

TVS Motor

STOCK INFO.	BLOOMBERG
BSE Sensex: 10,151	TVSS IN
	REUTERS CODE
S&P CNX: 2,982	TVSS.BO

27 June 2006

Neutral

Previous Recommendation: Neutral

Rs96

Equity Shares (m)	237.5
52-Week Range	187/71
1,6,12 Rel. Perf. (%)	-20/-15/-16
M.Cap. (Rs b)	22.8
M.Cap. (US\$ b)	0.5

YEAR	NET SALES	PAT	EPS	EPS	P/E	P/BV	ROE	ROCE	EV/	EV/
END	(RS M)	(RS M)	(RS)	GROWTH (%)	(X)	(X)	(%)	(%)	SALES	EBITDA
3/06A	32,349	1,161	4.9	-15.6	19.6	3.0	15.3	16.1	0.7	11.3
3/07E	37,988	1,517	6.4	30.7	15.0	2.7	17.7	18.8	0.6	9.0
3/08E	42,588	1,785	7.5	17.7	12.8	2.4	18.5	19.7	0.5	7.6

TVS Motor's 4QFY06 numbers were below our estimates. Sales grew 16.8%, EBITDA grew 37.8% and PAT was up by 165% (after adjusting for the one-time gain of Rs369m resulting from prepayment of deferred sales tax liability in 4QFY05). Sales of Rs8.4b were driven by 18% volume growth. EBITDA margins expanded 80bp YoY but declined 130bp QoQ to 5.7%. Led by the EBITDA growth, adjusted PAT was Rs291m.

For the full year FY06, the company recorded total sales of Rs32.3b, a growth of 12.5%. This was led by 15% volume growth to 1.3m units. EBITDA margins stood at 6.3%, a 110bp decline, largely due to the shift in product mix towards lower realization products, higher input costs and higher expenses related to new product launches.

TVS Motor's sales lagged the last two years' performance due to poor showing in the motorcycle segment. The company is now consolidating its position across the motorcycle segment and is putting in place a strong product portfolio, which is likely to drive growth going forward. However, we believe operating performance remains an area of concern.

We expect TVS Motor to report an EPS of Rs6.4 in FY07 and Rs7.5 in FY08. The stock trades at 15x FY07E EPS and 12.8x FY08E EPS. We maintain **Neutral**.

QUARTERLY PERFORMANCE

Y/E MARCH	FY05				FY06				FY05	FY06
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q		
Total Volumes (nos)	253,872	294,561	322,412	296,705	307,425	325,530	358,559	350,689	1,167,242	1,342,203
Net Sales	6,111	7,429	8,037	7,183	7,351	7,892	8,714	8,393	28,759	32,349
Change (%)	-7.8	-2.8	19.6	-0.4	20.3	6.2	8.4	16.8	2.0	12.5
Total Cost	5,548	6,755	7,508	6,833	6,854	7,433	8,107	7,911	26,643	30,313
EBITDA	563	674	529	350	497	459	607	482	2,116	2,036
As % of Sales	9.2	9.1	6.6	4.9	6.8	5.8	7.0	5.7	7.4	6.3
Change (%)	-5.6	-1.4	6.5	-57.3	-11.7	-31.9	14.7	37.8	-18.4	-3.8
Other Income	70	87	115	521	115	261	120	214	793	710
Interest	1	8	-1	0	24	27	35	46	8	131
Depreciation	212	223	223	239	227	231	242	240	896	939
PBT	420	530	422	632	361	463	450	410	2,005	1,675
Tax	148	188	140	153	112	144	140	120	629	515
Effective Tax Rate (%)	35.3	35.4	35.0	24.2	31.0	31.0	31.0	29.1	31.4	30.7
PAT	272	342	282	479	249	320	311	291	1,375	1,161
Adj.PAT	272	342	282	110	249	320	311	291	1,375	1,161
Change (%)	-15.3	-7.4	2.5	-73.8	-8.4	-6.7	10.1	164.5	-27.3	-15.6

