Prabhudas Lilladher
POWERING YOUR FINANCIAL GROWTH

INDIA'S MOST ADMIRED BRANDS & LEADERS 2016

Tata Motors

Good show...but tread carefully ; Accumulate

Q2FY18 Result Update

November 09, 2017

Saksham Kaushal
sakshamkaushal@plindia.com
+91-22-66322235

Poorvi Banka
poorvibanka@plindia.com
+91-22-66322426

Rating	**Accumulate**
Price	Rs440
Target Price	Rs474
Implied Upside	7.7%
Sensex	33,251
Nifty	10,309

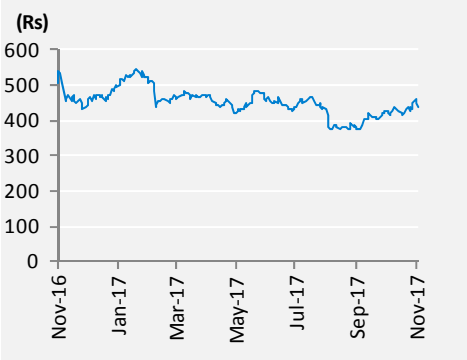
(Prices as on August 09, 2017)

Trading data	
Market Cap. (Rs bn)	1,495.2
Shares o/s (m)	3,395.9
3M Avg. Daily value (Rs m)	3683.6
Major shareholders	
Promoters	36.50%
Foreign	22.57%
Domestic Inst.	15.18%
Public & Other	25.75%

Stock Performance			
(%)	**1M**	**6M**	**12M**
Absolute	3.4	3.2	(17.6)
Relative	(1.0)	(7.9)	(39.6)

How we differ from Consensus			
EPS (Rs)	**PL**	**Cons.**	***% Diff.***
2018	32.3	28.4	*13.8*
2019	45.6	44.8	*1.7*

Price Performance (RIC:TAMO.BO, BB:TTMT IN)



Source: Bloomberg

Tata Motors reported a strong performance in Q2FY18. Consolidated adjusted profit surged 33.5% YoY to Rs24.3bn (above expectations). Standalone performance too saw significant improvement with operating margins coming in at ~7%; however, adjusted loss for the quarter stood at Rs2.2bn (fifth consecutive quarter for reported loss). Jaguar Land Rover's (JLR) operating performance too bettered expectations with an operating margin at 11.8%, higher 90bps YoY & 390bps QoQ and above our expectations of 10.5%. Adjusted profit for JLR in Q2FY18 was at GBP256mn.

In its outlook for JLR, the company has again mentioned that it is planning to achieve an 8-10% EBIT margin in the medium-term (~6% in FY17 & 5.2% in Q2FY18, we expect it to be 7% in FY19e) on the back of continued launch of new products and technologies to drive growth with greater operating leverage. However, management has also indicated that margin pressures seen in FY17 and historical seasonality of volume and profits by quarter will continue in FY18. Further ramp-up of recently launched models like *Range Rover Velar* and *Discovery,* hybrid refreshes of *Range Rover* & *Range Rover Sport* coming in Q4FY18 and other new launches planned in can provide additional volume traction for JLR over FY18-19, along with product mix improvement. While the management has highlighted a roadmap to improve the performance of the standalone entity, we expect it to sustain losses in the medium-term. We maintain "Accumulate" with a price target of Rs474 (no change).

- Tata Motors' consolidated revenues were higher 10.5% YoY to Rs701.6bn (PLe: Rs685.5bn). EBITDA margin was at 13.8%, higher 110bps YoY & 390bps QoQ (PLe: 9%), as EBITDA grew 20.8% YoY to Rs97bn. While gross margins were lower 240bps YoY (down 70bps QoQ), staff costs as a % of sales improved 40bps YoY and other expenses as a % of sales lowered 280bps YoY. Share of profit of associate/JVs was significantly higher at Rs5.1bn (v/s Rs2.7bn in Q2FY17). Consolidated adj. net profit for the quarter was up 33.5% YoY to Rs24.3bn.

