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2016

TVS MOTOR COMPANY

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INDEX

TVS MOTOR COMPANY: NEW BRAND INPLAY

Thesis– TVS

TVS Motors proves to be a better investment opportunity because:

1) **New product launches**
2) **Focus on increasing market share**
3) **Shift from bikes to scooters**
4) **Tie up with BMW**

We always look for companies which has the aim and capacity to increase its market share in the industry. This will fuel growth hence increase profitability of the companies. We do believe that TVS is one those companies. The Company is focusing on increasing its market share by launching new products and doubling its capacity. It is aiming to increase its share to 18% by end of FY 16. This gets even better as the company ties up with BMW to launch new products in 2016. This will enhance the brand value of TVS with better product launches.

If we compare TVS with other listed peers like Bajaj Auto (20 times) and Hero Corp (20 times), TVS is valued at high P/E multiples of 36 times!

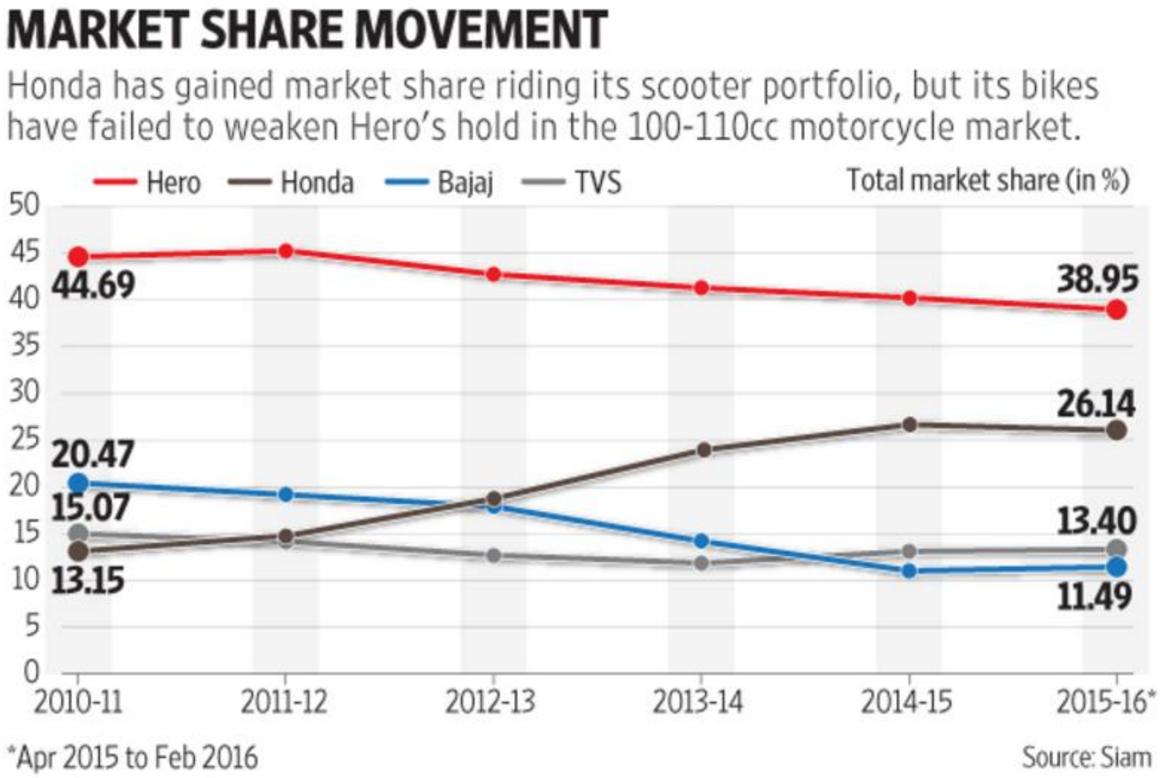
The reason we are still bullish on this company is that, in this competitive two wheeler segment, this is the only company which has growth and aiming to increase its market share with expected profit growth of 50% in FY 2017.

Most sell side analyst are very bearish on TVS motors citing high valuations but the stock is making lifetime highs. Historically this has been the best sign for a large wealth creating move. This means there is variance between the market and analyst. There is a 80% probability that the market is right and TVS will keep moving higher.

