

SELL

TP: Rs 350 | ▼ 34%

TVS MOTOR

Automobiles

28 January 2021

Valuations rich; maintain SELL

TVS Motor's (TVSL) Q3FY21 revenue was marginally better than estimated due to above-expected ASP. PAT came in at Rs 2.7bn vs. Rs 1.7bn forecast. Strong rural growth is expected to boost moped and motorcycle sales, though 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 11% during FY21-FY23, leading to a revenue/PAT CAGR of 13%/32%. Maintain SELL with an unchanged Mar'22 TP of Rs 350, based on 24x Mar'23E EPS.

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Beat on margins: Q3 revenue grew 31% YoY to Rs 53.9bn as ASPs increased 9% led by BSVI upgrades while volumes rose 20%. Despite the steep increase in raw material prices, TVSL posted gross margin expansion QoQ coupled with better operating efficiency, which supported an EBITDA margin beat (9.5% vs. 7.7% est.). EBITDA grew 41% YoY to Rs 5.1bn and adj. PAT was up 35% YoY to Rs 2.7bn (Rs 1.7bn est.)

Ticker/Price	TVSL IN/Rs 529
Market cap	US\$ 3.4bn
Shares o/s	475mn
3M ADV	US\$ 21.6mn
52wk high/low	Rs 556/Rs 240
Promoter/FPI/DII	57%/11%/22%

Source: NSE

Consensus margins at high risk of downgrade: Our revenue forecasts are similar to the street. After the recent price increases taken due to BSVI transition and cost escalation, we see little scope for further sharp hikes, implying the raw material cost burden will erode margins in the near-to-medium term. The general view of gross margin expansion in FY22 and FY23 leaves us skeptical of current valuations, which are running much ahead of long-term averages. We expect sharp downgrades to consensus estimates as commodity prices stabilise.

STOCK PERFORMANCE



Source: NSE

Valuations expensive: ROCE/ROE are forecast at 12%/14% by FY23. At CMP, the stock is trading at 37x FY23E EPS which looks rich. Our TP remains unchanged at Rs 350 and is based on 24x FY23E EPS; maintain SELL.

KEY FINANCIALS

Y/E 31 Mar	FY19A	FY20A	FY21E	FY22E	FY23E
Total revenue (Rs mn)	182,099	164,233	159,070	185,461	203,829
EBITDA (Rs mn)	14,332	13,459	11,736	14,657	16,201
Adj. net profit (Rs mn)	6,701	6,246	3,952	5,902	6,861
Adj. EPS (Rs)	14.1	12.5	8.3	12.4	14.4
Adj. EPS growth (%)	3.9	(11.8)	(33.3)	49.4	16.2
Adj. ROAE (%)	20.0	17.3	10.1	13.6	14.3
Adj. P/E (x)	37.4	42.4	63.6	42.6	36.6
EV/EBITDA (x)	17.6	18.7	21.1	16.8	15.4

Source: Company, BOBCAPS Research

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FIG 1 – QUARTERLY PERFORMANCE

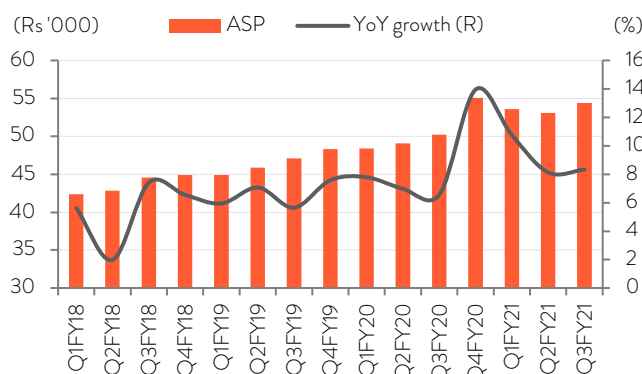
(Rs mn)	Q3FY21	Q3FY20	YoY (%)	Q2FY21	QoQ (%)	9MFY21	9MFY20	YoY (%)
Volume	989,517	821,521	20.4	867,834	14.0	2,124,284	2,630,498	(19.2)
Avg. Realisation per Vehicle	54,485	50,217	8.5	53,069	2.7	53,800	49,200	9.4
Net Revenues	53,914	41,255	30.7	46,055	17.1	114,286	129,419	(11.7)
Total Income (A)	53,914	41,255	30.7	46,055	17.1	114,286	129,419	(11.7)
Raw materials consumed	41,031	29,787	37.7	35,246	16.4	87,140	95,262	(8.5)
Employee Expenses	2,691	2,332	15.4	2,143	25.6	6,804	7,157	(4.9)
Other Expenses	5,081	5,503	(7.7)	4,365	16.4	11,418	15,990	(28.6)
Total Expenditure (B)	48,803	37,622	29.7	41,754	16.9	105,362	118,409	(11.0)
EBITDA (A-B)	5,111	3,633	40.7	4,301	18.8	8,924	11,010	(18.9)
Other Income	124	9	1287.6	111	11.4	260	70	272.4
Depreciation	1,329	1,213	9.6	1,331	(0.1)	3,571	3,647	(2.1)
EBIT	3,906	2,429	60.8	3,081	26.8	5,614	7,433	(24.5)
Finance Costs	291	211	37.5	407	(28.6)	1,221	787	55.0
PBT after excep items	3,615	2,218	63.0	2,674	35.2	4,393	6,646	(33.9)
Tax expense	3,615	2,218	63.0	2,674	35.2	4,393	6,646	(33.9)
Reported PAT	959	247	288.8	712	34.7	1,165	1,462	(20.3)
Adjusted PAT	2,656	1,971	34.8	1,963	35.3	3,228	5,184	(37.7)
Adj EPS (Rs)	2,656	1,971	34.8	1,963	35.3	3,228	5,184	(37.7)