Key financials (Y/e March)	**2016**	**2017**	**2018E**	**2019E**
Revenues (Rs m)	2,730,456	2,696,925	3,166,690	3,618,329
Growth (%)	*3.9*	*(1.2)*	*17.4*	*14.3*
EBITDA (Rs m)	417,763	369,124	403,331	489,764
PAT (Rs m)	143,531	102,499	109,740	154,747
EPS (Rs)	42.3	30.2	32.3	45.6
Growth (%)	*(14.9)*	*(28.6)*	*7.1*	*41.0*
Net DPS (Rs)	0.2	—	—	—

Profitability & Valuation	**2016**	**2017**	**2018E**	**2019E**
EBITDA margin (%)	*15.3*	*13.7*	*12.7*	*13.5*
RoE (%)	*21.2*	*15.0*	*16.7*	*19.1*
RoCE (%)	*13.3*	*9.6*	*10.0*	*12.1*
EV / sales (x)	0.7	0.7	0.6	0.5
EV / EBITDA (x)	4.3	5.1	4.9	4.0
PE (x)	10.4	14.6	13.6	9.7
P / BV (x)	1.9	2.6	2.0	1.7
Net dividend yield (%)	—	—	—	—

Source: Company Data; PL Research

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Exhibit 1: Q2FY18 Result Overview - Consolidated (Rs m)

Y/e March	Q2FY18	Q2FY17	YoY gr. (%)	Q1FY18	H1FY18	H1FY17	YoY gr. (%)
Net Revenues	**701,560**	**634,925**	***10.5***	**584,934**	**1,286,493**	**1,284,972**	***0.1***
Raw Materials	443,521	392,758	*12.9*	365,758	809,278	783,667	*3.3*
% of Net Sales	*63.2*	*61.9*		*62.5*	*62.9*	*61.0*	
Personnel	72,563	67,939	*6.8*	71,152	143,716	142,609	*0.8*
% of Net Sales	*10.3*	*10.7*		*12.2*	*11.2*	*11.1*	
Manufacturing & Other Exp	132,162	137,009	*(3.5)*	129,742	261,904	264,340	*(0.9)*
% of Net Sales	*18.8*	*21.6*		*22.2*	*20.4*	*20.6*	
Expenses capitalised	43,720	43,133	*1.4*	39,491	83,211	84,981	*(2.1)*
Total Expenditure	604,526	554,574	*9.0*	527,161	1,131,687	1,105,635	*2.4*
EBITDA	**97,033**	**80,351**	***20.8***	**57,773**	**154,806**	**179,338**	***(13.7)***
EBITDA Margin (%)	*13.8*	*12.7*		*9.9*	*12.0*	*14.0*	
Depreciation	57,349	51,959	*10.4*	53,370	110,719	106,179	*4.3*
EBIT	**39,684**	**28,392**	***39.8***	**4,403**	**44,087**	**73,159**	***(39.7)***
Interest Expenses	11,473	10,249	*12.0*	11,089	22,562	22,033	*2.4*
Non-operating income	1,888	1,794	*5.3*	1,541	3,429	3,530	*(2.9)*
Forex gain	715	272	*163.1*	6,313	7,027	(13,837)	*(150.8)*
Extraordinary Expenses	-	113	*NA*	-	-	113	*NA*
Extraordinary Income	-	3	*NA*	36,202	36,202	4,909	*637.5*
PBT	**30,814**	**20,099**	***53.3***	**37,370**	**68,184**	**45,613**	***49.5***
Tax-Total	10,898	4,246	*156.6*	12,074	22,972	11,447	*100.7*
Tax Rate (%) - Total	*35.4*	*21.1*	*67.4*	*32.3*	*33.7*	*25.1*	*34.3*
Reported PAT	**19,916**	**15,853**	***25.6***	**25,295**	**45,211**	**34,167**	***32.3***
Minority Interest	(4,912)	(2,537)	*93.6*	(6,527)	(11,439)	(6,587)	*73.7*
Profit after MI	**24,828**	**18,390**	***35.0***	**31,823**	**56,650**	**40,754**	***39.0***
Adj. PAT	**24,328**	**18,277**	***33.1***	**2,062**	**26,390**	**47,083**	***(44.0)***

Source: Company Data, PL Research

Standalone performance

- Volumes for the quarter grew 13.5% YoY, with the overall passenger vehicle segment growing 13% YoY, while the CV segment was higher ~26% YoY in Q2FY18, of which domestic M&HCV trucks growth was at ~28% YoY. Standalone revenues were higher 30% YoY to Rs134bn (realisations up by 14% YoY).
- EBITDA saw a strong 158% YoY to Rs9.7bn in Q2FY18. With significantly lower non-operating income and higher product development expenses, the adjusted loss stood at Rs2.2bn.
- The company has gained 170bps YoY and 390bps QoQ market share respectively, in the domestic CV segment. In the domestic PV space, its market share has remained flat YoY, inching up 20bps QoQ. The newly launched *Tata Nexon* has been received very well.
- The company has also won the ESSL tender for 10K electric cars in India in the quarter.

