Sharekhan by BNP PARIBAS

Powered by the Sharekhan 3R Research Philosophy

Stock Update

TVS Motor Company Limited

Growth gears shifting rapidly

Automobiles	Sharekhan code: TVSMOTOR	Company Update

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. 614**	
Price Target: **Rs. 688**	↑

↑ Upgrade ↔ Maintain ↓ Downgrade

Company details

Market cap:	Rs. 29,170 cr
52-week high/low:	Rs. 660/ 240
NSE volume: (No of shares)	34.1 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	22.1	29.3	43.8	39.2
Relative to Sensex	16.6	10.8	8.8	14.5

Sharekhan Research, Bloomberg

Summary

- TVS Motor (TVSM) would benefit from a sharp recovery in domestic two-wheeler demand in FY2022E, driven by strong rural sentiments and rising preference for personal transport. Moreover, TVSM's strong foothold in export markets is likely to keep overall sales robust.
- Q3FY2021 results witnessed all round strong operational performance.
- The stock trades at a P/E multiple of 24.4x and EV/EBITDA multiple of 13.0x its FY2023 estimates.
- We maintain a Buy rating on TVSM with a revised PT of Rs. 688, factoring improved demand in both domestic as well as exports.

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 premium motorcycle launches (Apache variants) and scooter (Jupiter and Ntorq) have received positive response in the past. Successful launches could lead to market share gains and higher volume growth as compared to the industry. Q3FY21 results beat expectations as rise in EBITDA margins was higher than estimates. 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 was driven by recovery in key markets and tapping of new geographies, which we expect would sustain going forward. TVSM's OPM is expected to remain firm 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. Domestic demand has improved, driven by strong rural sentiments and increased preference for personal transport. TVSM has maintained its capacity expansion guidance for FY2021E to Rs. 500 crore. Capex will be largely on product development and increasing capacity in export markets. Moreover, the company remains committed to invest in new and emerging technologies. Given its strong position in India and globally, we expect its earnings to grow strongly by 39.2% CAGR during FY2021E-23E, 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. 688: TVSM is seeing a strong recovery in domestic demand with sales volumes rising in the festive season. Sales enquiries are strong after the festive season, underpinning our view of genuine demand for two-wheelers. We expect a 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. 688.

Key risk

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.

Valuation (Standalone) Rs cr

Particulars	FY19	FY20	FY21E	FY22E	FY23E
Net sales	18,210	16,423	16,982	20,208	22,633
Growth (%)	20.0	(9.8)	3.4	19.0	12.0
EBIDTA	1,433	1,346	1,452	1,956	2,250
OPM (%)	0.1	0.1	0.1	0.1	0.1
PAT	670	592	618	982	1,197
Growth (%)	1.1	(11.6)	4.3	58.9	22.0
FD EPS (Rs)	14.1	13.1	13.0	20.7	25.2
P/E (x)	43.5	46.7	47.2	29.7	24.4
P/BV (x)	8.7	8.1	7.2	6.2	5.2
EV/EBITDA (x)	21.2	22.8	21.1	15.4	13.0
RoE (%)	20.0	16.4	15.3	20.7	21.5
RoCE (%)	20.8	15.0	16.4	22.1	23.5

Source: Company; Sharekhan estimates

Outlook and Valuation

Sector View – 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. We expect growth momentum to continue in Q4FY21, 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 boost 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 a 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 an improving demand scenario in both the domestic and 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. We expect TVSM's earnings to grow strongly by 39.2% CAGR during FY2021E-23E, driven by 13.9% sales CAGR (FY2021E-FY2023E) and a 120 bps improvement in EBITDA margins.

Valuation – Maintain Buy with a revised PT of Rs. 688

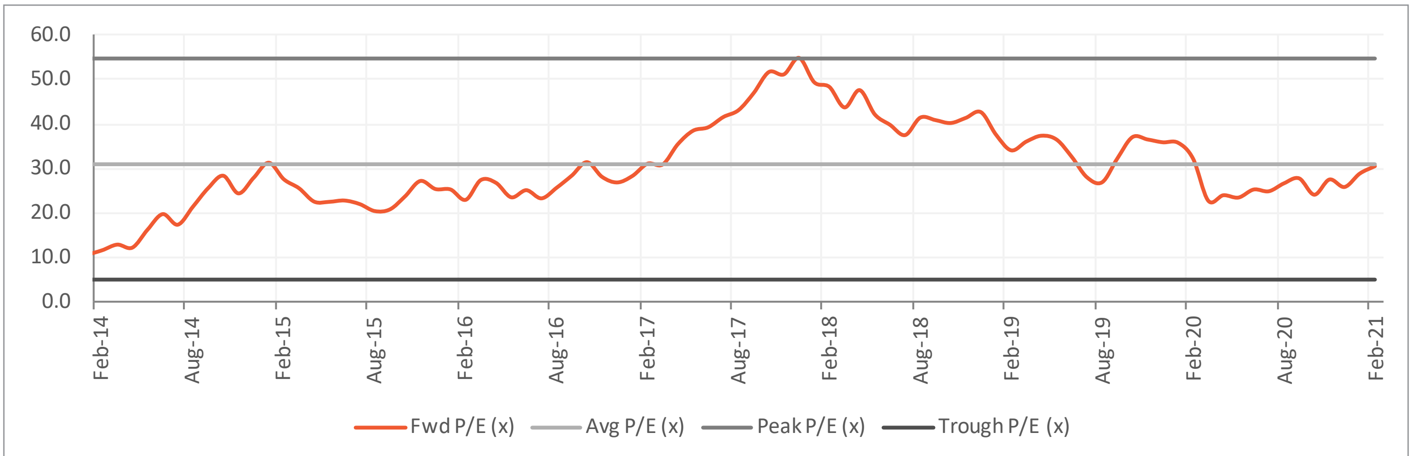
TVSM is seeing a strong recovery in domestic demand with sales volumes rising in the festive season. Sales enquiries are strong after the festive season, underpinning our view of genuine demand for two-wheelers. We expect a strong recovery from FY2022, as economic activity. Margins are expected to improve, 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. 688.

Price Target calculation

Particulars	Rs/ share
FY23E EPS (Rs per share)	25.2
Target P/E Multiple (x)	27
Target Price (Rs per share)	688
Upside (%)	**12%**

Source: Company; Sharekhan Research

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	47.2	30.3	25.7	21.1	15.6	13.6	16.4	21.8	22.5	22.5
Hero MotoCorp	23.1	18.5	16.6	15.1	11.7	9.8	26.1	30.7	27.1	26.5
Bajaj Auto	24.7	21.7	18.8	18.8	15.5	13.1	27.7	28.4	28.8	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

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

- 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 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

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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Compliance Officer: Mr. Joby John Meledan; Tel: 022-61150000; email id: compliance@sharekhan.com;

For any queries or grievances kindly email igc@sharekhan.com or contact: myaccount@sharekhan.com

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Registered Office: Sharekhan Limited, 10th Floor, Beta Building, Lodha iThink Techno Campus, Off. JVLR, Opp. Kanjurmarg Railway Station, Kanjurmarg (East), Mumbai – 400042, Maharashtra. Tel: 022 - 61150000. Sharekhan Ltd.: SEBI Regn. Nos.: BSE / NSE / MSEI (CASH / F&O / CD) / MCX - Commodity: INZ000171337; DP: NSDL/CDSL-IN-DP-365-2018; PMS: INP000005786; Mutual Fund: ARN 20669; Research Analyst: INH000006183;