



## 3R MATRIX

	+	=	-
Right Sector (RS)	✓	■	■
Right Quality (RQ)	✓	■	■
Right Valuation (RV)	✓	■	■

+ Positive = Neutral - Negative

## What has changed in 3R MATRIX

	Old		New
RS	■	↔	■
RQ	■	↔	■
RV	■	↔	■

## Reco/View

	Change
Reco: Buy	↔
CMP: Rs. 566	
Price Target: Rs. 688	↔

↑ Upgrade ↔ Maintain ↓ Downgrade

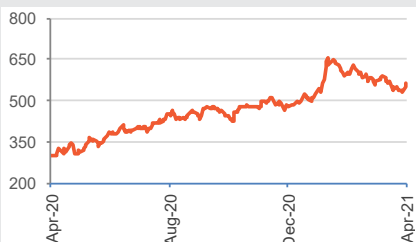
## Company details

Market cap:	Rs. 26,890 cr
52-week high/low:	Rs. 660 / 291
NSE volume: (No of shares)	38.5 lakh
BSE code:	532343
NSE code:	TVSMOTOR
Free float: (No of shares)	20.2 cr

## Shareholding (%)

Promoters	57.4
FII	12.3
DII	20.8
Others	9.4

## Price chart



## Price performance

(%)	1m	3m	6m	12m
Absolute	-2.5	10.5	23.8	89.5
Relative to Sensex	-0.8	11.4	0.6	35.9

Sharekhan Research, Bloomberg

## Summary

- Q4FY2021 results beat our expectations, as the rise in EBITDA margins was higher than estimates.
- TVS Motors (TVSM) to benefit from a sharp recovery in domestic two-wheeler demand in FY2022E, driven by strong rural sentiments and increased preference for personal transport. Moreover, TVSM's strong foothold in export markets is likely to keep overall sales robust going forward.
- Aggressive product launches, forays into new markets and investments in newer and cleaner technologies would drive growth
- The stock trades below its historical average at P/E multiple of 22.5x and EV/EBITDA multiple of 12.0x its FY2023 estimates. We maintain Buy rating on the stock with an unchanged PT of Rs. 688.

Q4FY21 results beat our expectations as rise in EBITDA margins was higher than our expectations. Net revenues grew by 51.9% y-o-y to Rs 5,322 crore, driven by robust 47.7% growth in volumes and a 2.8% growth in average selling price (ASP). Average selling prices improved, aided by a better product mix and price hikes. A faster-than-expected recovery in key markets drove up exports; the number could have been higher, but for the unavailability of containers owing to the COVID-19 pandemic. Exports grew by 74% y-o-y in Q04Y2021, while domestic sales grew by 41% y-o-y. A recovery in key markets and tapping of new geographies drove strong growth, which we expect would sustain going forward. EBITDA margin improved by robust 246 bps y-o-y and 59 bps q-o-q to 10.1%, leading to a faster EBITDA growth of 100.9% y-o-y and 4.9% q-o-q to Rs 536 crore. OPM improved on the back better product mix – higher share of premium bikes in both domestic and export markets, operating leverage benefits and cost reduction initiatives. Aided by strong operating performance, the company reported a 201.7% y-o-y and 8.9% q-o-q jump in PAT to Rs. 289 crore. TVSM is witnessing a strong recovery in domestic demand with sales gaining momentum every month. Domestic demand has improved, driven by strong rural sentiments and increased preference for personal transport. We expect TVSM to benefit from a recovery in urban demand swiftly, led by gradual reopening of urban centres and new product launches. Moreover, the premium motorcycle segment is expected to do well in the near term. TVSM's premium motorcycle launches (Apache variants) and scooter (Jupiter and Ntorq) have received positive response in the past. Further successful launches could lead to further market share gains and higher volume growth as compared to the industry. We have maintained our estimates, as we have built in gradual improvement in margins in the medium term. We expect earnings to grow strongly at 39.9% CAGR during FY2021-23E, driven by 16.2% revenue CAGR and a 140 bps rise in EBITDA margin.

