

Tata Motors

BSE SENSEX

61,003

S&P CNX

17,944

TATA MOTORS

Stock Info

Bloomberg	TTMT IN
Equity Shares (m)	3598
M.Cap.(INRb)/(USDb)	1573.7 / 19
52-Week Range (INR)	511 / 366
1, 6, 12 Rel. Per (%)	7/-9/-16
12M Avg Val (INR M)	8019
Free float (%)	53.6
Bloomberg	TTMT IN

Financials & Valuations (INR b)

Y/E March	2023E	2024E	2025E
Net Sales	3,392	4,193	4,426
EBITDA	304.2	489.9	541.8
Adj. PAT	-20.2	103.8	127.9
Adj. EPS (INR)	-5.3	27.1	33.4
EPS Gr. (%)	-81.3	-613.5	23.3
BV/Sh. (INR)	115.8	142.9	176.3

Ratios

Net D/E (x)	1.2	0.8	0.5
RoE (%)	-4.5	20.9	20.9
RoCE (%)	-1.1	9.4	9.9
Payout (%)	0.0	0.0	0.0

Valuations

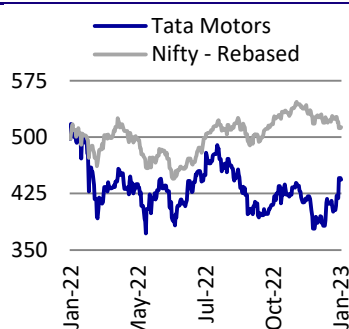
P/E (x)	-83.4	16.2	13.2
P/BV (x)	3.8	3.1	2.5
EV/EBITDA (x)	7.6	4.1	3.4
Div. Yield (%)	0.0	0.0	0.0
FCF Yield (%)	7.3	19.0	9.2

Shareholding pattern (%)

As On	Dec-22	Sep-22	Dec-21
Promoter	46.4	46.4	46.4
DII	15.4	14.9	13.8
FII	18.2	14.1	14.6
Others	20.1	24.6	25.2

FII Includes depository receipts

Stock Performance (1-year)


CMP: INR440
TP: INR540 (+23%)
Buy

JLR – Turning the corner

Favorable mix, Fx & op. leverage augurs well for margin recovery

Improving chip supplies globally, along with a very strong order book, should bode well for JLR. This would be supplemented by a substantially favorable mix in favor of its three most profitable products (74% of order book), as well as a favorable mix and operating leverage benefit. In turn, improving supplies would further aid the release of working capital and enable substantial net debt reduction by FY25E (to <GBP1b from GBP3.85b in Dec-22). A strong recovery in JLR, sustained resurgence of the India business, and a possible monetization of its stake in Tata Technologies (possible value of INR25-47/share for TTMT) are the key catalysts for the stock over next 12 months. Maintain Buy with TP of INR540 (Mar-25E based SOTP).

Improving supplies, good demand for JLR...

- Since 1QFY22, JLR has been severely impacted by chip shortages, as reflected in <25k/month average wholesales as against >40k/month earlier.
- Chip supplies have been gradually improving over the last few months. This is reflected in 3QFY23 wholesales (ex JV), which were highest since chip supplies aggravated from 2QFY22, grew 15% YoY/6% QoQ in 3QFY23.
- Demand for PVs in general and JLR products, in particular, remain strong in key markets globally, though the macro environment is not supportive. JLR is witnessing the benefit of full upgrades of its most important and profitable products, viz Range Rover (RR), Range Rover Sport (RRS), and Defender, leading to a substantial increase in order book.
- Order backlog for JLR in EU (incl. UK) and RoW markets has surged to 215k units (Dec-22). Given the supply-constrained environment, JLR has focused more on production than marketing, as reflected in a sharp reduction in variable marketing expenses (VME) to 0.6% in 3QFY23 (vs >5% earlier). As supplies improve, it has the lever of increasing VME to 2-2.5% to boost volumes, if required.

...coupled with strong improvement in mix...

- JLRs mix has been improving, driven by a) a strategic shift in demand-pull led sales, driving Land Rover (LR) brand salience, and b) improvement within LR toward RR/RRS/Defender.
- LR's mix in overall JLR volumes improved to ~83% in FY22 from ~70% in FY19. As a result, blended realizations have registered a ~9% CAGR over FY19-22, driven by a richer mix of LR than Jaguar as well as a lower VME for LR. VME has reduced to 0.6% in 3QFY23 from 1.8% in FY22 and 7.6% in FY20.
- Further, the mix within LR has also strengthened, driven by upgrades of its three most iconic products, i.e., RR/RRS/Defender. As a result, the share of these three models has consistently increased to 65% in 3QFY23 from 47% in FY22 and 27% in FY20. This would further increase as 74% of order book (as of Dec-22) is made up of these three models.

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...to drive strong financial recovery for JLR

- JLR's financial performance has been severely impacted by chip shortages and its associated cost inflation, despite improvement in mix. This is reflected in just 100bp improvement in gross/EBIT margins over FY21 level, as the benefit of mix was materially diluted by higher costs for chips, vendor compensation for lower volumes, and operating leverage (as 35%-40% of cost is fixed/semi-fixed).
- With visibility of supplies improving gradually, further improvement in mix and favorable Fx, we expect a sharp improvement in financial performance in JLR at profitability, cash flow, and debt level.
- We estimate JLRs FY24 wholesales (ex JV) growth of 27% YoY to 394k (or 98k/quarter), and FY25 volume growth of 7% to 417k units.
- This translates to EBIT margins improving to 5.6%/5.8% in FY24E/FY25E (vs 1.9% in FY23E), respectively. This coupled with normalization of working capital, despite an increase in capex, should result in FCF generation of GBP1.4b p.a, resulting in net debt reducing to <GBP1b by Mar-25 (v/s GBP3.8b as Dec-22).

