

Positives priced in; Maintain Sell

- TVS Motor (TVSL)'s Q2FY21 numbers were broadly in line with estimates. EBITDA grew 13% YoY to Rs 4.3bn with expanded margin at 9.3% due to cost control initiatives and benefit of operating leverage.
- The company has seen marginal growth in retail sales during the Navratri period and is cautiously optimistic about Diwali sales with increasing preference for personal mobility and improvement in rural sentiment. Urban demand is also catching up well with lockdown restrictions easing out.
- With stabilization of crude prices and re-opening of economies, export volume is also showing promising recovery and expects strong sales 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. In addition, scooter demand is expected to pick up with recovery in urban sales.
- We continue to remain cautious on TVSL given: 1) its relatively weaker margin structure, 2) contracting market share in the motorcycle segment, 3) higher marketing spend with new model launches and competition and 4) rich valuation. In addition, softening in 2W sales due to moderation in pent up demand leads to inventory built up in system which may impact both, dispatches and margin.
- We forecast 53% earning CAGR over FY21-23E led by 15% volume growth and 140bps margin expansion. At CMP, the stock is trading at 28/22x on FY22/23E earnings, which appears expensive compared to its peers. We maintain our Sell rating with target price Rs 417 (based on 20x of FY23E EPS + value of TVS Credit Services at Rs 26/share).

Strong recovery in domestic 2W volume

2W demand has shown impressive recovery in Q2 led by recovery in rural demand and increased preference for personal mobility. TVSL is confident of outperforming industry growth in both, the domestic and the export market. (Contd.)

Q2FY21 Result (Rs Mn)

Particulars	Q2FY21	Q2FY20	YoY (%)	Q1FY21	QoQ (%)
Revenue	46,055	43,478	5.9	14,317	221.7
Total Expense	41,754	39,659	5.3	14,806	182.0
EBITDA	4,301	3,819	12.6	(488)	(981.0)
Depreciation	1,331	1,241	7.3	911	46.1
EBIT	2,970	2,578	15.2	(1,399)	(312.3)
Other Income	111	49	126.3	26	328.2
Interest	407	285	42.9	523	(22.1)
EBT	2,674	3,103	(13.8)	(1,896)	(241.0)
Tax	712	553	28.6	(505)	(240.8)
RPAT	1,963	2,549	(23.0)	(1,391)	(241.1)
APAT	1,963	1,789	9.7	(1,391)	(241.1)
			(bps)		(bps)
Gross Margin (%)	23.5	26.6	(317)	24.1	(65)
EBITDA Margin (%)	9.3	8.8	56	(3.4)	1275
NPM (%)	4.3	5.9	(160)	(9.7)	1397
Tax Rate (%)	26.6	17.8	878	26.7	(4)
EBIT Margin (%)	6.4	5.9	52	(9.8)	1622

CMP	Rs 422
Target / Downside	Rs 417 / 1%
NIFTY	11,671

Scrip Details

Equity / FV	Rs 475mn / Rs 1
Market Cap	Rs 201bn
	USD 3bn
52-week High/Low	Rs 504/ 240
Avg. Volume (no)	30,01,980
Bloom Code	TVSL IN

Price Performance	1M	3M	12M
Absolute (%)	(10)	5	(12)
Rel to NIFTY (%)	(15)	0	(12)

Shareholding Pattern

	Mar'20	Jun'20	Sep'20
Promoters	57.4	57.4	57.4
MF/Banks/FIs	21.8	22.6	22.4
FIIIs	11.7	10.8	10.9
Public / Others	9.1	9.2	9.2

Valuation (x)

	FY21E	FY22E	FY23E
P/E	49.6	28.2	21.6
EV/EBITDA	18.8	13.9	11.3
ROE (%)	10.7	17.1	19.6
RoACE (%)	11.9	17.8	20.6

Estimates (Rs mn)

	FY21E	FY22E	FY23E
Revenue	1,49,085	1,81,816	2,09,346
EBITDA	11,530	15,617	19,027
PAT	4,042	7,109	9,272
EPS (Rs.)	8.5	15.0	19.5

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TVS has lost market share in the Motorcycle segment due to competition in entry level by incumbents. However, the company continues to strengthen its market share in the Scooter segment with strong brands like Jupiter and Ntorq. Demand for Apache and Ntorq from the Premium segment are encouraging. However, the company has not been able to cater to the demand due to supply chain constraints.

