

Mixed bag, maintain SELL rating

23 January 2009

SELL

Price	Target
Rs 15	Rs 16

Sensex -	8,674
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Price Performance

(%)	1M	3M	6M	12M
Absolute	(33)	(51)	(48)	(65)
Rel. to Sensex	(27)	(45)	(15)	(31)

Source: Bloomberg

Stock Details

Sector	Automobiles
Reuters	TVSM.BO
Bloomberg	TVSL@IN
Equity Capital (Rs mn)	238
Face Value (Rs)	1
No of shares o/s (mn)	238
52 Week H/L (Rs)	51/15
Market Cap (Rs bn/USD mn)	4/81
Daily Avg Vol (No of shares)	567898
Daily Avg Turnover (US\$ mn)	0.3

Shareholding Pattern (%)

	31/12/08	30/09/08	31/06/08
Promoters	57.4	56.8	56.8
FII/NRI	3.4	5.4	4.1
Institutions	11.8	10.8	12.8
Private Corp	8.5	8.2	6.9
Public	18.9	18.7	19.4

Source: Capitaline

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The performance of TVS Motor in 3QFY09 was mixed one. Net sales at Rs 8.7 bn (YoY decline of 2.3%), was marginally ahead of expectation. EBITDA at Rs 445 mn (YoY change of 36%) was ahead of our expectation of Rs 412 mn. However, a 128% YoY increase in interest expenses to Rs 194 mn and 96% decline in other income to Rs 3 mn, resulted in company reporting a loss of Rs 10 mn.

At Rs 15, the stock trades at PER of 11.7x and 5.5x our FY09 and FY10 estimates respectively. We maintain our SELL rating on the stock.

Net sales marginally ahead of expectations

TVS motor reported YoY 10.7% decline in volumes to 303,605 units in 3QFY09. Exports grew by YoY 53% to 54,854 units, where domestic sales declined by YoY 17.8% to 249,934 units. Net sales declined by YOY 2.3% to Rs 8.7, bn against our expectation of 8.55 bn. Average realization improved by YOY 8.6% to Rs 27,981. The company has launched an upgrade of the Apache RTR 160 during the quarter to increase its volume in coming months

Product mix %	3QFY09	3QFY08	2QFY09	Product mix %	3QFY09	3QFY08	2QFY09
Motorcycles	46.9	51.8	48.5	Motorcycles (Domestic)			
Scooters	21.2	19.2	20.9	up to 125cc	67	84.1	74.2
Mopeds	32	29	30.6	125cc to 250 cc	33	16	74.2
Total	100	100	100	Motorcycles (Exports)			
Exports	48.7	10.5	12.3	up to 125cc	79.1	73.3	71.9
Domestic	51.3	89.5	87.7	125cc to 250 cc	21	27	28

Source: SIAM, Emkay research

Efficient control on other expenses boosts EBIDTA

TVS motor reported adj EBITDA of Rs 445 mn against our estimation of Rs 412 mn primarily on account of, (1) significant reduction in other expenses and (2) 17% YoY growth in other operating income to 159 mn. Due to regrouping of other income of Rs 135 mn and Rs 159 mn for 3QFY08 and 3QFY09 respectively as other operating income, the EBIDTA and hence the EBIDTA margins are higher to that extent, as compared to earlier classification.

Company reports loss despite strong operating performance

The interest expense grew by 128% YoY to Rs 194 mn. Similarly, other income registered a 96% YoY decline to Rs 3 mn. As a result, the company reported loss of Rs 10 mn. It should be noted that 3QFY09 and 9MFY09 results does not factor in the forex loss on account of outstanding ECB. The company has adopted a policy to account for the same at the end of FY09.

Valuation and View

We are not revising out FY09 and FY10 estimates, currently. However, we have reduced our target price to Rs 16, due to downward revision in our target multiple from 7x to 6x. We maintain our SELL rating on the stock.

Quarterly result Summary

Rs mn	3QFY08	3QFY09	% change	9MFY08	9MFY09	% change
Net Sales	8,890	8,687	-2.3	25,207	28,273	12.2
Operating Expenses						
Raw Materials	6,631	6,438	-2.9	18,854	21,127	12.1
<i>% of Sales</i>	74.6	74.1		74.8	74.7	
Staff Costs	482	531	10.2	1,429	1,618	13.2
<i>% of Sales</i>	5.4	6.1		5.7	5.7	
Other Expenses	1,487	1,273	-14.4	3,994	4,132	3.5
<i>% of Sales</i>	16.7	14.7		15.8	14.6	
EBIDTA*	326	445	36.5	930	1,395	50.1
EBIDTA %	3.7	5.1		3.7	4.9	
<i>Forex loss/(gain)</i>	-36.2	0.0				
Adj EBIDTA*	290	445		930	1,395	
Adj EBIDTA %	3.3	5.1		3.7	4.9	
Depreciation	240	254	5.6	719	763	6.1
EBIT	86	192	122.1	211	632	199.9
Other Income	71	3	-96.1	183	19	-89.5
Interest	85	194	127.5	253	411	62.4
PBT	72	0	-99.3	140	240	71.1
Extraordinary inc/(exp)	0.0	0.0		210	0	
Tax	14	10	-28.1	97	75	-23.0
Net Profit	58	-10	-116.3	253	165	-34.9
<i>Net Margin %</i>	0.7	-0.1		1.0	0.6	
Adj Net Profit	29	-10	-132.7	102	286	181.1
<i>Net Margin %</i>	0.3	-0.1		0.4	1.01	
EPS	0.25	-0.04		1.07	0.69	
Adj EPS	0.1	0.0		0.4	1.2	

* Due to regrouping of other income of Rs 135 mn and Rs 159 mn for 3QFY08 and 3QFY09 respectively as other operating income, the EBIDTA and hence the EBIDTA margins are higher to that extent, as compared to earlier classification.

