Prabhudas Lilladher
POWERING YOUR FINANCIAL GROWTH

October 21, 2021

## Q2FY22 Result Update

☑ Change in Estimates | ☑ Target | ■ Reco

### Change in Estimates

| | Current | | Previous | |
|---|---|---|---|---|
| | FY23E | FY24E | FY23E | FY24E |
| **Rating** | BUY | | BUY | |
| **Target Price** | 682 | | 690 | |
| Sales (Rs. m) | 2,43,730 | 2,71,763 | 2,44,791 | 2,74,853 |
| *% Chng.* | *(0.4)* | *(1.1)* | | |
| EBITDA (Rs. m) | 22,667 | 26,361 | 22,766 | 26,936 |
| *% Chng.* | *(0.4)* | *(2.1)* | | |
| EPS (Rs.) | 25.8 | 31.3 | 26.0 | 32.2 |
| *% Chng.* | *(0.6)* | *(2.8)* | | |

### Key Financials - Standalone

| Y/e Mar (Rs bn) | FY21 | FY22E | FY23E | FY24E |
|---|---|---|---|---|
| Sales (Rs. m) | 1,67,505 | 2,10,449 | 2,43,730 | 2,71,763 |
| EBITDA (Rs. m) | 14,286 | 18,940 | 22,667 | 26,361 |
| *Margin (%)* | *8.5* | *9.0* | *9.3* | *9.7* |
| PAT (Rs. m) | 6,120 | 9,639 | 12,276 | 14,874 |
| EPS (Rs.) | 12.9 | 20.3 | 25.8 | 31.3 |
| *Gr. (%)* | *(0.9)* | *57.5* | *27.4* | *21.2* |
| DPS (Rs.) | 3.5 | 4.0 | 4.0 | 4.0 |
| *Yield (%)* | *0.6* | *0.7* | *0.7* | *0.7* |
| *RoE (%)* | *15.7* | *21.1* | *22.5* | *22.4* |
| *RoCE (%)* | *15.5* | *21.2* | *23.6* | *24.6* |
| EV/Sales (x) | 1.7 | 1.3 | 1.1 | 0.9 |
| EV/EBITDA (x) | 19.7 | 14.6 | 12.0 | 9.8 |
| PE (x) | 44.8 | 28.4 | 22.3 | 18.4 |
| P/BV (x) | 6.6 | 5.5 | 4.6 | 3.8 |

| Key Data | TVSM.BO \| TVSL IN |
|---|---|
| 52-W High / Low | Rs.666 / Rs.407 |
| Sensex / Nifty | 60,924 / 18,178 |
| Market Cap | Rs.274bn/ $ 3,662m |
| Shares Outstanding | 475m |
| 3M Avg. Daily Value | Rs.2187.72m |

### Shareholding Pattern (%)

| | |
|---|---|
| Promoter's | 52.26 |
| Foreign | 12.77 |
| Domestic Institution | 25.15 |
| Public & Others | 9.82 |
| Promoter Pledge (Rs bn) | - |

### Stock Performance (%)

| | 1M | 6M | 12M |
|---|---|---|---|
| Absolute | 8.2 | 7.5 | 29.4 |
| Relative | 4.8 | (15.8) | (13.6) |

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# TVS Motors (TVSL IN)

## Rating: BUY | CMP: Rs577 | TP: Rs682

## *To outpace industry growth*

**Quick Pointers:**

- TVS posted its highest ever quarterly revenue of Rs 56bn despite challenging environment
- The company is creating a new subsidiary to increase focus on EV products.

***TVSL's 2QFY22 EBITDA margin at 10% (+70bps YoY) surprised positively, as the company was able to deliver highest ever quarterly revenue and EBITDA amidst challenging demand environment (subdued festive season) and rising commodity cost pressures. The growth was driven by premiumisation, higher exports and price hikes. TVSL's product pipeline also remains strong with Ntorq, Jupiter125, Apache, Raider etc. gaining traction. Earlier, the management had announced Rs10bn investment towards development of EV product portfolio and incrementally a new subsidiary will be created for EV focused products and technologies.***

***We maintain our positive stance on TVS as (i) new product launches will aid in increasing volumes (ii) with countries now opening up, exports are likely to improve (iii) receding fear of 3rd wave in India can possibly pent-up demand in upcoming quarters and (iv) cost reduction efforts and price hikes will aid in protection of margins. Maintain 'BUY' with a TP of Rs 682, at 23x on Jun-23E EPS and Rs 56 for TVS Credit. TVS remains our preferred pick in the 2W space. We marginally cut our estimates by ~2% over FY23-24 to factor in challenging demand environment.***

