



3R MATRIX

	+	=	-
Right Sector (RS)	✓	■	■
Right Quality (RQ)	✓	■	■
Right Valuation (RV)	✓	■	■

+ Positive = Neutral - Negative

What has changed in 3R MATRIX

	Old		New
RS	■	↔	■
RQ	■	↔	■
RV	■	↔	■

Reco/View	Change
Reco: Buy	↔
CMP: Rs. 293	
Price Target: Rs. 430	↔

↑ Upgrade ↔ Maintain ↓ Downgrade

Company details

Market cap:	Rs. 97,285 cr
52-week high/low:	Rs. 361 / 101
NSE volume: (No of shares)	776.3 lakh
BSE code:	500570
NSE code:	TATAMOTORS
Free float: (No of shares)	285.6 cr

Shareholding (%)

Promoters	46.4
FII	13.8
DII	12.1
Others	27.8

Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	-12.6	-0.3	20.9	178.7
Relative to Sensex	-13.6	-10.7	14.1	139.2

Sharekhan Research, Bloomberg

Summary

- Q1FY22 results were weak, as indicated by the management earlier this month, due to chips shortage impacting JLR business and lockdown restrictions, impacting CV and PV businesses.
- Stock trades at an attractive P/E multiple of 8.9x and EV/EBITDA multiple of 2.9x its FY2023E estimates
- We expect all-round improvement in Tata Motors' business and expect earnings to turn positive in FY2022 and rise by 69.1% in FY2023E, driven by a 16.7% CAGR in revenue during FY2021-FY2023E and a 130 bps rise in EBITDA margin.
- We maintain a Buy on Tata Motors with an unchanged PT of Rs. 430, as we expect the company will deliver strong operational performance from H2FY22 onwards, across its business divisions.

We maintain a Buy rating on Tata Motors (TAMO) with a revised PT of Rs. 430, as we expect the company will deliver strong operational performance from H2FY22 onwards, across business divisions. Q2FY21 is expected to remain challenging for JLR on back of semiconductor chip shortage, while domestic passenger vehicle (PV) and commercial vehicle (CV) businesses are expected to be back on track, as volumes recover. The company reported weak Q1FY22 results with a consolidated net loss of Rs 4,321 crore versus expectation of a net consolidated loss of ~Rs1,213 crore. Consolidated revenue was down 25.1% q-o-q to Rs66,406 crore. On y-o-y basis, revenue and EBITDA rose by 8% and 75.5% respectively on a low base. The JLR management continues to raise concerns over a shortage of semiconductor chips in the near term that would hit wholesales by 28-30% in H1FY22 due to the resultant supply constraints. Thus, the company expects Q1FY22 and Q2FY22 to report a cash outflow of ~GBP 1 billion with a negative EBIT margin for both quarters. However, the management indicated that availability of semiconductor chips is likely to improve gradually from H2FY22 onwards, as global capacity of semiconductor chips is expected to increase. Retail sales and orders remain robust, which is likely to keep wholesales strong, as the issue of semiconductor chip shortage is set to improve gradually from Q3FY22 onwards. The management stays positive on product delivery, launches and capex programs as planned earlier. JLR continues to maintain its timelines for launches. The Jaguar model is expected to be totally electrified by 2025 and the company should launch its first battery electric vehicle (BEV) in 2025. Jaguar's internal combustion engine variants are expected to be phased FY26, with total BEV mix rising over 60% by FY30. In respect of Land Rover, the company plans to introduce six battery-operated vehicle (BEV) variants in the next five years through the family of three models - Defender, Discovery and Range Rover. With electrification likely to be the next motivation for the company over the next decade, JLR targets net zero carbon emissions by 2039. The management has maintained healthy guidance for its JLR business, expecting positive cashflow by FY23, net debt to be zero by FY24 and EBIT margins greater than 10% by FY26. In respect of TAMO's domestic business, we believe its growth drivers remains intact with the turnaround of passenger vehicle (PV) business and beneficiary of the domestic CV upcycle. The outlook for domestic commercial vehicle (CV) business is positive, with notable demand arising from the infrastructure, mining, and e-Commerce segments, as the economy normalises. Driven by all-round strong performance, we expect TAMO's earnings to become positive in FY2022E and 69.1% in FY2023E, driven by a 16.7% revenue CAGR during FY2021-FY2023E and a 130 bps rise in EBITDA margins. We reiterate our Buy rating on the stock with an unchanged PT of Rs. 430.

