

CMP: Rs 178

Rating: Neutral

Target: Rs 177

(NR-Not Rated)

Stock Info

INDEX	
BSE	500570
NSE	TATAMOTORS
Bloomberg	TTMT IN
Reuters	TAMO.NS
Sector	Automobiles
Face Value (Rs)	2
Equity Capital (Rs mn)	6792
Mkt Cap (Rs bn)	5,181
52w H/L (Rs)	317 / 142
Avg Weekly Vol (BSE+NSE)	129,798

Shareholding Pattern

	%
(As on March, 2019)	
Promoters	38.4
Public & Others	61.6

Source: NSE, Arihant Research

Stock Performance (%)	3m	6m	12m
TTMT	2.8	-1.5	-41.7
SENSEX	9.0	11.8	12.9

Source: ACE Equity, Arihant Research

TATA MOTORS v/s SENSEX



Source: ACE Equity, Arihant Research

Result Highlights

Tata Motors (TTMT) reported subdued operational performance in Q4FY19 as consolidated net sales stood at Rs 864bn (-4% YoY / +12% QoQ). Gross margins stood at 33.9% (-260bps YoY/ -90bps QoQ) which were impacted by negative operating leverage due to weak JLR and domestic volumes. EBITDA stood at Rs 84.6bn (-14% YoY / +38% QoQ). EBITDA margin stood at 9.8% (-125bps YoY/+185bps QoQ) and were impacted by higher staff costs (+12% YoY). The management highlighted that the demand in the domestic automotive market remains uncertain. The growth in CVs saw a sharp slowdown post the implementation of axle load norms in August whereas the PVs impacted by weak festive sales that translated to record high inventory levels. Within the JLR, the China market (16% of volumes) remained a major cause of worry led by sharp decline (-30% YoY) in volumes though the discounts stabilized at 15% levels thus offering some respite.

For JLR, the robust growth in US market has been offset by sharp decline in China volumes. This underpins our argument that, while the positive free cash flows for TTMT still remain elusive, any significant recovery in China market can see sharp re-rating for the stock.

Domestic highlights

- The **domestic outlook** continues to remain sluggish due to high inventory levels and deferment in purchases in key regions.
- For FY19, **PV segment** achieved a breakeven at EBITDA level
- The domestic **CV market** saw sharp rise in discounts led by high competition. The management is hopeful of **BS VI costs pass-through** on account of improvement in volumes led by pre-buying ahead of emission related costs increases in H2FY20
- For **TML Finance**, GNPA declined to 2.6% in FY19 from ~4% in FY18.

JLR highlights

- In Q4, **positive free cash flows** of GBP 1.4bn on account of higher forex gains.
- For FY19, **wholesales in China** (including JV) were down by 68k units which impacted the overall profitability.
- **Discounts** in China remained stable at 15% levels. Management expects demand to improve in H2FY20.
- JLR continues to perform well in the **USA market** with >50% market share in premium car market which is largely dominated by SUVs (70% of total volumes)
- JLR remains focused on **costs rationalization in operating expenses** through various measures and expects to achieve GBP 1.3bn in cost savings over next two years.
- JLR expects to **invest GBP 4bn** in FY20 on new products
- The company re-launched the flagship product **Evoque** and is expected to launch the **Defender** in FY20.

Outlook and valuation

We factor in weak demand scenario for TTMT in our estimates which shall keep the free cash flows negative until FY21E. At CMP of Rs 178, the stock is trading at 3.9x FY21E EV/EBITDA. WE have valued the company with SOTP-based valuation for a target price of Rs 177 and ascribed a NEUTRAL rating to the stock. Any recovery in China/Europe shall augur well for TTMT over the medium term.

Consolidated quarterly result summary

Consolidated (Rs mn)	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19	YoY (%)	QoQ (%)
Total Revenues	899,290	667,011	721,121	769,159	864,220	-4%	12%
Dec/(inc) in stock	18,864	-42,119	-31,568	-11,484	105,704	-	-
Raw material	505,662	427,884	445,068	465,317	471,822	-7%	-2%
Purchase for sale	46,526	44,504	46,088	48,061	-6,064	-113%	-
Staff costs	83,523	85,232	82,124	85,090	79,994	-4%	4%
Product development expenses	10,308	9,505	10,685	11,326	10,729	4%	5%
Other expenses	192,666	152,701	157,630	159,132	161,978	-16%	2%
Total Expenditure	857,548	677,708	710,025	757,442	824,162	-4%	9%
Expenditure capitalized	57,259	51,129	51,481	49,549	44,614	-22%	-10%
EBIT	34,118	-18,140	3,165	-3,127	31,142	-9%	-
EBITDA	99,001	40,432	62,577	61,266	84,673	-14%	38%
EBITDA margin (%)	11.1	6.1	8.8	8.0	9.8	-125 bps	+185 bps
Interest	11,783	13,753	12,269	15,685	15,880	35%	1%
Depreciation	64,884	58,571	59,412	64,393	53,531	-17%	-17%
Other Income	17,145	6,050	6,172	6,668	8,636	-50%	30%
PBT	39,480	-25,842	-2,931	-12,143.70	23,899	-39%	-
Tax	9,771	-4,156	2,719	-24,052	1,115	-	-
Adjusted Net Profit	29,709	-21,686	-5,650	11,908	22,784	-23%	130%
Extraordinary items	-16,403	-	-5,303	-280,140	-11,073	-	-
Reported Net Profit	13,805	-21,686	-10,095	-268,550	11,175	-19%	13%

