

Better than expected margins; ACCUMULATE

CMP: Rs 437

Rating: ACCUMULATE

Target: Rs 513

(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)	594 / 340
Avg Weekly Vol (BSE+NSE)	193,355

Shareholding Pattern

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

Source: NSE, Arihant Research

Stock Performance (%)	3m	6m	12m
TVSL	3.3	-15.4	-18.3
SENSEX	-1.4	-1.7	9.8

Source: ACE Equity, Arihant Research

TVSL v/s SENSEX



Source: ACE Equity, Arihant Research

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TVS Motors (TVS) reported revenue of Rs. 43 bn with YoY / QoQ de-growth of ~12.9% / 2.7% due to 19% YoY reduction in volume growth. The company managed to restrict revenue de-growth due to higher realisations which stood at Rs. 49K (7% YoY / 1.4% QoQ). EBITDA stood at Rs. 3.8 bn and margins at 8.8% (+21 bps YoY / +82 bps QoQ) driven by reduction in raw material cost (73.4% vs 75.8% of net sales in Q2FY19) due to softening of commodity prices, lower employee cost. This offsets increase in other expenditure of 12.5% of net sales. Significant reduction in tax rate to 23.6% and exceptional gain of Rs.760mn towards reversal of National Calamity Contingent Duty (NCCD) provision for the Himachal plant relating to earlier years aided the company to report highest PAT growth of ~20.7% YoY to Rs.2.6 bn during the quarter.

Concall highlights

- The company launched New Jupiter Grande, Apache RTR 200 4V with smart connect during Q2FY20. NTORQ 125 Race Edition model will continue to perform well. For all other models, TVS XL100, TVS NEO NX, TVS Radeon the company has given special upgrades and colours during the quarter.
- The management expects volume growth driven by clarity on GST, reduction in interest rate, repo rate which will help the retail finance. The management expects improvement in demand in Q4FY20 than Q3FY20.
- Dushera sales has been muted in certain parts of Jharkhand, Bihar, MP, UP, Maharashtra, West Bengal due to heavy rains which affected 2W sales. However, improvement is seen in last few days due to Diwali festival.
- Exports to remain robust on account of improving product and range mix. Forex realizations stood at Rs 70.5/\$ for Q2FY20.
- The management is confident to grow ahead of industry on account of strong brands ((Ntorq, Jupiter, Apache and Radeon), volume growth in domestic market, growing exports in 2W & 3W segment.
- Moped market affected because of weak sentiment in the rural market due to heavy monsoon, higher insurance premium and huge discounting from competitors. Rural economy is likely to improve in H1FY21.
- As per management the company will have a smooth transition of BS VI. The BS VI compliant products shall commence production from Q4FY20.
- The cost reduction initiative will continue to improve EBITDA margin QoQ.
- Sundaram Holding USA, commercial production is expected in November 2019. It has capacity to produce casting of 10,000MT in five years.
- TVS Credit Services non-core assets transferred to TVS Motor Services to improve the liquidity.
- Capex guidance for FY20 is ~Rs.6000 mn for FY20 and investments will be ~1200mn. Effective tax rate for FY20 will be 25%
- Export revenues stands ~Rs. 11670mn (~26%) and spare parts contribution is ~Rs. 4470 mn during Q2FY20.

Outlook and valuation:

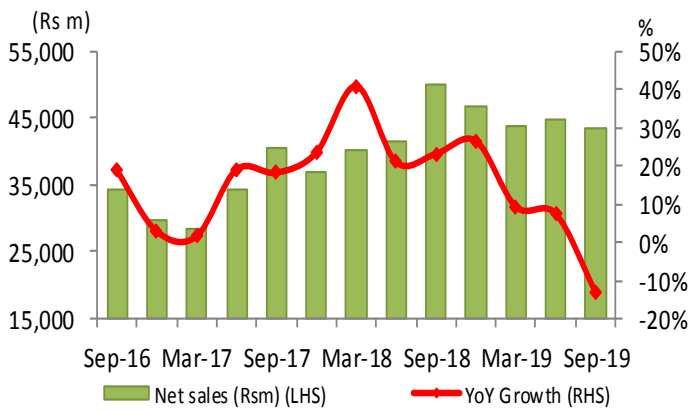
We expect 2W and 3W industry to remain subdued in FY20 led by transition of BS VI and the insurance costs. However, TVSL would outperform the industry volumes backed by its new launches, better product mix, improved cost efficiency, and improving exports. Management's guidance of continued margin expansion provides confidence on the company. At CMP of Rs 437, the stock trades at 28x FY20E. We revise our rating to ACCUMULATE on the stock and value it at 27x FY21E (21x earlier) for a target price of Rs513 (Rs 399 earlier) for an upside of 17%.

