

TVS Motor Company

 BSE Sensex
24,717

 S&P CNX
7,359

CMP: INR124
TP: INR172
Buy


Stock Info

Bloomberg	TVSL IN
Equity Shares (m)	475.1
52-Week Range (INR)	138/28
1, 6, 12 Rel. Per (%)	34/111/210
M.Cap. (INR b)	59.1
M.Cap. (USD b)	1.0

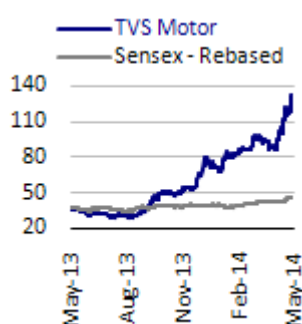
Financial Snapshot (INR Million)

Y/E March	2014	2015E	2016E
Net Sales	79,619	101,607	122,816
EBITDA	4,781	7,555	9,685
Adj PAT	2,612	4,734	6,287
EPS (INR)	5.5	10.0	13.2
Gr. (%)	44.4	81.1	32.8
BV/Sh (INR)	29.8	37.6	48.2
RoE (%)	19.8	29.6	30.8
RoCE (%)	20.1	31.3	34.4
P/E (x)	22.6	12.5	9.4
P/BV (x)	4.2	3.3	2.6

Shareholding pattern (%)

As on	Mar-14	Dec-13	Mar-13
Promoter	57.4	57.4	57.4
Dom. Inst	16.9	17.7	18.2
Foreign	5.8	3.7	2.2
Others	20.0	21.2	22.2

Stock Performance (1-year)



Benefit of two major motorcycle launches not priced in Improved industry outlook and recent launch success drive upgrades

- Despite a sharp run-up, the current price level ignores the benefits of two major motorcycle launches over FY14-16E.
- Management has guided 25% volume growth (v/s our growth estimate of 22.5% for FY15), with share gain of 250bp to 14.5% in FY15 driven by a) recent success of *Jupiter* and b) new launches.
- Improving capacity utilization and better mix to drive margin expansion to 7.9% in FY16E v/s 6% in FY14 (6.9% in 4QFY14).
- Upgrade FY15E/16E EPS by 18.2%/26.5% to factor a) 2W industry recovery gathering pace, b) strong response to recent launches and c) consequent margin expansion to 7.9% in FY16E from 6% in FY14 (6.9% in 4QFY14).
- Over FY14-16E, expect robust 55% EPS CAGR, RoE expansion from 19.8% to 30.8% coupled with significant improvement in balance sheet strength.
- Maintain Buy with a revised target price of INR172 (13x FY16E EPS).

Improved industry outlook and two motorcycle launches not priced in

Despite a sharp run-up, the current price level reflects flat domestic motorcycle growth, despite two major launches and improved industry growth outlook, and margins at 4QFY14 levels of 6.9% even with multiple levers.

Guidance for strong 25% volume growth, share gains for FY15

Management has guided for 25% volume growth, with share gain of 250bp to 14.5% in FY15 driven by a) recent success of *Jupiter* and b) upcoming launch of new *Scooty Zest* (110cc variant) and c) two motorcycle launches – *Star City Plus* (launched in May 2014) and *Victor* (expected in 3QFY15).

Expect 19.3% volume CAGR over FY14-16E on recovery, share gains

Over FY14-16E, expect robust 19.3% volume CAGR for TVSL driven by a) industry growth recovery to 13.7% (v/s 5.8% over FY11-14), b) continued strong scooter growth with 19% CAGR, c) market share gains of 110/240bp in motorcycles/scooters on new launches, driving 22.3%/30.6% CAGR in domestic volumes respectively, d) continued strong export growth to drive 14.9% CAGR.

Margins to expand to 7.9% in FY16E on higher volumes, better mix

Strong volume growth coupled with better mix to drive margins from 6% in FY14 to 7.9% in FY16E. We note that TVSL's recurring margins (adjusted for one-time excise duty compensation to dealers) stood at 6.9%.

Upgrade FY15E/16E EPS by 18.2%/26.5%, maintain Buy

Upgrade FY15E/16E EPS by 18.2%/26.5% to factor a) 2W industry recovery gathering pace, b) strong response to recent launches and c) consequent margin expansion to 7.9% in FY16E (v/s 6.9% in 4QFY14). Maintain **Buy**.

