

TVS Motor Company

Reco: Buy

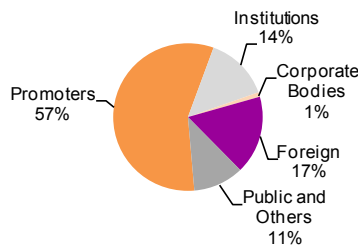
Demonetisation to have limited impact on volumes; recent correction provides attractive entry point

CMP: Rs357

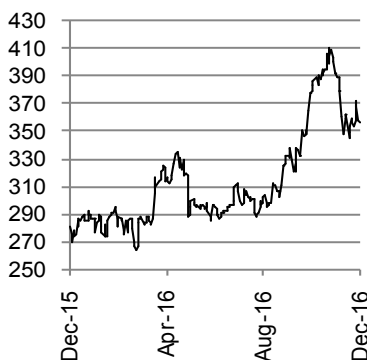
Company details

Price target:	Rs455
Market cap:	Rs16,968 cr
52-week high/low:	Rs418/256
NSE volume: (No of shares)	19 lakh
BSE code:	532343
NSE code:	TVSMOTOR
Sharekhan code:	TVSMOTOR
Free float: (No of shares)	20.2 cr

Shareholding pattern



Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	-8.3	15.1	31.8	23.3
Relative to Sensex	-3.9	22.6	30.7	19.2

Key points

- Demonetisation to impact 2W industry demand in near term:** The Government's demonetisation move (banning of Rs500 and Rs1000 notes) has impacted Two Wheeler (2W) industry demand. 2Ws are sold majorly in the rural areas, where the transactions are largely cash based (rural sales account for ~40% of overall 2W industry volumes). Given the liquidity crunch due to demonetisation, the 2W volumes in November 2016 dipped by 8% YoY. We expect the liquidity crunch to persist in the near term and expect the situation to normalise in the beginning of FY2018. 2W sales are likely to remain under pressure and we expect the 2W industry to report flattish volumes in H2FY2017.
- TVSM relatively less impacted by demonetisation due to a favourable product mix:** TVS Motor Company (TVSM) outpaced the 2W industry in November 2016, reporting flat volume as against the 8% YoY drop in industry volumes. TVSM has a higher share of Mopeds and Scooters (both segments account for 60% of TVSM 2W volumes as against industry proportion of ~36%), which have been less affected by demonetisation. Mopeds being a relatively low-ticket and a utilitarian product and Scooters being more of an urban product have seen a relatively lower impact of demonetisation. Further, as per the TVSM management, Moped sales are predominantly driven by the Southern market (forms 60% of total Moped volumes), where demonetisation has had a relatively lower impact.
- TVSM to introduce first product in tie-up with BMW in Q4FY2017; likely to be a game changer:** TVSM will roll out its first product (likely in 250-300 cc range) in tie-up with BMW in Q4FY2017. The product is likely to be a game changer for the company, as it will enable it to gain foothold in the high-margin Premium Motorcycles space. We expect TVSM to gain immensely from the BMW tie-up, as the brand's aspirational value is likely to increase. Further, the better manufacturing practices and designing cues gained in the upcoming product is likely to be applied to the entire portfolio, enabling TVSM to improve its market share and margins going forward.
- Recent stock correction provides attractive entry point; maintain Buy with unchanged PT of Rs455:** TVSM is likely to continue outpacing the 2W industry growth given its favourable product mix. We expect TVSM to report a healthy 36% earnings growth over FY2016-FY2018 - among the highest in the Automotive space, which is currently reeling under the demonetisation impact. TVSM is our preferred pick in the Automotive space and the recent correction from the peak levels (TVSM has corrected by ~15% in the last one month) provides an attractive entry point in our view. We have fine-tuned our earnings estimates on the back of the recent demonetisation move and maintain our 'Buy' rating with an unchanged price target (PT) of Rs455.

Valuation

Particulars	FY14	FY15	FY16	FY17E	FY18E	FY19E
Revenues	7,965.9	10,068.9	11,243.9	12,342.3	14,738.9	16,608.4
Growth (%)	11.1	26.4	11.7	9.8	19.4	12.7
EBIDTA	482.2	618.6	756.4	971.0	1274.4	1560.2
OPM (%)	6.1	6.1	6.7	7.9	8.6	9.4
PAT	263.5	356.5	437.8	602.3	811.3	1047.9
Growth (%)	27.4	35.3	22.8	37.6	34.7	29.2
FD EPS (Rs)	5.5	7.5	9.2	12.7	17.1	22.1
P/E (x)	64.4	47.6	38.7	28.2	20.9	16.2
P/B (x)	12.0	10.3	8.8	7.2	5.9	4.8
EV/EBIDTA (x)	36.0	29.5	23.6	18.2	13.6	10.8
RoE (%)	18.6	21.7	22.6	25.7	28.2	29.4
RoCE (%)	18.0	17.6	20.1	23.8	28.3	31.4



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