- **Inline operating performance:** Volumes for the quarter grew by 5.6% YoY to 916k units affected by challenging demand environment. However, average realizations grew 15% YoY to Rs 61.3k driven by premiumisation and price hikes (1.1% in 2QFY22). Revenue grew 22% YoY to Rs 56.19bn (vs PLe of Rs 55.82bn), highest ever reported revenue. EBITDA margin came in at 10% (+70bps YoY, vs PLe of 9.1%); this was driven by better product mix and cost control measures. The company reported a PAT of Rs 2.77bn (+42% YoY) v/s PLe of Rs 2.55bn.
- **Key takeaways**: **(1) New product launches to drive growth:** TVS Ntroq has received positive response along with other products like Jupiter, Apache Raider etc. Its scooter portfolio has gained significant traction. The company plans a series of launches in the upcoming months, to drive ahead of industry growth. **(2) Weak festive season:** Management highlighted that festive season sales have remained subdued, as there is no pent-up demand unlike corresponding period last year and unusual monsoons have affected sales. **(3) EV remains a key focus area:** Earlier, TVS has highlighted an investment of Rs 10bn for development of EV products and technologies. By the end of this year, it plans to have a facility with 10k units/month capacity, as it expands pan-India (currently in 33 cities). Also, a new subsidiary will be created for EV business to drive focus and flexibility towards EV. **(4) Commodity headwinds:** Against the rising commodity prices, the company has taken a price hike of 1.1% in 2QFY22 (2.4% in Jul-21). Also, semiconductor unavailability remains a concern as volumes for Apache (impact of 25k units in 2QFY22) and iQube are affected.

### Exhibit 1: Q2FY22 Result Overview (Rs m)

| Y/e March | Q2FY22 | Q2FY21 | YoY gr. (%) | Q1FY22 | H1FY22 | H1FY21 | YoY gr. (%) |
|---|---|---|---|---|---|---|---|
| **Net Revenues** | **56,194** | **46,055** | ***22.0*** | **39,344** | **95,538** | **60,372** | ***58.2*** |
| Raw Materials | 42,665 | 35,246 | *21.0* | 29,790 | 72,455 | 46,110 | *57.1* |
| *% of Net Sales* | *75.9* | *76.5* | | *75.7* | *75.8* | *76.4* | |
| Personnel | 2,957 | 2,143 | *38.0* | 2,609 | 5,566 | 4,113 | *35.3* |
| *% of Net Sales* | *5.3* | *4.7* | | *6.6* | *5.8* | *6.8* | |
| Manufacturing & Other Exp | 4,943 | 4,365 | *13.3* | 4,207 | 9,151 | 6,337 | *44.4* |
| *% of Net Sales* | *9.7* | *9.5* | | *9.7* | *9.6* | *10.5* | |
| Total Expenditure | 50,565 | 41,754 | *21.1* | 36,606 | 87,171 | 56,559 | *54.1* |
| **EBITDA** | **5,629** | **4,301** | ***30.9*** | **2,738** | **8,366** | **3,813** | ***119.4*** |
| *EBITDA Margin (%)* | ***10.0*** | ***9.3*** | | ***7.0*** | ***8.8*** | ***6.3*** | |
| Depreciation | 1,544 | 1,331 | *16.0* | 1,431 | 2,975 | 2,242 | *32.7* |
| **EBIT** | **4,084** | **2,970** | ***37.5*** | **1,307** | **5,392** | **1,571** | ***243.1*** |
| Interest Expenses | 350 | 407 | *(14.0)* | 300 | 650 | 930 | *(30.1)* |
| Non-operating income | 35 | 111 | | 16 | 51 | 137 | *(62.9)* |
| Extraordinary Income | 0 | 0 | | 302 | 302 | 0 | |
| **PBT** | **3,769** | **2,674** | ***40.9*** | **722** | **4,491** | **778** | ***477.1*** |
| Tax-Total | 993 | 712 | *39.5* | 191 | 1,184 | 206 | *473.6* |
| *Tax Rate (%) - Total* | *26.3* | *26.6* | *(1.0)* | *26.4* | *26.4* | *26.5* | |
| **Reported PAT** | **2,776** | **1,963** | ***41.5*** | **531** | **3,307** | **572** | ***478.3*** |
| **Adj. PAT** | **2,776** | **1,963** | ***41.5*** | **753** | **3,529** | **572** | ***517.1*** |

