

Sector: Automobiles
Result Update

	Change
Reco: Buy	↑
CMP: Rs. 333	
Price Target: Rs. 390	↑

↑ Upgrade ↔ No change ↓ Downgrade

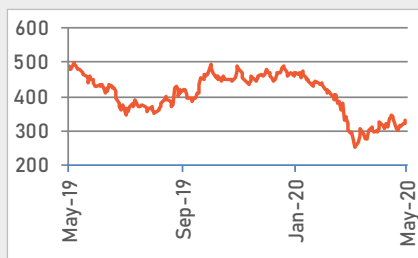
Company details

Market cap:	Rs. 15,818 cr
52-week high/low:	Rs. 512/240
NSE volume: (No of shares)	19.04 lakh
BSE code:	532343
NSE code:	TVSMOTOR
Sharekhan code:	TVSMOTOR
Free float: (No of shares)	20.2 cr

Shareholding (%)

Promoters	57.4
FII	11.4
DII	21.2
Others	10.0

Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	8.2	-20.7	-30.2	-31.7
Relative to Sensex	9.8	-5.2	-9.1	-13.2

Sharekhan Research, Bloomberg

TVS Motors Limited (TVSM) posted better than expected Q4 FY20 results as margins (adjusted for one-time BS4 provisions) were ahead of our as well as street estimates. TVSM managed to improve margins on a y-o-y basis despite a steep fall in the volumes. With rural sentiments strong due to a good Rabi harvest, reform measures by Government and expectations of normal monsoon for the upcoming year, the 2W industry is expected to recover faster, which in turn would benefit TVSM. Also, to ensure social distancing, there is possibility of people preferring personal transport over the public transport in the post COVID-19 era which would benefit TVSM. Moreover, margin improvement would continue given the focus on cost control measures and a recovery in volumes. TVSM is expected to report strong 17% earnings CAGR over FY2020-22 period and outpace the industry. Valuations at 18.3x are below the long-term historical average. Hence, we upgrade our recommendation on the stock to "Buy" from "Hold". Our SOTP based PT stands at Rs 390.

Key positives

- TVSM managed to improve margins (adjusted for one-time BS4 provisions) on a y-o-y basis despite a steep fall in the volumes. Cost control measures led to a margin improvement. Margins were better than our as well as street estimates.
- TVSM stated that rural sentiment was strong and there was feel good factor in rural areas with a resumption in inquiries which indicate faster recovery.
- During the quarter, other income at Rs 25.1 cr was ahead of street estimates. Interest income on income tax refund led to better than anticipated other income.

Key negatives

- Volumes continue to remain under pressure declining sharply by 30% y-o-y during Q4FY20. Transition from BS-IV to BS-VI emission norms and lockdown on account of COVID-19 impacted the volumes.
- During the quarter, TVSM realised exceptional charges of Rs 32 cr on account of COVID-19 related activities.

Our Call

Valuations: Broadly retain estimates; valuations below average; upgrade to Buy:

TVSM Q4 operating results (adjusted for one-time BS4 provisions) were ahead of our as well as street estimates as TVSM managed to improve margins despite a steep fall in the volumes. We have broadly retained our earnings estimates for both FY2021 and FY2022. The stock has corrected sharply by ~25% over the past three months post the outbreak of COVID-19. At CMP, TVSM is trading at 18.3x its FY22 core business earnings (adjusting for TVSM credit services), which is lower than its long-term historical average of 22x. Hence, we upgrade our recommendation to Buy from Hold with revised PT of Rs 390. (earlier PT of Rs 375).

Key Risks

A prolonged slowdown in volumes in both domestic and exports on account of COVID-19 can impact financials.

Valuation

Particulars	Rs cr				
	FY18	FY19	FY20	FY21E	FY22E
Revenues (Rs cr)	15175.4	18209.9	16423.3	15561.8	18621.1
Growth (%)	25.1%	20.0%	-9.8%	-5.2%	19.7%
EBIDTA (Rs cr)	1175.0	1433.3	1345.9	1256.2	1651.0
OPM (%)	7.7%	7.9%	8.2%	8.1%	8.9%
PAT (Rs cr)	662.6	670.1	624.6	460.2	734.9
Growth (%)	18.7%	1.1%	-6.8%	-26.3%	59.7%
FD EPS (Rs)	13.9	14.1	13.1	9.7	15.5
P/E (x)*	20.3	20.1	21.5	29.2	18.3
P/B (x)*	4.7	4.0	3.6	3.3	3.0
EV/EBIDTA (x)*	11.3	9.5	10.1	10.7	7.8
RoE (%)	23.0%	20.0%	16.6%	11.3%	16.2%
RoCE (%)	22.7%	20.8%	17.0%	13.4%	18.3%

