0x EV/EBITDA, and TML-PV business at 14.5x EV/EBITDA, and a value of INR 40 per share for stake in Tata Technologies and arrive at a target price of INR 743 per share (from INR 615 earlier), implying an upside of 15.4%. Accordingly, we maintain our “BUY” rating on the shares of Tata Motors.**

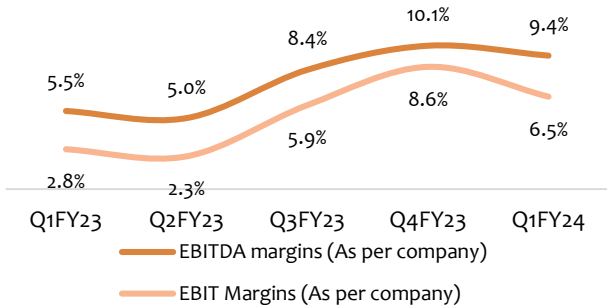
Wholesale Volume mix



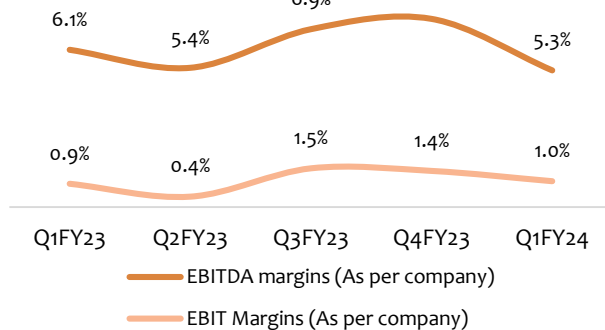
Consolidated margins continue to rise QoQ



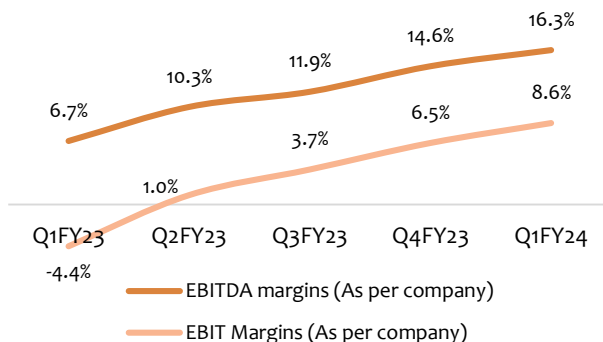
TML-CV Margin trajectory



TML-PV Margin trajectory



JLR Margin trajectory



Source: Company, KRChoksey Research

Tata Motors Ltd

KEY FINANCIALS

Particulars (Mn)	Q1FY24	Q4FY23	Q1FY23	QoQ	YoY
Revenue from operations	10,22,361	10,59,324	7,19,347	-3.5%	42.1%
Other income	13,605	15,769	8,874	-13.7%	53.3%
Total Income	10,35,966	10,75,093	7,28,220	-3.6%	42.3%
Total Expenditure	8,86,766	9,31,363	6,87,542	-4.8%	29.0%
Cost of materials consumed	6,24,792	6,02,119	4,73,363	3.8%	32.0%
Purchases of products for sale	76,071	62,477	52,636	21.8%	44.5%
Changes in inventories, WIP and sale	-63,028	17,348	-43,782	-463.3%	-44.0%
COGS	6,37,835	6,81,944	4,82,217	-6.5%	32.3%
Employee costs	98,518	93,775	77,864	5.1%	26.5%
Other expenses	1,50,413	1,55,644	1,27,461	-3.4%	18.0%
EBITDA (Excl OI)	1,35,595	1,27,961	31,805	6.0%	326.3%
EBITDA Margin (%)	13.3%	12.1%	4.4%	118bps	884bps
Depreciation	66,332	70,502	58,410	-5.9%	13.6%
EBIT	69,263	57,459	-26,605	20.5%	360.3%
EBIT Margin (%)	6.8%	5.4%	-3.7%	135bps	1047bps
Exceptional Items	10,188	-1,030	-7,258	1089.1%	240.4%
Interest	26,154	26,417	24,207	-1.0%	8.0%
EBT	46,527	47,841	-34,680	-2.7%	234.2%
Tax	15,630	-6,207	15,190	351.8%	2.9%
Net Profit from ordinary activity after tax	30,897	54,048	-49,870	-42.8%	162.0%
Share of profit after tax of associate	2,110	913	360	131.2%	485.3%
Minority income	979	883	556	10.9%	75.9%
PAT	32,028	54,078	-50,066	-40.8%	164.0%
PAT Margin (%)	3.1%	5.1%	-7.0%	-197bps	1009bps
EPS	8.4	14.1	-13.1	-40.8%	163.9%

