

## 11th Aug '24 - Tata Motors Fair Valuation.

Tata Motors is a big automotive player in the Indian market. It is present in the commercial vehicle space, the passenger vehicle space and in the luxury car market. In order to correctly value the Tata Motors stock and to give it a well justified price target, I've used different ways and methods that factor in all the business segments of the company.

Before you go any further, you need to understand the contribution of all the business segments of the company. If you understand this contribution, it'll be easier for you to understand my approach of analyzing the stock.

All figures from Tata Motors Investor Presentation for Q1FY25. All figures in ₹ crore.

Business Segment	Revenue	EBITDA	PBT
Jaguar Land Rover (luxury car marker)	76,899	12,166	7,339
Tata Commercial Vehicles	17,849	2,078	1,535
Tata Passenger Vehicles	11,847	682	173

JLR or Jaguar Land Rover's contribution in the total consolidated revenue for Tata Motors in Q1FY25 has been at a staggering 71%. Tata Commercial Vehicles, which is itself a strong brand and India's biggest commercial vehicle maker contributed 16.5%. And the Passenger Vehicles segment only managed 10.9%. The rest were categorised as 'others'.

On the PBT side, JLR contributed an even greater 83.1%, Commercial Vehicles contributed 17.3% and Passenger Vehicles a mere 1.95%. JLR is also the highest margin business in all the segments. Now I don't have PAT figures right from the source report but JLR reported *502 million pounds* which should be more or less

equal to ₹5,376 crore out of the reported Net Profit (PAT) of ₹5,692 crore. This makes JLR very very important for Tata Motors. And it can be said that Tata Motors is a luxury car maker, just with a different brand name.

By this time, you'd have already understood that if JLR performs, Tata Motors performs.

### Tata Motors Fair Valuation

I've used both the industry average method and the absolute historical average method to find the fair valuation of the Tata Motors stock. This provides you decent clarity on where the company and its stock stands right now and whether you as an investor should invest in Tata Motors.

Before you go ahead, I want you to go through the images below.

	PE Ratio		PEG Ratio	DE Ratio	EV	EV / EBITDA	
Stock	Current PE	3 Year Median PE	Current	Current	Current (₹ crore)	Current	3 Year Median EV / EBITDA Multiple
Tata Motors (inclusive all businesses)	11.55	18.42	0.12	1.26	453,699.00	6.59	7.40
Ashok Leyland	29.76	31.81	7.37	4.53	108,043.00	12.79	15.60
Olectra Greentech	166.89	146.61	3.59	0.13	12,768.00	68.83	61.70
Force Motors	25.45	31.12	1.15	0.23	11,152.00	11.09	15.60
SML ISUZU	24.44	34.67	0.60	1.48	3,365.00	15.47	17.40
Industry Average (Medians)	24.95	31.47	1.78	0.75		11.94	15.60

*Image 1 - Commercial Vehicles Industry Average as on 10th Aug 2024 (Industry Average after excluding outliers)*

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Tata Motors (inclusive all businesses)	11.55	18.42	0.12	1.26	453,699.00	6.59	7.40
Mahindra & Mahindra	30.96	20.65	1.48	1.64	438,499.00	15.20	11.20
Maruti Suzuki	26.14	35.90	1.84	0.00	381,623.00	15.60	20.80
Industry Average (Medians)	26.14	20.65	1.15	1.26		15.20	11.20

Image 2 - Passenger Vehicles Industry Average as on 10th Aug 2024

### Industry Average Method

After understanding the above business segments of Tata Motors, you must have figured it out that we've to compare Tata Motors to the commercial vehicle industry averages as well as the passenger vehicle industry averages.

I'll start with the Growth Rates.

Table 1 - Commercial Vehicles Business as on 10th Aug 2024

Stock	3 Year Revenue CAGR	3 Year Net Profit CAGR
Tata Motors (growth rates are adjusted for commercial business only)	38.10%	23.5%
Ashok Leyland	33.02%	205.33%
Olectra Greentech	60.07%	111.68%
Force Motors	52.07%	79.99%
SML ISUZU	54.88%	41.06%

Notes for the above table:

Revenue and Net Profit numbers (in ₹ crore)

- Tata Motors Commercial Vehicles  
FY24 revenue is 78,790 & profit before tax is 6,102
- Ashok Leyland  
FY24 revenue is 45,791 & profit before tax is 4,106
- Olectra Greentech  
FY24 revenue is 1,154 & profit before tax is 106
- Force Motors  
FY24 revenue is 6,992 & profit before tax is 605
- SML ISUZU  
FY24 revenue is 2,196 & profit before tax is 106

Tata Motors' Commercial Vehicles business is the largest in the peer group. Its FY24 revenue and profit before tax exceeds the cumulative figure of all the competitors mentioned in *Image 1*.

