

TVS Motor Company

25 January, 2023

Reuters: TVSM.BO; Bloomberg: TVSL IN

Right steps on the EV front to auger well going forward

TVS Motor reported revenue of Rs65bn in 3QFY23, which was ahead our estimate of Rs63bn by 4%. Volume declined by 14% QoQ due to challenges associated with the export markets. While the realization improved by 6% QoQ on the back of mix improvement and price hikes, gross margin improved by 70bps QoQ/80bps YoY to 24.5%. EBITDA margin came in at 10.1%, flattish QoQ/YoY, but 40bps above our estimate due to lower marketing spends. Overall, on the demand front, the management sounded hopeful of a recovery in the rural markets going ahead amid rising income levels and improving sentiments while the urban & semi urban markets continue to remain strong. For the export markets, the management indicated that the worst is over and demand is expected to recover 4QFY23 onwards. However, TVS outperformed industry in the challenging export markets in 3QFY23 and posted a volume decline of 18% YoY vs 23% YoY for industry. We reiterate our view that TVS is a front runner in the EV space among the incumbent OEMs as it has chalked out aggressive plans for the EV business, including a series of new model launches over the next 12-18 months, monetization of the EV arm and investments in technology to cover the entire spectrum of EV product portfolio. In 3QFY23, TVS sold 29k EV units across three different variants of iQube and expects to double its volume in 4QFY23. It expects to cross 1 lakh plus EV sales in FY23. TVS clocked a market share of 14.5% in EVs in 3QFY23 and EVs contributed 10% to scooter volume. The company also highlighted that it plans to launch an Electric 3W in the coming months. We expect TVS to continue to outperform the 2W industry growth with a volume CAGR of 13% over FY22-FY25E. We also factor in margin expansion of 120bps from the current level till FY25, owing to RM cost tailwinds and product premiumisation. We see TVS as the technology leader among its listed peers. Building in the strong prospects for the EV business, we maintain BUY on TVS. We value TVS at 15x Sept'24E EV/EBITDA and assign Rs91 to TVS Credit at 2x P/BV to arrive at a TP of Rs1,197.

Revenue marginally above estimate; margin misses due to lower other expenses: TVS reported revenue of Rs65bn in 3QFY23, which was marginally above our estimate of Rs62bn mainly due to higher-than-expected ASP. Gross margin at 24.5% was flattish QoQ. EBITDA margin at 10.1% was ahead of our expectation by 40bps primarily on the back of lower marketing spends. Net profit stood at Rs3.5bn, above our estimate of Rs3.2bn due to lower interest spends.

Front-runner in the race of EV leadership: We see TVS as a frontrunner in the EV space with an aggressive new EV launch pipeline. We expect ~4-5 new EV launches over the next 12-18 months in addition to the current three variants of iQube. Moreover, it is also expected to supply premium EVs to BMW. In 3QFY23, TVS clocked a market share of ~14.5% with volume of ~29k. The company expects to double the volume in 4QFY23 and hopes to cross 1 lakh+ mark in FY23. It stated that the current order book stands at ~25k. The company has been aggressively expanding its footprint and is present across 110 cities with 200 touchpoints. We also note the optionality to monetize the EV arm in due course, which could lead to further value unlocking.

Valuation turns rich: We value TVS at 15x Sept'24E EV/EBITDA and value TVS credit at 2x P/BV to arrive at a TP of Rs1,197. We upgrade the stock to BUY and believe that right steps towards EV transition will lead to multiple re-rating.

BUY

Sector: Automobile

CMP: Rs982

Target Price: Rs1,197

Upside: 22%

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Key Data

Current Shares O/S (mn)	475.1
Mkt Cap (Rsbn/US\$bn)	467.4/5.7
52 Wk H / L (Rs)	1,177/513
Daily Vol. (3M NSE Avg.)	2,014,869

Price Performance (%)

	1 M	6 M	1 Yr
TVS Motor Company	(2.6)	13.0	58.5
Nifty Index	1.7	8.9	4.9

Source: Bloomberg

[3QFY23 Result Update](#)

