

TVS Motor Company Ltd

Clearly focused on the ultimate goal (EV) & leading on all fronts

Q3FY23 results met our estimates across parameters. The realization increased higher than our estimates due to better than expected benefits from USD realization, price increase, higher supplies of premium products, increase in EV sales (3.5% of volumes in Q3 vs 1.6% in Q2), offset by a lower export mix (28% in Q3 vs. 29% in Q2). Absolute EBITDA & PAT matched our estimates. EBITDA per unit is at historic highs of Rs7,493, consecutive increase since last seven quarters now. In 9MFY23, all parameters shown superior improvement. Strong commentary, new launches, premiumization, supply getting better, building capabilities ahead of the curve in EVs are all positive triggers for continued market share gains ahead. Better mix, along with price increase & operating leverage to keep improving margins & the company is capable to touch peer level margins in the mid-term. Valued stock by assigning 23x to FY25e EPS of Rs47.5 and valued TVS Credit separately (assigned 1x FY25e BV of Rs 54) to arrive at a fair value of Rs1,146 per share. Upgrade to BUY post recent correction in the stock & rollover to FY25e.

Electric is the ultimate focus, TVS is leading on all fronts

- ✓ iQube's response among customers is excellent and is known for quality product, as per our checks. We expect atleast four launches in the next 1.0-1.5 years including premium & city speed scooters, possible eMoped, passenger/commercial e3Ws.
- ✓ TVS proved its execution capabilities in the ICE segment over the past multi-years, hence we trust that the company can execute things better than others in the EV era.
- ✓ Additionally, the company is completely focused on building critical components in-house, hence due to combination of the above, we remain confident that TVS can emerge as one of the leaders in the EV space. These launches will also add the required scale for turning EV profitable faster (already turned gross margin positive).
- ✓ It aims to double EV volumes QoQ in Q4FY23 owing to improvement in supplies, increasing distribution reach & good bookings.

ICE market share gains continues, realization & margin triggers are positive ahead

- ✓ The company on a YTD basis as compared to the pre-covid (Dec '19) gained share by 142bps to 15.7% in domestic 2W. Similarly, showcased exceptional performance in exports, where it gained share by 639bps to 25.5%. Steady market share improvement to continue going forward.
- ✓ Realization to improve backed up price increase, selling premium models, scooters & electric vehicles. EBITDA margin trend has been positive since last multi-years despite poor 2W industry sales.
- ✓ We expect the margin upward trend to continue led by operating leverage benefits, better product & geographic mix, premiumization, softening commodity prices along with operating leverage benefits.

Y/E Mar (Rs mn)	Q3 FY23	Q3 FY22	YoY (%)	Q2 FY23	QoQ (%)	Q3 FY23e	Var. (%)
Volumes (No)	879,423	878,659	0.1	1,027,437	(14.4)	879,423	-
Realization (Rs)	74,429	64,945	14.6	70,264	5.9	72,021	3.3
EBITDA/unit (Rs)	7,493	6,467	15.9	7,169	4.5	7,493	(0.0)
Total Income	65,454	57,064	14.7	72,192	(9.3)	63,337	3.3
Gross margin (%)	24.5	23.7	73 bps	23.8	63 bps	-	-
EBITDA	6,589	5,683	16.0	7,365	(10.5)	6,589	(0.0)
EBITDA margin (%)	10.1	10.0	11 bps	10.2	(14) bps	10.4	(34) bps
PBT	4,755	3,915	21.5	5,492	(13.4)	-	-
Taxes paid	1,227	1,031	19.0	1,418	(13.4)	-	-
Effective tax rate (%)	25.8	26.3	(54) bps	25.8	0 bps	-	-
Reported PAT	3,528	2,883	22.4	4,075	(13.4)	3,549	(0.6)
PAT margin (%)	5.4	5.1	34 bps	5.6	(26) bps	5.6	(21) bps
Adjusted PAT	3,528	2,883	22.4	4,075	(13.4)	3,549	(0.6)

