

5 April 2018

TVS Motor Company – BUY

CMP : 649
Target Price : 782
Upside : 20.5%+
Stop Loss : 585 (closing basis)

Investment Thesis

Recently, the stock price of TVS Motor Company Ltd. (TVS Motor) corrected by ~22% from 52-week high of Rs.795 despite reporting good set of numbers in the recent quarters.

TVS Motor is the 4th largest 2-wheeler manufacturer with a strong presence in the scooter segment. Its scooter segment has surpassed the growth of the motorcycles segment over the past couple of years and currently contributes 30% to the total 2-wheeler volume. Volume growth of TVS Motor attributed to good response to new products in domestic market in the recent past. It aims to increase its market shares in domestic 2-wheeler industry by 100-150bps in FY19-20E. For TVS Motor, scooter has remained one of the fastest growing segment with 25% CAGR in overall 2-wheeler industry (15% CAGR). Despite being the 4th player, TVS Motor has managed to fast track its market share growth supported from strong volumes. TVS Motor is poised to outpace the 2-wheeler industry growth, given the new launches and sustained demand for its products.

TVS Motor has continuously launches new products, which enable it to maintain industry outperformance. In February 2018, it has launched a premium scooter in the 125cc category named 'Ntorq' and targeted to sell more than 200,000 units of Ntorq in FY19E and generates about 6% of topline in FY19E. Also, in December 2017, it launched its first product 'Apache RR310' in premium motorcycle that was developed in joint venture with BMW and aims to sell 10,000 units of the product in domestic market in FY19E. It is started supplying to MNC partner and already shipped about 19,000 units in 9MFY18. We expect, cumulatively the premium segment will form about 3% of overall revenues in FY19E. With successful new launches and continued success of Jupiter, Apache and Victor brands, we expect TVS Motor will clock double digit volume CAGR over FY18-20E period as against industry growth rate of 8-10%.

Financials

- During the past 5 years, revenue of TVS Motor grew at a CAGR of 10.9% while PAT grew at a CAGR of 30.9% in the same period.

Consol. (Rs.Mn.)	FY15	FY16	FY17	FY18E	FY19E
Revenue	103,117	115,163	124,626	143,320	164,818
EBITDA	6,029	7,577	8,688	9,991	11,489
% growth	23.8	25.7	14.7	15.0	15.0
PAT	3,202	3,645	5,091	5,900	6,785
EPS (INR)	6.7	7.7	10.7	12.4	14.3
P/E (x)	93.8	82.4	59.0	50.9	44.3
RoE (%)	24.2%	23.0%	23.0%	24.3%	25.4%

- TVS Motor has reported revenue growth of 23.5% YoY in Q3FY18 to Rs.36,850mn, driven by 15.0% YoY volume growth and a 7.4% YoY increase in average realizations.

Stock Data

Market Cap (INR MN)	300,089
Market Cap (\$ MN)	4,626.7
Shares O/S (in MN)	475.1
Avg. Volume (3 month)	793,000
52-Week Range (Rs.)	795 / 421

Shareholding Pattern

Promoters	57.40%
FII's	21.43%
Institutions	9.98%
Others (incl. body corporate)	11.19%

Performance (%)	1M	6M	1Yr
Absolute	-3.5%	-4.7%	44.1%
BSE Auto	-2.3%	-2.2%	8.0%

Key Ratios

Div Yield	0.4%
TTM PE	48.1x
ROE	24.6%
TTM EPS (INR)	13.1/-

- TVS Motor has reported strong volume growth of 15% YoY supported by TVS Apache and Jupiter Scooter product segment in Q3FY18. It has sold 826,285 vehicles in Q3FY18 compared to 718,605 in Q3FY17.
- EBITDA of TVS Motor has improved by 31.3% YoY to Rs.2,868mn on account of cost-reduction initiatives partially offset commodity cost inflation. As a result, EBITDA margin has also expanded by 46bps YoY to 7.8% in Q3FY18.
- Despite higher tax rate and lower other income, PAT of TVS Motor has increased by 16.3% YoY to Rs.1,543mn in Q3FY18.

Key Business Highlights

- TVS Motor is 4th largest 2-wheeler manufacturer in India, engaged in manufacturing of motorcycles, scooters, mopeds, 3-wheelers, parts and accessories. It also has presence in 3-wheelers with TVS King.
- TVS Motor's motorcycles include Apache Series RTR, Phoenix 125, Victor, StaR City+, Sport and Max4R while its scooters include Jupiter, Wego, Scooty Zest 110, Scooty Streak and Scooty Pep+.
- TVS Motor has four manufacturing plants, three located in India (Hosur in Tamil Nadu, Mysore in Karnataka and Nalagarh in Himachal Pradesh) and one in Indonesia at Karawang. It has an annual production capacity of 4.5mn per annum.

