

SELL

TP: Rs 315 | ▼ 22%

TVS MOTOR

| Automobiles

| 29 July 2020

Rich valuations; maintain SELL

TVS Motor's (TVSL) Q1FY21 revenue beat estimates at Rs 14.3bn. The company suffered a net loss of Rs 1.4bn as against a Rs 1bn loss forecast. Strong rural growth is expected to boost moped and motorcycle sales. Our channel checks suggest 3W sales have been badly hit and recovery may take longer than expected. We bake in a volume CAGR of 2% during FY20-FY23, leading to a revenue, EBITDA and PAT CAGR of 5%, 6% and 5% respectively. Maintain SELL with an unchanged Sep'21 TP of Rs 315, based on 24x P/E.

Mayur Milak | Nishant Chowhan, CFA

research@bobcaps.in

Q1 results highlights: At Rs 14.3bn, revenue was down 68% YoY. TVSL sold ~255k 2Ws, a decline of 70% YoY. 3Ws performed similarly, dropping 71% YoY. Average realisations increased 11% YoY led by BSVI upgrades. The company reported a negative 3.4% EBITDA margin (vs. -1% expected). Net loss was at Rs 1.4bn.

Ticker/Price	TVSL IN/Rs 403
Market cap	US\$ 2.6bn
Shares o/s	475mn
3M ADV	US\$ 14.9mn
52wk high/low	Rs 504/Rs 240
Promoter/FPI/DII	57%/11%/22%

Source: NSE

Motorcycles gaining due to rural growth; scooter and 3W sales struggling:

Strong rural growth is expected to boost moped and motorcycle sales. Our channel checks suggest that besides CVs, sales in the 3W segment have been the most affected by the Covid-19 crisis and recovery may take longer than expected. Scooters, being more of an urban product, also continue to witness slowdown. We expect a volume CAGR of 2% in TVSL's 2W segment and flattish growth in 3W sales during FY20-FY23.

STOCK PERFORMANCE



Source: NSE

Valuations expensive: We expect ROCE to reduce from 13% to 12% and ROE to dip from 17% to ~15% over FY20-FY23. At CMP, the stock is trading at 28x FY23E EPS (32x FY22E) which looks rich. Our TP remains unchanged at Rs 315 and is based on 24x Sep'22E EPS; maintain SELL.

KEY FINANCIALS

Y/E 31 Mar	FY19A	FY20A	FY21E	FY22E	FY23E
Total revenue (Rs mn)	182,099	164,233	134,521	172,955	190,052
EBITDA (Rs mn)	14,333	13,459	9,715	14,602	16,136
Adj. net profit (Rs mn)	6,701	6,246	2,510	5,932	6,836
Adj. EPS (Rs)	14.1	12.5	5.3	12.5	14.4
Adj. EPS growth (%)	3.9	(11.8)	(57.6)	136.4	15.2
Adj. ROAE (%)	20.0	17.1	6.6	14.0	14.5
Adj. P/E (x)	28.5	32.3	76.3	32.3	28.0
EV/EBITDA (x)	13.4	14.3	19.4	13.0	12.0

Source: Company, BOBCAPS Research

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Important disclosures, including any required research certifications, are provided at the end of this report.



FIG 1 – QUARTERLY PERFORMANCE

Y/E Mar (Rs mn)	Q1FY21	Q1FY20	YoY (%)	Q4FY20	QoQ (%)
Net Revenues	14,317	44,686	(68.0)	34,814	(58.9)
Raw Materials	10,864	33,577	(67.6)	26,098	(58.4)
% of Net Sales	75.9	75.1	-	75.0	-
Personnel	1,969	2,489	(20.9)	2,227	(11.6)
% of Net Sales	13.8	5.6	-	6.4	-
Manufacturing & Other Exp	1,972	5,063	(61.0)	4,042	(51.2)
% of Net Sales	13.8	11.3	-	11.6	-
Total Expenditure	14,805	41,128	(64.0)	32,366	(54.3)
EBITDA	(488)	3,558	NA	2,448	NA
EBITDA Margin (%)	(3.4)	8.0	-	7.0	-
Depreciation	911	1,194	(23.7)	1,243	(26.7)
EBIT	(1,399)	2,364	NA	1,205	NA
Interest Expenses	523	291	79.7	235	122.9
Non-operating income	26	12	116.7	251	(89.6)
PBT	(1,896)	2,085	NA	896	NA
Tax-Total	(505)	662	NA	160	NA
Tax Rate (%) - Total	26.6	31.8	-	17.8	NA
Reported PAT	(1,391)	1,423	NA	736	NA
Adj. PAT	(1,391)	1,423	NA	1,062	NA
PAT Margin	(9.7)	3.2	NA	3.0	NA

