



TVS Motor

STOCK INFO. BLOOMBERG
BSE SENSEX: 12,962 TVSL IN
REUTERS CODE
S&P CNX: 3,897 TVSS.BO

1 July 2008

Neutral

Previous Recommendation: Neutral

Rs24

Actual Equity Shares (m)	237.5
Equity Shares (m)	237.5
52-Week Range	79/24
1,6,12 Rel. Perf. (%)	-12/-30/-48
M.Cap. (Rs b)	5.8
M.Cap. (US\$ b)	0.1

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	8.7	0.7	8.2	7.7	0.2	5.7
3/08E	32,195	437	1.8	-34.4	13.3	0.7	5.3	3.1	0.3	11.2
3/09E	36,430	338	1.4	-22.7	17.2	0.7	4.0	4.6	0.2	7.5
3/10E	40,094	612	2.6	81.0	9.5	0.7	7.0	6.4	0.2	5.2

- TVS Motor's operating performance for 4QFY08 was better than we had anticipated. EBITA grew 80.2% YoY to Rs182m. Net sales declined 19.8% YoY to Rs7.4b (in line with our expectation), led by 17.4% volume decline and 3% decline in average realization. In FY08, the company was severely impacted by the slowdown in motorcycle sales.
- EBITDA margin expanded 140bp YoY and 80bp QoQ to 2.5% mainly on account of lower RM/sales and staff cost. In view of the current high raw material scenario, we believe that the company has managed its operating cost efficiently in a quarter of declining volumes.
- There were two adjustments in 4QFY08: (1) due to higher provision of deferred tax in earlier quarters, there was a tax write-back of Rs61m; and (2) extraordinary expense of Rs330m on account of accelerated amortization of moulds and dies, and deferred product launch expense. In view of this, adjusted PAT increased 286.6% YoY to Rs350m.
- In FY08, net sales declined 16.5% on 15.7% volume drop and 1% decline in realizations. The company witnessed sharp erosion of margins to 2.2% (drop of 140bp) – the lowest in any year. Adjusted PAT declined 34.4% to Rs437m.
- TVS Motor has balanced its motorcycle portfolio well by launching products and variants in all segments. We expect the company to report positive volume growth in FY09 and FY10. It also launched a 4-stroke three-wheeler in FY08. We expect the company to sell 1,000-1,200 units per month in 2HFY09. This would also aid margin expansion in FY09-10.
- The stock trades at 17.2x FY09E EPS of Rs1.4 and 9.5x FY10E EPS of Rs2.6. We maintain **Neutral**.

QUARTERLY PERFORMANCE

Y/E MARCH	FY07				FY08				FY07	FY08E
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q		
Total Volumes (nos)	375,496	419,195	363,670	369,853	320,161	322,996	339,956	305,665	1,528,214	1,288,778
Net Sales	9,218	10,779	9,354	9,199	7,833	8,234	8,750	7,377	38,550	32,195
Change (%)	25.4	36.6	7.3	9.6	-15.0	-23.6	-6.5	-19.8	19.2	-16.5
Total Cost	8,802	10,219	9,058	9,098	7,642	8,036	8,600	7,196	37,177	31,474
EBITDA	416	560	296	101	191	199	150	182	1,373	721
As % of Sales	4.5	5.2	3.2	1.1	2.4	2.4	1.7	2.5	3.6	2.2
Change (%)	-16.3	21.9	-51.2	-79.1	-54.0	-64.5	-49.3	80.2	-32.9	-47.5
Other Income	178	109	176	270	182	179	211	147	732	719
Interest	60	62	86	113	98	70	85	-232	321	22
Depreciation	233	244	245	154	239	240	240	227	876	946
Extraordinary Gain / (Expense)	0	0	0	0	72	102	36	-330	0	-119
PBT	301	363	141	103	109	169	72	3	909	354
Tax	89	114	27	13	34	50	14	-61	243	36
Effective Tax Rate (%)	29.5	31.5	18.8	12.6	30.8	29.6	19.3	-1,808.5	26.7	10.2
PAT	213	248	115	90	75	119	58	65	666	318
Change (%)	-14.6	-22.3	-63.1	-68.9	-64.5	-52.0	-49.1	-28.4	-43.1	-52.3
Adj.PAT	213	248	115	90	10	51	26	350	666	437
Change (%)	-14.6	11.6	-63.1	-68.9	-95.1	-79.5	-77.6	286.6	-37.9	-34.4

E: MOST Estimates

QUARTERLY SALES VOLUMES (UNITS)

	4QFY08	4QFY07	% GR.	3QFY07	% GR.	FY08	FY07	% GR.
Motorcycle	146,434	213,028	-31.3	176,158	-16.9	617,545	924,503	-33.2
Mopeds	110,569	96,057	15.1	98,545	12.2	412,368	344,902	19.6
Scooters	48,662	60,768	-19.9	65,253	-25.4	258,865	258,809	0.0
Total	305,665	369,853	-17.4	339,956	-10.1	1,288,778	1,528,214	-15.7

Source: Company/Motilal Oswal Securities

Volumes decline 17.4% YoY in 4QFY08

In 4QFY08, TVS Motor sold 305,665 two-wheelers. Volumes declined 17.4% YoY. While moped sales were strong in 4QFY08, the continued steep decline in motorcycle volumes is a concern. Scooter volumes also declined 19.9% YoY in the quarter.