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Investors are advised to refer through disclosures made at the end of the Research Report.

Industry recovery, new launches not priced in

Current price level reflects flat motorcycle growth despite two launches

- Despite a sharp run-up, the current price level ignores the recovery in 2W industry, benefit of two major motorcycle launches (*Star City Plus* in 1QFY15, *Victor* re-launch in 2HFY14) and consequent boost to margins.
- Recovery in two-wheeler industry has commenced. Compared to 3% growth in FY13, growth during the last three quarters has been over 8% driven by strong scooter and rural demand.
- Over FY15-16, we expect recovery in two-wheeler industry to gather further pace to 13.7% growth (v/s 5.8% during FY11-14) led by an improvement in macro-economic environment and consumer sentiments.
- In our view, the current price level factors a) flat domestic motorcycles growth over FY15-16, despite two major launches and b) modest margin improvement from 4QFY14 recurring levels of 6.9%, even with multiple levers of higher volumes, mix improvement and improved industry growth outlook.

TVS Motor: What does the current price level factor in?

Domestic (units)	FY12	FY13	FY14	FY15E	FY16E
Motorcycle	621,722	558,447	572,732	573,000	573,000
Growth (%)	-1.6	-10.2	2.6	0.0	0.0
Scooter	496,892	424,183	456,975	720,000	844,800
Growth (%)	14.1	-14.6	7.7	57.6	17.3
Moped	776,866	788,761	722,920	795,212	874,733
Growth (%)	11.4	1.5	-8.3	10.0	10.0
Two-wheelers	1,895,480	1,771,391	1,752,627	2,088,212	2,292,533
Growth (%)	7.4	-6.5	-1.1	19.1	9.8
Three-wheelers	14,746	15,616	12,515	13,516	14,597
Growth (%)	-34.0	5.9	-19.9	8.0	8.0
Domestic Total Vols.	1,910,226	1,787,007	1,765,142	2,101,728	2,307,131
Growth (%)	6.9	-6.5	-1.2	19.1	9.8
Export (units)					
Two-wheelers	262,667	211,659	246,692	277,600	311,248
Growth (%)	15.7	-19.4	16.6	12.5	12.1
Three-wheelers	25046	33574	68,327	85,409	98,220
Growth (%)	43.1	34.0	103.5	25	15
Export Total Vols.	287,713	245,233	315,019	363,009	409,468
Growth (%)	17.6	-14.8	28.5	15.2	12.8
Total Volumes (units)	2,197,939	2,032,240	2,080,161	2,464,737	2,716,599
Growth (%)	8.2	-7.5	2.4	18.5	10.2
Avg. realization (INR/unit)	32,492	34,765	38,275	39,619	40,687
Growth (%)		7.0	10.1	3.5	2.7
Net sales (INR m)	71,415	70,650	79,619	97,650	110,529
Growth (%)		-1.1	12.7	22.6	13.2
EBITDA margin (%)	6.6	5.8	6.0	6.9	7.1
PAT (INR m)	2,491	1,810	2,614	4,125	4,913
EPS (INR)	5.2	3.8	5.5	8.7	10.3
PE Multiple (x)					12
CMP (INR)					124

Source: Company, MOSL

Management guides 25% volume growth for FY15

Recent launch of Jupiter and two motorcycles launch to drive growth

“We will be launching products every quarter (this financial year). We will be launching *Scooty Zest* next month, then we will have the (motorcycle) *Victor* and last quarter of this year we will be launching a new (upgraded) *Apache*,” Venu Srinivasan, CMD, TVSL quoted in media during *Star City* launch in May 2014

- Management has guided 25% volume growth (v/s our growth estimate of 22.5%) driven by industry recovery and market share gains on the back of new launches.
- TVSL plans to launch a product every quarter in FY15: *Scooty Zest* (110cc variant) in July 2014, *Victor* (110cc motorcycle) in 3QFY15 and upgraded *Apache* (premium motorcycle) in 4QFY15.
- With the launch of *Scooty Zest*, *Victor* and new *Apache* series, company would have a product in every segment, from basic *Scooty* model to high-end *Apache*.
- TVSL expects to increase its market share by 250bp to 14.5% in FY15 driven by a) recent success of *Jupiter*, b) upcoming launch of new *Scooty Zest* (110cc variant) and c) two motorcycle launches - *Star City Plus* (launched in May 2014) and *Victor* (expected in 3QFY15).

