TATA MOTORS VALUATION

Ankit Bahuguna

ankit.nith@gmail.com

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TATA MOTORS

Tata motors today = JLR+TML+TMF (Tata motors finance)

- 80% of Revenue comes from JLR, 12% from Commercial Vehicle and 6% from Passenger Vehicles. Rest from TMF.

KEY PERSONS

Jaguar - Mr. Thierry Bollore (CEO)
Passenger and Electric Vehicle Business- Mr. Shailesh Chandra (President)

Financial Highlights for 2020-21

Revenue = 2,52,437 Cr in 2021
PBT= (-)10,000 Cr in 2021
PB = 3.3
Mcap = 1.6 Lac Cr

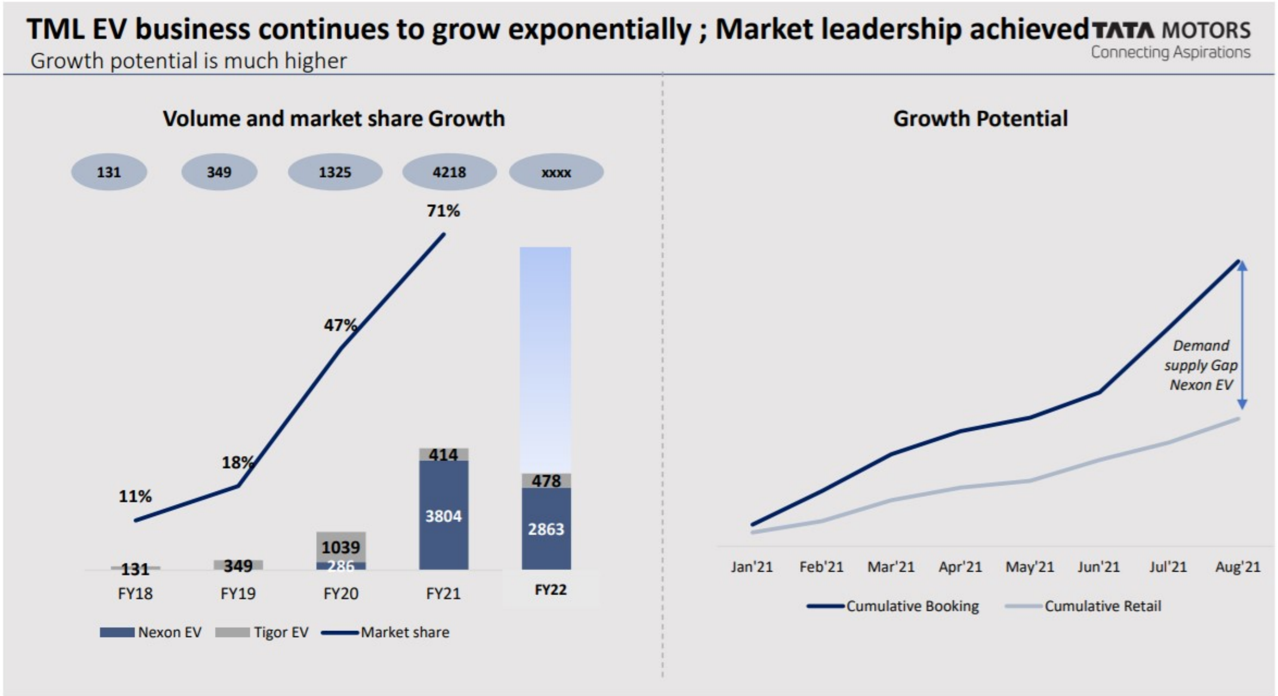
MARKET SHARE %

No	OEM MS	Sep-21	Sep-20	Diff YoY
1	Maruti	33.95	50.51	-16.56
2	Hyundai	17.80	17.18	0.62
3	Tata	13.84	7.24	6.60
4	Kia	7.77	6.38	1.39
5	Mahindra	7.06	5.07	1.99
6	Toyota	4.99	2.77	2.22
7	Renault	3.94	3.01	0.93
8	Honda	3.64	3.48	0.16
9	MG (Retail)	1.74	0.87	0.88
10	Skoda	1.63	0.45	1.18
11	Nissan	1.51	0.27	1.25
12	VW	1.38	0.69	0.69
13	Jeep	0.71	0.19	0.52
14	Citroen	0.04	0.00	0.04
15	Ford	0.00	1.97	-1.97
-	Total	100.00	100.00	0.00

