

TVS Motor Company Ltd.

Demand recovery momentum is the key to monitor

TVS Motor Company (TVS) reported mixed quarterly performance, with the expectation of continuation of demand recovery which looks cloudy. The near-term outlook is uncertain as the pent-up demand has been slowly diminishing and the preference of consumers are trending towards lower priced 2Ws, where TVS presence is minimal. Sales expectations from its most profitable segments (3W & exports) also remain blurry. This, along with frequent local level lockdowns is creating supply side issues. 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. In our view, current valuations are elevated and hence we recommend 'Reduce'.

Q1FY21 – Subdued operational performance

- TVS Motor sold 267K vehicles in Q1FY21, a decline of 71% YoY and reported a growth of 10.8% YoY in its core realisation to Rs 53.6K per unit vs. est. of 55.2K per unit. Total revenues came in at Rs 14.3bn, a drop of 68% YoY; slightly lower than our estimates of Rs 14.7bn.
- EBITDA Margin was -3.4% in Q1FY21 vs. est. of -0.8%. The negative margin was on account of higher RMC as % of sales (75.9% in Q1FY21 vs. 75.1% in Q1FY20). **We believe TVS could not able to pass on full BS6 cost, however, has taken a price increase in Q1FY21 (+0.7%) and July 2020 (+0.4%). Also, it was impacted due to poor product mix.**
- Due to operating leverage, its employee as well as other expenses look elevated, however the **efforts of cost reduction were visible on both the expense line items.**
- TVS reported a net loss of Rs 1.4bn in Q1FY21 vis-à-vis profit of Rs 1.4bn in Q1FY20.
- Overall, operational performance was lower than our est., while bottom line was better on account of lower D&A (as it was calculated based on plant utilisation levels) and tax credit.

Demand is recovering well in segments where TVS don't have a strong hold

- We are witnessing a demand increase in lower segment motorcycles especially in rural zones. TVS has the lowest market share (~5.4%) in this segment with lesser pricing power.
- Looking at the current scenario, consumers are deferring high ticket discretionary purchases and premiumization trend in India has taken a pause for time being.
- TVS has a good hold in scooters segment (~18% share) and is generally preferable in urban areas. But urban areas are mostly impacted due to rising Covid cases & lockdowns.
- Based on our channel checks, frequent On & Off lockdowns are impacting retail sales. While there could be some MoM uptick in July 2020 walkins, but conversion ratio is dropped as pent-up demand has fizzled out. Demand recovery looks unsustainable to us.

3W and exports outlook looks cloudy

- Three-wheeler and exports are highly profitable segments for TVS Motor, but the demand prospects impacted the most specially for 3Ws.
- Exports will remain very volatile due to lower forex availability, lower oil prices and demand destruction on account of Covid. There is a strong correlation observed in the past between low oil prices and weak exports. This could repeat in FY21.
- Financing companies are not ready to lend to three-wheelers as either 3W owners have already taken EMI Moratorium or their earnings are badly impacted.

Margin to remain subdued along with production challenges

- 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. In addition, commodity costs started climbing up again. Margin could claw back to 7.0%
- Based on dealers' survey, there is some delay in BS6 dispatches from production sites specially for its running models. TVS production impacted due to lockdowns, which has obstructed its suppliers the most. Management claims an improvement in utilisation.

Valuations looks elevated

- The motorcycle demand recovery in domestic looks uncertain, while prospect of 3Ws and exports looks cloudy to us. This, along with downtrading and increasing competitive intensity could hurt TVS 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, considering elevated valuations, we **recommend 'Reduce' rating with a target price of Rs 357** (20x FY22e EPS plus the value of TVS Credit at Rs 37/share).

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	39.3	19.0
FY20	1,64,233	(9.8)	13,459	8.2	6,176	(7.8)	13.0	17.7	13.1	33.6	16.1
FY21e	1,46,878	(10.6)	10,282	7.0	3,559	(42.4)	7.5	9.4	7.7	53.7	18.7
FY22e	1,85,547	26.3	15,560	8.4	7,620	114.1	16.0	18.0	14.4	25.1	11.9

Source: Company, EISEC Research Estimates



East India Securities Ltd
Excellent | Investment | Solutions

Rating: **Reduce** Downside: **(11.1%)**
Current Price: **402** Target Price: **357**

| Earlier recommendation

Previous Rating: **Hold**
Previous Target Price: **320**

| Market data

Bloomberg: TVSL IN
52-week H/L (Rs): 503/240
Mcap (Rs bn/USD bn): 191/2.6
Shares outstanding (mn): 475
Free float: 43.0%
Daily vol. (3M Avg.): 3.3mn
Face Value (Rs): 1
Group: Nifty 50

