



Subdued Performance

17<sup>th</sup> August, 2017

CMP: Rs 585  
Target Price: Rs 538  
**Recommendation: Reduce**

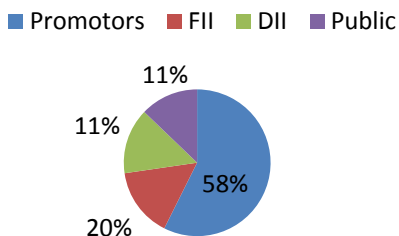
Stock Info

BSE Group	B
BSE Code	532343
NSE Symbol	TVSMOTOR
Bloomberg	TVSL IN
Reuters	TVSM.BO
BSE Sensex	31,770
NSE Nifty	9,897

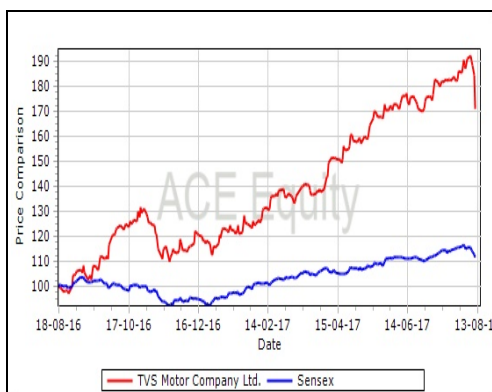
Market Info

Market Capital	Rs 27,828 cr
Equity Capital	Rs 48 cr
6M Avg Trading Volume	1,239,022
52 Wk High / low	Rs 630.75/296.85
Face Value	Rs 1

Shareholding Pattern Jun 17



Price Vs Sensex Chart



TVS Motor's (TVSL) Q1FY18 performance was disappointing as it reported subdued financials on all the parameters, primarily impacted by one time dealer compensation on old inventory and discontinuation of excise benefit from HP plant. During the quarter the company recorded total sales of 8.02 lakh units.

**Revenue:**

TVSL's net revenues grew 19.2% YoY and 19.5% QoQ to Rs. 3400 cr in Q1FY18, as company's volume grew by 11.7% YoY, while its Average Selling Price rose 6.7% YoY. Exports increased by 17.5% YoY in the quarter. TVSL took price hike of ~Rs 500-1000 on its two wheelers in Q1FY18, which benefited company to nullify the cost escalation to some extent in Q1FY18.

**EBIDTA:**

TVSL's EBITDA was up 5.7% YoY and 31.1% QoQ to Rs. 212cr in Q1FY18. Its reported EBIDTA margins declined by 11.3% YoY (up 9.7% QoQ) to 6.2% . It was impacted by one time spillover charge of Rs 6 cr on BS-III inventory as well as compensation given to dealers on old inventory amid GST implementation. Employee expenses rose 15.2% YoY and 20.3% QoQ to Rs. 209 cr in Q1FY18.

**Net Profit:**

TVSL's PAT stood at Rs. 130cr in Q1FY18, up 7% YoY and 2.4% QoQ. Its profit was boosted up by higher non operating income of Rs 57.1 cr (up 57.8% YoY), due to onetime government's grant of Rs 9.67cr. Its depreciation was higher by 18.8% YoY to Rs 78 cr due to new accounting standard. Its tax rate stood at 27.8%, increased by 113% YoY and 414% QoQ, due to discontinuation of tax benefit from HP plant and reduction of tax benefit on R&D. TVSL's EPS was at Rs. 2.73 in Q1FY18.

**Conference call highlights:** 1) Vehicle prices are likely to be increased by ~1% in 2HFY18 to offset the negative impact of higher commodity prices and expiry of tax benefits at Solan plant.

2) Market share gains expected, on the back of new products and robust growth in scooters. In domestic market, management expects to ramp up share from 14.2% in FY17 to ~16% in FY18.

3) Product launches planned in premium motorcycles (TVS-BMW 300cc model) and scooters (125cc model, hybrid/electric models).

4) Production capacity stands at ~4mn units, which is being expanded to ~4.5mn units by end FY18.

> **VALUATION:** Scooter portfolio stands well positioned however, considering 3 wheeler exports our view on stock remain cautious, the stock at Rs. 585 trades at 35.8x of our estimated FY19 EPS of Rs 16.3 per share. We have assigned a price target of Rs 538 per share based on PE of 33x its FY19 estimates. We recommend 'Reduce' rating on the stock.

