

REDUCE

TP: Rs 475 | ▲ 4%

TVS MOTOR

Automobiles

05 February 2020

Margins resilient; outlook challenging

TVS Motor's (TVSL) Q3 EBITDA beat estimates by ~11% led by resilient margins at 8.8% (+70bps YoY, flat QoQ), despite a sharp 17% YoY drop in volumes. Localisation efforts aided ~230bps YoY material cost reduction – a key margin driver. While TVSL expects export growth to sustain, domestic 2W demand is likely to remain soft in the near term. High competition in entry-level 2Ws has likely led to under-absorption of BS-VI cost on mopeds (~20% of volumes). We raise FY20-FY22 earnings by 1-3% but maintain REDUCE on rich valuations.

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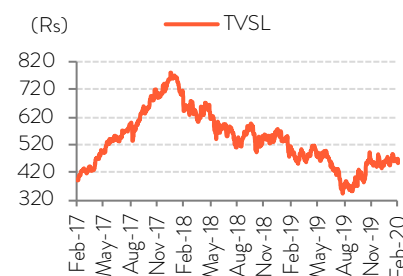
Strong margins aided operational beat: Q3 net sales declined 12% YoY, largely in line with estimates, but EBITDA at Rs 3.6bn (-3% YoY) came in ahead of expectations led by strong gross margins (+120bps QoQ). TVSL indicated that a bulk of the margins gains was supported by raw material cost reduction (60-70bps impact) and the balance by a better mix and lower commodity prices. Localisation has been a key driver for cost rationalisation. TVSL will reduce import content from 14% last year to 10% in FY20 and further to 8% in FY21.

Ticker/Price	TVSL IN/Rs 455
Market cap	US\$ 3.0bn
Shares o/s	475mn
3M ADV	US\$ 10.0mn
52wk high/low	Rs 524/Rs 338
Promoter/FPI/DII	57%/13%/19%

Source: NSE

Near-term demand outlook challenging; focused on stable gross profit/vehicle:

Management expects domestic 2W demand to be muted in H1FY21 given the large cost increase from BS-VI transition. H2 recovery is premised on good monsoons and macro recovery. TVSL stated that it has largely passed on BS-VI costs at a portfolio level; with further scope for cost reduction, it expects gross profit/vehicle for FY21 to sustain at FY20 levels. We think that the high competitive intensity in domestic 2Ws and potential under-absorption of BS-VI transition cost in mopeds could weigh on margins.

STOCK PERFORMANCE

Source: NSE

Maintain REDUCE: The Q3 margin beat drives a 1-3% hike in FY20-FY22 earnings and a slight increase in our Mar'21 TP to Rs 475 (vs. Rs 465). Rich valuations at 26x FY21E EPS (adj. for value in TVS Credit) limit upsides.

[Click here for our Sector Report](#)
'Mixed signals – prefer PVs, 2Ws'

KEY FINANCIALS

Y/E 31 Mar	FY18A	FY19A	FY20E	FY21E	FY22E
Total revenue (Rs mn)	151,297	182,099	174,466	201,312	221,678
EBITDA (Rs mn)	11,292	14,333	14,718	16,080	19,035
Adj. net profit (Rs mn)	6,626	6,701	6,958	7,394	9,352
Adj. EPS (Rs)	13.9	14.1	14.6	15.6	19.7
Adj. EPS growth (%)	18.7	1.1	3.8	6.3	26.5
Adj. ROAE (%)	23.0	20.0	18.2	17.0	18.5
Adj. P/E (x)	32.6	32.3	31.1	29.3	23.1
EV/EBITDA (x)	20.0	15.9	15.6	14.3	12.0