Key positives

- JLR management maintained medium to long-term targets and continued to execute reimagine strategy.
- CV and PV sales to recover in India, led by expected normalisation of economic activities and preference for personal mobility amid COVID-19.

Key negatives

- Consolidated net loss of Rs 4,321 crore versus expectation of a net consolidated loss of ~Rs1,213 crore in Q1FY22.
- Working capital impacted net auto debt by Rs 16,500 crore; recovery expected from H2FY22.

Our Call

Valuation - Maintain Buy with an unchanged PT of Rs. 430: TAMO is witnessing an improvement in all its business verticals - JLR, CVs and PVs, except in H1FY22 that would be marred by near-term challenges of supply constraints. H2FY21 saw strong volume growth and better operational efficiencies aided by aggressive product launches, market positioning, product differentiation, cost savings and investments in R&D. We expect operational performance to improve strongly in H2FY22, as the supply constraints are expected to gradually ease. We expect TAMO to benefit from improving macro-environment in India and globally, post normalisation of COVID Wave-2. The company is generating strong free cash flow, which will help it pursue its business plans and reduce high debts. We expect TAMO to become earnings' positive in FY2022E and a 37.7% y-o-y PAT growth in FY2023E, driven by a 16.7% revenue CAGR during FY2021E-FY2023E and a 130 bps improvement in EBITDA margin to 13.5% in FY23E from 12.2% in FY21. Our SOTP-based valuation provides a PT of Rs. 430 for TAMO. The stock is trading at attractive valuations at P/E multiple of 8.9x and EV/EBITDA multiple of 2.9x its FY2023E estimates. We maintain a Buy rating on the stock.

Key Risks

TAMO's business is dependent upon cyclical industries such as CVs and PVs. Moreover, the company's business is present across the globe. Any slowdown or cyclical downturn in any of the locations, where the company has a strong presence, can impact business and profitability.

Valuation (Consolidated)

Particulars	Rs cr			
	FY20	FY21	FY22E	FY23E
Net Sales	2,61,068	2,49,795	3,17,978	3,40,024
Growth (%)	-13.5	-4.3	27.3	6.9
EBIDTA	19,726	30,555	39,085	46,053
OPM (%)	7.6	12.2	12.3	13.5
PAT	(10,156)	(1,366)	7,468	12,649
Growth (%)	NA	NA	NA	69.4
FD EPS (Rs)	-26.5	-3.6	19.5	33.0
P/E (x)	NA	NA	15.0	8.9
P/B (x)	2.2	2.0	1.8	1.6
EV/EBIDTA (x)	10.7	4.5	3.4	2.9
RoE (%)	-20.3	-2.4	11.4	14.0
RoCE (%)	-0.2	4.7	6.6	8.1

Source: Company; Sharekhan estimates

Key Highlights of the conference call

Weak show: Tata Motors (TAMO) reported weak Q1FY22 results with a consolidated net loss of Rs. 4,321 crore versus expectation of a net consolidated loss of ~Rs1,213 crore. Consolidated revenue was down 25.1% q-o-q to Rs. 66,406 crore. On a y-o-y basis, revenue and EBITDA was up 8% and 75.5% respectively on a low base. The results were impacted by lower wholesale volumes for both JLR as well as Indian operations. JLR's Retail sales in the first quarter were 124,537 vehicles, up 68.1% y-o-y as sales continued to recover from the impact of the pandemic. Shortage of semiconductor chips constrained production resulting in a pre-tax loss of ₹110 million with an EBIT margin of -0.9% and a free cash outflow of ₹996 million. India operations showed improved significantly as compared to Q1FY21, however the second COVID-19 wave in India and supply issues, slowed down the growth momentum as compared to Q4 FY21. As a result, TML reported EBIT of 6.2% and a pre-tax loss of Rs. 1,300 crore for Q1 FY22. TAMO's standalone revenues declined 40.6% q-o-q to Rs11,904 crore in Q1FY22, impacted by drop in CV and PV volumes due to lockdown restrictions. The standalone EBITDA margin for the Q1FY22 was 0.8% due to negatives operating leverage.

