

CMP: INR 1,114

Rating: Hold

Target Price: INR 1,197

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) | 5,29,104 |
| 52w H/L (INR) | 1,177 /513 |
| Avg Yearly Vol (in 000') | 1,715 |

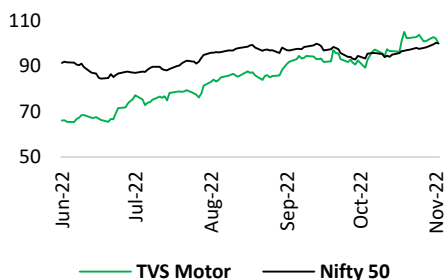
Shareholding Pattern %

(As on June, 2022)

| | |
|-----------------|-------|
| Promoters | 50.81 |
| Public & Others | 49.19 |

| Stock Performance (%) | 1m | 3m | 12m |
|-----------------------|------|------|------|
| TVS Motors | 14.0 | 22.4 | 60.7 |
| Nifty 50 | 6.9 | 3.8 | 1.2 |

TVS Motors Vs Nifty



TVS Motor Company has reported revenue above our estimates and its highest ever revenue: Standalone revenue stood at INR 72,192 Mn, against our estimate of INR 68,557 Mn registering 28.5% YoY/+20.1% QoQ highest ever revenue. The revenue growth was led by the new launch of TVS Motor.

Higher other expenses during the quarter led to a flat margin: Higher other expenses due to new product launches. The marketing expenses have gone up during the quarter due to the variable expenditure because of the turnover going up, which has also gone up. So variable expenses are in line with the plan.

EBITDA margin below estimates during the quarter: EBITDA stood at INR 7,365 Mn, against our estimate of INR 7,901 Mn, Registering a growth of 30.9%YoY/22.9%QoQ. On the margins front, the EBITDA margin was up by bps 23bps QoQ/19bps YoY to 10.20 %, below our estimate of 11.5%, this was delivered despite challenges in international markets due to the economic slowdown and higher inflation in some of the key markets.

Volume: The company registered a growth of 12.1% YoY/ 13.3% QoQ to total two-wheeler sales of 1,027,437 Lakh units in Q2FY23 as against 906,791 Lakh units in Q1FY23. Two-wheeler exports registered sales of 77,851 units in September 2022 as against 88,427 units in September 2021. On the front of the international market, there is a marginal improvement, however, the challenges with an economic slowdown and higher inflation still persist. However, The premium motorcycle sales improved over Q1, the full demand could not be met due to the continued limited availability of semiconductors during Q2FY23. There was an MoM improvement in premium motorcycle sales in Q2FY23 and the supply constraints are expected to further ease out in Q3FY23.

Outlook and valuation

TVS Motor has reported a decent set of numbers in Q2FY23 but a margin is below our estimates due to higher other expenses as the company has launched new models. Considering the new product launches and improving demand outlook for premium motorcycles. Also better demand in the domestic market, we expect TVSL to grow ahead of the industry going forward. We expect the company's EBITDA margins to remain sustainable at 10-11% going forward on account of improving product mix, and cost optimization measures. We value TVS Motors' standalone business at an FY24E PE of 24x to its EPS estimate of INR 46.3 for FY25 and TVS credit services at 2.5x its BV (INR 87.2/ share), which yields a revised target price of INR 1,197 per share (Earlier target price: INR 1,028 per share). Expensive valuation continued investments and higher losses in overseas subsidiaries, and the risk of higher competitive intensity in EVs from OEMs, drive our cautious view on the stock. **We downgrade our rating to Hold from Accumulate earlier.**

