

**Weak quarter; 2HFY21 Outlook cautiously positive**

**CMP: Rs 336**

**Rating: HOLD**

**Target Price: Rs 352**

**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 bn)	162
52w H/L (Rs)	512/ 240
Avg Yearly Vol (in 000')	2295

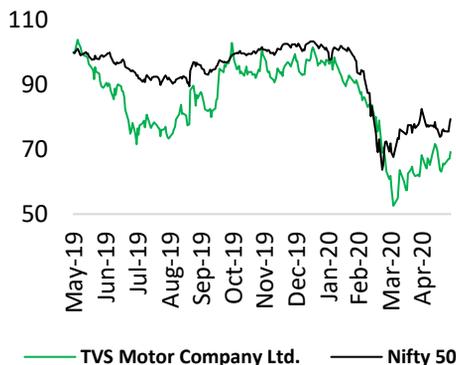
**Shareholding Pattern %**

(As on March, 2020)

Promoters	57.40
Public & Others	42.60

Stock Performance (%)	3m	6m	12m
TVS Motors	-18.4	-26.8	-29.7
Nifty	-3.95	-21.4	-20.6

**TVS Motors Vs Nifty**



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TVS Motor (TVS) reported a 44.8% YoY decline in its standalone net profit to Rs739mn for the Q4FY20 due to a 30% fall in its quarterly total sales volume. The company had reported a profit Rs1338mn in Q4FY19. The company has reported a decline of 21% YoY in its standalone revenue from operations at Rs34,814mn for the Q4FY20 under review as compared to Rs43,840 mn in the Q4FY19. EBITDA stood at Rs 2449mn, down 20.5% YoY for Q4FY20 as compared to Rs 3081mn in the Q4FY19, EBITDA margin was flat at 7% in Q4FY20 on account of negative operating leverage. Going forward, commodity prices will continue to remain benign which will support margins. The results suggest the company cut its expenses for the March quarter by about 20%, largely led by reduced cost of materials consumed along with the finished goods related cost absorption.

**Concall highlights**

- 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). One-time additional incentive of Rs220mn was provided to dealers for liquidating leftover BS-IV stock. The company incurred Rs323.3mn towards Covid-19 related expenses, which is reported as an exceptional item.
- Other Income was high in 4QFY20, on account of IT related refund.
- The company's capacity utilisation across its manufacturing units was at 60-62% in 2W and about 90% in 3W during the last fiscal. The senior management said the company has planned a capex of Rs300 crore in FY21.
- TVS has consistently outperformed in both 2W and 3W exports. 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.
- 80% of sales in 4QFY20 are from BS VI vehicles, more than 100000 BS VI vehicles were sold and it got good response from customers.

**Outlook and valuation**

At CMP of Rs 336 TVS Motors trades at PE of 29.6x its earning estimates of FY22. We have lowered our revenue estimates owing to factor in the impact of disruption in 2W and 3W industry in near term due to the ongoing pandemic with both demand and supply remaining uncertain. 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 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 the domestic industry. We value TVS Motors at PE of 31x to its EPS estimate of Rs 11.35 for FY22, which yields a target price of Rs 352. **We downgrade our rating to Hold from Accumulate earlier.**

