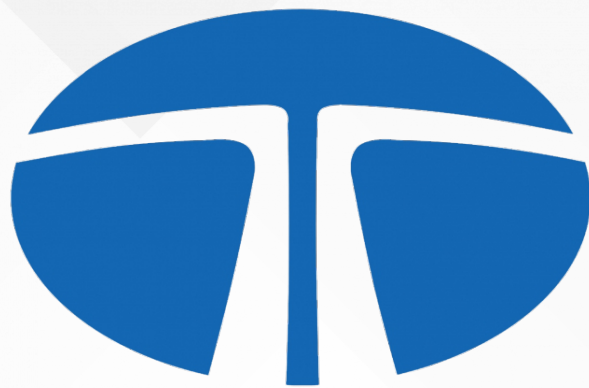




TATA MOTORS

Q1 FY24 Highlights

9th August, 2023



India's Best Performing and Most Customer Centric PMS

Tata Motors Group, an illustrious name within the global automotive arena, stands as a flagship brand under the esteemed Tata group – a multinational conglomerate renowned for its diverse portfolio of offerings across various industries. With a steadfast commitment to innovation, quality, and sustainability, Tata Motors has emerged as a formidable player in the automobile manufacturing sector, offering an extensive range of cars, sports utility vehicles (SUVs), trucks, buses, and even defense vehicles that cater to the dynamic needs of consumers worldwide.

Global Footprint and Operations: Tata Motors' influence spans continents, with a robust presence in key markets across the globe. Its operational reach extends to India, the United Kingdom, South Korea, South Africa, China, Brazil, Austria, and Slovakia, facilitated by a well-established network of subsidiaries, associate companies, and Joint Ventures (JVs). One of the most prominent feathers in its cap is the ownership of two iconic brands, Jaguar and Land Rover, under the umbrella of Jaguar Land Rover Ltd. These strategic acquisitions were made in 2008 and were later integrated in 2013 to form a unified entity, propelling Tata Motors into the echelons of luxury automobile manufacturing.

Diverse Revenue Mix: A distinctive feature of Tata Motors' revenue structure is its diverse mix across various segments. Jaguar Land Rover Ltd. spearheads the revenue generation, contributing to a substantial 67%. Tata Commercial Vehicles and Tata Passenger Vehicles follow suit with contributions of 19% and 11% respectively. Additionally, the company maintains a presence in the vehicles financing sector, accounting for 2%, while other endeavors constitute 1% of the revenue.

Market Dominance and Growth: Tata Motors stands as a behemoth in the Commercial Vehicle (CV) segment in India, boasting a commanding market share of 45% during FY22. In the Passenger Vehicle (PV) domain, Tata Motors has consistently strengthened its position, achieving a commendable increase in market share from 4.8% in FY20 to 12.1% in FY22, further soaring to 14.3% in Q1FY23. Within the Electric Vehicle (EV) sector, the company's dominance remains unshaken, accounting for an impressive 87% market share in FY22 and 88% in Q1FY23.

Global Revenue Landscape: The geographical distribution of Tata Motors' revenue showcases its global footprint. In FY22, India emerged as the primary revenue contributor, constituting 34% of the company's earnings. The North American market followed closely with 19%, while the United Kingdom accounted for 14%. China contributed 18%, and the rest of Europe added a significant 14% to the revenue pool.

Championing Sustainable Mobility: Tata Motors' commitment to sustainability finds its embodiment in its endeavors towards electrification. As part of the 'Reimagine' strategy, Jaguar Land Rover allocates an annual capex of approximately £2.5 billion towards electrification platforms and investments in future battery electric vehicles (BEVs). This strategic commitment translates to a fully electric Jaguar brand by 2025 and the introduction of 6 BEVs under the Land Rover marque by 2026.

Stock Data	
CMP	607
52 Week High/Low	665/375
Face Value	2
Market Cap (In Crs)	221907
Enterprise Value (In Crs)	319500
NSE	TATAMOTORS
BSE	500570
Bloomberg	TTMT:IN
Sector	AUTOMOBILE

Shareholding Pattern (in %)		
	JUN 23	MAR 23
Promoter	46.39	46.39
FII	15.34	17.72
DII	17.69	17.38
Public	20.41	18.38
Others	0.14	0.14

Price Performance (in%)			
(%)	1M	6M	1Yr
Nifty 50	1.11	9.37	11.61
Tata Motors	(1.73)	39.20	27.84

