TATA MOTORS LIMITED

The Leading Automobile Manufacturer

Tata Motors Limited ("TML" or "the Company"), part of the $1,00,000 million Tata Group founded by Jamsetji Tata in 1868 is a leading global automobile manufacturer, a multinational conglomerate, headquartered in Mumbai (India). The Company is involved in the manufacturing, designing, and engineering of an extensive range of cars, sports utility vehicles, trucks, buses, and defence vehicles with ideation and innovation. The Company operates in more than 125 countries across 6 continents with 18 state-of-the-art manufacturing facilities and 7 R&D units and a worldwide network comprising over more than 8,500 customer touchpoints. There are over 8.5 million Tata branded vehicles all over the world.

Tata Group was the only Indian brand to feature in the top 100 of the Brand Finance Global 500 2020- which is a ranking of world's top 500 brands. Tata Group is also the most valuable brand as per Brand Finance India Ranking 2020. The Tata Group broke the $20,000 million brand value mark for the first time in 2020, holds the title of India's most valuable brand and is also known as the Father of Indian industry.

Popular TML vehicles include:

Type of Vehicle	Car Configurations	Varieties Offered
Passenger Vehicles (PV)	Hatchbacks	GenX Nano, Tiago, etc
	Sedans	Tigor, Zest
	SUV's	Nexon, Sumo Gold, Hexa, etc
Commercial Vehicles (CV)	Small CV	Ace Range, Yodha Range, etc
	Passenger transportation	Coaches, Urban buses, Vans, etc
	Intermediate & Light CV	Ultra-Range, SFC & LP Range
	Medium and Heavy CV	Cargo Range, Construck Range
Logistics Vehicles	Defence Troop Carrier, Defence Fire Tender, Water Tankers, Tippers, Prison Vans	

The Company is India's market leader in CV and EV (Electric Vehicle) segments and among the top 4 in the PV segment.

About the Company

The Tata Group is an Indian multinational conglomerate which has been serving since 1868. It was initially started as a cotton mill by Jamsetji Tata. TML was incorporated under the name "Tata Engineering and Locomotive Company" (TELCO) in 1945. It manufactured trains under TELCO until 1954. In the mid-1950s, TML entered into CV's and manufactured its first CV in collaboration with Daimler-Benz AG and continued collaboration till 1969. This collaboration enabled the Company to have access to most of the resources that were unavailable to its competitors. This helped TML in becoming the largest CV manufacturer in India. However, it took almost 4 decades for the Company to manufacture its first PV; Tata Sierra in 1988.

Ratan Tata, the former chairman of TML is the man behind the success of the Company. During his tenure of more than 20 years until 2016, he increased the profits of TML more than 50 times and came up with the idea of Tata Nano, known to be the world's cheapest car. The Company acquired Jaguar Land Rover (JLR) for $2,300 million in June 2008 which resulted in a rapid increase in the share price of TML as the economy rebounded.

Indian Automobile Industry

- The Indian automobile industry is the 4th largest manufacturer of cars in the world as of January 2020 and 7th largest manufacturer of CV in FY19.
- The industry is expected to grow to about $2,51,400 - 2,82,800 million and the overall exports are expected to grow at a CAGR of 3.05% by FY26.
- The Indian automobile industry is cyclical in nature that performs well when the economy as a whole is performing well and vice-versa.
- This industry is an important component that contributes to the economic development of the country. Due to the COVID-19 pandemic, it faced a decline of 18% YoY in FY20. Even after the businesses started resuming with their operations, it is quite likely that the demand for PV will continue to decline. CV sales may be resilient if the government undertakes huge infrastructure projects.
- Major threats to this industry such as changing consumer behaviour and different mobility preferences might remain post-pandemic as well.
- The Government of India has set up a target of producing and selling EVs only. It expects the automobile sector to attract $8,000-$10,000 million as investment by FY23 for the same. In response to this, TML launched the Tata UniEVerse, an entire electric ecosystem, customised for the needs of electric vehicle ownership.
- Over the years, TML has grown and expanded to become the major contributor in the Indian Automobile Market.

Impact of COVID-19

In FY20, challenges faced by the automotive industry were quite significant, the industry's performance started declining much before the outbreak of the coronavirus pandemic began, due to slow down in the domestic economy.

