

TVS MOTOR COMPANY LTD

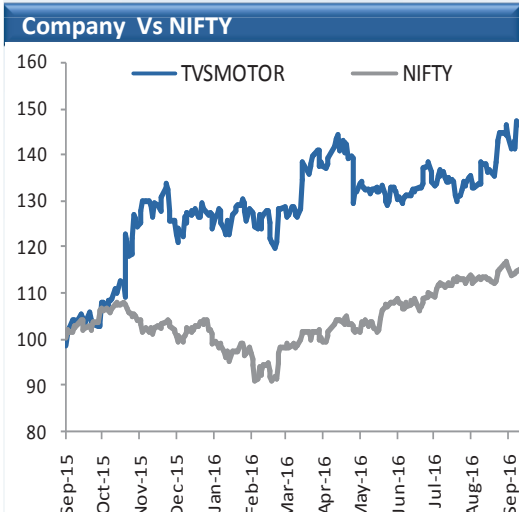
20-Sep-16

Result Update	
CMP	337
Target Price	365
Previous Target Price	330
Upside	8%
Change from Previous	-

Market Data	
BSE Code	532343
NSE Symbol	TVSMOTOR
52wk Range H/L	344/225
Mkt Capital (Rs Cr)	16,013
Av. Volume	198892
Nifty	8,808

Stock Performance			
	1Month	1Year	YTD
Absolute	7.6	15.6	16.4
Rel.to Nifty	5.5	7.4	5.5

Share Holding Pattern-%			
	1QFY17	4QFY16	3QFY16
Promoter	57.40	57.40	57.40
Public	42.60	42.60	42.60
Others	--	--	--
Total	100.00	100.00	100.00



TVS Motors reported 20% sales growth YoY in August. The growth in the domestic market was led by higher sales of motorcycles and mopeds. The new Victor has received a good response and has started gaining market share in the domestic market. It will be exported from next month onwards in different markets. The export market witnessed 20% negative growth in August because of dollar availability issue. Management has stated that monsoon so far have been satisfactory and growth would be robust in the second half of the year. The dollar availability issue also might take 2 to 3 months to get resolved. The company will launch its first concept bike in the second half of the year in the form of contract manufacturing for BMW. The launch of BMW bike will help TVS Motors to gain market share in the fastest growing premium segment bikes. Going ahead we assume that New launches in the premium segment bikes, better monsoon, recovery in the export market and management's strategy to gain market share will be key triggers for TVS Motor in FY17.

Result Update

TVS Motors 1QFY17 revenues grew by 10% YoY to Rs. 2881 crore. The growth came from higher domestic sales which grew by 18% YoY.

Gross Margin declined by 60 bps YoY due to higher commodity prices.

EBITDA Margin expanded by 80 bps due to lower other expenses.

Depreciation was higher during the quarter. As per Ind AS amortization of soome tools & dies were accounted in depreciation.

PAT margin improved by 80 bps on account of lower interest cost and high other income.

Outlook and Valuation

Going forward we assume that improving currency situation in some of African countries, expectation of robust growth in second half of the year on account of better monsoon, festivals and new product launch in the 4QFY17 in collaboration with BMW will be key growth drivers in FY17 for TVS Motors. We had recommended this stock on Rs.288 and now it has achieved our target price of Rs 330, but we still see a lot of potential in it. We still have positive bias for the company, hence reiterate 'BUY' on this with a revise target of Rs 365.

Rs. In crore

Financials	1QFY17	4QFY16	1QFY16	QoQ	YoY
Sales	2881	2815	2621	2%	10%
EBITDA	200	179	164	12%	22%
Net Profit	121	118	90	3%	34%
EBIDTA%	7.0%	6.3%	6.2%		
PAT %	4.2%	4.2%	3.4%		

(Source: Company/Eastwind)

Investment Argument

- ♦According to the management, rural demand to boost up in the second half of the year on account of better than expected monsoon. Rural volumes contributes around 40% of total volumes.
- ♦Africa is a very lucrative destination for Indian Auto-makers, so the currency availability situation may not last long. Stabilizing crude prices will normalise the dollar availability situation in African countries.
- ♦TVS has entered in a contract manufacturing agreement with BMW Motorrad with an investment of Euro 20mn. The project is going as per plan and the first product will be launched in FY17.
- ♦TVS motor has gained market share in the domestic market by launching the Victor again after almost 15 years. The bike has received good response in India and the company will begin export of this model from August 2016.
- ♦We are expecting implementation of 7th pay-commission in FY17 which will lead two wheeler and four wheeler demand going forward.
- ♦New product launches in scooter segment will be volume boosters for TVS Motor. Growth in the scooter segment is faster than motorcycles because of change in consumer preference.

