

October 25, 2010

Reco	Previous Reco
Reduce	Hold
CMP	Target Price
Rs74	Rs 72
EPS change FY11E/12E (%)	4.5/7.4
Target Price change (%)	7.5
Nifty	6,066
Sensex	20,166

### Price Performance

(%)	1M	3M	6M	12M
Absolute	4	11	64	139
Rel. to Nifty	3	(0)	43	97

Source: Bloomberg

### Relative Price Chart



Source: Bloomberg

### Stock Details

Sector	Automobiles
Bloomberg	TVSL@IN
Equity Capital (Rs mn)	475
Face Value(Rs)	1
No of shares o/s (mn)	475
52 Week H/L	80/26
Market Cap (Rs bn/USD mn)	35/785
Daily Avg Volume (No of sh)	4396211
Daily Avg Turnover (US\$m)	6.9

### Shareholding Pattern (%)

	S'10	J'10	M'10
Promoters	59.3	60.5	60.5
FII/NRI	8.6	7.5	6.0
Institutions	12.1	13.3	12.7
Private Corp	4.8	4.4	5.1
Public	15.2	14.4	15.8

Source: Capitaline

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- **EBIDTA margin at 6.7 below est. of 6.9%, despite higher net sales (Rs 16.2 bn against est. of Rs15.8bn) due to higher staff cost and other exp. APAT at Rs 549mn against est. of 526mn.**
- **Scooter/Mopeds/3-Wheelers continue to drive volumes, motorcycle sales continue to disappoint. Export traction to remain strong, expect average run rate of ~20k unit's pm.**
- **Upgrade FY11E/FY12E volumes by 6.4%/8.5% to 2.0/2.3 units due to higher scooters/mopeds/exports sales. Upgrade FY11E/FY12E standalone EPS by 4.5%/7.4% to Rs 4.1/Rs6.0**
- **Upgrade TP to Rs 72 (up 7.5%) - 12x FY12 standalone EPS. Downgrade rating to REDUCE**

### Net Sales – Marginally above expectation

Net sales at Rs 16.2bn was marginally above expectation of Rs 15.8bn due to higher avg. realization per vehicle. Volume grew by 45.7% YoY and 7.8% QoQ. Avg. realization per vehicle stood at Rs 30,285 (up 6.9% YoY and 2.6% QoQ) against expectation of Rs 29,900 due to improving product mix.

Product mix %	2QFY11	2QFY10	1QFY11	Product mix %	2QFY11	2QFY10	1QFY11
Motorcycles	39.8	39.3	43.2	Motorcycles (Domestic)			
Scooters	23.7	21.9	20.6	upto 125cc	77.2	67.9	79.4
Mopeds	34.6	37.9	34.5	125cc to 250cc	22.8	32.1	20.6
Three wheelers	1.9	0.9	1.7				
<b>Total</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	Motorcycles (Exports)			
Exports	11.1	8.9	10.2	upto 125cc	45.4	63.9	59.9
Domestic	88.9	91.1	89.8	125cc to 250cc	54.6	36.1	40.1

Source: SIAM, Emkay research

### EBIDTA in line, EBIDTA margin marginally below est.

EBITDA at Rs 1.1bn was in line with est. of Rs 1.1bn. Despite a better than expected topline and lower RM to sales ratio (72.5% vs est. 73.6%), EBIDTA margins at 6.7% were slightly below expectation of 6.9%. Higher other expenses (15.6% vs est. of 14.8%) and higher staff cost (5.2% vs est. of 4.7%) restricted the margin expansion

### APAT at Rs 549mn marginally above expectation

Net profits at Rs 549mn was marginally above our expectation of Rs 526 mn, due to lower interest expense of Rs 142mn (est. Rs 170mn) and lower tax rate of 19.2% (est. 20.1%) .

### 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	0.7	(50.8)	4.4	106.4	22.9	4.8
FY10	44,301	2,746	6.2	1,332	2.8	303.3	16.9	26.4	15.2	4.2
FY11E	60,088	4,218	7.0	1,966	4.1	47.6	21.6	17.9	10.0	3.6
FY12E	70,039	5,475	7.8	2,833	6.0	44.1	26.2	12.4	7.5	3.0

Source: Company. Emkay Research

### Valuations and View

At CMP of Rs 74, the stock trades at PER of 17.9x and 12.4x and EV/EBIDTA of 10.0x and 7.5x our FY11 and FY12 estimates respectively. We have revised our EPS estimate by 4.5% and 7.4 % to Rs 4.1 and Rs 6.0 for FY11 and FY12 respectively due to higher volume assumption for scooter, mopeds and exports. We have valued the stock at PER of 12x of FY12 estimates. We downgrade our rating to REDUCE on the stock.