Source: Company, SMIFS research

Y/E Mar (Rs mn)	Revenue	YoY (%)	EBITDA	EBITDA (%)	Adj. PAT	YoY (%)	EPS	RoE (%)	RoCE (%)	P/E (x)	EV/EBITDA (x)
FY21	167,505	2.0	14,286	8.5	6,120	(0.7)	12.9	15.7	12.3	35.4	14.4
FY22	207,905	24.1	19,617	9.4	9,162	49.7	19.3	20.4	15.6	31.6	14.1
FY23e	268,869	29.3	27,379	10.2	14,971	63.4	31.5	27.5	20.8	31.3	16.1
FY24e	305,531	13.6	32,590	10.7	18,708	25.0	39.4	27.4	21.2	25.0	13.2
FY25e	344,728	12.8	38,588	11.2	22,544	20.5	47.5	26.2	21.9	20.8	10.7

Source: Company, SMIFS research estimates



Rating: **BUY** Upside/(Downside): **16.2%**

Current Price: **986** Target Price: **1,146**

| Earlier recommendation

Previous Rating: Accumulate

Previous Target Price: 1,209

| Market data

Bloomberg:	TVSL IN
52-week H/L (Rs):	1,177/513
Mcap (Rs bn/USD bn):	469/5.7
Shares outstanding (mn):	475
Free float:	49.0%
Daily vol. (3M Avg):	2.1mn
Face Value (Rs):	1

Source: Bloomberg, SMIFS research

| Shareholding pattern (%)

	Dec-22	Sep-22	Jun-22	Mar-22
Promoter	50.3	50.8	50.8	50.8
FII's	14.5	12.6	9.9	12.0
DII's	26.9	27.6	30.7	28.5
Public/others	8.4	9.0	8.6	8.7

Source: BSE

| Promoters pledging (%)

Promoters pledged shares	0.0	0.0	0.0	0.0
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Source: BSE

| Price performance (%) *

	1M	3M	12M	36M
Nifty 50	1.8	2.2	5.7	47.9
Nifty 500	2.3	1.3	4.6	52.6
TVSL	-2.6	-14.2	60.7	109.8

*As on 24th Jan 2023; Source: AceEquity, SMIFS research

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- ✓ We anticipate the combination of higher than industry growth and margin improvement trajectory to continue its outperformance in the coming years.
- ✓ Overall, EBITDA Margin at 10.2% is feasible in FY23e, with about ~50bps improvement should continue in each subsequent year to reach at the 11.2% level in FY25e.

Demand outlook turning positive across zones

- ✓ Outlook for rural is flashing positive signals, while exports bottomed out in Q3 with expectation of better numbers QoQ from hereon. Urban is already doing well.
- ✓ More number of launches in the ICE and EV space to continue to support TVS outperformance vis-à-vis the industry.
- ✓ Overall, we expect total volumes to touch ~3.75mn units in FY23e (+27% YoY growth in domestic, -9% in exports) with a 9.7% CAGR between FY23e-FY25e, to reach 4.51mn units by FY25e.

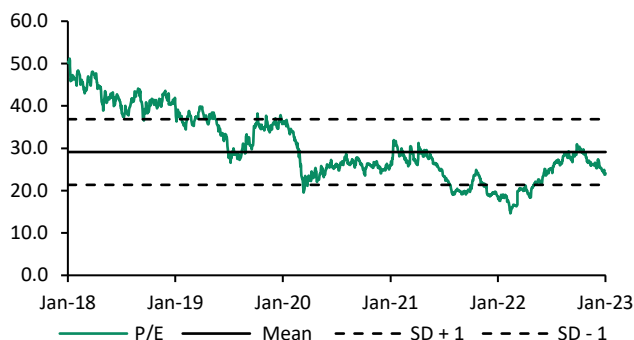
Other key highlights

- 1) TVS Credit has been doing well, investments will continue for growth prospects. 2) Investments in EV startups & technologies to continue, which will yield in positive results in the mid-to-long term.