Concall Highlights (12th Oct 2021)

- In the past few years, the industry has been growing at the rate of **1.5x to 2x every year since FY17 and *this year we are expecting the industry to grow by 2.5x to 2.7x*.** Reasons: 1. Favorable govt incentives 2. Launch of better EVs 3. Hike in prices of ICE vehicle along with fuel prices
- We started with a 11% market share in FY18 and now it's 71% which is still limited due to supplies
- There is a very steep increase that we are seeing in the demand, but we are fast trying to ramp up and catch up on the supply side versus the demand
- Demand drivers that we see is one, the stringent emission norms from 2022 April, **we are going to see the introduction of CAFE which will drive all the OEMs move towards electric vehicles** to offset the emissions coming out of the ICE, so that itself will create some push factor
- We have planned for introducing 10 electric vehicles by FY26 in the next 5 years which would be in different body styles, in different price points from affordable EVs to EVs with higher range, more sophisticated technologies and on the sales and marketing side, we are also going to increase the micro markets where we are present today as you saw that today we are present in 60 cities, but we will continue to expand every year into more cities, also as we are introducing more electric vehicles and different models.
- We are coming with more options to access the EVs through subscription model which will allow those customers who are still vary to adopt the new technology an option to go for a 12-month or a 24-month subscription
- **Subsidiarization of the PV business is confirmed by 1st of January next year,** that will be fully operational and that is done with a focus to actually to ensure that we are able to drive a differentiated focus between CV and PV
- PV strategy is to win sustainably and with that in mind we had called out in our investor day as well that we definitely want to go after a double-digit market share which we are happy to confirm, we are there, high single digit EBITDA, which is still a journey, we are progressing well and we want to be FCF positive by FY23 which again we are progressing well.
- EV will require at least to begin up investments, 16,000 crores plus kind of investments will be needed over the next 5 years and PV will definitely be fund constrained to support this aggressive EV aspirations
- Helios is the project name for this transaction. First, create a pure play EV company to focus on passenger mobility. This will be created as an asset light subsidiary of Tata Motors, will house all the dedicated EV talent and design capabilities of TML and we will really aim to attract top notch global talent into this particular company
- We will want to leverage the existing PV assets and investments to drive efficiencies as well as drive speed to market because this we need to ensure that we stay ahead of the curve on this one and the PV company will therefore be a toll manufacturer, we will provide all the services to EV company to make it stand up on its feet

