

**SELL**

TP: Rs 480 | ▼ 15%

**TVS MOTOR**

Automobiles

28 April 2021

## Upgrade estimates; maintain SELL on rich valuations

TVS Motor (TVSL) posted a Q4FY21 beat on all counts. EBITDA margin surprised at 10.1% but is expected to remain under pressure in the near term due to higher input cost. With sales of ~3.4mn vehicles expected in FY22 (+10% YoY), a favourable sales mix and growing export revenue, we raise FY22/FY23 earnings by 34%/30%. We now expect a revenue/PAT CAGR of 13%/21% over FY21-FY23. Post estimate revision, we raise our Mar'22 TP to Rs 480 (vs. Rs 350), set at 24x FY23E EPS. Current valuations, however, look rich at 28x FY23E – SELL.

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**Q4 beat:** Q4 revenue grew 53% YoY to Rs 53.2bn as ASP increased 4% YoY (+5% QoQ) led by price hikes and a better product mix, while volumes grew 47% YoY. Despite the steep increase in raw material prices, TVSL posted gross margin expansion QoQ coupled with better operating efficiency, which supported an EBITDA margin beat (10.1% vs. 8.8% est.). EBITDA grew 119% YoY to Rs 5.4bn and adj. PAT was up 172% YoY to Rs 2.9bn (Rs 2.2bn est.)

Ticker/Price	TVSL IN/Rs 566
Market cap	US\$ 3.6bn
Shares o/s	475mn
3M ADV	US\$ 23.2mn
52wk high/low	Rs 660/Rs 291
Promoter/FPI/DII	57%/11%/22%

Source: NSE

**Premium products, exports to drive growth:** We believe the company could clock annual sales of ~3.4mn vehicles in FY22. Premium offerings (both in the motorcycle and scooter segments), rising export revenue (rupee depreciation benefit) and revival in 3W sales will aid earnings growth. However, we anticipate that rising input cost pressure will partially offset this growth.

## STOCK PERFORMANCE



Source: NSE

**Upgrade estimates; maintain SELL:** We raise our FY22/FY23 earnings estimates by 34%/30% factoring in the above benefits and key concerns, and now expect a revenue/PAT CAGR of 13%/21% over FY21-FY23. Our SOTP-based TP rises to Rs 480 and is based on (1) 24x FY23E standalone EPS (in line with the 10Y avg multiple) and (2) Rs 30/sh for the stake in TVS Credit Services (as per consensus). Based on our estimates, TVSL is trading at valuations of 32x/28x FY22E/FY23E EPS (adj. for TVS Credit value) – SELL.

## KEY FINANCIALS

Y/E 31 Mar	FY19A	FY20A	FY21P	FY22E	FY23E
Total revenue (Rs mn)	182,099	164,233	167,505	193,453	212,634
EBITDA (Rs mn)	14,332	13,459	14,286	16,749	18,611
Adj. net profit (Rs mn)	6,701	6,246	6,120	7,896	8,956
Adj. EPS (Rs)	14.1	12.5	12.9	16.6	18.9
Adj. EPS growth (%)	3.9	(11.8)	3.3	29.0	13.4
Adj. ROAE (%)	20.0	17.3	14.7	16.7	16.8
Adj. P/E (x)	40.1	45.4	44.0	34.1	30.0
EV/EBITDA (x)	18.8	20.0	18.6	15.4	13.9

Source: Company, BOBCAPS Research | P – Provisional

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**FIG 1 – QUARTERLY PERFORMANCE**

