

Rising commodity prices to dent margin

Company Name

AMARAJABAT
 ASHOKLEY
 BAJAJ-AUTO
 BALKRISIND
 CEATLTD
 EICHERMOT
 ESCORTS
 GABRIEL
 HEROMOTOCO
 LUMAXIND
 M&M
 MARUTI
 MINDAIND
 MOTHERSUMI
 SKFINDIA
 SUBROS
 SWARAJENG
 TVSMOTOR

The automotive OEMs reported mixed set of volume growth in 2QFY19. 2/3W and CV industry posted healthy growth of 11%/39% and 23%YoY respectively while PV and tractor industry remained muted. Revenue growth for our coverage universe is expected to ~11%YoY. Margin is expected to remain under pressure for automotive OEMs in 2QFY19 as commodity prices continued to rise in 1QFY19 as well. However, there had been price hike across industry to mitigate some of the cost pressure. Margin compression will be limited for those companies who have high share of premium products or running at higher capacity utilization level. Our top picks in the automotive OEMs are ASHOKLEY, BAJAJ-AUTO, M&M and MARUTI. On the other hand margin profile of auto component makers is expected to be stable on a sequential basis due to operating leverage benefit and price negotiations with OEMs. We continue to like LUMAXIND, MOTHERSUMI and SUBROS among auto component manufacturers.

Automobiles:

Revenue Growth to be largely driven by volume growth: We expect OEMs to report overall 10%YoY revenue growth in 2QFY19. The Passenger vehicle industry remained muted due to various factors such as higher base effect, Kerala flood, rising fuel prices and increase in insurance cost leading to higher ownership cost. The CV segment continued its growth streak on account of governments focus on infrastructure development, logistics demand, overloading norms, increasing hub & spoke model and increased rural consumption. Two wheelers industry has posted 11%YoY growth on the back of new launches and strong revival in export & rural markets. Three wheeler sales continued to outperform overall automobile industry and posted 39%YoY volume growth based on discontinuation of permits in Maharashtra and shift towards 2 stroke to 4 strokes vehicles. The overall growth in the industry was also impacted by delayed festive season in 3QFY19.

Despite price hikes 2Ws realisation may not see significant increase due to higher sales of entry level motorcycles and steep discounting trends while passenger vehicle realisation to remain on the higher side considering the increasing premiumisation and price hikes taken during the quarter. In the commercial vehicles space increase in realisation due to sales of higher tonnage vehicles may get marred by continued discounting in the industry. ASHOKLEY, BAJAJ-AUTO and TVSMOTOR are expected to clock revenue growth of over 25%. However the revenue growth for HEROMOTOCO, EICHERMOT, ESCORTS, MARUTI and M&M is expected to be in single digit.

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Raw Material cost a concern for margin expansion: Rising commodity prices continue to be a challenge for OEMs. The steel prices have risen by 4%QoQ, aluminum prices have risen by 5%QoQ and crude have risen by almost 8%QoQ during the 1QFY19. We expect that the EBITDA margin of ASHOKLEY and MARUTI to expand most among the peers because of shift in the product mix towards high margin products, better cost control, price hikes and operating leverage benefit on the back of higher volumes. However, due to change in product mix towards low margin products, currency depreciation leading to higher RM cost and higher discounting BAJAJ-AUTO, ESCORTS and M&M may witness approx 60-80bps QoQ contraction in the margins.

Auto component:

Strong double digit growth expected: The overall auto component industry is expected to post strong double digit growth in 2QFY19. This growth will be driven by increase in component per vehicle, premiumisation of components, INR depreciation coupled with decent volume growth across OEMs. Some of the component makers have been facing capacity issue since last 3-4 quarters, especially in the tyre segment. Now this issue has been largely resolved through brown-field expansion. The companies in our coverage universe expected to report ~15%YoY revenue growth in 2QFY19.

Operating Leverage benefit and price negotiations to drive margins: Higher commodity prices and INR depreciation may put pressure on margins but higher operating leverage and price negotiation with OEMs will offset some of the impact. MINDAIND and SUBROS margins are expected to expand by 120bps QoQ while AMARAJABAT, CEATLTD, GABRIEL and LUMAXIND margins are expected to increase in the range of 30-50bps QoQ.

Q2FY19 results estimates

Automobiles

Company	Particulars	Q2FY18	1QFY19	2QFY19E	QoQ (%)	YoY (%)
ASHOKLEY	Revenue	6047	6250	7714	23%	28%
	EBITDA	612	648	862	33%	41%
	PAT	334	370	534	44%	60%
BAJAJ-AUTO	Revenue	6580	7419	8218	11%	25%
	EBITDA	1297	1280	1368	7%	5%
	PAT	1194	1042	1178	13%	-1%
EICHERMOT	Revenue	2167	2548	2364	-7%	9%
	EBITDA	683	810	754	-7%	10%
	PAT	518	576	577	0%	11%
ESCORTS	Revenue	1212	1511	1300	-14%	7%
	EBITDA	141	186	152	-18%	8%
	PAT	78	120	99	-18%	27%
HEROMOTOCO	Revenue	8362	8810	8945	2%	7%
	EBITDA	1456	1377	1378	0%	-5%
	PAT	1010	909	916	1%	-9%
M&M	Revenue	12182	13520	12685	-6%	4%
	EBITDA	1729	1872	1649	-12%	-5%
	PAT	1332	1221	1058	-13%	-21%
MARUTI	Revenue	21768	22459	22340	-1%	3%
	EBITDA	3634	3335	3507	5%	-3%
	PAT	2484	1975	2307	17%	-7%
TVSMOTOR	Revenue	4052	4154	5069	22%	25%
	EBITDA	350	306	375	23%	7%
	PAT	213	147	205	39%	-4%

Auto Components

Company	Particulars	Q2FY18	1QFY19	2QFY19E	QoQ (%)	YoY (%)
AMARAJABAT	Revenue	1428	1779	1627	-9%	14%
	EBITDA	238	220	210	-5%	-12%
	PAT	127	113	104	-8%	-18%
BALKRISIND	Revenue	1114	1362	1365	0%	23%
	EBITDA	305	358	358	0%	17%
	PAT	203	230	213	-7%	5%
CEATLTD	Revenue	1523	1706	1713	0%	12%
	EBITDA	175	176	184	5%	5%
	PAT	73	71	86	21%	18%
GABRIEL	Revenue	472	515	526	2%	11%
	EBITDA	45	49	52	6%	16%
	PAT	27	24	28	17%	4%
LUMAXIND	Revenue	380	496	475	-4%	25%
	EBITDA	30	41	40	-2%	33%
	PAT	18	20	17	-15%	-6%
MINDAIND	Revenue	1098	1430	1373	-4%	25%
	EBITDA	137	170	180	6%	31%
	PAT	73	85	96	13%	32%
MOTHERSUMI	Revenue	13431	14775	15369	4%	14%
	EBITDA	1251	1412	1383	-2%	11%
	PAT	593	618	630	2%	6%
SKFINDIA	Revenue	680	755	744	-1%	9%
	EBITDA	111	116	111	-4%	0%
	PAT	74	81	76	-6%	3%
SUBROS	Revenue	497	532	573	8%	15%
	EBITDA	54	57	68	19%	26%
	PAT	15	19	28	47%	87%
SWARAJENG	Revenue	209	235	210	-11%	0%
	EBITDA	35	37	32	-14%	-9%
	PAT	24	23	21	-9%	-13%