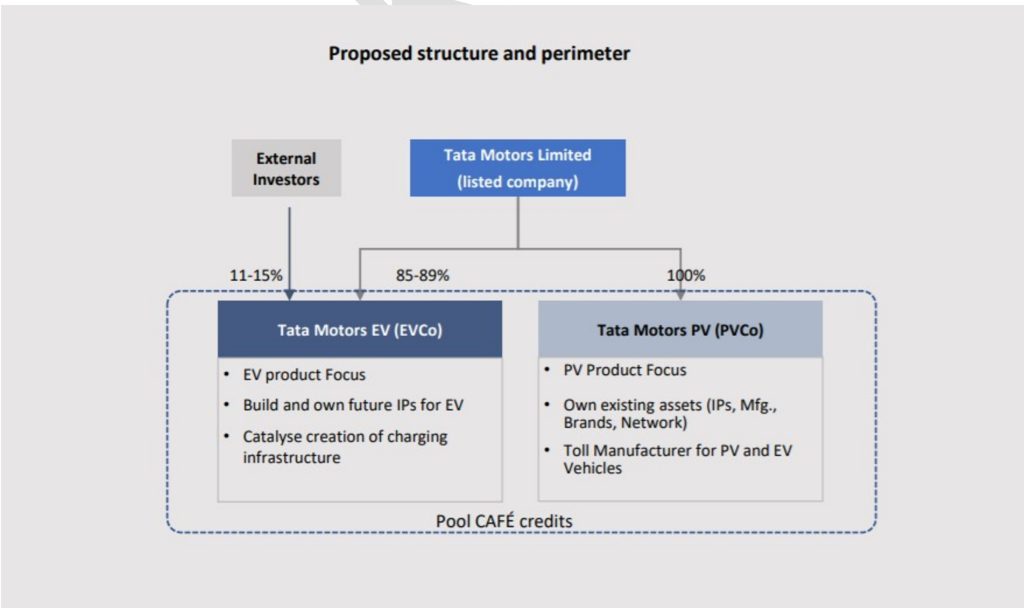
- **PVCo will become a 100% subsidiary of Tata Motors in January 1st 2022**.
- EVCo, the new company, we have not yet named it, will focus squarely on the future EV products, will build and own the future IPs of EV and we will also catalyze the creation of the charging infrastructure in the country
- External investors will take 11% to 15% in the Company and we have Tata Motors Listed Company having the ownership of 85-89% in this company
- TPG Rise Climate which is a new fund of TPG Rise will be investing a billion dollar at a valuation of up to 9.1 billion
- It is $1 billion equity funding, where TPG Rise with a commitment of Rs. 7500 crores, $1 billion. 50% of this will come by March 22 subject to post conditions being met and also post set up of the EV company, one of the conditions prevalent as well and the balance 50% will come by Q3 FY22 on achieving Go-Live actions
- For Tata Motors, we have specifically taken a target of penetration of 20% plus with the 10 products that we are planning to launch in the next 5 years
- **Revenues in the region of about Rs. 500-600 crores and we aim to hit an EBITDA breakeven in this business next year**
- What is actually happening is a full access to the full PV ecosystem in terms of factories, in terms of sales points, management bandwidth, design, all that is going out, their brand, name plate, everything, so therefore we are actually wanting to use everything that has happened in Tata Motors and gives EV its full support to ensure that it is able to take off.
- EV valuations globally work on a different logic and **we had Morgan Stanley and JP Morgan as our advisors** and we had put the overall business plan in front of them and of course there was a view in terms of what could be the kind of valuation that is there, so comparable multiples have been used. It is comparable with East Asian peers.
- Next 5 years, I already answered this question a while back. From an industry perspective, the EV industry in India is expected to be in the early double-digit penetration as what we expect. From a Tata Motors perspective, we are aspiring to be 20% plus
- **Total investment in EVCo = Rs 16000 Cr**
- As far as batteries are concerned, right now, we have already localized the backend module in India and this is being supplied to us by TACO. Going forward, as far as cell manufacturing is concerned, it is something also which is under consideration by the Tata Group and that decision will be taken
- Even if subsidy goes away in the next 2 to 3 years, it should not impact because by that time, the cost structure would have come down significantly
- No asset, no liability moves from Tata Motors PVCo into EVCo, it is an asset light company



Comments:

1. As of now there is no near competitor in EV segment. In future also Maruti has declared that they are not launching any EV based vehicle by 2025 at least.
2. In the chart we can see the demand supply gap as of now which will increase exponentially in future due to multiple reasons like high fuel cost, stringent norms etc.

   After the investment by TPG the structure now looks like this:



DECODING THE VALUATION

The analysis shall be based on TPG investment of 1B$ for the stake of 11-15% which brings the valuation of 9B$ which comes approx. INR 67500 Cr.

Some Facts and Figures

EV Car sales in 2021 = 4% of total car sales in numbers
In terms of Revenue = 3.75%
Let's say 4 % which is 1/25th of total PV sales.

Now TPG is valuing this 4% segment, as of now, to Rs 67,500 Cr.
Whereas Total MCap of Tata motors (100%) is just 1,60,000 Cr which includes EV+PV(with brand like Jaguar)+CV!

Huge Valuation gap considering the fact that Jaguar's revenue =80% of total revenue

Now by 2025, EV = 20% of total PV sales (as per Tata motors target)

P/B of TM = 3.3
Whereas P/B of Maruti = 4.5 with no EV plans by 2025
PE of Maruti = 50 with decreasing car sales

Now by 2025, TM EV's MCAP will be = 5 times current Mcap = Rs 3,37,500 Cr
PV+CV in 2025 = 2 times current value = Rs 3,20,000 Cr (growing at normal rates)
Total Mcap= 6,57,500 Cr
Which means it shall be 4 times appox. in 5 years in earnings and assuming Tata motors meet most of its targets, its PE re-rating will be definitely on cards to at least double of current or say past value which makes **total M cap = 8 times of current value.**

This is the min. value as per Indian market and if in future Tata Motors EVs compete with the likes of Tesla then PE of 100+ is also reachable easily making its value 16 times of current value. Needless to tell that EV industry itself will be at least 10-20 times by 2025.

Conclusion : TM price target for 2025 is at least Rs 4000.

This price assumes that TM will not take any significant market share from the market leader which may happen looking the recent trends and hence it can take a huge chunk from Maruti in future.