



## 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

Updated Aug 08, 2023

27.50

## Medium Risk

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

Source: Morningstar

## Company details

Market cap:	Rs. 2,11,526 cr
52-week high/low:	Rs. 678 / 375
NSE volume: (No of shares)	117.8 lakh
BSE code:	500570
NSE code:	TATAMOTORS
Free float: (No of shares)	285.7 cr

## Shareholding (%)

Promoters	46.4
FII	18.4
DII	17.5
Others	17.8

## Price chart



## Price performance

(%)	1m	3m	6m	12m
Absolute	1.1	-1.1	23.5	46.9
Relative to Sensex	3.7	2.5	20.2	42.9

Sharekhan Research, Bloomberg

# Tata Motors Ltd

## In-line Q2, sanguine guidance

Automobiles	Sharekhan code: TATAMOTORS		
Reco/View: Buy	↔	CMP: Rs. 637	Price Target: Rs. 787
↑ Upgrade	↔ Maintain	↓ Downgrade	

## Summary

- With cash flow of GBP 751 million in H1FY24, JLR targets to be net cash positive by FY25.
- For JLR, H2FY24 is expected to be better than H1FY24, CV and PV business registered q-o-q improvement in EBITDA margin.
- Net automotive debt fell from Rs 41,700 crore in Q1FY24 to Rs 38,700 crore in Q2FY24.
- We maintain Buy with revised PT of Rs 787 in expectation of continued improvement in JLR, PV and CV business along with further reduction in net automotive debt.

TML's (Tata Motors') operating performance matched estimates in Q2FY24, as while it missed revenue and EBITDA by a mere 2.7% and 1.1% respectively and reported EBITDA margin at 13.1% against estimate of 12.8%. Consolidated revenues rose by 2.8% q-o-q to Rs 105,128 crore (as against estimate of Rs 108,002 crore) on flat revenue growth in JLR business on q-o-q, 18.2% q-o-q growth in CV revenue and 5.2% q-o-q decline in passenger vehicle business. Further, EBITDA margins shrunk by a mere 20 bps to 13.1% but came above our estimates. TML demonstrated a promising performance, with a fall in losses in the domestic electric vehicle (EV) business, improved EBITDA margins in both the passenger Vehicle (PV) and commercial vehicle (CV) segments on a sequential basis, and a reduction in net automotive debt. Although a decrease in margins for JLR was anticipated, the company's ability to maintain a positive cash flow trend, positive volume outlook for the second half of FY24 and a healthy order book, bodes well for Jaguar Land Rover (JLR). Going forward, the management has shared a positive outlook for JLR business and expects margin improvement trajectory would be maintained in the CV and PV businesses. As cash flow improves, net automotive debt fell from Rs. 41,700 crore in Q1FY24 to Rs 38,700 crore in Q2FY24.

## Key positives

- Underline EBITDA Margin in domestic PV (IC) business has expanded from 8.6% in Q1FY24 to 9.2%.
- The losses in electric PV business has also declined q-o-q basis as electric PV business has reported negative EBITDA margin at 5% in Q2FY24 compared to 9.7% in Q1FY24.
- CV business reported a 100 bps q-o-q rise in EBITDA margin to 10.4%.

## Key negatives

- Planned shutdown constrained volume growth in JLR business in Q2FY24.
- JLR witnessed 4.3% q-o-q decline in ASPs as it faced production constraint in Range Rover brand due to plant shutdown.
- Model transition impacted EV business in Q2FY24.

## Management Commentary

- Profitability in domestic EV (PV) business would improve in coming quarters as costs reduce, PLI benefits accrue and localization improves.
- CV business continues to target double digit EBITDA margin in FY24.
- JLR would be net cash positive in FY25 and domestic business would be net cash positive in FY24.

## Our Call

**Valuation – Maintain Buy with a revised PT of Rs. 787:** After reporting better than estimated EBITDA margin and reduction in net automotive debt the management sounded optimism for most of its business segment. Though JLR is currently enjoying strong order book position (168,000 units) but gradually the order book would come down on increase in production. JLR targets to reduce current net debt of GBP 2.2 billion to less than GBP 1 billion by the end of FY24 and net cash positive by the end of FY25. JLR expects its performance in H2FY24 will be better than that of its performance in H1FY24. Similarly, CV business is sustaining double digit margins and the management continue to target a double digit margin for FY24. In PV business the volume traction is continue and the management is making efforts to reduce losses in electric PV business. We believe that recovery in JLR volumes and improvement in domestic business would hold TML reduce its net automotive debt sharply in coming quarters. Further Tata Group company is planning to set up a Li-ion cell plant. An EV battery cell plant within the group would help company in achieving speedy product validation and reduce dependence on third-party suppliers. Post incorporation of Q2FY24 performance and introduction of earnings estimates for FY26. We maintain a Buy on the stock with an SOTP-based revised PT of Rs. 787.

