



# Pick of the week

## Tata Motors

Recommendation: **BUY**

Current Price: **₹507**

Potential Upside: **8.5%**

Dated: **15<sup>th</sup> Nov 2021**

Time Period: **12 Month**

Target Price: **₹550**

### Why invest?

- The company has done well to manage its profitability in the JLR business despite lower volumes and has been successful in bringing down the PBT breakeven point. Once the chip shortage resolves, we expect profitability to improve sharply for the JLR business.
- JLR quarterly break-even wholesale volumes have come down to 90,000 units in 1HFY22 from 165,000 units in FY19.
- We believe the domestic electric passenger vehicle (PV) business can be the game changer for the company given strong government push amid favorable policies and growing consumer demand for greener solutions.
- Recovery in JLR volumes on easing of supply-chain disruptions, market share gains in the domestic PV business and uptick in the domestic commercial vehicle (CV) business should drive strong earnings growth for the company over the coming years.
- Tata Motors has strong liquidity and debt securities are well spread-out. In terms of liquidity, JLR has adequate cash balances with additional undrawn revolving facility.
- Our fair value is based on sum-of-the-parts valuation. We value the JLR business based on 6x Dec'23 EPS (earnings per share) and the domestic CV business based on 13x Dec'23 EV/EBIT multiple (Enterprise Value/ Earnings before Interest and Tax).