Outlook for export is improving

Export volume for 2W/3W showed an impressive recovery in 2Q due to preference of personal mobility, stabilization of crude prices, currency availability and favorable exchange rate. TVSL exports declined by 29% YoY vs industry decline by 41% YoY for H1FY21.

Exhibit 1: Actual vs DART Estimates

Particulars (Rs mn)	Actual	DART Estimates	VAR (%)	Comments
Revenue	46,055	46,859	(2)	NA
EBIDTA	4,301	4,217	2	NA
EBIDTA Margin (%)	9.3	9.0	34bps	
APAT	1,963	1,959	0	NA

Source: DART, Company

Exhibit 2: Change in Estimates

Rs Mn	FY22E			FY23E		
	New	Previous	Chg (%)	New	Previous	Chg (%)
Volume (units)	33,13,771	33,43,436	(0.9)	36,30,468	36,41,736	(0.3)
Revenue	1,81,816	1,84,312	(1.4)	2,09,346	2,10,465	(0.5)
EBITDA	15,617	15,515	0.7	19,027	18,527	2.7
EBITDA Margin (%)	8.6	8.4	17bps	9.1	8.8	29bps
PAT	7,109	7,040	1.0	9,272	8,890	4.3
EPS (Rs)	15.0	14.8	1.0	20	19	4.3

Source: DART, Company

Exhibit 3: Peer Valuation

Company	Mcap	Rating	TP	Adj EPS (Rs/sh)			P/E (X)			EV/EBITDA (X)			ROE (%)		
	(Rs Bn)			FY21E	FY22E	FY23E	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E
Eicher Motors	595	Sell	2,095	44.9	77.8	95.2	48.6	28.0	22.9	31.9	20.0	15.8	11.5	16.9	19.3
Bajaj Auto	892	Accumulate	3,358	151.7	180.5	198.3	20.3	17.1	15.5	15.1	11.7	10.0	19.1	19.3	19.1
Hero MotoCorp	588	Accumulate	3,288	135.3	175.8	193.4	21.8	16.8	15.2	15.2	11.1	9.7	15.5	18.8	19.3
TVS Motors	200	Sell	417	8.5	15.0	19.5	49.5	28.1	21.6	18.7	13.8	11.3	10.7	17.1	19.6

Source: DART, Company

Conference Call Highlights

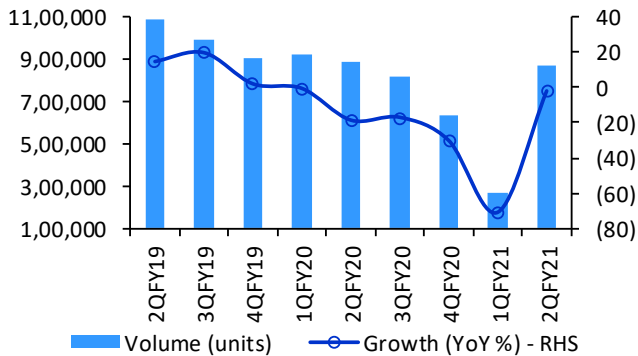
- TVSL has witnessed marginal growth in the premium segment. The company is cautiously optimistic about Diwali sales with improving demand scenario, resumption of supply chain and availability of financing options. Urban market demand is back to pre-Covid levels for retail sales with re-opening of the economy. TVSL is confident of growing ahead of industry in the domestic and export markets.
- TVSL is working on resolving supply chain issues for the scooter segment which has impacted production and ramping up of capacity.
- Rural sentiment is positive with good traction for Ntorq, Jupiter and Apache.

