

## All round performance, recent run-up to limit upside...

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

- FY23 consolidated sales mix- JLR ~65%, India CV ~20%, India PV ~14%.
- TML India is a leader in domestic CV space with ~40% market share while is the 3<sup>rd</sup> largest player in the PV segment with ~14% market share (FY23)

### Q3FY24 Results: Healthy performance, margins continue to improve!

- At Tata Motors, consolidated topline in Q3FY24 came in at ₹1.16 lakh crore (up 25% YoY) with EBITDA at ~₹ 18,074 crore and EBITDA margins at 16.3%, up 80 bps QoQ (driven by outperformance at JLR). PAT in Q3FY24 came in at ₹7,025 crore (highest ever, also supported by lower tax rate).
- JLR reported EBITDA & EBIT margins of 16.2% (up 130 bps QoQ) & 8.7% (up 150 bps QoQ) respectively primarily driven by better product mix and controlled VME. JLR generated FCF of 626 million pounds for Q3FY24.
- Indian CV business EBITDA margins came in at 11.1% (by 70 bps QoQ) while India PV business EBITDA margins came in at 6.6% (up 10 bps QoQ).

### Investment Thesis

- JLR all set for record profitability and cash generation in FY24E: JLR is the overseas luxury PV arm at TML and has been subject to volatile earnings and cash flow generation. With indigenous working on the product side, cost initiatives and consequent lowering of breakeven levels, JLR is onto path of healthy profitability with Q3FY24 EBITDA margins at 16.2%. With levers in place, we expect EBITDA margins to further improve to 16.5% by FY26E. Amidst record profitability, for FY24E, JLR is progressing well onto its FCF generation guidance at >₹2 billion amid capex outlay of ~₹3 billion thereby aiming to reduce its net debt from ~₹3 billion to <₹1 billion and then eventually be cash positive in FY25E, which is structurally positive.
- Domestic business to witness demand concerns in near term, focus on improved profitability: Domestic CV & PV industry have witnessed healthy demand recovery over the past couple of years (post-Covid) and is likely to consolidate at present levels in the near term driven by high base as well as impending union election. Company's focus in the interim is to further improve upon the profitability in this space amidst its proven capabilities across powertrains (ICE, CNG, Electric, Hydrogen, etc.) and guidance for double digit EBITDA margins. On the EV side, it plans to build upon its leadership position in E-PV space with target to sell ~1 lakh E-PVs in FY25 and is also a prominent player winning orders in CESL E-bus tenders

### Rating and Target Price

- With stupendous run up in Tata Motors stock price (>2x in last 1 year) and having captured much of the up move, we now assign HOLD rating to the stock, thereby valuing it at ₹ 1,000 on SOTP basis (10x, 2.2x FY26E EV/EBITDA to India, JLR; ₹230 value to Indian E-PV & stake in Tata Tech.)



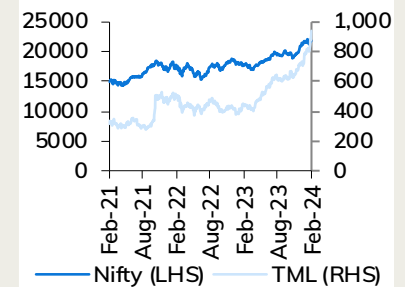
#### Particulars

Particular	₹ crore
Market Capitalization	3,45,662
Total Debt (FY23)	1,25,660
Cash and Invts (FY23)	55,854
EV	4,15,468
52 week H/L (₹)	958 / 400
Equity capital (₹ crore)	766.0
Face value (₹)	2.0

#### Shareholding pattern

	Mar-23	Jun-23	Sep-23	Dec-23
Promoter	46.4	46.4	46.4	46.4
FII	15.3	17.7	18.4	18.6
DII	17.7	17.4	17.4	17.3
Other	20.6	18.5	17.9	17.8

#### Price Chart



#### Recent event & key risks

- Posts healthy Q3FY24 Results.
- Key Risk: (i) higher than anticipated margin gains at JLR (ii) lower than built in cash flow generation and debt reduction

