

## TVS Motor Company

Event update

23 December 2010

## Sell

Target Price: Rs66

CMP: Rs73\*

Downside: 9%

\*as on 22 December 2010

## Indonesian venture to dent profitability

For the month of November 2010, TVS Motors' Indonesian subsidiary, PT TVS Motor Company Indonesia (PT TVS), registered overall sales of just 779 units vs 1,771 units in October 2010. For YTD FY11, it has registered overall sales of 13,627 units, translating into monthly run rate (MRR) of just 1,703 units. This is significantly lower than the management's guidance of required 6,000 units MRR for break-even. The volume performance during YTD FY11 further vindicates our view that the Indonesian venture would continue to dent TVS Motors' consolidated profitability. We expect the venture to break-even only by FY14E (vs the management's guidance of H1FY12E).

- **Nov 2010 volumes lower than industry:** The overall industry sales for the month of Nov 2010 in Indonesia stood at 653,824 units. PT TVS' drop in sales, down 56% MoM, was significantly higher than the industry's 6% fall. Though, we believe that a MoM comparison is not relevant as September being the festive month (*Idul Fitri\**), the order backlog is carried forward to October and as a result sales during November are traditionally lower than that of October. However, the significant drop in volumes vs the industry's is disappointing.
- **Creating a brand identity, distribution network crucial:** We believe it would be challenging for TVS Motors to compete against Japanese players – Honda (47% market share), Yamaha (45%) and Suzuki (7%). While TVS Motors has been successful in developing a new model (Neo), we believe that the next challenge for the company would be to create a brand identity and distribution network against well-entrenched Japanese competitors.
- **Sell with target price of Rs66:** At CMP of Rs73, the stock trades at 17.3x FY11E standalone EPS of Rs4.2 and 14.1x FY12E standalone EPS of Rs5.2. We believe the current valuations have factored in the expected traction in its standalone business, while ignoring the losses at its Indonesian subsidiary. We re-iterate our Sell rating with a target price of Rs66 (we have valued the core business at 10% discount to Hero Honda's historical P/E of 13.5x Sept 2012 earnings and assigned a negative value of Rs3.1 for the Indonesian venture).

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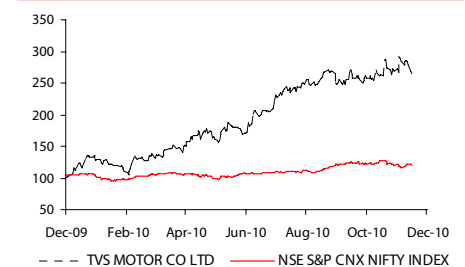
amit.agarwal@centrum.co.in  
91 22 4215 9574\* - *Idul Fitri* - annual Islamic festival, the event is also used by many Indonesian to visit their family in other city and island as well

## Key Data

Bloomberg Code	TVSL IN
Reuters Code	TVSM.BO
Current Shares O/S (mn)	475.1
Diluted Shares O/S(mn)	475.1
Mkt Cap (Rsbn/USDmn)	34.4/764.1
52 Wk H / L (Rs)	87/29
Daily Vol. (3M NSE Avg.)	3,028,724
Face Value (Rs)	1

USD = Rs45.0

## One Year Indexed Stock Performance



## Price Performance (%)

	1M	6M	1Yr
TVS	(5.7)	46.3	149.0
NIFTY	0.5	12.1	16.0

Source: Bloomberg, Centrum Research  
\*as on 22 December 2010

## Industry snapshot: Indonesia

Sales (Units)	Sep-10	Oct-10	Nov-10
Honda	220,346	323,154	306,113
Yamaha	208,690	315,060	295,731
Suzuki	43,079	47,699	43,271
TVS Volumes	1,158	1,771	779
Others (ex-TVS)	5,967	7,588	7,930
<b>Total Volumes</b>	<b>479,240</b>	<b>695,272</b>	<b>653,824</b>

