

Institutional Equities
India Research

TVS Motor

UPDATE

Bloomberg: TVSL IN
Reuters: TVSM.BO

BUY

To Enter New Margin Territory Backed by Healthy Volume Growth

TVS Motor (TVSL) displayed stellar performance across segments over past three quarters. Moreover, success of its new launches in domestic market and high double digit growth in exports led to visible outperformance of the company since FY15 beginning. TVSL's increasing three wheeler contribution and high export realization will further boost its average realization as well as margins. Its product portfolio is steadily inclining towards richer products with increasing contribution from motorcycles and high end scooters.

Market Share Gain to Continue...Healthy Volumes Ahead: TVSL's market share in scooters improved to 14.1% at present from ~12.7% in FY14, while it rose 17 bps YoY to 5.9% in motorcycle segment. In domestic three wheelers company's share rose 146 bps YoY to 3.5% in YTD'15. Success of Jupiter has been driving market shares as its current monthly run rate is moved up to ~28K from ~10K. TVSL's product and marketing strategy has begun paying off. It plans to launch 2 new products (new Star City+ and new Scooty) over next 3 months and 2-3 more new models over next 6-8 months in two wheeler segment. This would aid the Company on volume front over next 2 years. Company has been gaining shares from BJA in African markets, as its YTD'15 export growth was 41% as against industry's export growth of 27%. We expect company's volumes to grow by 16.3% CAGR over FY14-16E. On account of Company's restructured business strategy in domestic two wheeler market, richer product mix coupled with higher focus on exports, we expect its EBITDA margins to improve from 6% in FY14 to 7.8% in FY15E and 8.5% in FY16E. Amid high fixed cost, TVSL benefits largely from operating leverage.

Valuation & Rating: In view of TVSL gaining market shares, better industry outlook and healthy exports, we increase our volume estimates by 8% and 9.5% for FY15 and FY16, accordingly we increase our revenue estimates by 9% and 12% for FY15E and FY16E respectively. On account of higher margins, we raise our EPS estimates by 30% and 39% for FY15E and FY16E respectively. We increase our price target from Rs 115 to Rs 187 per share, valuing its FY16E EPS at 14x (earlier 12x). We reiterate our **"BUY"** recommendation on **TVS Motor** with potential upside of 30% from CMP.

Key Financials

Y/E March (Rs. mn)	FY12	FY13	FY14E	FY15E	FY16E
Net Sales	71,415	70,650	79,619	99,670	116,003
EBITDA	4,948	4,223	4,781	7,787	9,861
EBITDA margin (%)	6.9	6.0	6.0	7.8	8.5
Adj. Net Profit	2,491	1,982	2,583	4,798	6,331
EPS (Rs.)	5.2	4.2	5.4	10.1	13.3
YoY growth (%)	28.0	-20.4	30.3	85.8	31.9
ROE (%)	22.2	16.1	19.1	29.1	29.6
ROCE (%)	15.6	11.9	14.1	23.0	26.5
PER (x)	27.6	34.6	26.6	14.3	10.8
P/BV (x)	5.9	5.6	4.9	3.8	2.9
EV/ EBITDA	15.3	17.5	15.2	8.9	6.6

Source: Company, Karvy Institutional Research; We do not factor in any financial impact of BMW tie-up.

Recommendation

CMP:	Rs144
Target Price:	Rs187
Previous Target Price:	Rs115
Upside (%)	30%

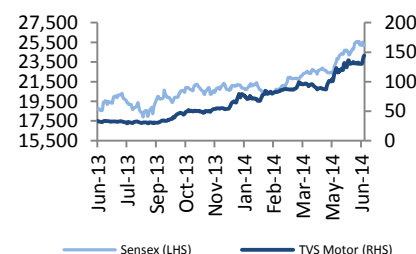
Stock Information

Market Cap. (Rs bn / US\$ mn)	69/1,143
52-week High/Low (Rs)	148/28
3m ADV (Rs mn / US\$ mn)	295/4.9
Beta	0.8
Sensex/ Nifty	25,202/7,541
Share outstanding (mn)	475

