

Tata Motors

BSE SENSEX	S&P CNX
33,251	10,309
Bloomberg	TTMT IN
Equity Shares (m)	3396.6
M.Cap.(INRb)/(USD\$)	1,495.5 / 23.0
52-Week Range (INR)	553/358
1, 6, 12 Rel. Per (%)	-1/-8/-40
Avg Val, INRm	3557
Free float (%)	63.6

Financials & Valuations (INR b)

Y/E Mar	2018E	2019E	2020E
Net Sales	2,959	3,622	3,923
EBITDA	371.8	577.3	610.1
PAT	83.6	220.0	228.1
EPS (INR)	24.6	64.8	67.2
Gr. (%)	24.2	163.2	3.7
BV/Sh (INR)	195.6	261.6	330.0
RoE (%)	13.4	28.3	22.7
RoCE (%)	7.0	16.6	14.3
P/E (x)	17.9	6.8	6.6
P/BV (x)	2.3	1.7	1.3

Estimate change



TP change



Rating change



CMP: INR440 TP: INR575(+31%)

Buy

Above est; Strong performance at both JLR & India business

- **Consol EBITDA** increased 20% YoY (+80% QoQ) to INR89.4b (est INR72.5b), translating into EBITDA margin expansion of 90bp YoY (+4100bp QoQ) at 12.6% (est 10.5%). Adj PAT increased 65% YoY to INR24.4b (est INR12.1b).
- **JLR – Lower fx hedge loss, lower other expenses & Op. leverage drives EBITDA:** Net sales at GBP6.3b (in-line) grew 11.5% YoY (+12.9% QoQ) led by volume growth of 6.2% YoY and realization growth of 5% YoY. EBITDA margins expanded 90bp YoY (+390bp QoQ) to 11.8% (v/s est 10.7%) driven by lower fx hedge loss, lower other expenses and operating leverage. Further higher share of China JV PAT, fx gains and lower depreciation boosted adj. PAT growth to 26% to GBP308m (est GBP169m).
- **S/A – Better mix and cost reduction propels EBITDA margins:** Revenues grew 35% YoY (+53% QoQ) to INR138.9b (est INR130.9b) led by volume and realisation growth of 14% YoY and 18% respectively. EBITDA margin came in at 7% (est. 4.5%), expanded 370bp YoY (+700bp QoQ), driven by better mix, cost reduction initiatives and op. leverage. As a result, net was lower at INR2.9b (est INR4.7b), as against loss of INR5.8b in 2QFY17.
- **Earnings call highlights:** a) Maintains 10% retail growth guidance for FY18 (implied residual growth of 17%), despite weak outlook in key developed markets. b) EBIT margin target of 8-10% in medium term factors in for lower margins of EVs & higher variable marketing spend. c) Though competitive intensity remains high, especially in sedan segment, JLR is averse to chasing volume at any price. d) Fx hedge losses to reduce from 4QFY18 onwards, as reflected in sharp reduction in unrealized current Fx hedge losses to GBP793m as of Sep-17 (v/s GBP1.1b as of Jun-17). e) India business PAT breakeven in FY18, led by cost reduction & volume growth.
- **Valuation & view:** We have upgraded consol EPS by 23%/6% for FY18/19, as we build in margin expansion at JLR and S/A business. The stock trades at 6.8x FY19E EPS & 2.9x EV/EBITDA. Maintain **Buy** with TP of INR575.

Quarterly performance (INR m)

Y/E March	FY17				FY18				FY17	FY18E		
(Consolidated)	1Q	2Q	3Q	4Q	1Q	2Q	3QE	4QE			2QE	Var (%)
JLR vols. (incl JV)	134,334	139,227	152,245	175,000	138,476	153,210	163,000	200,035	600,806	654,722	153,210	0.0
JLR Realizations (GBP/unit)	44,338	45,642	46,200	45,746	47,483	48,137	48,377	49,451	45,515	48,474	47,768	0.8
JLR EBITDA (%)	12.5	10.9	10.1	14.5	7.9	11.8	12.4	16.1	12.1	12.5	10.7	110bp
S/A vol. (units)	126,839	134,397	132,553	148,533	109,692	153,321	148,268	169,407	542,322	580,688	153,321	0.0
S/A Realizations (INR/unit)	811,243	765,059	769,912	914,725	829,080	905,798	869,566	917,244	818,038	885,394	853,952	6.1
S/A EBITDA (%)	6.5	3.3	1.4	4.1	0.0	7.0	6.3	7.8	3.8	5.8	4.5	250bp
S/A PAT (INR m)	258	-5,793	-10,452	-5,369	-4,671	-2,953	-3,526	426	-21,341	-10,723	-4,714	
Net Op Income	650,047	635,376	639,330	772,172	584,934	706,907	710,803	956,107	2,696,925	2,958,750	688,159	2.7
Growth (%)	7.6	3.3	-9.4	-2.9	-10.0	11.3	11.2	23.8	-1.2	9.7	4.42	
EBITDA	90,275	74,298	62,403	108,012	49,648	89,383	92,053	119,972	295,887	351,056	72,494	23.3
EBITDA Margins (%)	13.9	11.7	9.8	14.0	8.5	12.6	13.0	12.5	11.0	11.9	10.5	210bp
PBT before EO Exp	34,718	21,304	13,071	52,011	-5,145	30,099	28,603	58,339	82,002	111,896	12,994	131.6
EO Exp/(Inc)	9,204	11,311	7,085	356	-42,515	-715	0	0	27,955	0	0	
PBT after EO Exp	25,514	9,993	5,986	51,655	37,370	30,814	28,603	58,339	54,047	111,896	12,994	137.1
Tax rate (%)	28.2	42.5	144.8	24.0	32.3	35.4	32.0	25.5	60.2	42.0	32.0	
Adj PAT	28,970	14,788	-2,239	43,229	3,045	24,366	24,750	48,996	46,581	87,167	12,092	101.5
Growth (%)	(39.0)	61.1	(107.2)	(25.0)	(89.5)	64.8	(1,205)	13.3	-64.3	87.1	-46.4	

E: MOSL Estimates

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Motilal Oswal research is available on www.motilaloswal.com/Institutional-Equities, Bloomberg, Thomson Reuters, Factset and S&P Capital.