(Rs mn)	Q4FY21	Q4FY20	YoY (%)	Q3FY21	QoQ (%)	FY21	FY20	YoY (%)
Volume	928,109	632,972	46.6	989,517	(6.2)	3,052,393	3,263,470	(6.5)
Avg. Realisation per Vehicle	57,342	55,001	4.3	54,485	5.2	54,877	50,325	9.0
Net Revenues	53,219	34,814	52.9	53,914	(1.3)	167,505	164,233	2.0
<b>Total Income (A)</b>	53,219	34,814	52.9	53,914	(1.3)	167,505	164,233	2.0
Raw materials consumed	40,098	26,098	53.6	41,031	(2.3)	127,239	121,359	4.8
Employee Expenses	2,681	2,227	20.4	2,691	(0.4)	9,485	9,384	1.1
Other Expenses	5,079	4,041	25.7	5,081	0.0	16,497	20,031	(17.6)
<b>Total Expenditure (B)</b>	47,858	32,366	47.9	48,803	(1.9)	153,220	150,775	1.6
<b>EBITDA (A-B)</b>	5,361	2,449	119.0	5,111	4.9	14,286	13,459	6.1
Other Income	69	251	(72.4)	124	(43.8)	330	321	2.7
Depreciation	1,366	1,243	9.9	1,329	2.8	4,937	4,890	1.0
EBIT	4,065	1,456	179.1	3,906	4.1	9,678	8,889	8.9
Finance Costs	195	235	(16.8)	291	(32.8)	1,416	1,022	38.6
PBT after excep items	3,869	1,222	216.7	3,615	7.0	8,262	7,867	5.0
Tax expense	977	160	512.0	959	1.9	2,142	1,622	32.1
Reported PAT	2,892	1,062	172.4	2,656	8.9	6,120	6,246	(2.0)
<b>Adjusted PAT</b>	2,892	1,062	172.4	2,656	8.9	6,120	6,246	(2.0)
<b>Adj EPS (Rs)</b>	6.1	2.9	108.8	5.6	8.9	12.9	13.8	(6.8)

Source: Company, BOBCAPS Research

**FIG 2 – KEY PARAMETERS**

(%)	Q4FY21	Q4FY20	YoY (bps)	Q3FY21	QoQ (bps)	FY21	FY20	YoY (bps)
Gross margin	24.7	25.0	(38)	23.9	76	24.0	26.1	(207)
EBITDA margin	10.1	7.0	304	9.5	59	8.5	8.2	33
EBIT margin	7.6	4.2	345	7.2	39	5.8	5.4	37
PBT margin	7.3	3.5	376	6.7	57	4.9	4.8	14
Tax rate	25.2	13.1	1218	26.5	(128)	25.9	20.6	531
Adj PAT margin	5.4	3.1	238	4.9	51	3.7	3.8	(15)

Source: Company, BOBCAPS Research

## Earnings call highlights

- Demand currently appears to have stagnated given micro-lockdowns at various locations. Per management, demand will be affected in Q1FY22 but not as badly as in Q1FY21. The industry should bounce back after Q1 on the back of a healthy agriculture outlook and rising vaccinations to stem the pandemic.
- Exports are likely to see healthy growth momentum in FY22 led by stable currencies, steady oil prices and potential normalisation of the pandemic.
- In the electric 2W space, TVSL has been making inroads with its 'TVS iCube' which is receiving positive customer feedback. It plans to expand sales from Bengaluru to 20 other cities by FY22-end. The company currently has a monthly sales run-rate of ~250 units in Bengaluru.
- In Q4, raw material cost increased ~1.5% QoQ but was tackled by judicious price increases and cost-saving programmes. Costs are further expected to rise by 1.9% QoQ in Q1FY22. The company has already announced a 1.6% price hike in Apr'21.
- TVSL generated FCF of Rs 3.4bn in Q4, taking the FY21 figure to Rs 18.9bn and resulting in a net cash position on the balance sheet.
- Capex for FY22 is guided at Rs 5bn-6bn, mainly earmarked towards product development and EV technologies.

## Valuation methodology

We revise our FY22/FY23 earnings estimates upwards by 34%/30% to factor in the growing revenue share of premium products, rising export sales and revival in the 3W space. We also bake in a lower gross margin performance (vs. consensus) based on rising input costs. Accordingly, we arrive at an EPS of Rs 18.9 for FY23, ~20% lower than consensus.

