

30/07/2016

Sector: Auto

### Financial Snapshot:

#### Reporting are decent with a healthy 12.5% YoY volume growth:

- The results are quite decent with 7% improvement in EBITDA margins. The realizations are lower at 0.3% YoY that had led revenue growth to 11.9% YoY amounting to INR 28.8bn. EBITDA grew by 16% YoY to INR 2bn. The profit growth was 21.2% YoY to INR 1.2bn which was majorly boosted by higher non operating income & lower interest expenses, partially set-off by higher depreciation.
- The company is having new launchings in Motorcycle & Moped space, also the management is optimistic on market share of gains & qualitative improvements in its products portfolio. The company is also positive on its target of attaining double-digit EBITDA margin in the medium term, which will act as an operating leverage. Exports on the other hand are expected to remain under pressure in the near term despite good demand, due to continued currency scarcity in key export destinations.
- Sales growth stood at 12.1% YoY which is around INR 28.5bn, the volume growth is around 12.5% YoY and realization had a decline of 0.3% YoY. Other operating incomes were lower by around 7% YoY standing at INR 284mn. As a result, the total income of TVS has grown by around 11.9% YoY amounting to INR 28.8bn.
- EBITDA margin was 7%, which was 30bps higher than expected. EBITDA grew 16% YoY to Rs2bn and was higher 12.2% QoQ.
- Looking on to the factors and financial wellness of the company, we recommend a buy over the stock with a target price of INR 333, which is based on 22x core FY18E EPS & INR 29 as value of investment. On our target price the stock is at PE of 26.7x FY17E EPS & 21.2x FY18E EPS.
- Contribution per vehicle was higher at 10% YoY, while EBITDA per vehicle was higher just 12.1% YoY.
- RM/Sales ratio was lower by 40bps, but was higher by 240bps YoY. Other expenditure/sales ratio was flat YoY, but was lower by 340bps QoQ. Increase in other expenses in Q4 is because of higher marketing costs on account of new model launches and costs related to dealer conference and auto expo which amounted to around INR 550mn, which did not recur in Q1.
- Adj. profit growth was in line with expectations at Rs1.2bn, which was higher by 21.2% YoY. Profit growth was boosted by higher non-operating income and a lower interest expense & set off by higher depreciation provision.

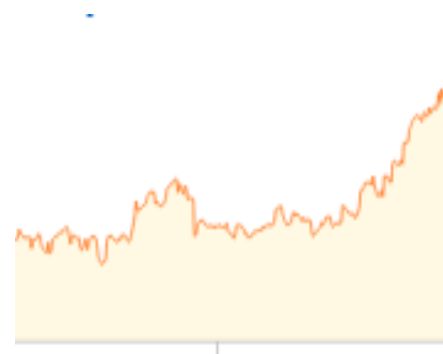
### Stock Summary

Particular	
CMP (INR)	291.75
Target Price (INR)	333
Potential Upside	14.13%
O/S No. of Shares (cr.)	47.5
Market Cap. (cr.)	19029.61
Equity Cap. (cr.)	47.51
52 Week High	420
52 Week Low	256
Face Value	1
NSE Code	TVSMOTOR
BSE Code	532343

### Share Holding Pattern:

Particular	June-16
Promoters	57.40
Public (FII+DII)	42.60
Others	0.00
<b>TOTAL</b>	<b>100%</b>

### Stock Performance:



### Key Financials

Particular	2015	2016	2017E	2018E
Revenues (Rs mn)	100,982	112,439	126,156	141,719
Growth (%)	26.8	11.3	12.2	12.3
EBITDA (Rs mn)	6,583	7,674	9,900	11,977
PAT (Rs mn)	3,856	4,488	5,930	7,478
EPS (Rs)	8.1	9.4	12.5	15.7
Growth (%)	47.5	16.4	32.1	26.1
Net DPS (Rs)	1.9	2.5	3.0	3.5
EBITDA margin (%)	6.5	6.8	7.8	8.5
RoE (%)	25.2	25.1	27.4	27.9
RoCE (%)	17.7	18.1	21.5	23.4
EV / sales (x)	1.5	1.3	1.1	1.0
EV / EBITDA (x)	22.5	19.0	14.5	11.8
PE (x)	35.9	30.8	23.3	18.5
P / BV (x)	8.4	7.1	5.8	4.7
Net dividend yield (%)	0.7	0.9	1.0	1.2

### Management Insight:

- Three wheeler volumes are expected to stand higher QoQ in Q2 FY17. Exports are also expected to be better from Q2 onwards.
- Inventory is expected to remain under control at 27-31 days.
- One of the vehicles “Victor” in motorcycle segment has got pan India presence now with good feedback. The company is targeting to maintain sale of 20K units per month.
- Company’s target of attaining double digit operational profit margin in next 2 years is maintained.
- Joint venture product with BMW will be launched in FY17.
- There was a price increase of INR 300/unit in April, the company may hike prices whenever necessary.

