

CMP: INR 871

Rating: Accumulate

Target Price: INR 1,028

Stock Info

BSE	532343
NSE	TVSMOTOR
Bloomberg	TVSL IN
Reuters	TVSM.BO
Sector	Auto -2&3 Wheelers
Face Value (INR)	1
Equity Capital (INR mn)	47.51
Mkt Cap (INR mn)	41,135
52w H/L (INR)	898 /495
Avg Yearly Vol (in 000')	2157

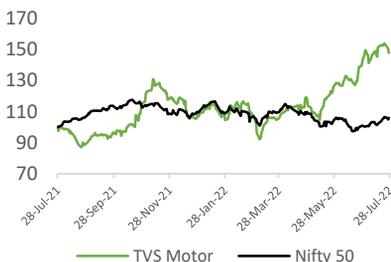
Shareholding Pattern %

(As on June, 2022)

Promoters	50.81
Public & Others	49.19

Stock Performance (%)	1m	3m	12m
TVS Motors	5.49	26.98	50.3
Nifty 50	7.27	-3.17	6.35

TVS Motors Vs Nifty



Abhishek Jain
abhishek.jain@arihantcapital.com
022 67114851

Jyoti Singh
jyoti.singh@arihantcapital.com
022 67114834

TVS Motor Company has reported largely in line with our estimates and strong export volume on the back of the performance of its product portfolio, export momentum, and exchange rate benefits; Standalone revenue stood at INR 60,087 Mn, against our estimate of INR 59,285 Mn registering a growth 52.7% YoY/ 8.7% QoQ. EBITDA stood at INR 5,995 Mn, against our estimate of INR 5,820 Mn, Registering a growth of 119%YoY/ +7.7%QoQ. On the margins front, EBITDA margin expansion by 302bps YoY/ -9bpsQoQ to 9.98%, against our estimate of 9.8% backed by the performance of its product portfolio, export momentum and exchange rate benefits.

Exports led to steady volume during the quarter: Total Volume increased by 37.9%YoY/-2.2% QoQ to 9,06,791 units. The decline due to significant constraints by the inadequate availability of semi-conductors. Export volume increased by 7.3% YoY/3.1% QoQ due to gaining market share in the export geographies as well, along with domestic market. We believe, continue see positive momentum on the premium bike and scooter space. In Q3FY22, the scooters segment has come back strong. TVS has grown robust led by Jupiter and Ntorq. The company has passed on price increases to the market, however, there is some under recovery for Apache and other premium motorcycles, as volumes were down it reduced marketing advertising expenses for these motorcycles.

Company focus on EV and expansion in EBITDA Margin will positively influence overall growth: Demand is strong for iQube and bookings are available in 85 cities. The customer base of ~20k customers. The company would shortly ramp up to 20k per month and then to 25k in the near term. Bookings for iQube are at 20k. It plans to launch few more new products on EV platform in FY23. We believe the domestic two-wheeler industry will witness gradual improvement and TVS will outperform on the volume front, leading to further margin expansion.

Outlook and valuation

TVS Motor has reported strong revenue and EBITDA margin of ~10% despite challenges on the semiconductor shortage, container availability constraints Considering the new product launches in EV and improving demand outlook for the premium motorcycles. Also better demand in the domestic as well as exports markets, we expect TVSL to grow ahead of the industry over the next 2 years. We expect the company's EBITDA margins to remain sustainable at 10-11% going forward on account of improving product mix, higher exports, and cost optimization measures. Considering the better business visibility, improving economic situation, and healthy export outlook.

We value TVS Motors' standalone business at an FY24E PE of 25x to its EPS estimate of INR 39.7 for FY24 and TVS credit services at 1x its BV (INR~35/share), which yields a revised target price of INR 1,028(earlier target price: INR 718 on a SOTP basis). We maintain our Accumulate rating on the stock.

