

November 02, 2023

RESULT REPORT Q2 FY24 | Sector: Automobile

Tata Motors (TTMT)

Upward revision in JLR EBIT outlook is positive

Valuation and View – Underlying profitability continues to be better

TTMT's 2QFY24 consol results were in-line to our/street estimates with underlying profitability continues to be robust across businesses. This reflected in consol EBITDA growth of 1.2x YoY (+1% QoQ) with margins at 1) JLR at 14.9% (+490bp YoY/ -140bp QoQ, est 15%), 2) Domestic CV at 10.4% (+540bp YoY/ +100bp QoQ), 3) Domestic PV at 6.5% (+110bp YoY/ +120bp QoQ). There were several line items which were positive such as 1) Net Auto debt decline further to ~Rs387b in 2Q (v/s Rs417b in 1Q and Rs437b in FY23), 2) margins for ICE PV at 9.2% (v/s 8.6%/8.5% in 1Q/FY23) with guidance of double digit EBITDA intact, 3) upward revision in JLR EBIT guidance to ~8% for FY24E (v/s 6% earlier with no change to FY26 EBIT margins guidance of double digit and 4) JLR's 2HFY24 volumes guidance to be better than 2QFY24. The MOU between JLR and TPME for access to the JLR's EMA (electrified modular architecture) platform is a step that would offer cross synergies including entry into mid SUVs (Avinya).

We like TTMT given it's improving India franchise, early leadership in EVs in India, and JLR's improved profitability. Standalone business is in mid-upcycle led by cyclical recovery both in PV and CV whereas favorable product cycle to help drive JLR outperformance. We raised FY24/25 consol EPS by 3-4% to factor in for better margins at JLR. We estimate revenue/EBITDA CAGR of 8%/17% in FY23-26E and maintain BUY with SoTP based TP of Rs773 (v/s Rs768 earlier).

Result Highlights – In-line performance both in India and at JLR

- Consol revenues grew 32% YoY (+3% QoQ) at Rs1051.3b (in-line, cons Rs1081b) as S/A revenues grew 24% YoY at Rs185.4b (in-line) and JLR revenues grew 30% YoY at GBP6.8b (est GBP6.4b).
- Consol EBITDA grew 1.2x YoY (+1% QoQ) at Rs137.2b (in-line, cons Rs137.6b) with margins expanded 530bp YoY (flat QoQ) at 13.1% (est 13.5%, cons 12.7%). **Segmental EBITDA performance** - 1) JLR at 14.9% (+490bp YoY/ -140bp QoQ, est 15%), 2) Domestic CV at 10.4% (+540bp YoY/ +100bp QoQ), 3) Domestic PV at 6.5% (+110bp YoY/ +120bp QoQ).
- Higher other at Rs16.3b (est Rs14b, +20% QoQ), partially offset lower share of profit from subs at Rs1.1b (v/s Rs3b in 1QFY24, est Rs3b) led to Adj.PAT came in-line at Rs40.7b (est Rs43b, cons Rs45b).
- CJLR performance** - Revenues declined ~13% QoQ at GBP374m, EBITDA margins at 13% (flat YoY, -200bp QoQ) and PAT at GBP6m.
- 1HFY24 consol revenue/EBITDA** grew 36.8%/ 1.9x led by JLR at 42%/1.6x. while same for S/A grew 15%/1.2x YoY

Exhibit 1: Actual vs estimates

Rs mn	Actual	Estimate		% variation		Remarks
		Yes Sec	Consensus	Yes Sec	Consensus	
Sales	1,051,282	1,017,057	1,081,096	3.4	-2.8	JLR continues to lead earnings for TTMT.
EBITDA	137,239	140,549	137,663	-2.4	-0.3	
EBITDA margins %	13.1	13.8	12.7	-80bp	30bp	
Adjusted PAT	40,783	43,639	45,196	-6.5	-9.8	

