Sharekhan by BNP PARIBAS

Powered by the Sharekhan 3R Research Philosophy



# TVS Motor Company Limited

## Business outlook stay positive

| Automobiles | Sharekhan code: TVSMOTOR | Company Update |
|---|---|---|


**Summary**

- We maintain our Buy rating on TVS Motors (TVSM) with a revised PT of Rs. 570, factoring long-term P/E multiple on FY2023E earnings. We reiterate our Buy rating on the stock.
- TVSM is expected to benefit from the 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 robust overall sales going forward.
- We expect TVSM's earnings to grow strongly by 108.2% and 24.5% in FY2022E and FY2023E, respectively, driven by 19.6% sales CAGR (FY2021E-FY2023E) and 190 bps improvement in EBITDA margin.
- The stock is attractively valued at P/E multiple of 22.7x and EV/EBITDA multiple of 11.6x its FY2023 estimates. We retain our Buy rating on the stock with a revised PT of Rs. 570, giving an upside of further 15% from current levels.


| 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. 498** | |
| Price Target: **Rs. 570** | ↑ |

↑ Upgrade ↔ Maintain ↓ Downgrade

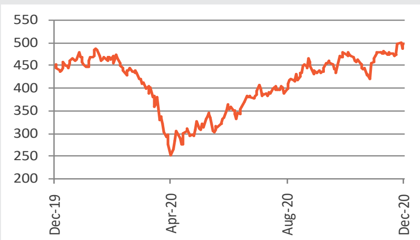
**Company details**

| | |
|---|---|
| Market cap: | Rs. 23,655 cr |
| 52-week high/low: | Rs. 508/240 |
| NSE volume: (No of shares) | 29.1 lakh |
| BSE code: | 532343 |
| NSE code: | TVSMOTOR |
| Free float: (No of shares) | 20.2 cr |

**Shareholding (%)**

| | |
|---|---|
| Promoters | 19.9 |
| FII | 34.2 |
| DII | 24.6 |
| Others | 21.3 |

**Price chart**




**Price performance**

| (%) | 1m | 3m | 6m | 12m |
|---|---|---|---|---|
| Absolute | 7.0 | 14.4 | 40.0 | 10.3 |
| Relative to Sensex | -5.0 | -1.2 | 7.8 | 0.0 |

*Sharekhan Research, Bloomberg*

**TVSM is witnessing 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 recovery in urban demand, swiftly led by gradual reopening of urban centres and new product launches. We also expect TVSM to benefit from its strong foothold in export markets, as exports markets have recovered very strongly in recent times. TVSM has reported 17.1% y-o-y growth in exports during September-November 2020 at 251,757 units, driven by 26% growth in two-wheeler (2W) exports. Export growth is driven by recovery in key export markets and tapping of new geographies, which we expect to sustain going forward. In addition, we expect TVSM's operating profit margin (OPM) to remain strong in the quarters ahead, despite input costs rising substantially over the past six months. Channel check suggests that automobile's input price contracts for H2FY2021 have been revised upwards by 10%-15% by large steel players. Contracts for input costs are normal half-yearly. We believe TVSM will be able to pass on the rise in input costs to customers partially, given the buoyant demand; we expect TVSM to sustain its margin improvement going forward. We expect EBITDA margin to improve by 190 bps to 9.7% in FY2023E as compared to 7.8% in FY2021E. Robust sales and sustainable improvement in margins are expected to result in earnings growth of 108.2% in FY2022E and 24.5% in FY2023E.**

### Our Call

**Valuation - Maintain Buy with a revised PT of Rs. 570:** TVSM is witnessing strong recovery in domestic demand with sales volume in the festive season. Sales enquiry is strong after the festive season, underpinning our view of genuine demand in the 2W segment. We expect strong recovery from FY2022, driven by normalisation of economic activity. Margins are expected to improve, driven by operating leverage and cost-control measures. We have valued the stock by assigning average long-term P/E multiple of 26x on TVSM's FY2023E earnings. The stock is attractively valued at P/E multiple of 22.7x and EV/EBITDA multiple of 11.6x its FY2023 estimates. We retain our Buy rating on the stock with a revised PT of Rs. 570, giving an upside of further 15% from current levels.

