

**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.**

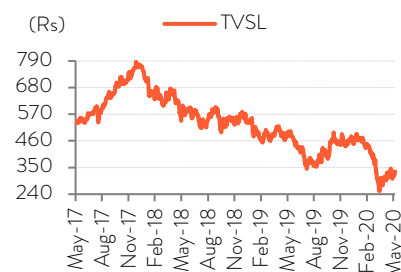
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**Resilient performance:** Q4 net sales declined 21% YoY due to a sharp 30% YoY drop in volumes, offset partially by a healthy rise in ASP. Sequential improvement in ASP at ~10% was driven by high dispatches of BS-VI models (~85% of domestic 2W dispatches) 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

**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**

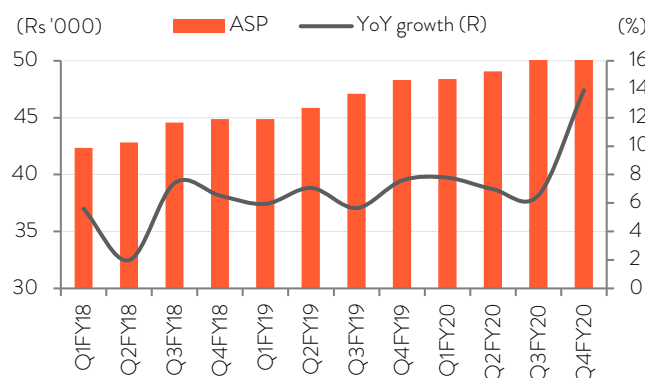
Y/E Mar (Rs mn)	Q4FY20	Q4FY19	YoY (%)	Q3FY20	QoQ (%)	FY20	FY19	YoY (%)
<b>Net Revenues</b>	<b>34,814</b>	<b>43,840</b>	<b>(20.1)</b>	<b>41,255</b>	<b>(15.6)</b>	<b>164,233</b>	<b>182,099</b>	<b>(9.8)</b>
Raw Materials	26,098	33,593	(22.3)	29,787	(12.4)	121,359	138,423	(12.3)
% of Net Sales	75.0	76.6	-	72.2	-	73.9	76.0	-
Personnel	2,227	2,036	9.4	2,332	(4.5)	9,384	9,226	1.7
% of Net Sales	6.4	4.6	-	5.7	-	5.7	5.1	-
Manufacturing & Other Exp	4,042	5,130	(21.2)	5,503	(26.6)	20,032	20,118	(0.4)
% of Net Sales	11.6	11.7	-	13.3	-	12.2	11.0	-
Total Expenditure	32,366	40,759	(20.6)	37,622	(14.0)	150,775	167,767	(10.1)
<b>EBITDA</b>	<b>2,448</b>	<b>3,081</b>	<b>(13.4)</b>	<b>3,633</b>	<b>(32.6)</b>	<b>13,458</b>	<b>14,333</b>	<b>(6.1)</b>
<b>EBITDA Margin (%)</b>	<b>7.0</b>	<b>7.0</b>	<b>-</b>	<b>8.8</b>	<b>-</b>	<b>8.2</b>	<b>7.9</b>	<b>62.2</b>
Depreciation	1,243	1,031	20.6	1,213	2.5	4,890	3,993	22.5
EBIT	1,205	2,050	(30.5)	2,420	(50.2)	8,568	10,340	(17.1)
Interest Expenses	235	247	(5.0)	211	11.0	1,022	806	26.8
Non-operating income	251	36	601.4	9	2721.3	321	75	325.7
Extraordinary Income/(expense)	(322)	0	-	(760)	NA	(322)	0	-
PBT	899	1,839	(39.2)	1,457	(38.3)	8,189	9,610	(14.8)
Tax-Total	160	501	(68.1)	247	(35.3)	1,622	2,908	(44.2)
<b>Tax Rate (%) - Total</b>	<b>17.8</b>	<b>27.2</b>	<b>-</b>	<b>16.9</b>	<b>-</b>	<b>19.8</b>	<b>30.3</b>	<b>(34.6)</b>
<b>Reported PAT</b>	<b>739</b>	<b>1,338</b>	<b>(28.4)</b>	<b>1,209</b>	<b>(38.9)</b>	<b>6,568</b>	<b>6,701</b>	<b>(2.0)</b>
Adj. PAT	1,282	1,338	(4.2)	1,971	(46.1)	6,213	6,701	(5.4)
PAT Margin	3.0	3.1	-	4.8	-	3.9	3.7	-

