TATA MOTORS

Tata Passenger Vehicles

Spectacular sales validates our product and segment innovation strategy

This year was marked by several headwinds including COVID-19, semi-conductor crisis and commodity inflation. Despite the multiple challenges, we set several new records for the Passenger Vehicles business. Focused actions to improve comprehensiveness of our portfolio driven by New Forever philosophy, expeditious ramping up of capacities, micromarket actions, strong network management to improve reach and profitability, and thrust on significantly improving customer experience led us to post highest ever annual sales and establish ourselves as a formidable player amongst the top 3 in the industry with a double digit market share of 12.1%.

Financial Metrics

Sales volume
(in units)

67.1% y-o-y growth

FY22	**3,72,157**
FY21	2,22,638
FY20	1,37,924

Revenue
(₹ crore)

89.8% y-o-y growth

FY22	**31,515**
FY21	16,606
FY20	10,482

EBITDA
(%)

330 bps improvement

FY22	**5.3**
FY21	2.0
FY20	(10.6)

EBIT
(%)

750 bps improvement

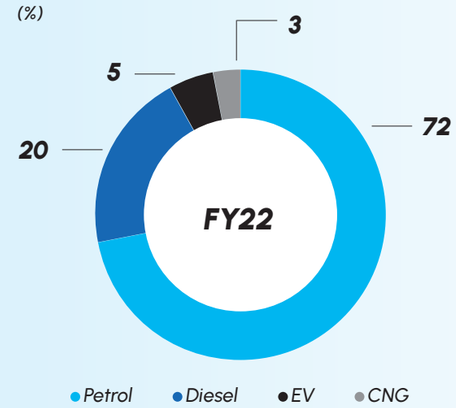
FY22	**(2.0)**
FY21	(9.5)
FY20	(27.2)

Market share
(%)

390 bps improvement

FY22	**12.1**
FY21	8.2
FY20	4.8

Powertrain mix
(%)



Operational highlights

3 CARS

4 SUVs

Vehicle portfolio

11.3% Percentage share of consolidated revenues

Reviewing FY22

PV business delivered a consistent and strong performance leading to the highest quarterly and annual sales in Tata Motors' history. The business witnessed strong revenues of ₹31,515 crore in FY22 (+ 90% y-o-y as compared to ₹16,606 crore in FY21. Robust demand for New Forever range and agile actions taken on the supply side drove volumes growth. Strong profitability was driven by improved product mix, improved realisations, and operating leverage owing to higher volumes. While increase in commodity prices impacted margins, price hikes taken, in line with the PV industry, mitigated the impact to some extent. Profitability improved significantly with positive EBIT achieved in Q4 FY22 and strong 750 bps EBIT improvement for FY22. The PV business was also free cash flow positive in FY22.

Case study

iCNG technology

In order to cater to the increasing demand for both economical personal mobility as well as greener, emission friendly mobility, we launched the advanced iCNG technology for our brands – Tiago and Tigor.

The new Tiago iCNG and Tigor iCNG are powered by the Revotron 1.2L BS VI engine which produces maximum power of 73PS – the highest for any CNG car in this segment. The iCNG cars comes in with best-in-class technology and features, programmed to deliver optimum performance and seamless shifting of fuel modes from petrol to CNG and vice versa, providing a no-compromise experience for their customers. With a single advance ECU, auto switchover between fuels, direct start in CNG (segment first), faster refueling and a digital instrument cluster, the Tiago and the Tigor iCNG have been designed mindfully to provide utmost comfort and convenience to their owners.

Operating context

Challenges faced

Supply chain issues

During early stages of global COVID-19 lockdown and auto plant shutdown, automotive suppliers abruptly cut the demand forecast for electronic components. More than expected increase in demand, post relaxation of lockdown restrictions, led to shortage of semiconductors for automotive players, globally. Fire at Renesas and extreme weather conditions in Texas further deteriorated supplies. In addition, pandemic-induced lockdowns necessitated work from home arrangements which led to unprecedented increase in the demand for white goods, especially consumer electronics. Shift towards 5G technology in some parts of the world further increased the demand for semiconductors. These factors have led to a shift in capacity allocation from auto sector to consumer durable goods.

Various actions were triggered to ensure availability of semiconductors with set of intermediate and systemic actions.

Immediate mitigation actions:

- Pursue and ensure fair allocation of semiconductors.
- Firm schedules for 12 months on monthly rolling basis – for chip manufacturer projections provided for 24 months
- Open market sourcing/spot buying
- Alternate architecture development to optimise the usage of critical chips by redesigning

Medium long-term mitigation actions:

- Leveraging analytics identify of potential supply risk and proactive mitigations
- Alternate/dual sourcing strategy under work
- Create and build buffer stocks for other critical aggregates

While our Passenger Vehicles business was impacted as a result of semiconductor shortage, prompt actions enabled us to manage the crisis better and despite these challenges, we were able to grow our volumes by 67% in FY22, against industry average increase of 13%.

Operational Risk

Capitals Impacted:

Challenges faced

Commodity inflation

Prices of commodity items such as steel, nonferrous metals, precious metals, rubber and petroleum products have generally risen in the recent years and more sharply in the recent past due to recent geopolitical conflicts. They may continue to rise significantly over the near term and in the future.

Resolution

We have been running a structured cost reduction journey for past few years to improve profitability and mitigate the risk of commodity price inflation. In FY22, we have completed highest ever 1200+ VAVE idea generation workshops with engagement of 1300+ participants across the organisation and implemented 630 cost reduction projects. The commercial teams leveraged the volume growth and achieved highest ever cost reduction accrual. The Value Analysis and Value Engineering (VAVE) efforts were rejuvenated through VAVE 2.0 approach, diving into finding new opportunities through system level interface, product attribute and cost balancing and decision making framework for long-term structural cost improvements. The new opportunities will help in the cost reduction journey forward.

