INANI SECURITIES LIMITED
Relationships Beyond Investments

TATA MOTORS
Connecting Aspirations

Tracing the Curve

Company Profile

Part of the USD100 billion Tata group founded by Jamsethji Tata in 1868, Tata Motors is among the world's leading manufacturers of automobiles. Tata Motors believe in 'Connecting aspirations', by offering innovative mobility solutions that are in line with customers' aspirations.

They are India's largest automobile manufacturer, and continue to take the lead in shaping the Indian commercial vehicle landscape, with the introduction of leading-edge powertrains and electric solutions packaged for power performances and user comfort at the lowest life-cycle costs. Their new passenger cars and utility vehicles are based on Impact Design and offer a superior blend of performance, driveability and connectivity.

Source: Company Website

3QY18 RESULTS

On a consolidated basis JLR performance was weak, while S/A biz continues to improve

- Cons revenues grew 16% y-y/ 5% q-q to Rs741.5 bn ; Consensus: Rs734 bn), due to growth of 2% and 28% y-y in JLR and standalone volumes, respectively
- Cons EBITDA margin expanded 176bp y-y (fell 112bp q-q) to 11.5% (Consensus: 12.2%), below estimates due to subdued margins at JLR, impacted by higher commodity cost. JLR's EBITDA margin fell 95bp q-q (up 75bp y-y) to 10.9%
- Tata Motors Adj. consolidated PAT grew by 34% YoY (fell 55% QoQ to Rs10.8bn ; Consensus: Rs23.5bn), much below estimates due to inferior margins and high depreciation charges of JLR.

Investment Rationale

Strong product cycle positioning for all major JLR brands to aid volumes in FY18-20E: 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 8% over FY17-20, 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

- Favourable Forex, as realized hedge rates improve from 4QFY18
- Better product mix (higher share of RR, RR Sport, and Discovery
- Operating leverage, (d) cost savings on modular platform on full rollout of modular strategy, and
- 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.

We anticipate consolidated EPS to grow by 5%/12% for FY19/20, as we cut volumes and margins (for adverse FX and lower op. leverage) at JLR, but upgrade estimates for S/A business. The stock trades at 9.9x FY20E EPS . Buy with a target of INR 535/-.

Financials (in Rs. Millions)

Y/E March	FY16A	FY17AA	FY18E	FY19E	FY20E
Revenues	27,08,056	26,72,633	28,98,842	32,38,171	36,06,443
EBIDTA	3,44,506	2,71,595	3,37,238	4,12,823	4,82,185
PAT	1,44,617	85,273	74,276	1,07,700	1,27,698
EBIDTA Margin (%)	12.7	10.2	11.6	12.7	13.4
E.P.S (Rs.)	42.6	25.1	21.8	31.6	37.5
RoE (%)	21.4	12.4	11.8	14.8	15.2
RoCE (%)	13.7	8.3	7.6	8.5	8.5
P/E	17.4	14.9	17.1	11.8	9.9

*Source: Company Data, Consensus Estimates

Overall demand outlook remains positive, though major markets (US, UK, Europe) would remain challenging.

- New Product launches (E-Pace, Velar, New RR Sports, Defender etc) would drive JLR's volumes going forward.
- We expect JLR volumes to grow at 8.5% CAGR over FY17-20E. Also, standalone volumes are expected to grow at 17% CAGR over FY17- 20E led by growth in PVs/LCVs.
- Margins would improve steadily due to reducing forex losses. With expiry of these hedges, margins would expand strongly in FY19
- **Healthy revenue performance: Cons revenues grew 16% y-y, due to growth of 2% and 28% y-y in JLR and standalone volumes, respectively.**
- EBITDA rose 37% YoY JLR –Had an un unfavorable mix this quarter while high incentives dent EBITDA
- Higher tax further dragged PAT
- JLR's revenues in GBP terms, grew 4.3% y-y to GBP6.3bn, on the back of 2% growth in volumes and growth of 2% in realizations led by better mix.
- JLR volumes ar forecasted to grow at 8.5% over FY17-20E, led by new products (Discovery, Velar in 1HFY18, RR/RR sport variants in 2HFY18, Epace in 2HFY18). Standalone volumes are forecasted to grow at 17% over FY17-20E, led by growth in LCVs/PVs.
- Net sales at GBP6.3b grew 4.3% YoY. Weaker product mix due to RR/RR Sports rundown and higher incentives led to ~2% QoQ decline in realizations.
- EBITDA margin shrunk 90bp QoQ
- Further lower share of China JV PAT, higher depreciation and tax restricted adj. PAT to GBP89m -20% YoY, -71% QoQ).
- S/A – Better mix, price hike and cost reduction propel turnaround:
- Revenues grew 58% YoY, led by volume/realization growth of 29%/22% YoY.
- EBITDA margin came in at 8.6% driven by better mix, costreduction initiatives and operating leverage. As a result, S/A turned PAT positive

