

# Tata Motors (TTMT IN)

Target Price **Rs354.0**  
 Current Price **Rs309.5**  
 % Upside **14%**

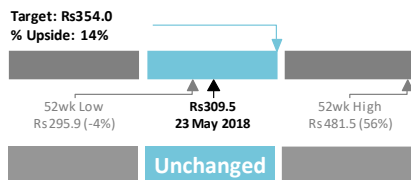
## The Scoop: Multiple Headwinds Ahead

### Automobiles & Components

#### India

24 May 2018

## NEUTRAL



#### Basic Share Information

Market cap	Rs983.0b / US\$14.37b
Daily traded value (3mth)	US\$53.16m
Shares outstanding	3,396m
Free float	63.6%
Net debt-to-equity	45.2%
1 yr high	Rs481.5
1 yr low	Rs295.9
Foreign Shareholding	20.6%

#### Price/Volume



Source: Bloomberg

	1mth	3mth	12mth
Absolute	-7.4%	-14.1%	-31.3%
Absolute USD	-10.1%	-18.7%	-34.9%
Relative to SENSEX	-7.1%	-14.7%	-44.4%

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#### What event has happened?

Post Q4 FY3/18 earnings, Tata Motors (TTMT IN) announced both its new policy for capitalization of product development costs (PDC), in order to align it with the industry standard, and its restructuring of its assets based on their "Fit for Future" strategy.

#### Why is it significant?

Tata Motors estimates the impact of its new PDC policy would be a reduction in EBIT margins at Jaguar Land Rover (JLR) by 100bps, at the domestic Commercial vehicle business by 30bps and by 130bps for the passenger vehicle business (see p.2). The company describes its challenges thus: 1) global demand continues to be challenging in its key markets of Europe and UK due to the uncertainty over diesel demand; 2) JLR reported a cash outflow of £1bn for FY3/18; 3) capex requirements remain high at about £4.5bn p.a. at JLR and about Rs350bn p.a. at the standalone entity; therefore 4) management has indicated a target for JLR's EBIT margin of 4–7% over FY3/19–21 (standalone 3–5%) and a long-term target of 7–9% (standalone 5–7%). This reduction in guidance from its earlier guidance of an 8–10% EBIT margin was the key negative surprise for us. Some of the positives for us from these results were: 1) the standalone business has delivered FCF of Rs13.4bn after 5–6 years; 2) the company's JV with Chery has posted 54% NP growth due to launches of new models and the adoption of accrual accounting for local incentives; 3) Tata Motors Finance (unlisted) has reduced gross NPA from 18% in FY3/17 to just 4% and it posted in our view a strong RoE of 17% in FY3/18.

#### Implications for our earnings forecast?

Due to the headwinds highlighted above, we lower our FY3/19–20 NP by 14% p.a.

#### How do valuations look now?

Due to our lower earnings estimates, we reduce our SoTP based price target for JLR from Rs413 to Rs354 per share. We value JLR at 4x FY3/20 EV/EBIDTA (in line with its peers) to arrive at a value of Rs204 (earlier Rs355). We value the standalone entity at 10x FY3/20E EV/EBIDTA, which is in line with its peers' average to arrive at a value of Rs120 per share (earlier Rs32). We also value its key subsidiaries at 1x PEG to arrive at a value of Rs30 per share (earlier Rs26). We reiterate our Neutral rating on the stock. Higher than expected margin expansion at JLR is the key upside risk, while lower than expected volume growth at JLR is the key downside risk to our rating and target price.

#### What is distinctive about our stock view?

Given the many headwinds to demand in a rising cost environment and with a high capex requirement, we expect the stock to remain range-bound over a 12 month period.

