

October 17, 2019

Q2FY20 Result Update

☒ Change in Estimates | ☒ Target | ☐ Reco

Change in Estimates

	Current		Previous	
	FY20E	FY21E	FY20E	FY21E
Rating	HOLD		HOLD	
Target Price	439		407	
Sales (Rs. m)	182,999	215,722	182,999	215,722
% Chng.	-	-	-	-
EBITDA (Rs. m)	15,829	18,768	15,280	17,905
% Chng.	3.6	4.8	-	-
EPS (Rs.)	15.7	20.3	14.7	18.5
% Chng.	7.0	9.4	-	-

Key Financials - Standalone

Y/e Mar	FY19	FY20E	FY21E	FY22E
Sales (Rs. m)	182,099	182,999	215,722	237,370
EBITDA (Rs. m)	14,333	15,829	18,768	20,176
Margin (%)	7.9	8.7	8.7	8.5
PAT (Rs. m)	6,701	7,476	9,639	10,534
EPS (Rs.)	14.1	15.7	20.3	22.2
Gr. (%)	1.1	11.6	28.9	9.3
DPS (Rs.)	3.5	3.8	4.0	4.0
Yield (%)	0.8	0.8	0.9	0.9
RoE (%)	21.5	20.4	22.2	20.5
RoCE (%)	22.2	21.2	24.1	23.7
EV/Sales (x)	1.3	1.2	1.0	0.9
EV/EBITDA (x)	16.0	14.2	11.8	10.8
PE (x)	31.6	28.4	22.0	20.1
P/BV (x)	6.3	5.3	4.5	3.8

Key Data

TVSM.BO | TVSL IN

52-W High / Low	Rs.594 / Rs.338
Sensex / Nifty	39,052 / 11,586
Market Cap	Rs.212bn / \$ 2,979m
Shares Outstanding	475m
3M Avg. Daily Value	Rs.1859.11m

Shareholding Pattern (%)

Promoter's	57.40
Foreign	13.20
Domestic Institution	19.01
Public & Others	10.39
Promoter Pledge (Rs bn)	-

Stock Performance (%)

	1M	6M	12M
Absolute	19.9	(13.6)	(16.2)
Relative	12.0	(13.1)	(25.4)

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Cost control drive margin, demand outlook weak

TVSL's results were operationally better as EBITDA margins came in at 8.8% (PLe: 7.7%), expanding +20bp YoY/ +80bp QoQ. The margins beat was led by lower RM (20bp QoQ), cost control benefits (130bp QoQ). Going forward, while the management guided for sustenance of margins led by positive impact of a) RM decline, b) decline in import content and c) higher exports, it sounded cautious 2W industry demand over coming 3-4 quarters. We believe decline in domestic 2W volumes to partially offset by continued healthy momentum in exports.

However, we remain cautious on the margin outlook, especially with the incremental costs related to the implementation of BSVI norms in a muted demand environment wherein full pass-on of these costs might be challenging. Factoring in the above, we have built-in overall volume growth of -5%/+9.5% and margins at ~8.7% for FY20/21E respectively. We estimated revenue/EBITDA/Adj. PAT CAGR of 9%/12%/16% in FY19-22E. We arrive at new price target of Rs439 (earlier Rs407), at 19x roll forwarded to Sep-21 core EPS and Rs40 for NBFC. Maintain Hold.

