

BSE Code: 500570
NSE Code: TATAMOTORS
Reuters Code: TAMO.NS
Bloomberg Code: TTMT:IN

Strong show at both domestic & JLR businesses

Tata Motors (TAMO) is India's largest CV manufacturer with 55% market share in M&HCV segment. Besides, it also manufactures passenger cars and utility vehicles. With the acquisition of Jaguar Land Rover (JLR) from Ford in 2008, TAMO now has presence in the global luxury car market. Importantly, TAMO derives about 80% of its revenue from JLR.

Investment Rationale

➤ **Continued focus on new product launches to drive revenue growth:** JLR revenue posted an impressive growth of 12% YoY (in GBP terms) driven by volume and realization growth of 6% YoY. Realization growth was largely led by better product mix while good traction was witnessed in the newly launched Range Rover Velar. Standalone business also reported good set of numbers with revenue growth of 30% YoY (not strictly comparable due to GST) led by volume growth of 14% YoY. Commercial vehicles (CV) saw a sharp improvement in volume growth to 26% YoY leading to 1.7% YoY improvement in market share. Passenger vehicles also reported decent growth at 14% YoY led by new launches. We believe the company's continued focus on new product launches will drive revenue CAGR of 10% over FY17-20E.

➤ **Focus on operational efficiencies and filling product gaps will augur well for margin improvement:** JLR's EBITDA margin increased by 90bps YoY to 11.8% owing to higher volumes, better product mix and lower hedging losses. EBITDA margin of standalone business also improved sharply by 380bps YoY to 6.4% driven by strong sales growth and cost-cutting measures. JLR is targeting to achieve EBIT margin of 8-10% (FY17 EBIT margin at 6%) in the medium term while continuing to invest in products, technology and manufacturing capabilities. We estimate JLR EBITDA margin to improve to 12.5%/14.7%/15.1% in FY18/19/20E led by lower forex losses and operating leverage. The company is following a three-pronged strategy to revive profitability in standalone business. It is filling product gaps to regain market share while undertaking rigorous cost cutting measures and realigning its supply chain. As a result, we estimate meaningful improvement in standalone margin to 8% by FY20E.

➤ **Strong product pipeline to drive volumes:** We expect JLR volume growth to stay strong at 8% driven by a) New launches- Jaguar E-Pace and I-Pace and refresh models of Range Rover Sport and Range Rover, b) ramp-up of New Discovery and Range Rover Velar and c) continued strong traction in China. Given slew of product launches in CV and PV segments, we expect volume CAGR of 8% over FY17-20E for standalone business.

Outlook and Valuation:

We are positive on the stock given a strong product pipeline at JLR & company's intent to plug the gaps in its domestic portfolio and presence of margin levers. Hence, we expect revenue/Adj. PAT CAGR of 10%/82% over FY17-20E. Hence, we retain 'BUY' rating on the stock with a target price (TP) of Rs. 480 based on SOTP.

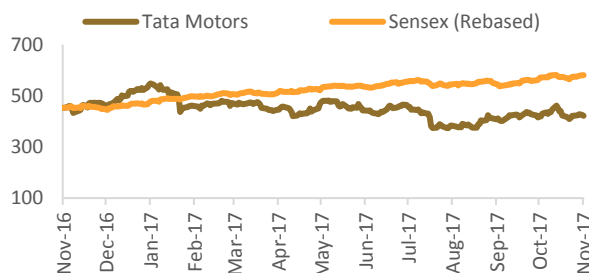
Market Data

Rating	BUY
CMP (Rs.)	421
Target (Rs.)	480
Potential Upside	14%
Duration	Long Term
Face Value (Rs.)	2
52 week H/L (Rs.)	553/358
Decline from 52WH (%)	23.1
Rise from 52WL (%)	18.7
Beta	1.5
Mkt. Cap (Rs.Cr)	143,027

Fiscal Year Ended

Y/E	FY17	FY18E	FY19E	FY20E
Revenue (Rs.Cr)	2,69,693	2,91,785	3,28,618	3,55,450
Adj. profit (Rs.Cr)	3,062	9,407	15,552	18,442
Adj. EPS (Rs.)	9.0	27.7	45.8	54.3
P/E (x)	46.7	15.2	9.2	7.8
P/BV (x)	2.5	2.0	1.6	1.4
ROE (%)	4.5	14.5	19.5	19.1