Source: Company, BOBCAPS Research

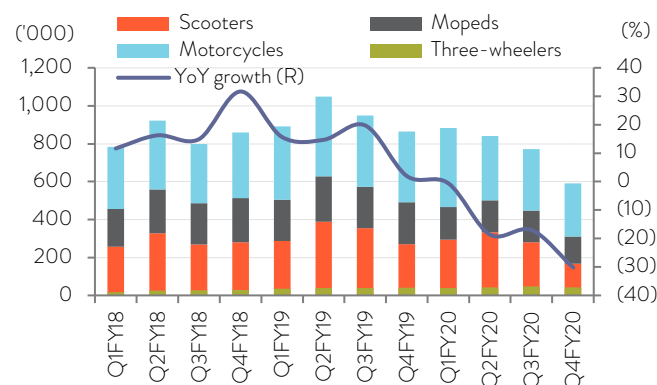
**FIG 2 – PER UNIT PARAMETERS**

(Rs)	Q4FY20	Q4FY19	YoY (%)	Q3FY20	QoQ (%)	FY20	FY19	YoY (%)
<b>Sales Volume (nos)</b>	<b>632,920</b>	<b>928,274</b>	<b>(31.8)</b>	<b>821,521</b>	<b>(23.0)</b>	<b>3,263,468</b>	<b>3,913,763</b>	<b>(16.6)</b>
Net Realisation/Vehicle	55,006	47,228	16.5	50,217	9.5	50,325	46,528	8.2
Material Cost/Vehicle	41,234	36,189	13.9	36,258	13.7	37,187	35,368	5.1
Gross Profit/Vehicle	13,772	11,039	24.8	13,959	(1.3)	13,138	11,160	17.7
Employee Cost/Vehicle	3,518	2,193	60.4	2,838	24.0	2,875	2,357	22.0
Other Expenses/Vehicle	6,386	5,526	15.5	6,699	(4.7)	6,138	5,140	19.4
EBITDA/Vehicle	3,868	3,319	16.5	4,422	(12.5)	4,124	3,662	12.6
Net Profit/Vehicle	1,678	1,442	16.4	2,399	(30.1)	1,943	1,712	13.5

Source: Company, BOBCAPS Research

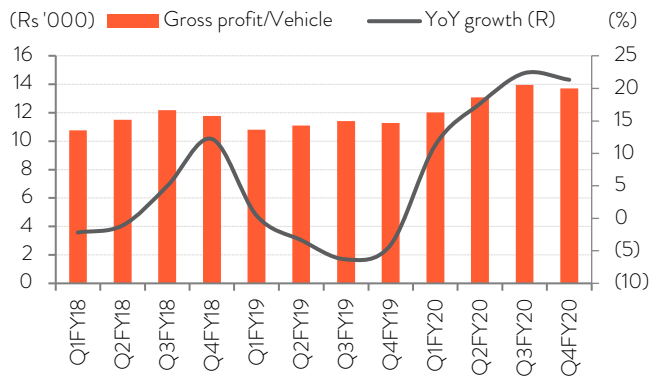
**FIG 3 – AVERAGE SELLING PRICE (ASP)**

Source: Company, BOBCAPS Research

**FIG 4 – VOLUME GROWTH TREND**

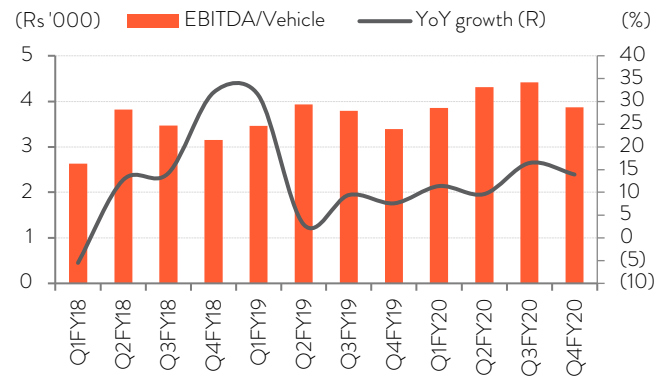
Source: SIAM, ET Autolytics, BOBCAPS Research

