

# TVS MOTOR COMPANY LTD.

Industry **Automobiles**  
Bloomberg **TVSL IN**  
BSE CODE **532343**

## Double digit margin: a long story

**RATING** **NEUTRAL**

**CMP** **554**  
**Price Target** **568**  
**Potential Upside** **3%**

**Rating Change** 

**Estimate Change** 

**Target Change** 

### Stock Info

52wk Range H/L 734/479  
Mkt Capital (Rs Cr) 26313  
Free float (%) 43%  
Avg. Vol 1M (,000) 1496  
No. of Shares (Cr.) 48  
Promoters Pledged % 0%

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### Q3FY19 Result Update

- ❑ TVSMOTOR posted a strong revenue growth of 27% YoY to Rs.4664 crores in line with our expectation of Rs.4647 crores on the back of 20% YoY volume growth and 6% YoY realization growth.
- ❑ Volume growth was largely driven by new product launches in motorcycles and scooter segment. However, better product mix and higher export volumes supported realization growth.
- ❑ EBITDA margin declined by 50bps QoQ in 3QFY19 despite stable commodity prices led by higher discounting levels in the commuter segment coupled with higher advertising and promotional expenses during the festive season.
- ❑ PAT for the quarter stood at Rs.178 crores. PAT margin declined by 36 bps YoY to 3.8% due to lower other income and higher tax expenses.
- ❑ The company has invested around Rs. 35 crores for TVS credit services limited, Rs.31.80 crores in TVS motor (Singapore) Pte. Limited and Rs. 21 crores in PT.TVS Motor Company, Indonesia during the quarter.
- ❑ The company will be investing close to Rs.700 crores in FY19 towards new product development, capacity expansion and BS-VI technology in FY19. As of 9MFY19, the company has already spent Rs.500 crores.

### View and Valuation

EBITDA margin declined by 50bps QoQ in 3QFY19 despite stable commodity prices led by higher discounting levels in the commuter segment coupled with higher advertising and promotional expenses during the festive season. Recent launches in the 110-125cc segment across motorcycles and scooters have fared well but moped and 100cc portfolio continue to face stiff competition from peers driven by new launches and heavy discounts. The demand scenario for the industry seems challenging due to increased inventory level and increase in the cost of ownership led by insurance cost and further implementation of ABS/CBS from 1<sup>st</sup> April 2019. We expect that the margin will remain under pressure due to lower operating leverage and limited pricing growth. However the management expects export market to perform better based on stable forex availability. Though, recent decline in crude prices may dampen the growth prospects in major export markets (African countries) which can lead to lower consumer sentiments in the near term. We largely maintain our FY20e EPS estimates. Based on sluggish demand scenario and limited margin expansion, we maintain Neutral rating on the stock with the target price of Rs.568 (25x FY20e standalone EPS + Rs.55 per share value of TVS credit services).

### Key Risks to our rating and target

- ❑ Further increase in discounting level
- ❑ Slowdown in scooter demand

KEY FINANCIAL/VALUATIONS	FY16	FY17	FY18	FY19E	FY20E
Net Sales	11105	12135	15130	18622	21805
EBITDA	810	857	1129	1476	1844
EBIT	574	569	790	1074	1370
PAT	489	558	663	710	969
EPS (Rs)	10	12	14	15	20
EPS growth (%)	40.7	14.1	18.7	7.1	36.5
ROE (%)	25.0	23.2	23.0	20.9	23.7
ROCE (%)	23.4	19.8	24.7	28.8	31.1
BV	41	51	61	71	86
P/B (X)	5.8	8.5	9.9	7.0	5.8
P/E (x)	23.3	36.6	43.0	33.3	24.4

