

# TATA MOTORS

## Volume recovery critical to spur margin

India Equity Research | Automobiles

Tata Motors' (TTMT) Q4FY19 consolidated EBITDA of INR80.2bn (down 26% YoY) belied our estimate 11% due to weakness across businesses. Demand pressure across key markets led to management extending free cash flow (FCF) generation target by a year to FY21. Factoring the weak demand, we revise down consolidated FY20/FY21E EBITDA by ~7% each. However, sustained focus on improving efficiency is likely to limit the cash flow impact. Maintain 'HOLD' with revised SOTP-based TP of INR186 (INR179 previously) as we roll forward to September 2020E. China demand recovery remains critical for margin and cash flow. Moreover, the sharp dip in Q4FY19 standalone EBITDA margin, which we attribute to inventory normalisation measures, is a key monitorable.

### Subdued quarter: Weak India and China weigh on performance

Jaguar Land Rover's (JLR) EBITDA margin at 9.8% undershot our 11.1% estimate due to higher variable marketing expenses (VME), especially in China. EBITDA margin of the domestic business at 6.0% also came below our 8.4% expectation due to lower-than-expected benefit from easing raw material costs and higher incentives due to sharpened competitive intensity. In the near term, margin is expected to remain stressed until demand recovers in China and India—its two key geographies.

### Cost focus persists, but volume recovery still uncertain

JLR is on course to deliver its promised cost efficiency of GBP2.5bn over two years to FY20. In FY19, it has already managed to deliver 50% of the promised reduction, with the balance to come in FY20. We expect cost reduction efforts to sustain beyond the targeted GBP2.5bn. Having said that, until volumes revive and operating leverage benefits are realised, profitability is likely to remain a challenge.

### Outlook and valuation: Uncertainty persists; maintain 'HOLD'

Demand remains challenging and we expect FCF to remain negative for JLR through FY21, which will cap valuations. We maintain 'HOLD/SP', valuing the India business at 7x September 2020E EBITDA and JLR at 5.5x EBIT. The stock is trading at FY20/21 PE of 10.8x/8.7x

#### EDELWEISS 4D RATINGS

Absolute Rating	HOLD
Rating Relative to Sector	Performer
Risk Rating Relative to Sector	High
Sector Relative to Market	Overweight

#### MARKET DATA (R: TAMO.BO, B: TTMT IN)

CMP	: INR 190
Target Price	: INR 186
52-week range (INR)	: 317 / 129
Share in issue (mn)	: 2,887.3
M cap (INR bn/USD mn)	: 594 / 8,521
Avg. Daily Vol.BSE/NSE('000)	: 19,920.5

#### SHARE HOLDING PATTERN (%)

	Current	Q3FY19	Q2FY19
Promoters *	37.3	37.3	37.3
MF's, FI's & BK's	17.5	17.5	17.4
FII's	19.0	19.0	18.8
Others	26.3	26.3	26.5
* Promoters pledged shares (% of share in issue)	:		8.9

#### PRICE PERFORMANCE (%)

	Stock	Nifty	EW Auto Index
1 month	(14.4)	(2.6)	(6.4)
3 months	22.7	3.1	(3.7)
12 months	(44.6)	5.2	(27.6)

#### Financials

(INR mn)

Year to March	Q4FY19	Q4FY18	% Chg	Q3FY19	% Chg	FY19	FY20E	FY21E
Total operating Income	864,220	912,791	(5.3)	769,159	12.4	3,019,384	3,292,257	3,530,317
EBITDA	80,193	108,944	(26.4)	59,557	34.6	230,795	318,102	363,646
Adjusted Profit	18,970	34,597	(45.2)	(15,229)	NA	16,780	59,808	74,121
Adjusted Diluted EPS	5.6	10.2	(45.2)	(4.5)	NA	4.9	17.6	21.8
Diluted P/E (x)						38.4	10.8	8.7
EV/EBITDA (x)						4.6	5.1	4.0
ROAE (%)						5.1	6.9	10.2

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### Q4FY19 conference call takeaways

#### Key highlights

- Demand environment in India has worsened. The situation in other regions remains similar to the previous quarter.
- Demand in India and China would improve in H2FY20.
- Net auto debt reduced from INR480bn to INR280bn in Q4 from Q3. Over FY19, debt spiked from INR180bn to INR280bn—the increase in debt was entirely due to JLR.
- **Gross margins weakness** – China is the most profitable business for JLR. Variable profit has gone down, which has hurt margins. In India, a weak quarter due to poor sales and weak demand environment. The mix has deteriorated and hurt margins. Commodity cost benefit materialised late in the quarter.

