

Deleveraging intent fuels optimism...

Media reports suggest that the top management of Tata Motors (TML) at its recent AGM expressed an **intent to reduce automotive debt (~₹ 48,000 crore as of FY20) to near zero levels in the next three years**. This follows the recent guidance of turning JLR, Indian operations sustainably FCF positive (from FY22E, FY21E respectively). While the intent is encouraging, we remain slightly circumspect about the deleveraging timeline, given that positive FCF from FY22E will continue to be accompanied by critical capex for new product development and new age technologies i.e. ACES. **As per our estimates, complete automobile segment deleveraging could happen sometime in FY24E-25E**, provided - (i) Indian and JLR operations do not disappoint on the volume or operating matrix front and (ii) the global business remains buoyant during this time. **We await greater detail about the proposed deleveraging plan. However, the intent of creating shareholder value through meaningful debt reduction as well as the strong response to new model launches at TML makes us turn positive on the stock.** We raise our valuation multiples for various businesses at TML and, thereby, upgrade our rating and target price on the stock in view of B/S strengthening commitment and recovery in volumes post Covid-19.

Consolidated debt to peak in FY21E; new model launches received well

We expect consolidated net debt to peak out in FY21E at ~₹ 84,000 crore. TML's faster than promised progress on Project Charge+ thus far (lifetime cost, cash saving of ₹4.7 billion), raising planned target to ₹6 billion indicates execution confidence and is a cornerstone of deleveraging intent (**Exhibits 1, 2**). It has also put in place a ₹ 6,000 crore savings programme in India (₹ 1,020 crore delivered by Q1FY21). On product side, latest JLR offering Defender is getting a healthy response (~30,000 order book, China deliveries only commenced in July) while Indian PV segment also got a boost via new Altroz, BS-VI Nexon & Tiago, Harrier (market share jumped sharply to 9.5% in Q1FY21 from 4.8% as of FY20). JLR's electrification drive is set to continue, with the company planning to introduce four new plug-in hybrid EVs and six new mild hybrid EVs in the rest of FY21E.

Valuation & Outlook

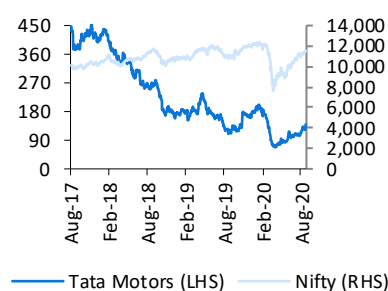
We derive comfort from consistent promoter backing to TML (infusion of ₹ 6,500 crore at a price of ₹ 150) through preferential allotment of equity shares and warrants. We upgrade the stock from HOLD to **BUY**, valuing it at ₹ 160/share on SOTP basis (12x EV/EBITDA to domestic business, 4.2x EV/EBITDA to JLR on FY22E numbers & 1x P/B to its other long-term investments). The key risks to our call are (i) second wave of Covid, which could dampen business sentiments, (ii) dilution of future competitiveness amid reducing capex intensity and (iii) muted Q2FY21E results given inventory correction at JLR (expectation of loss at JLR).



Particulars

Particular	₹ crore
Market Capitalization	50,368
Total Debt (FY 20)	1,18,811
Cash and Investments (FY 20)	44,576
EV (FY 20)	1,24,602
52 week H/L (₹)	202 / 64
Equity capital (₹ crore)	719.5
Face value (₹)	2.0

Price chart



Research Analyst

Shashank Kanodia, CFA
shashank.kanodia@icicisecurities.com

Jaimin Desai
jaimin.desai@icicisecurities.com

Key Financial Summary

Key Financials	FY18	FY19	FY20	FY21E	FY22E	CAGR (FY20-22E)
Net Sales	2,94,619.2	3,01,938.4	2,61,068.0	2,46,335.6	2,84,834.2	4.5%
EBITDA	38,058.3	29,794.8	23,914.1	24,689.2	35,806.3	22.4%
EBITDA Margins (%)	12.9	9.9	9.2	10.0	12.6	
Net Profit	9,091.4	(28,724.2)	(11,975.4)	(9,571.9)	2,689.0	NM
EPS (₹)	25.3	(79.8)	(33.3)	(25.0)	7.0	
P/E	5.5	(1.8)	(4.2)	(5.6)	19.9	
RoNW (%)	9.5	(47.3)	(18.7)	(16.8)	4.5	
RoCE (%)	8.6	3.7	1.3	1.1	6.7	

