

Muted show on guided path, recovery lies ahead...

About the stock: Tata Motors (TML) is an auto OEM from the house of Tata's, operating in domestic (PV, CV) and global markets (Jaguar Land Rover i.e., JLR)

- FY24 consolidated sales mix- JLR ~69%, India CV & PV combined ~30%.
- TML India: CV market share: 38%; PV market share ~14% as of FY24

Q2FY25 Result: TML reported muted Q2FY25 results. Consolidated topline for the quarter stood at ~₹1 lakh crore (down 3.5% YoY) with EBITDA at ~₹14,600 crore and EBITDA margins at 14.4% (down 250 bps QoQ). JLR (TML's overseas luxury PV arm) reported EBITDA margins of 11.7% (down 410 bps QoQ). Indian CV business EBITDA margins came in at 10.8% (down 80 bps QoQ) while PV business EBITDA margins came in at 6.2% (up 40 bps QoQ). PAT in Q2FY25 came in at ₹ 3,343 crore.

Investment Rationale

- Domestic business to consolidate on high base, focus on profitability:** In last two years period, domestic auto industry has shown a strong recovery with PV space surpassing its pre-Covid highs in FY23. Also, the CV has also rebounded significantly, climbing ~70% from its COVID-era lows and approaching pre-covid levels. However, given the high base, industry commentary is cautious on growth prospects in PV & CV space for FY25E (low single digit growth). Nonetheless, long term prospects for both the vehicle categories are optimistic, with growth rate projected at ~5-8% CAGR, driven by underpenetrated PV market and infrastructure led growth thrust domestically. TML's focus in the interim is to further improve upon the profitability in this space amidst its proven capabilities across powertrains (ICE, CNG, Electric, Hydrogen). On EV's, it plans to strengthen its leadership position in E-PV space & is also a prominent player supplying E-buses. It is committed to new product launches across powertrains.
- JLR: volumes to improve in H2FY25, modest growth over medium term:** JLR is the overseas luxury PV arm at TML and has been subject to volatile earnings and cash flow generation in the past. With indigenous working on the product side, cost initiatives and consequent lowering of breakeven levels, JLR has achieved an impressive turnaround. In FY24, it reported record £29 billion of sales, ~16% as EBITDA margins, ~£ 2.3 billion as FCF generation. It has reduced its net debt from ~£3 billion to ~£1.2 billion as of H1FY25. With focus on profitability, it has retained its guidance to be net debt free in FY25E. H1FY25 volumes were subdued at the company as already guided and with supply chain now restored it expects to stage healthy recovery in H2FY25. However, over medium term, volume growth at JLR is expected to be modest amidst muted global demand prospects.

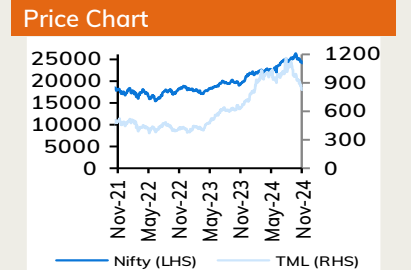
Rating and Target Price

- TML now has portfolio stock attributes i.e. healthy margins & return ratios profile and low leverage on B/S. With stock correcting ~30% from the top, we believe it offers attractive risk reward play at CMP for long term wealth creation. We assign **BUY** rating and value it at **₹ 1,000** on SOTP basis



Particulars	₹ crore
Market Capitalization	2,94,372
Total Debt (FY24)	98,500
Cash and Invts (FY24)	60,060
EV	3,32,812
52 week H/L (₹)	1,179 / 649
Equity capital (₹ crore)	766.5
Face value (₹)	2.0

Shareholding pattern	Dec-23	Mar-24	Jun-24	Sep-24
Promoter	46.4	46.4	46.4	42.6
FII	18.6	19.2	18.2	20.5
DII	17.3	16.0	15.9	16.1
Other	17.8	18.4	19.5	20.8



