TVS Motor Co Ltd

SELL

Sector: Auto-Ancillary /Mid-Cap | Earnings Update – 1QFY21

3 August 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	37,606
Nifty	11,073
Price	₹ 387
Target Price (12 months)	₹ 296
Recommendation	SELL

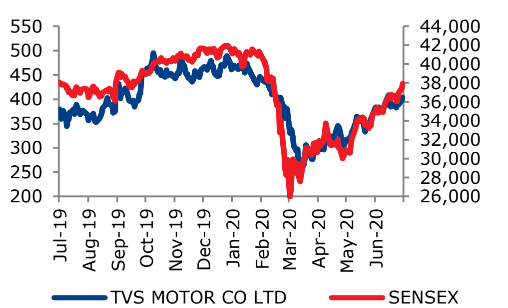
52 Week High/Low	₹ 503.0/240.1
Bloomberg / Reuters	TVSL IN /TVSM.BO
Equity (shares in mn)	475.1
Mkt. Cap in bn	₹ 183.8/ $ 2.4
Avg. Daily Vol. ('000)	3,032.9
Avg. Daily Vol. (mn)	₹ 1,173.7 /$ 15.6

Shareholding	Jun-19	Mar-20	Jun-20
Promoters (%)	57.4	57.4	57.4
FII (%)	15.7	11.4	10.5
DII (%)	16.4	21.2	22.0
Others (%)	10.5	10.0	10.1
Pledge (% of promoter holding)	0.0	0.0	0.0

Valuation Summary (₹ bn)

Y/E March	2020	2021E	2022E
Revenue	164.2	130.7	172.8
EBITDA	13.5	10.4	14.2
Adj PAT	5.9	3.5	6.1
Adj EPS	12.5	7.4	12.9
% growth	-10.7	-41.0	75.1
P/E	31.0	52.6	30.1
P/ BV	5.3	5.0	4.7
EV/EBITDA	14.8	19.1	14.1
EV/Sales	1.2	1.5	1.2
Div Yield (%)	0.9	0.5	0.9
ROE (%)	17.0	9.3	14.7

Performance(%)	1M	3M	12M
TVS MOTOR Co Ltd	9.2	29.8	1.8
SENSEX	9.2	23.8	-1.1



Weak Quarter: Lockdowns impacted volumes while competitive sector dynamics led to market share losses; near term pressure on earnings likely to continue while support to come from recovery in rural demand and new product launches

- TVS motor's revenue declined by 68% YoY (-58.9% QoQ) to ₹14.3bn on account of a 71.1% YoY/57.8% QoQ decline in volumes in 1QFY21. The realizations declined by 2.5% QoQ owing to adverse product mix. The company took a price hike of 0.7% to pass on the higher costs of BS-VI. The volume decline during the quarter was attributable to the covid lockdown that disrupted both demand and production. For FY21E management remains optimistic on volume recovery in 2HFY21, driven by need for personal mobility owing to social distancing norms, especially in premium and entry level segments. The management expects to beat industry volume growth.
- In 1QFY21, the Company's total export of 2W and 3W vehicles declined by 61.2% to reach 0.81 Lakh units compared to 2.09 lakh units same period last year. The export volumes during the quarter were largely impacted by lockdowns resulting in revenue of ₹4.6bn in 1QFY21. The management expects export market to recover by September as more countries are opening and crude oil prices are recovering.
- The company faced production challenges amidst good demand resulting in, lean stocks across the market (<30 days with dealers). The management is confident of handling the supply challenges going into August and September by aligning the production to demand levels. Around 75% of the company's dealerships have opened and the company expects the demand to recover by 2HFY21.
- Lower volumes coupled with cost reduction initiatives pushed RM cost lower to ₹10.9bn (down 68% YoY/ 58% QoQ). These cost saving measures coupled with softening raw material prices and stable realizations should support margins going forward.
- The company sharply lowered its capex plan for FY21 to ₹3bn compared to ₹7.2bn in FY20. The management intends to further review capex plan in 2HFY21 based on market conditions.
- The Interest costs during the quarter increased sharply (123% QoQ), as company made additional borrowings to pay suppliers on time. The management has confirmed on repayment of these borrowings on the back good collection during July and the borrowings are back to precovid levels. The reported Net Loss for 1QFY21 stood at ₹1.3bn.
- 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. We expect volume recovery to be driven by rural markets as growth from premium segment will be gradual owing to urban lockdowns. The Management expects recovery (above industry levels) in 2HFY21.

