India Equity Analytics

Results Preview Q2FY20 - Automobiles

Narnolia®

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Amara Raja Batteries ltd.

AMRJ IN

Automobiles

CMP	**718**
Target	**761**
Upside	**6%**
Rating	**ACCUMULATE**

	FY18	FY19	FY20E	FY21E
Roe%	16%	14%	17%	17%
Roce%	22%	20%	21%	21%
P/E	28.9	22.1	19.3	17.0
P/B	4.6	3.2	3.3	2.9
EV/Ebdita	15.4	11.2	11.3	10.2

	FY18	FY19	FY20E	FY21E	2QFY19	1QFY20	2QFY20E
Capacity (mn units)							
4W	12.8	17.4	21.0	21.0	12.8	17.4	21.0
2W	15.0	16.0	18.0	18.0	15.0	16.0	18.0
Lead Prices-USD/MT	2,375	2,125	1,995	1,995	2,094	1,885	2,034
Segment Revenue							
Automotive Sales	3,878	4,487	4,752	5,089	1,139	1,252	1,117
Industrial Sales	2,181	2,306	2,447	2,740	614	563	601
Financials							
Sales	6,059	6,793	7,199	7,830	1,753	1,815	1,718
Sales Gr%	*14%*	*12%*	*6%*	*9%*	*23%*	*2%*	*-2%*
Ebdita	883	952	1,090	1,204	237	279	263
Ebdita Gr%	*4%*	*8%*	*15%*	*10%*	*-1%*	*27%*	*11%*
Net Profits	471	483	637	722	120	141	164
Profit Gr%	*-1%*	*3%*	*32%*	*13%*	*-5%*	*25%*	*37%*
Ebdita Margin%	14.6%	14.0%	15.1%	15.4%	13.5%	15.4%	15.3%
Net Profit Margin%	7.8%	7.1%	8.8%	9.2%	6.9%	7.8%	9.6%

Std/Fig in Rs Cr

❑ Revenue is expected to decline by 2%YoY in 2QFY20. The slowdown in both OEM and replacement automotive market will have negative impact. On the industrial front there is improvement seen in the lithium-ion telecom battery segment while other segments continue to be muted.

❑ The company has won a contract for setting up large LAB storage facility in Africa. The work is to be completed in 2019.

❑ EBITDA margin is expected to decline by 10 bps QoQ because of weaker operating leverage and inferior product mix, despite 7%QoQ reduction in Lead prices.

❑ On account of reduced corporate taxes, we have factored Rs 29 Cr of excess PAT in 2QFY20 and Rs.75 Cr in FY20. Adjusted PAT growth excluding excess tax benefit is 13% YoY for 2QFY20 and 16%YoY for FY20.

❑ The exit of Johnson controls from its power business remains a threat to AMARAJABAT's future growth prospects in lithium-ion segment.

Key Trackable this Quarter

❑ Update on Clarios arrangement with AMARAJABAT.

❑ Management's strategy regarding lithium-ion batteries

we value the stock at 18x FY21E EPS. ACCUMULATE

Ashok Leyland Limited

AL IN

Automobiles

CMP	**69**
Target	**85**
Upside	**23%**
Rating	**ACCUMULATE**

	FY18	FY19	FY20E	FY21E
Roe%	21.8%	23.8%	18.5%	21.7%
Roce%	28.8%	29.1%	23.9%	28.3%
P/E	30.2	13.5	12.3	9.4
P/B	6.6	3.2	2.3	2.0
EV/Ebdita	20.5	12.1	7.2	5.7

	FY18	FY19	FY20E	FY21E	2QFY19	1QFY20	2QFY20E
Growth YoY							
MHCV	*16%*	*9%*	*-14%*	*-3%*	22%	-13%	-56%
LCV	*37%*	*25%*	*6%*	*10%*	*42%*	*12%*	*-11%*
Total Volumes	*21%*	*13%*	*-9%*	*1%*	27%	-6%	-44%
Realisation Growth	*9%*	*-2%*	*2%*	*15%*	*-1%*	*-3%*	*3%*
Financials							
Sales	26,248	29,055	26,913	31,440	7,621	5,684	4,403
Sales Gr%	*31%*	*11%*	*-7%*	*17%*	*26%*	*-9%*	*-42%*
Ebdita	2,739	3,136	2,808	3,520	829	537	391
Ebdita Gr%	*24%*	*14%*	*-10%*	*25%*	*36%*	*-17%*	*-53%*
Net Profits	1,563	1,983	1,647	2,158	528	230	193
Profit Gr%	*28%*	*27%*	*-17%*	*31%*	*58%*	*-38%*	*-64%*
Ebdita Margin%	10.4%	10.8%	10.4%	11.2%	10.9%	9.4%	8.9%
Net Profit Margin%	6.0%	6.8%	6.1%	6.9%	6.9%	4.0%	4.4%

Std/Fig in Rs Cr

❑ Revenue is expected to decline by 42%YoY led by 44.3% YoY decline in volumes. However, realizations are expected to improve by 2.8%YoY. We expect FY20 volumes to decline by 7%YoY based on 20%YoY decline in first 5 months of FY20.

❑ The company expects to see traction in the exports market in H2FY20 led by various buses orders received by the company.

❑ The company has taken production cuts during the quarter in order to correct the inventory level. Currently the inventory level stands at 1-1.5 months and it is expected to come down by September 2019.

❑ EBITDA margin to decline by 55 bps on sequential basis to 8.9% led by higher discountings and weaker operating leverage. However the company has plans to maintain margins through various cost cutting initiatives going ahead.

❑ Capex guidance for FY20 is Rs.2000-2300 crores which will be invested towards various projects, subsidiaries, BS-VI capacity enhancement and electric vehicles.

❑ On account of reduced corporate taxes, we have factored Rs 25 Cr of excess PAT in 2QFY20 and Rs.185 Cr in FY20. Adjusted PAT growth excluding excess tax benefit is 68%YoY for 2QFY20 and 26%YoY for FY20.