Source: AIMI, Centrum Research

Y/E Mar (Rsmn)*	Rev	YoY (%)	EBITDA	EBITDA (%)	Adj PAT	YoY (%)	Fully DEPS	RoE (%)	RoCE (%)	P/E (x)	EV/EBITDA (x)
FY09	37,374	14.2	1,872	5.0	316	158.7	0.7	4.2	5.6	112.7	14.1
FY10	44,301	18.5	2,744	6.2	1,280	304.9	2.7	16.3	10.3	27.8	9.8
FY11E	58,821	32.8	4,361	7.4	2,000	56.3	4.2	22.0	16.8	17.3	10.2
FY12E	67,883	15.4	5,074	7.5	2,458	22.9	5.2	23.0	18.8	14.1	8.6
FY13E	77,817	14.6	5,682	7.3	2,909	18.4	6.1	23.3	20.5	11.9	7.4

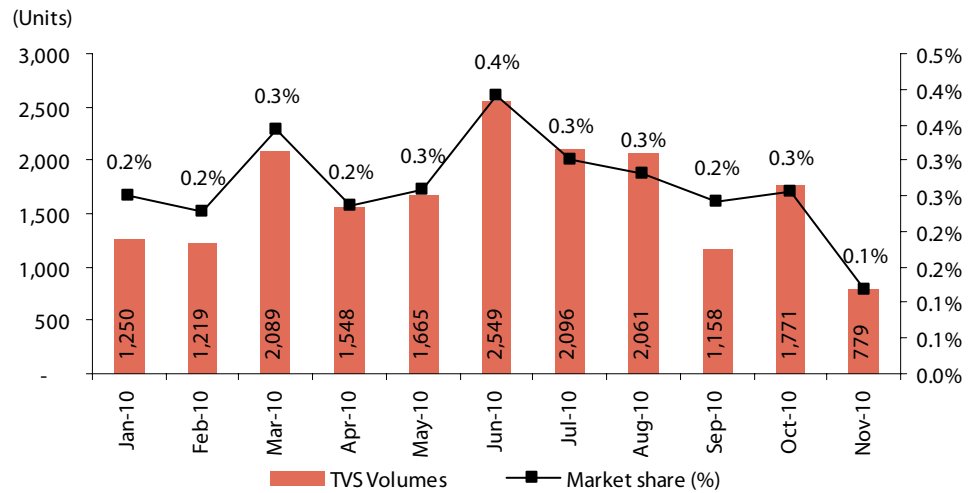
\*Standalone; Source: Company, Centrum Research Estimates

Please refer to important disclosures/disclaimers in Appendix A

## Volume performance of Indonesian subsidiary tepid

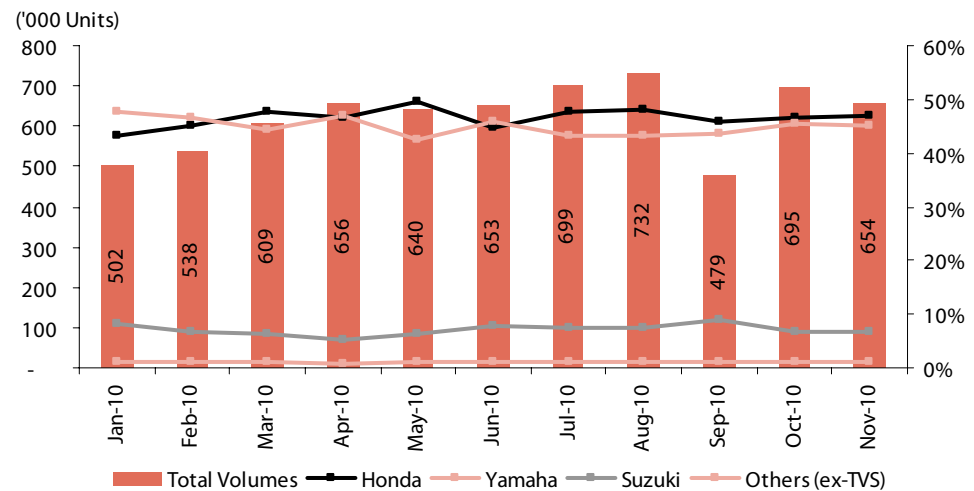
During 8MFY11 (April-Nov 2010), PT TVS registered overall volumes of 13,627 units. This translates into monthly run rate (MRR) of ~1,703 units, significantly lower than 6,000 units needed for break-even. We continue to remain concerned about the profitability of this venture. During 8MFY11, the market share of TVS stood at just 0.3%. Honda, Yamaha and Suzuki control 99% share in the Indonesian market.

