Sharekhan
by BNP PARIBAS

Powered by the Sharekhan 3R Research Philosophy

Tata Motors Ltd

Eyeing a steady ride

Automobiles	Sharekhan code: TATAMOTORS
Reco/View: Buy ↔	CMP: **Rs. 989** / Price Target: **Rs. 1,235** ↔

↑ 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		↔	

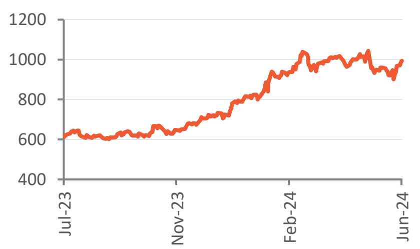
Company details

Market cap:	Rs. 3,28,630 cr
52-week high/low:	Rs. 1,065 / 557
NSE volume: (No of shares)	115.2 lakh
BSE code:	500570
NSE code:	TATAMOTORS
Free float: (No of shares)	178.2 cr

Shareholding (%)

Promoters	46.4
FII	19.2
DII	16.1
Others	18.4

Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	4.0	-2.3	22.4	62.5
Relative to Sensex	-1.7	-6.0	17.6	47.1

Sharekhan Research, Bloomberg

Summary

- Tata Motors Ltd (TML) continues to target for a double-digit EBITDA margin in both PV and CV business on sustainable basis.
- It aims for an EBITDA breakeven in EV business in FY26.
- It expects a gradual improvement in market share in CV segment, while it plans to follow a product launch strategy to gain market share in PV segment.
- We maintain our Buy on Tata Motors Ltd (TML) with a SOTP-based unchanged PT of Rs 1235 on expecting continued improvement in JLR, PV and CV businesses and reduced net automotive debt.

In its Analyst Day for the Indian business, the management has shared optimistic outlook and aims to deliver sustainable performance with goal for each business to be self-sustained and guided for a disciplined capital allocation. The company projects the CV industry to grow by 4-5% annually from FY24 to FY30, based on an anticipated 6-8% CAGR in freight traffic. TML aims to surpass industry revenue growth through a gradual expansion in market share while focusing on profitable volume growth and maintaining a double-digit EBITDA margins. With capital expenditures set at 2-4% of revenue, the company is prioritising strong ROCE and expects free cash flow to be 6-8% of revenue. The company expects the PV industry to grow sustainably at a 6-7% CAGR. It aims to increase its market share to 16% by FY27 (up from 14% in FY24) and to 18-20% by FY30 by expanding its product offerings. TML targets a double-digit margin for the PV division and plans for capital expenditures of 6-8% of revenues, with a goal of achieving positive cash flow. In the EV segment, TML aims to maintain its leadership position and targets EVs to make up 30% of its PV volume mix by 2030. The company plans to achieve break-even in its EV business by FY26, with a scheduled capex of Rs 16,000 crore to Rs 18,000 crore from FY25 to FY30.

- **CV division: Continue to eye double-digit margins:** The CV division demonstrated strong operating performance in FY24. Management anticipates that increased freight availability and the replacement cycle will continue to drive CV growth, expecting a relatively longer growth cycle this time. Currently, non-vehicle revenue, including international revenue, contributes a high teens share to CV revenue. The management aims for this to reach 20% in the medium term. No major regulations are expected in the next six years. The Northeast dedicated freight corridor (DFC) is not expected to have a material impact on the CV segment. The negative impact of the Western DFC on large trucks may be offset by increased demand for ILCVs due to rising last-mile connectivity needs. Modularity and alternative fuels, including hydrogen, will play a critical role going forward. Management plans to expand its presence in the international alternative fuel segment, having worked on the hydrogen segment for the past 10 years. Each business segment within the CV division operates as a separate SBU with specific goals. TML, one of the largest players in the electric bus segment, is awaiting clarity on the payment scheme before increasing its investment in this area. A strong focus on electric versions in the SCV segment has helped regain market share. Management is confident in sustaining a double-digit EBITDA margin in the CV segment through high content in new products and control of fixed costs. Demand for CNG versions is rising, and there are no near-term capacity constraints. TML plans to invest 45-50% of its capex in the alternative fuel segment in FY25, up from 30-35% earlier.
- **PV division: New products to support market share gain:** The turnaround in the PV business reflects TML's strategic focus on its product portfolio. The company has concentrated on ensuring each of its seven products in the PV segment performs well in their respective categories. Currently, the Harrier is only available in a diesel version, but a petrol version is planned for the future. TML is also planning to introduce a new entry-level product, expanding beyond its current Tigor offering. Although much of the PV industry's growth has come from new models, TML achieved strong performance in FY24 through a multi-powertrain strategy and the launch of facelift versions, even without introducing new nameplates. Going forward, the PV industry is expected to grow with 6-7% CAGR till 2030. EVs and SUVs penetration would continue to rise from current levels. Customer preference would continue to remain with high featured PVs. Based on its current product positioning TML's addressable market is 53% of the total market and hence its adjusted market share works out to be 26%. Going forward the company plans to expand its addressable market to 80 % of the total market via new product launches with 25 % market share. The PLI scheme has been supportive for EVs and localization. Hence company aims to focus on EV segment. Further TML continue to aim to follow multi- powertrain strategy and targets to outperform the EV industry. The company plans to launch Curvv EV and Harrier EV in FY25 and Sierra EV and Avinya EV in FY26.
- **EV division- Likely to EBITDA breakeven by FY26:** In the EV business, TML is focusing on sustaining its leadership position by offering a strong product profile. Despite increased competition, with 14 models now in the domestic EV market, TML maintains a market share above 70%. The company's network spans 192 cities, with plans to expand sales in currently dormant locations. TML aims to broaden its product portfolio, focusing on pure EV architecture and seeking synergy benefits with JLR for premium EV models. TML is also developing an EV-dedicated distribution network, having launched two digitally enabled exclusive EV stores in Gurgaon and identifying 50 cities for future exclusive EV showrooms. To enhance the EV ecosystem, TML has partnered with charging-point infrastructure players. The company's holistic approach includes a multi-product strategy, a shift to pure EV architecture, and the development of the EV ecosystem. The EV charging system is expected to grow from over 10,000 units currently to 100,000 units by FY30.The newly acquired Sanand plant began production in January 2024, currently producing 6,000-7,000 units per month, with plans to increase to 13,000-14,000 units per month in the medium term. The plant's capacity can expand from 300k to 420k units, bringing TML's total PV segment capacity to 1 million units.

