

Announces de-merger of CV & PV (incl. EV) business; less of a value unlocking event, more intangible play...

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 3rd largest player in the PV segment with ~14% market share (FY23)

Event: Company to demerge its business into two distinct divisions namely CV and PV (India, EV, JLR, etc.)

- In a regulatory filing TML has informed exchanges that its Board of Directors have approved the proposal of demerger of Tata Motors into two separate listed companies housing 1) the Commercial Vehicles business and its related investments and 2) the Passenger Vehicles businesses including PV, EV, JLR and its related investments.
- It will be implemented through an NCLT scheme of arrangement and all shareholders of TML shall continue to have the identical shareholding in both the listed entities. It is expected to be completed in 12-15 months.

Our View

- This is sentimentally positive for the company as in the long run it will give investors the choice of ownership in business segments i.e. one can either own cyclical CV business or more growth enduring PV business. Another long-term positive of having a separate listed CV entity is that this business can approach capital markets for incremental capital requirement (to support Electric bus business). A potential value unlocking event post this separation of businesses into two listed companies could also be listing of its Electric PV business wherein it enjoys dominant market share, improving profitability and group support though battery plant.
- However, we don't see this as any value unlocking event as the respective businesses were being adequately valued in our SoTP based valuation methodology. On forward basis i.e. FY26E, we have been assigning an EV/EBITDA multiple of 10x to its Indian CV+PV business, ~2.2x EV/EBITA for its JLR operations, valuation pegging at its EV arm + Tata Technologies stake to arrive at a fair value of ₹1,000/share. The valuation multiple being assigned to respective businesses are closer to their peer-set.

Rating and Target Price

- In the interim given the scope of minor re-rating at its India PV business amidst improving profitability we raise our India business EV/EBITDA multiple to 12x from 10x earlier, with our SoTP based target price now revised to ₹ 1,085. We continue to assign HOLD rating on the stock.
- In our view, Tata Motors CV business is likely to do an EBITDA of ~₹10,000 crore in FY26E which should fetch them a market cap of ~₹1-1.2 lakh crore and ~₹ 265-320 as price per share.



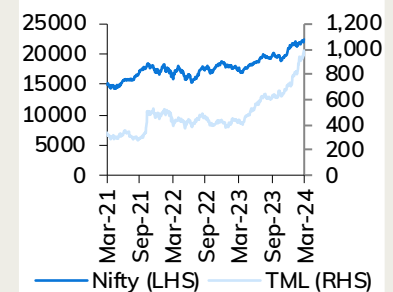
Particulars

Particular	₹ crore
Market Capitalization	3,78,757
Total Debt (FY23)	1,25,660
Cash and Invt (FY23)	55,854
EV	4,48,563
52 week H/L (₹)	1034 / 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

- Announces de-merger of CV and PV businesses; both to be listed; mirror existing shareholding
- Key Risk: (i) higher than anticipated margin gains at JLR (ii) lower than built in cash flow generation and debt reduction

Research Analyst

Shashank Kanodia, CFA
shashank.kanodia@icicisecurities.com

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	(30.9)	(29.3)	(34.5)	163.4		18.9	16.6	14.4	
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 Financial Charts and Valuation

- With stupendous run up in Tata Motors stock price (>2x in last 1 year) and having captured much of the up move, we continue to assign HOLD rating to the stock. We now value it at ₹ 1,085 on SOTP basis (12x, 2.2x FY26E EV/EBITDA to India, JLR; ₹230 value to Indian E-PV & stake in Tata Tech.)
- We see the present demerger exercise as less of a value unlocking event given that we have valued separate business segments in tandem with the valuations commanded by its relevant peer-set. We see this as sentimentally positive for the company and more of an intangible play with potential listing of CV arm helping TML to raise incremental capital for its CV business (Electric bus unit) and potential IPO of Electric-PV arm.

Exhibit 1: 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	12.0	1,80,064
JLR	FY26E EV/EBITDA	57,974	2.2	1,28,701
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	2.5x P/B on FY23	4,191	2.5	10,477
Total Enterprise Value (EV)				4,03,954
Net Debt	FY26E			5,048
Resultant Equity Value (target market cap)				3,98,907
Target Price per share (₹/share)				1,085

Source: ICICI Direct Research

Exhibit 2: TML - CV Segment Volumes and Financials

Tata Motors - Commercial Vehicle Business								
Volumes	FY22	FY23	Q1FY24	Q2FY24	Q3FY24	FY24E	FY25E	FY26E
CV Domestic	3,22,182	3,93,317	82,225	99,178	91,735	3,81,327	3,91,323	4,10,890
CV Exports	34,790	20,222	3,570	4,907	4,791	18,095	18,999	19,949
Total CV	3,56,972	4,13,539	85,795	1,04,085	96,526	3,99,422	4,10,322	4,30,839
Financials	FY22	FY23	Q1FY24	Q2FY24	Q3FY24	FY24E	FY25E	FY26E
Sales (₹ crore)	52,301	70,816	16,991	20,087	20,123	79,884	82,885	88,770
EBITDA (₹ crore)	1,935	5,240	1,597	2,089	2,234	8,388	9,117	9,765
%	3.7%	7.4%	9.4%	10.4%	11.1%	10.5%	11.0%	11.0%

