

**Good quarter & Margins continue to surprise; valuation remains stretched**

**CMP: Rs 561**

**Rating: HOLD**

**Target Price: Rs 590**

**Stock Info**

BSE	532343
NSE	TVSMOTOR
Bloomberg	TVSL IN
Reuters	TVSM.BO
Sector	Auto -2&3 Wheelers
Face Value (Rs)	1
Equity Capital (Rs mn)	475
Mkt Cap (Rs mn)	2,66,381
52w H/L (Rs)	590/ 240
Avg Yearly Vol (in 000')	3273

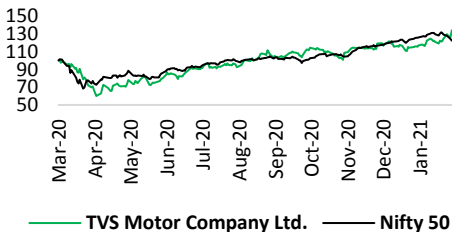
**Shareholding Pattern %**

(As on Dec, 2020)

Promoters	57.40
Public & Others	42.60

Stock Performance (%)	3m	6m	12m
TVS Motors	32.7	39.1	19.3
Nifty	16.8	21.7	12.4

**TVS Motors Vs Nifty**



TVS Motors reported good set of numbers in Q3FY21. Result above our estimates all fronts. Company has reported highest ever Standalone revenue stood at Rs 53,914 Mn, registering +31% YoY/+17% QoQ. EBITDA stood at Rs 5,111 Mn, up by 40.7%YoY/18.8% QoQ. On the margins front, EBITDA margin expanded by 68bps YoY/14bps QoQ to 9.5%. Standalone PAT saw a rise of 34.8%YoY/35.3% QoQ to Rs 2,656 Mn vs 1,971 Mn in Q3FY20. EPS at Rs.5.6 vs Rs.2.6 YoY (Rs. 4.1 QoQ). Total Volume was up by 20.4%YoY/14% QoQ to 9,89,517 units. Company has declared dividend of Rs. 2.10 per share.

**Conference-Call highlights**

- Highest ever revenue (up 31% YoY, domestic sales grew 31%, exports grew 31%), and profit in Q3FY21
- During the 9M period, focused working capital management and improved operating performance helped the Company to generate free cash flow of Rs.1,616 crores. These proceeds are used to reduce the debt. Lean stocks with the dealers also helped to unleash the blocked working capital across the supply chain. Witnessing more premiumization across product profiles. Planning series of product launches in H1FY22
- **Operating performance:** Salary cut was reinstated, some overtime costs, hence employee costs went up. Material costs are going up due to several global issues, these are to the tune of 7-8% which can be managed. Have taken price hike of 2% in January, 2021 in India and also in export markets. Digital marketing will be our focus post COVID era. Marketing expenses will continue going ahead – digital and other. Will be slight increase in conveyance and travel, but a lot of things will be done online from here-on.
- Revenues: Exports of Rs. 1300cr and Spare parts of Rs. 522cr in Q3FY21 vs Rs. USD INR realization of 74.2. Company keep lean stocks (max 4 weeks) at all dealerships
- **Demand scenario:** Container shortage still exists. For scooter industry, urban markets have opened up, people have started moving up. Slowly income levels are going up. Pent up demand is coming down as core demand is visible now. Scooters have started picking up as urban centres are opening up. Most African markets have remained steady post COVID recovery.
- **Cash & Debt:** Net debt free currently. Capex will be Rs. 500cr for FY22. Investments will be similar to FY21. NBFC Numbers: Book size = Rs. 10,719cr, collections are improving. Finance penetration is 46% vs 49% previously. The penetration is lower since people whose incomes were affected are hesitant to borrow now.

