

# TVS Motor Company

29 May 2020

Reuters: TVSM.BO; Bloomberg: TVSL IN

## Tough road ahead, Valuation remains stretched

TVS Motor Company (TVS) reported flat EBITDA margin YoY at 7.0%, above our estimate of 6.0%. Net sales declined by 20.6% YoY to Rs34.81bn due to ~30% YoY volume decline and 13.8% YoY improvement in average selling price (ASP) on account of BS-VI price increase. Adjusted PAT was down 35.6% YoY at Rs862mn, higher than our expected PAT of Rs599mn mainly due to better operational performance and lower than expected tax rate. There was a Covid-19 related one-off expense of Rs323mn and Rs200mn interest on income tax refund shown as exceptional item. Stable margin was a result of better product mix and material related cost saving measures (~170bps YoY improvement in gross margin), which compensated negative operating leverage on lower volume. The company announced temporary salary reduction for 6 months to manage costs on account of Covid-19 and has undertaken a blended price hike of 1% across portfolio in Apr-May which will support margin. This is over and above the price increase on account of BS-VI, which ranges between 10-12%. The company has received encouraging response with over one lakh BS-VI vehicles retailed so far. TVS is carving out a strategy for Norton Motorcycle, which will be updated in the near future. Management updated that ~37% of TVS Credit customers have opted for moratorium. It however does not expect any deterioration in asset quality as collection in May remained encouraging and NPA as on 31st March 2020 remained stable at 4.4% on loan book of Rs92,150mn and book value of Rs13,720mn. Going forward, management expects 1QFY21 to be a washout quarter with spillover effect in 2QFY21. However, it is cautiously optimistic about recovery in demand in 2HFY21 on the back of positive rural sentiments led by normal monsoon, better Rabi crop and availability of retail financing. It plans lower capex in FY21 to conserve cash. Management believes that social distancing will lead to shift towards personal mobility which will benefit the 2W segment. It however expects premium 2W segment to benefit from it as 2W entry level customers are more vulnerable to economic hardships and will also face difficulties in availing finance. Overall, management expects TVS to outperform the domestic industry. TVS is confident of outperforming in the exports market as well, as it sees demand recovery in 2HFY21. Most of the export geographies are opening up from lockdown and showing early sign of recovery. Recovery in crude oil prices is expected to lead the recovery in these export markets. In FY20, Mopeds volume declined by ~28% vs. domestic 2W industry decline of ~18%. Moped sales decline is due to stress in the rural economy and competitive pricing by Bajaj Auto in CT100 models. TVS lost 70bps market share in domestic motorcycles due to limited offering in 125cc segment. In scooters, TVS lost 30bps market share in FY20. We expect -3.6% CAGR in total volume, 3.1% CAGR in revenue and -2.8% CAGR in PAT over FY20-22E. We expect margin to decline by 90bps to 7.3% in FY21 mainly due to negative operating leverage amid slowdown and recovery in margins in FY22. We continue to value the standalone business at 18x FY22 EPS and we add TVS Credit valued at 1x Book Value i.e. Rs24/ share to it. Our revised target price is Rs246. Stock is trading at 27x FY22 EPS, which is quite expensive given our estimate of earnings decline for the projected period. We downgrade the stock from Accumulate to Sell.

## SELL

**Sector:** Automobile

**CMP:** Rs332

**Target Price:** Rs246

**Downside:** 26%

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### Key Data

Current Shares O/S (mn)	475.1
Mkt Cap (Rsbn/US\$bn)	158.3/2.1
52 Wk H / L (Rs)	512/240
Daily Vol. (3M NSE Avg.)	3,521,626

### Price Performance (%)

	1 M	6 M	1 Yr
TVS Motor Company	12.4	(31.7)	(33.2)
Nifty Index	1.2	(21.9)	(20.4)

Source: Bloomberg

Y/E March (Rsmn)	4QFY19	3QFY20	4QFY20	YoY (%)	QoQ (%)	FY19	FY20	YoY (%)
Net sales	43,840	41,255	34,814	(20.6)	(15.6)	182,099	164,233	(9.8)
COGS	33,593	29,787	26,098	(22.3)	(12.4)	138,423	121,359	(12.3)
% of sales	76.6	72.2	75.0	(1.7)	2.8	76.0	73.9	(2.1)
Gross margin %	23.4	27.8	25.0	170bps	(280bps)	24.0	26.1	210bps
Employee costs	2,036	2,332	2,227	9.4	(4.5)	9,226	9,384	1.7
% of sales	4.6	5.7	6.4	1.8	0.7	5.1	5.7	0.6
Other expenses	5,130	5,503	4,041	(21.2)	(26.6)	20,118	20,031	(0.4)
% of sales	11.7	13.3	11.6	(0.1)	(1.7)	11.0	12.2	1.1
EBITDA	3,081	3,633	2,449	(20.5)	(32.6)	14,333	13,459	(6.1)
EBITDA margin %	7.0	8.8	7.0	-	(180bps)	7.9	8.2	30bps
Depreciation	1,031	1,213	1,243	20.6	2.5	3,993	4,890	22.5
Interest expenses	247	211	235	(5.0)	11.0	806	1,022	26.8
Other income	36	9	51	42.7	474.2	75	121	60.5
Exceptional items	-	760	123	-	-	-	123.3	-
PBT	1,839	1,457	898	(51.2)	(38.4)	9,610	7,544	(21.5)
Tax	501	247	160	(68.1)	(35.3)	2,908	1,622	(44.2)
Effective tax rate %	27.2	16.9	17.8	(9.5)	0.8	30.3	21.5	(8.8)
Reported PAT	1,338	1,211	739	(44.8)	(39.0)	6,701	5,923	(11.6)
Adj PAT	1,338	1,971	862	(35.6)	(56.3)	6,701	6,046	(9.8)
PAT margin %	3.1	4.8	2.5	(60bps)	(230bps)	3.7	3.7	-
Adj EPS	2.8	4.1	1.8	(35.6)	(56.3)	14.1	12.7	(9.8)

Source: Company, Nirmal Bang Institutional Equities Research

Please refer to the disclaimer towards the end of the document.

