TVS Motor TVSM.NS TVSL IN .

AUTOS & AUTO PARTS

NOMURA EQUITY RESEARCH

Strong earnings growth and attractive valuation

We expect earnings momentum to continue; discount to peers unjustified

November 7, 2011

Rating Remains	**Buy**
Target price Increased from 80	INR 87
Closing price November 4, 2011	INR 67
Potential upside	+29.9%

Action: Maintain BUY with increased TP of INR87 with 30% upside

TVSL trades at 8.5x FY13F EPS, a steep 40% discount to peers HMCL and BJAUT. We look for the company to maintain strong earnings growth of 30% in FY13F. Contrary to market perceptions, Honda's expansion in India will likely have only a low impact on TVSL, in our view. We estimate EBITDA contribution from increasingly high competition segments at only 3%. We expect the stock to outperform as earnings growth materializes.

Catalysts: Margin expansion, new product launches

- Margin expansion: We are building in only 50bp margin expansion, led largely by operating leverage. There could be upside risks to this as raw material costs could decline in 2HFY12. TVSL, with the lowest margins in our coverage would likely benefit most from the same, in our view.
- New product launches: TVSL plans to launch a new scooter and motorcycle in 4QFY12. If any of these products is successful, it could lead to upside to our estimates.
- Reduction in investments and debt: TVSL has investments in Indonesia, financial services and wind energy. We believe the market is concerned about these investments. In our view, as the company reduces these investments in 2HFY12 and cuts losses in Indonesia, the market should view this development positively.

Valuation: DCF-based PT of INR 87, implying 11x FY13F P/E

We value TVSL using DCF. We build in an earnings CAGR of 39% for FY11-FY13F. We forecast improved ROE of 26% in FY12F and consider a P/E of 8.5x FY13F too low.

31 Mar	FY11		FY12F		FY13F		FY14F
Currency (INR)	Actual	Old	New	Old	New	Old	New
Revenue (mn)	64,330	67,338	77,088		86,081		96,088
Reported net profit (mn)	1,946	2,691	2,893		3,752		4,231
Normalised net profit (mn)	1,946	2,691	2,893		3,752		4,231
Normalised EPS	4.10	11.33	6.09		7.90		8.91
Norm. EPS growth (%)	121.1	35.8	48.7		29.7		12.8
Norm. P/E (x)	16.4	N/A	11.0	N/A	8.5	N/A	7.5
EV/EBITDA (x)	10.0	6.9	7.0		5.5		4.6
Price/book (x)	3.2	N/A	2.6	N/A	2.1	N/A	1.9
Dividend yield (%)	1.6	N/A	2.0	N/A	2.4	N/A	5.7
ROE (%)	20.9	25.1	26.2		27.6		26.3
Net debt/equity (%)	73.8	54.0	47.6		26.1		11.4

Our Old EPS estimates are published before 1:1 bonus and are thus not comparable
Source: Nomura estimates

Key company data: *See page 2 for company data and detailed price/index chart.*

Anchor themes

Given Nomura's economics team's GDP growth estimate of 7.9% in FY13F, we expect the two-wheeler industry to grow at 10% in FY13F.

Nomura vs consensus

Our FY13F earnings estimates are 18% above consensus. We belive consensus is too concerned about Honda's expansion in India, which will largely focus on motorcycles. Domestic motorcycles contribute only around 10% of TVSL's EBITDA, we estimate.

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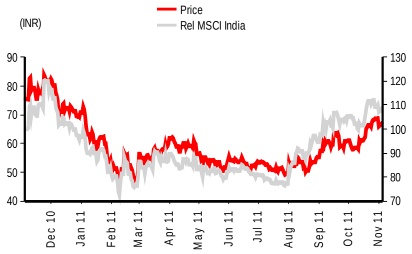
Key data on TVS Motor

Income statement (INRmn)

