

**Demerger to enhance focus on respective businesses**Auto & Auto Ancillaries ▶ Company Update ▶ **March 4, 2024****TARGET PRICE (Rs): 950**

**TTMT's board approved the proposal to demerge the company into two separate listed entities, viz a) CV and its related investments and b) PV, including India PV, EV, JLR, and related investments. This comes across as a logical progression of separate reporting of the CV and India PV financials run by their respective CEOs (since 2021). We believe this signifies management's confidence that the two businesses can operate independently with self-sustaining cash flows. While we do not envisage major fundamental changes (as both businesses were run independently), we upward revise our SOTP-based TP marginally to Rs950 (vs. Rs925 earlier) as we factor in 10% premium multiple to TTMT's CV business (vs AL IN) for potential pure-play optionality on CVs with higher scale. Downgrade to REDUCE as recent run-up leaves limited upside.**

**Tata Motors: Financial Snapshot (Consolidated)**

Y/E March (Rs mn)	FY22	FY23	FY24E	FY25E	FY26E
Revenue	27,84,536	34,59,670	42,75,631	46,86,064	49,90,670
EBITDA	2,48,132	3,18,296	5,97,776	6,31,166	6,85,151
Adj. PAT	(1,07,188)	7,336	2,11,981	2,29,913	2,76,711
Adj. EPS (Rs)	(28.0)	1.9	55.3	62.5	75.3
EBITDA margin (%)	8.9	9.2	14.0	13.5	13.7
EBITDA growth (%)	(18.8)	28.3	87.8	5.6	8.6
Adj. EPS growth (%)	0.0	0.0	811.7	13.0	20.4
RoE (%)	(21.5)	1.6	38.1	29.8	27.3
RoIC (%)	0.0	3.0	25.4	24.7	27.3
P/E (x)	(35.3)	515.4	17.8	15.8	13.1
EV/EBITDA (x)	19.3	14.0	7.4	6.5	5.5
P/B (x)	8.5	8.3	5.7	4.1	3.2
FCFF yield (%)	(0.1)	3.9	3.9	6.2	9.9

Source: Company, Emkay Research

**Demerger to help in better capitalizing on the respective opportunities with greater accountability**

Management believes this demerger will help the company to better capitalize on the opportunities provided by the respective segments/companies by enhancing its focus and agility. This will also lead to a superior experience for customers, better growth prospects, and enhanced value for shareholders. The demerger will be implemented through an NCLT scheme of arrangement and all shareholders of TML shall continue to have identical shareholding in both the listed entities. The NCLT scheme of arrangement for the demerger shall be placed before the Board of Directors for approval in the coming months and will be subject to all necessary shareholder, creditor, and regulatory approvals, which could take 12-15 months to complete.

**Demerger signifies management's confidence in generating sufficient FCF to operate independently**

We believe this development signifies management's confidence that the two businesses (CVs and PVs) will continue to operate independently with greater agility and self-sustaining cash flows (particularly the PV business). Historically, while the CV business has been generating healthy cash flows, the PV business has witnessed challenges in consistent cash flow generation due to its high spending on product development and the re-building phase in its market positioning.

**Upgrade TP, but downgrade to REDUCE on recent run-up and limited upside**

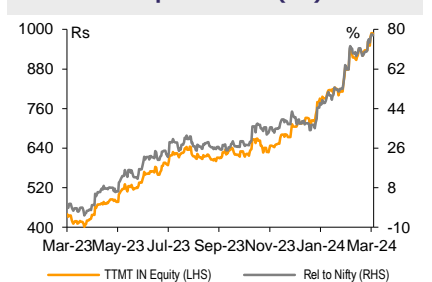
While we do not envisage major changes in the fundamentals due to this demerger (as the two businesses were operating largely independently with separate reporting and their respective CEOs), we revise our SOTP-based TP upward to Rs950 (vs. Rs925 earlier) to factor in 10% higher multiple for the CV business to 10x EV/EBITDA vs 9x earlier (~10% premium to pure-play CV player Ashok Leyland) for potentially pure-play on CVs with higher scale and market share gains.

