

TVS Motors Company

Sell



DOLAT ANALYSIS & RESEARCH THEMES
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Factoring demand recovery

- TVS Motors (TVSL) Management has acknowledged the near term pain in the domestic and export business owing to the impact of COVID-19 pandemic but remains hopeful of recovery in the 2W segment led by increased preference for personal mobility and improvement in rural sentiment.
- Management expects the economic impact of COVID-19 to be more **pronounced in the markets of LATAM, whereas the African countries seem to be less impacted**, and the core demand may return sooner.
- In 2W segment, the company has lost market share by ~100 bps to 13.8%** led by strong competition in entry level by incumbents in motorcycles and weak demand in mopeds. However, we believe TVSL's extensive product portfolio, strong dealer network in rural areas to help the company to capitalize the rural recovery.
- The company ROCE (post-tax) declined further to 16% in FY20 (from 22.7% in FY19)** as volume and margin weakened led by multiple factors (increase in 2W price led by BS-VI transition insurance cost and mandatory safety regulations).
- Investment in subsidiaries and associate increased by Rs 13.83bn in FY20** led by further investment in its financing arm TVS credit services and TVS Motor (Singapore) Pte. Ltd. **Net Profit from subsidiaries and associate reduced slightly to Rs 338 mn vs Rs. 370mn in FY19.**
- Standalone net Debt increased to Rs 16.95bn (vs Rs 13.6bn in FY19) with an increase in net Debt/Equity to 0.5x in FY20 from 0.4x in FY19.** However, company has managed its working capital cycle efficiently and Cash conversion cycle improved -13 days in FY20 against -7 days in FY19.
- Standalone operating cash flow increased by 27% YoY to Rs. 13.96bn in FY20 and **free cash flow has improved to Rs. 6.85bn in FY20 from Rs. 3.69bn in FY19**
- Recent acquisition of Norton Motorcycles (all-cash transaction for a consideration of GBP 16mn) will help TVS to widen its product line-up and launch more premium products in the future.
- Despite a positive outlook for 2W, we continue to remain cautious on TVSL given (1) its relatively weaker margin structure (2) contracting market share in the bike segment (3) higher marketing spend with new model launches and competition.
- At CMP, the stock is trading at 26x on FY22E earnings, which appears expensive compared to its peers. We roll forward our valuation from FY22E to FY23E, and **raise our target price to Rs 355 (based on 18x of FY23E EPS+ value of TVS Credit Services at Rs.17/share).**

Rural market to drive 2W demand

While management expects the slowdown to continue due to the Covid-19 disruption, recovery in rural demand and increased preference for personal mobility are key silver lining. The management is hopeful of recovery in 2HFY21 in the 2W segment. Also expects to outperform the 2W industry growth rates, due to its diversified product portfolio. It expects premium products (Apache and Ntorq) to do better than other segments, and expects these products to outperform the industry

CMP	Rs 385
Target / Downside	Rs 355 / 8%
BSE Sensex	36,295
NSE Nifty	10,706

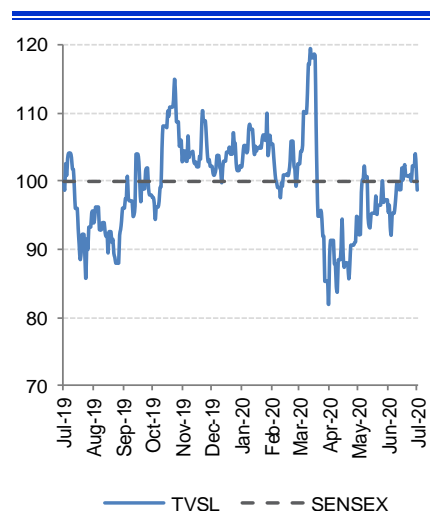
Scrip Details

Equity / FV	Rs 475mn / Rs 1
Market Cap	Rs 183bn
	USD 2bn
52-week High/Low	Rs 504/Rs 240
Avg. Volume (no)	37,54,430
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

