

Retail Equity Research (South India Focus)

**TVS Motors Ltd**

Automobile - 2/3 Wheelers

BSE CODE : 532343 NSE CODE: TVSMOTOR  
BLOOMBERG CODE: TVS IN SENSEX : 37,848

**REDUCE**

12M Investment Period Rating as per Mid cap  
**CMP Rs. 360 TARGET Rs. 344 RETURN -5%** ↓  
(Closing: 24-07-19)

**KEY CHANGES:**

**TARGET** ↓

**RATING** ↔

**EARNINGS** ↓

**Disappointment continues - Maintain reduce**

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

- Q1FY20 revenue grew by 7%YoY owing to marginal price hike and increase in export sales(+10%YoY). Volume for the quarter came at negative 1%YoY, largely accounts to sluggish domestic demand.
- EBITDA margin improved by 30bps (in line with our estimates) owing to lower input cost and cost control measures. However PAT de-grew by 3%YoY due to higher interest & depreciation cost.
- TVS would continue to gain market share in the MC/scooter segment on account of recent launches & network expansion.
- Considering the ongoing headwinds due to subdued demand outlook, heightened competition and higher discounts we lower our PAT growth for FY20E/FY21E by 12% & 16% respectively.
- The stock continues to trade downward amid difficulty to sustain the historical valuation owing to lower visibility. We value TVS at 20x FY21E EPS and maintain our reduce rating with a target price of Rs344.

**Revenue came below expectation**

Despite weak Industry demand TVS outperformed the industry growth and registered a revenue growth of 7.2% for Q1FY20. This was largely on account of higher export volume growth of 10YoY and marginal price hike. While its new launches like N-Troq 125 and Apache continue to witness strong traction in export market. However growth from the domestic market remain negative at 3%. EBITDA margin improved by 30bpsYoY to 8% which was inline with our expectation of 8.1%. Despite 11%YoY growth in margin higher interest and depreciation cost affected the PAT and de-grew by 3%YoY. For the quarter, Motor cycle volume grew by 8% and scooter by 3%YoY, where as moped de-grew by 20%YoY. 3W volume grew by 11%YoY owing to strong export to the new geographical market.

**Expect marginal pick from H2FY20**

We expect the industry to show slight pick on Q3 and Q4 due to nearing festive season and while Q4 depends upon BSVI transition. The company has maintained its market share for the quarter. During FY19, TVS registered a volume growth of 13%YoY versus 10% industry growth. The new launch 'Redeon' in the commuter segment is well accepted by the customers. We factor 9% CAGR in revenue over FY19-21E driven by the price hike, improvement in export, revival in rural demand and superior product mix. We lower our volume estimate and factor 2%/9% 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 that by the end of FY20, to launch its first Electric variant in scooter segment. TVS's focus remains on cost reduction efforts such as alternative sourcing and localization. Positively TVS could bring down the RM import from 14% to 11%.

**Valuations**

Despite higher raw material price and heightened competitive intensity in the commuter MC segment and in the scooter, TVS posted a 30bpsYoY increase in EBITDA margin at 8.0% for the quarter. However, due to uneven monsoon, higher fixed cost and lower visibility in demand for the near term, we lower our Revenue & PAT estimate for FY20 by 5% & 12% respectively. We value TVS at 20x FY21E EPS and maintain our reduce rating with a target price of Rs344.

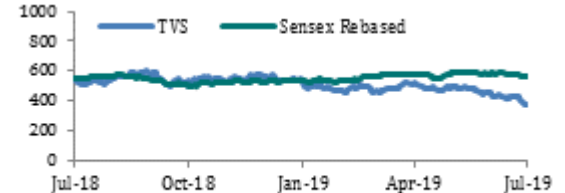
**Company Data**

Market Cap (cr)	Rs.17,100
Enterprise Value (cr)	Rs.18,137
Outstanding Shares (cr)	47.5
Free Float	35.7%
Dividend Yield	0.7%
52 week high	Rs.604
52 week low	Rs.359
6m average volume (cr)	0.19
Beta	1.1
Face value	Rs1

Shareholding (%)	Q3FY19	Q4FY19	Q1FY20
Promoters	57.4	57.4	57.4
FII's	15.9	15.9	15.7
MFs/Insti	15.1	15.1	16.4
Public	11.6	11.6	10.5
Total	100.0	100.0	100.0

