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Q4FY20 result review
and earnings revision

Automobiles

Target price: Rs126

Earnings revision

(%)	FY21E	FY22E
Sales	↓ 25.0	↓ 15.7
EBITDA	↓ 39.4	↓ 17.7
EPS	↓ NC	↓ 66.0

Target price revision

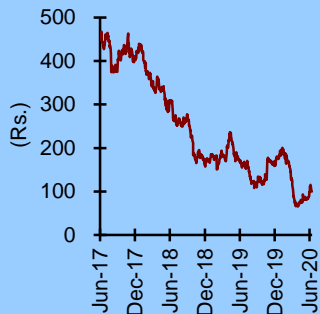
Rs126 from Rs175

Shareholding pattern

	Sep '19	Dec '19	Mar '20
Promoters	38.4	42.4	42.4
Institutional investors	34.5	33.2	30.3
MFs and others	8.1	7.3	6.2
FIs/Banks	0.3	0.2	0.3
Insurance Co	7.1	7.4	6.9
FII	19.0	18.3	16.9
Others	27.1	24.4	27.4

Source: NSE

Price chart



INDIA

Tata Motors

BUY

Maintained

Cost and Capex reduction to aid FCF rebound

Rs101

Tata Motors' (TTMT) Q4FY20 performance was a miss on consensus estimates as EBIT margins at JLR slid into negative zone at -4.6% primarily impacted by Covid (pre-Covid JLR was on course to notch ~6% EBIT margin). Nonetheless Covid has made JLR management lay out an aggressive cash improvement program for FY21: 1) 40% lower capex at GBP2.5bn, and 2) *Project Charge+* to create more savings (target of GBP1.5bn). The other cash drain- *Domestic PV business* has also witnessed significant impairment (~Rs25.7bn) and with its 'subsidiarisation' TTMT poised to identify a partner OEM, which is likely to reduce incremental capital burden, overall losses from FY22. The core business in India remains in a difficult spot both for PV's and CV's. However, JLR has visible demand green shoots (China) with the improving profitability and reduced capital investments; together these could alleviate investor worries. **Maintain BUY.**

- ▶ **Key highlights of the quarter:** Standalone revenues declined ~48% YoY to Rs97.3bn while JLR revenues declined 24% to ~GBP5.4bn. JLR's EBITDA margin dropped 500bps to 4.8% due to weaker product mix even as variable market expenses >300bps(Covid impact, residual value drop in fleet sales in USA). Project Charge+ has delivered GBP0.6bn in savings for Q4FY20 leading to GBP2.2bn/GBP0.8bn in cash/PBT savings for FY20. JLR's FCF for Q4FY20 was still positive at GBP225mn (Adjusting for Covid Q4FY20/FY20 would be- GBP992mn / GBP65mn).
- ▶ **Key takeaways from concall:** Management indicated : a) JLR lost opportunity to retail ~40k vehicles globally; China has bounced back with a V-shaped recovery; *Evoque* (up 25% YoY) and *New Defender 110* (>22k bookings) is expected to aid both volumes and profitability improvement; b) JLR has received employee furlough benefits of ~GBP50mn per month (GBP 2.4k/employee) for its 20k employees in Q1FY21; c)residual value hit for fleet auctions in USA was ~USD 78mn and this is turning normal now and d) Q1FY20 could witness negative FCF for JLR/India business of ~<GBP2bn/Rs50bn; capex for India business has been cut to Rs15bn.
- ▶ **Maintain BUY:** JLR delivered higher than expected savings (GBP2.2bn in FY20); however, one-time Covid impact ate into these sustainable gains. We believe JLR's management on target neutral on cash burn soon is ambitious. Continued delivery on these cost savings targets coupled with prudent capital allocation could drive valuations higher. Improved visibility of underlying JLR profitability/cash flow improvement lends us to upgrade our target multiple to 2.5x (earlier: 2.0x), we maintain **BUY** with an revised SoTP-based target price of Rs126 (earlier: Rs175).

