

Retail Equity Research

Tata Motors Limited

Automobiles

BSE CODE: 500570

NSE CODE: TATAMOTORS

Bloomberg CODE: TTMT:IN

SENSEX: 40,248

REDUCE

12M Investment period Rating as per Large Cap
CMP Rs 172 TARGET Rs 164 RETURN -5%
(Closing: 05-11-19) ↓

KEY CHANGES:

TARGET ↑

RATING ↔

EARNINGS ↓

Improved JLR performance in China

Tata Motors is a leading automobile manufacturer in India which designs, manufactures and sells commercial vehicles and passenger vehicles. Tata Motors acquired Jaguar Land Rover in 2008

- In Q2FY20 Tata Motors Limited (TML) posted consolidated revenue of Rs. 65,432 cr (down 9.2% YoY) on continued weaker sales volume. TML standalone revenue dropped by 44% YoY while revenue from Jaguar Land Rover (JLR) recorded decent growth of 7% YoY. Retail sales in china was the main driver of growth for JLR as it increased 24.3% YoY in Q2FY20, while overseas sales dropped 19.2% YoY.
- Consolidated EBIT in Q2FY20 increased 171.5% YoY to Rs. 1,861cr while EBITDA margin expanded 170bps YoY, driven by JLR business. Adj. loss decreased to Rs. 256cr in Q2FY20 compared to Rs. 519cr in Q2FY19 with adj. loss per share at Rs. 0.8 vs Rs. 1.5 in Q2FY19.
- Management remains focused on cost containment efforts but hasn't provided guidance for standalone entity for FY20E-21E. We believe domestic demand will remain bleak in FY20E-21E and maintain our REDUCE rating with a revised target price of Rs. 164 based on SOTP.

Topline declines on lower volumes

Q2FY20 consolidated revenue dropped by 9.2% YoY to Rs. 65,432cr, with revenue for TML(S) down 44% YoY, primarily impacted by the continuing sluggish sales in India while revenue from JLR increased by 7% YoY mainly attributable to Chinese retail sales volume growth of 24.3% YoY in Q2FY20 partly offset by 19.2% YoY lower retail sales volume in JLR. While volumes accounted for 7.6% YoY sales decline, about 1.4% was attributable to price reductions and 4.1% was due to translation effects.

EBITDA margin expanded YoY

In Q2FY20 consolidated EBITDA margin stands at 10.9% vs (9.2% in Q2FY19). EBITDA and EBIT margin from the standalone entity declined to 3.8%, and (0.5%) respectively in Q2FY20 (vs. 11.4%, and 8.7% respectively in last period) due to negative operating leverage and impact due to adverse mix. JLR's EBIT margins improved from -0.8% in Q2FY19 to 4.8% in Q2FY20 due to favorable mix and recovery in China.

Key concall highlights

- JLR plans to push premium segment to achieve EBIT margin around 3-4% in FY20-21E with improving free cash flows (guided to turn positive in FY22E-23E).
- At TML(S), the focus will be on retail, cost reduction and cash flows for the coming quarters. Management expects increased spending on BS-VI to improve its market share in the longer term. The company also plans to work closely with banks, NBFCs and TMF to address liquidity stress of the value chain.
- The management plans to raise equity to the tune of Rs. 6,500cr through a mix of ordinary shares and warrants with a preferential allotment to the promoter. Post the issue, the promoter holding will increase from 38.4% to 46.4% (42.4% after allotment of shares).

Valuation

We believe that the automotive sector demand will remain sluggish for both TML(S) and JLR for FY20-21E. Besides, the intense competition in Indian market for TML(S) and higher warranty and variable marketing expenditure expenses for JLR will pose challenges. We value the stock using (SOTP) valuation methodology (based on EV/EBITDA multiple for each business) and maintain our REDUCE rating on the stock with a revised target price of Rs. 164.