CMP 737
Target 882
Upside 20%
Rating BUY

	FY17	FY18	FY19E	FY20E
Roe%	18%	16%	15%	17%
Roce%	25%	22%	20%	24%
P/E	31.7	28.9	25.7	19.2
P/B	5.9	4.6	3.8	3.3
EV/Ebdita	17.8	15.4	13.3	10.2

	FY17	FY18	FY19E	FY20E	Q2FY18	Q1FY19	Q2FY19E
Capacity (mn units)							
4W	10.5	12.8	17.4	21.0	10.5	12.8	12.8
2W	11.0	15.0	16.0	18.0	11.0	15.0	15.0
Lead Prices-USD/MT	2002	2375	2125	2125	2,331	2,395	2,125
Segment Revenue							
Automotive Sales	3,204	3,878	4,738	5,343	914	1,227	1,107
Industrial Sales	2,136	2,181	2,256	2,752	514	551	521
Financials							
Sales	5,317	6,059	6,995	8,095	1,428	1,779	1,627
Sales Gr	15%	14%	15%	16%	6%	19%	14%
Ebdita	850	883	948	1,233	238	220	210
Ebdita Gr	3%	4%	7%	30%	4%	14%	-12%
Net Profits	478	471	491	655	127	113	104
Profit Gr%	-3%	-1%	4%	33%	-7%	13%	-18%
Ebdita Margin%	16.0%	14.6%	13.5%	15.2%	16.7%	12.4%	12.9%
Net Profit Margin%	9.0%	7.8%	7.0%	8.1%	8.9%	6.3%	6.4%

Std/Fig in Rs Cr

❑ Revenue growth of 16%YoY is expected in 2QFY19 and FY19 both will be driven by strong demand outlook from automotive segment. However the company aims to be a Rs.10000 crores entity in the next 2-3 years.

❑ A higher share of traded batteries (due to capacity constraint) and higher 4W OEM contribution along with raw material price increase have led to pressure on margins front.

❑ However increasing premiumisation in automotive batteries will keep the margins on the higher side of the guided range of 14-16%.

❑ Telecom batteries segment will continue to show negative growth trend for next couple of quarters as no manor recovery is being seen there.

❑ Guided for capex of Rs 550 crores in FY19 for the 2W plant (balance capex of Rs200 crores), Rs 80-90 crores for inverter, initial capex for 4W and maintenance capex. It will be investing Rs700 crores to increase 4W capacity by 6.5m (to 17m in 18-24 months). 2W capacity stands at 15m; planning to add further 10m by FY21-22.

Key Trackable this Quarter

❑ EBITDA margin guidance in the range of 14-16%.

❑ Localisation ratio of Lead imports: currently 40% Lead imported

❑ Telecom revenue growth: contributes 50% of industrial revenues

We value the stock 23x FY20e EPS.

AL IN

CMP 119
Target 143
Upside 20%
Rating BUY

	FY17	FY18	FY19E	FY20E
Roe%	20%	22%	25%	26%
Roce%	23%	29%	34%	35%
P/E	19.4	30.2	16.3	13.4
P/B	3.9	6.6	4.1	3.5
EV/Ebdita	14.3	20.5	13.0	8.6

	FY17	FY18	FY19E	FY20E	Q2FY18	Q1FY19	Q2FY19E
Volume Growth							
MHCV	113,298	131,390	147,556	161,972	31,397	30,646	38,386
Growth YoY	3%	16%	12%	10%	58%	-31%	25%
LCV	31,770	43,441	53,316	61,794	9588	11,481	13,572
Growth YoY	4%	36%	23%	16%	11%	-20%	18%
ASP(Rs'000/vehicle)	1,380	1,501	1,485	1,501	1,475	1,484	1,485
Growth YoY	2%	9%	-1%	1%	7%	0%	1%
Financials							
Sales	20,019	26,248	29,822	33,593	6,047	6,250	7,714
Sales Gr	6%	31%	14%	13%	31%	47%	28%
Ebdita	2,203	2,739	3,466	4,027	612	648	862
Ebdita Gr	-2%	24%	27%	16%	14%	112%	41%
Net Profits	1,223	1,563	2,135	2,588	334	370	534
Profit Gr%	214%	28%	37%	21%	14%	233%	60%
Ebdita Margin%	11.0%	10.4%	11.6%	12.0%	10.1%	10.4%	11.2%
Net Profit Margin%	6.1%	6.0%	7.2%	7.7%	5.5%	5.9%	6.9%

Std/Fig in Rs Cr

❑ Revenue growth of 28%YoY to be expected in 2QFY19 on the back of 27%YoY volume growth. The volume growth expectation for FY19 is 15%YoY ahead of the industry guidance of 8-10%.

❑ Rising commodity prices and higher discounting practices continues to put pressure on margins but on account of better product mix and operating leverage benefit margins expected to improve by 70bps QoQ.

❑ Capex of Rs.1000 crores towards capacity addition and new product development. Apart from that additional investment of Rs.400 crores over the next 3 years towards development of new LCV platform.

❑ Defence business to become Rs.5000 crores in next 5 years from Rs.750 crores currently.

❑ Export is 12% of total revenue and the management is planning it to make approx.33% in next 3-5 years time frame.

Key Trackable this Quarter

❑ Commentary on axle norms

❑ Hinduja Foundries Limited EBITDA margin: started contributing positively to consolidated EBITDA

❑ Industry Discount trends : heavy discounts from competitors leading to market share loss

We value the stock at 16x FY20e EPS.

CMP 2733
Target 3137
Upside 15%
Rating BUY

	FY17	FY18	FY19E	FY20E
Roe%	23%	21%	19%	20%
Roce%	23%	22%	21%	22%
P/E	19.9	18.9	18.4	15.4
P/B	4.5	3.9	3.5	3.1
EV/Ebdita	18.3	16.5	15.8	13.3

	FY17	FY18	FY19E	FY20E	Q2FY18	Q1FY19	Q2FY19E
Volume Growth							
2 wheelers ('000)	3,220	3,369	4,070	4,429	919	1,030	1,127
Growth YoY	-4%	5%	21%	9%	2%	33%	23%
3 wheelers ('000)	446	637	766	815	153	197	213
Growth YoY	-16%	43%	20%	6%	14%	74%	39%
ASP (Rs/vehicle)	59,375	62,806	62,017	64,029	60,427	59,245	60,268
Growth YoY	2%	6%	-1%	3%	5%	-1%	0%
Financials							
Sales	21,767	25,165	29,879	33,578	6,580	7,419	8,218
Sales Gr	-4%	16%	19%	12%	9%	36%	25%
Ebdita	4,419	4,782	4,995	5,939	1,297	1,280	1,368
Ebdita Gr	-7%	8%	4%	19%	0%	37%	5%
Net Profits	4,079	4,219	4,307	5,133	1,194	1,042	1,178
Profit Gr%	1%	3%	2%	19%	-1%	25%	-1%
Ebdita Margin%	20.3%	19.0%	16.7%	17.7%	19.7%	17.3%	16.7%
Net Profit Margin%	18.7%	16.8%	14.4%	15.3%	18.1%	14.0%	14.3%

Conso/Fig in Rs Cr

❑ 27%YoY revenue growth to be driven by 25%YoY volume growth in 2QFY19. Realisation expected to improve by 2%YoY led by higher contribution of exports and 3 wheelers.

