

Tata Motors

20 August, 2021

Reuters: TAMO.NS; Bloomberg: TTMT IN

Lagging the electrification trend; 'chips' are down

We initiate coverage on Tata Motors (TTMT) with a SELL rating, and target price of Rs250 (-15% from CMP). We see a strong turnaround in the Commercial Vehicle (CV) and Passenger Vehicle (PV) businesses being mostly factored into the stock price. But, we anticipate broader market expectations about JLR's revival plans and medium-term strategy to be overly ambitious. We see JLR's electrification strategy significantly lagging the global electrification trends (~38-40% of global EV sales are premium; of which JLR's market share is <1%). We see accelerated transition to EVs by competitors denting JLR's market share and profitability. We also believe that JLR has limited capabilities for an accelerated EV push (higher investments) given its already stretched operating metrics (guidance of sustainable FCF positive only from FY24E and net cash positive in FY25E). Our analysis of JLR's registration trends in Europe, USA and China indicates that it already lags key competitors (BMW, Daimler etc) and we see this gap further widening as competitors ramp-up their EV transition efforts. We are also not impressed by JLR's relatively late entry into the battery-powered EV (BEVs) market with its core brand Land Rover (first model expected in 2024). We observe visible signs of a strong first-mover advantage (strong response to Tesla's model launches vs. competitors) in NEVs (new-energy vehicles), increasing competition (especially in China; most profitable market for JLR), aggressive product launches, tightening emission regulations and high diesel penetration in key markets (UK at ~66% in CY20) weakening JLR's competitive positioning. This could potentially lead to de-rating of the stock as pressure on market share and margins intensify. We appreciate JLR's unwavering focus on cost controls & margin expansion but expect these efforts to reflect in the company's financials at a slower pace (FY24E EBIT margin at 6.6% vs. guidance of at least 7%). We also note that prolonged chip shortages will restrict margin recovery and delay JLR's deleveraging efforts. But, we see current implied valuation of JLR (broadly in-line with Daimler/BMW) ignoring the impending risks. We value TTMT on SOTP basis - CVs (12x EV/EVBITDA), PVs (0.5x Price/Sales) and JLR (ex-China JV) at 1.1x EV/EBITDA (a 45% discount to current trading multiples of global peers at ~2x). We assign SELL rating on TTMT with a target price (TP) of Rs250 (based on Sep'23E), implying a downside of 15% from CMP. Our TP implies EV/EBITDA of 3.7x (Sep'23E) at the consolidated level.

India business well placed for strong turnaround; CVs at the cusp of cyclical recovery and improving PV franchise to support FCF: Post a sharp 44% decline from peak volume (FY19), we expect a strong rebound in overall CV volume once economic activities return to normal levels from FY22E. We see TTMT to be a key beneficiary given its market share (42% as on FY21) and expect a volume CAGR of 21% over FY21-FY24E (our volume assumptions for FY24E are close to peak). We expect EBIT margin to improve to 8% in FY24E vs. 0.1% in FY21 (broadly similar to the last peak) on account of improving volume and cost-reduction efforts. On PVs, we are enthused by the strong turnaround, led by a focused product strategy (filling in the white spaces; addressable market to increase from 60% to 70-75% led by further launches) and differentiated positioning (around safety, design etc). TTMT's domestic PV market share in 1QFY22 stood at 10.1% vs. 5% in FY20. With the improving domestic PV franchise and robust inherent demand drivers for the domestic PV industry, we estimate a volume CAGR of 13% over FY21-FY24E (market share in FY24E at 9.2%). A sharp uptick in volume, operating leverage benefits and cost-control focus should lead to narrowing of EBIT loss, with EBIT margin at -2% in FY24E vs. -9% in FY21. Also, we see guidance for FCF breakeven by FY23E to be reasonable. Consequently, we expect net debt to decline in the standalone business from Rs155bn in FY21 to Rs106bn by FY24E (we have not factored in stake sale in our numbers; which could accelerate deleveraging efforts in our view).

JLR - near term gain but medium term pain; electrification strategy below par; semi-conductor shortages could possibly delay deleveraging plans: For JLR, we are forecasting a volume CAGR of 10% over FY21-FY24E on account of a low base and strong product cycle (launch of RR, RR Sport in the next 12 months). But, our volume estimates are still lower than the peak volume seen in FY18. This is largely in line with the management's focus on reducing capacity, increasing utilization and focusing on profitable growth (over volume). This, coupled with cost-cutting initiatives (reducing warranty expenses, headcount rationalization, restricted variable marketing expense etc) should lead to EBIT margin improvement from 2.6% in FY21 to 6.6% in FY24E. Consequently, we expect net debt to reach breakeven levels by FY24E (vs. GBP 1.9bn in FY21) coupled with strong FCF generation. However, we see JLR's late entry into the BEV market under its core Land Rover brand (first model expected to be launched in 2024) possibly weakening its competitive positioning with increased pressure on market share and profitability, as we anticipate a much faster transition to EVs.

We initiate coverage with a SELL rating; current valuation ignores JLR's behind-the-curve electrification transition in our view: We value TTMT on SOTP basis to arrive at a target price of Rs250 based on Sep'23E (details on Exhibit-15). We assign a SELL rating to TTMT; implying a downside of 15% from CMP. Our TP implies EV/EBITDA of 3.7x at the consolidated level.

Key risks: (1) better-than-expected response to the upcoming launches (2) slower-than-expected global transition to EVs (3) JLR's acceleration in its EV strategy (4) better-than-expected profitability.

Y/E March (Rsmn)	FY20	FY21	FY22E	FY23E	FY24E
Net Sales	2,610,680	2,497,948	2,884,075	3,389,738	3,719,357
% Growth	(13.5)	(4.3)	15.5	17.5	9.7
EBITDA	197,258	305,553	345,730	476,537	541,758
EBITDA margin (%)	7.6	12.2	12.0	14.1	14.6
PAT	(74,607)	(14,225)	24,657	112,780	149,261
EPS (Rs)	(20.7)	(3.7)	6.4	29.5	39.0
EPS growth (%)	NM	NM	NM	357.4	32.3
P/E (x)	(14.1)	(78.9)	45.5	9.9	7.5
EV/Sales (x)	0.8	0.8	0.7	0.6	0.5
EV/EBITDA (x)	10.3	6.6	5.9	4.3	3.7
P/BV	1.7	2.1	2.0	1.6	1.3
Dividend yield (%)	0.0	0.0	0.0	0.0	0.0
RoCE (%)	(0.7)	2.6	3.4	7.3	8.6
RoE (%)	(12.1)	(2.4)	4.4	17.8	19.5

Source: Company, Nirmal Bang Institutional Equities Research

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SELL

Sector: Automobile

CMP: Rs293

Target Price: Rs250

Downside: 15%

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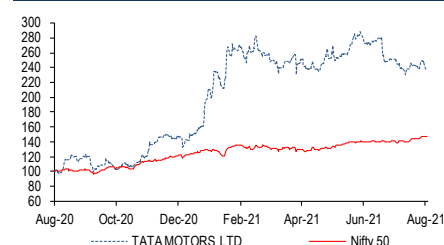
+91 97693 68077

Key Data

Current Shares O/S (mn)	3,320.3
Mkt Cap (Rsbn/US\$bn)	974/13.1
52 Wk H / L (Rs)	361/120
Daily Vol. (3M NSE Avg.)	39,138,600

Share holding (%)	1QFY22	4QFY21	3QFY21
Promoter	46.4	46.4	46.4
Public	53.6	53.6	53.6
Others	-	-	-

One -Year Indexed Stock Performance



Price Performance (%)

	1 M	6 M	1 Yr
Tata Motors	(5.0)	(5.9)	134.4
Nifty Index	5.2	10.6	45.2

Source: Bloomberg

[FY21 Annual Report](#)
[1QFY22 results](#)

Electrification strategy across luxury OEMs - Coming decade of disruption

JLR - Behind competitors; de-rating risks as pressure on market share intensifies

Inflection point is here; regulations driving faster transition: Global EV sales were resilient in CY20 despite Covid-led disruptions. EVs across all the key markets saw positive growth even as ICE segment sales declined. While the story on the eventual transition to electrification has been there for quite some time now, we see 2020 to be the key inflection point. OEMs across the globe accelerated their electrification timelines to be compliant with stringent EU emission norms. For the first time ever, Europe overtook China to become the world's largest EV market, posting a growth of ~148% in CY20. The mix of NEVs shifted towards PHEVs as OEMs targeted relatively easier transitional segments to meet emission norms. In China and USA, BEV sales account for ~80% of total NEVs, particularly due to higher consumer interest.

Potential ban on ICE vehicles from 2035 in Europe: All luxury OEMs have outlined their electrification strategy with a particular focus on BEVs. Recently, the EU Commission has proposed a ban on ICE vehicles from 2035, but has added a caveat that this will be reviewed every two years with a report assessing the OEMs' readiness in 2028. The EU Commission also proposed to increase emission reduction target from 37.5% to 55% in 2030 vs. 2021 levels (these proposals are yet to be written into law).

Accelerated shifts to BEVs to weaken JLR's competitive positioning due to late product launch: All luxury OEMs have already announced accelerated goals of NEV sales. With a possible ban on ICE vehicles from 2035 in Europe, we see little reason to justify further investments in PHEVs. We see a shift of focus by other luxury players like Mercedes towards BEVs (increased their EV sales share forecast to 50% from 25% earlier, of which 80% should be BEVs). We see JLR's product action plan (first Land Rover BEV in 2024) to be a pretty late move, which has potential to weaken its market positioning. We also observe visible signs of strong first mover advantage (strong response to Tesla launches vs. competitors) in NEVs (new-energy vehicles), increasing competition (especially in China; most profitable market for JLR), aggressive product launches, tightening emission regulations and high diesel penetration in key markets (UK with ~66% in CY20) acting as further headwinds. We have delved deeper into each aspect in details in the latter part of the report as we go through regional trends.

Exhibit 1: JLR's electrification plans are far behind all major luxury OEMs; first LR BEV in 2024 gives little time to turn the corner

Company	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030
BMW	-	-	90% of present market segments to have BEVs option; 12 BEV models to be launched world-wide	-	BEV volumes to grow on average ~50% pa till 2025; minimum share of NEVs at ~25%	-	-	-	-	BEV volumes to grow on average ~20% pa till 2030; BEVs share at ~50%; BEVs available in 100% of today's segments
Daimler	4 new BEVs	BEV is all segment where company operates	-	-	NEV share of sales ~50% (of which 80% BEVs); revised this up from 25%; BEV option available on all models	-	-	-	-	100% electric
Audi	-	-	-	-	1/3 rd of sales to be NEVs (majorly BEVs)	Will launch only new electric models	-	-	-	-
Volvo	New BEV	New BEV	New BEV	New BEV	50% BEV sales	-	-	-	-	-
Jaguar	-	-	-	-	1st new BEV on new architecture	-	100% BEV sales	-	-	-
Landrover	MLA architecture introduced		-	1st BEV	-	Total of 6 BEVs	-	-	-	60% BEV sales; BEV available on all models
JLR	-	-	-	-	-	BEV mix ~20%	-	-	-	BEV mix ~60%

Source: Company reports, Nirmal Bang Institutional Equities Research

Key financial metrics across luxury OEMs - Cash is reality

JLR - Limited scope for an accelerated EV push with stretched operating metrics

A quick glance on key operating metrics across peers reaffirms our view that JLR has limited room for an accelerated EV push (increased competitive intensity) due to its stretched operating metrics. JLR has guided for positive FCF from FY24E and expects to be net cash positive by FY25E. Double-digit EBIT margin is expected only from FY26E. Both BMW and Daimler are expected to maintain their EBIT margins in high single digits (base case) factoring in their aggressive EV transition plans. They see increased pricing and cost-control initiatives supporting profitability. While we appreciate JLR's unwavering focus on cost control, reducing breakeven levels and improving financial metrics, we remain cognizant that lagging behind in the electrification trends could result in a prolonged underperformance and pressure on margins/market share.

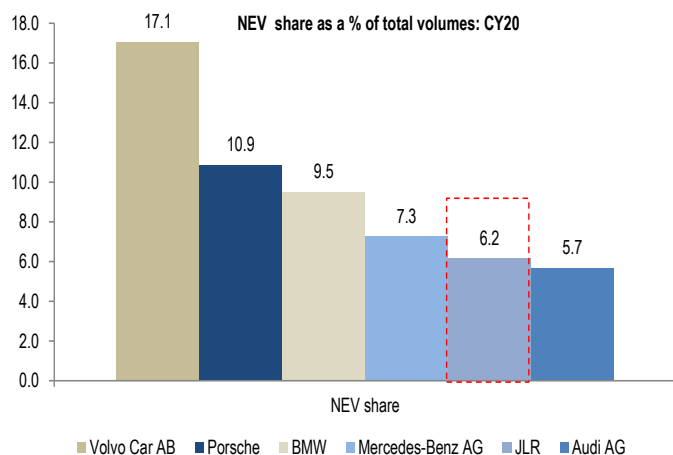
Exhibit 2: JLR's metrics limit scope for an accelerated EV push; other OEMs have superior balance sheet, cash-flow and margins

Financial snapshot of key luxury OEMs	CY15	CY16	CY17	CY18	CY19	CY20	CY21E	CY22E	Medium term target
BMW (EURmn)									
Automotive deliveries	2,247,485	2,367,603	2,463,526	2,490,664	2,538,367	2,325,179	2,605,710	2,740,182	-
Growth YoY (%)	-	5.3	4.1	1.1	1.9	(8.4)	12.1	5.2	-
EBIT margin (%)	9.2	8.9	9.2	7.2	4.9	2.7	9.4	8.6	8-10%
FCF (Automotive)	5,404	5,792	4,459	4,459	2,567	3,395	-	-	-
Net cash/(Debt)-Automotive	16,911	19,520	19,787	19,488	17,577	18,462	-	-	-
Capex	5,889	5,823	7,112	7,777	6,902	6,150	-	-	-
Capex as a % of sales	6.9	6.7	8.3	9.1	7.5	7.6	-	-	-
Total R&D	5,169	5,164	6,108	6,890	6,419	6,279	-	-	-
As a % of sales (%)	5.6	5.5	6.2	7.1	6.2	6.3	-	-	-
Daimler* (EURmn)									
Total Merc cars and Vans	2,322,455	2,557,052	2,774,552	2,804,192	2,823,818	2,461,884	3,347,895	3,684,023	-
Growth YoY (%)	-	10.1	8.5	1.1	0.7	(12.8)	36.0	10.0	-
EBIT margin (%)	9.5	9.1	9.0	7.8	5.8	6.9	11.9	11.4	High single digit
FCF (Industrial division)	3,960	3,874	2,005	2,898	1,368	8,259	-	-	-
Net cash/(Debt)-Industrial	18,580	19,737	16,597	16,288	10,997	17,855	-	-	-
Capex	3,629	4,147	4,843	5,684	5,869	4,862	-	-	-
Capex as a % of sales	4.3	4.6	5.1	6.1	5.5	4.9	-	-	-
Total R&D	4,711	5,671	6,642	6,962	8,061	7,199	-	-	-
As a % of sales (%)	5.6	6.4	7.0	7.5	7.5	7.3	-	-	-
Audi (EURmn)									
Audi deliveries	1,803,246	1,867,738	1,878,105	1,812,485	1,845,573	1,692,773	1,861,808	1,954,383	-
Growth YoY (%)	-	3.6	0.6	(3.5)	1.8	(8.3)	10.0	5.0	-
EBIT margin (%)	8.8	8.2	8.5	7.9	8.1	5.5	9.2	9.6	-
FCF (Automotive)	1,627	2,094	4,312	2,141	3,160	4,589	-	-	-
Net cash (Automotive)	16,420	17,232	20,788	20,442	21,754	22,377	-	-	-
Capex	3,505	3,381	3,886	3,496	2,728	1,888	-	-	-
Capex as a % of sales	6.0	5.7	6.5	5.9	4.9	3.8	-	-	-
Total R&D	4,265	4,449	3,826	4,207	4,399	3,648	-	-	-
Ratio (%)	7.3	7.5	6.4	7.1	7.9	7.3	-	-	-
JLR (GBPmn)									
JLR (wholesales)	509,286	534,800	545,200	507,878	475,952	347,632	382,055	433,420	-
Growth YoY (%)	-	5.0	1.9	(6.8)	(6.3)	(27.0)	9.9	13.4	-
EBIT margin (%)	8.0	5.5	2.6	-0.7	-0.1	2.6	2.9	6.0	>=7%
FCFE	637	(25)	(910)	(882)	(759)	185	(228)	874	-
Net cash/(Debt)	(2,162)	(1,913)	(945)	705	1,679	1,396	1,624	749	-
Capex	1,575	1,644	2,170	1,604	1,504	1,127	1,200	1,100	-
Capex as a % of sales	7.1	6.8	8.4	6.6	6.5	5.7	5.6	4.4	-
Total R&D	1,560	1,794	2,016	1,997	1,790	1,216	1,300	1,400	-
Ratio (%)	7.0	7.4	7.8	8.2	7.8	6.2	6.1	5.6	-

Source: Company reports, Bloomberg, Nirmal Bang Institutional Equities Research, *for Daimler CY19 and CY18 are not strictly comparable due to change in reportable segments

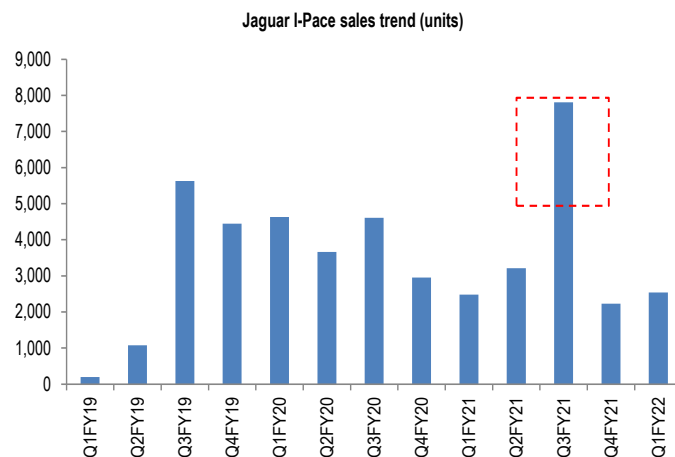
Focus charts

Exhibit 3: JLR lags competitors on NEV transition; we expect this gap to widen as peers accelerate EV transition efforts



