



TVS Motor

STOCK INFO.	BLOOMBERG
BSE SENSEX: 18,513	TVSS IN
	REUTERS CODE
S&P CNX: 5,496	TVSS.BO

24 October 2007

Neutral

Previous Recommendation: Neutral

Rs57

Equity Shares (m)	237.5
52-Week Range	118/53
1,6,12 Rel. Perf. (%)	-32/-31/-94
M.Cap. (Rs b)	13.5
M.Cap. (US\$ b)	0.3

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
3/07A	38,550	666	2.8	-37.9	20.2	1.7	8.2	7.7	0.4	11.3
3/08E	37,456	456	1.9	-31.6	29.5	1.6	5.4	5.9	0.4	13.3
3/09E	40,542	673	2.8	47.8	20.0	1.5	7.6	7.6	0.4	9.6

- TVS Motor reported disappointing numbers yet again - adj. PAT declined 79.5% YoY to Rs51m (v/s expectation of Rs70m) in 2QFY08, while EBITDA margin was 2.4% (280bp lower YoY, flat QoQ).
- Net sales declined 23.6% YoY on the back of a volume decline of 22.9% in 2QFY08, and 1% lower realization. TVS Motor has been severely impacted by the slowdown in motorcycle sales, with volumes declining 44% YoY in 2QFY08.
- While the EBITDA was flat on a QoQ basis, it declined 280bp YoY on account of higher RM/Sales (76.1% v/s 73.9% in 2QFY07) and higher staff cost/net sales at 5.8% (v/s 4.3% in 2QFY07). However, other expenditure was lower (15.6% v/s 16.6% in 2QFY08). EBITDA declined by 64.5% YoY to Rs199m, while the adj. PAT declined to Rs51m.
- There was a net extraordinary gain of Rs102m - Rs293m gain on restatement of external commercial borrowings and accelerated amortization of deferred product launch expenses on certain motorcycle variants amounting to Rs191.4m.
- We expect TVS to continue facing margin pressure in FY08 due to high raw material costs and increased marketing expenses following the consolidation of the product portfolio and intense competitive activity. We expect TVS to face pressure on volumes as well as the operating level in FY08. We expect volume decline of 4.2% in FY08. The stock trades at 29.5x FY08E EPS of Rs1.9 and 20x FY09E EPS of Rs2.8. Maintain **Neutral**.

Y/E MARCH	QUARTERLY PERFORMANCE								(RS MILLION)	
	FY07				FY08				FY07	FY08E
	1Q	2Q	3Q	4Q	1Q	2Q	3QE	4QE		
Total Volumes (nos)	375,496	419,195	363,670	369,853	320,161	322,996	390,000	430,340	1,528,214	1,463,497
Net Sales	9,218	10,779	9,354	9,199	7,833	8,234	10,232	11,157	38,550	37,456
Change (%)	25.4	36.6	7.3	9.6	-15.0	-23.6	9.4	21.3	19.2	-2.8
Total Cost	8,802	10,219	9,058	9,098	7,642	8,036	9,884	10,733	37,177	36,295
EBITDA	416	560	296	101	191	199	348	423	1,373	1,161
As % of Sales	4.5	5.2	3.2	1.1	2.4	2.4	3.4	3.8	3.6	3.1
Change (%)	-16.3	21.9	-51.2	-79.1	-54.0	-64.5	17.4	320.1	-32.9	-15.4
Other Income	178	109	176	270	182	179	200	234	732	795
Interest	60	62	86	113	98	70	85	95	321	348
Depreciation	233	244	245	154	239	240	250	260	876	989
Extraordinary Gain / (Expense)	0	0	0	0	72	102	0	0	0	174
PBT	301	363	141	103	109	169	213	302	909	793
Tax	89	114	27	13	34	50	50	71	243	204
Effective Tax Rate (%)	29.5	31.5	18.8	12.6	30.8	29.6	23.5	23.4	26.7	25.8
PAT	213	248	115	90	75	119	163	231	666	589
Change (%)	-14.6	-22.3	-63.1	-68.9	-64.5	-52.0	42.1	155.7	-43.1	-11.6
Adj.PAT	213	248	115	90	10	51	163	231	666	456
Change (%)	-14.6	11.6	-63.1	-68.9	-95.1	-79.5	42.1	155.7	-37.9	-31.6

E: MOST Estimates

Lower volume growth due to industry slowdown

In 2QFY08, TVS Motor sold 322,996 two wheelers. Volumes declined 22.9% YoY but were higher 0.9% QoQ. While scooter sales have been positive and moped sales are strong in 2QFY08, the steep decline in motorcycle volumes is a cause for concern. Comparatively, motorcycle sales of the industry have declined 11.7%, while the overall two-wheeler sales of the industry have declined 7.1% in 2QFY08.