## Exhibit 1: Financial summary

Y/E March (Rsmn)	FY18	FY19	FY20	FY21E	FY22E
Volume	3,466,110	3,912,924	3,277,351	2,536,809	3,048,463
YoY growth (%)	18.6	12.9	(16.2)	(22.6)	20.2
Net sales	151,297	182,099	164,233	143,332	174,516
YoY growth (%)	24.1	20.4	(9.8)	(12.7)	21.8
EBITDA	11,292	14,333	13,459	10,463	13,961
EBITDA margin (%)	7.5	7.9	8.2	7.3	8.0
Adjusted PAT	6,626	6,701	6,177	3,663	5,837
EPS	13.9	14.1	13.0	7.7	12.3
YoY change (%)	7.7	1.1	(7.8)	(40.7)	59.3
RoCE (%)	23.0	21.1	15.2	9.3	12.8
RoE (%)	23.0	20.0	17.1	9.5	13.7
P/E (x)	23.8	23.5	25.5	43.0	27.0
P/B (x)	1.0	0.8	0.9	1.0	0.8
EV/EBITDA (x)	13.1	10.3	11.0	14.1	10.6

Source: Company, Nirmal Bang Institutional Equities Research

## Exhibit 2: Change in our estimates

Y/E March (Rsmn)	New estimate		Old estimate		Change (%)	
	FY21E	FY22E	FY21E	FY22E	FY21E	FY22E
Volume	2,536,809	3,048,463	3,305,246	3,417,411	(23.2)	(10.8)
Net sales	143,332	174,516	185,899	200,944	(22.9)	(13.2)
EBITDA	10,463	13,961	15,058	17,080	(30.5)	(18.3)
EBITDA margin (%)	7.3	8.0	8.1	8.5	(80bps)	(50bps)
PAT	3,663	5,837	6,897	8,075	(46.9)	(27.7)
EPS (Rs)	7.7	12.3	14.5	17.0	(46.9)	(27.7)

Source: Company, Nirmal Bang Institutional Equities Research

## Exhibit 3: Deviation of our estimates from actual performance in 4QFY19

(Rsmn)	Actual	Our estimate	Deviation
	4QFY20	4QFY20	(%)
Net sales	34,814	33,640	3.5
EBITDA	2,449	2,018	21.3
EBITDA (%)	7.0	6.0	100bps
Net profit	862	599	44.0

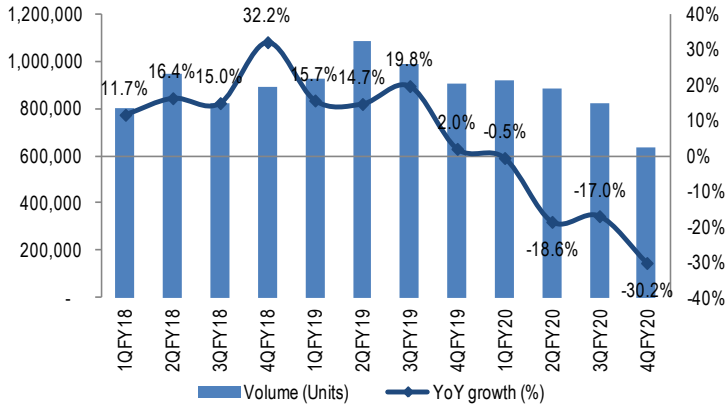
Source: Company, Nirmal Bang Institutional Equities Research

