

August 8, 2018

Q1FY19 Result Update

☑ Change in Estimates | ☑ Target | ■ Reco

Change in Estimates

	Current		Previous	
	FY19E	FY20E	FY19E	FY20E
Rating	ACCUMULATE		ACCUMULATE	
Target Price	605		678	
Sales (Rs. m)	1,77,176	2,06,681	1,82,753	2,14,006
% Chng.			(3.1)	(3.4)
EBITDA (Rs. m)	14,037	18,723	15,952	20,783
% Chng.			(12.0)	(9.9)
EPS (Rs.)	17.3	24.2	20.1	27.1
% Chng.			(13.8)	(10.7)

Key Financials

	FY17	FY18	FY19E	FY20E
Sales (Rs. m)	1,21,353	1,51,297	1,77,176	2,06,681
EBITDA (Rs. m)	8,571	11,292	14,037	18,723
Margin (%)	7.1	7.5	7.9	9.1
PAT (Rs. m)	5,581	6,626	8,238	11,503
EPS (Rs.)	11.7	13.9	17.3	24.2
Gr. (%)	10.3	18.7	24.3	39.6
DPS (Rs.)	0.0	0.0	0.0	0.0
Yield (%)	-	-	-	-
RoE (%)	25.6	25.1	25.7	28.6
RoCE (%)	17.8	20.8	23.8	29.0
EV/Sales (x)	2.2	1.8	1.5	1.3
EV/EBITDA (x)	31.7	24.1	19.0	13.9
PE (x)	46.7	39.4	31.7	22.7
P/BV (x)	10.8	9.1	7.4	5.8

Key Data

TVSM.BO | TVSL IN

52-W High / Low	Rs.795 / Rs.507	
Sensex / Nifty	37,666 / 11,389	
Market Cap	Rs.261bn/ \$ 3,797m	
Shares Outstanding	475m	
3M Avg. Daily Value	Rs.1657.57m	

Shareholding Pattern (%)

Promoter's	57.40
Foreign	19.96
Domestic Institution	11.08
Public & Others	11.57
Promoter Pledge (Rs bn)	-

Stock Performance (%)

	1M	6M	12M
Absolute	(4.8)	(15.3)	(8.9)
Relative	(9.9)	(23.4)	(22.0)

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Volume outlook stable; Margins remain bleak

For Q1FY19, TVS motor's EBITDA margins stood at 7.4% (up 120bps YoY / 40bps QoQ), slightly behind our expectations of 7.8%. TVS Motors' overall Q1FY19 revenues grew a robust 22% YoY (up 4% QoQ) to Rs41.5bn, in-line with PLe, on the back of volume growth of 15.7% YoY (up 4% QoQ) and realisation improvement of 5.6% YoY (flat QoQ). Absolute EBITDA surged 45% YoY / 9% QoQ to Rs3.1bn. With lower non-operating income (down 70% YoY) as well as higher tax rate (at 31% v/s 28% in Q1FY18 and PLe of 29%), net profit for the company was at Rs1.5bn, higher 13% YoY but below PLe of ~Rs1.28bn.

Despite a favourable product mix, price hike and no major discounting activities during the quarter, Q1FY19 gross margins contracted 160bps YoY / 240bps QoQ owing to customs duty rise on raw material imports, which currently forms ~12% of total RM cost for TVS Motors. Staff costs & Other expenses as a % of sales however, were lower 40bps YoY (flat QoQ) and 240bps YoY (down 280bps QoQ) respectively leading to the EBITDA margin expansion of 120bps YoY (up 40bps QoQ) to 7.4%.

- **Key con-call takeaways:** (1) The management has said that the company will not participate in the pricing war in the commuter segment (forming <15% of TVS' overall volumes) (2) The slump in the Scooter category is expected to be temporary and scooterisation is expected to continue ahead, however, with a shift towards the 125cc segment. TVS currently has Ntorq in the 125cc segment which does a monthly run-rate of 20K and the company is looking at enhancing the capacity for the same (3) Moped demand is expected to sustain on the back of strong growth in the rural markets (4) As per the new accounting standards, freight costs will now have to set off against revenue instead of being accounted for in the other expenses. Adjusting for the same (freight costs for Q1FY19 at ~Rs900mn), EBITDA margin for the quarter is lower at 7.2% (5) TVS is looking at reducing its import content, currently ~12% of total raw material costs, and increase localisation in alloy wheels, electronics, etc. (6) The company has taken an average price hike of ~0.8% over YTD FY19 (7) Export revenues for the quarter stood at Rs9.93bn.