One year Price Chart



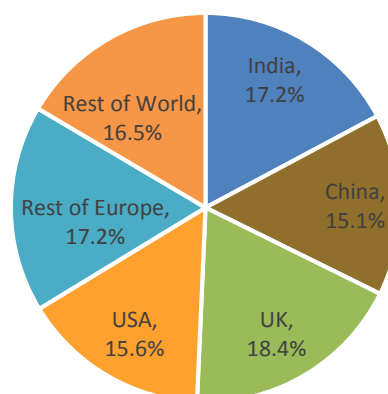
Shareholding Pattern

	Sep-17	Jun-17	Chg.
Promoters	36.4	34.7	1.7%
FII's	22.6	23.5	(0.9%)
MFs/Insti	32.1	33.3	(1.2%)
Public	6.7	6.3	0.4%
Others	2.2	2.2	0.0%

Tata Motors Ltd: Business overview

Tata Motors manufactures and sells commercial vehicles, utility vehicles and passenger cars in India. It is a leading company in the Indian commercial vehicles segment, with a 44% market share in the commercial vehicle market and ~5% market share in the passenger vehicles segment. TAMO entered the passenger car market in 1998 with Indica model. In 2003, it launched the mid-size sedan, Indigo, followed by Nano (2009), Zest (2014), Bolt (2015), Tiago (2016) and Hexa (2017). Further, with the acquisition of Jaguar Land Rover (JLR) from Ford in 2008, TAMO now has presence in the global luxury car market. JLR contributes ~80% to the total revenues of TAMO.

Geography wise revenue breakup (FY17)



Source: Company, In-house research

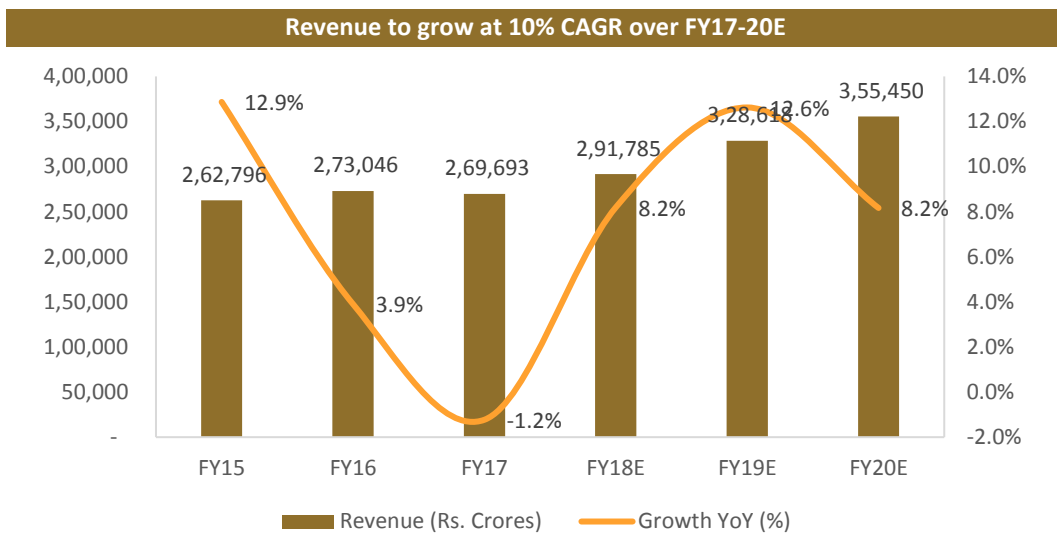
Quarterly financial performance (Consolidated)

