2024 March 20th - Understanding Tata Motors ahead of Demerger. (all figures according to Q3FY24)

The demerger is expected to unlock value of the stock as the stock will split into 2 entities - 1**. Commercial Segment (CV) & 2. Passenger Segment (PV).**
The analysts, brokerages and rating agencies will be able to analyse, set target prices and value the respected businesses according to their specific industries.

The **Commercial vehicle business (CV)** is expected to command a premium after the demerger because Tata Motors has 40% avg market share per quarter. And the CV business is the cash cow of TAMO. The CV business has 8.6% EBIT% which is enough to soak up a few uncertainties. It has fueled the growth of the PV business during its downtrend from its profits. Now the PV business is stable and growing.

However CV business is cyclical and its sales depend on the agriculture industry's output, manufacturing industry's output because what will a truck be used for? Transporting the goods to doorsteps or godowns. If the agriculture & manufacturing industry performs well, the truck owners, small farmers, logistics firms will buy or lease more CVs therefore increasing sales and profits. The Indian economy is expected to perform well in manufacturing output in the coming years but the agriculture industry depends most of the weather conditions so that becomes really uncertain but assuming it'll be okay-okay, the CV is expected to do good. One red flag maybe that the small farmer usually purchase small trucks like Tata Ace, Tata Intra (2 high selling profit making products of CV business) on credit and if the weather uncertainty hits them, it hits Tata Motors double side - 1 by the less sales of trucks due to less agri output, and - 2 by trucks stuck with farmer who won't be able to pay quickly. This similar uncertainty still goes on with the manufacturing industry but the manufacturing output is on the right track and is thus expected to increase in the coming years. Also it is said that good sales of CVs in India is an indicator of a performing economy as more people put their faith and invest in 'Transporting Goods & Materials' because the supply & demand of goods rise.

The **Passenger Vehicle business (PV)** consists of the JLR, TAMO's PV and EV segments. The JLR is Jaguar Land Rover and before the demerger, contributes around 70% of revenues and after the demerger, JLR is expected to easily contribute to around 80% of revenue in the PV business. This is a diversification risk. Right now, JLR is doing well, writing a comeback story but it is still writing and hasn't completed. The other red flag is the low 2.1% EBIT% of the TAMO PV segment.

The positives however are that JLR's EBIT% is 8.8% which is consistently improving since the covid lows. Also the JLR revenue is consistently increasing and is able to generate positive cash flows. Same goes with the TAMO PV segment, their revenue is improving, the EBIT% however is still lower but is increasing consistently and the market share is increasing significantly quickly standing at 14.6% now. The EV business market shares stand at 73.2% which will definitely lower down as new competitors introduce diverse models.

Right now, the CV & PV business is going strong. All 3 segments of the PV business (JLR+PV+EV) are also going strong. There are segment specific issues however they also offer room for growth.

Overview of the biggest headwinds for TAMO post its demerger.
1. Tackling cyclicality of CV business.
2. Retaining EV market share as much as possible.
3. Reaching double digit EBIT% and positive FCF (Free Cash Flow) in the PV segment.
4. Continuing strong show of JLR.
5. Reducing concentration risks in the PV business.

References from Management Conference, Below-

Conference - JLR Details 1

Richard Molyneux:

Okay, thank you. Yes, I will take you through the JLR results. So next chart, please. And it's not often you get to present a chart like this, every metric up versus every comparator. And it goes to show that we are now consistently delivering in line with our commitments. So I will talk very quickly through the columns, left to right. So revenue, GBP 7.4 billion in the quarter, GBP 21.1 billion year to date. Those are both records for JLR. On a quarterly basis, we are up 22%, and on a year-to-date basis, we are up 35% versus prior year. EBIT margin has now doubled year-over-year. We are at 8.8% EBIT and 16% EBITDA and pretty much at 16% EBITDA on a three quarter cumulative basis as well. PBT at GBP 627 million is the best Q3 we have had since 2016, and we are at GBP 1.5 billion just over for the first three quarters. Cash flow as well, GBP 626 million in the quarter is the best Q3 cash flow we have ever had. And we're at GBP 1.4 billion cumulative cash flow in nine months. So as I say, it's not often you get to present charts like that. Next chart.

Conference - JLR Details 2

So this one shows our wholesales. Wholesales in the quarter at 101,000 units. That's 27% up year-on-year. And this is the first quarter for some time where we have had wholesales, retails and production all over 100,000 units. In terms of the graphs, Range Rover continues to succeed and our production capacity for producing these vehicles also increases. So we were running at 2,900 cars per week this quarter versus 2,800 the previous week. Defender is down, but this is not any demand issue. We have had some supply constraints on engines which are common between Range Rover and Defender, so we biased the production towards Range Rover. So those are supply issues that will come back. There's no demand issue whatsoever in terms of Defender. Discovery and Jaguar, you can see there. I think interestingly the year-to-date numbers, if you look at percent, Range Rover is up 29% year-over-year, Defender is up 46% year-over-year. And even those vehicles which are slightly more mature in terms of their life cycle, the Jaguars and the Discoveries, are up 9% year-on-year. So even the really mature ones are up year-over-year. Next chart.

Conference - JLR Details 3

I will take you into a quick business update. So let's move ahead. So what's important here, I think, is this word "consistently". If you look at our EBIT over the last four quarters was 6.5%, then 8.6%, then 7.3%, then 8.8%. We are consistently delivering strong and improving EBIT. And that's really important for our operating model because we are inevitably going to face challenges, some we know about and I am sure there's some we don't yet know about. We will have to keep focusing on the order book to make sure

Conference - TAMO Management's expectations & Priorities

Looking ahead

TATA MOTORS

We remain committed to consistent, competitive, cash accretive growth whilst deleveraging the business

Outlook

- We remain positive on all three auto businesses
- Q4 to improve sequentially on seasonality, new launches and improving supplies at JLR
- Confident of delivering on our deleveraging plans.

Key priorities

JLR	CV	PV	EV

• Focus on brand activation to secure order book
• Continue to improve supply availability
• Execute Reimagine plans flawlessly
	• Improve market shares and realisations through
	  • innovation,
	  • service quality and
	  • thematic brand activation
	• Win in SCVPUs
	• Consistent delivery of double-digit EBITDA margins.
		• Deliver market beating growth through new product launches
		• Reach double digit EBITDA and sustain positive free cash flows
			• Develop the market to drive portfolio penetration to 15%+ through
			  • exciting range of products
			  • building the charging infra
			  • building the eco-system
			• Continue to improve EBITDA margins.