14th Nov ‘24 - Tata Motors Q2FY25 - Everything you need to know. Results review, intrinsic value, target price and analysts recommendation.

Q2FY25

1. Revenue declined 3.5% YoY to ₹101,500 crore.
2. Wholesales declined 11% to 303,800 units.
3. EBIT margin contracted 190 bps YoY to 5.6% while EBITDA margin contracted 230 bps YoY to 11.4%
4. PBT declined 6.5% YoY to ₹5,800 crore.
5. FCF declined by ₹6,800 crore to result in a negative cash balance of -₹2,900 crore.
6. Net Auto Debt at ₹22,000 crore; down by 43% YoY but up by 18% QoQ.

H1FY25

1. Revenue up 1% YoY to ₹209,500 crore.
2. Wholesales declined 4.6% to 634,100 units.
3. EBIT margin contracted 80 bps YoY to 7% while EBITDA margin contracted 100 bps YoY to 13%.
4. PBT increased 24% YoY to ₹14,600 crore.
5. FCF declined by ₹8,100 crore to result in a negative cash balance of -₹1,700 crore.
6. Net Auto Debt at ₹22,000 crore; down by 43% YoY.

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Intrinsic Value

All the available information points towards the supply side issues and voluntary quality checks as the main culprit of a slight underperformance in JLR business. The heavy monsoon and slowdown in government spending resulted in underperformance of the CV business. Both these businesses are fundamentally and financially strong and improving constantly. Moreover the challenges around these businesses are of a temporary or cyclical nature and they should be out of the woods soon. The PV business seems to be plateauing at 45,000 vehicles every month and for me, this is the bigger concern as the domestic PV business still contributes around 15% of the total business. The company definitely has good cars but there's a lot to be improved in and around them. Apart from the above mentioned challenges, it'll be interesting to see how the domestic EV industry plays out because Tata Motors and Mahindra & Mahindra are going really aggressive in the EV industry starting late November 2024. With somewhat improved charging infrastructure, I expect the EVs to get some cushion and register some growth in the numbers.

Current Valuation Status: (as on 14th November 2024)
The current valuation of the TATAMOTORS stock stands at ₹922 per share at 16.4x Current Core TTM EPS of ₹56.24. The current price of the stock is ₹776 per share and I believe it provides a good risk - reward ratio and a really nice entry point.

Target Price:
The TATAMOTORS stock is a BUY at current level (CMP: ₹776) with a Target Price of ₹968.58 per share based on 16.4x FY25E EPS.

All details:
Jaguar Land Rover automotive
Full year guidance is unchanged at 30 *billion Pounds*, EBIT margin >8.5% and Net Cash positive.

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1. Q2FY25
    a. Revenue declined 5.6% YoY to 6.4 *billion Pounds.*
    b. Wholesales declined 9.8% YoY to 87,300 units.
        i. Due to the impact of severe flooding at a kay high-grade aluminum supplier - this was already indicated.
        ii. Temporary hold placed on 6,029 vehicles to allow additional quality control checks.
    c. EBIT margin contracted 220 bps YoY to 5.1% while EBITDA margin contracted 320 bps YoY to 11.7%
        i. Impacted by lower wholesales and increase in expenses.
    d. PBT declined 10% YoY to 398 *million Pounds.*
    e. PAT increased 4.6% YoY to 283 *million Pounds.*
    f. FCF declined by 600 *million Pounds* to result in a negative cash balance of -256 *million Pounds.*

g. ROCE rose to 19.3% from 15.7% in the year ago period but declined from 21.2% in the quarter ago period.

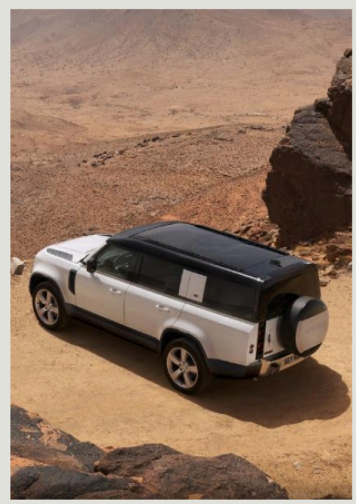
2. H1FY25
   a. Revenue flat YoY at 13.7 *billion Pounds.*
   b. Wholesales declined 2.6% YoY to 185,100 units.
   c. EBIT margin contracted 90 bps to 7.1% while EBITDA margin contracted 170 bps YoY to 13.9%
   d. PBT increased 24% YoY to 1.09 *billion Pounds.*
   e. PAT increased 32.2% YoY to 785 *million Pounds.*
   f. FCF declined 800 *million Pounds* to result in a negative cash balance of -26 *million Pounds.* This is due to investment spending worth 1.9 *billion Pounds.* The full year target of the investment spending is at 3.7 *billion Pounds.*
   g. Net Debt reduced by 45% to just 1.2 *billion Pounds.*

3. Outlook
   a. FY25 guidance for revenue, EBIT margin and Cash Balance

Looking ahead

Holding full year guidance for revenue, EBIT margin and net cash positive

	Q2 FY25 ACTUAL	H1 ACTUAL	FY25 OUTLOOK
REVENUE	£6.5b	£13.7b	c.£30b
EBIT MARGIN	5.1%	7.1%	≥8.5%
INVESTMENT	£0.9b	£1.9b	£3.7b
FREE CASH FLOW	£(0.3)b	£(0.0)b	c. £1.3b
NET CASH POSITIVE	£(1.2)b	£(1.2)b	Net cash positive
ROCE*	19.3%	19.3%	c. 22%



**Reported ROCE is analytically derived by dividing the reported EBIT for the last 12 months upon the average of the capital employed (YoY).*

Tata Commercial Vehicles

Market share in Commercial Vehicles in H1FY25 is at 38.1% and in Q2FY25 is at 37.2%

1. Q2FY25
    a. Revenue declined 13.9% YoY to ₹17,300 crore
    b. Wholesales declined 20% YoY to 86,000 units.
    c. EBITDA margins increased by 40 bps YoY to 10.8%
    d. EBIT margins contracted 10 bps YoY to 7.8%
    e. PBT declined by ₹200 crore YoY to ₹1,300 crore.
    f. ROCE increased to 37.4% from 32.3% in the year ago period.

