

# TVS Motor | HOLD

## Beat on margins; multiple disruptions cloud growth visibility

In 2QFY19, TVS Motor (TVS) reported EBITDA margin of 8.6% (-35bps YoY, +90bps QoQ), surpassing JMFe and street expectations owing to higher volumes, price increase and a favourable exchange rate. Without sharing a number, the management indicated 'moderate' growth during the Navratri period (including Dusshera), impacted by the increase/confusion on insurance premium. However, the Company expects strong pick-up in sales during the traditionally robust phase of 'Dhanteras' and 'Diwali', driven by positive response to new models. With increase in fuel price, hike in insurance premium and heightened competitive intensity, we remain cautious on the 2W segment in the near-term. Festive demand in the remaining period and monthly wholesale volumes would be the key monitorables. Maintain HOLD with a revised TP of INR 565 (roll-forward to Sept '19). Higher than expected market share gain and margin expansion are key risks to our call.

- **2QFY19 – Beats expectation:** In 2QFY19, TVS Motor reported revenues of INR 50bn (+23%YoY, +20% QoQ), 5% higher than JMFe. Overall volumes grew +14%YoY / +17%QoQ while average realization was up 7%YoY/2%QoQ. EBITDA for the quarter stood at INR 4.3bn (+18%YoY, +33%QoQ), 15%/11% higher than JMFe/street. EBITDA margin stood at 8.6% (-35bps YoY, +90bps QoQ). PAT of INR 2.1bn (-1%YoY, +44%QoQ) was 12% above expectation.
- **Festive Sales:** As per the management, Navratri sales were 'moderate', largely impacted by increase and confusion around hike in insurance premium. Entry level motorcycles (and mopeds) have been impacted the most due to the hike (c.10% increase in vehicle price) and increase in competitive intensity. However, driven by positive traction on new models like Radeon, Ntorq, and Jupiter Grande, management is hopeful of a pick-up in sales during 'Dhanteras' and 'Diwali'. Further, rural markets are doing better than tier-1 cities.
- **Regulatory Changes:** MoRTH regulation requires all 2Ws to offer CBS/ABS for engine capacity <=125cc/ >125cc starting 01Apr'19. As per the management, c.70% of its models are equipped with CBS/ABS and the transition is unlikely to impact sales. The management highlighted that the issue of 2W registration in West Bengal has eased (that required mandatory driving licenses for vehicle registration), leading to an uptick in sales.
- **Other key takeaways:** TVSL took 0.6% price hike during 2QFY19 to offset the impact of higher commodity cost and remained cautious on RM increase during 2HFY19. Localisation programme has been stepped-up to reduce import content from current 14% of COGS to c.10% by Mar'19. Moderate growth in the domestic market was made up by strong growth in export sales to Africa and LATAM. Capex plan for FY19: INR 8bn.
- **Maintain HOLD:** We expect volume/earnings CAGR of 8%/20% over FY18-21 with margin expansion of 180bps. Higher commodity cost and sales promotion related expenses are likely to reduce the pace of margin expansion. We maintain HOLD with a revised TP of INR 565 (roll-forward to Sept '19 with a target multiple of 25x).



Vivek Kumar  
vivek.kumar@jmfl.com | Tel: (91 22) 66303019

Vaikam Kumar S  
vaikam.kumar@jmfl.com | Tel: (91 22) 66303018

Jayesh Chandra Gupta  
jayesh.gupta@jmfl.com | Tel: (91 22) 66303054

### Recommendation and Price Target

Current Reco.	HOLD
Previous Reco.	HOLD
Current Price Target (12M)	565
Upside/(Downside)	5.6%
Previous Price Target	600
Change	-5.8%

### Key Data – TVSL IN

Current Market Price	INR535
Market cap (bn)	INR254.3/US\$3.5
Free Float	41%
Shares in issue (mn)	475.0
Diluted share (mn)	475.0
3-mon avg daily val (mn)	INR1,166.9/US\$15.9
52-week range	795/479
Sensex/Nifty	33,847/10,147
INR/US\$	73.6