**Exhibit 1: PT TVS' volumes and market share in Indonesia**



Source: Association of Indonesian Motorcycle Industries, Centrum Research

**Exhibit 2: 2-W volumes in Indonesia and major players' market share**

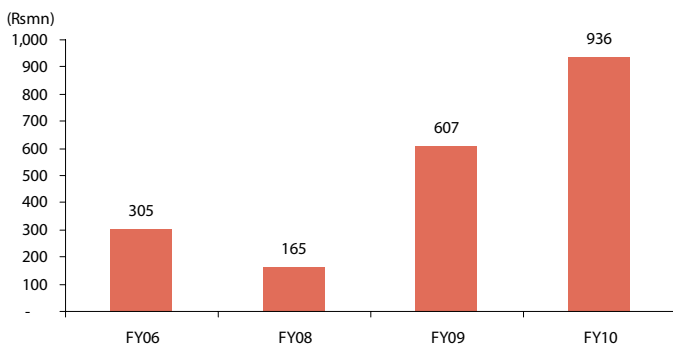


Source: Association of Indonesian Motorcycle Industries, Centrum Research

## Indonesian project to dent consolidated earnings till FY13E

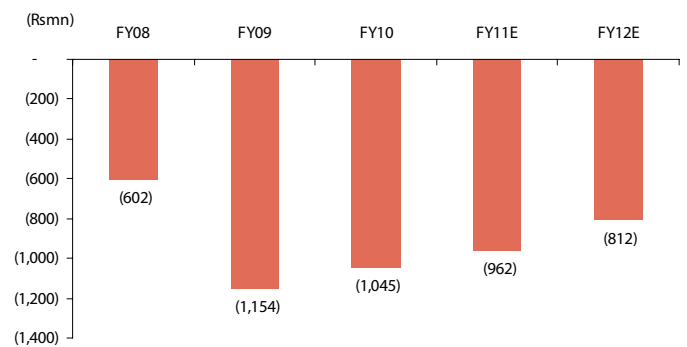
TVS Motors started manufacturing TVS Neo, the bebek (step-through), through its 100% subsidiary PT TVS Motor Company, Indonesia, from FY08. This facility is located at Karawang (near Jakarta) and has a manufacturing capacity of 300,000 units. Till date, TVS Motors has invested Rs2bn in the subsidiary. Accumulated losses till date have been Rs2.8bn. Currently, with a MRR of 1,700 units, it operates at only 7-8% capacity utilization. While the management expects the subsidiary to break-even by H1FY12E, we believe it would take longer.

**Exhibit 3: Total investments till date at Rs2bn**



Source: Company, Centrum Research

**Exhibit 4: Accumulated losses at PBT levels till date at Rs2.8bn**



Source: Company, Centrum Research Estimates

We believe it would be challenging for TVS Motors to compete against Japanese players – Honda (47% market share), Yamaha (45%) and Suzuki (7%), which together have a 99% market share. While TVS Motors has been successful in developing a new model (Neo), we believe that the next challenge for the company would be to create a brand identity and distribution network against well-established Japanese competitors.

PT TVS sold 15,000 units in FY10. We have factored in volumes of 26,400 units for FY11E (YTD MRR at 1,703 units) and 42,000 units for FY12E. However, we expect the Indonesian venture to achieve break-even only in FY14E. Given the YTD FY11 performance, we see further downside to our assumption of 26,400 units for FY11E.

