

**Key data**

Sector	Automobiles
Market Cap	Rs12bn/US\$0.3bn
52 Wk H/L (Rs)	114.9/53.3
Avg. daily vol. (6 month)	1,138,792

BSE Code	532343
NSE Code	TVSMOTOR
Bloomberg	TVSL IN
Reuters	TVSM.BO

Sensex	18,771
Nifty	5,569

**Shareholding pattern (%)**

	30-Jun-07	30-Sep-07
FII's NRI, ADR/GDR	4.8	4.8
MFs and institutions	19.0	17.7
Promoters	56.8	56.8
Others	19.4	20.7

**Absolute returns (%)**

	1mth	3mth	12mth
TVS Motors	(22.5)	(11.4)	(53.3)
Sensex	11.1	19.6	48.7
BSE Auto	4.8	9.6	3.5

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# TVS Motors

**Hold**
**Current Price: Rs54**
**Target price: Rs55**
**Results were inline with our estimates.**
**Figure 1: Actual Vs Religare Estimates**

	Q2FY08A	Q2FY08E	Difference (%)
Net sales	8,234	8,328	(1.1)
EBITDA	199	262	(24.3)
EBITDA margins (%)	2.4	3.1	-74bps
Adj PAT	51	48	6.4
Adj PAT margins (%)	0.6	0.6	4bps

Source: Religare Institutional Research

**Financial highlights**

- **Net Sales** declined by 23.6% YoY. The net average realization was lower at Rs23,198 per unit as compared to Rs24,523 in Q2FY07. This was due to a change in the product mix in favor of mopeds and scooters, where realizations are lower.
- **EBITDA** declined by 64.5% YoY. EBITDA margins were 2.4%, a decline of 278bps over Q2FY07. This is largely due to higher staff expenses, which as a percentage of sales increased by 150bps YoY to 5.8% and higher raw material expenses as a percentage of sales which increased by 220bps YoY to 76.1%.
- **Adj PAT** declined by 79.5% YoY to Rs51mn.

**Valuations**

TVS's product mix will change in favor of vehicles with higher realization and higher margins because of the expected launch of its 125cc Flame, and the introduction of higher margin 3-wheelers. This will lead to an improvement in margins. We are upgrading our earning estimates of FY09 & FY10 by 10.0% and 26.4% respectively. We are also upgrading our call from Sell to Hold as any improvement in margins will provide an opportunity to exit at higher levels rather than sell at these levels, which reflect the worst. We revise our target price from Rs52 to Rs55. At our target price, the stock will trade at 12.5x 2-year forward earnings.

**Figure 2: Quarterly Performance**

	FY07				FY08		(Rs mn)	
	1Q	2Q	3Q	4Q	1Q	2QA	FY07	FY08E
<b>Net Sales</b>	<b>9,218</b>	<b>10,779</b>	<b>9,354</b>	<b>9,199</b>	<b>7,833</b>	<b>8,234</b>	<b>38,550</b>	<b>36,860</b>
Change %	25.4	36.6	7.3	9.6	(15.0)	(23.6)	19.2	(4.4)
<b>EBITDA</b>	<b>416</b>	<b>560</b>	<b>296</b>	<b>101</b>	<b>191</b>	<b>199</b>	<b>1,373</b>	<b>1,263</b>
EBITDA margin (%)	4.5	5.2	3.2	1.1	2.4	2.4	3.6	3.4
Change (%)	(16.3)	21.9	(51.2)	(79.1)	(54.0)	(64.5)	(32.9)	(8.0)
Depreciation	233	244	245	154	239	240	876	961
Other Income	178	109	176	270	182	179	732	775
Interest exp/(inc)	60	62	86	113	98	70	321	350
<b>PBT</b>	<b>301</b>	<b>363</b>	<b>141</b>	<b>103</b>	<b>37</b>	<b>67</b>	<b>908</b>	<b>728</b>
PBT margin (%)	3.2	3.3	1.5	1.1	0.5	0.8	2.3	1.9
PBT growth (%)	(16.5)	(21.7)	(68.7)	(74.8)	(87.8)	(81.5)	(46.1)	(19.9)
Extraordinary exp/(Inc)	0	0	0	0	(72)	(102)	0	(174)
Tax	89	114	27	13	34	50	243	223
Effective tax rate (%)	29.5	31.5	18.8	12.6	91.3	74.4	26.7	30.6
<b>PAT reported</b>	<b>213</b>	<b>248</b>	<b>115</b>	<b>90</b>	<b>75</b>	<b>119</b>	<b>666</b>	<b>679</b>
<b>Adjusted PAT *</b>	<b>213</b>	<b>248</b>	<b>115</b>	<b>90</b>	<b>3</b>	<b>51</b>	<b>666</b>	<b>538</b>
Adj PAT margin (%)	2.3	2.3	1.2	1.0	0.0	0.6	1.7	1.5
Change (%)	(14.6)	(2.4)	(63.1)	(68.9)	(98.5)	(79.5)	(39.7)	(19.2)
Equity Capital (Rs mn)	238	238	238	238	238	238	238	238
Adj Diluted EPS	0.9	1.0	0.5	0.4	0.0	0.2	2.8	2.3

