



TVS Motor

STOCK INFO.	BLOOMBERG
BSE Sensex: 14,283	TVSS IN
	REUTERS CODE
S&P CNX: 4,148	TVSS.BO

25 January 2007

Neutral

Previous Recommendation: Neutral

Rs77

Equity Shares (m)	237.5
52-Week Range	187/77
1,6,12 Rel. Perf. (%)	-12/-40/-76
M.Cap. (Rs b)	18.4
M.Cap. (US\$ b)	0.4

YEAR	NET SALES	PAT	EPS	EPS	P/E	P/BV	ROE	ROCE	EV/	EV/
END	(RS M)	(RS M)	(RS)	GROWTH (%)	(X)	(X)	(%)	(%)	SALES	EBITDA
3/06A	32,350	1,073	4.5	-22.0	17.1	2.4	14.0	13.2	0.6	9.1
3/07E	39,565	797	3.4	-25.7	23.1	2.2	9.6	10.4	0.5	10.2
3/08E	45,479	970	4.1	21.8	19.0	2.1	10.9	11.7	0.4	8.5

- TVS Motor's 3QFY07 results were below our expectations. The company posted net sales of Rs9.3b – a growth of 7.3% YoY, while volumes grew 1.4% YoY. Revenue growth was higher than volume growth, as realizations increased 5.8% YoY.
- EBITDA margin plummeted 380bp YoY and 200bp QoQ to 3.2%. EBITDA was negatively impacted by significantly higher raw material cost - RM/sales ratio was 75.3%, up 440bp YoY and 140bp QoQ. However, other expenditure as a proportion of sales declined by 80bp (flat QoQ). As a result, EBITDA decreased 51.2% YoY and 47.1% QoQ to Rs296m.
- Other income increased 46.7% YoY to Rs170m, but was mostly set off by higher interest cost, which more than doubled to Rs86m. Due to the low EBITDA margin, PAT declined 63.1% YoY and 53.6% QoQ to Rs115m.
- TVS Motor is now consolidating its position across the motorcycle segment and is putting in place a strong product portfolio, which is likely to drive growth going forward. However, muted sales growth in 3QFY07 and poor operating performance continue to remain areas of concern.
- We have cut our EPS estimates for FY07 and FY08 by over 30% to Rs3.4 and Rs4.1, respectively. The stock trades at 23.1x FY07E revised EPS of Rs3.4, 19x FY08E EPS of Rs4.1 and 15.9x FY09E EPS of Rs4.9. Maintain **Neutral**, with revised target price of Rs74 (15x FY09E EPS).

QUARTERLY PERFORMANCE

Y/E MARCH	FY06				FY07				FY06	FY07E
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4QE		
Total Volumes (nos)	307,425	325,530	358,559	350,689	376,331	419,195	363,670	406,398	1,342,203	1,565,594
Volume Gr (%)	21.1	10.5	11.2	18.2	22.4	28.8	1.4	15.9	15.0	16.6
Net Sales	7,351	7,892	8,714	8,393	9,218	10,779	9,354	10,215	32,350	39,565
Change (%)	20.3	6.2	8.4	16.8	25.4	36.6	7.3	21.7	12.5	22.3
Total Cost	6,854	7,433	8,107	7,911	8,802	10,219	9,058	9,704	30,305	37,782
EBITDA	497	459	607	482	416	560	296	511	2,045	1,783
As % of Sales	6.8	5.8	7.0	5.7	4.5	5.2	3.2	5.0	6.3	4.5
Change (%)	-11.7	-31.9	14.7	37.8	-16.3	21.9	-51.2	6.0	-3.4	-12.8
Other Income	115	164	120	214	178	109	176	205	613	668
Interest	24	27	35	46	60	62	86	81	131	289
Depreciation	227	231	242	240	233	244	245	309	939	1,032
Extraordinary Gain / (Expense)	0	97	0	0	0	0	0	0	97	0
PBT	361	463	450	410	301	363	141	325	1,684	1,130
Tax	112	144	140	120	89	114	27	104	515	333
Effective Tax Rate (%)	31.0	31.0	31.0	29.1	29.5	31.5	18.8	32.0	30.5	29.5
PAT	249	320	311	291	213	248	115	221	1,170	797
Change (%)	-8.4	-6.7	10.1	-39.3	-14.6	-22.3	-63.1	-23.9	-15.0	-31.9
Adj.PAT	249	223	311	291	213	248	115	221	1,073	797
Change (%)	-8.4	-35.0	10.1	164.5	-14.6	11.6	-63.1	-23.9	-22.0	-25.7

E: Most Estimates

Intense competition results in negligible volume growth

In 3QFY07, TVS Motor sold 363,670 two-wheelers. Volumes grew by a mere 1.4% YoY, as it failed to keep pace with the intensely competitive tone set by Bajaj Auto. The company intends to launch new variants / models on a regular basis to attract customers.