(Rs cr)	Q2FY18	Q2FY17	YoY Growth %	Q1FY18	QoQ Growth %	H1FY18	H1FY17	YoY Growth %
Sales	70,156	63,538	10.4	58,493	19.9	1,28,649	1,29,433	(0.6)
EBITDA	8,938	7,430	20.3	4,965	80.0	13,903	15,052	(7.6)
EBITDA Margin (%)	12.7	11.7	105	8.5	425	10.8	11.6	(82)
Depreciation	4,970	4,454	11.6	4,525	9.8	9,494	9,005	5.4
EBIT	3,968	2,976	33.4	440	801.4	4,409	6,047	(27.1)
Interest	1,147	1,025	12.0	1,109	3.5	2,256	2,203	2.4
Other Income	189	179	5.3	154	22.5	343	353	(2.9)
Exceptional Items	71	(1,131)	-	4,251	-	4,323	(646)	-
PBT	3,081	999	208.4	3,737	(17.5)	6,818	3,551	92.0
Tax	1,090	425	156.6	1,207	(9.7)	2,297	1,145	100.7
PAT	1,992	575	246.6	2,530	(21.3)	4,521	2,406	87.9
MI/P&I from asso.	(491)	(254)	-	(653)	-	(1,144)	(659)	-
Reported PAT	2,483	828	199.7	3,182	(22.0)	5,665	3,065	84.8
Adjustment	(71)	1,131	-	(4,251)	-	(4,323)	646	-
Adj PAT	2,411	1,959	23.1	(1,069)	(325.5)	1,342	3,711	(63.8)
No. of shares (cr)	339.6	339.6	-	339.6	-	339.6	339.6	-
EPS (Rs)	7.1	5.8	23.1	(3.1)	(325.5)	4.0	10.9	(63.8)

Source: Company, In-house research

Continued focus on new product launches to drive revenue growth

JLR revenue posted an impressive growth of 12% YoY (in GBP terms) driven by volume and realization growth of 6% YoY. Realization growth was largely led by better product mix while good traction was witnessed in the newly launched Range Rover Velar. Standalone business also reported good set of numbers with revenue growth of 30% YoY (not strictly comparable due to GST) led by volume growth of 14% YoY. Commercial vehicles (CV) saw a sharp improvement in volume growth to 26% YoY leading to 1.7% YoY improvement in market share. Passenger vehicles also reported decent growth at 14% YoY led by new launches. We believe the company's continued focus on new product launches will drive revenue CAGR of 10% over FY17-20E.



Source: Company, In-house research

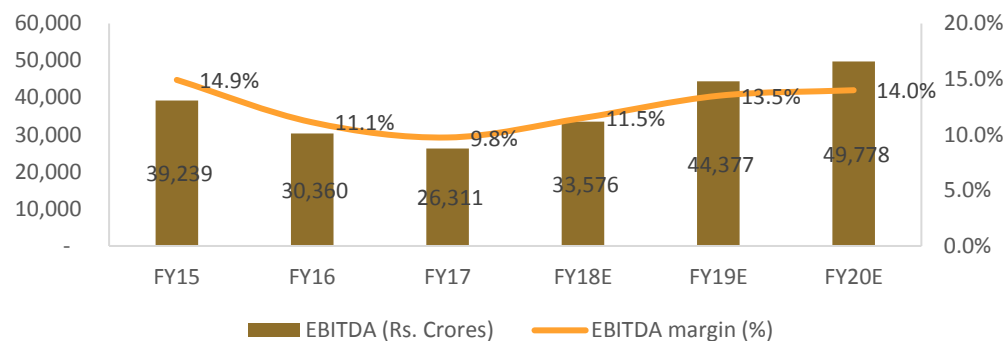
Strong product pipeline to drive volumes

We expect JLR volume growth to stay strong at 8% driven by a) New launches- Jaguar E-Pace and I-Pace and refresh models of Range Rover Sport and Range Rover, b) ramp-up of New Discovery and Range Rover Velar and c) continued strong traction in China. Given slew of product launches in CV and PV segments, we expect volume CAGR of 8% over FY17-20E for standalone business.

