

January 22, 2019

## Q3FY19 Result Update

☑ Change in Estimates | ☑ Target | ■ Reco

### Change in Estimates

	Current		Previous	
	FY20E	FY21E	FY20E	FY21E
Rating	ACCUMULATE		ACCUMULATE	
Target Price	665		618	
Sales (Rs. m)	214,010	251,940	208,115	244,882
% Chng.			2.8	2.9
EBITDA (Rs. m)	19,674	24,027	19,060	23,757
% Chng.			3.2	1.1
EPS (Rs.)	24.5	30.9	24.7	31.8
% Chng.			(0.8)	(2.9)

### Key Financials

	FY18	FY19E	FY20E	FY21E
Sales (Rs. m)	151,297	181,292	214,010	251,940
EBITDA (Rs. m)	11,292	15,278	19,674	24,027
Margin (%)	7.5	8.4	9.2	9.5
PAT (Rs. m)	6,626	8,862	11,648	14,684
EPS (Rs.)	13.9	18.7	24.5	30.9
Gr. (%)	18.7	33.8	31.4	26.1
DPS (Rs.)	0.0	0.0	0.0	0.0
Yield (%)	-	-	-	-
RoE (%)	25.1	27.3	28.5	28.2
RoCE (%)	20.8	26.5	29.9	31.6
EV/Sales (x)	1.8	1.5	1.2	1.0
EV/EBITDA (x)	24.4	17.6	13.3	10.5
PE (x)	39.7	29.7	22.6	17.9
P/BV (x)	9.1	7.3	5.8	4.5

### Key Data

TVSM.BO | TVSL IN

52-W High / Low	Rs.734 / Rs.479	
Sensex / Nifty	36,445 / 10,923	
Market Cap	Rs.263bn/ \$ 3,689m	
Shares Outstanding	475m	
3M Avg. Daily Value	Rs.1570.24m	

### Shareholding Pattern (%)

Promoter's	57.40
Foreign	15.85
Domestic Institution	15.11
Public & Others	11.64
Promoter Pledge (Rs bn)	-

### Stock Performance (%)

	1M	6M	12M
Absolute	(3.3)	(1.9)	(22.5)
Relative	(5.1)	(1.8)	(23.9)

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## Good performance despite industry challenges

For Q3FY19, TVS motor's EBITDA margins stood at 8.1%, where revenues were higher 27% YoY on the back of strong volume growth of 20% YoY, despite the overall industry demand being tepid on account of higher insurance costs as well as the liquidity crisis. Management expects TVS to continue to outperform the industry with growth being driven by success of the new launches (Ntorq and Radeon) and filling up of gaps in its product portfolio. For achieving the earlier stated long-term target of double digit margins, we feel volume growth would be key as it would provide much needed operating leverage benefits to combat the incremental costs related to the implementation of BSVI norms. Despite the muted industry scenario, we expect TVS to continue to outperform the industry and build in overall volume growth of 14.7%/14.4% for FY20/21e respectively. We maintain "Accumulate" with a price target of Rs665, based upon a PE of 24x Sep21E. TVS currently trades at a PER of 29x FY19E EPS and 22x FY20E EPS.

