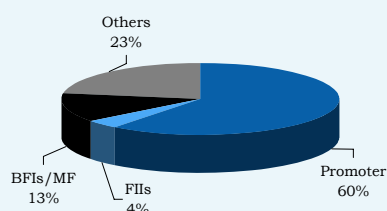


Key points

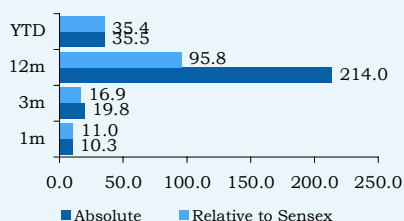
- TVS Motors reported highest quarterly sales volume in 4QFY10 at 419,098 post 2QFY07.
- The EBIDTA margin grew by 110bps yoy to 7.7% in 4QFY10. The absolute EBIDTA stood at Rs943mn, up 54% yoy

CMP	Rs88
Reuters code	TVSM.BO
Bloomberg code	TVSL IB
Shares o/s (mn)	238
Mkt Cap	Rs21bn/US\$0.5bn
52 wk high / Low	Rs90/25
Avg daily trad vol	1.26(mn shs)
BSE Sensex	17,473
Nifty	5,245

Shareholding pattern



Performance



Share price movement



In line with expectations

Outlook	
Revenue	To grow ~21% yoy led by ~15% volume growth
Margin	May not be sustainable due to increase in steel prices as well as tyre prices
Capex	TVS Motors has planned a capex of ~Rs3.5bn over FY10-11.
Valuation	Currently trading at a 15.4x FY12E EPS of Rs5.7.

4QFY10 result highlights

- TVS Motors reported highest quarterly sales volume in 4QFY10 at 419,098 post 2QFY07 which led to highest quarterly revenues ever (up 32% yoy). The motorcycle segment registered 22% growth, scooters grew 38% yoy, and mopeds grew 32%. Its three wheeler sales also improved by 278% yoy to 6,240 a year.
- TVS Motors reported highest operating margins in last 20 quarters at 7.8% on the back of better sales mix and lower RMC at 68.6% of net sales. The absolute EBIDTA stood at Rs943mn, up 54% yoy.
- The employee cost for the quarter is higher by 73mn on account of VRS payment and prior period adjustments.
- The net profit for the quarter stood at Rs203mn. The company has reported an exceptional net loss of Rs382mn in 4QFY10. This includes a gain of Rs546mn on sale of land and a loss of Rs890mn on sale of investment in TVS Finance and Services Ltd. This has led to negative tax expense of Rs138mn due to impact of deferred tax. (long term capital loss cant be set off against operating income).
- If we ignore the above exceptional items, the adjusted PAT for the quarter stands at Rs309mn (PBT Rs447mn, Tax Rs138mn)

Valuation & view

The company expects its scooter segment to grow ~16-18% yoy. We also expect mopeds to continue their strong momentum.

The company has recently launched its first automatic gear bike 'Jive' It has planned two new launches, one motorcycle in the executive segment and one scooter. The company expects to grow better than the two wheeler industry on the back of these new launches.

We believe the margins would not be sustainable at these levels due to the increase in the steel prices and tyre costs as well.

We introduce our estimates for FY12. At CMP, the stock is currently trading at 9.4x FY11E CEPS (cash earnings) and 8x FY12 CEPS. We target the stock at 9x FY12E (CEPS), which is 600bps lower than Hero Honda's target multiple of 15x FY12E (CEPS). We maintain **Accumulate**.

Financial summary

Year end march (Rs.mn)	FY08	FY09	FY10E	FY11E	FY12E
Net sales	32,195	36,709	44,240	52,402	59,372
Net profit	318	311	865	1,074	1,358
EPS (Rs)	1.3	1.3	3.6	4.5	5.7
ROCE (%)	2.9	6.0	11.9	8.3	9.3
ROE (%)	3.9	3.8	10.0	11.2	13.0
P/E (x)	54.3	17.2	24.2	19.5	15.4
EV/EBITDA (x)	57.9	11.8	8.7	7.5	6.7
P/BV	2.1	0.7	2.3	2.1	1.9

