

HOLD

TP: Rs 1,252 | ▲ 13%

TVS MOTOR

| Automobiles

| 20 February 2023

Steady performance; healthy outlook

- Realisation-led performance aids ~70bps YoY rise in Q3FY23 EBITDA margin; judicious product mix behind better pricing
- Commodity price softening a welcome tailwind and should continue to bolster earnings
- Current valuations price in the positives; we maintain HOLD and roll over to a revised TP of Rs 1,252 (vs. Rs 1,068)

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Healthy topline driven by improved realisations: TVSL's Q3FY23 net sales rose 15% YoY (-9% QoQ) to Rs 65.5bn driven by improved realisations (+15% YoY, +8% QoQ). Volumes were flat YoY (-16% QoQ) as domestic two-wheeler sales offset challenges in the export market. Realisation gains came from an improved product mix as the semiconductor supply shortage eased.

Margins expand on lower costs and better mix: Raw material cost rose 14% YoY but fell 10% QoQ as commodity prices softened. Gross margin at 24.5% improved from 23.8% in Q3FY22 on account of price hikes and a better product mix. EBITDA grew 16% YoY (-11% QoQ) to Rs 6.6bn on a high base and adj. PAT rose 22% YoY (-13% QoQ) to Rs 3.5bn, translating to a PAT margin of 5.4% (5.1% in Q3FY22).

Healthy demand outlook: Management expects to grow ahead of industry, both in domestic and international markets, with a strong brand portfolio that includes Apache, Raider, Jupiter, NTORQ, HLX Series, Radeon, Ronin, TVS King, and EV TVS iQube. Given improved chip availability, management expects higher production of premier products. On the exports front, the company believes that external risks have peaked in Q3 and the macro situation should brighten in Q4.

Thrust on EVs: TVSL sold 29k electric scooters in the domestic market in Q3FY23 and expects to cross 100,000 units during FY23. About 10% of domestic scooter volumes are contributed by electric vehicles (EV), with TVS iQube available in ~200 touchpoints across India. The company plans to launch a series of new EV products from a complete portfolio spanning 5KW to 25KW over the next 12-18 months.

Limited upside potential; HOLD: We believe the focus on premiumisation would safeguard margins and any easing of raw material cost will offer added cushioning. In our view, TVSL will continue to beat industry growth as high-end EV/traditional segment launches will further rejuvenate the portfolio. However, positives look priced in at current valuations of 22x FY25E EPS and hence we retain our HOLD rating. On rollover of valuations to FY25E, we have a new TP of Rs 1,252 (vs. Rs 1,068), valuing the core business at 25x EPS and adding Rs 33/sh (consensus value) for TVS Credit.

Key changes

Target	Rating
▲	◀ ▶

Ticker/Price	TVSL IN/Rs 1,104
Market cap	US\$ 6.3bn
Free float	48%
3M ADV	US\$ 25.4mn
52wk high/low	Rs 1,177/Rs 513
Promoter/FPI/DII	52%/13%/25%

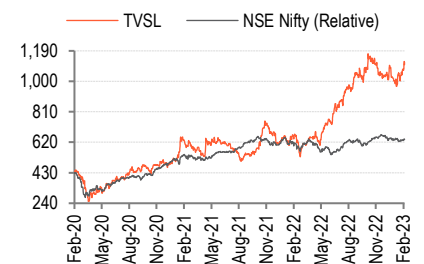
Source: NSE | Price as of 17 Feb 2023

Key financials

Y/E 31 Mar	FY22A	FY23E	FY24E
Total revenue (Rs mn)	207,905	257,636	302,735
EBITDA (Rs mn)	19,617	26,630	33,972
Adj. net profit (Rs mn)	9,237	14,522	19,676
Adj. EPS (Rs)	18.8	30.6	41.4
Consensus EPS (Rs)	18.8	31.8	42.0
Adj. ROAE (%)	19.2	24.9	26.9
Adj. P/E (x)	58.7	36.1	26.7
EV/EBITDA (x)	26.3	19.5	15.4
Adj. EPS growth (%)	46.0	62.5	35.5