Year-end 31 Mar	FY10	FY11	FY12F	FY13F	FY14F
Revenue	**44,282**	**64,330**	**77,088**	**86,081**	**96,088**
Cost of goods sold	-32,399	-47,212	-58,252	-64,872	-72,730
Gross profit	**11,883**	**17,118**	**18,836**	**21,209**	**23,358**
SG&A	-8,523	-10,980	-10,809	-11,872	-12,927
Employee share expense	-2,513	-3,283	-3,775	-4,077	-4,328
Operating profit	**848**	**2,855**	**4,252**	**5,260**	**6,103**
EBITDA	**1,873**	**3,927**	**5,377**	**6,455**	**7,360**
Depreciation	-1,025	-1,073	-1,125	-1,194	-1,257
Amortisation					
EBIT	848	2,855	4,252	5,260	6,103
Net interest expense	-632	-470	-505	-290	-356
Associates & JCEs					
Other income	545	96	96	96	96
Earnings before tax	**762**	**2,481**	**3,843**	**5,066**	**5,843**
Income tax	118	-535	-950	-1,314	-1,613
Net profit after tax	**880**	**1,946**	**2,893**	**3,752**	**4,231**
Minority interests					
Other items					
Preferred dividends					
Normalised NPAT	**880**	**1,946**	**2,893**	**3,752**	**4,231**
Extraordinary items	0	0	0	0	0
Reported NPAT	**880**	**1,946**	**2,893**	**3,752**	**4,231**
Dividends	-285	-523	-651	-748	-1,820
Transfer to reserves	**595**	**1,423**	**2,243**	**3,003**	**2,410**
Valuation and ratio analysis					
FD normalised P/E (x)	36.2	16.4	11.0	8.5	7.5
FD normalised P/E at price target (x)	47.0	21.2	14.3	11.0	9.8
Reported P/E (x)	36.2	16.4	11.0	8.5	7.5
Dividend yield (%)	0.9	1.6	2.0	2.4	5.7
Price/cashflow (x)	10.7	14.9	5.9	6.7	6.0
Price/book (x)	3.7	3.2	2.6	2.1	1.9
EV/EBITDA (x)	20.2	10.0	7.0	5.5	4.6
EV/EBIT (x)	44.5	13.7	8.8	6.8	5.5
Gross margin (%)	26.8	26.6	24.4	24.6	24.3
EBITDA margin (%)	4.2	6.1	7.0	7.5	7.7
EBIT margin (%)	1.9	4.4	5.5	6.1	6.4
Net margin (%)	2.0	3.0	3.8	4.4	4.4
Effective tax rate (%)	-15.5	21.6	24.7	25.9	27.6
Dividend payout (%)	32.4	26.9	22.5	19.9	43.0
Capex to sales (%)	0.7	1.5	1.6	1.5	1.0
Capex to depreciation (x)	0.3	0.9	1.1	1.0	0.8
ROE (%)	10.5	20.9	26.2	27.6	26.3
ROA (pretax %)	3.7	11.2	14.5	16.6	18.1
Growth (%)					
Revenue	20.4	45.3	19.8	11.7	11.6
EBITDA	1.2	109.7	36.9	20.0	14.0
EBIT	3.0	236.7	48.9	23.7	16.0
Normalised EPS	183.2	121.1	48.7	29.7	12.8
Normalised FDEPS	183.2	121.1	48.7	29.7	12.8
Per share					
Reported EPS (INR)	1.85	4.10	6.09	7.90	8.91
Norm EPS (INR)	1.85	4.10	6.09	7.90	8.91
Fully diluted norm EPS (INR)	1.85	4.10	6.09	7.90	8.91
Book value per share (INR)	18.22	21.04	25.54	31.61	36.06
DPS (INR)	0.60	1.10	1.37	1.58	3.83

Source: Nomura estimates

Relative performance chart (one year)



Source: ThomsonReuters, Nomura research

(%)	1M	3M	12M
Absolute (INR)	14.0	26.3	-11.2
Absolute (USD)	14.7	14.5	-20.1
Relative to index	3.4	27.2	6.7
Market cap (USDmn)	647.7		
Estimated free float (%)	35.2		
52-week range (INR)	87.45/43.6		
3-mth avg daily turnover (USDmn)	3.24		
Major shareholders (%)			
Anusha Investment	48.6		
Sundaram Clayton	8.8		

Source: Thomson Reuters, Nomura research

Notes

We expect EBITDA margins to improve in FY12-FY13F due to operating leverage

Cashflow (INRmn)

Year-end 31 Mar	FY10	FY11	FY12F	FY13F	FY14F
EBITDA	1,873	3,927	5,377	6,455	7,360
Change in working capital	1,057	-883	1,339	-167	-213
Other operating cashflow	32	-909	-1,359	-1,509	-1,872
Cashflow from operations	**2,962**	**2,136**	**5,358**	**4,779**	**5,274**
Capital expenditure	-304	-934	-1,250	-1,250	-1,000
Free cashflow	**2,658**	**1,201**	**4,108**	**3,529**	**4,274**
Reduction in investments	-460	-1,885	-1,750	-800	-200
Net acquisitions					
Reduction in other LT assets	0	0	0	0	0
Addition in other LT liabilities	88	111	0	0	0
Adjustments					
Cashflow after investing acts	**2,286**	**-573**	**2,358**	**2,729**	**4,074**
Cash dividends	-329	-605	-756	-869	-2,115
Equity issue					
Debt issue	973	-2,179	-754	-1,752	-1,841
Convertible debt issue					
Others	-185	-260			
Cashflow from financial acts	**459**	**-3,044**	**-1,510**	**-2,622**	**-3,956**
Net cashflow	**2,745**	**-3,616**	**848**	**108**	**118**
Beginning cash	1,349	4,094	478	1,325	1,433
Ending cash	4,094	477	1,325	1,433	1,550
Ending net debt	5,939	7,377	5,775	3,915	1,956