The industry is seeing a shift from bikes to scooters. People especially males now prefer buying a scooter rather than bikes because of easy handling, low maintaince cost etc. A scenario where only the scooter segment is doing well, a shift towards scooter will drive volume growth. (TVS Jupiter – Brand Ambassdor – Amitabh Bachchan)

We understand that the valuations are not cheap but growth remains intact and the company can easily increase its sales volumes as well as margins going forward.

About Last 5 years in the Industry



It has been 5 years since Honda Motorcycles and Scooters India Pvt. Ltd and Hero MotoCorp parted ways. Over these last 5 years, the market share of both has changed drastically. Not only them, the market share of Bajaj and TVS has also changed.

During FY 2010/11, the market share of Hero MotorCorp stood at 44.69%, today the same is at 38.95%. Hero was a leader then and is a leader now. Bajaj who was the second largest player five years ago with 20.47% market share, is now the fourth largest with 11.49% market share.

TVS market share stood at 15.07% five years ago, now it is at 13.40%. The brand still is the third largest two-wheeler manufacturer in the country. Speaking about Honda Motorcycles and Scooters India, they are the only ones who have posted a positive growth in market share over the last five years.

Number 4 five years ago, HMSI today is the 2nd largest two-wheeler brand in the country. Their market share has doubled from 13.15% to 26.14%.

Much of Honda's success is due to Activa. The company has become India's leading scooter manufacturer. While Honda has gained in the scooter segment, Hero MotoCorp continues its hold over the motorcycle market with a share of above 50 percent.

Over past 5 years, Honda has seen its manufacturing capacity increase many times. From a single manufacturing unit with a capacity of 1.6 million two-wheelers in 2010-11, the company has grown to 4 manufacturing facilities with a total production of 5.8 million units per annum. Honda aims to topple Hero from its leading position in the coming years.

Current trend in Two- wheeler segment

Two wheeler segment has shown a slow single digit growth last year amidst economy slowdown and weak rural demand. It is expected to grower at slower rate next year as well. So where is the growth?

The only segment doing well in such market condition is scooter segment.

Latest data says that TVS Motors reported 8% yoy growth in two wheelers in Feb 2016 purely because of scooter sales going up by 18.2% as against motorcycles growing merely by 3.8% and a negative growth in three wheelers.

Let us see the industry performance last year to get a clear view:

The year 2015 brought mixed news for the Indian two-wheeler industry. While the scooter segment performed well on the sales chart, motorcycles remained an area of concern for the industry.

Two Wheeler Sales Performance in 2015			
	2015	**2014**	**% Change**
Scooters	4880117	4320925	12.9%
Motorcycles	10523909	10896687	-3.4%
Total	15404026	15217612	1.2%
			Source: SIAM

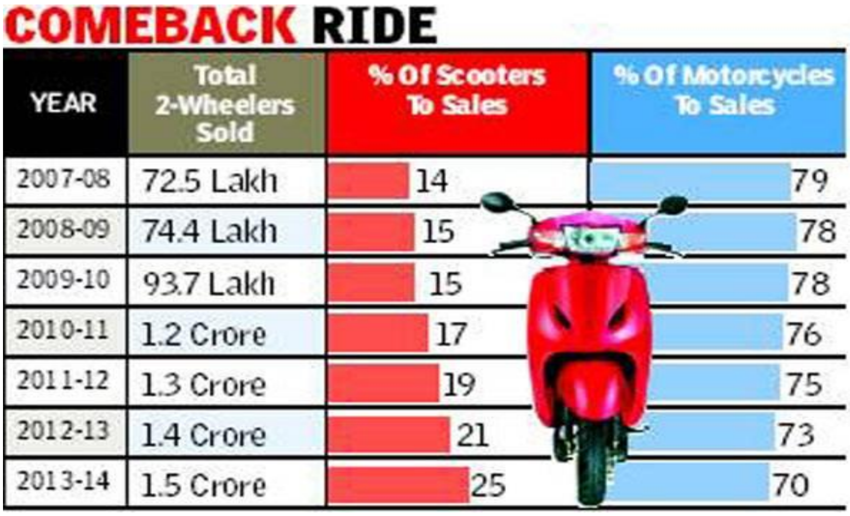
Last financial year, total two wheeler sales stood at 16,122,322 units, up 1 percent from 2014.Motorcycle sales remain impacted where as scooter segment was a clear saviour for the industry with double digit volume growth.

