

TVS Motor Company Ltd.

Industry **Automobiles**
Bloomberg **TVSL IN**
BSE CODE **532343**

Demand scenario is expected to remain weak in 2HFY20 as well

RATING **NEUTRAL**

CMP **380**
Price Target **434**
Potential Upside **14%**

Rating Change

Estimate Change

Target Change

Stock Info

52wk Range H/L 604/377
Mkt Capital (Rs Cr) 18037
Free float (%) 43%
Avg. Vol 1M (,000) 1298
No. of Shares (Cr.) 48
Promoters Pledged % 0%

Research Analyst

NAVEEN KUMAR DUBEY

Naveen.dubey@narnolia.com

+91-22-62701235

1QFY20 Result Update

- TVSMOTOR posted a revenue growth of 7% YoY to Rs.4469 crores (vs our expectation of Rs.4549 crores). The volume growth declined by 1% YoY while the realization grew by 8% YoY.
- The domestic volumes de-grew by 3%YoY while exports volume grew by 10%YoY. The export revenue for the quarter grew by 16%YoY to Rs.1115 crores.
- Gross margin improved by 150 bps QoQ led by softening of commodity prices, EBITDA margin also improved by 93 bps QoQ in led by favorable product mix and cost reduction initiatives taken by the company.
- PAT declined by 3%YoY to Rs.142 crores (vs our expectation of Rs.152 crores). PAT margin marginally improved by 13 bps despite higher depreciation and interest expenses.
- TVS finance book size as on 1QFY20 stood at Rs.8400 crores. PBT stood at Rs. 45 crores (-10%YoY) and PAT stood at Rs. 30 crores. TVS credit services include 47% of retail finance penetration.
- During the quarter company has invested: (a)Rs.38.97 crores in Equity shares of TVS Motor (Singapore) Pte. Limited, Singapore. (b)Rs.25.00 crores in Equity shares of Sundaram Auto Components Limited, Chennai. (c)Rs.5.00 crores in Equity shares of Ultraviolette Automotive Private Limited, Bengaluru.

View and Valuation

EBITDA margin improved by 100bps QoQ to 8% largely on the back of reduction in commodity prices and improved localization. The inventory level continues to be higher in the industry. The management expects industry volume growth to be negative in 2HFY20 in comparison to last year. However, the company will continue to perform better than industry going ahead. Margins expected to improve on sequential basis based on commodity prices benefit coupled with various cost cutting exercises (VA-VE and localization) but cost increase of BS-VI may restrict further margins expansion due to inability to pass on full cost increase. We reduce our EPS estimate for FY20/21 by 5%/4% respectively based on the weak volume growth guidance for 2HFY20, higher interest and depreciation cost. We value standalone business at 19x FY21e EPS (earlier 20x) and TVS credit services at Rs.61 per share to arrive at target price of Rs.434 and maintain NEUTRAL.

Key Risks to our rating and target

- Slowdown in 2-wheeler industry
- Increase in commodity prices

KEY FINANCIAL/VALUATIONS	FY17	FY18	FY19	FY20E	FY21E
Net Sales	12135	15175	18210	20033	22312
EBITDA	857	1175	1433	1632	1904
EBIT	569	836	1034	1184	1428
PAT	558	663	670	759	932
EPS (Rs)	12	14	14	16	20
EPS growth (%)	14.1	18.7	1.1	13.2	22.9
ROE (%)	23.2	23.0	20.0	19.8	21.0
ROCE (%)	19.8	26.1	25.5	26.2	28.0
BV	51	61	70	81	93
P/B (X)	8.5	9.9	6.3	4.1	3.5
P/E (x)	36.6	43.0	31.3	20.6	16.8