Tata Motors

- The major difficulties that the Company has faced all across the globe include steep volume decline, a shutdown of manufacturing units, limited supply of vehicle parts, and declining working capital, resulting in negative operating leverage that impacted profitability and cash flows.

- The Indian business of TML was being adversely impacted by the economic slowdown, liquidity stress, and stock corrections due to BS-VI transition (new emission standard).
- TML, India's largest Original Equipment Manufacturer (OEM) can come out better in the post-pandemic world if it can put forth a good response to COVID-19 and take preventive measures. The Company expects to gradually recover sales and improve cashflows in the coming quarters.

Jaguar Land Rover

- The Company saw a decent recovery in China with all its dealers now resuming their operations. In April 2020, sales in China were 6,828 vehicles, down by 3.1% YoY and 8,068 in May 2020, up 4.2% YoY. The Company is also resuming its business activities in the UK.
- The Company quickly took measures to conserve cash as much as possible by implementing a temporary shutdown of its manufacturing units and has even deferred or cancelled non-critical and lower margin investments to protect liquidity.

Business Model

TML has developed a value creation business model that lays the foundation of the business, offering a wide range of products that include not just mass, transit, and industrial applications but also military vehicles, with the help of research, innovation, design, engineering, and technology in Africa, Latin America, Asia Pacific Region, Russia, and the Middle East.

The automotive companies like TML are highly dependent upon natural resources such as water, sand, and fossil fuels for the procurement of raw materials. This is because the Company's manufacturing plants include water-intensive operations such as heat treatment and painting. At the same time, there are adverse impacts on nature due to the Company's operations. The Company sources its raw materials from strategic suppliers (third party suppliers) such as the Anand Group, The Sona Group, etc. The Company raises funds through a mix of debt and equity to ensure smooth production of the end products that are made available to customers through online platforms, dealers, and showrooms. The Company has established 18 top-of-the-line manufacturing facilities and 7 R&D for designing and production of vehicles and follows a 3-month timeline for turning ideas into reality.

The Company involves understanding the customer preferences which enables them to manufacture enhanced products, with features and most importantly the after-sales customer services and experiences that delight customers.

Differentiating Strategies

1. **Inorganic Expansion:** TML has a joint venture (JV) with Fiat Group Automobiles to manufacture passenger cars, engines, and transmissions for the domestic market. It also has a JV with Cummins Inc. USA for the manufacturing and design of diesel engines. TML is also actively seeking partners to help it grow its presence. In June 2008, TML had completed the acquisition of JLR from Ford Motors. This has helped the Company in establishing a global footprint and enter the high-end premier segment of global markets.
2. **Adopting "doing more with less" philosophy:** TML introduced modular architectures to offer highly differentiated products to stay ahead in the competition. They aim to focus on fewer platforms but leverage these platforms in order to spread their wings in as many segments as possible and at the same time creating a higher degree of economies of scale. This has also resulted in less time required to market its products. The numerous launches across PV, CV, Sedans, SUV, and, EV portfolios reflect this.
3. **Building Environmental Sustainability and Climate Resilience:** The business model of TML places greater scrutiny on building environmental sustainability and climate resilience. This makes the Company future-ready to meet the demand opportunities that will arise from important shifts.

4. **Implementation of cash improvement program:** To cope during unprecedented situations, the Company has called out a cash improvement program of $819.5 million (Rs.60,000 million approximately), including a cost savings program of $204.8 million (Rs.15,000 million approximately). This is essential to streamline the cashflows.

