

Above estimates, better product mix and robust export markets will drive the growth

CMP: INR 577

Rating: Hold

Target Price: INR 631

Stock Info

BSE	532343
NSE	TVSMOTOR
Bloomberg	TVSL IN
Reuters	TVSM.BO
Sector	Auto -2&3 Wheelers
Face Value (INR)	1
Equity Capital (INR mn)	475
Mkt Cap (INR mn)	1,30,625
52w H/L (INR)	665.7/ 407.25
Avg Yearly Vol (in 000')	2776

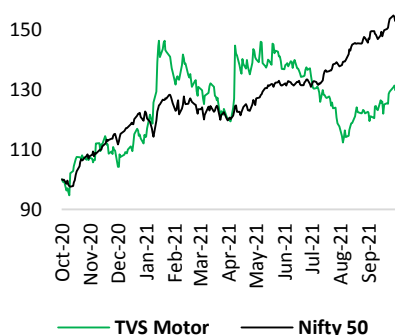
Shareholding Pattern %

(As on September, 2021)

Promoters	52.26
Public & Others	47.74

Stock Performance (%)	1m	3m	12m
TVS Motors	8.6	-0.64	29.8
Nifty 50	4.5	17.4	53.7

TVS Motors Vs Nifty



Abhishek Jain
abhishek.jain@arihantcapital.com
022 67114851

Jyoti Singh
jyoti.singh@arihantcapital.com
022 67114834

- TVS Motor Company has reported strong Q2FY22 numbers, above our estimate on all fronts.
- Standalone revenue stood at INR 56,194 Mn, against our estimate of INR 53,901 Mn registering +42.8% YoY/22% QoQ.
- EBITDA stood at INR 5,629Mn, against our estimate of INR 4,663 Mn, Registering growth of 105.6%YoY/30.9%QoQ.
- On the margins front, EBITDA margin up by 306bps YoY/68bps QoQ to 10%, against our estimate of -60bps YoY to 8.65%, despite various challenges in terms of increase in commodity costs, scarcity of containers for international business and shortage in semiconductors through significant cost reduction initiatives and growth in revenue.
- Standalone PAT saw a growth of 233.2%YoY/39.5% QoQ to INR 2776 Mn against our estimate of INR 2,241 Mn.

Q2 FY22 Conference-Call highlights

- Its premium offerings, Ntorq 125 crossed the 1mn mark while BMW motorcycles crossed the 1lac mark.
- The company launched 2 new products in the last quarter TVS Rider and Jupiter. Both have received positive responses from the market and consumers.
- TVS domestic volumes 5.99 lac units of 2W against 6.5 lac Q1 FY21. International market volumes were 2.7 lacs against 1.85 lacs last year. The company Growing ahead of the industry in both the markets.
- Mix of premium products like Apache, Ntorq, Jupiter, Grande grew to 34%. Semiconductor issues impacted Apache off take by 25k units while it witnessed extremely strong demand.

Outlook and valuation

At CMP of INR 577, TVS Motors is currently trading at PE of ~19x to its FY24E EPS of INR 29.8. TVS reported robust number for Q2FY22 on the back of significant cost reduction initiatives and growth in revenue. We expect demand to bounce back stronger before Dhanteras. TVS motor has better product mix and strong growth momentum in export markets. Hence, higher raw material price and scarcity of containers are matter of concern for the near term. We further appreciate the company as growing ahead of the industry in both the markets. **We value TVS Motors standalone business at FY24 PE of 20x to its EPS estimate of INR 29.8 for FY24 (INR 596/ per share) and TVS credit services at 1x its BV (INR~35/ share) , which yields a target price of INR 631 on SOTP basis. We maintain our Hold rating on the stock**

