

CMP: Rs 380

Rating: HOLD

Target: Rs 399

(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)	213
52w H/L (Rs)	604 / 377
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	-25.8	-31.4	-32.7
SENSEX	-1.6	4.3	4.2

Source: ACE Equity, Arihant Research

TVSL v/s SENSEX



Source: ACE Equity, Arihant Research

Result Highlights

TVS Motor Co (TVSL) reported in-line operating performance in Q1FY20 as net sales stood at Rs 44.7bn (+7.6% YoY / +1.9% QoQ) led by higher realizations which stood at Rs 48k (+8.2% YoY / +0.2% QoQ). Gross margins at 24.9% (+104bps YoY/ +149bps QoQ) was due to higher export mix and softening of commodity prices. The EBITDA margin stood at 8% (+58bps YoY/ +93bps QoQ) vs our est of 7.2% on account of efforts towards cost reduction through value engineering. On the concall, management highlighted that demand will remain weak in Q2 FY20. However, the demand is expected to improve in H2FY20.

Concall highlights

- **Demand outlook** – The management is confident of faster than industry growth despite uncertainties on the back of strong products (*Ntorq, Jupiter, Apache and Radeon*). Moped sales were impacted by weak rural sentiments coupled with delay in monsoons. Demand is likely to improve in H2 FY20 vs H1 on rural recovery.
- The management is comfortable with **channel inventory** of five weeks.
- The **BS VI transition** is well on track and the BS VI products shall commence production from Q3FY20. TVS will shift to BS VI completely ahead of timeline.
- TVSL took **price hikes** 10bps of sales while the cumulative price hike taken until July was 30bps of sales. The ABS related price hikes were taken in Q4FY19.
- The **gross margins** were positively impacted by the softening of commodity prices and efforts towards cost efficiency through value engineering.
- **Spare part** revenue stood at Rs 4.1bn in Q1FY20 vs Rs 3.5bn in Q1FY19.
- **Exports** stood at Rs 11.1bn in Q1FY20 vs Rs 9.9bn in Q1FY19.
- **Export outlook** – The management highlighted exports to remain sturdy on account of improving product and range mix and addition of new geographies. Further stable oil and currency prices shall aid exports over FY20. Forex realizations stood at Rs 70.40 for Q1FY20.
- The two-wheeler **financing penetration** in Q1FY20 increased to 46% out of which 47% is financed by the NBFC financing arm (TVS Credit services)
- TVSL is confident that **moped** segment will see smooth transition to BS VI.
- TVSL plans to launch an **electric scooter** in H2 FY20 and testing is underway.
- **Tax rate** was higher as the tax benefit from Himachal was not available thus driving up the tax rate (31.8% vs 31% YoY).
- **TVS Credit Services** (TVS CS) book size stood at > Rs 80bn, PAT of Rs 450mn (vs Rs 500mn in Q1FY19). Networth stood at Rs 12.2bn. The profitability was impacted due to higher financing costs which was prevalent across industry. TVS stake in TVS CS stood at 84.27% post the redemption of pref shares and it had no tax implications.

Outlook and valuation:

The 2W industry shall remain choppy in FY20 largely led by continued increase in costs of ownership led by BS VI and the insurance costs. However we believe, TVSL will outperform the industry volumes backed by diversified portfolio in scooters, motorcycles. TVS's 8% margin levels are likely to sustain owing to improved cost efficiency and stable commodity prices. We reduce our EPS estimates by 4% / 3% in FY20e/FY21e. At CMP of Rs 380, the stock trades at 20x FY21E. Thus, we revise our rating to HOLD on the stock and value it at 21x FY21e (22x earlier) for a target price of Rs399 (Rs 431 earlier) for an upside of 5%.