Surprisingly, even after the base effect, Tata Motors' Commercial Vehicles business manages a 38.10% 3 year revenue CAGR and a 23.5% 3 year net profit CAGR. I clearly take note that Tata Motors Commercial Vehicle business has the lowest 3 year net profit growth rate in the industry but we shouldn't forget the higher base. You can again have a look at the notes for *Table 1*.

Tata Motors' Commercial Vehicles business maintains a strong ~40% market share in the domestic market. And at the same time, I believe that this growth should keep on going because as India consistently increases its exports, the need for a robust logistics and transportation network will only increase. And when the logistics and transportation sector rises, the trucking industry, railways industry and other related sectors also experience relatable growth. Here's where Tata

Motors Commercial Vehicles, and other players have a chance to tap into the upcoming market opportunities.

Mix all these qualitative points with the quantitative data provided in the *Image 1* and you'll see that the Tata Motors stock is set to benefit the most.

This is because I believe the Tata Motors stock (inclusive of all businesses) trades at a discount of 54% to the Industry Average PE ratio. Apart from this, you see that the PEG ratio of Tata Motors trades at a discount of a whopping 94% to the Industry Average PEG ratio. In fact I'm myself surprised to notice that the PEG ratio of Tata Motors is 0.12

For some extra knowledge, PEG ratio is PE ratio divided by the Earnings Growth Rate. A simple understanding of the PEG ratio is that a PEG ratio below 1 gives clarity to the investor that the earnings of the company is outpacing the rise in the stock price. Here, its 0.12

The DE ratio or the Debt to Equity ratio is also not in the dangerously high category. And if you've been following the Tata Motors stock for a while now, you'd already know that the company is aggressively deleveraging itself.

Now coming to the final ratio that is the EV / EBITDA ratio. Tata Motors trades at an EV / EBITDA multiple of just 6.59 compared to the 11.94 of the Industry Average. This means a discount of 45%.

Simply speaking, I believe that the premium which Tata Motors Commercial Vehicles business should command over the industry averages is long due. And most probably the management of Tata Motors understands this very well. This can be a solid reason why the management wants to demerge the commercial and passenger vehicles business into two separate entities. This is only gonna unlock the value of both the businesses.

(Report continues ahead)

Table 2 - Passenger Vehicles Business as on 10th Aug 2024

Stock	3 Year Revenue CAGR	3 Year Net Profit CAGR
Tata Motors (growth rates are adjusted for passenger business only and as per available data)	19%	66.7% (Based on PBT instead of PAT - See notes for clarity)
Mahindra & Mahindra	23%	80%
Maruti Suzuki	26%	45%

Notes for the above table:

Tata Motors Passenger Vehicles + JLR cumulative Revenue, Profit Before Tax and Net Profit (PAT) numbers (in ₹ crore)

	FY21	FY22	FY23	FY24
Revenue	2,10,429	2,19,212	2,70,728	3,55,178
PBT	5,200	(5,046)	2,174	24,090
Net Profit (PAT)	(11,000) Passenger Vehicles data unavailable.	Data Unavailable.	288	28,190

Mahindra & Mahindra:

(in ₹ crore)

	FY21	FY22	FY23	FY24
Revenue	74,278	90,171	1,21,269	1,39,078
Net Profit	1,512	7,253	11,374	12,270

Maruti Suzuki:

(in ₹ crore)

	FY21	FY22	FY23	FY24
Revenue	70,372	88,330	1,18,410	1,41,858
Net Profit	4,389	3,880	8,264	13,488

You see, Tata Motors' passenger vehicle business is a big player in the industry. It is so big that its revenue for each year under observation surpasses the combined revenues of Mahindra & Mahindra (M&M) and Maruti Suzuki.

And the FY24 Net Profit figure of Tata Motors also surpassed the combined net profit figure of M&M and Maruti Suzuki.

Even with this huge base, Tata Motors is able to grow its 3 year revenue CAGR at 19% which itself isn't a laggard when compared to the growth rates of M&M and Maruti Suzuki. And this game gets even better for Tata Motors when you compare the profit growth rates. See *Table 2*.

And now I want you to see *Image 2*.

That small comparison of the domestic passenger vehicles business shows a lot of things about the '**undervaluation**' of Tata Motors.

Tata Motors trades 56% below the industry average PE ratio; a whopping 90% below the industry average PEG ratio; in line with the industry average Debt to Equity ratio; and 57% below the industry average EV / EBITDA ratio.

