

TVS Motor Company

BUY

EV & Exports story unfolding....

Summary

TVS Q2FY22 profit increased by 41.5% YoY to Rs2.8bn which is in line with our estimates. The Company reported double digit EBITDA margins twice in last three 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 current slackness in the business environment, we have reduced our volume and PAT estimates by 0.9% and 6.8% for FY23. 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 Rs674 (PER of 20x FY24E earnings + Rs 42 for TVS Credit Services).

Key Highlights and Investment Rationale

- Double Digit EBITDA Margin:** During Q2FY22, TVS's Sales increased by 22% YoY to Rs56.2bn (our estimates Rs54.2bn). Increase in sales is attributed to 5.6% and 15.5% increase in volumes and average realizations respectively. The Company reported double digit EBITDA margins twice in three quarters which is quite commendable given the intense cost pressure. The improvement in EBITDA margin was aided by gross margin expansion and lower other expenses.
- 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 . However, to factor in near term slackness in the business outlook and higher depreciation charges, We have reduced our volume and PAT estimates by 0.9% and 6.8% for FY23 respectively and also introduced FY24 estimates
- BUY:** We expect TVS to report 12.1% volume CAGR and 34.1% PAT CAGR over FY21-24E. We rate the stock as BUY with revised price target of Rs674 (PER of 20x FY24E earnings + Rs 42 for TVS Credit Services).

TP	Rs674		
CMP	Rs577		
Potential upside / downside	+17%		
Previous Rating	BUY		

V/s Consensus

EPS (Rs)	FY22E	FY23E	FY24E
IDBI Capital	18.4	26.1	31.6
Consensus	19.9	27.8	29.9
% difference	(7.6)	(6.1)	5.8

Shareholding Pattern (%)

Promoters	52.3
FII	12.8
DII	23.5
Public	11.4

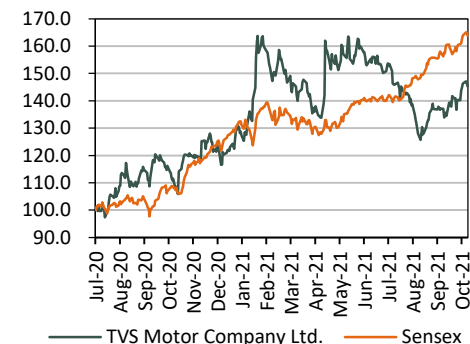
Price Performance (%)

	-1m	-3m	-12m
Absolute	8.0	(1.2)	29.3
Rel to Sensex	4.7	(17.9)	(20.4)

Key Stock Data

Bloomberg / Reuters	TVSL IN/TVSM.BO
Sector	Automobile
Shares o/s (mn)	475
Market cap. (Rs mn)	273,911
Market cap. (US\$ mn)	3,635
3-m daily avg Trd value (Rs mn)	69.9
52-week high / low	Rs666 / 407
Sensex / Nifty	60,924 / 18,178

Relative to Sensex (%)



Financial snapshot

Year	FY20	FY21	FY22E	FY23E	FY24E
Revenue	1,64,233	1,67,505	1,98,648	2,27,793	2,50,285
EBITDA	13,459	14,286	18,454	23,785	26,784
EBITDA (%)	8.2	8.5	9.3	10.4	10.7
Adj. PAT	6,246	6,120	8,748	12,417	15,013
EPS (Rs)	13.1	12.9	18.4	26.1	31.6
EPS Growth (%)	(6.8)	(2.0)	42.9	41.9	20.9
PE (x)	46.0	46.9	31.3	22.0	18.2
Dividend Yield (%)	0.6	0.6	0.8	1.1	1.4
EV/EBITDA (x)	22.6	20.3	15.6	11.6	9.9
RoE (%)	17.9	15.7	19.4	23.5	23.8
RoCE (%)	15.8	16.4	20.9	25.9	27.5

Source: IDBI Capital Research;

Concall Highlights:**■ On performance and volume growth:**

- The company in the quarter reported highest ever revenue and EBITDA despite challenges like commodity cost inflation, shortage of semiconductors and scarcity of containers for international business along with significant cost reduction initiatives undertaken
- In the domestic market, the company sold 5.99 lakhs of 2-wheeler units compared to 6.5 lakh units same quarter last year. In International market, the company sold 2.7 lakh 2-wheeler units compared 1.85 lakhs in same quarter last year. The total 2-wheeler sales for the quarter at 8.7 lakh units compared to 8.34 lakh units in same quarter last year.
- On the overall basis, the company had better growth in 2W space with surpassing industry growth. On the 3-wheelers front, the company sold 47,000 lakh units compared to 33,000 units in same quarter last year.
- Indonesia PT TVS sold 28,500 of 2W compared to 14,700 units last year despite the challenging situation of Covid wave 2 across the country. PT TVS had 3W sales of 2,400 compared to 1,150 in same quarter last year. The operating PBT was \$0.9 mn vs. \$0.5 mn in same quarter last year and \$1.3 mn in H1FY22 vs. loss of \$1.3 mn in H1FY21.