- **Valuation and View:** Management addressed concerns over pressure on margins and volumes due to the recent aggressive discounting strategy adopted by one of the competitors. Currently the commuter segment accounts for only 15% of overall volumes for TVS Motors and management has not witnessed any adverse impact on demand as yet. Management continues to reiterate their target of double digit margins, however, we believe this would be an up-hill task given the current upswing in commodity cycle coupled with the implementation of BSVI norms which would limit the company's ability to pass on incremental price rise going forward. Resultantly, we reduce our EBITDA margin assumptions by 80bps/60bps for FY19/20E respectively. Despite margins pressure, we expect TVS to continue to outperform the industry and increase our volumes estimates by 4%/4.4% for FY19/20E respectively. We maintain "Accumulate" with a price target of Rs605, based upon a PE of 25x Mar20E. TVS currently trades at a PER of 30.3x FY19E EPS and 22.5x FY20E EPS.

Exhibit 1: Q1FY19 Result Overview (Rs m)

Y/e March	Q1FY19	Q1FY18	YoY gr. (%)	Q4FY18	FY19E	FY18	YoY gr. (%)
Net Revenues	41,537	33,995	22.2	39,928	177,752	151,297	17.5
Raw Materials	31,642	25,355	24.8	29,458	132,487	111,330	19.0
<i>% of Net Sales</i>	<i>76.2</i>	<i>74.6</i>		<i>73.8</i>	<i>74.5</i>	<i>73.6</i>	
Personnel	2,375	2,090	13.6	2,272	10,221	8,680	17.7
<i>% of Net Sales</i>	<i>5.7</i>	<i>6.1</i>		<i>5.7</i>	<i>5.8</i>	<i>5.7</i>	
Manufacturing & Other Exp	4,455	4,437	0.4	5,391	23,059	19,995	15.3
<i>% of Net Sales</i>	<i>10.7</i>	<i>13.1</i>		<i>13.5</i>	<i>13.0</i>	<i>13.2</i>	
Total Expenditure	38,472	31,881	20.7	37,121	165,767	140,005	18.4
EBITDA	3,065	2,114	45.0	2,807	11,985	11,292	6.1
<i>EBITDA Margin (%)</i>	<i>7.4</i>	<i>6.2</i>		<i>7.0</i>	<i>6.7</i>	<i>7.5</i>	
Depreciation	933	783	19.1	944	3,646	3,387	7.6
EBIT	2,131	1,330	60.2	1,863	8,340	7,904	5.5
Interest Expenses	180	107	68.1	183	462	566	(18.5)
Non-operating income	173	571	(69.7)	240	1,673	1,448	15.6
PBT	2,124	1,794	18.4	1,921	9,551	8,786	8.7
Tax-Total	658	500	31.7	264	2,770	2,161	28.2
<i>Tax Rate (%) - Total</i>	<i>31.0</i>	<i>27.9</i>	<i>11.2</i>	<i>13.8</i>	<i>29.0</i>	<i>24.6</i>	<i>17.9</i>
Reported PAT	1,466	1,294	13.3	1,656	6,781	6,626	2.4
Adj. PAT	1,466	1,294	13.3	1,656	6,781	6,626	2.4

Source: Company, PL

Exhibit 2: Operating Metrics

Y/e March	Q1FY19	Q1FY18	YoY gr. (%)	Q4FY18	FY19E	FY18	YoY gr. (%)
Sales Volume (nos)	928,274	802,108	15.7	889,133	3,963,771	3,466,110	14.4
Net Realisation/Vehicle	44,746	42,382	5.6	44,906	44,844	43,650	2.7
Material cost / vehicle	34,087	31,610	7.8	33,131	33,425	32,120	4.1
Gross Profit / vehicle	10,659	10,772	(1.1)	11,776	11,420	11,531	(1.0)
Employee cost /vehicle	2,558	2,606	(1.8)	2,556	2,579	2,504	3.0
Other expenses / vehicle	4,799	5,531	(13.2)	6,063	5,817	5,769	0.8
EBITDA/vehicle	3,301	2,635	25.3	3,157	3,024	3,258	(7.2)
Net Profit/vehicle	1,579	1,614	(2.1)	1,863	1,711	1,912	(10.5)

Source: Company, PL

Financials

Income Statement (Rs m)