YE March	Net Sales	EBITDA	PAT	EPS (INR)	EBITDA Margin %	RoE (%)	P/E (x)
FY21	1,67,505	14,286	6,120	12.9	8.5	14.7	67.6
FY22	2,07,905	19,617	9,237	18.8	9.4	18.5	46.3
FY23E	2,60,492	26,316	13,845	29.1	10.1	23.1	29.9
FY24E	3,02,362	33,803	18,864	39.7	11.2	29.6	21.9

Source: Arihant Research, Company Filings, Ace Equity, Bloomberg

Quarterly result summary

INR mn	1QFY23	4QFY22	1QFY22	YoY (%)	QoQ (%)
Net Sales	60,087	55,303	39,344	52.7	8.7
- Consumption of Raw Material	45,728	42,115	29,790	53.5	8.6
(% of Net Sales)	76.1	76.2	75.7	39bps	-5bps
- Staff Expenditure	3,209	2,841	2,609	23.0	13.0
(% of Net Sales)	5.3	5.1	6.6	-129bps	20bps
- Other Expenditure	5,156	4,780	4,207	22.5	7.9
(% of Net Sales)	8.6	8.6	10.7	-211bps	-6bps
Total Expenditure	54,093	49,735	36,606	47.8	8.8
EBITDA	5,995	5,568	2,738	119.0	7.7
EBITDA Margin (%)	9.98	10.07	7.0	302bps	-9bps
Depreciation	1,520	1,593	1,431	6.3	(4.6)
EBIT	4,474	3,975	1,307	242.3	12.6
Interest	376	330	300	25.3	13.8
Other income	222	82	16	1,296.9	171.5
PBT	4,321	3,727	1,023	322.2	15.9
Tax	1,115	982	190	486.3	13.6
Tax Rate (%)	26%	26%	19%		(2.0)
Adjusted PAT	3,205	2,745	833	284.8	16.8
Exceptional Item	-	-	302	-	-
Reported PAT	3,205	2,745	531	503.1	16.8
EPS (INR)	6.8	5.8	1.1	502.7	16.8
Total Volumes (In Nos)	9,06,791	9,27,539	6,57,758	37.9	(2.2)
Net Realisation (INR)	66,263	59,623	59,815	10.8	11.1
EBITDA / Vehicle (INR)	6,611	6,003	4,162	58.8	10.1

Source: Arianth Research, Company Filings, Ace Equity, Bloomberg

Volumes			
Volumes (In Nos)	1QFY23	4QFY22	1QFY22
Motorcycles	4,33,662	4,41,405	4,05,289
Scooters	3,08,085	2,61,943	1,39,435
Mopeds	1,19,048	2,42,930	73,977
Total 2W	8,69,519	9,46,278	6,18,701
3Ws	45,996	41,774	39,057
Total Volumes	9,06,791	9,88,052	6,57,758
Exports	3,38,121	3,15,156	3,28,105
Mix (%)	1QFY23	4QFY22	1QFY22
Motorcycles	47.8	44.7	61.6
Scooters	34.0	26.5	21.2
Mopeds	13.1	24.6	11.2
3Ws	5.1	4.2	5.9
Exports	37.3	31.9	49.9