Source: Company, ICICI Direct Research

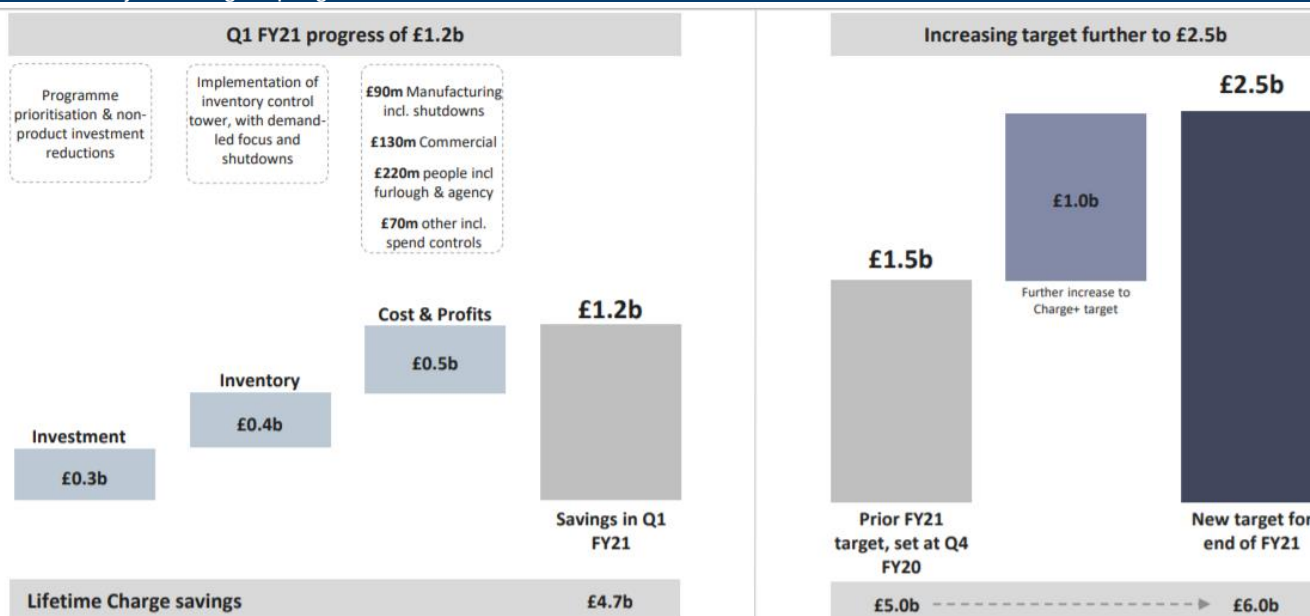
Story in charts

Exhibit 1: Deleveraging actions at JLR and in India

Jaguar Land Rover		India Business	
Area	Comment	Area	Comment
Charge+	Targets enhanced further to £6B	Cost, Cash	FY21: On track to deliver Rs 6000Cr
Capex	FY21: £2.5B	Capex	FY21: Rs 1500Cr
FCF	JLR to be FCF positive from FY22	FCF	TML to be FCF positive from FY21

Source: Company, ICICI Direct Research

Exhibit 2: Project Charge+ progress



Source: Company, ICICI Direct Research

Exhibit 3: India cost saving programme details

₹ Cr	Secure Cost		Q1 FY21 Comments
	Target FY21	Actual Q1'21	
Investment	3,000	480	Rs 1500Cr for the year secured. Investment prioritisation and controls in place
Working Capital	1,500	-	Working capital savings to start from Q2 onwards
Cost & Profits	1,500	540	Employee costs, Marketing, Manufacturing, Discretionary and Others
Total Cash Saving	6,000	1,020	

