

## TVS Motor

STOCK INFO. BLOOMBERG  
BSE Sensx: 9,849 TVSS IN  
REUTERS CODE  
S&P CNX: 2.975 TVSS.BO

30 January 2006

Neutral

Previous Recommendation: Neutral

Rs110

Equity Shares (m)	237.5
52-Week Range	117/65
1,6,12 Rel. Perf. (%)	5/11/-6
M.Cap. (Rs b)	26.2
M.Cap. (US\$ b)	0.6

YEAR	NET SALES	PAT	EPS	EPS	P/E	P/BV	ROE	ROCE	EV/	EV/
END	(RS M)	(RS M)	(RS)	GROWTH (%)	(X)	(X)	(%)	(%)	SALES	EBITDA
3/05A	28,759	1,376	5.8	-0.7	19.0	3.9	20.3	19.8	0.9	12.1
3/06E	32,619	1,411	5.9	2.5	18.6	3.4	18.1	18.8	0.8	11.6
3/07E	37,246	1,740	7.3	23.3	15.1	2.9	19.5	21.5	0.7	9.0

- TVS Motor reported sales growth of 8.4% YoY to Rs8.7b in 3QFY06, driven by 11.2% YoY growth in overall volumes. Sales growth was lower than volume growth mainly on account of a 2.5% YoY decline in average realizations. Sales mix has tilted in favor of lower end products – entry-level bikes such as *TVS Star* and mopeds.
- The company arrested disappointment on the operating performance front, with EBITDA growth of 14.7% YoY and EBITDA margin improvement of 40bp YoY to 7%. Due to higher interest and depreciation, reported PAT growth was just 10.1% to Rs311m.
- TVS Motor's sales were lagging for the last two years due to its weak performance in the motorcycle segment. The company is working at putting a strong product portfolio in place, which is likely to drive growth going forward. However, its margins are half of what top players in the industry boast.
- We have downgraded our EPS estimates for FY06 and FY07 to Rs5.9 (down 9%) and Rs7.3 (down 3%), respectively, and have introduced our EPS estimate of Rs7.9 for FY08. The stock trades at 15.1x FY07E and 13.9x FY08E earnings. We maintain **Neutral**.

### QUARTERLY PERFORMANCE

Y/E MARCH	FY05				FY06				FY05	FY06E
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4QE		
Total Volumes (nos)	253,872	294,561	322,412	296,705	307,425	325,530	358,559	322,080	1,167,242	1,313,594
<b>Net Sales</b>	<b>6,111</b>	<b>7,429</b>	<b>8,037</b>	<b>7,183</b>	<b>7,351</b>	<b>7,892</b>	<b>8,714</b>	<b>8,662</b>	<b>28,759</b>	<b>32,619</b>
Change (%)	-7.8	-2.8	19.6	-0.4	20.3	6.2	8.4	20.6	2.0	13.4
Expenses	5,548	6,755	7,508	6,833	6,854	7,433	8,107	7,960	26,643	30,354
<b>EBITDA</b>	<b>563</b>	<b>674</b>	<b>529</b>	<b>350</b>	<b>497</b>	<b>459</b>	<b>607</b>	<b>702</b>	<b>2,116</b>	<b>2,265</b>
As % of Sales	9.2	9.1	6.6	4.9	6.8	5.8	7.0	8.1	7.4	6.9
Change (%)	-5.6	-1.4	6.5	-57.3	-11.7	-31.9	14.7	100.9	-18.4	7.1
Other Income	70	87	115	521	115	261	120	324	793	821
Interest	1	8	-1	0	24	27	35	14	8	100
Depreciation	212	223	223	239	227	231	242	242	896	941
Extraordinary Gain / (Expense)										0
<b>PBT</b>	<b>420</b>	<b>530</b>	<b>422</b>	<b>632</b>	<b>361</b>	<b>463</b>	<b>450</b>	<b>770</b>	<b>2,005</b>	<b>2,045</b>
Tax	148	188	140	153	112	144	140	239	629	634
Effective Tax Rate (%)	35.3	35.4	35.0	24.2	31.0	31.0	31.0	31.0	31.4	31.0
<b>PAT</b>	<b>272</b>	<b>342</b>	<b>282</b>	<b>479</b>	<b>249</b>	<b>320</b>	<b>311</b>	<b>532</b>	<b>1,375</b>	<b>1,411</b>
Change (%)	-15.3	-7.4	2.5	14.3	-8.4	-6.7	10.1	11.0	-0.7	2.6