TVS Motor is now consolidating its position across the motorcycle segment and is putting in place a strong product portfolio, which is likely to drive growth going forward. However, the muted sales growth in 3QFY07 and poor operating performance continue to remain areas of concern.

SALES VOLUMES (UNITS)

	3QFY07	3QFY06	% GR.	2QFY07	% GR.
Motorcycles	219,958	222,309	(1.1)	258,321	(14.9)
Mopeds	82,469	73,769	11.8	87,510	(5.8)
Scooters	61,243	62,481	(2.0)	73,364	(16.5)
Total	363,670	358,559	1.4	419,195	(13.2)

Source: Company/ Motilal Oswal Securities

Despite the poor volume growth in 3QFY07, the company has seen strong volume growth so far this year, particularly in motorcycles. We estimate full year motorcycles volume growth at 20%, as against YTD growth of 21.3%.

RESIDUAL GROWTH REQUIRED

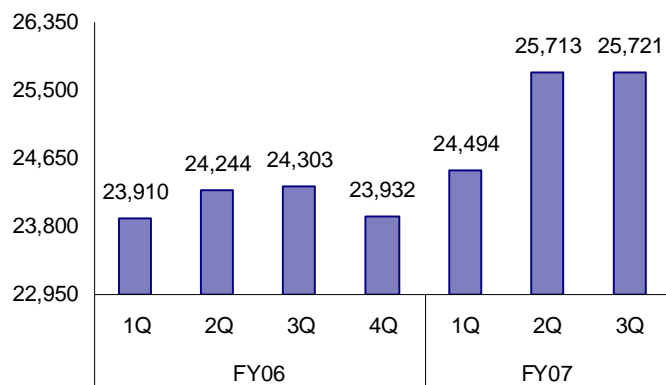
TVS MOTOR	FY07	FY06	GRTH. (%)
YTD FY07 Sales (units)	1,159,196	991,514	16.9
FY07 estimate (units)	1,565,594	1,342,203	16.6
Residual Growth Req.(%)			15.9
YTD FY07 Sales (units)	712,107	587,089	21.3
Bikes - FY07 estimate	967,985	806,654	20.0
Residual Growth Req.(%)			16.5
YTD FY07 Sales (units)	198,199	193,857	2.2
Scooters -FY07 estimate (units)	255,087	245,276	4.0
Residual Growth Req.(%)			10.6

Source: Company/ Motilal Oswal Securities

Revenue growth largely driven by increase in realizations

The company posted net sales of Rs9.3b – a growth of 7.3% YoY, while volumes grew 1.4% YoY. Revenue growth was higher than volume growth, as realizations increased 5.8% YoY. Improvement in realizations was mainly on account of better product mix (the success of *Apache*), and price increase in some of the models in mid-September 2006.

TREND IN REALIZATION (RS)



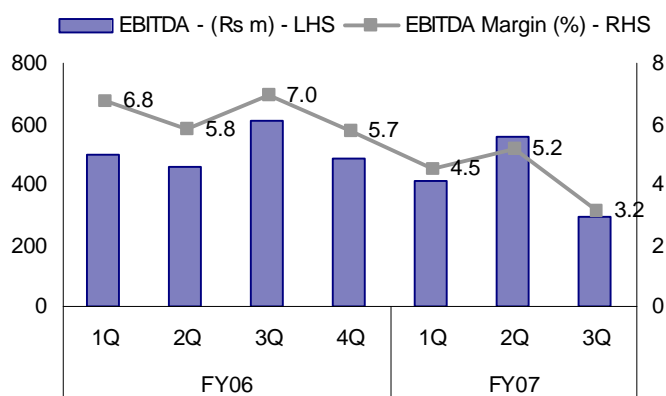
Source: Company/ Motilal Oswal Securities

EBITDA margins down 380bp YoY to 3.2%

EBITDA margin plummeted to 3.2%, a decline of 380bp YoY and 200bp QoQ. EBITDA was negatively impacted by significantly higher raw material cost - RM/sales ratio was 75.3%, up 440bp YoY and 140bp QoQ. However, other expenditure as a proportion of sales declined by 80bp (flat QoQ). As a result, EBITDA decreased 51.2% YoY and 47.1% QoQ to Rs296m.