Source: Nomura estimates

Notes

We expect debt levels to come down on high operating cashflows and reduced investments in subsidiaries

Balance sheet (INRmn)

As at 31 Mar	FY10	FY11	FY12F	FY13F	FY14F
Cash & equivalents	4,094	478	1,325	1,433	1,550
Marketable securities	0	0	0	0	0
Accounts receivable	2,203	2,706	3,783	4,231	4,721
Inventories	2,897	5,279	5,020	5,574	6,211
Other current assets	3,541	3,970	3,799	4,247	4,737
Total current assets	**12,736**	**12,433**	**13,927**	**15,485**	**17,219**
LT investments	4,309	6,194	7,944	8,744	8,944
Fixed assets	9,828	9,950	10,075	10,130	9,874
Goodwill					
Other intangible assets					
Other LT assets	0	0	0	0	
Total assets	**26,872**	**28,577**	**31,945**	**34,359**	**36,036**
Short-term debt					
Accounts payable	6,672	8,852	10,837	12,121	13,524
Other current liabilities	669	920	920	920	920
Total current liabilities	**7,341**	**9,772**	**11,757**	**13,041**	**14,444**
Long-term debt	10,033	7,854	7,100	5,348	3,507
Convertible debt					
Other LT liabilities	846	957	957	957	957
Total liabilities	**18,219**	**18,583**	**19,814**	**19,345**	**18,907**
Minority interest					
Preferred stock	0	0	0	0	0
Common stock	238	475	475	475	475
Retained earnings	8,416	9,519	11,656	14,538	16,654
Proposed dividends					
Other equity and reserves					
Total shareholders' equity	**8,653**	**9,994**	**12,131**	**15,013**	**17,129**
Total equity & liabilities	**26,872**	**28,577**	**31,945**	**34,359**	**36,036**
Liquidity (x)					
Current ratio	1.73	1.27	1.18	1.19	1.19
Interest cover	1.3	6.1	8.4	18.1	17.2
Leverage					
Net debt/EBITDA (x)	3.17	1.88	1.07	0.61	0.27
Net debt/equity (%)	68.6	73.8	47.6	26.1	11.4
Activity (days)					
Days receivable	16.6	13.9	15.4	17.0	17.0
Days inventory	34.4	31.6	32.4	29.8	29.6
Days payable	68.6	60.0	61.9	64.6	64.4
Cash cycle	-17.6	-14.5	-14.1	-17.8	-17.8

Source: Nomura estimates

Notes

Interest-bearing debt was around INR5.8bn in FY11 as INR2.0bn was soft loans provided as incentives by state governments

Driven by volume growth and margin expansion

We expect TVSL to report around a 40% earnings CAGR over FY11-FY13F, led by operating-leverage-led margin expansion. We believe that the market is too concerned about competition from Honda's expansion in India and it is a low-risk event for TVSL given its earnings diversification. Despite forecast strong earnings growth and an expected stable ROE of 26%, the stock trades at 8.5xFY13F EPS — at a steep discount to its peers. We believe the stock will outperform as earnings growth comes through and investments and debt decline next year.

Earnings CAGR of around 40% over FY11-13F driven by modest volume growth and margin expansion

We are building in 15.5% y-y overall volume growth in FY12F and 9.2% in FY13F. We expect export volumes to grow at a much faster pace of 26% in FY12F and 17.4% in FY13F led by three-wheeler exports. We expect EBITDA margins to expand by 50bps to 7.5% in FY13F, primarily reflecting the benefit of operating leverage and a slight decline in RM/sales as the company benefits from an expected decrease in commodity prices. Consequently, we forecast a robust earnings CAGR of around 40% over FY11-13F.

Our FY13F earnings estimates are ~18% above consensus; we expect consensus earnings to move up as TVSL delivers higher margins in subsequent quarters.

