

### Risk-reward unfavorable; Maintain Sell

- TVS Motor (TVSL)'s Q4FY20 numbers were slightly above estimates led by better than expected realization. Management stated that near term demand continued to be weak due to the Covid-19 crisis, however the recovery in rural demand is encouraging and expect speedy recovery in 2HFY21.
- We expect TVSL's extensive product portfolio, strong dealer network in rural areas, and strong brand equity to help the company to capitalize the rural recovery. However, declining market share in motorcycles, falling mopeds volume, and weak export outlook remain an overhang for the stock.
- In 4QFY20, revenue fell 21% YoY, dragged down by a 30% decline in volume, which was partially offset by higher realization due to BS6 price hike. The adjusted EBITDA margin was 7.6% YoY, compared to our estimate of 7% (onetime incentives paid to dealers to liquidate BS-IV inventory were worth Rs.220mn in 4QFY20).
- At CMP, the stock is trading at 33/22x on FY21E/FY22E earnings, which appears expensive compared to its peers, such as Bajaj Auto, HeroMoto Corp, and Eicher Motors (20-40% premium). These peers have a much stronger franchise, strong balance sheets, and healthy returns. This sharp premium to its peers, especially in this uncertain macroeconomic condition, is clearly unwarranted. We maintain our Sell rating on the stock, with a TP Rs.288 (based on 18x of FY22E EPS+ value of TVS Credit Services at Rs.16/share).

### Faster recovery in domestic 2Ws, export outlook uncertain

We expect the entry segment in particular and the 2W industry in general to experience a positive demand tailwind, as people may shift to personal transport (changing mobility preferences) from shared and public mobility in the immediate term. In addition, migration of labour from urban to rural areas is also likely to lead to an increase in demand for entry level 2Ws. We expect TVSL is to likely be the key beneficiary of a recovery in 2W demand, due to its strong product portfolio in both motorcycles and scooters. Cont..

### Q4FY20 Result (Rs Mn)

Particulars	Q4FY20	Q4FY19	YoY (%)	Q3FY20	QoQ (%)
Revenue	34,814	43,840	(20.6)	41,255	(15.6)
Total Expense	32,366	40,759	(20.6)	37,622	(14.0)
EBITDA	2,449	3,081	(20.5)	3,633	(32.6)
Depreciation	1,243	1,031	20.6	1,213	2.5
EBIT	1,205	2,050	(41.2)	2,420	(50.2)
Other Income	251	36	601.4	9	2721.3
Interest	235	247	(5.0)	211	11.0
EBT	898	1,839	(51.2)	1,457	(38.4)
Tax	160	501	(68.1)	247	(35.3)
RPAT	739	1,338	(44.8)	1,211	(39.0)
APAT	1,062	1,338	(20.6)	1,971	(46.1)
			(bps)		(bps)
Gross Margin (%)	25.0	23.4	166	27.8	(276)
EBITDA Margin (%)	7.0	7.0	0	8.8	(177)
NPM (%)	2.1	3.1	(93)	2.9	(81)
Tax Rate (%)	17.8	27.2	(947)	16.9	85
EBIT Margin (%)	3.5	4.7	(122)	5.9	(241)

CMP	Rs 333
Target / Downside	Rs 288 / 13%
BSE Sensex	32,193
NSE Nifty	9,490

### Scrip Details

Equity / FV	Rs 475mn / Rs 1
Market Cap	Rs 158bn
	USD 2bn
52-week High/Low	Rs 512/Rs 240
Avg. Volume (no)	34,86,740
NSE Symbol	TVSMOTOR
Bloomberg Code	TVSL IN

### Shareholding Pattern Mar'20(%)

Promoters	57.4
MF/Banks/FIs	21.8
FIIIs	11.7
Public / Others	9.1

### Valuation (x)

	FY20A	FY21E	FY22E
P/E	25.3	33.1	22.0
EV/EBITDA	13.0	14.4	11.5
ROE (%)	17.0	12.6	17.1
RoACE (%)	13.5	10.2	13.7

### Estimates (Rs mn)

	FY20A	FY21E	FY22E
Revenue	1,64,233	1,56,906	1,83,048
EBITDA	13,459	12,061	15,226
PAT	6,246	4,780	7,195
EPS (Rs.)	13.1	10.1	15.1

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However, exports that have been one of the key growth drivers in the past few years are likely to see headwinds, given the sharp fall in crude oil prices.