Key Trackable this Quarter

❑ Dealer Inventory Level

❑ MHCV demand scenario and discounting level

We value std business at 11x FY21E EPS and Rs.8per share for HLFL. ACCUMULATE

Bajaj Auto Limited

BJAUT IN

Automobiles

CMP	**2942**
Target	**3450**
Upside	**17%**
Rating	**BUY**

	FY18	FY19	FY20E	FY21E
Roe%	20.7%	21.2%	18.9%	19.5%
Roce%	21.7%	20.2%	18.2%	18.9%
P/E	18.9	17.1	17.4	14.9
P/B	3.9	3.6	3.3	2.9
EV/Ebdita	16.5	16.8	17.0	14.6

	FY18	FY19	FY20E	FY21E	2QFY19	1QFY20	2QFY20E
Growth YoY							
2 wheelers	*5%*	*26%*	*2%*	*9%*	*23%*	*5%*	*-12%*
3 wheelers	*43%*	*23%*	*-5%*	*5%*	*39%*	*-16%*	*-12%*
Total Volumes	*9%*	*25%*	*1%*	*8%*	*25%*	*25%*	*-12%*
Average Realisation	*6%*	*-4%*	*1%*	*2%*	*-3%*	*2%*	*2%*
Financials							
Sales	25,165	30,250	30,882	34,012	7,987	7,756	7,174
Sales Gr%	*16%*	*20%*	*2%*	*10%*	*21%*	*5%*	*-10%*
Other Income	1,212	1,555	1,407	1,635	382	337	357
Ebdita	4,782	4,980	4,981	5,815	1,342	1,197	1,159
Ebdita Gr%	*8%*	*4%*	*0%*	*17%*	*3%*	*-7%*	*-14%*
Net Profits	4,219	4,928	4,884	5,723	1,257	1,012	1,262
Profit Gr%	*3%*	*17%*	*-1%*	*17%*	*5%*	*-3%*	*0%*
Ebdita Margin%	19.0%	16.5%	16.1%	17.1%	16.8%	15.4%	16.2%
Net Profit Margin%	16.8%	16.3%	15.8%	16.8%	15.7%	13.1%	17.6%

Conso/Fig in Rs Cr

❑ Revenue is expected to decline by 10%YoY led by 12% YoY decline in volumes. However, realizations are expected to improve by 2% YoY led by price hikes. However, sales are expected to improve from October in the festive season.

❑ Overall two wheelers volumes are expected to decline by 12% YoY. The domestic 2W volumes are expected to decline by 24%YoY led by lower demand sentiments.

❑ 3Ws overall sales are expected to decline by 12% YoY due to lower demand sentiment and higher base effect in the domestic market along with regulatory changes & political uncertainty in key export markets of Egypt, Latin America and South Asia.

❑ EBITDA margin is expected to improve by 73 bps QoQ at 16.2% led by softening of commodity prices and improvement in product mix towards exports.

❑ Bajaj and KTM Industries AG have agreed on new electric vehicle alliance. The production will begin at Bajaj's production location in Pune and there are plans to launch a range of electric 2Ws by FY22.

❑ On account of reduced corporate taxes, we have factored Rs 180 Cr of excess PAT in 2QFY20 and Rs.417 Cr in FY20. Adjusted PAT de-growth excluding excess tax benefit is 14%YoY for 2QFY20 and 9%YoY for FY20.

Key Trackable this Quarter

❑ Export and domestic market demand outlook

❑ KTM business outlook

We value the stock at 17.5x FY21E EPS. BUY

Balkrishna Industries Ltd.

BIL IN

CMP	**776**
Target	**841**
Upside	**8%**
Rating	**NEUTRAL**

	FY18	FY19	FY20E	FY21E
Roe%	18%	17%	15%	15%
Roce%	19%	21%	16%	16%
P/E	28.8	19.5	18.8	16.6
P/B	5.2	3.2	2.9	2.5
EV/Ebdita	19.2	11.6	12.8	11.3

	FY18	FY19	FY20E	FY21E	2QFY19	1QFY20	2QFY20E
Rubber (RSS-4)	181	156	165	165	148	186	167
Crude	56	66	60	60	73	64	57
Volume Growth							
Volumes (MT)	199,213	211,261	206,732	219,136	52,339	51,304	48,152
Growth YoY	*16%*	*6%*	*-2%*	*6%*	*6%*	*-10%*	*-8%*
Price Growth YoY	*2%*	*11%*	*-6%*	*4%*	*12%*	*-3%*	*-8%*
Financials							
Sales	4,464	5,245	4,841	5,331	1,325	1,193	1,120
Sales Gr%	*18%*	*17%*	*-8%*	*10%*	*19%*	*-12%*	*-16%*
Ebdita	1,107	1,311	1,113	1,308	333	268	252
Ebdita Gr%	*-2%*	*18%*	*-15%*	*18%*	*9%*	*-25%*	*-24%*
Net Profits	739	782	746	893	222	176	171
Profit Gr%	*3%*	*6%*	*-5%*	*20%*	*10%*	*-24%*	*-23%*
Ebdita Margin%	24.8%	25.0%	23.0%	24.5%	25.1%	22.4%	22.5%
Net Profit Margin%	16.6%	14.9%	15.4%	16.7%	16.8%	14.7%	15.3%

Std/Fig in Rs Cr

- ❑ Revenue is expected to decline by 16%YoY because of 8%YoY decline in volumes and 8%YoY reduction in realization. Unfavourable currency and passing on the benefit of reduced raw material prices may lead to lower realization.
- ❑ EBITDA margin expected to improve marginally by 10bps on sequential basis due to higher branding expenses and higher fixed cost on new carbon black plant.
- ❑ Capex for the year is expected to be Rs. 600 crores considering the halt in the US plant capex for the time being based on the market scenario.
- ❑ Carbon black plant: Phase 1 with the capacity of 60000MT p.a. Commercial production started from July 2019; however the benefit will come from 2QFY20. Phase 2 of the plant will be commissioned in FY21 with the capacity of 80000MT p.a.
- ❑ On account of reduced corporate taxes, we have factored Rs 19 Cr of excess PAT in 2QFY20 and Rs.53 Cr in FY20. Adjusted PAT de-growth excluding excess tax benefit is 32%YoY for 2QFY20 and 11%YoY for FY20.

Key Trackable this Quarter

- ❑ Agri demand scenario in Europe.
- ❑ Management strategy to reach to 25-28% margin range reiterated earlier.

We value our stock at 18x FY21EPS. NEUTRAL

CEAT Limited

CEAT IN

Automobiles

CMP	**959**
Target	**851**
Upside	**-11%**
Rating	**NEUTRAL**

	FY18	FY19	FY20E	FY21E
Roe%	9%	9%	10%	9%
Roce%	15%	11%	10%	9%
P/E	23.0	17.0	13.2	13.5
P/B	2.1	1.5	1.3	1.2
EV/Ebdita	9.3	8.5	8.2	7.8

	FY18	FY19	FY20E	FY21E	2QFY19	1QFY20	2QFY20E
Rubber (RSS-4)	130	126	134	134	131	138	146
Crude	56	63	57	57	73	59	57
Volume Growth							
Volumes (MT)	304,802	327,769	329,307	353,102	84,496	84,972	81,961
Growth YoY	*3%*	*8%*	*0%*	*7%*	*12%*	*0%*	*-3%*
Price Growth YoY	*5%*	*4%*	*2%*	*2%*	*3%*	*3%*	*2%*
Financials							
Sales	6,231	6,985	7,137	7,834	1,755	1,752	1,737
Sales Gr%	*8%*	*12%*	*2%*	*10%*	*15%*	*3%*	*-1%*
Ebdita	615	643	666	737	159	167	162
Ebdita Gr%	*-6%*	*5%*	*4%*	*11%*	*-9%*	*-5%*	*1%*
Net Profits	233	251	294	287	63	82	67
Profit Gr%	*-35%*	*8%*	*17%*	*-2%*	*-14%*	*15%*	*6%*
Ebdita Margin%	9.9%	9.2%	9.3%	9.4%	9.1%	9.5%	9.3%
Net Profit Margin%	3.7%	3.6%	4.1%	3.7%	3.6%	4.7%	3.8%

Conso/Fig in Rs Cr

❑ Revenue is expected to decline by 1%YoY led by 3%YoY decline in volumes. However realization is expected to improve by 2%YoY on account of 1.5% price hikes in CV segment, growth in replacement market and exports.