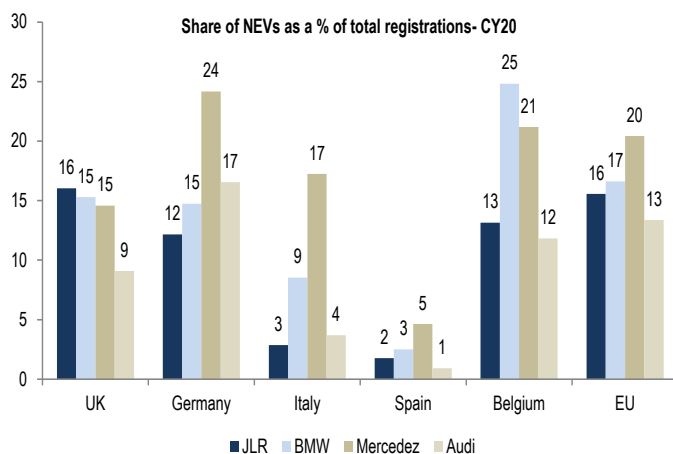
Source: Bloomberg, Company, Nirmal Bang Institutional Equities Research

Exhibit 4: JLR I-Pace retails are back to normal levels after push in 3QFY21 (to meet EU targets); this supported NEV penetration level



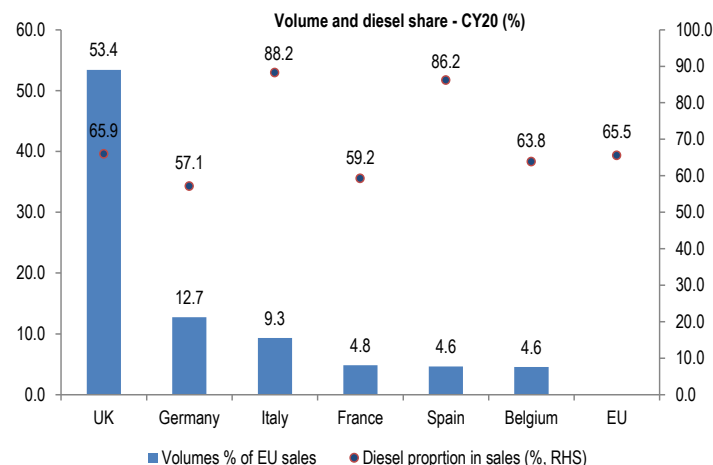
Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 5: JLR lags competitors in all major markets in Europe; UK supported by strong push of I-Pace in 3QFY21



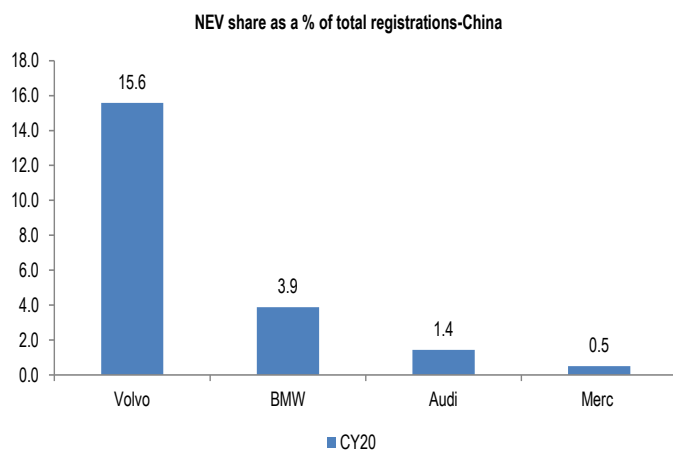
Source: Bloomberg, Company, Nirmal Bang Institutional Equities Research

Exhibit 6: JLR's diesel share still stands at ~66% of EU sales (~40% of its overall retails) - far above peers; worst impacted on faster EV transition



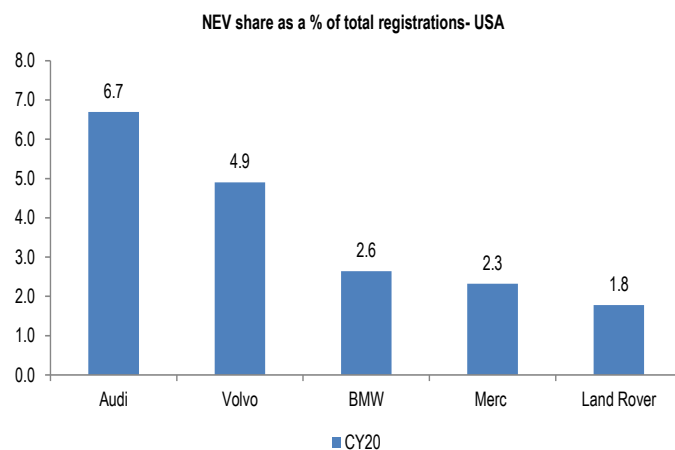
Source: Bloomberg, Company, Nirmal Bang Institutional Equities Research

Exhibit 7: JLR has negligible presence in China (most profitable market); market already showing signs of first-mover advantage



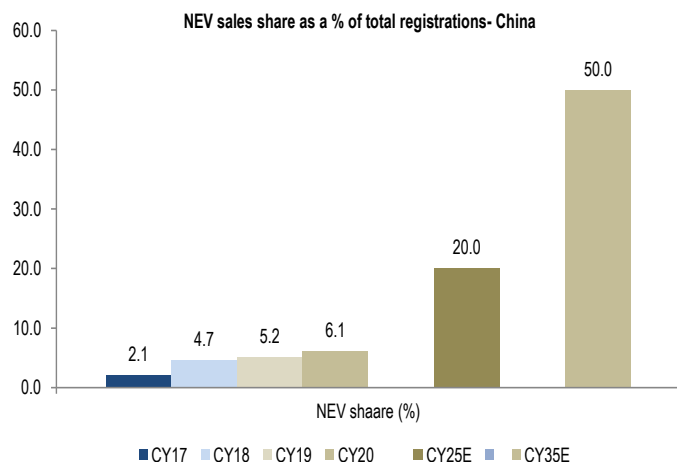
Source: Bloomberg, Company, Nirmal Bang Institutional Equities Research

Exhibit 8: LR is lagging behind in USA but we see this market gaining traction only gradually due to lack of policy support and expiration of federal credit limits



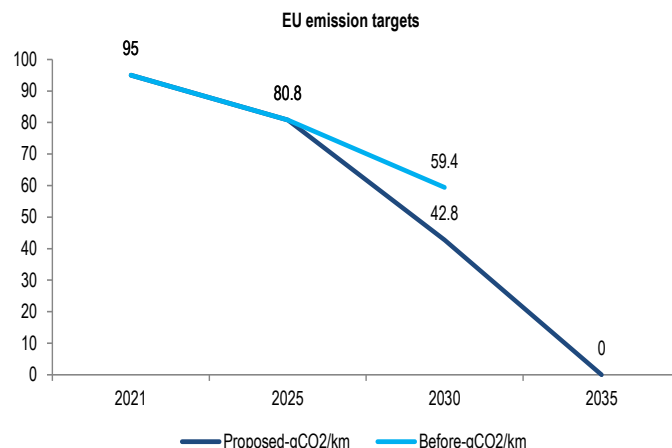
Source: Bloomberg, Company, Nirmal Bang Institutional Equities Research

Exhibit 9: China is the biggest market for BEVs; we expect competitive intensity to accelerate as customers become more demanding



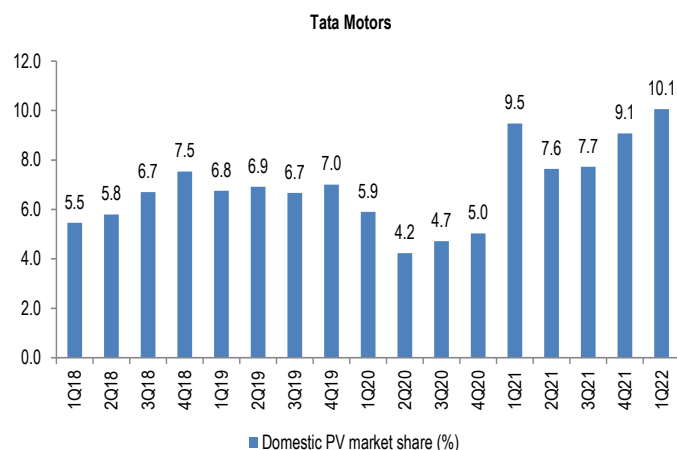
Source: Company, Bloomberg, Nirmal Bang Institutional Equities Research

Exhibit 10: EU has proposed further tightening of norms and potential ban on ICE vehicles from 2035; this makes further investments in PHEV technology questionable (JLR's first BEV in core LR brand only in FY24)



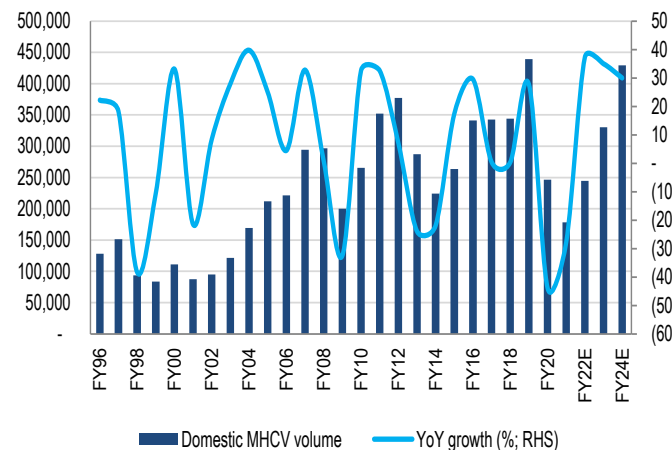
Source: Company, ACEA, Nirmal Bang Institutional Equities Research

Exhibit 11: PV business continues its strong run; we expect market share gains to sustain on strong product actions



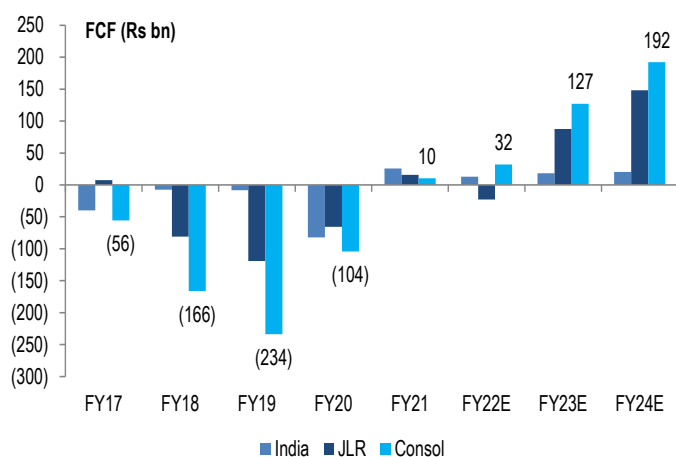
Source: SIAM, Nirmal Bang Institutional Equities Research

Exhibit 12: Domestic MHCV industry volume is expected to recover sharply after 59% drop from the peak seen in FY19



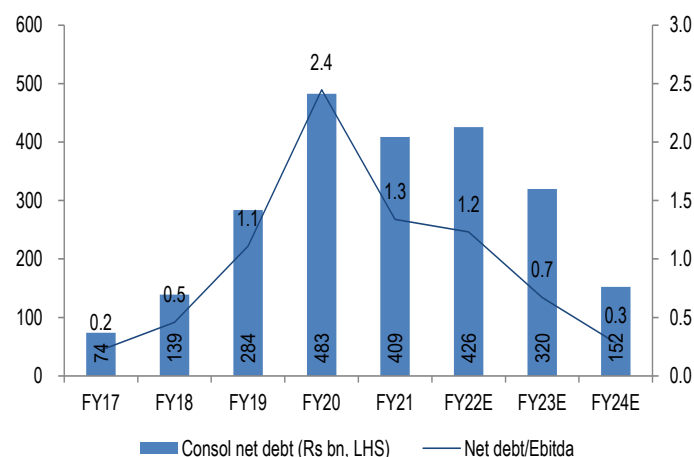
Source: SIAM, Nirmal Bang Institutional Equities Research

Exhibit 13: We expect FCF to improve led by both India and JLR businesses on improving operating metrics



Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 14: Consolidated net debt to EBITDA is expected to taper off from the highs seen in FY20



Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 15: We value Tata Motors on SOTP basis (on Sept'23E) to arrive at a target price of Rs250

Particulars	Valuation metric	Multiple (x)	Value (Rs mn)	Value per share (Rs)	Comment
CV business	EV/EBITDA	12.0	596,555	156	Similar to mid-cycle valuation of AL
PV business	EV/Sales	0.5	118,925	31	Discount to 2x EV/sales of Maruti
JLR business	EV/EBITDA	1.1	413,028	108	45% discount to current trading multiples of BMW/Daimler
JLR China JV	EV/EBITDA	5.0	46,659	12	-
Tata Motor Finance	P/B	1.0	19,729	5	-
Less: Net debt	-	-	(236,142)	(62)	-
Target price				250	
CMP				293	
Upside/Downside (%)				(14.7)	

Source: Company, Nirmal Bang Institutional Equities Research

Global EV: At the cusp of inflection

EV sales showing resilience during the pandemic; is JLR late to the BEV trend?

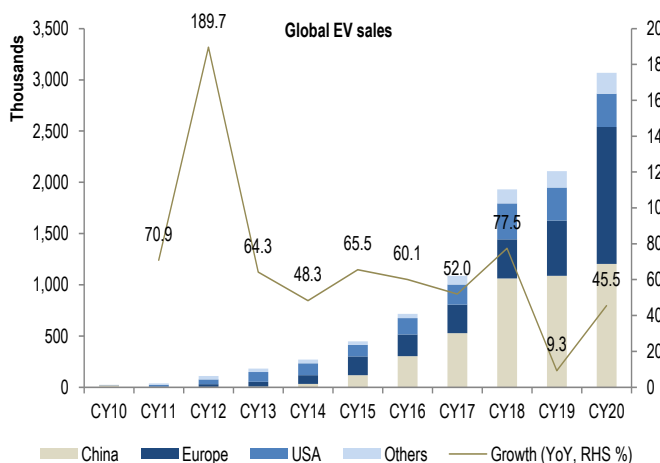
Global car sales declined by 16% in 2020 due to weak global macros and growing pandemic woes. However, EV sales were resilient and increased by ~45%. While it is easy to construe that growth rate in EV sales is inflated due to a low base, we would want to point out some observations:

- 1- Europe EV sales surpassed China's for the first time ever to become the largest EV market globally. This was largely led by an increased push by all OEMs to meet the stringent EU emission norms for 2021.
- 2- Consequently, Europe's share in global EV sales increased from ~26% in CY19 to ~45% in CY20.
- 3- EVs as a percentage of overall registrations in the EU increased significantly to 9.5% in CY20 vs. 3% in CY19. In big markets of Europe like Germany, France and UK, penetration levels ranged from 11% to 15%.

Resilience across markets in EV sales was seen due to strict emission norm requirements, additional incentives (some European countries increased incentives while China delayed the phase-out of its subsidy scheme) and a plethora of new launches, which gave customers a much wider choice.

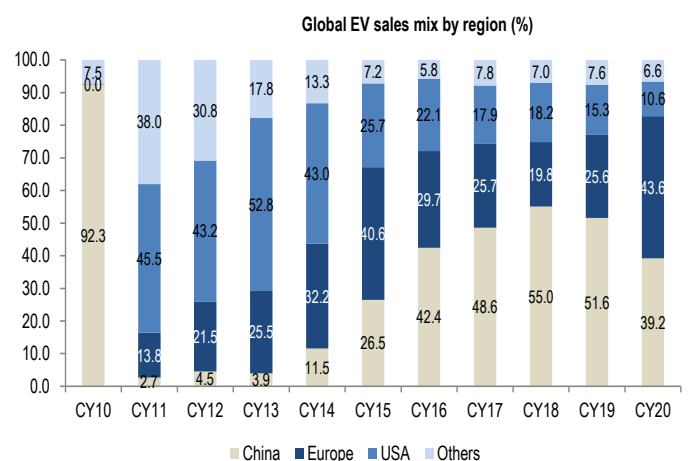
Our view: We see 2020 to be the inflection point and see OEMs accelerating their EV plans. With Europe also becoming a major contributor to EV sales, we see the trend sustaining as the EV race heats up. Also, we would like to note that premium EVs' share in global EVs is consistently on the rise and expect luxury OEMs to lead the EV transition. We see JLR's planned entry into the BEV space under its core brand Land Rover in 2024 to be a pretty late move, which could lead to pressure on market share and profitability.

