

RETAIL EQUITY RESEARCH

TVS Motors Ltd

Automobile - 2/3 Wheelers

BSE CODE:532343

NSE CODE: TVSMOTOR

Bloomberg CODE: TVS:IN

SENSEX: 38,694

Hold

Rating as per Large cap

12months investment period

CMP Rs.563 TARGET Rs.584 RETURN 4% ↑

28th August 2018**Strong top line - Higher tax rate spoiled the show**

TVS Motors (TVS) is the third largest two-wheeler manufacturer in India with market share of 14.0% in FY18.

- Q1FY19 revenue grew by 22%YoY due to 32% volume growth and superior product mix. PAT grew lower by 13%YoY due to higher tax.
- EBITDA margin expanded by 120bps despite combination of commodity inflation and elevated competition.
- Increased penetration in the High margin premium motorcycles is becoming a game changer for the company. The category (>150cc) grew by 30%YoY.
- We reduce our earnings estimate for FY19/FY20 by 10%/12% owing to near term pressure in margins and higher tax.
- Considering the near term headwinds due to surge in raw material price we value TVS at 27x (previous 28x) on FY20E EPS and downgrade our rating to "Hold" from buy with a revised target price of Rs584.

Revenue outlook remains healthy.

Q1FY19 revenue grew by 22%YoY due to 32% volume growth and superior product mix. PAT grew by 13%YoY due to higher tax rate. Tax rate for the quarter stood at 31% due to expiry of tax rebate in HP plant and deduction in R&D expenses. EBITDA margin expanded by 120bps despite combination of higher raw material price and employee wage cost. The company has taken 0.5% price hike in this quarter to partially offset the surge in RM cost. TVS registered strong growth both in the domestic as well as exports in Q1FY19. Motor cycle and scooter grew by 17% and 13%YoY in volume respectively. 3W volume grew by massive 106%YoY owing to higher issue of permit and strong export from the new geographical market.

Increased penetration in High margin premium Motor Cycle

The company registered 29%YoY in premium segment on its flag ship brand Apache 150 for Q1FY19 and also the executive segments grew at 14%YoY due to improvement in rural income. We expect the EBITDA margin to improve by 100bps by FY20. We factor 19% CAGR in revenue over FY18-20E by upgrading 2.2%/4.7% for FY19E/ FY20E 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. 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 band value. TVS's focus remains on cost reduction efforts such as alternative sourcing, localization, value addition/ Value engineering etc. TVS has allocated Rs700cr for FY19 for new launches and technological development and hold to gain market share in domestic MC/Scooter, led by increased network expansion and other value added services.

Valuations

Higher raw material price and heightened competitive intensity in the commuter MC segment and in the scooter is expected to keep margin under check. Considering change in tax rate to 31% we lower our PAT estimate for FY19/ FY20 by 10%/12% respectively. However factoring better traction in volume across segments, new launches, superior product mix and robust export growth we expect 25% CAGR in earning growth over FY18-20E. Currently TVS is trading at premium valuation of 33x/26x on FY19E/FY20E EPS. We value at 27x FY20E (3yr historical avg.) and downgrade our rating to "Hold" from Buy.

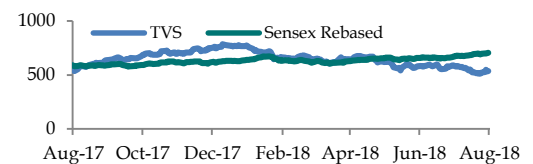
Company Data

Market Cap (cr)	Rs.26,743
Enterprise Value (cr)	Rs.27,779
Outstanding Shares (cr)	48
Free Float	41%
Dividend Yield	0.5%
52 week high	Rs.794
52 week low	Rs.507
6m average volume (cr)	0.19
Beta	0.9
Face value	Rs1

Shareholding (%)	Q3FY18	Q4FY18	Q1FY19
Promoters	57.4	57.4	57.4
FII's	20.2	20.2	19.9
MFs/Insti	10.6	10.6	11.1
Public	11.8	11.8	11.6
Total	100.0	100.0	100.0

Price Performance	3 Month	6 Month	1Year
Absolute Return	-5.1%	-17.3%	-6.7%
Absolute Sensex	10.7%	13.2%	21.9%
Relative Return	-15.9%	-30.4%	-28.6%

