

HOLD

TP: Rs 1,252 | ▲ 3%

TVS MOTOR

| Automobiles

| 05 May 2023

Steady quarter; fresh triggers awaited

- Price pass thru availability helps realisation gains in Q4, taking revenue up 19% YoY (flattish QoQ) despite tepid volume growth
- Cost reduction due to lower commodity prices and premiumisation focus helped shore up gross margin by 75bps YoY
- Retain HOLD with TP of Rs 1,252 (unchanged) as positives priced in

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Revenue bolstered by healthy realisations: TVSL's Q4FY23 revenue grew 19% YoY (+1% QoQ) to Rs 66bn as net realisation per vehicle (NRPV) increased 18% YoY (+2% QoQ) to Rs 76.1k following price hikes of 0.5% during the quarter. Volume growth was flattish at 1% YoY (-1% QoQ) as exports remained dull.

Gross margin expands: Raw material cost fell to 75.4% of sales from 76.2% in Q4FY22 aided by a 0.9% dip in commodity costs, fixed cost optimisation and a focus on premiumisation. Gross margin thus improved by 75bps YoY (+12bps QoQ) to 24.6%. EBITDA increased 22% YoY (+3% QoQ) to Rs 6.8bn, but higher other expenditure (+27% YoY, +1% QoQ) kept the margin flat at 10.3%. Adj. PAT jumped 49% YoY (+16% QoQ) to Rs 4.1bn on account of better operating profits and a surge in other income (+9x YoY to Rs 705mn) due to fair value gains on equity shares.

Domestic demand healthy: Management expects TVSL's volumes to beat industry growth in domestic as well as overseas markets as *TVS Raider*, *Jupiter 125* and *Ntorq* continue to strengthen the 125cc portfolio. The order book for premium models such as *Apache* and *Ronin* retain its growth momentum, and management is planning new launches in both the 2W and 3W segments during FY24. Improved chip availability will support higher production of premium products. Management also expects exports to improve during H2FY24 and plans to launch EV in these markets.

Maintain HOLD: We believe TVSL's topline growth will stay ahead of the industry backed by its strong presence in the high-end motorcycle segment. EV and traditional segment launches will further rejuvenate the portfolio. A thrust on the premium segment and further consolidation therein should safeguard margins, and any easing of raw material cost will offer added cushioning. However, at current valuations of 25x FY25E EPS, these positives are largely priced in. Hence, we retain our HOLD rating and TP of Rs 1,252, valuing the core business at an unchanged 25x FY25E EPS and adding in Rs 33/sh (consensus value) for TVS Credit.

Key changes

Target	Rating
◀ ▶	◀ ▶

Ticker/Price	TVSL IN/Rs 1,215
Market cap	US\$ 7.1bn
Free float	48%
3M ADV	US\$ 17.4mn
52wk high/low	Rs 1,235/Rs 589
Promoter/FPI/DII	52%/13%/25%

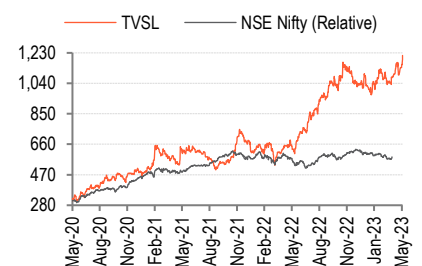
Source: NSE | Price as of 5 May 2023

Key financials

Y/E 31 Mar	FY23P	FY24E	FY25E
Total revenue (Rs mn)	2,63,781	3,02,735	3,48,239
EBITDA (Rs mn)	26,747	33,972	39,281
Adj. net profit (Rs mn)	14,910	19,321	23,168
Adj. EPS (Rs)	31.4	40.7	48.8
Consensus EPS (Rs)	31.4	40.1	48.6
Adj. ROAE (%)	24.8	26.4	25.9
Adj. P/E (x)	38.7	29.9	24.9
EV/EBITDA (x)	21.4	17.2	14.8
Adj. EPS growth (%)	66.9	29.6	19.9