Source: Company, Bloomberg, BOBCAPS Research

Stock performance



Source: NSE



Earnings call highlights

- **Volumes:** TVSL sold ~0.81mn units in Q3FY23 against ~0.83mn units in Q3FY22, Sale volumes in the domestic market grew 4% YoY to 0.6mn units, in line with the industry. International volumes fell 18% YoY to 0.21mn units (vs. a 23% decline for the industry), attributed to challenges in export markets due to the economic slowdown and high inflation in some key regions. Management believes that external risks have peaked in Q3 and the macro climate should improve in Q4. Three-wheeler sales stood at 43k units against 44k units in Q3FY22.

Sales of premium motorcycles improved due to better semiconductor availability, and TVSL expects this trend to continue in Q4FY23. The newly launched 'Ronin' clocked sales of 3k units/month in Q3 with further improvement expected. Per management, entry-level demand across the two-wheeler segment was slow.

- **Realisations:** Raw material cost fell from 76.3% of sales in Q3FY22 to 75.5% in Q3FY23. TVSL also took a 5% price hike aided by a judicious product mix as improved availability of semiconductors enabled higher delivery of premium products such as 'Apache', 'Raider' and 'iQube'. Cost reduction initiatives, commodity softening benefits (-0.3% QoQ) and price hikes (+0.7% on average) collectively contributed to push up margins in Q3FY23.
- **Margin outlook:** Management expects better operating leverage, increased premiumisation owing to a smoother supply of semiconductors, and a continued focus on cost reduction to support further EBITDA margin gains in Q4FY23.
- **Electric vehicles:** TVSL sold a total of 29k EVs in Q3FY23. Management expects this momentum to continue in Q4 and is guiding for EV sales of over 100,000 units in the domestic market during FY23. The order funnel in the segment is close to 30k units. Currently, EVs form 10% of the company's domestic scooter volumes, with market share improving QoQ to 14.5%, per VAHAN.
- **Other key points:**
 - TVSL launched the 'TVS Raider Smart-Xonnect TFT' variant in Q3FY23.
 - In the export business, retail sales are ahead of wholesale, and dollar realisation for Q3 was at US\$ 80.
 - For effective working capital management, the company keeps a lean stock at 30-35 days.
 - TVSL has entered into a strategic engagement with Amazon India to strengthen electric mobility, electric infrastructure and connected services. As part of this collaboration, a fleet of its electric two-wheelers and three-wheelers will be deployed for Amazon's last-mile deliveries.
 - TVS Credit's book size has grown to Rs 200bn in Q3FY23 with PAT up 75% to Rs 980mn against Rs 580mn in Q3FY22.
 - TVSL's net debt was at Rs 12bn 3QFY23-end.

Fig 1 – Quarterly performance (Standalone)

(Rs mn)	Q3FY23	Q3FY22	YoY (%)	Q2FY23	QoQ (%)	9MFY23	9MFY22	YoY (%)
Volume	879,423	878,659	0.1	1,042,418	(15.6)	2,828,632	2,453,122	15.3
Avg. Realisation per Vehicle	74,429	64,945	14.6	69,254	7.5	69,904	62,207	12.4
Net Revenues	65,454	57,064	14.7	72,192	(9.3)	197,733	152,602	29.6
Other Operating Income	-	-	-	-	-	-	-	-
Total Income (A)	65,454	57,064	14.7	72,192	(9.3)	197,733	152,602	29.6
Operating Expenses:								
Raw materials consumed	49,429	43,512	13.6	54,975	(10.1)	150,132	115,967	29.5
Employee Expenses	3,409	2,957	15.3	3,456	(1.3)	10,074	8,523	18.2
Other Expenses	6,027	4,912	22.7	6,396	(5.8)	17,579	14,063	25.0
Total Expenditure (B)	58,865	51,382	14.6	64,826	(9.2)	177,784	138,553	28.3
EBITDA (A-B)	6,589	5,683	16.0	7,365	(10.5)	19,949	14,049	42.0
Other Income	65	57	13.3	14	373.7	301	108	178.2
Depreciation	1,583	1,546	2.4	1,535	3.1	4,639	4,521	2.6
EBIT	5,071	4,194	20.9	5,844	(13.2)	15,611	9,636	62.0
Finance Costs	316	279	13.3	352	(10.1)	1,044	929	12.3
PBT before excep items	4,755	3,915	21.5	5,492	(13.4)	14,568	8,707	67.3
Exceptional items	-	-	NA	-	NA	-	-	NA
PBT after excep items	4,755	3,915	21.5	5,492	(13.4)	14,568	8,707	67.3
Tax expense	1,227	1,031	19.0	1,418	(13.4)	3,760	2,215	69.8
Reported PAT	3,528	2,883	22.4	4,075	(13.4)	10,808	6,492	66.5
Adjusted PAT	3,528	2,883	22.4	4,075	(13.4)	10,808	6,492	66.5
Adj EPS (Rs)	7.4	6.1	22.4	8.6	(13.4)	22.7	14.3	59.1