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## 3QFY19 Results

Result in-line

Margin remained under pressure

Financials	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19	YoY %	QoQ%	FY17	FY18	YoY %
Volumes('000)	826	889	928	1088	990	20%	-9%	2927	3466	18.4%
Realization	44,597	44,906	44,746	45,880	47,121	6%	3%	41,457	43,650	5.3%
Net Sales	3,685	3,993	4,154	4,993	4,664	27%	-7%	12,135	15,130	24.7%
Other Income	18	24	17	1	1	-96%	-12%	173	145	-16.5%
Total Income	3,703	4,017	4,171	4,994	4,665	26%	-7%	12,309	15,274	24.1%
COGS	2,678	2,946	3,164	3,784	3,535	32%	-7%	8,853	11,133	25.7%
Staff Cost	212	227	237	245	237	12%	-3%	746	868	16.4%
Other Exp.	508	539	446	536	517	2%	-4%	1,679	1,999	19.1%
Expenditure	3,398	3,712	3,847	4,565	4,288	26%	-6%	11,278	14,000	24.1%
EBITDA	287	281	306	428	376	31%	-12%	857	1,129	31.8%
Depreciation	82	94	93	102	101	23%	0%	288	339	17.7%
EBIT	204	186	213	327	274	34%	-16%	569	790	38.9%
Interest	12	18	18	21	17	37%	-21%	44	57	28.8%
PBT	210	192	212	306	258	23%	-16%	699	879	25.8%
Excpt. Item	-	-	-	-	-	0%	0%	-	-	0.0%
Tax	56	26	66	95	80	43%	-16%	141	216	53.7%
PAT	154	166	147	211	178	16%	-16%	558	663	18.7%

### Revenue growth aided by increase in volumes and realizations

The company reported a healthy revenue growth of 27% YoY at Rs.4664 crores in 3QFY19. It was driven by healthy volume growth of 20%YoY and 7%YoY growth in realizations.

The overall two wheelers including exports grew by 19%YoY in 3QFY19 under which the scooters, motorcycles and moped grew by 32%, 20% and 1%YoY respectively. This growth was primarily supported by TVS Apache, Star City, N-torque, Jupiter Grande and Radeon models. 3 wheelers sales also grew by 47% YoY primarily driven by export markets during the quarter. Realization also increased by 6%YoY largely supported by better product mix, price hikes and increased export contribution.

### Higher other expenses & discounts led to margin contraction

EBITDA margin declined by 50bps QoQ to 8.1% in 3QFY19 despite stable commodity prices led by higher discounting levels in the commuter segment coupled with higher advertising and promotional expenses during the festive season. Going ahead, management's focus will be expansion in EBITDA margin going ahead through various cost cutting initiatives and localization.

### Lower other income led to decline in PAT margin

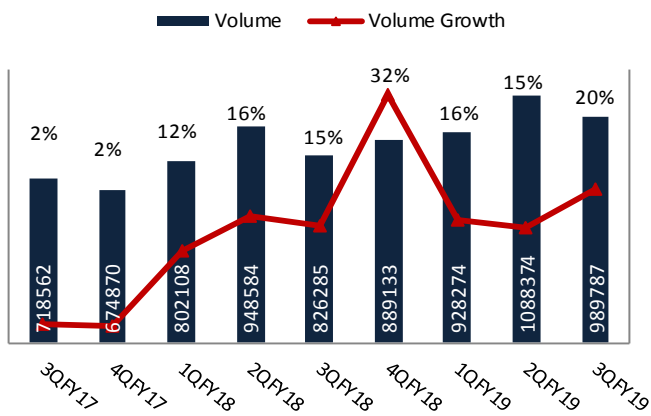
PAT for the quarter grew by 16%YoY to Rs.178 crores. However, PAT margin declined by 36 bps YoY to 3.8% due to lower other income and higher tax expenses arising from expiration of tax benefit at Himachal plant.

### Concall highlights

- The company will continue to grow better than the industry both domestically and internationally.
- With the improvement in liquidity conditions and retail finance, the company expects better growth in Q4FY19.
- The company took 0.6% price hike in 3QFY19.
- The commuter segment is witnessing heavy discounting practices by the competition.
- Management's focus will be expansion in EBITDA margin going ahead through various cost cutting initiatives and localisation.
- The company is planning to increase the production of Radeon model to 20000 vehicles per month from 12000 vehicles per month.
- The exports outlook for the company looks good due to stable foreign exchange situation and stable exports market conditions.
- Dealer's inventory level 4-5 weeks.
- There will be new product launches going ahead in the financial year.
- The company is making investments in electric vehicles for next financial year.
- Capex guidance of Rs.700 crores towards new products, capacity expansion and BS-VI technology in FY19.

