Stock Update

Result Update

Sharekhan by BNP PARIBAS

Powered by the Sharekhan 3R Research Philosophy

TVS Motor Company Ltd

In-line performance in Q4; Positive outlook

Automobiles	Sharekhan code: TVSMOTOR
Reco/View: Buy ↔	CMP: **Rs. 630**	Price Target: **Rs. 803** ↔

↑ Upgrade ↔ Maintain ↓ Downgrade

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		↔	

ESG Disclosure Score

ESG RISK RATING 17.73

Updated Feb 08, 2022

Low Risk

NEGL	LOW	MED	HIGH	SEVERE
0-10	10-20	20-30	30-40	40+

Source: Morningstar

Company details

Market cap:	Rs. 29,930 cr
52-week high/low:	Rs. 793/ 495
NSE volume: (No of shares)	21.8 lakh
BSE code:	532343
NSE code:	TVSMOTOR
Free float: (No of shares)	22.7 cr

Shareholding (%)

Promoters	50.8
FII	12.0
DII	28.5
Others	8.7

Price chart

Price performance

(%)	1m	3m	6m	12m
Absolute	0.8	-0.4	1.2	-2.9
Relative to Sensex	6.0	2.4	9.7	-14.8

Sharekhan Research, Bloomberg

Summary

- TVS Motor's (TVSM's) Q4FY2022 results were broadly in-line with expectations, while keeping EBITDA margin above 10%.
- Earnings growth is expected to witness robust 33.4% CAGR during FY2022-FY2024E, led by 15.5% revenue growth and a 100-bps expansion in EBITDA margin, with ROE to sustain over 20%.
- Aggressive product launches, foray into new markets, and investments in newer and cleaner technologies with profitable growth would be the company's key growth drivers.
- The stock trades below its historical average at P/E multiple of 18.2x and EV/EBITDA multiple of 9.9x its FY2024E estimates. We maintain our Buy rating with an unchanged PT of Rs. 803.

TVS Motor (TVSM) reported in-line performance in Q4FY2022, with EBITDA margin sustaining at 10%, despite higher raw-material prices. Revenue grew by 3.9% y-o-y to Rs. 5,530 crore, led by 12.5% rise in average sales realisation, partially offset by a 7.7% decline in volumes. EBITDA margin improved 10 bps higher than street's expectations to 10.1% in Q4FY2022, showing an improvement 10 bps q-o-q, largely driven by product mix and price hikes taken during the year. PAT stood at Rs. 274.4 crore, a decline of 5.5% y-o-y and 4.8% q-o-q. We expect EBITDA margin to remain sustainable at current levels, while the company's focus laid on electric vehicles (2Ws and 3Ws) and exports is likely to help it increase its market shares in domestic as well as export markets. The company continues to ramp up its investments in electric vehicle (EV) and connected technology over the past few quarters. We believe TVSM is well positioned to play on the adoption of EVs and evolving connected technology in scooters segments, given its focus on technology and tech start-ups. 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. We maintain our Buy rating on the stock with an unchanged price target (PT) of Rs. 803.

Key positives

- Positive commentary by TVSM's management on strong volume recovery in the domestic market and continued momentum in exports during FY2023E. TVSM gained market share across the segments.
- EBITDA margin improved 10 bps higher than street's expectations to 10.1% in Q4FY2022, showing an improvement of 10 bps q-o-q, largely driven by product mix and price hikes taken during the year.
- EV continues to remain a key focus area; production is expected to ramp up to 10,000 units/month by Q1FY2023 end. TVSM is expected to further increase capacity depending on penetration and demand for EV in India and international markets.

Key negatives

- Gross margin declined by 90 bps y-o-y to 25.2% in Q4FY2022, led by higher raw-material costs.

Management Commentary

- Management has given a positive outlook for FY2023 growth, as the company witnessed strong rural and semi-urban demand recently.
- Management expects robust growth in the 2W industry in FY2023E. Further, the company expects COVID phase 3 to remain mitigated due to a strong vaccination drive by the government. Management is witnessing strong demand sentiments in both domestic and export markets.
- Investments in EV product development and start-ups continue to remain the company's top priority. The company is expected to generate free cash flow going forward, despite investing significantly in new companies and partners.

Revision in estimates – We have maintained our estimates for FY2023E and FY2024E. We expect robust earnings to report a 33.4% CAGR during FY2022-FY2024E, led by 15.5% revenue growth and a 100-bps expansion in EBITDA margin, with ROE to remain sustainable over 20%.