## Our Call

**Valuation - Maintain Buy with an unchanged PT of Rs. 688:** TVSM has been increasing its market share in both domestic and export markets, aided by a strong product portfolio. We remain positive on the two-wheeler industry owing to strong demand prospects despite COVID-19. Personal transportation is deemed safer amid COVID-19 and two-wheelers are an affordable choice for buyers. We expect TVSM to be a key beneficiary of two-wheeler demand, given its aggressive new product launches across its sub-segment. We expect FY22 to be strong recovery for TVSM, as the economic activities normalizes. Margins are expected to improve, driven by operating leverage and cost-control measures. The stock is trading below its historical average at P/E multiple of 22.5x and EV/EBITDA multiple of 12.0x its FY2023 estimates. We maintain a Buy rating on the stock with an unchanged PT of Rs. 688.

## Key Risks

Rising raw material prices may pose threat to profitability, if the commodity prices continue to rise for longer period. In addition, the second wave of COVID can slowdown the growth momentum, if it persists to continue for longer period.

## Valuation (Standalone)

Particulars	FY19	FY20	FY21	FY22E	FY23E
Net sales	18,210	16,423	16,751	20,208	22,633
Growth (%)	20.0	(9.8)	2.0	20.6	12.0
EBIDTA	1,433	1,346	1,429	1,956	2,250
OPM (%)	7.9	8.2	8.5	9.7	9.9
PAT	670	592	612	982	1,197
Growth (%)	1.1	(11.6)	3.3	60.4	22.0
FD EPS (Rs)	14.1	13.1	12.9	20.7	25.2
P/E (x)	40.1	43.1	43.9	27.4	22.5
P/BV (x)	8.0	7.4	6.6	5.7	4.8
EV/EBITDA (x)	19.6	21.1	19.9	14.2	12.0
RoE (%)	20.0	16.4	15.1	20.7	21.5
RoCE (%)	20.8	15.0	16.2	22.1	23.5

Source: Company; Sharekhan estimates

#### **Q4FY2021 results ahead of our estimates on strong operational performance:**

Q4FY21 results beat our expectations as rise in EBITDA margins was higher than our expectations. Net revenues grew by 51.9% y-o-y to Rs 5,322 crore, driven by robust 47.7% growth in volumes and a 2.8% growth in average selling price (ASP). Average selling prices improved, aided by a better product mix and price hikes. A faster-than-expected recovery in key markets drove up exports; the number could have been higher, but for the unavailability of containers owing to the COVID-19 pandemic. Exports grew by 74% y-o-y in Q04Y2021, while domestic sales grew by 41% y-o-y. A recovery in key markets and tapping of new geographies drove strong growth, which we expect would sustain going forward. EBITDA margin improved by robust 246 bps y-o-y and 59 bps q-o-q to 10.1%, leading to a faster EBITDA growth of 100.9% y-o-y and 4.9% q-o-q to Rs 536 crore. OPM improved on the back better product mix – higher share of premium bikes in both domestic and export markets, operating leverage benefits and cost reduction initiatives. Aided by strong operating performance, the company reported a 201.7% y-o-y and 8.9% q-o-q jump in PAT to Rs. 289 crore.

#### **Buoyant demand helping to take price hikes comfortably:**

Key input costs have risen substantially, due to a sharp rise in prices of steel, aluminium, copper, rhodium and other materials. Channel check suggests that automobiles' input price contracts for H2FY2021 have been raised by 10-15% by large steel players. TVSM will be able to pass on the rise in input costs to customers partially, given the buoyant demand. In January, the company took price hike of 2% for its vehicles. The company expects this uncovered cost increase, which is around 0.8% currently, to mitigate from operational efficiencies and cost-reduction measures. Moreover, volumes are staging strong recovery in FY2022, driven by normalisation of business activity. We expect TVSM to sustain margin improvement going forward. We expect OPM to improve by 160 bps to 9.8% in FY2023E as compared to 8.2% in FY2020.

