

TVS Motor Company Ltd.

Beat across all parameters; short-term looks hazy with elevated valuations

TVS Motor's higher-than-estimates Q4FY20 performance was purely on account of a substantial jump in the realisation led by ~85% dispatches of BS6 products, volumes tilted towards exports (32% in Q4FY20 vis-à-vis 22% in Q4FY19) & regulation related price hikes. Despite ~30% volume decline, TVS managed to maintain its EBITDA Margin at 7.0% for the quarter on account of benefits accruing from lower commodity costs. Higher other income (+601% YoY to Rs 251mn) and lower tax rate (-950bps YoY to 17.8%) offset the impact of exceptional costs. The near-term outlook is poor due to demand contraction and supply bottlenecks. We believe, in FY21e, TVS would grow lower than the industry due to downtrading and competitive prices in the entry segment will hurt its Mopeds sales. Exports too will remain weak due to subdued oil prices. In our view, current valuations are elevated and hence we recommend 'Hold'.

Downtrading, intense competition and BS6 to hurt domestic sales

- In the short run, due to low purchasing power, the demand could increase in entry/executive motorcycles, where TVS market share is lower.
- TVS volumes would be lower due to aggressive discounts offered by competitors in entry level motorcycles and increase in Mopeds prices due to BS6 and regulation related hikes.
- Intense competition from foreign players in scooters seen in the recent past. Hence, domestic two-wheeler volumes could likely fall by 29% (higher fall expected compared to the industry).

Uncertain exports due to subdued oil prices & concerns on banning motorcycles

- Africa is one of the largest markets for TVS, could see a double digit fall in export volumes (~22% in FY21e) due to 1) demand destruction led by Covid-19, and 2) subdued oil prices (African Government's ~50% revenues are oil dependent).
- There is a strong correlation between oil and export volumes seen in the past years and this would heighten further due to additional Covid related demand disruption.

Margin performance to fade in FY21e

- Although margin performance over the years remains commendable, but this is likely to fade away in FY21e on account of lower scale & absorption of BS6 cost due to demand weakness.
- This would get offset by the benefits accruing from lower commodity costs, salary cuts announced and continuation of cost reduction programs. Margin could claw back to 7.5%.

Worst impact on 3W volumes

- In FY21, 3Ws business has not yet begun in the country and financiers too are shying away from lending to them as there is no cash flows. Domestic volumes could fall 35% in FY21e.

Trading at an elevated valuation

- The domestic & export outlook looks hazy. This, along with downtrading and increasing competitive intensity could hurt its market share in the short run. We have factored in all the visible uncertainties related to Covid-19 and built a sharp recovery in FY22e volumes (after two years of high double-digit de-growth). However, we recommend 'Hold' rating due to elevated valuations with a target price of Rs 320 (20x FY22e EPS plus the value of TVS Credit at Rs 37/share).

Y/E Mar (Rs mn)	Q4FY20	Q4FY19	YoY (%)	Q3FY19	QoQ (%)	Q4FY20e	Var. (%)
Total Income	34,814	43,840	(20.6)	41,255	(15.6)	32,643	6.7
Op. cost	32,366	40,759	(20.6)	37,622	(14.0)	30,594	5.8
EBITDA	2,449	3,081	(20.5)	3,633	(32.6)	2,048	19.5
EBITDA margin (%)	7.0	7.0	703 bps	8.8	(177) bps	6.3	76 bps
Depreciation	1,243	1,031	20.6	1,213	2.5	1,219	2.0
Interest	235	247	(5.0)	211	11.0	167	40.1
Other Income	251	36	601	8.9	2,721	28.5	781
Exceptional item	(323.3)	-	NA	(760.4)	57	-	-
PBT	898	1,839	(51.2)	1,457	(38.4)	690	30.1
Taxes paid	160	501	(68.1)	247	(35.3)	152	5.0
Tax rate (%)	17.8	27.2	1,777 bps	16.9	85 bps	22.0	(424) bps
Reported PAT	739	1,338	(44.8)	1,211	(39.0)	538	37.2
PAT margin (%)	2.1	3.1	212 bps	2.9	(81) bps	1.6	47 bps