❑ Margin to remain under pressure in 2QFY19 also led by increase in commodity cost and higher discounting (6-7%) in the entry segment motorcycles.

❑ Aggressive pricing strategy to gain market share in entry level bikes will continue for next 2-3 years. Currently the market share stands at 35% and the management targets to achieve 40-45% in next 12-18 months.

❑ 3 wheelers growth will be driven by new permits coming out in the state of Telangana, Delhi and Karnataka and permit discontinuation on clean fuel vehicles where Bajaj-Auto has 86% market share.

❑ Rising bond yield may drag the other income down (25-28% of PAT).

❑ Capex guidance of Rs.300 crores for FY19.

Key Trackable this Quarter

❑ Realisation Trend: higher sales of CT100 & Platina may drag the realization down

❑ Growth in spares revenues as supply shortages led to lower than average growth last quarter

❑ Management commentary on Margins

We value the stock at 18x FY20e EPS.

BIL IN

CMP 1054
Target 1126
Upside 7%
Rating NEUTRAL

	FY17	FY18	FY19E	FY20E
Roe%	20%	18%	19%	20%
Roce%	22%	19%	24%	25%
P/E	19.2	28.8	22.7	18.0
P/B	3.9	5.2	4.2	3.6
EV/Ebdita	12.3	19.2	13.8	11.2

	FY17	FY18	FY19E	FY20E	Q2FY18	Q1FY19	Q2FY19E
Rubber (RSS-3)	197	181	159	159	182	170	148
Crude	48	56	71	71	50	72	71
Volume Growth							
Volumes (MT)	172,419	199,213	231,453	265,107	49,331	56,754	55,744
Growth YoY	16%	16%	16%	15%	16%	23%	13%
Price Growth YoY	-1%	2%	9%	4%	3%	10%	2%
Financials							
Sales	3,788	4,464	5,662	6,725	1,114	1,362	1,365
Sales Gr	16%	18%	27%	19%	20%	35%	22%
Ebdita	1,132	1,107	1,483	1,844	305	358	358
Ebdita Gr	35%	-2%	34%	24%	-1%	65%	17%
Net Profits	715	739	905	1,147	203	230	213
Profit Gr%	63%	3%	22%	27%	-16%	50%	5%
Ebdita Margin%	29.9%	24.8%	26.2%	27.4%	27.4%	26.2%	26.2%
Net Profit Margin%	18.9%	16.6%	16.0%	17.1%	18.2%	16.9%	15.6%

Conso/Fig in Rs Cr

❑ Revenue is expected to grow at 22%YoY led by 13%YoY volume growth and 8%YoY realization growth. Volume growth to remain robust at 16%YoY in FY19 as against the guided range of 12-15% based on healthy demand for agri and mining tyres in Europe as well as in domestic market.

❑ Margins to remain at similar level as 1QFY19 based on increase in crude and rupee depreciation as over 50% raw material is imported.

❑ BKT overall market share is 5% and the management expects it to reach 7.5-8% in next 2-3 years.

❑ Carbon Black plant (Bhuj) will be completed by FY21 with a total cost of Rs.425 crores and it may improve the EBITDA margins by 150bps on full ramp up due to backward integration.

❑ A capex outlay of Rs. 1,700 crores, to be completed over the next 30 months will be financed through blend of debt and internal accruals. Of the total capex, (1) Rs. 700 crore is for setting up a green field tyre plant with capacity of 20,000 MT in USA,(2) Rs. 500 crore will be spent in Waluj to replace the existing plant with a new facilities (3) Rs.500 crore towards setting up a new line of 5,000 MT for layers of all steel radial OTR tyres and additional mixing line in Bhuj.

Key Trackable this Quarter

- ❑ Realisation for the quarter
- ❑ Management commentary on EBITDA margin

We value the stock at 19x FY20e EPS

CMP **1108**
Target **1313**
Upside **19%**
Rating **BUY**

	FY17	FY18	FY19E	FY20E
Roe%	15%	9%	11%	12%
Roce%	16%	15%	12%	13%
P/E	14.8	23.0	13.9	11.9
P/B	2.2	2.1	1.6	1.4
EV/Ebdita	9.4	9.3	8.3	6.7

	FY17	FY18	FY19E	FY20E	Q2FY18	Q1FY19	Q2FY19E
Rubber (RSS-4)	136	130	127	127	133	123	131
Crude	48	56	70	70	50	70	71
Volume Growth							
Volumes (MT)	295,924	304,802	344,124	389,846	75,174	84,972	83,443
Growth YoY	10%	3%	13%	13%	2%	18%	11%
Price Growth YoY	-5%	5%	0%	3%	5%	-1%	2%
Financials							
Sales	5,767	6,231	7,038	8,184	1,523	1,706	1,713
Sales Gr	5%	8%	13%	16%	7%	17%	13%
Ebdita	657	615	722	937	175	176	184
Ebdita Gr	-15%	-6%	17%	30%	-6%	222%	5%
Net Profits	361	233	323	376	73	71	86
Profit Gr%	-17%	-35%	39%	16%	-32%	5077%	17%
Ebdita Margin%	11.4%	9.9%	10.3%	11.4%	11.5%	10.3%	10.7%
Net Profit Margin%	6.3%	3.7%	4.6%	4.6%	4.8%	4.2%	5.0%

Conso/Fig in Rs Cr

❑ Revenue is expected to grow at 13%YoY largely driven by 11%YoY volume growth and 2%YoY realisation growth. The volume growth expectation is 13%YoY for FY19 which is in line with double digit growth guidance. Guidance of 15% revenue growth for next 3 years.

❑ EBITDA margin for OTR tyres can reach 20% once the plant reaches at optimum utilization (70-80%). Current utilization level is 25%.

❑ Rubber prices declined by 1% while crude prices increased by 8%QoQ in 1QFY19 but on account of strong volume growth and price hike in 2Ws margin is expected to improve by 40bps QoQ.

❑ CEAT is investing close to Rs. 1000 crores towards increasing its TBR capacity (210 TPD). The new capacity should be on board by 3QFY19 with full ramp-up by 3QFY20.

