

Margin Under Pressure, Risk–Reward is Unfavorable; SELL

TVSL reported a disappointing PAT of ₹ 1.33bn (-19.2% YoY). This was despite a revenue increase of 9.8% YoY, led by a higher volume growth (+2% YoY) and better realizations (+7.6% YoY). The EBITDA margins was under pressure (at 7%, flat YoY), as it was impacted by the fall in gross margin (+280bps YoY affected by adverse product mix, negative operating leverage, inventory adjustment, and commodity inflation). The management expects the 2W industry growth to be muted in Q1FY20, and gradually improve from Q2 onwards.

TVS doing incrementally better on new products than its 2W peers, led by the ramp up of new models (Ntorq, Radeon) and strong exports. The company's market share in the domestic 2W space has also improved to 14.8% in FY19 (+60bps YoY), due to market share gain in the scooter segment (+200bps YoY, 18.5%). However, moped and 100cc portfolio continue to face intense competition from peers, driven by heavy discounts. We believe margin improvement trajectory for TVS is likely to be slower (~+20–+30bps over FY19–21E), given ongoing regulatory change. The market seems to be rewarding TVS for its expectedly higher earnings growth, which could be at risk if margin doesn't expand.

We expect a 18% EPS CAGR over FY19–21E, primarily led by a 13% growth in revenue (+7% volume, 6% in ASP) and 20bps margin expansion, which is much higher than peers. However, this is discounted in the valuations (25x FY21E PE) at current levels. We recommend Sell, with TP ₹ 456 (based on 22x of FY21E earnings + value of TVS Credit Services at ₹ 35/share).

Meaningful margin expansion is unlikely

We remain concerned about margin outlook for 2W OEMs, despite easing commodity prices, given big regulatory cost push from new safety and emission norms and high competitive intensity. TVS's 25% volumes are still contributed by mopeds, which would restrict meaningful margin expansion. Going into BS-6, not only would there be relatively higher technical challenges for mopeds, but the rising cost will reduce the percentage difference between a moped and an entry-level motorcycle. Further, maintenance costs could come on par with motorcycles (due to a shift from carburetor to EFI), which could also hurt the segment.

Q4FY19 Result (₹ Mn)

Particulars	Q4FY19	Q4FY18	YoY (%)	Q3FY19	QoQ (%)
Revenue	43,840	39,928	9.8	46,640	(6.0)
Total Expense	40,759	37,121	9.8	42,883	(5.0)
EBITDA	3,081	2,807	9.8	3,757	(18.0)
Depreciation	1,031	944	9.3	1,012	1.8
EBIT	2,050	1,863	10.1	2,745	(25.3)
Other Income	36	240	(85.1)	7	450.8
Interest	247	183	35.3	167	47.9
EBT	1,839	1,921	10.1	2,585	(28.8)
Tax	501	264	89.5	801	(37.4)
RPAT	1,338	1,656	(19.2)	1,784	(25.0)
APAT	1,338	1,656	(19.2)	1,784	(25.0)
			(bps)		(bps)
Gross Margin (%)	23.4	26.2	(285)	24.2	(84)
EBITDA Margin (%)	7.0	7.0	0	8.1	(103)
NPM (%)	3.1	4.1	(110)	3.8	(77)
Tax Rate (%)	27.2	13.8	1347	31.0	(374)
EBIT Margin (%)	4.7	4.7	1	5.9	(121)

CMP	₹ 492
Target / Downside	₹ 456 / 7%
BSE Sensex	39,004
NSE Nifty	11,748

Scrip Details

Equity / FV	₹ 475mn / ₹ 1
Market Cap	₹ 234bn
	US\$ 3bn
52-week High/Low	₹ 675/₹ 448
Avg. Volume (no)	13,13,190
NSE Symbol	TVSMOTOR
Bloomberg Code	TVSL IN

Shareholding Pattern Mar'19(%)

Promoters	57.4
MF/Banks/FIs	15.8
FIIIs	16.2
Public / Others	10.5

Valuation (x)

	FY19E	FY20E	FY21E
P/E	34.9	29.5	24.9
EV/EBITDA	17.2	14.8	13.0
ROE (%)	21.5	21.8	22.1
RoACE (%)	16.7	17.1	18.1

Estimates (₹ mn)

	FY19E	FY20E	FY21E
Revenue	1,82,099	2,06,577	2,32,787
EBITDA	14,333	16,455	18,787
PAT	6,701	7,917	9,398
EPS (₹)	14.1	16.7	19.8