Y/E March (Rsmn)	3QFY22	2QFY23	3QFY23	YoY (%)	QoQ (%)	YTDFY22	YTDFY23	YoY (%)
Volume (units)	877,565	1,027,437	879,423	0.2	(14.4)	2,449,127	2,813,651	14.9
ASP (Rs)	65,026	70,264	74,429	14.5	5.9	62,309	70,276	12.8
Net sales	57,064	72,192	65,454	14.7	(9.3)	152,602	197,733	29.6
COGS	43,512	54,975	49,429	13.6	(10.1)	115,967	150,789	30.0
% of sales	76.3	76.2	75.5	(0.7)	(0.6)	76.0	76.3	0.3
Gross margin %	23.7	23.8	24.5	80bps	70bps	24.0	23.7	(30)bps
Employee costs	2,957	3,456	3,409	15.3	(1.3)	8,523	10,074	18.2
% of sales	5.2	4.8	5.2	0.0	0.4	5.6	5.1	(0.5)
Other expenses	4,912	6,396	6,027	22.7	(5.8)	14,063	17,579	25.0
% of sales	8.6	8.9	9.2	0.6	0.3	9.2	8.9	(0.3)
EBITDA	5,683	7,365	6,589	16.0	(10.5)	14,049	19,292	37.3
EBITDA margin %	10.0	10.2	10.1	10bps	(10)bps	9.2	9.8	55bps
Depreciation	1,546	1,535	1,583	2.4	3.1	4,521	4,639	2.6
Interest expenses	279	352	316	13.3	(10.1)	929	1,044	12.3
Other income	57	14	65	13.3	373.7	108	301	178.2
Exceptional (gain) / exp	-	-	-	-	-	302	-	-
PBT	3,915	5,492	4,755	21.5	(13.4)	8,405	13,911	65.5
Tax	1,031	1,418	1,227	19.0	(13.4)	2,215	3,760	69.8
Effective tax rate %	26.3	25.8	25.8	(0.5)	0.0	26.3	27.0	0.7
Adj PAT	2,883	4,075	3,527	22.4	(13.4)	6,492	10,151	56.4
Adj PAT margin %	5.1	5.6	5.4	30bps	(20)bps	4.3	5.1	80bps
Adj EPS	6.1	8.6	7.4	22.4	(13.4)	13.5	22.7	68.8

Source: Company, Nirmal Bang Institutional Equities Research

Please refer to the disclaimer towards the end of the document.

Exhibit 1: Financial summary

Y/E March (Rsmn)	FY21	FY22	FY23E	FY24E	FY25E
Volume	3,051,863	3,308,156	3,768,220	4,325,753	4,730,935
YoY growth (%)	(6.5)	8.4	13.9	14.8	9.4
Net sales	167,505	207,905	245,216	290,553	327,601
YoY growth (%)	2.0	24.1	17.9	18.5	12.8
EBITDA	14,286	19,617	25,012	31,961	37,346
EBITDA margin (%)	8.5	9.4	10.2	11.0	11.4
Adjusted PAT	6,120	9,237	13,059	17,905	21,517
EPS	12.9	19.4	27.5	37.7	45.3
YoY change (%)	(0.9)	50.9	41.4	37.1	20.2
RoCE (%)	17.5	19.6	24.3	28.0	28.9
RoE (%)	14.7	19.2	22.3	24.7	24.3
P/E (x)	67.4	44.6	31.6	23.0	19.2
EV/Sales (x)	2.3	1.8	1.5	1.2	1.0
EV/EBITDA (x)	26.7	19.4	15.0	11.2	9.1

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 2: Change in our estimates

Y/E March (Rsmn)	New estimate			Old estimate			Change (%)		
	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E
Volume	3,768,220	4,325,753	4,730,935	3,725,270	4,112,934	4,487,868	1.2	5.2	5.4
Net sales	245,216	290,553	327,601	242,386	275,224	309,409	1.2	5.6	5.9
EBITDA	25,012	31,961	37,346	24,723	30,275	35,273	1.2	5.6	5.9
EBITDA margin (%)	10.2	11.0	11.4	10.2	11.0	11.4	0bps	(0)bps	0bps
PAT	13,059	17,905	21,517	12,740	16,415	19,624	2.5	9.1	9.6
EPS (Rs)	27.5	37.7	45.3	26.8	34.6	41.3	2.5	9.1	9.6

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 3: Deviation of our estimates from actual performance

(Rsmn)	Actual	Our estimate	Deviation
	3QFY23	3QFY23	(%)
Net sales	65,454	69,428	(5.7)
EBITDA	6,589	7,776	(15.3)
EBITDA (%)	10.1	11.2	(110)bps
Net profit	3,527	4,458	(20.9)

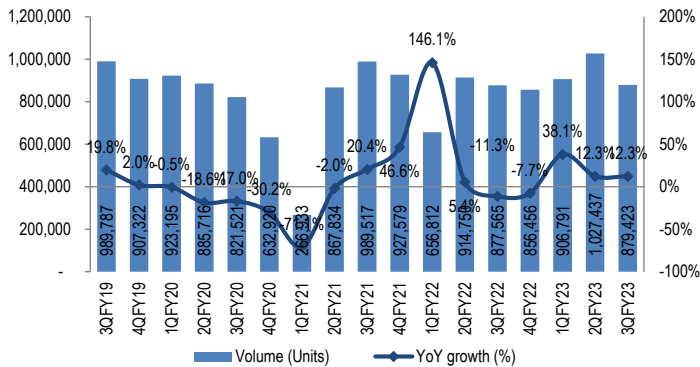
Source: Company, Nirmal Bang Institutional Equities Research