Price Performance	3 month	6 Month	1 Year
Absolute Return	-22.8%	-25.4%	-32.9%
Absolute Sensex	-2.6%	6.7%	3.1%
Relative Return	-20.2%	-32.1%	-36.1%

over or under performance to benchmark index



Standalone (cr)	FY19A	FY20E	FY21E
Sales	18,210	19,426	21,643
Growth (%)	20.0	6.7	11.7
EBITDA	1,433	1,593	1,801
EBITDA Margin(%)	7.9	8.2	8.3
PAT Adj.	670	709	816
Growth (%)	1.1	5.7	15.2
Adj.EPS	14.1	14.9	17.2
Growth (%)	1.1	5.7	15.2
P/E	25.5	24.1	20.9
P/B	5.2	4.5	3.8
EV/EBITDA	12.9	11.6	10.3
ROE (%)	21.5	19.6	19.6
D/E	0.4	0.4	0.3

Saji John  
Research Analyst

## Quarterly Financials (Standalone)

### Profit & Loss

Rs cr	Q1FY20	Q1FY19	YoY Growth %	Q4FY19	QoQ Growth %
<b>Sales</b>	<b>4,469</b>	<b>4,168</b>	<b>7.2</b>	<b>4,384</b>	<b>1.9</b>
<b>EBITDA</b>	<b>356</b>	<b>321</b>	<b>10.8</b>	<b>308</b>	<b>15.5</b>
EBITDA margins	8.0	7.7	+30bps	7.0	+100bps
Depreciation	119	93	-	103	15.8
<b>EBIT</b>	<b>236</b>	<b>228</b>	<b>3.8</b>	<b>205</b>	<b>15.3</b>
Interest	29	18	61.5	25	17.9
Other Income	1	3	-	4	-
Exceptional Items	0	0	-	0	-
<b>PBT</b>	<b>209</b>	<b>212</b>	<b>-1.8</b>	<b>184</b>	<b>13.4</b>
Tax	66	66	-	50	32.2
Share of profit from Associate	0	0	0	0	0
Minority Interest	0	0	0	0	0
<b>Reported PAT</b>	<b>142</b>	<b>147</b>	<b>-2.9</b>	<b>134</b>	<b>6.3</b>
Adjustments	0	0	-	0	-
<b>Adj PAT</b>	<b>142</b>	<b>147</b>	<b>-2.9</b>	<b>134</b>	<b>6.3</b>
No. of Shares (cr)	47.5	47.5	-	47.5	-
<b>EPS (Rs)</b>	<b>3.0</b>	<b>3.1</b>	<b>-2.9</b>	<b>2.8</b>	<b>6.3</b>

### Change in Estimates

Year / Rs cr	Old estimates		New estimates		Change %	
	FY20E	FY21E	FY20E	FY21E	FY20E	FY21E
Revenue	20,388	23,434	19,426	21,693	-4.7	-7.4
EBITDA	1,672	1,968	1,593	1,801	-4.7	-8.5
Margins (%)	8.2	8.4	8.2	8.3	-	-10bps
Adj. PAT	802	968	709	816	-11.6	-15.7
EPS	16.9	20.4	14.9	17.2	-11.6	-15.7

## Standalone Financials

### PROFIT & LOSS

Y.E March (Rs Cr)	FY17A	FY18A	FY19A	FY20E	FY21E
<b>Sales</b>	<b>12,135</b>	<b>15,175</b>	<b>18,210</b>	<b>19,426</b>	<b>21,693</b>
% change	9.3	25.1	20.0	6.7	11.7
<b>EBITDA</b>	<b>857</b>	<b>1,175</b>	<b>1,433</b>	<b>1,593</b>	<b>1,801</b>
% change	5.8	37.1	22.0	11.1	13.0
Depreciation	288	339	399	456	500
EBIT	569	836	1,034	1,137	1,300
Interest	44	57	81	111	115
Other Income	173	99	8	8	7
<b>PBT</b>	<b>699</b>	<b>879</b>	<b>961</b>	<b>1,034</b>	<b>1,192</b>
% change	11.1	25.8	9.4	7.6	15.2
Tax	141	216	291	326	375
Tax Rate (%)	20.1	24.6	30.3	31.5	31.5
<b>Reported PAT</b>	<b>558</b>	<b>663</b>	<b>670</b>	<b>709</b>	<b>816</b>
Adj.	0	0	0	0	0
<b>Adj. PAT</b>	<b>558</b>	<b>663</b>	<b>670</b>	<b>709</b>	<b>818</b>
% change	14.1	18.7	1.1	5.7	15.2
No. of shares (cr)	48	48	48	48	48
<b>Adj EPS (Rs)</b>	<b>12</b>	<b>13.9</b>	<b>14.1</b>	<b>14.9</b>	<b>17.2</b>
% change	14.1	18.7	1.1	5.7	15.2
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	1,490	1,694
Non-cash adj.	-211	-216	-277	-310	-358
Changes in W.C	-51	837	-704	87	90
<b>C.F. Operation</b>	<b>724</b>	<b>1,838</b>	<b>380</b>	<b>1,267</b>	<b>1,426</b>
Capital exp.	-554	-583	-579	-665	-660
Change in inv.	-31	-447	-265	-350	-750
Other invest.CF	-162	-64	19	-20	-19
<b>C.F - Investment</b>	<b>-748</b>	<b>-1,095</b>	<b>-825</b>	<b>-1,035</b>	<b>-1,429</b>
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
<b>C.F - Finance</b>	<b>24</b>	<b>-147</b>	<b>141</b>	<b>-156</b>	<b>-150</b>
Chg. in cash	0	596	-305	76	-152
Closing cash	27	478	173	249	96

