AXIS SECURITIES

Result Update
22nd October 2021

TVS Motors
Auto

BUY
Target Price
670

Strong Quarter, Encouraging Outlook; Upgrade to BUY

TVS Motors Ltd (TVSL) posted a robust set of numbers for the quarter with the company's performance ahead of our expectations. Its total export of two-wheelers (2W) and three-wheelers (3W) registered a growth of 46% YoY to 3.15 Lc units in Q2FY22, offsetting a decline of 8% in domestic sales (6 Lc units). The demand in the export markets continues to be robust. TVSL's revenue for the quarter stood at Rs 5,619 Cr (our estimate - Rs 5,497 Cr) as compared to Rs 4,605 Cr in Q2FY21, reporting a growth of 22% YoY. This was on account of ~6% growth in volumes and a 15.5% YoY increase in ASPs. Reported EBITDA came in at Rs 563 Cr, a 31% YoY increase (our estimate - Rs 512 Cr). TVSL reported an EBITDA margin of 10%, a 68bps YoY expansion (our estimate – 9.3%). The company was able to achieve the same despite various challenges in terms of increase in commodity costs, scarcity of containers for international business, and shortage in semiconductors through significant cost reduction initiatives and strong growth in revenues.PAT came in at Rs 278 Cr (our estimate - Rs 261 Cr) as compared to Rs 196 Cr in Q2FY21, a growth of ~42% YoY. We expect the company's volumes to grow at ~12% CAGR over FY21-24E and revenue/earnings at 17%/33% CAGR over the same period. **We upgrade our rating from HOLD to BUY with a revised target price of Rs 670 (from Rs 570 earlier) valuing the company at 22x FY24 EPS.**

Key Concall Takeaways

- **Domestic Demand:** The 2W industry demand has remained quite subdued over the last few months. The retail sales during the festive period so far (Navratra) declined by double digits on a YoY basis, driven by weak rural demand, fear of COVID 3.0, weak consumer sentiment and purchasing power due to a steep increase in vehicle prices (up around 40% over the last 2.5-3 years) along with increasing petrol prices. However, the management remains optimistic of demand to pickup in Diwali and beyond led by strong vaccination rollout by the government and continued recovery in rural markets aided by the agri sector. In the last 3 months, TVSL has launched 2 new products – TVS Jupiter 125 and TVS Raider and it has received excellent feedback for both the products.
- **Exports remain resilient:** Export volumes grew by 46% YoY in Q2FY22 led by strong demand momentum in the overseas markets. TVSL's export revenue stood at Rs 1,834Cr in Q2FY22 (flat QoQ).The company's ASPs were supported by price hikes and favourable USD/INR realization at Rs 74.4 (vs 73.9 in Q1FY22). The management expects exports growth to remain robust in FY22 led by (1) Higher commodity prices – positive for Africa and LatAM markets, (2) Strong customer demand, and (3) Improvement in markets such as Bangladesh and Sri Lanka – lockdowns have eased in Bangladesh and import restrictions in Sri Lanka are coming down gradually.
- **Price Hikes & Cost Reduction measures:** TVSL had taken a price increase of around 1.1% in Oct'21 (1.4% in July and 1.1% in Apr'21) to mitigate the impact of higher commodity prices. There is still an under-recovery of 50-60bps, which is expected to be offset by improving product mix and undertaking cost reduction measures through value addition and value engineering activities to combat rising commodity inflation. The company will look to further reduce costs through localization, platform consolidation, other cost-reduction efforts (lower marketing spend to sales and higher spends on digital platforms), etc. to improve profitability moving forward.

Valuation & Outlook

TVSL is witnessing strong sequential recovery across its portfolio in domestic as well as international markets. The share of premium products in the portfolio is increasing which is helping the company to improve its margins. We expect the company's volumes to grow at ~12% CAGR over FY21-24E. We have slightly increased our estimates for FY22E and FY23E and have introduced FY24E estimates as well. We expect a robust revenue/earnings CAGR of 17%/33% over the same period. Considering the new product launches and improving demand outlook for the company in domestic as well as international markets, we expect TVSL to outpace the industry growth over the next 2 years. We expect the company's EBITDA margin to remain sustainable at current levels over the coming quarters on account of improving product mix, higher exports and cost optimization measures. **We upgrade our rating from HOLD to BUY with a revised target price of Rs 670 (from Rs 570 earlier) valuing the company at 22x FY24 EPS.**

Key Financials (Standalone)

