

Industry Automobiles
Bloomberg TVSL IN
BSE CODE 532343

Headwinds in the industry continue to hamper demand

RATING	NEUTRAL
CMP	470
Price Target	478
Potential Upside	2%

Rating Change	↔
Estimate Change	↓
Target Change	↓

Stock Info

52wk Range H/L	525/340
Mkt Capital (Rs Cr)	22495
Free float (%)	43%
Avg. Vol 1M (,000)	1401
No. of Shares (Cr.)	48
Promoters Pledged %	0%

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3QFY20 Result Update

- ❑ TVSMOTOR revenue declined by 11%YoY to Rs 4125 crs (vs. expect. Rs 4075 crs) led by 17%YoY decline in volumes while realization improved by 6%YoY.
- ❑ Domestic volumes reported decline of 26% YoY on account of low demand sentiment. However, exports grew by 23% YoY backed by strong growth in African markets.
- ❑ The export revenue for the quarter stood at Rs.1200 crs and Spares revenue is Rs.441 crs.
- ❑ Gross margin expanded by 116 bps QoQ to 27.8% majorly on account of benefit of raw material cost reduction led by localization. EBITDA margin remained flat at 8.8% QoQ due to increased employee expenses and other expenses by 28 bps and 86 bps respectively.
- ❑ PAT stood at Rs 121 crs, with low PAT margin of 2.9% led by reversal of the provision of Rs76.04 crores toward National Calamity Contingent Duty (NCCD) based on a favorable ruling by CESTAT in the Company's case.
- ❑ Inventory level stands at 5 weeks (dealer stocks).
- ❑ In January 2020, the company launched electric scooter i-cube and it is currently being sold in Bangalore in 12 dealerships. The company has further plans to expand its dealerships in Mumbai, Pune, Delhi, Chennai and Trivandrum.

View and Valuation

The demand scenario is expected to be benign till 1HFY21 to decline due to BS-VI transition. However, some of the impact may get arrested by healthy monsoon and government's thrust on agriculture sector. Exports continue to be strong based on stability in oil prices and currency. Though, the recent ban on 2 wheeler & 3 wheeler taxis in Lagos, Nigeria may have some impact. Going ahead margin is expected to remain range bound based on inability to pass on the full impact of BS-VI cost and increasing commodity prices. Considering the demand uncertainty we reduce our EPS estimates by 8%/3% for FY20e/FY21e respectively. We value standalone business at 20x FY21e EPS and TVS credit services at Rs.61 per share to arrive at a target price of Rs.478 and maintain NEUTRAL.

Key Risks to our rating and target

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

Stand./Fig in Rs Cr

KEY FINANCIAL/VALUATIONS	FY17	FY18	FY19	FY20E	FY20E
Net Sales	12135	15175	18210	17065	18385
EBITDA	857	1175	1433	1476	1819
EBIT	569	836	1034	995	1349
PAT	558	663	670	709	972
EPS (Rs)	12	14	14	15	20
EPS growth (%)	14.1	18.7	1.1	5.8	37.1
ROE (%)	23.2	23.0	20.0	18.6	22.0
ROCE (%)	19.8	26.1	25.5	22.2	26.5
BV	51	61	70	80	93
P/B (X)	8.5	9.9	6.3	5.9	5.0
P/E (x)	36.6	43.0	31.3	31.5	23.0

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3QFY20 Results

Sales in line with estimates

Financials	Stand./Fig in Rs Cr									
	3QFY19	4QFY19	1QFY20	2QFY20	3QFY20	YoY %	QoQ%	FY18	FY19	YoY %
Volumes('000)	990	907	923	886	822	-17%	-7%	3466	3914	12.9%
Realization	47,121	48,318	48,406	49,082	50,217	7%	2%	43,782	46,528	6.3%
Net Sales	4,664	4,384	4,469	4,348	4,125	-12%	-5%	15,175	18,210	20.0%
Other Income	1	4	1	5	1	37%	-82%	99	8	-92.4%
Total Income	4,665	4,388	4,470	4,353	4,126	-12%	-5%	15,274	18,217	19.3%
COGS	3,535	3,359	3,358	3,190	2,979	-16%	-7%	11,133	13,842	24.3%
Staff Cost	237	204	249	234	233	-1%	0%	868	923	6.3%
Other Exp.	517	513	506	542	550	6%	1%	1,999	2,012	0.6%
Expenditure	4,288	4,076	4,113	3,966	3,762	-12%	-5%	14,000	16,777	19.8%
EBITDA	376	308	356	382	363	-3%	-5%	1,175	1,433	22.0%
Depreciation	101	103	119	124	121	20%	-2%	339	399	17.9%
EBIT	274	205	236	258	242	-12%	-6%	836	1,034	23.6%
Interest	17	25	29	28	21	27%	-26%	57	81	42.3%
PBT	258	184	209	234	222	-14%	-5%	879	961	9.4%
Excpt. Item	-	-	-	(76)	76	0%	200%	-	-	0.0%
Tax	80	50	66	55	25	-69%	-55%	216	291	34.6%
PAT	178	134	142	255	121	-32%	-53%	663	670	1.1%

