

**New lunches; Increased premiumization would lead to better profitability**

**CMP: INR 631**

**Rating: Accumulate**

**Target Price: INR 718**

**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)	3,02,606
52w H/L (INR)	814/ 495
Avg Yearly Vol (in 000')	2253

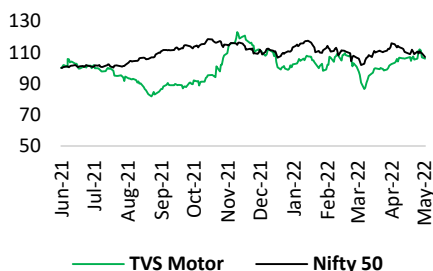
**Shareholding Pattern %**

(As on March, 2022)

Promoters	52.26
Public & Others	47.74

Stock Performance (%)	1m	3m	12m
TVS Motors	1.6	-0.8	7.1
Nifty 50	-6.2	-3.9	15.1

**TVS Motors Vs Nifty**



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TVS Motor Company has reported weak Q4FY22 numbers, below our estimate on all fronts. Standalone revenue stood at INR 55,303 Mn, against our estimate of INR 55,923 Mn registering - 3.1% YoY/+3.9% QoQ. EBITDA stood at INR 5,568 Mn, against our estimate of INR 5,840 Mn, Registering a growth of 11.2%YoY/- 2.0%QoQ. On the margins front, EBITDA margin up by bps 11bps QoQ/-1bps YoY to 10.07 %, against our estimate of 10.4%, despite various challenges in terms of increase in input costs and shortage in semiconductors. Standalone PAT saw a de-growth of 5.1%YoY/4.8% QoQ to INR 2,745 Mn against our estimate of INR 3,126 Mn. EPS stood at INR 5.8 in Q4FY22 against INR 6.07 in Q3FY22 (INR 6.09in Q4FY21). The company registered a de-growth of 7.7% YoY/ 2.5% QoQ to total two-wheeler sales of 8.56 Lakh units in the Q4FY22 as against 9.27 Lakh units in the Q4FY21. On the exports front, 2w sales clocked 1.09 million units in FY22. The company has achieved this significant milestone for the first time in a financial year. The company declared interim dividend of INR 3.75 per Share for FY22 absorbing a sum of INR. 178 Crores. PBT, before exceptional items for year ended March 2022, grew by 50% at INR. 1,243 Crores. During the year, the company incurred INR 30 crores towards COVID-19 related expenses, an exceptional item.

**Outlook and valuation**

At a CMP of INR 631, TVS Motors is currently trading at a PE of 18.6x to its FY24E EPS of INR 34.2. TVS Motor has reported its highest-ever revenue, EBITDA, and profit before tax in FY22, which was a challenging year due to second and third waves of the pandemic, semiconductor shortage, container availability constraints and steep increases in the commodity costs. Considering the new product launches in EV and improving demand outlook for the company in domestic as well as exports markets, we expect TVSL to grow ahead of the industry over the next 2 years. We expect the company's EBITDA margins to remain sustainable at 10-11% going forward on account of improving product mix, higher exports, and cost optimization measures. Considering the better business visibility, improving economic situation, and healthy export outlook.

**We value TVS Motors' standalone business at FY24 PE of 20x to its EPS estimate of INR 34.2 for FY24 and TVS credit services at 1x its BV (INR~35/ share), which yields a revised target price of INR 718( earlier target price: INR 735 on a SOTP basis). We maintain our Accumulate rating on the stock.**

YE	Net Sales	EBITDA	PATEPS (INR)	EBITDA Margin %	RoE (%)	P/E (x)
March (INR Mn)						
<b>FY21</b>	1,67,505	14,286	6,120	12.9	8.5	14.7
<b>FY22</b>	2,07,905	19,617	9,237	18.8	9.4	18.5
<b>FY23E</b>	2,60,492	25,274	13,094	27.6	9.7	22.1
<b>FY24E</b>	3,02,362	30,174	16,239	34.2	10.0	26.6

