

Seeds well sown for profitable growth in India; market leadership in EVs, securing supply chain bode well...

About the stock: Tata Motors (TML) is an auto OEM from the house of Tatas, operating in domestic (PV, CV) and global markets (Jaguar Land Rover i.e. JLR).

- JLR is a luxury car brand that includes two prominent names i.e. Jaguar (models like I-pace, etc.) & Land Rover (models like Defender, Evoque, etc.)
- FY23 consolidated sales mix- JLR ~69%, India CV ~20%, India PV ~11%

Key Investor Day highlights: We recently attended the company's annual investor day - Indian operation and key highlights were as follows:

- TML reiterated its commitment towards winning sustainably in the domestic PV business and proactively in the EV-PV business by way of industry leading volume growth amid new model launches and refreshes with target to attain double digit EBITDA margins in medium term (~7.3% in Q4FY23)
- On the CV front, TML's aim is to further build up on its leading market share and win decisively with focus on product launches in alternate fuel domain and attain higher double-digit margins in medium term (~10.1% in Q4FY23) amid lower discounting in marketplace & focus on retail market share
- On the financials front, key targets were left unchanged with the company aiming to be net auto debt free by FY25. Capex for Indian operations was pegged at ~₹ 8,000 crore for FY24E with capex/investment in the EV business pegged at US\$2 billion by FY27 (majority on product and platform)

What should investors do? TML's stock price has grown 12.7% over the past five years (~₹ 310 levels in June 2018), outperforming the broader Nifty Auto index.

- We maintain **BUY** on the stock tracking profitability at the helm in domestic CV & PV business (including EVs), JLR's progressive volume recovery on the anvil, reiterated commitment towards EVs & healthy FCF generation

Target Price and Valuation: Retaining our financial estimates & marginally tweaking our valuations, we now value TML at ₹ 725 on SOTP basis (10x, 2x FY25E EV/EBITDA on India, JLR; ₹ 126 value to Indian EV business; earlier TP ₹ 650).

Key triggers for future price performance:

- Intent to go auto net debt free by FY25 though healthy CFO generation and sale of non-core assets (including stake sale in Tata Tech), JLR guiding for FCF generation of £2 billion & net debt reduction to <₹1 billion by FY24E

Alternate Stock Idea: Apart from TML, in our OEM coverage we also like M&M.

- Focused on prudent capital allocation, UV differentiation & EV proactiveness
- BUY with target price of ₹ 1,600

Key Financial Summary

Key Financials	FY19	FY20	FY21	FY22	FY23P	5 year CAGR (FY18-23P)	FY24E	FY25E	2 year CAGR (FY23P-25E)
Net Sales	3,01,938.4	2,61,068.0	2,49,794.8	2,78,453.6	3,45,967.0	3.3%	4,43,365.3	4,98,798.0	20.1%
EBITDA	29,794.8	23,914.1	35,782.0	34,022.7	42,491.5	2.2%	61,858.3	72,191.6	30.3%
EBITDA Margins (%)	9.9	9.2	14.3	12.2	12.3		14.0	14.5	
Net Profit	(28,724.2)	(11,975.4)	(13,451.3)	(11,441.5)	2,414.3	NM	13,651.4	18,448.1	LP
EPS (₹)	(79.8)	(33.3)	(35.1)	(29.9)	6.3		35.7	48.2	
P/E	(7.1)	(17.1)	(16.2)	(19.1)	90.4		16.0	11.8	
RoNW (%)	(47.3)	(18.7)	(23.8)	(23.5)	4.6		21.0	22.5	
RoCE (%)	3.7	1.3	6.3	4.8	9.8		19.1	24.0	

Source: Company, ICICI Direct Research

TATA MOTORS Connecting Aspirations

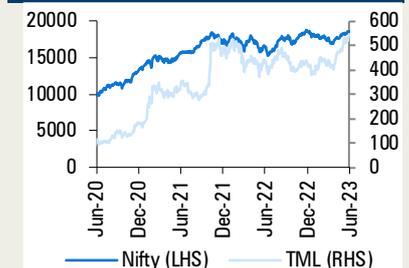
Particulars

Particular	₹ crore
Market Capitalization	2,14,424
Total Debt (FY23P)	1,25,660
Cash and Invt (FY23P)	55,854
EV	2,84,231
52 week H/L (₹)	577 / 376
Equity capital (₹ crore)	766.0
Face value (₹)	2.0

