

CMP: INR 984

Rating: Accumulate

Target Price: INR 1,122

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)	468
Mkt Cap (INR mn)	4,68,530
52w H/L (INR)	1,177 /513
Avg Yearly Vol (in 000')	1,710

Shareholding Pattern %

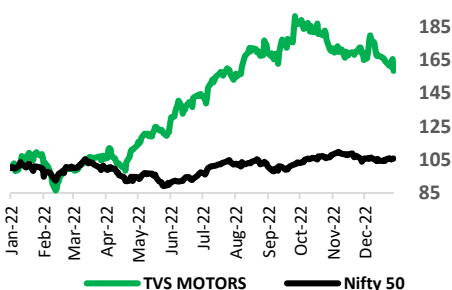
(As on Dec, 2022)

Promoters	50.27
Public & Others	49.73

Stock Performance (%) 1m 3m 12m

TVS Motors	-0.15	-12.5	63.0
Nifty 50	0.53	1.3	3.61

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 revenue above our estimates led by better EV sales: Standalone revenue stood at INR 65,454 Mn, above our estimate of INR 63,025 Mn registering a growth of 14.7% YoY/ -9.3% QoQ. The company is significantly growing in the EV sales volume during Q1FY23, the company sold 8K numbers and improved to 16K numbers in Q2 and further. The company has improved to 29K and every quarter the company has been practically doubling. The company will continue this momentum in Q4FY23. The demand is ahead of suppliers, and the company hope to continue this momentum in Q4FY23.

Margin misses due to higher other expenses: EBITDA stood at INR 6,589 Mn, against our estimate of INR 6,550 Mn, Registering a growth of 16%YoY/ -10.5%QoQ. On the margins front, EBITDA margin expansion by 11bps YoY/ -14bpsQoQ to 10.07%, below our estimate of 10.4%. The company continued to deliver consistent EBITDA margins despite temporary challenges in the international markets. The company was able to improve the material cost as a % of sales in Q3FY23 from 76.3% to 75.5% this primarily through the product mix optimization sustain cost reduction and commodity softening and measured price increases.

Healthy volume during the quarter: Domestic market company sold 6 lac units against INR5.79 lac in Q3FY22. Domestic sales increased by 4% in line with almost the industry growth. And the international market the company did 29K of EV in Q3FY23, international market company sold INR 2.07 lac of 2Ws as against INR2.53. International market volume declined by 18% industry decline was 23% during the same time. Total volume was INR8.07 lac in Q3FY23 as against INR8.32 lac Q3FY22. Total sales of 3Ws the same level of last year, almost 43K numbers on profit in Q3FY23.

Outlook and valuation

TVS Motor has reported a decent set of numbers in Q3FY23 but a margin is below our estimates due to higher other expenses. Strong demand in EV Segments with expectations of doubling sales in Q4FY23e. TVS clocked a market share of 14.5% in EVs in Q3FY23 and EVs contributed 10% to scooter volume. The company also highlighted that it plans to launch an Electric 3W in the coming months. We expect TVS to continue to outperform the 2W industry. We also factor in margin expansion of 85bps from FY23 to FY25, due to RM cost tailwinds and product Premiumisation. We see TVS as the technology leader among its listed peers. **We value TVS Motors' standalone business at an FY25E PE of 23x to its EPS estimate of INR 45 for FY25 and TVS credit services at 2.5x its BV (INR 87.2/ share), which yields a revised target price of INR 1,122 per share (Earlier target price: INR 1,197 per share). We upgrade our rating to an Accumulate from a hold earlier.**

Exhibit 1: Financial Performance

YE	Net Sales	EBITDA	PATEPS (INR)	EBITDA Margin (%)	RoCE (%)	P/E (x)
March (INR Mn)						
FY22	207,905	19,617	9,237	9.4	18.5	52.3
FY23E	244,893	26,179	13,809	10.7	23.0	33.9
FY24E	291,041	33,163	18,479	11.4	29.0	25.3
FY25E	328,637	37,920	21,371	11.5	27.1	21.9