TVS Motors Relative to Sensex



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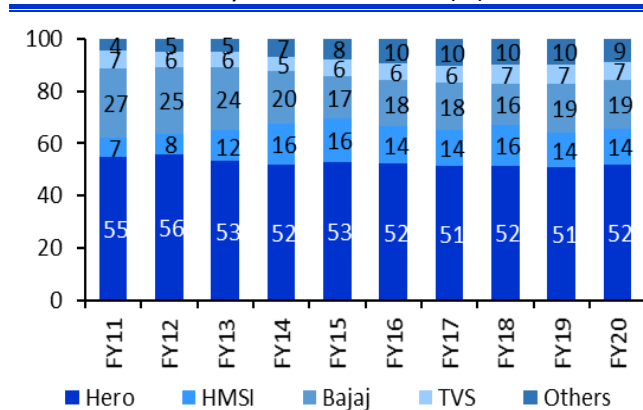
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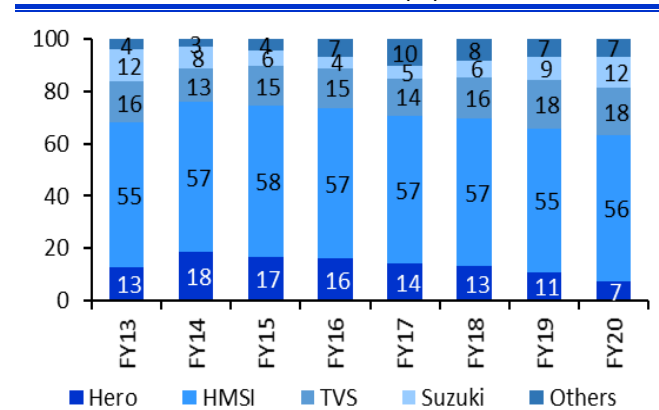
- TVSL domestic 2W volumes declined 23% YoY in FY20, higher than the industry decline of 18% YoY. The company has lost market share by ~100 bps to 13.8% led by strong competition in entry level by incumbents in motorcycles and weak demand in mopeds. In motorcycles, the company's market share dropped 63 bps YoY to 6.7% led by **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, with the launched of Radeon and 2) sharp competitive pressure from Bajaj and Hero MotoCorp. In premium motorcycles, especially in Apache, TVS also witnessed 21% YoY fall in volume due to sharp jump in prices caused by the transition from BS-IV to BS-VI and strong competition. **However, the company is continuing to strengthen its market shares in scooters. Market share in Scooter segment remain flat 18% in FY20**

Exhibit 1: Motor Cycle market share (%)



Source: Company, DART

Exhibit 2: Scooter Market Share (%)

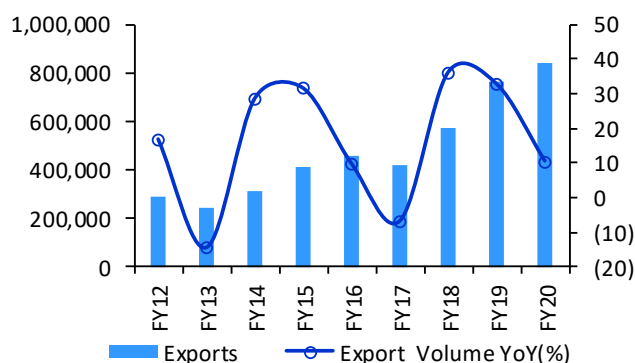


Source: Company, DART

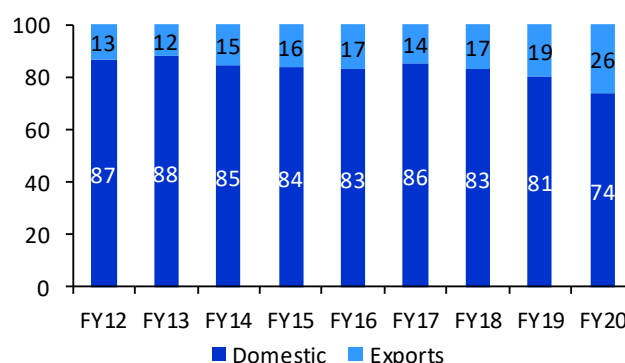
- During the year company has made various launches mostly upgradation of its existing product portfolio. **TVS has launched upgraded version of its successful product Ntorq 125 and Jupiter.** In Moped it has upgraded its XL100 with bundle of new features such as On-Board Diagnostics Indicator (OBD I) located on the instrument cluster new Comfort i-TOUCH start feature with better fuel efficiency. **Company has also expanded its product offering with launch of its first electric Scooter, TVS iQUBE.**