Source: Company, BOBCAPS Research

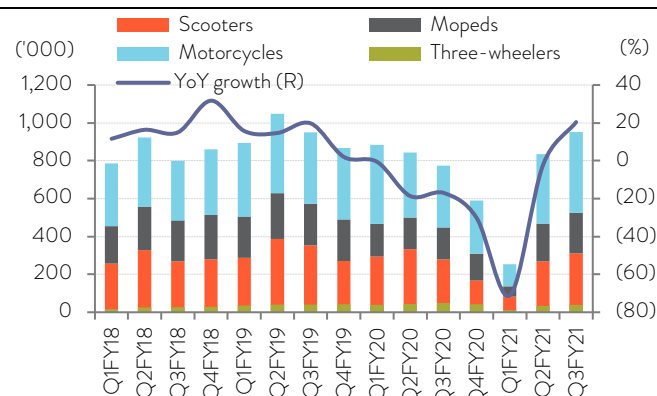
FIG 2 – KEY PARAMETERS

(%)	Q3FY21	Q3FY20	YoY (bps)	Q2FY21	QoQ (bps)	9MFY21	9MFY20	YoY (bps)
Gross margin	23.9	27.8	(390)	23.5	43	23.8	26.4	(264)
EBITDA margin	9.5	8.8	68	9.3	14	7.8	8.5	(70)
EBIT margin	7.2	5.9	136	6.7	55	4.9	5.7	(83)
PBT margin	6.7	5.4	133	5.8	90	3.8	5.1	(129)
Tax rate	26.5	11.1	1540	26.6	(9)	26.5	22.0	452
Adj PAT margin	4.9	4.8	15	4.3	67	2.8	4.0	(118)

Source: Company, BOBCAPS Research

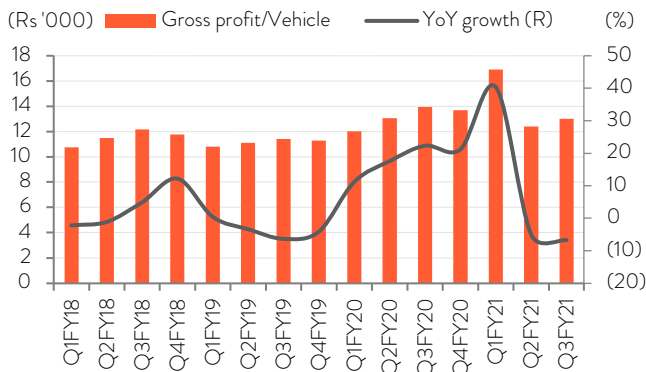
FIG 3 – AVERAGE SELLING PRICE (ASP)

