

TVS MOTOR

AUTO

4 MAY 2017

Quarterly Update

HOLD

Target Price: Rs 481

Good qtr; still eyeing double-digit margin

Q4FY17 results were impacted by one-time discounts (Rs 570 mn) to clear unsold BS-3 dealer inventory. This hurt margin by 200 bps; adjusting for this, margin at 7.7% (+50 bps YoY) was in line.

The company hopes to gain 150 bps market share in India 2Ws backed by new launches and success of existing strong brands (*Jupiter* and *Apache*). Management reiterated its target EBITDA margin of 10% in FY18. We surrender to this possibility given low hanging fruits, but it is not a given considering high competition and cost pressures (safety/emission norms). Further, mopeds (the cash-cow) seem structurally weak and facing competition from entry level motorcycles. Despite a 32% FY17-19 earnings CAGR, we maintain HOLD with TP of Rs 481 (20x FY19 PE + Rs 28/sh for BMW).

CMP : Rs 503
Potential Upside : -4%

MARKET DATA

No. of Shares : 475 mn
Free Float : 43%
Market Cap : Rs 239 bn
52-week High / Low : Rs 519 / Rs 278
Avg. Daily vol. (6mth) : 1.5 mn shares
Bloomberg Code : TVSL IB Equity
Promoters Holding : 57%
FII / DII : 18% / 12%

Conference call highlights

- ♦ **Outlook for FY18:** The management expects the industry to grow by 6-8% in FY18 driven by a normal monsoon and uptick in economy. It plans to launch one new motorcycle and scooter in FY18. The company targets to gain 150 bps market share in the domestic segment.
- ♦ **BMW partnership:** The company exported 4,700 units of G310R during the quarter to BMW under the joint development programme. It expects to maintain this run-rate in Q1FY18
- ♦ **Exports:** Export revenue for the quarter stood at Rs 6 bn. Forex unavailability and sharp currency depreciation in key export markets continue to remain an issue and, the management expects exports to remain subdued in FY18
- ♦ **Impact of BS III ban:** The company booked one-time charge of Rs 570 mn to liquidate its BS-3 inventory. The remaining stock of BS-3 vehicles is negligible. Part of this will be exported and balance if any, will be upgraded to BS-4

Financial summary (Standalone)

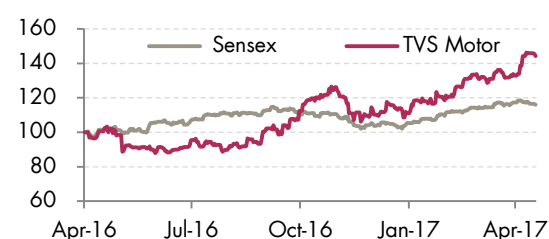
Y/E March	FY16	FY17	FY18E	FY19E
Sales (Rs mn)	109,690	119,725	136,909	156,709
Adj PAT (Rs mn)	4,893	6,150	8,315	8,333
Con. EPS* (Rs)	-	-	15.5	19.9
EPS (Rs)	10.3	12.9	17.5	17.5
Change YOY (%)	21.8	25.7	35.2	0.2
P/E (x)	48.8	38.9	28.7	28.7
RoE (%)	27.2	28.2	30.2	23.5
RoCE (%)	24.1	24.7	30.5	28.2
EV/E (x)	30.4	27.3	18.8	16.9
DPS (Rs)	2.5	2.6	2.7	2.8

Source: *Consensus broker estimates, Company, Axis Capital

Key drivers

(%)	FY17	FY18E	FY19E
Volume growth	9.1	12.1	12.1
ASP	-0.6	2.0	2.1
EBITDA margins	7.5	9.4	10.4

Price performance



(...Continued from page 1)

