

TVS Motor Co Ltd

Results below estimates, downgrading estimates

TVS Motors (TVSL) Q3FY11 performance were below expectations as other operating expenses were higher-than-anticipated – now for the second consecutive quarter. Consequently, we are reducing our margin estimates for the current year. Also, going forward we expect higher commodity prices and competitive intensity in the industry to completely offset benefits from the improvement in product mix and operating leverage. We therefore cut our earnings estimates for FY12/FY13 by 5%/9% and our one year target price to Rs 70 (from Rs 75 earlier), based on 12x Dec '12 earnings. We maintain our HOLD recommendation on the stock.

Q3 performance disappoints on margins: TVS Motors results were below expectations on the margins front. Net revenues grew 51% YoY to Rs 16.5 bn driven by a 40% growth in volumes. Realisations were higher by 7.5% YoY (up 1.7% QoQ) driven by price hikes and a better product mix. EBITDA margins were below expectations at 7.1%, lower 50 bps QoQ. RM Cost/Sales were higher by 70 bps QoQ, while other operating expenses were lower 20 bps QoQ - we were anticipating an even higher dip in other expenses as management had guided for reduction in ad-spends post pan India launch of new products. Net profit stood at Rs 558 mn, 5% below estimates, boosted by lower interest expense (reduced debt by ~Rs 3bn) and higher other (treasury) income.

Outlook for FY12: We build in 12%/11% volume growth for the company in FY12/FY13 and we expect an improvement in product mix with higher growth in the scooter and three-wheeler segment. However, we are lowering our margin estimates for FY12/FY13 as we expect higher commodity costs and reduced pricing power due to increased competitive intensity for two-wheeler manufacturers. We are lowering our margin estimates for FY12/FY13 by 60bps/100bps and consequently revise our earnings estimates by 5%/9%.

Maintain HOLD; TP revised to Rs 70: Post earnings revision our target price stands revised to Rs. 70 (earlier Rs 75) based on 12xDec '12 earnings. The stock has corrected significantly over the last two months and is trading at 13.7x FY11E and 11.6x FY12E earnings. Though we believe that further downside on the stock is limited, at our target price the upside potential is capped at 13%. We thus maintain our HOLD recommendation on the stock.

What's New?	Target	Rating	Estimates
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CMP	TARGET	RATING	RISK
Rs 62	Rs 70	HOLD	HIGH

BSE	NSE	BLOOMBERG
532343	TVSMOTOR	TVSL IN

Company data

Market cap (Rs mn / US\$ mn)	29,450/647
Outstanding equity shares (mn)	475
Free float (%)	40
Dividend yield (%)	1.0
52-week high/low (Rs)	87/29
2-month average daily volume	3,986,931

Stock performance

Returns (%)	CMP	1-mth	3-mth	6-mth
TVS	62	(14.8)	(17.1)	(3.3)
BSE Auto	9,309	(8.4)	(5.1)	11.8
Sensex	19,008	(5.2)	(6.2)	5.7

Valuation matrix

(x)	FY10	FY11	FY12E	FY13E
P/E @ CMP	24.4	13.7	11.6	10.3
P/E @ Target	27.5	15.4	13.1	11.6
EV/EBITDA @ CMP	10.7	7.6	6.6	6.1

In the interest of timeliness this report has not been edited.

Financial highlights

(Rs mn)	FY10	FY11E	FY12E	FY13E
Revenue	44,301	62,828	72,075	81,798
Growth (%)	18.6	41.8	14.7	13.5
Adj net income	1,208	2,153	2,532	2,856
Growth (%)	267.0	78.2	17.6	12.8
FDEPS (Rs)	2.5	4.5	5.3	6.0
Growth (%)	267.0	78.2	17.6	12.8

Profitability and return ratios

(%)	FY10	FY11E	FY12E	FY13E
EBITDA margin	7.6	7.5	7.5	7.2
EBIT margin	3.9	4.8	5.0	4.8
Adj PAT margin	2.7	3.4	3.5	3.5
ROE	14.4	22.5	21.9	20.6
ROIC	11.1	13.1	14.2	15.0
ROCE	9.7	14.2	15.9	16.0





Result highlights

Fig 1 - Actual vs estimated performance

(Rs mn)	Actual	Estimate	% Variance	Consensus	% Variance
Revenue	16,467	16,323	0.9	15,977	3.1
EBITDA	1,171	1,301	(9.9)	1,046	12.0
Adj net income	558	585	(4.7)	540	3.3
FDEPS (Rs)	1.2	1.2	(4.7)	-	-

