

November 3, 2011

Reco	Previous Reco
Hold	Hold
CMP	Target Price
Rs66	Rs72
EPS change FY12E/13E (%)	11.7/15.7
Target Price change (%)	16
Nifty	5,266
Sensex	17,482

Price Performance

(%)	1M	3M	6M	12M
Absolute	13	25	29	(12)
Rel. to Nifty	2	28	34	2

Source: Bloomberg

Relative Price Chart



Source: Bloomberg

Stock Details

Sector	Automobiles
Bloomberg	TVSL@IN
Equity Capital (Rs mn)	475
Face Value(Rs)	1
No of shares o/s (mn)	475
52 Week H/L	87/44
Market Cap (Rs bn/USD mn)	31/629
Daily Avg Volume (No of sh)	2337703
Daily Avg Turnover (US\$m)	2.8

Shareholding Pattern (%)

	Sep-11	Jun-11	Mar-11
Promoters	59.3	59.3	59.3
FII/NRI	5.0	4.0	5.1
Institutions	16.5	14.7	13.7
Private Corp	5.3	6.4	6.6
Public	14.0	15.6	15.2

Source: Capitaline

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- **Results in line with Sales/EBITDA/PAT at Rs 19.9bn/1.4bn/765mn vs est. of Rs 19.7bn/1.4bn/752mn. Company invested Rs 769mn in various subsidiaries during the quarter**
- **Oct 2011 vols declined by ~6.3% YoY to ~183,000 units due to one week maintenance shut down. Strong demand led to delay in planned shutdown (generally in May) to October**
- **Retain FY12E/FY13E vols. at 2.3mn/2.6mn units. Upgrade our F12E/FY13E by 12%/16% to Rs 5.8/7.2 due to favorable forex, price hike of 1%/3.5% in dom./exports and lower RM cost**
- **Retain HOLD rating but revise our TP upwards to Rs 72 (10x FY13x PER). Upside risk arises from better than expected margins in 2HFY12**

Net Sales- Marginally above est.

Net sales at Rs 19.9bn was marginally above our est. of Rs 19.7bn. Average selling price increased by 6.9% YoY and 1.5% QoQ to Rs 32,337 primarily driven by improved product mix.

Product mix %	2QFY11	3QFY11	4QFY11	1QFY12	2QFY12
Motorcycles	39.8	39.8	41.0	40.1	39.5
Scooters	23.7	23.4	23.2	21.9	26.1
Mopeds	34.6	34.9	33.6	35.8	32.5
Three wheelers	1.9	1.9	2.3	2.1	1.8
Total	100.0	100.0	100.0	100.0	100.0
Exports	11.1	9.8	13.3	14.5	14.0
Domestic	88.9	90.2	86.7	85.5	86.0
Units sold	524,954	524,169	533,772	536,129	603,689

Product mix %	2QFY11	3QFY11	4QFY11	1QFY12	2QFY12
Domestic					
Economy	18.4	20.7	21.1	22.3	21.8
Executive	5.3	3.2	1.8	0.7	0.7
Premium	6.5	7.2	7.2	6.1	6.5
Scooters	22.7	22.7	22.1	20.4	24.6
Mopeds	34.3	34.7	33.3	35.6	31.9
3Wheelers	1.2	0.9	0.9	0.5	0.6

Source: CRISIL, Emkay research

Financial Snapshot

YE-	Net Sales	EBITDA (Core)	(%) APAT	EPS (Rs)	EPS % chg	RoE (%)	P/E	EV/ EBITDA	P/BV
FY10	44,301	1,893	4.3	900	1.9	254.0	11.4	35.0	19.8
FY11	62,891	3,931	6.3	1,949	4.1	116.7	21.3	16.2	9.9
FY12E	76,042	5,235	6.9	2,738	5.8	40.5	25.0	11.5	7.1
FY13E	86,619	6,180	7.1	3,435	7.2	25.5	26.1	9.2	5.6