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

**Quarterly result summary**

INR mn	4QFY22	3QFY22	4QFY21	YoY (%)	QoQ (%)
Net Sales	55,303	57,064	53,219	3.9	(3.1)
- Consumption of Raw Material	42,115	43,512	40,098	5.0	(3.2)
(% of Net Sales)	76.2	76.3	75.3	81bps	-10bps
- Staff Expenditure	2,841	2,957	2,681	6.0	(3.9)
(% of Net Sales)	5.1	5.2	5.0	10bps	-5bps
- Other Expenditure	4,780	4,912	5,079	(5.9)	(2.7)
(% of Net Sales)	8.6	8.6	9.5	-90bps	3bps
Total Expenditure	49,735	51,382	47,858	3.9	(3.2)
EBITDA	5,568	5,683	5,361	11.2	(2.0)
EBITDA Margin (%)	10.07	9.96	10.1	-1bps	11bps
Depreciation	1,593	1,546	1,366	16.6	3.0
EBIT	3,975	4,136	3,995	(0.5)	(3.9)
Interest	330	279	195	69.0	18.3
Other income	82	57	69	17.9	42.8
PBT	3,727	3,915	3,869	(3.7)	(4.8)
Tax	982	1,031	977	0.5	(4.8)
Tax Rate (%)	26%	26%	25%		
Adjusted PAT	2,745	2,883	2,892	(5.1)	(4.8)
Exceptional Item	-	-	0	-	-
Reported PAT	2,745	2,883	2,892	(5.1)	(4.8)
EPS (INR)	5.8	6.1	6.1	(5.1)	(4.8)
Total Volumes (In Nos)	8,56,456	8,78,659	9,27,539	(7.7)	(2.5)
Net Realisation (INR)	64,572	64,945	57,377	12.5	(0.6)
EBITDA / Vehicle (INR)	6,501	6,467	5,780	12.5	0.5

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

Volumes (In Nos)	Q4FY22	Q3FY22	4QFY21	YoY (%)	QoQ (%)
Motorcycles	4,41,405	4,31,509	4,31,343	2.3%	2.3%
Scooters	2,61,943	2,55,699	2,98,357	-12.2%	2.4%
Mopeds	1,11,334	1,47,560	1,56,914	-29.0%	-24.6%
Total 2W	8,14,682	8,34,768	8,86,614	-8.1%	-2.4%
3Ws	41,774	43,891	40,925	2.1%	-4.8%
Total Volumes	8,56,456	8,78,659	9,27,539	-7.7%	-2.5%
Exports	3,15,156	2,94,611	3,22,137	-2.2%	7.0%

