

TVS MOTOR CO (TVS) - Q2-FY15 RESULT UPDATE

CMP: Rs 237  
Target Price: Rs 184  
**Recommendation: Reduce**

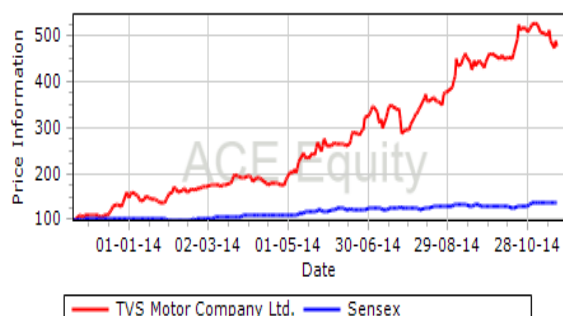
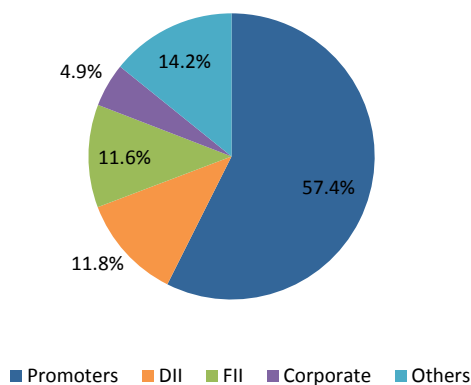
Stock Info

BSE Group	B
BSE Code	532343
NSE Symbol	TVSMOTOR
Bloomberg	TVSL IN
Reuters	TVSM.BO
BSE Sensex	28,033
NSE Nifty	8,382

Market Info

Market Capital	Rs 11,250cr
Equity Capital	Rs 47cr
Avg Trading Volume	29,52,070
52 Wk High / low	Rs 266/ 48
Face Value	Rs 1

Latest Shareholding Pattern , Sep 14



20<sup>th</sup> Nov, 2014

TVS reported mixed set of numbers for Q2FY15. Volumes for the company grew by 34.8% while realisations reduced marginally by 0.4% on YoY basis. Scooters grew by 67%, Motorcycles by 26%, Mopeds by 19% and 3W grew by 28% on YoY basis. Total number of units sold for the quarter was 6.76 lakhs.

Net revenues rose 34.3% to Rs. 2,635cr on YoY basis. Contribution margin declined by 231 bps on YoY basis due to increase in raw material cost which increased to 74.4% of revenues as compared to 72.1% on YoY basis. However, operating EBITDA margin for the quarter improved 20bps YoY to 6.2% (far lower than expectation of 7%). Adjusted Profit after tax for the quarter increased by 62% to Rs. 95 crs on YoY basis.

**Company is posting good sales number but they are not being able to convert that into higher margin which is our biggest concern.**

> **OUTLOOK FOR NEXT 2 YEARS:** TVS has done exceedingly well on its business front both in both domestic as well as export market. Company has been aggressively pursuing for higher domestic market share through new launches. Company intends to increase its market share in scooter segment to 16-18% from existing ~13%. Company is planning to launch refreshed version of Scooty, while Jupiter is gaining traction in domestic market.

> **FINANCIALS:** We estimate Net Revenue growth at a 2 year CAGR of 20%, and EBITDA growth at a CAGR of 43%. We expect operating margin to increase to 7.1% in FY15E and 8.6% in FY16E. We also believe that as sales of the company grows, per unit advertising and marketing cost will come down rapidly.

> **VALUATION:** The stock at Rs. 237 trades at 20.6x our estimated FY16 EPS of Rs 11.5 per share at which stock looks over-valued in our view. We have assigned a price target of Rs 184 per share based on PE of 16x its FY16 estimates. We recommend '**Reduce**' rating on the stock.

Y/E March, (in Rs crore)	FY13	FY14	FY15E	FY16E
Net Sales	7,070	7,858	9,250	11,293
yoy%	0.9%	11.1%	17.7%	22.1%
Operating EBITDA	409	478	666	982
Operating EBITDA margin %	5.7%	6.0%	7.1%	8.6%
PAT	115	259	350	545
Adjusted PAT	207	262	350	545
yoy%	-16.9%	26.5%	33.8%	55.7%
EPS	2.42	5.44	7.37	11.47
EPS adjusted for exp items	4.35	5.44	7.37	11.47
P/E (x)	54.4	43.5	32.1	20.6
EV / EBITDA (x)	17.5	14.9	10.7	7.3