- ♦ **Adj. EBITDA margin** at 7.7% was in line with the estimates. Other expenses were lower mainly on account of decline in marketing and advertisement expense. The management has maintained its guidance of achieving double-digit margin by end FY18
- ♦ **Investments:** During the quarter, the company invested (1) Rs 200 mn in the Indonesia venture; (2) Rs 150 mn in TVS Credit Services Limited; and (3) Rs 20 mn in preference shares of TVS Motor Services Limited.
- ♦ **Subsidiary financials:** Losses at TVS Indonesia have narrowed down (USD 3mn vs. USD 6mn in FY16) on the back of 60% jump in volumes (25,000 units). Loan book of the financing arm stands at Rs 50 bn (+25% YoY). 50% of loans are towards 2Ws while the balance is split equally between tractors and used cars. Any new investment in this arm will be to meet the capital requirements
- ♦ **Price hike:** The company has taken small price increase in April 17 (Rs 200-300/unit) to partially pass on BS-4 related cost increases. This is in addition to the Rs 500-1,000/unit cost increase last year due to commodity costs. It may take further price hike in the coming quarters to neutralize the increase in raw material prices and to accommodate remaining price impact of BS-4.
- ♦ **Capex and new product development plans** for FY18 will be Rs 5 bn towards capacity expansion and new product development.

Exhibit 1: Results update

(Rs mn)	Quarter ended					12 months ended		
	Mar-17	Mar-16	% Chg	Dec-16	% Chg	FY18E	FY17	% Chg
Net sales	28,445	27,973	1.7	29,834	(4.7)	138,863	121,353	14.4
- Consumption of raw material	20,793	19,621	6.0	21,491	(3.3)	99,009	87,964	12.6
(% of net sales)	73.1	70.1	296	72.0	106	71.3	72.5	(119)
- Staff expenditure	1,737	1,593	9.0	1,919	(9.5)	8,575	7,456	15.0
(% of net sales)	6.1	5.7	41	6.4	(32)	6.2	6.1	3
- Other expenditure	3,730	4,760	(21.6)	4,239	(12.0)	18,189	16,792	8.3
(% of net sales)	13.1	17.0	(390)	14.2	(109)	13.1	13.8	(74)
Total expenditure	26,260	25,974	1.1	27,649	(5.0)	125,773	112,212	12.1
EBITDA	2,185	1,999	9.3	2,185	0.0	13,089	9,141	43.2
EBITDA margin (%)	7.7	7.1	54	7.3	36	9.4	7.5	189
Depreciation	775	671	15.4	720	7.6	3167	2878	10.0
EBIT	1411	1328	6.2	1465	(3.7)	9922	6263	58.4
Interest	132	144	(8.1)	115	14.9	352	440	(20.0)
Other income	632	386	63.9	348	81.6	1820	1734	5.0
PBT	1910	1570	21.7	1698	12.5	11391	7557	50.7
Tax	73	210	(65.4)	371	(80.5)	3076	1407	118.6
Tax Rate (%)	3.8%	13.4%	(956)	21.9%	(1,807)	27.0%	18.6%	838
Adjusted PAT	1,838	1,360	35.1	1,327	38.5	8,315	5,580	49.0
Exceptional item	0	0	-	0	-	0	-570	
Reported PAT	1,838	1,360	35.1	1,327	38.5	8,315	6,150	35.2
EPS (INR)	3.9	2.9	35.1	2.8	38.5	17.5	11.7	49.0
Total volumes (Nos)	674,870	660,479	2.2	718,562	(6.1)	3,277,209	2,923,139	12.1
Net realisation (Rs)	42,149	42,353	(0.5)	41,519	1.5	42,372	41,515	2.1
EBITDA / vehicle (Rs)	3,238	3,027	7.0	3,041	6.5	3,994	3,127	27.7

Source: Company, Axis Capital

Exhibit 2: Quarterly volume break-up

(In Nos)	4QFY16	1QFY17	2QFY17	3QFY17	4QFY17	YoY (%)	QoQ (%)
Motorcycles	247,243	282,441	332,070	247,635	214,940	(13.1)	(13.2)
Scooters	197,812	196,314	229,635	221,088	223,242	12.9	1.0
Mopeds	193,979	221,872	233,456	233,758	221,253	14.1	(5.3)
Total 2W	639,034	700,627	795,161	702,481	659,435	3.2	(6.1)
3Ws	21,445	17,337	20,401	16,081	15,435	(28.0)	(4.0)
Total Volumes	660,479	717,964	815,562	718,562	674,870	2.2	(6.1)
Exports	100,748	103,011	112,453	98,657	110,540	9.7	12.0