### Price Performance

%	1M	6M	12M
Absolute	-9.8	-19.3	-22.0
Relative*	-1.8	-17.9	-25.1

\* To the BSE Sensex

### Auto Channel Checks – 2 | Insurance increase / confusion impacts 2W demand; PVs – Relatively better

### Financial Summary

Y/E March	FY17A	FY18A	FY19E	FY20E	FY21E
Net Sales	1,21,353	1,51,297	1,72,666	1,91,144	2,09,706
Sales Growth (%)	9.3	24.7	14.1	10.7	9.7
EBITDA	8,571	11,292	14,298	17,133	19,526
EBITDA Margin (%)	7.1	7.5	8.3	9.0	9.3
Adjusted Net Profit	5,581	6,626	8,215	9,995	11,443
Diluted EPS (INR)	11.7	13.9	17.3	21.0	24.1
Diluted EPS Growth (%)	14.1	18.7	24.0	21.7	14.5
ROIC (%)	27.0	31.6	35.1	35.7	37.1
ROE (%)	25.6	25.1	25.8	25.7	24.1
P/E (x)	45.5	38.4	30.9	25.4	22.2
P/B (x)	10.6	8.8	7.3	5.9	4.9
EV/EBITDA (x)	30.9	23.4	18.2	15.1	13.1
Dividend Yield (%)	0.5	0.6	0.7	0.7	0.7

Source: Company data, JM Financial. Note: Valuations as of 23/Oct/2018

JM Financial Research is also available on:  
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Thomson Publisher & Reuters  
S&P Capital IQ and FactSet

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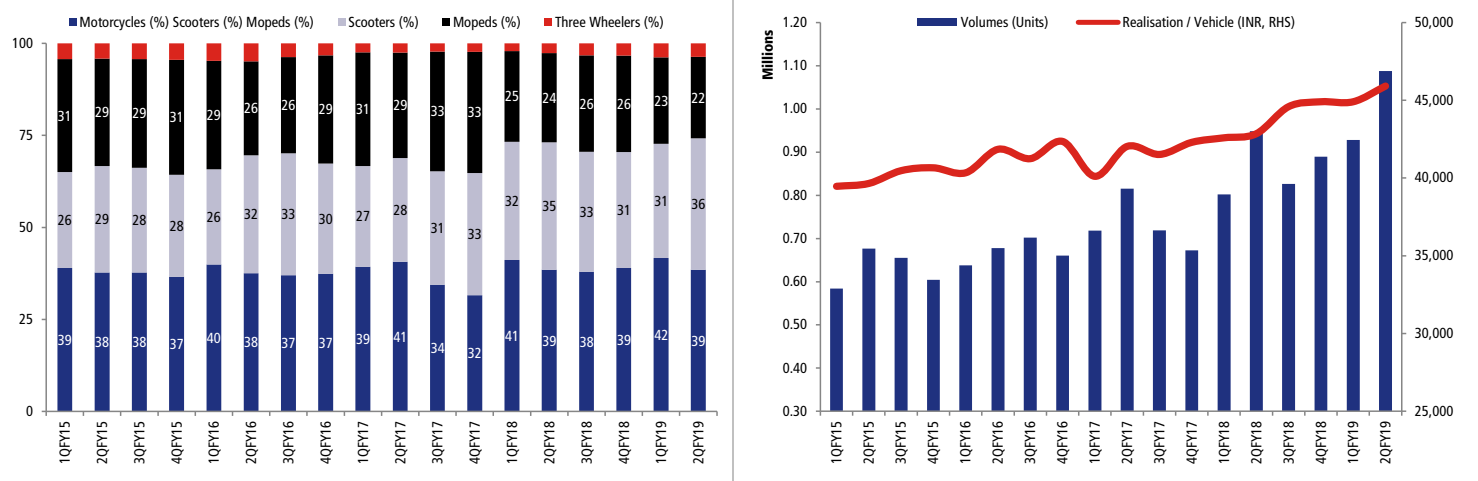
## Exhibit 1. Quarterly financial results

(INR mn)

	2QFY19	2QFY18	% YoY	1QFY19	% QoQ	2QFY19E	% A/E
<b>Sales</b>	49,935	40,647	22.8	41,685	19.8	47,645	4.8
Expenditure	45,653	37,021	23.3	38,472	18.7	43,929	3.9
EBITDA	4,282	3,626	18.1	3,212	33.3	3,716	15.2
<b>EBITDA Margin (%)</b>	8.6	8.9	-35bps	7.7	87bps	7.8	77bps
Other Income	7	333	-97.8	26	-71.2	150	-95.1
Interest	212	155	36.7	180	17.4	180	17.6
Depreciation	1,016	836	21.5	933	8.8	1,000	1.6
PBT	3,062	2,968	3.2	2,124	44.1	2,686	14.0
Tax	949	836	13.4	658	44.1	806	17.7
Tax rate (%)	31.0	28.2	280bps	31.0	0bps	30.0	98bps
<b>PAT (Adjusted)</b>	2,113	2,132	-0.9	1,466	44.1	1,880	12.4
PAT Margin (%)	4.2	5.2	-101bps	3.5	71bps	3.9	28bps

