# Stock Update

**Zooming ahead**

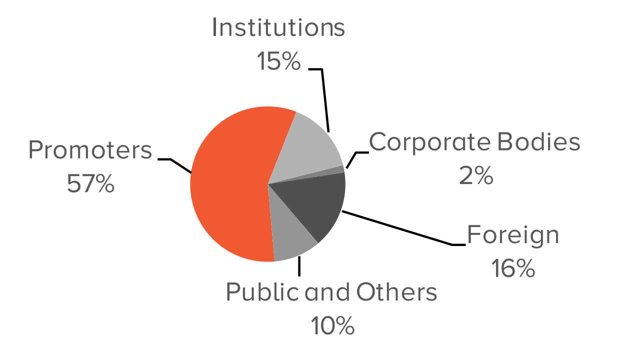
## TVS Motors

Reco: Buy | CMP: Rs554

### Company details

| | |
|---|---|
| Price target: | Rs650 |
| Market cap: | Rs26,313 cr |
| 52-week high/low: | Rs734 / 479 |
| NSE volume: (No of shares) | 16.7 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 | -6.0 | 4.7 | -4.3 | -24.3 |
| Relative to Sensex | -8.2 | -2.0 | -5.0 | -27.4 |

### Key points

- **Results marginally ahead of estimates across parameters:** TVS Motor Company (TVSM) has reported a strong set of numbers for Q3FY2019 across parameters. The revenues at Rs 4,664 crore is up sharply by 26% y-o-y aided by a strong 20% volumes growth. Market share gains on new product launches enabled robust volume growth. Realizations per vehicle are up 5% y-o-y on the back of a price hikes taken, favorable mix and better export realisation. OPM's at 8.1% are flat on a y-o-y basis and slightly ahead of our estimates of 7.9%. Operating leverage, better mix and price hikes offset the impact of high raw material prices. TVSM managed to sustain margins despite increased input costs and intense pricing pressures in 2W industry. The EBITDA at Rs 375 cr is up 25% y-o-y and slightly ahead of our estimates of Rs 363 cr. PAT grew 16% y-o-y to Rs 178 cr coming in slightly better than our estimates of Rs 172 cr.

- **Strong response to recent launches and healthy launch pipeline to enable TVSM to continue outpacing industry; exports on strong footing:** The recent launches of TVSM (Apache, Radeon in the motorcycles space and Ntorq in the scooters) have generated a sturdy demand and enabled it to gain market share. TVSM market share in motorcycle space has improved from 7.3% in FY2018 to 7.5% in 9MFY2019 while in scooter space has improved from 16.4% in FY2018 to 18.6% in 9MFY2019. With the continued success of recent launches and a healthy launch pipeline, the management is confident of outpacing the industry growth. Further, the export outlook continues to remain robust given the entry of TVSM in newer markets, stable oil prices and improving USD availability in key existing overseas markets. Cumulatively, we expect TVSM's volumes to grow 15% in FY2020, as against the expected industry growth of 8-9%.

- **Operating efficiencies and better pricing power to result in steady margin improvement:** TVSM's OPM have improved steadily from 7.1% in FY2017 to 7.5% in FY2018 to 8.1% in 9MFY2019. TVSM new launches in the recent past have enabled the company to create a strong brand equity. This is evident from its consistent market share gains in 2W space. TVSM market share in 2W industry (non-moped segment) has improved from 11.7% in FY2017 to 14% in 9MFY2019 with the volumes growing at ~25% CAGR during the period. TVSM has been able to generate operating efficiencies (better vendor negotiation, gradual price hikes and value addition and value engineering initiatives) on the back of strong volume growth. We expect the margin improvement trend to continue and have factored 100 BPS margins expansion in FY2020.

- **Outlook: Strong earnings momentum to sustain; TVSM preferred pick in our 2W tracking universe:** TVSM is expected to continue outpacing industry growth on back of new launches and success of recent products. Further, better pricing power and operating efficiencies will drive margin improvement. TVSM is poised to report strong 34% earnings CAGR over FY2019-2021 period making it the fastest growing 2W company. TVSM is our preferred pick in 2W space and is the sole Buy rated stock in our 2W tracking universe.

- **Valuation- Raise FY2020 estimates; maintain Buy with revised PT of Rs 650:** Given the better than anticipated margins in Q3FY2019 and strong product pipeline, we have raised our FY2020 estimates marginally by 3%. We have also introduced FY2021 estimates in this note. We retain Buy rating on the stock with a revised PT of Rs 650 (earlier PT of Rs 615).

**Results** Rs cr

| Particulars | Q3FY19 | Q3FY18 | %YoY | Q2FY19 | %QoQ |
|---|---|---|---|---|---|
| Total Income | 4664.0 | 3698.7 | 26.1 | 4993.5 | -6.6 |
| Adj EBIDTA | 375.7 | 300.5 | 25.0 | 428.2 | -12.2 |
| EBIDTA Margins (%) | 8.1 | 8.1 | - | 8.6 | (50) bps |
| Depreciation | 101.2 | 82.4 | 22.8 | 101.6 | -0.4 |
| Interest | 16.7 | 12.2 | 37.1 | 21.2 | -21.1 |
| Other Income | 0.7 | 4.4 | -85.4 | 0.7 | -12.2 |
| PBT | 258.5 | 210.4 | 22.9 | 306.2 | -15.6 |
| Tax | 80.1 | 56.0 | 42.9 | 94.9 | -15.6 |
| Adj PAT | 178.4 | 154.3 | 15.6 | 211.3 | -15.6 |
| EPS | 3.8 | 3.2 | 15.6 | 4.4 | -15.6 |

**Valuations** Rs cr

| Particulars | FY17 | FY18 | FY19E | FY20E | FY21E |
|---|---|---|---|---|---|
| Revenues (Rs cr) | 12135.3 | 15129.7 | 18544.2 | 22523.1 | 26027.7 |
| Growth (%) | 7.9 | 24.7 | 22.6 | 21.5 | 15.6 |
| EBIDTA (Rs cr) | 857.1 | 1129.2 | 1519.1 | 2067.2 | 2392.3 |
| OPM (%) | 7.1 | 7.5 | 8.2 | 9.2 | 9.2 |
| PAT (Rs cr) | 558.1 | 636.6 | 730.2 | 1099.5 | 1294.2 |
| Growth (%) | 27.5 | 14.1 | 14.7 | 50.6 | 17.7 |
| FD EPS (Rs) | 11.7 | 13.4 | 15.4 | 23.1 | 27.2 |
| P/E (x) | 47.2 | 41.3 | 36.0 | 23.9 | 20.3 |
| P/B (x) | 10.9 | 9.1 | 7.8 | 6.5 | 5.4 |
| EV/EBIDTA (x) | 30.7 | 23.2 | 17.3 | 12.5 | 10.7 |
| RoE (%) | 23.2 | 22.1 | 21.8 | 27.0 | 26.3 |
| RoCE (%) | 20.2 | 22.1 | 25.2 | 31.5 | 31.6 |

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