❑ The company has plans to invest close to Rs.3500-4000 crores over the next 3-5 years to expand capacity and this will lead to increase in capacity by 50% in FY21.

❑ Based on huge expansion plan debt level is expected to remain at elevated in FY19 and FY20.

Key Trackable this Quarter

❑ Implementation of new axle load norms could lead to development of new tyres with increased rim size

❑ Management commentary on margin

❑ Pricing strategy in lieu of Raw material price inflation and INR depreciation

We value the stock at 14x FY20e EPS.

EICHER IN

CMP 23171
Target 27675
Upside 19%
Rating BUY

	FY17	FY18	FY19E	FY20E
Roe%	31%	28%	27%	26%
Roce%	38%	37%	33%	31%
P/E	40.7	39.4	25.6	21.1
P/B	12.7	11.0	7.0	5.5
EV/Ebdata	31.2	27.5	19.1	16.1

	FY17	FY18	FY19E	FY20E	Q2FY18	Q1FY19	Q2FY19E
Volume Growth							
Royal Enfield ('000)	666	820	912	1,021	203	225	210
Growth YoY	11%	23%	11%	12%	22%	22%	4%
ASP (Rs/vehicle)	105,534	109,263	112,960	116,571	106,834	113,052	112,521
Growth YoY	2%	4%	3%	3%	-2%	2%	5%
VECV ('000)	59	67	80	94	16	16	19
Growth YoY	13%	14%	19%	18%	18%	40%	18%
Financials							
Sales	7,033	8,965	10,307	11,907	2,167	2,548	2,364
Sales Gr	14%	27%	15%	16%	24%	27%	9%
Ebdita	2,174	2,808	3,312	3,924	683	810	754
Ebdita Gr	29%	29%	18%	18%	26%	30%	10%
Net Profits	1,667	1,960	2,467	2,995	518	576	577
Profit Gr%	25%	18%	26%	21%	25%	25%	11%
Ebdita Margin%	30.9%	31.3%	32.1%	33.0%	31.5%	31.8%	31.9%
Net Profit Margin%	23.7%	21.9%	23.9%	25.2%	23.9%	22.6%	24.4%

Conso/Fig in Rs Cr

❑ Revenue growth is expected to be 9%YoY driven by 4%YoY volume growth and 5%YoY realization growth. Volume growth to be 11%YoY based on strong demand for classic 350 and Thunderbird X models in FY19. Bookings for 650cc twins to begin from Nov-18.

❑ Despite the increase in commodity prices, margin is expected to increase by 10bps QoQ largely on account of operating leverage benefit.

❑ Capex of Rs.800 crores towards capacity addition will lead to total capacity of 9.5 lakh units for RE by March 2019. Capacity expansion at Vallam plant to come by 2HCY19.

❑ The management is aggressively targeting export market by new launches and expansion of exclusive outlets.

❑ VECV volumes are expected to grow at 16% CAGR over FY18-20. The company plans to spend Rs.500 crores towards capacity addition in FY19.

❑ Other Income is ~14% of total PAT and recent spike in bond yield may drag down the other income in 2QFY19.

Key Trackable this Quarter

❑ Realisation: price hikes in order to protect margins

❑ Waiting period for classic models

❑ Strike at Oragadam Plant: Hampered 10000 units in September

We value the stock at 25x FY20e EPS.

ESC IN

CMP **622**
Target **750**
Upside **21%**
Rating **BUY**

	FY17	FY18	FY19E	FY20E
Roe%	8%	16%	18%	18%
Roce%	15%	22%	24%	24%
P/E	42.3	26.0	13.4	10.9
P/B	3.4	4.1	2.4	2.0
EV/Ebdita	18.4	16.3	8.9	7.5

	FY17	FY18	FY19E	FY20E	Q2FY18	Q1FY19	Q2FY19E
Agri Machinery Vol.	63,786	80,417	94,174	102,716	20,358	24,494	21,039
Growth YoY	24%	26%	17%	9%	31%	39%	3%
ECE Volume	3,315	4,486	5,495	6,484	972	1,345	1,166
Growth YoY	30%	35%	22%	18%	34%	52%	20%
Segment Revenue							
Agri Machinery	3,346	3,958	4,551	5,123	973	1,177	1,001
ECE	607	780	965	1,179	165	246	214
Railway Equip.	242	287	330	379	73	88	84
Financials							
Sales	4,145	5,059	6,038	6,906	1,212	1,511	1,300
Sales Gr	21%	22%	19%	14%	26%	32%	7%
Ebdita	309	554	721	864	141	186	152
Ebdita Gr	92%	79%	30%	20%	108%	90%	8%
Net Profits	131	347	474	587	78	120	99
Profit Gr%	86%	166%	37%	24%	148%	91%	28%
Ebdita Margin%	7.5%	10.9%	11.9%	12.5%	11.6%	12.3%	11.7%
Net Profit Margin%	3.1%	6.9%	7.9%	8.5%	6.4%	7.9%	7.6%

*Yearly Consolidated and Quarterly Standalone

Fig in Rs Cr

❑ Volumes have grown by 3%YoY due to delay in festive season in Q3. Domestic tractor industry expected to grow at 12-15% while Escorts volumes to grow at 17%YoY in FY19. Exports target of 3000 units in FY19 (52%YoY growth).

❑ EBITDA margin is expected to decline by 60bps QoQ led by change in product mix, rising commodity prices and increased USD (impacting construction equipment margins).

❑ Construction Equipment segment margins to improve in FY19 as the segment has become EBIT positive in FY18 on the back of operating leverage benefit.

❑ Expectation of close to 300bps improvement in EBITDA margin over FY18-22 on the back of vendor rationalization, VA-VE (Value Analysis & Value Engineering) exercises and operating leverage benefit.

❑ Capex in FY19 of Rs.300 crores will be spent towards product development and capacity expansion.

Key Trackable this Quarter

❑ Commentary on strategy for market share gains

❑ Pricing strategy on the back of Raw material price inflation

❑ Management guidance on margins (earlier guidance: Tractors/CE/ railways business margins to be ~14%/~5%/~18%).

We value the stock at 13x FY20e EPS.

CMP 121
Target 153
Upside 26%
Rating BUY

	FY17	FY18	FY19E	FY20E
Roe%	18%	18%	18%	19%
Roce%	24%	25%	27%	27%
P/E	21.4	22.3	15.6	13.2
P/B	3.9	4.0	2.9	2.5
EV/Ebdita	11.8	12.2	8.6	7.2

	FY17	FY18	FY19E	FY20E	Q2FY18	Q1FY19	Q2FY19E
Segment Revenue							
2W/3W	841	1,026	1,187	1,337	269	298	308
PV	489	568	613	666	142	139	143
CV	199	238	302	347	61	77	75
Financials							
Sales	1,529	1,833	2,109	2,369	472	515	526
Sales Gr	6%	20%	15%	12%	20%	23%	11%
Ebdita	144	171	202	240	45	49	52
Ebdita Gr	12%	19%	18%	19%	22%	22%	13%
Net Profits	82	94	111	131	27	24	28
Profit Gr%	8%	15%	18%	18%	26%	31%	5%
Ebdita Margin%	9.4%	9.3%	9.6%	10.1%	9.6%	9.5%	9.8%
Net Profit Margin%	5.3%	5.1%	5.3%	5.5%	5.7%	4.7%	5.4%

Std/Fig in Rs Cr

❑ Revenue growth is expected to be 11% and 15%YoY in 2QFY19 and FY19 respectively based on strong double digit volume growth across segments in FY19YTD.

