

Retail Equity Research

TVS Motor Company Ltd

Automobile - 2/3 Wheelers

Accumulate

12Months Investment Period

Rating as per Mid cap

CMP Rs. 869 TARGET Rs. 964 RETURN 11% ↑

(Closing: 28-07-22)

BSE CODE : 532343

NSE CODE: TVSMOTOR

BLOOMBERG CODE: TVS : IN

SENSEX : 56,858

KEY CHANGES:
TARGET ↑

RATING ↔

EARNINGS ↑

Superior product mix to drive profitability.

TVS Motors (TVS) is the third largest two-wheeler manufacturer in India with a domestic market share of 17.6% in FY22.

- Q1FY23 revenue grew by at 9% QoQ and recorded highest ever revenue and EBITDA, due to improved product mix and price hike.
- Despite adverse commodity price, strong cost control initiatives has aided margin to maintain at 10.0%(+302bps YoY).
- In the domestic market, It aims a gradual recovery with the pick-up in economic activity & ramp up in the EV portfolio. TVS is planning to reach 10,000 units/month EV sales by H2FY23.
- Higher export and stability in exchange rate are currently driving the international numbers. Export grew by 7%QoQ. The company has outperformed the domestic industry growth by 17%YoY.
- We value TVS on a SOTP basis, standalone business at 25x FY24E EPS (and TVS Credit Services at 1x BV to arrive at a target price of Rs. 964/share and maintain our Accumulate rating .

Margin continues to show resilience..

Despite higher commodity price, company continue to report 10% EBITDA margin due to superior product mix and cost control management. Total volume increased by 37.9%YoY & -2.2% QoQ to reach at 9,06 lacs units. In which, 2W grew by 8.6% and 3W by 17.8% YoY. TVS Radeon, Jupiter and N-Troq continue to witness strong brand visibility among consumers, which has resulted in lower marketing expenses. We expect the confidence in the domestic market to recover gradually with the pick-up in the economic activities and positive triggers from the rural market. Higher export, stability in exchange rate and expanding to newer geographies are currently driving the industry numbers. We expect the volume to grow at 13% CAGR over FY22-24E.

Higher Export and Product innovation.

TVSM has improved its overall market share by +20bps YoY on account of both export (+30bps) and domestic(+150bps). In addition, underachievement of the market share owing to lack of positioning, reaffirmation of the existing brands has also largely addressed in both domestic and export market. For the quarter, export volume grew by 7% QoQ. Export revenue share stood at 43% YoY for FY22. This was largely on account of the different variant the company can offer in newer markets and premiumization. We also believe, the growth in the export is likely to expand to develop markets through the acquisition of Norton UK.

Key Highlights.

Key takeaways from earnings call:1)TVSM has laid down a capex of Rs ~750cr in FY23 and further investment in subsidiaries around 300-400cr. 2)TVSM's Rs1000cr allocation for EV development and plans is on track to launch 10 new models 3) For the quarter the company took price increase of 1.5% to offset elevated RM cost. 4)With the opening up of economy the company see demand coming back to normalcy 5) Book Size of TVS Credit Services stood at ~Rs15,400cr, as on June end. GNPA is at 3.1%. The collection in Q1 is also improved and the PBT came at Rs.111cr. 6) 2W-EV- iQube units sales stands at 6000/m and available across 86 cities, and planning to reach 10,000 units/m to 25000/m to the end of FY23. 3W-EV, has also ramped up its production from January onwards. As outlook, the company expects the entry level bikes to do well owing to complete opening of the economy and nearing festive season.

Valuations.

Amid Cautious outlook in the near term due to weak business environment, sustainability of the margin is justifiable, with respect to superior product mix, cost control initiatives, product innovation and price hike. In addition, respite in the commodity price to support margin. Given better revenue visibility, improving economic situation and healthy export outlook, We value TVSM's standalone business at 25x FY24E EPS (Rs.935/share) and TVS Credit Services at 1x BV (Rs.29/share, (15% holding dis.)) to arrive at a target price of Rs. 964/share and maintain our Accumulate rating .

Company Data

Market Cap (Rs.cr)	43,504
Enterprise Value (Rs.cr)	58,391
Outstanding Shares (cr)	47.5
Free Float	49%
Dividend Yield	0.4%
52 week high Rs.	953
52 week low Rs.	495
6m average volume (cr)	0.21
Beta	0.9
Face value Rs.	1

Shareholding (%)	Q3FY22	Q4FY22	Q1FY23
Promoters	52.3	50.8	50.8
FII's	12.9	12	9.9
MFs/Insti	25.5	28.5	19.8
Public	9.4	8.7	19.6
Total	100	100	100
Promotor pledge	NIL	NIL	NiL

Price Performance	3 Month	6 Month	1 Year
Absolute Return	39.8%	52.1%	63.0%
Absolute Sensex	0.7%	0.5%	9.2%
Relative Return*	39.1%	51.6%	53.8%