SWOT Analysis

Strengths

1. **Diversified Product Portfolio and Wide Customer Base:** TML has a diversified product portfolio of PVs, CVs, and EVs. The Company has deployed into customer vehicles directly and much quicker than they have been able to do previously. The Company has also begun to sell directly, which will consolidate stockholding into TML and simplify operations. Alongside this, the Company is engaged in driving a rapid issue resolution process, which looks to streamline the approach and prioritize the resources to fix customer issues rapidly.
2. **Use of Pioneering Technologies:** TML is using pioneering technologies that are sustainable to develop PV. This includes the 'New Forever' range that exemplifies the IMPACT 2.0 design language across cars and utility vehicles.
3. **Manufacturing and Sale of EVs:** People are looking for EVs because of environmental concerns. EVs are gaining traction and TML is a market leader in the EV segment with them having launched the Tata UniEVerse, Tigor EV, and the Nexon EV. TML has also entered into various strategic partnerships with shared mobility solution providers. Besides, TML is supported by key Tata Group Companies to make India a global electric mobility hub.
4. **Transition to BSVI:** TML has successfully transitioned to BSVI emission norms in FY20. The Company offers one of the largest BSVI portfolios in India and has also enriched its products in terms of value, technology, features, and experience to meet customers' aspirations.

Weaknesses

1. **Lengthy product development cycles:** TML is involved in designing, manufacturing, and selling a diverse range of vehicles that require substantial investments in tangible and intangible assets such as R&D and engineering technology. Due to the complexities in performing these functions and the market challenges, the growth strategies of the Company may not materialise and the product development cycles can be lengthy.
2. **Failure to deliver products:** The COVID-19 pandemic has led to severe disruptions in the supply chain and distributors, dealers, and retailers. These disruptions were unprecedented; therefore, the Company did not have measures in place to respond to it in a strong manner which led to an adverse effect on production, volume, and profitability during this period.
3. **Not got a foothold in the luxury car segment:** TML's biggest acquisition of JLR also did not help the Company get a foothold in the luxury car segment especially in its domestic, Indian market. Another reason for this is that TML products are generally targeted for economy class rather than for luxury.

Opportunities

1. **Moving towards Global Economic Growth:** Global economic growth in emerging markets presents opportunities to increase sales. The Company is witnessing encouraging recovery in China post lockdown, as a major portion of the revenue for the Company comes from JLR's China business. The Company expects other geographies to follow the same pattern.
2. **The Process of Electrification:** Moving to electrification will offer various opportunities to TML to achieve its objectives of sustainability and provide a smarter driving experience. Even from the perspective of customers, they will prefer EVs due to advantages such as low cost, reduced maintenance, and more convenience.
3. **Managing Growth Strategy:** The overall business efficiency will provide greater opportunities for the growth of the Company. The Company can also invest continuously in its product portfolio and new technologies to stand out when compared to its competitors.

Threats

1. **Intensifying Competition and Brand Positioning:** Creating good brand positioning in itself is a great challenge, with pressures exerted by the dynamics of the automotive market and intensifying competition.
   Kia Motors unveiled its compact SUV 'Sonet' on 7th August 2020 and was launched in India during the festive season. Sonet will compete with TML's Nexon as both belong to the compact SUV segment while Daimler India CV Pvt. Ltd. has entered the used CV segment. In this way, various automobile companies in India are giving a tough competition to TML.
2. **Innovation and rapid technology change:** The Company's success depends on its ability to adapt to new technological changes and evolving automotive trends to satisfy customer demands by offering innovative and quality products and maintaining product competitiveness. Failure to adapt to technological trends will increase the risk of failure to meet the expectations of present and prospective customers that will ultimately harm sales.
3. **External challenges:** The COVID-19 pandemic has impacted the credit rating of the Tata Motors Group. This is a bad sign for the Company and will have a significant impact on the Company's reputation. Therefore, maintaining adequate liquidity is what the management of TML believes will help the Company increase its credit rating.
4. **Fluctuating Auto Industry:** The automobile industry is highly dependent on consumer behaviour. It is like a wait and watch industry that is exposed to threats due to multiple factors such as liquidity crisis and differing consumer preferences.

Michael Porter's 5 – Force Analysis

Barriers to Entry

The barrier to entry is high. This is because of the high cost of manufacturing facilities acts as a restraining factor in the automobile industry. However, TML has been responding well to all its well-established competitors. TML is also the only Indian manufacturer to completely build cars domestically; wherein it sources, refines, and manufactures the entire end product.

Bargaining Power of Buyers

The bargaining power of buyers is low. The customers have few firms to choose from and do not have much control over the prices. In addition to this, product differentiation in the industry is high, which increases the switching cost for the customers, as it reduces their chances to purchase similar products from alternative companies.