Our Call

Valuation – Maintain Buy with an unchanged PT of Rs. 1235: After delivering strong performance in FY24 the management has been optimistic on the growth prospects in both CV and PV segment. An improvement in operating performance has been visible in reduction in net automotive debt and cash generation as TML has announced a dividend in second consecutive year in FY24. Going forward, the management is more endeavouring to deliver sustainable performance and reduce volatility as was the case in past. Beyond that it continues to focus on profitability in most of the division and considering digital penetration as a tool to boost its positioning in fragmented CV segment. It looks for double-digit EBITDA margin in PV and CV business, while aiming for an EBITDA breakeven in EV business by FY26. Management sees a critical role for modularity and alternative fuels, including hydrogen, and plans to expand overseas in this segment. TML has been working on hydrogen technology for the past 10 years. TML plans to invest 45-50% of its capex in the alternative fuel segment in FY25, up from 30-35% earlier. In PV segment, Currently, TML's addressable market is 53% of the total market, resulting in an adjusted market share of 26%. The company plans to expand its addressable market to 80% through new product launches, targeting a 25% market share. Further, it is sustaining its leadership position in electric car business Tata Group company is planning to set up Li-ion cell plant. In the 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 a healthy market share backed by its product launch strategy and we believe that losses in the EV business would come down in coming quarters. 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. While hydrogen fuel cell technology as at nascent stage, TML has been making efforts to secure its growth prospects in hydrogen space in future. We maintain our Buy on Tata Motors Ltd (TML) with an unchanged PT of Rs 1,235 on expecting continued improvement in JLR, PV and CV businesses and reduced net automotive debt.

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 chip shortage worsens.

Valuation (Consolidated) Rs cr

Particulars	FY22	FY23	FY24P	FY25E	FY26E
Net Sales	2,78,454	3,45,967	4,37,928	4,80,682	5,41,768
Growth (%)	11.5	24.2	26.6	9.8	12.7
AEBIDTA	24,813	31,830	59,610	71,346	82,306
OPM (%)	8.9	9.2	13.6	14.8	15.2
APAT	(10,719)	734	21,520	25,222	31,302
Growth (%)	684.6	-106.8	2833.4	17.2	24.1
AEPS (Rs)	(28)	2	56	66	82
P/E (x)		516.3	17.6	15.0	12.1
P/B (x)	8.5	8.4	4.5	3.5	2.8
EV/EBIDTA (x)	18.3	14.1	6.9	6.3	5.6
RoE (%)	-24.1	1.6	25.3	23.4	22.9
RoCE (%)	2.6	5.0	23.3	13.2	13.7