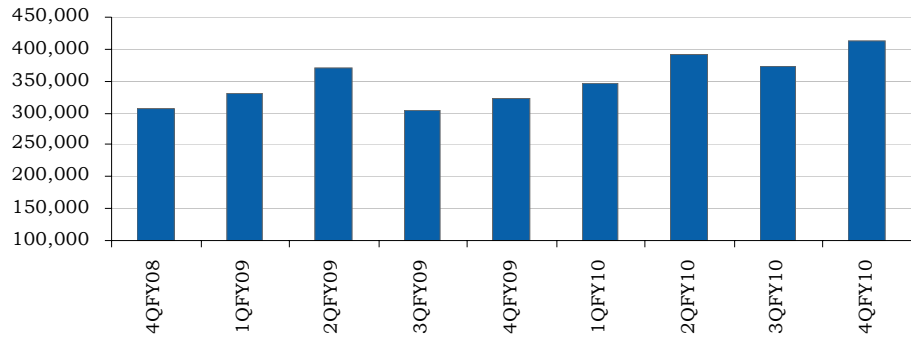
Source: Alchemy, Company, Bloomberg

The company has witnessed a qoq growth from 3QFY09 in its two wheeler sales mainly led by mopeds and scooters

The share of exports is increasing for the company since last 4 quarters.

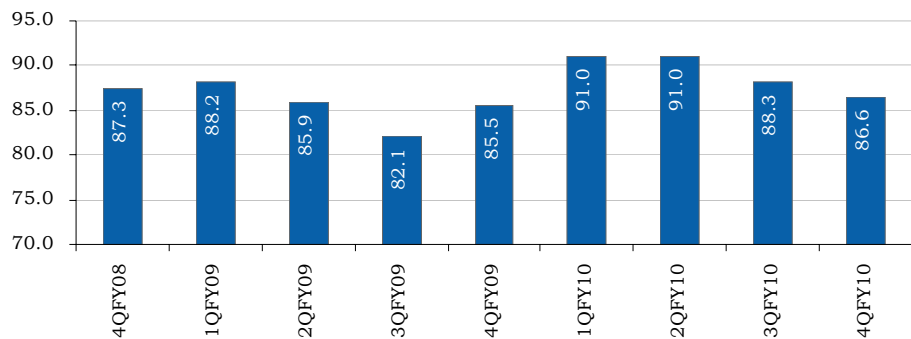
The contribution (%) from motorcycles in total improved in 4QFY10 on the back of new launches.

Exhibit 1 - Quarterly Two wheeler Sales Volume



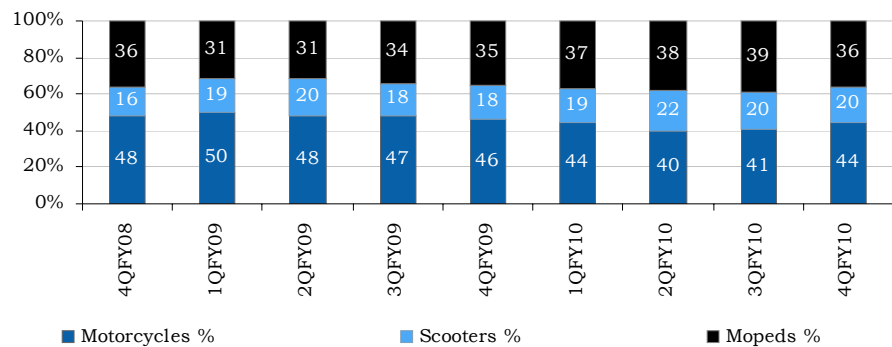
Source: Company, Alchemy Research

Exhibit 2 - Domestic Sales as a % of total sales



Source: Company, Alchemy Research

Exhibit 3 - Segment wise Sales (%)