Concall Highlights

- For 3QFY20, the industry continues to decline due to lower economic growth and lack of liquidity.
- 4QFY20 industry appears to be challenging, primary because of declining GDP.
- Monsoon though delayed has been normal, and reservoirs are having good water level this should lead to better rabi and kharif crop during 2020 and relief measures announced through budget should stimulate growth.
- Sales of 2W industry declined by 11% in the quarter.
- The company has launched two variants of BS VI: Eco Thrust Fuel injection (ET-FI) and Race Tune Fuel injection (RT-FI)
- The company have changed to BS VI in January and stopped BS IV production. Customer's feedbacks are very positive for its BS VI vehicles.
- TVS credit Services finance penetration is 45%.
- The management expects 1HFY21 to decline due to BS-VI transition. Though some of the impact may get arrested by healthy monsoon and government's thrust on agriculture sector.
- The BS-VI transition is expected to be smooth for the company as 60% of the vehicles sold in January were BS-VI compliant.
- The management expects exports market to be strong based on stability in oil prices and currency.
- The recent ban on 2 wheeler & 3 wheeler taxis in Lagos, Nigeria may have some impact but it is too early to comment. Nigeria accounts 55% of 3 wheeler export and 12% of two wheeler exports of TVS Motors.
- The import content is expected to come down to 8% in FY21 from 10% in FY20.
- Capex guidance of Rs 615 crs in FY20.
- Electric scooter: Total expected capex of Rs 200 crs.

Exhibit: Volume and Volume Growth Trend

Overall volumes declined by 17% YoY led by decline in domestic volumes.

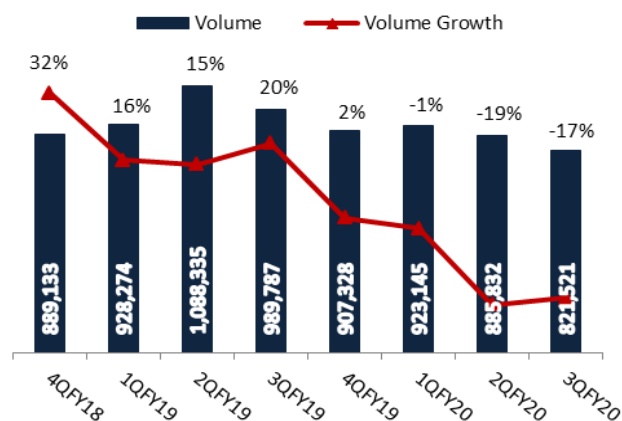


Exhibit: Realisation and Realisation Growth Trend

Blended Realization grew by 7% YoY on account of price increase taken in domestic market.

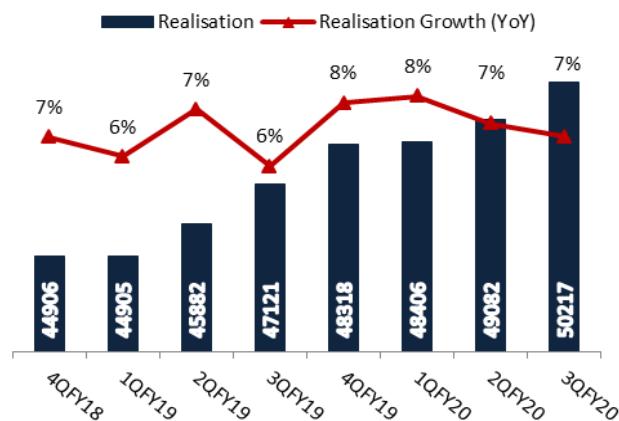


Exhibit: Sales (Rs. Crore) and Sales Growth Trend

Sales degrew by 12% due to decline in domestic volumes by 26%.