Quarterly Summary

Rs mn	Q2FY11	Q3FY11	Q4FY11	Q1FY12	Q2FY12	YoY (%)	QoQ (%)	YTD'12	YTD'11	YoY (%)
Revenue	16,147	16,452	16,425	17,460	19,918	23.4	14.1	37,378	30,067	24.3
Expenditure	15,088	15,460	15,421	16,289	18,535	22.9	13.8	34,824	28,120	23.8
<i>as % of sales</i>	93.4	94.0	93.9	93.3	93.1			125.4	128.7	
Consumption of RM	11,716	12,046	11,936	13,044	14,731	25.7	12.9	27,775	21,854	27.1
<i>as % of sales</i>	72.6	73.2	72.7	74.7	74.0			74.3	72.7	
Employee Cost	847	868	804	909	938	10.7	3.2	1,847	1,576	17.2
<i>as % of sales</i>	5.2	5.3	4.9	5.2	4.7			4.9	5.2	
Other expenditure	2,525	2,546	2,681	2,336	2,866	13.5	22.7	5,202	4,689	10.9
<i>as % of sales</i>	15.6	15.5	16.3	13.4	14.4			13.9	15.6	
EBITDA	1,060	991	1,004	1,171	1,383	30.5	18.1	2,554	1,947	31.1
Depreciation	280	279	243	277	286	2.2	3.3	563	546	3.1
EBIT	780	712	760	894	1,097	40.6	22.7	1,991	1,402	42.0
Other Income	26	72	3	-	23	(10.5)		23	67	(65.5)
Interest	142	96	57	116	112	(21.6)	(4)	227	312	(27.1)
PBT	664	688	707	778	1,009	52.0	29.6	1,787	1,157	54.5
Total Tax	127	142	228	191	244	91.4	27.8	434	226	92.2
Adjusted PAT	536	546	479	588	765	42.6	30.2	1,353	931	45.3
(Profit)/loss from JV's/Ass/MI	-	-	-	-	-			-	-	
Adjusted PAT after MI	536	546	479	588	765	42.6	30.2	1,353	951	42.2
Extra ordinary items	11	12	(61)	0	-			0	21	(99.3)
Reported PAT	548	558	417	588	765	39.7	30.2	1,353	951	42.2
Reported EPS	1.2	1.2	0.9	1.2	1.6	39.7	30.2	2.8	2.0	42.2

Margins (%)						(bps)	(bps)				(bps)
EBIDTA	6.6	6.0	6.1	6.7	6.9	38	24	6.8	6.5	36	
EBIT	4.8	4.3	4.6	5.1	5.5	68	39	5.3	4.7	66	
EBT	4.1	4.2	4.3	4.5	5.1	95	61	4.8	3.8	93	
PAT	3.3	3.3	2.9	3.4	3.8	52	48	3.6	3.1	52	
Effective Tax rate	19.2	20.7	32.3	24.5	24.1	497	(34)	24.3	19.5	477	

Per Vehicle Analysis (Rs)						YoY (%)	QoQ (%)				YoY (%)
Revenues	30,760	31,386	31,358	32,567	32,994	7.3	1.3	32,793	30,408	7.8	
RM	22,318	22,981	22,789	24,331	24,401	9.3	0.3	24,368	22,102	10.3	
Staff Cost	1,614	1,656	1,534	1,696	1,554	(3.7)	(8.4)	1,621	1,594	1.6	
Other exp	4,809	4,858	5,119	4,357	4,748	(1.3)	9.0	4,564	4,742	(3.8)	
EBITDA	2,019	1,891	1,916	2,184	2,291	13.5	4.9	2,241	1,969	13.8	
PAT	1,022	1,041	914	1,096	1,267	24.0	15.6	1,187	941	26.1	

Source: Company, Emkay Research

EBITDA margins: ~6.9% vs our est. of ~7.1%

EBITDA at Rs 1.4bn was in line with our est. However, EBITDA margins at ~6.9% were lower than our est. of ~7.1% due to better than expected topline. RM to sales at 75.5% declined by 90 bps QoQ and was in line with our est.

APAT: ~2% above est.

Net profits at Rs 765 mn was ~2% above our est. of Rs 752 mn due to higher other income. Interest and depreciation costs of Rs 112mn and Rs 286 mn were in line with our est.