Fig. 1: Key assumptions

	Key assumptions		
	FY12F	FY13F	FY14F
Domestic volumes	2,053,726	2,216,799	2,411,604
YoY %	14.1	7.9	8.8
Export volumes	310,837	364,849	407,539
YoY %	26.0	17.4	11.7
Total volumes	2,364,563	2,581,648	2,819,144
YoY %	15.5	9.2	9.2
EBITDA INR mn (incl other op income)	5,377	6,455	7,360
EBITDA margin (%) (incl other op income)	7.0	7.5	7.7
PAT	2,893	3,752	4,231
EPS	6.1	7.9	8.9
Cash EPS	8.5	10.4	11.5
Consolidated EPS	5.2	7.6	8.9

Source: Nomura estimates

Fig. 2: Our estimates are above consensus

INR mn	Nomura			Consensus			% difference		
	FY12F	FY13F	FY14F	FY12F	FY13F	FY14F	FY12F	FY13F	FY14F
Sales	77,088	86,081	96,088	74,364	86,028	96,145	3.7	0.1	(0.1)
EBITDA	5,377	6,455	7,360	4,937	5,924	6,579	8.9	9.0	11.9
EBITDA margin	7.0	7.5	7.7	6.6	6.9	6.8	0.3	0.6	0.8
Net profit	2,893	3,752	4,231	2,554	3,176	3,412	13.3	18.1	24.0
EPS (INR)	6.1	7.9	8.9	5.4	6.7	7.2	13.3	18.1	24.0

Source: Bloomberg, Nomura estimates

High profitability from segments where competition will remain low implies lower earnings risk

As per our analysis, 97% of company's FY13F EBITDA is likely to come from segments where we expect competition to remain medium to low. Thus, the threat to margins and earnings growth from Honda's into the two-wheeler space is low, in our view, and perhaps being over-estimated by the Street. We expect Honda (7267 JP, Y2,398, Neutral) to be more competitive in the entry and mid-level motorcycle space, where TVS has only 3% EBITDA contribution, as per our estimates.

Fig. 3: TVS — FY13F revenue and EBITDA mix

	Mix (%)		
Level of competition	**Revenues**	**EBITDA**	**Categories included**
Low	34.5	62.3	Mopeds, 3W, Spares & Others
Medium	44.5	34.8	Premium bikes, Scooters, 2W exports
High	21.0	2.9	Entry and mid level bikes
Total	100.0	100.0	

Source: Nomura estimates

Revised DCF-based PT of INR87; reiterate Buy with 30% potential upside

We value TVS based on DCF (methodology unchanged) using 4% terminal growth and 13.1% cost of equity. Our price target of INR87 implies a FY13F P/E multiple of 11x. This is a 25-30% discount to other two-wheeler companies we cover, such as Bajaj Auto and Hero MotoCorp. We forecast an earnings CAGR over FY11-13F of 40%, which we think is likely to be significantly above that of its peers (see Exhibit 5).

We also note that TVS generates ROEs of 40% on its core business. FY13F consolidated EPS and ROE are expected lower at INR7.6 and 27% due to losses at Indonesia. We believe that it is unjustified to give a multiple to these losses as we believe the company is likely to either cut these losses or stop investments where it sees no future returns.

We are not assigning any value to investments made in subsidiaries as the company is not making any significant profits in these subsidiaries and the Indonesian business is still loss-making. The book value of these investments in FY11 was INR13/share, as per the annual report; however, cumulative losses in the Indonesian subsidiary were INR6.4/share.

Fig. 4: DCF calculation

	FY10	FY11	FY12F	FY13F	
Total Revenues	44,301	62,891	77,088	86,081	
YoY Growth	18.9	41.6	22.4	11.8	
Operating Profit	1,873	3,927	5,377	6,455	
OPM(%)	4.2	6.2	7.0	7.5	
Interest	632	470	505	290	
Depreciation	1,025	1,073	1,125	1,194	
PBT	216	2,385	3,747	4,970	
Tax	-34	514	926	1,290	
Tax Rate	-16	22	25	26	
PAT	250	1,871	2,821	3,681	
YoY Growth	-8.4	648.5	50.8	30.5	
Depreciation	1,025	1,073	1,125	1,194	
Increase in WC	-584	-179	-491	274	
Capex	304	934	1,250	1,250	
Debt raised-Debt repaid	973	-2,179	-754	-1,752	
Equity raised	0	0	0	0	
Free cash flow	2,528	9	2,434	1,598	
	FY14E	**FY15E**	**FY16E**		
PAT	4161	4466	5108		
YoY Growth	13.06	7.31	14.40		
FCFE	2246	4419	5084		
ROE	25	25	25		
Retention Ratio	52.3	29.6	57.2		
NPV of FCFE	**33,731**	**Terminal**	**Terminal**	**Cost of**	**Terminal**
No of Shares	**475.1**	**ROE (%)**	**Growth (%)**	**Equity (%)**	**Value (INR m)**
Price per Share[Oct 2012]	86.2	15.0	4.0	13.1	43,051
Cash per share	0.9				
Target Price [Oct 2012]	87.0				