*: Core business; Source: Company; Sharekhan estimates

Results ahead of estimates adjusting for BS4 related provisions & higher other income: TVS Motors Ltd (TVSM) Q4FY20 results were ahead of our as well as street estimates adjusting for incentives provided to clear BS4 inventory. Revenues declined 21% y-o-y mainly driven by a drop of 30% in volumes on account of a lockdown due to COVID-19. Realisation per vehicle grew by 13% y-o-y mainly due to price hikes taken on account of BS6 norms. Operating margins adjusted for BS4 related provisions of Rs 22 cr stood at 7.6% which is higher than our as well as street estimates of 7%. Adj margins improved 60 bps on a y-o-y basis despite a double digit fall in the topline. Adj EBIDTA at Rs 267 cr was ahead of our estimates of Rs 227 cr. Further, other income of Rs 25 cr during the quarter was higher than our estimates which also boosted profitability. Adjusted Net Profit at Rs 128 cr was higher than our as well as street estimates of Rs 65-70 cr. During the quarter, TVSM had exceptional charge of Rs 32 cr on account of COVID-19 related expenses (contribution to PM Cares fund and social welfare initiatives). Reported PAT stood at Rs 73.9 cr as against Rs 121 cr in Q4FY19.

2W segment to recover faster due to high rural exposure; to benefit TVSM: Amongst the automotive segments, 2W industry is likely to witness a faster recovery. This is on account of higher share of rural in 2W which form about 40-45% of industry volumes. Rural sentiments have been strong given the good Rabi harvest and crop produce. Moreover, with IMD predicting normal monsoon for the upcoming season, the rural sentiment is buoyant. Also, with the Government announcing reforms for the agricultural sector (opening up end markets for farmers), crop realisation is expected to go up which would boost farm incomes and 2W demand. The management stated that there is feel good factor in rural areas and the inquiries are coming back indicating a faster recovery for the 2W space.

Margin improvement to continue: TVSM managed to improve margins in FY2020 despite a steep fall in the volumes. TVSM margins improved by 30 bps y-o-y in FY2020 despite volumes dropping sharply by 18%. Over the years TVSM has witnessed a significant improvement in margins with OPM improving from 6.1% in FY15 to 8.2% in FY2020. Better vendor negotiation with regards to raw material, increasing localisation and improving productivity have led to margin improvement for TVSM. TVSM expects the cost control measures to continue and is targeting to improve its margins further. We have factored a 70 bps margin improvement for TVSM over the next two years. A sharp recovery in TVSM volumes in FY22 due to a pick-up in economic growth and pent up demand would also aid margin improvement.

Conference call highlights:

- ◆ **Demand outlook:** The management did not provide guidance on the FY21 outlook on account of uncertainties due to COVID-19.
- ◆ **Rural sentiments:** TVSM stated that the rural sentiments are extremely strong due to good Rabi harvest and crop produce. Further, the initial IMD forecast of a normal monsoon for the upcoming season have also boosted farm sentiments. The management expects rural demand to recover faster.
- ◆ **Dealerships:** TVSM stated that the dealerships are opening gradually as the Government has provided relaxations. Currently about 70% of TVSM dealerships have resumed operations.
- ◆ **Export outlook:** TVSM stated that the export markets are gradually opening up and it expects recovery in exports going ahead. However, the management did not provide any guidance for export volumes.
- ◆ **Transition to BS6 norms:** TVSM stated it has successfully transitioned all its products to meet the BS6 emission norms. Initial customer feedback is encouraging with the BS 6 products providing enhanced mileage of 15% and providing superior ride handling. TVSM has increased prices of its products by 10-12% due to the BS6 emission norms.
- ◆ **Price hikes:** TVSM has increased vehicle prices by about 1% in April-May 2020 period.
- ◆ **Retail financing:** TVSM stated that currently customers are not facing any issues related to retail finance. TVSM believes retail finance will be a strong enabler for the recovery of 2W industry. Currently, the share of financing in TVSM overall sales stands at 56%. TVS Credit Services (captive financing arm) share stands at 45%.