*Source: Company, PL*

### Exhibit 2: Operating Metrics

| Y/e March | Q2FY22 | Q2FY21 | YoY gr. (%) | Q1FY22 | H1FY22 | H1FY21 | YoY gr. (%) |
|---|---|---|---|---|---|---|---|
| **Sales Volume (no.s)** | **9,16,705** | **8,67,834** | ***5.6*** | **6,57,758** | **30,51,863** | **32,63,352** | ***(6.5)*** |
| Net Realisation/Vehicle | 61,300 | 53,069 | *15.5* | 59,815 | 31,305 | 18,500 | *69.2* |
| Material cost / vehicle | 46,542 | 40,614 | *14.6* | 45,290 | 23,741 | 14,130 | *68.0* |
| Gross Profit / vehicle | 14,758 | 12,455 | *18.5* | 14,525 | 7,564 | 4,371 | *73.1* |
| Employee cost /vehicle | 3,225 | 2,469 | *30.6* | 3,967 | 1,824 | 1,260 | *44.7* |
| Other expenses / vehicle | 5,393 | 5,030 | *7.2* | 6,396 | 2,998 | 1,942 | *54.4* |
| EBITDA/vehicle | 6,140 | 4,956 | *23.9* | 4,162 | 2,741 | 1,168 | *134.6* |
| Net Profit/vehicle | 3,028 | 2,261 | *33.9* | 1,144 | 1,156 | 175 | *559.9* |

*Source: Company, PL*

# Financials

### Income Statement (Rs m)

| Y/e Mar | FY21 | FY22E | FY23E | FY24E |
|---|---|---|---|---|
| **Net Revenues** | **1,67,505** | **2,10,449** | **2,43,730** | **2,71,763** |
| *YoY gr. (%)* | *2.0* | *25.6* | *15.8* | *11.5* |
| Cost of Goods Sold | 1,27,239 | 1,61,835 | 1,86,697 | 2,07,356 |
| Gross Profit | 40,267 | 48,614 | 57,033 | 64,408 |
| *Margin (%)* | *24.0* | *23.1* | *23.4* | *23.7* |
| Employee Cost | 9,485 | 10,522 | 11,699 | 13,045 |
| Other Expenses | 16,497 | 19,151 | 22,667 | 25,002 |
| **EBITDA** | **14,286** | **18,940** | **22,667** | **26,361** |
| *YoY gr. (%)* | *6.1* | *32.6* | *19.7* | *16.3* |
| *Margin (%)* | *8.5* | *9.0* | *9.3* | *9.7* |
| Depreciation and Amortization | 4,937 | 5,754 | 6,070 | 6,494 |
| **EBIT** | **9,349** | **13,186** | **16,597** | **19,867** |
| *Margin (%)* | *5.6* | *6.3* | *6.8* | *7.3* |
| Net Interest | 1,416 | 832 | 797 | 697 |
| Other Income | 330 | 379 | 417 | 480 |
| **Profit Before Tax** | **8,262** | **12,734** | **16,216** | **19,649** |
| *Margin (%)* | *4.9* | *6.1* | *6.7* | *7.2* |
| Total Tax | 2,142 | 3,094 | 3,941 | 4,775 |
| *Effective tax rate (%)* | *25.9* | *24.3* | *24.3* | *24.3* |
| **Profit after tax** | **6,120** | **9,639** | **12,276** | **14,874** |
| Minority interest | - | - | - | - |
| Share Profit from Associate | - | - | - | - |
| **Adjusted PAT** | **6,120** | **9,639** | **12,276** | **14,874** |
| *YoY gr. (%)* | *(0.9)* | *57.5* | *27.4* | *21.2* |
| *Margin (%)* | *3.7* | *4.6* | *5.0* | *5.5* |
| Extra Ord. Income / (Exp) | - | - | - | - |
| **Reported PAT** | **6,120** | **9,639** | **12,276** | **14,874** |
| *YoY gr. (%)* | *3.3* | *57.5* | *27.4* | *21.2* |
| *Margin (%)* | *3.7* | *4.6* | *5.0* | *5.5* |
| Other Comprehensive Income | - | - | - | - |
| Total Comprehensive Income | 6,120 | 9,639 | 12,276 | 14,874 |
| **Equity Shares O/s (m)** | **475** | **475** | **475** | **475** |
| **EPS (Rs)** | **12.9** | **20.3** | **25.8** | **31.3** |