E: Most Estimates

### Net revenues have grown 8.4% YoY

TVS Motor's net revenues grew 8.4% YoY to Rs8.7b in 3QFY06, on the back of 11.2% volume growth. Motorcycles, scooters and mopeds registered YoY growth of 9.4%, 10% and 18.3%, respectively. Net realizations declined 2.5% YoY due to a shift in sales mix in favor of lower end products – entry-level bikes such as TVS Star and mopeds.

#### VOLUME BREAK-UP (IN NOS)

	3QFY06	3QFY05	% GR.	FY06YTD	FY05YTD	% GR.
Bikes	222,309	203,245	9.4	587,089	502,614	16.8
Mopeds	73,769	62,364	18.3	210,568	192,368	9.5
Scooters	62,481	56,803	10.0	193,857	175,555	10.4
<b>Total</b>	<b>358,559</b>	<b>322,412</b>	<b>11.2</b>	<b>991,514</b>	<b>870,537</b>	<b>13.9</b>

Source: Company/Motilal Oswal Securities

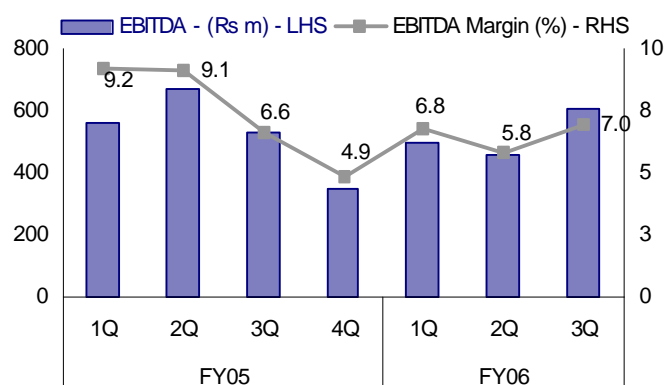
### PAT growth restricted to 10.1% YoY

The company posted a net profit of Rs311m, up 10.1% YoY, which is lower than the EBITDA growth of 14.7% YoY. Higher interest cost (up 34% YoY) and depreciation (up 9%) restricted PAT growth.

### Margin improvement after six quarters

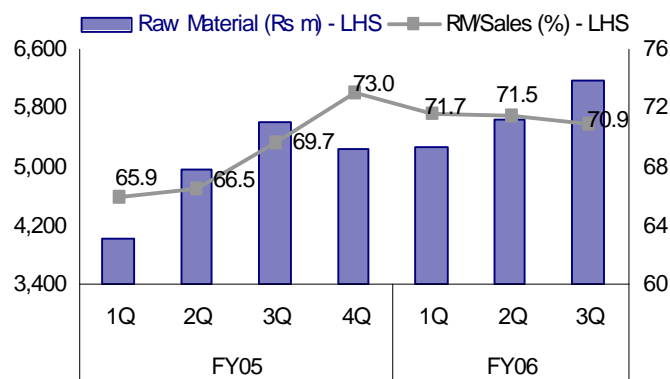
In 3QFY06, TVS Motor's EBITDA margin stood at 7%, an increase of 40bp YoY and 120bp QoQ. EBITDA, at Rs607m, grew 15% YoY. On a YoY basis, EBITDA margins have expanded mainly due to lower other expenditure (a drop of 160bp). On a QoQ basis, the improvement is largely on account of lower raw material cost (a drop of 60bp) and lower staff cost (a drop of 40bp).

