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## Annual Report Analysis

## Automobiles

Target price: Rs1,023

Earnings revision  
(Standalone)

(%)	FY23E	FY24E
Sales	0.0	0.0
EBITDA	0.0	↑ 3.2
EPS	0.0	↑ 4.2

## Target price revision

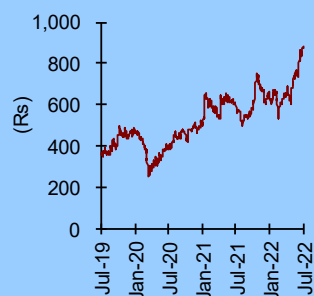
Rs1,023 from Rs929

## Shareholding pattern

	Sep '21	Dec '21	Jun '22
Promoters	52.3	50.8	50.8
Institutional investors	38.3	40.5	40.6
MFs and other	15.8	17.5	19.7
FIs/Banks/Ins	0.0	0.0	0.1
Insurance Cos	8.0	9.4	9.3
FIIIs	14.4	14.5	11.5
Others	13.7	15.1	8.6

Source: BSE

## Price chart



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INDIA

## TVS Motor

BUY

Maintained

Rs877

## Weak FCF; strong earnings growth

The annual report of TVS Motor Company (TVSL) highlights the grey areas of TVSL beyond the strong growth in revenue or standalone profitability in FY22. Despite 8% growth in volume, 24% growth in standalone revenue and 90bps improvement in EBITDAM, resulting in standalone earnings growth of ~51%, FCF generation worsened for TVS. Capex needs for EV development and investments towards e-mobility businesses along with reversal in working capital resulted in standalone FCF turning negative. Losses under Norton motorcycles, UK and digital/start-up investments added to the FCF loss at a consolidated level despite decent performance by the NBFC and Indonesian arms. Consolidated net debt/equity adjusted for NBFC debt was 0.33x vs 0.13x in FY21. Capex + investments would logically remain elevated in FY23, too, led by GBP100mn outflow for Norton. R&D spend was higher by 50bps YoY at 2.5% of sales. Independent directors' rotation continued to remain an issue with three having >10 years' stints. In terms of contingent liabilities, related-party transactions, KMP remuneration etc. TVSL fared well in FY22. DCF-based TP of Rs1,023 implies ~22x FY24E core EPS of Rs44 at 50% EPS CAGR in FY22-FY24E.

## Key things to know from TVSL FY22 AR:

- ▶ Losses at ex-standalone level widened to Rs1.9bn vs being neutral in FY21 led by Rs1.2bn loss under Norton and ~Rs1bn loss under digital/start-up investments, despite Indonesia and NBFC arms executing profitable growth.
- ▶ Managed standalone costs pretty well both at raw material and SGA cost levels. Continued to focus on digital marketing spends in order to keep overall SGA under control. Managed freight costs pretty well amidst extreme adversities, being up merely 20bp to 2%. TVSL improved gross profit/unit and kept gross margin flat.
- ▶ Standalone business FCF was negative at Rs10.5bn led by elevated capex and investments along with adverse working capital moves despite strong ~51% growth in PAT. Consolidated FCF loss was Rs21bn due to losses by Norton, resulting in consolidated net debt/equity moving up to 0.33x from 0.13x YoY.
- ▶ Managed contingent liabilities, related-party transactions, KMP remunerations, and auditor fees well though continued to operate with three independent directors being more than ten years on Board and continued with V. Sankar Aiyer as auditor since FY14.
- ▶ Nothing much worthwhile with regards to ESG with slight decline in the usage of renewable energy to 80.4%, down 360bps YoY. Gender diversity remained flat at 7%.

**Outlook:** In FY23-FY24, we expect 12%/18%/36%/51% volume/revenue/EBITDA/PAT CAGR at standalone level, resulting in TVSL generating Rs8-10bn of FCF amidst Rs20-22bn of capex + investments. Reduction of losses in Norton is key to consolidated FCF and overall de-leveraging amidst strong profitable growth at standalone level.

Market Cap	Rs416bn/US\$5.2bn	Year to Mar (Std)	FY21	FY22	FY23E	FY24E
Reuters/Bloomberg	TVSM.BO/TVSL IN	Revenue (Rs mn)	1,67,505	2,07,905	2,51,089	2,89,907
Shares Outstanding (mn)	475.1	Rec. Net Income (Rs mn)	6,120	9,237	15,288	20,784
52-week Range (Rs)	890/459	Rec. EPS (Rs)	12.9	19.4	32.2	43.7
Free Float (%)	49.2	% Chg YoY	(2.0)	50.9	65.5	36.0
FII (%)	11.5	P/E (x)	68.0	45.1	27.2	20.0
Daily Volume (US\$/'000)	18343	CEPS (Rs)	23.3	32.3	46.8	60.0
Absolute Return 3m (%)	34.6	EV/E (x)	29.9	21.8	14.9	11.7
Absolute Return 12m (%)	50.5	Dividend Yield (%)	0.2	0.4	0.6	0.8
Sensex Return 3m (%)	(2.2)	RoCE (%)	27.4	48.4	65.6	72.6
Sensex Return 12m (%)	7.4	RoE (%)	15.7	20.5	28.0	29.8

Please refer to important disclosures at the end of this report

## Execution of profitable growth amidst adversities

As against domestic 2W market declining by ~11% in FY22, TVSL domestic 2W portfolio declined ~5% and including ~43% growth in 2W exports, TVSL's overall 2W portfolio grew ~7% in FY22. Including ~41% growth in 3W exports, overall volume was up ~8% YoY at 3.3mn units. TVSL was able to execute industry-beating performance in an environment where RM basket increased ~15% YoY along with keeping gross margin (GM) intact. This signifies the strength of its portfolio, as TVSL was able to gain market share and also improve its gross profit/unit duly to remain GM neutral. TVSL's standalone EBITDAM improved by 90bps in FY22 to 9.4%. This was led by tight control on advertisement/marketing expenses and staff costs as against higher R&D and freight expenses. TVSL took disciplined price hikes across H2FY22 to pass on RM inflation along with focusing on yield improvement on materials, alternative sourcing and import substitution to deliver static gross margin. It continued to focus on automation, process/productivity improvement and lower marketing spends through digital initiatives helping it control SG&A costs. Packing and freight costs increased ~20bps to ~2% of sales due to inflated container rates. R&D/sales moved up ~70bps to ~2% led by rising need for investment in EVs and new model development.

## Improved scale and easing RM inflation to drive EBITDAM in FY23E

With RM basket declining ~15% in the past couple of months, we expect TVSL GM to improve by 200-250bps in FY23E amidst strong pricing discipline across the market. Improving scale, launch of higher ASP premium products like *Ronin* and scaling up of EV portfolio would help EBITDAM move towards 12-13% band from present 9-10% levels in FY23-FY24. Thus, we expect EBITDA/unit to move to Rs8k levels by FY24E vs Rs5.5k in FY22, with further decline in RM costs to drive per unit EBITDA further up.

**Table 1: Strong portfolio and pricing discipline helping TVSL face the adversities of elevated RM and freight; continued focus on digital marketing also helping**

Common-size	FY13	FY14	FY15	FY16	FY17	FY18	FY19	FY20	FY21	FY22
<b>As % of net sales</b>										
Raw material costs	72.5%	71.3%	72.3%	71.7%	73.0%	73.6%	76.0%	73.9%	76.0%	76.0%
Employee expenses	5.7%	6.0%	5.8%	5.9%	6.1%	5.7%	5.1%	5.7%	5.7%	5.5%
Power & fuel	1.3%	1.0%	0.9%	0.8%	0.7%	0.7%	0.6%	0.5%	0.5%	0.4%
Advertising/marketing	6.4%	6.8%	5.6%	5.6%	4.6%	4.1%	4.1%	4.7%	3.5%	2.8%
Packing & freight	3.3%	3.8%	4.1%	0.0%	3.8%	4.2%	2.2%	2.3%	1.8%	2.0%
Repairs & maintenance	0.0%	0.0%	0.5%	0.5%	0.5%	0.4%	0.4%	0.4%	0.4%	0.4%
R&D expenses	1.4%	1.4%	1.4%	1.4%	1.4%	1.2%	1.2%	1.5%	1.4%	2.1%
Others	3.7%	3.8%	2.9%	6.6%	2.8%	2.5%	2.6%	2.7%	2.2%	3.4%
<b>EBITDA margin</b>	<b>5.7%</b>	<b>6.0%</b>	<b>6.4%</b>	<b>7.3%</b>	<b>7.5%</b>	<b>7.7%</b>	<b>7.9%</b>	<b>8.2%</b>	<b>8.5%</b>	<b>9.4%</b>

Source: Company data, I-Sec research

**Table 2: Gross profit/unit improvement despite higher RM costs balancing elevated needs of R&D and freight costs**

Per vehicle metric (standalone)	FY17	FY18	FY19	FY20	FY21	FY22
Revenue	41,655	43,784	46,537	50,332	54,886	62,819
Raw Material costs	30,247	32,121	35,375	37,193	41,692	47,765
Employee expenses	2,547	2,504	2,358	2,876	3,108	3,434
Power & fuel	310	309	281	277	249	229
Advertising/marketing	1,898	1,800	1,920	2,383	1,941	1,790
Packing & freight	1,577	1,838	1,001	1,163	1,008	1,233
Repairs & maintenance	219	188	168	213	213	277
R&D expenses	578	534	539	730	768	1,326
Others	1,155	1,101	1,232	1,374	1,226	837
<b>EBITDA</b>	<b>2,915</b>	<b>3,258</b>	<b>3,662</b>	<b>4,125</b>	<b>4,681</b>	<b>5,927</b>

Source: Company data, I-Sec research

## Product mix; motorcycle mix increases at the cost of scooters/mopeds

In terms of product mix, motorcycles increased drastically to ~52%, up 800bps, as weak rural demand impacted demand for mopeds along with educational institutes/offices remaining closed impacting the demand for scooters. Moped mix fell to ~15% vs scooter mix falling 300bps YoY to ~28%. Export mix moved up 900bps YoY to 38%, with both 2W and 3W export growing ~42% YoY. In FY23, we expect premium bike portfolio and scooters (including EVs) to drive revenue in place of exports.