In its FY10 annual report, TVS Motors has mentioned gross exit margins for Indonesian venture at 5% in FY09 and 17% in FY10.

## Valuations and recommendations

We expect TVS Motors' standalone business to register strong 24% revenue and 39% earnings CAGR over FY10-12E, driven by strong operating leverage. We believe current valuations have more than captured this opportunity, while ignoring losses at the Indonesian subsidiary. We expect the Indonesian venture to achieve break-even only by FY14E vs the management's guidance of FY12E. At CMP of Rs73, the stock trades at 17.3x FY11E standalone EPS of Rs4.2 and 14.1x FY12E standalone EPS of Rs5.2. We maintain our Sell rating with a target price of Rs66 (we have valued the core business at 10% discount to Hero Honda's historical P/E multiple of 13.5x Sept 2012E earnings and assigned a negative value of Rs3.1 for its Indonesian venture).

**Exhibit 5: PT TVS, Indonesia - Financials**

<b>PT TVS, Indonesia</b>						
(Rsmn)	<b>FY09E</b>	<b>FY10E</b>	<b>FY11E</b>	<b>FY12E</b>	<b>FY13E</b>	<b>FY14E</b>
<b>Capacity</b>	<b>300,000</b>	<b>300,000</b>	<b>300,000</b>	<b>300,000</b>	<b>300,000</b>	<b>300,000</b>
Production = Sales	10,000	15,000	26,400	42,000	54,000	72,000
Capacity Utilization	3%	5%	9%	14%	18%	24%
<b>No of Units sold</b>						
<b>Bebeks</b>	<b>10,000</b>	<b>15,000</b>	<b>26,400</b>	<b>42,000</b>	<b>54,000</b>	<b>72,000</b>
<b>MRR</b>	<b>833</b>	<b>1,250</b>	<b>2,200</b>	<b>3,500</b>	<b>4500</b>	<b>6000</b>
YoY growth		50%	76%	59%	29%	33%
Net Realization	44,540	54,113	56,819	57,955	59,114	60,297
YoY growth		21%	5%	2%	2%	2%
<b>Total Sales</b>	<b>445</b>	<b>812</b>	<b>1,500</b>	<b>2,434</b>	<b>3,192</b>	<b>4,341</b>
<b>YoY growth</b>		<b>82%</b>	<b>85%</b>	<b>62%</b>	<b>31%</b>	<b>36%</b>
<b>Gross margin as reported</b>	<b>5%</b>	<b>17%</b>	<b>25%</b>	<b>30%</b>	<b>35%</b>	<b>39%</b>
Cost of Production as % of sales	95%	83%	75%	70%	65%	61%
<b>Manufacturing cost</b>	<b>423</b>	<b>674</b>	<b>1,126</b>	<b>1,702</b>	<b>2,079</b>	<b>2,634</b>
<b>COP per unit</b>	<b>42,313</b>	<b>44,914</b>	<b>42,668</b>	<b>40,535</b>	<b>38,508</b>	<b>36,583</b>
YoY change		6%	-5%	-5%	-5%	-5%
<b>SG&amp;A expenses</b>	<b>747</b>	<b>748</b>	<b>945</b>	<b>1,146</b>	<b>1,284</b>	<b>1,457</b>
YoY change		0%	26%	21%	12%	14%
EBITDA	(725)	(610)	(571)	(414)	(171)	250
EBITDA margin (%)	-163%	-75%	-38%	-17%	-5%	6%
Depreciation	235	239	246	253	261	268
Deprn / G.Block %	7%	7%	7%	7%	7%	7%
Interest	195	196	145	145	145	145
Avg Cost of Bwgs %	8%	8%	8%	8%	8%	8%
<b>PBT</b>	<b>(1,154)</b>	<b>(1,045)</b>	<b>(962)</b>	<b>(812)</b>	<b>(577)</b>	<b>(163)</b>
<b>PAT</b>	<b>(879)</b>	<b>(1,017)</b>	<b>(962)</b>	<b>(812)</b>	<b>(577)</b>	<b>(163)</b>
Gross Block	3,357	3,458	3,562	3,668	3,778	3,892
Borrowings	2,433	1,808	1,808	1,808	1,808	1,808
<b>PAT +Depreciation</b>	<b>(644)</b>	<b>(779)</b>	<b>(716)</b>	<b>(559)</b>	<b>(316)</b>	<b>105</b>

Source: Centrum Research Estimates

Based on YTD FY11 performance we see further downside to our FY11E estimate of 26,400 units.

