

Weak quarter; 2HFY21 Outlook cautiously positive

CMP: Rs 402

Rating: HOLD

Target Price: Rs 422

Stock Info

BSE	532343
NSE	TVSMOTOR
Bloomberg	TVSL IN
Reuters	TVSM.BO
Sector	Auto -2&3 Wheelers
Face Value (Rs)	1
Equity Capital (Rs mn)	475
Mkt Cap (Rs mn)	184096
52w H/L (Rs)	512/ 240
Avg Yearly Vol (in 000')	2295

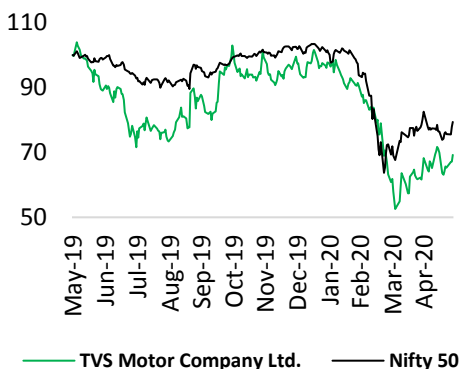
Shareholding Pattern %

(As on June, 2020)

Promoters	57.40
Public & Others	42.60

Stock Performance (%)	3m	6m	12m
TVS Motors	24.8	-17.7	5.2
Nifty	19.1	-5.4	-0.4

TVS Motors Vs Nifty



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TVS Motor loss for the quarter stood at Rs 1,391 Mn during Q1FY21. Standalone revenue stood at Rs 14,317 Mn for Q1FY21 vs Rs.44,686 Mn for the Q1FY20. Lower volumes due to Covid-19 pandemic led to fall in revenue. Company has reported EBITDA loss of Rs 488 Mn, as compared to EBITDA gain of Rs 3,558 Mn in Q1FY20. Total Volume was down by 71.1% YoY to 2,66,933 units. Both production and sales were severely impacted during the quarter. Interest cost increased due to additional borrowings in 1QFY21 to ensure timely payment to suppliers. The company implemented several cost reduction steps, which translated into cutting down its total expenditure by a sizable 64% YoY/54.3% QoQ.

Management stated that July volumes have improved over June and is close to the pre-covid levels from the year-ago period.

Conference highlights

- The company expects demand recovery in 2HFY21, with TVSL performing better than the industry on account of its portfolio.
- In domestic market, premium portfolio of Apache and Ntorq is seeing good response.
- Price increase in Q1FY21 was 0.7% and in Q2FY21 0.4% (as done in initial part of July 2020)
- For operational dealerships, demand is back at pre-COVID-19 levels. At the start of Jul'20, 85% of dealerships were operational. However, this has dropped to 75% due to fresh lockdowns in select markets.
- Expect margins to improve in 2H, driven by cost cutting and focused market strategy. Jun'20 EBITDA and PBT were positive, with July thus far faring even better.
- It took a 0.7% price hike in 1QFY21 and has taken a 0.4% price hike in July.
- Finance penetration increased to 52% v/s 46% YoY. TVS Credit holds 54% share of TVSL Financing. TVS Credit's moratorium is currently at 14% (incl. Morat 2.0) v/s 37% earlier, backed by strong collection efforts.
- Collections are now at pre-COVID-19 levels.
- Capex : Overall Rs 300 crs for FY21, in 2HFY21 the amount would be reviewed considering market situation.

Outlook and valuation

At CMP of Rs 402, TVS Motors currently trades at a FY20 P/E of 32.2x. We have upgrade our FY21/FY22 EPS estimates to reflect volume recovery. Overall, Management believes 2HFY21 is expected to do be good for the company and in FY21 it will be performing better than industry, led by normal monsoon, better Rabi crop and strong cash flows and availability of retail financing. Rural sentiments have improved. Also, Management expects TVS to outperform both in the domestic and International market.