TVS Motor's volumes have declined due to the slow down in the two-wheeler industry on account of higher interest rates on two-wheeler financing. In the motorcycles segment, in particular, sales have been impacted by the higher interest costs and the stringent norms being followed by the retail financiers. On the other hand, since mopeds and scooter sales are not as dependant on financing for sales, these segments have seen higher growth rates.

In FY08, we expect TVS to register an overall volume decline of 4.2% - motorcycle volumes are expected to decline 17.5%, moped sales are expected to increase by 19% and scooter sales by 3.5%.

QUARTERLY SALES VOLUMES (UNITS)

	2QFY08	2QFY07	% GR.	1QFY08	% GR.
Motorcycle	144,423	258,321	-44.1	150,530	-4.1
Mopeds	103,393	87,510	18.1	99,553	3.9
Scooters	75,180	73,364	2.5	70,078	7.3
Total	322,996	419,195	-22.9	320,161	0.9

Source: Company/Motilal Oswal Securities

TVS Motor has announced seven new products, which will be launched in a phased manner over October and November. These launches will attempt to revive the flagging motorcycle sales and will also mark its entry into the three-wheeler segment. The new launches announced by the company are- New 125cc bike Flame, 160cc variant of Apache bike, 110cc version of Star City bike, Electric scooter model. Three-wheelers are to be launched in petrol, CNG and LPG versions.

EBITDA margin flat

Net sales declined 23.6% YoY on the back of a volume decline of 22.9% in 2QFY08, and 1% lower realization. TVS Motor has been severely impacted by the slowdown in motorcycle sales, with volumes declining 44% YoY in 2QFY08.

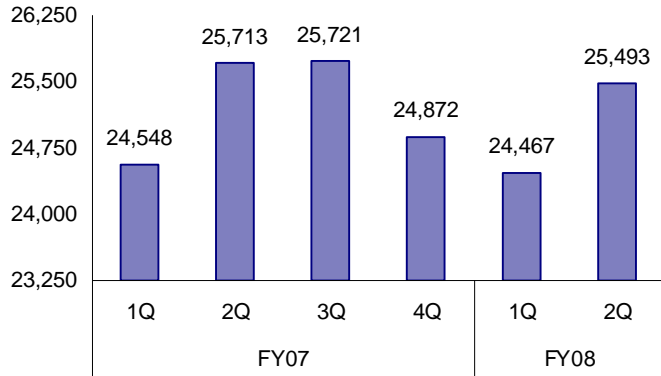
While the EBITDA was flat on a QoQ basis, it declined 280bp YoY on account of higher RM/Sales (76.1% v/s 73.9% in 2QFY07) and higher staff cost/net sales at 5.8% (v/s 4.3% in 2QFY07). However, other expenditure was lower (15.6% v/s 16.6% in 2QFY08). EBITDA declined by 64.5% YoY to Rs199m, while the adj. PAT declined to Rs51m.

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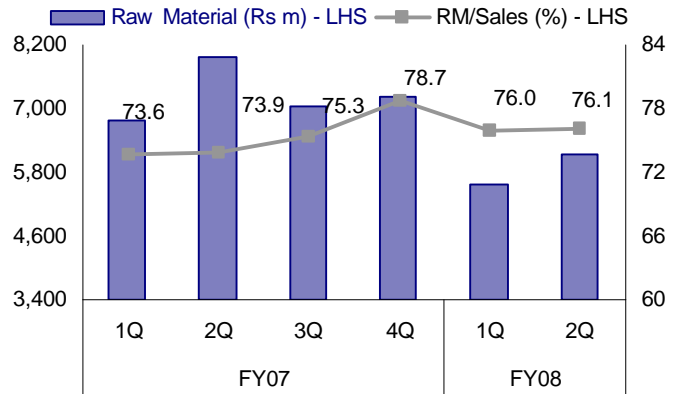
While TVS Motors EBITDA margin was always lower than that of the top 2 in the two-wheeler industry, its margin pressure has intensified in the past four quarters on account of the intense competition prevailing in the industry, higher ad spend, and a series of new launches in a very short space of time (the company announced seven new products to be launched in the festival season). The management is making constant efforts at rationalization of expenses and cost reduction, with an objective of improving the margins. However, these are yet to have a positive impact on the margins.

TVS plans to invest Rs500-600m annually to increase its capacities, invest in product lines and launch new products with an aim to consolidate its position in the domestic market. The company plans to invest ~3% of its turnover in R&D and developing future technologies (2.6% in FY07 and 2.3% in FY06).