❑ EBITDA margin expected to decline by 20bps QoQ due to increase in domestic rubber prices and weaker operating leverage.

❑ The company has robust order book lined up on PV side which will be executed with the capacity addition within 6 months. The capacity will come on stream from 3QFY20.

❑ Ramping up of Truck radial plant are as per plans of the management and it's expected to fully ramp up within next 4-5 quarters.

❑ Management expects project capex to be in the range of Rs. 1100-1200 crores for standalone business and Rs. 200 crores for speciality business in FY20 going ahead.

❑ On account of reduced corporate taxes, we have factored Rs 2 Cr of excess PAT in Q2FY20 and Rs.8 Cr in FY20. Adjusted PAT growth excluding excess tax benefit is 2%YoY for 2QFY20 and 14%YoY for FY20.

Key Trackable this Quarter

❑ Strategy regarding increased competitive intensity in PV space.

❑ Management commentary on margins.

We value the stock at 12x FY21E EPS. NEUTRAL

Eicher Motors Limited

Automobiles

EICHER IN

CMP	**17777**
Target	**19041**
Upside	**7%**
Rating	**NEUTRAL**

	FY18	FY19	FY20E	FY21E
Roe%	27.9%	24.7%	19.6%	18.9%
Roce%	36.8%	29.2%	19.8%	18.7%
P/E	39.4	25.2	23.3	19.6
P/B	11.0	6.2	4.6	3.7
EV/Ebdita	27.5	19.1	19.8	17.1

	FY18	FY19	FY20E	FY21E	2QFY19	1QFY20	2QFY20E
Growth YoY							
Royal Enfield	23%	1%	-14%	4%	4%	-19%	-21%
Average Realisation	4%	9%	10%	5%	7%	15%	11%
VECV	*14%*	*9%*	*-14%*	*3%*	*16%*	*-18%*	*-39%*
Financials							
Sales	8,965	9,797	9,263	10,174	2,408	2,382	2,172
Sales Gr%	*27%*	*9%*	*-5%*	*10%*	*11%*	*-7%*	*-10%*
Ebdita	2,808	2,903	2,443	2,839	729	614	563
Ebdita Gr%	*29%*	*3%*	*-16%*	*16%*	*7%*	*-24%*	*-23%*
Net Profits	1,960	2,203	2,078	2,471	566	452	522
Profit Gr%	*18%*	*12%*	*-6%*	*19%*	*9%*	*-22%*	*-8%*
Ebdita Margin%	31.3%	29.6%	26.4%	27.9%	30.3%	25.8%	25.9%
Net Profit Margin%	21.9%	22.5%	22.4%	24.3%	23.5%	19.0%	24.0%

Conso/Fig in Rs Cr

- ❑ Revenue growth is expected to decline by 10% YoY led by 21% YoY volume de-growth. However realization may increase by 11%YoY because of increasing sales of 650 twins.
- ❑ The 650 Twins model continue to do extremely well in India as well as across international markets and has a waiting period of 3-4 months.
- ❑ On the VECV side, the volumes are expected to decline by 35% YoY led by slowdown in CV industry. However, the management expects some pick up to happen from October with the onset of the festive season.
- ❑ EBITDA margin is expected to improve by 10bps QoQ on account of raw material cost benefits to be seen 2QFY20 and increasing sales of 650 twins. However, VECV margins are expected to remain impacted led by leveraging impact due to lower sales.
- ❑ The company is working on building a network of compact retail format studio stores to reinforce the distribution network across smaller towns and cities in India. The management plans to open up 350 studio stores during H1FY20.
- ❑ On account of reduced corporate taxes, we have factored Rs.70 Cr of excess PAT in 2QFY20 and Rs.173 Cr in FY20. Adjusted PAT de-growth excluding excess tax benefit is 20%YoY for 2QFY20 and 14%YoY for FY20.

Key Trackable this Quarter

- ❑ Demand outlook in tier-1/2 cities
- ❑ Management commentary on CV industry outlook

We value the stock at 21x FY21E EPS. NEUTRAL

Escorts Limited

ESC IN

Automobiles

CMP	**581**
Target	**662**
Upside	**14%**
Rating	**ACCUMULATE**

	FY18	FY19	FY20E	FY21E
Roe%	16%	18%	18%	18%
Roce%	22%	24%	23%	22%
P/E	31.3	16.3	14.4	12.3
P/B	4.9	3.0	2.6	2.2
EV/Ebdita	19.5	11.0	10.3	8.9

	FY18	FY19	FY20E	FY21E	2QFY19	1QFY20	2QFY20E
Agri Machinery Vol.	80,417	96,412	94,978	100,003	21,039	21,051	19,750
Growth YoY	*26%*	*20%*	*-1%*	*5%*	*3%*	*-14%*	*-6%*
ECE Volume	4,486	5,544	5,519	6,164	1331	1067	1225
Growth YoY	*35%*	*24%*	*0%*	*12%*	*37%*	*-21%*	*-8%*
Segment Revenue							
Agri Machinery	3958	4744	4676	4930	1043	1092	1030
ECE	780	1054	1101	1238	249	212	244
Railway Equip.	287	394	470	540	106	118	122
Financials							
Sales	4,995	6,196	6,509	6,984	1,398	1,423	1,395
Sales Gr%	*22%*	*24%*	*5%*	*7%*	*15%*	*-6%*	*0%*
Ebdita	557	733	709	836	157	142	142
Ebdita Gr%	*72%*	*32%*	*-3%*	*18%*	*12%*	*-23%*	*-10%*
Net Profits	345	484	495	580	103	88	104
Profit Gr%	*115%*	*40%*	*2%*	*17%*	*32%*	*-27%*	*1%*
Ebdita Margin%	11.2%	11.8%	10.9%	12.0%	11.3%	10.0%	10.2%
Net Profit Margin%	6.9%	7.8%	7.6%	8.3%	7.3%	6.1%	7.5%

*Yearly Consolidated and Quarterly Standalone — Fig in Rs Cr

- ❑ Revenue growth is expected to remain flat YoY. Agri machinery segment and construction equipment revenue growth is expected to decline by 1% and 2% YoY respectively. Railways division may post a growth of 15%YoY in Q2FY20.
- ❑ The overall sentiment continue to remain negative due to lower sowing and construction activities along with lower reservoir level and subsidy based sales in Southern and Western regions.
- ❑ Tractor exports guidance for FY20 is expected to be a growth of minimum 20%YoY.
- ❑ Margins are expected to improve by 20 bps QoQ to 10.2% led by declining commodity prices and higher export mix. However, margins are expected to be at same level of 11%-12% going forward.
- ❑ On account of reduced corporate taxes, we have factored Rs 16 Cr of excess PAT in 2QFY20 and Rs.47 Cr in FY20. Adjusted PAT de-growth excluding excess tax benefit is 14%YoY for 2QFY20 and 7%YoY for FY20.

