

RETAIL EQUITY RESEARCH

TVS Motors Ltd

Automobile - 2/3 Wheelers

BSE CODE:532343

NSE CODE: TVSMOTOR

Bloomberg CODE: TVS:IN

SENSEX:34,082

Buy

Rating as per Large cap

12months investment period

CMP Rs. 646 TARGET Rs. 715 RETURN 11%↑

7th February 2018

Normalisation in valuations - Upgrade to Buy

TVS Motors (TVS) is the third largest two-wheeler manufacturer in India with a domestic market share of 14.0%.

- Q3FY18 revenue grew by 24%YoY due to 15% volume growth and better product mix. PAT grew by 16%YoY.
- EBITDA margin expanded by 50bps led by reduction in fixed cost.
- Product launches are planned in motor cycles and scooters at the end of FY18.
- We expect the Revenue/PAT to grow by 19%/28% over FY17-20E led by 15% CAGR in volume growth and superior product mix.
- Margin is likely to expand by 240bps over FY17-20E led by increased penetration in high margin premium motor cycles & cost control initiatives.
- Currently TVS is trading at a valuation of 32x/26x on FY19E/FY20E EPS. We value at 29x FY20E and upgrade our rating to Buy from reduce with a revised target price of Rs715.

Revenue outlook remains healthy.

Q3FY18 revenue grew by 24%YoY due to 15% volume growth and better product mix. PAT grew by 16%YoY. EBITDA margin expanded by 50bps due to reduction in fixed. Vehicle price are likely increase by ~1-2% to factor in increase in commodity price. TVS outperformed the domestic as well as exports industry in Q3FY18 with improving market share. Motor cycle and scooter grew by 26% and 22%YoY in volume respectively. 3W volume grew by massive 71%YoY owing to higher exports from the new geographical market.

Increased penetration in High margin premium Motor Cycle

The company registered 18%YoY in premium segment on its flag ship brand Apache 150 during Q3FY18 and also the executive segments remained robust at 45%YoY due to lower base and festive season. The management has highlighted that they have plans to launch two new vehicles one each in scooter and motorcycles by end of this fiscal year. We factor 19% CAGR in revenue over FY17-20E driven by improvement in export, revival in rural demand and growth in the urbanisation for high margin premium motor cycles.

New products are key volume drivers

New products launches are targeted towards filling gaps in their product portfolio and would improve product mix. As per the management recently launched Apache RTR 310 (tie-up with BMW) is working well for the company. The Management has maintained its target EBITDA margin at 10% in FY19. We expect the EBITDA margin to improve by 240bps by FY20 owing to superior product mix and new launches and cost control measures. Expect to gain market share in domestic MC/Scooter, led by increased network expansion and other value added services.

Valuations

We increase our FY18E and FY19E revenue estimate by 3% each, factoring better traction in volume across segments, new launches, superior product mix and robust export growth. Higher raw material price and competition in the premium segment will put pressure on the margin for the near term. We lower our earnings estimate for FY18E & FY19E by 7% & 9% respectively factoring lower margin and higher tax. Currently TVS is trading at premium valuation of 32x/26x on FY19E/FY20E EPS. We value at 29x FY20E and upgrade our rating to Buy from reduce with a revised target price of Rs.715

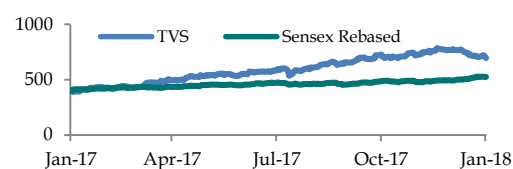
Company Data

Market Cap (cr)	Rs. 33,013
Enterprise Value (cr)	Rs. 34,120
Outstanding Shares (cr)	48
Free Float	41%
Dividend Yield	0.5%
52 week high	Rs. 795
52 week low	Rs. 382
6m average volume (cr)	0.19
Beta	0.9
Face value	Rs1

Shareholding (%)	Q1FY18	Q2FY18	Q3FY18
Promoters	57.4	57.4	57.4
FII's	20.2	20.5	21.4
MFs/Insti	11.1	11.0	9.9
Public	11.3	11.1	11.3
Total	100.0	100.0	100.0

Price Performance	3 Month	6 Month	1Year
Absolute Return	-1.8	16.0	73.5
Absolute Sensex	7.1	11.3	30.7
Relative Return	-9.0	4.8	42.9

