

Q2FY2012 Review
Sector: Auto
BSE Sensex: 17,482

TVS MOTOR

Maintain BUY
CMP Rs66
TP Rs78

Q2FY12 Inline; Unrelated Investments A Cause Of Concern

TVS Motors's (TVSL) Q2FY12 results were in line with our expectation as net profits grew 40% YoY to Rs765mn (PINCe Rs734mn). Volumes grew 15.1% YoY (10.6% QoQ) to 604k, highest ever for the company. Blended realisations were up 3.1% sequentially to Rs33k/unit and were marginally ahead of our expectation. Higher realisations helped counter the increase in overheads and margins expanded 29bps YoY (24bps QoQ) to 6.9%, inline with estimates. Thus, the growth in volumes and margin expansion helped the company post a 39.7% YoY (30.1% QoQ) growth in profits to Rs765mn which is the highest ever for the company.

Volumes reach a new high: TVSL recorded its highest ever quarterly dispatches as volumes grew 15% to touch 604k units. While domestic volumes grew 12% to 520k units, exports surged 36% to 84k units. Domestic product mix during the quarter was enriched as motorcycle and scooter segment reported growth of 14.2% and 26.6% respectively as against the moped segment growth of 8.1%. Three wheeler dispatches were at 11.6k units comprising 70% exports.

Realisations improved backed by rich product mix: Blended realisations in Q2FY12 were up 3.1% QoQ and 7.1% YoY to 33k/unit. The improvement in realisations is primarily led by rich product mix as the contribution from scooters segment increased while that for low cost moped segment declined during the quarter. With better than expected realisations, net revenue for the company was up 23% YoY to Rs19.9bn, 1.5% higher than our estimate.

Operating performance in line with estimates: Benefit from higher realisations was offset by overhead cost which as a percentage of sales increased 100bps QoQ to 14.4% and higher than our estimate. However, the benefit from operating leverage was clearly visible as employee cost as a percentage of sales reduced by 50bps sequentially to 4.7%. EBITDA margins at 6.9% were inline.

Outlook: We continue to maintain our volume estimate for FY12 and FY13 at 2.3mn and 2.5mn units respectively while raising blended realisations estimate by 3%. The increase in realisations has led to increase in FY12 and FY13 margin estimates by 56bps and 40bps respectively. The increase in loan book due to investments in group companies has warranted in a 20% hike in interest cost for FY13. Our earning estimates for FY12 and FY13 have been increased by 16% and 12% to Rs5.2 and Rs6.0 respectively.

VALUATIONS AND RECOMMENDATION

The stock is currently trading at 11.1x FY13E standalone earnings. We maintain a 'BUY' recommendation on the stock with a target price of Rs78 (earlier Rs69) discounting FY13 earnings 13x. However, the significant investment made by TVSL in group companies is a cause of concern going forward.

KEY FINANCIALS		(Rs mn)				
	FY09	FY10	FY11	FY12E	FY13E	
Net Sales	36,709	43,631	61,795	73,450	83,488	
YoY Gr.(%)	14.0	18.9	41.6	18.9	13.7	
EBITDA	1,211	2,094	3,010	3,473	4,021	
EBITDA Margin (%)	5.0	6.2	6.5	6.6	6.6	
Adjusted Net Profit	311	1,092	1,946	2,457	2,850	
YoY Gr.(%)	(2.2)	251.3	78.2	26.3	16.0	
KEY RATIOS						
Dil. EPS (Rs)	0.7	2.3	4.1	5.2	6.0	
ROCE (%)	5.4	9.6	16.1	18.5	19.0	
RoE (%)	4.1	13.9	21.2	22.7	22.6	
PER (x)	101.3	28.8	16.2	12.8	11.1	
EV/Net sales (x)	1.1	0.9	0.6	0.5	0.5	
EV/EBDITA (x)	21.0	13.6	9.5	8.1	7.0	

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QUARTERLY SNAPSHOT (Rs mn)

	Quarter Ended		
	Mar-11	Jun-11	Sep-11
Net Sales	16,335	17,460	19,918
YoY Gr. (%)	34.3	25.3	23.2
EBITDA	913	1,171	1,383
EBITDA mar. (%)	5.6	6.7	6.9
Adj. Net Profit	417	588	765
YoY Gr. (%)	(13.6)	45.6	39.7