### Operational Matrix:

Particular	Q1FY17	Q1FY16	YoY (%)	Q4FY16	FY17E	FY16	YoY (%)
Sales Volume (nos)	660,469	638,033	3.5	660,657	2,963,486	2,679,452	10.6
Net Realisation/Vehicle	43,620	40,344	8.1	42,614	42,570	41,963	1.4
Material cost / vehicle	31,649	29,462	7.4	29,933	30,721	29,952	2.6
Gross Profit / vehicle	11,970	10,882	10.0	12,682	11,849	12,011	(1.3)
Employee cost /vehicle	2,747	2,427	13.2	2,487	2,512	2,458	2.2
Other expenses / vehicle	6,189	5,748	7.7	7,492	5,997	6,690	(10.4)
EBITDA/vehicle	3,034	2,708	12.1	2,702	3,341	2,864	16.6
Net Profit/vehicle	1,836	1,569	17.0	1,782	2,001	1,656	20.8

### Results Overview:

Particular	Q1FY17	Q1FY16	YoY (%)	Q4FY16	FY17E	FY16	YoY (%)
Net Revenues	28,809	25,741	11.9	28,154	126,156	112,439	12.2
Raw Materials	20,903	18,798	11.2	19,775	91,040	80,255	13.4
<b>% of Net Sales</b>	<b>72.6</b>	<b>73.0</b>		<b>70.2</b>	<b>72.2</b>	<b>71.4</b>	
Personnel	1,814	1,549	17.1	1,643	7,443	6,586	13.0
<b>% of Net Sales</b>	<b>6.3</b>	<b>6.0</b>		<b>5.8</b>	<b>5.9</b>	<b>5.9</b>	
Manufacturing & Other Exp	4,088	3,667	11.5	4,950	17,772	17,924	(0.8)
<b>% of Net Sales</b>	<b>14.2</b>	<b>14.2</b>		<b>17.6</b>	<b>14.1</b>	<b>15.9</b>	
Total Expenditure	26,806	24,013	11.6	26,368	116,256	104,765	11.0
EBITDA	2,004	1,728	16.0	1,785	9,900	7,674	29.0
<b>EBITDA Margin (%)</b>	<b>7.0</b>	<b>6.7</b>		<b>6.3</b>	<b>7.8</b>	<b>6.8</b>	
Depreciation	660	504	30.9	518	2,626	1,898	38.3
EBIT	1,344	1,224	9.9	1,268	7,274	5,776	25.9
Interest Expenses	98	130	(24.9)	131	354	462	(23.4)
Non-operating income	362	210	72.2	243	832	513	62.1
Extraordinary Income	-	-	NA	-	-	(167)	NA
PBT	1,608	1,304	23.4	1,380	7,751	5,660	37.0
Tax-Total	396	303	30.7	202	1,822	1,338	36.1
<b>Tax Rate (%) – Total</b>	<b>24.6</b>	<b>23.2</b>		<b>14.7</b>	<b>23.5</b>	<b>23.6</b>	
Reported PAT	1,213	1,001	21.2	1,178	5,930	4,321	37.2
<b>Adj. PAT</b>	<b>1,213</b>	<b>1,001</b>	<b>21.2</b>	<b>1,178</b>	<b>5,930</b>	<b>4,438</b>	<b>33.6</b>

### Quarterly Financials:

Particular	Q2FY16	Q3FY16	Q4FY16	Q1FY17
Net Revenue	28,807	29,396	28,154	28,809
EBITDA	2,119	2,133	1,785	2,004
% of revenue	7.4	7.3	6.3	7.0
Depr. & Amortization	466	493	518	660
Net Interest	102	100	131	98
Other Income	57	117	243	362
Profit before Tax	1,609	1,490	1,380	1,608
Total Tax	445	413	202	396
Profit after Tax	1,164	1,077	1,178	1,213
Adj. PAT	1,164	1,202	1,178	1,213