TVS Motor’s volumes have declined due to the slowdown in the two-wheeler industry on account of higher interest rates, stringent financing norms, and the high base of previous years. On the other hand, since moped and scooter sales are not as dependant on financing for sales, these segments have seen positive growth rates for the full year. Also, in FY08, the company was struggling to have a balanced product portfolio in the motorcycle segment.

In FY08, TVS registered an overall volume decline of 15.7% – motorcycle volumes have declined by 33.2%, moped sales have increased by 19.6%, and scooter volumes have remained flat.

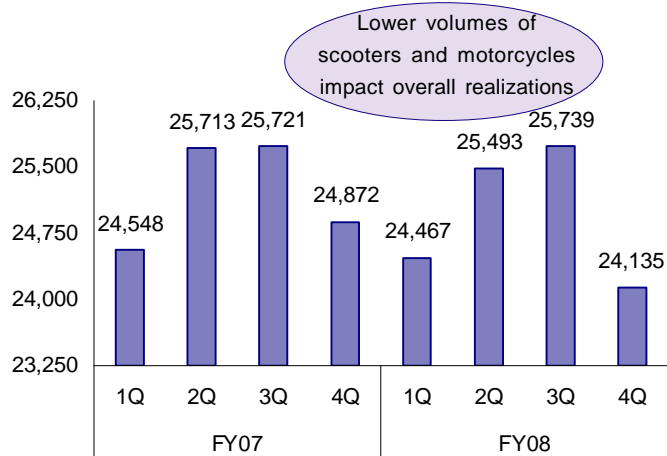
Exports witness steep 32% growth in FY08

TVS Motor’s exports have registered 32% growth in FY08 to 136,000 units. The company has increased its footprint to more than 50 countries in FY08. Exports should be a major growth driver, going forward also.

EBITDA margins expand 140bp YoY in 4QFY08

Net sales declined 19.8% YoY due to a volume decline of 17.4% and 3% realization decline. TVS Motor has been severely impacted by the slowdown in motorcycle sales, with its motorcycle volumes declining 31.3% YoY in 4QFY08.

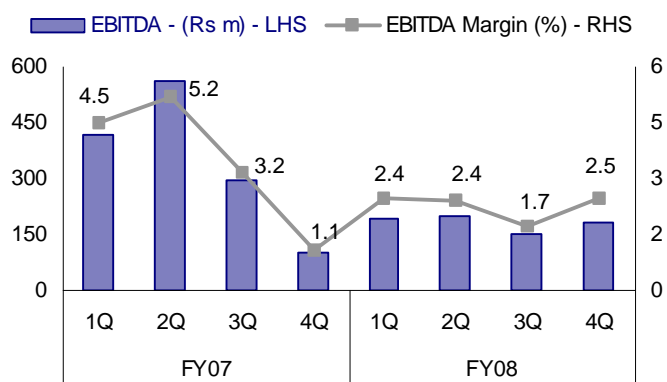
AVERAGE REALIZATION DECLINED 3% YOY AND 6% QOQ



Source: Company/Motilal Oswal Securities

EBITDA margin increased 140bp YoY and 80bp QoQ to 2.5%, mainly on account of the lower RM/sales and staff cost. In view of the current high raw material scenario, we believe that the company has managed its operating cost efficiently in a quarter of declining volumes.

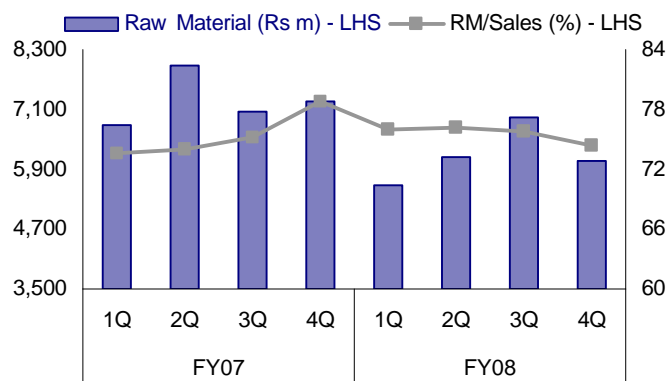
EBITDA MARGINS IMPROVED 140BP YOY



Source: Company/Motilal Oswal Securities

The company is continuing with its R&D and product development efforts and its normal advertising campaign; revival in volumes will see these expenses apportioned over higher revenues, thereby improving margins.

