IDBI capital

TVS Motor Company BUY

EV & Exports story unfolding….

Summary

TVS Q3FY22 profit increased by 8.5% YoY to Rs2.9bn which was above our estimates. The Company reported double digit EBITDA margins thrice in last four quarters which is quite commendable. Management commentary about growth prospects in the Domestic 2W market was encouraging. However aggressive plans in the EV segment with new launches and new initiatives in export markets were impressive. To factor in better margin performance by the Company, we have increased our PAT estimates by 7.1% and 9.2% for FY23 and FY24 respectively. We believe, TVS is likely to grow ahead of industry in its Domestic and its International business based on the strength and popularity of its four marque brands (Jupiter, Ntorq, Apache and Radeon). We rate the stock as BUY with revised price target of Rs732 (PER of 20xFY24E earnings + Rs 42 for TVS Credit Services).

Key Highlights and Investment Rationale

- **Double Digit EBITDA Margin:** During Q3FY22, TVS's Sales increased by 5.8% YoY to Rs57.1bn (our estimates Rs52.8bn). Increase in sales is attributed to primarily by 9.1% increase in QoQ realizations. The Company reported double digit EBITDA margins thrice in last four quarters which is quite commendable.
- **Business Outlook and Earning Revision:** Going forward, we believe, TVS is likely to outperform the industry growth on account of a) Preference towards personal mobility trend and decent monsoon fueling 2W demand in urban and rural areas b) Strength of its four marquee brands (Jupiter, Ntorq Apache and Radeon) and c) Aggressive initiatives on EV side with the success of iQube.
- **BUY:** We expect TVS to report 12.3% volume CAGR and 30.9% PAT CAGR over FY22-24E. We rate the stock as BUY with revised price target of Rs732 (PER of 20xFY24E earnings + Rs 42 for TVS Credit Services).

TP	Rs 732
CMP	**Rs 637**
Potential upside/downside	+15%
Previous Rating	BUY

Price Performance (%)

	-1m	-3m	-12m
Absolute	(0.7)	(10.1)	1.4
Rel to Sensex	2.9	(6.1)	(12.2)

V/s Consensus

EPS (Rs)	FY22E	FY23E	FY24E
IDBI Capital	20.1	28.0	34.5
Consensus	20.1	28.6	34.4
% difference	*(0.2)*	*(2.3)*	*0.2*

Key Stock Data

Bloomberg/Reuters	TVSL IN/TVSM.BO
Sector	Automobile
Shares o/s (mn)	475
Market cap. (Rs mn)	302,535
3-m daily avg Trd value (Rs mn)	76.0
52-week high / low	Rs793 / 495
Sensex / Nifty	57,621 / 17,214

Shareholding Pattern (%)

Promoters	52.3
FII	12.9
DII	23.8
Public	11.0

Financial snapshot (Rs mn)

Year	FY20	FY21	FY22E	FY23E	FY24E
Revenue	1,64,233	1,67,505	2,13,972	2,45,462	2,69,961
Change (yoy, %)	*(10)*	*2*	*28*	*15*	*10*
EBITDA	13,459	14,286	20,185	25,966	30,056
Change (yoy, %)	*(6)*	*6*	*41*	*29*	*16*
EBITDA Margin(%)	*8.2*	*8.5*	*9.4*	*10.6*	*11.1*
Adj.PAT	6,246	6,120	9,559	13,303	16,390
EPS (Rs)	13.1	12.9	20.1	28.0	34.5
Change (yoy, %)	*(7)*	*(2)*	*56*	*39*	*23*
PE(x)	48	49	32	23	18
Dividend Yield (%)	0.5	0.5	0.6	0.9	1.1
EV/EBITDA (x)	24	21	16	12	10
RoE (%)	18	16	21	24	25
RoCE (%)	16	16	23	27	30

Source: IDBI Capital Research

Concall Highlights:

