

Company update

Automobiles

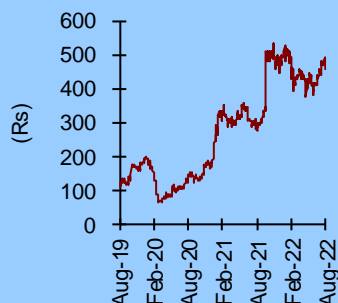
Target price: Rs646

Shareholding pattern

	Dec '21	Mar '22	Jun '22
Promoters	46.4	46.4	46.4
Institutional investors	28.2	28.8	28.9
MFs and others	6.5	6.5	6.8
Fls/Banks	0.1	0.1	0.1
Insurance Co	6.3	6.9	7.3
FIs	15.3	15.3	14.7
Others	25.4	24.8	24.7

Source: NSE

Price chart



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INDIA

Tata Motors

BUY

Maintained

JLR turnaround to boost valuation

Rs460

As per guidance provided post H1CY22 results by peers of JLR, volumes in global luxury car space are set to remain flattish in CY22 with slight moderation in EBIT margin by ~100-200bps over CY21 due to input cost inflation. With focus toward EVs and product development, outlook for capex/R&D expenses remain largely unchanged YoY for most peers as well as JLR, which has guided for FY23 capex at ~GBP2.5bn, similar to that in FY22. As against peers, JLR's Q1FY23 retails were relatively more affected as it was undergoing the *RR/RR Sport* run-out phase, resulting in loss of volumes and mix (this was over and above the impact of China lockdown). To maintain ex-CJLR wholesale volumes flat YoY, JLR needs production of ~80k units per quarter in the rest of FY23. With an outlook suggesting ~90k units in Q2, we believe JLR is on course to compensate for its Q1 under-performance. Besides, improvement in scale and mix and rationalisation in input material costs should take care of margin-recovery and mitigate energy cost inflation. We believe, wholesales of ~30k units per month in the coming months would be good enough for JLR to meet its GBP1bn FCF guidance for FY23, with its FCF breakeven volumes being at ~25k units/month. With the orderbook at 200k units and sub-par inventory levels, we remain convinced of JLR meeting our FY23E volume estimate of 360k units. Maintain BUY on Tata Motors (TTMT) with an unchanged SoTP-based price target of Rs646.

Noteworthy aspects of peer-set guidance:

- As against peer-set retails being up ~3-5% QoQ in the Jun'22 quarter, JLR's retails were down 6% primarily due to: 1) *RR/RR Sport* run-out phase limiting production of this higher-margin model to a mere ~6k units vs its typical run-rate of ~25k units. With production of these models gradually returning to normalcy (~1.5k units/week currently) along with their combined orderbook at ~82k units, we believe the guided figure of 90k units in Q2FY23 is achievable. Besides, the China lockdown impacted retails by ~5k-6k units in Q1FY23 and we believe this would normalise from Q2.
- JLR's guided EBIT margin of ~5% seems on the higher side for FY23 currently and, to achieve it, we believe it needs to deliver an EBITDA margin of ~15% for the remaining quarters of FY23. With EBIT margin guidance for global peers being slightly subdued YoY due to input cost inflation, we are building-in EBITM of ~1.5% for JLR (up 150bps YoY) vs the guidance of ~5% (FY23E EBITDAM at 10.5% vs Q1 at 6.3%).
- In CY21, PHEV+BEV volume mix across peers and JLR was largely around ~12-15%, with Audi being on the higher side at ~44%. With a solitary BEV in the form of *I-Pace*, Jaguar is set to become all-electric by CY25, with LR becoming all-electric by CY30. Thus, in order to maintain the R&D momentum towards EVs, all peers including JLR have guided for R&D expenses at largely similar levels to CY21. Thus we continue to build-in capex of GBP2.5bn for JLR in FY23E.