Source: Company, EISEC Research

Y/E Mar (Rs mn)	Revenue	YoY (%)	EBITDA	EBITDA (%)	Adj PAT	YoY (%)	EPS	RoE (%)	RoCE (%)	P/E (x)	EV/EBITDA (x)
FY18	1,51,297	24.7	11,292	7.5	6,626	18.7	13.9	25.1	18.3	45.0	27.5
FY19	1,82,099	20.4	14,333	7.9	6,701	1.1	14.1	21.5	16.1	23.6	11.7
FY20	1,64,233	(9.8)	13,459	8.2	6,176	(7.8)	13.0	17.7	13.1	25.6	12.4
FY21e	1,33,412	(18.8)	9,998	7.5	3,237	(47.6)	6.8	8.6	7.1	48.9	16.0
FY22e	1,75,007	31.2	14,626	8.4	6,720	107.6	14.1	16.2	13.0	23.5	10.4

Source: Company, EISEC Research Estimates



East India Securities Ltd
Excellent | Investment | Solutions

Rating: Hold **Upside/(Downside): -4.0%**

Current Price: 333 **Target Price: 320**

| Market data

Bloomberg:	TVSL IN
52-week H/L (Rs):	512/240
Mcap (Rs bn/USD bn):	158/2.1
Shares outstanding (mn):	475
Free float:	43.0%
Daily vol. (3M Avg.):	3.5mn
Face Value (Rs):	1
Group:	Nifty 50

Source: Bloomberg, EISEC Research

| Shareholding pattern (%)

	Mar-20	Dec-19	Sep-19	Jun-19
Promoter	57.4%	57.4%	57.4%	57.4%
FIIIs	11.4%	12.2%	13.2%	15.7%
DIIIs	21.2%	20.4%	19.0%	16.4%
Public/others	10.0%	10.0%	10.4%	10.5%

Source: BSE

| Price performance (%)*

	1M	3M	12M	36M
Nifty 50	0.4	-19.9	-21.9	-3.0
TVSL	7.9	-26.4	-34.9	-39.5

*as on 28th May 2020; Source: AceEquity, EISEC Research

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Q4FY20 Analysts Call Highlights

Domestic outlook

- ✓ After a sharp decline in the 1st quarter, a consolidation phase is expected in the 2nd quarter as the economy will gradually open
- ✓ **2nd half will be supported by opening-up of economy, improvement in the rural economy & expectation of a better monsoon.** In addition, due to social distancing, people would prefer to own a vehicle. All this will lift volumes in 2HFY21.
- ✓ The management has not given any volume guidance for FY21e, however, they showed confidence that they will be able to beat the industry growth next year with its better product range across segments.
- ✓ The company's Moped sales in FY20 degrew by 28% YoY in domestic market on account of huge discounts offered by competitors in the entry level motorcycles, increase in moped prices due to the insurance premium and weak rural sentiments due to delayed monsoon.
- ✓ The high discounting practice was a tactical one and will cool-off in FY21. The management is confident of improving sales due to updated products with good retail financing.
- ✓ Premium as well as entry level segments to do well in FY21.

Exports outlook

- ✓ On exports outlook, once oil prices cross \$40, then the management doesn't see any negative impact. However, short term looks hazy due to Covid related disruption and subdued oil prices.
- ✓ **In May & June, the countries are slowly opening-up, hence, Exports will pick up in 1-2 months in a steady manner.** With the excellent product range and a good distribution network, TVS is confident to grow its exports ahead of the industry.

Margin outlook

- ✓ TVS have been improving margins since last two years due to sustained cost reduction efforts and **the management is confident of improving it further in the coming years as well.**
- ✓ There is no change in the dealers' margin, while cost reduction initiatives helped in maintaining margin in the 4th quarter. TVS has taken 10-12% BS6 related price hike and a small price increase of 1% taken in the month of April/May 2020.

Realisation

- ✓ It increased substantially by 13.8% YoY to Rs 55,006 in Q4FY20 mainly due to 1) higher BS6 sales (~85%), 2) product mix tilted towards exports and 3) regulatory related price hikes.