Exhibit 16: Global EV sales showing resilience amid pandemic; rose 46% primarily led by Europe; now accounts for ~4.6% of global registrations



Source: Company, Bloomberg, Nirmal Bang Institutional Equities Research

Exhibit 17: Europe share in EVs increased significantly in CY20 due to implementation of new emission norms; expect these trends to sustain



Source: Company, Bloomberg, Nirmal Bang Institutional Equities Research

Exhibit 18: Luxury share in global EVs sales is on the rise; we expect luxury OEMs to further consolidated the share in near-term; JLR share stands at <1%

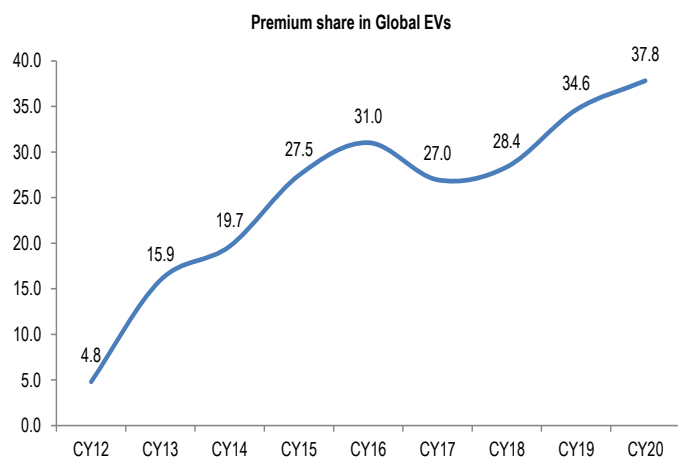
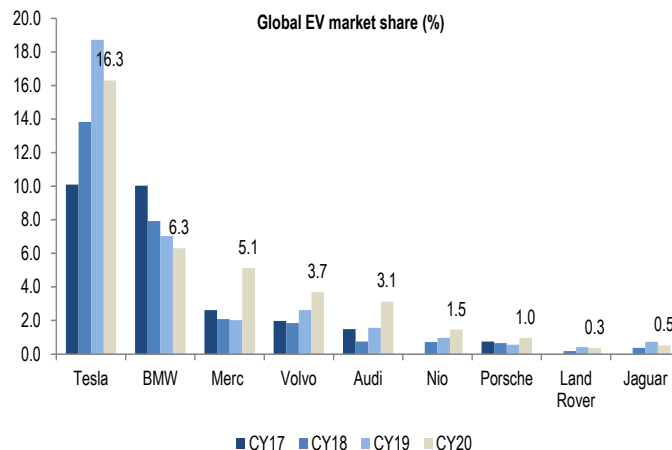


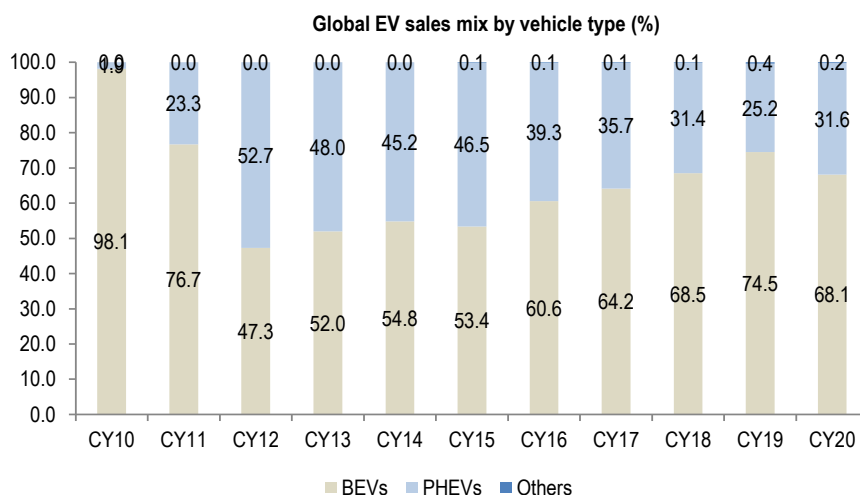
Exhibit 19: Tesla leads the luxury space with >2x market share of the next competitor, market share is expected to normalize at a slow pace considering strong first mover advantage



*We have assumed summation of volumes of mentioned OEMs for market size

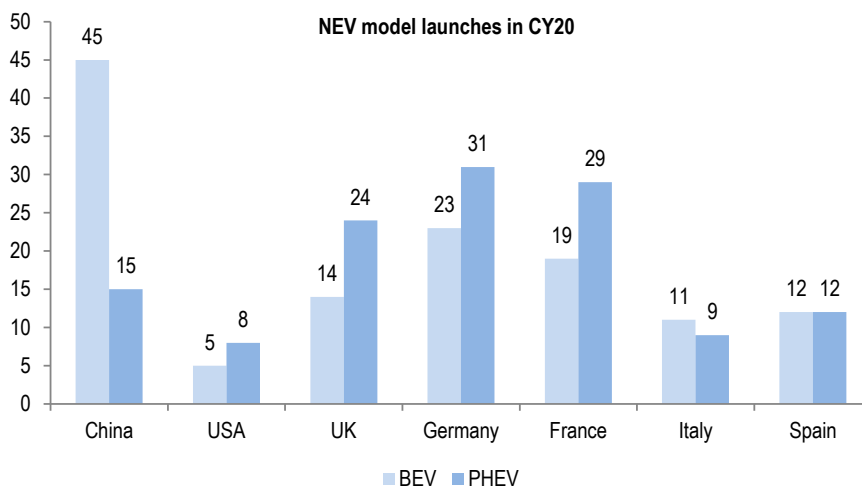
Source: Company, Bloomberg, Nirmal Bang Institutional Equities Research

Exhibit 20: Share of PHEVs was on a decline till CY19; but, it picked up pace led by EU's EV push; we expect trends to start reversing in favor of BEVs as OEMs limit unproductive investments on PHEVs (potential ban on ICE vehicles)



Source: Bloomberg, Nirmal Bang Institutional Equities Research

Exhibit 21: Key markets in Europe saw significant new model launches in PHEVs to meet emission norms; China remains a preferred BEV market with 3x more launches compared to PHEVs



Source: Bloomberg, Nirmal Bang Institutional Equities Research

Europe EVs: Regulatory rules driving faster adoption

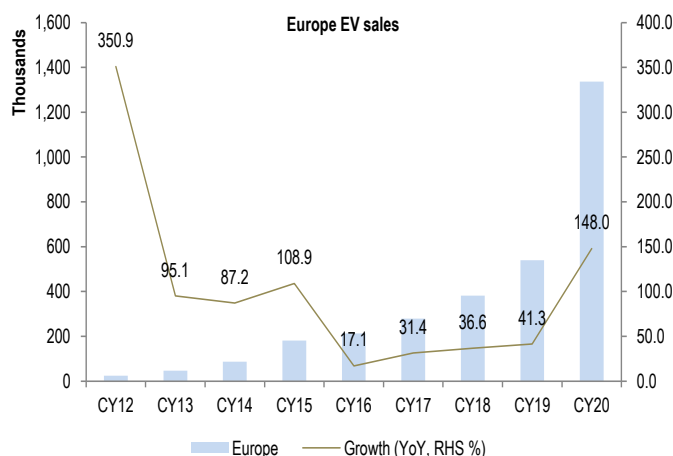
JLR - Losing ground to competition; diesel share still significantly higher than peers

EV sales in Europe surged by ~150% in CY20, as all OEMs scrambled to meet the new EU norms, which resulted in a large number of model launches expanding the overall model choice for customers. This was again supported by positive fiscal incentives announced by various countries to spur demand for EVs. Europe overtook China to become the world's largest EV market for the first time ever. We would like to point out some observations:

- 1- Overall mix of PHEVs within EVs increased to 46% in CY20 vs. 35% in CY19. We see the mix shift largely due to the push by OEMs to meet the immediate emission norms while they have been vocal that they would pursue aggressive BEV ramp-up in the coming years.
- 2- The share of 'Big 5' (UK, Germany, France, Italy and Spain) in total EVs increased from 53% in CY19 to 65% in CY20, largely led by Germany (biggest car market in Europe).
- 3- Share of diesel in overall registrations in the EU declined (negative sentiments post the 'Dieselgate' scandal) from 32% in CY19 to 28% in CY20. Interesting point to note is the sharp fall in diesel's share of overall registrations in UK (from 27% in CY19 to 17% in CY20).

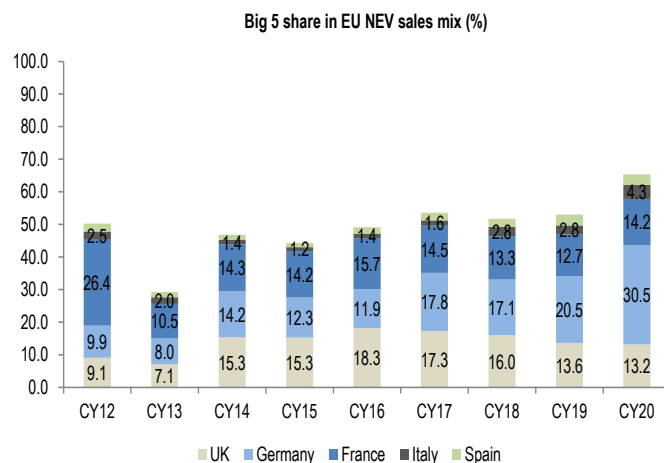
Our view: We see the developments in Europe accelerating the EV transition. However, our deep-dive analysis on sales trends in JLR's key markets indicates significantly high levels of diesel share for the company (57-88%) in overall registrations, which is a key area of concern and could lead to continued underperformance by JLR vis-à-vis peers. JLR's luxury market share has consistently declined in the EU (from 8.7% in CY16 to ~6.4% in CY20) post negative sentiments in the wake of the 'Dieselgate' scandal. Secondly, we see increased EV penetration rates in the EU in CY20 to be supported by the sales push for I-Pace (a pure BEV model) in the last quarter of 2020 (4QCY20). Post that, we observe that I-Pace sales have reverted back to more normalized levels.

Exhibit 22: EV sales rose sharply to meet EU norms; recent proposals suggest further tightening of norms; expect momentum to sustain



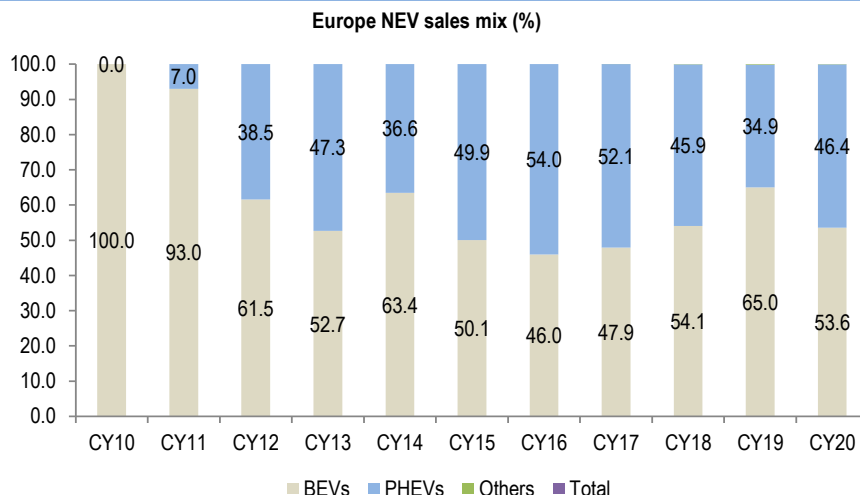
Source: Bloomberg, Nirmal Bang Institutional Equities Research

Exhibit 23: Germany continues to consolidate its lead in the EV space, forming ~31% of total NEV registration in EU; up from 20% in CY19



Source: Bloomberg, Nirmal Bang Institutional Equities Research

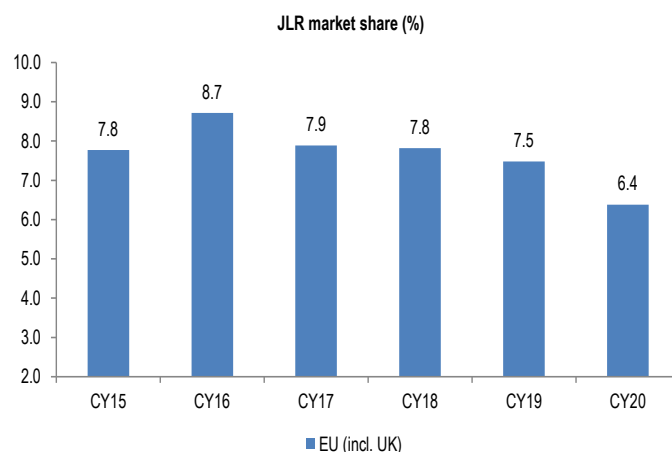
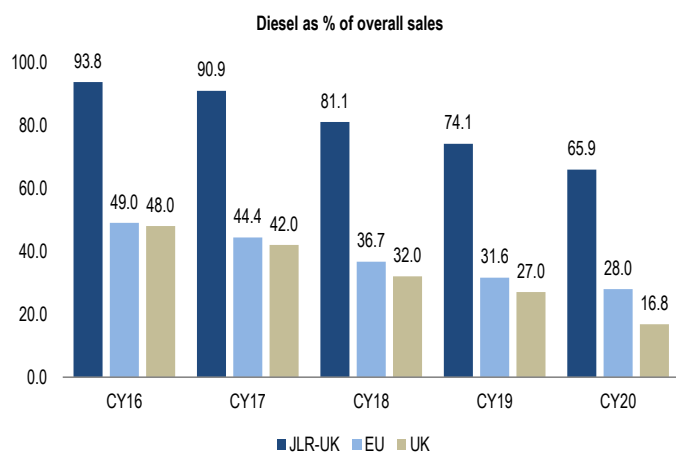
Exhibit 24: Share of PHEVs was on a decline till CY19; however it increased, led by the push in EU; expect trends to start reversing in favor of BEVs, which is implied by current electrification targets set out by OEMs



Source: Bloomberg, Nirmal Bang Institutional Equities Research

Exhibit 25: Diesel concerns - JLR diesel share in key market of UK has fallen on a slower pace; leading to market underperformance...

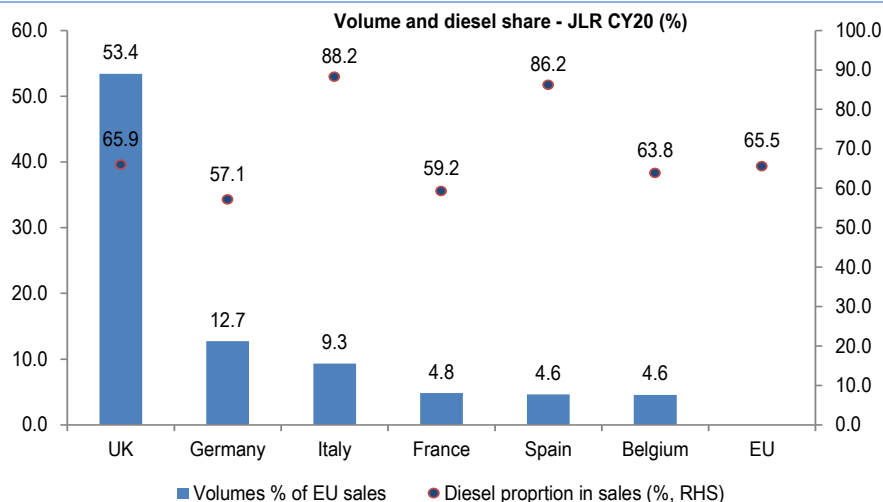
Exhibit 26:..which is reflected through a sustained market share decline in the luxury segment (Audi, Merc, BMW and JLR)



Source: ACEA, Nirmal Bang Institutional Equities Research

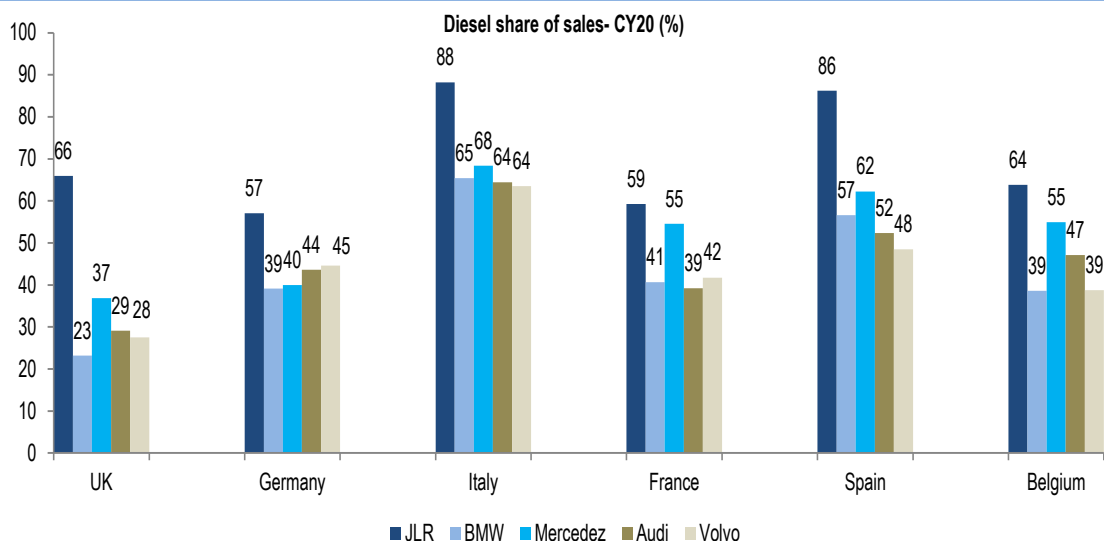
Source: ACEA, Nirmal Bang Institutional Equities Research

Exhibit 27: Top 6 markets that account for ~90% of JLR's Europe sales have diesel share that is significantly higher than EU share (28% in CY20) and peers- worst impacted in case of faster transition



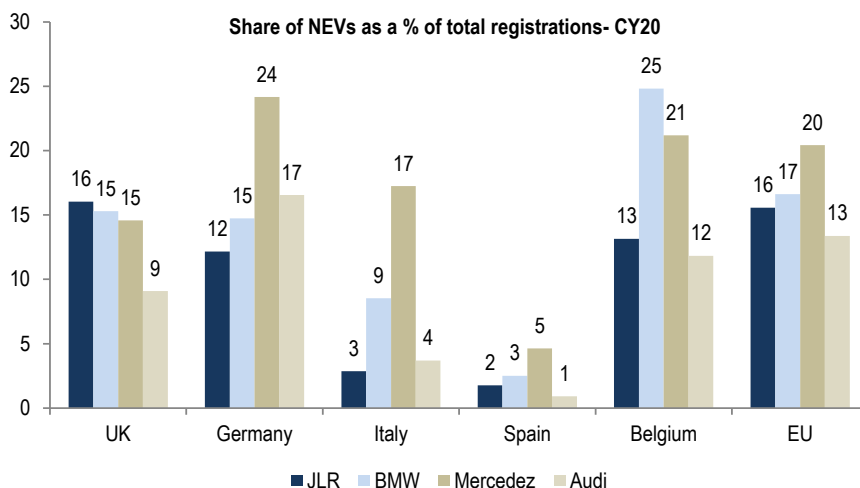
Source: ACEA, Nirmal Bang Institutional Equities Research

Exhibit 28: JLR's diesel share of its registrations far exceeds peers in major markets, which is likely to lead to sustained market share pressure