Source: Company, BOBCAPS Research

BOB Capital Markets Ltd is a wholly owned subsidiary of Bank of Baroda

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



FIG 1 – QUARTERLY PERFORMANCE

Y/E Mar (Rs mn)	Q3FY20	Q3FY19	YoY (%)	Q2FY20	QoQ (%)	9MFY20	9MFY19	YoY (%)
Net Revenues	41,255	46,640	(11.5)	43,478	(5.1)	129,419	138,259	(6.4)
Raw Materials	29,787	35,347	(15.7)	31,898	(6.6)	95,262	104,829	(9.1)
% of Net Sales	72.2	75.8	-	73.4	-	73.6	75.8	-
Personnel	2,332	2,367	(1.5)	2,337	(0.3)	7,157	7,191	(0.5)
% of Net Sales	5.7	5.1	-	5.4	-	5.5	5.2	-
Manufacturing & Other Exp	5,503	5,169	6.5	5,424	1.5	15,990	14,988	6.7
% of Net Sales	13.3	11.1	-	12.5	-	12.4	10.8	-
Total Expenditure	37,622	42,883	(12.3)	39,659	(5.1)	118,409	127,008	(6.8)
EBITDA	3,633	3,757	(3.3)	3,819	(4.9)	11,010	11,251	(2.1)
EBITDA Margin (%)	8.8	8.1	-	8.8	-	8.5	8.1	-
Depreciation	1,213	1,012	19.8	1,241	(2.3)	3,647	2,962	23.1
EBIT	2,420	2,745	(11.8)	2,579	(6.1)	7,363	8,289	(11.2)
Interest Expenses	211	167	26.7	285	(25.8)	787	559	40.9
Non-operating income	9	7	36.9	49	(81.8)	70	40	76.5
Extraordinary Income	(760)	0	0	760	NA	0	0	-
PBT	1,455	2,583	(43.6)	3,102	(53.1)	6,649	7,773	(14.5)
Tax-Total	247	801	(69.2)	553	(55.4)	1,462	2,407	(39.3)
Tax Rate (%) - Total	16.9	31.0	-	17.8	-	22.0	31.0	(29.0)
Reported PAT	1,209	1,782	(32.2)	2,549	(52.6)	5,187	5,366	(3.3)
Adj. PAT	1,775	1,783	(0.5)	2,017	(12.0)	5,185	5,364	(3.3)
PAT Margin	4.3	3.8	-	4.6	-	4.0	3.9	-

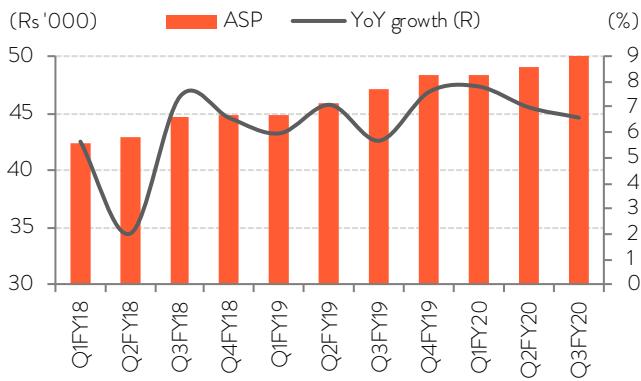
Source: Company, BOBCAPS Research

FIG 2 – PER UNIT PARAMETERS

(Rs)	Q3FY20	Q3FY19	YoY (%)	Q2FY20	QoQ (%)	9MFY20	9MFY19	YoY (%)
Sales Volume (nos)	821,521	989,787	(17.0)	885,832	(7.3)	2,630,548	3,006,435	(12.5)
Net Realisation/Vehicle	50,217	47,121	6.6	49,082	2.3	49,199	45,988	7.0
Material cost/Vehicle	36,258	35,712	1.5	36,009	0.7	36,214	34,868	3.9
Gross Profit/Vehicle	13,959	11,409	22.3	13,073	6.8	12,985	11,119	16.8
Employee cost/Vehicle	2,838	2,391	18.7	2,639	7.6	2,721	2,392	13.8
Other expenses/Vehicle	6,699	5,222	28.3	6,123	9.4	6,079	4,985	21.9
EBITDA/Vehicle	4,422	3,796	16.5	4,312	2.6	4,185	3,742	11.8
Net Profit/Vehicle	2,161	1,802	19.9	2,277	(5.1)	1,971	1,784	10.5

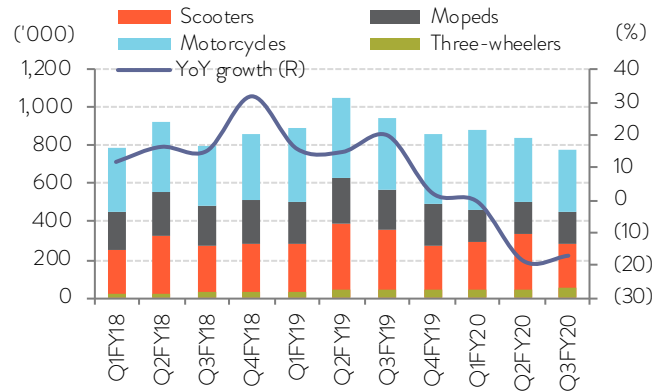
Source: Company, BOBCAPS Research

FIG 3 – AVERAGE SELLING PRICE (ASP)