Exhibit 1: Financial Performance

| YE | Net Sales | EBITDA | PAT | EPS (INR) | EBITDA Margin % | RoCE (%) | P/E (x) |
|----------------|-----------|--------|--------|-----------|-----------------|----------|---------|
| March (INR Mn) | | | | | | | |
| FY22 | 2,07,905 | 19,617 | 9,237 | 18.8 | 9.4 | 18.5 | 59.4 |
| FY23E | 2,60,492 | 26,316 | 13,845 | 29.1 | 10.1 | 23.1 | 38.3 |
| FY24E | 3,02,362 | 33,803 | 18,864 | 39.7 | 11.2 | 29.6 | 28.1 |
| FY25E | 3,44,919 | 38,876 | 21,975 | 46.3 | 11.3 | 27.7 | 24.2 |

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

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Exhibit 2: Quarterly result summary

| INR mn | 2QFY23 | 1QFY23 | 2QFY22 | YoY (%) | QoQ (%) |
|-------------------------------|------------------|-----------------|-----------------|----------------|----------------|
| Net Sales | 72,192 | 60,087 | 56,194 | 28.5 | 20.1 |
| - Consumption of Raw Material | 54,975 | 45,728 | 42,665 | 28.9 | 20.2 |
| (% of Net Sales) | 76.2 | 76.1 | 75.9 | 23bps | -5bps |
| - Staff Expenditure | 3,456 | 3,209 | 2,957 | 16.9 | 7.7 |
| (% of Net Sales) | 4.8 | 5.3 | 5.3 | -48bps | 20bps |
| - Other Expenditure | 6,396 | 5,156 | 4,943 | 29.4 | 24.1 |
| (% of Net Sales) | 8.9 | 8.6 | 8.8 | 6bps | -6bps |
| Total Expenditure | 64,826 | 54,093 | 50,565 | 28.2 | 19.8 |
| EBITDA | 7,365 | 5,995 | 5,629 | 30.9 | 22.9 |
| EBITDA Margin (%) | 10.20 | 9.98 | 10.02 | 19bps | 23bps |
| Depreciation | 1,535 | 1,520 | 1,544 | (0.6) | 1.0 |
| EBIT | 5,830 | 4,474 | 4,084 | 42.7 | 30.3 |
| Interest | 352 | 376 | 350 | 0.5 | (6.4) |
| Other income | 14 | 222 | 35 | (60.7) | (93.8) |
| PBT | 5,492 | 4,321 | 3,769 | 45.7 | 27.1 |
| Tax | 1,418 | 1,115 | 993 | 42.7 | 27.1 |
| Tax Rate (%) | 26% | 26% | 26% | | (0.0) |
| Adjusted PAT | 4,075 | 3,205 | 2,776 | 46.8 | 27.1 |
| Exceptional Item | - | - | - | - | - |
| Reported PAT | 4,075 | 3,205 | 2,776 | 46.8 | 27.1 |
| EPS (INR) | 8.6 | 6.8 | 5.8 | 46.9 | 27.1 |
| Total Volumes (In Nos) | 10,27,437 | 9,06,791 | 9,16,705 | 12.1 | 13.3 |
| Net Realisation (INR) | 70,264 | 66,263 | 61,300 | 14.6 | 6.0 |
| EBITDA / Vehicle (INR) | 7,169 | 6,611 | 6,140 | 16.8 | 8.4 |
| Volumes (In Nos) | 2QFY23 | 1QFY23 | 2QFY22 | YoY (%) | QoQ (%) |
| Motorcycles | 4,76,780 | 4,33,662 | 4,38,607 | 8.7 | 9.9 |
| Scooters | 3,76,418 | 3,08,085 | 2,65,501 | 41.8 | 22.2 |
| Mopeds | 1,23,728 | 1,19,048 | 1,65,444 | (25.2) | 3.9 |
| Total 2W | 2,93,715 | 8,69,519 | 8,69,552 | (66.2) | (66.2) |
| 3Ws | 50,511 | 45,996 | 47,153 | 7.1 | 9.8 |
| Total Volumes | 10,27,437 | 9,06,791 | 9,16,705 | 12.1 | 13.3 |
| Exports | 2,98,118 | 3,38,121 | 3,15,319 | (5.5) | (11.8) |
| Mix (%) | | 2QFY23 | 1QFY23 | 2QFY22 | |
| Motorcycles | | 46.4 | 47.8 | 47.8 | |
| Scooters | | 36.6 | 34.0 | 29.0 | |
| Mopeds | | 12.0 | 13.1 | 18.0 | |
| 3Ws | | 4.9 | 5.1 | 5.1 | |
| Exports | | 29.0 | 37.3 | 34.4 | |

