



TM

### TVS Motor

29 July 2021

#### Weak quarter; EV risk looms

#### RESULT UPDATE

**Sector:** Auto **Rating:** HOLD  
**CMP:** Rs 562 **Target Price:** Rs 585

#### Stock Info

Sensex/Nifty	52,653 / 15,778
Bloomberg	TVSL IN
Equity shares (mn)	475mn
52-wk High/Low	Rs 666 / 385
Face value	Rs 1
M-Cap (Rs bn)/(USD bn)	Rs 267bn / USD 3.6bn
3-m Avg volume	USD 11.3mn

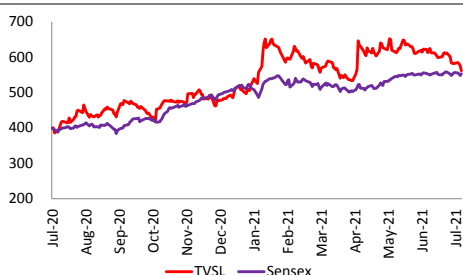
#### Financial Snapshot (Rs bn)

Y/E Mar	FY21	FY22E	FY23E
Volume growth (%)	(6)	13	10
Net Sales	167,505	196,441	215,834
EBIDTA	14,286	18,472	21,742
PAT	6,120	9,809	11,997
EPS (Rs)	13	21	25
PE (x)	47.5	29.6	24.2
EV/EBITDA (x)	20.4	15.8	13.1
RoE (%)	16	21	21
RoCE (%)	17	23	24
Dividend yield (%)	0.0	0.0	0.0

#### Shareholding pattern (%)

	Jun '21	Mar '21	Dec '20
Promoter	52.3	57.4	57.4
—Pledged	-	-	-
FII	13.9	12.3	11.2
DII	24.3	20.9	21.4
Others	9.5	9.4	10.0

#### Stock Performance (1-year)



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TVS Motor (TVSL)'s 1QFY22 EBITDA margin at 7% was below consensus and our estimates as operating leverage hurt margins. The company could offset raw material inflation better than peers through price hikes, product mix improvement and cost rationalisation measures. The management indicated that demand has started to recover to pre-lockdown levels with the easing of regional lockdowns. On the electric vehicles (EV) front, the company has announced investments of Rs 3bn in the current year towards product development and capacity expansion (currently 120,000 units per annum); delay in launching products (especially in the mass market segment) can hurt its volume growth. The exports (30% of sales) momentum remains strong and TVSL expects demand to outperform domestic sales. It expects input costs to increase in 2Q and thus margin pressure to continue. We cut our FY22/23E EBITDA by 7%/4% to factor in the margin weakness. We maintain our HOLD rating with a target price of Rs 585 (13x FY23E EV/EBITDA; in line with Hero/Bajaj Auto). Key risk: Delay in launching EVs ([see our detailed note](#)) will hurt the valuation multiple and lead to a change in our rating.

#### Key concall takeaways:

- **Domestic demand scenario and outlook:** The management highlighted that demand has started picking up with the easing of lockdowns and July sales have been higher sequentially. Given the increasing vaccination rate and expectations of a revival in rural economy, the management expects significant demand recovery in 2QFY22.
- **Premiumisation trend continues:** The demand for its premium brands like *Apache*, *Ntorq* and *Jupiter Grande* is improving consistently (forming ~37% of sales in 1QFY22). The company plans to launch a series of new models in 2HFY22.
- **Exports demand:** TVSL expects the momentum in the export markets to remain robust on the back of stable oil prices, currency availability and a stable socio-economic environment. Export revenue for the quarter stood at Rs 18bn (higher-ever), up ~8% QoQ. It has a healthy export order book and expects to continue outperforming the industry. The management highlighted that it is seeing premiumisation in its export markets as well.
- **Scooterisation to pick-up:** Scooter demand was significantly hit by the COVID-led demand weakness in urban markets in FY21. The management expects the share of scooters (including e-scooters) to structurally increase from the current levels of 31-32% of total 2W sales.
- **RM costs and price hikes:** TVSL took an average price hike of 1.1% in 4QFY21 and has taken another price hike of ~2.4% in July'21 given the consistent escalation in commodity costs. The management expects commodity prices to continue to harden in 2QFY22 and it may take further price increases to offset the impact. Vehicle prices have increased by 15-20% (including the BS6 hike) from the FY20 levels.
- **E-2W plans:** The company has accelerated its EV strategy and plans to expand its EV capacity (currently at 120,000 units p.a.), develop new products to strengthen its EV portfolio in the 2W & 3W segments (E-3W currently under development) and enhance the overall EV ecosystem (domestic and export markets) over the next 1-2 years. TVSL's existing e-scooter offering *iQube* is receiving a strong customer response and has a healthy order book. *iQube* is currently available in 6 cities and the company plans to expand pan-India by the end of this fiscal.
- **Capex and investments:** The company guided for a capex of ~Rs 8bn in FY22E vs. guidance of Rs 5-6bn earlier, mainly towards capacity enhancement and new product development (Rs 3bn for EVs in FY22E). Additionally, it may invest ~Rs 1-1.3bn towards TVS Credit Services during the year (Rs 500mn invested YTD FY22).

