

RESEARCH
TVS Motor | Target: Rs 475 | +4% | REDUCE

Margins resilient; outlook challenging

Century Plyboards | Target: Rs 220 | +30% | BUY

In-line quarter

SUMMARY
TVS Motor

TVS Motor's (TVSL) Q3 EBITDA beat estimates by ~11% led by resilient margins at 8.8% (+70bps YoY, flat QoQ), despite a sharp 17% YoY drop in volumes. Localisation efforts aided ~230bps YoY material cost reduction – a key margin driver. While TVSL expects export growth to sustain, domestic 2W demand is likely to remain soft in the near term. High competition in entry-level 2Ws has likely led to under-absorption of BS-VI cost on mopeds (~20% of volumes). We raise FY20-FY22 earnings by 1-3% but maintain REDUCE on rich valuations.

[Click here for the full report.](#)

Century Plyboards

Century Plyboards' (CPBI) standalone Q3FY20 revenue growth was in line with estimates at 2.9% YoY, aided by 9.5% growth in the MDF segment. Standalone operating margins expanded 270bps YoY to 15.8%, resulting in a 24%/20% YoY increase in EBITDA/PBT. Management expects revenue growth of ~5% and blended operating margins of 16% in FY20. We broadly maintain our PAT estimates and roll forward to a Mar'21 TP of Rs 220 (earlier Rs 205). Retain BUY.

[Click here for the full report.](#)

TOP PICKS
LARGE-CAP IDEAS

Company	Rating	Target
Bajaj Finance	Buy	5,200
Cipla	Buy	570
Eicher Motors	Buy	25,000
Petronet LNG	Buy	400
Reliance Industries	Buy	1,860

MID-CAP IDEAS

Company	Rating	Target
Alkem Labs	Buy	2,290
Future Supply	Buy	680
Greenply Industries	Buy	210
Laurus Labs	Buy	510
Ashok Leyland	Sell	68

Source: BOBCAPS Research

DAILY MACRO INDICATORS

Indicator	Current	2D (%)	1M (%)	12M (%)
US 10Y yield (%)	1.53	2bps	(26bps)	(120bps)
India 10Y yield (%)	6.51	(10bps)	(1bps)	(90bps)
USD/INR	71.35	0	0.6	0.6
Brent Crude (US\$/bbl)	54.45	(6.4)	(20.6)	(12.9)
Dow	28,400	0.5	(0.8)	12.5
Shanghai	2,747	(7.7)	(10.9)	4.9
Sensex	39,872	0.3	(3.8)	9.0
India FII (US\$ mn)	31 Jan	MTD	CYTD	FYTD
FII-D	(15.3)	(1,568.9)	(1,568.9)	1,375.3
FII-E	(611.9)	1,372.6	1,372.6	8,761.9

Source: Bank of Baroda Economics Research

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REDUCE

TP: Rs 475 | ▲ 4%

TVS MOTOR

| Automobiles

| 05 February 2020

Margins resilient; outlook challenging

TVS Motor's (TVSL) Q3 EBITDA beat estimates by ~11% led by resilient margins at 8.8% (+70bps YoY, flat QoQ), despite a sharp 17% YoY drop in volumes. Localisation efforts aided ~230bps YoY material cost reduction – a key margin driver. While TVSL expects export growth to sustain, domestic 2W demand is likely to remain soft in the near term. High competition in entry-level 2Ws has likely led to under-absorption of BS-VI cost on mopeds (~20% of volumes). We raise FY20-FY22 earnings by 1-3% but maintain REDUCE on rich valuations.

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Strong margins aided operational beat: Q3 net sales declined 12% YoY, largely in line with estimates, but EBITDA at Rs 3.6bn (-3% YoY) came in ahead of expectations led by strong gross margins (+120bps QoQ). TVSL indicated that a bulk of the margins gains was supported by raw material cost reduction (60-70bps impact) and the balance by a better mix and lower commodity prices. Localisation has been a key driver for cost rationalisation. TVSL will reduce import content from 14% last year to 10% in FY20 and further to 8% in FY21.

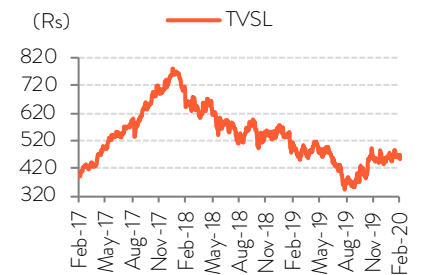
Ticker/Price	TVSL IN/Rs 455
Market cap	US\$ 3.0bn
Shares o/s	475mn
3M ADV	US\$ 10.0mn
52wk high/low	Rs 524/Rs 338
Promoter/FPI/DII	57%/13%/19%

Source: NSE

Near-term demand outlook challenging; focused on stable gross profit/vehicle:

Management expects domestic 2W demand to be muted in H1FY21 given the large cost increase from BS-VI transition. H2 recovery is premised on good monsoons and macro recovery. TVSL stated that it has largely passed on BS-VI costs at a portfolio level; with further scope for cost reduction, it expects gross profit/vehicle for FY21 to sustain at FY20 levels. We think that the high competitive intensity in domestic 2Ws and potential under-absorption of BS-VI transition cost in mopeds could weigh on margins.