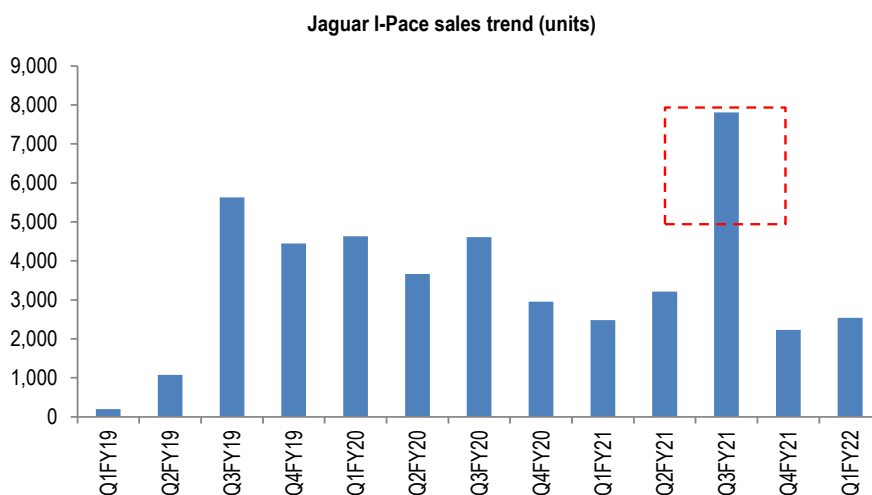
Source: ACEA, Nirmal Bang Institutional Equities Research

Exhibit 29: JLR lags competitors in all major markets in Europe; UK supported by strong push of I-Pace in 3QFY21



Source: ACEA, Nirmal Bang Institutional Equities Research

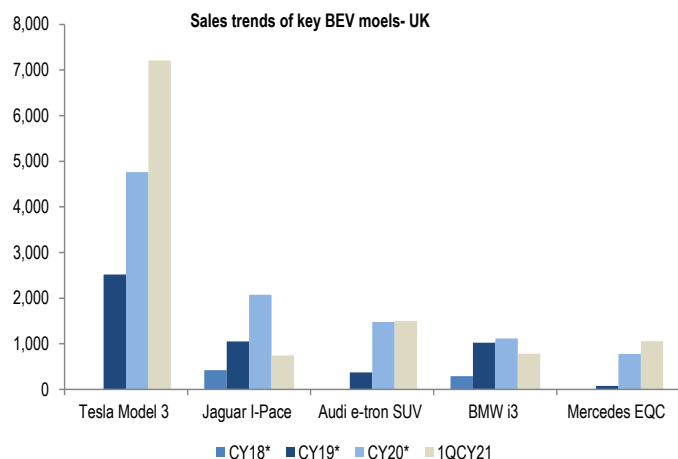
Exhibit 30: JLR I-Pace retails back to normal levels after push in 3QFY21 (to meet EU targets)



Source: Company, Nirmal Bang Institutional Equities Research

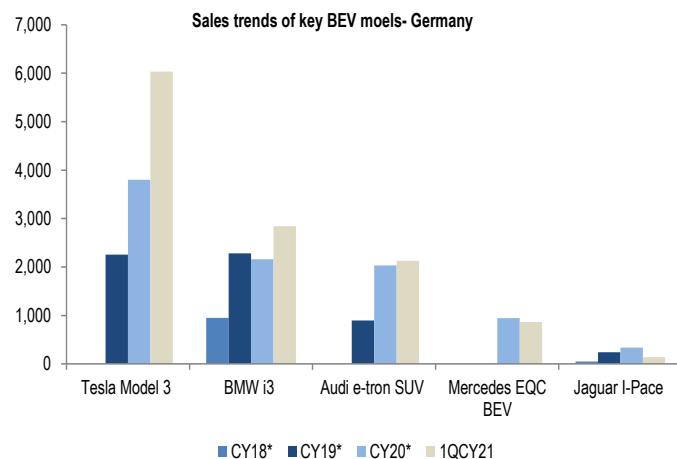
Trend of key model sales in Europe – First-mover advantage does exist

Exhibit 31: Tesla's quarterly run-rate is improving at a faster pace even on a high base



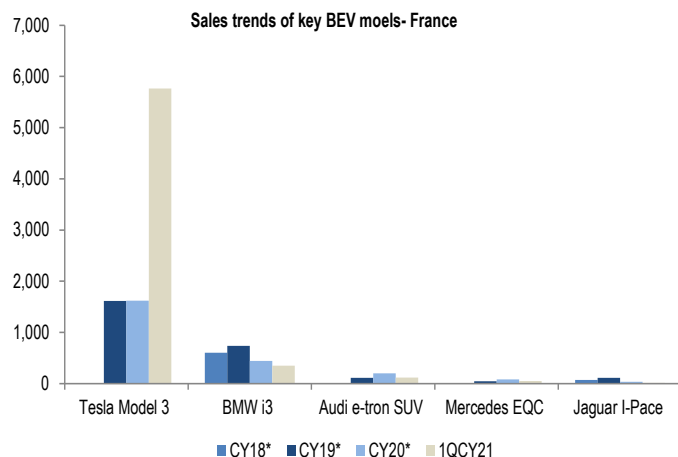
Source: *quarterly run rates; Bloomberg, Nirmal Bang Institutional Equities

Exhibit 32: Germany is also witnessing similar trends; we expect these trends to sustain in the near term



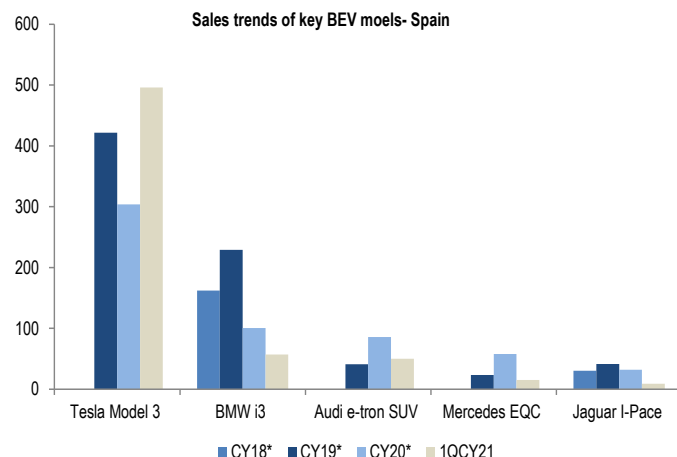
Source: *quarterly run rates; Bloomberg, Nirmal Bang Institutional Equities

Exhibit 33: Other OEMs have struggled to pick-up pace vs. Tesla



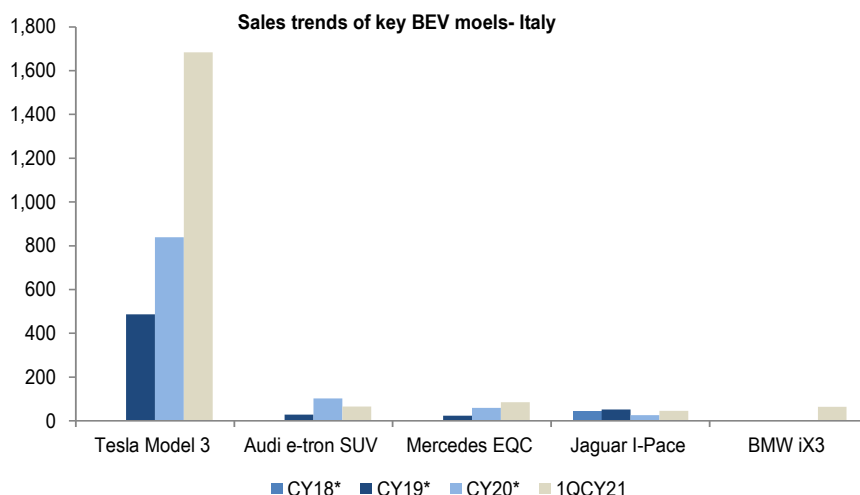
Source: *quarterly run rates; Bloomberg, Nirmal Bang Institutional Equities

Exhibit 34: Though a smaller market, Spain is showing similar trends



Source: *quarterly run rates; Bloomberg, Nirmal Bang Institutional Equities

Exhibit 35: Tesla Model 3 far ahead than competition in Italy



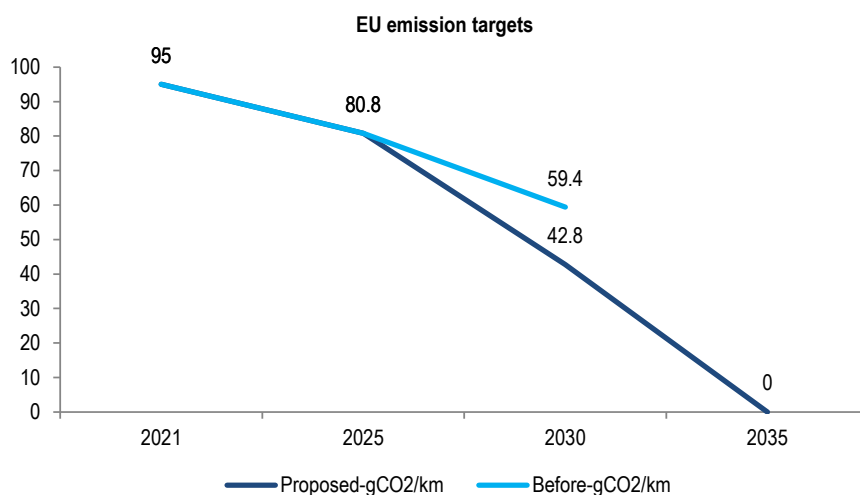
Source: *quarterly run rates; Bloomberg, Nirmal Bang Institutional Equities

Europe EV landscape: Stricter EU rules proposed; to accelerate BEV sales

The European Commission has announced its 'Fit for 55' proposal, which includes new auto CO2 emission targets for 2030. It will increase emission reduction target from 37.5% in 2021 to 55%. Target of a 15% cut in emission in 2025 has been kept unchanged. Also, a 100% cut in emission by 2035 (banning ICE vehicles completely) has been proposed, but includes a caveat that this will be reviewed every two years with a report assessing the OEMs' readiness in 2028. The EU will also require member states to install sufficient charging infrastructure with charging sites at every 60km on the highway and hydrogen stations at every 150km.

Our view: These are not the final targets, but are subject to discussion in the months ahead before being passed into law. We see this accelerating the EV shift, particularly BEVs, as the potential ban on ICE vehicles would make investments in PHEVs questionable. We see OEMs being well ahead in the EV transition and have already set ambitious targets for NEV penetration in Europe. However, we see JLR's strategy of launching a pure BEV model under the Land Rover brand in 2024 to be a pretty late move and could weaken its competitive position (expect lower PHEVs push by peers).

Exhibit 36: EU has proposed further tightening of norms and potential ban on ICE vehicles from 2025; this makes further investments in PHEV technology questionable (JLR's first BEV in core LR brand only in FY24)



Source: ACEA, Nirmal Bang Institutional Equities Research

Exhibit 37: Electrification targets for Europe are far more aggressive than broader targets

Company	2021	2025	2030
BMW	25% NEV share	33% NEV share	50% NEV share
VW brand	-	-	70% BEV share
Stellantis	-	-	80% NEV share of which >56% BEV share
Ford	-	-	100% BEV share
Renault	-	-	90% BEV share

Source: Company, Nirmal Bang Institutional Equities Research

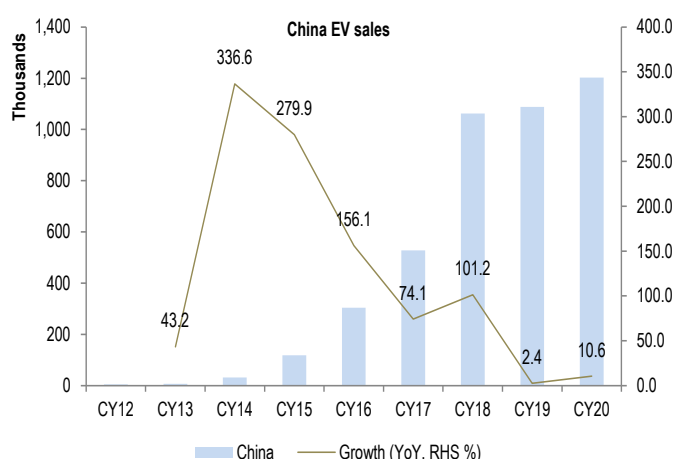
China EVs: Leading the BEV transition

JLR - A little too late in its most profitable market?

China is one of the most competitive EV markets in the world. Apart from traditional OEMs, a number of start-ups have also joined the EV race. The Chinese market is largely characterized by low brand loyalty since consumers focus is on product quality and value-oriented technology. China's NEV sales continued their positive momentum even in CY20, growing by 11% (supported by a delay in the phase-out of the Govt's subsidy schemes). The Chinese market is largely dominated by BEVs, with their share in total EV sales at ~80%.

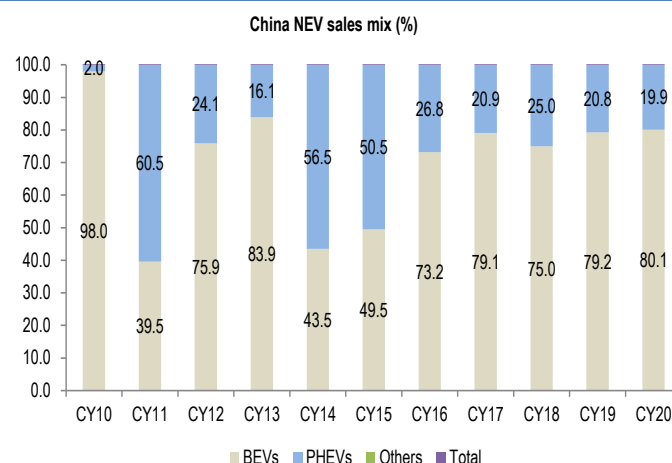
Our view: We see JLR's relatively late entry into China leading to a market share loss as we see new luxury OEMs like Xpeng, BYD, Nio and traditional OEMs taking the lead in EV transition. China is the most profitable market for JLR with retail volume share at ~25% as on FY21. We expect a late launch in BEVs (particularly under the core brand Land Rover in 2024) to further increase roadblocks to gaining traction in a country where it already has had a history of sales quality issues.

Exhibit 38: China EV sales continue the growth momentum



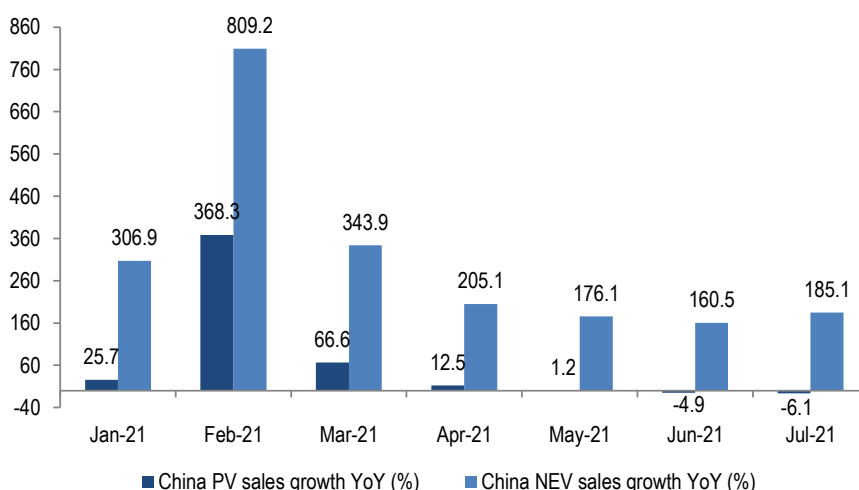
Source: Bloomberg, Nirmal Bang Institutional Equities Research

Exhibit 39: BEVs account for ~80% of total NEV sales



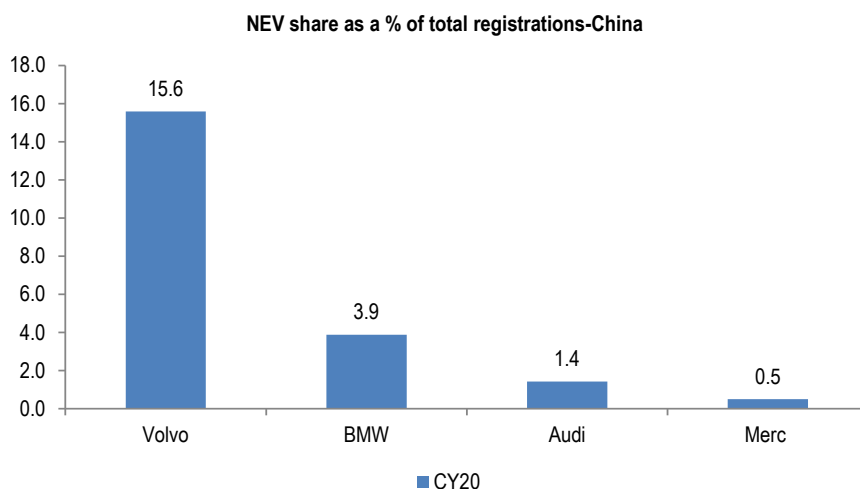
Source: Bloomberg, Nirmal Bang Institutional Equities Research

Exhibit 40: China PV growth has started to slow down; however NEV sales continue their strong ride