*over or under performance to benchmark index



Standalone(Rs.cr)	FY18E	FY19E	FY20E
Sales	14,990	17,712	20,517
Growth (%)	23.5	18.2	15.8
EBITDA	1,184	1,576	1,949
Margin (%)	7.9	8.9	9.5
PAT Adj	683	950	1,171
Growth (%)	22.3	39.2	23.3
Adj .EPS	14.4	20.0	24.7
Growth (%)	22.3	39.2	23.3
P/E	45.0	32.3	26.2
P/B	10.6	8.3	6.5
EV/EBITDA	26.7	20.1	16.2
ROE (%)	25.5	28.4	27.5
D/E	0.3	0.2	0.2

Saji John
Analyst

Quarterly Financials

Profit & Loss Account

(Rscr)	Q3FY18	Q3FY17	YoY Growth %	Q2FY18	QoQ Growth %
Sales	3,684	2,983	23.5	4,052	(9.1)
EBITDA	287	219	31.2	350	(18.1)
EBITDA margins	7.8	7.3	+50bps	8.6	(80bps)
Depreciation	82	72	15.4	84	6.7
EBIT	204	147	39.4	266	(23.4)
Interest	12.2	11.5	5.6	15	(21.4)
Other Income	18	35	(23.5)	46	(60.1)
Exceptional Items	-	-	-	-	-
PBT	192	170	23.8	297	(29.1)
Tax	56	37	50.8	84	(33.0)
Share of profit from Associate	0	0	-	0	-
Reported PAT	154	133	16.3	213	(27.6)
Adjustments	-	-	-	-	-
Adj PAT	154	133	16.3	213	(27.6)
No. of shares (cr)	47.5	47.5	-	47.5	-
EPS (Rs)	3.3	2.8	16.3	4.5	(27.6)

Change in estimates

Year / Rscr	Old estimates		New estimates		Change %	
	FY18E	FY19E	FY18E	FY19E	FY18E	FY19E
Revenue	14,558	17,215	14,989	17,712	2.9	2.8
EBITDA	1,179	1,635	1,184	1,576	-	-3.6
Margins (%)	8.1	9.5	7.9	8.9	-20bps	-60bps
PAT	735	1,046	682	950	-7.2	-9.2
EPS	15.5	22.0	14.4	20	-7.2	-9.2

Key Operational Parameters

	Q3FY18	Q3FY17	YoY Growth %	Q2FY18	QoQ Growth %
Domestic	6,85,823	6,19,948	10.6	8,01,002	-14.3
Export	1,40,462	98,657	42.3	1,47,532	-4.7
Total Volume (Nos.)	8,26,285	7,18,605	14.9	9,48,584	-12.8
Net Realisation (Rs/unit)	46,831	41,605	12.6	42,716	9.6

Standalone Financials

Profit & Loss Account

Y.E March (Rscr)	FY16A	FY17A	FY18E	FY19E	FY20E
Sales	11,105	12,135	14,990	17,712	20,517
% change	10.0	9.3	23.5	18.2	15.8
EBITDA	810	857	1,184	1,576	1,949
% change	34.0	5.8	38.2	33.1	23.6
Depreciation	236	288	340	378	409
EBIT	574	569	844	1,198	1,541
Interest	49	44	53	46	41
Other Income	104	173	150	175	150
PBT	629	699	941	1,327	1,650
% change	37.9	11.1	34.8	41.0	24.3
Tax	140	141	259	377	478
Tax Rate (%)	28.5	25.2	27.5	28.4	29.0
Reported PAT	489	558	683	950	1,171
Adj*	0	0	0	0	0
Adj PAT	489	558	683	950	1,171
% change	40.7	14.1	22.3	39.2	23.3
No. of shares (mn)	48	48	48	48	48
Adj EPS (Rs)	10	12	14	20	25
% change	40.6	14.1	22.3	39.2	23.3
DPS (Rs)	17	3	3	3	3

Cash flow

Y.E March (Rscr)	FY156A	FY17A	FY18E	FY19E	FY20E
Net inc. + Depn.	865	986	1,281	1,706	2,059
Non-cash adj.	-199	-211	-259	-377	-478
Changes in W.C	275	-51	137	24	92
C.F.O	941	724	1,159	1,352	1,672
Capital exp.	-486	-554	-427	-500	-502
Change in inv.	58	-31	-250	-400	-800
Other invest.CF	-181	-162	-20	-20	-20
C.F - investing	-608	-748	-697	-920	-1,322
Issue of equity	89	-169	-19	-13	-6
Issue/repay debt	-207	238	-100	-50	-50
Dividends paid	-7	0	0	0	0
Other finance.CF	-147	-72	-152	-143	-143
C.F - Financing	331	-312	24	-266	-200
Chg. in cash	21	0	195	233	159
Closing cash	27	27	77	309	469