### Key Risks

TVS Group is considering levying royalty on group companies. TVSM is the flagship company of the group and any levy would adversely impact margins. Moreover, price competition in the 2W industry can affect TVSM's margins and, thus, profitability.

**Valuation (Standalone)** Rs cr

| Particulars | FY19 | FY20 | FY21E | FY22E | FY23E |
|---|---|---|---|---|---|
| Revenues | 18209.9 | 16423.3 | 14993.8 | 18468.4 | 21451.0 |
| Growth (%) | 20.0 | -9.8 | -8.7 | 23.2 | 16.2 |
| EBIDTA | 1433.3 | 1345.9 | 1168.1 | 1746.4 | 2070.3 |
| OPM (%) | 7.9% | 8.2% | 7.8% | 9.5% | 9.7% |
| PAT | 670.1 | 624.6 | 401.8 | 836.8 | 1042.2 |
| Growth (%) | 1.1 | -6.8 | -35.7 | 108.2 | 24.5 |
| FD EPS (Rs.) | 14.1 | 13.1 | 8.5 | 17.6 | 21.9 |
| P/E (x) | 35.3 | 37.9 | 58.9 | 28.3 | 22.7 |
| P/B (x) | 7.1 | 6.5 | 6.1 | 5.3 | 4.5 |
| EV/EBIDTA (x) | 17.4 | 18.7 | 21.7 | 14.2 | 11.6 |
| RoE (%) | 20.0 | 17.3 | 10.3 | 18.7 | 20.0 |
| RoCE (%) | 20.8 | 15.0 | 11.8 | 19.4 | 21.9 |

*Source: Company; Sharekhan estimates*

**Domestic volume growth is expected to be buoyant:** TVSM is witnessing 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 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 launches in premium motorcycle (Apache variants) and scooter (Jupiter and Ntorq) have received positive response in the past. More successful launches could lead to market share gains and higher volume growth as compared to the industry.

**Exports picking up well; Likely to sustain growth:** Export demand has picked up strongly from September2020. TVSM has reported 17.1% y-o-y growth in exports during September-November 2020 at 2,51,757 units versus 2,14,968 units during September-November 2019, with 2W exports registering 26% growth. Strong growth is driven by recovery in key markets and tapping of new geographies, which we expect would sustain going forward.

**Margin improvement to sustain:** We expect TVSM's OPM to remain strong in the quarters ahead. TVSM's OPM had improved by 50 bps y-o-y to 9.3% in Q2FY2021, despite marginal drop in volumes and cost pressures. The transition on account of BS6 emission norms had resulted in higher costs. TVSM's cost-control measures, such as better vendor negotiations, increased localisation, fixed cost control, and overall operational efficiency have helped in margin improvement.

Key input costs have risen substantially, such as steel prices increased by 30% in six months, aluminium was up 40%, and copper rose by 77% since March. Channel check suggests that automobile's input price contracts for H2FY2021 have been revised upwards by 10%-15% by large steel players. Contracts for input costs are normal half-yearly. We believe TVSM will be able to pass on the rise in input costs to customers partially, given the buoyant demand. 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 190 bps to 9.7% in FY2023E as compared to 7.8% in FY2021E.

**Strong earnings growth:** We expect earnings to grow strongly by 108.2% and 24.5% in FY2022E and FY2023E, respectively, driven by 19.6% sales CAGR (FY2021E-FY2023E) and 190 bps improvement in OPM.