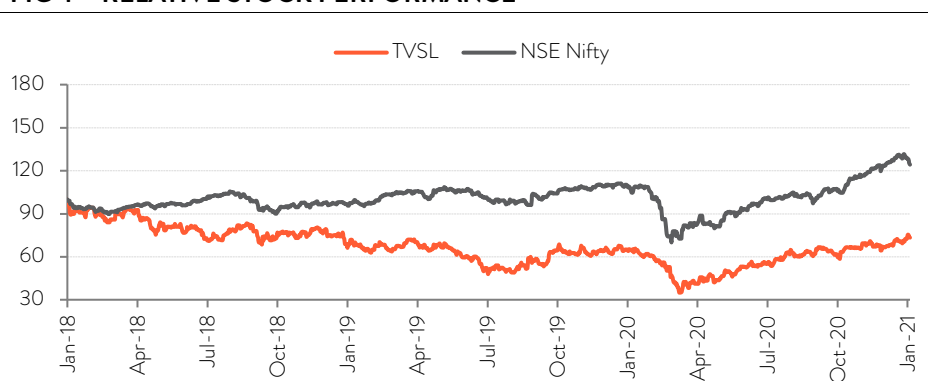
We now model for a revenue/PAT CAGR of 13%/21% over FY21-FY23, which translates to ~250bps improvement in ROCE and ROE. Our SOTP-based TP rises to Rs 480 and is based on (1) 24x FY23E standalone EPS (in line with the 10-year average multiple) and (2) Rs 30/sh for the stake in TVS Credit Services (as per consensus). Based on our estimates, TVSL is trading at valuations of 32x/28x FY22E/FY23E EPS (adj. for TVS Credit value) – SELL.

**FIG 3 – REVISED ESTIMATES**

(Rs mn)	New		Old		Change (%)	
	FY22E	FY23E	FY22E	FY23E	FY22E	FY23E
Volumes	3,350,039	3,618,043	3,379,998	3,650,398	(0.9)	(0.9)
Revenues	193,453	212,634	185,461	203,829	4.3	4.3
EBITDA	16,749	18,611	14,657	16,201	14.3	14.9
OPM (%)	8.7	8.8	7.9	7.9	76bps	80bps
Adj. PAT	7,896	8,956	5,902	6,861	33.8	30.5
EPS (Rs)	16.6	18.9	12.4	14.4	33.8	30.5

Source: Company, BOBCAPS Research

**FIG 4 – RELATIVE STOCK PERFORMANCE**



Source: NSE

## Key risks

Key upside risks to our estimates include:

- above-expected volume growth, and
- faster-than-expected recovery in the 3W and scooter segments.

## FINANCIALS

### Income Statement

Y/E 31 Mar (Rs mn)	FY19A	FY20A	FY21P	FY22E	FY23E
<b>Total revenue</b>	<b>182,099</b>	<b>164,233</b>	<b>167,505</b>	<b>193,453</b>	<b>212,634</b>
EBITDA	14,332	13,459	14,286	16,749	18,611
Depreciation	3,993	4,890	4,937	5,418	5,904
EBIT	10,415	8,889	9,678	11,706	13,124
Net interest income/(expenses)	(806)	(1,022)	(1,416)	(1,150)	(1,150)
Other income/(expenses)	75	321	330	376	417
Exceptional items	13	(323)	0	0	0
EBT	9,623	7,544	8,262	10,556	11,973
Income taxes	2,908	1,622	2,142	2,660	3,017
Extraordinary items	0	0	0	0	0
Min. int./Inc. from associates	0	0	0	0	0
<b>Reported net profit</b>	<b>6,715</b>	<b>5,922</b>	<b>6,120</b>	<b>7,896</b>	<b>8,956</b>
Adjustments	(13)	323	0	0	0
<b>Adjusted net profit</b>	<b>6,701</b>	<b>6,246</b>	<b>6,120</b>	<b>7,896</b>	<b>8,956</b>