**Table 3: Scooter volume mix continued to decline in FY22, being affected more vs MCs as covid lockdowns were implemented in H1FY22 in urban centres**

Segment -volume share	FY17	FY18	FY19	FY20	FY21	FY22
Motorcycle	36.8%	39.1%	39.8%	41.8%	44.0%	52.3%
Mopeds	31.1%	25.3%	22.9%	20.0%	20.5%	14.6%
Scooters	29.7%	32.7%	33.2%	32.9%	31.5%	27.9%
Three Wheelers	2.4%	2.9%	4.0%	5.3%	4.0%	5.2%
<b>Total</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100.0%</b>	<b>100.0%</b>

Source: Company data, I-Sec research

## Cash conversion cycle relatively stable ex-working capital changes

CFO (before tax) before working capital change as a percentage of EBITDA was largely in line with trailing 5-year mean level of ~100% at ~97%, down 600bp YoY. CFO (before tax) post WC change as a percentage of EBITDA as a result declined back to normative levels of ~92% from elevated ~193% in FY21 led by favourable working capital cycle last year. WC increased by ~Rs4bn (from negative 42 days in FY21 to negative 26 days in FY22) led by rationalisation in payable days from FY21 elevated levels, though inventory and receivable days only declined YoY. Overall current liabilities reduced from 95 days to 73 days, back at FY20 levels. We believe there is still further scope for reduction in overall current liability days from 73 days to normative levels of ~65-66 days going ahead.

**Table 4: Cash conversion got impacted YoY led by WC rationalisation**

(Rs mn)	FY18	FY19	FY20	FY21	FY22
CFO (pre-tax) before working capital changes	11,770	14,535	12,861	14,711	19,037
Working capital (increase)/ decrease	3,668	(1,257)	2,926	12,918	(962)
CFO (pre-tax) after working capital changes	15,438	13,278	15,786	27,629	18,076
EBITDA	11,750	14,333	13,459	14,285	19,617
CFO before tax and WC changes as % of EBITDA	100%	101%	96%	103%	97%
<b>CFO before tax post WC changes as % of EBITDA</b>	<b>131%</b>	<b>93%</b>	<b>117%</b>	<b>193%</b>	<b>92%</b>

Source: Company data, I-Sec research

**Table 5: Working capital cycle deteriorated in FY22 post elevated payable days in FY21 rationalised back in FY22**

	Rs mn					Closing days				
	FY18	FY19	FY20	FY21	FY22	FY18	FY19	FY20	FY21	FY22
Inventory	9,644	11,759	10,389	11,518	11,227	23	24	23	25	20
Debtors	9,684	14,141	12,814	8,700	9,507	23	28	28	19	17
Loans & advances	6,368	5,562	5,223	5,914	8,185	15	11	12	13	14
Current liabilities	28,227	32,912	32,772	43,379	41,410	68	66	73	95	73
Provision (ex-Dividend)	1,158	1,183	1,763	1,925	2,458	3	2	4	4	4
<b>Working capital</b>	<b>(3,690)</b>	<b>(2,632)</b>	<b>(6,108)</b>	<b>(19,172)</b>	<b>(14,949)</b>	<b>(9)</b>	<b>(5)</b>	<b>(14)</b>	<b>(42)</b>	<b>(26)</b>

Source: Company data, I-Sec research

## Fixed asset turns improve despite higher capex

Gross block turnover recovered to FY20 levels of ~3.1x in FY22 vs ~2.8x in FY21, led by ~8% volume growth and ~24% revenue growth. Capex (payment for addition to gross block, CWIP and capital advances) in FY22 was ~10.6bn (5.1% of FY22 revenue, up ~180bps YoY), up 90% YoY. Additions to gross block in FY22 were related to plant and machinery, and creating for EV capability other than the needs for R&D. Capex was elevated this year (in FY22) as post lighter capex in a covid-impacted FY21, TVSL has to spruce up its EV capacity along with spending on new launches like *Ronin* and *Creon*.

**Table 6: Standalone capex spend increased 90% to ~10.6bn in FY22**

Standalone (Rs mn)	FY18	FY19	FY20	FY21	FY22
Gross block - opening	39,290	45,454	50,546	56,830	62,118
Additions to gross block	7,485	6,183	7,047	5,738	9,210
Deletions to gross block	1,321	1,092	763	450	856
Closing gross block	45,454	50,546	56,830	62,118	70,472
Increase/(decrease) in CWIP	689	1,336	282	(68)	1,458
Increase/(decrease) in Capital adv.	18	46	166	(83)	(79)

Source: Company data, I-Sec research

**Table 7: TVSL's average gross block turnover trend (standalone)**

Avg. gross block turnover (x) (standalone)	FY18	FY19	FY20	FY21	FY22
TVSL	3.7	3.8	3.1	2.8	3.1

Source: Company data, I-Sec research

## Investments into e-bike businesses dominated over investments for Norton, credit services and digital investments

- As against investments being led by funding captive NBFC or funding losses for Indonesian arm, this year's investments of TVSL were led by e-bikes. TVSL acquired 75% stake in e-bike retailer Swiss e-mobility group for ~US\$100mn along with 80% stake in another e-bike player named GO Corp for ~US\$18mn. Rest of the investments were driven by TVS Credit Services, Ultraviolette EV arm, Norton motorcycles and digital innovation led acquisitions. The e-bike related investments were routed through the Singapore investment arm.
- With PT TVS Indonesia being profitable (PAT of Rs351mn), no such funding was needed from parent's side. TVS Credit Services also reported strong PAT of Rs1.2bn and thus, very limited investment of Rs1bn was made towards it in FY22 as against the 85% stake in it held by parent TVS Motor.
- Norton Motorcycles (Norton), the British motorcycling brand, was acquired by TVSL in FY21 for GBP16mn with the aim of enhancing its product portfolio in the super premium motorcycle category. Norton is a 100% subsidiary of TVS Motor (Singapore) and investments into Norton are routed through the Singapore arm. TVSL is planning to invest GBP100mn in Norton in FY23 in order to get its portfolio and facilities ready for production by the end of FY23.
- In FY22, amidst rise in working capital, elevated capex and rise in investments (led by e-mobility arm acquisitions), FCF (including investments) was negative at ~Rs3bn. Despite continuous rise in capex and investments (Rs20bn outflow in FY23), in order to get prepared for EV transition from FY23E, we expect FCF of Rs8bn and above led by improving profitability and growth boosting OCF.

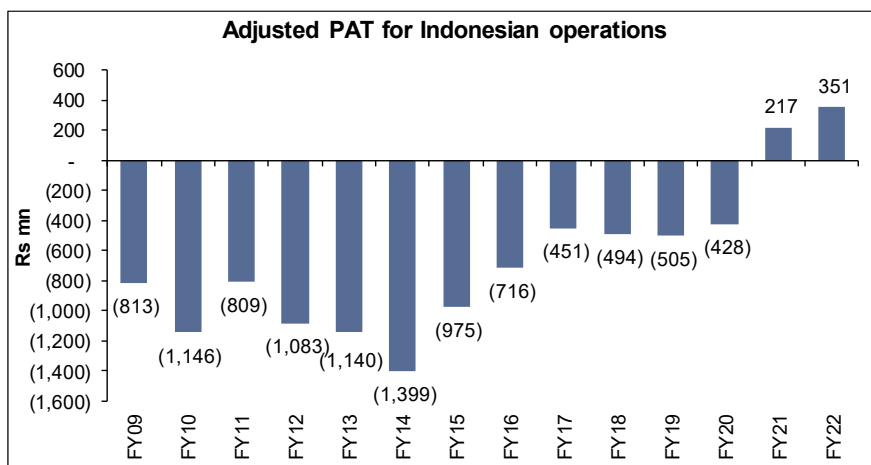
**Table 8: Key investments by TVSL**

(Rs mn)	Latest equity stake held by TVSL	FY15	FY16	FY17	FY18	FY19	FY20	FY21	FY22
<b>Indonesian 2W venture</b>									
TVS Motor (Sing.) Pte. Ltd.	100.0%	2,012	2,032	1,471	1,535	2,259	3,648	8,092	19,128
PT. TVS Motor Co. Indonesia	51.2%	2,212	2,882	2,174	2,689	3,168	3,525	3,891	3,891
TVS Motor (Sing.) Pte. Ltd. + PT. TVS Motor Co. Indonesia)		5,490	6,179	3,663	4,242	5,445	7,191	12,001	23,037
<b>Net Book value</b>		<b>4,242</b>	<b>4,932</b>	<b>3,663</b>	<b>4,242</b>	<b>5,445</b>	<b>7,191</b>	<b>12,001</b>	<b>23,037</b>
<b>Credit Services</b>									
TVS Motor Service Ltd	100.0%				50	77	527	527	1,487
TVS Credit Service Ltd	84.5%				535	1,735	12,610	13,610	14,610
<b>Housing ventures</b>									
Emerald Haven Realty Ltd.	48.8%	400	400	800	1,112	1,112	1,112	1,112	1,112
<b>Net Book value</b>		401	401	801	1,113	1,113	1,113	1,113	1,113
<b>Auto component ventures</b>									
Sundaram Auto Comp. Ltd.	100.0%	609	609	849	2,559	2,532	3,132	3,362	3,362
<b>EV Technology</b>									
Intellicar Telematics Private Limited, Bengaluru								226	231
Ultraviolette Automotive Private Limited, Bengaluru								460	1,210
Tagbox Solutions Pvt. Ltd., Bengaluru								112	112
<b>Net Book value</b>		<b>5,401</b>	<b>6,091</b>	<b>5,325</b>	<b>8,499</b>	<b>10,902</b>	<b>24,573</b>	<b>31,410</b>	<b>45,171</b>
Net Book value Per TVSM share		11	13	11	18	23	52	66	95
As % of standalone net worth		33%	31%	22%	30%	33%	68%	76%	95%