Outlook for export looks uncertain

Export of two-wheelers is likely to see a decline during the initial part of the year as pandemic CoVID-19 is affecting most countries across the globe. **A sustained trend of low crude prices may also impact export market growth in oil dependent economies of Africa. Management expects the economic impact of CoVID-19 to be more pronounced in the markets of LATAM, whereas the African countries seem to be less impacted, and the core demand may return sooner.** The situation in the export markets is gradually improving and will take more time to return to normal levels. The Company's two-wheeler exports grew by 9.2% YoY at 678k units in FY20. Three-wheeler exports reached 162k in FY20, grew by 15.9% YoY.

Exhibit 3: Export volume grew 18% CAGR over FY16-20


Source: Company, DART

Exhibit 4: Increasing share of export volume (%)


Source: Company, DART

Subsidiaries performance

TVS Credit Services Limited (TVS CS): TVS CS is the retail finance arm of the company. In FY20, TVS CS's overall disbursements grew by 7.3% to Rs 75.85bn and the AUM stood at Rs 92.15bn (+10% YoY). Total income in FY20 grew by 23.2% to Rs 20.15bn. The PBT for the year stood at Rs 2.19bn as against Rs 2.16bn FY19. During the year, TVSM has invested a sum of Rs 10.87bn in TVS CS.

PT.TVS Motor Company Indonesia (PT TVSM): Indonesian subsidiary achieved positive operating EBITDA of USD 0.75 mn for the full year FY20 (vs loss of USD 3.04 mn in FY19) led by impressive growth in sales numbers, coupled with margin improvement. During FY20, PT TVS achieved sales of 53,650 units of 2W (+31% YoY). In 3W, the Company recorded sales of 8,100 units (vs 2,700 units in FY19). During the year, TVSM has invested a sum of USD 5mn in the ordinary shares of PT TVSM.

TVS Motor (Singapore) Pte. Ltd: It is a wholly owned subsidiary leveraged to operationalize digital technology by delivering high quality solutions that addresses real life business challenges. During the year, TVSM has invested a sum of SGD 26.48mn in the ordinary shares of TVS Motor (Singapore) Pte Limited.

Sundaram Auto Components Limited (SACL)

Sales of SACL was Rs 5.3bn in FY20 (vs Rs 6.0bn in FY19). SACL PBT was Rs 64.4mn in FY20 (vs Rs 173.7mn in FY19). During the year, TVSM has subscribed a sum of Rs 600mn in the equity capital of SACL.

TVS Motor Services Limited (TVS MS)

Post transfer of equity shares of TVS CS, parent company now holds 83.95% directly in TVS CS, which was earlier held through TVS MS, the wholly owned subsidiary of the Company. During the year, TVSM subscribed to 45mn Equity Shares of TVS MS aggregating to Rs 450mn at a price of Rs 10 per share.

Sundaram Holding USA Inc. (SHUI) and its subsidiaries

During the year FY20, SACL has invested a sum of USD 6mn in the ordinary shares of SHUI and holds 75% of the total capital of SHUI as on 31st March 2020.

Ultraviolette Automotive Private Limited (UV)

UV is a start-up company engaged in developing electric mobility solutions. The Company has invested a sum of Rs 110mn in the shares of UV including a sum of Rs 50mn in Preference Shares in FY20 and holds 25.76% of its total capital as on 31st March 2020.