JLR: above estimates; lower fx loss, other expense and operating leverage drives EBITDA margins

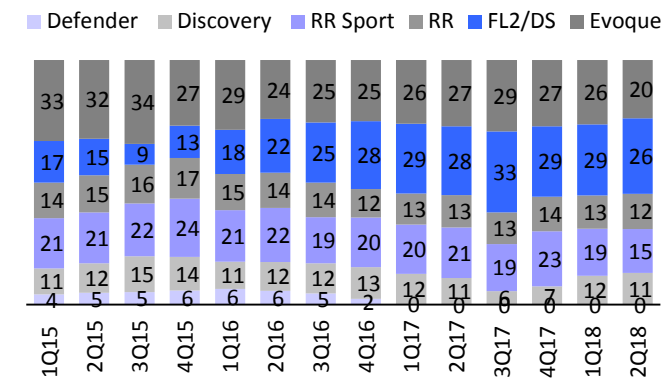
- JLR's (ex Chery JV) wholesale volumes increased by 6.2% YoY to 131,879 units, as Jaguar volume were impacted by lower sales of XE and F-pace while XF volume remained strong. In Land Rover, Discovery, Freelander, RR & Velar's positive growth was offset by lower RR sport and Evoque's sales.
- Chery JV volumes registered strong growth of 41.8% YoY at 21,331 units (+3.8% QoQ) driven by XFL in China and robust demand Range Rover Evoque. Including JV, JLR volumes grew 10% YoY to 153.2k units.
- JLR realization at GBP47.9k, grew 1% QoQ (+5% YoY) mainly driven by positive mix supported by LR contribution at 70% v/s 72% in the previous quarter.
- Net sales at GBP 6.3b grew 11.5% YoY (+12.9% QoQ) led by volume and realization growth of 6.2% YoY and 5% YoY respectively.
- JLR EBITDA margins expanded 90bp YoY (+390bp QoQ) to 11.8% driven by decline in fx hedge loss, other expenses and operating leverage. Absolute EBITDA increased better than estimates by 21.3% YoY to GBP746m (est GBP676m).
- Realized Fx hedge loss stood at GBP343m (v/s GBP454m in 2QFY18).
- Chery JVs share of PAT came in at GBP61m (v/s GBP77m during 1QFY17 which included GBP31m of local market incentive).
- Further, lower depreciation boosted adj. PAT growth to 26% to GBP308m (est GBP169m).
- JLR's 2QFY18 FCF was at negative GBP25m, with CFO of positive GBP1,008m and capex of GBP1,033m. 1HFY18 negative FCF at GBP1.3b.

Exhibit 1: JLR Quarterly Performance (IFRS)

Y/E March (GBP Million)	FY17				FY18				FY17	FY18E		Var (%)
	1Q	2Q	3Q	4Q	1Q	2Q	3QE	4QE		2QE		
Total Volumes (Incl JV)	134,334	139,227	152,245	175,000	138,476	153,210	163,000	200,035	600,806	654,722	153,210	0.0
Growth (%)	17.4	19.3	1.2	7.7	3.1	10.0	7.1	14.3	10.4	9.0	10.0	
Realization (GBP/unit)	44,338	45,642	46,200	45,746	47,483	48,137	48,377	49,451	45,515	48,474	47,768	0.8
Change YoY (%)	-1.9	5.0	10.0	3.9	7.1	5.5	4.7	8.1	4.0	6.5	4.7	
Revenues	5,355	5,668	6,048	7,268	5,599	6,322	6,700	8,820	24,339	27,442	6,300	0.4
Growth (%)	7.1	17.3	4.6	10.1	4.6	11.5	10.8	21.4	9.2	12.7	11.1	
RM/Sales (%)	60.5	61.5	63.4	62.0	63.7	63.3	63.0	62.4	61.9	63.0	63.1	20bp
Staff Costs/Sales (%)	11.3	10.3	10.7	9.0	11.7	10.5	10.6	8.8	10.2	10.2	10.7	-20bp
OE/Sales (%)	15.6	17.3	15.8	14.5	16.7	14.4	14.0	12.7	15.7	14.3	15.4	-100bp
EBITDA	672	615	611	1,057	442	746	829	1,424	2,955	3,441	676	10.3
EBITDA Margins (%)	12.5	10.9	10.1	14.5	7.9	11.8	12.4	16.1	12.1	12.5	10.7	110bp
Depreciation & Amortization	388	410	409	449	450	478	500	581	1,656	2,009	500	
Fx loss/ (gain)	-31	-50	62	-17	-100	-69	0	0	-36	-169	0	
Net Finance Cost	12	7	5	11	12	13	6	1	35	32	8	
Share of JV's PAT	45	33	35	46	77	61	65	67	159	270	42	
PBT before EO Exp	348	281	170	660	157	385	388	909	1,459	1,839	210	83.1
EO Exp/(Inc)	-51	1	-85	-16	-438	0	0	0	-151	-438	0	
PBT after EO Exp	399	280	255	676	595	385	388	909	1,610	2,277	210	83.1
Taxes	95	36	88	119	123	77	78	179	338	457	41	87.0
Adj PAT	265	245	111	544	125	308	311	730	1,153	1,471	169	82.1
Growth (%)	-46.1	374.9	-73.1	28.1	-53.0	25.7	179.1	34.3	-22.1	27.6	-31.0	

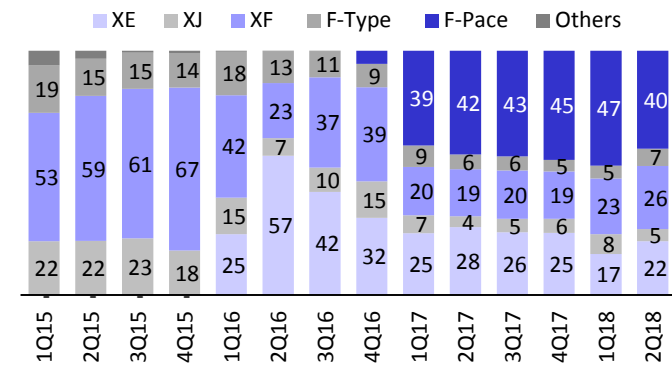
E: MOSL Estimates

Exhibit 2: Trend in Land Rover's product mix (incl JV)



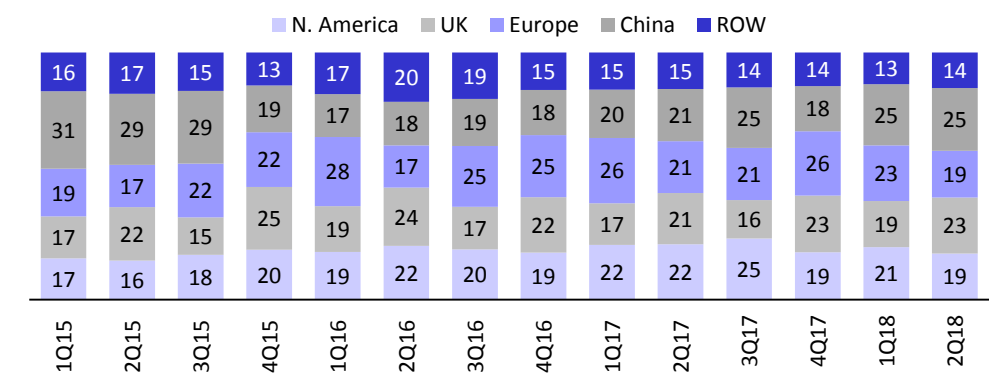
Source: Company, MOSL

Exhibit 3: Trend in Jaguar's product mix (incl JV)