**Outlook and valuation:** We estimate TVSL to report volume/revenue/EBITDA/APAT CAGRs of 11%/14%/23%/41% between FY21-23E. At the CMP, the stock trades at 21.9x PER and 11.8x FY23E EV/EBITDA.

### Exhibit 1: Reported numbers vs. expectations

Rs mn	Reported	Est	Var %	Consensus	Var %
Net Sales	39,344	38,493	2.2	38,802	1.4
EBITDA	2,738	3,554	(23.0)	3,185	(14.0)
EBITDA Margin (%)	7.0	9.2	(227)	8.2	(125)
Adj PAT	833	1,619	(48.5)	1,250	(33.4)
Adj EPS	1.8	3.4	(48.5)	2.6	(33.4)

Source: Company, Systematix Institutional Research

### Exhibit 2: Quarterly performance

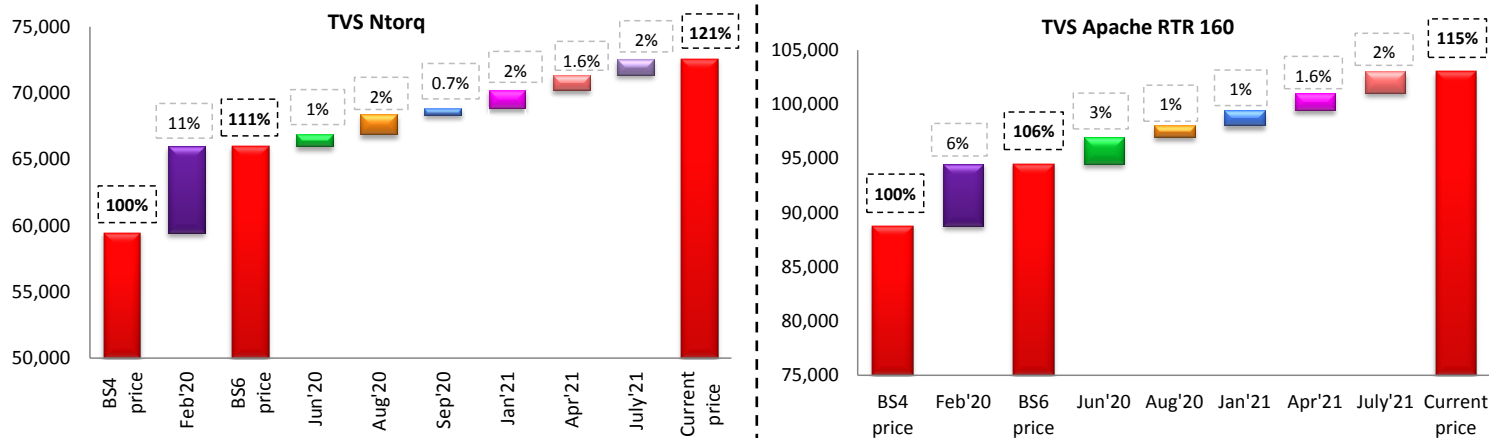
Rs mn	1QFY21	2QFY21	3QFY21	4QFY21	1QFY22	YoY (%)	QoQ (%)
<b>Net Sales</b>	<b>14,317</b>	<b>46,055</b>	<b>53,914</b>	<b>53,219</b>	<b>39,344</b>	<b>174.8</b>	<b>(26.1)</b>
- Consumption of Raw Material	10,864	35,246	41,031	40,098	29,790	174.2	(25.7)
(% of Net Sales)	75.9	76.5	76.1	75.3	75.7	(16)	37
- Staff Expenditure	1,970	2,143	2,691	2,681	2,609	32.4	(2.7)
(% of Net Sales)	13.8	4.7	5.0	5.0	6.6	(713)	159
- Other Expenditure	1,972	4,365	5,081	5,079	4,207	113.4	(17.2)
(% of Net Sales)	13.8	9.5	9.4	9.5	10.7	(308)	115
Total Expenditure	14,806	41,754	48,803	47,858	36,606	147.2	(23.5)
