

July 29, 2020

Q1FY21 Result Update

Change in Estimates | Target | Reco

Change in Estimates

	Current		Previous	
	FY22E	FY23E	FY22E	FY23E
Rating	SELL		SELL	
Target Price	365		347	
Sales (Rs. m)	1,79,156	1,93,553	1,79,156	1,93,553
% Chng.	-	-	-	-
EBITDA (Rs. m)	16,662	18,000	16,662	18,000
% Chng.	-	-	-	-
EPS (Rs.)	17.7	19.9	17.0	19.0
% Chng.	4.5	4.3	-	-

Key Financials - Standalone

Y/e Mar	FY20	FY21E	FY22E	FY23E
Sales (Rs. m)	1,64,233	1,58,110	1,79,156	1,93,553
EBITDA (Rs. m)	13,459	12,965	16,662	18,000
Margin (%)	8.2	8.2	9.3	9.3
PAT (Rs. m)	6,176	5,744	8,425	9,441
EPS (Rs.)	13.0	12.1	17.7	19.9
Gr. (%)	(7.8)	(7.0)	46.7	12.1
DPS (Rs.)	3.5	4.0	4.0	4.0
Yield (%)	0.9	1.0	1.0	1.0
RoE (%)	17.7	15.1	19.5	18.8
RoCE (%)	15.2	13.3	18.3	18.8
EV/Sales (x)	1.3	1.3	1.1	1.0
EV/EBITDA (x)	15.7	16.1	12.1	10.8
PE (x)	30.9	33.2	22.6	20.2
P/BV (x)	5.3	4.8	4.1	3.5

Key Data

TVSM.BO | TVSL IN

52-W High / Low	Rs.504 / Rs.240
Sensex / Nifty	38,071 / 11,203
Market Cap	Rs.191bn/ \$ 2,550m
Shares Outstanding	475m
3M Avg. Daily Value	Rs.2264.42m

Shareholding Pattern (%)

Promoter's	57.40
Foreign	10.52
Domestic Institution	21.99
Public & Others	10.10
Promoter Pledge (Rs bn)	-

Stock Performance (%)

	1M	6M	12M
Absolute	6.1	(14.5)	11.8
Relative	(2.5)	(7.5)	10.6

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Mixed bag; valuations factors in positives

Quick Pointers:

- Strong rural recovery led demand back to pre-COVID level at ~75% dealerships.
- Have taken price increase of 0.7% in 1Q and about 0.4% in early July'20.
- TVS credit - ~14% of customers are now under morat (v/s ~37% opted for it) .

TVSL's reported mixed set of results where revenues came in marginally lower at Rs14.3bn (-68% YoY, PLe Rs15b). Gross margins too came in lower at 24% (-90bp YoY/QoQ), PLe 27%). However, led by tight cost control, EBITDA loss restricted at Rs488m (PLe loss of Rs649m) while net loss at Rs1.4b (PLe loss of Rs1.3b). The management sounded optimistic on domestic sales outlook with demand back to normal at ~75% of its dealerships, while exports and domestic 3W portfolio to see near term challenges. TVSL is trading at an expensive valuation of 23x FY22 EPS (v/s HMCL and BJAUT trading range of 16-17x), which we believe factors in positives. Consequently, we maintain Sell price target at Rs365 at 17x Sep-22 core EPS at Rs320 (unchanged) and Rs45 for NBFC.