Source: Company, BOBCAPS Research

FIG 4 – VOLUME GROWTH TREND

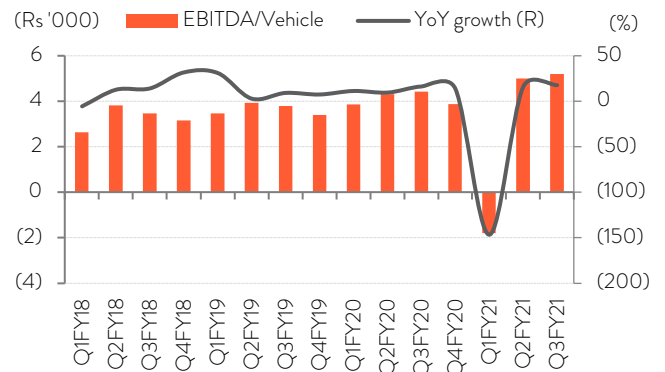
Source: Company, BOBCAPS Research

FIG 5 – GROSS PROFIT/VEHICLE



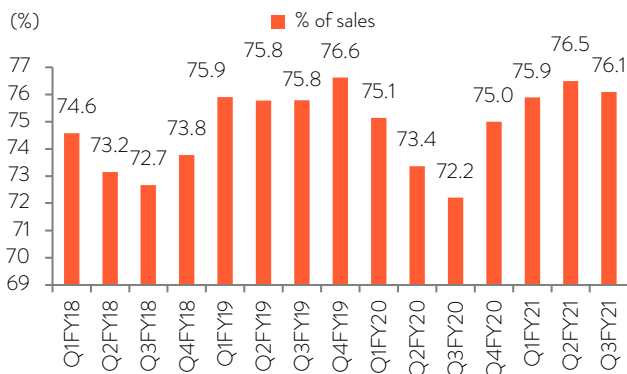
Source: Company, BOBCAPS Research

FIG 6 – EBITDA/VEHICLE



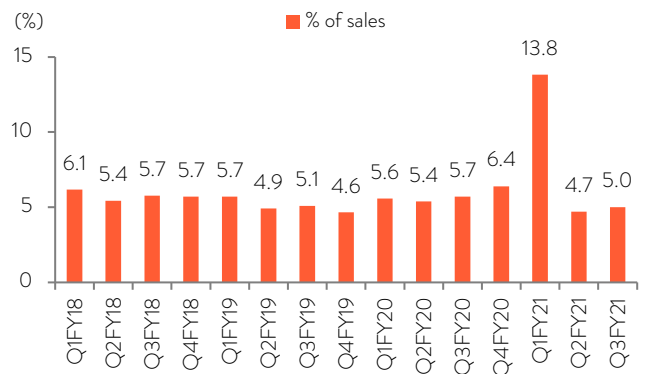
Source: Company, BOBCAPS Research

FIG 7 – RM COST/SALES TREND



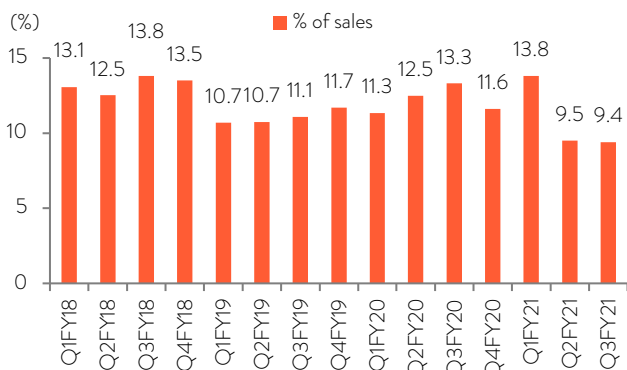
Source: Company, BOBCAPS Research

FIG 8 – EMPLOYEE COST/SALES TREND



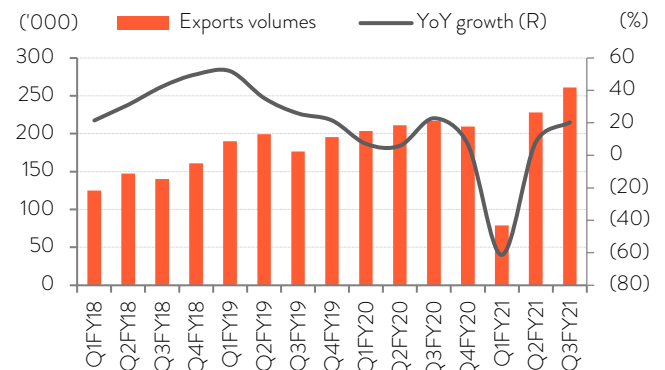
Source: Company, BOBCAPS Research

FIG 9 – OTHER EXPENSES/SALES TREND



Source: Company, BOBCAPS Research

FIG 10 – QUARTERLY EXPORT SALES TREND

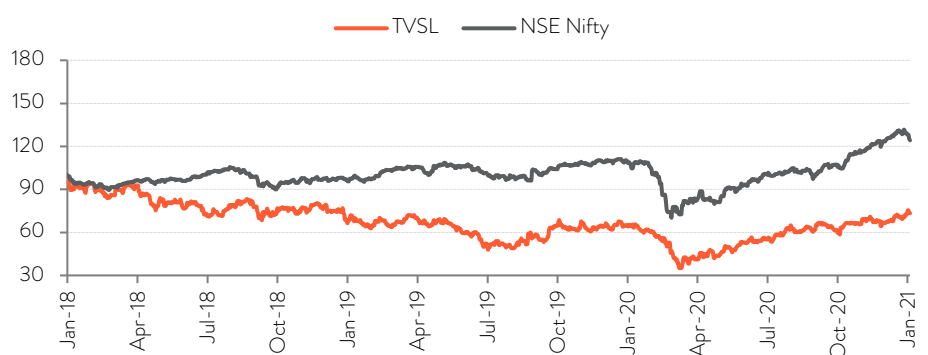


Source: Company, BOBCAPS Research

Valuation methodology

We expect TVSL to post a volume CAGR of 11% during FY21-FY23. Revenue, EBITDA and PAT are projected to grow at 13%, 18% and 32% respectively and ROCE/ROE are forecast at 12%/14% by FY23. At CMP, the stock is trading at 37x FY23E EPS which looks rich. Our target price remains unchanged at Rs 350 and is based on 24x FY23E EPS; maintain SELL.

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	159,070	185,461	203,829
EBITDA	14,332	13,459	11,736	14,657	16,201
Depreciation	3,993	4,890	4,949	5,400	5,851
EBIT	10,415	8,889	7,103	9,588	10,694
Net interest income/(expenses)	(806)	(1,022)	(1,820)	(1,697)	(1,522)
Other income/(expenses)	75	321	316	331	344
Exceptional items	13	(323)	0	0	0
EBT	9,623	7,544	5,283	7,891	9,172
Income taxes	2,908	1,622	1,331	1,988	2,311
Extraordinary items	0	0	0	0	0
Min. int./Inc. from associates	0	0	0	0	0
Reported net profit	6,715	5,922	3,952	5,902	6,861
Adjustments	(13)	323	0	0	0
Adjusted net profit	6,701	6,246	3,952	5,902	6,861