#### EBITDA MARGIN: IMPROVEMENT AFTER 6 QUARTERS



Source: Company/Motilal Oswal Securities

#### RAW MATERIAL COSTS



Source: Company/Motilal Oswal Securities

### Valuation and view

TVS Motor's sales were lagging for the last two years due to its weak performance in the motorcycle segment. The company is working at putting a strong product portfolio in place, which is likely to drive growth going forward. However, pressure on margins remains a concern as TVS' sales mix is tilted towards economy segment motorcycles.

The company has also announced a huge capex of Rs4.1b for three Greenfield units, which will help it enter new geographies and product segments.

We have downgraded our EPS estimates for FY06 and FY07 to Rs5.9 (down 9%) and Rs7.3 (down 3%), respectively, and have introduced our EPS estimate of Rs7.9 for FY08. The stock trades at 15.1x FY07E and 13.9x FY08E earnings. We maintain **Neutral**.

## TVS Motors: an investment profile

### Company description

TVS Motor is the two-wheeler manufacturing company of the Sundaram Group. Predominantly present in the ungeared scooter and motorcycle segments, TVS will also be entering the three-wheeler segment within the next 12 months.

### Key investment arguments

- Possible dramatic success of the much-awaited three-wheeler
- The 100cc Star has been faring extremely well, enabling TVS to grow its volumes in the motorcycle segment

### Key investment risks

- Increasing competition in the executive segment (against the Victor) from Bajaj Auto and Hero Honda
- Strong sales of the low margin Star will lead to increased pressure on margins and hence affect profitability

### Recent developments

- Competition has launched several new products in the past three months – Bajaj Auto 'Discover 110cc', Hero Honda 'Glamor 125cc', Hero Honda 'Acheiver 150cc', etc.

### Valuation and view

- We have downgraded our EPS estimates for FY06 and FY07 to Rs5.9 (down 9%) and Rs7.3 (down 3%), respectively, and have introduced our EPS estimate of Rs7.9 for FY08. The stock trades at 15.1x FY07E and 13.9x FY08E earnings; we maintain Neutral

### Sector view

- Numerous motorcycle launches will lead to intense competition
- Domestic two-wheeler demand will continue to surpass estimates on the back of rural pull
- Despite a number of players, market share remains concentrated amongst the top two
- We maintain an overweight stance on the sector

#### COMPARATIVE VALUATIONS

		TVS	HERO HONDA	BAJAJ AUTO
P/E (x)	FY06E	18.6	17.4	20.5
	FY07E	15.1	14.7	16.2
EPS Gr (%)	FY06E	2.5	20.2	43.2
	FY07E	23.3	19.0	26.4
RoE (%)	FY06E	18.1	49.9	22.5
	FY07E	19.5	46.9	23.4
EV/EBITDA (x)	FY06E	11.6	10.9	13.7
	FY07E	9.0	8.8	10.6

#### SHAREHOLDING PATTERN (%)

	DEC.05	SEP.05	DEC.04
Promoters	56.8	56.8	57.5
Domestic Institutions	19.2	15.3	11.4
FII's/FDIs	11.3	12.8	12.0
Others	12.7	15.1	19.1

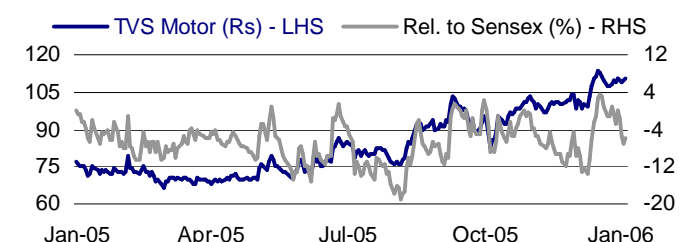
#### EPS: INQUIRE FORECAST VS CONSENSUS (RS)

