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Q4FY21 result review
and earnings revision

Automobiles

Target price: Rs722

Earnings revision
(Standalone)

(%)	FY22E	FY23E
Sales	↑ 7.0	↑ 7.0
EBITDA	↑ 4.7	↑ 5.6
EPS	↑ 10.8	↑ 8.4

Target price revision

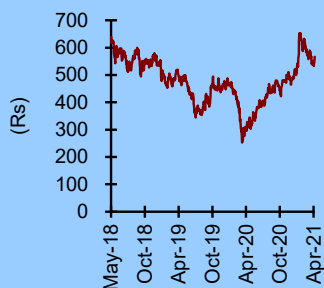
Rs722 from Rs668

Shareholding pattern

	Sep '20	Dec '20	Mar '21
Promoters	57.4	57.4	57.4
Institutional investors	32.6	32.6	33.2
MFs and others	13.9	12.1	11.5
FI & Banks	0.2	0.1	0.1
Insurance Cos	6.2	7.6	7.6
FPI	12.3	12.8	14.0
Others	10.0	10.0	9.4

Source: NSE

Price chart



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INDIA

TVS Motor Company

BUY

Maintained

Rs566

Margin acceleration surprises street

TVS Motor Company's (TVSM) Q4FY21 operating performance was a beat to consensus estimates as EBITDA margin came in at 10.1% (EBITDA/vehicle was at an all-time high of ~Rs5.8k). ASP jump of 3.7% YoY (~Rs57.4k/unit) continues to reflect improving product mix, higher exports and price increase (~1%). TVSM in 2H witnessed strong operating leverage gains (volumes up 32%) which aided in negating the input cost inflation impact. The template of success in automotive remains product, brand and then margin (10%+) which TVSM has now achieved. Superior working capital savings coupled with operating gains has led to FCF of ~Rs18.9bn in FY21, net-operating debt free status. TVSM plans to invest (capex: ~Rs5bn) and expand the EV capabilities and product portfolio while continuing to strengthen existing portfolio in domestic and exports. **Maintain BUY.**

- ▶ **Key highlights of the quarter:** Standalone revenue in Q4FY21 grew ~52% YoY to ~Rs53bn while EBITDA margin improved 246bps at 10.1%. Gross margin contracted 85bps YoY to 24.7% due higher raw material, BS-VI costs impact. The company achieved 199bps reduction in other expenses via various cost-reduction initiatives and digitally oriented A&P spends (savings!). Adjusted PAT grew ~164% YoY to ~Rs2.9bn. Consolidated EBITDA margin contracted 223bps to 12.7%, while adjusted PAT grew 142% YoY to Rs30bn.
- ▶ **Key takeaways from earnings call:** Management indicated: a) Strong FCF generation of ~Rs3.4bn in 4Q (FY21: Rs18.9bn); b) TVS Indonesia reported sales of 22.3k 2Ws (up 73% YoY) and reported a positive PBT of \$3.1mn in FY21 (loss:\$5.8mn in FY20) ; b) 4Q export revenue stood at Rs17.3bn; spares revenue was Rs5.3bn; c) TVSM plans to spend of ~Rs5bn capex in FY22 for EVs and new product development, ~Rs2bn in investments; d) TVSM has made Rs1bn equity investment in TVS Credit Services and investment of EUR18mn in digital initiatives and ~Rs400mn in Ultraviolet (EV); e) TVS Credit Services grew to a book size of ~Rs112bn, and PAT of 1.06bn; gross NPA level stood at 4.9% vis-à-vis 4.3% QoQ and capital adequacy stood at 18.5%; f) financing penetration for TVSM has reached ~42.5%, (against 49% last year); g) TVSM plans to expand its EV offering(iQube) to 20 new cities in FY22; and h) Cost-reduction initiatives (1% margin impact) coupled with pricing actions (2.6% hike in YTD-CY21) are levers to protecting margins.
- ▶ **Maintain BUY:** We continue to like TVSM's capability of delivering strong growth on the back of superior product mix, engineering capabilities. It has continued on its EBITDA improvement trajectory and continues to invest in new technologies (e.g. EV). We upgrade our standalone earnings estimates by ~11% / 8.4% for FY22E / FY23E, respectively. We value TVSM's standalone business at unchanged multiple of 24x FY23E EPS (Rs692/share) and TVS Credit Services at 1.0x trailing BV (Rs29/share) to arrive at a target price of Rs722/share (earlier: Rs668/share). We maintain our **BUY** rating on the stock.