Source: Arihant Research, Company Filings

Exhibit 2: Quarterly result summary

INR mn	3QFY23	2QFY23	3QFY22	YoY (%)	QoQ (%)
Net Sales	65,454	72,192	57,064	14.7	(9.3)
- Consumption of Raw Material	49,429	54,975	43,512	13.6	(10.1)
(% of Net Sales)	75.5	76.2	76.3	-73bps	-63bps
- Staff Expenditure	3,409	3,456	2,957	15.3	(1.3)
(% of Net Sales)	5.2	4.8	5.2	3bps	42bps
- Other Expenditure	6,027	6,396	4,912	22.7	(5.8)
(% of Net Sales)	9.2	8.9	8.6	60bps	35bps
Total Expenditure	58,865	64,826	51,382	14.6	(9.2)
EBITDA	6,589	7,365	5,683	16.0	(10.5)
EBITDA Margin (%)	10.07	10.20	9.96	11bps	-14bps
Depreciation	1,583	1,535	1,546	(0.6)	(3.0)
EBIT	5,006	5,830	4,136	21.0	(14.1)
Interest	316	352	279	13.3	(10.1)
Other income	65	14	57	13.3	373.7
PBT	4,755	5,492	3,915	21.5	(13.4)
Tax	1,227	1,418	1,031	19.0	(13.4)
Tax Rate (%)	26%	26%	26%	(2.0)	0.0
Adjusted PAT	3,528	4,075	2,883	22.4	(13.4)
Exceptional Item	-	-	-		
Reported PAT	3,527.5	4,075	2,883	22.4	(13.4)
EPS (INR)	7.4	8.6	6.1	22.2	(13.5)
Total Volumes (In Nos)	879,423	1,027,437	878,659	0.1	(14.4)
Net Realisation (INR)	74,429	70,264	64,945	14.6	5.9
EBITDA / Vehicle (INR)	7,493	7,169	6,467	15.9	4.5

Source: Arihant Research, Company Filings

Volumes (In Nos)	3QFY23	2QFY23	3QFY22	YoY (%)	QoQ (%)
Motorcycles	434,279	476,780	431,509	0.6	(8.9)
Scooters	295,635	376,418	255,699	15.6	(21.5)
Mopeds	76,794	123,728	147,560	(48.0)	(37.9)
Total 2W	287,058	293,715	834,768	(65.6)	(2.3)
3Ws	43,485	50,511	43,891	(0.9)	(13.9)
Total Volumes	879,423	1,027,437	878,659	0.1	(14.4)
Exports	246,352	298,118	294,611	(16.4)	(17.4)

