

# Buy

## Tata Motors

Industry: Auto and Auto Components | Industry View: Positive

# LKP

Since 1948

Result Update

### Domestic turnaround tainted by JLR dip

#### Q3 JLR numbers hit by multiple levers, results below expectations

Q3FY18 consolidated numbers posted 9.8% yoy growth at the topline as both JLR volumes grew slowly, but domestic volumes excelled. At the standalone level, revenues jumped by 58% yoy on strong volume growth both at CV as well as PV segments. Prudent cost savings coupled with higher volumes led to a sharp surge in margins from 0.8% to 7.6%. Bottomline at this business witnessed breakeven before management's expectations. At JLR, 2.2% increase in wholesales volumes was subdued as strong China volumes got somewhat offset by weak UK, US and Europe volumes. JLR EBITDA margins came down at 9% from 11.8% qoq and remained flattish yoy. This was due to weak volumes in the geographies mentioned above, higher investments in new launches, phasing out of Discovery and forex losses (₹1.26 bn). Net profits at JLR reduced by 50% yoy at GBP89 mn. While consol PAT went up by 9.8% yoy.

#### New launches to drive sales, expected softness at UK and US posts a cautious outlook on volumes

JLR wholesale volumes increased by 2.2% yoy in Q3FY18 excluding sales in China joint venture. On the back of run-down of old Discovery and softness in specific markets like UK(8% down), US (9.7% down) and Europe(1.8% up), the growth in China(14.4%) and ROW countries (25.6%) markets resulted in growth of 2.2% yoy. We note the poor performances by Jaguar XE, XJ and XF (despite launch of a new model) were offset by robust growth at F-Pace, Range Rover, RR Sport, Evoque and Velar. Concerns remain on the US markets as cited by the management, and also on the UK markets. However, considering the strength in Chinese markets and ROW geographies, continuous high demand for RR, RR Sport, Velar, Discovery Sport and F-Pace along with the upcoming pipeline of launches of the E-Pace and I-Pace we expect volumes to post growth of 3.8%/7.7%/10.2% in the ensuing three years though it is slightly lower than what we were expecting earlier. We are excited about the I-Pace and E-Pace launches as it would mark JLR's entry into the electric vehicle industry which has a tremendous potential to grow. The upcoming plant at Slovakia (end of FY19) with a capacity of 150K units will trigger demand then on. On the domestic front, MHCV business has been going strong and we expect it to continue to do so hereon as macros are improving and also a favorable lower base is supporting the cause. PV sales are performing very well, gaining market share riding on the success of the recent launch of Nexon, Tiago, Hexa, and Tigor. We expect 15-20% growth in the company's PV business over the next two years.

#### Headwinds at JLR pull margins below 10%

EBITDA margin at JLR came in at ~9% in Q3, which was lower than the previous quarter. This was on the back of forex losses of ₹1.26 bn as GBP/\$ movement was adverse. Also with increased investments for new launches and R&D, margins were depressed. Phasing out of old Discovery also led to muted growth of this model and added costs too. We believe this issue will get addressed from Q4, and margins will start recovering. Europe faced Brexit woes which the management expects to settle down soon. Management has guided for 8-10% EBIT margins on JLR in the coming 1-2 years. This is on the back of new model launches gaining operating leverage, change in pension scheme payout, material cost reduction program and Slovakia plant launch and ramp up in FY19/20 which will bring up savings up to GBP 2000/unit. On the flip side, firming RM costs, electrification of vehicles and expected lull at UK and US markets may impact margins up to some extent. We have slightly reduced our margin estimates on Q3 dip, however, we believe FY19/20 margins may recover on forex hedge losses reduction will significantly impact margins outweighing the concerns on it. Additionally, smart cost cutting at India business along with higher CV sales will help margins to move on up from Q3 levels and elevate consol margins.