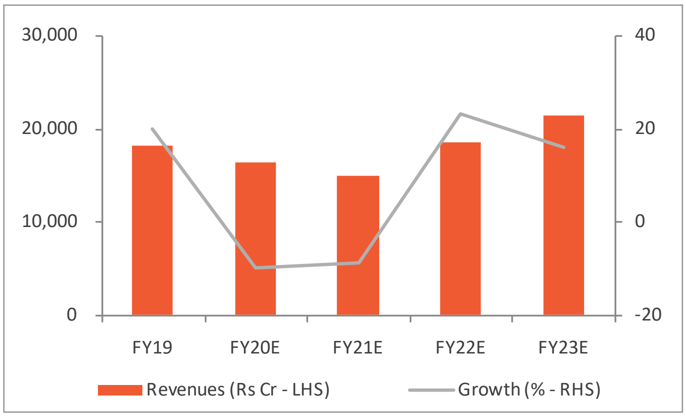
**Capex plans and investment in subsidiaries:** TVSM has increased its capacity expansion guidance for FY2021E to Rs. 500 crore from Rs. 300 crore earlier. Capex will be largely incurred towards product development and increasing capacity in export markets. The company has incurred capex of Rs. 210 crore till the first half of FY2021.

During Q2FY2021, TVSM had made investments of Rs. 125 crore in its subsidiaries and planned to further invest Rs. 90 crore in subsidiaries. Major investments were – Rs. 22 crore 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.

**Investing in IoT and AI to improve customer experience and oprtimise operational efficiencies:** TVSM has recently acquired Intellicar Telematics Private Limited, an integrated IoT solution 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 the ongoing digital initiatives at TVSM that are targeted at delivering 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 startups, TVSM aims to improve component supply chain and manufacturing efficiency.

