

SELL

TP: Rs 315 | ▼ 25%

TVS MOTOR

Automobiles

29 October 2020

Valuations rich; maintain SELL

TVS Motor's (TVSL) Q2FY21 revenue was marginally better than estimated due to above-expected ASP. PAT came in at Rs 1.9bn vs. Rs 1.5bn forecast. Strong rural growth is expected to boost moped and motorcycle sales, while our channel checks suggest 3W sales have been badly hit and recovery may take longer than expected. We continue to bake in a volume CAGR of 2% during FY20-FY23, leading to a revenue/EBITDA/PAT CAGR of 5%/6%/5%. Maintain SELL with an unchanged Sep'21 TP of Rs 315, based on 24x P/E.

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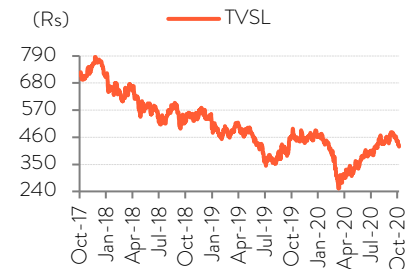
Beat on margins: Q2 revenue grew 6% YoY to Rs 46bn as ASPs increased 8% led by BSVI upgrades while volumes dipped 2%. Despite raw material cost pressures, better operating efficiency supported an EBITDA margin beat (9.3% vs. 7.8% est.). EBITDA increased 13% YoY to Rs 4.3bn while adj. PAT was up 10% YoY to Rs 1.9bn (Rs 1.5bn est.).

Inventory piling up; scooter and 3W sales struggling: Strong rural growth is expected to boost moped and motorcycle sales. Our channel checks suggest that besides CVs, sales in the 3W segment have been the most affected by the Covid-19 crisis and recovery may take longer than expected. Dealer inventories now stand at ~45 days. Scooters, being more of an urban product, also continue to witness slowdown. We expect a volume CAGR of 2% in TVSL's 2W segment and flattish growth in 3W sales during FY20-FY23.

Valuations expensive: ROCE is forecast to reduce from 13% to 12% and ROE to dip from 17% to ~14% over FY20-FY23. At CMP, the stock is trading at 29x FY23E EPS (34x FY22E) which looks rich. Our TP remains unchanged at Rs 315 and is based on 24x Sep'22E EPS; maintain SELL.

Ticker/Price	TVSL IN/Rs 422
Market cap	US\$ 2.7bn
Shares o/s	475mn
3M ADV	US\$ 17.9mn
52wk high/low	Rs 504/Rs 240
Promoter/FPI/DII	57%/11%/22%

Source: NSE

STOCK PERFORMANCE

Source: NSE

KEY FINANCIALS

Y/E 31 Mar	FY19A	FY20A	FY21E	FY22E	FY23E
Total revenue (Rs mn)	182,099	164,233	148,286	173,072	190,182
EBITDA (Rs mn)	14,332	13,459	10,511	14,597	16,127
Adj. net profit (Rs mn)	6,701	6,246	3,178	5,882	6,844
Adj. EPS (Rs)	14.1	12.5	6.7	12.4	14.4
Adj. EPS growth (%)	3.9	(11.8)	(46.3)	85.1	16.4
Adj. ROAE (%)	20.0	17.3	8.2	13.8	14.4
Adj. P/E (x)	29.9	33.9	63.1	34.1	29.3
EV/EBITDA (x)	14.1	15.0	18.8	13.5	12.4

Source: Company, BOBCAPS Research

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Important disclosures, including any required research certifications, are provided at the end of this report.