### **Losing market share in motorcycle but strong in scooters**

The company has lost market share in the domestic motorcycle market by 70bps to 6.74% in FY20, due to its underperformance in the entry segment (8.6% market share, versus 9.7% in FY19). The underperformance was driven by 1) cannibalization with entry level models, as it launched Radeon and 2) sharp competitive pressure from Bajaj and Hero MotoCorp. In premium motorcycle, especially in Apache, TVS is losing market share (volume fell 21% YoY in FY20), due to sharp jump in prices caused by the transition from BS-IV to BS-VI and strong competition in premium motorcycles. However, the company is continuing to strengthen its market shares in scooters. The current market share is 18.3%

### **Conference Call Highlights**

- While management expects the slowdown to continue in the next two quarters, due to the Covid-19 disruption, it said the recovery in rural demand is encouraging. In the future, the expected normal monsoon and improvement in rural sentiment should be key positives for 2Ws. The company expects to outperform the 2W industry growth rates, due to its diversified product portfolio. Scooters and 3W will do better than the other product segments.
- Currently 65-70% of the dealer showrooms have re-opened and inventory is lean at the dealer level at 30-35 days. The company is providing all types of support to its dealers.
- Exports market is slowly opening and the company expects faster recovery from 2HFY21. The recovery in crude oil prices is the key positive.
- Realization improved during the quarter due to the BS-VI price increase of 10-12% and price hike of 1% in April.
- The decline in moped volume in FY20 was due to 1) weak rural sentiment, (2) increase in insurance cost, and (3) competitive pricing in entry level motorcycles, as peers offered higher discounts. The company has launched its BS-VI variants and expects volume to improve in the next few months as the variants have been well received by customers.
- Onetime incentives worth Rs.220mn were paid to dealers in 4QFY20 for liquidation of BS-IV stock, and adjusted EBITDA margin was 7.6% YoY.
- Other income was higher, due to interest on income tax refund of Rs.200mn.
- The company incurred Rs.323.3mn in COVID-19 related expenses and reported that as an exceptional item.
- TVS credit contributes 45% of overall finance, and net worth was Rs.13.72bn. Moratorium opted for this quarter was 37% of loan. Financing penetration improved to 55-56% in Q4FY20, from 52% in the previous quarter.
- Spare parts revenue was Rs. 17.20bn and export revenue was Rs. 45.70bn in FY20.
- The Norton acquisition will help to strengthen the company's overall portfolio.
- The capex will be Rs.3 bn in FY21, lower than Rs.7.9bn in FY20.

**Exhibit 1: DART vs Actual**

Particulars (Rs mn)	Actual	Dart Estimates	VAR (%)	Comments
Revenue	34,814	32,142	8	Due to higher realization
EBIDTA	2,449	2,260	8	
EBIDTA Margin (%)	7.03	7.03	0	
RPAT	739	638	16	Due to higher other income

Source: DART, Company

**Exhibit 2: Change in Estimates**

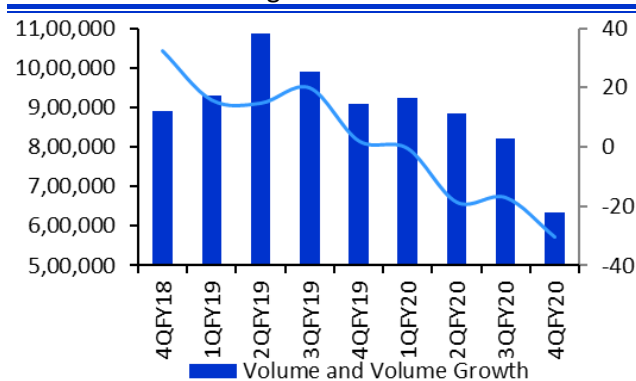
Rs Mn	FY21E			FY22E		
	New	Previous	Chg (%)	New	Previous	Chg (%)
Volume	29,66,295	30,93,300	(4.1)	33,55,548	34,59,876	(3.0)
Revenue	1,56,906	1,64,091	(4.4)	1,83,048	1,89,500	(3.4)
EBITDA	12,061	12,703	(5.1)	15,226	15,652	(2.7)
EBITDA Margin (%)	7.69	7.74		8.32	8.26	
PAT	4,780	5,339	(10.5)	7,195	7,550	(4.7)
EPS (Rs)	10.1	11.2	(10.5)	15.1	15.9	(4.7)