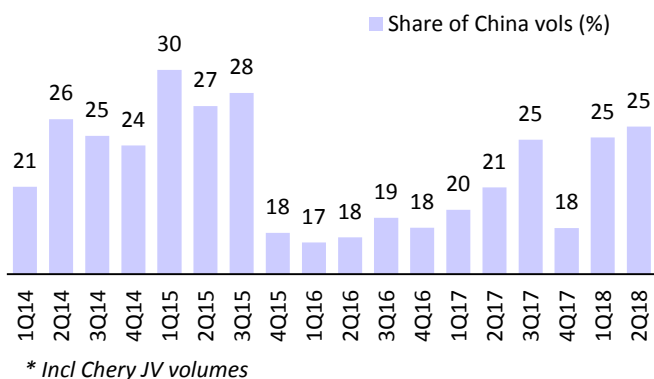
Source: Company, MOSL

Exhibit 4: Trend in JLR's market mix (incl JV)



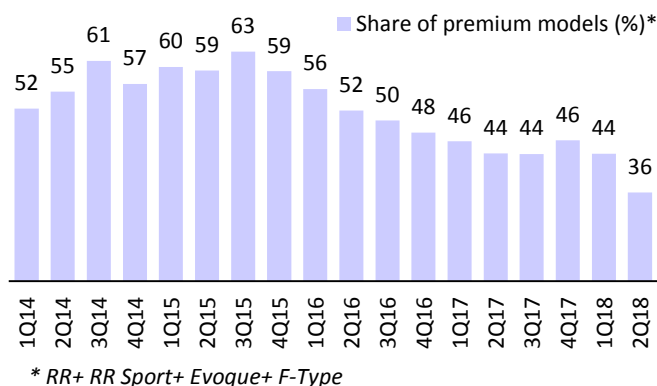
Source: Company

Exhibit 5: Share of China volumes gradually rising (incl JV)



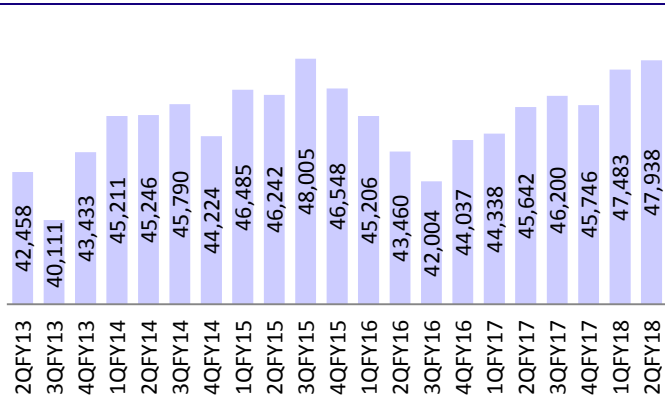
Source: Company, MOSL

Exhibit 6: Premium model share declined to 36% levels



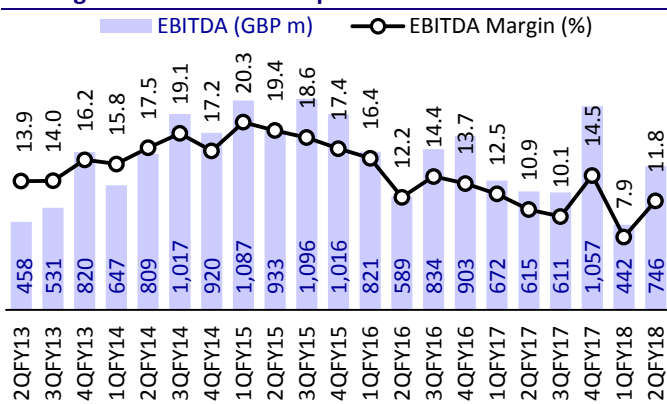
Source: Company, MOSL

Exhibit 7: JLR realizations increases ~1%QoQ



Source: Company, MOSL

Exhibit 8: JLR margins expands YoY led by operating leverage and lower other expenses



Source: Company, MOSL

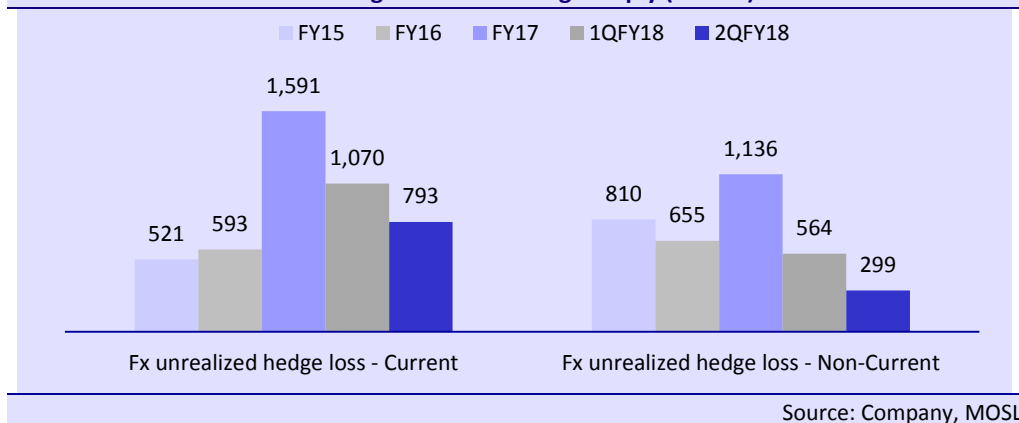


Key takeaways from the call

- Maintains 10% retail growth guidance for FY18:** While outlook for autos in developed market has deteriorated in last few months, JLR maintained its 10% retail growth target for FY18 (implying 17% residual growth) driven by new product launches. Recent launches like Velar and New Discovery enjoys good customer response. Also, they don't expect substantial drop in volumes of RR/RR Sport in 3QFY18 despite phase-out for MY18.
- Production ramp-up for new models at Solihull would gradual ease,** especially after shift of Discovery to Slovakia plant by 3QFY19.
- Competitive intensity remains high,** especially in luxury sedan segment. JLR is not participating in heavy discounting and would not chase volumes at any price.
- Fx hedge losses would reduce substantially from 4QFY18 onwards.** Unrealized current Fx hedge losses have further reduced to GBP793m as of Sep-17 (v/s GBP1.1b as of Jun-17 v/s GBP1.6b as of Mar-17). Further, non-current hedge loss (>1yr) now stands at only GBP299m (v/s GBP564m as of Jun-17 v/s GBP1.1b as of Mar-17).
- Targeting 8-10% EBIT margins over medium term:** Guides for EBITDA margins in FY18 to remain stable over FY17 of ~12%. EBIT margin target of 8-10% in medium term factors in for lower margins of EVs and higher variable marketing spend.