\* Excluding extraordinary

## Other business highlights

- Production from the Himachal plant, which enjoys fiscal benefits has been delayed and will most likely commence from Q1FY09.
- Three wheelers from the Mysore plant will be launched in Dec'07. The company has appointed 50 dealers for the sale of three wheelers.
- In Q2FY08, the company reported exceptional gain of Rs293mn on restatement of foreign currency liability (\$100mn). Earlier restatement of foreign currency liability was done on an annual basis, henceforth it will be done on a quarterly basis.
- During the quarter the company reported exceptional loss of Rs191mn on account of accelerated amortization of deferred product launch expenses related to models including *Victor* and initial variants of *Star City*. It was done as the product life of these models is lower than initial estimates.

**Figure 3: Total vehicle sales – TVS Motors**

(nos)	Q2FY08	Q2FY07	% YoY	Q1FY08	% QoQ	FY08E	FY07	% YoY
<b>Motorcycle</b>	<b>144,484</b>	<b>258,321</b>	<b>(44.1)</b>	<b>150,492</b>	<b>(4.0)</b>	<b>730,694</b>	<b>925,140</b>	<b>(21.0)</b>
<i>Domestic</i>	114,273	233,858	(51.1)	130,161	(12.2)	620,426	844,174	(26.5)
<i>Exports</i>	30,211	24,463	23.5	20,331	48.6	110,268	80,966	36.2
<b>Moped</b>	<b>102,888</b>	<b>80,102</b>	<b>28.4</b>	<b>99,651</b>	<b>3.2</b>	<b>407,037</b>	<b>314,389</b>	<b>29.5</b>
<i>Domestic</i>	99,039	75,306	31.5	96,362	2.8	393,432	301,224	30.6
<i>Exports</i>	3,849	4,796	(19.7)	3,289	17.0	13,605	13,165	3.3
<b>Scooter</b>	<b>75,685</b>	<b>73,364</b>	<b>3.2</b>	<b>70,040</b>	<b>8.1</b>	<b>293,788</b>	<b>258,967</b>	<b>13.4</b>
<i>Domestic</i>	73,503	70,894	3.7	67,447	9.0	285,113	250,085	14.0
<i>Exports</i>	2,182	2,470	(11.7)	2,593	(15.9)	8,675	8,882	(2.3)
<b>Total</b>	<b>323,057</b>	<b>411,787</b>	<b>(21.5)</b>	<b>320,183</b>	<b>0.9</b>	<b>1,431,519</b>	<b>1,498,496</b>	<b>(4.5)</b>

Source: Religare Institutional Research, SIAM

**Figure 4: Table for earnings revision**

(Rs mn)	Earlier estimates			Revised estimates			Upgrade/ (downgrade) (%)		
	FY08E	FY09E	FY10E	FY08E	FY09E	FY10E	FY08E	FY09E	FY10E
Net Sales	37,603	43,396	48,165	36,860	42,762	47,803	(2.0)	(1.5)	(0.8)
EBITDA	1,084	1,762	2,001	1,263	1,760	1,963	16.5	(0.1)	(1.9)
<i>EBITDA margin (%)</i>	2.9	4.1	4.2	3.4	4.1	4.1	54bps	6bps	-5bps
PBT	473	1,108	1,296	727	1,315	1,699	53.8	18.7	31.1
Adj PAT	364	814	941	538	895	1,189	47.8	10.0	26.4
<i>PAT margin (%)</i>	1.0	1.9	2.0	1.5	2.1	2.5	49bps	22bps	53bps
Adj diluted EPS (Rs)	1.5	3.4	4.0	2.3	3.8	5.0	47.8	10.0	26.4