Market Cap	Rs269bn/US\$3.6bn	Year to Mar (Consol)	FY20	FY21	FY22E	FY23E
Reuters/Bloomberg	TVSM.BO/TVSL IN	Revenue (Rs mn)	1,88,493	1,94,208	2,32,376	2,66,695
Shares Outstanding (mn)	475.1	Net Income (Rs mn)	6,549	6,036	11,066	15,407
52-week Range (Rs)	653/296	Rec. EPS (Rs)	13.8	12.7	23.3	32.4
Free Float (%)	42.6	% Chg YoY	(7.1)	(7.8)	83.3	39.2
FII (%)	14.0	P/E (x)	41.3	44.9	24.5	17.6
Daily Volume (US\$/'000)	22,751	CEPS (Rs)	24.9	24.4	36.2	46.4
Absolute Return 3m (%)	7.2	EV/E (x)	15.5	15.6	12.5	10.3
Absolute Return 12m (%)	90.3	Dividend Yield (%)	0.7	0.6	0.7	0.9
Sensex Return 3m (%)	3.4	RoCE (%)	10.5	9.4	11.6	13.8
Sensex Return 12m (%)	55.8	RoE (%)	18.7	15.4	23.7	26.8

Please refer to important disclosures at the end of this report

Table 1: Q4FY21 result review (standalone)*(Rs mn)*

	Q4FY21	Q4FY20	YoY (%)	Q3FY21	QoQ (%)
Volumes (units)	9,27,579	6,33,473	46.4	9,89,517	(6.3)
Realisation (Rs/unit)	57,375	55,305	3.7	54,485	5.3
Total operating income	53,220	35,034	51.9	53,914	(1.3)
Raw material costs	40,098	26,098	53.6	41,031	(2.3)
Employee costs	2,681	2,227	20.4	2,691	(0.4)
Other costs	5,079	4,041	25.7	5,081	(0.0)
Total operating expenditure	47,858	32,366	47.9	48,803	(1.9)
EBITDA	5,362	2,669	100.9	5,111	4.9
EBITDA Margin	10.1%	7.6%	246 bps	9.5%	59 bps
Depreciation	1,366	1,243	9.9	1,329	2.8
Other Income	69	251	(72.4)	124	(44)
Interest	195	235	(16.8)	291	(32.8)
PBT	3,870	1,442	168.4	3,615	7.0
Exceptional Items	-	(323)		-	
Tax	977	160	512.0	959	2
Reported PAT	2,893	959	201.8	2,656	8.9
Adjusted PAT	2,893	1,096	164.1	2,656	8.9

