

Above estimates; Increased premiumization would lead to better profitability

CMP: INR 637

Rating: Accumulate

Target Price: INR 735

Stock Info

BSE	532343
NSE	TVSMOTOR
Bloomberg	TVSL IN
Reuters	TVSM.BO
Sector	Auto -2&3 Wheelers
Face Value (INR)	1
Equity Capital (INR mn)	475
Mkt Cap (INR mn)	3,02,606
52w H/L (INR)	814/ 495
Avg Yearly Vol (in 000')	2470

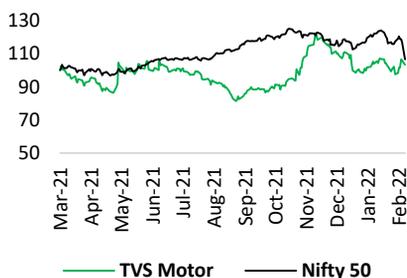
Shareholding Pattern %

(As on December, 2021)

Promoters	52.26
Public & Others	47.74

Stock Performance (%)	1m	3m	12m
TVS Motors	-0.64	-10.1	1.38
Nifty 50	-3.36	-3.92	15.3

TVS Motors Vs Nifty



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TVS Motor Company has reported strong Q3FY22 numbers, above our estimate on all fronts.

- Standalone revenue stood at INR 57,064 Mn, against our estimate of INR 54,121 Mn registering +5.8% YoY/1.5% QoQ.
- EBITDA stood at INR 5,683Mn, against our estimate of INR 5,405 Mn, Registering a growth of 11.2%YoY/1.0%QoQ.
- On the margins front, EBITDA margin up by 48bps YoY/-6bps QoQ to 10%, against our estimate of 10.0%, despite various challenges in terms of increase in input costs and shortage in semiconductors.
- Standalone PAT saw a growth of 8.5%YoY/3.9% QoQ to INR 2,883 Mn against our estimate of INR 2,720 Mn.
- EPS stood at INR 6.1 in Q3FY22 against INR 5.6 in Q3FY21 (INR 5.8 in Q2FY22).During the period, the Company incurred INR 30 Crores (exceptional item) towards COVID-19 related expenses.
- The company registered total two-wheeler sales of 8.35 Lakh units in the Q3FY22 as against 9.52 Lakh units in the Q3FY21.
- The company has appointed Prof Sir Ralf Dieter Speth, Non-Executive Director as Chairman of the Board effective 1st April 2022. Also, Mr. Venu Srinivasan would continue to be the MD of the Company designated as Chairman Emeritus.

Outlook and valuation

At a CMP of INR 637, TVS Motors is currently trading at a PE of 21.8x to its FY24E EPS of INR 29.2. The company reported the highest Revenue, EBITDA and PBT during the Q3FY22 on the back of significant cost reduction initiatives. TVS Motor has a better product mix and strong growth momentum in export markets. Hence, higher raw material prices and scarcity of semiconductors are matters of concern for the near term. We further appreciate the company as growing ahead of the industry in both markets.

We value TVS Motors' standalone business at FY24 PE of 24x to its EPS estimate of INR 29.2 for FY24 and TVS credit services at 1x its BV (INR~35/ share), which yields a target price of INR 735 on a SOTP basis. We assign an Accumulate rating on the stock.

YE	Net Sales	EBITDA	PAT	EPS (INR)	EBITDA Margin %	RoE (%)	P/E (x)
March (INR Mn)							
FY21	1,67,505	14,286	6,120	12.9	8.5	14.7	49.4
FY22E	2,08,294	19,592	9,521	19.4	9.4	18.9	32.8
FY23E	2,36,391	23,707	12,119	25.5	10.0	20.6	25.0
FY24E	2,64,739	26,688	13,855	29.2	10.1	22.5	21.8