Valuation: The outlook for first half of FY21 remains challenging on account of staggered opening of the lockdown, supply disruptions and weak demand for higher priced BS VI models. Any further lockdowns could impact revival of volume growth in the coming quarters resulting in continued pressure on margins. At present earnings recovery would depend on the continued implementation of cost control measures of the company, demand recovery and new product launches. We arrive at a target price of ₹ 296 based on P/E of 23x FY22EPS and downgrade the stock to a SELL rating (earlier: UNDER PERFORMER).

Risks: Faster than expected recovery in volumes; Easing of supply constraints for BS-VI components

Results Summary 1QFY21

Y/E March (₹ mn)	1QFY21	1QFY20	YoY Growth	4QFY20	QoQ Growth
Revenue	14,317.3	44,686.2	-68.0%	34,814.2	-58.9%
EBITDA	-488.2	3,557.9	-113.7%	2,448.5	-119.9%
Depreciation	910.8	1,193.7	-23.7%	1,243.4	-26.7%
Other Income	25.9	12.0	115.8%	251.1	-89.7%
PBT	-1,896.0	2,085.1	-190.9%	1,221.6	-255.2%
Tax	-505.3	662.1	-176.3%	159.6	-416.6%
PAT	-1,390.7	1,423.0	-197.7%	738.7	-288.3%
Adj. PAT	-1,390.7	1,423.0	-197.7%	1,019.8	-236.4%
EBITDA Margin (%)	-3.4	8.0		7.0	
Tax Incidence (%)	26.7	31.8		13.1	
PAT Margin (%)	-9.7	3.2		2.9	

Arjun Prasad Pasumarthi +91-44-40047363 arjunpp@chola.murugappa.com

DISCLOSURES/ APPENDIX
I. ANALYST CERTIFICATION

I, **Arjun Prasad Pasumarthi** hereby certify (1) that the views expressed in this research report accurately reflect my personal views about any or all of the subject securities or issuers referred to in this research report, (2) No part of my compensation was, is, or will be directly or indirectly related to the specific recommendations or views expressed in this research report by Cholamandalam Securities Limited or its Group/associates companies. (3) Has taken reasonable care to achieve and maintain independence and objectivity in making any recommendations.

Disclosure of Interest Statement	Update
Analyst holding in the stock	No
Served as an officer, director or employee	No

II. ISSUER SPECIFIC REGULATORY DISCLOSURES, Unless specifically mentioned in Point No. 9 below:

1. The Research Analyst(s), Cholamandalam Securities Limited (CSL), Associate of Analyst or his relative does not have any financial interest in the company(ies) covered in this report.

2. The Research Analyst, CSL or its associates or relatives of the Research Analyst associates collectively do not hold more than 1% of the securities of the company (ies) covered in this report as of the end of the month immediately preceding the distribution of the research report.

3. The Research Analyst, his associate, his relative and CSL do not have any other material conflict of interest at the time of publication of this research report.

4. The Research Analyst, CSL and its associates have not received compensation for investment banking or merchant banking or brokerage services or for any other products or services from the company(ies) covered in this report, in the past twelve months.

5. The Research Analyst, CSL or its associates have not managed or co-managed in the previous twelve months, a private or public offering of securities for the company (ies) covered in this report.