Shareholding pattern

	Jun-22	Sep-22	Dec-22	Mar-23
Promoter	46.4	46.4	46.4	46.4
FII	13.7	14.1	13.9	15.3
DII	15.2	14.8	15.2	17.7
Other	24.7	24.7	24.5	20.6

Price Chart



Recent event & key risks

- Investor day - Indian operations
- Key Risk:** (i) Slower than expected ramp up in foreign operations, (ii) Slower than anticipated margin recovery

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Key takeaways of recent investor day

- In the domestic PV space, the management reiterated its focus on aspirational product portfolio, enhanced safety and new age tech features tracking 65% of its customer now comprising <35 years of age
- Further the management shared its vision to continue to dominate leadership position in EV and improve positioning in ICE space through aspirational product portfolio, developing EV network system, operational debottlenecking, product quality enhancement, launch of special editions, focus on new age tech
- The management informed about ~99% of its dealers being profitable in FY23 vs. ~43% in FY20
- Further, the company plans to source ~70% of its battery requirement from Agratas (separate entity under Tata Sons). The company has widest EV charging network with coverage of ~165 cities as of FY23
- On the capacity front, the management informed about current capacity being ~6 lakh units per annum with additional 4.2 lakh units to come from H2FY24 from Ford plant, which is flexible between ICE and EV
- On the capex front, TML intends to spend ~₹ 2,500 crore for its CV business, ~₹ 3,000 to its PV business and ~\$2 billion till FY27 for its EV business.
- The management informed about the company being worst hit by chip shortage as allocation was based on past production volumes, which were significantly low during initial years
- The management further said the focus on quality is helping save ~3.5%-4% of annual purchase cost
- Going ahead, the management continues to focus on localisation from the current ~70% levels to 80-85% in the coming three to four years
- The management said margins improved by ~3% in the PV space through focus product mix, realisations, cost optimisation, etc
- On the CV front, the management said volumes were lower than the FY19 peak for the industry but in tonnage terms ahead of FY19 by ~6%
- The management expects the industry to grow in single digits in FY24E with Q1FY24 to expect minor de-growth. Overall growth is expected to be led by passenger & M&HCV segment whereas ILCV & LCV to remain steady
- The management said third CESL tender is likely to come with payment security. The company would bid aggressively in the tendering process

TML- ESG Disclosure Score*			
Score	FY20	FY21	FY22
Environmental	34.4	31.3	31.3
Social	20.7	13.5	15.1
Governance	89.9	89.9	89.9
Overall ESG Score	48.4	44.9	45.5

Source: Bloomberg, ICICI Direct Research, *Score ranges from 0 - 100 with a higher score indicating higher ESG disclosures

Key presentation Highlights ...

Exhibit 1: Aspirational product portfolio – PV (ICE)

Aspirational product portfolio TATA MOTORS

Our portfolio has been reimagined with design, safety and technology as core tenets

World class design



- Continuous evolution of new age **IMPACT**-ful design with focus on improving
 - Road presence and stance
 - Expressive surfaces
 - Extraordinary Details

Best in class Safety



- Upgrade passive / active safety attributes – Enhance structure, crash prevention, post crash assistance
- Advanced Driver Assist Features (ADAS) – L0→L1→L2

New Technologies

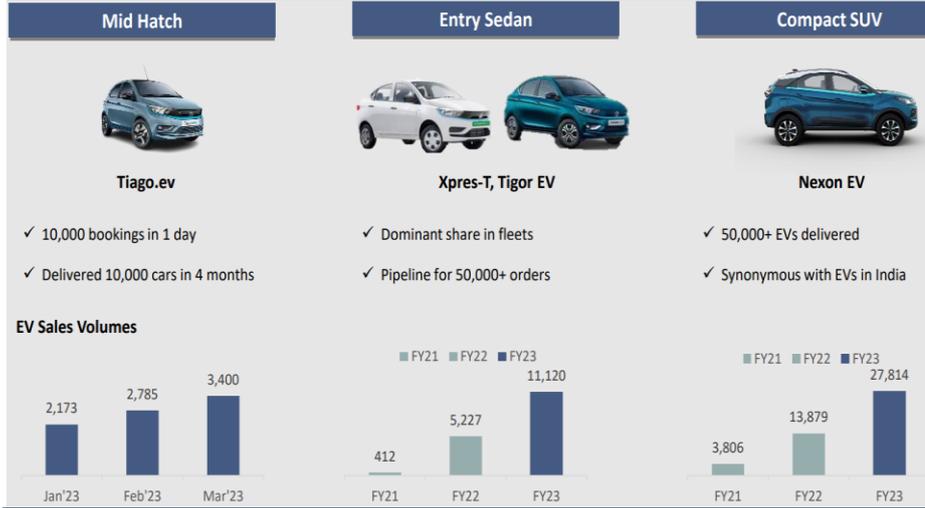


- Modern, intelligent & integrated infotainment and driver information system (HMI)
- Feature upgrade for Connected Car ecosystem
- Tech upgrades on existing engine portfolio for refinement