*over or under performance to benchmark index



Standalone(Rs.cr)	FY18	FY19E	FY20E
Sales	15,130	18,109	21,496
Growth (%)	24.7	19.7	18.6
EBITDA	1,129	1,467	1,825
Margin (%)	7.5	8.1	8.5
PAT Adj	663	804	1,028
Growth (%)	18.7	21.4	27.9
Adj .EPS	13.9	16.9	21.6
Growth (%)	18.7	21.4	27.9
P/E	40.4	33.3	26.0
P/B	9.6	7.6	8.1
EV/EBITDA	24.6	19.0	15.3
ROE (%)	25.1	25.0	25.8
D/E	0.4	0.3	0.3

Saji John
Analyst

Quarterly Financials

Profit & Loss Account

(Rscr)	Q1FY19	Q1FY18	YoY Growth %	Q4FY18	QoQ Growth %
Sales	4,154	3,399	22.2	3,993	4.0
EBITDA	306	211	45.0	281	9.2
EBITDA margins	7.4	6.2	+120	7.0	(40bps)
Depreciation	93	78	19.1	94	10.8
EBIT	213	133	60.1	186	14.4
Interest	18	11	68.1	18	16.1
Other Income	17	57	-69.7	24	16.1
Exceptional Items	-	-	-	-	-
PBT	212	179	18.4	192	10.6
Tax	66	50	31.7	26	148.9
Share of profit from Associate	0	0	-	0	-
Reported PAT	147	129	13.3	166	-11.4
Adjustments	-	-	-	-	-
Adj PAT	147	129	13.3	166	-11.4
No. of shares (cr)	47.5	47.5	-	47.5	-
EPS (Rs)	3.1	2.7	13.3	3.5	-11.4

Change in estimates

Year / Rscr	Old estimates		New estimates		Change %	
	FY19E	FY20E	FY19E	FY20E	FY19E	FY20E
Revenue	17,712	20,512	18,109	21,469	2.2	4.7
EBITDA	1,576	1,949	1,467	1,825	(6.9)	(6.3)
Margins (%)	8.1	8.6	8.1	8.5	-	-10bps
PAT	899	1,170	804	1,028	(10.5)	(12.1)
EPS	20.0	24.7	16.9	21.6	(10.5)	(12.1)

Key Operational Parameters

	Q1FY19	Q1FY18	YoY Growth %	Q4FY18	QoQ Growth %
Domestic	7,38,287	6,76,881	9.1	7,28,000	1.4
Export	1,89,987	1,25,227	51.7	1,61,000	18.0
Total Volume (Nos.)	9,18,274	8,02,108	14.4	8,89,000	3.3
Net Realisation (Rs/unit)	45,237	42,376	6.8	44,909	1.0

Standalone Financials

Profit & Loss Account

Y.E March (Rscr)	FY16A	FY17A	FY18A	FY19E	FY20E
Sales	11,105	12,135	15,130	18,109	21,469
% change	10.0	9.3	24.7	19.7	18.6
EBITDA	810	857	1,129	1,467	1,825
% change	34.0	5.8	31.8	29.9	24.4
Depreciation	236	288	339	391	440
EBIT	574	569	790	1,076	1,385
Interest	49	44	57	76	85
Other Income	104	173	145	165	190
PBT	629	699	879	1,166	1,490
% change	37.9	11.1	25.8	32.6	27.9
Tax	140	141	216	361	462
Tax Rate (%)	22.2	20.1	24.6	31.0	31.0
Reported PAT	489	558	663	804	1,028
Adj*	0	0	0	0	0
Adj PAT	489	558	663	804	1,028
% change	40.7	14.1	18.7	21.4	27.9
No. of shares (mn)	48	48	48	48	48
Adj EPS (Rs)	10	12	13.9	16.9	21.6
% change	40.6	14.1	18.7	21.4	27.9
DPS (Rs)	4	3	4	3	3

Cash flow

Y.E March (Rscr)	FY156A	FY17A	FY18A	FY19E	FY20E
Net inc. + Depn.	865	986	1,217	1,556	1,930
Non-cash adj.	-199	-211	-216	-361	-462
Changes in W.C	275	-51	433	-281	37
C.F.O	941	724	1,435	914	1,505
Capital exp.	-486	-554	-583	-710	-712
Change in inv.	58	-31	-447	-100	-600
Other invest.CF	-181	-162	-64	19	-20
C.F - investing	-608	-748	-1,095	-791	-1,332
Issue of equity	89	-169	-173	-13	-6
Issue/repay debt	-207	238	103	100	100
Dividends paid	-7	0	0	0	0
Other finance.CF	-147	-72	-192	-141	-141
C.F - Financing	331	-312	24	-215	-42
Chg. in cash	21	0	125	81	141
Closing cash	27	27	7	88	229