#### JLR business update

- Generated GBP1.4bn of positive cash flow in Q4FY19.
- Investment spending in FY19 was GBP3.8bn versus guidance of GBP4.5bn.
- Will launch an all-new Defender among others in FY20. Already launched the new Evoque. Product pipeline will remain strong in FY20.
- CFO Ken Gregor has decided to move on and will be succeeded by Adrian Mardell.
- **China**
  1. China's premium market grew by 3% YoY in Q4. Bigger vehicle segment such as SUV/sedan (segments 4 and 5), wherein JLR has a meaningful presence, declined sharply. The small SUV/sedan market, wherein JLR does not have a meaningful presence, reported growth.
  2. For FY19, wholesales in China (including JV) were down by 68k units. This also led to higher variable marketing expenses (VME), all of which weighed on profitability.
  3. China turnaround is a fundamental requirement for JLR's overall recovery. Will start from H2 subject to trade-related issues. New Evoque will be further localised there, which should help margins. Reducing cost at China JLR is critical to Project Dragon (turnaround plan for China). The company is also focused on professionalising the sales network.
  4. Discounts in China are still around 15% (similar to Q3), but have stopped getting worse. Dealer situation has been improving. Was at its low point in the previous quarter.
  5. VME was GBP267mn here (half of this was due to higher discounts and payments to dealers due to duty change). Similar trends (higher VME) visible in other geographies as well.
  6. Profitability was hit more due to negative operating leverage rather than discounting activity in Q4FY19. Biggest impact came in from volume reduction (inventory clearance). Reducing inventory is taking longer than anticipated.
- **Long-term structural changes**
  1. Management is open to structural changes at JLR. The first stage is getting cash flow while the second is working on fixed costs and working capital.

2. Once these improve, the company would look at making more structural changes (changes to product lines, for example).

- **FCF will be negative in FY21 (earlier it was expected to be positive) also due to a rundown of Range Rover and Range Rover Sport. These are some of the most profitable products at JLR. So a re- launch of newer versions will hurt FCF.**

#### Hedging loss

- Hedging loss is primarily attributable to unanticipated GBP weakness due to uncertainty around Brexit.
- Expect them to be lower in FY20, assuming the economy does not worsen.

#### USA

- In the US, domestic and Asian luxury players hold 50% of the premium market. SUVs are now 70% of the overall US market.
- Margins expanded owing to support from lower raw material prices. Sales were also supported by strong credit with as much as 65% of sales being leased or financed.
- Inventory stock at 76 days (broadly in line with industry).
- Average transaction price of USD77k for Land Rover is significantly higher than industry.
- Managed an incentive spend of lower-than-industry average for Jaguar and Land Rover.
- Share of US sales (% of global sales) at 27%, up from 24.1% in FY18.
- Retail network here is very profitable, mostly due to Land Rover.
- Have the best and industry-leading retail network in the US.

#### Project charge

- Project Charge – In FY19, managed to achieve GBP1.3bn in savings. Target is GBP2.5n.
- Investment spending was GBP0.7bn versus target of GBP1bn.
- Working capital spend was GBP0.4bn versus target of GBP0.5bn.
- Achieved cost savings of GBP0.2bn versus target of GBP1bn. Savings will increase going forward. The company is focused on all areas to reduce costs
  1. From the remaining GBP850mn, GBP400mn will come from lower staff expenses (has laid off 6k workers).
  2. Balance 50% will come from different business functions. The company has “Tiger teams” working on these activities.
- Working hard to cut costs. There is additional scope to cut VME, but it really depends on competitive forces as well.
- In FY20 – investment spend should be below GBP4bn.
- Focus on sustainable cost reduction.

### Depreciation

- Depreciation of GBP460mn is the correct reflection of depreciation going forward as well. (given the impairment taken last quarter).
- It will rise as new products are added to the portfolio.

### Capitalisation rate for R&D spend

- Will take a little more time to come through (a year or two) as it is applicable for new programs. Existing programs will continue to have current rates.
- Will start to reduce somewhat in FY20.

### Warranty costs

- Rising as a percentage of revenue.
- Some of this is also due to accruals of future warranty costs based on present performance.
- Working to improve quality for customers, which should help reduce these costs.

### FY20 guidance

- Q1 will be tough. Extra week of plant shutdowns due to Brexit and other seasonality will impact profitability.
- Q1 will be a loss and a negative cash flow quarter. Will improve going forward.

### India business

- Challenging environment – Liquidity stress and new axle norms have hurt sales.
- Managed a second consecutive year of positive cash flow in this business
- CV retails at 22.6% YoY versus wholesales of 17.2% in Q4. Picked up market share across categories except CV passenger vehicles (some of the products here like Magic will be discontinued post BS VI).
- PV retails at 4.4% YoY versus wholesale of 13.9% (Harrier retails have yet to show up in numbers) in Q4. Harrier has a two-month order cover. Will focus on product, scale and volume growth in the PV segment to make a mark
- In FY19 – Achieved an EBTIDA breakeven in the PV segment.
- Made huge progress in the modular technology in the CV segment.
- In Q4FY19 – There was an increase in competition in the market and discounts were very high too. The company has focused on contribution margin and does not want to see a drop in MOP as it can lead to structural erosion in brand.
- Focused on improving dealer profitability here as well. Did not go beyond certain areas/volumes in order to maintain a certain amount of profitability.
- As this year progresses, the focus on wholesale-related market share could be misleading since OEMs will focus on reducing inventory ahead of BS VI.

**Market share loss in M&HCVs**

- Loss of wholesale market share in the last few months. However, it is not a correct reflection of the underlying trend, particularly amid a weak demand environment. Besides, in FY20 wholesale market share analysis will be erroneous due to transition to BSVI.

**Tata Motors Finance**

- GNPA down to 2.6% in FY19 from 4% to FY18.
- Turnaround 3.0 will not be announced now.

