

Retail Equity Research (South India Focus)

TVS Motors Ltd

Automobile - 2/3 Wheelers

BSE CODE : 532343 NSE CODE: TVSMOTOR
BLOOMBERG CODE: TVS IN SENSEX : 39,298

REDUCE

12M Investment Period

Rating as per Mid cap

CMP Rs. 457 TARGET Rs. 440 RETURN -4% 
(Closing: 18-10-19)

KEY CHANGES:

TARGET 

RATING 

EARNINGS 

Higher competition - Pressure on margin

TVS Motors (TVS) is the third largest two- wheeler manufacturer in India with a market share of 14.8% in FY19.

- Q2FY20 revenue de-grew by 13%YoY due to sluggish Industry demand and heightened competition in the entry level Motorcycle (MC) segment.
- EBITDA margin improved by 20bps owing to lower input cost and significant cost control measures. PAT grew by 20%YoY due to an exceptional income benefit of Rs.76cr.
- TVS would continue to maintain its market share in the MC/ scooter segment on account of its established brands (Apache, Jupiter & Ntorq) and network expansion.
- We believe two-wheeler industry to show some pick up in H2FY20 owing to normal monsoon, Upcoming Festive season and government initiatives towards rural development .
- At CMP the TVS is trading at a premium valuation based on a 1 yr fwd. basis. We value TVS at 25x FY21E EPS and maintain our reduce rating with a target price of Rs440.

Revenue came below expectation.

Q2FY20 revenue de-grew by 13%YoY due to sluggish Industry demand and heightened competition in the entry level Motorcycle (MC) segment. Despite price hike TVS volume growth came below expectation. For the quarter volume decline by -19%YoY in which domestic volume decline by 24%YoY where as export grew by 6%YoY. TVS brands like N-Troq 125 and Apache continue to witness strong traction in export market. However, growth from the domestic market remain negative. EBITDA margin improved by 20bpsYoY to 8.8% marginally inline with our estimates. PAT grew by 20%YoY owing to Rs 76cr of exceptional income benefit. Adj. PAT de-grew by 15%YoY. 3W volume grew by 9%YoY owing to strong export to the new geographical market. Despite 4% increase in the corporate tax higher depreciation and interest cost negated the gain for FY20.

Expect marginal pick from H2FY20

We expect the industry to show some pick in Q3and Q4 due to nearing festive season and normal monsoon, while Q4 depends upon BSVI transition. The company has maintained its market share for the quarter. For H2FY20 TVS outperformed the industry growth by 4%YoY (-11%YoY) versus -14%YoY industry growth. The new launch 'Redeon' in the commuter segment is well accepted by the customers. We factor 7% CAGR in revenue over FY19-21E driven by the price hike, normal monsoon, improvement in export, revival in rural demand and superior product mix. We lower our volume estimate and factor -5%/4% for FY20/FY21 respectively.

New products are key volume drivers

New products launches are targeted towards filling gaps in their product portfolio and would improve product mix. The new model Ntorq 125cc scooter targeting towards youth segment has received positive response and the company expects monthly run-rate to exceed 20,000 units. The management has indicated that it will not resort to price war as it affects long term brand value. They also reiterated to launch its first Electric variant in scooter segment the end of FY20. TVS's focus remains on cost reduction efforts such as Value engineering, alternative sourcing and localization. Positively TVS could bring down the RM import from 14% to 10% .

Valuations

Despite lower volume and heightened competition in the commuter segment TVS posted 20bpsYoY (80bpsQoQ) increase in EBITDA margin at 8.8% for the quarter. However at CMP the stock is currently trading at a premium valuation of 31x and 26x for FY20E /21E respectively. We value TVS at 25x FY21E EPS and maintain our reduce rating with a target price of Rs440.

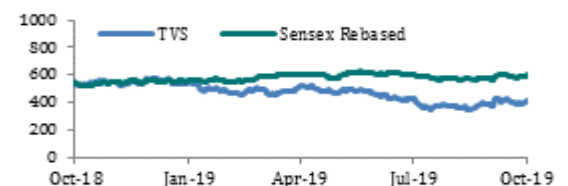
Company Data

Market Cap (cr)	Rs.21,708
Enterprise Value (cr)	Rs.23,085
Outstanding Shares (cr)	47.5
Free Float	35.7%
Dividend Yield	0.7%
52 week high	Rs.594
52 week low	Rs.340
6m average volume (cr)	0.19
Beta	1.1
Face value	Rs1

Shareholding (%)	Q4FY19	Q1FY20	Q2FY20
Promoters	57.4	57.4	57.4
FII's	15.9	15.7	15.0
MFs/Insti	15.1	16.4	17.2
Public	11.6	10.5	10.4
Total	100.0	100.0	100.0