Source: Arihant Research, Company Filings

Q3FY23 Conference-Call highlights

- **EV:** The company has delivered 29K resulting in Vahaan share improvement in QoQ, achieving 14.5% MS (Market Share) in December 2022. Improved ramp up of production in Q4FY23. The company is focusing on achieving 25K numbers with the supply of all supply chain partners. 10% of the domestic scooters have come from volume that has come from electric vehicles. The company expects this will further go up in the coming quarters.
- **TVS Credit:** The book size is growing and it is around INR20 cr. TVS Credit Services portfolio is well diversified covering tractors used vehicles, consumer durable's MSME besides 2W's of TVS the collections are robust warranting minimum provision.
- **New launch:** The company launched TVS Raider SmartConnect TFT variance with first-in-class features such as TFT display of SmartConnect, Voice assist, Bluetooth connectivity navigation right reports on multiple right modes.
- **TVS Raider:** TVS Raider continues to do very well in the market, also expanded the global footprint by launching the TVS experience center in Singapore. The new TVS experience center will offer a range of TVS Motors premium motorcycles including flagship model TVS Apache RR310 for the racing enthusiast and other RTR range of products for the performance seekers.
- **EV Order book:** Order funnel of EV is close to 30K and the company is confident of crossing >INR1 lac EV sale in the domestic market during FY23. TVS iQube is available around 200 touchpoints in India. Expanding that with a better availability will be as promised, the company will be launching a series of new products on EV on different customer segments with a complete portfolio of offerings between 5kW to 25kW in the next 12 to 18 months.
- **Q4FY23e:** Rabi crop sowing is up, the trend is better in terms of the MSP. Rural economy will start growing. With improved availability of chip and expecting improvement on the premium product.
- **Commodity:** The commodity between Q2 to Q3 is about 0.3%. The commodity is likely to soften and not seeing commodity to go up in Q4FY23e.
- Price increase approx. 0.7%.
- **Export revenue** INR of 1770cr and the spares revenue of INR 683 cr.
- **Investment in TVS Credit** INR 150 cr and will continue to invest because this is something which is doing extremely well for TVS and the other investment, on Singapore. All investments which will definitely start yielding significant results in the future.
- INR 50 Cr this is largely explained by Norton and the Singapore entity.
- **FAME II:** The customer acceptance of iQube is pretty decent and volume goes up which will help with government incentive scheme.
- **Inventory:** The company is maintaining lean inventory in domestic as well as international. The company is maintaining 30-35 days depending upon the season.
- **Markets:** Predominant market is Africa, then of course the company has been seen markets like Bangladesh having some challenges. Okay. Sri Lanka not yet opened up. The company have seen Nepal going through some challenges. Seeing some changes slow improvement is seen in Q4 expected to see in Q4 and progressively going up next year, will see a better and better numbers.
- **Dollar realization** is \$80 and operating income as INR 90 Cr.
- Seen some recovery in retail during Q3FY23.
- Finance penetration is at 60% vs 53-54% last year.
- In EV, the company has 200 touch points and 110 cities.
- Board declare an interim dividend of INR 5 per share with absorbing some of INR238 crores for the financial year 2022,2023.
- **Outlook:** TVS is poised to grow ahead of the industry both in domestic and international market, with strong portfolios of brand. Starting from Apache, Jupiter and HLX series, and Radeon and TVS King and EV TVS iQube and the company is pretty confident that Q4, will see very good revenue growth.

Exhibit 3: Segmental Volume Contribution (%)

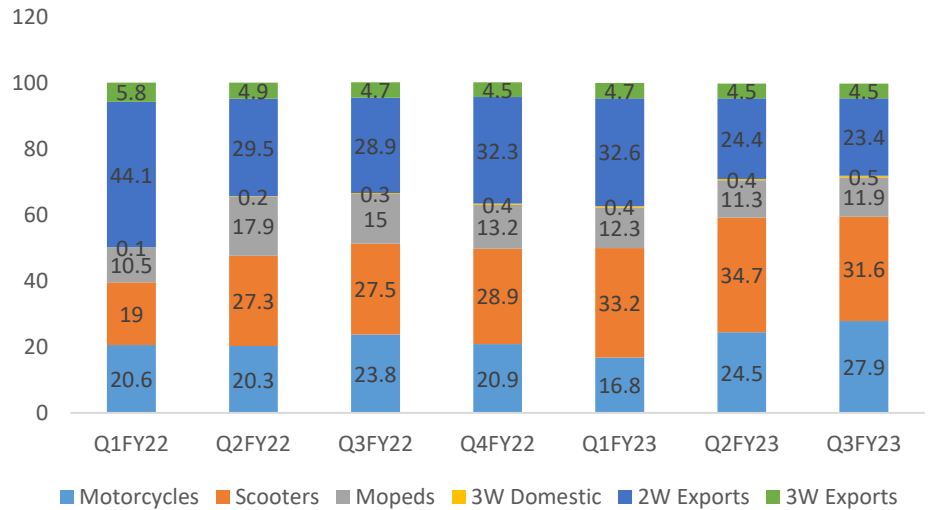


Exhibit 4: EBITDA / Vehicle (INR)