■ On new brand launches & growth in premium segments:

- The premium scooter brands Ntroq 125 crossed 1mn mark milestone and BMW Motorrad's 310 series motorcycles crossed 1 lakh mark in less than 5 years. The company produces around 10% of BMW Motorrad's volumes globally and the BMW Motorrad models namely BMW G 310 R and BMW 310 GS are now available in 120 countries.
- During the last three months the company launched two new products namely TVS Raider 125 and TVS Jupiter 125 with sterling response from market for both the models. The company also launched TVS Apache RTR 160 4V with improved and advanced features with the top-end variant of the Apache RTR 160 4V equipped with TVS SmartXonnect.
- The company launched bill to order platform in RR310 sport bike series taking into foray factory customization & personalization. It can enable customers to select graphics and rim colour options, personalize rate numbers, styling etc. This platform will be introduced across other products portfolio in phased manner.

- The mix of premium products namely Apache, Ntorq, Jupiter (Classic and Grande models) grew by 34% while the company lost Apache volumes of 25000 units in the quarter due to semiconductor availability constraints which on either way could have contributed higher on the premium mix front.
- **On acquisition and strategic partnerships:**
 - In the quarter the company acquired majority stake in European e-bike brand EGO Movement through subsidiary Singapore Subsidiary TVS Motor (Singapore) Pte Ltd. This is the part of company's strategy to expand its global presence in developed markets, commencing with Europe. EGO Movement is a Swiss technology company providing innovative mobility solutions through a portfolio of e-bikes, e-cargo bikes, and e-scooters.
 - The company has also entered into a strategic partnership with Tata Power to setup the electric two-wheeler charging eco-system in India. The partnerships with wide spread and reliable charging network partners like TATA power and CESL will aid to customer convenience.
- **EV business outlook & opportunities:**
 - On the TVS iQube electric, the company is seeing good customer interest with healthy booking pipeline. The delay in material availability which is impacting the production currently is the challenge the company is facing. iQube electric is currently launched in 33 cities and planning to reach across the country by end of FY22.
 - The company is planning on investing Rs10 bn in the EV space which will be skewed towards building the product portfolio, enhancing capacities and market developments. The company is creating capacity of 10,000 per month in Q4FY22 with aggressive capacity plans upcoming for FY23 & FY24 with focus on 2W & 3W segments.
 - The board in meeting held on Oct 21, 2021 approved for establishing a separate subsidiary for EV business. As per the management the subsidiary will provide better focus and flexibility to create scale in the EV business globally
 - With already the company being 70-75% of the scooter market, the additional contribution for EV business will lead to market expansion and provides great opportunity in developed and developing market.
- **Outlook on product demand and future performance**
 - The settling of monsoon and improved rural market performance expectations, the Diwali season is expected to be good for the company. With its overall product portfolio, the company expects to perform

better than the industry going forward along with good performance on exports expected across 2W and 3W with stability seen on macro levels.

- The sales in international market expected to pick up as Bangladesh is seen coming out of covid challenges and Sri Lanka restriction on import of vehicles easing. The challenge on container availability continues with some South-Asian markets yet to recover from Covid pandemic. The 3W demand is robust and expects to grow ahead on industry. The premium products are expected to perform well in domestic and international market.
 - With appropriate counter measures the company was able to improve premium product production from September month along with long term relationship with the suppliers and additional tie-up with sources the company has minimized the shortages of semiconductors
- **Other highlights:**
- The company took 1.1% price hike taken in October month due to commodity cost inflation across aluminum prices. The cost increases with product mix maximization mitigation, sustained cost reduction initiatives and growing ahead of industry across domestic and international markets will aid to EBITDA growth in future.
 - The container shortage situation is more of a daily challenge for the company with challenges across the deliveries been seen. The management expects improvement in the situation in coming quarters.
 - The 10% EBITDA% in the quarter compared to 9.3% in same quarter last year includes 0.4% benefit of RODTP relating to earlier two quarters. With focus on product mix, premiumization, sustained cost reduction initiatives and price hikes the material cost was controlled vis a vis last quarter and last year.
 - The FY22 capex is estimated at Rs7.5 bn and the investments of Rs2.0 bn. Overall in H1FY22 the company invested around Rs5.0 bn with investment in EGO at Rs1.4 bn, TVS Credit Services at Rs1.0 bn and others at Rs1.2 bn. The company will invest another Rs2.5 to 3.0 bn in H2FY22
 - The exports revenue in the quarter was Rs18.3 bn while the spares revenue stood at Rs6.14 bn and Rs 9.84 in H1FY22. The company is eligible for PLI scheme and will be entitled for it in the EV space.
 - The TVS credit service book size is at Rs114.20 bn. The PBT at 351 mn in Q1FY22 compared to Rs143 mn in same quarter last year. The networth stood at Rs16.58 bn with no liquidity issues. The collection for Q2FY22 at Rs24 bn compared to Rs18 bn in same quarter last year.