Market Cap	Rs332bn/US\$4.4bn	Year to Mar	FY19	FY20P	FY21E	FY22E
Reuters/Bloomberg	TAMO.BO/TTMT IN	Revenue (Rs bn)	3,022	2,611	2,368	2,958
Shares Outstanding* (mn)	3,089.0	Net Profit (Rs bn)	(288)	(121)	(98)	31
52-week Range (Rs)	200/65	EPS (Rs)	(80.1)	2.1	(27.3)	8.7
Free Float (%)	62.6	% Chg YoY	NC	NC	NC	NC
FII (%)	16.9	P/E (x)	43.9	NC	NC	11.6
Daily Volume (US\$/'000)	98,074	CEPS (Rs)	(14.6)	26.0	38.8	80.9
Absolute Return 3m (%)	12.0	EV/E (x)	2.7	4.2	4.4	2.4
Absolute Return 12m (%)	(38.8)	Dividend Yield (%)	-	-	-	-
Sensex Return 3m (%)	(2.3)	RoCE (%)	3.7	0.4	(0.7)	7.8
Sensex Return 12m (%)	(14.9)	RoE (%)	(47.9)	(19.1)	(18.3)	5.3

Please refer to important disclosures at the end of this report

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Table 1: Q4FY20 result review (consolidated)*(Rs mn, year ending March 31)*

	Q4FY20	Q4FY19	YoY (%)	Q3FY20	QoQ (%)
Total operating income	624,930	864,220	-27.7	716,761	-12.8
Raw material costs	408,096	571,461	-28.6	464,184	-12.1
Employee costs	76,987	79,994	-3.8	77,373	-0.5
Other expenditures	120,072	117,540	2.2	91,174	31.7
Total operating expenses	605,156	768,995	-21.3	632,731	-4.4
EBITDA	19,774	95,225	-79.2	84,030	-76.5
Adjusted EBITDA	36,598	90,922	-59.7	82,058	-55.4
Adj. EBITDA margin (%)	5.9	10.5	-466 bps	11.4	-559 bps
Depreciation & Amortisation	58,149	53,531	8.6	51,993	11.8
Other income	5,645	8,636	-34.6	9,001	-37.3
Interest costs	19,528	15,880	23.0	17,436	12.0
Product Dev. Exp.	12,865	10,729	19.9	10,093	27.5
PBT	-65,123	23,722	NC	13,510	NC
Taxes	3,583	1,115	221.5	-6,046	NC
PAT before MI, PA and Excep.	-68,706	22,607	NC	19,556	NC
Minority Interests	305	-88	NC	176	73.5
Profit from Associates	-1,925	-448	NC	-1,986	NC
Less: Exceptional Items	28,007	11,072	152.9	11	NC
Reported PAT	-98,943	11,175	NC	17,383	NC

Source: Company data, I-Sec research

Table 2: Q4FY20 result review (standalone)*(Rs mn, year ending March 31)*

	Q4FY20	Q4FY19	YoY (%)	Q3FY20	QoQ (%)
Total operating income	97,329	185,614	-47.6	108,429	-10.2
Raw material costs	74,591	138,091	-46.0	80,417	-7.2
Employee costs	11,496	11,347	1.3	10,183	12.9
Other expenditures	17,696	21,856	-19.0	16,166	9.5
Total operating expenses	103,783	171,294	-39.4	106,766	-2.8
EBITDA	-6,454	14,321	NC	1,663	NC
Adjusted EBITDA	-4,253	13,543	NC	1,532	NC
Adj. EBITDA margin (%)	-4.4	7.3	-1167 bps	1.4	-578 bps
Depreciation & Amortisation	9,841	8,726	12.8	8,535	15.3
Other income	2,689	4,198	-35.9	3,515	-23.5
Interest costs	5,571	3,891	43.1	4,785	16.4
Product Dev. Exp.	2,974	2,429	22.4	2,058	44.5
PBT	-22,151	3,472	NC	-10,200	NC
Taxes	852	1,593	-46.5	157	444.2
PAT before Exceptionals	-23,003	1,879	NC	-10,356	NC
Less: Exceptional Items	25,708	817	3,048.1	39	65,986.6
PAT	-48,711	1,062	NC	-10,395	NC