FIG 1 – QUARTERLY PERFORMANCE

(Rs mn)	Q2FY21	Q2FY20	YoY (%)	Q1FY21	QoQ (%)	H1FY21	H1FY20	YoY (%)
Volume	867,834	885,832	(2.0)	266,933	225.1	1,134,767	867,834	30.8
Avg. Realisation per Vehicle	53,069	49,082	8.1	53,636	(1.1)	53,202	53,069	0.3
Net Revenues	46,055	43,478	5.9	14,317	221.7	60,372	46,055	31.1
Total Income (A)	46,055	43,478	5.9	14,317	221.7	60,372	46,055	31.1
Raw materials consumed	35,246	31,898	10.5	10,864	224.4	46,110	35,246	30.8
Employee Expenses	2,143	2,337	(8.3)	1,970	8.8	4,113	2,143	91.9
Other Expenses	4,365	5,424	(19.5)	1,972	121.4	6,337	4,365	45.2
Total Expenditure (B)	41,754	39,659	5.3	14,806	182.0	56,559	41,754	35.5
EBITDA (A-B)	4,301	3,820	12.6	(488)	NA	3,813	4,301	(11.4)
Other Income	111	49	126.3	26	328.2	137	111	23.4
Depreciation	1,331	1,241	7.3	911	46.1	2,242	1,331	68.4
EBIT	3,081	2,628	17.3	(1,373)	NA	1,708	3,081	(44.6)
Finance Costs	407	285	42.9	523	(22.1)	930	407	128.4
PBT after excep items	2,674	2,343	14.1	(1,896)	NA	778	2,674	(70.9)
Tax expense	712	553	28.6	(505)	NA	206	712	(71.0)
Reported PAT	1,963	1,790	9.7	(1,391)	NA	572	1,963	(70.9)
Adjusted PAT	1,963	1,790	9.7	(1,391)	NA	572	1,963	(70.9)
Adj EPS (Rs)	4.1	2.2	90.7	(2.9)	NA	1.2	4.1	(70.9)

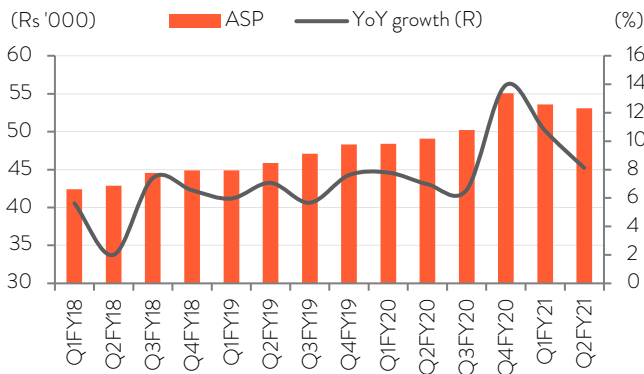
Source: Company, BOBCAPS Research

FIG 2 – KEY PARAMETERS

(Rs mn)	Q2FY21	Q2FY20	YoY (bps)	Q1FY21	QoQ (bps)	H1FY21	H1FY20	YoY (bps)
Gross Margin	23.5	26.6	(317)	24.1	(65)	23.6	23.5	15
EBITDA Margin	9.3	8.8	55	(3.4)	1275	6.3	9.3	(302)
EBIT Margin	6.7	6.0	65	(9.6)	1628	2.8	6.7	(386)
PBT Margin	5.8	5.4	42	(13.2)	1905	1.3	5.8	(452)
Tax Rate	26.6	23.6	300	NA	NA	26.5	26.6	(9)
Adj PAT Margin	4.3	4.1	14	(9.7)	1397	0.9	4.3	(331)

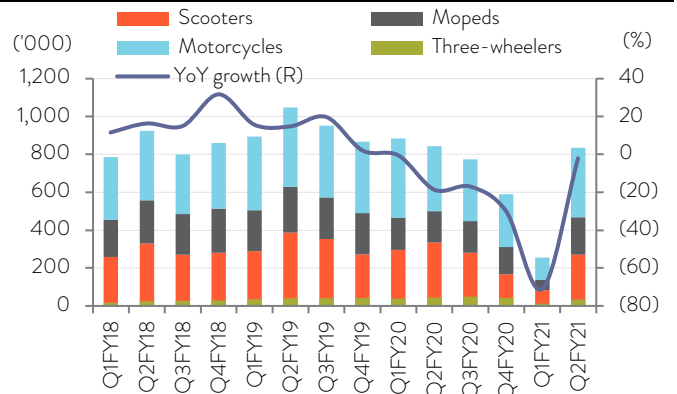
Source: Company, BOBCAPS Research

FIG 3 – AVERAGE SELLING PRICE (ASP)



