

# TVS Motor Co Ltd

**SELL**

Sector: Auto-Ancillary /Mid-Cap | Earnings Update – 4QFY21

29 April 2021

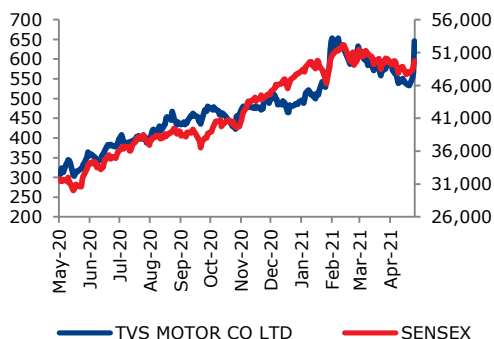
**Background:** TVS Motor Company Limited (TVSM), the third-largest two-wheeler manufacturer in India, is a part of TVS Group; it manufactures motorcycles, scooters, mopeds and three-wheelers in India. TVS Motors is credited with many innovations in the Indian automobile industry, notable among them 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	49,765
Nifty	14,894
Price	₹ 633
Target Price (12 months)	₹ 542
Recommendation	SELL
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52 Week High/Low	₹ 661.1/291.4
Bloomberg / Reuters	TVSL IN /TVSM.BO
Equity (shares in mn)	475.1
Mkt. Cap in bn	₹ 304.7/ \$ 4.0
Avg. Daily Vol. ('000)	3,337.3
Avg. Daily Vol. (mn)	₹ 2,140.5 /\$ 28.7

Shareholding	Mar-20	Dec-20	Mar-21
Promoters (%)	57.4	57.4	57.4
FII (%)	11.4	11.2	12.3
DII (%)	21.2	21.5	20.8
Others (%)	10.0	10.0	9.4
Pledge (% of promoter holding)	0.0	0.0	0.0

Valuation Summary (₹ bn)			
Y/E March	2021	2022E	2023E
Revenue	167.5	196.1	213.9
EBITDA	14.3	16.9	19.3
Adj PAT	6.1	9.0	10.3
Adj EPS	12.9	19.0	21.7
% growth	3.3	47.3	14.4
P/E	49.2	33.4	29.2
P/ BV	7.7	6.9	6.2
EV/EBITDA	26.9	22.7	19.9
EV/Sales	2.3	2.0	1.8
Div Yield (%)	0.6	0.8	1.0
ROE (%)	14.7	20.0	19.8

Performance(%)	1M	3M	12M
TVS MOTOR Co Ltd	15.7	26.8	109.7
SENSEX	2.7	-0.1	52.0



## Robust volume and cost reduction initiatives buoy EBITDA to all-time high; Management expects weakness in for 1QFY22 on account of Covid led lockdowns

- In 4QFY21, TVS motors reported revenue of ₹53.2bn (+52.9%/-1.3% YoY/QoQ). The recovery in domestic markets led to a robust 41% YoY increase in domestic volumes (vs 24% YoY for the Industry). In addition a 4.3% increase in ASPs on account of blended price hike of 1% during the quarter supported the topline growth. However, the management expects demand to be impacted in 1QFY22 owing to lockdowns. The management does not expect the pandemic impact to be as severe as 1QFY21. In view of the rising costs TVS undertook an additional blended price hike in April 2021 of 1.6% which in our view too likely weighs on demand in 1QFY22.
- During 4QFY21, the Company's total export of 2W and 3W vehicles increased by 58% YoY to 3.22 Lakh units (2.04 lakh units same period last year). The export volumes during the quarter witnessed sharp recovery on account of premium portfolio, stability in oil prices and exchange rates, thereby resulting in revenue of ₹17bn in 4QFY21. The management believes that the demand will continue to be robust in export markets.
- Gross margins, during the quarter improved sequentially by 76bps to 24.7% (23.9% in 3QFY21) on account of price hike, cost reduction initiatives and rising share of premium products in portfolio. A blended price hike in 4QFY21 helped negate the steady RM price increases. RM costs increased to ₹40bn (up 53% YoY). Management expects RM costs to increase by 1.9% QoQ in 1QFY22 however to offset these costs the company undertook 1.6% price hike in April.
- EBITDA margins improved by 304bps YoY to 10.1% registering highest ever quarterly profit of ₹5.3bn. Focus on cost reduction initiatives and working capital aided robust operating performance. The management reiterated its intention to focus on digital marketing going forward to keep marketing cost lower in coming quarters. The management expects margins to be sustainable going forward driven by cost reduction and improvement in sales mix. Owing to robust EBITDA performance up 119% YoY to ₹5.3bn the company reported a PAT of ₹2.8bn (up 172% YoY).
- The company guided for Capex in the range of ₹5-6bn for FY22. The investment is expected to predominantly be in EV space and other emerging technologies.
- Outlook:** The management expects 1QFY22 to be impacted by recent lockdowns but expects swift recovery from 2QFY22 driven by re-opening of urban centers and vaccination drive. Management expects the rural economy to deliver strong performance owing to good monsoon. In addition normal monsoon forecasts for FY22 add to positive sentiments. This is expected to support Moped demand. According to management factors such as social distancing norms, premiumization with better mix and continued cost reduction initiatives will sustain EBITDA improvement in the medium term.

**Valuation:** Rising preference for personal mobility, strong export demand and revival in rural economy resulted in a robust topline during the quarter. However, recent lockdowns and restrictions owing to covid are expected to subdue 1QFY22 demand. Although vaccinations are expected boost recovery the pace of auto industry recovery needs to be monitored. In addition the rising RM costs which are passed on, in our opinion, will slow demand recovery in 2QFY22. While we revise our estimates higher on account of improved earnings prospects, the recent rally in stock price has priced in all near term positives leading to expansion in trading multiple. At CMP the stock is trading at 33x & 29x its FY22E & FY23E EPS. We downgrade our rating on the stock to SELL (Earlier: UNDER PERFORMER) with a revised TP of ₹542.

**Risks:** Volume growth above expectations; quicker recovery of 3W; Easing of supply constraints for BS-VI components.

### Results Summary 4QFY21

Y/E March (₹ mn)	4QFY21	4QFY20	YoY Growth	3QFY21	QoQ Growth
<b>Revenue</b>	53,219	34,814	52.9%	53,914	-1.3%
<b>EBITDA</b>	5,361	2,449	119.0%	5,111	4.9%
<b>Depreciation</b>	1,366	1,243	9.9%	1,329	2.8%
<b>Other Income</b>	69	251	-72.4%	124	-43.8%
<b>PBT</b>	3,869	1,222	216.7%	3,615	7.0%
<b>Tax</b>	977	160	512.0%	959	1.9%
<b>PAT</b>	2,892	739	291.6%	2,656	8.9%
<b>Adj. PAT</b>	2,892	1,020	183.6%	2,656	8.9%
<b>EBITDA Margin (%)</b>	10.1	7.0		9.5	
<b>Tax Incidence (%)</b>	25.2	13.1		26.5	
<b>PAT Margin (%)</b>	5.4	2.9		4.9	

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