Y/e Mar	FY17	FY18	FY19E	FY20E
Net Revenues	1,21,353	1,51,297	1,77,176	2,06,681
YoY gr. (%)	9.3	24.7	17.1	16.7
Cost of Goods Sold	88,534	1,11,330	1,30,942	1,51,226
Gross Profit	32,819	39,967	46,234	55,455
Margin (%)	27.0	26.4	26.1	26.8
Employee Cost	7,456	8,680	9,745	10,541
Other Expenses	16,792	19,995	22,452	26,192
EBITDA	8,571	11,292	14,037	18,723
YoY gr. (%)	3.7	31.8	24.3	33.4
Margin (%)	7.1	7.5	7.9	9.1
Depreciation and Amortization	2,878	3,387	3,646	4,070
EBIT	5,693	7,905	10,391	14,653
Margin (%)	4.7	5.2	5.9	7.1
Net Interest	440	566	462	416
Other Income	1,734	1,448	1,673	1,964
Profit Before Tax	6,987	8,786	11,602	16,202
Margin (%)	5.8	5.8	6.5	7.8
Total Tax	1,406	2,161	3,365	4,698
Effective tax rate (%)	20.1	24.6	29.0	29.0
Profit after tax	5,581	6,626	8,238	11,503
Minority interest	-	-	-	-
Share Profit from Associate	-	-	-	-
Adjusted PAT	5,581	6,626	8,238	11,503
YoY gr. (%)	10.3	18.7	24.3	39.6
Margin (%)	4.6	4.4	4.6	5.6
Extra Ord. Income / (Exp)	-	-	-	-
Reported PAT	5,581	6,626	8,238	11,503
YoY gr. (%)	10.3	18.7	24.3	39.6
Margin (%)	4.6	4.4	4.6	5.6
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	5,581	6,626	8,238	11,503
Equity Shares O/s (m)	475	475	475	475
EPS (Rs)	11.7	13.9	17.3	24.2

Source: Company Data, PL Research

Balance Sheet Abstract (Rs m)

Y/e Mar	FY17	FY18	FY19E	FY20E
Non-Current Assets				
Gross Block	39,290	45,454	51,766	56,766
Tangibles	37,984	43,846	49,763	54,763
Intangibles	1,306	1,608	2,002	2,002
Acc: Dep / Amortization	19,451	21,736	25,381	29,451
Tangibles	18,678	20,691	24,337	28,407
Intangibles	774	1,044	1,044	1,044
Net fixed assets	19,839	23,719	26,384	27,314
Tangibles	19,306	23,155	25,426	26,356
Intangibles	532	564	958	958
Capital Work In Progress	623	1,311	-	-
Goodwill	-	-	-	-
Non-Current Investments	15,880	20,355	21,355	23,855
Net Deferred tax assets	(1,257)	(1,482)	(1,482)	(1,482)
Other Non-Current Assets	836	629	629	629
Current Assets				
Investments	-	-	-	-
Inventories	9,670	9,644	11,304	13,198
Trade receivables	7,238	9,684	11,351	13,253
Cash & Bank Balance	85	109	4,987	10,659
Other Current Assets	4,742	6,202	6,252	6,502
Total Assets	60,479	73,310	83,920	97,168
Equity				
Equity Share Capital	475	475	475	475
Other Equity	23,608	28,329	34,904	44,507
Total Networth	24,083	28,804	35,379	44,982
Non-Current Liabilities				
Long Term borrowings	4,908	4,698	4,698	4,698
Provisions	508	538	538	538
Other non current liabilities	-	-	-	-
Current Liabilities				
ST Debt / Current of LT Debt	6,164	7,194	6,494	4,894
Trade payables	18,594	25,180	29,516	34,460
Other current liabilities	2,957	3,318	3,618	3,818
Total Equity & Liabilities	60,479	73,310	83,920	97,168

Source: Company Data, PL Research

Cash Flow (Rs m)

Y/e Mar	FY17	FY18	FY19E	FY20E
PBT	6,987	8,786	11,602	16,202
Add. Depreciation	2,878	3,387	3,646	4,070
Add. Interest	440	566	462	416
Less Financial Other Income	1,734	1,448	1,673	1,964
Add. Other	107	(480)	-	-
Op. profit before WC changes	10,411	12,260	15,710	20,687
Net Changes-WC	296	3,302	1,358	1,099
Direct tax	(1,586)	(1,936)	(3,365)	(4,698)
Net cash from Op. activities	9,121	13,626	13,703	17,088
Capital expenditures	(5,834)	(7,956)	(5,000)	(5,000)
Interest / Dividend Income	-	-	-	-
Others	(3,730)	(4,475)	(1,000)	(2,500)
Net Cash from Invst. activities	(9,564)	(12,431)	(6,000)	(7,500)
Issue of share cap. / premium	-	-	-	-
Debt changes	1,828	820	(700)	(1,600)
Dividend paid	(1,188)	(1,425)	(1,663)	(1,900)
Interest paid	(440)	(566)	(462)	(416)
Others	-	-	-	-
Net cash from Fin. activities	201	(1,172)	(2,825)	(3,916)
Net change in cash	(242)	24	4,878	5,672
Free Cash Flow	3,287	5,670	8,703	12,088

