TVS Motors

Accumulate

Result Update

In line performance; Maintain Accumulate, our preferred pick in 2W

TVS Motor (TVSL) reported a topline growth of 26.6% YoY, supported by a 19.8% YoY volume growth. TVSL's volume was higher than the industry's, driven by new product launches and an aggressive distribution expansion. The volume growth was largely led by 3-wheelers, scooters, and exports, which rose 31.7%, 46.9% and 25.8%, respectively. Margin profile was marginally better than estimated. This was due to the price hikes and improvement in product mix. We expect margins to sustain / improve from these levels. Improvement in product mix, coupled with operational efficiency, will support / expand margin profile as witnessed in the current quarter results. We expect TVSL volume growth to remain in the mid-teens and to continue to outperform the industry. This is likely to be driven by the strong portfolio of products across segments. We retain Accumulate, with a target price of ₹ 599, based on 25x FY2021 earnings.

Volume growth from premium segment and exports

TVSL's volume growth in the executive and premium segment was better than in the entry level products, such as moped. With the new launches, such as NTORQ, receiving better-than-expected acceptance and exports outpacing the domestic sales, volume outlook remains strong. NTORQ's cumulative sales on a YTD basis was 177,890 units (162,276 units in domestic market), 17% of TVSL's total scooter sales units and a market share of 3.2%. Given this, the market share of TVSL YTD rose from 16.23% last year, to 18.45%, while the export market share grew 18.47%, as compared to 17.14% on a YTD.

Improving product mix to aid margins

As higher growth is expected from the scooter and export segment, we expect realizations to improve consistently. TVSL has taken constant price hikes to negate the impact of an increase in raw material cost. TVSL increased prices by nearly ₹ 300 per unit across major models in Q4FY19. As concerns about rising raw material prices fade, we believe TVSL is better positioned to improve its margin trajectory, as compared to other competitors. As major launches are almost over, we believe proportion of higher margin products will rise and aid margins.

Q3FY19 Result (₹ Mn)

Particulars	Q3FY19	Q3FY18	YoY (%)	Q2FY19	QoQ (%)
Revenue	46,640	36,850	26.6	49,935	(6.6)
Total Expense	42,883	33,982	26.2	45,653	(6.1)
EBITDA	3,757	2,868	31.0	4,282	(12.3)
Depreciation	1,012	824	22.8	1,016	(0.4)
EBIT	2,745	2,044	34.3	3,266	(16.0)
Other Income	7	182	(96.4)	7	(12.2)
Interest	167	122	37.1	212	(21.1)
EBT	2,584	2,104	34.3	3,062	(15.6)
Tax	801	560	42.9	949	(15.6)
RPAT	1,784	1,543	15.6	2,113	(15.6)
APAT	1,784	1,543	15.6	2,113	(15.6)
			(bps)		(bps)
Gross Margin (%)	24.2	27.3	(311)	24.2	(1)
EBITDA Margin (%)	8.1	7.8	27	8.6	(52)
NPM (%)	3.8	4.2	(36)	4.2	(41)
Tax Rate (%)	31.0	26.6	435	31.0	0
EBIT Margin (%)	5.9	5.5	34	6.5	(65)

CMP	₹ 554
Target / Upside	₹ 599 / 8%
BSE Sensex	36,445
NSE Nifty	10,907

Scrip Details

Equity / FV	₹ 475mn / ₹ 1
Market Cap	₹ 263bn
	US$ 4bn
52-week High/Low	₹ 730/₹ 489
Avg. Volume (no)	1,538,310
NSE Symbol	TVSMOTOR
Bloomberg Code	TVSL IN

Shareholding Pattern Dec'18(%)

Promoters	57.4
MF/Banks/FIs	15.1
FIIs	16.2
Public / Others	11.3

Valuation (x)

	FY19E	FY20E	FY21E
P/E	36.6	27.7	23.1
EV/EBITDA	18.5	14.9	12.6
ROE (%)	22.8	25.0	24.8
RoACE (%)	18.1	20.2	20.8

Estimates (₹ mn)

	FY19E	FY20E	FY21E
Revenue	183,069	216,021	248,424
EBITDA	14,790	18,412	21,503
PAT	7,200	9,506	11,385
EPS (₹)	15.2	20.0	24.0

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Valuation

With higher-than-the industry volume outlook and stable margin profile, TVSL remains our preferred pick in the 2W space. Revenue growth more than volume growth, with increase in realizations by 5.7% YoY was largely due to a favorable product mix. This also reaffirms our faith in the business model of TVSL. Focus on premium bikes and scooter segment for both, domestic and exports, will help TVSL keep out of the pricing war. The slowdown witnessed in the scooter segment at the industry level is a short-term disruption, and we expect this to improve driven by new product launches and stabilization in ownership cost. Short term macro factors can weigh down on valuations. However, the higher valuations affirm the business model, which focuses rightly on its product pipeline and segments. We rollover valuations to FY2021. Retain accumulate with a target price of ₹ 599.

