

CMP: Rs 439

Rating: NEUTRAL

Target: Rs 431

(NR-Not Rated)

Stock Info

INDEX	
BSE	532343
NSE	TVSMOTOR
Bloomberg	TVSL IN
Reuters	TVSM.NS
Sector	Automobiles
Face Value (Rs)	1
Equity Capital (Rs mn)	475.1
Mkt Cap (Rs bn)	208
52w H/L (Rs)	604 / 428
Avg Weekly Vol (BSE+NSE)	49,59,940

Shareholding Pattern

	%
(As on March, 2019)	
Promoters	57.4
Public & Others	42.6

Source: NSE, Arihant Research

Stock Performance (%)	3m	6m	12m
TVSL	-2.8	-19.6	-22.9
SENSEX	2.5	10.3	9.6

Source: ACE Equity, Arihant Research

TVSL v/s SENSEX



Source: ACE Equity, Arihant Research

FY19 Annual report analysis

Industry growth outlook of 6-8% owing to macro headwinds

TVS Motor Co (TVSL) expects the 2W industry to grow by 6-8% in FY20 as the growth will be impacted by 1) the high year-end inventory levels led by weak domestic demand environment; 2) costs implications from rising commodity prices and implementation of safety regulations from Apr 2019; 3) Increasing competitive intensity owing to high BS VI transition costs coupled with on-going discounts which may have an impact on the growth in H2; 4) the USA-China trade war tensions coupled with Brexit may keep the crude oil elevated and thus leaving limited scope for the softening of the domestic fuel prices.

Growth led by new products, refreshes and robust exports

TVSL reported 11.6% YoY growth backed by the new products like *Ntorq 125*, *Apache 160-4V*, *Radeon* and refreshes like *XL100*. Motorcycles grew by 15% YoY whereas the scooter sales stood at 14.6% YoY. 3W sales were up by 57.6% YoY owing to stronger demand from export markets. The industry witnessed a YoY decline in scooter share by 140bps to 31.6% from 33% in FY18 while the motorcycle industry grew at 8% YoY led by faster growth in the entry level motorcycles led by aggressive pricing and new model launches in the category. Robust export sales were aided by strong demand from the oil producing economies in West Africa and Latin America. The 3W sales saw robust growth led by 30% YoY growth in export market (Africa) while the domestic sales tapered down to 3% YoY growth.

High receivables strains the operating cash flow

TVSL's receivable days increased to 28 days which impacted the working capital cycle leading to a 24% YoY decline in operating cash flow. Net debt rose by 30% YoY which was on account of weakening working capital cycle.

Double digit margins still away?

TVSL has undertaken some stringent cost controls (the R&D spends were at 1.7% of sales vs 1.8% in FY18 and the advertising & marketing spends were at 4.1% of sales vs 4.6% in FY18) which led to an EBITDA margin of 7.9% even though the gross margins stood lower at 24% (vs 26.8% in FY18). However, in present scenario, where industry is marred by decade high competitive intensity and safety and emissions related costs pressures, margin expansion looks challenging.

Outlook and valuation

We expect the two-wheeler industry to remain sluggish in Q1 FY20 however we are of the view that TVSL shall continue to grow faster than the industry backed by continued market share gains in scooter (*Ntorq*, *Jupiter*, *Wego*) category and continued success of *Apache* brand in the motorcycles.

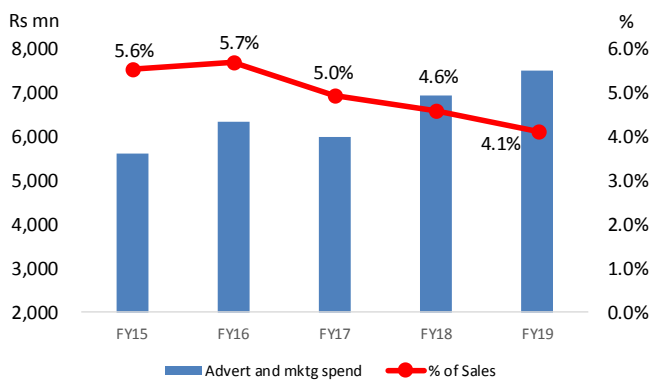
Further, we are of the view that the 2W industry shall remain choppy in FY20 largely led by continued increase in costs of ownership led by BS VI and safety (ABS/CBS) related costs. We however believe, TVSL will outperform the industry volumes backed by diversified portfolio in scooters, motorcycles and mopeds which is a mass market brand. Further, the management's aspirations of double-digit margins (from 7% levels currently) over next couple of years remains a key driver for re-rating in the stock.

