

Retail Equity Research (South India Focus)

TVS Motors Ltd

Automobile - 2/3 Wheelers

BSE CODE : 532343 NSE CODE: TVSMOTOR
BLOOMBERG CODE: TVS IN SENSEX : 37,688

Sell

12M Investment Period

Rating as per Mid cap

CMP Rs. 399 TARGET Rs. 355 RETURN -11% ↓
(Closing: 04-08-20)

KEY CHANGES:

TARGET ↑

RATING ↓

EARNINGS ↓

Demand revival is the key to watch

TVS Motors (TVS) is the third largest two- wheeler manufacturer in India with a market share of 13.9% in FY20.

- Q1FY20 revenue de-grew by 68%YoY due to sluggish Industry demand and production lock down in April & May month.
- Sales volume declined by 71%, dragging the firm into operating losses of -50cr, added up by higher material and fixed cost.
- Despite taking price hike in Q1 and July by 1.1% we believe TVS could not pass the full BS6 cost due to weak demand and competition. Also, it was impacted due to poor product mix.
- The near term outlook is uncertain and the demand preference is slowly shifting towards lower price 2W, where, TVS presence is minimal. Sales expectation from export is also remain blurry.
- We believe two-wheeler industry to show some pick up in H2FY21 owing to normal monsoon, Upcoming Festive season and government initiatives towards rural development .
- At CMP the TVS is trading at a premium valuation based on a 1yr fwd. basis. We value TVS at 23x FY22E EPS and downgrade our rating to sell with a target price of Rs355.

Subdued operational performance

Q1FY20 revenue de-grew by 63%YoY due to sluggish Industry demand and production lockdown. Sales volume declined by 71%, dragging the firm into operating losses of -50cr, added up by higher material and fixed cost. Despite taking price hike in Q1 and July by 1.1% we believe TVS could not pass the full BS6 cost due to weak demand. Also, it was impacted due to poor product mix. Reported net loss of INR 140cr was on account of operating, despite lower depreciation on account of actual utilization of plant method adoption. Due to the covid19 pandemic currently the industry is running at 40-50% utilization for June month and expect to reach 60% by the end of Q2FY21. We expect the industry to show some pick in Q3and Q4 due to nearing festive season and normal monsoon.

Domestic brands are on a shaky ground

TVS has lost its domestic motor cycle market share by 70bps due to significant decline in volume from the entry level bikes. While it barely held its Scooter market share at 18.3%. However, we believe shift to personal mobility and improving rural sentiment is positive for moped. Entry & commuter segment has been squeezed by HMCL and BJAUT with all model falling over 40-50% levels in FY20. Key strategic miss by TVS was lack of renovation of brand Jupiter while risk from HMCL scooter brand "Access" was looming over the last 2-3 years. Also Despite good attraction from the brands like Radeon and NTroq the underachievement of the market share was due to lack of positioning, reaffirmation of the existing brands and meaningful build up of new brands.

Strengthen its technology through acquisition.

TVS is well poised in gaining expertise/Technology in the 850-1200cc category through the acquisition of Norton Brand from UK. However, in our view it is unlikely to be a sizeable scale in the next 3-5 years. New products launches are targeted towards filling gaps in their product portfolio and would improve product mix. The new model Ntorq 125cc scooter targeting towards youth segment has received positive response and they also reiterated to launch its first Electric variant in scooter segment for the year FY21.

Valuations

Despite lower volume and heightened competition in the commuter segment TVS has improved 20bps in market share for Q1. However on a 1 year fwd. basis the stock is currently trading at a premium valuation which is largely higher comparing to its peers who currently stands at a strong fold. Considering the near term headwinds we value TVS at 23x FY22E EPS and downgrade our rating to reduce from hold with a target price of Rs355.

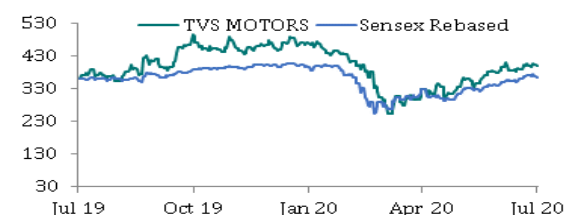
Company Data

Market Cap (cr)	Rs.18,996
Enterprise Value (cr)	Rs.20,666
Outstanding Shares (cr)	47.5
Free Float	42.6%
Dividend Yield	0.9%
52 week high	Rs.503
52 week low	Rs.240
6m average volume (cr)	0.31
Beta	1.1
Face value	Rs1

Shareholding (%)	Q3FY20	Q4FY20	Q1FY21
Promoters	57.4	57.4	57.4
FII's	15.7	15.0	11.4
MFs/Insti	16.4	17.2	16.6
Public	10.5	10.4	14.6
Total	100.0	100.0	100.0

