Sharekhan by BNP PARIBAS

Powered by the Sharekhan 3R Research Philosophy

Stock Update

Result Update

Tata Motors Ltd

Q2 was a blip, hoping a revival in H2FY2025

Automobiles	Sharekhan code: TATAMOTORS
Reco/View: Buy ↔	CMP: Rs. 805 / Price Target: Rs. 1,099 ↓

↑ Upgrade ↔ Maintain ↓ Downgrade

Summary

- JLR has maintained its full-year guidance despite subdued performance in Q2FY2025.
- Domestic business is expected to follow industry trends in the near term. CV business is sustaining its double-digit EBITDA margin.
- We retain our BUY rating on TML with a revised PT of Rs. 1,099, based on expectations of continued improvement in JLR, PV, and CV businesses as well as reduced net automotive debt.
- The stock trades at a P/E multiple of 12.2x and EV/EBITDA multiple of 5.3x its FY2027E estimates.

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. 2,96,311 cr
52-week high/low:	Rs. 1179/622
NSE volume: (No of shares)	115.7 lakh
BSE code:	500570
NSE code:	TATAMOTORS
Free float: (No of shares)	211.4 cr

Shareholding (%)

Promoters	42.6
FII	20.6
DII	16.4
Others	20.5

Price chart

Price performance

(%)	1m	3m	6m	12m
Absolute	-14.2	-22.7	-20.7	10.2
Relative to Sensex	-11.2	-23.4	-28.3	-1.2

Sharekhan Research, Bloomberg

As anticipated Tata Motors Limited's (TML) Q2FY2025 performance was subdued due to temporary issues in JLR, given that management has already indicated for a probable production constraint in JLR's business in Q2 due to supply issues related to aluminium and industry-related headwinds faced by the domestic business. However, management has indicated for a sharp revival in JLR's volumes, production, and profitability in H2FY2025 on resolution of temporary issues and, hence, has maintained its full-year guidance for FY2025. Management has shared a cautious outlook for the near term in its domestic business but remained hopeful for recovery in H2FY2025, following the improvement in macros. Revenue increased by 0.4% y-o-y to Rs, 1,01,450 crore (against estimate of Rs. 1,01,070 crore) on account of (1) a 5.6% y-o-y decline in JLR's business, (2) 13.9% y-o-y dip in the domestic CV business, and (3) a 3.9% y-o-y fall in the domestic PV business. AEBITDA declined by 15.0% y-o-y to Rs 11,671 crore and EBITDA margin contracted by 160 bps y-o-y to 11.5% as (1) higher VME charges along with lower production impacted JLR's margin by 320 bps y-o-y and (2) negative operating leverage impacted the domestic PV business's margin by 30 bps y-o-y, while the CV business registered a 40 bps y-o-y improvement in EBITDA margin. With this subdued operating performance, APAT declined by 25.7% y-o-y to Rs. 2,856 crore (against estimate of Rs. 4,807 crore).

Key positives

- The CV business registered 40 bps improvement in EBITDA margin, and this was the consecutive fifth quarter when the CV business has reported EBITDA margin above the 10% mark.
- Underlying EBITDA margin in the PV IC business (on excluding EV business) stood at 8.5% compared to blended EBITDA margin for the PV business at 6.2%.
- In contrast to industry trends, TML's inventories in the PV segment have been under control.

Key negatives

- JLR business has registered muted volume performance due to production constraints at its aluminum supplier end. Further, its domestic business was impacted by weakness in the PV and CV industry in the domestic market.
- Domestic EV business in the fleet segment is facing headwinds due to withdrawal of FAME incentives.
- Net automotive debt has increased from Rs. 16,000 crore in FY2024 to Rs. 22,000 crore in Q2FY2025 due to working capital issues, which management believes would get resolved in H2FY2025 on recovery in JLR's volumes.

