

# Raise PO; Buy

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## Standalone results exceed expectations

Standalone Q4 result was ahead of expectations, leading to revision in EPS forecasts by 5.7%/3.7% over FY11-12E, and PO by 8%. Sales grew 34% to Rs 12.2bn due to improved sales mix leading to better realizations (up 4%). EBITDA grew 63% to Rs 788mn, 10% ahead of estimates, and recurring profit at Rs 585mn was significantly better than expectations of Rs 308mn.

## Profit suppressed by one-offs

Extraordinary items include (1) loss of Rs.890mn on sale of investments in finance arm TVS Finance, accelerated amortization on tools/dies of Rs 118mn, and staff VRS of around Rs 70mn, and (2) profit of Rs 546mn on sale of land. Reported profit was suppressed by impact of one-offs, despite better cash flows.

## Margin outlook is positive

Q4 EBITDA margins rose 120bps YoY and 20bps QoQ to 6.5%, reflected in FY10 margins expanding 130bps to 6.3%. Adjusted for non-recurring exp, margins at 7.8%/6.8% for Q4/FY10 compared to estimate of 6.5% and 6.1% respectively. We expect improvement to sustain with cum increase of 150bps over next 2 years, driven by (1) operating leverage as estimated earlier, (2) improved mix to new, more profitable products, and (2) lower product amortization charge.

## Strong top line is the key

Domestic sales grew 31% YoY and 10% QoQ, leading to recovery in market share, and FY10 sales grew 15%. We estimate sale of 1.9mn units in FY11 (up 26%) and 2.2mn units in FY12 (up 12%), due to (1) ramp up of distinct launches in bike/scooters, with minimal impact of cannibalization, (2) offerings in three wheelers, also exceeding expectations (3% share in FY10), and (3) sharp reversal in export trends, due to foray in Africa and other new markets.

## Estimates (Mar)

(Rs)	2008A	2009A	2010E	2011E	2012E
Net Income (Adjusted - mn)	(282)	(632)	366	1,730	2,642
EPS	(1.19)	(2.66)	1.54	7.28	11.12
EPS Change (YoY)	NM	-123.7%	NM	373.3%	52.7%
Dividend / Share	0.700	0.600	1.00	1.50	2.00
Free Cash Flow / Share	(3.94)	(2.93)	7.67	13.49	8.77

## Valuation (Mar)

	2008A	2009A	2010E	2011E	2012E
P/E	NM	NM	58.76x	12.42x	8.13x
Dividend Yield	0.774%	0.663%	1.11%	1.66%	2.21%
EV / EBITDA*	NM	47.65x	12.01x	5.94x	4.63x
Free Cash Flow Yield*	-4.35%	-3.24%	8.48%	14.91%	9.70%

\* For full definitions of *iQmethod*<sup>SM</sup> measures, see page 5.

## Stock Data

Price	Rs90.45
Price Objective	Rs108.00
Date Established	26-Apr-2010
Investment Opinion	C-1-7
Volatility Risk	HIGH
52-Week Range	Rs29.00-Rs91.70
Mrkt Val / Shares Out (mn)	US\$483 / 237.5
Average Daily Volume	1,551,609
BofAML Ticker / Exchange	XFKMF / BSE
Bloomberg / Reuters	TVSL IN / TVSM.BO
ROE (2010E)	5.9%
Net Dbt to Eqty (Mar-2009A)	164.4%
Est. 5-Yr EPS / DPS Growth	75.0% / 20.0%
Free Float	41.0%

## Key Changes

(Rs)	Previous	Current
Price Obj.	100.00	108.00
2010E Rev (m)	43,358.7	44,421.0
2011E Rev (m)	57,100.6	58,475.6
2012E Rev (m)	65,102.3	66,653.2
2010E EPS	-1.15	1.54
2011E EPS	6.77	7.28
2012E EPS	10.71	11.12
2010E EBITDA (m)	1,903.2	2,057.4
2011E EBITDA (m)	3,936.1	4,161.5
2012E EBITDA (m)	5,126.3	5,344.5

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Refer to important disclosures on page 6 to 8. Analyst Certification on Page 4. Price Objective Basis/Risk on page 4. Link to Definitions on page 4. 10931654

26 April 2010

**iQprofile<sup>SM</sup> TVS Motor**

Key Income Statement Data (Mar)	2008A	2009A	2010E	2011E	2012E
<b>(Rs Millions)</b>					
Sales	32,706	37,467	44,421	58,476	66,653
Gross Profit	5,522	6,162	9,937	12,831	15,178
Sell General & Admin Expense	(5,563)	(5,643)	(7,879)	(8,670)	(9,833)
Operating Profit	(1,130)	(813)	735	2,763	3,839
Net Interest & Other Income	831	(99)	(473)	(339)	(157)
Associates	0	0	0	0	0
Pretax Income	(299)	(912)	262	2,424	3,682
Tax (expense) / Benefit	227	270	104	(694)	(1,041)
Net Income (Adjusted)	(282)	(632)	366	1,730	2,642
Average Fully Diluted Shares Outstanding	238	238	238	238	238