Focus on operational efficiencies and filling product gaps will augur well for margin improvement

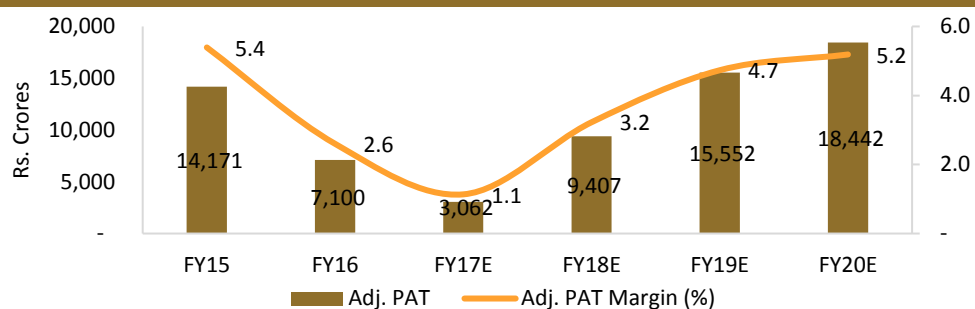
JLR's EBITDA margin increased by 90bps YoY to 11.8% owing to higher volumes, better product mix and lower hedging losses. EBITDA margin of standalone business also improved sharply by 380bps YoY to 6.4% driven by strong sales growth and cost-cutting measures. JLR is targeting to achieve EBIT margin of 8-10% (FY17 EBIT margin at 6%) in the medium term while continuing to invest in products, technology and manufacturing capabilities. We estimate JLR EBITDA margin to improve to 12.5%/14.7%/15.1% in FY18/19/20E led by lower forex losses and operating leverage. The company is following a three-pronged strategy to revive profitability in standalone business. It is filling product gaps to regain market share while undertaking rigorous cost cutting measures and realigning its supply chain. As a result, we estimate meaningful improvement in standalone margin to 8% by FY20E.

EBITDA to grow at 24% CAGR over FY17-20E

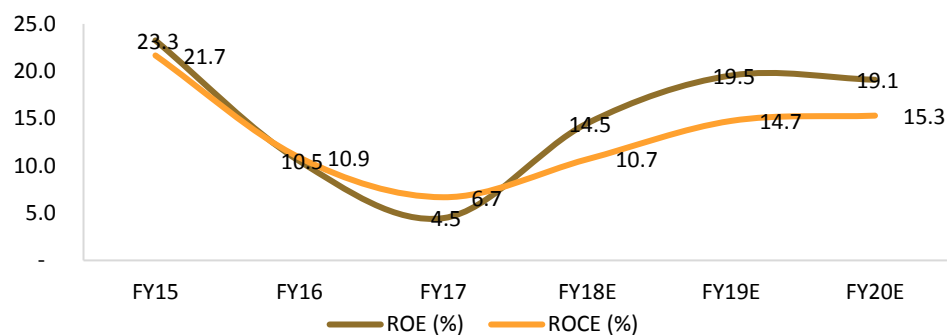


Source: Company, In-house research

PAT to grow at a robust 82% CAGR over FY17-20E



Return ratios to remain healthy



Source: Company, In-house research

Sum-of-the-parts Valuation

	EBITDA(E)	Basis	Multiple (x)	Value (Rscr)	Value/share (Rs)
Standalone	4,883	Mar-20 EV/E	6.5	31,738	93
JLR	40,114	Mar-20 EV/E	3	1,20,341	354
China JV	7,836	Mar-20 EV/E	3	23,509	69
Other Subsidiaries	-	Mar-20 P/E, P/BV	-	7,480	22
Less: Net Debt				20,000	59
Target Price					480

Key Risks

- Slower-than-expected growth in the Chinese markets
- Sedate response to the new model launches
- Adverse currency movement (GBP vs other currencies) remains a key headwind

Profit & Loss Account (Consolidated)

Y/E (Rs. Cr)	FY17	FY18E	FY19E	FY20E
Total operating Income	2,69,693	2,91,785	3,28,618	3,55,450
Raw Material cost	1,65,894	1,76,530	1,97,171	2,13,270
Employee cost	28,333	31,805	34,505	36,611
Other operating expenses	49,155	49,874	52,566	55,792
EBITDA	26,311	33,576	44,376	49,777
Depreciation	17,905	19,380	22,358	24,287
EBIT	8,406	14,196	22,018	25,490
Interest cost	4,238	4,544	4,544	4,544
Other Income	755	766	790	800
Profit before tax	4,923	10,418	18,264	21,747
Tax	3,251	2,813	4,932	5,872
Profit after tax	1,672	7,605	13,332	15,875
Minority Interests	102	107	113	118
P/L from Associates	1,493	1,909	2,331	2,684
Adjusted PAT	3,062	9,407	15,551	18,441
E/o income / (Expense)	(3,714)	4,323	-	-
Reported PAT	(652)	13,730	15,551	18,441