**FIG 5 – GROSS PROFIT/VEHICLE**



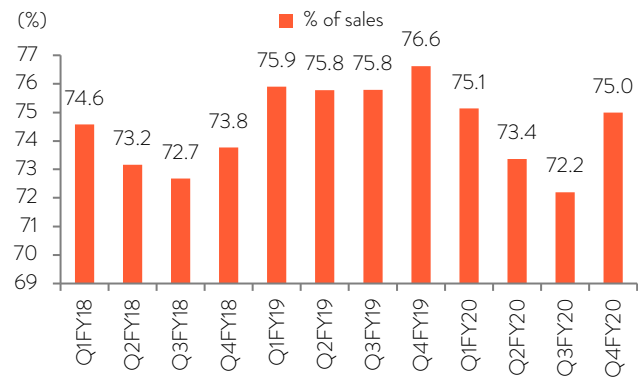
Source: Company, BOBCAPS Research

**FIG 6 – EBITDA/VEHICLE**



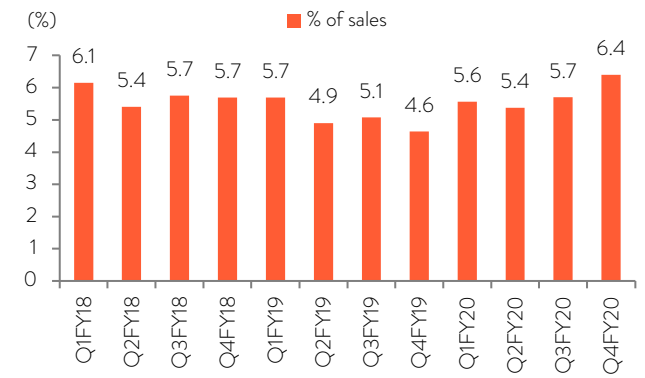
Source: Company, BOBCAPS Research

**FIG 7 – RM COST/SALES TREND**



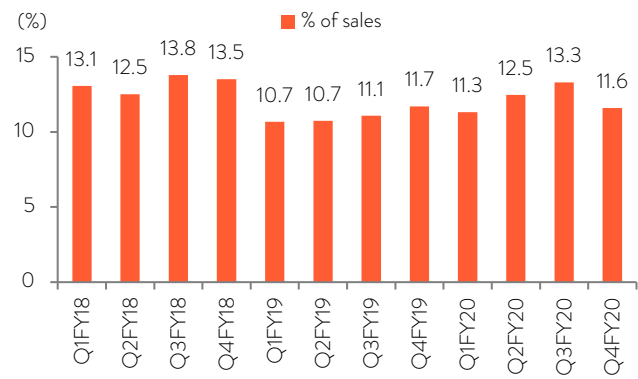
Source: Company, BOBCAPS Research

**FIG 8 – EMPLOYEE COST/SALES TREND**



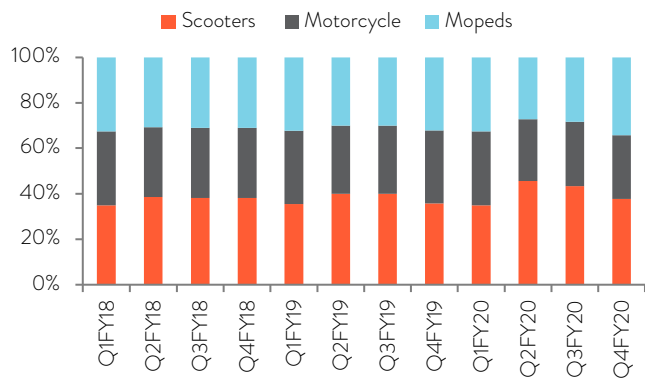
Source: Company, BOBCAPS Research

**FIG 9 – OTHER EXPENSES/SALES TREND**



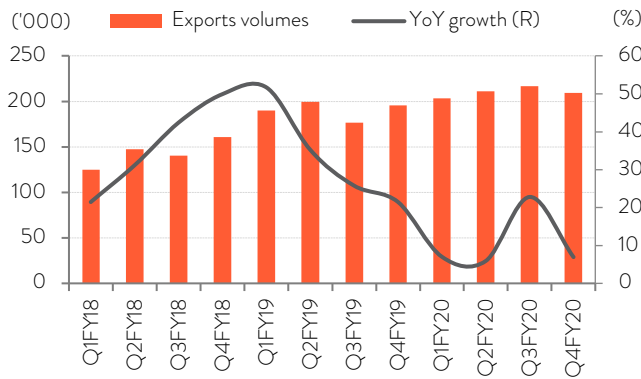