- 3W demand is improving sequentially every month.
- 2W export revenue for Q2FY21 was Rs 11.23bn (+7.8% YoY). Good growth prospects in the global markets due to preference of personal mobility, stabilization of crude prices, currency availability and favorable exchange rate.
- TVSL exports declined by 29% YoY vs industry decline by 41% YoY for H1FY21.
- TVSL has reversed MEIS subsidy from 1st September. Export incentive is a small proportion and a new government policy likely from January'21.
- Forex realization was Rs 74/USD for Q2FY21 (vs Rs 72/USD for Q1FY21).
- Inventory with dealers is at 28-32 days with marginal increase during the festival season.
- Strong focus on cost management initiatives helped the company to improve EBITDA margin. Significant marketing expenses are directed towards digital platform which is expected to continue.
- Despite COVID-19 challenges, TVSM strengthened its supply chain during Q2 with improving production across segments.
- Net cash flow improved by Rs 10bn for H1FY21.
- The management has revised its capex guidance to Rs 5bn for FY21 (from Rs 3bn earlier); of which TVS CS capex is likely to be Rs 500mn.
- TVS Credit Services' retail finance penetration for TVS was 46% in Q2FY21 with share of TVSL at 50% with book size of Rs 99.2bn and net worth of Rs 13.99bn as on Sept'20 end. PBT for Q2FY21 is Rs 143mn with a provision of Rs 250mn. The overall share is marginally lower which is expected to improve going forward.
- Indonesia division broke even in this quarter with PBT of Rs 0.4mn with good growth prospects going forward. In Q2, company sold 14,698 two wheelers (+6% YoY) and 1,253 three wheelers in Indonesia.
- TVS Motors has taken price hikes of 1.5% in Q2 and 1% in the first week of October (vs 0.7% in Q1).

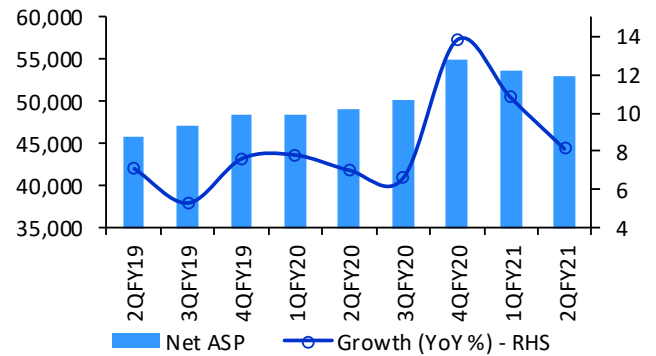
Exhibit 4: Assumption table

(in units)	FY19	FY20	FY21E	FY22E	FY23E
Domestic volume					
2W	31,36,532	24,10,693	19,93,899	23,95,096	25,82,820
% YoY	9	(23)	(17)	20	8
3W	16,715	11,934	9,547	11,934	13,724
% YoY	2	(29)	(20)	25	15
Total Sales	31,53,247	24,22,627	20,03,446	24,07,030	25,96,544
% YoY	9	(23)	(17)	20	8
Export Volume					
2W	6,22,019	6,78,841	6,32,445	7,45,412	8,40,329
% YoY	26	9	(7)	18	13
3W	1,39,719	1,61,977	1,34,441	1,61,329	1,93,595
% YoY	70	16	(17)	20	20
Exports Sales	7,61,738	8,40,818	7,66,886	9,06,741	10,33,924
% YoY	33	10	(9)	18	14
Sub total	39,14,985	32,63,445	27,70,331	33,13,771	36,30,468
% YoY	13	(17)	(15)	20	10