At CMP of Rs 439, stock trades at rich valuations of 22.4x FY21E vs the peer OEMs. Therefore, we have a NEUTRAL rating (REDUCE rating earlier) on the stock and value it at 22x FY21E for a target price of Rs 431 with an implied downside of 2%. Further, the management's aspirations of double-digit margins (from 8% levels currently) over next couple of years remains a key driver for re-rating in the stock.

Key risks:

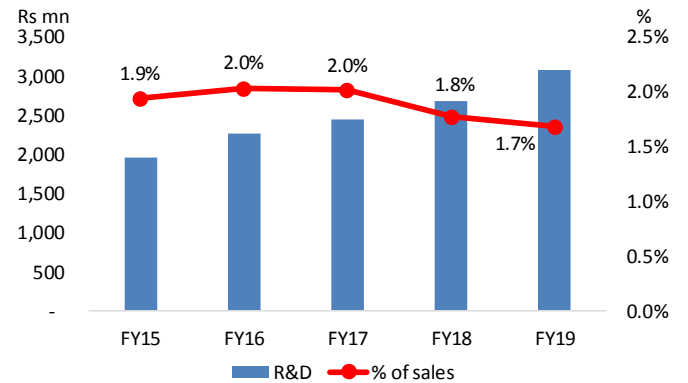
- 1) 2W volume recovery; 2) Sharp expansion in margins

Exhibit 1: Adv and mktg spends and % of sales trend



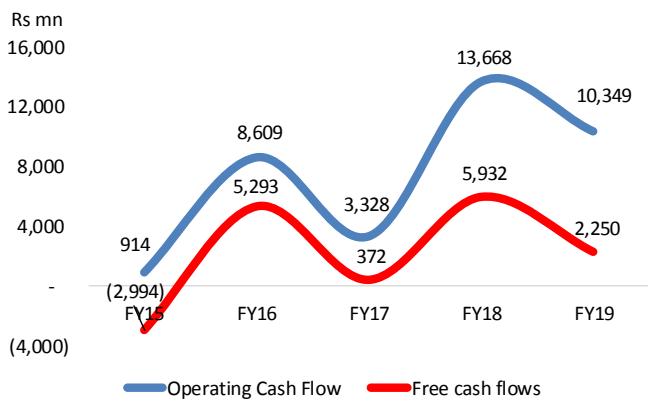
Source: Company, Arihant Capital Markets

Exhibit 2: R&D spends and % of sales trend



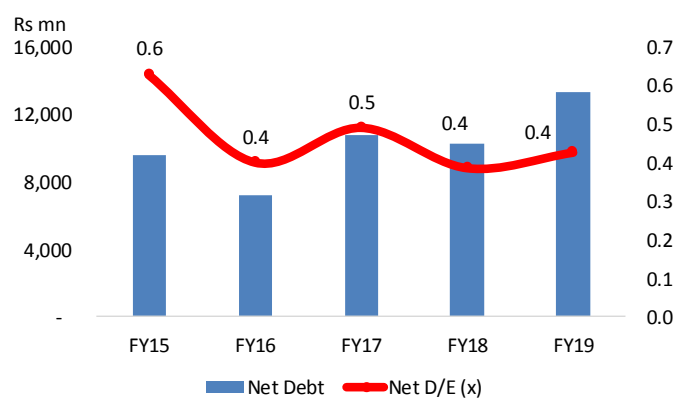
Source: Company, Arihant Capital Markets

Exhibit 3: Operating and free cash flow trend



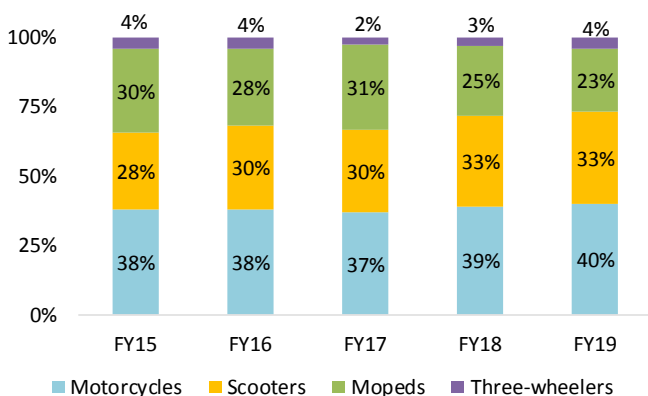
Source: Company, Arihant Capital Markets

