

Tata Motors to demerge passenger vehicle and CV businesses into 2 listed companies

WIN-WIN. Move will unlock value in each segment; all shareholders of Tata Motors to have identical shareholding in both the listed entities

Aroosa Ahmed
Mumbai

In a bid to unlock value, Tata Motors has decided to demerge its passenger and commercial vehicles businesses into two separately listed entities.

The demerger will be implemented through an NCLT scheme of arrangement and all shareholders of Tata Motors shall continue to have identical shareholding in both the listed entities.

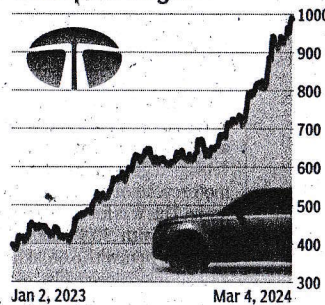
The move is the culmination of a series of decisions by the automaker over the last three years aimed at running the various businesses independently. For example, in 2021, the company did not appoint an overall MD and CEO after Guenter Butschek stepped down. Instead, the businesses were allowed to run independently under their respective CEOs. Then, in 2022, the PV unit was hived off into a separate subsidiary.

INDEPENDENT STRATEGIES

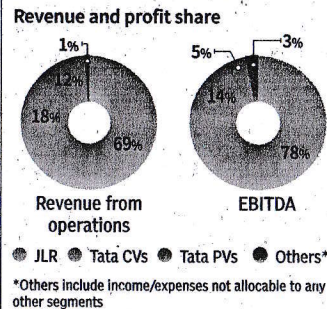
"The demerger is a logical progression of the subsidiarisation of PV and EV businesses done in 2022 and shall further empower the respective businesses to pursue their strategies to deliver higher growth with greater agility while reinforcing accountability," Tata Motors said in a statement. There are limited synergies between commercial and passenger vehicle businesses so there were no real

A road wide open

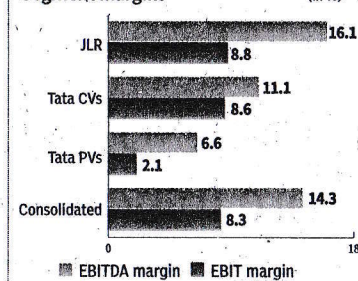
Share price surges



JLR dominates (Consolidated numbers for Q3 FY24)



Segment margins



Sales and financials



	Vehicle sales (in numbers)		Consolidated revenue	
	FY23	FY24 (9 months)	FY23	FY24 (9 months)
Commercial vehicles	4,13,539	2,86,406	₹70,800 cr	₹57,201 cr
PVs + EVs	5,41,087	4,17,844	₹47,900 cr	₹37,923 cr
JLR (excluding China joint venture)	3,34,176	2,91,113	£22.8 b	£21.1 b

Source: Company documents & investor info

benefit in keeping them together.

According to analysts, the demerger could cushion the passenger vehicle business from the cyclical nature of the commercial auto market. The CV industry is expected to end FY24 with a 2-5 per cent growth in volumes but in FY25 it may decline by 4-7 per cent, according to rating agency ICRA.

On the other hand there are considerable synergies to be harnessed across the high growth passenger vehicle busi-

ness including JLR, particularly in the areas of EVs, autonomous vehicles, and vehicle software which the demerger will help secure.

As *businessline* had reported recently, the demerger could also pave the way for listing the electric vehicle business on the bourses. Tata Motors has already received ₹7,500 crore from American investment firm TPG Rise Climate for its EV business pegging Tata Motors Electric Mobility value at \$9.1 billion.

Clearly, all these businesses will need more capital in the near future and the demerger allows Tata Motors to undertake further stake sale to strategic investors.

GIVING AGILITY

Dhruv Mudaraddi, Research Analyst, StoxBox, said the demerger of Tata Motors into two businesses is a step in the right direction as it offers agility to chase opportunities in PVs and CVs and also makes each business more accountable in terms

of their performance. "The company's PV business will benefit from factors such as higher EV adoption, continued premiumisation in the SUV space, richer product mix due to JLR business, higher acceptability of the company's products in Indian markets and a move towards technologically advanced products. The CV segment is likely to benefit from greater infrastructure thrust, focus on improving public mobility and a replacement cycle on the horizon."

The demerger comes at a time when the company has been performing well. Its market capitalisation has nearly doubled to over ₹3.28-lakh crore in one year. Riding on strong performance, Tata Motors has garnered 14.6 per cent of the passenger vehicles market, while its commercial business has a share of 38.7 per cent. "The Tata Group is building an entire ecosystem with investments in manufacturing batteries, putting up charging stations and financing vehicles. The demerger sets up Tata Motors to leverage this ecosystem," said an analyst.

BENEFITING ALL

"Tata Motors has scripted a strong turnaround in the last few years. The three automotive business units are now operating independently and delivering consistent performance. This demerger will help them better capitalise on the opportunities provided by the market by enhancing their focus and agility. This will lead to a superior experience for our customers, better growth prospects for our employees, and enhanced value for our shareholders," said Chairman N Chandrababu Naidu.

The company stated that the demerger will not impact the manufacturing units as they have already been separated for commercial and passenger vehicles.

"The demerger will have no adverse impact on employees, customers, and our business partners," Tata Motors said.