Price Performance	3 month	6 Month	1 Year
Absolute Return	-0.7%	-20.6%	-25.4%
Absolute Sensex	-0.8%	-1.4%	9.8%
Relative Return	0.1%	-19.2%	-35.2%

over or under performance to benchmark index



Standalone (cr)	FY19A	FY20E	FY21E
Sales	18,210	18,296	20,959
Growth (%)	20.0	0.5	14.6
EBITDA	1,433	1,537	1,761
EBITDA Margin(%)	7.9	8.4	8.4
PAT Adj.	670	779	836
Growth (%)	1.1	4.9	18.9
Adj.EPS	14.1	14.8	17.6
Growth (%)	1.1	4.7	19.1
P/E	32.4	30.9	26.0
P/B	6.5	5.6	4.8
EV/EBITDA	16.1	15.0	13.2
ROE (%)	21.5	19.3	19.7
D/E	0.4	0.4	0.3

Saji John
Research Analyst

Quarterly Financials (Standalone)

Profit & Loss

Rs cr	Q2FY20	Q2FY19	YoY Growth %	H1FY19	H2FY20	HoH Growth %
Sales	4,348	4,994	-12.9	9,162	8,816	-3.8
EBITDA	382	429	-10.9	750	738	-1.6
EBITDA margins	8.8	8.6	+20bps	8.2	8.4	+20bps
Depreciation	124	102	22.0	243	195	24.8
EBIT	258	327	-21.1	555	494	-10.9
Interest	28	21	34.6	39	58	47.0
Other Income	4.9	0.7	-	3	6	84.3
Exceptional Items	76	0	-		76	-
PBT	310	307	1.2	519	519	-
Tax	55	95	-4.2	161	121	-24.3
Share of profit from Associate	0	0	0	0	0	0
Minority Interest	0	0	0	0	0	0
Reported PAT	255	212	20.4	358	397	10.9
Adjustments	-76	0	-	0	76	-
Adj PAT	179	212	-15.5	358	321	-10.4
No. of Shares (cr)	47.5	47.5	-	47.5	47.5	-
EPS (Rs)	3.8	4.5	-15.5	7.5	6.8	-10.4

Change in Estimates

Year / Rs cr	Old estimates		New estimates		Change %	
	FY20E	FY21E	FY20E	FY21E	FY20E	FY21E
Revenue	19,426	21,693	18,296	20,959	-5.8	-3.4
EBITDA	1,593	1,801	1,536	1,761	-3.6	-2.2
Margins (%)	8.2	8.3	8.4	8.4	+20bps	+10bps
Adj. PAT	709	816	703	836	-1.0	2.5
EPS	14.9	17.2	14.8	17.6	-1.0	2.5

Standalone Financials

PROFIT & LOSS

Y.E March (Rs Cr)	FY17A	FY18A	FY19A	FY20E	FY21E
Sales	12,135	15,175	18,210	18,296	20,959
% change	9.3	25.1	20.0	0.5	14.6
EBITDA	857	1,175	1,433	1,537	1,761
% change	5.8	37.1	22.0	7.2	14.6
Depreciation	288	339	399	493	543
EBIT	569	836	1,034	1,044	1,218
Interest	44	57	81	111	115
Other Income	173	99	8	18	15
PBT	699	879	961	1,027	1,117
% change	11.1	25.8	9.4	6.9	8.8
Tax	141	216	291	249	282
Tax Rate (%)	20.1	24.6	30.3	24.2	25.2
Reported PAT	558	663	670	779	836
Adj.	0	0	0	76	0
Adj. PAT	558	663	670	703	836
% change	14.1	18.7	1.1	4.9	18.9
No. of shares (cr)	48	48	48	48	48
Adj EPS (Rs)	12	13.9	14.1	14.8	17.6
% change	14.1	18.7	1.1	4.9	18.9
DPS (Rs)	2.5	3.3	3.5	3.5	3.5

CASH FLOW

Y.E March (Rs Cr)	FY17A	FY18A	FY19A	FY20E	FY21E
Net inc. + Depn.	986	1,217	1,360	1,520	1,660
Non-cash adj.	-211	-216	-277	-228	-259
Changes in W.C	-51	837	-704	72	94
C.F. Operation	724	1,838	380	1,364	1,495
Capital exp.	-554	-583	-579	-665	-660
Change in inv.	-31	-447	-265	-350	-750
Other invest.CF	-162	-64	19	-20	-19
C.F - Investment	-748	-1,095	-825	-1,035	-1,429
Issue of equity	-169	0	0	0	0
Issue/repay debt	238	-70	341	44	50
Dividends paid	-141	-189	-200	-200	-200
Other finance.CF	97	112	0	0	0
C.F - Finance	24	-147	141	-156	-150
Chg. in cash	0	596	-305	173	-84
Closing cash	27	478	173	346	262