Revision in estimates

We maintain our volume estimates for FY12E/13E at 2.3mn/2.6mn units respectively. Our estimates imply volume growth of ~14% in H2FY12. We revise our net sales by 1.4%/1.6% in FY12/13 to factor in improved realizations and price hike of 1%/3.5% in domestic and export markets. We increase our EBITDA margins by 50bps/80bps in FY12/13 driven by price hike, moderation in input costs and favorable forex rates. We factor in USD/Re at Rs 46/47.5 in FY12/13 vs our earlier est. of Rs 45.5. Our net profit estimates is revised upwards by 11.7%/15.7% to Rs 2.8bn/3.4bn in FY12/13

Rs mn	FY12E			FY13E		
	Earlier	Revised	% Change	Earlier	Revised	% Change
Volumes	2,340,967	2,339,140	(0.1)	2,627,276	2,625,875	(0.1)
Sales	75,002	76,042	1.4	85,183	86,523	1.6
EBIDTA	4,786	5,235	9.4	5,330	6,180	16.0
EBIDTA margins (%)	6.4	6.9		6.3	7.1	
Net Profits	2,503	2,738	9.4	2,968	3,435	15.7
EPS	5.3	5.8	9.4	6.2	7.2	15.7

Source: Emkay Research

Valuations and View

At CMP of Rs 66.3, the stock trades at 11.5x/9.2x PER and 7.1x/5.6x EV/EBIDTA of our FY12/13 estimates. However, concerns continue to persist in the consolidated Balance Sheet. TVS further invested Rs 769mn in various subsidiaries and Sundaram Auto in Q2FY12. We maintain our target multiple to 10x PER and 6.1x EV/EBIDTA on our standalone FY13 est. due to balance sheet concerns. We retain our HOLD rating on the stock but upgrade our TP to Rs 72.

Financials

Income Statement

Y/E, Mar (Rs. mn)	FY10	FY11	FY12E	FY13E
Net Sales	44,301	62,891	76,042	86,619
Growth (%)	18.5	42.0	20.9	13.9
Expenditure	42,409	58,960	70,807	80,439
Materials Consumed	31,374	46,139	56,199	63,825
Employee Cost	2,513	3,283	3,775	4,370
Other Exp	8,523	9,538	10,833	12,244
EBITDA	1,893	3,931	5,235	6,180
Growth (%)	1.1	107.7	33.2	18.1
EBITDA margin (%)	4.3	6.3	6.9	7.1
Depreciation	1,025	1,073	1,168	1,217
EBIT	867	2,859	4,068	4,964
EBIT margin (%)	2.0	4.5	5.3	5.7
Other Income	545	96	43	73
Interest expenses	632	470	460	456
PBT	781	2,485	3,651	4,581
Tax	-118	535	913	1,145
Effective tax rate (%)	(15.2)	21.5	25.0	25.0
Adjusted PAT	900	1,949	2,738	3,435
Growth (%)	172.4	116.7	40.5	25.5
Net Margin (%)	2.0	3.1	3.6	4.0
(Profit)/loss from JV's/Ass/MI	-	-	-	-
Adj. PAT After JVs/Ass/MI	900	1,949	2,738	3,435
E/O items	(20)	(1)	-	-
Reported PAT	880	1,948	2,738	3,435
Growth (%)	172.4	116.7	40.5	25.5

Cash Flow

Y/E, Mar (Rs. mn)	FY10	FY11	FY12E	FY13E
PBT (Ex-Other income)	236	2,389	3,608	4,508
Depreciation	1,025	1,073	1,168	1,217
Interest Provided	632	470	460	456
Other Non-Cash items	(352.5)	(1.1)	-	-
Chg in working cap	1,057	-883	-576	-447
Tax paid	118	-535	-913	-1,145
Operating Cashflow	3,389	2,024	3,746	4,589
Capital expenditure	(304)	(935)	(760)	(866)
Free Cash Flow	3,085	1,090	2,986	3,723
Other income	545	96	43	73
Investments	(3,094)	1,157	-1,000	-1,000
Investing Cashflow	-2,853	318	-1,718	-1,794
Equity Capital Raised	0	0	0	0
Loans Taken / (Repaid)	973	-2,179	-500	-500
Interest Paid	-632	-470	-415	-456
Dividend paid (incl tax)	(329)	(605)	(792)	(994)
Income from investments				
Others	424	300		
Financing Cashflow	880	-4,083	-1,707	-1,949
Net chg in cash	1,417	-1,741	322	846
Opening cash position	421	1,010	60	337
Closing cash position	1,837	-731	382	1,183

