

Sector: Automobiles

Sensex:	17,473
CMP (Rs):	88
Target price (Rs):	97
Upside (%):	10.7
52 Week h/l (Rs):	90 / 25
Market cap (Rscr) :	2,081
6m Avg vol ('000Nos):	1,411
No of o/s shares (mn):	238
FV (Re):	1
Bloomberg code:	TVSL IB
Reuters code:	TVSS.BO
BSE code:	532343
NSE code:	TVSMOTOR

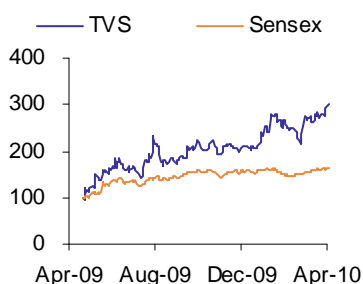
Prices as on 21 Apr, 2010

Shareholding pattern

December '09	(%)
Promoters	60.5
Institutions	17.0
Non promoter corp hold	5.0
Public & others	17.6

Performance rel. to sensx

(%)	1m	3m	1yr
TVS	10.9	18.3	159.5
Hero Honda	0.3	16.6	18.4
Bajaj Auto	12.7	13.7	169.5

Share price trend


- ✦ Total volumes of TVS motors rise 29.5% yoy for Q4 FY10
- ✦ Realizations increased by 5.3% compared to Q4 FY10 on account of substantial jump in three wheeler sales
- ✦ OPM stood at 7.8%, up 434bps on yoy basis driven by lower raw material costs
- ✦ Net profit jumped by 38% yoy to Rs203mn
- ✦ Valuations cheap at 9.9x FY12E EPS of Rs8.8, Maintain BUY with a price target of Rs97

Result table

(Rs m)	Q4 FY10	Q4 FY09	% yoy	Q3 FY10	% qoq
Volumes	418,163	323,018	29.5	417,897	0.1
Realisation (Rs/unit)	29,079	27,615	5.3	26,070	11.5
Net sales	12,160	8,920	36.3	10,894	11.6
Material costs	(8,112)	(6,523)	24.4	(7,467)	8.6
Purchases	(235)	(151)	55.7	(211)	11.0
Personnel costs	(773)	(427)	81.2	(627)	23.3
Other overheads	(2,096)	(1,514)	38.4	(1,752)	19.6
Operating profit	943	305	209.1	837	12.7
OPM (%)	7.8	3.4	434bps	7.7	8bps
Depreciation	(263)	(298)	(11.8)	(253)	3.8
Interest	(123)	(139)	(11.6)	(180)	(31.9)
Other income	44	189	(76.6)	9	390.6
PBT	602	57	953.8	413	45.9
Tax	138	75	83.7	(19)	(836.9)
Effective tax rate (%)	(22.9)	(131.3)	-	4.5	-
Adjusted PAT	740	132	459.9	394	87.8
Adj. PAT margin (%)	6.1	1.5	460bps	3.6	247bps
Extra ordinary items	(537)	15	-	(159)	-
Reported PAT	203	147	38.0	235	(13.7)
Ann. EPS (Rs)	3.4	2.5	38.0	4.0	(13.7)

Source: Company, India Infoline Research

Revenues marginally below expectations

TVS Motors clocked net sales of Rs12,160mn, up 36.3% yoy, which was marginally lower than our expectations of Rs 12,287mn. The growth was driven by 29.5% higher volumes and 5.3% rise in realizations. Realizations improved on account of a richer product mix as proportion of three wheeler volumes rose during the quarter. In terms of volumes, growth was driven by 37.8% yoy jump in volumes of scooters and mopeds. Motorcycle volumes declined by 6.4% yoy as against industry growth of 37%. TVS Motors has lost market share from ~7.1% in Q4 FY09 to ~6.5% in Q4 FY10. Three wheelers sales during Q4 FY10 stood at 5,305 units in comparison to 1,649 units in Q4 FY09. Export volumes for TVS Motors witnessed a growth of 17.8% yoy basis. Sequentially exports grew by 26.5%.