STOCK DATA

Market Cap	Rs31.5bn
Book Value per share	Rs21
Eq Shares O/S (F.V. Rs1)	475mn
Free Float	41%
Avg Trad. Value (6 mnts)	Rs138.8mn
52 week High/Low	Rs87/44
Bloomberg Code	TVSL IN
Reuters Code	TVSM.BO

PERFORMANCE (%)

	1M	3M	12M
Absolute	10.7	24.9	(12.5)
Relative	2.4	26.1	2.1

RELATIVE PERFORMANCE



Variance to PINC Estimate

(Rs mn)	Actual	Estimate	Var (%)	Comments
Net Sales	19,918	19,626	1.5	Average realisations 1.5% higher than expectation
EBITDA	1,383	1,363	1.5	
EBITDA Margin (%)	6.9	6.9	(0)bps	Margins inline with estimates
Adjusted PAT	765	734	4.3	Profits marginally higher

Financial Table

(Rs mn)	Sep-11	Sep-10	YoY (%)	Jun-11	QoQ (%)	H1FY12	H1FY11	YoY (%)
Net Sales	19,918	16,162	23.2	17,460	14.1	37,378	30,092	24.2
EBIDTA	1,383	1,075	28.7	1,171	18.1	2,554	1,972	29.5
EBIDTA Margins %	6.9	6.7	30 bps	6.7	20 bps	6.8	6.6	30 bps
Other Income	23	25	(7.2)	0	11450.0	23	67	(65.5)
Interest	112	142	(21.6)	116	(3.7)	227	312	(27.1)
Depreciation	286	280	2.2	277	3.3	563	546	3.1
PBT	1,009	678	48.8	779	29.5	1,787	1,182	51.2
Tax	244	130	87.5	191	-	434	231	88.1
% PBT	24.1	19.2	500 bps	24.5	-30 bps	24.3	19.5	480 bps
Reported PAT	765	548	39.7	588	30.1	1,353	952	42.2
Adjusted PAT	765	548	39.7	588	30.1	1,353	952	42.2
Adjusted EPS (Rs)	1.6	1.2	39.7	1.2	30.1	2.8	2.0	42.2

Vehicle sales

(units)	Sep-11	Sep-10	YoY (%)	Jun-11	QoQ (%)	H1FY12	H1FY11	YoY (%)
Total Sales	604,208	524,954	15.1	536,131	12.7	1,140,339	988,794	15.3
Domestic	519,709	462,949	12.3	458,329	13.4	978,038	870,868	12.3
Exports	84,499	62,005	36.3	77,802	8.6	162,301	117,926	37.6
Total Two Wheeler Sale:	592,546	514,998	15.1	524,707	12.9	1,117,253	971,039	15.1
Domestic	516,080	456,538	13.0	455,744	13.2	971,824	858,535	13.2
Exports	76,466	58,460	30.8	68,963	10.9	145,429	112,504	29.3
Motorcycles	238,744	209,006	14.2	215,051	11.0	453,795	409,364	10.9
Domestic	174,877	157,216	11.2	155,793	12.2	330,670	309,430	6.9
Exports	63,867	51,790	23.3	59,258	7.8	123,125	99,934	23.2
Scooters	157,465	124,356	26.6	117,523	34.0	274,988	219,842	25.1
Domestic	148,344	119,028	24.6	109,279	35.7	257,623	211,223	22.0
Exports	9,121	5,328	71.2	8,244	10.6	17,365	8,619	101.5
Mopeds	196,337	181,636	8.1	192,133	2.2	388,470	341,833	13.6
Domestic	192,859	180,294	7.0	190,672	1.1	383,531	337,882	13.5
Exports	3,478	1,342	159.2	1,461	138.1	4,939	3,951	25.0
Three Wheelers	11,662	9,956	17.1	11,424	2.1	23,086	17,755	30.0
Domestic	3,629	6,411	(43.4)	2,585	40.4	6,214	12,333	(49.6)
Exports	8,033	3,545	126.6	8,839	(9.1)	16,872	5,422	211.2