India CVs strategic shift to drive margins; India PVs to be stable

- India CV business continues to see cyclical recovery and has a positive outlook, though there is emergence of red flags in the form of higher interest rates and macro headwinds.
- More importantly, the management has made a strategic shift by moving to demand-pull model with the objective of restoring its double-digit margins. It has started to reduce discount from Sep-22 and the benefit of which was already reflected in 3QFY23. This had led to an upgrade of ~20% in our estimates for CV business profits, post 3QFY23 results.
- Domestic PV business, which benefitted substantially from favorable product lifecycle, has been outperforming domestic PV market with ~67%/63% YoY growth in FY22/FY23YTD, respectively, resulting in market share gain to 14.2% in FY23YTD (vs 8.3%/5% in FY21/FY20, respectively).
- With no major new launches lined up for TTMT and some of its key competitors benefitting from a favorable product lifecycle, we believe TTMT's market share has peaked out for the next 12-15 months. It would be launching Curvv (mid-sized SUV expected in CY24), Harrier EV (CY24), Sierra EV (e-SUV in CY25), and Avinya (first born EV in CY25).

Tata Technologies IPO could add INR25-45/share to TTMT SoTP

- Tata Technologies, a 74.4% subsidiary of TTMT, is a global leader in the ER&D segment with focus on the automotive industry. In FY22, it had consolidated revenues of INR35.3b and a PAT of INR4.4b. Of this, it derived INR12b (or 34% of revenues) from the TTMT group.
- Tata Technologies is evaluating a possible IPO, which will help TTMT monetize part of its stake. Based on the media article, the value of Tata Technologies works out between INR160b and INR200b [possible IPO valuation ([link 1](#))] and ~INR305b in the unlisted market ([link 2](#)).
- This implies INR25-47/share (at 20% holdco discount) for TTMT. However, it has not yet factored in our SoTP-based target price.
- This possible IPO along with the receipt of consideration of EV deal with TPG will support FCF generation from the India business to attain near debt zero in the India business (~INR120b net debt as of Dec-22).

Valuation & view

- TTMT should witness a gradual recovery as supply-side issues ease (for JLR) and commodity headwinds stabilize (for the India business). It will benefit from: a) a macro recovery in India, b) company-specific volume/margin drivers, and c) a sharp improvement in FCF and leverage in both JLR as well as the India business.
- The stock trades at 16.2x/13.2x FY24E/FY25E consolidate P/E and 4.1x/3.4x EV/EBITDA. We reiterate our Buy rating on the stock, with a TP of ~INR540 (Mar-25E-based SoTP).