**Outlook and valuation**

At CMP of Rs 561, TVS Motors is trading at a FY23 P/E of 23.7x. TVS's reported, better than expected operating performance in 3QFY21. It effectively offset commodity inflation through better product mix and focused lower marketing spends and other cost reduction initiatives. While we expect the recovery momentum to continue going forward and exports will be the key growth drivers for the industry over the medium-term. TVS has strong brands like Apache, Jupiter and Ntorq , higher market share in the faster growing segments of 2Ws industry. However, container-related issues continue to affect exports.

**We value TVS Motors at PE of 25x to its EPS estimate of Rs 23.6 for FY23, which yields a target price of Rs 590. We maintain our Hold rating on the stock.**

YE	March (Rs Mn)	Net Sales	EBITDA	PAT	EPS (Rs)	EBITDA Margin %	RoE (%)	P/E (x)
FY19		1,82,099	14,333	6,701	14	8	20	40
FY20		1,64,233	13,459	5,923	12	8	16	45
FY21E		1,58,717	13,161	5,414	11	8	14	49
FY22E		1,86,088	17,391	8,491	18	9	19	31
FY23E		2,09,836	21,081	11,218	24	10	21	24

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## Quarterly result summary

Rs mn	3QFY21	2QFY21	3QFY20	YoY (%)	QoQ (%)
<b>Net Sales</b>	<b>53,914</b>	<b>46,055</b>	<b>41,255</b>	<b>30.7</b>	<b>17.1</b>
- Consumption of Raw Material	41,031	35,246	29,787	37.7	16.4
(% of Net Sales)	76.1	76.5	72.2	390bps	-43bps
- Staff Expenditure	2,691	2,143	2,332	15.4	25.6
(% of Net Sales)	5.0	4.7	5.7	-71bps	34bps
- Other Expenditure	5,081	4,365	5,503	(7.7)	16.4
(% of Net Sales)	9.4	9.5	13.3	-388bps	-5bps
Total Expenditure	48,803	41,754	37,622	29.7	16.9
<b>EBITDA</b>	<b>5,111</b>	<b>4,301</b>	<b>3,633</b>	<b>40.7</b>	<b>18.8</b>
<b>EBITDA Margin (%)</b>	<b>9.5</b>	<b>9.3</b>	<b>8.8</b>	<b>-880bps</b>	<b>14bps</b>
Depreciation	1,329	1,331	1,213	9.6	(0.1)
<b>EBIT</b>	<b>3,782</b>	<b>2,970</b>	<b>2,420</b>	<b>56.3</b>	<b>27.3</b>
Interest	291	407	211	37.5	(28.6)
Other income	124	111	9	1,287.6	11.4
PBT	3,615	2,674	2,209	63.7	35.2
Tax	959	712	247	288.8	34.7
Tax Rate (%)	27%	27%	11%		
<b>Adjusted PAT</b>	<b>2,656</b>	<b>1,963</b>	<b>1,971</b>	<b>34.8</b>	<b>35.3</b>
Exceptional Item	0	0	760	NA	NA
<b>Reported PAT</b>	<b>2,656</b>	<b>1,963</b>	<b>1,211</b>	<b>119.4</b>	<b>35.3</b>
EPS (INR)	5.6	4.1	2.6	119.2	35.4
<b>Total Volumes (In Nos)</b>	<b>9,89,517</b>	<b>8,67,834</b>	<b>8,21,521</b>	<b>20.4</b>	<b>14.0</b>
<b>Net Realisation (INR)</b>	<b>54,485</b>	<b>53,069</b>	<b>50,217</b>	<b>8.5</b>	<b>2.7</b>
EBITDA / Vehicle (INR)	5,166	4,956	4,422	16.8	4.2

