

Improvement In realizations

CMP: Rs 462

Rating: ACCUMULATE

Target Price: Rs 519

Stock Info

BSE	532343
NSE	TVSMOTOR
Bloomberg	TVSL IN
Reuters	TVSM.BO
Sector	Automobiles Two & Three Wheelers
Face Value (Rs)	1
Equity Capital (Rs mn)	475
Mkt Cap (Rs bn)	220
52w H/L (Rs)	525 /340

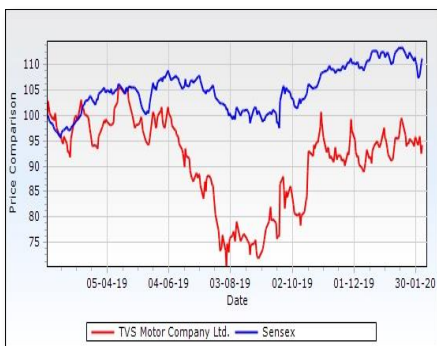
Shareholding Pattern %

(As on Dec, 2019)

Promoters	57.4
Public & Others	42.6

Stock Performance (%)	3m	6m	12m
TVS Motors	-0.18	22.13	-9.06
Sensex	1.20	11.10	11.50

TVS Motors Vs Sensex



TVS Motors (TVS) reported revenue of Rs 41,255 mn with YoY/QoQ decline 11.5% / 5.1% due to 17% YoY reduction in volume growth. EBITDA stood at Rs. 3633 mn and margins at 8.8%, reported flat on QoQ basis, a tad below our expectations by 1.8%. Adjusted PAT was up 10.5% YoY at 1971mn above our estimate of Rs 1613mn, mainly due to lower than expected tax rate. Stable margin was a result of cost saving measures with which the saving was about 74bps YoY. This compensated for any margin impact of lower volumes. Part of the cost saving was due to reduction of import content in raw materials which was 6.6% in QoQ, down from 15.7% in YoY. The company will continue to pursue savings and has targeted import content in raw material at 8% in FY21. This savings will help TVS to improve margins which would be under pressure as it has only passed the costs of BS-VI conversion for now and it is not making any margins on the increase. So far models like Apache, Jupiter, XL 100 have been converted to BS-VI and 60% of the company's dispatches in Jan 2020 were BS-VI.

Concall highlights

- The company has lunched two variants of BS VI Eco Thrust fuel injection (ET-FI) Race tune fuel injection (ET-FI).
- The Company reversed the provision of Rs 764.0mn towards National calamity contingent Duty (NCCD) based on favorable ruling by CESTAT In the company case.
- Inventory level stands at 5 weeks (Dealer stock).
- TVS credit services finance penetration is 45%.
- The Company lunched electric scooter i-Qube and it is currently being sold in Bangladesh in 12 dealership. The company has further plans to expand it dealership in Mumbai, Pune, Delhi, Chennai and Trivandrum.
- For Q3 FY 20, The industry continues to decline due to lower economic growth and lack of liquidity.
- 4QFY20 industry appears to be challenging, primarily because of decline GDP.
- Monsoon though delayed has been normal , and reservoirs are having good water level this should lead to better Rabi kharif crop during 2020 and relief measures announced through budget should stimulate growth.
- Capex guidance of Rs 650crs in FY20.

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 like TVS iQube electric' scooter in Jan'20 initially in Bangalore market (with 12 dealerships) and will be extended to other cities across India in a planned manner, improved cost efficiency, and improving exports. Management's guidance of continued outperforming industry growth and sustaining EBITDA margin going forward with revival in consumer sentiment and strong operation expansion provides confidence on the company. At CMP of Rs 462, the stock trades at 24.5x FY21E. We maintain our rating ACCUMULATE on the stock and value it at 27.5x FY21E (28x earlier) for a target price of Rs519 with an upside of 12%.

Quarterly result summary

Standalone (INRm)	3QFY20	3QFY19	YoY (%)	2QFY20	QoQ (%)
Net Sales	41,255	46,640	(11.5)	43,478	(5.1)
- Consumption of Raw Material	29,787	35,347	(15.7)	31,898	(6.6)
(% of Net Sales)	72.2	75.8	-359bps	73.4	-116bps
- Staff Expenditure	2,332	2,367	(1.5)	2,337	(0.3)
(% of Net Sales)	5.7	5.1	63bps	5.4	32bps
- Other Expenditure	5,503	5,169	6.5	5424	1.5
(% of Net Sales)	13.3	11.1	222bps	12.47	83bps
Total Expenditure	37,622	42,883	(12.3)	39,659	(5.1)
EBITDA	3,633	3,757	(3.3)	3,820	(4.9)
EBITDA Margin (%)	8.8	8.1	74bps	8.8	0bps
Depreciation	1,213	1,012	19.8	1240.7	(2.3)
EBIT	2,420	2,745	(11.8)	2,579	(6.2)
Interest	211	167	26.7	284.8	(25.8)
Other income	9	7	36.9	49	(81.8)
PBT	2,209	2,585	(14.5)	2,343	(5.7)
Tax	247	801	(69.2)	553.3	(55.4)
Tax Rate (%)	11%	31%		23.6%	
Adjusted PAT	1,971	1,613	22.2	1789.7	10.1
Exceptional Item- (Gain)/Loss	760	0	NA	(760.4)	(0.0)
Reported PAT	1211	1,613	(24.9)	2550.1	(52.5)
EPS (INR)	2.6	3.8	(32.1)	5.4	(52.5)
Total Volumes (In Nos)	821,521	989,787	(17.0)	885,832	(7.3)
Net Realisation (INR)	50,217	47,121	6.6	49082	2.3
EBITDA / Vehicle (INR)	4,422	3,796	16.5	4312	2.6