Key conference call highlights:

- **Domestic demand:** TVS launched a series of new products in 3QFY23. The company launched TVS Raider with class-leading features such as smart connect, voice assist, Bluetooth connectivity etc. TVS Ronin continues to perform well with volume 3k/month. Going forward, the company believes that demand will improve further in 4QFY23 with the opening up of the economy. In terms of rural demand, the management sounded positive with MSPs inching up and Rabi sowing remaining healthy. With improving rural sentiments, the management remains hopeful of demand recovering for moped and entry level motorcycles.
- **Export demand:** TVS reported sales of 200k units in the export markets for 3QFY23. The management believes that the worst is over in terms of sluggish export demand and sees marginal improvement in 4QFY23. The company has also taken measures to correct its inventory in international markets amid inflationary trends in Africa and depreciation of local currencies affecting disposable income of consumers. While the industry exports declined by 23% YoY in 3QFY23, TVS reported a decline of 18% YoY.
- **Price realization:** Realization increased by 14% QoQ, driven by a number of factors such as price increases, improvement in the mix (increasing share of EVs) on the back of easing supply chain constraints softening commodity costs and premiumisation strategy. Going forward, TVS will continue to increase prices in a phased manner.
- **Margins:** Benefits of softening commodity costs were visible in 3QFY23 with further improvement expected in 4QFY23. Going forward, sharper focus on premium products will further aid margins. The supply situation is improving on a sequential basis, which would lead to a better product mix. With the above benefits, the company is confident of growing ahead of industry.
- **EV plans:** With an improving supply chain situation, the TVS management was able to sell 29k units in 3QFY23. With plans of ramp-up of EV production and expansion of network distribution, the company sounded positive about doubling of sales volume in 4QFY23. Market share for TVS stood at 14.5%. 10% of total scooter sales now come from EVs. The company is confident of selling 100k+ EV units in FY23. Touch-points across India now total up to 200 with 110 cities covered PAN-India. Current bookings stand at more than 25k units. The company will launch an electric 3W in the coming months.
- **Export revenue and USD realization:** Export revenue stood at Rs17.7bn in 3QFY23 and USD realization further improved to Rs80.
- **TVS Credit:** Book size is Rs200bn. Collections continued to remain robust with a well diversified portfolio. The company invested Rs1,500mn in 3QFY23 with Rs900mn attributed to its Singapore arm.
- **Spare Parts business revenue:** The Spare Parts business revenue stood at Rs6.8bn in 3QFY23.

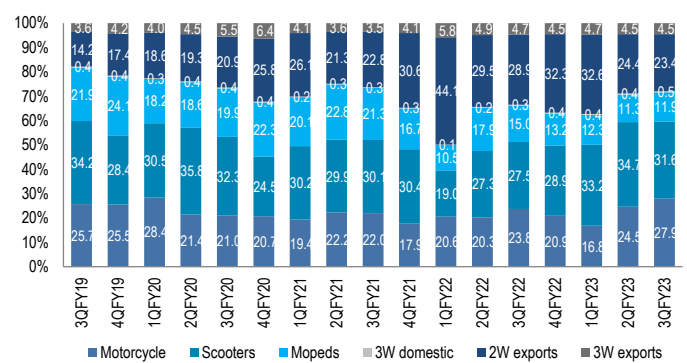
Story in charts

Exhibit 4: Volume & YoY growth (%)



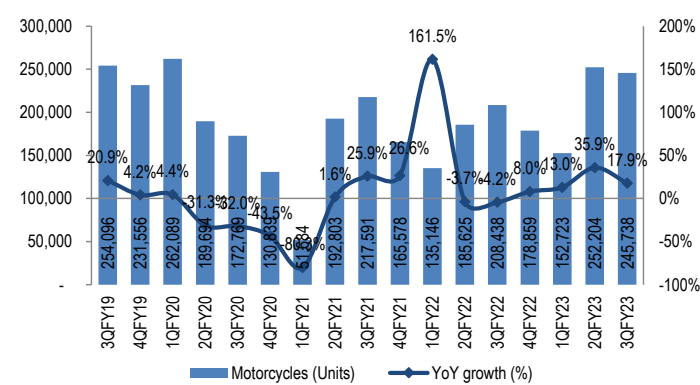
Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 5: Segment mix (%)



