17th February,2022

Q3FY22 RESULT UPDATE

Retail Equity Research (South India Focus)

TVS Motor Company Ltd

Automobile - 2/3 Wheelers

Accumulate

12 Months Investment Period | Rating as per Mid cap

BSE CODE : 532343 | NSE CODE: TVSMOTOR

BLOOMBERG CODE: TVS : IN | SENSEX : 57,892

CMP Rs. 671 TARGET Rs. 736 RETURN 10%

(Closing: 17-02-22)

KEY CHANGES: *TARGET* ↑ *RATING* ↓ *EARNINGS* ↑

Encouraging outlook - Accumulate.

TVS Motors (TVS) is the third largest two-wheeler manufacturer in India with a domestic market share of 14.3% in FY21.

- **Q3FY22 revenue growth came at 6% YoY (largely in-line with our estimate) due to improved product mix, The growth was largely driven by robust export demand of 13%YoY.**
- **Despite adverse commodity price, Strong cost control initiatives and price hike aided margin upbeat. Gained 50bps YoY.**
- **We expect confidence in the domestic market to recover gradually with the pick-up in the economic activity & pandemic relaxations. However, near term impact is likely due to elevated RM cost.**
- **Higher export, stability in exchange rate are currently driving the international numbers. However, the long term plan for the EV and its investment of Rs1000 cr. capex is on track.**
- **We rollover and value TVS on a SOTP basis, standalone business at 20x FY24E EPS (Rs.707/share) and TVS Credit Services at 1.0x trailing BV (Rs.29/share) to arrive at a target price of Rs.736/share and recommend Accumulate rating at CMP.**

Margin continues to show resilience..

Despite higher commodity price, company continue to report 10% EBITDA margin due to superior product mix and cost control management. TVS Apache, Jupiter and N-Troq continue to witness strong brand visibility among consumers, which has resulted in lower marketing expenses. We expect the confidence in the domestic market to recover gradually with the pick-up in the economic activity and relaxation. However, near term impact is likely due to elevated RM cost. Higher export, stability in exchange rate and expanding to newer geographies are currently driving the industry numbers. Adj. PAT came at of Rs. 288cr growth of 9% YoY.

Higher Export and Product innovation.

TVSM has improved its overall market share by +110bps on account of both export and domestic. In addition, underachievement of the market share owing to lack of positioning, reaffirmation of the existing brands was also largely addressed in both domestic and export market. For the Quarter, export volume grew by 13% YoY. Export revenue stood at Rs.1,878cr. This was largely on account of the different variant the company can offer in newer markets and premiumization. We also believe, unlocking in Srilanka and Bangladesh market will drive volume in these markets.

Key Highlights.

Key takeaways from earnings call:1)TVSM has invested Rs ~750cr in subsidiaries in 9mFY22, and further 700cr likely in Q4 given the acquisition of 'SMEG' a European E-bike manufacturer in Jan'22 of over Rs.500cr, to enhance its expansion plan in European region. 2)The company has taken price hike of ~1.2% in Q3. 3) TVSM's Rs1000cr allocation for EV development and plans is on track to launch 10 new models 4) For the quarter the company took price increase of 1.1% to offset elevated RM cost. 5)With the opening up of economy the company see demand coming back to normalcy 5) Book Size of TVS Credit Services stood at ~Rs12,805cr, as of Dec end. The collection in Q3 is also improved to 23%YoY due to Nill provisioning in the last quarter. GNP stood at 3.9% (against 4.4% in Sep.) and 6) 2W-EV– iQube units sales stands at 6000/m and available across 33 cities. 3W-EV, expected to ramp up production from January onwards.

Valuations.

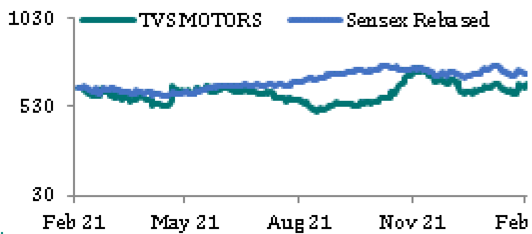
Amid Cautious outlook, sustainability of the margin is possible, with respect to superior product mix and product innovation. Considering the better revenue visibility, improving economic situation and healthy export outlook . We rollover and value TVSM's standalone business at 20x FY24E EPS (Rs.707/share) and TVS Credit Services at 1x trailing BV (Rs.29/share, (15% holding dis.)) to arrive at a target price of Rs.736/share and recommend Accumulate rating at CMP.