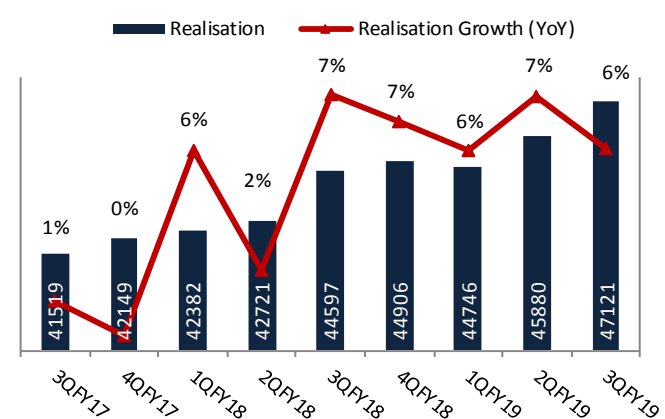
## Exhibit: Volume and Volume Growth Trend

New model launches coupled with strong exports have led to healthy volume growth



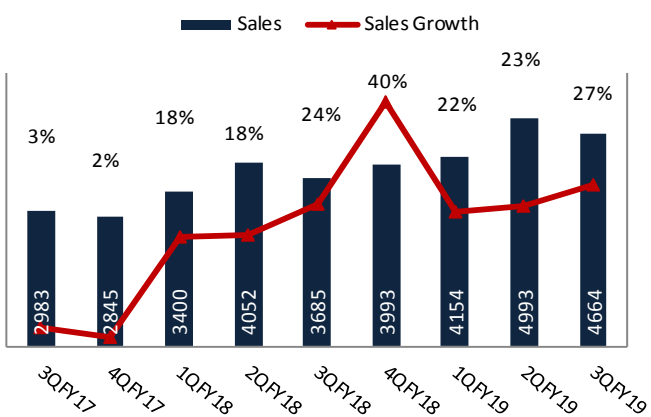
## Exhibit: Realisation and Realisation Growth Trend

Favorable product mix, price hikes and better export contribution led to improvement in realisations



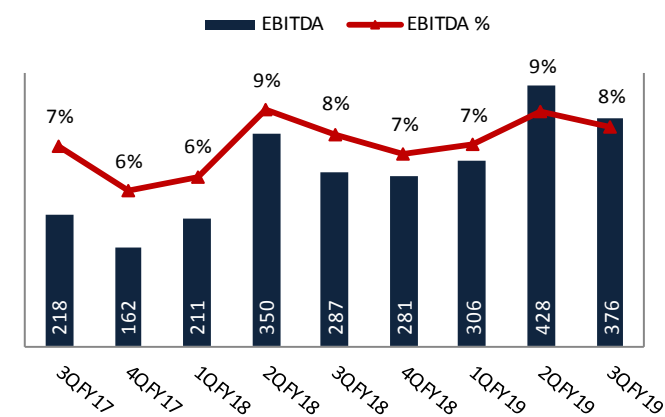
## Exhibit: Sales (Rs. Crore) and Sales Growth trend

Sales growth remained robust at 27%YoY driven by strong volume growth



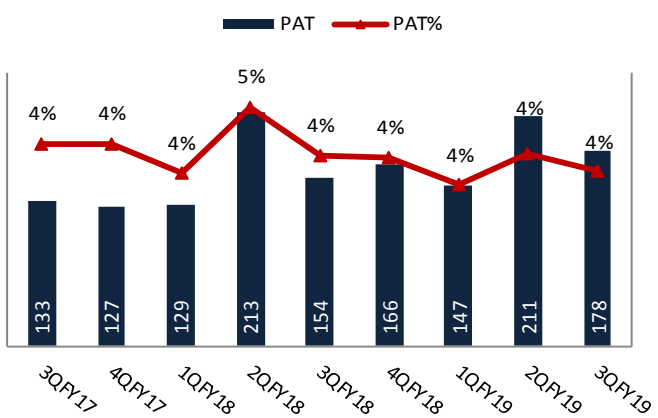
## Exhibit: EBITDA (Rs. Crore) and EBITDA% Trend

