

CMP: Rs 293
Target Price: Rs 239
Recommendation: Reduce

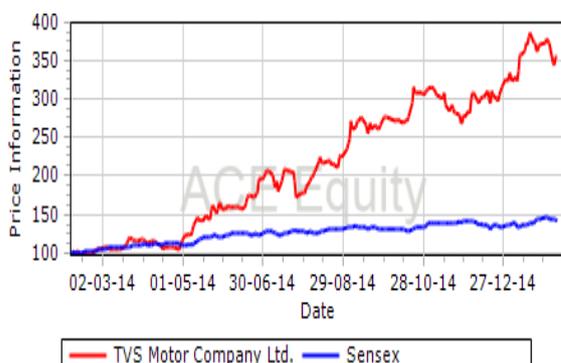
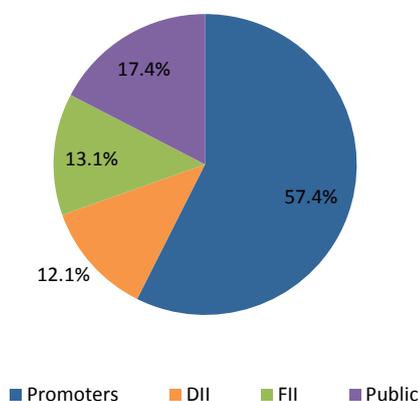
Stock Info

BSE Group	B
BSE Code	532343
NSE Symbol	TVSMOTOR
Bloomberg	TVSL IN
Reuters	TVSM.BO
BSE Sensex	28,718
NSE Nifty	8,661

Market Info

Market Capital	Rs 13,916cr
Equity Capital	Rs 48cr
Avg Trading Volume	32,67,710
52 Wk High / low	Rs 322/ 78
Face Value	Rs 1

Latest Shareholding Pattern , Dec 14



TVS reported decent set of numbers for Q3FY15. Volumes for the company grew by 23% while realisations grew by 4.4% on YoY basis. Scooters grew by 52%, Motorcycles by 23%, Mopeds by 10% and 3W grew by 38% on YoY basis. Total number of units sold for the quarter was 6.56 lakhs.

Net revenues rose 28.4% to Rs. 2,613cr on YoY basis. Contribution margin declined by 233 bps on YoY basis due to increase in raw material cost which increased to 74.2% of revenues as compared to 71.8% on YoY basis. However, operating EBITDA margin for the quarter was stable at 6.1% (far lower than expectation of 7%). Adjusted Profit after tax for the quarter increased by 31% to Rs. 90 crs on YoY basis.

Company is posting good sales number but they are not being able to convert that into higher margin which is our biggest concern.

> **OUTLOOK FOR NEXT 2 YEARS:** TVS has done exceedingly well on its business front both in both domestic as well as export market. Company has been aggressively pursuing for higher domestic market share through new launches (13.5% share in domestic 2W segment). Company intends to increase its market share in scooter segment to 16-18% from existing ~13%. Recently launched Star City Plus and Jupiter is gaining traction in domestic market. Company plans to launch 2 new motorcycles in next 12 months.

> **FINANCIALS:** We estimate Net Revenue growth at a 2 year CAGR of 36%, and EBITDA growth at a CAGR of 48%. We expect operating margin to increase to 7.2% in FY16E. We also believe that as sales of the company grows, per unit advertising and marketing cost will come down rapidly.

> **VALUATION:** The stock at Rs. 293 trades at 24.5x our estimated FY16 EPS of Rs 12.0 per share at which stock looks little over its fair value in our view. We have assigned a price target of Rs 239 per share based on PE of 20x its FY16 estimates. We have assigned higher multiple to factor in higher growth in sales number and increasing RoE. We recommend 'Reduce' rating on the stock.

Y/E March, (in Rs crore)	FY13	FY14	FY15E	FY16E
Income from operations	7,114	7,962	11,192	14,640
yoy%	0.86	-4.42	18.08	14.29
Operating EBITDA	409	478	696	1,055
Operating EBITDA margin %	5.8	6.0	6.2	7.2
Adjusted PAT	207	261	355	568
yoy%	-16.9	26.4	35.8	60.0
EPS	4.4	5.5	7.5	12.0
P/E (x)	67.3	53.2	39.2	24.5

Source: - Company data, Arianth Research



Quarterly P&L in Rs crore	Q3FY15	Q3FY14	yoy%	Q2FY15	qoq%
Units sold	6,55,571	5,32,989	23.0%	6,76,139	-3.0%
Net Realization per unit	39,852	38,175	4.4%	38,978	2.2%
Net Sales	2,613	2,035	28.4%	2,635	-0.9%
Other Operating Income	40	23	76.2%	48	-15.3%
Income from Operations	2,653	2,058	28.9%	2,683	-1.1%
Materials Consumed	1,938	1,462	32.6%	1,961	-1.2%
RM Cost per unit	29,562	27,428	7.8%	29,007	1.9%
Contribution Per Unit	10,290	10,747	-4.3%	9,971	3.2%
Contribution margin %	25.82%	28.15%		25.58%	
Employees Cost	155	123	26.0%	154	0.3%
Other Expenditure	400	349	14.4%	405	-1.2%
Total Expenditure	2,493	1,934	28.9%	2,520	-1.1%
Operating EBITDA	160	123	29.8%	163	-1.5%
Margin	6.13%	6.07%		6.17%	
Core EBITDA	119.86	100.53	19.2%	115.11	4.1%
Margin	4.59%	4.94%		4.37%	
Depreciation	37	33	13.5%	37	1.4%
Other Income	5.87	7.76	-24.4%	8.64	-32.1%
Interest	5.29	5.32	-0.6%	3.45	53.3%
PBT before Exceptional Items	123.68	93.16	32.8%	131.31	-5.8%
Exceptional Items (net)	0.00	0.00		0.00	
PBT	123.68	93.16	32.8%	131.31	-5.8%
Tax Expense	33.50	24.36		36.50	
Net Profit after Tax	90.18	68.80	31.1%	94.81	-4.9%
Effective Tax Rate	0.00%	26.15%		27.80%	
PAT after extraordinary item	90.18	68.80	31.1%	94.81	-4.9%
EPS	1.90	1.45		2.00	