- Mix impact ASPs:** TVSL's total revenue declined 68% YoY (-59% QoQ) to Rs14.3bn led by volume decline of ~71% YoY. However, realizations improved ~11% YoY to Rs53.6k/unit (PLe Rs56.1k) due to weak product mix.
- Operating loss came lower at Rs488mn (PLe 649mn)** as lower gross margins at 24.1% (+140bp YoY, PLe 27%) was offset by lower other expenses at Rs2bn (PLe Rs2.8bn). Consequently, EBITDA loss came in lower at Rs488m (PLe EBITDA loss of Rs649m). Adj. loss came higher at Rs1.4bn (PLe Rs1.3bn) led by higher interest expense at Rs523mn (PLe Rs210mn) and lower other income at Rs26mn (PLe Rs250mn).
- Key con-call takeaways: (1) Demand outlook** – Strong rural recovery led demand back to pre-COVID level at ~75% dealerships. However, expect consolidation in industry during Q2 followed by strong festive season. **(2) Exports:** Bangladesh, some parts of Africa took time to recover, but doing well now. Believe Stability in oil prices and forex will support demand. **(3) Share of retail finance increased to 52%** (v/s 45% in Q1). TVS credit accounted for ~54% share in finance for TVSL. **(4) Supply chain challenges dented volumes for June** specially for Apache which was doing good. Supply started ramping up from July. **Current dealer inventory is 30-35 days.** **(5) Capex guidance was** at Rs3bn for FY21. For TVS credit investment will be Rs500-750mn. **(6) USD/INR realization rate** stood at Rs72.2 in Q1FY21. Expect forex to act as tailwind going forward. **(7) Have taken price increase of 0.7% in 1Q and about 0.4% in early July'20.** **(8) TVS credit performance-** Liquidity is at comfortable level. Collections in June and July have been encouraging. Moratorium is at 14%. Net worth for June end at Rs18.5bn

Exhibit 1: Q1FY21 Result Overview (Rs m)

Y/e March	Q1FY21	Q1FY20	YoY gr. (%)	Q4FY20	FY21E	FY20	YoY gr. (%)
Net Revenues	14,317	44,686	(68.0)	34,814	1,58,110	1,64,233	(3.7)
Raw Materials	10,864	33,577	(67.6)	26,098	1,15,894	1,21,359	(4.5)
<i>% of Net Sales</i>	<i>75.9</i>	<i>75.1</i>		<i>75.0</i>	<i>73.3</i>	<i>73.9</i>	
Personnel	1,970	2,489	(20.8)	2,227	9,487	9,384	1.1
<i>% of Net Sales</i>	<i>13.8</i>	<i>5.6</i>		<i>6.4</i>	<i>6.0</i>	<i>5.7</i>	
Manufacturing & Other Exp	1,972	5,063	(61.1)	4,041	19,764	20,031	(1.3)
<i>% of Net Sales</i>	<i>13.8</i>	<i>11.3</i>		<i>11.6</i>	<i>12.5</i>	<i>12.2</i>	
Total Expenditure	14,806	41,128	(64.0)	32,366	1,45,145	1,50,775	(3.7)
EBITDA	-488	3,558	NA	2,449	12,965	13,459	(3.7)
<i>EBITDA Margin (%)</i>	<i>-3.4</i>	<i>8.0</i>		<i>7.0</i>	<i>8.2</i>	<i>8.2</i>	
Depreciation	911	1,194	(23.7)	1,243	4,763	4,890	(2.6)
EBIT	-1,399	2,364	NA	1,205	8,202	8,568	(4.3)
Interest Expenses	523	291	79.6	235	967	1,022	(5.4)
Non-operating income	26	12		251	353	321	10.0
Extraordinary Income	0	0		323	0	323	
PBT	-1,896	2,085	NA	899	7,587	7,544	0.6
Tax-Total	-505	662	NA	160	1,844	1,622	13.7
<i>Tax Rate (%) - Total</i>	<i>26.7</i>	<i>31.8</i>		<i>13.1</i>	<i>24.3</i>	<i>21.5</i>	
Reported PAT	-1,391	1,423	NA	739	5,744	5,923	(3.0)
Adj. PAT	-1,391	1,423	NA	1,062	5,744	6,246	(8.0)

Source: Company, PL

Exhibit 2: Operating Metrics

Y/e March	Q1FY21	Q1FY20	YoY gr. (%)	Q4FY20	FY21E	FY20	YoY gr. (%)
Sales Volume (no.s)	2,66,933	9,23,195	(71.1)	6,32,920	28,81,236	32,63,468	(11.7)
Net Realisation/Vehicle	53,636	48,404	10.8	55,006	54,876	50,325	9.0
Material cost / vehicle	40,698	36,371	11.9	41,234	40,224	37,187	8.2
Gross Profit / vehicle	12,938	12,033	7.5	13,772	14,652	13,138	11.5
Employee cost /vehicle	7,381	2,696	173.8	3,518	3,293	2,875	14.5
Other expenses / vehicle	7,386	5,484	34.7	6,385	6,859	6,138	11.8
EBITDA/vehicle	-1,829	3,854	(147.5)	3,869	4,500	4,124	9.1
Net Profit/vehicle	-5,210	1,541	(438.0)	1,678	1,993	1,914	4.2