Recent full model upgrade launch of Star City Plus should consolidate its position in economy segment

“We have a good customer base of 4.5 million customers for the *Star City* and the new product is an updated version to attract them, along with the new customers in the market,” Venu Srinivasan, CMD, TVSL quoted in media during *Star City* launch



Source: Company, MOSL

“With the launch of *Scooty Zest*, *Victor* and new *Apache* series, TVS would have a product in every segment, from basic *Scooty* model to high-end *Apache*. We will be present in all segments from the smaller scooter *Scooty* to (big scooterette) *Jupiter*, (high-end motorcycle) *Apache* to (basic 100cc) *TVS Sport*,” Venu Srinivasan, CMD, TVSL quoted in media during *Star City* launch

New Scooty Zest (110cc variant) launch expected in July 2014 should help to partially regain the lost share in women’s segment



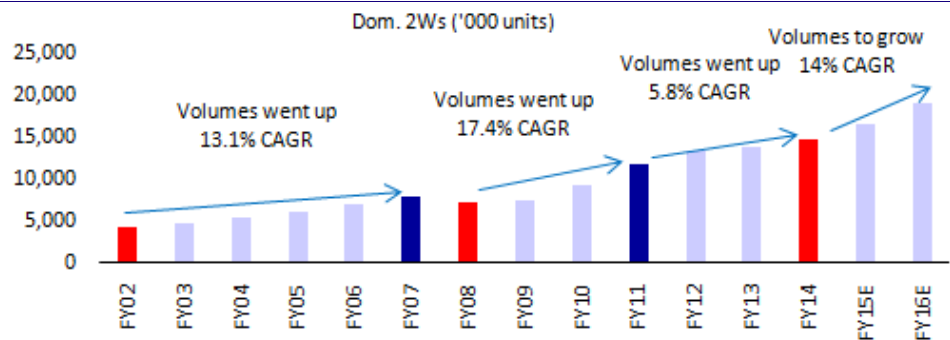
Source: Company, MOSL

Expect 19.3% volume CAGR over FY14-16E

Industry recovery, strong scooter growth and new launches to drive growth

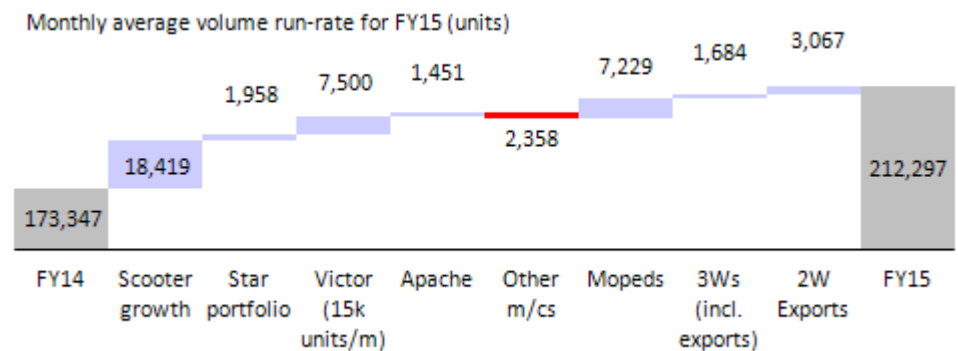
- Industry interactions indicate 2W industry recovery to gather pace with expected growth of 13% over FY14-16 (v/s 5.8% over FY11-14).
- Scooters to continue to outperform motorcycles with 19% CAGR over FY14-16E driven by universal usage appeal and convenience.
- Over FY14-16E, expect robust 19.3% volume CAGR for TVSL driven by a) industry growth recovery to 13% (v/s 5.8% over FY11-14), b) strong scooter growth to continue with 19% CAGR, c) market share gains of 110/240bp in motorcycles/scooters driven by new launches driving 22.3%/30.6% CAGR in domestic volumes respectively, d) continued strong growth in exports driving 14.9% CAGR.