Management Commentary

- The Chinese market is not expected to improve in the immediate near term as higher inventory and discounting is seriously impacting the dealership business in China.
- Despite weak performance in Q2FY2025, JLR has maintained its guidance of GBP 30 bn of revenue, greater than or equal to 8.5% EBIT and net cash positive for FY2025.
- While management has shared a cautious outlook for its domestic business, it remains hopeful of recovery in business in H2FY2025, in sync with recovery in macros.

Our Call

Valuation – Maintain BUY with a revised PT of Rs. 1,099: JLR's subdued performance in Q2FY2025 was in line with expectation, though the sharp rise in VMEs was surprising. Given management has guided for a revival in production in H2FY2025 and, hence, maintained its full-year guidance for FY2025, we believe a shortfall in Q2FY2025 would get substantiated in the coming quarters. Historically also, JLR has performed better in H2 compared to H1 in a given financial year. Assuming a challenging industry structure in the domestic market, it is encouraging to know that TML has been sustaining its double-digit EBITDA margin in the CV business. The net automotive debt is expected to come down in the coming quarters in expectation of easing working capital pressure on increasing JLR volumes. Management continues to focus on sustaining its operating profitability in the domestic PV and CV businesses and expects commodity prices to remain range-bound in the near term. An EV battery cell plant within the group would help the company achieve speedy product validation and reduce the dependence on third-party suppliers. While hydrogen fuel cell technology is at a nascent stage, TML has been making efforts to secure its growth prospects in the hydrogen space in future. Given that JLR's production restrictions are only transitory and that the structural pace has been maintained, we maintain our BUY rating on TML with a revised PT of Rs. 1,099 based on expectation of ongoing improvement in the JLR, PV, and CV sectors, as well as lower 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 chips shortage worsens.

Valuation (Consolidated) Rs cr

Particulars	FY23	FY24	FY25E	FY26E	FY27E
Net Sales	3,45,967	4,37,928	4,49,299	4,96,469	5,54,797
Growth (%)	24.2	26.6	2.6	10.5	11.7
AEBIDTA	31,830	59,610	64,121	71,561	80,265
OPM (%)	9.2	13.6	14.3	14.4	14.5
APAT	734	21,520	19,803	23,243	27,346
Growth (%)	-	-	-8.0	17.4	17.7
AEPS (Rs)	2	58	54	63	74
P/E (x)	-	15.6	16.9	14.4	12.2
P/B (x)	7.4	3.9	3.3	2.7	2.2
EV/EBIDTA (x)	12.7	6.2	6.4	5.9	5.3
RoE (%)	-	25.3	19.3	18.8	18.1
RoCE (%)	5.0	23.3	11.3	11.4	11.6

Source: Company; Sharekhan estimates

JLR

- JLR's volume performance was impacted by manufacturing issue at its aluminium supplier due to flood and hold up of 6,000 units of JLR at UK/EU issue (to allow additional quality-control checks to be performed). The said 6,000 cars will be sold in Q3FY2025.
- The disruption in aluminum supply has impacted the production of Ranger Rover and Range Rover Sport as they used to produce at MLA architecture, given MLA is their most aluminum-intensive architecture. Consequently, JLR was able to sell only 30,000 units of Range Rover and Range Rover Sport in Q2FY2025 compared to normal run rate of 40,000 units.
- Operating cash flow was negative (-GBP 256 mn) due to working capital issue pertaining to muted production, which management believes would reverse in the coming quarters on expectation of increased production.
- EU market is getting increasingly competitive and U.S. continues to perform really well. In contrast to the market condition, JLR observed healthy sales trends in China in Q2FY2025. However, Chinese retail and distribution segment is facing headwinds due to industry-wide discounting and inventory issue, which may impact its performance in China in H2FY2025. The Chinese market is not expected to improve in the immediate near term.
- Variable marketing expense (VEM) has increased from 1.1% of sales in Q2FY2024 to 4% in Q2FY2025. VME is expected to rise further in the coming period.
- The reduction in demand for BEVs has resulted in higher life for its IC portfolio and, hence, provision for depreciation is likely to reduce.
- While global challenges continue, management believes its volume and production would recovery sharply in H2FY2025.

