

TVS Motors

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Shareholding (%)

Promoters	56.8
FII's	4.4
MFs	10.1
FI's/Banks.	8.8
Others	19.9

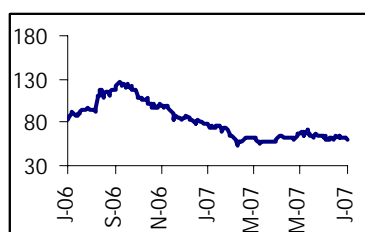
Share price performance

52-week high/low (Rs) 129/51

	-1m	-3m	-12m
Abs (%)	-7.5	-2.4	-28.2
Rel* (%)	-10.5	-10.5	-69.1

*to Nifty

Stock chart



Disappointing results...

TVS Motors reported disappointing numbers for Q1FY08; the company's topline declined 15% YoY to Rs 7833.3 mn due to a 15% decline in overall volumes. EBIDTA was down 54% YoY to Rs191.2mn with margins shrinking further. Net profits, inflated by extraordinary income, were down 65% to Rs75.4mn.

▲ Topline slips: During Q1FY08, TVS Motors' topline declined 15% YoY to Rs 7833.3 mn, due to a 15% fall in overall volumes. The motorcycle segment was the worst hit, marked by a 36% decline in volumes. The impact of this decline, however, was negated to some extent by the good performance of the scooterette segment that grew 19% YoY.

▲ Operating margins remain under pressure: TVS Motors' EBIDTA was down by a concerning 54% YoY to Rs 191.2 mn. Though the company has been able to increase its margins by 140 bps over last quarter to 2.4%, the margins remain low on a YoY basis. The company has high exposure to the low-margin, economy segment, as 88% of its total bikes sold belong to this segment. TVS Motors is likely to face stiff competition in the economy segment from Bajaj Auto Limited (BAL), that is coming up with its all new platform by sep-07, and Hero Honda Motors Limited (HHML), that is launching its new products aggressively. We believe that TVS Motors would find it difficult to compete with these two automobile majors on the pricing front, without compromising on its margins.

▲ Net profits down 65% YoY: TVS Motors' bottomline was severely impacted by the poor performance on the operating front and higher interest and depreciation charges. Net profits were down 65% YoY to Rs 75.4 mn. The profits would have been lower, but for the extraordinary income of Rs 72.2 mn. Net profit margins declined by a significant 130bps to 1%.

▲ Valuation: In an attempt to reduce its exposure to the economy segment, TVS Motors has started upgrading its offerings in the premium segment with high-margin products. The company is also diversifying its product portfolio by entering the three-wheeler segment and renewing its focus on exports. However, all these efforts are yet to show results. Going forward, stiff competition and rising input prices may impact the company's margins.

Sell

Rs59

July 27, 2007

Market cap

Rs bn 14

US\$ mn 346

Avg 3m daily volume

1,040,739

Avg 3m daily value

USD mn 2

Shares outstanding (mn)

