

TVS Motor Company

BUY

Double Digit EBITDA Margin to sustain

Summary

During Q1FY22, TVS's profit declined by 71.2% QoQ to Rs833mn (below our estimates Rs1.5 bn). Decline in profitability was attributed to lower EBITDA margins which fell by 311bps QoQ to 7% (below our estimates of 8.9%). Going forward TVS Management expects Indian 2W industry to report positive growth during FY22 and remained optimistic about double digit margin sustainability in the medium term. We continue to believe that TVS is likely to grow ahead of industry in its domestic and its international business based on strength and popularity of its four marque brands (Jupiter, Ntorq, Apache and Radeon) among the consumers. We marginally upgrade our FY23 volume and profit estimates by 2% and 1.1% respectively. We rate the stock as BUY with revised price target of Rs659 (PER of 22xFY23E earnings + Rs 42 for TVS Credit Services Ltd- 1.5x FY21 P/B).

Key Highlights and Investment Rationale

- EBITDA Margin below estimates:** During Q1FY22, TVS's Sales declined by 26.1% QoQ to Rs39.3bn (in line with our estimates Rs39.3bn). Decline in sales is primarily attributed to 29.1% QoQ decline in its volumes. The Company's EBITDA margins declined by 311bps QoQ to 7% (below our estimates of 8.9%). Sharp decline in EBITDA margin was a combination of lower operating leverage and sharp rise in raw material prices which the Company did not pass on to its customers.
- Business Outlook and Earning Revision:** Going forward, we believe, TVS is likely to outperform the industry growth in its domestic business primarily on account of a) Preference towards personal mobility trend and decent monsoon fueling 2W demand in urban and rural areas respectively b) Strength of its four marquee brands (Jupiter, Ntorq Apache and Radeon) and c) Aggressive initiatives on EV side with the success of iQube Electric in Indian market. To factor in improved business outlook and expected improvement in profitability, we have marginally upgraded our FY23 volume and profit estimates by 2% and 1.1% respectively.
- BUY:** We expect TVS to report 13.7% volume CAGR, 18.4% sales CAGR and 46.3% PAT CAGR over FY21-23E. The Company is expected to report EPS of Rs19.1 and Rs28 in FY22E and FY23E respectively. We rate the stock as BUY with revised price target of Rs659 (PER of 22xFY23E earnings + Rs42 for TVS Credit Services Ltd- 1.5x FY21 P/B).

Source: Company; IDBI Capital Research

TP
CMP
Rs659
Rs562

Potential upside / downside +17%

V/s Consensus

EPS (Rs)	FY22E	FY23E
IDBI Capital	19.1	28.0
Consensus	21.8	28.2
% difference	(12.5)	(0.8)

Shareholding Pattern (%)

Promoters	52.3
FII	13.9
DII	22.4
Public	11.4

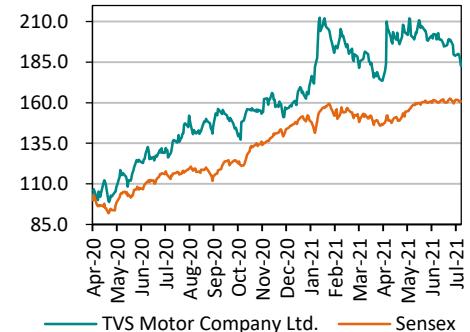
Price Performance (%)

	-1m	-3m	-12m
Absolute	55.0	116.9	137.4
Rel to Sensex	77.8	216.7	144.9

Key Stock Data

Bloomberg / Reuters	TVSL IN/TVSM.BO
Sector	Automobile
Shares o/s (mn)	475
Market cap. (Rs mn)	266,761
Market cap. (US\$ mn)	3,585
3-m daily avg Trd value (Rs mn)	869.7
52-week high / low	Rs666 / 385
Sensex / Nifty	52,653 / 15,778

Relative to Sensex (%)