Market Cap	Rs1528bn/US\$19.1bn
Reuters/Bloomberg	TAMO.BO/TTMT IN
Shares Outstanding* (mn)	3,321.2
52-week Range (Rs)	536/268
Free Float (%)	53.6
FII (%)	14.7
Daily Volume (US\$/'000)	1,18,810
Absolute Return 3m (%)	9.3
Absolute Return 12m (%)	66.3
Sensex Return 3m (%)	9.6
Sensex Return 12m (%)	7.6

Year to Mar	FY21	FY22	FY23E	FY24E
Revenue (Rs bn)	2,498	2,785	3,315	3,794
Net Profit (Rs bn)	4	(136)	23	97
EPS (Rs)	1.1	(35.4)	6.0	25.4
% Chg YoY	N.M.	N.M.	N.M.	323.0
P/E (x)	417.1	N.M.	73.9	17.5
CEPS (Rs)	62.6	29.4	72.2	97.3
EV/E (x)	0.0	0.0	0.0	0.0
Dividend Yield (%)	-	-	-	-
RoCE (%)	1.5	(0.0)	6.9	16.2
RoE (%)	0.7	(27.2)	5.0	18.8

Table 1: JLR and its peer performance in Q2CY22

	Revenue	Margins	FCF, capex and R&D
Audi	<ul style="list-style-type: none"> Revenue grew ~3% YoY to EUR15.6bn ASP at EUR38.9k (up 33% YoY) 	<ul style="list-style-type: none"> Gross margin up 540bps YoY at 19.2% EBITDA margin down 190bps YoY at 9.4% EBIT margin down 178bps YoY at 8.9% 	<ul style="list-style-type: none"> FCF at EUR956mn in Q2, down 60% YoY, due to higher working capital requirement driven by increase in unfinished goods, logistics cost and higher capex spend Capex as a % of sales at 3.6% in Q2, up 140bps YoY due to investment in new factory by Audi FAW NEV Company in China R&D as a % of sales at 6.9% in Q2, up 70bps YoY, due to higher investment in future products
BMW	<ul style="list-style-type: none"> Revenue grew ~20% YoY to EUR30bn ASP at EUR53.3k (up 50% YoY) 	<ul style="list-style-type: none"> EBIT margin down 380bps YoY at 12.0% (excluding BBA consolidation) EBT margin down 1,060bps YoY at 8.4% 	<ul style="list-style-type: none"> FCF stood at EUR2.95bn in Q2, up 24% YoY Capex as a % of sales at 4.4% for H1CY22, due to investment in ramp-up of e-mobility and investments in BBA R&D as a % of sales at 4.5% for H1CY22; (flat YoY)
JLR	<ul style="list-style-type: none"> Revenue down ~11% YoY to GBP4.4bn ASP at GBP61.4k (up 4% YoY) 	<ul style="list-style-type: none"> Gross margin up 72bps YoY at 37.3% EBITDA margin down 271bps YoY at 6.3% 	<ul style="list-style-type: none"> FCF stood at a negative GBP770mn for Q2CY22, against GBP1bn in Q2CY21 due to higher working capital requirement Capex as a % of sales at 11.1% for Q2CY22 R&D as a % of sales at 8% for Q2 (2x YoY)
Mercedes Benz	<ul style="list-style-type: none"> Revenue grew ~8% YoY to EUR27bn ASP at EUR55.4k (up 16% YoY) 	<ul style="list-style-type: none"> Gross margin up 113bps YoY at 24.6% EBIT margin up 195bps YoY at 14% 	<ul style="list-style-type: none"> FCF at EUR2.6bn for H1CY22, down 24% YoY, due to higher working capital requirement driven by increase in inventory and payment of EUR900mn towards claim settlement for emission-control systems Capex as a % of sales at 2.2% for H1CY22 (down 15bps YoY) R&D as a % of sales at 6% for H1CY22 (up 47bps) due to higher investment in future products (e.g. vans)

Source: Company data, I-Sec research; BBA: BMW Brilliance Automotive (China JV)