Quarterly result summary

Rs mn	2QFY20	2QFY19	YoY (%)	1QFY20	QoQ (%)	H1FY20	H1FY19	YoY (%)
Net Sales	43,478	49,935	(12.9)	44,686	(2.7)	88,165	91,472	(3.6)
- Consumption of Raw Material	31,898	37,840	(15.7)	33,577	(5.0)	65,475	69,482	(5.8)
(% of Net Sales)	73.4	76	-241	75	-178	74.3	76.0	-170
- Staff Expenditure	2,337	2,449	(4.6)	2,489	(6.1)	4,826	4,824	0.0
(% of Net Sales)	5.4	5	47	6	-19	5.5	5.3	20
- Other Expenditure	5,424	5,363	1.1	5,063	7.1	10,487	9,819	6.8
(% of Net Sales)	12.5	11	173	11	115	11.9	10.7	116
Total Expenditure	39,659	45,653	(13.1)	41,128	(3.6)	80,787	84,125	(4.0)
EBITDA	3,820	4,282	(10.8)	3,558	7.4	7,377	7,347	0.4
EBITDA Margin (%)	8.8	8.6	21	8.0	82	8.4	8.0	34
Depreciation	1241	1,016	22.1	1,194	3.9	2434	1949	24.9
EBIT	2579	3,266	(21.0)	2,364	9.1	4943.0	5397.1	(8.4)
Interest	285	212	34.6	291	(2.2)	576	392	47.0
Other income	49	7	562.2	12	308.3	61	181	(66.2)
PBT	2343	3,062	(23.5)	2,085	12.4	4428	5186	(14.6)
Tax	553	949	(41.7)	662	(16.4)	1215	1607	(24.3)
Tax Rate (%)	23.6%	31%	0%	32%	0.0%	27.4%	31.0%	-353
Adjusted PAT	1,790	2,113	(15.3)	1,423	25.8	3,213	3,579	(10.2)
Exceptional Item	760	0		0		760	0	
Reported PAT	2,550	2,113	20.7	1,423	79.2	3,973	3,579	11.0
EPS (INR)	5.4	4	20.7	3	79.2	15.5	15.5	0.4
Total Volumes (In Nos)	885,832	1,088,374	(18.6)	923,195	(4.0)	1,809,027	2,016,648	(10.3)
Net Realisation (INR)	49,082	45,880	7.0	48,404	1.4	48,736	45,358	7.4
EBITDA / Vehicle (INR)	4,312	3,934	9.6	3,854	11.9	4,078	3,643	11.9

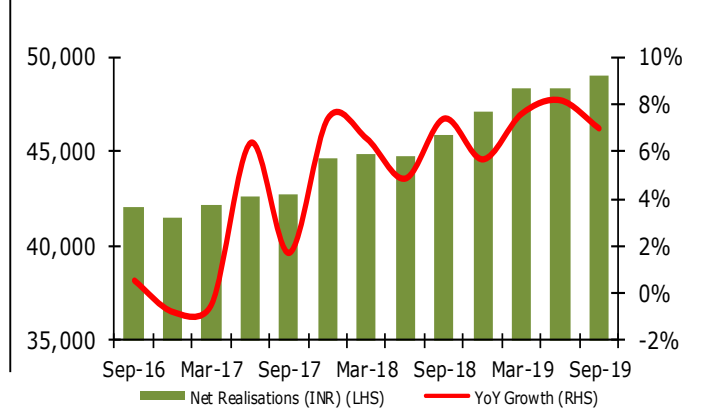
Source: Company, Arianth Capital Markets

Exhibit 1: Quarterly revenue and growth trend



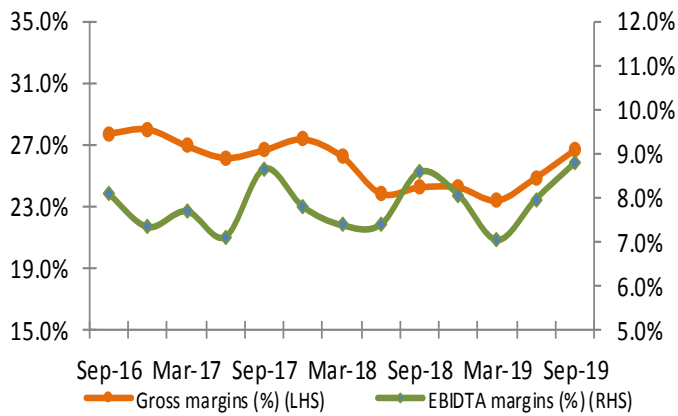
Source: Company, Arianth Capital Markets

