

Retail Equity Research (South India Focus)

**TVS Motors Ltd**

Automobile - 2/3 Wheelers

BSE CODE : 532343 NSE CODE: TVSMOTOR  
BLOOMBERG CODE: TVS IN SENSEX : 33,228

**Hold**

12M Investment Period

Rating as per Mid cap

**CMP Rs. 344 TARGET Rs. 369 RETURN 7%** ↑  
(Closing: 15-06-20)

**KEY CHANGES:**

**TARGET** ↓

**RATING** ↑

**EARNINGS** ↓

**Resilience in margin to lend support**

TVS Motors (TVS) is the third largest two-wheeler manufacturer in India with a market share of 14.8% in FY20.

- Q4FY20 revenue de-grew by 21%YoY due to sluggish Industry demand and production lock down.
- Surprisingly, EBITDA margin came in line with our expectation, led by procurement efficiencies, significant cost control measures and favorable FX/Volume mix.
- Acquisition of British brand 'Norton' catering 650-1200cc segment to strengthen global footprint.
- TVS brands like N-Troq 125 and Apache continue to witness strong traction in export market. However, domestic market to witness negative growth for the near term.
- We expect 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 stock is trading at a premium valuation on a 1 yr. fwd. basis. We value TVS at 26x (5yr historical Avg.) FY22EPS and upgrade our rating to Hold

**Resilience in margin to lend comfort**

Q4FY20 revenue de-grew by 21%YoY due to sluggish Industry demand and production lockdown. For the quarter volume decline by -30%YoY in which domestic volume decline by 37.4%YoY where as export by -4%YoY. 3W volume grew by 3%YoY owing to strong export to the new geographical market. TVS brands like N-Troq 125 and Apache continue to witness strong traction in export market and registered +8%YoY for FY20. However, growth from the domestic market remain negative at -17%YoY. EBITDA margin came in line with our expectation at 7%. Despite weak operating leverage and BS-6 led transition impact, the company is able to improve its margin consistently in the last few quarters and settled at 8.2% for the Financial year FY20, which lends comfort amid Corona crisis. Due to the covid19 pandemic we lower our revenue and PAT estimate for FY21 & FY22 by 27%/44% and 19.9%/19.7% respectively.

**Expect marginal pick from H2FY21**

We expect the industry to show some pick in Q3and Q4 due to nearing festive season and normal monsoon. TVS has maintained its market share at 14.8% for the full year FY20. However, lost domestic market share by 100bps due to -25% YoY decline in the moped segment. (discounting by entry level bikes and weak rural sentiments). We believe shift to personal mobility and improving rural sentiment is positive for moped. We factor 3% CAGR in revenue over FY20-22E and 26% for FY22, driven by the price hike, normal monsoon, improvement in export, revival in rural demand and superior product mix. We lower our volume estimate and factor -22%/25% for FY21/FY22 respectively.

**Acquisition of Norton to strengthen global foot print.**

TVS acquisition of UK's iconic sporting motorcycle band Norton in all cash deal for a sum of 16 million British pounds (Rs153cr), making its entry into the top end (850-1200cc) of the superbike category. Through this deal, TVS is well poised in gaining expertise/Technology in this category. 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 posted 30bpsYoY increase in EBITDA margin for the year. Considering the near term headwinds, the stock is currently trading at 41x and 23.5x on FY21 and FY22 EPS respectively. We value TVS at 26x ( 5yr historical avg.) FY22E EPS and upgrade our rating to Hold with a target price of Rs369.

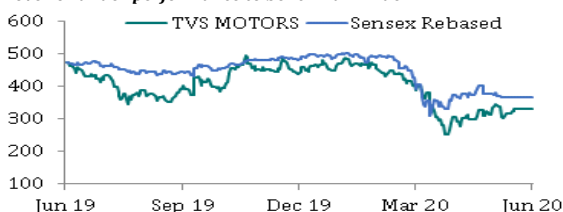
**Company Data**

Market Cap (cr)	Rs. 16,340
Enterprise Value (cr)	Rs. 17,762
Outstanding Shares (cr)	47.5
Free Float	0.4
Dividend Yield	0.0
52 week high	503
52 week low	240
6m average volume (cr)	0.3
Beta	1.0
Face value	1.0

Shareholding (%)	Q2FY20	Q3FY20	Q4FY20
Promoters	57.4	57.4	57.4
FII's	15.0	11.4	11.3
MFs/Insti	17.2	21.2	16.6
Public	10.4	10.0	14.6
Total	100.0	100.0	100.0

