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Corporate Demerger and Shareholder Value: A Financial Analysis of Tata Motors

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Abstract - *When a diversified company splits itself in two, the promise is usually the same: each half will be run more sharply and priced more fairly. This paper tests that promise on Tata Motors Limited, which separated its passenger vehicle and commercial vehicle businesses on 1 October 2025. Using consolidated statements for FY2023 to FY2025 and the first annual reports of Tata Motors Passenger Vehicles (TMPV) and Tata Motors Commercial Vehicles (TMCV) for FY2026, we compute twelve standard ratios covering liquidity, leverage, efficiency, profitability and market valuation. Before the split, operating margin rose from 2.0 per cent to 7.5 per cent and debt-equity fell from 2.55 to 0.58. After it, the two successors look very different: TMCV earned a 32.1 per cent return on investment against 2.5 per cent at TMPV, whose year was dominated by a cyber-attack at Jaguar Land Rover. The combined market value of one original share moved from Rs 660 before the split to Rs 698 on 19 October 2026, with TMCV up 61 per cent and TMPV down 30 per cent from their price discovery levels. We argue that the demerger improved transparency more than it changed underlying economics, and that a single post-split year cannot separate its effect from the shocks at Jaguar Land Rover.*

Key Words: Corporate demerger, Shareholder value, Ratio analysis, Conglomerate discount, Tata Motors, TMPV, TMCV, Jaguar Land Rover

1. INTRODUCTION

Large industrial groups tend to collect businesses that share a brand and a balance sheet but little else. For most of its history Tata Motors was one of them. A single listed company carried heavy trucks and buses, small passenger cars, electric vehicles and Jaguar Land Rover (JLR), a global luxury maker whose earnings swing with currency, tariffs and consumer demand. Analysts valuing the share had to blend all of this into one number.

On 4 March 2024 the board proposed to end that arrangement. The scheme took effect on 1 October 2025: the listed entity became Tata Motors Passenger Vehicles (TMPV), the commercial vehicle business moved to a new company, Tata Motors Commercial Vehicles (TMCV), and every shareholder received one TMCV share for each Tata Motors share held. TMCV began trading on 12 November 2025.

We ask three questions. First, how did Tata Motors perform in FY2023 to FY2025, and was it a company in strength or under strain when the split was planned? Second, how do TMPV and TMCV compare on the same twelve ratios in FY2026? Third, what happened to the market value of an original share? Our contribution is mostly one of discipline: every ratio is defined once and applied to all five company-years, and we flag each place where a reported figure would mislead if read at face value.

2. LITERATURE REVIEW

The case for separation has a long record. Hite and Owners [1] and Schipper and Smith [2] found that shareholders of firms announcing spin-offs earned positive abnormal returns around the announcement. Cusatis, Miles and Woolridge [3] showed that both parent and spun-off units kept outperforming, partly because many were later acquired. Daley, Mehrotra and Sivakumar [4] and Desai and Jain [5] tied the gains to focus splits that left each unit in a single line of business improved operating performance and produced better long-run returns, while splits that did not showed little.

On the valuation side, Lang and Stulz [6] reported that diversified firms trade at lower Tobin's q than focused ones, and Berger and Ofek [7] estimated an average discount of roughly 13 to 15 per cent against the sum of stand-alone parts. The Indian setting adds a caveat. Khanna and Palepu [8] found that affiliation with highly diversified Indian groups was associated with better performance, because groups can stand in for thin capital, labour and product markets. A demerger in India therefore cannot be assumed to create value; the answer depends on whether the internal market is still needed.

Most of this work relies on announcement-window returns for US firms. We did not find a ratio-level, side-by-side treatment of both successor companies in the Indian automotive sector within the sources available to us, which is the space this paper tries to fill.

3. DATA AND METHOD

3.1 Sources

Financial data are taken from audited consolidated statements: the FY2024 report of Tata Motors, which also carries the FY2023 comparatives, the FY2025 report, and the 2025-26 integrated annual reports of TMPV and TMCV [9]-[12]. Amounts are in Rs crore (one crore is ten million).

Event dates and share prices come from company releases and market-data sites [13], [14]; because those prices are third-party, they should be re-checked against exchange records before any further use.