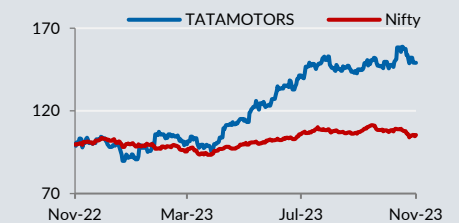
Source: Company, YES Sec

Reco	: BUY
CMP	: Rs 637
Target Price	: Rs 773
Potential Return	: +21%

Stock data (as on November 02, 2023)

Nifty	19,133
52 Week h/l (Rs)	678 / 375
Market cap (Rs/USD mn)	2300971 / 27646
Outstanding Shares (mn)	3,831
6m Avg t/o (Rs mn):	6,208
Div yield (%):	0.3
Bloomberg code:	TTMT IN
NSE code:	TATAMOTORS

Stock performance



	1M	3M	1Y
Absolute return	1.0%	2.2%	50.8%

Shareholding pattern (As of Sep'23)

Promoter	46.4%
FII+DII	35.9%
Others	17.7%

Δ in stance

(1-Yr)	New	Old
Rating	BUY	BUY
Target Price	773	768

Δ in earnings estimates

	FY24E	FY25E
EPS (New)	46.5	51.9
EPS (Old)	45.3	50.1
% change	2.7%	3.8%

Financial Summary

Y/E March (Rs bn)	2023	2024E	2025E
Net Sales	3,460	3,923	4,124
EBITDA	425	582	616
Net Profit	12	178	199
Adj. EPS (INR)	3.1	46.5	51.9
EPS Gr. (%)	(112)	1,382	12
BV/Sh. (INR)	118.3	162.4	211.5
RoE (%)	2.7	33.1	27.8
RoCE (%)	9.1	16.4	15.7
Payout (%)	62.7	5.2	5.5
P/E (x)	203.2	13.7	12.3
P/BV (x)	5.4	3.9	3.0
EV/EBITDA (x)	7.4	4.7	4.1
Div. Yield (%)	0.3	0.4	0.4

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Exhibit 2: Quarterly snapshot

Y/e Mar (Rs.mn)	Q2FY24	Q2FY23	YoY chg	Q1FY24	H1FY24	H1FY23	YoY chg
Net Revenues	1,051,282	796,114	32.1	1,022,361	2,073,643	1,515,460	36.8
Raw Materials	669,097	525,950	27.2	637,835	1,306,932	1,008,167	29.6
% of Net Sales	63.6%	66.1%		62.4%	63.0%	66.5%	
Personnel	100,989	78,979	27.9	98,518	199,507	156,843	27.2
% of Net Sales	9.6%	9.9%		9.6%	9.6%	10.3%	
Manufacturing & Other Exp	210,923	170,633	23.6	209,780	420,703	335,891	25.3
% of Net Sales	20.1%	21.4%		20.6%	20.3%	22.2%	
Expenses capitalised	66,966	41,411	61.7	59,367	126,333	79,208	59.5
Total Expenditure	914,043	734,151	24.5	886,766	1,800,809	1,421,693	26.7
EBITDA	137,239	61,962	121.5	135,595	272,835	93,768	191.0
EBITDA Margin (%)	13.1%	7.8%		13.3%	13.2%	6.2%	
Depreciation	66,364	58,973	12.5	66,332	132,696	117,384	13.0
EBIT	70,875	2,989		69,264	140,139	(23,616)	(693.4)
Interest Expenses	26,517	24,873	6.6	26,154	52,671	49,080	7.3
Non-operating income	16,307	10,385	57.0	13,605	29,913	19,259	55.3
Forex gain	928	(6,239)	(114.9)	(3,418)	(2,490)	(13,917)	
Extraordinary Exp/ Income	1,237	(3,126)	(139.6)	6,770	8,007	(18,063)	(144.3)
PBT	60,357	(14,611)		46,527	106,884	(49,292)	
Tax-Total	22,028	(4,571)	(581.9)	15,630	37,659	10,619	254.6
Tax Rate (%) - Total	36.5%	31.3%		33.6%	35.2%	-21.5%	
Minority Interest / Share in Associates	1,171	1,520		3,088	4,259	2,437	
Profit after MI	39,500	(8,521)	(563.6)	41,416	80,916	(17,645)	(558.6)
Adj. PAT	40,783	(11,764)	(446.7)	41,008	81,790	(76,212)	(207.3)
PAT Margin	3.9%	-1.5%		4.0%	3.9%	-5.0%	