CV business

- In Q2FY2025, the CV industry saw an 11% decline y-o-y in terms of volume, largely impacted on external factors of infra slowdown and reduction in mining.
- In heavy commercials, intermediates light medium commercial vehicles and SCV pickup, volumes declined by around 24%, 13%, and 10%, respectively, whereas passenger carriers grew by 5%.
- Diesel consumption has reduced to almost 15% q-o-q and the kilometres run by vehicles on a daily basis declined significantly (y-o-y basis on the lowest level, there was a decline of almost 15% to 17%). By October, the kilometres run by vehicles become flat on a y-o-y basis.
- Despite a y-o-y drop in fleet utilisation, freight rates moderated just marginally, which therefore ensured that transporter profitability, while it came down a bit, continues to be at a good level.
- TML's CV volumes declined 19% y-o-y in Q2FY2025.
- In electric mobility, it delivered and registered 550 electric buses in Q2FY2025. Until now, it has more than 3,300 electric buses that are running on the road.

PV business

- High inventory ahead of the festive season translated into a rise in discount levels in the PV industry.
- TML's inventory situation remained under control due to check on wholesale dispatches.
- Margins for the PV ICE business margins remained steady q-o-q. While the EV business profitability has shown consistent improvement on account of battery price reductions and the profits of new product launches.
- Overall, the EV industry's volumes have been impacted by challenges in the broader EV industry, and the withdrawal of certain subsidies, especially in the fleet segment. While there has been a sharp decline in the fleet segment post expiry of the FAME2 incentive, TML has been able to sustain its personal segment's market share at 67% despite an intensifying conflict environment with new product launches. In certain states, the road tax benefit expired and did not continue.
- The dispatch of Curvv and Nexon CNG was impacted by a gradual ramp-up in production.
- The impact of higher discounts in the industry was partly offset by the increase in internal cost-control initiatives. Cost-reduction actions would help in improving the operating performance in H2FY2025.
- Currently, the dealer inventory is at 30-31 days.
- Harrier EV and Sierra are expected to be launched in H2FY2025.
- Curvv is observing strong bookings and the penetration of EVs in Curvv's bookings stood at 20%.

Change in earning estimates (Rs cr)

Particulars	Earlier		New		% change		Introduction
	FY25E	FY26E	FY25E	FY26E	FY25E	FY26E	FY27E
Revenue	4,80,682	5,41,768	4,49,299	4,96,469	-6.5%	-8.4%	5,54,797
EBITDA	71,346	82,306	64,121	71,561	-10.1%	-13.1%	80,265
EBITDA margin	14.8%	15.2%	14.3%	14.4%			14.5%
PAT	25,222	31,302	19,803	23,243	-21.5%	-25.7%	27,346
EPS (Rs)	66	82	54	63	-18.3%	-22.7%	

Source: Company, Sharekhan Research

Results (Consolidated)

Rs cr

Particulars	Q2FY25	Q2FY24	% YoY	Q1FY25	% QoQ
Revenue	1,01,450	1,05,128	(3.5)	1,08,048	(6.1)
Total Expenses	89,779	91,404	(1.8)	92,539	(3.0)
Operating Profit	11,671	13,724	(15.0)	15,509	(24.7)
Core PBT	5,198	6,067	(14.3)	8,422	(38.3)
Tax	2,317	2,203	5.2	3,178	(27.1)
Share Of profit from Associates/MI	(25)	(19)	NA	3	NA
Reported PAT	3,343	3,764	(11.2)	5,566	(39.9)
Adj Net Profit	2,856	3,845	(25.7)	5,247	(45.6)

Source: Company, Sharekhan Research

Key Ratios (Consolidated)