Recent event & key risks

- Reports steady Q2FY25 results Consol margins at 14.4%.
- Key Risk: (i) lower than built in volume recovery at JLR (ii) lower than built in cash flow generation and debt reduction

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Key Financial Summary

Key Financials (₹ crore)	FY20	FY21	FY22	FY23	FY24	5 year CAGR (FY18-24)	FY25E	FY26E	FY27E	3 year CAGR (FY24-27E)
Net Sales	2,61,068	2,49,795	2,78,454	3,45,967	4,37,928	7.7%	4,55,781	4,89,614	5,32,114	6.7%
EBITDA	23,914	35,782	34,023	42,492	70,569	18.8%	71,067	78,190	86,852	7.2%
EBITDA Margins (%)	9.2	14.3	12.2	12.3	16.1		15.6	16.0	16.3	
Net Profit	(11,975)	(13,451)	(11,441)	2,414	31,399	NM	20,837	25,879	31,295	-0.1%
EPS (₹)	(33.3)	(35.1)	(29.9)	6.3	85.3		56.6	70.3	85.0	
P/E	(24.0)	(22.8)	(26.8)	126.9	9.4		14.1	11.4	9.4	
RoNW (%)	(18.7)	(23.8)	(23.4)	4.6	33.7		18.7	19.2	19.3	
RoCE (%)	1.3	6.3	4.8	9.8	22.5		22.7	24.5	25.9	

Source: Company, ICICI Direct Research

Q2FY25 Earnings Conference Call Highlights

Jaguar Land Rover

- Global Industry Outlook:** U.S. and Chinese markets showed resilience in Q2FY25. However, the EU and UK market have faced pressures from oversupply and increased competition, as other manufacturers redirected their inventories. JLR anticipates challenges in Chinese market for H2FY25 given the increase in retailer insolvencies, which have reduced retail touchpoint. Also, the Chinese auto demand is expected to remain tepid in this period.
- Performance:** During the quarter, the production was limited to 86,000 units due to flood at Novelis which disrupted aluminium supplies, impacting the Range Rover and Range Rover Sport with 30,000 units sold in Q2FY25 vs average quarterly run rate of 40,000 units. A quality hold on ~6,000 UK and EU cars further constrained wholesale volume. However, JLR expects to recognize these wholesale volumes in Q3FY25.

JLR has maintained its FY25 guidance of £30 billion in revenue, with EBIT Margins \geq 8.5% and a positive net cash position. JLR anticipates further improvement in EBIT to 10% in FY26.

Passenger Vehicle

- Domestic Industry:** Overall, the Industry witnessed a 5% YoY decline in Q2FY25, with registrations hitting 26 months low in Sep'24. SUV segment reported 5% YoY growth during this same period. TML expects industry demand to pick up in Q3FY25, driven by robust retail sales from festive and year end demand.
- Performance:** During this festive season, TML witness a healthy market share growth, increasing to 13.7% vs 13.3% in H1FY25. There is a robust pipeline of booking for Curvv and Nexon CNG. However, the supply chain constraints impacted Q2 deliveries for Nexon CNG. TML reported its highest-ever monthly registration in Oct'24 with 68,500 units reducing inventory level to 30 days.

With better product mix from new launches and leveraging benefits, TML expects profitability to improve in H2FY25. New product launches such as Harrier EV and Sierra are expected to launch in FY26.

Commercial Vehicle

- Domestic Industry:** HCV and ILCV witness a steepest decline of 24% and 13% YoY, respectively. Only the Passenger carriers grew by 5% YoY, indicating resilience in the segment. Moreover, fleet utilization declined by 15%-17% YoY. However, TML witnessed an improvement in run rates in Oct'24, aligning with historical festive demand.
- Management Guidance:** TML anticipates a gradual increase in infrastructure particularly benefiting HCVs. TML aims to introduce new CV variants to tap into niche markets and is working closely with financiers to offer attractive financing options to stimulate demand in SCV.