## 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)

Particulars	FY22	FY23	FY24E	FY25E	FY26E
Net Sales	2,78,454	3,45,967	4,19,192	4,84,260	5,48,907
Growth (%)	11.5	24.2	21.2	15.5	13.3
AEBIDTA	24,813	31,830	52,320	62,533	71,885
OPM (%)	8.9	9.2	12.5	12.9	13.1
APAT	(10,719)	734	12,356	15,930	20,387
Growth (%)	684.6	-	1584.2	28.9	28.0
AEPS (Rs)	(28)	2	32	42	53
P/E (x)	-	-	19.7	15.3	12.0
P/B (x)	5.5	5.4	4.2	3.3	2.6
EV/EBIDTA (x)	12.9	9.9	5.9	5.0	4.1
RoE (%)	-	1.6	21.5	21.8	22.0
RoCE (%)	2.6	5.0	10.8	11.8	12.4

Source: Company; Sharekhan estimates

## JLR: Optimism continues on demand front

- ◆ With 3.8% q-o-q increase in volumes, JLR reported flat revenue growth (-0.7% q-o-q) at GBP 6857 million and 140 bps contraction in EBITDA margin to 14.9% (against estimate of 15.4%)
- ◆ JLR business witnessed 4.3% q-o-q decline in ASPs mainly due to production constraints in Range Rover brand. The Range Rover production is expected to improve in coming period and hence ASPs fall would stem.
- ◆ Volume performance was impacted due to planned shutdown of plants (2 weeks), though JLR has not faced significant supply chain issues in Q2FY24.
- ◆ The average production of Range Rover / Range Rover Sport reached to 2800 units/ week in Q2FY24 and peak weekly production reached to 3250 units after shutdown.
- ◆ Order books continue to remain strong at 168,000 units and 77% of the order book is constituted by high margin models like – Range Rover, Range Rover Sport and Defender. Order book is likely to come down in coming quarters on increase in production as supply chain issue has been gradually easing out.
- ◆ Cash flow stands at GBP 300 million in Q2FY24 and GBP 751 million in H1FY24.
- ◆ Net debt decreased by GBP 0.3 billion q-o-q to GBP 2.2 billion.
- ◆ With capex of GBP 775 million in Q2FY24 the total capex in H2FY24 stands at GBP 1472 million.
- ◆ Though VME cost has increased from 1.1% (of sales) to 1.5% on yoy basis but VME 's are largely under control.
- ◆ Some of the markets are observing demand concern but JLR has been observing huge pent up demand.

## Outlook for JLR

- ◆ Scheduled a capex of GBP 3 billion for FY24.
- ◆ Wholesales volumes are expected to improve in Q3FY24 and Q4FY24.
- ◆ Enhanced EBIT margin guidance to 8% for FY24 from 6% earlier.
- ◆ Net debt is expected to reduce less than GBP 1 billion by the end of FY24 compared to current net debt of GBP 2.2 billion.

## CV business: Eyeing double-digit EBITDA margin

- ◆ With 21.3% q-o-q increase in volumes, CV business has reported 18.2% q-o-q increase in revenue to 20.08k cr and 100 bps expansion in EBITDA margin to 10.4% (against estimate of 10.1%) on soft commodity price trend.
- ◆ TML's market share in CV segment (retail) has improved marginally from 39.1% in Q1FY24 to 39.7% in Q2FY24 on improvement in availability of BS-VI products as was facing production constraints in Q1FY24.
- ◆ Non-vehicle-business revenue grew by 20% on y-o-y basis.
- ◆ Generated 17% of its sales through digital channels.
- ◆ Customer sentiment Index remained firm or improved across segments.

## Outlook for CVs

- ◆ TML continue to target double digit EBITDA margin for FY24 in CV business.
- ◆ Continuous focus on market share gain and improvement in ASPs.

### **PV business: Margins on improving trajectory**

- ◆ With a 1.1% q-o-q decline in volumes, PV business has reported 5.2% q-o-q decline in revenue to 12.2K cr and 120 bps expansion in EBITD margin to 6.5% (against estimate of 6%). The EBITDA losses in EV business has come down on q-o-q basis. Excluding the EV business the underline EBITDA margin in PV (IC) business has expanded from 8.6% in Q1FY24 to 9.2% in Q2FY24.
- ◆ Market share (retail) stood at 13.4% in H1FY24 against 13.5% in FY23.
- ◆ Operational losses in domestic PV business has come down on q-o-q basis it reported negative EBITDA margin of 5.0% in Q2FY24 compared to negative EBITDA margin of 9.7% in Q1FY24.
- ◆ It saw a 30% growth in 15 days on festive season on success of CNG versions and health response to the new products.