Source: RCML Research

Fig 2 - Quarterly performance

(Rs mn)	Q3FY11	Q3FY10	% Chg YoY	Q2FY11	% Chg QoQ
Net sales	16,467	10,895	51.1	16,162	1.9
Expenditure	15,295	10,058	52.1	14,934	2.4
EBITDA	1,171	837	40.0	1,228	(4.6)
EBITDA Margin (%)	7.1	7.7	(60 bps)	7.6	(50 bps)
Other income	72	9	701.6	26	180.2
Interest	96	180	(46.7)	142	(32.5)
Depreciation	445	408	9.0	433	2.7
PBT	703	254	176.7	678	3.7
Tax	145	19	677.5	130	11.9
Adj net income	558	238	134.4	549	1.6
Adj. FDEPS (Rs)	1.2	0.5	134.4	1.2	1.6
Vehicles Sold (units)	523,875	374,535	39.9	524,954	(0.2)
Net Realizations (Rs)	30,799	28,639	7.5	30,285	1.7
RM Cost/unit (Rs)	22,994	20,500	12.2	22,318	3.0
PAT/unit (Rs)	1,064	635	67.6	1,045	1.8

Source: Company, RCML Research

Fig 3 - Revised estimates

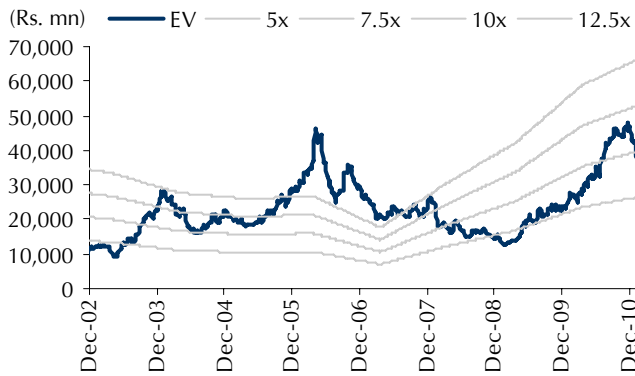
Key parameters (Rs mn)	FY11E			FY12E			FY13E		
	Old	New	% Chg	Old	New	% Chg	Old	New	% Chg
Volumes	2,070,753	2,070,753	-	2,284,763	2,320,622	1.6	2,516,276	2,569,745	2.1
Revenue	62,828	62,828	-	70,783	72,075	1.8	79,690	81,798	2.6
EBITDA margin (%)	8.0	7.5	(50 bps)	8.1	7.5	(60 bps)	8.2	7.2	(100 bps)
Net profit	2,205	2,153	(2.4)	2,657	2,532	(4.7)	3,161	2,856	(9.4)
FDEPS (Rs)	4.6	4.5	(2.4)	5.6	5.3	(4.7)	6.7	6.0	(9.4)