Financial snapshot

Year	FY19	FY20	FY21	FY22E	FY23E
Revenue	1,82,099	1,64,233	1,67,505	2,07,140	2,34,686
EBITDA	14,333	13,459	14,286	18,668	24,878
EBITDA (%)	7.9	8.2	8.5	9.0	10.6
Adj. PAT	6,701	6,246	6,120	9,092	13,324
EPS (Rs)	14.1	13.1	12.9	19.1	28.0
EPS Growth (%)	1.1	(6.8)	(2.0)	48.6	46.5
PE (x)	42.8	46.0	46.9	31.6	21.5
Dividend Yield (%)	0.6	0.6	0.6	0.8	1.2
EV/EBITDA (x)	21.0	22.6	20.3	15.9	11.5
RoE (%)	21.5	17.9	15.7	20.2	24.9
RoCE (%)	22.3	15.8	16.4	22.7	28.7

Concall Highlights:

- **Demand Outlook:** The Company is witnessing a revival in domestic demand due to higher dealership opening; higher vaccination drive, personal distancing preference, and better monsoon. With consumption growth and a stable political scenario across TVS overseas geographic, the export is expected to grow. With stable oil prices, the oil-dependent economy of Africa, South, and Central America will boost the demand for 2W. The company expects the shutdown in Nepal and Bangladesh to end by August. The company expects to maintain ~100K units of monthly exports. The premiumization trend is continuing in all the markets and hence company's brands like Jupiter, Apache, and Ntorq will continue to do well.
- **Price Hike:** The Company took a price hike in July in its Domestic & International markets. The price increase in July was 2.4% and 1.1% in Q4FY21. The uncovered portion is 0.5% and the company may take a price hike in the future.
- **Commodity Price Outlook:** The impact of commodity price increase on margins was ~300bps-350bps in Q1FY22. The commodity prices continue to rise in Q2 and the company will mitigate this by focusing on better product mix, sustained cost reduction initiatives. The company is confident of delivering EBITDA growth with the opening of Domestic and International markets. Management expects TVS to grow ahead of Industry.
- **EV Outlook:** The management believes EV will play a big role in the future. The prices of EVs are still higher despite Govt. support via Tax reduction and FAME-II. Localization of various parts like Electronics, Cells can boost acceleration for EVs. TVS has in-house technology and R&D for EVs and green fuels. TVS iCube is the company first offering and getting good traction with healthy booking orders, presently in 6 cities and will ramp up it across India by FY22 end. The company has established a separate vertical for EV with 500+ engineers. The company has a capacity of 10,000 units per month in the EV segment. The company by FY23 will enhance its capacity.
- **New Launches:**
 - **2W:** The Company in Q1FY22 launched new Ntorq125 Race SP with new features of connectivity, style, and power. It has ride modes. This is the only scooter with 10+ PS power.
 - **3W:** The Company also introduced TVS King Cargo across the market. It comes with the option of CNG and PNG. It special focuses on the need of e-commerce, logistics. King Cargo is equipped with ISE technology which facilitates low consumption of fuel and a comfortable ride experience.
- **TVS Credit:** In 2W sales, NBFCs plays an important role as 50% of 2W are financed in India. As on June 2021 the book size of TVS credit is Rs.106.5bn. In Q1FY22, TVS credit posted a loss of Rs250mn. July performance is encouraging on collection front. Debt to Equity is 6x Vs 6.5x in March 2021. Collection for the Q1FY22 is Rs3bn Vs Rs2.2bn in

Q1FY21. The disbursement for Q1FY22 was Rs17.23bn Vs Rs.12.2bn. GNPA as on FY21 was 5% and GNPA as on Q1FY22 is 5.2%