Exhibit 1: Volume segmentation

Category	Q3FY19	Q3FY18	YoY	Q2FY19	QoQ	YTD FY19	YTD FY18	YoY
Scooters	3,54,283	2,68,947	31.7	3,88,234	(8.7)	10,30,404	,54,852	20.5
Motorcycles	3,77,501	3,13,892	20.3	4,19,666	(10.0)	11,84,407	10,09,219	17.4
Three-Wheeler	39,629	26,968	46.9	39,746	(0.3)	1,14,895	69,253	65.9
Domestic	8,13,123	6,85,823	18.6	8,88,912	(8.5)	24,40,322	21,63,756	12.8
Exports	1,76,664	1,40,462	25.8	1,99,462	(11.4)	5,66,113	4,13,221	37.0
Total	9,89,787	8,26,285	19.8	10,88,374	(9.1)	30,06,435	25,76,977	16.7

Source: DART, Company

Exhibit 2: Unit Analysis

PARTICULARS	Q3FY19	Q3FY18	Y-o-Y (%)	Q2FY19	Q-o-Q (%)	YTD FY19	YTD FY18	Y-o-Y (%)
Realization / Unit	47,121	44,598	5.7	45,882	2.7	45,939	43,217	6.3
Gross Profit / Unit	11,409	12,184	(6.4)	11,113	2.7	11,070	11,446	(3.3)
EIBTDA / Unit	3,796	3,471	9.4	3,934	-3.5	3,693	3,293	12.2

Source: DART, Company

Exhibit 3: Market Share

	Domestic		Exports		Total	
	YTD FY18	YTD FY19	YTD FY18	YTD FY19	YTD FY18	YTD FY19
3-wheeler PC	3.05	3.02	20.92	24.04	10.93	13.48
2-wheeler Scooter	16.23	18.45	12.26	15.07	16.05	18.26
2-wheeler Motorcycle	7.41	7.43	17.29	18.40	9.02	9.32
2-wheeler Total*	14.27	14.69	17.14	18.47	11.66	12.13

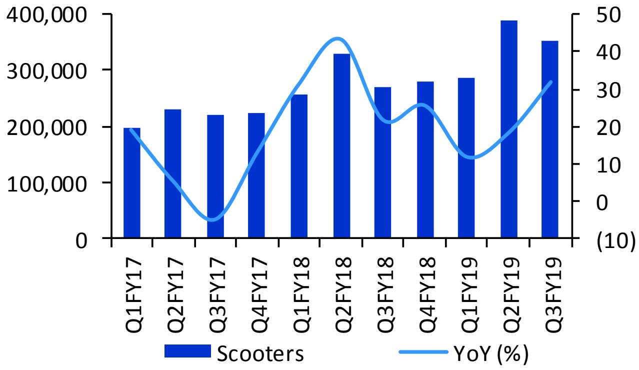
*Source: DART, SIAM *above data includes moped in 2-wheeler total only*

Concall Key Takeaways

- TVSL took price hike of ~0.6% in Q3FY19 taking YTD price hike to ~0.9%. This increase relates largely to price hike taken on account of impact of material cost.
- TVSL took another marginal price hike of ₹ 300 per unit for select models, like Apache and Radeon, in the start of Q4FY19.
- Management expects scooters to outperform growth rates in the segment. Current slowdown in the scooter sales segment is largely due to price competition and other disruptions.
- Export USD to INR realizations for TVSL during Q3FY19 were at ~71.5.
- TVSL has already started supplying most of the models with CBS and ABS, and Apache is expected to be available with ABS version shortly.
- TVSL has guided for capex of ₹ 7bn for FY19. TVSL has already done capex of ~₹ 5bn on YTD basis.
- TVSL currently exports to ~64 countries. Approximately 12-18 months are required to penetrate a new geography.
- Stability of oil prices and currency in the targeted export regions is aiding exports growth. TVSL management expects to outpace the industry growth rate with regards to export.
- Other expenditure is not comparable with previous year, due to netting of some of the charges to revenue.
- TVS Credit caters to ~50% of retail finance of the total credit for TVSL (total retail finance at ~52% as compared to 45% in Q2FY19).
- TVSL management expects Radeon to do significantly better moving ahead. It is expected to clock close to 20,000 units in Jan'19 as compared to 11,882 units in Dec'19. On YTD basis, Radeon sales were at 50,407 units.
- TVSL management expects to be ready with BS VI complaint variants much before the regulatory requirements.
- TVSL is also expected to launch new models prior to implementation of BS VI norms.
- TVSL management declined to comment on issue of royalty payment to the promoter group.