Particulars	Q2FY25	Q2FY24	YoY (bps)	Q1FY25	QoQ (bps)
Gross Margin (%)	38.7	36.4	230	39.0	(30)
EBITDA Margin (%)	11.5	13.1	(160)	14.4	(280)
PAT Margin (%)	2.8	3.7	(80)	4.9	(200)

Source: Company, Sharekhan Research

Quarterly performance trend

Rs cr

JLR (GBP mn)	Q2FY24	Q3FY24	Q4FY24	Q1FY25	Q2FY25	YoY chg	QoQ chg
Volumes (units)	96817	101043	110190	97755	87303	-10%	-11%
Revenue	6857	7375	7860	7273	6475	-6%	-11%
REBIDTA	1021	1192	1284	1149	759	-26%	-34%
REBIDTA %	14.9%	16.2%	16.3%	15.8%	11.7%		
CV business Rs cr	**Q2FY24**	**Q3FY24**	**Q4FY24**	**Q1FY25**	**Q2FY25**	**YoY chg**	**QoQ chg**
Volumes (units)	104085	96526	109439	91209	84281	-19%	-8%
Revenue	20087	20123	21591	17849	17288	-14%	-3%
REBIDTA	2089	2234	2591	2070	1867	-11%	-10%
REBIDTA %	10.4%	11.1%	12.0%	11.6%	10.8%		
PV business Rs cr	**Q2FY24**	**Q3FY24**	**Q4FY24**	**Q1FY25**	**Q2FY25**	**YoY chg**	**QoQ chg**
Volumes (units)	138939	138455	155651	138404	130753	-6%	-6%
Revenue	12174	12910	14431	11847	11701	-4%	-1%
REBIDTA	791	852	1053	687	725	-8%	6%
REBIDTA %	6.5%	6.6%	7.3%	5.8%	6.2%		
Consolidated Rs cr	**Q2FY24**	**Q3FY24**	**Q4FY24**	**Q1FY25**	**Q2FY25**	**YoY chg**	**QoQ chg**
Revenue	105128	110577	119986	108048	101450	-3%	-6%
AEBIDTA	13724	15333	16993	15509	11671	-15%	-25%
AEBIDTA margin	13.1%	13.9%	14.2%	14.4%	11.5%		

Source: Company, Sharekhan Research

Segment wise expectations

Rs cr

Domestic PV business	FY23	FY24	FY25E	FY26E	FY27E
Volumes units	541087	573495	583343	624261	668051
growth	45%	6%	2%	7%	7%
Revenue	47868	52353	53784	59284	65980
growth	52%	9%	3%	10%	11%
EBIDTA	3085	3378	4034	5039	5608
growth	86%	9%	19%	25%	11%
EBIDTA %	6.4%	6.5%	7.5%	8.5%	8.5%

Source: Company, Sharekhan Research

Rs cr

CV business	FY23	FY24	FY25E	FY26E	FY27E
Volumes units	413539	395845	401404	422452	444651
growth	16%	-4%	1%	5%	5%
Revenue	70816	78790	82293	91342	101396
growth	35%	11%	4%	11%	11%
EBIDTA	5270	8515	9052	10322	11671
growth	173%	62%	6%	14%	13%
EBIDTA %	7.4%	10.8%	11.0%	11.3%	11.5%

Source: Company, Sharekhan Research

JLR business IFRS GBP mn	FY23	FY24	FY25E	FY26E	FY27E
Volumes units	321362	401303	415000	450000	495000
growth	9%	25%	3%	8%	10%
Revenue	22809	28995	30045	33230	37284
growth	25%	27%	4%	11%	12%
EBIDTA	2227	4620	4670	5192	5812
growth	42%	107%	1%	11%	12%
EBIDTA %	9.8%	15.9%	15.5%	15.6%	15.6%

Source: Company, Sharekhan Research

Outlook and Valuation

■ Sector view - Demand outlook remains strong

Production has been recovering with improvement in the semiconductor chip supply issue. We believe global vehicle production would see less headwinds in FY2024 compared to FY2023 on improved supply chain situation. While pent-up demand has been playing out in the domestic PV market, the same would continue to play out in the global luxury market for some time. The domestic PV and CV segments continue to witness uptick in the near term as the CV cycle is assumed to be in a cyclical uptick phase and the PV segment is observing a structural uptick.