Source: Religare Institutional Research

## Valuations and Recommendation

TVS's product mix will change in favor of vehicles with higher realization and higher margins because of the expected launch of its 125cc Flame, and the introduction of higher margin 3-wheelers. This will lead to an improvement in margins. We are upgrading our earning estimates of FY09 & FY10 by 10.0% and 26.4% respectively.

We are also upgrading our call from Sell to Hold as any improvement in margins will provide an opportunity to exit at higher levels rather than sell at these levels, which reflect the worst. We revise our target price from Rs52 to Rs55. At our target price, the stock will trade at 12.5x 2-year forward earnings.

**Figure 5: Valuation summary – Two wheelers**

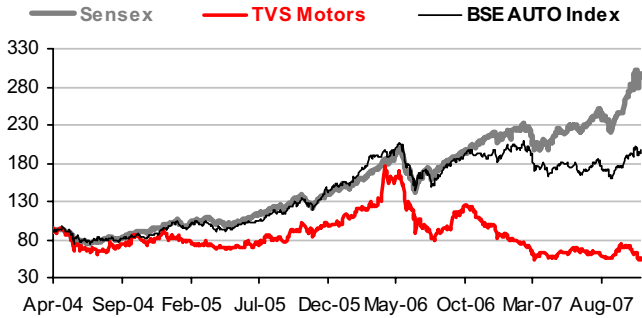
Company	Price (Rs)	Rating	Target Price (Rs)	Mkt Cap (Rs bn)	Sales		EBITDA		Adj PAT		Adj diluted EPS		FY08E		FY09E	
					Q2FY08A (Rs mn)	YoY (%)	Q2FY08A (Rs mn)	YoY (%)	Q2FY08A (Rs mn)	YoY (%)	Q2FY08A (Rs)	YoY (%)	Adj dil EPS (Rs)	P/E (x)	Adj dil EPS (Rs)	P/ (x)
Bajaj Auto	2,496	Accumulate	2,848	253	23,623	(3.0)	3,708	1.5	3,365	3.0	33.3	3.0	138.3	18.0	163.6	15.
Hero Honda	737	Sell	630	147	23,520	5.5	2,915	2.8	2,043	(5.4)	10.2	(5.4)	41.0	18.0	49.0	15.
TVS Motor	54	Hold	55	13	8,234	(23.6)	199	(64.5)	51	(79.5)	0.2	(79.5)	2.3	23.8	3.8	14.

