

**IDEA2ACT: Tata Motors Limited**

Reco Price

12-months Target Price

BUY @ ₹ 335-347

₹410

Tata Motors Limited is a leading global automobile manufacturer. The company offers a wide and diverse portfolio of cars, sports utility vehicles, trucks, buses, construction equipment and defense vehicles globally. It has operations in India, the UK, South Korea, South Africa, China, Brazil, Austria and Slovakia through a strong global network of subsidiaries, associate companies and Joint Ventures.

Investment Rationale

Market leader in Electric Vehicles Segment in India: Tata Motors is the front runner in the electric vehicle segment in India and accounted for 71.4% of the total EV sales in India. The company saw more than threefold increase in electric vehicles sales in FY21 compared to FY20. It also plans to capture more market share through EV portfolio expansion. Tata Motors along with Tata Power, has been setting up high-speed charging infrastructure to boost EV adaption in the country. The company has planned to price its green cars at a premium of not more than 15-20% to conventional cars. Also, JLR has electrified 12 out of 13 nameplates.

Government policies to boost demand: The vehicle scrappage policy is a government-funded program to replace old vehicles from Indian roads. Tata Motors will be a direct beneficiary of this policy as it has a market share of 37.2% in commercial vehicles segment. Along with the Central Government, several State Governments are launching their own EV policy with subsidies for the new buyers of Electric vehicles as well as for those who invest in the EV infrastructure. Tata Motors is one of the few who qualify the criteria for availing such subsidies.

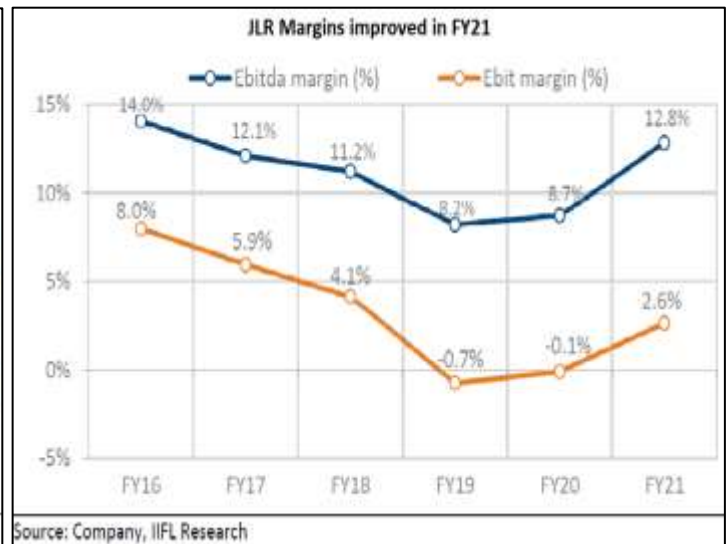
Strong revenue growth and good order book in pipeline: Tata motors reported its highest ever revenue in 8-years in the passenger vehicles segment with sales of 222,025 units in FY21, posting a growth of 69% year-on year. The revenues from commercial vehicles reached the pre-pandemic level in Q4. The company's cumulative sales of commercial vehicles and passenger vehicles for FY21 stood at 464,515 units, which was a 5% overall growth. JLR has an order book of 100,000 units which was supported by Defender raking in 22,000 units alone.

Margin improvement through cost optimization: The management of JLR has put higher focus on profitability and has done significant savings in material costs, employee costs, deferring capex plans



and other operating expenses. The EBITDA margins have improved significantly to 12.8% in FY21 from 8.7% in FY20 due to these cost reductions initiatives.

Impressive numbers from JLR: Higher revenue from North America and China in Q4FY21, with China revenue up 127% (YoY) in Q4. Average revenue per unit is significantly stronger. JLR saw positive FCF of £185 million in FY21 for the first time in four years. The company posted pre-tax profit of £662 million before exceptional charges. The breakeven volume has come down to 400k units now. As on FY21, electrified sales constituted 51% of the total sales made by JLR. The management plans to make Jaguar an all-electric luxury brand by 2025



Clear roadmap set for JLR: Tata Motors has made a clear roadmap for JLR. The luxury car maker contributed 81.2% of the total revenue of Tata Motors in FY21. Revamping of JLR is likely to bring in higher revenue and further increase the margins discussed above. JLR plans to migrate, from six different architectures today to just three by the end of the decade. Land Rover will use the forthcoming Flexible Modular Longitudinal Architecture (MLA-Flex), which will allow full battery-electric capability in the future. The 2nd architecture, namely Electric Modular Architecture (EMA), will entail native-BEV architecture with additional capability for electrified compact ICE. The third Pure BEV architecture would be dedicated for Jaguar.