■ Company outlook - On a strong growth path

We expect TML to benefit from all its business verticals – JLR, CVs, and PVs. H2FY2025 is expected to be strong as compared to H1FY2025, driven 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. 1,099

JLR's subdued performance in Q2FY2025 was in line with expectation, though the sharp rise in VMEs was surprising. Given management has guided for a revival in production in H2FY2025 and, hence, maintained its full-year guidance for FY2025, we believe a shortfall in Q2FY2025 would get substantiated in the coming quarters. Historically also, JLR has performed better in H2 compared to H1 in a given financial year. Assuming a challenging industry structure in the domestic market, it is encouraging to know that TML has been sustaining its double-digit EBITDA margin in the CV business. The net automotive debt is expected to come down in the coming quarters in expectation of easing working capital pressure on increasing JLR volumes. Management continues to focus on sustaining its operating profitability in the domestic PV and CV businesses and expects commodity prices to remain range-bound in the near term. An EV battery cell plant within the group would help the company achieve speedy product validation and reduce the dependence on third-party suppliers. While hydrogen fuel cell technology is at a nascent stage, TML has been making efforts to secure its growth prospects in the hydrogen space in future. Given that JLR's production restrictions are only transitory and that the structural pace has been maintained, we maintain our BUY rating on TML with a revised PT of Rs. 1,099 based on expectation of ongoing improvement in the JLR, PV, and CV sectors, as well as lower net automotive debt.

SOTP valuation

Business	Valuation basis	Multiple	Per share value (Rs)
PV business	FY27E EBIDTA	10.0	152
CV business	FY24E EBIDTA	10.0	317
JLR business	FY24E EBIDTA	3.0	488
Total EV			957
Net automotive debt			-43
Total equity value			914
China JV	FY27E sales	0.5	41
TML EV Eco			97
Tata Technologies	53.39% stake with 20% holding company discount		47
Total value per share			**1099**

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, U.K., 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	40.2
2	SBI Funds Management Ltd	2.9
3	Life Insurance Corp of India	2.5
4	Vanguard Group Inc/The	2.3
5	Blackrock Inc	2.0
6	Tata Industries Ltd	2.0
7	ICICI Prudential Asset Management	1.3
8	Jhunjhunwala Rekha Rakesh	1.3
9	HDFC Asset Management Co Ltd	1.1
10	UTI Asset Management Co Ltd	1.0

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

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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 Address - Gigaplex IT Park, Unit No 1001, 10th Floor, Building No.9, TTC Industrial Area, Digha, Airoli-West, Navi Mumbai – 400708. Tel: 022 61169000 / 61150000, Fax No. 61169699.

Other registrations of Sharekhan Ltd.: SEBI Regn. Nos.: BSE / NSE (CASH / F&O / CD) / MCX - Commodity: INZ000171337; BSE – 748, NSE – 10733, MCX – 56125, DP: NSDL/CDSL-IN-DP-365-2018; PMS: INP000005786; Mutual Fund: ARN 20669 (date of initial registration: 03/07/2004, and valid till 02/07/2026); IRDAI Registered Corporate Agent (Composite) License No. CA0950, valid till June 13, 2027.

Compliance Officer: Ms. Binkle R. Oza; Tel: 022-62263303; email id: complianceofficer@sharekhan.com

For any complaints/grievance, email us at igc@sharekhan.com or you may even call Customer Service desk on - 022- 41523200/022-69920600.