

Sector: Automobiles
Result Update

	Change
Reco: Buy	↔
CMP: Rs. 402	
Price Target: Rs. 470	↔
↑ Upgrade ↔ No change ↓ Downgrade	

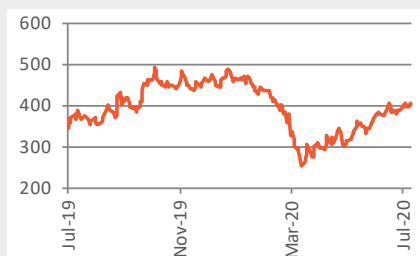
Company details

Market cap:	Rs. 119,106 cr
52-week high/low:	Rs. 503/240
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	19.9
FII	34.2
DII	24.6
Others	21.3

Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	6.4	22.6	-14.4	16.7
Relative to Sensex	-2.6	9.7	-7.4	14.9

Sharekhan Research, Bloomberg

Q1FY2021 operating results of TVS Motors (TVSM) were lower than estimates as negative operating leverage due to a steep fall in volumes impacted the margins. However, tax credit during the quarter led to lower than expected loss. On the demand front, TVSM is expecting strong recovery in both domestic (due to strong rural sentiments) and exports (due to opening of economies and steady oil prices). TVS expects to reach Pre-COVID 19 volumes by September 2020 in both domestic and export markets. Cost control initiatives coupled with a pickup in volumes would drive margin improvement for TVSM. We expect TVSM to deliver strong 17% earnings CAGR over FY20-22 period. Hence, we retain a Buy rating on the stock with PT of Rs 470.

Key positives

- ◆ Demand recovery for TVSM is better than management expectations and the company expects to reach Pre-COVID 19 levels by September 2020
- ◆ TVSM realised tax credit to the tune of Rs 50 cr in Q1FY21
- ◆ Inventory levels are below the norms of five weeks in the domestic market, which indicate ramp up of billing (wholesale) going ahead.

Key negatives

- ◆ TVSM EBIDTA loss was higher than our as well as street estimates. A steep volume drop of 71% y-o-y owing to lockdown due to COVID-19 led to negative operating leverage which impacted the operating performance.
- ◆ TVSM faced production constraints in the month of June 2020 which impacted sales.

Our Call

Valuations: Retain estimates; maintain Buy rating with unchanged PT of Rs 470: TVSM is witnessing faster recovery in both the domestic and export markets. TVSM expects to reach pre-COVID sales in both domestic and export markets by September 2020. Moreover, the 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. We have broadly retained our earnings estimates for both FY21 and FY22. At CMP, the stock is trading at 20.1x its FY22 core earnings (adjusted for TVSM Credit services) which is lower than its long-term historical average of 23x. Hence, we retain Buy rating on the stock with unchanged PT of Rs 470.

Key Risks

Prolonged COVID-19 infection can weaken consumer sentiments. Also lowering of export incentives by Government is key risk.

Valuation Particulars	Rs cr				
	FY18	FY19	FY20	FY21E	FY22E
Revenues (Rs cr)	15175.4	18209.9	16423.3	14892.5	19060.3
Growth (%)	25.1%	20.0%	-9.8%	-9.3%	28.0%
EBIDTA (Rs cr)	1175.0	1433.3	1345.9	1247.1	1811.2
OPM (%)	7.7%	7.9%	8.2%	8.4%	9.5%
PAT (Rs cr)	662.6	670.1	624.6	467.1	847.9
Growth (%)	18.7%	1.1%	-6.8%	-25.2%	81.5%
FD EPS (Rs)	13.9	14.1	13.1	9.8	17.8
P/E (x)	25.7	25.5	27.3	36.5	20.1
P/B (x)	5.9	5.1	4.5	4.2	3.7
EV/EBIDTA (x)	14.4	12.0	12.8	13.7	9.0
RoE (%)	23.0%	20.0%	16.6%	11.5%	18.4%
RoCE (%)	22.7%	20.8%	17.0%	13.9%	20.8%