Company Data	
Market Cap (cr)	Rs.31,090
Enterprise Value (cr)	Rs.39,644
Outstanding Shares (cr)	47.5
Free Float	47.7%
Dividend Yield	0.2%
52 week high	Rs.793
52 week low	Rs.495
6m average volume (cr)	0.26
Beta	0.97
Face value	Rs.1

Shareholding (%)	Q1FY21	Q2FY22	Q3FY22
Promoters	52.3	52.3	52.3
FII's	13.9	12.8	12.9
MFs/Insti	24.3	24.2	25.5
Public	9.5	9.8	9.4
Total	100.0	100.0	100.0

Price Performance	3 month	6 Month	1 Year
Absolute Return	-10.2%	18.3%	2.4%
Absolute Sensex	-4.4%	4.6%	12.6%
Relative Return *	-5.8%	13.6%	-10.1%

** over or under performance to benchmark index*



Standalone (cr)	FY22E	FY23E	FY24E
Sales	20,876	25,214	29,812
Growth (%)	24.6	20.8	18.2
EBITDA	1,987	2,597	3,071
EBITDA Margin(%)	9.5	10.3	10.3
PAT Adj.	959	1,370	1,680
Growth (%)	56.6	42.9	22.7
Adj.EPS	20.2	28.8	35.4
Growth (%)	56.6	42.9	22.7
P/E	32.6	22.8	18.6
P/B	6.4	5.1	4.1
EV/EBITDA	16.6	12.7	10.8
ROE (%)	21.1	24.9	24.6
D/E	0.4	0.3	0.2

Quarterly Financials (Standalone)

Profit & Loss

Rs cr	Q3FY22	Q3FY21	YoY Growth %	Q2FY22	QoQ Growth %
Sales	**5706**	**5391**	***5.8***	**5619**	***1.5***
EBITDA	**568**	**511**	***11.2***	**563**	***1.0***
EBITDA margins	10.0%	9.5%	*-10bps*	10.0%	-
Depreciation	155	133	*16.3*	154	*0.1*
EBIT	**414**	**378**	***9.4***	**408**	***1.3***
Interest	27.9	29.1	*-4.0*	35.0	*-20.3*
Other Income	6	12	*-53.8*	3	*63.6*
Exceptional Items	0	0	*0.0*	0	*0.0*
PBT	**391**	**362**	***8.3***	**377**	***3.9***
Tax	103	96	*7.6*	99	*3.9*
Share of profit from Associate	0	0	*0.0*	0	*0*
Minority Interest	0	0	*0.0*	0	*0*
Reported PAT	**288**	**266**	***8.5***	**278**	***3.9***
djustments	0	0	*0.0*	0	*0*
Adj PAT	**288**	**266**	***8.5***	**278**	***3.9***
No. of Shares (cr)	47.5	47.5	*0.0*	47.5	*0.0*
EPS (Rs)	**6.1**	**5.6**	***8.5***	**5.8**	***3.9***

Change in Estimates

	Old estimates		New estimates		Change %	
Year / Rs cr	**FY22E**	**FY23E**	**FY22E**	**FY23E**	**FY22E**	**FY23E**
Revenue	21,388	25,345	20,876	25,214	*-2.4*	*-0.5*
EBITDA	2,096	2,585	1,987	2,597	*-5.2*	*0.5*
Margins (%)	9.8	10.2	9.5	10.3	*-30bps*	*+10bos*
Adj. PAT	1,041	1,363	959	1,370	*-7.9*	*0.5*
EPS	21.9	28.7	20.2	28.8	*-7.9*	*0.5*