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

Q2FY23 Conference-Call highlights

- The company scooter brand TVS Jupiter achieved a new milestone by crossing the 5 Mn. Also launched the TVS Ronin the first modern retro motorcycle, it's received an excellent response from the customers. The company also launched a series of IQ products into the market. They are all very well received in the market.
- 2w grew by 12% and the industry grew by 6%, The domestic sales numbers include 16,000 units of electric scooters. During October. The company has delivered >8k.
- In the domestic market, the company has launched TVS Ronin with better availability this quarter.
- **Investment:** Higher investments in marketing, because that is very, very critical because TVS is building a brand as also IQ. As part of its EV strategy, the company has also taken extremely specialist areas of specialized resources in the areas of software electronics and digital analytics. This is one of the important things, that is why the employee cost has gone up.
- In the premium motorcycles, the ramp-up was better than in Q1.
- **Semiconductors:** TVS couldn't meet the full demand due to the non-availability of a certain portion of semiconductors which is becoming better in October, and November and expect to supply constraint release in Q3. With better availability of parts in Q3, the company is confident that will mark the 10k mark, and then will go towards the 20k mark in Q4FY23.
- iQube is available in >150's cities and towns in India, with excellent response. The company has continuously expanding capacity due to the support of the supply chain.
- **EV:** The company is able to ramp up and there is an opening booking of >25K. Q2, was able to deliver 16k which is much better than Q1 which is 9k this year, beginning and Vahan share is also going up 2.9% last year to down 9.9% almost.
- **Launch:** The company will be launching a series of new products in the coming quarters, in the 2k a complete portfolio between 5 kW to 25kw in the next quarters to come.
- The company has quite well access to the network with Tata Power, BESCO, and Jio BP and this will definitely enhance customer convenience much more.
- **New Product:** On the new product side for the Diwali season and Pooja season, the company has given many variants and many new products, all grew in FY22, TVS Apache RTR 160, RTR 180 with more power ride more than Smart Connect, the new motorcycle lighter, faster, tech loaded with enhanced performance.
- The new Jupiter Classic launched to celebrate the fastest 5 mn vehicles on the road on Jupiter. And no TVS Jupiter Classic re-commits to consistent delivery. TVS rider has now become one of the most popular motorcycles since its launch last year, and it continues to do well.
- **TVS Raider SmartXconnect** TFT variant launch with First-in-Class features such as TVS TFT Display, TVS SmartXconnect with Voice access, Bluetooth Connectivity, Navigation, Ride report, Multiple ride modes and pretty confident that this is one of the brands which are becoming super hit in the market.
- **Rural Market:** The company is very confident that the rural market has started improving now with the improved availability of semiconductors. TVS is expecting practically able to meet the demand of Raider and the premium products coming forward in Q3.
- **TVS Credit services (CS Hold 84.24%):** Has been very good at supporting retail finance TVS CS also has done extremely well and this has been helping the two-wheeler growth with a strong portfolio of brands like Apache, Jupiter 125, Raider, NTORQ, and star range HLX, Radeon and TVS King. And the recently launched TVS Ronin, which is extremely well.
- TVS CS has crossed 17k the book size is at INR 17,448 cr and gross NPA is lower than the Q1FY23. It's around 2.8% and the company is meeting the capital adequacy norms as required on the profitability side. The profit for the quarter is INR 129 cr is profit for Q2FY23 vs in Q2FY22 INR 35 cr and in the PAT is most INR 100 cr, which is INR 96 crores to be very precise.
- TVS CS caters to around 44% of the requirements of TVS Motor 2w financing.
- The company is confident that will grow ahead of the industry both in domestic and internationally.
- **Acquisition:** 48.27% stake in Nkars Mobility Millennial Solutions Private Limited. It will help TVS Credit Services where the repossessed vehicles can be refurbished and sold and also allows TVS Credit Service to fund the pre-owned vehicle business also.
- The company in a big way going forward. The company has in the next 12 quarters have a full product pipeline replay going, what you have seen in that right.
- **Price:** The company has taken a price increase of 1% and exchange 0.3%-0.4% for that kind of benefits remaining all coming from digital cost reduction at the same level as last quarter.
- Realization for the vehicle is about INR70k.
- Spare parts are at INR670 crores for Q2FY23.
- **Capex:** INR 750 cr in EV space.
- **RM:** Commodity to definitely soften, going forward also it has reached the highest level. So, management will see moderation going forward in Q3 and Q4. They challenge some of the international market because of the economic conditions and because of the issues related to the Ukraine war.

