



CMP: Rs 495  
Target Price: Rs 532  
**Recommendation: HOLD**

| Stock Info |          |
|------------|----------|
| BSE Group  | B        |
| BSE Code   | 532343   |
| NSE Symbol | TVSMOTOR |
| Bloomberg  | TVSL IN  |
| Reuters    | TVSM.BO  |
| BSE Sensex | 29,918   |
| NSE Nifty  | 9,304    |

| Market Info        |              |
|--------------------|--------------|
| Market Capital     | Rs 23,545 cr |
| Equity Capital     | Rs 48 cr     |
| Avg Trading Volume | 18,33,990    |
| 52 Wk High / low   | Rs 519/ 277  |
| Face Value         | Rs 1         |

A comprehensive product portfolio with good market acceptance of new products and steady growth in sales has enabled TVS Motor Company to post a 2.0% revenue growth during the financial year Q4FY17. During the quarter the company recorded total sales of 6.74 lakh units.

TVS reported decent set of numbers for Q4FY17. Volume for the company grew by 2.0% while realisations were flat on YoY basis. Scooters Inclined by 13%, Motorcycles declined by 13%, Mopeds grew by 14% and 3W declined by 29% on YoY basis. Total number of units sold for the quarter was 6.74 lakh. The export market, which accounts for nearly 15% of total volume, is exposed to currency fluctuations and shortage of foreign exchange in the key African markets.

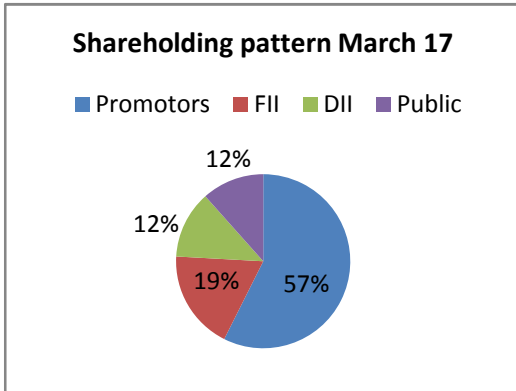
Net revenue rose by 1.5% to Rs. 2,983 crs on YoY basis. Contribution margin decreased by 496 bps on YoY. However, operating EBITDA margin for the quarter decreased by 150 bps to 5.68%.

**Company is posting good sales number and they are being able to deliver EBITDA Margin of 5.68% in Q4FY17 Vs 7.15% in Q4FY16, this was mainly due to company extending discount of Rs57crores to dealer to sell BSIII stocks.**

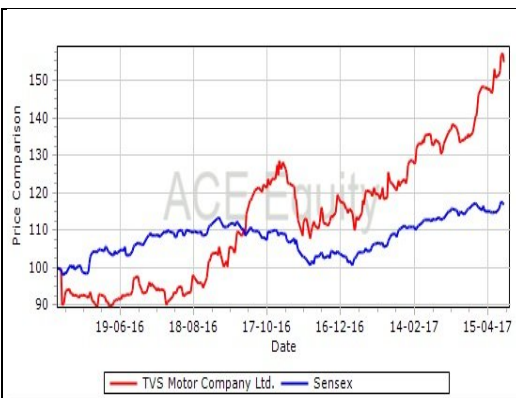
> **Concall Highlights:**

- Management expects to achieve 15.8% market share in FY18, with an industry growth expectation of 6-8%. It expects to launch two products this year and both products will be in premium segment.
- Management has given capex expense estimate of Rs500 crores for FY18. Investments in TVS credit services will depend on capital adequacy requirements and internal money generation.
- Three wheeler sales declined by 28% over Q4FY16, mainly account on lower exports due to restricted availability of foreign exchange in African Market. Management expects sizable improvement in Latin America in FY18.
- TVSL's monthly volume of 60,000 units of Jupiter and 30,000 units of Apache are the key volume booster apart from new moped sales.

> **VALUATION:** Scooter portfolio stands well positioned however, considering 3 wheeler exports our view on stock remain cautious, the stock at Rs. 495 trades at 32.5x our estimated FY19 EPS of Rs 15.8 per share. We have assigned a price target of Rs 532 per share based on PE of 35x its FY19 estimates. We recommend 'HOLD' rating on the stock.