Apart from weak rural demand due to lack of rains and other macro economic factors, there has also been a change in preference of consumers i.e. a shift from bike to scooters which has led to a negative growth in the bike segment.

According to recent figures by the Society of Indian Automobiles (SIAM) sales of motorcycles declined 2.5 per cent in the first nine months of the current financial year, when sales of scooters grew 11.4 per cent.

Scooters which were originally preferred more by females doesn't hold true anymore. In urban as well as rural areas, males have also started preferring scooters. The companies have also changed their marketing strategy, by not only promoting the girls scooter but also promoting it for men.

For example, hero motocorp promoting its product hero maestro with the tag line “such a boy thing”.



COMEBACK RIDE

YEAR	Total 2-Wheelers Sold	% Of Scooters To Sales	% Of Motorcycles To Sales
2007-08	72.5 Lakh	14	79
2008-09	74.4 Lakh	15	78
2009-10	93.7 Lakh	15	78
2010-11	1.2 Crore	17	76
2011-12	1.3 Crore	19	75
2012-13	1.4 Crore	21	73
2013-14	1.5 Crore	25	70

The contribution of scooter sales to the total two wheeler sales has been increasing over the last few years.

Details	Year ended 31-03-2015	Year ended 31-03-2014
SALES		
Quantitative	(Numbers in lakhs)	
Motorcycles	9.51	7.86
Mopeds	7.59	7.33
Scooters	7.00	4.74
Three Wheelers	1.08	0.80
Total vehicles sold	**25.18**	**20.73**

Tvs scooters segment grew 47% last year clearing gaining market share against its peers

Where does TVS stand in this competitive industry?

Here, is the top selling two wheelers of the year 2015...

Top 10 selling two wheelers in year 2015					
Model	**Year 2014**	**Rank**	**Model**	**Year 2015**	**% Change**
Splendor	2504264	1	Splendor	2489336	-1%
Activa	2085835	2	Activa	2409166	16%
Passion	1382641	3	Passion	1186621	-14%
HF Deluxe	1102690	4	HF Deluxe	1081851	-2%
CB Shine	872894	5	CB Shine	799490	-8%
TVS XL Super	774150	6	TVS XL Super	718296	-7%
Discover	693570	7	Glamour	628288	18%
Pulsar	627904	8	Pulsar	624182	-1%
Dream	614280	9	Jupiter	499905	51%
Glamour	530389	10	Maestro	497276	4%
					Source: SIAM

The data given above shows that the growth in the two wheelers has come from the scooter segment.

Out of the top 10 models given, only 4 models have shown a positive volume growth and out of these four two wheelers, three are scooters with TVS Jupiter performing the best by growing at 51% yoy(volume).

Now lets have a look at the company wise scenario for the year 2015

Company Wise Sales Performance in 2015				
Rank	**Company Name**	**2015**	**2014**	**% Change**
1	Hero MotoCorp	6296920	6444542	-2.3%
2	Honda Motorcycle & Scooter India	4314558	4172717	3.4%
3	TVS Motor Company	2148025	2082676	3.1%
4	Bajaj Auto	1809612	1885263	-4.0%
5	India Yamaha Motor	594608	566749	4.9%
6	Royal Enfield (Unit of Eicher)	444527	296380	50.0%
7	Suzuki Motorcycle India	328423	337620	-2.7%
8	Mahindra Two Wheelers	150927	194516	-22.4%
9	Piaggio Vehicles	27830	26998	3.1%
10	Iarley Davidson Motor Company Indi	4445	4080	8.9%
				Source: SIAM

Except for an odd Royal Enfield, all companies have posted single digit sales growth which means that demand in this industry was very weak and the growth prospects have not changed much for the year 2016 as we expect single digit growth in sales volume.

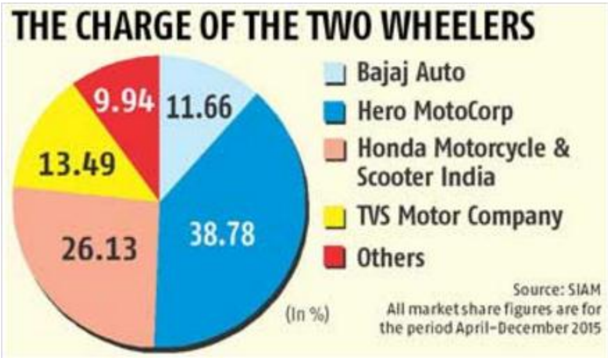
Royal Enfield is not a comparable product as it is in higher price segment and does not target the mass.