**Financial Statements:**
**Income Statement:**

Particular	2015	2016	2017E	2018E
<b>Net Revenue</b>	<b>100,982</b>	<b>112,439</b>	<b>126,156</b>	<b>141,719</b>
Raw Material Expenses	72,971	80,255	91,040	101,983
<b>Gross Profit</b>	<b>28,011</b>	<b>32,184</b>	<b>35,116</b>	<b>39,736</b>
Employee Cost	5,854	6,586	7,443	8,361
Other Expenses	15,574	17,924	17,772	19,398
<b>EBITDA</b>	<b>6,583</b>	<b>7,674</b>	<b>9,900</b>	<b>11,977</b>
Depr. & Amortization	1,533	1,898	2,626	2,795
Net Interest	59	193	(130)	(229)
Other Income	326	513	832	898
<b>Profit before Tax</b>	<b>5,102</b>	<b>5,827</b>	<b>7,751</b>	<b>9,775</b>
Total Tax	1,083	1,338	1,822	2,297
<b>Profit after Tax</b>	<b>4,018</b>	<b>4,488</b>	<b>5,930</b>	<b>7,478</b>
Ex-Od items / Min. Int.	(540)	(334)	—	—
<b>Adj. PAT</b>	<b>3,856</b>	<b>4,488</b>	<b>5,930</b>	<b>7,478</b>
<b>Avg. Shares O/S (m)</b>	<b>475.1</b>	<b>475.1</b>	<b>475.1</b>	<b>475.1</b>
<b>EPS (Rs.)</b>	<b>8.1</b>	<b>9.4</b>	<b>12.5</b>	<b>15.7</b>

**Balance Sheet:**

Particular	2015	2016	2017E	2018E
Shareholder's Funds	16,454	19,368	23,872	29,687
Total Debt	9,705	7,585	6,585	5,585
Other Liabilities	1,528	1,757	1,757	1,757
<b>Total Liabilities</b>	<b>27,686</b>	<b>28,709</b>	<b>32,214</b>	<b>37,029</b>
Net Fixed Assets	14,190	16,238	16,612	18,816
Goodwill	—	—	—	—
Investments	10,125	11,846	13,846	15,846
Net Current Assets	3,371	626	1,756	2,367
Cash & Equivalents	54	328	1,580	2,334
Other Current Assets	21,673	21,214	23,290	25,594
Current Liabilities	18,356	20,916	23,113	25,561
Other Assets	—	—	—	—
<b>Total Assets</b>	<b>27,686</b>	<b>28,709</b>	<b>32,214</b>	<b>37,029</b>

**Cash Flow Statement:**

Particular	2015	2016	2017E	2018E
C/F from Operations	1,127	9,932	9,031	10,721
C/F from Investing	(5,151)	(5,668)	(5,000)	(7,000)
C/F from Financing	3,252	(3,770)	(2,780)	(2,967)
Inc. / Dec. in Cash	(772)	494	1,252	754
Opening Cash	826	54	328	1,580
Closing Cash	54	548	1,580	2,334
FCFF	(2,270)	4,567	5,677	5,417
FCFE	2,159	2,447	4,677	4,417

**Financial Ratios:**

Particular	2015	2016	2017E	2018E
<b>Growth</b>				
Revenue (%)	26.8	11.3	12.2	12.3
EBITDA (%)	37.7	16.6	29.0	21.0
PAT (%)	47.5	16.4	32.1	26.1
EPS (%)	47.5	16.4	32.1	26.1
<b>Profitability</b>				
EBITDA Margin (%)	6.5	6.8	7.8	8.5
PAT Margin (%)	3.8	4.0	4.7	5.3
RoCE (%)	17.7	18.1	21.5	23.4
RoE (%)	25.2	25.1	27.4	27.9
<b>Balance Sheet</b>				
Net Debt : Equity	0.6	0.4	0.2	0.1
Net Wrkng Cap. (days)	(4)	(14)	(14)	(14)
<b>Valuation</b>				
PER (x)	35.9	30.8	23.3	18.5
P / B (x)	8.4	7.1	5.8	4.7
EV / EBITDA (x)	22.5	19.0	14.5	11.8
EV / Sales (x)	1.5	1.3	1.1	1.0
<b>Earnings Quality</b>				
Eff. Tax Rate	21.2	23.0	23.5	23.5
Other Inc / PBT	6.4	8.8	10.7	9.2
Eff. Depr. Rate (%)	5.4	5.7	7.3	6.8
FCFE / PAT	56.0	54.5	78.9	59.1

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