- **CAPEX and Investment:** The Company will invest Rs.10bn in building products portfolio, market & ecosystem development, and next level of capacity. It has already spent Rs3bn. The CAPEX in FY22 will be Rs.8bn including EV funded through internal accruals. The company invested Rs.500mn in TVS credit and will further add Rs1bn-1.25bn for maintaining Capital Adequacy Ratio. In Digital the company has invested Rs2.5bn.
- **Margin Guidance:** In Q4FY21, the company reported an EBITDA Margin of 10.1% through its cost saving initiatives, better product mix; Management expects to sustain its margin in medium term.
- **Norton:** The Company has set up the factory and product plans are developed. The products are of the super-premium category. In Norton, the company has invested Rs3.5bn
- **Extraordinary Items:** It was related to COVID the company was providing the medical supplies, oxygen concentrators across states i.e. Karnataka, Himachal Pradesh, etc.
- **Scooter and Moped Outlook:** The scooter category was majorly affected due to the higher impact of COVID waves in the urban market. The 2nd COVID wave has affected southern India and Maharashtra higher. These states were moped and scooter markets, and now the markets are opening. The management expects Moped and Scooters to recover going forward. The scooterization would come back to ~35% levels.
- **Semi-Conductor Issue:** The Company is facing an difficulty regarding with the semi-conductor for Apache. The demand is higher but unable to supply. In EV, the company is unable to produce even though booking is higher due to various electronics part.
- **Others:**
 - **TVS Singapore:** The Company made an investment in IoT based companies this helped in the digitalization of the assembly line. The company has also invested Rs1.6bn which will support future mobility solutions.
 - **Product Mix:** Mix of premium products i.e. Apache, Ntorq, Jupiter, etc has increased to 37%.
 - **PT TVS:** PT TVS sold 20K units of 2W in Q1FY22 Vs 6K units in Q1FY21. It sold 4K units of 3W as on Q1FY22 Vs 500units in Q1FY21.
 - **Spare Parts:** The spare parts revenue as on Q1FY22 was Rs3.69bn.
 - **Export Revenue:** The Export revenue as on Q1FY22 is Rs.18.3bn.

Exhibit 1: Quarterly Snapshot

(Rs mn)	Q1FY22	Q1FY21	Q4FY21	YoY (%)	QoQ (%)
Volumes	6,57,758	2,66,933	9,27,539	46.6	(6.3)
Net Revenue	39,344	14,317	53,219	52.9	(1.3)
Expenditure	36,606	14,806	47,858	47.9	(1.9)
<i>as % of sales</i>	93.0	103.4	89.9	(304)	(59)
Consumption of RM	29,790	10,864	40,098	53.6	(2.3)
<i>as % of sales</i>	75.7	75.9	75.3	38	(76)
Employee Cost	2,609	1,970	2,681	20.4	(0.4)
<i>as % of sales</i>	6.6	13.8	5.0	(136)	5
Other expenditure	4,207	1,972	5,079	25.7	(0.0)
<i>as % of sales</i>	10.7	13.8	9.5	(206)	12
EBITDA	2,738	(488)	5,361	119.0	4.9
Depreciation	1,431	911	1,366	9.9	2.8
EBIT	1,307	(1,399)	3,995	231.5	5.6
Other Income	16	26	69	(72.4)	(43.8)
Interest	300	523	195	(16.8)	(32.8)
PBT	1,023	(1,896)	3,869	244.0	7.0
Total Tax	190	(505)	977	512.0	1.9
Adjusted PAT after MI	833	(1,391)	2,892	199.7	8.9
Extra ordinary items Loss/(Gain)	(302)	-	-	NA	NA
Reported PAT	531	(1,391)	2,892	227.1	8.9
Adjusted EPS	1.12	(2.93)	6.09	291.6	8.9
Margins (%)					(bps)
EBIDTA	7.0	(3.4)	10.1	NA	(311)
EBIT	3.3	(9.8)	7.5	NA	(418)
EBT	2.6	(13.2)	7.3	NA	(467)
PAT	2.1	(9.7)	5.4	NA	(332)
Effective Tax rate	18.6	NA	25.2	NA	(666)

Source: Company

Exhibit 2: Actual vs. Estimates

(Rs mn)	Actual	IDBI Est	% Variance	Consensus	% Variance
Net sales	39,344	39,250	0.2	38,315	2.7
EBITDA	2,738	3,502	(21.8)	2,700	1.4
Margin (%)	7.0	8.9	(196) bps	7.0	(9) bps
Adj net income	833	1,484	(43.9)	918	(9.2)
FDEPS (Rs)	1.8	3.1	(43.8)	2.2	(20.3)

Source: IDBI Capital Research

Exhibit 3: Change in estimates

(Rs mn)	FY22E			FY23E		
	Earlier	Revised	% Change	Earlier	Revised	% Change
Volumes (units)	35,11,603	35,53,672	1.2	38,68,811	39,47,594	2.0
Revenues	2,00,129	2,07,140	3.5	2,30,284	2,34,686	1.9
EBITDA	19,155	18,668	(2.5)	24,123	24,878	3.1
Margin (%)	9.6	9.0	(56) bps	10.5	10.6	13 bps
Net Profit	9,675	9,092	(6.0)	13,183	13,324	1.1
FDEPS	20.4	19.1	(6.0)	27.7	28.0	1.1