Key Trackable this Quarter

- ❑ Inventory Level (currently at 4-4.5 weeks)
- ❑ Construction Equipment segment margins

We value the stock at 14x FY21E EPS. ACCUMULATE

Gabriel India Limited

GABR IN

Automobiles

CMP	**106**
Target	**119**
Upside	**12%**
Rating	**NEUTRAL**

	FY18	FY19	FY20E	FY21E
Roe%	18%	16%	15%	15%
Roce%	25%	23%	19%	19%
P/E	22.3	21.0	15.3	13.5
P/B	4.0	3.4	2.3	2.1
EV/Ebdita	12.2	11.2	9.0	8.0

	FY18	FY19	FY20E	FY21E	2QFY19	1QFY20	2QFY20E
Segment Revenue							
2W/3W	*1,026*	*1,287*	*1,386*	*1,512*	*325*	*346*	*325*
PV	568	497	432	457	141	103	101
CV	238	291	294	317	76	67	68
Financials							
Sales	1,833	2,076	2,113	2,285	542	517	495
Sales Gr%	*20%*	*13%*	*2%*	*8%*	*15%*	*0%*	*-9%*
Ebdita	171	178	170	190	51	41	39
Ebdita Gr%	*19%*	*4%*	*-5%*	*12%*	*13%*	*-16%*	*-25%*
Net Profits	94	95	100	114	30	22	24
Profit Gr%	*15%*	*1%*	*5%*	*14%*	*9%*	*-17%*	*-20%*
Ebdita Margin%	9.3%	8.6%	8.0%	8.3%	9.5%	8.0%	7.8%
Net Profit Margin%	5.1%	4.6%	4.7%	5.0%	5.5%	4.3%	4.8%

Std/Fig in Rs Cr

❑ Revenue is expected to decline by 9%YoY largely due to 28%YoY decline in passenger vehicle and 10%YoY decline in CV segment. We expect overall 2%YoY revenue growth in FY20 due to sharp decline in OEM volumes.

❑ New Alto models are lined up with the company which will increase the market share of PV segment. Production of the same started in the month of August.

❑EBITDA margin is expected to decline by 20bps QoQ due to increased inventory levels and weaker operating leverage.

❑There are new models lined up for the front fork of HMSI to which the company will start supplying from September 2019. Apart from that the company will also be catering new EV models for 3W from Bajaj.

❑ On account of reduced corporate taxes, we have factored Rs.3 Cr of excess PAT in 2QFY20 and Rs.8 Cr in FY20. Adjusted PAT de-growth excluding excess tax benefit is 32%YoY for 2QFY20 and 3%YoY for FY20.

Key Trackable this Quarter

❑ Update on 3 wheeler EV from Bajaj Auto.

❑ Management strategy to achieve double digit margins

We value our stock at 15x FY21EPS. NEUTRAL

Hero MotoCorp Limited

HMCL IN

Automobiles

CMP	**2700**
Target	**2679**
Upside	**-1%**
Rating	**NEUTRAL**

	FY18	FY19	FY20E	FY21E
Roe%	31.1%	26.4%	27.4%	23.5%
Roce%	39.2%	33.2%	25.8%	27.4%
P/E	19.4	15.0	13.4	14.1
P/B	6.0	4.0	3.7	3.3
EV/Ebdita	13.6	10.3	11.7	10.4

	FY18	FY19	FY20E	FY21E	2QFY19	1QFY20	2QFY20E
Growth YoY							
2 Wheelers	14%	3%	-5%	4%	5%	-12%	-21%
Average Realisation	*0%*	*1%*	*1%*	*2%*	*3%*	*4%*	*2%*
Financials							
Sales	32,458	33,971	32,338	34,356	9,091	8,030	7,370
Sales Gr%	*14%*	*5%*	*-5%*	*6%*	*9%*	*-9%*	*-19%*
Other Income	413	522	523	687	224	219	111
Ebdita	5,325	5,018	4,586	5,138	1,379	1,158	1,039
Ebdita Gr%	*16%*	*-6%*	*-9%*	*12%*	*-5%*	*-16%*	*-25%*
Net Profits	3,722	3,466	4,039	3,822	976	1,257	823
Profit Gr%	*5%*	*-7%*	*17%*	*-5%*	*-3%*	*38%*	*-16%*
Ebdita Margin%	16.4%	14.8%	14.2%	15.0%	15.2%	14.4%	14.1%
Net Profit Margin%	11.5%	10.2%	12.5%	11.1%	10.7%	15.7%	11.2%

*Yearly Consolidated and Quarterly Standalone — Fig in Rs Cr

❑ Revenue is expected to decline by 19%YoY led by 21%YoY contraction in volumes. However, realization may grow by 2%YoY. The company has taken price hike of 1% in July across its range of two-wheelers.

❑ The 110cc and 125cc segment is expected to improve going forward with the launch of Maestro edge and Pleasure110 respectively.

❑ The management expects 2HFY20 to improve led by improving liquidity issues and rural sentiment with the help of good monsoon and Kharif output, festive seasons by the end of September month and pre-buying ahead of BS-VI implementation.

❑ Inventory level stands at 45-50 days and the management expects to bring down the inventory level further by 5-7 days.

❑ EBITDA margin is expected to decline by 32 bps QoQ to 14.1% despite softning of commodity prices. However, the company may provide higher discounts during the festive season in order to improve sales going ahead.

❑ On account of reduced corporate taxes, we have factored Rs.150 Cr of excess PAT in Q2FY20 and Rs.478 Cr in FY20. Adjusted PAT de-growth excluding excess tax benefit is 31%YoY for 2QFY20 and a growth of 3%YoY for FY20.