Source- Company, YES Sec

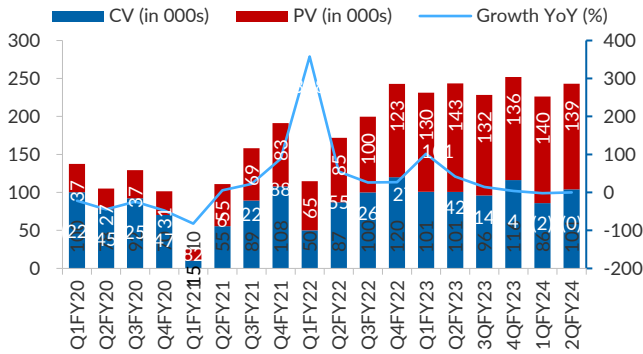
Exhibit 3: SOTP

Rs/Share	FY25E	FY26E
Tata Motors - Standalone	323	380
Tata Motors - India EV business	98	98
JLR	239	266
Other Subs	28	29
Total EV	688	774
Less: Net Debt	-5	-79
Total Equity Value	693	852

Source- Company, Yes Sec

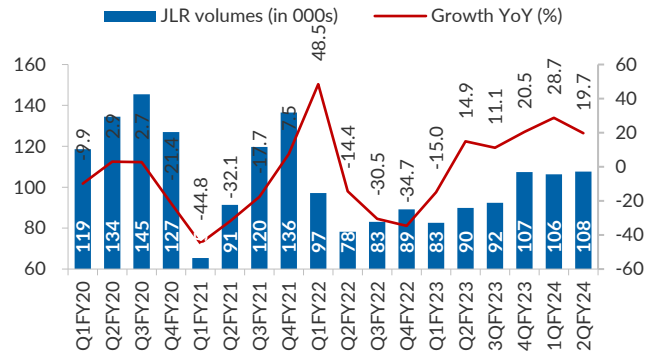
CHARTS

Exhibit 1: 2QFY24 volumes trend for PV and CV



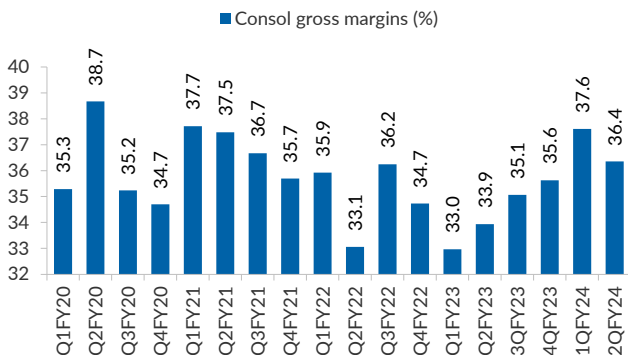
Source: Company, YES Sec

Exhibit 2: JLR volumes grew ~1% QoQ in 2QFY24



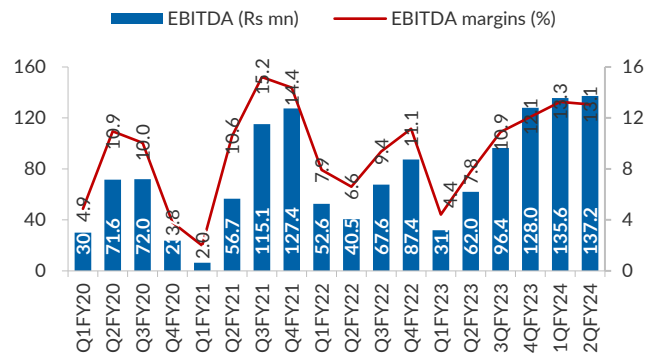
Source: Company, YES Sec

Exhibit 3: Gross margin contracted 120bp QoQ at 36.4%



Source: Company, YES Sec

Exhibit 4: Margins increased ~20bp QoQ at 13.1%



Source: Company, YES Sec

KEY CON-CALL HIGHLIGHTS

JLR

- **JLR ASP declined QoQ** was led by lower production of RR (higher price product). With second body shop coming onstream, expect fall in ASP to reverse.
- **Outlook** – 1) 3Q and 4Q production and wholesale volumes are expected to improve further, 2) **EBIT margin now expected to improve to around 8% for FY24 compared to prior guidance of 6% plus (no change to FY26 EBIT margins guidance of double digit)**, 3) Net debt to reduce to <GBP1b by end of FY24E (v/s GBP2.3b debt currently).
- **Tax** – not in position to recognize deferred tax assets (~GBP1b) vs deferred tax liabilities due to accounting challenges. ETR likely to be 25-27%.
- **VME increased to 1.5% from 1.1%** but still strong indicating moderate discounting in modern luxury segment. Expect VME to increase in coming quarters which may offset RM benefit.
- **Order book at ~168k units (v/s 185k units in 1QFY24, 200K units in 4QFY23 and 205k in 3QFY23)** remains strong despite increased retail sales. Range Rover, Range Rover Sport and Defender represent 77% of the book (flat QoQ). New body shop in Solihull to begin commercial operations in 3QFY23.
 - **Expect OB to come down sharply in 2HFY24 led by more production days available.**
- **JLR FCF in 2QFY24 at GBP300m (v/s 1QFY24 at GBP451m and GBP815m in 4QFY23).**