Source: DART, Company

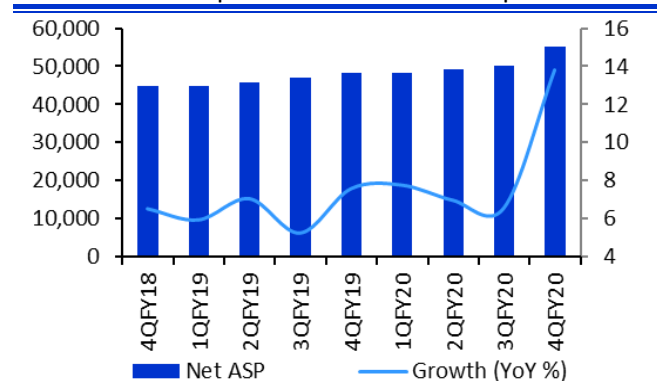
**Exhibit 3: Peer Valuation**

Company	Mcap (Rs Bn)	Rating	Adj EPS (Rs/sh)			P/E (X)			EV/EBITDA (X)			ROE (%)		
			FY20E	FY21E	FY22E	FY20E	FY21E	FY22E	FY20E	FY21E	FY22E	FY20E	FY21E	FY22E
TVS Motor Co.*	158	Sell	13.1	10.1	15.1	25.3	33.1	22.0	13.0	14.4	11.5	17.9	12.6	17.1
Bajaj Auto*	751	Reduce	177	158	177	14.7	16.4	14.7	11.4	12.4	10.9	24.5	19.9	18.8
Eicher Motors	442	Buy	678	595	752	23.9	27.2	21.6	15.7	17.3	13.6	19.1	14.6	16.2
Hero Motocorp	458	Accumulate	138	132	150	16.7	17.4	15.3	11.3	11.6	9.8	20.6	18.3	19.3