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

## Volumes

Volumes (In Nos)	3QFY21	2QFY21	3QFY20	YoY (%)	QoQ (%)
Motorcycles	4,25,845	3,65,638	3,25,320	31%	16%
Scooters	3,11,039	2,69,524	2,80,322	11%	15%
Mopeds	2,14,985	1,99,184	1,67,488	28%	8%
<b>Total 2W</b>	<b>9,51,869</b>	<b>8,34,346</b>	<b>7,73,130</b>	<b>23%</b>	<b>14%</b>
3Ws	37,648	33,488	48,391	-22%	12%
<b>Total Volumes</b>	<b>9,89,517</b>	<b>8,67,834</b>	<b>8,21,521</b>	<b>20%</b>	<b>14%</b>
<b>Exports</b>	<b>2,17,733</b>	<b>2,15,899</b>	<b>2,16,911</b>	<b>0.4%</b>	<b>0.8%</b>

Mix (%)	3QFY21	2QFY21	3QFY20	YoY (bps)	QoQ (bps)
Motorcycles	43.0	42.1	39.6	344	90
Scooters	31.4	31.1	34.1	-269	38
Mopeds	21.7	23.0	20.4	134	-123
3Ws	3.8	3.9	5.9	-209	-5
Exports	22.0	24.9	26.4	-440	-287

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

Profit & Loss Statement					
YE: Mar (Rs mn)	FY19	FY20	FY21E	FY22E	FY23E
<b>Net sales</b>	<b>1,82,099</b>	<b>1,64,233</b>	<b>1,58,717</b>	<b>1,86,088</b>	<b>2,09,836</b>
Growth, %	22	-10	-3	17	13
RM expenses	1,38,423	1,21,359	1,17,450	1,36,663	1,52,718
Employee expenses	9,226	9,384	10,463	11,771	13,243
Other expenses	20,118	20,031	17,643	20,263	22,793
<b>EBITDA (Core)</b>	<b>14,333</b>	<b>13,459</b>	<b>13,161</b>	<b>17,391</b>	<b>21,081</b>
Growth, %	27	-6	-2	32	21
Margin, %	7.9	8.2	8.3	9.3	10.0
Depreciation	3,993	4,890	4,917	5,067	5,107
<b>EBIT</b>	<b>10,340</b>	<b>8,568</b>	<b>8,244</b>	<b>12,324</b>	<b>15,974</b>
Growth, %	31	-17	-4	49	30
Margin, %	5.7	5.2	5.2	6.6	7.6
Interest paid	806	1,022	1,378	1,412	1,526
Other Income	75	321	353	424	508
Non-recurring Items	0	-323	0	0	0
<b>Pre-tax profit</b>	<b>9,609</b>	<b>7,544</b>	<b>7,219</b>	<b>11,336</b>	<b>14,957</b>
Tax provided	2,908	1,622	1,805	2,845	3,739
<b>Profit after tax</b>	<b>6,701</b>	<b>5,923</b>	<b>5,414</b>	<b>8,491</b>	<b>11,218</b>
Others (Minorities, Associates)	-	-	-	-	-
<b>Net Profit</b>	<b>6,701</b>	<b>5,923</b>	<b>5,414</b>	<b>8,491</b>	<b>11,218</b>
Growth, %	1	-12	-9	57	32
<b>Net Profit (adjusted)</b>	<b>6,701</b>	<b>5,922.5</b>	<b>5,414</b>	<b>8,491</b>	<b>11,218</b>