YE March (INR Mn)	Net Sales	EBITDA	PAT	EPS (INR)	EBITDA Margin %	RoE (%)	P/E (x)
FY19	1,82,099	14,333	6,701	14.1	7.9	20.0	39.8
FY20	1,64,233	13,459	5,923	12.5	8.2	16.4	45.0
FY21	1,67,505	14,286	6,120	12.9	8.5	14.7	43.6
FY22E	2,04,538	18,806	9,689	20.4	9.2	19.6	27.6
FY23E	2,32,182	23,143	12,539	26.4	10.0	21.0	21.3
FY24E	2,60,041	25,927	14,163	29.8	10.0	22.2	18.9

Source: Arihant Research, Company Filings, Ace Equity, Bloomberg

Quarterly result summary

INR mn	2QFY22	1QFY22	2QFY21	YoY (%)	QoQ (%)
Net Sales	56,194	39,344	46,055	22.0	42.8
- Consumption of Raw Material	42,665	29,790	35,246	21.0	43.2
(% of Net Sales)	75.9	75.7	76.5	-61bps	21bps
- Staff Expenditure	2,957	2,609	2,143	38.0	13.3
(% of Net Sales)	5.3	6.6	4.7	61bps	-137bps
- Other Expenditure	4,943	4,207	4,365	13.3	17.5
(% of Net Sales)	8.8	10.7	9.5	-68bps	-190bps
Total Expenditure	50,565	36,606	41,754	21.1	38.1
EBITDA	5,629	2,738	4,301	30.9	105.6
EBITDA Margin (%)	10.0	7.0	9.3	68bps	306bps
Depreciation	1,544	1,431	1,331	16.0	7.9
EBIT	4,084	1,307	2,970	37.5	212.5
Interest	350	300	407	(14.0)	53.5
Other income	35	16	111	(68.5)	119.5
PBT	3,769	1,023	2,674	40.9	(73.6)
Tax	993	190	712	39.5	422.1
Tax Rate (%)	26%	19%	27%		
Adjusted PAT	2,776	833	1,963	41.5	233.2
Exceptional Item	-	302	-	-	-
Reported PAT	2,776	531	1,963	41.5	422.3
EPS (INR)	5.8	1.1	4.1	41.4	421.4
Total Volumes (In Nos)	9,16,705	6,57,758	8,67,834	5.6	39.4
Net Realisation (INR)	61,300	59,815	53,069	15.5	2.5
EBITDA / Vehicle (INR)	6,140	4,162	4,956	23.9	47.5

Source: Arianth Research, Company Filings, Ace Equity, Bloomberg

Q2 FY22 Other Conference-Call highlights

- With the help of a strong product mix, premiumization, sustained cost reduction initiatives and price increases it was able to manage high material costs during the quarter.
- The company acquired majority stake in a European E-Bike maker, EGO movement a Swiss technology company.
- EV: Excellent response for TVS iQube. Order book remains healthy. Launched in 33 cities and plans to be expand across the country by end of FY22. The company has a target of 10k unit's capacity per month. Plans to make a separate subsidiary for the EV space to capture the global EV market as well. TVS would be investing more than INR 1000cr to create a strong EV product portfolio. TVS iQube targeting 10k units per month from Jan'22.
- Sales during Navratri were subdued, however, managed to gain 2% market share in the last quarter as per VAHAN.
- Exports continued to doing well and the expects overall performance to improve and expects to grow ahead of the industry. Expects to grow higher than the industry going forward.
- 3W demand remains robust and it continues to grow ahead of the industry.
- The company took price increase of 1.1% in Oct'21. Approx. uncovered portion of ~0.5-0.6%
- Export revenues: INR 1,834cr; USD/ INR realization 74.40, Spares revenue 1HFY22 INR 984cr Q1FY21 and INR 640cr for Q2FY22
- RODPT Scheme INR 15cr worth of benefit in Q2 FY22
- Festive season demand has been subdued so far on the back of weak rural performance Heavy rains and low harvesting impacted sales during Navratri. However, it expects demand to become back strong before Dhanteras.
- Capex for FY22 INR 750cr. Invested INR 500cr in 1HFY22 for EV and products. TVS Wego INR 140, TVS Credit Services INR 100cr, Norton 120cr.
- Demand across regions: Reasonable economic and stable in most countries, crude prices remain stable. Expects to grow better than the industry in International markets.
- PLI Scheme: Company is eligible for the PLI Scheme for Electrical vehicle space and will be fulfilling the 2 criteria for the same.
- Does not see product cannibalization due to EV. Expect the scooter two-wheeler markets to expand.
- TVS Credit Services- Book size INR 11,420cr. PBT INR 35.1cr against INR 14.3cr last year, Net Worth INR 1,658cr. All norms, capital adequacy are fully met. Liquidity is not an issue and collections have been extremely good at INR 2,400cr against INR 1,800cr last year.
- Outlook: Robust revenue growth, increased premiumization and a rich product mix with cost reduction measures will help to have a sustained EBITDA going forward.