Exhibit 5: Investments & share of profit of subsidiaries and associate

Particulars	Investment made during the year (Rs mn)		Share in Profit or (loss) (Rs mn)		% of shareholding
	FY20	FY19	FY20	FY19	
TVS Motor Company Limited (Parent)			5,909	6,677	
Subsidiaries - Indian					
Sundaram Auto Components Limited	600	-	123	157	100
TVS Motor Services Limited	450	-	1,439	1,425	100
TVS Credit Services Limited	10,875	1,200			84.5
TVS Housing Limited			0	-	100
Subsidiaries - Foreign					
TVS Motor (Singapore) Pte Limited	1,389	724	(450)	(512)	100
TVS Motor Company Europe B.V.	-	-	7	(6)	100
PT. TVS Motor Company Indonesia	358	479	(428)	(494)	100
Sundaram Holdings USA Inc.			(46)	(10)	74.6
Non-controlling Interest in all subsidiaries			(222)	(207)	
Associates - Indian					
(Investment as per the equity method)					
Emerald Haven Realty Limited			(64)	21	48.8
Ultraviolette Automotive Private Limited	50	60	(7)	-4	25.8
Tagbox Solutions Private Limited	112	-	2	-	23.5
Associates - Foreign					
Predictronics Corp			(7)	-	23.5
Tagbox Pte Ltd			(10)	-	24.3
Total	13,834	2,462	6,246	7,047	

Source: Company, DART

Norton Acquisition

TVS Motors acquired Norton Motorcycles, in an all-cash transaction for a consideration of GBP 16mn through its overseas subsidiaries. The "Norton", "Commando", "Dominator" and "V4RR" are part of the portfolio of this historic motorcycle Company.

Key Related Party Transactions

TVS Motor Company now holds 85.28% direct stake in TVS Credit Services

TVS Motor Services (TVS MS), has transferred its investment worth Rs 10.42bn TVS Credit Services (TVS CS) to TVS Motors. Post transfer of equity shares of TVS CS, the Company now holds 85.28% (increased from 10.29%) directly in TVS CS, which was earlier held through TVS MS, the wholly owned subsidiary of the Company.

Sale of goods to holding company

In FY20, TVS Motors has sold goods worth Rs. 3.67 bn (vs Rs 673mn in FY19) to their ultimate holding company (TV Sundram Iyengar & Sons Private Limited, Madurai).

Balance Sheet and Cash Flow Analysis (Standalone)

Balance sheet analysis:

- Revenue fell by 10%YoY to Rs. 164bn in FY20 due to 17% fall in volume, partially offset by 8% increase in net ASP. Operating profit declined by 6.1% to Rs. 13.45bn. Margin for the year improved by 32bps YoY to 8.2% led by softening in RM prices. APAT during the year de-grew by 6.8% to Rs. 6.24bn
- Gross debt has increased to Rs 20.9bn in FY20 from Rs 13.8bn in FY19. Net Debt increased to Rs 16.95bn (vs Rs 13.6bn in FY19) with an increase in Net Debt/Equity to 0.5x in FY20 from 0.4x in FY19.
- Capex for the year was Rs 7.1bn with the gross block stood at Rs 59.6bn.
- In FY20, despite challenging year company has managed its working capital cycle efficiently. Inventory days was reduced to 23 days from 24 days at Rs 10.4bn due to BS-IV inventory clean up exercise. Debtor days remain same to 28 days over last year. Creditors' payable days increased to 64 days from 59 days in FY19. Cash conversion cycle days stood at -13 days in FY20 against -7 days in FY19

Cash flow analysis:

- Operating cash flow increased by 27% YoY to Rs. 13.96bn in FY20.
- Capex for FY20 stood at Rs7.1bn towards BS-VI investment, EV and new products.
- Free cash flow has improved to Rs. 6.85bn in FY20 from Rs. 3.69bn in FY19.
- Cash flow from financing activity has improved to Rs. 2.7bn in FY20 from Rs. -81mn in FY19.

Exhibit 6: Change in estimates

Rs Mn	FY21E			FY22E		
	New	Previous	Chg (%)	New	Previous	Chg (%)
Volume	30,13,279	29,66,295	1.6%	34,26,190	33,55,548	2.1%
Revenue	1,58,893	1,56,906	1.3%	1,86,289	1,83,048	1.8%
EBITDA	10,905	12,061	-9.6%	15,551	15,226	2.1%
EBITDA Margin (%)	6.86	7.69	(82.3)	8.35	8.32	3.0
PAT	3,756	4,780	-21.4%	7,059	7,195	-1.9%
EPS (Rs)	7.9	10.1	-21.4%	14.9	15.1	-1.9%