Source: Company, BOBCAPS Research

Valuation methodology

We believe TVSL will continue to beat industry growth as launches in the high-end EV and traditional internal combustion segments will further rejuvenate the product portfolio. The company's focus on premiumisation is expected to safeguard margins, and any easing of raw material cost would offer added cushioning.

However, at 22x FY25E EPS we feel most of the positives appear priced in and we await actual deliverables from TVS for valuation upgrade. We hence retain our HOLD rating. We roll valuations over to FY25E, yielding a new SOTP-based TP of Rs 1,252 (vs. Rs 1,068), valuing the core business at 25x EPS and adding Rs 33/sh (consensus value) for TVS Credit.

Fig 2 – Key assumptions

Parameter	FY21	FY22	FY23E	FY24E	FY25E
2W Volume (units)	2,928,167	3,137,693	3,749,194	4,189,299	4,576,188
3W Volume (units)	123,596	171,875	200,844	230,970	265,616
Revenue (Rs mn)	167,505	207,905	257,636	302,735	348,239
EBITDA (Rs)	14,286	19,617	26,630	33,972	39,281
EBITDA margin (%)	8.5	9.4	10.3	11.2	11.3
Adj. PAT (Rs)	6,121	9,237	14,522	19,676	23,173
EPS (Rs)	12.9	18.8	30.6	41.4	48.8

Source: Company, BOBCAPS Research

Fig 3 – 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 4 – Peer comparison

Company	Ticker	Rating	Target Price (Rs)	EPS (Rs)		ROE (%)	
				FY22E	FY23E	FY22E	FY23E
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	3,636	213.9	239.0	20.9	21.8

Source: BOBCAPS Research

Key risks

Key upside risks to our estimates:

- faster economic pickup than anticipated, which could take demand ahead of estimates

Key downside risks:

- slower demand revival in domestic markets
- commodity prices staying elevated

Sector recommendation snapshot

Company	Ticker	Market Cap (US\$ bn)	Price (Rs)	Target (Rs)	Rating
Ashok Leyland	AL IN	5.3	149	169	BUY
Bajaj Auto	BJAUT IN	13.6	3,894	3,636	HOLD
Hero MotoCorp	HMCL IN	6.1	2,536	2,712	HOLD
Mahindra & Mahindra	MM IN	20.3	1,342	1,496	BUY
Maruti Suzuki	MSIL IN	32.1	8,808	9,989	HOLD
TVS Motor	TVSL IN	6.3	1,104	1,252	HOLD
VST Tillers Tractors	VSTT IN	0.2	2,191	2,802	BUY