Industry growth expected to recover to 13.7% over FY14-16



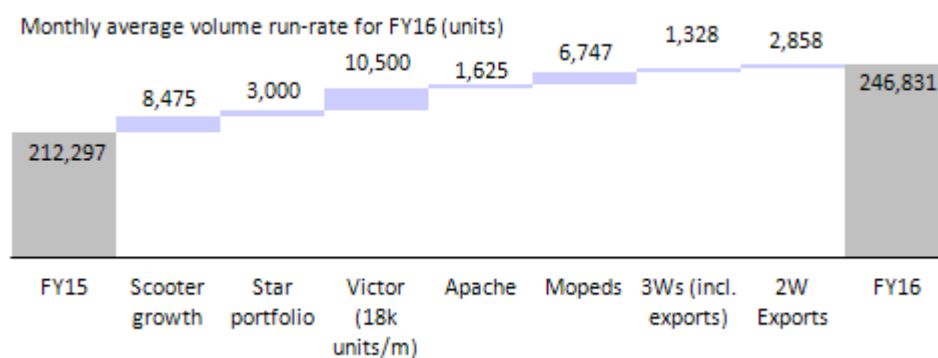
Source: Company, MOSL

Growth in FY15 to be largely driven by scooters, Victor re-launch and recovery in mopeds



Source: Company, MOSL

FY16 growth to be driven by full year impact of Victor re-launch and scooter growth



Source: Company, MOSL

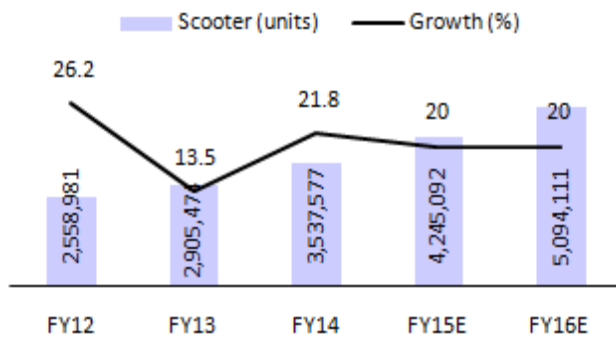
TVS Brand-wise Sales Forecast (units)

Domestic Volumes	Monthly avg. run-rate			Growth drivers			
	FY14	FY15E	FY16E				
Star Sports	237,427	168,000	184,800	19,786	14,000	15,400	TVS has 18% share in entry-level segment. Star City Plus (first model upgrade since 2006) share expected to strengthen the portfolio
Star City	99,073	192,000	211,200	8,256	16,000	17,600	
Victor (New model)		90,000	216,000	-	15,000	18,000	1. Victor will offer entry-level TVS's customers to upgrade, 2. 800 dealer network (2nd best to Hero)
Pheonix	88,299	60,000	60,000	7,358	5,000	5,000	Expect cannibalization towards Victor, hence marginal drop in volumes
Apache	145,111	162,524	182,027	12,093	13,544	15,169	Apache grew 20% in FY14. Premium motorcycle segment recovery plus new variant launch in 4QFY14 to aid volumes
Others	2,822	2,822	2,822	235	235	235	
Motorcycle	572,732	675,346	856,849	47,728	56,279	71,404	
Growth (%)	2.6	17.9	26.9				
Scooty	197,815	222,000	255,300	16,485	18,500	21,275	New Scooty to have 110cc variant (v/s current 90cc) variant. Expect to partially regain lost share in female segment
Wego + Jupiter	259,247	456,000	524,400	21,604	38,000	43,700	Industry growth and production ramp-up to drive growth
Scooter	456,975	678,000	779,700	38,081	56,500	64,975	
Growth (%)	7.7	48.4	15.0				
Moped	722,920	809,670	890,637	60,243	67,473	74,220	Mopeds recovered in 4QFY14 v/s 10% drop during 9MFY14. South recovery to drive growth
Growth (%)	-8.3	12.0	10.0				
Two-wheelers	1,752,627	2,163,017	2,527,187	146,052	180,251	210,599	
Growth (%)	-1.1	23.4	16.8				
Three-wheelers	12,515	15,644	18,773	1,043	1,304	1,564	Recently entered in Diesel segment (~35% of market). Maharashtra Govt. recently issued 80k permits
Growth (%)	-19.9	25.0	20.0				
Domestic Total	1,765,142	2,178,660	2,545,959	147,095	181,555	212,163	
Growth (%)	-1.2	23.4	16.9				
Export Volumes	FY14	FY15E	FY16E	FY14	FY15E	FY16E	
Two-wheelers	246,692	283,498	317,795	20,558	23,625	26,483	TVS's key competitor Bajaj has guided double digit export volume growth on market expansion
Growth (%)	16.6	14.9	12.1				
Three-wheelers	68,327	85,409	98,220	5,694	7,117	8,185	4QFY14 run-rate over 6k units
Growth (%)	103.5	25	15				
Export Total	315,019	368,906	416,015	26,252	30,742	34,668	4QFY14 run-rate over 29k units
Growth (%)	28.5	17.1	12.8				