Source: Religare Institutional Research

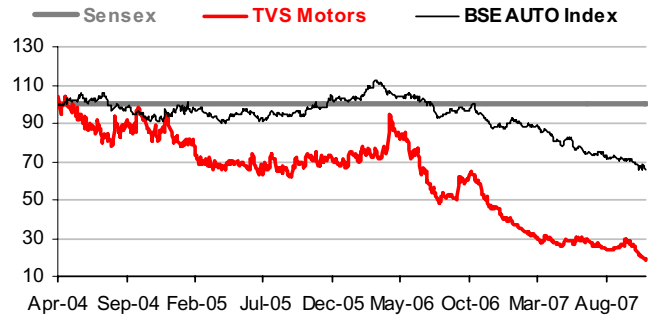
# Stock performance

## TVS Motors

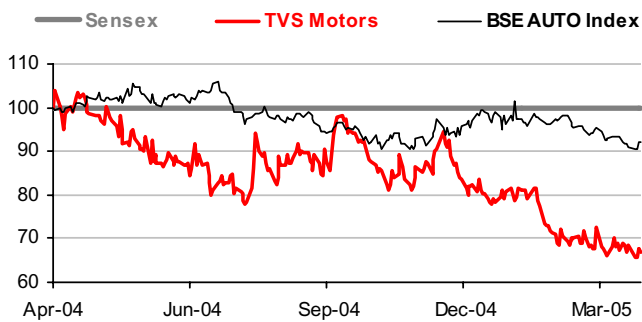
**Absolute Perf. From Apr 04**



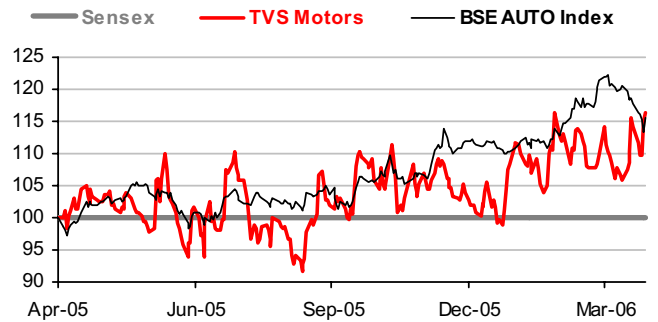
**Relative Perf. From Apr 04**



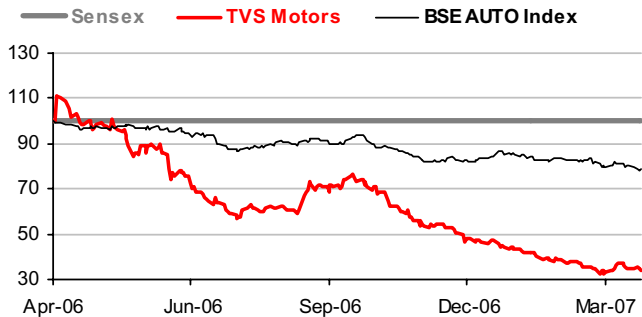
**Relative Perf. From Apr 04 to Mar 05**



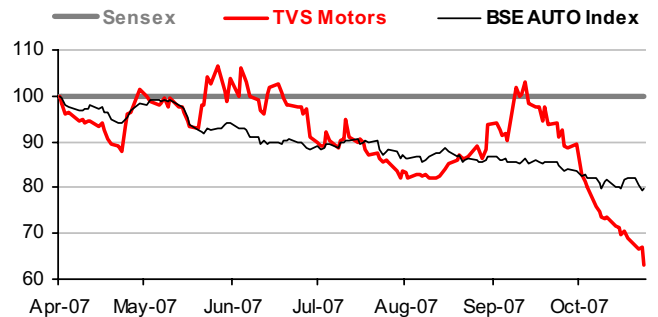
**Relative Perf. From Apr 05 to Mar 06**