Analyst: Abhishek Jain

Tel: +9122 40969739

E-mail: abhishekj@dolatcapital.com

Associate: Kushal Shah

Tel: +91 22 40969768

E-mail: kushals@dolatcapital.com

Associate: ketul Dalal

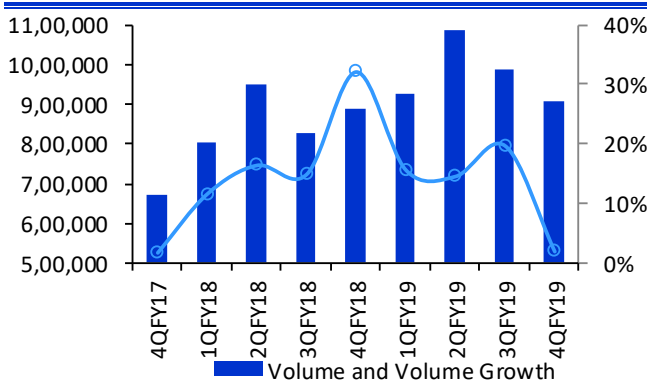
Tel: +91 22 40969770

E-mail: ketuld@dolatcapital.com

Conference Call Highlights

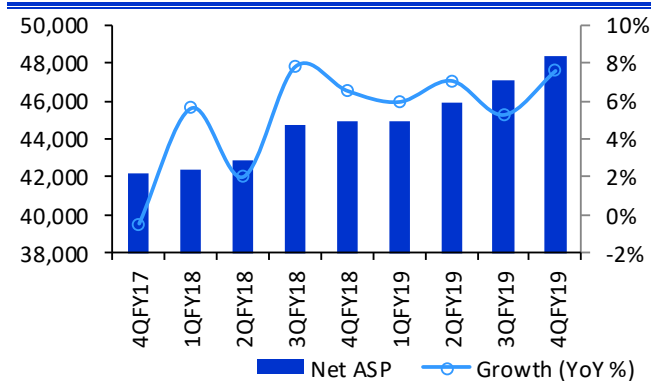
- Management has indicated marginal growth for 2W industry in FY20. Volume performance to be muted in Q1FY20 (owing to high base and high system inventory), and gradually improve from Q2 onwards.
- Slowdown in Scooter was attributed to sluggish demand from urban region and price reduction in commuter Motorcycle segment. Share of Scooters expected to increase in FY20 due to recovery in Urban demand.
- Q4 EBITDA margin was affected by product mix, commodity inflation and negative operating leverage. The company will continue to focus on margin improvement, led by cost reduction efforts such as localization, alternative raw material sourcing etc.
- Realizations increased by 3% QoQ, led by price increases, product mix and adoption of new safety norms (ABS/CBS).
- Imports content have reduced from 15% in FY18 to 12% in FY19, and targeting to reduce further to 10% in FY20.
- The company has added 150 new dealers and 150 sub-dealers in FY19
- TVSL has taken price hike of ~0.4% in 4QFY19. TVSL took price hike of ₹ 300/vehicle on account of CBS and ₹ 6000-6500 on ABS.
- Exports stood at ₹ 11bn/Rs43.23bn for 4QFY19 and FY19, respectively. Revenue from exports increased to 24% in FY19 from 21% in FY18. African and Asian region contributes about 50% and 33% of exports respectively.
- Revenue from Spare parts stood at ₹ 4bn for 4QFY19 and ₹ 15.73bn for FY19.
- Financing ratio increased from 38% in FY18 to 44% in FY19. Share of TVS Credit stands at ~50%. No major financing issues faced in rural areas owing to support of TVS Credit.
- Dealer inventory days stands at ~5 weeks.
- TVS Credit Services Book size Improved from ₹ 61.54bn in FY18 to ₹ 83.35bn in FY19. PAT increased from ₹ 1.38bn in FY18 to ₹ 1.48bn in FY19. Capital adequacy is healthy at 18% and Net NPA stands at below 2%. Cost of funds increased to 9.1% in FY19, due to tight liquidity situation, and is expected to reduce in FY20.