E: Most Estimates

Volumes boost 4QFY06 net revenues

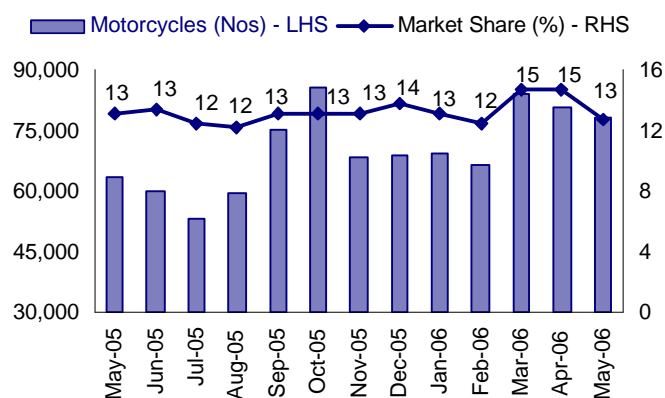
TVS Motor net revenues for 4QFY06 grew 16.8% YoY to Rs8.4b on the back of 18% volume growth. Motorcycles, scooters and mopeds registered 24.1%, 5.5% and 12.2% growth, respectively. Net realizations declined 1.4% YoY owing to a shift in product mix in favor of lower-end products - entry-level bikes such as *TVS Star* and mopeds.

VOLUME BREAK-UP

	4QFY06	4QFY05	% GR.	FY06	FY05	% GR.
Motorcycle	219,565	176,921	24.1	806,654	679,099	18.8
Mopeds	79,705	71,025	12.2	290,273	263,390	10.2
Scooters	51,419	48,759	5.5	245,276	224,527	9.2
Total	350,689	296,705	18.2	1,342,203	1,167,016	15.0

Source: Company/ Motilal Oswal Securities

MARKET SHARE IN MOTORCYCLES FLATTISH

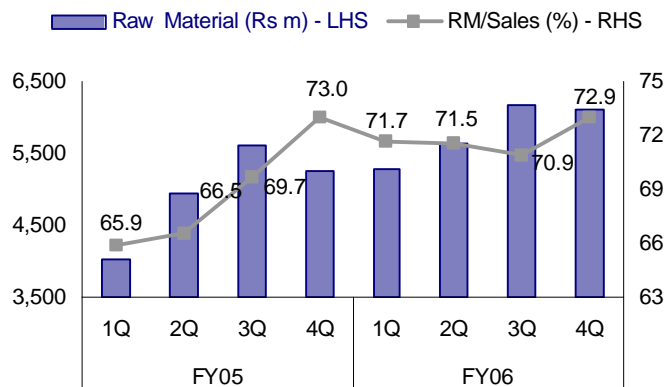


Source: Company/ Motilal Oswal Securities

EBITDA margins expand 80bp YoY

For the quarter, EBITDA margins stood at 5.7%-up 80bp YoY but down 130bp QoQ. The YoY improvement in EBITDA margins was mainly on account of lower other expenditure (down 110bp) and raw material expenses (72.9% versus 73% in 4QFY05) as a percentage of sales. EBITDA at Rs482m, improved by 38% YoY.

RAW MATERIAL COSTS: QUARTERLY TREND

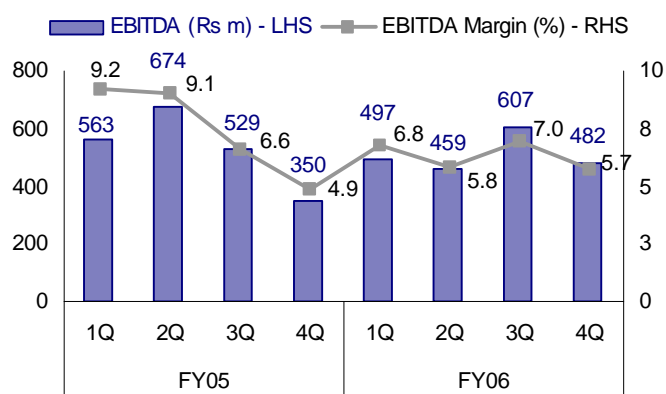


Source: Company/ Motilal Oswal Securities

However, on a QoQ basis, EBITDA margins declined on account of poor product mix (higher share of entry level products in overall volumes), higher input costs (72.9% v/s 70.9% in 3QFY06) and higher expenses related to new product launches in the quarter.