Bargaining Power of Suppliers

The bargaining power of suppliers is moderate. This is because the companies in the automobile industry procure raw materials from numerous suppliers. Some suppliers manufacture equipments, which are solely for Tata Motors. There aren't many suppliers with such customised equipments. Here the suppliers enjoy better bargaining power. However, some suppliers manufacture items that are standardised across all suppliers. Tata Motors can easily switch suppliers here and thus enjoy better bargaining power.

Rivalry among Competitors

The rivalry among competitors is high due to the presence of large, well-established, and innovative companies that are big and put in huge investments. There is intense competition in this industry and thus the companies cannot increase their prices, as they end up hampering their profit margins. This implies that none of the steps taken by the companies goes unnoticed.

Threat of Substitutes

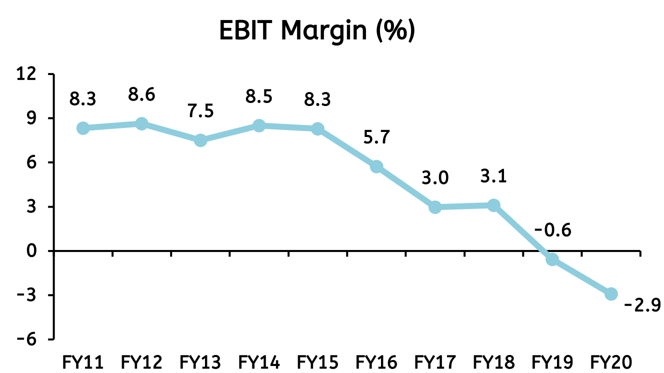
The two major substitutes of automobiles are railways and airways. Since these are not substitutes for every customer, the threat of substitutes is low as every product meets different customer needs. This means that consumers are less likely to switch to substitute products. The companies in the auto industry provide unique value propositions and follow both product and service-oriented approach.

Branding and Other Initiatives

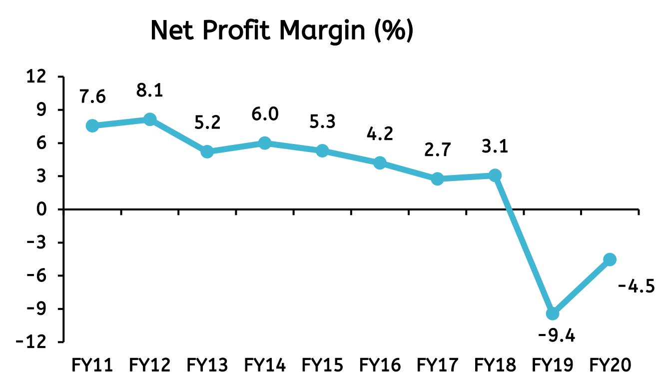
1. **Creation of a fully indigenous Connected Vehicle Platform (CVP):** This platform will be built in for all CVs, PVs, and EVs of TML to address diversified applications and consumer preferences. TML is also the first vehicle manufacturer in India to install more than 1,00,000 advanced telematics units (an embedded onboard system that controls wireless tracking, diagnostics and communication to/from the vehicles) in its CVs under the Tata Fleetman program to enhance productivity and safety.
2. **Brand Awareness Initiatives:** The Company created a $3 million gold version of Tata Nano which was the idea of Ratan Tata. Although the vehicle did not gain huge traction, it is one of TML's remarkable initiatives.
3. **Social Responsibility:** TML organised free nationwide Pollution Under Control (PUC) check-up camps and conducted more than 570 workshops across India offering free pollution check camps to all PV customers on World Environment Day 2020.
   The Company also implemented programs focusing on health, education, environment, and employability for relevant target groups. Over 8.3 lakh people benefitted from the various community programs offered by TML during FY20.
   The Company's education excellence program is working to improve schools in India.
4. **In response to COVID-19:** TML arranged masks, sanitizers, and provided information kits on precautions to be taken for safety, health, and hygiene for numerous truck drivers. The Company also provided a direct assistance program during the pandemic that benefitted 1.5 lakh people.