Exhibit 3: Segmental Volume Contribution (%)

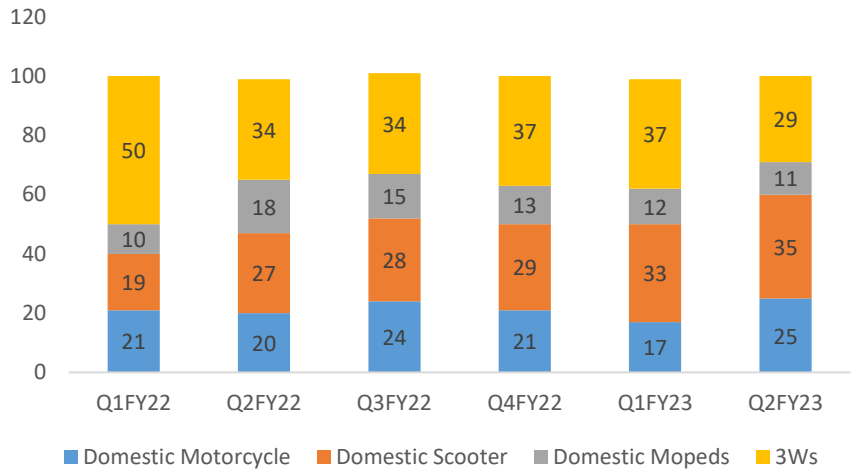


Exhibit 4: EBITDA / Vehicle (INR)

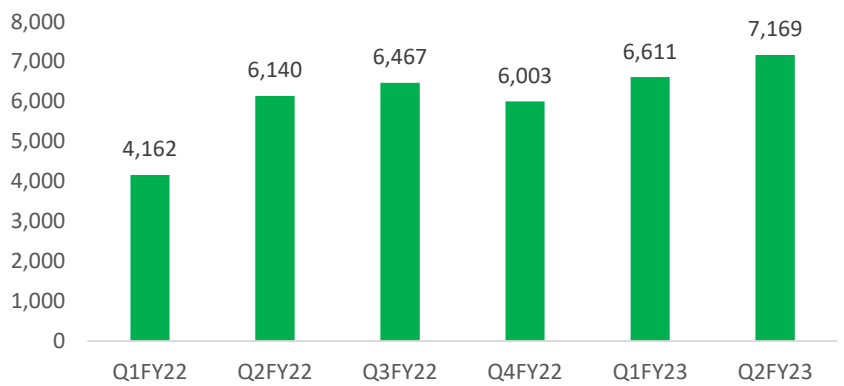
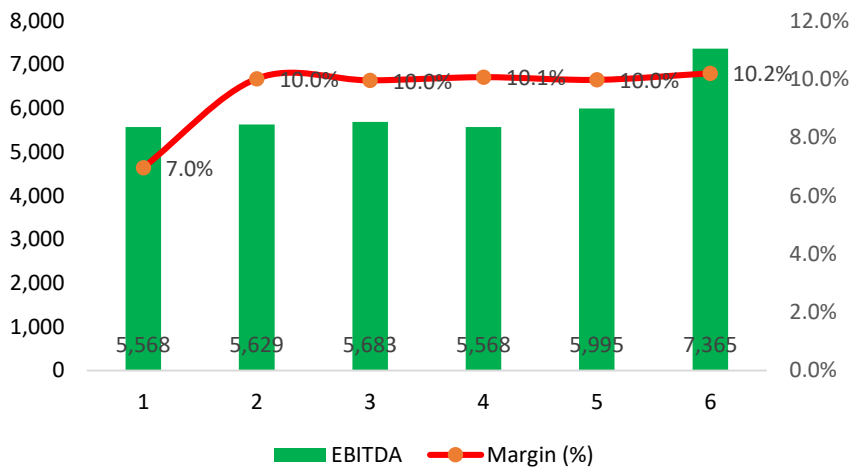