Exhibit 2: Q2FY18 Result Overview - Standalone (Rs m)

Y/e March	Q2FY18	Q2FY17	YoY gr. (%)	Q1FY18	H1FY18	H1FY17	YoY gr. (%)
Net Revenues	**134,001**	**103,225**	***29.8***	**90,943**	**224,944**	**206,122**	***9.1***
Raw Materials	98,204	74,225	*32.3*	64,202	162,406	143,090	*13.5*
% of Net Sales	*73.3*	*71.9*		*70.6*	*72.2*	*69.4*	
Personnel	8,854	8,817	*0.4*	8,886	17,740	17,806	*(0.4)*
% of Net Sales	*6.6*	*8.5*		*9.8*	*7.9*	*8.6*	
Manufacturing & Other Exp	19,011	18,875	*0.7*	19,913	38,925	39,688	*(1.9)*
% of Net Sales	*14.2*	*18.3*		*21.9*	*17.3*	*19.3*	
Expenses capitalised	1,778	2,453		2,089	3,867	4,921	
Total Expenditure	124,291	99,464	*25.0*	90,912	215,203	195,664	*10.0*
EBITDA	**9,710**	**3,761**	*158.2*	**31**	**9,741**	**10,458**	*(6.9)*
EBITDA Margin (%)	*7.2*	*3.6*		*0.0*	*4.3*	*5.1*	
Depreciation	8,618	7,885	*9.3*	7,500	16,118	16,169	*(0.3)*
EBIT	**1,092**	**(4,124)**	***NA***	**(7,469)**	**(6,378)**	**(5,711)**	***NA***
Interest Expenses	4,441	3,728	*19.1*	3,678	8,119	7,219	*12.5*
Non-operating income	1,419	1,460	*(2.8)*	6,399	7,818	7,706	*1.5*
Forex gain	(728)	799	*NA*	80	(649)	11	*NA*
Extraordinary Expenses	0	500	*(100.0)*	0	0	500	*(100.0)*
Extraordinary Income	0	3	*(100.0)*	0	0	3	*(100.0)*
PBT	**(2,659)**	**(6,089)**	***NA***	**(4,669)**	**(7,327)**	**(5,710)**	***NA***
Tax-Total	294	218	*34.7*	2	296	340	*(12.8)*
Tax Rate (%) - Total	*(11.1)*	*(3.6)*		*0.0*	*(4.0)*	*(5.9)*	
Reported PAT	**(2,953)**	**(6,308)**	***NA***	**(4,671)**	**(7,624)**	**(6,050)**	***NA***
Adj. PAT	**(2,370)**	**(6,630)**	***NA***	**(4,742)**	**(7,040)**	**(5,613)**	***NA***

Source: Company Data, PL Research

JLR performance

- JLR reported a 5.8% YoY growth in wholesale volumes at 131.3K units (excluding 22K units at China JV). Geography-wise, volumes were up a strong 19.8% in the UK, closely followed by 19% YoY growth in China, while volumes dipped 0.7% YoY in Europe and were down 8% YoY in North America. Q2FY18 revenues for JLR grew 11.5% YoY to GBP6.3bn.
- JLR's Q2FY18 EBITDA was at GBP746mn, up 21.3% YoY, with JLR's EBITDA margin coming in at 11.8%, up 90bps YoY & 390bps QoQ. Better volumes and product mix helped provide JLR with operating leverage.
- JLR's adjusted profit in Q2FY18 stood at GBP256mn, higher ~23.6% YoY.
- Recently launched Range Rover Velar continues to do very well with Q2 volumes at 16.4K units (against 1,732 units in Q1FY18).
- With hybrid refreshes coming in for *Range Rover* and *Range Rover Sport*, Q3 volumes are expected to be under pressure owing to the run out of old models while pick-up in volumes is expected again in Q4 (aided by seasonality).

- FY18 investment spending for JLR is expected to be ~GBP4–4.35bn, including investment in the new Slovakia plant.

  The company has reiterated its target of achieving 8-10% EBIT margins in the medium term (Q2FY18 EBIT margin at 5.2%).