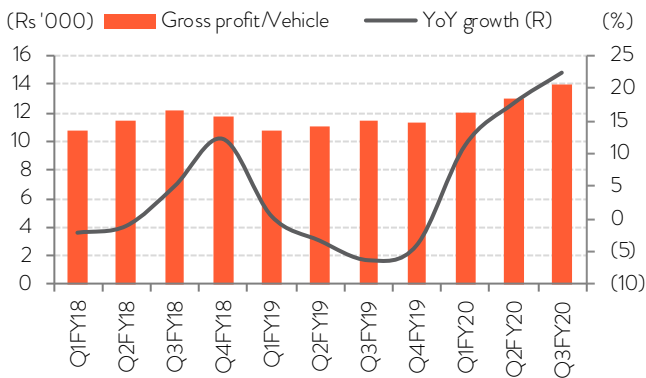
Source: Company, BOBCAPS Research

FIG 4 – VOLUME GROWTH TREND



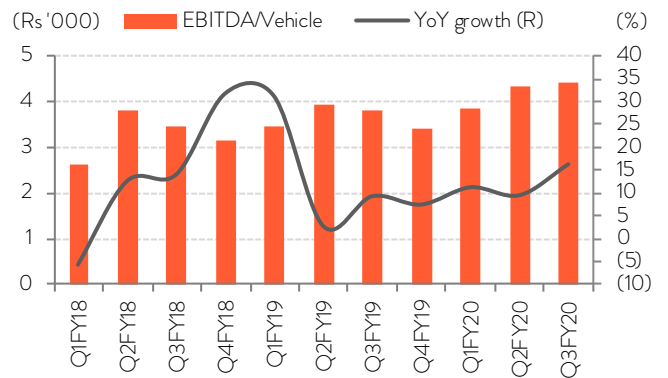
Source: SIAM, ET Autolytics, BOBCAPS Research

