

# TVS Motor Co Ltd

Sector: Auto-Ancillary /Mid-Cap | Earnings Update – 3QFY21

**UNDER PERFORMER**

8 February 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.

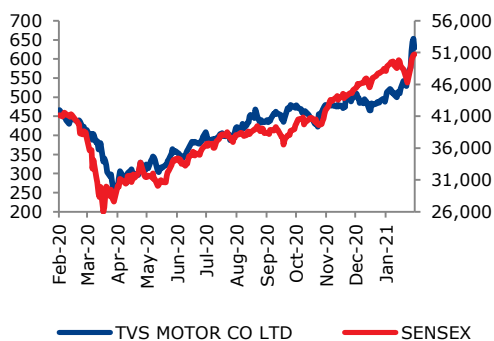
Sensex	50,731
Nifty	14,924
Price	₹ 627
Target Price (12 months)	₹ 569
Recommendation	UNDER PERFORMER

52 Week High/Low	₹ 657.0/240.1
Bloomberg / Reuters	TVSL IN /TVSM.BO
Equity (shares in mn)	475.1
Mkt. Cap in bn	₹ 297.8/ \$ 3.9
Avg. Daily Vol. ('000)	3,484.0
Avg. Daily Vol. (mn)	₹ 2,184.4 /\$ 29.1

Shareholding	Dec-19	Sep-20	Dec-20
Promoters (%)	57.4	57.4	57.4
FII (%)	12.2	10.6	11.2
DII (%)	20.4	21.9	21.5
Others (%)	10.1	10.1	10.0
Pledge (% of promoter holding)	0.0	0.0	0.0

Valuation Summary (₹ bn)			
Y/E March	2021E	2022E	2023E
Revenue	164.2	198.8	225.6
EBITDA	13.8	18.7	21.2
Adj PAT	6.2	10.1	11.6
Adj EPS	13.1	21.3	24.5
% growth	4.9	62.5	15.2
P/E	47.9	29.5	25.6
P/ BV	7.9	7.0	6.0
EV/EBITDA	22.7	16.8	14.8
EV/Sales	1.9	1.6	1.4
Div Yield (%)	0.6	0.9	1.1
ROE (%)	15.8	22.0	21.7

Performance(%)	1M	3M	12M
TVS MOTOR Co Ltd	22.4	31.9	34.8
SENSEX	4.0	22.7	23.3



## Strong quarter led by robust recovery in volume, higher realizations and cost reduction initiatives; Rural demand and new product launches to drive earnings in near term

- In 3QFY21, TVS motors reported highest ever quarterly revenue of ₹53.9bn (up 30.7%/17.1% YoY/QoQ). This was led by a 20% YoY increase in volumes and 8.5% increase in ASPs on account of blended price hike of 1% in October 2020. The Company undertook an additional blended price hike in Jan 2021 of 2% (in both domestic & export markets). The demand recovery has been led by premium brands resulting in an improvement in mix to 37% (vs 34% in 3QFY20). Management expects the recovery momentum to sustain going forward.
- During 3QFY21, the Company's total export of 2W and 3W vehicles increased by 20% to reach 2.61 Lakh units (2.17 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 rate, thereby resulting in revenue of ₹13bn (24% of sales) in 3QFY21. The management believes that the demand will continue to be robust in export markets.
- Gross margins, during the quarter declined by 390bps YoY/up 40bps QoQ to 23.9% on account of increase in materials cost and adverse products mix. A blended price hike in October and cost – reduction initiatives helped cushion the decline. RM costs increased to ₹41bn (up 37% YoY). The company has taken a further 2% price hike in January to offset these costs.
- EBITDA margins improved by 70bps YoY to 9.5% driven by cost reduction initiatives and lower marketing spends. Opex, decreased 7.7% YoY owing to decline in marketing costs. 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 of 40% YoY to ₹5.1bn the company reported a PAT of ₹2.6bn (up 40% YoY)
- The company continued to guide for Capex of ₹5bn for FY21 (vs ₹3bn planned for FY21 in 1QFY21). The management expects the Capex for FY22E to be around the same level.
- Outlook:** The management expects recovery momentum to continue going forward. Rural economy is strong owing to good monsoon and higher rabi sowing. This is expected to support Moped demand. According to Management the domestic retail 2W demand is back to pre-covid levels while further opening up of urban markets is expected to drive scooter segment volume growth. Management remains optimistic of the product pipeline and expects new launches from 1HFY22.

**Valuation:** During the quarter the sector as a whole witnessed sharp recovery in demand driven by rising preference for personal mobility, strong export demand and revival in rural economy. We expect TVS to benefit from the recovery in sector and witness margin improvements from better operating leverage and cost reduction initiatives. 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 29x & 25x its FY22E & FY23E EPS. We maintain our rating on the stock as an UNDER PERFORMER with a revised TP of ₹569.

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

## Results Summary 3QFY21

Y/E March (₹ mn)	3QFY21	3QFY20	YoY Growth	2QFY21	QoQ Growth
<b>Revenue</b>	53,914	41,255	30.7%	46,055	17.1%
<b>EBITDA</b>	5,111	3,633	40.7%	4,301	18.8%
<b>Depreciation</b>	1,329	1,213	9.6%	1,331	-0.1%
<b>Other Income</b>	124	9	1287.6%	111	11.4%
<b>PBT</b>	3,615	2,218	63.0%	2,674	35.2%
<b>Tax</b>	959	247	288.8%	712	34.7%
<b>PAT</b>	2,656	1,211	119.4%	1,963	35.3%
<b>Adj. PAT</b>	2,656	1,887	40.8%	1,963	35.3%
<b>EBITDA Margin (%)</b>	9.5	8.8		9.3	
<b>Tax Incidence (%)</b>	26.5	11.1		26.6	
<b>PAT Margin (%)</b>	4.9	4.6		4.3	

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