The management shared the significant improvement in its PV journey over last three years in terms of market share (improving from **4.8% in FY20 to 13.9% in FY23**), revenue (lifetime high at ~₹47,868 crore) & EBITDA (lifetime high at ₹ 3,085 crore). Consequently, the company improved to **first rank in compact SUV space in FY23 vs. third place in FY20**. Further, TML secured **third position in Premium hatch segment in FY23 & Second in high end SUV space**

Source: Company, ICICI Direct Research

Exhibit 2: EV product portfolio



Source: Company, ICICI Direct Research

On the EV front, the management informed about ~three to four months orderbook with pipeline of ~50,000+ orders for its Xpres-T & Tigor EV models. The management aspires to have ~25-30% of total sales to be from EVs in the long term

Exhibit 3: EV architecture



Source: Company, ICICI Direct Research

The company plans to launch three to four products on its gen 2 platform (with range of up to 500 km) and ~three to four in the gen 3 platform (with range of >550 km)

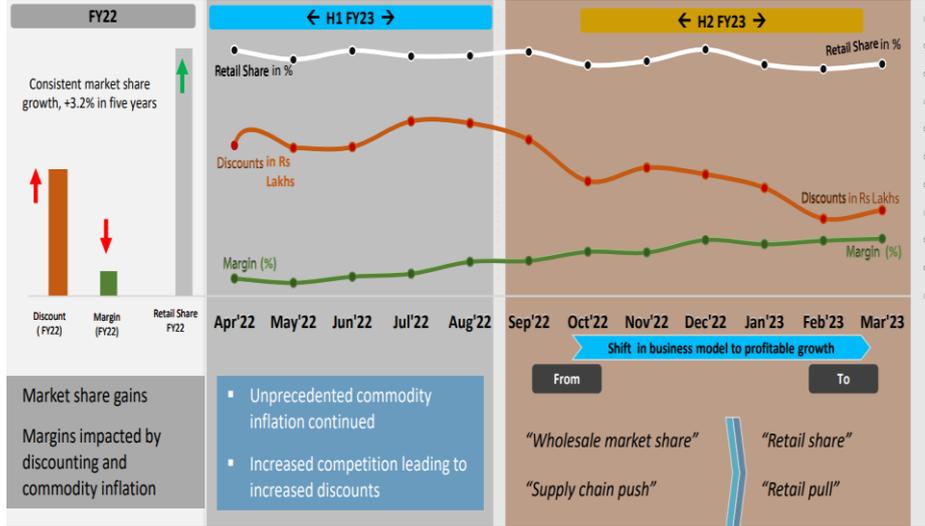
Exhibit 4: New product launches



Source: Company, ICICI Direct Research

The management informed about launch of CURVV (ICE) in FY24E sometime

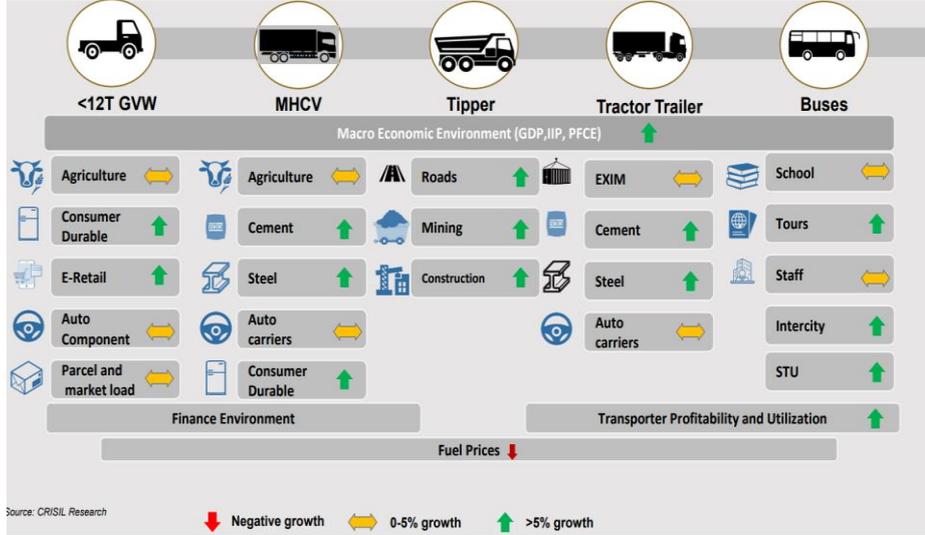
Exhibit 5: CV segment margin & market share trajectory



