

TVS Motor Company

30 July 2012

 AsiaMoney's Brokers
 Poll 2012

Reuters: TVSM; Bloomberg: TVSL IN

Volumes to remain under pressure; We Retain Sell

TVS Motor Company reported better-than-expected performance for 1QFY13, as higher-than-expected net sales and lower tax outgo fuelled earnings growth which beat our estimate by 16%. Net sales for the quarter were up by ~ Rs2bn on account of: (1) Revised volumes of 5,47,000 units, which included ~30,000 units despatched to the company's distribution arm, which were over and above the monthly sales which the company reported, (2) Rise in realisation due to price hikes. On the profitability front, the EBITDA margin for the quarter was down 80bps YoY and 20bps QoQ to 5.9%, largely on account of the rise in input costs and employee costs, which increased 37bps and 21bps QoQ, respectively. However, the EBITDA margin of 5.9% was in line with our estimate of 6.0%. Reported PAT of Rs511mn was more than our estimate of Rs439mn, purely on account of higher net sales and lower tax outgo (22.7% versus our expectation of 25.0%). In the wake of lower exports and domestic sales in 1QFY13, we have revised our assumptions. We have cut our volume/sales/earnings for FY13E by 3.7%/3.5%/5.1% and by 3.2%/2.9%/4.1% for FY14E, respectively. We retain our Sell rating on the stock with a revised target price of Rs36 from Rs38 earlier (8.5x FY14E EPS of Rs4.3, adjusted for losses of Indonesian arm).

Net sales up due to revised volume: Net sales at Rs18.2bn were 13% ahead of our estimate on account of revised volume and the rise in realisation. For the quarter, the company reported monthly volume of 5.47,000 units which was ~30,000 higher than the numbers reported earlier, with the variance mainly on account of 30,000 units dispatched to the distribution. Apart from this, the company went for a price hike in 1QFY13, which resulted in higher realisation. The company also went for another price hike in July 2012. The price hikes in 1QFY13 and 2QFY13 combined work out to ~1.2%.

EBITDA margin in line with estimate: EBITDA margin for the quarter was down 80bps YoY and 20bps QoQ to 5.9%, in line with our estimate of 6.0%. The drop in EBITDA margin was largely on account of the rise in raw material and employee costs, which increased 37bps and 21bps QoQ, respectively. Absolute EBITDA at Rs1,075mn was 11% higher than our estimate due to higher net sales.

PAT driven by higher sales and lower tax outgo: The company reported PAT of Rs511mn versus our expectation of Rs439mn, with the variance of 16% largely on account of higher net sales and lower tax outgo. Tax rate at 22.7% was 230bps below our estimate of 25.0%.

We trim earnings estimates for FY13E/FY14E, retain Sell rating: We have cut our volume/sales/earnings estimates for FY13E by 3.7%/3.5%/5.1% and by 3.2%/2.9%/4.1% for FY14E to factor in slowing domestic two-wheeler demand and exports weakening in 1QFY13. Due to challenging environment and reduced earnings visibility we retain our Sell rating on the stock with a revised target price of Rs36 (8.5x FY14E EPS of Rs4.3, adjusted for losses of Indonesian arm)

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SELL

Sector: Automobile

CMP: Rs37

Target Price: Rs36

Downside: 3%

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Key Data

Current Shares O/S (mn)	475.1
Mkt Cap (Rsbn/US\$m)	17.9/329.9
52 Wk H / L (Rs)	70/32
Daily Vol. (3M NSE Avg.)	2,681,509

Price Performance (%)

	1 M	6 M	1 Yr
TVS Motor	11.2	(29.6)	(24.3)
Nifty Index	(0.8)	(2.0)	(8.1)

Source: Bloomberg

Y/E March (Rsmn)	1QFY12	4QFY12	1QFY13	% Chg YoY	% Chg QoQ
Net sales	17,460	16,272	18,198	4.2	11.8
Expenditure	16,289	15,282	17,123	5.1	12.0
EBITDA	1,171	989	1,075	(8.2)	8.7
EBITDA margin (%)	6.7	6.1	5.9	(80)bps	(20)bps
Other income	36	83	51	40.3	(39.1)
Interest	152	133	155	2.0	16.2
Depreciation	277	317	310	11.8	(2.4)
PBT	779	622	661	(15.1)	6.3
Tax	191	50	150	(21.2)	203.2
PAT	588	572	511	(13.1)	(10.7)
EPS (Rs)	1.2	1.2	1.1	(13.1)	(10.7)

