

Healthy performance; upgrade to Accumulate

CMP: INR 566

Rating: Accumulate

Target Price: INR 665

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)	2,66,381
52w H/L (INR)	590/ 240
Avg Yearly Vol (in 000')	3258

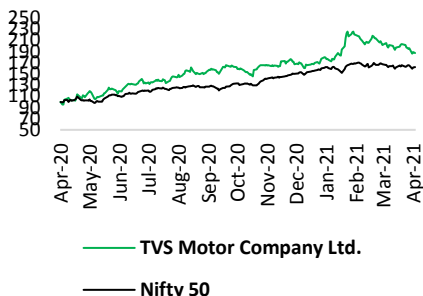
Shareholding Pattern %

(As on March, 2021)

Promoters	57.40
Public & Others	42.60

Stock Performance (%)	3m	6m	12m
TVS Motors	19.9	48.5	114.0
Nifty	1.91	26.0	57.6

TVS Motors Vs Nifty



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TVS has reported a good set of numbers all fronts in Q4FY21. Standalone revenue stood at INR 53,219 Mn, against our estimates of INR 44,431 Mn registering +52.9% YoY/-1.3% QoQ. EBITDA stood at INR 5,361Mn, against our estimates INR 3,919 Mn, Registering + 119%YoY/4.9%QoQ. On the margins front, EBITDA margin up by 304bps YoY/59bps QoQ to 10.1%, against our estimates 179bps YoY to 8.8%. The Company has been delivering improved EBITDA sequentially from Q2 onwards. Standalone PAT saw an increase of 172.4%YoY/8.9% QoQ to INR 2,892 Mn vs above our estimates INR 2,200 Mn. This is possible due to significant revival in sales from Q2, premiumization, higher sales in international markets, material cost reduction and other fixed cost reduction.

Conference-Call highlights

- Company grew ahead of the industry in domestic and export markets, gaining market.
- Company has become debt free, net of cash excluding sales tax related govt borrowing.
- FCF generated for the quarter was Rs 3.38 bn, for the full year FCF was Rs 18.87bn.
- Covid can impact sentiment and sales, but the impact is expected to be minimal.
- Company is ramping up production capacity for EVs as it plans to expand iQube in to more than 20 cities this year; it also planning to launch an electric 3W.
- Negative impact of 1.5% over last quarter due to higher RMCs was more than offset by 1% impact each from price increase and cost reduction.
- Commodity impact in Q1FY21 to be approx. 1.9% (QoQ); company has already taken a price increase of 1.6% in this month.
- Planned capex is at Rs 5-6bn, to be spent on EVs, new technology and new products.
- Company expects cost reduction initiatives and EBITDA improvement to continue.
- Marketing expenses to come down owing to digital marketing.
- Oil dependent export markets are doing very well.
- TVS Credit Services generated profit of Rs 1.06bn in FY21.

Outlook and valuation

At CMP of INR 566, TVS Motors is currently trading at FY23 P/E of 24x to its EPS of INR 25.6. TVS reported better than expected 4QFY21 numbers. It effectively offset commodity inflation through better product mix and focused lower marketing spends and other cost reduction initiatives. With superior FCF generation, the company has nearly turn net debt free. While the Q1FY22 volumes may be impacted due to Covid-19 situation, the company expects volumes to stabilize from Q2FY22 onwards. We further appreciate the company's efforts to increase its EV presence and ramp up its key export markets.

