



NEUTRAL

Price	62
Target Price	-
Investment Period	-

Stock Info

Sector	Automobile
Market Cap (Rs cr)	1,481
Beta	0.7
52 WK High / Low	66 / 15
Avg Daily Volume	514,880
Face Value (Rs)	1

BSE Sensex	16,811
Nifty	4,997

BSE Code	532343
NSE Code	TVSMOTOR
Reuters Code	TVSM.BO
Bloomberg Code	TVSL@IN

Shareholding Pattern (%)

Promoters	60.5
MF/Banks/Indian FIs	16.7
FII/ NRIs/ OCBs	5.1
Indian Public	17.7

Abs.	3m	1yr	3yr
Sensex (%)	10.4	72.0	33.2
TVS Motor (%)	15.1	102.4	(46.5)

Vaishali Jajoo

Tel: 022 – 4040 3800 Ext: 344
E-mail: vaishali.jajoo@angeltrade.com

Shreya Gaunekar

Tel: 022 – 4040 3800 Ext: 331
E-mail: ShreyaP.Gaunekar@angeltrade.com

Performance Highlights

- **Net Sales above expectations, Net Profit below expectations:** For 2QFY2010, TVS Motor (TVSM) reported a Turnover of Rs 1,129.9cr (Rs1,034.2cr), a jump of 9.3% yoy, which primarily came on the back of a 5.5% increase in volumes and a 3.8% yoy jump in realisations. The company's Motorcycle sales declined 12.8% yoy in 2QFY2010, and Scooter and Moped Segment volumes increased 12.5% yoy and 28.9% yoy, respectively. In 2QFY2010, TVS exported 35,080 two wheelers, recording a decline of 33.0% yoy. The company reported a 136.1% yoy jump in its Net Profit to Rs24.6cr, largely on the back of a better operational leverage, combined with an improved portfolio mix and cost reduction measures.
- **OPM expands by 113bp, Raw material cost dips:** TVSM's Operating Margin expanded by 113bp during 2QFY2010, on the back of a combination of a decent growth in the top-line numbers and a 445bp contraction in the raw material cost, which accounted for 69.9% (74.3%) of Net Sales. The increase in the OPM was muted by an increase in Other expenditure by 334bp, which includes the amortisation of moulds and dies, and of new product launches, to the extent of Rs15.7cr (Rs13.1cr) in 2QFY2010.
- **Bottom-line spikes by 136.1%:** TVSM recorded a Net Profit of Rs24.6cr (Rs10.4cr), which was below our expectation of Rs27.6cr. This was primarily due to better operational performance, combined with a yoy dip in the tax expense for the quarter by 111.7%, boosting the Net profit margin by 116bp yoy. The management is confident about the future outlook for the company, on the back of a decent performance in the Scooters and Moped segments, good volumes generated by existing brands like *Apache*, as well as expected volumes to be generated from *TVS-Flame* and from two new launches in the fiscal.
- **TVSM reported a consolidated Net Loss for FY2009:** On a consolidated basis, the company reported a 14.6% yoy jump in its Net Sales to Rs3,747cr. However, owing to higher Depreciation and Interest expenses, TVSM reported a recurring Net Loss of Rs59.9cr (Rs16.3cr Net Loss in FY2008). This was largely due to the company's recent investments in Indonesia.

Key Financials (Standalone)

Y/E March (Rs cr)	FY2008	FY2009	FY2010E	FY2011E
Net Sales	3,219.5	3,670.9	4,437.0	4,914.9
% chg	(16.5)	14.0	20.9	10.8
Net Profits	33.1	31.1	90.9	117.4
% chg	(50.4)	(6.0)	192.5	29.1
OPM (%)	1.3	3.2	5.4	5.6
EPS (Rs)	1.4	1.3	3.8	4.9
P/E (x)	44.6	47.4	16.2	12.5
P/BV (x)	1.8	1.8	1.7	1.6
RoE (%)	4.0	3.8	10.6	12.7
RoCE (%)	-	0.9	7.1	8.9
EV/Sales (x)	0.7	0.6	0.5	0.4
EV/EBITDA (x)	51.7	18.0	9.0	7.8

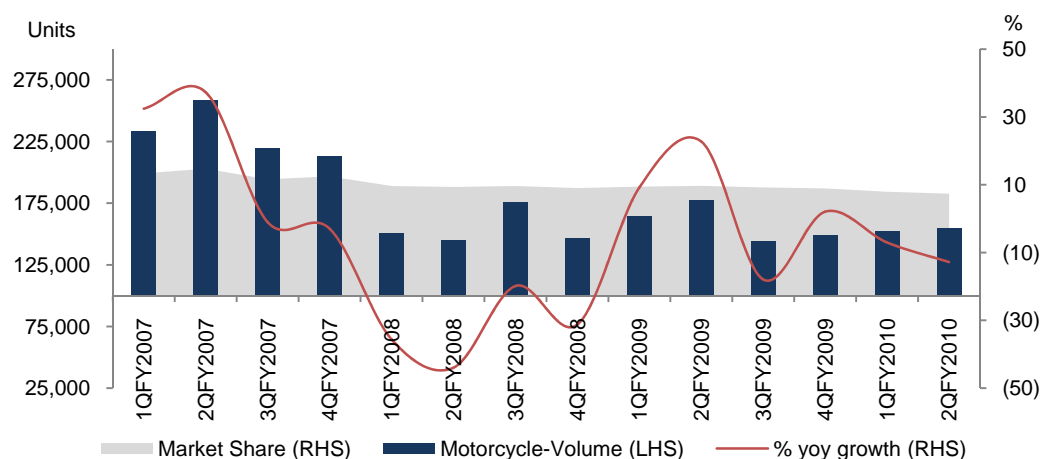
Source: Company, Angel Research

Exhibit 1: Sales Volume

Product	2QFY2010	2QFY2009	% chg	1HFY2010	1HFY2009	% chg
Motorcycles	154,843	177,624	(12.8)	307,621	341,952	(10.0)
Scooters	86,239	76,656	12.5	153,489	140,087	9.6
Mopeds	149,307	115,832	28.9	276,460	219,862	25.7
Total	390,389	370,112	5.5	737,570	701,901	5.1
Exports (out of above)	35,080	52,327	(33.0)	66,436	91,621	(27.5)