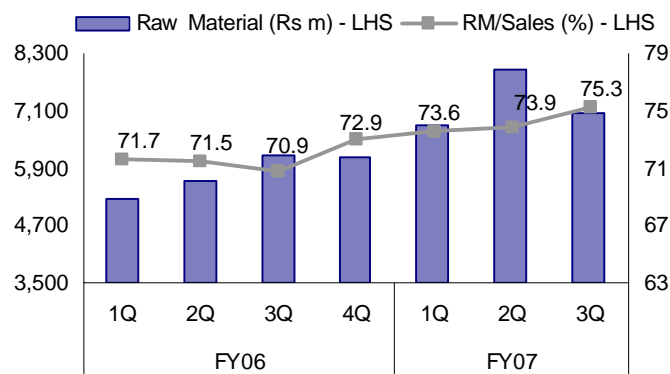
The management is making consistent efforts at rationalization of expenses and cost reduction, to expand margins. However, as seen in 3QFY07, the efforts have failed to produce the desired result in a rising raw material price scenario, coupled with competitive pressures.

EBITDA MARGINS CONTINUE TO DISAPPOINT...



Source: Company/ Motilal Oswal Securities

... AS RAW MATERIAL COST AS A PERCENTAGE OF SALES CONTINUES TO RISE



Source: Company/ Motilal Oswal Securities

PAT down 63.1% YoY

Other income increased 46.7% YoY to Rs170m, but was mostly set off by higher interest cost, which more than doubled to Rs86m. Due to the low EBITDA margin, PAT declined 63.1% YoY and 53.6% QoQ to Rs115m.

Capex program nearing completion

TVS Motor's two-wheeler plant in Indonesia is ready, and products are being tested. The plant will have a capacity of 300,000 units and should be operational towards the end of 4QFY07.

The company's US\$25m three-wheeler project is also on course, with initial launch being scheduled for end-4QFY07.

TVS intends to be present in all types of fuels in three-wheelers. The plant will have an initial capacity of 60,000 vehicles.

Valuation and view

TVS is working at putting a strong product portfolio in place, which should drive growth going forward. However, pressure on margins remains a concern, as TVS' sales mix is geared towards economy segment motorcycles. Consolidating the product portfolio would lead to higher marketing expenses in a competitive scenario. Moreover, in the wake of intense competitive pressures in the two-wheeler industry, TVS also failed to deliver on the volume front in 3QFY07.

Considering the poor operating performance of the company and intense competition from Bajaj Auto and Hero Honda. We have cut our EPS estimates for FY07 and FY08 by over 30% to Rs3.4 and Rs4.1, respectively. The stock trades at 23.1x FY07E revised EPS of Rs.3.4, 19x FY08E EPS of Rs4.1 and 15.9x FY09E EPS of Rs4.9. Maintain **Neutral**, with revised target price of Rs74 (15x FY09E EPS).

REVISED FORECAST (RS M)

	FY07E			FY08E		
	OLD	REV.	% CHG	OLD	REV.	% CHG
Net Sales	38,692	39,565	2.3	44,364	45,479	2.5
EBITDA	2,227	1,783	-19.9	2,578	2,075	-19.5
Adj. PAT	1,148	797	-30.6	1,420	970	-31.7
EPS (Rs)	4.8	3.4	-30.6	6.0	4.1	-31.7

Source: Motilal Oswal Securities

TVS Motor: an investment profile

Company description

TVS Motors is the two-wheeler manufacturing company of the Sundaram Group. Predominantly present in the ungeared scooter and motorcycle segments, TVS will also be entering the three-wheeler segment within the next few months.

