

7th November 2006**HOLD**

Price	Rs 105
Sensex	13,187

Stock Details

Sector	Automobile
BSE Code	532343
NSE Code	TVSMOTOR
Bloomberg	TVSL@IN
Equity Capital	Rs 237.5mn
Face Value	Rs1
52 Week H/L	Rs 187/78

Shareholding Pattern (%)(30th June'06)

Promoters	56.8
FII/NRI	7.8
Institutions	19.6
Private Corp.	6
Public	9.8

Absolute Returns %

	1M	3M	6M	12M
TVS Motors	-14.4	18.7	-38.2	10.8
BSE Auto	-1.8	16.8	-7.1	51.1
BSE Sensex	6.6	19.7	5.4	60.7

Huzaifa Suratwala A

Research Analyst-Auto, Auto Ancillary, Banks
huzaifa.suratwala@emkayshare.com

TVS Motors**Analyst Meet Takeaways**

Update

Star and Apache - key volume drivers

Much of the volume growth is being contributed by the Star and Apache along with a fillip from the Victor variants. For the period April - October 06, the company recorded 9,37,405 units of two wheelers compared to 7,70,841 units recorded in the previous year, at a growth of 22%. The motorcycles during this period clocked 5,84,155 units at a growth rate of 30%. TVS StaR brand crossed the 1 million sales mark since its launch and with the recent launch of the electric start variant the demand for the vehicle is expected to grow further in the coming months. Apache continues to be in demand and has captured sizeable share in the premium segment of the motorcycle market.

Brand Building – focus to sustain

The company has been spending whole-heartedly in creating its key model brands. The company plans to capitalise on the sizable success achieved by top brands in respective segments. The Star, Victor and Apache in respective segments have done well and all future efforts would be directed towards keeping the brand image live and fresh by introducing newer variants of the existing successful bikes.

Indonesian Venture - to aid ASEAN exports

TVS motors have ventured into Indonesia, which is world's 3rd largest 2 Wheeler market. The company's investment would be \$70mn in 2 phases for the 300,000 units capacity. The Indonesian foray is likely to help the company get a base in South East countries from where it targets to sell the 'cub' bikes (sub 100CC). The production is expected to begin in Q1FY08.

Financial Performance – margins under pressure

Earlier for Q2, TVS had posted a strong 36.6% yoy rise in net sales to Rs10.8bn helped by volume growth. The net profits were impacted by higher Interest costs and a lower non operational income besides lower margins and posted a 22.3% dip to Rs0.25bn. Higher operating costs squeezed the EBITDA margins by 62 bps to 5.2%. Profit Before Tax was at Rs0.36bn compared to Rs0.46bn last year.

We believe that the sales momentum is likely to continue with the recent launch of new variant of the already successful TVS Star with electric start features. The company seems more focused on topline at the cost of bottomline. We see business positives in the form of 1) 3 Wheeler foray; 2) Indonesia Plant and 3) Tax benefits from Himachal Plant. Our full year estimated earnings for FY07 and FY08 stand at Rs 4.8 and Rs 6 respectively. We reiterate a Hold at current levels.

Key Financials: Rs Mn

Particulars	H1FY07	H1FY06	% Chg	FY06	FY07 E	FY08E
Net Sales	19996.7	15242.9	31.2	32349.6	38482.6	43224.7
Total Exp	19020.8	14286.9	33.1	30304.8	36323.6	40538.5
EBITDA	975.9	956	2.1	2044.8	2177	2686.2
PBT	663.9	823.8	-19.4	1684.5	1646.6	2097.6
Profit After Tax	460.9	568.5	-18.9	1170	1147	1423.8
EPS (Rs.)	1.94	2.39	-0.45	4.9	4.8	6
Sales Volume	795469	622235	27.8	1,342,257	1,553,600	1,752,280
Sales to VOL	25,138	24,497	641	24,101	24,770	24,668
RM to Sales	73.8	71.6	217	75.5	73.4	72.3
EBITDA %	4.9	6.3	-139	6.3	5.7	6.2

3 Wheelers

The much-awaited 3-wheeler foray of the company is expected to begin production in the beginning of FY08 and shall provide the much-needed cushion to the margins. The company plans to prepare models in every class of fuel options to suit the demand.

Himachal Plant

The company's third domestic plant is being setup in Himachal Pradesh and shall commence operations by April 2007. The plant shall enjoy excise and tax benefits and hence help the company improve its bottomline effectively. The production in this plant would be scaled up to 500,000 units in due course of time.

New models in pipeline

In order to keep the sales momentum active and compete in the market TVS shall continue to add to its product portfolio. The company will soon launch a 2-stroke variant; 'Scooty Teenz' and newer versions of Star, Victor and Apache shall follow.

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Emkay Share and Stock Brokers Ltd.,
Paragon Center, Ground Floor, C-6

Pandurang Budhkar Marg, Worli, Mumbai – 400 013. , Tel no. 66121212. Fax: 66121299