Balance Sheet

Y/E, Mar (Rs. mn)	FY10	FY11	FY12E	FY13E
Equity share capital	238	475	475	475
Reserves & surplus	8,416	9,519	11,465	13,907
Net worth	8,654	9,994	11,940	14,381
Minority Interest		-	-	-
Secured Loans	8,300	5,659	5,159	4,659
Unsecured Loans	1,733	2,195	2,195	2,195
Loan Funds	10,033	7,855	7,355	6,855
Net deferred tax liability	1,146	957	957	957
Total Liabilities	19,832	18,805	20,251	22,193
Gross Block	19,091	19,723	20,483	21,349
Less: Depreciation	9,534	10,347	11,514	12,731
Net block	9,557	9,376	8,969	8,618
Capital work in progress	271	574	574	574
Investment	7,393	6,611	7,611	8,611
Current Assets	9,652	12,016	15,265	18,219
Inventories	2,897	5,279	6,375	7,276
Sundry debtors	2,203	2,706	3,268	3,730
Cash & bank balance	1,010	60	337	1,183
Loans & advances	3,520	3,954	5,269	6,014
Other current assets	22	16	16	16
Current lia & Prov	7,341	9,772	12,168	13,829
Current liabilities	6,672	8,852	11,058	12,562
Provisions	669	920	1,111	1,268
Net current assets	2,311	2,244	3,097	4,389
Misc. exp	300.8	-		
Total Assets	19,832	18,805	20,251	22,193

Key ratios

Y/E, Mar	FY10	FY11	FY12E	FY13E
Profitability (%)				
EBITDA Margin	4.3	6.3	6.9	7.1
Net Margin	2.0	3.1	3.6	4.0
ROCE	7.5	15.4	21.0	23.7
ROE	11.4	21.3	25.0	26.1
RoIC	7.5	25.5	34.9	42.1
Per Share Data (Rs)				
EPS	1.9	4.1	5.8	7.2
CEPS	4.1	6.4	8.2	9.8
BVPS	17.6	21.0	25.1	30.3
DPS	0.6	1.1	1.4	1.8
Valuations (x)				
PER	35.0	16.2	11.5	9.2
P/CEPS	16.4	10.4	8.1	6.8
P/BV	3.8	3.2	2.6	2.2
EV / Sales	0.8	0.6	0.5	0.4
EV / EBITDA	19.8	9.9	7.1	5.6
Dividend Yield (%)	0.9	1.7	2.2	2.7
Gearing Ratio (x)				
Net Debt/ Equity	0.7	0.7	0.5	0.2
Net Debt/EBIDTA	3.2	1.9	1.1	0.5
Working Cap Cycle (days)	(12.9)	(5.0)	(6.8)	(6.6)

* The difference between the closing cash as per balance sheet and as per cash flow is due to cash credit balances

Recommendation History: TVS Motor Company Ltd – TVSL IN

Date	Reports	Reco	CMP	Target
07/09/2011	Auto Sector Report Cruising through barriers			
29/07/2011	TVS Motor Q1FY12 Result Update	Accumulate	49	62
03/05/2011	TVS Motor Q4FY11 Result Update	Accumulate	56	72
21/01/2011	TVS Motor Q3FY11 Result Update	Accumulate	62	72

Recent Research Reports

Date	Reports	Reco	CMP	Target
31/10/2011	Maruti Suzuki Q2FY12 Result Update	Hold	1,128	1,140
24/10/2011	Bajaj Auto Q2FY12 Result Con Call Update	Buy	1,693	2,210
20/10/2011	Bajaj Auto Q2FY12 Result Update First Cut	Accumulate	1,367	1,950
19/10/2011	Hero MotoCorp Q2FY12 Result Update	Accumulate	1,985	2,250

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