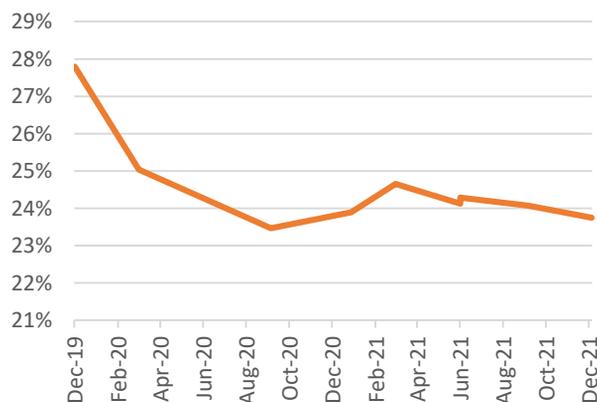
Source: Arihant Research, Company Filings, Ace Equity, Bloomberg

Quarterly result summary

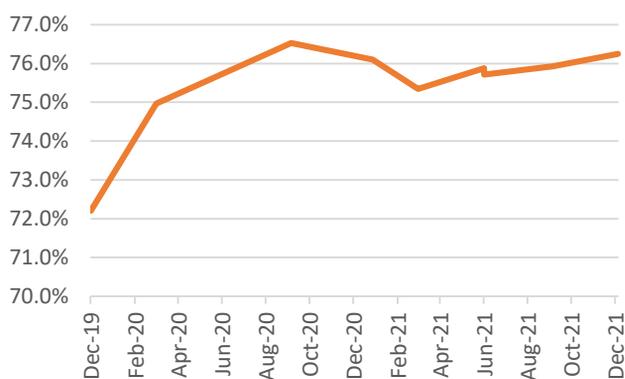
INR mn	3QFY22	2QFY22	3QFY21	YoY (%)	QoQ (%)
Net Sales	57,064	56,194	53,914	5.8	1.5
- Consumption of Raw Material	43,512	42,665	41,031	6.0	2.0
(% of Net Sales)	76.3	75.9	76.1	15bps	33bps
- Staff Expenditure	2,957	2,957	2,691	9.9	0.0
(% of Net Sales)	5.2	5.3	5.0	19bps	-8bps
- Other Expenditure	4,912	4,943	5,081	(3.3)	(0.6)
(% of Net Sales)	8.6	8.8	9.4	-82bps	-19bps
Total Expenditure	51,382	50,565	48,803	5.3	1.6
EBITDA	5,683	5,629	5,111	11.2	1.0
EBITDA Margin (%)	10.0	10.0	9.5	48bps	-6bps
Depreciation	1,546	1,544	1,329	16.3	0.1
EBIT	4,136	4,084	3,782	9.4	1.3
Interest	279	350	291	(4.0)	(20.3)
Other income	57	35	124	(53.6)	64.2
PBT	3,915	3,769	3,615	8.3	3.9
Tax	1,031	993	959	7.6	3.9
Tax Rate (%)	26%	26%	27%		
Adjusted PAT	2,883	2,776	2,656	8.5	3.9
Exceptional Item	-	-	0	-	-
Reported PAT	2,883	2,776	2,656	8.5	3.9
EPS (INR)	6.1	5.8	5.6	8.6	3.9
Total Volumes (In Nos)	8,78,659	9,16,705	9,89,517	(11.2)	(4.2)
Net Realisation (INR)	64,945	61,300	54,485	19.2	5.9
EBITDA / Vehicle (INR)	6,467	6,140	5,166	25.2	5.3