#### **Management positive on domestic demand:**

TVSM is witnessing a strong recovery in domestic demand with sales turning positive from September 2020. Demand in the domestic market has improved, driven by strong rural sentiments and increased preference for personal transport. We expect TVSM to benefit from a swift recovery in urban demand, led by gradual reopening of urban centres and new product launches. Moreover, the premium motorcycle segment is expected to do well in the near term. TVSM's launches in premium motorcycle (Apache variants) and scooter (Jupiter and Ntorq) have received positive response in the past. Further successful launches could lead to market share gains and higher volume growth as compared to the industry.

#### **Capex plans and investment in subsidiaries:**

TVSM has maintained its capacity expansion guidance for FY2021E to Rs. 500 crore. Capex will be largely incurred on product development and increasing capacity in export markets. The company has incurred capex of Rs. 210 crore till the first half of FY2021. During the previous quarter, TVSM had made investments of Rs. 125 crores in its subsidiaries and planned to invest a further Rs. 90 crore in subsidiaries. Major investments were – Rs. 22 crores in PT TVS Motor Company (Indonesia), Rs. 26.5 crore in TVS Motor Singapore, Rs. 30 crore in Ultraviolette Automotive, and Rs. 50 crore in TVS Credit Services. The company plans to invest in product development and technology.

#### **Investing in IoT and AI to improve customer experience and optimise operational efficiencies:**

TVSM has recently acquired Intellicar Telematics Private Limited, an integrated IoT solution provider with fleet tracking and predictive maintenance solutions to a wide range of vehicle types. The company has invested around Rs. 15 crore. The investment will help accelerate ongoing digital initiatives at TVSM, which aim to deliver enhanced customer experience. Other similar investments made by TVSM through its Singapore arm include electric bike maker Ultraviolette Automotive, Tagbox Solutions Limited, Predictronics Inc., and RentOnGo. Tagbox Solutions Private Limited (24.3% stake) provides IoT-based solutions for sensing, monitoring, and analysis across supply chain activities, while Predictronics Corporation, US (23.5% stake), is an AI-driven predictive maintenance analytics solutions provider. With investment in start-ups, TVSM aims to improve component supply chain and manufacturing efficiency.

**Q4FY2021 results**

Particulars	Rs cr				
	Q4FY21	Q4FY20	%YoY	Q3FY21	%QoQ
Net Revenue	5,322	3,503	51.9	5,391	-1.3
Adj EBIDTA	536	267	100.9	511	4.9
EBIDTA Margins (%)	10.1	7.6	246 bps	9.5	59 bps
Depreciation	137	124	9.9	133	2.8
Interest	20	23	-16.8	29	-32.8
Other Income	7	25	-72.4	12	-43.8
PBT	387	144	168.4	362	7.0
Tax	98	16	512.0	96	1.9
Adj PAT	289	96	201.7	266	8.9
EPS	6.1	2.7	125.6	5.6	8.9

Source: Company; Sharekhan Research

## Outlook and Valuation

### ■ Sector Outlook – Sales volumes improving every month; Expect strong recovery from FY2022

Two-wheeler demand has been improving on m-o-m basis and the trend has continued through the festive season in October-November. Recent commentary from industry leaders suggests that demand is coming even after the festive season. We expect growth momentum to continue in FY2022, driven by strong rural sentiments, supported by higher kharif sowing and positive outlook for monsoon this year. The government's reform measures coupled with increased preference for personal transport are expected to improve volumes. We expect strong recovery from FY2022, driven by normalisation of economic activity and pent-up demand (the industry has been in a downcycle for the past seven to eight quarters). Export markets have witnessed notable recovery in volume sales offtake across regional markets - ASEAN, South Asia, Middle East, and Africa. OEMs are positive on recovery and expect these markets to improve. TVSM is likely to benefit from improving scenarios from both domestic as well as export markets.