Gross exit margin of 5% in FY09 and 17% in FY10 considered as reported by the company in its FY10 annual report.

## Financials (Standalone)

### Exhibit 6: Income Statement

Y/E March (Rsmn)	FY09	FY10	FY11E	FY12E	FY13E
Sales Volume	1,334,345	1,536,282	1,984,633	2,229,689	2,493,162
% Growth	3.5	15.1	29.2	12.3	11.8
<b>Net Sales</b>	<b>37,374</b>	<b>44,301</b>	<b>58,821</b>	<b>67,883</b>	<b>77,817</b>
% Growth	14.2	18.5	32.8	15.4	14.6
Raw Materials	28,141	31,717	42,612	49,071	56,241
Personnel	2,045	2,513	2,889	3,323	3,821
Manufact. & Other Exp.	5,316	7,327	8,958	10,415	12,072
<b>EBITDA</b>	<b>1,872</b>	<b>2,744</b>	<b>4,361</b>	<b>5,074</b>	<b>5,682</b>
EBITDA Margin (%)	5.0	6.2	7.4	7.5	7.3
Depn. & Amortn	1,029	1,025	1,211	1,306	1,366
<b>EBIT</b>	<b>843</b>	<b>1,719</b>	<b>3,151</b>	<b>3,769</b>	<b>4,316</b>
Interest Expenses	550	632	668	707	685
<b>EBT</b>	<b>293</b>	<b>1,087</b>	<b>2,483</b>	<b>3,062</b>	<b>3,631</b>
Other Income	23	74	81	90	98
Extraord. (Income)/Exp.					
<b>PBT</b>	<b>316</b>	<b>1,161</b>	<b>2,564</b>	<b>3,151</b>	<b>3,729</b>
Tax-Total	0	(118)	564	693	820
Tax Rate (%) - Total	0.1	(10.2)	22.0	22.0	22.0
<b>Adjusted PAT</b>	<b>316</b>	<b>1,280</b>	<b>2,000</b>	<b>2,458</b>	<b>2,909</b>
PAT Margin	0.9	3.8	3.4	3.6	3.7
% Growth	0.8	431.3	17.4	22.9	18.4
Extraord. items -Adj.	5	424	-	-	-
<b>Reported PAT</b>	<b>321</b>	<b>1,704</b>	<b>2,000</b>	<b>2,458</b>	<b>2,909</b>

