Sharekhan by BNP PARIBAS

Powered by the Sharekhan 3R Research Philosophy

Tata Motors Ltd

EV leader now eyes on hydrogen fuel cell

Stock Update

Company Update

Automobiles	Sharekhan code: TATAMOTORS

Reco/View: Buy	↔	CMP: Rs. 705	Price Target: Rs. 840	↑

↑ 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 Aug 08, 2023

Medium Risk

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

Source: Morningstar

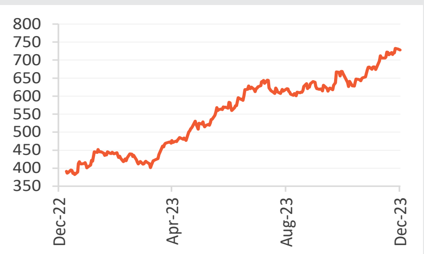
Company details

Market cap:	Rs. 234107 cr
52-week high/low:	Rs. 735 / 375
NSE volume: (No of shares)	117 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	6.9	16.6	27.0	86.0
Relative to Sensex	-1.8	10.6	14.2	68.5

Sharekhan Research, Bloomberg

Summary

- Tata Motors has secured CMVR type approval certificate for its hydrogen fuel cell-powered buses.
- It has established itself in EV space and is now trying to gain expertise on hydrogen fuel technology.
- JLR is expected to perform better in H2FY24 as compared to H1FY24.
- We maintain a Buy on Tata Motors with a revised PT of Rs 840 on expectation of continued improvement in JLR, PV and CV businesses and further reduction in net automotive debt.

We reiterate our Buy rating on Tata Motors Ltd (TML) as - (1) JLR is expected to perform better in H2FY24 versus H1FY24 (2) Net automotive debt has been consistently declining (3) EBITDA margin in domestic PV segment has been improving and (4) sustaining EBITDA margin in domestic CV space. Strong festive sales have supported its retail volumes in PV segment. Further, we expect the domestic CV and PV businesses to perform better in Q4FY24 as compared to Q3FY24. Expected price hike from January 2024 in the domestic CV segment (up to 3%) would help the company in sustaining high-margin trajectory. As TML has established itself in the EVs (in PV space), the company is making endeavours to build up its strength in hydrogen space. The company is continuing to build its strength for future growth as its multiple endeavour in hydrogen fuel segment augurs well. While adoption of hydrogen fuel technology is at its nascent stage, but TML has been taking baby steps in the right direction. We build up a hypothesis that the mass adoption of hydrogen fuel technology would be faster in CV space than that of EVs if hydrogen fuel technology would be supported by mass availability of the hydrogen fuel along with favourable TCOs on assuming that the shift from CNG to hydrogen would be smoother and cost effective in CV space. Going forward we remain optimistic on JLR business for H2FY24 and expects the margin improvement trajectory would be maintained in CV and PV business. With an improvement in cash flow, we expect the net automotive debt to come down in coming quarters, given net automotive debt has already come down from Rs 41,700 crore in Q1FY24 to Rs 38,700 crore in Q2FY24.

Focusing on domestic retail sales

In the CV segment, TML has been consistently focussing on improvement in operating performance and retail sales in place on chasing wholesales market share. This shift in strategy has been delivering favourable outcome as it has been sustaining EBITDA margin at above 9% levels for last three quarters. Anticipated growth in per capita income is expected to propel the small commercial vehicle segment, which has lagged behind the demand for medium and heavy commercial vehicles. A potential revival in the small CV segment is foreseen with the recovery of the rural economy. Key growth drivers include increased demand from logistic services, government initiatives, financial support, and rising investments from manufacturing companies. Despite the challenges posed by the implementation of new emission norms and price hikes, operational benefits are likely to stimulate replacement demand in upcoming quarters. TML's CV segment was weak in the in first two months of Q3FY24 with a 12.2% m-o-m decline in wholesales in October and 18.3% m-o-m decline in November, attributed to seasonality and state elections. However, TML remains focused on retail sales and profitability. In October and November, TML CV segment dispatched cumulative 59067 units in the domestic market , while retailed 61706 units as per FADA data. Anticipating an improvement in wholesales in Q4FY24 as compared to Q3FY24, we remain optimistic about TML's performance. Similarly, the company continue to track retails in PV segment also. In November 2023, TML has retailed 53000 (8% up m-o-m and 30 % up y-o-y) units compared wholesales dispatch of 46,068 units in the domestic market . During the festive season (47 days) TML (PV) has registered 18% growth to 79,374 units, which is attributed to attributed mainly to its newly launched facelifted products (Nexon, Harrier, Safari etc). In line with the trend PV segment is expected to do well in Q4FY24 on q-o-q basis.