Price Performance	3 month	6 Month	1 Year
Absolute Return	21.8%	-13.8%	11.6%
Absolute Sensex	11.8%	-5.2%	1.8%
Relative Return	10.1%	-8.6%	9.8%

over or under performance to benchmark index



Standalone (cr)	FY20A	FY21E	FY22E
Sales	16,423	13,480	17,977
Growth (%)	-9.8	-17.9	33.4
EBITDA	1,346	876	1,582
EBITDA Margin(%)	8.2	6.5	8.8
PAT Adj.	625	272	732
Growth (%)	-6.8	-56.5	169.3
Adj.EPS	13.1	5.7	15.4
Growth (%)	-6.8	-56.5	169.3
P/E	32.4	30.9	26.0
P/B	6.5	5.6	4.8
EV/EBITDA	29.6	68.0	25.2
ROE (%)	17.6	7.2	17.9
D/E	0.4	0.4	0.3

Saji John
Research Analyst

Quarterly Financials (Standalone)

Profit & Loss

Rs cr	Q1FY21	Q1FY20	YoY Growth %	Q4FY20	QoQ Growth %
Sales	1,431	4,469	-68.0	3,481	-58.9
EBITDA	-50	356	-113.9	245	-120.2
EBITDA margins	-3.5%	8.0%	-143.5	7.0%	-149.2
Depreciation	91	119	-23.7	124	-26.7
EBIT	-141	205	-168.6	121	-216.7
Interest	52.3	29.1	79.6	23.5	122.9
Other Income	3	1	115.8	25	-89.7
Exceptional Items	0	0	0.0	0	0.0
PBT	-190	209	-191.3	90	-311.9
Tax	-51	66	-176.3	16	-416.6
Share of profit from Associate	0	0	0.0	0	0.0
Minority Interest	0	0	0.0	0	0.0
Reported PAT	-140	142	-198.2	74	-289.3
Adjustments	0	0	0.0	32	-
Adj PAT	-140	142	-198.2	106	-231.6
No. of Shares (cr)	47.5	47.5	0.0	47.5	0.0
EPS (Rs)	-2.9	2.8	-198.2	2.2	-231.6

Change in Estimates

Year / Rs cr	Old estimates		New estimates		Change %	
	FY21E	FY22E	FY21E	FY22E	FY20E	FY21E
Revenue	13,748	17,357	13,480	17,977	-1.9	3.6
EBITDA	1,100	1,527	876	1,582	-20.4	3.6
Margins (%)	8.0	8.8	6.5	8.8	-150bps	-
Adj. PAT	409	688	272	732	-33.4	6.4
EPS	8.6	14.5	5.7	15.4	-33.4	6.4

Standalone Financials

PROFIT & LOSS

Y.E March (Rs Cr)	FY18A	FY19A	FY20A	FY21E	FY22E
Sales	15,175	18,210	16,423	13,480	17,977
% change	25.1	20.0	-9.8	-17.9	33.4
EBITDA	1,175	1,433	1,346	876	1,582
% change	37.1	22.0	-6.1	-34.9	80.6
Depreciation	339	399	489	452	568
EBIT	836	1,034	857	425	1,014
Interest	57	81	102	116	108
Other Income	99	8	32	40	45
PBT	879	961	754	349	951
% change	25.8	9.4	-21.5	-53.8	172.8
Tax	216	291	162	77	219
Tax Rate (%)	24.6%	30.3%	21.5%	22.0%	23.0%
Reported PAT	663	670	592	272	732
Adj.	0	0	-32	0	0
Adj. PAT	663	670	625	272	732
% change	18.7	1.1	-6.8	-56.5	169.3
No. of shares (cr)	48	48	48	48	48
Adj EPS (Rs)	13.9	14.1	13.1	5.7	15.4
% change	18.7	1.1	-6.8	-56.5	169.3
DPS (Rs)	3.3	3.5	3.5	3.5	3.5

CASH FLOW

Y.E March (Rs Cr)	FY17A	FY18A	FY19A	FY21E	FY22E
Net inc. + Depn.	1,217	1,360	1,243	800	1,519
Non-cash adj.	-216	-277	-234	-98	-266
Changes in W.C	837	-704	46	-3	74
C.F. Operation	1,838	380	1,095	699	1,326
Capital exp.	-583	-579	-665	-360	-310
Change in inv.	-447	-265	-350	-150	-350
Other invest.CF	-64	19	-20	-19	-19
C.F - Investment	-1,095	-825	-1,035	-529	-679
Issue of equity	0	0	0	0	0
Issue/repay debt	-70	341	44	50	50
Dividends paid	-189	-200	-200	-200	-200
Other finance.CF	112	0	0	0	0
C.F - Finance	-147	141	-156	-150	-150
Chg. in cash	596	-305	-96	20	497
Closing cash	478	173	77	97	595