Key Ratios	
P/E	20
P/S	0.59
P/B	4.45
Debt To Equity	2.96
ROE	5.62%
ROCE	6.14%
Dividend Yield	0.33%

Q1 FY 23 Result Update

Q1 FY24 Result Comparison (In Rs Cr)=					
	Q1 FY24	Q4 FY23	Q1 FY23	QOQ	YOY
Sales	102236	105932	71935	-3.5%	42.1%
EBITDA	13559	12796	3180	6%	326.3%
EBIT	6926	5746	-2660	20.5%	360.3%
Net Profit	3302	5408	-5007	-40.8%	164%
EPS	8.4	14.1	-13.1	-40.8%	164%

Result Highlights

TTMT reported a consolidated revenue of INR 10,223.61 crore for the first quarter of FY24, marking a substantial year-on-year growth of 42.1%. However, there was a 3.5% decline in revenue compared to the previous quarter.

In terms of EBITDA, the company achieved INR 1,355.95 crore during the quarter, reflecting an impressive year-on-year growth of 326.3% and a solid 6.0% growth sequentially. This growth in EBITDA was accompanied by a noteworthy expansion in EBITDA margin, which increased by 884 basis points year-on-year and 118 basis points quarter-on-quarter, reaching a level of 13.3%.

Analyzing the EBITDA margins based on the company's categorization, the consolidated EBITDA margin improved by 700 basis points year-on-year. Specifically, the EBITDA margin for JLR (Jaguar Land Rover) witnessed a substantial increase of 960 basis points year-on-year, while TML-CV (Tata Motors Limited - Commercial Vehicles) experienced a positive shift of 390 basis points. However, TML-PV (Tata Motors Limited - Passenger Vehicles) faced a contraction in EBITDA margin by 80 basis points year-on-year.

The Profit After Tax (PAT) for the quarter amounted to INR 3,202.8 crore, displaying remarkable year-on-year growth of 164.0% from a loss of INR 5,006.6 crore reported in Q1FY23. However, there was a significant 40.8% decline in PAT compared to the previous quarter.

Concall Highlights

DVR Cancellation and Share Issuance:

Tata Motors made a strategic decision to cancel the issuance of DVRs (differential voting rights), a move aimed at improving free float in the exchanges. The company's DVRs were initially issued in 2008 at a 10% discount to ordinary shares, offering lower voting rights (1/10th) and higher dividends (by 5%). However, over the years, the discounts have steadily increased. Notably, the average discount between DVR and ordinary shares over the past decade stood at 45.1%. In response to this trend, Tata Motors has chosen to cancel the DVRs and replace them with ordinary shares. This conversion will involve the issuance of 7 ordinary shares for every 10 DVR shares that are canceled. Importantly, the swap ratio between DVRs and ordinary shares will remain constant, irrespective of price fluctuations.

The cancellation of DVRs has interesting implications for the company's valuation and share structure. For instance, with the ordinary share price at Rs 629 and DVR share price at Rs 357 (as of 24th July), the new swap ratio values DVRs at a 23% premium and reduces the discount from 43% to 30%. This adjustment could have positive effects on the company's overall market capitalization, as it eliminates the differential pricing of stocks. Additionally, the cancellation will lead to a reduction in outstanding shares by 4%, resulting in increased earnings per share (EPS). Furthermore, this move is expected to enhance the liquidity of ordinary shares on the stock exchanges.

The execution of the DVR cancellation and share issuance is anticipated to take place over the next 12 to 15 months. It's worth noting that this transaction won't impose any cash outflow on the company, and therefore, it is unlikely to have any immediate financial impact. However, the transaction will be subject to various regulatory approvals, including SEBI, stock exchanges, and NCLT. Furthermore, shareholders' approval will be sought to finalize the process. Investors should also be aware that this transaction may have tax implications. Specifically, the distribution of shares to shareholders will be treated as a deemed dividend, potentially resulting in withholding taxes. The company is working on a scheme that involves the creation of a trust to facilitate the sale of ORD shares, allowing the settlement of tax liabilities for the "A" ORD shareholders.

In summary, Tata Motors' decision to cancel DVRs and issue ordinary shares reflects a strategic realignment aimed at enhancing the company's share structure, liquidity, and valuation.

JLR's Positive Performance:

Jaguar Land Rover (JLR), a key subsidiary of Tata Motors, showcased a robust performance during Q1 FY24. Despite a minor 1.5% decline in volumes, the company reported a noteworthy improvement in EBITDA margin. The margin witnessed a 170 basis points quarter-on-quarter enhancement, reaching an impressive 16.3%. This positive trend was primarily attributed to an improved product mix and pricing strategies.