Source: Company, BOBCAPS Research

**FIG 10 – SEGMENT MIX – DOMESTIC 2W**



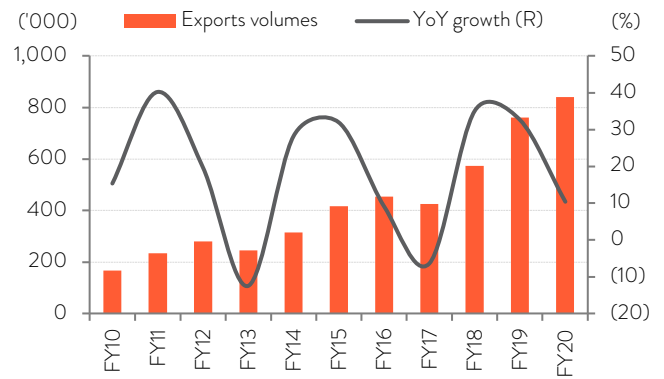
Source: Company, BOBCAPS Research

**FIG 11 – QUARTERLY EXPORT SALES TREND**



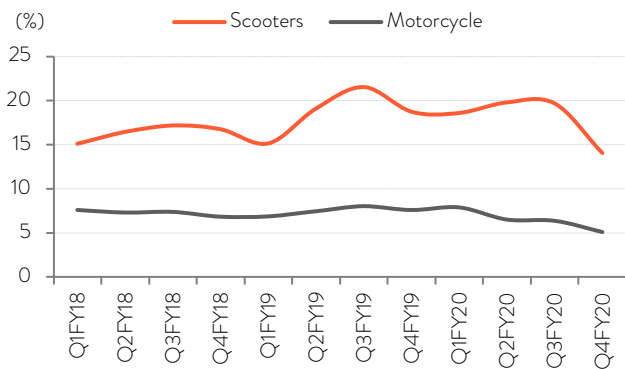
Source: Company, BOBCAPS Research

**FIG 12 – ANNUAL EXPORT SALES TREND**



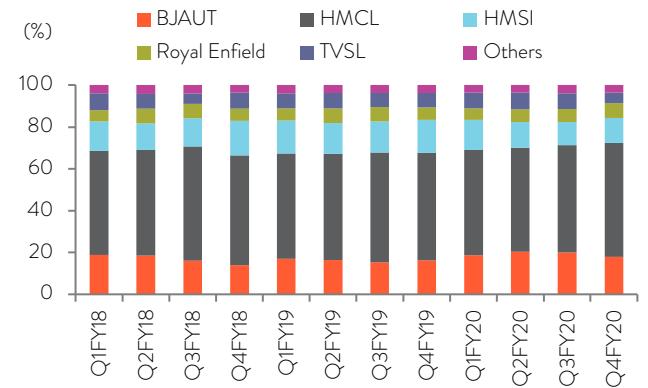
Source: Company, BOBCAPS Research

**FIG 13 – TVSL MARKET SHARE TREND**



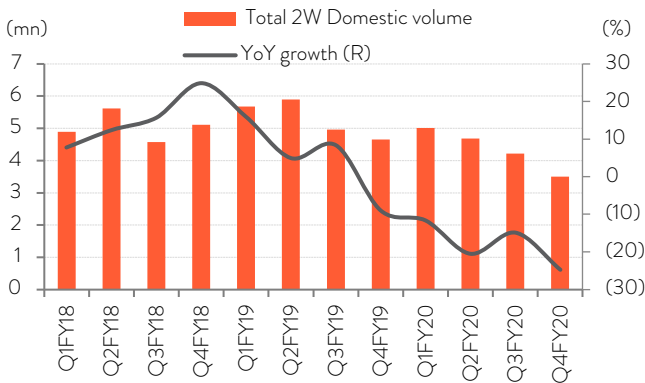
Source: SIAM, ET Autolytics, BOBCAPS Research