Source: BOBCAPS Research, NSE | Price as of 17 Feb 2023

Financials

Income Statement

Y/E 31 Mar (Rs mn)	FY21A	FY22A	FY23E	FY24E	FY25E
Total revenue	167,505	207,905	257,636	302,735	348,239
EBITDA	14,286	19,617	26,630	33,972	39,281
Depreciation	4,937	6,114	6,225	6,832	7,602
EBIT	9,679	13,693	20,665	27,461	32,077
Net interest inc./(exp.)	(1,416)	(1,259)	(1,251)	(1,155)	(1,097)
Other inc./(exp.)	330	190	259	321	398
Exceptional items	0	(302)	0	0	0
EBT	8,263	12,132	19,414	26,305	30,980
Income taxes	2,142	3,197	4,892	6,629	7,807
Extraordinary items	0	0	0	0	0
Min. int./Inc. from assoc.	0	0	0	0	0
Reported net profit	6,121	8,936	14,522	19,676	23,173
Adjustments	0	302	0	0	0
Adjusted net profit	6,121	9,237	14,522	19,676	23,173

Balance Sheet

Y/E 31 Mar (Rs mn)	FY21A	FY22A	FY23E	FY24E	FY25E
Accounts payables	39,360	39,914	43,471	50,241	58,855
Other current liabilities	6,582	5,830	12,052	14,527	15,748
Provisions	1,925	2,458	2,704	2,974	3,271
Debt funds	10,356	16,455	14,809	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	57,911	72,669	88,890
Shareholders' fund	40,859	48,221	58,387	73,144	89,365
Total liab. and equities	100,020	116,500	134,681	158,052	183,546
Cash and cash eq.	9,298	4,012	6,971	4,443	3,702
Accounts receivables	8,700	9,507	12,705	15,759	18,605
Inventories	11,518	11,227	14,823	18,247	21,944
Other current assets	5,158	9,260	8,470	9,953	11,449
Investments	33,145	47,160	56,357	71,858	87,358
Net fixed assets	30,103	34,849	34,624	36,792	39,190
CWIP	2,787	2,462	2,708	2,979	3,277
Intangible assets	0	0	0	0	0
Deferred tax assets, net	(1,955)	(1,979)	(1,979)	(1,979)	(1,979)
Other assets	1,265	0	0	0	0
Total assets	100,020	116,497	134,681	158,052	183,546

Cash Flows

Y/E 31 Mar (Rs mn)	FY21A	FY22A	FY23E	FY24E	FY25E
Cash flow from operations	26,934	13,762	22,894	26,426	31,217
Capital expenditures	(5,974)	(10,535)	(6,246)	(9,271)	(10,298)
Change in investments	(7,086)	(14,015)	(9,198)	(15,500)	(15,500)
Other investing cash flows	330	190	259	321	398
Cash flow from investing	(12,730)	(24,360)	(15,185)	(24,450)	(25,400)
Equities issued/Others	0	0	0	0	0
Debt raised/repaid	(9,391)	6,099	(1,645)	(740)	(703)
Interest expenses	(1,416)	(1,259)	(1,251)	(1,155)	(1,097)
Dividends paid	(1,663)	(1,782)	(4,357)	(4,919)	(6,952)
Other financing cash flows	374	24	0	0	0
Cash flow from financing	(12,095)	3,082	(7,252)	(6,815)	(8,753)
Chg in cash & cash eq.	2,108	(7,516)	456	(4,838)	(2,935)
Closing cash & cash eq.	9,298	4,012	6,971	4,443	3,702

Per Share

Y/E 31 Mar (Rs)	FY21A	FY22A	FY23E	FY24E	FY25E
Reported EPS	12.9	18.8	30.6	41.4	48.8
Adjusted EPS	12.9	18.8	30.6	41.4	48.8
Dividend per share	3.5	3.7	9.2	10.4	14.6
Book value per share	86.0	101.5	122.9	154.0	188.1

Valuations Ratios

Y/E 31 Mar (x)	FY21A	FY22A	FY23E	FY24E	FY25E
EV/Sales	3.1	2.5	2.0	1.7	1.5
EV/EBITDA	36.5	26.3	19.5	15.4	13.3
Adjusted P/E	85.7	58.7	36.1	26.7	22.6
P/BV	12.8	10.9	9.0	7.2	5.9