6. CSL or its associates have not received compensation or other benefits from the company (ies) covered in this report or from any third party, in connection with the research report.

7. The Research Analyst has not served as an Officer, Director or employee of the company (ies) covered in the Research report.

8. The Research Analyst and CSL has not been engaged in market making activity for the company (ies) covered in the Research report.

9. Details CSL, Research Analyst and its associates pertaining to the companies covered in the Research report:

Sr.No.	Particulars	Yes/No
1	Whether compensation has been received from the company(ies) covered in the Research report in the past 12 months for investment banking transaction by CSL	No
2	Whether Research Analyst, CSL or its associates or relatives of the Research Analyst associates collectively hold more than 1% of the company(ies) covered in the Research report	No
3	Whether compensation has been received by CSL or its associates from the company(ies) covered in the Research report	No
4	CSL or its associates have managed or co-managed in the previous twelve months a private or public offering of securities for the company(ies) covered in the Research report	No
5	Research Analyst, his associate, CSL or its associates have received compensation for investment banking or merchant banking or brokerage services or for any other products or services from the company(ies) covered in the Research report, in the last twelve month	No

10. There are no material disciplinary action that been taken by any regulatory authority impacting equity research analysis activities.

STOCK RATINGS

BUY: The stock's total return is expected to exceed 15 % over the next 12 months.

OUT PERFORMER: The stock's total return is expected to be within 5-15% over the next 12 months.

MARKET PERFORMER: The stock's total return is expected to be between -5% to +5% over the next 12 months.

UNDER PERFORMER: The stock's total return is expected to be between -15% to -5% over the next 12 months.

SELL: The stock's total return is expected to more than -15% over the next 12 months.

III. DISCLAIMER

The information and opinions contained herein have been compiled or arrived at, based upon information obtained in good faith from sources believed to be reliable. Such information has not been independently verified and no guaranty, representation of warranty, express or implied, is made as to its accuracy completeness or correctness.

This document is for information purposes only. This report is based on information that we consider reliable, but we do not represent that it is accurate or complete, and one should exercise due caution while acting on it. Descriptions of any company or companies or their securities mentioned herein are not complete and this document is not, and should not be construed as an offer or solicitation of an offer to buy or sell any securities or other financial instruments.

Past performance is not a guide for future performance, future returns are not guaranteed and a loss of original capital may occur. All opinions, projections and estimates constitute the judgment of the author as on the date of the report and these, plus any other information contained in the report, are subject to change without notice. Prices and availability of financial instruments also are subject to change without notice. This report is intended for distribution to institutional investors.

This report is not directed to or intended for display, downloading, printing, reproducing or for distribution to or use by, any person or entity that is a citizen or resident or located in any locality, state, country or other jurisdiction where such distribution, publication, reproduction, availability or use would be contrary to law or regulation or what would subject to CSL or its associates to any registration or licensing requirement within such jurisdiction. If this report is inadvertently send or has reached any individual in such country, especially, USA, the same may be ignored and brought to the attention of the sender. Neither this document nor any copy of it may be taken or transmitted into the United State (to U.S.Persons), Canada, or Japan or distributed, directly or indirectly, in the United States or Canada or distributed or redistributed in Japan or to any resident thereof.

Any unauthorized use, duplication, redistribution or disclosure of this report including, but not limited to, redistribution by electronic mail, posting of the report on a website or page, and/or providing to a third party a link, is prohibited by law and will result in prosecution. The information contained in the Report is intended solely for the recipient and may not be further distributed by the recipient to any third party.

CSL generally prohibits its analysts, persons reporting to analysts, and members of their households from maintaining a financial interest in the securities or derivatives of any companies that the analysts cover. Additionally, CSL generally prohibits its analysts and persons reporting to analysts from serving as an officer, director, or advisory board member
Of any companies that the analysts cover. Our salespeople, traders, and other professionals or associates may provide oral or written market commentary or trading strategies to our clients that reflect opinions that are contrary to the opinions expressed herein. Our proprietary trading and investing businesses may make investment decisions that are inconsistent with the recommendations expressed herein.