Stock Performance (%)

	1M	3M	12M	YTD
Absolute	18.3	60.9	324.9	90.2
Rel. to Sensex	14.4	39.4	224.4	59.8

Performance



Source: Bloomberg

Earnings Revision

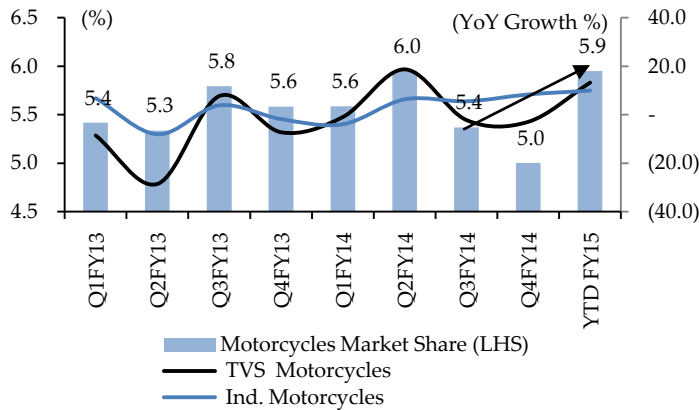
(%)	FY15E	FY16E
Revenue	↑ 9.1	↑ 11.7
EBITDA	↑ 22.5	↑ 31.0
EPS	↑ 29.5	↑ 38.8

Source: Karvy Institutional Research

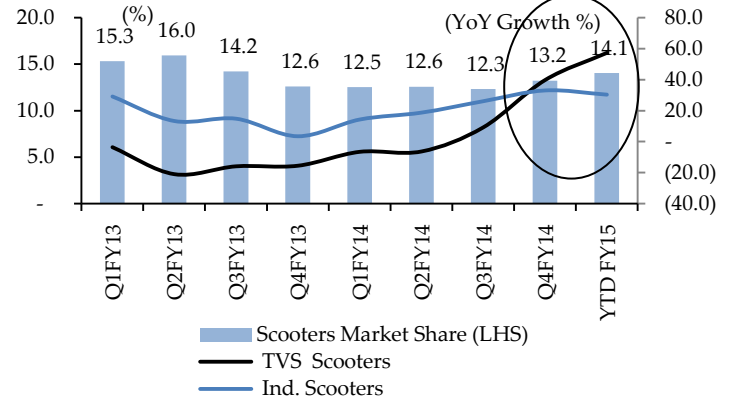
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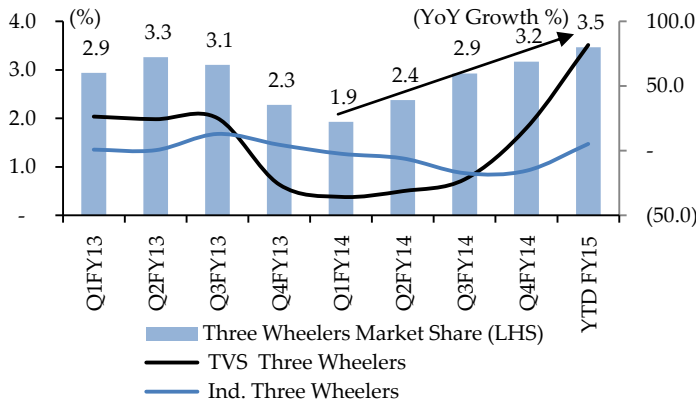
Outperformance across Segments

Exhibit 1: Improving Market Shares in Motorcycles


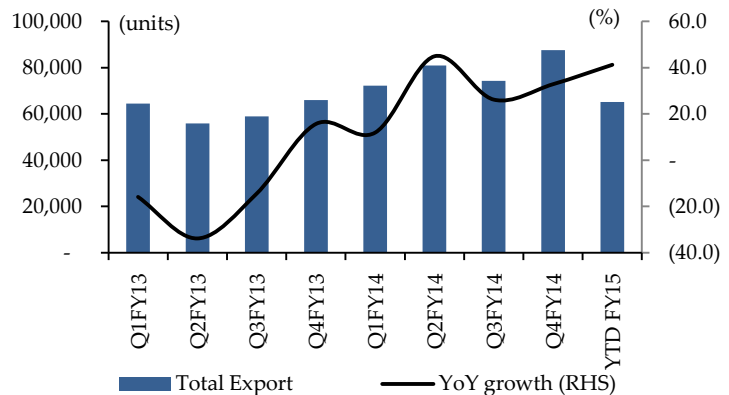
Source: SIAM, Company, Karvy Institutional Research