Continue to expand in EV space

While TML has been steadily building up its space in the domestic PEV market and along with that it has been supporting the expansion of overall PEV ecosystem. TML maintains its dominance in domestic electric car (PEV) market though its market share has come down on the entry of new players, given than TML has been continuously expanding its product offering. In H1FY24, TML's market share in domestic PEV market stood at 73% in H1FY24 as compared to 84% in FY23. Tata Passenger Electric Mobility Ltd. (TPEM) has entered in an arrangement with prominent charge point operators (CPOs) to expand charging infrastructure. This strategic partnership aims to advance India's charging infrastructure by leveraging TPEM's extensive EV usage data alongside the innovative charging solutions and entrepreneurial drive of the CPOs. The collective effort is geared towards establishing over 10,000 additional charging points across the country by the FY2025.

Hydrogen fuel cell space - Aiming to be an early bird

While hydrogen fuel cell technology as at nascent stage, TML has been making efforts to secure its growth prospects in hydrogen space in future. Tata Motors has already secured the Central Motor Vehicles Rules (CMVR) type approval certificate for its Hydrogen Fuel Cell powered (FCEV) buses. The approval covers the Tata Starbus 4/12 FCEV model and its variations. FCEVs, utilizing hydrogen fuel cells for electricity generation, offer a promising alternative to traditional gasoline or electric vehicles, boasting zero tailpipe emissions, extended range, rapid refuelling, and high efficiency. As infrastructure expands and FCEV costs decrease, they may emerge as a more practical choice for consumers. Besides, TML has been working with Cummins on hydrogen technology. Along with that Tata Motors has been collaborated with Cummins Inc, for the design and development of low and zero-emission propulsion technology solutions for commercial vehicles in India. These include hydrogen-powered internal combustion engines, fuel cells, and battery electric vehicle systems. In pursuit of sustainable mobility solutions, Tata Motors inaugurated two research and development facilities, equipped with an engine test department dedicated to hydrogen Internal Combustion Engine (ICE) development. These facilities also include infrastructure for hydrogen fuel storage and distribution, signalling a strategic shift towards sustainable alternatives beyond traditional Internal Combustion Engines (ICE) and battery electric vehicles.

Our Call

Valuation - Maintain Buy with a revised PT of Rs. 840: In our view, TML has been performing well on all four accounts i.e JLR, domestic PV, CV and net automotive debt. JLR business has been on its growth trajectory in support of recovery in production and high margin trajectory along with healthy order book (168,000 units by the end of H1FY24). 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. Though we believe that the order book would reduce in the coming quarters on normalise production levels. In CV business the company is continuing to focus on retail sales performance with value added product offering, which we believe would help its CV division sustain profitability. Further the PV business has been gaining healthy market share backed by its new product launch strategy and we believe that the losses in electric car business would come down in coming quarters. With improvement in operating cash flow the net automotive debt would also come down. 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 lithium ion (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. We maintain Buy on Tata Motors with revised PT of Rs. 840 in expectation of continued improvement in JLR, PV and CV business along with further reduction in net automotive debt.