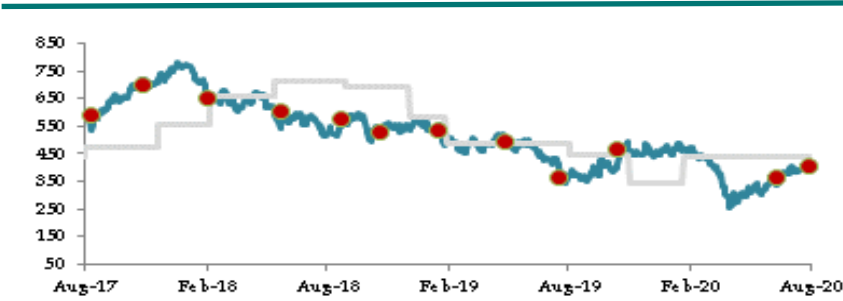
BALANCE SHEET

Y.E March (Rs Cr)	FY18A	FY19A	FY20A	FY21E	FY22E
Cash	478	173	77	97	595
Accounts Receivable	968	1,414	1,350	1,108	1,478
Inventories	964	1,176	1,080	886	1,182
Other Cur. Assets	683	584	720	554	739
Investments	2,035	2,301	2,651	2,801	3,151
Gross Fixed Assets	4,499	5,068	5,718	6,068	6,368
Net Fixed Assets	2,317	2,518	2,679	2,617	2,388
CWIP	92	102	117	127	137
Intangible Assets	93	42	22	3	-16
Def. Tax (Net)	-213	-227	-155	-134	-86
Other Assets	19	19	0	0	0
Total Assets	7,437	8,103	8,541	8,059	9,566
Current Liabilities	480	389	540	443	591
Provisions	113	133	135	111	148
Debt Funds	1,037	1,378	1,422	1,472	1,522
Other Liabilities	0	0	0	0	0
Equity Capital	48	48	48	48	48
Reserves & Surplus	2,835	3,305	3,697	3,770	4,303
Shareholder's Fund	2,882	3,353	3,745	3,818	4,350
Total Liabilities	7,437	8,103	8,541	8,059	9,566
BVPS	61	71	79	80	92

RATIOS

Y.E March	FY18A	FY19A	FY20A	FY21E	FY21E
Profitab & Return					
EBITDA margin (%)	7.7	7.9	8.2	6.5	8.8
EBIT margin (%)	5.5	5.7	5.2	3.2	5.6
Net profit mgn.(%)	4.4	3.7	3.6	2.0	4.1
ROE (%)	25.0	21.5	17.6	7.2	17.9
ROCE (%)	15.0	12.4	10.1	5.3	10.8
W.C & Liquidity					
Receivables (days)	20.3	23.9	30.7	33.3	26.2
Inventory (days)	31.7	28.2	33.9	35.9	28.3
Payables (days)	13.0	11.5	14.0	17.9	14.2
Current ratio (x)	5.8	7.3	5.3	5.3	6.0
Quick ratio (x)	3.0	4.1	2.6	2.7	3.5
Turnover &Leverage					
Gross asset T.O (x)	3.6	3.8	3.0	2.3	2.9
Total asset T.O (x)	2.3	2.3	2.0	1.6	2.0
Int. covge. ratio (x)	14.8	12.8	8.4	3.6	9.4
Adj. debt/equity (x)	0.4	0.4	0.4	0.4	0.3
Valuation					
EV/Sales (x)	1.3	1.1	1.2	1.5	1.1
EV/EBITDA (x)	16.6	13.9	14.8	22.8	12.6
P/E (x)	27.9	27.6	29.6	68.0	25.2
P/BV (x)	6.6	5.6	5.0	4.8	4.2

Recommendation summary (Last 3 Years)



Source: Bloomberg, Geojit Research.

Dates	Rating	Target
16-08-2017	Reduce	553
03-11-2017	Reduce	660
07-02-2018	Buy	715
29-05-2018	Buy	691
28-08-2018	Hold	584
25-10-2018	Reduce	490
23.01.2019	Reduce	490
04.05.2019	Reduce	449
25.07.2019	Reduce	344
18.10.2019	Reduce	440
16.06.2020	Hold	369
05.08.2020	Sell	355

Investment Criteria

Ratings	Large caps	Midcaps	Small caps
Buy	Upside is above 10%	Upside is above 15%	Upside is above 20%
Accumulate	-	Upside is between 10% - 15%	Upside is between 10% - 20%
Hold	Upside is between 0% - 10%	Upside is between 0% - 10%	Upside is between 0% - 10%
Reduce/sell	Downside is more than 0%	Downside is more than 0%	Downside is more than 0%
Not rated	-	-	-

Definition:

Buy: Acquire at Current Market Price (CMP), with the target mentioned in the research note.

Accumulate: Partial buying or to accumulate as CMP dips in the future.

Hold: Hold the stock with the expected target mentioned in the note.

Reduce: Reduce your exposure to the stock due to limited upside.

Sell: Exit from the stock.

Not rated : The analyst has no investment opinion on the stock.

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