Total Volumes

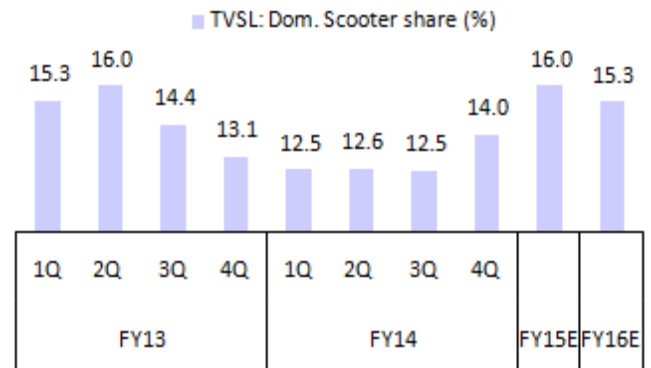
	FY14	FY15E	FY16E	FY14	FY15E	FY16E
Motorcycle (units)	793,479	929,205	1,141,171	66,123	77,434	95,098
Growth YoY (%)	5.9	17.1	22.8			
Scooter	475,668	698,936	802,730	39,639	58,245	66,894
Growth YoY (%)	7.7	46.9	14.9			
Moped	730,172	818,373	901,080	60,848	68,198	75,090
Growth YoY (%)	-7.8	12.1	10.1			
Two-wheelers	1,999,319	2,446,514	2,844,981	166,610	203,876	237,082
Growth YoY (%)	0.8	22.4	16.3			
Three-wheelers	80,842	101,053	116,993	6,737	8,421	9,749
Growth YoY (%)	64.3	25.0	15.8			
Total volumes (units)	2,080,161	2,547,567	2,961,974	173,347	212,297	246,831
Growth (%)	2.4	22.5	16.3			

Robust growth in scooters to continue



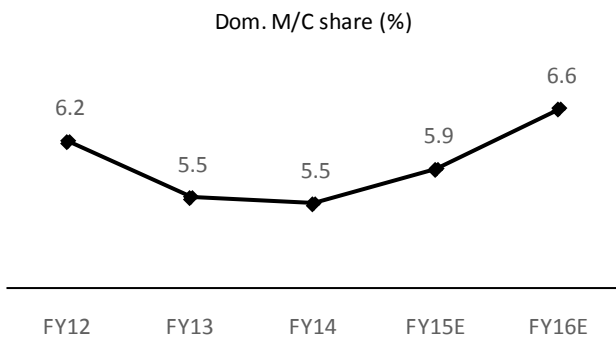
Source: Company, MOSL

New launches to drive further TVSL's share gain



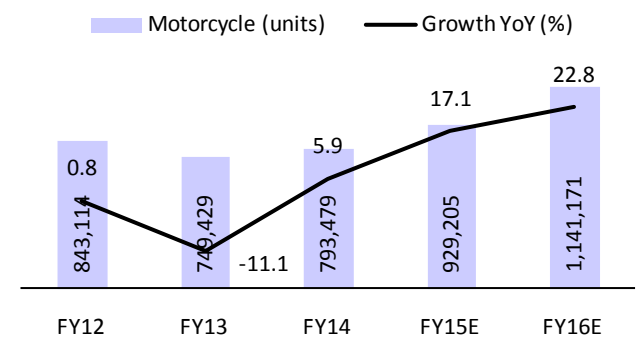
Source: Company, MOSL

Motorcycle share to improve with new launches...