**Table 1: SOTP valuation**

Financials (INR mn)	September 2020E
<b>A. Standalone</b>	
EBITDA (Rs mn)	74,527
Target multiple (x)	7.0
Enterprise Value (Rs mn)	5,21,688
<b>Per Share value (Rs)</b>	<b>154</b>
<b>B. JLR</b>	
EBIT (Rs mn)	38,622
Target multiple EV/EBIT (x)	5.5
Enterprise Value (Rs mn)	2,12,422
<b>Per Share value (Rs)</b>	<b>63</b>
EBITDA (Rs mn)	2,41,870
Implied EV/EBITDA (x)	0.9
<b>C. Finance Sub TMFL</b>	
Net worth FY18 (Rs mn)	17,118
P/BV (x)	2.0
Value (Rs mn)	34,235
<b>Per Share (Rs)</b>	<b>10</b>
<b>D. Net Debt</b>	
Less: Automotive debt (Rs mn)	1,37,561
<b>Per Share (Rs)</b>	<b>41</b>
<b>Total Target Price (A+B+C-D)</b>	<b>186</b>

Source: Edelweiss research

## Automobiles

**Table 2: JLR quarterly summary**

	Q4FY19	Q4FY18	% Change	Q3FY19	% Change
<b>Volumes (units)</b>					
Jaguar	48,815	46,197	5.7	38,000	28.5
LandRover	102,642	116,112	(11.6)	92,016	11.5
Total vehicles sold*	151,457	162,309	(6.7)	130,016	16.5
Avg. realisation (GBP)	47,102	46,547	1.2	47,863	(1.6)
* excluding China JV					
GBP mn	Q4FY19	Q4FY18	% Change	Q3FY19	% Change
<b>Total revenue</b>	<b>7,134</b>	<b>7,555</b>	<b>(5.6)</b>	<b>6,223</b>	<b>14.6</b>
Total Raw Materials	4,689	4,729	(0.8)	4,056	15.6
Staff costs	662	724	(8.6)	721	(8.2)
Other expenses	1,087	1,078	0.8	991	9.7
EBITDA	696	1,024	(32.0)	455	53.0
PBT	202	414	(51.2)	(164)	(223.2)
Tax	(1)	100	(101.0)	(266)	(99.6)
Adj PAT	148	403	(63.4)	(137)	(207.5)
Reported PAT	119	264	(54.9)	(3,129)	(103.8)
Margin (% of sales)	Q4FY19	Q4FY18	bps Change	Q3FY19	bps Change
Raw material	65.7	62.6	313	65.2	55
Staff cost	9.3	9.6	(30)	11.6	(231)
Other expenditure	15.2	14.3	97	15.9	(69)
EBITDA	9.8	13.6	(380)	7.3	244

Source: Company, Edelweiss research

**Table 3: Standalone quarterly summary**

	Q4FY19	Q4FY18	% Change	Q3FY19	% Change
Total vehicles sold	193,015	204,268	(5.5)	180,249	7.1
Avg Realisation (INR)	961,656	968,302	(0.7)	899,182	6.9
INR mn	Q4FY19	Q4FY18	% Change	Q3FY19	% Change
Net Sales	185,614	197,793	(6.2)	162,077	14.5
Net RM Cost	138,091	141,737	(2.6)	118,204	16.8
Staff costs	11,347	11,036	2.8	10,601	7.0
Other expenses	28,292	32,654	(13.4)	22,552	25.5
EBITDA	11,114	14,822	(25.0)	13,093	(15.1)
Profit before tax	2,694	8,576	n/a	3,438	(21.6)
Tax	1,593	262	507.9	(987)	(261.4)
Reported Net Profit	1,062	(4,999)	n/a	6,176	(82.8)
Margin analysis (% of sales)	Q4FY19	Q4FY18	bps Change YoY	Q3FY19	bps change QoQ
Raw materials	74.4	71.7	273.8	72.9	146.6
Staff cost	6.1	5.6	53.3	6.5	(42.8)
Other expenses	13.9	15.2	(123.5)	12.4	147.1
EBITDA	6.0	7.5	(150.6)	8.1	(209.1)
Adj. Net profit	0.6	4.2	(361.0)	8.1	(748.5)

