

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

Increased competitive intensity to dent volume growth

RATING	NEUTRAL
CMP	437
Price Target	445
Potential Upside	2%

Rating Change	↔
Estimate Change	↔
Target Change	↔

STOCK INFO	
52wk Range H/L	594/340
Mkt Capital (Rs Cr)	20768
Free float (%)	43%
Avg. Vol 1M (,000)	2459
No. of Shares (Crs)	48
Promoters Pledged %	0%

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2QFY20 Result update

- TVSMOTOR posted a decline in revenue of 13% YoY to Rs.4348 crores (vs our expectation of Rs.4291 crores). The volume growth declined by 19% YoY while the realization grew by 7% YoY.
- The domestic volumes de-grew by 24%YoY while exports volume grew by 6%YoY. The export revenue for the quarter stood at Rs.1167 crores.
- Gross margin improved by 180 bps QoQ during the quarter. There was 20 bps improvement due to softening of commodity prices, 120 bps improvement led by cost reduction benefits and 40 bps improvement from product mix. EBITDA margin also improved by 82 bps QoQ to 8.9% during the quarter.
- Import content reduced from 11% to 10% in 2QFY20 on QoQ basis. It was 14% in FY19.
- PAT grew by 21%YoY to Rs.255 crores (vs our expectation of Rs.182 crores). However, adjusted PAT declined by 15%YoY to Rs.179 crores.
- There was an exceptional gain of Rs 76 Crs during the quarter towards reversal of NCCD provision for Himachal plant for earlier years pursuant to a favorable order from CESTAT.
- The company has invested around Rs.180 crores in its subsidiaries in 1HFY20 and expects to invest another Rs. 100-120 crores in 2HFY20.

View and Valuation

The management expects 2HFY20 to be better because of improvement in consumer sentiment due to festive season and better rainfall. However, the company has lost market share in premium segment motorcycles and moped sales has also declined due to aggressive pricing from competition. On exports 3 wheeler sales remained challenging. Going ahead we expect sales of BS-VI vehicles will cost higher and set off the impact of cost reduction initiatives leading to limited margin expansion. We largely maintain our EPS estimate for FY20/21 by 5%/4% respectively. We value standalone business at 20x FY21e EPS and TVS credit services at Rs.61 per share to arrive at a previous target price of Rs.445 and maintain NEUTRAL.

Key Risks to our rating and target

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

Fig in Rs Cr

KEY FINANCIAL/VALUATIONS	FY17	FY18	FY19	FY20E	FY21E
Net Sales	12135	15175	18210	18885	20889
EBITDA	857	1175	1433	1623	1780
EBIT	569	836	1034	1143	1310
PAT	558	663	670	866	924
EPS (Rs)	12	14	14	18	19
EPS growth (%)	14.1	18.7	1.1	29.2	6.8
ROE (%)	23.2	23.0	20.0	22.2	20.5
ROCE (%)	19.8	26.1	25.5	24.9	25.4
BV	51	61	70	82	95
P/B (X)	8.5	9.9	6.3	4.7	4.1
P/E (x)	36.6	43.0	31.3	21.2	19.8

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2QFY20 Results PAT above expectations

Fig in Rs Cr

FINANCIALS	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20	YoY %	QoQ%	FY18	FY19	YoY %
Volumes('000)	1088	990	907	923	886	-19%	-4%	3466	3914	12.9%
Realization	45,882	47,121	48,318	48,406	49,082	7%	1%	43,782	46,528	6.3%
Net Sales	4,993	4,664	4,384	4,469	4,348	-13%	-3%	15,175	18,210	20.0%
Other Income	1	1	4	1	5	562%	308%	99	8	-92.4%
Total Income	4,994	4,665	4,388	4,470	4,353	-13%	-3%	15,274	18,217	19.3%
COGS	3,784	3,535	3,359	3,358	3,190	-16%	-5%	11,133	13,842	24.3%
Staff Cost	245	237	204	249	234	-5%	-6%	868	923	6.3%
Other Exp.	536	517	513	506	542	1%	7%	1,999	2,012	0.6%
Expenditure	4,565	4,288	4,076	4,113	3,966	-13%	-4%	14,000	16,777	19.8%
EBITDA	428	376	308	356	382	-11%	7%	1,175	1,433	22.0%
Depreciation	102	101	103	119	124	22%	4%	339	399	17.9%
EBIT	327	274	205	236	258	-21%	9%	836	1,034	23.6%
Interest	21	17	25	29	28	35%	-2%	57	81	42.3%
PBT	306	258	184	209	234	-23%	12%	879	961	9.4%
Excpt. Item	-	-	-	-	(76)	0%	0%	-	-	0.0%
Tax	95	80	50	66	55	-42%	-16%	216	291	34.6%
PAT	211	178	134	142	255	21%	79%	663	670	1.1%

Revenue declined by 13% YoY largely led by 19% decline in volume degrowth

The company posted a decline in revenue of 13% YoY to Rs.4348 crores during the quarter. The volumes declined by 19% YoY led by poor demand sentiments across domestic markets. During the quarter, total scooter and motorcycles sales declined by 14% and 19% YoY respectively while mopeds declined by 30% YoY due to flood situation across various parts of the country and weaker rural sentiments. 3W sales grew by 9% YoY in 2QFY20. Export 2W and 3W sales grew by 4% and 14% YoY respectively 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. 1167 crores.