- Revenue up 26% YoY; OPM at 8.1%:** For Q3FY19, TVS motor's EBITDA margins stood at 8.1% (rose 30bps YoY but dipped 50bps QoQ), against our expectations of 8.5%. TVS Motors' overall Q3FY19 revenues grew a robust 26.6% YoY to Rs46.6bn, ahead of PLe at Rs45.4bn, on the back of strong volume growth of 20% YoY (down 9% QoQ) and realisation improvement of 5.7% YoY (up 2.7% QoQ). Realisations were higher sequentially on account of better product mix, exchange gains and price hikes. Absolute EBITDA surged 31% YoY (down 12% QoQ) to Rs3.8bn. Net profit for the company was at Rs1.8bn, higher 16% YoY v/s PLe of Rs1.9bn. Owing to the commodity inflation (~1% impact on RM costs as % of sales) as well as customs duty rise on raw material imports (impacting to the tune of 0.5%), Q3FY19 gross margins contracted 310bps YoY (flat QoQ). Staff costs & Other expenses as a % of sales however, were lower 60bps YoY and 270bps YoY (freight costs now netted against revenue) respectively.
- Key con-call takeaways:** (1) While Q3 retails were slower affected by insurance cost rise as well as liquidity issue, management expects growth to recover in Q4. (2) The management expects scooter growth to come back and scooters to outgrow motorcycles again, where TVS Motors is expected to continue growing ahead of the industry (Ntorq run-rate to be ~25K/month). (3) Radeon is expected to reach ~25K units per month in Jan'19. (4) TVS has taken a price hike of ~0.6% in Q3FY19. In Jan'19, the company has taken an average price hike of Rs300/vehicle for certain products. YTDFY19 price rise is ~0.9% and the company is contemplating further price rise ahead on account of higher safety requirements. (5) With stable currency availability and oil prices in most export geographies, TVS expects momentum in exports to continue over FY19 and FY20. (6) Export revenues for the quarter stood at Rs10.6bn, forming ~23% of sales. (7) Capex guidance for FY19 is at Rs7bn (earlier Rs8bn), of which YTDFY19 capex spend is Rs5bn.

**Exhibit 1: Q3FY19 Result Overview (Rs m)**

Y/e March	Q3FY19	Q3FY18	YoY gr. (%)	Q2FY19	9MFY19	9MFY18	YoY gr. (%)
<b>Net Revenues</b>	<b>46,640</b>	<b>36,850</b>	<b>26.6</b>	<b>49,935</b>	<b>138,259</b>	<b>111,492</b>	<b>24.0</b>
Raw Materials	35,347	26,783	32.0	37,840	104,829	81,873	28.0
<i>% of Net Sales</i>	<i>75.8</i>	<i>72.7</i>		<i>75.8</i>	<i>75.8</i>	<i>73.4</i>	
Personnel	2,367	2,118	11.7	2,449	7,191	6,408	12.2
<i>% of Net Sales</i>	<i>5.1</i>	<i>5.7</i>		<i>4.9</i>	<i>5.2</i>	<i>5.7</i>	
Manufacturing & Other Exp	5,169	5,081	1.7	5,363	14,988	14,603	2.6
<i>% of Net Sales</i>	<i>11.1</i>	<i>13.8</i>		<i>10.7</i>	<i>10.8</i>	<i>13.1</i>	
Total Expenditure	42,883	33,982	26.2	45,653	127,008	102,884	23.4
<b>EBITDA</b>	<b>3,757</b>	<b>2,868</b>	<b>31.0</b>	<b>4,282</b>	<b>11,251</b>	<b>8,608</b>	<b>30.7</b>
<i>EBITDA Margin (%)</i>	<i>8.1</i>	<i>7.8</i>		<i>8.6</i>	<i>8.1</i>	<i>7.7</i>	
Depreciation	1,012	824	22.8	1,016	2,962	2,444	21.2
<b>EBIT</b>	<b>2,745</b>	<b>2,044</b>	<b>34.3</b>	<b>3,266</b>	<b>8,289</b>	<b>6,164</b>	<b>34.5</b>
Interest Expenses	167	122	37.1	212	559	384	45.6
Non-operating income	7	182	(96.4)	7	40	1,085	(96.4)
<b>PBT</b>	<b>2,585</b>	<b>2,104</b>	<b>22.9</b>	<b>3,062</b>	<b>7,770</b>	<b>6,866</b>	<b>13.2</b>
Tax-Total	801	560	42.9	949	2,407	1,896	27.0
<i>Tax Rate (%) - Total</i>	<i>31.0</i>	<i>26.6</i>	<i>16.3</i>	<i>31.0</i>	<i>31.0</i>	<i>27.6</i>	<i>12.2</i>
<b>Reported PAT</b>	<b>1,784</b>	<b>1,543</b>	<b>15.6</b>	<b>2,113</b>	<b>5,363</b>	<b>4,969</b>	<b>7.9</b>
<b>Adj. PAT</b>	<b>1,784</b>	<b>1,543</b>	<b>15.6</b>	<b>2,113</b>	<b>5,363</b>	<b>4,969</b>	<b>7.9</b>