Financial Analysis

1. **Declining Profitability:** While analysing the EBIT Margin of TML, it can be seen that it has been falling drastically since FY18. EBIT margin stood at -2.9% in FY20 compared to +3.1% in FY18. In addition, the profit for the period also declined from Rs.2,87,240 million in FY19 to Rs.1,19,750 million in FY20 which has resulted in a negative net profit margin of 4.54% in FY20. This has been mainly due to the global economic slowdown, liquidity issues, BSVI transition, and the COVID-19 induced crisis that has led to lower disposable income in the hands of individuals, which in turn has lowered their consumption, primarily affecting the demand for luxury goods.



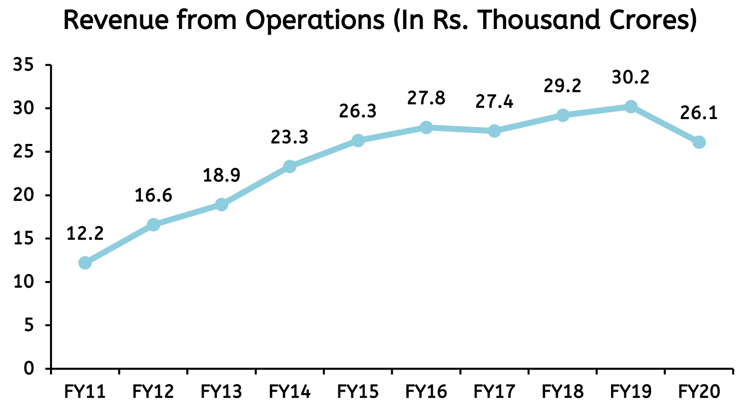
Source: Company, Leveraged Growth



Source: Company, Leveraged Growth

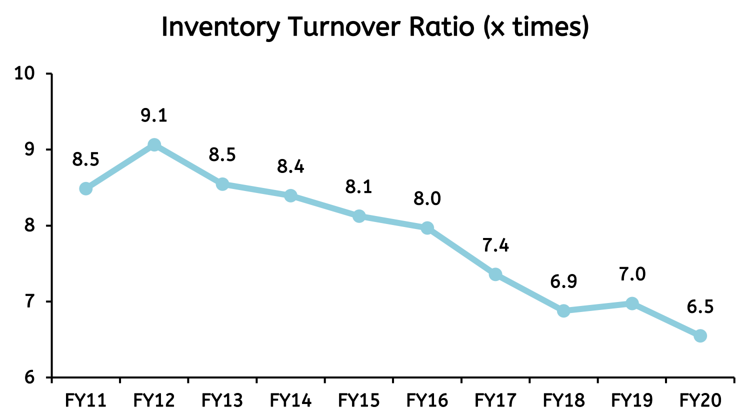
2. **Sales volume:** TML's consolidated sales volume was Rs.26.1 thousand crores in FY20, 13.5% lower than Rs.30.1 thousand crores in FY19. The decrease was mainly attributable to lower sales volume, for both, the Company and JLR due to the COVID-19 pandemic.
   In terms of the number of vehicles, Tata Motors recorded sales of 4,44,063 vehicles, a decline of 34.6% over FY19, which is higher than the Indian Auto Industry decline of 20.3%. On a YoY basis, the fall in

revenue was 27.6% in the PV segment and 37.5% in the CV segment. The Company has shifted its focus from wholesales to retail sales to improve sales volume.