Operational Risk

Capitals Impacted:

Capitals

Financial | Manufactured | Intellectual | Human | Social and relationship | Natural

Case study

#1 SUV in India

Globally, and even in India, there has been an increase in trend towards SUVs. SUVs have become ideal choice for consumers because of

Higher ground clearance required for bad/not so good road conditions

Ability to better navigate unexpected heavy rains and water logging

More interior space preferred by families for enjoyable group journeys

Accessible price points and newer sub-segments Example, Punch Sub-Compact SUV now starts at ₹5.65 Lacs

Design of SUVs has also evolved ; thus, making it even more **aspirational, convenient, and easier to drive and own**.

One of the key aspects of PV turnaround strategy was catering to the evolving demand of SUVs. From being a modest player in SUV segment, we have stepped up the game and emerged as #1 SUV player in a short time span.

We started off this journey with our flagship product Nexon. Strong and safe SUV brand, Nexon is the first GNCAP 5-star rated car in India, appreciated for its striking design, superior ride quality and handling characteristics, spirited performance and comfort. From modest start of 4,000 units monthly sale on average, volumes have since increased and now over 10,000 Nexon vehicles are sold each month in FY22, and it has become the highest selling SUV in India

Harrier and Safari together, for the first time in the market, have brought in the legendary pedigree and advanced vehicle architecture of Land Rover, offering an unparalleled experience to our customers. Harrier and Safari together command a market share of 35.8% of the High SUV segment in FY22. Punch, an entry level SUV launched this year has gained strong demand with on average 10,000 vehicles sold each month since beginning.

SUVs accounted for a modest 26% of total passenger vehicle sales in FY18, since then this has been ever increasing with its share touching 61% in FY22. Average monthly sales of SUVs increased from ~10,000 vehicles in Q1 FY22 to ~28,000 vehicles in Q4 FY22.

Strategic Review

Win Sustainably in PV

Reimagining front end 2.0

The strategy to enhance sales through targeting micro-markets has worked well. We registered 99% sales improvement in 22 micro-markets in FY22 as compared to FY21. On overall level, we registered 74% growth pan India.

We added 277 sales outlets in FY22 to increase sales with 1183 sales outlets at the end the year. 100% of our dealers are now profitable vis-à-vis 12% in FY20. We also expanded our service network, adding 100 workshops in FY22, taking total service touchpoints to 705. With continued thrust on customer service improvement, our NPS improved to 35 in FY22 from 30 in FY21.

The "Reimagine PV" strategy to rejuvenate front-end sales and the retailer network as well as customer engagement, has delivered excellent results. We launched Reimagining front end 2.0 with milestones to further strengthen front-end activities.

Sales enhancement

We continued the thrust on sales enhancement and identified high TIV urban micro-markets and rural areas through nuanced actions. In addition, we will strengthen Tata Motors Assured Business to increase presence in used car business.

Network

We will continue to expand sales and service network across India to improve reach and to ensure strong presence in high TIV markets. In addition, we will upgrade entire network as per "New Retail Identity" to provide uniform experience to consumers across the country.

Customer experience

We will continue to enhance sales and service processes, adopt new technology and digital means and strengthen customer experience organisation to provide delightful sales and service experience to our consumers.

Manufacturing

We significantly ramped up our capacities and took actions to mitigate supply side challenges. Our volumes grew by 67%, as compared to industry growth of 13%, despite being affected by semiconductor shortages. Average monthly sales increased from 28,000 vehicles in Q4 FY21 to 41,000 vehicles in Q4 FY22.

We will further focus on capacity enhancement to unlock future growth potential by debottlenecking existing facilities, improving asset utilisation and enhancing capacity to cater to ever-increasing demand.

Product portfolio strategy

We significantly stepped up product launches in FY22.

We launched Tata Punch in October 2021, an entry-level SUV with GNCAP 5-star adult safety rating. The Punch reinforces the four core pillars that define all Tata SUVs- stunning design, versatile and engaging performance, roomy and spacious interiors, and absolute safety. Since its launch, Tata Punch has recorded average volumes of 10,000 per month.

Rising fuel prices coupled with preference for green mobility has led to significant demand in CNG vehicles. Addressing this key market, we introduced advanced iCNG technology in Tiago and Tigor. The CNG variants have strong demand and penetration was around 9% of our portfolio in Q4 FY22. CNG penetration in Tiago and Tigor stands at 46% in Q4 FY22.

Other exciting variants launched include Altroz DCA, Kaziranga Edition of SUVs, #Darkrange of SUVs, Tiago NRG, and Safari Gold.

We will maintain the current portfolio, invest for improving competitiveness and comprehensiveness and introduce differentiated offering within key growth segments in phased manner.

Financial health

On the back of strong volumes recovery, positive product mix, tight control on fixed cost and VME, and exponential growth in non-vernacular business, Passenger Vehicles business recorded positive EBIT margin in Q4 FY22 and strong 750 bps improvement in EBIT margins in FY22, well ahead of our targets. In addition, the business also became free cash flow positive in FY22.

We will further step-up the investments to cater to ever increasing demand and continue focus on new products and technologies. We will continue to maintain fiscal prudence and drive a self-sustaining business. We will also ensure ecosystem viability by monitoring and taking necessary actions wherever necessary for ensuring dealer and supplier financial health.

Outlook

In Passenger Vehicles, the Company will continue to drive strong sales performance whilst improving profitability and managing supply bottlenecks. The business is expected to deliver strong improvement in margins and profitability in FY23. The business will continue to step-up new product launches and enhance capacities to cater to increasing demand. Despite significant step-up in investments, the PV business is expected to remain self-sustaining.