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1QFY20 Results

PAT below expectations

Financials	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	YoY %	QoQ%	FY18	FY19	YoY %
Volumes('000)	928	1088	990	907	923	-1%	2%	3466	3914	12.9%
Realization	44,905	45,880	47,121	48,318	48,406	8%	0%	43,782	46,528	6.3%
Net Sales	4,168	4,993	4,664	4,384	4,469	7%	2%	15,175	18,210	20.0%
Other Income	3	1	1	4	1	-53%	-66%	99	8	-92.4%
Total Income	4,171	4,994	4,665	4,388	4,470	7%	2%	15,274	18,217	19.3%
COGS	3,164	3,784	3,535	3,359	3,358	6%	0%	11,133	13,842	24.3%
Staff Cost	237	245	237	204	249	5%	22%	868	923	6.3%
Other Exp.	446	536	517	513	506	14%	-1%	1,999	2,012	0.6%
Expenditure	3,847	4,565	4,288	4,076	4,113	7%	1%	14,000	16,777	19.8%
EBITDA	321	428	376	308	356	11%	15%	1,175	1,433	22.0%
Depreciation	93	102	101	103	119	28%	16%	339	399	17.9%
EBIT	228	327	274	205	236	4%	15%	836	1,034	23.6%
Interest	18	21	17	25	29	62%	18%	57	81	42.3%
PBT	212	306	258	184	209	-2%	13%	879	961	9.4%
Excpt. Item	-	-	-	-	-	0%	0%	-	-	0.0%
Tax	66	95	80	50	66	1%	32%	216	291	34.6%
PAT	147	211	178	134	142	-3%	6%	663	670	1.1%

Revenue growth driven by realization growth

TVSMOTOR posted a revenue growth of 7% YoY to Rs.4469 crores (vs our expectation of Rs.4549 crores). The volume growth has declined by 1% YoY due to weak consumer sentiments. During the quarter, total scooter and motorcycles sales grew by 2% and 8% YoY respectively while mopeds declined by 21% YoY due to delayed monsoon, weaker rural sentiments and increased cost due to insurance premium. 3W sales also grew by 11% YoY. Export 2W sales also grew by 8% YoY led by better exports markets. Realization increased by 8%YoY largely supported by better product mix, price hikes and increased export contribution. Exports revenue for the quarter stood at Rs. 1115 crores.

Softening of commodity prices and various cost cutting initiatives led to margin expansion

Gross margin improved by 150 bps QoQ led by softening of commodity prices and increasing localization. EBITDA margin also improved by 93 bps QoQ in led by favorable product mix and cost reduction initiatives taken by the company. The company took 0.1% price hike in during the quarter. Going ahead, management's focus will be expansion in EBITDA margin in FY20 through various cost cutting initiatives and localization. However, management's ability to completely pass on the cost increase due to BS-VI will be key to watch as it may hamper the margins in the later half of the fiscal.

PAT margin improvement despite higher depreciation and interest expenses

PAT declined by 3%YoY to Rs.142 crores (vs our expectation of Rs.152 crores). PAT margin marginally improved by 13 bps QoQ to 3.2%. The depreciation and interest expense were higher due to change in operating lease accounting.

Concall highlights

- The company is expected to grow better than the industry both in domestic as well as international market in FY20.
- The management expects the industry growth in H2FY20 to be better than H1FY20, although the YoY growth is expected to remain subdued due to delayed monsoon and lower sentiments.
- 3 wheelers are also expected to grow better than the industry going ahead.
- The company will launch electric vehicle during 2HFY20.
- The exports outlook for the company looks good both on 2W and 3W side due to stable foreign exchange situation and stable exports market conditions across various geographies.
- Import content as on 1QFY20 was at 11% (14% in FY19).
- Spares revenue stood at Rs. 413 crores in 1QFY20. Spares business are expected to grow in similar momentum going ahead.
- Scooters market share is 18% (+300bps YoY) as on 1QFY20.The demand for mopeds is expected to improve going forward.
- Inventory level stands at 5 weeks.
- TVS finance net-worth stood at Rs. 10224 crores for 1QFY20 with a book size of Rs.8400 crores. PBT stood at Rs. 45 crores and PAT stood at Rs. 30 crores. TVS credit services include 47% of retail finance penetration.