**Key Cash Flow Statement Data**

Net Income	(282)	(632)	366	1,730	2,642
Depreciation & Amortization	1,089	1,332	1,323	1,398	1,506
Change in Working Capital	(952)	(315)	(354)	728	141
Deferred Taxation Charge	(41)	0	(16)	104	156
Other Adjustments, Net	181	116	896	742	(860)
Cash Flow from Operations	(5)	501	2,215	4,703	3,584
Capital Expenditure	(930)	(1,196)	(393)	(1,500)	(1,500)
(Acquisition) / Disposal of Investments	(251)	1,388	0	0	0
Other Cash Inflow / (Outflow)	0	0	0	0	0
Cash Flow from Investing	(1,181)	191	(393)	(1,500)	(1,500)
Shares Issue / (Repurchase)	0	0	0	0	0
Cost of Dividends Paid	(193)	(160)	(267)	(401)	(534)
Cash Flow from Financing	934	2,963	(729)	(2,229)	(3,117)
Free Cash Flow	(936)	(695)	1,823	3,203	2,084
Net Debt	7,929	10,526	8,424	5,622	4,072
Change in Net Debt	1,421	(532)	(1,540)	(2,906)	(1,706)

**Key Balance Sheet Data**

Property, Plant & Equipment	12,728	12,467	11,544	11,646	11,640
Other Non-Current Assets	2,324	3,311	2,414	2,414	2,414
Trade Receivables	879	1,816	2,182	2,705	3,073
Cash & Equivalents	147	674	2,330	3,199	2,010
Other Current Assets	6,780	6,854	8,147	9,541	10,740
Total Assets	22,857	25,122	26,616	29,504	29,876
Long-Term Debt	8,076	11,200	10,754	8,821	6,082
Other Non-Current Liabilities	1,218	879	1,496	1,600	1,756
Short-Term Debt	0	0	0	0	0
Other Current Liabilities	6,044	6,641	8,211	11,598	12,446
Total Liabilities	15,338	18,720	20,460	22,019	20,284
Total Equity	7,519	6,402	6,038	7,368	9,475
Total Equity & Liabilities	22,857	25,122	26,498	29,387	29,759

**iQmethod<sup>SM</sup> - Bus Performance\***

Return On Capital Employed	-2.3%	-3.2%	3.8%	11.1%	15.8%
Return On Equity	-3.6%	-9.1%	5.9%	25.8%	31.4%
Operating Margin	-3.5%	-2.2%	1.7%	4.7%	5.8%
EBITDA Margin	-0.1%	1.4%	4.6%	7.1%	8.0%

**iQmethod<sup>SM</sup> - Quality of Earnings\***

Cash Realization Ratio	NM	NM	6.1x	2.7x	1.4x
Asset Replacement Ratio	0.9x	0.9x	0.3x	1.1x	1.0x
Tax Rate (Reported)	75.9%	29.6%	NM	28.6%	28.3%
Net Debt-to-Equity Ratio	105.5%	164.4%	139.5%	76.3%	43.0%
Interest Cover	-7.5x	-1.1x	0.8x	2.9x	5.3x

**Key Metrics**

 \* For full definitions of iQmethod<sup>SM</sup> measures, see page 5.

**Company Description**

TVS Motor Company is a sizeable player in the two wheeler industry, with manufacturing facilities mainly in South India. The company leads in the mopeds segment, and ranks 2nd and 3rd respectively in scooters and bikes. The company also has a manufacturing unit in Indonesia to cater to the local market.

**Investment Thesis**

We rate TVS Motor Buy, mainly on a sharp turnaround in operations driven by: (1) sales growth following new product launches and (2) expansion in margins on improved sales and better mix.

Attractive valuations adequately build in operational and financial risks from Indonesian subsidiary.

