

TVS Motor Co Ltd

OUT PERFORMER

Sector: Auto-Ancillary / Mid-Cap | Earnings Update – 2QFY22

23 October 2021

Background: TVS Motor Company Limited (TVSM), the third-largest two-wheeler manufacturer in India, is a part of TVS Group; it manufactures motorcycles, scooters, mopeds and three-wheelers in India. TVS Motors is credited with many innovations in the Indian automobile industry, notable among them being the introduction of India's first two-seater moped, the TVS 50cc. The company has presence in all the three sub-segments of two wheelers, i.e., motorcycles, scooters & mopeds as well as the three-wheeler segment.

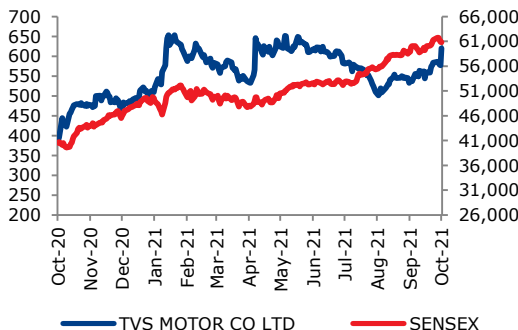
Sensex	60,822
Nifty	18,115
Price	₹620
Target Price (12 months)	₹664
Recommendation	OUT PERFORMER

52 Week High/Low	₹ 666/407
Bloomberg / Reuters	TVSL IN / TVSM.BO
Equity (shares in mn)	475.1
Mkt. Cap in bn	₹ 295/\$4
Avg. Daily Vol. ('000)	3,337.3
Avg. Daily Vol. (mn)	₹ 2,140.5 / \$ 28.7

Shareholding	Sep-20	Jun -21	Sep-21
Promoters (%)	57.4	52.3	52.3
FII (%)	10.6	13.9	12.7
DII (%)	21.9	24.3	25.2
Others (%)	10.1	9.5	9.8
Pledge (% of promoter holding)	0.0	0.0	0.0

Valuation Summary (₹ bn)	2021	2022E	2023E
Y/E March			
Revenue	167.5	209.1	219.4
EBITDA	14.3	18.7	23.8
Adj PAT	6.1	8.6	11.7
Adj EPS	12.9	18.1	24.6
% growth	-28.0	40.4	36.0
P/E	48.1	34.2	25.2
P/ BV	7.6	6.7	5.8
EV/EBITDA	26.9	20.6	16.2
EV/Sales	2.3	1.8	1.8
Div Yield (%)	0.6	0.8	1.1
ROE (%)	14.7	18.4	21.5

Performance(%)	1M	3M	12M
TVS MOTOR Co Ltd	14.8	6.6	59.9
SENSEX	3.2	15.1	50.0



Strong show; Top line driven by robust demand while focus on cost cutting, better product mix & price hikes aided margins; Management guides for double digit volume growth in 2HFY22

- In 2QFY22, TVS motors reported standalone revenue of ₹56.2bn (22.0%/42.8% YoY/QoQ); led by better than expected ASP growth (+3.4% QoQ vs. +1.5% NBIE). Realizations rose 15% YoY (2% QoQ) to ₹61.1k on the back of price hikes and better product mix. EBITDA margin improved 270bp QoQ (20bp YoY) to 13.7%, aided by better operating leverage. Gross margins came in at 24.1% (down 20bps QoQ) due to RM cost headwinds. As a result, EBITDA and adjusted PAT improved 78.7% YoY and 146.2% YoY to ₹7.7bn and ₹4.8bn respectively.
- Commodity cost impact and margins:** TVS expects to navigate through commodity cost headwinds through better product mix, price hikes (additional +1.1% taken in Oct) and sustained cost reduction initiatives which should support profitability improvement.
- Semiconductor shortage:** The shortage has impacted both its EV segment and regular segments (iQube production); it has impacted Apache's volume by 25k units in 2QFY22 as well. However, supplies are now improving for Apache.
- EV plans:** TVS is strengthening its presence in EV segment through acquisition of a majority stake in EGO Movement in an all-cash deal; EGO Movement is a Swiss technology company with a portfolio of e-bikes, e-cargo bikes, and e-scooters. The company has bought a majority stake for a consideration of CHF 16.6mn (~₹1.3bn). EGO had revenues of Euro 4.8mn (~₹415mn) in FY20. The acquisition is in sync with the company's objective of strengthening its e-mobility portfolio. TVS plans to have a monthly capacity for 10k units for EVs by ~4QFY22. We see these steps to be in the right direction which could potentially lead to further value unlock and capitalization on the electrification shift. This should be further supported by a series of new launches to expand the overall electric portfolio in the coming quarters.
- Capex:** TVS Motor has maintained its capex guidance of ₹8bn planned for FY22E. Funding of the capex would be entirely from internal accruals. The company continues to focus on EVs and has shared its plan to invest ₹10bn crores in the EV business over the next few years. The company is well positioned to grow its business in both technologies – internal combustion engine and EV, where it sees faster growth and demand.
- Outlook:** Volume growth is expected to be driven by new product launches (Raider) in the domestic market as well as a ramp-up in exports. It is enjoying the benefits of economies of scale and operating leverage, resulting in EBITDA margin in the double-digit range. TVSL earns ~40% of overall EBITDA from the domestic Scooter business, which can help them disrupt the EV 2W space as well. The series of products to be launched in the second half of the current fiscal could also add to the growth momentum. Overall, the demand for two-wheelers is expected to remain strong and the long-term outlook remains positive.

Valuation: The company delivered strong earnings performance in 2QFY22 driven by robust demand across product categories and operational efficiency gains despite input costs headwinds. The domestic volumes are showing improving trends, led by volume recovery in scooter segment, positive rural sentiments and opening up of key markets. The TVS management expects double digit volume growth for the rest of FY22. In our view the rising preference for personal mobility, strong export demand and revival in rural economy should drive volumes in coming quarters. Given upbeat 2QFY22 performance, upbeat management commentary and favorable sector dynamics, we revise our estimates and rating higher.

At CMP the stock is trading at 34.3x & 25.2x its FY22E & FY23E EPS. We revise our rating on the stock to an Out performer (Earlier: Under Performer) and revise our target price to ₹664 (Earlier: ₹542).

Risks: Weakness in demand and supply chain issues.

Results Summary 2QFY22

Y/E March (₹ mn)	2QFY22	2QFY21	YoY Growth	1QFY22	QoQ Growth
Revenue	56,194	46,055	22.0%	39,344	42.8%
EBITDA	7,685	4,301	78.7%	-10,229	-175.1%
Depreciation	1,544	1,331	16.0%	1,431	7.9%
Other Income	35	111	-68.5%	16	119.5%
PBT	5,825	2,674	117.8%	-11,944	-148.8%
Tax	993	712	39.5%	190	422.1%
PAT	4,832	1,963	146.2%	-12,134	-139.8%
Adj. PAT	4,832	1,963	146.2%	-12,134	-139.8%
EBITDA Margin (%)	13.7	9.3		-26.0	
Tax Incidence (%)	17.0	26.6		-1.6	
PAT Margin (%)	8.6	4.3		-30.8	

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MARKET PERFORMER : The stock's total return is expected to be between -5% to +5% over the next 12 months.

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