Source: Company, ICICI Direct Research

Exhibit 4: Valuation Summary

	Sales	Growth	EPS	Growth	PE	EV/EBITDA	RoNW	RoCE
	(₹ cr)	(%)	(₹)	(%)	(x)	(x)	(%)	(%)
FY 18	2,94,619	9.2	25.3	20.3	5.5	2.4	9.5	8.6
FY 19	3,01,938	2.5	(79.8)	NA	NM	3.8	-47.3	3.7
FY 20	2,61,068	-13.5	(33.3)	NA	NM	5.2	-18.7	1.3
FY 21E	2,46,336	-5.6	(25.0)	NA	NM	5.5	-16.8	1.1
FY 22E	2,84,834	15.6	7.0	NA	19.9	3.6	4.5	6.7

Source: Company, ICICI Direct Research

Exhibit 5: SOTP Valuation

Particulars	Parameters	EBITDA	Multiple	Per Share Equity Value
Tata Motors Core business	FY 22E EV/EBITDA	2,663	12.0	40
JLR	FY 22E Adj EV/EBITDA	25,505	4.2	115
Other Investments	1x P/B on FY 20	2,047	1.0	5
Total value per share				160

Source: Company, ICICI Direct Research

Exhibit 6: Shareholding pattern

(in %)	Jun-19	Sep-19	Dec-19	Mar-20	Jun-20
Promoter	38.4	38.4	41.7	42.4	42.4
FII	23.1	19.0	18.3	16.8	15.6
DII	12.3	15.5	14.9	13.5	13.2
Others	26.2	17.1	25.1	27.3	28.8

Source: Company, ICICI Direct Research

Financial Summary

Exhibit 7: Profit and loss statement				
	₹ crore			
(Year-end March)	FY19	FY20	FY21E	FY22E
Total operating Income	3,01,938	2,61,068	2,46,336	2,84,834
Growth (%)	2.5	-13.5	-5.6	15.6
Raw Material Expenses	1,96,321	1,67,131	1,59,192	1,82,623
Employee Expenses	33,244	30,439	27,569	29,880
Marketing Expenses	62,238	57,087	51,624	55,040
Capitalised Expenses	-19,660	-17,503	-16,739	-18,514
Total Operating Expenditure	2,72,144	2,37,154	2,21,646	2,49,028
EBITDA	29,795	23,914	24,689	35,806
Growth (%)	-21.7	-19.7	3.2	45.0
Product development Expenses	4225	4189	4225	4224
Depreciation	23591	21425	22663	23356
Interest	5759	7243	7723	7579
Other Income	2965	2973	2463	2652
PBT	2,505	(3,520)	(4,103)	6,610
Minority Interest	0	0	0	0
Total Tax	-2437	395	1772	477
Reported PAT	(28,724)	(11,975)	(9,572)	2,689
Growth (%)	-416.0	-58.3	-20.1	-128.1
EPS (₹)	(84.6)	(33.3)	(25.0)	7.0

Source: Company, ICICI Direct Research

Exhibit 8: Cash flow statement				
	₹ crore			
(Year-end March)	FY19	FY20	FY21E	FY22E
Profit after Tax	(28,724.2)	(11,975.4)	(9,571.9)	2,689.0
Add: Depreciation	23,591	21,425	22,663	23,356
(Inc)/dec in Current Assets	4,945	6,254	7,335	-7,854
(Inc)/dec in CL and Provisions	-5,213	-6,111	-4,902	15,077
Others	33,597	11,743	7,723	7,579
CF from operating activities	28,196	21,336	23,246	40,847
(Inc)/dec in Investments	0	0	0	0
(Inc)/dec in Fixed Assets	-32,468	-41,007	-26,000	-30,000
Others	-2,633	4,692	-1,502	367
CF from investing activities	(35,101)	(36,315)	(27,502)	(29,633)
Issue/(Buy back) of Equity	0	40	46	0
(Inc)/dec in loan funds	17,225	12,635	9,500	-4,000
Dividend paid & dividend tax	0	0	0	0
(Inc)/dec in Sec. premium	0	2,984	3,424	0
Others (incl finance costs)	-12,273	397	-8,590	-7,579
CF from financing activities	4,952	16,057	4,380	(11,579)
Net Cash flow	-1,953	1,078	124	-364
Opening Cash	34,602	32,649	33,727	33,851
Closing Cash	32,649	33,727	33,851	33,487