Exceptional expenses/adjustments

- ✓ During the quarter, the company incurred a cost of Rs 323.3mn towards Covid-19 related issues and reported it under the exceptional head. It also includes donation towards the PM care fund. This is over & above the usual CSR spends.
- ✓ While, Rs 220mn one-off adjusted from the revenues, which was an additional discount given to the dealers to liquidate BS4 vehicles in Q4.

On Norton's acquisition

- ✓ TVS acquired Norton Motorcycle's assets and brands, which will strengthen the product portfolio of TVS Motors. It will help in building super premium products in the long term.
- ✓ ***The management will come back with a detailed strategy on Norton.***

TVS Credit

- ✓ The CAR is higher than RBI mandate and there are no issues in ALM. Liquidity is not an issue, while the focus remains on collection. The management sees improvement in the collection, especially from rural areas.
- ✓ NPAs at 2.4% was in-line with the last year. There was no serious bounce witnessed and the management remains cautiously optimistic. 37% of the customers opted for a moratorium. The cost reduction initiatives are going on.
- ✓ There might be an infusion of funds in TVS Credit for CAR.

Other highlights

- ✓ The capacity utilisation is low and production is ramping-up. Suppliers' plants started from 6th May and initial weeks gone in preparation on safety norms and giving training. The suppliers' momentum will pick-up slowly and steadily.
- ✓ ***TVS to incur Rs 3bn of capex in FY21e*** mainly on new products development and investments in technologies. It incurred Rs 7.2bn in FY20.
- ✓ Other income substantially increased in Q4FY20 by 601% YoY to Rs 251mn in Q4FY20. This was majorly related to one-off IT related refund of RS 200mn.
- ✓ In FY20, the exports revenue were Rs 45.7bn and revenue generated from spare parts were Rs 17.2bn. USD/INR realisation was 71. TVS follows its hedging policy.
- ✓ It will continue to maintain inventory in the range of 30-35 days.

Valuation and Recommendations

Q4FY20 performance was lifted purely by a substantial jump in the realisation led by ~85% dispatches of BS6 products, volumes tilted towards exports (32% in Q4FY20 vis-à-vis 22% in Q4FY19) & regulation related price hikes.

Despite the lower scale, TVS managed to maintain its EBITDA Margin at 7.0% for the quarter on account of benefits accruing from lower commodity costs.

Higher other income (+601% YoY to Rs 251mn) and lower tax rate (-950bps YoY to 17.8%) offset the impact of exceptional expenses.

The near-term outlook is poor due to demand contraction and supply bottlenecks. In FY21e, TVS would grow lower than the industry due to downtrading and competitive prices in the entry segment will hurt its Mopeds sales. While, exports too will remain weak due to subdued oil prices. The valuation is elevated and hence we recommend 'Hold' till the uncertainty clears.

The domestic & export outlook looks hazy. This, along with downtrading and increasing competitive intensity could hurt its share in the short run. We have factored in all the visible uncertainties related to Covid-19 and built a sharp recovery in FY22e volumes (after two years of high double-digit negative growth).

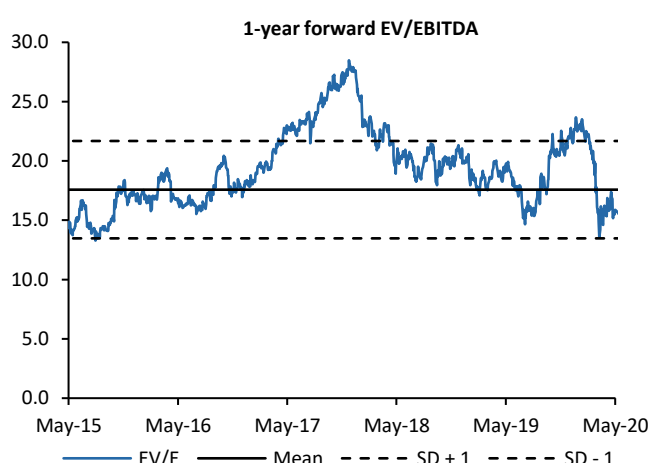
However, we recommend 'Hold' rating due to elevated valuations with a target price of Rs 320 (20x FY22e EPS plus the value of TVS Credit at Rs 37/share).