Exhibit 1: Volume growth moderated in 4Q

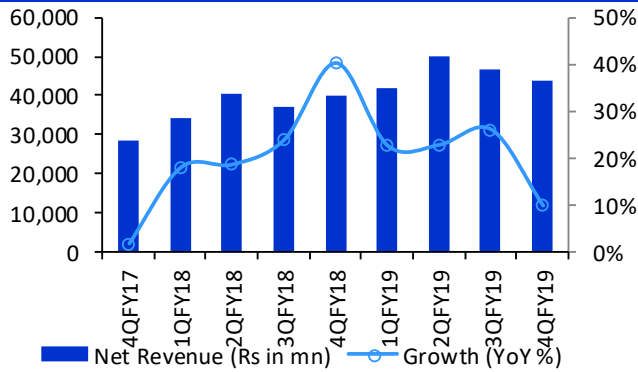


Source: DART, Company

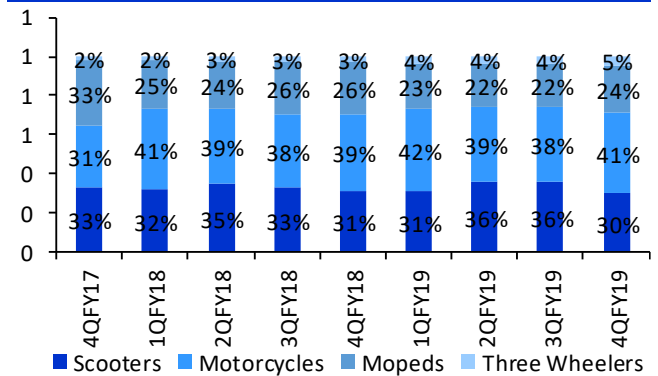
Exhibit 2: ASP improved on price hike



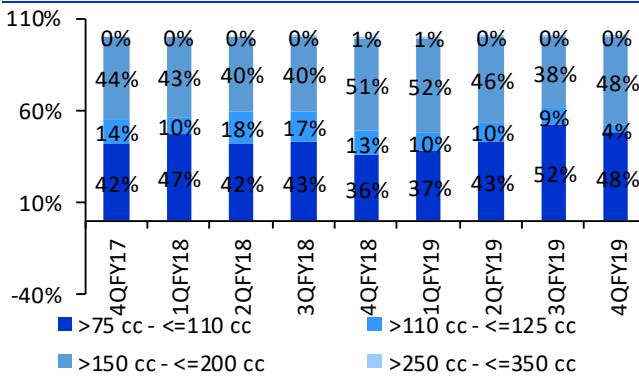
Source: DART, Company

Exhibit 3: Revenue Supported from relization


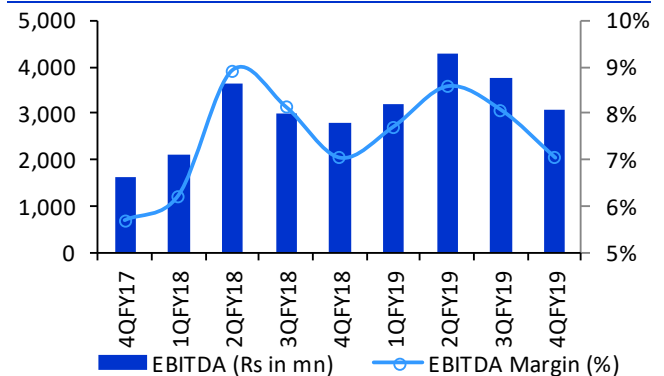
Source: DART, Company

Exhibit 4: Unfavorable Product mix


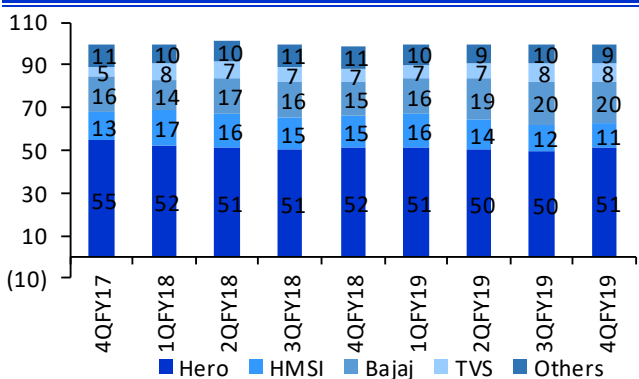
Source: DART, Company

Exhibit 5: Motorcycle Mix


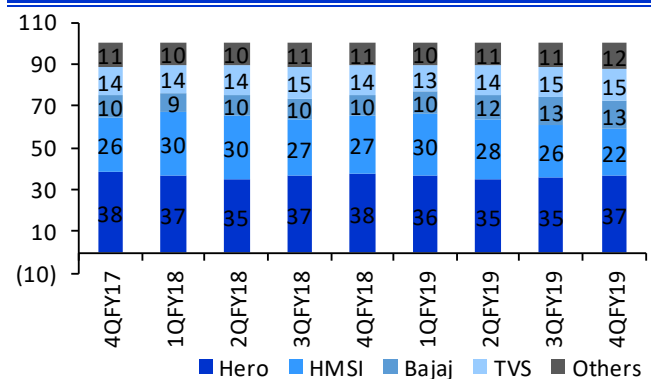
Source: DART, Company

Exhibit 6: EBITDA Margin Under Pressure


Source: DART, Company

Exhibit 7: Domestic Motorcycle Market Share


Source: DART, Company

Exhibit 8: Domestic 2-wheeler Market Share


Source: DART, Company

Profit and Loss Account

(₹ Mn)	FY18A	FY19E	FY20E	FY21E
Revenue	1,51,297	1,82,099	2,06,577	2,32,787
Total Expense	1,40,005	1,67,767	1,90,122	2,14,000
COGS	1,11,330	1,38,423	1,56,585	1,76,685
Employees Cost	8,680	9,226	10,553	11,980
Other expenses	19,995	20,118	22,984	25,335
EBIDTA	11,292	14,333	16,455	18,787
Depreciation	3,387	3,993	4,386	4,738
EBIT	7,905	10,340	12,069	14,049
Interest	566	806	756	661
Other Income	1,448	75	161	232
Exc. / E.O. items	0	0	0	0
EBT	8,786	9,610	11,474	13,620
Tax	2,161	2,908	3,557	4,222
RPAT	6,626	6,701	7,917	9,398
Minority Interest	0	0	0	0
Profit/Loss share of associates	0	0	0	0
APAT	6,626	6,701	7,917	9,398

Balance Sheet

(₹ Mn)	FY18A	FY19E	FY20E	FY21E
Sources of Funds				
Equity Capital	475	475	475	475
Minority Interest	0	0	0	0
Reserves & Surplus	28,329	32,998	38,641	45,340
Net Worth	28,804	33,473	39,117	45,815
Total Debt	10,370	13,779	10,805	10,622
Net Deferred Tax Liability	1,482	2,126	2,241	2,377
Total Capital Employed	40,656	49,379	52,163	58,814

Applications of Funds

Net Block	23,719	25,793	29,312	31,574
CWIP	1,311	2,572	1,339	1,339
Investments	20,355	23,008	25,855	30,855
