

Strong operating performance. Lower other income impacted PAT

TVS Motor (TVSL) reported good set of numbers with top line growth of 23% supported by 15% volume growth which was largely led by exports. Margin profile upward trend is a positive surprise and we expect margins to sustain / improve from these levels. Improvement in product mix coupled with operational efficiency will support / expand margin profile. TVSL volume growth is expected to remain in mid-teens and will continue to outperform the industry. This would be driven by the strong portfolio of products across segments.

Volume growth from premium segment & exports

TVSL has witnessed good volume growth in executive and premium segment as compared to entry level models like moped. With the new launches like NTORQ gaining better than expected acceptance and exports outpacing the domestic sales, volume outlook remains strong.

Improving product mix to aid margins

With higher growth expected from the scooter and export segment, we expect realizations to improve consistently. TVSL has taken constant price hikes to negate the impact of increase in raw material cost. With the concern on increasing raw material price fading out, we believe TVSL is in better position to improve its margin trajectory as compared to other competitors. With major launches behind it, we believe higher margin products proportion will rise and will aid margins.

Valuation

With higher than the industry volume outlook and upward trend in margin profile, TVSL remains our preferred bet in the 2W space. Pricing power depicted in H1FY19 reaffirms our faith in the business model of TVSL. Focus on premium bikes and scooter segment for both – domestic and exports will keep TVSL out of pricing war. We have marginally revised our operating numbers and considered higher tax rate trajectory guided by the management. Short term macro factors can weigh down on valuations, however, we feel that strong operating profile will ensure that TVSL valuations on a longer horizon will be at a significant premium to peers. We reiterate our Accumulate recommendation with a target price of ₹ 568.

Q2FY19 Result (₹ Mn)

Particulars	Q2FY19	Q2FY18	YoY (%)	Q1FY19	QoQ (%)
Revenue	49,935	40,524	23.2	41,537	20.2
Total Expense	45,653	37,021	23.3	38,472	18.7
EBITDA	4,282	3,503	22.2	3,065	39.7
Depreciation	1,016	836	21.5	933	8.8
EBIT	3,266	2,667	22.4	2,131	53.2
Other Income	7	456	(98.4)	173	(95.7)
Interest	212	155	36.7	180	17.4
EBT	3,062	2,968	22.4	2,124	44.1
Tax	949	836	13.4	658	44.1
RPAT	2,113	2,132	(0.9)	1,466	44.1
APAT	2,113	2,132	(0.9)	1,466	44.1
			(bps)		(bps)
Gross Margin (%)	24.2	26.6	(240)	23.8	40
EBITDA Margin (%)	8.6	8.6	(7)	7.4	120
NPM (%)	4.2	5.3	(103)	3.5	70
Tax Rate (%)	31.0	28.2	280	31.0	0
EBIT Margin (%)	6.5	6.6	(4)	5.1	141

CMP	₹ 520
Target / Upside	₹ 568 / 9%
BSE Sensex	33,847
NSE Nifty	10,147

Scrip Details

Equity / FV	₹ 475mn / ₹ 1
Market Cap	₹ 247bn
	US\$ 3bn
52-week High/Low	₹ 794/₹ 489
Avg. Volume (no)	1,771,650
NSE Symbol	TVSMOTOR
Bloomberg Code	TVSL IN

Shareholding Pattern Sep'18(%)

Promoters	57.4
MF/Banks/FIs	11.1
FII's	20.2
Public / Others	11.3

Valuation (x)

	FY18A	FY19E	FY20E
P/E	37.3	31.9	25.6
EV/EBITDA	22.8	17.4	14.4
ROE (%)	25.1	24.3	24.8
RoACE (%)	(5.1)	(7.6)	(8.0)

Estimates (₹ mn)

	FY18A	FY19E	FY20E
Revenue	151,297	181,556	210,605
EBITDA	11,292	14,841	17,788
PAT	6,626	7,745	9,646
EPS (₹)	13.9	16.3	20.3