Better product mix and various cost cutting initiatives led to margin expansion

Gross margin improved by 180 bps QoQ during the quarter. There was 20 bps improvement due to softening of commodity prices, 120 bps improvement led by cost reduction benefits and 40 bps improvement from product mix. EBITDA margin has also improved by 82 bps QoQ to 8.9% during the quarter. The company has taken a price hike of 0.3%. Import content also reduced from 11% to 10% in 2QFY20 on QoQ basis. Going ahead, management's focus will be expansion in EBITDA margin in FY20 through various cost cutting initiatives and localization.

PAT margin improvement led by exceptional item gain of Rs. 76 crs

PAT grew by 21%YoY to Rs.255 crores. PAT margin improved robustly by 268 bps QoQ to 5.9% led by lower tax and interest expenses. However, adjusted PAT declined by 15%YoY to Rs.179 crores. There was an exceptional gain of Rs 76 Crs during the quarter towards reversal of NCCD provision for Himachal plant for earlier years pursuant to a favorable order from CESTAT.

Concall Highlights

- The company is expected to grow better than the industry both in domestic as well as international market in FY20.
- Q3FY20 is expected to remain challenging while Q4FY20 is expected to show better growth led by improved demand sentiments.
- The management expects the Diwali season to be better than Dusshera. Dussehra season was impacted due to heavy floods in various parts of the country especially in northern and western regions.
- The rural demand sentiment is expected to revive steadily in 3-6 months led by good monsoon and improvement in infrastructure development.
- Scooters segments have done better than the motorcycles as well as industry growth.
- 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.
- The company launched new TVS NEO NX and new 100cc TVS Sport in Mali, Africa and in Sri Lanka respectively. It also launched first ethanol-powered bike TVS Apache RTR 200 Fi E100 during the quarter.
- The company will launch electric vehicle during 2HFY20.
- The company will start producing and selling BS-VI models from early November month.
- Management's focus will be expansion in EBITDA margin going ahead in FY20 through various cost cutting initiatives, localization and commodity cost benefit.
- The company took a price hike of 0.3% in 2QFY20.
- Import content reduced from 11% to 10% in 2QFY20 on QoQ basis. It was 14% in FY19.
- Exports revenue for the quarter stood at Rs. 1167 crs while spare and parts revenue stood at Rs. 447 crs.
- Inventory level stands at 5 weeks.
- Effective Tax rate is expected to remain at the level of 25% going forward in FY20.
- There was an exceptional gain of Rs 76 Cr during the quarter towards reversal of NCCD provision for Himachal plant for earlier years pursuant to a favorable order from CESTAT.
- The company has invested around Rs.180 crores in its subsidiaries in 1HFY20 and expects to invest another Rs. 100-120 crores in 2HFY20.
- Capex guidance for FY20 is Rs. 600-700 crs which is to be spent on BS-VI, electric vehicles and new product developments.

