

**HOLD**

TP: Rs 1,068 | ▼ 3%

**TVS MOTOR**

| Automobiles

| 14 November 2022

### Strong quarter but positives in the price

- Q2 revenue at Rs 72bn (+29% YoY) backed by higher ASP (Rs 69.3k, +13%) and volumes (+14%)
- Healthy realisation gains on the back of premium bike sales and price hikes, keeping gross margin intact at ~24%
- Stock offers limited upside post recent run-up; we assume coverage with HOLD for a TP of Rs 1,068

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**Robust topline:** TVSL's Q2FY23 net sales came in at Rs 72.2bn with net realisation per vehicle (NRPV) rising 13% YoY to Rs 69.3k and volumes up 14%. The strong uptick in volumes was largely contributed by the domestic two-wheeler segment that offset challenges in the export market. Realisation growth came from the high-end motorcycle segment.

**Margins stable:** Raw material inflation continued with a jump of 29% YoY on a high base, but management indicated that prices are nearly at their peak. Gross margin at 23.9% was flat YoY and QoQ. EBITDA grew 31% YoY to Rs 7.4bn and the operating margin held at 10.2% (10% in Q2FY22) despite higher marketing cost incurred on new launches ('Ronin' and 'i-Qube'). Adj. PAT rose 47% YoY to Rs 4.1bn, translating into a PAT margin of 5.5% (4.9% in Q2FY22).

**Healthy demand outlook:** The demand outlook remains robust as semiconductor supply chain concerns fade. Management is confident of the company's outperformance vis-à-vis the industry and indicated that its thrust on premiumisation will continue, led by high-end motorcycles such as 'Raider', 'Apache' and 'Ronin'. The company believes muted demand in overseas markets (owing to inflation and currency devaluation) will be offset by a healthy pickup in rural demand.

**Focus on EVs:** TVSL aims to ramp up electric vehicle (EV) volumes to 10k units/month by end-Q3FY23 and to 25k units/month by end-Q4. This confident outlook stems from a strong response to 'i-Qube' (current order book of 25k units). Management has planned a series of EV launches over the medium term.

**Limited upside potential; HOLD:** We believe TVSL will continue to beat industry growth as launches in the high-end EV/traditional segments will further revamp the product portfolio. The focus on premiumisation would safeguard margins and any easing of raw material cost offers added cushioning. However, the recent 15% run-up in the stock in past 1 quarter leaves limited upside and hence we recommend HOLD. with a TP of Rs 1,068 for TVSL based on 25x FY24E EPS for the core business (inline with 10-year average) and the addition of Rs 33/sh (consensus value) for TVS Credit.

### Key changes

Target	Rating
▲	◀ ▶

Ticker/Price	TVSL IN/Rs 1,101
Market cap	US\$ 6.4bn
Free float	48%
3M ADV	US\$ 20.9mn
52wk high/low	Rs 1,177/Rs 513
Promoter/FPI/DII	52%/13%/25%

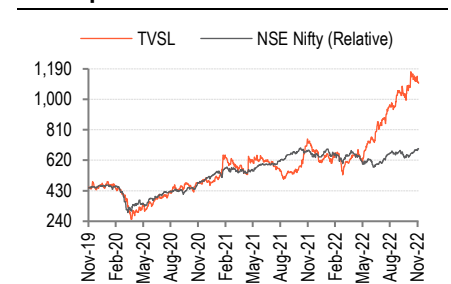
Source: NSE | Price as of 14 Nov 2022

### 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)	58.5	36.0	26.6
EV/EBITDA (x)	26.2	19.5	15.3
Adj. EPS growth (%)	46.0	62.5	35.5

Source: Company, Bloomberg, BOBCAPS Research

### Stock performance



Source: NSE



## Earnings call takeaways

- **Volumes:** TVSL's Q2FY23 sales volume in the domestic two-wheeler market grew 21% YoY (12% for the industry) to 0.72mn units vs. 0.6mn units in Q2FY22. In export markets, the company sold fewer units YoY (0.25mn vs. 0.27mn in the year-ago quarter) due to the economic slowdown and higher inflation in some key geographies. However, the industry declined 14% vs. a 7% dip for the company.

Premium motorcycle sales improved further over Q1FY23, but demand could not be fully met as semiconductor availability remained constrained. Management expects to meet the demand for high-end products in Q3FY23 as chip supply constraints likely ease.

- **Realisations:** In Q2FY23, the factors contributing to realisation gains were an overall price increase of 1%, exchange benefit of 0.4% and material cost reduction. The company has hiked prices by another 1.1% from October onwards in the domestic market. Management expects commodity prices to moderate in Q3/Q4FY23, further adding to gross margins.
- **Margin outlook:** Rising premiumisation trends and continued cost reduction initiatives are guided to fuel growth in EBITDA in both absolute and percentage terms over the medium term.
- **Electric vehicles:** TVSL was able to deliver 16k EVs in Q2. The company delivered 8k units in October and expects to sell 10k units in November. The target is to reach 25k units/month by Mar'23.
- **Inventory management:** For effective working capital management, the company maintains lean stock at 25-30 days.
- **Capacity expansion and capex:** TVSL's current annual electric two-wheeler manufacturing capacity stands at 0.12mn units, and management expects this to increase to 0.3mn units in FY24. Capex is guided at Rs 7.5bn in FY23, predominantly in the EV space.

