

CMP: Rs 491

Rating: REDUCE

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)	213
52w H/L (Rs)	693 / 448
Avg Weekly Vol (BSE+NSE)	193,355

Shareholding Pattern

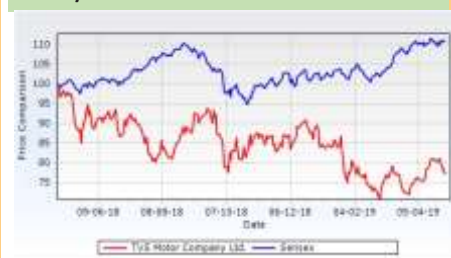
(As on March, 2019)	%
Promoters	57.4
Public & Others	42.6

Source: NSE, Arihant Research

Stock Performance (%)	3m	6m	12m
TVSL	-0.1	-8.8	-26.4
SENSEX	7.7	11.6	5.4

Source: ACE Equity, Arihant Research

TVSL v/s SENSEX



Source: ACE Equity, Arihant Research

Result Highlights

TVS Motor Co (TVSL) reported mixed operating performance in Q4FY19 as net sales stood at Rs 44bn (+9.4% YoY / -6% QoQ) led by realizations which stood at Rs 48k (+7.6% YoY / 2.5% QoQ). Gross margins at 23% (-285bps YoY/ -84bps QoQ) was impacted by mainly by lower scooter mix and high raw material costs. The EBITDA margin stood at 7% (-34bps YoY/ +100bps QoQ) on account of adverse operating leverage led by weak domestic volume growth (-2% YoY). On the concall, management highlighted that demand to remain flattish in Q1 FY20 however improvement shall be seen from H2 FY20 on account of pre-buying ahead of emission norms.

Concall highlights

- **Demand outlook** – Near term demand remains uncertain, however management is confident of faster than industry growth from Q2 FY20 on account of marriage season and pre-buying ahead of BS VI related cost increases and normal monsoon outlook. Scooter sales were impacted by weak urban demand and disruptive pricing in entry level motorcycle segment
- The management indicated that **channel inventory** stood at comfortable levels of four to five weeks
- TVSL took **price hikes** ~40bps of sales. Further, the ABS related price hikes were ~Rs 6500. ABS related costs have been passed on entirely to consumers.
- **Rural urban** mix stood at 50:50 and TVSL has added 150 dealers in FY19.
- **Spare part** revenue stood at Rs 4bn for Q4 FY19 and Rs 16bn for FY19.
- **Exports** stood at Rs 11bn in Q4 FY19 and Rs 43bn for FY19 (25% of sales in FY19).
- The two-wheeler **financing penetration** in FY19 increased to 44% (vs 38% in FY18) out of which 50% is financed by the NBFC financing arm (TVS Credit services)
- TVSL is confident of continued momentum in **mopeds** and electric-start penetration (added costs of Rs 44bn) now covers 90% of models.
- TVSL incurred **capex** of Rs 45bn in FY19 and plans capex of Rs 45bn for FY20.
- TVSL plans to launch an **electric scooter** in FY20.
- **TVS Credit Services** saw a strong ramp up in disbursement growth in FY19, with book size of Rs 83bn (vs Rs 61bn), PAT of INR1.5b (vs Rs 1.4bn in FY18). Delinquency rate remains at comfortable levels.
- TVSL's **alliance with BMW** has seen a strong start with successful launch of **RR310** and management is confident of further ramp up in new product launches in FY20.

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 portfolio in scooter (*Ntorq, Jupiter, Wego*) category and continued success of *Apache* brand in the motorcycles. **Broadly, 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. We have assumed a 6%/4% volume/realizations CAGR over FY19-21E. At CMP stock trades at 25x FY21E. However, rich valuations vs the peer OEMs remains a cause of concern and we thus adopt a cautious approach. Thus, we recommend an REDUCE rating on the stock and value it at 22x FY21E for a target price of Rs431 with a downside of 12%.**

