Quarterly Result Analysis

TVS Motors — Rs 100

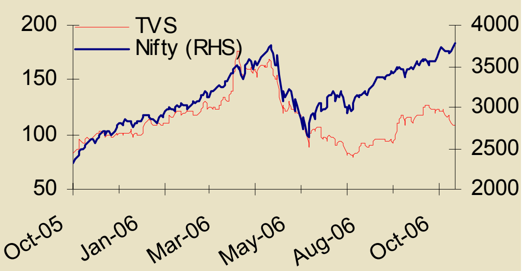
Losing Speed

13th November 2006

SCRIP DETAILS	
Market Cap (Rs crores)	2,382
P/E (x)-FY07 (E)	21.8
Market Cap/Sales (x) FY07 (E)	0.6
EV/EBIDTA (x) FY07 (E)	12
Dividend (Rs)/ Yield (%)	1.3/ 1.29
Equity Capital (Rs crores)	23.8
Face Value (Rs)	1.0
52 Week High/Low (Rs)	186.7/ 78
Website: www.tvsmotor.in	
NSE Code	TVSMOTOR
Sensex	13,399
Nifty	3,858

(As on 30th Sept 2006)	
Promoters	56.83
Mutual Funds/ Banks/ FIs	19.65
FIIs	6.76
Others	0.17
Public	16.59

COMPARATIVE PRICE MOVEMENT



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TVS Motors, the third largest 2-wheeler manufacturer in India, with a market share of 20% in motorcycles, has registered a CAGR of 15% in the last 10 years. The Company's Q2 results have been disappointing; it has reported a higher revenue growth, although its PAT was lower, at Rs 24.8 crores.

Volume growth drives revenues: The Company has posted a 37% YoY and a 17% QoQ increase in its revenues, on the back of the volume growth during the Quarter. The volumes have surged by 29% YoY, which is mainly attributed to its motorcycles segment that has grown by 37% YoY, followed by mopeds (28% (YoY). Scooter volumes have shown an increase of 7% YoY while exports have grown by 38% YoY.

Realisation improved by 6% YoY and 5% QoQ, due to the continued demand for its motorcycles, especially TVS StaR City and TVS Apache. Its TVS StaR brand crossed the one million sales-mark, since its launch, and with the recent launch of the electric start variant, the demand for the vehicle is expected to grow further in the coming months. Apache continues to be in demand and has captured a sizeable share of 25% in the premium segment. In volume terms, the motorcycle portfolio now accounts for 62% of sales vs. 58% in Q2FY06.

Margins under pressure: The operating profit has gone up by 22% YoY and 35% QoQ. However, the OPM has fallen by 60 bps YoY, to 5.2%, on account of the rise in the raw material costs by 41% YoY. The raw material to sales ratio has also gone up by 240 bps, to 73.9%, for the Quarter. But on a QoQ basis, the OPM has gone up by 70 bps, as the other expenses and personnel costs as a percentage of sales have gone down by 60 bps and 40 bps, respectively.

Lower PAT due to lower income: The PAT for the Quarter has diminished by 22% YoY, while the PAT margin has fallen by 170 bps, to 2.3%, due to the other income that has lowered by 34%, to Rs 10.9 crores, and a significant rise in the interest cost to the extent of 131%, to Rs 6.2 crores. There was also an exceptional item, to the tune of Rs 9.7 crores (DEPB target plus incentive) in Q2FY06, which resulted in a higher PAT. However, due to absence of any exceptional item in Q2FY07, the PAT is lower, at Rs 24.8 crores. The Adj PAT is lower by 1.6%, at Rs 24.8 crores. On a QoQ basis, the PAT is up 16.4%, while the PAT margin is stable at 2.3%. The EPS is at Re 1, as against Rs 1.3 in Q2FY06 and Re 0.9 in Q1FY07 and the Adj EPS is at Re 1, as against Rs 1.1 in Q2FY06.

The road ahead: The Company's plans of setting up a paint production plant at Indonesia, which is the world's largest 2-wheeler market, is on schedule. Additionally, the Company's Himachal Pradesh project would involve setting up of an assembly plant, which would commence operations by Apr07. The Company has planned out a series of launches that include that of a 3-wheeler, the production of which would start by Q1FY08. TVS Motors also plans to launch new models across its Apache, StaR and Victor brands.

New projects/ launches on schedule

- The Company 's plans of setting up a paint plant at Indonesia, which is the world's largest 2-wheeler market, is on schedule. This plant is would have a capacity of 3,00,000 units and would involve an investment of US$ 70 million, to be utilised in two phases. This Indonesian venture that the Company is undertaking would help it establish a base in the global southeast market. The Company intends to sell its 'cub' bikes from this plant, the production which is is expected to begin in Q1FY08.
- The Company's Himachal Pradesh project would involve setting up an assembly plant that would cater to 40% of the motorcycles sales in the Northern market in India. This plant is expected to commence operations by Apr07 and would obtain excise and tax benefits.
- The Company has planned out a series of launches that include a 3-wheeler, the production of which would commence by Q1FY08. It also plans to launch new models in its Apache, StaR and Victor. Additionally, TVS Motors plans to invest in innovation of its existing brands and also in its distribution network, which consists of 539 dealers, as of Mar06.
- The Company's initiative of forming a joint venture with a Colombian firm is in the initial stage, the outcome of which is expected in the next four quarters.

Financials

Standalone (YE March 31)	Q2FY07	Q2FY06	Chg (%)	H1FY07	H1FY06	Chg (%)
Net Sales	**1,077.9**	**789.2**	**36.6**	**1,999.7**	**1,524.3**	**31.2**
Total Expenditure	1,021.9	743.3	**37.5**	1,902.1	1,428.7	**33.1**
Operating Profit	**56.0**	**45.9**	**21.9**	**97.6**	**95.6**	**2.1**
OPM (%)	5.2	5.8		4.9	6.3	
PBT before Extra-ord	36.3	36.6	-0.9	66.4	82.4	-19.4
PBT (%)	3.4	4.6		3.3	5.4	
PBT	36.3	46.3	-21.7	66.4	82.4	-19.4
PAT	24.8	31.9	-22.2	46.1	56.8	-18.9
PAT (adj. for extraordinary)	24.8	25.2	-1.6	46.1	56.8	-18.9
Equity Share capital	**23.8**	**23.8**		**23.8**	**23.8**	
EPS (Rs)	1.0	1.3		1.9	2.4	
CEPS (Rs)	2.2	2.3		4.1	4.3	
Adj Eps	1.0	1.1		1.9	2.4	

Valuation and Conclusion

TVS Motors has grown at 26% for H1FY07, in comparison to the industry growth rate of 17%. This sales momentum is likely to continue, with the recent launch of its TVS StaR with electric start features, and its StaR and Apache models in the economy and premium segments, respectively. The Company states that the sustainable volume growth for a long-term horizon would be at 15-16%, and that it is, however, targeting an aggressive growth of 30% in the near term. The export sales currently contribute 7.5% to the revenues and are expected to increase to 10%.

In the recent quarter, the Company witnessed pressure on its margin, despite strong volume growth. The margin is expected to be better in the near future, on account of the price hike that the Company had undertaken in Q2FY07. Pressure on the bottomline was also felt, due to lower income and high interest cost. Hence, maintaining profitability with its increasing market share would be a challenge for the Company, as severe competition would continue. Going forward, the key event to watch out for would be profitable growth. The Indonesian venture and the launch of a 3-wheeler in FY08 are also critical. At the CMP of Rs 100, the stock is fairly valued at 21.8x its FY07 (E) EPS of 4.6 and EV/ EBITDA of 12x.

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