Source: Company, Bloomberg, BOBCAPS Research | P – Provisional

Stock performance



Source: NSE



Fig 1 – Earnings call highlights

Parameter	Q4FY23	Q3FY23	Our View
Domestic volumes	In Q4FY23, (ICE) 2W domestic sales grew 19% YoY, beating industry growth of 4%.	Domestic ICE sale volumes grew 4% YoY to 0.6mn units, in line with the industry.	A volume push to meet year-end targets aided the industry beat.
Exports	Export volumes fell 42% YoY to 0.16mn units (vs. a 36% decline for the industry) due to inflation, currency depreciation and inadequate currency availability. TVSL plans to expand to LATAM and the Middle East, and to launch EVs in international markets during FY24. Management expects most of its export markets to grow during H2FY24.	Export volumes fell 18% YoY to 0.2mn units (vs. a 23% decline for the industry). Management believes that external risks have peaked in Q3 and the macro climate should improve in Q4.	Global weakness is likely to continue in the near term and volume concerns are unlikely to recede in a hurry.
Electric vehicles	The EV order book stands at 30k units, with new launches in the range of 5-25KW targeted over the next 9-15 months and an electric 3W to be introduced in Q1FY24.	TVSL sold a total of 29k EVs in Q3FY23 and guided for 100k units in the domestic market during FY23. The order book was at 30k units.	TVSL's EV order book has been ~30k units for a couple of quarters. New launches in the EV segment should aid faster growth.
Margins	Price hikes in Q4 were at 0.5% and commodity softening benefits at 0.9%. Another 1% hike in select segments was taken by end of March to cover the cost of OBD2 (onboard diagnostic) norms, which will reflect in Q1FY24, followed by hikes of 0.8-1% for certain models in April.	Cost reduction initiatives, commodity softening benefits (+0.3% QoQ) and price hikes (+0.7% on average) aided gross margin improvement by 73bps YoY	Price hikes are only to the extent of cost passthrough. Incremental margin gains will be possible only when aggressive pricing is initiated.
Demand	Bookings for <i>Ronin</i> are at 2.5k units/month and management expects better growth. <i>Raider</i> sales totalled 30k+ units. The 100-110cc segment remains weak. Per TVSL, urban demand is strong but rural demand remains soft.	<i>Ronin</i> clocked sales of 3k units/month in Q3; entry-level demand across the 2W segment was slow.	The demand climate is unlikely to improve until clarity emerges on the quality of monsoons this year.
Capex	Capex for 1-2 years towards both ICE and EV segments is guided at Rs 9bn-10bn, and inorganic investments to be ~Rs 7bn.	NA	New capex to gear up for expected demand will ensure that TVSL maintains/improves market share.
Others	TVS Credit's book size stood at Rs 205bn and PBT was at Rs 1.4bn vs. Rs 0.75bn in Q4FY22. Spares revenue was at Rs 6.7bn and export revenue at Rs 13.6bn.	TVS Credit's book size has grown to Rs 200bn in Q3FY23 with PAT up 75% to Rs 980mn against Rs 580mn in Q3FY22.	Performance of the vehicle loan business remains largely flat.

Source: Company, BOBCAPS Research

Fig 2 – Quarterly performance

(Rs mn)	Q4FY23	Q4FY22	YoY (%)	Q3FY23	QoQ (%)	FY23	FY22	YoY (%)
Volume	868,417	856,446	1.4	879,423	(1.3)	3,697,049	3,309,568	11.7
Avg. Realisation per Vehicle	76,055	64,573	17.8	74,429	2.2	71,349	62,819	13.6
Net Revenues	66,048	55,303	19.4	65,454	0.9	263,781	207,905	26.9
Other Operating Income								
Total Income (A)	66,048	55,303	19.4	65,454	0.9	263,781	207,905	26.9
Operating Expenses:								
Raw materials consumed	49,797	42,115	18.2	49,429	0.7	199,928	158,082	26.5
Employee Expenses	3,377	2,841	18.9	3,409	(0.9)	13,451	11,364	18.4
Other Expenses	6,076	4,780	27.1	6,027	0.8	23,655	18,842	25.5
Total Expenditure (B)	59,250	49,735	19.1	58,865	0.7	237,034	188,288	25.9
EBITDA (A-B)	6,798	5,568	22.1	6,589	3.2	26,747	19,617	36.3
Other Income	705	82	761.9	65	986.3	1,006	190	429.6
Depreciation	1,674	1,593	5.1	1,583	5.7	6,312	6,114	3.2
EBIT	5,829	4,057	43.7	5,071	14.9	21,440	13,693	56.6
Finance Costs	363	330	9.9	316	14.7	1,407	1,259	11.7
PBT before excep items	5,466	3,727	46.7	4,755	15.0	20,034	12,434	61.1
Exceptional items	-	-	NA	-	NA	-	-	NA
PBT after excep items	5,466	3,727	46.7	4,755	15.0	20,034	12,434	61.1
Tax expense	1,364	982	38.9	1,227	11.1	5,123	3,197	60.3
Reported PAT	4,103	2,745	49.5	3,528	16.3	14,910	9,237	61.4
Adjusted PAT	4,103	2,745	49.5	3,528	16.3	14,910	9,237	61.4
Adj EPS (Rs)	8.6	5.8	49.5	7.4	16.3	31.4	20.1	56.3
Key Ratios (%)			(bps)		(bps)			(bps)
Gross Margin	24.6	23.8	76	24.5	12	24.2	24.0	24
EBITDA Margin	10.3	10.1	22	10.1	22	10.1	9.4	70
EBIT Margin	8.8	7.3	149	7.7	108	8.1	6.6	154
PBT Margin	8.3	6.7	154	7.3	101	7.6	6.0	161
Tax Rate	24.9	26.3	(140)	25.8	(87)	25.6	25.7	(13)
Adj PAT Margin	6.2	5.0	125	5.4	82	5.7	4.4	121