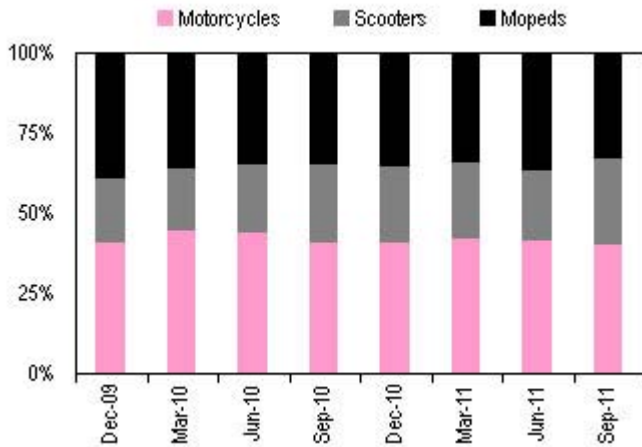
Per Vehicle

(Rs)	Sep-11	Sep-10	YoY (%)	Jun-11	QoQ (%)	H1FY12	H1FY11	YoY (%)
Realisations	32,965	30,788	7.1	32,567	1.2	32,778	30,433	7.7
Material cost	24,380	22,318	9.2	24,330	0.2	24,357	22,102	10.2
Staff cost	1,552	1,614	(3.8)	1,696	(8.4)	1,620	1,594	1.6
Other expenses	4,744	4,809	(1.4)	4,357	8.9	4,562	4,742	(3.8)
EBIDTA	2,334	2,087	11.8	2,232	4.6	2,286	2,031	12.5

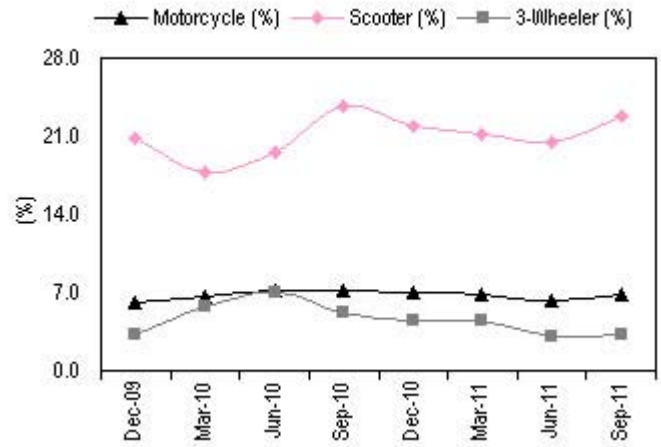
(%) of Sales

(%)	Sep-11	Sep-10	YoY (bps)	Jun-11	QoQ (bps)	H1FY12	H1FY11	YoY (bps)
Material cost	74.0	72.5	150	74.7	(80)	74.3	72.6	170
Staff cost	4.7	5.2	(50)	5.2	(50)	4.9	5.2	(30)
Other expenses	14.4	15.6	(120)	13.4	100	13.9	15.6	(170)
EBIDTA margins	6.9	6.7	30	6.7	20	6.8	6.6	30