	Mar-16A	Mar-17A	Mar-18A	Mar-19E	Mar-20E	Trend
Total turnover (Rsm)	2,730,456	2,696,925	2,946,192	3,324,955	3,881,706	▬ ▬ ▬ ▬ ▬
Operating profit (Rsm)	215,967	155,938	117,875	136,809	176,445	▬ ▬ ▬ ▬ ▬
Pre-tax profit (Rsm)	141,258	93,148	111,550	95,566	135,529	▬ ▬ ▬ ▬ ▬
Net income to ord equity (Rsm)	115,793	74,544	89,889	90,962	123,645	▬ ▬ ▬ ▬ ▬
Adjusted net profit (Rsm)	140,064	94,112	93,108	90,962	123,645	▬ ▬ ▬ ▬ ▬
Net profit growth	(17.2%)	(35.6%)	20.6%	1.2%	35.9%	▬ ▬ ▬ ▬ ▬
P/E (x)	8.84	14.10	11.69	11.55	8.50	▬ ▬ ▬ ▬ ▬
Adj EV/EBIDTA (x)	2.46	2.91	3.44	3.12	2.79	▬ ▬ ▬ ▬ ▬
P/B (x)	1.33	1.81	1.10	1.01	0.90	▬ ▬ ▬ ▬ ▬
ROE	17.1%	10.9%	11.7%	9.1%	11.2%	▬ ▬ ▬ ▬ ▬
Dividend yield	0.1%	0.0%	0.0%	0.0%	0.0%	▬ ▬ ▬ ▬ ▬
EPS HTI old (Rs)	35.01	21.95	25.38	31.12	42.26	▬ ▬ ▬ ▬ ▬
EPS HTI New (Rs)	35.01	21.95	26.47	26.78	36.41	▬ ▬ ▬ ▬ ▬
Consensus EPS (Rs)	35.17	21.97	25.17	39.67	48.37	▬ ▬ ▬ ▬ ▬
HTI EPS vs Consensus	(0.4%)	(0.1%)	5.2%	(32.5%)	(24.7%)	▬ ▬ ▬ ▬ ▬

Source: Company data, Bloomberg, HTI estimates

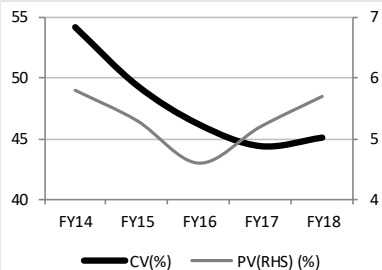
Click [here](#) to download the working model

Adj. EBITDA Margin

EBITDA Margin (%)	Q4 FY 18	YoY (%)
JLR	13.5	-100 bps
Standalone	6.9	280 bps
Consolidated	13.1	-220 bps

Source: Company data

Domestic Market Share



Source: Company data

PDC Capitalization Policy

Approx impacts	PDC capitalisation (%)		EBIT Impact
	Current	Revised	
JLR	~85%	~70%	~100bps
TTMT-CV	~69%	~60%	~30bps
TTMT-PV	~76%	~62%	~130bps

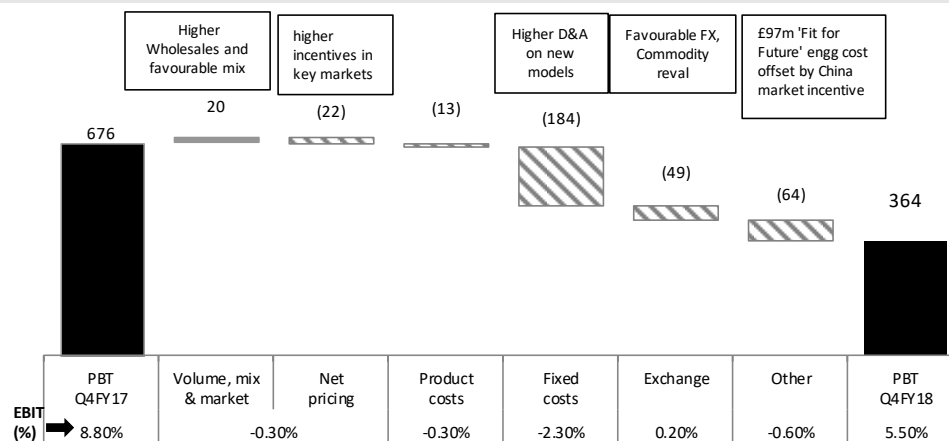
Source: Company data

Fit for Future Charges in Q4

	Fit For Future charges (Rs Mn)		
	Additional	Exceptional	Total 4QFY18
JLR	2,010	6,760	8,770
TTMT (net)	2,740	9,620	12,360
Total (Consol)	4,750	16,380	21,130

