India Equity Analytics
Company Update

TVSMOTOR

BUY

TVS MOTOR COMPANY LTD

25-Jan-17

Result Update

CMP	401
Target Price	465
Previous Target Price	365
Upside	16%
Change from Previous	27%

Market Data

BSE Code	532343
NSE Symbol	TVSMOTOR
52wk Range H/L	418/256
Mkt Capital (Rs Cr)	19,061
Av. Volume	130329
Nifty	8,476

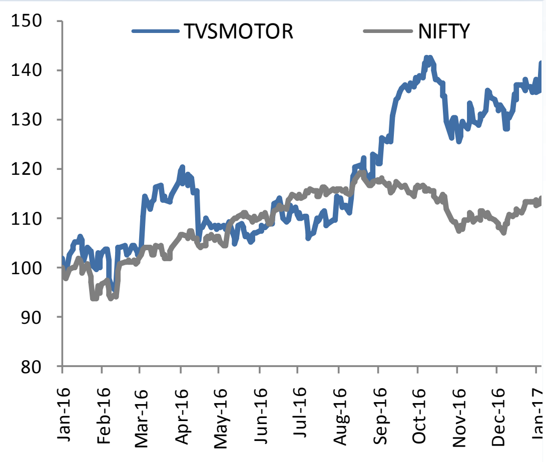
Stock Performance

	1Month	3Month	1Year
Absolute	13.8	-0.9	39.3
Rel.to Nifty	8.3	1.0	25.3

Share Holding Pattern-%

	3QFY17	2QFY17	1QFY17
Promoter	57.40	57.40	57.40
Public	42.60	42.60	42.60
Others	--	--	--
Total	100.00	100.00	100.00

Company Vs NIFTY



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Results in line, Higher Moped sales supported volumes

TVS Motors has reported results in line with our estimates in 3QFY17. Net sales grew by 3% to Rs. 2983 crore (vs our estimates of Rs.2991 crore). This growth was supported by 2% of volume growth and 1% of realization growth. Domestic volumes grew by only 4% due to demonetization issue. Exports volume de-grew by 9% because of currency availability issues in African countries and devaluation in currency in Egypt where the company has significance presence in three wheelers. Mopeds segment reported robust 27% growth in 3QFY17 despite the currency ban. The automobile industry is recovering very rapidly from the hangover of demonetization issue. The management is also very auspicious based on the robust pipeline of launches across all categories in FY18. Scooters and premium segment motorcycles will drive the higher realisation and margins for the company. The most awaited concept bike in alliance with BMW will also be launched in 2017.

Result Update

TVS Motors 3QFY17 revenues grew by 3% YoY to Rs.2983 crore. The growth came from higher sales of Mopeds during the quarter.

Gross Margin improved by 30 bps YoY due to soft commodity prices.

EBITDA Margin remained 7.3% same as previous year.

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

PAT margin improved by 20 bps on account of lower tax rate due to higher R&D expenses.

Outlook and Valuation

We expect that management's strong focus to gain market share, launch of new products in scooter segment, restructuring of three wheeler segment will ensure strong positioning of TVS Motors in the domestic market. TVS-BMW alliance will further strengthen company's presence in premium bike segment which in turn boost company's margin by change in product mix and give opportunity to expand it's footprint in foreign markets. We expect TVS Motors to report 20% ROE in FY17. Hence we have positive view on this stock and we recommend "BUY" for a target price of Rs.465.

Rs. In crore

Financials	*3QFY17*	*2QFY17*	*3QFY16*	*QoQ*	*YoY*
Sales	*2983*	*3426*	*2896*	*-13%*	*3%*
EBITDA	*218*	*277*	*210*	*-21%*	*4%*
Net Profit	*133*	*177*	*120*	*-25%*	*10%*
EBIDTA%	*7.3%*	*8.1%*	*7.3%*		
PAT %	*4.4%*	*5.2%*	*4.2%*		

TVSMOTOR

Investment Arguments

♦**Strong pipeline of new launches-** New product launches in scooter and premium segment motorcycle will help company to achieve its target of 18% markets share by FY18 from currently 15.5%. New premium segment products will also boost the realization and margins for the company going ahead.

♦**TVS-BMW alliance to deliver synergies-** 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. The strategic alliance will help TVS to earn higher realization and margins and will provide a platform to both TVS and BMW to showcase their technological expertise.

♦**Restructuring of Three wheeler business-** Three wheelers segment of the company has not been placed well in the domestic market in comparison to market leader Bajaj Auto. The management is moving towards the non-permit driven markets to increase the penetration in different parts of the country.

♦**Improvement in Indonesian Subsidiary-** Indonesian subsidiary has reported 55% growth in volumes in first half as compared to previous year. TVS has invested Rs.33 crore in the 3QFY17 and will invest Rs.25 crore in 4QFY17 considering the improvement on EBITDA level.