<b>EBITDA</b>	<b>-488</b>	<b>4,301</b>	<b>5,111</b>	<b>5,361</b>	<b>2,738</b>	<b>(660.8)</b>	<b>(48.9)</b>
<b>EBITDA Margin (%)</b>	<b>(3.4)</b>	<b>9.3</b>	<b>9.5</b>	<b>10.1</b>	<b>7.0</b>	<b>1,037</b>	<b>(311)</b>
Depreciation	911	1,331	1,329	1,366	1,431	57.1	4.7
<b>EBIT</b>	<b>(1,399)</b>	<b>2,970</b>	<b>3,782</b>	<b>3,995</b>	<b>1,307</b>	<b>(193.4)</b>	<b>(67.3)</b>
Interest	523	407	291	195	300	(42.7)	53.5
Other income	26	111	124	69	16	(38.6)	(77.1)
PBT	(1,896)	2,674	3,615	3,869	1,023	(154.0)	(73.6)
Tax	(505)	712	959	977	190	(137.6)	(80.5)
Tax Rate (%)	27%	27%	27%	25%	19%	(806)	(666)
<b>Adjusted PAT</b>	<b>-1,391</b>	<b>1,963</b>	<b>2,656</b>	<b>2,892</b>	<b>833</b>	<b>(159.9)</b>	<b>(71.2)</b>
Exceptional Item	0	0	0	0	-302	NA	NA
<b>Reported PAT</b>	<b>-1,391</b>	<b>1,963</b>	<b>2,656</b>	<b>2,892</b>	<b>531</b>	<b>(138.2)</b>	<b>(81.6)</b>
EPS (INR)	-2.9	4.1	5.6	6.1	1.1	(138.2)	(81.6)
<b>Total Volumes (In Nos)</b>	<b>266,913</b>	<b>867,834</b>	<b>989,517</b>	<b>927,579</b>	<b>657,758</b>	<b>146.4</b>	<b>(29.1)</b>
<b>Net Realisation (INR)</b>	<b>53,640</b>	<b>53,069</b>	<b>54,485</b>	<b>57,374</b>	<b>59,815</b>	<b>11.5</b>	<b>4.3</b>
EBITDA / Vehicle (INR)	-1,829	4,956	5,166	5,780	4,162	(327.6)	(28.0)