Source: Company data, I-Sec research

Table 2: Q4FY21 result review (consolidated)*(Rs mn)*

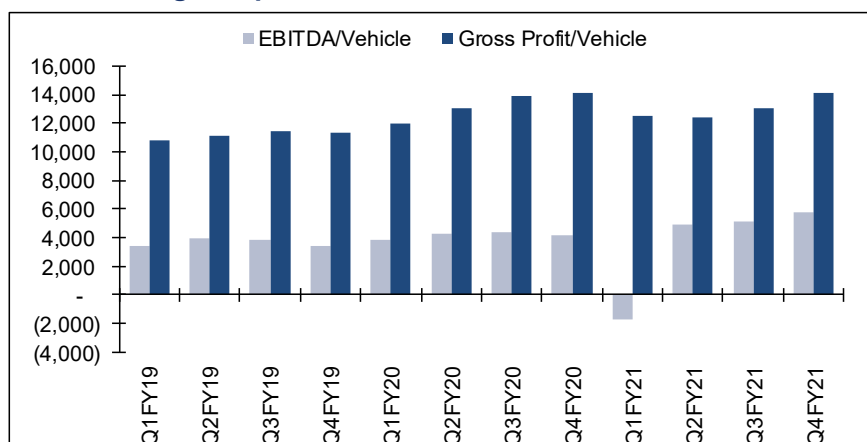
	Q4FY21	Q4FY20	YoY (%)	Q3FY21	QoQ (%)
Total operating income	61,319	41,047	49.4	60,949	0.6
Raw material costs	40,737	26,408	54.3	41,620	(2.1)
Employee costs	4,562	3,894	17.2	4,682	(2.6)
Other costs	8,243	5,522	49.3	7,116	15.8
Total operating expenditure	53,542	35,824	49.5	53,418	0.2
EBITDA	7,777	5,223	48.9	7,531	3.3
EBITDA Margin	12.7%	14.9%	-223 bps	12.4%	33 bps
Depreciation	1,594	1,566	1.8	1,496	6.6
Other Income	86	240	(63.9)	167	(48)
Interest	2,091	2,317	(9.7)	2,208	(5.3)
PBT	4,178	1,581	164.3	3,994	4.6
Exceptional Items	(62)	403		(17.4)	
Tax	945	330	186.5	1,037	(8.8)
PAT	3,171	847	274.1	2,940	7.9
Share of Profit JV/Associate	21.3	-29.1	(173.2)	-42.7	(149.9)
Minority Interest	91.4	-34.2	(367.3)	60.4	51.3
Reported PAT	3,101	853	263.7	2,837	9.3
Adjusted PAT	3,039	1,251	142.9	2,922	4.0

Source: Company data, I-Sec research

Table 3: Key assumptions (standalone)

	FY18	FY19	FY20	FY21	FY22E	FY23E
Volumes	34,66,110	39,15,165	32,63,507	30,51,843	35,79,683	39,74,385
- Motorcycles	13,55,576	15,60,699	13,63,579	13,42,133	15,65,504	17,25,068
- Scooters	11,34,918	13,01,115	10,75,218	9,60,686	11,24,003	12,70,123
- Mopeds	8,76,932	8,96,917	6,50,799	6,25,418	7,50,502	8,25,552
- 3-Wheelers	98,684	1,56,434	1,73,911	1,23,606	1,39,675	1,53,642
Total Operating Income	1,49,668	1,78,791	1,60,344	1,63,701	1,95,783	2,23,059
Net Realisations (Rs/unit)	43,180	45,666	49,133	53,640	54,693	56,124
EBITDA/Vehicle	3,390	3,661	4,124	4,681	5,490	6,097
EBITDA Margins (%)	7.9%	8.0%	8.4%	8.7%	10.0%	10.9%
PAT	6626	6701	5922	6120	10394	13697
EPS	13.9	14.1	12.5	12.9	21.9	28.8

Source: Company data, I-Sec research

Chart 1: Margin improvement breakdown

Source: Company data, I-Sec research

Table 4: Earnings revision (standalone)

(Rs mn)

	FY22E			FY23E		
	Previous	New	Chg (%)	Previous	New	Chg (%)
Sales	1,83,016	1,95,783	7.0	2,08,425	2,23,059	7.0
EBITDA	18,764	19,653	4.7	22,947	24,230	5.6
PAT	9,384	10,394	10.8	12,641	13,697	8.4
EPS (Rs)	19.8	21.9	10.8	26.6	28.8	8.4

Source: Company data, I-Sec research

Table 5: Earnings revision (consolidated)

(Rs mn)

	FY22E			FY23E		
	Previous	New	Chg (%)	Previous	New	Chg (%)
Sales	2,10,744	2,32,376	10.3	2,41,427	2,66,695	10.5
EBITDA	27,450	27,895	1.6	33,219	33,885	2.0
PAT	10,345	11,066	7.0	14,541	15,407	6.0
EPS (Rs)	21.8	23.3	7.0	30.6	32.4	6.0