Source: Company, ICICI Direct Research

The management informed about significant improvement being done in the margin trajectory amid rationalisation of discounts while largely retaining market share

Exhibit 6: Industry wide outlook driving CV industry sales



Source: Company, ICICI Direct Research

Then management guided about growth in M&HCV to be aided by growth in core sectors (cements, steel, schools, etc). Further they expects minimal disruption in demand due to increased use of railways for transportation

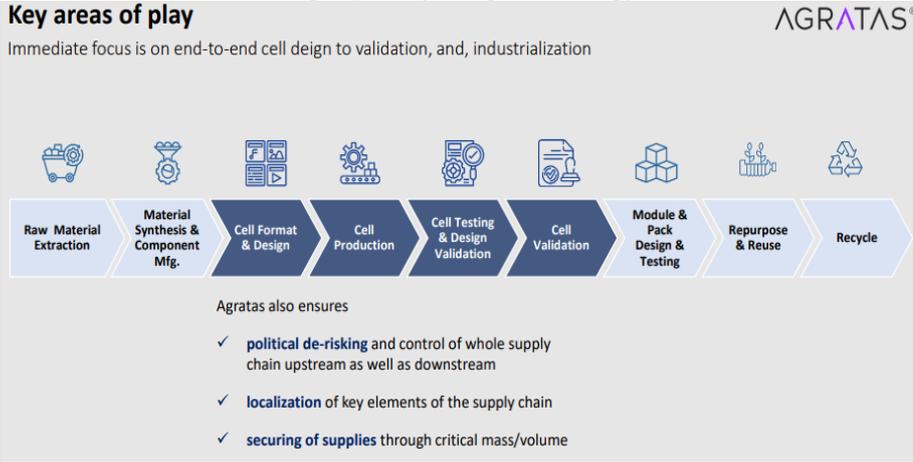
Exhibit 7: EV drive on CV front



Source: Company, ICICI Direct Research

The company continues to focus on evolving technologies and has formed a new JV with Cummins Inc. for development of alternate fuel powered CVs

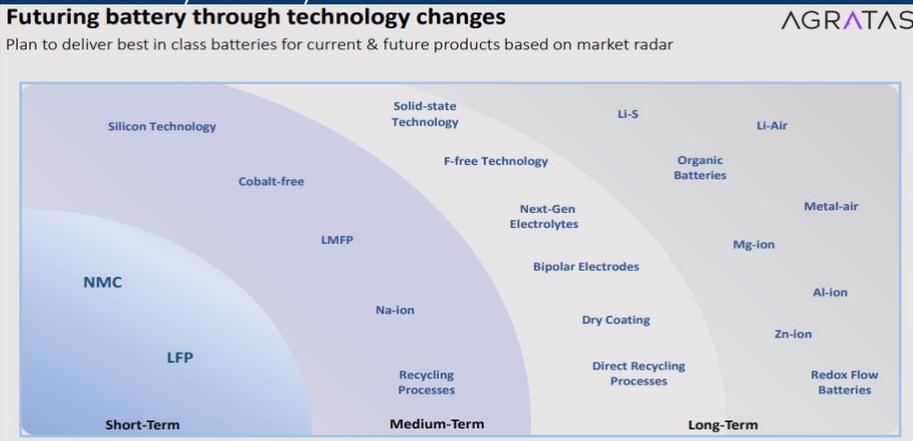
Exhibit 8: Cell manufacturing capability at Agratas Energy



Under the new venture of cell manufacturing the company will focus on all processes starting from designing of cell till cell validation.

