

July 22, 2010

HOLD

Price Rs 133	Target Price Rs 133
Sensex	17,977

Price Performance

(%)	1M	3M	6M	12M
Absolute	35	52	83	169
Rel. to Sensex	33	47	72	120

Source: Bloomberg

Stock Details

Sector	Automobiles
Reuters	TVSM.BO
Bloomberg	TVSL@IN
Equity Capital (Rs mn)	238
Face Value(Rs)	1
No of shares o/s (mn)	238
52 Week H/L	140/45
Market Cap (Rs bn/USD mn)	32/701
Daily Avg Volume (No of sh)	3017383
Daily Avg Turnover (US\$m)	7.3

Shareholding Pattern (%)

	Mar'10	Dec'09	Sep'09
Promoters	60.5	60.5	60.5
FII/NRI	6.0	4.5	4.2
Institutions	12.7	12.9	13.0
Private Corp	5.1	5.0	4.8
Public	15.8	17.1	17.5

Source: Capitaline

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- Despite better product mix and above expected avg. realizations, EBIDTA margins were at 6.4% (our est. was 6.5%) due to sharp increase in RM cost.
- Net profits at Rs 404mn is above est. due to higher other income and lower tax rate (20% against expectation of 25%)
- Revising our EPS by 25.0% and 37.5 % to Rs 7.9 and Rs 11.1 for FY11 and FY12 respectively due to higher volume assumptions and higher operating leverage.
- Upgrade TP to Rs 133 (up by 51.1%) valuing the company at PER 12x and EV/EBIDTA of 7.1x FY12 standalone estimates. Maintain our rating of HOLD.

Net sales - product mix aids higher average realizations

Net Sales at Rs 13.9bn (up by 40% YoY) was above our expectation of Rs 13.3bn. Strong volume growth of 32.8% YoY (11.1% QoQ) and better product mix (due to Jive and Wego). Average realizations per vehicle stood at Rs 29,527 (up 5.7% YoY and 3.4% QoQ) against expectation of Rs 28,355.

Product mix %	1QFY11	1QFY10	4QFY10	Product mix %	1QFY11	1QFY10	4QFY10
Motorcycles	43.2	43.7	43.7	Motorcycles (Domestic)			
Scooters	20.6	19.2	19.3	upto 125cc	79.4	79.0	74.3
Mopeds	34.5	36.4	35.5	125cc to 250cc	20.6	21.0	25.7
Three wheelers	1.7	0.6	1.5				
Total	100.0	100.0	100.0	Motorcycles (Exports)			
Exports	10.2	9.0	13.2	upto 125cc	59.9	70.6	56.8
Domestic	89.8	91.0	86.8	125cc to 250cc	40.1	29.4	43.2

Source: SIAM, Emkay research

EBIDTA margins - disappoints despite improving product mix

EBIDTA of Rs 897 mn was marginally ahead of estimate of Rs 861mn. Margins at 6.4% (expectation of 6.5%) were disappointing, given strong increase in average realizations. Margins were under pressure due to 420 bps sequential rise in RM to sales ratio to 72.8% against expectation of 300 bps rise.

APAT – Higher other income and lower tax rate boosted net profits

Net profit at Rs 404 mn was above our of Rs 314 mn driven by higher other income and lower tax rate. Tax rate was 20% against our expectation of 25%.

Financial Snapshot

YE-	Net Sales	EBITDA (Core)	EBITDA (%)	APAT	EPS (Rs)	EPS % chg	RoE (%)	P/E	EV/EBITDA	P/BV
Mar										
FY09	37,374	1,871	5.0	330	1.4	(50.8)	4.4	95.6	21.0	4.3
FY10	44,301	2,746	6.2	1,332	5.6	303.3	16.9	23.7	14.0	3.8
FY11E	56,542	4,082	7.2	1,881	7.9	41.2	20.8	16.8	9.3	3.2
FY12E	64,451	5,187	8.0	2,637	11.1	40.2	24.6	12.0	7.1	2.7

Source: Company. Emkay Research

Valuations and View

At Rs 133, the stock trades at PER of 16.8x and 12.0x and EV/EBIDTA of 9.3x and 7.1x our FY11 and FY12 estimates respectively. We have revised our EPS estimate by 25.0% and 37.5 % to Rs 7.9 and Rs 11.1 for FY11 and FY12 respectively due to higher volume assumptions. We have valued the stock at PER of 12x and EV/EBIDTA of 7.1x of FY12 estimates, Post the run up in the stock price, we maintain our HOLD rating on the stock. We continue to have concerns with balance sheet (series of subsidiaries created like TVS Energy, TVS Motor Finance. Similarly, we continue to have concerns with the Indonesian operations.