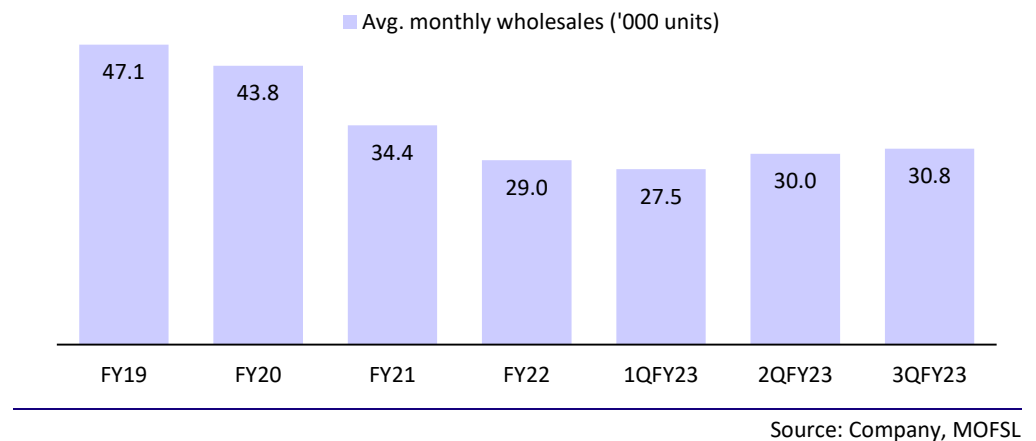
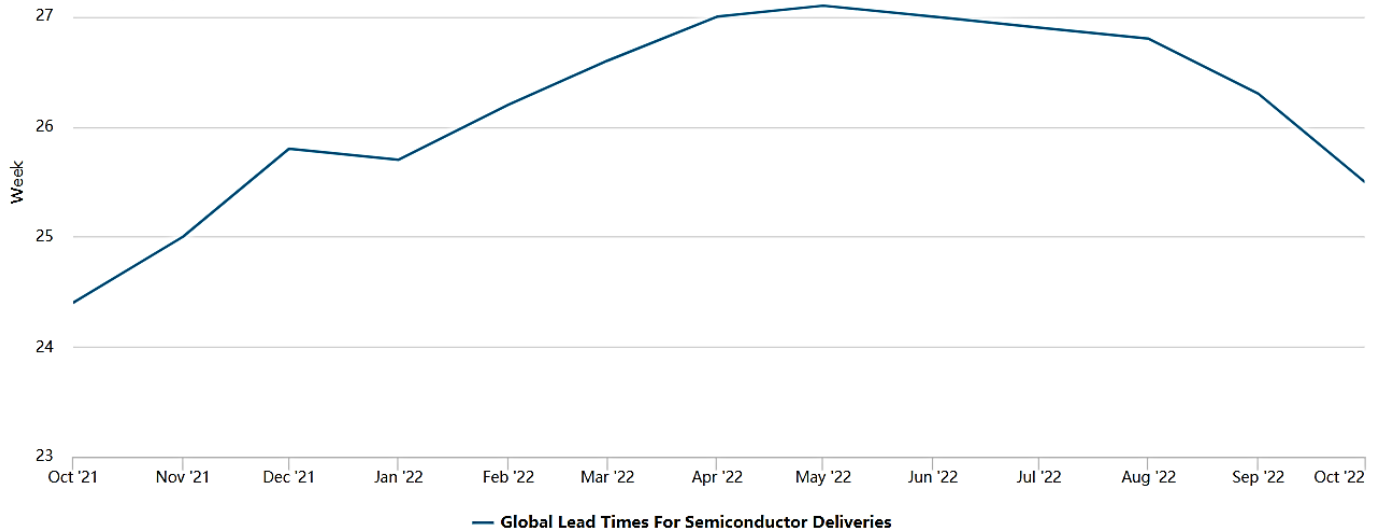
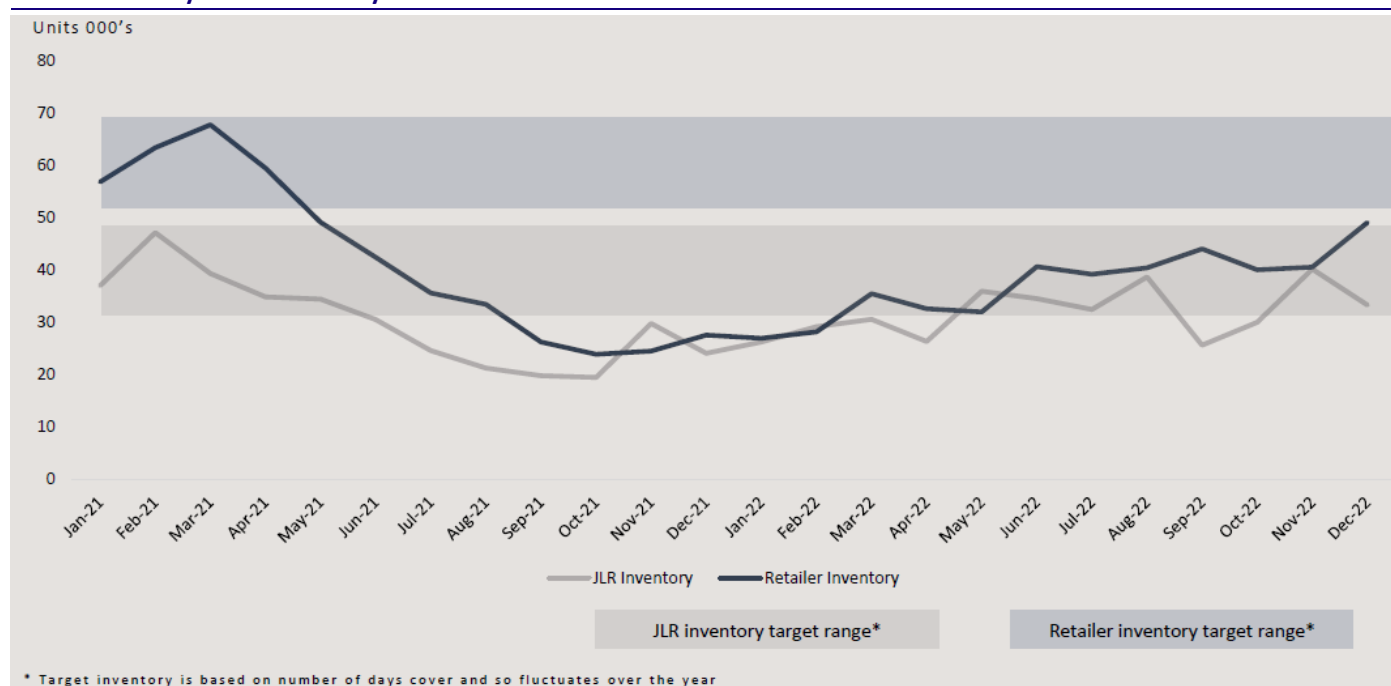
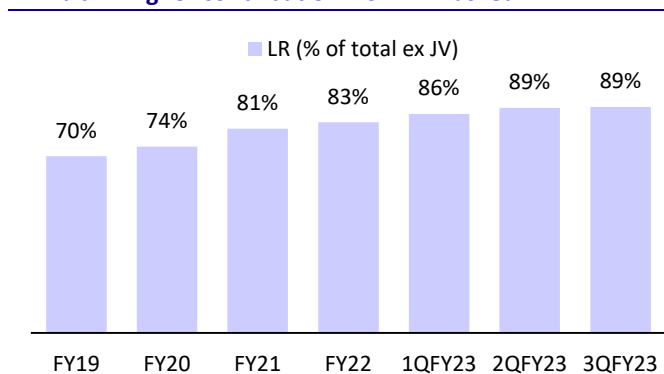
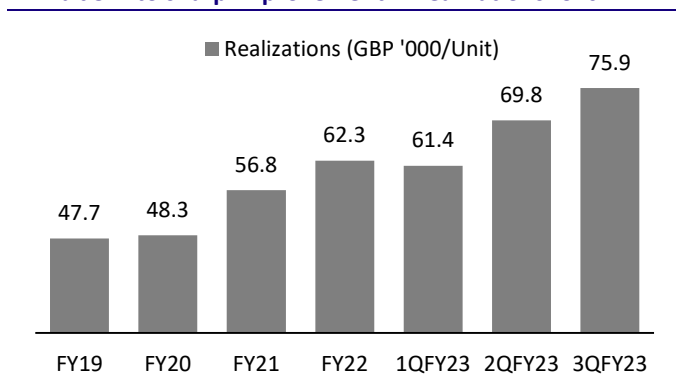
Exhibit 1: JLRs wholesales were materially impacted by chip shortages since 1QFY22**Exhibit 2: Global lead times for semiconductor deliveries has started to moderate**