### **Outlook for PV business**

- ◆ Aims to outperform the market via new product launch strategy.
- ◆ It is eyeing a double-digit EBITDA margin with positive free cash flow.
- ◆ EBITDA margins in EV business is expected to improve further in H2FY24.
- ◆ Volume performance would be strong in H2FY24 due to introduction of new launches.

### **Domestic EV business: Model transition is over**

- ◆ TML's market share in domestic EV market stood at 73.4% in H1FY24 against 83.9% in FY23.
- ◆ Dealerships has expanded from 250 in Fy23 to 287 in H1FY24.
- ◆ Nexon has been receiving healthy response in the market.
- ◆ Margin improvement is due to 15-20% correction in cell cost. Cell cost is likely to come down in coming quarter also.
- ◆ EV volumes were hit in the recent past due to model transition.
- ◆ Regulatory support (such as the road tax waiver in Telangana) has been going away and creating headwinds in the market.

### **Other factors**

- ◆ In TMF business the collection efficiency for Q2 FY24 improved to 97.3% (Q1 FY24 96.6%), however, collections in a few regions were impacted due to monsoons and GNPA contained at 8.1% (Q1 FY24 8.1%) despite seasonality.
- ◆ Net automotive debt fell from Rs 41,700 cr in Q1FY24 to Rs 38,700 cr in Q2FY24.
- ◆ Electric ACE has received the PLI certificate.

### Results (Consolidated)

Particulars	Rs cr				
	Q2FY24	Q2FY23	Y-o-Y %	Q1FY24	Q-o-Q %
Revenue	1,05,128	79,611	32.1	1,02,236	2.8
Total Expenses	91,404	73,415	24.5	88,677	3.1
Operating Profit	13,724	6,196	121.5	13,560	1.2
Core PBT	6,067	(1,150)	-	5,672	7.0
Tax	2,203	(457)	-	1,563	-
Share Of profit from Associates/MI	(19)	59	-	113	-
Reported PAT	3,764	(945)	-	3,203	17.5
Adj Net Profit	3,845	-	-	4,222	(8.9)
Adjusted EPS (Rs)	10.0	(1.7)	(707.1)	11.0	(8.9)

Source: Company; Sharekhan Research

### Key Ratios (Consolidated)

Particulars	Q2FY24	Q2FY23	Y-o-Y (bps)	Q1FY24	Q-o-Q (bps)
Gross Margin (%)	36.4	33.9	240	37.6	(130)
EBITDA Margin (%)	13.1	7.8	530	13.3	(20)
EBIT Margin (%)	5.4	2.9	250	4.0	140
PAT Margin (%)	3.7	(0.8)	450	4.1	(50)

Source: Company; Sharekhan Research

### Quarterly performance trend

JLR ( GBP million)	Q1FY23	Q2FY23	Q3FY23	Q4FY23	Q1FY24	Q2FY24	YoY chg	QoQ chg
Volumes (units)	71815	75307	79591	94649	93253	96817	29%	4%
Revenue	4406	5260	6041	7102	6903	6857	30%	-1%
REBIDTA	279	541	716	1035	1123	1021	89%	-9%
REBIDTA %	6.3%	10.3%	11.9%	14.6%	16.3%	14.9%		
CV business Rs cr	Q1FY23	Q2FY23	Q3FY23	Q4FY23	Q1FY24	Q2FY24	YoY chg	QoQ chg
Volumes (units)	100921	100536	95914	116168	85795	104085	4%	21%
Revenue	16270	16420	16886	21240	16991	20087	22%	18%
REBIDTA	895	821	1418	2145	1597	2089	154%	31%
REBIDTA %	5.5%	5.0%	8.4%	10.1%	9.4%	10.4%		
PV business Rs cr	Q1FY23	Q2FY23	Q3FY23	Q4FY23	Q1FY24	Q2FY24	YoY chg	QoQ chg
Volumes (units)	130125	142851	132255	135654	140450	138939	-3%	-1%
Revenue	11556	12547	11671	12093	12839	12174	-3%	-5%
REBIDTA	705	740	805	883	680	791	7%	16%
REBIDTA %	6.1%	5.9%	6.9%	7.3%	5.3%	6.5%		
Consolidated Rs cr	Q1FY23	Q2FY23	Q3FY23	Q4FY23	Q1FY24	Q2FY24	YoY chg	QoQ chg
Revenue	71935	79611	88489	105932	102236	105128	32%	3%
REBIDTA	3181	6196	9643	12810	13560	13724	121%	1%
REBIDTA margin	4.4%	7.8%	10.9%	12.1%	13.3%	13.1%		