(Rs Cr)	FY21A	FY22E	FY23E	FY24E
Net Sales	16,751	21,984	24,437	27,037
EBITDA	1,463	2,180	2,466	2,749
Net Profit	612	1,061	1,271	1,448
EPS (Rs)	13.4	22.8	26.8	30.5
ROE (%)	16.0	23.0	22.4	21.2
ROCE (%)	12.8	19.9	20.2	19.7
PER (x)	43.6	25.3	21.5	18.9
P/BV (x)	6.7	5.4	4.5	3.7
EV/EBITDA (x)	19.2	12.7	11.1	9.9
Debt/ Equity (x)	0.3	0.2	0.1	0.1

Source: Company, Axis Research

(CMP as of Oct 21, 2021)	
CMP (Rs)	577
Upside /Downside (%)	16%
High/Low (Rs)	666/407
Market cap (Cr)	27,391
Avg. daily vol. (6m) Shrs.	6,65,507
No. of shares (Cr)	47.5

Shareholding (%)

	Mar-21	Jun-21	Sep-21
Promoter	57.4	52.3	52.3
FIIs	12.3	14.0	12.8
MFs / UTI	11.5	15.8	15.7
Banks / FIs	0.1	0.1	0.1
Others	18.7	17.9	19.2

Financial & Valuations

Y/E Mar (Rs. Cr)	2022E	2023E	2024E
Net Sales	21,984	24,437	27,037
EBITDA	2,180	2,466	2,749
Net Profit	1,084	1,271	1,448
EPS (Rs.)	22.8	26.8	30.5
PER (x)	25.3	21.5	18.9
EV/EBITDA (x)	12.7	11.1	9.9
P/BV (x)	5.4	4.5	3.7
ROE (%)	23.0	22.4	21.2

Change in Estimates (%)

Y/E Mar	FY22E	FY23E	FY24E
Sales	3.8	1.6	-
EBITDA	15.5	6.3	-
PAT	15.0	3.2	-

Axis vs Consensus

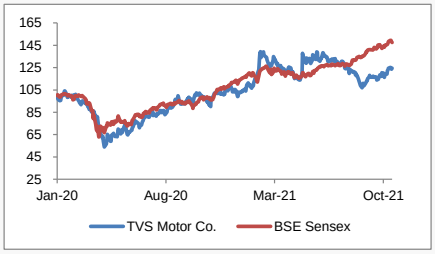
EPS Estimates	2022E	2023E	2024E
Axis	22.8	26.8	30.5
Consensus	19.6	26.1	30.4
Mean Consensus TP (12M)			**619**

ESG Disclosure Score

Environmental Disclosure Score	20.2
Social Disclosure Score	38.6
Governance Disclosure Score	57.1
Total ESG Disclosure Score	33.1

Source: Bloomberg, Scale 0.1-100
**Note: This score measures the amount of ESG data a company reports publicly and does not measure the company's performance on any data point. All scores are based on 2021 disclosures

Relative performance



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Q2FY22 Financial Highlights (Standalone)

(RsCr)	Q2FY22	Axis Sec Estimates	Axis Sec Var (%)	Q1FY22	QoQ growth (%)	Q2FY21	YoY growth (%)
Total Revenue	**5,619**	**5,497**	**2.2**	**3,934**	***42.8***	**4,605**	***22.0***
Less:							
Net Raw Material consumed	4,267	4,183	2.0	2,979	*43.2*	3,525	*21.0*
Other Expenses	494	539	(8.2)	421	*17.5*	436	*13.3*
Personnel	296	264	12.2	261	*13.3*	214	*38.0*
Total Expenditure	**5,057**	**4,986**	**1.4**	**3,661**	***38.1***	**4,175**	***21.1***
EBIDTA	**563**	**512**	**10.0**	**274**	***105.6***	**430**	***30.9***
Less: Depreciation	154	145	6.8	143	*7.9*	133	*16.0*
EBIT	**408**	**367**	**11.3**	**131**	***212.5***	**297**	***37.5***
Less: Net Interest	35	29	20.5	30	*16.8*	41	*(14.0)*
Add: Other income	3	11	(69.6)	2	*119.5*	11	*(68.5)*
Profit Before Extra-ordinary items and Tax	**377**	**349**	**7.9**	**102**	***268.3***	**267**	***40.9***
Less: Extraordinary Expense (net)	-	-	*NA*	(30)	*NA*	0	*NA*
Profit Before Tax	**377**	**349**	**7.9**	**132**	***184.5***	**267**	***40.9***
Less: Total Tax	99	88	12.9	19	*422.1*	71	*39.5*
Profit After Tax	**278**	**261**	**6.2**	**113**	***144.6***	**196**	***41.5***
Adj. PAT	**278**	**261**	**6.2**	**75**	***268.4***	**196**	***41.5***
Shares Outstanding (mn)	48	48		48		48	
Reported EPS (Rs.)	**5.8**	**5.5**	**6.2**	**2.4**	***144.6***	**4.1**	***41.5***
Adj. EPS (Rs.)	**5.84**	**5.50**	**6.2**	**1.6**	***268.4***	**4.1**	***41.5***