Balance Sheet (Consolidated)

Y/E (Rs. Cr)	FY17	FY18E	FY19E	FY20E
Paid up capital	679	679	679	679
Reserves and Surplus	57,383	71,113	86,665	1,05,106
Net worth	58,062	71,792	87,344	1,05,786
Minority interest	453	560	673	791
Total Debt	74,489	74,489	74,489	74,489
Other non-current liabilities	37,807	37,807	37,807	37,807
Total Liabilities	1,70,811	1,84,648	2,00,313	2,18,873
Total fixed assets	128,970	141,590	153,231	163,945
Goodwill	673	673	673	673
Investments	20,338	20,338	25,338	30,338
Net Current assets	21	1,239	261	3,108
Deferred tax assets (Net)	3,283	3,283	3,283	3,283
Other non-current assets	17,525	17,525	17,525	17,525
Total Assets	1,70,811	1,84,649	2,00,313	2,18,873

Cash Flow Statement (Consolidated)

Y/E (Rs. Cr)	FY17	FY18E	FY19E	FY20E
Pre-tax profit	7,557	16,651	20,596	24,432
Depreciation	17,905	19,380	22,358	24,287
Changes in W.C	3,254	604	1,476	1,322
Others	3,379	3,778	3,754	3,744
Tax paid	(1,895)	(2,813)	(4,932)	(5,872)
C.F.O	30,199	37,600	43,253	47,912
Capital exp.	16,072	(32,000)	(34,000)	(35,000)
Change in inv.	1,852	-	(5,000)	(5,000)
Other invest.CF	23,860	766	790	800
C.F - investing	(38,080)	(31,234)	(38,210)	(39,200)
Issue of equity	5	-	-	-
Issue/repay debt	11,658	-	-	-
Dividends paid	(121)	-	-	-
Other finance.CF	(5,336)	(4,544)	(4,544)	(4,544)
C.F - Financing	6,205	(4,544)	(4,544)	(4,544)
Chg. in cash	(1,675)	1,822	499	4,168

Key Ratios (Consolidated)

Y/E	FY17	FY18E	FY19E	FY20E
Growth (%)				
Net Sales	(1.2)	8.2	12.6	8.2
EBITDA	(13.3)	27.6	32.2	12.2
Net profit	(56.9)	207.2	65.3	18.6
Margin (%)				
EBITDA	9.8	11.5	13.5	14.0
EBIT	3.1	4.9	6.7	7.2
NPM	1.1	3.2	4.7	5.2
Return Ratios (%)				
RoE	4.5	14.5	19.5	19.1
RoCE	6.7	10.7	14.7	15.3
Per share data (Rs.)				
EPS	9.0	27.7	45.8	54.3
DPS	-	-	-	-
Valuation(x)				
P/E	46.7	15.2	9.2	7.8
EV/EBITDA	6.9	5.4	4.1	3.5
EV/Net Sales	0.7	0.6	0.5	0.5
P/B	2.5	2.0	1.6	1.4
Turnover Ratios (x)				
Net Sales/GFA	1.4	1.4	1.4	1.3
Sales/Total Assets	1.0	1.0	1.1	1.1

Rating Criteria

Large Cap.	Return	Mid/Small Cap.	Return
Buy	More than equal to 10%	Buy	More than equal to 15%
Hold	Upside or downside is less than 10%	Accumulate*	Upside between 10% & 15%
Reduce	Less than equal to -10%	Hold	Between 0% & 10%
		Reduce/sell	Less than 0%

* To satisfy regulatory requirements, we attribute 'Accumulate' as Buy and 'Reduce' as Sell.

* Tata Motors is a large-cap company.

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