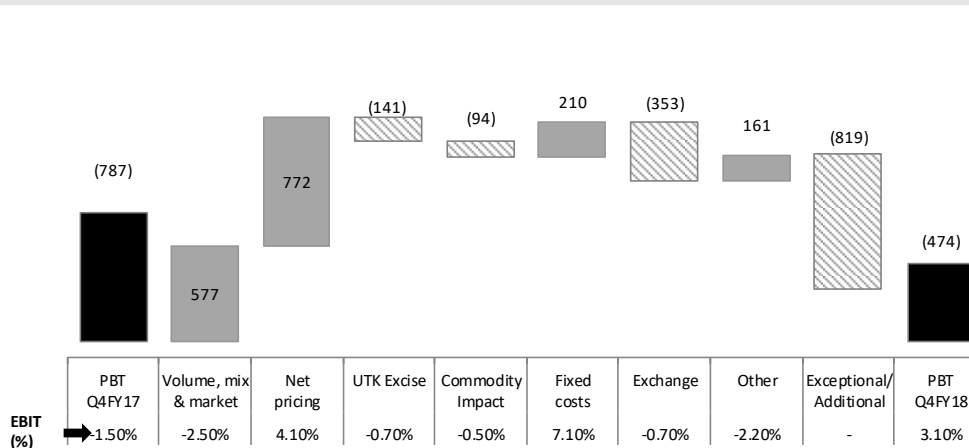
Source: Company data

JLR PBT Movement YoY (GBP mn)



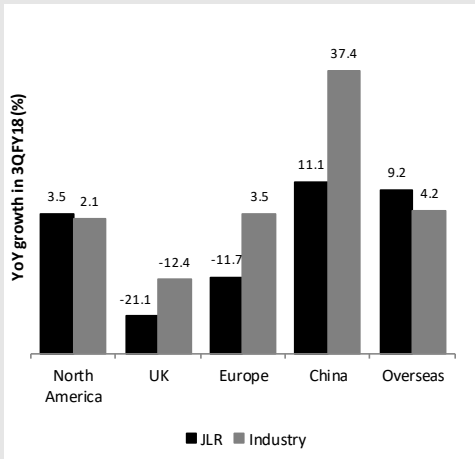
Source: Company data

Standalone PBT Movement YoY (INR mn)