Source: Company, MOSL

...coupled with industry recovery to drive strong growth



Source: Company, MOSL

Margins to expand to 7.9% in FY16E

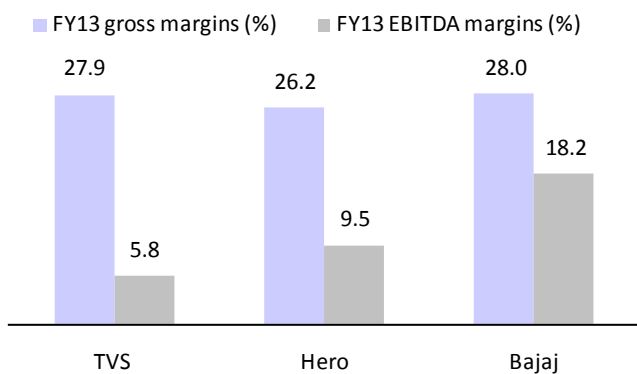
Upside risks exist with enhanced competitive position, better pricing power

- Weak brand acceptance (due to product failures earlier) and consequent low volumes resulted in significantly higher marketing spends and lower margins.
- Operating leverage coupled with better gross margins on improved mix in favor of motorcycles, scooters to drive margin rise from 6% in FY14 to 7.9% in FY16E.
- We note that TVSL’s recurring margins (adjusted for one-time compensation of excise duty cut to dealers), stood at 6.9%.
- Consecutive success of new launches could drive considerable improvement in brand acceptance and volumes due to wide distribution network and low base.
- Any improvement in competitive positioning and consequent narrowing of pricing gap versus peers provide significant upside risks to our margin estimates (currently not factored).

Weak brand acceptance, low volumes key reasons for low margins

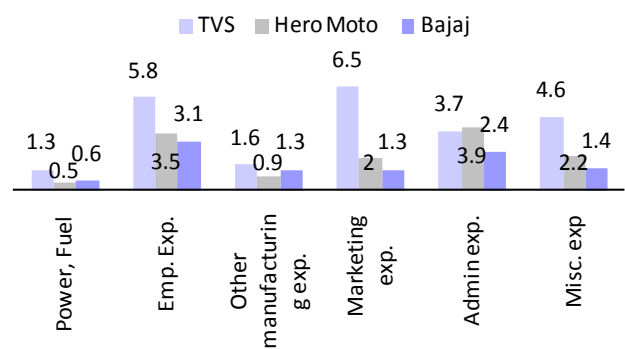
Over the years, on lack of successful product introductions, TVSL’s brands (mainly in urban markets) have been hugely impacted. This resulted in heavy marketing spends to drive volumes and thus is a constant strain on profitability.

Despite similar gross margin, EBITDA margin lower than peers...



Source: Company, MOSL

...high marketing spends is the key reason, coupled with high employee cost and low volumes



Source: Company, MOSL

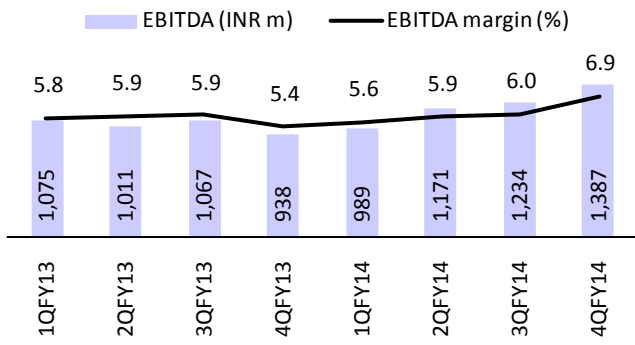
Consecutive success of new launches could drive a turnaround

The success of certain model introductions could drive significant improvement in brand acceptance, competitive positioning and consequent volumes due to TVSL’s low volume base and wide distribution network.

