

TVS Motor Co Ltd

Sector: Auto-Ancillary /Mid-Cap | Earnings Update – 1QFY22

UNDER PERFORMER

30 July 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.

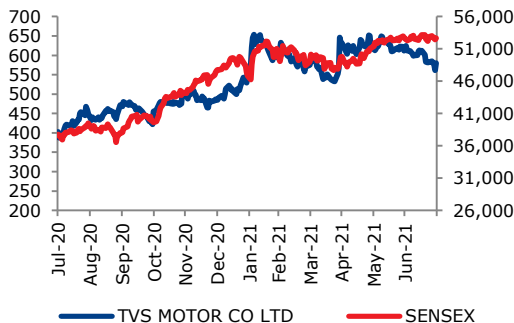
Sensex	52,587
Nifty	15,763
Price	₹582
Target Price (12 months)	₹542
Recommendation	UNDER PERFORMER

52 Week High/Low	₹ 666/385
Bloomberg / Reuters	TVSL IN /TVSM.BO
Equity (shares in mn)	475.1
Mkt. Cap in bn	₹ 267/\$3.6
Avg. Daily Vol. ('000)	3,337.3
Avg. Daily Vol. (mn)	₹ 2,140.5 /\$ 28.7

Shareholding	Jun-20	Mar -21	Jun-21
Promoters (%)	57.4	57.4	52.3
FII (%)	10.5	12.3	13.9
DII (%)	22.0	20.8	24.3
Others (%)	10.1	9.4	9.5
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	45.2	30.7	26.8
P/ BV	7.1	6.4	5.7
EV/EBITDA	26.9	22.7	19.9
EV/Sales	2.3	2.0	1.8
Div Yield (%)	0.6	0.9	1.0
ROE (%)	14.7	20.0	19.8

Performance(%)	1M	3M	12M
TVS MOTOR Co Ltd	-12.4	-4.8	-30.7
SENSEX	-3.5	-5.1	-28.3



Weak quarter impacted by the pandemic; Management guides for strong recovery in the subsequent quarters

- In 1QFY22, TVS motors reported revenue of ₹39.2bn (-12.0%/-26.1% YoY/QoQ). The drop in top line can be attributed to the various restrictions and lockdowns that occurred during the 2nd wave of covid-19.
- Gross margin contraction was restricted to ~40bps QoQ (+20bps YoY) to 24.3% – as commodity cost inflation was diluted by price hikes (110bps), a favorable mix, and cost management. The EBITDA margin declined 310bps QoQ to 7%, impacted by higher staff cost and operating leverage.
- Commodity cost impact and margins:** The commodity cost impact in 1QFY22 was offset by a favorable product mix, cost-saving initiatives, and product price hikes. During the quarter & subsequently beginning Q2'FY22 the company undertook a price hike of 1.1% in Apr'21 and 2.4% in Jul'21. The management is confident of normalizing EBITDA margins, and recovery in volumes to double-digit levels (~10%+).
- Demand outlook:** The domestic market is witnessing improving trends (due to positive rural sentiments, recovery scooter segment volumes and opening up of key markets), while export momentum is likely to sustain as well. A gradual easing of semiconductor shortage issue (currently affecting Apache model) and opening up of markets of Bangladesh and Nepal can add further support to overall volume recovery.
- EV plans:** The EV biz is getting boost from favorable government policies. Current production is impacted by supply chain issues. TVSL's EV capacity is expected to be 10k units/month by 4QFY22, with further expansion planned for next financial year. The company has set up a separate vertical for EVs and would invest ₹10b (~₹3b in FY22E) in building a product portfolio, capacities, and ecosystem for both electric 2Ws and 3Ws in India and the global market. TVS iQube is now sold in six cities and is expected to see expansion across the country by end-FY22.
- Capex:** FY22 capex is expected to be ~₹8b (including ~₹3b for EVs). The company plans to invest ₹1.5–1.75bn in TVS Credit (incl. ₹0.5bn in 1QFY22) and ₹0.74bn in TVS Singapore.
- Outlook:** Though the quarter gone by was impacted by the second Covid wave, the medium- to long-term outlook for the company looks promising. We believe the personal mobility theme will continue and get a further boost post the second wave of the pandemic. The management has indicated that demand is coming back sharply post the opening up of the economy. The management remains optimistic of a further pick-up in demand once vaccination accelerates and the uncertainty regarding the third wave recedes. Moreover, an expected normal monsoon and a strong crop production should lift farmer sentiment and boost rural incomes, thereby benefitting the company. 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 easing covid 2nd wave, rising preference for personal mobility, strong export demand and revival in rural economy are expected to drive volume recovery in coming quarters. The Management expects margins to return to levels seen in 4QFY21 on account of recovery in volumes while it expects to tackle rising commodity costs through price hikes, better sales mix and cost controls. The gradual opening up of the economy and pent-up demand from the 2nd wave is further expected to boost top-line. Despite optimistic management commentary factors such as progress of vaccination, covid 3rd wave & pace of economic recovery could weigh on volume recovery. We keep our full year estimates unchanged. At CMP the stock is trading at 33x & 29x it's FY22E & FY23E EPS. We revise our rating on the stock to an under performer (Earlier: Sell) while maintaining our target price of ₹542.

Risks: Weakness in demand and a potential 3rd wave can cause trouble to its financials.

Results Summary 1QFY22

Y/E March (₹ mn)	1QFY22	1QFY21	YoY Growth	4QFY21	QoQ Growth
Revenue	39,344	44,686	-12.0%	53,219	-26.1%
EBITDA	2,738	3,558	-23.1%	5,361	-48.9%
Depreciation	1,431	1,194	19.8%	1,366	4.7%
Other Income	16	12	32.5%	69	-77.1%
PBT	1,023	2,085	-50.9%	3,869	-73.6%
Tax	190	662	-71.3%	977	-80.5%
PAT	833	1,423	-41.5%	2,892	-71.2%
Adj. PAT	833	1,423	-41.5%	2,892	-71.2%
EBITDA Margin (%)	7.0	8.0		10.1	
Tax Incidence (%)	18.6	31.8		25.2	
PAT Margin (%)	2.1	3.2		5.4	

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Analyst holding in the stock	No
Served as an officer, director or employee	No

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

UNDER PERFORMER: The stock's total return is expected to be between -15% to -5% over the next 12 months.

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