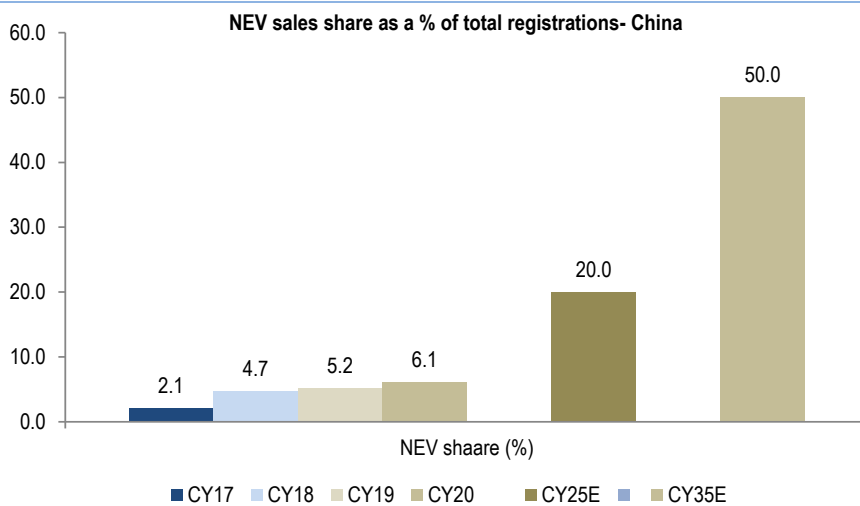
Source: Bloomberg, Nirmal Bang Institutional Equities Research

Exhibit 41: JLR has negligible presence in China (most profitable market); market already showing signs of first mover advantage



Source: Bloomberg, Nirmal Bang Institutional Equities Research

Exhibit 42: China is the biggest market for BEVs; we expect competitive intensity to accelerate as customers become more demanding



Source: Bloomberg, Nirmal Bang Institutional Equities Research

Trend of key model sales in China - Critical to be right the first time

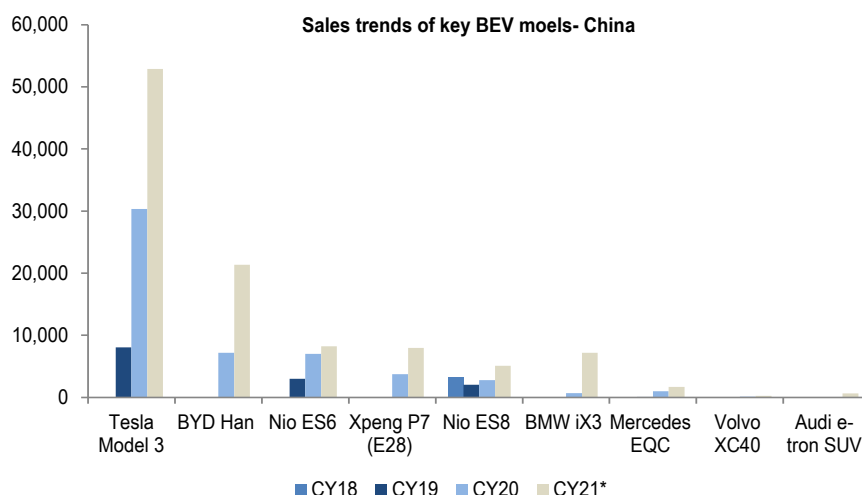
VW ID.4 - An example to remember

Our detailed analysis of response to EV models across regions has reaffirmed our assumption about high competitive intensity in the EV space. We note that sales of Tesla Model 3 are on the rise, largely led by its superior technology, elegant design, strong brand perception and the first-mover advantage. Further, we see a number of other luxury OEMs stepping up volume, albeit at a slower pace.

For the purpose of comparison, VW ID.4 (forms the backbone of Volkswagen's EV strategy) was launched in May'21 in China with high expectations, but drastically missed them. It failed to meet high consumer expectations amid cut-throat competition. On the contrary, this was the best-selling BEV model in the month in which it was launched in Europe. VW's CEO, Mr. Diess acknowledged that its approach to sell EVs in China has to change; a change we see still possible given that these are still early days in EV transition and the company's financial muscle.

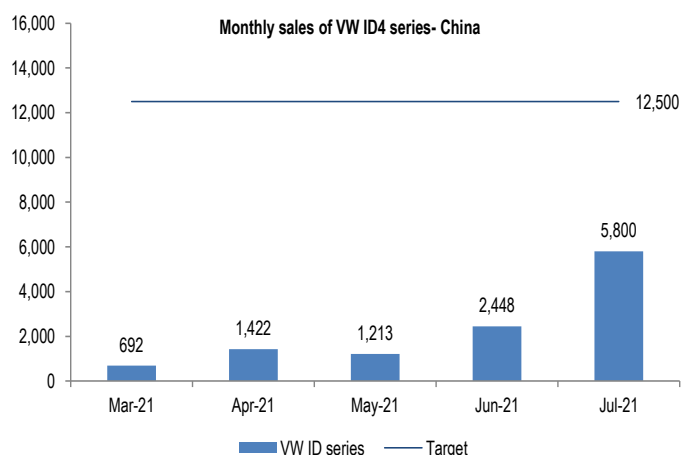
Our view: We see these developments to be critical and indicate market's appetite & expectations when it comes to EVs. A late entry into this space would not only make it tough for JLR to make inroads (in a market with low brand loyalty), but would leave little margin for error. While we acknowledge that initial hiccups are inevitable in a new market, it has little cushion considering the stretched timelines. We see these variables to be hard to ignore while assigning a multiple to JLR.

Exhibit 43: Tesla has a formidable lead in the BEV space; increased number of players is intensifying competition



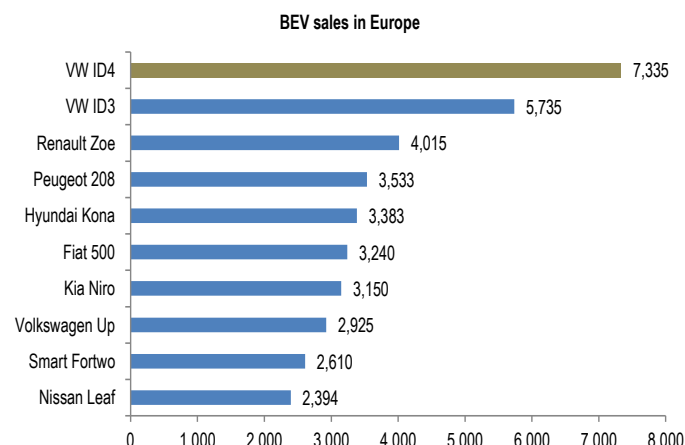
Source: Bloomberg, Nirmal Bang Institutional Equities Research

Exhibit 44: VW ID.4 missed its targets significantly in China post its launch in March'21; customers are turning excessively demanding



Source: Bloomberg, Nirmal Bang Institutional Equities Research

Exhibit 45: However, it was the best-selling model in Europe when it was launched, implying relatively strong brand loyalty



Source: Bloomberg, Nirmal Bang Institutional Equities Research

Exhibit 46: VW ID.4 failed expectations on China offensive strategy



Source: Company website, Nirmal Bang Institutional Equities Research

Exhibit 47: Tesla Model Y continues to lead the numbers



Source: Company websites, Nirmal Bang Institutional Equities Research

Exhibit 48: Initially there would be push-backs; however, a launch in 2024 (under the core brand LR) in its most profitable market would lead to greater uncertainty in a market that is already witnessing tough competition

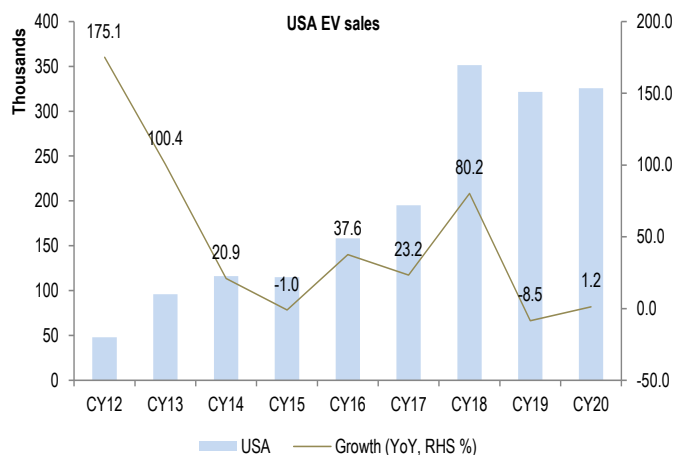
Volkswagen CEO: we need to change e-car approach in China

Source: Company, Nirmal Bang Institutional Equities Research

USA EVs: Lagging behind in EV transition

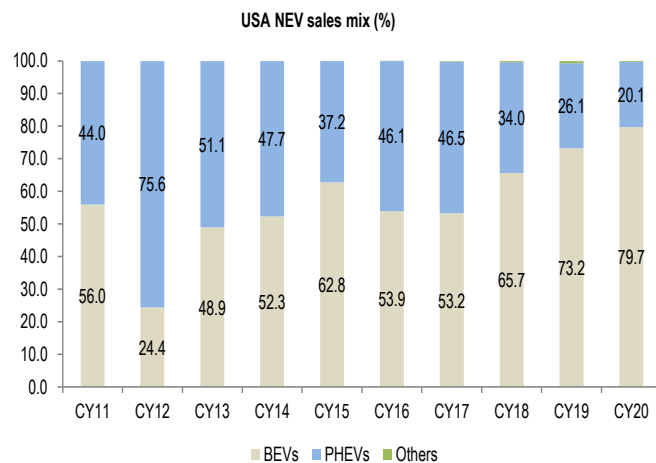
EV sales in USA grew by 1.2% in CY20 on a low base. Although they outperformed the broader passenger car industry (declined by ~15% in CY20), overall numbers were flattish largely due to expiration of federal credits with Tesla and General Motors reaching the maximum limits. Also, OEMs are keeping the US market fairly low in their priority list due to the absence of any regulatory push. However, in order to comply with emission norms in other regions (Europe and China), we see OEMs eventually accelerating their EV transition there, which would also lead to a faster transition in USA.

Exhibit 49: USA EV sales increased marginally in CY20



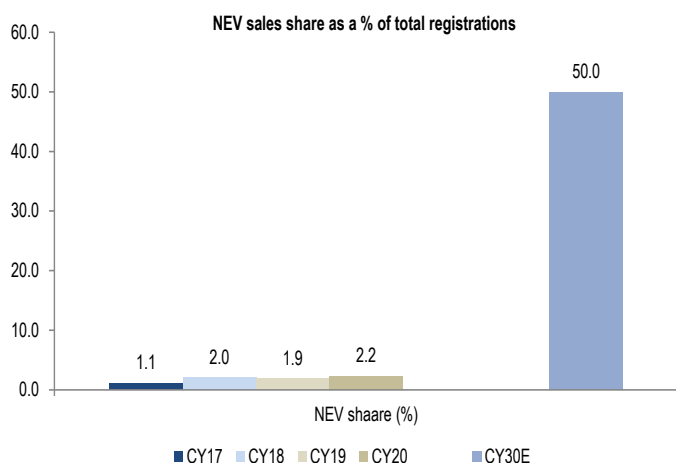
Source: Bloomberg, Nirmal Bang Institutional Equities Research

Exhibit 50: USA NEV sales are tilted towards BEVs



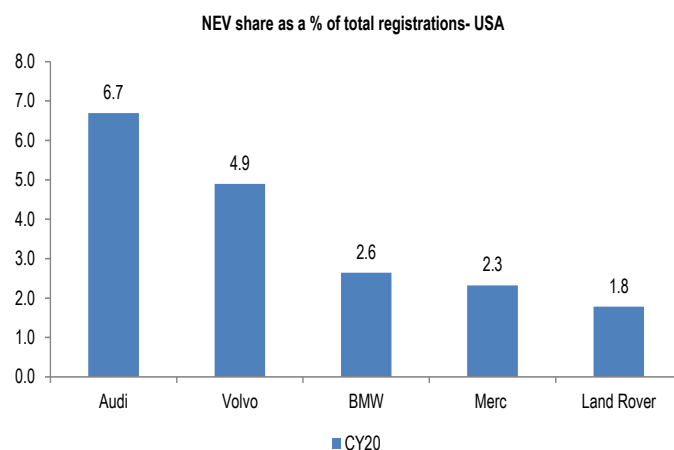
Source: Bloomberg, Nirmal Bang Institutional Equities Research

Exhibit 51: NEV share of registrations is low; recently announced new target of 50% penetration by 2030 (not legally binding) has got decent support from OEMs



Source: Bloomberg, Nirmal Bang Institutional Equities Research

Exhibit 52: OEMs are making their presence felt in the market; however, we expect EV acceleration in USA to lag other countries due to lack of policy support and fiscal incentives



Source: Bloomberg, Nirmal Bang Institutional Equities Research

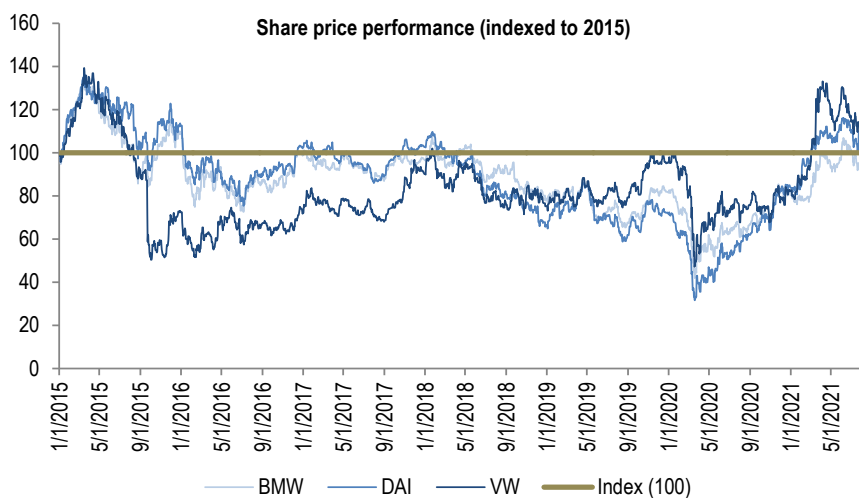
Share price performance across luxury OEMs

On a five-year horizon, stock price returns of key luxury OEMs have been lackluster (flattish to marginally positive). We note that a part of this was due to a slowing Chinese economy and tightening regulations; current stock valuations are highly contingent upon how the players are positioning themselves in the EV space. We can see that the stock prices have seen some tailwinds as the markets have started to appreciate OEMs' EV strategy and balance sheet strength. This has been further supported by their entry into key markets and a reasonable performance in the same.

However, these are still early days to call winners/losers in the EV space. Hence, we see diverse opinions but acknowledge that key catalyst for re-rating would be gaining traction in the EV space at a much faster pace. VW's stock price is down ~13% from March'21 levels as slowing VW.ID4 sales further led investors to revisit VW's EV positioning and probability of success.

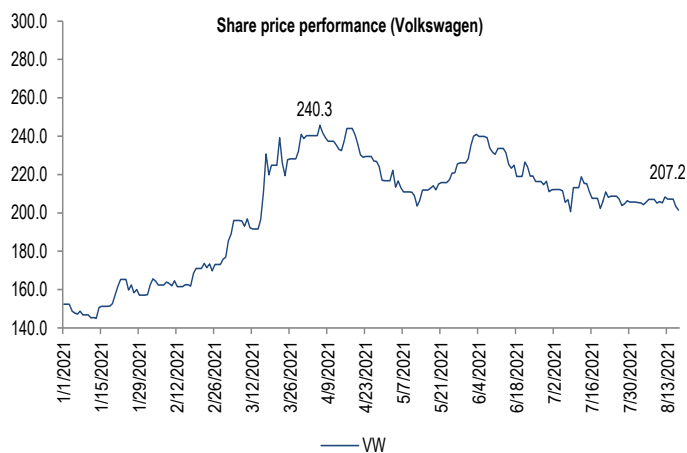
Our view: We see the recent rally in Tata Motors' share price as justified, led by solid turnaround efforts in the overall business (both India and JLR). However, we see JLR to be the weak link considering its scale, defensive electrification strategy and stretched metrics. Hence, we remain cautious on the stock and see valuations starting to reflect lead/lag in the company's electrification strategy (and away from turnaround initiatives) as EVs start to turn mainstream, which we see happening sooner rather than later.

Exhibit 53: Stock price performance indicates muted performance over last horizon; recent uptick post acceleration of EV targets and reasonable profitability guidance



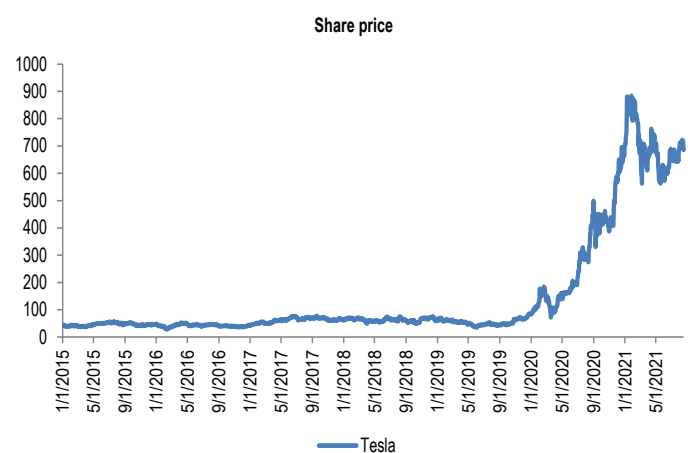
Source: Bloomberg, Nirmal Bang Institutional Equities Research

Exhibit 54: VW stock declined on poor ID4 BEV sales; investors turning increasingly cautious to reaffirm strategy bets



Source: Bloomberg, Nirmal Bang Institutional Equities Research

Exhibit 55: Tesla continues its formidable run as competition remains below par; we expect competition to intensify



Source: Bloomberg, Nirmal Bang Institutional Equities Research

JLR- Quick Handbook for reference

Near term focus shifts to semi-conductor issues, product launches and margins:

Semiconductor issues lead to earnings downgrade; further downside risks exist: JLR indicated that semiconductor shortage issues led to reduced wholesale volume assumption for 2QFY22. 2QFY22 wholesales are now expected at ~65k units vs. initial expectation of 120k units. The company maintained its capex targets and expects new product launch (RR) timeline to be on schedule. However, semiconductor shortage issues may take slightly longer to normalize as new capacities are expected to come on-stream over the next 12-18 months. Commentary from global OEMs suggests that the chip shortage issues are likely to be more prolonged. This could delay deleveraging efforts of JLR and affect profitability. However, we would wait for more clarity from the management on the same before revisiting our numbers.