During the first quarter, JLR achieved retail sales of over 100,000 units for the second consecutive time, underscoring the company's strong market presence. Notably, JLR's order book remained robust at 185,000 units, and a significant portion of this order book was driven by demand for Range Rover, Range Rover Sport, and Defender models. These three models constituted 76% of the total order book, indicating the popularity of these high-margin vehicles.

The geographical distribution of JLR's sales witnessed some subtle shifts in Q1 FY24. While the volume contribution from the UK, China, and Europe decreased slightly, there was a corresponding increase in the contribution from the US and the rest of the world. Specifically, the volume mix for Q1 FY24 stood as follows: US (24%), UK (18%), China (12%), Europe (22%), and rest of the world (24%).

It's important to highlight JLR's positive outlook and its focus on growth despite near-term challenges. While the company is expecting a relatively muted production and cash flow in Q2 FY24 due to planned shutdowns and summer holidays, JLR maintains its volume target of 4 lakh units for FY24. This goal indicates the company's optimism regarding its future performance and prospects.

CV Division and EBITDA Margin Target:

Tata Motors' Commercial Vehicle (CV) division encountered challenges in Q1 FY24, with a significant 15.0% year-on-year decline in volumes. This decline was largely attributed to the implementation of BSVI phase 2 norms. However, the situation has improved as production normalized in subsequent months. The company remains optimistic about a sequential recovery in volumes during Q2 FY24, though some moderation is expected in July due to the ongoing monsoon trends.

Despite the challenges faced by the CV division, Tata Motors is steadfast in its pursuit of a double-digit EBITDA margin for the fiscal year 2024. This target is expected to be achieved through a combination of strategies, including improving average selling prices (ASPs) and rigorously controlling costs.

PV Division and EV Segment Margins:

In the Passenger Vehicle (PV) division, Tata Motors reported encouraging growth of 7.9% year-on-year in volumes during Q1 FY24. Notably, the company's domestic PV business continued to gain traction. However, the EBITDA margin in the PV business faced some headwinds, primarily due to upfront costs associated with the electric vehicle (EV) segment. Specifically, the PV business reported an EBITDA margin of 5.3% in Q1 FY24, compared to 7.3% in the previous quarter (Q4FY23). This dip in margins was attributed to a negative EBITDA margin of -9.7% in the EV segment, in contrast to the positive 8.6% margin reported by the traditional PV business.

Despite the current challenges in the EV segment's margins, Tata Motors remains optimistic about the future trajectory. The company expects a gradual improvement in EV segment margins in the coming quarters. Several factors contribute to this positive outlook, including an anticipated reduction in input costs, particularly battery costs. Additionally, the benefit of localization and the potential advantages stemming from the Production-Linked Incentive (PLI) scheme are expected to positively impact the EV segment's profitability in the second half of FY24.

Other Updates:

Tata Motors' performance in both the CV and PV segments was influenced by various factors, resulting in noteworthy outcomes:

In the CV + PV segments, a cash outflow of approximately INR 20 billion was observed, primarily due to working capital requirements. This impact was largely attributed to seasonality, driven by CVs. Importantly, this cash outflow is expected to reverse in the subsequent periods.

Tata Motors Finance, a key financial arm of the company, is focused on delivering double-digit Return on Equity (ROE) in the medium term. To achieve this, the company is concentrating on improving Net Interest Margins (NIMS), reducing credit losses, and implementing stringent cost controls.

Tata Motors' credit ratings continue to improve, a positive trend that aligns with the company's efforts to enhance its financial position and creditworthiness. The management is proactively engaging with credit rating agencies to further solidify its standing.

The company experienced fluctuations in raw material prices during Q1 FY24, particularly an increase in steel prices. However, Tata Motors anticipates that steel prices will revert to the levels observed in the previous quarter (Q4 FY23). Additionally, there has been a reduction in the prices of batteries used in electric vehicles, contributing to potential cost savings in the EV segment.

Scheme of Arrangement for DVRs:

Tata Motors' Board of Directors approved a scheme of arrangement for the cancellation of "A" ordinary (ORD) shares and the issuance of ORD shares as consideration for this cancellation and capital reduction. Under this scheme, every "A" ORD shareholder will receive 7 ORD shares for every 10 "A" ORD shares held. Notably, this arrangement, when announced, translated to a 23% premium compared to the previous day's closing price of "A" ORD shares. Additionally, it represented a 30% discount to ORD share price, significantly reducing the historical average discount of around 43% and an average of 50% over the past five years.