## Quarterly result summary

Standalone (Rs Mn)	4QFY20	4QFY19	3QFY20	YoY (%)	QoQ (%)
<b>Net Sales</b>	<b>34,814</b>	<b>43,840</b>	<b>41,255</b>	<b>(20.6)</b>	<b>(15.6)</b>
- Consumption of Raw Material	26,098	33,593	29,787	(22.3)	(12.4)
(% of Net Sales)	75.0	76.6	72.2	-166bps	276bps
- Staff Expenditure	2,227	2,036	2,332	9.4	(4.5)
(% of Net Sales)	6.4	4.6	5.7	175bps	70bps
- Other Expenditure	4,041	5,130	5,503	(21.2)	(26.6)
(% of Net Sales)	11.6	11.7	13.3	-9bps	-169bps
Total Expenditure	32,366	40,759	37,622	(20.6)	(14.0)
<b>EBITDA</b>	<b>2,449</b>	<b>3,081</b>	<b>3,633</b>	<b>(20.5)</b>	<b>(32.6)</b>
<b>EBITDA Margin (%)</b>	<b>7.0</b>	<b>7.0</b>	<b>8.8</b>	<b>0bps</b>	<b>-177bps</b>
Depreciation	1,243	1,031	1,213	20.6	2.5
<b>EBIT</b>	<b>1,205</b>	<b>2,050</b>	<b>2,420</b>	<b>(41.2)</b>	<b>(50.2)</b>
Interest	235	247	211	(5.0)	11.0
Other income	251	36	9	601.4	2,721.3
PBT	1,222	1,839	2,209	(33.6)	(44.7)
Tax	160	501	247	(68.1)	(35.3)
Tax Rate (%)	13%	27%	11%		
<b>Adjusted PAT</b>	<b>1,062</b>	<b>1,338</b>	<b>1,971</b>	<b>(20.6)</b>	<b>(46.1)</b>
Exceptional Item	323	0	760	NA	(57.5)
<b>Reported PAT</b>	<b>739</b>	<b>1,338</b>	<b>1,211</b>	<b>(44.8)</b>	<b>(39.0)</b>
EPS (INR)	1.6	2.8	2.6	(45.0)	(39.2)
<b>Total Volumes (In Nos)</b>	<b>6,32,920</b>	<b>9,07,328</b>	<b>8,21,521</b>	<b>(30.2)</b>	<b>(23.0)</b>
<b>Net Realisation (INR)</b>	<b>55,006</b>	<b>48,318</b>	<b>50,217</b>	<b>13.8</b>	<b>9.5</b>
EBITDA / Vehicle (INR)	3,869	3,396	4,422	13.9	(12.5)

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

Volumes (In Nos)	4QFY20	4QFY19	3QFY20	YoY (%)	QoQ (%)
Motorcycles	2,79,554	3,74,890	3,25,320	-25%	-14%
Scooters	1,67,207	2,70,711	2,80,322	-38%	-40%
Mopeds	1,43,557	2,20,188	1,67,488	-35%	-14%
<b>Total 2W</b>	<b>5,90,318</b>	<b>8,65,789</b>	<b>7,73,130</b>	<b>-32%</b>	<b>-24%</b>
3Ws	42,602	41,539	48,391	3%	-12%
<b>Total Volumes</b>	<b>6,32,920</b>	<b>9,07,328</b>	<b>8,21,521</b>	<b>-30%</b>	<b>-23%</b>
<b>Exports</b>	<b>2,03,858</b>	<b>1,95,625</b>	<b>2,16,911</b>	<b>4%</b>	<b>-6%</b>

Mix (%)	4QFY20	4QFY19	3QFY20	YoY (bps)	QoQ (bps)
Motorcycles	44.2	41.3	39.6	285	457
Scooters	26.4	29.8	34.1	-342	-770
Mopeds	22.7	24.3	20.4	-159	229
3Ws	6.7	4.6	5.9	215	84
Exports	32.2	21.6	26.4	1,065	581

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

Profit & Loss Statement				
YE: Mar (Rs mn)	FY19	FY20	FY21E	FY22E
<b>Net sales</b>	<b>1,82,099</b>	<b>1,64,233</b>	<b>1,54,435</b>	<b>1,69,116</b>
Growth, %	22	-10	-6	10
RM expenses	1,38,423	1,21,359	1,14,282	1,25,146
Employee expenses	9,226	9,384	10,557	11,877
Other expenses	20,118	20,031	17,630	18,415
<b>EBITDA (Core)</b>	<b>14,333</b>	<b>13,459</b>	<b>11,966</b>	<b>13,679</b>
Growth, %	27	-6	-11	14
Margin, %	7.9	8.2	7.7	8.1
Depreciation	3,993	4,890	5,306	5,576
<b>EBIT</b>	<b>10,340</b>	<b>8,568</b>	<b>6,660</b>	<b>8,102</b>
Growth, %	31	-17	-22	22
Margin, %	5.7	5.2	4.3	4.8
Interest paid	806	1,022	1,181	1,355
Other Income	75	321	385	462
Non-recurring Items	0	-323	0	0
<b>Pre-tax profit</b>	<b>9,609</b>	<b>7,544</b>	<b>5,864</b>	<b>7,209</b>
Tax provided	2,908	1,622	1,780	1,817
<b>Profit after tax</b>	<b>6,701</b>	<b>5,922</b>	<b>4,084</b>	<b>5,392</b>
Others (Minorities, Associates)	-	-	-	-
<b>Net Profit</b>	<b>6,701</b>	<b>5,922</b>	<b>4,084</b>	<b>5,392</b>
Growth, %	1	-12	-31	32
<b>Net Profit (adjusted)</b>	<b>6,701</b>	<b>5,922</b>	<b>4,084</b>	<b>5,392</b>