Source: Company, ICICI Direct Research

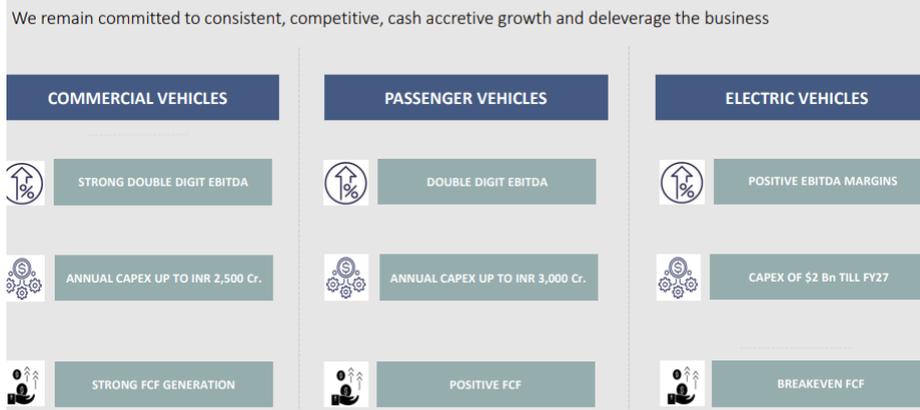
Exhibit 9: Battery Chemistry



The management informed about its cell manufacturing line being flexible and can change chemistry with just 10-20% of equipment replacement

Source: Company, ICICI Direct Research

Exhibit 10: TML – India Business – Medium Term Goals



Source: Company, ICICI Direct Research

Exhibit 11: SOTP valuation

Particulars	Parameters	FY25E EBITDA (₹ crore)	EV/EBITDA Multiple (x)	Resultant EV (₹ crore)
Tata Motors India business (CV, PV, Ex-Electric-PV)	FY25E EV/EBITDA	14,547	9.0	1,30,925
JLR	FY25E EV/EBITDA	52,445	2.0	1,04,889
India EV business (PV)	~11% stake sale @ ₹7,500 cr	15% Holdco discount	NA	51,580
Tata Technologies Stake Valuation	55% stake @ ₹ 20,000 crore	15% Holdco discount	NA	9,350
Other Investments	1.5x P/B on FY22	3,246	2.0	6,493
Total Enterprise Value (EV)				3,03,237
Net Debt	FY25E			34,824
Resultant Equity Value (target market cap)				2,68,412
Target Price per share (₹/share)				700

Source: ICICI Direct Research

Financial Summary

Exhibit 12: Profit and loss statement					₹ crore
(Year-end March)	FY22	FY23P	FY24E	FY25E	
Total operating Income	2,78,454	3,45,967	4,43,365	4,98,798	
Growth (%)	11.5	24.2	28.2	12.5	
Raw Material Expenses	1,80,886	2,26,470	2,85,928	3,21,383	
Employee Expenses	30,809	33,655	38,567	40,994	
Marketing Expenses	47,134	61,786	81,397	91,663	
Capitalised Expenses	-14,397	-18,435	-24,385	-27,434	
Total Operating Expenditure	2,44,431	3,03,475	3,81,507	4,26,606	
EBITDA	34,023	42,492	61,858	72,192	
Growth (%)	-4.9	24.9	45.6	16.7	
Product development Exp	9210	10662	12097	14240	
Depreciation	24836	24860	28819	32422	
Interest	9312	10225	8096	6567	
Other Income	3054	4633	4886	5015	
PBT	2,836	12,129	29,829	38,218	
Minority Interest	133	276	530	635	
Total Tax	4231	704	3990	5395	
Reported PAT	(11,441)	2,414	13,651	18,448	
Growth (%)	LP	-121.1	465.4	35.1	
EPS (₹)	(29.9)	6.3	35.7	48.2	

Source: Company, ICICI Direct Research

Exhibit 13: Cash flow statement					₹ crore
(Year-end March)	FY22	FY23P	FY24E	FY25E	
Profit after Tax	(11,441.5)	2,414.3	13,651.4	18,448.1	
Add: Depreciation	24,836	24,860	28,819	32,422	
(Inc)/dec in Current Assets	-2,733	-12,132	-14,970	-11,196	
Inc/(dec) in CL and Provisions	-6,188	9,223	29,521	17,442	
Others	9,312	10,225	8,096	6,567	
CF from operating activities	13,785	34,591	65,117	63,682	
(Inc)/dec in Investments	-4,759	3,000	2,250	7,750	
(Inc)/dec in Fixed Assets	-14,267	-22,075	-34,000	-35,000	
Others	1,026	3,662	-2,751	-4,031	
CF from investing activities	(18,000)	(15,412)	(34,501)	(31,281)	
Issue/(Buy back) of Equity	0	0	0	0	
Inc/(dec) in loan funds	3,772	-14,017	-20,000	-23,700	
Dividend paid & dividend tax	0	0	0	0	
Inc/(dec) in Sec. premium	0	0	0	0	
Others (incl finance costs)	-5,680	-8,816	-9,245	-8,290	
CF from financing activities	(1,908)	(22,833)	(29,245)	(31,990)	
Net Cash flow	-6,123	-3,654	1,371	411	
Opening Cash	46,792	40,669	37,016	38,386	
Closing Cash	40,669	37,016	38,386	38,798	