Balance Sheet					
YE: Mar (Rs mn)	FY19	FY20	FY21E	FY22E	FY23E
Cash & bank	439	4,192	3,241	7,852	15,072
Debtors	14,141	12,814	12,176	14,275	16,097
Inventory	11,759	10,389	10,262	12,032	13,567
Other current assets	5,210	4,900	5,145	5,402	5,672
<b>Total current assets</b>	<b>31,549</b>	<b>33,391</b>	<b>30,824</b>	<b>39,561</b>	<b>50,408</b>
Investments	23,008	28,467	31,467	36,967	42,467
Gross fixed assets	50,052	57,460	62,460	67,460	72,460
Less: Depreciation	-22,082	-26,972	-31,889	-36,955	-42,062
Add: Capital WIP	1,166	1,266	1,266	1,266	1,266
<b>Net fixed assets</b>	<b>27,970</b>	<b>30,488</b>	<b>30,571</b>	<b>30,504</b>	<b>30,397</b>
<b>Total assets</b>	<b>83,694</b>	<b>92,515</b>	<b>94,128</b>	<b>1,08,298</b>	<b>1,24,539</b>
<b>Current liabilities</b>	<b>33,132</b>	<b>33,245</b>	<b>26,636</b>	<b>30,989</b>	<b>34,623</b>
Provisions	1,183	1,763	1,939	2,133	2,346
<b>Total current liabilities</b>	<b>34,315</b>	<b>35,007</b>	<b>28,575</b>	<b>33,121</b>	<b>36,969</b>
<b>Non-current liabilities</b>	<b>2,126</b>	<b>2,677</b>	<b>2,677</b>	<b>2,677</b>	<b>2,677</b>
<b>Total liabilities</b>	<b>36,441</b>	<b>37,684</b>	<b>31,252</b>	<b>35,799</b>	<b>39,646</b>
Paid-up capital	475	475	475	475	475
Reserves & surplus	32,998	35,706	38,897	44,885	53,043
Shareholders' equity	33,473	36,181	39,372	45,360	53,518
<b>Total equity &amp; liabilities</b>	<b>83,694</b>	<b>92,515</b>	<b>94,128</b>	<b>1,08,298</b>	<b>1,24,539</b>

Cash Flow					
YE: Mar (Rs mn)	FY19	FY20	FY21E	FY22E	FY23E
<b>Pre-tax profit</b>	<b>9,609</b>	<b>7,544</b>	<b>7,219</b>	<b>11,336</b>	<b>14,957</b>
Depreciation	3,993	4,890	4,917	5,067	5,107
Chg in working capital	-1,633	3,700	-5,912	419	220
Total tax paid	-2,768	-2,339	-1,805	-2,845	-3,739
<b>CFO</b>	<b>10,349</b>	<b>13,400</b>	<b>5,443</b>	<b>14,964</b>	<b>17,560</b>
Capital expenditure	-8,099	-7,507	-5,000	-5,000	-5,000
Chg in investments	-2,654	-5,459	-3,000	-5,500	-5,500
<b>CFI</b>	<b>-10,678</b>	<b>-12,646</b>	<b>-7,647</b>	<b>-10,076</b>	<b>-9,992</b>
Free cash flow	2,250	5,892	443	9,964	12,560
Debt raised/(repaid)	3,410	5,967	4,854	3,636	4,235
Dividend (incl. tax)	-1,946	-1,946	-2,223	-2,501	-3,057
<b>CFF</b>	<b>659</b>	<b>2,999</b>	<b>1,253</b>	<b>-277</b>	<b>-349</b>
<b>Net chg in cash</b>	<b>330</b>	<b>3,753</b>	<b>-951</b>	<b>4,611</b>	<b>7,220</b>
Opening cash balance	109	439	4,192	3,241	7,852
<b>Closing cash balance</b>	<b>439</b>	<b>4,192</b>	<b>3,241</b>	<b>7,852</b>	<b>15,072</b>

Ratios					
YE: Mar	FY19	FY20	FY21E	FY22E	FY23E
EPS (INR)	14.1	12.5	11.4	17.9	23.6
PER (x)	39.8	45.0	49.2	31.4	23.7
Price/Book (x)	4.8	4.4	4.1	3.5	3.0
EV/EBITDA (x)	19.5	20.9	21.9	16.5	13.5
EV/Net sales (x)	1.5	1.7	1.8	1.5	1.4
RoE (%)	20	16	14	19	21
RoCE (%)	23	16	14	18	19
Fixed Asset turnover (x)	3.6	2.9	2.5	2.8	2.9
Dividend Yield (%)	1.0	1.0	1.2	1.3	1.6
Receivable (days)	29	29	29	29	29
Inventory (days)	26	25	26	26	26
Payable (days)	72	81	67	67	67
Net D/E ratio (x)	0.4	0.4	0.5	0.4	0.3

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

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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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