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

**Q4FY22 Conference-Call highlights**

- TVS Motor has reported its highest-ever revenue, EBITDA, and profit before tax in FY22, which was a challenging year due to second and third waves of the pandemic, semiconductor shortage, container availability constraints and steep increases in the commodity costs.
- **TVS Motor Company made two big announcements** - Sudarshan Venu, Joint Managing Director, has been elevated as the MD, and the company's total revenues crossed INR 20,000 crore for the first time. It took more than three decades for the company to achieve its first INR 10,000 crore top-line, while the next INR 10,000 crore has been achieved in 6 years. Overall, Sudarshan Venu was instrumental in driving innovation and advanced technologies, expansion into new geographies and investment in future technologies like electric mobility.
- **EV sales:** The company has an order for more than 12,000 units for its electric scooter iQube. It has so far, sold 12,000 units across 33 cities. In FY23, the company will be launching a series of new electric products focusing on different customer segments. There will be a complete portfolio of 2 and 3-wheelers in the range of 5-25 kW. First of these will hit the market in this quarter.
- **Capacity for EV (TVS iQube)** : The company is targeting 10k sales in Q1FY23 and beyond 10k in Q2FY23. The company expects to hit 10k by June FY22 after that will ramp up much fast. The company is target to expand all over India and International market as well.
- **Guidance:** The company is expecting a normal monsoon. The exports front-2w are likely to see good growth this year with the availability of crude oil and stability of the currency. TVS has a strong product portfolio which enables them to grow ahead of the industry. TVS raider and Jupiter 125cc is doing good and good order booking both of this product and the management is very confident that this will help to TVS motor growth both in domestic as well as the international market going forward.
- **Margin:** EBITDA margin is expected to improve and remain sustainable at 10-11% going forward, driven by increasing share of premium products, operating leverage.
- **Acquisitions and deals:** to emerge as a strong global player, TVS Motor also made one of its biggest deals – the acquisition of iconic British motorcycle brand Norton in April 2020 – a move that strengthened the company's efforts to become a key player in high-end bike segments. As the future mobility and electric vehicle wave started to kick in, the company turned the focus on electric mobility space and acquired Swiss-based electric bicycle company EGO and electric bike maker Swiss E-Mobility Group (SEMG). And recently also bought a majority stake in UK-based e-bike maker EBCO Ltd.
- TVS Motor in terms of products and geographies through an aggressive inorganic strategy, in the past 2-3 years in particular. Amid the threat of COVID and associated challenges, the company continued to pursue its overseas expansion strategy.
- Sudarshan Venu played a key role in leading the company's ride into several emerging markets in Asia and Africa. As a result, the company achieved one million annual exports for the first time during FY22.
- **Capex:** INR 7000 mn including EV.
- **Investment:** The company current investment is profitable and new investment also expecting on the positive side.
- **Financing penetration:** In FY22, financing penetration close to 58%.
- **Price hike:** In Q4FY22, the company took price hike of ~1.5%.
- **Revenue exports:** INR 899 cr and USD INR realisation 76.
- **Raw material:** The company saw RM cost increase in Q4FY22 and in Q1FY23. In Q3FY22, the company did the price hike of 1.5%. The company was able to manage material cost very well on a YoY basis supported by the recovery on the semiconductor side as compare to other quarter and same on the front of container.
- **Auto component revenue from third part:** <30% dependency on the TVS motor and 70% on the outsiders
- **Exports:** The company is performing very well on the exports front supported by product TVS Apache, TVS NTORQ 125 Super Squad Edition Jupiter and 3w.
- **Provision:** 6-8 months no change on the provision and keep on increase price is main challenges.

Profit & Loss Statement (Standalone)				
YE: Mar (INR mn)	FY21	FY22	FY23E	FY24E
<b>Net sales</b>	<b>1,67,505</b>	<b>2,07,905</b>	<b>2,60,492</b>	<b>3,02,362</b>
Growth, %	2	24	25	16
RM expenses	1,27,239	1,58,082	1,94,197	2,25,108
Employee expenses	9,485	11,364	12,784	14,382
Other expenses	16,497	18,842	28,237	32,697
<b>EBITDA (Core)</b>	<b>14,286</b>	<b>19,617</b>	<b>25,274</b>	<b>30,174</b>
Growth, %	6	37	29	19
Margin, %	8.5	9.4	9.7	10.0
Depreciation	4,937	6,114	6,585	7,180
<b>EBIT</b>	<b>9,349</b>	<b>13,503</b>	<b>18,689</b>	<b>22,994</b>
Growth, %	9	44	38	23
Margin, %	5.6	6.5	7.2	7.6
Interest paid	1,416	1,259	1,120	1,176
Other Income	330	190	209	230
Non-recurring Items	0	0	0	0
<b>Pre-tax profit</b>	<b>8,262</b>	<b>12,434</b>	<b>17,777</b>	<b>22,048</b>
Tax provided	2,142	3,197	4,684	5,809
<b>Profit after tax</b>	<b>6,120</b>	<b>9,237</b>	<b>13,094</b>	<b>16,239</b>
Exceptional Item	-	301.6	-	-
<b>Net Profit</b>	<b>6,120</b>	<b>8,936</b>	<b>13,094</b>	<b>16,239</b>
Growth, %	3	46	47	24
<b>Net Profit (adjusted)</b>	<b>6,120</b>	<b>8,935.6</b>	<b>13,094</b>	<b>16,239</b>