Source: Company; Sharekhan estimates

CV division: No capacity constraints in near term

- **Strong Performance & Growth Drivers:** The CV division showed strong performance in FY24. Management expects growth driven by increased freight availability and the replacement cycle, anticipating a longer CV growth cycle.
- **Revenue Contributions:** Non-vehicle revenue, including international revenue, currently contributes a high teens percentage to CV revenue. The management expects this number to reach 20% in the medium term.
- **Regulatory Outlook:** No major regulations are expected in the next six years.
- **Impact of freight corridors:** The Northeast DFC will not significantly impact the CV segment. Any negative impact from the Western DFC on large trucks may be offset by increased demand for ILCVs due to last-mile connectivity needs.
- **Alternative fuels & international expansion:** Management sees a critical role for modularity and alternative fuels, including hydrogen, and plans to expand overseas in this segment. TML has been working on hydrogen technology for the past 10 years.
- **Business structure:** Each business segment within the CV division operates as a separate SBU with specific goals.
- **Electric vehicles:** TML is a major player in the electric bus segment but awaits clarity on payment schemes before increasing its investment. Focus on electric SCVs is helping regain market share.
- **Financial outlook:** The management is confident in maintaining a double-digit EBITDA margin through high content in new products and fixed cost control. Demand for CNG versions is also rising.
- **Capacity & investment:** No near-term capacity constraints are expected. TML plans to invest 45-50% of its capex in the alternative fuel segment in FY25, up from 30-35% earlier.

PV division: Looking to expand addressable market

- **Strategic focus & turnaround:** The PV business turnaround reflects a strategic focus on its product portfolio. TML has concentrated on ensuring that each of its seven PV products performs well in its respective segment.
- **Harrier:** Currently Harrier is available only in a diesel version, a petrol version is planned for the future.
- **Entry-level product:** The company plans to introduce a new entry-level product, expanding beyond its current offering with the Tigor.
- **Performance Drivers:** Despite much of the PV industry's growth coming from new models, TML delivered strong performance in FY24 through a multi-powertrain strategy and the launch of facelift versions, even without introducing new nameplates.
- **Market growth:** The PV industry is expected to grow at a 6-7% CAGR until 2030, with rising penetration of EVs and SUVs and continued customer preference for high-feature PVs.
- **Addressable market expansion:** Currently, TML's addressable market is 53% of the total market, resulting in an adjusted market share of 26%. The company plans to expand its addressable market to 80% through product launches, targeting a 25% market share.
- **Focus on EVs:** Supported by the PLI scheme for EVs and localisation, TML aims to focus on the EV segment while continuing to follow a multi-powertrain strategy to outperform the EV industry.
- **CNG Segment:** Despite entering the CNG segment late, TML achieved a 24% market share in FY24.
- **Sanand plant:** The newly acquired Sanand plant began production in January 2024, currently producing 6,000-7,000 units per month, with plans to increase to 13,000-14,000 units per month in the medium term. The plant's capacity can expand from 300k to 420k units, bringing TML's total PV segment capacity to 1 million units.

EV division: Focusing on pure EV architecture

- **Leadership & market share:** TML focuses on maintaining its leadership in the EV market through a strong product profile, sustaining over 70% market share despite increased competition with 14 domestic EV models.
- **Network expansion:** The company's network covers 192 cities, with plans to expand sales in dormant cities and launch exclusive EV showrooms in 50 identified cities. TML has also opened two digitally enabled exclusive EV stores in Gurgaon.
- **Product portfolio & synergies:** TML plans to expand its product portfolio, focusing on pure EV architecture and seeking synergy benefits with JLR for premium EV models.
- **Ecosystem development:** TML has partnered with charge point infrastructure players to enhance the EV ecosystem. The EV charging system is expected to grow from over 10,000 units currently to 100,000 units by FY30.
- **Upcoming launches:** TML plans to launch the Curvv EV and Harrier EV in FY25, and the Sierra EV and Avinya EV in FY26.

Others

- **Restructuring:** Separate listing of PV and CV business would unlock the value for individual business as their is almost no synergy in both the businesses. The demerger process is likely to be completed by July 2025.TMFL's demerger from TML is a part of its strategy to exit from non-core business.
- **Digital penetration:** Digital tools have large room to play in the CV segment due to it's fragmented nature and long chain cash conversion cycle and multiple layers of participants. With its multiple digital platforms the company aims to develop a cost effective and operationally efficient eco system in CV industry. Going forward, then management aims to scale up and then monetize it the digital platforms at some suitable point of time. The management is looking for a USD 1bn revenue from digital platforms in next five years.

Outlook

- **CV division:** With an assumption of 6-8% CAGR in freight traffic the company expects CV industry to grow by 4-5% over FY24-30E.With an expectation of gradual expansion in market share TML targets to outperform the industry revenue growth. Further, it continues to target a profitable volume growth in CV segment and aiming to sustain double-digit EBITDA margin. With capex at 2-4% of revenue the company is focussing on strong ROCE and looking for a free cash flow at 6-8% of revenue.
- **PV division:** The company foresee a sustainable growth of a 6-7% CAGR for PV industry and aiming to reach 16% market share by FY27 (14% in FY24) and 18 -20% by FY30 via expanding name plates in PV segment. It targets double digit margin for its PV division also. With capex at 6-8% of the revenue ,it plans for positive cash flow in PV division.
- **EV division:** In EV segment, it aims to maintain its leadership position targets that EVs to constitute 30% of its PV volume mix by 2030. TML targets to achieve break even in EV business by FY26. It schedules a capex of Rs 16,000 crore to 18,000 crore in EV business over FY25-30.