Table 2: Guidance against delivery for CY21

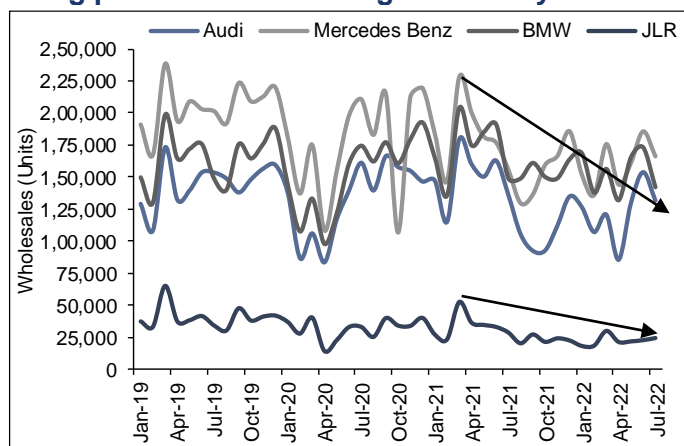
	Outlook and guidance for CY21	CY21 actual performance delivered
Audi	<ul style="list-style-type: none"> Volume guidance: Slightly above 1.7mn vehicle deliveries Revenue guidance: Slightly above ~EUR50bn EBITDA margin guidance: 7-9% Capex guidance: 4-5% of sales R&D guidance: 6-7% of sales FCF guidance: EUR3.5bn-4.5bn RoCE guidance: 12-15% 	<ul style="list-style-type: none"> Volumes delivered: 1.68mn vehicles Revenue: EUR53bn EBITDA margin: 10.4% Capex: 3.8% of sales R&D: 7.4% of sales FCF: EUR7.76bn RoCE: 16.7%
BMW	<ul style="list-style-type: none"> Volume guidance: Significant increase over CY20 (2.3mn vehicle deliveries in CY20) EBIT margin guidance: 6-8% RoCE guidance: Significant increase to CY20 (12.7%) 	<ul style="list-style-type: none"> Volumes delivered: 2.5mn vehicles EBIT margin: 10.3% Capex: 4.5% R&D spend: 6.2% FCF: EUR6.35bn RoCE: 24%

Source: Company data, I-Sec research; Mercedes data not included due to lack of data for Mercedes cars, as it was part of Daimler group

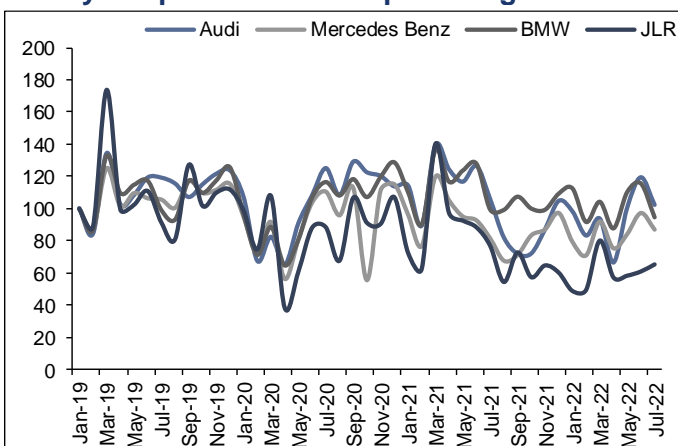
Table 3: Outlook CY22

	Product mix	Outlook and guidance (CY22)
Audi	<ul style="list-style-type: none"> UV Mix: 32% Powertrain mix: <ul style="list-style-type: none"> BEV: 12% PHEV: 32% ICE: 56% 	<ul style="list-style-type: none"> Volume guidance: 1.8mn-1.9mn vehicle deliveries in CY22 Revenue guidance: EUR62bn-65bn EBITDA margin guidance: 9-11% Capex guidance: 4-5% of sales R&D guidance: 6-7% FCF guidance: EUR4.5bn-5.5bn RoCE guidance: 17-20% Investment guidance (CY22-CY26): EUR35bn total
BMW	<ul style="list-style-type: none"> Powertrain mix: EV : 13% share 	<ul style="list-style-type: none"> Volume guidance: 2.5mn vehicle deliveries in CY22 EBIT margin guidance: 7-9% FCF guidance: EUR10bn RoCE guidance: 14-19% EBIT margin of 4-5%
JLR	<ul style="list-style-type: none"> Powertrain mix: <ul style="list-style-type: none"> BEV & PHEV: 12% MHEV: 54% ICE: 34% 	<ul style="list-style-type: none"> FCF of ~GBP1bn Capex of ~GBP2.5bn
Mercedes Benz	<ul style="list-style-type: none"> Powertrain mix: EV : 13% share within which PHEV and BEV contribute 50% each 	<ul style="list-style-type: none"> Volume guidance: Slightly higher YoY (CY21 volume: 487k) EBIT margin guidance: 12-14% R&D guidance: 5-6% FCF guidance: Slightly above EUR11bn