## Key conference-call highlights

- Covid-19 Update:** Even before the lockdown in India, the company's BS-VI production ramp up was affected in January and February due to supply constraints from China (on account of Covid-19). The company closed its plants from 22<sup>nd</sup> March and received permission to open the plants from 5<sup>th</sup> May onwards and is ramping up production in a phased manner. The company supported dealers by settling all their dues before time and introducing interest waiver schemes. One-time additional incentive of Rs220mn was provided to dealers for liquidating leftover BS-IV stock. Lockdown was taken as an opportunity to train all the dealers and its staff. The company incurred Rs323.3mn towards Covid-19 related expenses, which is reported as an exceptional item.
- Domestic Outlook:** Management expects 1QFY21 to be a washout quarter and will have some spillover effect in 2QFY21. However, management is cautiously optimistic about recovery in demand in 2HFY21 on the back of expected recovery in rural economy, led by normal monsoon, better Rabi crop and strong cash flow and availability of retail financing. Rural sentiments have improved. Also, social distancing going forward will lead to shift towards personal mobility, which will benefit 2Ws. Management expects TVS to outperform the domestic industry.
- Export outlook:** TVS has consistently outperformed in both 2W and 3W exports. Most of TVS' export geographies have been opening up from lockdown. Crude oil prices have risen sharply back to US\$30 level and management believes that crude prices at US\$40 will have no adverse impact on markets like Nigeria, which is one of the key export markets. Management indicated that 3W exports will continue to do well and it is cautiously optimistic about recovery in 2HFY21 for most of the export markets.
- Margins:** Gross margin expanded by ~170bps YoY to 25.0% on the back of reduction in material costs (due to cost reduction initiatives), improved product mix and favorable commodity costs. Material cost reduction efforts like value engineering, higher localization, alternative sourcing, weight reduction, reducing import content etc aided the margins. Management expects these benefits to sustain and continue to support margins improvement. EBITDA margin remained flat YoY at 7% on account of negative operating leverage. Going forward, commodity prices will continue to remain benign which will support margins. TVS has announced temporary salary reduction for 6 months to manage costs on account of Covid-19 and has undertaken a blended price hike of 1% across portfolio in Apr-May, which will support margins.
- BS-VI transition:** During 4QFY20 BS-IV production was ramped down and BS-VI production was ramped up. TVS launched BS-VI vehicles with two technologies – Ecothruster-FI & RT-FI. 84% of domestic sales in 4QFY20 were BS-VI models. Dealers have so far retailed over 1 lakh BS-VI vehicles and response from customers has been extremely encouraging. BS-VI price increase has been in the range of ~10-12%.
- Downtrading in post Covid era?:** Management believes that 2W entry level segment is more vulnerable to economic hardships and will also face difficulties in financing as financiers will be reluctant to lend to them. Premium segment will be better off as the customers are more affluent and have better capability to avail financing which management believes will benefit Apache and Ntorq. Hence, management doesn't expect much downtrading in the 2W segment.
- Acquisition of Norton Motorcycle:** The company acquired the assets (including the brand) of Norton Motorcycle during the quarter. Management stated that Norton will help TVS strengthen its product portfolio by developing capabilities in super premium bikes segment. TVS is currently carving out the strategy and will update on it in the near future.
- Financing:** Overall share of financing for TVS as well as industry stood at 56%. TVS Credit's share stood at 45%. As on 31<sup>st</sup> March, 2020, book size - Rs92,150mn; networth - Rs13,720mn; PBT before exceptional item - Rs2,190mn; PAT - Rs1,510mn; NPA - 4.4% (similar to last year); Capital adequacy - higher than required. Not facing liquidity issue. Currently, the company is focusing on collection and cost reduction. 37% of customers have opted for moratorium. Collection from rural region has been encouraging. Optimistic on the rural recovery and hence hopeful that normalcy will return.
- Capex & investment guidance:** Capex for FY20 stood at Rs7,190mn towards BS-VI investment, EV and new products. Capex for FY21 is expected to be Rs3,000mn. Management is working on expected investments in subsidiaries and will provide guidance in the next quarter.
- Inventory:** Overall inventory stood at normal level of 30-35 days.
- Exports & USD realisation:** Revenue from exports for FY20 grew by 4.3% YoY to ~Rs45,700mn (~28% of FY20 sales). Net USD realization for the year stood at ~Rs71/US\$.

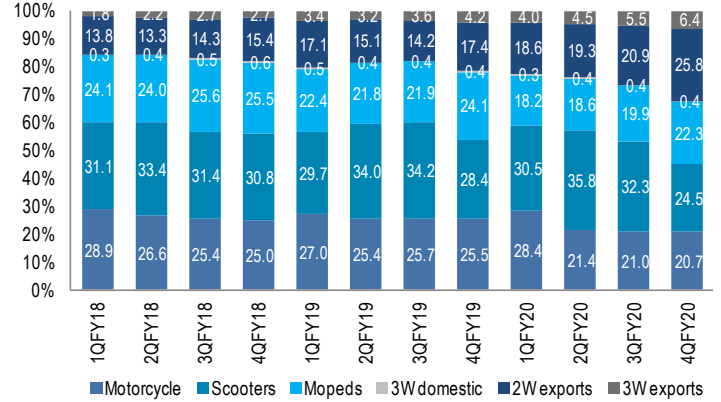
**Story in Charts**

**Exhibit 4: Volume & YoY growth (%)**



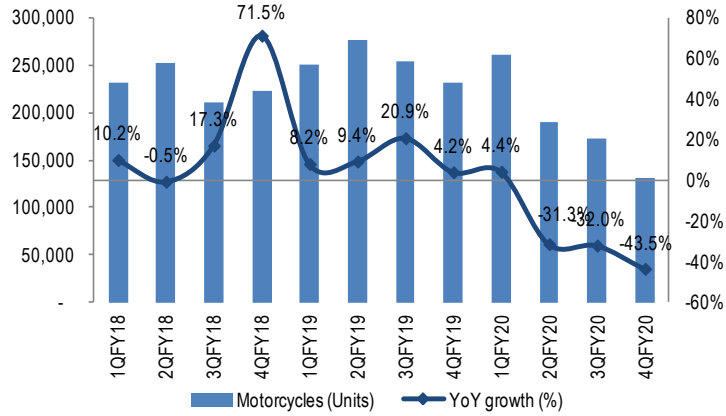
Source: Company, Nirmal Bang Institutional Equities Research