Source: Company, Edelweiss research

Chart 1: JLR EBITDA margin and ASP trend

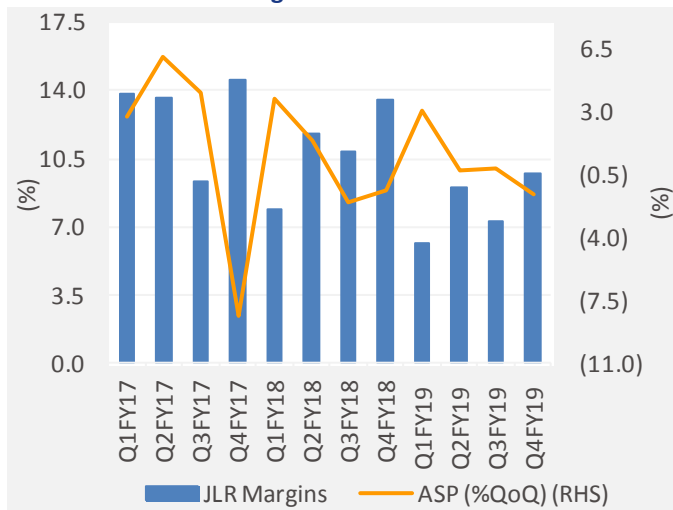
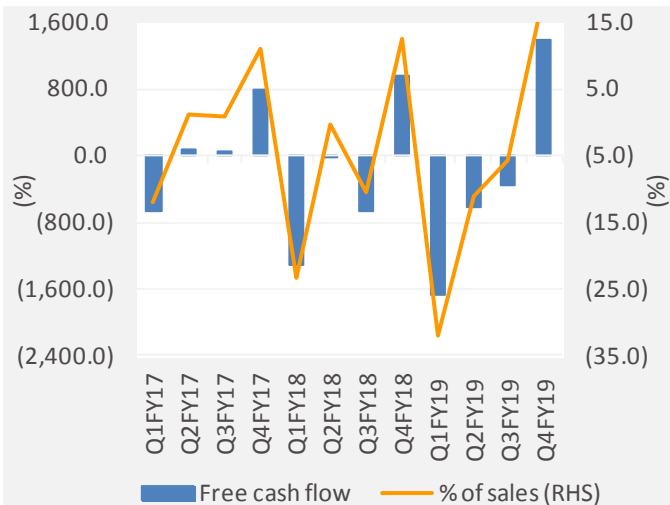


Chart 2: JLR FCF trend



Source: Company, Edelweiss research

Chart 3: India CV segment financials

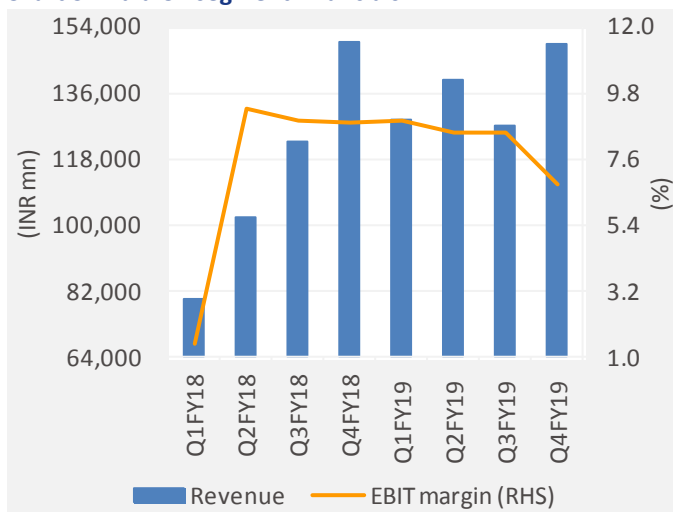
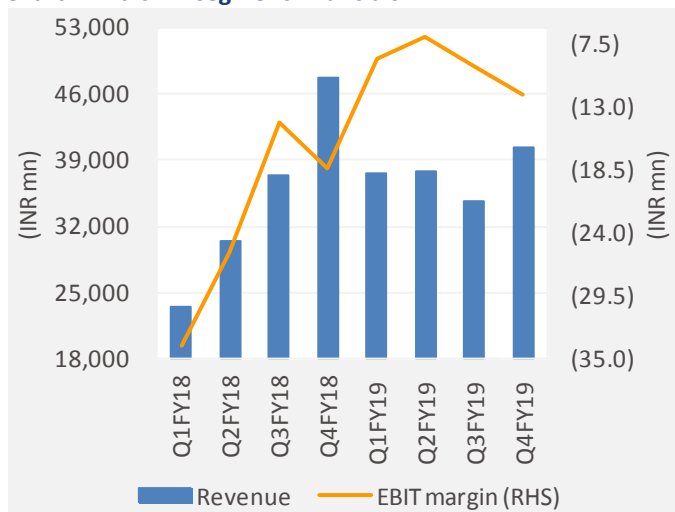


Chart 4: India PV segment financials



Source: Company, Edelweiss research

## Automobiles

### Financial snapshot

(INR mn)