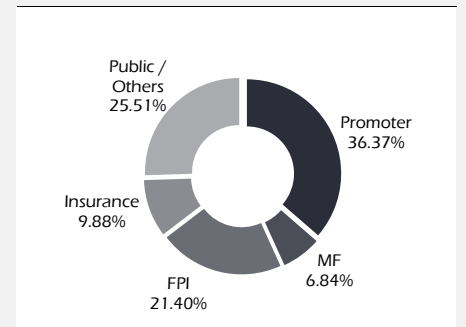
#### Stock Data

Current Market Price (₹)	370
Target Price (₹)	454
Potential upside (%)	23
FV (₹)	2
Reuters	TAMO.BO
Bloomberg	TTMT IN
Market Cap (₹ bn)	1,069
52-Week Range (₹)	518 / 357

#### What's changed

12 month Price Target (₹)	From 496 to 454
FY2018E EPS (₹)	From 16.2 to 11.3
FY2019E EPS (₹)	From 42.8 to 33
FY2020E EPS (₹)	42

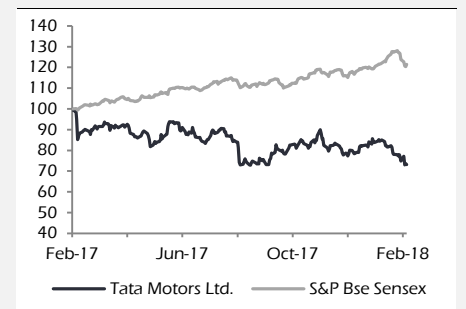
#### Shareholding Pattern



#### Fiscal YE

YE Mar	FY17	FY18E	FY19E	FY20E
Revenues (₹ bn)	2,697	2,754	3,121	3,569
EBITDA (%)	11.0	9.1	11.2	11.8
PAT (%)	3.3%	1.4%	3.6%	4.0%
EPS (₹)	25.8	11.3	32.8	42.1
EPS growth (%)	-33.2	-56.2	189.4	28.3
P/E (x)	14.5	33.0	11.4	8.9
P/B(x)	2.2	2.1	1.8	1.5
EV/EBITDA (x)	2.4	2.9	2.0	1.5
ROE (%)	15%	6%	15%	17%

#### Relative Price Performance



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**Financial Highlights**

YE Mar (₹.mn)	Q3 FY18	Q2FY18	% qoq	Q3 FY17	% yoy
Total income	741,561	706,907	4.9%	675,313	9.8%
RM costs	472,823	438,188	7.9%	400,123	18.2%
Employee costs	75,763	72,563	4.4%	70,446	7.5%
Other expenses	152,950	139,817	9.4%	196,480	-22.2%
Exp. Trnsfd to cap. Account & Prod. Devt. exp.	45,411	43,720	3.9%	43,348	4.8%
EBITDA	85,436	100,058	-14.6%	51,612	65.5%
EBITDA Margins	11.5%	14.2%	(270 bps)	7.6%	390 bps
Other income	1,816	1,888	-3.8%	1,674	8.5%
Interest exp.	12,474	11,473	8.7%	8,707	43.3%
Depreciation	55,708	49,698	12.1%	42,300	31.7%
PBT	20,291	41,490	-51.1%	5,986	239.0%
Tax	10,676	10,897	-2.0%	8,670	23.1%
Rep PAT	9,615	30,593	-68.6%	1,023	840.3%
Exceptional items	1,220	221	N/A	3,706	-67.1%
Adj PAT	10,835	30,814	-64.8%	1,116	871.3%