Key Risks

TML's business relies on 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) Rs cr

Particulars	FY22	FY23	FY24E	FY25E	FY26E
Net Sales	2,78,454	3,45,967	4,10,560	4,74,652	5,40,278
Growth (%)	11.5	24.2	18.7	15.6	13.8
Adj EBIDTA	24,813	31,830	53,429	63,523	73,732
OPM (%)	8.9	9.2	13.0	13.4	13.6
Adj PAT	(10,719)	734	13,187	16,672	21,773
Growth (%)	684.6	-	1697.5	26.4	30.6
Adj FD EPS (Rs)	(28)	2	34	44	57
P/E (x)		-	20.5	16.2	12.4
P/B (x)	6.1	6.0	4.6	3.6	2.8
EV/EBIDTA (x)	13.9	10.7	6.3	5.3	4.7
RoE (%)	-24.1	1.6	22.6	22.4	22.8
RoCE (%)	2.6	5.0	11.1	12.0	12.8

Source: Company; Sharekhan estimates

JLR : H2FY24 is expected to be better than H1FY24

Volume performance was impacted in H1FY24 due to planned shutdown of plants (two weeks) in Q2FY24, though JLR has not faced significant supply chain issues in H1FY24.The average production of Range Rover / Range Rover Sport has been continuously improving and reached to 2,800 units/ week in Q2FY24 and peak weekly production reached to 3250 units after the shutdown. Order books remain strong at 168,000 units at the end of H1FY24 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 an increase in production as supply chain issue has been gradually easing out. Some of the markets are observing demand concern but JLR has been observing huge pent-up demand. Considering the historical trends, we expect JLR to perform better in H2FY24 in comparison to H1FY24. JLR has already enhanced EBIT margin guidance to 8% for FY24 from 6% earlier. Further, net debt is expected to reduce less than GBP 1 billion by the end of FY24 as compared to current net debt of GBP 2.2 billion in support of healthy cash flow trends.

CV division targets double-digit EBITDA margin

TML continues to target double-digit EBITDA margin for FY24in CV business as it has been focussing on retail market share and improvement in ASPs. The CV segment registered healthy profitability in H1FY24 on the back of better volume mix, given it reported EBITDA margin at 9.4% in Q1FY24 and 10.4% in Q2FY24. The company has been strategically focussing on improvement in market share in SCV segment and aiming to sustain its leadership in MHCV segment. We believe that pricing discipline in key to maintain high level of profitability in CV segment, given the CV segment has been categorically focussed on wholesales market share via offering higher discounts. The company has already announced a price hike of up to 3% in CV segment effective from January 2024, which we believe would help the CV segment is maintaining its high margin trajectory.

PV division : losses in EV are expected to come down

PV division continue to aim to outperform the market via new product launch strategy and has been eyeing a double -digit EBITDA margin with positive free cash flow in medium to long term. We expect the volume performance would be better in H2FY24 in comparison to its volume performance in H1FY24. The EBITDA losses in EV business has come down on q-o-q basis in Q2FY24 . Excluding the EV business, the underline EBITDA margin in PV (IC) business has expanded from 8.6% in Q1FY24 to 9.2% in Q2FY24. We expect EBITDA margins in EV business to improve further in H2FY24. During the festive season (47 days) TML has registered 18% growth to 79,374 units, which is attributed to attributed mainly to its newly launched facelifted products (Nexon, Harrier, Safari etc). In line with the trend PV segment is expected to do well in Q4FY24 on q-o-q basis. Further the losses in electric PV business have also come down on q-o-q basis as electric PV business has reported negative EBITDA margin at 5% in Q2FY24 compared to 9.7% in Q1FY24.Newly acquired plants at Sanand will be dedicated for EV manufacturing but the facility is fungible and can be use for IC manufacturing also.

Outlook : optimism continue

In PV business the company aims to outperform the market via launching new products and has been eyeing for positive few cash flow in medium term as the losses in EV business is expected to come down from H2FY23 onwards. In CV business the company has been looking for a double-digit EBITDA margin and aiming to expand its non-vehicle business. Further the CV segment continue to focus on the retail market share expansion. JLR business is expected to perform better in H2Fy24 compared to H1FY24. Net automotive debt fell from Rs 41,700 crore in Q1FY24 to Rs 38,700 crore in Q2FY24. With improvement in operating performance, we expect net automotive debt to come down further in coming period.