Target Price – 12M	Mar-25
<b>Change in TP (%)</b>	<b>NA</b>
Current Reco.	REDUCE
Previous Reco.	ADD
Upside/(Downside) (%)	(3.8)
CMP (04-Mar-24) (Rs)	987.2

Stock Data	Ticker
52-week High (Rs)	996
52-week Low (Rs)	400
Shares outstanding (mn)	3,323.3
Market-cap (Rs bn)	3,616
Market-cap (USD mn)	43,629
Net-debt, FY24E (Rs mn)	6,22,818
ADTV-3M (mn shares)	11
ADTV-3M (Rs mn)	9,332.0
ADTV-3M (USD mn)	112.6
Free float (%)	53.6
Nifty-50	22,406
INR/USD	82.9
<b>Shareholding, Dec-23</b>	
Promoters (%)	46.4
FPIs/MFs (%)	18.6/17.3

**Price Performance**

(%)	1M	3M	12M
Absolute	12.3	39.9	130.7
Rel. to Nifty	9.6	29.2	81.1

**1-Year share price trend (Rs)****Chirag Jain**chirag.jain@emkayglobal.com  
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## Exhibit 1: Tata Motors SOTP

	Basis of valuation	Equity value (Rs mn)	Equity value (Rs/share)	Contribution to SOTP (%)	Remarks
India CV	EV/EBITDA 10x	8,57,515	233	24	10% premium to 9x EV/EBITDA for AL on a higher scale and market share gains
India ICE-PV	EV/Sales 1.6x	9,42,338	256	27	In line with MSIL's multiple of ~1.6x EV/Sales
India E-PV	Transaction value	3,09,750	84	9	Taking pre-money transaction valuation fixed during the TPG deal at 40% discount – implied value of ~2x P/Sales on FY26E EV revenue
JLR	EV/EBITDA 1.9x	10,89,488	296	31	EV/EBITDA multiple is at ~30% premium to the present valuation of European peers amid significantly higher earnings growth
JLR China JV	EV/EBITDA 4x	4,493	1	0	Stake stands at 50%
Tata Sons	NAV 1x	67,692	18	2	Holding company discount at 80% as the stake may not be monetized
Tata Motors Finance	P/B 1x FY22	45,905	12	1	Holding company discount at 20%
Tata Technologies	M-cap	1,85,763	51	5	20% discount to the CMP
Total			953		
<b>Total</b>	<b>(Rounded off)</b>		<b>950</b>		