**Outlook and valuation**

TAMO reported weak set of numbers in Q3, as JLR profitability and specific geographic worries weighed a lot on the numbers. On the domestic front, the company gained market share in the PV segment with the launches of Tiago, Hexa and Tigor. MHCV business continued its strong performance post DeMon and BS IV implementation with good monsoon and infrastructure and mining activities inching ahead. New LCV launch and couple of new platforms in the PV space getting launched along with the recent SUV launch of Nexon may act as future growth engines for the company on the domestic side. On JLR front, products such as the recently launched LR Velar, F-Pace, E-Pace and I-Pace EVs and ramping up of recently launched Discovery may act as triggers to growth. Strength in China and ROW countries may somewhat negate the weakness in the UK, Europe (seasonal factors and Brexit) and expected softness in the US. China JV is continuously posting strong sales and profitability, which we expect to intensify further. On the profitability front, the negative impact of unwinding of forex hedges came back to haunt again in Q3. Favorable currency movement may help stabilizing of margins. More than 70% of hedge book losses getting reduced by FY19E end will lead to a sequential uptick in JLR margins hereon negating the impact of higher launch costs and EVs launch and ramp-up costs. Management expects a continued to slowdown of these losses over next 18 months. Eventual launch and ramp up of Slovakian plant will not only spur volumes but also reduce the per unit vehicle cost due to the geographical advantage it has over UK. Improving product mix in the form of new launches may also provide the impetus. In the domestic business, expected higher CV sales may lift up the margins further. On overall basis, we expect an improved performance from TAMO in the ensuing quarters. We have reduced the JLR volumes estimate a bit for FY18E/19E on volume concerns in the UK and the US. We have also introduced FY20E estimates and now value the company at a target price of ₹454. Maintain BUY.

**Financials**
**Income statement**

YE Mar (₹.mn)	FY17	FY18E	FY19E	FY20E
<b>Total Revenues</b>	<b>2,696,925</b>	<b>2,753,635</b>	<b>3,121,040</b>	<b>3,568,824</b>
Raw Material Cost	1,519,696	1,775,330	1,977,525	2,240,235
Employee Cost	283,329	282,234	313,578	355,418
Other Exp	627,537	594,546	652,067	742,529
Exp. trnsfd to capital a/cs	168,770	149,250	172,000	191,000
<b>EBITDA</b>	<b>295,887</b>	<b>250,775</b>	<b>349,870</b>	<b>421,642</b>
EBITDA Margin(%)	11.0	9.1	11.2	11.8
Other Income	7,545	41,000	52,000	61,200
Depreciation	179,050	198,151	222,201	256,610
Interest	42380	30177	33112	36553
<b>PBT</b>	<b>82,003</b>	<b>63,447</b>	<b>149,357</b>	<b>193,679</b>
Tax	(32,512)	(24,978)	(38,014)	(49,418)
<b>Rep PAT</b>	<b>60,636</b>	<b>38,469</b>	<b>111,343</b>	<b>142,807</b>
<b>Adj PAT</b>	<b>87,733</b>	<b>38,469</b>	<b>111,343</b>	<b>142,807</b>
Adj PAT Margins (%)	3.3%	1.4%	3.6%	4.0%

**Key Ratios**

YE Mar	FY17	FY18E	FY19E	FY20E
<b>Per Share Data (₹)</b>				
Adj. EPS	25.8	11.3	32.8	42.1
CEPS	78.6	69.7	98.2	117.6
BVPS	172.3	181.4	211.6	250.3
DPS	1.1	0.9	2.6	3.4
<b>Growth Ratios (%)</b>				
Total revenues	-2.1	2.1	13.3	14.3
EBITDA	-19.5	-15.2	39.5	20.5
PAT	-33.2	-56.2	189.4	28.3
EPS Growth	-33.2	-56.2	189.4	28.3
<b>Valuation Ratios (X)</b>				
PE	14.5	33.0	11.4	8.9
P/CEPS	4.8	5.4	3.8	3.2
P/BV	2.2	2.1	1.8	1.5
EV/Sales	0.3	0.3	0.2	0.2
EV/EBITDA	2.4	2.9	2.0	1.5
<b>Operating Ratios (Days)</b>				
Inventory days	47	51	53	60
Receivable Days	19	19	20	22
Payables day	264	250	245	240
Net Debt/Equity (x)	0.80	0.76	0.62	0.46
<b>Profitability Ratios (%)</b>				
ROE	15%	6%	15%	17%
Dividend payout	5%	8%	8%	8%
ROA	3%	1%	4%	4%