Source: Company, Systematix Institutional Research

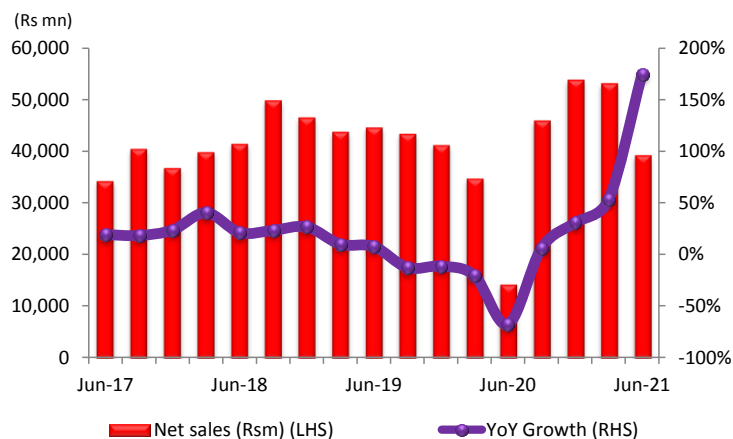
### Exhibit 3: Volume mix

(In Nos)	1QFY21	2QFY21	3QFY21	4QFY21	1QFY22	YoY (%)	QoQ (%)
Motorcycles	118,935	365,638	425,845	431,343	405,289	240.8	(6.0)
Scooters	82,006	269,524	311,039	298,357	139,435	70.0	(53.3)
Mopeds	54,467	199,184	214,995	156,914	73,977	35.8	(52.9)
<b>Total 2W</b>	<b>255,408</b>	<b>834,346</b>	<b>951,879</b>	<b>886,614</b>	<b>618,701</b>	<b>142.2</b>	<b>(30.2)</b>
3Ws	11,505	33,488	37,638	40,965	39,057	239.5	(4.7)
<b>Total Volumes</b>	<b>266,913</b>	<b>867,834</b>	<b>989,517</b>	<b>927,579</b>	<b>657,758</b>	<b>146.4</b>	<b>(29.1)</b>
<b>Exports</b>	<b>77,914</b>	<b>215,899</b>	<b>260,863</b>	<b>322,137</b>	<b>328,105</b>	<b>321.1</b>	<b>1.9</b>

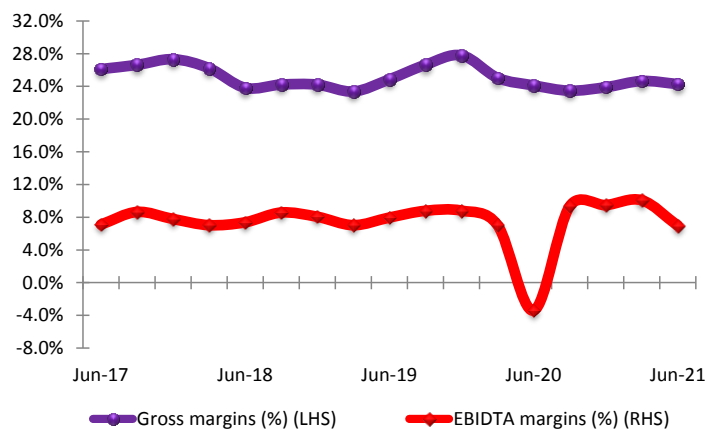
Source: Company, SIAM, Systematix Institutional Research

**Exhibit 4: Aggressive price hikes taken since April'20**

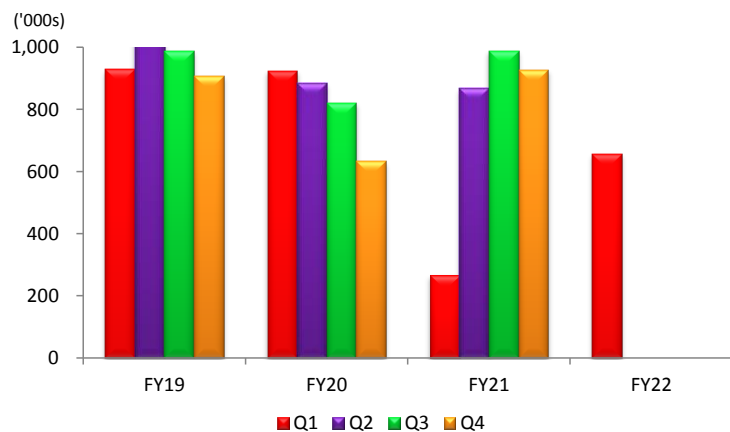
Source: Company, industry, Systematix Institutional Research

**Exhibit 5: Revenues and YoY growth quarterly trend**

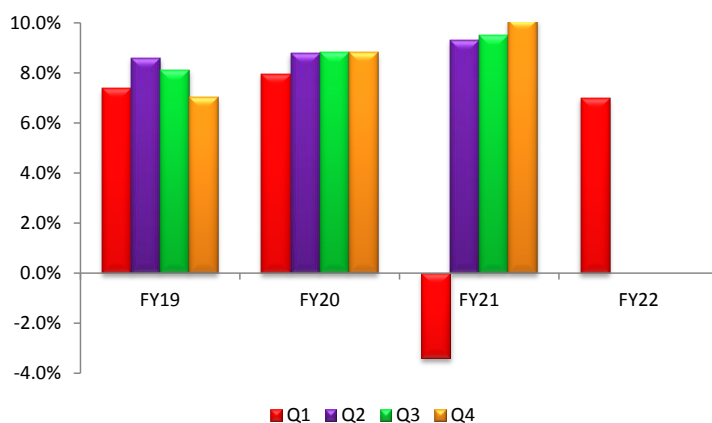
Source: Company, Systematix Institutional Research