Exhibit 3: JLRs systemic inventory is still much lower than ideal levels

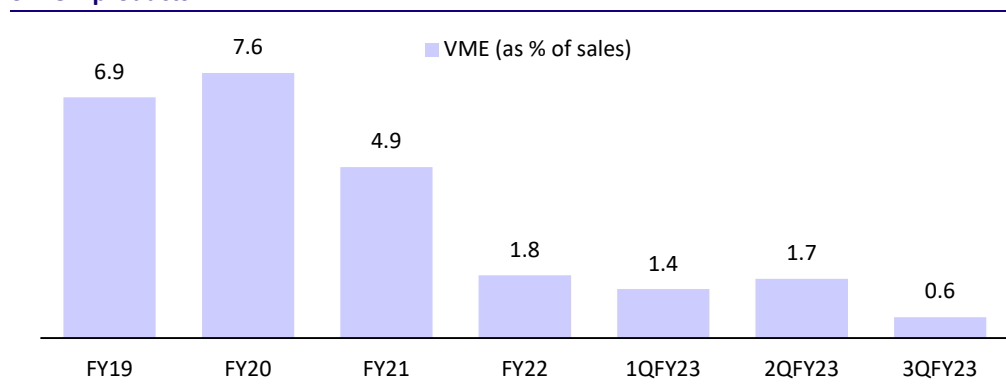
Source: Company, MOFSL

Exhibit 4: Higher contribution from LR has led...

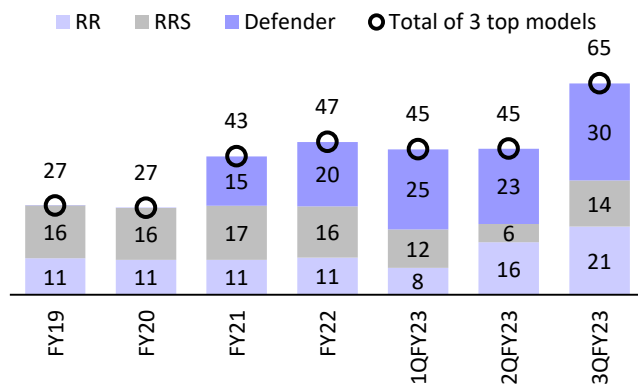
Source: Company, MOFSL

Exhibit 5: ..to sharp improvement in realizations for JLR

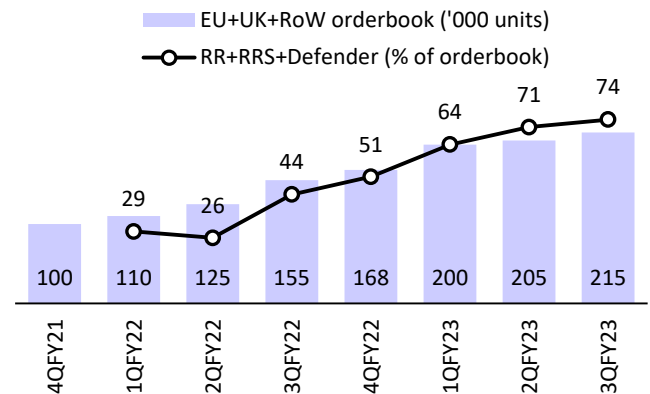
Source: Company, MOFSL

Exhibit 6: VME has reduced for JLR, driven by focus on demand-pull sales as well as benefit of new products

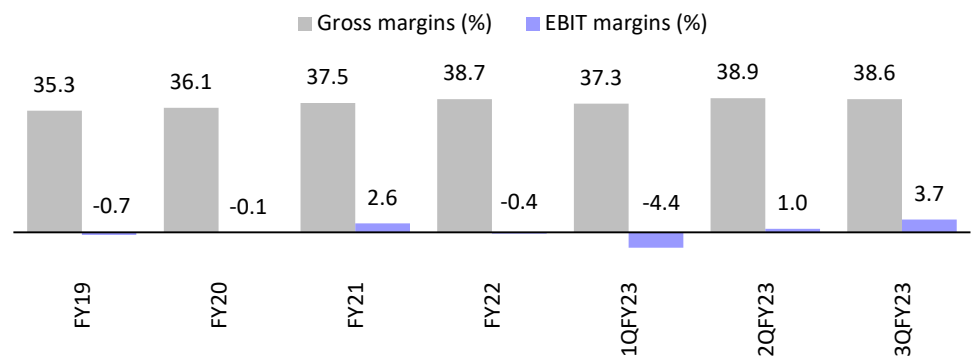
Source: Company, MOFSL

Exhibit 7: Contribution of RR/RRS/Defender going up sharply (% of total wholesales ex JV)...