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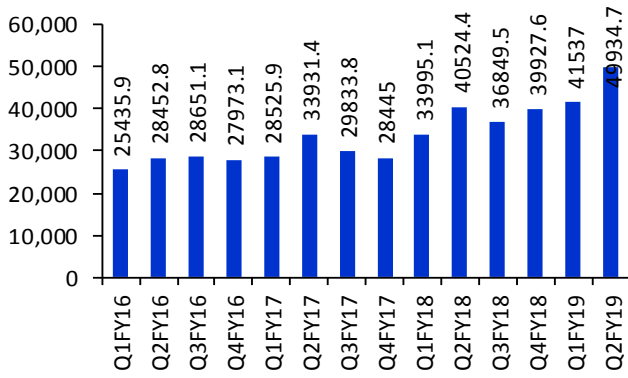
Exhibit 1: Volume segmentation

Category	Q2FY19	Q2FY18	Y-o-Y (%)	Q1FY19	Q-o-Q (%)	H1FY19	H1FY18	Y-o-Y (%)
Scooters	388,234	328,333	18.2	287,887	34.9	676,121	585,905	15.4
Motorcycles	419,666	365,277	14.9	387,240	8.4	806,906	695,327	16.0
Three Wheeler	39,746	25,248	57.4	35,520	11.9	75,266	42,285	78.0
Mopeds	240,000	230,000	4.3	218,000	10.1	459,000	427,000	7.5
Domestic	888,184	801,326	10.8	738,660	20.2	1,627,844	1,477,758	10.2
Exports	199,462	147,532	35.2	189,987	5.0	389,449	272,759	42.8
Total	1,087,646	948,858	14.6	928,647	17.1	2,017,293	1,750,517	15.2

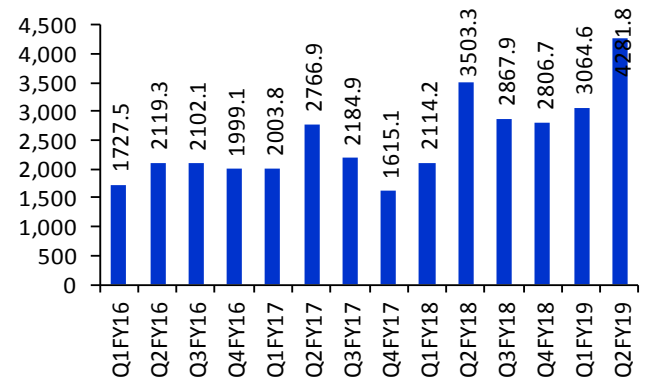
Source: DART, Company

Concall Key Takeaways

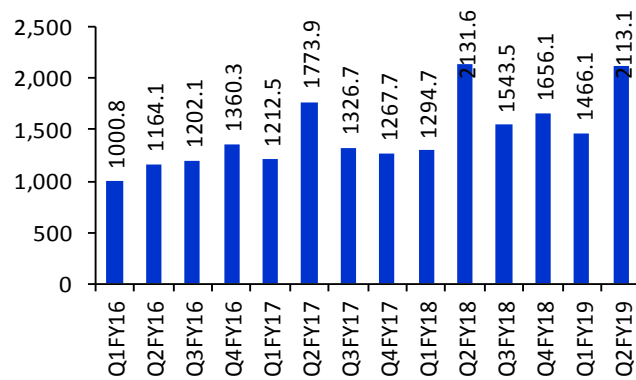
- TVSL took price hike of ~0.6% during Q2FY19 over and above the previous hike of ~0.5% in Q1FY19.
- Festival season for TVSL has been moderate.
- Impact of increase in upfront cost is not significant. Generally, more than 75% of festive season sales comes after Dussehra.
- TVSL management expects to perform better than the industry. The management expects the industry to grow in lower double digits in 2HFY19,
- Stability of oil prices and currency in the targeted export regions such as Africa is aiding to the exports. TVSL management expects to outpace the industry growth rate for export.
- Other income was affected due to reclassification according to the Ind AS where interest income from contracts with the customers are to be included in revenue from operations.
- TVSL management has upped the capex guidance by ₹ 1bn to ₹ 8bn for FY19.
- TVS credit clocked PBT and PAT for 1HFY19 was at ~₹ 880mn and ~₹ 510 mn. TVSL has 85% stake in TVS credit. It caters to ~50% of retail finance of the total credit for TVSL (total retail finance - ~45%).
- No concerns on liquidity with regards to the NBFC for TVSL at the moment.