Source: Company data, I-Sec research

**Indonesia business remains profitable for second year in a row**

With volume increasing by ~50% YoY to 97k units, Indonesian business EBITDAM improved 90bps to 6.4% on a revenue of Rs6bn, resulting in PAT of Rs350n (vs Rs217mn in FY21). Indonesian business RoE improved 200bps YoY to 18% with a net worth of Rs2.2bn. 2W volume was up 46% YoY at 86k units as against 3W portfolio being up 89% YoY at 11k units. We believe Indonesian arm remaining profitable for second year in a row should allay investor concerns w.r.t impairment.

**Chart 1: Indonesia business remains profitable**

Source: Company data, I-Sec research

**Table 9: Indonesia business operations improving gradually**

	FY17	FY18	FY19	FY20	FY21	FY22
Volume	26,756	37,745	43,460	61,447	64,764	97,290
ASP (Rs/unit)	55,771	48,722	55,016	58,935	61,511	62,008
Revenue (Rs mn)	1,492	1,839	2,391	3,621	3,984	6,033
EBITDA Margin	-13.7%	-13.2%	-8.8%	1.6%	5.5%	6.4%

Source: Company data, I-Sec research



### TVS Credit Services - ~40% YoY growth in loan disbursement

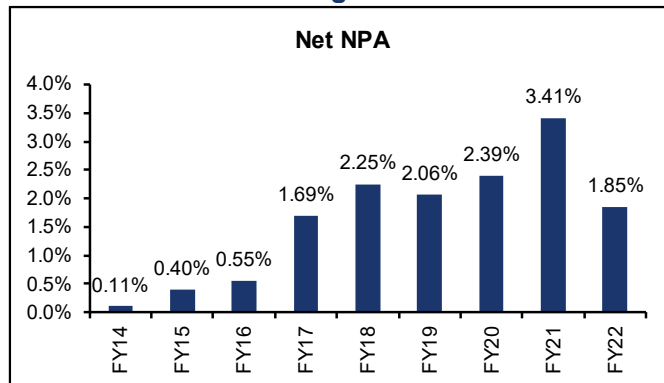
In FY22, TVS CSL's AUM touched ~Rs140bn mark, growing ~24% YoY. Focus on portfolio diversification continued with 2W loans, which made up ~37% of AUM in FY21, making up ~31% of AUM in FY22. This also helped deliver ~40% YoY growth in disbursements in a year impacted by covid along with weak rural economy. Net NPA reduced significantly from ~3.4% to 1.85% YoY resulting in PAT growing ~22% to Rs1.2bn. NPA was elevated in FY21 led by ~27% higher provisions for NPAs YoY on account of covid outbreak. Improved PAT resulted in RoE rising to 7%, up 40bps, still far lower than historical levels of ~12-14%. Fund infusion into TVS CSL was limited this year at a mere Rs1bn from parent TVS Motor. CAR stood at 18.64% at FY22- end against RBIs' prescribed limit of 15% and 18.61% at FY21- end.

**Table 10: Profitability yet to recover post taking a hit in FY21**

Rs mn	FY13	FY14	FY15	FY16	FY17	FY18	FY19	FY20	FY21	FY22
Net Loan book	11,164	17,771	25,421	35,400	49,628	61,304	82,249	92,150	112,000	1,39,110
Disbursements	10,410	15,320	22,980	33,380	40,070	48,990	70,670	76,345	86,270	1,25,330
Revenue	2,421	3,997	5,745	8,249	11,108	12,524	16,013	19,896	22,378	27,554
PAT	52	172	292	507	875	1,384	1,483	1,505	970	1,207
Net worth	1,724	2,621	3,923	5,411	6,708	8,834	11,511	13,731	15,654	18,660
RoE	3.3%	7.9%	8.9%	10.9%	14.4%	17.8%	14.6%	11.9%	6.6%	7.0%

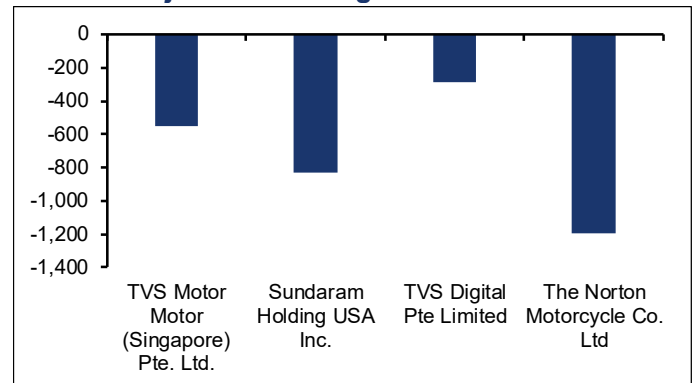
Source: Company data, I-Sec research

**Chart 2: NPA normalising back in FY22**



Source: Company data, I-Sec research

**Chart 3: Major loss-making investments in FY22**



Source: Company data, I-Sec research

**Table 11: Norton and SG subsidiaries based digital investments pushed up losses ex-standalone**

Rs mn	FY19			FY20			FY21			FY22		
	Revenue	PBT	PAT	Revenue	PBT	PAT	Revenue	PBT	PAT	Revenue	PBT	PAT
Consolidated	201,600	10,812	7,254	188,493	9,143	6,468	194,208	8,387	6,075	2,43,553	11,044	7,309
Standalone	182,099	9,610	6,701	164,233	7,867	6,246	167,505	8,262	6,120	2,07,905	12,434	9,237
Sundaram Auto Components	6,012	174	93	5,295	64	49	4,627	(191)	(125)	6,078	43	23
PT TVS Indonesia	2,391	(494)	(494)	3,621	(425)	(428)	3,984	217	217	6,070	214	351
Sundaram Holding USA Inc	-	(10)	(10)	29	(46)	(46)	34	(41)	(41)	528	-830	-830
TVS Credit Services	16,348	2,160	1,483	20,147	2,103	1,505	22,409	1,054	970	27,554	1,512	1,207

Source: Company data, I-Sec research

**Table 12: Consolidated RoE lower vs parent led by Norton's loss of Rs1.2bn**

Standalone (Rs mn)		FY19	FY20	FY21	FY22
PAT		6,701	6,246	6,120	9,237
Shareholders' Equity		33,473	36,181	41,234	47,745
RoE		22%	18%	16%	21%
<b>Consolidated</b>					
PAT		7,254	6,468	6,075	7,309
Shareholders' Equity		34,159	36,030	42,145	50,530
RoE		23%	18%	16%	16%
<b>Subsidiaries</b>					
PAT		553	222	(45)	(1,928)

Source: Company data, I-Sec research

## Headwinds for FCF in action together in FY22

Combination of elevated gross capex and investment at ~Rs25bn in FY22 along with lower CFO led to negative FCF generation of Rs10.5bn (vs positive ~Rs16bn YoY). The lower OCF was largely due to rationalisation in payable days from 95 to 73, impacting cashflow by ~Rs2bn. Also, with H1FY22 OCF getting impacted by covid wave-2 and semiconductor shortage, operational OCF-ex of WC was subdued and impacted full year FCF. As a result, with negative FCF, net debt increased to ~Rs12bn in FY22 vs ~Rs1.8bn YoY. Thus, TVSL's net debt-equity increased at a standalone level from 0.04x to 0.25x in FY22. In FY23, with domestic 2W industry set to revive post declining ~36% in FY20-FY22 and raw material basket deflation improving profitability outlook, we expect FCF of Rs8bn post taking care of Rs20bn of capex and investments. We believe investments towards EV development and Norton motorcycles will take precedence in FY23. Stake sale in EV arm to strategic investor would cushion FCF generation by reducing net capex outflow.