Fig 1: 1-year forward P/E



Source: AceEquity, EISEC Research

Fig 2: 1-year forward EV/EBITDA



Source: AceEquity, EISEC Research

Quarterly financials, operating metrics and key performance indicators

Fig 3: Quarterly Financials

Y/E March (Rs mn)	Q1 FY19	Q2 FY19	Q3 FY19	Q4 FY19	Q1 FY20	Q2 FY20	Q3 FY20	Q4 FY20
Net Sales	41,685	49,935	46,640	43,840	44,686	43,478	41,255	34,814
Raw Materials	31,642	37,840	35,347	33,593	33,577	31,898	29,787	26,098
Employee Costs	2,375	2,449	2,367	2,036	2,489	2,337	2,332	2,227
Other Expenditure	4,455	5,363	5,169	5,130	5,063	5,424	5,503	4,041
EBITDA	3,212	4,282	3,757	3,081	3,558	3,820	3,633	2,449
Depreciation	933	1,016	1,012	1,031	1,194	1,241	1,213	1,243
Interest	180	212	167	247	291	285	211	235
Other Income	26	7	7	36	12	49	9	251
Exceptional Items	-	-	-	-	-	760	(760)	(323)
PBT	2,124	3,062	2,585	1,839	2,085	3,103	1,457	898
Tax	658	949	801	501	662	553	247	160
Tax rate (%)	31.0	31.0	31.0	27.2	31.8	17.8	16.9	17.8
Reported PAT	1,466	2,113	1,784	1,338	1,423	2,550	1,211	739
YoY Growth (%)								
Revenue	22.6	22.8	26.1	9.8	7.2	(12.9)	(11.5)	(20.6)
EBITDA	51.9	18.1	25.0	9.8	10.8	(10.8)	(3.3)	(20.5)
PAT	13.2	(0.9)	15.6	(19.2)	(2.9)	20.7	(32.1)	(44.8)
QoQ Growth (%)								
Revenue	4.4	19.8	(6.6)	(6.0)	1.9	(2.7)	(5.1)	(15.6)
EBITDA	14.4	33.3	(12.2)	(18.0)	15.5	7.4	(4.9)	(32.6)
Adj. PAT	(11.5)	44.1	(15.6)	(25.0)	6.3	79.2	(52.5)	(39.0)
Margin (%)								
EBITDA	7.7	8.6	8.1	7.0	8.0	8.8	8.8	7.0
PAT	3.5	4.2	3.8	3.1	3.2	5.9	2.9	2.1

Source: Company, EISEC Research

Fig 4: Key Assumptions

Operating Details	FY17	FY18	FY19	FY20	FY21e	FY22e
Domestic Volumes						
Motorcycles	7,73,141	9,16,811	10,13,701	7,55,391	5,38,720	7,11,111
Mopeds	8,90,518	8,59,520	8,80,227	6,36,940	4,46,500	6,02,775
Scooters	8,26,342	10,99,135	12,41,327	10,18,427	7,17,255	9,61,122
Three-wheelers (Passenger carrier)	12,277	16,429	16,709	11,934	7,802	10,298
Total Domestic Volumes	25,02,278	28,91,895	31,51,964	24,22,692	17,10,277	22,85,306
YoY Growth (%)	12.5	15.6	9.0	(23.1)	(29.4)	33.6
Export Volumes						
Motorcycles	3,00,515	4,38,765	5,45,596	6,07,980	4,72,360	5,66,832
Mopeds	20,152	17,412	16,674	13,859	9,461	10,880
Scooters	44,572	35,783	59,749	56,794	37,039	41,855
Three-wheelers (Passenger carrier)	56,977	82,255	1,39,719	1,61,977	1,39,265	1,88,008
Total Export Volumes	4,22,216	5,74,215	7,61,738	8,40,610	6,58,126	8,07,575
YoY Growth (%)	(7.0)	36.0	32.7	10.4	(21.7)	22.7
Total Volumes Sales						
Motorcycles	10,73,656	13,55,576	15,59,297	13,63,371	10,11,081	12,77,943
Mopeds	9,10,670	8,76,932	8,96,901	6,50,799	4,55,961	6,13,655
Scooters	8,70,914	11,34,918	13,01,076	10,75,221	7,54,295	10,02,976
Three-wheelers (Passenger carrier)	69,254	98,684	1,56,428	1,73,911	1,47,067	1,98,306
Total Volumes Sales	29,24,494	34,66,110	39,13,702	32,63,302	23,68,403	30,92,881
YoY Growth (%)	9.2	18.5	12.9	(16.6)	(27.4)	30.6
Net Revenues from product sales (Rs mn)	1,06,837	1,34,201	1,61,523	1,43,402	1,12,198	1,51,624
Core realization per unit (Rs)	36,532	38,718	41,271	43,944	47,373	49,024
YoY Growth (%)	0.1	6.0	6.6	6.5	7.8	3.5