Price Performance	3 month	6 Month	1 Year
Absolute Return	-17.4%	-27.2%	-29.7%
Absolute Sensex	-1.7%	-18.2%	15.6%
Relative Return	-15.7%	-9.0%	-14.1%

over or under performance to benchmark index



Standalone (cr)	FY20A	FY21E	FY22E
Sales	16,423	13,302	16,794
Growth (%)	-9.8	-19.0	26.3
EBITDA	1,346	1,064	1,478
EBITDA Margin(%)	8.2	8.0	8.8
PAT Adj.	625	388	672
Growth (%)	-6.8	-37.9	73.4
Adj.EPS	13.1	8.2	14.2
Growth (%)	-6.8	-37.9	73.4
P/E	26.2	42.1	24.3
P/B	4.4	4.2	3.7
EV/EBITDA	13.2	16.8	12.2
ROE (%)	17.6	10.1	16.1
D/E	0.4	0.4	0.4

Saji John  
Research Analyst

## Quarterly Financials (Standalone)

### Profit & Loss

Rs cr	Q4FY20	Q4FY19	YoY Growth %	Q3FY20	QoQ Growth %
<b>Sales</b>	<b>3481</b>	<b>4384</b>	<b>-20.6</b>	<b>4125</b>	<b>-15.6</b>
<b>EBITDA</b>	<b>245</b>	<b>308</b>	<b>-20.5</b>	<b>363</b>	<b>-32.6</b>
EBITDA margins	7.0%	7.0%	0.0	8.8%	180bps
Depreciation	124	103	20.6	121	2.5
<b>EBIT</b>	<b>121</b>	<b>205</b>	<b>-41.2</b>	<b>242</b>	<b>-50.2</b>
Interest	23.5	24.7	0.0	21.1	11.0
Other Income	25	4	-	0.9	-
Exceptional Items	0	23	0	16	0
<b>PBT</b>	<b>90</b>	<b>184</b>	<b>-51.2</b>	<b>146</b>	<b>-38.4</b>
Tax	16	50	-68.1	24.7	-35.3
Share of profit from Associate	0	0	0	0	0
Minority Interest	0	0	0	0	0
<b>Reported PAT</b>	<b>74</b>	<b>134</b>	<b>-44.8</b>	<b>121</b>	<b>-39.0</b>
Adjustments	32	0	0	76	0
<b>Adj PAT</b>	<b>106</b>	<b>134</b>	<b>-20.6</b>	<b>197</b>	<b>-46.1</b>
No. of Shares (cr)	47.5	47.5	0	47.5	0
<b>EPS (Rs)</b>	<b>2.2</b>	<b>2.8</b>	<b>-20.6</b>	<b>4.1</b>	<b>-46.1</b>

### Change in Estimates

Year / Rs cr	Old estimates		New estimates		Change %	
	FY21E	FY22E	FY21E	FY22E	FY21E	FY22E
Revenue	18,296	20,959	13,302	16,794	-27.3	-19.9
EBITDA	1,536	1,761	1,064	1,478	-30.7	-16.1
Margins (%)	8.4	8.4	8.0	8.8	-40bps	+40bps
Adj. PAT	703	836	388	672	-44.8	-19.7
EPS	14.8	17.6	8.2	14.2	-44.8	-19.7

## Standalone Financials

### PROFIT & LOSS

Y.E March (Rs Cr)	FY18A	FY19A	FY20A	FY21A	FY22A
<b>Sales</b>	<b>15,175</b>	<b>18,210</b>	<b>16,423</b>	<b>13,302</b>	<b>16,794</b>
% change	25.1	20.0	-9.8	-19.0	26.3
<b>EBITDA</b>	<b>1,175</b>	<b>1,433</b>	<b>1,346</b>	<b>1,064</b>	<b>1,478</b>
% change	37.1	22.0	-6.1	-20.9	38.9
Depreciation	339	399	489	516	572
EBIT	836	1,034	857	548	905
Interest	57	81	102	98	104
Other Income	99	8	32	40	50
<b>PBT</b>	<b>879</b>	<b>961</b>	<b>754</b>	<b>490</b>	<b>852</b>
% change	25.8	9.4	-21.5	-35.1	73.9
Tax	216	291	162	100	175
Tax Rate (%)	0.25	0.30	0.21	0.21	0.21
<b>Reported PAT</b>	<b>663</b>	<b>670</b>	<b>592</b>	<b>389</b>	<b>677</b>
Adj.	0	0	-32	0	0
<b>Adj. PAT</b>	<b>663</b>	<b>670</b>	<b>625</b>	<b>389</b>	<b>677</b>
% change	18.7	1.1	-6.8	-37.7	73.9
No. of shares (cr)	48	48	48	48	48
<b>Adj EPS (Rs)</b>	<b>13.9</b>	<b>14.1</b>	<b>13.1</b>	<b>8.2</b>	<b>14.3</b>
% change	18.7	1.1	-6.8	-37.7	73.9
DPS (Rs)	3.3	3.5	3.5	3.5	3.5