In spite of slow growth, TVS motor has managed to have a positive growth number, pretty much in line with its competitor Honda motorcycle(3.4%) and much better than Hero motocorp(-2.3%).

Focus on increasing market share pie with the help of new launches

The aim is to increase the company's market share in the overall motorcycles segment from 7 to 10 per cent by the end of this year. In the premium segment the company wants to go up from 17 to 22 per cent and it wants to raise its share of the two-wheeler market to 18 per cent by the end of the year.

Market share: April to December 2015



The company has a target of increasing its market share to 18% by 2016End.

Company has chosen to increase its market share by increasing product launches during the year. The efforts are already started in that direction by launching two bikes recently. There further plans to increase their production capacity shall help them to increase their geographies in which they sell.

Recently launched two bikes, the 200cc Apache and the 110cc Victor. With these, the company expects to strengthen its foothold in both performance and commuter bike segments while pushing up its share of the entire two wheeler market in India.

Why TVS?

1. Company's decision to ramp up capacity

Even though the industry is showing a slow growth in two wheelers segment, management seems confident on its strategy to double its capacity. Management has guided a capex plan of Rs 350 crores for FY16.

2. Company has shown the maximum topline growth last year

Companies biggest competitors, namely hero motocorp and bajaj auto have managed to grow in single digits ie.9.1% and 7.2% respectively as compared to 23% topline growth for TVS Motors. This ramp up in sales was due to positive response to their Jupiter model among others and positive export numbers.

3. Company has tied up with BMW

TVS Motor has entered into a long term co-operation agreement with BMW's motorcycle division, BMW Motorrad, to develop and produce a new series of motorcycles that will cater to the sub- 500cc segment. As a part of the deal, TVS Motor will invest EUR20mn in the collaboration, which is expected to introduce a new product in 2016. We see this as a positive development for TVS Motor and a step in the right direction as the BMW association will provide technological access to the company.

This tie up is a step forward by the company to increase its presence in the premium segment where they have only one product at present i.e. Apache (160cc and 180cc) series.

4. More room for volume and margin expansion as compared to its peers

	Volume sales	Operating profit Margin
Hero Motocorp	6631826	12.6%
Bajaj Auto	3811201	19.31%
TVS Motors	**2518000**	**5.85%**

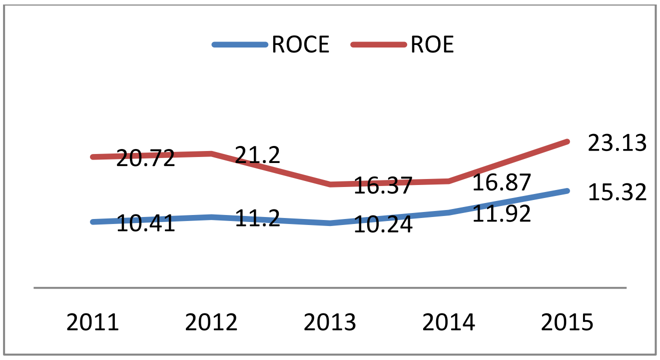
TVS motor has extremely less profit margins as compared to its peers hence massive room for expansion. It has also have plans to increase its capacity and with new launches coming this year, it will also enjoy economics of scale as the production increases thus reducing costs and improving profitability.

Realization/Vehicle (Rs)

	Q3 FY16	Q3 FY15	YOY growth %	Q2 FY16	FY15
	41878	40255	4.03 %	42448	39891

5. Return Ratios are improving

Inspite of the return ratios not been as good as its peers, it is moving upward and it shall move further. This is plus point for the company especially because the players are facing a declining trend in its return ratios indicating saturation.