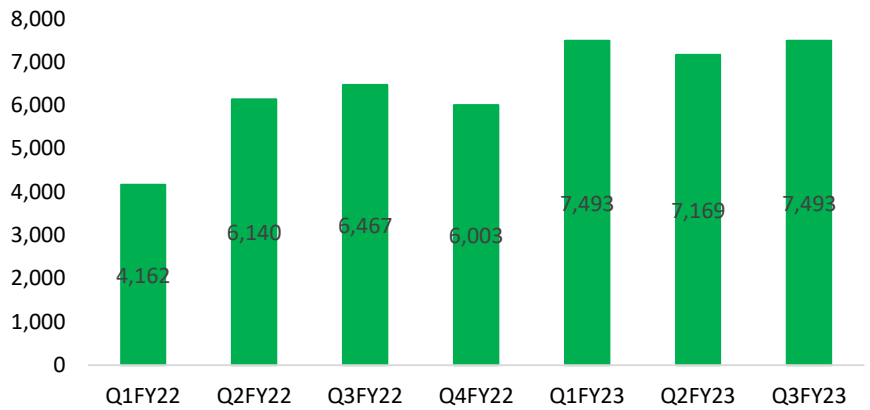
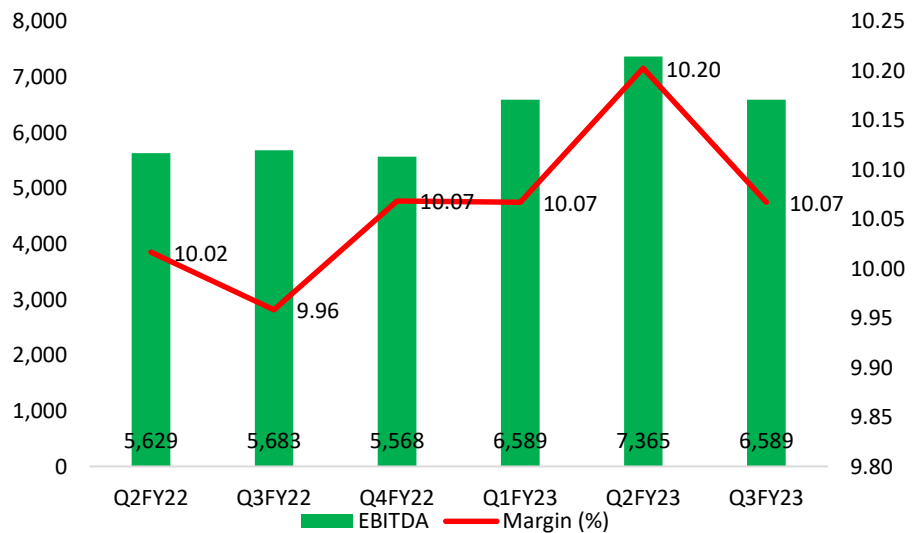


Exhibit 5: Expecting commodity to moderate going forward in Q4; sustaining double-digit EBITDA margin



Source: Arianth Research, Company Filings,

Profit & Loss Statement (Standalone)				
YE: Mar (INR mn)	FY22	FY23E	FY24E	FY25E
Net sales	207,905	244,893	291,041	328,637
Growth, %	24	17.8	18.8	12.9
RM expenses	158,082	179,384	212,023	239,084
Employee expenses	11,364	12,784	14,382	16,180
Other expenses	18,842	26,546	31,473	35,454
EBITDA (Core)	19,617	26,179	33,163	37,920
Growth, %	37	33	27	14
Margin, %	9.4	10.7	11.4	11.5
Depreciation	6,114	6,606	7,244	7,881
EBIT	13,503	19,572	25,919	30,039
Growth, %	44	45	32	16
Margin, %	6.5	8.0	8.9	9.1
Interest paid	1,259	1,120	1,176	1,412
Other Income	190	209	230	253
Non-recurring Items				
Pre-tax profit	12,434	18,661	24,972	28,879
Tax provided	3,197	4,852	6,493	7,508
Profit after tax	9,237	13,809	18,479	21,371
Exceptional Item	301.6	-	-	-
Net Profit	8,936	13,809	18,479	21,371
Growth, %	46	55	34	16
Net Profit (adjusted)	8,935.6	13,809	18,479	21,371