Price Vs Sensex Chart



| Y/E March, (in Rs crore)      | FY16          | FY17          | FY18E         | FY19E         |
|-------------------------------|---------------|---------------|---------------|---------------|
| <b>Income from operations</b> | <b>11,244</b> | <b>12,135</b> | <b>14,908</b> | <b>17,592</b> |
| yoy%                          | 12            | 8             | 22            | 18            |
| Operating EBITDA              | 751           | 857           | 1,046         | 1,234         |
| Operating EBITDA margin %     | 6.7           | 7.1           | 7.0           | 7.0           |
| <b>Adjusted PAT</b>           | <b>429</b>    | <b>558</b>    | <b>607</b>    | <b>723</b>    |
| yoy%                          | 23.4          | 30.0          | 8.7           | 19.2          |
| EPS                           | 9.0           | 11.7          | 12.8          | 15.2          |
| P/E (x)                       | 32.0          | 34.8          | 38.8          | 32.5          |



| Quarterly P&L in Rs crore           | Q4FY17       | Q4FY16       | YoY%        | Q3FY17       | qoq%          |
|-------------------------------------|--------------|--------------|-------------|--------------|---------------|
| Units sold                          | 6,74,870     | 6,60,469     | 2%          | 7,18,562     | -6.1%         |
| Net Realization per unit            | 42,149       | 42,353       | 0%          | 41,094       | 2.6%          |
|                                     |              |              |             |              |               |
| <b>Income from Operations</b>       | <b>2,845</b> | <b>2,797</b> | 2%          | <b>2,983</b> | -4.7%         |
|                                     |              |              |             |              |               |
| <b>Materials Consumed</b>           | <b>2,136</b> | <b>1,962</b> | 9%          | <b>2,149</b> | -0.6%         |
| RM Cost per unit                    | 31,654       | 29,708       | 7%          | 29,909       | 5.8%          |
|                                     |              |              |             |              |               |
| Contribution Per Unit               | 10,494       | 12,646       | -17%        | 11,185       | -6.2%         |
| Contribution margin %               | 24.90%       | 29.86%       | -17%        | 27.22%       | -8.5%         |
|                                     |              |              |             |              |               |
| Employees Cost                      | 174          | 159          | 9%          | 192          | -9.5%         |
| Other Expenditure                   | 373          | 476          | -22%        | 424          | -12.0%        |
| <b>Total Expenditure</b>            | <b>2,683</b> | <b>2,597</b> | 3%          | <b>2,765</b> | -3.0%         |
|                                     |              |              |             |              |               |
| Operating EBITDA                    | <b>162</b>   | <b>200</b>   | -19%        | <b>218</b>   | -26.1%        |
| Margin                              | 5.68%        | 7.15%        | -21%        | 7.40%        |               |
|                                     |              |              |             |              |               |
| <b>Core EBITDA</b>                  | <b>162</b>   | <b>200</b>   | <b>-19%</b> | <b>188</b>   | <b>-14.1%</b> |
| Margin                              | 5.68%        | 7.15%        |             | 6.37%        |               |
|                                     |              |              |             |              |               |
| Depreciation                        | 77           | 67           | 15%         | 72           | 7.6%          |
| Other Income                        | 63           | 39           | 64%         | 35           | 81.6%         |
| Interest                            | 13           | 14           | -8%         | 12           | 14.9%         |
| <b>PBT before Exceptional Items</b> | <b>134</b>   | <b>157</b>   | -15%        | <b>170</b>   | -21.1%        |
| Exceptional Items (net)             | 0            | 0            |             | 0            |               |
| <b>PBT</b>                          | <b>134</b>   | <b>157</b>   | <b>-15%</b> | <b>170</b>   | <b>-21.1%</b> |
| Tax Expense                         | 7            | 20           |             | 37           |               |
| <b>Net Profit after Tax</b>         | <b>127</b>   | <b>137</b>   | -7%         | <b>133</b>   | -4.4%         |
| Effective Tax Rate                  | 5.4%         | 12.9%        |             | 21.9%        |               |
| Extraordinary item                  | 0.00         | 0            |             | 0.00         |               |
| <b>PAT after extraordinary item</b> | <b>127</b>   | <b>137</b>   | <b>-7%</b>  | <b>133</b>   | <b>-4.4%</b>  |
| EPS                                 | 2.67         | 2.88         |             | 2.79         |               |



