

TVS Motor Co. Ltd.

₹ 393

Growing Q-o-Q !!!**Buy**

Jan 27, 2017

Company Background

TVS Motor Company Ltd. (TVS Motors) is engaged in the manufacturing of motorcycles, scooters, mopeds, three wheelers, parts and accessories. The Company's motorcycles include Apache Series RTR, Phoenix 125, Victor, Star City+, Sport and Max4R. Its scooters include Jupiter, Wego, Scooty Zest 110, Scooty Streak and Scooty Pep+. Its mopeds include XL 100, XL Super and XL Super Heavy Duty. Its three wheelers include TVS King. It has approximately four manufacturing plants, approximately three located in India (Hosur, Tamil Nadu; Mysore, Karnataka, and Nalagarh, Himachal Pradesh) and one in Indonesia (Karawang). Its subsidiaries include PT. TVS Motor Company Indonesia, TVS Motor Company (Europe) B.V., TVS Motor (Singapore) Pte. Limited, Sundaram Business Development Consulting (Shanghai) Company Limited and Sundaram Holding USA Inc., among others.

Key Highlights

- ➔ Despite continued weakness in economic activity and increased competitive intensity, the Company continued to grow ahead of the industry for the second year in succession and registered sales growth of 7% in two wheelers segment, 7% in Motorcycles, 16% in scooters, 3% in Three-wheelers and 12.7% in spares.
- ➔ Following last year even this year TVS continued its growth spree. Profit in third quarter grew by 10.4 percent year-on-year to Rs 132.67 crore, driven by other income & lower tax cost. Total two-wheeler sales numbers grew by 4% over Q3 of last year, to 7.03 lakh units and market share increased to 15.5% for the quarter compared to 14.3% in Q3 of last year.
- ➔ It is estimated from market figures that the demand for two wheelers has risen slowly from the sluggishness of the last 2 months. The commodity prices has also stabilized. This will augur well for the company.
- ➔ TVS has recently undertaken a price hike of around Rs 600-800 across different models which will help it offset the cost rise in steel.
- ➔ TVS has also started investment in associate companies one such is INR 400mn investment in Emerald Realty which is into low cost housing.

Key Financials

Year Ended 31 st	Mar 14	Mar 15	Mar 16
Revenue (INR mn)	87,246.5	1,07,882.6	1,22,834.3
Rev. growth (%)	10.78	23.65	13.86
EBITDA (INR mn)	3,420.3	5,095.9	6,369.1
Net profit (INR mn)	2,616.3	3,478.3	4,321.4
Shares outstanding (mn)	475.1	475.1	475.1
EPS (INR)	5.3	7.0	8.6
EPS growth (%)	133.63	31.82	23.99
P/E (x)	18.45	37.90	37.39
RONW (%)	19.82	22.73	24.13
ROCE (%)	19.36	20.77	22.02

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Info Codes

Reuters	: TVSM.NS
Bloomberg	: TVSL:IN
NSE	: TVSMOTOR
BSE	: 532343

Market Data

52 Wk Range (₹)	: 256 / 418
Shares in Issue (mn)	: 475.1
Mkt. Cap (₹ bn)	: 186.07
BSE 2 Wk Avg Vol	: 142000

Share Holding Pattern (%)

Promoters Holding	: 57.40
Corporate Holding	: 01.44
Domestic Institution	: 13.51
Foreign Institution	: 16.95
Public & Others	: 10.71

Investment Theme

Over last quarters TVS Motor has shown good performance in a tough environment & we feel that the right product mix will aid its profitability, going forward. There would be slight pressure due to factors like demonetisation, but the situation may improve after two fiscals. We expects double digit volume growth for the company over the next two years on the back of a strong bounce back in the rural volumes due to Govt policies. The management aims to increase volumes as well as expand margins from current level on the back of success of new products which have created strong brand for the company & these products are key volume driver. We believe that its EBIDTA margins would expand from current 7% to 9%. The next two fiscals due to slowdown and demonetisation may see sluggishness, but expects the numbers to be better going forward.

The Fifth Gear !

Financial Statements

Income Statement

(₹ mn)

Year end	Mar 14	Mar 15	% Chg	Mar 16	% Chg
Net Sales	79,659.4	1,00,423.3	26.1	1,12,438.7	12.0
Other Income	604.9	302.9	(49.9)	513.1	69.4
Change in Stocks	(96.5)	920.7	(1,054.1)	(705.3)	(176.6)
Raw Material Con.	56,631.7	73,892.0	30.5	79,549.5	7.7
Employee Exp.	4,761.1	5,924.2	24.4	6,642.3	12.1
Indirect Taxes	6,982.2	7,156.4	2.5	9,882.5	38.1
Other Exp.	6,696.9	8,305.2	24.0	8,151.7	(1.8)
Operating Exp.	75,071.9	95,277.8	26.9	1,04,226.0	9.4
Operating Profit	5,095.9	6,369.1	25.0	8,020.5	25.9
Total Interest	254.0	274.2	8.0	462.4	68.6
Gross Profit	4,841.9	6,094.9	25.9	7,558.1	24.0
Net Dep.	1,316.5	1,533.3	16.5	1,898.4	23.8
Total Taxation	909.1	1,083.3	19.2	1,338.3	23.5
Net Profit/Loss	2,616.3	3,478.3	32.9	4,321.4	24.2

4 Years Balance Sheet

(₹ mn)