Source: Company, PL

**Exhibit 2: Operating Metrics**

Y/e March	Q3FY19	Q3FY18	YoY gr. (%)	Q2FY19	9MFY19	9MFY18	YoY gr. (%)
<b>Sales Volume (no.s)</b>	<b>989,787</b>	<b>826,285</b>	<b>19.8</b>	<b>1,088,374</b>	<b>3,006,435</b>	<b>2,576,977</b>	<b>16.7</b>
Net Realisation/Vehicle	47,121	44,597	5.7	45,880	45,988	43,265	6.3
Material cost / vehicle	35,712	32,413	10.2	34,768	34,868	31,771	9.7
Gross Profit / vehicle	11,409	12,183	(6.4)	11,113	11,119	11,494	(3.3)
Employee cost /vehicle	2,391	2,564	(6.7)	2,251	2,392	2,487	(3.8)
Other expenses / vehicle	5,222	6,149	(15.1)	4,928	4,985	5,667	(12.0)
EBITDA/vehicle	3,796	3,471	9.4	3,934	3,742	3,340	12.0
Net Profit/vehicle	1,802	1,868	(3.5)	1,942	1,784	1,928	(7.5)

Source: Company, PL

## Financials

### Income Statement (Rs m)

Y/e Mar	FY18	FY19E	FY20E	FY21E
<b>Net Revenues</b>	<b>151,297</b>	<b>181,292</b>	<b>214,010</b>	<b>251,940</b>
YoY gr. (%)	24.7	19.8	18.0	17.7
Cost of Goods Sold	111,330	132,344	155,660	182,130
Gross Profit	39,967	48,948	58,351	69,810
Margin (%)	26.4	27.0	27.3	27.7
Employee Cost	8,680	10,334	11,129	13,101
Other Expenses	19,995	23,337	27,548	32,683
<b>EBITDA</b>	<b>11,292</b>	<b>15,278</b>	<b>19,674</b>	<b>24,027</b>
YoY gr. (%)	31.8	35.3	28.8	22.1
Margin (%)	7.5	8.4	9.2	9.5
Depreciation and Amortization	3,387	3,646	4,341	4,741
<b>EBIT</b>	<b>7,905</b>	<b>11,632</b>	<b>15,332</b>	<b>19,285</b>
Margin (%)	5.2	6.4	7.2	7.7
Net Interest	566	462	416	352
Other Income	1,448	1,673	1,964	2,348
<b>Profit Before Tax</b>	<b>8,786</b>	<b>12,844</b>	<b>16,881</b>	<b>21,281</b>
Margin (%)	5.8	7.1	7.9	8.4
Total Tax	2,161	3,982	5,233	6,597
Effective tax rate (%)	24.6	31.0	31.0	31.0
<b>Profit after tax</b>	<b>6,626</b>	<b>8,862</b>	<b>11,648</b>	<b>14,684</b>
Minority interest	-	-	-	-
Share Profit from Associate	-	-	-	-
<b>Adjusted PAT</b>	<b>6,626</b>	<b>8,862</b>	<b>11,648</b>	<b>14,684</b>
YoY gr. (%)	18.7	33.8	31.4	26.1
Margin (%)	4.4	4.9	5.4	5.8
Extra Ord. Income / (Exp)	-	-	-	-
<b>Reported PAT</b>	<b>6,626</b>	<b>8,862</b>	<b>11,648</b>	<b>14,684</b>
YoY gr. (%)	18.7	33.8	31.4	26.1
Margin (%)	4.4	4.9	5.4	5.8
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	6,626	8,862	11,648	14,684
<b>Equity Shares O/s (m)</b>	<b>475</b>	<b>475</b>	<b>475</b>	<b>475</b>
<b>EPS (Rs)</b>	<b>13.9</b>	<b>18.7</b>	<b>24.5</b>	<b>30.9</b>