Earnings call highlights

- For JLR, it highlighted increasing challenges in demand environment in key markets
- Expects 4QFY18 to be substantially better than 3QFY18
- Reiterated EBIT margin target of 8- 10% in medium term, led by volume growth, cost efficiencies and control on fixed cost, despite adverse FX movement
- Aluminum cost inflation yet to be reflected in P&L due to hedge
- CV business has capacity constraints (at suppliers end) due to strong tailwinds
- Targets PV business breakeven at PBT level and S/A EBIT margin of 6-8% (3QFY18: 3.8%)
- JLR: below estimates due to unfavorable product mix & higher incentive JLR's (ex Chery JV) wholesale volumes increased by 2.2% YoY to 133,739 units, as Jaguar volume were impacted by lower sales of XE and F-pace while XF volume remained strong.
- In Land Rover, Discovery and Velar's positive growth was offset by lower RR sport and Evoque's sales.
- Chery JV volumes registered growth of 18.7% YoY at 25,328 units (+15.8% QoQ) driven by XFL in China and robust demand Range Rover Evoque. Including JV, JLR volumes grew 4.5% YoY to 159.1k units. JLR realization at GBP47.2k (est GBP48.5k) declined 2% QoQ (+2% YoY) mainly due to run out of Range Rover and Range Rover sport models and higher variable marketing spend
- Net sales grew 4.3% YoY (flat QoQ) at GBP6.3b (est GBP6.5b).
- JLR EBITDA margins declined 90bp QoQ (+80bp YoY) to 10.9% (est 12.4%) impacted by unfavorable product mix, higher incentives and no operating leverage benefits. Consequently absolute EBITDA came in lower than estimates at GBP685m (est GBP805m) – a 12% YoY growth (-8% QoQ).
- Realized Fx hedge loss stood at GBP304m (v/s loss of GBP343m in 2QFY18). Cherry JVs share of PAT came in at GBP25m (v/s GBP61m during 2QFY18), impacted by model year change and start-up costs of new engine plant
- Further, higher depreciation and higher tax rate (for adjustment of lower tax rate on deferred tax) dented adj. PAT leading to decline of 20% YoY to GBP89m (est GBP294m). JLR's FCF was at negative at GBP661m in 3QFY18 and negative GBP1.99b for 9MFY18.
- As of Dec-17, it has unrealized hedged reserve (accumulated loss on future hedged) of GBP900m (of which ~GBP705m would be realized in 12 months) as compared to GBP1.1b in Sep-17 (short term at GBP793m). These losses would further reduce given GBP appreciation post Dec-17. (Qtr end rate of 1.35 v/s current spot of 1.40). This implies reducing impact of Fx in next 12 months.

Standalone Performance

- Better performance was attributed by a combination of poor product mix, cost reduction and operating leverage
- S/A volumes increased by 29.3% YoY to 171.4k units, driven by 34.7% YoY growth in CVs while PV volumes increased by 17.2% YoY.
- Strict implementation of overloading of trucks in northern markets drive CV sales while healthy response to newly launched products drives PV sales.
- Realizations growth was higher at 22% YoY to INR939.5k driven by better mix, price increase of ~1% on select models, despite higher discounts.
- Product mix remains favourable with higher contribution from M&HCV.
- Consequently, net revenue increased 57.8% YoY to INR161b
- EBITDA came in at INR13.8b led by better mix, cost reduction initiatives and operating leverage. Consequently, EBITDA margin came in at 8.6% expanded 720bp YoY
- Backed by strong operating performance, standalone turned PAT positive with adjusted PAT of INR1.9b (est INR1.3b).

Risks to our estimates

- Imposition of Border tax in US
- luxury car demand contraction in target markets
- failure of product launches
- adverse currency/ commodity prices etc are the key risks to our call
- However, JLR's business environment became increasingly challenging with key markets slowing down and rising competition resulting in to higher incentives. These parameters would impact company's operating margins and stock would attract lower valuation multiple.

Key Taeaways from the Call

- TTMT CV has taken average price increase of ~1% in 3QFY18 to mitigate prevailing raw material inflation.
- Volume, pricing and operating leverage key drivers for margins
- Expect continued improvement in operating leverage going forward as well.
- Domestic business is currently facing capacity constraints for CV business in supply chain.
- PV business utilization remain in excess of 30%. Target PV business break even at PBT level and S/A EBIT margins of 6-8% over medium term.
- Currently working on strategic plan for key subsidiaries of company

Price	Value	Date
All time High	605.91	03-Feb-2015
All time Low	11.02	03-Apr-2001
52 Week High	488.25	26-May-2017
52 Week Low	356.50	06-Feb-2018
Latest Close	364.45	21-Feb-2018
Average 12M Closing	430.01	21-Feb-2018
EMA	**Value**	**Date**
Short Term	425.62	21-Feb-2018
Medium Term	407.99	21-Feb-2018
Long Term	393.38	21-Feb-2018

CAGR	Percentage	Years
Since Inception -NSE	7.70	23.30
Feb-13	4.36	5.00

Details	Recommendation
Recommendation	Buy
Closing Price	364.45
Range	345-385
Expected Target Price	535.00
Expected Return	46.80%
Stop Loss	312.00
Expected Risk	-14.39%
Minimum Holding Period	9 months

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