Source: Company, BOBCAPS Research

Valuation methodology

We believe TVSL's topline growth will stay ahead of the industry backed by its strong presence in the high-end motorcycle segment. Electric and traditional segment launches will further rejuvenate the portfolio. A thrust on the premium segment and further consolidation therein should safeguard margins, and any easing of raw material cost will offer added cushioning.

However, at current valuations of 25x FY25E EPS, these positives are largely priced in and we would await delivery on growth targets before revisiting our estimates. We thus retain our HOLD rating and TP of Rs 1,252, valuing the core business at an unchanged 25x FY25E EPS and adding in Rs 33/sh (consensus value) for TVS Credit.

Fig 3 – Key assumptions

Parameter	FY22	FY23	FY24E	FY25E
2W Volume (units)	3,137,693	3,527,935	4,189,299	4,576,188
3W Volume (units)	171,875	169,114	230,970	265,616
Revenue (Rs mn)	207,905	263,781	302,735	348,239
EBITDA (Rs)	19,617	26,747	33,972	39,281
EBITDA margin (%)	9.4	10.1	11.2	11.3
Adj. PAT (Rs)	9,237	14,910	19,676	23,173
EPS (Rs)	18.8	31.4	41.4	48.8

Source: Company, BOBCAPS Research

Fig 4 – Valuation summary

Business	FY25E EPS (Rs)	Target P/E (x)	Value (Rs)
Standalone Business	48.8	25x	1,219
TVS Credit	-	-	33
Total	-	-	1,252

Source: BOBCAPS Research

Fig 5 – Peer comparison

Company	Ticker	Rating	Target Price (Rs)	EPS (Rs)		ROE (%)	
				FY24E	FY25E	FY24E	FY25E
TVS Motor Company	TVSL IN	HOLD	1,252	41.4	48.8	29.9	28.5
Eicher Motors	EIM IN	HOLD	3,543	120.3	142.2	23.3	22.8
Bajaj Auto	BJAUT IN	HOLD	4,188	212.0	243.0	20.9	21.8

Source: BOBCAPS Research

Key risks

- Faster revival in demand than anticipated represents a key upside risk to our estimates.
- Elevated commodity prices and a fading sheen on premium products in case of a slowing economy are key downside risks.

Sector recommendation snapshot

Company	Ticker	Market Cap (US\$ bn)	Price (Rs)	Target (Rs)	Rating
Ashok Leyland	AL IN	5.2	145	169	BUY
Bajaj Auto	BJAUT IN	15.8	4,463	4,188	HOLD
Eicher Motors	EIM IN	11.2	3,355	3,543	HOLD
Escorts	ESCORTS IN	3.4	2,067	1,742	SELL
Hero MotoCorp	HMCL IN	6.2	2,547	2,712	HOLD
Mahindra & Mahindra	MM IN	18.5	1,211	1,496	BUY
Maruti Suzuki	MSIL IN	33.1	8,949	9,858	HOLD
TVS Motor	TVSL IN	7.1	1,215	1,252	HOLD
VST Tillers Tractors	VSTT IN	0.3	2,426	2,802	BUY