JLR's performance and its plans: Retail sales for Q1FY22 were 124,537 vehicles, 68.1% higher than the 74,067 vehicles sold in Q1FY20. Regional retail sales rose with the UK (+186.9%), Europe (+124.0%), Overseas (+71.0%), North America (+50.5%) and China (up 14.0%). The wholesales were at 84,442 units (excluding the China JV), up 72.6% y-o-y, which is lower than by 30,000 units than estimated due to semiconductor supply constraints and the impact of COVID-19. Retail orders remain strong at 1,10,000 units, representing three months of sales cover with 5 months in Europe and four months in the UK. The order-book does not include China and US demand. Orders for the Defender alone total over 29,000, representing a cover of over four months. We expect the company's wholesales to improve as the semi-conductor issues improve going forward. The Total inventory (factory, transit and dealer) levels stands at ~74,000 units at the end of June. Inventory and Q2FY22 production (~60,000 units) should cater to retail demand for most products in Q2FY22. Electrified vehicles made up 66% of JLR's retail sales in Q1 (2.0% BEV's, 6.5% PHEV and 57.1% MHEV). Revenue was ₹5.0 billion in the first quarter, 73.7% higher than Q1 in the prior year, reflecting a 72.6% year-on-year growth in wholesales to 84,442 vehicles, however, this was ~30,000 units lower than planned due to semiconductor supply constraints. The production constraint resulted in a pre-tax loss of ₹110 million with an EBIT margin of (0.9)% and a free cash outflow of ₹996 million. The cash outflow is after ₹571 million of investment spending and unfavourable working capital of c. ₹800 million related to the lower production.

Focus on new launches and product delivery remain unaffected: New launches are not likely to be delayed. The launch of the new Range Rover Sport launch is expected in next 9 months, as per the schedule. The management expects no delay or deferment of capex plans due to a shortage of chips.

Focus on electrification continues with no change in plan: JLR's management has laid down its plans and strategies for electrification of its iconic brands, Jaguar and Land Rover over the next decade. The Jaguar model is expected to be totally electrified by 2025 and the company should launch its first battery electric vehicle (BEV) in 2025 on a new dedicated architecture. Jaguar's ICE variants are expected to be phased out by FY26, with the total BEV mix rising over 60% by FY30. In respect of Land Rover, the company plans to introduce six BEV variants in the next five years through a family of three models – the Defender, Discovery and Range Rover. With the electrification to be the next motivation for the company over the next decade, JLR targets net zero carbon emission by 2039.

Guidance maintained: The management has maintained its positive guidance for the JLR business, expecting positive cashflow by FY23, net debt to be zero by FY24, and EBIT margins greater than 10% by FY26. The company maintains its capex guidance of GBP 2.5 billion per annum from FY22 onwards, using which it expects to manage to shift from ICE to BEV models efficiently by deploying the GBP 2.5 billion capex annually. The company expects double-digit EBIT margin by FY26 to be driven by refocus and reimagine architecture strategy. JLR has an underlying EBIT margin of 4% in Q3FY21 and expects 300 bps improvement from refocus strategy and a more than 300 bps improvement from new architecture. The company has also improved its break-even point from 600,000 units in FY19 to 400,000-450,000 units in FY21 and expects to maintain the break-even point around this range.

Transforming product strategy: The PV business witnessed strong financials in Q2-Q4 of FY2021, showing robust sequential volume growth. TAMO has gained market share in passenger vehicles segments, led by a 144% y-o-y growth in Q4FY21. The company witnessed highest sales in last 34 quarters with its 'New Forever' portfolio. The company was able to manage volume growth, led by focus on few products. The company is focused on its five products, viz. Nexon, Tiago, Tigor, Altroz and Harrier, in the PV segment and has doubled its sales in most of the products. TAMO's competitors have 8-10 products in the same segment. The product portfolio was focussed on volume growth and market share gains. The products were successful in direct engagements with dealers and customers. TAMO increased its engagements with customers on digital platforms and doubled conversion levels. The company plans to launch new products or refreshed versions at regular intervals to drive up market share and volume growth. The company has improved its market share in PV by 340 bps to 8.2% in FY21. We expect the PV sales to continue to do well from Q2FY22 onwards.

EV penetration at 2%: TAMO has 71.4% market in electrified vehicles in the passenger segment, with EV penetration at 2% of its PV portfolio. The Nexon EV is a leader in the segment. The company started its EV

journey in FY2018, with a major focus on government sales, and garnered 47% market share in FY2020. Nexon EV achieved highest quarterly sales of 1,715 units. In FY2021, the company started to focus on the PV segment as well, where incentives from the government are not as attractive as for E-2Ws and E-3Ws. The company has been building up an ecosystem for EV infrastructure through support from group companies, such as Tata Automotive Company, Tata Power, Tata Chemicals, and Tata Motor Finance. Tata Power is helping it in creating charging infrastructure. Tata Power has over 355 public charging points on an inter-city and intra-city basis and has plan to take it to 700 by mid-FY2022. With Tata Chemicals, TAMO is evaluating technical partners for establishing a Lithium-Ion cell manufacturing plant. The pilot plant is operational for Lithium-ion battery. Through TACO, TAMO is manufacturing batteries the Nexon and Tigor models. Moreover, the company is exploring EV Motor manufacturing facility in India with a global partner. Through Tata Motor Finance, the company is providing structured solutions for large fleets to adopt EVs.