Source: Company; Axis Securities

Other Key Concall Takeaways

1) **Capex & Investments in Subsidiaries:** TVSL has guided for Capex of Rs750-800Crfor FY22E to be spent on product development and capacity expansion. In terms of investment in subsidiaries, in Q2, During Q2, the company invested Rs 350 Cr – (1) Rs 200 Cr in TVS Singapore – Rs 140 Cr was for the acquisition of "EGO Movement' a Swiss technology company with a portfolio of e-bikes, e-cargo bikes, and e-scooters.and balance for Norton Motorcycles, (2) Rs 130 Cr to acquire 2-3% stake in TVS Supply Chain Solutions (group company) and (3) Rs 50 Cr in TVS Credit Services (financing subsidiary).

2) **Electric Vehicle:** Management has guided for an investment of Rs 1,000 Cr over the next few years for developing EV products and expanding capacity to 10k vehicles/month by Jan'22 and further in FY23E. TVSL has incorporated a separate subsidiary, which will house its domestic and global EV business.TVS' iQube has a robust order book, but production has been adversely impacted by a semiconductor shortage. The company has launched iQube in 33 cities and expects to have a nationwide presence by FY22 end. TVSL has also tied up with Tata Power to set up dedicated charging infra for 2Ws in India. The strategy to create a separate subsidiary augurs well for global EV tie-ups and the company may consider fundraising plans in future. It also plans to launch EV three-wheelers (3Ws) soon and will strengthen its EV portfolio over the coming quarters.

3) **TVS Credit Services performance:** Management highlighted that the current book size has grown and it stood at Rs 11,420 Cr as of Sept end. The company's profit before tax stood at Rs 35.1 Cr as against 14.3 Cr of last year. The Net worth stands Rs 1,658 Cr. Also, all the norms of capital adequacy are fully met. The collections for Q2FY22 have been extremely good and stood at Rs 2400 Cr as compared to Rs 1800 Cr last year.

4) **Other takeaways**:

- ✓ Near-term challenges of global semi-conductor shortage are impacting Apache and other premium bikes. Also, container availability and delay in transportation continue to create challenges.The company lost the sale of close to 25K units of Apache due to the semi-conductor shortages.
- ✓ The company has sufficient eligibility for the PLI scheme and would look to take benefit from the schemes going forward.
- ✓ PT TVS Indonesia sold 28.5K 2Ws in Q2FY22 (vs 14.7K in Q2FY21) and 2.4K 3Ws (vs 1.3K in Q2FY21). The company posted a positive PBT of USD 0.9 mn in Q2FY22 vs USD 0.5 mn last year.
- ✓ Revenuefrom spare parts stood at Rs 615Cr in Q2FY22 (vs 369 Cr in Q1FY22).
- ✓ Q2FY22 saw RoDTEP incentive benefit of ~40bps pertaining to previous quarters (Q4FY21 and Q1FY22) – for Q2FY22, benefits from RoDTEP policy was around Rs 15 Cr.
- ✓ The USD/INR realization rate for the quarter was Rs 74.4 against Rs 74.5 in Q2FY21.

Change in Estimates

(RsCr)

	Revised			Old			%Change		
	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E
Revenue	21,984	24,437	27,037	21,172	24,043	-	3.8	1.6	N.A.
EBITDA	2,180	2,466	2,749	1,887	2,321	-	15.5	6.3	N.A.
PAT	1,084	1,271	1,448	942	1,232	-	15.0	3.2	N.A.
EPS	22.8	26.8	30.5	19.8	25.9	-	15.0	3.2	N.A.