### Balance Sheet

Y/E 31 Mar (Rs mn)	FY19A	FY20A	FY21P	FY22E	FY23E
Accounts payables	29,472	28,864	39,216	36,897	39,473
Other current liabilities	3,440	4,620	6,039	8,785	7,668
Provisions	597	1,763	1,763	1,763	1,763
Debt funds	14,000	19,746	12,781	12,781	12,781
Other liabilities	586	858	938	938	938
Equity capital	475	475	475	475	475
Reserves & surplus	32,999	35,706	41,161	46,689	52,958
Shareholders' fund	33,474	36,181	41,637	47,164	53,433
<b>Total liabilities and equities</b>	<b>81,568</b>	<b>92,031</b>	<b>102,373</b>	<b>108,327</b>	<b>116,057</b>
Cash and cash eq.	439	4,193	11,651	8,393	8,539
Accounts receivables	14,141	12,814	8,700	12,720	13,399
Inventories	11,759	10,389	11,518	12,720	13,399
Other current assets	5,210	6,488	4,952	6,360	6,991
Investments	23,007	26,059	33,145	35,145	40,645
Net fixed assets	25,793	28,999	30,103	30,684	30,780
CWIP	2,572	2,854	2,787	2,787	2,787
Intangible assets	0	0	0	0	0
Deferred tax assets, net	(2,126)	(1,581)	(1,748)	(1,748)	(1,748)
Other assets	773	1,816	1,265	1,265	1,265
<b>Total assets</b>	<b>81,567</b>	<b>92,032</b>	<b>102,373</b>	<b>108,327</b>	<b>116,057</b>

Source: Company, BOBCAPS Research

**Cash Flows**

Y/E 31 Mar (Rs mn)	FY19A	FY20A	FY21P	FY22E	FY23E
Net income + Depreciation	10,694	11,136	11,057	13,314	14,860
Interest expenses	(806)	(1,022)	(1,416)	(1,150)	(1,150)
Non-cash adjustments	(75)	(321)	(330)	(376)	(417)
Changes in working capital	(1,104)	2,386	16,923	(6,204)	(527)
Other operating cash flows	42	(371)	0	0	0
<b>Cash flow from operations</b>	<b>8,752</b>	<b>11,808</b>	<b>26,235</b>	<b>5,584</b>	<b>12,766</b>
Capital expenditures	(7,328)	(8,379)	(5,973)	(6,000)	(6,000)
Change in investments	(2,653)	(3,052)	(7,086)	(2,000)	(5,500)
Other investing cash flows	75	321	330	376	417
<b>Cash flow from investing</b>	<b>(9,906)</b>	<b>(11,110)</b>	<b>(12,729)</b>	<b>(7,624)</b>	<b>(11,083)</b>
Equities issued/Others	0	0	0	0	0
Debt raised/repaid	2,108	5,746	(6,965)	0	0
Interest expenses	(806)	(1,022)	(1,416)	(1,150)	(1,150)
Dividends paid	(2,000)	(2,000)	(665)	(2,369)	(2,687)
Other financing cash flows	645	(546)	167	0	0
<b>Cash flow from financing</b>	<b>(53)</b>	<b>2,178</b>	<b>(8,879)</b>	<b>(3,519)</b>	<b>(3,837)</b>
<b>Changes in cash and cash eq.</b>	<b>(1,207)</b>	<b>2,876</b>	<b>4,627</b>	<b>(5,559)</b>	<b>(2,155)</b>
<b>Closing cash and cash eq.</b>	<b>439</b>	<b>4,193</b>	<b>11,651</b>	<b>8,393</b>	<b>8,539</b>

**Per Share**

Y/E 31 Mar (Rs)	FY19A	FY20A	FY21P	FY22E	FY23E
Reported EPS	14.1	12.5	12.9	16.6	18.9
Adjusted EPS	14.1	12.5	12.9	16.6	18.9
Dividend per share	3.5	3.5	1.4	5.0	5.7
Book value per share	70.5	76.2	87.6	99.3	112.5

**Valuations Ratios**

Y/E 31 Mar (x)	FY19A	FY20A	FY21P	FY22E	FY23E
EV/Sales	1.5	1.6	1.6	1.3	1.2
EV/EBITDA	18.8	20.0	18.6	15.4	13.9
Adjusted P/E	40.1	45.4	44.0	34.1	30.0
P/BV	8.0	7.4	6.5	5.7	5.0