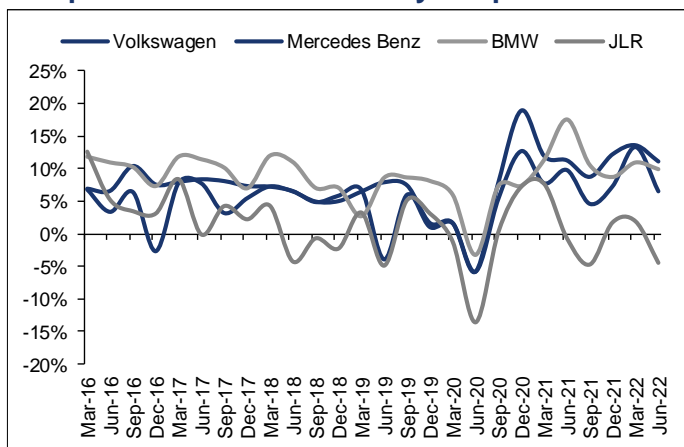
Source: Company data, I-Sec research

Chart 1: Wholesales to gradually pick up with rising production and benign inventory for all

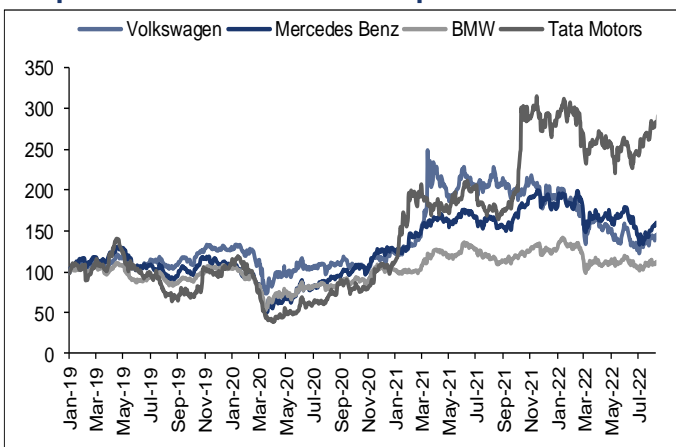
Source: Company data, I-Sec research

Chart 2: JLR has been affected more than its luxury car peers due to chip shortage

Source: Bloomberg, I-Sec research

Chart 3: EBIT margin decline for JLR has been sharper than that for its luxury car peers

Source: Bloomberg, I-Sec research

Chart 4: Domestic CV/PV led stock outperformance for TTMT vs peers

Source: Bloomberg, I-Sec research

Table 4: TTMT volume and margin assumptions

	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E
JLR wholesales (units)	5,45,298	5,07,877	4,75,952	3,47,632	2,94,182	3,62,777	4,52,380
Jaguar wholesales (units)	1,50,484	1,53,755	1,25,820	67,333	49,510	56,937	69,380
LR wholesales (units)	3,94,814	3,54,122	3,50,132	2,80,299	2,44,672	3,05,840	3,83,000
JLR ASP/vehicle (GBP)	47,288	47,677	48,291	56,758	62,274	63,000	65,000
JLR EBITDA margin (%)	10.8%	8.2%	8.9%	12.8%	10.3%	10.5%	11.3%
JLR Capex (GBP mn)	4,216	3,810	3,294	2,343	2,500	2,800	2,800
India (Standalone)	6,09,846	7,31,941	4,73,377	4,85,361	7,29,148	8,90,278	10,09,828
M&HCV (units)	1,87,622	2,24,940	1,24,446	90,152	1,44,500	1,75,743	2,04,810
LCV (units)	2,32,622	2,72,839	2,08,310	1,70,325	2,09,515	2,27,361	2,59,530
PV (units)	1,89,602	2,34,162	1,40,621	2,24,884	3,75,133	4,87,174	5,45,488
ASP/Vehicle	6,40,009	5,69,608	6,26,569	6,26,569	7,64,414	8,25,567	8,58,589
EBITDA margin (%)	5.6%	7.4%	-0.9%	3.2%	5.7%	9.5%	12.3%
Capex (Rs mn)	27,948	47,532	45,134	16,780	30,000	33,000	48,494