STOCK PERFORMANCE



Source: NSE

Maintain REDUCE: The Q3 margin beat drives a 1-3% hike in FY20-FY22 earnings and a slight increase in our Mar'21 TP to Rs 475 (vs. Rs 465). Rich valuations at 26x FY21E EPS (adj. for value in TVS Credit) limit upsides.

[Click here for our Sector Report](#)
'Mixed signals – prefer PVs, 2Ws'

KEY FINANCIALS

Y/E 31 Mar	FY18A	FY19A	FY20E	FY21E	FY22E
Total revenue (Rs mn)	151,297	182,099	174,466	201,312	221,678
EBITDA (Rs mn)	11,292	14,333	14,718	16,080	19,035
Adj. net profit (Rs mn)	6,626	6,701	6,958	7,394	9,352
Adj. EPS (Rs)	13.9	14.1	14.6	15.6	19.7
Adj. EPS growth (%)	18.7	1.1	3.8	6.3	26.5
Adj. ROAE (%)	23.0	20.0	18.2	17.0	18.5
Adj. P/E (x)	32.6	32.3	31.1	29.3	23.1
EV/EBITDA (x)	20.0	15.9	15.6	14.3	12.0

Source: Company, BOBCAPS Research



BUY

TP: Rs 220 | ▲ 30%

CENTURY PLYBOARDS

Construction Materials

04 February 2020

In-line quarter

Century Plyboards' (CPBI) standalone Q3FY20 revenue growth was in line with estimates at 2.9% YoY, aided by 9.5% growth in the MDF segment. Standalone operating margins expanded 270bps YoY to 15.8%, resulting in a 24%/20% YoY increase in EBITDA/PBT. Management expects revenue growth of ~5% and blended operating margins of 16% in FY20. We broadly maintain our PAT estimates and roll forward to a Mar'21 TP of Rs 220 (earlier Rs 205). Retain BUY.

Arun Baid

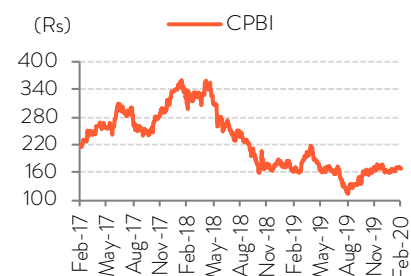
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Revenues in line: CPBI's standalone revenue grew 2.9% YoY to Rs 5.9bn, led by MDF (+9.5% YoY) whereas the laminate/plywood segments grew at just 1%/2.7% YoY. The core plywood segment increased 9% YoY but deco plywood declined 8% and commercial veneer sales plunged 45% due to sluggish demand. For FY20, management has guided for flattish growth in plywood (vs. 2% earlier), ~13% growth in laminates and ~24% in MDF.

Ticker/Price	CPBI IN/Rs 169
Market cap	US\$ 528.9mn
Shares o/s	223mn
3M ADV	US\$ 0.7mn
52wk high/low	Rs 222/Rs 112
Promoter/FPI/DII	73%/7%/20%

Source: NSE

Healthy margins led by MDF: CPBI's gross margins increased 225bps YoY whereas other expenditure dipped 67bps, aiding EBITDA/PBT growth of 24%/20% YoY. Laminate EBITDA margins expanded 490bps YoY (-50bps QoQ) to 13.9% on lower raw material cost. MDF saw a 920bps YoY surge to 25.1% (+280bps QoQ) due to higher capacity utilisation and a better product mix. The company has provided for a Rs 456.3mn impairment charge for the Laos subsidiary this quarter. Management has guided for FY20 plywood margins at ~13% (earlier ~14%), laminate margins at 13% (12%) and MDF at ~24% (20%).

STOCK PERFORMANCE

Source: NSE

Maintain BUY: CPBI's results are in line with estimates. We broadly maintain our PAT estimates and roll forward to a Mar'21 TP of Rs 220 (Rs 205 earlier). We continue to like the company for its comprehensive product portfolio, strong brand and wide distribution.

KEY FINANCIALS

Y/E 31 Mar	FY18A	FY19A	FY20E	FY21E	FY22E
Total revenue (Rs mn)	20,239	22,804	23,861	26,140	28,658
EBITDA (Rs mn)	3,334	3,124	3,544	4,048	4,492
Adj. net profit (Rs mn)	1,598	1,542	1,804	2,184	2,443
Adj. EPS (Rs)	7.2	6.9	8.1	9.8	11.0
Adj. EPS growth (%)	(5.4)	(3.5)	17.0	21.0	11.9
Adj. ROAE (%)	20.4	16.9	17.1	17.8	17.2
Adj. P/E (x)	23.6	24.4	20.9	17.2	15.4
EV/EBITDA (x)	12.7	13.8	12.1	10.4	9.0

Source: Company, BOBCAPS Research



Disclaimer

Recommendations and Absolute returns (%) over 12 months

BUY – Expected return >+15%

ADD – Expected return from >+5% to +15%

REDUCE – Expected return from -5% to +5%

SELL – Expected return <-5%

Note: Recommendation structure changed with effect from 1 January 2018 (Hold rating discontinued and replaced by Add / Reduce)

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