We value TVS Motors at PE of 26x to its EPS estimate of INR 25.6 for FY23, which yields a target price of INR 665. We assign Accumulate 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
FY21E	1,67,505	14,286	6,120	12.9	8.5	14.7	44.0
FY22E	1,99,111	18,024	9,512	20.0	9.1	19.3	28.3
FY23E	2,21,377	21,064	12,153	25.6	9.5	20.5	22.1

Quarterly result summary

INR mn	4QFY21	3QFY21	4QFY20	YoY (%)	QoQ (%)
Net Sales	53,219	53,914	34,814	52.9	(1.3)
- Consumption of Raw Material	40,098	41,031	26,098	53.6	(2.3)
(% of Net Sales)	75.3	76.1	75.0	38bps	-76bps
- Staff Expenditure	2,681	2,691	2,227	20.4	(0.4)
(% of Net Sales)	5.0	5.0	6.4	-136bps	5bps
- Other Expenditure	5,079	5,081	4,041	25.7	(0.0)
(% of Net Sales)	9.5	9.4	11.6	-206bps	12bps
Total Expenditure	47,858	48,803	32,366	47.9	(1.9)
EBITDA	5,361	5,111	2,449	119.0	4.9
EBITDA Margin (%)	10.1	9.5	7.0	304bps	59bps
Depreciation	1,366	1,329	1,243	9.9	2.8
EBIT	3,995	3,782	1,205	231.5	5.6
Interest	195	291	235	(16.8)	(32.8)
Other income	69	124	251	(72.4)	(43.8)
PBT	3,869	3,615	1,222	216.7	7.0
Tax	977	959	160	512.0	1.9
Tax Rate (%)	25%	27%	13%		
Adjusted PAT	2,892	2,656	1,062	172.4	8.9
Exceptional Item	0	0	323	NA	NA
Reported PAT	2,892	2,656	739	291.6	8.9
EPS (INR)	6.1	5.6	1.6	292.9	8.9
Total Volumes (In Nos)	9,27,539	9,89,517	6,32,920	46.5	(6.3)
Net Realisation (INR)	57,377	54,485	55,006	4.3	5.3
EBITDA / Vehicle (INR)	5,780	5,166	3,869	49.4	11.9

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

Volumes

Volumes (In Nos)	4QFY21	3QFY21	4QFY20	YoY (%)	QoQ (%)
Motorcycles	4,31,343	4,25,845	2,79,554	54%	1%
Scooters	2,98,357	3,11,039	1,67,207	78%	-4%
Mopeds	1,56,914	2,14,985	1,43,557	9%	-27%
Total 2W	8,86,614	9,51,869	5,90,318	50%	-7%
3Ws	40,925	37,648	42,602	-4%	9%
Total Volumes	9,27,539	9,89,517	6,32,920	47%	-6%
Exports	3,22,137	2,17,733	2,03,858	58.0%	48.0%

Mix (%)	4QFY21	3QFY21	4QFY20	YoY (bps)	QoQ (bps)
Motorcycles	46.5	43.0	44.2	234	347
Scooters	32.2	31.4	26.4	575	73
Mopeds	16.9	21.7	22.7	-576	-481
3Ws	4.4	3.8	6.7	-232	61
Exports	34.7	22.0	32.2	252	1,273

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

Profit & Loss Statement

YE: Mar (Rs mn)	FY19	FY20	FY21	FY22E	FY23E
Net sales	1,82,099	1,64,233	1,67,505	1,99,111	2,21,377
Growth, %	22	-10	2	19	11
RM expenses	1,38,423	1,21,359	1,27,239	1,48,736	1,64,262
Employee expenses	9,226	9,384	9,485	10,670	12,004
Other expenses	20,118	20,031	16,497	21,681	24,047
EBITDA (Core)	14,333	13,459	14,286	18,024	21,064
Growth, %	27	-6	6	26	17
Margin, %	7.9	8.2	8.5	9.1	9.5
Depreciation	3,993	4,890	4,937	5,090	4,889
EBIT	10,340	8,568	9,349	12,934	16,175
Growth, %	31	-17	9	38	25
Margin, %	5.7	5.2	5.6	6.5	7.3
Interest paid	806	1,022	1,416	808	631
Other Income	75	321	330	389	447
Non-recurring Items	0	-323	0	0	0
Pre-tax profit	9,609	7,544	8,262	12,515	15,991
Tax provided	2,908	1,622	2,142	3,004	3,838
Profit after tax	6,701	5,923	6,120	9,512	12,153
Others (Minorities, Associates)	-	-	-	-	-
Net Profit	6,701	5,923	6,120	9,512	12,153
Growth, %	1	-12	3	55	28
Net Profit (adjusted)	6,701	5,922.5	6,120	9,512	12,153