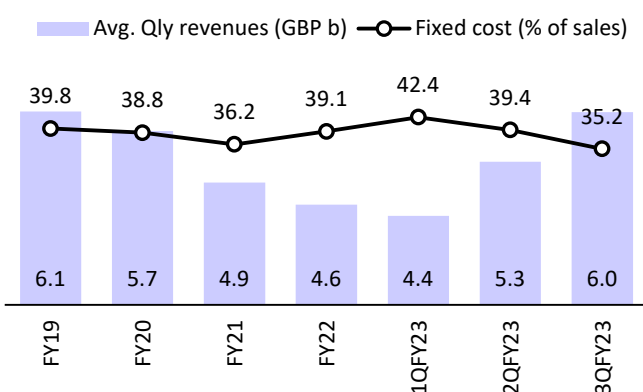
Source: Company, MOFSL

Exhibit 8: ...with 74% of order book coming from these three most profitable products

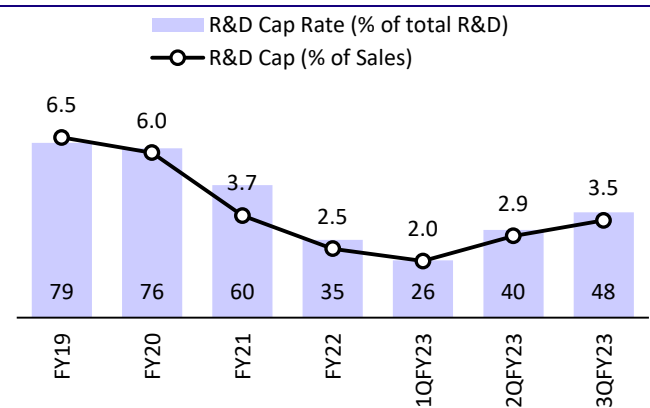
Source: Company, MOFSL

Exhibit 9: JLR's gross margins have expanded with improving mix, but operating leverage has hurt EBIT margins

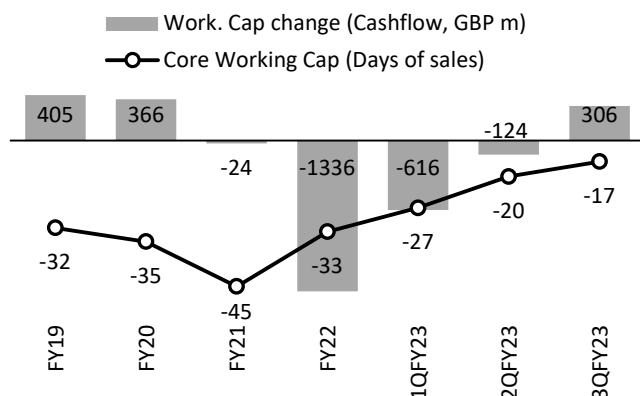
Source: Company, MOFSL

Exhibit 10: Improvement in volumes/revenues would lead to operating leverage

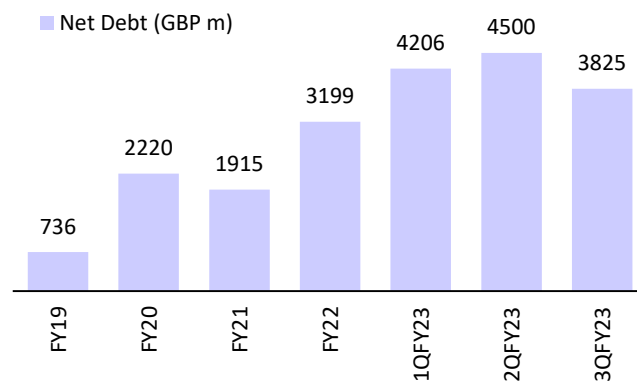
Source: Company, MOFSL

Exhibit 11: Normalization of R&D capitalization rate to 50-60% will also aid margins

Source: Company, MOFSL

Exhibit 12: Increase in working capital, due to lower production, has led to substantial cash outflow...

Source: Company, MOFSL

Exhibit 13: ...resulting in an increase in net debt

Source: Company, MOFSL

Exhibit 14: Tata Technologies can add INR25-47/share to TTMT SoTP, depending on value discovery on listing

Market Cap (INR m)	1,60,000	2,00,000	2,50,000	3,00,000
Hold-co Discount (%)	20	20	20	20
TTMTs stake (%)	74.43	74.43	74.43	74.43
Value for TTMT (INR/sh)	25	31	39	47