We value TVS Motors at PE of 34x to its EPS estimate of Rs 12.41 for FY22, which yields a target price of Rs 422. **We maintain our recommendation to Hold rating on the stock.**

Quarterly result summary

Rs mn	1QFY21	4QFY20	1QFY20	YoY (%)	QoQ (%)
Net Sales	14,317	34,814	44,686	(68.0)	(58.9)
- Consumption of Raw Material	10,864	26,098	33,577	(67.6)	(58.4)
(% of Net Sales)	75.9	75.0	75.1	74bps	91bps
- Staff Expenditure	1,970	2,227	2,489	(20.8)	(11.5)
(% of Net Sales)	13.8	6.4	5.6	819bps	737bps
- Other Expenditure	1,972	4,041	5,063	(61.1)	(51.2)
(% of Net Sales)	13.8	11.6	11.3	244bps	216bps
Total Expenditure	14,806	32,366	41,128	(64.0)	(54.3)
EBITDA	-488	2,449	3,558	(113.7)	(119.9)
EBITDA Margin (%)	(3.4)	7.0	8.0	-796bps	-1044bps
Depreciation	911	1,243	1,194	(23.7)	(26.7)
EBIT	-1,399	1,205	2,364	(159.2)	(216.1)
Interest	523	235	291	79.6	122.9
Other income	26	251	12	115.8	(89.7)
PBT	-1,896	1,222	2,085	(190.9)	(255.2)
Tax	-505	160	662	(176.3)	(416.6)
Tax Rate (%)	27%	13%	32%		
Adjusted PAT	-1,391	1,062	1,423	(197.7)	(231.0)
Exceptional Item	0	323	0	NA	NA
Reported PAT	-1,391	739	1,423	(197.7)	(288.3)
EPS (INR)	-2.9	1.6	3.0	(197.8)	(289.0)
Total Volumes (In Nos)	2,66,933	6,32,920	9,23,195	(71.1)	(57.8)
Net Realisation (INR)	53,636	55,006	48,404	10.8	(2.5)
EBITDA / Vehicle (INR)	-1,829	3,869	3,854	(147.5)	(147.3)

Source: Arianth Research, Company Filings, Ace Equity, Bloomberg

Volumes (In Nos)	1QFY21	4QFY20	1QFY20	YoY (%)	QoQ (%)
Motorcycles	1,48,753	2,79,554	4,17,181	-64%	-47%
Scooters	65,666	1,67,207	2,94,532	-78%	-61%
Mopeds	41,009	1,43,557	1,71,957	-76%	-71%
Total 2W	2,55,428	5,90,318	8,83,670	-71%	-57%
3Ws	11,505	42,602	39,525	-71%	-73%
Total Volumes	2,66,933	6,32,920	9,23,195	-71%	-58%
Exports	77,914	2,03,858	2,08,784	-63%	-62%

Mix (%)	1QFY21	4QFY20	1QFY20	YoY (bps)	QoQ (bps)
Motorcycles	55.7	44.2	45.2	1,054	1,156
Scooters	24.6	26.4	31.9	-730	-182
Mopeds	15.4	22.7	18.6	-326	-732
3Ws	4.3	6.7	4.3	3	-242
Exports	29.2	32.2	22.6	657	-302

Source: Arianth Research, Company Filings, Ace Equity, Bloomberg

Profit & Loss Statement				
YE: Mar (Rs mn)	FY19	FY20	FY21E	FY22E
Net sales	1,82,099	1,64,233	1,54,435	1,71,523
Growth, %	22	-10	-6	11
RM expenses	1,38,423	1,21,359	1,14,282	1,26,927
Employee expenses	9,226	9,384	10,557	11,877
Other expenses	20,118	20,031	17,630	18,677
EBITDA (Core)	14,333	13,459	11,966	14,042
Growth, %	27	-6	-11	17
Margin, %	7.9	8.2	7.7	8.2
Depreciation	3,993	4,890	4,717	5,452
EBIT	10,340	8,568	7,249	8,590
Growth, %	31	-17	-15	18
Margin, %	5.7	5.2	4.7	5.0
Interest paid	806	1,022	1,230	1,186
Other Income	75	321	392	470
Non-recurring Items	0	-323	0	0
Pre-tax profit	9,609	7,544	6,411	7,874
Tax provided	2,908	1,622	1,603	1,976
Profit after tax	6,701	5,922	4,808	5,897
Others (Minorities, Associates)	-	-	-	-
Net Profit	6,701	5,922	4,808	5,897
Growth, %	1	-12	-19	23
Net Profit (adjusted)	6,701	5,922	4,808	5,897