Source: Bloomberg, EISEC Research

| Shareholding pattern (%)

	Jun-20	Mar-20	Dec-19	Sep-19
Promoter	57.4%	57.4%	57.4%	57.4%
FIIIs	10.5%	11.4%	12.2%	13.2%
DIIIs	22.0%	21.2%	20.4%	19.0%
Public/others	10.1%	10.0%	10.0%	10.4%

Source: BSE

| Price performance (%)*

	1M	3M	12M	36M
Nifty 50	8.7	20.6	0.1	11.2
TVSL	6.4	30.7	11.8	-30.9

*as on 29th July 2020; Source: AceEquity, EISEC Research

Amit Hiranandani

Senior Analyst
+91 22 6192 5342
amith@eisec.com

Awanish Chandra

Head of Research
+91 22 6192 5345
awanishc@eisec.com

Q1FY21 Analysts Call Highlights

Demand outlook

- ✓ TVS Motor is witnessing a positive uptick especially in rural zones in domestic as well as exports demand with a gradual improvement in plant operations. The retail numbers are better than wholesales and are close to last year's levels.
- ✓ **In domestic, the company sees consolidation of sales in Q2FY21 with cautiously optimistic outlook about the 2nd half and good sales expectation for upcoming festive season. The management expects to outperform the competition due to good models.**
- ✓ Due to higher Covid cases, Urban demand was muted and the closure of outlets were more in urban centres. A good proportion of people looking at two-wheelers due to social distancing and expect this trend to go up.
- ✓ Premiumization is expected to continue in India, may be with a delay of 1-2 quarter. The management expects Apache, Ntorq and Jupiter to continue its sales journey.
- ✓ **On exports outlook, the management claims that things are improving due to stable oil prices, forex availability and strong portfolio. Most of the international markets are seeing a recovery.**
- ✓ Expect month of September in exports to be similar YoY and will very quickly come back to normal. But management remains cautiously optimistic due to impact of Covid.
- ✓ The management agreed that there was some pent-up demand in June and July 2020 as the market was shut in April and May 2020. But, not able to put any number to it.
- ✓ **The management is positive for the coming months, but overall things depends upon how Covid situation evolves. Personal mobility due to social distancing and rural areas to support volumes.**

Production challenges and margin outlook

- ✓ There were huge challenges in production in June 2020 mainly due to suppliers, which were impacted on account of lockdown. However, **July 2020 production numbers were much better and seeing week-on-week improvement in production as well as demand.**
- ✓ **Expect margin improvement journey to continue from Q2FY21** as sales are recovering and strict cost rationalisation efforts to aid further. Doing localization, reducing marketing spends and value engineering could decrease the overall expenses.
- ✓ **On the other side, precious metals prices are climbing up** again and it's difficult to predict.

Other highlights

- ✓ Inventory levels at dealers' outlets are at the lowest level, claimed the company. 75% of the dealers are open now (85% of the dealers were open in June 2020). This is due to frequent local level lockdowns in July 2020.
- ✓ Rs 3bn capex is expected to incur in FY21e, while other investments would be Rs 500-750mn.
- ✓ Export revenues were Rs 4.6bn in Q1FY21 (vs. Rs 11.8bn in Q4FY20) and revenue from spare parts were Rs 1.8bn (vs. Rs 4.2bn in Q4FY20).

Valuation and Recommendations

Mixed quarterly performance with expectation of continuation of demand recovery looks cloudy. The near-term outlook is uncertain as the pent-up demand has been slowly diminishing with preference of consumers trending towards lower priced 2Ws, where TVS presence is minimal.

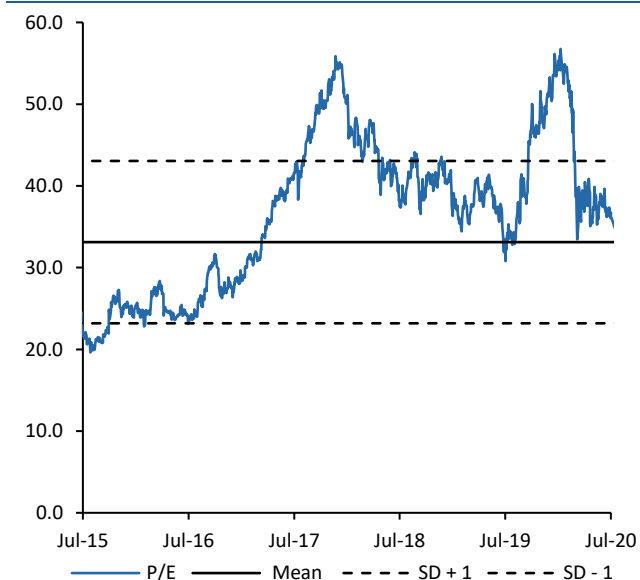
Sales expectations from its most profitable segments (3Ws & exports) also remains blurry. This, along with Frequent local level lockdowns is impacting suppliers the most.