Source: Company, DART

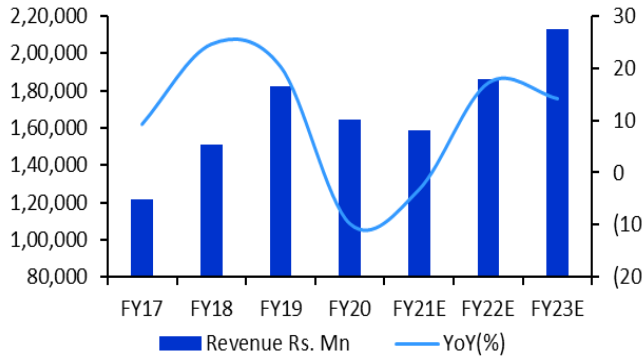
Exhibit 7: Peer valuation

Company	Mcap (Rs Bn)	Rating	Adj EPS (Rs/sh)			P/E (X)			EV/EBITDA (X)			ROE (%)		
			FY21E	FY22E	FY23E	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E
TVS Motor Co.	184	Sell	7.9	14.9	18.6	48.8	26.0	20.7	18.2	12.8	10.7	10.0	17.1	18.9
Bajaj Auto	825	Reduce	158.1	176.7	190.5	18.0	16.1	15.0	18.0	15.8	14.6	19.9	18.8	18.4
Eicher Motors	529	Reduce	441.5	724.5	874.5	43.9	26.8	22.2	28.0	17.7	14.7	11.5	16.9	17.8
Hero Motocorp	543	Reduce	117.0	153.7	166.5	23.2	17.7	16.3	15.3	11.5	10.3	15.8	19.1	19.1