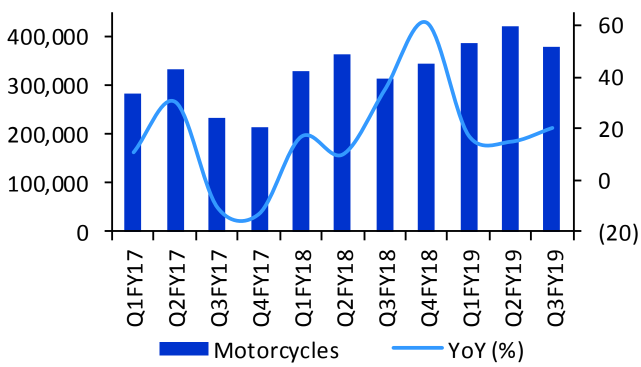
Volume Analysis

Exhibit 4: Scooters



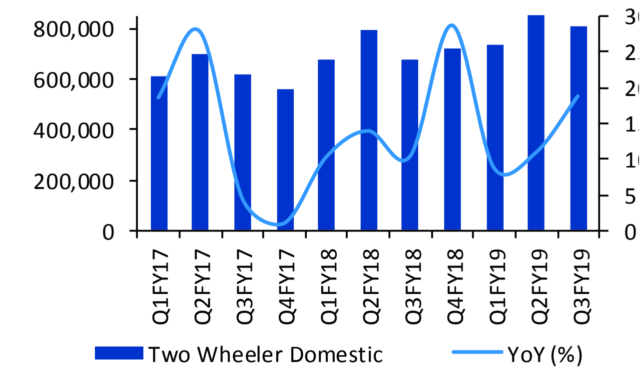
Source: DART, Company

Exhibit 5: Motorcycles



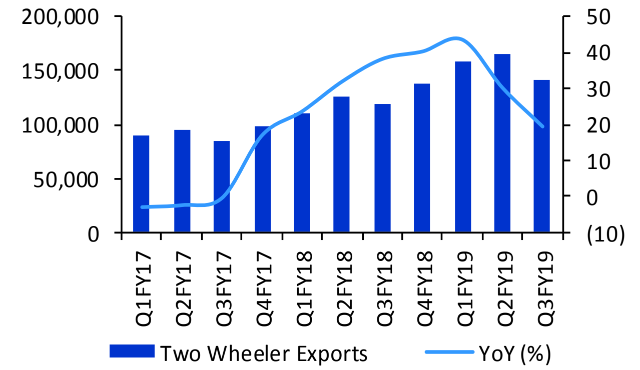
Source: DART, Company

Exhibit 6: Two Wheelers - Domestic



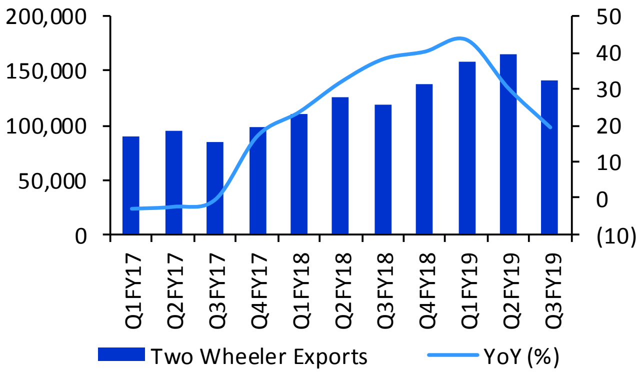
Source: DART, Company

Exhibit 7: Two Wheelers - Exports



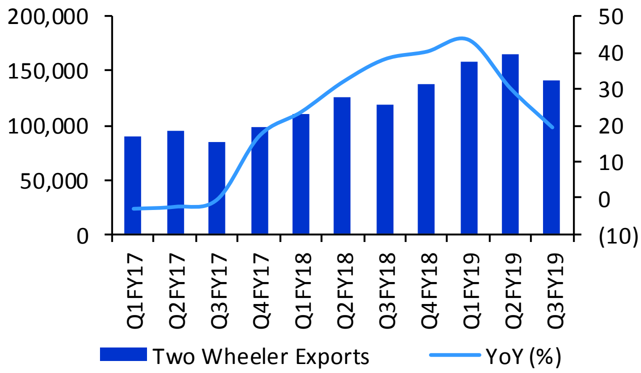
Source: DART, Company