Healthy financial growth model: The company expects high single-digit EBITDA in the next three years for the PV business and FCF breakeven in FY2023. The long-term capex is expected to be at 5-6% of revenue.

Strong volume momentum for the CV division: TAMO is optimistic about the CV business and is gaining market share across the CV segment. The company expects the CV industry do well in FY2022 because of increased e-Commerce penetration, increased industrial activities, urban demand revival, rural stability, and infrastructure push by the government. In the SCV and pick-ups segment, the company plans to leverage Ace petrol at a price point equivalent to BS-IV; and reinforce Ace diesel brand equity. The CV passenger segment (buses) will be aided by opening of schools and corporate offices, as the COVID impact reduces over time.

Zero-debt company: The management is committed to make its automotive business division completely debt-free. The company had highlighted three key strategies for the same – FCF generation through higher sales and profitability, divestment of non-core businesses, and equity top-up for the remaining debt. Robust turnaround in key businesses during FY2021 has a strong reason to believe that the company is on the right track towards achieving the zero-debt level. TAMO generated robust FCF during FY21 and reduced its net auto debt significantly by Rs. 7,300 crore to Rs. 40,900 crore. We expect TAMO to perform substantially better in H2FY22 as compared to H1FY22.

Management remain positive with near-term supply concerns: The company's management was positive on demand outlook, while they expect near-term supply issues due to semi-conductor shortages worldwide. The input cost inflation would further add pressure during Q2FY22. However, the management expects the situation to improve gradually from the second quarter, driven by pent-up demand and normalisation of economic activities.

Results (Consolidated)

Particulars	Rs cr				
	Q1FY22	Q1FY21	YoY %	Q4FY21	QoQ %
Revenue	66,406	61,467	8.0	88,628	-25.1
Total Expenses	61,149	58,472	4.6	75,883	-19.4
Operating Profit	5,258	2,995	75.5	12,745	-58.7
OPM%	7.9	4.9	300 bps	14.4	(650 bps)
PBT	(2,566)	(3,129)	NA	5,703	NA
Tax	1,742	196	788.4	(132)	NA
Share Of profit from Associates	-	(245)	-100.0	(74)	-100.0
Adj Net Profit	(4,308)	(3,590)	NA	5,741	NA
Reported PAT	(4,321)	(3,698)	NA	(7,605)	NA
Adjusted EPS (Rs)	(11.3)	(9.4)	NA	15.0	NA

Source: Company Data; Sharekhan Research

Results (Standalone)

Particulars	Rs cr				
	Q1FY22	Q1FY21	YoY %	Q4FY21	QoQ %
Revenue	11,904	2,687	343.1	20,046	-40.6
Total Expenses	11,815	3,529	234.8	18,661	-36.7
Operating Profit	89	(842)	NA	1,385	-93.5
OPM%	0.8	(31.3)	NA	6.9	(620 bps)
PBT	(1,245)	(2,120)	NA	166	NA
Tax	7	0	NA	45	-85.2
Adj Net Profit	(1,252)	(2,121)	NA	121	NA
Reported PAT	(1,321)	(2,191)	NA	1,646	NA
Adjusted EPS (Rs)	(3.3)	(6.2)	NA	0.3	NA

Source: Company Data; Sharekhan Research

Outlook and Valuation

■ Sector view - Positive outlook on the automobile industry in India and globally

The macro-environment is improving in Europe, UK, America, and China. The roll-out of COVID-19 vaccination programmes in many countries is keeping the overall outlook positive over the coming months following the respective approval of various vaccines. Moreover, the Brexit trade deal between UK and the European Union has resolved the risk of tariffs on automotive parts and finished vehicles. The medium-term outlook of domestic CV business is strong, with notable demand arising from infrastructure, mining, and e-Commerce activities. Domestic PV volumes recovered strongly, driven by rural and semi-urban demand. However, the near term remains challenging due to lockdowns and restrictions imposed by the government. We expect strong recovery in demand after the normalisation of wave-2 of COVID -19 and speedy rollout of vaccination programs in India.