Higher discounting level coupled with higher advertising and promotional expenses led to decline in margins



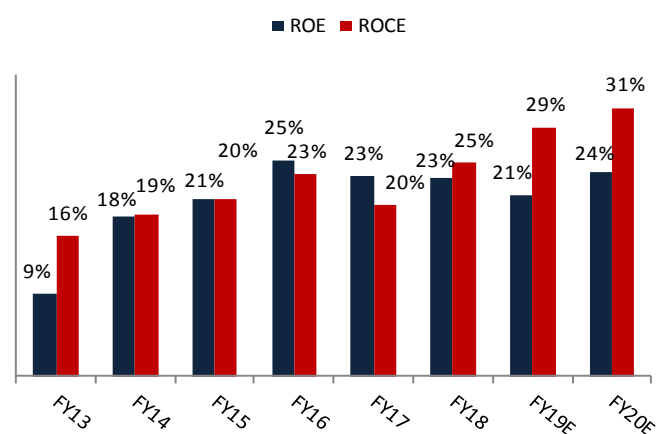
## Exhibit: PAT (Rs. Crore) and PAT % Trend

Lower other income and higher tax expenses led to decline in PAT margins



## Exhibit: Return Ratios

Improved profitability will lead to sharp improvement in return ratios going ahead



## Financial Details

### Balance Sheet

Y/E March	FY13	FY14	FY15	FY16	FY17	FY18	FY19E	FY20E
Share Capital	48	48	48	48	48	48	48	48
Reserves	1,177	1,368	1,636	1,911	2,361	2,833	3,343	4,039
Networth	1,225	1,415	1,684	1,958	2,408	2,880	3,390	4,086
Debt	546	476	920	758	1,085	1,037	1,076	968
Other Non Cur Liab	146	178	172	184	177	202	202	202
Total Capital Employed	1,719	1,858	2,203	2,453	2,877	3,198	3,722	4,401
Net Fixed Assets (incl CWIP)	1,048	1,174	1,502	1,751	2,046	2,503	2,901	2,956
Non Cur Investments	869	896	990	1,215	1,588	2,035	2,001	2,236
Other Non Cur Asst	-	-	-	34	34	59	40	40
Non Curr Assets	1,990	2,156	2,610	3,066	3,718	4,601	4,965	5,255
Inventory	510	548	734	696	967	964	1,187	1,390
Debtors	301	334	504	578	724	968	1,192	1,396
Cash & Bank	17	83	5	33	9	11	242	488
Other Curr Assets	123	80	610	523	472	560	689	807
Curr Assets	1,130	1,409	1,943	1,886	2,187	2,578	3,384	4,155
Creditors	823	998	1,479	1,544	1,859	2,518	3,061	3,465
Provisons (both)	53	68	39	58	63	62	76	89
Other Curr Liab	326	430	177	234	233	270	332	389
Curr Liabilities	1,202	1,496	1,779	2,052	2,235	3,060	3,680	4,153
Net Curr Assets	(73)	(87)	165	(165)	(48)	(482)	(296)	2
Total Assets	3,119	3,565	4,554	4,952	5,905	7,179	8,349	9,410