FIG 5 – GROSS PROFIT/VEHICLE



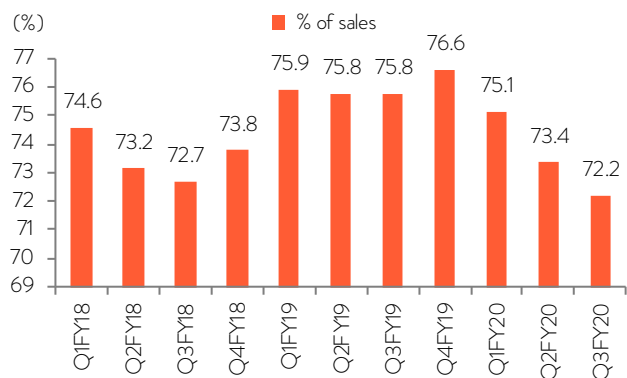
Source: Company, BOBCAPS Research

FIG 6 – EBITDA/VEHICLE



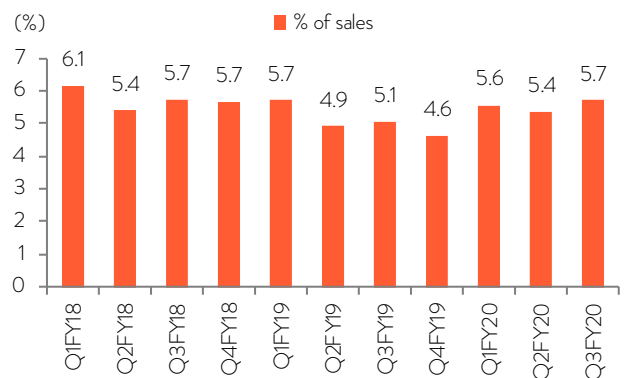
Source: Company, BOBCAPS Research

FIG 7 – RM COST/SALES TREND



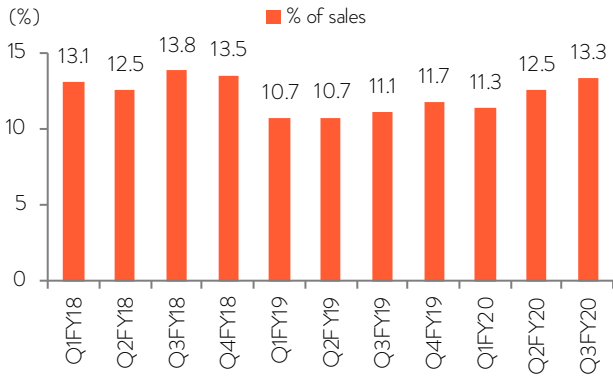
Source: Company, BOBCAPS Research

FIG 8 – EMPLOYEE COST/SALES TREND



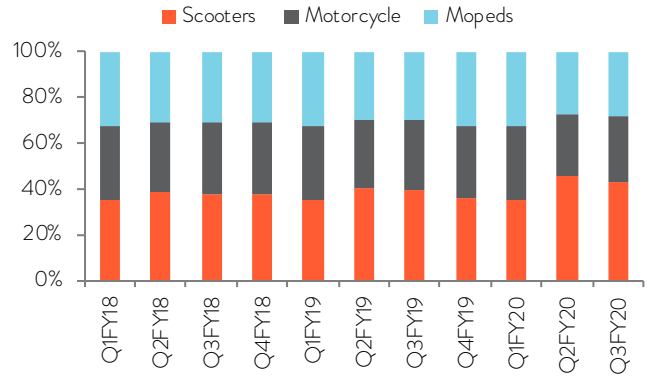
Source: Company, BOBCAPS Research

FIG 9 – OTHER EXPENSES/SALES TREND



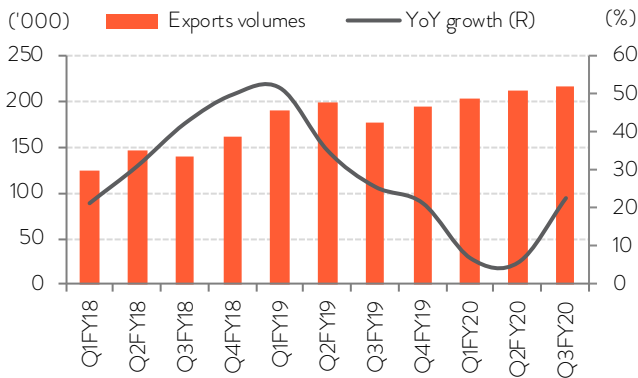
Source: Company, BOBCAPS Research

FIG 10 – SEGMENT MIX – DOMESTIC 2W



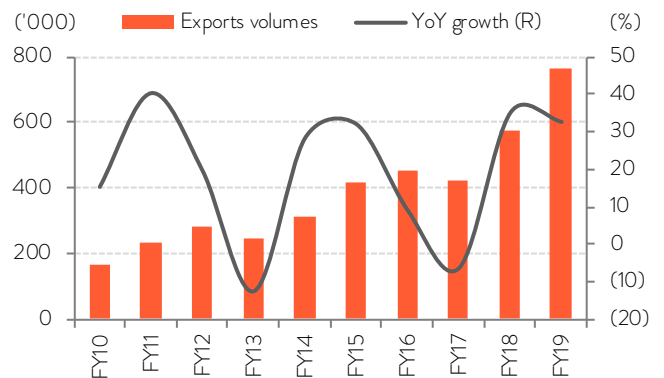
Source: Company, BOBCAPS Research

FIG 11 – QUARTERLY EXPORT SALES TREND



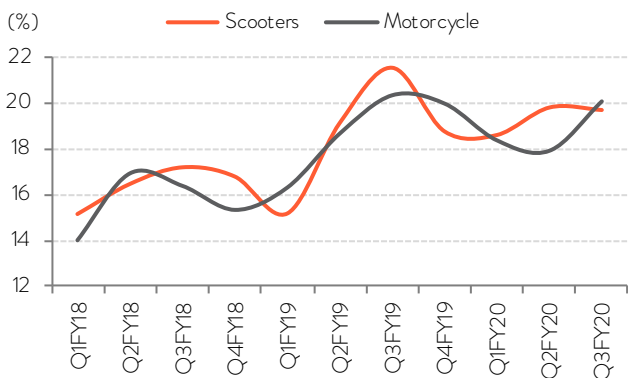
Source: Company, BOBCAPS Research

FIG 12 – ANNUAL EXPORT SALES TREND



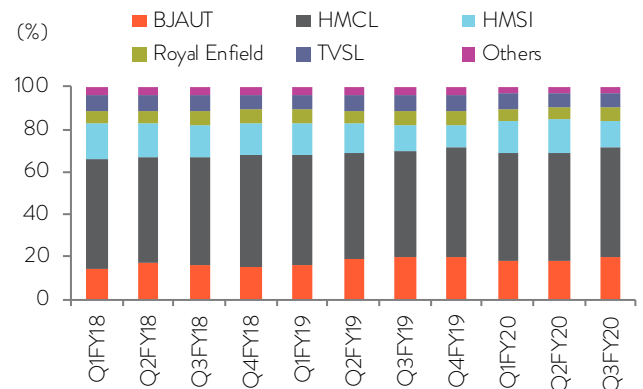
Source: Company, BOBCAPS Research

FIG 13 – TVSL MARKET SHARE TREND

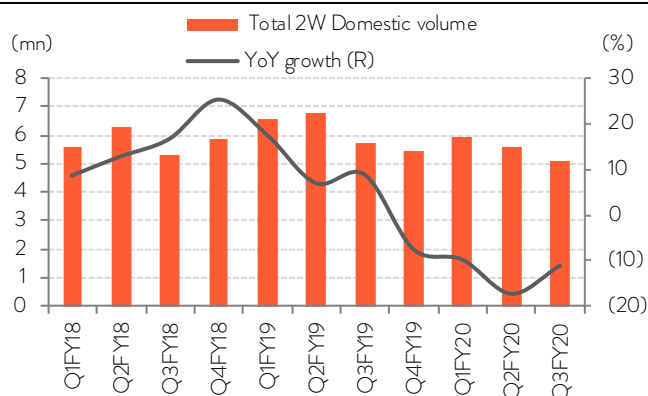


Source: SIAM, ET Autolytics, BOBCAPS Research

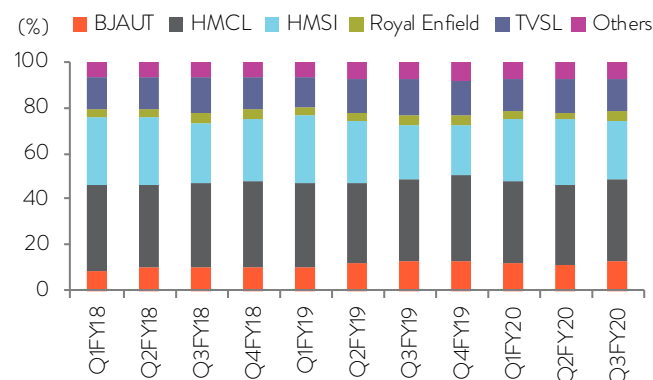
FIG 14 – 2W MOTORCYCLE MARKET SHARE



Source: SIAM, ET Autolytics, BOBCAPS Research

FIG 15 – 2W DOMESTIC INDUSTRY VOLUME TREND

Source: SIAM, ET Autolytics, BOBCAPS Research

FIG 16 – TOTAL 2W DOMESTIC MARKET SHARE

Source: SIAM, ET Autolytics, BOBCAPS Research

Earnings call highlights

