

5 May 2022

TVS Motors

Rating: Buy

Target Price: Rs.768

Share Price: Rs.637

TVS Motors reported a good set of numbers despite a slight decline in volumes in Q4 FY22. The TVS iQube ramp-up is on track. Margins improved on stringent cost-controls, price hikes and better off-take of premium 2Ws. As economic activity returns to normal post the 3rd wave, we expect strong volume growth. Accordingly, we upgrade our rating to a Buy with a TP of Rs768 (22x FY24e).

Volumes picking up. Q4 FY22 revenue grew 4% y/y, but q/q declined 3% to Rs55bn while volumes declined 8% y/y, 3% q/q, to 856,456 units. Semiconductor shortages continued, impacted off-take of premium motor-cycles and scooters, ~30% of the product mix. In EVs, iQube volumes were 2,500 units for Mar'22 and is now in 33 cities. A ramp-up is expected to 10,000 units a month by end-Q1 FY23. Positive feedback continues and the company has an order book of ~12,000 units (6,000 last quarter). Management talked of 6-8 EV launches in the next two years

Q4 FY22 export volumes declined a mere 2% y/y to 315,156 units and revenues were Rs19bn. Market shares continue to be gained in Africa and Europe. The company plans to launch products in subsequent quarters from Norton and SMEG, primarily catering to international markets.

Margin betterment. Despite RM prices further inching up in Q4 FY22, 10.1% healthy margins were maintained. Prices were raised 1.5% during the quarter, though ~1% under-recovery persists. Historically, we have seen that the company passes on the costs in 2-3 quarters and we believe similar situation would prevail and, given strong volume growth, passing of costs would happen easily, in our view (refer Exhibit 8). As supply constraints normalise in subsequent quarters, we expect volumes to pick up, boosted by better off-take of premium motorcycles. Accordingly, we expect 10% margins in FY23 and FY24 each.

Valuation. We expect a 20% revenue CAGR over FY22-24, and 33% earnings growth, leading to an EPS of Rs33.3. With volume recovery expected, we upgrade our rating to a Buy, with a higher TP of Rs768 (22x FY24e), incl. Rs35 a share for TVS Credit Services.

Key financials (YE Mar)	FY20	FY21	FY22	FY23e	FY24e
Sales (Rs m)	164,233	167,505	207,905	265,285	297,589
Net profit (Rs m)	5,922	-10,376	8,936	13,800	15,844
EPS (Rs)	13.1	-21.8	19.4	29.0	33.3
PE (x)	48.5	-29.2	32.8	21.9	19.1
EV / EBITDA (x)	23.6	-137.3	16.0	11.8	10.3
PBV (x)	8.4	7.3	6.3	5.2	4.3
RoE (%)	17.0	-26.6	19.9	25.8	24.5
RoCE (%)	13.5	-15.9	17.3	21.5	21.2
Dividend yield (%)	0.7	0.3	0.6	1.1	1.2
Net debt / equity (x)	-0.5	-0.6	-0.4	-0.5	-0.6

Source: Company, Anand Rath Research

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Key data	TVSL IN / TVSM.BO
52-week high / low	Rs.814 / 495
Sensex / Nifty	55702 / 16683
3-m average volume	\$19m
Market cap	Rs.300bn / \$3931.2m
Shares outstanding	475m

Shareholding pattern (%)	Mar'22	Dec'21	Sep'21
Promoters	50.8	52.26	52.26
- of which, Pledged	0	-	-
Free float	49.2	47.7	47.7
- Foreign institutions	12.0	12.86	12.77
- Domestic institutions	28.5	25.46	25.15
- Public	8.7	9.42	9.82

Estimates revision (%)	FY23	FY24
Sales	-1.8	9.6
EBITDA	-0.4	9.6
PAT	-9.3	8.7

Relative price performance



Source: Bloomberg

Quick Glance – Financials and Valuations

Fig 1 – Income statement (Rs m)