Source: Company, Centrum Research Estimates

### Exhibit 7: Balance Sheet

Y/E March (Rsmn)	FY09	FY10	FY11E	FY12E	FY13E
<b>SOURCES OF FUNDS</b>					
Capital	238	238	475	475	475
Reserves & Surplus	7,111	8,115	9,375	11,071	12,959
<b>Shareholders' Funds</b>	<b>7,348</b>	<b>8,352</b>	<b>9,850</b>	<b>11,546</b>	<b>13,434</b>
<b>Minority Interest</b>	-	-	-	-	-
Secured Loans	6,254	8,300	7,437	5,674	3,911
Unsecured Loans	2,836	1,733	2,733	3,733	4,733
<b>Total Loan Funds</b>	<b>9,090</b>	<b>10,033</b>	<b>10,170</b>	<b>9,407</b>	<b>8,644</b>
Deferred Tax Liabi. - Net	1,481	1,146	1,095	1,032	957
<b>Total</b>	<b>17,919</b>	<b>19,531</b>	<b>21,115</b>	<b>21,985</b>	<b>23,035</b>
<b>APPLICATION OF FUNDS</b>					
Gross Block	18,654	19,091	21,262	22,262	23,262
Accumulated Dep.	(8,694)	(9,534)	(10,745)	(12,050)	(13,416)
Capital WIP	404	271	100	100	100
<b>Net Fixed Assets</b>	<b>10,364</b>	<b>9,828</b>	<b>10,617</b>	<b>10,311</b>	<b>9,946</b>
<b>Investments</b>	<b>4,777</b>	<b>7,393</b>	<b>8,393</b>	<b>8,893</b>	<b>9,393</b>
Goodwill					
Inventories	3,206	2,897	3,978	4,594	5,269
Sundry Debtors	1,816	2,203	2,387	2,756	3,161
Other Current Assets	-	-	-	-	-
Cash & Bank Balances	421	1,010	255	647	1,253
Loans and Advances	3,495	3,541	5,088	5,878	6,745
<b>Total Current Assets, Loans &amp; Adv.</b>	<b>8,937</b>	<b>9,652</b>	<b>11,709</b>	<b>13,876</b>	<b>16,428</b>
Current Liabilities	5,503	6,672	8,904	10,287	11,804
Provisions	655	669	700	808	927
<b>Total Current Liab. &amp; Prov.</b>	<b>6,158</b>	<b>7,341</b>	<b>9,604</b>	<b>11,096</b>	<b>12,731</b>
<b>Net Current Assets</b>	<b>2,778</b>	<b>2,311</b>	<b>2,105</b>	<b>2,781</b>	<b>3,697</b>
<b>Total assets</b>	<b>17,919</b>	<b>19,532</b>	<b>21,115</b>	<b>21,985</b>	<b>23,035</b>

Source: Company, Centrum Research Estimates

### Exhibit 8: Cash flow

Y/E March (Rsmn)	FY09	FY10	FY11E	FY12E	FY13E
Net cash from operations	992	2,997	2,611	3,417	3,889
Net cash from investment	(2,350)	(3,105)	(3,000)	(1,500)	(1,500)
Net CF from financing	1,740	697	(365)	(1,525)	(1,784)
Net cash increase/(dec)	383	589	(755)	392	605

Source: Company, Centrum Research Estimates

### Exhibit 9: Key Ratios

Y/E March	FY09	FY10	FY11E	FY12E	FY13E
O/s Shares	238	238	475	475	475
Fully Diluted Shares	475	475	475	475	475
<b>Per share (Rs)</b>					
Basic EPS	0.7	2.7	4.2	5.2	6.1
Book value	15.5	17.6	20.7	24.3	28.3
<b>Valuation</b>					
P/E	112.7	27.8	17.3	14.1	11.9
P/BV	4.8	4.3	3.5	3.0	2.6
EV/EBITDA	14.1	9.8	10.2	8.6	7.4
EV/Sales	0.7	0.6	0.8	0.6	0.5
<b>Margin Ratio (%)</b>					
EBITDA Margin	5.1	6.3	7.5	7.6	7.4
EBIT Margin	2.3	3.9	5.4	5.6	5.6
PAT Margin	0.9	2.9	3.4	3.7	3.8
<b>Return Ratio (%)</b>					
ROE	4.2	16.3	22.0	23.0	23.3
ROCE	5.6	10.3	16.8	18.8	20.5
<b>Other Ratios</b>					
Interest coverage ratio (%)	1.5	2.7	4.7	5.3	6.3
Debt-equity (x)	1.2	1.2	1.0	0.8	0.6
Liquidity ratio (x)	1.5	1.3	1.2	1.3	1.3
Other income contrib. (%)	7.3	6.4	3.2	2.8	2.6
Dividend Payout (%)	53.4	33.3	30.0	30.0	30.0
Asset TO (x)	2.3	2.4	2.9	3.2	3.5
WC Turnover (days)	20.2	21.5	10.1	10.6	10.6

Source: Company, Centrum Research Estimates

## Appendix A

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