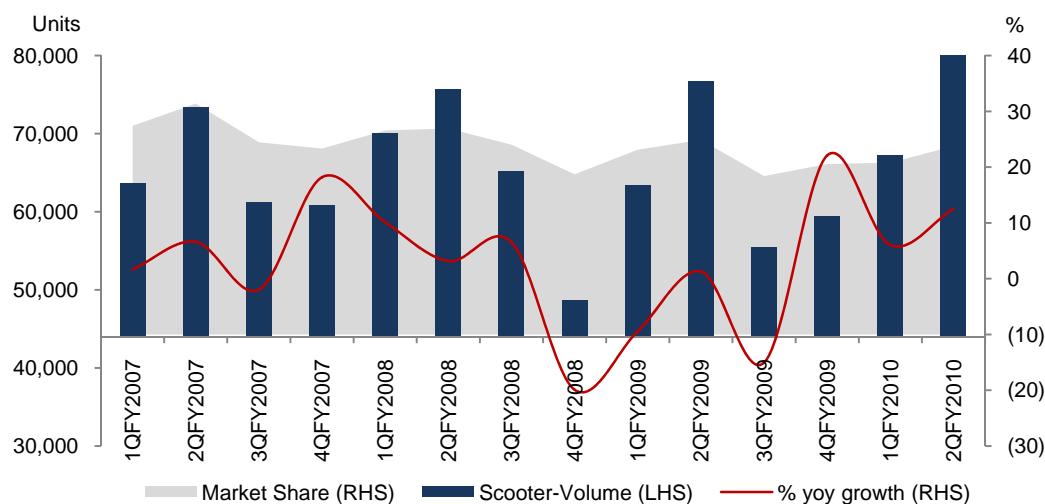
Source: Company, Angel Research

Exhibit 2: Motorcycles: Volumes, Growth and Market shares



Source: Company, Angel Research

Exhibit 3: Scooters: Volumes, Growth and Market shares



Source: Company, Angel Research

Exhibit 4: 2QFY2010 Performance (Standalone)

Y/E Mar (Rs cr)	2QFY2010	2QFY2009	% chg	1HFY2010	1HFY2009	% chg
Net Sales	1,129.9	1,034.2	9.3	2,118.6	1,945.2	8.9
Other Income	2.8	1.0	195.0	3.1	14.6	(78.5)
Total Income	1,132.7	1,035.1	9.4	2,121.7	1,959.9	8.3
EBITDA	47.5	31.7	50.0	96.7	62.9	53.7
OPM (%)	4.2	3.1	37.3	4.6	3.2	41.1
Interest	15.3	12.2	0.1	32.5	21.7	0.1
Depreciation	25.3	25.6	95.2	50.7	51.0	95.2
PBT	20.0	10.0	99.8	44.2	23.9	84.6
Tax	(0.4)	3.5	(111.7)	1.5	6.5	(76.8)
PAT & EOJ	24.6	10.4	136.1	42.7	17.4	144.8
EPS (Rs)	1.0	0.4		1.8	0.7	

Source: Company, Angel Research

Outlook and Valuation

Going ahead, TVSM will have to counter intensive competitive pressures, particularly from Bajaj Auto and Hero Honda, which are launching new bikes and reducing prices in their bid to boost volumes. Moreover, TVSM's inconsistent performance at the Volume and Margin fronts is a key concern, as it has not been able to tackle the pricing pressures in the last couple of years. However, the recent launch of the *125cc Flame* and three-wheelers would provide it with some respite on the Margin front, going ahead, which is also reflected in its performance for 1HFY2010. However, we believe that the overall scenario will remain challenging for the company, in terms of price competition. Moreover, it has also lost its domestic market share since the last two years in the Motorcycle and Scooter Segments. The only relief in the past has been the strong Export growth; this, however, has also shown a decline in growth in the last four months, due to the overall economic downturn.

We estimate the company to clock a 16% CAGR in the Top-line, and around a 94% CAGR in Net Profit over FY2009-11E, aided by around a 11% CAGR in volume, and improving operating performance on better operating leverage. Thus, we expect TVSM to clock an EPS of Rs3.8 in FY2010E and of Rs4.9 in FY2011E, owing to the improving overall scenario for the sector. However, considering its inconsistent track record, we remain cautious on the relative performance of the company. At the CMP, the stock is trading at 12.5x FY2011E Earnings. **We maintain our Neutral view on the stock. At our fair multiple of 13x FY2011E Earnings, our fair value for the stock works out to Rs64.**



Research Team: Tel: 4040 3800

E-mail: research@angeltrade.com

Website: www.angeltrade.com

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Ratings (Returns): Buy (> 15%)
Reduce (-5% to -15%)

Accumulate (5% to 15%)
Sell (< -15%)

Neutral (-5% to 5%)