

FIRST LIGHT

RESEARCH

Federal Bank | Target: Rs 48 | +12% | ADD

Expect profitability to come under pressure; cut to ADD

TVS Motor | Target: Rs 320 | -4% | REDUCE

Solid performance; valuations cap upside

SUMMARY

Federal Bank

Federal Bank's (FB) Q4 PAT declined 21% YoY to Rs 3bn given higher credit-, Covid- and wage-related provisions, partly cushioned by treasury gains. The bank has 35% of its loans under moratorium with a relatively higher share for business/ commercial banking. Slippages were lower at Rs 2.8bn as loans worth Rs 3bn were given the asset classification benefit. FB has ~Rs 1.5bn of exposure to the UAE Exchange. We reduce FY21-FY22 EPS by 30-35% to reflect higher credit costs and slower growth. Cut from BUY to ADD with a new Mar'21 TP of Rs 48 (vs. Rs 50).

[Click here for the full report.](#)

TVS Motor

TVS Motor's (TVSL) adj. Q4 EBITDA beat estimates by ~20% led by a healthy jump in ASP and impressive opex control. Close to 85% of Q4 domestic 2W dispatches were BS-VI models. Near-term demand headwinds notwithstanding, management is cautiously optimistic of a recovery in H2FY21. While TVSL continues to impress on margin resilience through cost control and localisation efforts, demand headwinds in domestic/export markets and rich valuations at 29x FY21E EPS (adj. for stake in TVS Credit) keep us at REDUCE.

[Click here for the full report.](#)

TOP PICKS

LARGE-CAP IDEAS

Company	Rating	Target
Bajaj Finance	Buy	3,000
Cipla	Buy	690
Eicher Motors	Buy	18,100
GAIL	Buy	140
Petronet LNG	Buy	330

MID-CAP IDEAS

Company	Rating	Target
Alkem Labs	Buy	2,870
Greenply Industries	Buy	145
Laurus Labs	Buy	630
Muthoot Finance	Buy	950
Transport Corp	Buy	255

Source: BOBCAPS Research

DAILY MACRO INDICATORS

Indicator	Current	2D (%)	1M (%)	12M (%)
US 10Y yield (%)	0.68	(1bps)	8bps	(158bps)
India 10Y yield (%)	5.98	1bps	(20bps)	(116bps)
USD/INR	75.71	(0.1)	1.0	(8.4)
Brent Crude (US\$/bbl)	34.74	(4.0)	62.0	(50.0)
Dow	25,548	2.2	7.5	1.7
Shanghai	2,837	(0.3)	1.0	(2.7)
Sensex	31,605	3.3	0.9	(20.0)
India FII (US\$ mn)	26 May	MTD	CYTD	FYTD
FII-D	14.7	(2,354.8)	(13,698.5)	(3,939.0)
FII-E	632.2	1,318.4	(5,315.1)	1,287.9

Source: Bank of Baroda Economics Research

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ADD

TP: Rs 48 | ▲ 12%

FEDERAL BANK

| Banking

| 28 May 2020

Expect profitability to come under pressure; cut to ADD

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35% of loans under moratorium: FB has 35% of its portfolio under moratorium with the proportion being higher for business banking (79%), commercial banking (53%) and retail (38%). The bank made Covid-related provisions worth Rs 0.9bn, including Rs 0.3bn towards the 10% provision mandated by RBI for extending the asset classification benefit.

Slippages stay elevated ex-moratorium: Headline GNPA ratio declined by 15bps QoQ to 2.8% as slippages were lower at Rs 2.8bn. However, adjusted for the moratorium, slippages would have remained elevated at Rs 5.9bn. The bank is aiming to strengthen its balance sheet by building higher provisions over the next couple of quarters, which may impact its profitability in our view.

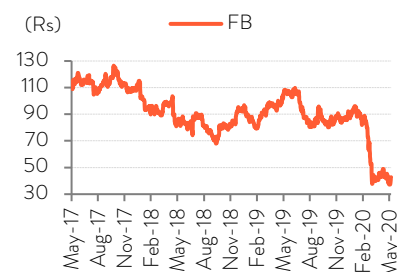
NIM likely to have peaked out: NIM improved by 4bps QoQ to 3.04% but excess liquidity on the balance sheet (LCR at 200% currently) and a lower expected CD ratio (80% in Q4 vs. average of 84% over the last 10 quarters) could put pressure on margins going forward.

Downgrade to ADD: Baking in higher credit costs and slower growth, we lower FY21-FY22 EPS 30-35% and revise our Mar'21 TP to Rs 48. Downgrade to ADD given a profit overhang from high exposure to SMEs and mid-corporates.