Source: Company data, I-Sec research

Table 3: Q4FY20 result review (JLR)*(GBP mn, year ending March 31)*

	Q4FY20	Q4FY19	YoY (%)	Q3FY20	QoQ (%)
Total operating income	5,426	7,134	-23.9	6,398	-15.2
EBITDA	259	696	-62.8	688	-62.4
EBITDA margin (%)	4.8	9.8	-498 bps	10.8	-598 bps
EBIT	-251	217	NC	210	NC
EBIT margin(%)	-4.6	3.0	-767 bps	3.3	-791 bps
PAT	-519	133	-490.2	397	-230.7
Profit from China JV	-20	-14	42.9	-25	-20.0
Net PAT	-539	119	-552.9	372	-244.9

Source: Company data, I-Sec research

Table 4: Key assumptions

	FY17	FY18	FY19	FY20	FY21E	FY22E
Jaguar Land Rover wholesales (units)	534,774	545,298	508,635	477,266	411,006	495,965
Jaguar wholesales (units)	169,312	150,288	155,702	127,134	97,584	112,359
Land Rover wholesales (units)	365,462	395,010	352,933	350,132	313,421	383,605
JLR Revenues (GBP mn)	24,339	25,786	24,214	22,984	19,607	24,034
JLR EBITDA margin (%)	12.1%	10.8%	8.2%	8.7%	9.3%	12.1%
JLR PAT (ex-China JV) (GBP mn)	1,113	881	(3,324)	(355)	(295)	452
JLR product development expenses capitalised (GBP mn)	1,426	1,610	1,576	1,369	1,336	1,481
JLR Capex (GBP mn)	3,036	4,216	3,810	3,984	2,524	3,034
Avg ASP/vehicle (GBP)	45,513	47,288	47,606	48,158	47,705	48,459
RM/Unit (GBP)	28,257	29,943	30,808	30,767	30,166	30,424
China JV						
Volumes	66,060	90,113	56,331	48,975	44,095	51,988
Revenues (GBP mn)	2,173	2,773	1,713	1,297	1,274	1,545
PAT (GBP mn)	271	546	0	(224)	(60)	43
India	544,032	639,052	731,941	471,932	358,888	424,058
M&HCV (units)	177,868	191,319	224,940	128,033	94,620	114,052
LCV (units)	208,870	258,374	294,837	210,212	155,501	182,317
PV (units)	157,294	189,360	212,164	133,688	108,766	127,689
Revenue (Rs bn)	443	588	692	439	371	441
EBITDA margin (%)	4.7%	6.4%	8.0%	0.4%	1.4%	7.3%
Adj. PAT (Rs bn)	(21)	(1)	23	(48)	(42)	(18)

Source: Company data, I-Sec research

Table 5: JLR's EBIT margins to recover as capex intensity peaks out

	FY17	FY18	FY19	FY20	FY21E	FY22E
Revenues	24,339	25,786	24,214	22,984	19,607	24,034
EBIT (Including China JV Profit)	1,435	995	(177)	(24)	(201)	797
EBIT Margin (%)	5.9	3.9	-0.7	-0.1	-1.0	3.3
EBIT (ex-China JV profit)	1276	743	-180	90	-171	775
EBIT Margin (%)	5.2	2.9	-0.7	0.4	-0.9	3.2
Capex	3,415	4,186	3,810	3,984	2,524	3,034
Capex/Revenues (x)	14.0	16.2	15.7	17.3	12.9	12.6

Source: Company data, I-Sec research *reported as per company

Table 6: Estimates revision (consolidated)*(Rs mn, year ending March 31)*

	FY21E			FY22E		
	Previous	New	Chg (%)	Previous	New	Chg (%)
Sales	3,158,455	2,367,630	(25.0)	3,508,416	2,958,061	(15.7)
EBITDA	373,632	226,553	(39.4)	479,884	394,939	(17.7)
PAT	31,787	(98,392)	NC	91,957	31,251	(66.0)
EPS (Rs)	8.8	(27.3)	NC	25.6	8.7	(66.0)