**Table 13: Expecting leverage to reverse in FY23-FY24E with favorable business environment, post taking into consideration Rs20bn of capex + investments**

Rs mn	FY17	FY18	FY19	FY20	FY21	FY22
CFO post tax	7,239	12,973	10,978	13,936	25,609	14,976
Capex	6,200	8,192	7,884	8,975	5,587	10,588
Acquisitions/investments	1,944	3,678	2,759	3,474	4,124	14,874
<b>Recurring FCF</b>	<b>(905)</b>	<b>1,104</b>	<b>654</b>	<b>2,968</b>	<b>15,898</b>	<b>(10,487)</b>
Sale of assets	78	245	97	228	30	135
Sale of investments	2	-	5	58	168	836
Non-recurring FCF	(825)	1,349	437	1,773	16,095	(9,517)
<b>Net debt</b>	<b>10,986</b>	<b>11,316</b>	<b>12,007</b>	<b>16,026</b>	<b>1,758</b>	<b>11,789</b>
Net worth	24,083	28,804	33,473	36,181	41,710	47,745
<b>Net debt-equity (x)</b>	<b>0.46</b>	<b>0.39</b>	<b>0.36</b>	<b>0.44</b>	<b>0.04</b>	<b>0.25</b>

Source: Company data, I-Sec research

## FCF loss at consolidated level expanded due to loss under Norton

Consolidated net debt expanded by ~Rs37bn with standalone net debt increasing by ~Rs10bn and ex-standalone by ~Rs27bn. Adjusted for net debt on books of credit services, net debt/equity at consolidated level was 0.33x in FY22 vs 0.13x in FY21. FCF loss at a consolidated level got exaggerated through losses under Singapore digital investments, Norton motorcycle and start-ups under Sundaram Holding USA. With Norton set to start scaling up mainly from FY24 along with digital start-ups set to continue in their gestation period in FY23, we do not expect major turnaround in ex-standalone FCF generation in FY23, barring some positive contribution from the acquired e-mobility businesses.

**Table 14: Higher negative WC contribution led to elevated negative FCF**

Rs mn	FY17	FY18	FY19	FY20	FY21	FY22
CFO post tax	6,894	3544.1	(9,179)	3,734	11,513	(15,602)
Capex	6,656	11,061	11,360	14,662	11,514	12,678
Acquisitions/investments	1,125	718.9	378	1,330	581	2,218
<b>Recurring FCF</b>	<b>(887)</b>	<b>(8,235)</b>	<b>(20,917)</b>	<b>(12,257)</b>	<b>(582)</b>	<b>(30,497)</b>
Sale of assets	83	245	98	302	34	136
Sale of investments	-	0	20	58	3	874
Non-recurring FCF	(804)	(7,990)	(20,800)	(11,897)	(545)	(29,487)
<b>Net debt</b>	<b>12,593</b>	<b>67,375</b>	<b>90,752</b>	<b>102,053</b>	<b>102,590</b>	<b>1,39,632</b>
Net worth	22,248	28,583	34,159	36,030	42,145	50,530
<b>Net debt-equity (x)</b>	<b>0.57</b>	<b>2.36</b>	<b>2.66</b>	<b>2.83</b>	<b>2.43</b>	<b>2.76</b>

Source: Company data, I-Sec research

## Things beyond core business fundamentals

TVSL's FY22 AR reveals aspects like improvement in related-party transactions, KMP remuneration increase by 70bps of sales in a year of FCF decline and contingent liabilities declining ~40bps YoY to 3.3% of net worth. On the flip side, V Sankar Aiyar & Co. continued as the auditor of the company, without any change in signatory for the 9th consecutive fiscal in FY22. Moreover, three independent directors remained on the Board with more than ten years of association with the company, reducing the purpose of independence. In terms of ESG, usage of renewable power reduced YoY to 80.4% vs 84% YoY, thus, increasing CO<sub>2</sub> emission by 4%. No cases of sexual harassment and child labour were recorded in FY22, while the mix of women in workforce remained flat YoY at ~7%. TVSL continued to meet the mandated annual CSR spends at 2.4% of PAT.

### Related-party purchases ~40bps lower YoY at 8.8%

Purchases from related parties were lower YoY at 8.8% of total purchases in FY22 as against 9.2% in FY21. Purchases from related parties were mainly from: (i) Holding company Sundaram Clayton (~25% of total related-party purchases) from which TVSL sources casting products; (ii) TVS Sri Chakra (~25% of related-party purchases) from which TVSL sources tyres; and (iii) India Nippon (~18% of related-party purchases) which supplies electrical parts to TVSL.

**Table 15: Related-party purchases lower YoY in FY22 as % of total purchases**

Purchase of goods (Rs mn)	FY17	FY18	FY19	FY20	FY21	FY22
<b>Holding company (Sundaram-Clayton Limited)</b>	<b>3,043</b>	<b>4,379</b>	<b>5,159</b>	<b>3,612</b>	<b>3,054</b>	<b>4,749</b>
Subsidiary companies					2,964	3,758
Sundaram Auto Components Limited, Chennai					2,956	3,755
<b>Fellow subsidiaries</b>	<b>857</b>	<b>1,297</b>	<b>1,772</b>	<b>1,820</b>	<b>1,448</b>	<b>1,583</b>
Lucas -TVS Limited,	790	1,214	1,697	1,742	1,364	1,496
<b>Associate/JV of Holding/Subsidiary/Fellow subsidiaries</b>	<b>5,607</b>	<b>8,020</b>	<b>9,821</b>	<b>8,864</b>	<b>7,747</b>	<b>8,182</b>
Brakes India	132	174	274	320	229	286
TVS Sri Chakra	2,725	4,184	5,278	4,734	3,741	4,354
Wheels India	44	82	149	148	2	0
Sundram Fasteners	520	577	654	593	432	456
India Nippon	2,090	2,882	3,327	2,962	3,263	3,002
Sundram Brake Linings	96	121	139	108	81	79
<b>Subsidiaries of Associate/JVs</b>	<b>149</b>	<b>164</b>	<b>224</b>	<b>164</b>	<b>164</b>	<b>108</b>
Upasana Engineering	149	164	224	164	164	108
<b>Purchases from related parties</b>	<b>9,680</b>	<b>13,893</b>	<b>17,007</b>	<b>14,484</b>	<b>15,400</b>	<b>18,393</b>
Total purchases of TVSM consolidated	91,858	112,576	140,333	123,100	129,257	1,65,177
<b>Related party purchases as % of total purchases</b>	<b>10.5%</b>	<b>12.3%</b>	<b>12.1%</b>	<b>11.8%</b>	<b>9.2%</b>	<b>8.8%</b>

Source: Company data, I-Sec research

**Table 16: Per unit basis, purchases from key suppliers rose though marginally**

Per unit (Rs)	FY21	FY22	YoY
Sundram Clayton	1,001	1,435	43%
Sri Chakra	1,226	1,316	7%
Nippon Electricals	1,069	907	-15%
<b>% of sales</b>	<b>FY21</b>	<b>FY22</b>	<b>YoY</b>
Sundram Clayton	1.8%	2.3%	46
Sri chakra	2.2%	2.1%	-14
Nippon Electricals	1.9%	1.4%	-50

Source: Company data, I-Sec research

On a per unit basis, purchases from Sundaram Clayton and TVS Sri Chakra have increased slightly. However, purchases from TVS Nippon have gone down. Sales to related parties fell ~30bps to 2.6% of total sales in FY22. This decline was due to the much faster growth in revenue from core India business along with exports to key markets as against growth in sales to related parties like subsidiaries in Bangladesh and Sri Lanka.



**Table 17: Related-party sales at 2.6% in FY22, down ~30bps YoY**

Sale of goods (Rs mn)	FY17	FY18	FY19	FY20	FY21	FY22
Associate/JV of Holding/ Subsidiary/Fellow subsidiaries	4,896	6,209	9,213	8,018	5,533	6,273
TVS Auto Bangladesh Limited, Dhaka	2,625	4,655	6,867	5,883	5,405	5,867
TVS Lanka Private Limited, Colombo	2,241	1,554	2,346	2,135	128	407
<b>Sales to related parties 1 + 2</b>	<b>4,897</b>	<b>6,210</b>	<b>9,215</b>	<b>8,030</b>	<b>5,539</b>	<b>6,273</b>
Total sales	125,196	163,403	201,600	188,493	194,208	2,43,553
% sales to related parties	3.9%	3.8%	4.6%	4.3%	2.9%	2.6%

Source: Company data, I-Sec research

**Contingent liability remains range bound**

Disputed liabilities at consolidated level came back at 3.3% of net worth in FY22 from 3.7% of net worth in FY21. This decrease was led by sharp jump in customs duty disputes increasing the quantum in FY21, which stabilised in FY22 against revenue growth of 24%. Excise, customs and income tax disputes were ~90% of total disputed liabilities in FY22. Contingent liability as % of net worth largely remained range bound within the 3-4% band seen historically.

**Table 18: Contingent liabilities decreased 40bps YoY in FY22 to 3.3% of net worth**

Disputed liabilities	FY17	FY18	FY19	FY20	FY21	FY22
Excise	300	709	576	530	534	531
Service tax	67	62	21	97	97	87
Customs	19	14	16	14	406	410
Sales tax	18	33	31	20	20	36
Income tax	220	432	413	437	461	567
GST				28	28	28
Others	35	55	26	16	12	15
<b>Total disputed liabilities</b>	<b>659</b>	<b>1,304</b>	<b>1,083</b>	<b>1,142</b>	<b>1,558</b>	<b>1,673</b>
<b>Net worth</b>	<b>22,248</b>	<b>28,583</b>	<b>34,159</b>	<b>36,030</b>	<b>42,145</b>	<b>50,530</b>
<b>As % of net worth</b>	<b>3.0%</b>	<b>4.6%</b>	<b>3.2%</b>	<b>3.2%</b>	<b>3.7%</b>	<b>3.3%</b>

Source: Company data, I-Sec research

**R&D spend as % of sales rising led by investments in EVs to 2.5%**

The quantum of R&D spends incurred in absolute terms was ~Rs5.1bn in FY22 and as a percentage of sales, it was up 50bps YoY to 2.5%. We expect R&D expenditure to remain elevated in coming years amidst EV transition in 2Ws.