### Revision in Estimates

Rs mn	FY11E			FY12E		
	Earlier	Revised	% Change	Earlier	Revised	% Change
Volumes	1,871,065	1,990,238	6.4	2,093,686	2,270,717	8.5
Sales	56,542	60,088	6.3	64,451	70,039	8.7
EBIDTA	4,082	4,218	3.3	5,187	5,475	5.5
EBIDTA margins (%)	7.2	7.0		8.0	7.8	
Net Profits	1,881	1,966	4.5	2,637	2,833	7.4
EPS	4.0	4.1	4.5	5.6	6.0	7.4

Source: Emkay Research

## Quarterly Summary

Rs mn	Q2FY10	Q3FY10	Q4FY10	Q1FY11	Q2FY11	YoY (%)	QoQ (%)	YTD'11	YTD'10	YoY (%)
<b>Revenue</b>	<b>11,299</b>	<b>10,894</b>	<b>12,160</b>	<b>13,930</b>	<b>16,162</b>	<b>43.0</b>	<b>16.0</b>	<b>30,092</b>	<b>21,186</b>	<b>42.0</b>
<b>Expenditure</b>	<b>10,676</b>	<b>10,213</b>	<b>11,297</b>	<b>13,032</b>	<b>15,088</b>	<b>41.3</b>	<b>15.8</b>	<b>28,120</b>	<b>19,937</b>	<b>41.0</b>
<i>as % of sales</i>	94.5	93.7	92.9	93.6	93.3			93.4	94.1	
Consumption of RM	8,006	7,678	8,346	10,138	11,716	46.3	15.6	21,854	15,107	44.7
<i>as % of sales</i>	70.9	70.5	68.6	72.8	72.5			72.6	71.3	
Employee Cost	585	627	700	729	847	44.7	16.2	1,576	1,109	42.2
<i>as % of sales</i>	5.2	5.8	5.8	5.2	5.2			5.2	5.2	
Other expenditure	2,085	1,907	2,251	2,165	2,525	21.1	16.6	4,689	3,721	26.0
<i>as % of sales</i>	18.5	17.5	18.5	15.5	15.6			15.6	17.6	
<b>EBITDA</b>	<b>623</b>	<b>682</b>	<b>862</b>	<b>897</b>	<b>1,075</b>	<b>72.6</b>	<b>19.8</b>	<b>1,972</b>	<b>1,249</b>	<b>57.9</b>
Depreciation	253	253	263	266	280	10.6	5.2	546	507	7.6
<b>EBIT</b>	<b>370</b>	<b>429</b>	<b>600</b>	<b>632</b>	<b>795</b>	<b>115.0</b>	<b>25.9</b>	<b>1,427</b>	<b>742</b>	<b>92.3</b>
Other Income	28	9	33	41	26	(8.8)	(37.2)	67	31	113.1
Interest	153	180	123	170	142	(7.2)	(16)	312	325	(3.9)
<b>PBT</b>	<b>245</b>	<b>258</b>	<b>510</b>	<b>503</b>	<b>679</b>	<b>177.3</b>	<b>34.9</b>	<b>1,182</b>	<b>449</b>	<b>163.4</b>
Total Tax	(4)	19	51	101	130	(3,316.6)	29.3	231	15	1,454.4
<b>Adjusted PAT</b>	<b>249</b>	<b>239</b>	<b>459</b>	<b>403</b>	<b>549</b>	<b>120.5</b>	<b>36.3</b>	<b>951</b>	<b>434</b>	<b>119.3</b>
(Profit)/loss from JV's/Ass/MI	-	-	-	-	-			-	-	
<b>Adj. PAT after MI</b>	<b>249</b>	<b>239</b>	<b>459</b>	<b>403</b>	<b>549</b>	<b>120.5</b>	<b>36.3</b>	<b>951</b>	<b>440</b>	<b>116.1</b>
Extra ordinary items	3	(3)	(255)	1	(1)	(121.0)	(162.8)	0	7	(93.4)
<b>Reported PAT</b>	<b>252</b>	<b>235</b>	<b>204</b>	<b>404</b>	<b>548</b>	<b>117.2</b>	<b>35.7</b>	<b>951</b>	<b>440</b>	<b>116.1</b>
<b>Reported EPS</b>	<b>0.5</b>	<b>0.5</b>	<b>0.4</b>	<b>0.8</b>	<b>1.2</b>	<b>117.2</b>	<b>35.7</b>	<b>2.0</b>	<b>0.9</b>	<b>116.1</b>

