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Stock Update

TVS Motor Company Limited

Exports, realisations, put Q3 in top gear

Automobiles	Sharekhan code: TVSMOTOR	Result Update

Summary

- Q3FY2021 results beat our expectations as rise in EBITDA margins was higher than estimates.
- TVSM 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 overall sales robust going forward.
- The stock is trading at P/E multiple of 22.2x and EV/EBITDA multiple of 11.7x its FY2023 estimates.
- We maintain a Buy rating on TVS Motors (TVSM) with a revised PT of Rs. 620, factoring earnings upgrade, owing to improvement in EBITDA margins.

Q3FY21 results were ahead of our expectations as rise in EBITDA margins was higher than estimates. Net revenues grew by 30.7% y-o-y to Rs 5,391 crore, driven by 20.4% growth in volumes and an 8.5% growth in average selling price (ASP). The improvement in average selling price was aided by a better product mix and price hikes during the quarter. 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 31% y-o-y in Q3FY2021, while domestic sales grew by 21% y-o-y. Strong growth is driven by recovery in key markets and tapping of new geographies, which we expect would sustain going forward. EBITDA margin improved by robust 68 bps y-o-y and 14bps q-o-q at 9.5%, leading to a faster EBITDA growth of 40.7% y-o-y and 18.8% q-o-q to Rs 511 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. 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 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. More successful launches could lead to market share gains and higher volume growth as compared to the industry. We have raised our earnings estimates by 9% for FY2023E to build in the impact of improved EBITDA margins. We expect earnings to grow strongly by 55.9% and 17.6% in FY2022E and FY2023E, respectively, driven by 13.9% sales CAGR (FY2021E-FY2023E) and a 120 bps improvement in EBITDA margin.

Our Call

Valuation - Maintain Buy with a revised PT of Rs. 620: TVSM is seeing a 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 two-wheeler segments. We expect strong recovery from FY2022, as economic activity. Margins are expected to improve, driven by operating leverage and cost-control measures. The stock is trading at P/E multiple of 22.2x and EV/EBITDA multiple of 11.7x its FY2023 estimates. We retain a Buy rating on TVSM with a revised PT of Rs. 620.

Key Risks

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

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. 529**	
Price Target: **Rs. 620**	↑

↑ Upgrade ↔ Maintain ↓ Downgrade

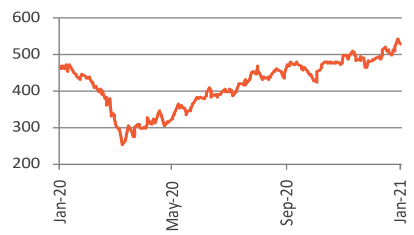
Company details

Market cap:	Rs. 25,132 cr
52-week high/low:	Rs. 555/ 240
NSE volume: (No of shares)	30.9 lakh
BSE code:	532343
NSE code:	TVSMOTOR
Free float: (No of shares)	20.2 cr

Shareholding (%)

Promoters	57.4
FII	11.2
DII	21.5
Others	10.0

Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	9.5	22.1	33.0	13.8
Relative to Sensex	10.5	6.4	10.1	-0.1

Sharekhan Research, Bloomberg

Valuation (Standalone) Rs cr

Particulars	FY19	FY20	FY21E	FY22E	FY23E
Net sales	18,210	16,423	16,982	20,038	22,042
Growth (%)	20.0	(9.8)	3.4	18.0	10.0
EBIDTA	1,433	1,346	1,452	1,931	2,164
OPM (%)	0.1	0.1	0.1	0.1	0.1
PAT	670	592	618	963	1,133
Growth (%)	1.1	(11.6)	4.3	55.9	17.6
FD EPS (Rs)	14.1	13.1	13.0	20.3	23.8
P/E (x)	37.5	40.2	40.7	26.1	22.2
P/BV (x)	7.5	6.9	6.2	5.3	4.6
EV/EBITDA (x)	18.4	19.8	18.3	13.5	11.7
RoE (%)	20.0	16.4	15.3	20.4	20.5
RoCE (%)	20.8	15.0	16.4	21.8	22.5

Source: Company; Sharekhan estimates

Q3FY2021 results ahead of our estimates on strong operational performance: TVSM's results came ahead of our expectations on better-than-expected improvement in EBITDA margin. Net revenue grew by 30.7% y-o-y to Rs. 5,391 crores, driven by 20.4% growth in volumes and 8.5% growth in average selling price. Improvement in average selling price was aided by better product mix and price hike taken by the company during the quarter. Demand in export market is strong due to faster-than-expected recovery in export destinations. The company could have earned higher exports but it was marred by unavailability of containers affected by COVID-19 pandemic.