Source: Company, Alchemy Research

Exhibit 4 - Quarterly Results

Rs Mn, Year end - 3	4QFY09	1QFY10	2QFY10	3QFY10	4QFY10
No of vehicles sold	324,667	349,386	393,931	375,063	419,098
YoY (%)	6.2%	5.2%	6.1%	22.7%	29.1%
QoQ (%)	6.2%	7.6%	12.7%	-4.8%	11.7%
Realization per vehicle	28,421	28,298	28,682	29,047	29,015
Net Sales/Income from operations	9,227	9,887	11,299	10,895	12,160
YoY (%)	25.1%	8.5%	9.3%	25.4%	31.8%
QoQ (%)	6.2%	7.2%	14.3%	-3.6%	11.6%
(Inc) / Dec in stock and WIP		311	(214)	(1)	69
Consumption of R.M & Components	6,674	6,845	8,219	7,679	8,278
% of sales	72.3%	72.4%	70.9%	70.5%	68.6%
YoY (%)	19.2%	2.8%	3.5%	19.3%	25.1%
QoQ (%)	3.7%	7.2%	11.9%	-4.1%	8.7%
Staff Cost	427	523	585	627	773
% of sales	4.6%	5.3%	5.2%	5.8%	6.4%
Other expenditure	1,514	1,581	1,928	1,752	2,096
% of sales	16.4%	16.0%	17.1%	16.1%	17.2%
Total Expenditure	8,615	9,261	10,519	10,058	11,217
Operating Profit	612	626	780	837	943
YoY (%)	-670.2%	100.4%	53.7%	88.0%	54.0%
QoQ (%)	37.5%	2.2%	24.6%	7.3%	12.7%
OPM (%)	6.6%	6.3%	6.9%	7.7%	7.8%
Other Income	(104)	(0)	25	6	44
Interest	139	171	153	180	123
Depreciation/Amortization	266	254	410	408	418
Profit before excptnl itms and tax	104	200	241	254	447
Exceptional Items	33				(382)
Profit Before Tax	137	200	241	254	65
Less: Provision for Taxation	(75)	19	(4)	19	(138)
Tax Rate (%)	-54.7%	9.6%	-1.7%	7.4%	-211.6%
Profit After Tax	212	181	245	235	203
EPS	0.89	0.76	1.03	0.99	0.85

The staff cost includes Rs73mn on account of VRS payment and prior period expenses.

The exceptional item includes net loss on sale of investment.

The tax expense is negative on account of deferred tax created on exceptional item.

Source: Company, Alchemy Research

Income Statement (Rs mn)

March end	FY08	FY09	FY10E	FY11E	FY12E
Net Sales	32,195	36,709	44,240	52,402	59,372
Raw Materials	24,455	27,834	31,052	37,206	42,213
Employee Cost	1,762	2,045	2,509	2,804	3,206
Other Expenses	5,565	5,643	7,262	8,384	9,410
Total Expenditure	31,782	35,522	40,823	48,394	54,830
EBITDA	413	1,187	3,417	4,009	4,542
Other Income	1,001	799	74	99	172
Interest	115	646	628	717	739
Depreciation	946	1,029	1,640	1,836	2,008
PBT	354	311	761	1,554	1,966
Total tax	36	0	(104)	480	607
PAT	318	311	865	1,074	1,358
Less: Adjustments	0	0	0	0	0
Adjusted PAT	318	311	865	1,074	1,358

Cash Flow (Rs mn)

March end	FY08	FY09	FY10E	FY11E	FY12E
PAT	318	311	865	1,074	1,358
Add: Depreciation	946	1,029	1,640	1,836	2,008
Add: Interest expense	115	646	628	717	739
Less: Other income	(1,001)	(799)	(74)	(99)	(172)
Change in working capital	(952)	(285)	2,698	(1,790)	1,421
Others	0	0	0	0	0
Cash flow from operations	(575)	902	5,757	1,739	5,356
Change in fixed assets	(1,347)	(962)	(2,418)	(2,479)	(2,747)
Change in investments	58	(1,388)	(3,000)	1,200	(2,000)
Other income	1,001	799	74	99	172
Others	0	0	0	0	0
Cash flow from investing activities	(288)	(1,551)	(5,343)	(1,181)	(4,576)
Change in debt	328	2,396	0	500	300
Dividend & dividend tax	(195)	(195)	(278)	(278)	(278)
Change in equity & share premium	0	0	0	0	0
Interest paid	(115)	(646)	(628)	(717)	(739)
Other Adjustments	(41)	(298)	0	0	0
Cash flow from financing activities	(23)	1,258	(906)	(495)	(717)
Change in cash & cash equivalents	(828)	384	(492)	63	63
Opening cash and cash equivalents	866	37	421	390	453
Closing cash and cash equivalents	37	421	390	453	516

