Stock Update

Result Update

Sharekhan by BNP PARIBAS

Powered by the Sharekhan 3R Research Philosophy

TVS Motor Company Ltd

Margins power operationally healthy Q4

Automobiles	Sharekhan code: TVSMOTOR
Reco/View: Buy ↔	CMP: **Rs. 1,169**
	Price Target: **Rs. 1,303** ↔

↑ 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 NEW

ESG RISK RATING 13.67

Updated Dec 08, 2022

Low Risk

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

Source: Morningstar

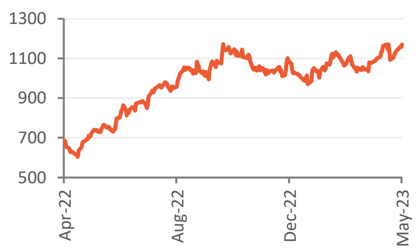
Company details

Market cap:	Rs. 55,538 cr
52-week high/low:	Rs. 1,184 / 589
NSE volume: (No of shares)	16.8 lakh
BSE code:	532343
NSE code:	TVSMOTOR
Free float: (No of shares)	23.6 cr

Shareholding (%)

Promoters	50.3
FII	17.0
DII	24.4
Others	8.3

Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	13.0	12.6	2.5	70.2
Relative to Sensex	5.8	10.1	-1.6	61.6

Sharekhan Research, Bloomberg

Summary

- We reiterate a Buy on the stock with a PT of Rs. 1,303 in expectation of 24.5% earning CAGR over FY23-25E, successful entry in electric 3-wheeler space, introduction of EVs in export market and recovery in export volumes in medium term.
- TVSM continues to sustain EBITDA margin above 10% and hopes for further expansion in the medium term.
- Aggressive product launches, foray into new markets and investments in newer and cleaner technologies with profitable growth would be key growth drivers.
- The stock trades at a P/E multiple of 25.1x and EV/EBITDA multiple of 13x its FY2025E estimates.

In Q4FY23, despite a muted export mix, TVSM reported healthy operating numbers as EBITDA margin was 20 bps ahead of estimates. While the company was facing challenges in export market, it maintained dealer stock in control and is now seeing higher retail sales compared to dispatches. This would help TVSM to build up dispatches speedily in the overseas market once the dollar availability in key markets along with macro trend in broader export market would improve. Despite a 1.4% q-o-q decline in volumes, revenue increased by 0.9% q-o-q to Rs. 6604.8 crore (1.4% above estimates) led by judicious price hikes. The company has hiked prices by 1% in March in further increased prices by 0.8% to 1% on selected models in April 2023. Despite a weak export mix (21% in Q4 as compared to 28% in Q3FY23), the 10 bps q-o-q expansion in gross margin helped EBIDTA margin expanded by 20 bps q-o-q to 10.3%. This was the consecutive seventh quarter when TVSM has reported EBITDA margin above 10%. The other income jumped up sharply from Rs. 6.5 crore in Q3FY23 to Rs. 70.5 crore in Q4Fy23 due to MTM gain of Rs. 62 crore. On excluding the MTM gain the APAT increased by 3.1% q-o-q to Rs. 363.7 crore (against our estimate of Rs. 351.9 crore). Post result the management has guided for a double-digit growth in two-wheeler segment in medium to long term, while acknowledge the challenges in near term in rural segment. The company is continuously looking to expand its EV portfolio and targeting to launch EVs in export markets in FY24. Further the company is aiming to launch electric three-wheelers also in FY24 and looking for further expansion in EBITDA margin in coming period.

Key positives

- Despite a weak export mix, the EBITDA margin expanded by 20 bps q-o-q to 10.3% led by price hikes and 10 bps q-o-q expansion in EBITDA margin.
- TVSM has been aggressively expanding its EV footprint in India and now its EV products have footprint in 135 cities in India and has been enjoying an order backlog of 30,000 units.
- Has been receiving healthy response in EV segment, given it has sold 43k electric two wheelers in Q4FY23 compared to 29k in Q3FY23.

Key negatives

- Export mix came down sharply to 21% in Q4FY23 compared to 28% in Q3FY23.
- The rural demand has yet to pick up in the domestic market.

Management Commentary

- Two-wheeler industry is expected to grow by double digit in medium to long term and TVSM is continuing to eye market share expansion in the domestic market
- The retail sales in export market has been improving though dollar availability is still a headwind for export volume growth
- The company is looking to expand its electric two-wheeler product portfolio and looking to launch electric products in the export market in FY24. Further, it is aiming to enter electric three-wheeler space in FY24.