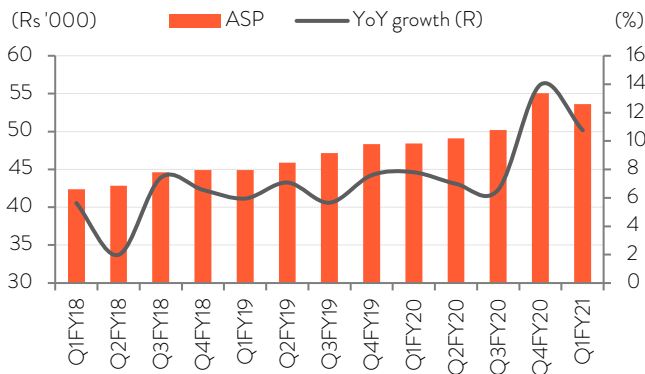
Source: Company, BOBCAPS Research

FIG 2 – PER UNIT PARAMETERS

(Rs)	Q1FY21	Q1FY20	YoY (%)	Q4FY20	QoQ (%)
Sales Volume (nos)	266,933	928,274	(71.2)	632,920	(57.8)
Net Realisation/Vehicle	53,635	48,139	11.4	55,006	(2.5)
Material cost/Vehicle	40,699	36,172	12.5	41,234	(1.3)
Gross Profit/Vehicle	12,936	11,967	8.1	13,772	(6.1)
Employee cost/Vehicle	7,376	2,681	175.2	3,518	109.7
Other expenses/Vehicle	7,388	5,454	35.5	6,386	15.7
EBITDA/Vehicle	(1,828)	3,833	NA	3,868	NA
Net Profit/Vehicle	(5,211)	1,533	NA	1,678	NA

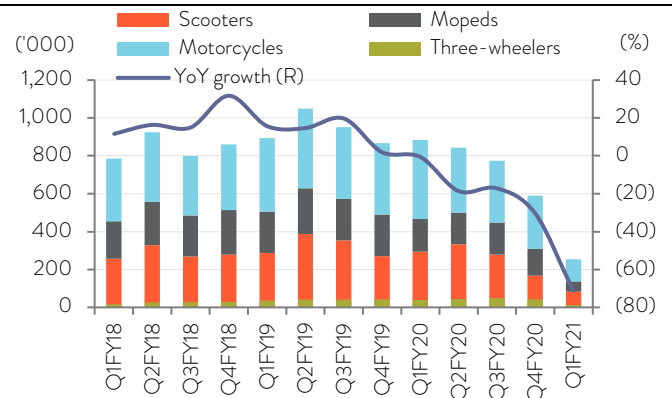
Source: Company, BOBCAPS Research

FIG 3 – AVERAGE SELLING PRICE (ASP)