Exhibit: Volume and Volume Growth Trend

Decline in volume growth led by lower demand sentiments across key markets

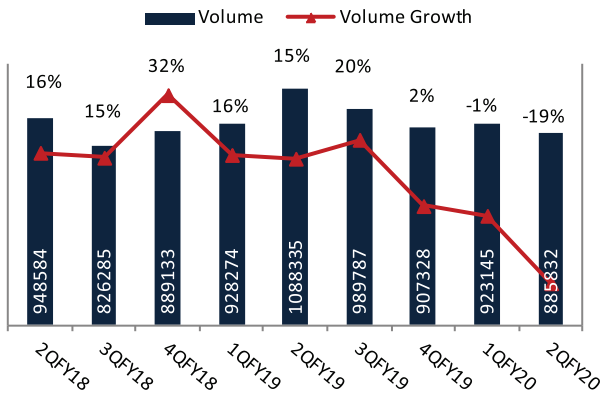


Exhibit: Realisation and Realisation Growth Trend

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

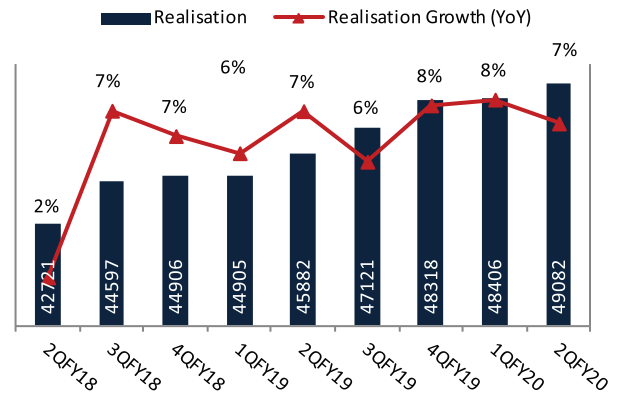


Exhibit: Sales (Rs. Crore) and Sales Growth Trend

Revenue declined by 13% YoY largely led by 19% decline in volume degrowth

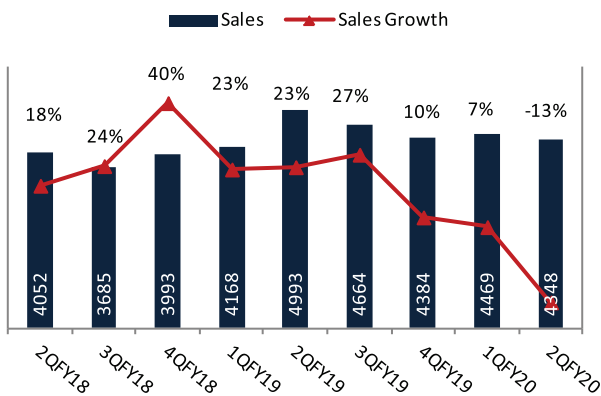


Exhibit: EBITDA (Rs. Crore) and EBITDA% Trend

Better product mix and various cost cutting initiatives led to margin expansion

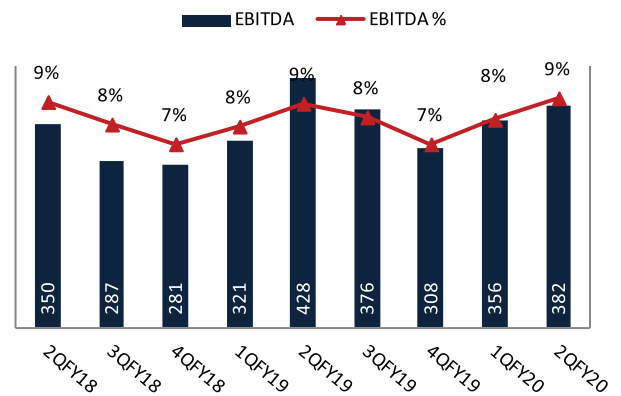


Exhibit: PAT (Rs. Crore) and PAT % Trend

PAT margin improvement led by exceptional item gain of Rs 76 crs

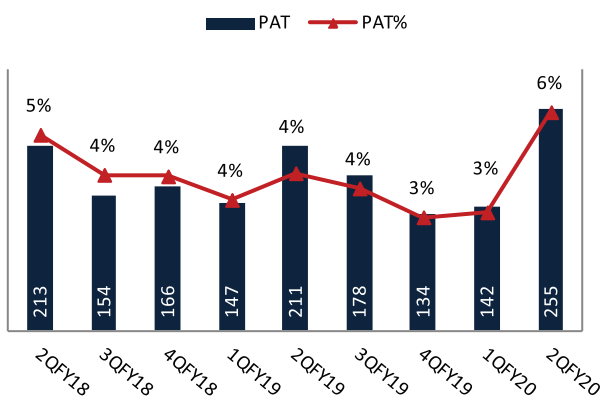
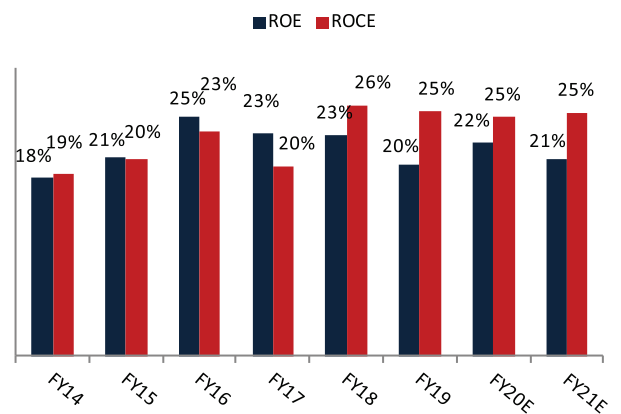