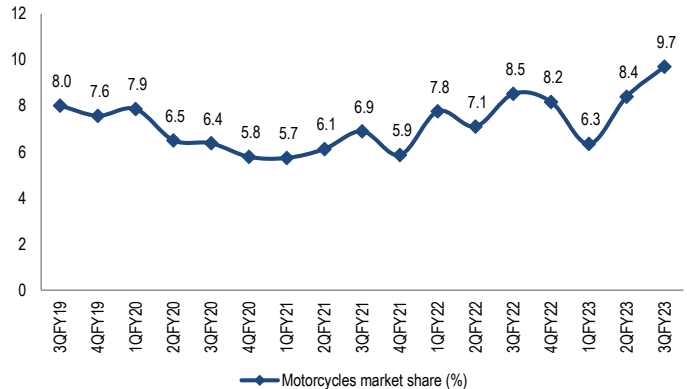
Source: Company, CRISIL, Nirmal Bang Institutional Equities Research

Exhibit 6: Motorcycle – Domestic volume & YoY growth (%)



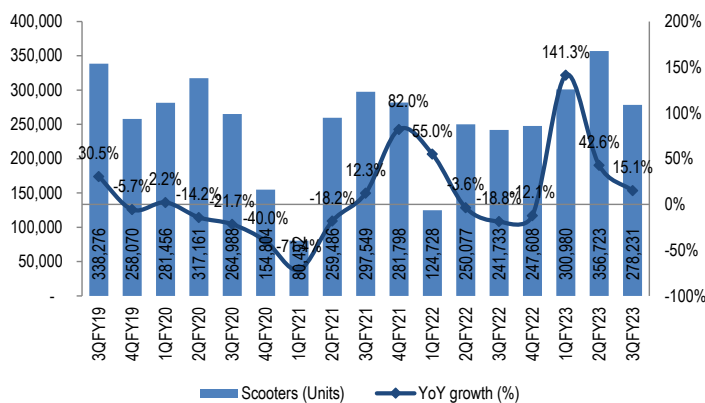
Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 7: Motorcycles – Domestic market share (%)



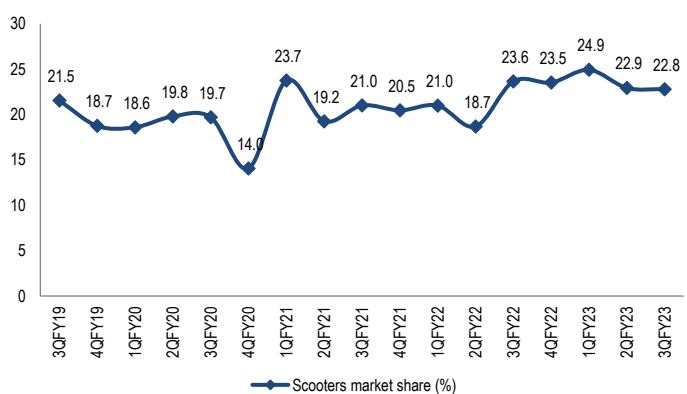
Source: CRISIL, Nirmal Bang Institutional Equities Research

Exhibit 8: Scooters - Domestic volume & YoY growth (%)



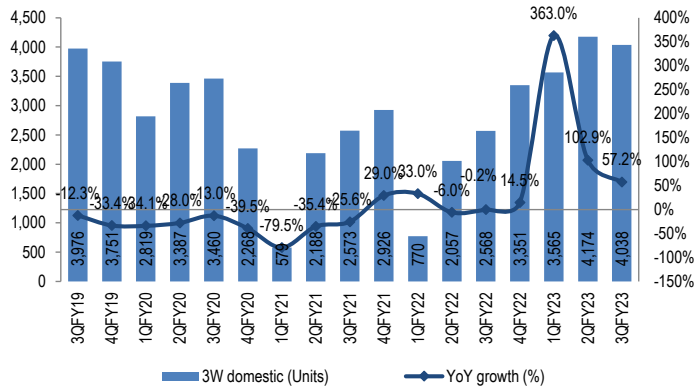
Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 9: Scooters – Domestic market share (%)



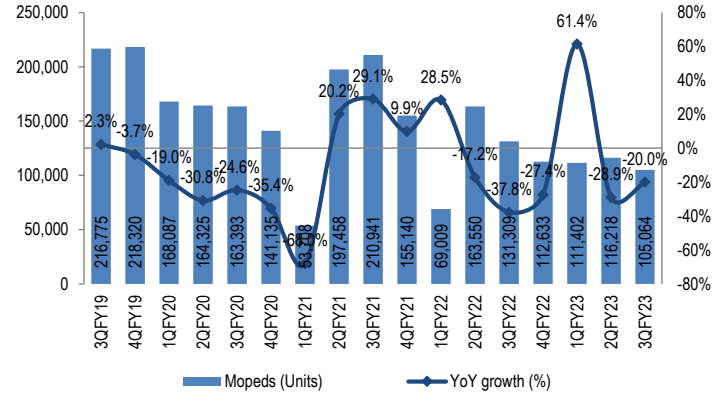
Source: CRISIL, Nirmal Bang Institutional Equities Research