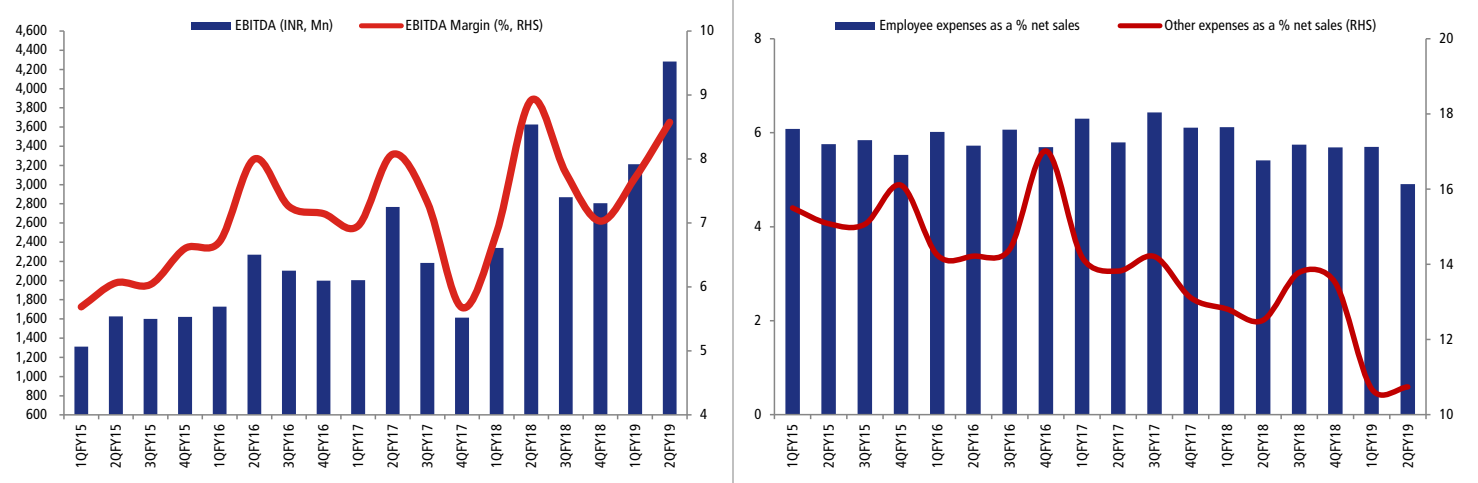
Source: Company, JM Financial

## Exhibit 2. Quarterly realisation, volume and mix trends



Source: Company, JM Financial

## Exhibit 3. EBITDA and cost trends



Source: Company, JM Financial

## Company background

- TVS Motors Company Limited, the third-largest two-wheeler manufacturer in India, is a part of TVS Group; it manufactures motorcycles, scooters, mopeds and three-wheelers in India. TVS Motors is credited with many innovations in the Indian automobile industry, notable among them being the introduction of India's first two-seater moped, the TVS 50cc and now the TVS XL100. The company has presence in all the three sub-segments of two wheelers, i.e., motorcycles, scooters & mopeds as well as the three-wheeler segment. Motorcycles, scooters, mopeds and three-wheelers contribute 37%, 30%, 30% and 3%, respectively, to overall volumes. Exports (mainly Africa) account for 15% of the overall volumes.
- TVSL announced a long-term co-operation agreement with BMW Motorrad in which TVSL and BMW Motorrad will develop and produce a new series of motorcycles in the 200cc–500cc category. As a part of this agreement, TVSL has already started exporting BMW G310R.

## Investment rationale

- TVSL is the only company in India that has presence across the motorcycle, scooter, moped and three-wheeler segments. While it is the only company in the moped segment, entry into the three-wheeler market has helped TVSL further diversify its business model.
- We expect TVSL's volume performance to remain healthy, supported by: a) healthy launch pipeline, b) new permit issuances, and c) network expansion.
- However, we see a limited upside from current levels, given the: a) sharp run up in TVSL stock prices, b) continued concerns on the margin expansion and c) increasing competition.

## Key risks

- Improvement in EBITDA margins, market share gains, better-than-expected domestic demand momentum, and significant gains in export markets/Indonesia.