Year-end: Mar	FY20	FY21	FY22	FY23e	FY24e
Volumes	3,261,542	3,051,823	3,309,578	4,140,187	4,553,281
Net revenues	164,233	167,505	207,905	265,285	297,589
Growth (%)	-9.8	2.0	24.1	27.6	12.2
Raw material	121,359	127,239	158,082	195,250	219,026
Employee & other expense	29,416	42,478	30,206	43,507	48,805
EBITDA	13,459	-2,211	19,617	26,528	29,759
EBITDA margins (%)	8.2	-1.3	9.4	10.0	10.0
- Depreciation	4,890	4,937	6,114	6,715	7,255
Other income	321	330	190	340	340
Interest expenses	1,022	1,416	1,259	1,505	1,434
Extraordinary items	-323	-	-302	-	-
PBT	7,544	-8,234	12,132	18,648	21,410
Effective tax rate (%)	21	-26	26	26	26
+ Associates / (Minorities)	-	-	-	-	-
Net income	5,922	-10,376	8,936	13,800	15,844
Adjusted income	6,246	-10,376	9,237	13,800	15,844
WANS	475	475	475	475	475
FDEPS (Rs / sh)	13.1	-21.8	19.4	29.0	33.3

Fig 3 – Cash-flow statement (Rs m)

Year-end: Mar	FY20	FY21	FY22	FY23e	FY24e
PBT	7,544	-8,234	12,132	18,648	21,410
+ Non-cash items	4,890	4,937	6,114	6,715	7,255
Oper. profit before WC changes	12,434	-3,297	18,247	25,363	28,665
- Incr. / (decr.) in WC	-953	-16,624	-2,093	1,863	5,620
Others incl. taxes	2,339	2,142	3,197	4,849	5,567
Operating cash-flow	11,049	11,185	17,143	18,652	17,478
- Capex (tangible + intangible)	7,344	5,880	11,663	7,000	5,000
Free cash-flow	3,705	5,304	5,480	11,652	12,478
Acquisitions	-	-	-	-	-
- Div. (incl. buyback & taxes)	2,000	998	1,904	3,284	3,771
+ Equity raised	-	-	-	-	-
+ Debt raised	5,746	-9,391	5,650	-500	-1,000
- Financial investments	3,052	7,086	14,015	5,698	4,000
- Misc. items (CFI + CFF)	646	(17,277)	496	6	-
Net cash-flow	3,753	5,106	-5,285	2,164	3,708

Source: Company, Anand Rathi Research

Fig 5 – Price movement



Source: Bloomberg

Fig 2 – Balance sheet (Rs m)

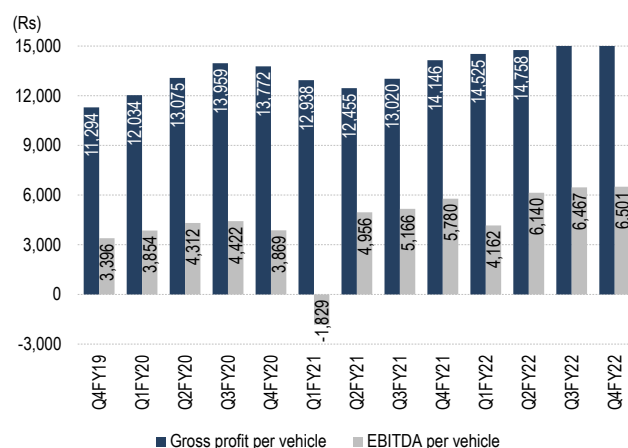
Year-end: Mar	FY20	FY21	FY22	FY23e	FY24e
Share capital	475	475	475	475	475
Net worth	36,181	41,710	48,220	58,730	70,803
Debt (incl. pref)	19,746	10,356	16,006	15,506	14,506
Minority interest	-	-	-	-	-
Def. tax Liability / (Asset)	1,581	1,955	1,979	1,979	1,979
Capital employed	57,508	54,020	66,205	76,214	87,287
Net tangible assets	26,197	26,328	29,398	29,683	27,428
Net Intangible assets	1,767	2,648	3,668	3,668	3,668
Goodwill	-	-	-	-	-
CWIP (tang. and intang.)	2,854	2,787	4,245	4,245	4,245
Investments (strategic)	26,059	33,145	45,858	52,858	56,588
Investments (financial)	-	-	1,302	-	-
Current assets (excl. cash)	32,542	27,769	29,994	36,411	43,568
Cash	4,192	9,298	4,013	6,177	9,884
Current liabilities	36,104	47,955	52,273	56,827	58,364
Working capital	-3,562	-20,186	-22,279	-20,416	-14,795
Capital deployed	57,508	54,020	66,205	76,214	87,287
Contingent liabilities	-	-	-	-	-

