

SELL

TP: Rs 480 | ▼ 15%

TVS MOTOR

| Automobiles

| 29 July 2021

Dull quarter; maintain SELL

- Q1 revenue met our estimate but EBITDA margin fell short at 7% and adj. PAT declined 70% QoQ to Rs 833mn
- Sufficient dealer inventory could cap production volumes even as RM cost headwinds continue
- Reiterate SELL with an unchanged Mar'22 TP of Rs 480, valuing the core business at 24x FY23E EPS

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Poor volumes weaken performance: TVSL's Q1FY22 revenue declined 26% QoQ to Rs 39.3bn, in line with our estimate. Volumes fell 29% and ASP grew 4% QoQ. Gross margin slipped 40bps QoQ and lower volumes eroded operating leverage, causing EBITDA margin to shrink 310bps QoQ to 7% (8.7% est.) and EBITDA to fall 49% QoQ to Rs 2.7bn. TVSL reported one-off expenses of Rs 300mn related to Covid-19 (medical, vaccination and oxygen supplies). Adj. PAT was down 70% QoQ to Rs 833mn. While standalone reported PAT was at Rs 531mn, TVSL had a consolidated loss of Rs 147mn led by a loss of ~Rs 250mn in TVS Credit.

Demand steady: Our channel checks suggest dealer inventory of 40-50 days. Though management remains confident of a bounce-back in domestic demand from both rural and urban areas after the second Covid-19 wave, we believe production will hinge on retail sales amid the high inventory levels. Management indicated that retail sales in July have improved to the Q4FY21 monthly run-rate. Semiconductor availability remains a challenge for certain Apache products. On the exports front, management expects momentum to build up with markets in Nepal and Bangladesh reopening in August.

RM cost pressure persists: The company expects raw material cost inflation in Q2FY22 as well. TVSL took a price hike of ~2% in July following a ~1% increase in Q1 and is still incurring under-recovery of ~1% of RM costs due to high input costs.

Retain SELL: We maintain our FY22/FY23 estimates and introduce FY24 projections, building in a volume CAGR of 9% and a revenue/EBITDA/PAT CAGR of 12%/14%/21% over FY21-FY24. Our SOTP-based TP remains at Rs 480 and is based on (1) 24x FY23E standalone EPS (in line with the 10-year average multiple), and (2) Rs 30/sh for the stake in TVS Credit Services (as per consensus). Reiterate SELL as current valuations look rich at 28x FY23E EPS (adj. for TVS credit share).

Key changes

Target	Rating
◀ ▶	◀ ▶

Ticker/Price	TVSL IN/Rs 562
Market cap	US\$ 3.6bn
Free float	47%
3M ADV	US\$ 16.8mn
52wk high/low	Rs 666/Rs 384
Promoter/FPI/DII	57%/11%/22%

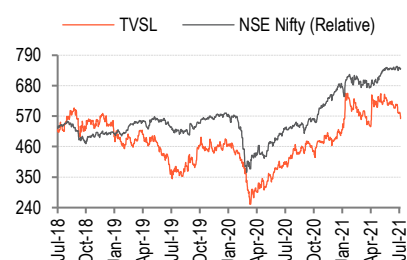
Source: NSE | Price as of 29 Jul 2021

Key financials

Y/E 31 Mar	FY21A	FY22E	FY23E
Total revenue (Rs mn)	167,505	192,724	211,892
EBITDA (Rs mn)	14,286	16,646	18,506
Adj. net profit (Rs mn)	6,121	8,022	9,081
Adj. EPS (Rs)	12.9	16.9	19.1
Consensus EPS (Rs)	12.9	20.7	26.9
Adj. ROAE (%)	15.0	17.3	17.2
Adj. P/E (x)	43.6	33.3	29.4
EV/EBITDA (x)	18.5	15.5	14.1
Adj. EPS growth (%)	3.4	31.1	13.2