Source: Company, Emkay Research

## Tata Motors: Consolidated Financials and Valuations

Profit and Loss					
Y/E March(Rs mn)	FY22	FY23	FY24E	FY25E	FY26E
<b>Revenue</b>	<b>27,84,536</b>	<b>34,59,670</b>	<b>42,75,631</b>	<b>46,86,064</b>	<b>49,90,670</b>
Revenue growth (%)	11.5	24.2	23.6	9.6	6.5
<b>EBITDA</b>	<b>2,48,132</b>	<b>3,18,296</b>	<b>5,97,776</b>	<b>6,31,166</b>	<b>6,85,151</b>
EBITDA growth (%)	(18.8)	28.3	87.8	5.6	8.6
Depreciation & Amortization	2,48,357	2,48,604	2,67,299	2,97,608	3,22,135
<b>EBIT</b>	<b>(225)</b>	<b>69,692</b>	<b>3,30,477</b>	<b>3,33,558</b>	<b>3,63,015</b>
EBIT growth (%)	(100.3)	0.0	374.2	0.9	8.8
Other operating income	0	0	0	0	0
Other income	30,536	46,332	44,015	46,216	47,602
Financial expense	93,119	1,02,255	1,02,476	87,767	67,254
<b>PBT</b>	<b>(62,807)</b>	<b>13,769</b>	<b>2,72,016</b>	<b>2,92,007</b>	<b>3,43,364</b>
Extraordinary items	0	0	0	0	0
Taxes	42,313	7,041	65,526	67,576	72,468
Minority interest	1,327	2,756	(2,000)	(2,000)	(2,000)
Income from JV/Associates	(741)	3,364	3,491	3,483	3,815
<b>Reported PAT</b>	<b>(1,14,415)</b>	<b>23,250</b>	<b>2,11,981</b>	<b>2,29,913</b>	<b>2,76,711</b>
PAT growth (%)	0.0	0.0	811.7	8.5	20.4
<b>Adjusted PAT</b>	<b>(1,07,188)</b>	<b>7,336</b>	<b>2,11,981</b>	<b>2,29,913</b>	<b>2,76,711</b>
<b>Diluted EPS (Rs)</b>	<b>(28.0)</b>	<b>1.9</b>	<b>55.3</b>	<b>62.5</b>	<b>75.3</b>
Diluted EPS growth (%)	0.0	0.0	811.7	13.0	20.4
<b>DPS (Rs)</b>	<b>0.0</b>	<b>2.0</b>	<b>1.5</b>	<b>2.2</b>	<b>2.3</b>
<b>Dividend payout (%)</b>	<b>0.0</b>	<b>32.9</b>	<b>2.7</b>	<b>3.5</b>	<b>3.1</b>
EBITDA margin (%)	8.9	9.2	14.0	13.5	13.7
EBIT margin (%)	0.0	2.0	7.7	7.1	7.3
Effective tax rate (%)	(67.4)	51.1	24.1	23.1	21.1
<b>NOPLAT (pre-IndAS)</b>	<b>(376)</b>	<b>34,056</b>	<b>2,50,868</b>	<b>2,56,365</b>	<b>2,86,400</b>
Shares outstanding (mn)	3,829.4	3,830.1	3,830.1	3,676.9	3,676.9

Source: Company, Emkay Research

Cash Flows					
Y/E March (Rs mn)	FY22	FY23	FY24E	FY25E	FY26E
PBT	(62,807)	13,769	2,72,016	2,92,007	3,43,364
Others (non-cash items)	3,37,436	3,83,002	3,69,775	3,85,375	3,89,390
Taxes paid	(19,096)	(31,790)	(65,526)	(67,576)	(72,468)
Change in NWC	(1,04,737)	(31,271)	(26,055)	18,811	(10,297)
<b>Operating cash flow</b>	<b>1,42,828</b>	<b>3,53,880</b>	<b>5,53,701</b>	<b>6,32,099</b>	<b>6,53,803</b>
Capital expenditure	(1,49,383)	(1,78,107)	(3,80,000)	(3,80,000)	(2,79,294)
Acquisition of business	94,783	(134)	0	0	0
Interest & dividend income	6,913	10,199	0	0	0
<b>Investing cash flow</b>	<b>(47,751)</b>	<b>(1,68,042)</b>	<b>(3,80,000)</b>	<b>(3,80,000)</b>	<b>(2,79,294)</b>
Equity raised/(repaid)	37,686	34,737	0	0	0
Debt raised/(repaid)	22,026	(2,02,397)	(1,02,007)	(1,15,022)	(3,97,800)
Payment of lease liabilities	(15,590)	(15,166)	0	0	0
Interest paid	(92,514)	(93,360)	(1,02,476)	(87,767)	(67,254)
Dividend paid (incl tax)	(999)	(1,409)	(7,660)	(5,814)	(8,074)
Others	(1,06,919)	55,220	0	0	0
<b>Financing cash flow</b>	<b>(1,56,310)</b>	<b>(2,22,375)</b>	<b>(2,12,143)</b>	<b>(2,08,603)</b>	<b>(4,73,128)</b>
Net chg in Cash	(61,233)	(36,537)	(38,442)	43,496	(98,619)
OCF	1,42,828	3,53,880	5,53,701	6,32,099	6,53,803
Adj. OCF (w/o NWC chg.)	2,47,565	3,85,151	5,79,756	6,13,288	6,64,100
FCFF	(6,555)	1,75,774	1,73,701	2,52,099	3,74,509
FCFE	(92,761)	83,717	71,225	1,64,332	3,07,255
OCF/EBITDA (%)	57.6	111.2	92.6	100.1	95.4
FCFE/PAT (%)	81.1	360.1	33.6	71.5	111.0
<b>FCFF/NOPLAT (%)</b>	<b>1,743.0</b>	<b>516.1</b>	<b>69.2</b>	<b>98.3</b>	<b>130.8</b>