### Income Statement

Y/E March	FY13	FY14	FY15	FY16	FY17	FY18	FY19E	FY20E
Revenue from Operation	7,065	7,966	10,098	11,105	12,135	15,130	18,622	21,805
Change (%)	(1)	13	27	10	9	25	23	17
Other Income	24	30	33	104	173	145	22	95
<b>EBITDA</b>	<b>409</b>	<b>482</b>	<b>604</b>	<b>810</b>	<b>857</b>	<b>1,129</b>	<b>1,476</b>	<b>1,844</b>
Change (%)	(13)	18	25	34	6	32	31	25
<b>Margin (%)</b>	<b>5.8</b>	<b>6.1</b>	<b>6.0</b>	<b>7.3</b>	<b>7.1</b>	<b>7.5</b>	<b>7.9</b>	<b>8.5</b>
Depr & Amor.	130	132	153	236	288	339	402	474
EBIT	279	351	451	574	569	790	1,074	1,370
Int. & other fin. Cost	48	25	27	49	44	57	68	61
<b>EBT</b>	<b>254</b>	<b>355</b>	<b>456</b>	<b>629</b>	<b>699</b>	<b>879</b>	<b>1,028</b>	<b>1,404</b>
Exp Item	(92)	(3)	-	-	-	-	-	-
Tax	48	91	108	140	141	216	319	435
Minority Int & P/L share of Ass.	-	-	-	-	-	-	-	-
<b>Reported PAT</b>	<b>116</b>	<b>262</b>	<b>348</b>	<b>489</b>	<b>558</b>	<b>663</b>	<b>710</b>	<b>969</b>
<b>Adjusted PAT</b>	<b>116</b>	<b>262</b>	<b>348</b>	<b>489</b>	<b>558</b>	<b>663</b>	<b>710</b>	<b>969</b>
Change (%)	(53)	126	33	41	14	19	7	36
<b>Margin(%)</b>	<b>1.6</b>	<b>3.3</b>	<b>3.4</b>	<b>4.4</b>	<b>4.6</b>	<b>4.4</b>	<b>3.8</b>	<b>4.4</b>

## Financial Details

### Key Ratios

Y/E March	FY13	FY14	FY15	FY16	FY17	FY18	FY19E	FY20E
ROE	9%	18%	21%	25%	23%	23%	21%	24%
ROCE	16%	19%	20%	23%	20%	25%	29%	31%
Asset Turnover	2.26	2.23	2.22	2.24	2.06	2.11	2.23	2.32
Debtor Days	16	15	18	19	22	23	23	23
Inv Days	26	25	27	23	29	23	23	23
Payable Days	43	46	53	51	56	61	60	58
Int Coverage	6	14	16	12	13	14	16	22
P/E	13	18	24	23	37	43	33	24
Price / Book Value	1	3	5	6	8	10	7	6
EV/EBITDA	5	10	14	15	24	26	16	13
FCF per Share	294	275	(282)	342	195	533	424	923

### Cash Flow Statement

Y/E March	FY13	FY14	FY15	FY16	FY17	FY18	FY19E	FY20E
PBT	163	348	456	566	699	879	1,028	1,404
(inc)/Dec in Working Capital	391	486	611	773	904	1,131	1,498	1,939
Non Cash Op Exp	130	132	153	190	288	339	402	474
Int Paid (+)	52	23	28	48	44	57	68	61
Tax Paid	(54)	(128)	(141)	(146)	(129)	(246)	(319)	(435)
others	78	163	(385)	218	(53)	370	30	(64)
CF from Op. Activities	418	524	85	846	724	1,252	1,224	1,453
(inc)/Dec in FA & CWIP	(124)	(249)	(367)	(504)	(529)	(718)	(800)	(530)
Free Cashflow	294	275	(282)	342	195	533	424	923
(Pur)/Sale of Inv	(29)	(28)	(116)	(171)	(194)	-	34	(235)
others	70	16	(8)	155	35	(243)	-	-
CF from Inv. Activities	(98)	(260)	(493)	(520)	(748)	(1,086)	(766)	(765)
inc/(dec) in NW	55	191	268	275	450	472	510	696
inc/(dec) in Debt	-	(109)	-	-	-	(169)	-	39
Int. Paid	(52)	(23)	(28)	(46)	(43)	(58)	(68)	(61)
Div Paid (inc tax)	(72)	(69)	(83)	(206)	(141)	(188)	(200)	(273)
others	21	0	(0)	(2)	-	(0)	-	-
CF from Fin. Activities	(146)	(198)	331	(301)	(73)	(75)	(228)	(441)
Inc(Dec) in Cash	173	66	(78)	25	(97)	91	230	247
Add: Opening Balance	(208)	15	80	3	(132)	(229)	11	242
Closing Balance	(34)	80	3	28	(229)	(138)	241	488

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