Source: Company, EISEC Research Estimates

Financial Statements

Income Statement					
YE March (Rs mn)	FY18	FY19	FY20	FY21e	FY22e
Revenues	1,51,297	1,82,099	1,64,233	1,33,412	1,75,007
Materials cost	1,11,330	1,38,423	1,21,359	98,162	1,30,517
% of revenues	73.6	76.0	73.9	73.6	74.6
Employee cost	8,680	9,226	9,384	8,446	8,868
% of revenues	5.7	5.1	5.7	6.3	5.1
Others	19,995	20,118	20,031	16,806	20,995
% of revenues	13.2	11.0	12.2	12.6	12.0
EBITDA	11,292	14,333	13,459	9,998	14,626
EBITDA margin (%)	7.5	7.9	8.2	7.5	8.4
Depreciation & Amortisation	3,387	3,993	4,890	4,936	5,301
EBIT	7,905	10,340	8,568	5,062	9,325
Interest expenses	566	806	1,022	882	503
PBT from operations	7,339	9,534	7,546	4,180	8,822
Other income	1,448	75	321	145	159
Exceptional items	-	-	(323)	-	-
PBT	8,786	9,610	7,544	4,325	8,981
Taxes	2,161	2,908	1,622	1,089	2,261
Effective tax rate (%)	24.6	30.3	21.5	25.2	25.2
PAT	6,626	6,701	5,922	3,237	6,720
Extraordinary Items	-	-	-	-	-
Reported PAT	6,626	6,701	5,922	3,237	6,720
Adjusted PAT	6,626	6,701	6,176	3,237	6,720

Source: Company, EISEC Research Estimates

Key Ratios					
YE March	FY18	FY19	FY20	FY21e	FY22e
Growth Ratio (%)					
Revenue	24.7	20.4	(9.8)	(18.8)	31.2
EBITDA	31.8	26.9	(6.1)	(25.7)	46.3
Adjusted PAT	18.7	1.1	(7.8)	(47.6)	107.6
Margin Ratios (%)					
EBITDA	7.5	7.9	8.2	7.5	8.4
PBT from operations	4.9	5.2	4.6	3.1	5.0
Adjusted PAT	4.4	3.7	3.8	2.4	3.8
Return Ratios (%)					
ROE	25.1	21.5	17.7	8.6	16.2
ROCE	18.3	16.1	13.1	7.1	13.0
ROIC	16.1	17.0	14.6	8.5	16.9
Turnover Ratios (days)					
Gross block turnover (x)	3.6	3.8	3.1	2.3	2.8
Debtors	23	28	28	25	25
Inventory	32	31	31	25	25
Creditors	82	77	87	90	90
Cash conversion cycle	(26.5)	(17.7)	(27.1)	(40.0)	(40.0)
Solvency Ratio (x)					
Net debt-equity	0.3	0.3	0.2	0.0	(0.1)
Debt-equity	0.4	0.4	0.5	0.3	0.3
Interest coverage ratio	14.0	12.8	8.4	5.7	18.6
Gross debt/EBITDA	0.9	1.0	1.5	1.1	0.8
Current Ratio	0.8	0.9	1.0	0.8	0.9
Per share Ratios (Rs)					
Adjusted EPS	13.9	14.1	13.0	6.8	14.1
BVPS	60.6	70.5	76.2	82.5	92.6
CEPS	21.1	22.5	23.3	17.2	25.3
DPS	3.9	3.5	3.5	0.5	4.0
Dividend payout %	33.7	29.9	33.8	8.8	34.1
Valuation (x)					
P/E (adjusted)	45.0	23.6	25.6	48.9	23.5
P/BV	10.4	4.7	4.4	4.0	3.6
EV/EBITDA	27.5	11.7	12.4	16.0	10.4
Dividend yield %	0.6	1.1	1.1	0.2	1.2

