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Q4FY20 result review
and earnings revision

Automobiles

Target price: Rs422

Earnings revision
(Standalone)

(%)	FY21E	FY22E
Sales	↓ 3.1	↓ 0.3
EBITDA	↓ 2.3	↑ 3.0
EPS	↓ 4.9	↑ 7.4

Target price revision

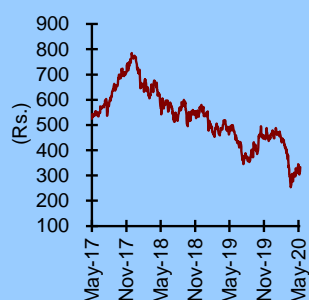
Rs432 from Rs394

Shareholding pattern

	Sep '19	Dec '19	Mar '20
Promoters	57.4	57.4	57.4
Institutional investors	32.2	32.6	32.6
MFs and others	15.0	16.1	16.5
FI & Banks	0.2	0.4	0.2
Insurance Cos	3.8	3.9	4.5
FPI	13.2	12.2	11.4
Others	10.4	10.0	10.0

Source: NSE

Price chart



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INDIA

TVS Motor Company

BUY

Maintained

Tenacious cost focus was the key theme of FY20

Rs333

TVS Motor Company's (TVSM) Q4FY20 operating performance was above consensus estimates (Adj. EBITDA margin at 7.5%) driven by tight control on other expenses (down 180bps QoQ). ASP's rise (13.8%YoY/9.5% QoQ) to ~Rs 55k/unit continues to reflect strong product mix, higher export and BS-VI led price increases. FY20 is a true reflection of benefits of cost saving initiatives filtering through (EBITDA/vehicle expanded ~13% YoY to Rs4.1k) even as operating leverage remained a headwind (~17% YoY volume drop). We expect EBITDA/vehicle to hit Rs5.6k in FY22, believe market share gains are likely via scooter revival in urban areas, rebound of moped due to rural improvement. Stock remains attractive at ~17x FY22 standalone EPS. We maintain BUY.

- **Key highlights of the quarter:** Standalone revenue for Q4FY20 declined 20.6% YoY to ~Rs35bn while adj. EBITDA margin was up 50bps at 7.5%. TVSM took a one-time exceptional charge of Rs220mn (netted in revenues) towards dealer support for liquidation of BS-IV inventory post the lockdown announcement. Gross margins expanded 166bps YoY to 25% driven by benefits of strong localisation efforts even though BS-VI transition issues on supply chain limited the gains. TVSM also contributed Rs330mn towards Covid-19 related relief over and above CSR spends and was classified as below EBITDA exceptional item. Adj. PAT was down ~4.2% at ~1.3bn. Standalone FCF for FY20 stood at Rs5.52bn.
- **Key takeaways from earnings call:** Management indicated: a) Plants have restarted operations from May 5, capacity utilisation for FY20 stood at ~62%/90% for 2W/3W, respectively; b) FY20 revenue from exports and spare parts stood at Rs45.7bn/ Rs17.2bn respectively; c) capex for FY21 planned at Rs3bn (FY20 capex at Rs7.9bn), d) TVS credit services grew to a book size of ~Rs92.2bn, net worth of Rs13.8bn for FY20; NPA stood at 2.4% while only 37% customers opted for moratorium; e) financing penetration for TVSM has reached ~56% of which TVS credit services share stood at ~45% and f) 84% of units dispatched in Q4 were BS-VI; they took ~11-13% cumulative price increase for BS-VI till date.
- **Maintain BUY:** We continue to like TVSM's capability of delivering strong growth led by principles of high customer focus and superior technology. However, FY21 is likely to be trough year with H1 likely to be particularly weak. We thus tweak our FY21E/FY22E standalone EPS estimates by ~-4.9%/7.4%, respectively. We continue value TVSM's standalone business at 21x FY22E EPS (Rs403/share) and TVS credit services at 1.0x trailing BV (Rs20/share) leading to our target price of Rs422/share (earlier: Rs394/share).