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### Key Financial Summary

Key Financials (₹ crore)	FY20	FY21	FY22	FY23	5 year CAGR (FY18-23)	FY24E	FY25E	FY26E	3 year CAGR (FY23-26E)
Net Sales	2,61,068.0	2,49,794.8	2,78,453.6	3,45,967.0	3.3%	4,40,502.7	4,74,803.2	5,05,736.0	13.5%
EBITDA	23,914.1	35,782.0	34,022.7	42,491.5	2.2%	68,716.5	71,174.1	77,861.0	22.4%
EBITDA Margins (%)	9.2	14.3	12.2	12.3		15.6	15.0	15.4	
Net Profit	(11,975.4)	(13,451.3)	(11,441.5)	2,414.3	NM	20,014.1	22,812.2	26,322.4	121.7%
EPS (₹)	(33.3)	(35.1)	(29.9)	6.3		54.4	62.0	71.6	
P/E	(28.2)	(26.8)	(31.5)	149.1		17.3	15.2	13.1	
RoNW (%)	(18.7)	(23.8)	(23.4)	4.6		28.2	24.8	22.7	
RoCE (%)	1.3	6.3	4.8	9.8		24.0	23.9	24.4	

## Key takeaways of recent quarter & conference call highlights

### Q3FY24 Results: Healthy performance, margins continue to improve!

- At Tata Motors, consolidated topline in Q3FY24 came in at ₹1.16 lakh crore (up 25% YoY) with EBITDA at ~₹ 18,074 crore and EBITDA margins at 16.3%, up 80 bps QoQ (driven by outperformance at JLR). PAT in Q3FY24 came in at ₹7,025 crore (highest ever, also supported by lower tax rate).
- JLR reported EBITDA & EBIT margins of 16.2% (up 130 bps QoQ) & 8.7% (up 150 bps QoQ) respectively primarily driven by better product mix and controlled VME. JLR generated FCF of 626 million pounds for Q3FY24.
- Indian CV business EBITDA margins came in at 11.1% (by 70 bps QoQ) while India PV business EBITDA margins came in at 6.6% (up 10 bps QoQ).
- At JLR the broader guidance on cash flow remains unchanged with FCF expected at over £2bn in FY24 with net debt reducing to less than £1bn by the end of FY24.
- On consolidated basis, TML has retired debt amounting to ~₹14,600 crore in 9MFY24 and is well poised to retire ~₹20,000 crore + in FY24E

### Q3FY24 Earnings Conference Call highlights

#### Jaguar Land Rover

- Range rover production has increased from 2800 units per week in Q2FY24 to 2900 units in Q3FY24. JLR witness a robust demand in US market, particularly for Range rover and Defender.
- Red Sea crisis might have a marginal impact in Q4 FY24 as 15% to 18% of sales are from China, which is routed towards Red Sea.
- Gross Margins were marginally higher than the average gross margins in Q3FY24 due to change in mix towards the China region and range rover.
- JLR retained its 10% EBIT margins guidance by FY26.

#### Indian Commercial Vehicle

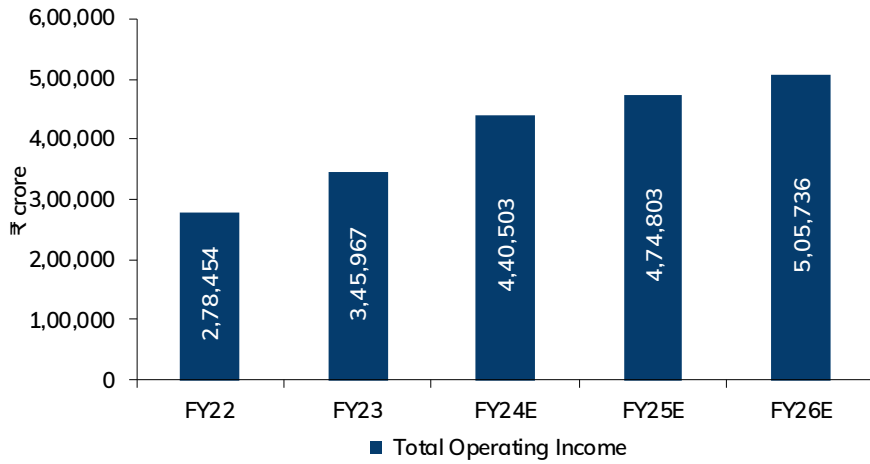
- TML has consistent market share gains in HCV (Heavy Commercial Vehicle). Demand for HCV has witnessed a year-on-year decline in Q3FY24 and Jan'24 due to reduction in spending by the government. It expects Q4 FY24 to be a soft quarter with single digit year-on-year decline due to impending election.
- SCV is facing challenges as transition to BSVI Phase 1 and Phase 2 resulted in increase in prices of vehicles in this segment. Pickup vehicles are a good product portfolio for TML, which has powertrains in all three variants such as CNG, petrol, and diesel. It will focus on SCV and pickup vehicles by increasing awareness and brand pull.