- TVS reported highest ever Revenue, EBITDA and PAT in Q3FY22 with Sales volumes of 879k compared to 990k in Q3FY21 while volumes for 9MFY22 at 2453k vs. 2124k in 9MFY21.
- TVS in October2021 signed MoU with Tata power with aim of implementation of Electric Vehicle Charging Infrastructure (EVCI) across India and deploying solar power technologies.
- For the investment in Future Technologies and Electric Vehicle (EV), TVS in November 2021 signed MoU with Govt. of Tamil Nadu with investment of Rs 12bn in next 4 years.
- In December 2021, TVS and BMW Motorrad planned on expanding their long-term partnership with the joint development of new platforms and future technologies, including EV's.
- In order to accelerate electrification in Commercial mobility space, TVS in January 2022 signed MoU with Food delivery aggregator Swiggy to enable the adoption of EVs in its delivery fleet.
- On the New product launches in Q3FY22, TVS launched Marvel Spider-Man and Thor inspired scooters under the TVS NTORQ 125 SuperSquad Edition and new TVS Apache RP series.
- TVS Motor in January 2022 acquired 75% stake in the Swiss E-Mobility Group (SEMG) which is the largest pure-play e-bike retail chain in Europe. This will be opportunity for the company to scale up in Personal mobility across Scooters and e-cargo bikes outside India.
- The company is gaining traction and good customer response for its Electric iQube scooter with bookings of 6000 plus. It is currently present in 33 cities and will be scaled up across the country by end of FY22 along with foray into international markets. It is aiming for volumes of 10,000/month in FY23.
- The Management stated that there will be new launches across Electric 2W & 3W segments in next 8 quarters. The company's future strategy is to focus on electrification, scaling up in Domestic and International markets via New EV subsidiary and launching of new products in the EV space.
- The company incurred capex (incl. EV) of Rs 7.5bn as on 9MFY22. In Q3FY22, it made investments of Rs 7.5bn and Rs 6bn in January 2022. The total investments made in FY22 at Rs ~14bn.

- On TVS Credit, good performance is expected in Q4FY22 and FY23. The loan book size as on Dec-21 at Rs 128bn and expected to be around Rs 150bn by end of FY22.
- With its premium product range (~30% of Revenue), the Management expect TVS to grow ahead of the industry in Q4FY22. The 2W, 3W and Exports are expected to perform well in Q4FY22. The price hike was taken in January 2022 month.

Exhibit 1: Quarterly Snapshot

(Rs mn)	Q3FY22	Q3FY21	*YoY (%)*	Q2FY22	*QoQ (%)*
Volumes	**853,147**	**989,517**	***(13.8)***	**916,705**	***(6.9)***
Net Revenue	**57,064**	**53,914**	***5.8***	**56,194**	***1.5***
Expenditure	**51,382**	**48,803**	***5.3***	**50,565**	***1.6***
as % of sales	*90.0*	*90.5*	-	*90.0*	-
Consumption of RM	43,512	41,031	*6.0*	42,665	*2.0*
as % of sales	*76.3*	*76.1*	-	*75.9*	-
Employee Cost	2,957	2,691	*9.9*	2,957	*0.0*
as % of sales	*5.2*	*5.0*	-	*5.3*	-
Other expenditure	4,912	5,081	*(3.3)*	4,943	*(0.6)*
as % of sales	*8.6*	*9.4*	-	*8.8*	-
EBITDA	**5,683**	**5,111**	***11.2***	**5,629**	***1.0***
Depreciation	1,546	1,329	*16.3*	1,544	*0.1*
EBIT	**4,136**	**3,782**	***9.4***	**4,084**	***1.3***
Other Income	57	124	*(53.6)*	35	*64.2*
Interest	279	291	*(4.0)*	350	*(20.3)*
PBT	**3,915**	**3,615**	***8.3***	**3,769**	***3.9***
Total Tax	1,031	959	*7.6*	993	*3.9*
Adjusted PAT after MI	**2,883**	**2,656**	***8.5***	**2,776**	***3.9***
Extra ordinary items Loss/(Gain)	-	-		-	
Reported PAT	**2,883**	**2,656**	***8.5***	**2,776**	***3.9***
Adjusted EPS	**6.1**	**5.6**	***8.5***	**5.8**	***3.9***
Margins (%)			***YoY (bps)***		***QoQ (bps)***
EBIDTA	10.0	9.5	*48*	10.0	*(6)*
EBIT	7.2	7.0	*23*	7.3	*(2)*
EBT	6.9	6.7	*15*	6.7	*15*
PAT	5.1	4.9	*13*	4.9	*11*
Effective Tax rate	26.3	26.5	*(17)*	26.3	*(0)*