Exhibit: Return Ratios

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



Financial Details

Balance Sheet

Fig in Rs Cr

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	3,856	4,450
Networth	1,415	1,684	1,958	2,408	2,880	3,347	3,904	4,498
Debt	476	920	758	1,085	1,037	1,378	1,424	1,292
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	4,591	5,163
Net Fixed Assets (incl CWIP)	1,174	1,502	1,751	2,046	2,503	2,837	3,006	3,185
Non Cur Investments	896	990	1,215	1,588	2,035	2,301	2,668	2,946
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	5,751	6,208
Inventory	548	734	696	967	964	1,176	1,220	1,349
Debtors	334	504	578	724	968	1,414	1,467	1,622
Cash & Bank	83	5	33	9	11	44	86	110
Other Curr Assets	80	610	523	472	560	484	501	555
Curr Assets	1,409	1,943	1,886	2,187	2,578	3,155	3,311	3,673
Creditors	998	1,479	1,544	1,859	2,518	2,849	3,001	3,319
Provisions (both)	68	39	58	63	62	60	62	69
Other Curr Liab	430	177	234	233	270	295	306	338
Curr Liabilities	1,496	1,779	2,052	2,235	3,060	3,373	3,463	3,821
Net Curr Assets	(87)	165	(165)	(48)	(482)	(218)	(152)	(148)
Total Assets	3,565	4,554	4,952	5,905	7,179	8,369	9,062	9,882

Income Statement

Fig in Rs Cr

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	18,885	20,889
Change (%)	13	27	10	9	25	20	4	11
Other Income	30	33	104	173	99	8	9	10
EBITDA	482	604	810	857	1,175	1,433	1,623	1,780
Change (%)	18	25	34	6	37	22	13	10
Margin (%)	6.1	6.0	7.3	7.1	7.7	7.9	8.6	8.5
Depr & Amor.	132	153	236	288	339	399	481	471
EBIT	351	451	574	569	836	1,034	1,143	1,310
Int. & other fin. Cost	25	27	49	44	57	81	93	84
EBT	355	456	629	699	879	961	1,059	1,236
Exp Item	(3)	-	-	-	-	-	76	-
Tax	91	108	140	141	216	291	269	311
Minority Int & P/L share of Ass.	-	-	-	-	-	-	-	-
Reported PAT	262	348	489	558	663	670	866	924
Adjusted PAT	262	348	489	558	663	670	790	924
Change (%)	126	33	41	14	19	1	0	7
Margin(%)	3.3	3.4	4.4	4.6	4.4	3.7	4.6	4.4

Financial Details

Key Ratios

Y/E March	FY14	FY15	FY16	FY17	FY18	FY19	FY20E	FY21E
ROE	18%	21%	25%	23%	23%	20%	22%	21%
ROCE	19%	20%	23%	20%	26%	25%	25%	25%
Asset Turnover	2.23	2.22	2.24	2.06	2.11	2.18	2.08	2.11
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	12	16
P/E	18	24	23	37	43	31	21	20
Price / Book Value	3	5	6	8	10	6	5	4
EV/EBITDA	10	14	15	24	25	15	12	11
FCF per Share	275	(282)	342	195	533	504	689	848

Cash Flow Statement

Fig in Rs Cr

Y/E March	FY14	FY15	FY16	FY17	FY18	FY19	FY20E	FY21E
PBT	348	456	566	699	879	961	1,059	1,236
(inc)/Dec in Working Capital	486	611	773	904	1,131	1,454	1,632	1,790
Non Cash Op Exp	132	153	190	288	339	399	481	471
Int Paid (+)	23	28	48	44	57	81	93	84
Tax Paid	(128)	(141)	(146)	(129)	(246)	(230)	(269)	(311)
others	163	(385)	218	(53)	370	(181)	49	13
CF from Op. Activities	524	85	846	724	1,252	1,098	1,339	1,498
(inc)/Dec in FA & CWIP	(249)	(367)	(504)	(529)	(718)	(594)	(650)	(650)
Free Cashflow	275	(282)	342	195	533	504	689	848
(Pur)/Sale of Inv	(28)	(116)	(171)	(194)	-	-	(367)	(278)
others	16	(8)	155	35	(243)	(258)	-	-
CF from Inv. Activities	(260)	(493)	(520)	(748)	(1,086)	(1,002)	(1,017)	(928)
inc/(dec) in NW	191	268	275	450	472	467	556	594
inc/(dec) in Debt	(109)	-	-	-	(169)	-	-	46
Int. Paid	(23)	(28)	(46)	(43)	(58)	(86)	(93)	(84)
Div Paid (inc tax)	(69)	(83)	(206)	(141)	(188)	(200)	(309)	(330)
others	0	(0)	(2)	-	(0)	(0)	-	-
CF from Fin. Activities	(198)	331	(301)	(73)	(75)	81	(356)	(546)
Inc(Dec) in Cash	66	(78)	25	(97)	91	177	(34)	24
Add: Opening Balance	15	80	3	(132)	(229)	(138)	44	86
Closing Balance	80	3	28	(229)	(138)	39	10	110

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