Source: Company, ICICI Direct Research

Exhibit 14: Balance Sheet					₹ crore
(Year-end March)	FY22	FY23P	FY24E	FY25E	
Liabilities					
Equity Capital	766	766	766	766	
Reserve and Surplus	43,739	44,556	57,059	73,784	
Others	4,271	7,278	7,278	7,278	
Total Shareholders funds	48,776	52,600	65,102	81,827	
Total Debt	1,39,677	1,25,660	1,05,660	81,960	
Deferred Tax Liability	1,558	1,407	1,803	2,028	
Long term provisions	12,956	13,197	14,695	14,038	
Minority Interest / Others	19,641	26,040	28,937	30,061	
Total Liabilities	2,22,608	2,18,903	2,16,198	2,09,915	
Assets					
Gross Block	3,71,683	3,89,734	4,21,234	4,55,734	
Less: Acc Depreciation	2,33,635	2,58,495	2,87,314	3,19,736	
Net Block	1,38,048	1,31,239	1,33,920	1,35,999	
Capital WIP	10,251	14,275	16,775	17,275	
Total Fixed Assets	1,48,299	1,45,514	1,50,695	1,53,273	
Investments	29,380	26,379	24,129	0	
Inventory	35,240	40,755	48,588	54,663	
Debtors	12,442	15,738	18,220	20,499	
Loans and Advances	1,672	2,303	2,951	3,320	
Cash	40,669	37,016	38,386	38,798	
Total Current Assets	1,24,212	1,32,690	1,49,031	1,60,638	
Creditors	59,970	72,056	91,102	1,02,493	
Provisions	10,766	11,811	14,933	16,800	
Total Current Liabilities	1,07,955	1,17,178	1,46,699	1,64,141	
Net Current Assets	16,257	15,512	2,332	(3,502)	
Deferred Tax Asset	3,871	5,185	6,644	7,475	
Application of Funds	2,22,608	2,18,903	2,16,198	2,09,915	

Source: Company, ICICI Direct Research

Exhibit 15: Key ratios				
(Year-end March)	FY22	FY23P	FY24E	FY25E
Per share data (₹)				
EPS	-29.9	6.3	35.7	48.2
Cash EPS	35.0	71.2	110.9	132.9
BV	127.4	137.4	170.0	213.7
DPS	0.0	2.0	3.0	4.5
Cash Per Share	165.5	145.9	142.9	123.1
Operating Ratios				
EBITDA Margin (%)	12.2	12.3	14.0	14.5
PBT / Net sales (%)	3.3	5.1	7.5	8.0
PAT Margin (%)	-4.1	-7.0	-1.2	3.3
Inventory days	46.2	43.0	40.0	40.0
Debtor days	16.3	16.6	15.0	15.0
Creditor days	78.6	76.0	75.0	75.0
Return Ratios (%)				
RoE	-23.5	4.6	21.0	22.5
RoCE	4.8	9.8	19.1	24.0
RoIC	7.9	16.1	32.7	39.2
Valuation Ratios (x)				
P/E	-18.7	88.8	15.7	11.6
EV / EBITDA	8.5	6.7	4.3	3.5
EV / Net Sales	1.0	0.8	0.6	0.5
Market Cap / Sales	0.8	0.6	0.5	0.4
Price to Book Value	4.4	4.1	3.3	2.6
Solvency Ratios				
Debt/EBITDA	4.1	3.0	1.7	1.1
Debt / Equity	2.9	2.4	1.6	1.0
Current Ratio	0.6	0.6	0.6	0.6
Quick Ratio	0.3	0.3	0.3	0.3

Source: Company, ICICI Direct Research

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Hold: -5% to 15%;

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Sell: <-15%



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