- **JLR is focused on cost efficiencies** (low-cost manufacturing base, significant material cost reduction etc) to off-set cost of electrification and potential normalization of China margins.
- **On the EV side**, JLR to launch plug-in hybrid Range Rover and Range Rover Sport in 2018 in addition to planned launch of I-Pace battery EV in mid-2018.
- **JLR Capex**: Guidance maintained at GBP4-4.35b FY18.

Exhibit 9: JLR's unrealized Fx hedge losses reducing sharply (GBP m)



Standalone: Better mix, cost reduction and operating leverage propels margins

- S/A volumes increased by 14.1% YoY (+39.8% QoQ) to 153.3k units, driven by 15.8% YoY growth in CVs while PV volumes increased by 10.4% YoY. Inventory build-up, recovery in CV demand post GST supported CV sales while new products drive PV sales.
- Realizations growth was better than estimates at 18.4% YoY (+9.3% QoQ) to INR905.8k (est ~INR854k) driven by better mix and ~1% price increase, despite higher discounts. Product mix remain favourable with higher contribution from M&HCV.
- Consequently, net revenue increased 35% YoY (+52.7% QoQ) to INR138.9b (est INR130.9b).
- EBITDA almost doubled at INR9.7b (est INR5.9b) led by better mix, cost reduction initiatives and operating leverage. Consequently, EBITDA margin came in above estimate at 7% (est. 4.5%), expanded 370bp YoY (+700bp QoQ).
- Higher other income at INR1.4b (est INR1.25b) restricted net loss to INR2.9b (est INR4.7b) as against net loss of INR4.7b in 1QFY18 and loss of INR5.8b in 2QFY17.

Exhibit 10: Quarterly Performance (Standalone)

Y/E March	FY17				FY18				FY17	FY18E	2QE	Var (%)
	1Q	2Q	3Q	4Q	1Q	2Q	3QE	4QE				
Total Volumes (nos)	126,839	134,397	132,553	148,533	109,692	153,321	148,268	169,407	542,322	580,688	153,321	0.0
Change (%)	8.3	14.4	7.6	1.2	-13.5	14.1	11.9	14.1	1.8	7.1	14.1	
Avg Realization (INR)	811,243	765,059	769,912	914,725	829,080	905,798	869,566	917,244	818,038	885,394	853,952	6.1
Change (%)	1.9	-16.0	-5.6	4.9	2.2	18.4	12.9	0.3	1.7	8.2	11.2	
Net Operating income	102,897	102,822	102,054	135,867	90,943	138,878	128,929	155,387	443,640	514,137	130,929	6.1
RM Cost (% of Sales)	66.9	72.2	73.3	70.4	70.6	74.2	74.5	71.2	70.7	72.8	71.0	320bp
Staff Costs (% of sales)	8.7	8.6	8.3	6.9	9.8	6.4	6.7	5.9	8.0	6.9	6.9	-50bp
Other Exp (% of sales)	17.8	16.0	17.1	18.7	19.6	12.4	12.5	15.1	17.5	14.5	17.6	-520bp
EBITDA	6,697	3,358	1,390	5,562	31	9,710	8,110	12,044	17,007	29,895	5,851	66.0
EBITDA Margins (%)	6.5	3.3	1.4	4.1	0.0	7.0	6.3	7.8	3.8	5.8	4.5	250bp
Non-Operating Income	6,246	1,460	940	1,143	6,399	1,419	1,200	1,482	9,788	10,500	1,250	13.5
Forex Gain / (Loss)	-788	1,202	-442	2,553	80	-728	0	0	2,525	-649	0	
Interest	3,491	3,728	4,137	4,545	3,678	4,441	4,000	3,816	15,902	15,935	3,700	20.0
Depreciation & Amort.	7,122	7,186	7,290	8,096	6,748	7,506	7,650	7,741	29,694	29,645	7,000	7.2
Product Dev. Expenses	1,162	699	770	1,915	752	1,112	1,100	1,663	4,545	4,627	1,000	11.2
PBT before EO Exp	379	-5,593	-10,309	-5,298	-4,669	-2,659	-3,440	306	-20,821	-10,462	-4,599	-42.2
EO Exp/(Inc)	0	497	8	2,883	0	0	0	0	2,891	0	0	
PBT after EO Exp	379	-6,089	-10,316	-8,181	-4,669	-2,659	-3,440	306	-23,711	-10,462	-4,599	-42.2
Effective Tax Rate (%)	32.0	-3.6	-1.4	-1.3	0.0	-11.1	-2.5	-39.4	-2.5	-2.5	-2.5	-860bp
PAT	258	-6,308	-10,459	-8,290	-4,671	-2,953	-3,526	426	-24,303	-10,723	-4,714	-37.4
Change (%)	-91	118	664	-308	-1,914	-53	-66	-105	-1,070	-56	-25.3	
Adj PAT	258	-5,793	-10,452	-5,369	-4,671	-2,953	-3,526	426	-21,341	-10,723	-4,714	-37.4
Change (%)	-22.6	LP	LP	LP	LP	LP	LP	LP	LP	LP	LP	

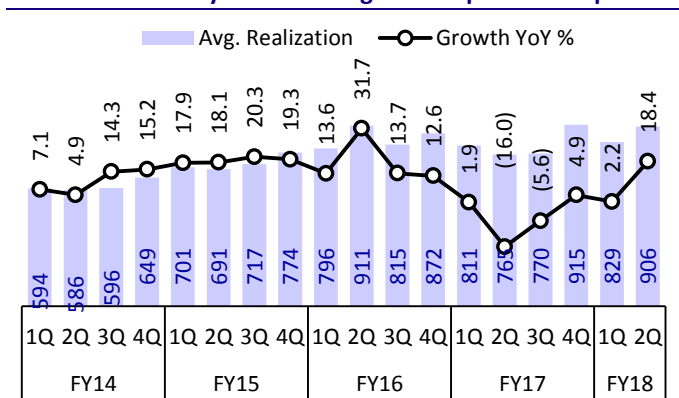
E: MOSL Estimates

Exhibit 11: Trend in segment mix

Segment	2QFY18	2QFY17	YoY (%)	1QFY18	QoQ (%)
M&HCVs	44,780	39,160	14.4	27,465	63.0
Contribution (%)	29.2	29.1		25.0	
LCVs	61,469	52,590	16.9	46,206	33.0
Contribution (%)	40.1	39.1		42.1	
Total CVs	106,249	91,750	15.8	73,671	44.2
Contribution (%)	69.3	68.3		67.2	
Cars	36,134	37,453	-3.5	31,998	12.9
Contribution (%)	23.6	27.9		29.2	
UVs	10,938	5,194	110.6	4,023	171.9
Contribution (%)	7.1	3.9		3.7	
Total Volumes	153,321	134,397	14.1	109,692	39.8