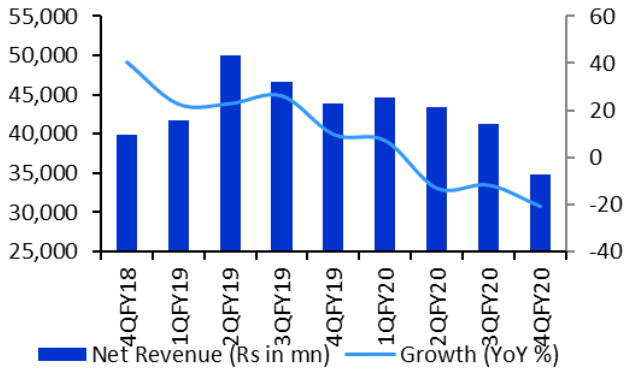
Source: Company, DART, \*FY20 actual

**Exhibit 4: Volume de-grew 30% YoY**


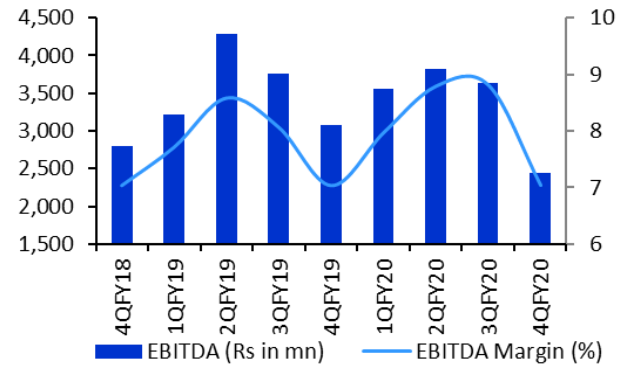
Source: DART, Company

**Exhibit 5: ASP improved YoY due to BS-6 price hike**


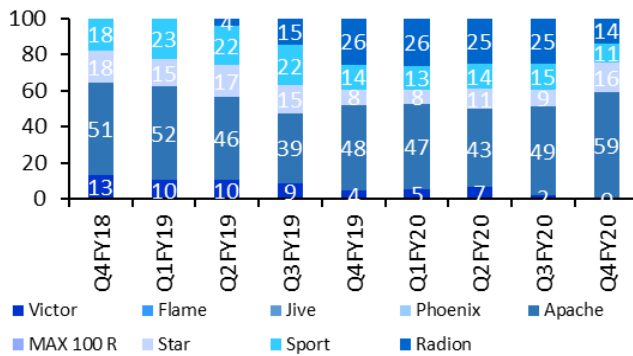
Source: DART, Company

**Exhibit 6: Revenue de-grew YoY/QoQ**


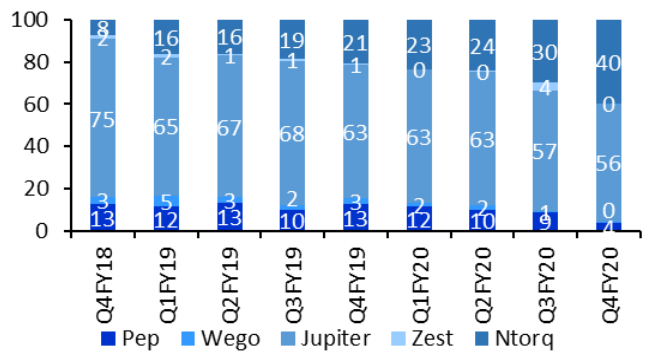
Source: DART, Company

**Exhibit 7: Margin flat YoY/ Contracted QoQ**


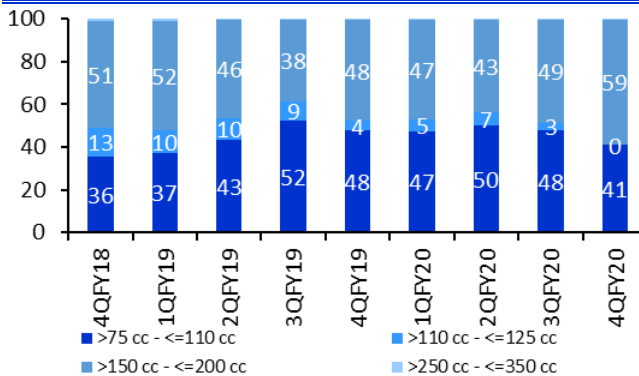
Source: DART, Company

**Exhibit 8: Star and Victor losing the momentum (%)**


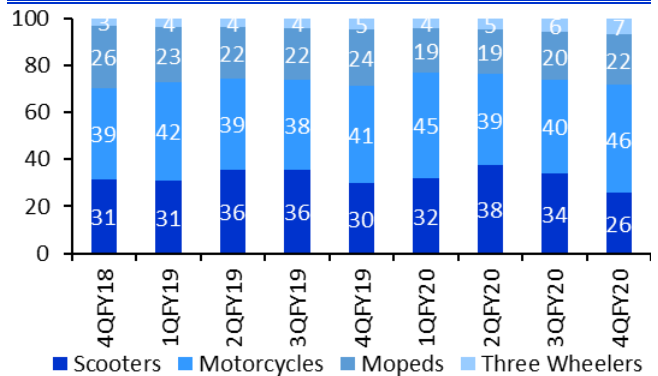
Source: DART, Company

**Exhibit 9: Ntorq leading the segment (%)**


Source: DART, Company

**Exhibit 10: MC-Economy segment doing well**


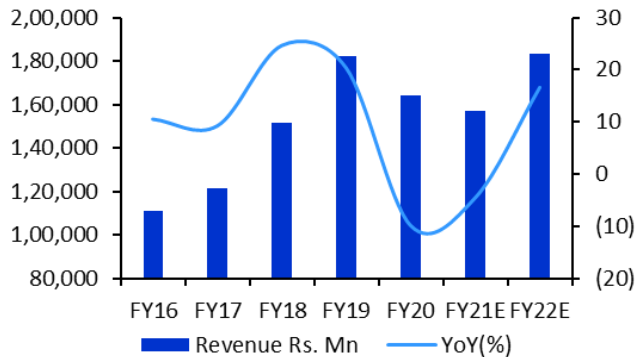
Source: DART, Company

**Exhibit 11: Scooters share down QoQ**


Source: DART, Company

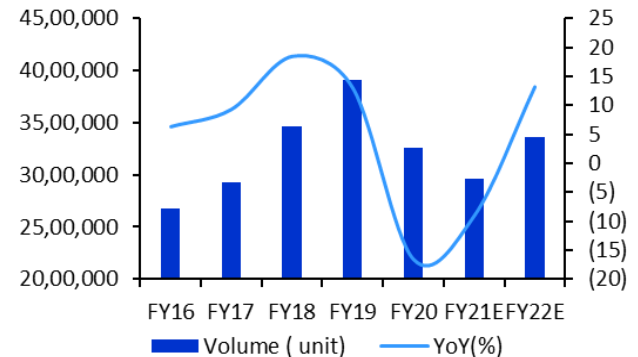
## Annual Charts

**Exhibit 12: Revenue to recover from FY22**



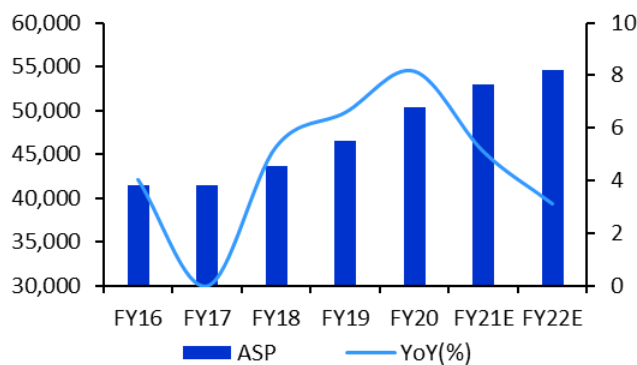
Source: Company, DART

**Exhibit 13: Volume CAGR 2% over FY20-22E**



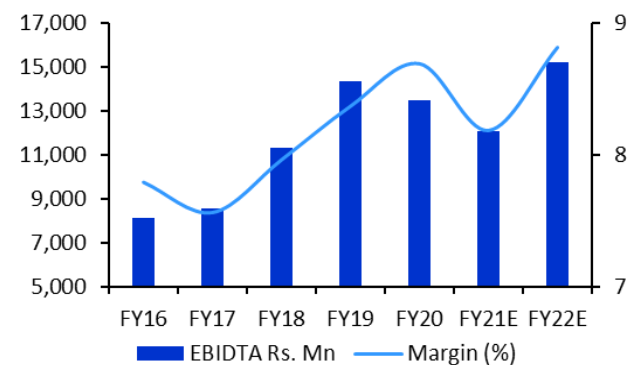
Source: Company, DART

**Exhibit 14: ASP Continue to rise due to BS6 led cost**



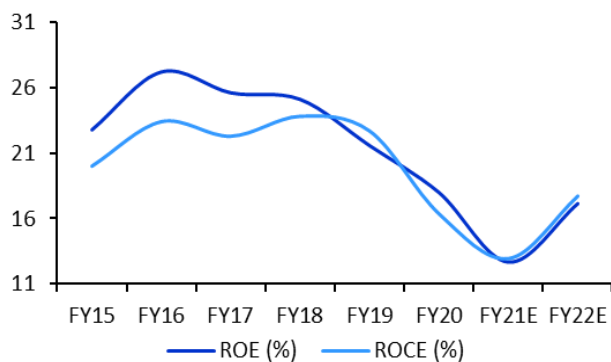
Source: Company, DART

**Exhibit 15: EBIDTA to rebound from FY22E**



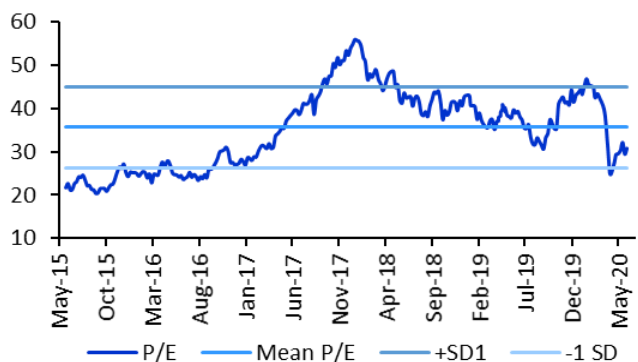
Source: Company, DART

**Exhibit 16: RoE/ RoCE Trend**



Source: Company, DART

**Exhibit 17: 1 Year Forward P/E Band**



Source: Company, DART