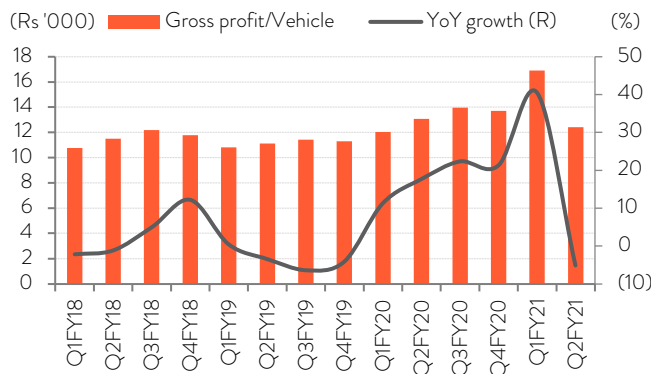
Source: Company, BOBCAPS Research

FIG 4 – VOLUME GROWTH TREND



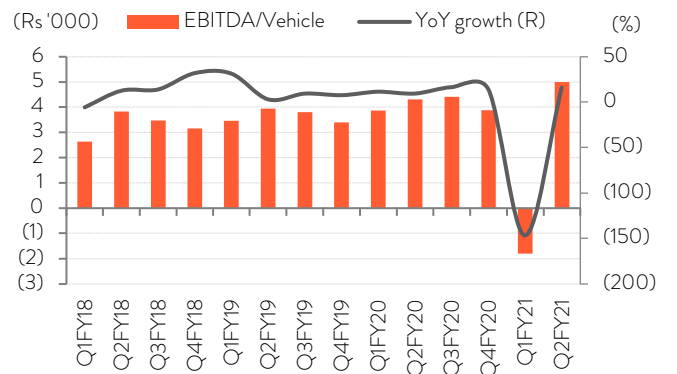
Source: Company, BOBCAPS Research

FIG 5 – GROSS PROFIT/VEHICLE



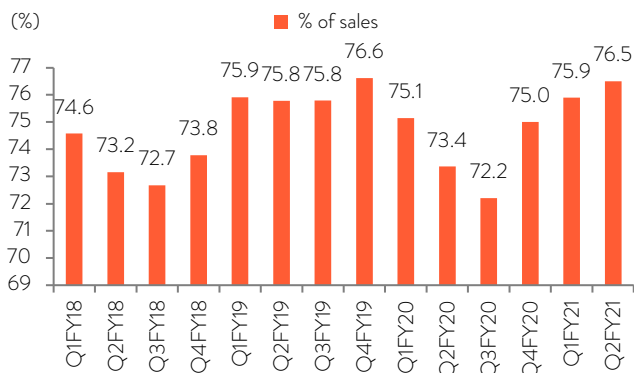
Source: Company, BOBCAPS Research

FIG 6 – EBITDA/VEHICLE



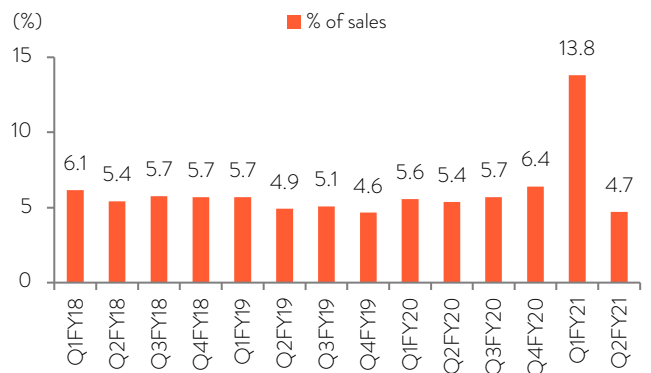
Source: Company, BOBCAPS Research

FIG 7 – RM COST/SALES TREND

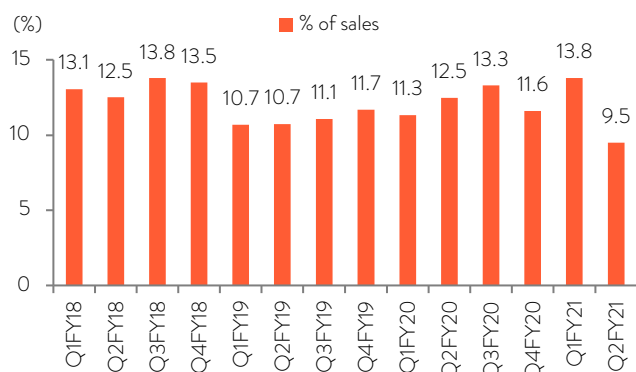


Source: Company, BOBCAPS Research

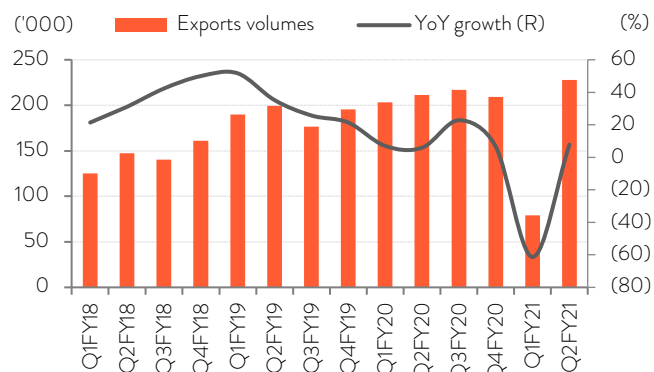
FIG 8 – EMPLOYEE COST/SALES TREND



Source: Company, BOBCAPS Research

FIG 9 – OTHER EXPENSES/SALES TREND

Source: Company, BOBCAPS Research

FIG 10 – QUARTERLY EXPORT SALES TREND

Source: Company, BOBCAPS Research

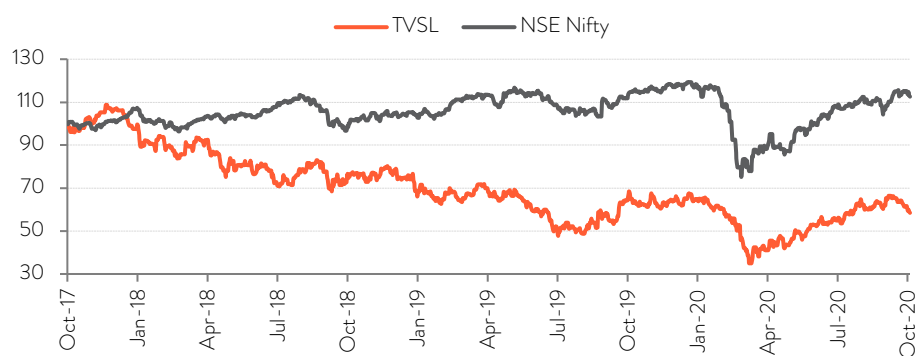
Earnings call highlights

- As per management, TVSL is witnessing marginally positive demand in the current festive season thus far (until Dussehra).
- Normal inventory is 28-32 days but this has been extended by few days during the festive season.
- TVSL took a price increase of 1.5% in Q2 and a further 1% in the first week of October.
- Export revenue for Q2 stood at Rs 11.2bn while the realised USDINR rate was Rs 75.5/USD.
- Management expects exports to pick up in coming months owing to positive consumer sentiment, stable crude oil prices and pent-up demand.
- Total vehicle financing penetration for TVS stood at 46% in Q2.
- The company incurred capex of Rs 2bn in H1FY21 and expects an outlay of Rs 5bn in FY21.

Valuation methodology

We expect a volume CAGR of 2% in TVSL's 2W segment and flattish growth in 3W sales during FY20-FY23. Revenue, EBITDA and PAT are projected to grow at 5%, 6% and 5% respectively. We estimate that ROCE will reduce from 13% to 12% and ROE from 17% to ~14% over our forecast period. At CMP, the stock is trading at 29x FY23E EPS (34x FY22E) which looks rich, in our view. Maintain SELL with an unchanged Sep'21 target price of Rs 315, set at 24x forward EPS.