❑ Aluminium and crude prices increased by 9% and 8% QoQ in 1QFY19 respectively, considering that there will be some price negotiations with OEMs in order to sustain EBITDA margin over 9.5%. However management aspires to touch double digit margins in FY19.

❑ The capex for FY19 will be Rs.156 crores towards capacity addition in two wheeler and commercial vehicles which are running over 85-90% capacity utilization and new product developments.

❑ The biggest driver for Gabriel's PV segment going forward is the 2019 launch of the Alto replacement code named currently as 'Y1K'. Gabriel has won a contract to be the sole vendor of this best seller from Maruti's stable.

❑ CV business: We also believe that the pre-buying which is expected to happen in the wake of BS VI norms implementation may create a spurt in the CV volumes from Q1 of FY 20.

❑ Railway business: the conventional shock absorbers will be replaced by LHBs to the tune of 18 from existing 6 units per coach mainly in the high speed and hi-tech trains. These products were earlier imported but now are produced locally by the likes of Gabriel.

Key Trackable this Quarter

❑ Commentary on Railway business growth

❑ Price hike during the quarter

We value the stock at 17x FY20e EPS.

HMCL IN

CMP 2916
Target 3217
Upside 10%
Rating NEUTRAL

	FY17	FY18	FY19E	FY20E
Roe%	34%	31%	27%	28%
Roce%	39%	39%	36%	37%
P/E	18.6	19.4	15.6	13.3
P/B	6.4	6.0	4.3	3.7
EV/Ebdata	14.4	13.6	10.5	9.0

	FY17	FY18	FY19E	FY20E	Q2FY18	Q1FY19	Q2FY19E
Volume Growth							
2 Wheelers ('000)	6,664	7,583	8,406	9,097	2,023	2,105	2,134
Growth YoY	0%	14%	11%	8%	11%	14%	5%
ASP (Rs/vehicle)	42,895	42,805	42,092	43,216	41,339	41,853	41,916
Growth YoY	0%	0%	-2%	3%	-3%	-3%	1%
Financials							
Sales	28,585	32,458	35,383	39,314	8,362	8,810	8,945
Sales Gr	0%	14%	9%	11%	7%	11%	7%
Ebdita	4,576	5,325	5,544	6,435	1,456	1,377	1,378
Ebdita Gr	4%	16%	4%	16%	6%	6%	-5%
Net Profits	3,546	3,722	3,724	4,385	1,010	909	916
Profit Gr%	14%	5%	0%	18%	1%	-1%	-9%
Ebdita Margin%	16.0%	16.4%	15.7%	16.4%	17.4%	15.6%	15.4%
Net Profit Margin%	12.4%	11.5%	10.5%	11.2%	12.1%	10.3%	10.2%

*Yearly Consolidated and Quarterly Standalone

Fig in Rs Cr

❑ Revenue growth of 7%YoY in 2QFY19 to be driven by 5%YoY volume growth. Volume growth expected to be 11%YoY in FY19 and it will be driven by festivals, marriage season and new launches in premium segment 2 wheelers and scooters.

❑ EBITDA margin may decline by 20bps QoQ despite price hikes taken in 2QFY19 due to sharp increase in commodity prices. However margins to remain in the range of 15-16% slightly ahead of sustainable guided margin range of 14-15%. The upcoming safety norm which includes CBS and ABS will increase the cost by Rs.500 and Rs.3500 respectively from 1st April 2019.

❑ The cost of ownership has increased by 15-20% due to increase in insurance cost. It is mandatory for all general insurance companies to issue 5 year third party insurance for new 2 wheelers sold from 1-sep-2018.

❑ The company has lost 370bps market share over last one quarter to Bajaj Auto in the entry segment motorcycles due to heavy discounts offered by Bajaj-Auto.

❑ Other Income is 14-15% of total PAT and recent spike in bond yield may drag down the other income in 2QFY19.

Key Trackable this Quarter

- ❑ Management commentary on price competition
- ❑ LEAP program benefit

We value the stock at 15x FY20e EPS

LUMX IN

CMP 1809
Target 2271
Upside 26%
Rating BUY

	FY17	FY18	FY19E	FY20E
Roe%	19%	22%	22%	27%
Roce%	24%	29%	32%	38%
P/E	28.2	32.2	22.1	14.3
P/B	5.3	7.0	4.9	3.9
EV/Ebdita	12.8	15.2	9.7	7.2

	FY17	FY18	FY19E	FY20E	Q2FY18	Q1FY19	Q2FY19E
Segment Revenue							
PV	923	1,127	1,318	1,492	258	323	308
CV	65	99	118	153	23	30	26
2-Wheelers	312	431	573	616	99	144	138
Financials							
Sales	1,300	1,650	2,012	2,261	380	496	475
<i>Sales Gr</i>	4%	27%	22%	12%	23%	42%	25%
Ebdita	100	134	170	221	30	41	40
<i>Ebdita Gr</i>	13%	35%	27%	30%	18%	66%	34%
Net Profits	45	63	77	118	18	20	17
<i>Profit Gr%</i>	21%	40%	21%	54%	54%	116%	-7%
Ebdita Margin%	7.7%	8.1%	8.4%	9.8%	8.0%	8.2%	8.5%
Net Profit Margin%	3.5%	3.8%	3.8%	5.2%	4.8%	4.0%	3.6%

Std/Fig in Rs Cr

❑ The passenger vehicle industry is expected to grow at 8-9% in next 3-4 years while 2 wheeler industry growth expectations is around 10-11% for next 2 years. Revenue growth of 25% and 22%YoY is expected in 2QFY19 and FY19 led by faster adoption of LED lamps (3x to 10x higher realisation than conventional lamps).

❑ Recent appreciation in USD will lead to contraction in margins as raw material import stands at 35-36%. However the management targets double digit margin through increasing localization and operating leverage benefit by FY20.

❑ Gujarat plant has started production from 4QFY18 so we expect depreciation cost to remain on the higher side in FY19.

❑ The management expect conventional and LED lamps ratio to be around 60:40 by 2020 which currently stands at 75:25.

❑ Capex of Rs.70-80 crores, includes brown field expansion at Sanand plant.