*Source: Company Data, PL Research*

### Balance Sheet Abstract (Rs m)

| Y/e Mar | FY21 | FY22E | FY23E | FY24E |
|---|---|---|---|---|
| **Non-Current Assets** | | | | |
| **Gross Block** | **65,553** | **73,103** | **78,653** | **83,703** |
| Tangibles | 65,553 | 73,103 | 78,653 | 83,703 |
| Intangibles | - | - | - | - |
| **Acc: Dep / Amortization** | **33,788** | **39,542** | **45,613** | **52,107** |
| Tangibles | 33,788 | 39,542 | 45,613 | 52,107 |
| Intangibles | - | - | - | - |
| **Net fixed assets** | **31,765** | **33,560** | **33,040** | **31,596** |
| Tangibles | 31,765 | 33,560 | 33,040 | 31,596 |
| Intangibles | - | - | - | - |
| Capital Work In Progress | 1,126 | 1,576 | 2,026 | 2,476 |
| Goodwill | - | - | - | - |
| Non-Current Investments | 33,145 | 35,345 | 37,545 | 39,745 |
| Net Deferred tax assets | (1,954) | (1,954) | (1,954) | (1,954) |
| Other Non-Current Assets | - | - | - | - |
| **Current Assets** | | | | |
| Investments | - | - | - | - |
| Inventories | 11,518 | 14,471 | 15,358 | 17,125 |
| Trade receivables | 8,700 | 10,378 | 13,355 | 14,891 |
| Cash & Bank Balance | 9,298 | 13,870 | 17,618 | 30,210 |
| Other Current Assets | 6,423 | 6,423 | 6,423 | 6,423 |
| **Total Assets** | **1,01,975** | **1,15,623** | **1,25,366** | **1,42,466** |
| **Equity** | | | | |
| Equity Share Capital | 475 | 475 | 475 | 475 |
| Other Equity | 41,234 | 48,973 | 59,349 | 72,323 |
| **Total Networth** | **41,710** | **49,448** | **59,824** | **72,798** |
| **Non-Current Liabilities** | | | | |
| Long Term borrowings | 11,293 | 10,293 | 9,043 | 7,793 |
| Provisions | - | - | - | - |
| Other non current liabilities | - | - | - | - |
| **Current Liabilities** | | | | |
| ST Debt / Current of LT Debt | 5,876 | 5,876 | 5,876 | 5,876 |
| Trade payables | 39,216 | 46,126 | 46,743 | 52,119 |
| Other current liabilities | 1,925 | 1,925 | 1,925 | 1,925 |
| **Total Equity & Liabilities** | **1,01,974** | **1,15,623** | **1,25,366** | **1,42,466** |

*Source: Company Data, PL Research*

## Cash Flow (Rs m)

| Y/e Mar | FY21 | FY22E | FY23E | FY24E |
|---|---|---|---|---|
| PBT | 8,262 | 12,734 | 16,216 | 19,649 |
| Add. Depreciation | 4,937 | 5,754 | 6,070 | 6,494 |
| Add. Interest | 1,416 | 832 | 797 | 697 |
| Less Financial Other Income | 330 | 379 | 417 | 480 |
| Add. Other | (303) | (379) | (417) | (480) |
| Op. profit before WC changes | 14,312 | 18,940 | 22,667 | 26,361 |
| Net Changes-WC | 13,335 | 2,278 | (3,247) | 2,074 |
| Direct tax | (2,020) | (3,094) | (3,941) | (4,775) |
| **Net cash from Op. activities** | **25,627** | **18,125** | **15,479** | **23,660** |
| Capital expenditures | (9,513) | (8,000) | (6,000) | (5,500) |
| Interest / Dividend Income | - | - | - | - |
| Others | 305 | (1,821) | (1,783) | (1,720) |
| **Net Cash from Invt. activities** | **(9,208)** | **(9,821)** | **(7,783)** | **(7,220)** |
| Issue of share cap. / premium | - | - | - | - |
| Debt changes | (8,949) | (1,000) | (1,250) | (1,250) |
| Dividend paid | (998) | (1,900) | (1,900) | (1,900) |
| Interest paid | (1,129) | (832) | (797) | (697) |
| Others | (880) | - | - | - |
| **Net cash from Fin. activities** | **(11,956)** | **(3,732)** | **(3,948)** | **(3,848)** |
| **Net change in cash** | **4,463** | **4,572** | **3,749** | **12,592** |
| Free Cash Flow | 16,115 | 10,125 | 9,479 | 18,160 |