238

Reuters

TVSM.BO/TVSMOTOR.NS

Bloomberg

TVS IN

Sensex

15,235

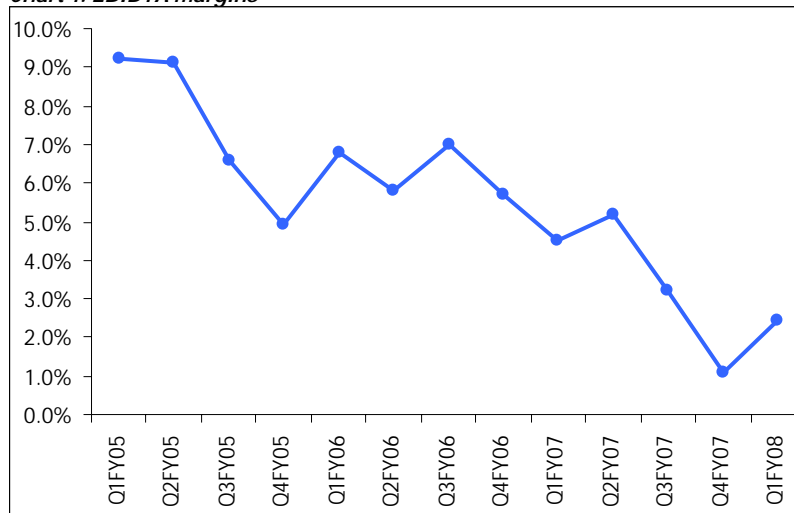
Nifty

4,445

TVS Motors

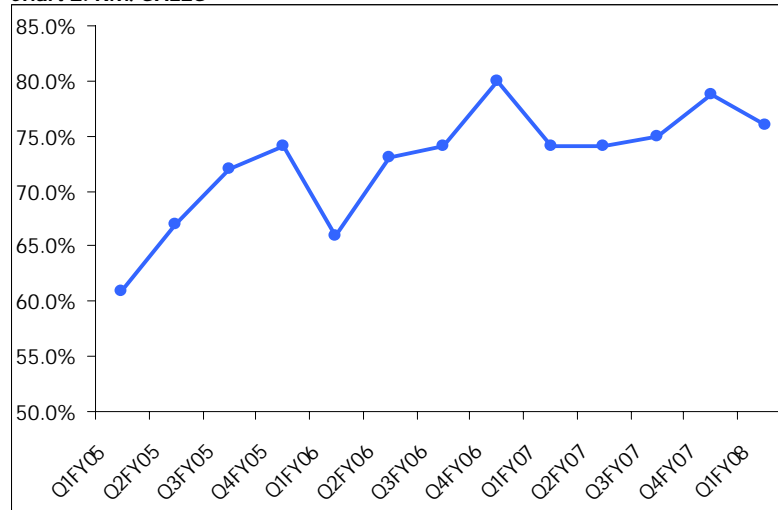
We believe that TVS Motors is squeezed between the top two players due to its high operating leverage and exposure to products in the low-margin business. The company is finding it difficult to compete with its peers. At the current market price of Rs58.5, the stock trades at 25.7x FY08E. We maintain a 'Sell' on the stock.

Chart 1. EBIDTA margins



Source: IISL research, company

Chart 2. RM/SALES



Source: IISL research, company

TVS Motors

Table 1. Quarterly result table

Rs mn	Q1FY08	Q1FY07	YoY (%)	Q4FY07	QoQ (%)
Net Sales	7,833.3	9,217.8	-15%	9,198.8	-15%
Total Expenses	7,642.1	8,801.8	-13%	9,098.0	-16%
Inc / Dec in stock	377.5	668.2	-44%	566.0	-33%
Raw material consumed	5,575.7	6,116.5	-9%	6,674.1	-16%
Empolyee cost	467.2	429.0	9%	369.7	26%
Other Expenses	1,221.7	1,588.1	-23%	1,488.2	-18%
EBIDTA	191.2	416.0	-54%	100.8	90%
Other Income	182.3	178.4	2%	269.6	-32%
PBIDT	373.5	594.4	-37%	370.4	1%
Interest	97.8	59.7	64%	113.1	-14%
Gross Profit	275.7	534.7	-48%	257.3	7%
Depreciation	239.0	233.3	2%	153.8	55%
PBT	36.7	301.4	-88%	103.5	-65%
Tax	33.5	88.8	-62%	13.0	158%
PAT	3.2	212.6	-98%	90.5	-96%
Extraordinary items	(72.2)	-			
Adjusted Net profit	75.4	212.6	-65%	90.5	-17%
Equity	237.5	237.5		237.5	
EPS	0.32	0.90		0.38	
Key Ratios (%)					
EBIDTA Margin	2.4	4.5		1.1	
Interest / Sales	1.2	0.6		1.2	
Tax / PBT	91.3	29.5		12.6	
NPM	1.0	2.3		1.0	

Source: IISL research, company

Table 2. Estimates

Rs mn	FY06	FY07	FY08E	FY09E
Sales	32,350	38,550	39,706	42,486
Growth (YoY)		19%	3%	7%
EBIDTA	2,045	1,373	1,588	1,784
Growth (YoY)		-33%	16%	12%
EBIDTA margin	6%	4%	4%	4%
PAT	1,170	666	540	646
Growth (YoY)		-43%	-19%	20%
PAT margin	4%	2%	1%	2%
EPS	4.9	2.8	2.3	2.7
P/E	11.9	20.9	25.7	21.5

Source: IISL research, company

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