**Exhibit 18: Assumption table**

<b>(in units)</b>	<b>FY18</b>	<b>FY19</b>	<b>FY20</b>	<b>FY21E</b>	<b>FY22E</b>
<b>Domestic volume</b>					
2W	28,75,466	31,36,532	24,10,693	21,77,659	24,70,018
% YoY	15.48	9.08	-23.14	-9.67	13.43
3W	16,429	16,715	11,934	10,502	11,132
% YoY	33.8	1.7	-28.6	-12.0	6.0
<b>Total Sales</b>	<b>28,91,895</b>	<b>31,53,247</b>	<b>24,22,627</b>	<b>21,88,161</b>	<b>24,81,151</b>
<b>% YoY</b>	<b>15.6</b>	<b>9.0</b>	<b>-23.2</b>	<b>-9.7</b>	<b>13.4</b>
<b>Export Volume</b>					
2W	4,91,960	6,22,019	6,78,841	6,24,257	7,03,593
% YoY	34.7	26.4	9.1	(8.0)	12.7
3W	82,255	1,39,719	1,61,977	1,53,878	1,70,805
% YoY	44.37	69.9	15.9	(5.0)	11.0
Exports Sales	5,74,215	7,61,738	8,40,818	7,78,135	8,74,398
% YoY	36.0	32.7	10.4	(7.5)	12.4
<b>Sub total</b>	<b>34,66,110</b>	<b>39,14,985</b>	<b>32,63,445</b>	<b>29,66,295</b>	<b>33,55,548</b>
<b>% YoY</b>	<b>18.5</b>	<b>13.0</b>	<b>(16.6)</b>	<b>(9.1)</b>	<b>13.1</b>

Source: Company, DART

### Profit and Loss Account

(Rs Mn)	FY19A	FY20A	FY21E	FY22E
<b>Revenue</b>	<b>1,82,099</b>	<b>1,64,233</b>	<b>1,56,906</b>	<b>1,83,048</b>
<b>Total Expense</b>	<b>1,67,767</b>	<b>1,50,775</b>	<b>1,44,846</b>	<b>1,67,823</b>
COGS	1,38,423	1,21,359	1,17,366	1,36,005
Employees Cost	9,226	9,384	8,836	10,595
Other expenses	20,118	20,031	18,644	21,222
<b>EBIDTA</b>	<b>14,333</b>	<b>13,459</b>	<b>12,061</b>	<b>15,226</b>
Depreciation	3,993	4,890	4,693	4,700
<b>EBIT</b>	<b>10,340</b>	<b>8,568</b>	<b>7,368</b>	<b>10,526</b>
Interest	806	1,022	1,130	1,113
Other Income	75	321	195	270