- Revenue in-line:** TVSL's total revenue declined 12.9% YoY (-2.7% QoQ) to Rs43.5bn led by volume decline of 18.6% YoY / 4.0% QoQ. However, realisations improved ~7% YoY/ 1.4% QoQ to Rs49,082 (in-line).
- OPM surpassed expectations at 8.8%:** EBITDA margin was higher 20bps YoY/ 80bps QoQ at 8.8% (PLe of 7.7%). Gross margins expanded 240bps YoY/ 180bps QoQ led by a) reduction in material costs, b) cost cutting initiatives and c) higher localization at 10% (v/s 14% YoY). However, this was partially offset by higher other expense at 12.5% (+170bp YoY/ +110bp QoQ).
- Deferred tax reversal boost PAT** which came in at Rs1.8b (PLe Rs1.34b) led by lower tax rate at 23.6%. TVSL reported exceptional gain of Rs760m pertaining to provisioning reversal for NCCD. TVSL has guided for effective tax rate at 25.2% going forward.
- Key con-call takeaways:** (1) **Demand outlook** - Expect 2H to remain weak led by prevailing slowdown and transition to BS6. Don't expect 2W industry turning positive in next 3-4 quarters. However, better monsoon this year should benefit rural demand recovery. (2) **TVS** has taken an average price hike of ~0.1% in Q1FY20 and another ~0.3% in Q2FY20. (3) **Inventory** levels have come down at ~5 weeks currently. (4) **BS6 transition** - Expect BS6 production to begin from November. (5) **Capex guidance** at Rs6b and investments of Rs1.2b for FY20. (6) Expect EV launch in 2HFY20.

Exhibit 1: Q2FY20 Result Overview (Rs m)

Y/e March	Q2FY20	Q2FY19	YoY gr. (%)	Q1FY20	H1FY20	H1FY19	YoY gr. (%)
Net Revenues	43,478	49,935	(12.9)	44,686	88,165	91,619	(3.8)
Raw Materials	31,898	37,840	(15.7)	33,577	65,475	69,483	(5.8)
<i>% of Net Sales</i>	<i>73.4</i>	<i>75.8</i>		<i>75.1</i>	<i>74.3</i>	<i>75.8</i>	
Personnel	2,337	2,449	(4.6)	2,489	4,826	4,824	0.0
<i>% of Net Sales</i>	<i>5.4</i>	<i>4.9</i>		<i>5.6</i>	<i>5.5</i>	<i>5.3</i>	
Manufacturing & Other Exp	5,424	5,363	1.1	5,063	10,487	9,819	6.8
<i>% of Net Sales</i>	<i>12.5</i>	<i>10.7</i>		<i>11.3</i>	<i>11.9</i>	<i>10.7</i>	
Total Expenditure	39,659	45,653	(13.1)	41,128	80,787	84,125	(4.0)
EBITDA	3,820	4,282	(10.8)	3,558	7,377	7,494	(1.6)
<i>EBITDA Margin (%)</i>	<i>8.8</i>	<i>8.6</i>		<i>8.0</i>	<i>8.4</i>	<i>8.2</i>	
Depreciation	1,241	1,016	22.1	1,194	2,434	1,949	24.9
EBIT	2,579	3,266	(21.0)	2,364	4,943	5,544	(10.8)
Interest Expenses	285	212	34.6	291	576	392	47.0
Non-operating income	49	7		12	61	33	84.3
Extraordinary Income	760	-		-	760	-	
PBT	3,103	3,062	1.4	2,085	5,189	5,186	0.1
Tax-Total	553	949	(41.7)	662	1,215	1,607	(24.3)
<i>Tax Rate (%) - Total</i>	<i>23.6</i>	<i>31.0</i>	<i>(23.8)</i>	<i>31.8</i>	<i>23.4</i>	<i>31.0</i>	<i>(24.4)</i>
Reported PAT	2,550	2,113	20.7	1,423	3,973	3,579	11.0
Adj. PAT	1,790	2,113	(15.3)	1,423	3,213	3,579	(10.2)

Source: Company, PL

Exhibit 2: Operating Metrics

Y/e March	Q2FY20	Q2FY19	YoY gr. (%)	Q1FY20	H1FY20	H1FY19	YoY gr. (%)
Sales Volume (no.s)	885,832	1,088,335	(18.6)	923,195	1,809,027	2,016,609	(10.3)
Net Realisation/Vehicle	49,082	45,882	7.0	48,404	48,736	45,432	7.3
Material cost / vehicle	36,009	34,769	3.6	36,371	36,193	34,455	5.0
Gross Profit / vehicle	13,073	11,113	17.6	12,033	12,543	10,977	14.3
Employee cost /vehicle	2,639	2,251	17.2	2,696	2,668	2,392	11.5
Other expenses / vehicle	6,123	4,928	24.2	5,484	5,797	4,869	19.1
EBITDA/vehicle	4,312	3,934	9.6	3,854	4,078	3,716	9.7
Net Profit/vehicle	2,020	1,942	4.1	1,541	1,776	1,775	0.1