Source: Company data, Nomura estimates

Fig. 5: Relative valuation

			Price	EPS CAGR	P/ E			EV / EBITDA			P/ E on cash EPS			ROE (%)		
Company	**Ticker**	**Rating**	**INR**	**FY11-13E**	**FY11**	**FY12F**	**FY13F**	**FY11**	**FY12F**	**FY13F**	**FY11**	**FY12F**	**FY13F**	**FY11**	**FY12F**	**FY13F**
Ashok Leyland	AL IN	Buy	27.8	8.1%	11.7	13.5	10.0	7.7	8.0	6.6	8.2	8.3	6.7	16.5	13.4	16.6
Bajaj Auto	BJAUT IN	Neutral	1,744.8	9.2%	19.3	17.3	16.2	13.9	12.1	10.6	18.4	16.5	15.5	85.2	51.4	42.7
Hero MotoCorp	HMCL IN	Neutral	2,113.8	21.2%	21.0	17.2	14.3	14.2	10.1	8.4	18.1	11.8	10.2	60.0	79.5	88.1
M&M*	MM IN	Buy	836.4	4.0%	13.8	14.1	12.7	10.2	9.5	8.4	11.7	11.6	10.2	29.2	22.4	21.2
Maruti Suzuki	MSIL IN	Neutral	1,122.3	-3.6%	14.3	18.5	15.4	8.7	13.0	9.8	10.2	11.9	9.9	15.7	9.9	10.7
Tata Motors	TTMT IN	Buy	188.1	1.4%	6.6	6.9	6.4	4.6	4.6	4.0	4.4	4.2	3.7	67.7	38.5	31.3
TVS Motor	TVSL IN	Buy	67.0	38.9%	16.4	11.0	8.5	10.0	7.0	5.5	10.1	8.2	8.0	20.9	26.2	27.6

Note: Pricing as on 4th Nov, 2011; * Adjusted for subsidiary values

Source: Bloomberg, Nomura estimates

Fig. 6: Comparison with other 2-wheeler companies

One Year forward P/E			
Period	**BJAUT**	**HMCL**	**TVSL**
Current	15.4	15.6	12.2
FY11	15.1	14.6	13.4
FY10	15.8	16.2	14.0
FY09	9.9	13.9	12.6
FY08	NA	14.6	19.5
FY07	NA	13.4	14.6
Volume Growth			
	BJAUT	**HMCL**	**TVSL**
FY13F	10.9	10.7	9.1
FY12F	17.5	13.8	17.6
FY11	34.0	17.4	33.5
FY10	30.0	23.6	14.6
FY09	(10.5)	11.5	3.1
FY08	(9.9)	-0.3	-15.7
FY07	19.3	14.5	13.9
Earnings Growth			
	BJAUT	**HMCL**	**TVSL**
FY13F	6.5	20.5	29.5
FY12F	11.9	27.0	50.6
FY11	41.3	-9.5	131.7
FY10	15.8	74.1	183.2
FY09	-3.3	32.4	-2.2
FY08	-36	12.8	-52.3
FY07	14.5	-11.7	-43.1

Note: P/E ratio is based on 1-yr forward consensus earnings
Source: DataStream, Nomura estimates