Year	Strategic target
FY23	Start generating strong positive cash flows
CY24	First Land Rover BEV launch
FY25	JLR balance-sheet to become net cash (vs. GBP1.9bn net debt by end-FY21)
CY25	Jaguar to emerge as a pure electric luxury brand
FY26	GBP30bn+ revenue and double-digit EBIT margin
CY26	Land Rover to offer BEV options on six of its models
CY30	Full-BEV powertrains are expected to represent ~60% of total JLR sales
CY36	Zero tailpipe emissions
CY39	Net Zero Carbon business, including supply chain, products & global ops.

Source: Company, IIFL Research





Outlook

Tata Motors reported a strong recovery in FY21 with highest ever revenue in the PV segment in the last 8-years, while the CV segment was back to pre-covid levels. The margins have improved significantly with reduction in certain fixed costs. The Government of India's push for electric vehicles is likely to benefit the company. We expect normalcy of operations from Q2/Q3 FY22 as the rapid pace of vaccination and lower covid cases will lead to a gradual opening up of the economy. The volume recovery in JLR, mostly from the USA and China in Q4FY21 gives a sign that things are reversing for them. The Management has also indicated launch of new vehicles in the EV segment which is likely to give them a thumping lead over their competitors in that segment. The company also plans to become a near zero-debt company in the next three years.

With the kind of vision that the company has for its EV segment and the road map they have set for JLR, we think that Tata Motors has a lot of potential in the coming time. **Hence, we recommend a Buy on Tata Motors with a Target price of ₹410 based on SOTP valuation.**

Technical

Tata Motors has been trading in a strong higher top and higher bottom on the weekly chart, indicating a positive bias according to Dow Theory. The stock has formed a cup and handle pattern on the daily chart whose breakout level is ₹361. **If the current impulse move accentuates the way it should, we expect Tata Motors Limited to trend higher and test our immediate target price of Rs410 during the next 1-Year.**

Previous Recommendations:

Date	Stock Name	Reco Price	Target Price	P & L %	Status
26-May-20	Emami Limited	205	241	18%	Target Achieved
2-Jul-20	ITC	201	235	17%	Target Achieved (₹225 + Dividend ₹10.15 exdate 6th Jul 2020)
2-Jul-20	NHPC	19.5	24	23%	Target Achieved
15-Jul-20	HCL Tech	610	695	14%	Target Achieved
30-Jul-20	INDIGO	920	1074	17%	Target Achieved
11-Aug-20	JB Chemicals & Pharmaceuticals	750	867	16%	Target Achieved
13-Aug-20	UPL	480	555	16%	Target Achieved
18-Aug-20	Crompton Consumer	256	299	17%	Target Achieved
28-Aug-20	Sudarshan Chemical	474	557	18%	Target Achieved
14-Sep-20	Apollo Tyres	114.5	138	21%	Target Achieved
1-Oct-20	Manappuram Finance Ltd	155.5	186	14%	Open
16-Oct-20	Cyient Ltd	370	440	19%	Target Achieved
28-Oct-20	Amara Raja Batteries	770	898	17%	Target Achieved
2-Nov-20	SIS (I) Ltd	363	423	17%	Target Achieved



Date	Stock Name	Reco Price	Target Price	P & L %	Status
3-Dec-20	Bharat Electronics	112	139.0	24%	Target Achieved
16-Dec-20	RBL Bank	233	273	17%	Target Achieved
6-Jan-21	Alembic Pharmaceuticals	1075	1252	-8%	Open
15-Jan-21	Hindustan Petroleum Corporation Ltd	229	274	20%	Target Achieved
5-Feb-21	State Bank of India	351.5	429	22%	Target Achieved
1-Mar-21	Cummins India	772	914	18%	Target Achieved
10-Mar-21	HCL Tech	962	1140	2%	Open
10-Mar-21	Eicher Motors	2635	2940	3%	Open
07-Apr-21	Cyient Ltd	669	789	18%	Target Achieved
03-May-21	Persistent Systems Ltd	1990	2400	21%	Target Achieved
04-May-21	SBI Life Insurance Company Ltd	945	1144	7%	Open
17-May-21	HG Infra	325	394	21%	Target Achieved
02-June-21	Gujarat Gas Limited	532	674	27%	Target Achieved
22-June-21	Jindal Stainless (Hisar) Ltd	184	228	12%	Open

Closing Price as on 5th July 2021 for Active Calls.

Disclaimer:

Recommendation Parameters for Fundamental/Technical Reports:

Buy – Absolute return of over +10%

Accumulate – Absolute return between 0% to +10%

Reduce – Absolute return between 0% to -10%

Sell – Absolute return below -10%

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