Margins (%)						(bps)	(bps)			(bps)
EBIDTA	5.5	6.3	7.1	6.4	6.7	114	21	6.6	5.9	66
EBIT	3.3	3.9	4.9	4.5	4.9	165	39	4.7	3.5	124
EBT	2.2	2.4	4.2	3.6	4.2	203	59	3.9	2.1	181
PAT	2.2	2.2	3.8	2.9	3.4	119	50	3.2	2.0	111
Effective Tax rate	(1.7)	7.4	10.0	20.0	19.2	2,082	(83)	19.5	3.3	1,621

Source: Company, Emkay Research

## Financials

## Income Statement

Y/E, Mar (Rs. mn)	FY09	FY10	FY11E	FY12E
<b>Net Sales</b>	<b>37,374</b>	<b>44,301</b>	<b>60,088</b>	<b>70,039</b>
Growth (%)	14.2	18.5	35.6	16.6
<b>Expenditure</b>	<b>35,502</b>	<b>41,555</b>	<b>55,870</b>	<b>64,564</b>
Materials Consumed	27,834	31,157	43,334	50,310
Employee Cost	2,045	2,512	3,061	3,456
Other Exp	5,623	7,886	9,475	10,798
<b>EBITDA</b>	<b>1,871</b>	<b>2,746</b>	<b>4,218</b>	<b>5,475</b>
Growth (%)	91.4	46.8	53.6	29.8
<b>EBITDA margin (%)</b>	<b>5.0</b>	<b>6.2</b>	<b>7.0</b>	<b>7.8</b>
Depreciation	1,029	1,025	1,105	1,179
<b>EBIT</b>	<b>842</b>	<b>1,721</b>	<b>3,113</b>	<b>4,296</b>
<b>EBIT margin (%)</b>	<b>2.3</b>	<b>3.9</b>	<b>5.2</b>	<b>6.1</b>
Other Income	38	139	109	144
Interest expenses	550	632	703	664
<b>PBT</b>	<b>330</b>	<b>1,228</b>	<b>2,519</b>	<b>3,777</b>
<b>Tax</b>	<b>0</b>	<b>(104)</b>	<b>553</b>	<b>944</b>
Effective tax rate (%)	0.1	(8.5)	21.9	25.0
<b>Adjusted PAT</b>	<b>330</b>	<b>1,332</b>	<b>1,966</b>	<b>2,833</b>
Growth (%)	(2.0)	303.3	47.6	44.1
<b>Net Margin (%)</b>	<b>0.9</b>	<b>3.0</b>	<b>3.3</b>	<b>4.0</b>
(Profit)/loss from JV's/Ass/MI	-	-	-	-
<b>Adj. PAT After JVs/Ass/MI</b>	<b>330</b>	<b>1,332</b>	<b>1,966</b>	<b>2,833</b>
E/O items	(20)	(455)	(308)	-
<b>Reported PAT</b>	<b>311</b>	<b>877</b>	<b>1,658</b>	<b>2,833</b>
Growth (%)	(2.0)	303.3	47.6	44.1

## Cash Flow

Y/E, Mar (Rs. mn)	FY09	FY10	FY11E	FY12E
<b>PBT (Ex-Other income)</b>	<b>FY09</b>	<b>FY10</b>	<b>FY11E</b>	<b>FY12E</b>
Depreciation	292	1,090	2,410	3,633
Interest Provided	1,029	1,025	1,105	1,179
Other Non-Cash items	550	632	703	664
Chg in working cap	59	(788)	(308)	-
Tax paid	(315)	1,057	(825)	(445)
<b>Operating Cashflow</b>	<b>(0)</b>	<b>104</b>	<b>(553)</b>	<b>(944)</b>
Capital expenditure	<b>1,616</b>	<b>3,119</b>	<b>2,532</b>	<b>4,086</b>
<b>Free Cash Flow</b>	<b>(882)</b>	<b>(489)</b>	<b>(1,502)</b>	<b>(1,401)</b>
Other income	<b>733</b>	<b>2,630</b>	<b>1,030</b>	<b>2,685</b>
Investments	38	139	109	144
<b>Investing Cashflow</b>	<b>(1,199)</b>	<b>(2,616)</b>	<b>(700)</b>	<b>(1,000)</b>
Equity Capital Raised	<b>(1,161)</b>	<b>(2,477)</b>	<b>(591)</b>	<b>(856)</b>
Loans Taken / (Repaid)	-	-	-	-
Interest Paid	2,396	973	(500)	(200)
Dividend paid (incl tax)	(550)	(632)	(703)	(664)
Income from investments	(195)	(331)	(485)	(829)
Others	-	-	-	-
<b>Financing Cashflow</b>	<b>(1,446)</b>	<b>424</b>	<b>301</b>	<b>-</b>
<b>Net chg in cash</b>	<b>206</b>	<b>434</b>	<b>(1,388)</b>	<b>(1,692)</b>
Opening cash position	<b>(221)</b>	<b>587</b>	<b>(948)</b>	<b>137</b>
<b>Closing cash position</b>	<b>37</b>	<b>421</b>	<b>1,010</b>	<b>62</b>