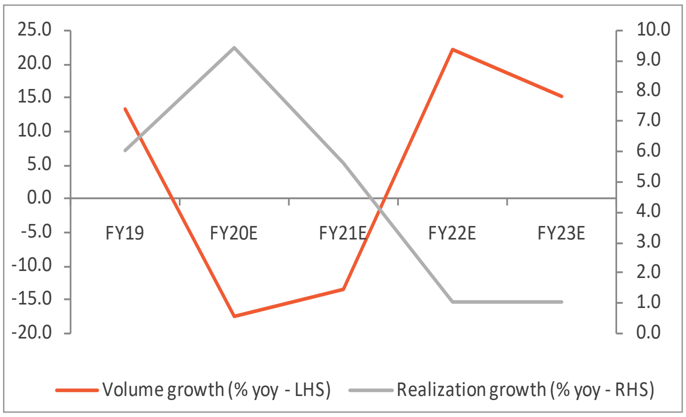
## Financials in charts

### Revenue trend



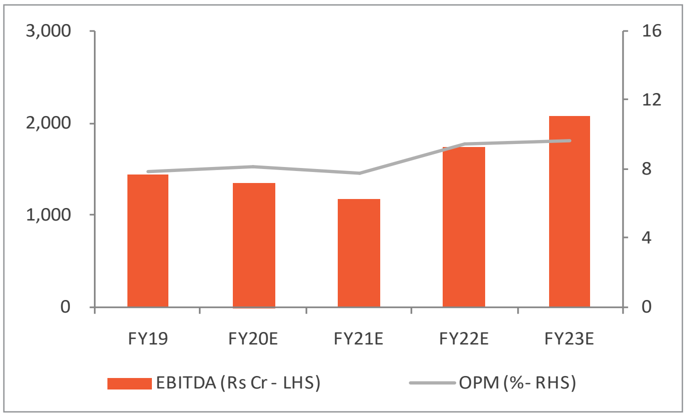

*Source: Company, Sharekhan Research*

### Volume and realizations growth trend



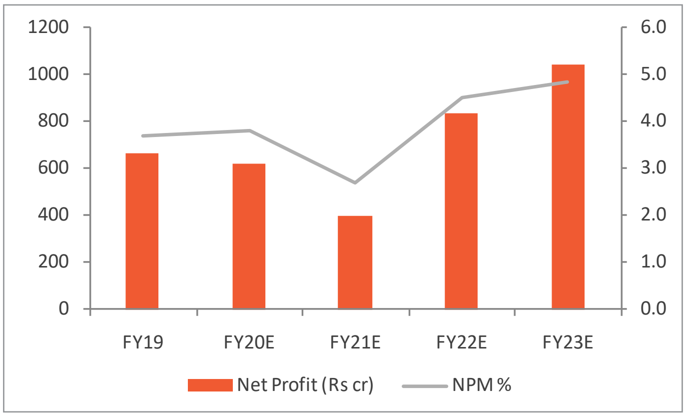

*Source: Company, Sharekhan Research*

### EBITDA - OPM trend



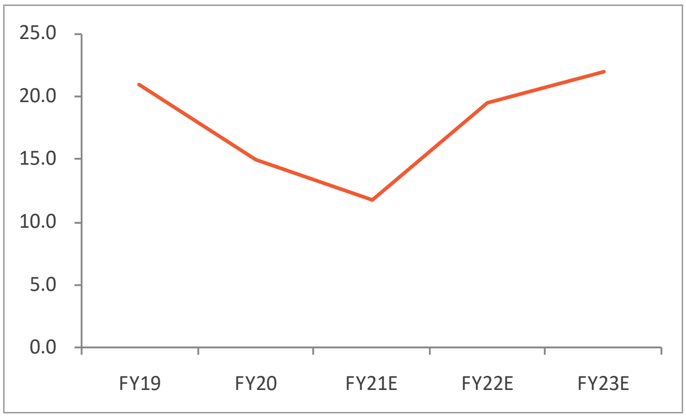

*Source: Company, Sharekhan Research*

### Net Profit and NPM trend



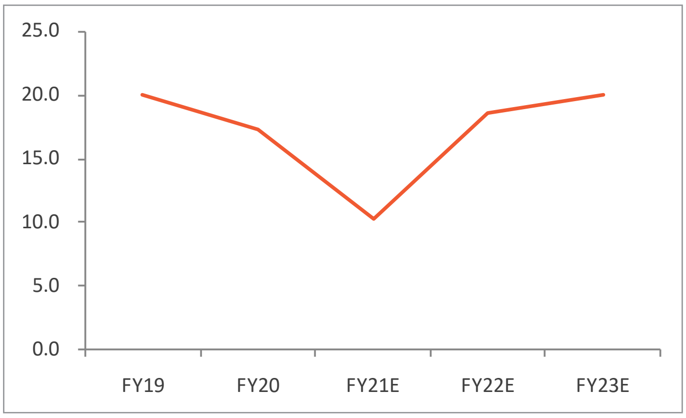

*Source: Company, Sharekhan Research*

### RoCE trend




*Source: Company, Sharekhan Research*

### RoE trend




*Source: Company, Sharekhan Research*

## Outlook and Valuation

### ■ Sector view - Sales volumes improving every month; Expect strong recovery from FY2022

2W 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 H2FY2021E, driven by strong rural sentiments, supported by higher kharif sowing. 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 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 will likely 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 2W industry, driven by successful new launches and increasing distribution network. TVSM's market share has improved from 11.8% in FY2014 to about 13.8% in FY2020. Moreover, the company has been able to strengthen its presence in the high realisation scooters and motorcycles category with share of mopeds coming down 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 fastest 2W earnings company with a strong 15% earnings CAGR over FY2014 to FY2020. TVSM is expected to remain the fastest growing company going ahead.