Fig 4 – Ratio analysis

Year-end: Mar	FY20	FY21	FY22	FY23e	FY24e
P/E (x)	48.5	-29.2	32.8	21.9	19.1
EV / EBITDA (x)	23.6	-137.3	16.0	11.8	10.3
EV / Sales (x)	1.9	1.8	1.5	1.2	1.0
P/B (x)	8.4	7.3	6.3	5.2	4.3
RoE (%)	17.0	-26.6	19.9	25.8	24.5
RoCE (%) - after tax	13.5	-15.9	17.3	21.5	21.2
RoIC (%) - after tax	14.1	-18.2	19.6	23.3	23.6
DPS (Rs / sh)	4.2	2.1	4.0	6.9	7.9
Dividend yield (%)	0.7	0.3	0.6	1.1	1.2
Div. payout (%) - incl. DDT	33.8	-9.6	21.3	23.8	23.8
Net debt / equity (x)	-0.5	-0.6	-0.4	-0.5	-0.6
Receivables (days)	28	19	17	19	20
Inventory (days)	23	25	20	25	30
Payables (days)	88	98	91	85	80
CFO : PAT %	176.9	-107.8	185.6	135.2	110.3

Source: Company, Anand Rathi Research

Fig 6 – Gross profit per vehicle vs. EBITDA per vehicle



Source: Company

Result highlights

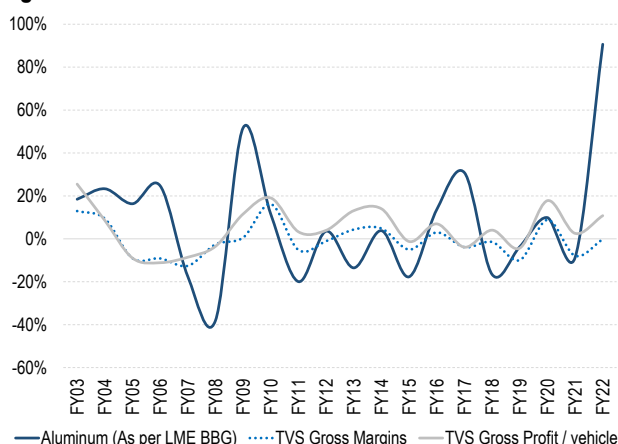
Fig 7 – Quarterly performance

(Rs m)	Q4 FY21	Q1 FY22	Q2 FY22	Q3 FY22	Q4 FY22
VOLUMES					
Volumes	927,539	657,758	916,705	878,659	856,456
Y/Y (%)	46.5	146.4	5.6	(11.2)	(7.7)
Q/Q (%)	(6.3)	(29.1)	39.4	(4.2)	(2.5)
Average realisation	57,377	59,815	61,300	64,945	64,572
Y/Y (%)	4.3	11.5	15.5	19.2	12.5
Q/Q (%)	5.3	4.2	2.5	5.9	(0.6)
Net sales	53,219	39,344	56,194	57,064	55,303
Y/Y (%)	52.9	174.8	22.0	5.8	3.9
Q/Q (%)	(1.3)	(26.1)	42.8	1.5	(3.1)
Total Income	53,219	39,344	56,194	57,064	55,303
Y/Y (%)	52.9	174.8	22.0	5.8	3.9