Exhibit 2: Quarterly realizations and growth trend



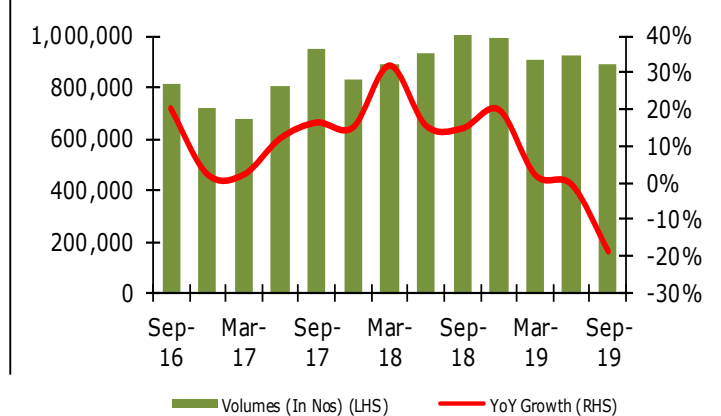
Source: Company, Arianth Capital Markets

Exhibit 3: Quarterly gross and EBITDA margins trend



Source: Company, Arianth Capital Markets

Exhibit 4: Quarterly volume and growth trend



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	191,960	214,003
Growth, %	9	25	20	7	11
RM expenses	-87,964	-111,330	-138,423	-144,859	-162,364
Employee expenses	-7,456	-8,680	-9,226	-10,380	-11,677
Other expenses	-16,792	-19,995	-20,118	-23,028	-23,631
EBITDA (Core)	9,141	11,293	14,333	16,175	18,813
Growth, %	13	24	27	13	16
Margin, %	7.6	7.6	8.0	8.4	8.8
Depreciation	-2,878	-3,387	-3,993	-4,891	-5,442
EBIT	6,263	7,905	10,340	11,284	13,371
Growth, %	9	26	31	9	18
Margin, %	5.2	5.3	5.8	5.9	6.2
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	10,658	12,907
Tax provided	-1,407	-2,161	-2,908	-3,197	-3,872
Profit after tax	6,150	6,626	6,701	7,460	9,035
Others (Minorities, Associates)	-	-	-	-	-
Net Profit	5,580	6,626	6,701	7,460	9,035
Growth, %	14	19	1	11	21
Net Profit (adjusted)	6,150	6,626	6,701	7,460	9,035

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	10,658	12,907
Depreciation	2,878	3,387	3,993	4,891	5,442
Chg in working capital	-1,142	4,602	-1,633	979	1,647
Total tax paid	-1,407	-2,161	-2,768	-3,197	-3,872
CFO	3,328	13,668	10,349	13,957	16,588
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	7,457	11,088
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	51	218
Opening cash balance	328	86	109	439	490
Closing cash balance	86	109	439	490	707

Source: Company, Arianth Capital Markets

Balance Sheet

YE: Mar (Rs mn)	FY17	FY18	FY19	FY20E	FY21E
Cash & bank	86	109	439	490	707
Debtors	7,238	9,684	14,141	13,318	14,828
Inventory	9,670	9,644	11,759	11,187	11,862
Other current assets	5,713	6,974	5,210	5,470	5,744
Total current assets	22,706	26,411	31,549	30,465	33,141
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	86,018	94,452
Current liabilities	21,718	29,981	33,132	32,857	36,832
Provisions	1,137	1,158	1,183	1,301	1,431
Total current liabilities	22,855	31,139	34,315	34,158	38,263
Non-current liabilities	1,257	1,482	2,126	2,126	2,126
Total liabilities	24,112	32,621	36,441	36,284	40,390
Paid-up capital	475	475	475	475	475
Reserves & surplus	23,608	28,329	32,998	38,235	44,768
Shareholders' equity	24,083	28,804	33,473	38,710	45,243
Total equity & liabilities	59,047	71,795	83,694	86,018	94,452

Source: Company, Arianth Capital Markets

Ratios

YE: Mar	FY17	FY18	FY19e	FY20e	FY21e
EPS (INR)	13	14	14	16	19
PER (x)	33.8	31.3	31.0	27.8	23.0
Price/Book (x)	8.6	7.2	6.2	5.4	4.6
EV/EBITDA (x)	23.9	19.3	15.4	13.5	11.5
EV/Net sales (x)	1.8	1.5	1.2	1.1	1.0
RoE (%)	28	25	22	21	22
RoCE (%)	25	24	23	22	25
Fixed Asset turnover (x)	3.4	3.6	3.6	3.4	3.4
Dividend Yield (%)	0.6	0.8	0.8	0.9	1.0
Receivable (days)	22	24	29	25	25
Inventory (days)	31	25	26	23	22
Payable (days)	71	78	72	67	68
Revenue Growth (%)	9	25	20	7	11
EBITDA Growth (%)	13	24	27	13	16
EPS Growth, %	26	8	1	11	21
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%

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