Balance Sheet

Y/E 31 Mar (Rs mn)	FY19A	FY20A	FY21E	FY22E	FY23E
Accounts payables	29,472	28,864	30,964	33,100	36,071
Other current liabilities	3,440	4,620	(434)	235	(1,850)
Provisions	597	1,763	1,763	1,763	1,763
Debt funds	14,000	19,746	25,746	22,746	20,746
Other liabilities	586	858	858	858	858
Equity capital	475	475	475	475	475
Reserves & surplus	32,999	35,706	38,670	42,801	47,604
Shareholders' fund	33,474	36,181	39,145	43,276	48,079
Total liabilities and equities	81,568	92,031	98,042	101,977	105,667
Cash and cash eq.	439	4,193	5,132	5,256	5,191
Accounts receivables	14,141	12,814	15,253	15,243	15,078
Inventories	11,759	10,389	11,767	12,703	12,286
Other current assets	5,210	6,488	7,845	8,130	7,818
Investments	23,007	26,059	26,559	28,559	34,059
Net fixed assets	25,793	28,999	29,051	29,651	28,800
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	98,042	101,977	105,667

Source: Company, BOBCAPS Research

Cash Flows

Y/E 31 Mar (Rs mn)	FY19A	FY20A	FY21E	FY22E	FY23E
Net income + Depreciation	10,694	11,136	8,900	11,302	12,711
Interest expenses	(806)	(1,022)	(1,820)	(1,697)	(1,522)
Non-cash adjustments	(75)	(321)	(316)	(331)	(344)
Changes in working capital	(1,104)	2,386	(8,127)	1,593	1,781
Other operating cash flows	42	(371)	0	0	0
Cash flow from operations	8,752	11,808	(1,363)	10,867	12,626
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	6,000	(3,000)	(2,000)
Interest expenses	(806)	(1,022)	(1,820)	(1,697)	(1,522)
Dividends paid	(2,000)	(2,000)	(988)	(1,771)	(2,058)
Other financing cash flows	645	(546)	0	0	0
Cash flow from financing	(53)	2,178	3,192	(6,468)	(5,580)
Changes in cash and cash eq.	(1,207)	2,876	(2,700)	(3,270)	(3,110)
Closing cash and cash eq.	439	4,193	5,132	5,256	5,191