- ◆ **Preference for personal mobility:** TVSM believes people would prefer personal mobility over public transport in the post COVID-19 era. This is likely to boost demand for 2W.
- ◆ **Capex:** TVSM has provided capex guidance of Rs 300 cr in FY2021.
- ◆ **Norton acquisition:** TVSM highlighted Norton acquisition is a strategic acquisition and would strengthen TVS brand image and product portfolio in the super premium motorcycles. TVS is preparing a detailed strategy on product introduction and markets to be tapped with the Norton brand.

Results					Rs cr
Particulars	Q4FY20	Q4FY19	YoY %	Q3FY20	QoQ %
Total Income	3503.4	4384.0	-20.1	4125.5	-15.1
Adj EBIDTA	266.9	308.1	-13.4	363.3	-26.5
EBIDTA Margins (%)	7.6	7.0	60 bps	8.8	(120 bps)
Depreciation	124.3	103.1	20.6	121.3	2.5
Interest	23.5	24.7	-5.0	21.1	11.0
Other Income	25.1	3.6	601.4	0.9	2721.3
PBT	144.2	183.9	-21.6	221.8	-35.0
Tax	16.0	50.1	-68.1	24.7	-35.3
Adj PAT	128.2	133.8	-4.2	197.1	-35.0
EPS	2.7	2.8	-4.2	4.1	-35.0

Source: Company; Sharekhan Research

SOTP table

Particulars	Value per / share	Comments
Core business	340	22x FY22 earnings
TVS Credit Services	50	Book value
Overall	390	

Source: Sharekhan estimates

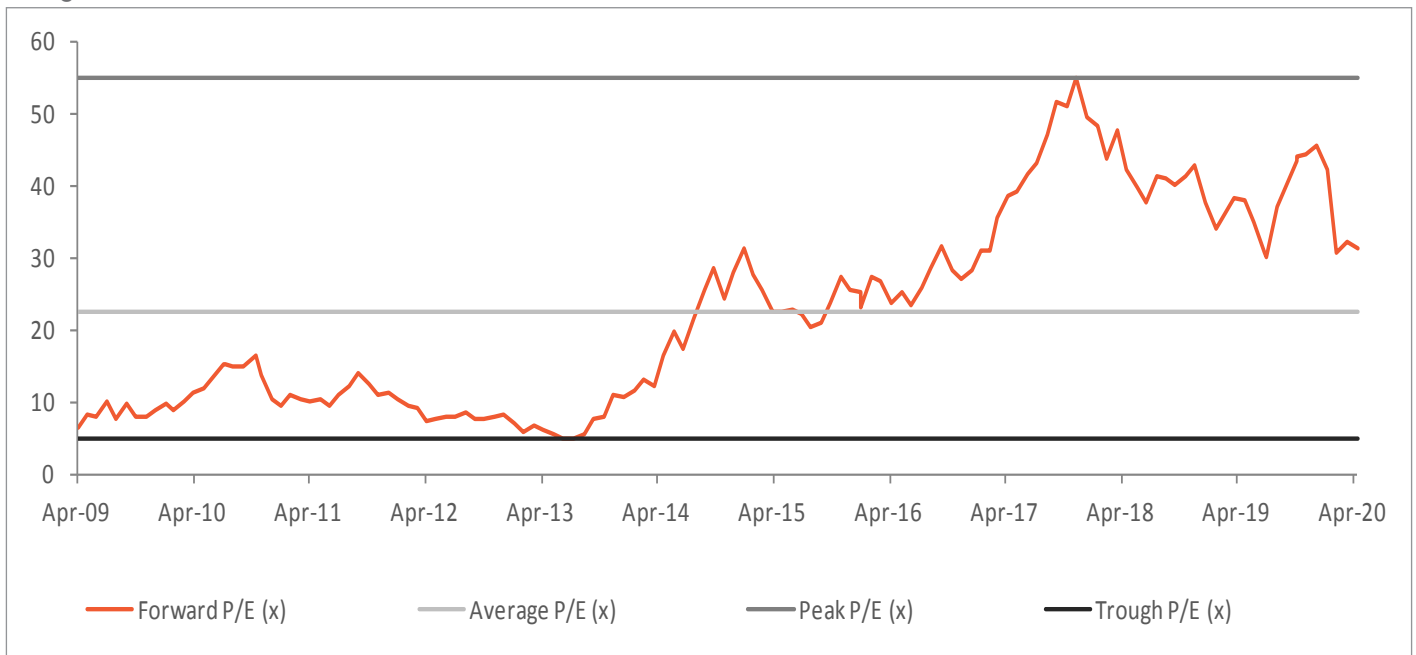
Outlook

Earnings to grow at robust 17% CAGR; TVSM to outpace industry: 2W industry is likely to witness faster recovery given the higher rural exposure and pent up demand (as industry has been in downcycle for the past six quarters). Moreover, the TVSM margin improvement trend is likely to continue given the cost control initiatives coupled with a recovery in the demand. We expect TVSM to report strong 17% earnings CAGR over the FY20-22 period to outpace the industry.