Source: Company, PL

Financials

Income Statement (Rs m)

Y/e Mar	FY19	FY20E	FY21E	FY22E
Net Revenues	182,099	182,999	215,722	237,370
YoY gr. (%)	20.0	0.5	17.9	10.0
Cost of Goods Sold	138,423	139,628	164,596	182,775
Gross Profit	43,677	43,371	51,126	54,595
Margin (%)	24.0	23.7	23.7	23.0
Employee Cost	9,226	8,784	10,786	11,869
Other Expenses	20,118	18,757	21,572	22,550
EBITDA	14,333	15,829	18,768	20,176
YoY gr. (%)	22.0	10.4	18.6	7.5
Margin (%)	7.9	8.7	8.7	8.5
Depreciation and Amortization	3,993	4,615	5,137	5,629
EBIT	10,340	11,214	13,631	14,548
Margin (%)	5.7	6.1	6.3	6.1
Net Interest	806	749	835	565
Other Income	75	98	108	119
Profit Before Tax	9,610	9,803	12,904	14,101
Margin (%)	5.3	5.4	6.0	5.9
Total Tax	2,908	2,865	3,265	3,568
Effective tax rate (%)	30.3	29.2	25.3	25.3
Profit after tax	6,701	6,938	9,639	10,534
Minority interest	-	-	-	-
Share Profit from Associate	-	-	-	-
Adjusted PAT	6,701	7,476	9,639	10,534
YoY gr. (%)	1.1	11.6	28.9	9.3
Margin (%)	3.7	4.1	4.5	4.4
Extra Ord. Income / (Exp)	-	760	-	-
Reported PAT	6,701	6,938	9,639	10,534
YoY gr. (%)	1.1	3.5	38.9	9.3
Margin (%)	3.7	3.8	4.5	4.4
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	6,701	6,938	9,639	10,534
Equity Shares O/s (m)	475	475	475	475
EPS (Rs)	14.1	15.7	20.3	22.2

Source: Company Data, PL Research

Balance Sheet Abstract (Rs m)

Y/e Mar	FY19	FY20E	FY21E	FY22E
Non-Current Assets				
Gross Block	52,927	59,643	65,643	71,643
Tangibles	52,927	59,643	65,643	71,643
Intangibles	-	-	-	-
Acc: Dep / Amortization	25,728	30,344	35,480	41,109
Tangibles	25,728	30,344	35,480	41,109
Intangibles	-	-	-	-
Net fixed assets	27,199	29,299	30,162	30,534
Tangibles	27,199	29,299	30,162	30,534
Intangibles	-	-	-	-
Capital Work In Progress	1,166	451	451	451
Goodwill	-	-	-	-
Non-Current Investments	23,007	25,207	27,407	29,607
Net Deferred tax assets	(2,126)	(2,126)	(2,126)	(2,126)
Other Non-Current Assets	-	-	-	-
Current Assets				
Investments	-	-	-	-
Inventories	11,759	10,027	11,820	13,007
Trade receivables	14,141	12,534	14,776	18,860
Cash & Bank Balance	439	2,273	2,973	2,991
Other Current Assets	5,982	8,062	9,407	10,297
Total Assets	83,693	87,853	96,997	105,745
Equity				
Equity Share Capital	475	475	475	475
Other Equity	32,998	39,315	46,670	54,919
Total Networth	33,473	39,790	47,145	55,394
Non-Current Liabilities				
Long Term borrowings	7,091	4,091	1,091	(1,909)
Provisions	-	-	-	-
Other non current liabilities	-	-	-	-
Current Liabilities				
ST Debt / Current of LT Debt	10,581	10,581	10,581	10,581
Trade payables	29,239	30,082	34,870	38,369
Other current liabilities	1,183	1,183	1,183	1,183
Total Equity & Liabilities	83,694	87,854	96,997	105,745