Balance Sheet				
YE: Mar (Rs mn)	FY19	FY20	FY21E	FY22E
Cash & bank	439	4,192	6,979	10,709
Marketable securities cost	0	0	0	0
Debtors	14,141	12,814	10,578	11,583
Inventory	11,759	10,389	8,462	9,730
Loans & advances	0	0	0	0
Other current assets	5,210	4,900	5,145	5,402
<b>Total current assets</b>	<b>31,549</b>	<b>33,329</b>	<b>31,164</b>	<b>37,424</b>
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	-32,278	-37,855
Add: Capital WIP	1,166	1,266	1,266	1,266
<b>Net fixed assets</b>	<b>27,970</b>	<b>30,488</b>	<b>28,181</b>	<b>25,605</b>
<b>Total assets</b>	<b>83,694</b>	<b>92,515</b>	<b>92,078</b>	<b>1,01,262</b>
Current liabilities	33,132	33,245	25,918	28,382
Provisions	1,183	1,763	1,939	2,133
<b>Total current liabilities</b>	<b>34,315</b>	<b>35,007</b>	<b>27,857</b>	<b>30,514</b>
Non-current liabilities	2,126	2,438	2,438	2,438
<b>Total liabilities</b>	<b>36,441</b>	<b>37,446</b>	<b>30,295</b>	<b>32,953</b>
Paid-up capital	475	475	475	475
Reserves & surplus	32,998	35,706	37,566	40,456
Shareholders' equity	33,473	36,181	38,041	40,931
<b>Total equity &amp; liabilities</b>	<b>83,694</b>	<b>92,515</b>	<b>92,078</b>	<b>1,01,262</b>

Cash Flow				
YE: Mar (Rs mn)	FY19	FY20	FY21E	FY22E
<b>Pre-tax profit</b>	<b>9,609</b>	<b>7,544</b>	<b>5,864</b>	<b>7,209</b>
Depreciation	3,993	4,890	5,306	5,576
Chg in working capital	-1,633	3,700	-3,233	127
Total tax paid	-2,768	-2,339	-1,780	-1,817
<b>CFO</b>	<b>10,349</b>	<b>13,400</b>	<b>6,952</b>	<b>11,988</b>
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
<b>CFI</b>	<b>-10,678</b>	<b>-12,646</b>	<b>-5,615</b>	<b>-8,038</b>
Free cash flow	2,250	5,892	3,952	8,988
Debt raised/(repaid)	3,410	5,967	4,854	3,636
Dividend (incl. tax)	-1,946	-1,946	-2,223	-2,501
<b>CFF</b>	<b>659</b>	<b>2,999</b>	<b>1,450</b>	<b>-221</b>
<b>Net chg in cash</b>	<b>330</b>	<b>3,753</b>	<b>2,787</b>	<b>3,730</b>
Opening cash balance	109	439	4,192	6,979
<b>Closing cash balance</b>	<b>439</b>	<b>4,192</b>	<b>6,979</b>	<b>10,709</b>

Ratios				
YE: Mar	FY19	FY20	FY21E	FY22E
EPS (INR)	14.10	12.47	8.60	11.35
PER (x)	23.8	27.0	39.1	29.6
Price/Book (x)	4.8	4.4	4.2	3.9
EV/EBITDA (x)	12.1	13.0	14.8	13.0
EV/Net sales (x)	0.9	1.1	1.1	1.0
RoE (%)	20	16	11	13
RoCE (%)	23	16	11	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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