Exhibit 2: Strong Outperformance in Scooters


Source: SIAM, Company, Karvy Institutional Research

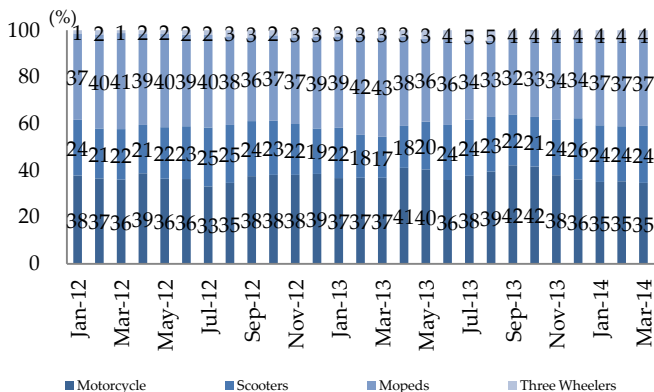
Exhibit 3: Steady Market Share Gain in 3Ws


Source: SIAM, Company, Karvy Institutional Research

Exhibit 4: Strong Export Growth on High Base


Source: SIAM, Company, Karvy Institutional Research, YTD FY15: Apr-May'14

Better Product Mix and Favorable Currency

Exhibit 5: Better Product Mix


Source: SIAM, Company, Karvy Institutional Research

Exhibit 6: Favorable Currency

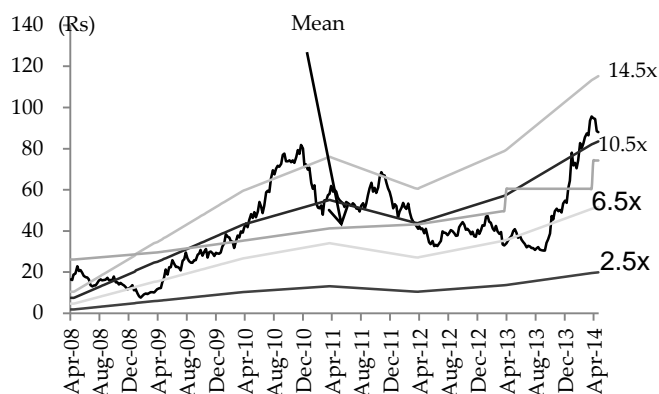

Source: Bloomberg, Company, Karvy Institutional Research

Change in Estimate and Valuation

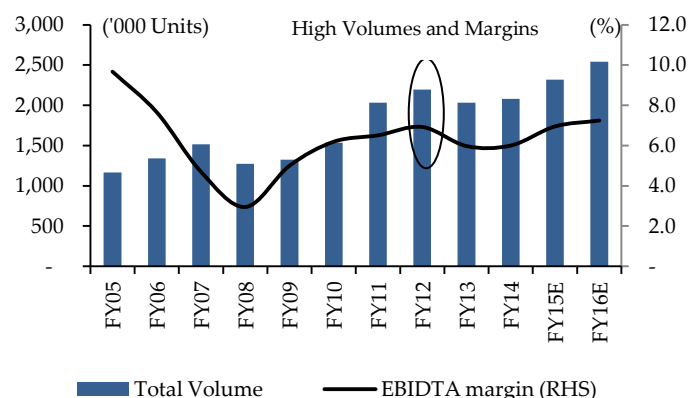
Exhibit 7: Change in Estimates

Y/E March (Rs. mn)	FY15E			FY16E			Comments
	New	Old	% change	New	Old	% change	
Domestic	2,123,754	1,940,123	9.5	2,351,774	2,109,375	11.5	Higher growth due to market share gain across segments
Export	387,742	377,250	2.8	457,535	433,838	5.5	
Total Volume Units	2,511,496	2,317,373	8.4	2,809,309	2,543,213	10.5	
Net revenues	99,670	91,352	9.1	116,003	103,850	11.7	
EBIDTA	7,787	6,355	22.5	9,861	7,527	31.0	Margin Improvement with operating leverage, due to high fixed cost
EBIDTA margin (%)	7.8	7.0	86	8.5	7.2	125	
Reported Net Profit	4,798	3,712	29.3	6,331	4,553	39.0	
EPS (Rs.)	10.1	7.8	29.5	13.3	9.6	38.8	

Source: Karvy Institutional Research

Exhibit 8: P/E Price band


Source: Bloomberg, Company, Karvy Institutional Research

Exhibit 9: Volumes and EBIDTA Margin Trend


Source: SIAM, Company, Karvy Institutional Research

Valuation Attractive to BJA amid Better Fundamentals