Source: Company, Axis Capital

Exhibit 3: Product mix

Mix (%)	4QFY16	1QFY17	2QFY17	3QFY17	4QFY17	YoY (bps)	QoQ (bps)
Motorcycles	37.4	39.3	40.7	34.5	31.8	(558)	(261)
Scooters	29.9	27.3	28.2	30.8	33.1	313	231
Mopeds	29.4	30.9	28.6	32.5	32.8	342	25
3Ws	3.2	2.4	2.5	2.2	2.3	(96)	5
Exports	15.3	14.3	13.8	13.7	16.4	113	265

Source: Company, Axis Capital

Exhibit 4: Sensitivity analysis

FY18 EPS (Rs)		Volume growth				
		6%	9%	12.1%	15%	18%
EBITDA margin	7.4%	12.4	12.8	13.2	13.7	14.1
	8.4%	14.4	14.9	15.4	15.8	16.3
	9.4%	16.4	17.0	17.5	18.0	18.6
	10.4%	18.4	19.0	19.6	20.2	20.8
	11.4%	20.5	21.1	21.8	22.4	23.1

Source: Company, Axis Capital

Exhibit 5: Sensitivity analysis

FY19 EPS (Rs)		Volume growth				
		6%	9%	12%	15%	18%
EBITDA margin	8.4%	16.5	17.0	17.6	18.1	18.7
	9.4%	18.8	19.4	20.0	20.6	21.3
	10.4%	21.1	21.8	22.5	23.2	23.8
	11.4%	23.4	24.2	24.9	25.7	26.4
	12.4%	25.7	26.5	27.4	28.2	29.0

Source: Company, Axis Capital

Volume growth could taper off from high base of FY16. However, margin is expected to increase from current low on the back of positive operating leverage

We forecast EBITDA margin to increase to 9.4% and 10.4% in FY18 and FY19 (from 7.5% in FY17)

Financial summary (Standalone)

Profit & loss (Rs mn)

Y/E March	FY16	FY17	FY18E	FY19E
Net sales	109,690	119,725	136,909	156,709
Other operating income	1,357	1,628	1,954	-
Total operating income	111,047	121,353	138,863	156,709
Cost of goods sold	(79,792)	(87,964)	(99,009)	(111,815)
Gross profit	31,255	33,389	39,854	44,894
<i>Gross margin (%)</i>	<i>28.5</i>	<i>27.9</i>	<i>29.1</i>	<i>28.6</i>
Total operating expenses	(23,155)	(24,249)	(26,764)	(30,651)
EBITDA	8,100	9,141	13,089	14,244
<i>EBITDA margin (%)</i>	<i>7.4</i>	<i>7.6</i>	<i>9.6</i>	<i>9.1</i>
Depreciation	(2,361)	(2,878)	(3,167)	(3,592)
EBIT	5,740	6,262	9,922	10,652
Net interest	(487)	(440)	(352)	(281)
Other income	1,039	1,734	1,820	1,911
Profit before tax	6,291	7,557	11,391	12,282
Total taxation	(1,398)	(1,407)	(3,076)	(3,949)
<i>Tax rate (%)</i>	<i>22.2</i>	<i>18.6</i>	<i>27.0</i>	<i>32.2</i>
Profit after tax	4,893	6,150	8,315	8,333
Minorities	-	-	-	-
Profit/ Loss associate co(s)	-	-	-	-
Adjusted net profit	4,893	6,150	8,315	8,333
<i>Adj. PAT margin (%)</i>	<i>4.5</i>	<i>5.1</i>	<i>6.1</i>	<i>5.3</i>
Net non-recurring items	-	(570)	-	-
Reported net profit	4,893	5,580	8,315	8,333

Balance sheet (Rs mn)