The scheme of arrangement holds several implications for Tata Motors and its shareholders. First, the transaction does not involve any cash outgo. Second, the scheme is subject to various regulatory approvals, including those from SEBI, stock exchanges, NCLT, and shareholders. As a result, the completion of this transaction is estimated to take approximately 12 to 15 months. However, shareholders should be aware of potential tax implications associated with this transaction. The distribution of shares to shareholders will be treated as a deemed dividend, leading to withholding taxes. To address this, Tata Motors plans to establish a trust that will oversee the sale of ORD shares to cover tax liabilities for "A" ORD shareholders.

Beyond the tax implications, the scheme of arrangement holds benefits for both shareholders and the company. Shareholders will enjoy higher liquidity for their shares, while the EPS of ORD shareholders is expected to see a 4% accretion due to lower share capital. For Tata Motors, the scheme simplifies, streamlines, and consolidates its share capital structure. Additionally, the removal of the discount on "A" ORD shares is anticipated to increase the company's market capitalization.

Conclusion:

In conclusion, Tata Motors' Q1 FY24 Earnings Conference Call highlights shed light on the company's strategic decisions, operational performance, and outlook. The cancellation of DVRs and the issuance of ordinary shares indicate the company's commitment to improving its share structure and valuation. Jaguar Land Rover's positive performance in the face of challenges highlights its strong market position and potential for growth. The Commercial Vehicle and Passenger Vehicle divisions are actively pursuing strategies to enhance margins and overcome challenges. Overall, Tata Motors is navigating dynamic market conditions with a proactive approach, positioning itself for long-term success.

Overall Financials and Outlook

Looking at the broader financial perspective, Tata Motors encountered a cash outflow of almost INR 20 billion in the CV + PV segments, primarily attributed to working capital requirements. This impact was driven by seasonality and is expected to revert in subsequent periods. Despite these short-term fluctuations, Tata Motors Finance remains committed to delivering a double-digit Return on Equity (ROE) in the medium term. The company's focus in this regard includes improving Net Interest Margins (NIMS), managing credit losses, and ensuring rigorous cost controls.

Tata Motors' credit ratings have exhibited a positive trend, reflecting the company's efforts to bolster its financial position and creditworthiness. The management is actively engaging with credit rating agencies to maintain and enhance its standing in the market.

While Tata Motors faced challenges due to fluctuations in raw material prices during Q1 FY24, particularly an increase in steel prices, the company anticipates that steel prices will revert to the levels observed in the previous quarter (Q4 FY23). Additionally, there has been a reduction in the prices of batteries used in electric vehicles, which could lead to cost savings and improved profitability in the EV segment.

In the context of Tata Motors' subsidiary, Jaguar Land Rover (JLR), the company reported an optimistic outlook despite the prevailing challenges. Although Q1 FY24 witnessed a minor 1.5% volume decline, JLR managed to enhance its EBITDA margin by 170 basis points to reach an impressive 16.3%. This margin improvement was attributed to a favorable product mix and pricing strategies. JLR's strong order book, which stood at 185,000 units, is a testament to the demand for its high-margin models, including Range Rover, Range Rover Sport, and Defender. Notably, these three models collectively constitute 76% of the total order book.

JLR's performance was also underscored by noteworthy developments in its manufacturing capabilities. For instance, Range Rover and Range Rover Sport production increased to over 2,800 units per week during the quarter. Additionally, a second body shop is being installed in Solihull, a move that is expected to boost production capacity by 30% in future quarters.

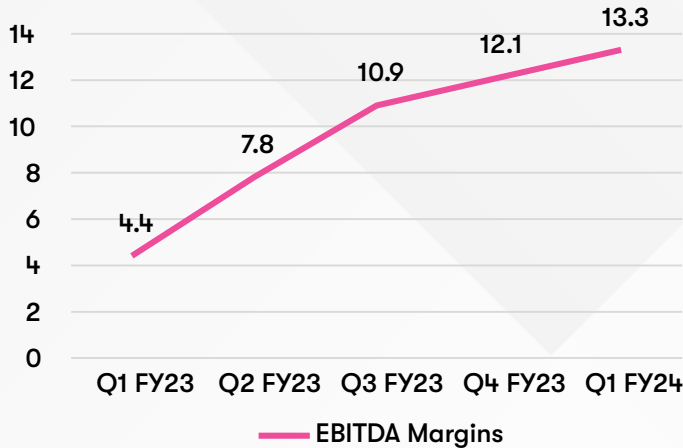
JLR's global performance exhibited variations across different geographies. The favorable change in product mix compared to the previous year contributed to improved profitability. For example, Range Rover's share of the mix increased from 8% to 18%, and Range Rover, Range Rover Sport, and Defender's combined share rose from 45% to 63%. This shift in product mix, coupled with higher profits from Parts and Accessories, contributed to the overall improvement in Profit Before Tax (PBT).

