

Retail Equity Research

Tata Motors Limited

Automobiles

BSE CODE: 500570

NSE CODE: TATAMOTORS

Bloomberg CODE: TTMT:IN

SENSEX: 60,068

HOLD

12 Months Investment period Rating as per Large Cap

CMP Rs. 490 TARGET Rs. 531 RETURN 8% ↑
(Closing: 04-11-21)

KEY CHANGES:

TARGET ↑

RATING ↑

EARNINGS ↑

Margins under pressure; Balanced risk-reward

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 (JLR) in 2008.

- Consolidated revenue grew 14.7% YoY to Rs. 61,379cr in Q2FY22, as higher revenue from TML (standalone) more-than offset weak JLR operations. TML volumes were up 56.3% YoY to 171.8k vehicles, while JLR wholesale volume fell 12.8% YoY to 64.0k units and retail sales down 18.4% YoY to 92.7k vehicles.
- EBITDA fell 28.5% YoY, as EBITDA margin contracted 400bps YoY to 6.6% due to global semiconductor supply shortages and commodity inflation. Adj. PAT was at Rs. 4,437cr loss (vs. Rs. 319cr loss in Q2FY21).
- There is robust demand for JLR and India PV with receding pandemic effect, whereas India CV and EV demand show gradual improvement. However, unprecedented input cost inflation and ongoing supply side constraints are expected to hamper performance in the near-term. With balanced risk-reward position, we upgrade our rating on the stock to HOLD with a revised TP of Rs. 531 based on SOTP valuation.

Topline rises despite weak JLR operations

Consolidated revenue grew 14.7% YoY to Rs. 61,379cr in Q2FY22, as higher revenue from TML-S (+82.3% YoY to Rs. 20,763cr) more-than offset weak JLR operations (-4.3% YoY to Rs. 39,964cr). Total sales volume surged 56.3% YoY to 171,823 vehicles. JLR wholesale volume fell 12.8% YoY to 64,032 vehicles and retail sales declined 18.4% YoY to 92,710 vehicles, due to semiconductor shortages and lower retail inventories. Retail sales declined 15.6%/6.3%/ 17%/47.6% YoY in North America, China, Europe and UK respectively. New Land Rover Defender was JLR's best-selling model for the quarter at 16,725 vehicles (+70.4% YoY). EV business registered highest ever quarterly sales of 2,704 units (+192.3% YoY), with acceptance and popularity of Tiger EV and Nexon EV.

Margins affected by commodity price inflation

Gross margin contracted 470bps YoY to 31.5% in Q2FY22, mainly due to increase in commodity prices. EBITDA fell 28.5% YoY to Rs. 4,050cr, as EBITDA margin contracted 400bps YoY to 6.6% further impacted by higher employee spends (+11.3% YoY) and R&D expenses (+109.8% YoY). Adjusted net loss came in at Rs. 4,437cr (vs. Rs. 319cr loss in Q2FY21), as higher D&A (+9.3% YoY), finance cost (+19.4% YoY) and taxes (+313.2%) further dented bottom-line.

Key highlights

- Record order book of more than 125k JLR vehicles, despite effect of semiconductor shortages on production and sales volume in Q2FY22.
- Inaugurated 70 new sales outlets in emerging markets across Southern India in a single day.
- Tata Punch is the fourth addition to the company's SUV line-up, after Harrier, Safari and Nexon.

Valuation

Global semiconductor shortages and increase in commodity prices will continue to affect company's performance in the short-term. The company focuses on agile approach to mitigate the supply chain bottlenecks and savings program to achieve efficiency. There is robust consumer demand with record order book for JLR and India PV, CV and EV with receding pandemic effect. Given balanced risk-reward position, we upgrade our rating on the stock to HOLD with a revised TP of Rs. 531 based on SOTP.