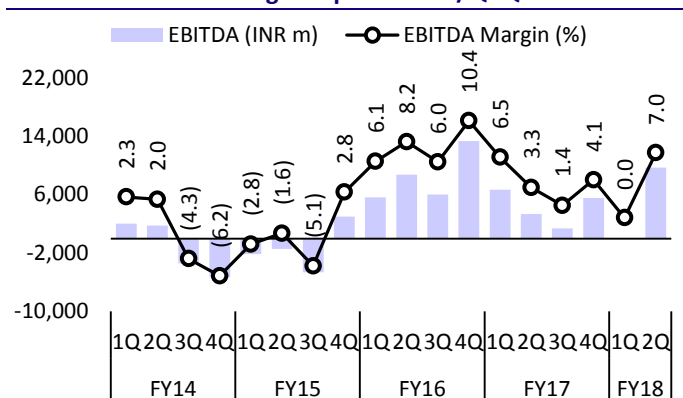
Source: Company, MOSL

Exhibit 12: Healthy realizations growth a positive surprise



Source: Company, MOSL

Exhibit 13: EBITDA margin improves YoY/QoQ



Source: Company, MOSL



Standalone: Key takeaways from the call

- TTMT CV has taken average **price increase of ~1% in August and October** to mitigate prevailing discount pressure.
- **Discounting in M&HCV remains high**, with 15-20% increase on YoY basis and marginal increase on QoQ basis.
- **It is confident of PAT break-even in FY18**, driven by cost reduction and volume increase. Cost reduction achieved in 2QFY18, especially on other expenses, are sustainable.

Valuation and view

- **Strong product cycle positioning for all major JLR brands to aid volumes in FY18-19E:** With ~50% of volumes coming from new/refreshed over the next two years, as it launches two new products, 6 refreshes and foray into the EV space before its peers. We expect JLR's volumes (including JV) to grow at a CAGR of 14% over FY17-19, driven by 12% CAGR for Land Rover and 18% CAGR for Jaguar on the back of the launch of two new models and six major refreshes.
- **JLR's profitability has many levers:** JLR has several levers, both cyclical and structural, in the form of (a) favorable Fx, as realized hedge rates improve from 3QFY18, (b) better product mix (higher share of RR, RR Sport, and Discovery), (c) operating leverage, (d) cost savings on modular platform on full rollout of modular strategy, and (e) manufacture of Ingenium engines in-house v/s sourcing engines from Ford. The convergence of the multiple factors stated above is expected to drive up EBITDA margin by 450bp from 12.1% in FY17 to 16.6% in FY19E.
- **PV business turnaround on the anvil?** : With Tiago & Tigor having good start and new launches scheduled over FY18, we believe the worst is behind for the PV business. Breakeven point for the PV business is estimated at 55% utilization levels, which could be achieved in next 2-3 years. This could add 6-7% to our FY19 SOTP.
- **Strong margins, reduced capex intensity to result in strong FCFF and RoE improvement:** Post commissioning of the Slovakia plant, capex intensity for JLR is likely to reduce from FY19. This coupled with improvement in operating performance would improve FCFF in FY18 and FY19. Consolidated RoE should improve over FY17-19E by 18.5pp to 28.3%.
- **Valuation and view:** We have upgraded consol EPS by 23%/6% for FY18/19, as we build in margin expansion at JLR and S/A business. JLR is poised for sharp recovery, driven by (a) promising product pipeline, (b) beneficial Fx movement, (c) conducive mix, (d) favorable operating leverage, and (e) improved FCF conversion. The India business is interestingly positioned with several levers to drive turnaround for both PVs and CVs. We have maintained EV/EBITDA multiple for JLR to 3x while we value S/A business at EV/EBITDA of 8x. The stock trades at 6.8x FY19E EPS & 2.9x EV/EBITDA. We maintain **Buy** with TP of INR575 (Sep-19 SOTP based).

Exhibit 14: Revised Estimates

Key Assumptions	FY18E			FY19E		
	Rev	Old	Chg (%)	Rev	Old	Chg (%)
Consolidated						
Net Sales	2,959	2,970	-0.4	3,622	3,726	-2.8
EBITDA	372	357	4.1	577	573	0.7
EBITDA Margins (%)	12.6	12.0	50bp	15.9	15.4	60bp
Net Profit	84	68	22.8	220	208	5.6
Cons EPS	24.6	20.0	22.8	64.8	61.3	5.6
JLR (IFRS, GBP M)						
Volumes ('000 units) incl JV	655	666	-1.7	775	810	-4.4
EBITDA	3,441	3,402	1.2	5,597	5,628	-0.5
EBITDA Margins (%)	12.5	12.3	30bp	16.6	16.1	50bp
Net Profit	1,421	1,275	11.4	2,757	2,685	2.7
Standalone						
Volumes ('000 units)	581	594	-2.2	642	660	-2.6
EBITDA	30	22	35.2	44	37	19.6
EBITDA Margins (%)	5.8	4.3	150bp	7.7	6.5	120bp
Net Profit	(10.7)	(15.8)	32.1	(0.1)	(6.5)	98.5

Source: Company, MOSL

Exhibit 15: TATA MOTORS: Sum-of-the-parts valuation

INR B	Valuation Parameter	Multiple (x)	FY19E	FY20E
Tata Motors - Standalone	EV/EBITDA	8.0	354	435
JLR (Adj for R&D capitalization)	EV/EBITDA	3.5	1,172	1,144
JLR - Chery JV EBITDA Share	EV/EBITDA	3.5	129	187
HV Axles	EV/EBITDA	8.0	8	8
HV Transmission	EV/EBITDA	8.0	6	6
Tata Technologies	EV/EBITDA	8.0	54	60
Tata Daewoo	EV/EBITDA	5.0	23	25
Total EV			1,745	1,865
Less: Net Debt (Ex FCCB & TMFL)			150	47
Add: Other Investments				
Tata Motors Finance	P/BV	1	39	42
Other Associates/JVs	P/BV	1	81	123
Tata Sons	20% discount		104	104
Total Equity Value			1,819	2,087
Fair Value (INR/Sh) - Ord Sh	Fully Diluted		536	615
Upside (%)			21.7	39.6
Fair Value (INR/Sh) - DVR	EV/EBITDA		374	429
Upside (%)	EV/EBITDA		51.9	74.3