Year to March	Q4FY19	Q4FY18	% change	Q3FY19	% change	FY19	FY20E	FY21E
Total operating Income	864,220	912,791	(5.3)	769,159	12.4	3,019,384	3,292,257	3,530,317
Raw material	571,461	571,052	0.1	501,895	13.9	1,975,666	2,119,693	2,293,604
Staff costs	79,994	83,523	(4.2)	85,090	(6.0)	332,439	339,122	337,650
Expenses capitalized	44,437	57,259	(22.4)	49,549	(10.3)	154,350	172,955	178,682
Other expenses	177,010	206,532	(14.3)	172,167	2.8	634,835	688,295	714,099
Total expenditure	784,028	803,847	(2.5)	709,603	10.5	2,788,589	2,974,156	3,166,671
EBITDA	80,193	108,944	(26.4)	59,557	34.6	230,795	318,102	363,646
Depreciation	53,531	64,884	(17.5)	64,393	(16.9)	235,906	228,946	252,784
EBIT	26,662	44,061	(39.5)	(4,836)	(651.4)	(5,111)	89,156	110,863
Interest	15,880	11,783	34.8	15,685	1.2	57,586	32,879	34,869
Other income	8,636	3,644	137.0	6,668	29.5	29,653	15,594	15,631
Add: Prior period items								
Add: Exceptional items	(11,072)	(16,403)	NA	(280,140)	NA	(305,575)		
Profit before tax	19,418	35,922	(45.9)	(13,853)	(240.2)	(338,619)	71,871	91,625
Provision for taxes	1,115	9,771	(88.6)	(24,052)	(104.6)	(24,375)	11,917	18,382
Minority interest	-	-		-		1,020	-	-
Associate profit share	(448)	8,446	NA	(1,376)	NA	2,095	(146)	878
Reported net profit	11,087	21,752	(49.0)	(269,608)	(104.1)	(313,170)	59,808	74,121
Adjusted Profit	18,970	34,597	(45.2)	(15,229)	(224.6)	16,780	59,808	74,121
Diluted shares (mn)	3,396	3,396		3,396		3,396	3,396	3,396
Adjusted Diluted EPS	5.6	10.2	(45.2)	(4.5)	(224.6)	4.9	17.6	21.8
Diluted P/E (x)	-	-		-		38.4	10.8	8.7
EV/EBITDA (x)	-	-		-		4.6	5.1	4.0
ROAE (%)	-	-		-		5.1	6.9	10.2
As % of net revenues								
Raw material	66.1	62.6		65.3		65.4	64.4	65.0
Employee cost	9.3	9.2		11.1		11.0	10.3	9.6
Other expenses	15.3	16.4		15.9		15.9	15.7	15.2
EBITDA	9.3	11.9		7.7		7.6	9.7	10.3
Adjusted net profit	2.2	3.8		(2.0)		0.6	1.8	2.1
Tax rate	5.7	27.2		173.6		7.2	16.6	20.1

### Change in Estimates

	FY20E			FY21E			Comments
	New	Old	% change	New	Old	% change	
Net Revenue	3,292,257	3,187,357	3.3	3,530,317	3,410,956	3.5	
EBITDA	305,807	328,659	(7.0)	374,868	402,793	(6.9)	
EBITDA Margin	9.3	10.3		10.6	11.8		
Adjusted Profit	50,612	73,693	(31.3)	82,950	110,570	(25.0)	
After Tax							
Net Profit Margin	1.5	2.3		2.3	3.3		
Capex	641,284	296,100	116.6	295,312	296,100	(0.3)	



## Company Description

TTMT is India's largest commercial vehicle company and fourth-largest PV player. In PV, the company has products in the compact and mid-size cars and utility vehicle segments. Through subsidiaries and associates, the company has operations in the UK, South Korea, Thailand and Spain. The key among them is Jaguar Land Rover, the business comprising two iconic British brands – Jaguar and Land Rover. TTMT markets cars, buses and trucks in several countries across Europe, Africa, the Middle East, south-east Asia and South America.

## Investment Theme

We remain positive on JLR's healthy product pipeline and believe platform consolidation will accelerate model introductions over the next five years. However, increasing average portfolio age for JLR and higher discounting are likely to cap margin expansion. We expect FCF generation of domestic business to remain under pressure given huge capex and continued pressure on market share.

## Key Risks

Domestic business: In PV, TTMT continues to invest in a new platform due for launch in 2019. The success of this platform is a key monitorable. In CV, the company is unable to stem the market share loss despite its formidable distribution network and strong brand equity. This is likely to put its margin profile under pressure over the long term driven by higher support activities.

Jaguar and Land Rover: Given competitive intensity, we expect profitability of this segment to lag volume growth. Electric vehicles remain a key event too as the extent of success traditional players would achieve is unclear at present.

## Financial Statements

## Key Assumptions

Year to March	FY18	FY19	FY20E	FY21E
<b>Macro</b>				
GDP(Y-o-Y %)	6.7	7.1	7.1	7.3
Inflation (Avg)	3.6	3.7	4.0	4.5
Repo rate (exit rate)	6.0	6.3	5.8	5.8
USD/INR (Avg)	64.5	68.0	69.0	72.0
<b>Sector</b>				
Cars - domestic vol. (% YoY)	3.3	4.0	8.0	8.0
MHCV - domestic vol (% YoY)	8.0	8.0	8.0	8.0
<b>Company</b>				
<b>Revenue assumptions</b>				
<b>Domestic vol growth (% YoY)</b>				
Cars - domestic vol. (% YoY)	0.7	-	10.9	10.9
MHCV - domestic vol (% YoY)	12.8	14.5	9.2	8.3
LCV - dom. vol. (% YoY)	33.0	19.5	10.0	8.1
Domestic avg. realisation (INR)	920,135.0	980,008.3	995,949.5	1,012,633.1
Domestic avg. realisation (%)	12.8	6.5	1.6	1.7
<b>JLR sales volume (Nos)</b>				
Jaguar	150,484	154,335	156,699	162,027
Land Rover	350,672	364,047	381,292	399,582
<b>Cost assumptions</b>				
RM cost/vehicle	667,601	711,774	718,839	730,060
Employee cost/vehicle	62,040	57,312	56,424	55,913
Average salary	1,587,390	1,673,110	1,733,341	1,795,742
Promotion cost (% revenue)	1.2	0.9	0.9	0.9
EBITDA/vehicle	52,013	79,866	85,011	88,791
<b>Financial assumptions</b>				
Avg. Interest rate (%)	12.2	13.0	12.5	12.5
Depreciation rate (%)	11.5	8.9	8.7	8.7
<b>B/S assumptions</b>				
Tax rate (%)	54.3	24.7	16.8	16.6
Dividend payout (%)	5.1	(2.5)	6.2	4.1
Capex (INR mn)	565,884	310,765	296,100	296,100
Net borrowings (INR mn)	35,052	244,948	-	(20,000)
Debtor days	21	23	21	20
Inventory days	75	75	71	71
Payable days	251	229	183	156
Cash conversion cycle	(154)	(131)	(91)	(64)