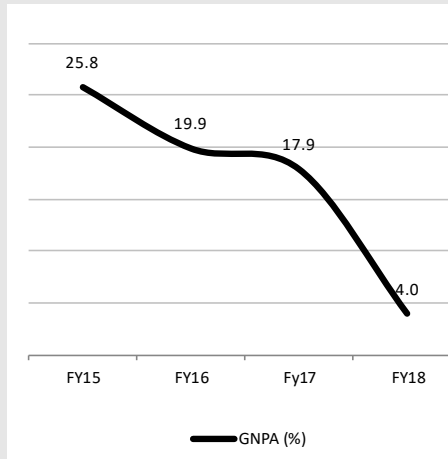
Source: Company data

Region-wise JLR Volume Growth vs. Industry



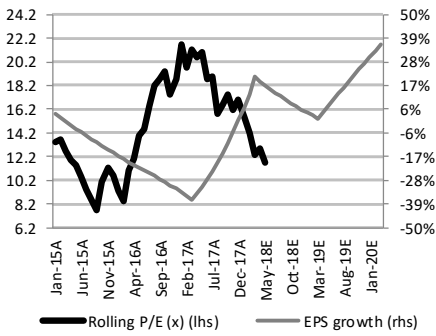
Source: Company data

Tata Motors Finance GNPA

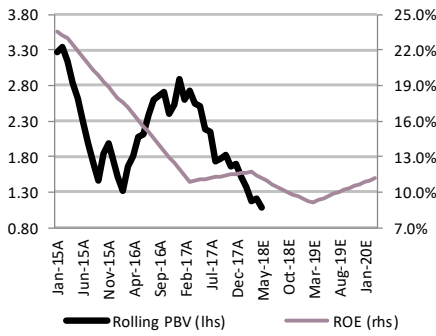


Source: Company data

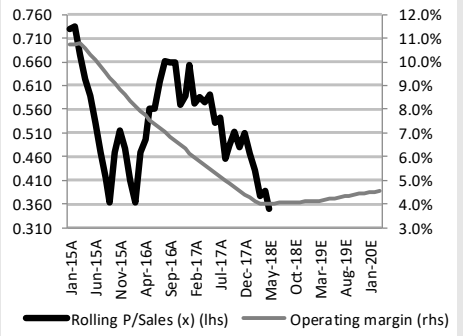
**P/E (x) vs EPS Growth (%)**



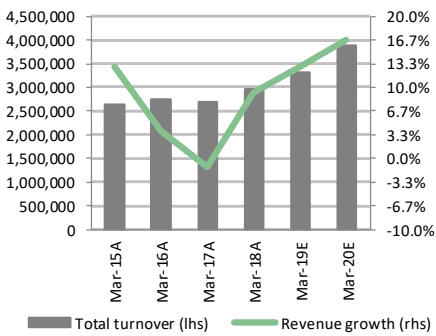
**P/B (x) vs ROE**



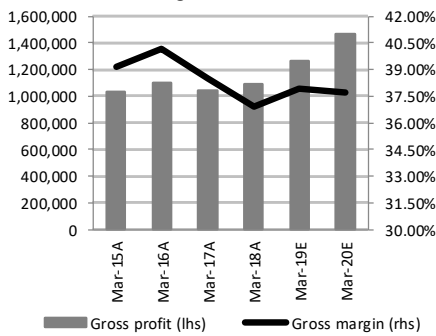
**PSR (x) vs OPM (%)**



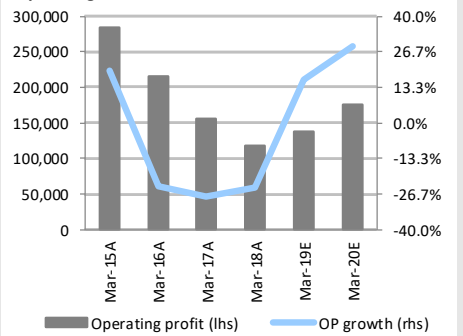
**Turnover and Growth**



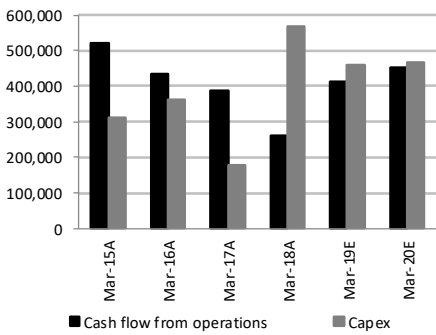
**Gross Profit and Margin**



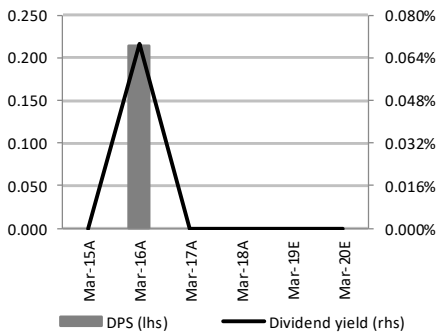
**Operating Profit and OP Growth**



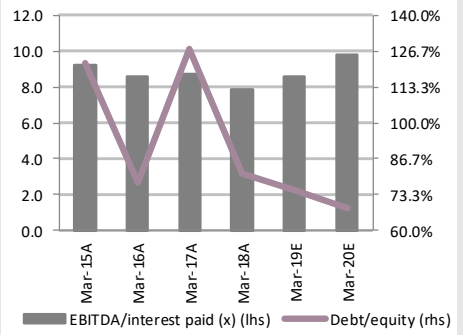
**CF from operations vs Capex (Rsm)**



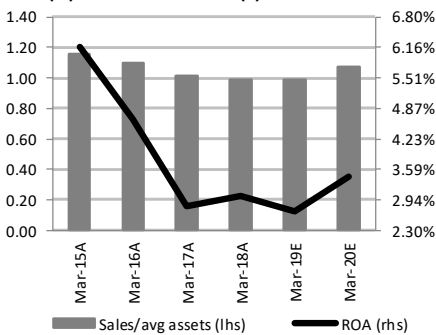
**Dividend Payout and Yield (Rs)**



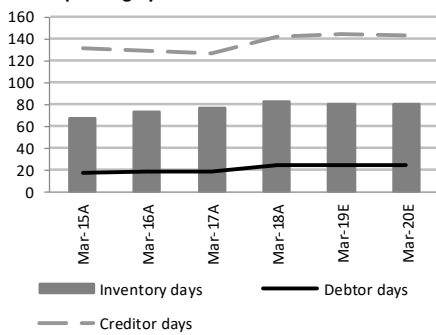