Exhibit 2: Net Sales (₹ in Mn)


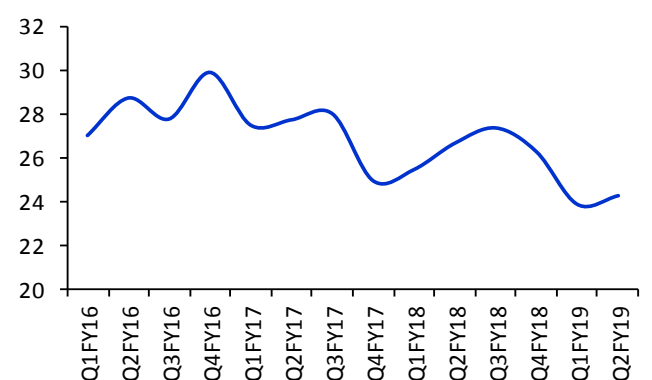
Source: DART, Company

Exhibit 3: EBITDA (₹ in Mn)


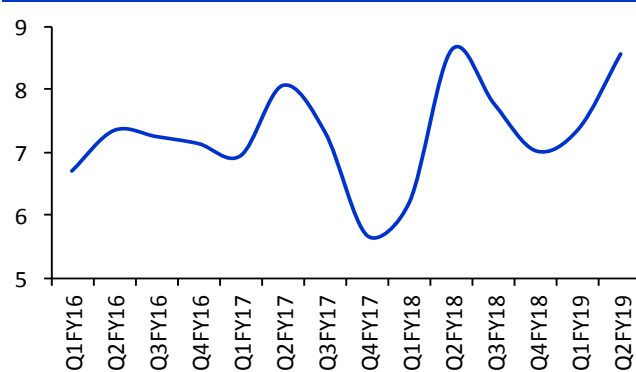
Source: DART, Company

Exhibit 4: Net profit (₹ in Mn)


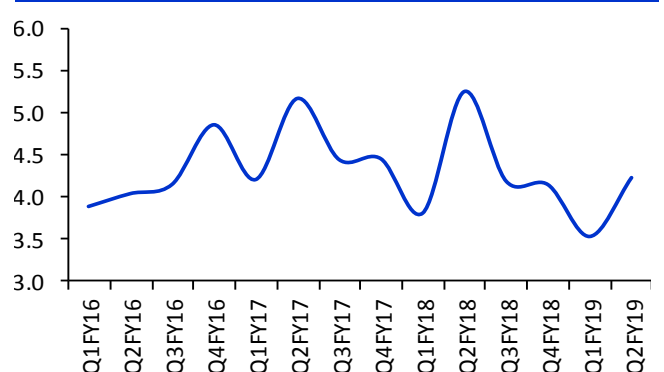
Source: DART, Company

Exhibit 5: Gross margin (%)


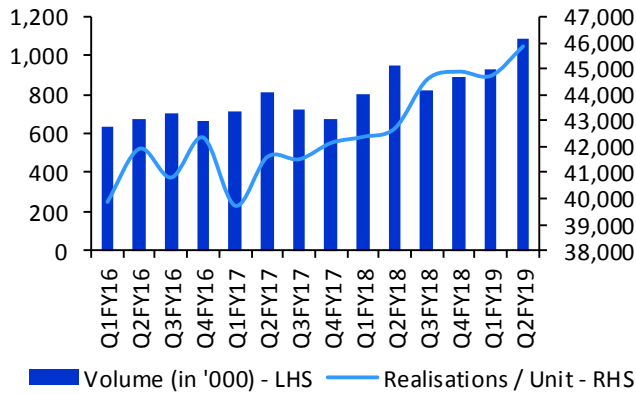
Source: DART, Company

Exhibit 6: OPM (%)