Concall Highlights

♦Management expects double digit growth in FY18.
♦Capex plan Rs.400 crore in FY17.
♦BMW project going as per plan and the product will be launched in 2017.
♦Urban and rural mix are 55% and 45% respectively. Urban sales is higher due 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.
♦Management is also looking into non permit driven markets for 3 wheelers.
♦Exports have been sluggish due to restricted availability of dollars and currency devaluation in some countries.
♦Market share target 18% in 2 wheelers and 27-28% for 3 wheelers in exports.
♦25 crore of investment in Indonesian subsidiary in 4QFY17 looking at the growth on 9 month basis.
♦The Indonesian subsidiary has started showing improvements in topline with 55% growth in 1HFY17 vs HFY16.
♦Margin guidance of 10 percent by FY18.
♦Inventory days-28 in 3QFY17 and it will be 30-32 days in 4QFY17.
♦No big pressure on commodity prices of rising steel price.
♦The company will review prices in 4QFY17 depending on the commodity price increases.
♦Tax benefit in Himachal plant will lapse in FY17. It contributes around 10% of total production.
♦Tax rate would be in the range of 24-25% in FY17.

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

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Financials Snap Shot

INCOME STATEMENT	FY14	FY15	FY16	FY17
Net Revenue	8,384	10,312	11,516	12,769
Other Income	27	24	39	48
Total Revenue	8,410	10,335	11,555	12,817
COGS	5,903	7,311	8,073	9,002
GPM	30%	29%	30%	30%
Other Expenses	1,448	1,739	1,942	2,154
EBITDA	492	603	758	789
EBITDA Margin (%)	6%	6%	7%	6%
Depreciation	149	179	216	264
EBIT	343	424	541	525
Interest	80	62	68	59
PBT	289	386	512	514
Tax	120	124	148	144
Tax Rate (%)	42%	32%	29%	28%
Reported PAT	186	328	369	370
Dividend Paid	78	106	139	139
No. of Shares	48	48	48	48

RATIOS	FY14	FY15	FY16	FY17
EPS	3.9	6.9	7.8	7.8
Book Value	24.4	27.9	33.3	38.2
DPS	1.6	2.2	2.9	2.9
Payout (incl. Div. Tax.)	42%	32%	38%	38%
Valuation(x)				
P/E	24.8	25.0	30.9	51.4
Price / Book Value	4.0	6.2	7.2	10.5
Dividend Yield (%)	2%	1%	1%	1%
Profitability Ratios				
RoE	16%	25%	23%	20%
RoCE	20%	23%	26%	24%
Turnover Ratios				
Asset Turnover (x)	2.3	2.3	2.3	2.4
Debtors (No. of Days)	15.4	14.7	15.6	15.6
Inventory (No. of Days)	41.2	50.8	45.8	45.8
Creditors (No. of Days)	45.0	45.8	51.4	51.4
Net Debt/Equity (x)	0.4	0.4	0.3	0.2

BALANCE SHEET	FY14	FY15	FY16	FY17
Share Capital	48	48	48	48
Reserves	1,113	1,113	1,277	1,535
Net Worth	1,161	1,325	1,583	1,814
Long term Debt	518	560	509	354
Short term Debt	108	465	391	433
Deferred Tax	133	160	185	185
Total Capital Employed	1,679	1,885	2,092	2,168
Net Fixed Assets	1,565	1,730	1,997	2,128
Capital WIP	48	93	-	-
Debtors	353	415	491	545
Cash & Bank Balances	98	28	54	109
Trade payables	1,033	1,295	1,622	1,799
Total Provisions	135	162	107	119
Net Current Assets	(66)	192	(23)	(30)
Total Assets	3,632	4,569	4,922	5,285

CASH FLOW STATEMENT	FY14	FY15	FY16	FY17
OP/(Loss) before Tax	307	444	512	514
Depreciation	149	179	216	264
Direct Taxes Paid	(134)	(159)	(148)	(144)
OP before WC	466	591	796	837
CF from Op. Activity	470	83	889	756
	(318)	(108)	(109)	-
Capex	(272)	(376)	(484)	(395)
CF from Inv. Activity	(235)	(415)	(583)	(395)
Repayment of Borrowings	-	-	-	-
Interest Paid	(47)	(46)	(68)	(59)
Divd Paid (incl Tax)	(69)	(84)	(139)	(139)
CF from Fin. Activity	(252)	(96)	(337)	(305)
Inc/(Dec) in Cash	(17)	(428)	(31)	56
Add: Opening Balance	77	96	28	54
Closing Balance	60	(331)	(4)	109

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