Source: Company Data

Exhibit 2: Actual vs. Estimates

(Rs mn)	Actual	IDBI Est	*% Variance*
Net sales	57,064	52,821	*8.0*
EBITDA	5,683	4,970	*14.3*
Margin (%)	*10.0*	*9.4*	*60bps*
Adj net income	2,883	2,602	*10.8*

Source: IDBI Capital Research

Exhibit 3: Change in estimates

		FY22E			FY23E			FY24E	
(Rs mn)	Old	New	*% Chg*	Old	New	*% Chg*	Old	New	*% Chg*
Volumes	3.41	3.37	*(1.2)*	3.91	3.87	*(1.1)*	4.29	4.25	*(1.0)*
Net Sales	1,98,648	2,13,972	*7.7*	2,27,793	2,45,462	*7.8*	2,50,285	2,69,961	*7.9*
EBITDA	18,454	20,185	*9.4*	23,785	25,966	*9.2*	26,784	30,056	*12.2*
EBITDA margin (%)	*9.3*	*9.4*	*14bps*	*10.4*	*10.6*	*14bps*	*10.7*	*11.1*	*43bps*
PAT	8,748	9,559	*9.3*	12,417	13,303	*7.1*	15,013	16,390	*9.2*

Source: IDBI Capital Research

Financial Summary

Profit & Loss Account (Rs mn)

Year-end: March	FY19	FY20	FY21	FY22E	FY23E	FY24E
Net sales	**182,099**	**164,233**	**167,505**	**213,972**	**245,462**	**269,961**
Change (yoy, %)	*20*	*(10)*	*2*	*28*	*15*	*10*
Operating expenses	(167,767)	(150,775)	(153,220)	(193,787)	(219,495)	(239,906)
EBITDA	**14,333**	**13,459**	**14,286**	**20,185**	**25,966**	**30,056**
Change (yoy, %)	*22*	*(6)*	*6*	*41*	*29*	*16*
Margin (%)	*7.9*	*8.2*	*8.5*	*9.4*	*10.6*	*11.1*
Depreciation	(3,993)	(4,890)	(4,937)	(6,247)	(6,733)	(6,954)
EBIT	**10,340**	**8,568**	**9,349**	**13,938**	**19,233**	**23,102**
Interest paid	(806)	(1,022)	(1,416)	(1,254)	(1,286)	(897)
Other income	75	321	330	139	141	386
Pre-tax profit	**9,610**	**7,544**	**8,262**	**12,823**	**18,088**	**22,591**
Tax	(2,908)	(1,622)	(2,142)	(3,263)	(4,784)	(6,201)
Effective tax rate (%)	*30.3*	*21.5*	*25.9*	*25.5*	*26.5*	*27.5*
Minority Interest	-	-	-	-	-	-
Net profit	**6,701**	**5,922**	**6,120**	**9,559**	**13,303**	**16,390**
Exceptional items	-	(323)	-	-	-	-
Adjusted net profit	**6,701**	**6,246**	**6,120**	**9,559**	**13,303**	**16,390**
Change (yoy, %)	*1*	*(7)*	*(2)*	*56*	*39*	*23*
EPS	14	13	13	20	28	34
Dividend per sh	4	3	3	4	6	7
Dividend Payout %	*30*	*32*	*33*	*20*	*20*	*20*

Balance Sheet (Rs mn)

Year-end: March	FY19	FY20	FY21	FY22E	FY23E	FY24E
Shareholders' funds	**33,473**	**36,181**	**41,710**	**49,357**	**60,000**	**73,112**
Share capital	475	475	475	475	475	475
Reserves & surplus	32,998	35,706	41,234	48,882	59,525	72,637
Total Debt	**13,779**	**20,843**	**11,590**	**15,793**	**12,293**	**7,293**
Other liabilities	2,902	1,473	1,955	1,955	1,955	1,955
Curr Liab & prov	**33,371**	**33,944**	**46,499**	**43,401**	**49,235**	**53,947**
Current liabilities	32,188	32,181	44,573	40,941	46,414	50,844
Provisions	1,183	1,763	1,925	2,460	2,821	3,103
Total liabilities	**50,053**	**56,260**	**60,044**	**61,148**	**63,483**	**63,195**
Total equity & liabilities	**83,526**	**92,441**	**101,753**	**110,505**	**123,483**	**136,307**
Net fixed assets	26,429	31,854	32,890	36,643	34,909	32,956
Investments	23,007	26,059	33,145	36,145	37,145	38,145
Other non-curr assets	-	-	-	-	-	-
Current assets	**34,090**	**34,529**	**35,718**	**37,717**	**51,428**	**65,206**
Inventories	11,759	10,389	11,518	14,823	16,804	18,408
Sundry Debtors	14,141	12,814	8,700	13,998	16,058	17,660
Cash and Bank	439	4,192	9,298	975	9,478	19,142
Loans and advances	2,915	1,698	1,457	1,862	2,136	2,349
Total assets	**83,526**	**92,441**	**101,753**	**110,505**	**123,483**	**136,307**