**FIG 14 – 2W MOTORCYCLE MARKET SHARE**



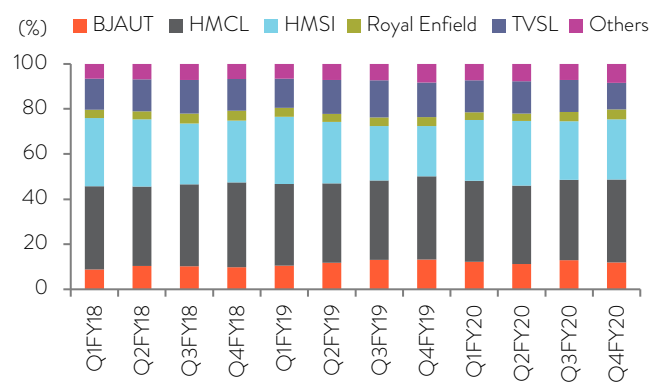
Source: SIAM, ET Autolytics, BOBCAPS Research

**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

- TVSL has received a positive response to its BS-VI products and ~85% of domestic 2W sales in Q4FY20 comprised these models. The company has introduced two versions – Eco and Race mode – for BS-VI variants. It took price hikes of 10-12% across product lines due to transition to the new emission norms. A further 1% hike was uniformly taken in Q1FY21.
- The company gave a one-time dealer support discount of Rs 220mn in a bid to clear off BS-IV inventory. An exceptional item of Rs 320mn was booked on account of a donation to the PM Cares Fund and other CSR activities.
- Other income in Q4 was higher than expected due to an income tax refund of ~Rs 200mn.
- Capacity utilisation in FY20 remained low for 2Ws at 60-62% owing to Covid-related issues in the fourth quarter and supply constraints for BS-VI components. Utilisation for 3W production remained upward of 90%.
- Management remains optimistic about demand recovery from H2FY21 on the back of a better monsoon (and hence stronger rural demand) coupled with higher financing and preference for personal mobility in the wake of Covid-19.
- TVSL anticipates recovery in exports markets with May clocking better sales than April and likely steady improvement ahead.
- Export revenue for FY20 was at Rs 45.8bn while spares revenue was at Rs 17.2bn. Forex realisation for the year stood at Rs 71/USD.
- In FY20, capex cost was at Rs 7.2bn and a sum of ~Rs 3bn has been earmarked for FY21.
- TVSL holds 84% stake in TVS Credit – the subsidiary's book size stands at Rs 92bn, with net worth of Rs 13.7bn and NPA at 2.4% in FY20. Collections in Apr-May'20 look encouraging, as per the company. About 37% of customers have opted for moratorium
- Final dividend of Rs 2.4/sh has been announced in addition to interim dividend of Rs 1.1 – this takes the total dividend for FY20 to Rs 3.5.

### Valuation methodology

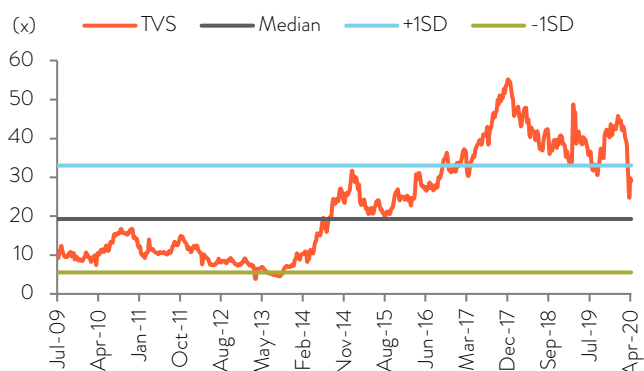
TVSL trades at 29x FY21E EPS (adjusted for value in TVS Credit) which we find expensive in the context of demand uncertainty in domestic/export markets due to the Covid-19 pandemic. Sharp 10-12% BS-VI-led price hikes will act as a further demand dampener, especially in the moped segment. We revise FY21/ 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 target price to Rs 320 (vs. Rs 310). Maintain REDUCE.