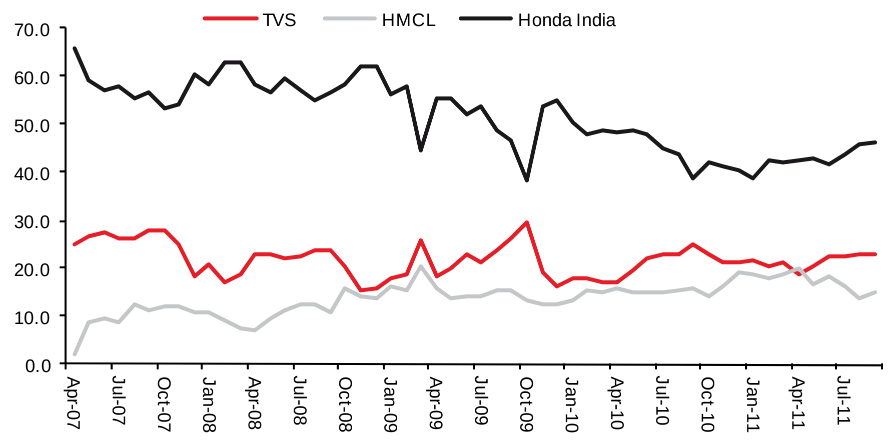
Investment risks

- Slower-than-expected GDP growth: Our FY13F domestic volume growth estimates of 8% are based on Nomura's GDP growth assumption of 7.9% in FY13F. In case GDP growth slows substantially, there would be downside risks to our estimates.
- Increased competition: We believe that the intensity of competition will remain low for TVS, especially in the moped and scooter segments. If there are aggressive new entrants, there could be downside risk to our estimates.
- Higher-than-expected raw material costs: We have built in some decline in raw material costs due to a decline in commodity prices. If commodity prices are higher than expected, there could be downside risks to our estimates.

Domestic market share – relatively stable

TVS has 100% market share in mopeds. Despite higher competitive intensity, it has been able to maintain its market share at 22-23% in the scooter segment and around 7% in the motorcycle segment. The company plans to launch a new scooter in the 100cc segment and a new motorcycle in the 125cc segment in 4QFY12. We have not built in any incremental volumes from these products at this stage.

Fig. 7: Scooter market share



Source: Company data, SIAM, Nomura research

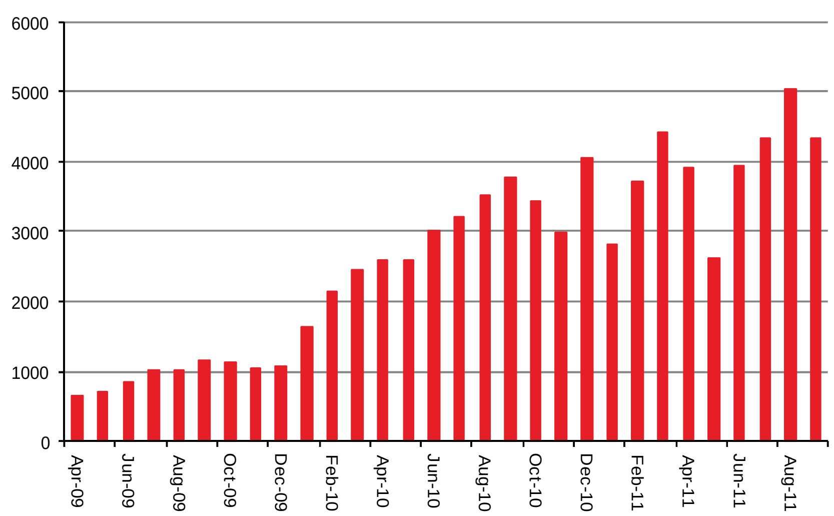
Fig. 8: TVSL – Segment-wise market share in domestic motorcycles

TVS	Q2FY09	Q3FY09	Q4FY09	1QFY10	2QFY10	3QFY10	4QFY10	1QFY11	2QFY11	3QFY11	4QFY11	1QFY12	2QFY12
Economy	24.0	21.0	25.1	25.7	24.6	23.1	23.4	25.8	27.3	27.3	27.7	27.9	28.2
Executive	1.1	1.5	0.5	0.2	0.9	0.5	1.5	1.4	1.9	1.1	0.6	0.2	0.3
Premium	11.3	9.3	9.3	8.9	9.4	9.5	8.3	8.9	8.4	8.5	8.9	8.6	8.8
Overall	8.3	7.8	7.1	7.3	5.3	6.2	6.5	7.3	7.4	7.0	6.9	6.4	6.9

Source: Crisinfac, Nomura research

The company has been able to capitalize on the three-wheeler opportunity in export markets. Its volumes increased by 200% y-y in 1HFY12 in the export markets. We expect export volumes to increase at 69% in FY12F and 40% in FY13F. We have built in only a 10% y-y increase in FY13F for domestic three-wheeler volumes on a very low base. If permits open up in Tamil Nadu or Karnataka, it could lead to a sharp improvement in volumes, we believe.

Fig. 9: Three-wheeler volumes remain robust



Source: Company data, SIAM, Nomura research

Indonesia operations: expect lower losses to continue until FY14F

Indonesia has been a tough market for all Indian entrants, in our view. Even though management expects to achieve cash break-even in FY13, we have built in investments (due to losses) of INR 0.4bn in FY13F and INR0.2bn in FY14F. We thus do not assign any value to this venture at this stage. If the company is able to achieve its target of cash breakeven with some successful products, there could be upside to our estimates.