■ Company outlook - Strong outlook

TAMO clocked resilient operational performance in H2FY2021, seeing robust FCF in JLR and standalone businesses, reducing debt amply. Earnings visibility also improved. Results witnessed a strong turnaround in the operational performance on all its three key automotive businesses, JLR, PV business, and CV business. The company has generated positive FCF of GBP 729 million from the JLR business and Rs. 2,900 crore from domestic business in Q4FY21. We expect the company's operational performance to continue to improve, with a recovery in all verticals of automotive businesses. The outlook for the JLR business is positive, as the macro-environment improves in Europe, the UK, US and China. Outlook of domestic CV business is at a cusp of strong recovery post normalisation of Wave-2 of COVID-19, with notable demand arising from infrastructure, mining, and e-Commerce activities. TAMO's PV business has transformed significantly because of strong sales momentum with the 'New Forever' portfolio. During FY2021, the company gained 340 bps y-o-y in market share at 8.2% in the PV segment.

■ Valuation - Maintain Buy with an unchanged PT of Rs. 430

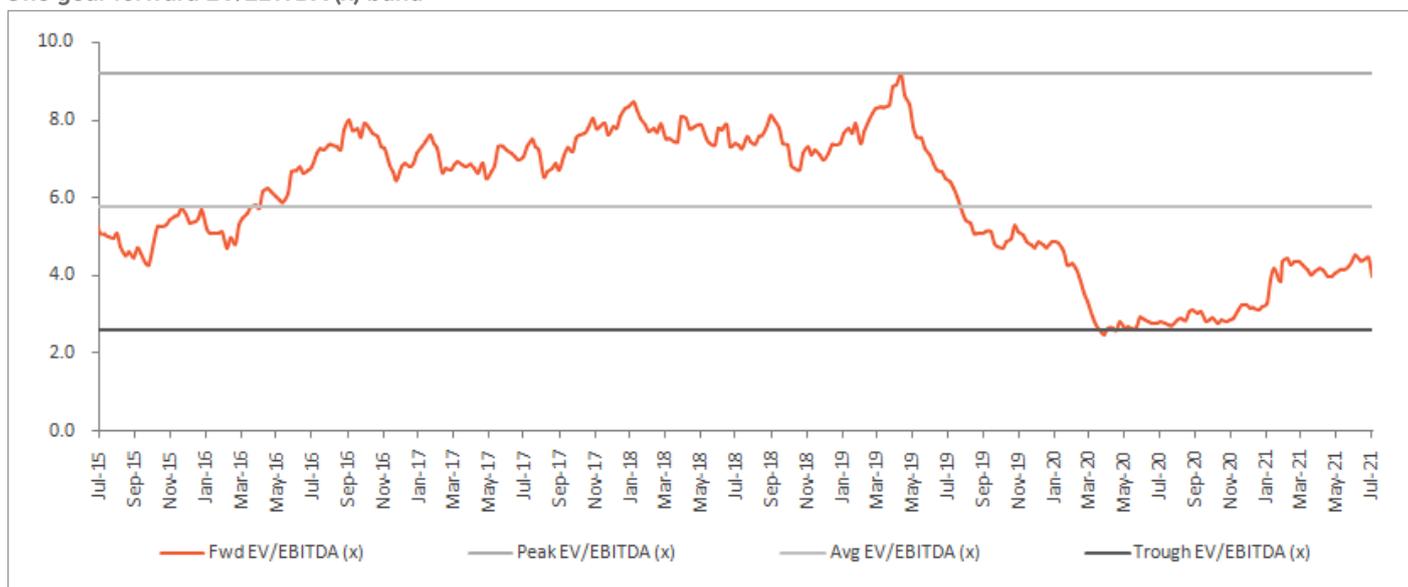
TAMO is witnessing an improvement in all its business verticals - JLR, CVs and PVs, except in H1FY22 that would be marred by near-term challenges of supply constraints. H2FY21 saw strong volume growth and better operational efficiencies aided by aggressive product launches, market positioning, product differentiation, cost savings and investments in R&D. We expect operational performance to improve strongly in H2FY22, as the supply constraints are expected gradually ease. We expect TAMO to benefit from improving macro-environment in India and globally, post normalisation of COVID Wave-2. The company is generating strong free cash flow, which will help it pursue its business plans and reduce high debts. We expect TAMO to become earnings' positive in FY2022E and a 37.7% y-o-y PAT growth in FY2023E, driven by a 16.7% revenue CAGR during FY2021E-FY2023E and a 130 bps improvement in EBITDA margin to 13.5% in FY23E from 12.2% in FY21. Our SOTP-based valuation provides a PT of Rs. 430 for TAMO. The stock is trading at attractive valuations at P/E multiple of 8.9x and EV/EBITDA multiple of 2.9x its FY2023E estimates. We maintain a Buy rating on the stock.