- BS-VI sales formed a very small proportion in Q3FY20. In Jan'20, however, ~60% of TVSL's total domestic dispatches were BS-VI models. The company will fully transition its portfolio to the new emission norms in Feb/Mar'20.
- Management attributed the decline in moped sales to weak rural sentiments. The company launched a BS-VI moped fitted with an electronic fuel injection (EFI) system at a modest price hike (our checks ~3k/vehicle).
- TVSL expects domestic growth in H1FY21 to be mildly negative but to pick up from H2FY21.
- Operating margin gains were mainly due to overall raw material cost reduction (of ~2.3% YoY, 0.6% QoQ). The company aims to improve localisation and reduce import content to 8% by next year (vs. 10% in FY20).
- Nigeria forms 55% of TVSL's 3W exports and less than 15% of 2W exports.
- In Q3, revenue from exports was at Rs 12bn and spares revenue was Rs 4.4bn. INR/USD realisation was at Rs 71.1/USD.
- TVSL recently introduced e-scooter 'iQube' and aims to sell 100 units per month. It has initially launched only in Bengaluru with 12 dealerships and plans to gradually expand to other metro cities in the next phase. An investment of ~Rs 2bn has been earmarked for the e-scooter project.
- Domestic 2W financing penetration currently stands at 52% for the company, of which TVS Credit's share is 45%. Availability of liquidity is not a constraint and management expects financing to increase with the introduction of BS-VI models.
- Capex for FY20 is guided at Rs 6.5bn.
- Current inventory level with dealers is ~5 weeks.