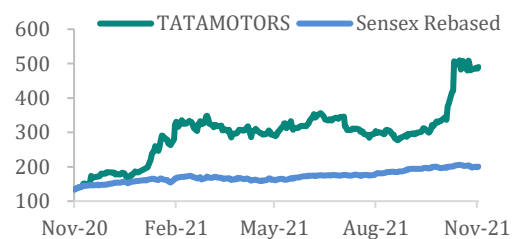
Company Data

Market Cap (cr)	Rs. 162,579
Enterprise Value (cr)	Rs. 295,958
Outstanding Shares (cr)	382.8
Free Float	54.0%
Dividend Yield	0.0%
52 week high	Rs. 532
52 week low	Rs. 136
6m average volume (cr)	0.2
Beta	1.6
Face value	Rs. 2

Shareholding %	Q4FY21	Q1FY22	Q2FY22
Promoters	46.4	46.4	46.4
FII's	13.8	14.3	13.4
MFs/Insti	12.1	11.6	13.4
Public	25.6	24.5	24.6
Others	2.1	3.2	2.2
Total	100.0	100.0	100.0
Promoters' pledge	0.0	0.0	0.0

Price Performance	3 Month	6 Month	1 Year
Absolute Return	64.2%	69.2%	260.4%
Absolute Sensex	10.5%	24.5%	47.9%
Relative Return*	53.7%	44.7%	212.5%

*over or under performance to benchmark index



Consolidated (cr)	FY21A	FY22E	FY23E
Sales	249,795	293,053	362,720
Growth (%)	(4.3)	17.3	23.8
EBITDA	30,553	29,126	45,754
EBITDA Margin (%)	12.2	9.9	12.6
Adj. PAT	308	(2,088)	12,345
Growth (%)	103.3	(778.8)	691.2
Adj. EPS	0.8	(5.5)	32.2
Growth (%)	103.0	(778.8)	691.2
P/E	375.7	n.m.	15.0
P/B	2.1	3.5	2.8
EV/EBITDA	7.0	10.2	6.3
ROE (%)	(24.3)	(3.9)	18.8
D/E	2.5	2.5	2.0

Quarterly Financials (Consolidated)

Profit & Loss Account

	Q2FY22	Q2FY21	YoY Growth %	Q1FY22	QoQ Growth %	H1FY22	H1FY21	YoY Growth %
Revenue	61,379	53,530	14.7	66,406	(7.6)	127,785	85,513	49.4
EBITDA	4,050	5,665	<i>(28.5)</i>	5,258	<i>(23.0)</i>	9,307	6,301	47.7
EBITDA margins	6.6	10.6	(400bps)	7.9	(130bps)	7.3	7.4	(10bps)
Depreciation	6,123	5,601	9.3	6,202	(1.3)	12,325	11,201	10.0
EBIT	(2,073)	64	<i>(3,347.9)</i>	(945)	<i>(119.5)</i>	(3,018)	(4,900)	38.4
Interest	2,327	1,950	19.4	2,203	5.6	4,531	3,826	18.4
Other Income	934	1,066	(12.4)	567	64.8	1,500	1,720	(12.8)
Exceptional Items	(4)	5	(191.2)	3	(276.6)	(2)	8	(123.8)
PBT	(3,472)	(815)	<i>(326.1)</i>	(2,579)	<i>(34.6)</i>	(6,050)	(6,998)	13.5
Tax	1,005	(471)	313.2	1,742	(42.3)	2,747	1,729	58.9
Sh. of profit from Associate	61	36	69.5	(130)	147.2	(68)	(24)	(188.3)
Minority Interest	26	7	262.0	1	3,153.8	27	1	2,135.8
Reported PAT	(4,442)	(314)	<i>(1,312.5)</i>	(4,451)	<i>0.2</i>	(8,892)	(8,752)	(1.6)
Adjustments	4	(5)	191.2	(3)	276.6	2	(8)	123.8
Adj. PAT	(4,437)	(319)	<i>(1,289.5)</i>	(4,453)	<i>0.4</i>	(8,891)	(8,761)	(1.5)
No. of shares	382.8	361.4	5.9	382.9	(0.0)	382.8	361.4	5.9
Adj. EPS (Rs.)	(11.6)	(0.9)	<i>(1,212.0)</i>	(11.6)	<i>0.3</i>	(23.2)	(24.2)	4.2

Change in Estimates

Year / Rs. cr	Old estimates		New estimates		Change %	
	FY22E	FY23E	FY22E	FY23E	FY22E	FY23E
Revenue	303,423	351,916	293,053	362,720	(3.4)	3.1
EBITDA	33,950	44,919	29,126	45,754	(14.2)	1.9
Margins (%)	11.2	12.8	9.9	12.6	(130bps)	(20bps)
Adj. PAT	1,643	6,434	(2,088)	12,345	(227.1)	91.9
Adj. EPS	4.3	16.8	(5.5)	32.2	(227.1)	91.9