3.2 The twelve ratios

We use current ratio, asset turnover, debt-equity, inventory turnover, debtors turnover, creditors turnover, net profit ratio, return on equity (ROE), return on investment (ROI), price-earnings (P/E), earnings per share (EPS) and operating margin. Debt means borrowings plus lease liabilities. ROI is profit before exceptional items and tax, plus finance costs, divided by total assets less current liabilities. Operating margin excludes other income. P/E uses the last trading-day price of the financial year over basic EPS. Year-end balances are used instead of averages, since FY2022 balance sheets were not in our data set.

3.3 Comparability adjustments

Three adjustments keep the series honest. (i) From FY2025, Tata Motors Finance is reported as a discontinued operation, so revenue is for continuing business only. We therefore compute net profit ratio and ROE on continuing profit for FY2025 and for TMPV in FY2026, and show reported total EPS separately. (ii) TMPV's FY2026 profit is stated before the Rs 82,616 crore non-cash gain booked on the demerger. (iii) TMCV's FY2025 comparative covers only 23 June 2024 to 31 March 2025 and is not used in ratios.

3.4 Propositions

Drawing on [4], [5] and [8], we use three propositions to organise the evidence. P1: the more specialised successor should show stronger returns and asset efficiency than the blended group did. P2: the successor that inherits the more volatile business should show weaker and less stable profit. P3: the combined market value of an original share should not fall after the split. None of the three is a statistical test; each marks a direction in which the numbers can lean.

4. THE DEMERGER

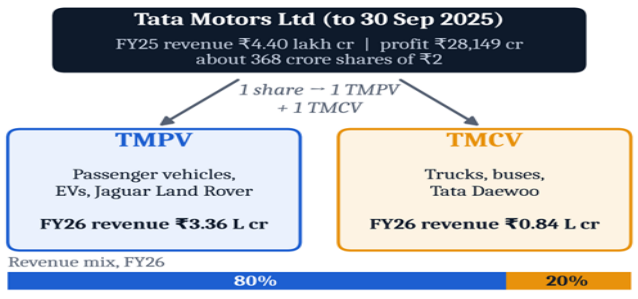

Fig -1: One share became two (1:1 scheme). Source: company reports; authors.

TMPV kept passenger vehicles, electric vehicles, JLR and a 53.4 per cent stake in Tata Technologies. TMCV took trucks, buses, Tata Daewoo, Smart City Mobility and a 4.7 per cent stake in Tata Capital. In FY2026 TMPV generated 80 per cent of combined revenue and TMCV 20 per cent. Fig -2 sets out the sequence.

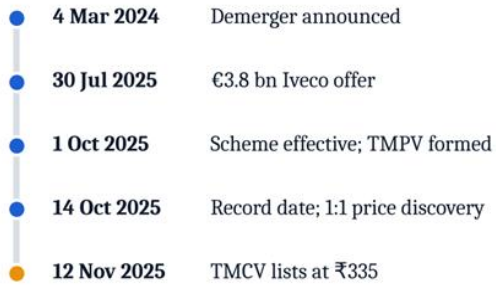

Fig -2: Demerger timeline, March 2024 to November 2025.

Four reasons were offered, and the numbers support each of them. The businesses differ in nature: commercial vehicles are a cyclical business-to-business trade, while passenger vehicles and JLR are design-led and increasingly electric. Their capital needs differ too. At the end of FY2026, capital work-in-progress plus intangibles under development stood at Rs 1.03 lakh crore for TMPV against Rs 2,026 crore for TMCV. Separate listings let each business be valued against its own peers. And separate boards can pursue their own deals: on 30 July 2025 Tata Motors announced an all-cash offer of 3.8 billion euros for Iveco Group, excluding its defence business, a move that sits naturally on the commercial vehicle side.