Income Statement INR Mn	FY21	FY22	FY23	FY24E	FY25E
Revenue	24,97,948	27,84,536	34,59,670	44,28,414	47,73,918
Cost of sales	15,82,915	18,08,858	22,64,696	28,07,252	30,16,520
Gross profit	9,15,032	9,75,678	11,94,973	16,21,162	17,57,399
Employee benefit expense	2,76,485	3,08,085	3,36,547	4,18,765	4,48,858
Finance costs	80,972	93,119	1,02,255	1,00,138	95,218
Foreign exchange (gain)/loss	-17,322	787	-1,039	3,418	0
Depreciation	2,35,467	2,48,357	2,48,604	2,62,638	3,10,231
Product development	52,266	92,095	1,06,620	1,27,442	1,44,793
Other expenses	4,09,220	4,71,483	6,17,997	7,61,074	7,80,681
Amount capitalised	-1,28,491	-1,43,973	-1,84,348	-2,31,543	-2,41,322
Total expenses	24,91,512	28,78,811	34,91,331	42,49,186	45,54,979
EBITDA	3,05,553	2,47,988	3,18,158	5,45,423	6,24,388
EBIT	70,086	-369	69,554	2,82,785	3,14,157
PBT	-1,04,743	-70,034	30,575	2,23,531	2,71,453
Income tax expense	25,419	42,313	7,041	68,731	81,436
Net profit	-1,34,514	-1,14,415	24,143	1,57,874	1,92,843
EPS (INR)	(35.1)	(29.9)	6.3	41.2	50.3

Cash Flow Statement INR Mn	FY21	FY22	FY23	FY24E	FY25E
Cash from operations activities	2,90,005	1,42,828	3,53,881	5,53,297	6,15,590
Cash from investing activities	-2,61,263	-47,751	-1,68,042	-3,88,806	-4,18,175
Cash from financing activities	99,042	-33,802	-2,62,429	-1,52,196	-1,46,600
Net inc/dec in cash equivalents	1,27,785	61,275	-76,590	12,295	50,815
Opening Balance cash	1,83,722	3,17,000	3,81,590	3,18,871	3,31,165
Adjustment	5,494	3,315	13,870	0	-0
End Cash	3,17,000	3,81,590	3,18,871	3,31,165	3,81,981