Exhibit 3: Q1FY18 Result Overview - Jaguar Land Rover (£ m)

Y/e March	Q2FY18	Q2FY17	*YoY gr. (%)*	Q1FY18	H1FY18	H1FY17	*YoY gr. (%)*
Net Revenues	**6,322**	**5,668**	***11.5***	**5,599**	**11,921**	**11,023**	***8.1***
Raw Materials	4,001	3,487	*14.7*	3,565	7,566	6,728	*12.5*
% of Net Sales	*63.3*	*61.5*		*63.7*	*63.5*	*61.0*	
Personnel	662	585	*13.2*	656	1,318	1,190	*10.8*
% of Net Sales	*10.5*	*10.3*		*11.7*	*11.1*	*10.8*	
Manufacturing & Other Exp	1,323	1,352	*(2.1)*	1,291	2,614	2,511	*4.1*
% of Net Sales	*20.9*	*23.9*		*23.1*	*21.9*	*22.8*	
Expenses capitalised	410	371	*10.5*	355	765	693	*10.4*
Total Expenditure	5,576	5,053	*10.4*	5,157	10,733	9,736	*10.2*
EBITDA	**746**	**615**	***21.3***	**442**	**1,188**	**1,287**	***(7.7)***
EBITDA Margin (%)	*11.8*	*10.9*		*7.9*	*10.0*	*11.7*	
Depreciation	478	410	*16.6*	450	928	798	*16.3*
EBIT	**268**	**205**	***30.7***	**(8)**	**260**	**489**	***(46.8)***
Interest Expenses	13	7	*85.7*	12	25	19	*31.6*
Forex gain	69	50	*38.0*	100	169	81	*108.6*
Extraordinary Expenses	-	1	*NA*	-	-	1	*NA*
Extraordinary Income	-	-	*NA*	438	438	51	*758.8*
Chine JV profit	61	33	*84.8*	77	138	78	*76.9*
PBT	**385**	**280**	***37.5***	**595**	**980**	**679**	***44.3***
Tax-Total	77	36	*113.9*	123	200	131	*52.7*
Tax Rate (%) - Total	*20.0*	*12.9*	*55.6*	*20.7*	*20.4*	*19.3*	*5.8*
Reported PAT	**308**	**244**	*26.2*	**472**	**780**	**548**	***42.3***
Adj. PAT	**260**	**210**	***23.8***	**95**	**355**	**456**	***(22.2)***

Source: Company Data, PL Research

Income Statement (Rs m)

Y/e March	2016	2017	2018E	2019E
Net Revenue	**2,730,456**	**2,696,925**	**3,166,690**	**3,618,329**
Raw Material Expenses	1,633,830	1,658,942	1,953,396	2,235,792
Gross Profit	1,096,626	1,037,984	1,213,294	1,382,537
Employee Cost	288,809	283,329	316,669	361,833
Other Expenses	390,054	385,531	493,294	530,940
EBITDA	**417,763**	**369,124**	**403,331**	**489,764**
Depr. & Amortization	201,796	213,186	232,797	281,859
Net Interest	48,891	42,380	41,956	44,054
Other Income	8,854	7,545	7,923	7,527
Profit before Tax	**141,258**	**93,148**	**179,014**	**171,378**
Total Tax	30,251	32,512	55,670	55,992
Profit after Tax	**111,007**	**60,636**	**123,344**	**115,386**
Ex-Od items / Min. Int.	(20,974)	(12,003)	73,572	41,615
Adj. PAT	**143,531**	**102,499**	**109,740**	**154,747**
Avg. Shares O/S (m)	**3,395.9**	**3,396.1**	**3,396.1**	**3,396.1**
EPS (Rs.)	**42.3**	**30.2**	**32.3**	**45.6**

Balance Sheet Abstract (Rs m)

Y/e March	2016	2017	2018E	2019E
Shareholder's Funds	789,524	580,619	732,873	887,621
Total Debt	619,612	744,891	724,891	704,891
Other Liabilities	(5,347)	(40,258)	(40,258)	(40,258)
Total Liabilities	**1,403,789**	**1,285,252**	**1,417,506**	**1,552,254**
Net Fixed Assets	1,323,909	1,289,696	1,505,753	1,611,529
Goodwill	7,598	6,733	6,733	6,733
Investments	237,670	203,379	220,379	237,379
Net Current Assets	(165,388)	(214,557)	(315,359)	(303,387)
Cash & Equivalents	*304,604*	*360,779*	*245,961*	*246,215*
Other Current Assets	*743,934*	*820,426*	*937,853*	*1,046,364*
Current Liabilities	*1,213,927*	*1,395,762*	*1,499,173*	*1,595,966*
Other Assets	—	—	—	—
Total Assets	**1,403,789**	**1,285,252**	**1,417,506**	**1,552,254**

Cash Flow Abstract (Rs m)

Y/e March	2016	2017	2018E	2019E
C/F from Operations	561,034	82,956	377,150	431,309
C/F from Investing	(411,722)	(109,681)	(430,012)	(367,000)
C/F from Financing	(165,865)	82,900	(61,956)	(64,054)
Inc. / Dec. in Cash	(16,554)	56,175	(114,818)	254
Opening Cash	321,158	304,604	360,779	245,961
Closing Cash	304,604	360,779	245,961	246,215
FCFF	64,752	353,990	(121,478)	74,889
FCFE	(7,751)	479,269	(141,478)	54,889