Consequent to the recent launches coupled with cost reduction programs; we expect strong volume growth in FY07.

EBITDA MARGIN HIT BY NEW LAUNCHES IN 4QFY06



Source: Company/ Motilal Oswal Securities

Adjusted PAT grows 165% YoY

PAT grew by 165% to Rs291m after adjusting for the one-time gain of Rs369m resulting from prepayment of the deferred sales tax liability in 4QFY05.

Export momentum should continue

Total export volume registered a robust growth of 63% YoY, with motorcycle volumes increasing 39% YoY to 54,078 units. Exports contributed around 6% to the company's overall volumes in FY06 compared with 4% in FY05. We expect export growth to continue its momentum to FY07. The company is setting up a plant in Indonesia (capacity, 300,000 units) at an investment of US\$70m and may enter Columbia through the JV route. These initiatives should help TVS Motor build strong exports ahead.

EXPORT GROWTH HAS BEEN ROBUST

	FY06	FY05	%GR.
Scooters	11,309	5,398	110
Motorcycles	54,078	38,828	39
Mopeds	14,346	4,834	197
Total	79,733	49,060	63

Source: Company/ Motilal Oswal Securities

Valuation and view

TVS Motor's sales have lagged those of the last two years, owing to weak performance of its motorcycle segment. The company is endeavoring to put in place a strong product portfolio that is likely to drive growth going forward. In keeping with this strategy, the company has announced substantial capex of Rs4.1b for three greenfield units, which will help TVS enter new geographies and product segments.

However, we believe, pressure on margins will remain a concern as TVS' sales mix is geared in favor of the economy segment and motorcycles. Additionally, any change in its product portfolio and consolidation could lead to higher marketing expenses in the present competitive scenario.

We expect TVS Motor to report EPS of Rs6.4 for FY07 and Rs7.5 for FY08. The stock trades at 15x FY07E EPS and 12.8x FY08E EPS. We maintain **Neutral**.

TVS Motor: an investment profile

Company description

TVS Motor is the two-wheeler manufacturing company of the Sundaram Group. Predominantly present in the ungeared scooter and motorcycle segments, TVS will also be entering the three-wheeler segment in the next 12 months.

Key investment arguments

- ✍ Probable success of the much awaited three-wheeler.
- ✍ The 100cc 'Star' and newly launched 'Apache' have been faring extremely well, enabling TVS to grow its volumes in the motorcycle segment.

Key investment risks

- ✍ Increasing competition in the executive segment from Bajaj Auto and Hero Honda.
- ✍ Strong sales of the low margin, 'Star' will lead to increased pressure on margins, impacting profitability.

Recent developments

- ✍ Competition has launched several new products in the past three months - Bajaj Auto's 'Discover 110cc', and Hero Honda's 'Glamor 125cc' and 'Achiever 150cc'.

Valuation and view

- ✍ The stock trades at 15x FY07E and 12.8x FY08E EPS. We maintain **Neutral**.

Sector view

- ✍ Numerous motorcycle launches will lead to an increase in the competitive scenario.
- ✍ Domestic two-wheeler demand will continue to surpass estimates on the back of rural pull.
- ✍ Despite number of players, market share remains concentrated amongst the top two.
- ✍ We maintain an overweight stance on the sector.

COMPARATIVE VALUATIONS

		TVS	HERO HONDA	BAJAJ AUTO
P/E (x)	FY07E	15.0	13.4	18.2
	FY08E	12.8	11.1	14.8
EPS Gr (%)	FY07E	30.7	15.6	28.2
	FY08E	17.7	13.5	22.9
RoE (%)	FY07E	17.7	41.7	24.8
	FY08E	18.5	37.4	25.2
EV/EBITDA (x)	FY07E	9.0	7.8	12.7
	FY08E	7.6	6.5	9.8

SHAREHOLDING PATTERN (%)