Our Call

Valuation - Maintain Buy with an unchanged PT of Rs. 803: TVSM has been increasing its market share in both domestic and export markets, aided by a strong product portfolio. We remain positive on the 2W industry, owing to strong demand prospects despite the fear of the third wave of COVID. 2Ws are a more affordable choice for buyers as they prefer personal transport over public transport on safety concerns post the pandemic. Moreover, increased focus on premium and EV products provides ample room for growth in Indian and export markets. We expect TVSM to be a key beneficiary of 2W demand, given its aggressive new product launches across its sub-segments. EBITDA margin is expected to improve and remain sustainable at 10-11% going forward, driven by increasing share of premium products, operating leverage, and cost-control measures. Further, the company plans to create an EV subsidiary, which provides an opportunity for value unlocking for expansion of EV products and geographical reach. The company's stock trades below its historical average at a P/E multiple of 18.2x and EV/EBITDA multiple of 9.9x its FY2024E estimates. We maintain our Buy rating with an unchanged price target (PT) of Rs. 803.

Key Risks

Geopolitical tensions can adversely impact commodity prices and supply constraints. Rising raw-material prices may pose a threat to profitability if commodity prices continue to rise for a longer period.

Valuation (Standalone) Rs cr

Particulars	FY21	FY22	FY23E	FY24E
Net sales	16,751	20,791	24,944	27,713
Growth (%)	2.0	24.1	20.0	11.1
EBIDTA	1,429	1,962	2,537	2,880
OPM (%)	8.5	9.4	10.2	10.4
PAT	612	924	1,413	1,643
Growth (%)	3.3	50.9	53.0	16.3
FD EPS (Rs)	12.9	19.4	29.7	34.6
P/E (x)	48.9	32.4	21.2	18.2
P/BV (x)	7.4	6.4	5.3	4.4
EV/EBITDA (x)	22.0	15.7	11.7	9.9
RoE (%)	15.1	19.7	24.9	24.1
RoCE (%)	16.2	21.3	26.4	26.2

Source: Company; Sharekhan estimates

- **In-line performance in Q4:** TVSM reported in-line performance in Q4FY2022, with EBITDA margin sustaining at 10%, despite higher raw-material prices. Revenue grew by 3.9% y-o-y to Rs. 5,530 crore, led by 12.5% rise in average sales realisation, partially offset by a 7.7% decline in volumes. EBITDA margin improved by 10 bps, higher than street expectations, to 10.1% in Q4FY2022, showing an improvement of 10 bps q-o-q, largely driven by product mix and price hikes taken during the year. PAT stood at Rs. 274.4 crore, down 5.5% y-o-y and 4.8% q-o-q.
- **Buoyant demand helping to take price hikes comfortably:** Key input costs continued to increase and put pressure on gross margins. Price hikes taken by the company during the past three-four quarters have helped it improve its operating profit margins (OPM). During Q4FY2022, the company took price hike of 1.5%. The company continues to focus on operational efficiencies and cost-reduction measures. Moreover, volumes have recovered in FY2022, driven by normalisation of business activity. We expect TVSM to sustain margin improvement going forward and expect OPM to improve by 100 bps to 10.4% in FY2024E from 9.4% in FY2022.
- **Management outlook:** Management has given a positive outlook for FY2023E growth, as the company expects strong recovery in demand from rural, semi-urban, and urban areas. IMD and Skymet have predicted a normal monsoon this year. If the monsoon arrives timely and is evenly distributed, this would be the fourth consecutive year of monsoon, leading to a buoyant rural sentiment. Management expects strong growth in the 2W industry in the medium term and aims to outpace the industry's growth. Management's optimism for strong recovery is backed by the government's aggressive vaccination drive, good monsoon, festive season, and new launches. The company has maintained its double-digit EBITDA margin guidance, as volumes are expected to recover. Exports are expected to continue their growth momentum, with monthly volume in excess of 1 lakh units. Investments in EV product development and start-ups continue to remain the company's priority. With respect to semi-conductor shortage issue, management expects the situation to improve. The company has tied-up with new vendors, who have assured for semi-conductor supplies.
- **Focus on EV and connected technologies:** TVSM is ramping its investments in EVs and connected technologies through multiple routes – investments in R&D and automobile tech start-ups. Management expects its EV capacity to improve to 10,000 units/month by Q1FY2023E. TVS has expanded its distribution network to 33 cities by FY2022-end, which it would further increase as EV production ramps up. The company continues to focus on EVs and has shared its plan to invest Rs. 1,000 crore in EVs. The company would share its EV expansion plan later in the year. TVS will launch EV 3Ws soon and will strengthen its EV portfolio. The company will launch a complete range of electric 2W and 3W with power output ranging from 5-25 kilowatts over the next two years. The company will take a majority stake in EGO Movement in an all-cash deal through its Singapore unit, TVS Motor (Singapore) Pte. EGO Movement is a Swiss technology company with a portfolio of e-bikes, e-cargo bikes, and e-scooters. VSM and BMW Motorrad (BMW's Indian arm for 2W) have further deepened their relationship and extended partnership to jointly develop new platforms and future technologies, including EVs. Both partners intend to co-develop, manufacture, and export e-2Ws for both companies ranging from scooters to motorcycles, including new innovations. Exclusive products for both companies will be developed on these common platforms, and the companies will retail their products globally. The tie-up will continue to focus on premium and high e-scooters and e-motorcycles.