Source: Company, DART

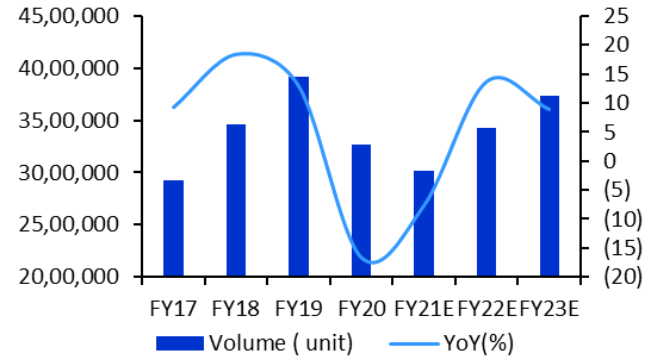
Annual Charts

Exhibit 8: Revenue to recover Sharply from FY22



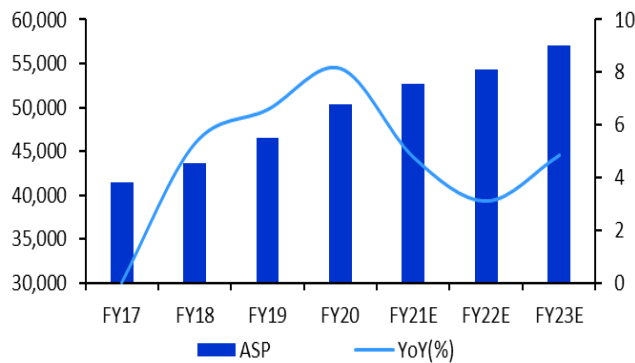
Source: Company, DART

Exhibit 9: Volume CAGR 16% over FY21-23E



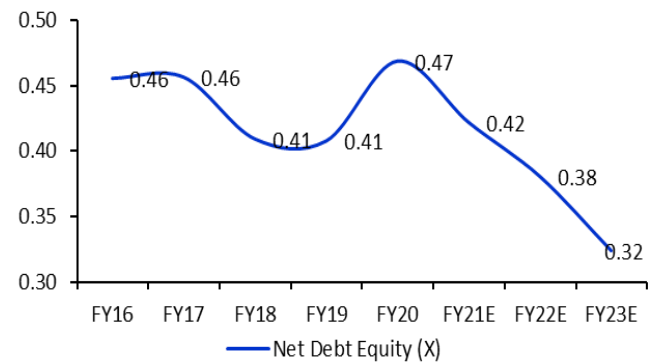
Source: Company, DART

Exhibit 10: ASP Continue to rise due to BS6 led cost



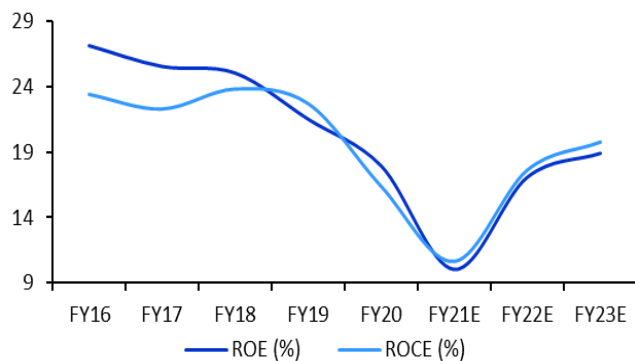
Source: Company, DART

Exhibit 11: NET/Debt equity (X)



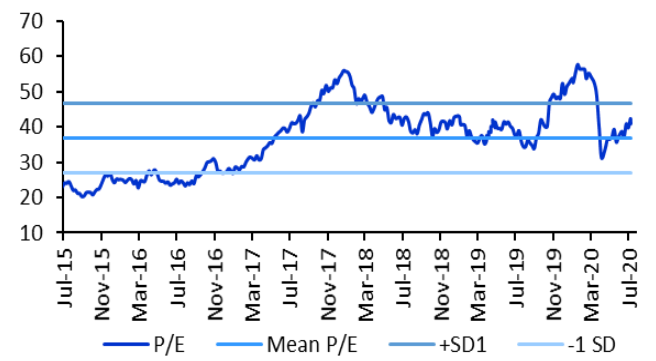
Source: Company, DART

Exhibit 12: RoE/ RoCE Trend



Source: Company, DART

Exhibit 13: 1 Year Forward P/E Band



Source: Company, DART

Profit and Loss Account

(Rs Mn)	FY20A	FY21E	FY22E	FY23E
Revenue	1,64,233	1,58,893	1,86,289	2,12,785
Total Expense	1,50,775	1,47,987	1,70,738	1,94,210
COGS	1,21,359	1,18,852	1,38,413	1,57,886
Employees Cost	9,384	8,976	10,725	12,852
Other expenses	20,031	20,160	21,600	23,472
EBIDTA	13,459	10,905	15,551	18,575
Depreciation	4,890	4,913	5,200	5,400
EBIT	8,568	5,992	10,351	13,175
Interest	1,022	1,132	1,120	1,276
Other Income	321	195	270	270
Exc. / E.O. items	(323)	0	0	0
EBT	7,544	5,055	9,501	12,169
Tax	1,622	1,299	2,442	3,249
RPAT	5,922	3,756	7,059	8,920
Minority Interest	0	0	0	0
Profit/Loss share of associates	0	0	0	0
APAT	6,246	3,756	7,059	8,920

Balance Sheet

(Rs Mn)	FY20A	FY21E	FY22E	FY23E
Sources of Funds				
Equity Capital	475	475	475	475
Minority Interest	0	0	0	0
Reserves & Surplus	35,706	38,383	43,330	49,474
Net Worth	36,181	38,858	43,805	49,950
Total Debt	20,843	16,295	17,573	18,277
Net Deferred Tax Liability	1,581	1,931	2,026	2,148
Total Capital Employed	58,605	57,085	63,404	70,374

Applications of Funds

Net Block	28,999	30,224	30,524	30,624
CWIP	2,854	1,470	1,470	1,200
Investments	28,555	30,205	35,205	40,205
Current Assets, Loans & Advances	33,203	27,196	34,714	42,804
Inventories	10,389	9,577	11,228	12,825
Receivables	12,814	10,448	12,249	13,991
Cash and Bank Balances	4,192	210	1,211	2,408
Loans and Advances	113	876	1,028	1,174
Other Current Assets	5,695	6,086	8,998	12,405
Less: Current Liabilities & Provisions	35,007	32,011	38,510	44,459
Payables	28,864	27,425	32,154	36,727
Other Current Liabilities	6,143	4,585	6,355	7,732
<i>sub total</i>				
Net Current Assets	(1,805)	(4,814)	(3,795)	(1,655)
Total Assets	58,605	57,085	63,404	70,374