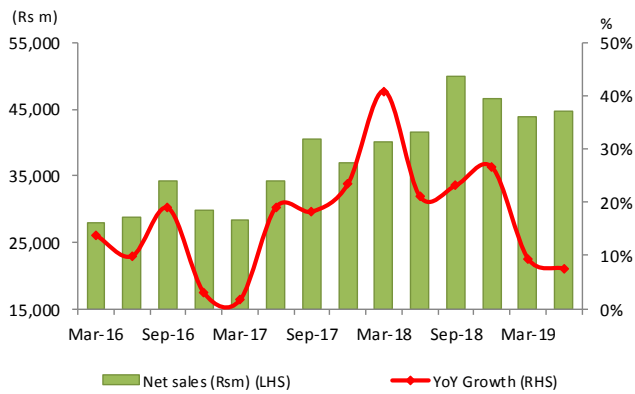
Quarterly result summary

Rs mn	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	YoY (%)	QoQ (%)
Net Sales	41,537	49,935	46,640	43,840	44,686	7.6	1.9
- Raw material	31,642	37,840	35,347	33,593	33,577	6.1	(0.0)
(% of Net Sales)	76.2	75.8	75.8	76.6	75.1	(104)	(149)
- Staff Expenditure	2,375	2,449	2,367	2,036	2,489	4.8	22.3
(% of Net Sales)	5.7	4.9	5.1	4.6	5.6	(15)	93
- Other Expenditure	4,455	5,363	5,169	5,130	5,063	13.6	(1.3)
(% of Net Sales)	10.7	10.7	11.1	11.7	11.3	60	(37)
Total Expenditure	38,472	45,653	42,883	40,759	41,128	6.9	0.9
EBITDA	3,065	4,282	3,757	3,081	3,558	16.1	15.5
EBITDA Margin (%)	7.4	8.6	8.1	7.0	8.0	58	93
Depreciation	933	1,016	1,012	1,031	1,194	27.9	15.8
EBIT	2,131	3,266	2,745	2,050	2,364	10.9	15.3
Interest	180	212	167	247	291	61.5	17.9
Other income	173	7	7	36	12	(93.1)	(66.5)
PBT	2,124	3,062	2,585	1,839	2,085	(1.8)	13.4
Tax	658	949	801	501	662	0.6	32.2
Tax Rate (%)	31%	31%	31%	27%	32%	77	452
Adjusted PAT	1,466	2,113	1,784	1,338	1,423	(2.9)	6.3
Reported PAT	1,466	2,113	1,784	1,338	1,423	(2.9)	6.3
EPS (INR)	3.1	4.4	3.8	2.8	3.0	(2.9)	6.3
Total Vol (In Nos)	928,274	1,088,374	989,787	907,328	923,195	(0.5)	1.7
Net Realisation (INR)	44,746	45,880	47,121	48,318	48,404	8.2	0.2
EBITDA / Vehicle (INR)	3,301	3,934	3,796	3,396	3,854	16.7	13.5

Source: Company, Arianth Capital Markets

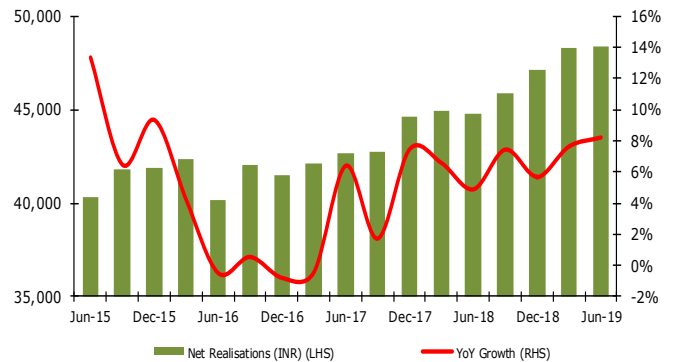
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Exhibit 1: Quarterly revenue and growth trend



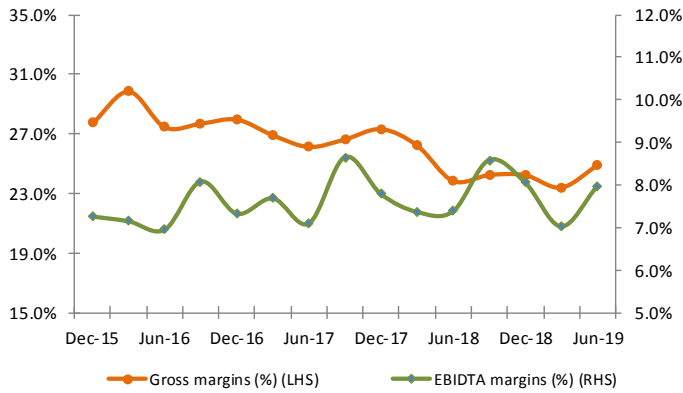
Source: Company, Arianth Capital Markets

Exhibit 2: Quarterly realizations and growth trend



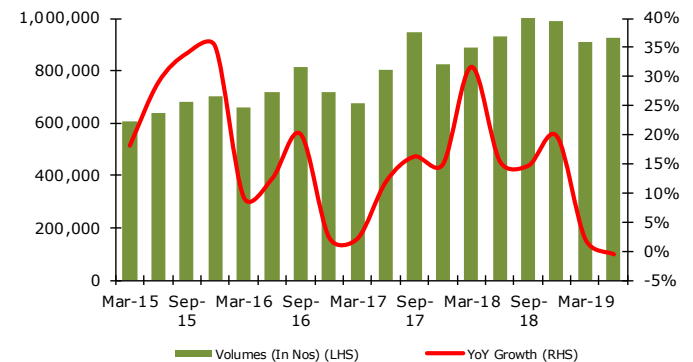
Source: Company, Arianth Capital Markets

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

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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	FY19	FY20E	FY21E
EPS (INR)	13	14	14	16	19
PER (x)	29.4	27.2	26.9	24.2	20.0
Price/Book (x)	7.5	6.3	5.4	4.7	4.0
EV/EBITDA (x)	20.9	16.9	13.5	11.8	10.0
EV/Net sales (x)	1.6	1.3	1.1	1.0	0.9
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 (%)	0.7	0.9	0.9	1.1	1.2
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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