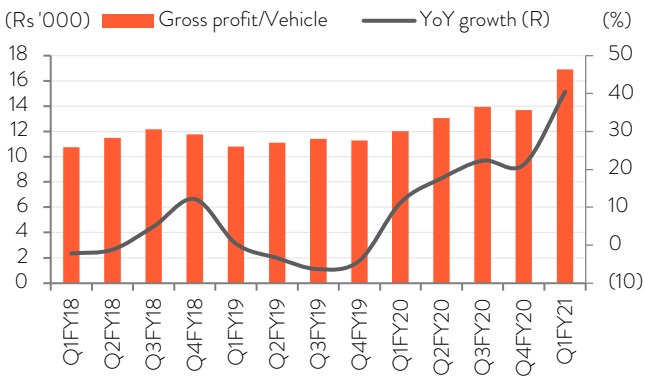
Source: Company, BOBCAPS Research

FIG 4 – VOLUME GROWTH TREND



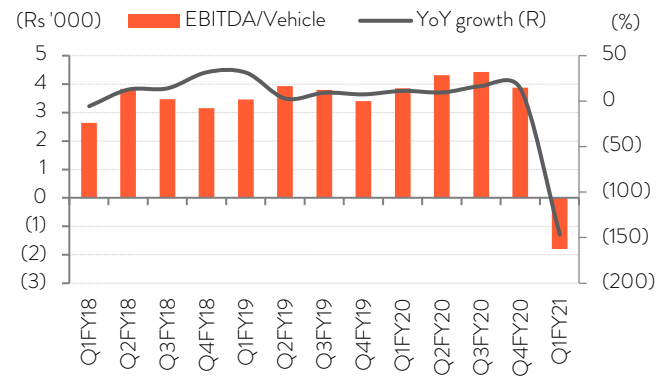
Source: SIAM, ET Autolytics, BOBCAPS Research