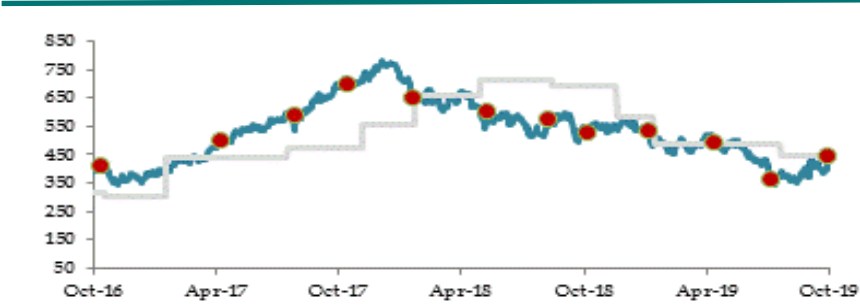
BALANCE SHEET

Y.E March (Rs Cr)	FY17A	FY18A	FY19A	FY20E	FY21E
Cash	27	478	173	345	261
Accounts Receivable	724	968	1,414	1,504	1,723
Inventories	967	964	1,176	1,203	1,378
Other Cur. Assets	549	683	584	802	861
Investments	1,588	2,035	2,301	2,651	3,401
Gross Fixed Assets	3,946	4,499	5,068	5,718	6,368
Net Fixed Assets	1,931	2,317	2,518	2,715	2,858
CWIP	62	92	102	117	127
Intangible Assets	53	93	42	22	7
Def. Tax (Net)	-101	-213	-227	-247	-270
Other Assets	2	19	19	0	0
Total Assets	5,801	7,437	8,103	9,112	10,346
Current Liabilities	313	480	389	602	689
Provisions	114	113	133	150	172
Debt Funds	1,107	1,037	1,378	1,422	1,472
Other Liabilities	0	0	0	0	0
Equity Capital	48	48	48	48	48
Reserves & Surplus	2,361	2,835	3,305	3,883	4,520
Shareholder's Fund	2,408	2,882	3,353	3,930	4,567
Total Liabilities	5,801	7,437	8,103	9,112	10,346
BVPS	51	61	71	83	96

RATIOS

Y.E March	FY17A	FY18A	FY19A	FY20E	FY21E
Profitab & Return					
EBITDA margin (%)	7.1	7.7	7.9	8.4	8.4
EBIT margin (%)	4.7	5.5	5.7	5.7	5.8
Net profit mgn.(%)	4.6	4.4	3.7	4.3	4.0
ROE (%)	25.6	25.0	21.5	19.3	19.7
ROCE (%)	15.3	15.0	12.4	12.6	12.8
W.C & Liquidity					
Receivables (days)	19.6	20.3	23.9	29.1	28.1
Inventory (days)	34.3	31.7	28.2	32.1	30.3
Payables (days)	15.7	13.0	11.5	13.4	15.1
Current ratio (x)	6.0	5.8	7.3	5.7	5.4
Quick ratio (x)	2.4	3.0	4.1	3.1	2.9
Turnover &Leverage					
Gross asset T.O (x)	3.3	3.6	3.8	3.4	3.5
Total asset T.O (x)	2.3	2.3	2.3	2.1	2.2
Int. covge. ratio (x)	13.0	14.8	12.8	9.4	10.6
Adj. debt/equity (x)	0.5	0.4	0.4	0.4	0.3
Valuation					
EV/Sales (x)	1.9	1.5	1.3	1.3	1.1
EV/EBITDA (x)	26.6	19.4	16.1	15.0	13.2
P/E (x)	38.9	32.8	32.4	30.9	26.0
P/BV (x)	9.2	7.8	6.6	5.6	4.8

Recommendation summary (Last 3 Years)



Source: Bloomberg, Geojit Research.

Dates	Rating	Target
28-06-2016	Hold	302
01-11-2016	Hold	440
02-05-2017	Reduce	471
16-08-2017	Reduce	553
03-11-2017	Reduce	660
07-02-2018	Buy	715
29-05-2018	Buy	691
28-08-2018	Hold	584
25-10-2018	Reduce	490
23.01.2019	Reduce	490
04.05.2019	Reduce	449
25.07.2019	Reduce	344
18.10.2019	Reduce	440

Investment Criteria

Large Cap Stocks;			Mid Cap and Small Cap;		
Buy	-	Upside is above 10%.	Buy	-	Upside is above 15%.
Hold	-	Upside is between 0% - 10%.	Accumulate	-	Upside is between 10% - 15%.
Reduce	-	Downside is more than 0%.	Hold	-	Upside is between 0% - 10%.
Neutral	-	Not Applicable	Reduce/Sell	-	Downside is more than 0%.
			Neutral	-	Not Applicable

To satisfy regulatory requirements, we attribute ‘Accumulate’ as Buy and ‘Reduce’ as Sell.
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Neutral- The analyst has no investment opinion on the stock under review

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