Valuation methodology

TVSL trades at 26x FY21E EPS (adjusted for value in TVS Credit) which we find rich considering that BS-VI led demand headwinds are still to play out. While the company’s cost reduction efforts have been impressive, we see potential margin pressures from regulatory compliance and the possibility of a cyclical slowdown in export volumes after a strong upcycle. We revise FY20-FY22 earnings estimates by 1-3% to factor in the Q3 beat and raise our Mar’21 target price to Rs 475 (vs. Rs 465 earlier), set at 22x FY22E EPS + Rs 45/sh for the stake in TVS Credit. Maintain REDUCE.

FIG 17 – REVISED ESTIMATES

Change (%)	FY20E	FY21E	FY22E
Volume	(1.7)	(1.7)	(1.7)
Income	(0.4)	0.7	0.7
EBITDA	1.6	2.0	1.9
EBITDA Margin (bps)	17	10	10
Profit	1.5	3.3	3.0
EPS	1.5	3.3	3.0

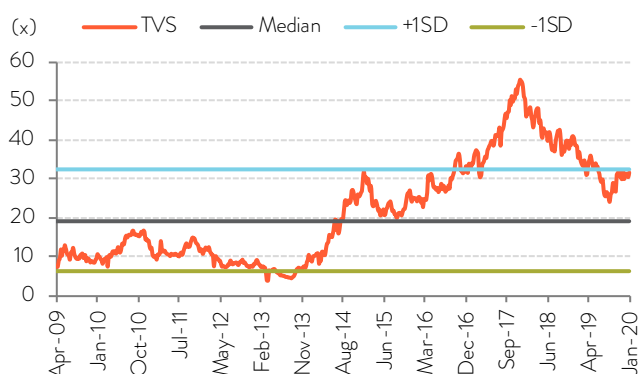
Source: BOBCAPS Research

FIG 18 – SOTP VALUATION

Business	Fair value (Rs/Share)	Comments
Core business	430	22x FY22E EPS
TVS Credit	45	1.5x FY22E P/B
Target price	475	

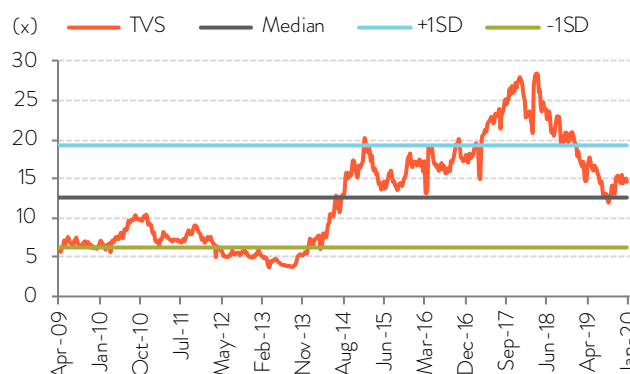
Source: BOBCAPS Research

FIG 19 – P/E MULTIPLE

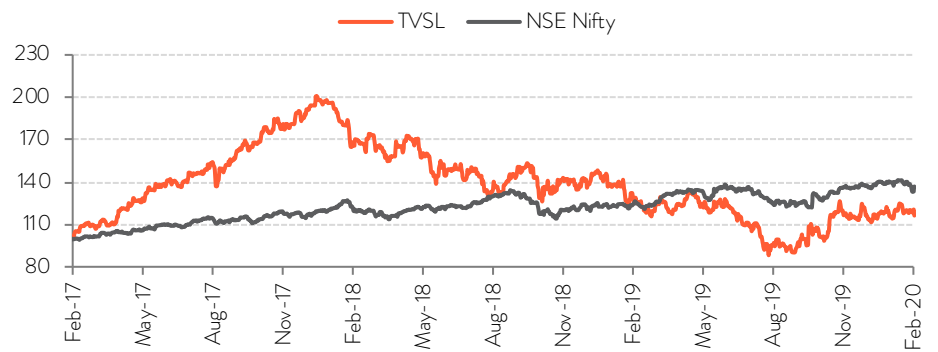


Source: Company, BOBCAPS Research

FIG 20 – EV/EBITDA MULTIPLE



Source: Company, BOBCAPS Research

FIG 21 – RELATIVE STOCK PERFORMANCE

Source: NSE

Key risks

- A sharp margin uptick supported by aggressive cost reduction measures could aid above-expected earnings growth and keep valuations at elevated levels.
- A sharp rise in financing ratio for 2Ws with higher loan tenures could partly soften the impact of BS-VI costs and aid better-than-expected domestic 2W growth.