- **Net debt improved to GBP2.2b (v/s GBP2.5b in 1QFY24 and GBP3b as of FY23).**
- **JLR invested GBP0.8b in 2QFY24 (v/s GBP0.7b in 1QFY24)** with full year FY24 target unchanged at GBP3b. Engineering capitalization rate 64%, up from 61% in Q1FY24 reflecting expected maturation of vehicle programmes. Expect investments to be higher in 2HFY24E.
- RR and RRS production at 2.8k units per week (v/s flat in 1QFY24 and 2.6k units in 4QFY23). JLR managed to hit 3.2k units per week production post maintenance shutdown.
- **Share of BEV remained flat at ~13% in 2QFY24 (vs 16% in 4QFY23).** Expect the same to remain stable until the next BEV from LR to be launched in FY25E.
- **FME and selling expense** – ~GBP62m of GBP96m is related to advertising and promotion spends.

TTMT CV

- **Outlook** - customer sentiment Index, remained firm or improved across segments. LCV industry muted volume performance is led by 1) sharp price increase due to regulatory requirements where freight rates have not kept a pace to that extent and 2) financing is moderate.
 - Expect 3Q growth of double digit and 4Q to be flattish.
- **Margins** - Commodity softened in Q2 thereby providing tailwind for the margins, in addition to significant cost reduction efforts and improving realizations. Expect RM headwinds for 3Q (steel) but have taken price hikes to navigate the same.
 - **TTMT have not seen any decline in pricing** and following market operating prices.
- **ACE EV have received PLI certificate (the first for the industry).** Seeing good traction of the same in the retail segment. Coming up with variants of ACE EV to meet requirements. Expect PLI money to come through in 4QFY24E.
- Overall CV market share improved to 39.7% (v/s 39.1% in 1QFY24). Gained share month over month in HCV, ILMCV and CVP, but dropped in SCVPU in Q2.
- Non-vehicle-business revenue grew by 20% YoY.
- **Digital** --~17% of sales were generated through digital channels.
- **E-dukaan** - online marketplace for spares grew revenue by 4x over Q2 FY23.