Outlook and Valuations

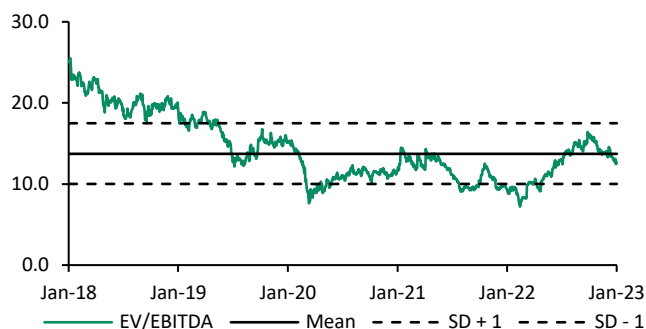
- ✓ We upgrade the stock to BUY, as we trust that TVS is likely going to replicate its exceptional performance (showcased in the ICE since last multi-years) in the EV era, and has potential to become one of the EV leaders in the mid-term.
- ✓ Sustained share gains & margin improvement, strong positive commentary, and ahead of the curve in delivering EVs are some of the positives built-in.
- ✓ Reduced multiple from 25x to 23x due to uncertainty and rollover from Sep '24e to FY25e. Tweaked estimates looking at the current quarter's performance & way ahead.
- ✓ Valued stock by assigning 23x to FY25e EPS of Rs47.5 and valued TVS Credit separately (assigned 1x FY25e BV of Rs 54) to arrive at a **fair value of Rs1,146 per share**.