Exhibit 10: 3Ws - Domestic volume & YoY growth (%)



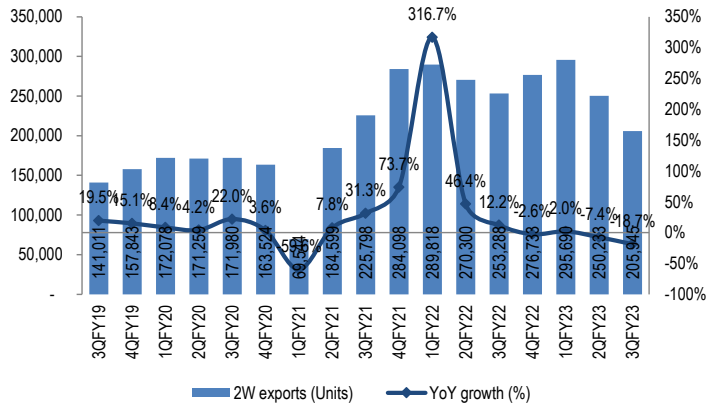
Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 11: Mopeds - Domestic volume & YoY growth (%)



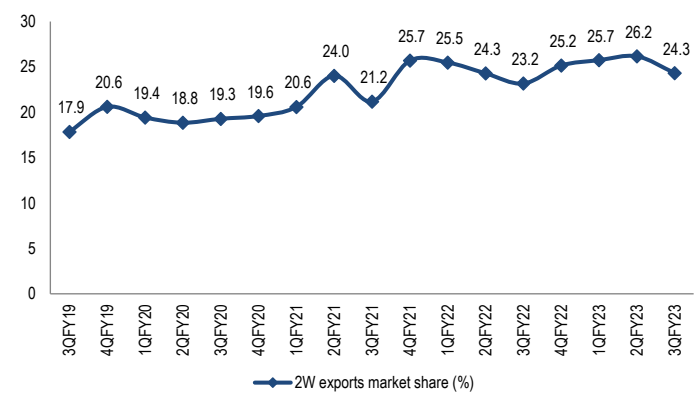
Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 12: 2Ws - Export volume & YoY growth (%)



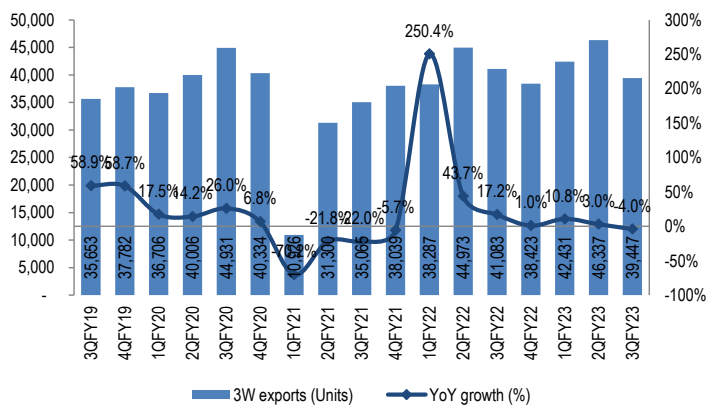
Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 13: 2Ws - Export market share (%)



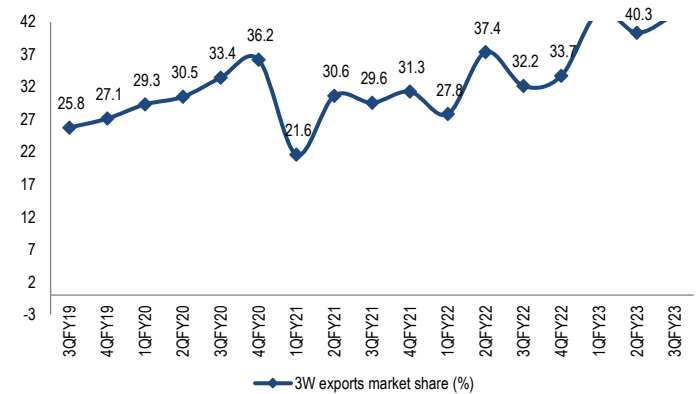
Source: CRISIL, Nirmal Bang Institutional Equities Research

Exhibit 14: 3Ws - Export volume & YoY growth (%)