Exc. / E.O. items	0	(323)	0	0
<b>EBT</b>	<b>9,610</b>	<b>7,544</b>	<b>6,434</b>	<b>9,683</b>
Tax	2,908	1,622	1,653	2,489
RPAT	6,701	5,922	4,780	7,195
Minority Interest	0	0	0	0
<b>Profit/Loss share of associates</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>APAT</b>	<b>6,701</b>	<b>6,246</b>	<b>4,780</b>	<b>7,195</b>

### Balance Sheet

(Rs Mn)	FY19A	FY20A	FY21E	FY22E
<b>Sources of Funds</b>				
Equity Capital	475	475	475	475
Minority Interest	0	0	0	0
Reserves & Surplus	32,998	35,706	39,113	44,155
<b>Net Worth</b>	<b>33,473</b>	<b>36,181</b>	<b>39,588</b>	<b>44,630</b>
Total Debt	13,779	20,843	16,208	17,423
Net Deferred Tax Liability	2,126	1,581	1,645	1,742
<b>Total Capital Employed</b>	<b>49,379</b>	<b>58,605</b>	<b>57,441</b>	<b>63,795</b>

### Applications of Funds

Net Block	25,793	28,999	30,444	31,244
CWIP	2,572	2,854	1,470	1,470
Investments	23,008	28,555	30,205	35,205
<b>Current Assets, Loans &amp; Advances</b>	<b>32,320</b>	<b>33,203</b>	<b>27,230</b>	<b>33,780</b>
Inventories	11,759	10,389	9,457	11,033
Receivables	14,141	12,814	10,317	12,036
Cash and Bank Balances	439	4,191	581	860
Loans and Advances	397	113	865	1,010
Other Current Assets	5,583	5,695	6,010	8,841
<b>Less: Current Liabilities &amp; Provisions</b>	<b>34,315</b>	<b>35,007</b>	<b>31,909</b>	<b>37,904</b>
Payables	29,239	28,864	27,082	31,595
Other Current Liabilities	5,076	6,143	4,826	6,309
<b>Net Current Assets</b>	<b>(1,995)</b>	<b>(1,805)</b>	<b>(4,678)</b>	<b>(4,124)</b>
<b>Total Assets</b>	<b>49,379</b>	<b>58,605</b>	<b>57,441</b>	<b>63,795</b>