Our Call

Valuation – Buy with PT of Rs. 1303: Despite a weak export mix and muted volume performance TVSM has maintained EBITDA margin above 10% in Q4FY23 and the management is hoping for further expansion in EBITDA margin in coming period. While the macro challenges including the dollar availability issues are continue in overseas market the dealer inventory is under control as retail sales has been surpassing the dispatches. This gives a hope that TVSM would be able to enhance its export volumes speedily once macros in overseas markets would turn up. Its recently launched products Ronin has been well accepted in the market and the company continue to aim to expand its penetration in premium segment. The company continue to emerge as the key beneficiary of the rising premiumization in the domestic motorcycle segment as its market share in domestic market has expanded from 7.9% in FY22 to 8.9% inFY23. Further, we expect TVSM to continue to perform strongly and gain market share in international markets, driven by its wide and strong product portfolio and offerings in both the two-wheeler and three-wheeler segments and its focus on new product launches and enhancing geographical presence. Post Q4FY23 performance, we build up 24.5% earning CAGR backed by 8.9% Volume CAGR and 140 bps EBITDA margin expansion over FY23-25E. We maintain a Buy rating on the stock with a unchanged price target (PT) of Rs. 1,303 in expectation of 24.5% earning over FY23-25E, EBITDA margin expansion, successful entry in electric 3 wheeler space, introduction of EVs in export market and recovery in export volumes in medium term.

Key Risks

Geopolitical tensions can adversely affect 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. Continued headwinds in export market may impact its performance adversely.

Valuation (Standalone) Rs cr

Particulars	FY21	FY22	FY23E	FY24E	FY25E
Net sales	16,751	20,791	26,378	28,551	32,847
Growth (%)	2.0	24.1	26.9	8.2	15.0
EBIDTA	1,429	1,962	2,675	3,141	3,777
OPM (%)	8.5	9.4	10.1	11.0	11.5
PAT	611	923	1,429	1,738	2,215
Growth (%)	-2.0	51.0	54.8	21.7	27.4
FD EPS (Rs)	13	19	30	37	47
P/E (x)	90.8	60.2	38.9	32.0	25.1
P/BV (x)	13.3	11.5	9.2	7.4	6.0
EV/EBITDA (x)	35.9	26.0	19.0	16.0	13.0
RoE (%)	14.7	19.1	23.6	23.2	23.7
RoCE (%)	13.6	15.7	18.7	19.1	20.4

Source: Company; Sharekhan estimates

EV segment: likely to enter in overseas market in FY24

- After selling 96,654 electric scooters in FY23 the company expects its volume performance would continue to improve in FY24 as the company is looking to expand its product portfolio in electric scooter space and planning to launch electric three-wheeler also.
- Electric two-wheeler sales stood at 43,000 units in Q4FY23 compared to 29,000 units in Q3FY23.
- Besides focusing on volume ramp up in domestic market, the company is looking to launch electric vehicles in export market in FY24 (likely to be in Q3Fy24 or in Q2FY24).
- The company is strategically focusing on volume ramp up in EV space to benefit from operating leverage.
- Currently, the order backlog for electric two-wheeler stood at 30,000 units.
- TVSM has already expanded its EV business in 135 and continues to look for deepen its penetration.

Export market: Retail sales is improving

- TVSM has been facing challenges in the export market due to macro issues including dollar unavailability issue.
- The company has consciously moderate dispatches in export market to control dealer inventory
- Currently the retail sale in export market is higher than that of dispatches.
- A large part of destocking has already been over in the export market as retail sales has been improving and surpassing the dispatches.
- The company assumes that dispatches in the export market improve once the dollar availability and macro trend would start showing improvement as inherent demand is continuing to be strong.

Others

- TVSM has increased prices by ~ 1% in March 2023 and further increase prices by 0.8-1% on select models in April 2023.
- *Ronin, Raider* and *Jupiter 125* are well accepted by the customers in the market.
- Exports revenue in Q4FY23 stood at Rs. 1366 crore

Outlook

- The management assumes that going forward, the raw material cost trend is likely to remain steady and soft. It is unlikely that RM cost would see sharp uptick in coming period.
- In FY24, TVSM targets to deliver q-o-q improvement in its performance in EV space in every quarter
- Demand for two wheelers in urban segment has been strong and the management expects the recovery in rural segment would drive the two-wheeler industry performance in medium term.
- Two-wheeler industry is expected to grow by double digit in the medium to long term.