Key Trackable this Quarter

- ❑ Localisation Status
- ❑ Utilisation level of Gujarat Plant
- ❑ Management commentary on margins

We value the stock at 18x FY20e EPS

MM IN

CMP 791
Target 1051
Upside 33%
Rating BUY

	FY17	FY18	FY19E	FY20E
Roe%	15%	14%	14%	15%
Roce%	14%	13%	13%	14%
P/E	10.0	14.9	20.2	17.0
P/B	1.5	2.1	2.8	2.5
EV/Ebdata	8.6	10.5	13.2	11.1

	FY17	FY18	FY19E	FY20E	Q2FY18	Q1FY19	Q2FY19E
Segment volumes							
Passenger Vehicles	236	249	264	290	66	61	61
Commercial vehicles	181	217	264	307	51	57	63
3W	52	55	66	76	14	13	18
Export	37	28	35	38	8	9	9
Farm Equipment	263	317	349	376	81	101	78
Financials							
Sales	43,785	48,686	54,611	60,379	12,182	13,520	12,685
<i>Sales Gr</i>	7%	11%	12%	11%	15%	17%	4%
Ebdata	4,769	6,224	7,191	8,511	1,729	1,872	1,649
<i>Ebdata Gr</i>	3%	31%	16%	18%	40%	48%	-5%
Net Profits	3,956	4,356	4,656	5,548	1,332	1,221	1,058
<i>Profit Gr%</i>	23%	10%	7%	19%	14%	59%	-21%
Ebdata Margin%	10.9%	12.8%	13.2%	14.1%	14.2%	13.8%	13.0%
Net Profit Margin%	9.0%	8.9%	8.5%	9.2%	10.9%	9.0%	8.3%
D/E	0.11	0.09	0.08	0.07			

Std/Fig in Rs Cr

❑ Revenue growth of 4%YoY will be driven by 5%YoY volume growth and 1%YoY decline in realisation. Farm Equipment Segment (FES) volume growth expected to be 10%YoY as against guidance of 12-14% based on rain deficiency in some high volume states.

❑ Overall, automotive segment is expected to post 15%YoY growth in FY19 on account of strong growth in CV segment and new product launches receiving healthy response in the PV segment.

❑ FES revenue contribution is around 32% and management targets it to be 50% in next 3 years. Cost reduction of ~500bps in FES through cost control measures like “Horizon 500” and “Kuber Returns” over the next 2-3 years.

❑ Margin is expected to decline by 80bps QoQ due to rising steel, aluminium, crude prices and higher marketing expenses related to launch of Marazzo.

❑ The plans to spend around Rs.15000 crores towards capacity addition, new products and electric vehicles development till FY21.

Key Trackable this Quarter

❑ Commentary on volumes for S201 and Marazzo

❑ Management strategy on increasing market share in states where they have less than 43% share in tractors

We value the stock at 16x FY20e EPS (std) and Rs.305 per share for subsidiaries.

MSIL IN

CMP 7252
Target 9040
Upside 25%
Rating BUY

	FY17	FY18	FY19E	FY20E
Roe%	20%	19%	19%	20%
Roce%	21%	22%	23%	24%
P/E	24.2	34.0	24.2	20.1
P/B	4.9	6.3	4.5	3.9
EV/Ebdita	17.6	22.2	15.8	13.4

	FY17	FY18	FY19E	FY20E	Q2FY18	Q1FY19	Q2FY19E
Capacity('000)	1600	1900	1963	2213	1900	1900	1900
Volume Growth							
Domestic ('000)	1,444	1,654	1,846	2,021	457,401	463,840	455,400
Growth YoY	11%	14%	12%	10%	19%	26%	0%
Exports ('000)	124	126	125	131	34,717	26,639	29,448
Growth YoY	0%	2%	-1%	5%	-2%	2%	-15%
ASP (Rs/vehicle)	434,062	448,475	450,225	457,251	442,337	457,907	460,758
Growth YoY	8%	3%	0%	2%	-1%	0%	4%
Financials							
Sales	68,085	79,809	88,489	97,911	21,768	22,459	22,340
Sales Gr	18%	17%	11%	11%	22%	28%	3%
Ebdita	10,358	12,063	13,812	16,223	3,634	3,335	3,507
Ebdita Gr	17%	16%	14%	17%	20%	44%	-3%
Net Profits	7,511	7,880	8,870	10,861	2,484	1,975	2,307
Profit Gr%	37%	5%	13%	22%	4%	27%	-7%
Ebdita Margin%	15.2%	15.1%	15.6%	16.6%	16.7%	14.8%	15.7%
Net Profit Margin%	11.0%	9.9%	10.0%	11.1%	11.4%	8.8%	10.3%

Conso/Fig in Rs Cr

❑ Q2FY19 Volume declined by 1%YoY led by higher base and delayed festive season. Revenue growth to be 2.6%YoY driven by new model launches and premium segment cars. Volume growth for FY19 would be 11%YoY largely in line with industry expectation of double digit growth.

❑ Price hikes and higher sales of premium models will mitigate impact of rising commodity prices and margin is expected to improve by 90bps QoQ in 2QFY19.

❑ Recent depreciation in Rupee vs Yen will lead to increase in royalty outgo in 2QFY19. (5.7% of sales).

❑ Other Income is 20-22% of total PAT and recent spike in bond yield may drag down the other income in 2QFY19.

❑ Out of the total capex of Rs.5000 crores, Maruti has earmarked Rs 1,000 crores in the FY19 to buy land parcels for new component suppliers in Gujarat. Currently localization at Gujarat plant is 15% and in next 3-4 years it will reach to 65%.

Key Trackable this Quarter

- ❑ Realisation Trend: premium cars to drive the realisation and margins
- ❑ Discounts: higher discounts can impact the margins negatively
- ❑ Management commentary on recent plant shifting strategy from Gurugram to Manesar

We value the stock at 25x FY20E EPS.

MNDA IN

CMP 342
Target 440
Upside 29%
Rating BUY

	FY17	FY18	FY19E	FY20E
Roe%	24%	24%	22%	24%
Roce%	25%	23%	26%	26%
P/E	30.0	23.1	23.2	17.4
P/B	7.3	5.5	5.2	4.1
EV/Ebdita	14.4	14.5	12.3	10.1

	FY17	FY18	FY19E	FY20E	Q2FY18	Q1FY19	Q2FY19E
Segment Revenue							
Switches	1,206	1,533	2,228	2,547	346	586	522
Horns/Acoustics	626	683	862	1,032	168	200	209
Lighting	895	1,151	1,290	1,514	303	315	313
Others	757	1,103	1,404	1,790	281	329	330
Financials							
Sales	3,386	4,471	5,784	6,883	1,098	1,430	1,373
<i>Sales Gr</i>	34%	32%	29%	19%	23%	51%	25%
Ebdita	374	534	727	889	137	170	180
<i>Ebdita Gr</i>	57%	43%	36%	22%	42%	68%	32%
Net Profits	185	331	386	515	73	85	96
<i>Profit Gr%</i>	67%	79%	17%	33%	75%	64%	31%
Ebdita Margin%	11.0%	11.9%	12.6%	12.9%	12.4%	11.9%	13.1%
Net Profit Margin%	5.5%	7.4%	6.7%	7.5%	6.7%	5.9%	7.0%

Conso/Fig in Rs Cr

- ❑ We expect 16% and 19%YoY growth in 2QFY19 and FY19 based on strong passenger vehicle outlook and incremental growth from consolidation of businesses.
- ❑ Currently, exports are 18% of the revenue and management targets to reach 25% in next couple of years.
- ❑ The rising commodity prices and depreciation in rupee can pose risk to margins but increasing utilization on the alloy wheel business (20%+ margins) will lead to expansion in margins.
- ❑ Government's focus to improve safety features in vehicles (airbags and rear parking camera) will add incremental revenue to the company from FY20 onwards.
- ❑ Capex guidance of Rs.350-400 crores of for FY19 out of that Rs.137 crores will be spend towards consolidation of TG Minda and around Rs.60 crores towards I-SYS acquisition.
- ❑ Debt level will be in the range of 0.8-0.9:1 in FY19 & 20 which is currently stands at 0.4:1.