E – Estimates



### Important Ratios

Particulars	FY19A	FY20A	FY21E	FY22E
<b>(A) Margins (%)</b>				
Gross Profit Margin	24.0	26.1	25.2	25.7
EBIDTA Margin	7.9	8.2	7.7	8.3
EBIT Margin	5.7	5.2	4.7	5.8
Tax rate	30.3	21.5	25.7	25.7
Net Profit Margin	3.7	3.6	3.0	3.9
<b>(B) As Percentage of Net Sales (%)</b>				
COGS	76.0	73.9	74.8	74.3
Employee	5.1	5.7	5.6	5.8
Other	11.0	12.2	11.9	11.6
<b>(C) Measure of Financial Status</b>				
Gross Debt / Equity	0.4	0.6	0.4	0.4
Interest Coverage	12.8	8.4	6.5	9.5
Inventory days	24	23	22	22
Debtors days	28	28	24	24
Average Cost of Debt	6.7	5.9	6.1	6.6
Payable days	59	64	63	63
Working Capital days	(4)	(4)	(11)	(8)
FA T/O	7.1	5.7	5.2	5.9
<b>(D) Measures of Investment</b>				
AEPS (Rs)	14.1	13.1	10.1	15.1
CEPS (Rs)	22.5	23.4	19.9	25.0
DPS (Rs)	3.5	3.5	2.4	3.8
Dividend Payout (%)	24.8	26.6	24.0	25.0
BVPS (Rs)	70.5	76.2	83.3	93.9
RoANW (%)	21.5	17.0	12.6	17.1
RoACE (%)	16.7	13.5	10.2	13.7
RoAIC (%)	23.1	16.6	13.2	17.6
<b>(E) Valuation Ratios</b>				
CMP (Rs)	333	333	333	333
P/E	23.6	25.3	33.1	22.0
Mcap (Rs Mn)	1,58,252	1,58,252	1,58,252	1,58,252
MCap/ Sales	0.9	1.0	1.0	0.9
EV	1,71,592	1,74,903	1,73,879	1,74,815
EV/Sales	0.9	1.1	1.1	1.0
EV/EBITDA	12.0	13.0	14.4	11.5
P/BV	4.7	4.4	4.0	3.5
Dividend Yield (%)	1.1	1.1	0.7	1.1
<b>(F) Growth Rate (%)</b>				
Revenue	20.4	(9.8)	(4.5)	16.7
EBITDA	26.9	(6.1)	(10.4)	26.2
EBIT	30.8	(17.1)	(14.0)	42.9
PBT	9.4	(21.5)	(14.7)	50.5
APAT	1.1	(6.8)	(23.5)	50.5
EPS	1.1	(6.8)	(23.5)	50.5

### Cash Flow

(Rs Mn)	FY19A	FY20A	FY21E	FY22E
CFO	10,340	13,936	10,547	12,048
CFI	(9,981)	(12,888)	(6,403)	(10,500)
CFF	(29)	2,705	(7,755)	(1,269)
FCFF	3,012	5,557	5,793	6,548
Opening Cash	109	439	4,191	581
Closing Cash	439	4,191	581	860

E – Estimates



### DART RATING MATRIX

Total Return Expectation (12 Months)

Buy	> 20%
Accumulate	10 to 20%
Reduce	0 to 10%
Sell	< 0%

### Rating and Target Price History



Month	Rating	TP (Rs.)	Price (Rs.)
Jan-19	Accumulate	599	554
Apr-19	Sell	456	492
Jul-19	Sell	364	380
Oct-19	Sell	413	440
Feb-20	Sell	437	455
Mar-20	Reduce	358	380
Mar-20	Reduce	358	293
Apr-20	Reduce	279	286

\*Price as on recommendation date

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**Analyst(s) Certification**

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