Y/E March	FY16	FY17	FY18E	FY19E
Paid-up capital	475	475	475	475
Reserves & surplus	19,108	23,608	30,423	39,544
Net worth	19,583	24,083	30,898	40,019
Borrowing	7,584	10,851	8,681	6,945
Other non-current liabilities	1,437	1,257	1,257	1,257
Total liabilities	28,605	36,192	40,836	48,221
Gross fixed assets	32,117	34,760	39,760	44,760
Less: Depreciation	(14,922)	(14,922)	(18,089)	(21,681)
Net fixed assets	17,196	19,839	21,672	23,079
Add: Capital WIP	310	623	623	623
Total fixed assets	17,506	20,462	22,294	23,702
Total Investment	12,149	15,879	17,784	19,919
Inventory	6,963	9,670	11,065	12,674
Debtors	5,780	7,238	8,282	9,486
Cash & bank	328	86	1,129	5,135
Loans & advances	553	-	-	-
Current liabilities	20,917	22,855	25,717	28,994
Net current assets	(1,049)	(149)	757	4,600
Other non-current assets	-	-	-	-
Total assets	28,605	36,192	40,836	48,221

Source: Company, Axis Capital

Cash flow (Rs mn)

Y/E March	FY16	FY17	FY18E	FY19E
Profit before tax	6,291	7,557	11,391	12,282
Depreciation & Amortisation	2,361	2,878	3,167	3,592
<i>Chg in working capital</i>	<i>4,695</i>	<i>(1,142)</i>	<i>137</i>	<i>163</i>
Cash flow from operations	9,590	2,347	10,151	12,803
<i>Capital expenditure</i>	<i>(3,316)</i>	<i>(2,956)</i>	<i>(5,000)</i>	<i>(5,000)</i>
Cash flow from investing	(4,301)	(4,953)	(5,085)	(5,223)
<i>Equity raised/ (repaid)</i>	<i>-</i>	<i>-</i>	<i>-</i>	<i>-</i>
<i>Debt raised/ (repaid)</i>	<i>(2,120)</i>	<i>3,267</i>	<i>(2,170)</i>	<i>(1,736)</i>
<i>Dividend paid</i>	<i>-</i>	<i>-</i>	<i>-</i>	<i>-</i>
Cash flow from financing	(4,033)	1,382	(4,023)	(3,574)
Net chg in cash	1,256	(1,224)	1,043	4,006

Key ratios

Y/E March	FY16	FY17	FY18E	FY19E
OPERATIONAL				
FDEPS (Rs)	10.3	12.9	17.5	17.5
CEPS (Rs)	15.3	17.8	24.2	25.1
DPS (Rs)	2.5	2.6	2.7	2.8
Dividend payout ratio (%)	24.3	22.1	15.4	16.0
GROWTH				
Net sales (%)	10.6	9.1	14.4	14.5
EBITDA (%)	23.0	12.8	43.2	8.8
Adj net profit (%)	21.8	25.7	35.2	0.2
FDEPS (%)	21.8	25.7	35.2	0.2
PERFORMANCE				
RoE (%)	27.2	28.2	30.2	23.5
RoCE (%)	24.1	24.7	30.5	28.2
EFFICIENCY				
Asset turnover (x)	4.1	3.9	3.7	3.9
Sales/ total assets (x)	2.3	2.2	2.2	2.2
Working capital/ sales (x)	-	-	-	-
Receivable days	19.2	22.1	22.1	22.1
Inventory days	24.7	31.5	32.1	32.5
Payable days	70.7	70.6	71.0	70.8
FINANCIAL STABILITY				
Total debt/ equity (x)	0.4	0.5	0.3	0.2
Net debt/ equity (x)	0.4	0.5	0.3	0.1
Current ratio (x)	0.9	1.0	1.0	1.2
Interest cover (x)	11.8	14.2	28.2	37.9
VALUATION				
PE (x)	48.8	38.9	28.7	28.7
EV/ EBITDA (x)	30.4	27.3	18.8	16.9
EV/ Net sales (x)	2.2	2.1	1.8	1.5
PB (x)	12.2	9.9	7.7	6.0
Dividend yield (%)	0.5	0.5	0.5	0.6
Free cash flow yield (%)	2.6	(0.3)	2.2	3.3

Source: Company, Axis Capital

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