5. PERFORMANCE BEFORE THE SPLIT, FY2023 TO FY2025

Table -1: Twelve ratios, Tata Motors consolidated

Ratio	FY23	FY24	FY25
Current ratio	0.97	0.97	0.96
Asset turnover (x)	1.03	1.18	1.16
Debt-equity (x)	2.55	1.15	0.58
Inventory turnover (x)	5.56	5.71	5.75
Debtors' turnover (x)	22.0	25.8	33.2
Creditors turnover (x)	2.92	2.92	2.76
Net profit ratio (%)	0.78	7.26	5.29*
Return on equity (%)	5.3	37.0	19.8*
Return on investment (%)	6.6	19.8	18.6

P/E ratio (x)	66.9	12.1	8.5
EPS (Rs, reported)	6.29	81.95	78.80
Operating margin (%)	2.0	7.4	7.5

*Continuing operations. On total profit including discontinued operations the FY25 values are 6.40 per cent and 24.0 per cent. FY25 EPS on continuing operations is Rs 65.01. Source: Tata Motors reports [9]-[11]; authors' calculations.

Revenue grew from Rs 3.46 lakh crore to Rs 4.38 lakh crore in FY2024 and held at Rs 4.40 lakh crore in FY2025 (Fig -3). The more important change sits below the top line. Operating margin rose from 2.0 to 7.5 per cent while finance costs roughly halved, from Rs 10,225 crore to Rs 5,083 crore, and profit for the year climbed from Rs 2,690 crore to Rs 28,149 crore.

Table -2: Key financials, Tata Motors (Rs crore)

Item	FY23	FY24	FY25
Revenue from operations	3,45,967	4,37,928	4,39,695
EBITDA margin (%)	9.2	13.6	12.8
Finance costs	10,225	9,986	5,083
PBT before exceptional items	1,803	28,932	34,330
Profit for the year	2,690	31,807	28,149
Profit to owners	2,414	31,399	27,830
Total debt incl. leases	1,34,113	1,07,262	71,540

FY23 is the consolidated comparative in the FY24 report; FY24 is as originally reported; FY25 excludes Tata Motors Finance. EBITDA margin excludes other income. Source: [9], [10]; authors.

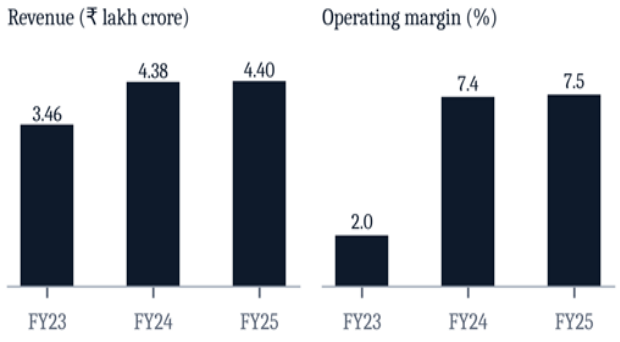

Fig -3: Revenue and operating margin, FY2023 to FY2025.

Two cautions apply. FY2024 profit contains a deferred-tax credit of Rs 8,789 crore, which flatters the 37.0 per cent ROE and the 12.1 times P/E. FY2025 profit contains Rs 4,871 crore from discontinued operations, mainly the gain on the Tata Motors Finance merger. Neither is a repeatable result of selling cars.

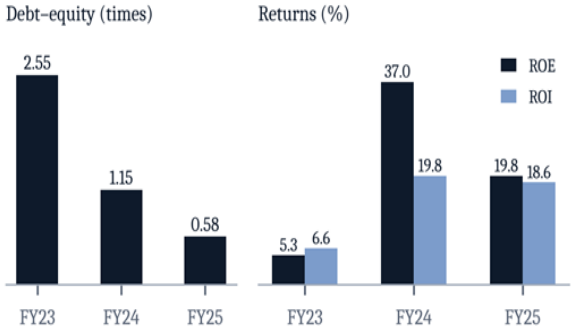

Fig -4: Debt-equity and returns, FY2023 to FY2025.