*Source: Company Data, PL Research*

## Key Financial Metrics

| Y/e Mar | FY21 | FY22E | FY23E | FY24E |
|---|---|---|---|---|
| **Per Share(Rs)** | | | | |
| EPS | 12.9 | 20.3 | 25.8 | 31.3 |
| CEPS | 23.3 | 32.4 | 38.6 | 45.0 |
| BVPS | 87.8 | 104.1 | 125.9 | 153.2 |
| FCF | 33.9 | 21.3 | 20.0 | 38.2 |
| DPS | 3.5 | 4.0 | 4.0 | 4.0 |
| **Return Ratio(%)** | | | | |
| RoCE | 15.5 | 21.2 | 23.6 | 24.6 |
| ROIC | 13.6 | 20.6 | 23.9 | 29.8 |
| RoE | 15.7 | 21.1 | 22.5 | 22.4 |
| **Balance Sheet** | | | | |
| Net Debt : Equity (x) | 0.2 | 0.0 | 0.0 | (0.2) |
| Net Working Capital (Days) | (41) | (37) | (27) | (27) |
| **Valuation(x)** | | | | |
| PER | 44.8 | 28.4 | 22.3 | 18.4 |
| P/B | 6.6 | 5.5 | 4.6 | 3.8 |
| P/CEPS | 24.8 | 17.8 | 14.9 | 12.8 |
| EV/EBITDA | 19.7 | 14.6 | 12.0 | 9.8 |
| EV/Sales | 1.7 | 1.3 | 1.1 | 0.9 |
| Dividend Yield (%) | 0.6 | 0.7 | 0.7 | 0.7 |

*Source: Company Data, PL Research*

## Quarterly Financials (Rs m)

| Y/e Mar | Q3FY21 | Q4FY21 | Q1FY22 | Q2FY22 |
|---|---|---|---|---|
| **Net Revenue** | **53,914** | **53,219** | **39,344** | **56,194** |
| *YoY gr. (%)* | *30.7* | *52.9* | *174.8* | *22.0* |
| Raw Material Expenses | 41,031 | 40,098 | 29,790 | 42,665 |
| Gross Profit | 12,883 | 13,121 | 9,554 | 13,529 |
| *Margin (%)* | *23.9* | *24.7* | *24.3* | *24.1* |
| **EBITDA** | **5,111** | **5,361** | **2,738** | **5,629** |
| *YoY gr. (%)* | *40.7* | *119.0* | *(660.8)* | *30.9* |
| *Margin (%)* | *9.5* | *10.1* | *7.0* | *10.0* |
| Depreciation / Depletion | 1,329 | 1,366 | 1,431 | 1,544 |
| **EBIT** | **3,782** | **3,995** | **1,307** | **4,084** |
| *Margin (%)* | *7.0* | *7.5* | *3.3* | *7.3* |
| Net Interest | 291 | 195 | 300 | 350 |
| Other Income | 124 | 69 | 16 | 35 |
| **Profit before Tax** | **3,615** | **3,869** | **722** | **3,769** |
| *Margin (%)* | *6.7* | *7.3* | *1.8* | *6.7* |
| Total Tax | 959 | 977 | 191 | 993 |
| *Effective tax rate (%)* | *26.5* | *25.2* | *26.4* | *26.3* |
| **Profit after Tax** | **2,656** | **2,892** | **531** | **2,776** |
| Minority interest | - | - | - | - |
| Share Profit from Associates | - | - | - | - |
| **Adjusted PAT** | **2,656** | **2,892** | **832** | **2,776** |
| *YoY gr. (%)* | *34.8* | *172.4* | *(159.9)* | *41.5* |
| *Margin (%)* | *4.9* | *5.4* | *2.1* | *4.9* |
| Extra Ord. Income / (Exp) | - | - | 302 | - |
| **Reported PAT** | **2,656** | **2,892** | **531** | **2,776** |
| *YoY gr. (%)* | *119.4* | *291.4* | *(138.2)* | *41.5* |
| *Margin (%)* | *4.9* | *5.4* | *1.3* | *4.9* |
| Other Comprehensive Income | - | - | - | - |
| **Total Comprehensive Income** | **2,656** | **2,892** | **531** | **2,776** |
| Avg. Shares O/s (m) | 475 | 475 | 475 | 475 |
| **EPS (Rs)** | **5.6** | **6.1** | **1.8** | **5.8** |