**Exhibit 5: Segment mix (%) – shifted towards 2W & 3W exports**



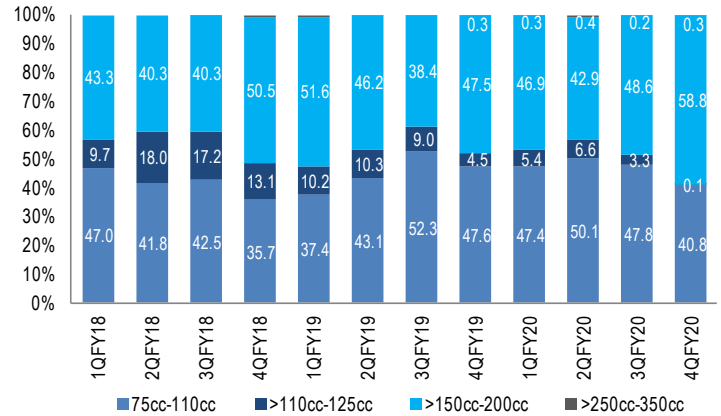
Source: Company, CRISIL, Nirmal Bang Institutional Equities Research

**Exhibit 6: Motorcycle – Domestic volume & YoY growth (%)**



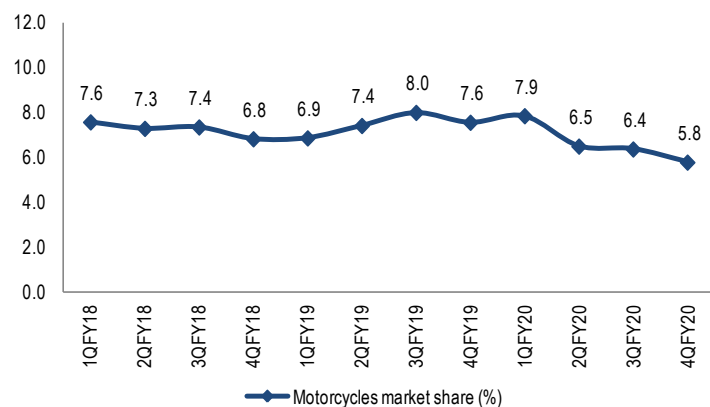
Source: Company, Nirmal Bang Institutional Equities Research

**Exhibit 7: Motorcycle – cc-wise mix (%)**



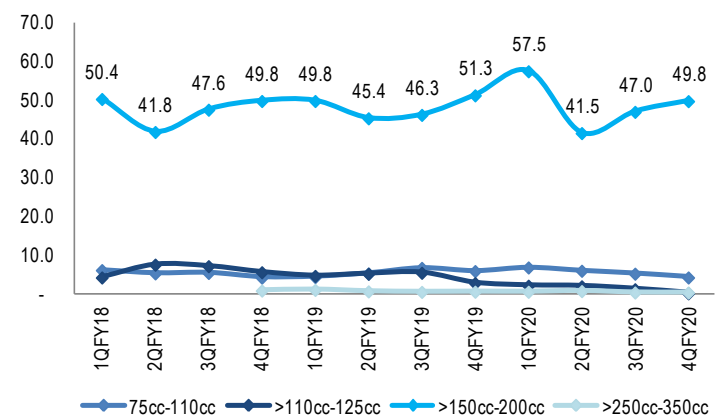
Source: CRISIL, Nirmal Bang Institutional Equities Research

**Exhibit 8: Motorcycles – Domestic market share (%)**



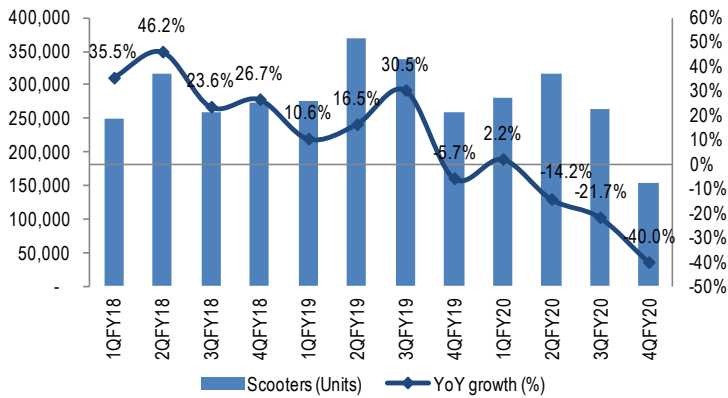
Source: CRISIL, Nirmal Bang Institutional Equities Research

**Exhibit 9: Motorcycles – cc-wise market share (%)**



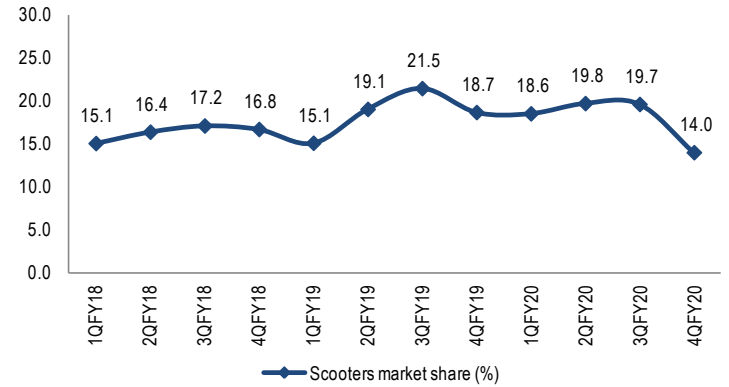
Source: CRISIL, Nirmal Bang Institutional Equities Research