SOTP-based PT of Rs. 430

Particulars	Rationale	Value (in Rs Crore)	Value per Share
Standalone business	6x EV/EBITDA	47,056.31	123
JLR UK	4.5x EV/EBITDA	1,24,230	394
JLR China	5x EV/EBITDA	10,069	26
Total EV		1,81,355	543
Net Debt		46,654	122
Automotive Business Value		1,61,322	421
Value of Subsidiaries			9
TAMO's Equity Value			430

Source: Company Data; Sharekhan Research

One-year forward EV/EBITDA (x) band



Source: Sharekhan Research

Peer Comparison

Company	CMP	P/E (x)			EV/EBITDA (x)			ROCE (%)		
		FY21	FY22E	FY23E	FY21	FY22E	FY23E	FY21	FY22E	FY23E
Tata Motors	293	NA	15.0	8.9	4.5	3.4	2.9	4.7	6.6	8.1
Mahindra & Mahindra Limited	755	24.0	17.9	15.3	13.4	10.0	8.4	13.6	16.0	17.1
Ashok Leyland Limited	122	NA	42.0	17.6	69.9	18.0	9.8	-	10.4	21.8
Maruti Suzuki India Limited	7236	51.7	32.4	25.3	41.2	23.3	18.2	9.4	14.9	17.2

Source: Company Data; Sharekhan Research

About company

TAMO manufactures cars and commercial automotive vehicles. The company designs, manufactures, and sells heavy, medium, and small CVs, including trucks, tankers, vans, buses, ambulances, and minibuses. TAMO also manufactures small cars and sports utility vehicles (SUVs). The company is a leading CV manufacturer in India. TAMO acquired Jaguar and Land Rover brands in 2008; and Jaguar and Land Rover brands merged to form one unified company in 2013.

Investment theme

We are positive on TAMO, considering its resilient operational performance lately, robust FCF for JLR, and standalone businesses led by the company's all-round strong performance, falling debt, and better earnings visibility. H2FY2021 results saw a strong turnaround in operational performance in all three key automotive businesses - JLR, PV, and CV. We expect the company's operational performance to continue in the medium term, with recovery in all verticals of automotive businesses. Outlook for JLR business is positive, aided by macro-environment improving in Europe, UK, America, and China. Outlook of the domestic CV business is at the cusp of a sharp cyclical rebound, with notable demand arising from infrastructure, mining, and e-commerce activities. TAMO's PV business has transformed significantly because of strong sales momentum with the 'New Forever' portfolio. TAMO's management is committed towards reaching zero debt for its automotive business division. Robust result turnaround in key businesses during H2FY2021 has a strong reason to believe that the company is on the right track towards achieving zero debt level. We expect all-round improvement in the company's business and, hence, recommend Buy on the stock.

Key Risks

TAMO's business is dependent upon cyclical industries – CV and PV. Moreover, the company's business is present across the globe. Any slowdown or cyclical downturn in any of the locations, where it has a strong presence, can impact its business and profitability.

Additional Data

Key management personnel

Guenter Butschek	CEO and Managing Director
Thierry Bolloré	CEO, Jaguar & Land Rover
P B Balaji	Group Chief Financial Officer
Girish Wagh	President- Commercial Vehicles Business Unit
Shailesh Chandra	President - Passenger Vehicles Business Unit

Source: Company

Top 10 shareholders

Sr. No.	Holder Name	Holding (%)
1	Tata Sons Private Limited	43.73
2	Tata Industries Limited	2.18
3	Tata Investment Corporation Limited	0.33
4	Citibank N.A. New York NY ADR Department	10.67
5	Life Insurance Corporation of India	4.77
6	Jhunjhunwala Rakesh Radheshyam	1.21
7	SBI Arbitrage Opportunities Fund	1.02
8	Alternate Investment Funds	0.14
9	Ewart Investments Limited	0.09
10	Tata Chemicals Ltd	0.06

Source: Bloomberg

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