TML expects Passenger carries i.e. Buses and Vans to witness a higher growth in H2FY25, followed by ILCV segment. The outlook for HCV and SCV segment remains flat to positive for this period.

Exhibit 1: Change in headline estimates

₹ Crore)	FY25E			FY26E			FY27E		Comments
	Old	New	% Change	Old	New	% Change	Introduced		
Revenue	4,60,273	4,55,781	-1.0	5,02,169	4,89,614	-2.5	5,32,114	Marginally tweaked estimates tracking H1FY25 performance. Introduced FY27E numbers. We expect topline at Tata Motors to grow at a CAGR of 6.7% over FY24-27E	
EBITDA	70,502	71,067	0.8	80,229	78,190	-2.5	86,852		
EBITDA Margin (%)	15.3	15.6	27 bps	16.0	16.0	-1 bps	16.3	Broadly maintained margin estimates. Expect margins to be ~15-16% going forward	
PAT	21,782	20,837	-4.3	28,553	25,879	-9.4	31,295		
EPS (₹)	59.2	56.6	-4.3	77.6	70.3	-9.4	85.0	Introduced FY27E EPS at ₹ 85/share	

Source: ICICI Direct Research

Key Tables and Charts

Exhibit 2: Quarterly Analysis

	Q2FY25	Q2FY24	YoY (%)	Q1FY25	QoQ (%)	Comments
Total Operating Income	1,01,450	1,05,128	-3.5	1,08,048	-6.1	At the consolidated level, topline was down single digit broadly tracking decline at JLR
Raw Material Expenses	62,235	66,910	-7.0	65,913	-5.6	
Employee Expenses	11,718	10,099	16.0	11,802	-0.7	
Other expenses	20,832	18,542	12.4	19,733	5.6	Other expenses witnessed an increase
Operating Profit (EBITDA)	14,616	16,275	-10.2	18,268	-20.0	
EBITDA Margin (%)	14.4	15.5	-107 bps	16.9	-250 bps	EBITDA margins were down both QoQ and YoY basis tracking perils of negative operating leverage amid decline in vols
Depreciation	6,005	6,636	-9.5	6,574	-8.7	Depreciation came in lower than usual
Interest	2,034	2,652	-23.3	2,088	-2.6	
Product develop. Exp.	2,945	2,551	15.5	2,759	6.7	
Tax	2,317	2,203	NM	3,178	NM	Tax rate came in a tad higher
PAT	3,343	3,764	-11.2	5,566	-39.9	
EPS	9.1	10.2	-11.2	15.1	-39.9	PAT declined 11% YoY tracking decline in topline as well as tapering of margins
Key Metrics						
JLR sales (mn GBP)	6,475	6,857	(5.6)	7,273	(11.0)	Topline at JLR was down 6% YoY amid ~10% decline in wholesale volumes
JLR margins (%)	11.7	14.9	-320 bps	15.8	-410 bps	
JLR PAT (mn GBP)	283.0	272.0	4.0	502.0	44	PAT run-rate was broadly maintained

Source: Company, ICICI Direct Research

Exhibit 3: Volume Assumptions

Units	Current						
	FY21	FY22	FY23	FY24	FY25E	FY26E	FY27E
JLR							
Jaguar Sales Volume	90,440	68,405	63,001	49,561	33,377	33,377	35,046
Land Rover Sales Volume	3,22,471	2,79,245	3,09,216	3,51,742	3,72,703	3,93,093	4,17,165
Total JLR Sales Volume	4,12,911	3,47,650	3,72,217	4,01,303	4,06,080	4,26,470	4,52,210
Growth (YoY, %)	-21%	-16%	7%	8%	1%	5%	6%
India							
M&HCV	90,152	1,34,797	1,87,185	1,84,216	1,79,808	1,88,798	1,98,238
LCV	1,72,618	2,22,174	2,26,354	2,11,630	2,03,146	2,13,303	2,23,968
PV	2,22,591	3,72,174	5,41,087	5,73,495	5,71,078	5,99,710	6,29,780
Total India Sales Volume	4,85,361	7,29,145	9,54,626	9,69,340	9,54,031	10,01,811	10,51,986
Growth (YoY, %)	3%	50%	31%	2%	-2%	5%	5%