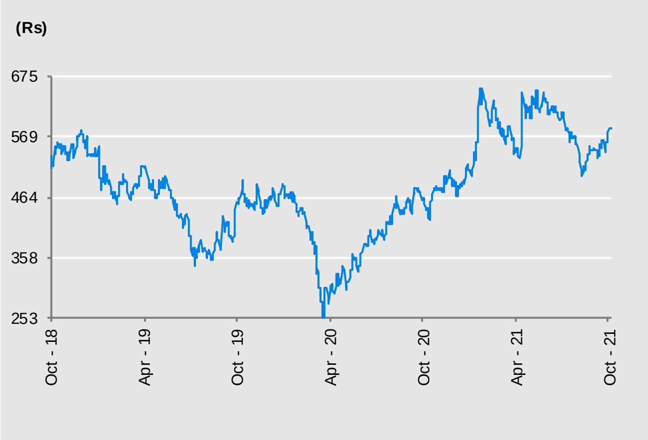
*Source: Company Data, PL Research*

## Key Operating Metrics

| Y/e Mar | FY21 | FY22E | FY23E | FY24E |
|---|---|---|---|---|
| Scooter volume (units) | 9,60,946 | 11,71,370 | 13,27,929 | 14,67,480 |
| Motorcycle volume (units) | 13,41,759 | 15,91,612 | 18,39,499 | 19,77,877 |
| Moped volume (units) | 6,25,560 | 7,50,801 | 7,82,926 | 8,38,563 |
| Total two-wheeler volume (units) | 29,28,265 | 35,13,783 | 39,50,354 | 42,83,920 |
| Three-wheeler volume (units) | 1,23,596 | 1,51,336 | 1,67,240 | 1,86,033 |
| Total volume (units) | 30,51,861 | 36,65,119 | 41,17,594 | 44,69,952 |
| Realisation per unit (Rs) | 54,886 | 57,419 | 59,192 | 60,798 |

*Source: Company Data, PL Research*

## Price Chart




## Recommendation History

| No. | Date | Rating | TP (Rs.) | Share Price (Rs.) |
|---|---|---|---|---|
| 1 | 07-Oct-21 | BUY | 690 | 558 |
| 2 | 29-Jul-21 | BUY | 669 | 562 |
| 3 | 07-Jul-21 | BUY | 675 | 608 |
| 4 | 27-Apr-21 | BUY | 658 | 566 |
| 5 | 07-Apr-21 | Sell | 470 | 574 |
| 6 | 28-Jan-21 | Sell | 437 | 529 |
| 7 | 11-Jan-21 | Sell | 408 | 513 |
| 8 | 30-Oct-20 | Sell | 386 | 422 |

## Analyst Coverage Universe

| Sr. No. | Company Name | Rating | TP (Rs) | Share Price (Rs) |
|---|---|---|---|---|
| 1 | Ashok Leyland | Accumulate | 156 | 136 |
| 2 | Bajaj Auto | Hold | 3,923 | 3,829 |
| 3 | Bharat Forge | Accumulate | 897 | 742 |
| 4 | CEAT | Hold | 1,461 | 1,348 |
| 5 | Eicher Motors | Accumulate | 2,758 | 2,821 |
| 6 | Endurance Technologies | BUY | 1,844 | 1,605 |
| 7 | Exide Industries | UR | - | 184 |
| 8 | Hero Motocorp | Accumulate | 3,057 | 2,842 |
| 9 | Mahindra & Mahindra | BUY | 978 | 878 |
| 10 | Maruti Suzuki | Accumulate | 7,888 | 7,493 |
| 11 | Motherson Sumi Systems | BUY | 249 | 207 |
| 12 | Tata Motors | BUY | 592 | 421 |
| 13 | TVS Motors | BUY | 690 | 558 |

## PL's Recommendation Nomenclature (Absolute Performance)

**Buy** : > 15%
**Accumulate** : 5% to 15%
**Hold** : +5% to -5%
**Reduce** : -5% to -15%
**Sell** : < -15%
**Not Rated (NR)** : No specific call on the stock
**Under Review (UR)** : Rating likely to change shortly

## ANALYST CERTIFICATION

### (Indian Clients)

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