Segment-wise expectations

Domestic PV business Rs cr	FY22	FY23	FY24P	FY25E	FY26E
Volumes units	372176	541087	573495	596587	638432
growth	67%	45%	6%	4%	7%
Revenue	31515	47868	52353	56639	63037
growth	90%	52%	9%	8%	11%
REBIDTA	1659	3085	3378	4814	5358
growth	401%	86%	9%	43%	11%
EBIDTA %	5.3%	6.4%	6.5%	8.5%	8.5%
CV business Rs cr	**FY22**	**FY23**	**FY24P**	**FY25E**	**FY26E**
Volumes units	356972	413539	395845	408965	430392
growth	36%	16%	-4%	3%	5%
Revenue	52287	70816	78790	86286	95769
growth	58%	35%	11%	10%	11%
EBIDTA	1932	5270	8515	9491	10822
growth	39%	173%	62%	11%	14%
EBIDTA %	3.7%	7.4%	10.8%	11.0%	11.3%
JLR business IFRS GBP mn	**FY22**	**FY23**	**FY24P**	**FY25E**	**FY26E**
Volumes units	294182	321362	401303	440000	490000
growth	-15%	9%	25%	10%	11%
Revenue	18320	22809	28995	32427	36834
growth	-7%	25%	27%	12%	14%
EBIDTA	1570	2227	4620	5290	6135
growth	-34%	42%	107%	15%	16%
EBIDTA %	8.6%	9.8%	15.9%	16.3%	16.7%

Source: Company; Sharekhan Research

Outlook and Valuation

■ Sector Outlook – Demand outlook remains strong

With easing out of semiconductor chip supply issues, production has been recovering. We believe that the global vehicle production would see fewer headwinds in FY25 as 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 segments are continuing 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. H2FY25 is expected to be strong as compared to H1FY25, 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 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 an unchanged PT of Rs. 1235

After delivering strong performance in FY24 the management has been optimistic on the growth prospects in both CV and PV segment. An improvement in operating performance has been visible in reduction in net automotive debt and cash generation as TML has announced a dividend in second consecutive year in FY24. Going forward, the management is more endeavouring to deliver sustainable performance and reduce volatility as was the case in past. Beyond that it continues to focus on profitability in most of the division and considering digital penetration as a tool to boost its positioning in fragmented CV segment. It looks for double-digit EBITDA margin in PV and CV business, while aiming for an EBITDA breakeven in EV business by FY26. Management sees a critical role for modularity and alternative fuels, including hydrogen, and plans to expand overseas in this segment. TML has been working on hydrogen technology for the past 10 years. TML plans to invest 45-50% of its capex in the alternative fuel segment in FY25, up from 30-35% earlier. In PV segment, Currently, TML's addressable market is 53% of the total market, resulting in an adjusted market share of 26%. The company plans to expand its addressable market to 80% through new product launches, targeting a 25% market share. Further, it is sustaining its leadership position in electric car business Tata Group company is planning to set up Li-ion cell plant. In the 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 a healthy market share backed by its product launch strategy and we believe that losses in the EV business would come down in coming quarters. 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. While hydrogen fuel cell technology as at nascent stage, TML has been making efforts to secure its growth prospects in hydrogen space in future. We maintain our Buy on Tata Motors Ltd (TML) with an unchanged PT of Rs 1,235 on expecting continued improvement in JLR, PV and CV businesses and reduced net automotive debt.

SOTP Valuation

Business	Valuation basis	Multiple	Per share value (Rs)
PV business	FY26E EBIDTA	12.0	168
CV business	FY26E EBIDTA	12.0	339
JLR business	FY26E EBIDTA	4.0	660
Total EV			1167
Net automotive debt			-17
Total equity value			1150
China JV	FY26E sales	0.5	39
Tata Technologies	53.39% stake with 20% holding company discount		46
Total value per share			1235

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	43.69
2	Life Insurance Corp of India	3.01
3	SBI Funds Management Ltd	2.34
4	Tata Industries Ltd	2.17
5	Vanguard Group Inc/The	2.01
6	BlackRock Inc	1.84
7	Jhunjhunwala Rekha Rakesh	1.29
8	Axis Asset Management Co Ltd/India	1.08
9	UTI Asset Management Co Ltd	1.03
10	HDFC Asset Management Co Ltd	0.91

Source: Bloomberg

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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

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by BNP PARIBAS

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