DuPont Analysis

Y/E 31 Mar (%)	FY21A	FY22A	FY23E	FY24E	FY25E
Tax burden (Net profit/PBT)	74.1	73.7	74.8	74.8	74.8
Interest burden (PBT/EBIT)	85.4	88.6	93.9	95.8	96.6
EBIT margin (EBIT/Revenue)	5.8	6.6	8.0	9.1	9.2
Asset turnover (Rev./Avg TA)	307.5	345.2	356.0	363.1	355.4
Leverage (Avg TA/Avg Equity)	1.4	1.4	1.4	1.3	1.2
Adjusted ROAE	15.9	20.1	27.2	29.9	28.5

Ratio Analysis

Y/E 31 Mar	FY21A	FY22A	FY23E	FY24E	FY25E
YoY growth (%)					
Revenue	2.0	24.1	23.9	17.5	15.0
EBITDA	6.1	37.3	35.7	27.6	15.6
Adjusted EPS	3.4	46.0	62.5	35.5	17.8
Profitability & Return ratios (%)					
EBITDA margin	8.5	9.4	10.3	11.2	11.3
EBIT margin	5.8	6.6	8.0	9.1	9.2
Adjusted profit margin	3.7	4.4	5.6	6.5	6.7
Adjusted ROAE	15.0	19.2	24.9	26.9	25.9
ROCE	13.2	16.7	21.4	24.6	24.5
Working capital days (days)					
Receivables	23	16	16	17	18
Inventory	24	20	18	20	21
Payables	98	92	78	75	76
Ratios (x)					
Gross asset turnover	0.4	0.4	0.3	0.3	0.3
Current ratio	0.7	0.7	0.7	0.7	0.7
Net interest coverage ratio	(6.8)	(10.9)	(16.5)	(23.8)	(29.2)
Adjusted debt/equity	0.3	0.3	0.3	0.2	0.1

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

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Recommendation scale: Recommendations and Absolute returns (%) over 12 months

BUY – Expected return >+15%

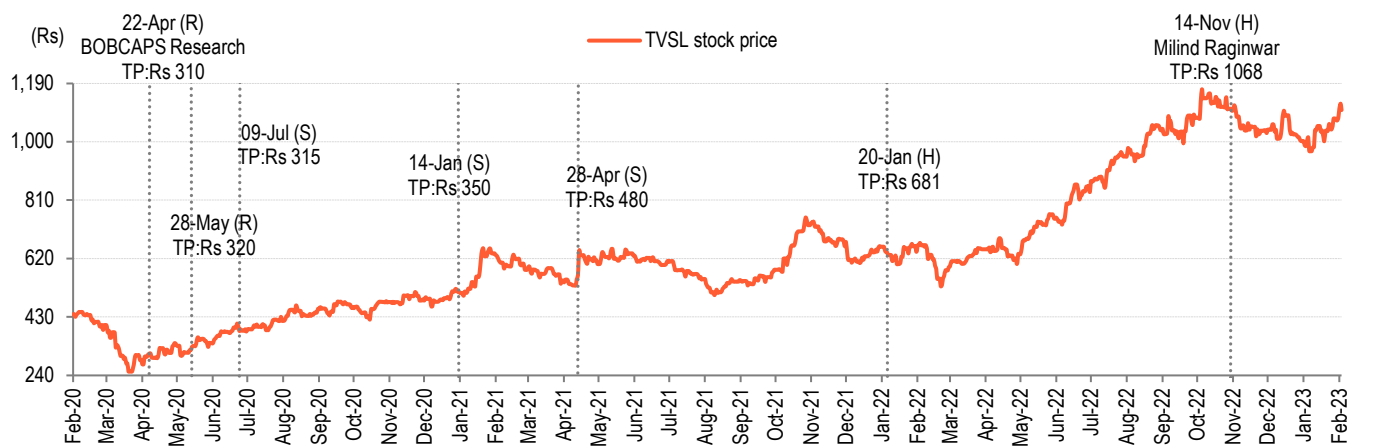
HOLD – Expected return from -6% to +15%

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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