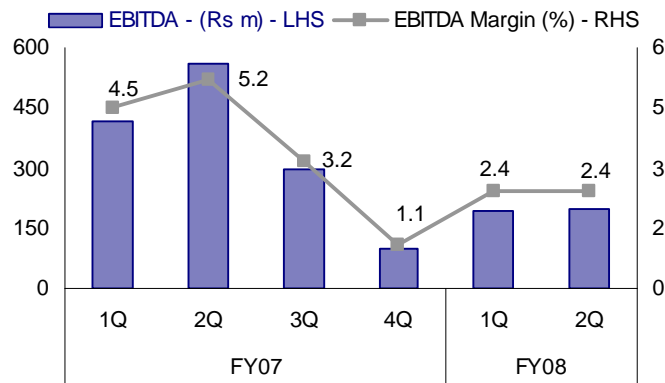
REALIZATIONS DROP 1%



RM COST STILL HIGHER



EBITDA MARGIN UNDER PRESSURE



Source: Company/Motilal Oswal Securities

Valuation and view

We expect TVS to continue facing margin pressure in FY08 due to high raw material costs and increased marketing expenses following the consolidation of the product portfolio and intense competitive activity. We expect TVS to face pressure on volumes as well as the operating level in FY08. We expect volume decline of 4.2% in FY08. The stock trades at 29.5x FY08E EPS of Rs1.9 and 20x FY09E EPS of Rs2.8. **Maintain Neutral.**

Source: Company/Motilal Oswal Securities

TVS Motor: an investment profile

Company description

TVS Motor is a two-wheeler manufacturing company belonging to the Sundaram Group. The company, predominantly a manufacturer of ungeared scooters and motorcycles, will also be entering the three-wheeler segment within the next few months.

Key investment arguments

- Possibility of dramatic success of the much awaited three-wheeler.
- Possibility of new launches in the executive and premium segments driving volumes and profitability.

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 and hence affect profitability.
- Operating performance remains an area of concern.

Recent developments

- The company has announced the launch of seven new products, which may help them to post higher volumes in the near future.

Valuation and view

- We expect volume decline of 4.2% in FY08. The stock trades at 29.5x FY08E EPS of Rs1.9 and 20x FY09E EPS of Rs2.8. Maintain **Neutral**.

Sector view

- Numerous motorcycle launches will lead to an increase in the competitive scenario.
- Despite number of players, market share remains concentrated among the top two.

COMPARATIVE VALUATIONS

		TVSM	BAL	HERO HONDA
P/E (x)	FY08E	29.5	17.9	16.9
	FY09E	20.0	15.6	14.4
EPS Gr (%)	FY08E	-31.6	9.1	1.2
	FY09E	47.8	14.5	17.2
RoE (%)	FY08E	5.4	21.6	32.4
	FY09E	7.6	21.0	31.7
EV/EBITDA (x)	FY08E	13.3	12.5	14.3
	FY09E	9.6	10.1	12.2

SHAREHOLDING PATTERN (%)

	SEP-07	JUN-07	SEP-06
Promoter	56.8	56.8	56.8
Domestic Inst	17.7	19.0	19.7
Foreign	4.8	4.8	6.9
Others	20.7	19.4	16.6

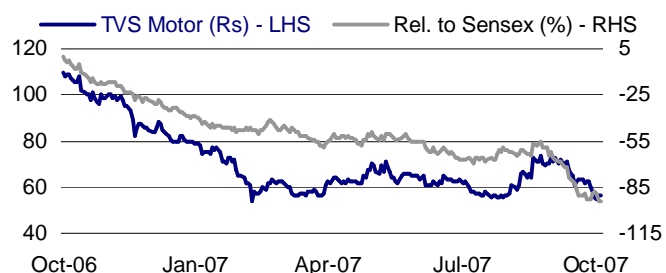
EPS: MOST FORECAST VS CONSENSUS (RS)

	MOST FORECAST	CONSENSUS FORECAST	VARIATION (%)
FY08	1.9	4.3	-55.6
FY09	2.8	4.0	-30.8

TARGET PRICE AND RECOMMENDATION

CURRENT PRICE (RS)	TARGET PRICE (RS)	UPSIDE (%)	RECO.
57	51	-	Neutral

STOCK PERFORMANCE (1 YEAR)