| Profit and Loss Account, Year Ending March |               |               |               |               |
|--|---------------|---------------|---------------|---------------|
| Particulars, in Rs crore                   | FY16          | FY17          | FY18 E        | FY19 E        |
| <b>Net Sales</b>                           | <b>11,108</b> | <b>12,043</b> | <b>14,731</b> | <b>17,383</b> |
| YoY%                                       | 12.0          | 8.4           | 22.3          | 18.0          |
| Other Operating Income                     | 136           | 92            | 177           | 209           |
| <b>Income from Operations</b>              | <b>11,244</b> | <b>12,135</b> | <b>14,908</b> | <b>17,592</b> |
| Materials Consumed                         | 8,025         | 8,853         | 10,489        | 12,377        |
| Total Expenditure                          | 10,493        | 11,278        | 13,862        | 16,357        |
| <b>Operating EBITDA</b>                    | <b>751</b>    | <b>857</b>    | <b>1,046</b>  | <b>1,234</b>  |
| Operating EBITDA margin %                  | 6.68          | 7.06          | 7.02          | 7.02          |
| Depreciation                               | 190           | 288           | 241           | 274           |
| Operating EBIT                             | 561           | 569           | 805           | 960           |
| Other Income                               | 51            | 173           | 59            | 70            |
| Interest                                   | 49            | 44            | 44            | 52            |
| <b>PBT</b>                                 | <b>563</b>    | <b>699</b>    | <b>820</b>    | <b>977</b>    |
| Tax Expense                                | 134           | 141           | 213           | 254           |
| <b>Reported Net Profit</b>                 | <b>429</b>    | <b>558</b>    | <b>607</b>    | <b>723</b>    |
| YoY%                                       | 23.4          | 30.0          | 8.7           | 19.2          |
| Effective Tax Rate                         | 23.8          | 20.1          | 26.0          | 26.0          |
| <b>Reported EPS</b>                        | <b>9.0</b>    | <b>11.7</b>   | <b>12.8</b>   | <b>15.2</b>   |

| Balance Sheet, Year Ending March      |              |              |              |              |
|---------------------------------------|--------------|--------------|--------------|--------------|
| Particulars, in Rs crore              | FY16         | FY17         | FY18 E       | FY19 E       |
| <b>Liabilities + Equity</b>           |              |              |              |              |
| (a) Share capital                     | 48           | 48           | 48           | 48           |
| (b) Reserves and surplus              | 1,887        | 2,326        | 2,818        | 3,427        |
| <b>Shareholders' funds</b>            | <b>1,934</b> | <b>2,373</b> | <b>2,865</b> | <b>3,475</b> |
| Non-current liab & Prov               | 710          | 673          | 717          | 802          |
| Current liabilities                   | 2,316        | 2,361        | 2,744        | 3,238        |
| <b>Total - Equity and liabilities</b> | <b>4,960</b> | <b>5,408</b> | <b>6,327</b> | <b>7,515</b> |
| <b>Assets</b>                         |              |              |              |              |
| Non-current assets                    |              |              |              |              |
| Fixed assets                          | 1,624        | 1,974        | 2,307        | 2,686        |
| Long Term Inv                         | 1,185        | 1,220        | 1,020        | 1,254        |
| Loans + Adv + Others                  | 137          | 124          | 152          | 179          |
| Non-current assets                    | 2,945        | 3,318        | 3,479        | 4,120        |
| Current assets                        |              |              |              |              |
| Cash                                  | 28           | 34           | 31           | 33           |
| Other Current Assets                  | 1,985        | 2,052        | 2,815        | 3,360        |
| Sub-total - Current assets            | 2,015        | 2,088        | 2,847        | 3,394        |
| <b>Total - Assets</b>                 | <b>4,960</b> | <b>5,406</b> | <b>6,325</b> | <b>7,513</b> |