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. In our view, current valuations are elevated and hence we recommend 'Reduce'.

The motorcycle demand recovery in domestic looks uncertain, 3Ws and exports looks cloudy to us. This, along with downtrading and increasing competitive intensity could hurt its market share in the short run.

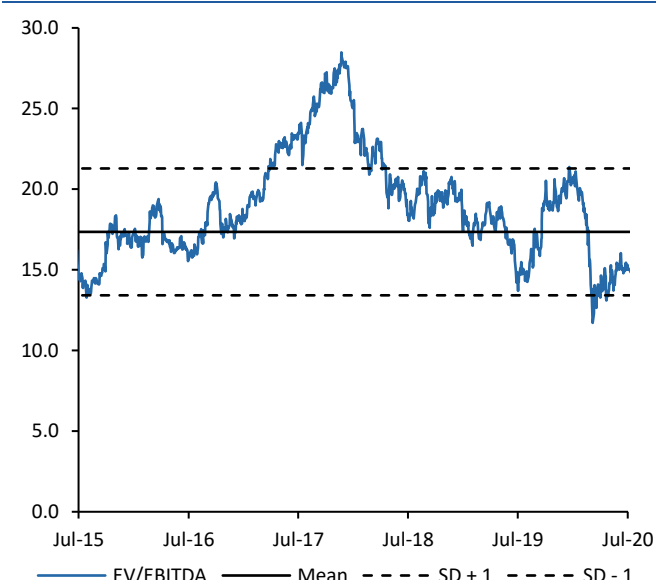
We have factored in all the visible uncertainties related to Covid-19 and built a sharp recovery in FY22e volumes (after two years of high double-digit de-growth). However, **we recommend 'Reduce' rating due to elevated valuations, with a target price of Rs 357** (20x FY22e EPS plus the value of TVS 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)	Q2 FY19	Q3 FY19	Q4 FY19	Q1 FY20	Q2 FY20	Q3 FY20	Q4 FY20	Q1 FY21
Net Sales	49,935	46,640	43,840	44,686	43,478	41,255	34,814	14,317
Raw Materials	37,840	35,347	33,593	33,577	31,898	29,787	26,098	10,864
Employee Costs	2,449	2,367	2,036	2,489	2,337	2,332	2,227	1,970
Other Expenditure	5,363	5,169	5,130	5,063	5,424	5,503	4,041	1,972
EBITDA	4,282	3,757	3,081	3,558	3,820	3,633	2,449	(488)
Depreciation	1,016	1,012	1,031	1,194	1,241	1,213	1,243	911
Interest	212	167	247	291	285	211	235	523
Other Income	7	7	36	12	49	9	251	26
Exceptional Items	-	-	-	-	760	(760)	(323)	-
PBT	3,062	2,585	1,839	2,085	3,103	1,457	898	(1,896)
Tax	949	801	501	662	553	247	160	(505)
Tax rate (%)	31.0	31.0	27.2	31.8	17.8	16.9	17.8	26.7
Reported PAT	2,113	1,784	1,338	1,423	2,550	1,211	739	(1,391)
YoY Growth (%)								
Revenue	22.8	26.1	9.8	7.2	(12.9)	(11.5)	(20.6)	(68.0)
EBITDA	18.1	25.0	9.8	10.8	(10.8)	(3.3)	(20.5)	NA
PAT	(0.9)	15.6	(19.2)	(2.9)	20.7	(32.1)	(44.8)	NA
QoQ Growth (%)								
Revenue	19.8	(6.6)	(6.0)	1.9	(2.7)	(5.1)	(15.6)	(58.9)
EBITDA	33.3	(12.2)	(18.0)	15.5	7.4	(4.9)	(32.6)	NA
Adj. PAT	44.1	(15.6)	(25.0)	6.3	79.2	(52.5)	(39.0)	NA
Margin (%)								
EBITDA	8.6	8.1	7.0	8.0	8.8	8.8	7.0	(3.4)
PAT	4.2	3.8	3.1	3.2	5.9	2.9	2.1	(9.7)