Revision in Estimates

Rs mn	FY11E			FY12E		
	Earlier	Revised	% Change	Earlier	Revised	% Change
Volumes	1,808,738	1,871,065	3.4	1,969,173	2,093,686	6.3
Sales	53,110	56,542	6.5	58,632	64,451	9.9
EBIDTA	3,680	4,082	10.9	4,242	5,187	22.3
EBIDTA margins (%)	6.9	7.2		7.2	8.0	
Net Profits	1,505	1,881	25.0	1,918	2,637	37.5
EPS	6.3	7.9	25.0	8.1	11.1	37.5

Quarterly Summary

Rs mn	Q1FY10	Q2FY10	Q3FY10	Q4FY10	Q1FY11	YoY (%)	QoQ (%)
Revenue	9,887	11,299	10,894	12,160	13,930	40.9	14.6
Expenditure	9,261	10,676	10,213	11,297	13,032	40.7	15.4
<i>as % of sales</i>	93.7	94.5	93.7	92.9	93.6		
Consumption of RM	7,102	8,006	7,678	8,346	10,138	42.8	21.5
<i>as % of sales</i>	71.8	70.9	70.5	68.6	72.8		
Employee Cost	523	585	627	700	729	39.3	4.2
<i>as % of sales</i>	5.3	5.2	5.8	5.8	5.2		
Other expenditure	1,636	2,085	1,907	2,251	2,165	32.3	(3.9)
<i>as % of sales</i>	16.5	18.5	17.5	18.5	15.5		
EBITDA	626	623	682	862	897	43.3	4.1
Depreciation	254	253	253	263	266	4.6	1.2
EBIT	372	370	429	600	632	69.8	5.3
Other Income	3	28	9	33	41	1,223.7	24.1
Interest	171	153	180	123	170	(1.0)	38
PBT	204	245	258	510	503	146.8	(1.3)
Total Tax	19	(4)	19	51	101	432.8	97.4
Adjusted PAT	185	249	239	459	403	117.6	(12.3)
(Profit)/loss from JV's/Ass/MI	0	0	0	0	0		
Adjusted PAT after MI	185	249	239	459	403	117.6	(12.3)
Extra ordinary items	3	3	-3	-255	1	(62.5)	(100.5)
Reported PAT	188	252	235	204	404	114.7	98.3
Reported EPS	0.8	1.1	1.0	0.9	1.7	114.7	98.3

Margins (%)					(bps)	(bps)
EBIDTA	6.3	5.5	6.3	7.1	6.4	11 (65)
EBIT	3.8	3.3	3.9	4.9	4.5	77 (40)
EBT	2.1	2.2	2.4	4.2	3.6	155 (58)
PAT	1.9	2.2	2.2	3.8	2.9	102 (89)
Effective Tax rate	9.3	(1.7)	7.4	10.0	20.0	1,073 1,000

Financials

Income Statement

Y/E, Mar (Rs. mn)	FY09	FY10	FY11E	FY12E
Net Sales	37,374	44,301	56,542	64,451
<i>Growth (%)</i>	14.2	18.5	27.6	14.0
Expenditure	35,502	41,555	52,461	59,264
Materials Consumed	27,834	31,157	40,526	45,872
Employee Cost	2,045	2,512	2,936	3,315
Other Exp	5,623	7,886	8,998	10,076
EBITDA	1,871	2,746	4,082	5,187
<i>Growth (%)</i>	91.4	46.8	48.6	27.1
EBITDA margin (%)	5.0	6.2	7.2	8.0
Depreciation	1,029	1,025	1,100	1,168
EBIT	842	1,721	2,982	4,019
EBIT margin (%)	2.3	3.9	5.3	6.2
Other Income	38	139	130	165
Interest expenses	550	632	706	669
PBT	330	1,228	2,406	3,516
Tax	0	-104	524	879
<i>Effective tax rate (%)</i>	0.1	(8.5)	21.8	25.0
Adjusted PAT	330	1,332	1,881	2,637
<i>Growth (%)</i>	(2.0)	303.3	41.2	40.2
Net Margin (%)	0.9	3.0	3.3	4.1
(Profit)/loss from JV's/Ass/MI	-	-	-	-
Adj. PAT After JVs/Ass/MI	330	1,332	1,881	2,637
E/O items	(20)	(455)	(308)	-
Reported PAT	311	877	1,573	2,637
<i>Growth (%)</i>	(2.0)	303.3	41.2	40.2