Source: Company; Sharekhan estimates

Operating performance lower than estimates; tax credit leads to lower than expected loss: TVSM Q1FY21 operating results were lower than our as well as street expectations primarily on account of negative operating leverage due to steep volume drop. Revenues declined 68% y-o-y to Rs 1,432 cr driven by 71% y-o-y drop in volumes. Realisation/vehicle grew 11% y-o-y primarily due to price hikes on account of BS6 (were marginally lower than our expectations of 16% y-o-y). Due to negative operating leverage on account of steep drop in volumes, TVSM reported EBIDTA loss of Rs 49 cr which was higher than our expectations of Rs 9 cr and street expectations of Rs 23 cr. During the quarter, TVS realized tax credit to the tune of Rs 50 cr. Net loss at Rs 139 cr was lower than our estimates of Rs 159 cr.

Demand recovering fast; TVSM expects to reach Pre-COVID levels by festive season: TVSM is witnessing fast recovery in the demand with sales reaching 67% of normal in month of June 2020. TVSM expects sales to further improve in July 2020 and expects to reach Pre-COVID levels by the festive season in September 2020. Strong farmer sentiments due to good Rabi harvest, expectations of normal monsoon, and good progress in kharif sowing (kharif sowing is up 20% y-o-y) are leading to strong recovery in rural as well as semi-urban areas. Recovery in demand is better than management's expectations and the company is ramping up production further. Also, export demand is improving with the Government opening up the economy gradually. Further, oil prices have stabilised and there is no lack of USD availability in oil dependent countries where TVSM exports. TVSM stated that demand in export markets is recovering fast and expected to reach normalcy by September 2020.

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. While Q1FY21 was an exceptional quarter (due to steep fall in volumes on account of nationwide lockdown for major part of the quarter), TVSM expects the margin improvement trend to resume from Q2FY21 as volumes pick up. TVSM will continue to focus on better vendor negotiation and increasing localisation to curb raw material costs. Also, productivity improvement measures and fixed cost control initiatives would continue which would lead to margin improvement. Moreover, a sharp pick-up in volumes in FY2022 (due to pick up in economic growth and pent up demand) would augment margins. We expect TVS' margins to improve 130 bps over the next two years.

Conference call highlights

- ◆ **Domestic Demand:** TVSM stated it is witnessing strong demand recovery in the domestic markets and expects to reach pre-COVID 19 levels by September 2020.
- ◆ **Export outlook:** TVSM stated that export markets are also witnessing strong recovery as Governments are opening up economy and stabilization in crude prices. TVSM expects export markets to reach Pre-COVID levels by September 2020
- ◆ **Production update:** TVSM faced production constraints in June 2020. The company is ramping up production and expects July 2020 to be much better than June. TVSM will further ramp up production in August and September 2020 given the strong recovery in demand.
- ◆ **Capex:** TVSM has planned capex of Rs 300 cr in FY2021. TVSM plans to invest Rs 50-75 cr in subsidiaries in FY21.
- ◆ **Pricing action:** TVSM has cumulatively increased vehicle prices by 1.1% in the past four months. TVSM increased prices by 0.7% in Q1FY21 and 0.4% in July 2020.
- ◆ **INR-USD realization:** TVSM realized INR 72.1/USD in Q1FY21 as against INR 70/USD in Q1FY20.
- ◆ **Inventory:** TVSM inventory in domestic motorcycles is lower than the norm of 35 days. The company is ramping up capacity to reach normalised levels of inventory given the strong demand pull.

Results	Rs cr				
	Particulars	Q1FY21	Q1FY20	%YoY	Q4FY20
Total Income	1431.7	4468.6	-68.0	3503.4	-59.1
Adj EBIDTA	-48.8	355.8	NA	266.9	NA
EBIDTA Margins (%)	-3.4	8.0	(1140 bps)	7.6	(1100 bps)
Depreciation	91.1	119.4	-23.7	124.3	-26.7
Interest	52.3	29.1	79.6	23.5	122.9
Other Income	2.6	1.2	115.8	25.1	-89.7
PBT	-189.6	208.5	NA	144.2	NA
Tax	-50.5	66.2	NA	16.0	NA
Adj PAT	-139.1	142.3	NA	128.2	NA
EPS	-2.9	3.0	NA	2.7	NA