FIG 5 – GROSS PROFIT/VEHICLE



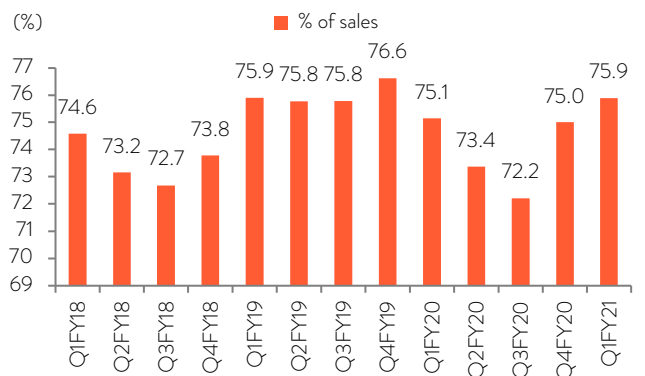
Source: Company, BOBCAPS Research

FIG 6 – EBITDA/VEHICLE



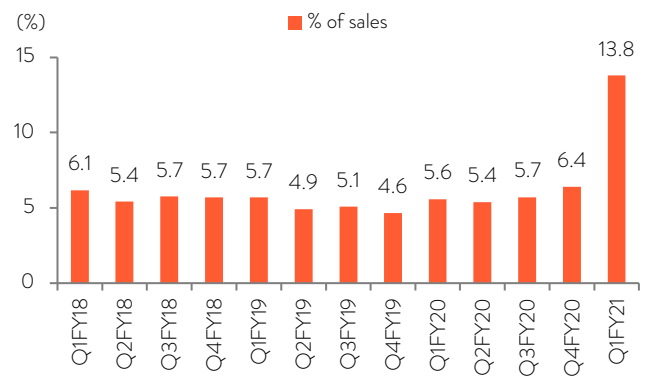
Source: Company, BOBCAPS Research

FIG 7 – RM COST/SALES TREND

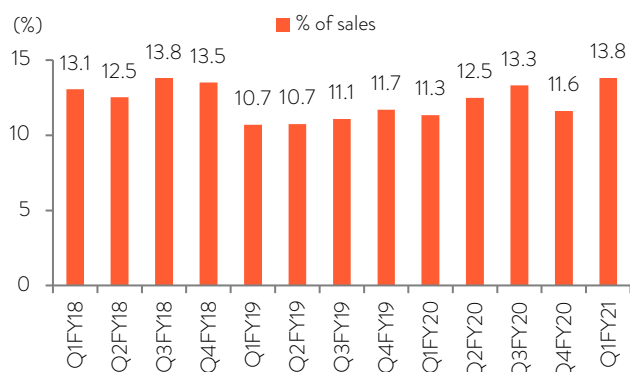


Source: Company, BOBCAPS Research

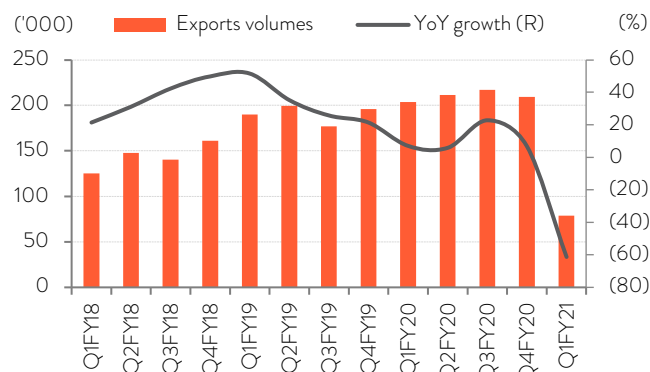
FIG 8 – EMPLOYEE COST/SALES TREND



Source: Company, BOBCAPS Research

FIG 9 – OTHER EXPENSES/SALES TREND

Source: Company, BOBCAPS Research

FIG 10 – QUARTERLY EXPORT SALES TREND

Source: Company, BOBCAPS Research

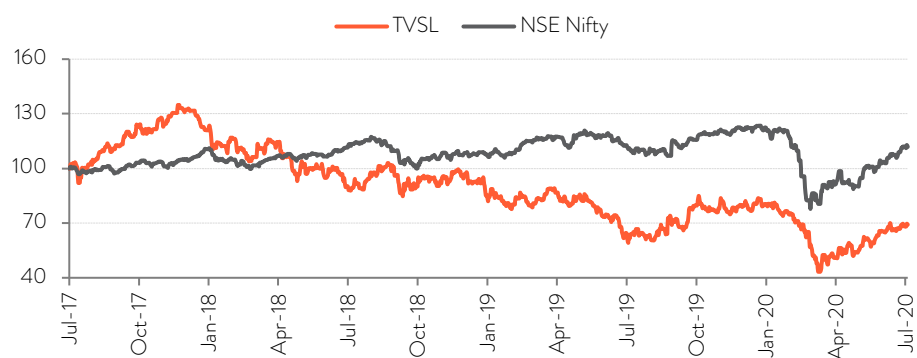
Earnings call highlights

- As per management, TVSL is witnessing a positive uptick in both domestic and export markets. Domestic demand has reached pre-Covid levels in areas where retail shops are fully operational.
- Demand from rural areas is expected to outperform urban areas given normal monsoons, adequate reservoir levels and favourable government policies.
- In Q1, retail sales were ahead of wholesale volumes and the product mix was similar to that seen pre-Covid.
- Total inventory in the system is significantly lower than average at 30-35 days.
- TVSL took price hikes of ~0.7% in Q1 and a further 0.4% hike in July.
- On the commodity side, the company does not expect a major spike in prices though a few precious metals have been on the rise.
- In FY21, TVSL plans to incur capex of Rs 3bn and to invest Rs ~750mn in TVS Credit.
- Per management, export demand is picking up uniformly across various markets. Lean stock inventory can provide scope to raise wholesale volumes in these markets in coming months. Export revenues in Q1 stood at Rs 4.6bn.
- Spare sales for the quarter totalled Rs 1.8bn.
- Book size of TVS Credit stands at Rs 91bn and the moratorium rate was 14%.

Valuation methodology

We expect a volume CAGR of 2% in TVSL's 2W segment and flattish growth in 3W sales during FY20-FY23. Revenue, EBITDA and PAT are projected to grow at 5%, 6% and 5% respectively. We expect ROCE to dip from 13% to 12% and ROE to decline from 17% to ~15% over FY20-FY23. At CMP, the stock is trading at 28x FY23E EPS (32x FY22E) which looks rich, in our view. Maintain SELL with an unchanged Sep'21 target price of Rs 315, set at 24x forward EPS.

FIG 11 – RELATIVE STOCK PERFORMANCE



Source: NSE

Key risks

- Above-expected volume growth
- Faster-than-expected recovery in the 3W and scooter segments

FINANCIALS

Income Statement

Y/E 31 Mar (Rs mn)	FY19A	FY20A	FY21E	FY22E	FY23E
Total revenue	182,099	164,233	134,521	172,955	190,052
EBITDA	14,333	13,459	9,715	14,602	16,136
Depreciation	3,993	4,890	5,476	5,916	6,400
EBIT	10,415	8,889	4,501	9,022	10,121
Net interest income/(expenses)	(806)	(1,022)	(1,146)	(1,091)	(981)
Other income/(expenses)	75	321	263	337	385
Exceptional items	13	(323)	0	0	0
EBT	9,623	7,544	3,355	7,931	9,139
Income taxes	2,908	1,622	845	1,999	2,303
Extraordinary items	0	0	0	0	0
Min. int./Inc. from associates	0	0	0	0	0
Reported net profit	6,715	5,922	2,510	5,932	6,836
Adjustments	(13)	323	0	0	0
Adjusted net profit	6,701	6,246	2,510	5,932	6,836