Market Cap	Rs158bn/US\$2.1bn	Year to Mar (Consol)	FY19	FY20	FY21E	FY22E
Reuters/Bloomberg	TVSM.BO/TVSL IN	Revenue (Rs mn)	201,600	188,493	168,745	201,983
Shares Outstanding (mn)	475.1	Net Income (Rs mn)	7,254	6,770	2,770	8,520
52-week Range (Rs)	500/253	Rec. EPS (Rs)	15.3	14.3	5.8	17.9
Free Float (%)	42.6	% Chg YoY	9.1	(6.7)	(59.1)	207.5
FII (%)	11.4	P/E (x)	20.7	22.2	54.3	17.6
Daily Volume (US\$/'000)	12,580	CEPS (Rs)	23.0	23.7	18.5	30.0
Absolute Return 3m (%)	(23.3)	EV/E (x)	10.5	9.9	12.5	8.7
Absolute Return 12m (%)	(32.7)	Dividend Yield (%)	1.2	1.2	0.8	1.0
Sensex Return 3m (%)	(15.7)	RoCE (%)	11.6	10.8	7.0	10.5
Sensex Return 12m (%)	(18.1)	RoE (%)	23.1	19.3	7.5	20.6

Please refer to important disclosures at the end of this report

Table 1: Q4FY20 result review (standalone)*(Rs mn)*

	Q4FY20	Q4FY19	YoY (%)	Q3FY20	QoQ (%)
Volumes (units)	633,473	907,306	(30)	821,521	(22.9)
Realisation (Rs/unit)	54,958	48,319	13.7	50,217	9.4
Total operating income	34,814	43,840	(20.6)	41,255	(15.6)
Raw material costs	26,098	33,593	(22.3)	29,787	(12.4)
Employee costs	2,227	2,036	9.4	2,332	(4.5)
Other costs	4,041	5,130	(21.2)	5,503	(26.6)
Total operating expenditure	32,366	40,759	(20.6)	37,622	(14.0)
EBITDA	2,449	3,081	(20.5)	3,633	(32.6)
EBITDA Margin	7.0%	7.0%	0 bps	8.8%	-177 bps
Adj. EBITDA Margin	7.5%	7.0%	50 bps	8.8%	-127 bps
Depreciation	1,243	1,031	20.6	1,214	2.5
Other Income	251	36	601.4	9	2721
Interest	235	247	(5.0)	211	11.0
PBT	1,222	1,839	(33.6)	2,217	(44.9)
Exceptional Items	(323)	-		(760)	
Tax	160	501	(68.1)	247	(35.3)
Reported PAT	739	1,338	(44.8)	1,210	(38.9)
Adjusted PAT	1282	1,338	(4.2)	1,210	6.0

Source: Company data, I-Sec research

Table 2: Q4FY20 result review (consolidated)*(Rs mn)*

	Q4FY20	Q4FY19	YoY (%)	Q3FY20	QoQ (%)
Total operating income	41,047	49,547	(17.2)	47,660	(13.9)
Raw material costs	26,408	34,045	(22.4)	30,357	(13.0)
Employee costs	3,894	3,534	10.2	3,814	2.1
Other costs	5,522	6,957	(20.6)	7,356	(24.9)
Total operating expenditure	35,824	44,535	(19.6)	41,528	(13.7)
EBITDA	5,223	5,011	4.2	6,132	(14.8)
EBITDA Margin	15.0%	11.4%	357 bps	17.6%	-261 bps
Depreciation	1,566	1,110	41.1	1,331	17.6
Other Income	240	124	93.5	133	80
Interest	2,317	1,838	26.0	2,145	8.0
PBT	1,581	2,187	(27.7)	2,789	(43.3)
Exceptional Items	(403)	-		(760.4)	
Tax	330	728	(54.7)	444	(25.8)
PAT	847	1,459	(41.9)	1,584	(46.5)
Share of Profit JV/Associate	-29.1	-15.3	90.2	-16	NC
Minority Interest	78	59.4	31.3	62.3	25.2
Reported PAT	740	1,384	(46.5)	1,506	(50.8)
Adjusted PAT	1,144	1,384	-17%	2,267	-50%

Source: Company data, I-Sec research

Table 3: Key assumptions (standalone)