	MAR.06	DEC.05	MAR.05
Promoters	56.8	56.8	57.5
Domestic Institutions	19.6	19.2	10.9
FII's/FDIs	9.2	11.3	12.1
Others	14.4	12.7	19.5

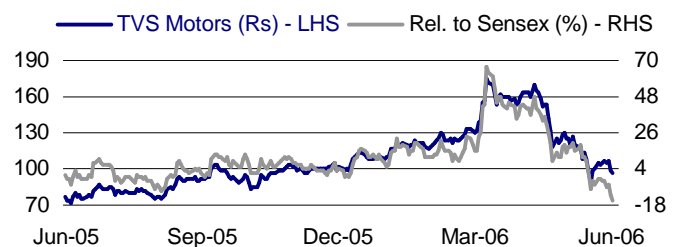
EPS: MOST FORECAST VS CONSENSUS (RS)

	MOST FORECAST	CONSENSUS FORECAST	VARIATION (%)
FY07	6.4	7.3	-11.7
FY08	7.5	8.6	-12.4

TARGET PRICE AND RECOMMENDATION

CURRENT PRICE (RS)	TARGET PRICE (RS)	UPSIDE (%)	RECO.
96	110	14.6	Neutral

STOCK PERFORMANCE (1 YEAR)



INCOME STATEMENT					
(Rs Million)					
Y/E MARCH	2004	2005	2006E	2007E	2008E
Net Sales	28,202	28,759	32,349	37,988	42,588
Change (%)	4.3	2.0	2.5	17.4	12.1
Total Expenditure	25,608	26,643	30,313	35,432	39,658
Raw Material	18,552	19,814	23,211	27,238	30,535
Employee Cost	1,338	1,407	1,569	1,823	2,023
Other Mfg. Expenses	2,351	1,939	1,643	1,861	2,087
Selling & Distribution	3,368	3,475	3,882	4,502	5,004
EBITDA	2,594	2,116	2,036	2,556	2,930
Change (%)	-14	-18.4	-3.8	25.6	14.6
% of Net Sales	9.2	7.4	6.3	6.7	6.9
Depreciation	799	896	939	1,030	1,131
Interest & Fin. Ch.	12	8	131	139	106
Other Income	362	793	710	765	820
PBT	2,145	2,005	1,675	2,151	2,514
Tax	760	629	515	635	729
Effective Rate (%)	35.4	31.4	30.7	29.5	29.0
PAT	1,385	1,376	1,161	1,517	1,785
Change (%)	8.2	-0.7	-5.6	30.7	17.7

BALANCE SHEET					
(Rs Million)					
Y/E MARCH	2004	2005	2006E	2007E	2008E
Share Capital	238	238	238	238	238
Reserves	5,512	6,551	7,370	8,356	9,427
Net Worth	5,750	6,788	7,607	8,593	9,664
Deferred Tax	1,231	1,485	1,485	1,485	1,485
Loans	1,190	1,868	2,118	2,118	2,118
Capital Employed	8,170	10,142	11,211	12,197	13,268
Gross Fixed Assets	11,326	12,872	14,027	15,478	16,908
Less: Depreciation	4,379	5,236	6,176	7,206	8,336
Net Fixed Assets	6,947	7,636	7,852	8,273	8,571
Capital WIP	95	69	0	0	0
Investments	1,280	1,754	1,754	1,754	1,754
Curr.Assets, L & Adv.	4,360	5,067	6,198	7,509	9,078
Inventory	2,167	2,332	2,659	3,330	3,967
Sundry Debtors	519	346	1,773	2,290	2,567
Cash & Bank Balances	180	739	120	242	897
Loans & Advances	1,493	1,647	1,647	1,647	1,647
Current Liab.&Prov.	4,641	5,078	5,288	6,034	6,831
Sundry Creditors	4,210	4,522	4,874	5,620	6,417
Provisions	431	556	414	414	414
Net Current Assets	-281	-12	910	1,475	2,248
Application of Funds	8,170	10,142	11,211	12,197	13,268