**Fig 1 – Quarterly performance (Standalone )**

(Rs mn)	Q2FY23	Q2FY22	YoY (%)	Q1FY23	QoQ (%)	H1FY23	H1FY22	YoY (%)
Volume	1,042,418	916,705	13.7	906,791	15.0	1,949,209	1,574,463	23.8
Avg. Realisation per Vehicle	69,254	61,300	13.0	66,263	4.5	67,863	60,680	11.8
Net Revenues	72,192	56,194	28.5	60,087	20.1	132,279	95,538	38.5
Other Operating Income	-	-	-	-	-	-	-	-
<b>Total Income (A)</b>	<b>72,192</b>	<b>56,194</b>	<b>28.5</b>	<b>60,087</b>	<b>20.1</b>	<b>132,279</b>	<b>95,538</b>	<b>38.5</b>
<b>Operating Expenses:</b>								
Raw materials consumed	54,975	42,665	28.9	45,728	20.2	100,702	72,455	39.0
Employee Expenses	3,456	2,957	16.9	3,209	7.7	6,665	5,566	19.7
Other Expenses	6,396	4,943	29.4	5,156	24.1	11,552	9,151	26.2
<b>Total Expenditure (B)</b>	<b>64,826</b>	<b>50,565</b>	<b>28.2</b>	<b>54,093</b>	<b>19.8</b>	<b>118,919</b>	<b>87,171</b>	<b>36.4</b>
<b>EBITDA (A-B)</b>	<b>7,365</b>	<b>5,629</b>	<b>30.9</b>	<b>5,995</b>	<b>22.9</b>	<b>13,360</b>	<b>8,367</b>	<b>59.7</b>
Other Income	14	35	(60.7)	222	(93.8)	236	51	364.2
Depreciation	1,535	1,544	(0.6)	1,520	1.0	3,056	2,975	2.7
EBIT	5,844	4,119	41.9	4,696	24.4	10,540	5,442	93.7
Finance Costs	352	350	0.5	376	(6.4)	728	650	11.9
PBT before exceptional items	5,492	3,769	45.7	4,321	27.1	9,813	4,792	104.8
Exceptional items	-	-	NA	-	NA	-	-	NA
PBT after exceptional items	5,492	3,769	45.7	4,321	27.1	9,813	4,792	104.8
Tax expense	1,418	993	42.7	1,115	27.1	2,533	1,183	114.0
<b>Reported PAT</b>	<b>4,075</b>	<b>2,776</b>	<b>46.8</b>	<b>3,205</b>	<b>27.1</b>	<b>7,280</b>	<b>3,609</b>	<b>101.7</b>
<b>Adjusted PAT</b>	<b>4,075</b>	<b>2,776</b>	<b>46.8</b>	<b>3,205</b>	<b>27.1</b>	<b>7,280</b>	<b>3,609</b>	<b>101.7</b>
Adj EPS (Rs)	8.6	5.8	46.8	6.7	27.1	15.3	8.2	86.2

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 revamp the product portfolio. The company's focus on premiumisation would safeguard margins and any easing of raw material cost offers added cushioning. However, the recent 15% run-up in the stock in the past 1 quarter prices in these positives and leaves limited upside; we thus recommend HOLD. Our TP of Rs 1,068 is set at 25x FY24E EPS for the core business (inline with 10 year average with the addition of Rs 33/sh (consensus value) for TVS Credit.

**Fig 2 – Key assumptions**

Parameter	FY23E	FY24E	FY25E
2W Volume (units)	3,749,194	4,189,299	4,576,188
3W Volume (units)	200,844	230,970	265,616
Revenue (Rs mn)	257,636	302,735	348,239
EBITDA (Rs)	26,630	33,972	39,281
EBITDA margin (%)	10.3	11.2	11.3
Adj. PAT (Rs)	14,522	19,676	23,173
EPS (Rs)	30.6	41.4	48.8

Source: Company, BOBCAPS Research

**Fig 3 – Valuation summary**

Business	FY24E EPS (Rs)	Target P/E (x)	Value (Rs)
Standalone Business	41.4	25	1,035
TVS Credit	-	-	33
<b>Total</b>	-	-	<b>1,068</b>

Source: BOBCAPS Research

## Key risks

Key upside risks to our estimates are:

- faster economic pickup than anticipated, propelling demand

Key downside risks are:

- slower demand revival in domestic markets, and
- commodity prices staying elevated.