Source: Arianth Research, Company Filings

Cash Flow				
YE: Mar (INR mn)	FY22	FY23E	FY24E	FY25E
Pre-tax profit	12,132	18,661	24,972	28,878
Depreciation	6,114	6,606	7,244	7,881
Chg in working capital	776	-262	3,771	3,011
Total tax paid	-3,000	-4,852	-6,493	-7,508
CFO	17,092	20,521	30,441	33,422
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	13,021	22,941	25,922
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)	5,390	15,174	17,932
Opening cash balance	9,298	4,013	9,948	25,121
Closing cash balance	4,013	9,948	25,121	43,053

Source: Arianth Research, Company Filings

Balance Sheet (Standalone)				
YE: Mar (INR mn)	FY22	FY23E	FY24E	FY25E
Cash & bank	4,013	9,948	25,121	43,053
Marketable securities				
cost	-	-	-	-
Debtors	9,507	11,198	13,308	15,027
Inventory	11,227	15,834	19,615	23,050
Loans & advances				
Other current assets	7,574	7,953	8,350	8,768
Total current assets	32,320	44,933	66,395	89,898
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	110,885	131,391	160,110	190,231
Current liabilities	48,176	54,345	64,134	72,419
Provisions	2,458	2,704	2,974	3,271
Total current liabilities	50,634	57,049	67,108	75,691
Non-current liabilities	5,600	3,076	3,076	3,076
Total liabilities	56,234	60,124	70,184	78,766
Paid-up capital	475	475	475	475
Reserves & surplus	47,745	59,502	75,359	93,535
Shareholders' equity	48,220	59,977	75,834	94,010
Total equity & liabilities	110,885	131,391	160,110	190,231

Ratios				
YE: Mar	FY22	FY23E	FY24E	FY25E
EPS (INR)	18.8	29.1	38.9	45.0
PER (x)	52.3	33.9	25.3	21.9
Price/Book (x)	9.7	7.8	6.2	5.0
EV/EBITDA (x)	24.2	18.0	13.8	11.7
EV/Net sales (x)	2.3	1.9	1.6	1.4
RoE (%)	19	23	24	23
RoCE (%)	24	28	29	27
Fixed Asset turnover (x)	2.8	3.0	3.3	3.4
Dividend Yield (%)	0.4	0.4	0.5	0.6
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	0.1	(0.1)	(0.2)

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

Disclaimer: This document has been prepared by Arihant Capital Markets Ltd. This document does not constitute an offer or solicitation for the purchase and sale of any financial instrument by Arihant. This document has been prepared and issued on the basis of publicly available information, internally developed data and other sources believed to be reliable. Whilst meticulous care has been taken to ensure that the facts stated are accurate and opinions given are fair and reasonable, neither the analyst nor any employee of our company is in any way is responsible for its contents and nor is its accuracy or completeness guaranteed. This document is prepared for assistance only and is not intended to be and must not alone be taken as the basis for an investment decision. The user assumes the entire risk of any use made of this information. Arihant may trade in investments, which are the subject of this document or in related investments and may have acted upon or used the information contained in this document or the research or the analysis on which it is based, before its publication. This is just a suggestion and Arihant will not be responsible for any profit or loss arising out of the decision taken by the reader of this document. Affiliates of Arihant may have issued other reports that are inconsistent with and reach different conclusion from the information presented in this report. No matter contained in this document may be reproduced or copied without the consent of the firm.

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