Balance Sheet

Y/E 31 Mar (Rs mn)	FY19A	FY20A	FY21E	FY22E	FY23E
Accounts payables	29,471	28,864	28,143	28,632	32,662
Other current liabilities	3,440	4,381	(1,716)	2,978	(236)
Provisions	597	929	929	929	929
Debt funds	14,000	20,843	20,843	18,843	16,843
Other liabilities	586	834	834	834	834
Equity capital	475	475	475	475	475
Reserves & surplus	32,999	35,944	37,826	41,979	46,764
Shareholders' fund	33,474	36,419	38,301	42,454	47,239
Total liabilities and equities	81,568	92,269	87,333	94,669	98,270
Cash and cash eq.	439	4,430	1,351	1,444	2,285
Accounts receivables	14,141	12,814	12,899	14,215	14,059
Inventories	11,759	10,389	9,951	11,846	11,455
Other current assets	5,210	7,396	6,634	7,582	7,290
Investments	23,007	26,059	26,559	29,559	34,559
Net fixed assets	25,793	30,588	29,111	29,195	27,795
CWIP	2,572	1,266	1,500	1,500	1,500
Intangible assets	0	0	0	0	0
Deferred tax assets, net	(2,126)	(1,581)	(1,581)	(1,581)	(1,581)
Other assets	773	908	908	908	908
Total assets	81,567	92,269	87,333	94,669	98,270

Source: Company, BOBCAPS Research

Cash Flows

Y/E 31 Mar (Rs mn)	FY19A	FY20A	FY21E	FY22E	FY23E
Net income + Depreciation	10,694	11,136	7,986	11,849	13,237
Interest expenses	(806)	(1,022)	(1,146)	(1,091)	(981)
Non-cash adjustments	(75)	(321)	(263)	(337)	(385)
Changes in working capital	(1,104)	1,288	(5,703)	1,024	1,655
Other operating cash flows	42	(1,215)	0	0	0
Cash flow from operations	8,752	9,867	873	11,445	13,526
Capital expenditures	(7,328)	(8,378)	(4,234)	(6,000)	(5,000)
Change in investments	(2,653)	(3,052)	(500)	(3,000)	(5,000)
Other investing cash flows	75	321	263	337	385
Cash flow from investing	(9,906)	(11,109)	(4,471)	(8,663)	(9,615)
Equities issued/Others	0	0	0	0	0
Debt raised/repaid	2,108	6,843	0	(2,000)	(2,000)
Interest expenses	(806)	(1,022)	(1,146)	(1,091)	(981)
Dividends paid	(2,000)	(1,762)	(627)	(1,780)	(2,051)
Other financing cash flows	645	(546)	0	0	0
Cash flow from financing	(53)	3,513	(1,774)	(4,871)	(5,032)
Changes in cash and cash eq.	(1,207)	2,271	(5,372)	(2,090)	(1,122)
Closing cash and cash eq.	439	4,430	1,351	1,444	2,285

Per Share

Y/E 31 Mar (Rs)	FY19A	FY20A	FY21E	FY22E	FY23E
Reported EPS	14.1	12.5	5.3	12.5	14.4
Adjusted EPS	14.1	12.5	5.3	12.5	14.4
Dividend per share	3.5	3.1	1.3	3.7	4.3
Book value per share	70.5	76.7	80.6	89.4	99.4

Valuations Ratios

Y/E 31 Mar (x)	FY19A	FY20A	FY21E	FY22E	FY23E
EV/Sales	1.1	1.2	1.4	1.1	1.0
EV/EBITDA	13.4	14.3	19.4	13.0	12.0
Adjusted P/E	28.5	32.3	76.3	32.3	28.0
P/BV	5.7	5.3	5.0	4.5	4.1

