

CMP: Rs 554

Revised Target Price: Rs 525

Recommendation: Reduce

Stock Info

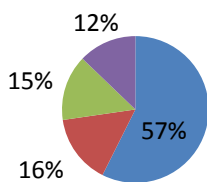
BSE Group	B
BSE Code	532343
NSE Symbol	TVSMOTOR
Bloomberg	TVSL IN
Reuters	TVSM.BO
BSE Sensex	36,444
NSE Nifty	10,922

Market Info

Market Capital	Rs 26,303 cr
Equity Capital	Rs 48 cr
6M Avg Trading Volume	1,810,096
52 Wk High / low	Rs 794/478
Face Value	Rs 1

Shareholding Pattern Dec 18

■ Promoters ■ FII ■ DII ■ Public



Price Vs Sensex Chart



Quarter Highlights:

- Company reported a revenue growth of 26.0% for the third quarter of FY 2018-19. Total revenue grew to Rs. 4664.6 Crores in the current quarter of 2018-19 from Rs. 3703.1 Crores in the quarter ended December 2017.
- EBITDA for the quarter ended December 2018 is Rs. 375.7 Crores compared to Rs. 300.5 Crores for the quarter ended December 2017, a growth of 25.0%.
- EBITDA for the quarter is at 8.1% vs 8.6% QoQ.
- The Company's Profit Before Tax (PBT) for the quarter ended December 2018 is Rs. 258.5 Crores as against Rs. 210.4 Crores for the quarter ended December 2017 registering a growth of 22.9%.
- Profit After Tax (PAT) for quarter ended December 2018 is Rs. 178.4 Crores against Rs. 154.4 Crores reported for the quarter ended December 2017 registering a growth of 15.5%.
- During the quarter ended December 2018, the overall two-wheeler sales of the Company including exports grew by 18.9% to 9.50 Lakh units from 7.99 Lakh units in the quarter ended December 2017. Motorcycle sales grew by 20.3% to 3.78 Lakh units in the quarter ended December 2018 from 3.14 Lakh units registered in the quarter ended December 2017. Scooter sales of the Company grew by 31.7% to 3.54 Lakh units in the quarter ended December 2018 from 2.69 Lakh units in the quarter ended December 2017. The total export of the Company grew by 25.8% to 1.77 Lakh units during the quarter ended December 2018 from 1.40 Lakh units in the quarter ended December 2017. Total three wheelers sales grew by 47.0% to 0.40 Lakh units in the quarter ended December 2018 from 0.27 Lakh units in the quarter ended December 2017.

Conference call highlights:

- Insurance cost and liquidity crises have resulted in decrease in demand, however TVS managed to outperform the industry growth rate.
- Industry grew by 8% whereas TVS grew by 19%.
- Scenario is becoming stable and Company expects Q4 to be better than Q3.
- Inventories stands at 4-5 weeks.
- Exports grew by 30% YTD and company expects the momentum to continue. TVS now exports to 62 countries. Exports revenue for the quarter stood at Rs 1056 crore for the quarter.
- New Launches such as Ntorque and Radeon have been accepted well by the market. This two models are bringing new customers to the company.
- Radion is doing 12000 units per month and plans to increase the run rate to 20,000 per month.
- Ntorque and Apache 160V have crossed 100,000 units since launch.
- New launches like the Jupiter Grand and TVS Radeon have been accepted in the market and expects sales to pick up.
- NTORQ and Apache 160 have crossed 1 lakh sales figures.
- TVS has taken price hike of 0.6% in Q3 and 0.9% YTD.
- Realisation increased 2.7% due to better product mix, price increase and foreign currency movements.
- Focus remains on cost-reduction efforts such as alternative sourcing, localization, value addition/value engineering etc.
- TVS credit book stands at Rs 8000 Crore with PBT of Rs 141 Crore.
- Due to automation and better product mix overall fix cost has come down.
- Over the next few quarters, margin is expected to improve due to price increases, better product mix and cost-reduction efforts.

Valuation – Higher raw material prices and heightened competitive intensity especially in scooters is expected to keep margins under check. Going forward demand is expected to come from rural areas, even export market is gaining acceptance of the products. With a good product mix, cost reduction initiative, company expects margins to increase further. Management is promising to improve the EBITDA margins but not able to do it. So the margins will be key to watch. Currently the stock is trading at PE of 37.51x which is expensive. According to the Government of India mandate, all new two-wheelers with an engine displacement of 125cc and above essentially need to have an ABS (Anti-Lock Braking System) starting April 2019, this will increase the cost of the vehicles and can hurt sales. At CMP of 554 TVS is trading at PE of 33x and 26x of FY19E and FY20E EPS respectively. We have valued TVS at PE of 25x to its FY20E EPS and arrived at target price of Rs 525 with a ‘Reduce’ rating on the stock.