Operating leverage, better mix to drive margins

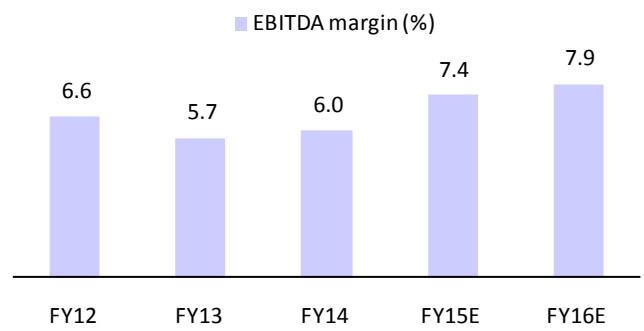
- Operating leverage benefits coupled with better gross margin, on improved mix in favor of motorcycles and scooters, to drive margin improvement from 6% in FY14 to 7.9% in FY16E.
- We note that TVSL’s recurring margins (adjusted for one-time compensation of excise duty cut to dealers), stood at 6.9%.

Recurring margins rose by 90bp QoQ to 6.9% in 4QFY14



Source: Company, MOSL

Higher volumes, better mix to drive margins to 7.9% in FY16E



Source: Company, MOSL

Major improvement in competitive positioning poses upside risk to margin estimates

TVSL has been generally aggressive in pricing its products due to relatively weak brand equity. Improvement in competitive positioning could lead to narrowing of pricing gap versus peers and is a key driver for margin improvement (currently not factored in our estimates).

Upgrade FY15E/16E EPS by 18.2%/26.5%

Industry recovery and strong response to recent launches drive upgrade

- Upgrade FY15E/16E EPS by 18.2%/26.5% to factor a) 2W industry recovery gathering pace, b) strong response to recent launches and c) consequent margin expansion to 7.9% in FY16E (v/s 6.9% in 4QFY14).
- Over FY14-16E, expect robust 55% EPS CAGR, RoE expansion from 19.8% to 30.8% coupled with significant improvement in balance sheet strength.
- Maintain **Buy** with a revised target price of INR172 (13x FY16E EPS).

Revised forecast (Standalone)

(INR M)	FY15E			FY16E		
	Rev	Old	Chg (%)	Rev	Old	Chg (%)
Volumes (units)	2,538,475	2,387,851	6.3	2,950,674	2,656,134	11.1
Net Sales	101,607	95,675	6.2	122,816	109,657	12.0
EBITDA	7,555	6,585	14.7	9,685	7,931	22.1
EBITDA (%)	7.4	6.9	60bp	7.9	7.2	70bp
Net Profit	4,734	4,006	18.2	6,287	4,971	26.5
EPS (INR)	10.0	8.4	18.2	13.2	10.5	26.5

Source: MOSL

Financials and valuations (Standalone)

Income statement					(INR Million)	
Y/E March	2011	2012	2013	2014	2015E	2016E
Net Sales	62,880	71,415	70,650	79,619	101,607	122,816
Change (%)	44.1	13.6	-1.1	12.7	27.6	20.9
EBITDA	3,954	4,694	4,090	4,781	7,555	9,685
EBITDA Margin (%)	6.3	6.6	5.8	6.0	7.4	7.9
Depreciation	1,073	1,175	1,304	1,317	1,391	1,495
EBIT	2,882	3,518	2,786	3,465	6,164	8,190
Interest	723	571	480	254	190	180
Other Income	356	217	246	302	339	373
Extraordinary items	34	0	916	2	0	0
PBT	2,481	3,165	1,636	3,510	6,312	8,383
Tax	535	674	476	899	1,578	2,096
Tax Rate (%)	21.6	21.3	29.1	25.6	25.0	25.0
Reported PAT	1,946	2,491	1,160	2,612	4,734	6,287
Adjusted PAT	1,972	2,491	1,810	2,614	4,734	6,287
Change (%)	3.7	26.3	-27.3	44.4	81.1	32.8