## Financials

### Income Statement

Y/E 31 Mar (Rs mn)	FY21A	FY22A	FY23E	FY24E	FY25E
<b>Total revenue</b>	<b>167,505</b>	<b>207,905</b>	<b>257,636</b>	<b>302,735</b>	<b>348,239</b>
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
<b>Reported net profit</b>	<b>6,121</b>	<b>8,936</b>	<b>14,522</b>	<b>19,676</b>	<b>23,173</b>
Adjustments	0	302	0	0	0
<b>Adjusted net profit</b>	<b>6,121</b>	<b>9,237</b>	<b>14,522</b>	<b>19,676</b>	<b>23,173</b>

### 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
<b>Total liab. and equities</b>	<b>100,020</b>	<b>116,500</b>	<b>134,681</b>	<b>158,052</b>	<b>183,546</b>
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
<b>Total assets</b>	<b>100,020</b>	<b>116,497</b>	<b>134,681</b>	<b>158,052</b>	<b>183,546</b>

### Cash Flows

Y/E 31 Mar (Rs mn)	FY21A	FY22A	FY23E	FY24E	FY25E
<b>Cash flow from operations</b>	<b>26,934</b>	<b>13,762</b>	<b>22,894</b>	<b>26,426</b>	<b>31,217</b>
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
<b>Cash flow from investing</b>	<b>(12,730)</b>	<b>(24,360)</b>	<b>(15,185)</b>	<b>(24,450)</b>	<b>(25,400)</b>
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
<b>Cash flow from financing</b>	<b>(12,095)</b>	<b>3,082</b>	<b>(7,252)</b>	<b>(6,815)</b>	<b>(8,753)</b>
<b>Chg in cash &amp; cash eq.</b>	<b>2,108</b>	<b>(7,516)</b>	<b>456</b>	<b>(4,838)</b>	<b>(2,935)</b>
<b>Closing cash &amp; cash eq.</b>	<b>9,298</b>	<b>4,012</b>	<b>6,971</b>	<b>4,443</b>	<b>3,702</b>

### 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	36.4	26.2	19.5	15.3	13.2
Adjusted P/E	85.4	58.5	36.0	26.6	22.6
P/BV	12.8	10.8	9.0	7.1	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
<b>Adjusted ROAE</b>	<b>15.9</b>	<b>20.1</b>	<b>27.2</b>	<b>29.9</b>	<b>28.5</b>

### Ratio Analysis

Y/E 31 Mar	FY21A	FY22A	FY23E	FY24E	FY25E
<b>YoY growth (%)</b>					
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
<b>Profitability &amp; Return ratios (%)</b>					
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
<b>Working capital days (days)</b>					
Receivables	23	16	16	17	18
Inventory	24	20	18	20	21
Payables	98	92	78	75	76
<b>Ratios (x)</b>					
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)
<b>Adjusted debt/equity</b>	<b>0.3</b>	<b>0.3</b>	<b>0.3</b>	<b>0.2</b>	<b>0.1</b>

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

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**BUY** – Expected return >+15%

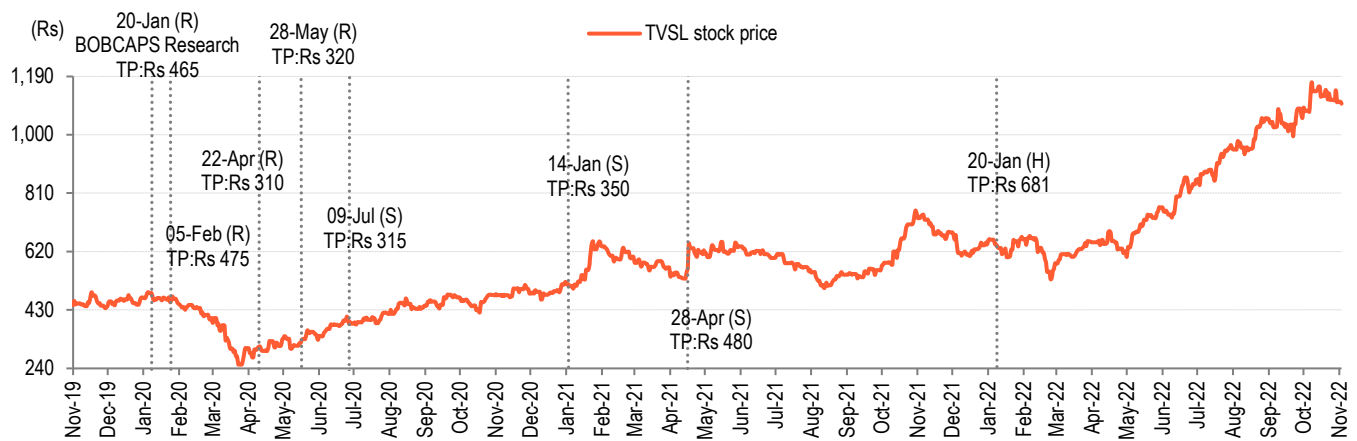
**HOLD** – Expected return from -6% to +15%

**SELL** – Expected return <-6%

**Note:** Recommendation structure changed with effect from 21 June 2021

Our recommendation scale does not factor in short-term stock price volatility related to market fluctuations. Thus, our recommendations may not always be strictly in line with the recommendation scale as shown above.

### 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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