**Relative Perf. From Apr 06 to Mar 07**



**Relative Perf. From Apr 07**

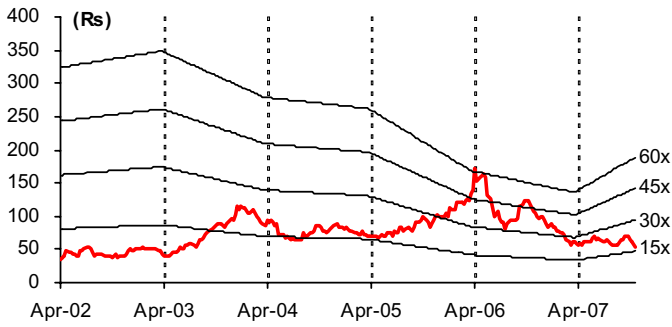


Source: Bloomberg, Religare Institutional Equity Research

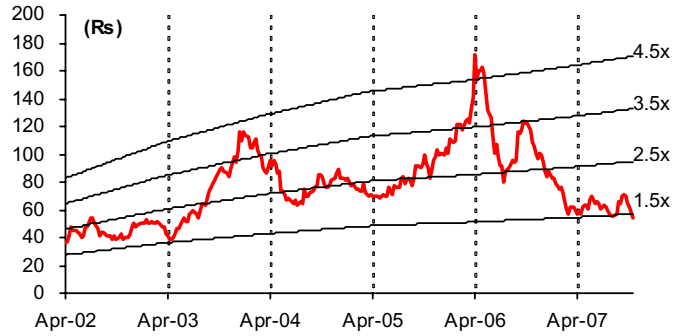
# 12 month forward rolling band charts

## TVS Motors

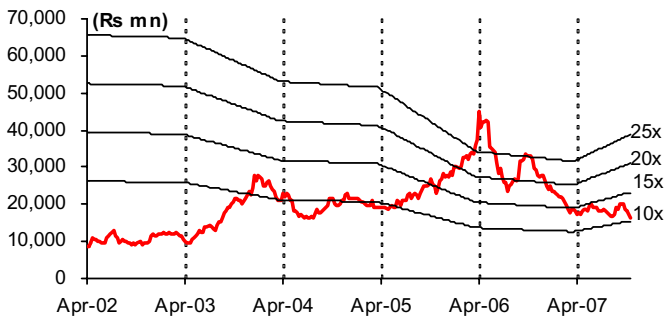
**P/E Band**



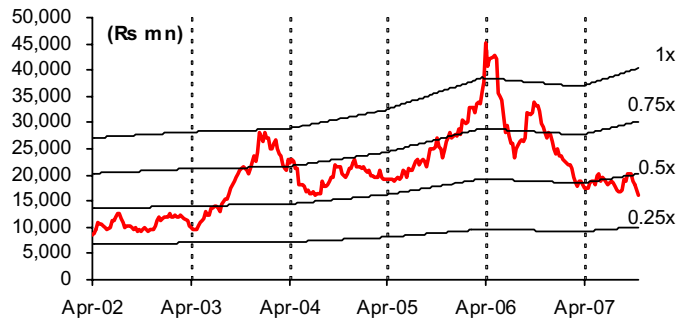
**P/BV Band**



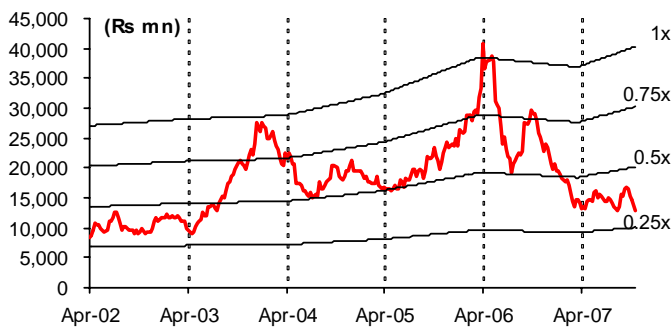
**EV/EBITDA Band**



**EV/Sales Band**



**Mkt cap/Sales Band**



## Financials

### Income statement

(Rs mn)

Y/E, 31st March	FY06	FY07	FY08E	FY09E	FY10E
<b>Net sales</b>	<b>32,350</b>	<b>38,550</b>	<b>36,860</b>	<b>42,762</b>	<b>47,803</b>
<b>EBITDA</b>	<b>2,062</b>	<b>1,373</b>	<b>1,263</b>	<b>1,760</b>	<b>1,963</b>
EBITDA margin (%)	6.4	3.6	3.4	4.1	4.1
Depreciation	939	876	961	1,019	1,010
<b>EBIT</b>	<b>1,123</b>	<b>497</b>	<b>302</b>	<b>740</b>	<b>954</b>
Other income	789	835	900	1,000	1,135
Interest Exp/(Inc)	210	424	475	425	390
<b>PBT (Operating)</b>	<b>1,702</b>	<b>909</b>	<b>727</b>	<b>1,315</b>	<b>1,699</b>
PBT margin (%)	5.3	2.4	2.0	3.1	3.6
Extra ord (inc)/exp	17	0	(174)	0	0
Taxes	515	243	223	420	510
<b>PAT (Reported)</b>	<b>1,170</b>	<b>666</b>	<b>679</b>	<b>895</b>	<b>1,189</b>
Less: Extra ordinary income / Others	133	0	141	0	0
<b>Adj PAT</b>	<b>1,037</b>	<b>666</b>	<b>538</b>	<b>895</b>	<b>1,189</b>
Adj PAT margin (%)	3.2	1.7	1.5	2.1	2.5