The views expressed in this research report reflect the personal views of the analyst(s) about the subject securities or issues, and no part of the compensation of the research analyst(s) was, is, or will be directly or indirectly related to the specific recommendations and views expressed by research analyst(s) in this report. The compensation of the analyst who prepared this document is determined exclusively by CSL however, compensation may relate to the revenue of CSL, of which sales and trading are a part. Research analysts and sales persons of CSL may provide important inputs to its affiliated company (ies).

Foreign currencies denominated securities, wherever mentioned, are subject to exchange rate fluctuations, which could have an adverse effect on their value or price, or the income derived from them. In addition, investors in securities such as ADRs, the values of which are influenced by foreign currencies effectively assume currency risk. CSL, its directors, analysts or employees do not take any responsibility, financial or otherwise, of the losses or the damages sustained due to the investments made or any action taken on basis of this report including but not restricted to fluctuation in the prices of shares and bonds, changes in the currency rates, diminution in the NAVs, reduction in the dividend or income, etc

CSL and its associates, officers, directors, and employees subject to the information given in the disclosures may: (a) from time to time, have long or short positions in, and buy or sell the securities thereof, of company (ies) mentioned herein or (b) be engaged in any other transaction involving such securities and earn brokerage or other compensation (financial interest) or act as a market maker in the financial instruments of the company (ies) discussed herein or act as advisor or lender / borrower to such company (ies) or have other potential material conflict of interest with respect to any recommendation and related information and opinions. The views expressed are those of the analyst and the Company may or may not subscribe to the views expressed therein.

CSL, its associates and any third party involved in, or related to, computing or compiling the information hereby expressly disclaim all warranties of originality, accuracy, completeness, merchantability or fitness for a particular purpose with respect to any of this information. Without limiting any of the foregoing, in no event shall CSL, any of its associates or any third party involved in, or related to, computing or compiling the information have any liability for any damages of any kind. The Company accepts no liability whatsoever for the actions of third parties.

The Report may provide the addresses of, or contain hyperlinks to, websites. Except to the extent to which the Report refers to website material of the Company, the Company has not reviewed the linked site. Accessing such website or following such link through the report or the website of the Company shall be at your own risk and the Company shall have no liability arising out of, or in connection with, any such referenced website

CSL shall not be liable for any delay or any other interruption which may occur in presenting the data due to any technical glitch to present the data. In no event shall the CSL be liable for any damages, including without limitation, direct or indirect, special, incidental, or consequential damages, losses or expenses arising in connection with the data presented by CSL through this presentation.

Neither CSL, nor any of its other group companies or associates, shall be responsible for any decisions taken on the basis of this report. Investors are advised to consult their Investment and Tax consultants before taking any investment decisions based on this report.

RESEARCH			
Kedar S Kadam	DGM & Head of Research	+91-44 - 4004 7361	kedarsk@chola.murugappa.com
Mugilan K	Technical Analyst	+91-44 - 4004 7353	mugilank@chola.murugappa.com
Arjun Prasad Pasumarthi	Fundamental Analyst	+91-44 - 4004 7363	arjunpp@chola.murugappa.com
Ammar Haider	Associate	+91-44 - 4004 7360	amarh@chola.murugappa.com
INSTITUTIONAL SALES			
Venkat Chidambaram	Head of FII Business & Corporate Finance*	+91-44 - 24473310	venkatc@chola.murugappa.com
Kishore K Ganti	Mumbai	+91-22-26597239	kishorekg@chola.murugappa.com
Bhavesh Katariya	Mumbai	+91-9860297739	bhaveshgk@chola.murugappa.com
Balaji H	Compliance Officer	044 - 30007226	balajih@chola.murugappa.com

*Employees of Business Partner - RCCR