Sum of the parts (SOTP) valuation

Particulars	Basis	Multiple	Year	Value(Rs Cr)	Value/share (Rs)
TVS Motor Ltd (Standalone)	P/E	20x	FY24E	Rs1,680	Rs.707
TVS Credit Services Ltd	P/BV	1x	FY24E	Rs.1,951 (84.3%)	Rs.29 (15% Holding discount.)
Target Price					**Rs.736**

Standalone Financials

PROFIT & LOSS

Y.E March (Rs Cr)	FY20A	FY21A	FY22E	FY23E	FY24E
Sales	**16,423**	**16,751**	**20,876**	**25,214**	**29,812**
% change	*-9.8*	*2.0*	*24.6*	*20.8*	*18.2*
EBITDA	**1,346**	**1,429**	**1,987**	**2,597**	**3,071**
% change	*-6.1*	*6.1*	*39.1*	*30.7*	*18.2*
Depreciation	489	494	584	630	675
EBIT	857	935	1,404	1,967	2,395
Interest	102	142	133	121	130
Other Income	32	33	21	13	15
PBT	**754**	**826**	**1,292**	**1,859**	**2,280**
% change	*-21.5*	*9.5*	*56.4*	*43.9*	*22.7*
Tax	162	214	333	489	600
Tax Rate (%)	*21.5%*	*25.9%*	*25.8%*	*26.3%*	*26.3%*
Reported PAT	**592**	**612**	**959**	**1,370**	**1,680**
Adj.	-32.3	0	0	0	0
Adj. PAT	**625**	**612**	**959**	**1,370**	**1,680**
% change	*-6.8*	*-2.0*	*56.6*	*42.9*	*22.7*
No. of shares (cr)	48	48	48	48	48
Adj EPS (Rs)	**13.1**	**12.9**	**20.2**	**28.8**	**35.4**
% change	*-6.8*	*-2.0*	*56.6*	*42.9*	*22.7*
DPS (Rs)	3.5	3.5	3.5	3.5	3.5

BALANCE SHEET

Y.E March (Rs Cr)	FY20A	FY21A	FY22E	FY23E	FY24E
Cash	57	474	1,047	2,042	3,403
Accounts Receivable	1,350	1,377	1,716	2,072	2,450
Inventories	1,061	1,152	1,373	1,658	1,960
Other Cur. Assets	720	688	858	1,036	1,225
Investments	2,651	2,801	3,151	3,501	3,851
Gross Fixed Assets	5,718	6,268	6,818	7,368	7,918
Net Fixed Assets	2,719	2,815	2,820	2,779	2,693
CWIP	117	127	137	147	157
Intangible Assets	22	3	4	5	6
Def. Tax (Net)	-155	-166	-179	-203	-232
Other Assets	0	0	0	0	0
Total Assets	**8,541**	**9,270**	**10,927**	**13,038**	**15,513**
Current Liabilities	540	551	686	829	980
Provisions	135	138	172	207	245
Debt Funds	1,422	1,672	1,722	1,772	1,822
Other Liabilities	0	0	0	0	0
Equity Capital	48	48	48	48	48
Reserves & Surplus	3,697	4,109	4,868	6,038	7,518
Shareholder’s Fund	3,745	4,157	4,915	6,085	7,565
Total Liabilities	**8,541**	**9,270**	**10,927**	**13,038**	**15,513**
BVPS	**79**	**87**	**103**	**128**	**159**