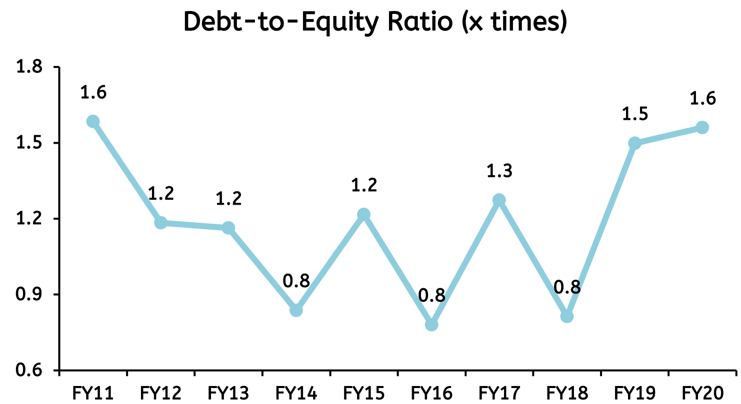
Source: Company, Leveraged Growth

3. **Inventory Turnover Ratio (ITR):** While analysing the inventory turnover ratio, one can see that it has been in a range of 6-9 between FY11 to FY20. The ITR reached the highest peak in FY12 due to some inventory corrections where the Company had to correct the old vehicle inventory at the dealers' end. However, in FY20, the ITR seems to have declined to 6.55 compared to 6.98 in FY19 since sales had almost stopped during the last few weeks of March that ended up affecting the inventories. For the automobile industry, a good ITR is between 5-10. A high ITR is a good indication for automobile companies as they have exceptionally high holding costs. Overall, it indicates that the inventory utilization efficiency of the Company is as per the industry standards and has remained largely the same with few ups and downs due to unforeseen situations.



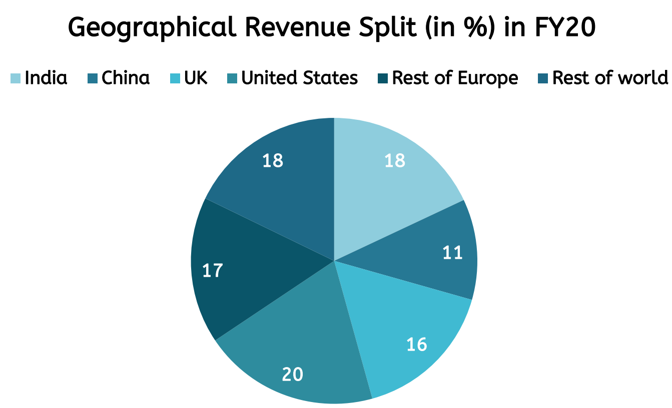
Source: Company, Leveraged Growth

4. **Debt-equity:** Over the past 10 years, the Company has tried to control its debt. However, the Company has taken excessive debts in order to drive its returns by refinancing, meeting repayment obligations, and fund its working capital requirements. TML experienced a drastic decline in the volume of sales which was the principal reason for raising a huge amount of debt in FY19 and FY20. This implies a high risk for the Company in the coming years.



Source: Company, Leveraged Growth

5. **Geographical revenue split:** TML has expanded its international footprint through exports since 1961 to 6 countries. Therefore, the Company is well-positioned to cater to ever-changing automotive norms and consumer trends across the globe. By FY24, TML is planning to completely rebuild its PV portfolio to provide customers with innovative, good fuel efficiency, and customer-centric mobility solutions. The Company also expects to create a highly engaged workforce across the globe to achieve this target.



Source: Company, Leveraged Growth

Risk Analysis

1. **Effect of Government Policies on the Automobile Industry:** The central government had mandated that all vehicle makers must manufacture, sell and register only Bharat Stage-VI (BS-VI) vehicles from April 1, 2020. As per Timothy Leverton, Chief Technology Officer at Tata Motors, the transition from BS-IV to BS-VI will involve overhauling the working dynamics of the automakers and will alter their cost structures forever. It was a huge task for TML as they use 34 different engines and 150 vehicle programmes which will now have to be fitted with the new engines and thus incurring more investments too. Tata Motors, however, claims to have the smoothest transition to BS-VI with a negligible inventory of BS-IV.
2. **Global Economic Issues:** The ongoing COVID-19 pandemic has caused a significant global economic slowdown which has exposed TML to various risks. The Company is also exposed to geopolitical environment issues such as Brexit because the Company has a major part of its operations in Europe.
3. **Environmental Regulations and Compliance:** TML is highly dependent upon natural resources for the procurement of raw materials, therefore, their production facilities and the vehicles they produce are

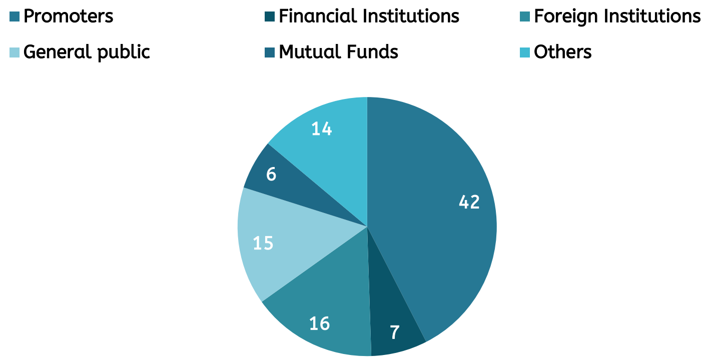
highly regulated to ensure the protection of the environment. The Company incurs significant costs to comply with the environmental, health, and safety laws applicable to them.