Focus on reducing breakeven levels and profitable models: JLR plans to reduce breakeven levels to ~80k units/quarter by focusing on more profitable models amid the ongoing semiconductor shortages. Cash outflow is expected to be lower than GBP1bn in 2QFY22 (1QFY22: negative ~GBP1bn) while for 2HFY22, the company has guided for a positive cash flow. EBIT margin is expected to be negative in 2QFY22 as well while 2HFY22 should see positive EBIT margin with a gradual easing of the semiconductor shortage issues and volume ramp-up.

Medium term and long term targets are still intact: The company has maintained its medium-term targets with EBIT margin guidance of at least 7% from FY24E and at least 10% from FY26E. The company expects positive FCF from FY24E. Capex guidance of GBP2.5bn also remains unchanged.

JLR - near term gain but medium term pain; electrification strategy below par; semiconductor shortages could possibly delay deleveraging plans: For JLR, we are forecasting a volume CAGR of 10% over FY21-FY24E on account of a low base and strong product cycle (launch of RR, RR Sport in the next 12 months). But, our volume estimates are still lower than the peak volume seen in FY18. This is largely in line with the management's focus on reducing capacity, increasing utilization and focusing on profitable growth (over volume). This, coupled with cost-cutting initiatives (reducing warranty expenses, headcount rationalization, restricted variable marketing expense etc) should lead to EBIT margin improvement from 2.6% in FY21 to 6.6% in FY24E. Consequently, we expect net debt to reach breakeven levels by FY24E (vs. GBP 1.9bn in FY21) coupled with strong FCF generation. However, we see JLR's late entry into the BEV market under its core Land Rover brand (first model expected to be launched in 2024) possibly weakening its competitive positioning with increased pressure on market share and profitability, as we anticipate a much faster transition to EVs.

Medium-long term targets- Reimagine+Refocus:

We summarise JLR's strategy and roadmap to attain its medium and long-term targets

Exhibit 56: JLR's medium term targets have been maintained despite weak 1HFY22; FY22E margins to see downside risks

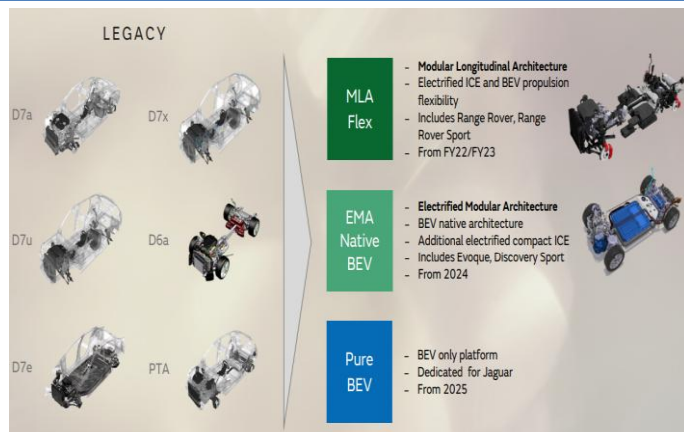
Key metrics	FY21	FY22	FY24	FY26
Revenue	Not guided	Increasing	Increasing	> £30b
EBIT margin <i>Positive PBT* throughout</i>	Positive	≥4%	≥7%	≥10%
Investment	< £2.5b	c. £2.5b	c. £2.5b	c. £3b
Free cash flow	Near break-even	Break-even After ~£500m restructuring costs	Positive	Positive
Net cash / (Net debt)	Negative	Negative	0	Positive

*Excluding exceptionals

Source: Company, Nirmal Bang Institutional Equities Research

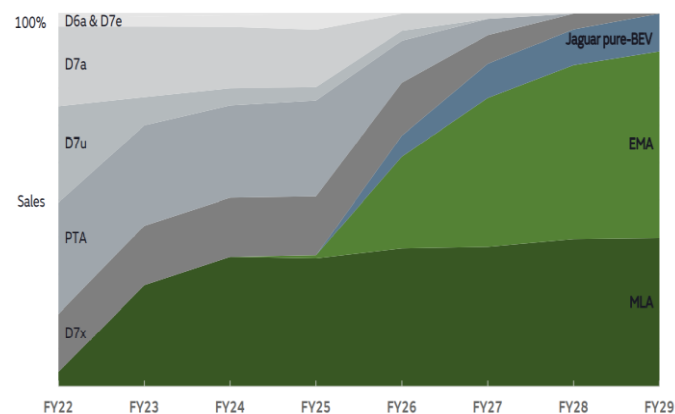
Reimagine strategy at a glance:

Exhibit 57: Number of architectures to reduce to 3 from 6



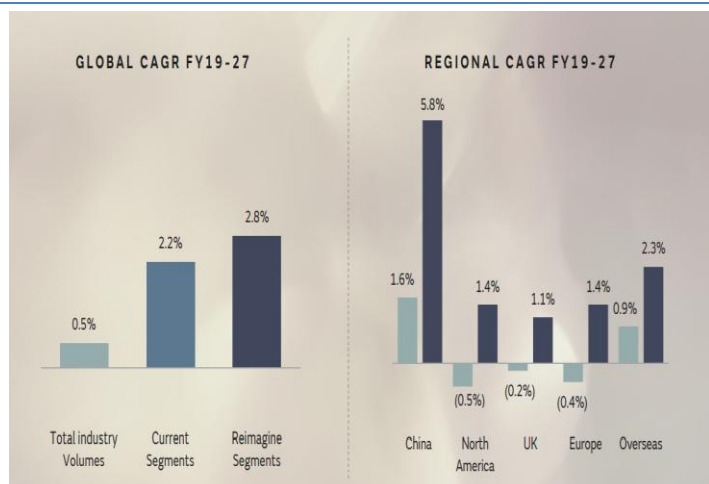
Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 58: New platforms to provide 80% of JLR volumes by FY27



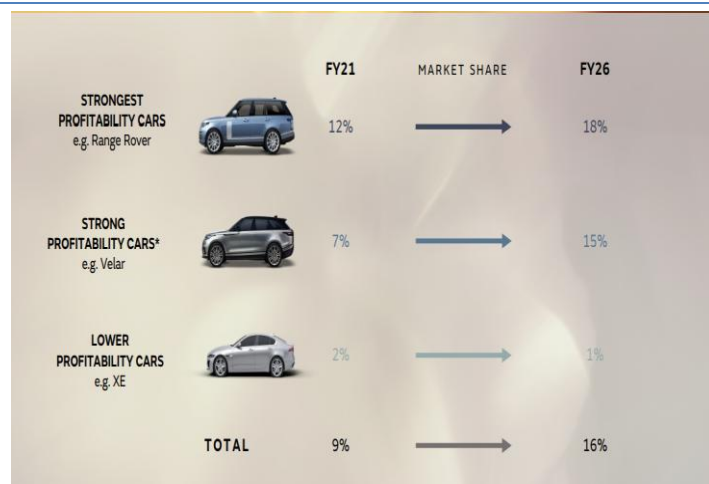
Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 59: Reimagine is targeting faster growing luxury segments



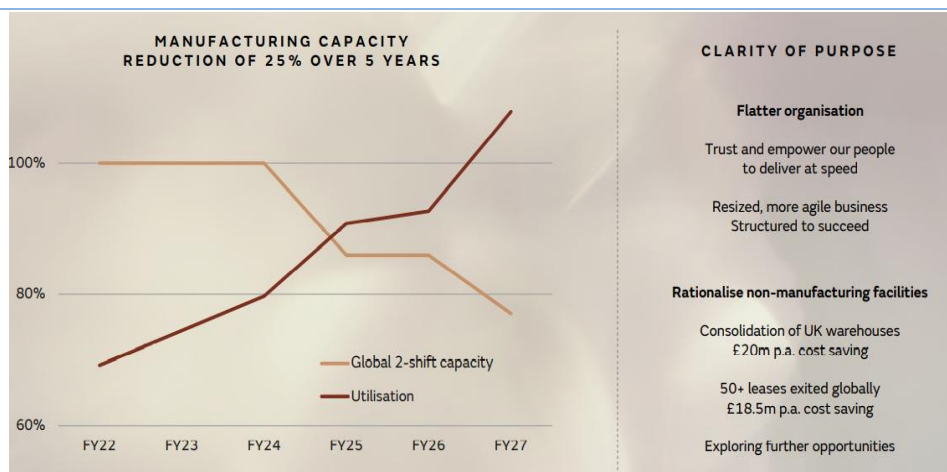
Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 60:..Focus on increasing share in more profitable segments



Source: Company, Nirmal Bang Institutional Equities Research

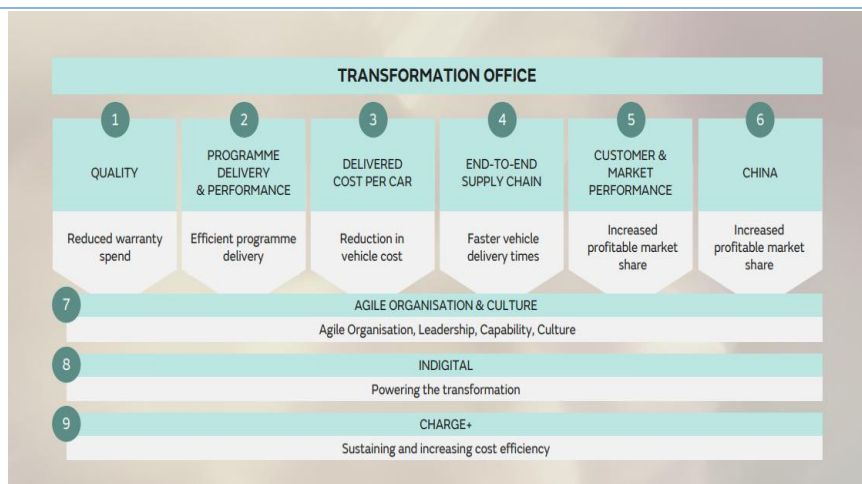
Exhibit 61: Focus on efficiency and increasing utilisation



Source: Company, Nirmal Bang Institutional Equities Research

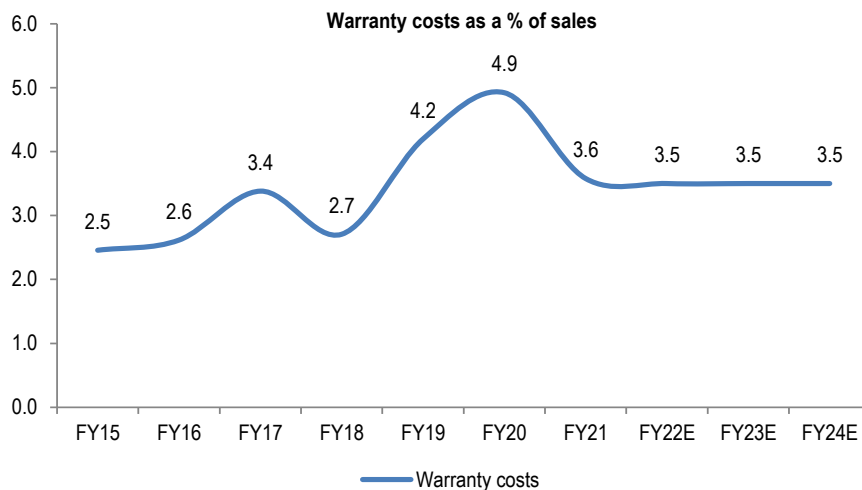
Refocus strategy in a glance:

Exhibit 62: Focus on efficiency and increasing utilisation



Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 63: We expect normalization of warranty costs at ~3-3.5%



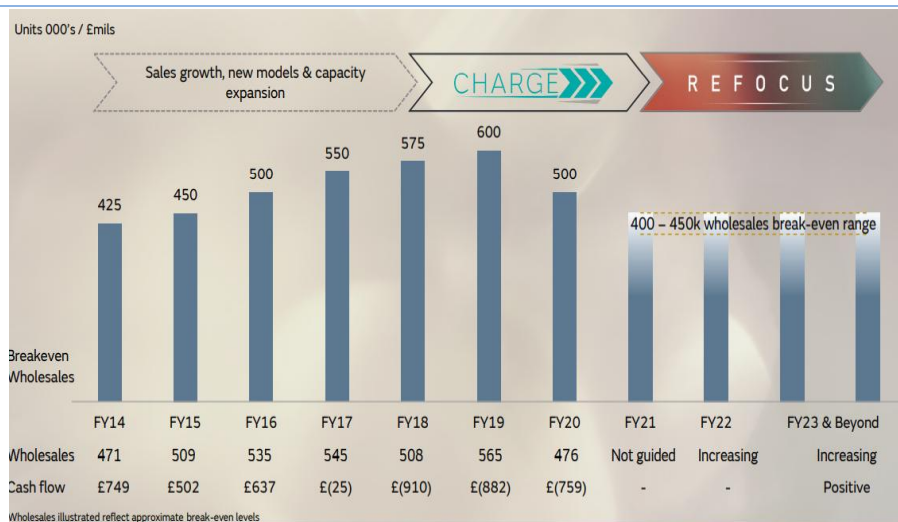
Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 64: Refocus strategy will help deliver 3% incremental EBIT margin by FY26



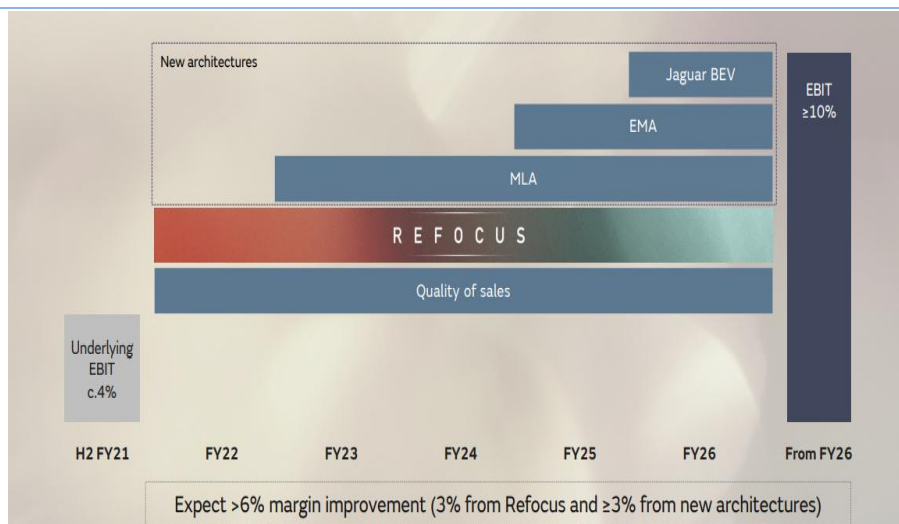
Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 65: Refocus and Reimagine will together help in reducing breakeven levels



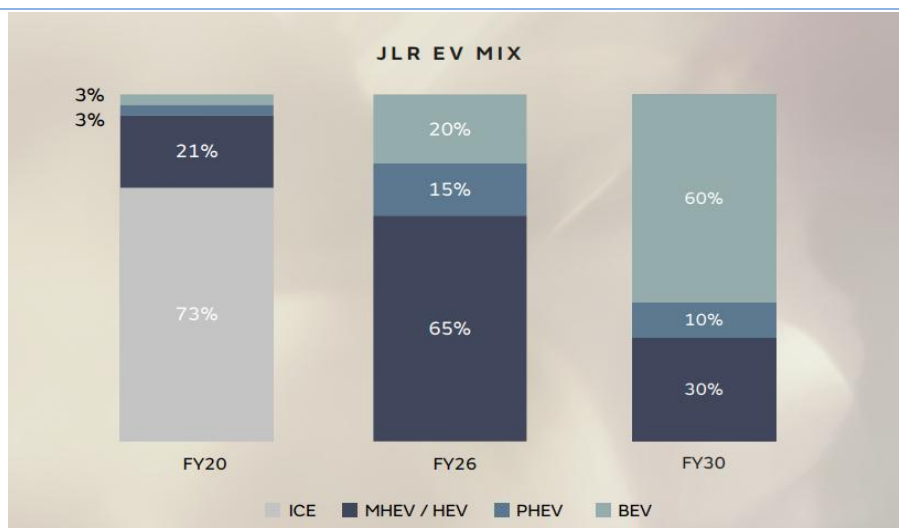
Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 66: Refocus and Reimagine strategy are expected to drive margins by 3% each



Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 67: JLR powertrain mix strategy



Source: Company, Nirmal Bang Institutional Equities Research

JLR - Our forecasts and assumptions
Exhibit 68: Our detailed volume assumptions by model and region