Balance sheet					(INR Million)	
Y/E March	2011	2012	2013	2014	2015E	2016E
Share Capital	475	475	475	475	475	475
Reserves	9,519	11,221	11,772	13,678	17,411	22,448
Net Worth	9,994	11,696	12,247	14,153	17,886	22,923
Debt	7,678	8,311	6,345	4,759	4,759	4,259
Deferred Tax	957	976	931	1,247	1,247	1,247
Total Capital Employed	18,629	20,982	19,523	20,158	23,892	28,428
Gross Fixed Assets	19,723	21,545	22,479	25,058	27,558	30,058
Less: Acc Depreciation	10,347	11,289	12,365	13,681	15,072	16,567
Net Fixed Assets	9,376	10,256	10,115	11,377	12,486	13,491
Capital WIP	574	525	361	361	261	211
Investments	6,611	9,309	8,688	8,959	9,959	10,959
Current Assets	12,014	11,055	12,029	14,950	19,410	24,637
Inventory	5,279	5,846	5,097	5,482	5,993	6,043
Debtors	2,706	2,080	3,005	3,341	4,264	5,154
Cash & Bank	60	130	175	826	3,889	7,110
Loans & Adv, Others	3,969	2,998	3,752	5,302	5,264	6,329
Curr Liabs & Provns	9,946	10,163	11,670	15,489	18,224	20,869
Curr. Liabilities	9,453	9,585	11,136	9,989	12,724	15,370
Provisions	494	577	534	5,500	5,500	5,500
Net Current Assets	2,068	892	359	-539	1,186	3,767
Total Assets	18,629	20,982	19,523	20,158	23,892	28,428

E: MOSL Estimates

Financials and valuations (Standalone)

Ratios

Y/E March	2011	2012	2013	2014	2015E	2016E
Basic (INR)						
EPS	4.2	5.2	3.8	5.5	10.0	13.2
Cash EPS	6.4	7.7	6.6	8.3	12.9	16.4
Book Value	21.0	24.6	25.8	29.8	37.6	48.2
DPS	1.1	1.3	1.2	1.4	1.8	2.3
Payout (incl. Div. Tax.)	31.1	28.8	56.5	29.8	21.1	19.9
Valuation(x)						
P/E	29.9	23.7	32.6	22.6	12.5	9.4
Cash P/E	19.4	16.1	19.0	15.0	9.6	7.6
Price / Book Value	5.9	5.0	4.8	4.2	3.3	2.6
EV/Sales	1.1	0.9	0.9	0.8	0.6	0.5
EV/EBITDA	16.9	14.3	15.9	13.2	7.9	5.8
Dividend Yield (%)	0.9	1.0	1.0	1.1	1.4	1.8
Profitability Ratios (%)						
RoE	21.2	23.0	15.1	19.8	29.6	30.8
RoCE	17.8	19.8	15.7	20.1	31.3	34.4
Turnover Ratios (%)						
Asset Turnover (x)	3.4	3.4	3.6	3.9	4.3	4.3
Debtors (No. of Days)	14.5	9.8	14.2	14.1	14.2	14.2
Inventory (No. of Days)	30.6	29.9	26.3	25.1	21.5	18.0
Creditors (No. of Days)	58.6	52.4	61.1	48.7	49.4	49.6
Leverage Ratios (%)						
Net Debt/Equity (x)	0.8	0.7	0.5	0.3	0.3	0.2

Cash flow statement

(INR Million)

Y/E March	2011	2012	2013	2014	2015E	2016E
OP/(Loss) before Tax	2,481	3,165	1,628	3,513	6,312	8,383
Depreciation	813	942	1,076	1,317	1,391	1,495
Others	0	0	0	0	0	0
Interest	470	408	327	254	190	180
Direct Taxes Paid	811	700	527	899	1,578	2,096
(Inc)/Dec in Wkg Cap	-674	626	800	2,344	1,339	640
CF from Op. Activity	2,341	4,409	4,181	6,227	7,316	8,229
(Inc)/Dec in FA & CWIP	-1,074	-1,768	-767	-2,579	-2,400	-2,450
(Pur)/Sale of Invt	830	-2,699	-295	-271	-1,000	-1,000
Others	223	658	77	302	339	373
CF from Inv. Activity	-21	-3,809	-985	-2,548	-3,061	-3,077
Inc/(Dec) in Net Worth	0	0	0	0	0	0
Inc / (Dec) in Debt	-3,968	-778	-276	-1,586	0	-500
Interest Paid	-703	-571	-517	-254	-190	-180
Divd Paid (incl Tax)	-411	-659	-715	-778	-1,001	-1,251
CF from Fin. Activity	-5,082	-2,008	-1,509	-2,618	-1,191	-1,931
Inc/(Dec) in Cash	-2,762	-1,408	1,688	1,061	3,064	3,221
Add: Opening Balance	1,010	-731	-2,077	175	1,233	4,297
Closing Balance	-1,752	-2,139	-389	1,235	4,297	7,518

E: MOSL Estimates

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