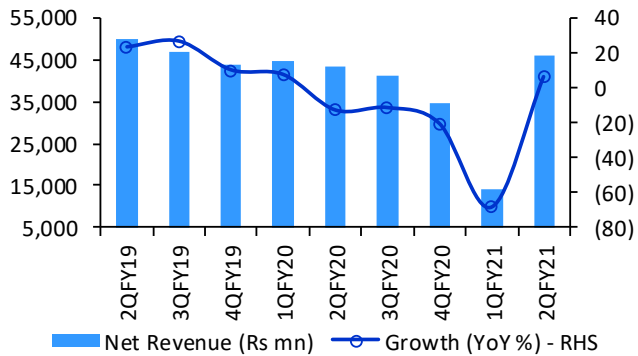
Source: Company, DART

Exhibit 5: Volume de-grew by 2% YoY


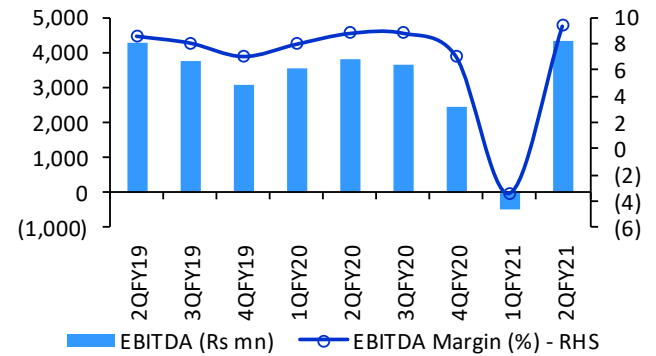
Source: DART, Company

Exhibit 6: Net ASP grew YoY due to price hikes


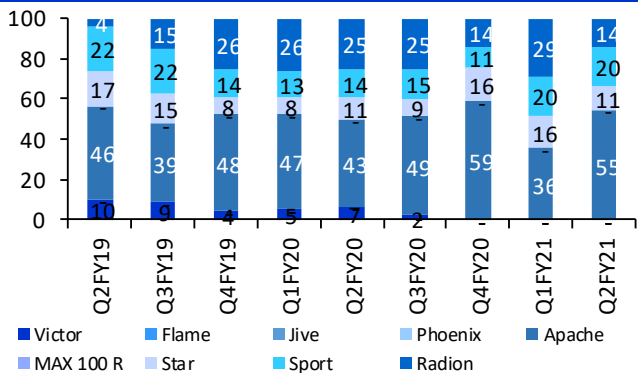
Source: DART, Company

Exhibit 7: Revenue grew YoY/QoQ


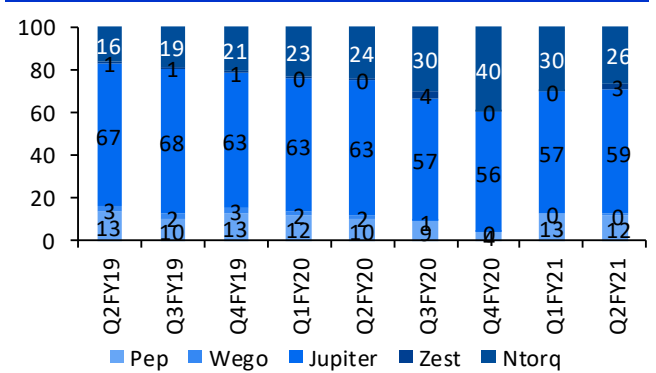
Source: DART, Company

Exhibit 8: EBITDA grew YoY/QoQ


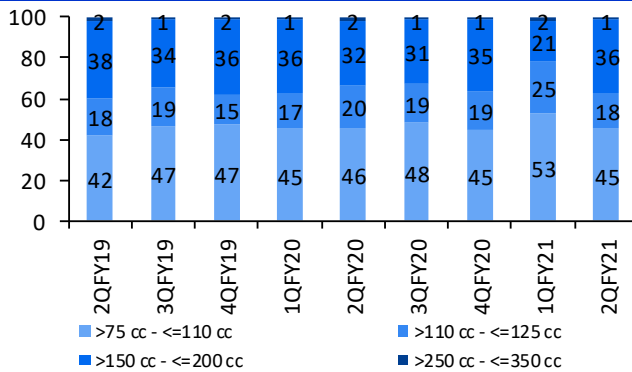
Source: DART, Company

Exhibit 9: Radeon gaining momentum (%)


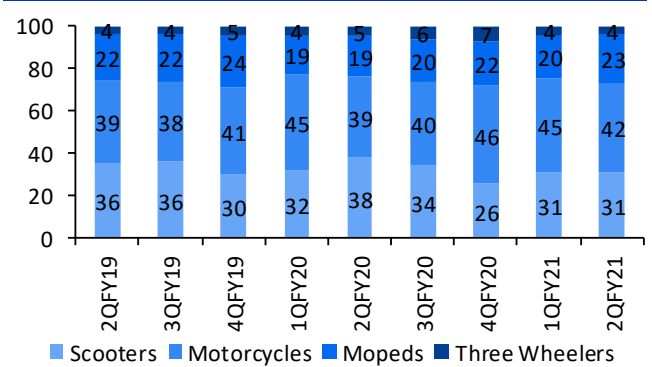
Source: DART, Company

Exhibit 10: Jupiter leading the segment (%)