FINANCIALS

Income Statement

Y/E 31 Mar (Rs mn)	FY18A	FY19A	FY20E	FY21E	FY22E
Total revenue	151,297	182,099	174,466	201,312	221,678
EBITDA	11,292	14,333	14,718	16,080	19,035
Depreciation	3,387	3,993	4,901	5,469	5,895
EBIT	7,905	10,340	9,817	10,611	13,139
Net interest income/(expenses)	(566)	(806)	(1,008)	(1,015)	(980)
Other income/(expenses)	1,448	75	112	133	146
Exceptional items	0	0	0	0	0
EBT	8,786	9,610	8,921	9,729	12,305
Income taxes	2,161	2,908	1,963	2,335	2,953
Extraordinary items	0	0	0	0	0
Min. int./Inc. from associates	0	0	0	0	0
Reported net profit	6,626	6,701	6,958	7,394	9,352
Adjustments	0	0	0	0	0
Adjusted net profit	6,626	6,701	6,958	7,394	9,352

Balance Sheet

Y/E 31 Mar (Rs mn)	FY18A	FY19A	FY20E	FY21E	FY22E
Accounts payables	25,180	29,239	28,095	32,464	35,765
Other current liabilities	3,279	3,673	3,773	3,873	3,973
Provisions	1,158	1,183	1,233	1,283	1,333
Debt funds	11,892	14,000	14,000	15,000	13,000
Other liabilities	0	0	0	0	0
Equity capital	475	475	475	475	475
Reserves & surplus	28,329	32,998	37,842	43,122	50,017
Shareholders' fund	28,804	33,473	38,318	43,597	50,492
Total liabilities and equities	70,313	81,567	85,417	96,216	104,562
Cash and cash eq.	110	440	554	2,639	3,659
Accounts receivables	9,684	14,141	14,047	16,232	17,882
Inventories	9,644	11,759	11,241	12,989	14,310
Other current assets	6,973	5,981	6,231	6,481	6,731
Investments	20,354	23,007	25,507	29,007	32,507
Net fixed assets	23,719	25,793	29,964	30,995	31,600
CWIP	1,311	2,572	0	0	0
Intangible assets	0	0	0	0	0
Deferred tax assets, net	(1,482)	(2,126)	(2,126)	(2,126)	(2,126)
Other assets	0	0	0	0	0
Total assets	70,313	81,567	85,417	96,216	104,562

Source: Company, BOBCAPS Research

Cash Flows

Y/E 31 Mar (Rs mn)	FY18A	FY19A	FY20E	FY21E	FY22E
Net income + Depreciation	10,013	10,694	11,860	12,863	15,247
Interest expenses	566	806	1,008	1,015	980
Non-cash adjustments	225	645	0	0	0
Changes in working capital	3,302	(1,104)	(632)	336	230
Other operating cash flows	0	0	0	0	0
Cash flow from operations	14,106	11,041	12,236	14,214	16,457
Capital expenditures	(7,956)	(7,328)	(6,500)	(6,500)	(6,500)
Change in investments	(4,475)	(2,653)	(2,500)	(3,500)	(3,500)
Other investing cash flows	0	0	0	0	0
Cash flow from investing	(12,431)	(9,981)	(9,000)	(10,000)	(10,000)
Equities issued/Others	0	0	0	0	0
Debt raised/repaid	820	2,108	0	1,000	(2,000)
Interest expenses	(566)	(806)	(1,008)	(1,015)	(980)
Dividends paid	(1,803)	(1,912)	(2,022)	(2,022)	(2,349)
Other financing cash flows	(102)	(120)	(93)	(93)	(108)
Cash flow from financing	(1,651)	(730)	(3,122)	(2,129)	(5,437)
Changes in cash and cash eq.	24	330	114	2,085	1,020
Closing cash and cash eq.	110	440	554	2,639	3,659

Per Share

Y/E 31 Mar (Rs)	FY18A	FY19A	FY20E	FY21E	FY22E
Reported EPS	13.9	14.1	14.6	15.6	19.7
Adjusted EPS	13.9	14.1	14.6	15.6	19.7
Dividend per share	3.3	3.5	3.7	3.7	4.3
Book value per share	60.6	70.5	80.7	91.8	106.3