Source: Company, Emkay Research

Balance Sheet					
Y/E March(Rs mn)	FY22	FY23	FY24E	FY25E	FY26E
Share capital	7,659	7,660	7,660	7,660	7,660
Reserves & Surplus	4,37,954	4,45,558	6,51,725	8,73,564	11,41,804
<b>Net worth</b>	<b>4,45,612</b>	<b>4,53,218</b>	<b>6,59,385</b>	<b>8,81,224</b>	<b>11,49,464</b>
Minority interests	42,711	72,777	70,777	68,777	66,777
Deferred tax liability (net)	(23,124)	(37,777)	(37,777)	(37,777)	(37,777)
<b>Total debt</b>	<b>16,42,165</b>	<b>12,56,605</b>	<b>11,54,598</b>	<b>10,39,576</b>	<b>6,41,776</b>
<b>Total liabilities &amp; equity</b>	<b>21,07,364</b>	<b>17,44,823</b>	<b>18,46,982</b>	<b>19,51,800</b>	<b>18,20,240</b>
Net tangible fixed assets	8,09,001	7,29,760	7,39,480	8,21,872	7,79,031
Net intangible assets	5,04,621	5,04,621	5,04,621	5,04,621	5,04,621
Net ROU assets	66,860	78,010	78,010	78,010	78,010
Capital WIP	1,02,511	1,42,745	2,45,726	2,45,726	2,45,726
Goodwill	8,072	8,406	8,406	8,406	8,406
Investments [JV/Associates]	60,725	60,725	63,725	66,725	69,725
<b>Cash &amp; equivalents</b>	<b>6,39,762</b>	<b>5,73,222</b>	<b>5,31,780</b>	<b>5,72,276</b>	<b>4,70,657</b>
Current assets (ex-cash)	10,75,938	12,11,477	15,75,621	17,26,871	18,39,122
Current Liab. & Prov.	11,60,127	15,64,145	19,00,388	20,72,708	21,75,058
<b>NWC (ex-cash)</b>	<b>(84,188)</b>	<b>(3,52,667)</b>	<b>(3,24,766)</b>	<b>(3,45,837)</b>	<b>(3,35,936)</b>
<b>Total assets</b>	<b>21,07,364</b>	<b>17,44,823</b>	<b>18,46,982</b>	<b>19,51,800</b>	<b>18,20,240</b>
Net debt	10,02,403	6,83,383	6,22,818	4,67,299	1,71,119
Capital employed	21,07,364	17,44,823	18,46,982	19,51,800	18,20,240
<b>Invested capital</b>	<b>13,04,366</b>	<b>9,68,130</b>	<b>10,05,752</b>	<b>10,67,072</b>	<b>10,34,132</b>
BVPS (Rs)	116.4	118.3	172.2	239.7	312.6
Net Debt/Equity (x)	2.2	1.5	0.9	0.5	0.1
Net Debt/EBITDA (x)	4.0	2.1	1.0	0.7	0.2
Interest coverage (x)	3.1	0.9	0.3	0.2	0.2
<b>RoCE (%)</b>	<b>0.7</b>	<b>4.0</b>	<b>15.1</b>	<b>14.5</b>	<b>14.4</b>