**Exhibit 10: Scooters - Domestic volume & YoY growth (%)**



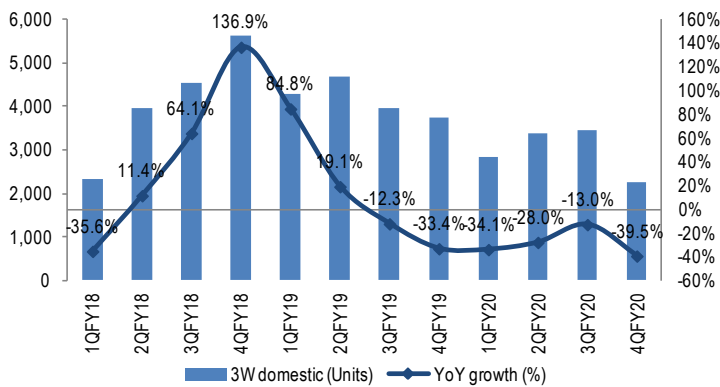
Source: Company, Nirmal Bang Institutional Equities Research

**Exhibit 11: Scooters – Domestic market share (%)**



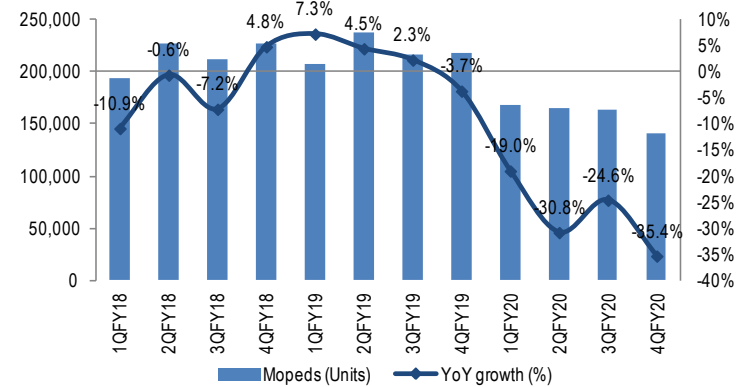
Source: CRISIL, Nirmal Bang Institutional Equities Research

**Exhibit 12: 3Ws - Domestic volume & YoY growth (%)**



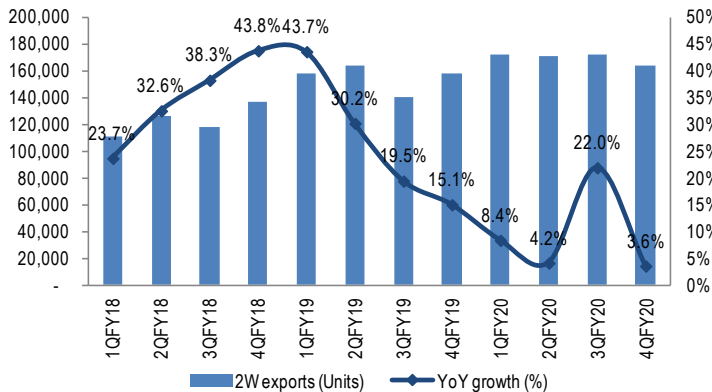
Source: Company, Nirmal Bang Institutional Equities Research

**Exhibit 13: Mopeds - Domestic volume & YoY growth (%)**



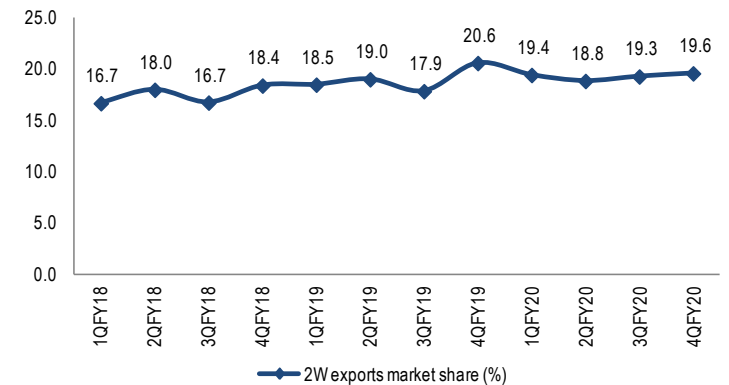
Source: Company, Nirmal Bang Institutional Equities Research

**Exhibit 14: 2Ws - Export volume & YoY growth (%)**



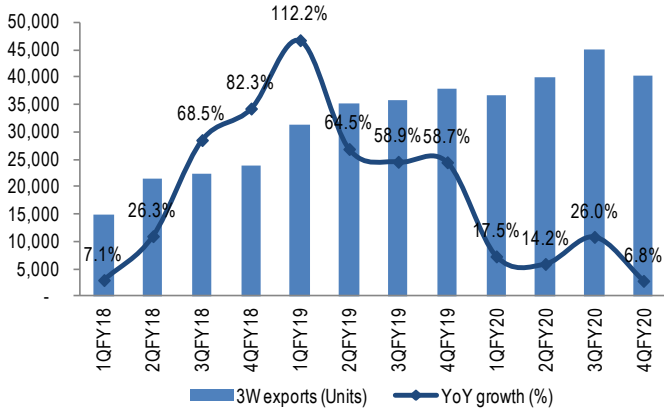
Source: Company, Nirmal Bang Institutional Equities Research