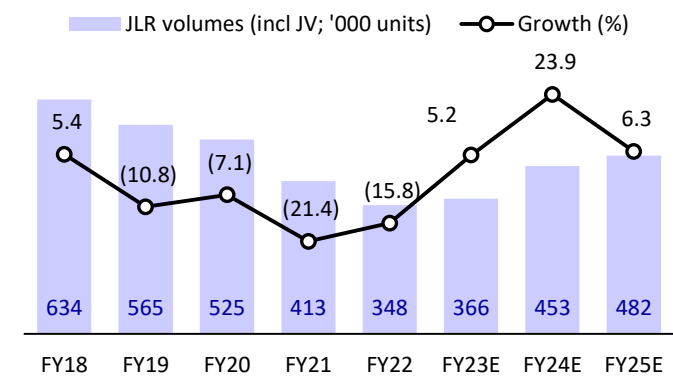
Source: MOFSL

Exhibit 15: SoTP valuation

INR B	Valuation Parameter	Multiple (x)	FY23E	FY24E	FY25E
SOTP Value					
Tata Motors – Standalone	SOTP		1,111	1,502	1,599
CVs	EV/EBITDA	11	585	813	805
ICE PVs	EV/EBITDA	8	253	367	421
EV PVs	DCF		273	322	373
JLR (Adj for R&D capitalization)	EV/EBITDA	2	439	700	753
JLR - Chery JV EBITDA Share	EV/EBITDA	2	23	26	28
Tata Motors Finance	P/BV	1.0	42	46	51
Total EV			1,615	2,273	2,430
Less: Net Debt (Ex TMFL)			525	440	364
Total Equity Value			1,091	1,833	2,066
Fair Value (INR/Sh) - Ord Sh	Fully Diluted		285	479	540
Upside (%)			-35.3	8.8	22.6

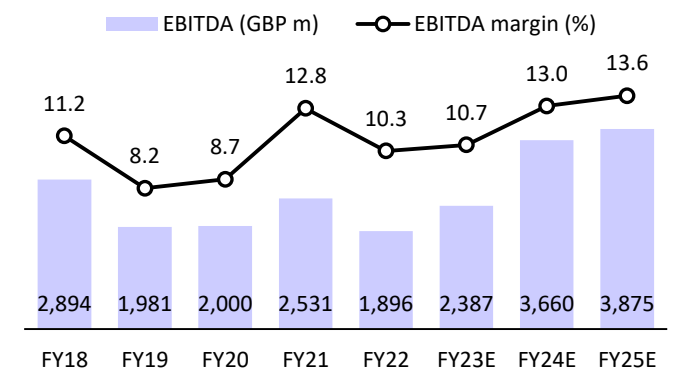
Story in charts

Exhibit 16: Volume growth trajectory for JLR



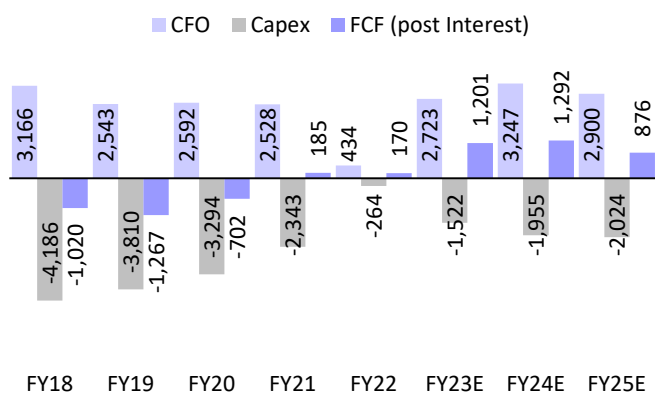
Source: Company, MOFSL

Exhibit 17: EBITDA and EBITDA margin trend for JLR



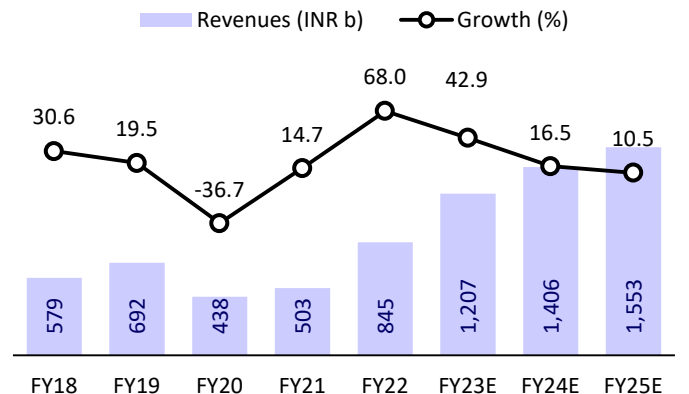
Source: Company, MOFSL

Exhibit 18: CFO/capex/FCF trend for JLR (GBP m)