Particulars	FY17	FY18	FY19	FY20	FY21	FY22E	FY23E	FY24E
Jaguar								
XF	25,600	19,800	14,522	6,911	2,955	2,807	2,948	2,948
XJ	10,100	9,000	4,204	2,824	632	600	630	630
F type	10,900	9,200	7,700	6,346	5,775	5,486	5,212	4,951
Small Jaguar (XE)	46,700	28,200	19,418	12,086	2,738	2,601	2,731	2,731
F Pace	76,000	69,500	50,885	45,943	24,046	25,248	27,016	28,366
I-Pace, E-Pace	0	14,800	57,024	51,710	31,187	32,746	36,021	37,822
Jaguar-Total	169,300	150,500	153,753	125,820	67,333	69,490	74,558	77,449
Growth (YoY, %)	-	(11.1)	2.2	(18.2)	(46.5)	3.2	7.3	3.9
LR								
Defender	600	0	6	121	53,051	66,314	79,577	83,555
Discovery	37,600	52,000	37,635	33,648	16,677	17,511	18,386	19,306
Freelander	0	0	7	0	2	0	0	0
Discovery Sport	86,000	74,500	58,363	52,889	31,204	34,324	39,473	43,420
Range Rover	56,300	54,900	57,051	50,965	37,410	41,151	49,381	52,838
RRSport	87,500	76,600	82,600	76,339	57,694	60,579	72,694	77,783
Evoque	97,500	77,500	57,697	83,198	50,429	55,472	61,019	65,290
Velar	0	59,200	60,766	52,972	33,832	37,215	38,332	41,015
LR-Total	365,500	394,700	354,125	350,132	280,299	312,566	358,862	383,208
Growth (YoY, %)	-	8.0	(10.3)	(1.1)	(19.9)	11.5	14.8	6.8
Total volumes ex China JV	534,800	545,200	507,878	475,952	347,632	382,055	433,420	460,657
Growth (YoY, %)	-	1.9	(6.8)	(6.3)	(27.0)	9.9	13.4	6.3
Jag mix (%)	31.7	27.6	30.3	26.4	19.4	18.2	17.2	16.8
LR mix (%)	68.3	72.4	69.7	73.6	80.6	81.8	82.8	83.2
China JV								
Discovery Sport	38,873	43,673	26,053	23,531	28,829	31,712	36,469	40,116
Evoque	17,677	18,777	7,680	7,469	13,343	13,743	14,705	15,441
Jaguar XF	9,454	21,854	9,947	5,726	6,646	6,845	7,325	7,691
Jaguar XE	0	3,908	11,239	10,453	13,769	14,182	15,175	15,934
E-Pace	0	0	2,509	2,271	2,692	2,773	2,967	3,115
China JV-Total	66,004	88,212	57,428	49,450	65,279	69,255	76,640	82,296
Growth (YoY, %)	-	33.6	(34.9)	(13.9)	32.0	6.1	10.7	7.4
Jag mix (%)	14.3	29.2	41.3	37.3	35.4	34.4	33.2	32.5
LR mix (%)	85.7	70.8	58.7	62.7	64.6	65.6	66.8	67.5
Total volumes incl. China JV	600,804	633,412	565,306	525,402	412,911	451,311	510,060	542,952
Growth (YoY, %)	-	5.4	(10.8)	(7.1)	(21.4)	9.3	13.0	6.4
Jag mix (%)	29.8	27.8	31.4	27.5	21.9	20.7	19.6	19.2
LR mix (%)	70.2	72.2	68.6	72.5	78.1	79.3	80.4	80.8
Geography split (%)								
North America	132,000	136,447	133,237	135,766	93,759	99,385	114,292	120,007
UK	115,000	114,074	118,734	110,067	81,500	87,205	104,646	111,971
Europe	143,000	132,313	124,248	113,270	76,606	81,905	94,190	99,803
China	125,004	153,825	97,596	87,762	112,424	123,666	136,033	142,835
Others	85,800	96,851	91,491	78,537	48,622	59,150	60,899	68,336
Total	600,804	633,510	565,306	525,402	412,911	451,311	510,060	542,952
Growth YoY (%)								
North America	-	3.4	(2.4)	1.9	(30.9)	6.0	15.0	5.0
UK	-	(0.8)	4.1	(7.3)	(26.0)	7.0	20.0	7.0
Europe	-	(7.5)	(6.1)	(8.8)	(32.4)	6.9	15.0	6.0
China	-	23.1	(36.6)	(10.1)	28.1	10.0	10.0	5.0
Others	-	12.9	(5.5)	(14.2)	(38.1)	21.7	3.0	12.2
Total	-	5.4	(10.8)	(7.1)	(21.4)	9.3	13.0	6.4
Mix (%)								
North America	22.0	21.5	23.6	25.8	22.7	22.0	22.4	22.1
UK	19.1	18.0	21.0	20.9	19.7	19.3	20.5	20.6
Europe	23.8	20.9	22.0	21.6	18.6	18.1	18.5	18.4
China	20.8	24.3	17.3	16.7	27.2	27.4	26.7	26.3
Others	14.3	15.3	16.2	14.9	11.8	13.1	11.9	12.6
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 69: Snapshot of key operating metrics for JLR

Particulars (GBP mn)	FY17	FY18	FY19	FY20	FY21	FY22E	FY23E	FY24E
JLR volumes ('000 units)	535	545	508	476	348	382	433	461
Growth (YoY, %)	-	1.9	(6.8)	(6.3)	(27.0)	9.9	13.4	6.3
ASP	45,510	49,844	49,061	49,434	57,049	55,898	57,364	57,989
Growth (YoY, %)	-	9.5	(1.6)	0.8	15.4	(2.0)	2.6	1.1
Revenues	24,339	25,786	24,214	22,984	19,731	21,356	24,863	26,713
Growth (YoY, %)	-	5.9	(6.1)	(5.1)	(14.2)	8.2	16.4	7.4
EBITDA	2,828	2,500	1,981	2,000	2,531	2,646	3,659	4,061
EBITDA margin (%)	11.6	9.7	8.2	8.7	12.8	12.4	14.7	15.2
EBIT incl. China JV	1,328	677	-177	-22	514	613	1,499	1,765
EBIT margin (%)	5.5	2.6	(0.7)	(0.1)	2.6	2.9	6.0	6.6
PAT	1,083	862	(3,324)	(355)	(1,059)	347	977	1,203
Growth (YoY, %)	-	(20.4)	(485.6)	(89.3)	198.3	(132.7)	181.9	23.1
R&D spend	1,794	2,016	1,997	1,790	1,216	1,300	1,400	1,400
Capex	1,644	2,170	1,604	1,504	1,127	1,200	1,100	1,100
Total Capex	3,438	4,186	3,601	3,294	2,343	2,500	2,500	2,500
Capex as a % of sales	14.1	16.2	14.9	14.3	11.9	11.7	10.1	9.4
FCF	84	(949)	(1,332)	(740)	164	(228)	874	1,454
Net debt/ (cash)	(1,913)	(926)	736	2,208	1,915	2,143	1,268	(186)
ROE(%)	15.3	10.4	(41.6)	(5.7)	(17.9)	6.7	17.5	18.0
ROCE (%)	18.1	3.1	(0.3)	1.4	4.9	7.0	16.2	19.2

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 70: Snapshot of key operating metrics for China JV

Particulars (GBP mn)	FY17	FY18	FY19	FY20	FY21	FY22E	FY23E	FY24E
China JV								
Volumes	66,004	88,212	57,428	49,450	65,279	69,255	76,640	82,296
Growth (YoY, %)	-	33.6	(34.9)	(13.9)	32.0	6.1	10.7	7.4
ASP	32,771	31,436	29,550	26,188	27,880	28,717	29,291	29,584
Growth (YoY, %)	-	(4.1)	(6.0)	(11.4)	6.5	3.0	2.0	1.0
Revenues	2,163	2,773	1,697	1,295	1,820	1,989	2,245	2,435
Growth (YoY, %)	-	28.2	(38.8)	(23.7)	40.5	9.3	12.9	8.5
EBITDA	523	874	223	(19)	100	122	187	227
EBITDA margin (%)	24.2	31.5	13.1	(1.5)	5.5	6.1	8.3	9.3
PAT	312	504	13	(224)	(83)	(66)	(21)	8
JLR share @50%	156	252	7	(112)	(42)	(33)	(10)	4

Source: Company, Nirmal Bang Institutional Equities Research

India business - Quick Handbook for reference

CVs at the cusp of cyclical upturn; worst is behind for PVs

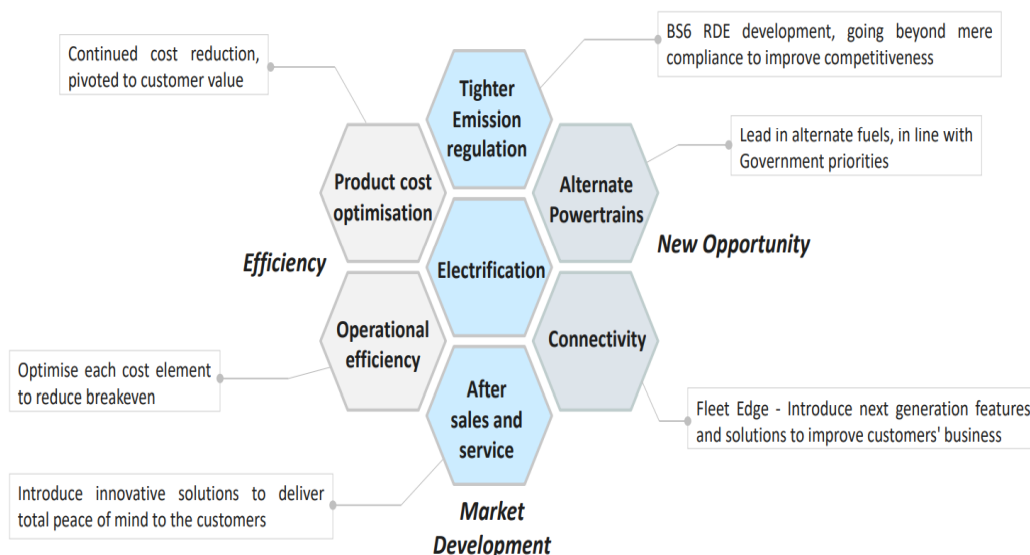
India business well placed for strong turnaround; CVs at the cusp of cyclical recovery and improving PV franchise to support FCF: Post a sharp 44% decline from peak volume (FY19), we expect a strong rebound in overall CV volume once economic activities return to normal levels from FY22E. We see TTMT to be a key beneficiary given its market share (42% as on FY21) and expect a volume CAGR of 21% over FY21-FY24E (our volume assumptions for FY24E are close to peak). We expect EBIT margin to improve to 8% in FY24E vs. 0.1% in FY21 (broadly similar to the last peak) on account of improving volume and cost reduction efforts. On PVs, we are enthused by the strong turnaround, led by a focused product strategy (filling in the white spaces; addressable market to increase from 60% to 70-75% led by further launches) and differentiated positioning (around safety, design etc). TTMT's domestic PV market share in 1QFY22 stood at 10.1% vs. 5% in FY20. With the improving domestic PV franchise and robust inherent demand drivers for the domestic PV industry, we estimate a volume CAGR of 13% over FY21-FY24E (market share in FY24E at 9.2%). A sharp uptick in volume, operating leverage benefits and cost-control focus should lead to narrowing of EBIT loss, with EBIT margin at -2% in FY24E vs. -9% in FY21. Also, we see guidance for FCF breakeven by FY23E to be reasonable. Consequently, we expect net debt to decline in the standalone business from Rs155bn in FY21 to Rs106bn by FY24E (we have not factored in stake sale in our numbers; which could accelerate deleveraging efforts in our view).

CVs - improving trends in utilization and demand outlook: Based on our channel checks, we observe improving demand trends, led by a pick-up in inquiry levels. This is being driven by demand from the infrastructure and construction sectors. We do note that the conversions are slightly muted due to the relatively cautious stance of the financiers. However, with normalization of economic activities on the horizon, we see resumption of normal operations by August/September'21. We expect CV volume revival to gain traction from 2HFY22, but the ongoing semiconductor shortages pose downside risks to near-term volume. Overall, on profitability, tight focus on costs has cushioned margins and reduced breakeven levels. The company expects network expansion to drive reach and deeper penetration, which should augur well for market share gain going forward.

PVs - Worst is behind; improving brand franchise and product launches to sustain market share gains: Tata Motors' PV division has undergone a rapid transformation, led by its 'New Forever Range' that is well positioned in the growing segments. We also note that the turnaround is being led by multiple products with the largest selling model accounting for only 28-32% of total volume. The management sees overall demand growing considerably on the back of increasing consumer awareness and brand consideration parameters. The company expects new product launches to increase the addressable market from 60% currently to ~70-75%. Further, differentiated positioning of the brand from technological & safety aspects has led to an improved perception among consumers. We see these developments to be positive, which should lead to faster loss reduction (return to profitability), in our view.

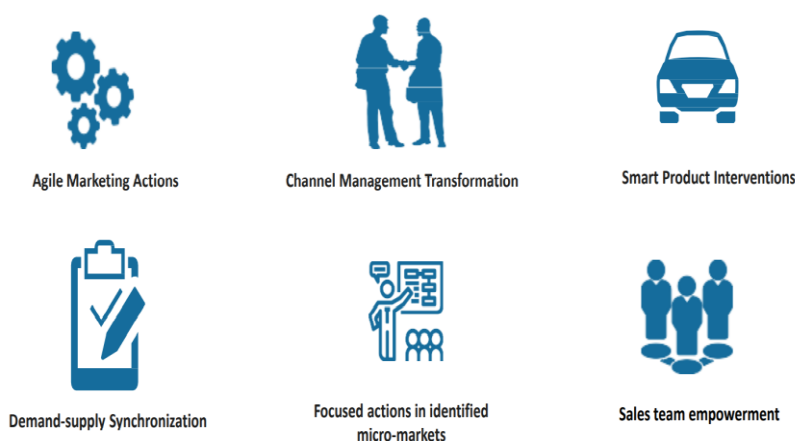
India business strategy at a glance:

Exhibit 71: Area of focus over long term for commercial vehicles



Source: SIAM, Nirmal Bang Institutional Equities Research

Exhibit 72: Structural changes across value chain has led to sustained growth in PVs



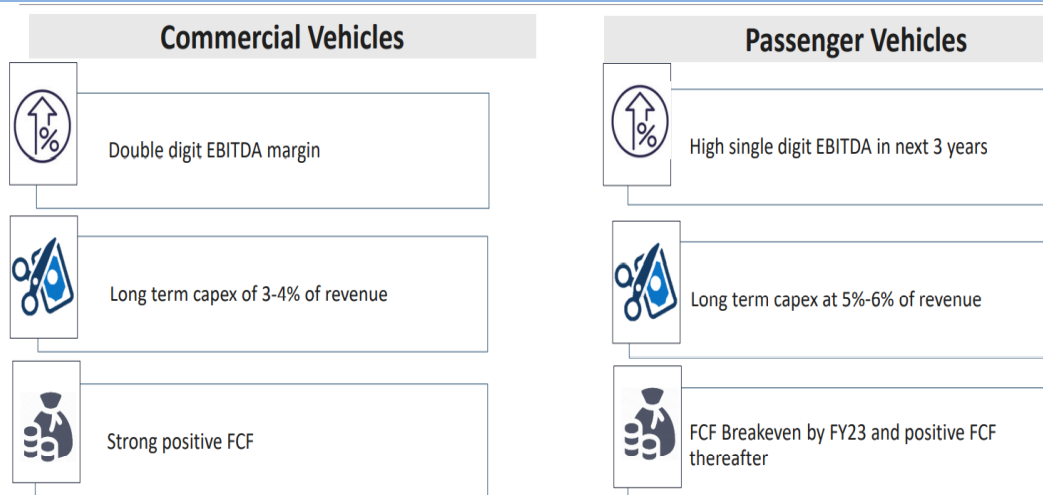
Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 73: New product launches to increase market coverage to ~70-75% from current 60%

Segments	Sub-Segments					
Hatch	Entry	Midsize	High	Premium		
		Tiago #3 with MS 17%		Altroz #3 with MS 18%		
Sedans	Entry	Midsize	Executive	Premium		
	Tigor #3 with MS 6%					
SUV	Sub-Compact	Compact	Midsize 5 Str	Prem Mid. 5 Str	Midsize 7 Str	Premium
	HBX- Launch in CY21	Nexon #4 with MS 15%		Harrier #2 with MS 30%	Safari- Launched Today	
MPV	Compact	Midsize	High	Premium		
Van	Van	Premium				
			Lower performance & Potential			Highest Performance & Potential

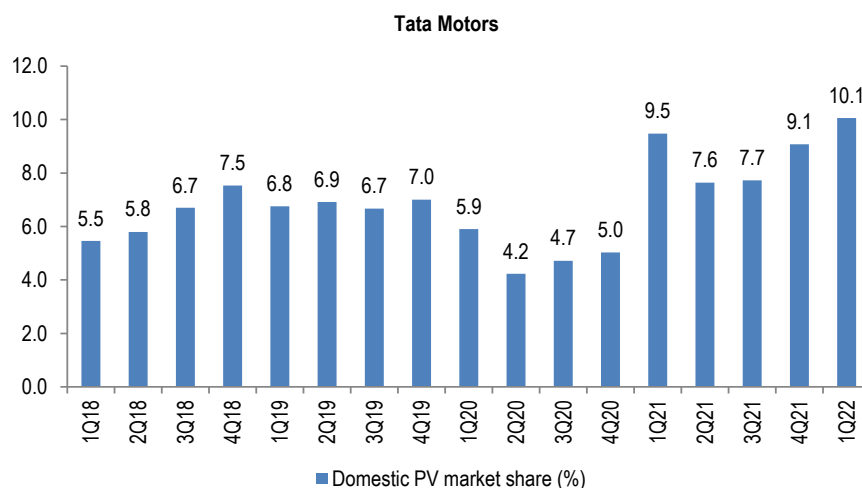
Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 74: Long term targets for CV and PV segments



Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 75: Tata Motors PV market share reached double digits in 1QFY22; expect this trend to sustain



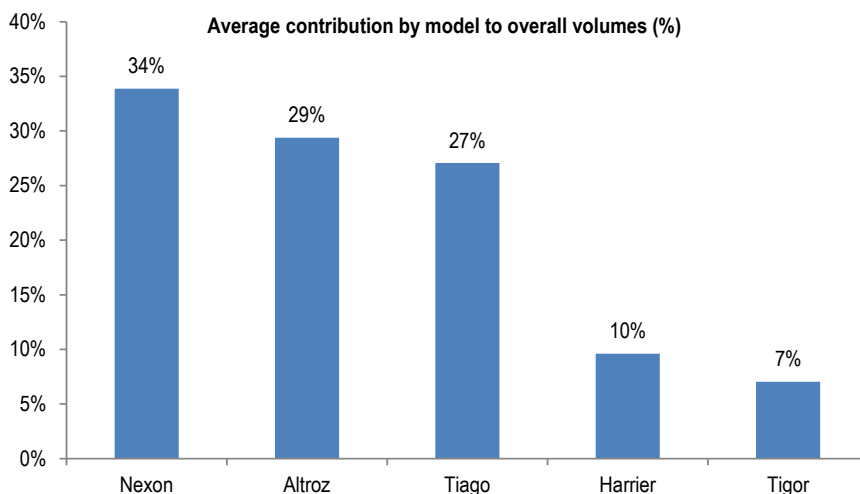
Source: SIAM, Nirmal Bang Institutional Equities Research

Exhibit 76: Tata Motors has gained market share in premium and large UVs; indicating improving brand perception