Exhibit: Volume and Volume Growth Trend

Volume growth declined by 1% YoY due to lower demand sentiments

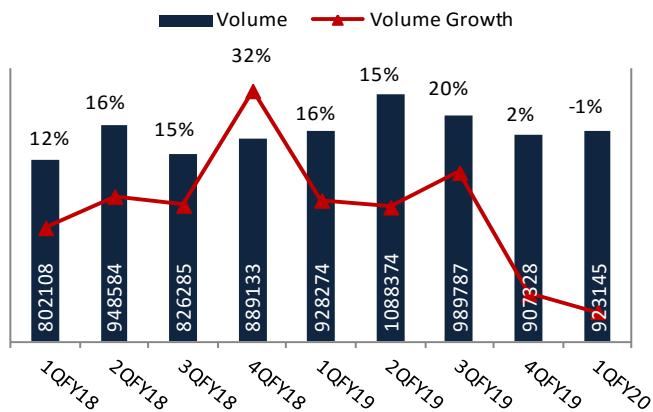


Exhibit: Realisation and Realisation Growth Trend

Favorable product mix, price hikes and better export contribution led to improvement in realisations

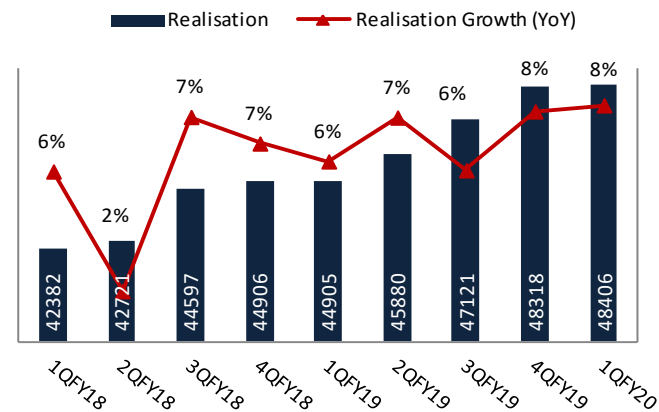


Exhibit: Sales (Rs. Crore) and Sales Growth Trend

Sales growth of 7% YoY driven by 8% YoY growth in realizations

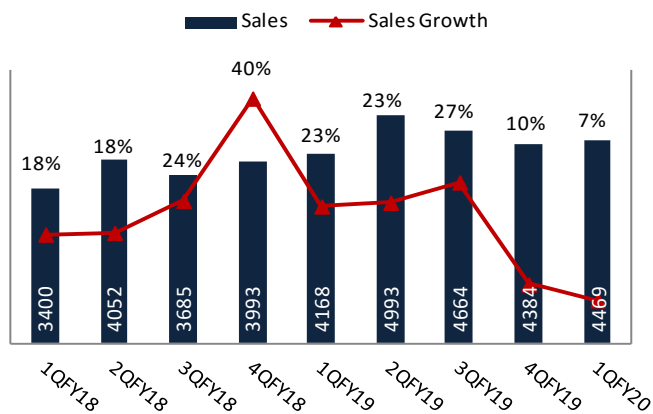


Exhibit: EBITDA (Rs. Crore) and EBITDA% Trend

Softening of commodity prices and various cost cutting initiatives led to margin expansion

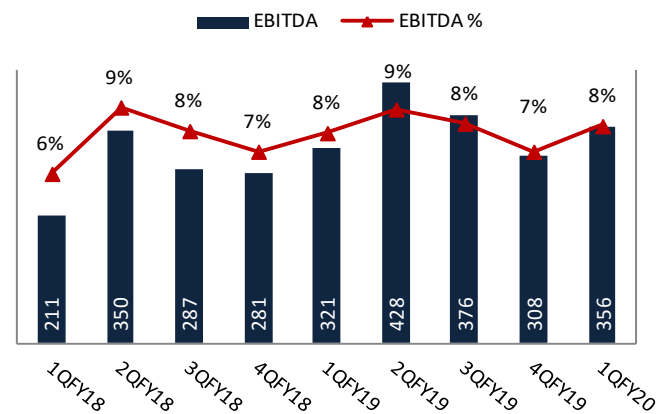


Exhibit: PAT (Rs. Crore) and PAT % Trend

Marginal improvement in PAT margin despite higher depreciation and interest expenses