**Table 19: R&D incurred as a % of sales was up 50bps YoY at ~2.5% in FY22**

Rs mn	FY17	FY18	FY19	FY20	FY21	FY22
Total R&D incurred	2,153	2,685	3,075	3,351	3,313	5,138
<b>R&amp;D incurred as % of sales</b>	<b>1.8%</b>	<b>1.8%</b>	<b>1.7%</b>	<b>2.0%</b>	<b>2.0%</b>	<b>2.5%</b>

Source: Company data, I-Sec research

**Managerial remuneration as % of PBT up 70bps YoY**

TVSL's managerial remuneration (considered only that was paid to KMP) increased ~50% YoY in FY22 in absolute terms post remaining flat in FY21 (FY19-22 CAGR of 11%). However, as a percentage of consolidated PBT, managerial remuneration rose ~70bps YoY to 5.8% in FY22 from 5.1% in FY21 against PBT rising ~25% YoY.

**Table 20: Managerial remuneration up at ~11% CAGR in FY19-22**

(Rs mn)	FY17	FY18	FY19	FY20	FY21	FY22
Managerial remuneration *	247	373	459	408	417	622
Consolidated PBT	6,580	9,308	10,829	8,654	8,216	10,668
<b>As % of PBT</b>	<b>3.8%</b>	<b>4.0%</b>	<b>4.2%</b>	<b>4.7%</b>	<b>5.1%</b>	<b>5.8%</b>

Source: Company data, I-Sec research; Note: \* Includes remuneration to Mr Venu Srinivasan, Mr Sudharshan Venu and K.N. Radhakrishnan. Excludes remuneration to CFO and other KMP and Board sitting fees

**Table 21: KMP remuneration moving up ~50% post couple of years of decline**

Rs mn	FY19	FY20	FY21	FY22
Venu Srinivasan (Chairman and MD)	238	186	183	269
Sudarshan Venu (Joint MD)	174	148	152	232
K.N. Radhkrishnan (CEO)	47	74	82	121
<b>Total</b>	<b>459</b>	<b>408</b>	<b>417</b>	<b>622</b>

Source: Company data, I-Sec research

**Fees to auditors back around 0.1% of standalone PBT**

As a percentage of standalone PBT, fees to auditors fell YoY to ~0.1% in FY22. Thus, FY22 fees pay-out to auditor came back to decadal mean level of ~0.10%. V Sankar Aiyar & Co. has been auditing the company since FY14, implying FY22 being the ninth year of audit, which we believe is not ideal as per auditor rotation norms. Also, the signatory, Mr. S Venkatraman, has been the same throughout. Before the current auditor, Sundaram & Srinivasan audited the company for more than a decade.

**Table 22: Fees to auditor at 0.1% of standalone PBT in FY22**

Rs mn	FY18	FY19	FY20	FY21	FY22	CAGR FY18-FY22
Fees to Auditors	9.0	10.3	16.4	12.5	12.1	8%
Standalone PBT	8,786	9,610	7,867	8,262	12,434	9%
% of standalone PBT	0.10%	0.11%	0.21%	0.15%	0.10%	
Standalone Revenue	151,298	182,094	164,233	167,505	2,07,905	8%

Source: NSE InfoBase, I-Sec research

**Table 23: Consolidated fees to auditor largely in line with consolidated PBT**

Rs mn	FY18	FY19	FY20	FY21	FY22	CAGR FY18-FY22
Fees to Auditors	20.5	22.1	29.4	29.3	29.7	10%
Standalone PBT	28,583	34,159	36,030	42,145	50,530	15%
% of standalone PBT	0.07%	0.06%	0.08%	0.07%	0.06%	
Standalone Revenue	163,400	201,600	188,490	194,210	2,43,553	10%

Source: NSE InfoBase, I-Sec research

**Table 24: V Sankar Aiyar & Co auditing the company since FY14**

Period	Auditor Name	Signatory	Total Fees (Rs mn)
FY22	V Sankar Aiyar & Co	Mr. S. Venkatraman	12.1
FY21	V Sankar Aiyar & Co	Mr. S. Venkatraman	12.5
FY20	V Sankar Aiyar & Co	Mr. S. Venkatraman	16.4
FY19	V Sankar Aiyar & Co	Mr. S. Venkatraman	10.3
FY18	V Sankar Aiyar & Co	Mr. S. Venkatraman	9
FY17	V Sankar Aiyar & Co	Mr. S. Venkatraman	8.4
FY16	V Sankar Aiyar & Co	Mr. S. Venkatraman	7.2
FY15	V Sankar Aiyar & Co	Mr. S. Venkatraman	4.3
FY14	V Sankar Aiyar & Co	Mr. S. Venkatraman	3
FY13	Sundaram & Srinivasan	Mr. M. Balasubramaniam	4.8
FY12	Sundaram & Srinivasan	Mr. M. Balasubramaniam	4.6
FY11	Sundaram & Srinivasan	Mr. M. Balasubramaniam	2.7

Source: NSE InfoBase, I-Sec research

## Seven independent directors; two for more than a decade and one for more than two decades

**Table 25: More than 50% of the Board consists of independent directors, but a few have long association**

Name	Designation	Other Major Directorships/ Brief Description	First date of appointment
Mr. Venu Srinivasan	Chairperson and MD - Sundaram Clayton and TVS Motor Co. Ltd.	Indian Hotels Co. Ltd., Sundram Clayton Ltd. /Ph.D. from IIT Kharagpur & Ph. D. (management), Purdue university, USA	27-Jan-00
Mr. Sudarshan Venu	VP & JMD - Sundaram Clayton and TVS Motor Co. Ltd.	Sundram Clayton Ltd., Coromandel International Ltd. / Engg. (Mech) from B.Sc (Eco) from Wharton Business School, USA M.S. - International Technology management from University of Warwick, USA	1-Feb-13
Mr. K.N. Radhakrishnan	President and CEO	M.Tech. IIT Madras, undergone management program from IIM A	23-Oct-18
Mr. Prince Asirvatham	Independent Director	C.A. , Institute of Chartered Accountants of India	17-Aug-09
Mr. Chittanranjan Dua	Independent Director	Gillette India Ltd., Pearl Global Industries Ltd., Procter & Gamble Hygiene & Health Care Limited/ Honors Degree in Economics, Master's Degree in Economics and a Bachelor in Law degree from Delhi University	17-Aug-09
Mr. Rajarangamani Gopalan	Independent Director	Sundaram Clayton Ltd., Zee Entertainment Enterprises Ltd. /MBA - John F. Kennedy school of management (Harvard University), M.Sc. (Eco) Boston University, IAS	30-Apr-19
Ms. Lalita Gupte	Independent Director	Bharat Forge, Godrej Properties/ MMS - JBIMS, AMP - INSEAD Business School	23-Oct-18
Mr. Thiagarajan Chettar Kannan	Independent Director	Chairperson and MD of VTM Ltd. and MD - Thiagarajan Mills Pvt. Ltd. / Sundaram Brake Lining Ltd.	27-Jan-00
Mr. Harihar Iyer Lakshmanan	Co- Executive	Harita Seating Systems	24-Apr-00
Mr. Hemant Krishnan Singh	Independent Director	IFS, MA - University of Delhi	1-Feb-13
Mr. Ralf Dieter Speth	Non-Executive Director	CEO, JLR Automotive PLC and Professor - University of Warwick	24-Mar-21
Dr. (Ms.) Lakshmi Venu	Joint MD - Sundaram Clayton	ZF CVCS (Wabco India Ltd.), Sundaram Clayton/Ph. D. - Engineering - University of Warwick, Graduate - Yale University	10-Sep-14
Mr. Kuok Meng Xiong	Independent Director	Founder and Managing Parter, K3 Ventures	24-Mar-21

Source: NSE InfoBase, I-Sec research

## ESG

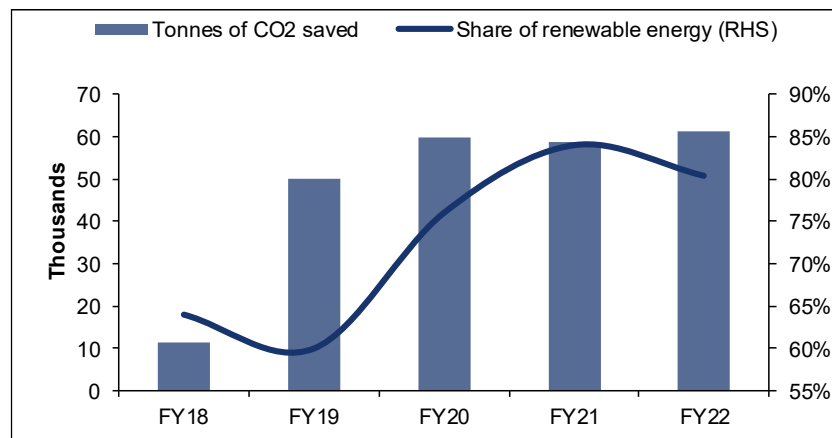
**Environment:** TVSL has a holistic approach towards protecting the environment with key focus areas being: 1) Utilisation of non-renewable energy to reduce the amount of CO<sub>2</sub> produced, 2) conservation of water, 3) material conservation/waste minimisation and 4) treatment of effluents before being released into the environment. Actions in each of these key focus areas in FY22 are below.