Exhibit 4: Net debt and net D/E trend



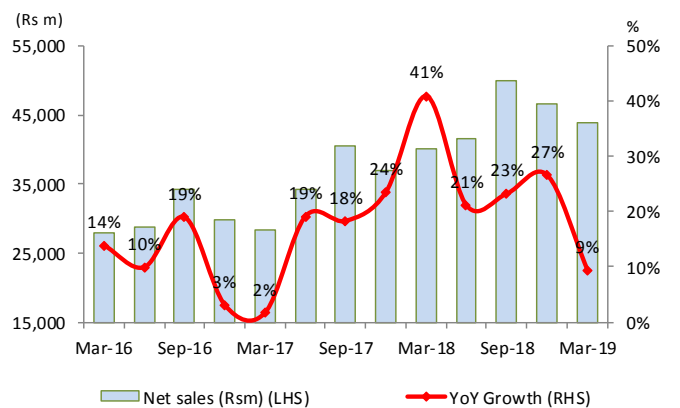
Source: Company, Arihant Capital Markets

Exhibit 5: TVSL's segment mix trend



Source: Company, Arihant Capital Markets

Exhibit 6: Quarterly revenue and growth trend



Source: Company, Arihant Capital Markets

Quarterly result trend

Standalone (Rs mn)	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19	YoY (%)	QoQ (%)
Rs mn	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19	YoY (%)	QoQ (%)
Net Sales	40,072	41,537	49,935	46,640	43,840	9.4	(6.0)
- Consumption of Raw Material	29,458	31,642	37,840	35,347	33,593	14.0	(5.0)
(% of Net Sales)	73.5	76.2	75.8	75.8	76.6	312	84
- Staff Expenditure	2,272	2,375	2,449	2,367	2,036	(10.4)	(14.0)
(% of Net Sales)	5.7	5.7	4.9	5.1	4.6	(103)	(43)
- Other Expenditure	5,391	4,455	5,363	5,169	5,130	(4.8)	(0.8)
(% of Net Sales)	13.5	10.7	10.7	11.1	11.7	(175)	62
Total Expenditure	37,121	38,472	45,653	42,883	40,759	9.8	(5.0)
EBITDA	2,952	3,065	4,282	3,757	3,081	4.4	(18.0)
EBITDA Margin (%)	7.4	7.4	8.6	8.1	7.0	(34)	(103)
Depreciation	944	933	1,016	1,012	1,031	9.3	1.8
EBIT	2,008	2,131	3,266	2,745	2,050	2.1	(25.3)
Interest	183	180	212	167	247	35.3	47.9
Other income	95	173	7	7	36	(62.4)	450.8
PBT	1,921	2,124	3,062	2,585	1,839	(4.2)	(28.8)
Tax	529	658	949	801	501	(5.3)	(37.4)
Tax Rate (%)	14%	31%	31%	31%	27%	1,347	(374)
Adjusted PAT	1,392	1,466	2,113	1,784	1,338	(3.8)	(25.0)
Reported PAT	1,392	1,466	2,113	1,784	1,338	(3.8)	(25.0)
EPS (INR)	3.5	3.1	4.4	3.8	2.8	(19.2)	(25.0)
Total Volumes (In Nos)	889,133	928,274	1,088,374	989,787	907,328	2.0	(8.3)
Net Realisation (INR)	45,069	44,746	45,880	47,121	48,318	7.2	2.5
EBITDA / Vehicle (INR)	3,320	3,301	3,934	3,796	3,396	2.3	(10.5)

Source: Company, Arianth Capital Markets

Profit & Loss Statement

YE: Mar (Rs mn)	FY17	FY18	FY19	FY20E	FY21E
Net sales	119,725	149,401	178,789	195,843	209,792
Growth, %	9	25	20	10	7
RM expenses	-87,964	-111,330	-138,423	-147,951	-158,357
Employee expenses	-7,456	-8,680	-9,226	-10,306	-11,542
Other expenses	-16,792	-19,995	-20,118	-23,488	-23,171
EBITDA (Core)	9,141	11,293	14,333	16,581	19,204
Growth, %	13	24	27	16	16
Margin, %	7.6	7.6	8.0	8.5	9.2
Depreciation	-2,878	-3,387	-3,993	-4,891	-5,442
EBIT	6,263	7,905	10,340	11,690	13,762
Growth, %	9	26	31	13	18
Margin, %	5.2	5.3	5.8	6.0	6.6
Interest paid	-440	-566	-806	-717	-573
Other Income	1,734	1,448	75	90	109
Non-recurring Items	(570)	0	0	0	0
Pre-tax profit	7,557	8,787	9,609	11,064	13,297
Tax provided	-1,407	-2,161	-2,908	-3,319	-3,989
Profit after tax	6,150	6,626	6,701	7,745	9,308
Others (Minorities, Associates)	-	-	-	-	-
Net Profit	5,580	6,626	6,701	7,745	9,308
Growth, %	14	19	1	16	20
Net Profit (adjusted)	6,150	6,626	6,701	7,745	9,308