Source: Arianth Research, Company Filings, Ace Equity, Bloomberg

Gross Margins



Price hikes help mitigate the raw material cost pressures



Source: Arianth Research, Company Filings, Ace Equity, Bloomberg

Q3FY22 Other Conference-Call highlights

- Electric Vehicles: Excellent positive response continues for TVS iQube. Currently, the company has more than 6,000 bookings, however, supply remains a challenge. TVS working on the same. Present in 33 cities, would reach across the country by end of FY22. The company signed an MoU with Tamil Nadu to invest INR 1200cr for EVs. TVS is focusing on a particular strategy and particular segment.
- Exports: The company has raised prices as well in international markets. High RM prices and shortage of chip impacted prices. Many markets are slowly opening up. Expect the overall industry to grow.
- The company reported the highest Revenue, EBITDA and PBT during the Q3FY22.
- It's 2 new launches, TVS Jupiter and Rider received excellent feedback from the markets.
- A mix of premium products (Apache, Grande, etc) is ~30%. Seeing the trend of premiumization improve in domestic and international markets.
- TVS Credit Book size is INR 12,805cr. Gross NPA is 3.9% vs. 4.4 Q2FY22, and Net NPA 2.4% against 2.75% last quarter. The company, had a healthy capital adequacy ratio of 2.8% and collections were pretty good.
- The Company is currently looking for new partners for the next set of growth.
- Charging infra: Looking and focusing on installing a network of charging infra for its products. Partnered with TATA power for the same.
- BMW Motor: The company partnered with BMW for future technologies for the EV market and would leverage capabilities and come out with premium 2Ws.
- Swiss E-Mobility: This is a leading company in Europe with a market share of ~21%. This acquisition will help TVS with improving its global presence in the long term.
- Q4FY22: The company expects monsoons to be normal. The Covid-19 impact has come down. Most areas have no lockdowns. Mgmt. expects demand for 2W and 3W would rise and the company would grow ahead of the industry.
- The company has raised prices by 4.9% in Q3 FY22. Raised prices further in Jan'21 by ~1.1%
- Robust revenue growth, increased premiumization would lead to better profitability.
- Q3 FY22 Spare parts: INR 659cr and Exports: INR 1,878cr.
- Other operating income for Q3 was ~INR 60cr.
- 3W EV- Order book of 2,000 units from CFL. Will provide more details close to launch.
- Capacity for EV 2W stands at 10,000 units per month 120,000 per annum.
- Budget announcement: The company management expects the budget announcement to aid in the mobilization of demand for 2Ws.
- Norton: No product has been launched yet. There is a strategy and investments have been made. Would really support the portfolio of TVS motors.
- EV New launches: Next 8 quarters, there would be multiple launches. Would announce closer to the launches.
- Capex: FY22 INR 750cr including EV.
- Investment: Invested INR 750cr till now, would be investing ~INR 600r in Jan'22 and INR 100cr in credit services in Q4FY22.
- USD/ INR realization for the quarter was INR 75.

Profit & Loss Statement (Standalone)					
YE: Mar (INR mn)	FY20	FY21	FY22E	FY23E	FY24E
Net sales	1,64,233	1,67,505	2,08,294	2,36,391	2,64,739
Growth, %	-10	2	24	13	12
RM expenses	1,21,359	1,27,239	1,56,637	1,74,575	1,95,377
Employee expenses	9,384	9,485	11,097	12,484	14,045
Other expenses	20,031	16,497	20,968	25,625	28,628
EBITDA (Core)	13,459	14,286	19,592	23,707	26,688
Growth, %	-6	6	37	21	13
Margin, %	8.2	8.5	9.4	10.0	10.1
Depreciation	4,890	4,937	6,082	6,651	7,293
EBIT	8,568	9,349	13,510	17,056	19,396
Growth, %	-17	9	45	26	14
Margin, %	5.2	5.6	6.5	7.2	7.3
Interest paid	1,022	1,416	1,168	1,193	1,253
Other Income	321	330	171	189	207
Non-recurring Items	-323	0	0	0	0
Pre-tax profit	7,544	8,262	12,513	16,052	18,350
Tax provided	1,622	2,142	2,992	3,933	4,496
Profit after tax	5,923	6,120	9,521	12,119	13,855
Exceptional Item	-	-	301.6	-	-
Net Profit	5,923	6,120	9,220	12,119	13,855
Growth, %	-12	3	51	31	14
Net Profit (adjusted)	5,922.5	6,120	9,219.9	12,119	13,855