Source: Company, ICICI Direct Research

Exhibit 3: TML - CV Segment Potential Market Capitalisation Calculation

Particulars	Units	Amount	Amount
FY26E EBITDA	₹ crore	9,765	9,765
EV/EBITDA Multiple	x	10	12
EV	₹ crore	97,647	1,17,176
Approximate Net Debt (FY23)	₹ crore	14,500	14,500
Net Debt (FY26E)	₹ crore	0.0	0.0
Ensuing Market Capitalisation	₹ crore	97,647	1,17,176
No of Shares	crore	368	368
Target Price	₹ crore	265	320

Source: ICICI Direct Research

In our view, Tata Motors CV business is likely to do an EBITDA of ~₹10,000 crore in FY26E which should fetch them a market cap of ~₹1-1.2 lakh crore and ~₹ 265-320 as price per share.

Financial Summary (Consolidated)

Exhibit 4: 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 5: 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 6: Balance Sheet		₹ crore			
(Year-end March)	FY23	FY24E	FY25E	FY26E	
Liabilities					
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	
Assets					
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 7: Key ratios					
(Year-end March)	FY23	FY24E	FY25E	FY26E	
Per share data (₹)					
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	
Operating Ratios					
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	
Return Ratios (%)					
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	
Valuation Ratios (x)					
P/E	163.4	18.9	16.6	14.4	
EV / EBITDA	10.6	6.1	5.7	4.9	
EV / Net Sales	1.3	1.0	0.9	0.8	
Market Cap / Sales	1.1	0.9	0.8	0.7	
Price to Book Value	7.5	5.5	4.1	3.3	
Solvency Ratios					
Debt/EBITDA	3.0	1.5	1.1	0.9	
Debt / Equity	2.4	1.4	0.9	0.6	
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

RATING RATIONALE

ICICI Direct endeavors to provide objective opinions and recommendations. ICICI Direct assigns ratings to its stocks according -to their notional target price vs. current market price and then categorizes them as Buy, Hold, Reduce and Sell. The performance horizon is two years unless specified and the notional target price is defined as the analysts' valuation for a stock

Buy: >15%

Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



Pankaj Pandey

Head – Research

pankaj.pandey@icicisecurities.com

ICICI Direct Research Desk,
ICICI Securities Limited,
Third Floor, Brillanto House,
Road No 13, MIDC,
Andheri (East)
Mumbai – 400 093
research@icicidirect.com

ANALYST CERTIFICATION

I/We, Shashank Kanodia, CFA, MBA (Capital Markets), Research Analysts, authors and the names subscribed to this report, hereby certify that all of the views expressed in this research report accurately reflect our views about the subject issuer(s) or securities. We also certify that no part of our compensation was, is, or will be directly or indirectly related to the specific recommendation(s) or view(s) in this report. It is also confirmed that above mentioned Analysts of this report have not received any compensation from the companies mentioned in the report in the preceding twelve months and do not serve as an officer, director or employee of the companies mentioned in the report.

Terms & conditions and other disclosures:

ICICI Securities Limited (ICICI Securities) is a full-service, integrated investment banking and is, inter alia, engaged in the business of stock brokering and distribution of financial products. ICICI Securities is Sebi registered stock broker, merchant banker, investment adviser, portfolio manager and Research Analyst. ICICI Securities is registered with Insurance Regulatory Development Authority of India Limited (IRDAI) as a composite corporate agent and with PFRDA as a Point of Presence. ICICI Securities Limited Research Analyst SEBI Registration Number – INH000000990. ICICI Securities Limited SEBI Registration is INZ000183631 for stock broker. Registered Office Address: ICICI Venture House, Appasaheb Marathe Marg, Prabhadevi, Mumbai - 400 025. CIN: L67120MH1995PLC086241, Tel: (91 22) 6807 7100. ICICI Securities is a subsidiary of ICICI Bank which is India's largest private sector bank and has its various subsidiaries engaged in businesses of housing finance, asset management, life insurance, general insurance, venture capital fund management, etc. ("associates"), the details in respect of which are available on www.icicibank.com.

Investments in securities market are subject to market risks. Read all the related documents carefully before investing.

Registration granted by Sebi and certification from NISM in no way guarantee performance of the intermediary or provide any assurance of returns to investors. None of the research recommendations promise or guarantee any assured, minimum or risk-free return to the investors.

Name of the Compliance officer (Research Analyst): Mr. Atul Agarwal
Contact number: 022-40701000 E-mail Address: complianceofficer@icicisecurities.com

For any queries or grievances: Mr. Prabodh Avadhoot Email address: headsservicequality@icicidirect.com Contact Number: 18601231122

ICICI Securities is one of the leading merchant bankers/ underwriters of securities and participate in virtually all securities trading markets in India. We and our associates might have investment banking and other business relationship with a significant percentage of companies covered by our Investment Research Department. ICICI Securities and its analysts, persons reporting to analysts and their relatives are generally prohibited from maintaining a financial interest in the securities or derivatives of any companies that the analysts cover.