Ticker/Price	FB IN/Rs 43
Market cap	US\$ 1.1bn
Shares o/s	1,992mn
3M ADV	US\$ 15.8mn
52wk high/low	Rs 110/Rs 36
Promoter/FPI/DII	0%/32%/68%

Source: NSE

STOCK PERFORMANCE



Source: NSE

KEY FINANCIALS

Y/E 31 Mar	FY18A	FY19A	FY20P	FY21E	FY22E
Net interest income	35,828	41,763	46,489	49,983	56,383
NII growth (%)	17.4	16.6	11.3	7.5	12.8
Adj. net profit (Rs mn)	8,788	12,439	15,428	12,579	15,126
EPS (Rs)	4.8	6.3	7.8	6.3	7.6
P/E (x)	9.0	6.8	5.5	6.8	5.6
P/BV (x)	0.7	0.6	0.6	0.5	0.5
ROA (%)	0.7	0.8	0.9	0.7	0.7
ROE (%)	8.3	9.8	11.1	8.3	9.2

Source: Company, BOBCAPS Research



REDUCE

TP: Rs 320 | ▼ 4%

TVS MOTOR

Automobiles

28 May 2020

Solid performance; valuations cap upside

TVS Motor's (TVSL) adj. Q4 EBITDA beat estimates by ~20% led by a healthy jump in ASP and impressive opex control. Close to 85% of Q4 domestic 2W dispatches were BS-VI models. Near-term demand headwinds notwithstanding, management is cautiously optimistic of a recovery in H2FY21. While TVSL continues to impress on margin resilience through cost control and localisation efforts, demand headwinds in domestic/export markets and rich valuations at 29x FY21E EPS (adj. for stake in TVS Credit) keep us at REDUCE.

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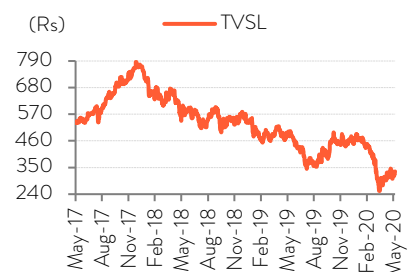
Resilient performance: Q4 net sales declined 21% YoY due to a sharp 30% YoY drop in volumes, offset partially by a healthy rise in ASP. Sequential improvement in ASP at ~10% was driven by high dispatches of BS-VI models (~85% of domestic 2W dispatches) which are priced 10-12% higher than BS-IV models. Adjusted for Rs 220mn of one-time discount to clear BS-IV inventory, EBITDA margin came in at 7.6% (+60bps YoY, -120bps QoQ).

Ticker/Price	TVSL IN/Rs 333
Market cap	US\$ 2.1bn
Shares o/s	475mn
3M ADV	US\$ 14.4mn
52wk high/low	Rs 512/Rs 240
Promoter/FPI/DII	57%/13%/19%

Source: NSE

Cautiously optimistic on H2FY21 recovery: Notwithstanding near-term challenges, management expects demand to recover gradually in H2FY21 on the back of (i) a potentially normal monsoon aiding rural demand and (ii) a higher preference for personal mobility post-pandemic. TVSL expects demand for premium bikes to recover faster given fewer affordability challenges. The company reckons that if crude prices were to settle at ~US\$ 40/bbl, export demand from African markets would not see much of an adverse impact.

STOCK PERFORMANCE



Source: NSE

Maintain REDUCE: We revise FY21/FY22 earnings estimates by -1%/+3% as our volume cuts of 4-5% to factor in the extended lockdown are offset by higher margin assumptions following the Q4 beat. We raise our Mar'21 TP to Rs 320 (vs. Rs 310). Rich valuations at 29x FY21E EPS (adj. for value in TVS Credit) limit upsides.

KEY FINANCIALS

Y/E 31 Mar	FY18A	FY19A	FY20P	FY21E	FY22E
Total revenue (Rs mn)	151,297	182,099	164,233	156,440	177,119
EBITDA (Rs mn)	11,292	14,333	13,459	12,649	15,855
Adj. net profit (Rs mn)	6,626	6,701	6,213	4,769	6,934
Adj. EPS (Rs)	13.9	14.1	13.1	10.0	14.6
Adj. EPS growth (%)	18.7	1.1	(7.3)	(23.2)	45.4
Adj. ROAE (%)	23.0	20.0	17.2	12.2	15.8
Adj. P/E (x)	23.9	23.6	25.5	33.2	22.8
EV/EBITDA (x)	14.9	11.8	12.7	13.7	11.0

Source: Company, BOBCAPS Research



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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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