Current Assets, Loans & Advances	26,410	32,320	36,428	41,266
Inventories	9,644	11,759	13,168	14,838
Receivables	9,684	14,141	13,222	14,899
Cash and Bank Balances	109	439	518	800
Loans and Advances	835	397	1,139	1,284
Other Current Assets	6,139	5,583	8,381	9,445
Less: Current Liabilities & Provisions	31,139	34,315	40,772	46,220
Payables	25,180	29,239	34,380	38,742
Other Current Liabilities	5,959	5,076	6,392	7,478
sub total				
Net Current Assets	(4,730)	(1,995)	(4,344)	(4,954)
Total Assets	40,656	49,379	52,163	58,814

E – Estimates

Important Ratios

Particulars	FY18A	FY19E	FY20E	FY21E
(A) Margins (%)				
Gross Profit Margin	26.4	24.0	24.2	24.1
EBIDTA Margin	7.5	7.9	8.0	8.1
EBIT Margin	5.2	5.7	5.8	6.0
Tax rate	24.6	30.3	31.0	31.0
Net Profit Margin	4.4	3.7	3.8	4.0
(B) As Percentage of Net Sales (%)				
COGS	73.6	76.0	75.8	75.9
Employee	5.7	5.1	5.1	5.1
Other	13.2	11.0	11.1	10.9
(C) Measure of Financial Status				
Gross Debt / Equity	0.4	0.4	0.3	0.2
Interest Coverage	14.0	12.8	16.0	21.3
Inventory days	23	24	23	23
Debtors days	23	28	23	23
Average Cost of Debt	5.3	6.7	6.1	6.2
Payable days	61	59	61	61
Working Capital days	(11)	(4)	(8)	(8)
FA T/O	6.4	7.1	7.0	7.4
(D) Measures of Investment				
AEPS (₹)	13.9	14.1	16.7	19.8
CEPS (₹)	21.1	22.5	25.9	29.8
DPS (₹)	3.3	3.5	4.0	4.7
Dividend Payout (%)	23.7	24.8	24.0	24.0
BVPS (₹)	60.6	70.5	82.3	96.4
RoANW (%)	25.1	21.5	21.8	22.1
RoACE (%)	18.7	16.7	17.1	18.1
RoAIC (%)	20.6	23.1	24.0	25.6
(E) Valuation Ratios				
CMP (₹)	492	492	492	492
P/E	35.3	34.9	29.5	24.9
Mcap (₹ Mn)	2,33,862	2,33,862	2,33,862	2,33,862
MCap/ Sales	1.5	1.3	1.1	1.0
EV	2,44,122	2,47,202	2,44,149	2,43,684
EV/Sales	1.6	1.4	1.2	1.0
EV/EBITDA	21.6	17.2	14.8	13.0
P/BV	8.1	7.0	6.0	5.1
Dividend Yield (%)	0.7	0.7	0.8	1.0
(F) Growth Rate (%)				
Revenue	24.7	20.4	13.4	12.7
EBITDA	31.8	26.9	14.8	14.2
EBIT	38.9	30.8	16.7	16.4
PBT	25.8	9.4	19.4	18.7
APAT	18.7	1.1	18.1	18.7
EPS	18.7	1.1	18.1	18.7