Fig 1: 1-year forward P/E



Source: AceEquity, SMIFS research

Fig 2: 1-year forward EV/EBITDA

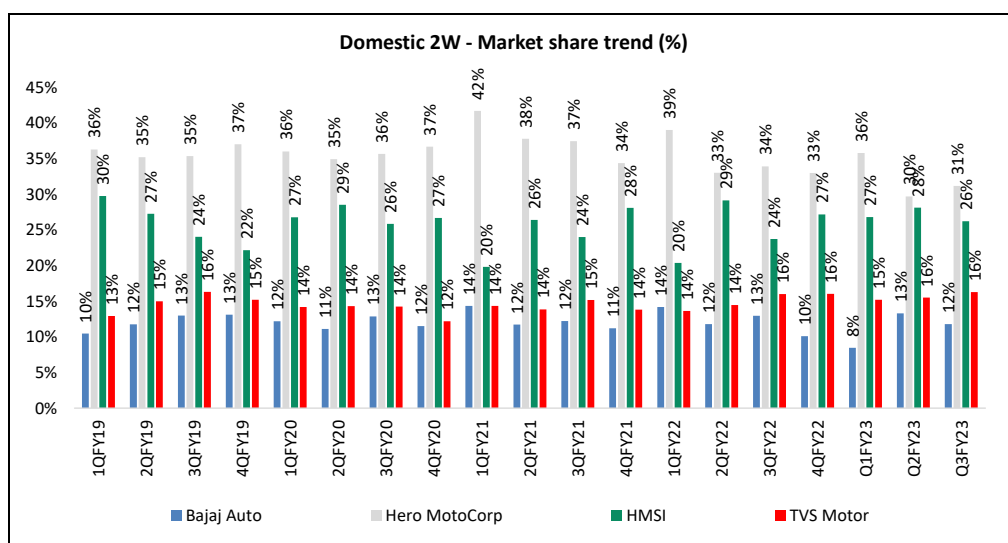


Source: AceEquity, SMIFS research

Changes in estimates

Rs mn	New estimates			Old estimates			Change (%)		
	FY23e	FY24e	FY25e	FY23e	FY24e	FY25e	FY23e	FY24e	FY25e
Total Volumes (No)	3,749,933	4,140,607	4,512,179	4,026,168	4,370,014	4,695,056	-6.9%	-5.2%	-3.9%
Revenue	268,869	305,531	344,728	279,789	313,022	348,494	-3.9%	-2.4%	-1.1%
Gross profit	64,519	74,844	85,825	67,559	77,149	87,286	-4.5%	-3.0%	-1.7%
Gross margin (%)	24.0	24.5	24.9	24.1	24.6	25.0	(15) bps	(15) bps	(15) bps
EBITDA	27,379	32,590	38,588	29,462	34,781	40,316	-7.1%	-6.3%	-4.3%
EBITDA margin (%)	10.2	10.7	11.2	10.5	11.1	11.6	(35) bps	(44) bps	(37) bps
PAT	14,971	18,708	22,544	16,764	20,292	23,783	-10.7%	-7.8%	-5.2%
EPS (Rs)	32	39	47	35	43	50	-10.7%	-7.8%	-5.3%

Source: Company, SMIFS research estimates



Q3FY23 – Key takeaways from the management call

Electric vehicles

- To launch multiple EV models in the next 4-6 quarters, and have plans to serve international locations, once able to fulfil the domestic demand.
- The aim is to double EV sales QoQ in Q4FY23 as supply visibility is getting better, good bookings in-hand, along with continued expansion of reach (present in 110 cities with 200 touch points).
- Electric products turned gross margin positive.
- TVS has been getting government's subsidies, iQube models have proactively worked on new battery norms & has been adhering to the standards.
- It makes critical components in house including BMS. Only importing battery cells.
- TVS has been evaluating options to raise funds for EV.

Demand and Realization

- Outlook for the rural economy is getting better & overall slowly things are picking up. More new product launches expected in the EV and ICE segment in the coming quarters.
- TVS is confident of outgrowing the industry growth with its strong portfolio of brands.
- Q4 volumes will be better, supported by improvement in demand and supply situation.
- The demand earlier till date is soft due to 40% increase in product pricing owing to regulations, safety, etc., but the income has not gone by that much percentage. QoQ situation will get better for 2W industry.
- Moped volumes have been multi-years low as the complete entry-level segment impacted due to price increase. The company is hopeful that numbers will pick up gradually.
- Blended realization improved due to better product mix, price increase (0.7% increase in Q3), and higher EV sales. This trend will continue.

Exports

- Q3 export revenue was Rs17.70bn. TVS has been continuously outperforming the industry growth.
- Issues peaked in Q3, small improvement expected from Q4 onwards. Retails are getting better in the international markets.
- TVS to see better numbers QoQ going forward. The focus is on improving retails in the international markets.

Margins

- Q4 will see good growth in revenues, this along with operating leverage, increasing premiumization, better supplies, continued focus on cost reduction will lead to sustained EBITDA Margin improvement.
- Additionally, benefits of soft commodity prices will see in Q4FY23.

Investments

- TVS Credit has been doing well and to deliver excellent result in FY23e. Investments made in Q3 in the NBFC arm was Rs1.5bn, and will continue to invest for growth purpose.
- Invested Rs905.8mn in TVS Singapore entity in Q3. They in turn invest mostly in EVs, technologies, etc. and will yield in better results in the future. Sees huge potential from these investments.

Other highlights

- Selling about 3K Ronin model per month.
- In Q3FY23, USD realization was \$80, Other operating income was Rs900mn and Spare parts sales was Rs6.83bn.
- Standalone net debt as on 31st Dec '22 was Rs12bn.