*over or under performance to benchmark index



Consolidated (cr)	FY22A	FY23E	FY24E
Sales	20,791	25,687	28,758
Growth (%)	24.1	23.6	12.0
EBITDA	1,962	2,671	3,192
EBITDA Margin (%)	9.4	10.4	11.1
Adj. PAT	894	1,439	1,776
Growth (%)	46.0	61.0	23.4
Adj. EPS	18.8	30.3	37.4
Growth (%)	46.0	61.0	23.4
P/E	46.2	28.7	23.2
P/B	8.5	6.8	5.4
EV/EBITDA	21.9	16.1	13.5
ROE (%)	19.8	26.3	25.8
D/E	0.4	0.3	0.2

Saji John
 Research Analyst

Quarterly Financials (Standalone)

Profit & Loss

Rs cr)	Q1FY23	Q1FY22	YoY Growth (%)	Q4FY22	QoQ Growth (%)
Sales	6,009	3,934	52.7	5,530	8.7
EBITDA	599	274	119.0	557	7.7
EBITDA margins (%)	10.0	7.0	302bps	10.1	-9bps
Depreciation	152	143	6.3	159	-4.6
EBIT	447	131	242.3	398	12.6
Interest	38	30	25.3	33	13.8
Other Income	22	2	1296.9	8	171.5
Exceptional Items	0	-30	0.0	0	0.0
PBT	432	72	498.7	373	15.9
Tax	113	19	491.6	98	14.6
Share of profit from associates	0	0	0.0	0	0.0
Minority interest	0	0	0.0	0	0.0
Reported PAT	320	53	501.2	275	16.4
Adjustments	0	30	0.0	0	0.0
Adj PAT	320	83	283.6	275	16.4
No. of Shares	48	48	0	48	0
Adj EPS (Rs)	6.7	1.8	283.6	5.8	16.4

Change in Estimates

Year / Rs cr	Old estimates		New estimates		Change (%)	
	FY23E	FY24E	FY23E	FY24E	FY23E	FY24E
Revenue	25,214	29,812	25,687	28,758	1.9%	-3.5%
EBITDA	2,597	3,071	2,671	3,192	2.9%	3.9%
Margins (%)	10.3	10.3	10.4	11.1	10bps	80bps
Adj. PAT	1,370	1,680	1,439	1,776	5.0%	5.7%
EPS	28.8	35.4	30.3	37.4	5.2%	5.6%

Sum of the parts (SOTP) valuation

Particulars	Basis	Multiple	Year	Value (Rs Cr)	Value/share (Rs)
TVS Motor Ltd (Standalone)	P/E	25x	FY24E	Rs.37.4 (EPS)	Rs.935
TVS Credit Services Ltd	P/BV	1x	FY24E	Rs.34.62 (BV/Share)	Rs.29 (15% Holding discount.)
Target Price					Rs.964

Standalone Financials

PROFIT & LOSS

Y.E March (Rs. cr)	FY20A	FY21A	FY22A	FY23E	FY24E
Revenue	16,423	16,751	20,791	25,687	28,758
% change	-9.8	2.0	24.1	23.6	12.0
EBITDA	1,346	1,429	1,962	2,671	3,192
% change	-6.1	6.1	37.3	36.2	19.5
Depreciation	489	494	611	656	719
EBIT	857	935	1,350	2,016	2,473
Interest	102	142	126	148	159
Other Income	32	33	19	77	86
PBT	754	826	1,213	1,944	2,400
% change	-21.5	9.5	46.8	60.3	23.4
Tax	162	214	320	506	624
Tax Rate (%)	0.2	0.3	0.3	0.3	0.3
Reported PAT	592	612	894	1,439	1,776
Adj	-32.3	0.0	0.0	0.0	0.0
Adj PAT	625	612	894	1,439	1,776
% change	-6.8	-2.0	46.0	61.0	23.4
No. of shares (cr)	48	48	48	48	48
Adj EPS (Rs.)	13.1	12.9	18.8	30.3	37.4
% change	-6.8	-2.0	46.0	61.0	23.4
DPS (Rs.)	3.5	3.5	3.5	3.5	3.5
CEPS (Rs.)	23	23	32	44	53

CASH FLOW

Y.E March (Rs. cr)	FY20A	FY21A	FY22A	FY23E	FY24E
Net inc. + Depn.	1,243	1,320	1,825	2,600	3,119
Non-cash adj.	-234	-203	-300	-486	-600
Changes in W.C	65	-19	117	80	50
C.F. Operation	1,075	1,097	1,641	2,195	2,570
Capital exp.	-665	-560	-710	-760	-760
Change in inv.	-350	-150	-350	-1,000	-1,350
Other invest.CF	-20	-20	-40	-40	-40
C.F - Investment	-1,035	-730	-1,100	-1,800	-2,150
Issue of equity	0	0	0	0	0
Issue/repay debt	44	250	50	50	50
Dividends paid	-200	-200	-200	-200	-200
Other finance.CF	0	0	0	0	0
C.F - Finance	-156	50	-150	-150	-150
Chg. in cash	-116	417	391	245	270
Closing cash	57	474	865	1110	1379