Exhibit 1: Quarterly Snapshot

(Rs mn)	Q2FY22	Q2FY21	Q1FY22	YoY (%)	QoQ (%)
Volumes	9,16,705	8,67,834	6,57,758	5.6	39.4
Net Revenue	56,194	46,055	39,344	22.0	42.8
Expenditure	50,565	41,754	36,606	21.1	38.1
<i>as % of sales</i>	<i>90.0</i>	<i>90.7</i>	<i>93.0</i>	<i>(67.7)</i>	<i>(305.8)</i>
Consumption of RM	42665	35,246	29,790	21.0	43.2
<i>as % of sales</i>	<i>75.9</i>	<i>76.5</i>	<i>76</i>	<i>(60.6)</i>	<i>20.8</i>
Employee Cost	2957	2,143	2,609	38.0	13.3
<i>as % of sales</i>	<i>5.3</i>	<i>4.7</i>	<i>7</i>	<i>60.9</i>	<i>(137)</i>
Other expenditure	4943	4,365	4,207	13.3	17.5
<i>as % of sales</i>	<i>8.8</i>	<i>9.5</i>	<i>10.7</i>	<i>(68.1)</i>	<i>(190)</i>
EBITDA	5,629	4,301	2,738	30.9	105.6
Depreciation	1544	1,331	1,431	16.0	7.9
EBIT	4084	2,970	1,307	37.5	212.5
Other Income	35	111	16	(68.5)	119.5
Interest	350	407	300	(14.0)	16.8
PBT	3769	2,674	1,023	40.9	268.3
Total Tax	993	712	190	39.5	422.1
Adjusted PAT after MI	2776	1,963	833	41.5	233.2
Extra ordinary items Loss/(Gain)	0	0	-302		
Reported PAT	2,776	1,963	531	41.5	422.3
Adjusted EPS	5.84	4.13	1.12	1.7	4.7
Margins (%)				(bps)	(bps)
EBIDTA	10.0	9.3	7.0	67.7	306
EBIT	7.3	6.4	3.3	81.9	395
EBT	6.7	5.8	2.6	90.1	411
PAT	4.9	4.3	1.4	67.9	359
Effective Tax rate	26.3	26.6	18.6	(26.5)	776

Source: Company Data

Exhibit 2: Actual vs. Estimates

(Rs mn)	Actual	IDBI Est	% Variance
Net sales	56,194	54,176	3.7
EBITDA	5,629	5,292	6.4
Margin (%)	10.0	9.8	25 bps
Adj net income	2,776	2,797	-0.8

Source: IDBI Capital Research

Exhibit 3: Change in estimates

(Rs mn)	FY22E			FY23E		
	Earlier	Revised	% Change	Earlier	Revised	% Change
Volumes (units)	35,53,672	34,12,585	-4.0	39,47,593	39,11,874	-0.9
Revenues	2,07,140	1,98,648	-4.1	2,34,686	2,27,793	-2.9
EBITDA	19,155	18,454	-1.1	24,878	23,785	-4.41
Margin (%)	9.0	9.3	26bps	10.6	10.4	-18bps
Net Profit	9,092	8,748	-3.8	13,324	12,417	-6.8

Source: IDBI Capital Research

Financial Summary

Profit & Loss Account

(Rs mn)

Year-end: March	FY21	FY22E	FY23E	FY24E
Net sales	1,67,505	1,98,648	2,27,793	2,50,285
<i>Growth (%)</i>	<i>2.0</i>	<i>18.6</i>	<i>14.7</i>	<i>9.9</i>
Operating expenses	(1,53,220)	(1,80,194)	(2,04,008)	(2,23,501)
EBITDA	14,286	18,454	23,785	26,784
<i>Growth (%)</i>	<i>6.1</i>	<i>29.2</i>	<i>28.9</i>	<i>12.6</i>
Depreciation	(4,937)	(5,863)	(6,213)	(6,420)
EBIT	9,349	12,591	17,572	20,364
Interest paid	(1,416)	(1,060)	(1,048)	(706)
Other income	330	289	255	631
Pre-tax profit	8,262	11,821	16,780	20,288
Tax	(2,142)	(3,073)	(4,363)	(5,275)
<i>Effective tax rate (%)</i>	<i>25.9</i>	<i>26.0</i>	<i>26.0</i>	<i>26.0</i>
Minority Interest	-	-	-	-
Net profit	6,120	8,748	12,417	15,013
Exceptional items	-	-	-	-
Adjusted net profit	6,120	8,748	12,417	15,013
<i>Growth (%)</i>	<i>(2.0)</i>	<i>42.9</i>	<i>41.9</i>	<i>20.9</i>
<i>Shares o/s (mn nos)</i>	<i>475</i>	<i>475</i>	<i>475</i>	<i>475</i>