Sum of the parts (SOTP) valuation

Particulars	Basis	Multiple	Year	Value (Rs Cr)	Value/share (Rs)
TML (Standalone)	EV/EBITDA	4.5	FY23E	33,457	87
Jaguar and Land Rover	EV/EBITDA	7.0	FY23E	256,221	669
Others	EV/EBITDA	2.5	FY23E	4,289	11
Enterprise Value				293,968	768
Net Debt				(89,112)	(233)
Minority Interest				(1,573)	(4)
Equity Value				203,282	531

PROFIT & LOSS

Y.E March (Rs. cr)	FY19A	FY20A	FY21A	FY22E	FY23E
Revenue	301,938	261,068	249,795	293,053	362,720
% change	2.2	(13.5)	(4.3)	17.3	23.8
EBITDA	25,570	19,726	30,553	29,126	45,754
% change	(13.9)	(16.2)	39.6	2.4	63.9
Depreciation	23,591	21,425	23,547	24,761	26,347
EBIT	-	-	-	-	-
Interest	5,759	7,243	8,097	9,223	7,605
Other Income	(27,592)	(1,637)	(9,384)	2,377	4,163
PBT	(31,371)	(10,580)	(10,474)	(2,481)	15,965
% change	(381.2)	66.3	1.0	76.3	743.5
Tax	(2,437)	395	2,542	(571)	3,672
Tax Rate (%)	7.8	(3.7)	(24.3)	23.0	23.0
Reported PAT	(28,826)	(12,071)	(13,451)	(2,090)	12,345
Adj*	29,652	2,871	13,759	2	-
Adj PAT	825	(9,199)	308	(2,088)	12,345
% change	(88.2)	(1214.6)	103.3	(778.8)	691.2
No. of shares (cr)	339.6	346.1	382.9	382.9	382.9
Adj EPS (Rs.)	2.4	(26.6)	0.8	(5.5)	32.2
% change	(88.2)	(1193.7)	103.0	(778.8)	691.2
DPS (Rs.)	-	-	-	-	-
CEPS (Rs.)	71.9	35.3	62.3	59.2	101.0

CASH FLOW

Y.E March (Rs. cr)	FY19A	FY20A	FY21A	FY22E	FY23E
Net inc. + Depn.	(5,236)	9,355	10,095	22,671	38,691
Non-cash adj.	25,787	15,109	10,461	(6,134)	473
Changes in W.C	(1,660)	2,170	8,444	(2,149)	4,455
C.F. Operation	18,891	26,633	29,001	14,388	43,620
Capital exp.	(35,236)	(29,531)	(19,855)	(16,749)	(25,109)
Change in inv.	14,540	(6,389)	(6,719)	16	(2,384)
Other invest.CF	986	1,750	447	(0)	(0)
C.F - Investment	(19,711)	(34,170)	(26,126)	(16,733)	(27,493)
Issue of equity	-	(22)	2,568	-	-
Issue/repay debt	15,930	8,253	14,719	(5,794)	(2,546)
Dividends paid	(95)	(57)	(30)	-	-
Other finance.CF	(7,005)	(4,784)	(7,352)	(9,223)	(7,605)
C.F - Finance	8,830	3,390	9,904	(15,017)	(10,151)
Chg. in cash	8,010	(4,148)	12,778	(17,362)	5,975
Closing cash	32,649	33,727	46,792	29,431	35,405