Cash Flow

(₹ Mn)	FY18A	FY19E	FY20E	FY21E
CFO	12,516	10,481	15,318	15,400
CFI	(10,856)	(9,981)	(9,519)	(12,000)
CFF	(1,636)	(494)	(5,720)	(3,118)
FCFF	4,587	3,153	8,646	8,400
Opening Cash	85	109	439	518
Closing Cash	109	114	518	800

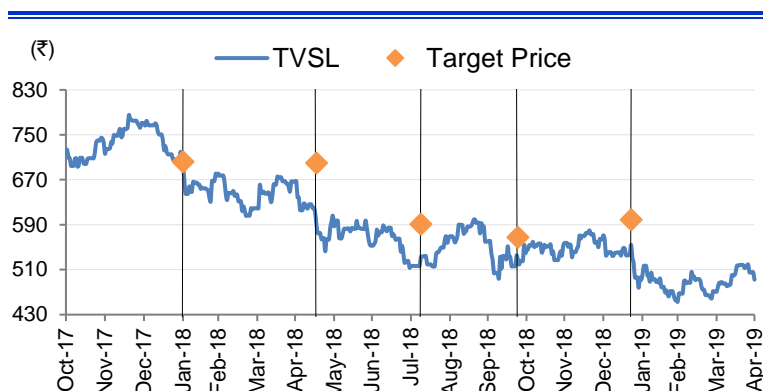
E – Estimates

DART RATING MATRIX

Total Return Expectation (12 Months)

Buy	> 20%
Accumulate	10 to 20%
Reduce	0 to 10%
Sell	< 0%

Rating and Target Price History



Month	Rating	TP (₹)	Price (₹)
Jan-18	Reduce	702	697
May-18	Accumulate	700	590
Aug-18	Accumulate	591	533
Oct-18	Accumulate	568	528
Jan-19	Accumulate	599	554

*Price as on recommendation date

DART Team

Purvag Shah	Managing Director	purvag@dolatcapital.com	+9122 4096 9747
Amit Khurana, CFA	Head of Equities	amit@dolatcapital.com	+9122 4096 9745

CONTACT DETAILS

Equity Sales	Designation	E-mail	Direct Lines
Dinesh Bajaj	VP - Equity Sales	dineshb@dolatcapital.com	+9122 4096 9709
Kartik Sadagopan	VP - Equity Sales	kartiks@dolatcapital.com	+9122 4096 9762
Kapil Yadav	VP - Equity Sales	kapil@dolatcapital.com	+9122 4096 9735
Ashwani Kandoi	AVP - Equity Sales	ashwanik@dolatcapital.com	+9122 4096 9725
Lekha Nahar	Manager - Equity Sales	lekhan@dolatcapital.com	+9122 4096 9740
Equity Trading	Designation	E-mail	
P. Sridhar	SVP and Head of Sales Trading	sridhar@dolatcapital.com	+9122 4096 9728
Chandrakant Ware	VP - Sales Trading	chandrakant@dolatcapital.com	+9122 4096 9707
Shirish Thakkar	VP - Head Domestic Derivatives Sales Trading	shirisht@dolatcapital.com	+9122 4096 9702
Kartik Mehta	Asia Head Derivatives	kartikm@dolatcapital.com	+9122 4096 9715
Bhavin Mehta	VP - Derivatives Strategist	bhavinm@dolatcapital.com	+9122 4096 9705

Dolat Capital Market Private Limited.

Sunshine Tower, 28th Floor, Senapati Bapat Marg, Dadar (West), Mumbai 400013

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Registered office: Office No. 141, Centre Point, Somnath, Daman – 396 210, Daman & Diu

Board: +9122 40969700 | Fax: +9122 22651278 | Email: research@dolatcapital.com | www.dolatresearch.com