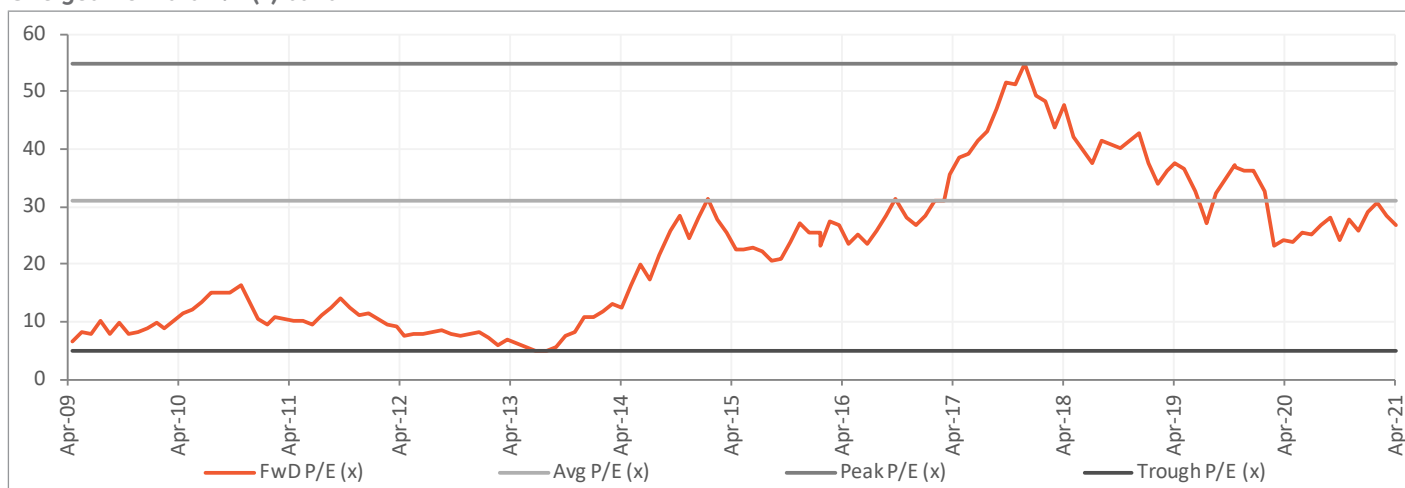
### ■ Company outlook – Fastest earnings growing company in the 2W space

TVSM has gained market share in the two-wheeler industry, with the number rising from 11.8% in FY2014 to about 13.8% in FY2020, driven by successful new launches and a widening distribution network. Moreover, the company has been able to strengthen its presence in the high realisation scooters and motorcycles category with share of mopeds falling from 41% in FY2014 to 26% in FY2020. Cost-control measures, better vendor negotiations, and operating leverage benefits due to better scale have resulted in TVSM emerging as the two-wheeler maker to clock the fastest earnings growth with a strong 15% earnings CAGR over FY2014 to FY2020. TVSM is expected to remain the fastest-growing company going ahead in the two-wheeler segment.

### ■ Valuation – Maintain Buy with an unchanged PT of Rs. 688

TVSM has been increasing its market share in both domestic and export markets, aided by a strong product portfolio. We remain positive on the two-wheeler industry owing to strong demand prospects despite COVID-19. Personal transportation is deemed safer amid COVID-19 and two-wheelers are an affordable choice for buyers. We expect TVSM to be a key beneficiary of two-wheeler demand, given its aggressive new product launches across its sub-segment. We expect FY22 to be strong recovery for TVSM, as the economic activities normalizes. Margins are expected to improve, driven by operating leverage and cost-control measures. The stock is trading below its historical average at P/E multiple of 22.5x and EV/EBITDA multiple of 12.0x its FY2023 estimates. We maintain a Buy rating on the stock with an unchanged PT of Rs. 688.