To drive demand generation, JLR has increased its investment in fixed marketing activities towards the latter part of the year. This strategic approach aligns with the company's commitment to maintaining and enhancing its market position. The Engineering capitalization rate also saw an increase from 53% in Q4FY23 to 61% in Q1FY24, driven by the product cycle plan.

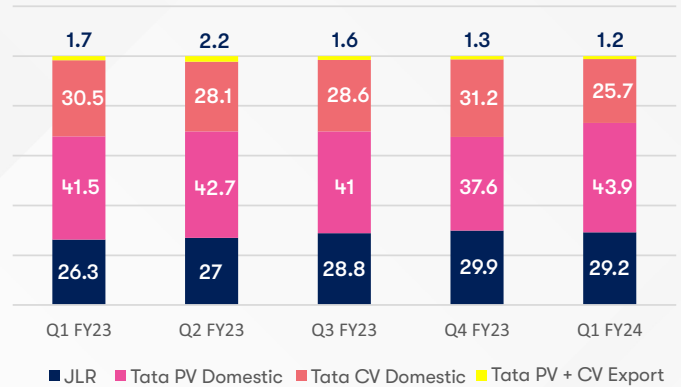
The performance of JLR's China joint venture was particularly noteworthy. The joint venture exhibited strong EBITDA margin and PBT on both a year-on-year and quarter-on-quarter basis. This robust performance underscores the company's global success and strategic partnerships.

JLR's growth prospects remain promising, despite short-term challenges. The company's order book stands strong at 185,000 units, and it is poised to maintain its growth trajectory. Although JLR is anticipating a decrease in production during Q2 FY24 due to planned shutdowns, the company remains confident in its ability to achieve its volume target of 4 lakh units for FY24. The performance in Q2 FY24 may be impacted by seasonal factors and plant shutdowns, but JLR's optimism about its growth prospects in FY24 remains steadfast.