Financials

Profit & Loss Account - Standalone

Mar ending (Rs mn)	FY07	FY08	FY09E	FY10E
Net Sales	38,549	32,195	31,428	35,455
Growth %	19.2	-16.5	-2.4	12.8
Operating Expenses				
Raw Materials	29,034	24,455	23,935	26,644
% Sales	75.3	76.0	76.2	75.1
Staff Costs	1,723	1,764	1,868	2,111
% Sales	4.5	5.5	5.9	6.0
Other Expenses	6,402	5,544	4,915	5,604
% Sales	16.6	17.2	15.6	15.8
EBIDTA	1,391	433	709	1,097
Growth %	-32.5	-68.9	63.8	54.8
EBIDTA %	3.6	1.3	2.3	3.1
Depreciation	876	946	1,026	1,060
EBIT	515	-513	-317	37
Other Income	835	1,001	1,050	1,061
Interest	424	115	394	382
PBT	927	374	339	716
Extraordinary inc/(exp)	-19	0	0	0
Tax	243	36	35	73
Net Profit	666	338	305	643
Net Margin %	1.7	1.0	1.0	1.8
Growth %	-43.1	-49.3	-9.7	110.9
EPS	2.8	1.4	1.3	2.7
CEPS	6.5	5.4	5.6	7.2

Cash Flow

Mar ending (Rs mn)	FY07	FY08	FY09E	FY10E
Net Profit before tax	927	374	339	716
Add: Depreciation	876	946	1,026	1,060
Add: Interest	424	115	394	382
Less: Other income	835	1,001	1,050	1,061
Other non operating items	479	58	0	0
(Dec)/Inc in Working capital	522	953	-925	196
Less: Tax paid	147	64	42	89
Cash from operations	1,201	-527	1,592	812
Capex	-2,558	-1,287	-571	-732
Investments and others	-566	58	-150	-150
Other income	835	1,001	1,050	1,061
Cash from Investing activities	-2,288	-228	329	179
Borrowings	1,403	328	-200	-200
Interest paid	-45	-115	-394	-382
Dividend paid	352	-166	-61	-129
Cash from financing activities	1,710	47	-655	-710
Cash generation during the year	622	-708	1,265	280
Opening Balance*	244	866	37	1,303
Closing Balance*	866	158	1,303	1,583

*Cash and cash equivalent for FY07

Balance Sheet - Standalone

Mar ending (Rs mn)	FY07	FY08	FY09E	FY10E
Share Capital	238	238	238	238
Reserves	7,855	7,978	8,214	8,712
Misc Exp	-588	-531	-531	-531
Owned Funds	7,504	7,685	7,921	8,419
Secured Loans	4,462	4,527	4,527	4,527
Unsecured Loans	1,874	2,137	1,937	1,737
Loan Funds	6,336	6,663	6,463	6,263
Deferred Tax Liability	1,590	1,549	1,549	1,549
Total	15,430	15,898	15,934	16,232
Gross Fixed Assets	14,830	17,910	18,647	19,279
Acc. Depreciation	6,859	7,745	8,770	9,831
Net Fixed Assets	7,971	10,165	9,876	9,448
Capital WIP	2,058	266	100	200
Net Block	10,029	10,431	9,976	9,648
Investments	3,447	3,390	3,540	3,690
Sundry Debtors	1,114	879	1,292	1,457
Inventory	3,966	4,054	3,444	3,885
Cash & Bank	866	37	1,303	1,583
Advances	2,276	2,775	1,886	2,127
Other Current Assets	3	3	3	3
Current Assets	8,224	7,748	7,927	9,056
Liabilities	5,773	5,061	4,894	5,474
Provisions	497	609	614	687
Current Liabilities	6,271	5,670	5,509	6,161
Net Current Assets	1,954	2,078	2,418	2,895
Total	15,430	15,898	15,934	16,232

Key Ratios

	FY07	FY08	FY09E	FY10E
Per Share Data				
EPS	2.8	1.4	1.3	2.7
Cash EPS	6.5	5.4	5.6	7.2
BVPS	32	32	33	35
Valuation ratio				
P/E	5.4	10.6	11.7	5.5
Cash P/E	2.3	2.8	2.7	2.1
P/BV	0.5	0.5	0.4	0.4
EV/EBIDTA	4.0	15.7	7.3	4.2
Return Ratios				
AROE	9.4%	4.4%	3.9%	7.9%
AROCE	8.9%	3.2%	4.9%	7.1%
DuPont				
NPM	1.7%	1.0%	1.0%	1.8%
Sales/TA	1.8	1.5	1.5	1.6
TA/Equity	2.9	2.8	2.7	2.7
Other key ratios				
D/E	0.8	0.9	0.8	0.7
NWC/Sales	2.8%	6.3%	3.5%	3.7%

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