Cash Flow Statement

(Rs mn)

Year-end: March	FY19	FY20	FY21	FY22E	FY23E	FY24E
Pre-tax profit	9,610	7,544	8,262	12,823	18,088	22,591
Depreciation	3,993	4,890	4,937	6,247	6,733	6,954
Tax paid	(2,908)	(1,622)	(2,142)	(3,263)	(4,784)	(6,201)
Chg in working capital	(3,216)	2,943	16,472	(13,421)	627	598
Other operating activities	141	(717)	108	-	-	-
Cash flow from operations (a)	**7,619**	**13,039**	**27,638**	**2,385**	**20,664**	**23,942**
Capital expenditure	(6,014)	(10,083)	(5,600)	(10,000)	(5,000)	(5,000)
Chg in investments	(2,653)	(3,052)	(7,086)	(3,000)	(1,000)	(1,000)
Other investing activities	-	-	-	-	-	-
Cash flow from investing (b)	**(8,667)**	**(13,135)**	**(12,687)**	**(13,000)**	**(6,000)**	**(6,000)**
Equity raised/(repaid)	(48)	(1,215)	1,402	-	-	-
Debt raised/(repaid)	3,410	7,064	(9,253)	4,203	(3,500)	(5,000)
Dividend (incl. tax)	(1,984)	(2,000)	(1,994)	(1,912)	(2,661)	(3,278)
Chg in monorities	-	-	-	-	-	-
Other financing activities	-	-	-	-	-	-
Cash flow from financing (c)	**1,377**	**3,849**	**(9,845)**	**2,291**	**(6,161)**	**(8,278)**
Net chg in cash (a+b+c)	**330**	**3,753**	**5,106**	**(8,323)**	**8,504**	**9,664**

Financial Ratios

Year-end: March	FY19	FY20	FY21	FY22E	FY23E	FY24E
Book Value (Rs)	70	76	88	104	126	154
Adj EPS (Rs)	*14*	*13*	*13*	*20*	*28*	*34*
Adj EPS growth (%)	*1*	*(7)*	*(2)*	*56*	*39*	*23*
EBITDA margin (%)	*7.9*	*8.2*	*8.5*	*9.4*	*10.6*	*11.1*
Pre-tax margin (%)	*5.3*	*4.6*	*4.9*	*6.0*	*7.4*	*8.4*
Net Debt/Equity (x)	*0.4*	*0.5*	*0.1*	*0.3*	*0.0*	*-0.2*
ROCE (%)	*22*	*16*	*16*	*23*	*27*	*30*
ROE (%)	*22*	*18*	*16*	*21*	*24*	*25*
DuPont Analysis						
Asset turnover (x)	2.4	1.9	1.7	2.0	2.1	2.1
Leverage factor (x)	2.5	2.5	2.5	2.3	2.1	2.0
Net margin (%)	*3.7*	*3.8*	*3.7*	*4.5*	*5.4*	*6.1*
Working Capital & Liquidity ratio						
Inventory days	24	23	25	25	25	25
Receivable days	28	28	19	24	24	24
Payable days	64	71	98	77	77	77

Valuations

Year-end: March	FY19	FY20	FY21	FY22	FY23E	FY24E
PER (x)	45	48	49	32	23	18
Price/Book value (x)	9.0	8.4	7.3	6.1	5.0	4.1
EV/Net sales (x)	2	2	2	1	1	1
EV/EBITDA (x)	22	24	21	16	12	10
Dividend Yield (%)	*1*	*1*	*1*	*1*	*1*	*1*

Source: Company; IDBI Capital Research

Notes

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Key to Ratings Stocks:

BUY: 15%+; **HOLD:** -5% to 15%; **SELL:** -5% and below.

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