Source: IDBI Capital Research

Exhibit 4: Domestic Motorcycles region and Top 10 State wise sales mix (%)

	Q1FY19	Q2FY19	Q3FY19	Q4FY19	Q1FY20	Q2FY20	Q3FY20	Q4FY20	Q1FY21	Q2FY21	Q3FY21	Q4FY21
Region Wise												
North	35	28	33	34	33	27	32	28	33	28	33	27
East	32	26	27	29	34	34	31	37	32	38	29	34
West	20	30	29	23	21	26	27	19	21	23	27	21
South	13	16	12	14	13	12	10	16	13	11	11	19
Total	100											
Top 10 State Wise Sales												
U.P.	27	18	25	27	27	19	24	22	28	22	26	20
Madh. Prad.	9	10	10	9	9	8	8	7	12	9	10	8
Rajasthan	5	10	9	6	6	10	9	4	5	7	7	5
Tamil Nadu	5	5	3	5	5	4	3	6	4	4	4	7
West Bengal	12	7	9	9	11	12	8	13	9	14	9	11
Andhra Prad.	4	5	4	4	4	3	3	4	3	3	2	3
Karnataka	4	5	4	4	4	4	3	5	4	3	3	5
Bihar	10	8	9	10	13	11	12	13	13	12	11	12
Maharashtra	4	6	5	4	3	5	5	5	2	4	6	5
Haryana	3	3	3	2	2	3	3	1	2	2	3	2
Others	19	21	18	19	18	20	20	19	18	21	19	22

Source: SIAM.

Exhibit 5: Domestic Scooters region and Top 10 State wise sales mix (%)

	Q1FY19	Q2FY19	Q3FY19	Q4FY19	Q1FY20	Q2FY20	Q3FY20	Q4FY20	Q1FY21	Q2FY21	Q3FY21	Q4FY21
Region Wise												
North	23	21	23	18	21	23	21	14	22	20	18	15
East	11	9	12	11	14	14	15	15	23	17	18	15
West	27	32	29	26	27	27	29	26	13	21	28	25
South	40	39	36	45	39	36	35	44	42	42	36	45
Total	100											
Top 10 State Wise Sales												
Tamil Nadu	18	18	16	22	14	13	13	17	15	18	14	19
Maharashtra	14	16	15	15	14	14	16	17	5	11	16	14
Karnataka	9	9	9	10	11	11	10	10	10	8	8	10
Andhra Prad.	8	8	7	7	7	6	7	9	6	6	4	4
U.P.	8	7	9	6	8	8	8	4	8	7	8	6
Gujarat	5	6	5	4	5	5	5	5	3	4	4	4
Punjab	5	6	5	4	4	5	5	4	7	6	4	3
Delhi	7	6	6	6	6	7	5	5	5	6	4	4
Madh. Prad.	3	4	4	3	3	3	4	2	2	3	3	2
Kerala	5	4	5	6	6	6	5	8	6	7	7	9
Others	23	17	20	17	20	21	22	19	33	25	27	24

Source: SIAM.

Financial Summary

Profit & Loss Account (Rs mn)

Year-end: March	FY20	FY21	FY22E	FY23E
Net sales	1,64,233	1,67,505	2,07,140	2,34,686
<i>Growth (%)</i>	(9.8)	2.0	23.7	13.3
Operating expenses	(1,50,775)	(1,53,220)	(1,88,472)	(2,09,809)
EBITDA	13,459	14,286	18,668	24,878
<i>Growth (%)</i>	(6.1)	6.1	30.7	33.3
Depreciation	(4,890)	(4,937)	(5,391)	(5,849)
EBIT	8,568	9,349	13,277	19,028
Interest paid	(1,022)	(1,416)	(919)	(867)
Other income	321	330	270	344
Pre-tax profit	7,544	8,262	12,628	18,506
Tax	(1,622)	(2,142)	(3,536)	(5,182)
<i>Effective tax rate (%)</i>	21.5	25.9	28.0	28.0
Net profit	5,922	6,120	9,092	13,324
Exceptional items	(323)	-	-	-
Adjusted net profit	6,246	6,120	9,092	13,324
<i>Growth (%)</i>	(6.8)	(2.0)	48.6	46.5
<i>Shares o/s (mn nos)</i>	475	475	475	475