Source: Company, EISEC Research

Fig 4: Key Assumptions

Key Assumptions	FY17	FY18	FY19	FY20	FY21e	FY22e
Domestic Volumes						
Motorcycles	7,73,141	9,16,811	10,13,701	7,55,391	5,77,442	7,27,576
Mopeds	8,90,518	8,59,520	8,80,227	6,36,940	5,06,686	6,28,290
Scooters	8,26,342	10,99,135	12,41,327	10,18,427	8,17,972	10,30,645
Three-wheelers (Passenger carrier)	12,277	16,429	16,709	11,934	7,370	8,476
Total Domestic Volumes	25,02,278	28,91,895	31,51,964	24,22,692	19,09,469	23,94,987
YoY Growth (%)	12.5	15.6	9.0	(23.1)	(21.2)	25.4
Export Volumes						
Motorcycles	3,00,515	4,38,765	5,45,596	6,07,980	4,99,950	5,99,940
Mopeds	20,152	17,412	16,674	13,859	10,326	12,391
Scooters	44,572	35,783	59,749	56,794	41,043	47,200
Three-wheelers (Passenger carrier)	56,977	82,255	1,39,719	1,61,977	1,29,606	1,64,600
Total Export Volumes	4,22,216	5,74,215	7,61,738	8,40,610	6,80,925	8,24,131
YoY Growth (%)	(7.0)	36.0	32.7	10.4	(19.0)	21.0
Total Volumes Sales						
Motorcycles	10,73,656	13,55,576	15,59,297	13,63,371	10,77,392	13,27,516
Mopeds	9,10,670	8,76,932	8,96,901	6,50,799	5,17,012	6,40,682
Scooters	8,70,914	11,34,918	13,01,076	10,75,221	8,59,015	10,77,844
Three-wheelers (Passenger carrier)	69,254	98,684	1,56,428	1,73,911	1,36,976	1,73,076
Total Volumes Sales	29,24,494	34,66,110	39,13,702	32,63,302	25,90,395	32,19,118
YoY Growth (%)	9.2	18.5	12.9	(16.6)	(20.6)	24.3
Net Revenues from product sales (Rs mn)	1,06,837	1,34,201	1,61,523	1,45,676	1,27,015	1,63,756
Core realization per unit (Rs)	36,532	38,718	41,271	44,641	49,033	50,870
YoY Growth (%)	0.1	6.0	6.6	8.2	9.8	3.7

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	1,46,878	1,85,547
Materials cost	1,11,330	1,38,423	1,21,359	1,08,339	1,38,378
% of revenues	73.6	76.0	73.9	73.8	74.6
Employee cost	8,680	9,226	9,384	8,727	9,164
% of revenues	5.7	5.1	5.7	5.9	4.9
Others	19,995	20,118	20,031	19,530	22,445
% of revenues	13.2	11.0	12.2	13.3	12.1
EBITDA	11,292	14,333	13,459	10,282	15,560
EBITDA margin (%)	7.5	7.9	8.2	7.0	8.4
Depreciation & Amortisation	3,387	3,993	4,890	4,992	5,246
EBIT	7,905	10,340	8,568	5,290	10,314
Interest expenses	566	806	1,022	906	543
PBT from operations	7,339	9,534	7,546	4,384	9,771
Other income	1,448	75	321	372	411
Exceptional items	-	-	(323)	-	-
PBT	8,786	9,610	7,544	4,756	10,183
Taxes	2,161	2,908	1,622	1,197	2,563
Effective tax rate (%)	24.6	30.3	21.5	25.2	25.2
PAT	6,626	6,701	5,922	3,559	7,620
Extraordinary Items	-	-	-	-	-
Reported PAT	6,626	6,701	5,922	3,559	7,620
Adjusted PAT	6,626	6,701	6,176	3,559	7,620