Balance Sheet				
YE: Mar (Rs mn)	FY19	FY20	FY21E	FY22E
Cash & bank	439	4,192	7,114	11,325
Marketable securities				
cost	0	0	0	0
Debtors	14,141	12,814	10,578	11,748
Inventory	11,759	10,389	8,462	9,868
Loans & advances	0	0	0	0
Other current assets	5,210	4,900	5,145	5,402
Total current assets	31,549	33,329	31,299	38,344
Investments	23,008	28,467	31,467	36,967
Gross fixed assets	50,052	57,460	60,460	63,460
Less: Depreciation	-22,082	-26,972	-31,689	-37,141
Add: Capital WIP	1,166	1,266	1,266	1,266
Net fixed assets	27,970	30,488	28,771	26,319
Total assets	83,694	92,515	92,803	1,02,896
Current liabilities	33,132	33,245	25,918	28,786
Provisions	1,183	1,763	1,939	2,133
Total current liabilities	34,315	35,007	27,857	30,918
Non-current liabilities	2,126	2,438	2,438	2,438
Total liabilities	36,441	37,446	30,295	33,357
Paid-up capital	475	475	475	475
Reserves & surplus	32,998	35,706	38,291	41,686
Shareholders' equity	33,473	36,181	38,766	42,161
Total equity & liabilities	83,694	92,515	92,803	1,02,896

Cash Flow				
YE: Mar (Rs mn)	FY19	FY20	FY21E	FY22E
Pre-tax profit	9,609	7,544	6,411	7,874
Depreciation	3,993	4,890	4,717	5,452
Chg in working capital	-1,633	3,700	-3,233	228
Total tax paid	-2,768	-2,339	-1,603	-1,976
CFO	10,349	13,400	7,130	12,293
Capital expenditure	-8,099	-7,507	-3,000	-3,000
Chg in marketable securities	0	0	0	0
Chg in investments	-2,654	-5,459	-3,000	-5,500
CFI	-10,678	-12,646	-5,608	-8,030
Free cash flow	2,250	5,892	4,130	9,293
Debt raised/(repaid)	3,410	5,967	4,854	3,636
Dividend (incl. tax)	-1,946	-1,946	-2,223	-2,501
CFF	659	2,999	1,400	-51
Net chg in cash	330	3,753	2,922	4,211
Opening cash balance	109	439	4,192	7,114
Closing cash balance	439	4,192	7,114	11,325

Ratios				
YE: Mar	FY19	FY20	FY21E	FY22E
EPS (INR)	14.10	12.47	10.12	12.41
PER (x)	28.5	32.2	39.7	32.4
Price/Book (x)	4.8	4.4	4.1	3.8
EV/EBITDA (x)	14.3	15.3	17.4	14.8
EV/Net sales (x)	1.1	1.3	1.3	1.2
RoE (%)	20	16	12	14
RoCE (%)	23	16	12	13
Fixed Asset turnover (x)	3.6	2.9	2.6	2.7
Dividend Yield (%)	1.0	1.0	1.2	1.3
Receivable (days)	29	28	25	25
Inventory (days)	26	25	22	23
Payable (days)	72	81	66	67
Net D/E ratio (x)	0.4	0.4	0.5	0.4

Source: Arianth Research, Company Filings, Ace Equity, Bloomberg

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Stock Rating Scale	Absolute Return
BUY	>20%
ACCUMULATE	12% to 20%
HOLD	5% to 12%
NEUTRAL	-5% to 5%
REDUCE	-5% to -12%
SELL	<-12%

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