#### One-year forward P/E (x) band



Source: Sharekhan Research

#### Peer Comparison

Particulars	CMP	P/E (x)			EV/EBIDTA (x)			RoCE (%)		
		FY21	FY22E	FY23E	FY21	FY22E	FY23E	FY21	FY22E	FY23E
TVS Motor	566	43.9	27.4	22.5	19.9	14.2	12.0	16.2	22.1	23.5
Hero MotoCorp	2911	15.2	13.7	12.1	9.4	7.7	9.8	26.1	30.7	27.1
Bajaj Auto	3783	22.8	20.0	17.3	17.0	14.0	11.7	27.7	28.4	28.8

Source: Company, Sharekhan estimates

## About company

TVSM is the flagship company of TVS Group and is the third largest 2W manufacturer in the country. TVSM is the only manufacturer present across all three categories of 2W, viz. motorcycles, scooters, and mopeds. Motorcycles and scooters contribute 40% and 33% of volumes, respectively, while mopeds constitute 23%. TVSM also manufactures three-wheelers (3W, 5% of overall volumes) mainly for the export market. TVSM has been focusing on growing exports with the overseas market contributing about 25% of overall volumes.

## Investment theme

TVSM is one of the leading manufacturers in the two-wheeler industry, with products ranging from moped, scooters to motorcycles. The company has a capability to roll out new products and facelifts at regular intervals. Lately, the company has been focussing on the technology platforms by investing in the company and start-ups. TVSM is expected to continue outpacing the industry, driven by new product launches and enhancing distribution network. Exports have picked up strongly, post August 2020, driven by recovery in key markets and tapping of new geographies. Margin improvement is expected to sustain given cost-control initiatives and benefits of operating leverage. TVSM is expected to remain the fastest growing company among 2Ws given its focus on exports, scooters and bikes.

## Key Risks

Rising input prices may affect margins, if the rising commodity costs are not passed to customers. In a scenario of price competition, TVSM may not be in advantageous position due to lower margins among peers.

## Additional Data

### Key management personnel

Venu Srinivasan	Chairman and Managing Director
Sudarshan Venu	Joint Managing Director
K Gopala Desikan	Chief Financial Officer
K S Srinivasan	Company Secretary and Compliance Officer

Source: Company Website

### Top 10 shareholders

Sr. No.	Holder Name	Holding (%)
1	SUNDARAM CLAYTON LTD	57.4
2	ICICI Prudential Asset Management	7.8
3	Jwalamukhi Investment Holdings	5.7
4	Reliance Capital Trustee Co Ltd	3.5
5	Cartica Capital Ltd	2.0
6	Life Insurance Corp of India	2.0
7	Franklin Resources Inc	1.9
8	Mirae Asset Global Investments Co	1.8
9	Tree Line Asia Master Fund	1.4
10	Invesco Asset Management India Pvt Ltd	0.8

Source: Bloomberg

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## Understanding the Sharekhan 3R Matrix

Right Sector	
Positive	Strong industry fundamentals (favorable demand-supply scenario, consistent industry growth), increasing investments, higher entry barrier, and favorable government policies
Neutral	Stagnancy in the industry growth due to macro factors and lower incremental investments by Government/private companies
Negative	Unable to recover from low in the stable economic environment, adverse government policies affecting the business fundamentals and global challenges (currency headwinds and unfavorable policies implemented by global industrial institutions) and any significant increase in commodity prices affecting profitability.
Right Quality	
Positive	Sector leader, Strong management bandwidth, Strong financial track-record, Healthy Balance sheet/cash flows, differentiated product/service portfolio and Good corporate governance.
Neutral	Macro slowdown affecting near term growth profile, Untoward events such as natural calamities resulting in near term uncertainty, Company specific events such as factory shutdown, lack of positive triggers/events in near term, raw material price movement turning unfavourable
Negative	Weakening growth trend led by led by external/internal factors, reshuffling of key management personal, questionable corporate governance, high commodity prices/weak realisation environment resulting in margin pressure and deteriorating balance sheet
Right Valuation	
Positive	Strong earnings growth expectation and improving return ratios but valuations are trading at discount to industry leaders/historical average multiples, Expansion in valuation multiple due to expected outperformance amongst its peers and Industry up-cycle with conducive business environment.
Neutral	Trading at par to historical valuations and having limited scope of expansion in valuation multiples.
Negative	Trading at premium valuations but earnings outlook are weak; Emergence of roadblocks such as corporate governance issue, adverse government policies and bleak global macro environment etc warranting for lower than historical valuation multiple.

Source: Sharekhan Research

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