Source: Company data, I-Sec research

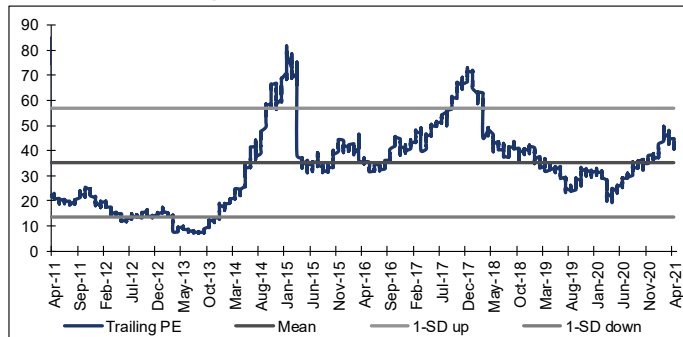
Valuation methodology and key risks

We continue to like TVSM's capability of delivering strong growth on the back of superior product mix, engineering capabilities. It has continued on its EBITDA improvement trajectory and continues to invest in new technologies (e.g. EV). We value TVSM's standalone business at unchanged multiple of 24x FY23E EPS (Rs692/share) and TVS Credit Services at 1.0x trailing BV (Rs29/share) to arrive at a target price of Rs722/share (earlier: Rs668/share). Maintain **BUY**.

Key risks to our call: Weaker-than-expected improvement in operating performance of standalone business in FY22 and delayed scooter demand growth.

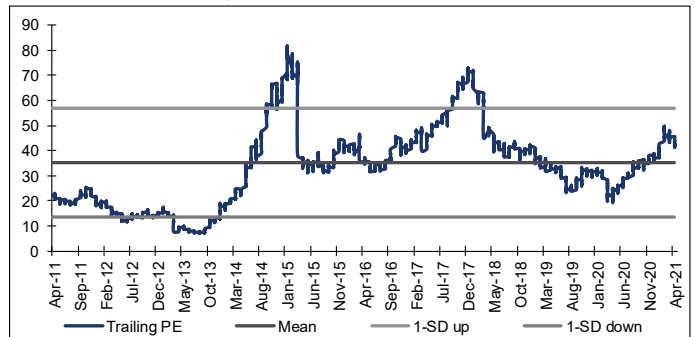
Historical trailing P/E and P/B ratio

Chart 2: Trailing P/E



Source: I-Sec research, 12m trailing data

Chart 3: Trailing P/B



Source: I-Sec research, 12m trailing data

Financial summary (consolidated)

Table 6: Profit and loss statement

(Rs mn, year ending March 31)

	FY20	FY21	FY22E	FY23E
Operating Income (Sales)	1,88,493	1,94,208	2,32,376	2,66,695
Operating Expenses	1,65,763	1,71,830	2,04,481	2,32,810
EBITDA	22,731	22,378	27,895	33,885
% margins	12.1	11.5	12.0	12.7
Depreciation & Amortisation	5,560	5,648	6,133	6,630
Gross Interest	8,545	8,815	7,317	7,069
Other Income	518	472	543	624
Recurring PBT	9,143	8,387	14,989	20,811
Add: Extraordinaries	(483)	(187)	-	-
Less: Taxes	2,186	2,141	3,777	5,244
Net Income (Reported)	6,246	5,943	11,066	15,407
Recurring Net Income	6,549	6,036	11,066	15,407

Source: Company data, I-Sec research

Table 7: Balance sheet

(Rs mn, year ending March 31)

	FY20	FY21	FY22E	FY23E
Assets				
Total Current Assets	1,38,953	1,58,988	1,58,962	1,75,471
of which cash & cash eqv.	11,076	16,569	10,153	5,868
Total Current Liabilities & Provisions	63,362	79,352	76,750	87,384
Net Current Assets	75,592	79,636	82,212	88,088
Investments	3,709	4,680	9,180	13,680
of which				
Strategic/Group	2,038	1,953	3,953	5,953
Other Marketable	1,671	2,727	5,227	7,727
Net Fixed Assets	48,435	52,506	51,373	50,743
Total Assets	1,29,340	1,39,037	1,44,980	1,54,726
Liabilities				
Borrowings	92,438	95,979	92,979	89,979
Deferred Tax Liability	871	913	868	805
Equity Share Capital	475	475	475	475
Face Value per share (Rs)	1	1	1	1
Reserves & Surplus*	35,555	41,670	50,658	63,467
Less: Misc. Exp. n.w.o.	-	-	-	-
Net Worth	36,030	42,145	51,133	63,942
Total Liabilities	1,29,340	1,39,037	1,44,980	1,54,726