Quarterly financials, operating metrics & key performance indicators

Fig 3: Quarterly Financials

Y/E March (Rs mn)	Q4FY21	Q1FY22	Q2FY22	Q3FY22	Q4FY22	Q1FY23	Q2FY23	Q3FY23
Net Sales	53,219	39,344	56,194	57,064	55,303	60,087	72,192	65,454
Raw Materials	40,098	29,790	42,665	43,512	42,115	45,728	54,975	49,429
Employee Costs	2,681	2,609	2,957	2,957	2,841	3,209	3,456	3,409
Other Expenditure	5,079	4,207	4,943	4,912	4,780	5,156	6,396	6,027
EBITDA	5,361	2,738	5,629	5,683	5,568	5,995	7,365	6,589
Depreciation	1,366	1,431	1,544	1,546	1,593	1,520	1,535	1,583
Interest	195	300	350	279	330	376	352	316
Other Income	69	16	35	57	82	222	14	65
Exceptional Items	-	(302)	-	-	-	-	-	-
PBT	3,869	722	3,769	3,915	3,727	4,321	5,492	4,755
Tax	977	190	993	1,031	982	1,115	1,418	1,227
Tax rate (%)	25.2	26.4	26.3	26.3	26.3	25.8	25.8	25.8
Reported PAT	2,892	531	2,776	2,883	2,745	3,205	4,075	3,527
YoY Growth (%)								
Revenue	52.9	174.8	22.0	5.8	3.9	52.7	28.5	14.7
EBITDA	119.0	NA	30.9	11.2	3.9	119.0	30.9	16.0
PAT	194.8	(154.5)	41.5	8.5	(5.1)	323.0	46.8	22.4
QoQ Growth (%)								
Revenue	(1.3)	(26.1)	42.8	1.5	(3.1)	8.7	20.1	(9.3)
EBITDA	4.9	(48.9)	105.6	1.0	(2.0)	7.7	22.9	(10.5)
PAT	8.9	(73.8)	266.4	3.9	(4.8)	16.8	27.1	(13.4)
Margin (%)								
RMC/revenue (%)	75.3	75.7	75.9	76.3	76.2	76.1	76.2	75.5
Gross margin (%)	24.7	24.3	24.1	23.7	23.8	23.9	23.8	24.5
Employee cost/revenue (%)	5.0	6.6	5.3	5.2	5.1	5.3	4.8	5.2
Other expenses/revenue (%)	9.5	10.7	8.8	8.6	8.6	8.6	8.9	9.2
EBITDA margin (%)	10.1	7.0	10.0	10.0	10.1	10.0	10.2	10.1
PAT margin (%)	5.4	1.9	4.9	5.1	5.0	5.3	5.6	5.4
Per Unit (Rs)								
EBITDA	5,780	4,162	6,140	6,467	6,502	6,611	7,169	7,493
Blended Realization	57,377	59,815	61,300	64,945	64,573	66,263	70,264	74,429

Source: Company, SMIFS research

Fig 4: Key Assumptions

Operating Details	FY20	FY21	FY22	FY23e	FY24e	FY25e
Domestic Volumes						
Motorcycles	755,388	627,656	708,200	916,057	989,341	1,058,595
Mopeds	636,812	617,441	473,793	440,627	462,659	485,792
Scooters	1,018,288	919,091	863,493	1,236,522	1,422,000	1,592,640
Three-wheelers (Passenger carrier)	11,934	8,266	9,152	16,016	19,219	20,757
Total Domestic Volumes	2,422,422	2,172,454	2,054,638	2,609,222	2,893,220	3,157,784
YoY Growth (%)	(23.1)	(10.3)	(5.4)	27.0	10.9	9.1
Export Volumes						
Motorcycles	608,188	714,105	1,024,803	891,579	971,821	1,049,566
Mopeds	13,859	8,313	10,883	3,483	3,831	4,214
Scooters	56,794	41,621	56,364	76,091	85,222	95,449
Three-wheelers (Passenger carrier)	161,977	115,330	162,880	169,558	186,514	205,165
Total Export Volumes	840,818	879,369	1,254,930	1,140,711	1,247,388	1,354,395
YoY Growth (%)	10.4	4.6	42.7	(9.1)	9.4	8.6
Total Volumes Sales						
Motorcycles	1,363,576	1,341,761	1,733,003	1,807,635	1,961,162	2,108,161
Mopeds	650,671	625,754	484,676	444,110	466,490	490,006
Scooters	1,075,082	960,712	919,857	1,312,613	1,507,223	1,688,089
Three-wheelers (Passenger carrier)	173,911	123,596	172,032	185,574	205,733	225,922
Total Volumes Sales	3,263,240	3,051,823	3,309,568	3,749,933	4,140,607	4,512,179
YoY Growth (%)	(16.6)	(6.5)	8.4	13.3	10.4	9.0
Blended Realization (Rs)						
Blended Realization (Rs)	50,328	54,887	62,819	71,700	73,789	76,399
YoY Growth (%)	8.2	9.1	14.5	14.1	2.9	3.5
EBITDA/unit (Rs)						
EBITDA/unit (Rs)	4,124	4,681	5,927	7,301	7,871	8,552
YoY Growth (%)	12.6	13.5	26.6	23.2	7.8	8.7