	FY17	FY18	FY19	FY20	FY21E	FY22E
Volumes	2,925,194	3,466,110	3,915,165	3,263,507	2,724,001	3,206,192
- Motorcycles	1,074,558	1,355,576	1,560,699	1,363,579	1,117,758	1,298,178
- Scooters	870,863	1,134,918	1,301,115	1,075,218	913,935	1,096,722
- Mopeds	910,519	876,932	896,917	650,799	553,179	663,815
- 3-Wheelers	69,254	98,684	156,434	173,911	139,129	147,477
Total Operating Income	121,353	149,668	179,125	161,854	147,174	176,105
Net Realisations (Rs/unit)	41,485	43,180	45,752	49,595	54,028	54,927
EBITDA/Vehicle	2,930	3,390	3,661	4,124	4,394	5,625
EBITDA Margins (%)	7.1%	7.9%	8.0%	8.3%	8.1%	10.2%
PAT	5581	6626	6701	5922	4306	9105
EPS	11.7	13.9	14.1	12.5	9.1	19.2

Source: Company data, I-Sec research

Table 4: Earnings revision (standalone)*(Rs mn)*

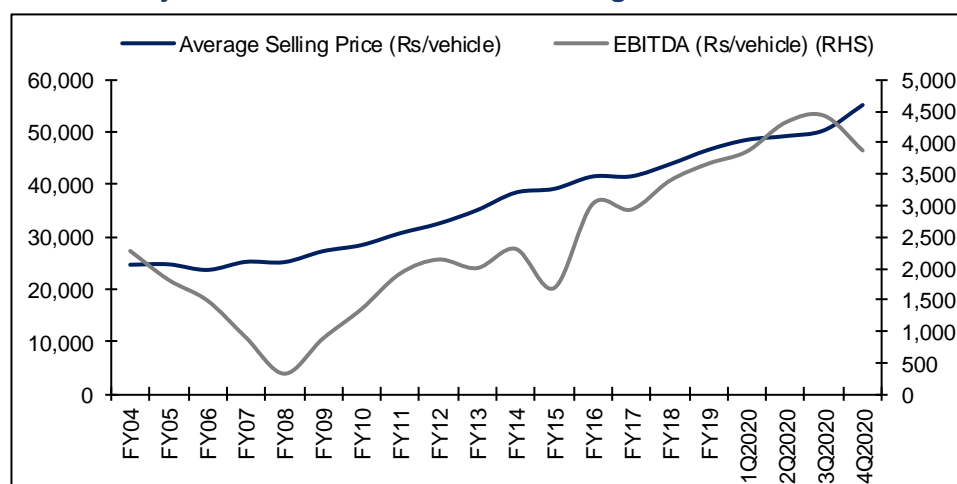
	FY21E			FY22E		
	Previous	New	Chg (%)	Previous	New	Chg (%)
Sales	151,898	147,174	(3.1)	176,548	176,105	(0.3)
EBITDA	12,248	11,968	(2.3)	17,504	18,034	3.0
PAT	4,526	4,306	(4.9)	8,474	9,105	7.4
EPS (Rs)	9.5	9.1	(4.9)	17.8	19.2	7.4

Source: Company data, I-Sec research

Table 5: Earnings revision (consolidated)*(Rs mn)*

	FY21E			FY22E		
	Previous	New	Chg (%)	Previous	New	Chg (%)
Sales	175,510	168,745	(3.9)	203,491	201,983	(0.7)
EBITDA	16,903	17,641	4.4	23,813	24,747	3.9
PAT	2,848	2,770	(2.7)	7,977	8,520	6.8
EPS (Rs)	6.0	5.8	(2.8)	16.8	17.9	6.8

