



CMP: Rs 639
Revised Target Price: Rs 690
Recommendation: Hold

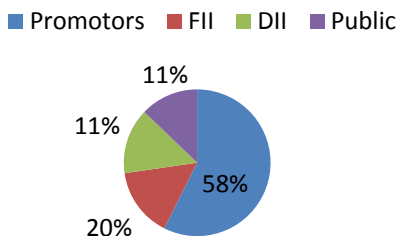
Stock Info

| | |
|------------|----------|
| BSE Group | B |
| BSE Code | 532343 |
| NSE Symbol | TVSMOTOR |
| Bloomberg | TVSL IN |
| Reuters | TVSM.BO |
| BSE Sensex | 31,882 |
| NSE Nifty | 10,006 |

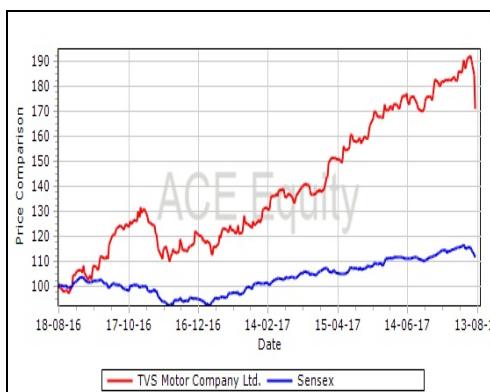
Market Info

| | |
|-----------------------|-----------------|
| Market Capital | Rs 30,548 cr |
| Equity Capital | Rs 48 cr |
| 6M Avg Trading Volume | 1,299,688 |
| 52 Wk High / low | Rs 647.10/319.8 |
| Face Value | Rs 1 |

Shareholding Pattern Jun 17



Price Vs Sensex Chart



2W industry growth accelerates; TVS Motors to continue to outpace industry growth on new launches. After high single-digit growth in Q1FY2018, the two wheeler (2W) industry's growth has picked up in the last two months, with the industry reporting strong double-digit growth (13% growth reported in July-August 2017). The 2W industry's outlook has improved with the industry coming out of GST transitory issues and robust rural sentiments on account of a second consecutive year of normal monsoon. Moreover, given the commencement of the festive season, we expect the industry to continue posting robust double-digit growth. Given the above factors, we expect the 2W industry to grow by 12% in FY2018. In addition, TVS Motors will introduce new products (plans to introduce a premium 300cc motorcycle and a new scooter) and refreshes (across its range of motorcycles and scooters) in H2FY2018, which will enable it to continue outpacing the industry's growth. TVS Motors has also ramped up supplies to global partner (targets 2,000 bikes per month as against current rate of 1,400 units) for premium motorcycles in its global markets, which would aid growth going ahead. We expect TVS Motors' volumes to grow by 16% in FY2018. Margin trajectory to improve from Q2FY2018. TVS Motors' volume growth is likely to accelerate to 18% in 9MFY2018 as against volume growth of 12% in Q1FY2018. Moreover, Q1FY2018 margin of 6.2% had one-off impact of GST-related dealer compensation and higher discounts to clear inventory. We expect margin trajectory to improve going ahead, given the robust volume uptick and successful transition from GST. In addition, with improved product mix (launch of premium 300cc motorcycle and higher sales of established brands viz. Apache and Jupiter), we expect margins to improve going forward. We expect TVS Motors to report EBIDTA margin of 7.7% and 9.3% in FY2018 and FY2019, respectively.

Outlook - Robust double-digit earnings growth to continue: TVS Motors is well poised to outpace industry growth (TVS is likely to report a 15% volume CAGR over FY2017-FY2019 as against estimated industry growth of about 10%), given the success of recent launches and strong product pipeline. Further, realisation/vehicle would improve as share of the highvalue non-moped segment rises. Moreover, TVS Motors' margins are likely to reach the doubledigit mark by FY2019, leading to a strong 37% earnings CAGR over the next two years.

Valuation – TVS Motors volume outlook has improved, given the acceleration in the 2W industry's growth and a strong product pipeline, which is likely to be unveiled in the ongoing festival season. We have increased our FY2018 and FY2019 revenue estimates by 3%, to factor in improved prospects. We give **HOLD** rating on the stock with a revised price target (PT) of Rs.690 (based on 33x FY2019 earnings).

| Y/E March, (in Rs crore) | FY17 | FY18E | FY19E |
|-------------------------------|---------------|---------------|---------------|
| Income from operations | 12,135 | 14,380 | 17,137 |
| yoy% | 9 | 18 | 19 |
| Operating EBIDTA | 857 | 1,107 | 1,585 |
| Operating EBITDA margin % | 7.1 | 7.7 | 9.3 |
| Adjusted PAT | 558 | 711 | 992 |
| yoy% | 30.0 | 27.3 | 39.6 |
| EPS | 11.7 | 15.0 | 20.9 |
| P/E (x) | 34.8 | 42.7 | 30.6 |