TTMT PV

- Festive sales – saw ~30% growth in Navratra and 16% growth in deliveries.
- JLR and TPEM have entered into an MOU for access to the EMA (electrified modular architecture) platform, including the E&E architecture, EDU, battery assembly and manufacturing know-how for a royalty fee.
 - **Key rational** – 1) Accelerates the entry into the high-end EV segment (mid SUVs), 2) reduces development costs and cycle time, 3) accelerates adoption of advanced ACES technologies and 4) delivers a globally competitive product.
- **PV ICE EBITDA margins at 9.2% (v/s 8.6%/8.5% in 1Q/FY23)** whereas EV EBITDA at negative 5% (v/s -9.7%/-4.9% in 1Q/FY23). Expect EV EBITDA to improve with decline in battery prices which should reflect positively in 2HFY24E.
 - **Margin driver** - cell cost reduction, decline in non tech costs, switch to new gen and aggregates.
- **EV outlook** – 1HFY24 industry volumes grew by 107% and for TTMT at 77%. Nexon volume ramped down to make the way for new Nexon and sales deferment in state of Telangana in anticipation of road tax waiver.
 - Currently for EV, ~75% of sales coming from only 25 cities.
 - Nexon have 2-3 months of waiting and response to new EV is positive.
 - Curvv and Siera in 2024/2024 and Sanand plant to start in 1H2024.
- **Powertrain Mix** - Share of EV increased to 13% of fuel mix (v/s 9%/5% in FY23/FY22), share CNG at 14% (v/s 8%/3% in FY23/22).
- **EV distribution** – cities/dealership at 192/185/165/250 in 1H/1Q/FY23/FY22 and 287/275/250/143 in 1H/1Q/FY23/FY22 with overall charging infra touchpoints at 6.5k (v/s 5.3k as of FY23).

Financials

- **Expect India business to be net cash** by end of FY24 and JLR by FY25E.
- **Domestic business capex** - FY24 capex estimated at Rs80b as electrification investments increasing.
- **Tata Motor Finance** - Collection efficiency for 2QFY24 improved to 97.3% (Q1 FY24 96.6%), GNPA at 8.1% (flat QoQ).

FINANCIALS

Exhibit 5: Balance Sheet

Y/E March	2021	2022	2023	2024E	2025E	2026E
Share Capital	7,658	7,659	7,660	7,660	7,660	7,660
Reserves	544,809	437,954	445,558	614,227	802,221	1,017,600
Net Worth	552,467	445,612	453,218	621,887	809,881	1,025,260
Loans	1,421,306	1,464,490	1,341,134	1,311,134	1,281,134	1,251,134
Minority Interest	15,735	42,711	72,777	74,432	76,234	78,200
Deferred Tax	(29,645)	(23,124)	(37,777)	(37,217)	(36,657)	(36,097)
Capital Employed	1,959,863	1,929,689	1,829,352	1,970,236	2,130,592	2,318,497
Gross Fixed Assets	3,128,886	3,232,889	3,413,401	3,603,241	3,982,701	4,362,161
Less: Depreciation	1,749,847	1,852,406	2,101,009	2,362,150	2,652,593	2,968,684
Net Fixed Assets	1,379,039	1,380,483	1,312,392	1,241,091	1,330,108	1,393,477
Capital WIP	209,639	102,511	142,745	250,000	250,000	250,000
Goodwill	8,037	8,072	8,406	8,406	8,406	8,406
Investments	246,203	293,795	263,792	190,520	173,722	157,863
Curr.Assets	1,543,136	1,482,630	1,581,633	2,300,644	2,492,562	2,778,362
Inventory	360,886	352,403	407,554	537,347	564,948	603,620
Sundry Debtors	126,791	124,421	157,380	322,408	338,969	362,172
Cash & Bank Bal.	467,925	406,692	370,156	829,345	1,012,101	1,271,027
Loans & Advances	568,849	584,547	628,388	588,388	548,388	508,388
Others	18,686	14,566	18,156	23,156	28,156	33,156
Current Liab. & Prov.	1,426,191	1,337,802	1,479,615	2,020,424	2,124,205	2,269,610
Sundry Creditors	681,798	599,704	720,558	859,755	903,917	965,792
Other Liabilities	479,845	500,876	508,985	859,755	903,917	965,792
Provisions	264,548	237,222	250,072	300,914	316,371	338,027
Net Current Assets	116,945	144,829	102,018	280,220	368,356	508,751
Appl. of Funds	1,959,863	1,929,689	1,829,352	1,970,236	2,130,592	2,318,497