Key investment arguments

- ✍ Possibility of dramatic success of the much-awaited three-wheeler
- ✍ Possibility of new launches in the executive and premium segments driving volumes and profitability

Key investment risks

- ✍ Increasing competition in the executive segment from Bajaj Auto and Hero Honda
- ✍ Strong sales of the low margin 'Star' will lead to increased pressure on margins
- ✍ Operating performance remains an area of concern

Recent developments

- ✍ Competition has launched several new products in the past 3 months - the Bajaj Auto 'Discover 110cc', Hero Honda 'Glamor 125cc', Hero Honda 'Acheiver 150cc', etc.

Valuation and view

- ✍ The stock trades at 23.1x FY07E revised EPS of Rs3.4, 19x FY08E EPS of Rs4.1 and 15.9x FY09E EPS of Rs4.9. Maintain **Neutral**, with revised target price of Rs74 (15x FY09E EPS).

Sector view

- ✍ Numerous motorcycle launches will lead to an increase in competitive intensity
- ✍ Domestic two-wheeler demand will continue to surpass estimates on back of rural pull
- ✍ Despite number of players, market share remains concentrated amongst the top-2
- ✍ We maintain an overweight stance on the sector

COMPARATIVE VALUATIONS

		TVS	BAL	HERO HONDA
P/E (x)	FY07E	23.1	21.2	14.9
	FY08E	19.0	17.8	12.8
EPS Gr (%)	FY07E	-25.7	19.0	-1.0
	FY08E	21.8	19.4	16.2
RoE (%)	FY07E	9.6	23.3	38.6
	FY08E	10.9	23.4	37.4
EV/EBITDA (x)	FY07E	10.6	15.2	9.5
	FY08E	9.2	11.9	7.7

SHAREHOLDING PATTERN (%)

	DEC.06	SEP.06	DEC.05
Promoter	56.8	56.8	56.8
Domestic Inst	21.2	19.6	19.2
Foreign	4.3	6.9	11.3
Others	17.7	16.6	12.7

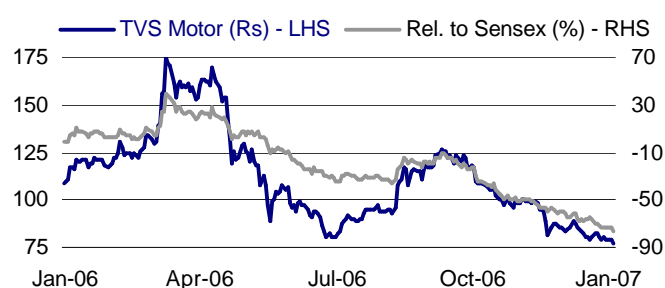
EPS: MOST FORECAST VS CONSENSUS (RS)

	MOST FORECAST	CONSENSUS FORECAST	VARIATION (%)
FY07	3.4	4.9	-31.1
FY08	4.1	6.8	-39.9

TARGET PRICE AND RECOMMENDATION

CURRENT PRICE (RS)	TARGET PRICE (RS)	UPSIDE (%)	RECO.
77	74	-	Neutral

STOCK PERFORMANCE (1 YEAR)



INCOME STATEMENT					
(Rs Million)					
Y/E MARCH	2005	2006	2007E	2008E	2009E
Net Sales	28,759	32,350	39,565	45,479	52,012
Change (%)	2.0	12.5	22.3	14.9	14.4
Total Expenditure	26,643	30,305	37,782	43,404	49,585
Raw Material	19,814	23,211	29,476	33,313	38,099
Employee Cost	1,407	1,569	1,780	2,183	2,471
Other Mfg. Expenses	1,939	1,971	2,057	2,433	2,783
Selling & Distribution	3,475	3,537	4,451	5,457	6,215
EBITDA	2,116	2,045	1,783	2,075	2,427
Change (%)	-18.4	-3.4	-12.8	16.4	17.0
% of Net Sales	7.4	6.3	4.5	4.6	4.7
Depreciation	896	939	1,032	1,142	1,245
Interest & Fin. Ch.	8	131	289	289	289
Other Income	793	613	668	733	743
Non-recurring Income	0	97	0	0	0
PBT	2,005	1,684	1,130	1,377	1,636
Tax	629	515	333	406	483
Effective Rate (%)	31.4	30.5	29.5	29.5	29.5
PAT	1,376	1,170	797	970	1,153
Change (%)	-0.7	-15.0	-31.9	21.8	18.8
% of Net Sales	4.8%	3.6%	2.0%	2.1%	2.2%
Adj. PAT	1,376	1,073	797	970	1,153
Change (%)	-0.7	-22.0	-25.7	21.8	18.8