4. **High Dependence on Certain Markets:** The Company relies on certain key markets including, the UK, India, China, North America, and Europe from where TML earns the majority of its revenues. A drop in the demand for their vehicles or an economic tension in these key markets will significantly impair the business and its financial position.
5. **Dependence on Third Parties for sourcing Raw materials, Parts, and Components:** The availability of various components for the manufacturing of vehicles is key to achieving production schedules. To optimize market performance, the global sales and service channels of the Company must be aligned with consumer demand.
6. **Risks Associated with Development of Products:** Risks such as disruption of the manufacturing process are very commonly witnessed by automobile companies. However, the Company wants to enhance its product governance around project management and delivery to ensure that they have clarity and transparency regarding the risks associated with the development of products in the post-pandemic period.

Corporate Governance

- The Company's board consists of 6 Directors out of which 5 directors are Non-Executive Directors and 2 are women Directors. Dr. Ralf Speth is on the board of JLR who is to retire this year (FY20) after 10 years of dedicated service. The Company has a Non-Executive Chairman and 3 Independent Directors. This composition complies with the SEBI (Listing Obligations and Disclosure Requirements) regulations.
- All the independent directors of the Company have independent directorships in 7 or less than 7 listed entities and if they are whole-time Directors/managing Directors in any listed entity, then they do not serve as independent directors in more than 3 listed companies.
- There are no family members forming part of the Board.
- The committees of the Board of Directors include statutory committees namely; the Audit Committee, the Nomination and the Remuneration Committee, the CSR committee, the Stakeholders' Relationship Committee, and the Risk Committee and non-statutory committee namely; Safety, Health, and Sustainability Committee.
- As per Regulation 26 of the SEBI Listing Regulations, none of the Directors are members in more than 10 committees or act as chairperson of more than 5 committees.
- TML adheres to the guidelines laid down by Tata Motor's policies known as Tata Business Excellence Model in all the geographies across the globe which enables a unified approach to their business operations. The policies are related to; safety and health, environment, quality, sustainability, whistleblower policy, and so on.
- An Extraordinary General Meeting (EGM) was convened during the FY20, for issuance of Ordinary Shares and Warrants to Tata Sons Private Limited, Promoter of the Company, on a preferential basis. The Company has delivered a strong turnaround both in TML and JLR but the near-term demand fluctuation due to the current pandemic has led the Board to raise the equity through a preferential allotment with a combination of shares and warrants.
- As of June 2020, the promoters had total holdings of 42.39% and have pledged 3.95%.