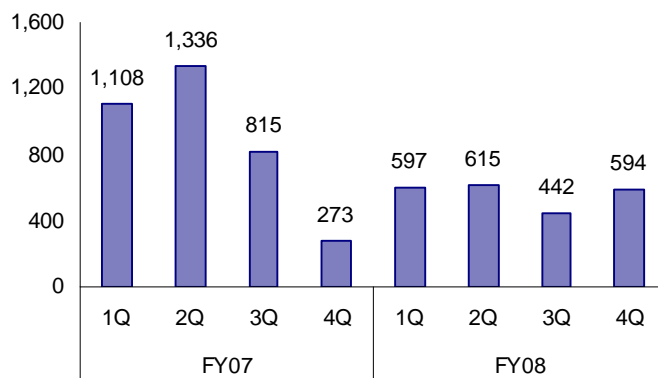
RM/SALES DECLINED TO 74.3% IN 4QFY08



Source: Company/Motilal Oswal Securities

While TVS Motor’s EBITDA margin was always lower than the top two players in the two-wheeler industry, its margin pressure has intensified in the past four quarters due to intense competition, high ad spend, and a series of new launches in a very short span of time. The management is making efforts to rationalize expenses and reduce cost to improve margins. However, these are yet to have a positive impact.

EBITDA PER VEHICLE FALLS



Source: Company/Motilal Oswal Securities

Valuation and view

With *Flame* and new variants launched towards the end of 2HFY08 and three-wheeler volumes to start contributing from 2HFY09 (we expect 1,000-1,200 units per month), we expect TVS Motor to report volume growth of 9.2% in FY09 and 9.05% in FY10.

With positive volume growth, cost cutting initiatives and rising contribution from three-wheelers, we expect margins to expand. We expect EBITDA margins of 3% and 3.8% in FY09 and FY10, respectively.

The stock trades at 17.2x FY09E EPS of Rs1.4 and 9.5x FY10E EPS of Rs2.6. 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 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.
- ✍ New 125cc bike Flame is yet to be launched due to ongoing litigation.
- ✍ Operating performance remains an area of concern.

Recent developments

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

Valuation and view

- ✍ We expect TVS to register a volume increase of 9.2% in FY09. The stock trades at 17.2x FY09E EPS of Rs1.4 and 9.5x FY10E EPS of Rs2.6. We maintain **Neutral**.

Sector view

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

COMPARATIVE VALUATIONS

		TVSM	BAL	HERO HONDA
P/E (x)	FY09E	23.8	7.9	15.8
	FY10E	13.1	6.8	13.5
EPS Gr (%)	FY09E	-22.7	15.8	17.2
	FY10E	81.0	16.0	24.3
RoE (%)	FY09E	4.0	43.4	31.7
	FY10E	7.0	37.5	28.7
EV/EBITDA (x)	FY09E	9.5	4.5	8.5
	FY10E	6.7	3.3	7.1

SHAREHOLDING PATTERN (%)

	MAR-08	DEC-07	MAR-07
Promoter	56.8	56.8	56.8
Domestic Inst	12.5	17.7	17.5
Foreign	6.4	4.7	5.7
Others	24.3	20.9	20.0

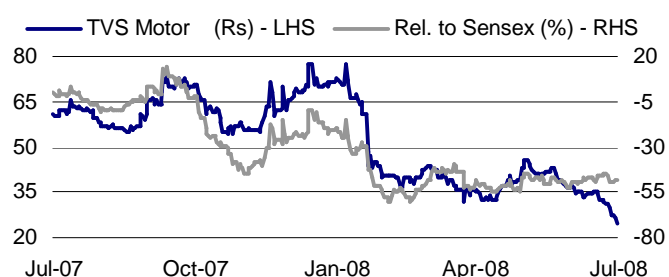
EPS: MOST FORECAST VS CONSENSUS (RS)

	MOST FORECAST	CONSENSUS FORECAST	VARIATION (%)
FY09	1.4	2.5	-43.5
FY10	2.6	3.7	-30.6

TARGET PRICE AND RECOMMENDATION

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

STOCK PERFORMANCE (1 YEAR)



