



## Buy, Hold or Sell? - An Investors Dilemma

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### Abstract:

Mr. Chandru, a non-financial investor, holds a portfolio of equity stocks for long-term investment, allocating a significant portion to Tata Motors due to its potential in the electric vehicle (EV) market. The stock market responded positively to Tata Motors' news that it will be demerging its passenger vehicle (PV) and commercial vehicle (CV) business. Even though Chandru is not very knowledgeable about finance, he still wants to know how the demerger will affect his investment. Important financial indicators show that the PV and CV segments are trending positively, with significant market shares and expected sales growth. Chandru uses technical analysis, using techniques such as candlestick charts to forecast a estimated target price for Tata Motors' shares. However, he remains uncertain about increasing, holding, or selling his existing Tata Motors stock, especially considering the entitlement ratio post-demerger. In search of expert guidance, Chandru approaches a financial advisor, who takes a fee depending on the market value of his Tata Motors investment. The analysis also considers the stock's intrinsic value, incorporating risk factors such as beta, risk-free rate, and equity risk premium.

**Keywords:** Tata Motors, Demerger, PV and CV, Intrinsic value, Risk Free Rate.

Mr. Chandru (25) has been investing in stock market for the past three years and has a portfolio of equity stocks. His investment was for the long term from 5- 10 years. One of the stocks that he had invested in Tata Motors has announced a demerger of its Passenger vehicle (PV) including EV segment and LR (Land Rover) and CV vehicle sector and the company has also told that investors will hold identical shares in both the segments post demerger. As it has already been run by separate CEO's Tata motors feels that the demerger might having in more opportunities for the PV & CV separately. The stock market's reaction was quite positive for the demerger and the stock soared 7.60% on the day of the announcement. Now Mr. Chandru is a non-financial person who doesn't have great knowledge in finance. He is working in a firm earning RS.25000 out of which he spends around Rs.5000 every month for equity investment. He is risk averse and hope to get moderate long-term return.

Chandru couldn't understand what the demerger means to the company or his investment in the long run. But having invested Rs.5000 in Tata motors (Which is a huge amount for him), he wanted to know more about it. He started investing in Tata motors because of its Electric Vehicle (EV) push and investment in that sector. Now with the demerger the EV segment will only belong to PV sector and not in the CV sector.

To understand the situation better Chandru started reading more about the demerger and the performance of CV and PV and got the following information:

**Table 1: Performance of TATA MOTORS for the last four years**

Particulars	2023	2022	2021	2020
Revenue	66578.27	47923.59	30595.02	45311.22
Total expenses	65040.65	49647.05	32562.19	49927.64
Net profit	1254.8	-1640.05	-2274.72	-7127.34

Source: Compiled by the author[1]

### Share Price of Tata Motors for the Last Five Years:



Source: Courtesy from Trading view[2]

Chandru discovered through analyzing Tata Motors' performance that the company had been using the cash flow from the CV segment to finance the PV section, with the CV segment outperforming PV for more than five years. Tata Motors' PV business has only recently begun to grow, particularly in the wake of the EV investment. Currently, PV makes up only 29% of Tata Motors' revenue, compared to 71% for PV. After reading more, Chandru discovered that TATA Motors' market shares for passenger cars and commercial vehicles, respectively, were approximately 13.5 percent and 39%.

**The performance of PV was**

- Q4 revenue at ₹ 12.1KCr, (+15.3%), EBITDA 7.3% , EBIT 1.4% , PBT ₹ 0.2 K Cr.
- FY23 revenue at ₹ 47.9KCr, , EBITDA 6.4%, EBIT 1.0% (+300 bps), PBT ₹ 0.7 K Cr.

**The performance of CV was**

- Q4 revenue at ₹ 21.2KCr, (+14.6%), EBITDA 10.1% (+420 bps), EBIT 8.6% (+520 bps), PBT ₹ 1.7 K Cr.
- FY23 revenue at ₹ 70.8KCr, (+35.4%), EBITDA 7.4% (+370 bps), EBIT 5.2% (+480 bps), PBT ₹ 3.2 K Cr. [3]

On further reading into the analyst's opinion on PV and CV sector of Tata Motors, Chandru found that majority of the analysts are overly positive about the PV segment and believed that it could reach one among the top three players in the segment post demerger along with Hyundai while CV segment will have a tough competition with the monopoly player Ashok Leyland.

A snapshot of the post-demerger valuation of share prices of the separate segment by the analyst is given below:

**Expected sales:**

Passenger Vehicle 2023 expected sales is 5% and 2024 expected sale will be 10%

Tata Motors on Thursday announced total sales of 86,125 units in January 2024, a 12 per cent year-on-year growth in passenger vehicles, and 2 per cent growth in commercial vehicle sales.

Chandru's Technical analysis of the Tata motors stocks prediction price by using candlestick chart in that analyze the trend whether and apply the support & resistance and Fibonacci tools, from it will reach 1081.45 for the long-term return [4].

Despite having all these details Chandru is still skeptical almost on what he should decide.

He is in a dilemma whether to buy more of Tata motors stock or hold or sell the existing stock.

Though valuations are positive he is not sure if he wants to hold the same percentage of shares in both PV & CV through entitlement ratio as he expects a higher return on the PV segment in the forthcoming years compared to the CV segment.

Therefore, he approaches a financial advisor to help him with the analysis.

**Questions:**

- 1. Help Chandru understand how a company can unlock value using demerger and how demerger is going to benefit Tata motors?**
- 2.If you're Chandru's financial advisor, what would your advice him to be on his investment in Tata Motors.**
- 3. Conduct a SWOT Analysis of Tata Motors PV and CV segments separately and provide your suggestions?**

## Reference

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