Source: - Company data, Arihant Research



Quarterly P&L in Rs crore	Q2FY15	Q2FY14	yoy%	Q1FY15	qoq%
Units sold	6,76,139	5,01,425	34.8%	5,84,113	15.8%
Net Realization per unit	38,978	39,129	-0.4%	38,746	0.6%
<b>Net Sales</b>	<b>2,635</b>	<b>1,962</b>	<b>34.3%</b>	<b>2,263</b>	<b>16.4%</b>
Other Operating Income	48	26	80.8%	42	12.9%
<b>Income from Operations</b>	<b>2,683</b>	<b>1,988</b>	<b>34.9%</b>	<b>2,305</b>	<b>16.4%</b>
<b>Materials Consumed</b>	<b>1,961</b>	<b>1,415</b>	<b>38.6%</b>	<b>1,677</b>	<b>17.0%</b>
RM Cost per unit	29,007	28,217	2.8%	28,705	1.1%
Contribution Per Unit	9,971	10,912	-8.6%	10,041	-0.7%
Contribution margin %	25.58%	27.89%		25.92%	
Employees Cost	154	118	30.7%	140	10.2%
Other Expenditure	405	338	19.6%	357	13.2%
<b>Total Expenditure</b>	<b>2,520</b>	<b>1,871</b>	<b>34.7%</b>	<b>2,174</b>	<b>15.9%</b>
Operating EBITDA	<b>163</b>	<b>117</b>	<b>38.9%</b>	<b>131</b>	<b>24.1%</b>
Margin	6.17%	5.97%		5.79%	
<b>Core EBITDA</b>	<b>115.11</b>	<b>90.77</b>	<b>26.8%</b>	<b>88.97</b>	<b>29.4%</b>
Margin	4.37%	4.63%		3.93%	
Depreciation	37	31	16.4%	34	9.0%
Other Income	8.64	7.70	12.2%	8.88	-2.7%
Interest	3.45	5.21	-33.8%	5.95	-42.0%
<b>PBT before Exceptional Items</b>	<b>131.31</b>	<b>88.17</b>	<b>48.9%</b>	<b>100.51</b>	<b>30.6%</b>
Exceptional Items (net)	0.00	30.28		0.00	
<b>PBT</b>	<b>131.31</b>	<b>118.45</b>	<b>10.9%</b>	<b>100.51</b>	<b>30.6%</b>
Tax Expense	36.50	29.61		28.19	
<b>Net Profit after Tax</b>	<b>94.81</b>	<b>88.84</b>	<b>6.7%</b>	<b>72.32</b>	<b>31.1%</b>
Effective Tax Rate	27.80%	25.00%		28.05%	
<b>PAT after extraordinary item</b>	<b>94.81</b>	<b>88.84</b>	<b>6.7%</b>	<b>72.32</b>	<b>31.1%</b>

Source: - Company data, Arihant Research



Rs crore	FY13	FY14	FY15E	FY16E
Units sold	20,32,617	20,73,457	22,39,334	25,08,054
Net Realization per unit	34,506	37,897	41,307	45,025
<b>Net Sales</b>	<b>7,015</b>	<b>7,858</b>	<b>9,250</b>	<b>11,293</b>
Other Operating Income	100	104	120	147
<b>Income from Operations</b>	<b>7,114</b>	<b>7,962</b>	<b>9,370</b>	<b>11,439</b>
<b>Materials Consumed</b>	<b>5,148</b>	<b>5,673</b>	<b>6,669</b>	<b>8,085</b>
RM Cost per unit	25,329	27,359	29,783	32,238
Contribution Per Unit	9,177	10,537	11,525	12,787
Contribution margin %	26.6	27.8	27.9	28.4
Employees Cost	407	476	555	678
Other Expenditure	1,150	1,335	1,480	1,694
<b>Total Expenditure</b>	<b>6,705</b>	<b>7,484</b>	<b>8,704</b>	<b>10,457</b>
Operating EBITDA	409.2	477.6	666.0	982.4
Margin	5.8	6.0	7.1	8.6
<b>Core EBITDA</b>	<b>309.6</b>	<b>373.5</b>	<b>545.8</b>	<b>835.6</b>
Margin	4.4	4.8	5.9	7.4
Depreciation	130.4	131.7	152.6	180.7
Other Income	23.7	30.7	37.0	45.2
Interest	48.0	25.4	27.9	33.5
<b>PBT before Exceptional Items</b>	<b>254.4</b>	<b>351.3</b>	<b>522.4</b>	<b>813.4</b>
Exceptional Items (net)	-91.6	-2.8	0.0	0.0
<b>PBT</b>	<b>162.8</b>	<b>348.5</b>	<b>522.4</b>	<b>813.4</b>
Tax Expense	47.6	89.9	172.4	268.4
<b>Net Profit after Tax</b>	<b>115.2</b>	<b>258.6</b>	<b>350.0</b>	<b>545.0</b>
Effective Tax Rate	29.2	25.8	33.0	33.0
EPS	2.42	5.44	7.37	11.47

Source: - Company data, Arian Research



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**Stock Rating Scale**

	<b>Absolute Return</b>
Buy	> 20%
Accumulate	12% to 20%
Hold	5% to 12%
Neutral	-5% to 5%
Reduce	< -5%

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