Benefits of lower raw material costs partially offset by high extraordinary expenditure

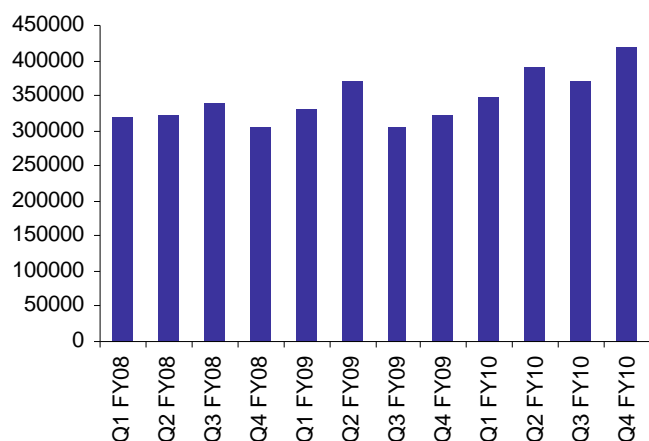
During Q4 FY10, TVS Motors recorded an OPM of 7.8% (tad higher than our estimates of 7.5%), an increase of 434bps yoy and 8bps qoq. Operating profit per vehicle surged 139% yoy driven by 3.9% yoy fall in raw material cost per vehicle. Raw material cost as a percentage of sales was down by 642bps driven by sharp fall in commodity prices on a yoy basis. Sequentially too, raw material cost as a percentage of sales fell by 183bps possibly due to effective long term contract for raw materials. Personnel cost as percentage of sales increased to 6.4% in Q4 FY10 from 4.8% in Q4 FY09. Other expenditure as a percentage of sales grew marginally by 26bps yoy. Company booked an extraordinary loss of Rs8,902.4mn on sale of Investments in TVS finance, while the profit on sale of land was Rs5,460.3mn. Reported net profit for Q4 FY10 increased by 38% yoy to Rs203mn. On a sequential basis company reported decline in net profit by 13.7%. However, adjusted profit (which excludes non recurring items) was up by 87.8% on a sequential basis.

Cost analysis

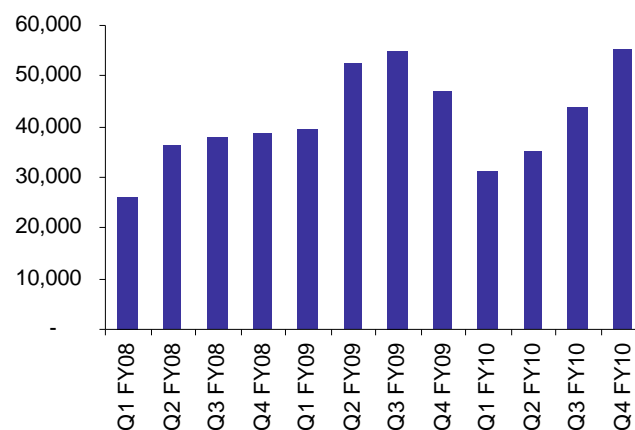
	Q4 FY10	Q4 FY09	bps yoy	Q3 FY10	bps qoq
Material costs	66.7	73.1	(642)	68.5	(183)
Purchases	1.9	1.7	24	1.9	(1)
Personnel Costs	6.4	4.8	158	5.8	60
Other overheads	17.2	17.0	26	16.1	116
Total costs	92.2	96.6	(434)	92.3	(8)