Source: Company data, I-Sec research

Table 5: SoTP valuation

Parameter	Value (Rs mn)
Standalone	
PV of FCF until FY30E	6,49,099
Terminal value	12,43,303
Standalone Enterprise Value	18,92,402
JLR (GBP mn)	
PV of FCF until FY30E	4,364
Terminal value	2,904
Enterprise Value	7,268
GBP/INR	96
JLR Enterprise Value (Rs mn)	6,97,687
Enterprise Value of other subsidiaries	1,95,192
Total Enterprise value	27,60,543
Less: Consolidated Net debt	5,77,695
Equity Value	21,82,848
Post money value of EV entity	6,82,500
TTMT's stake in the subsidiary (%)	85%
Value of TTMT's stake in EVCo. Post 50% discount	2,90,063
Potential market capitalisation	24,72,911
Equity value per share (Rs/share)	646

Source: Company data, I-Sec research

Financial summary (consolidated)

Table 6: Profit and Loss statement
(Rs mn, year ending March 31)

	FY21	FY22	FY23E	FY24E
Total revenues	24,97,948	27,84,536	33,14,624	37,93,068
Operating expenditure	21,92,395	25,36,404	29,68,347	33,43,329
EBITDA	3,05,553	2,48,132	3,46,277	4,49,739
<i>EBITDA Margin (%)</i>	<i>12.2%</i>	<i>8.9%</i>	<i>10.4%</i>	<i>11.9%</i>
Depreciation	2,35,467	2,48,357	2,53,539	2,75,124
EBIT	70,086	(225)	92,738	1,74,615
Net Interest expenses	80,972	93,119	66,324	58,024
Non-operating income	43,753	787	826	867
Adjusted PBT	32,867	(92,557)	27,240	1,17,459
Tax	25,419	42,313	5,448	23,492
Adjusted PAT before MI	7,449	(1,34,869)	21,792	93,967
MI/Share of associates	(3,227)	(741)	1,200	3,297
Adj. Consol. PAT	4,222	(1,35,610)	22,992	97,265
Exceptional gains/ (loss)	(1,37,610)	21,195	-	-
Reported Consol. PAT	(1,33,388)	(1,14,415)	22,992	97,265

Source: Company data, I-Sec research

Table 7: Balance sheet
(Rs mn, year ending March 31)

	FY21	FY22	FY23E	FY24E
Shareholders' equity	7,658	7,659	7,658	7,658
Reserves & surpluses	5,44,809	4,37,954	4,60,946	5,58,211
Total networth	5,52,467	4,45,612	4,68,604	5,65,869
Minority Interest	15,735	42,711	42,711	42,711
Debt	11,47,756	13,96,770	11,89,524	9,49,524
Deferred tax liability	(29,645)	(23,124)	(23,124)	(23,124)
Sources of Funds	16,86,313	18,61,969	16,77,715	15,34,979
Gross block	33,82,954	36,32,754	38,82,754	39,90,887
Net block	13,79,039	13,80,483	13,76,944	12,09,953
CWIP	2,09,639	1,02,511	1,02,511	1,02,511
Goodwill on Consolidation	8,037	8,072	8,072	8,072
Investments	55,691	66,703	66,703	66,703
Cash & equivalents	6,58,437	6,33,784	6,11,829	7,49,086
Debtors	1,26,791	1,24,421	1,48,358	1,70,071
Inventory	3,60,887	3,52,403	4,14,797	4,72,499
Loans & advances	5,87,535	5,99,113	6,21,272	6,44,167
Total current assets	17,33,649	17,09,722	17,96,257	20,35,824
Current liabilities	14,35,194	11,68,299	13,89,117	15,61,278
Provisions	2,64,549	2,37,222	2,83,655	3,26,805
Total current liabilities	16,99,742	14,05,521	16,72,772	18,88,083
Net current assets	33,907	3,04,201	1,23,485	1,47,741
Miscellaneous	-	-	-	-
Total assets	16,86,313	18,61,969	16,77,715	15,34,979