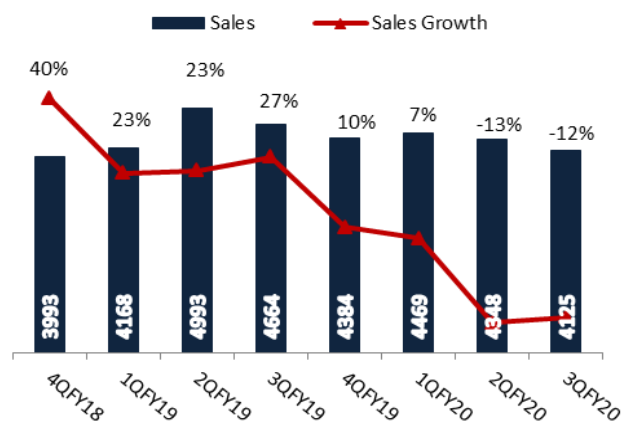


Exhibit: EBITDA (Rs. Crore) and EBITDA% Trend

EBITDA margin remained flat at 8.8% QoQ due to increased employee and other expenses.

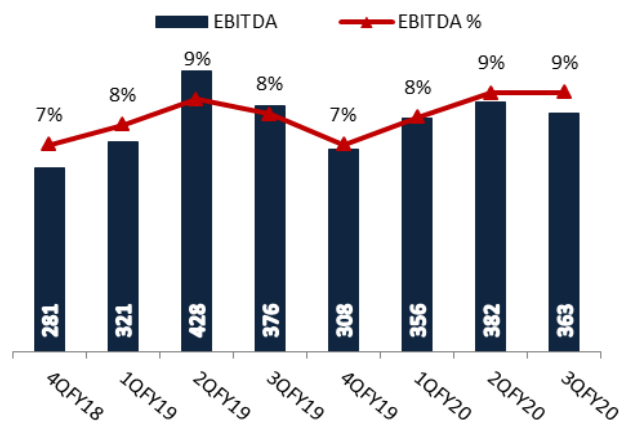


Exhibit: PAT (Rs. Crore) and PAT % Trend

PAT was Rs 121 crs with low PAT margin due to reversal of provision made for NCCD.

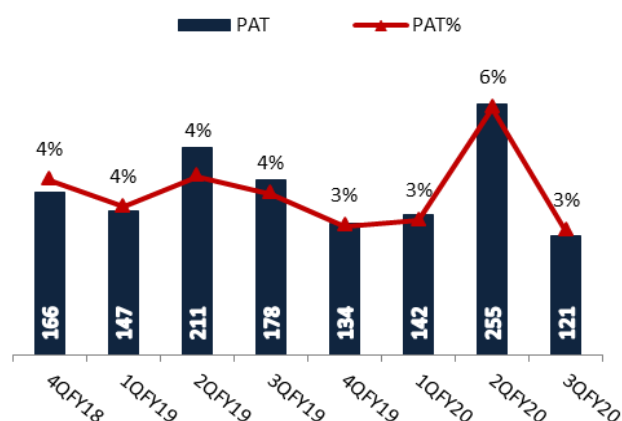
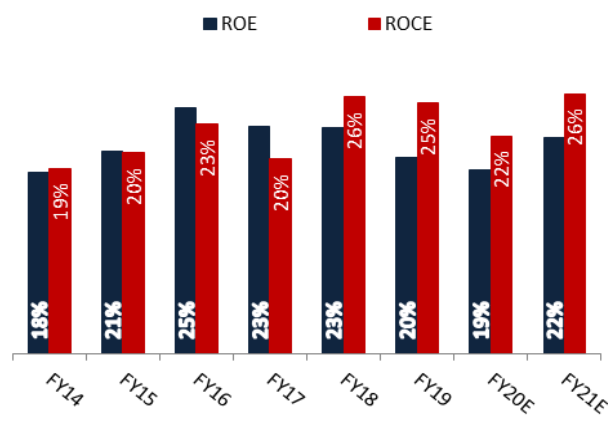