Management Highlight

- ♦Monsoon so far have been satisfactory so the management sees robust growth in second half of the year
- ♦Capex plan Rs.400 crore.
- ♦BMW project going as per plan and the product will be launched in FY17.
- ♦Urban and rural mix are 55% and 45% respectively. Urban sales is higher to scooterization.
- ♦Newly launched Victor monthly run-rate is 20000 units.
- ♦Moped segment growth is coming from new model launches and 40% contribution of total sales is from North region.
- ♦Export Q2 will be better than Q1FY17.
- ♦Crude stabilization will bring the forex availability to the normal level.
- ♦Market share target 17% in 2 wheelers and 27% for 3 wheelers in exports.
- ♦Company is doing 1000 vehicles per month in Indonesia. 98% market is captured by Japanese brands.
- ♦Margin guidance of 10 percent by FY18.
- ♦Inventory level- 27-28 days.
- ♦No big pressure on commodity prices of rising steel price as per the management.
- ♦The company review prices every month.
- ♦Tax benefit in Himachal plant will lapse in FY17. It contributes around 10% of total production.
- ♦Tax rate would be in the range of 26-27% in FY17.
- ♦Company will add 200 dealers during the year.

Plant Detail

Plant Location	Capacity	Vehicles Manufactured
Nalagarh, Himachal Pradesh	6 Lakhs units	Two Wheeler
Mysore, Karnataka	5 Lakhs units	Two Wheeler
Hosur, Tamil Nadu	26 Lakhs units	Two/Three Wheeler

Key Risks

1. Dollar availability issue in export market
2. Focus on gaining market share can hamper margins in short term

Financials Snap Shot

INCOME STATEMENT

	FY13	FY14	FY15	FY16
Revenue (Net of Excise D	7510	8384	10312	11516
Other Income	24	27	24	39
Total Revenue	7535	8410	10335	11555
COGS	5348	5903	7311	8073
GPM	1	1	1	1
Other Expenses	1251	1448	1739	1942
EBITDA	438	492	603	758
EBITDA Margin (%)	6%	6%	6%	7%
Depreciation	176	149	179	216
EBIT	263	343	424	541
Interest	103	80	62	68
PBT	184	289	386	512
Tax	92	120	124	148
Tax Rate (%)	50%	42%	32%	29%
Reported PAT	198	186	328	369
Dividend Paid	67	78	106	139
No. of Shares	48	48	48	48

Source: Eastwind/Company

RATIOS

	FY13	FY14	FY15	FY16
EPS	4.2	3.9	6.9	7.8
Book Value	18.9	24.4	27.9	33.3
DPS	1.4	1.6	2.2	2.9
Payout (incl. Div. Tax.)	34%	42%	32%	38%
Valuation(x)				
P/E	7.8	24.8	25.0	30.9
Price / Book Value	1.7	4.0	6.2	6.2
Dividend Yield (%)	4.33%	1.68%	1.28%	1.22%
Profitability Ratios				
RoE	22%	16%	25%	20%
RoCE	15%	20%	23%	25%
Turnover Ratios				
Asset Turnover (x)	2	2	2	2
Debtors (No. of Days)	15	15	15	16
Inventory (No. of Days)	43	41	51	46
Creditors (No. of Days)	41	45	46	51
Net Debt/Equity (x)	0.94	0.45	0.42	0.32

Source: Eastwind/Company

BALANCE SHEET

	FY13	FY14	FY15	FY16
Share Capital	48	48	48	48
Reserves	851	1113	1113	1277
Net Worth	898	1161	1325	1583
Long term Debt	846	518	560	509
Short term Debt	72	108	465	391
Deferred Tax	82	133	160	185
Total Capital Employed	1744	1679	1885	2092
Net Fixed Assets	1629	1565	1730	1997
Capital WIP	36	48	93	0
Debtors	319	353	415	491
Cash & Bank Balances	80	98	28	54
Trade payables	853	1033	1295	1622
Total Provisions	120	135	162	107
Net Current Assets	-56	-66	192	-23
Total Assets	3381	3632	4569	4922

Source: Eastwind/Company

CASH FLOW STATEMENT

	FY13	FY14	FY15	FY16E
OP/(Loss) before Tax	276	307	444	512
Depreciation	176	149	179	216
Direct Taxes Paid	(65)	(134)	(159)	(160)
Operating profit before w	542	466	591	774
CF from Op. Activity	464	470	83	852
	(59)	(318)	(108)	(104)
Capital expenditure on fix	(312)	(272)	(376)	(552)
CF from Inv. Activity	(120)	(235)	(415)	(526)
Repayment of Long Term	-	-	-	-
Interest Paid	(94)	(47)	(46)	(64)
Divd Paid (incl Tax)	(72)	(69)	(84)	(209)
CF from Fin. Activity	(203)	(252)	(96)	(302)
Inc/(Dec) in Cash	141	(17)	(428)	24
Add: Opening Balance	135	77	96	25
Closing Balance	276	60	(331)	49

Source: Eastwind/Company