Source: Company, SMIFS research Estimates

Financial Statements

Income Statement					
YE March (Rs mn)	FY21	FY22	FY23e	FY24e	FY25e
Revenues	164,233	167,505	207,905	268,869	305,531
Materials cost	121,359	127,239	158,082	204,349	230,687
% of revenues	73.9	76.0	76.0	76.0	75.5
Employee cost	9,384	9,485	11,364	13,580	15,481
% of revenues	5.7	5.7	5.5	5.1	5.1
Others	20,031	16,497	18,842	23,561	26,774
% of revenues	12.2	9.8	9.1	8.8	8.8
EBITDA	13,459	14,286	19,617	27,379	32,590
Other income	321	330	190	352	435
Depreciation & Amortisation	4,890	4,937	6,114	6,171	7,066
EBIT	8,889	9,678	13,693	21,560	25,960
Interest expenses	1,022	1,416	1,259	1,384	747
Core PBT	7,546	7,933	12,244	19,824	24,777
Exceptional items	(323)	-	(302)	-	-
PBT	7,544	8,262	12,132	20,176	25,213
Taxes	1,622	2,142	3,197	5,205	6,505
Effective tax rate (%)	21.5	25.9	26.3	25.8	25.8
Reported PAT	5,922	6,120	8,936	14,971	18,708
Adjusted PAT	6,165	6,120	9,162	14,971	18,708

Source: Company, SMIFS research estimates

Key Ratios					
YE March	FY21	FY22	FY23e	FY24e	FY25e
Growth Ratio (%)					
Revenue	2.0	24.1	29.3	13.6	12.8
EBITDA	6.1	37.3	39.6	19.0	18.4
PAT	(0.7)	49.7	63.4	25.0	20.5
Margin Ratios (%)					
Gross Margin	24.0	24.0	24.0	24.5	24.9
EBITDA Margin	8.5	9.4	10.2	10.7	11.2
EBIT Margin	5.8	6.6	8.0	8.5	9.0
Core PBT margin	4.7	5.9	7.4	8.1	8.7
Adjusted PAT Margin	3.7	4.4	5.6	6.1	6.5
Return Ratios (%)					
ROE	15.7	20.4	27.5	27.4	26.2
ROCE	12.3	15.6	20.8	21.2	21.9
Turnover Ratios (days)					
Gross block turnover ratio (x)	2.8	3.2	3.7	3.6	3.5
Adjusted OCF/PAT (in %)	395	150	178	154	150
Debtors	23	16	16	16	16
Inventory	31	26	26	26	26
Creditors	98	91	91	91	91
Cash conversion cycle	(43)	(49)	(49)	(49)	(49)
Solvency Ratio (x)					
Debt-equity	0.29	0.4	0.3	0.3	0.1
Net debt-equity	(0.3)	(0.2)	(0.4)	(0.5)	(0.6)
Gross debt/EBITDA	0.9	1.0	0.6	0.6	0.3
Current Ratio	0.8	0.7	0.7	0.8	0.8
Interest coverage ratio	6.8	10.9	15.6	34.8	43.3
Dividend					
DPS	3.5	3.8	5.5	6.5	6.5
Dividend yield %	0.8	0.6	0.6	0.7	0.7
Dividend payout %	27.2	19.4	17.5	16.5	13.7
Per share Ratios (Rs)					
Basic EPS (reported)	12.9	18.8	31.5	39.4	47.5
Adjusted EPS	12.9	19.3	31.5	39.4	47.5
CEPS	23.3	32.2	44.5	54.3	64.3
BV	87.8	101.5	127.5	160.4	201.3
Valuation (x)					
P/E	35.4	31.6	31.3	25.0	20.8
P/BV	5.2	6.0	7.7	6.1	4.9
EV/EBITDA	14.4	14.1	16.1	13.2	10.7
EV/Sales	1.2	1.3	1.6	1.4	1.2
Adj Mcap/Core PBT	24.4	21.0	21.4	16.5	13.4
Adj Mcap/Adj OCF	8.0	18.8	15.9	14.2	11.8