**Table 26: Some of the key measures taken to protect the environment**

Areas	Measures
Utilisation of renewable energy	<ul style="list-style-type: none"> <li>The renewable power contributes 80.4% in overall share of power consumed. Initiatives taken towards using renewable energy resulted in CO<sub>2</sub> emissions reduction of 61,386 tons during FY21-FY22.</li> </ul>
Conservation of water	<ul style="list-style-type: none"> <li>Company has reduced 18% specific water consumption in last 3 years. The approach for water conservation being 'Demand side Water management' which best utilises the available water.</li> <li>During FY21-FY22, the company repurposed RO rejects in domestic and industrial applications which resulted in fresh water saving of 50 lakh litres.</li> <li>In Hosur plant, the ground water level has improved by 33% compared to previous year and quality improved by 19% in H1CY22.</li> </ul>
Material conservation and waste minimisation	<ul style="list-style-type: none"> <li>Company has developed ethanol blended gasoline (up to E12) compatible vehicles. Also, it is developing the vehicles that are E20 material compliant. Since the ethanol is carbon neutral, net emissions are lowered.</li> <li>Company continued efforts to reduce the usage of hazardous chemicals including Cr6+, Pb, Hg, and Cd in its products.</li> <li>Under Extended Producer Responsibility (EPR), the company has collected and recycled 318 tons of plastic packaging material across India.</li> <li>The hazardous waste generated in the factory viz., paint sludge, chemical sludge generated from wastewater treatment plant, waste containing traces of oil are being co-processed in cement industry for over 15 years.</li> <li>The flushing thinner generated in the painting process is partially distilled and reused. The total quantity of the thinner distilled and reused in the reporting period was 208.50 tons.</li> </ul>

Source: Company data, I-Sec research.

**Chart 4: Share of renewable energy reversed down to 80%**



Source: Company data, I-Sec research

The company has also provided details on actions it plans on conservation in FY22. These actions are expected to generate cost savings to the tune of ~Rs60mn.

- Continued investment to enhance captive solar, wind power capacity and implanting other planned energy saving projects.
- Continuous focus on development of new energy-efficient technologies along with alternative sources of fuel for the reduction of CO2 and other emissions.
- Optimal utilisation of plant and equipment to lower emissions and reduce wastage/effluents.

**Social:** TVSL's FY22 AR provides a few workforce details. Some of the key highlights are:

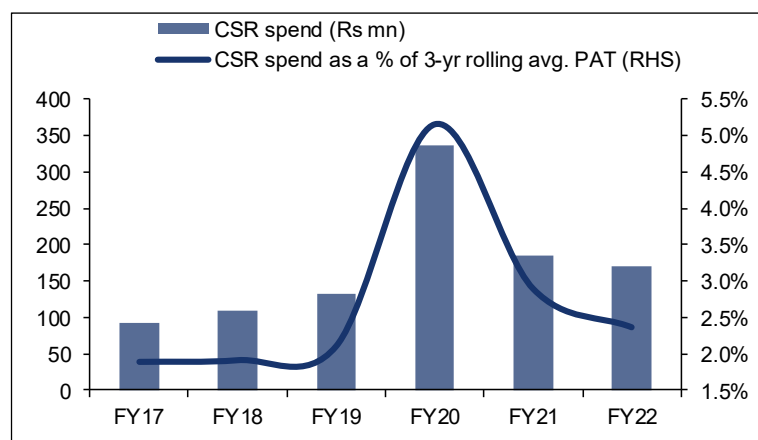
- **Gender diversity:** Gender diversity remained flat at ~7% in FY22. However, it has been increasing YoY since FY18 (~5.1%). Board of directors had two women (out of 13 directors) in FY22.
- **Sexual harassment:** TVSL did not receive any complaints related to harassment during FY17-22.
- **Child labour:** There were no cases of child labour during FY17-22.
- **CSR initiatives:** TVSL has been meeting the CSR spend threshold of ~2% of last 3-year rolling average PAT every year since FY16. Post higher CSR spends in FY20 due to ~Rs170mn donation to PM CARES fund, CSR spends in FY22 remained flattish at Rs170mn, and above 2% of 3-year rolling PAT at 2.4%.

**Table 27: TVSL's key performance indicators on social aspects**

	FY19	FY20	FY21	FY22
Gender diversity	5.4%	6.6%	7.1%	7%
Employee productivity (PBT per permanent employee in Rs mn)	1.9	1.5	1.6	2.4
Cases of child labour	0	0	0	0
Sexual harassment complaints	0	0	0	0

Source: Company data, I-Sec research

**Chart 5: CSR spends normalised in FY21 post higher outgo in FY20 led by PM CARES fund contribution; however, still higher vs 2% of 3-year rolling PAT threshold**



Source: Company data, I-Sec research

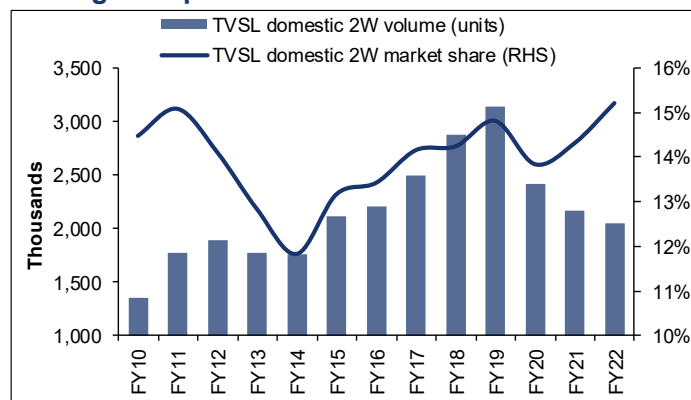


## Questions for management

- What is TVSL's strategy to scale up EV portfolio profitably against competition and how is it planning to tackle supply-chain challenges for backward integrating EVs?
- How is TVSL positioning its newly-launched model *Ronin* against brands such as Royal Enfield, Pulsar and its own brand Apache? What level of scale TVSL is targeting from brand Ronin on an annual basis, say in FY24?
- How is TVSL looking at its overall scooter portfolio growth amidst e-scooter transition taking place? With schools/colleges/offices opening up, how is TVSL looking at scooter market revival?
- Roadmap for tie-up with BMW Motorrad and Norton motorcycles going ahead?
- What is the strategy to further improve profitability from present levels? With scale coming back and raw material basket falling, where is TVSL aiming its EBITDA margin in FY23-FY24E?
- With PT TVS having turned PAT positive in FY21 and FY22, where does TVSL see this in FY23-FY24 moving up to?
- Ex-standalone, losses again widened in FY22 due to Norton, digital investments under Singapore arm and investments under Sundaram Holdings USA. These losses resulted in higher negative FCF and increase in debt. What is the plan of TVSL to tackle this amidst improving standalone earnings outlook?
- Are there any plans to change the auditor in FY23? What are the steps to reduce carbon footprint ahead?