FIG 11 – RELATIVE STOCK PERFORMANCE



Source: NSE

Key risks

- Above-expected volume growth
- Faster-than-expected recovery in the 3W and scooter segments

FINANCIALS

Income Statement

Y/E 31 Mar (Rs mn)	FY19A	FY20A	FY21E	FY22E	FY23E
Total revenue	182,099	164,233	148,286	173,072	190,182
EBITDA	14,332	13,459	10,511	14,597	16,127
Depreciation	3,993	4,890	5,251	5,729	6,136
EBIT	10,415	8,889	5,576	9,198	10,335
Net interest income/(expenses)	(806)	(1,022)	(1,327)	(1,335)	(1,185)
Other income/(expenses)	75	321	316	331	344
Exceptional items	13	(323)	0	0	0
EBT	9,623	7,544	4,249	7,864	9,150
Income taxes	2,908	1,622	1,071	1,982	2,306
Extraordinary items	0	0	0	0	0
Min. int./Inc. from associates	0	0	0	0	0
Reported net profit	6,715	5,922	3,178	5,882	6,844
Adjustments	(13)	323	0	0	0
Adjusted net profit	6,701	6,246	3,178	5,882	6,844

Balance Sheet

Y/E 31 Mar (Rs mn)	FY19A	FY20A	FY21E	FY22E	FY23E
Accounts payables	29,472	28,864	29,724	30,359	32,994
Other current liabilities	3,440	4,620	(1,289)	442	(1,376)
Provisions	597	1,763	1,763	1,763	1,763
Debt funds	14,000	19,746	23,746	20,746	18,746
Other liabilities	586	858	858	858	858
Equity capital	475	475	475	475	475
Reserves & surplus	32,999	35,706	38,090	42,207	46,998
Shareholders' fund	33,474	36,181	38,565	42,683	47,474
Total liabilities and equities	81,568	92,031	93,367	96,850	100,458
Cash and cash eq.	439	4,193	3,122	3,170	3,254
Accounts receivables	14,141	12,814	14,219	14,225	14,068
Inventories	11,759	10,389	10,969	11,854	11,463
Other current assets	5,210	6,488	7,313	7,587	7,295
Investments	23,007	26,059	26,559	28,559	34,059
Net fixed assets	25,793	28,999	28,749	29,020	27,884
CWIP	2,572	2,854	2,200	2,200	2,200
Intangible assets	0	0	0	0	0
Deferred tax assets, net	(2,126)	(1,581)	(1,581)	(1,581)	(1,581)
Other assets	773	1,816	1,816	1,816	1,816
Total assets	81,567	92,032	93,367	96,850	100,458

Source: Company, BOBCAPS Research

Cash Flows

Y/E 31 Mar (Rs mn)	FY19A	FY20A	FY21E	FY22E	FY23E
Net income + Depreciation	10,694	11,136	8,429	11,611	12,980
Interest expenses	(806)	(1,022)	(1,327)	(1,335)	(1,185)
Non-cash adjustments	(75)	(321)	(316)	(331)	(344)
Changes in working capital	(1,104)	2,386	(7,859)	1,201	1,657
Other operating cash flows	42	(371)	0	0	0
Cash flow from operations	8,752	11,808	(1,072)	11,147	13,108
Capital expenditures	(7,328)	(8,379)	(4,346)	(6,000)	(5,000)
Change in investments	(2,653)	(3,052)	(500)	(2,000)	(5,500)
Other investing cash flows	75	321	316	331	344
Cash flow from investing	(9,906)	(11,110)	(4,530)	(7,669)	(10,156)
Equities issued/Others	0	0	0	0	0
Debt raised/repaid	2,108	5,746	4,000	(3,000)	(2,000)
Interest expenses	(806)	(1,022)	(1,327)	(1,335)	(1,185)
Dividends paid	(2,000)	(2,000)	(795)	(1,765)	(2,053)
Other financing cash flows	645	(546)	0	0	0
Cash flow from financing	(53)	2,178	1,879	(6,099)	(5,238)
Changes in cash and cash eq.	(1,207)	2,876	(3,723)	(2,622)	(2,285)
Closing cash and cash eq.	439	4,193	3,122	3,170	3,254

Per Share

Y/E 31 Mar (Rs)	FY19A	FY20A	FY21E	FY22E	FY23E
Reported EPS	14.1	12.5	6.7	12.4	14.4
Adjusted EPS	14.1	12.5	6.7	12.4	14.4
Dividend per share	3.5	3.5	1.7	3.7	4.3
Book value per share	70.5	76.2	81.2	89.8	99.9

Valuations Ratios

Y/E 31 Mar (x)	FY19A	FY20A	FY21E	FY22E	FY23E
EV/Sales	1.1	1.2	1.3	1.1	1.1
EV/EBITDA	14.1	15.0	18.8	13.5	12.4
Adjusted P/E	29.9	33.9	63.1	34.1	29.3
P/BV	6.0	5.5	5.2	4.7	4.2