#### Indian Passenger Vehicle

- As per the management, the market has a positive response towards the new launches. Three EV launches are in the pipeline in CY24 such as Punch EV (already happened in January'24), Curve EV in Q2 FY25, along with an ICE launch in the next 3 to 4 months (after EV launch), and Harrier EV.
- The Sanand 2 facility has commenced production from 10th January'24 with an installed capacity of 300,000 units. It will add another 120,000 units to 420,000 units in this plant. It aims for 20% to 25% production of Nexon from this plant and complete shift in next 6 to 7 months. It also aims to completely utilized the plant in next 2 to 3 years.

### Key financial charts

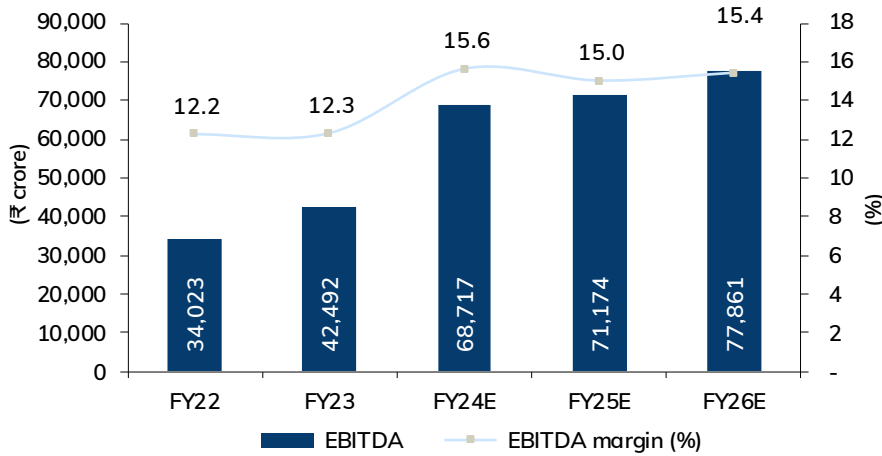
Exhibit 1: Trend in top line (consolidated)



On the consolidated basis, we expect net sales to grow at 13.5% CAGR over FY23-26E on the back of ~5% total volume CAGR in the aforesaid period

Source: Company, ICICI Direct Research

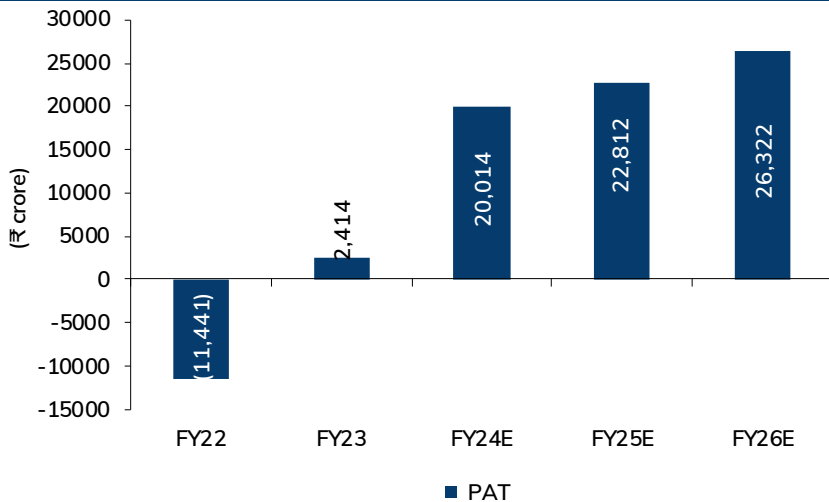
Exhibit 2: Trend in margins (consolidated)