Quarterly Financials (Rs m)

Y/e March	Q3FY17	Q4FY17	Q1FY18	Q2FY18
Net Revenue	**639,330**	**772,172**	**584,934**	**701,560**
EBITDA	**70,544**	**117,875**	**57,773**	**97,034**
% of revenue	*11.0*	*15.3*	*9.9*	*13.8*
Depr. & Amortization	50,441	56,566	53,370	57,349
Net Interest	8,707	11,640	11,089	11,473
Other Income	1,674	2,342	1,541	1,888
Profit before Tax	**5,986**	**51,402**	**37,370**	**30,814**
Total Tax	8,670	12,396	12,074	10,898
Profit after Tax	**938**	**42,705**	**31,823**	**24,828**
Adj. PAT	**8,023**	**43,314**	**(10,692)**	**24,113**

Key Financial Metrics

Y/e March	2016	2017	2018E	2019E
Growth				
Revenue (%)	3.9	(1.2)	17.4	14.3
EBITDA (%)	(4.9)	(11.6)	9.3	21.4
PAT (%)	(10.2)	(28.6)	7.1	41.0
EPS (%)	(14.9)	(28.6)	7.1	41.0
Profitability				
EBITDA Margin (%)	15.3	13.7	12.7	13.5
PAT Margin (%)	5.3	3.8	3.5	4.3
RoCE (%)	13.3	9.6	10.0	12.1
RoE (%)	21.2	15.0	16.7	19.1
Balance Sheet				
Net Debt : Equity	0.4	0.7	0.7	0.5
Net Wrkng Cap. (days)	(46)	(41)	(36)	(32)
Valuation				
PER (x)	10.4	14.6	13.6	9.7
P / B (x)	1.9	2.6	2.0	1.7
EV / EBITDA (x)	4.3	5.1	4.9	4.0
EV / Sales (x)	0.7	0.7	0.6	0.5
Earnings Quality				
Eff. Tax Rate	21.4	34.9	31.1	32.7
Other Inc / PBT	5.0	6.2	5.8	4.4
Eff. Depr. Rate (%)	10.2	10.4	9.3	9.9
FCFE / PAT	(5.4)	467.6	(128.9)	35.5

Source: Company Data, PL Research.

Key Operating Metrics

Y/e March	2016	2017	2018E	2019E
Standalone M&HCV sales (units)	176,493	175,262	185,436	208,300
Standalone LCV sales (units)	204,741	209,767	229,054	263,573
Standalone PC sales (units)	111,072	137,096	153,496	161,313
Standalone UV sales (units)	19,406	20,198	20,198	20,198
Total standalone sales (units)	511,712	542,323	588,183	653,384
Standalone EBITDA margin (%)	7.9	3.8	5.0	6.0
Jaguar volume (units)	102,106	178,751	231,208	262,153
Land Rover volume (units)	429,447	422,055	475,358	528,720
Total JLR volume (units)	531,553	600,806	706,566	790,873
JLR EBITDA margin - IFRS (%)	14.2	12.1	12.0	13.5

Source: Company Data, PL Research.

Prabhudas Lilladher Pvt. Ltd.

3rd Floor, Sadhana House, 570, P. B. Marg, Worli, Mumbai-400 018, India

Tel: (91 22) 6632 2222 Fax: (91 22) 6632 2209

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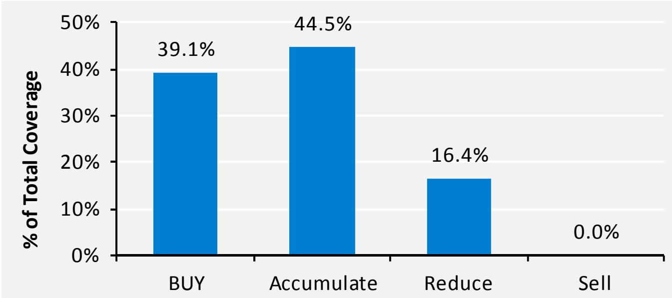

PL's Recommendation Nomenclature

BUY	:	Over 15% Outperformance to Sensex over 12-months
Accumulate	:	Outperformance to Sensex over 12-months
Reduce	:	Underperformance to Sensex over 12-months
Sell	:	Over 15% underperformance to Sensex over 12-months
Trading Buy	:	Over 10% absolute upside in 1-month
Trading Sell	:	Over 10% absolute decline in 1-month
Not Rated (NR)	:	No specific call on the stock
Under Review (UR)	:	Rating likely to change shortly

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