Y/E March, (in Rs crore)	FY17	FY18E	FY19E
<b>Income from operations</b>	<b>12,135</b>	<b>14,002</b>	<b>16,243</b>
yoy%	9	15	16
Operating EBIDTA	857	938	1,285
Operating EBITDA margin %	7.1	6.7	7.9
<b>Adjusted PAT</b>	<b>558</b>	<b>588</b>	<b>776</b>
yoy%	30.0	5.4	31.8
EPS	11.7	12.4	16.3
P/E (x)	34.8	47.2	35.8



Quarterly P&L in Rs crore	Q1FY18	Q1FY17	Q4FY17	YoY	QoQ
Units sold	8,02,108	7,17,964	6,74,870	11.7%	18.9%
Net Realization per unit	42,382	39,732	42,149	6.7%	0.6%
<b>Net Sales</b>	<b>3,400</b>	<b>2,853</b>	<b>2,845</b>	19.2%	19.5%
Other Operating Income	0	28	0		
<b>Income from Operations</b>	<b>3,400</b>	<b>2,881</b>	<b>2,845</b>	18.0%	19.5%
<b>Materials Consumed</b>	<b>2,535</b>	<b>2,090</b>	<b>2,136</b>	21.3%	18.7%
RM Cost per unit	31,606	29,115	31,654	8.6%	-0.2%
Contribution Per Unit	10,777	10,617	10,494	1.5%	2.7%
Contribution margin %	25.43%	26.72%	24.90%	-4.8%	2.1%
Employees Cost	209	181	174	15.2%	20.3%
Other Expenditure	444	409	373	8.5%	18.9%
<b>Total Expenditure</b>	<b>3,188</b>	<b>2,681</b>	<b>2,683</b>	18.9%	18.8%
Operating EBITDA	<b>212</b>	<b>200</b>	<b>162</b>	5.7%	31.1%
Margin	6.23%	7.02%	5.68%	-11.3%	9.7%
<b>Core EBITDA</b>	<b>212</b>	<b>172</b>	<b>162</b>	23.1%	31.1%
Margin	6.23%	6.03%	5.68%	3.3%	9.7%
Depreciation	78	66	77	18.8%	1.1%
Other Income	57	36	63	57.8%	-9.7%
Interest	11	10	13	9.6%	-19.0%
<b>PBT before Exceptional Items</b>	<b>180</b>	<b>161</b>	<b>134</b>	11.8%	34.1%
Exceptional Items (net)	0	0	0		
<b>PBT</b>	<b>180</b>	<b>161</b>	<b>134</b>	11.8%	34.1%
Tax Expense	50	40	7	26.3%	589.2%
<b>Net Profit after Tax</b>	<b>130</b>	<b>121</b>	<b>127</b>	7.0%	2.4%
Effective Tax Rate	27.8%	24.6%	5.4%	13.0%	413.9%
Extraordinary item	0.00	0	0.00		
<b>PAT after extraordinary item</b>	<b>130</b>	<b>121</b>	<b>127</b>	7.0%	2.4%
EPS	2.73	2.55	2.67	7.0%	2.4%