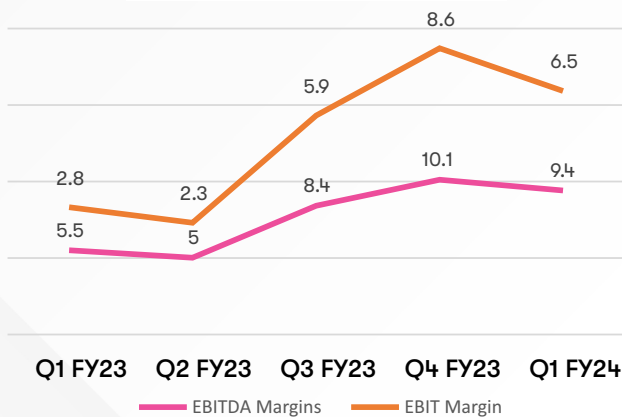
Consolidated EBITDA Margins



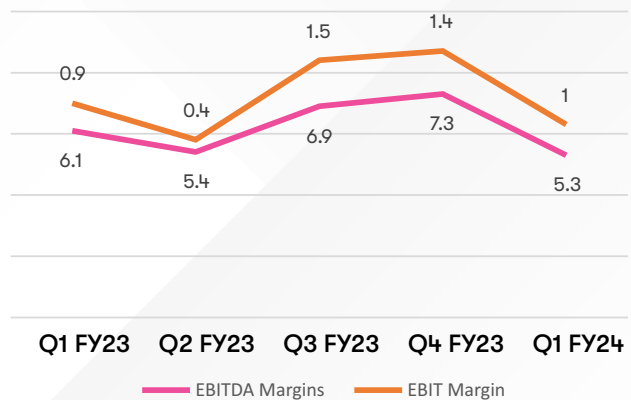
Wholesale Volume Mix



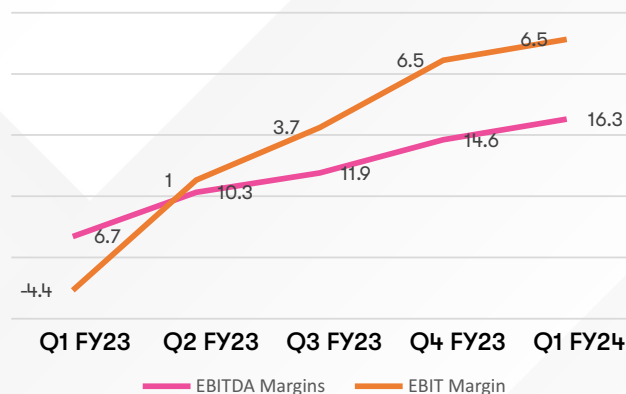
TML-CV Margin Trajectory



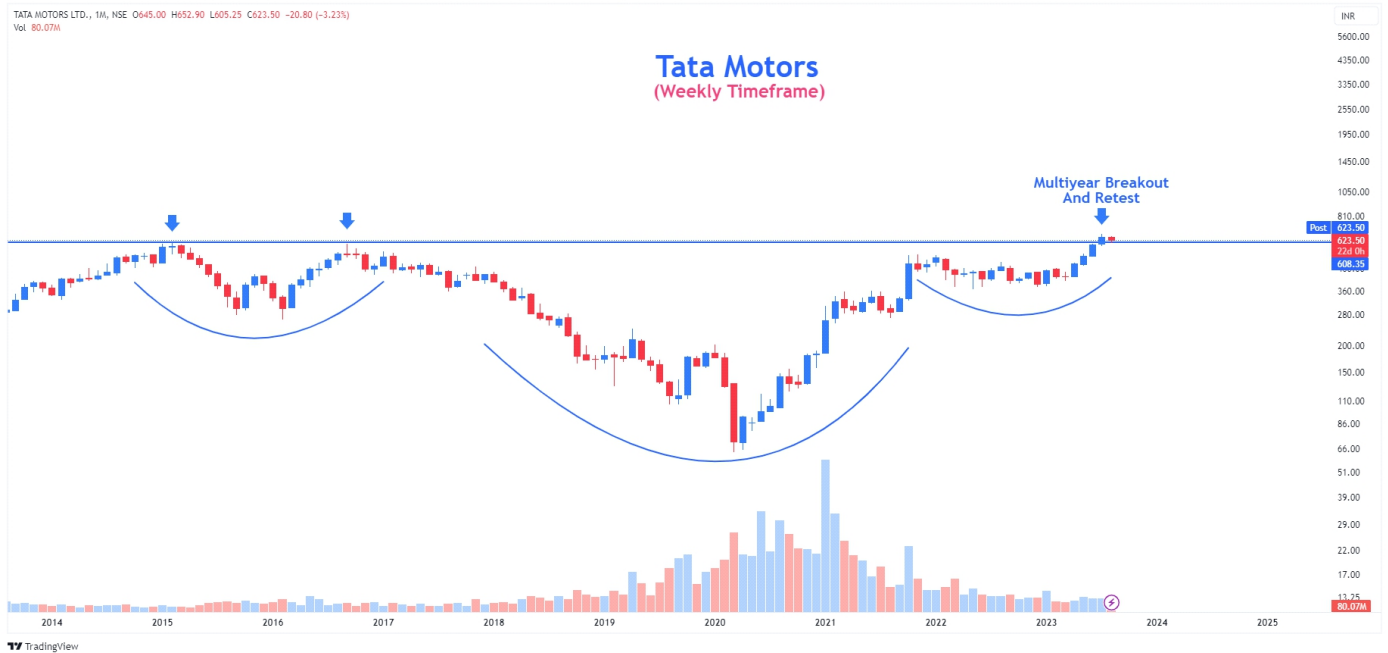
TML-PV Margin trajectory



JLR Margin Trajectory



Technical Outlook



Tata Motors has given a Multi-Year Breakout and is now retesting the breakout line. The share price has shot up more the 141% in last 24 months from a low of 271 to a high of 665. The stock is forming a Multiyear Inverted Head And Shoulder on technical front.

Massive inflows from the FII has been observed in this quarter which has been the major reason for the spike in price.

Moving Averages Days	Simple Moving Average	Exponential Moving Average
5	614	617
10	626	621.40
20	625	619.70
50	595	593
100	533	551
200	477	505

Pivot Levels : FIBONACCI		
R1 678.15	Pivot 613.55	S1 597.70
R2 712.00		S2 551.10
R3 758.60		S3 517.25

Relative Strength Index (RSI)	Daily	Weekly
	54.47	74.13

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