Source: Company, KRChoksey Research

ANALYST

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Balance Sheet INR Mn	FY21	FY22	FY23	FY24E	FY25E
PPE	7,96,401	8,09,001	7,66,414	8,92,582	10,00,526
Capital WIP	83,771	35,292	52,199	52,199	52,199
Goodwill	64,907	66,860	78,010	78,010	78,010
Right to use assets	8,037	8,072	8,406	8,406	8,406
Other intangible assets	5,17,732	5,04,621	4,67,967	4,67,967	4,67,967
Intangible assets under management	1,25,868	67,221	90,546	90,546	90,546
Investments in equity accounted investees	42,008	43,494	46,757	46,757	46,757
Financial assets	2,52,337	1,94,796	1,81,799	1,81,799	1,81,799
Deferred tax assets (net)	45,204	38,709	51,847	51,847	51,847
Non-current tax assets (net)	10,033	11,968	15,564	15,564	15,564
Other non-current assets	16,085	56,392	86,021	86,021	86,021
Total Non current Assets	19,62,382	18,36,426	18,45,529	19,71,697	20,79,641
Inventories	3,60,887	3,52,403	4,07,554	5,07,613	5,45,453
Trade receivables	1,26,791	1,24,421	1,57,380	2,01,448	2,17,165
Cash and cash equivalents	3,17,000	3,81,590	3,18,870	3,31,165	3,81,981
Other financial assets	5,90,355	5,27,865	5,24,738	5,24,738	5,24,738
Current tax assets (net)	8,653	2,598	2,593	2,593	2,593
Assets classified as held-for-sale	2,208	5,239	8,278	8,278	8,278
Other current assets	62,984	75,659	95,873	95,873	95,873
Total Current Assets	14,68,877	14,69,775	15,15,285	16,71,707	17,76,080
Total Assets	34,31,260	33,06,201	33,60,814	36,43,404	38,55,721
Equity share capital	7,658	7,659	7,660	7,660	7,660
Other equity	5,44,809	4,37,954	4,45,558	5,95,722	7,79,313
Non-controlling interests	15,735	42,711	72,777	72,777	72,777
Total Equity	5,68,202	4,88,323	5,25,995	6,76,159	8,59,750
Borrowings	9,31,128	9,77,592	8,86,958	8,42,610	8,00,480
Other financial liabilities	25,564	53,337	83,225	83,225	83,225
Provisions	1,36,068	1,29,559	1,31,965	1,31,965	1,31,965
Deferred tax liabilities (net)	15,559	15,584	14,070	14,070	14,070
Lease liability	54,121	59,624	75,685	75,685	75,685
Other non-current liabilities	1,23,126	75,352	92,643	92,643	92,643
Total non current liabilities	12,85,564	13,11,048	12,84,545	12,40,197	11,98,067
Borrowings	4,27,917	4,19,179	3,69,647	3,69,647	3,69,647
Trade payables	6,81,798	5,99,704	7,20,558	8,93,182	9,59,765
Acceptances	78,603	97,800	71,960	71,960	71,960
Other financial liabilities	1,37,256	1,44,204	1,38,286	1,42,434	1,46,707
Provisions	1,28,480	1,07,663	1,18,107	1,18,107	1,18,107
Current tax liabilities (net)	10,864	12,539	12,542	12,542	12,542
Liabilities associated with Assets held-for-sale	0	31	0	0	0
Other current liabilities	1,04,432	1,17,615	1,10,330	1,10,330	1,10,330
Total current liabilities	15,77,494	15,06,831	15,50,273	17,27,049	17,97,904
Total liabilities	34,31,260	33,06,201	33,60,814	36,43,404	38,55,721

Key Ratio	FY21	FY22	FY23	FY24E	FY25E
EBITDA Margin (%)	12.2%	8.9%	9.2%	12.3%	13.1%
Tax rate (%)	-24.3%	-60.4%	23.0%	30.7%	30.0%
Net Profit Margin (%)	-5.4%	-4.1%	0.7%	3.6%	4.0%
RoE (%)	-22.3%	-21.7%	4.8%	26.3%	25.1%
RoCE (%)	3.6%	0.0%	3.9%	15.0%	15.5%
Current Ratio (x)	0.93x	0.98x	0.98x	0.97x	0.99x
EPS (INR per share)	(35.1)	(29.9)	6.3	41.2	50.3
PE	NA	NA	102.2x	15.6x	12.8x

Source: Company, KRChoksey Research

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Tata Motors Ltd.				Rating Legend (Expected over a 12-month period)	
Date	CMP (INR)	TP(INR)	Recommendation	Our Rating	Upside
01-Aug-23	644	743	BUY	Buy	More than 15%
18-May-23	509	615	BUY	Accumulate	5% – 15%
30-Nov 22	444	572	BUY	Hold	0 – 5%
10-Nov 22	423	572	BUY	Reduce	-5% – 0
02-Aug 22	479	630	BUY	Sell	Less than – 5%
13-May 22	404	630	BUY		

ANALYST CERTIFICATION:

I, Abhishek Agarwal (CA, CFA L3 cleared), Research Analyst, author and the name subscribed to this report, hereby certify that all of the views expressed in this research report accurately reflect my views about the subject issuer(s) or securities. I also certify that no part of our compensation was, is, or will be directly or indirectly related to the specific recommendation(s) or view(s) in this report.

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