Leverage fell fast (Fig -4). Total debt including leases dropped from Rs 1.34 lakh crore to Rs 0.72 lakh crore and debt-equity from 2.55 to 0.58, helped by retained profit and, in FY2025, by Tata Motors Finance leaving the consolidation. Liquidity stayed thin: the current ratio held at 0.96 to 0.97, and creditors turnover of about 2.8 to 2.9 times implies suppliers were paid after 125 to 132 days. Efficiency improved. Asset turnover rose from 1.03 to 1.16 times, inventory days stayed near 63 to 66, and debtor days fell from 16.6 to 11.0, though part of that fall reflects the change in what revenue includes. ROI nearly tripled, from 6.6 to 18.6 per cent. On FY2025 earnings the market priced the share at 8.5 times (10.4 times on continuing EPS), a low multiple that is consistent with a market not paying for a conglomerate's blended story.

6. TMPV AND TMCV AFTER THE SPLIT

Table -3: Twelve ratios, FY2026 consolidated

Ratio	TMPV	TMCV
Current ratio	0.84	0.76
Asset turnover (x)	0.88	1.60
Debt-equity (x)	0.67	0.44
Inventory turnover (x)	4.27	10.41
Debtors' turnover (x)	26.6	30.8
Creditors turnover (x)	2.29	3.63
Net profit ratio (%)	-0.4*	3.6
Return on equity (%)	-1.5*	23.8
Return on investment (%)	2.5	32.1
P/E ratio (x)	n.m. (loss)	48.0
EPS (Rs, reported)	-0.61	8.23
Operating margin (%)	-0.3	6.8

*Continuing operations, before the Rs 82,616 crore demerger gain. TMPV EPS of -0.61 is total (continuing -4.43, discontinued +3.82). P/E at 30 March 2026 prices of Rs 296.20 (TMPV) and Rs 394.80 (TMCV). Source: TMPV and TMCV reports [11], [12]; authors.

TMCV leads on nine of the twelve ratios (Fig -5). It turns assets over 1.60 times against 0.88 at TMPV, holds inventory for 35 days against 85, and earns 32.1 per cent on investment against 2.5 per cent. It also carries less debt relative to equity (0.44 against 0.67) and ended the year with net cash of Rs 8,233 crore, while TMPV had net debt of Rs 21,684 crore. TMPV's one clear lead is the current ratio, 0.84 against 0.76. Creditors turnover is better read as a difference in style than a score: TMCV pays suppliers faster. TMPV's loss makes its P/E meaningless, and TMCV's 48.0 times says investors are paying for recovery and growth, not for trailing earnings.

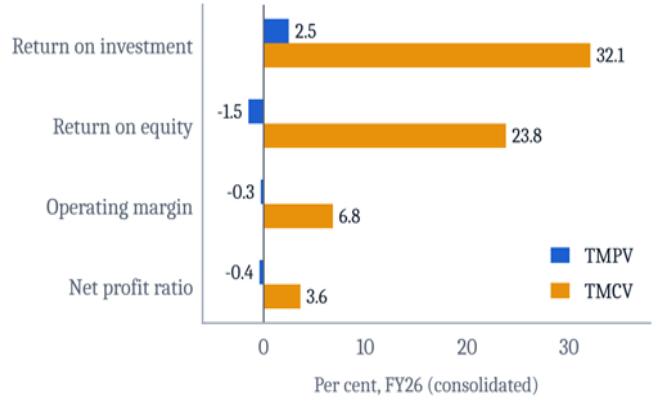

Fig -5: Profitability and returns, TMPV against TMCV, FY2026.

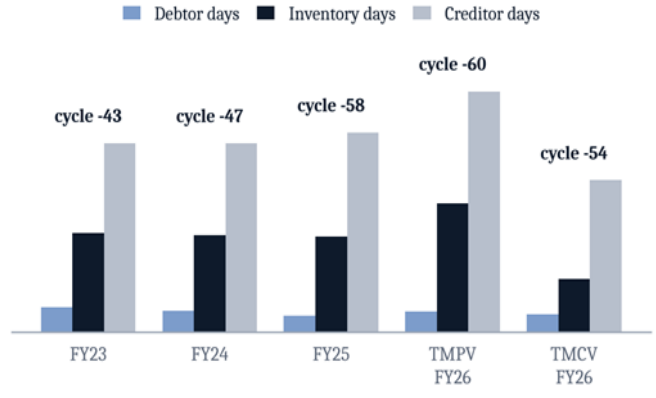

Fig -6: Working capital days (cycle = debtor + inventory - creditor days).