Exhibit 8: Total Two Wheelers



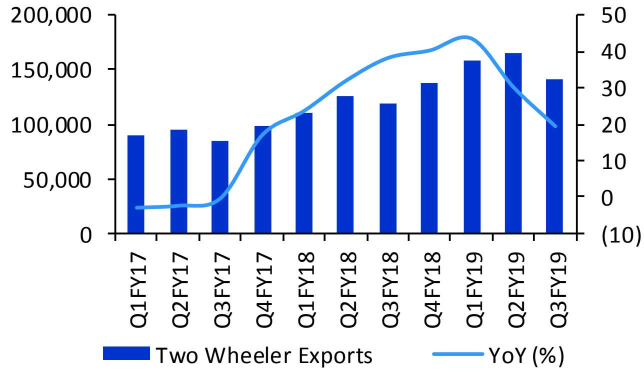
Source: DART, Company

Exhibit 9: Three Wheelers



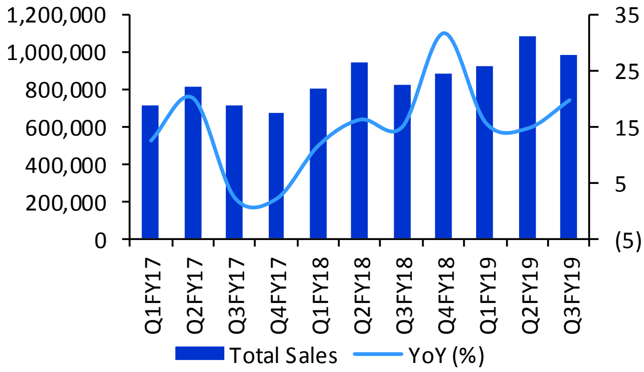
Source: DART, Company

Exhibit 10: Total Exports



Source: DART, Company

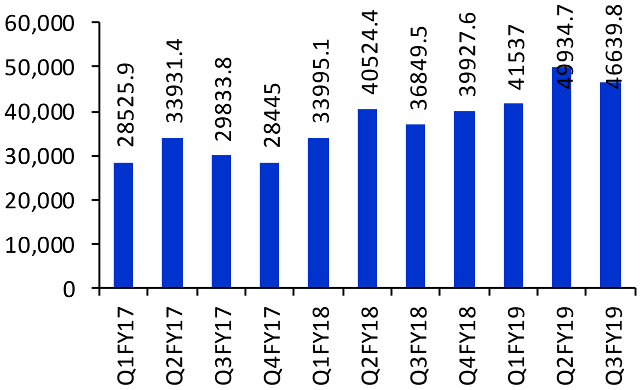
Exhibit 11: Total Sales



Source: DART, Company

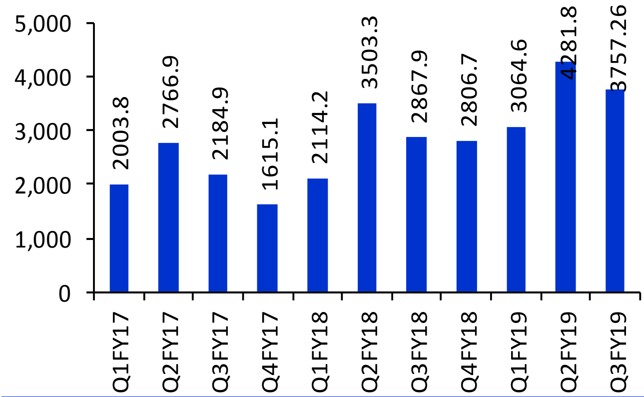
Financial Charts

Exhibit 12: Net Sales (₹ in Mn)