Source: ICICI Direct Research; JLR volumes till FY23 included CJLR numbers, FY24 onwards it is excluding CJLR

Exhibit 4: SOTP valuation

Particulars	Parameters	FY26E EBITDA (₹ crore)	EV/EBITDA Multiple (x)	Resultant EV (₹ crore)
Tata Motors India business (CV, PV, Ex-Electric-PV)	FY26E EV/EBITDA	13,970	12.0	1,67,636
JLR	FY26E EV/EBITDA	58,894	2.0	1,17,788
India EV business (PV)	~11% stake sale @ ₹7,500 cr	NA	NA	60,682
Tata Technologies Stake Valuation	53.4% stake @ ₹ 40,750 crore	NA	NA	21,761
Other Investments	3x P/B on FY26E	9,218	3.0	27,654
Total Enterprise Value (EV)				3,95,521
Net Debt	FY26E			25,988
Resultant Equity Value (target market cap)				3,69,533
Target Price per share (₹/share)				1,000

Source: ICICI Direct Research

Financial Summary (Consolidated)

Exhibit 5: Profit and loss statement				
	₹ crore			
(Year-end March)	FY24	FY25E	FY26E	FY27E
Total operating Income	4,37,928	4,55,781	4,89,614	5,32,114
Growth (%)	26.6	4.1	7.4	8.7
Raw Material Expenses	2,72,756	2,81,710	3,03,687	3,27,864
Employee Expenses	42,487	47,267	49,803	53,569
Marketing Expenses	78,875	86,691	89,054	95,755
Capitalised Expenses	-26,758	-30,954	-31,119	-31,927
Total Operating Expenditure	3,67,359	3,84,714	4,11,424	4,45,262
EBITDA	70,569	71,067	78,190	86,852
Growth (%)	66.1	0.7	10.0	11.1
Product development Exp	10959	12263	13619	14069
Depreciation	27270	26435	28153	30597
Interest	9986	8190	6080	4270
Other Income	5950	6159	6329	6505
PBT	39,191	43,300	50,286	58,491
Minority Interest	408	447	471	518
Total Tax	-3852	10510	11000	13327
Reported PAT	31,399	20,837	25,879	31,295
Growth (%)	1,200.5	-33.6	24.2	20.9
EPS (₹)	85.3	56.6	70.3	85.0

Source: Company, ICICI Direct Research

Exhibit 6: Cash flow statement				
	₹ crore			
(Year-end March)	FY24	FY25E	FY26E	FY27E
Profit after Tax	31,399	20,837	25,879	31,295
Add: Depreciation	27,270	26,435	28,153	30,597
(Inc)/dec in Current Assets	-12,658	-5,258	-7,104	-8,783
Inc/(dec) in CL and Provisions	20,087	3,389	10,000	12,562
Others	9,986	8,190	6,080	4,270
CF from operating activities	76,085	53,593	63,008	69,940
(Inc)/dec in Investments	3,408	9,750	1,750	-7,750
(Inc)/dec in Fixed Assets	-37,880	-44,567	-39,967	-37,967
Others	-4,771	-38	375	599
CF from investing activities	(39,243)	(34,855)	(37,841)	(45,117)
Issue/(Buy back) of Equity	0	-31	0	0
Inc/(dec) in loan funds	-27,160	-15,000	-15,000	-15,000
Dividend paid & dividend tax	0	0	0	0
Inc/(dec) in Sec. premium	0	0	0	0
Others (incl finance costs)	-891	-10,398	-9,024	-7,950
CF from financing activities	(28,051)	(25,429)	(24,024)	(22,950)
Net Cash flow	8,791	-6,690	1,143	1,873
Opening Cash	37,016	45,807	39,116	40,259
Closing Cash	45,807	39,116	40,259	42,133