2. H1FY25
    a. Revenue declined 5.2% YoY to ₹35,100 crore.
    b. Wholesales declined 8% YoY to 179,700 units.
    c. EBITDA margins increased by 120 bps YoY to 11.2%
    d. EBIT margins increased by 120 bps YoY to 8.4%
    e. PBT increased by ₹300 crore YoY to ₹2,800 crore.

3. CV (Commercial Vehicle) industry highlights
    a. CV Industry declined 11% YoY due to slowdown in infra, reduction in mining activity and heavy rains.
    b. Average kilometers run declined and diesel consumption also reduced 15% QoQ

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Tata Passenger Vehicles

Market share in H1FY25 is at 13.3% and in Q2FY25 is at 12.8%
EV Market share in Q2FY25 is at 65% vs 71% in the year ago period.
EV Volumes in Q2FY25 were down by 16% YoY but the charging network has grown by almost 2,000 chargers QoQ to 14,018 chargers.

1. Q2FY25
    a. Revenue declined by 3.9% YoY to ₹11,700 crore.
    b. Wholesales declined by 6% to 130,500 units.
    c. EBITDA margins declined 30 bps YoY to 6.2%
    d. EBIT margins decline 170 bps YoY to 0.1%

    e. PBT declined by ₹100 crore YoY to ₹200 crore.

2. H1FY25
    a. Revenue declined by 5.9% YY to ₹23,500 crore.
    b. Wholesales declined by 3.6% to ₹269,300 units.
    c. EBITDA margins increased 10 bps YoY to 6%
    d. EBIT margins decline 120 bps YoY to 0.2%
    e. PBT declined by ₹100 crore YoY to ₹400 crore.

3. Industry Highlights
    a. Industry registrations and wholesale de-grew by 5% and 1.8% You respec in Q2; with 26 month low in registrations in Sep '24. Build up of channel inventory and high levels of discounting.
    b. The EV industry is facing headwinds due to the PV industry slowdown and withdrawal of key incentives particularly for fleets.
    c. Strong booking pipeline for new launches in Curvv & Nexon CNG. Punch being the highest selling mode with 100,000+ units sold in H1FY25.
    d. Tata Motors recorded the highest ever monthly registrations of 68,500 in October (Q3 starting) which helped in bringing down channel inventory to normal levels. Industry wholesales to be lower to enable channel inventory reduction ahead of the new calendar year.

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Commentary

1. JLR: Steady first half under challenging conditions; sequential recovery expected in H2FY25. Seasonality impacts Net Debt. To reverse in H2FY25.
2. Tata PV: Steady EBITDA margins despite muted industry demand. Mix continues to improve.

Analysts Recommendation

1. Jefferies
   Keeps at Buy. Target lowered to ₹1,000 from ₹1,300

2. Prabhudas Lilaladher
   Hold with a target of ₹847 (previously accumulate with a target of ₹1,172).

As Q2FY25 was weaker, they cut their expectations by 7 - 11% to factor in the impact of slowdown across business verticals. Key markets like China and Europe are under pressure due to competition and demand slowdown. JLR is expected to deliver modest growth in its volume. EV traction shall also impact their PV business. CV business could benefit from demand revival in H2FY25 and CV upcycle from FY26

3. Sharekhan
   Buy with a target of ₹1,099. Domestic business is expected to follow industry trends in the near term. CV business is sustaining its double digit EBITDA margin. The target is expected to continue improvements in JLR, PV and CV segments as well as reduced net automotive debt.

4. KR Choksey
   Buy with a target of ₹989, upgraded from accumulate but target lowered from ₹1,156. JLR is expected to meet its FY25 guidance.

5. Nomura
   Target lowered from ₹1,303 to ₹990.

GURU SPARES MARKETS - CHAITANYA SABHARWAL

A deeper dive into JLR

1. Range Rover, Range Rover Sport and Defender continue to perform well. They require only modest discounts to sell and are experiencing limited inventory.
2. Discounting increased to just 4% from 1% and was mainly attributed to Jaguar and Discovery models, and softness in the Chinese market.
3. The company also faced supply side issues and the need for additional quality checks.
4. The outlook is that the discounting should remain at current levels and with the supply side issues getting resolved, the performance will be back on track.
5. Challenges to the high end segment include software first EV companies from the US and China and the need to invest more to support multiple powertrains.

6. JLR's highly complex and feature loaded cars need skilled technicians which result in higher expenses and that is expected to reduce the company's cash flow.
7. JLR is also building 3 EV platforms. The Range Rover, Range Rover Sport and Defender will be launched in their EV avatars starting late 2025, followed by Jaguar in mid to late 2026. The Ranger Rover electric already has 48,000 customers on the waiting list.

This is a report by Chaitanya Sabharwal for guruspakes.com/markets
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