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

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Profit & Loss Statement					
Particulars (Rs mn)	FY17	FY18	FY19	FY20E	FY21E
Net sales	119,725	149,401	178,789	172,998	193,472
Growth, %	9	25	20	(3)	12
RM expenses	-87,964	-111,330	-138,423	-128,101	-145,007
Employee expenses	-7,456	-8,680	-9,226	-10,380	-11,677
Other expenses	-16,792	-19,995	-20,118	-20,782	-21,390
EBITDA (Core)	9,141	11,293	14,333	16,218	17,881
Growth, %	13	24	27	13	10
Margin, %	7.6	7.6	8.0	9.4	9.2
Depreciation	-2,878	-3,387	-3,993	-4,891	-5,442
EBIT	6,263	7,905	10,340	11,326	12,439
Growth, %	9	26	31	10	10
Margin, %	5.2	5.3	5.8	6.5	6.4
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	10,700	11,975
Tax provided	-1,407	-2,161	-2,908	-2,693	-3,014
Profit after tax	6,150	6,626	6,701	8,007	8,961
Others (Minorities, Associates)	-	-	-	-	-
Net Profit	5,580	6,626	6,701	8,007	8,961
Growth, %	14	19	1	19	12
Net Profit (adjusted)	6,150	6,626	6,701	8,007	8,961

Balance Sheet					
YE: Mar (Rs mn)	FY17	FY18	FY19	FY20E	FY21E
Cash & bank	86	109	439	513	865
Marketable securities cost	0	0	0	0	0
Debtors	7,238	9,684	14,141	12,019	13,422
Inventory	9,670	9,644	11,759	10,096	10,737
Loans & advances	0	0	0	0	0
Other current assets	5,713	6,974	5,210	5,470	5,744
Total current assets	22,706	26,411	31,549	28,098	30,767
Investments	15,879	20,354	23,008	23,908	29,408
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	82,751	90,978
Current liabilities	21,718	29,981	33,132	29,044	32,886
Provisions	1,137	1,158	1,183	1,301	1,431
Total current liabilities	22,855	31,139	34,315	30,344	34,317
Non-current liabilities	1,257	1,482	2,126	2,126	2,126
Total liabilities	24,112	32,621	36,441	32,471	36,443
Paid-up capital	475	475	475	475	475
Reserves & surplus	23,608	28,329	32,998	38,782	45,241
Shareholders' equity	24,083	28,804	33,473	39,257	45,716
Total equity & liabilities	59,047	71,795	83,694	82,751	90,978

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

Cash Flow					
YE: Mar (Rs mn)	FY17	FY18	FY19	FY20E	FY21E
Pre-tax profit	7,557	8,787	9,609	10,700	11,975
Depreciation	2,878	3,387	3,993	4,891	5,442
Chg in working capital	-1,142	4,602	-1,633	-445	1,655
Total tax paid	-1,407	-2,161	-2,768	-2,693	-3,014
CFO	3,328	13,668	10,349	13,079	16,523
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	-900	-5,500
CFI	-4,953	-10,763	-10,678	-7,310	-10,891
Free cash flow	372	5,932	2,250	6,579	11,023
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
CCF	1,382	-2,882	659	-5,696	-5,279
Net chg in cash	(242)	23	330	74	352
Opening cash balance	328	86	109	439	513
Closing cash balance	86	109	439	513	865

Ratios					
YE: Mar	FY17	FY18	FY19	FY20E	FY21E
EPS (INR)	12.94	13.95	14.10	16.85	18.86
PER (x)	35.7	33.1	32.8	27.4	24.5
Price/Book (x)	9.1	7.6	6.6	5.6	4.8
EV/EBITDA (x)	25.2	20.3	16.2	14.2	12.7
EV/Net sales (x)	1.9	1.5	1.3	1.3	1.2
RoE (%)	28	25	22	22	21
RoCE (%)	25	24	23	22	23
Fixed Asset turnover (x)	3.4	3.6	3.6	3.1	3.1
Dividend Yield (%)	0.6	0.7	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	67
Revenue Growth (%)	9	25	20	(3)	12
EBIDTA Growth (%)	12.8	23.5	26.9	13.2	10.3
EPS Growth, %	25.7	7.7	1.1	19.5	11.9
Net D/E ratio (x)	0.5	0.4	0.4	0.3	0.2

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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