### CASH FLOW

Y.E March (Rs Cr)	FY18A	FY19A	FY20A	FY21E	FY22E
Net inc. + Depn.	1,217	1,360	1,243	1,004	1,418
Non-cash adj.	-216	-277	-194	-146	-254
Changes in W.C	837	-704	46	103	-144
<b>C.F. Operation</b>	<b>1,838</b>	<b>380</b>	<b>1,095</b>	<b>961</b>	<b>1,020</b>
Capital exp.	-583	-579	-665	-660	-610
Change in inv.	-447	-265	-350	-100	-100
Other invest.CF	-64	19	-20	-19	-19
<b>C.F - Investment</b>	<b>-1,095</b>	<b>-825</b>	<b>-1,035</b>	<b>-779</b>	<b>-729</b>
Issue of equity	0	0	0	0	0
Issue/repay debt	-70	341	44	100	100
Dividends paid	-189	-200	-200	-200	-200
Other finance.CF	112	0	0	0	0
<b>C.F - Finance</b>	<b>-147</b>	<b>141</b>	<b>-156</b>	<b>-100</b>	<b>-100</b>
Chg. in cash	596	-305	-96	82	191
Closing cash	478	173	77	159	350

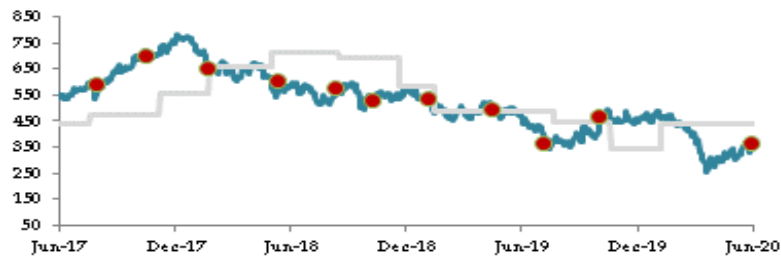
### BALANCE SHEET

Y.E March (Rs Cr)	FY18A	FY19A	FY20A	FY21E	FY22E
Cash	478	173	77	159	350
Accounts Receivable	968	1,414	1,350	1,093	1,380
Inventories	964	1,176	1,080	875	1,104
Other Cur. Assets	683	584	720	547	690
Investments	2,035	2,301	2,651	2,751	2,851
Gross Fixed Assets	4,499	5,068	5,718	6,368	6,968
Net Fixed Assets	2,317	2,518	2,679	2,852	2,919
CWIP	92	102	117	127	137
Intangible Assets	93	42	22	3	-16
Def. Tax (Net)	-213	-227	-155	-109	-28
Other Assets	19	19	0	0	0
<b>Total Assets</b>	<b>7,437</b>	<b>8,103</b>	<b>8,541</b>	<b>8,298</b>	<b>9,387</b>
Current Liabilities	480	389	540	364	460
Provisions	113	133	135	109	138
Debt Funds	1,037	1,378	1,422	1,522	1,622
Other Liabilities	0	0	0	0	0
Equity Capital	48	48	48	48	48
Reserves & Surplus	2,835	3,305	3,697	3,886	4,358
Shareholder's Fund	2,882	3,353	3,745	3,933	4,406
<b>Total Liabilities</b>	<b>7,437</b>	<b>8,103</b>	<b>8,541</b>	<b>8,298</b>	<b>9,386</b>
BVPS	<b>61</b>	<b>71</b>	<b>79</b>	<b>83</b>	<b>93</b>

### RATIOS

Y.E March	FY18A	FY19A	FY20A	FY21E	FY22E
<b>Profitab &amp; Return</b>					
EBITDA margin (%)	7.7	7.9	8.2	8.0	8.8
EBIT margin (%)	5.5	5.7	5.2	4.1	5.4
Net profit mgn.(%)	4.4	3.7	3.6	2.9	4.0
ROE (%)	25.0	21.5	17.6	10.1	16.1
ROCE (%)	15.0	12.4	10.1	6.4	9.5
<b>W.C &amp; Liquidity</b>					
Receivables (days)	20.3	23.9	30.7	33.5	26.9
Inventory (days)	31.7	28.2	33.9	36.2	29.3
Payables (days)	13.0	11.5	14.0	16.8	12.2
Current ratio (x)	5.8	7.3	5.3	6.4	6.7
Quick ratio (x)	3.0	4.1	2.6	3.4	3.8
<b>Turnover &amp; Leverage</b>					
Gross asset T.O (x)	3.6	3.8	3.0	2.2	2.5
Total asset T.O (x)	2.3	2.3	2.0	1.6	1.9
Int. covge. ratio (x)	14.8	12.8	8.4	5.5	8.2
Adj. debt/equity (x)	0.4	0.4	0.4	0.4	0.4
<b>Valuation</b>					
EV/Sales (x)	1.1	1.0	1.1	1.3	1.1
EV/EBITDA (x)	14.8	12.4	13.2	16.8	12.2
P/E (x)	24.7	24.4	26.2	42.1	24.3
P/BV (x)	5.9	4.9	4.4	4.2	3.7

## Recommendation summary (Last 3 Years)



Dates	Rating	Target
02-05-2017	Reduce	471
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

Source: Bloomberg, Geojit Research.

## 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.

To satisfy regulatory requirements, we attribute 'Accumulate' as Buy and 'Reduce' as Sell.

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