

Stock Update

Earnings outlook improves

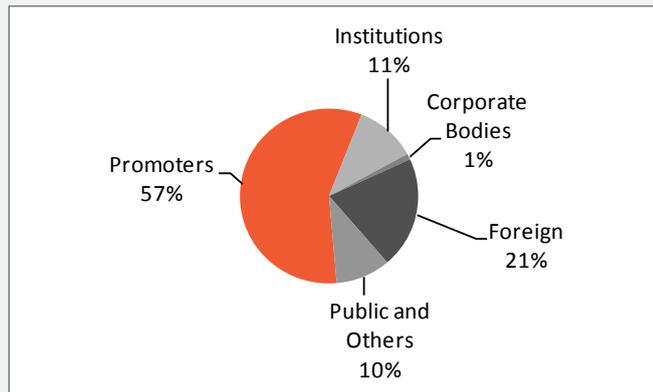
TVS Motors

Reco: Buy | CMP: Rs636

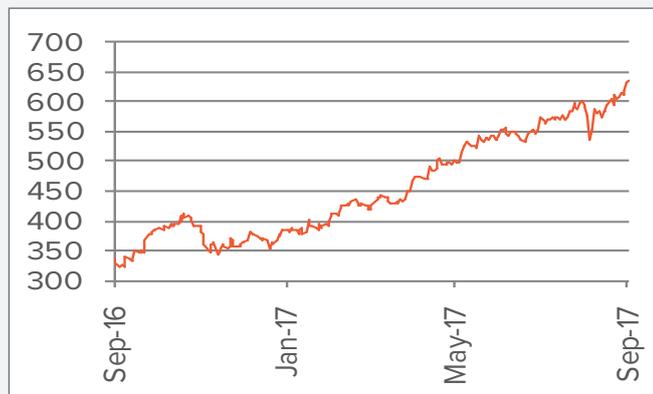
Company details

Price target:	Rs700
Market cap:	Rs30,197 Cr
52-week high/low:	641 / 311
NSE volume: (No of shares)	11.9 lakh
BSE code:	532343
NSE code:	TVSMOTOR
Sharekhan code:	TVSMOTOR
Free float: (No of shares)	Rs20.7 Cr

Shareholding pattern



Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	4.9	17.9	49.2	92.4
Relative to Sensex	6.8	15.8	35.2	73.5

Key points

- ♦ **2W industry growth accelerates; TVS Motors to continue to outpace industry growth on new launches/refreshes:** After high single-digit growth in Q1FY2018, the two wheeler (2W) industry's growth has picked up in the last two months, with the industry reporting strong double-digit growth (13% growth reported in July-August 2017). The 2W industry's outlook has improved with the industry coming out of GST transitory issues and robust rural sentiments on account of a second consecutive year of normal monsoon. Moreover, given the commencement of the festive season, we expect the industry to continue posting robust double-digit growth. Further, the 2W industry will have the benefit of favourable low base in H2FY2018 (industry growth was severely impacted in the latter part of H2FY2017 due to demonetisation). Given the above factors, we expect the 2W industry to grow by 12% in FY2018 as against earlier expectations of 10%. In addition, TVS Motors will introduce new products (plans to introduce a premium 300cc motorcycle and a new scooter) and refreshes (across its range of motorcycles and scooters) in H2FY2018, which will enable it to continue outpacing the industry's growth. TVS Motors has also ramped up supplies to global partner (targets 2,000 bikes per month as against current rate of 1,400 units) for premium motorcycles in its global markets, which would aid growth going ahead. We expect TVS Motors' volumes to grow by 16% in FY2018.
- ♦ **Margin trajectory to improve from Q2FY2018; Expect to reach the double-digit mark in FY2019:** TVS Motors' volume growth is likely to accelerate to 18% in 9MFY2018 as against volume growth of 12% in Q1FY2018. Moreover, Q1FY2018 margin of 6.2% had one-off impact of GST-related dealer compensation and higher discounts to clear inventory. We expect margin trajectory to improve going ahead, given the robust volume uptick and successful transition from GST. In addition, with improved product mix (launch of premium 300cc motorcycle and higher sales of established brands viz. Apache and Jupiter), we expect margins to improve going forward. We expect TVS Motors to report EBIDTA margin of 8.3% and 9.8% in FY2018 and FY2019, respectively.

- ♦ **Outlook - Robust double-digit earnings growth to continue:** TVS Motors is well poised to outpace industry growth (TVS is likely to report a 15% volume CAGR over FY2017-FY2019 as against estimated industry growth of about 10%), given the success of recent launches and strong product pipeline. Further, realisation/vehicle would improve as share of the high-value non-moped segment rises. Moreover, TVS Motors' margins are likely to reach the double-digit mark by FY2019, leading to a strong 37% earnings CAGR over the next two years.
- ♦ **Valuation - Raise estimates; Retain Buy with a revised PT of Rs.700:** TVS Motors' volume outlook has improved, given the acceleration in the 2W industry's growth and a strong product pipeline, which is likely to be unveiled in the ongoing festival season. We have raised our FY2018 and FY2019 earnings estimates by 2% and 3%, respectively, to factor in improved prospects. We retain our Buy rating on the stock with a revised price target (PT) of Rs.700 (based on 29x FY2019 earnings).

Valuation					Rs cr
Particulars	FY2015	FY2016	FY2017	FY2018E	FY2019E
Revenues (Rs cr)	10,068.9	11,243.9	12,135.3	14,639.8	17,211.6
Growth (%)	26.4%	11.7%	7.9%	20.6%	17.6%
EBIDTA (Rs cr)	618.6	756.4	914.1	1,220.3	1,685.2
OPM (%)	6.1%	6.7%	7.5%	8.3%	9.8%
PAT (Rs cr)	356.5	437.8	615.1	800.6	1,143.4
Growth (%)	35.3%	22.8%	40.5%	30.2%	42.8%
FD EPS (Rs)	7.5	9.2	12.9	16.9	24.1
P/E (x)	84.8	69.0	49.1	37.7	26.4
P/B (x)	17.9	15.4	12.5	10.3	8.2
EV/EBIDTA (x)	51.3	40.9	34.2	25.4	18.2
RoE (%)	21.2%	22.4%	25.5%	27.3%	31.1%
RoCE (%)	17.9%	21.3%	21.8%	28.5%	34.6%

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