Source: I-Sec research

Valuations

JLR delivered higher than expected savings (GBP2.2bn in FY20) and is likely to achieve its FY21 savings target of GBP5bn. With the significant reduction in cash burn, expectations now revolve around growth rebound prospects in key markets (especially China). Continued delivery on cost savings with judicious capital allocation along with improvement in China JV, could boost investor sentiment. Improved visibility of underlying JLR profitability/cash flow improvement lends us to upgrade our target multiple to 2.5x (earlier: 2.0x), we maintain our **BUY** rating on the stock with an revised SoTP-based target price of Rs126 (earlier: Rs175).

Table 7: Valuation by SoTP methodology

Particulars (Rs bn)	Parameters (FY22E)	Basis	Multiple	Per Share
Standalone business	EV/EBITDA	32	7.0	62
	Net debt			42
	Equity Value			21
JLR	EV/EBITDA	236	2.5	164
	Net debt			80
	Equity Value			84
China JV @50% stake	EPS	0.6	8.0	5
<i>Subsidiary valuation</i>				
Tata Motor Finance	BV	8.5	1.0	9
Tata Technologies	EPS	1.3	12.0	16
Value of key subsidiaries				24
Value post discount	Holding co discount @ 30%			17
Total value per share				126

Source: I-Sec research

Financial summary (consolidated)

Table 8: Profit and loss statement
(Rs mn, year ending March 31)

	FY19	FY20P	FY21E	FY22E
Total Op. Income (Sales)	3,022,360	2,610,685	2,367,630	2,958,061
<i>of which JLR</i>	<i>2,209,404</i>	<i>2,051,908</i>	<i>230,903</i>	<i>418,587</i>
Operating Expenses	2,730,495	2,388,924	2,141,077	2,563,122
EBITDA	291,866	221,760	226,553	394,939
<i>% margins</i>	<i>9.7%</i>	<i>8.5%</i>	<i>9.6%</i>	<i>13.4%</i>
Depreciation & Amortisation	235,906	214,254	238,016	259,893
EBIT	55,959	7,506	(11,463)	135,046
Other Income	26,677	29,732	23,809	27,380
Gross Interest	57,586	72,433	76,470	73,226
PBT	25,050	(35,196)	(64,124)	89,200
Less: Product development expenditure	42,246	41,885	43,463	49,590
PBT after prod. dev. exp.	(17,196)	(77,081)	(107,588)	39,611
Less: Taxes	(24,375)	3,953	(13,082)	9,373
Less: Minority Interest	1,020	956	1,019	1,120
Add: Profit from Associates	2,095	(10,000)	(2,867)	2,133
Less: Exceptionals	296,516	28,714	-	-
Net Income (Reported)	(288,262)	(120,704)	(98,392)	31,251
Net Income (Adjusted)	8,253	(91,989)	(98,392)	31,251

Source: Company data, I-Sec research

Table 9: Balance sheet
(Rs mn, year ending March 31)

	FY19	FY20P	FY21E	FY22E
ASSETS				
Current Assets	1,140,079	1,079,391	903,827	1,194,444
<i>Cash & cash eqv.</i>	<i>331,020</i>	<i>332,776</i>	<i>286,966</i>	<i>398,232</i>
Current Liabilities & Provisions	914,339	856,932	734,921	937,492
Net Current Assets	225,741	222,459	168,906	256,952
Investments	157,707	163,085	163,085	163,085
Goodwill	7,479	7,771	7,771	7,771
Net Fixed Assets	1,419,204	1,624,019	1,642,330	1,670,805
<i>Capital Work-in-Progress</i>	<i>318,838</i>	<i>356,223</i>	<i>356,223</i>	<i>356,223</i>
Long term loans & advances	252,898	223,661	229,661	235,661
Deferred Tax Assets	65,222	69,472	69,472	69,472
Other non-current asset	29,387	53,816	53,816	53,816
Total Assets	2,157,633	2,364,277	2,335,035	2,457,555
LIABILITIES				
Borrowings	580,392	723,776	804,586	728,320
<i>long-term borrowings</i>	<i>709,737</i>	<i>884,785</i>	<i>904,785</i>	<i>924,785</i>
<i>short-term borrowings</i>	<i>201,676</i>	<i>171,767</i>	<i>186,767</i>	<i>201,767</i>
Long-term provisions	118,549	147,367	177,367	207,367
Deferred Tax Liability	25,087	29,820	29,820	29,820
Other Non-current Liabilities	495,533	491,620	491,620	491,620
Minority Interest	5,231	8,136	8,386	8,634
Equity Share Capital	6,792	7,195	7,195	7,195
Reserves & Surplus	595,031	623,587	529,095	586,367
Net Worth	601,823	630,783	536,291	593,562
Total Liabilities	2,157,633	2,364,277	2,335,035	2,457,555