TVS: Quarterly Comparison

	FY16 Q3	FY16 Q2	FY16 Q1	FY15 Q4	FY15 Q3	FY15 Q2
Sales(in units)	**702044**	678718	638033	601567	**655571**	676139
Sales (in crores)	**2940**	2881	2608	2457	**2639**	2667
Profit (in crores)	**108**	116	90	91	**90**	95

Company has shown a 7% volume growth and 20% profit growth yoy. As the new products designed by BMW launches in the markets the quarterly profitability numbers will improve with better margins.

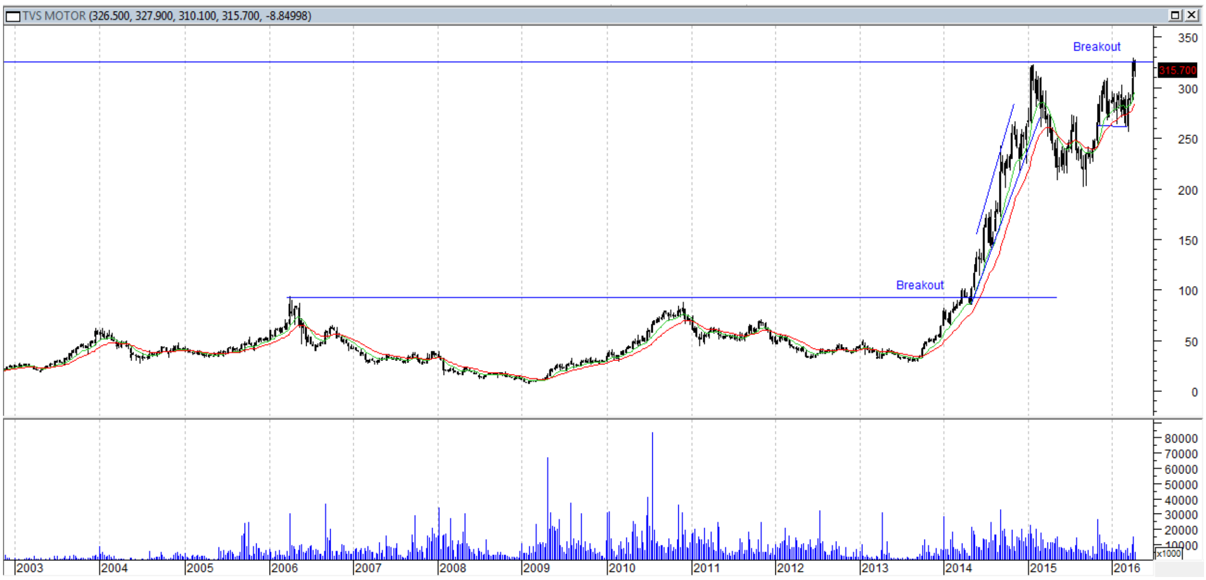
Peer Margin Comparison (%)

	2015	2014	2013
Hero Moto Corp	12.6	13.7	13.47
Bajaj Auto	19.31	20.86	17.93
TVS Motor	**5.85**	**5.89**	**6.02**

TVS has the lowest operating margins among its listed peers. But the reasons are different for both. Hero Moto Corp is a market leader in this segment with the maximum market share and hence enjoys higher margins. The reason Bajaj has higher margins is because it the largest exporter of two wheelers of the country (mainly African countries).Margins are higher in export Market.

Keeping in mind that TVS has placed its strategy to increase market share on the back of new launches with strategic tie up with BMW, their margins going forward are expected to increase faster than its peers.

Technical



Conclusion

TVS has rallied from the end of 2013 onwards and not corrected much even when markets were heading downwards in 2015. It has shown a lot of strength technically. We believe that the battle in the domestic market is between only 3 players i.e. Hero, Honda and TVS motors as Bajaj is concentrating on exports. With launch of new products and strategic tie up with BMW getting executed this year we believe that TVS motors makes a good bet for a long term investor. With Rainfall expected better than normal according to skymet and IMD we expect that there will be a pick-up in 2 wheeler sales as well. TVS Motors is a little overvalued now but it's expected to grow a lot faster than the industry. A Discounted cash flow will give you a fair value of TVS at around 260-280 but we believe that paying that extra 10% makes sense due to potential of increase in margins and expected increase in market share. The fact that most analysts have a sell rating on it and stock is still making lifetime high is an anomaly that the best is ahead of us. We believe that levels of 295-310 are good buy points for TVS. We will review the growth of TVS quarterly and review our holding according.

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