

# TVS Motor Co Ltd

Sector: Auto-Ancillary /Mid-Cap | Earnings Update – 4QFY20

**UNDER PERFORMER**

2 June 2020

**Background:** TVS Motor Company Limited (TVSM), the third-largest two-wheeler manufacturer in India, is a part of TVS Group; it manufactures motorcycles, scooters, mopeds and three-wheelers in India. TVS Motors is credited with many innovations in the Indian automobile industry, notable among them being the introduction of India's first two-seater moped, the TVS 50cc. The company has presence in all the three sub-segments of two wheelers, i.e., motorcycles, scooters & mopeds as well as the three-wheeler segment.

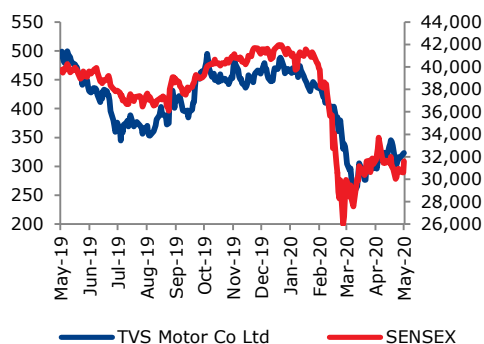
Sensex	41,217
Nifty	12,092
Price	₹ 351
Target Price (12 months)	₹ 328
Recommendation	UNDER PERFORMER
52 Week High/Low	₹ 511.7/240.1
Bloomberg / Reuters	TVSL IN /TVSM.BO
Equity (shares in mn)	475.1
Mkt. Cap in bn	₹ 166.7/ \$ 2.2
Avg. Daily Vol. ('000)	2,571.8
Avg. Daily Vol. (mn)	₹ 902.7 /\$ 11.9

Shareholding	Mar-19	Dec-19	Mar-20
Promoters (%)	57.4	57.4	57.4
FII (%)	15.9	12.2	11.4
DII (%)	15.8	20.3	21.2
Others (%)	10.9	10.0	10.0
Pledge (% of promoter holding)	0.0	0.0	0.0

### Valuation Summary (₹ bn)

Y/E March	2020	2021E	2022E
Revenue	164.2	157.6	181.0
EBITDA	13.5	12.6	14.9
Adj PAT	5.9	5.1	6.8
Adj EPS	12.5	10.6	14.3
% growth	-10.7	-14.6	34.8
P/E	28.2	33.0	24.5
P/ BV	4.8	4.5	4.1
EV/EBITDA	13.5	14.5	12.2
EV/Sales	1.1	1.2	1.0
Div Yield (%)	1.0	0.8	1.1
ROE (%)	17.0	13.1	15.9

Performance(%)	1M	3M	12M
TVS MOTOR Co Ltd	7.9	-26.4	-34.9
SENSEX	-0.4	-20.5	-20.4



### Weak quarter; Volumes decline sharply across segments, better realizations helped sustain margins, near term recovery in volume looks unlikely

- TVS motor's revenue declined by 20.6% YoY (-15.6% QoQ) to ₹ 34,814mn on account of a 30% YoY/22.9% QoQ decline in volumes in 4QFY20. However, the realizations improved by 13.8% YoY driven by favorable product mix (85% dispatches in 4QFY20 were BS-6). For FY21 management remains optimistic on volume recovery in 2HFY21, driven by covid forced social distancing norms which are likely to push demand for personal vehicles, specially in premium and entry level segments
- The Company's total export of 2W and 3W vehicles increased by 4.2% to reach 2.04 Lakh units during the quarter compared to 1.96 Lakh units same period last year. The export volumes during the quarter were largely impacted by lockdowns and sharp fall in crude oil prices which muted the demand for vehicles in oil dependent nations like Nigeria etc. However the management expects export market to recover gradually as more countries are opening and crude oil prices are recovering.
- The company started transition from BS-IV to BS-VI in 3QFY20, which enabled it to ensure complete readiness of BS-VI vehicle supply in 4QFY20. The Company, including its dealers almost entirely retailed all BS-IV vehicles before March 31, 2020. Around 70% of the company's dealerships have opened and the company expects the demand to recover by 2HFY21.
- The company revised down its FY21 Capex plan for new product development to ₹3bn compared to ₹7.2bn in FY20. The company has a manufacturing capacity of 4.8mn units and has ruled out new capacity expansion for the year ahead. These cost saving measures coupled with easing raw material prices and higher realisations should support margins going forward.
- During the quarter company incurred ₹323mn one-time cost for Covid 19 related issues and classified it as exceptional expense. Higher other income of ₹250mn was on account of income tax refund of ₹200mn which partially mitigated the exceptional expense. The reported PAT for 4QFY20 stood at ₹739mn (down 44% YoY).
- The domestic 2W sector was already going through a challenging environment due to liquidity crunch, availability of retail financing and higher cost of ownership due to regulatory changes. On top of these the Covid induced lockdowns further resulted in production and sales disruption and piling up of inventories at dealer levels, Given the existing pressures on the sector coupled with weak macro environment. We expect volume recovery to take time and be gradual. The Management expects recovery in 2HFY21.

**Valuation:** The outlook for first half of FY21 remains challenging on account of staggered opening of the lockdown and weak demand for higher priced BS VI models. Further margin expansion would depend on the continued implementation of cost control strategy of the company coupled with lower cost of raw materials. However, a healthy monsoon, better Rabi crop and improving liquidity conditions are expected to provide the support for volume growth. We arrive at a target price of ₹ 328 based on P/E of 22.8x FY22EPS and upgrade the stock to a UNDER PERFORMER rating.

**Risks:** Slower than expected recovery in volumes; Supply constraints for BS-VI components

### Results Summary 4QFY20

Y/E March ( INR mn)	4QFY20	4QFY19	YoY Growth	3QFY20	QoQ Growth
<b>Revenue</b>	34,814	43,840	-20.6%	41,255	-15.6%
<b>EBITDA</b>	2,449	3,081	-20.5%	3,633	-32.6%
<b>Depreciation</b>	1,243	1,031	20.6%	1,213	2.5%
<b>Other Income</b>	251	36	601.4%	9	2721.3%
<b>PBT</b>	1,222	1,839	-33.6%	2,218	-44.9%
<b>Tax</b>	160	501	-68.1%	247	-35.3%
<b>PAT</b>	739	1,338	-44.8%	1,211	-39.0%
<b>Adj. PAT</b>	1,020	1,338	-23.8%	1,887	-45.9%
<b>EBITDA Margin (%)</b>	7.0	7.0		8.8	
<b>Tax Incidence (%)</b>	13.1	27.2		11.1	
<b>PAT Margin (%)</b>	2.9	3.1		4.6	

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