Source: Company, Bloomberg, BOBCAPS Research

Stock performance



Source: NSE



Fig 1 – Quarterly performance

(Rs mn)	Q1FY22	Q1FY21	YoY (%)	Q4FY21	QoQ (%)
Volume	657,758	266,933	146.4	927,479	(29.1)
Avg. Realisation per Vehicle (Rs)	59,815	53,636	11.5	57,381	4.2
Net Revenues	39,344	14,317	174.8	53,219	(26.1)
Total Income (A)	39,344	14,317	174.8	53,219	(26.1)
Operating Expenses:					
Raw materials consumed	29,790	10,864	174.2	40,098	(25.7)
Employee Expenses	2,609	1,970	32.4	2,681	(2.7)
Other Expenses	4,207	1,972	113.4	5,079	(17.2)
Total Expenditure (B)	36,606	14,806	147.2	47,858	(23.5)
EBITDA (A-B)	2,738	(488)	(660.8)	5,361	(48.9)
Other Income	16	26	(38.6)	69	(77.1)
Depreciation	1,431	911	57.1	1,366	4.7
EBIT	1,323	(1,373)	(196.4)	4,065	(67.4)
Finance Costs	300	523	(42.7)	195	53.5
Exceptional items (profit)/loss	302	-	NA	-	NA
PBT after excep items	722	(1,896)	(138.1)	3,869	(81.3)
Tax expense	190	(505)	(137.6)	977	(80.5)
Reported PAT	531	(1,391)	(138.2)	2,892	(81.6)
Adjusted PAT	833	(1,391)	(159.9)	2,892	(71.2)
Adj EPS (Rs)	2.4	(2.9)	(181.6)	6.1	(60.8)

Source: Company, BOBCAPS Research

Fig 2 – Key parameters

(%)	Q1FY22	Q1FY21	YoY (bps)	Q4FY21	QoQ (bps)
Gross Margin	24.3	24.1	16	24.7	(37)
EBITDA Margin	7.0	(3.4)	1,037	10.1	(311)
EBIT Margin	3.4	(9.6)	1,295	7.6	(427)
PBT Margin	2.6	(13.2)	1,584	7.3	(467)
Tax Rate	26.4	26.7	(30)	25.2	111
Adj PAT Margin	2.1	(9.7)	1,183	5.4	(332)

Source: Company, BOBCAPS Research

Valuation methodology

We maintain our FY22/FY23 estimates and introduce FY24 projections, building in a volume CAGR of 9% and a revenue/EBITDA/PAT CAGR of 12%/14%/21% over FY21-FY24. Our SOTP-based TP remains at Rs 480 and is based on (1) 24x FY23E standalone EPS (in line with the 10-year average multiple), and (2) Rs 30/sh for the stake in TVS Credit Services (as per consensus). Reiterate SELL as current valuations look rich at 28x FY23E EPS (adj. for share of TVS credit)

Fig 3 – Key assumptions

Parameter	FY21	FY22E	FY23E	FY24E
2W Volumes	2,928,797	3,201,724	3,457,862	3,734,491
3W Volumes	123,596	148,315	160,180	172,995
Revenues	167,505	192,724	211,892	232,974
EBITDA	14,286	16,646	18,506	21,268
OPM (%)	8.5	8.6	8.734	9.129
Adj. PAT	6,121	8,022	9,081	10,847
EPS (Rs)	13	16.9	19.1	22.8

Source: Company, BOBCAPS Research

Fig 4 – Valuation summary

Business	FY23E EPS	Target Multiple	Value (Rs)
Standalone Business	16.9	24x	450
TVS Credit			30
Total			480

Source: BOBCAPS Research

Fig 5 – Peer comparison

Company	Ticker	Rating	Target Price (Rs)	Revenue CAGR FY21-23E (%)	EPS (Rs)		ROE (%)		Target P/E (x)
					FY22E	FY23E	FY22E	FY23E	
Bajaj Auto	BJAUT IN	SELL	3,200	15.7	174.7	190.1	20.0	21.4	17
TVS Motors	TVSL IN	SELL	480	12.5	12.9	16.9	14.1	14.4	24
Hero Motocorp	HMCL IN	REDUCE	2,900	12.3	170.2	192.1	20.0	19.9	15
Eicher Motors	EIM IN	SELL	2,200	20.7	66.0	86.8	16.7	19.0	24

Source: BOBCAPS Research

Key risks

Key upside risks to our estimates are:

- above-expected volume growth, and
- faster-than-expected recovery in the 3W and scooter segments.