Source: Company, ICICI Direct Research

Exhibit 9: Balance Sheet				
	₹ crore			
(Year-end March)	FY19	FY20	FY21E	FY22E
Liabilities				
Equity Capital	679	720	766	766
Reserve and Surplus	59,500	61,492	55,343	58,032
Others	523	1,681	814	814
Total Shareholders funds	60,703	63,892	56,923	59,612
Total Debt	1,06,175	1,18,811	1,28,311	1,24,311
Deferred Tax Liability	1,491	1,942	1,832	2,119
Long term provisions	11855	14737	13905	16078
Minority Interest / Others	16,715	18,595	17,546	20,288
Total Liabilities	1,96,939	2,17,976	2,18,516	2,22,407
Assets				
Gross Block	2,74,314	3,11,583	3,42,583	3,77,583
Less: Acc Depreciation	1,63,827	1,85,252	2,07,915	2,31,272
Net Block	1,10,487	1,26,330	1,34,667	1,46,311
Capital WIP	31,884	35,622	30,622	25,622
Total Fixed Assets	1,42,370	1,61,952	1,65,289	1,71,933
Investments	15,771	16,308	15,808	17,058
Inventory	39,014	37,457	31,720	36,677
Debtors	18,996	11,173	10,798	12,486
Loans and Advances	1,269	935	882	1,020
Other Current Assets	1,13,901	1,08,726	1,01,515	1,09,005
Cash	32,649	33,727	33,851	33,487
Total Current Assets	1,13,901	1,08,726	1,01,515	1,09,005
Creditors	68,514	63,627	60,740	70,233
Provisions	10,197	10,329	9,860	11,401
Total Current Liabilities	1,10,256	1,04,145	99,243	1,14,320
Net Current Assets	3,645	4,581	2,273	(5,315)
Deferred Tax Asset	5,151	5,458	5,150	5,955
Application of Funds	1,96,939	2,17,976	2,18,516	2,22,407

Source: Company, ICICI Direct Research

Exhibit 10: Key ratios				
(Year-end March)	FY19	FY20	FY21E	FY22E
Per share data (₹)				
EPS	-79.8	-33.3	-25.0	7.0
Cash EPS	-14.3	26.3	34.2	68.0
BV	168.7	177.6	148.7	155.7
DPS	0.0	0.0	0.0	0.0
Cash Per Share	117.2	123.9	114.8	116.5
Operating Ratios				
EBITDA Margin (%)	9.9	9.2	10.0	12.6
PBT / Net sales (%)	2.1	1.0	0.8	4.4
PAT Margin (%)	-9.5	-4.6	-3.9	0.9
Inventory days	47.2	52.4	47.0	47.0
Debtor days	23.0	15.6	16.0	16.0
Creditor days	82.8	89.0	90.0	90.0
Return Ratios (%)				
RoE	-47.3	-18.7	-16.8	4.5
RoCE	3.7	1.3	1.1	6.7
RoIC	8.5	2.9	2.2	12.8
Valuation Ratios (x)				
P/E (adjusted)	11.7	NM	NM	7.9
EV / EBITDA	3.8	5.2	5.5	3.6
EV / Net Sales	0.4	0.5	0.5	0.5
Market Cap / Sales	0.2	0.2	0.2	0.2
Price to Book Value	0.8	0.8	0.9	0.9
Solvency Ratios				
Debt/EBITDA	3.6	5.0	5.2	3.5
Debt / Equity	1.7	1.9	2.3	2.1
Current Ratio	0.6	0.6	0.6	0.6
Quick Ratio	0.3	0.2	0.2	0.2

Source: Company, ICICI Direct Research

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Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



Pankaj Pandey

Head – Research

pankaj.pandey@icicisecurities.com

**ICICI Direct Research Desk,
ICICI Securities Limited,
1st Floor, Akruiti Trade Centre,
Road No 7, MIDC,
Andheri (East)
Mumbai – 400 093
research@icicidirect.com**

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