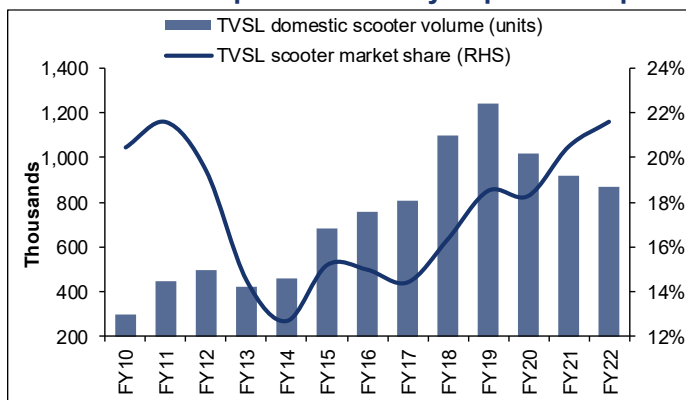
## Key business trends

**Chart 6: TVSL outperforms broader industry, leading to improved market share**



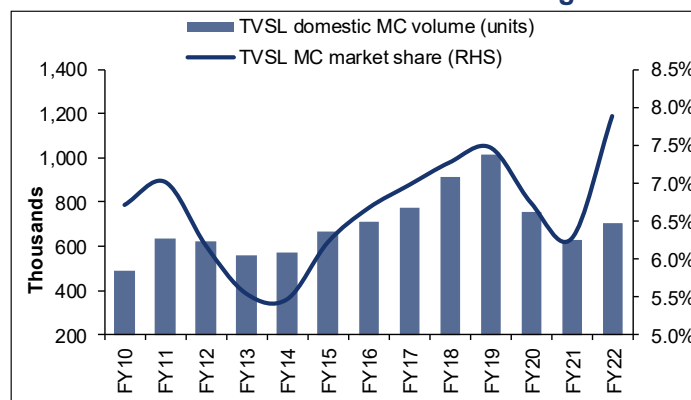
Source: Company data, I-Sec research

**Chart 7: Scooter market share continues to inch up with relative outperformance by Jupiter/Ntorq**



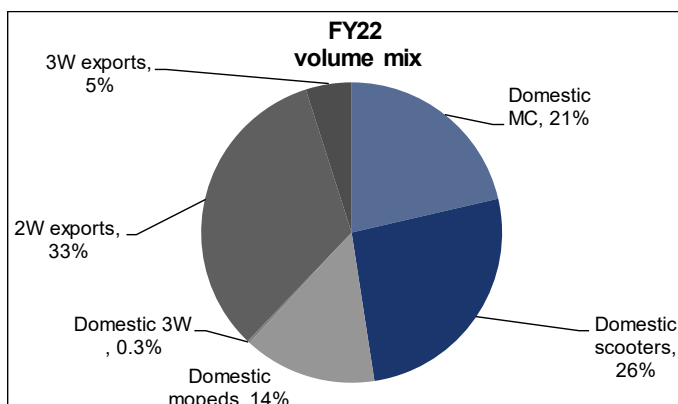
Source: Company data, I-Sec research

**Chart 8: Weak entry level MC portfolio impacting TVSL's market share in the overall MC segment**



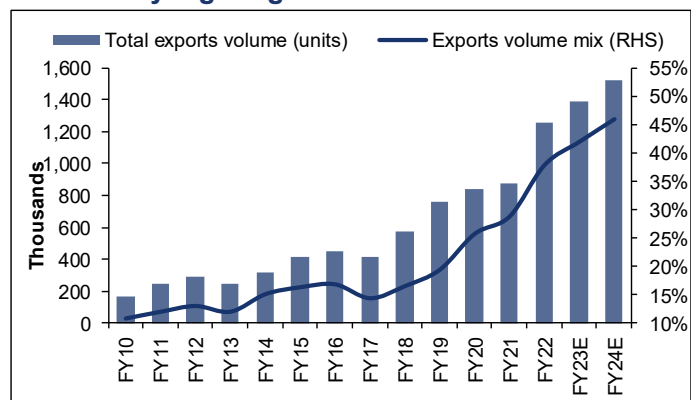
Source: Company data, I-Sec research

**Chart 9: Diversified portfolio with export mix at 38% in FY22**



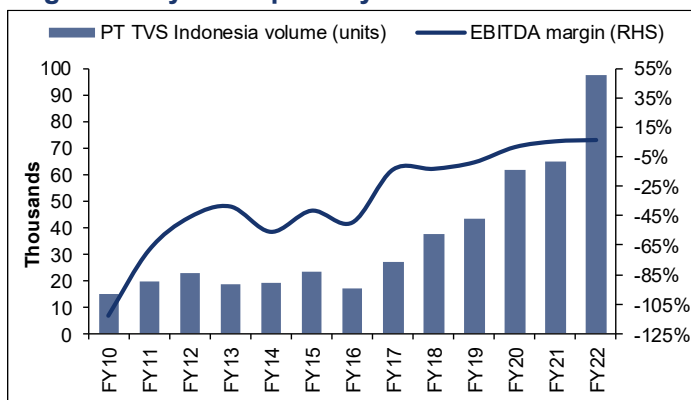
Source: Company data, I-Sec research

**Chart 10: Export volume mix up 900bps to ~38% in FY22 led by higher growth vs domestic market**

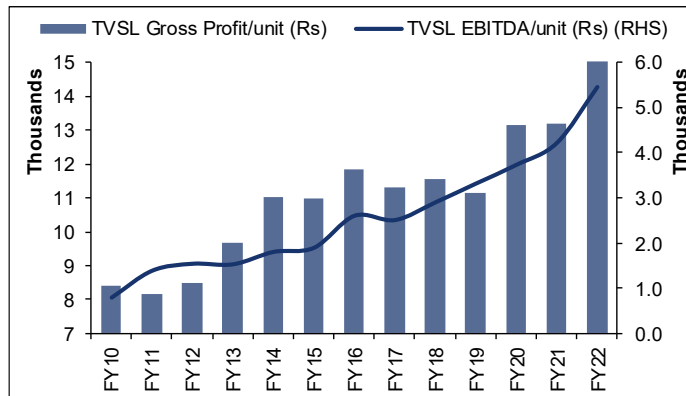


Source: Company data, I-Sec research

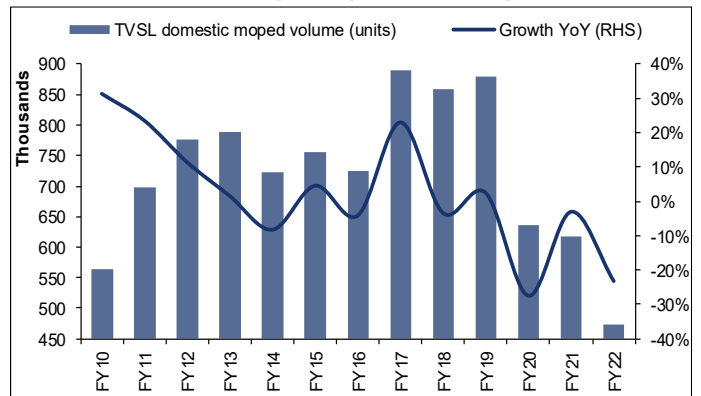
**Chart 11: Indonesian volume improving significantly since past 5 years to ~100k units**



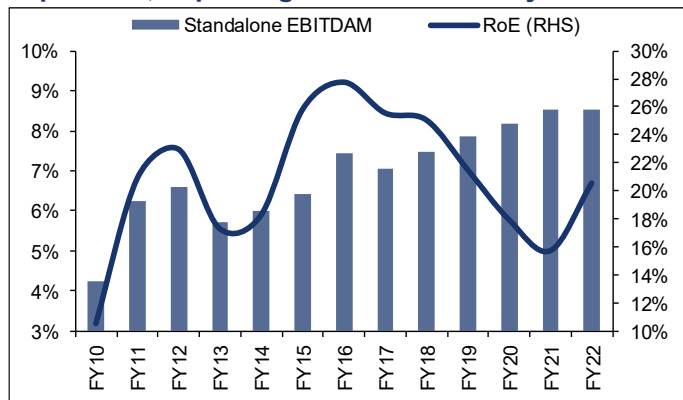
Source: Company data, I-Sec research

**Chart 12: Managed gross profit/unit well amidst raw material adversities**

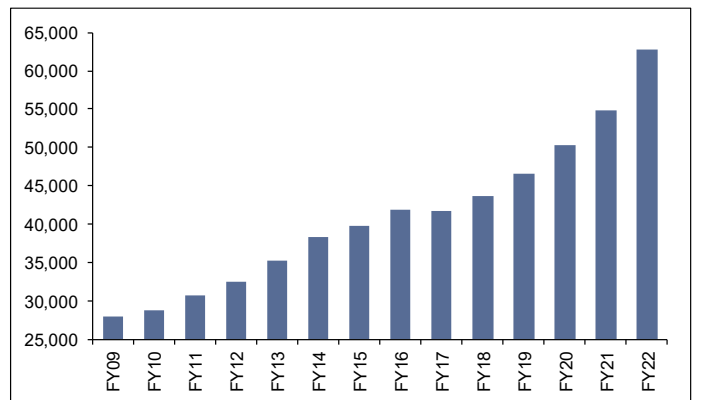
Source: Company data, I-Sec research

**Chart 13: Continued substitution by entry-level bikes of commuting usage impacting mopeds**

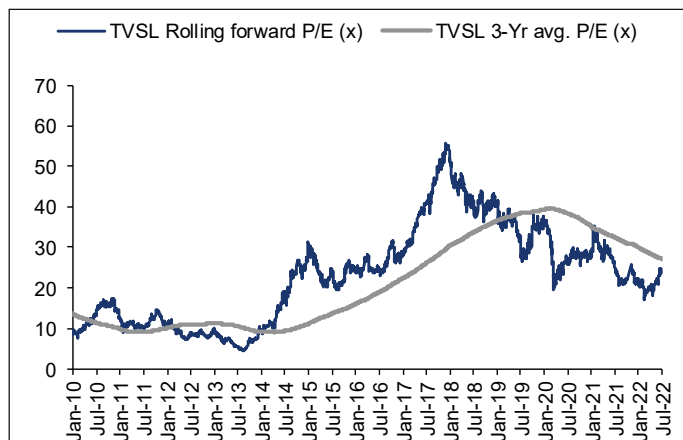
Source: Company data, I-Sec research

**Chart 14: Third successive year of EBITDAM expansion; expecting ~12-13% levels by FY24E**

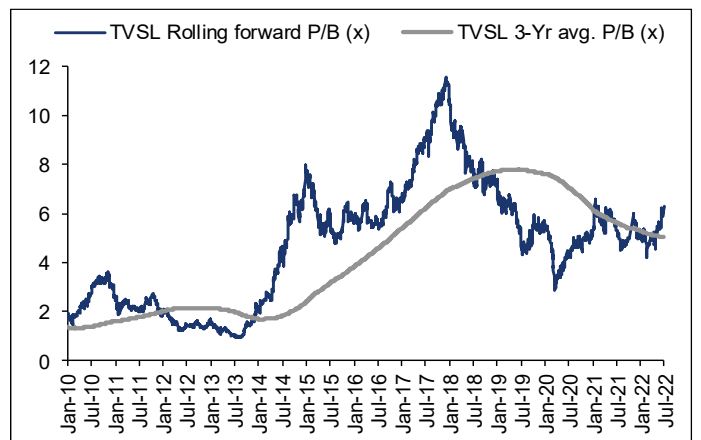
Source: Company data, I-Sec research

**Chart 15: ASP/unit witnesses a sharp jump in FY22**

Source: Company data, I-Sec research

**Chart 16: Far better than peer set earnings CAGR in FY22-FY24 to keep TVSL rolling P/E above peer levels**

Source: Bloomberg, I-Sec research

**Chart 17: In light of the recent run up, TVSL P/B spiked up above its 3-year rolling average P/B**

Source: Bloomberg, I-Sec research

**Table 28: Volume assumptions**

	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E
Dom. Motorcycle (units)	9,16,503	10,14,923	7,55,391	6,27,656	7,07,563	8,39,527	9,48,874
Dom. Scooter (units)	10,99,135	12,41,366	10,18,424	9,19,325	8,66,851	10,14,296	11,36,012
Dom. Moped (units)	8,59,520	8,80,243	6,36,940	6,17,247	4,73,150	4,96,808	5,21,648
<b>Total Domestic (units)</b>	<b>28,75,158</b>	<b>31,36,532</b>	<b>24,10,755</b>	<b>21,64,228</b>	<b>20,47,564</b>	<b>23,50,631</b>	<b>26,06,533</b>
2W Exports (units)	4,66,960	5,92,019	6,48,841	7,44,039	10,65,139	11,70,628	12,83,602
Dom. 3W sales (units)	16,429	16,715	11,934	8,266	8,823	9,882	10,672
3W Exports (units)	82,255	1,39,719	1,61,977	1,15,330	1,63,052	1,87,510	2,02,511