Profit & Loss Statement (Standalone)						
YE: Mar (INR mn)	FY19	FY20	FY21	FY22E	FY23E	FY24E
Net sales	1,82,099	1,64,233	1,67,505	2,04,538	2,32,182	2,60,041
Growth, %	22	-10	2	22	14	12
RM expenses	1,38,423	1,21,359	1,27,239	1,52,790	1,71,814	1,92,430
Employee expenses	9,226	9,384	9,485	10,670	12,004	13,505
Other expenses	20,118	20,031	16,497	22,272	25,221	28,179
EBITDA (Core)	14,333	13,459	14,286	18,806	23,143	25,927
Growth, %	27	-6	6	32	23	12
Margin, %	7.9	8.2	8.5	9.2	10.0	10.0
Depreciation	3,993	4,890	4,937	5,398	6,066	6,806
EBIT	10,340	8,568	9,349	13,408	17,077	19,121
Growth, %	31	-17	9	43	27	12
Margin, %	5.7	5.2	5.6	6.6	7.4	7.4
Interest paid	806	1,022	1,416	1,243	1,268	1,253
Other Income	75	321	330	336	370	407
Non-recurring Items	0	-323	0	0	0	0
Pre-tax profit	9,609	7,544	8,262	12,502	16,179	18,275
Tax provided	2,908	1,622	2,142	2,813	3,640	4,112
Profit after tax	6,701	5,923	6,120	9,689	12,539	14,163
Others (Minorities, Associates)	-	-	-	-	-	-
Net Profit	6,701	5,923	6,120	9,689	12,539	14,163
Growth, %	1	-12	3	58	29	13
Net Profit (adjusted)	6,701	5,922.5	6,120	9,689	12,539	14,163

Balance Sheet (Standalone)						
YE: Mar (INR mn)	FY19	FY20	FY21	FY22E	FY23E	FY24E
Cash & bank	439	4,192	9,298	14,376	21,409	30,427
Debtors	14,141	12,814	8,700	10,623	12,059	13,506
Inventory	11,759	10,389	11,518	13,225	15,012	17,526
Other current assets	5,210	4,900	4,952	5,199	5,459	5,732
Total current assets	31,549	33,391	45,986	54,942	65,458	78,709
Investments	23,008	28,467	33,153	33,153	38,653	44,153
Gross fixed assets	50,052	57,460	66,973	76,973	86,973	96,973
Less: Depreciation	-22,082	-26,972	-31,909	-37,307	-43,373	-50,179
Add: Capital WIP	1,166	1,266	1,126	1,126	1,126	1,126
Net fixed assets	27,970	30,488	35,064	39,666	43,600	46,794
Total assets	83,694	92,515	1,03,811	1,17,369	1,37,319	1,59,264
Current liabilities	33,132	33,245	44,795	53,142	59,909	67,097
Provisions	1,183	1,763	1,925	2,118	2,330	2,563
Total current liabilities	34,315	35,007	46,720	55,260	62,238	69,660
Non-current liabilities	2,126	2,677	3,189	3,051	3,051	3,051
Total liabilities	36,441	37,684	49,909	58,312	65,290	72,711
Paid-up capital	475	475	475	475	475	475
Reserves & surplus	32,998	35,706	41,234	48,871	59,357	70,898
Shareholders' equity	33,473	36,181	41,710	49,346	59,832	71,373
Total equity & liabilities	83,694	92,515	1,03,811	1,17,369	1,37,319	1,59,264