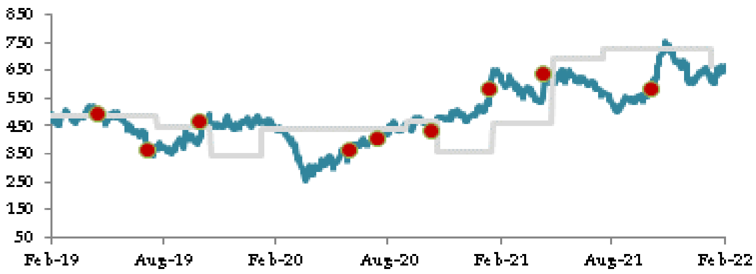
CASH FLOW

Y.E March (Rs Cr)	FY20A	FY21A	FY22E	FY23E	FY24E
Net inc. + Depn.	1,243	1,320	1,876	2,488	2,955
Non-cash adj.	-234	-203	-320	-465	-570
Changes in W.C	65	-19	118	71	76
C.F. Operation	**1,075**	**1,097**	**1,673**	**2,095**	**2,461**
Capital exp.	-665	-560	-560	-560	-560
Change in inv.	-350	-150	-350	-350	-350
Other invest.CF	-20	-20	-40	-40	-40
C.F - Investment	**-1,035**	**-730**	**-950**	**-950**	**-950**
Issue of equity	0	0	0	0	0
Issue/repay debt	44	250	50	50	50
Dividends paid	-200	-200	-200	-200	-200
Other finance.CF	0	0	0	0	0
C.F - Finance	**-156**	**50**	**-150**	**-150**	**-150**
Chg. in cash	-116	417	573	995	1,361
Closing cash	57	474	1,047	2,042	3,403

RATIOS

Y.E March	FY20A	FY21A	FY22E	FY23E	FY24E
Profitab & Return					
EBITDA margin (%)	8.2	8.5	9.5	10.3	10.3
EBIT margin (%)	5.2	5.6	6.7	7.8	8.0
Net profit mgn.(%)	3.6	3.7	4.6	5.4	5.6
ROE (%)	17.6	15.5	21.1	24.9	24.6
ROCE (%)	10.1	10.3	13.2	15.4	15.7
W.C & Liquidity					
Receivables (days)	30.7	29.7	27.0	27.4	27.7
Inventory (days)	33.6	31.7	29.0	29.2	29.5
Payables (days)	14.0	15.6	14.2	14.6	14.7
Current ratio (x)	5.2	6.0	6.5	7.3	8.2
Quick ratio (x)	2.6	3.4	4.0	5.0	6.0
Turnover &Leverage					
Gross asset T.O (x)	3.0	2.8	3.2	3.6	3.9
Total asset T.O (x)	2.0	1.9	2.1	2.1	2.1
Int. covge. ratio (x)	8.4	6.6	10.6	16.2	18.4
Adj. debt/equity (x)	0.4	0.4	0.4	0.3	0.2
Valuation					
EV/Sales (x)	2.0	2.0	1.6	1.3	1.1
EV/EBITDA (x)	24.2	23.0	16.6	12.7	10.8
P/E (x)	50.0	51.0	32.6	22.8	18.6
P/BV (x)	8.4	7.5	6.4	5.1	4.1

Recommendation summary (Last 3 Years)



Source: Bloomberg, Geojit Research.

Dates	Rating	Target
29-05-2018	Buy	691
28-08-2018	Hold	584
25-10-2018	Reduce	490
23.01.2019	Reduce	490
04.05.2019	Reduce	449
25.07.2019	Reduce	344
18.10.2019	Reduce	440
16.06.2020	Hold	369
05.08.2020	Sell	355
30.10.2020	Accumulate	463
03.02.2021	Accumulate	695
30.04.2021	Buy	726
01-09-2021	Buy	610
22-10-2021	Buy	669
17.02.2022	Accumulate	736

Investment Criteria

Ratings	Large caps	Midcaps	Small caps
Buy	Upside is above 10%	Upside is above 15%	Upside is above 20%
Accumulate	-	Upside is between 10% - 15%	Upside is between 10% - 20%
Hold	Upside is between 0% - 10%	Upside is between 0% - 10%	Upside is between 0% - 10%
Reduce/sell	Downside is more than 0%	Downside is more than 0%	Downside is more than 0%
Not rated/Neutral		-	

Definition:

Buy: Acquire at Current Market Price (CMP), with the target mentioned in the research note.

Accumulate: Partial buying or to accumulate as CMP dips in the future.

Hold: Hold the stock with the expected target mentioned in the note.

Reduce: Reduce your exposure to the stock due to limited upside.

Sell: Exit from the stock.

Not rated/Neutral : The analyst has no investment opinion on the stock.

To satisfy regulatory requirements, we attribute 'Accumulate' as Buy and 'Reduce' as Sell.

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