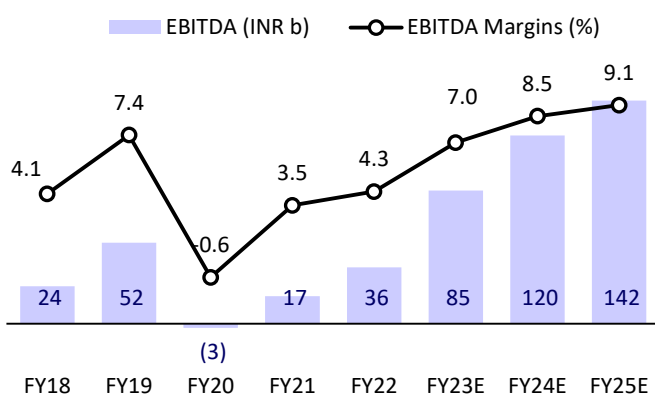
Source: Company, MOFSL

Exhibit 19: India business growth trajectory over FY22-25E



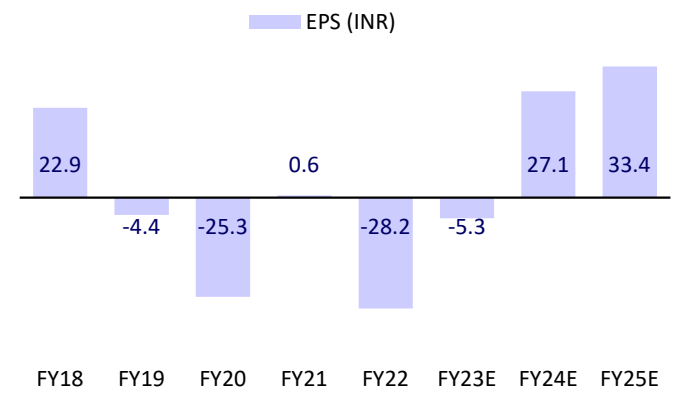
Source: Company, MOFSL

Exhibit 20: India EBITDA and margin trend



Source: Company, MOFSL

Exhibit 21: Consolidated earnings trajectory



Source: Company, MOFSL

Financials and valuations

Income Statement (Consolidated)						(INR b)		
Y/E March	2018	2019	2020	2021	2022	2023E	2024E	2025E
Total Income	2,915.5	3,019.4	2,610.7	2,497.9	2,784.5	3,391.8	4,192.7	4,425.6
Change (%)	8.1	3.6	-13.5	-4.3	11.5	21.8	23.6	5.6
EBITDA	302.7	255.7	197.3	305.6	248.1	304.2	489.9	541.8
% of Net Sales	10.4	8.5	7.6	12.2	8.9	9.0	11.7	12.2
Depreciation	215.5	235.9	214.3	235.5	248.4	242.2	261.9	282.6
EBIT	87.2	19.8	-17.0	70.1	-0.2	62.1	228.0	259.2
Product Dev. Exp.	35.3	42.2	41.9	52.3	92.1	94.7	101.8	106.5
Interest	46.8	57.6	72.4	81.0	93.3	101.1	98.5	104.7
Other Income	39.6	29.7	29.7	26.4	30.5	37.9	31.2	31.6
EO Exp/(Inc)	-19.8	296.5	28.7	137.6	6.3	-18.1	0.0	0.0
Forex Gain/ (Loss)	11.9	-9.1	-17.4	17.3	-0.8	-0.8	-14.7	-5.0
PBT	111.6	-313.7	-105.8	-104.7	-70.0	16.1	146.0	181.1
Effective Rate (%)	38.9	7.8	-3.7	-24.3	-60.4	120.3	30.5	31.0
Reported PAT	68.1	-289.3	-109.8	-130.2	-112.3	-3.3	101.5	125.1
Change (%)	12.4	-524.7	-62.1	18.6	-13.7	-97.1	-3,201.2	23.3
Minority Interest	-1.02	-1.02	-0.96	-0.56	-1.3	-1.3	-0.9	-1.0
Share of profit of associate	22.78	2.10	-10.00	-3.79	-0.7	2.4	3.2	3.9
Net Profit	89.9	-288.3	-120.7	-134.5	-114.4	-2.1	103.8	127.9
Adj. PAT	77.8	-14.8	-90.9	2.2	-108.1	-20.2	103.8	127.9
Change (%)	15.7	-119.0	515.0	-102.4	-5,109.7	-81.3	-613.5	23.3

Balance Sheet (Cons.)

Y/E March	2018	2019	2020	2021	2022	2023E	2024E	2025E
Sources of Funds								
Share Capital	6.8	6.8	7.2	7.7	7.7	7.7	7.7	7.7
Reserves	947.5	595.0	623.6	544.8	438.0	435.8	539.6	667.5
Net Worth	954.3	601.8	630.8	552.5	445.6	443.5	547.2	675.2
Loans	779.9	911.2	996.8	1,147.8	1,396.8	1,396.8	1,396.8	1,396.8
Deferred Tax	19.7	-36.6	-35.2	-29.6	-23.1	-23.1	-23.1	-23.1
Capital Employed	1,759.1	1,481.7	1,600.5	1,686.3	1,862.0	1,861.1	1,965.8	2,094.7
Gross Fixed Assets	2,130.9	2,317.7	2,698.0	3,128.9	3,232.9	3,270.3	3,498.9	3,736.7
Less: Depreciation	918.0	1,212.8	1,434.7	1,749.8	1,852.4	2,094.6	2,356.5	2,639.0
Net Fixed Assets	1,213.0	1,104.9	1,263.3	1,379.0	1,380.5	1,175.7	1,142.5	1,097.7
Capital WIP	400.3	318.8	356.2	209.6	102.5	250.0	250.0	250.0
Goodwill	1.2	7.5	7.8	8.0	8.1	8.1	8.1	8.1
Investments	208.1	157.7	163.1	246.2	293.8	49.2	52.4	56.3
Curr.Assets	1,449.3	1,431.5	1,376.3	1,543.1	1,482.6	2,004.3	2,534.5	2,780.2
Inventory	421.4	390.1	374.6	360.9	352.4	436.7	574.3	606.3
Sundry Debtors	198.9	190.0	111.7	126.8	124.4	204.4	252.7	266.8
Cash & Bank Bal.	346.1	326.5	337.3	467.9	406.7	729.0	1,038.3	1,203.1
Loans & Advances	395.2	512.9	539.7	568.8	584.5	614.5	644.5	674.5
Current Liab. & Prov.	1,512.8	1,538.8	1,566.1	1,699.7	1,405.5	1,626.2	2,021.7	2,097.6
Sundry Creditors	769.4	716.9	664.0	681.8	599.7	817.7	987.9	1,042.8
Other Liabilities	554.4	601.3	651.5	753.4	568.6	622.6	804.1	812.4
Net Current Assets	-63.5	-107.2	-189.8	-156.6	77.1	378.1	512.8	682.6
Appl. of Funds	1,759.1	1,481.7	1,600.5	1,686.3	1,862.0	1,861.1	1,965.8	2,094.7

E: MOFSL Estimates

Financials and valuations

Ratios (Con.)