As evident in above P/E chart for TVSL, the stock has traded at 12.5x during FY11-FY12, when its volumes surpassed 2 mn mark and sales volume grew by 20% CAGR over FY10-FY12. Its EBIDTA margins were in the range of 6.5 - 6.9% during the same period. Historically, its high multiple was backed by strong volumes and operating margins of ~7%. We expect TVS to record 18% CAGR in Sales, 57% CAGR in EPS over FY14-16E and RoE of ~30%, as against Bajaj Auto's 9% CAGR in EPS and ~30% RoE. Therefore, we expect TVS' 1 Yr forward P/E valuation multiple to expand from current ~11x to 14x going forward. Accordingly, we have increase our target multiple from 12x to 14x and arrived at target price of Rs 187.

Exhibit 10: TVS' Valuation Multiple Yet Below BJA and Hero, Despite Higher EPS Growth and Comparable RoE

Companies	Sales Growth (%)	EPS CAGR (%)	ROE (%)	ROCE (%)	Target Multiple (P/E) on FY16E
	(FY14-FY16 E)	(FY14-FY16 E)	(FY16E)	(FY16E)	FY16E
Bajaj Auto	7.9	9.3	30.0	28.9	14.5
Hero MotoCorp	11.8	28.2	40.3	41.0	17.0
TVS Motor	18.1	56.5	29.6	25.0	14.0

Source: Karvy Institutional Research

Financials

Exhibit 11: Profit & Loss Statement (Standalone)

Y/E March (Rs. mn)	FY12	FY13	FY14	FY15E	FY16E
Net revenues	71,415	70,650	79,619	99,670	116,003
Operating expenses	66,467	66,427	74,838	91,883	106,142
EBIDTA	4,948	4,223	4,781	7,787	9,861
EBIDTA margin (%)	6.9	6.0	6.0	7.8	8.5
Other income	200	237	302	333	407
Interest	574	483	254	185	80
Depreciation	1,175	1,304	1,317	1,494	1,696
Profit Before Tax	3,165	1,636	3,515	6,441	8,492
Tax	674	476	899	1,642	2,161
Reported Net Profit	2,491	1,160	2,616	4,798	6,331
Net Margin (%)	3.5	1.6	3.3	4.8	5.5
Adjusted Net Profit	2,491	1,982	2,583	4,798	6,331
Adj. Net Margin (%)	3.5	2.8	3.2	4.8	5.5

Source: Company, Karvy Institutional Research

Exhibit 12: Balance Sheet (Standalone)

