Tata Motors: EV profitability to improve

JLR to exceed 400k sales in FY24 with improved chip supplies

TATA MOTORS (TTMT) had a strong performance across key verticals in Q4FY23. Their commercial vehicles (CV) EBITDAM (earnings before interest, taxes, depreciation, amortisation, and exceptional items as a percentage of sales or revenue) crossed the 10% mark after four years, and Jaguar Land Rover (JLR) delivered a strong £815mn free cash flow (FCF). However, the passenger vehicles (PV) reported a flattish 7% margin, as the rising scale of loss-making electric vehicles (EVs) prevented the EBITDAM of India PVs from crossing the 10% mark. With chip supplies improving, JLR is aiming to cross 400k wholesales ex-CJLR in FY24, which implies a quarterly run rate of 90k plus units to sustain ahead. The management is aiming for £2bn of FCF for JLR in FY24, which is considered doable even after factoring in a slight increase in capex outlook to £3bn p.a. from FY24. Without any material changes to volume and margin estimates, the recommendation for TTMT is to maintain a Buy rating. The revised DCF-based target price of ₹620 (earlier ₹608) implies 10x FY25 India business and 2.5x JLR EV/Ebitda.

Conference call key takeaways:

JLR is looking forward to deliver wholesales of 400k+ units ex-CJLR in FY24, implying quarterly volume levels similar to Q4FY23 to sustain going ahead and improve with chip supply gradually. Steady supply of chips, we believe, would help JLR deliver 85-90k units/quarter in H1FY24, sitting on an orderbook of 200k units, 75% out of which is driven by RR/RR Sport/Defender models.

Tata Motors volume and margin assumptions

	FY22	FY23	FY24E
JLR wholesales (units)	2,94,182	3,21,362	4,15,920
JLR ASP/vehicle (£)	62,274	70,976	72,500
JLR Ebitda margin (%)	10.3	11.3	12.5
JLR Capex (£ mn)	2,500	2,800	3,000
India (Standalone)	7,29,148	9,54,626	10,56,007
M&HCV (units)	1,44,500	1,78,531	1,95,902
LCV (units)	2,09,515	2,29,147	2,69,478
PV (units)	3,75,133	5,46,948	5,90,627
ASP/vehicle	7,64,414	8,48,499	9,50,319
Ebitda margin (%)	5.7	7.0	9.0
Capex (₹ mn)	30,000	53,000	73,135

Source: Company data, I-Sec research

As per the management, input cost inflation may be down in FY24 driven by a decline in manpower/power/freight/commodity cost and would get partly negated by rising marketing expenses and adverse currency moves, resulting in 6-6.5% Ebit margin. Capex for JLR is set to increase by 20% from FY24 to £3bn p.a., with majority of increase being driven by capital expenditure towards setting up of EV manufacturing facilities/machineries. R&D expenses were £1.7bn in FY24 and would increase slightly from that level in order to continue with the targeted EV launch pipeline. As against FCF breakeven volume being at 300k units, delivering 400k units, JLR is looking forward to FCF of £2bn+ in FY24.

TTMT is expecting 5-8% growth in PV/CV volume in FY24, post industry delivery robust growth in FY23. PV EBITDAM of 7% appears deflated as with rising scale of EV sales, overall PV margin is absorbing the losses of the EV portfolio. Led by expensing of vehicle development costs, EBITDAM for EV portfolio is at negative 4.5% and removing the R&D expensing cost, EV portfolio as per the management is operating at Ebitda-neutral levels. With chip and battery prices declining, volume rising, localisation efforts getting enhanced, TTMT is expecting EV profitability to improve, and thus, help overall India PV EBITDAM move towards 10% soon.

CV business delivered 10% EBITDAM in Q4FY23, aided by major increase in scale (led by pre-buying), reduction in discount at retail level and commodity tailwinds. Capex for India business would increase to ₹80 bn in FY24 vs ₹65bn, in order to enhance focus towards vehicle development across CVs/PVs/EVs. TTMT is confident of delivering FCF for India business in FY24 despite the increase in capex outlook.

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