**Exhibit 15: 2Ws – Export market share (%)**



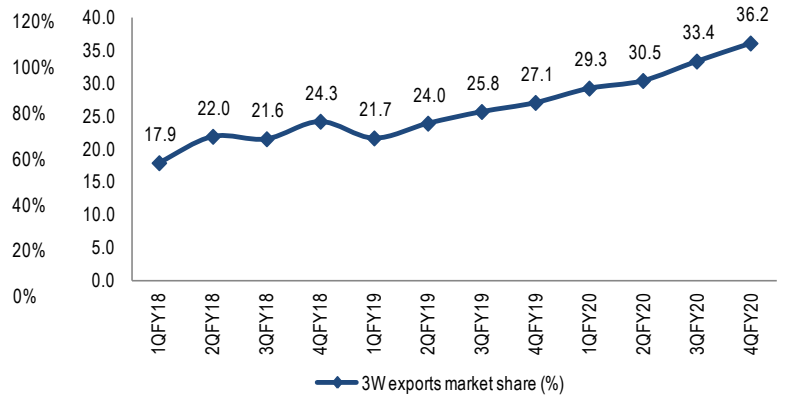
Source: Company, Nirmal Bang Institutional Equities Research

**Exhibit 16: 3Ws - Export volume & YoY growth (%)**



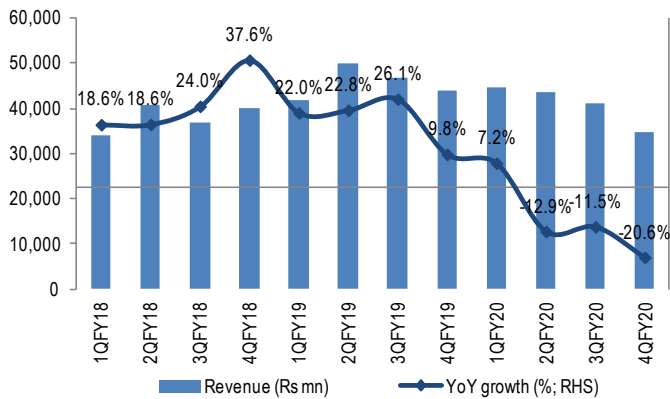
Source: Company, Nirmal Bang Institutional Equities Research

**Exhibit 17: 3Ws – Export market share (%)**



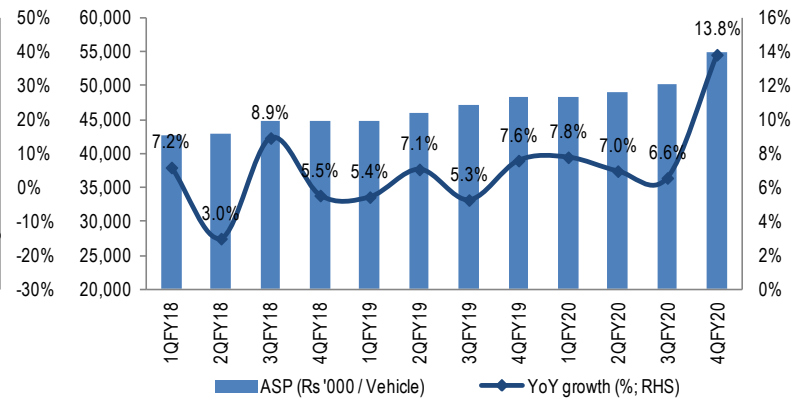
Source: CRISIL, Nirmal Bang Institutional Equities Research

**Exhibit 18: Revenue & YoY growth (%)**



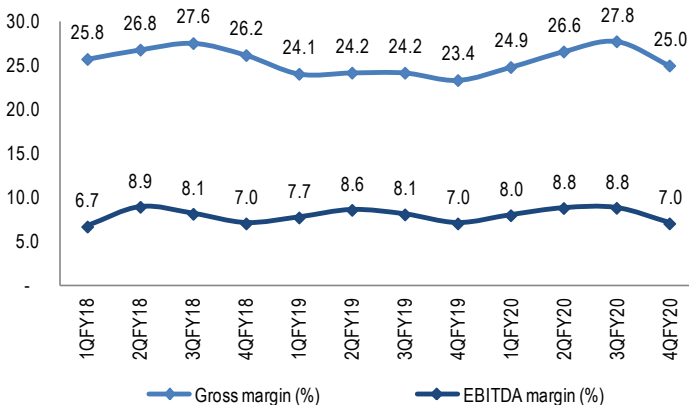
Source: Company, Nirmal Bang Institutional Equities Research

**Exhibit 19: Avg selling price (ASP) & YoY growth (%)**



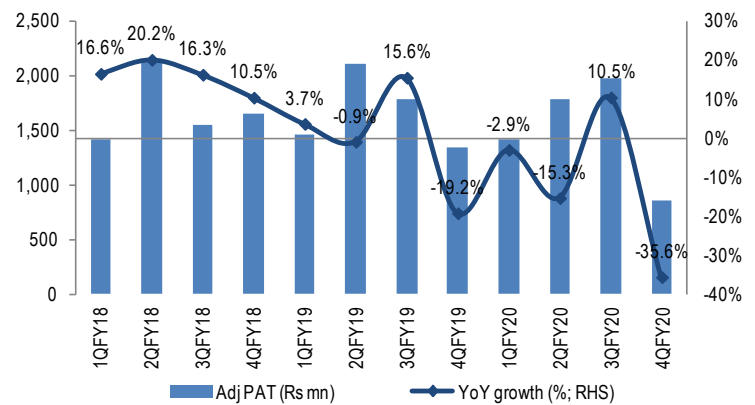
Source: Company, Nirmal Bang Institutional Equities Research