**FIG 17 – REVISED ESTIMATES**

Change (%)	FY21E	FY22E
Volume	(4.8)	(4.5)
Income	(3.1)	(3.0)
EBITDA	0.6	1.6
EBITDA Margin (bps)	30	41
Profit	(1.1)	2.6
EPS	(1.1)	2.6

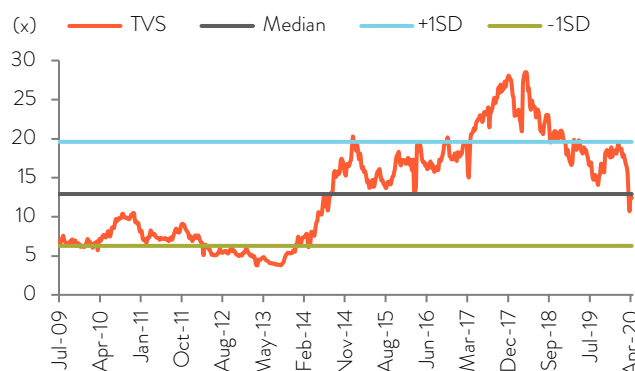
Source: BOBCAPS Research

**FIG 18 – P/E MULTIPLE**



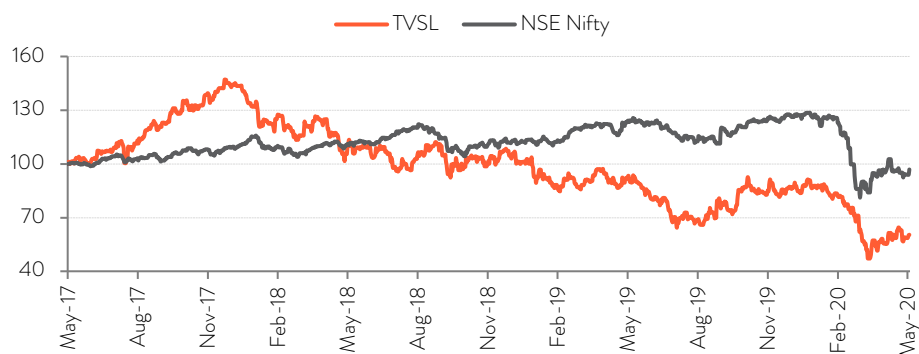
Source: Company, BOBCAPS Research

**FIG 19 – EV/EBITDA MULTIPLE**



Source: Company, BOBCAPS Research

**FIG 20 – 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	FY20P	FY21E	FY22E
<b>Total revenue</b>	<b>151,297</b>	<b>182,099</b>	<b>164,233</b>	<b>156,440</b>	<b>177,119</b>
EBITDA	11,292	14,333	13,459	12,649	15,855
Depreciation	3,387	3,993	4,890	5,238	5,606
EBIT	7,905	10,340	8,568	7,411	10,249
Net interest income/(expenses)	(566)	(806)	(1,022)	(1,255)	(1,255)
Other income/(expenses)	1,448	75	321	119	130
Exceptional items	0	0	(323)	0	0
EBT	8,786	9,610	7,544	6,275	9,123
Income taxes	2,161	2,908	1,622	1,506	2,190
Extraordinary items	0	0	0	0	0
Min. int./Inc. from associates	0	0	0	0	0
<b>Reported net profit</b>	<b>6,626</b>	<b>6,701</b>	<b>5,922</b>	<b>4,769</b>	<b>6,934</b>
Adjustments	0	0	291	0	0
<b>Adjusted net profit</b>	<b>6,626</b>	<b>6,701</b>	<b>6,213</b>	<b>4,769</b>	<b>6,934</b>