Q/Q (%)	(1.3)	(26.1)	42.8	1.5	(3.1)
EXPENDITURE					
(Incr.) / decr. in stock-in-trade	157	(330)	(422)	3,541	(174)
Materials	39,941	30,120	43,087	39,971	42,289
% of sales	75.3	75.7	75.9	76.3	76.2
Y/Y (%)	39.9	174.2	21.0	(5.6)	6.3
Q/Q (%)	(2.3)	(25.7)	43.1	2.0	(3.2)
Gross margins (%)	24.7	24.3	24.1	23.7	23.8
Gross profit	13,121	9,554	13,529	13,552	13,189
Gross profit per vehicle	14,146	14,525	14,758	15,424	15,399
Staff cost	2,681	2,609	2,957	2,957	2,841
% of sales	5.0	6.6	5.3	5.2	5.1
Y/Y (%)	20.4	32.4	38.0	9.9	6.0
Q/Q (%)	(0.4)	(2.7)	13.3	0.0	(3.9)
Other expenditure	5,079	4,207	4,943	4,912	4,780
% of sales	9.5	10.7	8.8	8.6	8.6
Y/Y (%)	25.7	113.4	13.3	(3.3)	(5.9)
Q/Q (%)	(0.0)	(17.2)	17.5	(0.6)	(2.7)
Total expenses	47,858	36,606	50,565	51,382	49,735
EBITDA	5,361	2,738	5,629	5,683	5,568
EBITDA per vehicle	5,780	4,162	6,140	6,467	6,501
Y/Y (%)	119.0	(660.8)	30.9	11.2	3.9
Q/Q (%)	4.9	(48.9)	NA	1.0	(2.0)
OPM (%)	10.1	7.0	10.0	10.0	10.1
Other income	69	16	35	57.3	82
Interest	195	300	350	279	330
Depreciation	1,366	1,431	1,544	1,546	1,593
Exceptional items		302			-
Profit before tax	3,869	722	3,769	3,915	3,727
Provision for taxation	977	190	993	1,031	982
Tax rates (%)	25.2	26.4	26.3	26.3	26.3
Adj PAT	2,892	532	2,776	2,883	2,745
Y/Y (%)	291.6	(138.2)	41.5	8.5	(5.1)
Q/Q (%)	8.9	(81.6)	422.3	3.9	(4.8)
PAT margins %	5.4	1.4	4.9	5.1	5.0