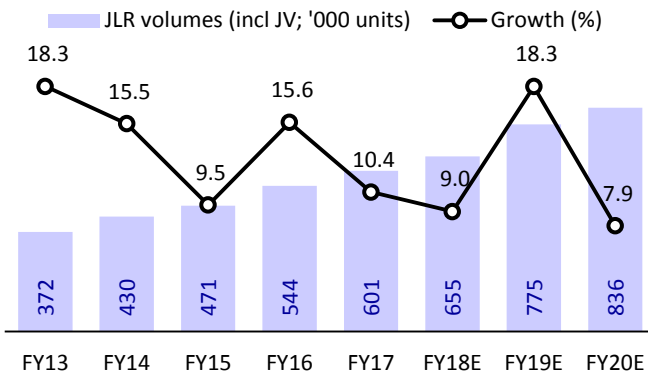
Source: MOSL

Exhibit 16: Comparative valuation

	CMP (INR)*	Rating	TP (INR)	P/E (x)		EV/EBITDA (x)		RoE (%)		Div Yield (%)		EPS CAGR (%)
				FY18E	FY19E	FY18E	FY19E	FY18E	FY19E	FY18E	FY19E	FY17-19E
Auto OEM's												
Bajaj Auto	3,200	Buy	3,753	22.0	18.3	16.6	13.2	23.3	25.3	2.0	2.5	15.0
Hero MotoCorp	3,604	Neutral	3,819	19.7	18.6	12.4	11.7	33.7	31.1	2.5	2.5	7.1
TVS Motor	695	Neutral	764	46.5	26.9	29.3	17.6	26.5	35.6	0.4	0.6	48.3
M&M	1,362	Buy	1,585	19.6	16.7	14.7	12.7	13.5	14.3	1.5	1.5	22.7
Maruti Suzuki	8,202	Buy	9,466	28.5	21.5	17.6	13.8	20.5	23.0	1.0	1.2	23.8
Tata Motors	440	Buy	575	17.9	6.8	4.8	2.9	13.4	28.3	0.1	0.1	80.8
Ashok Leyland	115	Buy	134	25.7	18.5	12.7	9.4	20.4	25.2	1.7	1.9	16.9
Eicher Motors	30,820	Buy	36,487	37.3	27.5	28.4	23.0	36.1	36.4	0.5	0.6	35.2
Auto Ancillaries												
Bharat Forge	719	Buy	844	37.6	27.6	20.6	16.5	20.1	23.2	0.6	0.7	41.0
Exide Industries	202	Buy	254	25.6	20.9	15.2	12.6	12.5	13.7	1.1	1.1	9.1
Amara Raja Batteries	735	Buy	854	28.7	22.3	15.5	11.9	15.8	17.7	0.5	0.7	8.4
BOSCH	21,103	Neutral	22,781	39.0	30.2	24.1	18.8	17.8	20.5	0.9	1.1	21.5
Endurance Tech	1,152	Buy	1,229	38.9	29.3	18.5	15.3	21.8	24.0	0.3	0.6	29.3

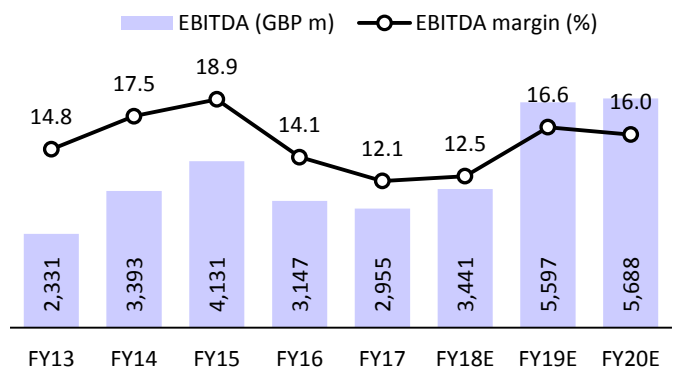
Tata Motors | Story in Charts: Strong recovery in EPS with ~51% CAGR

Expect JLR (incl JV) volume CAGR of 11.6% over FY17-FY20 led by new launches



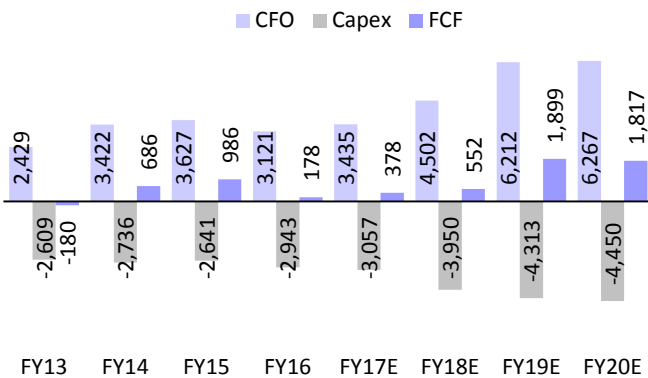
Source: Company, MOSL

Exhibit 17: JLR Margins to increase as volume ramps-up and Fx hedge turns favorable



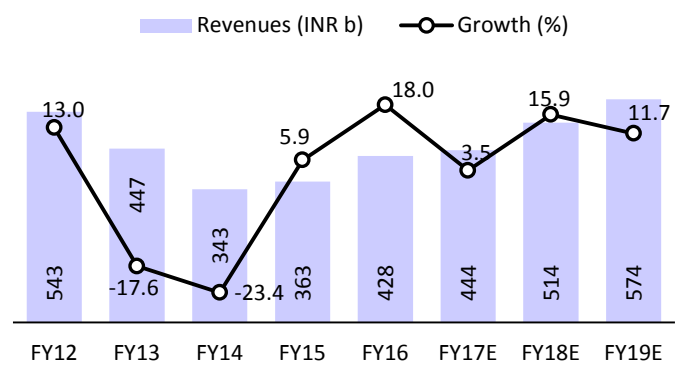
Source: Company, MOSL

Exhibit 18: JLR's to remain FCF positive despite high capex plans



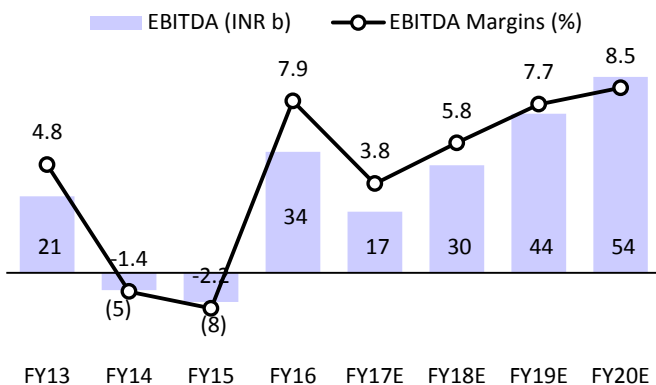
Source: Company, MOSL

Exhibit 19: S/A business to recover on new product launches and marketing initiatives