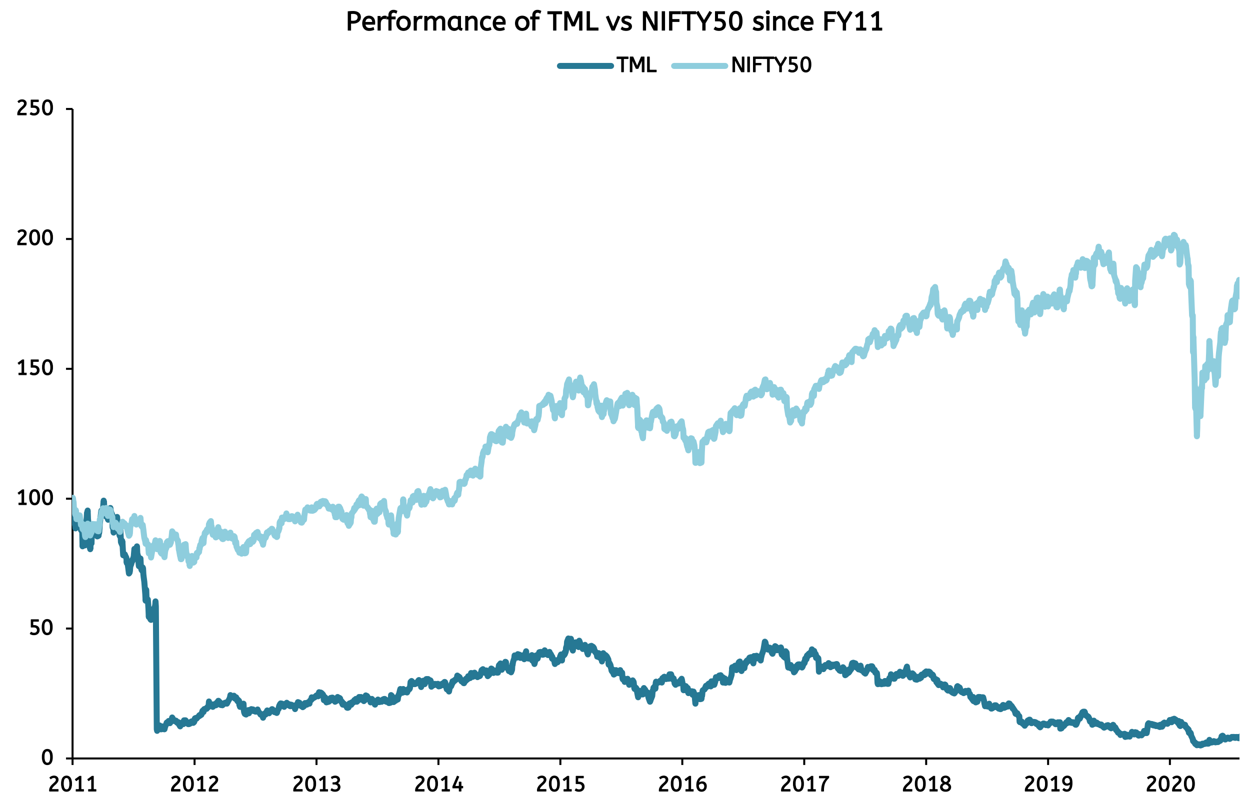
Shareholding Pattern (in %) of TML as of June 2020



Source: Company, Leveraged Growth

The End-Note

- The Company's performance is expected to be significantly weaker in both JLR and TML and the outlook on the demand front remains uncertain as the full impact of lockdowns is being reflected in the financial results. However, the Company is looking forward to deleveraging and becoming sustainably cash positive from FY21 while becoming future-ready and expects to end the FY21 with positive free cash flows. The Company also looks forward to taking the best advantage of the acquisition with JLR to become sustainably cash positive from FY22. Therefore, a gradual improvement is anticipated once the economy starts healing.
- Down the road, as the economy will continue to open up, if the inventories continue to accumulate then that would be a clear sign for TML that there is a demand deficiency problem. At that time, the use of effective marketing techniques would be very useful.
- The Company should put more emphasis on developing COVID-19 sensitive strategies to ensure continuous growth. One such strategy is diversification of sources of funds by the Tata Motors Finance.
- The Company will continue to focus on retail in both CV and PV, cost reductions, and ensure positive cash flows going forward by keeping the ecosystem viable. Another aim is to work closely with the banks and Non-Banking Financial Companies (NBFCs) to start addressing the liquidity stress across the value chain in clever manners which do not increase risks.
- On the product side, the Company's future goals aim at quality engineering for a better outcome and to allocate its engineering and designing efforts on critical core systems of a vehicle that will reduce technical risks and product complexities in the market post-COVID-19. The management also believes that this will help gain more time for the validation of vehicles and performance demonstrations in the prelaunch phase.
- In Q2FY20, the Company lowered operating costs, D&A, and maintained favourable Foreign Exchange (FX) for the first time in a long time and were nearly breakeven in this quarter.
- The Company has focused on executing a senior leadership led a comprehensive Business Continuity Plan (BCP) to manage an effective restart and ensure the early revival of its business ecosystem. The Company has also resumed operations at all the plants after taking the requisite precautions.



Source: NSE, Leveraged Growth

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