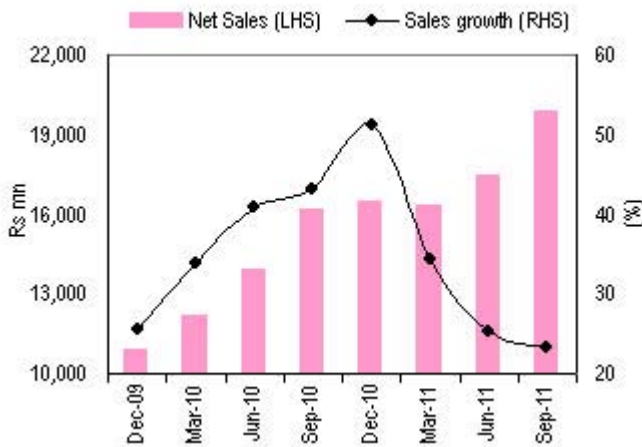
Product Mix



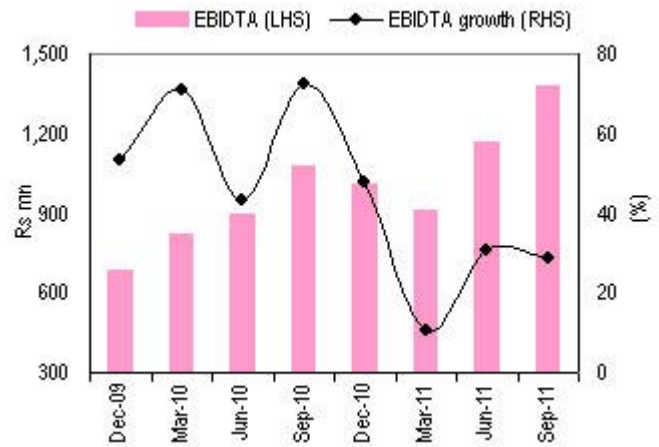
Domestic Marketshare



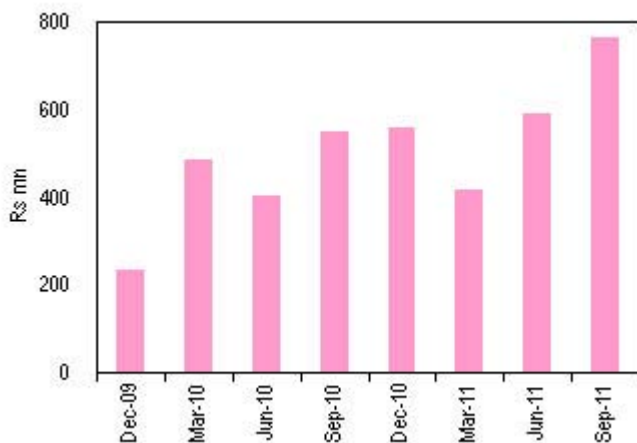
Net Sales



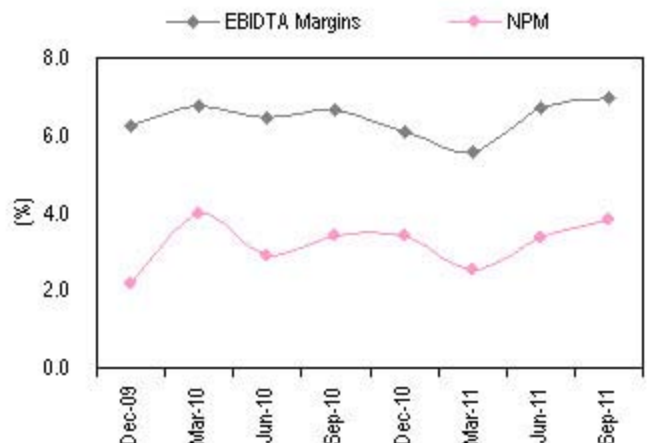
EBIDTA



Net Profits



Profitability Trend



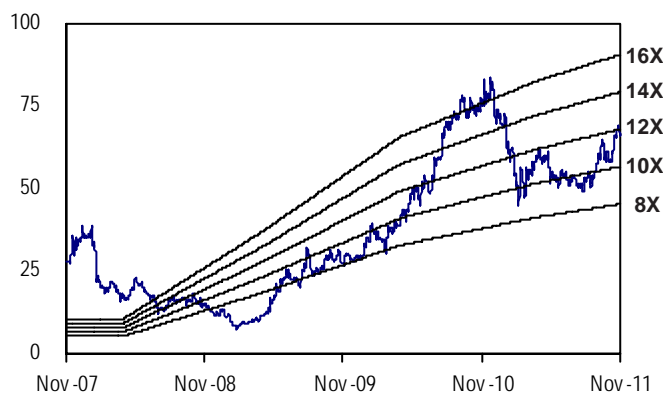
Income Statement	FY09	FY10	FY11	FY12E	FY13E
Net Sales	36,709	43,631	61,795	73,450	83,488
Growth (%)	14.0	18.9	41.6	18.9	13.7
Operating profit	1,211	2,094	3,010	3,473	4,021
Other operating income	665	670	1,096	1,479	1,553
EBITDA	1,875	2,764	4,106	4,953	5,574
Growth (%)	97.9	47.4	48.6	20.6	12.5
Depreciation	(1,033)	(1,044)	(1,126)	(1,157)	(1,225)
Other income	115	145	204	140	210
EBIT	957	1,865	3,184	3,936	4,559
Interest paid	(646)	(754)	(703)	(660)	(760)
PBT (before E/o items)	311	1,111	2,481	3,276	3,799
Tax provision	(0)	(19)	(535)	(819)	(950)
E/o Income / (loss)	-	(212)	-	-	-
Net profit	311	880	1,946	2,457	2,850
Adjusted net profit	311	1,092	1,946	2,457	2,850
Growth (%)	(2.2)	251.3	78.2	26.3	16.0
Diluted EPS (Rs)	0.7	2.3	4.1	5.2	6.0
Diluted EPS Growth (%)	(2.2)	251.3	78.2	26.3	16.0