Source: BOBCAPS Research, NSE | Price as of 5 May 2023

Financials

Income Statement

Y/E 31 Mar (Rs mn)	FY21A	FY22A	FY23P	FY24E	FY25E
Total revenue	1,67,505	2,07,905	2,63,781	3,02,735	3,48,239
EBITDA	14,286	19,617	26,747	33,972	39,281
Depreciation	4,937	6,114	6,312	6,832	7,602
EBIT	9,679	13,693	21,440	27,458	32,070
Net interest inc./(exp.)	(1,416)	(1,259)	(1,407)	(1,628)	(1,097)
Other inc./(exp.)	330	190	1,006	318	391
Exceptional items	0	(302)	0	0	0
EBT	8,263	12,132	20,034	25,830	30,973
Income taxes	2,142	3,197	5,123	6,509	7,805
Extraordinary items	0	0	0	0	0
Min. int./Inc. from assoc.	0	0	0	0	0
Reported net profit	6,121	8,936	14,910	19,321	23,168
Adjustments	0	302	0	0	0
Adjusted net profit	6,121	9,237	14,910	19,321	23,168

Balance Sheet

Y/E 31 Mar (Rs mn)	FY21A	FY22A	FY23P	FY24E	FY25E
Accounts payables	39,360	39,914	44,138	50,887	58,855
Other current liabilities	6,582	5,830	11,343	13,882	15,748
Provisions	1,925	2,458	2,745	2,974	3,271
Debt funds	10,356	16,455	26,634	14,069	13,365
Other liabilities	938	3,622	3,259	3,096	2,942
Equity capital	475	475	475	475	475
Reserves & surplus	40,384	47,746	59,528	72,674	88,891
Shareholders' fund	40,859	48,221	60,003	73,149	89,367
Total liab. and equities	1,00,020	1,16,500	1,48,123	1,58,057	1,83,548
Cash and cash eq.	9,298	4,012	2,420	601	746
Accounts receivables	8,700	9,507	9,551	15,759	18,605
Inventories	11,518	11,227	12,364	18,247	21,944
Other current assets	5,158	9,260	22,911	6,453	6,949
Investments	33,145	47,160	56,839	70,420	85,920
Net fixed assets	30,103	34,849	34,537	36,704	39,103
CWIP	2,787	2,462	3,709	4,080	4,488
Intangible assets	0	0	0	0	0
Deferred tax assets, net	(1,955)	(1,979)	(1,982)	(1,982)	(1,982)
Other assets	1,265	0	7,776	7,776	7,776
Total assets	1,00,020	1,16,497	1,48,123	1,58,057	1,83,548

Cash Flows

Y/E 31 Mar (Rs mn)	FY21A	FY22A	FY23P	FY24E	FY25E
Cash flow from operations	26,934	13,762	5,865	37,927	32,219
Capital expenditures	(5,974)	(10,535)	(12,238)	(4,380)	(10,408)
Change in investments	(7,086)	(14,015)	(9,679)	(13,581)	(15,500)
Other investing cash flows	330	190	1,006	318	391
Cash flow from investing	(12,730)	(24,360)	(20,911)	(17,643)	(25,517)
Equities issued/Others	0	0	0	0	0
Debt raised/repaid	(9,391)	6,099	10,180	(12,565)	(703)
Interest expenses	(1,416)	(1,259)	(1,407)	(1,628)	(1,097)
Dividends paid	(1,663)	(1,782)	(4,473)	(4,830)	(6,950)
Other financing cash flows	374	24	(2,782)	2,785	0
Cash flow from financing	(12,095)	3,082	1,518	(16,239)	(8,751)
Chg in cash & cash eq.	2,108	(7,516)	(13,528)	4,045	(2,049)
Closing cash & cash eq.	9,298	4,012	2,420	601	746

Per Share

Y/E 31 Mar (Rs)	FY21A	FY22A	FY23P	FY24E	FY25E
Reported EPS	12.9	18.8	31.4	40.7	48.8
Adjusted EPS	12.9	18.8	31.4	40.7	48.8
Dividend per share	3.5	3.7	9.4	10.2	14.6
Book value per share	86.0	101.5	126.3	154.0	188.1

Valuations Ratios

Y/E 31 Mar (x)	FY21A	FY22A	FY23P	FY24E	FY25E
EV/Sales	3.4	2.7	2.2	1.9	1.7
EV/EBITDA	40.2	29.0	21.4	17.2	14.8
Adjusted P/E	94.3	64.6	38.7	29.9	24.9
P/BV	14.1	12.0	9.6	7.9	6.5