Key Trackable this Quarter

❑ Dealer Inventory level: 45-50 days

❑ Management commentary on Scooter demand scenario

We value the stock at 14x FY21E EPS. NEUTRAL

Lumax Industries Limited

LUMX IN

CMP	**1226**
Target	**1181**
Upside	**-4%**
Rating	**NEUTRAL**

	FY18	FY19	FY20E	FY21E
Roe%	22%	29%	15%	17%
Roce%	29%	25%	23%	25%
P/E	32.2	12.1	19.0	15.6
P/B	7.0	3.5	2.9	2.7
EV/Ebdita	15.2	8.5	7.4	6.4

	FY18	FY19	FY20E	FY21E	2QFY19	1QFY20	2QFY20E
Segment Revenue							
PV	1,127	1,243	1,102	1,212	342	261	256
CV	99	117	103	110	31	24	22
2-Wheelers	431	518	*480*	*535*	145	117	*128*
Financials							
Sales	1,650	1,851	1,686	1,857	518	402	406
Sales Gr%	*27%*	*12%*	*-9%*	*10%*	*36%*	*-19%*	*-22%*
Ebdita	134	153	155	179	41	38	35
Ebdita Gr%	*35%*	*14%*	*1%*	*15%*	*34%*	*-6%*	*-13%*
Net Profits	63	107	60	74	27	14	13
Adjusted PAT	63	71	60	74	27	14	13
Profit Gr%	40%	13%	*-15%*	*22%*	50%	-17%	*-52%*
Ebdita Margin%	8.1%	8.3%	9.2%	9.6%	7.8%	9.5%	8.7%
Net Profit Margin%	3.8%	5.8%	3.6%	4.0%	5.3%	3.5%	3.2%

Std/Fig in Rs Cr

❑ Revenue is expected to decline by 22%YoY due to sharp decline in passenger vehicle and commercial vehicle volumes in 2QFY20. However the management expects single digit negative growth for FY20.

❑ The management expects pre-buying due to transition to BS VI and festive season to bring in some respite to the industry and also expects to benefit from the slew of new model launches by OEMs and entry of new OEMs in the country.

❑ LED lighting business continues to be stable and contributes 35% to the revenue. The management expects the LED business contribution to go till 50% by FY22.

❑ The management has currently added MG motors as its customers and it has also added TVS Motors as its new customer in 2QFY20.

❑ EBITDA margin is expected to decline by 83 bps on sequential basis due to higher other expenses led by new product launches and start up cost at Gujarat plant along with increase in employee cost. However margins are expected to be in the range of 10-11% in FY20 based on insourcing and localization.

❑ On account of reduced corporate taxes, we have factored Rs.1 Cr of excess PAT in 2QFY20 and Rs.3 Cr in FY20. Adjusted PAT de-growth excluding excess tax benefit is 56%YoY for 2QFY20 and 19%YoY for FY20.

Key Trackable this Quarter

❑ New client addition in PV segment

❑ Management commentary on localization

We value the stock at 15x FY21E EPS. NEUTRAL

Mahindra & Mahindra Ltd

MM IN

Automobiles

CMP	**547**
Target	**699**
Upside	**28%**
Rating	**BUY**

	FY18	FY19	FY20E	FY21E
Roe%	14.4%	14.0%	15.5%	11.7%
Roce%	13.4%	13.2%	14.8%	11.2%
P/E	14.9	9.5	5.6	6.8
P/B	2.1	1.3	0.9	0.8
EV/Ebdita	10.5	6.8	5.1	4.6

	FY18	FY19	FY20E	FY21E	2QFY19	1QFY20	2QFY20E
Volume Growth							
Passenger Vehicles	5%	2%	-4%	4%	-7%	-2%	-27%
Commercial vehicles	20%	15%	-5%	2%	24%	-9%	-21%
3W	4%	22%	2%	8%	31%	1%	-1%
Export	-24%	37%	-6%	5%	20%	-19%	-16%
Farm Equipment	21%	4%	-4%	4%	-3%	-14%	-8%
Total Volumes	13%	8%	-4%	7%	5%	-9%	-16%
Realization Growth	-1%	2%	4%	4%	2%	6%	2%
Financials							
Sales	48,686	53,614	53,693	58,620	12,989	12,923	11,232
Sales Gr%	*11%*	*10%*	*0%*	*9%*	*7%*	*-4%*	*-14%*
Ebdita	6,224	6,640	6,724	7,369	1,605	1,623	1,381
Ebdita Gr%	*31%*	*7%*	*1%*	*10%*	*-7%*	*-13%*	*-14%*
Net Profits	4,356	4,796	5,988	4,936	1,649	2,314	1,027
Profit Gr%	*10%*	*10%*	*25%*	*-18%*	*24%*	*90%*	*-38%*
Ebdita Margin%	12.8%	12.4%	12.5%	12.6%	12.4%	12.6%	12.3%
Net Profit Margin%	*8.9%*	*8.9%*	*11.2%*	*8.4%*	*12.7%*	*17.9%*	*9.1%*
Sales incl. MVML	47,792	52,848	53,076	56,796	12,790	12,805	11,129
Ebdita incl MVML	7,064	7,531	7,555	8,179	1,849	1,794	1,580
Net Profits incl MVML	4,639	5,402	5,919	4,826	1,779	2,260	1,141

Std/Fig in Rs Cr

❑ The company is expected to post 14%YoY decline in revenue led by 16%YoY decline in volumes. Realization is expected to grow by 2%YoY in 2QFY20.The management expects 6-8% growth from September-April 2020 based on festive season & higher Rabi sowing.

❑ The company had production shutdown in July month in order to manage the dealer's inventory level. Dealer inventory level is 2000-3000 tractors which is 3 weeks.

❑ EBITDA margin is expected to decline by 30 bps QoQ led by higher discountings and lower tractor mix. However margins are to largely remain range bound between 12-12.5% in FY20.

❑ Capex for next 3 years is Rs.18000 crores in which Rs.12000 crores is for capacity expansion & product development while Rs.6000 crores will be for other investments.

❑On account of reduced corporate taxes, we have factored in Rs.128 Cr of excess PAT in 2QFY20 and Rs.306 Cr in FY20. Adjusted pat growth excluding excess tax benefit is 46%YoY for 2QFY20 and 18%YoY for FY20.