Valuations Ratios

Y/E 31 Mar (x)	FY18A	FY19A	FY20E	FY21E	FY22E
EV/Sales	1.5	1.3	1.3	1.1	1.0
EV/EBITDA	20.0	15.9	15.6	14.3	12.0
Adjusted P/E	32.6	32.3	31.1	29.3	23.1
P/BV	7.5	6.5	5.6	5.0	4.3

DuPont Analysis

Y/E 31 Mar (%)	FY18A	FY19A	FY20E	FY21E	FY22E
Tax burden (Net profit/PBT)	75.4	69.7	78.0	76.0	76.0
Interest burden (PBT/EBIT)	111.2	92.9	90.9	91.7	93.6
EBIT margin (EBIT/Revenue)	5.2	5.7	5.6	5.3	5.9
Asset turnover (Revenue/Avg TA)	236.2	239.8	209.0	221.7	220.8
Leverage (Avg TA/Avg Equity)	242.2	243.9	232.6	221.7	213.4
Adjusted ROAE	23.0	20.0	18.2	17.0	18.5

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

Ratio Analysis

Y/E 31 Mar	FY18A	FY19A	FY20E	FY21E	FY22E
YoY growth (%)					
Revenue	24.7	20.4	(4.2)	15.4	10.1
EBITDA	31.8	26.9	2.7	9.3	18.4
Adjusted EPS	18.7	1.1	3.8	6.3	26.5
Profitability & Return ratios (%)					
EBITDA margin	7.5	7.9	8.4	8.0	8.6
EBIT margin	5.2	5.7	5.6	5.3	5.9
Adjusted profit margin	4.4	3.7	4.0	3.7	4.2
Adjusted ROAE	23.0	20.0	18.2	17.0	18.5
ROCE	22.2	21.0	18.2	17.7	20.2
Working capital days (days)					
Receivables	23	28	29	29	29
Inventory	23	24	24	24	24
Payables	61	59	59	59	59
Ratios (x)					
Gross asset turnover	3.5	3.6	3.1	3.3	3.3
Current ratio	0.9	0.9	1.0	1.0	1.0
Net interest coverage ratio	14.0	12.8	9.7	10.5	13.4
Adjusted debt/equity	0.4	0.4	0.4	0.3	0.2

Source: Company, BOBCAPS Research

Disclaimer

Recommendations and Absolute returns (%) over 12 months

BUY – Expected return >+15%

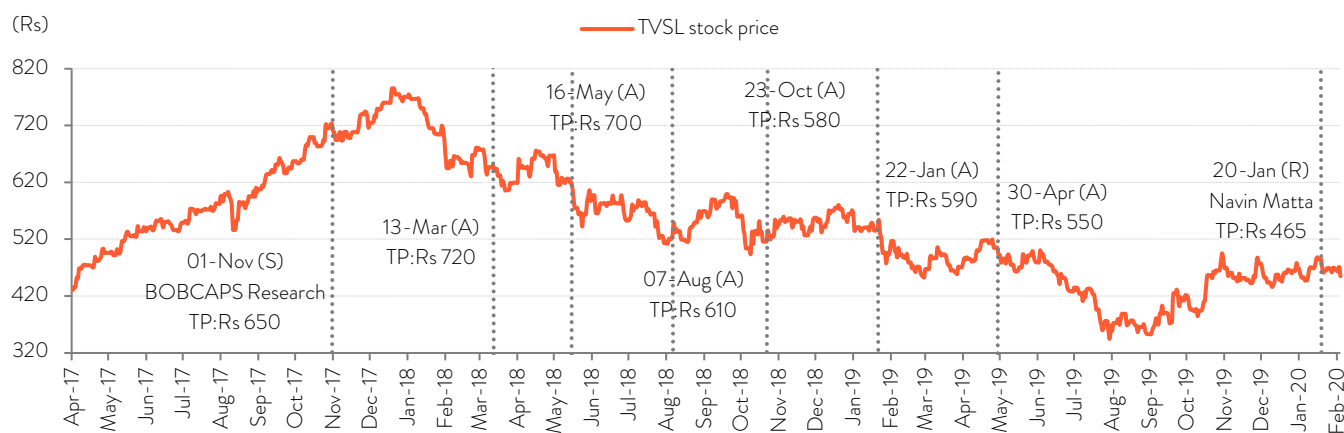
ADD – Expected return from >+5% to +15%

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)

HISTORICAL RATINGS AND TARGET PRICE: TVS MOTOR (TVSL IN)



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

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