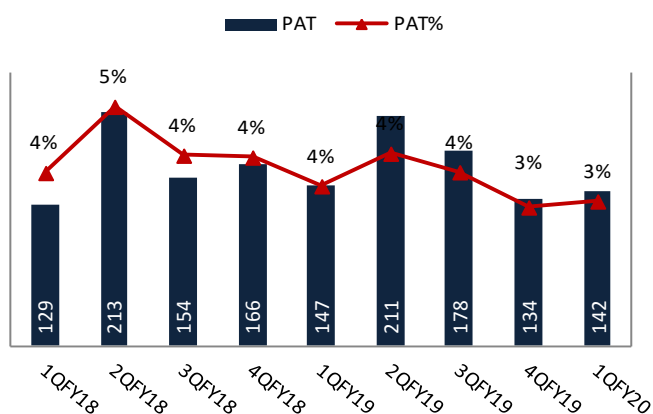
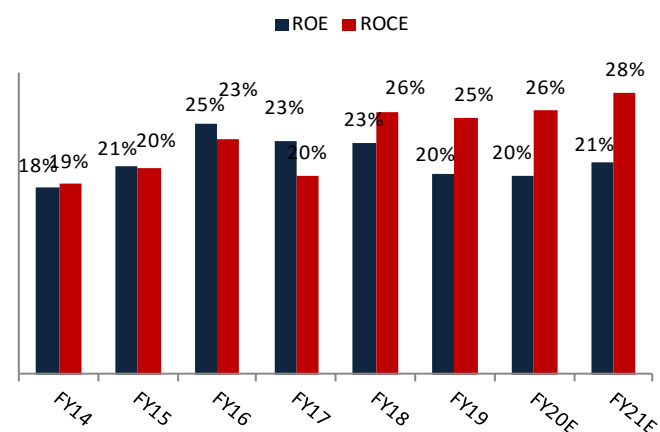


Exhibit: Return Ratios

Improvement in profitability will lead to gradual improvement in return ratios going ahead



Financial Details

Balance Sheet

Y/E March	FY14	FY15	FY16	FY17	FY18	FY19	FY20E	FY21E
Share Capital	48	48	48	48	48	48	48	48
Reserves	1,368	1,636	1,911	2,361	2,833	3,300	3,788	4,387
Networth	1,415	1,684	1,958	2,408	2,880	3,347	3,835	4,435
Debt	476	920	758	1,085	1,037	1,378	1,388	1,334
Other Non Cur Liab	178	172	184	177	202	271	271	271
Total Capital Employed	1,858	2,203	2,453	2,877	3,198	4,056	4,522	5,100
Net Fixed Assets (incl CWIP)	1,174	1,502	1,751	2,046	2,503	2,837	3,039	3,212
Non Cur Investments	896	990	1,215	1,588	2,035	2,301	2,559	2,932
Other Non Cur Asst	-	-	34	34	59	40	60	60
Non Curr Assets	2,156	2,610	3,066	3,718	4,601	5,214	5,675	6,222
Inventory	548	734	696	967	964	1,176	1,294	1,441
Debtors	334	504	578	724	968	1,414	1,556	1,733
Cash & Bank	83	5	33	9	11	44	69	90
Other Curr Assets	80	610	523	472	560	484	532	592
Curr Assets	1,409	1,943	1,886	2,187	2,578	3,155	3,488	3,893
Creditors	998	1,479	1,544	1,859	2,518	2,849	3,183	3,545
Provisons (both)	68	39	58	63	62	60	66	73
Other Curr Liab	430	177	234	233	270	295	324	361
Curr Liabilities	1,496	1,779	2,052	2,235	3,060	3,373	3,668	4,075
Net Curr Assets	(87)	165	(165)	(48)	(482)	(218)	(180)	(181)
Total Assets	3,565	4,554	4,952	5,905	7,179	8,369	9,162	10,115