Source: Company data, I-Sec research

Table 10: Cashflow statement
(Rs mn, year ending March 31)

	FY19	FY20P	FY21E	FY22E
Cashflow before working capital changes	(52,356)	93,551	139,624	291,145
Working Capital Changes	3,336	5,038	7,743	23,221
Operating Cashflow	(49,020)	98,588	147,367	314,365
Capital Commitments	(41,797)	(419,069)	(275,000)	(295,000)
Free Cashflow	(90,816)	(320,481)	(127,633)	19,365
Cashflow from Investing Activities	(59,229)	(391,636)	(232,077)	(264,119)
Issue of Share Capital	-	403	-	-
Inc/(Dec) in securities premium	-	-	-	26,020
Inc/(Dec) in Borrowings	-	-	-	-
Dividend paid	123,469	145,140	35,000	35,000
Others	-	-	-	-
Cashflow from Financing Activities	(117,400)	149,260	3,900	-
Net Cashflow	6,069	294,803	38,900	61,020
Cash & Bank balance	(102,179)	1,756	(45,810)	111,266

Source: Company data, I-Sec research

Table 11: Key ratios
(Year ending March 31)

	FY19	FY20P	FY21E	FY22E
Per Share Data (in Rs.)				
EPS (Basic)	(80.1)	(33.6)	(27.3)	8.7
EPS (Adjusted)	2.3	(25.6)	(27.3)	8.7
Cash EPS	(14.6)	26.0	38.8	80.9
Dividend per share (DPS)	-	-	-	-
BVPS (Adjusted)	167.3	175.3	192.7	192.7
Growth Ratios (%)				
Total Op. Income (Sales)	1.8	(13.6)	(9.3)	24.9
EBITDA	(27.8)	(24.0)	2.2	74.3
Net Income (Adjusted)	NC	NC	NC	(131.8)
EPS (Adjusted)	NC	NC	NC	(131.8)
Cash EPS	NC	NC	NC	108.5
BVPS (Adjusted)	NC	NC	NC	-
Valuation Ratios (x)				
P/E (Adjusted)	43.9	NC	-	11.6
P/BV (Adjusted)	0.6	0.6	0.5	0.5
EV/EBITDA	2.7	4.2	4.4	2.4
EV/Sales	0.3	0.4	0.4	0.3
Return/Profitability Ratios (%)				
EBITDA Margin	9.7	8.5	9.6	13.4
Net Income Margin (Adjusted)	0.3	(3.5)	(25.3)	(8.0)
RoCE	3.7	0.4	(0.7)	7.8
RoNW	(47.9)	(19.1)	(18.3)	5.3
Dividend Payout Ratio	-	-	-	-
Dividend Yield	-	-	-	-
Solvency/Wkg. Cap. Ratios (x)				
Net D/E	0.8	1.0	1.3	1.0
Debt/EBITDA	3.1	4.8	4.8	2.9
Current Ratio	1.2	1.3	1.2	1.3
Quick Ratio	0.9	0.9	0.8	0.8
Inventory (days)	50	54	52	41
Receivables (days)	37	36	36	34
Payables (days)	87	94	89	92

Source: Company data, I-Sec research

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