DuPont Analysis

Y/E 31 Mar (%)	FY21A	FY22A	FY23P	FY24E	FY25E
Tax burden (Net profit/PBT)	74.1	73.7	74.4	74.8	74.8
Interest burden (PBT/EBIT)	85.4	88.6	93.4	94.1	96.6
EBIT margin (EBIT/Revenue)	5.8	6.6	8.1	9.1	9.2
Asset turnover (Rev./Avg TA)	307.5	345.2	317.9	322.1	355.4
Leverage (Avg TA/Avg Equity)	1.4	1.4	1.5	1.4	1.2
Adjusted ROAE	15.9	20.1	27.6	29.0	28.5

Ratio Analysis

Y/E 31 Mar	FY21A	FY22A	FY23P	FY24E	FY25E
YoY growth (%)					
Revenue	2.0	24.1	26.9	14.8	15.0
EBITDA	6.1	37.3	36.3	27.0	15.6
Adjusted EPS	3.4	46.0	66.9	29.6	19.9
Profitability & Return ratios (%)					
EBITDA margin	8.5	9.4	10.1	11.2	11.3
EBIT margin	5.8	6.6	8.1	9.1	9.2
Adjusted profit margin	3.7	4.4	5.7	6.4	6.7
Adjusted ROAE	15.0	19.2	24.8	26.4	25.9
ROCE	13.2	16.7	20.2	22.8	24.5
Working capital days (days)					
Receivables	23	16	13	15	18
Inventory	24	20	16	18	21
Payables	98	92	77	76	77
Ratios (x)					
Gross asset turnover	0.4	0.4	0.3	0.3	0.3
Current ratio	0.7	0.7	0.8	0.6	0.6
Net interest coverage ratio	(6.8)	(10.9)	(15.2)	(16.9)	(29.2)
Adjusted debt/equity	0.3	0.3	0.4	0.2	0.1

Source: Company, BOBCAPS Research | Note: TA = Total Assets

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BUY – Expected return >+15%

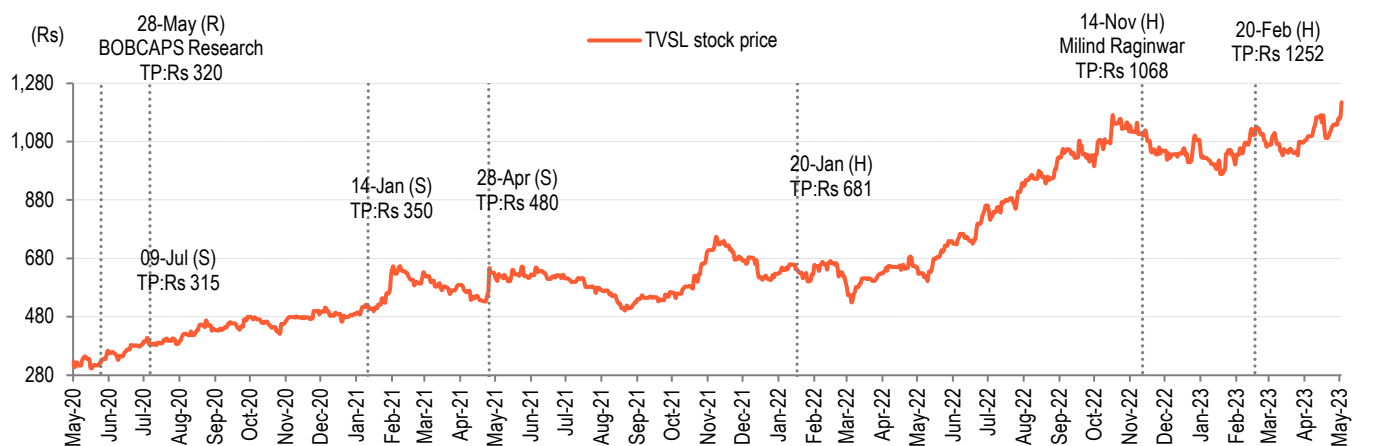
HOLD – Expected return from -6% to +15%

SELL – Expected return <-6%

Note: Recommendation structure changed with effect from 21 June 2021

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Ratings and Target Price (3-year history): TVS MOTOR (TVSL IN)



B – Buy, H – Hold, S – Sell, A – Add, R – Reduce

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