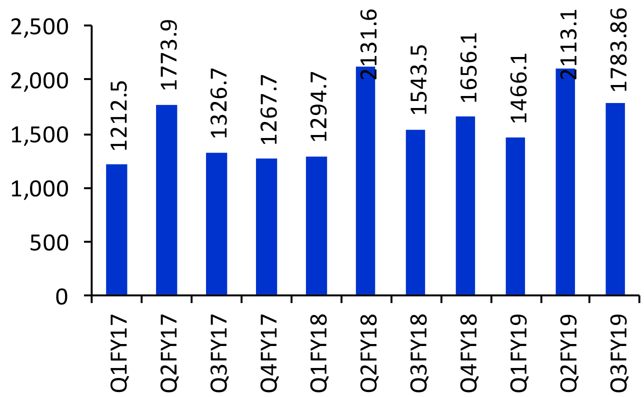
Source: DART, Company

Exhibit 13: EBITDA (₹ in Mn)



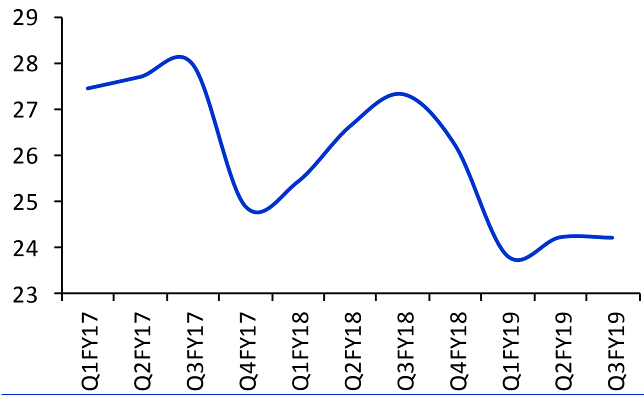
Source: DART, Company

Exhibit 14: Net profit (₹ in Mn)



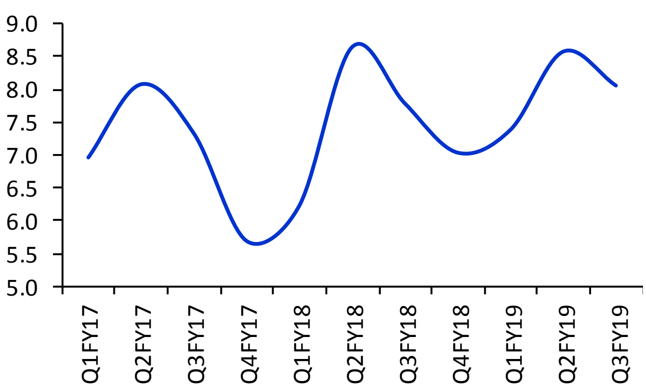
Source: DART, Company

Exhibit 15: Gross margin (%)



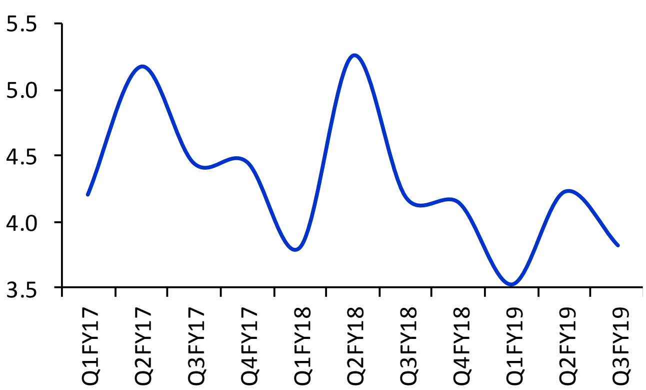
Source: DART, Company

Exhibit 16: OPM (%)



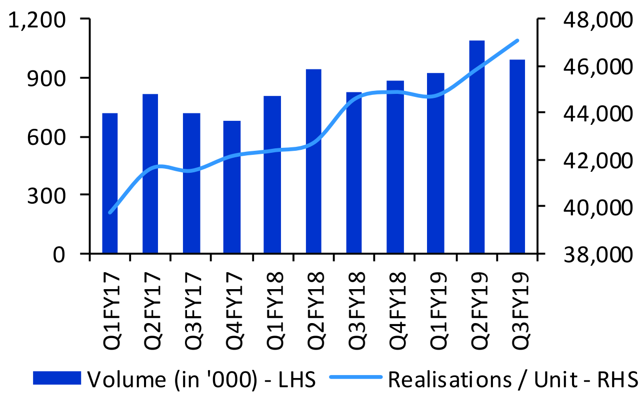
Source: DART, Company

Exhibit 17: NPM (%)