Source: Company, Axis Research

Financials (Standalone)

Profit & Loss (Rs Cr)

Y/E March	FY21A	FY22E	FY23E	FY24E
Net revenues	**16,751**	**21,984**	**24,437**	**27,037**
Operating expenses	15,288	19,803	21,971	24,287
EBITDA	**1,463**	**2,180**	**2,466**	**2,749**
EBIDTA margin (%)	**8.7**	**9.9**	**10.1**	**10.2**
Other income	33	20	27	34
Interest	142	138	105	86
Depreciation	494	597	670	742
Profit Before Tax	826	1,436	1,718	1,956
Tax	214	375	447	509
Reported Net Profit	**612**	**1,061**	**1,271**	**1,448**
Net Margin (%)	3.7	4.8	5.2	5.4
Adjusted Net Profit	**637**	**1,084**	**1,271**	**1,448**

Source: Company, Axis Securities

Balance Sheet (Rs Cr)

Y/E March	FY21A	FY22E	FY23E	FY24E
Equity capital	48	48	48	48
Reserves & surplus	4,123	4,985	6,056	7,304
Shareholders' funds	**4,171**	**5,032**	**6,104**	**7,351**
Total Loans	1,159	959	659	659
Deferred tax liability	195	195	195	195
Total Liabilities and Equity	**5,525**	**6,187**	**6,958**	**8,206**
Gross block	6,210	7,052	7,839	8,639
Depreciation	3,313	3,910	4,580	5,321
Net block	2,898	3,142	3,259	3,318
Capital WIP	279	188	200	200
Investments	3,315	3,715	4,115	4,615
Inventory	1,152	1,686	1,808	1,926
Debtors	870	1,144	1,540	2,000
Cash & Bank Bal	930	704	569	714
Loans & Advances	755	1,117	1,239	1,369
Current Assets	**3,707**	**4,651**	**5,156**	**6,009**
Sundry Creditors	3,922	4,758	5,021	5,185
Other Current Liability	193	193	193	193
Current Liability& Provisions	4,672	5,509	5,772	5,936
Net current assets	-965	-857	-616	73
Total Assets	**5,525**	**6,187**	**6,958**	**8,206**

Source: Company, Axis Securities

Cash Flow (Rs Cr)

Y/E March	FY21A	FY22E	FY23E	FY24E
EBIT	969	1,584	1,796	2,008
Other Income	33	20	27	34
Depreciation & Amortization	494	597	670	742
Interest Paid (-)	-142	-138	-105	-86
Tax paid (-)	-214	-375	-447	-509
Extra Ord Income	-34	-30	0	0
Operating Cash Flow	**1,106**	**1,658**	**1,941**	**2,189**
Change in Working Capital	1,649	-334	-376	-545
Cash Flow from Operations	**2,754**	**1,324**	**1,565**	**1,644**
Capex	-588	-750	-800	-800
Strategic investments	-687	-400	-400	-500
Non-Strategic Investments	-22	0	0	0
Cash Flow from Investing	**-1,297**	**-1,150**	**-1,200**	**-1,300**
Change in borrowing	-925	-200	-300	0
Others	178	0	0	0
Dividends paid (-)	-200	-200	-200	-200
Cash Flow from Financial Activities	**-947**	**-400**	**-500**	**-200**
Change in Cash	511	-226	-135	145
Opening Cash	419	930	704	569
Closing Cash	930	704	569	714

Source: Company, Axis Securities

Ratio Analysis (%)

Y/E March	FY21A	FY22E	FY23E	FY24E
Revenue Growth	2.0	31.2	11.2	10.6
EBITDA Margin	8.7	9.9	10.1	10.2
Net Profit Margin	3.8	4.9	5.2	5.4
ROCE (%)	12.8	19.9	20.2	19.7
ROE (%)	16.0	23.0	22.4	21.2
EPS (Rs)	13.4	22.8	26.8	30.5
P/E (x)	43.6	25.3	21.5	18.9
P / BV (x)	6.7	5.4	4.5	3.7
EV / EBITDA (x)	19.2	12.7	11.1	9.9
Fixed Asset Turnover Ratio (x)	5.8	7.0	7.5	8.1
Debt Equity (x)	0.3	0.2	0.1	0.1
EV / Sales	1.7	1.3	1.1	1.0

Source: Company, Axis Securities

TVS Motor Chart and Recommendation History

Date	Reco	TP	Research
28-Aug-20	SELL	400	Initiating Coverage
28-Sep-20	SELL	400	Auto Sector Update
29-Oct-20	SELL	445	Result Update
29-Jan-21	HOLD	500	Result Update
28-Apr-21	HOLD	600	Result Update
30-Jul-21	HOLD	570	Result Update
22-Oct-21	BUY	670	Result Update

Source: Axis Securities

About the analyst

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Sector: Auto

Analyst Bio: Darshan Gangar is Chartered Accountant with over two years of research experience in the Mid Cap space and Auto sector.

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