Profit and Loss Account, Year Ending March				Balance Sheet, Year Ending March			
Particulars, in Rs crore	FY17	FY18 E	FY19 E	Particulars, in Rs crore	FY17	FY18 E	FY19 E
<b>Net Sales</b>	<b>12,135</b>	<b>14,002</b>	<b>16,243</b>	<b>Liabilities + Equity</b>			
YoY%	9.2	15.4	16.0	(a) Share capital	48	48	48
Other Operating Income	-	-	-	(b) Reserves and surplus	2,361	2,804	3,465
<b>Income from Operations</b>	<b>12,135</b>	<b>14,002</b>	<b>16,243</b>	<b>Shareholders' funds</b>	<b>2,408</b>	<b>2,851</b>	<b>3,513</b>
Materials Consumed	8,853	10,334	11,871	Non-current liab & Prov	645	694	765
Total Expenditure	11,278	13,064	14,957	Current liabilities	2,851	3,090	3,247
<b>Operating EBITDA</b>	<b>857</b>	<b>938</b>	<b>1,285</b>	<b>Total - Equity and liabilities</b>	<b>5,905</b>	<b>6,635</b>	<b>7,525</b>
Operating EBITDA margin %	7.06	6.70	7.91				
Depreciation	288	291	374	<b>Assets</b>			
Operating EBIT	569	648	911	Non-current assets			
Other Income	173	200	200	Fixed assets	2,046	2,256	2,648
Interest	44	42	49	Long Term Inv	1,588	1,636	1,645
<b>PBT</b>	<b>699</b>	<b>806</b>	<b>1,062</b>	Loans + Adv + Others	84	144	167
Tax Expense	141	218	287	Non-current assets	3,853	4,036	4,460
<b>Reported Net Profit</b>	<b>558</b>	<b>588</b>	<b>776</b>	Current assets			
YoY%	30.0	5.4	31.8	Cash	8	10	50
Effective Tax Rate	20.1	27.0	27.0	Other Current Assets	2,041	2,588	3,013
<b>Reported EPS</b>	<b>11.7</b>	<b>12.4</b>	<b>16.3</b>	Sub-total - Current assets	2,052	2,599	3,065
				<b>Total - Assets</b>	<b>5,905</b>	<b>6,635</b>	<b>7,525</b>

Cash Flow Statement, Year Ending March				Ratio Analysis			
Particulars, in Rs crore	FY17	FY18 E	FY19 E		FY17	FY18 E	FY19 E
Operating Activities				<b>Profitability</b>			
<b>PBT</b>	<b>699</b>	<b>806</b>	<b>1,062</b>	<b>Operating EBITDA%</b>	<b>7.1</b>	<b>6.7</b>	<b>7.9</b>
Add Depr + non op exp	288	291	374	Core EBITDA%	7.1	6.7	7.9
Others	(82.1)	(90.4)	(99.4)	PAT%	4.6	4.2	4.8
Total	904	1,006	1,337	<b>ROAE%</b>	<b>25.7</b>	<b>22</b>	<b>24</b>
Cash Taxes	(129)	(240)	(310)				
Changes in Working Cap	(51)	(121)	190	Du Pont ROAE breakup			
<b>Cash Flow from Operations</b>	<b>724</b>	<b>645</b>	<b>1,218</b>	PAT / Sales	4.6	4.2	4.8
				Sales / Avg Total Assets	2.2	2.3	2.3
Investing Activities				Avg Total Assets / Avg Eqty	2.5	2.3	2.2
Change in investments	(194)	(32)	(284)	<b>ROE</b>	<b>25.7</b>	<b>22.4</b>	<b>24.4</b>
Capex	(612)	(639)	(900)				
<b>Others</b>	<b>58</b>	<b>10</b>	<b>11</b>	<b>Other Ratios</b>			
<b>Cash Flow from Investing</b>	<b>(748)</b>	<b>(662)</b>	<b>(1,174)</b>	<b>Current Ratio</b>	<b>0.7</b>	<b>0.8</b>	<b>0.9</b>
				Long Term Debt / Equity	0.2	0.1	0.1
<b>Financing Activities</b>				<b>EPS</b>	<b>11.7</b>	<b>12.4</b>	<b>16.3</b>
Dividends + Taxes paid	(141.3)	(96.1)	(96.1)	DPS	2.5	2.5	2.5
<b>Change in Non Curr Liab</b>	<b>69</b>	<b>113</b>	<b>91</b>	<b>Dividend Payout ratio</b>	<b>21</b>	<b>20</b>	<b>15</b>
Cash Flow from Financing	(72.7)	16.9	(4.8)	<b>P/E</b>	<b>34.8</b>	<b>47.2</b>	<b>35.8</b>
Opening Cash	26.9	8.1	9.7	BVPS	50.7	60.0	73.9
Changes during year	(96.9)	0.4	39.4	P/BV	8.1	9.7	7.9
Other bank balances	78.2	1.2	1.2				
<b>Closing cash</b>	<b>8</b>	<b>10</b>	<b>50</b>				

Source: Company data, Arihant Research



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**Stock Rating Scale**

**Absolute Return**

Buy	> 20%
Accumulate	12% to 20%
Hold	5% to 12%
Neutral	-5% to 5%
Reduce	< -5%

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