**Stock Data**

Price to Book Value 3.6x

Table 1: Q4 Results summary

(Rs mn)	4QFY10	4QFY09	3QFY10	YoY	QoQ
<b>Net Sales</b>	<b>12,159.9</b>	<b>9,093.4</b>	<b>10,894.5</b>	<b>33.7%</b>	<b>11.6%</b>
Other Income	44.3	25.9	5.5	71.1%	704.0%
<b>Total Income</b>	<b>12,204.2</b>	<b>9,119.3</b>	<b>10,900.0</b>	<b>33.8%</b>	<b>12.0%</b>
(increase) decrease in stock	69.2	64.3	-0.5	7.6%	13271.4%
Consumption of raw material	8,277.6	6,556.1	7,678.6	26.3%	7.8%
Staff Cost	773.4	426.8	627.2	81.2%	23.3%
Other Expenditure	2,251.5	1,563.7	1,907.4	44.0%	18.0%
Expenditure	11,371.6	8,610.9	10,212.6	32.1%	11.3%
<b>Operating Profit</b>	<b>788.3</b>	<b>482.5</b>	<b>681.9</b>	<b>63.4%</b>	<b>15.6%</b>
Interest income (exp)	-122.9	-138.7	-180.3	-11.4%	-31.9%
Depreciation (Provision)	-262.7	-265.5	-253.0	-1.1%	3.8%
<b>Profit before Tax &amp; Extra Ord.</b>	<b>447.0</b>	<b>104.1</b>	<b>254.0</b>	<b>329.4%</b>	<b>76.0%</b>
Extraordinary Items (Exp)	-381.9	-32.7	0.0	1067.0%	NM
Profit before Tax	65.1	71.4	254.0	-8.8%	-74.4%
Tax (Provision)	137.8	74.8	-18.7	84.1%	836.9%
Profit after Tax	202.9	146.2	235.3	38.8%	-13.8%
<b>Net Profit</b>	<b>584.8</b>	<b>178.9</b>	<b>235.3</b>	<b>226.8%</b>	<b>148.5%</b>
<b>OPM</b>	<b>6.5%</b>	<b>5.3%</b>	<b>6.3%</b>	<b>118bps</b>	<b>22bps</b>
RM/Sales	68.6%	72.8%	70.5%	-416bps	-184bps
Staff Cost/Sales	6.4%	4.7%	5.8%	167bps	60bps
Other Expenses/Sales	18.5%	17.2%	17.5%	132bps	101bps
Tax	-211.6%	-104.9%	7.4%	-10671bps	-21892bps
<b>Volume (nos)</b>					
Motorcycle	182,212	149,403	151,127	22.0%	20.6%
Mopeds	149,616	114,734	145,487	30.4%	2.8%
Scooters	81,030	60,339	74,960	34.3%	8.1%
Three wheelers	6,387	1,666	3,225	283.4%	98.0%
<b>Sales Volume (nos)</b>	<b>419,245</b>	<b>326,142</b>	<b>374,799</b>	<b>28.5%</b>	<b>11.9%</b>
Avg Realisation (Rs)	29,004	27,882	29,068	4.0%	-0.2%

Source: BofA Merrill Lynch Global Research

Table 2: Standalone summary forecasts

(Rs. mn)	FY10	FY11E	FY12E
Net Sales	44240	58069	65982
EBITDA	2799	4446	5177
PAT	865	2260	2743
EPS (Rs.)	3.6	9.5	11.6

Source: BofA Merrill Lynch Global Research

Table 3: Subsidiary summary forecasts

(Rs. mn)	FY10E	FY11E	FY12E
Net Sales	181	407	672
EBITDA	-742	-285	168
PAT	-961	-530	-102

Source: BofA Merrill Lynch Global Research

## Price objective basis & risk

### TVS Motor (XFKMF)

Our revised PO of Rs108 is based on around 15x FY11E EPS, in line with peers. On a EV/EBITDA basis, the stock would trade at 7.5x FY11E. Risks: Weak execution capability of new launches, which would adversely impact sales, rising costs and continuing losses in Indonesian subsidiary.

## Link to Definitions

### Industrials

Click [here](#) for definitions of commonly used terms.

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### India - Autos Coverage Cluster

Investment rating	Company	BofAML ticker	Bloomberg symbol	Analyst
<b>BUY</b>				
	Apollo Tyres Ltd	XAPYF	APTY IN	S.Arun
	Eicher Motors	XEICF	EIM IN	S.Arun
	Maruti Suzuki India	MUDGF	MSIL IN	S.Arun
	Tata Motors Ltd.	TTM	TTM US	S.Arun
	Tata Motors Ltd.	TENJF	TTMT IN	S.Arun
	TVS Motor	XFKMF	TVSL IN	S.Arun
<b>NEUTRAL</b>				
	Bajaj Auto	XBJBF	BJAUT IN	S.Arun
	Hero Honda	HRHDF	HH IN	S.Arun

26 April 2010

**India - Autos Coverage Cluster**

Investment rating	Company	BofAML ticker	Bloomberg symbol	Analyst
<b>UNDERPERFORM</b>				
	Ashok Leyland	XDBVF	AL IN	S.Arun
	M & M	MAHHF	MM IN	S.Arun
	M & M -G	MAHMF	MHID LI	S.Arun
<b>RVW</b>				
	Bharat Forge	XUUVF	BHFC IN	S.Arun