DuPont Analysis

Y/E 31 Mar (%)	FY19A	FY20A	FY21E	FY22E	FY23E
Tax burden (Net profit/PBT)	69.8	78.5	74.8	74.8	74.8
Interest burden (PBT/EBIT)	92.4	84.9	76.2	85.5	88.5
EBIT margin (EBIT/Revenue)	5.7	5.4	3.8	5.3	5.4
Asset turnover (Revenue/Avg TA)	407.9	313.3	247.2	271.6	289.5
Leverage (Avg TA/Avg Equity)	1.4	1.5	1.6	1.6	1.5
Adjusted ROAE	21.6	17.0	8.5	14.5	15.2

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

Ratio Analysis

Y/E 31 Mar	FY19A	FY20A	FY21E	FY22E	FY23E
YoY growth (%)					
Revenue	20.0	(9.8)	(9.7)	16.7	9.9
EBITDA	22.0	(6.1)	(21.9)	38.9	10.5
Adjusted EPS	3.9	(11.8)	(46.3)	85.1	16.4
Profitability & Return ratios (%)					
EBITDA margin	7.9	8.2	7.1	8.4	8.5
EBIT margin	5.7	5.4	3.8	5.3	5.4
Adjusted profit margin	3.7	3.8	2.1	3.4	3.6
Adjusted ROAE	20.0	17.3	8.2	13.8	14.4
ROCE	16.3	13.3	7.0	10.8	11.8
Working capital days (days)					
Receivables	24	30	33	30	27
Inventory	21	25	26	24	22
Payables	72	88	96	85	82
Ratios (x)					
Gross asset turnover	0.3	0.4	0.4	0.4	0.4
Current ratio	0.9	1.0	1.2	1.1	1.1
Net interest coverage ratio	(12.9)	(8.7)	(4.2)	(6.9)	(8.7)
Adjusted debt/equity	0.4	0.5	0.6	0.5	0.4

Source: Company, BOBCAPS Research

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Recommendations and Absolute returns (%) over 12 months

BUY – Expected return >+15%

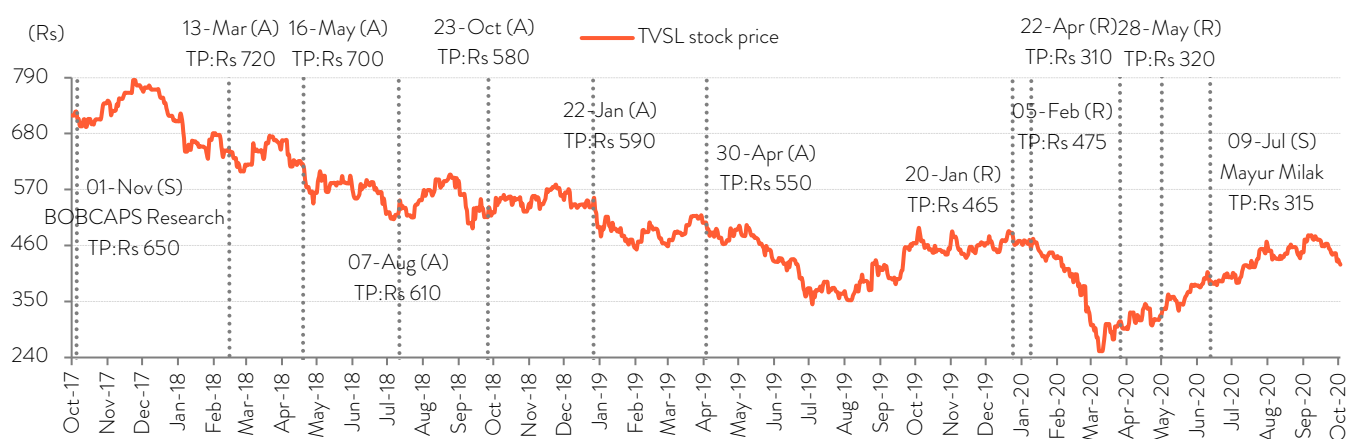
ADD – Expected return from >+5% to +15%

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)

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



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

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