Sector recommendation snapshot

Stock	Ticker	Market Cap (US\$ bn)	Price (Rs)	Target (Rs)	Rating
Ashok Leyland	AL IN	5	125	60	SELL
Bajaj Auto	BJAUT IN	15	3,764	3,200	SELL
Hero MotoCorp	HMCL IN	7	2,746	2,900	HOLD
Mahindra & Mahindra	MM IN	12	731	630	SELL
Maruti Suzuki	MSIL IN	28	6,994	8,000	HOLD
TVS Motor	TVSL IN	4	562	480	SELL
VST Tillers Tractors	VSTT IN	0	2,036	2,300	HOLD

Source: BOBCAPS Research, NSE | Price as of 29 Jul 2021

Financials

Income Statement

Y/E 31 Mar (Rs mn)	FY20A	FY21A	FY22E	FY23E	FY24E
Total revenue	164,233	167,505	192,724	211,892	232,974
EBITDA	13,459	14,286	16,646	18,506	21,268
Depreciation	4,890	4,937	5,365	5,851	6,337
EBIT	8,889	9,679	11,657	13,073	15,434
Net interest inc./(exp.)	(1,022)	(1,416)	(932)	(932)	(932)
Other inc./(exp.)	321	330	376	417	502
Exceptional items	(323)	0	0	0	0
EBT	7,544	8,263	10,725	12,141	14,502
Income taxes	1,622	2,142	2,703	3,059	3,654
Extraordinary items	0	0	0	0	0
Min. int./Inc. from assoc.	0	0	0	0	0
Reported net profit	5,922	6,121	8,022	9,081	10,847
Adjustments	323	0	0	0	0
Adjusted net profit	6,246	6,121	8,022	9,081	10,847

Balance Sheet

Y/E 31 Mar (Rs mn)	FY20A	FY21A	FY22E	FY23E	FY24E
Accounts payables	28,864	39,360	36,822	39,330	43,154
Other current liabilities	4,620	6,582	8,528	7,488	8,282
Provisions	1,763	1,925	1,925	1,925	1,925
Debt funds	19,746	10,356	10,356	10,356	10,356
Other liabilities	858	938	938	938	938
Equity capital	475	475	475	475	475
Reserves & surplus	35,706	40,384	45,999	52,356	59,949
Shareholders' fund	36,181	40,859	46,474	52,831	60,424
Total liab. and equities	92,031	100,020	105,044	112,869	125,080
Cash and cash eq.	4,193	9,298	5,382	5,568	4,765
Accounts receivables	12,814	8,700	12,672	13,352	14,681
Inventories	10,389	11,518	12,672	13,352	14,681
Other current assets	6,488	5,158	6,336	6,966	7,659
Investments	26,059	33,145	35,145	40,645	50,645
Net fixed assets	28,999	30,104	30,739	30,888	30,551
CWIP	2,854	2,787	2,787	2,787	2,787
Intangible assets	0	0	0	0	0
Deferred tax assets, net	(1,581)	(1,955)	(1,955)	(1,955)	(1,955)
Other assets	1,816	1,265	1,265	1,265	1,265
Total assets	92,032	100,020	105,044	112,869	125,080

Cash Flows

Y/E 31 Mar (Rs mn)	FY20A	FY21A	FY22E	FY23E	FY24E
Cash flow from operations	11,808	26,934	5,183	13,061	17,018
Capital expenditures	(8,379)	(5,974)	(6,000)	(6,000)	(6,000)
Change in investments	(3,052)	(7,086)	(2,000)	(5,500)	(10,000)
Other investing cash flows	321	330	376	417	502
Cash flow from investing	(11,110)	(12,730)	(7,624)	(11,083)	(15,498)
Equities issued/Others	0	0	0	0	0
Debt raised/repaid	5,746	(9,391)	0	0	0
Interest expenses	(1,022)	(1,416)	(932)	(932)	(932)
Dividends paid	(2,000)	(1,663)	(2,407)	(2,724)	(3,254)
Other financing cash flows	(546)	374	0	0	0
Cash flow from financing	2,178	(12,095)	(3,339)	(3,656)	(4,186)
Chg in cash & cash eq.	2,876	2,108	(5,780)	(1,678)	(2,666)
Closing cash & cash eq.	4,193	9,298	5,382	5,568	4,765

Per Share

Y/E 31 Mar (Rs)	FY20A	FY21A	FY22E	FY23E	FY24E
Reported EPS	12.5	12.9	16.9	19.1	22.8
Adjusted EPS	12.5	12.9	16.9	19.1	22.8
Dividend per share	3.5	3.5	5.1	5.7	6.8
Book value per share	76.2	86.0	97.8	111.2	127.2

Valuations Ratios

Y/E 31 Mar (x)	FY20A	FY21A	FY22E	FY23E	FY24E
EV/Sales	1.6	1.6	1.3	1.2	1.1
EV/EBITDA	19.9	18.5	15.5	14.1	12.5
Adjusted P/E	45.1	43.6	33.3	29.4	24.6
P/BV	7.4	6.5	5.7	5.1	4.4