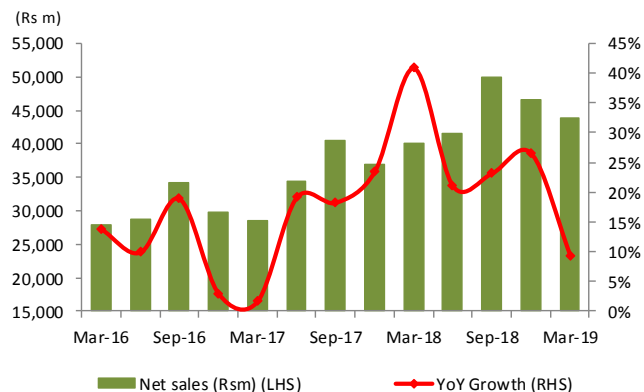
Quarterly result summary

Standalone (Rsmn)	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

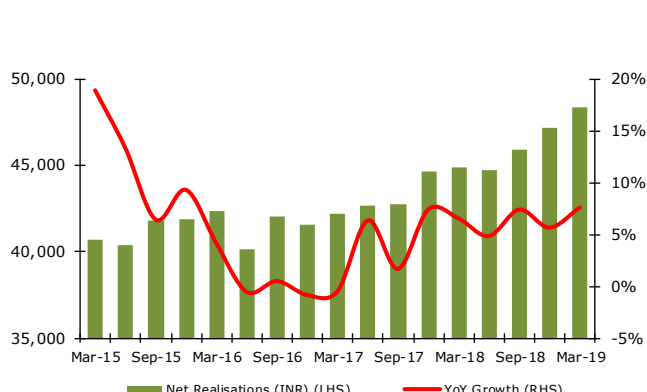
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Exhibit 1: Quarterly revenue and growth trend



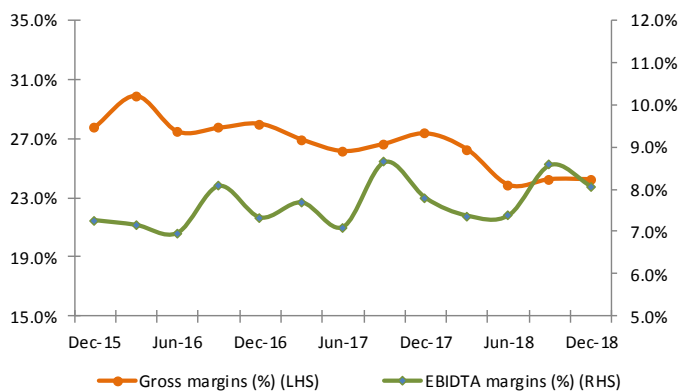
Source: Company, Aриhant Capital Markets

Exhibit 2: Quarterly realizations and growth trend



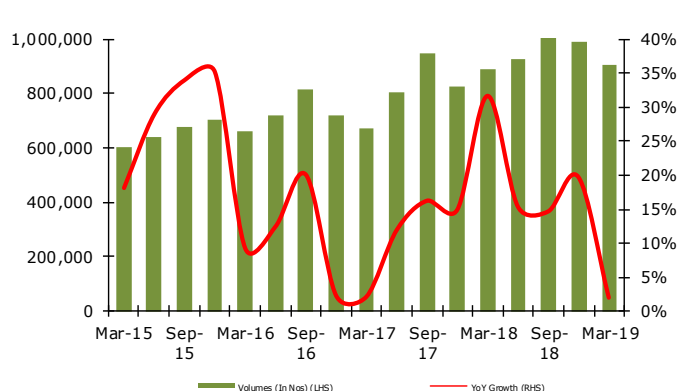
Source: Company, Aриhant Capital Markets

Exhibit 3: Quarterly gross and EBITDA margins trend



Source: Company, Aриhant Capital Markets

Exhibit 4: Quarterly volume and growth trend



Source: Company, Aриhant Capital Markets

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Profit & Loss Statement

YE: Mar (Rs mn)	FY17	FY18	FY19	FY20E	FY21E
Net sales	119,725	149,401	182,099	198,326	212,274
Growth, %	9	25	22	9	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	14,332	16,581	19,204
Growth, %	13	24	27	16	16
Margin, %	7.6	7.6	7.9	8.4	9.0
Depreciation	-2,878	-3,387	-3,993	-4,891	-5,442
EBIT	6,263	7,905	10,339	11,690	13,762
Growth, %	9	26	31	13	18
Margin, %	5.2	5.3	5.7	5.9	6.5
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 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	(145)
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	11,411	11,631
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	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)	37.9	35.2	34.8	30.1	25.1
Price/Book (x)	9.7	8.1	7.0	6.0	5.1
EV/EBITDA (x)	26.7	21.6	17.2	14.7	12.6
EV/Net sales (x)	2.0	1.6	1.4	1.2	1.1
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 (%)	0.5	0.7	0.7	0.8	0.0
Receivable (days)	22	24	28	25	25
Inventory (days)	31	25	26	23	22
Payable (days)	71	78	72	67	67
Revenue Growth (%)	9	25	22	9	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%

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