**DuPont Analysis**

Y/E 31 Mar (%)	FY19A	FY20A	FY21P	FY22E	FY23E
Tax burden (Net profit/PBT)	69.8	78.5	74.1	74.8	74.8
Interest burden (PBT/EBIT)	92.4	84.9	85.4	90.2	91.2
EBIT margin (EBIT/Revenue)	5.7	5.4	5.8	6.1	6.2
Asset turnover (Revenue/Avg TA)	407.9	313.3	298.7	332.9	332.1
Leverage (Avg TA/Avg Equity)	1.4	1.5	1.4	1.3	1.3
Adjusted ROAE	21.6	17.0	15.7	17.8	17.8

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

**Ratio Analysis**

Y/E 31 Mar	FY19A	FY20A	FY21P	FY22E	FY23E
<b>YoY growth (%)</b>					
Revenue	20.0	(9.8)	2.0	15.5	9.9
EBITDA	22.0	(6.1)	6.1	17.2	11.1
Adjusted EPS	3.9	(11.8)	3.3	29.0	13.4
<b>Profitability &amp; Return ratios (%)</b>					
EBITDA margin	7.9	8.2	8.5	8.7	8.8
EBIT margin	5.7	5.4	5.8	6.1	6.2
Adjusted profit margin	3.7	3.8	3.7	4.1	4.2
Adjusted ROAE	20.0	17.3	14.7	16.7	16.8
ROCE	16.3	13.3	12.8	15.1	15.3
<b>Working capital days (days)</b>					
Receivables	24	30	23	20	22
Inventory	21	25	24	23	22
Payables	72	88	98	94	86
<b>Ratios (x)</b>					
Gross asset turnover	0.3	0.4	0.4	0.4	0.4
Current ratio	0.9	1.0	0.8	0.8	0.9
Net interest coverage ratio	(12.9)	(8.7)	(6.8)	(10.2)	(11.4)
Adjusted debt/equity	0.4	0.5	0.3	0.3	0.2

Source: Company, BOBCAPS Research

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

**BUY** – Expected return >+15%

**ADD** – Expected return from >+5% to +15%

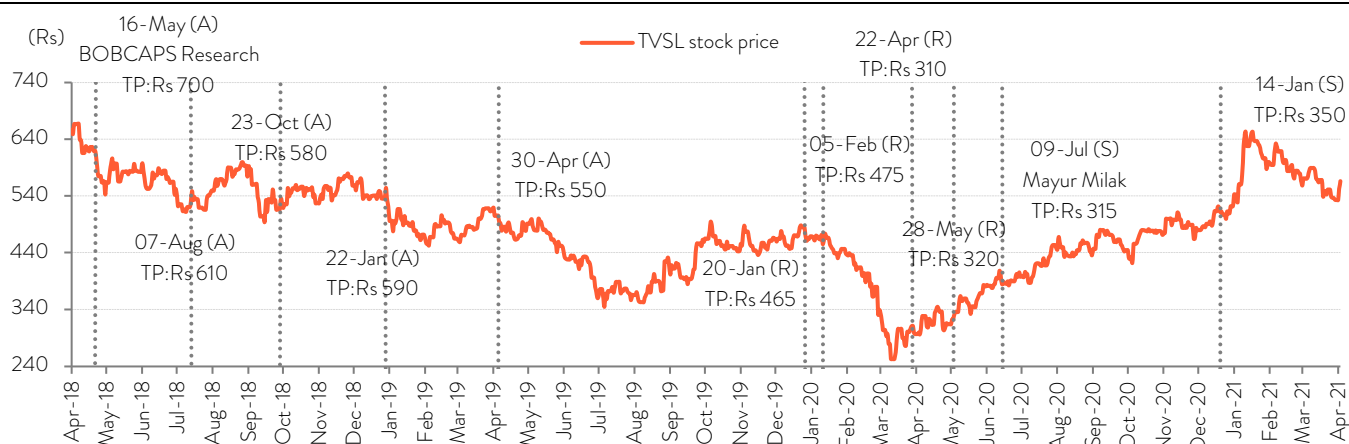
**REDUCE** – Expected return from -5% to +5%

**SELL** – Expected return <-5%

**Note:** Recommendation structure changed with effect from 1 January 2018 (Hold rating discontinued and replaced by Add / Reduce)

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### RATINGS AND TARGET PRICE (3-YEAR HISTORY): TVS MOTOR (TVSL IN)



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

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