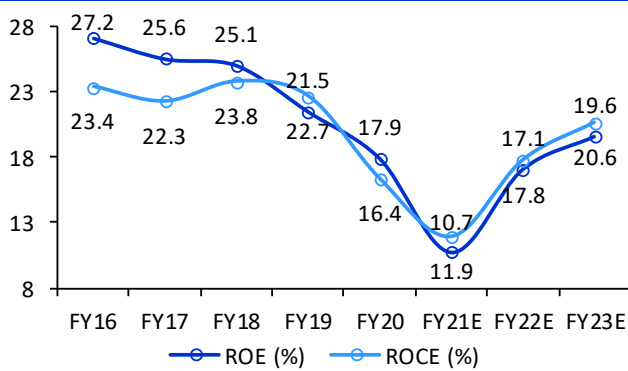
Source: DART, Company

Exhibit 11: Motorcycle -Economy segment doing well


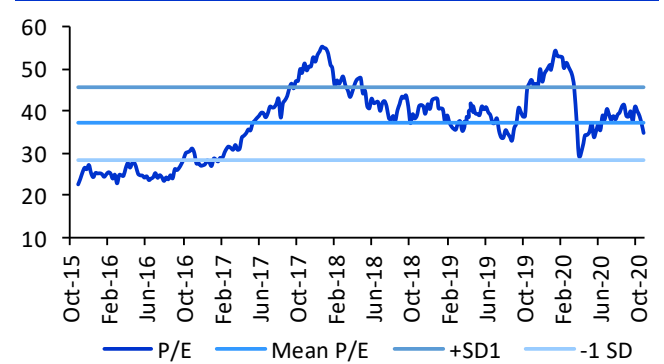
Source: DART, Company

Exhibit 12: Scooters share down YoY


Source: DART, Company

Exhibit 13: RoE/ RoCE Trend


Source: DART, Company

Exhibit 14: 1 Year Forward P/E Band


Source: DART, Company

Profit and Loss Account

(Rs Mn)	FY20A	FY21E	FY22E	FY23E
Revenue	1,64,233	1,49,085	1,81,816	2,09,346
Total Expense	1,50,775	1,37,555	1,66,198	1,90,319
COGS	1,21,359	1,12,112	1,35,998	1,55,963
Employees Cost	9,384	8,405	10,565	12,733
Other expenses	20,031	17,038	19,635	21,623
EBIDTA	13,459	11,530	15,617	19,027
Depreciation	4,890	4,898	5,250	5,500
EBIT	8,568	6,632	10,367	13,527
Interest	1,022	1,492	1,184	1,263
Other Income	321	300	385	385
Exc. / E.O. items	(323)	0	0	0
EBT	7,544	5,440	9,568	12,649
Tax	1,622	1,398	2,459	3,377
RPAT	5,922	4,042	7,109	9,272
Minority Interest	0	0	0	0
Profit/Loss share of associates	0	0	0	0
APAT	6,246	4,042	7,109	9,272

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	38,587	43,569	49,956
Net Worth	36,181	39,062	44,044	50,431
Total Debt	20,843	15,864	17,367	18,122
Net Deferred Tax Liability	1,581	1,935	2,031	2,157
Total Capital Employed	58,605	56,861	63,441	70,710

Applications of Funds

Net Block	28,999	29,844	30,094	30,094
CWIP	2,854	1,365	1,470	1,200
Investments	28,555	30,205	35,205	40,205
Current Assets, Loans & Advances	33,202	25,583	34,304	43,093
Inventories	10,389	8,986	10,959	12,618
Receivables	12,814	9,803	11,955	13,765
Cash and Bank Balances	4,191	262	1,606	3,350
Loans and Advances	113	822	1,003	1,155
Other Current Assets	5,695	5,710	8,782	12,205
Less: Current Liabilities & Provisions	35,007	30,137	37,632	43,883
Payables	28,864	25,732	31,382	36,134
Other Current Liabilities	6,143	4,404	6,250	7,749
<i>sub total</i>				
Net Current Assets	(1,805)	(4,553)	(3,328)	(789)
Total Assets	58,605	56,861	63,441	70,710