Source: Company Data, PL Research

### Balance Sheet Abstract (Rs m)

Y/e Mar	FY18	FY19E	FY20E	FY21E
<b>Non-Current Assets</b>				
<b>Gross Block</b>	<b>45,454</b>	<b>51,766</b>	<b>56,766</b>	<b>61,766</b>
Tangibles	43,846	49,763	54,763	59,763
Intangibles	1,608	2,002	2,002	2,002
<b>Acc: Dep / Amortization</b>	<b>21,736</b>	<b>25,381</b>	<b>29,723</b>	<b>34,464</b>
Tangibles	20,691	24,337	28,678	33,420
Intangibles	1,044	1,044	1,044	1,044
<b>Net fixed assets</b>	<b>23,719</b>	<b>26,384</b>	<b>27,043</b>	<b>27,302</b>
Tangibles	23,155	25,426	26,085	26,344
Intangibles	564	958	958	958
Capital Work In Progress	1,311	-	-	-
Goodwill	-	-	-	-
Non-Current Investments	20,355	21,355	23,855	28,855
Net Deferred tax assets	(1,482)	(1,482)	(1,482)	(1,482)
Other Non-Current Assets	629	629	629	629
<b>Current Assets</b>				
Investments	-	-	-	-
Inventories	9,644	11,570	13,670	16,107
Trade receivables	9,684	11,617	13,727	16,173
Cash & Bank Balance	109	5,773	11,986	18,490
Other Current Assets	6,202	6,252	6,502	7,002
<b>Total Assets</b>	<b>73,310</b>	<b>85,237</b>	<b>99,170</b>	<b>116,814</b>
<b>Equity</b>				
Equity Share Capital	475	475	475	475
Other Equity	28,329	35,528	45,276	58,060
<b>Total Network</b>	<b>28,804</b>	<b>36,004</b>	<b>45,751</b>	<b>58,535</b>
<b>Non-Current Liabilities</b>				
Long Term borrowings	4,698	4,698	4,698	4,698
Provisions	538	538	538	538
Other non current liabilities	-	-	-	-
<b>Current Liabilities</b>				
ST Debt / Current of LT Debt	7,194	6,494	4,894	3,294
Trade payables	25,180	30,208	35,693	42,054
Other current liabilities	3,318	3,618	3,818	3,918
<b>Total Equity &amp; Liabilities</b>	<b>73,310</b>	<b>85,237</b>	<b>99,170</b>	<b>116,814</b>

Source: Company Data, PL Research

### Cash Flow (Rs m)

Y/e Mar	FY18	FY19E	FY20E	FY21E
PBT	8,786	12,844	16,881	21,281
Add. Depreciation	3,387	3,646	4,341	4,741
Add. Interest	566	462	416	352
Less Financial Other Income	1,448	1,673	1,964	2,348
Add. Other	(480)	-	-	-
Op. profit before WC changes	12,260	16,951	21,638	26,374
Net Changes-WC	3,302	1,519	1,225	578
Direct tax	(1,936)	(3,982)	(5,233)	(6,597)
<b>Net cash from Op. activities</b>	<b>13,626</b>	<b>14,488</b>	<b>17,630</b>	<b>20,355</b>
Capital expenditures	(7,956)	(5,000)	(5,000)	(5,000)
Interest / Dividend Income	-	-	-	-
Others	(4,475)	(1,000)	(2,500)	(5,000)
<b>Net Cash from Invst. activities</b>	<b>(12,431)</b>	<b>(6,000)</b>	<b>(7,500)</b>	<b>(10,000)</b>
Issue of share cap. / premium	-	-	-	-
Debt changes	820	(700)	(1,600)	(1,600)
Dividend paid	(1,425)	(1,663)	(1,900)	(1,900)
Interest paid	(566)	(462)	(416)	(352)
Others	-	-	-	-
<b>Net cash from Fin. activities</b>	<b>(1,172)</b>	<b>(2,825)</b>	<b>(3,916)</b>	<b>(3,852)</b>
<b>Net change in cash</b>	<b>24</b>	<b>5,664</b>	<b>6,214</b>	<b>6,503</b>
Free Cash Flow	5,670	9,488	12,630	15,355