BALANCE SHEET

Y.E March (Rs. cr)	FY20A	FY21A	FY22A	FY23E	FY24E
Cash	57	474	865	1,110	1,379
Accounts Receivable	1,350	1,377	1,709	2,111	2,364
Inventories	1,061	1,152	1,367	1,689	1,891
Other Cur. Assets	720	688	854	1,056	1,182
Investments	2,651	2,801	3,151	4,151	5,501
Gross Fixed Assets	5,718	6,268	6,968	7,718	8,468
Net Fixed Assets	2,719	2,815	2,942	3,075	3,146
CWIP	117	127	137	147	157
Intangible Assets	22	3	4	5	6
Def. Tax (Net)	-155	-166	-185	-205	-229
Other Assets	0	0	0	0	0
Total Assets	8,541	9,270	10,844	13,139	15,396
Current Liabilities	540	551	684	845	945
Provisions	135	138	171	211	236
Debt Funds	1,422	1,672	1,722	1,772	1,822
Other Liabilities	0	0	0	0	0
Equity Capital	48	48	48	48	48
Reserves & Surplus	3,697	4,109	4,803	6,042	7,618
Shareholder's Fund	3,745	4,157	4,850	6,089	7,665
Total Liabilities	8,541	9,270	10,844	13,139	15,396
BVPS (Rs.)	79	87	102	128	161

RATIOS

Y.E March	FY20A	FY21A	FY22A	FY23E	FY24E
Profitab. & Return					
EBITDA margin (%)	8.2	8.5	9.4	10.4	11.1
EBIT margin (%)	5.2	5.6	6.5	7.8	8.6
Net profit mgn. (%)	3.6	3.7	4.3	5.6	6.2
ROE (%)	17.6	15.5	19.8	26.3	25.8
ROCE (%)	10.1	10.3	12.4	16.5	16.7
W.C & Liquidity					
Receivables (days)	30.7	29.7	27.1	27.1	28.4
Inventory (days)	33.6	31.7	29.1	28.7	30.3
Payables (days)	14.0	15.6	14.2	14.3	15.1
Current ratio (x)	5.2	6.0	6.2	6.3	6.4
Quick ratio (x)	2.6	3.4	3.8	3.8	4.0
Turnover & Leverage					
Gross asset T.O (x)	3.0	2.8	3.1	3.5	3.6
Total asset T.O (x)	2.0	1.9	2.1	2.1	2.0
Int. coverage ratio (x)	8.4	6.6	10.7	13.6	15.5
Adj. debt/equity (x)	0.4	0.4	0.4	0.3	0.2
Valuation					
EV/Sales (x)	2.6	2.6	2.1	1.7	1.5
EV/EBITDA (x)	31.7	30.1	21.9	16.1	13.5
P/E (x)	66.1	67.4	46.2	28.7	23.2
P/BV (x)	11.1	9.9	8.5	6.8	5.4

Recommendation summary (Last 3 Years)



Dates	Rating	Target
23.01.2019	Reduce	490
04.05.2019	Reduce	449
25.07.2019	Reduce	344
18.10.2019	Reduce	440
16.06.2020	Hold	369
05.08.2020	Sell	355
30.10.2020	Accumulate	463
03.02.2021	Accumulate	695
30.04.2021	Buy	726
01-09-2021	Buy	610
22-10-2021	Buy	669
17.02.2022	Accumulate	736
29.07.2022	Accumulate	964

Source: Bloomberg, Geojit Research.

Investment Criteria

Ratings	Large caps	Midcaps	Small caps
Buy	Upside is above 10%	Upside is above 15%	Upside is above 20%
Accumulate	-	Upside is between 10% - 15%	Upside is between 10% - 20%
Hold	Upside is between 0% - 10%	Upside is between 0% - 10%	Upside is between 0% - 10%
Reduce/sell	Downside is more than 0%	Downside is more than 0%	Downside is more than 0%
Not rated/Neutral	-	-	-

Definition:

Buy: Acquire at Current Market Price (CMP), with the target mentioned in the research note.

Accumulate: Partial buying or to accumulate as CMP dips in the future.

Hold: Hold the stock with the expected target mentioned in the note.

Reduce: Reduce your exposure to the stock due to limited upside.

Sell: Exit from the stock.

Not rated/Neutral: The analyst has no investment opinion on the stock.

To satisfy regulatory requirements, we attribute 'Accumulate' as Buy and 'Reduce' as Sell.

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