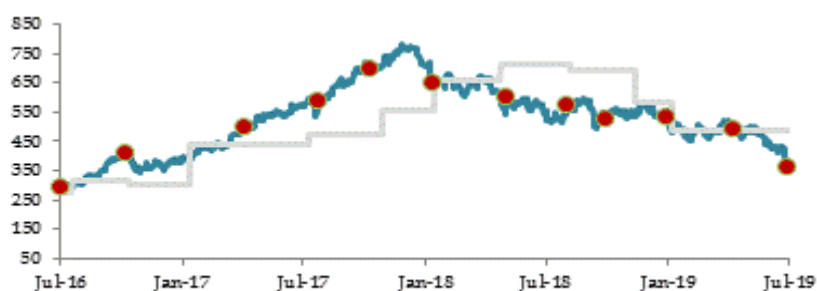
### BALANCE SHEET

Y.E March (Rs Cr)	FY17A	FY18A	FY19A	FY20E	FY21E
Cash	27	478	173	249	96
Accounts Receivable	724	968	1,414	1,597	1,783
Inventories	967	964	1,176	1,277	1,426
Other Cur. Assets	549	683	584	852	892
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	2,748	2,932
CWIP	62	92	102	117	127
Intangible Assets	53	93	42	27	12
Def. Tax (Net)	-101	-213	-227	-242	-260
Other Assets	2	19	19	0	0
<b>Total Assets</b>	<b>5,801</b>	<b>7,437</b>	<b>8,103</b>	<b>9,274</b>	<b>10,409</b>
Current Liabilities	313	480	389	639	713
Provisions	114	113	133	160	178
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	3,813	4,431
Shareholder's Fund	2,408	2,882	3,353	3,861	4,478
<b>Total Liabilities</b>	<b>5,801</b>	<b>7,437</b>	<b>8,103</b>	<b>9,274</b>	<b>10,409</b>
BVPS	<b>51</b>	<b>61</b>	<b>71</b>	<b>81</b>	<b>94</b>

### RATIOS

Y.E March	FY17A	FY18A	FY19A	FYE20E	FY21E
<b>Profitab &amp; Return</b>					
EBITDA margin (%)	7.1	7.7	7.9	8.2	8.3
EBIT margin (%)	4.7	5.5	5.7	5.9	6.0
Net profit mgn.(%)	4.6	4.4	3.7	3.6	3.8
ROE (%)	25.6	25.0	21.5	19.6	19.6
ROCE (%)	15.3	15.0	12.4	11.5	11.6
<b>W.C &amp; Liquidity</b>					
Receivables (days)	19.6	20.3	23.9	28.3	28.4
Inventory (days)	34.3	31.7	28.2	30.4	30.0
Payables (days)	15.7	13.0	11.5	12.7	15.0
Current ratio (x)	6.0	5.8	7.3	5.5	5.2
Quick ratio (x)	2.4	3.0	4.1	2.9	2.6
<b>Turnover &amp; Leverage</b>					
Gross asset T.O (x)	3.3	3.6	3.8	3.6	3.6
Total asset T.O (x)	2.3	2.3	2.3	2.2	2.2
Int. covge. ratio (x)	13.0	14.8	12.8	10.3	11.3
Adj. debt/equity (x)	0.5	0.4	0.4	0.4	0.3
<b>Valuation</b>					
EV/Sales (x)	1.5	1.2	1.0	1.0	0.9
EV/EBITDA (x)	21.2	15.4	12.9	11.6	10.3
P/E (x)	30.6	25.8	25.5	24.1	20.9
P/BV (x)	7.3	6.1	5.2	4.5	3.8

## Recommendation summary (Last 3 Years)



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

Source: Bloomberg, Geojit Research.

## 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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