Source: Company, PL

Financials

Income Statement (Rs m)

Y/e Mar	FY20	FY21E	FY22E	FY23E
Net Revenues	1,64,233	1,58,110	1,79,156	1,93,553
YoY gr. (%)	(9.8)	(3.7)	13.3	8.0
Cost of Goods Sold	1,21,359	1,15,894	1,31,321	1,41,875
Gross Profit	42,874	42,215	47,835	51,679
Margin (%)	26.1	26.7	26.7	26.7
Employee Cost	9,384	9,487	10,033	10,839
Other Expenses	20,031	19,764	21,140	22,839
EBITDA	13,459	12,965	16,662	18,000
YoY gr. (%)	(6.1)	(3.7)	28.5	8.0
Margin (%)	8.2	8.2	9.3	9.3
Depreciation and Amortization	4,890	4,763	4,973	5,182
EBIT	8,568	8,202	11,689	12,819
Margin (%)	5.2	5.2	6.5	6.6
Net Interest	1,022	967	948	774
Other Income	321	353	388	427
Profit Before Tax	7,544	7,587	11,129	12,472
Margin (%)	4.6	4.8	6.2	6.4
Total Tax	1,622	1,844	2,704	3,031
Effective tax rate (%)	21.5	24.3	24.3	24.3
Profit after tax	5,922	5,744	8,425	9,441
Minority interest	-	-	-	-
Share Profit from Associate	-	-	-	-
Adjusted PAT	6,176	5,744	8,425	9,441
YoY gr. (%)	(7.8)	(7.0)	46.7	12.1
Margin (%)	3.8	3.6	4.7	4.9
Extra Ord. Income / (Exp)	(323)	-	-	-
Reported PAT	5,922	5,744	8,425	9,441
YoY gr. (%)	(11.6)	(3.0)	46.7	12.1
Margin (%)	3.6	3.6	4.7	4.9
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	5,922	5,744	8,425	9,441
Equity Shares O/s (m)	475	475	475	475
EPS (Rs)	13.0	12.1	17.7	19.9

Source: Company Data, PL Research

Balance Sheet Abstract (Rs m)

Y/e Mar	FY20	FY21E	FY22E	FY23E
Non-Current Assets				
Gross Block	56,816	59,366	61,916	64,466
Tangibles	56,816	59,366	61,916	64,466
Intangibles	-	-	-	-
Acc: Dep / Amortization	28,851	33,615	38,587	43,769
Tangibles	28,851	33,615	38,587	43,769
Intangibles	-	-	-	-
Net fixed assets	27,965	25,751	23,329	20,697
Tangibles	27,965	25,751	23,329	20,697
Intangibles	-	-	-	-
Capital Work In Progress	3,889	4,339	4,789	5,239
Goodwill	-	-	-	-
Non-Current Investments	26,059	28,259	30,459	32,659
Net Deferred tax assets	(1,581)	(1,581)	(1,581)	(1,581)
Other Non-Current Assets	-	-	-	-
Current Assets				
Investments	-	-	-	-
Inventories	10,389	10,002	11,333	12,244
Trade receivables	12,814	12,336	13,978	15,101
Cash & Bank Balance	4,192	4,620	8,317	13,114
Other Current Assets	8,305	8,072	8,397	8,620
Total Assets	93,612	93,379	1,00,602	1,07,674
Equity				
Equity Share Capital	475	475	475	475
Other Equity	35,706	39,549	46,074	53,615
Total Network	36,181	40,024	46,549	54,090
Non-Current Liabilities				
Long Term borrowings	9,904	6,904	3,904	904
Provisions	-	-	-	-
Other non current liabilities	-	-	-	-
Current Liabilities				
ST Debt / Current of LT Debt	15,320	15,320	15,320	15,320
Trade payables	28,864	27,788	31,487	34,017
Other current liabilities	1,763	1,763	1,763	1,763
Total Equity & Liabilities	93,612	93,379	1,00,602	1,07,674