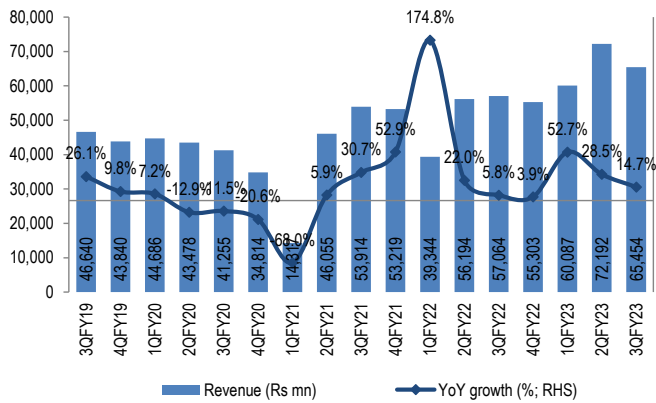
Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 15: 3Ws - Export market share (%)



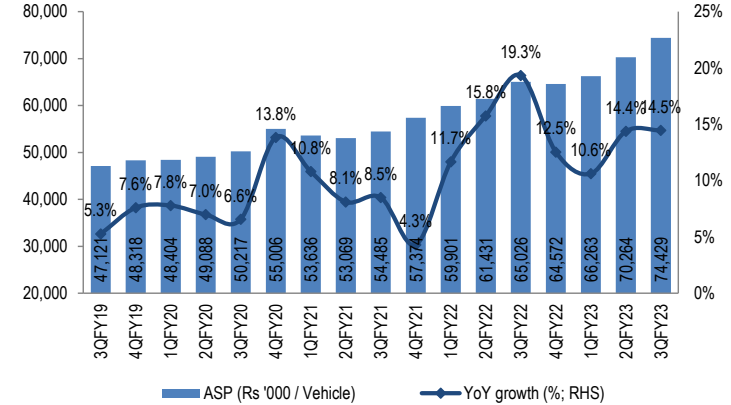
Source: CRISIL, Nirmal Bang Institutional Equities Research

Exhibit 16: Revenue & YoY growth (%)



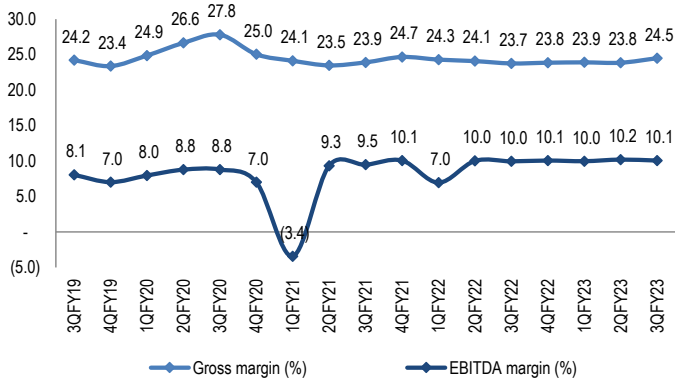
Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 17: Avg selling price (ASP) & YoY growth (%)



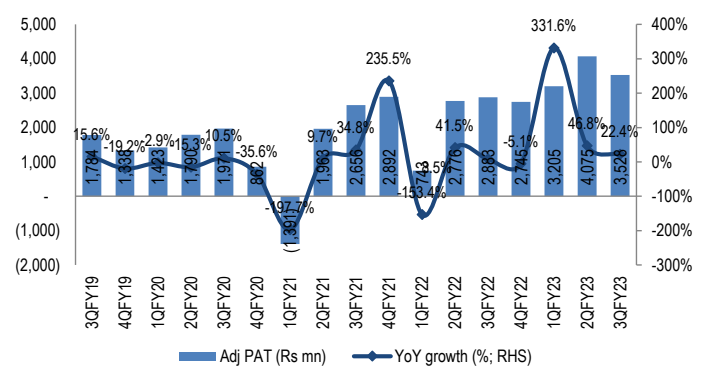
Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 18: Gross margin & EBITDA margin trend



Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 19: PAT & YoY growth (%)



Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 20: P/E chart



Source: Bloomberg, Nirmal Bang Institutional Equities Research

Financials

Exhibit 21: Income statement

Y/E March (Rsmn)	FY21	FY22	FY23E	FY24E	FY25E
Net Sales	167,505	207,905	245,216	290,553	327,601
% Growth	2.0	24.1	17.9	18.5	12.8
Raw material	127,239	158,082	186,364	217,914	245,700
Gross margin (%)	24.0	24.0	24.0	25.0	25.0
Staff costs	9,485	11,364	12,261	14,528	16,380
Selling & distribution	9,001	10,395	11,770	13,947	14,742
Other expenses	7,496	8,447	9,809	12,203	13,432
Total expenses	153,220	188,288	220,204	258,592	290,254
EBITDA	14,286	19,617	25,012	31,961	37,346
% Growth	6.1	37.3	27.5	27.8	16.9
EBITDA margin (%)	8.5	9.4	10.2	11.0	11.4
Other income	330	190	323	387	465
Interest costs	1,416	1,259	1,416	1,251	1,107
Depreciation	4,937	6,114	6,248	6,868	7,588
Profit before tax (before exceptional items)	8,262	12,434	17,671	24,229	29,116
Exceptional items	0	302	0	0	0
Tax	2,142	3,197	4,612	6,324	7,599
Adj PAT	6,120	9,237	13,059	17,905	21,517
% Growth	(0.9)	50.9	41.4	37.1	20.2
Adj PAT margin (%)	3.7	4.4	5.3	6.2	6.6
EPS (Rs)	12.9	19.4	27.5	37.7	45.3
% Growth	(0.9)	50.9	41.4	37.1	20.2
DPS (Rs)	3.5	3.8	5.0	7.0	10.0
Payout (incl. div. tax) (%)	31.7	23.3	21.2	21.7	25.8

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 23: Balance sheet

Y/E March (Rsmn)	FY21	FY22	FY23E	FY24E	FY25E
Share capital	475	475	475	475	475
Reserves	41,234	47,745	58,032	72,056	88,029
Net worth	41,710	48,220	58,507	72,531	88,504
Total debt	11,590	19,627	18,127	16,627	14,127
Deferred tax liability	1,955	1,979	1,979	1,979	1,979
Capital employed	55,254	69,826	78,613	91,137	104,610
Gross block	63,490	74,350	81,850	89,850	99,850
Depreciation	33,387	39,501	45,749	52,617	60,205
Net block	30,104	34,849	36,101	37,233	39,645
Capital work-in-progress	2,787	2,462	2,462	2,462	2,462
Investments	33,145	47,160	50,160	55,160	62,160
Inventories	11,518	11,227	14,780	18,309	20,643
Debtors	8,700	9,507	10,077	11,941	13,463
Cash	9,298	4,013	4,917	17,475	24,434
Loans & advances	-	-	-	-	-
Other current assets	6,423	9,260	10,186	11,204	12,325
Total current assets	35,939	34,007	39,960	58,929	70,866
Creditors	39,216	39,914	40,309	51,742	58,340
Other current liabilities & provisions	7,504	8,737	9,760	10,904	12,183
Total current liabilities	46,720	48,651	50,070	62,647	70,522
Net current assets	(10,781)	(14,645)	(10,110)	(3,717)	343
Application of funds	55,254	69,826	78,613	91,137	104,610

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 22: Cash flow

Y/E March (Rsmn)	FY21	FY22	FY23E	FY24E	FY25E
OP/(loss) before tax	9,349	13,503	18,764	25,093	29,758
Depreciation & amortization	4,937	6,114	6,248	6,868	7,588
Other income	330	190	323	387	465
(Inc.)/dec. in working capital	16,579	(1,422)	(3,631)	6,166	2,898
Direct taxes paid	(1,768)	(3,172)	(4,612)	(6,324)	(7,599)
Extra-ordinary Items	-	(301.60)	-	-	-
Cash flow from operations	29,427	14,912	17,092	32,191	33,110
Capital expenditure (-)	(5,973)	(10,535)	(7,500)	(8,000)	(10,000)
Net cash after capex	23,453	4,377	9,592	24,191	23,110
Other investing activities	(7,086)	(14,015)	(3,000)	(5,000)	(7,000)
Dividends paid (-)	(1,940)	(2,079)	(2,772)	(3,881)	(5,544)
Inc./(dec.) in total borrowings	(10,669)	6,778	(2,916)	(2,751)	(3,607)
Others	1,349	(346)	(0)	0	-
Cash from financial activities	(11,261)	4,353	(5,688)	(6,632)	(9,151)
Opening cash balance	4,192	9,298	4,013	4,917	17,475
Closing cash balance	9,298	4,013	4,917	17,475	24,434
Change in cash balance	5,106	(5,285)	904	12,559	6,959