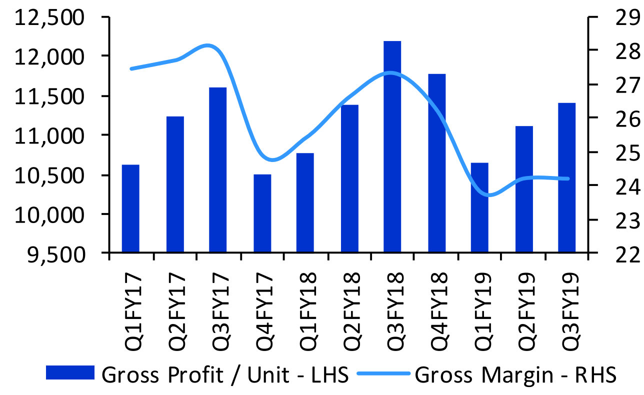
Source: DART, Company

Exhibit 18: Volumes and Realisations



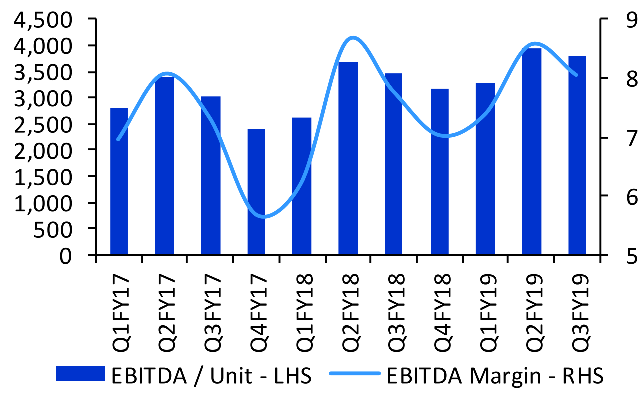
Source: DART, Company

Exhibit 19: Gross Spread and Gross Margin



Source: DART, Company

Exhibit 20: EBIDTA Spread and EBIDTA Margin



Source: DART, Company

Profit and Loss Account

(₹ Mn)	FY18A	FY19E	FY20E	FY21E
Revenue	**151,297**	**183,069**	**216,021**	**248,424**
Total Expense	**140,005**	**168,279**	**197,609**	**226,921**
COGS	111,330	134,738	158,317	182,064
Employees Cost	8,680	9,548	10,980	12,298
Other expenses	19,995	23,993	28,312	32,559
EBIDTA	**11,292**	**14,790**	**18,412**	**21,503**
Depreciation	3,387	3,895	4,285	4,713
EBIT	**7,905**	**10,894**	**14,127**	**16,790**
Interest	566	710	650	600
Other Income	1,448	250	300	310
Exc. / E.O. items	0	0	0	0
EBT	**8,786**	**10,434**	**13,777**	**16,500**
Tax	2,161	3,235	4,271	5,115
RPAT	6,626	7,200	9,506	11,385
Minority Interest	0	0	0	0
Profit/Loss share of associates	**0**	**0**	**0**	**0**
APAT	**6,626**	**7,200**	**9,506**	**11,385**

Balance Sheet

(₹ Mn)	FY18A	FY19E	FY20E	FY21E
Sources of Funds				
Equity Capital	475	475	475	475
Minority Interest	0	0	0	0
Reserves & Surplus	28,329	33,861	41,144	49,750
Net Worth	**28,804**	**34,337**	**41,620**	**50,225**
Total Debt	10,370	10,577	10,366	9,329
Net Deferred Tax Liability	1,482	1,704	1,874	2,062
Total Capital Employed	**40,656**	**46,618**	**53,859**	**61,616**
Applications of Funds				
Net Block	**23,719**	**26,823**	**28,538**	**28,825**
CWIP	1,311	1,000	1,500	1,600
Investments	21,188	23,731	27,291	31,384
Current Assets, Loans & Advances	**25,576**	**29,858**	**35,416**	**43,269**
Inventories	9,644	12,539	15,388	18,377
Receivables	9,684	10,533	12,429	14,974
Cash and Bank Balances	110	34	172	1,749
Loans and Advances	6,139	6,752	7,428	8,170
Other Current Assets	0	0	0	0
Less: Current Liabilities & Provisions	**31,139**	**34,795**	**38,885**	**43,462**
Payables	25,180	30,595	36,102	40,837
Other Current Liabilities	5,959	4,200	2,783	2,625
sub total				
Net Current Assets	(5,563)	(4,937)	(3,469)	(193)
Total Assets	**40,656**	**46,618**	**53,859**	**61,616**