## Income statement

(INR mn)

Year to March	FY18	FY19	FY20E	FY21E
Income from operations	2,915,505	3,019,384	3,292,257	3,530,317
Materials costs	1,872,286	1,975,666	2,119,693	2,293,604
Manufacturing expenses	12,686	12,454	16,958	19,441
Employee costs	303,001	332,439	335,844	333,845
Total SG&A expenses	575,371	622,381	686,910	687,241
Expenses capitalised	150,562	154,350	172,955	178,682
Total operating expenses	2,612,781	2,788,589	2,986,450	3,155,449
EBITDA	302,724	230,795	305,807	374,868
Depreciation	215,536	235,906	228,946	252,784
EBIT	87,188	(5,111)	76,862	122,084
Less: Interest Expense	46,818	57,586	32,879	34,869
Add: Other income	39,575.9	29,653.1	15,593.76	15,630.87
Profit Before Tax	111,550	(338,619)	59,577	102,847
Less: Provision for Tax	43,419	(24,375)	8,819	20,775
Less: Minority Interest	1,025	1,020	-	-
Add: Exceptional items	31,604	(305,575)	-	-
Associate profit share	22,783	2,095	(146)	878
Reported Profit	89,889	(313,170)	50,612	82,950
Exceptional Items	14,440	(329,949)	-	-
Adjusted Profit	75,449	16,780	50,612	82,950
Shares o /s (mn)	3,396	3,396	3,396	3,396
Adjusted Basic EPS	22.2	4.9	14.9	24.4
Diluted shares o/s (mn)	3,396	3,396	3,396	3,396
Adjusted Diluted EPS	22.2	4.9	14.9	24.4
Adjusted Cash EPS	85.7	74.4	82.3	98.9
Dividend per share (DPS)	1.2	-	-	-
Dividend Payout Ratio(%)	4.4	-	-	-

## Common size metrics

Year to March	FY18	FY19	FY20E	FY21E
Materials costs	64.2	65.4	64.4	65.0
Staff costs	10.4	11.0	10.2	9.5
S G & A expenses	14.6	15.5	15.6	14.4
Operating expenses	89.6	92.4	90.7	89.4
Depreciation	7.4	7.8	7.0	7.2
Interest Expense	1.6	1.9	1.0	1.0
EBITDA margins	10.4	7.6	9.3	10.6
Net Profit margins	2.6	0.6	1.5	2.3

## Growth ratios (%)

Year to March	FY18	FY19	FY20E	FY21E
Revenues	8.1	3.6	9.0	7.2
EBITDA	(9.6)	(23.8)	32.5	22.6
PBT	19.8	(403.6)	(117.6)	72.6
Adjusted Profit	(20.6)	(77.8)	201.6	63.9
EPS	(20.6)	(77.8)	201.6	63.9

Balance sheet		(INR mn)			
As on 31st March	FY18	FY19	FY20E	FY21E	
Share capital	6,792	6,792	6,792	6,792	
Reserves & Surplus	947,487	595,003	589,508	674,489	
Shareholders' funds	954,279	601,796	596,301	681,281	
Minority Interest	5,251	5,231	5,231	5,231	
Long term borrowings	649,633	709,737	779,977	779,977	
Short term borrowings	130,311	201,503	211,637	211,637	
Total Borrowings	779,944	911,239	991,614	991,614	
Def. Tax Liability (net)	61,258	14,910	66,446	59,843	
<b>Sources of funds</b>	<b>1,800,731</b>	<b>1,533,176</b>	<b>1,659,591</b>	<b>1,737,969</b>	
Gross Block	1,628,389	2,130,926	2,258,724	2,900,008	
Net Block	644,882	727,714	1,030,794	992,245	
Capital work in progress	400,335	318,838	318,838	318,838	
Intangible Assets	569,257	384,630	493,889	574,966	
Total Fixed Assets	1,614,474	1,431,183	1,843,521	1,886,050	
Cash and Equivalents	355,295	373,305	233,774	344,137	
Inventories	421,376	390,137	427,443	457,280	
Sundry Debtors	198,933	189,962	186,741	201,410	
Loans & Advances	723,427	687,358	618,561	682,739	
Current Assets (ex cash)	1,343,737	1,267,457	1,232,745	1,341,428	
Trade payable	1,323,755	1,318,253	1,426,091	1,593,398	
Other Current Liab	189,019	220,516	224,359	240,247	
Total Current Liab	1,512,774	1,538,769	1,650,450	1,833,645	
Net Curr Assets-ex cash	(169,037)	(271,312)	(417,705)	(492,217)	
<b>Uses of funds</b>	<b>1,800,731</b>	<b>1,533,176</b>	<b>1,659,591</b>	<b>1,737,969</b>	
BVPS (INR)	281.0	177.2	175.6	200.6	