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 24: Key ratios

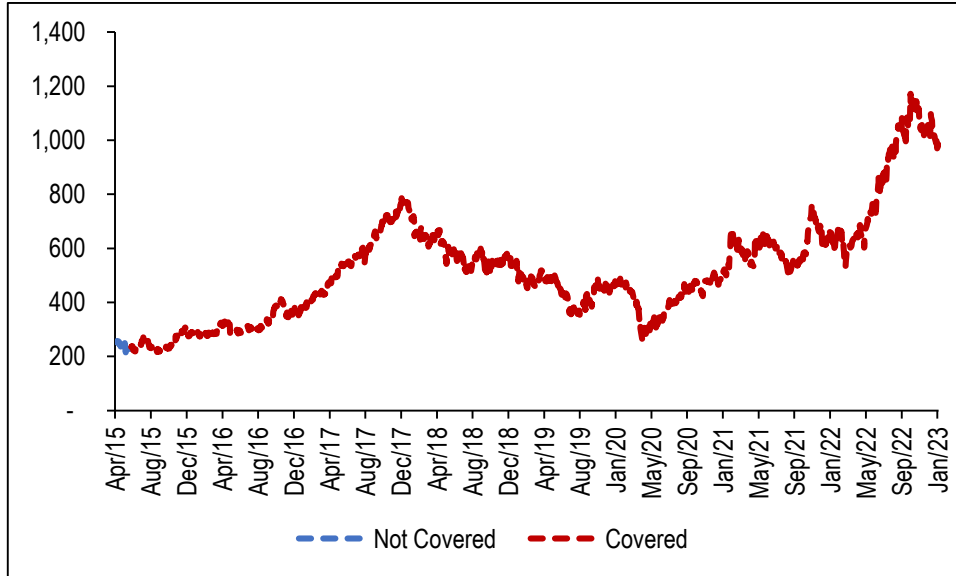
Y/E March	FY21	FY22	FY23E	FY24E	FY25E
Per share (Rs)					
EPS	12.9	19.4	27.5	37.7	45.3
EPS Growth (%)	(0.9)	50.9	41.4	37.1	20.2
Cash EPS	23.3	32.3	40.6	52.1	61.3
Book value per share	87.8	101.5	123.1	152.7	186.3
DPS	3.5	3.8	5.0	7.0	10.0
Payout (incl. div. tax) %	31.7	23.3	21.2	21.7	25.8
Valuation (x)					
P/E	67.4	44.6	31.6	23.0	19.2
Cash P/E	37.3	26.9	21.4	16.6	14.2
EV/Sales	2.3	1.8	1.5	1.2	1.0
EV/EBITDA	26.7	19.4	15.0	11.2	9.1
P/BV	9.9	8.6	7.0	5.7	4.7
Dividend yield (%)	0.4	0.4	0.6	0.8	1.2
Return ratios (%)					
RoCE	17.5	19.6	24.3	28.0	28.9
RoE	14.7	19.2	22.3	24.7	24.3
Profitability ratios (%)					
EBITDA margin	8.5	9.4	10.2	11.0	11.4
PAT margin	3.7	4.4	5.3	6.2	6.6
Turnover ratios					
Debtors (days)	19	17	15	15	15
Inventory (days)	25	20	22	23	23
Creditors (days)	85	70	60	65	65
Asset turnover (x)	3.0	3.0	3.1	3.2	3.1
Leverage Ratio					
Debt/equity (x)	0.3	0.4	0.3	0.2	0.2

Source: Company, Nirmal Bang Institutional Equities Research

Rating track

Date	Rating	Market price (Rs)	Target price (Rs)
26 May 2015	Sell	230	193
9 July 2015	Sell	264	193
22 July 2015	Sell	252	193
9 October 2015	Sell	240	193
28 October 2015	Sell	275	205
11 January 2016	Sell	286	205
1 February 2016	Sell	292	242
4 May 2016	Sell	287	245
27 July 2016	Sell	291	245
28 October 2016	Sell	412	288
25 January 2017	Sell	400	286
3 February 2017	Sell	392	301
28 April 2017	Sell	503	336
14 August 2017	Sell	537	336
2 November 2017	Sell	709	400
31 January 2018	Sell	714	430
17 May 2018	Sell	611	448
8 August 2018	Sell	549	433
24 October 2018	Sell	535	441
23 January 2019	Sell	554	442
23 July 2019*	Sell	380	344
18 October 2019	Sell	446	400
28 January 2020	Sell	465	394
5 February 2020	Sell	460	394
30 March 2020	Acc	304	304
29 May 2020	Sell	332	246
30 July 2020	Sell	402	285
22 September 2020	Sell	446	340
30 October 2020	Sell	422	371
6 January 2021	Sell	492	442
29 January 2021	Sell	531	474
9 April 2021	Buy	568	684
28 April 2021	Buy	569	696
30 July 2021	Buy	561	696
7 October 2021	Buy	558	660
22 October 2021	Buy	577	660
6 January 2022	Buy	648	660
8 February 2022	Buy	636	732
6 May 2022	Buy	631	777
29 July 2022	Buy	868	928
06 November 2022	Acc	1,117	1,279
25 January 2023	Buy	982	1,197

Rating track graph



DISCLOSURES

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Stock Ratings Absolute Returns

BUY > 15%

ACCUMULATE -5% to 15%

SELL < -5%

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