Working capital tells a similar story (Fig -6). For the old group the cycle was already negative, moving from about -43 days in FY2023 to -58 in FY2025, which means suppliers were financing the business. TMPV's cycle is more negative still, at about -60 days, but for a less flattering reason: it holds stock for 85 days and stretches creditors to 159. TMCV runs leaner on both sides, with 35 inventory days and 101 creditor days, for a cycle near -54. These are approximate figures, because inventory days use cost of goods and creditor days use purchases.

6.1 Reading TMPV's profit correctly

TMPV reported a profit of Rs 82,645 crore for FY2026. Rs 82,616 crore of it is the non-cash gain recording the commercial vehicle business passing to shareholders; the underlying figure is Rs 29 crore, and continuing operations alone lost Rs 1,377 crore. The operating weakness has an identifiable cause. A cyber attack on JLR in September 2025 halted production, which restarted in phases from 8 October. JLR's Q2 FY2026 revenue was 4.9 billion pounds, down 24 per cent, with a negative EBIT margin of 8.6 per cent, and its full-year guidance was cut to an EBIT margin of 0 to 2 per cent. US tariffs added pressure. TMPV also booked Rs 4,142 crore of exceptional items, and revenue fell 8.3 per cent to Rs 3.36 lakh crore. This is an operating shock, not a cost of the demerger.

TMCV needs a caveat of its own. Its 6.8 per cent operating margin is after a Rs 2,418 crore fair-value loss on investments; without that item it would be about 9.6 per cent.

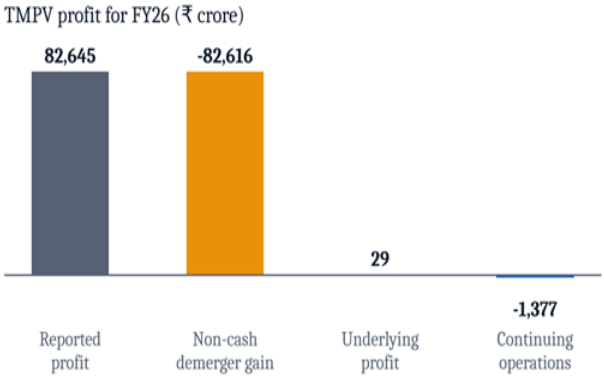

Fig -7: From reported to underlying profit at TMPV, FY2026.

6.2 Before versus after

Group debt-equity was 1.15 in FY2024; it is now 0.67 at TMPV and 0.44 at TMCV, so both successors are less geared than the old group. On profitability the picture splits. The group margin of 7.4 per cent in FY2024 hid two different businesses, and in FY2026 they show up separately: 6.8 per cent at TMCV and -0.3 per cent at TMPV. Liquidity is below one at both (0.84 and 0.76, against 0.96 for the group), but TMCV holds net cash while TMPV carries net debt. Shareholders now own both and can choose how much weight to give each.

7. IMPACT ON SHAREHOLDER VALUE

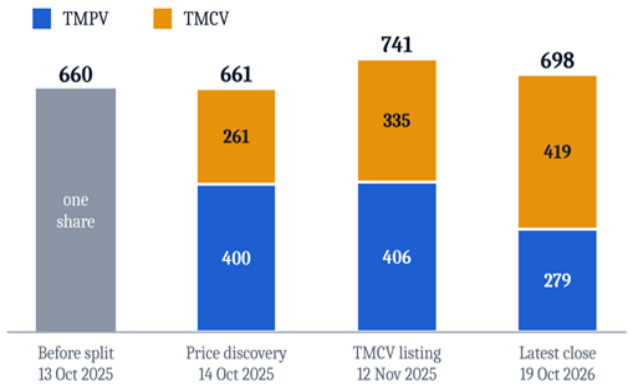

Fig -8: Value of one original share (Rs), split into TMPV and TMCV.