## Financial Tables (Standalone)

Income Statement					(INR mn)
Y/E March	FY17A	FY18A	FY19E	FY20E	FY21E
Net Sales	1,21,353	1,51,297	1,72,666	1,91,144	2,09,706
Sales Growth	9.3%	24.7%	14.1%	10.7%	9.7%
Other Operating Income	0	0	0	0	0
<b>Total Revenue</b>	<b>1,21,353</b>	<b>1,51,297</b>	<b>1,72,666</b>	<b>1,91,144</b>	<b>2,09,706</b>
Cost of Goods Sold/Op. Exp	88,534	1,11,330	1,30,396	1,43,714	1,56,627
Personnel Cost	7,456	8,680	9,151	9,940	10,695
Other Expenses	16,792	19,995	18,821	20,357	22,858
<b>EBITDA</b>	<b>8,571</b>	<b>11,292</b>	<b>14,298</b>	<b>17,133</b>	<b>19,526</b>
EBITDA Margin	7.1%	7.5%	8.3%	9.0%	9.3%
EBITDA Growth	5.8%	31.8%	26.6%	19.8%	14.0%
Depn. & Amort.	2,878	3,387	3,897	4,401	4,881
EBIT	5,693	7,905	10,401	12,732	14,645
Other Income	1,294	882	930	1,054	1,139
Finance Cost	0	0	0	0	0
PBT before Excep. & Forex	6,987	8,786	11,331	13,786	15,783
Excep. & Forex Inc./Loss(-)	0	0	0	0	0
PBT	6,987	8,786	11,331	13,786	15,783
Taxes	1,406	2,161	3,116	3,791	4,340
Extraordinary Inc./Loss(-)	0	0	0	0	0
Assoc. Profit/Min. Int.(-)	0	0	0	0	0
Reported Net Profit	5,581	6,626	8,215	9,995	11,443
<b>Adjusted Net Profit</b>	<b>5,581</b>	<b>6,626</b>	<b>8,215</b>	<b>9,995</b>	<b>11,443</b>
Net Margin	4.6%	4.4%	4.8%	5.2%	5.5%
Diluted Share Cap. (mn)	475.0	475.0	475.0	475.0	475.0
<b>Diluted EPS (INR)</b>	<b>11.7</b>	<b>13.9</b>	<b>17.3</b>	<b>21.0</b>	<b>24.1</b>
Diluted EPS Growth	14.1%	18.7%	24.0%	21.7%	14.5%
Total Dividend + Tax	1,430	1,887	2,111	2,111	2,111
Dividend Per Share (INR)	2.5	3.3	3.5	3.5	3.5

Source: Company, JM Financial

Balance Sheet					(INR mn)
Y/E March	FY17A	FY18A	FY19E	FY20E	FY21E
Shareholders' Fund	24,083	28,804	34,908	42,791	52,123
Share Capital	475	475	475	475	475
Reserves & Surplus	23,608	28,329	34,433	42,316	51,648
Preference Share Capital	0	0	0	0	0
Minority Interest	0	0	0	0	0
Total Loans	10,851	10,370	6,194	4,194	2,694
Def. Tax Liab. / Assets (-)	992	647	647	647	1,757
<b>Total - Equity &amp; Liab.</b>	<b>35,926</b>	<b>39,821</b>	<b>41,748</b>	<b>47,632</b>	<b>56,573</b>
Net Fixed Assets	20,461	25,030	28,931	30,933	32,250
Gross Fixed Assets	39,290	45,454	51,966	58,064	63,967
Intangible Assets	0	0	0	0	0
Less: Depn. & Amort.	19,451	21,736	25,633	30,034	34,915
Capital WIP	623	1,311	2,598	2,903	3,198
Investments	15,879	20,354	16,551	19,151	24,751
Current Assets	22,441	25,576	29,728	32,913	36,604
Inventories	9,670	9,644	12,300	13,616	15,512
Sundry Debtors	7,238	9,684	10,407	11,521	12,640
Cash & Bank Balances	86	110	268	348	281
Loans & Advances	5,447	6,139	6,752	7,428	8,170
Other Current Assets	0	0	0	0	0
Current Liab. & Prov.	22,855	31,139	33,462	35,365	37,032
Current Liabilities	18,594	25,180	26,964	28,279	29,301
Provisions & Others	4,261	5,959	6,497	7,086	7,731
Net Current Assets	-414	-5,563	-3,734	-2,452	-429
<b>Total - Assets</b>	<b>35,926</b>	<b>39,821</b>	<b>41,748</b>	<b>47,632</b>	<b>56,573</b>