Source: Company data, I-Sec research

Table 10: Quarterly trend (standalone)

(Rs mn, year ending March 31)

	Jun-20	Sep-20	Dec-20	Mar-21
Net sales	14,317	46,055	53,914	53,220
% growth (YoY)	0%	0%	0%	0%
EBITDA	-488	4,301	5,111	5,362
Margin (%)	-3.4%	9.3%	9.5%	10.1%
Other income	26	111	124	69
Add: Extraordinaries	0	0	0	0
Net profit	-1,391	1,963	2,656	2,893

Source: Company data, I-Sec research

Table 8: Cashflow statement

(Rs mn, year ending March 31)

	FY20	FY21	FY22E	FY23E
Operating Cashflow	12,186	11,388	16,964	21,737
Working Capital Changes	(5,893)	1,221	(9,345)	(10,550)
Capital Commitments	(12,128)	(9,634)	(7,000)	(8,000)
Free Cashflow	(5,836)	2,975	620	3,188
Cashflow from Investing Activities	1,671	(584)	(1,957)	(1,876)
Issue of Share Capital	-	-	-	-
Buyback of shares	-	-	-	-
Inc (Dec) in Borrowings	10,809	3,541	(3,000)	(3,000)
Dividend paid	(2,000)	(1,663)	(2,078)	(2,598)
Extraordinary Items	(323)	-	-	-
Chg. in Cash & Bank balance	2,065	5,493	(6,416)	(4,285)

Source: Company data, I-Sec research

Table 9: Key ratios

(Year ending March 31)

	FY20	FY21	FY22E	FY23E
Per Share Data (in Rs.)				
EPS(Basic Recurring)	13.8	12.7	23.3	32.4
Diluted Recurring EPS	13.8	12.7	23.3	32.4
Recurring Cash EPS	24.9	24.4	36.2	46.4
Dividend per share (DPS)	3.8	3.2	4.0	5.0
Book Value per share (BV)	75.9	88.7	107.6	134.6
Growth Ratios (%)				
Operating Income	(6.5)	3.0	19.7	14.8
EBITDA	5.2	(1.5)	24.7	21.5
Recurring Net Income	(7.1)	(7.8)	83.3	39.2
Diluted Recurring EPS	(7.1)	(7.8)	83.3	39.2
Diluted Recurring CEPS	3.0	(1.8)	48.4	28.1
Valuation Ratios (x)				
P/E	41.3	44.9	24.5	17.6
P/CEPS	22.9	23.4	15.7	12.3
P/BV	7.5	6.4	5.3	4.2
EV / EBITDA	15.5	15.6	12.5	10.3
EV / Operating Income	1.9	1.8	1.5	1.3
EV / Operating FCF	(65.4)	120.6	133.3	67.1
Operating Ratios (%)				
Raw Material/Sales	65.3	66.6	65.7	64.9
SG&A/Sales	6.3	5.4	5.3	5.1
Other Income / PBT	5.7	5.6	3.6	3.0
Effective Tax Rate	25.0	25.8	25.2	25.2
NWC / Total Assets	48.6	43.4	46.1	48.1
Inventory Turnover (days)	10.0	10.2	11.4	12.2
Receivables (days)	29.9	24.0	22.2	26.0
Payables (days)	94.0	105.7	96.9	85.8
D/E Ratio	259.0	229.9	183.5	142.0
Return/Profitability Ratios (%)				
Recurring Net Income Margins	3.5	3.1	4.8	5.8
RoCE	10.5	9.4	11.6	13.8
RoNW	18.7	15.4	23.7	26.8
Dividend Payout Ratio	32.0	28.0	18.8	16.9
Dividend Yield	0.7	0.6	0.7	0.9
EBITDA Margins	12.1	11.5	12.0	12.7

Source: Company data, I-Sec research

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