## Balance Sheet

Y/E, Mar (Rs. mn)	FY09	FY10	FY11E	FY12E
Equity share capital	238	238	475	475
Reserves & surplus	7,894	8,417	9,353	11,357
<b>Net worth</b>	<b>8,131</b>	<b>8,655</b>	<b>9,828</b>	<b>11,832</b>
<b>Minority Interest</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
Secured Loans	6,224	7,197	6,697	6,497
Unsecured Loans	2,836	2,836	2,836	2,836
<b>Loan Funds</b>	<b>9,060</b>	<b>10,033</b>	<b>9,533</b>	<b>9,333</b>
Net deferred tax liability	1,481	1,144	1,144	1,144
<b>Total Liabilities</b>	<b>18,673</b>	<b>19,832</b>	<b>20,505</b>	<b>22,309</b>
Gross Block	18,654	19,407	20,909	22,310
Less: Depreciation	8,694	9,719	10,824	12,003
<b>Net block</b>	<b>9,959</b>	<b>9,687</b>	<b>10,085</b>	<b>10,307</b>
Capital work in progress	404	140	140	140
<b>Investment</b>	<b>4,777</b>	<b>7,393</b>	<b>8,093</b>	<b>9,093</b>
<b>Current Assets</b>	<b>8,937</b>	<b>9,652</b>	<b>11,823</b>	<b>13,914</b>
Inventories	3,206	2,897	3,946	4,602
Sundry debtors	1,816	2,204	3,001	3,500
Cash & bank balance	421	1,010	62	199
Loans & advances	3,495	3,520	4,793	5,591
Other current assets	-	22	22	22
<b>Current lia &amp; Prov</b>	<b>6,158</b>	<b>7,341</b>	<b>9,636</b>	<b>11,145</b>
Current liabilities	5,503	6,672	8,725	10,083
Provisions	655	669	911	1,062
<b>Net current assets</b>	<b>2,778</b>	<b>2,311</b>	<b>2,188</b>	<b>2,770</b>
Misc. exp	753	301	-	-
<b>Total Assets</b>	<b>18,673</b>	<b>19,832</b>	<b>20,505</b>	<b>22,309</b>

## Key ratios

Y/E, Mar	FY09	FY10	FY11E	FY12E
<b>Profitability (%)</b>	<b>FY09</b>	<b>FY10</b>	<b>FY11E</b>	<b>FY12E</b>
EBITDA Margin	5.0	6.2	7.0	7.8
Net Margin	0.9	3.0	3.3	4.0
ROCE	5.2	9.9	16.1	20.7
ROE	4.4	16.9	21.6	26.2
RoIC	6.9	14.8	26.8	34.2
<b>Per Share Data (Rs)</b>				
EPS	0.7	2.8	4.1	6.0
CEPS	2.9	5.0	6.5	8.4
BVPS	15.5	17.6	20.7	24.9
DPS	0.4	0.6	0.9	1.5
<b>Valuations (x)</b>				
PER	106.4	26.4	17.9	12.4
P/CEPS	25.9	14.9	11.4	8.8
P/BV	4.8	4.2	3.6	3.0
EV / Sales	1.1	0.9	0.7	0.6
EV / EBITDA	22.9	15.2	10.0	7.5
Dividend Yield (%)	0.5	0.8	1.2	2.0
<b>Gearing Ratio (x)</b>				
Net Debt/ Equity	0.9	0.8	0.7	0.5
Net Debt/EBITDA	4.1	2.4	1.7	1.1
Working Cap Cycle (days)	(4.7)	(12.9)	(10.8)	(10.3)

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

**Recommendation History: TVS Motor Company Ltd – TVSL IN**

Date	Reports	Reco	CMP	Target
22/07/2010	<a href="#">TVS Motor Q1FY11 Result Update</a>	Hold	133	133
22/04/2010	<a href="#">TVS Motor 4QFY10 Result Update</a>	Hold	88	88
21/01/2010	<a href="#">TVS Motor 3QFY10 Result Update</a>	Reduce	78	67
26/10/2010	<a href="#">TVS Motor 2QFY10 Result Update</a>	Reduce	62	54

**Recent Research Reports**

Date	Reports	Reco	CMP	Target
25/10/2010	<a href="#">Bajaj Auto Q2FY11 Result Update</a>	Accumulate	1,486	1,710
29/09/2010	<a href="#">Tata Motors Management Meet Update</a>	Accumulate	1,080	1,235
27/09/2010	<a href="#">Bajaj Auto Management Meet Update</a>	Accumulate	1,446	1,630
15/09/2010	<a href="#">Ashok Leyland Analyst Meet Update</a>	Hold	77	76

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