Source: Company, RCML Research



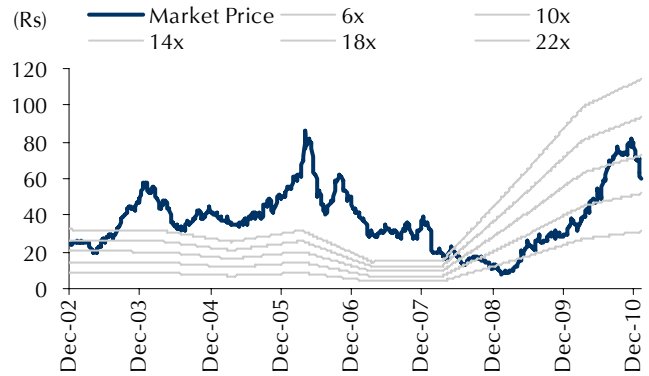
Valuation Band Charts

Fig 4 - EV/EBITDA band chart



Source: Bloomberg, RCML Research

Fig 5 - P/E band chart



Source: Bloomberg, RCML Research



Standalone financials

Profit and Loss statement

Y/E March (Rs mn)	FY10	FY11E	FY12E	FY13E
Revenues	44,301	62,828	72,075	81,798
<i>Growth (%)</i>	18.6	41.8	14.7	13.5
EBITDA	3,362	4,713	5,423	5,882
<i>Growth (%)</i>	36.8	40.2	15.1	8.5
Depreciation & amortisation	1,643	1,701	1,818	1,932
EBIT	1,719	3,012	3,605	3,950
<i>Growth (%)</i>	102.4	75.2	19.7	9.6
Interest	754	506	415	339
Other income	(204)	186	186	197
EBT	762	2,691	3,377	3,808
Income taxes	(118)	538	844	952
Effective tax rate (%)	(15.5)	20.0	25.0	25.0
Extraordinary items	-	-	-	-
Min into / inc from associates	-	-	-	-
Reported net income	880	2,153	2,532	2,856
Adjustments	(328)	-	-	-
Adjusted net income	1,208	2,153	2,532	2,856
<i>Growth (%)</i>	267.0	78.2	17.6	12.8
Shares outstanding (mn)	475.0	475.0	475.0	475.0
FDEPS (Rs) (adj)	2.5	4.5	5.3	6.0
<i>Growth (%)</i>	267.0	78.2	17.6	12.8
DPS (Rs)	0.6	0.6	0.7	0.8

Cash flow statement

Y/E March (Rs mn)	FY10	FY11E	FY12E	FY13E
Net income + Depreciation	1,720	3,854	4,350	4,788
Non-cash adjustments	(1,371)	338	106	(92)
Changes in working capital	1,028	62	(1,000)	(159)
Cash flow from operations	1,377	4,255	3,456	4,537
Capital expenditure	(59)	(1,430)	(1,500)	(1,500)
Change in investments	(3,484)	(250)	(250)	(250)
Other investing cash flow	567	-	-	-
Cash flow from investing	(2,976)	(1,680)	(1,750)	(1,750)
Issue of equity	-	-	-	-
Issue/repay debt	3,125	(3,252)	(950)	(500)
Dividends paid	(389)	(134)	(328)	(383)
Other financing cash flow	279	-	-	-
Change in cash & cash eq	1,417	(810)	428	1,904
Closing cash & cash eq	1,010	200	627	2,531

Balance sheet

Y/E March (Rs mn)	FY10	FY11E	FY12E	FY13E
Cash and cash eq	1,010	200	627	2,531
Accounts receivable	2,203	2,410	2,765	2,913
Inventories	2,897	3,137	3,628	3,985
Other current assets	3,541	3,895	4,325	4,499
Investments	7,393	7,643	7,893	8,143
Gross fixed assets	19,091	20,591	22,091	23,591
Net fixed assets	9,557	9,356	9,038	8,606
CWIP	271	200	200	200
Intangible assets	-	-	-	-
Deferred tax assets, net	(1,146)	(946)	(746)	(546)
Other assets	301	301	301	301
Total assets	26,028	26,196	28,031	30,633
Accounts payable	6,672	7,514	7,766	8,264
Other current liabilities	-	-	-	-
Provisions	669	1,423	1,805	1,991
Debt funds	10,033	6,781	5,831	5,331
Other liabilities	1	1	1	1
Equity capital	475	475	475	475
Reserves & surplus	8,178	10,003	12,152	14,571
Shareholder's funds	8,653	10,478	12,627	15,046
Total liabilities	26,028	26,196	28,031	30,633
BVPS (Rs)	19.2	23.1	27.6	32.7

Financial ratios

Y/E March	FY10	FY11E	FY12E	FY13E
Profitability & Return ratios (%)				
EBITDA margin	7.6	7.5	7.5	7.2
EBIT margin	3.9	4.8	5.0	4.8
Net profit margin	2.7	3.4	3.5	3.5
ROE	14.4	22.5	21.9	20.6
ROCE	9.7	14.2	15.9	16.0
Working Capital & Liquidity ratios				
Receivables (days)	17	13	13	13
Inventory (days)	36	24	23	23
Payables (days)	71	57	53	48
Current ratio (x)	1.4	1.3	1.5	1.7
Quick ratio (x)	0.4	0.3	0.4	0.4
Turnover & Leverage ratios (x)				
Gross asset turnover	2.3	3.2	3.4	3.6
Total asset turnover	1.8	2.4	2.7	2.8
Interest coverage ratio	2.3	5.9	8.7	11.7
Adjusted debt/equity	1.2	0.6	0.5	0.4
Valuation ratios (x)				
EV/Sales	0.8	0.6	0.5	0.4
EV/EBITDA	10.7	7.6	6.6	6.1
P/E	24.4	13.7	11.6	10.3
P/BV	3.2	2.7	2.2	1.9