INCOME STATEMENT					
(Rs Million)					
Y/E MARCH	2005	2006	2007	2008E	2009E
Net Sales	28,759	32,350	38,550	37,456	40,542
Change (%)	2.0	12.5	19.2	-2.8	8.2
Total Expenditure	26,643	30,305	37,177	36,295	38,959
EBITDA	2,116	2,045	1,373	1,161	1,583
Change (%)	-18.4	-3.4	-32.9	-15.4	36.3
% of Net Sales	7.4	6.3	3.6	3.1	3.9
Depreciation	896	939	876	989	1,128
Interest & Fin. Ch.	8	131	321	348	348
Other Income	793	613	732	795	816
Non-recurring Income	0	97	0	174	0
PBT	2,005	1,684	908	793	922
Tax	629	515	243	204	249
Effective Rate (%)	31.4	30.5	26.7	25.8	27.0
PAT	1,376	1,170	666	589	673
Change (%)	-0.7	-15.0	-43.1	-11.6	14.3
% of Net Sales	4.8%	3.6%	1.7%	1.6%	1.7%
Adj. PAT	1,376	1,073	666	456	673
Change (%)	-0.7	-22.0	-37.9	-31.6	47.8

BALANCE SHEET					
(Rs Million)					
Y/E MARCH	2005	2006	2007	2008E	2009E
Share Capital	238	238	238	238	238
Reserves	6,551	7,424	7,855	8,207	8,583
Net Worth	6,788	7,661	8,093	8,444	8,820
Deferred Tax	1,485	1,490	1,590	1,590	1,590
Loans	1,868	3,850	6,336	6,336	6,336
Capital Employed	10,142	13,002	16,018	16,370	16,746
Gross Fixed Assets	12,872	13,784	14,830	18,133	19,477
Less: Depreciation	5,236	6,116	6,859	7,848	8,977
Net Fixed Assets	7,636	7,668	7,971	10,285	10,501
Capital WIP	69	270	2,058	0	0
Investments	1,754	3,442	3,447	3,447	3,447
Curr.Assets, L & Adv.	5,117	6,556	8,224	8,120	8,743
Inventory	2,332	3,579	3,966	3,853	4,171
Sundry Debtors	396	582	1,114	1,082	1,172
Cash & Bank Balances	739	244	866	906	1,122
Loans & Advances	1,647	2,149	2,276	2,276	2,276
Current Liab.&Prov.	5,078	5,869	6,268	6,068	6,530
Sundry Creditors	4,522	5,245	5,770	5,607	6,068
Provisions	556	624	497	462	462
Net Current Assets	39	687	1,957	2,052	2,213
Application of Funds	10,142	13,002	16,018	16,370	16,746

E: MOS Estimates

RATIOS					
Y/E MARCH	2005	2006	2007	2008E	2009E
Basic (Rs)					
EPS	5.8	4.5	2.8	1.9	2.8
Cash EPS	9.6	8.9	6.5	6.6	7.6
Book Value per Share	28.6	32.3	34.1	35.6	37.1
DPS	13	13	0.9	10	13
Payout (Incl. Div. Tax) %	22.5	29.7	34.1	46.4	50.7
Valuation (x)					
P/E		12.5	20.2	29.5	20.0
Cash P/E		6.4	8.7	8.5	7.5
EV/EBITDA		6.7	11.3	13.3	9.6
EV/Sales		0.4	0.4	0.4	0.4
Price to Book Value		1.8	1.7	1.6	1.5
Dividend Yield (%)		2.3	1.5	1.8	2.2
Profitability Ratios (%)					
RoE	20.3	14.0	8.2	5.4	7.6
RoCE	19.8	13.2	7.7	5.9	7.6
Leverage Ratio					
Debt/Equity (x)	0.3	0.5	0.8	0.8	0.7

CASH FLOW STATEMENT					
(Rs Million)					
Y/E MARCH	2005	2006	2007	2008E	2009E
OP/(Loss) before Tax	1,219	1,106	497	172	454
Interest/Div. Received	793	613	732	795	816
Depreciation & Amort.	896	939	876	989	1,128
Direct Taxes Paid	-374	-510	-143	-204	-249
(Inc)/Dec in Working Capital	239	-1,144	-647	-55	55
Other Items	-516	-291	318	0	0
CF from Oper. Activity	2,258	714	1,633	1,697	2,205
(Inc)/Dec in FA+CWIP	-1,559	-1,172	-2,968	-1,245	-1,344
(Pur)/Sale of Invest.	-474	-1,688	-6	0	0
CF from Inv. Activity	-2,033	-2,860	-2,973	-1,245	-1,344
Changes in Reserves	-28	50	0	0	0
Inc/(Dec) in Debt	678	1,982	2,485	0	0
Interest Paid	-8	-131	-321	-348	-348
Dividends Paid	-309	-347	-202	-238	-297
CF from Fin. Activity	334	1,554	1,963	-586	-645
Inc/(Dec) in Cash	559	-495	623	40	216
Add: Beginning Balance	180	739	244	866	906
Closing Balance	739	244	866	906	1,122



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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

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