DuPont Analysis

Y/E 31 Mar (%)	FY20A	FY21A	FY22E	FY23E	FY24E
Tax burden (Net profit/PBT)	78.5	74.1	74.8	74.8	74.8
Interest burden (PBT/EBIT)	84.9	85.4	92.0	92.9	94.0
EBIT margin (EBIT/Revenue)	5.4	5.8	6.0	6.2	6.6
Asset turnover (Rev./Avg TA)	313.3	307.5	350.7	347.7	343.0
Leverage (Avg TA/Avg Equity)	1.5	1.4	1.3	1.2	1.2
Adjusted ROAE	17.0	15.9	18.4	18.3	19.2

Ratio Analysis

Y/E 31 Mar	FY20A	FY21A	FY22E	FY23E	FY24E
YoY growth (%)					
Revenue	(9.8)	2.0	15.1	9.9	9.9
EBITDA	(6.1)	6.1	16.5	11.2	14.9
Adjusted EPS	(11.8)	3.4	31.1	13.2	19.4
Profitability & Return ratios (%)					
EBITDA margin	8.2	8.5	8.6	8.7	9.1
EBIT margin	5.4	5.8	6.0	6.2	6.6
Adjusted profit margin	3.8	3.7	4.2	4.3	4.7
Adjusted ROAE	17.3	15.0	17.3	17.2	18.0
ROCE	13.3	13.2	15.9	16.0	17.0
Working capital days (days)					
Receivables	30	23	20	22	22
Inventory	25	24	23	22	22
Payables	88	98	95	86	85
Ratios (x)					
Gross asset turnover	0.4	0.4	0.4	0.4	0.3
Current ratio	1.0	0.7	0.8	0.8	0.8
Net interest coverage ratio	(8.7)	(6.8)	(12.5)	(14.0)	(16.6)
Adjusted debt/equity	0.5	0.3	0.2	0.2	0.2

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

Disclaimer

Recommendation scale: Recommendations and Absolute returns (%) over 12 months

BUY – Expected return >+15%

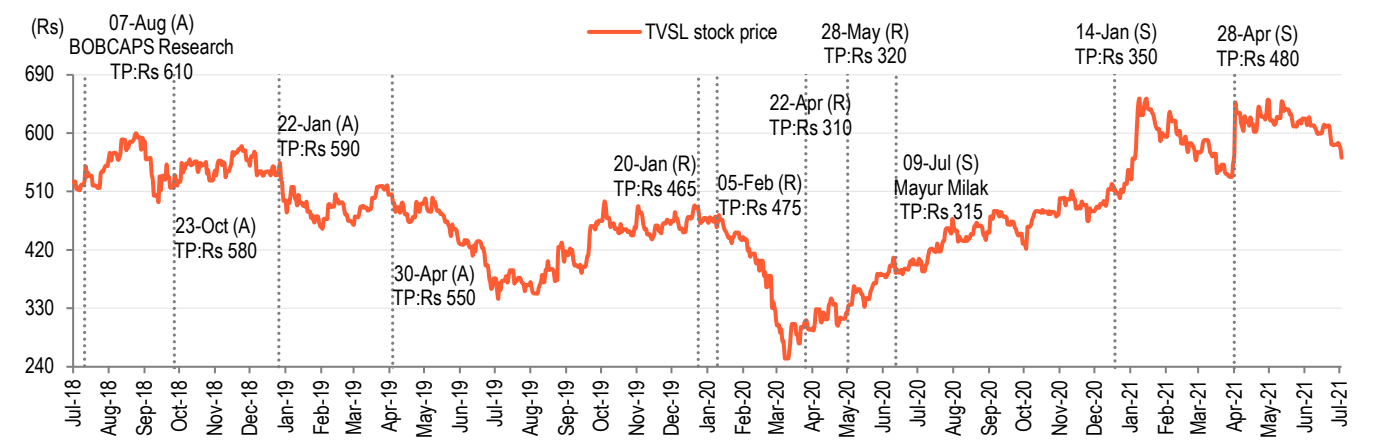
HOLD – Expected return from -6% to +15%

SELL – Expected return <-6%

Note: Recommendation structure changed with effect from 21 June 2021

Our recommendation scale does not factor in short-term stock price volatility related to market fluctuations. Thus, our recommendations may not always be strictly in line with the recommendation scale as shown above.

Ratings and Target Price (3-year history): TVS MOTOR (TVSL IN)



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

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