Fig -8 follows one original share. It closed at Rs 660 on 13 October 2025. In the 14 October price discovery session TMPV was set at Rs 400 and TMCV at Rs 260.75, together about Rs 661, so the split itself created no value on day one. When TMCV listed on 12 November at Rs 335 the pair was worth about Rs 741, which is 12.3 per cent above the pre-split close. On 19 October 2026 TMPV closed near Rs 279 and TMCV near Rs 419, giving Rs 698, still 5.8 per cent above Rs 660. With about 368 crore shares, that is a combined market capitalisation of roughly Rs 2.43 lakh crore before, Rs 2.73 lakh crore at listing and Rs 2.57 lakh crore later.

The split is uneven: against their discovery prices, TMCV is up 61 per cent and TMPV is down 30 per cent. Because the same period brought the JLR cyber attack, tariffs and general market movements, these figures describe what happened to holders, not what the demerger alone caused. We did not run an event study, so we make no claim of abnormal returns.

The mechanism behind the conglomerate discount is easy to show with invented numbers. Suppose company A earns Rs 100 crore and deserves a multiple of 12, while company B earns Rs 50 crore and deserves 30. Valued apart they are worth Rs 1,200 crore plus Rs 1,500 crore, or Rs 2,700 crore. Merged, the market might apply one blended multiple of 16 to Rs 150 crore, giving Rs 2,400 crore, an 11 per cent loss. The figures are purely illustrative, but the gap between Tata Motors' 8.5 times in FY2025 and TMCV's 48.0 times in FY2026 is the kind of dispersion a blended multiple can hide. It is consistent with the discount argument, not proof of it.

8. ADVANTAGES AND DISADVANTAGES

Table -4: Trade-offs of the demerger

Advantages	Disadvantages
Separate boards, leaders and capital plans give sharper focus	Diversification lost: car profits no longer cushion a truck downturn, or the reverse
TMCV's 32.1% ROI is no longer averaged with TMPV's 2.5%	TMPV is heavier: ROI of 2.5% and current ratio of 0.84
Each business funds its own plans: Iveco for CV, EV and JLR capex for PV	Iveco integration risk now rests wholly on TMCV
Each is judged against its own peers	Two boards, listings and reports duplicate costs (not disclosed in our data)
Shareholders keep the same stake: one TMCV share per share held	Market risk: TMPV trades 30% below its Rs 400 discovery price

Source: authors' analysis of Tables -1 and -3 and Fig -8.

9. DISCUSSION

Against our propositions, the evidence leans as follows. P1 is partly supported: TMCV's ROI of 32.1 per cent is well above the group's 18.6 per cent in FY2025, but TMPV's 2.5 per cent is far below it, so specialisation exposed a gap as well as a strength. P2 is supported: the successor that inherited JLR had the weaker year and the heavier swing in profit. P3 holds so far, since one original share is worth Rs 698 against Rs 660, although the gain is concentrated in one of the two stocks.

For investors, the practical point is that the two shares now carry different risks and should be assessed separately; a portfolio that holds both has simply recreated the old company with its own chosen weights. For managers, a demerger does not repair operations. TMPV's task is to restore JLR margins and earn a return on a very large capital programme, and TMCV's is to integrate a large acquisition without losing the discipline that produced its returns. For students of corporate finance, the case is a reminder to read reported profit with its notes in hand: a headline of Rs 82,645 crore and an underlying figure of Rs 29 crore describe the same year.

10. LIMITATIONS

The evidence covers one post-split year, and that year was distorted by the JLR attack. Closing balances rather than averages understate precision. Share prices come from third-party sources. The ratios describe performance; they do not isolate the causal effect of the demerger, which would need a longer window, peer benchmarks and an event study.

11. CONCLUSION

Before the split Tata Motors was recovering strongly, with margins up, debt down and returns rising, though thin liquidity and one-off profit items qualify that picture. After it, the two successors diverged sharply in FY2026. TMCV is lean, profitable and in net cash; TMPV is a recovery story weighed down by JLR. For shareholders, one original share is worth more than before, but the gain sits with TMCV. The practical lesson for managers is that a demerger changes transparency, not the economics of the business, and that companies should be judged on return on investment, margin and cash flow rather than on a Rs 82,645 crore headline. Future work should track FY2027, add peer benchmarks and test abnormal returns formally. This paper is an academic exercise and not investment advice.

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