	INQUIRE FORECAST	CONSENSUS FORECAST	VARIATION (%)
FY06	5.9	5.7	2.8
FY07	7.3	7.7	-4.6

#### TARGET PRICE AND RECOMMENDATION

CURRENT PRICE (RS)	TARGET PRICE (RS)	UPSIDE (%)	RECO.
110	-	-	Neutral

#### STOCK PERFORMANCE (1 YEAR)



INCOME STATEMENT (Rs Million)					
Y/E MARCH	2004	2005	2006E	2007E	2008E
<b>Net Sales</b>	<b>28,202</b>	<b>28,759</b>	<b>32,619</b>	<b>37,246</b>	<b>40,966</b>
Change (%)	4.3	2.0	13.4	14.2	10.0
<b>Total Expenditure</b>	<b>25,608</b>	<b>26,643</b>	<b>30,354</b>	<b>34,360</b>	<b>37,820</b>
Raw Material	18,552	19,814	22,638	25,551	28,062
Employee Cost	1,338	1,407	1,598	1,825	2,028
Other Mfg. Expenses	2,351	1,939	2,195	2,507	2,786
Selling & Distribution	3,368	3,475	3,914	4,470	4,936
<b>EBITDA</b>	<b>2,594</b>	<b>2,116</b>	<b>2,265</b>	<b>2,886</b>	<b>3,146</b>
Change (%)	-14	-18.4	7.1	27.4	9.0
% of Net Sales	9.2	7.4	6.9	7.7	7.7
Depreciation	799	896	941	1,033	1,134
Interest & Fin. Ch.	12	8	100	106	21
Other Income	362	793	821	831	836
<b>PBT</b>	<b>2,145</b>	<b>2,005</b>	<b>2,045</b>	<b>2,578</b>	<b>2,827</b>
Tax	760	629	634	838	944
Effective Rate (%)	35.4	31.4	31.0	32.5	33.4
<b>PAT</b>	<b>1,385</b>	<b>1,376</b>	<b>1,411</b>	<b>1,740</b>	<b>1,883</b>
Change (%)	8.2	-0.7	2.5	23.3	8.2

BALANCE SHEET (Rs Million)					
Y/E MARCH	2004	2005	2006E	2007E	2008E
Share Capital	238	238	238	238	238
Reserves	5,512	6,551	7,538	8,669	9,799
<b>Net Worth</b>	<b>5,750</b>	<b>6,788</b>	<b>7,776</b>	<b>8,907</b>	<b>10,036</b>
Deferred Tax	1,231	1,485	1,485	1,485	1,485
Loans	1,190	1,868	2,118	2,118	2,118
<b>Capital Employed</b>	<b>8,170</b>	<b>10,142</b>	<b>11,379</b>	<b>12,510</b>	<b>13,640</b>
Gross Fixed Assets	11,326	12,872	14,027	15,478	16,908
Less: Depreciation	4,379	5,236	6,178	7,211	8,344
<b>Net Fixed Assets</b>	<b>6,947</b>	<b>7,636</b>	<b>7,849</b>	<b>8,268</b>	<b>8,563</b>
Capital WIP	95	69	0	0	0
Investments	1,280	1,754	1,754	1,754	1,754
<b>Curr.Assets, L &amp; Adv.</b>	<b>4,360</b>	<b>5,067</b>	<b>6,410</b>	<b>7,718</b>	<b>9,214</b>
Inventory	2,167	2,332	2,681	3,265	3,816
Sundry Debtors	519	346	1,787	2,245	2,469
Cash & Bank Balances	180	739	295	560	1,282
Loans & Advances	1,493	1,647	1,647	1,647	1,647
<b>Current Liab.&amp;Prov.</b>	<b>4,641</b>	<b>5,078</b>	<b>5,329</b>	<b>5,924</b>	<b>6,586</b>
Sundry Creditors	4,210	4,522	4,915	5,510	6,173
Provisions	431	556	414	414	414
<b>Net Current Assets</b>	<b>-281</b>	<b>-12</b>	<b>1,081</b>	<b>1,794</b>	<b>2,628</b>
<b>Application of Funds</b>	<b>8,170</b>	<b>10,142</b>	<b>11,379</b>	<b>12,510</b>	<b>13,640</b>