On the consolidated basis, margins are expected to rise to 15%+ band over FY24E-26E on the back of higher ASP's, cost controls, lowered breakeven levels and higher operating leverage

Source: Company, ICICI Direct Research

Exhibit 3: PAT trend (consolidated)



We expect consolidated PAT of ₹22,812 crores in FY25E and ₹26,322 crore in FY26E. With dividend being declared for FY23 (₹2/share), we expect the same to continue in FY24E (₹4/share), FY25E (₹5/share) and FY26E (₹6/share)

Source: Company, ICICI Direct Research

## Valuation and Outlook

- With stupendous run up in Tata Motors stock price (>2x in last 1 year) and having captured much of the up move, we now assign HOLD rating to the stock, thereby valuing it at ₹ 1,000 on SOTP basis (10x, 2.2x FY26E EV/EBITDA to India, JLR; ₹230 value to Indian E-PV & stake in Tata Tech.)
- Demand outlook on the JLR front was stable however high base coupled with election activity is likely to keep volume growth under check for company's India business (both PV & CV) in the near term. With much of the positives in the price including value unlocking event of Tata Technologies IPO, the element of positive surprise is limited for Tata Motors which caps the potential upside in our opinion.

### Exhibit 4: SOTP valuation

Particulars	Parameters	FY26E EBITDA (₹ crore)	EV/EBITDA Multiple (x)	Resultant EV (₹ crore)
Tata Motors India business (CV, PV, Ex-Electric-PV)	FY26E EV/EBITDA	15,005	10.0	1,50,053
JLR	FY26E EV/EBITDA	57,974	2.2	1,27,542
India EV business (PV)	~11% stake sale @ ₹7,500 cr	NA	NA	60,682
Tata Technologies Stake Valuation	53.4% stake @ ₹ 45,000 crore	NA	NA	24,030
Other Investments	2x P/B on FY23	4,191	2.5	10,477
<b>Total Enterprise Value (EV)</b>				<b>3,72,784</b>
Net Debt	FY26E			5,048
<b>Resultant Equity Value (target market cap)</b>				<b>3,67,736</b>
<b>Target Price per share (₹/share)</b>				<b>1,000</b>

Source: ICICI Direct Research

## Financial Summary (Consolidated)

Exhibit 5: Profit and loss statement				
	₹ crore			
(Year-end March)	FY23	FY24E	FY25E	FY26E
Total operating Income	3,45,967	4,40,503	4,74,803	5,05,736
Growth (%)	24.2	27.3	7.8	6.5
Raw Material Expenses	2,26,470	2,75,816	3,00,088	3,19,135
Employee Expenses	33,655	42,434	44,674	47,336
Marketing Expenses	61,786	79,682	87,355	91,748
Capitalised Expenses	-18,435	-26,146	-28,488	-30,344
Total Operating Expenditure	3,03,475	3,71,786	4,03,629	4,27,875
EBITDA	42,492	68,717	71,174	77,861
Growth (%)	24.9	61.7	3.6	9.4
Product development Exp	10662	10361	11146	11909
Depreciation	24860	27091	29438	31861
Interest	10225	9958	6346	5296
Other Income	4633	6035	6156	6321
PBT	12,129	37,489	41,546	47,024
Minority Interest	276	407	529	582
Total Tax	704	6334	7600	8779
Reported PAT	2,414	20,014	22,812	26,322
Growth (%)	-121.1	729.0	14.0	15.4
EPS (₹)	6.3	54.4	62.0	71.6

Source: Company, ICICI Direct Research

Exhibit 6: Cash flow statement				
	₹ crore			
(Year-end March)	FY23	FY24E	FY25E	FY26E
Profit after Tax	2,414.3	20,014.1	22,812.2	26,322.4
Add: Depreciation	24,860	27,091	29,438	31,861
(Inc)/dec in Current Assets	-12,075	-14,415	-7,099	-6,447
Inc/(dec) in CL and Provisions	9,223	28,620	10,793	9,733
Others	10,225	9,958	6,346	5,296
CF from operating activities	34,647	71,268	62,289	66,766
(Inc)/dec in Investments	3,000	-250	5,750	-7,250
(Inc)/dec in Fixed Assets	-22,075	-34,000	-35,000	-32,000
Others	3,662	1,553	-3,694	-4,465
CF from investing activities	(15,412)	(32,697)	(32,944)	(43,715)
Issue/(Buy back) of Equity	0	0	-31	0
Inc/(dec) in loan funds	-14,017	-25,000	-20,000	-10,000
Dividend paid & dividend tax	0	0	0	0
Inc/(dec) in Sec. premium	0	0	0	0
Others (incl finance costs)	-8,873	-11,490	-8,185	-7,503
CF from financing activities	(22,889)	(36,490)	(28,215)	(17,503)
Net Cash flow	-3,654	2,081	1,130	5,548
Opening Cash	40,669	37,016	39,097	40,226
Closing Cash	37,016	39,097	40,226	45,775