Source: Company Data, PL Research

### Quarterly Financials (Rs m)

Y/e Mar	Q4FY18	Q1FY19	Q2FY19	Q3FY19
<b>Net Revenue</b>	<b>39,928</b>	<b>41,685</b>	<b>49,935</b>	<b>46,640</b>
YoY gr. (%)	40.4	22.6	22.8	26.6
Raw Material Expenses	29,458	31,642	37,840	35,347
Gross Profit	10,470	10,042	12,095	11,293
Margin (%)	26.2	24.1	24.2	24.2
<b>EBITDA</b>	<b>2,807</b>	<b>3,212</b>	<b>4,282</b>	<b>3,757</b>
YoY gr. (%)	(2.1)	14.4	33.3	(12.2)
Margin (%)	7.0	7.7	8.6	8.1
Depreciation / Depletion	944	933	1,016	1,012
<b>EBIT</b>	<b>1,863</b>	<b>2,279</b>	<b>3,266</b>	<b>2,745</b>
Margin (%)	4.7	5.5	6.5	5.9
Net Interest	183	180	212	167
Other Income	240	26	7	7
<b>Profit before Tax</b>	<b>1,921</b>	<b>2,124</b>	<b>3,062</b>	<b>2,585</b>
Margin (%)	4.8	5.1	6.1	5.5
Total Tax	264	658	949	801
Effective tax rate (%)	13.8	31.0	31.0	31.0
<b>Profit after Tax</b>	<b>1,656</b>	<b>1,466</b>	<b>2,113</b>	<b>1,784</b>
Minority interest	-	-	-	-
Share Profit from Associates	-	-	-	-
<b>Adjusted PAT</b>	<b>1,656</b>	<b>1,466</b>	<b>2,113</b>	<b>1,784</b>
YoY gr. (%)	30.7	13.3	(0.9)	15.6
Margin (%)	4.1	3.5	4.2	3.8
Extra Ord. Income / (Exp)	-	-	-	-
<b>Reported PAT</b>	<b>1,656</b>	<b>1,466</b>	<b>2,113</b>	<b>1,784</b>
YoY gr. (%)	30.7	13.3	(0.9)	15.6
Margin (%)	4.1	3.5	4.2	3.8
Other Comprehensive Income	-	-	-	-
<b>Total Comprehensive Income</b>	<b>1,656</b>	<b>1,466</b>	<b>2,113</b>	<b>1,784</b>
Avg. Shares O/s (m)	475	475	475	475
<b>EPS (Rs)</b>	<b>3.5</b>	<b>3.1</b>	<b>4.4</b>	<b>3.8</b>

Source: Company Data, PL Research

### Key Financial Metrics

Y/e Mar	FY18	FY19E	FY20E	FY21E
<b>Per Share(Rs)</b>				
EPS	13.9	18.7	24.5	30.9
CEPS	21.1	26.3	33.7	40.9
BVPS	60.6	75.8	96.3	123.2
FCF	11.9	20.0	26.6	32.3
DPS	0.0	0.0	0.0	0.0
<b>Return Ratio(%)</b>				
RoCE	20.8	26.5	29.9	31.6
ROIC	15.8	21.0	26.9	31.4
RoE	25.1	27.3	28.5	28.2
<b>Balance Sheet</b>				
Net Debt : Equity (x)	0.4	0.2	(0.1)	(0.2)
Net Working Capital (Days)	(14)	(14)	(14)	(14)
<b>Valuation(x)</b>				
PER	39.7	29.7	22.6	17.9
P/B	9.1	7.3	5.8	4.5
P/CEPS	26.3	21.1	16.5	13.6
EV/EBITDA	24.4	17.6	13.3	10.5
EV/Sales	1.8	1.5	1.2	1.0
Dividend Yield (%)	-	-	-	-