### Balance Sheet

Y/E 31 Mar (Rs mn)	FY18A	FY19A	FY20P	FY21E	FY22E
Accounts payables	25,180	29,239	28,864	26,760	30,336
Other current liabilities	3,279	3,673	5,478	5,578	5,678
Provisions	1,158	1,183	1,763	1,813	1,863
Debt funds	11,892	14,000	19,746	20,746	19,746
Other liabilities	0	0	0	0	0
Equity capital	475	475	475	475	475
Reserves & surplus	28,329	32,998	35,706	38,761	43,352
Shareholders' fund	28,804	33,473	36,181	39,236	43,827
<b>Total liabilities and equities</b>	<b>70,313</b>	<b>81,567</b>	<b>92,031</b>	<b>94,133</b>	<b>101,449</b>
Cash and cash eq.	110	440	4,192	3,732	6,113
Accounts receivables	9,684	14,141	12,814	13,380	14,220
Inventories	9,644	11,759	10,389	10,871	12,324
Other current assets	6,973	5,981	8,305	8,555	8,805
Investments	20,354	23,007	26,059	29,559	33,059
Net fixed assets	23,719	25,793	30,588	29,616	28,510
CWIP	1,311	2,572	1,266	0	0
Intangible assets	0	0	0	0	0
Deferred tax assets, net	(1,482)	(2,126)	(1,581)	(1,581)	(1,581)
Other assets	0	0	0	0	0
<b>Total assets</b>	<b>70,313</b>	<b>81,567</b>	<b>92,031</b>	<b>94,133</b>	<b>101,449</b>

Source: Company, BOBCAPS Research



**Cash Flows**

Y/E 31 Mar (Rs mn)	FY18A	FY19A	FY20P	FY21E	FY22E
Net income + Depreciation	10,013	10,694	10,813	10,007	12,540
Interest expenses	566	806	1,022	1,255	1,255
Non-cash adjustments	225	645	(546)	0	0
Changes in working capital	3,302	(1,104)	2,384	(3,252)	1,183
Other operating cash flows	0	0	0	0	0
<b>Cash flow from operations</b>	<b>14,106</b>	<b>11,041</b>	<b>13,673</b>	<b>8,010</b>	<b>14,978</b>
Capital expenditures	(7,956)	(7,328)	(8,379)	(3,000)	(4,500)
Change in investments	(4,475)	(2,653)	(3,052)	(3,500)	(3,500)
Other investing cash flows	0	0	0	0	0
<b>Cash flow from investing</b>	<b>(12,431)</b>	<b>(9,981)</b>	<b>(11,431)</b>	<b>(6,500)</b>	<b>(8,000)</b>
Equities issued/Others	0	0	0	0	0
Debt raised/repaid	820	2,108	5,746	1,000	(1,000)
Interest expenses	(566)	(806)	(1,022)	(1,255)	(1,255)
Dividends paid	(1,803)	(1,912)	(1,912)	(1,639)	(2,240)
Other financing cash flows	(102)	(120)	(1,303)	(75)	(103)
<b>Cash flow from financing</b>	<b>(1,651)</b>	<b>(730)</b>	<b>1,510</b>	<b>(1,969)</b>	<b>(4,598)</b>
<b>Changes in cash and cash eq.</b>	<b>24</b>	<b>330</b>	<b>3,752</b>	<b>(459)</b>	<b>2,380</b>
<b>Closing cash and cash eq.</b>	<b>110</b>	<b>440</b>	<b>4,192</b>	<b>3,732</b>	<b>6,113</b>

**Per Share**

Y/E 31 Mar (Rs)	FY18A	FY19A	FY20P	FY21E	FY22E
Reported EPS	13.9	14.1	13.1	10.0	14.6
Adjusted EPS	13.9	14.1	13.1	10.0	14.6
Dividend per share	3.3	3.5	3.5	3.0	4.1
Book value per share	60.6	70.5	76.2	82.6	92.2

**Valuations Ratios**

Y/E 31 Mar (x)	FY18A	FY19A	FY20P	FY21E	FY22E
EV/Sales	1.1	0.9	1.0	1.1	1.0
EV/EBITDA	14.9	11.8	12.7	13.7	11.0
Adjusted P/E	23.9	23.6	25.5	33.2	22.8
P/BV	5.5	4.7	4.4	4.0	3.6