Key Trackable this Quarter

❑ Channel Inventory (planned production cut for 5-13 days)

We value M&M+MVML at 11x FY21E EPS and subsidiaries at Rs.243 per share. BUY

Maruti Suzuki India Limited

MSIL IN

Automobiles

CMP	**6717**
Target	**7541**
Upside	**12%**
Rating	**ACCUMULATE**

	FY18	FY19	FY20E	FY21E
Roe%	18.5%	16.2%	12.4%	15.0%
Roce%	21.9%	16.9%	10.9%	14.1%
P/E	34.0	27.3	32.2	24.1
P/B	6.3	4.4	4.0	3.6
EV/Ebdita	22.2	18.9	22.4	17.9

	FY18	FY19	FY20E	FY21E	2QFY19	1QFY20	2QFY20E
Capacity('000)	1900	1963	2213	2400	1900	1963	1963
Growth YoY							
Domestic	14%	6%	-13%	8%	0%	-19%	*-31%*
Exports	*2%*	*-14%*	*1%*	*6%*	*-15%*	*6%*	*-12%*
Total Volumes	*13%*	*5%*	*-12%*	*8%*	*-1%*	*-18%*	*-30%*
Average Realisation	*3%*	*3%*	*4%*	*4%*	*5%*	*7%*	*2%*
Financials							
Sales	79,809	86,069	78,625	88,638	22,433	19,719	15,900
Sales Gr%	*17%*	*8%*	*-9%*	*13%*	*3%*	*-12%*	*-29%*
Other Income	2,046	2,562	2,676	3,062	527	836	613
Ebdita	12,063	11,003	9,050	11,325	3,431	2,047	1,701
Ebdita Gr%	*16%*	*-9%*	*-18%*	*25%*	*-7%*	*-39%*	*-50%*
Net Profits	7,881	7,651	6,305	8,437	2,240	1,435	1,091
Profit Gr%	*5%*	*-3%*	*-18%*	*34%*	*-10%*	*-27%*	*-51%*
Ebdita Margin%	15.1%	12.8%	11.5%	12.8%	15.3%	10.4%	10.7%
Net Profit Margin%	9.9%	8.9%	8.0%	9.5%	10.0%	7.3%	6.9%

Conso/Fig in Rs Cr

- Revenue is expected to decline by 28.6%YoY largely driven by 30.2%YoY contraction in volume growth. Realization will improve by 1.5%YoY on account of better product mix and price hikes.

- EBITDA margin is expected to improve by 30 bps QoQ to 10.7% due to softening of commodity prices. However, the company is offering highest discounts currently in order to improve sales in the festive season.

- The company is taking aggressive production cuts as inventory in units and dealer’s network is high. It has announced production cuts days for September month. Currently the inventory level stands at 30 days.

- The company will stop producing diesel vehicles in the BS VI era but will keep an eye on customer reaction to rivals’ offerings. The company’s petrol portfolio has improved by 600bps YoY to 78%.

- On account of reduced corporate taxes, we have factored Rs.57 Cr of excess PAT in Q2FY20 and Rs.211 Cr in FY20. Adjusted PAT de-growth excluding excess tax benefit is 54%YoY for 2QFY20 and 20%YoY for FY20.

Key Trackable this Quarter

- Inventory level
- Management strategy to gain market share in UV segment (increasing competition)
- Management commentary on margins

We value the stock at 27x FY21E EPS. ACCUMULATE

Minda Industries limited

MNDA IN

Automobiles

CMP	**341**
Target	**338**
Upside	**-1%**
Rating	**NEUTRAL**

	FY18	FY19	FY20E	FY21E
Roe%	24%	20%	17%	20%
Roce%	23%	21%	18%	22%
P/E	23.1	25.2	25.7	18.2
P/B	5.5	5.0	4.4	3.7
EV/Ebdita	14.5	11.8	11.5	9.3

	FY18	FY19	FY20E	FY21E	2QFY19	1QFY20	2QFY20E
Segment Revenue							
Switches	1,533	2,229	2,166	2,346	606	533	515
Horns/Acoustics	683	724	706	759	180	173	171
Lighting	1,151	1,311	1,417	1,552	330	346	347
Seating			250	1,000			
Others	1,103	1,417	1,610	1,852	406	187	447
Financials							
Sales	4,471	5,908	6,351	7,509	1,522	1,440	1,479
Sales Gr%	*32%*	*32%*	*7%*	*18%*	*39%*	*1%*	*-3%*
Ebdita	534	725	775	960	189	172	179
Ebdita Gr%	*43%*	*36%*	*7%*	*24%*	*39%*	*1%*	*-5%*
Net Profits	331	339	347	492	89	62	81
Profit Gr%	*79%*	*3%*	*2%*	*42%*	*21%*	*-26%*	*-9%*
Ebdita Margin%	11.9%	12.3%	12.2%	12.8%	12.4%	12.0%	12.1%
Net Profit Margin%	7.4%	5.7%	5.5%	6.6%	5.8%	4.3%	5.5%

Conso/Fig in Rs Cr

❑ Revenue is expected to decline by 3%YoY. However, on the short and medium term, the management expects 6-8% growth in the auto sector and expects to company to outperform the industry growth in FY20.

❑ Sensor business has received new orders from Kawasaki and PSA for engine speed and oil temperature sensors. The sensor and controllers business are expected to generate a revenue of Rs. 130 crs going ahead.

❑ EBITDA margin is expected to improve marginally on a sequential basis led by favorable commodity prices and product mix. Going ahead the management expects EBITDA margins in the range of 12-12.5%.

❑ For Harita Seating Merger, SEBI has approved the scheme and the company expects to file the scheme with NCLT within this quarter. It will be contributing in revenue from 4QFY20 and is expected to generate revenue of Rs. 1000 crores in FY21.

❑ On account of reduced corporate taxes, we have factored Rs.10 Cr of excess PAT in 2QFY20 and Rs.26 Cr in FY20. Adjusted PAT de-growth excluding excess tax benefit is 20%YoY for 2QFY20 and 5%YoY for FY20.

Key Trackable this Quarter

❑ Management's take on passenger vehicle industry demand scenario (50% of revenue)

❑ Management's commentary on further margin improvement

We value the stock at 18x FY21E EPS. NEUTRAL

Motherson Sumi Systems Limited

MSS IN

Automobiles

CMP	**105**
Target	**112**
Upside	**7%**
Rating	**NEUTRAL**

	FY18	FY19	FY20E	FY21E
Roe%	23%	19%	19%	22%
Roce%	20%	17%	15%	19%
P/E	33.3	17.9	14.3	10.3
P/B	7.6	3.4	2.7	2.2
EV/Ebdita	15.6	7.9	6.5	5.0

	FY18	FY19	FY20E	FY21E	2QFY19	1QFY20	2QFY20E
Copper(USD/MT)	6,449	6,347	6,093	6,093	6,189	6,113	5,825
Crude(USD/Barrel)	56	66	61	61	73	65	60
Segment Revenue							
MSSL Standalone	7,440	7,581	7,475	8,222	1,996	1,843	1,816
SMR	12,106	13,181	13,550	14,561	3,159	3,191	3,222
SMP	26,177	30,179	35,007	38,521	6,967	8,468	8,221
PKC	7,940	9,643	10,595	11,654	2,270	2,572	2,543
Others	3,956	4,508	4,696	4,931	1,086	1,131	1,140
Financials							
Sales	56,293	63,523	69,614	76,024	15,105	16,793	16,536
Sales Gr%	*33%*	*13%*	*10%*	*9%*	*12%*	*14%*	*9%*
Ebdita	5,123	5,348	5,525	6,675	1,300	1,255	1,257
Ebdita Gr%	*20%*	*4%*	*3%*	*21%*	*4%*	*-11%*	*-3%*
Net Profits	2,260	2,098	2,311	3,208	495	361	530
Adjusted Pat	2,122	1,985	2,192	3,083	371	332	487
Profit Gr%	*4%*	*-7%*	*10%*	*39%*	*-17%*	*-42%*	*7%*
Ebdita Margin%	9.1%	8.4%	7.9%	8.8%	8.6%	7.5%	7.6%
Net Profit Margin%	4.0%	3.3%	3.3%	4.2%	3.3%	2.1%	3.2%
D/E	1.0	1.0	0.9	0.7			

Conso/Fig in Rs Cr

❑ Revenue is expected to grow by 9%YoY based on double digit growth in SMP and PKC business based on order book lined up with the OEMs. However, the management expects company businesses to improve after 1-2 quarters.