Source: Company, ICICI Direct Research

Exhibit 7: Balance Sheet				
	₹ crore			
(Year-end March)	FY23	FY24E	FY25E	FY26E
<b>Liabilities</b>				
Equity Capital	766	766	735	735
Reserve and Surplus	44,556	63,038	84,012	1,08,128
Others	7,278	7,278	7,278	7,278
Total Shareholders funds	52,600	71,082	92,025	1,16,141
Total Debt	1,25,660	1,00,660	80,660	70,660
Deferred Tax Liability	1,407	1,791	1,931	2,057
Long term provisions	13,197	14,600	13,363	11,705
Minority Interest / Others	26,040	28,750	28,615	27,950
Total Liabilities	2,18,903	2,16,884	2,16,594	2,28,513
<b>Assets</b>				
Gross Block	3,89,734	4,21,234	4,55,734	4,92,734
Less: Acc Depreciation	2,58,495	2,85,586	3,15,024	3,46,885
Net Block	1,31,239	1,35,648	1,40,710	1,45,849
Capital WIP	14,275	16,775	17,275	12,275
Total Fixed Assets	1,45,514	1,52,423	1,57,985	1,58,124
Investments	26,379	26,629	20,879	28,129
Inventory	40,755	48,274	52,033	55,423
Debtors	15,738	18,103	19,512	20,784
Loans and Advances	2,303	2,932	3,160	3,366
Cash	37,016	39,097	40,226	45,775
Total Current Assets	1,32,690	1,49,186	1,57,415	1,69,410
Creditors	72,056	90,514	97,562	1,03,918
Provisions	11,811	14,836	15,991	17,033
Total Current Liabilities	1,17,178	1,45,798	1,56,591	1,66,324
Net Current Assets	15,512	3,388	825	3,086
Deferred Tax Asset	5,185	6,601	7,115	7,579
Application of Funds	2,18,903	2,16,884	2,16,594	2,28,513

Source: Company, ICICI Direct Research

Exhibit 8: Key ratios				
(Year-end March)	FY23	FY24E	FY25E	FY26E
<b>Per share data (₹)</b>				
EPS	6.3	54.4	62.0	71.6
Cash EPS	71.2	123.0	142.1	158.2
BV	137.4	185.6	250.3	315.8
DPS	2.0	4.0	5.0	6.0
Cash Per Share	145.9	151.3	144.3	178.4
<b>Operating Ratios</b>				
EBITDA Margin (%)	12.3	15.6	15.0	15.4
PBT / Net sales (%)	5.1	9.4	8.8	9.1
PAT Margin (%)	-7.0	-1.2	3.3	5.1
Inventory days	43.0	40.0	40.0	40.0
Debtor days	16.6	15.0	15.0	15.0
Creditor days	76.0	75.0	75.0	75.0
<b>Return Ratios (%)</b>				
RoE	4.6	28.2	24.8	22.7
RoCE	9.8	24.0	23.9	24.4
RoIC	16.1	42.1	40.0	41.5
<b>Valuation Ratios (x)</b>				
P/E	149.1	17.3	15.2	13.1
EV / EBITDA	9.8	5.7	5.2	4.5
EV / Net Sales	1.2	0.9	0.8	0.7
Market Cap / Sales	1.0	0.8	0.7	0.7
Price to Book Value	6.8	5.1	3.8	3.0
<b>Solvency Ratios</b>				
Debt/EBITDA	3.0	1.5	1.1	0.9
Debt / Equity	2.4	1.4	0.9	0.6

Source: Company, ICICI Direct Research

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Reduce: -15% to -5%;

Sell: <-15%



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