E – Estimates

Important Ratios

Particulars	FY18A	FY19E	FY20E	FY21E
(A) Margins (%)				
Gross Profit Margin	26.4	26.4	26.7	26.7
EBIDTA Margin	7.5	8.1	8.5	8.7
EBIT Margin	5.2	6.0	6.5	6.8
Tax rate	24.6	31.0	31.0	31.0
Net Profit Margin	4.4	3.9	4.4	4.6
(B) As Percentage of Net Sales (%)				
COGS	73.6	73.6	73.3	73.3
Employee	5.7	5.2	5.1	5.0
Other	13.2	13.1	13.1	13.1
(C) Measure of Financial Status				
Gross Debt / Equity	0.4	0.3	0.2	0.2
Interest Coverage	14.0	15.3	21.7	28.0
Inventory days	23	25	26	27
Debtors days	23	21	21	22
Average Cost of Debt	5.3	6.8	6.2	6.1
Payable days	61	61	61	60
Working Capital days	(13)	(10)	(6)	0
FA T/O	6.4	6.8	7.6	8.6
(D) Measures of Investment				
AEPS (₹)	13.9	15.2	20.0	24.0
CEPS (₹)	21.1	23.4	29.0	33.9
DPS (₹)	3.3	3.0	4.0	5.0
Dividend Payout (%)	23.7	19.8	20.0	20.9
BVPS (₹)	60.6	72.3	87.6	105.7
RoANW (%)	25.1	22.8	25.0	24.8
RoACE (%)	18.7	18.1	20.2	20.8
RoAIC (%)	20.6	25.0	28.2	29.6
(E) Valuation Ratios				
CMP (₹)	554	554	554	554
P/E	39.7	36.6	27.7	23.1
Mcap (₹ Mn)	263,293	263,293	263,293	263,293
MCap/ Sales	1.7	1.4	1.2	1.1
EV	273,553	273,836	273,487	270,874
EV/Sales	1.8	1.5	1.3	1.1
EV/EBITDA	24.2	18.5	14.9	12.6
P/BV	9.1	7.7	6.3	5.2
Dividend Yield (%)	0.6	0.5	0.7	0.9
(F) Growth Rate (%)				
Revenue	24.7	21.0	18.0	15.0
EBITDA	31.8	31.0	24.5	16.8
EBIT	38.9	37.8	29.7	18.8
PBT	25.8	18.8	32.0	19.8
APAT	18.7	8.7	32.0	19.8
EPS	18.7	8.7	32.0	19.8

Cash Flow

(₹ Mn)	FY18A	FY19E	FY20E	FY21E
CFO	12,516	11,325	13,282	15,186
CFI	(10,856)	(9,231)	(10,060)	(9,194)
CFF	(747)	(2,170)	(3,085)	(4,416)
FCFF	4,587	4,636	6,782	10,086
Opening Cash	86	110	34	172
Closing Cash	110	34	172	1,749

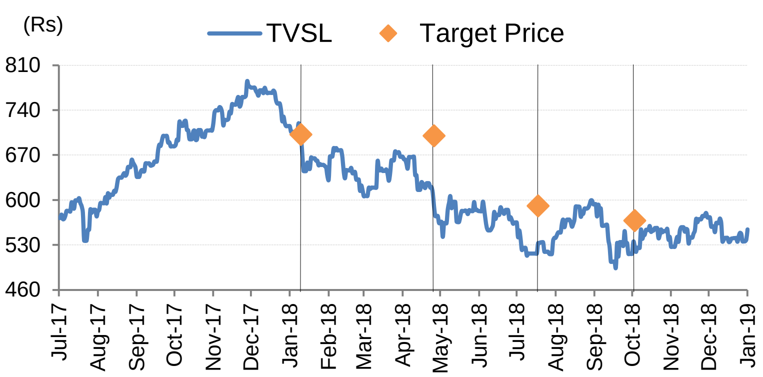
E – Estimates

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
Oct-18	Accumulate	568	528

*Price as on recommendation date

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