Exhibit: Return Ratios

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



Financial Details

Balance Sheet

Stand./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	3,756	4,381
Networth	1,415	1,684	1,958	2,408	2,880	3,347	3,803	4,428
Debt	476	920	758	1,085	1,037	1,378	1,353	1,217
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	4,490	5,093
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	2,501	2,809
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	5,584	6,071
Inventory	548	734	696	967	964	1,176	1,102	1,187
Debtors	334	504	578	724	968	1,414	1,325	1,428
Cash & Bank	83	5	33	9	11	44	64	78
Other Curr Assets	80	610	523	472	560	484	453	488
Curr Assets	1,409	1,943	1,886	2,187	2,578	3,155	2,982	3,219
Creditors	998	1,479	1,544	1,859	2,518	2,849	2,712	2,921
Provisions (both)	68	39	58	63	62	60	56	61
Other Curr Liab	430	177	234	233	270	295	276	298
Curr Liabilities	1,496	1,779	2,052	2,235	3,060	3,373	3,139	3,374
Net Curr Assets	(87)	165	(165)	(48)	(482)	(218)	(157)	(156)
Total Assets	3,565	4,554	4,952	5,905	7,179	8,369	8,566	9,290

Income Statement

Stand./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	17,065	18,385
Change (%)	13%	27%	10%	9%	25%	20%	-6%	8%
Other Income	30	33	104	173	99	8	8	9
EBITDA	482	604	810	857	1,175	1,433	1,476	1,819
Change (%)	18%	25%	34%	6%	37%	22%	3%	23%
Margin (%)	6%	6%	7%	7%	8%	8%	9%	10%
Depr & Amor.	132	153	236	288	339	399	481	471
EBIT	351	451	574	569	836	1,034	995	1,349
Int. & other fin. Cost	25	27	49	44	57	81	88	79
EBT	355	456	629	699	879	961	916	1,279
Exp Item	(3)	-	-	-	-	-	-	-
Tax	91	108	140	141	216	291	206	307
Minority Int & P/L share of Ass.	-	-	-	-	-	-	-	-
Reported PAT	262	348	489	558	663	670	709	972
Adjusted PAT	262	348	489	558	663	670	709	972
Change (%)	126%	33%	41%	14%	19%	1%	6%	37%
Margin(%)	3%	3%	4%	5%	4%	4%	4%	5%

Financial Details

Key Ratios

Y/E March	FY14	FY15	FY16	FY17	FY18	FY19	FY20E	FY21E
ROE	18%	21%	25%	23%	23%	20%	19%	22%
ROCE	19%	20%	23%	20%	26%	25%	22%	26%
Asset Turnover	2.23	2.22	2.24	2.06	2.11	2.18	1.99	1.98
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	11	17
P/E	18	24	23	37	43	31	31	23
Price / Book Value	3	5	6	8	10	6	6	5
EV/EBITDA	10	14	15	24	25	15	16	13
FCF per Share	275	(282)	342	195	533	504	587	884

Cash Flow Statement

Stand./Fig in Rs Cr

Y/E March	FY14	FY15	FY16	FY17	FY18	FY19	FY20E	FY21E
PBT	348	456	566	699	879	961	916	1,279
(inc)/Dec in Working Capital	486	611	773	904	1,131	1,454	1,484	1,829
Non Cash Op Exp	132	153	190	288	339	399	481	471
Int Paid (+)	23	28	48	44	57	81	88	79
Tax Paid	(128)	(141)	(146)	(129)	(246)	(230)	(206)	(307)
others	163	(385)	218	(53)	370	(181)	37	8
CF from Op. Activities	524	85	846	724	1,252	1,098	1,237	1,534
(inc)/Dec in FA & CWIP	(249)	(367)	(504)	(529)	(718)	(594)	(650)	(650)
Free Cashflow	275	(282)	342	195	533	504	587	884
(Pur)/Sale of Inv	(28)	(116)	(171)	(194)	-	-	(200)	(308)
others	16	(8)	155	35	(243)	(258)	-	-
CF from Inv. Activities	(260)	(493)	(520)	(748)	(1,086)	(1,002)	(850)	(958)
inc/(dec) in NW	191	268	275	450	472	467	456	625
inc/(dec) in Debt	(109)	-	-	-	(169)	-	-	(25)
Int. Paid	(23)	(28)	(46)	(43)	(58)	(86)	(88)	(79)
Div Paid (inc tax)	(69)	(83)	(206)	(141)	(188)	(200)	(253)	(347)
others	0	(0)	(2)	-	(0)	(0)	-	-
CF from Fin. Activities	(198)	331	(301)	(73)	(75)	81	(367)	(562)
Inc(Dec) in Cash	66	(78)	25	(97)	91	177	20	14
Add: Opening Balance	15	80	3	(132)	(229)	(138)	44	64
Closing Balance	80	3	28	(229)	(138)	39	64	78

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