Source: Company, ICICI Direct Research

Exhibit 7: Balance Sheet				
	₹ crore			
(Year-end March)	FY24	FY25E	FY26E	FY27E
Liabilities				
Equity Capital	767	735	735	735
Reserve and Surplus	84,151	1,02,781	1,25,717	1,53,332
Others	8,176	8,176	8,176	8,176
Total Shareholders funds	93,094	1,11,692	1,34,628	1,62,243
Total Debt	98,500	83,500	68,500	53,500
Deferred Tax Liability	1,143	1,190	1,278	1,389
Long term provisions	16,537	17,211	18,488	20,093
Minority Interest / Others	24,124	25,108	26,972	29,313
Total Liabilities	2,33,398	2,38,701	2,49,866	2,66,539
Assets				
Gross Block	4,06,191	4,50,257	4,90,724	5,29,191
Less: Acc Depreciation	2,85,765	3,12,201	3,40,354	3,70,950
Net Block	1,20,425	1,38,057	1,50,370	1,58,241
Capital WIP	35,698	36,198	35,698	35,198
Total Fixed Assets	1,56,124	1,74,255	1,86,069	1,93,439
Investments	22,971	13,221	11,471	19,221
Inventory	47,788	49,949	53,656	58,314
Debtors	16,952	18,731	20,121	21,868
Loans and Advances	2,500	2,602	2,795	3,038
Cash	45,807	39,116	40,259	42,133
Total Current Assets	1,54,139	1,52,706	1,60,953	1,71,610
Creditors	88,043	89,908	96,581	1,04,965
Provisions	12,292	12,552	13,484	14,654
Total Current Liabilities	1,37,265	1,40,654	1,50,654	1,63,216
Net Current Assets	16,873	12,052	10,299	8,394
Deferred Tax Asset	13,099	13,633	14,645	15,916
Application of Funds	2,33,398	2,38,701	2,49,866	2,66,539

Source: Company, ICICI Direct Research

Exhibit 8: Key ratios				
(Year-end March)	FY24	FY25E	FY26E	FY27E
Per share data (₹)				
EPS	85.3	56.6	70.3	85.0
Cash EPS	153.2	128.5	146.8	168.2
BV	243.1	303.5	365.9	440.9
DPS	6.0	6.0	8.0	10.0
Cash Per Share	156.9	117.9	115.5	141.0
Operating Ratios				
EBITDA Margin (%)	16.1	15.6	16.0	16.3
PBT / Net sales (%)	9.9	9.8	10.2	10.6
PAT Margin (%)	-1.2	3.3	5.1	0.7
Inventory days	39.8	40.0	40.0	40.0
Debtor days	14.1	15.0	15.0	15.0
Creditor days	73.4	72.0	72.0	72.0
Return Ratios (%)				
RoE	33.7	18.7	19.2	19.3
RoCE	22.5	22.7	24.5	25.9
RoIC	44.6	38.2	39.7	43.3
Valuation Ratios (x)				
P/E	9.4	14.1	11.4	0.0
EV / EBITDA	4.7	4.7	4.1	3.4
EV / Net Sales	0.8	0.7	0.7	0.6
Market Cap / Sales	0.7	0.6	0.6	0.6
Price to Book Value	3.3	2.6	2.2	1.8
Solvency Ratios				
Debt/EBITDA	1.4	1.2	0.9	0.6
Debt / Equity	1.1	0.7	0.5	0.3
Current Ratio	0.6	0.7	0.7	0.7
Quick Ratio	0.3	0.3	0.3	0.3

Source: Company, ICICI Direct Research

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Buy: >15%

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Reduce: -15% to -5%;

Sell: <-15%



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