| Cash Flow Statement, Year Ending March |              |              |              |              |
|--|--------------|--------------|--------------|--------------|
| Particulars, in Rs crore               | FY16         | FY17         | FY18 E       | FY19 E       |
| Operating Activities                   |              |              |              |              |
| <b>PBT</b>                             | <b>563</b>   | <b>699</b>   | <b>820</b>   | <b>977</b>   |
| Add Depr + non op exp                  | 190          | 288          | 241          | 274          |
| Others                                 | 2.7          | 3.0          | 3.3          | 3.7          |
| Total                                  | 756          | 990          | 1,064        | 1,255        |
| Cash Taxes                             | (158)        | (167)        | (236)        | (277)        |
| Changes in Working Cap                 | (357)        | (375)        | (580)        | (603)        |
| <b>Cash Flow from Operations</b>       | <b>241</b>   | <b>447</b>   | <b>248</b>   | <b>375</b>   |
| Investing Activities                   |              |              |              |              |
| Change in investments                  | (157)        | (20)         | (21)         | (22)         |
| Capex                                  | (211)        | (466)        | (352)        | (400)        |
| <b>Others</b>                          | <b>27</b>    | <b>7</b>     | <b>7</b>     | <b>8</b>     |
| <b>Cash Flow from Investing</b>        | <b>(341)</b> | <b>(479)</b> | <b>(366)</b> | <b>(415)</b> |
| Financing Activities                   |              |              |              |              |
| Dividends + Taxes paid                 | (95.0)       | (92.6)       | (96.1)       | (96.1)       |
| <b>Change in Non Curr Liab</b>         | <b>213</b>   | <b>136</b>   | <b>211</b>   | <b>138</b>   |
| Cash Flow from Financing               | 118.2        | 43.4         | 114.7        | 41.8         |
| Opening Cash                           | 2.9          | 21.2         | 32.9         | 29.7         |
| Changes during year                    | 18.4         | 11.7         | (3.2)        | 1.9          |
| Other bank balances                    | 6.3          | 1.2          | 1.2          | 1.2          |
| <b>Closing cash</b>                    | <b>28</b>    | <b>34</b>    | <b>31</b>    | <b>33</b>    |

| Ratio Analysis               |             |             |             |             |
|------------------------------|-------------|-------------|-------------|-------------|
|                              | FY16        | FY17        | FY18 E      | FY19 E      |
| <b>Profitability</b>         |             |             |             |             |
| <b>Operating EBITDA%</b>     | <b>6.7</b>  | <b>7.1</b>  | <b>7.0</b>  | <b>7.0</b>  |
| Core EBITDA%                 | 5.5         | 6.4         | 5.9         | 5.9         |
| PAT%                         | 3.8         | 4.6         | 4.1         | 4.1         |
| <b>ROAE%</b>                 | <b>24.0</b> | <b>25.9</b> | <b>23</b>   | <b>23</b>   |
| Du Pont ROAE breakup         |             |             |             |             |
| PAT / Sales                  | 3.8         | 4.6         | 4.1         | 4.1         |
| Sales / Avg Total Assets     | 2.4         | 2.3         | 2.5         | 2.6         |
| Avg Total Assets / Avg Eqty  | 2.7         | 2.4         | 2.3         | 2.2         |
| <b>ROE</b>                   | <b>24.0</b> | <b>25.9</b> | <b>23.2</b> | <b>22.8</b> |
| Other Ratios                 |             |             |             |             |
| <b>Current Ratio</b>         | <b>0.9</b>  | <b>0.9</b>  | <b>1.0</b>  | <b>1.0</b>  |
| Long Term Debt / Equity      | 0.3         | 0.2         | 0.1         | 0.1         |
| <b>EPS</b>                   | <b>9.0</b>  | <b>11.7</b> | <b>12.8</b> | <b>15.2</b> |
| DPS                          | 2.5         | 2.5         | 2.5         | 2.5         |
| <b>Dividend Payout ratio</b> | <b>28</b>   | <b>21</b>   | <b>20</b>   | <b>16</b>   |
| <b>P/E</b>                   | <b>32.0</b> | <b>34.8</b> | <b>32.0</b> | <b>28.5</b> |
| BVPS                         | 40.7        | 50.0        | 60.3        | 73.1        |
| P/BV                         | 7.1         | 8.2         | 6.8         | 5.9         |

Source: Company data, Arihant 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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