TaMo rides JLR on road to turn net cash positive

On track to pare debt, analysts expect it to have ₹2K cr cash on the books by end-FY25

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Tata Motors is on track to become a zero net debt company for its domestic business in 2023-24, and for Jaguar-Land Rover (JLR) in the next financial year, according to analysts.

The company on Friday announced a 9.9 per cent stake sale for ₹1,613 crore in Tata Technologies to TPG Rise Climate Fund (9 per cent) and Ratan Tata Endowment Foundation (0.9 per cent), implying a valuation of ₹16,300 crore ($2 billion).

This is part of the company's strategy to divest stake in non-core assets in connection with its de-leveraging plan. Tata Motors holds a 76.69 per cent stake in Tata Technologies and implied valuation for the stake stands at ₹12,500 crore, said analysts.

By March 2025, Tata Motors, including its luxury vehicle arm JLR, would become net cash positive, pointed out Raghunandhan N L, analyst with Nuvama Research. Raghunandhan explained that by March 2025, he expects JLR to have net cash of ₹15000 crore in its books and the domestic business of Tata Motors would have a net debt of ₹13,000 crore. This would make it a net cash positive of ₹2000 crore.

According to analysts, as Tata Motors' passenger vehicle (PV) and commercial vehicle (CV) businesses in India are in investment mode, on a standalone basis, there would be a certain amount of debt. The driver for debt reduction would be JLR, which is expected to generate free cash flow.

As of June 2023, Tata Motors had consolidated automotive debt of ₹41,700 crore. Of this, JLR's debt level stood at ₹25,761 crore, and the domestic business debt stood at ₹15,939 crore. Raghunandhan clarified this number does not represent Tata Motors Finance.

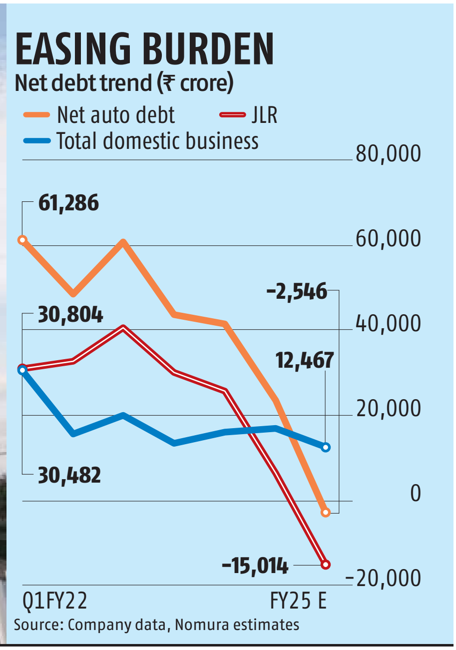
Bank of America (BofA) analysts noted in an October report that JLR seems on track to achieve a net debt reduction of £1.8-2 billion by the end of FY24. The H1FY24 free cash flow for JLR is estimated to be around £750 million. JLR has guided for free cash flow at £300 million in Q2FY24. "The overall balance sheet deleveraging thesis for JLR and Tata Motors is well understood given smooth production ramp up," it added.

Earlier, at the annual general meeting in August, Tata Motors Chairman N Chandrasekaran said: "On our net debt journey, I expect Tata Motors domestic business to become near net-debt zero in FY24 and JLR in the following year. The automaker's CFO P B Balaji in the post-Q1 results investor call said: "Our plan is to go to net debt free, and therefore, we will look at all opportunities to see what are the best way to handle this cash. So we will keep working on that."

Tata Motors is currently in a silent period, before its Q2FY24 results.

The improved product mix holds the key to the generation of free cash flow and eventually help debt reduction. Raghunandhan explained that the FY24 projections are that the PV business would clock 8 per cent volume growth, while the CV business would grow by 5 per cent in volumes, and JLR volumes would expand by 24 per cent. "8 per cent volume growth in the PV business would lead to 12 per cent revenue growth, while 5 per cent growth in CV volumes will lead to an estimated 13 per cent growth in revenues, and 24 per cent volume growth in JLR would lead to 35 per cent revenue growth," he explained. This is due to better product mix.

JLR's wholesale and retail volumes improved during the second quarter of FY24 on the back of improved chip availability and other supply constraints. JLR retail sales for Q2FY24 came in at 106,500 units (including Chery-JLR China JV), an improvement of 4 per cent quarter-on-quarter (Q-o-Q) and 21 per cent Y-o-Y. Wholesale volumes for Q2FY24 were at 96,800 units (excluding Chery-JLR China JV), up 4 per cent Q-o-Q and 29 per cent Y-o-Y. "Total order book declined to 168,000 units as of end-September 2023, around 17,000 units lower than 185,000 in June 2023," Nomura said. The Range Rover, Range Rover Sport and Defender accounted for 77 per cent of total order book as of September 2023, showcasing continued demand for these vehicles. "We believe with improved production in H2FY24, JLR is on track to meet our estimate of 406,500 (ex-China JV) units for FY24F," Nomura said.



'See eventual split in platforms for ICE, EVs'

Tata Motors sees an eventual split in the platforms for its conventional engine and electric passenger vehicles in order to make future products unique and remove the handicap of developing EVs on traditional platforms, according to its Global Head of Design, Martin Uhlarik. "We see an eventual splitting of ICE (internal combustion engine) and EV, which is simply driven by the platform. If EV has to carry over an ICE architecture, it will always be handicapped in terms of its full potential, in terms of range, in terms of battery layout," Uhlarik said. **PTI**