Exhibit 5: Expecting commodity to moderate going forward in Q3 and Q4; sustaining double-digit EBITDA margin



Source: Arihant Research, Company Filings,

| Profit & Loss Statement (Standalone) | | | | |
|--------------------------------------|-----------------|-----------------|-----------------|-----------------|
| YE: Mar (INR mn) | FY22 | FY23E | FY24E | FY24E |
| Net sales | 2,07,905 | 2,60,492 | 3,02,362 | 3,44,919 |
| Growth, % | 24 | 25 | 16 | 14 |
| RM expenses | 1,58,082 | 1,93,155 | 2,21,480 | 2,52,653 |
| Employee expenses | 11,364 | 12,784 | 14,382 | 16,180 |
| Other expenses | 18,842 | 28,237 | 32,697 | 37,210 |
| EBITDA (Core) | 19,617 | 26,316 | 33,803 | 38,876 |
| Growth, % | 37 | 34 | 28 | 15 |
| Margin, % | 9.4 | 10.1 | 11.2 | 11.3 |
| Depreciation | 6,114 | 6,606 | 7,244 | 7,881 |
| EBIT | 13,503 | 19,710 | 26,559 | 30,994 |
| Growth, % | 44 | 46 | 35 | 17 |
| Margin, % | 6.5 | 7.6 | 8.8 | 9.0 |
| Interest paid | 1,259 | 1,120 | 1,176 | 1,412 |
| Other Income | 190 | 209 | 230 | 253 |
| Non-recurring Items | - | - | - | - |
| Pre-tax profit | 12,434 | 18,798 | 25,612 | 29,835 |
| Tax provided | 3,197 | 4,953 | 6,748 | 7,861 |
| Profit after tax | 9,237 | 13,845 | 18,864 | 21,975 |
| Exceptional Item | 301.6 | - | - | - |
| Net Profit | 8,936 | 13,845 | 18,864 | 21,975 |
| Growth, % | 46 | 55 | 36 | 16 |
| Net Profit (adjusted) | 8,935.6 | 13,845 | 18,864 | 21,975 |

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

| Cash Flow | | | | |
|------------------------------|----------------|----------------|----------------|----------------|
| YE: Mar (INR mn) | FY22 | FY23E | FY24E | FY24E |
| Pre-tax profit | 12,132 | 18,798 | 25,612 | 29,834 |
| Depreciation | 6,114 | 6,606 | 7,244 | 7,881 |
| Chg in working capital | 776 | 2,124 | 2,880 | 3,538 |
| Total tax paid | -3,000 | -4,953 | -6,748 | -7,861 |
| CFO | 17,092 | 22,944 | 29,934 | 34,552 |
| Capital expenditure | -8,337 | -7,500 | -7,500 | -7,500 |
| Chg in marketable securities | - | - | - | - |
| Chg in investments | -7,000 | -7,000 | -7,000 | -7,000 |
| CFI | -15,147 | -14,292 | -14,269 | -14,247 |
| Free cash flow | 8,755 | 15,444 | 22,434 | 27,052 |
| Debt raised/(repaid) | 1,316 | 2,334 | 2,801 | 3,361 |
| Dividend (incl. tax) | -2,052 | -2,052 | -2,623 | -3,193 |
| CFF | -1,996 | -839 | -998 | -1,243 |
| Net chg in cash | -51 | 7,813 | 14,667 | 19,062 |
| Opening cash balance | 9,298 | 4,013 | 12,371 | 27,038 |
| Closing cash balance | 4,013 | 12,371 | 27,038 | 46,100 |