Change in estimates

	Earlier		New		% change	
	FY24E	FY25E	FY24E	FY25E	FY24E	FY25E
Revenue	30461	33507	28,551	32,847	-6.3%	-2.0%
EBITDA	3441	3,798	3,141	3,777	-8.7%	-0.5%
EBITDA margin	11.3%	11.3%	11.0%	11.5%		
PAT	1975	2,211	1,738	2,215	-12.0%	0.2%
EPS	41.6	46.5	36.6	46.6	-12.1%	0.2%

Source: Company; Sharekhan Research

Results (Standalone) Rs cr

Particulars	Q4FY23	Q4FY22	Y-o-Y %	Q3FY23	Q-o-Q %
Net revenue	6,604.8	5,530.3	19.4	6,545.4	0.9
Total operating costs	5,925.0	4,973.5	19.1	5,886.5	0.7
EBITDA	679.8	556.8	22.1	658.9	3.2
Adj EBIDTA	679.8	556.8	22.1	658.9	3.2
Depreciation	167.4	159.3	5.1	158.3	5.7
Interest	36.3	33.0	9.9	31.6	14.7
Other Income	8.5	8.2	3.9	6.5	31.0
PBT	546.6	372.7	46.7	475.5	15.0
Tax	136.4	98.2	38.9	122.7	11.1
Reported PAT	410.3	274.5	49.5	352.8	16.3
Adj PAT	363.7	274.5	32.5	352.7	3.1
Adi EPS	7.7	5.8	32.5	7.4	3.1

Source: Company; Sharekhan Research

Key profitability ratios (Standalone)

Particulars	Q4FY23	Q4FY22	BPS	Q3FY23	BPS
Gross margin (%)	24.6	23.8	80	24.5	10
EBIDTA Margin (%)	10.3	10.1	20	10.1	20
Net profit margin (%)	6.2	5.0	120	5.4	80
Effective tax rate (%)	24.9	26.3	(140)	25.8	(90)

Source: Company; Sharekhan Research

Volume Analysis **(Rs. per vehicle)**

Particulars	Q4FY23	Q4FY22	Y-o-Y %	Q3FY23	Q-o-Q %
Volumes (Units)	8,68,417	8,56,456	1.4	8,80,772	-1.4
Average realisation	76,055	64,572	17.8	74,315	2.3
Raw material/vehicle	57,342	49,173	16.6	56,120	2.2
EBITDA/vehcile	7,828	6,501	20.4	7,481	4.6
PAT/vehicle	4,188	3,205	30.7	4,005	4.6

Source: Company; Sharekhan Research

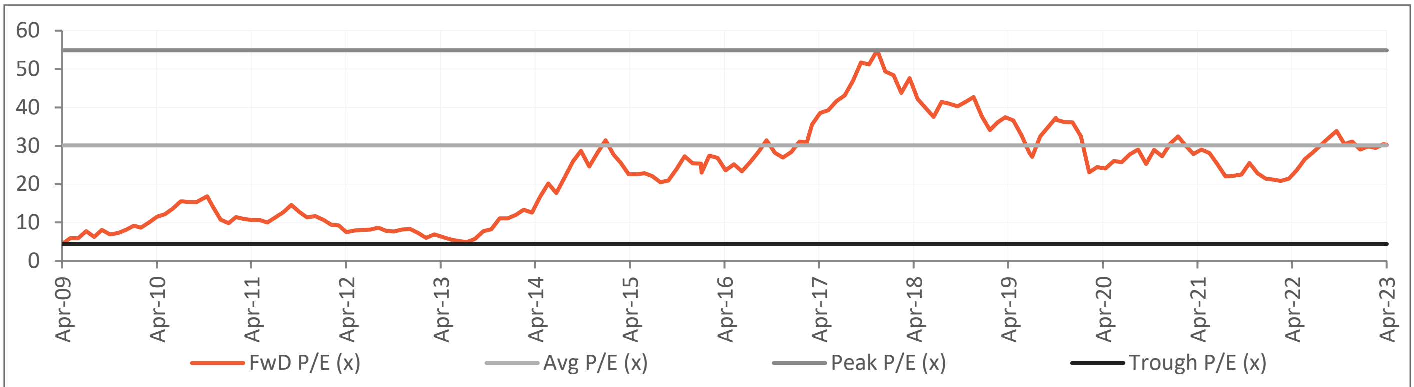
Outlook and Valuation

■ **Sector Outlook – Sales volumes likely to improve:** We expect growth momentum to recover in FY2024E, driven by improvement in rural sentiments in the domestic market. The government's infrastructure expenditure and increased preference for personal transport are expected to improve volumes. With rise in ownership cost due to price hikes and implementation of new regulations, the entry-level segment is facing headwinds, however the premium segment is continuously performing. While export volumes have been muted but reaching to bottom. The export volumes are expected to improve gradually in coming months. A positive recovery in Africa would augur well for the two-wheeler exports from India.