Source: Company data, I-Sec research

Chart 1: Adj. EBITDA/unit remains close to highest ever

Source: Company data, I-Sec research

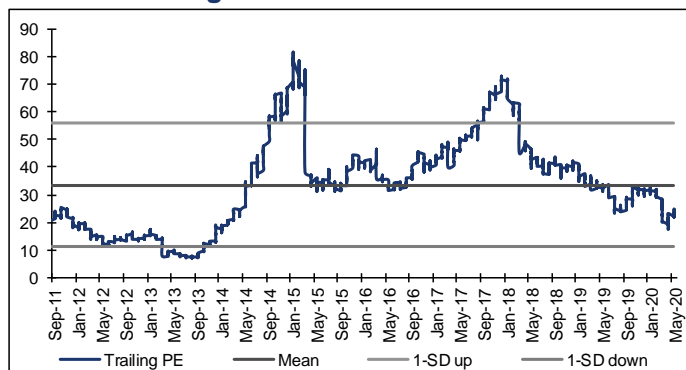
Valuation methodology and key risks

We continue to like TVSM's capability of delivering strong growth led by principles of high customer focus and superior technology. However, FY21 is likely to be trough year with H1 likely to be particularly weak. We thus tweak our FY21E/FY22E standalone EPS estimates by \sim -4.9%/7.4%, respectively. We continue value TVSM's standalone business at 21x FY22E EPS (Rs403/share) and TVS credit services at 1.0x trailing BV (Rs20/share) leading to our target price of Rs422/share (earlier: Rs394/share). We maintain our **BUY** rating on the stock.

Key risks to our call: Weaker-than-expected improvement in operating performance of standalone business in FY21 and loss of market share.

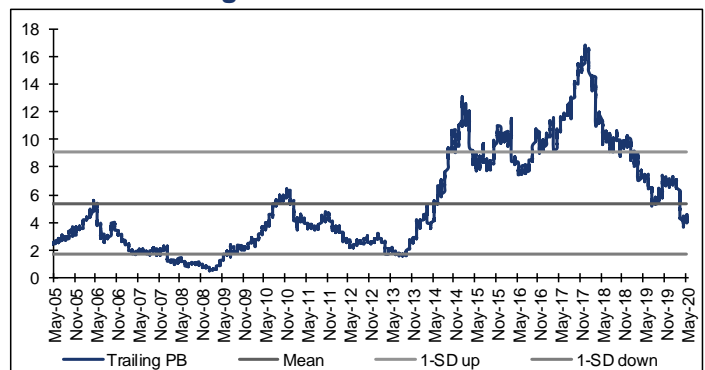
Historical trailing PE and PB ratio

Chart 2: Trailing PE



Source: I-Sec research, 12m trailing data

Chart 3: Trailing PB



Source: I-Sec research, 12m trailing data

Financial summary (consolidated)

Table 6: Profit and loss statement

(Rs mn, year ending March 31)

	FY19	FY20	FY21E	FY22E
Operating Income (Sales)	201,600	188,493	168,745	201,983
Operating Expenses	179,992	165,763	151,103	177,236
EBITDA	21,608	22,731	17,641	24,747
% margins	10.7	12.1	10.5	12.3
Depreciation & Amortisation	4,417	5,560	5,953	6,256
Gross Interest	6,634	8,545	8,400	7,598
Other Income	254	518	415	498
Recurring PBT	10,812	9,143	3,704	11,390
Add: Extraordinaries	-	(483)	-	-
Less: Taxes	3,575	2,186	933	2,870
Net Income (Reported)	7,047	6,246	3,249	8,702
Recurring Net Income	7,254	6,770	2,770	8,520

Source: Company data, I-Sec research

Table 7: Balance sheet

(Rs mn, year ending March 31)

	FY19	FY20	FY21E	FY22E
Assets				
Total Current Assets	119,565	138,953	138,030	149,156
of which cash & cash eqv.	2,063	11,076	17,836	18,779
Total Current Liabilities & Provisions	50,206	63,362	57,129	66,524
Net Current Assets	69,359	75,592	80,901	82,632
Investments	4,397	3,709	8,209	12,709
of which				
Strategic/Group	3,093	3,093	5,093	7,093
Other Marketable	1,304	616	3,116	5,616
Net Fixed Assets	41,278	46,015	42,063	39,806
Total Assets	116,759	126,920	132,777	136,752
Liabilities				
Borrowings	81,630	90,019	94,019	91,019
Deferred Tax Liability	970	871	879	901
Equity Share Capital	475	475	475	475
Face Value per share (Rs)	1	1	1	1
Reserves & Surplus*	33,684	35,555	37,404	44,357
Less: Misc. Exp. n.w.o.	-	-	-	-
Net Worth	34,159	36,030	37,879	44,832
Total Liabilities	116,759	126,921	132,777	136,752