E: MOSTimates

RATIOS					
Y/E MARCH	2004	2005	2006E	2007E	2008E
Basic (Rs)					
EPS	5.8	5.8	4.9	6.4	7.5
Cash EPS	9.2	9.6	8.8	10.7	12.3
Book Value per Share	24.2	28.6	32.0	36.2	40.7
DPS	13	13	15	2.2	3.0
Payout (Incl. Div. Tax) %	22.7	22.5	30.2	35.0	40.0
Valuation (x)					
P/E		16.6	19.6	15.0	12.8
Cash P/E		10.0	10.9	8.9	7.8
EV/EBITDA		10.5	11.3	9.0	7.6
EV/Sales		0.8	0.7	0.6	0.5
Price to Book Value		3.4	3.0	2.7	2.4
Dividend Yield (%)		14	15	2.3	3.1
Profitability Ratios (%)					
RoE	24.1	20.3	15.3	17.7	18.5
RoCE	26.4	19.8	16.1	18.8	19.7
Turnover Ratios					
Debtors (Days)	7	4	20	22	22
Asset Turnover (x)	3.5	2.8	2.9	3.1	3.2
Leverage Ratio					
Debt/Equity (x)	0.2	0.3	0.3	0.2	0.2

CASH FLOW STATEMENT					
(Rs Million)					
Y/E MARCH	2004	2005	2006E	2007E	2008E
OP/(Loss) before Tax	1,795	1,219	1,097	1,526	1,800
Interest/Div. Received	362	793	710	765	820
Depreciation & Amort.	799	896	939	1,030	1,131
Direct Taxes Paid	-358	-374	-515	-635	-729
(Inc)/Dec in Working Capital	-293	289	-1,541	-443	-117
Other Items	-123	-566	0	0	0
CF from Oper. Activity	2,182	2,258	691	2,243	2,905
(Inc)/Dec in FA+CWIP	-2,514	-1,559	-1,086	-1,451	-1,429
(Pur)/Sale of Invest.	-401	-474	0	0	0
CF from Inv. Activity	-2,915	-2,033	-1,086	-1,451	-1,429
Changes in Reserves	443	-28	9	0	0
Inc/(Dec) in Debt	-29	678	250	0	0
Interest Paid	-12	-8	-131	-139	-106
Dividends Paid	-314	-309	-351	-531	-714
CF from Fin. Activity	88	334	-223	-670	-820
Inc/(Dec) in Cash	-645	559	-619	122	656
Add: Beginning Balance	825	180	739	120	242
Closing Balance	180	739	120	242	897



For more copies or other information, contact

Institutional: Navin Agarwal. **Retail:** Manish Shah, Mihir Kothari

Phone: (91-22) 39825500 Fax: (91-22) 22885038. E-mail: inquire@motilaloswal.com

This report is for the personal information of the authorized recipient and does not construe to be any investment, legal or taxation advice to you. Motilal Oswal Securities Limited (*hereinafter referred as MOST*) is not soliciting any action based upon it. This report is not for public distribution and has been furnished to you solely for your information and should not be reproduced or redistributed to any other person in any form.

The report is based upon information that we consider reliable, but we do not represent that it is accurate or complete, and it should not be relied upon such. MOST or any of its affiliates or employees shall not be in any way responsible for any loss or damage that may arise to any person from any inadvertent error in the information contained in this report. MOST or any of its affiliates or employees do not provide, at any time, any express or implied warranty of any kind, regarding any matter pertaining to this report, including without limitation the implied warranties of merchantability, fitness for a particular purpose, and non-infringement. The recipients of this report should rely on their own investigations.

MOST and/or its affiliates and/or employees may have interests/ positions, financial or otherwise in the securities mentioned in this report. To enhance transparency, MOST has incorporated a Disclosure of Interest Statement in this document. This should, however, not be treated as endorsement of the views expressed in the report.

Disclosure of Interest Statement

TVS Motor

1. Analyst ownership of the stock	No
2. Group/Directors ownership of the stock	No
3. Broking relationship with company covered	No
4. Investment Banking relationship with company covered	No

This information is subject to change without any prior notice. MOST reserves the right to make modifications and alternations to this statement as may be required from time to time. Nevertheless, MOST is committed to providing independent and transparent recommendations to its clients, and would be happy to provide information in response to specific client queries.