Source: Arihant Research, Company Filings, Ace Equity, Bloomberg

Cash Flow						
YE: Mar (INR mn)	FY19	FY20	FY21	FY22E	FY23E	FY24E
Pre-tax profit	9,609	7,544	8,262	12,502	16,179	18,275
Depreciation	3,993	4,890	4,937	5,398	6,066	6,806
Chg in working capital	-1,633	3,700	14,646	4,662	3,495	3,188
Total tax paid	-2,768	-2,339	-2,034	-2,813	-3,640	-4,112
CFO	10,349	13,400	26,897	20,656	22,997	25,003
Capital expenditure	-8,099	-7,507	-9,373	-10,000	-10,000	-10,000
Chg in marketable securities	0	0	0	0	0	0
Chg in investments	-2,654	-5,459	-4,686	0	-5,500	-5,500
CFI	-10,678	-12,646	-13,729	-9,664	-15,130	-15,092
Free cash flow	2,250	5,892	17,524	10,656	12,997	15,003
Debt raised/(repaid)	3,410	5,967	-9,391	2,071	2,485	2,982
Dividend (incl. tax)	-1,946	-1,946	-1,946	-2,052	-2,052	-2,623
CCF	659	2,999	-12,752	-1,224	-835	-893
Net chg in cash	330	3,753	416	9,768	7,033	9,018
Opening cash balance	109	439	4,192	9,298	14,376	21,409
Closing cash balance	439	4,192	9,298	14,376	21,409	30,427

Ratios						
YE: Mar	FY19	FY20	FY21	FY22E	FY23E	FY24E
EPS (INR)	14.1	12.5	12.9	20.4	26.4	29.8
PER (x)	39.8	45.0	43.6	27.6	21.3	18.9
Price/Book (x)	4.8	7.2	6.6	5.6	4.6	3.8
EV/EBITDA (x)	19.5	20.9	18.8	14.1	11.3	9.8
EV/Net sales (x)	1.5	1.7	1.6	1.3	1.1	1.0
RoE (%)	20	16	15	20	21	20
RoCE (%)	23	16	19	23	24	22
Fixed Asset turnover (x)	3.6	2.9	2.5	2.7	2.7	2.7
Dividend Yield (%)	1.0	0.6	0.6	0.6	0.6	0.8
Receivable (days)	29	29	21	20	20	20
Inventory (days)	26	25	27	26	26	27
Payable (days)	72	81	105	104	105	105
Net D/E ratio (x)	0.4	0.4	0.0	(0.0)	(0.1)	(0.2)

Source: Arianth Research, Company Filings, Ace Equity, Bloomberg

Arihant Research Desk

Email: research@arihantcapital.com

Tel. : 022-42254800

Head Office	Registered Office
#1011, Solitaire Corporate Park Building No. 10, 1 st Floor Andheri Ghatkopar Link Road Chakala, Andheri (E) Mumbai – 400093 Tel: (91-22) 42254800 Fax: (91-22) 42254880	Arihant House E-5 Ratlam Kothi Indore - 452003, (M.P.) Tel: (91-731) 3016100 Fax: (91-731) 3016199

Stock Rating Scale	Absolute Return
BUY	>20%
ACCUMULATE	12% to 20%
HOLD	5% to 12%
NEUTRAL	-5% to 5%
REDUCE	-5% to -12%
SELL	<-12%

Research Analyst Registration No.	Contact	Website	Email Id
INH000002764	SMS: 'Arihant' to 56677	www.arihantcapital.com	research@arihantcapital.com

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Arihant Capital Markets Ltd.
1011, Solitaire Corporate park, Building No. 10, 1st Floor,
Andheri Ghatkopar Link Road, Chakala, Andheri (E)
Tel. 022-42254800 Fax. 022-42254880