Y/E March	2018	2019	2020	2021	2022	2023E	2024E	2025E
Basic (INR)								
EPS	22.9	-4.4	-25.3	0.6	-28.2	-5.3	27.1	33.4
EPS Fully Diluted	22.9	-4.4	-25.3	0.6	-28.2	-5.3	27.1	33.4
EPS Growth (%)	15.7	-119.0	480.5	-102.2	-5,109.1	-81.3	-613.5	23.3
Cash EPS	86.4	65.1	34.3	62.1	36.6	58.0	95.5	107.2
Book Value (Rs/Share)	281.0	177.2	175.3	144.3	116.4	115.8	142.9	176.3
DPS	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Payout (Incl. Div. Tax) %	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Valuation (x)								
Consolidated P/E	19.2	-101.0	-17.4	780.5	-15.6	-83.4	16.2	13.2
EV/EBITDA	5.7	7.5	10.5	6.9	9.6	7.6	4.1	3.4
EV/Sales	0.6	0.6	0.8	0.8	0.9	0.7	0.5	0.4
Price to Book Value	1.6	2.5	2.5	3.0	3.8	3.8	3.1	2.5
Dividend Yield (%)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Profitability Ratios (%)								
RoE	10.1	-1.9	-14.8	0.4	-21.7	-4.5	20.9	20.9
RoCE	5.0	2.8	0.9	7.3	2.7	-1.1	9.4	9.9
RoIC	8.6	2.5	-2.5	11.6	0.0	-1.3	21.7	29.6
Turnover Ratios								
Debtors (Days)	25	23	16	19	16	22	22	22
Inventory (Days)	53	47	52	53	46	47	50	50
Creditors (Days)	96	87	93	100	79	88	86	86
Asset Turnover (x)	1.7	2.0	1.6	1.5	1.5	1.8	2.1	2.1
Leverage Ratio	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Debt/Equity (x)	0.8	1.5	1.6	2.1	1.1	1.0	0.7	0.5

Cash Flow Statement

Y/E March	2018	2019	2020	2021	2022	2023E	2024E	2025E
OP/(Loss) before Tax	90.9	-287.2	-119.8	-134.0	-113.1	-2.1	103.8	127.9
Int/Div. Received	39.5	-4.4	-11.9	-5.1	-6.6	37.9	31.2	31.6
Depreciation	215.5	235.9	214.3	235.5	248.4	242.2	261.9	282.6
Direct Taxes Paid	-30.2	-26.6	-17.5	-21.0	-19.1	-19.4	-44.6	-56.1
(Inc)/Dec in WC	-64.3	-72.1	50.6	-0.9	-104.7	21.3	174.6	-5.0
Other Items	23.3	65.0	125.1	234.0	144.3	1.3	0.9	1.0
CF from Op Activity	274.8	-89.5	240.8	308.5	149.1	281.2	527.8	382.0
Extra-ordinary Items	-36.2	278.4	25.5	-18.5	-6.3	18.1	0.0	0.0
CF after EO Items	238.6	188.9	266.3	290.0	142.8	299.2	527.8	382.0
(Inc)/Dec in FA+CWIP	-350.5	-352.4	-295.3	-198.5	-149.4	-184.9	-228.7	-237.8
Free Cash Flow	-111.9	-163.5	-29.0	91.5	-6.6	114.3	299.2	144.2
(Pur)/Sale of Invest.	99.1	143.6	-35.8	-58.2	104.9	244.6	-3.2	-3.9
CF from Inv Activity	-251.4	-208.8	-331.1	-256.7	-44.4	59.7	-231.9	-241.7
Issue of Shares	0.0	0.0	38.9	26.0	37.7	0.0	0.0	0.0
Inc/(Dec) in Debt	75.2	159.3	70.8	154.5	22.0	0.0	0.0	0.0
Interest Paid	-54.1	-70.1	-75.2	-81.2	-92.5	-101.1	-98.5	-104.7
Dividends Paid	-1.0	-0.9	-0.6	-0.3	-1.0	0.0	0.0	0.0
CF from Fin Activity	20.1	88.3	33.9	99.0	-33.8	-101.1	-98.5	-104.7
Inc/(Dec) in Cash	7.3	68.4	-30.9	132.3	64.6	257.8	197.5	35.6
Add: Beginning Bal.	139.9	147.2	215.6	184.7	317.0	381.6	639.4	836.8
Closing Balance	147.2	215.6	184.7	317.0	381.6	639.4	836.8	872.5

E: MOFSL Estimates

NOTES

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BUY	>=15%
SELL	< - 10%
NEUTRAL	< - 10 % to 15%
UNDER REVIEW	Rating may undergo a change
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