Source: Company, YES Sec

Exhibit 6: Income statement

Y/E March	2021	2022	2023	2024E	2025E	2026E
Total Income	2,497,948	2,784,536	3,459,670	3,922,632	4,124,122	4,406,425
Change (%)	(4.3)	11.5	24.2	13.4	5.1	6.8
Expenditure	2,140,128	2,444,310	3,034,755	3,341,045	3,508,389	3,728,892
EBITDA	357,819	340,227	424,915	581,587	615,733	677,533
% of Net Sales	14.3	12.2	12.3	14.8	14.9	15.4
Depreciation	235,467	248,357	248,604	261,141	290,443	316,091
EBIT	122,352	91,870	176,312	320,447	325,290	361,441
Product Dev. Exp.	52,266	92,095	106,620	53,066	53,974	54,680
Interest	80,972	93,119	102,255	93,244	80,927	85,588
Other Income	26,432	30,536	46,332	19,200	24,333	24,333
EO Exp/(Inc)	137,610	6,440	(15,768)	-	-	-
Forex Gain/ (Loss)	17,322	(787)	1,039	-	-	-
PBT	(104,743)	(70,035)	30,576	193,337	214,722	245,506
Tax	25,419	42,313	7,041	15,467	17,178	19,640
Effective Rate (%)	(24.3)	(60.4)	23.0	8.0	8.0	8.0
Reported PAT	(130,161)	(112,348)	23,535	177,870	197,545	225,865
Change (%)	18.6	(13.7)	(120.9)	655.8	11.1	14.3
% of Net Sales	(5.2)	(4.0)	0.7	4.5	4.8	5.1
Minority Interest	(563)	(1,327)	(2,756)	(1,654)	(1,803)	(1,966)
Share of profit of associate	(3,790)	(741)	3,364	1,694	3,202	4,141
Net Profit	(134,514)	(114,415)	24,143	177,909	198,944	228,041
Adj. PAT	36,491	(104,084)	12,006	177,909	198,944	228,041
Change (%)	(140.1)	(385.2)	(111.5)	1,381.8	11.8	14.6

Source: Company, YES Sec

Exhibit 7: Cash Flow Statement

Y/E March	2021	2022	2023	2024E	2025E	2026E
OP/(Loss) before Tax	(133,961)	(113,088)	26,899	177,909	198,944	228,041
Int/Div. Received	5,109	6,594	12,976	19,200	24,333	24,333
Depreciation	235,467	248,357	248,604	261,141	290,443	316,091
Direct Taxes Paid	(21,046)	(19,096)	(31,790)	(14,907)	(16,618)	(19,080)
(Inc)/Dec in WC	(926)	(104,737)	(31,271)	280,988	94,619	118,531
Other Items	54,278	131,238	112,695	1,654	1,803	1,966
CF from Op Activity	138,922	149,269	338,112	725,985	593,524	669,881
Extra-ordinary Items	151,083	(6,440)	15,768	-	-	-
CF after EO Items	290,005	142,828	353,880	725,985	593,524	669,881
(Inc)/Dec in FA+CWIP	(198,558)	(149,383)	(178,107)	(297,095)	(379,460)	(379,460)
Free Cash Flow	91,447	(6,555)	175,774	428,890	214,064	290,421
(Pur)/Sale of Invest.	(62,704)	101,632	10,065	73,272	16,798	15,859
CF from Inv Activity	(261,263)	(47,751)	(168,042)	(223,823)	(362,662)	(363,601)
Issue of Shares	26,025	37,686	33,742	-	-	-
Inc/(Dec) in Debt	154,549	22,026	(201,402)	(30,000)	(30,000)	(30,000)
Interest Paid	(81,229)	(92,514)	(93,360)	(93,244)	(80,927)	(85,588)
Dividends Paid	(303)	(999)	(1,409)	(9,240)	(10,951)	(12,662)
CF from Fin Activity	99,042	(33,802)	(262,429)	(132,484)	(121,878)	(128,250)
Inc/(Dec) in Cash	127,785	61,275	(76,591)	369,678	108,984	178,030