Change in earning estimates (conso) **Rs cr**

Particulars	Earlier			New			% change		
	FY24E	FY25E	FY26	FY24E	FY25E	FY25E	FY24E	FY25E	FY26E
Revenue	4,19,192	4,84,260	5,48,907	4,10,560	4,74,652	5,40,278	-2.1%	-2.0%	-1.6%
EBITDA	52,320	62,533	71,885	53,429	63,523	73,732	2.1%	1.6%	2.6%
EBITDA margin	12.5%	12.9%	13.1%	13.0%	13.4%	13.6%			
PAT	12,356	15,930	20,387	13,187	16,672	21,773	6.7%	4.7%	6.8%
EPS (Rs)	32	42	53	34	44	57	6.7%	4.7%	6.8%

Source: Company, Sharekhan Research

Quarterly performance trend

JLR (GBP mn)	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								
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								
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								
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 Rs cr

Domestic PV business	FY22	FY23E	FY24E	FY25E	FY26E
Volumes units	372176	541087	577057	646250	723740
growth	67%	45%	13%	12%	12%
Revenue	31515	47868	52582	60653	69964
growth	90%	52%	10%	15%	15%
REBIDTA	1659	3085	3418	5156	5947
growth	401%	86%	11%	51%	15%
EBIDTA %	5.3%	6.4%	6.5%	8.5%	8.5%

Source: Company, Sharekhan Research

CV business Rs cr

Domestic PV business	FY22	FY23E	FY24E	FY25E	FY26E
Volumes units	356972	413539	395637	427733	462441
growth	36%	16%	-4%	8%	8%
Revenue	52287	70816	73170	82362	93912
growth	58%	35%	3%	13%	14%
EBIDTA	1932	5270	6659	8236	9861
growth	39%	173%	26%	24%	20%
EBIDTA %	3.7%	7.4%	9.1%	10.0%	10.5%

Source: Company, Sharekhan Research

JLR business IFRS GBP mn

Particulars	FY22	FY23E	FY24E	FY25E	FY26E
Volumes units	294182	321362	380000	435000	485000
growth	-15%	9%	18%	14%	11%
Revenue	1832	2281	2751	3212	3653
growth	-7%	25%	21%	17%	14%
REBIDTA	157	223	393	465	536
growth	-34%	42%	76%	18%	15%
REBIDTA %	8.6%	9.8%	14.3%	14.5%	14.7%

Source: Company, Sharekhan Research

Outlook and Valuation

■ Sector view - 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 segment 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. 840

In our view, TML has been performing well on all four accounts i.e. JLR, domestic PV, CV and net automotive debt. JLR business has been on its growth trajectory in support of recovery in production and high margin trajectory along with healthy order book (168,000 units by the end of H1FY24). 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. Though we believe that the order book would reduce in the coming quarters on normalise production levels. In CV business the company is continuing to focus on retail sales performance with value added product offering, which we believe would help its CV division sustain profitability. Further the PV business has been gaining healthy market share backed by its new product launch strategy and we believe that the losses in electric car business would come down in coming quarters. With improvement in operating cash flow the net automotive debt would also come down. 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 lithium ion (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. We maintain Buy on Tata Motors with revised PT of Rs. 840 in expectation of continued improvement in JLR, PV and CV business along with further reduction in net automotive debt.

SOTP valuation

Business	Valuation basis	Multiple	Per share value (Rs)
PV business	FY25E EBIDTA	12.0	162
CV business	FY25E EBIDTA	11.0	237
JLR business	FY25E EBIDTA	3.5	433
Total EV			831
Net automotive debt			-72
Total equity value			759
China JV	FY25E sales	0.5	32
Tata Technologies	53.39% stake with 30% holding company discount		49
Total value per share			840

Source: Company; Sharekhan estimates

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

Girish Wagh	Executive Director
Adrian Mardell	CEO, JLR
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	43.71%
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

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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