Key Trackable this Quarter

- ❑ Strategy on Passing on Cost appreciation (currently 6 months lag)
- ❑ Management commentary on margins

We value the stock 22x FY20e EPS.

MSS IN

CMP **243**
Target **323**
Upside **33%**
Rating **BUY**

	FY17	FY18	FY19E	FY20E
Roe%	26%	23%	25%	26%
Roce%	18%	20%	23%	25%
P/E	16.1	33.3	17.5	13.6
P/B	4.2	7.6	4.4	3.5
EV/Ebdita	9.2	15.6	8.8	6.7

	FY17	FY18	FY19E	FY20E	Q2FY18	Q1FY19	Q2FY19E
Copper(USD/MT)	5,159	6,449	6,477	6,477	6,349	6,766	6,189
Crude(USD/Barrel)	48	56	70	70	50	70	71
Segment Revenue							
MSSL Standalone	6,229	7,440	8,471	9,816	1,856	2,004	2,098
SMR	11,869	12,106	12,989	14,029	2,898	3,257	3,043
SMP	22,101	26,177	29,732	35,084	6,124	6,404	6,859
PKC	-	7,940	10,927	13,880	1,860	2,390	2,629
Others	3,403	3,956	4,620	5,313	998	1,112	1,148
Financials							
Sales	42,475	56,293	65,011	76,098	13,431	14,775	15,369
Sales Gr	14%	33%	15%	17%	32%	13%	14%
Ebdita	4,285	5,123	6,164	7,586	1,251	1,412	1,383
Ebdita Gr	21%	20%	20%	23%	24%	19%	11%
Net Profits	2,172	2,260	2,918	3,759	593	618	630
Profit Gr%	22%	4%	29%	29%	24%	78%	6%
Ebdita Margin%	10.1%	9.1%	9.5%	10.0%	9.3%	9.6%	9.0%
Net Profit Margin%	5.1%	4.0%	4.5%	4.9%	4.4%	4.2%	4.1%
D/E	1.2	1.0	0.8	0.6			

Conso/Fig in Rs Cr

❑ Revenue guidance of USD 18bn by 2020 and currently order book stands at close to USD 19bn. Revenue growth expected to be 16%YoY driven by strong sales growth in domestic market, robust order book for SMRPBV and healthy class-8 truck volumes.

❑ Recent run up in crude prices coupled with rupee depreciation may put pressure on margins. Import content for the company is around 50-55% of total raw material cost.

❑ Management has strong focus towards its 3CX15 strategy where no component, customer or country would contribute over 15% of its revenue.

❑ Electric vehicles will be an opportunity for the company as content per car will increase going ahead.

❑ Capex For FY19: Rs.2000 crores and the capex cycle will be lower for next couple of years as most of the capex has been incurred.

Key Trackable this Quarter

❑ SMR revenue growth & margin

❑ Status of Tuscaloosa plant: expected to start production from 3QFY19

❑ Depreciation and amortisation expenses: new plants ramp up

We value the stock at 18x FY20e EPS.

SKF IN

CMP 1699
Target 1990
Upside 17%
Rating BUY

	FY17	FY18	FY19E	FY20E
Roe%	13%	16%	16%	16%
Roce%	16%	21%	22%	22%
P/E	27.3	30.2	25.6	22.4
P/B	3.7	4.9	4.1	3.6
EV/Ebdita	18.1	18.9	15.8	13.6

	FY17	FY18	FY19E	FY20E	Q2FY18	Q1FY19	Q2FY19E
Segment Revenue							
Auto	1,033	1,141	1,313	1,458	286	321	328
Export	197	262	264	291	68	54	73
Industrial	1,402	1,348	1,445	1,560	326	380	343
Financials							
Sales	2,631	2,750	3,022	3,309	680	755	744
Sales Gr	-12%	5%	10%	9%	3%	13%	9%
Ebdita	336	435	498	571	111	116	111
Ebdita Gr	-8%	29%	15%	15%	32%	24%	0%
Net Profits	244	296	340	390	74	81	76
Profit Gr%	-5%	21%	15%	15%	23%	26%	3%
Ebdita Margin%	12.8%	15.8%	16.5%	17.3%	16.3%	15.4%	15.0%
Net Profit Margin%	9.3%	10.8%	11.3%	11.8%	10.9%	10.7%	10.2%

Std/Fig in Rs Cr

- ❑ Revenue growth is expected to be 10%YoY driven by strong demand from auto sector and railways segment. Further industrial segment growth will be driven by increasing infrastructure and mining sector demand.
- ❑ We expect shift towards manufacturing will gradually mitigate the effect of rising steel cost going ahead.
- ❑ The bearing market has Rs.1000 crores of opportunity in the railway space; 60% is freight and 40% is passenger coaches and locomotives. Introduction of DFC and new metro projects will increase the contribution from Railways segment which is currently 8-9% of total sales.
- ❑ Implementation of ABS in 2Ws will improve the realization of bearings by 3x and also the 3rd generation bearings are being used in passenger vehicles though these are in initial stage but they are high realization products (2-2.5x) than the 1st generation bearings.
- ❑ For 3rd generation bearings, the company has set up a manufacturing facility of 500000 lines that can go up to 700000 lines. On full capacities the estimated revenue could be around Rs.40-50 crores.

Key Trackable this Quarter

- ❑ Raw material import composition
- ❑ Traded and Manufacturing mix

We value the stock at 26x FY20e EPS.