TVSL increased Indonesian volumes by 32% y-y to 19,800 units in FY11. Net losses came down to INR620mn in FY11 from INR1.0bn in FY10.

We note the two-wheeler market in Indonesia is 7.4mn units (in 2010) with volume growth expectations of 15% in 2011F and 2012F. Thus, if TVS is able to have even one successful product in that market, its performance in the Indonesian market could turn. However, since the visibility on this is low, we have built in losses for next two years and assigned no value to this venture.

Investments in subsidiaries to come down in FY13F

According to management, the company will invest INR1.9bn in subsidiaries in FY12, of which around INR0.5bn will be invested in its financing arm, INR0.4bn in TVS Energy and INR0.25bn in Sundaram Auto Components. We note that the company already has invested INR1.65bn in 1HFY12, so incremental investments in 2HFY12F should be minimal. However, investments in subsidiaries will likely come down significantly to INR0.6mn in FY13F, as per the company. This should help TVS reduce its debt levels and allay investor concerns on the company's balance sheet, we believe.

2Q FY12 results above expectations on higher realizations

TVS declared adj PAT of INR765mn, which was 7-9% ahead of our and consensus estimates. This was primarily due to higher realizations driven by price increases and improved product mix. The EBITDA margin came in at 6.9%, largely in-line our expectations as the benefit of lower RM/sales was offset by higher other opex. The company expects raw material costs to decline in next few quarters along with a decrease in commodity prices.

Key result highlights

- Net sales at INR19.5bn were ahead of our estimate of INR18.8bn
- EBITDA margins came in at 6.9%, in-line with our estimate of 6.8%
- RM/sales came in at 75.5% versus our estimate of 76%
- Employee cost/sales came in at 4.8% versus our estimate of 5.0%
- Other expenses/sales came in at 14.7% versus our estimate of 14.3%
- Effective tax rate was 24.1% versus our estimate of 24%.
- During the quarter, TVSL invested INR545mn in subsidiaries

In Oct 11, volumes came in at 183,718 units, compared with 195,271 units in Oct-10. However this decline was due to annual maintenance shutdown taken in Oct-11 as against no shutdown taken in Oct-10. Retail volume growth was 20% for the festival season as compared to the previous festival season. Management is confident of achieving 15% y-y plus growth for FY12F.

Fig. 10: 2QFY12 results

INR mn	2QFY11A	1QFY12A	2QFY12A	Y/Y	Q/Q	2QFY12F
Net Sales	**15,898.3**	**17,072.7**	**19,521.6**	22.8%	14.3%	**18,851.1**
Change (%)	*42.5*	*24.7*	*22.8*			*18.6*
Expenses	15,087.5	16,289.2	18,535.0	22.9%	13.8%	17,961.6
(Inc/Dec in Stock	-447.3	276.4	0.0			0.0
Raw Materials	12,163.0	12,767.9	14,730.6	21.1%	15.4%	14,326.8
RM/Sales	73.7	76.4	75.5			76.0
RM/Vehicle	22,317.6	23,885.0	24,378.0	9.2%	2.1%	23,709.7
Staff Cost	847.3	909.1	938.0	10.7%	3.2%	939.1
Other Expenditure	2,524.5	2,335.8	2,866.4	13.5%	22.7%	2,695.7
Operating Profit	**810.8**	**783.5**	**986.6**	21.7%	25.9%	**889.5**
Change (%)	*69.5*	*17.8*	*21.7*			*9.7*
As % of Net Sales	*5.1*	*4.6*	*5.1*			*4.7*
EBITDA margin(%)	*6.7*	*6.7*	*6.9*			*6.8*
Other Income	289.9	387.6	419.4	44.7%	8.2%	428.0
Extraordinary Income(Expense)	-0.9	0.2	0.0			0.2
Interest	142.3	115.8	111.5	-21.6%	-3.7%	115.8
Depreciation	279.8	276.9	285.9	2.2%	3.3%	276.9
PBT	**677.7**	**778.6**	**1,008.6**	48.8%	29.5%	**924.9**
Tax	129.9	190.6	243.5			222.0
Effective Tax Rate (%)	*19.2*	*24.5*	*24.1*			*24.0*
PAT	**547.8**	**588.0**	**765.1**	39.7%	30.1%	**702.9**
Change (%)	*123.1*	*45.6*	*39.7*			*28.3*
PAT Margin	*3.4*	*3.4*	*3.8*			*3.6*
EPS	1.15	1.24	1.61	**39.7%**	**30.1%**	1.48