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

| Balance Sheet (Standalone) | | | | |
|---------------------------------------|-----------------|-----------------|-----------------|-----------------|
| YE: Mar (INR mn) | FY22 | FY23E | FY24E | FY24E |
| Cash & bank | 4,013 | 12,371 | 27,038 | 46,100 |
| Marketable securities cost | - | - | - | - |
| Debtors | 9,507 | 11,911 | 13,826 | 15,772 |
| Inventory | 11,227 | 16,843 | 20,378 | 24,192 |
| Loans & advances | - | - | - | - |
| Other current assets | 7,574 | 7,953 | 8,350 | 8,768 |
| Total current assets | 32,320 | 49,078 | 69,592 | 94,831 |
| Investments | 40,153 | 47,153 | 54,153 | 61,153 |
| Gross fixed assets | 73,973 | 81,473 | 88,973 | 96,473 |
| Less: Depreciation | -38,023 | -44,629 | -51,873 | -59,755 |
| Add: Capital WIP | 2,462 | 2,462 | 2,462 | 2,462 |
| Net fixed assets | 35,950 | 36,843 | 37,099 | 36,718 |
| Total assets | 1,10,885 | 1,35,536 | 1,63,307 | 1,95,164 |
| Current liabilities | 48,176 | 58,454 | 66,911 | 76,328 |
| Provisions | 2,458 | 2,704 | 2,974 | 3,271 |
| Total current liabilities | 50,634 | 61,157 | 69,885 | 79,600 |
| Non-current liabilities | 5,600 | 3,076 | 3,076 | 3,076 |
| Total liabilities | 56,234 | 64,233 | 72,960 | 82,675 |
| Paid-up capital | 475 | 475 | 475 | 475 |
| Reserves & surplus | 47,745 | 59,538 | 75,780 | 94,560 |
| Shareholders' equity | 48,220 | 60,013 | 76,255 | 95,035 |
| Total equity & liabilities | 1,10,885 | 1,35,536 | 1,63,307 | 1,95,164 |

| Ratios | | | | |
|--------------------------|------|-------|-------|-------|
| YE: Mar | FY22 | FY23E | FY24E | FY24E |
| EPS (INR) | 18.8 | 29.1 | 39.7 | 46.3 |
| PER (x) | 59.4 | 38.3 | 28.1 | 24.2 |
| Price/Book (x) | 11.0 | 8.8 | 6.9 | 5.6 |
| EV/EBITDA (x) | 27.4 | 20.2 | 15.4 | 13.0 |
| EV/Net sales (x) | 2.6 | 2.0 | 1.7 | 1.5 |
| RoE (%) | 19 | 23 | 25 | 23 |
| RoCE (%) | 24 | 28 | 30 | 28 |
| Fixed Asset turnover (x) | 2.8 | 3.2 | 3.4 | 3.6 |
| Dividend Yield (%) | 0.3 | 0.3 | 0.4 | 0.5 |
| Receivable (days) | 14 | 17 | 17 | 17 |
| Inventory (days) | 22 | 26 | 28 | 29 |
| Payable (days) | 92 | 91 | 91 | 91 |
| Net D/E ratio (x) | 0.2 | 0.0 | (0.1) | (0.3) |

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| 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% |

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