Balance Sheet as on 31 st	Mar 13	Mar 14	Mar 15	Mar 16
SOURCES OF FUNDS	19,079.5	19,960.6	26,595.6	29,011.8
Equity Share capital	475.1	475.1	475.1	475.1
Equity Application Money	0.0	0.0	0.0	0.0
Equity Share Warrants	0.0	0.0	0.0	0.0
Reserves & Surplus	11,771.6	13,677.7	15,978.5	18,892.9
Secured Loans	2,754.2	2,576.6	3,433.3	5,521.8
Unsecured Loans	4,078.6	3,231.2	6,708.7	4,122.0
USES OF FUNDS	19,079.5	19,960.6	26,595.6	29,011.8
Gross Block	22,479.3	24,723.2	28,217.8	31,995.9
Less : Revaluation Reserves	0.0	0.0	0.0	0.0
Less : Accumulated Depreciation	12,364.5	13,466.1	14,921.5	16,067.4
Net Block	10,114.8	11,257.1	13,296.3	15,928.5
Capital Work in Progress	360.9	480.8	893.6	309.6
Investments	8,688.4	8,959.2	10,124.6	11,845.7
Current Assets	11,458.4	14,087.2	20,294.7	20,175.4
Less : Current Liabilities	11,345.3	14,439.6	17,923.4	18,857.1
Total Net Current Assets	113.1	(352.4)	2,371.3	1,318.3
Misc. Expenses not writtenoff	(197.7)	(384.1)	(90.2)	(390.3)
NOTE				
Book Value of Unquoted Investments	8,685.1	8,955.9	10,121.3	11,842.4
Market Value of Quoted Investments	101.1	202.1	385.4	388.5
Contingent Liabilities	4,074.0	5,173.4	6,170.9	6,044.1
Dividend (%)	120.0	140.0	190.0	250.0

Quarterly Income Sheets

(₹ mn)

Quarter Ended	Dec 15	Mar 16	Jun 16	Sep 16
Net Sales	27,763.9	28,525.9	33,931.4	29,528.5
Cost Of Sales	26,368.1	26,805.6	31,498.0	27,648.9
Operating Profit	1,395.8	1,720.3	2,433.4	1,879.6
Other Income	632.1	645.2	725.5	653.3
Adjusted PBDIT	2,027.9	2,365.5	3,158.9	2,532.9
Financial Expenses	130.5	97.8	94.1	115.2
Depreciation	517.5	659.5	724.4	719.7
Other Write Offs	0.0	0.0	0.0	0.0
Adjusted PBT	1,379.9	1,608.2	2,340.4	1,698.0
Tax Charges	202.3	395.7	566.5	371.3
Reported Profit	1,177.6	1,212.5	1,773.9	1,326.7
Extra Ordinary Items	0.0	0.0	0.0	0.0
Other Non Cash Adjust	0.0	0.0	0.0	0.0
Adjusted Net Profit	1,177.6	1,212.5	1,773.9	1,326.7

52 Week Index Relative Percentage Appreciation

TVS Motors vs SENSEX
Risks Associated

- ➔ TVS functions in a segment which is related to rural economy. The demonetisation and the drift towards a slowdown may hamper its prospects for a short time.
- ➔ The focus on entrepreneurship development needs to be build up to allow people to have affordability to buy more two wheelers. Though the current policy is on track the implementation may be a problem in the long run.
- ➔ The products are slightly remunerative in nature also demand high inputs especially Electricity and raw material. The raw material prices are volatile and may dent profits if there is any sudden surge in prices. So high energy expenditures and volatile commodity prices might make operations unviable from a cost perspective.
- ➔ A good monsoon is the critical phase in development of rural India. This risk may dampen the growth prospects of the company if monsoons are improper.
- ➔ Currency devaluation in key two wheeler export markets remains a concern. Moreover, currency availability in key export markets can exert further pressure.
- ➔ The market dynamics change as per consumer demand. After the initial phase of mopeds followed by motor cycles the current trend is working towards scooters. Any issue in mismatch with the market dynamics may be an area of concern.
- ➔ Competitiveness is always an area of concern, though the market share of the company is rising since the last two years, any dent in the competitiveness would also run into negativity.

TVS Motors

In a Nutshell

TVS Motors is a part of TVS Group (Revenue around INR. 40,000 Cr in 2015-16) which spans across industries like Automobile, Aviation, Education, Electronics, Energy, Finance, Housing, Insurance, Investment, Logistics, Service and Textiles and has over 90 Companies under the umbrella. TVS Motors is the largest company of the group in terms of size and turnover. It is the third largest two-wheeler manufacturer in India, with a revenue of 11,244 Cr INR (2015-16). The company has annual production capacity of 3.2 million 2 wheelers & 1.2 Lakh 3 wheelers. The company 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. The company has been focussing on quality products in line with the market dynamics of the two wheeler market. In line with the same it has shifted from just Mopeds to Motorcycles and even Scooters. The market share of TVS Group has been on a steady growth rate. The current macro economic scenario which is made sluggish with demonetisation hitting the affordability of people may see a downturn for a quarter or two however the previous performance of the company still helps us hold the growth agenda. New Launches of the company are performing well in line with the market dynamics catering well to consumer demand. The boost expected in the rural economy as well as the budget granted affordability hike may play well for the company. We see TVS as better placed in domestic two wheeler industry with decent current product portfolio.

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Rating Interpretation

Buy : Expected to appreciate 20% or more over 12-months

Accumulate : Expected to appreciate 10% to 20% over 12-months

Trade Buy : Expected to appreciate more than 10% over 45-days

Reduce : Expected to depreciate up to 10% over 12-months

Sell : Expected to depreciate 10% or more over 12-months

Trade Sell : Expected to depreciate more than 10% over 45-days

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