Source: Arianth Research, Company Filings, Ace Equity, Bloomberg

Q1FY23 Conference-Call highlights

- **Performance:** TVS Motor Company in Q1FY23, recorded the highest ever revenues and EBITDA, despite Semiconductor shortages. This impacted sales of premium motorcycles. The sold 5.65 lacs in domestic markets. The industry has grown 53% and TVS has grown by ~70%. Exports did ~2.6 lac units. Again much better than industry growth. 3Ws also did well.
- **EV:** Launched iQube with 3 variants. Offers a host of features with loads of customization. Sales were at 9k for the last quarter and 4.5k-5k in June FY22. Slowly, moving onto 10k, probably by August. Response from customers is extremely satisfactory. Demand is strong and bookings are available in 85 cities. The customer base of ~20k customers. The company would shortly ramp up to 20k per month and then to 25k in the near term. Bookings for iQube are at 20k.
- **New product launches and refreshes:** TVS Ronin, is a new segment. Refreshed Ntorq with new features. TVS Radeon too got some new features. Overall, Q1FY23 was satisfactory. For Q2FY23, on the back of normal monsoons, it expects the rural economy to perform well.
- **Demand:** The company demand continues to grow for premium motorcycles. TVS has sourced Semiconductors from other vendors to mitigate the same. It expects Q2 to be better. Diwali (mid Sept-Oct), TVS expects a bumper season. We believe, it is very well poised to grow ahead of the industry.
- Q1FY23 - USD/ INR realization at 76.5;
- Spares revenue INR 6200 Mn; International business revenues INR 21740 Mn against INR 18300 Mn
- International market inventory levels are ~22-26days.
- Raider, Jupiter and Apache affected retail offtake on back of Semicon problems, in June and May'22. Has on boarded 1 supplier. Momentum would improve in the near term.
- Channel inventory is around 25-30 days, generally across models. For Raider and Apache, it was significantly down.
- Mopeds are at 3-4% of the category. During covid, it was severely impacted. As and when normalcy returns, it expects this segment to pick up as well. No clear plans for e-mopeds.
- Industry: Mopeds declined by 38% and entry-level motorcycles declined 50% in FY22.
- 3Ws: TVS would be launching an electric three-wheeler in the market soon. Working on TCO (total cost of ownership) for now.
- **International markets:** In 14-18 countries, has a good product portfolio, with a strong customer pull.
- **Capex:** FY23 of INR 7500Mn; Investment in subsidiaries TVS Credit services, Norton, Around INR 3000-4000 Mn.
- TVS CS has been extremely good. The company book size is INR 154000Mn. GNPA is 3.1%. The company collections are better than pre-covid levels. PBT of INR 111cr.
- Invested INR 117cr or 2% in Rapido, to leverage its synergies in the mobility market in India.
- **Ramp up:** 1st target is 10k and 2nd target is 25k. Would add capacity on an m/m basis.
- TVS Ronin is a modern retro motorcycle. New customer and new category.
- **SEMG:** Leading providers of e-mobility in the European region. Facing some supply chain issues this year. However, demand has started to improve from June onwards.
- Also, cautiously optimistic in international markets on the back of currency devaluation and product affordability in some markets.
- **Price hike taken led by rise in raw Material:** For Q1FY23, almost 2% impact. The company raised prices by 1.5%. This and tight control over other expenses aided margins. For Q2FY23, some materials are going up and expect some pressure. For Q3FY23, it expects a positive moment in terms of margins as materials would have softened up.
- **Outlook:** This year Diwali would be very good. The company expect rural would come back strong and do well. Urban markets would also do well as every market is open (schools, colleges, offices, etc). The bottom of the pyramid class would also do well now and could see CAGR growth of 10% after 2-3 quarters performance. For TVS, always keeps a lean inventory of 25-30 days. The same philosophy would continue in international markets. RM is at peak levels now. The company is seeing some increases in Q2FY23. However, from Q3, raw material could even come down.

Exhibit 1: Mopeds declined by 38% and entry-level motorcycles declined 50% in FY22. Urban & rural markets would do well as every market is open (schools, colleges, offices, etc).

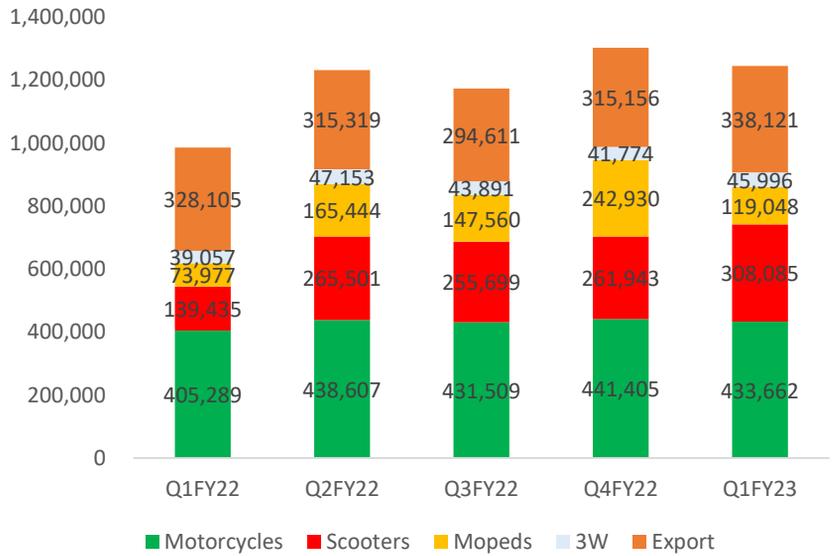


Exhibit 2: The company EBITDA/Vehicle showing steady growth due to higher contribution from the premium segment.