Source: Company, EISEC Research Estimates

Balance Sheet					
YE March (Rs mn)	FY18	FY19	FY20	FY21e	FY22e
Equity Share Capital	475	475	475	475	475
Reserves & Surplus	28,329	32,998	35,706	38,705	43,525
Shareholders' Fund	28,804	33,473	36,181	39,180	44,000
Total Debt	10,370	13,779	19,746	11,094	11,466
Deferred Tax Liabilities (Net)	1,482	2,126	1,581	1,581	1,581
Total Liabilities	40,656	49,379	57,508	51,854	57,047
Gross Block	45,454	50,546	56,487	59,543	64,093
Less: Accumulated Depreciation	(21,736)	(24,753)	(28,528)	(31,851)	(35,391)
Net Block	23,719	25,793	27,959	27,692	28,702
Capital WIP	917	1,166	1,266	1,266	1,266
Intangible under development	394	1,406	1,589	-	-
Long term Investments	20,354	23,007	26,059	28,538	31,790
Other Non-Current Assets	878	771	908	758	961
Inventories	9,644	11,759	10,389	6,723	8,940
Sundry Debtors	9,684	14,141	12,814	9,138	11,987
Cash	109	439	4,198	456	4,413
Loans & Advances	144	146	2,677	2,643	2,688
Short term Investments	-	-	-	-	-
Other Current Assets	5,721	5,065	4,720	3,835	5,029
Total Current Asset	25,301	31,551	34,797	22,795	33,056
Trade Payables	24,860	29,239	28,864	24,204	32,182
Other Current Liabilities	4,889	3,893	4,443	3,559	4,668
Provisions	1,158	1,183	1,763	1,432	1,878
Net Current Assets	(5,606)	(2,764)	(272)	(6,399)	(5,672)
Total Assets	40,656	49,379	57,508	51,854	57,047

Source: Company, EISEC Research Estimates

Cash Flow					
YE March (Rs mn)	FY18	FY19	FY20e	FY21e	FY22e
Operating profit before WC changes	11,770	14,535	13,135	9,998	14,626
Changes in working capital	3,668	(1,257)	522	2,598	3,026
Income tax paid	(2,465)	(2,300)	(1,622)	(1,089)	(2,261)
Cash flow from operations	12,973	10,978	12,036	11,508	15,392
Adj. OCF (OCF - Interest)	12,407	10,172	11,014	10,625	14,890
Capex	(7,945)	(7,289)	(7,338)	(3,080)	(6,312)
Adj. FCF	4,462	2,884	3,676	7,545	8,578
Cash flow from investments	(11,314)	(10,023)	(8,792)	(5,476)	(9,406)
Cash flow from financing	(747)	811	1,729	(9,772)	(2,030)
Net change in cash	912	1,766	4,973	(3,741)	3,957

Source: Company, EISEC Research Estimates

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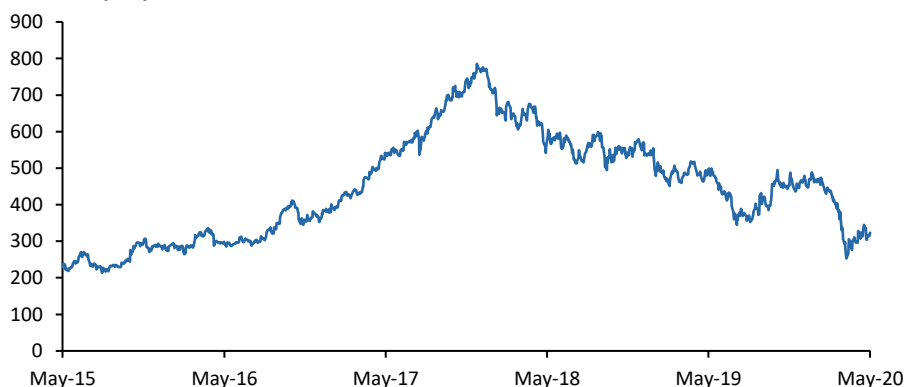
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