Source: Company data, I-Sec research

Table 8: Cashflow statement
(Rs mn, year ending March 31)

	FY21	FY22	FY23E	FY24E
Operating cashflow before WC changes	1,61,442	4,35,611	3,41,655	4,27,114
(Incr)/decr in working capital	(926)	(1,04,737)	1,58,761	1,13,002
Others	1,29,490	(1,88,046)	-	-
Cashflow from operations	2,90,006	1,42,828	5,00,416	5,40,116
Capex	(1,98,447)	(1,49,383)	(2,50,000)	(1,08,133)
Increase/ (Decrease) in Investments	(73,142)	(39,973)	1,200	3,297
Others	10,327	1,41,605	-	-
Cashflow from investments	(2,61,263)	(47,751)	(2,48,800)	(1,04,835)
Issuance of equity	26,025	37,686	(1)	(0)
Net borrowings	1,62,317	32,853	(2,07,246)	(2,40,000)
Interest paid	(81,229)	92,514	(66,324)	(58,024)
Dividend paid	(303)	(999)	-	-
Others	76,998	(2,81,783)	-	-
Cashflow from financing	1,83,808	(1,19,730)	(2,73,570)	(2,98,024)
Net Change in Cash	2,12,551	(24,652)	(21,955)	1,37,257
Free Cash Flow	91,559	(6,555)	2,50,416	4,31,983

Source: Company data, I-Sec research

Table 9: Key ratios
(Year ending March 31)

	FY21	FY22	FY23E	FY24E
Per Share data (Rs)				
Adjusted EPS (Rs)	1.1	(35.4)	6.0	25.4
Diluted EPS (Rs)	1.1	(35.4)	6.0	25.4
CEPS (Rs)	62.6	29.4	72.2	97.3
Book value per share (Rs)	144	116	122	148
Dividend per share (Rs)	-	-	-	-
Growth Ratios (%)				
Total Op. Income (Sales)	(4.3)	11.5	19.0	14.4
EBITDA	54.9	(18.8)	39.6	29.9
Net Income (Adjusted)	(104.7)	(3,312.0)	(117.0)	323.0
EPS (Adjusted)	(104.7)	(3,312.0)	(117.0)	323.0
Cash EPS	93.0	(53.0)	145.3	34.7
BVPS (Adjusted)	(12.4)	(19.3)	5.2	20.8
Valuation Ratios (x)				
P/E (x)	417.1	N.M.	73.9	17.5
P/BV (x)	3.2	4.0	3.6	3.0
Adjusted EV/ EBITDA (x)	7.5	9.2	6.6	5.1
EV/ Sales (x)	0.9	0.8	0.7	0.6
Return/Profitability Ratios (%)				
EBITDA Margin	12.23	8.91	10.45	11.86
Net Income Margin (Adjusted)	0.17	(4.87)	0.69	2.56
RoCE	1.53	(0.02)	6.85	16.22
RoNW	0.71	(27.17)	5.03	18.80
Dividend Payout Ratio	-	-	-	-
Dividend Yield	-	-	-	-
Solvency/Wkg. Cap. Ratios (x)				
Net D/E	0.89	1.71	1.23	0.35
Debt/EBITDA	3.76	5.63	3.42	2.10
Current Ratio	1.02	1.22	1.08	1.08
Quick Ratio	0.47	0.64	0.61	0.53

Source: Company data, I-Sec research

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