Source: Company, Emkay Research

Valuations and Key Ratios					
Y/E March	FY22	FY23	FY24E	FY25E	FY26E
P/E (x)	(35.3)	515.4	17.8	15.8	13.1
P/CE(x)	26.8	14.8	7.9	6.9	6.1
P/B (x)	8.5	8.3	5.7	4.1	3.2
EV/Sales (x)	1.7	1.3	1.0	0.9	0.8
EV/EBITDA (x)	19.3	14.0	7.4	6.5	5.5
EV/EBIT(x)	(21,285.2)	64.1	13.3	12.3	10.5
EV/IC (x)	3.7	4.6	4.4	3.8	3.7
FCFF yield (%)	(0.1)	3.9	3.9	6.2	9.9
FCFE yield (%)	(2.5)	2.2	1.9	4.5	8.5
Dividend yield (%)	0.0	0.2	0.2	0.2	0.2
<b>DuPont-RoE split</b>					
Net profit margin (%)	(3.8)	0.2	5.0	4.9	5.5
Total asset turnover (x)	1.3	1.8	2.4	2.5	2.6
Assets/Equity (x)	4.2	4.3	3.2	2.5	1.9
<b>RoE (%)</b>	<b>(21.5)</b>	<b>1.6</b>	<b>38.1</b>	<b>29.8</b>	<b>27.3</b>
<b>DuPont-RoIC</b>					
NOPLAT margin (%)	0.0	1.0	5.9	5.5	5.7
IC turnover (x)	0.0	0.0	0.0	0.0	0.0
<b>RoIC (%)</b>	<b>0.0</b>	<b>3.0</b>	<b>25.4</b>	<b>24.7</b>	<b>27.3</b>
<b>Operating metrics</b>					
Core NWC days	(11.0)	(37.2)	(27.7)	(26.9)	(24.6)
<b>Total NWC days</b>	<b>(11.0)</b>	<b>(37.2)</b>	<b>(27.7)</b>	<b>(26.9)</b>	<b>(24.6)</b>
Fixed asset turnover	0.9	1.0	1.2	1.2	1.2
Opex-to-revenue (%)	26.1	25.3	23.0	24.0	23.8

Source: Company, Emkay Research

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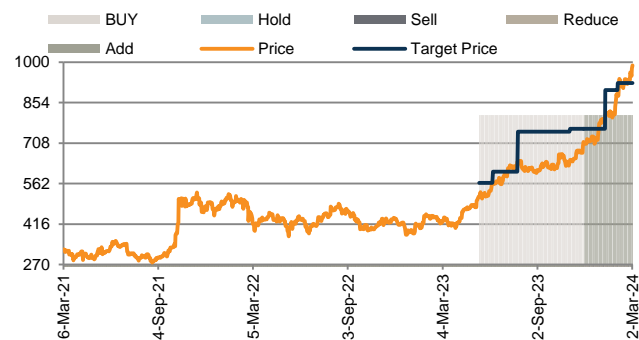
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**RECOMMENDATION HISTORY - DETAILS**

Date	Closing Price (INR)	TP (INR)	Rating	Analyst
03-Feb-24	879	925	Add	Chirag Jain
10-Jan-24	808	900	Add	Chirag Jain
30-Nov-23	706	760	Add	Chirag Jain
03-Nov-23	648	760	Buy	Chirag Jain
26-Jul-23	641	750	Buy	Chirag Jain
08-Jun-23	560	605	Buy	Chirag Jain
13-May-23	516	565	Buy	Chirag Jain

Source: Company, Emkay Research

**RECOMMENDATION HISTORY - TREND**



Source: Bloomberg, Company, Emkay Research

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<b>SELL</b>	<15% downside

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