❑ The SMP business is expected to improve going forward with the new launches while the SMR business is also expected to grow going ahead as it has started to execute orders for electric vehicles.

❑ The rolling stock business which is 10% of PKC revenue is expected to grow with the acquisition made in UK.

❑ EBITDA margin is expected to improve marginally on QoQ basis due to higher growth in low margin SMP business and adverse ramp up costs of plants.

❑ On account of reduced corporate taxes, we have factored Rs.72 Cr of excess PAT in Q2FY20 and Rs.313 Cr in FY20. Adjusted PAT de-growth excluding excess tax benefit is 9%YoY for 2QFY20 and 3%YoY for FY20.

Key Trackable this Quarter

❑ Demand outlook in European market (WLTP norms affecting sales)

❑ Further debt reduction plans

We value the stock at 11x FY21E EPS. NEUTRAL

SKF INDIA Limited

SKF IN

Automobiles

CMP	**2153**
Target	**2481**
Upside	**15%**
Rating	**BUY**

	FY18	FY19	FY20E	FY21E
Roe%	16%	20%	20%	20%
Roce%	21%	26%	22%	21%
P/E	30.2	27.3	26.3	22.6
P/B	4.9	5.4	5.3	4.4
EV/Ebdita	18.9	17.6	20.2	17.8

	FY18	FY19	FY20E	FY21E	2QFY19	1QFY20	2QFY20E
Segment Revenue							
Auto	1,141	1,275	1,226	1,325	325	295	292
Export	262	193	221	190	55	70	61
Industrial	1,348	1,568	1,751	1,964	384	412	415
Financials							
Sales	2,750	3,035	3,199	3,479	764	777	768
Sales Gr%	*5%*	*10%*	*5%*	*9%*	*12%*	*3%*	*0%*
Other income	*71*	*92*	*97*	*139*	*21*	*17*	*27*
Ebdita	435	486	496	558	123	120	118
Ebdita Gr%	*29%*	*12%*	*2%*	*12%*	*10%*	*3%*	*-4%*
Net Profits	296	336	405	472	84	78	106
Profit Gr%	*21%*	*14%*	*21%*	*16%*	*14%*	*-4%*	*26%*
Ebdita Margin%	15.8%	16.0%	15.5%	16.0%	16.0%	15.4%	15.4%
Net Profit Margin%	10.8%	11.1%	12.7%	13.6%	11.0%	10.0%	13.8%

Std/Fig in Rs Cr

❑ Revenue growth is expected to remain flat YoY as negative impact of auto OEM segment will be set off by growth in replacement, exports and railways segment.

❑ The management expect festival season and BS-VI pre-buying may push the sector but other than that there is no sign of improvement.

❑ In the industrial sector the demand is coming from infrastructure led segments while consumption led segment still lagging behind.

❑ EBITDA margin is also expected to be flat QoQ because of weaker operating leverage in automotive segment. However commodity prices continue to be soft during the quarter.

❑ Hub-3 bearing plant has become fully operational and products are under testing phase with OEMs. The management expects commercial production to start from 2QFY20. This could provide additional revenue of Rs.35-50 crores from FY21.

❑ On account of reduced corporate taxes, we have factored Rs.21 Cr of excess PAT in 2QFY20 and Rs.59 Cr in FY20. Adjusted PAT growth excluding excess tax benefit is 1%YoY for 2QFY20 and 3%YoY for FY20.

Key Trackable this Quarter

❑ Update on railways bearing orders (the opportunity size stands at Rs.800-1000 crores).

❑ Management commentary on auto demand scenario.

We value the stock at 26x FY21E EPS. BUY

Subros limited

SUBR IN

Automobiles

CMP	**250**
Target	**249**
Upside	**0%**
Rating	**NEUTRAL**

	FY18	FY19	FY20E	FY21E
Roe%	15%	11%	16%	12%
Roce%	21%	20%	16%	18%
P/E	28.7	24.8	13.0	15.1
P/B	4.3	2.8	2.1	1.8
EV/Ebdita	8.9	8.5	7.3	6.0

	FY18	FY19	FY20E	FY21E	2QFY19	1QFY20	2QFY20E
Segment Revenue							
PV AC	*1,761*	*1,945*	*1,920*	*2,046*	*523*	*484*	*471*
Growth YoY	23%	10%	-1%	7%	12%	1%	-10%
Non PV AC	152	179	289	353	41	88	53
Growth YoY	*45%*	*18%*	*61%*	*22%*	*44%*	*66%*	*29%*
Financials							
Sales	1,913	2,124	2,210	2,399	564	572	524
Sales Gr%	*23%*	*11%*	*4%*	*9%*	*13%*	*8%*	*-7%*
Ebdita	210	228	223	263	59	55	52
Ebdita Gr%	*26%*	*9%*	*-2%*	*18%*	*9%*	*-3%*	*-12%*
Net Profits	61	76	126	108	24	42	25
Profit Gr%	*334%*	*26%*	*65%*	*-14%*	*58%*	*121%*	*4%*
Ebdita Margin%	11.0%	10.7%	10.1%	10.9%	10.5%	9.6%	10.0%
Net Profit Margin%	*3.2%*	*3.6%*	*5.7%*	*4.5%*	*4.2%*	*7.3%*	*4.7%*
D/E	0.8	0.3	0.2	0.1			

Conso/Fig in Rs Cr

❑ Revenue is expected to decline by 7%YoY due to reduction in passenger vehicle volumes. However, the management targets to generate revenue of Rs. 100-125 crores by FY20.

❑ Revenue contribution from trucks and buses is expected to be Rs. 70 crores and Rs. 50 crores respectively for FY20. Also the company has targeted Rs. 300 crores revenue for next 2 years from Home AC segment.

❑ Revenue mix for car and non-car stood at 91:9 and the management expects it to reach 80:20 in next 2-3 years.

❑ EBITDA margin is expected to increase by 37 bps QoQ largely because of benign commodity prices. Margins are expected to be in the range of 11-12% in next 2-3 years.