Cash Flow Statement	FY09	FY10	FY11	FY12E	FY13E
Pre-tax profit	311	899	2,481	3,276	3,799
Depreciation	949	840	813	1,157	1,225
Total tax paid	30	(220)	(848)	(726)	(989)
Chg in working capital	(412)	982	(953)	(1,769)	(489)
Other operating activities	-	-	-	-	-
Cash flow from oper. (a)	878	2,502	1,493	1,938	3,546
Capital expenditure	(883)	(304)	(934)	(576)	(1,050)
Chg in investments	(1,414)	(460)	(1,909)	(1,743)	(750)
Other investing activities	-	-	-	-	-
Cash flow from inv. (b)	(2,296)	(764)	(2,844)	(2,319)	(1,800)
Free cash flow (a+b)	(1,419)	1,737	(1,351)	(381)	1,746
Equity raised/(repaid)	-	-	0	-	-
Debt raised/(repaid)	2,396	973	(2,179)	1,946	-
Chg in Minorities int.	-	-	-	-	-
Dividend (incl. tax)	(195)	(389)	(411)	(745)	(834)
Other financing activities	(426)	424	300	-	-
Cash flow from fin. (c)	1,776	1,007	(2,290)	1,201	(834)
Net chg in cash (a+b+c)	357	2,745	(3,640)	820	912

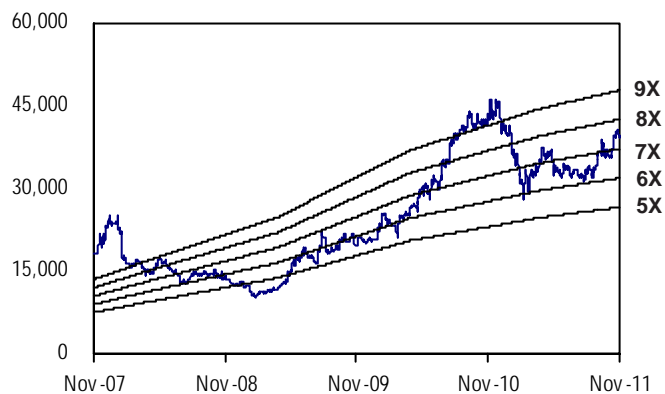
Balance Sheet	FY09	FY10	FY11	FY12E	FY13E
Equity capital	238	238	475	475	475
Reserves & surplus	7,864	8,416	9,519	11,142	13,158
Shareholders' funds	7,378	8,353	9,994	11,617	13,633
Preference Share Capital	-	-	-	-	-
Total Debt	9,060	10,033	7,854	9,800	9,800
Capital Employed	16,438	18,386	17,848	21,417	23,433
Net fixed assets	10,364	9,828	9,950	9,369	9,194
Cash & Cash Eq.	1,257	4,002	361	1,182	2,094
Net other Current Assets	2,358	1,301	2,184	3,733	4,222
Investments	3,941	4,401	6,310	8,053	8,803
Net Deferred Tax Assets	(1,481)	(1,146)	(957)	(920)	(881)
Total assets	16,438	18,386	17,848	21,417	23,433

Key Ratios	FY09	FY10	FY11	FY12E	FY13E
EBITDA margin (%)	5.0	6.2	6.5	6.6	6.6
Net margin (%)	0.8	2.5	3.1	3.3	3.4
Dividend yield (%)	0.5	0.9	1.7	2.3	2.3
Net debt/Equity (x)	1.1	0.7	0.7	0.7	0.6
Net Working Capital (days)	(7)	(16)	(8)	(0)	(0)
Asset turnover (x)	1.6	1.7	2.2	2.3	2.3
ROCE (%)	5.4	9.6	16.1	18.5	19.0
RoE (%)	4.1	13.9	21.2	22.7	22.6
EV/Net sales (x)	1.1	0.9	0.6	0.5	0.5
EV/EBITDA (x)	21.0	13.6	9.5	8.1	7.0
PER (x)	101.3	28.8	16.2	12.8	11.1
Price/Book (x)	4.3	3.8	3.2	2.7	2.3

P/E Band



EV/EBITDA



T E A M

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