**Exhibit 6: Gross margin and EBITDA margin quarterly trend**

Source: Company, Systematix Institutional Research

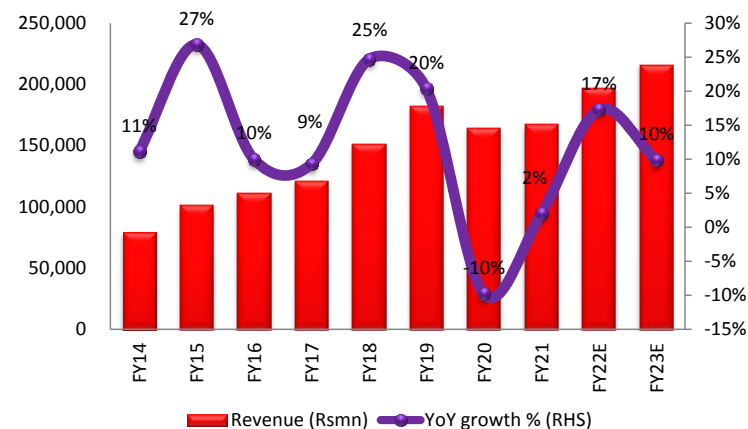
**Exhibit 7: Quarterly volume trend**

Source: Company, Systematix Institutional Research

**Exhibit 8: Quarterly EBITDA margins trend**

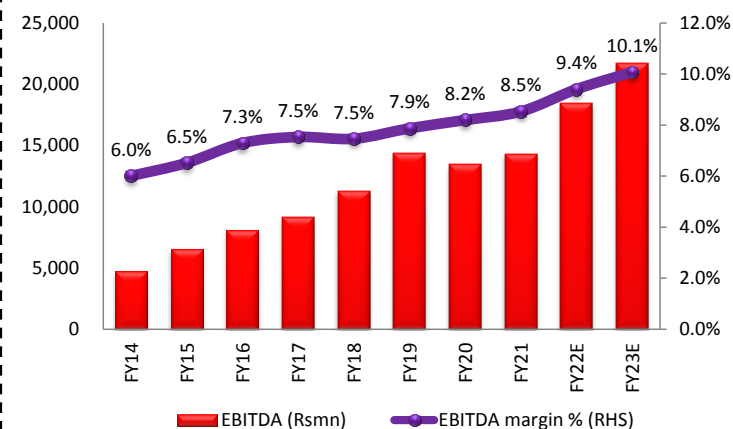
Source: Company, Systematix Institutional Research