Source: Company data, Nomura estimates

Fig. 11: Ratios

	2QFY11A	1QFY12A	2QFY12A	Y/Y	Q/Q	2QFY12F
staff cost / sales	5.3%	5.3%	4.8%	0.0%	0.3%	5.0%
Other exp / sales	15.9%	13.7%	14.7%	-1.2%	1.0%	14.3%
RM / Sales	73.7%	76.4%	75.5%	1.8%	-0.9%	76.0%
Gross margins	26.3%	23.6%	24.5%	-1.8%	0.9%	24.0%
OPM	5.1%	4.6%	5.1%	0.0%	0.5%	4.7%
EBITDA per vehicle (INR)	1545	1435	1633	5.7%	13.8%	1472
RM/vehicle (INR)	22,318	23,885	24,378	9.2%	2.1%	23710
Realisation per vehicle (INR)	30285	31261	32307	6.7%	3.3%	31197

Source: Company data, Nomura estimates

Appendix A-1

Analyst Certification

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Mentioned companies

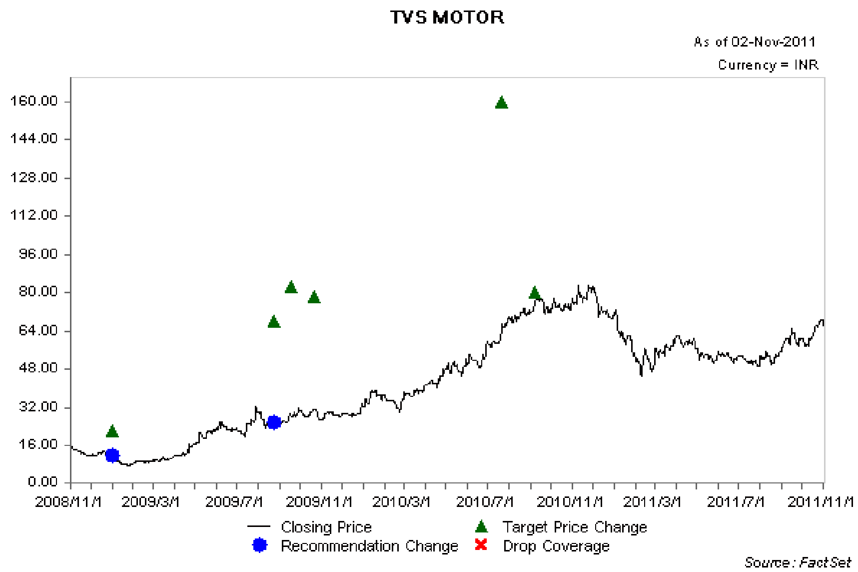
Issuer name	Ticker	Price	Price date	Stock rating	Sector rating	Disclosures
TVS Motor	TVSL IN	INR 67	04-Nov-2011	Buy	Not rated	

Previous Rating

Issuer name	Previous Rating	Date of change
TVS Motor	Neutral	24-Aug-2009

TVS Motor (TVSL IN) **INR 67 (04-Nov-2011)** Buy (Sector rating: Not rated)

Rating and target price chart (three year history)



Date	Rating	Target price	Closing price
08-Sep-2010		80.00	76.80
22-Jul-2010		160.00	66.72
23-Oct-2009		78.30	31.18
18-Sep-2009		82.70	28.32
24-Aug-2009		67.90	25.50
24-Aug-2009	Buy		25.50
02-Jan-2009		21.80	11.85
02-Jan-2009	Neutral		11.85

For explanation of ratings refer to the stock rating keys located after chart(s)

Valuation Methodology We value TVS based on DCF using 4% terminal growth and 13.1% cost of equity. We have discounted our cashflows back to Oct-12 to arrive at our one year forward target price of INR87.

Risks that may impede the achievement of the target price • Slower-than-expected GDP growth: Our FY13F domestic volume growth estimates of 8% are based on Nomura's GDP growth assumption of 7.9% in FY13F. In case GDP growth slows substantially, there would be downside risks to our estimates. • Increased competition: We believe that the intensity of competition will remain low for TVS, especially in the mopeds and scooters segments. In case there are aggressive new entrants, there will be downside risk to our estimates. • Higher-than-expected raw material costs: We have built in some decline in raw material costs due to decline in commodity prices. If commodity prices are higher than expected, there can be downside risks to our estimates.

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Explanation of Nomura's equity research rating system for Asian companies under coverage ex Japan published from 30 October 2008 and in Japan from 6 January 2009

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Explanation of Nomura's equity research rating system in Japan published prior to 6 January 2009

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