Source: Company, JM Financial

Cash Flow Statement					(INR mn)
Y/E March	FY17A	FY18A	FY19E	FY20E	FY21E
Profit before Tax	6,987	8,786	11,331	13,786	15,783
Depn. & Amort.	2,878	3,387	3,897	4,401	4,881
Net Interest Exp. / Inc. (-)	0	0	0	0	0
Inc (-) / Dec in WCap.	-1,258	5,172	-1,671	-1,202	-2,091
Others	0	0	0	0	0
Taxes Paid	-1,406	-2,161	-3,116	-3,791	-4,340
<b>Operating Cash Flow</b>	<b>7,201</b>	<b>15,186</b>	<b>10,441</b>	<b>13,194</b>	<b>14,233</b>
Capex	-5,834	-7,956	-7,798	-6,403	-6,198
Free Cash Flow	1,367	7,230	2,643	6,791	8,035
Inc (-) / Dec in Investments	-3,730	-4,475	3,803	-2,600	-5,600
Others	0	0	0	0	0
<b>Investing Cash Flow</b>	<b>-9,564</b>	<b>-12,431</b>	<b>-3,995</b>	<b>-9,003</b>	<b>-11,798</b>
Inc / Dec (-) in Capital	0	0	0	0	0
Dividend + Tax thereon	-1,430	-1,887	-2,111	-2,111	-2,111
Inc / Dec (-) in Loans	3,267	-482	-4,176	-2,000	-1,500
Others	284	-362	0	0	1,110
<b>Financing Cash Flow</b>	<b>2,121</b>	<b>-2,731</b>	<b>-6,288</b>	<b>-4,111</b>	<b>-2,502</b>
<b>Inc / Dec (-) in Cash</b>	<b>-242</b>	<b>24</b>	<b>158</b>	<b>80</b>	<b>-67</b>
Opening Cash Balance	328	86	110	268	348
Closing Cash Balance	86	110	268	348	281

Source: Company, JM Financial

Dupont Analysis					
Y/E March	FY17A	FY18A	FY19E	FY20E	FY21E
Net Margin	4.6%	4.4%	4.8%	5.2%	5.5%
Asset Turnover (x)	3.9	4.1	4.3	4.3	4.1
Leverage Factor (x)	1.4	1.4	1.3	1.1	1.1
RoE	25.6%	25.1%	25.8%	25.7%	24.1%

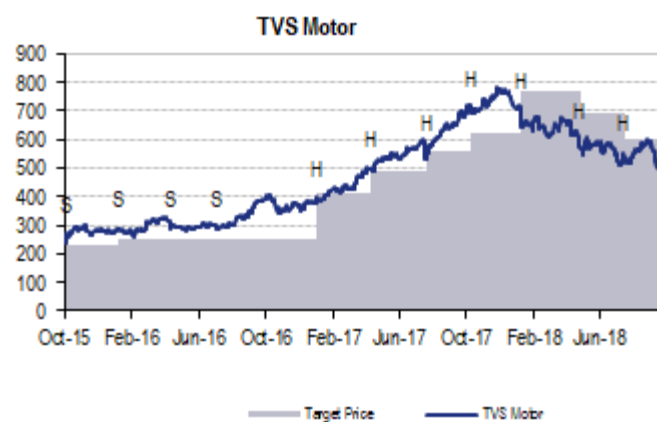
Key Ratios					
Y/E March	FY17A	FY18A	FY19E	FY20E	FY21E
BV/Share (INR)	50.7	60.6	73.5	90.1	109.7
ROIC	27.0%	31.6%	35.1%	35.7%	37.1%
ROE	25.6%	25.1%	25.8%	25.7%	24.1%
Net Debt/Equity (x)	0.4	0.4	0.2	0.1	0.0
P/E (x)	45.5	38.4	30.9	25.4	22.2
P/B (x)	10.6	8.8	7.3	5.9	4.9
EV/EBITDA (x)	30.9	23.4	18.2	15.1	13.1
EV/Sales (x)	2.2	1.7	1.5	1.3	1.2
Debtor days	22	23	22	22	22
Inventory days	29	23	26	26	27
Creditor days	60	66	62	59	56

Source: Company, JM Financial

## History of Earnings Estimate and Target Price

Date	Recommendation	Target Price	% Chg.
28-Oct-15	Sell	230	
29-Jan-16	Sell	250	8.7
4-May-16	Sell	250	0.0
27-Jul-16	Sell	250	0.0
25-Jan-17	Hold	415	66.0
2-May-17	Hold	490	18.1
14-Aug-17	Hold	560	14.3
1-Nov-17	Hold	620	10.7
31-Jan-18	Hold	770	24.2
17-May-18	Hold	690	-10.4
7-Aug-18	Hold	600	-13.0

## Recommendation History



## APPENDIX I

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(formerly known as JM Financial Securities Limited)

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