Source: SIAM, I-Sec research

**Table 29: Margin and investment assumptions**

	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E
Total Volume (units)	34,65,802	39,14,985	32,63,507	30,51,863	33,09,578	37,48,651	41,36,318
ASP (Rs)	43,654	46,512	50,324	54,886	62,819	66,981	70,088
EBITDA Margin (%)	7.5%	7.9%	8.2%	8.5%	9.4%	11.4%	12.6%
EBITDA / unit	2,898	3,315	3,732	4,219	5,459	7,205	8,412
Capex (Rs mn)	7,956	7,328	8,379	5,973	10,535	8,432	10,147
Investments (Rs mn)	4,120	2,653	2,994	3,438	6,526	9,436	12,000

Source: Company data, I-Sec research

**Table 30: Earnings revision (standalone)**

(Rs bn)

	FY23E			FY24E		
	Previous	New	Chg(%)	Previous	New	Chg(%)
Volume (mn)	3.75	3.75	0.0%	4.14	4.14	0.0%
Sales	251	251	0%	290	290	0%
EBITDA	29	29	0.0%	35	37	3.2%
EBITDA margin (%)	11.4%	11.4%	-	12.2%	12.6%	39
PAT	15	15	0.0%	20	21	4.2%
EPS (Rs)	32.2	32.2	0.0%	42.0	43.7	4.2%

Source: Company data, I-Sec research

**Downside risk:** Sudden drop in export demand impacting margins.**Upside risk:** Faster recovery in scooter demand in FY23.

## Financial summary (standalone)

**Table 31: Profit and loss statement**
*(Rs mn, year ending March 31)*

	FY21	FY22	FY23E	FY24E
Revenue	1,67,505	2,07,905	2,51,089	2,89,907
Operating expenditure	1,53,220	1,88,288	2,22,407	2,53,304
<b>EBITDA</b>	<b>14,285</b>	<b>19,617</b>	<b>28,682</b>	<b>36,603</b>
EBITDA Margin (%)	8.5%	9.4%	11.4%	12.6%
Depreciation	4,937	6,114	6,927	7,737
<b>EBIT</b>	<b>9,348</b>	<b>13,503</b>	<b>21,755</b>	<b>28,866</b>
Interest expenditure	1,416	1,259	1,300	1,000
Non-operating income	330	190	205	221
<b>Adjusted PBT</b>	<b>8,262</b>	<b>12,434</b>	<b>20,660</b>	<b>28,087</b>
Tax	2,142	3,197	5,372	7,303
<b>Adjusted PAT</b>	<b>6,120</b>	<b>9,237</b>	<b>15,288</b>	<b>20,784</b>
<b>Reported PAT</b>	<b>6,120</b>	<b>9,237</b>	<b>15,288</b>	<b>20,784</b>

Source: Company data, I-Sec research

**Table 32: Balance sheet**
*(Rs mn, year ending March 31)*

	FY21	FY22	FY23E	FY24E
Shareholders' equity	475	475	475	475
Reserves and surpluses	41,234	47,745	60,658	78,117
<b>Total net worth</b>	<b>41,710</b>	<b>48,220</b>	<b>61,133</b>	<b>78,592</b>
Debt	10,356	11,671	16,164	13,164
Deferred tax liability	1,955	1,979	1,257	1,257
<b>Total liabilities</b>	<b>54,020</b>	<b>61,871</b>	<b>78,554</b>	<b>93,013</b>
Gross block	66,342	76,547	85,335	95,482
Net block	28,976	33,066	34,927	37,337
CWIP	3,915	4,245	3,889	3,889
Investments (non-current)	33,145	40,709	50,145	62,145
Cash & cash equivalents	9,298	4,013	12,982	16,647
Debtors	8,700	9,507	11,695	13,502
Inventory	11,518	11,227	15,134	17,474
Loans & advances	6,423	10,562	10,319	11,914
Total current assets	35,939	35,309	50,129	59,537
Current liabilities	46,029	49,000	58,473	67,512
Provisions	1,925	2,458	2,064	2,383
Total current liabilities	47,955	51,458	60,537	69,895
<b>Net current assets</b>	<b>(12,016)</b>	<b>(16,149)</b>	<b>(10,408)</b>	<b>(10,358)</b>
<b>Total assets</b>	<b>54,020</b>	<b>61,871</b>	<b>78,554</b>	<b>93,013</b>

Source: Company data, I-Sec research

**Table 33: Quarterly trends**
*(Rs mn, year ending March 31)*

	Jun-21	Sep-21	Dec-21	Mar-22
Net sales	39,343.6	56,194.1	57,064.3	55,303.1
% growth (YoY)	174.8	22.0	5.8	3.9
EBITDA	2,737.8	5,628.7	5,682.7	5,568.2
Margin (%)	7.0	10.0	10.0	10.1
Other income	15.9	34.9	57.3	81.8
Add: Extraordinaries	236.0	-	-	-
Net profit	531.5	2,776.0	2,883.1	2,745.0

Source: Company data, I-Sec research

**Table 34: Cashflow statement**
*(Rs mn, year ending March 31)*

	FY21	FY22	FY23E	FY24E
<b>Operating cashflow before WC changes</b>	<b>12,690</b>	<b>15,937</b>	<b>22,589</b>	<b>29,300</b>
(Incr)/decr in net working capital	12,918	(961)	3,227	3,616
<b>Cashflow from operations</b>	<b>25,608</b>	<b>14,976</b>	<b>25,816</b>	<b>32,916</b>
Capex (net)	(5,973)	(10,535)	(8,432)	(10,147)
(Incr)/decr in investments	(3,438)	(6,526)	(9,436)	(12,000)
Others	307	(831)	205	221
<b>Cashflow from investments</b>	<b>(9,104)</b>	<b>(17,893)</b>	<b>(17,664)</b>	<b>(21,925)</b>
Net borrowings	(9,391)	1,316	4,492	(3,000)
Interest paid	(1,416)	(1,259)	(1,300)	(1,000)
Dividend paid	(665)	(1,782)	(2,376)	(3,326)
Others	74	(643)	0	0
<b>Cashflow from financing</b>	<b>(11,398)</b>	<b>(2,368)</b>	<b>817</b>	<b>(7,326)</b>
Net change in cash	5,106	(5,285)	8,969	3,665
<b>Free cashflow</b>	<b>19,635</b>	<b>4,440</b>	<b>17,383</b>	<b>22,769</b>

Source: Company data, I-Sec research

**Table 35: Key ratios**
*(Year ending March 31)*

	FY21	FY22	FY23E	FY24E
<b>Per Share data (Rs)</b>				
EPS Recurring (Rs)	12.9	19.4	32.2	43.7
Diluted EPS (Rs)	12.9	19.4	32.2	43.7
Recurring CEPS	23.3	32.3	46.8	60.0
Book value per share (Rs)	87.8	101.5	128.7	165.4
Dividend per share (Rs)	1.4	3.8	5.0	7.0
<b>Growth Ratios (%)</b>				
Operating Income	2.0	24.1	20.8	15.5
EBITDA	6.1	37.3	46.2	27.6
Recurring Net Income	(2.0)	50.9	65.5	36.0
Diluted Recurring EPS	(2.0)	50.9	65.5	36.0
Diluted Recurring CEPS	(0.7)	38.8	44.7	28.4
<b>Valuation Ratios (x)</b>				
P/E (x)	68.0	45.1	27.2	20.0
P/CEPS (x)	37.7	27.1	18.7	14.6
P/BV (x)	10.0	8.6	6.8	5.3
EV/Operating Income (x)	2.6	2.1	1.7	1.5
EV/EBITDA (x)	29.9	21.8	14.9	11.7

**Operating Ratios**

Raw Material/Sales (%)	76.0	76.0	73.1	72.2
Other Income / PBT (%)	4.0	1.5	1.0	0.8
Effective Tax Rate (%)	25.9	25.7	26.0	26.0
Inventory Turnover (days)	11.7	14.0	14.1	13.0
Receivables (days)	23.6	16.1	15.5	16.0
Payables (days)	87.6	83.4	78.1	79.3
D/E Ratio (x)	0.0	0.2	0.1	(0.0)
CFO (pre-tax)/EBITDA	193.4	92.1	111.3	109.9

**Return/Profitability Ratios (%)**

Recurring Net Income Margins	3.7	4.4	6.1	7.2
RoCE	27.4	48.4	65.6	72.6
RoNW	15.7	20.5	28.0	29.8
Dividend Payout Ratio	10.9	19.3	15.5	16.0
Dividend Yield	0.2	0.4	0.6	0.8
EBITDA Margins	8.5	9.4	11.4	12.6

Source: Company data, I-Sec research



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