E – Estimates

Important Ratios

Particulars	FY20A	FY21E	FY22E	FY23E
(A) Margins (%)				
Gross Profit Margin	26.1	25.2	25.7	25.8
EBIDTA Margin	8.2	6.9	8.3	8.7
EBIT Margin	5.2	3.8	5.6	6.2
Tax rate	21.5	25.7	25.7	26.7
Net Profit Margin	3.6	2.4	3.8	4.2
(B) As Percentage of Net Sales (%)				
COGS	73.9	74.8	74.3	74.2
Employee	5.7	5.6	5.8	6.0
Other	12.2	12.7	11.6	11.0
(C) Measure of Financial Status				
Gross Debt / Equity	0.6	0.4	0.4	0.4
Interest Coverage	8.4	5.3	9.2	10.3
Inventory days	23	22	22	22
Debtors days	28	24	24	24
Average Cost of Debt	5.9	6.1	6.6	7.1
Payable days	64	63	63	63
Working Capital days	(4)	(11)	(7)	(3)
FA T/O	5.7	5.3	6.1	6.9
(D) Measures of Investment				
AEPS (Rs)	13.1	7.9	14.9	18.8
CEPS (Rs)	23.4	18.2	25.8	30.1
DPS (Rs)	3.5	1.9	3.7	4.9
Dividend Payout (%)	26.6	24.0	25.0	26.0
BVPS (Rs)	76.2	81.8	92.2	105.1
RoANW (%)	17.0	10.0	17.1	19.0
RoACE (%)	16.4	10.6	17.5	20.0
RoAIC (%)	16.6	10.8	17.4	20.2
(E) Valuation Ratios				
CMP (Rs)	385	385	385	385
P/E	29.3	48.7	25.9	20.5
Mcap (Rs Mn)	1,82,885	1,82,885	1,82,885	1,82,885
MCap/ Sales	1.1	1.2	1.0	0.9
EV	1,99,536	1,98,971	1,99,246	1,98,753
EV/Sales	1.2	1.3	1.1	0.9
EV/EBITDA	14.8	18.2	12.8	10.7
P/BV	5.1	4.7	4.2	3.7
Dividend Yield (%)	0.9	0.5	1.0	1.3
(F) Growth Rate (%)				
Revenue	(9.8)	(3.3)	17.2	14.2
EBITDA	(6.1)	(19.0)	42.6	19.4
EBIT	(17.1)	(30.1)	72.7	27.3
PBT	(21.5)	(33.0)	87.9	28.1
APAT	(6.8)	(39.9)	87.9	26.4
EPS	(6.8)	(39.9)	87.9	26.4

Cash Flow

(Rs Mn)	FY20A	FY21E	FY22E	FY23E
CFO	13,936	9,791	12,423	14,110
CFI	(12,888)	(6,403)	(10,500)	(10,230)
CFF	2,705	(7,370)	(921)	(2,683)
FCFF	6,835	5,037	6,923	8,880
Opening Cash	439	4,192	210	1,211
Closing Cash	4,192	210	1,211	2,408

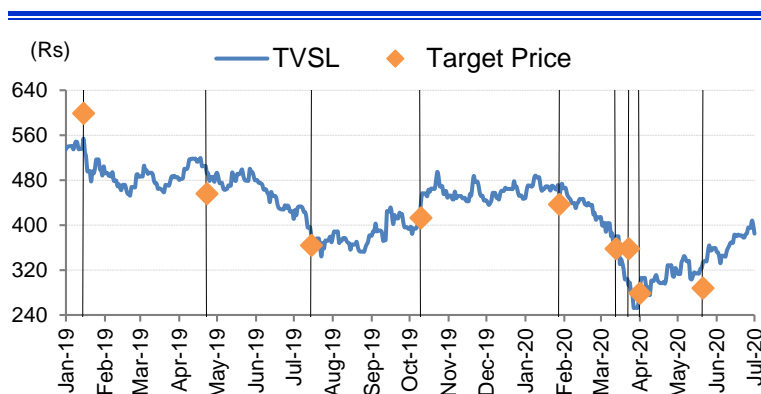
E – Estimates

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
May-20	Sell	288	333

*Price as on recommendation date

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