Exhibit 9: Revenue and YoY growth annual trend



Source: Company, Systematix Institutional Research

Exhibit 10: EBITDA and EBITDA margin % annual trend



Source: Company, Systematix Institutional Research

Exhibit 11: Segment-wise annual volumes

	FY14	FY15	FY16	FY17	FY18	FY19	FY20	FY21	FY22E	FY23E
Motorcycles	793,479	960,559	1,016,807	1,074,442	1,355,576	1,560,519	1,363,579	1,343,194	1,571,676	1,681,693
YoY growth %	6%	21%	6%	6%	26%	15%	-13%	-1%	17%	7%
Scooters	475,668	709,612	812,527	870,171	1,134,918	1,301,115	1,075,218	959,645	1,043,451	1,185,914
YoY growth %	8%	49%	15%	7%	30%	15%	-17%	-11%	9%	14%
Mopeds	730,172	765,182	738,547	910,670	876,932	896,917	650,799	625,428	676,117	756,681
YoY growth %	-8%	5%	-3%	23%	-4%	2%	-27%	-4%	8%	12%
<b>Total 2W</b>	<b>1,999,319</b>	<b>2,435,354</b>	<b>2,567,881</b>	<b>2,855,283</b>	<b>3,367,427</b>	<b>3,758,551</b>	<b>3,089,596</b>	<b>2,928,267</b>	<b>3,291,244</b>	<b>3,624,289</b>
YoY growth %	1%	22%	5%	11%	18%	12%	-18%	-5%	12%	10%
3Ws	80,842	108,379	110,821	69,254	98,684	156,434	173,911	123,596	149,142	163,626
YoY growth %	64%	34%	2%	-38%	42%	59%	11%	-29%	21%	10%
<b>Total Volumes</b>	<b>2,080,161</b>	<b>2,543,733</b>	<b>2,678,702</b>	<b>2,924,537</b>	<b>3,466,111</b>	<b>3,914,985</b>	<b>3,263,507</b>	<b>3,051,863</b>	<b>3,440,386</b>	<b>3,787,915</b>
YoY growth %	2%	22%	5%	9%	19%	13%	-17%	-6%	13%	10%
Exports	315,019	415,844	453,800	422,216	574,215	761,738	840,818	876,813	1,089,513	1,169,836
YoY growth %	28%	32%	9%	-7%	36%	33%	10%	4%	24%	7%
Domestic	1,765,142	2,127,889	2,224,902	2,502,321	2,891,896	3,153,247	2,422,689	2,175,050	2,350,873	2,618,078
YoY growth %	-1%	21%	5%	12%	16%	9%	-23%	-10%	8%	11%

Source: Company, SIAM, Systematix Institutional Research

## FINANCIALS (STANDALONE)

### Profit & Loss Statement

YE: Mar (Rs mn)	FY19	FY20	FY21	FY22E	FY23E
<b>Net sales</b>	<b>182,099</b>	<b>164,233</b>	<b>167,505</b>	<b>196,441</b>	<b>215,834</b>
Growth, %	20	(10)	2	17	10
RM expenses	-138,423	-121,359	-127,239	-149,688	-163,602
Employee expenses	-9,226	-9,384	-9,485	-10,623	-11,685
Other expenses	-20,118	-20,031	-16,497	-17,658	-18,804
<b>EBITDA (Core)</b>	<b>14,332</b>	<b>13,459</b>	<b>14,286</b>	<b>18,472</b>	<b>21,742</b>
Growth, %	27	(6)	6	29	18
Margin, %	7.9	8.2	8.5	9.4	10.1
Depreciation	-3,993	-4,890	-4,937	-5,698	-6,318
<b>EBIT</b>	<b>10,340</b>	<b>8,568</b>	<b>9,349</b>	<b>12,775</b>	<b>15,425</b>
Growth, %	31	(17)	9	37	21
Margin, %	5.7	5.2	5.6	6.5	7.1
Interest paid	-806	-1,022	-1,416	-497	-398
Other Income	75	321	330	462	554
Non-recurring Items	0	(323)	0	0	0
<b>Pre-tax profit</b>	<b>9,609</b>	<b>7,867</b>	<b>8,262</b>	<b>12,739</b>	<b>15,581</b>
Tax provided	-2,908	-1,622	-2,142	-2,930	-3,584
<b>Profit after tax</b>	<b>6,701</b>	<b>6,246</b>	<b>6,120</b>	<b>9,809</b>	<b>11,997</b>
Others (Minorities, Associates)	-	-	-	-	-
<b>Net Profit</b>	<b>6,701</b>	<b>5,922</b>	<b>6,120</b>	<b>9,809</b>	<b>11,997</b>
Growth, %	1	(12)	3	60	22
<b>Net Profit (adjusted)</b>	<b>6,701</b>	<b>6,246</b>	<b>6,120</b>	<b>9,809</b>	<b>11,997</b>

Source: Company, Systematix Institutional Research;