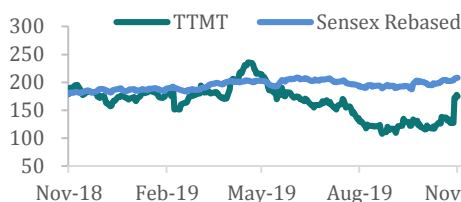
Company Data

| | |
|-------------------------|-------------|
| Market Cap (cr) | Rs. 58,472 |
| Enterprise Value (cr) | Rs. 126,094 |
| Outstanding Shares (cr) | 339.6 |
| Free Float | 64.0% |
| Dividend Yield | 0.0% |
| 52 week high | Rs.239 |
| 52 week low | Rs.106 |
| 6m average volume (cr) | 1.7 |
| Beta | 2.0 |
| Face value | Rs.2 |

| Shareholding % | Q4FY19 | Q1FY20 | Q2FY20 |
|-----------------|--------|--------|--------|
| Promoters | 38.4 | 38.4 | 38.4 |
| FII's | 19.1 | 19.5 | 19.0 |
| MFs/Insti | 16.3 | 16.0 | 15.7 |
| Public | 22.1 | 22.3 | 22.9 |
| Others | 4.1 | 3.9 | 4.1 |
| Total | 100.0 | 100.0 | 100.0 |
| Promoter pledge | 1.8 | 1.8 | 1.8 |

| Price Performance | 3 Month | 6 Month | 1 Year |
|-------------------|---------|---------|--------|
| Absolute Return | 31.8% | -17.8% | -9.4% |
| Absolute Sensex | 8.6% | 3.4% | 15.1% |
| Relative Return* | 23.2% | -21.2% | -24.5% |

*over or under performance to benchmark index



| Consolidated (cr) | FY19A | FY20E | FY21E |
|-------------------|---------|---------|---------|
| Sales | 301,938 | 285,379 | 310,920 |
| Growth (%) | 2.2 | -5.5 | 9.0 |
| EBITDA | 25,570 | 29,169 | 33,956 |
| EBITDA Margin (%) | 8.5 | 10.2 | 10.9 |
| Adj. PAT | 825 | 569 | 4,083 |
| Growth (%) | -88.2 | -31.1 | 618.1 |
| Adj. EPS | 2.4 | 1.7 | 12.0 |
| Growth (%) | -88.2 | -31.1 | 618.1 |
| P/E | 70.2 | 102.8 | 14.3 |
| P/B | 1.0 | 1.0 | 0.9 |
| EV/EBITDA | 4.7 | 4.3 | 3.7 |
| ROE (%) | -47.9 | 0.8 | 6.3 |
| D/E | 1.5 | 1.6 | 1.6 |

Quarterly Financials (Consolidated)

Profit & Loss Account

| | Q2FY20 | Q2FY19 | YoY Growth % | Q1FY20 | QoQ Growth % | H1FY20 | H1FY19 | YoY Growth % |
|--------------------------------|--------------|----------------|--------------|----------------|--------------|----------------|----------------|---------------|
| Revenue | 65,432 | 71,981 | (9.2) | 61,467 | 6.5 | 126,899 | 138,600 | (8.4) |
| EBITDA | 7,160 | 6,627 | 8.1 | 2,995 | 139.0 | 10,156 | 11,595 | (12.4) |
| EBITDA margins | 10.9 | 9.2 | 170bps | 4.9 | 600bps | 8.0 | 8.4 | (40bps) |
| Depreciation | 5,300 | 5,941 | (10.8) | 5,112 | 3.7 | 10,411 | 11,798 | (11.8) |
| EBIT | 1,861 | 685 | 171.5 | (2,116) | <i>n.m.</i> | (255) | (203) | (25.6) |
| Interest | 1,835 | 1,227 | 49.6 | 1,712 | 7.2 | 3,547 | 2,602 | 36.3 |
| Other Income | 557 | 248 | 124.1 | 698 | (20.3) | 1,255 | (72) | <i>n.m.</i> |
| Exceptional Items | 39 | (530) | <i>n.m.</i> | (109) | <i>n.m.</i> | (70) | (530) | 86.9 |
| PBT | 621 | (823) | <i>n.m.</i> | (3,238) | <i>n.m.</i> | (2,617) | (3,408) | 23.2 |
| Tax | 445 | 272 | 63.8 | 196 | 127.2 | 642 | (144) | <i>n.m.</i> |
| Share of profit from Associate | (363) | 86 | <i>n.m.</i> | (245) | (48.1) | (609) | 392 | (255.4) |
| Minority Interest | 29 | 39 | (26.6) | 19 | 54.5 | 48 | 79 | (39.9) |
| Reported PAT | (217) | (1,049) | 79.4 | (3,698) | 94.1 | (3,915) | (2,951) | (32.7) |
| Adjustments | (39) | 530 | <i>n.m.</i> | 109 | <i>n.m.</i> | 70 | 530 | (86.9) |
| Adjusted PAT | (256) | (519) | 50.7 | (3,590) | 92.9 | (3,845) | (2,421) | (58.8) |
| No. of shares | 339.6 | 339.6 | - | 339.6 | - | 339.6 | 339.6 | - |
| Adj. EPS (Rs) | (0.8) | (1.5) | 50.7 | (10.6) | 92.9 | (11.3) | (7.1) | (58.9) |