Exports picking up well; Likely to sustain growth: Export demand has picked up strongly from September2020. The company's growth was because of stronger growth in exports, with exports growing by 31% y-o-y in Q3FY2021, while domestic sales grew by 21% y-o-y. Strong growth was driven by recovery in key markets and tapping of new geographies, which we expect would sustain going forward.

Operating profits surprised us: EBITDA margin improved by robust 68 bps y-o-y and 14 bps q-o-q at 9.5%, leading to faster EBITDA growth of 40.7% y-o-y and 18.8% q-o-q to Rs. 511 crores. OPM improved because of better product mix – higher share of premium bikes in both domestic and export markets, operating leverage benefits, and cost-reduction initiatives. The transition on account of BS6 emission norms resulted in higher costs last year. TVSM's cost-control measures, such as better vendor negotiations, increased localisation, fixed cost control, and overall operational efficiency have helped in margin improvement. TVSM reported PAT growth of 119.4% y-o-y and 35.3% q-o-q, aided by higher other income.

Buoyant demand helping to take price hikes comfortably: 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. TVSM will be able to pass on the rise in input costs to customers partially, given the buoyant demand. In January 2021, 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 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.

Raising our future estimates to build margin expansion: We have raised our earnings estimates by 9% for FY2023E to build in the impact of improved EBITDA margin. We expect earnings to grow strongly by 55.9% and 17.6% in FY2022E and FY2023E, respectively, driven by 13.9% sales CAGR (FY2021E-FY2023E) and 120 bps improvement in EBITDA margin.

Capex plans and investment in subsidiaries: TVSM has maintained its capacity expansion guidance for FY2021E to Rs. 500 crores. Capex will be largely incurred towards product development and increasing capacity in export markets. The company has incurred capex of Rs. 210 crores till the first half of FY2021. During the previous quarter, TVSM had made investments of Rs. 125 crores in its subsidiaries and planned to further invest Rs. 90 crores in subsidiaries. Major investments were – Rs. 22 crores in PT TVS Motor Company (Indonesia), Rs. 26.5 crore in TVS Motor Singapore, Rs. 30 crores in Ultraviolette Automotive, and Rs. 50 crores 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 crores. The investment will help accelerate ongoing digital initiatives at TVSM, which 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 start-ups, TVSM aims to improve component supply chain and manufacturing efficiency.

Results **Rs cr**

Particulars	Q3FY21	Q3FY20	y-o-y (%)	Q2FY21	q-o-q (%)
Net Revenue	5,391	4,125	30.7	4,605	17.1
Adj. EBIDTA	511	363	40.7	430	18.8
EBIDTA Margin (%)	9.5	8.8	68bps	9.3	14bps
Depreciation	133	121	9.6	133	-0.1
Interest	29	21	37.5	41	-28.6
Other Income	12	1	1287.6	11	11.4
PBT	362	222	63.0	267	35.2
Tax	96	25	288.8	71	34.7
Adj. PAT	266	121	119.4	196	35.3
EPS (Rs.)	5.6	4.1	34.8	4.1	35.3

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'20. 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 the 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.