Source: Company, LKP Research

**Balance sheet**

YE Mar (₹. mn)	FY17	FY18E	FY19E	FY20E
<b>Equity and Liabilities</b>				
Equity Share Capital	6,792	6,792	6,792	6,792
Reserves & Surplus	573,827	609,218	711,653	843,036
Total Networth	585,150	616,010	718,445	849,827
Total debt	606,292	586,292	566,292	546,292
Deferred tax liabilities	11,740	10,740	9,740	8,740
Other long term liabilities	288,021	308,021	313,021	318,021
Long term provisions	90,045	102,045	110,045	118,045
Minority interest	0	0	0	0
<b>Current Liab &amp; Prov</b>				
Current liabilities	1,098,217	1,215,980	1,327,380	1,473,031
Provisions	58,078	71,013	83,056	98,570
<b>Total Equity &amp; Liabilities</b>	<b>2,737,541</b>	<b>2,910,100</b>	<b>3,127,978</b>	<b>3,412,526</b>
<b>Assets</b>				
Net block	595,945	597,794	575,593	518,983
Capital WIP	101,868	151,868	201,868	251,868
Goodwill	6,733	6,733	6,733	6,733
Intangible Assets	591,882	629,949	654,949	679,949
Non current investments	52,968	55,968	58,968	61,968
Deferred tax assets	44,573	44,573	44,573	44,573
Long term assets and loans & adv.	7,537	10,537	13,537	15,537
Other non current assets	167,717	169,717	171,717	173,717
<b>Current Assets</b>				
Current Investments	150,411	180,411	210,411	230,411
Cash and Bank	139,867	116,867	121,731	156,990
Inventories	350,853	384,754	453,192	586,656
Sundry Debtors	140,755	143,340	171,016	215,107
Loan, Advances & others	386,432	417,588	443,691	470,034
<b>Total Assets</b>	<b>2,737,541</b>	<b>2,910,100</b>	<b>3,127,978</b>	<b>3,412,526</b>

**Cash Flow**

YE Mar (₹ mn)	FY17	FY18E	FY19E	FY20E
PAT	75,565	38,469	111,343	142,807
Depreciation	179,050	198,151	222,201	256,610
Interest	36,653	30,177	33,112	36,553
Chng in working capital	32,543	63,056	1,227	(42,733)
Tax paid	32,512	24,978	38,014	49,418
<b>Cash flow from operations (a)</b>	<b>301,992</b>	<b>280,957</b>	<b>336,585</b>	<b>361,938</b>
Capital expenditure	(304,668)	(250,000)	(250,000)	(250,000)
Chng in investments	0	0	0	0
Other investing activities	(76,133)	(38,000)	(38,000)	(27,000)
<b>Cash flow from investing (b)</b>	<b>(380,801)</b>	<b>(288,000)</b>	<b>(288,000)</b>	<b>(277,000)</b>
Inc/(dec) in borrowings	116,577	11,000	(8,000)	(8,000)
Dividend paid (incl. tax)	(1,212)	3,220	(2,609)	(5,127)
Other financing activities	(53,311)	(30,177)	(33,112)	(36,553)
<b>Cash flow from financing (c)</b>	<b>62,053</b>	<b>(15,957)</b>	<b>(43,721)</b>	<b>(49,679)</b>
<b>Net chng in cash (a+b+c)</b>	<b>(16,755)</b>	<b>(22,999)</b>	<b>4,864</b>	<b>35,259</b>
<b>Closing cash &amp; cash equiv.</b>	<b>139,867</b>	<b>116,867</b>	<b>121,731</b>	<b>156,990</b>

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