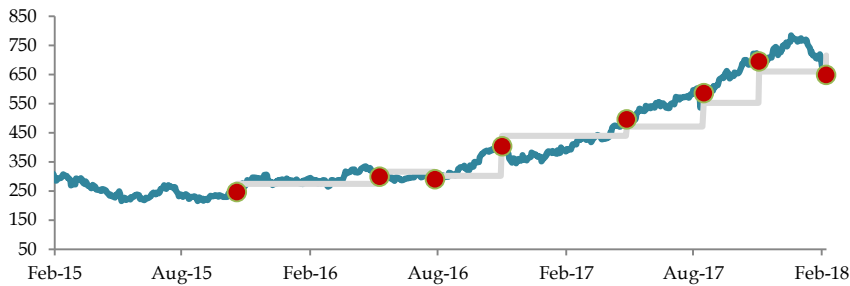
Balance Sheet

Y.E March (Rscr)	FY16A	FY17A	FY18E	FY19E	FY20E
Cash	27	27	77	309	469
Accounts Receivable	578	724	862	1,019	1,180
Inventories	696	967	1,314	1,504	1,686
Other Cur. Assets	591	549	493	631	843
Investments	1,215	1,588	1,838	2,238	3,038
Gross Fixed Assets	3,394	3,946	4,367	4,867	5,367
Net Fixed Assets	1,727	1,931	2,188	2,342	2,468
CWIP	31	62	68	68	70
Intangible Assets	49	53	45	33	18
Def. Tax (Net)	-132	-101	-106	-111	-119
Other Assets	27	2	0	0	0
Total Assets	4,808	5,801	6,779	8,033	9,653
Current Liabilities	449	312	411	485	675
Provisions	98	114	141	158	185
Debt Funds	758	1,107	988	926	869
Other Liabilities	0	0	0	0	0
Equity Capital	48	48	48	48	48
Reserves & Surplus	1,911	2,361	2,892	3,700	4,728
Shareholder's Fund	1,958	2,408	2,939	3,747	4,776
Total Liabilities	4,808	5,801	6,779	8,033	9,653
BVPS (Rs)	41	51	62	79	101

Ratios

Y.E March	FY16A	FY17A	FY18E	FY19E	FY20E
Profitab. & Return					
EBITDA margin (%)	7.3	7.1	7.9	8.9	9.5
EBIT margin (%)	5.2	4.7	5.6	6.8	7.5
Net profit mgn.(%)	4.4	4.6	4.6	5.4	5.7
ROE (%)	27.2	25.6	25.5	28.4	27.5
ROCE (%)	16.2	15.3	14.4	16.7	16.8
W.C & Liquidity					
Receivables (days)	17.8	19.6	19.3	19.4	19.6
Inventory (days)	34.7	34.3	37.9	39.8	39.1
Payables (days)	21.1	15.7	12.0	12.6	14.2
Current ratio (x)	3.7	6.0	5.6	6.1	5.4
Quick ratio (x)	1.3	2.4	2.3	2.7	2.4
Turnover &Levg.					
Gross asset T.O (x)	3.6	3.3	3.6	3.8	4.0
Total asset T.O (x)	2.4	2.3	2.4	2.4	2.3
Int. covge. ratio (x)	11.8	13.0	15.9	26.2	38.0
Adj. debt/equity (x)	0.4	0.5	0.3	0.2	0.2
Valuation ratios					
EV/Sales (x)	2.8	2.6	2.1	1.8	1.5
EV/EBITDA (x)	38.8	37.1	26.7	20.1	16.2
P/E (x)	62.7	55.0	45.0	32.3	26.2
P/BV (x)	16.1	13.0	10.6	8.3	6.5

Recommendation Summary (last 3 years)



Dates	Rating	Target
19-10-2015	Accumulate	275
10-05-2016	Hold	316
28-06-2016	Hold	302
1-11-2016	Hold	440
2-05-2017	Reduce	471
16-08-2017	Reduce	553
03-11-2017	Reduce	660
07-02-2018	Buy	715

Source: Bloomberg, Geojit Research

Investment Rating 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%.
			Reduce/Sell	-	Downside is more than 0%.
To satisfy regulatory requirements, we attribute 'Accumulate' as Buy and 'Reduce' as Sell.					

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