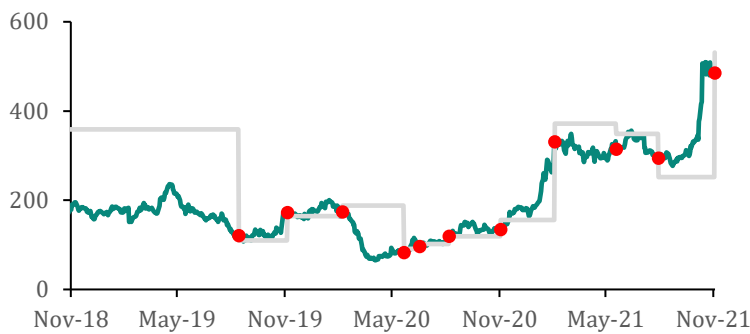
BALANCE SHEET

Y.E March (Rs. cr)	FY19A	FY20A	FY21A	FY22E	FY23E
Cash	32,649	33,727	46,792	29,431	35,405
Accounts Receivable	18,996	11,173	12,679	15,385	18,136
Inventories	39,014	37,457	36,089	37,312	44,409
Other Cur. Assets	32,772	37,231	51,328	54,843	63,424
Investments	6,241	5,447	5,569	7,095	8,622
Gross Fixed Assets	144,671	149,934	151,691	146,621	144,992
Net Fixed Assets	72,620	77,883	79,640	74,570	72,941
CWIP	8,538	8,600	8,377	8,461	8,546
Intangible Assets	61,960	69,972	65,164	62,138	62,445
Def. Tax (Net)	5,151	5,458	4,520	3,744	3,101
Other Assets	29,253	35,175	32,968	31,934	31,769
Total Assets	307,195	322,121	343,126	324,913	348,797
Current Liabilities	125,307	124,092	114,957	105,585	120,653
Provisions	11,855	14,737	13,607	12,563	11,600
Debt Funds	93,917	103,537	143,873	138,079	135,533
Other Liabilities	15,413	15,864	13,868	13,946	13,979
Equity Capital	679	720	766	766	766
Reserves & Surplus	59,500	62,359	54,481	52,391	64,735
Shareholder's Fund	60,180	63,079	55,247	53,157	65,501
Minority Interest	523	814	1,573	1,582	1,531
Total Liabilities	307,195	322,121	343,126	324,913	348,797
BVPS (Rs.)	177	182	144	139	171

RATIOS

Y.E March	FY19A	FY20A	FY21A	FY22E	FY23E
Profitab. & Return					
EBITDA margin (%)	8.5	7.6	12.2	9.9	12.6
EBIT margin (%)	0.7	(0.7)	2.8	1.5	5.4
Net profit mgn.(%)	(9.5)	(4.6)	(5.4)	(0.7)	3.4
ROE (%)	(47.9)	(19.1)	(24.3)	(3.9)	18.8
ROCE (%)	1.3	(1.0)	3.5	2.3	9.6
W.C & Liquidity					
Receivables (days)	23.0	15.6	18.5	19.2	18.3
Inventory (days)	76.3	81.8	83.2	86.0	86.9
Payables (days)	134.0	139.0	157.2	161.3	164.9
Current ratio (x)	0.8	0.9	0.9	1.0	1.0
Quick ratio (x)	0.4	0.4	0.5	0.4	0.5
Turnover & Leverage					
Gross asset T.O (x)	2.1	1.8	1.7	2.0	2.5
Total asset T.O (x)	0.9	0.8	0.8	0.9	1.1
Int. coverage ratio (x)	0.3	(0.2)	0.9	0.5	2.6
Adj. debt/equity (x)	1.5	1.6	2.5	2.5	2.0
Valuation					
EV/Sales (x)	0.4	0.4	0.9	1.0	0.8
EV/EBITDA (x)	4.7	4.8	7.0	10.2	6.3
P/E (x)	70.2	n.m.	375.7	n.m.	15.0
P/BV (x)	1.0	0.4	2.1	3.5	2.8

Recommendation Summary (Last 3 Years)



Dates	Rating	Target
22-May-20	HOLD	91
18-Jun-20	HOLD	102
7-Aug-20	HOLD	119
3-Nov-20	BUY	156
3-Feb-21	BUY	372
21-May-21	BUY	349
30-Jul-21	REDUCE	252
8-Nov-21	HOLD	531

Source: Bloomberg, Geojit research

Investment Rating Criteria

Ratings	Large caps	Midcaps	Small Caps
Buy	Upside is above 10%	Upside is above 15%	Upside is above 20%
Accumulate	-	Upside is between 10%-15%	Upside is between 10%-20%
Hold	Upside is between 0% - 10%	Upside is between 0%-10%	Upside is between 0%-10%
Reduce/sell	Downside is more than 0%	Downside is more than 0%	Downside is more than 0%
Not rated			

Definition:

Buy: Acquire at Current Market Price (CMP), with the target mentioned in the research note.

Accumulate: Partial buying or to accumulate as CMP dips in the future.

Hold: Hold the stock with the expected target mentioned in the note.

Reduce: Reduce your exposure to the stock due to limited upside.

Sell: Exit from the stock.

Not rated: The analyst has no investment opinion on the stock.

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

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