Source: Company Data, PL Research



Cash Flow (Rs m)

Y/e Mar	FY19	FY20E	FY21E	FY22E
PBT	9,610	10,563	12,904	14,101
Add. Depreciation	3,993	4,615	5,137	5,629
Add. Interest	806	749	835	565
Less Financial Other Income	75	98	108	119
Add. Other	(836)	(98)	(108)	(119)
Op. profit before WC changes	13,572	15,829	18,768	20,176
Net Changes-WC	(4,091)	2,102	(591)	(2,661)
Direct tax	(2,908)	(2,865)	(3,265)	(3,568)
Net cash from Op. activities	6,573	15,066	14,912	13,948
Capital expenditures	(7,328)	(6,000)	(6,000)	(6,000)
Interest / Dividend Income	-	-	-	-
Others	(2,576)	(2,102)	(2,092)	(2,081)
Net Cash from Inv. activities	(9,904)	(8,102)	(8,092)	(8,081)
Issue of share cap. / premium	-	-	-	-
Debt changes	1,348	(3,000)	(3,000)	(3,000)
Dividend paid	(1,999)	(2,142)	(2,284)	(2,284)
Interest paid	(806)	(749)	(835)	(565)
Others	-	760	-	-
Net cash from Fin. activities	(1,457)	(5,130)	(6,119)	(5,849)
Net change in cash	(4,788)	1,834	701	17
Free Cash Flow	(755)	9,066	8,912	7,948

Source: Company Data, PL Research

Quarterly Financials (Rs m)

Y/e Mar	Q3FY19	Q4FY19	Q1FY20	Q2FY20
Net Revenue	46,640	43,840	44,686	43,478
YoY gr. (%)	26.1	9.4	7.2	(12.9)
Raw Material Expenses	35,347	33,593	33,577	31,898
Gross Profit	11,293	10,247	11,109	11,581
Margin (%)	24.2	23.4	24.9	26.6
EBITDA	3,757	3,081	3,558	3,820
YoY gr. (%)	25.0	4.4	10.8	(10.8)
Margin (%)	8.1	7.0	8.0	8.8
Depreciation / Depletion	1,012	1,031	1,194	1,241
EBIT	2,745	2,050	2,364	2,579
Margin (%)	5.9	4.7	5.3	5.9
Net Interest	167	247	291	285
Other Income	7	36	12	49
Profit before Tax	2,585	1,839	2,085	3,103
Margin (%)	5.5	4.2	4.7	7.1
Total Tax	801	501	662	553
Effective tax rate (%)	31.0	27.2	31.8	17.8
Profit after Tax	1,784	1,338	1,423	2,550
Minority interest	-	-	-	-
Share Profit from Associates	-	-	-	-
Adjusted PAT	1,784	1,338	1,423	1,790
YoY gr. (%)	15.6	(19.2)	(2.9)	(15.3)
Margin (%)	3.8	3.1	3.2	4.1
Extra Ord. Income / (Exp)	-	-	-	(760)
Reported PAT	1,784	1,338	1,423	2,550
YoY gr. (%)	15.6	(19.2)	(2.9)	20.7
Margin (%)	3.8	3.1	3.2	5.9
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	1,784	1,338	1,423	2,550
Avg. Shares O/s (m)	475	475	475	475
EPS (Rs)	3.8	2.8	3.0	3.8