■ **Company Outlook – Poised to be in top gear in two-wheeler space:** TVSM has gained market share in the two-wheeler industry, with the number rising from 11.8% in FY2014 to about 16.4% in FY2023, 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 two-wheeler maker to post the fastest earnings growth amongst its peers. TVSM is expected to remain the fastest-growing company in the two-wheeler segment going ahead, given its aggressive product launches, foray into new markets, and investments in newer and cleaner technologies.

■ **Valuation – Maintain Buy with PT of Rs. 1303:** Despite a weak export mix and muted volume performance TVSM has maintained EBITDA margin above 10% in Q4FY23 and the management is hoping for further expansion in EBITDA margin in coming period. While the macro challenges including the dollar availability issues are continue in overseas market the dealer inventory is under control as retail sales has been surpassing the dispatches. This gives a hope that TVSM would be able to enhance its export volumes speedily once macros in overseas markets would turn up. Its recently launched products Ronin has been well accepted in the market and the company continue to aim to expand its penetration in premium segment. The company continue to emerge as the key beneficiary of the rising premiumization in the domestic motorcycle segment as its market share in domestic market has expanded from 7.9% in FY22 to 8.9% inFY23. Further, we expect TVSM to continue to perform strongly and gain market share in international markets, driven by its wide and strong product portfolio and offerings in both the two-wheeler and three-wheeler segments and its focus on new product launches and enhancing geographical presence. Post Q4FY23 performance, we build up 24.5% earning CAGR backed by 8.9% Volume CAGR and 140 bps EBITDA margin expansion over FY23-25E. We maintain a Buy rating on the stock with a unchanged price target (PT) of Rs. 1,303 in expectation of 24.5% earning over FY23-25E, EBITDA margin expansion, successful entry in electric 3 wheeler space, introduction of EVs in export market and recovery in export volumes in medium term.

One-year forward P/E (x) band



Source: Sharekhan Research

Peer Comparison

Particulars	CMP	P/E (x)			EV/EBITDA (x)			RoCE (%)		
	Rs/Share	FY22	FY23E	FY24E	FY22	FY23E	FY24E	FY22	FY23E	FY24E
TVS Motor	1,169	60.2	38.9	32.0	26.0	19.0	16.0	15.7	18.7	19.1
Hero MotoCorp	2,514	20.3	17.1	15.0	11.8	9.4	8.1	15.3	17.0	17.8
Bajaj Auto	4,458	25.7	22.5	19.4	19.4	15.8	13.3	17.8	22.0	23.2

Source: Company, Sharekhan estimates

About company

TVSM is the flagship company of TVS Group and is the third largest two-wheeler manufacturer in the country. TVSM is the only manufacturer present across all three categories of two-wheeler, viz. motorcycles, scooters, and mopeds. TVSM also manufactures Three-wheelers mainly for the export market. TVSM has been focusing on growing exports with the overseas market.

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 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. 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. We expect export volumes to recover in medium term.

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

Mr. Ralf Dieter Speth	Chairman
Mr. Venu Srinivasan	Managing Director
Mr K Gopala Desikan	Chief Financial Officer
Mr K N Radhakrishnan	CEO

Source: Company Website

Top 10 shareholders

Sr. No.	Holder Name	Holding (%)
1	Sundaram-Clayton Ltd	50.26
2	ICICI Prudential Asset Management Co Ltd	9.34
3	Life Insurance Corp of India	2.94
4	SBI Funds Management Ltd	2.90
5	Vanguard Group Inc/The	1.82
6	Jwalamukhi Investment Holdings	1.59
7	BlackRock Inc	1.58
8	Mirae Assets Global Investments Co Ltd	1.50
9	Westbridge AIF I	1.44
10	Tree Line Asia Master Fund	1.39

Source: Bloomberg

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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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