Source: - Company data, Arianth Research



Profit and Loss Account, Year Ending March				
Particulars, in Rs crore	FY13	FY14	FY15 E	FY16 E
Net Sales	7,015	7,858	11,049	14,452
YoY%	0.9	(4.4)	18.1	14.3
Other Operating Income	100	104	144	188
Income from Operations	7,114	7,962	11,192	14,640
Materials Consumed	5,148	5,673	8,066	10,550
Total Expenditure	6,705	7,484	10,496	13,585
Operating EBITDA	409	478	696	1,055
Operating EBITDA margin %	5.8	6.0	6.2	7.2
Depreciation	130	132	182	231
Operating EBIT	279	346	514	823.7
Other Income	24	31	44	58
Interest	48	25	28	34
PBT	254	351	530	848
Tax Expense	48	90	175	280
Reported Net Profit	207	261	355	568
YoY%	(16.9)	26.4	35.8	60.0
Effective Tax Rate	18.7	25.6	33.0	33.0
Reported EPS	4.4	5.5	7.5	12.0

Balance Sheet, Year Ending March				
Particulars, in Rs crore	FY13	FY14	FY15 E	FY16 E
Liabilities + Equity				
(a) Share capital	48	48	48	48
(b) Reserves and surplus	1,177	1,368	1,612	1,999
Shareholders' funds	1,225	1,415	1,659	2,047
Non-current liab & Prov	636	620	620	620
Current liabilities	1,275	1,529	1,682	1,850
Total - Equity and liabilities	3,136	3,565	3,962	4,517
Assets				
Non-current assets				
Fixed assets	1,048	1,174	1,291	1,420
Long Term Inv	869	896	896	896
Loans + Adv + Others	73	86	104	124
Non-current assets	1,990	2,156	2,291	2,440
Current assets				
Cash	17	83	79	167
Other Current Assets	1,128	1,326	1,591	1,910
Sub-total - Current assets	1,146	1,409	1,671	2,077
Total - Assets	3,136	3,565	3,961	4,517

Cash Flow Statement, Year Ending March				
Particulars, in Rs crore	FY13	FY14	FY15 E	FY16 E
Operating Activities				
PBT	163	348	530	848
Add Depr + non op exp	130	132	182	231
Others	128	6	85	(161)
Total	421	486	797	918
Cash Taxes	(53)	(123)	175	280
Changes in Working Cap	64	161	(112)	(150)
Cash Flow from Operations	433	524	860	1,048
Investing Activities				
Change in investments	(8)	(2)	-	-
Capex	(100)	(258)	(617)	(629)
Others				
<i>Source: - Company data, Arihant Research</i>				
Cash Flow from Investing	(107)	(260)	(617)	(629)
Financing Activities				
Dividends + Taxes paid	(71.5)	(69.0)	(111.2)	(180.7)
Change in Non Curr Liab	(250)	(129)	(135)	(150)
Cash Flow from Financing	(321.6)	(198.4)	(245.8)	(330.5)
Opening Cash	11.0	17.5	82.6	79.2
Changes during year	3.9	65.6	(3.3)	88.0
Other bank balances	2.6	(0.5)	-	-
Closing cash	17.5	82.6	79.2	167.3

Source: Company data, Arihant Research

Ratio Analysis				
	FY13	FY14	FY15 E	FY16 E
Profitability				
Operating EBITDA%	5.8	6.0	6.2	7.2
Core EBITDA%	4.4	4.5	4.6	4.9
PAT%	2.9	3.3	3.2	3.9
ROAE%	17.3	19.8	23.1	30.7
Du Pont ROAE breakup				
PAT / Sales	2.9	3.3	3.2	3.9
Sales / Avg Total Assets	2.3	2.4	3.0	3.5
Avg Total Assets / Avg Eqty	2.6	2.5	2.4	2.3
ROE	17.3	19.8	23.1	30.7
Other Ratios				
Current Ratio	0.9	0.9	1.0	1.1
Long Term Debt / Equity	0.45	0.34	0.34	0.34
EPS	4.4	5.5	7.5	12.0
DPS	0.6	1.4	2.0	3.3
Dividend Payout ratio	14	25	27	27
P/E	67.3	53.3	39.2	24.5
BVPS	25.8	29.8	34.9	43.1
P/BV	11.4	9.8	8.4	6.8



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Stock Rating Scale

	Absolute Return
Buy	> 20%
Accumulate	12% to 20%
Hold	5% to 12%
Neutral	-5% to 5%
Reduce	< -5%

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**Arihant is Forbes Asia's '200 Best under a \$Bn' Company
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