Segment-wise market share (%)	1Q18	2Q18	3Q18	4Q18	1Q19	2Q19	3Q19	4Q19	1Q20	2Q20	3Q20	4Q20	1Q21	2Q21	3Q21	4Q21	1Q22
Entry Level	0.6	0.3	0.2	0.1	0.0	0.1	0.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Premium Compact	7.0	9.3	9.0	9.6	8.6	9.8	8.9	9.9	7.1	6.3	6.7	9.5	24.4	14.8	14.1	15.8	17.8
Entry Sedan	18.7	9.3	9.7	12.3	9.0	7.1	9.3	6.8	4.0	5.0	5.9	3.1	6.3	5.1	6.0	8.3	6.2
Premium Sedan	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Small UV	0.0	1.8	7.9	8.4	8.8	8.7	9.7	9.9	8.2	5.3	5.9	6.0	7.2	7.4	7.5	8.6	9.9
Large SUV	5.8	8.0	6.8	7.3	6.2	6.6	6.4	7.7	9.2	4.9	6.1	4.0	4.7	7.3	9.0	11.3	14.1
MPV	11.2	11.0	11.7	13.7	11.0	11.4	6.0	9.6	12.4	1.2	2.2	3.0	0.0	2.4	1.4	2.4	2.5
Total	5.5	5.8	6.7	7.5	6.8	6.9	6.7	7.0	5.9	4.2	4.7	5.0	9.5	7.6	7.7	9.1	10.1

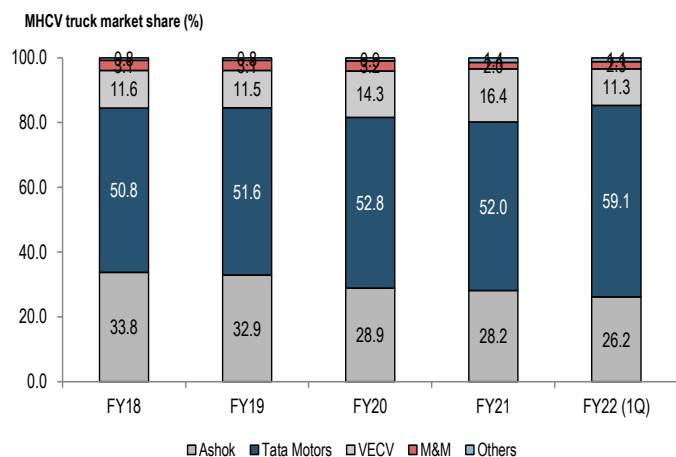
Source: SIAM, Nirmal Bang Institutional Equities Research

Exhibit 77: Multiple models are receiving good response



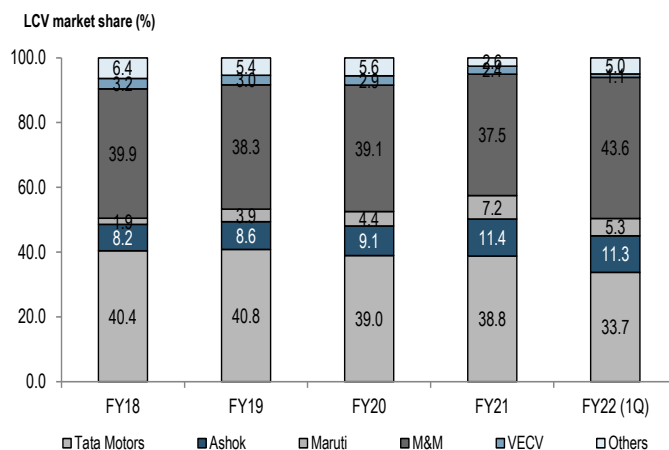
Source: SIAM, Nirmal Bang Institutional Equities Research

Exhibit 78: Tata Motors truck market share improves



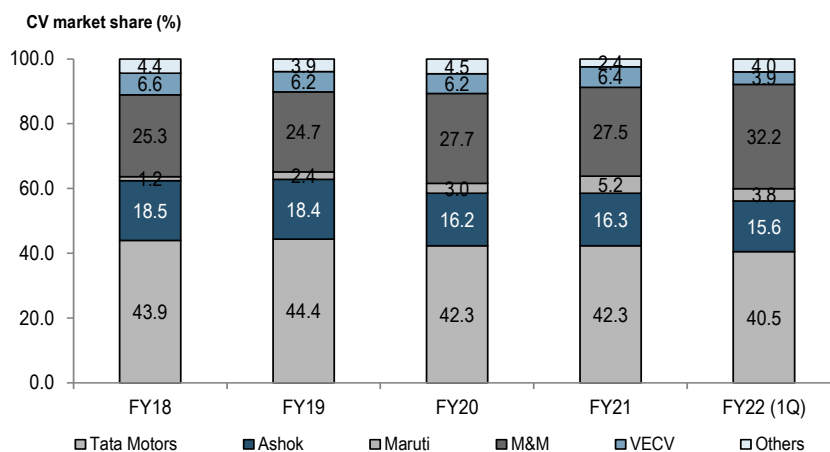
Source: SIAM, Nirmal Bang Institutional Equities Research

Exhibit 79: LCV market share declined due to supply constraints



Source: SIAM, Nirmal Bang Institutional Equities Research

Exhibit 80: Market share has declined due to pressure on CV volume which is expected to normalize as supply chain constraints ease



Source: SIAM, Nirmal Bang Institutional Equities Research

India business - Our forecasts and assumptions

Exhibit 81: Snapshot of key operating parameters for the standalone business

Particulars (Rs mn)	FY17	FY18	FY19	FY20	FY21	FY22E	FY23E	FY24E
Volumes								
MHCVs	175,262	190,367	224,940	124,446	90,155	124,252	194,285	217,400
Growth (YoY, %)	-	8.6	18.2	(44.7)	(27.6)	37.8	56.4	11.9
LCVs	209,767	259,066	294,837	216,254	172,618	209,678	234,866	246,610
Growth (YoY, %)	-	23.5	13.8	(26.7)	(20.2)	21.5	12.0	5.0
PVs	157,293	189,619	212,164	132,677	222,791	276,522	309,705	325,190
Growth (YoY, %)	-	20.6	11.9	(37.5)	67.9	24.1	12.0	5.0
Total volumes	542,322	639,052	731,941	473,377	485,564	610,453	738,856	789,200
Growth (YoY, %)	-	17.8	14.5	(35.3)	2.6	25.7	21.0	6.8
Segmental details								
CV revenues	-	454,880	540,365	329,329	298,991	383,755	497,129	555,785
Growth (YoY, %)	-		18.8	(39.1)	(9.2)	28.4	29.5	11.8
CV EBITDA	-	49,586	59,404	13,506	15,847	23,025	49,713	61,136
Growth (YoY, %)	-		19.8	(77.3)	17.3	45.3	115.9	23.0
EBITDA margin (%)	-	10.9	11.0	4.1	5.3	6.0	10.0	11.0
EBIT margin (%)	-	7.6	8.2	(0.6)	0.1	2.0	6.8	8.0
PV revenues	-	138,826	150,523	107,725	168,564	211,310	237,850	257,235
Growth (YoY, %)	-		8.4	(28.4)	56.5	25.4	12.6	8.1
PV EBITDA	-	(15,210)	151	(10,511)	3,708	8,452	11,893	15,434
Growth (YoY, %)	-		(101.0)	(7,083.4)	(135.3)	127.9	40.7	29.8
EBITDA margin (%)	-	(11.0)	0.1	(9.8)	2.2	4.0	5.0	6.0
EBIT margin (%)	-	(21.5)	(9.3)	(25.3)	(9.3)	(5.0)	(3.4)	(2.0)
Standalone								
Revenue	443,163	578,965	692,028	439,282	470,315	607,021	749,156	828,589
Growth (YoY, %)	-	30.6	19.5	(36.5)	7.1	29.1	23.4	10.6
EBITDA	13,577	23,907	51,548	(4,122)	14,942	32,972	57,869	69,212
Growth (YoY, %)	-	76.1	115.6	(108.0)	(462.5)	120.7	75.5	19.6
PAT	(23,652)	(2,970)	23,343	(52,272)	(34,382)	(13,409)	5,437	14,866
Growth (YoY, %)	-	(87.4)	(886.0)	(323.9)	(34.2)	(61.0)	(140.5)	173.4
Ratios								
EBITDA margin (%)	3.1	4.1	7.4	(0.9)	3.2	5.4	7.7	8.4
PAT margin (%)	(5.3)	(0.5)	3.4	(11.9)	(7.3)	(2.2)	0.7	1.8
Net debt	165,930	161,510	156,580	208,830	155,420	145,571	127,252	106,780
Capex	(34,965)	(27,948)	(47,532)	(45,134)	(16,779)	(25,000)	(35,000)	(40,000)
FCFE	(39,795)	(7,593)	(8,153)	(82,377)	25,750	12,944	18,319	20,471

Source: Company, Nirmal Bang Institutional Equities Research

Consolidated business - Our forecasts and assumptions

Turnaround in business is likely to lead in recovery of margins and reduction in net debt. However, based on global commentary (production targets by global OEMs have been slashed due to this crisis); sustained shortages will delay deleveraging efforts and weaken its position in the global electrification race.

Exhibit 82: Key operating parameters for the consolidated business

Particulars (Rs mn)	FY17	FY18	FY19	FY20	FY21	FY22E	FY23E	FY24E
Revenues								
Standalone	443,163	578,965	692,028	439,282	470,315	607,021	749,156	828,589
JLR	2,163,888	2,248,311	2,235,136	2,080,400	1,938,227	2,135,604	2,486,254	2,724,721
Others	89,874	88,229	92,221	90,998	89,406	141,450	154,329	166,047
Consolidated revenues	2,696,925	2,915,505	3,019,384	2,610,680	2,497,948	2,884,075	3,389,738	3,719,357
Growth YoY (%)	-	8.1	3.6	(13.5)	(4.3)	15.5	17.5	9.7
EBITDA								
Standalone	13,577	23,907	51,548	-4,122	14,942	32,972	57,869	69,212
JLR	297,676	276,659	181,975	174,021	250,798	264,617	365,932	414,204
Others	23,735	2,158	22,180	27,359	39,812	48,141	52,735	58,343
Consolidated	334,988	302,724	255,702	197,258	305,553	345,730	476,537	541,758
Growth YoY (%)	-	(9.6)	(15.5)	(22.9)	54.9	13.1	37.8	13.7
EBITDA margin (%)								
Standalone	3.1	4.1	7.4	(0.9)	3.2	5.4	7.7	8.4
JLR	13.8	12.3	8.1	8.4	12.9	12.4	14.7	15.2
Consolidated	12.4	10.4	8.5	7.6	12.2	12.0	14.1	14.6
Consolidated EPS	27.7	20.0	(5.4)	(20.7)	(3.7)	6.4	29.5	39.0
Auto net debt/ (cash)								
Standalone	165,930	161,510	156,580	208,830	155,420	145,571	127,252	106,780
JLR	(167,770)	(80,798)	63,098	148,592	132,620	162,351	74,910	(71,908)
Consol net auto debt	74,010	138,890	283,910	482,820	408,760	425,547	319,786	152,497
Consol net debt/equity	0.7	0.6	1.5	1.3	1.6	1.5	1.1	0.6

Source: Company, Nirmal Bang Institutional Equities Research

Company management

Name	Designation
Mr. Natarajan Chandrasekarn	Non-Executive Director and Chairman
Mr. P B Balaji	Group CFO
Mr. Thierry Ballore	JLR CEO
Mr. Girish Wagh	Executive Director
Mr. Shailesh Chandra	President, Passenger Vehicle Business Unit

Source: Company, Nirmal Bang Institutional Equities Research

Financials

Exhibit 83: Income statement

Y/E March (Rsmn)	FY20	FY21	FY22E	FY23E	FY24E
Net Sales	2,610,680	2,497,948	2,884,075	3,389,738	3,719,357
% Growth	(13.5)	(4.3)	15.5	17.5	9.7
Raw material	1,671,310	1,582,915	1,819,926	2,125,587	2,324,620
Gross margin (%)	36.0	36.6	36.9	37.3	37.5
Staff costs	304,386	276,485	324,694	310,603	313,280
Other expenses	437,726	332,995	393,725	477,010	539,700
Total expenses	2,413,422	2,192,395	2,538,344	2,913,201	3,177,599
EBITDA	197,258	305,553	345,730	476,537	541,758
% Growth	(22.9)	54.9	13.1	37.8	13.7
EBITDA margin (%)	7.6	12.2	12.0	14.1	14.6
Other income	29,732	26,432	25,000	28,000	30,000
Interest costs	72,433	80,972	81,360	81,187	76,419
Depreciation	214,254	235,467	250,630	267,730	289,955
Profit before tax (before exceptional items)	(59,698)	15,546	38,741	155,620	205,384
Exceptional items	(46,102)	(120,289)	1,400	-	-
Tax	3,953	25,419	11,021	40,277	53,560
Minority interest/Associate income	(10,956)	(4,353)	(3,063)	(2,563)	(2,563)
Reported PAT	(120,708)	(134,514)	26,057	112,780	149,261
Adj PAT	(74,607)	(14,225)	24,657	112,780	149,261
% Growth	306.9	(80.9)	(273.3)	357.4	32.3
Adj PAT margin (%)	(2.9)	(0.6)	0.9	3.3	4.0
EPS (Rs)	(20.7)	(3.7)	6.4	29.5	39.0
% Growth	NM	NM	NM	357.4	32.3
DPS (Rs)	0.0	0.0	0.0	0.0	0.0
Payout (incl. div. tax) (%)	0.0	0.0	0.0	0.0	0.0

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 85: Balance sheet

Y/E March (Rsmn)	FY20	FY21	FY22E	FY23E	FY24E
Share capital	7,195	7,658	7,658	7,658	7,658
Reserves	623,590	544,809	569,466	682,246	831,508
Net worth	630,785	552,467	577,124	689,905	839,166
Minority interest	8,136	15,735	16,298	16,861	17,424
Total debt	1,188,105	1,359,045	1,376,568	1,350,196	1,229,224
Deferred tax liability	19,419	15,559	15,559	15,559	15,559
Capital employed	1,846,445	1,942,806	1,985,549	2,072,520	2,101,373
Gross block	2,625,169	3,042,436	3,264,436	3,494,436	3,728,236
Depreciation	1,416,851	1,720,266	1,970,896	2,238,626	2,528,581
Net block	1,208,318	1,322,170	1,293,540	1,255,810	1,199,655
Capital work-in-progress	356,223	209,639	209,639	209,639	209,639
Investments	163,085	248,384	248,384	248,384	248,384
Inventories	374,569	360,886	373,957	436,765	445,817
Debtors	111,727	126,791	142,228	167,165	163,040
Cash	337,270	467,925	517,360	617,987	689,070
Loans & advances	421,332	487,572	493,848	554,096	609,038
Other current assets	248,690	207,892	207,892	207,892	207,892
Total current assets	1,493,587	1,651,065	1,735,285	1,983,904	2,114,858
Current liabilities & provisions	1,374,768	1,488,452	1,501,299	1,625,217	1,671,163
Total current liabilities	1,374,768	1,488,452	1,501,299	1,625,217	1,671,163
Net current assets	118,819	162,613	233,986	358,687	443,695
Application of funds	1,846,445	1,942,806	1,985,549	2,072,520	2,101,373

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 84: Cash flow

Y/E March (Rsmn)	FY20	FY21	FY22E	FY23E	FY24E
Profit before tax	(111,847)	(83,114)	35,678	153,057	202,821
Depreciation & amortization	214,254	235,467	250,630	267,730	289,955
(Inc.)/dec. in working capital	50,654	(926)	(21,938)	(24,074)	(13,924)
Direct taxes paid	(3,953)	(25,419)	(11,021)	(40,277)	(53,560)
Others	117,221	163,996	81,923	81,750	76,982
Cash flow from operations (after E/O)	266,329	290,005	335,272	438,187	502,275
Capital expenditure (-)	(295,306)	(198,548)	(222,000)	(230,000)	(233,800)
Net cash after capex	(28,976)	91,457	113,272	208,187	268,475
Other investing activities	(46,397)	(62,714)	0	0	0
Dividends paid (-)	(568)	(303)	0	0	0
Inc./(dec.) in total borrowings	84,438	169,320	17,523	(26,372)	(120,972)
Share issuance	38,888	26,025	(0)	(0)	0
Others	(88,862)	(96,000)	(81,360)	(81,187)	(76,419)
Cash from financial activities	33,896	99,042	(63,837)	(107,559)	(197,391)
Opening cash balance	368,190	335,603	467,925	517,360	617,987
Closing cash balance	337,270	467,925	517,360	617,987	689,070
Change in cash balance	(30,920)	132,322	49,435	100,627	71,084

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 86: Key ratios

Y/E March	FY20	FY21	FY22E	FY23E	FY24E
Per share (Rs)					
EPS	(20.7)	(3.7)	6.4	29.5	39.0
EPS Growth (%)	284.1	-82.1	-273.3	357.4	32.3
Cash EPS	38.8	57.8	71.9	99.4	114.7
Book value per share	173.2	142.2	148.6	178.1	217.1
DPS	-	-	-	-	-
Payout (incl. div. tax) %	-	-	-	-	-
Valuation (x)					
P/E	(14.1)	(78.9)	45.5	9.9	7.5
Cash P/E	7.5	5.1	4.1	2.9	2.6
EV/Sales	0.8	0.8	0.7	0.6	0.5
EV/EBITDA	10.3	6.6	5.9	4.3	3.7
P/BV	1.7	2.1	2.0	1.6	1.3
Dividend yield (%)	-	-	-	-	-
Return ratios (%)					
RoCE	(0.7)	2.6	3.4	7.3	8.6
RoE	(12.1)	(2.4)	4.4	17.8	19.5
Profitability ratios (%)					
EBITDA margin	7.6	12.2	12.0	14.1	14.6
PAT margin	(2.9)	(0.6)	0.9	3.3	4.0
Turnover ratios					
Debtors (days)	16	19	18	18	16
Inventory (days)	82	83	75	75	70
Creditors (days)	192	217	190	175	164
Asset turnover (x)	0.7	0.8	0.7	0.6	0.6
Leverage Ratio					
Debt/equity (x)	1.9	2.5	2.4	2.0	1.5
Net Debt/equity (x)	1.3	1.6	1.5	1.1	0.6
Net Debt/Ebitda (x)	4.3	2.9	2.5	1.5	1.0

Source: Company, Nirmal Bang Institutional Equities Research

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