**Exhibit 20: Gross margin & EBITDA margin trend**



Source: Company, Nirmal Bang Institutional Equities Research

**Exhibit 21: PAT & YoY growth (%)**



Source: Company, Nirmal Bang Institutional Equities Research



**Exhibit 22: P/E chart**



Source: Bloomberg, Nirmal Bang Institutional Equities Research

## Financials

### Exhibit 23: Income statement

Y/E March (Rsmn)	FY18	FY19	FY20	FY21E	FY22E
<b>Net Sales</b>	<b>151,297</b>	<b>182,099</b>	<b>164,233</b>	<b>143,332</b>	<b>174,516</b>
% Growth	24.1	20.4	(9.8)	(12.7)	21.8
Raw material	111,330	138,423	121,359	106,782	129,142
Staff costs	8,680	9,226	9,384	7,883	9,947
Selling & distribution	12,977	11,430	12,974	11,037	13,089
Other expenses	7,017	8,688	7,057	7,167	8,377
Total expenses	140,005	167,767	150,775	132,869	160,555
<b>EBITDA</b>	<b>11,292</b>	<b>14,333</b>	<b>13,459</b>	<b>10,463</b>	<b>13,961</b>
% Growth	23.5	26.9	(6.1)	(22.3)	33.4
<b>EBITDA margin (%)</b>	<b>7.5</b>	<b>7.9</b>	<b>8.2</b>	<b>7.3</b>	<b>8.0</b>
Other income	1,448	75	321	385	462
Interest costs	566	806	1,022	1,142	1,292
Depreciation	3,387	3,993	4,890	4,811	5,331
Profit before tax (before exceptional items)	8,786	9,610	7,867	4,896	7,801
Exceptional items	0	0	323	0	0
Tax	2,161	2,908	1,622	1,232	1,963
<b>Adj PAT</b>	<b>6,626</b>	<b>6,701</b>	<b>6,177</b>	<b>3,663</b>	<b>5,837</b>
% Growth	7.7	1.1	(7.8)	(40.7)	59.3
Adj PAT margin (%)	4.4	3.7	3.8	2.6	3.3
<b>EPS (Rs)</b>	<b>13.9</b>	<b>14.1</b>	<b>13.0</b>	<b>7.7</b>	<b>12.3</b>
% Growth	7.7	1.1	(7.8)	(40.7)	59.3
DPS (Rs)	3.3	3.5	3.5	2.2	3.5
Payout (incl. div. tax) (%)	28.3	29.9	32.8	33.3	33.2

Source: Company, Nirmal Bang Institutional Equities Research

### Exhibit 25: Balance sheet

Y/E March (Rsmn)	FY18	FY19	FY20	FY21E	FY22E
Share capital	475	475	475	475	475
Reserves	28,329	32,998	35,706	38,149	42,046
Net worth	28,804	33,473	36,181	38,625	42,521
Total debt	10,370	13,779	20,843	24,843	26,843
Deferred tax liability	1,482	2,126	1,581	1,581	1,581
<b>Capital employed</b>	<b>40,656</b>	<b>49,379</b>	<b>58,605</b>	<b>65,048</b>	<b>70,945</b>
Gross block	45,454	50,536	58,633	61,633	71,633
Depreciation	21,736	24,743	29,634	34,444	39,775
Net block	23,719	25,793	28,999	27,189	31,858
Capital work-in-progress	1,311	2,572	2,854	2,854	2,854
Investments	20,354	23,007	26,059	29,059	32,059
Inventories	9,644	11,759	10,389	9,067	11,475
Debtors	9,684	14,141	12,814	11,781	13,866
Cash	109	439	4,192	6,261	4,858
Loans & advances	-	-	-	-	-
Other current assets	6,974	5,982	8,305	9,218	10,232
Total current assets	26,411	32,322	35,699	36,327	40,430
Creditors	25,180	29,239	28,864	23,561	28,688
Other current liabilities & provisions	5,959	5,076	6,143	6,819	7,569
Total current liabilities	31,139	34,315	35,007	30,380	36,257
Net current assets	(4,728)	(1,993)	692	5,946	4,174
<b>Application of funds</b>	<b>40,656</b>	<b>49,379</b>	<b>58,605</b>	<b>65,048</b>	<b>70,945</b>

Source: Company, Nirmal Bang Institutional Equities Research

### Exhibit 24: Cash flow

Y/E March (Rsmn)	FY18	FY19	FY20	FY21E	FY22E
OP/(loss) before tax	7,905	10,340	8,568	5,653	8,631
Depreciation & amortization	3,387	3,993	4,890	4,811	5,331
Other income	1,448	75	321	385	462
(Inc.)/dec. in working capital	4,602	(2,405)	1,068	(3,185)	369
Direct taxes paid	(1,936)	(2,264)	(2,167)	(1,232)	(1,963)
Extra-ordinary items	-	-	(323)	-	-
<b>Cash flow from operations</b>	<b>15,406</b>	<b>9,739</b>	<b>12,357</b>	<b>6,431</b>	<b>12,829</b>
Capital expenditure (-)	(7,956)	(7,328)	(8,379)	(3,000)	(10,000)
<b>Net cash after capex</b>	<b>7,450</b>	<b>2,411</b>	<b>3,978</b>	<b>3,431</b>	<b>2,829</b>
Other investing activities	(4,474)	(2,653)	(3,052)	(3,000)	(3,000)
Dividends paid (-)	(1,876)	(2,005)	(1,940)	(1,220)	(1,940)
Inc./(dec.) in total borrowings	(1,048)	2,604	6,042	2,858	708
Others	(29)	(28)	(1,274)	0	(0)
<b>Cash from financial activities</b>	<b>(2,953)</b>	<b>572</b>	<b>2,827</b>	<b>1,638</b>	<b>(1,233)</b>
Opening cash balance	85	109	439	4,192	6,261
Closing cash balance	109	439	4,192	6,261	4,858
Change in cash balance	24	330	3,753	2,069	(1,403)