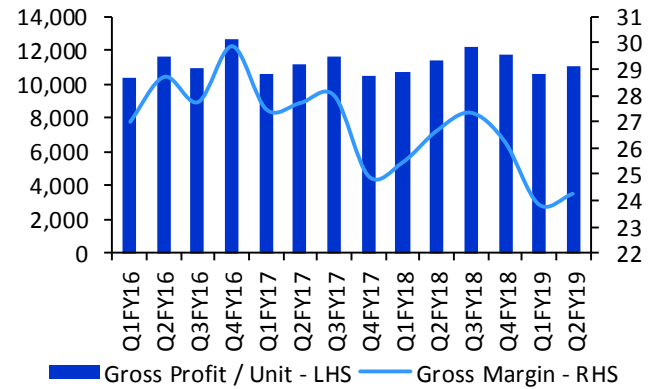
Source: DART, Company

Exhibit 7: NPM (%)


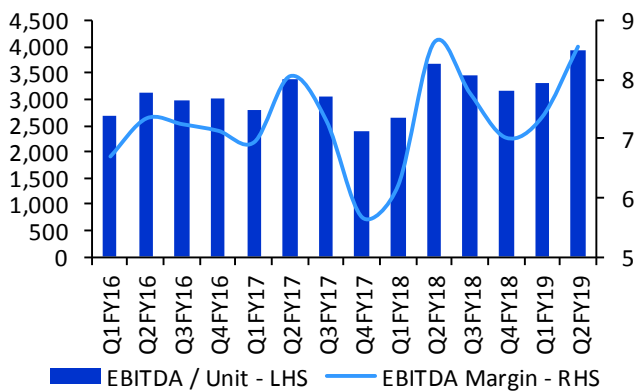
Source: DART, Company

Exhibit 8: Volumes and Realisations


Source: DART, Company

Exhibit 9: Gross Spread and Gross Margin


Source: DART, Company

Exhibit 10: EBITDA Spread and EBITDA Margin


Source: DART, Company

Profit and Loss Account

(₹ Mn)	FY17A	FY18A	FY19E	FY20E
Revenue	121,353	151,297	181,556	210,605
Total Expense	112,782	140,005	166,715	192,817
COGS	88,534	111,330	132,774	154,018
Employees Cost	7,456	8,680	9,548	10,503
Other expenses	16,792	19,995	24,393	28,296
EBIDTA	8,571	11,292	14,841	17,788
Depreciation	2,878	3,387	3,726	4,099
EBIT	5,693	7,905	11,115	13,690
Interest	440	566	550	510
Other Income	1,734	1,448	500	600
Exc. / E.O. items	0	0	0	0
EBT	6,987	8,786	11,065	13,780
Tax	1,406	2,161	3,319	4,134
RPAT	5,581	6,626	7,745	9,646
Minority Interest	0	0	0	0
Profit/Loss share of associates	0	0	0	0
APAT	5,581	6,626	7,745	9,646

Balance Sheet

(₹ Mn)	FY17A	FY18A	FY19E	FY20E
Sources of Funds				
Equity Capital	475	475	475	475
Minority Interest	0	0	0	0
Reserves & Surplus	23,608	28,329	34,407	42,385
Net Worth	24,083	28,804	34,882	42,860
Total Debt	10,851	10,370	10,577	10,789
Net Deferred Tax Liability	1,257	1,482	1,630	1,793
Total Capital Employed	36,192	40,656	47,089	55,442

Applications of Funds

Net Block	19,839	23,719	24,993	25,894
CWIP	623	1,311	1,000	1,500
Investments	16,145	21,188	23,731	27,291
Current Assets, Loans & Advances	22,441	25,576	32,160	39,642
Inventories	9,670	9,644	14,922	17,310
Receivables	7,238	9,684	10,943	12,694
Cash and Bank Balances	86	110	(458)	2,211
Loans and Advances	5,447	6,139	6,752	7,428
Other Current Assets	0	0	0	0
Less: Current Liabilities & Provisions	22,855	31,139	34,795	38,885
Payables	18,594	25,180	30,342	35,197
Other Current Liabilities	4,261	5,959	4,453	3,688
Net Current Assets	(414)	(5,563)	(2,635)	757
Total Assets	36,192	40,656	47,089	55,442