Source: Company, SMIFS research estimates

Balance Sheet					
YE March (Rs mn)	FY21	FY22	FY23e	FY24e	FY25e
Equity Share Capital	475	475	475	475	475
Reserves & Surplus	41,234	47,745	60,103	75,723	95,178
Shareholders' Fund	41,710	48,220	60,578	76,198	95,653
Total Debt	12,298	20,076	17,582	19,555	10,592
Other non-current liabilities	3,118	3,465	3,900	4,162	4,443
Total Liabilities	57,125	71,761	82,061	99,915	110,688
Gross Block	62,104	67,525	79,115	90,914	103,340
Net Block	30,104	33,066	35,908	41,559	47,033
Capital WIP	2,787	4,245	4,245	4,245	4,245
Investments	33,145	47,160	51,193	63,414	70,309
Other Non-Current Assets	1,471	1,686	1,870	1,981	2,099
Inventories	11,518	11,227	14,701	16,596	18,626
Sundry Debtors	8,700	9,507	11,773	13,378	15,094
Cash	9,298	4,013	12,522	15,352	16,811
Other Current Assets	4,952	7,574	9,791	11,124	12,549
Total Current Assets	34,468	32,321	48,786	56,449	63,079
Sundry Creditors	39,216	39,914	51,145	57,737	64,799
Other Current Liabilities	5,633	6,802	8,796	9,996	11,278
Total Current Liabilities	44,849	46,716	59,942	67,733	76,077
Net Current Assets	(10,381)	(14,396)	(11,155)	(11,283)	(12,998)
Total Assets	57,125	71,761	82,061	99,915	110,688

Source: Company, SMIFS research estimates

Cash Flow					
YE March (Rs mn)	FY21	FY22	FY23e	FY24e	FY25e
Operating profit before WC changes	14,711	19,037	27,731	33,026	39,094
Changes in working capital	12,918	(962)	5,520	3,109	3,335
Income tax paid	(2,020)	(3,100)	(5,205)	(6,505)	(7,839)
Cash flow from operations	25,609	14,976	28,045	29,630	34,590
Adj. OCF	24,193	13,717	26,661	28,883	33,872
Capex	(5,557)	(7,279)	(9,013)	(12,717)	(13,468)
Adj. FCF	18,636	6,438	17,648	16,167	20,404
Cash flow from investments	(9,206)	(21,410)	(13,167)	(24,938)	(20,362)
Debt	(8,949)	4,825	(2,373)	1,972	(8,963)
Dividend Paid	(998)	(1,904)	(2,613)	(3,088)	(3,088)
Interest and Lease Expenses	(1,343)	(1,777)	(1,384)	(747)	(719)
Cash flow from financing	(11,956)	1,132	(6,370)	(1,862)	(12,770)
Net change in cash	4,447	(5,302)	8,509	2,830	1,459

Source: Company, SMIFS research estimates

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