Quarterly trend

Particulars	Q3FY10	Q4FY10	Q1FY11	Q2FY11	Q3FY11
Revenue (Rs mn)	10,895	12,160	13,930	16,162	16,467
YoY growth (%)	25.4	33.7	40.9	43.0	51.1
QoQ growth (%)	(3.6)	11.6	14.6	16.0	1.9
EBITDA (Rs mn)	837	1,017	1,037	1,228	1,171
EBITDA margin (%)	7.7	8.4	7.4	7.6	7.1
Adj net income (Rs mn)	238	647	404	549	558
YoY growth (%)	-	295	123	123	134
QoQ growth (%)	(3)	172	(38)	36	1.6

DuPont analysis

(%)	FY09	FY10	FY11E	FY12E	FY13E
Tax burden (Net income/PBT)	99.9	158.6	80.0	75.0	75.0
Interest burden (PBT/EBIT)	38.8	44.3	89.4	93.7	96.4
EBIT margin (EBIT/Revenues)	2.3	3.9	4.8	5.0	4.8
Asset turnover (Revenues/Avg TA)	170.3	179.4	240.6	265.8	278.9
Leverage (Avg TA/Avg equity)	269.0	294.7	273.0	234.7	212.0
Return on equity	4.0	14.4	22.5	21.9	20.6

Company profile

TVS Motor is the third largest manufacturer of two-wheelers in India. In FY10, the company has a market share of 100% in mopeds, 20.5% in scooters and 6.7% in motorcycles. The company recently forayed into the 110 cc category with Jive and Wego launches.

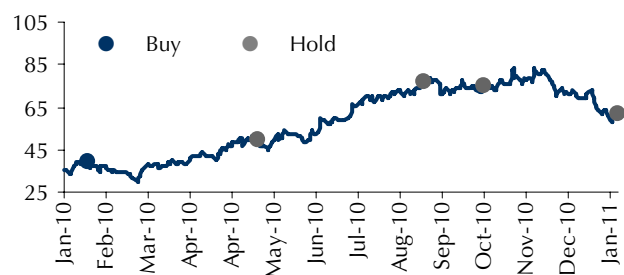
Shareholding pattern

(%)	Jun-10	Sep-10	Dec-10
Promoters	60.5	59.3	59.3
Flls	7.1	8.3	7.2
Banks & Fls	13.3	12.1	13.3
Public	19.1	20.3	20.2

Recommendation history

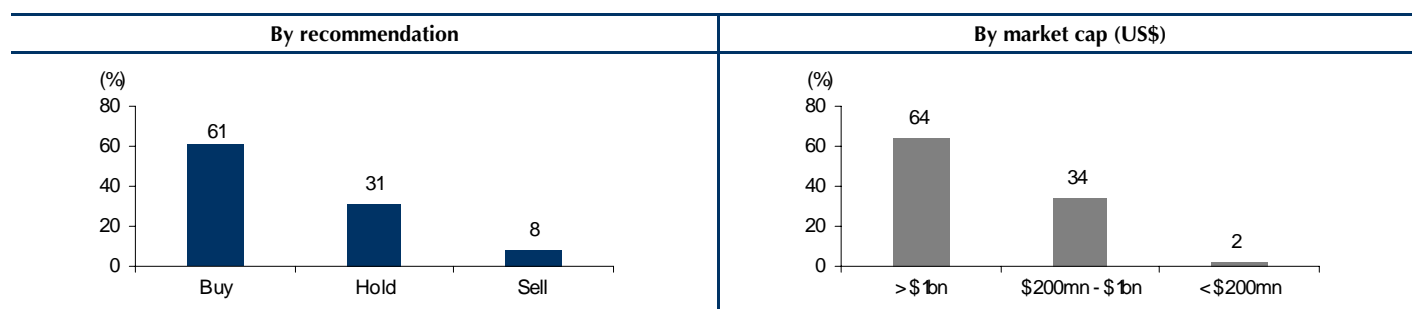
Date	Event	Reco price	Tgt price	Reco
20-Jan-10	Company Update	39	44	Buy
18-May-10	Company Update	50	55	Hold
13-Sep-10	Sector Update	77	75	Hold
21-Oct-10	Results Review	75	75	Hold
23-Jan-11	Results Review	62	70	Hold

Stock performance





Coverage Profile



Recommendation interpretation

Recommendation	Expected absolute returns (%) over 12 months
Buy	More than 15%
Hold	Between 15% and -5%
Sell	Less than -5%

Recommendation structure changed with effect from March 1, 2009

Expected absolute returns are based on share price at market close unless otherwise stated. Stock recommendations are based on absolute upside (downside) and have a 12-month horizon. Our target price represents the fair value of the stock based upon the analyst's discretion. We note that future price fluctuations could lead to a temporary mismatch between upside/downside for a stock and our recommendation.

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