Source: Company data, I-Sec research

Table 10: Quarterly trend (Standalone)

(Rs mn, year ending March 31)

	Jun-19	Sep-19	Dec-19	Mar-20
Net sales	44,686	43,478	41,255	34,814
% growth (YoY)	7%	-13%	-12%	0%
EBITDA	3,558	3,820	3,633	2,449
Margin (%)	8.0%	8.8%	8.8%	7.0%
Other income	12	49	9	251
Add: Extraordinaries	0	760	(760)	(323)
Net profit	1,423	2,550	1,210	739

Source: Company data, I-Sec research

Table 8: Cashflow statement

(Rs mn, year ending March 31)

	FY19	FY20	FY21E	FY22E
Operating Cashflow	11,662	12,186	8,645	14,842
Working Capital Changes	(17,535)	(5,893)	1,601	(1,146)
Capital Commitments	(9,795)	(7,520)	(4,000)	(6,000)
Free Cashflow	(15,668)	(1,228)	6,245	7,696
Cashflow from Investing Activities	337	1,207	(2,085)	(2,002)
Issue of Share Capital	-	-	-	-
Buyback of shares	-	-	-	-
Inc (Dec) in Borrowings	26,096	8,390	4,000	(3,000)
Dividend paid	(2,000)	(2,000)	(1,400)	(1,750)
Extraordinary Items	-	(323)	-	-
Chg. in Cash & Bank balance	9,241	3,790	6,760	944

Source: Company data, I-Sec research

Table 9: Key ratios

(Year ending March 31)

	FY19	FY20	FY21E	FY22E
Per Share Data (in Rs.)				
EPS(Basic Recurring)	15.3	14.3	5.8	17.9
Diluted Recurring EPS	15.3	14.3	5.8	17.9
Recurring Cash EPS	24.1	24.9	19.4	31.5
Dividend per share (DPS)	3.8	3.8	2.7	3.3
Book Value per share (BV)	71.9	75.9	79.7	94.4
Growth Ratios (%)				
Operating Income	23.4	(6.5)	(10.5)	19.7
EBITDA	40.1	5.2	(22.4)	40.3
Recurring Net Income	9.1	(6.7)	(59.1)	207.5
Diluted Recurring EPS	9.1	(6.7)	(59.1)	207.5
Diluted Recurring CEPS	10.4	3.0	(22.1)	62.6
Valuation Ratios (x)				
P/E	21.7	23.3	56.9	18.5
P/CEPS	13.8	13.4	17.1	10.5
P/BV	4.6	4.4	4.2	3.5
EV / EBITDA	11.0	10.4	13.1	9.1
EV / Operating Income	1.2	1.3	1.4	1.1
EV / Operating FCF	(15.4)	(193.0)	28.1	23.2
Operating Ratios (%)				
Raw Material/Sales	69.2	65.3	66.9	66.1
SG&A/Sales	5.8	6.7	6.2	5.9
Other Income / PBT	2.4	5.7	11.2	4.4
Effective Tax Rate	33.1	25.0	25.2	25.2
NWC / Total Assets	56.5	50.3	45.2	42.6
Inventory Turnover (days)	12.0	10.0	10.3	12.3
Receivables (days)	24.2	29.6	30.3	25.7
Payables (days)	76.4	94.0	97.1	83.7
D/E Ratio	241.8	252.3	250.5	205.0
Return/Profitability Ratios (%)				
Recurring Net Income Margins	3.6	3.6	1.6	4.2
RoCE	11.6	10.8	7.0	10.5
RoNW	23.1	19.3	7.5	20.6
Dividend Payout Ratio	28.4	32.0	43.1	20.1
Dividend Yield	1.2	1.2	0.8	1.0
EBITDA Margins	10.7	12.1	10.5	12.3

Source: Company data, I-Sec research

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