### Balance Sheet

YE: Mar (Rs mn)	FY19	FY20	FY21	FY22E	FY23E
Cash & bank	438	4,192	9,298	6,298	12,812
Marketable securities cost	0	0	0	0	0
Debtors	14,141	12,814	8,700	10,203	11,210
Inventory	11,759	10,389	11,518	10,764	11,827
Loans & advances	0	0	0	0	0
Other current assets	6,974	8,305	6,423	6,744	7,082
Total current assets	33,313	35,699	35,939	34,009	42,930
Investments	23,006	26,059	33,145	36,145	39,145
Gross fixed assets	53,333	61,430	67,471	74,971	82,971
Less: Depreciation	-27,540	-32,430	-37,367	-43,065	-49,383
Add: Capital WIP	1,166	2,854	2,787	2,787	2,787
Net fixed assets	25,793	28,999	30,104	31,906	33,588
<b>Total assets</b>	<b>83,278</b>	<b>93,612</b>	<b>101,975</b>	<b>104,846</b>	<b>118,450</b>
Current liabilities	29,239	28,864	39,216	34,310	37,446
Provisions	4,661	7,240	8,739	9,613	10,574
Total current liabilities	33,900	36,104	47,955	43,922	48,020
Non-current liabilities	2,126	1,581	1,955	1,955	1,955
Total liabilities	36,026	37,684	49,909	45,877	49,974
Paid-up capital	475	475	475	475	475
Reserves & surplus	32,998	35,706	41,234	50,210	61,373
Shareholders' equity	33,473	36,181	41,710	50,685	61,848
<b>Total equity &amp; liabilities</b>	<b>83,278</b>	<b>93,612</b>	<b>101,975</b>	<b>104,846</b>	<b>118,450</b>

Source: Company, Systematix Institutional Research

### Cash Flow

YE: Mar (Rs mn)	FY19	FY20	FY21	FY22E	FY23E
<b>Pre-tax profit</b>	<b>9,609</b>	<b>7,867</b>	<b>8,262</b>	<b>12,739</b>	<b>15,581</b>
Depreciation	3,993	4,890	4,937	5,698	6,318
Chg in working capital	-3,813	3,572	16,717	-5,102	1,690
Total tax paid	-2,908	-1,622	-2,142	-2,930	-3,584
<b>CFO</b>	<b>8,170</b>	<b>14,040</b>	<b>25,609</b>	<b>10,440</b>	<b>19,849</b>
Capital expenditure	-5,922	-7,150	-5,587	-7,500	-8,000
Chg in marketable securities	0	0	0	0	0
Chg in investments	-2,652	-3,053	-7,086	-3,000	-3,000
<b>CFI</b>	<b>-8,499</b>	<b>-12,992</b>	<b>-9,206</b>	<b>-10,038</b>	<b>-10,446</b>
Free cash flow	2,247	6,889	20,022	2,940	11,849
Debt raised/(repaid)	3,410	5,967	-9,391	-2,071	-1,657
Dividend (incl. tax)	-1,946	-2,239	-490	-834	-834
<b>CFF</b>	<b>659</b>	<b>2,706</b>	<b>-11,296</b>	<b>-3,402</b>	<b>-2,888</b>
<b>Net chg in cash</b>	<b>329</b>	<b>3,754</b>	<b>5,106</b>	<b>(3,000)</b>	<b>6,514</b>
Opening cash balance	109	438	4,192	9,298	6,298
<b>Closing cash balance</b>	<b>438</b>	<b>4,192</b>	<b>9,298</b>	<b>6,298</b>	<b>12,812</b>

Source: Company, Systematix Institutional Research

### Ratios

YE: Mar	FY19	FY20	FY21	FY22E	FY23E
EPS (INR)	14	13	13	21	25
PER (x)	43.4	46.6	47.5	29.6	24.2
Price/Book (x)	8.7	8.0	7.0	5.7	4.7
EV/EBITDA (x)	21.2	22.8	20.4	15.8	13.1
EV/Net sales (x)	1.7	1.9	1.7	1.5	1.3
RoE (%)	22	18	16	21	21
RoCE (%)	23	17	17	23	24
Fixed Asset turnover (x)	3.4	2.7	2.5	2.6	2.6
Dividend Yield (%)	0.6	0.6	0.0	0.0	0.0
Receivable (days)	29	29	19	19	19
Inventory (days)	26	25	27	22	22
Payable (days)	64	70	93	70	70
Revenue Growth (%)	20	(10)	2	17	10
EBITDA Growth (%)	27	(6)	6	29	18
EPS Growth, %	1	(7)	(2)	60	22
Net D/E ratio (x)	0.4	0.4	0.0	0.0	(0.1)

Source: Company, Systematix Institutional Research

## Institutional Equities Team

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