Source: Company; Sharekhan Research

## Segment-wise expectations

Domestic PV business Rs cr	FY22	FY23	FY24E	FY25E	FY26E
Volumes units	372176	541087	609486	682570	764419
growth	67%	45%	13%	12%	12%
Revenue	315150	478680	555366	640619	738961
growth	90%	52%	16%	15%	15%
REBIDTA	16590	30850	41652	54453	62812
growth	401%	86%	35%	31%	15%
EBIDTA %	5.3%	6.4%	7.5%	8.5%	8.5%

CV business Rs cr	FY22	FY23	FY24E	FY25E	FY26E
Volumes units	356972	413539	447027	487481	526969
growth	36%	16%	8%	9%	8%
Revenue	522870	708160	788471	885620	986079
growth	58%	35%	11%	12%	11%
EBIDTA	19320	52700	65443	82363	98608
growth	39%	173%	24%	26%	20%
EBIDTA %	3.7%	7.4%	8.3%	9.3%	10.0%

JLR business IFRS GBP mn	FY22	FY23	FY24E	FY25E	FY26E
Volumes units	294182	321362	380000	435000	485000
growth	-15%	9%	18%	14%	11%
Revenue	18320	22809	27510	32122	36530
growth	-7%	25%	21%	17%	14%
REBIDTA	1570	2227	3787	4503	5122
growth	-34%	42%	70%	19%	14%
REBIDTA %	8.6%	9.8%	13.8%	14.0%	14.0%

## Change in earning estimates (Consolidated)

Particulars	Rs cr						
	Earlier		New		% change		Introduction
	FY24E	FY25E	FY24E	FY25E	FY24E	FY25E	FY26
Revenue	4,19,192	4,84,260	4,19,192	4,84,260	0.0%	0.0%	5,48,907
EBITDA	48,898	58,241	52,320	62,533	7.0%	7.4%	71,885
EBITDA margin	11.7%	12.0%	12.5%	12.9%			13.1%
PAT	9,789	12,649	12,356	15,930	26.2%	25.9%	20,387
EPS (Rs)	26	33	32	42	26.2%	25.9%	53

## Outlook and Valuation

### ■ Sector Outlook – Demand outlook remains strong

With ease out of semiconductor chip supply issue the 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 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 segment are continue to witness uptick in near term as CV cycle is assumed to be in cyclical uptick phase and PV semgn is observing 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. 787

After reporting better than estimated EBITDA margin and reduction in net automotive debt the management sounded optimism for most of its business segment. Though JLR is currently enjoying strong order book position (168,000 units) but gradually the order book would come down on increase in production. JLR targets to reduce current net debt of GBP 2.2 billion to less than GBP 1 billion by the end of FY24 and net cash positive by the end of FY25. JLR expects its performance in H2FY24 will be better than that of its performance in H1FY24. Similarly, CV business is sustaining double digit margins and the management continue to target a double digit margin for FY24. In PV business the volume traction is continue and the management is making efforts to reduce losses in electric PV business. We believe that recovery in JLR volumes and improvement in domestic business would hold TML reduce its net automotive debt sharply in coming quarters. Further Tata Group company is planning to set up a Li-ion cell plant. An EV battery cell plant within the group would help company in achieving speedy product validation and reduce dependence on third-party suppliers. Post incorporation of Q2FY24 performance and introduction of earnings estimates for FY26. We maintain a Buy on the stock with an SOTP-based revised PT of Rs. 787.

#### 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	420
Total EV			827
Net automotive debt			-72
Total equity value			755
China JV	FY25E sales	0.5	32
Total value per share			787

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 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	43.71
2	Life Insurance Corp of India	3.89
3	SBI Funds Management Ltd	2.48
4	TATA Industries Ltd	2.17
5	Vanguard Group Inc/The	1.96
6	BlackRock Inc	1.62
7	Jhunjhunwala Rekha Rakesh	1.60
8	Axis Asset Management Co Ltd/India	1.21
9	HDFC Asset Management Co Ltd	0.98
10	UTI Asset Management Co Ltd	0.95

Source: Bloomberg

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## Understanding the Sharekhan 3R Matrix

<b>Right Sector</b>	
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.
<b>Right Quality</b>	
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 deteriorating balance sheet
<b>Right Valuation</b>	
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.

Correspondence/Administrative Office: Gigaplex IT Park, Unit No 1001, 10th Floor, Building No.9, TTC Industrial Area, Digha, Airoli-West, Navi Mumbai – 400 708. Tel: 022 61169000 / 61150000, Fax No. 61169699.

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Compliance Officer: Ms. Binkle Oza; Tel: 022-62263303; email id: [complianceofficer@sharekhan.com](mailto:complianceofficer@sharekhan.com)

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