E – Estimates

Important Ratios

Particulars	FY17A	FY18A	FY19E	FY20E
(A) Margins (%)				
Gross Profit Margin	27.0	26.4	26.9	26.9
EBIDTA Margin	7.1	7.5	8.2	8.4
EBIT Margin	4.7	5.2	6.1	6.5
Tax rate	20.1	24.6	30.0	30.0
Net Profit Margin	4.6	4.4	4.3	4.6
(B) As Percentage of Net Sales (%)				
COGS	73.0	73.6	73.1	73.1
Employee	6.1	5.7	5.3	5.0
Other	13.8	13.2	13.4	13.4
(C) Measure of Financial Status				
Gross Debt / Equity	0.5	0.4	0.3	0.3
Interest Coverage	13.0	14.0	20.2	26.8
Inventory days	29	23	30	30
Debtors days	22	23	22	22
Average Cost of Debt	4.8	5.3	5.3	4.8
Payable days	56	61	61	61
Working Capital days	(1)	(13)	(5)	1
FA T/O	6.1	6.4	7.3	8.1
(D) Measures of Investment				
AEPS (₹)	11.7	13.9	16.3	20.3
CEPS (₹)	17.8	21.1	24.1	28.9
DPS (₹)	2.5	3.3	3.0	3.0
Dividend Payout (%)	21.3	23.7	18.4	14.8
BVPS (₹)	50.7	60.6	73.4	90.2
RoANW (%)	25.6	25.1	24.3	24.8
RoACE (%)	(3.5)	(5.1)	(7.6)	(8.0)
RoAIC (%)	17.7	20.6	25.2	27.2
(E) Valuation Ratios				
CMP (₹)	520	520	520	520
P/E	44.3	37.3	31.9	25.6
Mcap (₹ Mn)	247,045	247,045	247,045	247,045
MCap/ Sales	2.0	1.6	1.4	1.2
EV	257,810	257,305	258,080	255,623
EV/Sales	2.1	1.7	1.4	1.2
EV/EBITDA	30.1	22.8	17.4	14.4
P/BV	10.3	8.6	7.1	5.8
Dividend Yield (%)	0.5	0.6	0.6	0.6
(F) Growth Rate (%)				
Revenue	9.3	24.7	20.0	16.0
EBITDA	5.8	31.8	31.4	19.9
EBIT	(0.8)	38.9	40.6	23.2
PBT	11.1	25.8	25.9	24.5
APAT	14.1	18.7	16.9	24.5
EPS	14.1	18.7	16.9	24.5

Cash Flow

(₹ Mn)	FY17A	FY18A	FY19E	FY20E
CFO	7,239	12,516	8,513	13,694
CFI	(7,481)	(10,856)	(7,231)	(9,060)
CFF	(727)	(747)	(2,010)	(1,966)
FCFF	1,382	4,587	3,824	8,194
Opening Cash	327	86	110	(458)
Closing Cash	86	110	(458)	2,211

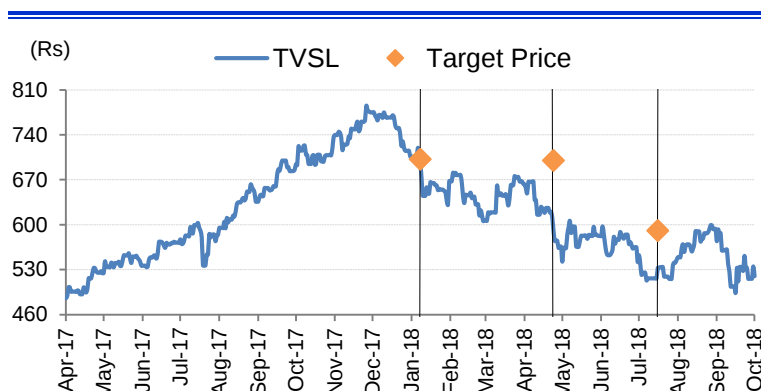
E – Estimates

DART RATING MATRIX

Total Return Expectation (12 Months)

Buy	> 20%
Accumulate	10 to 20%
Reduce	0 to 10%
Sell	< 0%

Rating and Target Price History



Month	Rating	TP (₹)	Price (₹) *
Jan-18	Reduce	702	697
May-18	Accumulate	700	590
Aug-18	Accumulate	591	533

*Price as on recommendation date

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