Y/E March (Rs. mn)	FY12	FY13	FY14E	FY15E	FY16E
Equity capital	475	475	475	475	475
Reserves & surplus	11,221	11,772	13,624	17,767	23,443
Shareholders funds	11,696	12,247	14,099	18,242	23,918
Total Loans	7,155	5,459	4,709	2,709	209
Deferred tax liability	976	931	1,241	1,241	1,241
Total Liabilities and Equity	19,826	18,637	20,049	22,192	25,368
Gross block	21,545	22,479	24,498	27,015	29,515
Depreciation	11,289	12,365	13,681	15,175	16,871
Net block	10,256	10,115	10,817	11,840	12,644
Capital WIP	525	361	893	875	875
Investments	9,309	8,688	8,938	9,188	9,438
Inventory	5,846	5,097	5,474	6,797	7,852
Debtors	2,080	3,005	3,272	4,096	4,767
Cash & Bank Bal	130	175	823	2,092	3,668
Loans & Advances	2,998	3,752	4,961	4,768	5,542
Current Assets	11,055	12,029	14,531	17,753	21,828
Sundry Creditors	7,117	8,228	10,252	12,587	14,540
Other Current Liability	1,063	1,066	1,166	1,166	1,166
Current Liability & Provisions	11,319	12,556	15,130	17,465	19,418
Net current assets	-264	-528	-599	288	2,410
Total Assets	19,826	18,637	20,049	22,192	25,368

Source: Company, Karvy Institutional Research

TVS Motor
Exhibit 13: Cash Flow Statement (Standalone)

Y/E March (Rs. mn)	FY12	FY13	FY14E	FY15E	FY16E
EBIT	3,773	2,919	3,465	6,293	8,165
Other Income	200	237	302	333	407
Depreciation & Amortisation	1,175	1,304	1,317	1,494	1,696
Interest paid(-)	(574)	(483)	(254)	(185)	(80)
Tax paid(-)	(674)	(476)	(899)	(1,642)	(2,161)
Extra Ord Income	(235)	(1,037)	2	0	0
Operating Cash Flow	3,666	2,464	3,933	6,292	8,027
Change in Working Capital	1,058	308	720	382	(546)
Cash flow from Operations	4,724	2,772	4,653	6,674	7,480
Capex	(2,006)	(999)	(2,550)	(2,500)	(2,500)
Strategic Investment	(2,815)	660	(250)	(250)	(250)
Non Strategic Investment	118	(39)	0	0	0
Cash flow from Investing	(4,704)	(378)	(2,800)	(2,750)	(2,750)
Change in borrowing	820	(1,696)	(750)	(2,000)	(2,500)
Others	(52)	2	310	0	0
Dividends paid(-)	(718)	(655)	(764)	(655)	(655)
Cashflow from Financial Activities	50	(2,349)	(1,204)	(2,655)	(3,155)
Change in Cash	70	44	649	1,269	1,575
Opening cash	60	130	175	823	2,092
Closing cash	130	175	823	2,092	3,668

Source: Company, Karvy Institutional Research

Exhibit 14: Key Ratios

Y/E March (Rs. mn)	FY12	FY13	FY14E	FY15E	FY16E
Revenue Growth	13.6	-1.1	12.7	25.2	16.4
EBITDA Margin	6.9	6.0	6.0	7.8	8.5
Net Profit Margin	3.5	2.8	3.2	4.8	5.5
ROCE (%)	15.6	11.9	14.1	23.0	26.5
ROE (%)	22.2	16.1	19.1	29.1	29.6

Source: Company, Karvy Institutional Research

Exhibit 15: Valuation Parameters

Y/E March (Rs. mn)	FY12	FY13	FY14E	FY15E	FY16E
EPS(Rs)	5.2	4.2	5.4	10.1	13.3
P/E (x)	27.6	34.6	26.6	14.3	10.8
P/ BV (x)	5.9	5.6	4.9	3.8	2.9
EV/ EBITDA (x)	15.3	17.5	15.2	8.9	6.6
Fixed Assets Turnover Ratio (x)	6.7	6.4	6.8	8.4	9.2
Debt / Equity (x)	0.6	0.4	0.3	0.1	0.0
EV/ Sales (x)	1.1	1.0	0.9	0.7	0.6

Source: Company, Karvy Institutional Research

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Stock Ratings		Absolute Returns
Buy	:	> 15%
Hold	:	5-15%
Sell	:	< 5%

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