Balance Sheet (Rs mn)

March end	FY08	FY09	FY10E	FY11E	FY12E
Equity capital	238	238	238	238	238
Reserves & Surplus	7,978	7,864	8,913	9,709	10,789
Net worth	8,216	8,102	9,151	9,947	11,027
Minority interest	0	0	0	0	0
Total debt	6,663	9,060	9,060	9,560	9,860
Total	14,879	17,161	18,210	19,506	20,887
Net block	10,165	9,959	10,737	11,379	12,118
Capital WIP	266	404	404	404	404
Total fixed assets	10,431	10,364	11,141	11,784	12,522
Investments	3,390	4,777	7,777	6,577	8,577
Net Working capital					
Current Assets	7,748	8,937	7,248	10,934	10,491
Inventories	4,054	3,206	2,212	4,716	4,156
Debtors	879	1,816	1,548	1,572	1,662
Cash & bank	37	421	390	453	516
Other Current Assets	2,778	3,495	3,097	4,192	4,156
Current Liabilities &	5,668	6,188	7,227	9,060	9,975
Creditors	5,050	5,496	6,210	7,813	8,443
Other liabilities	8	38	525	172	330
Provisions	610	655	491	1,075	1,202
Net Deferred Tax Assets	(1,549)	(1,481)	(1,481)	(1,481)	(1,481)
Miscellaneous Exp	528	753	753	753	753
Total	14,879	17,161	18,210	19,506	20,887

Ratios

March end	FY08	FY09	FY10E	FY11E	FY12E
% of net sales					
Raw material costs	76.0	75.8	70.2	71.0	71.1
Employee costs	5.5	5.6	5.7	5.4	5.4
Total expenses	98.7	96.8	92.3	92.4	92.4
EBITDA	1.3	3.2	7.7	7.7	7.7
PAT	1.0	0.8	2.0	2.0	2.3
Asset based ratios (%)					
ROCE	2.9	6.0	11.9	8.3	9.3
ROE	3.9	3.8	10.0	11.2	13.0
Turnover ratios (days)					
Debtor days	10	12	14	11	10
Inventory days	45	36	22	24	27
Creditors days	81	69	69	69	70
Working capital days	23	24	11	7	7
Growth ratios (%)					
Net Sales	(16.5)	14.0	20.5	18.5	13.3
EBITDA	(69.5)	187.5	187.8	17.3	13.3
EPS	(52.3)	(2.2)	178.3	24.1	26.5
CEPS	(18.1)	6.0	40.9	18.2	17.4
Per share (Rs)					
EPS	1.3	1.3	3.6	4.5	5.7
CEPS	5.3	5.6	7.9	9.4	11.0
BV	34.6	34.1	38.5	41.9	46.4
DPS	0.7	0.7	1.0	1.0	1.0
Valuations (x)					
P/E	54.3	17.2	24.2	19.5	15.4
P/CEPS	13.7	4.0	11.1	9.4	8.0
P/BV	2.1	0.7	2.3	2.1	1.9
Yield (%)	1.0	3.1	1.1	1.1	1.1
EV/EBITDA	57.9	11.8	8.7	7.5	6.7
EV/sales	0.7	0.4	0.7	0.6	0.5
Solvency ratios					
Current ratio	1.4	1.4	1.0	1.2	1.1
Quick ratio	0.0	0.1	0.1	0.1	0.1
D/E ratio	0.8	1.1	1.0	1.0	0.9
Interest coverage ratio	3.7	1.5	3.4	2.2	2.5

Source: Company, Alchemy Research

The ratings are based on the absolute upside of our target price from the current price.

Upside more than 25%	Strong Buy
Upside between 15-25%	Buy
Upside of up to 15%	Accumulate
Downside of up to 15%	Reduce
Downside of more than 15%	Sell
Sector Relative call:	
Outperform	>5% upside to sector benchmark
Marketperform	+5% to -5% of sector benchmark
Underperform	>5% downside to sector benchmark
Sector Weightage	
Overweight	
Equal weight	
Underweight	

Sales

91-22-6639 9125

91-22-6639 9126

91-22-6639 9178

Trade Execution

91-22-6639 9121

91-22-6639 9134

91-22-6639 9167

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