DuPont Analysis

Y/E 31 Mar (%)	FY19A	FY20A	FY21E	FY22E	FY23E
Tax burden (Net profit/PBT)	69.8	78.5	74.8	74.8	74.8
Interest burden (PBT/EBIT)	92.4	84.9	74.5	87.9	90.3
EBIT margin (EBIT/Revenue)	5.7	5.4	3.3	5.2	5.3
Asset turnover (Revenue/Avg TA)	407.9	309.4	227.9	283.3	299.2
Leverage (Avg TA/Avg Equity)	1.4	1.5	1.6	1.5	1.4
Adjusted ROAE	21.6	16.9	6.7	14.7	15.2

Source: Company, BOBCAPS Research | Note: TA = Total Assets

Ratio Analysis

Y/E 31 Mar	FY19A	FY20A	FY21E	FY22E	FY23E
YoY growth (%)					
Revenue	20.0	(9.8)	(18.1)	28.6	9.9
EBITDA	22.0	(6.1)	(27.8)	50.3	10.5
Adjusted EPS	3.9	(11.8)	(57.6)	136.4	15.2
Profitability & Return ratios (%)					
EBITDA margin	7.9	8.2	7.2	8.4	8.5
EBIT margin	5.7	5.4	3.3	5.2	5.3
Adjusted profit margin	3.7	3.8	1.9	3.4	3.6
Adjusted ROAE	20.0	17.1	6.6	14.0	14.5
ROCE	16.3	13.1	5.7	11.1	11.9
Working capital days (days)					
Receivables	24	30	35	29	27
Inventory	21	25	28	23	22
Payables	72	88	105	81	80
Ratios (x)					
Gross asset turnover	0.3	0.4	0.5	0.4	0.4
Current ratio	0.9	1.0	1.1	1.1	1.1
Net interest coverage ratio	(12.9)	(8.7)	(3.9)	(8.3)	(10.3)
Adjusted debt/equity	0.4	0.6	0.5	0.4	0.4

Source: Company, BOBCAPS Research

Disclaimer

Recommendations and Absolute returns (%) over 12 months

BUY – Expected return >+15%

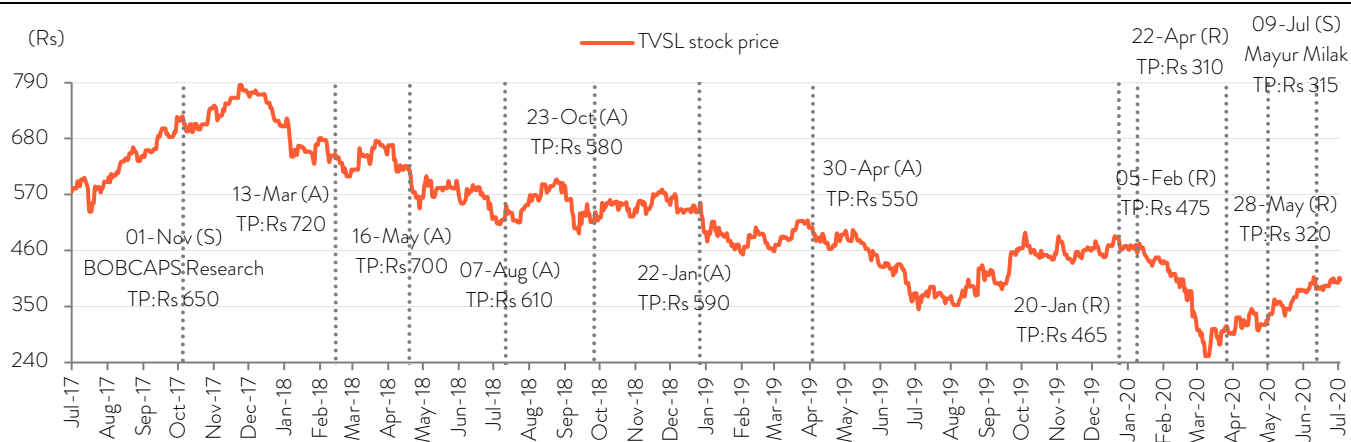
ADD – Expected return from >+5% to +15%

REDUCE – Expected return from -5% to +5%

SELL – Expected return <-5%

Note: Recommendation structure changed with effect from 1 January 2018 (Hold rating discontinued and replaced by Add / Reduce)

RATINGS AND TARGET PRICE (3-YEAR HISTORY): TVS MOTOR (TVSL IN)



B – Buy, A – Add, R – Reduce, S – Sell

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