Valuation

Broadly retain estimates; valuations below average; upgrade to Buy: TVSM Q4 operating results (adjusted for one-time BS4 provisions) were ahead of our as well as street estimates as TVSM managed to improve margins despite a steep fall in the volumes. We have broadly retained our earnings estimates for both FY2021 and FY2022. The stock has corrected sharply by ~25% over the past three months post the outbreak of COVID-19. At CMP, TVSM is trading at 18.3x its FY22 core business earnings (adjusting for TVSM credit services), which is lower than its long-term historical average of 22x. Hence, we upgrade our recommendation to Buy from Hold with revised PT of Rs 390. (earlier PT of Rs 375).

One-year forward P/E band



Source: Sharekhan Research

Peer Comparison

Particulars	P/E (x)		EV/EBITDA (x)		P/BV (x)		RoE (%)	
	FY21E	FY22E	FY21E	FY22E	FY21E	FY22E	FY21E	FY22E
TVS Motor Co	29.2	18.3	10.7	7.8	3.3	3.0	11.3	16.2
Bajaj Auto	16.3	14.6	10.1	9.2	2.8	2.6	17.1	17.6
Hero Motocorp	18.3	14.0	11.4	8.6	3.1	2.9	17.1	20.9

Source: Sharekhan Research

About company

TVS Motors (TVSM) is the flagship company of TVS Group and is the third largest two wheeler manufacturer in the country. TVSM is the only manufacturer having presence across all three categories of 2W viz motorcycles, scooters and mopeds. Motorcycles and scooters contribute 40% and 33% of the volumes respectively while mopeds constitute 23%. TVSM also manufactures 3W (5% of overall volumes) mainly for the export market. TVSM has been focusing on growing exports with the overseas market contributing about 20% of overall volumes.

Investment theme

Amongst the automotive segments, 2W industry is likely to witness faster recovery. This is on account of higher share of rural in 2W which form about 40-45% of industry volumes. Rural sentiments have been strong given the good rabi harvest and crop produce. Moreover, with IMD predicting normal monsoon for the upcoming season, the farm sentiment is buoyant. Also, with the Government Announcing reforms for the farmers (opening up end markets for farmers), crop realisation is expected to go up which would boost farm incomes and 2W demand. Margin improvement is sustainable given the improved localization and cost control measures. We expect TVSM to clock strong 16% earnings CAGR over FY20-22 period and outpace the industry. Valuations are below long term historical averages. Hence, we upgrade our recommendation from "Hold" to "Buy".

Key Risks

- ◆ TVS Group is considering levying royalty on the group companies. TVS Motors is the flagship company of the group and any levy would adversely impact margins.
- ◆ Prolonged slowdown in volumes due to COVID-19 could impact performance.

Additional Data

Key management personnel

Venu Srinivasan	Chairman & Managing Director
Sudarshan Venu	Joint Managing Director
K.N.Radhakrishnan	Director & CEO
K.Gopala Desikan	CFO

Source: Company Website

Top 10 shareholders

Sr. No.	Holder Name	Holding (%)
1	Sundaram Clayton Ltd	57.4
2	ICICI Prudential Asset Management	7.8
3	Jwalamukhi Investment Holdings	5.7
4	Reliance Capital Trustee Co Ltd	3.5
5	Cartica Capital Ltd	2.0
6	Life Insurance Corp of India	2.0
7	Franklin Resources Inc	1.9
8	Mirae Asset Global Investments Co	1.8
9	Tree Line Asia Master Fund	1.4
10	Invesco Asset Management India Pvt	0.8

Source: Bloomberg

Sharekhan Limited, its analyst or dependant(s) of the analyst might be holding or having a position in the companies mentioned in the article.