Source: Company Data, PL Research

Key Financial Metrics

Y/e Mar	FY17	FY18	FY19E	FY20E
Per Share(Rs)				
EPS	11.7	13.9	17.3	24.2
CEPS	17.8	21.1	25.0	32.8
BVPS	50.7	60.6	74.5	94.7
FCF	6.9	11.9	18.3	25.4
DPS	0.0	0.0	0.0	0.0
Return Ratio(%)				
RoCE	17.8	20.8	23.8	29.0
ROIC	14.3	15.8	19.1	26.1
RoE	25.6	25.1	25.7	28.6
Balance Sheet				
Net Debt : Equity (x)	0.5	0.4	0.2	0.0
Net Working Capital (Days)	(5)	(14)	(14)	(14)
Valuation(x)				
PER	46.7	39.4	31.7	22.7
P/B	10.8	9.1	7.4	5.8
P/CEPS	17.4	20.6	24.5	32.1
EV/EBITDA	31.7	24.1	19.0	13.9
EV/Sales	2.2	1.8	1.5	1.3
Dividend Yield (%)	-	-	-	-

Source: Company Data, PL Research

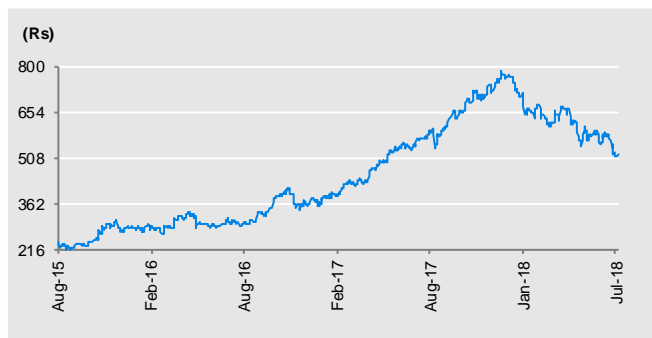
Quarterly Financials (Rs m)

Y/e Mar	Q2FY18	Q3FY18	Q4FY18	Q1FY19
Net Revenue	40,524	36,850	39,928	41,537
YoY gr. (%)	18.3	23.5	40.4	22.2
Raw Material Expenses	29,736	26,783	29,458	31,642
Gross Profit	10,789	10,067	10,470	9,895
Margin (%)	26.6	27.3	26.2	23.8
EBITDA	3,503	2,868	2,807	3,065
YoY gr. (%)	65.7	(18.1)	(2.1)	9.2
Margin (%)	8.6	7.8	7.0	7.4
Depreciation / Depletion	836	824	944	933
EBIT	2,667	2,044	1,863	2,131
Margin (%)	6.6	5.5	4.7	5.1
Net Interest	155	122	183	180
Other Income	456	182	240	173
Profit before Tax	2,968	2,104	1,921	2,124
Margin (%)	7.3	5.7	4.8	5.1
Total Tax	836	560	264	658
Effective tax rate (%)	28.2	26.6	13.8	31.0
Profit after Tax	2,132	1,543	1,656	1,466
Minority interest	-	-	-	-
Share Profit from Associates	-	-	-	-
Adjusted PAT	2,132	1,543	1,656	1,466
YoY gr. (%)	20.2	16.3	30.7	13.3
Margin (%)	5.3	4.2	4.1	3.5
Extra Ord. Income / (Exp)	-	-	-	-
Reported PAT	2,132	1,543	1,656	1,466
YoY gr. (%)	20.2	16.3	30.7	13.3
Margin (%)	5.3	4.2	4.1	3.5
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	2,132	1,543	1,656	1,466
Avg. Shares O/s (m)	475	475	475	475
EPS (Rs)	4.5	3.2	3.5	3.1

Source: Company Data, PL Research

Price Chart

Recommendation History



No.	Date	Rating	TP (Rs.)	Share Price (Rs.)
1	11-Aug-17	Reduce	409	536
2	9-Oct-17	Reduce	409	660
3	1-Nov-17	Accumulate	750	709
4	10-Jan-18	Accumulate	750	772
5	30-Jan-18	Accumulate	768	713
6	13-Apr-18	Accumulate	768	662
7	16-May-18	Accumulate	678	610
8	11-Jun-18	Accumulate	678	610
9	10-Jul-18	Accumulate	678	561

Analyst Coverage Universe

Sr. No.	CompanyName	Rating	TP (Rs)	Share Price (Rs)
1	Ashok Leyland	BUY	146	111
2	Atul Auto	Accumulate	397	394
3	Bajaj Auto	Reduce	2,573	2,684
4	Bharat Forge	Accumulate	760	620
5	CEAT	Accumulate	1,451	1,324
6	Eicher Motors	Accumulate	33,516	28,079
7	Exide Industries	Accumulate	282	271
8	Hero Motocorp	Accumulate	3,824	3,110
9	Mahindra & Mahindra	BUY	1,041	894
10	Maruti Suzuki	BUY	10,705	9,396
11	Motherson Sumi Systems	Accumulate	373	293
12	Tata Motors	BUY	352	264
13	TVS Motors	Accumulate	678	561
14	Wabco India	Accumulate	7,111	6,698

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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