**DuPont Analysis**

Y/E 31 Mar (%)	FY18A	FY19A	FY20P	FY21E	FY22E
Tax burden (Net profit/PBT)	75.4	69.7	78.5	76.0	76.0
Interest burden (PBT/EBIT)	111.2	92.9	88.0	84.7	89.0
EBIT margin (EBIT/Revenue)	5.2	5.7	5.2	4.7	5.8
Asset turnover (Revenue/Avg TA)	236.2	239.8	189.2	168.1	181.1
Leverage (Avg TA/Avg Equity)	242.2	243.9	249.2	246.8	235.5
Adjusted ROAE	23.0	20.0	17.2	12.2	15.8

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

**Ratio Analysis**

Y/E 31 Mar	FY18A	FY19A	FY20P	FY21E	FY22E
<b>YoY growth (%)</b>					
Revenue	24.7	20.4	(9.8)	(4.7)	13.2
EBITDA	31.8	26.9	(6.1)	(6.0)	25.3
Adjusted EPS	18.7	1.1	(7.3)	(23.2)	45.4
<b>Profitability &amp; Return ratios (%)</b>					
EBITDA margin	7.5	7.9	8.2	8.1	9.0
EBIT margin	5.2	5.7	5.2	4.7	5.8
Adjusted profit margin	4.4	3.7	3.8	3.0	3.9
Adjusted ROAE	23.0	20.0	17.2	12.2	15.8
ROCE	22.2	21.0	15.5	12.2	15.9
<b>Working capital days (days)</b>					
Receivables	23	28	28	31	29
Inventory	23	24	23	25	25
Payables	61	59	64	62	63
<b>Ratios (x)</b>					
Gross asset turnover	3.5	3.6	2.8	2.5	2.7
Current ratio	0.9	0.9	1.0	1.1	1.1
Net interest coverage ratio	14.0	12.8	8.4	5.9	8.2
Adjusted debt/equity	0.4	0.4	0.4	0.4	0.3

Source: Company, BOBCAPS Research

## Disclaimer

### Recommendations and Absolute returns (%) over 12 months

**BUY** – Expected return >+15%

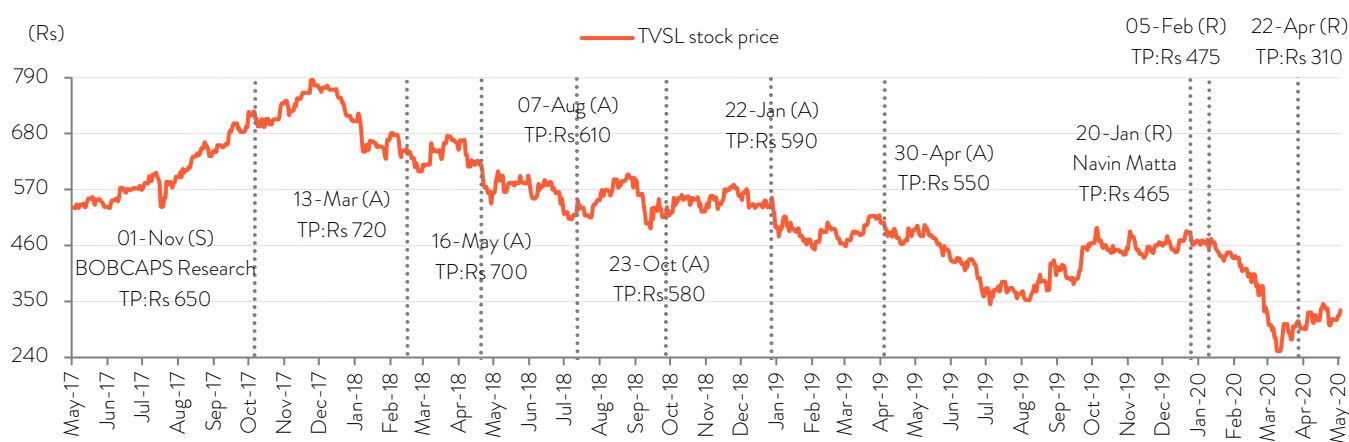
**ADD** – Expected return from >+5% to +15%

**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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