**Debt to Equity (%) and Interest Cover (x)**



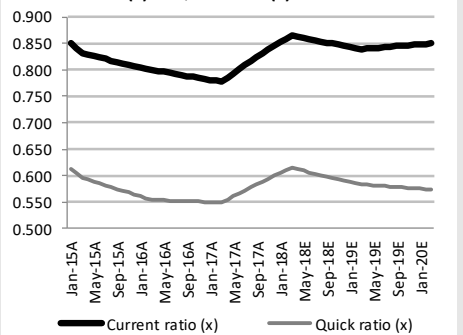
**ROA (%) and Asset Turnover (x)**



**Cash Operating Cycle**



**Current Ratio (x) vs Quick Ratio (x)**



## APPENDIX

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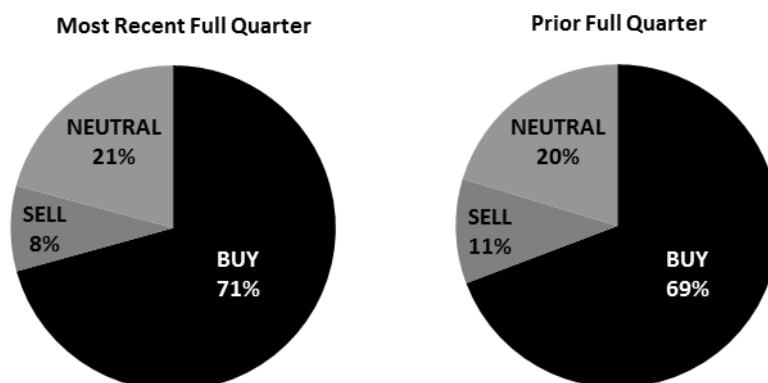
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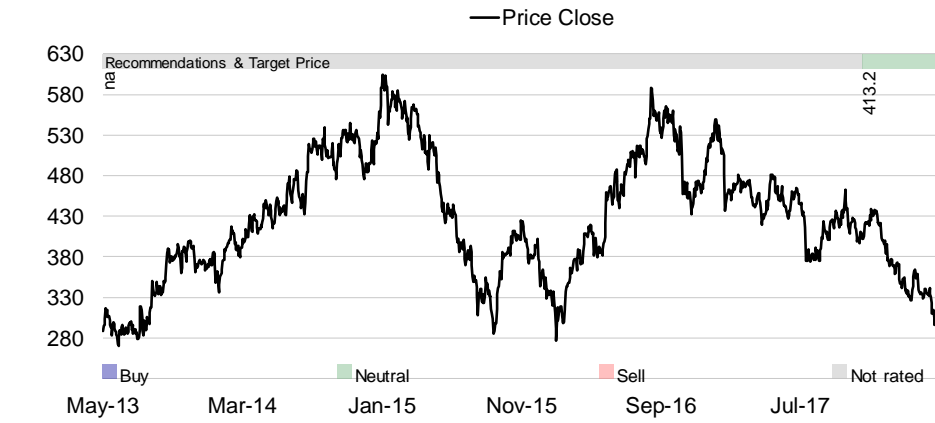
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Recommendation Chart



Date	Recommendation	Target (Rs)	Price (Rs)
2017-12-16	Neutral	413.2	405.1

Source: Company data Bloomberg, HTI estimates

Definitions for Key Investment Metrics

**Business Growth**

This is the metric which matches the top line in our report.

**Business profit**

This is the metric which best represents operating profit in our report

**Shareholder Returns**

Return on Equity

**Balance Sheet Risk**

Net Debt to Equity