Financial Snapshot:

Y/E March, (in Rs crore)	FY18	FY19E	FY20E
Income from operations	15,130	18,842	21,494
yoy%	25	25	14
Operating EBIDTA	1,129	1,577	1,909
Operating EBITDA margin %	7.5	8.4	8.9
Adjusted PAT	663	807	998
yoy%	18.7	21.8	23.7
EPS	14	17	21
P/E (x)	40	33	26

Quarterly Update:

Quarterly P&L in Rs crore	Q3FY19	Q2FY19	Q3FY18	YoY	QoQ
Units sold	989,787	1,088,335	826,426	20%	-9%
Net Realization per unit	47,121	45,889	44,755	5%	3%
Net Sales	4,664	4,994	3,699	26%	-7%
Income from Operations	4,664	4,994	3,699	26%	-7%
Materials Consumed	3,535	3,784	2,678	32%	-7%
RM Cost per unit	35,712	34,769	32,408	10%	3%
Employees Cost	237	245	212	12%	-3%
Other Expenditure	517	536	508	2%	-4%
Total Expenditure	4,288	4,565	3,398	26%	-6%
Operating EBITDA	376	429	301	25%	-12%
Margin	8%	8.6%	8.1%	-1%	-6%
Core EBITDA	376	429	301	25%	-12%
Margin	8%	9%	8.1%	-1%	-6%
Depreciation	101	102	82	23%	0%
Other Income	1	1	4	-85%	-12%
Interest	17	21	12	37%	-21%
PBT before Exceptional Items	258	307	210	23%	-16%
Exceptional Items (net)					
PBT	258	307	210	23%	-16%
Tax Expense	80	95	56	43%	-16%
Net Profit after Tax	178	212	154	16%	-16%
Effective Tax Rate	31%	31%	27%	16%	0%
Extraordinary item					
PAT after extraordinary item	178	212	154	16%	-16%
EPS	3.8	4.5	3.2	16%	-16%

Financials

Profit and Loss Account, Year Ending March				Balance Sheet, Year Ending March			
Particulars, in Rs crore	FY18	FY19 E	FY20 E	Particulars, in Rs crore	FY18	FY19E	FY20E
Net Sales	15,130	18,842	21,494	Liabilities + Equity			
YoY%	24.7	24.5	14.1	(a) Share capital	48	48	48
Other Operating Income	-	-	-	(b) Reserves and surplus	2,833	3,567	4,452
Income from Operations	15,130	18,842	21,494	Shareholders' funds	2,880	3,614	4,500
Materials Consumed	11,133	14,395	16,207	Non-current liab & Prov	520	849	933
Total Expenditure	14,000	17,265	19,585	Current liabilities	3,780	4,041	4,550
Operating EBITDA	1,129	1,577	1,909	Total - Equity and liabilities	7,179	8,504	9,984
Operating EBITDA margin %	7.46	8.37	8.88				
Depreciation	339	361	411	Assets			
Operating EBIT	790	1,216	1,497	Non-current assets			
Other Income	145	10	13	Fixed assets	2,499	2,551	2,829
Interest	57	73	84	Long Term Inv	2,035	2,775	3,541
PBT	879	1,153	1,426	Loans + Adv + Others	63	334	210
Tax Expense	216	346	428	Non-current assets	4,601	5,660	6,580
Reported Net Profit	663	807	998	Current assets			
YoY%	18.7	21.8	23.7	Cash	6	248	196
Effective Tax Rate	24.6	30.0	30.0	Other Current Assets	2,493	2,594	3,037
Reported EPS	13.9	17.0	21.0	Sub-total - Current assets	2,578	2,843	3,404
				Total - Assets	7,179	8,504	9,984
Cash Flow Statement, Year Ending March				Ratio Analysis			
Particulars, in Rs crore	FY18	FY19 E	FY20 E		FY18	FY19 E	FY20 E
Operating Activities				Profitability			
PBT	879	1,153	1,426	Operating EBITDA%	7.5	8.4	8.9
Add Depr + non op exp	339	361	411	Core EBITDA%	7.5	8.4	8.9
Others	(86.1)	(90.0)	(90.0)	PAT%	4.4	4.3	4.6
Total	1,131	1,424	1,748	ROAE%	25	25	25
Cash Taxes	(246)	(346)	(428)	Du Pont ROAE breakup			
Changes in Working Cap	367	214	(42)	PAT / Sales	4.4	4.3	4.6
Cash Flow from Operations	1,252	1,292	1,278	Sales / Avg Total Assets	2.3	2.4	2.3
Investing Activities				Avg Total Assets / Avg Eqty	2.5	2.4	2.3
Change in investments	(76)	(100)	(100)	ROE	25	25	25
Capex	(718)	(800)	(800)	Other Ratios			
Others	(291)	(12)	25	Current Ratio	0.7	0.7	0.7
Cash Flow from Investing	(1,086)	(912)	(875)	Long Term Debt / Equity	0.1	0.1	0.1
Financing Activities				EPS	13.9	17.0	21.0
Dividends + Taxes paid	(188)	(171)	(171)	DPS	2.5	2.5	2.5
Change in Non Curr Liab	113	177	(284)	Dividend Payout ratio	17.9	14.7	11.9
Cash Flow from Financing	(75)	5	(455)	P/E	39.7	32.6	26.4
Opening Cash	(229)	(138)	248	BVPS	60.6	76.1	94.7
Changes during year	91	386	(52)	P/BV	9.1	7.3	5.8
Closing cash	(138)	248	196				

*Closing Cash excludes bank balances

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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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