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 1: Financial summary

Y/E March (Rsmn)	FY10	FY11	FY12	FY13E	FY14E
Net sales	44,301	62,880	71,262	73,826	81,601
EBITDA	1,872	3,921	4,694	4,419	5,057
Adj PAT	878	1,946	2,491	2,158	2,604
EPS	3.7	4.1	5.2	4.5	5.5
EBITDA margin (%)	4.2	6.2	6.6	6.0	6.2
P/E	10.1	9.1	7.1	8.2	6.8
P/BV (x)	1.0	1.7	1.5	1.3	1.1
EV/EBITDA	11.2	4.6	4.0	4.0	3.2
RoE (%)	10.5	20.9	23.0	17.3	18.4
RoCE (%)	9.0	14.4	16.7	13.2	14.6

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 2: Our revised estimates for FY13E/FY14E

(Rsmn)	FY13E			FY14E		
	Old	New	Change (%)	Old	New	Change (%)
Volume	2,311,858	2,226,909	(3.7)	2,462,183	2,384,057	(3.2)
Sales	76,502	73,826	(3.5)	84,026	81,601	(2.9)
EBITDA	4,573	4,419	(3.4)	5,209	5,057	(2.9)
PAT	2,273	2,158	(5.1)	2,715	2,604	(4.1)

Source: Company, Nirmal Bang Institutional Equities Research

We cut our volume, earnings estimates

We have cut our standalone earnings estimates for FY13E/FY14E in the wake of slowing demand for two-wheelers. Further, exports in 1QFY13 de-grew by 15.4% YoY following lower exports to Sri Lanka. We have cut our export estimates for FY13E/FY14E by 15.2%/7.6% to 0.26mn and 0.31mn units, respectively. In the domestic market, competition in the two-wheeler segment intensified further with the launch of new products by competitors; the company has also planned two new launches in FY13 - launch of a new motorcycle in 2QFY13 and a scooter in 2HFY13. Following intense competition, lower exports and slowing domestic demand, we have cut our volume estimates for FY13E/FY14E by 3.7%/3.2%, respectively. Due to the cut in our volume estimates, our revised earnings estimates are lower by 5.1%/4.1% for FY13E/FY14E, respectively. We retain our Sell rating on the stock with a revised target price of Rs36 (8.5x FY14E EPS of Rs 4.3, adjusted for losses of Indonesian arm) from Rs38 earlier.

Key highlights of our interaction with the company's management

- Currently, three-wheeler exports to Sri Lanka are less than 200 units per month.
- Company has exported 3,000 two-wheelers to Sri Lanka during 1QFY13.
- It has not gone for any price cuts in Sri Lanka so far.
- Company has hiked product prices in 1QFY13 and also in July 2012, totally amounting to 1.2%.
- It will launch a new motorcycle in 2QFY12 and a scooter in 2HFY13.
- 1QFY13 sales numbers reported in the company's press release included sales of 538,000 two-wheelers and 9,200 three-wheelers.
- The management has given capex guidance of Rs1.25bn-Rs1.5bn for FY13E.
- Losses of the Indonesian arm are coming down.
- Investment in subsidiaries will be minimal in FY13 as the investment cycle is over.
- The management expects exports to revive in 2HFY13.

Ratings history

Date	Rating	Market price (Rs)	Target price (Rs)
28 November 2011	Hold	61	69
18 January 2012	Buy	49	69
1 February 2012	Hold	52	58
18 April 2012	Buy	41	58
25 May 2012	Hold	34	38
12 July 2012	Sell	41	38

Disclaimer

Stock Ratings Absolute Returns

BUY > 15%

HOLD 0-15%

SELL < 0%

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