BALANCE SHEET					
(Rs Million)					
Y/E MARCH	2005	2006	2007E	2008E	2009E
Share Capital	238	238	238	238	238
Reserves	6,551	7,424	8,021	8,701	9,508
Net Worth	6,788	7,661	8,259	8,938	9,745
Deferred Tax	1,485	1,490	1,490	1,490	1,490
Loans	1,868	3,850	3,850	3,850	3,850
Capital Employed	10,142	13,002	13,599	14,279	15,086
Gross Fixed Assets	12,872	13,784	15,495	16,925	18,422
Less: Depreciation	5,236	6,116	7,148	8,290	9,535
Net Fixed Assets	7,636	7,668	8,347	8,635	8,887
Capital WIP	69	270	0	0	0
Investments	1,754	3,442	3,442	3,442	3,442
Curr. Assets, L & Adv.	5,117	6,556	7,861	9,225	10,854
Inventory	2,332	3,579	4,336	4,984	5,700
Sundry Debtors	396	582	1,084	1,246	1,425
Cash & Bank Balances	739	244	592	1,146	1,880
Loans & Advances	1,647	2,149	1,849	1,849	1,849
Current Liab. & Prov.	5,078	5,869	6,986	7,958	9,032
Sundry Creditors	4,522	5,245	6,504	7,476	8,550
Provisions	556	624	482	482	482
Net Current Assets	39	687	875	1,267	1,822
Application of Funds	10,142	13,002	13,599	14,279	15,086

E: MOST Estimates

RATIOS					
Y/E MARCH	2005	2006	2007E	2008E	2009E
Basic (Rs)					
EPS	5.8	4.5	3.4	4.1	4.9
Cash EPS	9.6	8.9	7.7	8.9	10.1
Book Value per Share	28.6	32.3	34.8	37.6	41.0
DPS	13	13	0.8	1.2	1.5
Payout (Incl. Div. Tax) %	22.5	26.4	25.0	30.0	30.0
Valuation (x)					
P/E		17.1	23.1	19.0	15.9
Cash P/E		8.7	10.1	8.7	7.7
EV/EBITDA		9.1	10.2	8.5	7.0
EV/Sales		0.6	0.5	0.4	0.3
Price to Book Value		2.4	2.2	2.1	1.9
Dividend Yield (%)		1.7	1.1	1.6	1.9
Profitability Ratios (%)					
RoE	20.3	14.0	9.6	10.9	11.8
RoCE	19.8	13.2	10.4	11.7	12.8
Turnover Ratios					
Debtors (Days)	5	7	10	10	10
Asset Turnover (x)	2.8	2.5	2.9	3.2	3.4
Leverage Ratio					
Debt/Equity (x)	0.3	0.5	0.5	0.4	0.4

CASH FLOW STATEMENT					
(Rs Million)					
Y/E MARCH	2005	2006	2007E	2008E	2009E
OP/(Loss) before Tax	1,219	1,106	752	933	1,182
Interest/Div. Received	793	613	668	733	743
Depreciation & Amort.	896	939	1,032	1,142	1,245
Direct Taxes Paid	-374	-510	-333	-406	-483
(Inc)/Dec in Working Capital	239	-1,144	161	162	179
Other Items	-516	-291	0	0	0
CF from Oper. Activity	2,258	714	2,278	2,563	2,866
(Inc)/Dec in FA+CWIP	-1,559	-1,172	-1,441	-1,430	-1,497
(Pur)/Sale of Invest.	-474	-1,688	0	0	0
CF from Inv. Activity	-2,033	-2,860	-1,441	-1,430	-1,497
Changes in Reserves	-28	12	0	0	0
Inc/(Dec) in Debt	678	1,982	0	0	0
Interest Paid	-8	-131	-289	-289	-289
Dividends Paid	-309	-309	-199	-291	-346
CF from Fin. Activity	334	1,554	-488	-580	-635
Inc/(Dec) in Cash	559	-495	349	554	735
Add: Beginning Balance	180	739	244	592	1,146
Closing Balance	739	244	592	1,146	1,880



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Disclosure of Interest Statement	TVS Motor
1. Analyst ownership of the stock	No
2. Group/Directors ownership of the stock	No
3. Broking relationship with company covered	No
4. Investment Banking relationship with company covered	No

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