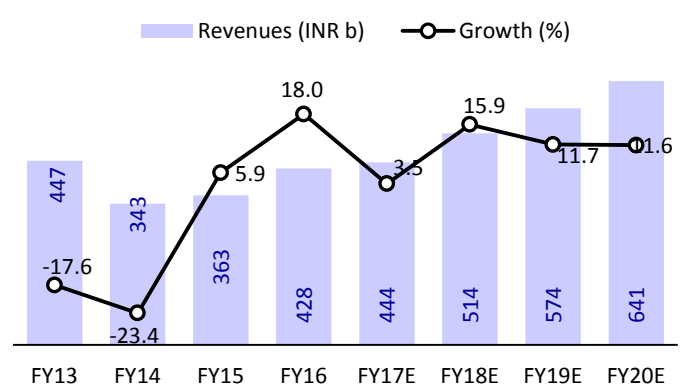
Source: Company, MOSL

Exhibit 20: S/A margins to improve on volume recovery and cost control initiatives



Source: Company, MOSL

Exhibit 21: S/A EPS CAGR of 13.1% over FY17-20E



Source: Company, MOSL

Key operating metrics

Exhibit 22: Snapshot of Revenue model

000 units	FY13	FY14	FY15	FY16	FY17	FY18E	FY19E	FY20E
JLR								
Jaguar	58	79	76	102	179	186	247	267
Growth (%)	7.0	37.2	-3.5	33.5	75.1	4.0	33.0	8.1
% of Total JLR Vols	15.5	18.4	16.3	20.0	33.4	32.8	36.9	39.0
Land Rover	314	351	394	442	422	469	528	569
Growth (%)	20.7	11.6	12.4	12.2	-4.5	11.1	12.5	7.8
% of Total JLR Vols	84.5	81.6	83.7	86.8	78.9	82.8	78.8	83.0
Total Volumes	372	430	471	509	535	566	669	685
Growth (%)	18.3	15.5	9.5	8.2	5.0	5.9	18.2	2.4
ASP (GBP '000/unit)	42	45	46	44	46	48	50	52
Growth (%)	-1.3	6.3	3.0	-5.8	4.0	6.5	4.0	3.0
Net JLR Sales (GBP b)	16	19	22	22	24	27	34	36
Growth (%)	16.8	22.8	12.8	1.9	9.2	12.7	23.0	5.5
DOMESTIC								
MH&CVs	153	122	143	176	176	174	190	203
Growth (%)	-31.1	-19.7	16.5	23.6	-0.3	-0.9	9.0	7.0
LCVs	429	299	222	205	209	227	253	283
Growth (%)	17.8	-30.3	-25.8	-7.7	2.1	8.7	11.5	11.7
Total CVs	581	421	365	381	385	401	443	486
Growth (%)	-0.7	-27.5	-13.5	4.6	1.0	4.3	10.5	9.7
Total PVs	229	145	138	152	157	179	199	221
Growth (%)	-32.2	-36.5	-5.3	10.1	3.9	13.8	11.0	11.1
Total Volumes	810	567	502	533	542	581	642	707
Growth (%)	-12.2	-30.1	-11.4	6.1	1.8	7.1	10.6	10.1
ASP (INR 000/unit)	552	605	723	804	818	885	894	906
Net S/A Sales (INR b)	447	343	363	428	444	514	574	641
Growth (%)	-17.6	-23.4	5.9	18.0	3.5	15.9	11.7	11.6

Financials and Valuations

Income Statement (Consolidated)				(INR Million)		
Y/E March	2015	2016	2017	2018E	2019E	2020E
Total Income	2,631,590	2,730,456	2,696,925	2,958,750	3,621,588	3,922,588
Change (%)	13.0	3.8	-1.2	9.7	22.4	8.3
Expenditure	2,210,452	2,312,693	2,327,802	2,586,995	3,044,239	3,312,504
EBITDA	421,138	417,763	369,124	371,755	577,349	610,084
% of Net Sales	16.0	15.3	13.7	12.6	15.9	15.6
Depreciation	133,886	167,108	179,050	203,575	245,349	288,638
EBIT	287,252	250,655	190,074	168,180	332,000	321,445
Product Dev. Exp.	28,752	34,688	34,136	34,415	33,181	32,331
Interest	48,615	48,891	42,380	42,954	44,744	45,663
Other Income	8,987	8,854	7,545	7,368	7,684	8,158
EO Exp/(Inc)	930	18,504	-11,146	7,950	0	0
Forex Gain/ (Loss)	917	16,169	39,101	-13,716	0	0
PBT	217,026	141,258	93,148	103,946	261,759	251,609
Tax	76,429	30,251	32,512	47,014	68,447	63,614
Effective Rate (%)	35.2	21.4	34.9	45.2	26.1	25.3
Reported PAT	140,597	111,007	60,636	56,932	193,312	187,995
Change (%)	-0.3	-21.0	-45.4	-6.1	239.5	-2.8
% of Net Sales	5.3	4.1	2.2	1.9	5.3	4.8
Minority Interest	-868	-989	-1,022	-1,068	-1,179	-1,281
Share of profit of associate	134	5,775	14,930	23,353	27,837	41,407
Net Profit	139,863	115,793	74,544	79,216	219,970	228,120
Adj. PAT	140,465	130,334	67,288	83,571	219,970	228,120
Change (%)	-1.1	-7.2	-48.4	24.2	163.2	3.7

Balance Sheet (Cons.)				(INR Million)		
Y/E March	2015	2016	2017	2018E	2019E	2020E
Share Capital	6,438	6,792	6,792	6,792	6,792	6,792
Reserves	556,181	782,732	573,827	657,283	881,493	1,113,853
Net Worth	562,619	789,524	580,619	664,075	888,285	1,120,645
Loans	692,115	619,612	744,891	726,807	708,724	690,640
Deferred Tax	-13,900	44,748	11,740	11,740	11,740	11,740
Capital Employed	1,245,167	1,458,212	1,341,781	1,408,222	1,615,527	1,831,085
Gross Fixed Assets	1,582,066	1,976,068	2,043,106	2,471,810	2,847,860	3,232,752
Less: Depreciation	744,241	911,348	1,090,398	1,293,973	1,539,322	1,827,960
Net Fixed Assets	837,825	1,064,720	952,708	1,177,837	1,308,538	1,404,792
Capital WIP	286,401	259,189	336,988	250,000	250,000	250,000
Goodwill	46,970	7,598	6,733	6,733	6,733	6,733
Investments	153,367	237,670	203,379	226,732	254,569	295,976
Curr.Assets	1,034,685	1,102,234	1,237,735	1,161,445	1,383,233	1,539,340
Inventory	292,723	326,557	350,853	385,043	471,303	510,474
Sundry Debtors	125,792	135,709	140,756	162,123	198,443	214,936
Cash & Bank Bal.	321,158	304,604	360,779	203,932	278,139	353,582
Loans & Advances	256,948	254,033	291,474	306,474	321,474	336,474
Current Liab. & Prov.	1,114,081	1,213,200	1,395,762	1,414,525	1,587,545	1,665,757
Sundry Creditors	574,073	615,618	625,326	664,705	793,773	859,745
Other Liabilities	328,305	460,226	622,314	587,697	595,330	591,075
Net Current Assets	-79,396	-110,965	-158,027	-253,080	-204,313	-126,417
Appl. of Funds	1,245,167	1,458,212	1,341,782	1,408,222	1,615,527	1,831,085

E: MOSL Estimates

Financials and Valuations

Ratios (Con.)