Source: Company Data, PL Research

Cash Flow (Rs m)

Y/e Mar	FY20	FY21E	FY22E	FY23E
PBT	7,544	7,587	11,129	12,472
Add. Depreciation	4,890	4,763	4,973	5,182
Add. Interest	1,022	967	948	774
Less Financial Other Income	321	353	388	427
Add. Other	11	(353)	(388)	(427)
Op. profit before WC changes	13,467	12,965	16,662	18,000
Net Changes-WC	2,619	22	400	274
Direct tax	(1,850)	(1,844)	(2,704)	(3,031)
Net cash from Op. activities	14,237	11,143	14,357	15,243
Capital expenditures	(13,178)	(3,000)	(3,000)	(3,000)
Interest / Dividend Income	-	-	-	-
Others	290	(1,847)	(1,812)	(1,773)
Net Cash from Inv. activities	(12,889)	(4,847)	(4,812)	(4,773)
Issue of share cap. / premium	-	-	-	-
Debt changes	5,888	(3,000)	(3,000)	(3,000)
Dividend paid	(2,000)	(1,900)	(1,900)	(1,900)
Interest paid	(1,003)	(967)	(948)	(774)
Others	(180)	-	-	-
Net cash from Fin. activities	2,705	(5,868)	(5,848)	(5,674)
Net change in cash	4,053	428	3,697	4,796
Free Cash Flow	1,059	8,143	11,357	12,243

Source: Company Data, PL Research

Quarterly Financials (Rs m)

Y/e Mar	Q2FY20	Q3FY20	Q4FY20	Q1FY21
Net Revenue	43,478	41,255	34,814	14,317
YoY gr. (%)	(12.9)	(11.5)	(20.6)	(68.0)
Raw Material Expenses	31,898	29,787	26,098	10,864
Gross Profit	11,581	11,468	8,717	3,454
Margin (%)	26.6	27.8	25.0	24.1
EBITDA	3,820	3,633	2,449	(488)
YoY gr. (%)	(10.8)	(3.3)	(20.5)	(113.7)
Margin (%)	8.8	8.8	7.0	(3.4)
Depreciation / Depletion	1,241	1,213	1,243	911
EBIT	2,579	2,420	1,205	(1,399)
Margin (%)	5.9	5.9	3.5	(9.8)
Net Interest	285	211	235	523
Other Income	49	9	251	26
Profit before Tax	3,103	1,457	899	(1,896)
Margin (%)	7.1	3.5	2.6	(13.2)
Total Tax	553	247	160	(505)
Effective tax rate (%)	17.8	16.9	17.8	26.7
Profit after Tax	2,550	1,211	739	(1,391)
Minority interest	-	-	-	-
Share Profit from Associates	-	-	-	-
Adjusted PAT	1,790	1,971	1,062	(1,391)
YoY gr. (%)	(15.3)	10.5	(20.6)	(197.7)
Margin (%)	4.1	4.8	3.1	(9.7)
Extra Ord. Income / (Exp)	(760)	760	323	-
Reported PAT	2,550	1,211	739	(1,391)
YoY gr. (%)	20.7	(32.1)	(44.8)	(197.7)
Margin (%)	5.9	2.9	2.1	(9.7)
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	2,550	1,211	739	(1,391)
Avg. Shares O/s (m)	475	475	475	475
EPS (Rs)	3.8	4.1	2.2	(2.9)