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

Balance Sheet (Standalone)				
YE: Mar (INR mn)	FY21	FY22	FY23E	FY24E
Cash & bank	9,298	4,013	12,422	25,702
Debtors	8,700	9,507	11,911	13,826
Inventory	11,518	11,227	16,843	20,378
Other current assets	4,952	7,574	7,953	8,350
<b>Total current assets</b>	<b>34,468</b>	<b>32,320</b>	<b>49,128</b>	<b>68,257</b>
Investments	33,153	40,153	47,153	54,153
Gross fixed assets	66,973	73,973	80,973	87,973
Less: Depreciation	-31,909	-38,023	-44,608	-51,788
Add: Capital WIP	1,126	2,462	2,462	2,462
<b>Net fixed assets</b>	<b>35,064</b>	<b>35,950</b>	<b>36,364</b>	<b>36,184</b>
<b>Total assets</b>	<b>1,03,811</b>	<b>1,10,885</b>	<b>1,35,108</b>	<b>1,61,056</b>
Current liabilities	44,795	48,176	58,777	68,037
Provisions	1,925	2,458	2,704	2,974
<b>Total current liabilities</b>	<b>46,720</b>	<b>50,634</b>	<b>61,481</b>	<b>71,011</b>
Non-current liabilities	3,189	5,600	3,076	3,076
<b>Total liabilities</b>	<b>49,909</b>	<b>56,234</b>	<b>64,556</b>	<b>74,086</b>
Paid-up capital	475	475	475	475
Reserves & surplus	41,234	47,745	58,786	72,402
Shareholders' equity	41,710	48,220	59,261	72,878
<b>Total equity &amp; liabilities</b>	<b>1,03,811</b>	<b>1,10,885</b>	<b>1,35,108</b>	<b>1,61,056</b>

Cash Flow				
YE: Mar (INR mn)	FY21	FY22	FY23E	FY24E
<b>Pre-tax profit</b>	<b>8,262</b>	<b>12,132</b>	<b>17,777</b>	<b>22,048</b>
Depreciation	4,937	6,114	6,585	7,180
Chg in working capital	14,646	776	2,448	3,682
Total tax paid	-2,034	-3,000	-4,684	-5,809
<b>CFO</b>	<b>26,897</b>	<b>17,092</b>	<b>22,494</b>	<b>28,048</b>
Capital expenditure	-9,373	-8,337	-7,000	-7,000
Chg in investments	-4,686	-7,000	-7,000	-7,000
<b>CFI</b>	<b>-13,729</b>	<b>-15,147</b>	<b>-13,791</b>	<b>-13,769</b>
Free cash flow	17,524	8,755	15,494	21,048
Debt raised/(repaid)	-9,391	1,316	2,334	2,801
Dividend (incl. tax)	-1,946	-2,052	-2,052	-2,623
<b>CCF</b>	<b>-12,752</b>	<b>-1,996</b>	<b>-839</b>	<b>-998</b>
<b>Net chg in cash</b>	<b>416</b>	<b>-51</b>	<b>7,864</b>	<b>13,281</b>
Opening cash balance	4,192	9,298	4,013	12,422
<b>Closing cash balance</b>	<b>9,298</b>	<b>4,013</b>	<b>12,422</b>	<b>25,702</b>

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

Ratios				
YE: Mar	FY21	FY22	FY23E	FY24E
EPS (INR)	12.9	18.8	27.6	34.2
PER (x)	49.4	33.9	23.1	18.6
Price/Book (x)	7.2	6.2	5.1	4.1
EV/EBITDA (x)	21.3	15.8	12.0	9.7
EV/Net sales (x)	1.8	1.5	1.2	1.0
RoE (%)	15	19	22	22
RoCE (%)	19	24	27	27
Fixed Asset turnover (x)	2.5	2.8	3.2	3.4
Dividend Yield (%)	0.6	0.6	0.6	0.7
Receivable (days)	21	14	17	17
Inventory (days)	27	22	26	27
Payable (days)	105	92	91	91
Net D/E ratio (x)	0.0	0.2	0.0	(0.1)

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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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