Source: Company; Sharekhan Research

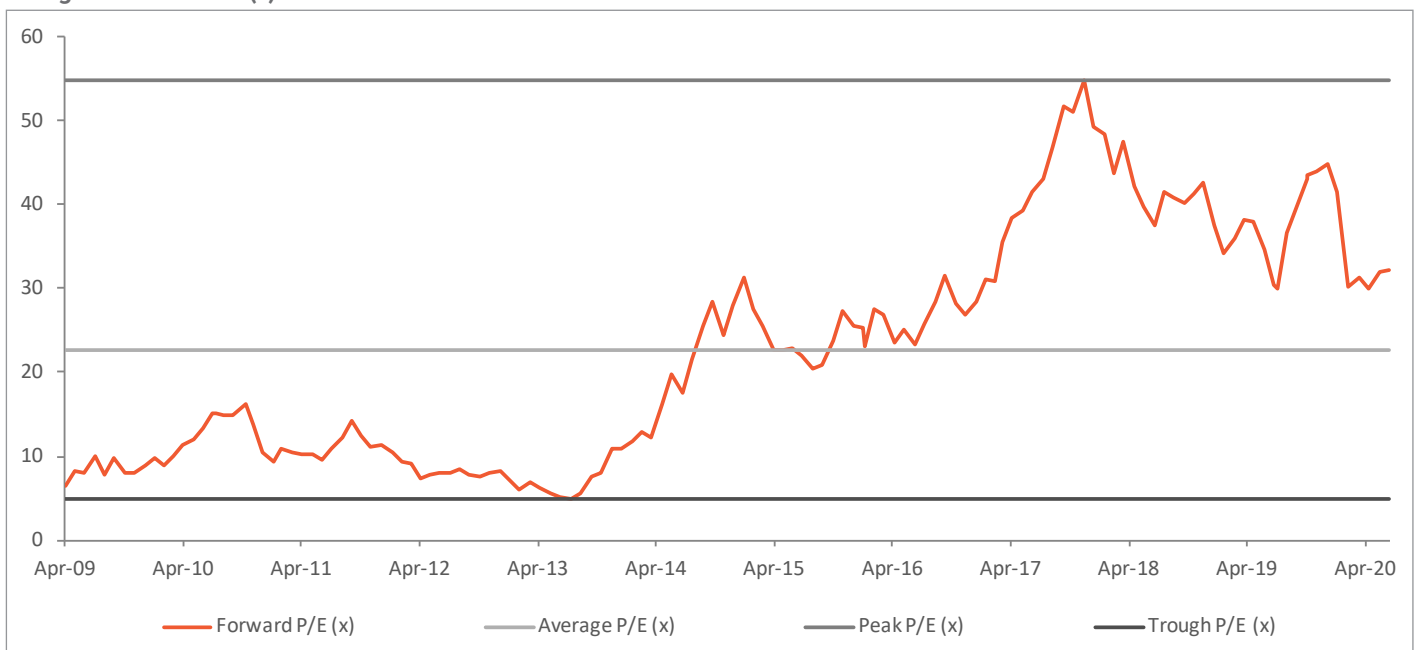
Outlook

Earnings to grow at robust 17% CAGR: TVSM is witnessing faster recovery in both the domestic and export markets. As per the management, recovery is better than expectations and the company is ramping up production. TVSM expects to reach pre-COVID sales in both domestic and export markets by September 2020. Moreover, the 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.

Valuation

Broadly retain estimates; maintain Buy with unchanged PT of Rs 470: We have broadly retained our earnings estimates for both FY21 and FY22. At CMP, the stock is trading at 20.1x its FY22 earnings which is lower than its long-term historical average of 23x. Hence, we retain Buy rating on the stock with unchanged PT of Rs 470.

One-year forward P/E (x) band



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 17% earnings CAGR over FY20-22 period and outpace the industry. Valuations are below long-term historical averages. Hence, we retain Buy rating on the stock.

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 Ltd	0.8%

Source: Bloomberg

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