Free cash flow		(INR mn)			
Year to March	FY18	FY19	FY20E	FY21E	
Reported Profit	89,889	(313,170)	50,612	82,950	
Add: Depreciation	215,536	235,906	228,946	252,784	
Interest (Net of Tax)	21,391	15,109	28,012	27,825	
Others	(186,886)	420,960	282,057	140,438	
Less: Changes in WC	(128,857)	102,275	146,392	74,513	
Operating cash flow	268,786	256,531	443,235	429,484	
Less: Capex	565,884	324,681	641,284	295,312	
<b>Free Cash Flow</b>	<b>(297,098)</b>	<b>(68,150)</b>	<b>(198,049)</b>	<b>134,172</b>	

Cash flow metrics				
Year to March	FY18	FY19	FY20E	FY21E
Operating cash flow	268,786	256,531	443,235	429,484
Financing cash flow	20,117	69,138	42,924	(39,441)
Investing cash flow	(262,016)	(262,016)	(262,016)	(262,016)
Net cash Flow	26,887	63,652	224,143	128,028
Capex	(565,884)	(324,681)	(641,284)	(295,312)
Dividend paid	(4,572)	(4,572)	(4,572)	(4,572)

Profitability and efficiency ratios				
Year to March	FY18	FY19	FY20E	FY21E
ROAE (%)	9.9	2.3	8.4	12.9
ROACE (%)	8.3	1.5	5.9	8.4
Inventory Days	75	74	70	70
Debtors Days	21	24	21	20
Payable Days	249	243	234	238
Cash Conversion Cycle	(153)	(145)	(144)	(148)
Current Ratio	1.1	1.1	0.9	0.9
Gross Debt/EBITDA	2.6	3.9	3.2	2.6
Gross Debt/Equity	0.8	1.5	1.6	1.4
Adjusted Debt/Equity	0.8	1.5	1.6	1.4
Net Debt/Equity	0.4	0.9	1.3	1.0
Interest Coverage Ratio	1.9	(0.1)	2.3	3.5

Operating ratios				
Year to March	FY18	FY19	FY20E	FY21E
Total Asset Turnover	1.9	1.8	2.1	2.1
Fixed Asset Turnover	2.7	2.6	2.5	2.3
Equity Turnover	3.8	3.9	5.4	5.5

Valuation parameters				
Year to March	FY18	FY19	FY20E	FY21E
Adj. Diluted EPS (INR)	22.2	4.9	14.9	24.4
Y-o-Y growth (%)	(20.6)	(77.8)	201.6	63.9
Adjusted Cash EPS (INR)	85.7	74.4	82.3	98.9
Diluted P/E (x)	8.6	38.5	12.8	7.8
P/B (x)	0.7	1.1	1.1	0.9
EV / Sales (x)	0.4	0.4	0.4	0.4
EV / EBITDA (x)	3.6	5.2	4.6	3.5
Dividend Yield (%)	0.6	-	-	-

## Automobiles

### Peer comparison valuation

Name	Market cap (USD mn)	Diluted P/E (X)		EV / EBITDA (X)		P/B (X)	
		FY20E	FY21E	FY20E	FY21E	FY20E	FY21E
Tata Motors Ltd	8,521	10.8	8.7	4.4	3.6	1.1	0.9
Ashok Leyland	3,685	12.8	11.9	6.2	5.6	2.7	2.4
Mahindra & Mahindra Ltd	11,648	13.9	12.9	7.9	6.8	1.9	1.7
Median	-	12.8	11.9	6.2	5.6	1.9	1.7
AVERAGE	-	12.5	11.2	6.2	5.3	1.9	1.7

Source: Edelweiss research

## Additional Data

### Directors Data

Guenter Butschek	Executive Director	Nasser Mukhtar Munjee	Non-Executive Independent Director
Natarajan Chandrasekaran	Chairman & Non-Executive Director	Om Prakash Bhatt	Non-Executive Independent Director
Ralf Speth	Non-Executive Director	Satish Borwankar	Executive Director
Vinesh Jairath	Non-Executive Independent Director	Falguni Nayar	Non-Executive Independent Director
Hanne Sorenson	Non-Executive Independent Director		

Auditors - BSR & Co LLP

*\*as per last annual report*

### Holding – Top10

	Perc. Holding		Perc. Holding
Tata sons ltd	35.3	Citigroup incorporat	13.74
Life insurance corp	5.17	Reliance capital tru	3.31
Franklin resources	2.97	Govt of singapore	2.53
Tata industries ltd	2.5	Blackrock	2.16
Dimensional fund adv	1.42	Vanguard group	1.28