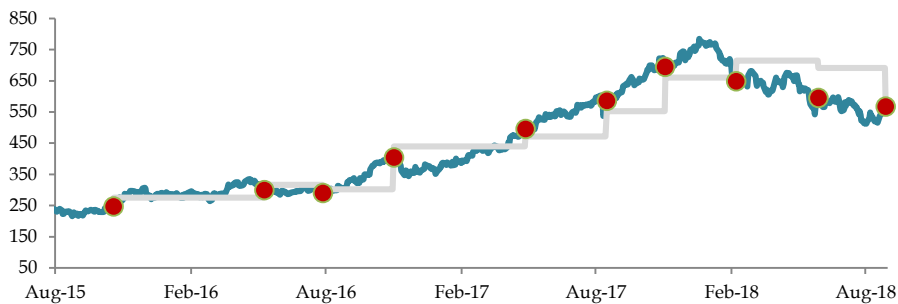
Balance Sheet

Y.E March (Rscr)	FY16A	FY17A	FY18A	FY19E	FY20E
Cash	27	27	7	88	229
Accounts Receivable	578	724	968	1,141	1,353
Inventories	696	967	964	1,488	1,765
Other Cur. Assets	591	549	683	794	1,059
Investments	1,215	1,588	2,035	2,135	2,735
Gross Fixed Assets	3,394	3,946	4,499	5,199	5,899
Net Fixed Assets	1,727	1,931	2,317	2,659	2,953
CWIP	31	62	92	102	114
Intangible Assets	49	53	93	41	26
Def. Tax (Net)	-132	-101	-148	-160	-175
Other Assets	27	2	19	0	0
Total Assets	4,808	5,801	7,030	8,289	10,059
Current Liabilities	450	313	480	496	706
Provisions	98	114	116	149	176
Debt Funds	758	1,107	1,037	1,124	1,218
Other Liabilities	0	0	0	0	0
Equity Capital	48	48	48	48	48
Reserves & Surplus	1,911	2,361	2,832	3,495	4,382
Shareholder's Fund	1,958	2,408	2,879	3,542	4,429
Total Liabilities	4,808	5,801	7,030	8,289	10,059
BVPS (Rs)	41	51	61	75	93

Ratios

Y.E March	FY16A	FY17A	FY18A	FY19E	FY20E
Profitab. & Return					
EBITDA margin (%)	7.3	7.1	7.5	8.1	8.5
EBIT margin (%)	5.2	4.7	5.2	5.9	6.5
Net profit mgn.(%)	4.4	4.6	4.4	4.4	4.8
ROE (%)	27.2	25.6	25.1	25.0	25.8
ROCE (%)	16.2	15.3	15.0	14.3	15.1
W.C & Liquidity					
Receivables (days)	17.8	19.6	20.4	21.3	21.2
Inventory (days)	34.7	34.3	31.7	33.9	38.0
Payables (days)	21.1	15.7	13.0	13.5	14.0
Current ratio (x)	3.7	6.0	4.9	6.2	5.5
Quick ratio (x)	1.3	2.4	2.0	2.5	2.2
Turnover &Levg.					
Gross asset T.O (x)	3.6	3.3	3.6	3.7	3.9
Total asset T.O (x)	2.4	2.3	2.4	2.4	2.3
Int. covge. ratio (x)	11.8	13.0	14.0	14.2	16.4
Adj. debt/equity (x)	0.4	0.5	0.4	0.3	0.3
Valuation ratios					
EV/Sales (x)	2.5	2.3	1.8	1.5	1.3
EV/EBITDA (x)	34.0	32.5	24.6	19.0	15.3
P/E (x)	54.7	47.9	40.4	33.3	26.0
P/BV (x)	14.0	11.4	9.6	7.6	6.1

Recommendation Summary (last 3 years)



Dates	Rating	Target
19-10-2015	Accumulate	275
10-05-2016	Hold	316
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

Source: Bloomberg, Geojit Research

Investment Rating Criteria

Large Cap Stocks;		Mid Cap and Small Cap;			
Buy	-	Upside is 10% or more.	Buy	-	Upside is above 15%.
Hold	-	Upside is between 0% - 10%.	Accumulate	-	Upside between 10% - 15%.
Reduce	-	Downside is more than 0%.	Hold	-	Upside 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.

The recommendations are based on 12 month horizon, unless otherwise specified. The investment ratings are on absolute positive/negative return basis.

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For reasons of valuations/return/lack of clarity/event we may revisit rating at appropriate time. Please note that the stock always carries the risk of being upgraded to BUY or downgraded to a HOLD, REDUCE or SELL.

Neutral- The analyst has no investment opinion on the stock under review.

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