Source: Company, Arianth Capital Markets

Cash Flow

YE: Mar (Rs mn)	FY17	FY18	FY19	FY20E	FY21E
Pre-tax profit	7,557	8,787	9,609	11,064	13,297
Depreciation	2,878	3,387	3,993	4,891	5,442
Chg in working capital	-1,142	4,602	-1,633	778	1,011
Total tax paid	-1,407	-2,161	-2,768	-3,319	-3,989
CFO	3,328	13,668	10,349	14,040	16,226
Capital expenditure	-2,956	-7,736	-8,099	-6,500	-5,500
Chg in marketable securities	0	0	0	0	0
Chg in investments	-3,730	-4,475	-2,654	-1,800	-5,700
CFI	-4,953	-10,763	-10,678	-8,210	-11,091
Free cash flow	372	5,932	2,250	7,540	10,726
Debt raised/(repaid)	3,267	-482	3,410	-2,756	-2,205
Dividend (incl. tax)	-1,445	-1,834	-1,946	-2,223	-2,501
CFF	1,382	-2,882	659	-5,696	-5,279
Net chg in cash	(242)	23	330	135	(144)
Opening cash balance	328	86	109	439	573
Closing cash balance	86	109	439	573	429

Source: Company, Arianth Capital Markets

Balance Sheet

YE: Mar (Rs mn)	FY17	FY18	FY19	FY20E	FY21E
Cash & bank	86	109	439	573	429
Debtors	7,238	9,684	14,141	13,584	14,539
Inventory	9,670	9,644	11,759	11,410	11,631
Other current assets	5,713	6,974	5,210	5,470	5,744
Total current assets	22,706	26,411	31,549	31,038	32,343
Investments	15,879	20,354	23,008	24,808	30,508
Gross fixed assets	34,760	41,807	50,052	56,552	62,052
Less: Depreciation	-14,922	-18,089	-22,082	-26,973	-32,415
Add: Capital WIP	623	1,311	1,166	1,166	1,166
Net fixed assets	19,839	23,719	27,970	29,578	29,636
Total assets	59,047	71,795	83,694	86,591	93,654
Current liabilities	21,718	29,981	33,132	33,146	35,477
Provisions	1,137	1,158	1,183	1,301	1,431
Total current liabilities	22,855	31,139	34,315	34,447	36,908
Non-current liabilities	1,257	1,482	2,126	2,126	2,126
Total liabilities	24,112	32,621	36,441	36,573	39,035
Paid-up capital	475	475	475	475	475
Reserves & surplus	23,608	28,329	32,998	38,519	45,326
Shareholders' equity	24,083	28,804	33,473	38,994	45,801
Total equity & liabilities	59,047	71,795	83,694	86,591	93,654

Source: Company, Arianth Capital Markets

Ratios

YE: Mar	FY17	FY18	FY19	FY20E	FY21E
EPS (INR)	13	14	14	16	20
PER (x)	33.9	31.5	31.1	26.9	22.4
Price/Book (x)	8.7	7.2	6.2	5.3	4.6
EV/EBITDA (x)	24.0	19.4	15.5	13.2	11.3
EV/Net sales (x)	1.8	1.5	1.2	1.1	1.0
RoE (%)	28	25	22	21	22
RoCE (%)	25	24	23	23	25
Fixed Asset turnover (x)	3.4	3.6	3.6	3.5	3.4
Dividend Yield (%)	0.6	0.8	0.8	0.9	0.0
Receivable (days)	22	24	29	25	25
Inventory (days)	31	25	26	23	22
Payable (days)	71	78	72	67	67
Revenue Growth (%)	9	25	20	10	7
EBITDA Growth (%)	13	24	27	16	16
EPS Growth, %	26	8	1	16	20
Net D/E ratio (x)	0.5	0.4	0.4	0.3	0.2

Source: Company, Arianth Capital Markets

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Stock Rating Scale**Stock Rating Scale**

	Absolute Return
BUY	>20%
ACCUMULATE	12% to 20%
HOLD	5% to 12%
NEUTRAL	-5% to 5%
REDUCE	<-5%

Research

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