Source: Company Data, PL Research

Key Financial Metrics

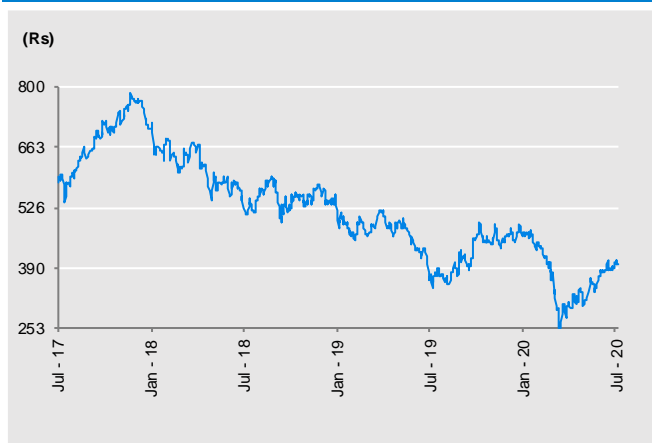
Y/e Mar	FY20	FY21E	FY22E	FY23E
Per Share(Rs)				
EPS	13.0	12.1	17.7	19.9
CEPS	23.3	22.1	28.2	30.8
BVPS	76.2	84.2	98.0	113.8
FCF	2.2	17.1	23.9	25.8
DPS	3.5	4.0	4.0	4.0
Return Ratio(%)				
RoCE	15.2	13.3	18.3	18.8
ROIC	12.9	10.9	15.9	17.7
RoE	17.7	15.1	19.5	18.8
Balance Sheet				
Net Debt : Equity (x)	0.6	0.4	0.2	0.1
Net Working Capital (Days)	(13)	(13)	(13)	(13)
Valuation(x)				
PER	30.9	33.2	22.6	20.2
P/B	5.3	4.8	4.1	3.5
P/CEPS	17.2	18.2	14.2	13.0
EV/EBITDA	15.7	16.1	12.1	10.8
EV/Sales	1.3	1.3	1.1	1.0
Dividend Yield (%)	0.9	1.0	1.0	1.0

Source: Company Data, PL Research

Key Operating Metrics

Y/e Mar	FY20	FY21E	FY22E	FY23E
Scooter volume (units)	10,75,203	9,42,063	11,34,708	12,08,933
Motorcycle volume (units)	13,63,579	11,69,317	12,87,317	13,62,977
Moped volume (units)	6,50,799	6,19,645	6,51,646	6,85,369
Total two-wheeler volume (units)	30,89,581	27,31,025	30,73,671	32,57,280
Three-wheeler volume (units)	1,73,911	1,50,211	1,66,671	1,84,983
Total volume (units)	32,63,492	28,81,236	32,40,341	34,42,262
Realisation per unit (Rs)	50,324	54,876	55,289	56,229

Source: Company Data, PL Research

Price Chart
Recommendation History


No.	Date	Rating	TP (Rs.)	Share Price (Rs.)
1	11-Jul-20	Sell	347	386
2	28-May-20	Hold	318	333
3	19-Apr-20	Hold	318	301
4	09-Apr-20	Hold	318	306
5	04-Feb-20	Hold	473	460
6	03-Jan-20	Hold	450	453
7	17-Oct-19	Hold	439	446
8	03-Oct-19	Hold	405	405

Analyst Coverage Universe

Sr. No.	Company Name	Rating	TP (Rs)	Share Price (Rs)
1	Ashok Leyland	Accumulate	59	51
2	Bajaj Auto	Hold	2,713	2,985
3	Bharat Forge	Hold	347	355
4	CEAT	Accumulate	958	894
5	Eicher Motors	BUY	20,852	19,465
6	Exide Industries	Accumulate	177	155
7	Hero Motocorp	Accumulate	2,855	2,681
8	Mahindra & Mahindra	Hold	531	545
9	Maruti Suzuki	BUY	6,442	5,956
10	Motherson Sumi Systems	BUY	116	96
11	Tata Motors	Hold	100	108
12	TVS Motors	Sell	347	386

PL's Recommendation Nomenclature (Absolute Performance)

Buy	: > 15%
Accumulate	: 5% to 15%
Hold	: +5% to -5%
Reduce	: -5% to -15%
Sell	: < -15%
Not Rated (NR)	: No specific call on the stock
Under Review (UR)	: Rating likely to change shortly

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