Income Statement

Y/E March	FY14	FY15	FY16	FY17	FY18	FY19	FY20E	FY21E
Revenue from Operation	7,966	10,098	11,105	12,135	15,175	18,210	20,033	22,312
Change (%)	13	27	10	9	25	20	10	11
Other Income	30	33	104	173	99	8	8	10
EBITDA	482	604	810	857	1,175	1,433	1,632	1,904
Change (%)	18	25	34	6	37	22	14	17
Margin (%)	6.1	6.0	7.3	7.1	7.7	7.9	8.1	8.5
Depr & Amor.	132	153	236	288	339	399	448	476
EBIT	351	451	574	569	836	1,034	1,184	1,428
Int. & other fin. Cost	25	27	49	44	57	81	90	87
EBT	355	456	629	699	879	961	1,102	1,351
Exp Item	(3)	-	-	-	-	-	-	-
Tax	91	108	140	141	216	291	343	419
Minority Int & P/L share of Ass.	-	-	-	-	-	-	-	-
Reported PAT	262	348	489	558	663	670	759	932
Adjusted PAT	262	348	489	558	663	670	759	932
Change (%)	126	33	41	14	19	1	13	23
Margin(%)	3.3	3.4	4.4	4.6	4.4	3.7	3.8	4.2

Financial Details

Key Ratios

Y/E March	FY14	FY15	FY16	FY17	FY18	FY19	FY20E	FY21E
ROE	18%	21%	25%	23%	23%	20%	20%	21%
ROCE	19%	20%	23%	20%	26%	25%	26%	28%
Asset Turnover	2.23	2.22	2.24	2.06	2.11	2.18	2.19	2.21
Debtor Days	15	18	19	22	23	28	28	28
Inv Days	25	27	23	29	23	24	24	24
Payable Days	46	53	51	56	61	57	58	58
Int Coverage	14	16	12	13	15	13	13	16
P/E	18	24	23	37	43	31	21	17
Price / Book Value	3	5	6	8	10	6	4	4
EV/EBITDA	10	14	15	24	25	15	10	9
FCF per Share	275	(282)	342	195	533	504	634	867

Cash Flow Statement

Y/E March	FY14	FY15	FY16	FY17	FY18	FY19	FY20E	FY21E
PBT	348	456	566	699	879	961	1,102	1,351
(inc)/Dec in Working Capital	486	611	773	904	1,131	1,454	1,640	1,914
Non Cash Op Exp	132	153	190	288	339	399	448	476
Int Paid (+)	23	28	48	44	57	81	90	87
Tax Paid	(128)	(141)	(146)	(129)	(246)	(230)	(343)	(419)
others	163	(385)	218	(53)	370	(181)	56	14
CF from Op. Activities	524	85	846	724	1,252	1,098	1,284	1,517
(inc)/Dec in FA & CWIP	(249)	(367)	(504)	(529)	(718)	(594)	(650)	(650)
Free Cashflow	275	(282)	342	195	533	504	634	867
(Pur)/Sale of Inv	(28)	(116)	(171)	(194)	-	-	(258)	(373)
others	16	(8)	155	35	(243)	(258)	-	-
CF from Inv. Activities	(260)	(493)	(520)	(748)	(1,086)	(1,002)	(908)	(1,023)
inc/(dec) in NW	191	268	275	450	472	467	488	599
inc/(dec) in Debt	(109)	-	-	-	(169)	-	-	10
Int. Paid	(23)	(28)	(46)	(43)	(58)	(86)	(90)	(87)
Div Paid (inc tax)	(69)	(83)	(206)	(141)	(188)	(200)	(271)	(333)
others	0	(0)	(2)	-	(0)	(0)	-	-
CF from Fin. Activities	(198)	331	(301)	(73)	(75)	81	(351)	(474)
Inc(Dec) in Cash	66	(78)	25	(97)	91	177	25	20
Add: Opening Balance	15	80	3	(132)	(229)	(138)	44	69
Closing Balance	80	3	28	(229)	(138)	39	69	89

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Correspondence Office Address: Arch Waterfront, 5th Floor, Block GP, Saltlake, Sector 5, Kolkata 700 091; Tel No.: 033-40541700; www.narnolia.com.

Registered Office Address: Marble Arch, Office 201, 2nd Floor, 236B, AIC Bose Road, Kolkata 700 020; Tel No.: 033-4050 1500; www.narnolia.com

Compliance Officer: Manish Kr Agarwal, Email Id: mkagarwal@narnolia.com, Contact No.:033-40541700.

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