CMP 300
Target 400
Upside 33%
Rating BUY

	FY17	FY18	FY19E	FY20E
Roe%	4%	15%	19%	22%
Roce%	16%	21%	26%	31%
P/E	91.1	28.7	21.2	14.3
P/B	3.6	4.3	4.0	3.2
EV/Ebdita	8.5	8.9	8.4	6.3

	FY17	FY18	FY19E	FY20E	Q2FY18	Q1FY19	Q2FY19E
Segment Revenue							
PV AC	1,437	1,761	2,022	2,244	469	479	524
Growth YoY		23%	15%	11%	16%	27%	12%
Non PV AC	105	152	215	296	29	53	49
Growth YoY		45%	42%	38%	3%	42%	72%
Financials							
Sales	1,554	1,913	2,237	2,540	497	532	573
Sales Gr	19%	23%	17%	14%	15%	28%	15%
Ebdita	167	210	244	305	54	57	68
Ebdita Gr	10%	26%	16%	25%	20%	29%	25%
Net Profits	14	61	92	137	15	19	28
Profit Gr%	-42%	334%	52%	48%	210%	80%	89%
Ebdita Margin%	10.8%	11.0%	10.9%	12.0%	10.9%	10.7%	11.9%
Net Profit Margin%	0.9%	3.2%	4.1%	5.4%	3.0%	3.6%	5.0%
D/E	0.9	0.8	0.6	0.4			

Conso/Fig in Rs Cr

- ❑ Revenue growth of 15%YoY will be driven by new model launches by Passenger Vehicle (PV) OEMs, capacity addition in line with Maruti and mandatory Truck AC/blower norm in 2QFY19.
- ❑ Margin is expected to increase in 2QFY19 on the back of operating leverage benefit and increasing localization.
- ❑ In the commercial vehicle space Subros command 70% market share. CV market size stand somewhere between 300-350 k units per annum. Rs.85-90 crores of revenue expectation in Truck air conditioners in FY19.
- ❑ The management expect margins to expand going ahead as the import content will reduce to 20-25% in next 2-3 years. Currently import content is around 34% of sales.
- ❑ Overall debt stood at Rs.315 crores in FY18 and the company will repay around Rs.35 crores in FY19.
- ❑ Capex guidance of Rs.120-130 crores in FY19 and Rs.50-60 crores in FY20.

Key Trackable this Quarter

- ❑ Import content as sales
- ❑ Commercial Vehicle revenue
- ❑ Management commenatry on margins

We value the stock at 19x FY20e EPS.

CMP 1423
Target 1858
Upside 31%
Rating BUY

	FY17	FY18	FY19E	FY20E
Roe%	24%	35%	36%	38%
Roce%	31%	46%	49%	52%
P/E	26.6	30.3	18.5	14.5
P/B	6.5	10.6	6.7	5.6
EV/Ebdita	17.5	19.9	11.9	9.6

	FY17	FY18	FY19E	FY20E	Q2FY18	Q1FY19	Q2FY19E
Volume Growth							
M&M volume	248,409	301,934	332,925	362,732	76,928	97,360	73,902
Growth YoY	23%	22%	10%	9%	33%	20%	-4%
Engine Volumes	82,297	92,022	102,501	115,668	24,984	26,742	24,001
Growth YoY	28%	12%	11%	13%	12%	15%	-4%
ASP (Rs/Engine)	80,943	83,802	88,257	90,024	83,517	87,697	87,697
Growth YoY	-1%	4%	5%	2%	5%	5%	5%
Financials							
Sales	666	771	905	1,041	209	235	210
Sales Gr	27%	16%	17%	15%	17%	21%	1%
Ebdita	105	122	145	179	35	37	32
Ebdita Gr	42%	16%	19%	23%	20%	13%	-9%
Net Profits	69	80	93	119	24	23	21
Profit Gr%	34%	16%	17%	28%	22%	7%	-12%
Ebdita Margin%	15.7%	15.8%	16.0%	17.2%	16.8%	15.6%	15.1%
Net Profit Margin%	10.3%	10.3%	10.3%	11.4%	11.3%	9.8%	9.8%

Std/Fig in Rs Cr

- ❑ Volume growth is expected to decline by 4% YoY in 2QFY19 due to shift of festive season in 3QFY19. 11%YoY volume growth driven by strong rural outlook and based on M&M tractor volumes as it supplies primarily to M&M.
- ❑ Based on increase in demand for higher HP tractors (41-50 HP) realisation will be on the higher side in 2QFY19.
- ❑ Despite sharp increase commodity prices margins are expected to be maintained over 15% on the back of cost control initiatives, price hike in 1QFY19 and operating leverage benefit.
- ❑ Based on the strong volume growth outlook, the capacity is expected to increase from 120000 units to 150000 units by FY21 and it will be financed through internal accruals.

Key Trackable this Quarter

- ❑ Engine Realization
- ❑ Management commentary on margin

We value the stock at 20x FY20e EPS.

TVSL IN

CMP 542
Target 568
Upside 5%
Rating Neutral

	FY17	FY18	FY19E	FY20E
Roe%	23%	23%	20%	24%
Roce%	20%	25%	25%	30%
P/E	36.6	43.0	38.1	26.2
P/B	8.5	9.9	7.6	6.3
EV/Ebdita	24.4	25.5	19.7	14.5

	FY17	FY18	FY19E	FY20E	Q2FY18	Q1FY19	Q2FY19E
Volume Growth							
Domestic ('000)	2,502	2,892	3,219	3,662	801	738	889
Growth YoY	12%	16%	11%	14%	14%	9%	11%
Exports ('000)	425	574	735	792	148	190	199
Growth YoY	-7%	35%	28%	8%	31%	52%	35%
ASP (Rs/vehicle)	41,460	43,650	46,265	48,053	42,721	44,746	46,571
Growth YoY	0%	5%	6%	4%	2%	6%	9%
Financials							
Sales	12,135	15,130	18,294	21,402	4,052	4,154	5,069
Sales Gr	9%	25%	21%	17%	18%	22%	25%
Ebdita	857	1,129	1,312	1,758	350	306	375
Ebdita Gr	6%	32%	16%	34%	27%	45%	7%
Net Profits	558	663	677	983	213	147	205
Profit Gr%	14%	19%	2%	45%	20%	13%	-4%
Ebdita Margin%	7.1%	7.5%	7.2%	8.2%	8.6%	7.4%	7.4%
Net Profit Margin%	4.6%	4.4%	3.7%	4.6%	5.3%	3.5%	4.0%

Std/Fig in Rs Cr

❑ Revenue is expected to grow at 25%YoY led by 15%YoY volume growth and 9%YoY realization growth. Volume growth to remain robust at 15%YoY driven by strong growth in entry segment motorcycles, 125cc scooter sales and export. Stiff competition in entry level motorcycles and scooters restricted the company from taking any significant price hike despite rising commodity prices, which may result in cost pressure in 2QFY19.

❑ Stiff competition in entry level motorcycles and scooters will restrict the company from taking any significant price hike despite rising commodity prices.

❑ The company will be investing close to Rs.700 crores in FY19 towards new product development and BS-VI up-gradation before the deadline.

❑ On the basis of strong cash flow generation debt to equity ratio is expected to improve in FY19. Currently, Rs.1037 crores of total debt in books as of 31st March 2018 (standalone).

❑ Invested around Rs.25 crores in TVS credit services in 1QFY19 and has plans to further invest around Rs.75-100 crores in FY19.

Key Trackable this Quarter

- ❑ Exports realization
- ❑ Management commentary on price competition
- ❑ Debt to Equity

We value the stock 25x FY20e EPS (standalone) and Rs 55 per share for subsidiaries.

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