Just like Tata Motors' Commercial Vehicles business, its Passenger Vehicles business looks deeply undervalued when compared to the relevant peers of the industry.

Again, value unlocking through the demerger now makes sense. The analysts and brokerages will be able to rate the demerged entities according to the industry averages and medians. And I believe this report provides decent clarity on why the Tata Motors stock may be readying itself for a flying uptrend.

### *Finalising Commercial Vehicle Business fair valuation*

- Commercial Vehicle Industry Average PE ratio is 24.95
- Tata Motors PE ratio is 11.35
- Tata Motors Commercial Business' contributed 1/5th of the total earnings in FY24, hence Tata Motors Commercial Business' share of the total EPS (i.e. ₹94.47) is ₹18.9
- Tata Motors CMP (current market price) is ₹1062. The assumed share price for the Commercial Vehicle business comes out at ₹212.4 per share (i.e.  $₹1062 * 1/5$ ).

Now as Tata Motors is clearly a market leader and the future also conveys strong financial position and better operational efficiency therefore helping the company to report higher profits, I assume that Tata Motors commercial vehicle share should be valued at least equal to the industry average.

Industry average PE is 24.95 and PE ratio for Tata Motors Commercial Business came out at 11.23 (i.e.  $₹212.4 / ₹18.9$ ). This translates to a possible expansion of 222% (i.e.  $24.95 / 11.23$ ) in Tata Motors commercial vehicle business.

That also means that if earnings were to be the same, the price should give an upside of 222% to about ₹471.5 per share.

### *Finalising Passenger Vehicle Business fair valuation*

- Passenger Vehicle Industry Average PE ratio is 26.14
- Tata Motors PE ratio is 11.35
- Tata Motors Passenger Business' contributed 4/5th of the total earnings in FY24, hence Tata Motors Passenger Business' share of the total EPS (i.e. ₹94.47) is ₹75.57
- Tata Motors CMP is ₹1062. The assumed share price for the Passenger Vehicle business comes out at ₹849.6 per share (i.e.  $₹1062 * 4/5$ ).

Now even with short term production constraints and a slightly slower demand expectations for H1FY25, the company's passenger vehicle business is growing in double digits and that too at a higher base. The domestic passenger business growth is driven by the models in the bottom of the product portfolio, namely Tata



Punch and Tata Nexon. However the share of JLR in Tata Motors Passenger business is huge and here, the high margin models like the Defender and the Range Rover are experiencing improving sales and profit figures.

Industry average PE is 26.14 and PE ratio for Tata Motors Passenger Business came out at 11.24 (i.e. ₹849.6 / ₹75.57). This translates to a possible expansion of 232% (i.e. 26.14 / 11.24) in Tata Motors passenger vehicle business.

And similarly, this means if earnings were to be the same, the price should give an upside of 232% to about ₹1,971.07 per share.

Now to conclude the fair valuation using Industry Average method, I'll have to add the fair values of the two businesses.

$$₹471.5 + ₹1,971.07 = ₹2,442.57$$

This is a simplified approach and it provides a quick estimate but it still has some limitations.

1. Simplification of Business Complexity.
2. Ignoring Growth Prospects.
3. Neglecting Synergies in the Business.

Even with these limitations, this approach may do well because it primarily computes the qualitative and quantitative aspects that are already factored into the market and not into the stock. But at the same time, the company needs to report a consistent earnings growth rate.

(Report continues ahead)

## Absolute Historical Based Method

In this method I simply find trade premiums or discounts to the stock's 3 year medians.

Data sourced from screener.in on 10th Aug 2024

	Current PE	3Y Median PE	Current EV / EBITDA ratio	3Y Median EV / EBITDA ratio
Tata Motors (inclusive of all businesses)	11.55	18.42	6.59	7.4

Tata Motors currently trades at a discount of 38% to its 3 year median PE ratio; and at a 11% discount to its 3 year median EV / EBITDA ratio.

Based on the discount of 38% as per the PE ratio, I feel the stock's fair value should be around ~ ₹1,465 per share. Keep in mind that this valuation is very different from industry average based method and the price that I just calculated doesn't include trade premiums. It only 'fills the discount'.

Investing in Tata Motors at a price level of below ₹1,100 offers a great risk - reward ratio for long term investors looking to accumulate and hold the stock for the next 3-4 years. And with the demerger going to happen by Q2FY26, the Tata Motors stock may become a darling for the investors.

I hope you found this research report interesting and enjoyed reading and understanding it. Kindly give your feedback on this report using the Contact Us form on my website [guruspakes.com/markets](https://guruspakes.com/markets)