Balance Sheet

YE: Mar (Rs mn)	FY19	FY20	FY21	FY22E	FY23E
Cash & bank	439	4,192	9,298	12,165	21,595
Marketable securities cost	0	0	0	0	0
Debtors	14,141	12,814	8,700	10,341	11,498
Inventory	11,759	10,389	11,518	12,874	14,314
Loans & advances	0	0	0	0	0
Other current assets	5,210	4,900	4,952	5,199	5,459
Total current assets	31,549	33,391	45,986	52,098	64,384
Investments	23,008	28,467	33,153	38,653	44,153
Gross fixed assets	50,052	57,460	66,973	72,473	77,973
Less: Depreciation	-22,082	-26,972	-31,909	-36,998	-41,888
Add: Capital WIP	1,166	1,266	1,126	1,126	1,126
Net fixed assets	27,970	30,488	35,064	35,474	36,085
Total assets	83,694	92,515	1,03,811	1,15,833	1,34,230
Current liabilities	33,132	33,245	44,795	51,732	57,279
Provisions	1,183	1,763	1,925	2,118	2,330
Total current liabilities	34,315	35,007	46,720	53,850	59,609
Non-current liabilities	2,126	2,677	3,189	3,051	3,051
Total liabilities	36,441	37,684	49,909	56,902	62,660
Paid-up capital	475	475	475	475	475
Reserves & surplus	32,998	35,706	41,234	48,744	58,894
Shareholders' equity	33,473	36,181	41,710	49,219	59,369
Total equity & liabilities	83,694	92,515	1,03,811	1,15,833	1,34,230

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

Cash Flow					
YE: Mar (Rs mn)	FY19	FY20	FY21	FY22E	FY23E
Pre-tax profit	9,609	7,544	8,262	12,515	15,991
Depreciation	3,993	4,890	4,937	5,090	4,889
Chg in working capital	-1,633	3,700	14,646	3,885	2,903
Total tax paid	-2,768	-2,339	-2,034	-3,004	-3,838
CFO	10,349	13,400	26,897	18,905	20,129
Capital expenditure	-8,099	-7,507	-9,373	-5,500	-5,500
Chg in marketable securities	0	0	0	0	0
Chg in investments	-2,654	-5,459	-4,686	-5,500	-5,500
CFI	-10,678	-12,646	-13,729	-10,611	-10,553
Free cash flow	2,250	5,892	17,524	13,405	14,629
Debt raised/(repaid)	3,410	5,967	-9,391	2,071	2,485
Dividend (incl. tax)	-1,946	-1,946	-1,946	-2,001	-2,001
CFF	659	2,999	-12,752	-738	-147
Net chg in cash	330	3,753	416	7,557	9,430
Opening cash balance	109	439	4,192	9,298	12,165
Closing cash balance	439	4,192	9,298	12,165	21,595

Ratios					
YE: Mar	FY19	FY20	FY21	FY22E	FY23E
EPS (INR)	14.1	12.5	12.9	20.0	25.6
PER (x)	39.8	45.0	44.0	28.3	22.1
Price/Book (x)	4.8	4.4	3.8	3.2	2.7
EV/EBITDA (x)	19.5	20.9	18.9	14.9	12.5
EV/Net sales (x)	1.5	1.7	1.6	1.4	1.2
RoE (%)	20	16	15	19	20
RoCE (%)	23	16	19	22	23
Fixed Asset turnover (x)	3.6	2.9	2.5	2.7	2.8
Dividend Yield (%)	1.0	1.0	1.0	1.1	1.1
Receivable (days)	29	29	21	20	20
Inventory (days)	26	25	27	26	26
Payable (days)	72	81	105	104	104
Net D/E ratio (x)	0.4	0.4	0.0	0.0	(0.1)

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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