*\*in last one year*

### Bulk Deals

Data	Acquired / Seller	B/S	Qty Traded	Price
No Data Available				

*\*in last one year*

### Insider Trades

Reporting Data	Acquired / Seller	B/S	Qty Traded
05 Mar 2019	Tata Sons Private Limited	Buy	10255543.00
25 Feb 2019	Tata Sons Private Limited	Buy	9604176.00
18 Feb 2019	Tata Sons Private Limited	Buy	11814952.00
21 Aug 2018	Tata Sons Private Limited	Buy	26100000.00

*\*in last one year*

Company	Absolute reco	Relative reco	Relative risk	Company	Absolute reco	Relative reco	Relative Risk
Amara Raja Batteries	HOLD	None	None	Ashok Leyland	BUY	SO	H
Bajaj Auto	HOLD	SU	L	Ceat Ltd	HOLD	SP	None
Eicher Motors	BUY	SO	M	Exide Industries	BUY	None	None
Hero MotoCorp	HOLD	SU	H	Mahindra & Mahindra Ltd	BUY	SO	M
Maruti Suzuki India Ltd	REDUCE	SU	H	Minda Corporation	BUY	SO	M
Motherson Sumi Systems	BUY	SO	H	Suprajit Engineering	BUY	None	H
Tata Motors Ltd	HOLD	SP	H				

### ABSOLUTE RATING

Ratings	Expected absolute returns over 12 months
Buy	More than 15%
Hold	Between 15% and - 5%
Reduce	Less than -5%

### RELATIVE RETURNS RATING

Ratings	Criteria
Sector Outperformer (SO)	Stock return > 1.25 x Sector return
Sector Performer (SP)	Stock return > 0.75 x Sector return
	Stock return < 1.25 x Sector return
Sector Underperformer (SU)	Stock return < 0.75 x Sector return

Sector return is market cap weighted average return for the coverage universe within the sector

### RELATIVE RISK RATING

Ratings	Criteria
Low (L)	Bottom 1/3rd percentile in the sector
Medium (M)	Middle 1/3rd percentile in the sector
High (H)	Top 1/3rd percentile in the sector

Risk ratings are based on Edelweiss risk model

### SECTOR RATING

Ratings	Criteria
Overweight (OW)	Sector return > 1.25 x Nifty return
Equalweight (EW)	Sector return > 0.75 x Nifty return
	Sector return < 1.25 x Nifty return
Underweight (UW)	Sector return < 0.75 x Nifty return

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### Coverage group(s) of stocks by primary analyst(s):

Ashok Leyland, Amara Raja Batteries, Bajaj Auto, Ceat Ltd, Eicher Motors, Exide Industries, Hero MotoCorp, Minda Corporation, Mahindra & Mahindra Ltd, Maruti Suzuki India Ltd, Motherson Sumi Systems, Suprajit Engineering, Tata Motors Ltd

#### Recent Research

Date	Company	Title	Price (INR)	Recos
20-May-19	<b>Eicher Motors</b>	Patent infringement claim against Royal Enfield; <i>EdelFlash</i>	20937	Buy
17-May-19	<b>Bajaj Auto</b>	Good show in tough environment; <i>Result Update</i>	3047	Hold
15-May-19	<b>Amara Raja Batteries</b>	Auto slowdown hurts; replacement market healthy; <i>Result Update</i>	626	Hold

#### Distribution of Ratings / Market Cap

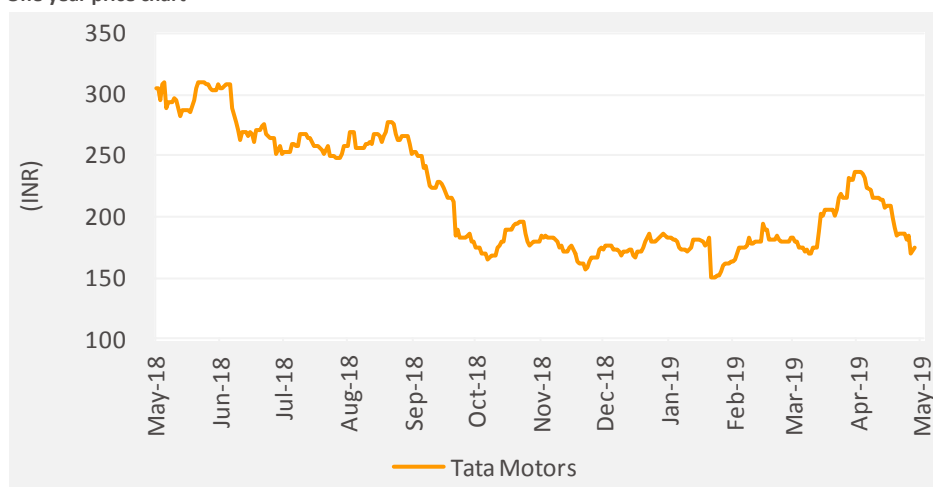
##### Edelweiss Research Coverage Universe

	Buy	Hold	Reduce	Total
Rating Distribution*	161	67	11	240
* 1stocks under review				
	> 50bn	Between 10bn and 50 bn	< 10bn	
Market Cap (INR)	156	62	11	

#### Rating Interpretation

Rating	Expected to
<b>Buy</b>	appreciate more than 15% over a 12-month period
<b>Hold</b>	appreciate up to 15% over a 12-month period
<b>Reduce</b>	depreciate more than 5% over a 12-month period

#### One year price chart



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