Change in Estimates

| Year / Rs. cr | Old estimates | | New estimates | | Change % | |
|---------------|---------------|---------|---------------|---------|----------|--------|
| | FY20E | FY21E | FY20E | FY21E | FY20E | FY21E |
| Revenue | 309,905 | 318,846 | 285,379 | 310,920 | (7.9) | (2.5) |
| EBITDA | 29,844 | 33,256 | 29,169 | 33,956 | (2.3) | 2.1 |
| Margins (%) | 9.6 | 10.4 | 10.2 | 10.9 | 60bps | 50bps |
| Adj. PAT | 3,247 | 5,504 | 569 | 4,083 | (82.5) | (25.8) |
| EPS | 9.6 | 16.2 | 1.7 | 12.0 | (82.3) | (25.9) |

Sum of the parts (SOTP) valuation

| Particulars | Basis | Multiple | Year | Value (Rs Cr) | Value/share (Rs) |
|-------------------------|-----------|----------|-------|----------------|------------------|
| TML (Standalone) | EV/EBITDA | 2.6x | FY21E | 8,868 | 26 |
| JLR | EV/EBITDA | 3.7x | FY21E | 111,644 | 329 |
| Others | EV/EBITDA | 1.0x | FY21E | 371 | 1 |
| Enterprise Value | | | | 120,884 | 356 |
| Net Debt | | | | (64,423) | (190) |
| Minority Interest | | | | (666) | (2) |
| Equity Value | | | | 55,795 | 164 |

PROFIT & LOSS

| Y.E March (Rs cr) | FY17A | FY18A | FY19A | FY20E | FY21E |
|---------------------|----------------|----------------|-----------------|----------------|----------------|
| Revenue | 274,492 | 295,409 | 301,938 | 285,379 | 310,920 |
| % change | (2.0) | 7.6 | 2.2 | (5.5) | 9.0 |
| EBITDA | 33,499 | 33,341 | 25,570 | 29,169 | 33,956 |
| % change | (8.9) | (0.5) | (23.3) | 14.1 | 16.4 |
| Depreciation | 17,905 | 21,554 | 23,591 | 22,067 | 24,122 |
| EBIT | 15,594 | 11,788 | 1,980 | 7,102 | 9,835 |
| Interest | 4,238 | 4,682 | 5,759 | 6,433 | 6,367 |
| Other Income | (2,041) | 4,049 | (27,592) | 2,455 | 2,327 |
| PBT | 9,315 | 11,155 | (31,371) | 3,124 | 5,795 |
| % change | (33.4) | 19.8 | (381.2) | (110.0) | 85.5 |
| Tax | 3,251 | 4,342 | (2,437) | 1,312 | 1,565 |
| Tax Rate (%) | 34.9 | 38.9 | 7.8 | 42.0 | 27.0 |
| Reported PAT | 7,454 | 8,989 | (28,826) | 499 | 4,083 |
| Adj* | (1,115) | (1,975) | 29,652 | 70 | - |
| Adj PAT | 6,340 | 7,014 | 825 | 569 | 4,083 |
| % change | (50.9) | 10.6 | (88.2) | (31.1) | 618.1 |
| No. of shares (cr) | 338.4 | 339.9 | 339.6 | 339.6 | 339.6 |
| Adj EPS (Rs) | 18.7 | 20.6 | 2.4 | 1.7 | 12.0 |
| % change | (50.9) | 10.1 | (88.2) | (31.1) | 618.1 |
| DPS (Rs) | - | - | - | 0.5 | 0.7 |
| CEPS (Rs) | 71.7 | 84.1 | 71.9 | 66.7 | 83.1 |