Source: Company, India Infoline Research

Trend in total volumes

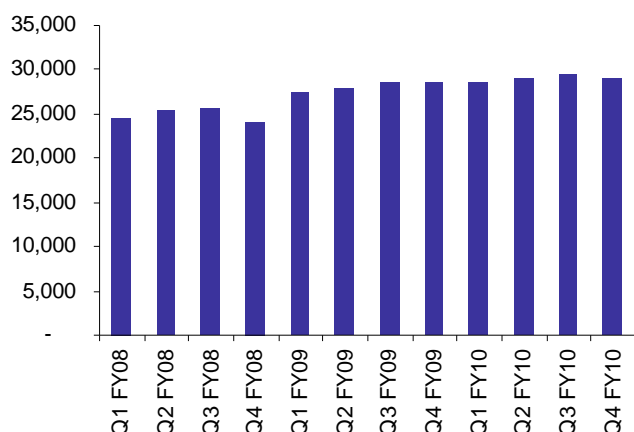


Trend in export volumes

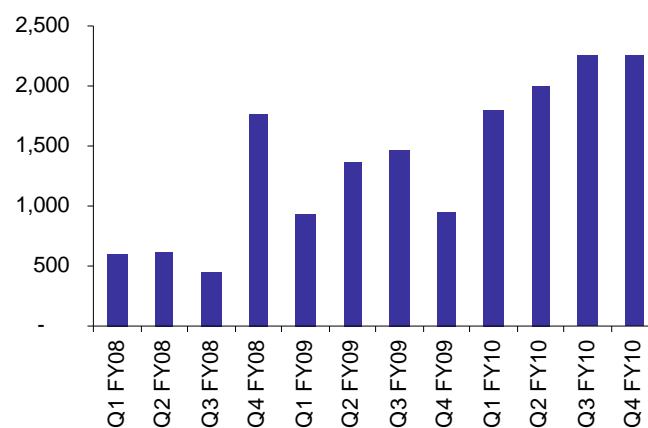


Source: Company, India Infoline Research

Trend in realizations



Trend in operating profit/vehicle



Source: Company, India Infoline Research

Maintain BUY as valuations cheap at 9.9x FY12E earnings

TVS Motors has recently launched Jive and Wego in Motorcycles and Scooters & Mopeds segment respectively. Both the launches are expected to aid the revenue growth for the company in future. Further the three wheeler volume for the company, which is a high margin segment, has started to gain traction. We estimate the total two wheeler volumes for TVS Motors to increase by 8% in FY11 and FY12 respectively. Increase in volumes coupled with increase in realization levels on account of higher three wheeler sales is expected to translate into a revenue growth of 12.2% and 11.5% in FY11 and FY12 respectively. Margins for the company is expected to face pressure due to the rise in raw material cost, however it will be offset by the favorable product mix. We expect the company to deliver an OPM of 7.8% in FY12 which will translate into an EPS of Rs8.8. We maintain BUY with a target price of Rs97, based on the 11x P/E for FY12E EPS of Rs8.8.

Valuation summary

Y/e 31 Mar (Rs m)	FY09	FY10E	FY11E	FY12E
Revenues	36,709	44,240	49,656	55,361
yoy growth (%)	14.0	20.5	12.2	11.5
Operating profit	1,187	3,187	3,703	4,326
OPM (%)	3.2	7.2	7.5	7.8
Pre-exceptional PAT	296	1,721	1,673	2,099
Reported PAT	311	866	1,673	2,099
yoy growth (%)	(2.2)	178.7	33.6	25.5
EPS (Rs)	1.2	7.2	7.0	8.8
P/E (x)	70.3	12.1	12.4	9.9
Price/Book (x)	2.6	2.3	1.9	1.6
EV/EBITDA (x)	24.2	8.7	7.1	5.7
Debt/Equity (x)	1.1	0.9	0.7	0.6
RoE (%)	3.6	19.9	16.8	18.0
RoCE (%)	4.8	12.0	14.3	16.3

Source: Company, India Infoline Research

Recommendation parameters for fundamental reports:

Buy – Absolute return of over +10%

Market Performer – Absolute return between -10% to +10%

Sell – Absolute return below -10%

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