Cash Flow Statement (Rs mn)

Year-end: March	FY20	FY21	FY22E	FY23E
Pre-tax profit	7,544	8,262	12,628	18,506
Depreciation	4,890	4,937	5,391	5,849
Tax paid	(1,622)	(2,142)	(3,536)	(5,182)
Chg in working capital	2,943	16,472	(13,490)	502
Other operating activities	(717)	108	-	-
Cash flow from operations (a)	13,039	27,638	993	19,675
Capital expenditure	(10,083)	(5,600)	(7,000)	(4,000)
Chg in investments	(3,052)	(7,086)	-	-
Other investing activities	-	-	-	-
Cash flow from investing (b)	(13,135)	(12,687)	(7,000)	(4,000)
Equity raised/(repaid)	(1,215)	1,402	-	-
Debt raised/(repaid)	7,064	(9,253)	(297)	(1,000)
Dividend (incl. tax)	(2,000)	(1,994)	(2,273)	(3,331)
Chg in minorities	-	-	-	-
Other financing activities	-	-	-	-
Cash flow from financing (c)	3,849	(9,845)	(2,570)	(4,331)
Net chg in cash (a+b+c)	3,753	5,106	(8,577)	11,344

Balance Sheet					(Rs mn)
Year-end: March	FY20	FY21	FY22E	FY23E	
Net fixed assets	31,854	32,890	34,499	32,650	
Investments	26,059	33,145	33,145	33,145	
Other non-curr assets	-	-	-	-	
Current assets	34,529	35,718	36,372	52,245	
Inventories	10,389	11,518	14,431	16,138	
Sundry Debtors	12,814	8,700	13,551	15,353	
Cash and Bank	4,192	9,298	721	12,065	
Marketable Securities	-	-	-	-	
Loans and advances	1,698	1,457	1,802	2,042	
Total assets	92,441	1,01,753	1,04,017	1,18,040	
Shareholders' funds	36,181	41,710	48,529	58,522	
Share capital	475	475	475	475	
Reserves & surplus	35,706	41,234	48,054	58,047	
Total Debt	20,843	11,590	11,293	10,293	
Secured loans	9,904	11,293	11,293	10,293	
Unsecured loans	10,939	297	-	-	
Other liabilities	1,473	1,955	1,955	1,955	
Curr Liab & prov	33,944	46,499	42,240	47,270	
Current liabilities	32,181	44,573	39,859	44,573	
Provisions	1,763	1,925	2,381	2,698	
Total liabilities	56,260	60,044	55,488	59,518	
Total equity & liabilities	92,441	1,01,753	1,04,017	1,18,040	
Book Value (Rs)	76	88	102	123	

Source: Company; IDBI Capital Research

Financial Ratios

Year-end: March	FY20	FY21	FY22E	FY23E
Adj. EPS (Rs)	13.1	12.9	19.1	28.0
Adj. EPS growth (%)	(6.8)	(2.0)	48.6	46.5
EBITDA margin (%)	8.2	8.5	9.0	10.6
Pre-tax margin (%)	4.6	4.9	6.1	7.9
ROE (%)	17.9	15.7	20.2	24.9
ROCE (%)	15.8	16.4	22.7	28.7
Turnover & Leverage ratios (x)				
Asset turnover (x)	1.9	1.7	2.0	2.1
Leverage factor (x)	2.5	2.5	2.3	2.1
Net margin (%)	3.8	3.7	4.4	5.7
Net Debt/Equity (x)	0.5	0.1	0.2	0.0
Working Capital & Liquidity ratio				
Inventory days	23	25	25	25
Receivable days	28	19	24	24
Payable days	71	98	77	78

Valuation

Year-end: March	FY20	FY21	FY22E	FY23E
P/E (x)	46.0	46.9	31.6	21.5
Price / Book value (x)	7.9	6.9	5.9	4.9
PCE (x)	25.8	26.0	19.8	15.0
EV / Net sales (x)	1.8	1.7	1.4	1.2
EV / EBITDA (x)	22.6	20.3	15.9	11.5
Dividend Yield (%)	0.6	0.6	0.8	1.2



Notes

Dealing

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Key to Ratings Stocks:

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

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