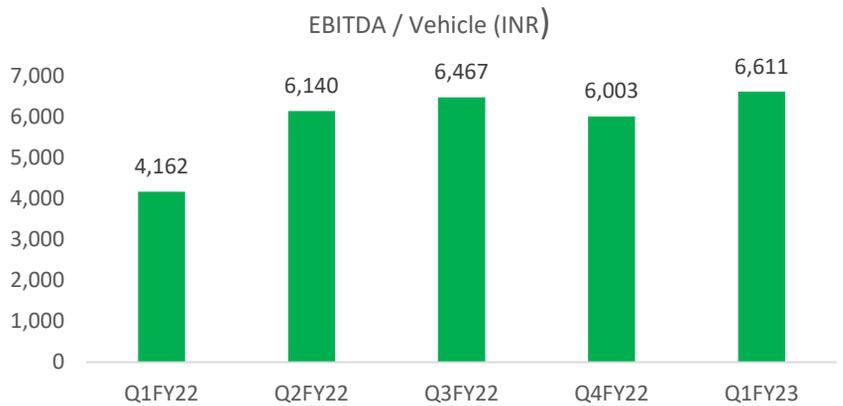
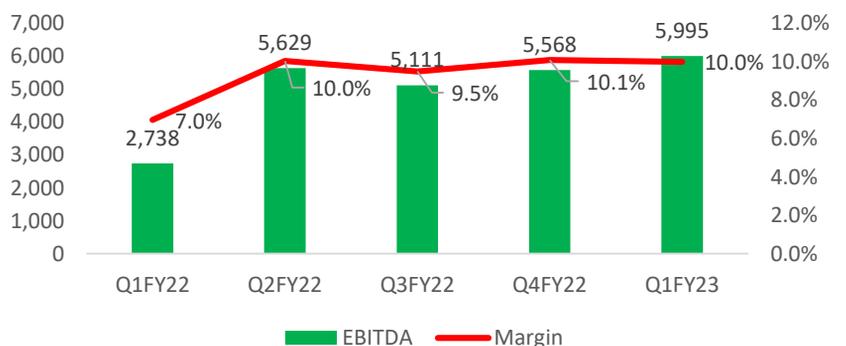


Exhibit 3: Rising exports at a decent exchange rate would cushion on the margin front



Source: Arianth Research, Company Filings,

Profit & Loss Statement (Standalone)				
YE: Mar (INR mn)	FY21	FY22	FY23E	FY24E
Net sales	1,67,505	2,07,905	2,60,492	3,02,362
Growth, %	2	24	25	16
RM expenses	1,27,239	1,58,082	1,93,155	2,21,480
Employee expenses	9,485	11,364	12,784	14,382
Other expenses	16,497	18,842	28,237	32,697
EBITDA (Core)	14,286	19,617	26,316	33,803
Growth, %	6	37	34	28
Margin, %	8.5	9.4	10.1	11.2
Depreciation	4,937	6,114	6,606	7,244
EBIT	9,349	13,503	19,710	26,559
Growth, %	9	44	46	35
Margin, %	5.6	6.5	7.6	8.8
Interest paid	1,416	1,259	1,120	1,176
Other Income	330	190	209	230
Non-recurring Items	0	0	0	0
Pre-tax profit	8,262	12,434	18,798	25,612
Tax provided	2,142	3,197	4,953	6,748
Profit after tax	6,120	9,237	13,845	18,864
Exceptional Item	-	301.6	-	-
Net Profit	6,120	8,936	13,845	18,864
Growth, %	3	46	55	36
Net Profit (adjusted)	6,120	8,935.6	13,845	18,864

Source: Arianth Research, Company Filings, Ace Equity, Bloomberg

Balance Sheet (Standalone)				
YE: Mar (INR mn)	FY21	FY22	FY23E	FY24E
Cash & bank	9,298	4,013	12,371	27,038
Marketable securities	-	-	-	-
cost	-	-	-	-
Debtors	8,700	9,507	11,911	13,826
Inventory	11,518	11,227	16,843	20,378
Loans & advances	-	-	-	-
Other current assets	4,952	7,574	7,953	8,350
Total current assets	34,468	32,320	49,078	69,592
Investments	33,153	40,153	47,153	54,153
Gross fixed assets	66,973	73,973	81,473	88,973
Less: Depreciation	-31,909	-38,023	-44,629	-51,873
Add: Capital WIP	1,126	2,462	2,462	2,462
Net fixed assets	35,064	35,950	36,843	37,099
Total assets	1,03,811	1,10,885	1,35,536	1,63,307
Current liabilities	44,795	48,176	58,454	66,911
Provisions	1,925	2,458	2,704	2,974
Total current liabilities	46,720	50,634	61,157	69,885
Non-current liabilities	3,189	5,600	3,076	3,076
Total liabilities	49,909	56,234	64,233	72,960
Paid-up capital	475	475	475	475
Reserves & surplus	41,234	47,745	59,538	75,780
Shareholders' equity	41,710	48,220	60,013	76,255
Total equity & liabilities	1,03,811	1,10,885	1,35,536	1,63,307