Y/E March	2015	2016	2017	2018E	2019E	2020E
Basic (INR)						
EPS	43.6	38.4	19.8	24.6	64.8	67.2
EPS Fully Diluted	43.6	38.4	19.8	24.6	64.8	67.2
Normalized EPS ^	14.4	7.2	-10.6	-7.2	26.2	19.2
EPS Growth (%)	-1.1	-12.0	-48.4	24.2	163.2	3.7
Cash EPS	85.2	87.6	72.5	84.6	137.0	152.2
Book Value (Rs/Share)	174.8	232.5	171.0	195.6	261.6	330.0
DPS	0.0	0.0	0.0	0.3	0.3	0.3
Payout (Incl. Div. Tax) %	0.0	0.0	0.0	1.3	0.5	0.5
Valuation (x)						
Consolidated P/E	10.1	11.5	22.2	17.9	6.8	6.6
Normalized P/E	30.6	61.5	-41.5	-61.0	16.8	22.9
EV/EBITDA	3.9	3.8	4.5	4.8	2.9	2.5
EV/Sales	0.6	0.6	0.6	0.6	0.5	0.4
Price to Book Value	2.5	1.9	2.6	2.3	1.7	1.3
Dividend Yield (%)	0.0	0.0	0.0	0.1	0.1	0.1
Profitability Ratios (%)						
RoE	23.1	19.3	9.8	13.4	28.3	22.7
RoCE	15.7	15.1	9.2	7.0	16.6	14.3
RoIC	39.2	34.5	22.6	15.8	31.4	27.2
Turnover Ratios						
Debtors (Days)	17	18	19	20	20	20
Inventory (Days)	41	44	47	48	48	48
Creditors (Days)	80	82	85	82	80	80
Asset Turnover (x)	2.1	1.9	2.0	2.1	2.2	2.1
Leverage Ratio						
Debt/Equity (x)	1.2	0.8	1.3	1.1	0.8	0.6

Cash Flow Statement

Y/E March	2015	2016	2017	2018E	2019E	2020E
OP/(Loss) before Tax	139,863	110,238	74,544	79,216	219,970	228,120
Int/Div. Received	7,777	8,258	7,545	7,368	7,684	8,158
Depreciation	133,864	170,142	179,050	203,575	245,349	288,638
Direct Taxes Paid	-41,940	-19,939	-65,520	-47,014	-68,447	-63,614
(Inc)/Dec in WC	-36,718	25,515	103,236	-61,794	25,440	-2,453
Other Items	136,570	96,855	1,068	1,068	1,179	1,281
CF from Op Activity	339,415	391,069	299,923	182,420	431,174	460,130
Extra-ordinary Items	20,191	8,857	11,146	-7,950	0	0
CF after EO Items	359,606	399,925	311,069	174,470	431,174	460,130
(Inc)/Dec in FA+CWIP	-315,396	-326,232	-144,837	-341,716	-376,049	-384,893
(Pur)/Sale of Invest.	-37,570	-68,134	34,291	-23,353	-27,837	-41,407
CF from Inv Activity	-352,966	-394,366	-110,546	-365,069	-403,886	-426,300
Issue of Shares	0	74,332	-283,449	5,344	5,344	5,344
Inc/(Dec) in Debt	122,288	-47,483	125,280	-18,084	-18,084	-18,084
Interest Paid	-63,070	-57,039	-42,380	-42,954	-44,744	-45,663
Dividends Paid	-7,204	-1,739	0	-1,104	-1,104	-1,104
CF from Fin Activity	52,014	-31,930	-200,550	-56,797	-58,588	-59,508
Inc/(Dec) in Cash	58,655	-26,371	-27	-247,396	-31,300	-25,677
Add: Beginning Bal.	152,629	219,875	360,779	203,932	278,139	353,582
Closing Balance	211,283	193,505	360,752	-43,465	246,839	327,905

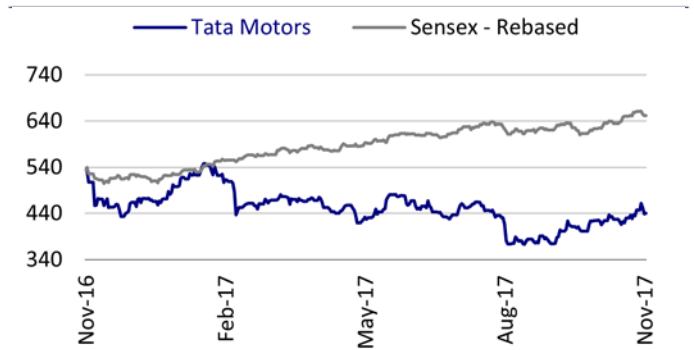
E: MOSL Estimates

Corporate profile

Company description

Tata Motors is the largest CV manufacturer in India with 55% market share in MHCV and 37% in LCVs. It also manufactures passenger cars and UVs. In FY09, it acquired Jaguar & Land Rover from Ford for USD2.5b.

Exhibit 1: Sensex rebased



Source: MOSL/Bloomberg

Exhibit 2: Shareholding pattern (%)

	Sep-17	Jun-17	Sep-16
Promoter	36.4	34.7	33.0
DII	15.3	16.1	14.5
FII	22.6	23.5	26.1
Others	25.8	25.7	26.4

Note: FII Includes depository receipts

Source: Capitaline

Exhibit 3: Top holders

Holder Name	% Holding
Citibank N.A. New York Nyadr Department	16.8
Life Insurance Corporation Of India	5.2
Government Of Singapore	1.9
Icici Prudential Life Insurance Company Ltd	1.5
Citibank N.A. New York Nyadr Department	16.8

Source: Capitaline

Exhibit 4: Top management

Name	Designation
N Chandrasekaran	Chairman
Ratan N Tata	Chairman Emeritus
Guenter Butschek	Managing Director & CEO
Satish B Borwankar	Executive Director
H K Sethna	Company Secretary

Source: Capitaline

Exhibit 5: Directors

Name	Name
Ralf Speth	Ravindra Pisharody
Falguni Nayar	Nasser Munjee
R A Mashelkar	Subodh Bhargava
Vinesh K Jairath	

*Independent

Exhibit 6: Auditors

Name	Type
B S R & Co LLP	Statutory
Deloitte Haskins & Sells LLP	Statutory

Source: Capitaline

Exhibit 7: MOSL forecast v/s consensus

EPS (INR)	MOSL forecast	Consensus forecast	Variation (%)
FY18	24.6	28.4	-13.4
FY19	64.8	44.8	44.7
FY20	67.2	52.7	27.5

Source: Bloomberg

NOTES

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Analyst ownership of the stock

Tata Motors

No

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