- **Capex plans, investments in subsidiaries, and EV plan:** TVS Motor has maintained its capex guidance at around Rs. 700 crore in FY2023E, which will include the e-mobility business. Funding of capex would be entirely from internal accruals. The company is well positioned to grow its business in both technologies – internal combustion engine and EV, where it sees faster growth and demand. The company is building capacity and investing in technology development. The company has a separate vertical for EV with more than 560 engineers working on the EV product portfolio. The company is working on the EV product portfolio for both 2Ws and 3Ws. During the quarter, the company invested ~Rs. 758 crores into subsidiaries.

Results (Standalone) **Rs cr**

Particulars	Q4FY22	Q4FY21	%YoY	Q3FY22	%QoQ
Net revenue	5,530.3	5,321.9	3.9	5,706.4	(3.1)
Total operating costs	4,973.5	4,785.8	3.9	5,138.2	(3.2)
EBITDA	556.8	536.1	3.9	568.3	(2.0)
Adj EBIDTA	556.8	536.1	3.9	568.3	(2.0)
Depreciation	159.3	136.6	16.6	154.6	3.0
Interest	33.0	19.5	69.0	27.9	18.3
Other Income	8.2	6.9	17.9	5.7	42.8
PBT	372.7	386.9	(3.7)	391.5	(4.8)
Tax	98.2	97.7	0.5	103.1	(4.8)
Reported PAT	274.5	289.2	(5.1)	288.3	(4.8)
Adj PAT	274.5	289.2	(5.1)	288.3	(4.8)
Adi EPS	5.8	6.1	(5.1)	6.1	(4.8)

Source: Company, Sharekhan Research

Key profitability ratios (Standalone)

Particulars	Q4FY22	Q4FY21	BPS	Q3FY22	BPS
Gross margin (%)	25.2	26.1	(90)	25.2	-
EBIDTA Margin (%)	10.1	10.1	-	10.0	10
EBIT margin (%)	7.2	7.5	(30)	7.2	(10)
Net profit margin (%)	5.0	5.4	(50)	5.1	(10)
Effective tax rate (%)	26.3	25.2	110	26.3	-

Source: Company, Sharekhan Research

Volume Analysis **(Rs per vehicle)**

Particulars	Q4FY22	Q4FY21	%YoY	Q3FY22	%QoQ
Volumes (Units)	8,56,456	9,27,579	(7.7)	8,78,659	(2.5)
Average realisation	64,572	57,374	12.5	64,945	(0.6)
Raw material/vehicle	48,302	42,424	13.9	48,577	(0.6)
EBITDA/vehcile	6,501	5,780	12.5	6,467	0.5
PAT/vehicle	3,205	3,118	2.8	3,281	(2.3)

Source: Company, Sharekhan Research

Outlook and Valuation

Sector View – Sales volumes likely to improve

2W demand is expected to recover strongly post normalisation of the economy, driven by pent-up demand and preference for personal mobility amidst COVID-19. 2W is also a more affordable option. We expect growth momentum to continue in FY2023E, driven by strong rural sentiments, supported by higher kharif sowing and positive outlook for monsoon this year. The government's reform measures coupled with increased preference for personal transport are expected to improve volumes. Export markets have witnessed notable recovery in volume sales offtake across regional markets – ASEAN, South Asia, Middle East, and Africa. Original equipment manufacturers (OEMs) are positive on recovery and expect these markets to improve. Companies having exposure to export markets are expected to do well.