**iQmethod<sup>SM</sup> Measures Definitions**

Business Performance	Numerator	Denominator
Return On Capital Employed	NOPAT = (EBIT + Interest Income) * (1 - Tax Rate) + Goodwill Amortization	Total Assets – Current Liabilities + ST Debt + Accumulated Goodwill Amortization
Return On Equity	Net Income	Shareholders' Equity
Operating Margin	Operating Profit	Sales
Earnings Growth	Expected 5-Year CAGR From Latest Actual	N/A
Free Cash Flow	Cash Flow From Operations – Total Capex	N/A
<b>Quality of Earnings</b>		
Cash Realization Ratio	Cash Flow From Operations	Net Income
Asset Replacement Ratio	Capex	Depreciation
Tax Rate	Tax Charge	Pre-Tax Income
Net Debt-To-Equity Ratio	Net Debt = Total Debt, Less Cash & Equivalents	Total Equity
Interest Cover	EBIT	Interest Expense
<b>Valuation Toolkit</b>		
Price / Earnings Ratio	Current Share Price	Diluted Earnings Per Share (Basis As Specified)
Price / Book Value	Current Share Price	Shareholders' Equity / Current Basic Shares
Dividend Yield	Annualised Declared Cash Dividend	Current Share Price
Free Cash Flow Yield	Cash Flow From Operations – Total Capex	Market Cap. = Current Share Price * Current Basic Shares
Enterprise Value / Sales	EV = Current Share Price * Current Shares + Minority Equity + Net Debt + Other LT Liabilities	Sales
EV / EBITDA	Enterprise Value	Basic EBIT + Depreciation + Amortization

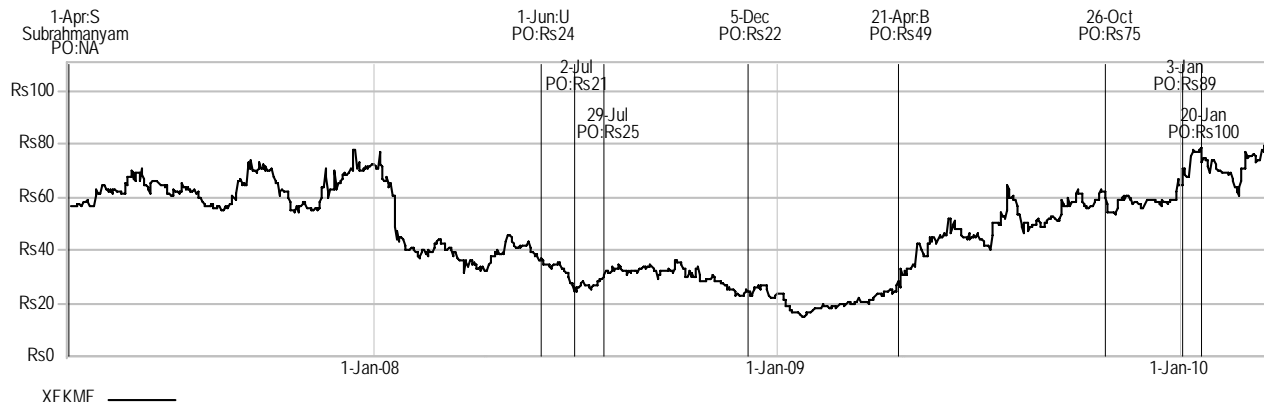
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### XFKMF Price Chart



B : Buy, N : Neutral, S : Sell, U : Underperform, PO : Price objective, NA : No longer valid

\*Prior to May 31, 2008, the investment opinion system included Buy, Neutral and Sell. As of May 31, 2008, the investment opinion system includes Buy, Neutral and Underperform. Dark Grey shading indicates that a security is restricted with the opinion suspended. Light grey shading indicates that a security is under review with the opinion withdrawn. The current investment opinion key is contained at the end of the report. Chart is current as of March 31, 2010 or such later date as indicated.

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Coverage Universe	Count	Percent	Inv. Banking Relationships*	Count	Percent
Buy	43	55.84%	Buy	23	65.71%
Neutral	18	23.38%	Neutral	10	62.50%
Sell	16	20.78%	Sell	10	83.33%

### Investment Rating Distribution: Global Group (as of 01 Apr 2010)

Coverage Universe	Count	Percent	Inv. Banking Relationships*	Count	Percent
Buy	1818	52.41%	Buy	952	58.01%
Neutral	873	25.17%	Neutral	490	61.95%
Sell	778	22.43%	Sell	355	49.72%

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Investment rating	Total return expectation (within 12-month period of date of initial rating)	Ratings dispersion guidelines for coverage cluster*
Buy	≥ 10%	≤ 70%
Neutral	≥ 0%	≤ 30%
Underperform	N/A	≥ 20%

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