| 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% |
| Net Sales | 3,400 | 2,853 | 2,845 | 19.2% | 19.5% |
| Other Operating Income | 0 | 28 | 0 | | |
| Income from Operations | 3,400 | 2,881 | 2,845 | 18.0% | 19.5% |
| Materials Consumed | 2,535 | 2,090 | 2,136 | 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% |
| Total Expenditure | 3,188 | 2,681 | 2,683 | 18.9% | 18.8% |
| Operating EBITDA | 212 | 200 | 162 | 5.7% | 31.1% |
| Margin | 6.23% | 7.02% | 5.68% | -11.3% | 9.7% |
| Core EBITDA | 212 | 172 | 162 | 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% |
| PBT before Exceptional Items | 180 | 161 | 134 | 11.8% | 34.1% |
| Exceptional Items (net) | 0 | 0 | 0 | | |
| PBT | 180 | 161 | 134 | 11.8% | 34.1% |
| Tax Expense | 50 | 40 | 7 | 26.3% | 589.2% |
| Net Profit after Tax | 130 | 121 | 127 | 7.0% | 2.4% |
| Effective Tax Rate | 27.8% | 24.6% | 5.4% | 13.0% | 413.9% |
| Extraordinary item | 0.00 | 0 | 0.00 | | |
| PAT after extraordinary item | 130 | 121 | 127 | 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 |
| Net Sales | 12,135 | 14,380 | 17,137 | Liabilities + Equity | | | |
| YoY% | 9.2 | 18.5 | 19.2 | (a) Share capital | 48 | 48 | 48 |
| Other Operating Income | - | - | - | (b) Reserves and surplus | 2,361 | 2,926 | 3,805 |
| Income from Operations | 12,135 | 14,380 | 17,137 | Shareholders' funds | 2,408 | 2,973 | 3,852 |
| Materials Consumed | 8,853 | 10,469 | 12,227 | Non-current liab & Prov | 645 | 706 | 794 |
| Total Expenditure | 11,278 | 13,273 | 15,552 | Current liabilities | 2,851 | 3,142 | 3,383 |
| Operating EBITDA | 857 | 1,107 | 1,585 | Total - Equity and liabilities | 5,905 | 6,821 | 8,029 |
| Operating EBITDA margin % | 7.06 | 7.70 | 9.25 | | | | |
| Depreciation | 288 | 291 | 374 | Assets | | | |
| Operating EBIT | 569 | 817 | 1,211 | Non-current assets | | | |
| Other Income | 173 | 200 | 200 | Fixed assets | 2,046 | 2,256 | 2,648 |
| Interest | 44 | 43 | 51 | Long Term Inv | 1,588 | 1,636 | 1,645 |
| PBT | 699 | 974 | 1,360 | Loans + Adv + Others | 84 | 148 | 177 |
| Tax Expense | 141 | 263 | 367 | Non-current assets | 3,853 | 4,040 | 4,469 |
| Reported Net Profit | 558 | 711 | 992 | Current assets | | | |
| YoY% | 30.0 | 27.3 | 39.6 | Cash | 8 | 113 | 341 |
| Effective Tax Rate | 20.1 | 27.0 | 27.0 | Other Current Assets | 2,041 | 2,668 | 3,217 |
| Reported EPS | 11.7 | 15.0 | 20.9 | Sub-total - Current assets | 2,052 | 2,781 | 3,559 |
| | | | | Total - Assets | 5,905 | 6,821 | 8,029 |
| Cash Flow Statement, Year Ending March | | | | Ratio Analysis | | | |
| Particulars, in Rs crore | FY17 | FY18 E | FY19 E | | FY17 | FY18 E | FY19 E |
| Operating Activities | | | | Profitability | | | |
| PBT | 699 | 974 | 1,360 | Operating EBITDA% | 7.1 | 7.7 | 9.3 |
| Add Depr + non op exp | 288 | 291 | 374 | Core EBITDA% | 7.1 | 7.7 | 9.3 |
| Others | (82.1) | (90.4) | (99.4) | PAT% | 4.6 | 4.9 | 5.8 |
| Total | 904 | 1,174 | 1,634 | ROAE% | 25.7 | 26 | 29 |
| Cash Taxes | (129) | (286) | (390) | | | | |
| Changes in Working Cap | (51) | (139) | 163 | Du Pont ROAE breakup | | | |
| Cash Flow from Operations | 724 | 749 | 1,408 | PAT / Sales | 4.6 | 4.9 | 5.8 |
| | | | | 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) | ROE | 25.7 | 26.4 | 29.1 |
| Capex | (612) | (639) | (900) | | | | |
| Others | 58 | 10 | 11 | Other Ratios | | | |
| Cash Flow from Investing | (748) | (662) | (1,174) | Current Ratio | 0.7 | 0.9 | 1.1 |
| | | | | Long Term Debt / Equity | 0.2 | 0.1 | 0.1 |
| Financing Activities | | | | EPS | 11.7 | 15.0 | 20.9 |
| Dividends + Taxes paid | (141.3) | (96.1) | (96.1) | DPS | 2.5 | 2.5 | 2.5 |
| Change in Non Curr Liab | 69 | 112 | 89 | Dividend Payout ratio | 21 | 17 | 12 |
| Cash Flow from Financing | (72.7) | 15.8 | (7.5) | P/E | 34.8 | 42.7 | 30.6 |
| Opening Cash | 26.9 | 8.1 | 112.8 | BVPS | 50.7 | 62.6 | 81.1 |
| Changes during year | (96.9) | 103.5 | 226.9 | P/BV | 8.1 | 10.2 | 7.9 |
| Other bank balances | 78.2 | 1.2 | 1.2 | | | | |
| Closing cash | 8 | 113 | 341 | | | | |

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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