Source: Company, Nirmal Bang Institutional Equities Research

### Exhibit 26: Key ratios

Y/E March	FY18	FY19	FY20	FY21E	FY22E
<b>Per share (Rs)</b>					
EPS	13.9	14.1	13.0	7.7	12.3
EPS Growth (%)	7.7	1.1	(7.8)	(40.7)	59.3
Cash EPS	21.1	22.5	23.3	17.8	23.5
Book value per share	60.6	70.5	76.2	81.3	89.5
DPS	3.3	3.5	3.5	2.2	3.5
Payout (incl. div. tax) %	28.3	29.9	32.8	33.3	33.2
<b>Valuation (x)</b>					
P/E	23.8	23.5	25.5	43.0	27.0
Cash P/E	15.7	14.7	14.2	18.6	14.1
EV/Sales	1.0	0.8	0.9	1.0	0.8
EV/EBITDA	13.1	10.3	11.0	14.1	10.6
P/BV	5.5	4.7	4.4	4.1	3.7
Dividend yield (%)	1.0	1.1	1.1	0.7	1.1
<b>Return ratios (%)</b>					
RoCE	23.0	21.1	15.2	9.3	12.8
RoE	23.0	20.0	17.1	9.5	13.7
<b>Profitability ratios (%)</b>					
EBITDA margin	7.5	7.9	8.2	7.3	8.0
PAT margin	4.4	3.7	3.8	2.6	3.3
<b>Turnover ratios</b>					
Debtors (days)	23	28	28	30	29
Inventory (days)	23	24	23	23	24
Creditors (days)	61	59	64	60	60
Asset turnover (x)	3.7	3.7	2.8	2.2	2.5
<b>Leverage Ratio</b>					
Debt/equity (x)	0.4	0.4	0.6	0.6	0.6

Source: Company, Nirmal Bang Institutional Equities Research

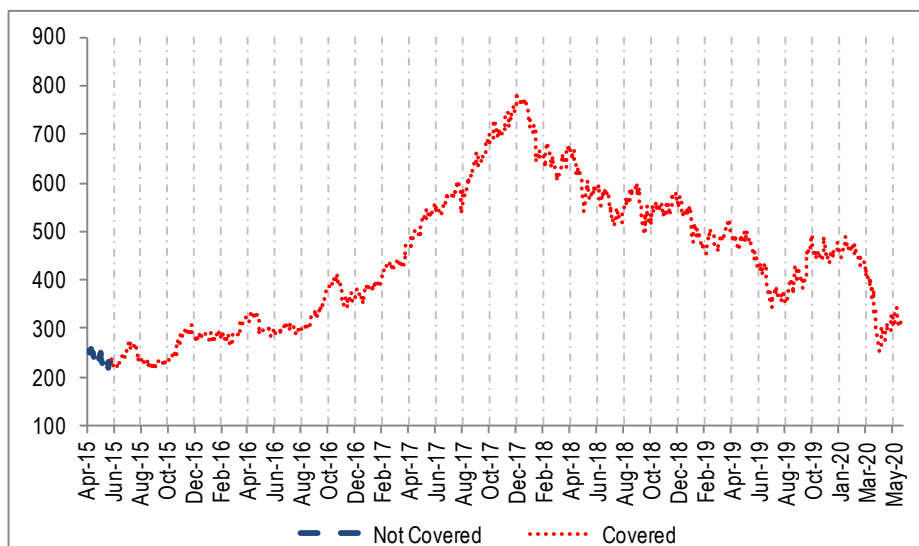


## Rating track

Date	Rating	Market price (Rs)	Target price (Rs)
26 May 2015	Sell	230	193
9 July 2015	Sell	264	193
22 July 2015	Sell	252	193
9 October 2015	Sell	240	193
28 October 2015	Sell	275	205
11 January 2016	Sell	286	205
1 February 2016	Sell	292	242
4 May 2016	Sell	287	245
27 July 2016	Sell	291	245
28 October 2016	Sell	412	288
25 January 2017	Sell	400	286
3 February 2017	Sell	392	301
28 April 2017	Sell	503	336
14 August 2017	Sell	537	336
2 November 2017	Sell	709	400
31 January 2018	Sell	714	430
17 May 2018	Sell	611	448
8 August 2018	Sell	549	433
24 October 2018	Sell	535	441
23 January 2019	Sell	554	442
23 July 2019*	Sell	380	344
18 October 2019	Sell	446	400
28 January 2020	Sell	465	394
5 February 2020	Sell	460	394
30 March 2020	Acc	304	304
29 May 2020	Sell	332	246

\* Coverage shifted to Anish Rankawat wef 23 July 2019

## Rating track graph



## DISCLOSURES

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## Disclaimer

### Stock Ratings Absolute Returns

BUY > 15%

ACCUMULATE -5% to 15%

SELL < -5%

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