Source: Company Data, PL Research

Key Financial Metrics

Y/e Mar	FY19	FY20E	FY21E	FY22E
Per Share(Rs)				
EPS	14.1	15.7	20.3	22.2
CEPS	22.5	25.5	31.1	34.0
BVPS	70.5	83.8	99.2	116.6
FCF	(1.6)	19.1	18.8	16.7
DPS	3.5	3.8	4.0	4.0
Return Ratio(%)				
RoCE	22.2	21.2	24.1	23.7
ROIC	15.7	15.7	19.0	18.6
RoE	21.5	20.4	22.2	20.5
Balance Sheet				
Net Debt : Equity (x)	0.5	0.3	0.2	0.1
Net Working Capital (Days)	(7)	(15)	(14)	(10)
Valuation(x)				
PER	31.6	28.4	22.0	20.1
P/B	6.3	5.3	4.5	3.8
P/CEPS	19.8	17.5	14.4	13.1
EV/EBITDA	16.0	14.2	11.8	10.8
EV/Sales	1.3	1.2	1.0	0.9
Dividend Yield (%)	0.8	0.8	0.9	0.9

Source: Company Data, PL Research

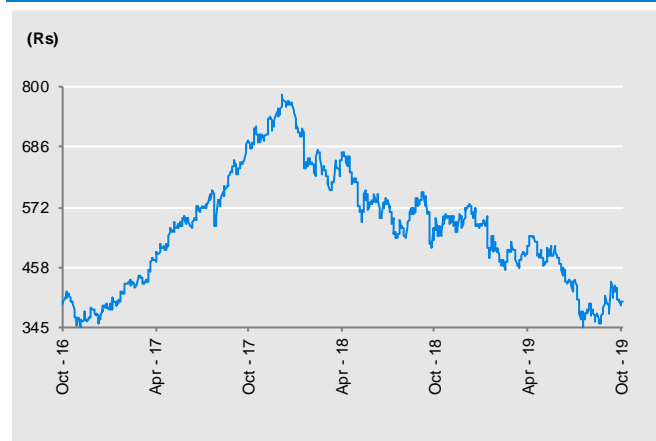
Key Operating Metrics

Y/e Mar	FY19	FY20E	FY21E	FY22E
Scooter volume (units)	1,301,115	1,247,255	1,379,912	1,498,338
Motorcycle volume (units)	1,560,519	1,539,810	1,758,833	1,932,663
Moped volume (units)	896,917	764,881	747,843	731,439
Total two-wheeler volume (units)	3,758,551	3,551,945	3,886,588	4,162,440
Three-wheeler volume (units)	156,434	173,213	192,318	213,579
Total volume (units)	3,914,985	3,725,158	4,078,906	4,376,019
Realisation per unit (Rs)	46,513	49,125	52,887	54,243

Source: Company Data, PL Research

Price Chart

Recommendation History



No.	Date	Rating	TP (Rs.)	Share Price (Rs.)
1	3-Oct-19	Hold	405	405
2	22-Jul-19	Hold	405	380
3	4-Jul-19	Hold	423	433
4	2-May-19	Hold	474	492
5	5-Apr-19	Accumulate	665	485
6	22-Jan-19	Accumulate	665	554
7	7-Jan-19	Accumulate	618	535
8	23-Oct-18	Accumulate	618	535

Analyst Coverage Universe

Sr. No.	Company Name	Rating	TP (Rs)	Share Price (Rs)
1	Ashok Leyland	Hold	75	68
2	Bajaj Auto	Reduce	2,646	2,898
3	Bharat Forge	Hold	430	424
4	CEAT	Reduce	757	965
5	Eicher Motors	Reduce	15,800	18,285
6	Exide Industries	Accumulate	209	196
7	Hero Motocorp	Accumulate	2,529	2,667
8	Mahindra & Mahindra	Hold	563	563
9	Maruti Suzuki	BUY	6,842	6,754
10	Motherson Sumi Systems	Accumulate	111	99
11	Tata Motors	Hold	139	122
12	TVS Motors	Hold	405	405

PL's Recommendation Nomenclature (Absolute Performance)

Buy	: > 15%
Accumulate	: 5% to 15%
Hold	: +5% to -5%
Reduce	: -5% to -15%
Sell	: < -15%
Not Rated (NR)	: No specific call on the stock
Under Review (UR)	: Rating likely to change shortly

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