❑ The management has reiterated the capex guidance from Rs. 60-70 crores which will be used for maintenance of Plant and Machinery.

❑ On account of reduced corporate taxes, we have factored Rs.4 Cr of excess PAT in 2QFY20 and Rs.112 Cr in FY20. Adjusted PAT de-growth excluding excess tax benefit is 13%YoY for 2QFY20 and a growth of 47%YoY for FY20.

Key Trackable this Quarter

❑ Further slowdown in PV industry can adversly impact growth: 68% revenue comes from Maruti

❑ Home AC business revenue: Rs.62 crores revenue in 1QFY20

❑ Localisation Trend: Import content stood at 30%

We value the stock at 15x FY21E EPS. NEUTRAL

Swaraj Engines Limited.

SWE IN

Automobiles

CMP	**1160**
Target	**1241**
Upside	**7%**
Rating	**HOLD**

	FY18	FY19	FY20E	FY21E
Roe%	35%	35%	31%	34%
Roce%	46%	47%	35%	39%
P/E	30.3	29.4	18.0	14.0
P/B	10.6	10.2	5.6	4.8
EV/Ebdita	19.9	18.4	12.9	10.5

	FY18	FY19	FY20E	FY21E	2QFY19	1QFY20	2QFY20E
Engine Volumes	92,022	99,638	95,354	94,021	28,560	23,033	27,636
Growth YoY	12%	8%	-4%	-1%	14%	-14%	-3%
Average Realization	83,802	87,491	88,996	92,020	86,495	89,168	88,722
Growth YoY	*4%*	*4%*	*2%*	*3%*	*4%*	*2%*	*3%*
Financials							
Sales	771	872	849	865	247	205	245
Sales Gr%	*16%*	*13%*	*-3%*	*2%*	*3%*	*-12%*	*-1%*
Ebdita	122	132	118	134	40	27	33
Ebdita Gr%	*16%*	*8%*	*-10%*	*13%*	*14%*	*-25%*	*-17%*
Net Profits	80	82	86	100	25	17	26
Profit Gr%	*16%*	*3%*	*4%*	*17%*	*8%*	*-27%*	*2%*
Ebdita Margin%	15.8%	15.1%	13.9%	15.5%	16.2%	13.3%	13.6%
Net Profit Margin%	10.3%	9.4%	10.1%	11.6%	10.3%	8.2%	10.6%

Std/Fig in Rs Cr

❑ Revenue growth is expected to decline by 0.7% YoY in Q2FY20 led by 3.2% YoY contraction in volumes due to a weak sentiment in the agri economy resulting from the delay in south west monsoon, poor spatial rain distribution and weak agricultural incomes. However, realization is expected to improve by 2.5% YoY based on the increase in the mix of higher HP tractors.

❑ The management of M&M expects the domestic tractor industry to grow by 6-8% in remaining 8 months from September 2019 to April 2020 led by normal monsoons and higher Rabi sowing. However, demand is expected to improve in 2HFY20 going ahead led by base effect, pre-buy and festive season.

❑ EBITDA margin is expected to improve by 28 bps on sequential basis due to softening of commodity prices. Further margins are expected to improve based on higher HP tractors which will add to the reduction in cost due to their high margin nature.

❑ The capacity is expected to increase from 120000 units to 150000 units by FY21 and it will be financed through internal accruals.

❑ On account of reduced corporate taxes, we have factored Rs.5 Cr of excess PAT in 2QFY20 and Rs.12 Cr in FY20. Adjusted PAT de-growth excluding excess tax benefit is 18%YoY for 2QFY20 and 11%YoY for FY20.

Key Trackable this Quarter

❑ Tractor industry demand outlook

❑ Management's strategy regarding pricing and margins

We value the stock at 15x FY21E EPS. HOLD

TVS Motor Company Limited

Automobiles

TVSL IN

CMP	**422**
Target	**445**
Upside	**5%**
Rating	**NEUTRAL**

	FY18	FY19	FY20E	FY21E
Roe%	23%	20%	19%	21%
Roce%	26%	25%	24%	25%
P/E	43.0	31.3	23.8	19.2
P/B	9.9	6.3	4.6	4.0
EV/Ebdita	24.5	15.1	11.7	10.2

	FY18	FY19	FY20E	FY21E	2QFY19	1QFY20	2QFY20E
Growth YoY							
Domestic	*16%*	*9%*	*-4%*	*5%*	*11%*	*-3%*	*-24%*
Export	*35%*	*33%*	*11%*	*10%*	*35%*	*10%*	*6%*
Total Volumes	*18%*	*13%*	*-1%*	*6%*	*15%*	*-1%*	*-19%*
Average Realisation	*6%*	*6%*	*4%*	*4%*	*7%*	*8%*	*5%*
Financials							
Sales	15,175	18,210	18,847	20,785	4,993	4,469	4,291
Sales Gr%	*25%*	*20%*	*4%*	*10%*	*23%*	*7%*	*-14%*
Ebdita	1,175	1,433	1,548	1,771	428	356	360
Ebdita Gr%	*37%*	*22%*	*8%*	*14%*	*22%*	*11%*	*-16%*
Net Profits	663	670	765	913	211	142	182
Profit Gr%	*19%*	*1%*	*14%*	*19%*	*-1%*	*-3%*	*-14%*
Ebdita Margin%	7.7%	7.9%	8.2%	8.5%	8.6%	8.0%	8.4%
Net Profit Margin%	4.4%	3.7%	4.1%	4.4%	4.2%	3.2%	4.2%

Std/Fig in Rs Cr

- ❑ Revenue is expected to decline by 14%YoY led by 19%YoY decline in volumes. However, realization is expected to increase by 5% YoY driven by price hikes and exports growth. However, volumes for FY20 are expected to decline by 1% due to lower demand sentiments.
- ❑ The industry is expected to take at least 3-4 months before the revival is seen and the company expects the demand to remain muted for 3-4 months.
- ❑ The exports outlook for the company seems good both on 2W and 3W side due to stable foreign exchange situation and stable exports market conditions in various geographies.
- ❑ EBITDA margin is expected to improve by 44 bps on sequential basis largely because of softening of commodity prices and export contribution.
- ❑ The current inventory level stands at 5 weeks. However, the company is confident of getting inventory down to 30-35 days by the end of the festive season.
- ❑ On account of reduced corporate taxes, we have factored Rs.21 Cr of excess PAT in 2QFY20 and Rs.62 Cr in FY20. Adjusted PAT de-growth excluding excess tax benefit is 24%YoY for 2QFY20 and a growth of 5%YoY for FY20.

Key Trackable this Quarter

- ❑ Investment in loss making subsidiaries (PT. Indonesia and Singapore)
- ❑ Management commentary on margins

We value the stock at 20x FY21E std EPS + Rs.61 /share for TVS credit Services. NEUTRAL

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