Source: Company Data, PL Research

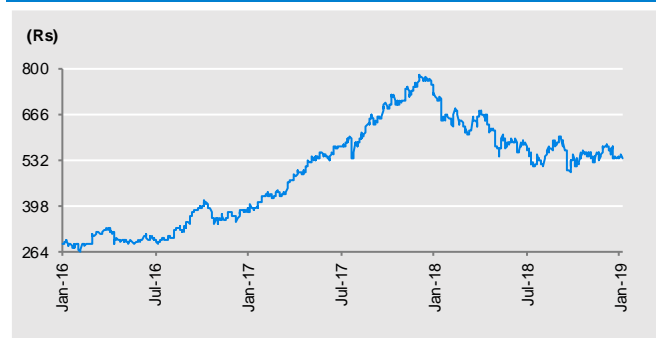
### Key Operating Metrics

Y/e Mar	FY18	FY19E	FY20E	FY21E
Scooter volume (units)	1,134,918	1,373,251	1,620,436	1,912,114
Motorcycle volume (units)	1,355,576	1,572,468	1,808,338	2,061,506
Moped volume (units)	876,932	964,625	1,061,088	1,167,196
Total two-wheeler volume (units)	3,367,426	3,910,344	4,489,862	5,140,817
Three-wheeler volume (units)	98,684	108,552	119,408	131,348
Total volume (units)	3,466,110	4,018,897	4,609,270	5,272,165
Realisation per unit (Rs)	43,184	44,681	46,032	47,416
Gross margin per unit (Rs)	11,531	12,180	12,659	13,241
EBITDA per vehicle (Rs)	3,258	3,802	4,268	4,557
Profit per vehicle (Rs)	1,912	2,205	2,527	2,785

Source: Company Data, PL Research

## Price Chart

## Recommendation History



No.	Date	Rating	TP (Rs.)	Share Price (Rs.)
1	30-Jan-18	Accumulate	768	713
2	13-Apr-18	Accumulate	768	662
3	16-May-18	Accumulate	678	610
4	11-Jun-18	Accumulate	678	610
5	10-Jul-18	Accumulate	678	561
6	7-Aug-18	Accumulate	605	549
7	5-Oct-18	Accumulate	497	527
8	23-Oct-18	Accumulate	618	535
9	7-Jan-19	Accumulate	618	535

## Analyst Coverage Universe

Sr. No.	CompanyName	Rating	TP (Rs)	Share Price (Rs)
1	Ashok Leyland	BUY	146	93
2	Atul Auto	Accumulate	397	347
3	Bajaj Auto	Reduce	2,394	2,659
4	Bharat Forge	Accumulate	696	480
5	CEAT	Accumulate	1,255	1,285
6	Eicher Motors	Hold	23,137	19,830
7	Exide Industries	Accumulate	268	262
8	Hero Motocorp	Accumulate	3,385	2,958
9	Mahindra & Mahindra	BUY	984	730
10	Maruti Suzuki	BUY	8,510	7,362
11	Motherson Sumi Systems	Accumulate	179	157
12	Tata Motors	BUY	267	175
13	TVS Motors	Accumulate	618	535
14	Wabco India	Accumulate	7,111	6,475

## PL's Recommendation Nomenclature (Absolute Performance)

<b>Buy</b>	: > 15%
<b>Accumulate</b>	: 5% to 15%
<b>Hold</b>	: +5% to -5%
<b>Reduce</b>	: -5% to -15%
<b>Sell</b>	: < -15%
<b>Not Rated (NR)</b>	: No specific call on the stock
<b>Under Review (UR)</b>	: Rating likely to change shortly

## **ANALYST CERTIFICATION**

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