E: MOST Estimates

RATIOS					
Y/E MARCH	2004	2005	2006E	2007E	2008E
<b>Basic (Rs)</b>					
<b>EPS</b>	<b>5.8</b>	<b>5.8</b>	<b>5.9</b>	<b>7.3</b>	<b>7.9</b>
Cash EPS	9.2	9.6	9.9	11.7	12.7
Book Value per Share	24.2	28.6	32.7	37.5	42.3
DPS	13	13	18	2.6	3.2
Payout (Incl. Div. Tax) %	22.7	22.5	30.0	35.0	40.0
<b>Valuation (x)</b>					
P/E		19.0	18.6	15.1	13.9
Cash P/E		11.5	11.1	9.4	8.7
EV/EBITDA		12.1	11.6	9.0	8.0
EV/Sales		0.9	0.8	0.7	0.6
Price to Book Value		3.9	3.4	2.9	2.6
Dividend Yield (%)		12	16	2.3	2.9
<b>Profitability Ratios (%)</b>					
RoE	24.1	20.3	18.1	19.5	18.8
RoCE	26.4	19.8	18.8	21.5	20.9
<b>Turnover Ratios</b>					
Debtors (Days)	7	4	20	22	22
Asset Turnover (x)	3.5	2.8	2.9	3.0	3.0
<b>Leverage Ratio</b>					
Debt/Equity (x)	0.2	0.3	0.3	0.2	0.2

CASH FLOW STATEMENT (Rs Million)					
Y/E MARCH	2004	2005	2006E	2007E	2008E
OP/(Loss) before Tax	1,795	1,219	1,324	1,853	2,013
Interest/Div. Received	362	793	821	831	836
Depreciation & Amort.	799	896	941	1,033	1,134
Direct Taxes Paid	-358	-374	-634	-838	-944
(Inc)/Dec in Working Capital	-293	289	-1,537	-447	-112
Other Items	-123	-566	0	0	0
<b>CF from Oper. Activity</b>	<b>2,182</b>	<b>2,258</b>	<b>915</b>	<b>2,432</b>	<b>2,925</b>
(Inc)/Dec in FA+CWIP	-2,514	-1,559	-1,086	-1,451	-1,429
(Pur)/Sale of Invest.	-401	-474	0	0	0
<b>CF from Inv. Activity</b>	<b>-2,915</b>	<b>-2,033</b>	<b>-1,086</b>	<b>-1,451</b>	<b>-1,429</b>
Changes in Reserves	443	-28	0	0	0
Inc/(Dec) in Debt	-29	678	250	0	0
Interest Paid	-12	-8	-100	-106	-21
Dividends Paid	-314	-309	-423	-609	-753
<b>CF from Fin. Activity</b>	<b>88</b>	<b>334</b>	<b>-273</b>	<b>-715</b>	<b>-774</b>
<b>Inc/(Dec) in Cash</b>	<b>-645</b>	<b>559</b>	<b>-444</b>	<b>266</b>	<b>722</b>
Add: Beginning Balance	825	180	739	295	560
<b>Closing Balance</b>	<b>180</b>	<b>739</b>	<b>295</b>	<b>560</b>	<b>1,282</b>

## **N O T E S**



For more copies or other information, contact

**Institutional:** Navin Agarwal. **Retail:** Manish Shah, Mihir Kothari

Phone: (91-22) 39825500 Fax: (91-22) 22885038. E-mail: [inquire@motilaloswal.com](mailto:inquire@motilaloswal.com)

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#### TVS Motor

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|--|----|
| 1. Analyst ownership of the stock            | No |
| 2. Group/Directors ownership of the stock    | No |
| 3. Broking relationship with company covered | No |

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