Cash Flow Statement

(Rs mn)

Year-end: March	FY21	FY22	FY23E	FY24E
Pre-tax profit	8,262	11,821	16,780	20,288
Depreciation	4,937	5,863	6,213	6,420
Tax paid	(2,142)	(3,073)	(4,363)	(5,275)
Chg in working capital	16,472	(13,982)	568	658
Other operating activities	108	-	-	-
Cash flow from operations (a)	27,638	629	19,197	22,092
Capital expenditure	(5,600)	(7,500)	(5,000)	(5,000)
Chg in investments	(7,086)	(2,000)	(1,000)	(1,000)
Other investing activities	-	-	-	-
Cash flow from investing (b)	(12,687)	(9,500)	(6,000)	(6,000)
Equity raised/(repaid)	1,402	-	-	-
Debt raised/(repaid)	(9,253)	3,203	(3,500)	(5,000)
Dividend (incl. tax)	(1,994)	(2,187)	(3,104)	(3,753)
Chg in minorities	-	-	-	-
Other financing activities	-	-	-	-
Cash flow from financing (c)	(9,845)	1,016	(6,604)	(8,753)
Net chg in cash (a+b+c)	5,106	(7,855)	6,593	7,338

Balance Sheet

(Rs mn)

Year-end: March	FY21	FY22	FY23E	FY24E
Net fixed assets	32,890	34,527	33,314	31,894
Investments	33,145	35,145	36,145	37,145
Other non-curr assets	-	-	-	-
Current assets	35,718	35,506	46,912	58,089
Inventories	11,518	13,714	15,540	17,074
Sundry Debtors	8,700	12,995	14,902	16,373
Cash and Bank	9,298	1,443	8,036	15,374
Marketable Securities	-	-	-	-
Loans and advances	1,457	1,728	1,982	2,177
Total assets	1,01,753	1,05,179	1,16,371	1,27,128
Shareholders' funds	41,710	48,270	57,583	68,843
Share capital	475	475	475	475
Reserves & surplus	41,234	47,795	57,108	68,368
Total Debt	11,590	14,793	11,293	6,293
Secured loans	11,293	14,793	11,293	6,293
Unsecured loans	297	-	-	-
Other liabilities	1,955	1,955	1,955	1,955
Curr Liab & prov	46,499	40,161	45,540	50,037
Current liabilities	44,573	37,877	42,922	47,160
Provisions	1,925	2,283	2,618	2,877
Total liabilities	60,044	56,909	58,788	58,285
Total equity & liabilities	1,01,753	1,05,179	1,16,371	1,27,128
Book Value (Rs)	88	102	121	145

Source: Company; IDBI Capital Research

Financial Ratios

Year-end: March	FY21	FY22	FY23E	FY24E
Adj. EPS (Rs)	12.9	18.4	26.1	31.6
Adj. EPS growth (%)	-2.0	42.9	41.9	20.9
EBITDA margin (%)	8.5	9.3	10.4	10.7
Pre-tax margin (%)	4.9	6.0	7.4	8.1
ROE (%)	15.7	19.4	23.5	23.8
ROCE (%)	16.4	20.9	25.9	27.5
Turnover & Leverage ratios (x)				
Asset turnover (x)	1.7	1.9	2.1	2.1
Leverage factor (x)	2.5	2.3	2.1	1.9
Net margin (%)	3.7	4.4	5.5	6.0
Net Debt/Equity (x)	0.1	0.3	0.1	-0.1
Working Capital & Liquidity ratio				
Inventory days	25	25	25	25
Receivable days	19	24	24	24
Payable days	98	77	77	77

Valuation

Year-end: March	FY21	FY22E	FY23E	FY24E
P/E (x)	44.8	31.3	22.0	18.2
Price / Book value (x)	6.6	5.7	4.8	4.0
PCE (x)	24.8	18.7	14.7	12.8
EV / Net sales (x)	1.6	1.4	1.2	1.1
EV / EBITDA (x)	19.3	15.6	11.6	9.9
Dividend Yield (%)	0.6	0.8	1.1	1.4



Notes

Dealing

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Key to Ratings Stocks:**BUY:** 15%+; **HOLD:** -5% to 15%; **SELL:** -5% and below.**IDBI Capital Markets & Securities Ltd.****Equity Research Desk**

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