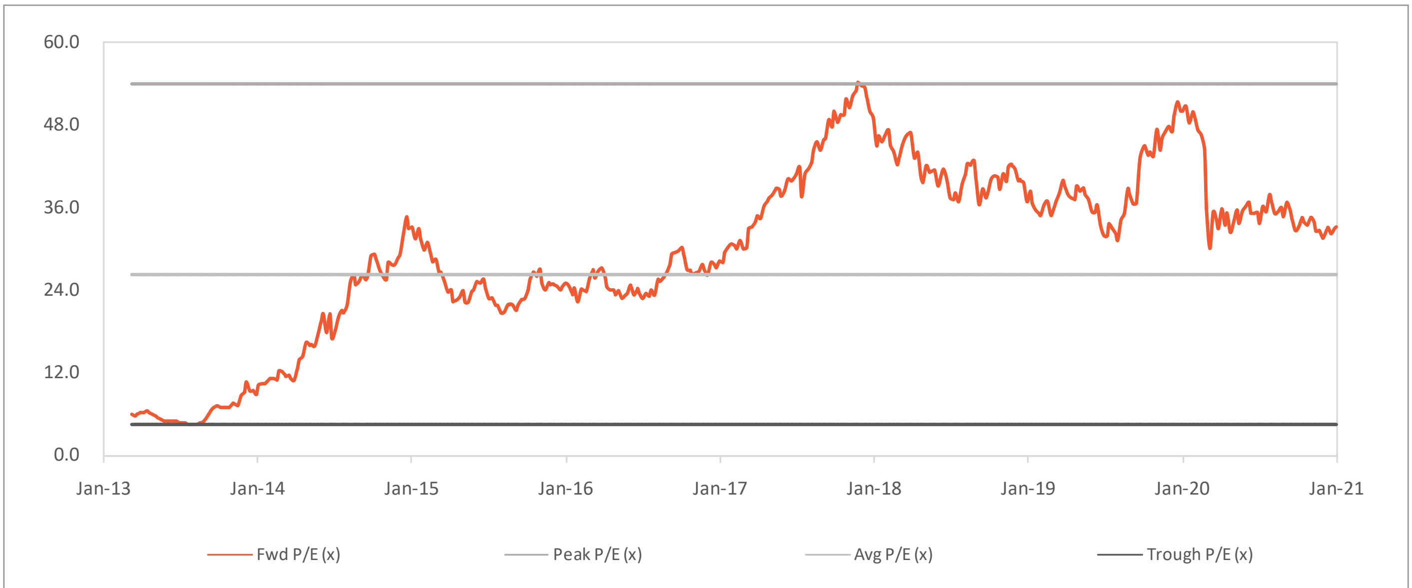
■ Company outlook - Fastest earnings growing company in the 2W space

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 among two-wheeler companies.

■ Valuation - Maintain Buy with a revised PT of Rs. 620

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. The stock is trading at P/E multiple of 22.2x and EV/EBITDA multiple of 11.7x its FY2023 estimates. We retain our Buy rating on the stock with a revised PT of Rs. 620.

One-year forward P/E (x) band



Source: Sharekhan Research

Peer Comparison

Particulars	CMP (Rs)	P/E (x)			EV/EBIDTA (x)			RoCE (%)		
		FY21E	FY22E	FY23E	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E
TVS Motor	529	40.7	26.1	22.2	18.3	13.5	11.7	16.4	21.8	22.5
Hero MotoCorp	3,397	25.4	19.6	16.7	16.3	12.3	9.8	23.1	28.2	26.5
Bajaj Auto	4,136	24.9	21.8	18.9	19.0	15.7	13.2	21.6	21.7	22.0

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

TVS Motors (TVSM) has reported results ahead of our expectations on better than expected improvements in EBITDA margins. Net revenues grew by 30.7% y-o-y to Rs 5,391 crores, driven by 20.4% growth in volumes and 8.5% growth in average selling price. The improvement in average selling price was aided by improvement in product mix and price hike taken by the company during the quarter. EBITDA margin improved by robust 68bps y-o-y and 14bps q-o-q at 9.5%, leading to a faster EBITDA growth of 40.7% y-o-y and 18.8% q-o-q to Rs 511 crores. The operating profit margins 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. Demand in the domestic market has improved, driven by strong rural sentiments and increased preference for personal transport. TVSM expects to continue outpacing the industry, driven by new product launches and enhancing distribution network. Exports have picked up strongly, reporting 31% y-o-y growth in Q3FY2021, 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.

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.

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

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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