CASH FLOW

| Y.E March (Rs cr) | FY17A | FY18A | FY19A | FY20E | FY21E |
|-------------------------|-----------------|-----------------|-----------------|-----------------|-----------------|
| Net inc. + Depn. | 25,359 | 30,543 | (5,236) | 22,566 | 28,204 |
| Non-cash adj. | 4,529 | (6,118) | 25,787 | 5,994 | 7,523 |
| Changes in W.C | 311 | (567) | (1,660) | (4,720) | (6,620) |
| C.F. Operation | 30,199 | 23,857 | 18,891 | 23,840 | 29,108 |
| Capital exp. | (30,413) | (35,049) | (35,236) | (26,305) | (25,695) |
| Change in inv. | (9,048) | 6,359 | 14,540 | 3,300 | 2,694 |
| Other invest.CF | 1,381 | 2,488 | 986 | 0 | 0 |
| C.F - Investment | (38,080) | (26,202) | (19,711) | (23,005) | (23,001) |
| Issue of equity | 5 | - | - | - | - |
| Issue/repay debt | 11,658 | 7,518 | 15,930 | 5,488 | 4,488 |
| Dividends paid | (121) | (96) | (95) | (153) | (221) |
| Other finance.CF | (5,336) | (5,411) | (7,005) | (6,433) | (6,367) |
| C.F - Finance | 6,205 | 2,012 | 8,830 | (1,098) | (2,100) |
| Chg. in cash | (1,675) | (332) | 8,010 | (263) | 4,007 |
| Closing cash | 36,078 | 34,614 | 32,649 | 32,386 | 36,393 |

BALANCE SHEET

| Y.E March (Rs cr) | FY17A | FY18A | FY19A | FY20E | FY21E |
|--------------------------|----------------|----------------|----------------|----------------|----------------|
| Cash | 36,078 | 34,614 | 32,649 | 32,386 | 36,393 |
| Accounts Receivable | 14,076 | 19,893 | 18,996 | 14,269 | 18,655 |
| Inventories | 35,085 | 42,138 | 39,014 | 40,105 | 43,558 |
| Other Cur. Assets | 31,593 | 39,328 | 32,772 | 29,548 | 29,156 |
| Investments | 5,297 | 5,652 | 6,241 | 6,072 | 5,195 |
| Gross Fixed Assets | 102,851 | 128,476 | 144,671 | 170,976 | 196,670 |
| Net Fixed Assets | 59,595 | 73,868 | 72,620 | 67,259 | 65,312 |
| CWIP | 10,187 | 16,143 | 8,538 | 8,538 | 8,538 |
| Intangible Assets | 59,862 | 71,437 | 61,960 | 71,142 | 74,662 |
| Def. Tax (Net) | 4,457 | 4,159 | 5,151 | 5,280 | 5,412 |
| Other Assets | 17,525 | 24,120 | 29,253 | 29,838 | 30,435 |
| Total Assets | 273,754 | 331,351 | 307,195 | 304,438 | 317,317 |
| Current Liabilities | 101,770 | 126,425 | 125,307 | 116,288 | 120,427 |
| Provisions | 9,004 | 10,948 | 11,855 | 12,151 | 12,455 |
| Debt Funds | 85,899 | 80,733 | 93,917 | 99,405 | 103,892 |
| Other Liabilities | 18,567 | 17,291 | 15,413 | 15,451 | 15,489 |
| Equity Capital | 679 | 679 | 679 | 679 | 679 |
| Reserves & Surplus | 57,383 | 94,749 | 59,500 | 59,846 | 63,708 |
| Shareholder's Fund | 58,062 | 95,428 | 60,180 | 60,526 | 64,388 |
| Minority Interest | 453 | 525 | 523 | 618 | 666 |
| Total Liabilities | 273,754 | 331,351 | 307,195 | 304,438 | 317,317 |
| BVPS (Rs) | 172 | 281 | 177 | 178 | 190 |