### Quarterly – Financials

(Rs mn)

(Rs mn)	Q2FY07	Q3FY07	Q4FY07	Q1FY08	Q2FY08
<b>Net sales</b>	<b>10,779</b>	<b>9,354</b>	<b>9,199</b>	<b>7,833</b>	<b>8,234</b>
Changes (%)	36.6	7.3	9.6	(15.0)	(23.6)
<b>EBITDA</b>	<b>560</b>	<b>296</b>	<b>101</b>	<b>191</b>	<b>199</b>
Changes (%)	21.9	(51.2)	(79.1)	(54.0)	(64.5)
Margin (%)	5.2	3.2	1.1	2.4	2.4
<b>PAT</b>	<b>248</b>	<b>115</b>	<b>90</b>	<b>75</b>	<b>119</b>
PAT adj	248	115	90	3	51
Changes (%)	(2.4)	(63.1)	(68.9)	(98.5)	(79.5)
Margin (%)	2.3	1.2	1.0	0.0	0.6
EPS adj (Rs)	1.0	0.5	0.4	0.0	0.2
EPS dil (Rs)	1.0	0.5	0.4	0.0	0.2

### Ratios

Y/E, 31st March	FY06	FY07	FY08E	FY09E	FY10E
<b>Growth</b>					
Net sales (%)	12.5	19.2	(4.4)	16.0	11.8
EBITDA (%)	(2.9)	(33.4)	(8.0)	39.3	11.6
PAT adjusted (%)	(6.1)	(35.8)	(19.2)	66.4	32.8
EPS adjusted (%)	(6.1)	(35.8)	(19.2)	66.4	0.0
EPS diluted (%)	(6.1)	(35.8)	(19.2)	66.4	0.0

### Valuations

P/E (x)	12.4	19.3	23.8	14.3	10.8
P/BV (x)	1.7	1.6	1.5	1.4	1.3
EV/EBITDA (x)	7.4	12.5	13.4	9.0	7.6
EV/Sales (x)	0.5	0.4	0.5	0.4	0.3

### Profitability

EBITDA margin (%)	6.4	3.6	3.4	4.1	4.1
Adj PAT margin (%)	3.2	1.7	1.5	2.1	2.5
RoE (%)	16.2	8.5	8.1	10.0	12.2
RoCE (%)	12.9	3.3	1.6	5.5	8.7
RoIC (%)*	7.8	2.7	1.5	3.7	5.1

### B/S ratios

Inventory days	56.3	49.9	55.0	55.0	55.0
Creditor days	82.5	72.5	70.0	70.0	70.0
Debtor days	6.6	10.5	12.0	12.0	12.0
Working Capital days	(16.5)	(8.4)	(3.1)	0.6	0.6
Net debt/equity	0.3	0.5	0.5	0.3	0.2

\* ROIC is calculated on post tax basis.

### Balance sheet

(Rs mn)

Y/E, 31st March	FY06	FY07	FY08E	FY09E	FY10E
<b>Liabilities</b>					
Equity share capital	238	238	238	238	238
Total Res. & Surplus	7,424	7,855	8,395	9,012	9,923
<b>Total Shareholders' fund</b>	<b>7,661</b>	<b>8,093</b>	<b>8,632</b>	<b>9,250</b>	<b>10,161</b>
Convertible Debt	0	0	0	0	0
Others Debt	3,850	6,336	6,000	5,000	4,000
<b>Total Loans</b>	<b>3,850</b>	<b>6,336</b>	<b>6,000</b>	<b>5,000</b>	<b>4,000</b>
<b>Deferred tax liability (net)</b>	<b>1,490</b>	<b>1,590</b>	<b>1,640</b>	<b>1,700</b>	<b>1,750</b>
<b>Total liabilities</b>	<b>13,002</b>	<b>16,018</b>	<b>16,273</b>	<b>15,950</b>	<b>15,911</b>