INCOME STATEMENT		(Rs Million)				
Y/E MARCH	2006	2007	2008E	2009E	2010E	
Net Sales	32,350	38,550	32,195	36,430	40,094	
Change (%)	2.5	19.2	-16.5	13.2	10.1	
Total Expenditure	30,305	37,177	31,474	35,337	38,590	
EBITDA	2,045	1,373	721	1,093	1,504	
Change (%)	-3.4	-32.9	-47.5	51.5	37.6	
% of Net Sales	6.3	3.6	2.2	3.0	3.8	
Depreciation	939	876	946	1,079	1,155	
Interest & Fin. Ch.	131	321	22	348	348	
Other Income	613	732	719	732	719	
Non-recurring Income	97	0	189	0	0	
PBT	1,684	908	354	397	720	
Tax	515	243	36	60	108	
Effective Rate (%)	30.5	26.7	10.2	15.0	15.0	
PAT	1,170	666	318	338	612	
Change (%)	-15.0	-43.1	-52.3	6.3	81.0	
% of Net Sales	3.6%	1.7%	1.0%	0.9%	1.5%	
Adj. PAT	1,073	666	437	338	612	
Change (%)	-22.0	-37.9	-34.4	-22.7	81.0	

BALANCE SHEET		(Rs Million)				
Y/E MARCH	2006	2007	2008E	2009E	2010E	
Share Capital	238	238	238	238	238	
Reserves	7,424	7,855	8,007	8,107	8,481	
Net Worth	7,661	8,093	8,244	8,345	8,719	
Deferred Tax	1,490	1,590	1,590	1,590	1,590	
Loans	3,850	6,336	6,336	6,336	6,336	
Capital Employed	13,002	16,018	16,170	16,270	16,644	
Gross Fixed Assets	13,784	14,830	18,133	19,477	20,762	
Less: Depreciation	6,116	6,859	7,805	8,884	10,039	
Net Fixed Assets	7,668	7,971	10,328	10,593	10,722	
Capital WIP	270	2,058	0	0	0	
Investments	3,442	3,447	3,447	3,447	3,447	
Curr.Assets, L & Adv.	6,556	8,224	7,090	7,559	8,352	
Inventory	3,579	3,966	3,312	3,748	4,124	
Sundry Debtors	582	1,114	930	1,053	1,159	
Cash & Bank Balances	244	866	569	480	790	
Loans & Advances	2,149	2,276	2,276	2,276	2,276	
Current Liab.&Prov.	5,869	6,268	5,281	5,915	6,463	
Sundry Creditors	5,245	5,770	4,819	5,453	6,001	
Provisions	624	497	462	462	462	
Net Current Assets	687	1,957	1,809	1,645	1,889	
Application of Funds	13,002	16,018	16,170	16,270	16,644	

E: MOST Estimates

RATIOS		(Rs Million)				
Y/E MARCH	2006	2007	2008E	2009E	2010E	
Basic (Rs)						
EPS	4.5	2.8	1.8	1.4	2.6	
Cash EPS	8.9	6.5	5.3	6.0	7.4	
Book Value per Share	32.3	34.1	34.7	35.1	36.7	
DPS	13	0.9	0.7	1.0	1.0	
Payout (Incl. Div. Tax) %	29.7	34.1	60.2	80.8	44.7	
Valuation (x)						
P/E	5.4	8.7	13.3	17.2	9.5	
Cash P/E	2.7	3.8	4.6	4.1	3.3	
EV/EBITDA	2.9	5.7	11.2	7.5	5.2	
EV/Sales	0.2	0.2	0.3	0.2	0.2	
Price to Book Value	0.8	0.7	0.7	0.7	0.7	
Dividend Yield (%)	5.3	3.5	2.9	4.1	4.1	
Profitability Ratios (%)						
RoE	14.0	8.2	5.3	4.0	7.0	
RoCE	13.2	7.7	3.1	4.6	6.4	
Leverage Ratio						
Debt/Equity (x)	0.5	0.8	0.8	0.8	0.7	

CASH FLOW STATEMENT		(Rs Million)				
Y/E MARCH	2006	2007	2008E	2009E	2010E	
OP/(Loss) before Tax	1,106	497	-224	14	349	
Interest/Div. Received	613	732	719	732	719	
Depreciation & Amort.	939	876	946	1,079	1,155	
Direct Taxes Paid	-510	-143	-36	-60	-108	
(Inc)/Dec in Working Capital	-1,144	-647	-149	76	66	
Other Items	-291	318	0	0	0	
CF from Oper. Activity	714	1,633	1,255	1,841	2,180	
(Inc)/Dec in FA+CWIP	-1,172	-2,968	-1,245	-1,344	-1,284	
(Pur)/Sale of Invest.	-1,688	-6	0	0	0	
CF from Inv. Activity	-2,860	-2,973	-1,245	-1,344	-1,284	
Changes in Reserves	50	0	0	0	0	
Inc/(Dec) in Debt	1,982	2,485	0	0	0	
Interest Paid	-131	-321	-22	-348	-348	
Dividends Paid	-347	-202	-166	-238	-238	
CF from Fin. Activity	1,554	1,963	-188	-586	-586	
Inc/(Dec) in Cash	-495	623	-297	-89	310	
Add: Beginning Balance	739	244	866	569	480	
Closing Balance	244	866	569	480	790	

E: MOST Estimates



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	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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