Recommendation in reports based on technical and derivative analysis centre on studying charts of a stock's price movement, outstanding positions, trading volume etc as opposed to focusing on a company's fundamentals and, as such, may not match with the recommendation in fundamental reports. Investors may visit icicidirect.com to view the Fundamental and Technical Research Reports.

Our proprietary trading and investment businesses may make investment decisions that are inconsistent with the recommendations expressed herein.

ICICI Securities Limited has two independent equity research groups: Institutional Research and Retail Research. This report has been prepared by the Retail Research. The views and opinions expressed in this document may or may not match or may be contrary with the views, estimates, rating, and target price of the Institutional Research.

The information and opinions in this report have been prepared by ICICI Securities and are subject to change without any notice. The report and information contained herein is strictly confidential and meant solely for the selected recipient and may not be altered in any way, transmitted to, copied or distributed, in part or in whole, to any other person or to the media or reproduced in any form, without prior written consent of ICICI Securities. While we would endeavour to update the information herein on a reasonable basis, ICICI Securities is under no obligation to update or keep the information current. Also, there may be regulatory, compliance or other reasons that may prevent ICICI Securities from doing so. Non-rated securities indicate that rating on a particular security has been suspended temporarily and such suspension is in compliance with applicable regulations and/or ICICI Securities policies, in circumstances where ICICI Securities might be acting in an advisory capacity to this company, or in certain other circumstances.

This report is based on information obtained from public sources and sources believed to be reliable, but no independent verification has been made nor is its accuracy or completeness guaranteed. This report and information herein is solely for informational purpose and shall not be used or considered as an offer document or solicitation of offer to buy or sell or subscribe for securities or other financial instruments. Though disseminated to all the customers simultaneously, not all customers may receive this report at the same time. ICICI Securities will not treat recipients as customers by virtue of their receiving this report. Nothing in this report constitutes investment, legal, accounting and tax advice or a representation that any investment or strategy is suitable or appropriate to your specific circumstances. The securities discussed and opinions expressed in this report may not be suitable for all investors, who must make their own investment decisions, based on their own investment objectives, financial positions and needs of specific recipient. This may not be taken in substitution for the exercise of independent judgment by any recipient. The recipient should independently evaluate the investment risks. The value and return on investment may vary because of changes in interest rates, foreign exchange rates or any other reason. ICICI Securities accepts no liabilities whatsoever for any loss or damage of any kind arising out of the use of this report. Past performance is not necessarily a guide to future performance. Investors are advised to see Risk Disclosure Document to understand the risks associated before investing in the securities markets. Actual results may differ materially from those set forth in projections. Forward-looking statements are not predictions and may be subject to change without notice.

ICICI Securities or its associates might have managed or co-managed public offering of securities for the subject company or might have been mandated by the subject company for any other assignment in the past twelve months.

ICICI Securities or its associates might have received any compensation from the companies mentioned in the report during the period preceding twelve months from the date of this report for services in respect of managing or co-managing public offerings, corporate finance, investment banking or merchant banking, brokerage services or other advisory service in a merger or specific transaction.

ICICI Securities or its associates might have received any compensation for products or services other than investment banking or merchant banking or brokerage services from the companies mentioned in the report in the past twelve months.

ICICI Securities encourages independence in research report preparation and strives to minimize conflict in preparation of research report. ICICI Securities or its associates or its analysts did not receive any compensation or other benefits from the companies mentioned in the report or third party in connection with preparation of the research report. Accordingly, neither ICICI Securities nor Research Analysts and their relatives have any material conflict of interest at the time of publication of this report.

Compensation of our Research Analysts is not based on any specific merchant banking, investment banking or brokerage service transactions.

ICICI Securities or its subsidiaries collectively or Research Analysts or their relatives do not own 1% or more of the equity securities of the Company mentioned in the report as of the last day of the month preceding the publication of the research report.

Since associates of ICICI Securities and ICICI Securities as a entity are engaged in various financial service businesses, they might have financial interests or actual/ beneficial ownership of one percent or more or other material conflict of interest various companies including the subject company/companies mentioned in this report.

ICICI Securities may have issued other reports that are inconsistent with and reach different conclusion from the information presented in this report.

Neither the Research Analysts nor ICICI Securities have been engaged in market making activity for the companies mentioned in the report.

We submit that no material disciplinary action has been taken on ICICI Securities by any Regulatory Authority impacting Equity Research Analysis activities.

This report is not directed or intended for distribution to, or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction, where such distribution, publication, availability or use would be contrary to law, regulation or which would subject ICICI Securities and affiliates to any registration or licensing requirement within such jurisdiction. The securities described herein may or may not be eligible for sale in all jurisdictions or to certain category of investors. Persons in whose possession this document may come are required to inform themselves of and to observe such restriction.