Cash Flow				
YE: Mar (INR mn)	FY21	FY22	FY23E	FY24E
Pre-tax profit	8,262	12,132	18,798	25,612
Depreciation	4,937	6,114	6,606	7,244
Chg in working capital	14,646	776	2,124	2,880
Total tax paid	-2,034	-3,000	-4,953	-6,748
CFO	26,897	17,092	22,944	29,934
Capital expenditure	-9,373	-8,337	-7,500	-7,500
Chg in investments	-4,686	-7,000	-7,000	-7,000
CFI	-13,729	-15,147	-14,292	-14,269
Free cash flow	17,524	8,755	15,444	22,434
Debt raised/(repaid)	-9,391	1,316	2,334	2,801
Dividend (incl. tax)	-1,946	-2,052	-2,052	-2,623
CFF	-12,752	-1,996	-839	-998
Net chg in cash	416	-51	7,813	14,667
Opening cash balance	4,192	9,298	4,013	12,371
Closing cash balance	9,298	4,013	12,371	27,038

Ratios				
YE: Mar	FY21	FY22	FY23E	FY24E
EPS (INR)	12.9	18.8	29.1	39.7
PER (x)	67.6	46.3	29.9	21.9
Price/Book (x)	9.9	8.6	6.9	5.4
EV/EBITDA (x)	29.0	21.5	15.8	11.9
EV/Net sales (x)	2.5	2.0	1.6	1.3
RoE (%)	15	19	23	25
RoCE (%)	19	24	28	30
Fixed Asset turnover (x)	2.5	2.8	3.2	3.4
Dividend Yield (%)	0.4	0.4	0.4	0.5
Receivable (days)	21	14	17	17
Inventory (days)	27	22	26	28
Payable (days)	105	92	91	91
Net D/E ratio (x)	0.0	0.2	0.0	(0.1)

Source: Arianth Research, Company Filings, Ace Equity, Bloomberg

Arihant Research Desk

Email: research@arihantcapital.com

Tel. : 022-42254800

Head Office	Registered Office
#1011, Solitaire Corporate Park Building No. 10, 1 st Floor Andheri Ghatkopar Link Road Chakala, Andheri (E) Mumbai – 400093 Tel: (91-22) 42254800 Fax: (91-22) 42254880	Arihant House E-5 Ratlam Kothi Indore - 452003, (M.P.) Tel: (91-731) 3016100 Fax: (91-731) 3016199

Stock Rating Scale	Absolute Return
BUY	>20%
ACCUMULATE	12% to 20%
HOLD	5% to 12%
NEUTRAL	-5% to 5%
REDUCE	-5% to -12%
SELL	<-12%

Research Analyst Registration No.	Contact	Website	Email Id
INH000002764	SMS: 'Arihant' to 56677	www.arihantcapital.com	research@arihantcapital.com

Disclaimer: This document has been prepared by Arihant Capital Markets Ltd. This document does not constitute an offer or solicitation for the purchase and sale of any financial instrument by Arihant. This document has been prepared and issued on the basis of publicly available information, internally developed data and other sources believed to be reliable. Whilst meticulous care has been taken to ensure that the facts stated are accurate and opinions given are fair and reasonable, neither the analyst nor any employee of our company is in any way is responsible for its contents and nor is its accuracy or completeness guaranteed. This document is prepared for assistance only and is not intended to be and must not alone be taken as the basis for an investment decision. The user assumes the entire risk of any use made of this information. Arihant may trade in investments, which are the subject of this document or in related investments and may have acted upon or used the information contained in this document or the research or the analysis on which it is based, before its publication. This is just a suggestion and Arihant will not be responsible for any profit or loss arising out of the decision taken by the reader of this document. Affiliates of Arihant may have issued other reports that are inconsistent with and reach different conclusion from the information presented in this report. No matter contained in this document may be reproduced or copied without the consent of the firm.

Arihant Capital Markets Ltd.
1011, Solitaire Corporate park, Building No. 10, 1st Floor,
Andheri Ghatkopar Link Road, Chakala, Andheri (E)
Tel. 022-42254800 Fax. 022-42254880