RATIOS

| Y.E March | FY17A | FY18A | FY19A | FY20E | FY21E |
|--------------------------------|-------|-------|--------|-------|-------|
| Profitab. & Return | | | | | |
| EBITDA margin (%) | 12.2 | 11.3 | 8.5 | 10.2 | 10.9 |
| EBIT margin (%) | 5.7 | 4.0 | 0.7 | 2.5 | 3.2 |
| Net profit mgn.(%) | 2.7 | 3.0 | (9.5) | 0.2 | 1.3 |
| ROE (%) | 12.8 | 9.4 | (47.9) | 0.8 | 6.3 |
| ROCE (%) | 10.8 | 6.7 | 1.3 | 4.4 | 5.8 |
| W.C & Liquidity | | | | | |
| Receivables (days) | 18.5 | 24.2 | 22.6 | 18.0 | 21.6 |
| Inventory (days) | 74.0 | 81.3 | 71.5 | 79.2 | 79.2 |
| Payables (days) | 121.7 | 139.0 | 125.6 | 118.8 | 111.6 |
| Current ratio (x) | 1.0 | 0.9 | 0.8 | 0.8 | 0.9 |
| Quick ratio (x) | 0.6 | 0.5 | 0.4 | 0.4 | 0.4 |
| Turnover & Leverage | | | | | |
| Gross asset T.O (x) | 2.4 | 2.6 | 2.2 | 1.8 | 1.7 |
| Total asset T.O (x) | 1.0 | 1.0 | 0.9 | 1.0 | 1.0 |
| Int. covge. ratio (x) | 3.7 | 2.5 | 0.3 | 1.1 | 1.5 |
| Adj. debt/equity (x) | 1.5 | 0.8 | 1.5 | 1.6 | 1.6 |
| Valuation | | | | | |
| EV/Sales (x) | 0.8 | 0.5 | 0.4 | 0.4 | 0.4 |
| EV/EBITDA (x) | 6.2 | 4.7 | 4.7 | 4.3 | 3.7 |
| P/E (x) | 24.9 | 15.9 | 70.2 | 102.8 | 14.3 |
| P/BV (x) | 2.7 | 1.2 | 1.0 | 1.0 | 0.9 |

Recommendation Summary



| Dates | Rating | Target |
|-----------|--------|--------|
| 2-Jun-16 | BUY | 536 |
| 6-Dec-16 | BUY | 510 |
| 22-Feb-17 | BUY | 518 |
| 31-May-17 | HOLD | 508 |
| 13-Oct-17 | BUY | 508 |
| 29-Nov-17 | BUY | 480 |
| 21-Jun-18 | BUY | 359 |
| 14-Aug-19 | REDUCE | 110 |
| 5-Nov-19 | REDUCE | 164 |

Investment Rating Criteria

| Large Cap Stocks; | | | Mid Cap and Small Cap; | | |
|-------------------|---|-----------------------------|------------------------|---|------------------------------|
| Buy | - | Upside is above 10%. | Buy | - | Upside is above 15%. |
| Hold | - | Upside is between 0% - 10%. | Accumulate | - | Upside is between 10% - 15%. |
| Reduce | - | Downside is more than 0%. | Hold | - | Upside is between 0% - 10%. |
| Neutral | - | Not Applicable | Reduce/Sell | - | Downside is more than 0%. |
| | | | Neutral | - | Not Applicable |

To satisfy regulatory requirements, we attribute 'Accumulate' as Buy and 'Reduce' as Sell.

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Neutral- The analyst has no investment opinion on the stock under review

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