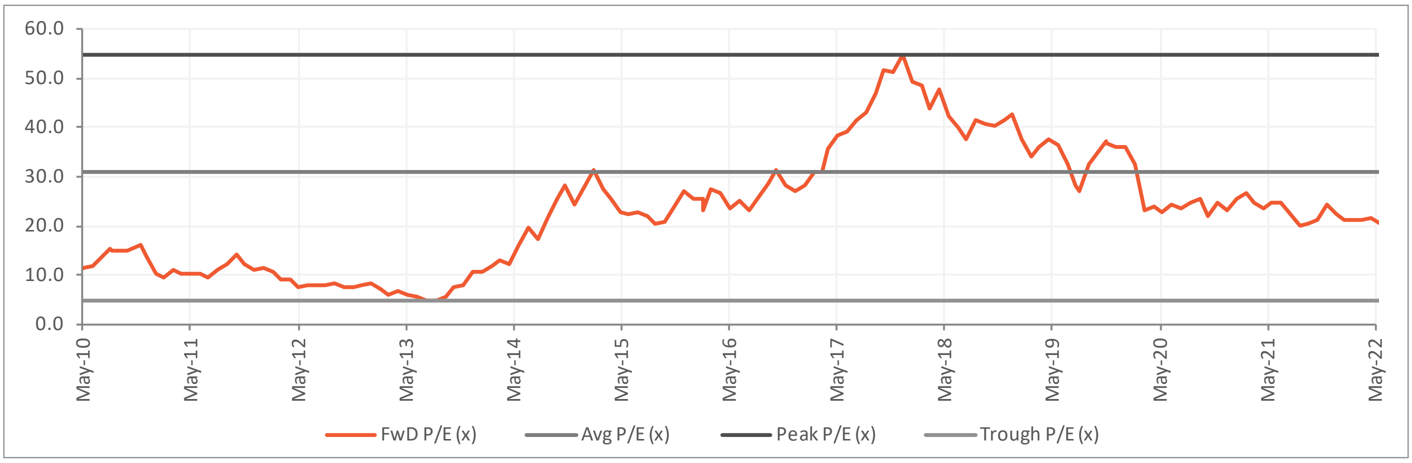
Company Outlook – Company with the fastest earnings growth in the 2W space

TVSM has gained market share in the 2W industry, with the number rising from 11.8% in FY2014 to about 15.2% in FY2022, driven by successful new launches and a widening distribution network. Moreover, the company has been able to strengthen its presence in the high realisation scooters and motorcycles category. Cost-control measures, better vendor negotiations, and operating leverage benefits due to better scale have resulted in TVSM emerging as the 2W maker to post the fastest earnings growth with a strong 15% earnings CAGR over FY2014-FY2021. TVSM is expected to remain the fastest-growing company going ahead in the 2W segment, given its aggressive product launches, foray into new markets, and investments in newer and cleaner technologies. We expect robust earnings to report a 33.4% CAGR during FY2022-FY2024E, led by 15.5% revenue growth and a 100-bps expansion in EBITDA margin, with ROE to sustain over 20%.

Valuation – Maintain Buy with an unchanged PT of Rs. 803

TVSM has been increasing its market share in both domestic and export markets, aided by a strong product portfolio. We remain positive on the 2W industry, owing to strong demand prospects despite the fear of the third wave of COVID. 2Ws are a more affordable choice for buyers as they prefer personal transport over public transport on safety concerns post the pandemic. Moreover, increased focus on premium and EV products provides ample room for growth in Indian and export markets. We expect TVSM to be a key beneficiary of 2W demand, given its aggressive new product launches across its sub-segments. EBITDA margin is expected to improve and remain sustainable at 10-11% going forward, driven by increasing share of premium products, operating leverage, and cost-control measures. Further, the company plans to create an EV subsidiary, which provides an opportunity for value unlocking for expansion of EV products and geographical reach. The company's stock trades below its historical average at a P/E multiple of 18.2x and EV/EBITDA multiple of 9.9x its FY2024E estimates. We maintain our Buy rating with an unchanged price target (PT) of Rs. 803.

One-year forward P/E (x) band



Source: Sharekhan Research

Peer Comparison

Company	CMP (Rs)	P/E (x)			EV/EBITDA (x)			ROCE (%)		
		FY21	FY22E	FY23E	FY21	FY22E	FY23E	FY21	FY22E	FY23E
TVS Motor	630	48.9	32.4	21.2	22.0	15.7	11.7	16.2	24.7	25.8
Hero MotoCorp	2,502	17.2	20.2	16.5	10.5	12.4	9.1	25.3	20.1	21.1
Bajaj Auto	3,525	22.4	21.7	15.7	16.8	15.0	10.4	23.0	21.2	25.3

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% to volumes, respectively, while mopeds constitute 23%. TVSM also manufactures 3Ws (5% of overall volumes) mainly for the export market. TVSM has been focusing on growing exports with the overseas market, contributing to about 25% of overall volumes.

Investment theme

TVSM is one of the leading manufacturers in the 2W 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 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

- Geopolitical tensions globally can impact adversely to commodity prices and supply constraints.
- Rising input prices may affect margins if rising commodity costs are not 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
Sudarshan Venu	Managing Director
K Gopala Desikan	Chief Financial Officer
K S Srinivasan	Company Secretary and Compliance Officer

Source: Company Website

Top shareholders

Sr. No.	Holder Name	Holding (%)
1	SUNDARAM CLAYTON LTD	50.3%
2	ICICI Prudential Asset Management	9.8%
3	Life Insurance Corp of India	6.3%
4	Jwalamukhi Investment Holdings	4.3%
5	Mirae Asset Global Investments Co	2.3%
6	Sbi Mutual Fund	1.8%
7	Westbridge Aif I	1.5%
8	Tree Line Asia Master Fund (singapore) Pte Ltd	1.4%

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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