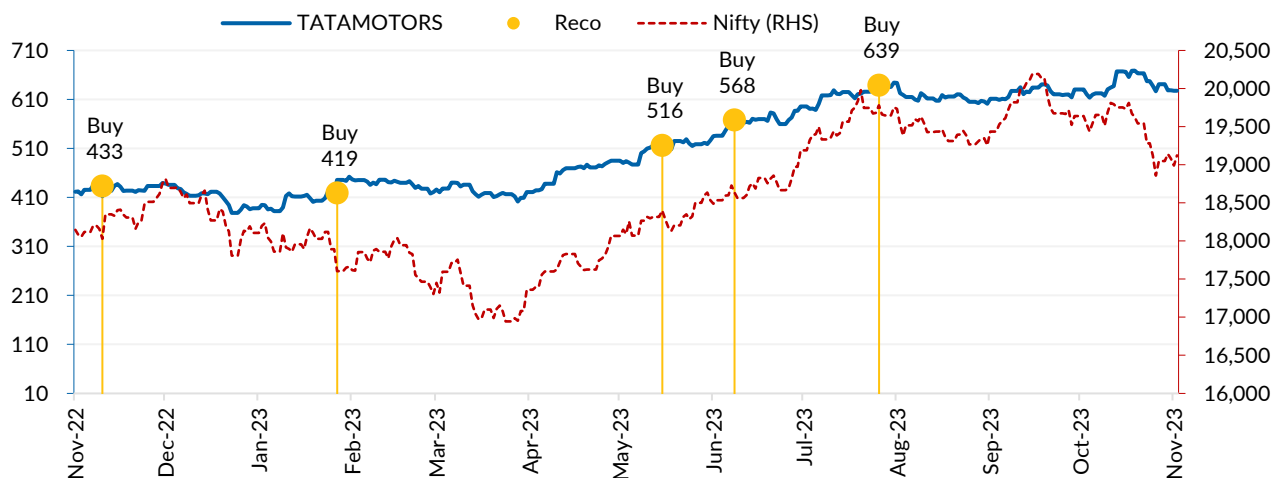
Source- Company, YES Sec

Exhibit 8: Growth and Ratio matrix

Y/E March	2021	2022	2023	2024E	2025E	2026E
Basic (INR)						
EPS	9.5	(27.2)	3.1	46.5	51.9	59.5
EPS Fully Diluted	9.5	(27.2)	3.1	46.5	51.9	59.5
EPS Growth (%)	(137.7)	(385.2)	(111.5)	1,381.8	11.8	14.6
Cash EPS	71.0	37.7	68.0	114.6	127.8	142.1
Book Value (Rs/Share)	144.3	116.4	118.3	162.4	211.5	267.7
DPS	-	-	2.0	2.4	2.9	3.3
Payout (Incl. Div. Tax) %	-	-	62.7	5.2	5.5	5.6
Valuation (x)						
Consolidated P/E	66.8	(23.4)	203.2	13.7	12.3	10.7
EV/EBITDA	8.8	9.4	7.4	4.7	4.1	3.3
EV/Sales	1.3	1.2	0.9	0.7	0.6	0.5
Price to Book Value	4.4	5.5	5.4	3.9	3.0	2.4
Dividend Yield (%)	-	-	0.3	0.4	0.4	0.5
Profitability Ratios (%)						
RoE	6.2	(20.9)	2.7	33.1	27.8	24.9
RoCE	10.2	10.1	9.1	16.4	15.7	16.0
RoIC	16.5	13.6	12.5	33.6	42.9	49.8
Turnover Ratios						
Debtors (Days)	18.5	16.3	16.6	30.0	30.0	30.0
Inventory (Days)	52.7	46.2	43.0	50.0	50.0	50.0
Creditors (Days)	99.6	78.6	76.0	80.0	80.0	80.0
Asset Turnover (x)	1.3	1.4	1.9	2.0	1.9	1.9
Leverage Ratio						
Debt/Equity (x)	2.6	3.3	3.0	2.1	1.6	1.2

Source- Company, Yes Sec

Recommendation Tracker



Source - YES Sec

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