E – Estimates

Important Ratios

Particulars	FY20A	FY21E	FY22E	FY23E
(A) Margins (%)				
Gross Profit Margin	26.1	24.8	25.2	25.5
EBIDTA Margin	8.2	7.7	8.6	9.1
EBIT Margin	5.2	4.4	5.7	6.5
Tax rate	21.5	25.7	25.7	26.7
Net Profit Margin	3.6	2.7	3.9	4.4
(B) As Percentage of Net Sales (%)				
COGS	73.9	75.2	74.8	74.5
Employee	5.7	5.6	5.8	6.1
Other	12.2	11.4	10.8	10.3
(C) Measure of Financial Status				
Gross Debt / Equity	0.6	0.4	0.4	0.4
Interest Coverage	8.4	4.4	8.8	10.7
Inventory days	23	22	22	22
Debtors days	28	24	24	24
Average Cost of Debt	5.9	8.1	7.1	7.1
Payable days	64	63	63	63
Working Capital days	(4)	(11)	(7)	(1)
FA T/O	5.7	5.0	6.0	7.0
(D) Measures of Investment				
AEPS (Rs)	13.1	8.5	15.0	19.5
CEPS (Rs)	23.4	18.8	26.0	31.1
DPS (Rs)	3.5	2.0	3.7	5.1
Dividend Payout (%)	26.6	24.0	25.0	26.0
BVPS (Rs)	76.2	82.2	92.7	106.2
RoANW (%)	17.0	10.7	17.1	19.6
RoACE (%)	16.4	11.9	17.8	20.6
RoAIC (%)	16.6	11.9	17.5	20.9
(E) Valuation Ratios				
CMP (Rs)	422	422	422	422
P/E	32.1	49.6	28.2	21.6
Mcap (Rs Mn)	2,00,653	2,00,653	2,00,653	2,00,653
MCap/ Sales	1.2	1.3	1.1	1.0
EV	2,17,305	2,16,255	2,16,414	2,15,424
EV/Sales	1.3	1.5	1.2	1.0
EV/EBITDA	16.1	18.8	13.9	11.3
P/BV	5.5	5.1	4.6	4.0
Dividend Yield (%)	0.8	0.5	0.9	1.2
(F) Growth Rate (%)				
Revenue	(9.8)	(9.2)	22.0	15.1
EBITDA	(6.1)	(14.3)	35.4	21.8
EBIT	(17.1)	(22.6)	56.3	30.5
PBT	(21.5)	(27.9)	75.9	32.2
APAT	(6.8)	(35.3)	75.9	30.4
EPS	(6.8)	(35.3)	75.9	30.4

Cash Flow

(Rs Mn)	FY20A	FY21E	FY22E	FY23E
CFO	13,936	10,130	12,789	14,603
CFI	(12,888)	(5,903)	(10,605)	(10,230)
CFF	2,705	(8,161)	(841)	(2,634)
FCFF	6,835	5,876	7,184	9,373
Opening Cash	438	4,191	257	1,600
Closing Cash	4,191	257	1,600	3,339

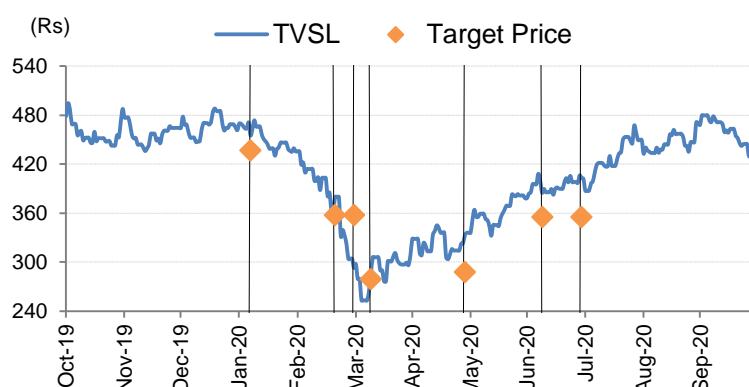
E – Estimates

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.)
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
Jul-20	Sell	355	385
Jul-20	Sell	355	403

*Price as on recommendation date

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