Source: Company, Arianth Capital Markets

SOTP valuation

FY21E SOTP	Methodology	Multiple (x)	FY21E (Rs Mn)	Rs per share
India Business	EV/EBITDA	4.5	66,873	89
JLR	EV/EBITDA	3.5	273,729	283
Consolidated	Net debt	-	719,325	(213)
Other subsidiaries	P/B	2.0	9	18
Implied value				177

Source: Company, Arianth Capital Markets

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Profit & Loss Statement

YE: Mar (Rs mn)	FY17	FY18	FY19	FY20E	FY21E
Net Profit (adjusted)	103,521	71,162	16,372	45,838	57,313
Net sales	2,744,921	2,927,284	3,019,384	3,048,801	3,276,319
Growth, %	-1%	7%	3%	1%	7%
RM expenses	-1,658,942	-1,858,500	-1,963,212	-2,006,242	-2,171,866
Employee expenses	-283,329	-303,001	-332,439	-324,303	-365,176
Other expenses	-467,663	-447,329	-468,972	-432,093	-399,238
EBITDA (Core)	334,988	318,454	254,762	286,163	340,038
Growth, %	-9%	-5%	-20%	12%	19%
Margin, %	12.2	10.9	8.4	9.4	10.4
Depreciation	-179,050	-215,536	-235,906	-217,427	-266,359
EBIT	155,938	102,918	18,855	68,736	73,679
Growth, %	-22%	-34%	-82%	265%	7%
Margin, %	5.7	3.5	0.6	2.3	2.2
Interest paid	-42,380	-46,818	-57,586	-30,280	-27,805
Other Income	7,545	35,699	29,653	29,653	29,374
Pre-tax profit	121,103	91,799	-8,057	68,109	75,247
Tax provided	-32,512	-43,419	24,375	-24,245	-27,596
Profit after tax	88,591	48,380	16,317	43,864	47,651
Others (Minorities, Associates)14,930	22,783	1,075	1,974	11,426	
Exceptional items	11,146	19,751	-303,614	0	0
Reported Net Profit	114,667	90,914	-286,222	45,838	59,078

Source: Company, Arianth Capital Markets

Cash Flow

YE: Mar (Rs mn)	FY17	FY18	FY19	FY20E	FY21E
CFO	255,012	191,372	24,021	144,398	319,193
CFI	-387,181	-268,921	-398,115	-393,524	-398,115
Free cash flow	-132,170	-77,548	-374,095	-249,125	-78,923
CFF	150,026	108,622	336,283	20,000	1,966
Net chg in cash	17,857	31,073	(37,811)	(229,126)	(76,956)
Opening cash balance	496,934	514,791	545,864	508,053	278,928
Closing cash balance	514,791	545,864	508,053	278,928	201,971

Source: Company, Arianth Capital Markets

Balance Sheet

YE: Mar (Rs mn)	FY17	FY18	FY19	FY20E	FY21E
Cash & bank	514,790	545,864	508,053	278,928	201,971
Debtors	140,756	198,933	189,962	188,109	203,615
Inventory	350,853	421,376	390,137	414,375	437,568
Other current assets	161,920	193,555	146,160	315,829	315,829
Total current assets	1,168,319	1,359,728	1,234,312	1,197,241	1,158,983
Investments	272,796	339,303	406,451	314,269	314,269
Property & plant	697,814	900,108	811,580	907,604	989,258
Intangible assets	598,615	714,366	619,603	699,677	749,778
Total assets	2,737,544	3,313,505	3,071,945	3,118,790	3,212,288
Trade payables	576,983	720,384	685,135	784,372	828,252
Short term debt	138,599	167,949	201,503	195,458	195,458
Others	440,713	543,862	567,936	543,862	543,862
Total current liabilities	1,156,295	1,432,195	1,454,574	1,523,691	1,567,572
Non-current liabilities	996,098	921,781	1,010,345	942,235	932,775
Total liabilities	2,152,393	2,353,975	2,464,919	2,465,926	2,500,347
Paid-up capital	6,792	6,792	6,792	6,792	6,792
Reserves & surplus	573,827	947,487	595,003	640,841	699,919
Minorities	4,532	5,251	5,231	5,231	5,231
Total equity & liabilities	2,737,544	3,313,505	3,071,945	3,118,790	3,212,288

Source: Company, Arianth Capital Markets

Ratios

YE: Mar	FY17	FY18	FY19	FY20E	FY21E
EV/EBITDA (x)	2.5	2.6	3.9	4.1	3.9
EV/Net sales (x)	0.3	0.3	0.3	0.4	0.4
P/B	1.0	0.6	1.0	0.9	0.9
ROE (%)	18.0	7.5	2.7	7.1	8.4

Source: Company, Arianth Capital Markets

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Stock Rating Scale

	Absolute Return
BUY	>20%
ACCUMULATE	12% to 20%
HOLD	5% to 12%
NEUTRAL	-5% to 5%
REDUCE	<-5%

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