

Stock Update

Strong operating performance to continue

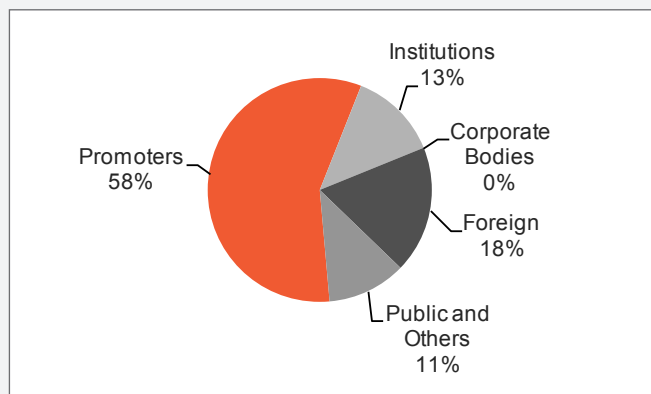
TVS Motors

Reco: Buy | CMP: Rs536

Company details

Price target:	Rs615
Market cap:	Rs25,467 cr
52-week high/low:	Rs795/479
NSE volume: (No of shares)	15.6 lakh
BSE code:	532343
NSE code:	TVSMOTOR
Sharekhan code:	TVSMOTOR
Free float: (No of shares)	20.2 cr

Shareholding pattern



Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	-13.0	-8.6	-22.7	-24.1
Relative to Sensex	-6.1	-2.4	-22.6	-28.8

Key points

- ♦ **Operationally strong quarter; Results ahead of estimates:** TVS Motor (TVSM) reported an impressive operating performance for Q2FY2019 with numbers coming in ahead of ours as well as street estimates. Revenue at Rs. 4,993 crore grew by 23% on account of strong 15% volume growth. Good response for the new launches in the recent past and improved demand in the exports market, drove sales growth. Realisation per vehicle grew by 7% on account of a favourable product mix and price hikes taken by the company. Operating margin at 8.6% came in as a positive surprise with a 90 BPS sequential expansion. Margin came in ahead of our expectations of 7%. Operating leverage and better pricing power led to better-than-anticipated margin. Other income declined steeply by 98% y-o-y, following a change in accounting policies, which necessitates interest income on advance from dealers and customers to be booked an operational income. Net profit at Rs. 211 crore came in flat on a y-o-y basis, ahead of our estimates of Rs. 184 crore.
- ♦ **2W industry to continue double-digit growth in H2FY2019; TVSM to continue outpacing the industry:** Rural incomes have been strong given the third consecutive year of normal monsoon and increased MSPs. While higher insurance costs temporarily impacted the demand in September and October beginning, the industry is witnessing pick up and expects growth to be strong in the latter part of October 2018. TVSM expects Diwali and Dhanteras (which accounts for 70% of festive demand) to be strong and expects double-digit growth to sustain in H2FY2019. With the company's new launches, which include Ntorq (125cc scooter), Apache RTR 1604V (premium motorcycle), Radeon (entry motorcycle) and Jupiter Grand (variant of Jupiter), receiving a healthy response, TVSM is poised to continue outpacing industry growth. We expect volumes of TVSM to grow by 13% in H2FY2019 as against expected industry growth of 8-10%.
- ♦ **Cost-control measures, operating leverage and better pricing power to result in a steady margin expansion:** OPM of TVSM expanded by ~50 BPS y-o-y to 8.1% for 1HFY2019. Benefits of operating leverage (due to strong double-digit volume growth) coupled with stringent cost-control measures, which include value engineering and improving operational efficiency, would aid margin expansion. Further, TVSM's brand image has strengthened given the strong response to recent launches. Strong

brand image gives better pricing power and is a key lever for margin expansion. The trend of margin expansion is estimated to continue and we expect TVSM's margins to improve by 80 BPS in FY2019 and FY2020.

- ♦ **Outlook: Earnings growth to be the fastest in 2W space:** TVSM's recent launches in segments (commuter bike Radeon and Ntorq 125 scooter), where it has relatively less presence, have witnessed huge success. TVSM is likely to outpace the industry and continue gaining market share. Further, margin expansion on account of operating leverage and cost control are likely to result in strong double-digit earnings growth for the company in H2FY2019. TVSM's

earnings growth of 19% in H2FY2019 would be the fastest in the 2W space.

- ♦ **Valuation: Cut estimates on higher competitive intensity and volume moderation in the near term; Maintain Buy with a revised PT of Rs. 615:** The 2W industry has been witnessing increased competitive intensity over the past three to four months, which is likely to translate into higher marketing expenses for TVSM. Further, the steep increase in insurance cost would lead to moderation in volume growth in the near term. We have reduced our FY2019 and FY2020 estimates by 12% and 10%, respectively. We retain our Buy rating on the stock with a revised PT of Rs. 615 (earlier PT of Rs. 670).

Results

Particulars	Rs cr				
	Q2FY19	Q2FY18	YoY %	Q1FY19	QoQ %
Total Income	4993.5	4064.7	22.8	4168.5	19.8
Adj. EBITDA	428.2	362.6	18.1	321.2	33.3
EBIDTA Margin (%)	8.6	8.9	(30) BPS	7.7	90 BPS
Depreciation	101.6	83.6	21.5	93.3	8.9
Interest	21.2	15.5	36.7	18.0	17.4
Other Income	0.7	33.3	-97.8	2.6	-71.2
PBT	306.2	296.8	3.2	212.4	44.1
Tax	94.9	83.6	13.4	65.8	44.1
Adj PAT	211.3	213.2	-0.9	146.6	44.1
EPS (Rs.)	4.4	4.5	-0.9	3.1	44.1

Valuations

Particulars	Rs cr				
	FY16	FY17	FY18	FY19E	FY20E
Revenues (Rs. cr)	11243.9	12135.3	15129.7	18259.2	22007.3
Growth (%)	11.7%	7.9%	24.7%	20.7%	20.5%
EBIDTA (Rs. cr)	756.4	857.1	1129.2	1519.3	2010.8
OPM (%)	6.7%	7.1%	7.5%	8.3%	9.1%
PAT (Rs. cr)	437.8	558.1	650.3	737.8	1070.1
Growth (%)	22.8%	27.5%	16.5%	13.5%	45.0%
FD EPS (Rs.)	9.2	11.7	13.7	15.5	22.5
P/E (x)	58.2	45.6	39.2	34.5	23.8
P/B (x)	13.0	10.6	8.8	7.6	6.3
EV/EBIDTA (x)	33.5	29.7	22.4	16.8	12.4
RoE (%)	22.4%	23.2%	22.6%	21.9%	26.4%
RoCE (%)	21.3%	20.2%	22.4%	25.3%	30.8%

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