Source: Arianth Research, Company Filings, Ace Equity, Bloomberg

Balance Sheet (Standalone)					
YE: Mar (INR mn)	FY20	FY21	FY22E	FY23E	FY24E
Cash & bank	4,192	9,298	10,503	17,835	27,395
Debtors	12,814	8,700	10,818	12,278	13,750
Inventory	10,389	11,518	13,468	15,284	17,843
Other current assets	4,900	4,952	5,199	5,459	5,732
Total current assets	33,391	45,986	51,506	62,375	76,238
Investments	28,467	33,153	40,653	48,153	55,653
Gross fixed assets	57,460	66,973	74,473	82,023	89,573
Less: Depreciation	-26,972	-31,909	-37,991	-44,642	-51,935
Add: Capital WIP	1,266	1,126	1,126	1,126	1,126
Net fixed assets	30,488	35,064	36,482	37,381	37,638
Total assets	92,515	1,03,811	1,18,249	1,37,516	1,59,137
Current liabilities	33,245	44,795	54,491	60,995	68,167
Provisions	1,763	1,925	2,118	2,330	2,563
Total current liabilities	35,007	46,720	56,609	63,324	70,730
Non-current liabilities	2,677	3,189	3,051	3,051	3,051
Total liabilities	37,684	49,909	59,661	66,376	73,781
Paid-up capital	475	475	475	475	475
Reserves & surplus	35,706	41,234	48,402	58,469	69,701
Shareholders' equity	36,181	41,710	48,877	58,944	70,176
Total equity & liabilities	92,515	1,03,811	1,18,249	1,37,516	1,59,137

Cash Flow					
YE: Mar (INR mn)	FY20	FY21	FY22E	FY23E	FY24E
Pre-tax profit	7,544	8,262	12,212	16,052	18,350
Depreciation	4,890	4,937	6,082	6,651	7,293
Chg in working capital	3,700	14,646	5,574	3,179	3,102
Total tax paid	-2,339	-2,034	-2,992	-3,933	-4,496
CFO	13,400	26,897	21,872	22,954	25,294
Capital expenditure	-7,507	-9,373	-7,500	-7,550	-7,550
Chg in investments	-5,459	-4,686	-7,500	-7,500	-7,500
CFI	-12,646	-13,729	-14,829	-14,861	-14,842
Free cash flow	5,892	17,524	14,372	15,404	17,744
Debt raised/(repaid)	5,967	-9,391	2,071	2,485	2,982
Dividend (incl. tax)	-1,946	-1,946	-2,052	-2,052	-2,623
CCF	2,999	-12,752	-1,149	-760	-893
Net chg in cash	3,753	416	5,894	7,332	9,560
Opening cash balance	439	4,192	9,298	10,503	17,835
Closing cash balance	4,192	9,298	10,503	17,835	27,395

Ratios					
YE: Mar	FY20	FY21	FY22E	FY23E	FY24E
EPS (INR)	12.5	12.9	19.4	25.5	29.2
PER (x)	51.1	49.4	32.8	25.0	21.8
Price/Book (x)	7.2	7.8	6.6	5.5	4.6
EV/EBITDA (x)	23.6	21.3	15.5	12.6	11.0
EV/Net sales (x)	1.9	1.8	1.5	1.3	1.1
RoE (%)	16	15	19	21	20
RoCE (%)	16	19	23	24	23
Fixed Asset turnover (x)	2.9	2.5	2.8	2.9	3.0
Dividend Yield (%)	0.6	0.5	0.5	0.5	0.7
Receivable (days)	29	21	19	20	20
Inventory (days)	25	27	26	26	27
Payable (days)	81	105	105	105	105
Net D/E ratio (x)	0.4	0.0	0.0	(0.0)	(0.1)

Source: Arianth Research, Company Filings, Ace Equity, Bloomberg

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Stock Rating Scale	Absolute Return
BUY	>20%
ACCUMULATE	12% to 20%
HOLD	5% to 12%
NEUTRAL	-5% to 5%
REDUCE	-5% to -12%
SELL	<-12%

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