Cash Flow

Y/E, Mar (Rs. mn)	FY09	FY10	FY11E	FY12E
PBT (Ex-Other income)	292	1,090	2,276	3,351
Depreciation	1,029	1,025	1,100	1,168
Interest Provided	550	632	706	669
Other Non-Cash items	59	(788.4)	(308.0)	-
Chg in working cap	-315	1,057	-794	-399
Tax paid	0	104	-524	-879
Operating Cashflow	1,616	3,119	2,455	3,909
Capital expenditure	(882)	(489)	(1,414)	(1,289)
Free Cash Flow	733	2,630	1,041	2,620
Other income	38	139	130	165
Investments	(1,199)	-2,616	-700	-1,000
Investing Cashflow	-1,161	-2,477	-570	-835
Equity Capital Raised	0	0	0	0
Loans Taken / (Repaid)	2,396	973	-500	-200
Interest Paid	-550	-632	-706	-669
Dividend paid (incl tax)	(195)	(331)	(460)	(771)
Income from investments				
Others	-1,446	424	301	0
Financing Cashflow	206	434	-1,366	-1,640
Net chg in cash	-221	587	-894	145
Opening cash position	37	421	1,010	116
Closing cash position	-184	1,007	116	261

* The difference between the closing cash as per balance sheet and as per cash flow is due to cash credit balances

Balance Sheet

Y/E, Mar (Rs. mn)	FY09	FY10	FY11E	FY12E
Equity share capital	238	238	238	238
Reserves & surplus	7,894	8,417	9,530	11,396
Net worth	8,131	8,655	9,768	11,634
Minority Interest	-	-	-	-
Secured Loans	6,224	7,197	6,697	6,497
Unsecured Loans	2,836	2,836	2,836	2,836
Loan Funds	9,060	10,033	9,533	9,333
Net deferred tax liability	1,481	1,144	1,144	1,144
Total Liabilities	18,673	19,832	20,445	22,110
Gross Block	18,654	19,407	20,820	22,109
Less: Depreciation	8,694	9,719	10,819	11,987
Net block	9,959	9,687	10,001	10,122
Capital work in progress	404	140	140	140
Investment	4,777	7,393	8,093	9,093
Current Assets	8,937	9,652	11,267	12,997
Inventories	3,206	2,897	3,741	4,273
Sundry debtors	1,816	2,204	2,845	3,250
Cash & bank balance	421	1,010	116	261
Loans & advances	3,495	3,520	4,544	5,191
Other current assets	-	22	22	22
Current lia & Prov	6,158	7,341	9,056	10,241
Current liabilities	5,503	6,672	8,192	9,255
Provisions	655	669	863	986
Net current assets	2,778	2,311	2,212	2,756
Misc. exp	753	300.8	-	-
Total Assets	18,673	19,832	20,445	22,111

Key ratios

Y/E, Mar	FY09	FY10	FY11E	FY12E
Profitability (%)				
EBITDA Margin	5.0	6.2	7.2	8.0
Net Margin	0.9	3.0	3.3	4.1
ROCE	5.2	9.9	15.6	19.7
ROE	4.4	16.9	20.8	24.6
RoIC	6.9	14.8	25.8	32.5
Per Share Data (Rs)				
EPS	1.4	5.6	7.9	11.1
CEPS	5.7	9.9	12.6	16.0
BVPS	31.1	35.2	41.1	49.0
DPS	0.7	1.2	1.7	2.8
Valuations (x)				
PER	95.6	23.7	16.8	12.0
P/CEPS	23.2	13.4	10.6	8.3
P/BV	4.3	3.8	3.2	2.7
EV / Sales	1.1	0.9	0.7	0.6
EV / EBITDA	21.0	14.0	9.3	7.1
Dividend Yield (%)	0.5	0.9	1.2	2.1
Gearing Ratio (x)				
Net Debt/ Equity	0.9	0.8	0.7	0.4
Net Debt/EBITDA	4.1	2.4	1.6	1.0
Working Cap Cycle (days)	(4.7)	(12.9)	(10.4)	(9.8)

Recommendation History: TVS Motor Company Ltd – TVSL IN

Date	Reports	Reco	CMP	Target
22.04.2010	TVS Motor 4QFY10 Result Update	Hold	88	88
21.01.2010	TVS Motor 3QFY10 Result Update	Reduce	78	67
26.10.2010	TVS Motor 2QFY10 Result Update	Reduce	62	54
03.08.2009	TVS Motor 1QFY10 Result Update	Reduce	59	51

Recent Research Reports

Date	Reports	Reco	CMP	Target
05.07.2010	Hero Honda Management Meet Update	Accumulate	2,021	2,250
18.06.2010	Auto Sector - Passenger Vehicles			
15.06.2010	Bajaj Auto Management Meet Update	Accumulate	2,282	2,525
01.06.2010	Mahindra & Mahindra Q4FY10 Result Update	Buy	545	725

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