### ■ Valuation - Maintain Buy with revised PT of Rs.570, providing upside room of 15%

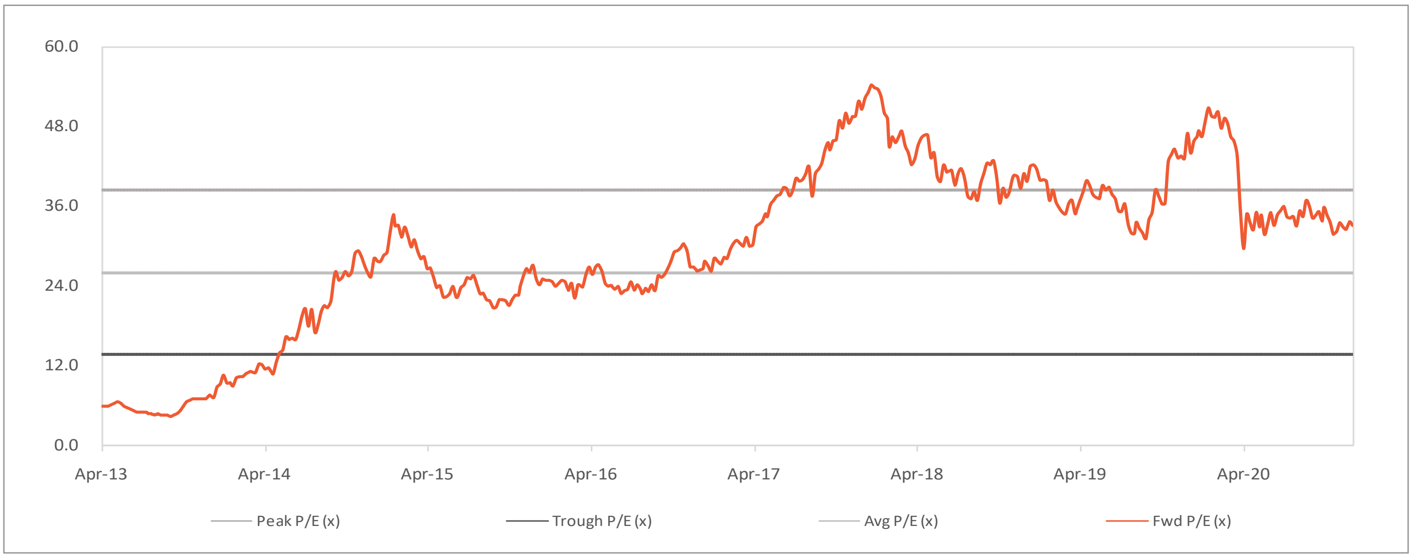
TVSM is witnessing strong recovery in domestic demand with sales volume in the festive season. Sales enquiry is strong after the festive season, underpinning our view of genuine demand in the 2W segments. We expect strong recovery from FY2022, driven by normalisation of economic activity. Margins are expected to improve, driven by operating leverage and cost-control measures. We have valued the stock by assigning average long-term P/E multiple of 26x on TVSM's FY2023E earnings. The stock is attractively valued at P/E multiple of 22.7x and EV/EBITDA multiple of 11.6x its FY2023 estimates. We retain our Buy rating on the stock with a revised PT of Rs. 570, giving an upside of further 15% from current levels.

**PT valued at historical P/E multiple provides 15% upside**

| Price Target Calculation | FY22E | FY23E |
|---|---|---|
| FY2023E EPS (Rs. per share) | 21.9 | |
| Target P/E Multiple (x) | 26 | Long-term average |
| Target Price (Rs. per share) | 570 | |
| Target Price (Rs.) | 570 | |
| Upside (%) | 15% | |

*Source: Company; Sharekhan estimates*

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




*Source: Sharekhan Research*

## 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

Demand in the domestic market has improved, driven by strong rural sentiments and increased preference for personal transport. Initial festive sales have turned positive with marginal growth on a y-o-y basis. TVSM expects to continue outpacing the industry, driven by new product launches and enhancing distribution network. Exports have picked up strongly, reporting 19% y-o-y growth in September 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 2W company with strong 20% earnings CAGR over FY2020-FY2023.

## Key Risks

- TVS Group is considering levying royalty on group companies. TVSM is the flagship company of the group and any levy would adversely impact margins.
- Rising input prices may impact margins, if the rising commodity could not be passed on to customers. In a scenario of price competition, TVSM may not be in an advantageous position due to lower margins among peers.
- Second wave of COVID-19 may impact mobility and impact the company's sales.

## 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 andCompliance Officer |

*Source: Company*

**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*

## 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 detoriating 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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