Source: Company

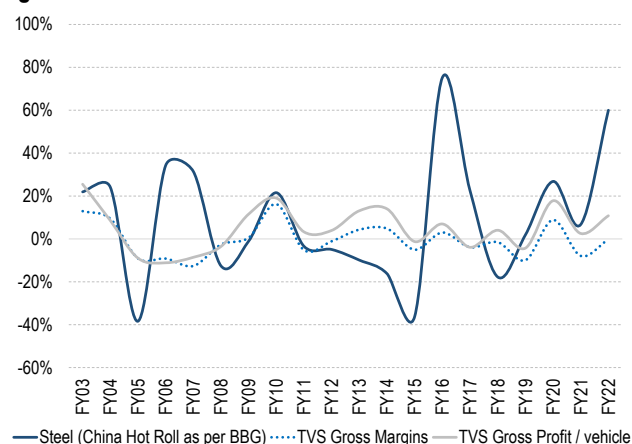
Impact of RM costs are not a big worry

Fig 8 – Aluminium



Source: Company, Anand Rathi Research

Fig 9 – Steel



Source: Company, Anand Rathi Research

- High RM costs in the past have not been a huge concern for TVS Motors. It has maintained margins despite a jump in steel prices.
- Steel prices rose 34% and 31% in FY06 and FY07 respectively. Despite high RM prices, gross margins declined only 13% and 3% respectively and gross profit per vehicle, 11% and 9%.
- During FY09 and FY10, when raw material prices marginally stabilized, gross profit per vehicle rose 12% and 19% respectively and volumes, 3% and 16% y/y. Net realization per vehicle grew 2% y/y. This indicates recovery in margins; as volumes increased, the company raised prices and took cost-saving measures like value engineering and a better product mix (premiumization).
- Similarly, steel prices continued to rise from FY15 and grew 75% and 22% y/y in FY16 and FY17 respectively, while the gross margins rose 3% in FY16, but slipped 4% in FY17.
- Post-FY19, TVS has been raising prices of its two- and three-wheelers, in line with the rise in raw material prices, indicating its ability to pass on costs consistently.
- FY18-FY21: Despite volumes declining 17% in FY20, gross profit per vehicle rose 18%. This followed cost-cutting, reduced import content and price hikes.

Takeaways

- High raw material costs have led to only a minor blip in demand. TVS has passed on costs to customers without a huge impact on demand.

Valuations

We expect a 20% revenue CAGR over FY22-24, and 33% earnings growth, leading to an EPS of Rs33.3. With expected recovery in volumes, we upgrade our rating to a Buy, with a higher TP of Rs768 (22x FY24e), incl. Rs35 a share for TVS Credit Services.

Fig 10 – Change in estimates

(Rs m)	Old		Revised		Change (%)	
	FY23e	FY24e	FY23e	FY24e	FY23	FY24
Revenue	211,761	241,939	207,905	265,285	-1.8	9.6
EBITDA	19,694	24,194	19,617	26,528	-0.4	9.6
Adj. PAT	10,188	12,697	9,237	13,800	-9.3	8.7
EPS (Rs)	21.4	26.7	19.4	29.0	-9.3	8.7

Source: Anand Rath Research

Fig 11 – Standard deviation of forward PE



Source: Bloomberg, Anand Rath Research

Risk

- Competition in electric vehicles with respect to start-ups is a key risk.

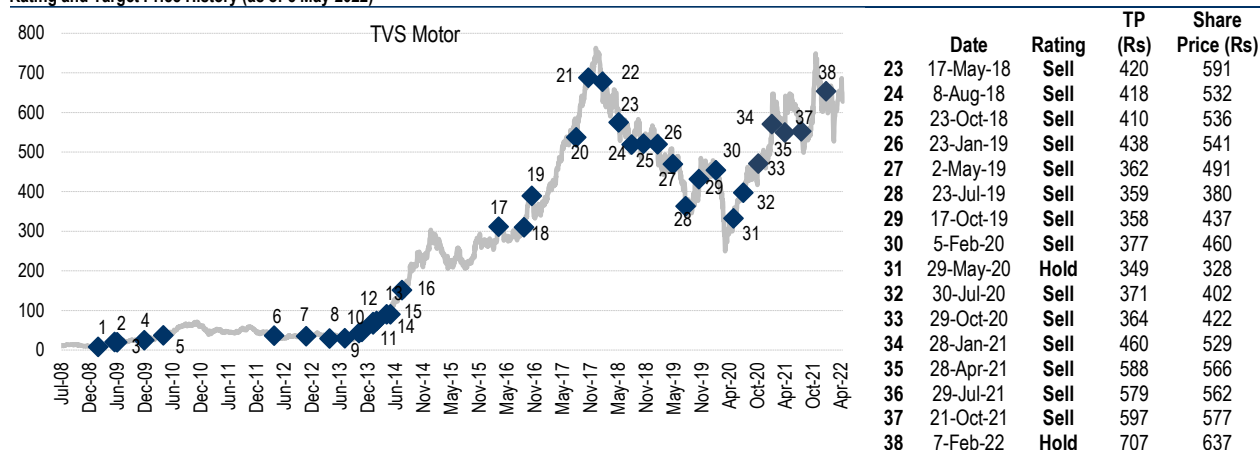
Appendix

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ARSSBL registered address: Express Zone, A Wing, 9th Floor, Western Express Highway, Diagonally Opposite Oberoi Mall, Malad (E), Mumbai – 400097.
Tel No: +91 22 6281 7000 | Fax No: +91 22 4001 3770 | CIN: U67120MH1991PLC064106.