### Assets

Net fixed assets & others	7,668	7,971	9,165	9,121	9,086
Capital WIP & others	270	2,058	500	226	200
<b>Total non-current assets</b>	<b>7,938</b>	<b>10,029</b>	<b>9,665</b>	<b>9,347</b>	<b>9,286</b>
<b>Total investments - non current</b>	<b>2,269</b>	<b>2,269</b>	<b>2,269</b>	<b>2,269</b>	<b>2,269</b>
<b>Current assets</b>					
Inventories	3,579	3,966	4,221	4,865	5,438
Sundry debtors	582	1,114	1,212	1,406	1,572
Cash & cash equivalents	1,417	2,044	1,905	1,966	1,978
Cash	244	866	727	787	800
Liquid investments	1,173	1,179	1,179	1,179	1,179
Other current assets	2,152	2,279	2,279	2,279	2,279
<b>Total current assets</b>	<b>7,729</b>	<b>9,403</b>	<b>9,617</b>	<b>10,515</b>	<b>11,267</b>
<b>Total current liabilities</b>	<b>5,245</b>	<b>5,770</b>	<b>5,372</b>	<b>6,192</b>	<b>6,922</b>
<b>Total provisions</b>	<b>624</b>	<b>497</b>	<b>491</b>	<b>575</b>	<b>575</b>
<b>Net current assets</b>	<b>1,860</b>	<b>3,135</b>	<b>3,753</b>	<b>3,749</b>	<b>3,771</b>
<b>Misc. expenditure</b>	<b>935</b>	<b>585</b>	<b>585</b>	<b>585</b>	<b>585</b>
<b>Total assets</b>	<b>13,002</b>	<b>16,018</b>	<b>16,273</b>	<b>15,950</b>	<b>15,911</b>

### Cash flow

Y/E, 31st March	FY06	FY07	FY08E	FY09E	FY10E
<b>Cash from operations</b>					
PBT	1,685	909	901	1,315	1,699
Tax paid	(340)	(150)	(173)	(360)	(460)
Dep & amortization	880	743	961	1,019	1,010
Working capital changes	(1,258)	(522)	(751)	(18)	(9)
Others	(42)	(99)	0	0	0
<b>Net cash from operations</b>	<b>924</b>	<b>880</b>	<b>938</b>	<b>1,956</b>	<b>2,239</b>
<b>Cash from investments</b>					
Capital expenditure	(912)	(1,046)	(597)	(701)	(949)
Sale/purchase of inv & others	(2,137)	(1,345)	0	0	0
<b>Net cash from investments</b>	<b>(3,049)</b>	<b>(2,391)</b>	<b>(597)</b>	<b>(701)</b>	<b>(949)</b>
<b>Cash from financing</b>					
Issue of shares & share premium	0	0	0	0	0
Dividend paid	(352)	(352)	(145)	(195)	(278)
Debt change	1,982	2,485	(336)	(1,000)	(1,000)
Others	0	0	0	0	0
<b>Net cash from financing</b>	<b>1,630</b>	<b>2,133</b>	<b>(481)</b>	<b>(1,195)</b>	<b>(1,278)</b>
<b>Net change in cash</b>	<b>(495)</b>	<b>622</b>	<b>(139)</b>	<b>61</b>	<b>13</b>

### Per share data

Y/E, 31st March	FY06	FY07	FY08E	FY09E	FY10E
EPS adjusted	4.4	2.8	2.3	3.8	5.0
EPS diluted - wtd	4.4	2.8	2.3	3.8	5.0
CEPS	8.9	6.5	6.9	8.1	9.3
Book value	32.3	34.1	36.3	38.9	42.8
Dividend	1.3	0.9	0.5	0.5	1.8
O/s shs.-actual (mn)	237.5	237.5	237.5	237.5	237.5
O/s shs.-diluted (mn)	237.5	237.5	237.5	237.5	237.5
O/s shs wtd / diluted (mn)	237.5	237.5	237.5	237.5	237.5

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**Rating definition**

<b>Buy</b>	: > 15% returns relative to Sensex	<b>Accumulate</b>	: +5 to +15% returns relative to Sensex
<b>Sell</b>	: > (-)15% returns relative to Sensex	<b>Reduce</b>	: (-) 5 to (-) 15% returns relative to Sensex
<b>Hold</b>	: Upto + / (-) 5% returns relative to Sensex		

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