Source: Company, EISEC Research Estimates

Key Ratios

YE March	FY18	FY19	FY20	FY21e	FY22e
Growth Ratio (%)					
Revenue	24.7	20.4	(9.8)	(10.6)	26.3
EBITDA	31.8	26.9	(6.1)	(23.6)	51.3
Adjusted PAT	18.7	1.1	(7.8)	(42.4)	114.1
Margin Ratios (%)					
EBITDA	7.5	7.9	8.2	7.0	8.4
PBT from operations	4.9	5.2	4.6	3.0	5.3
Adjusted PAT	4.4	3.7	3.8	2.4	4.1
Return Ratios (%)					
ROE	25.1	21.5	17.7	9.4	18.0
ROCE	18.3	16.1	13.1	7.7	14.4
ROIC	16.1	17.0	14.6	8.9	18.7
Turnover Ratios (days)					
Gross block turnover ratio (x)	3.6	3.8	3.1	2.5	3.0
Debtors	23	28	28	25	25
Inventory	32	31	31	28	28
Creditors	82	77	87	91	91
Cash conversion cycle	(26.5)	(17.7)	(27.1)	(38.0)	(38.0)
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	5.8	19.0
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	7.5	16.0
BVPS	60.6	70.5	76.2	83.1	95.2
CEPS	21.1	22.5	23.3	18.0	27.1
DPS	3.9	3.5	3.5	0.5	4.0
Dividend payout %	33.7	29.9	33.8	8.0	30.1
Valuation (x)					
P/E (adjusted)	45.0	39.3	33.6	53.7	25.1
P/BV	10.4	7.9	5.7	4.8	4.2
EV/EBITDA	27.5	19.0	16.1	18.7	11.9
Dividend yield %	0.6	0.6	0.8	0.1	1.0

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	39,027	44,746
Shareholders' Fund	28,804	33,473	36,181	39,502	45,222
Total Debt	10,370	13,779	19,746	11,498	11,730
Deferred Tax Liabilities (Net)	1,482	2,126	1,581	1,581	1,581
Total Liabilities	40,656	49,379	57,508	52,580	58,532
Gross Block	45,454	50,546	56,835	58,450	63,274
Less: Accumulated Depreciation	(21,736)	(24,743)	(28,852)	(32,218)	(35,688)
Net Block	23,719	25,803	27,983	26,232	27,586
Capital WIP	917	1,166	1,266	1,266	1,266
Intangible under development	394	1,406	1,589	1,589	1,589
Long term Investments	20,354	23,007	26,059	28,788	32,237
Other Non-Current Assets	878	771	908	824	1,012
Inventories	9,644	11,759	10,389	8,311	10,615
Sundry Debtors	9,684	14,141	12,814	10,060	12,709
Cash	109	439	4,192	1,136	4,927
Loans & Advances	144	146	2,677	2,658	2,700
Short term Investments	-	-	-	-	-
Other Current Assets	5,721	5,065	4,720	4,222	5,331
Total Current Assets	25,301	31,550	34,791	26,386	36,283
Trade Payables	24,860	29,239	28,864	27,010	34,500
Other Current Liabilities	4,889	3,902	4,461	3,918	4,949
Provisions	1,158	1,183	1,763	1,576	1,991
Net Current Assets	(5,606)	(2,774)	(297)	(6,118)	(5,157)
Total Assets	40,656	49,379	57,508	52,580	58,532

Source: Company, EISEC Research Estimates

Cash Flow

YE March (Rs mn)	FY18	FY19	FY20	FY21e	FY22e
Operating profit before WC changes	11,770	14,535	12,861	10,282	15,560
Changes in working capital	3,668	(1,257)	2,926	2,931	2,642
Income tax paid	(2,465)	(2,300)	(1,850)	(1,197)	(2,563)
Cash flow from operations	12,973	10,978	13,936	12,016	15,639
Adj. OCF (OCF - Interest)	12,407	10,172	12,914	11,110	15,097
Capex	(7,945)	(7,289)	(7,101)	(3,260)	(6,600)
Adj. FCF	4,462	2,884	5,813	7,850	8,496
Cash flow from investments	(11,314)	(10,023)	(12,889)	(5,679)	(9,637)
Cash flow from financing	(747)	811	2,705	(9,393)	(2,211)
Net change in cash	912	1,766	3,753	(3,056)	3,791

Source: Company, EISEC Research Estimates

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TVS Motor Company Ltd.



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East India Securities Ltd. (<http://www.eisec.com/>)

Office: - 201, Garnet Palladium, Pandit Motilal Nehru Marg, Panch Bawadi, Behind Express Zone, Malad East, Mumbai – 400097

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Single SEBI Regn No.: INZ000190836

Research Analyst

SEBI Registration No. INH300003231

Website: www.eisec.com

Investor Grievance Email ID: mail@eisec.com

Compliance Officer Details:

Sumeet Kejriwal 033-40205901; Email ID: sumeetk@eisec.com

East India Securities Ltd. (CIN: U67120WB1995PLC072026)	
Registered Office Address 10/1D, Lal Bazar Street, 3rd Floor, Mercantile Building, Kolkata – 700001.	Corporate Office & Correspondence Address 201, Garnet Palladium, Pandit Motilal Nehru Marg, Panch Bawadi, Behind Express Zone, Malad East, Mumbai – 400097