Valuation

- TVS Motor has been consistently outpacing the 2-wheeler industry growth since FY15 with successfully gaining market share in both the motorcycles and scooter segments on the back of new launches. Further, TVS Motor has also gained pricing power given the feature rich products and strong brand recall. As a result some of its current products, viz. Jupiter and Apache, are being priced at a slight premium to competition. Also, a discount in Victor motorcycles has also reduced significantly compared to competition. With improving volumes, higher pricing power and introduction of premium products, we expect TVS Motor to report double digit EBITDA margin by FY19E.
- TVS Motor has incurred a capex of Rs.5.5bn by Q3FY18 for capacity expansion as well as product development toward the BMW products. The management has further guided a capex of ~Rs.6.5bn in FY18E and Rs.5.0bn in FY19E, which includes investment in electric vehicle technology, investment in R&D and marketing & branding.
- TVS Motor has tied-up with BMW to manufacture sale in premium category, 250-500CC in the domestic market. The collaboration will enable it to gain foothold in the high-margin premium motorcycles segment, where it had only one model 'Apache'. With this alliance, TVS Motor has launched 'Apache RR310' and 'Apache RTR' in the premium motorcycles segment. TVS Motor has also incorporated better manufacturing processes and designing cues gained from the BMW alliance across its existing product range. We believe it will enhance the brand image of TVS Motor's products as well as help it to command higher margins going forward.
- With 4th largest 2-wheeler manufacturer, good response to new products in domestic market, continuously launches new products in domestic market, gaining market share in both the motorcycles and scooter segments, investment in electric vehicle technology and tie up with BMW, we value TVS Motor at 54.60x FY19E EPS of Rs.14.30 to arrive at target price of Rs.771.00, an upside of ~22%.

Risk & Concern

- TVS Motor operates in a very competitive segment and success of its launches depends on factors like technology, style and performance.
- Delay in new launches may affect earnings growth prospects as it may lead to shift in prospective customers to other brands.
- Any delay in demand recovery in India may affect growth prospect

Graphs & Charts

Figure 1: Net Sales Trend

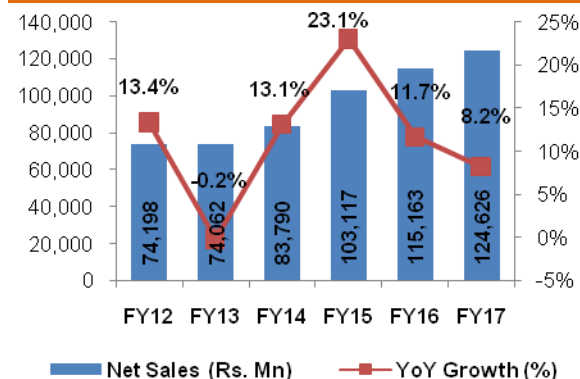


Figure 2: EBITDA & EBITDA Margin Trend

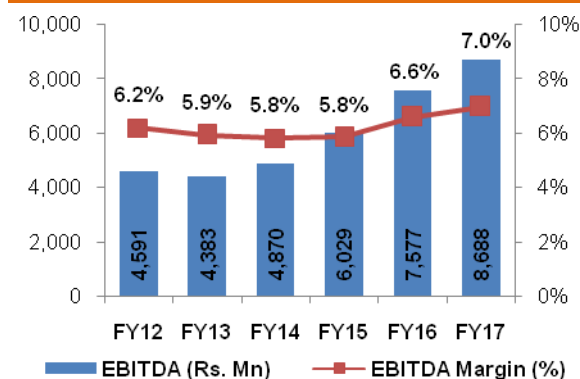


Figure 3: PAT Trend

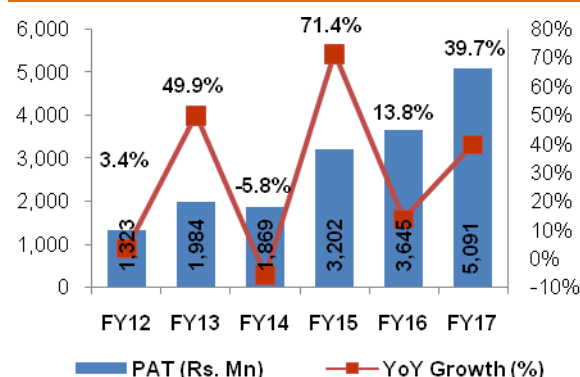
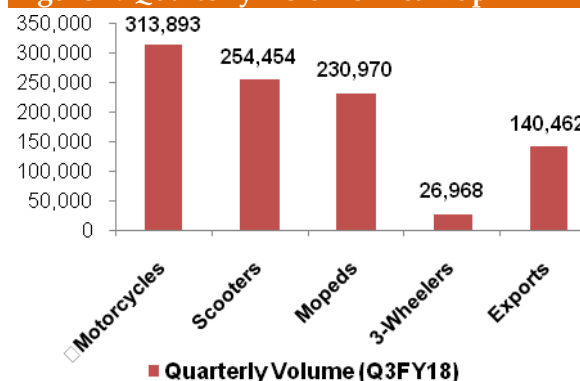


Figure 4: Quarterly Volume Break-up



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