

TVS Motor Co Ltd

Sector: Auto-Ancillary / Mid-Cap | Earnings Update – 3QFY22

BUY

15 February 2022

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	57,118
Nifty	17,092
Price	₹642
Target Price (12 months)	₹735
Recommendation	BUY

52 Week High/Low	₹872/675
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

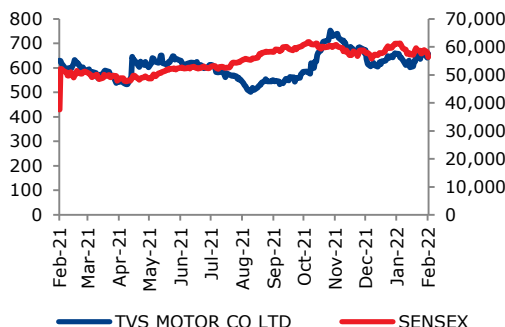
Shareholding	Dec-20	Sept-21	Dec-21
Promoters (%)	57.4	52.3	52.3
FII (%)	11.2	12.8	12.9
DII (%)	21.5	25.2	25.5
Others (%)	10.0	9.8	9.4
Pledge (% of promoter holding)	0.0	0.0	0.0

Valuation Summary (₹ bn)

Y/E March	2022E	2023E	2024E
Revenue	209.0	246.4	270.6
EBITDA	18.4	23.4	28.3
Adj PAT	8.5	11.5	14.5
Adj EPS	18.0	24.2	30.5
% growth	39.6	34.5	26.2
P/E	35.7	26.5	21.0
P/ BV	6.9	6.1	5.2
EV/EBITDA	20.9	16.4	13.6
EV/Sales	1.8	1.6	1.4
Div Yield (%)	0.8	1.1	1.3
ROE (%)	18.3	21.2	22.7

Performance(%)

	1M	3M	12M
TVS MOTOR Co Ltd	-0.3	-2.5	-3.7
SENSEX	-7.9	-2.9	50.0



Decent quarter; Top line driven higher realisations & better product mix while price hikes aided margins; Management remains optimistic of achieving strong volume growth in FY23E

- In 3QFY22, TVS motors reported standalone revenue of ₹57.1bn (5.8%/1.5% YoY/QoQ); led by better than expected ASP growth. Realizations rose 15% YoY (19%/6% YoY/QoQ) to ₹65k on the back of price hikes and better product mix. EBITDA margin expanded 50bp YoY (+30bp QoQ) to 10%, aided by operating leverage. Contraction in gross margin was restricted to ~15bp YoY (flat QoQ) to 23.7% as the impact from commodity cost inflation was diluted by price hikes and better mix.
- Commodity cost impact:** TVSL had taken a price increase of around 1.1% in Oct'21 (total of 3.6% for 9MFY22) to mitigate the impact of higher commodity prices. TVS is looking to further reduce costs through localization, platform consolidation, other cost-reduction efforts (lower marketing spend to sales and higher spends on digital platforms), etc. to improve profitability moving forward.
- EV's:** It has 6,500 bookings for iQube e-2W, but electronic part supply chain is a challenge. TVS expects supply side issues to ease out and plans to have capacity of 10k/month by 1QFY23. iQube is currently available in 33 cities and there are plans to have it available pan-India by the end of 4QFY22. Additionally, it has got orders for 2,000 e3Ws from CESL (subsidiary of EESL). TVS-BMW alliance for electric 2Ws would entail development of common platform for EVs, which would be designed, developed and manufactured in India and have exclusive products for both companies for India and the global market.
- Exports continue to remain resilient:** Export volumes grew by 13% YoY in 3QFY22 led by strong demand momentum in the overseas markets. TVSL's export revenue stood at ₹18.8bn in 3QFY22 (flat QoQ). The company's ASPs were supported by price hikes and favourable USD/INR realization at ₹75 (vs. ₹74.4 in 2QFY22). The management expects exports growth to remain robust in FY23E led by (1) Higher commodity prices – positive for Africa and LatAM markets, (2) Strong customer demand, and (3) Improvement in markets such as Bangladesh and Sri Lanka – lockdowns have eased in Bangladesh and import restrictions in Sri Lanka are coming down gradually.
- TVS Credit Services performance:** Management highlighted that the current book size has grown and it stood at ₹128.1bn as of end of Dec '21. By year-end (FY22), it is estimated to touch ₹140-150bn. The collections for 3QFY22 have been extremely good and stood at ₹27bn as compared to ₹22bn last year. The Gross NPA as of 31st Dec '21 stands at 3.9% v/s 4.4% in Sept'21. Net NPA stands at 2.2% v/s 2.75% in Sept'21. It also maintained a very healthy capital adequacy ratio of ~18.8%. Disbursement was close to ₹40bn during 3QFY22 as against ₹28bn in 3QFY21. Management highlighted that TVS Credit is looking to raise external equity funding to cater to future growth and unlock value in the company.
- Capex:** TVS has raised its FY22E to ₹14-14.5b (v/s ₹7.5 guidance earlier). TVSL invested ~₹2.4b in 3QFY22 into various subsidiaries/associates, with 9MFY22 total investment at ~₹7.5b. The management has indicated that it would invest further ₹6.5-7b in 4QFY22 in SEMG (recent acquisition of e-bike company in Switzerland) and NBFC business (₹0.5-1bn).
- Outlook:** The management remains confident of gradual recovery in the domestic market driven by pick-up in economic growth and easing concerns over COVID 3.0. TVS expects steady growth in 2/3W exports across geographies, especially Africa and Central America over the medium term led by positive macro indicators such as crude oil prices, stable currency movement, etc. The company will continue to focus on premiumization across markets to drive stronger revenue growth. It will also look to undertake selective price hikes to offset cost pressure and drive margin improvement.

Valuation: The company delivered strong earnings performance in 3QFY22 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 end 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 3QFY22 performance, upbeat management commentary and favorable sector dynamics, we revise our estimates and rating higher. At CMP the stock is trading at 26.5x & 21x it's FY23E & FY24E EPS. We revise our rating on the stock to a Buy (Earlier: Out Performer) while revising our target price to ₹735.

Risks: Weakness in demand, increase in raw material price and supply chain constraints.

Results Summary 3QFY22

Y/E March (₹ mn)	3QFY22	3QFY21	YoY Growth	2QFY22	QoQ Growth
Revenue	57,064	53,914	5.8%	56,194	1.5%
EBITDA	5,683	5,111	11.2%	5,629	1.0%
Depreciation	1,546	1,329	16.3%	1,544	0.1%
Other Income	57	124	-53.6%	35	64.2%
PBT	3,915	3,615	8.3%	3,769	3.9%
Tax	1,031	959	7.6%	993	3.9%
PAT	2,883	2,656	8.5%	2,776	3.9%
Adj. PAT	2,883	2,656	8.5%	2,776	3.9%
EBITDA Margin (%)	10.0	9.5		10.0	
Tax Incidence (%)	26.3	26.5		26.3	
PAT Margin (%)	5.1	4.9		4.9	

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