Sharekhan

by BNP PARIBAS

Know more about our products and services

For Private Circulation only

Disclaimer: This document has been prepared by Sharekhan Ltd. (SHAREKHAN) and is intended for use only by the person or entity to which it is addressed to. This Document may contain confidential and/or privileged material and is not for any type of circulation and any review, retransmission, or any other use is strictly prohibited. This Document is subject to changes without prior notice. This document does not constitute an offer to sell or solicitation for the purchase or sale of any financial instrument or as an official confirmation of any transaction. Though disseminated to all customers who are due to receive the same, not all customers may receive this report at the same time. SHAREKHAN will not treat recipients as customers by virtue of their receiving this report.

The information contained herein is obtained from publicly available data or other sources believed to be reliable and SHAREKHAN has not independently verified the accuracy and completeness of the said data and hence it should not be relied upon as such. While we would endeavour to update the information herein on reasonable basis, SHAREKHAN, its subsidiaries and associated companies, their directors and employees ("SHAREKHAN and affiliates") are under no obligation to update or keep the information current. Also, there may be regulatory, compliance, or other reasons that may prevent SHAREKHAN and affiliates from doing so. This document is prepared for assistance only and is not intended to be and must not alone be taken as the basis for an investment decision. Recipients of this report should also be aware that past performance is not necessarily a guide to future performance and value of investments can go down as well. The user assumes the entire risk of any use made of this information. Each recipient of this document should make such investigations as it deems necessary to arrive at an independent evaluation of an investment in the securities of companies referred to in this document (including the merits and risks involved), and should consult its own advisors to determine the merits and risks of such an investment. The investment discussed or views expressed may not be suitable for all investors. We do not undertake to advise you as to any change of our views. Affiliates of Sharekhan may have issued other reports that are inconsistent with and reach different conclusions from the information presented in this report.

This report is not directed or intended for distribution to, or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction, where such distribution, publication, availability or use would be contrary to law, regulation or which would subject SHAREKHAN and affiliates to any registration or licensing requirement within such jurisdiction. The securities described herein may or may not be eligible for sale in all jurisdictions or to certain category of investors. Persons in whose possession this document may come are required to inform themselves of and to observe such restriction.

The analyst certifies that the analyst has not dealt or traded directly or indirectly in securities of the company and that all of the views expressed in this document accurately reflect his or her personal views about the subject company or companies and its or their securities and do not necessarily reflect those of SHAREKHAN. The analyst further certifies that neither he or its associates or his relatives has any direct or indirect financial interest nor have actual or beneficial ownership of 1% or more in the securities of the company at the end of the month immediately preceding the date of publication of the research report nor have any material conflict of interest nor has served as officer, director or employee or engaged in market making activity of the company. Further, the analyst has also not been a part of the team which has managed or co-managed the public offerings of the company and no part of the analyst's compensation was, is or will be, directly or indirectly related to specific recommendations or views expressed in this document. Sharekhan Limited or its associates or analysts have not received any compensation for investment banking, merchant banking, brokerage services or any compensation or other benefits from the subject company or from third party in the past twelve months in connection with the research report.

Either SHAREKHAN or its affiliates or its directors or employees / representatives / clients or their relatives may have position(s), make market, act as principal or engage in transactions of purchase or sell of securities, from time to time or may be materially interested in any of the securities or related securities referred to in this report and they may have used the information set forth herein before publication. SHAREKHAN may from time to time solicit from, or perform investment banking, or other services for, any company mentioned herein. Without limiting any of the foregoing, in no event shall SHAREKHAN, any of its affiliates or any third party involved in, or related to, computing or compiling the information have any liability for any damages of any kind.

Compliance Officer: Mr. Joby John Meledan; Tel: 022-61150000; email id: compliance@sharekhan.com;

For any queries or grievances kindly email igc@sharekhan.com or contact: myaccount@sharekhan.com

Registered Office: Sharekhan Limited, 10th Floor, Beta Building, Lodha iThink Techno Campus, Off. JVLR, Opp. Kanjurmarg Railway Station, Kanjurmarg (East), Mumbai – 400042, Maharashtra. Tel: 022 - 61150000. Sharekhan Ltd.: SEBI Regn. Nos.: BSE / NSE / MSEI (CASH / F&O / CD) / MCX - Commodity: INZ000171337; DP: NSDL/CDSL-IN-DP-365-2018; PMS: INP000005786; Mutual Fund: ARN 20669; Research Analyst: INH000006183;

Disclaimer: Client should read the Risk Disclosure Document issued by SEBI & relevant exchanges and the T&C on www.sharekhan.com; Investment in securities market are subject to market risks, read all the related documents carefully before investing.