Per Share

Y/E 31 Mar (Rs)	FY19A	FY20A	FY21E	FY22E	FY23E
Reported EPS	14.1	12.5	8.3	12.4	14.4
Adjusted EPS	14.1	12.5	8.3	12.4	14.4
Dividend per share	3.5	3.5	2.1	3.7	4.3
Book value per share	70.5	76.2	82.4	91.1	101.2

Valuations Ratios

Y/E 31 Mar (x)	FY19A	FY20A	FY21E	FY22E	FY23E
EV/Sales	1.4	1.5	1.6	1.3	1.2
EV/EBITDA	17.6	18.7	21.1	16.8	15.4
Adjusted P/E	37.4	42.4	63.6	42.6	36.6
P/BV	7.5	6.9	6.4	5.8	5.2

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	74.4	82.3	85.8
EBIT margin (EBIT/Revenue)	5.7	5.4	4.5	5.2	5.2
Asset turnover (Revenue/Avg TA)	407.9	313.3	259.6	279.7	298.5
Leverage (Avg TA/Avg Equity)	1.4	1.5	1.6	1.6	1.5
Adjusted ROAE	21.6	17.0	10.5	14.3	15.0

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)	(3.1)	16.6	9.9
EBITDA	22.0	(6.1)	(12.8)	24.9	10.5
Adjusted EPS	3.9	(11.8)	(33.3)	49.4	16.2
Profitability & Return ratios (%)					
EBITDA margin	7.9	8.2	7.4	7.9	7.9
EBIT margin	5.7	5.4	4.5	5.2	5.2
Adjusted profit margin	3.7	3.8	2.5	3.2	3.4
Adjusted ROAE	20.0	17.3	10.1	13.6	14.3
ROCE	16.3	13.3	8.7	10.8	11.7
Working capital days (days)					
Receivables	24	30	32	30	27
Inventory	21	25	25	24	22
Payables	72	88	90	83	81
Ratios (x)					
Gross asset turnover	0.3	0.4	0.4	0.4	0.4
Current ratio	0.9	1.0	1.2	1.2	1.1
Net interest coverage ratio	(12.9)	(8.7)	(3.9)	(5.6)	(7.0)
Adjusted debt/equity	0.4	0.5	0.7	0.5	0.4

Source: Company, BOBCAPS Research

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Recommendations and Absolute returns (%) over 12 months

BUY – Expected return >+15%

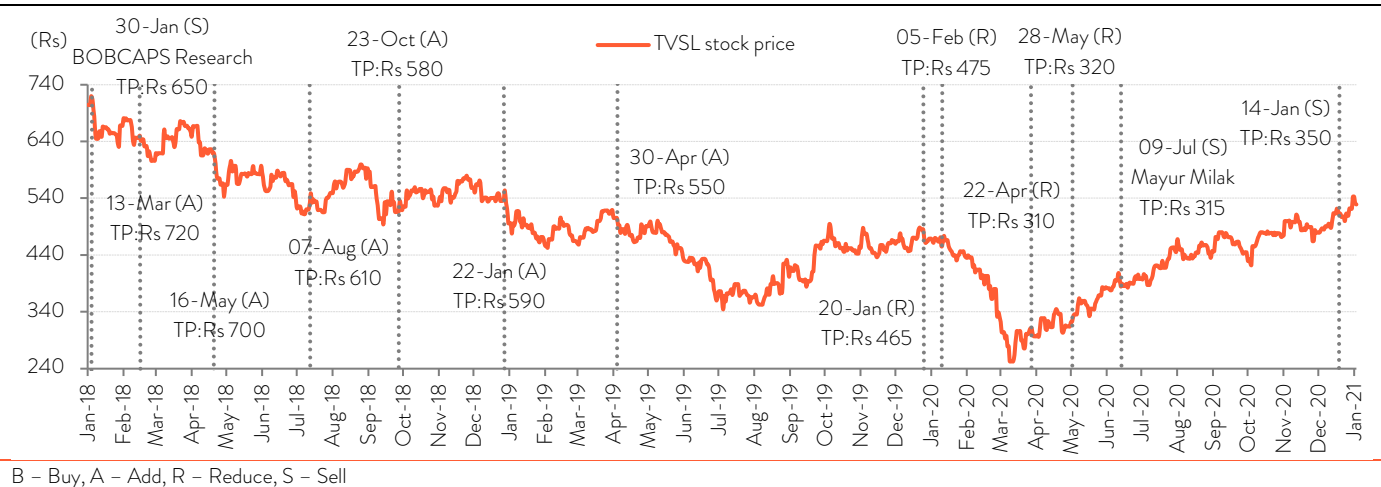
ADD – Expected return from >+5% to +15%

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)



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