

October 31, 2012

<b>Rating</b> Remains	<b>Buy</b>
<b>Target price</b> Remains	INR 87
<b>Closing price</b> October 31, 2012	INR 39

## Results above our estimates on higher margins

# First Look

### Above or below expectations?

2QFY13 PAT came in at INR452mn which was 8% above consensus expectations and 26% above our expectations. ASPs were 3% above our estimates. Margins came in at 6%, while we were expecting 5.4%.

**Fig. 1: Actual vs. Expectations**

	INR m			% difference from	
	Actual	Consensus	Nomura	Consensus	Nomura
Net Sales	16,617	16,677	16,056	-0.4%	3.5%
EBITDA	1,012	976	879	3.7%	15.2%
Margin	6.0%	5.9%	5.4%		
Net Profit	452	418	358	8.1%	26.4%

Source: Company data, Bloomberg, Nomura estimates

### What does the result mean?

RM/sales declined by 100bps, which was positive.

### Likely stock reaction

We don't expect the stock to react significantly on these results as EBITDA was only 3% ahead of consensus expectations. Further, for TVS, we expect focus to remain on weak volumes and market share loss in both the motorcycle and scooter segments.

Our earnings estimates and target price are under review.

### Key numbers

- Net sales at INR16.6bn came in above our estimate of INR16bn
- ASPs at INR34,192 came in 3% above our estimates
- EBITDA margins came in at 6%; above our estimate of 5.4%
- RM/sales came in at 73.6% compared to our estimate of 74.6%.
- Employee cost/sales came in at 6.5% compared to our estimate of 6.4%
- Other expenses/sales came in at 15.6% compared to our estimate of 15.3%

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See Appendix A-1 for analyst certification, important disclosures and the status of non-US analysts.

Fig. 2: 2QFY13 results

INR mn	2QFY12A	1QFY13A	2QFY13A	Y/Y	Q/Q	2QFY13F
<b>Net Sales</b>	<b>19,522</b>	<b>17,911</b>	<b>16,617</b>	-14.9%	-7.2%	<b>16,056</b>
Change (%)	22.8	4.9	-14.9			-17.8
Expenses	18,535	17,123	15,894	-14.2%	-7.2%	15,463
(Inc/Dec in Stock)	0.0	1,078.6	35.7			0.0
Raw Materials	14,731	12,285	12,192	-17.2%	-0.8%	11,978
RM/Sales	75.5	74.6	73.6			74.6
RM/Vehicle	24,378	25,740	25,162	3.2%	-2.2%	24,646
Staff Cost	938	1,024	1,077	14.8%	5.2%	1,024
Other Expenditure	2,866	2,736	2,589	-9.7%	-5.4%	2,462
<b>Operating Profit</b>	<b>987</b>	<b>789</b>	<b>723</b>	<b>-26.7%</b>	<b>-8.3%</b>	<b>592</b>
Change (%)	21.7	0.6	-26.7			-40.0
As % of Net Sales	5.1	4.4	4.4			3.7
<b>EBITDA margin(%)</b>	<b>6.9</b>	<b>5.9</b>	<b>6.0</b>			<b>5.4</b>
Other Income	419	337	331	-21.1%	-1.9%	337
Extraordinary Income(Expense)	-	-	-			-
Interest	112	155	152	36.4%	-1.7%	155
Depreciation	286	310	320	11.9%	3.3%	310
<b>PBT</b>	<b>1,009</b>	<b>661</b>	<b>582</b>	<b>-42.3%</b>	<b>-12.0%</b>	<b>464</b>
Tax	244	150	130			107
Effective Tax Rate (%)	24.1	22.7	22.3			23.0
<b>PAT</b>	<b>765</b>	<b>511</b>	<b>452</b>	<b>-40.9%</b>	<b>-11.6%</b>	<b>358</b>
Change (%)	39.7	-13.1	-40.9			-53.3
PAT Margin	3.8	2.8	2.7			2.2
<b>EPS</b>	<b>1.61</b>	<b>1.08</b>	<b>0.95</b>	<b>-40.9%</b>	<b>-11.6%</b>	<b>0.75</b>

Source: Company data, Nomura estimates

Fig. 3: Cost ratios

	2QFY12A	1QFY13A	2QFY13A	Y/Y	Q/Q	2QFY13F
staff cost / sales	4.8%	5.7%	6.5%	1.7%	0.8%	6.4%
Other exp / sales	14.7%	15.3%	15.6%	0.9%	0.3%	15.3%
RM / Sales	75.5%	74.6%	73.6%	-1.9%	-1.0%	74.6%
Gross margins	24.5%	25.4%	26.4%	1.9%	1.0%	25.4%
OPM	5.1%	4.4%	4.4%	-0.7%	-0.1%	3.7%
EBITDA per vehicle (INR)	1,633	1,519	1,488	-8.9%	-2.1%	1,219
RM/vehicle (INR)	24,378	25,740	25,162	3.2%	-2.2%	24,646
Realisation per vehicle (INR)	32,307	34,500	34,192	5.8%	-0.9%	33,038

Source: Company data, Nomura estimates

# Appendix A-1

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TVS Motor	TVSL IN	INR 39	31-Oct-2012	Buy	Not rated	

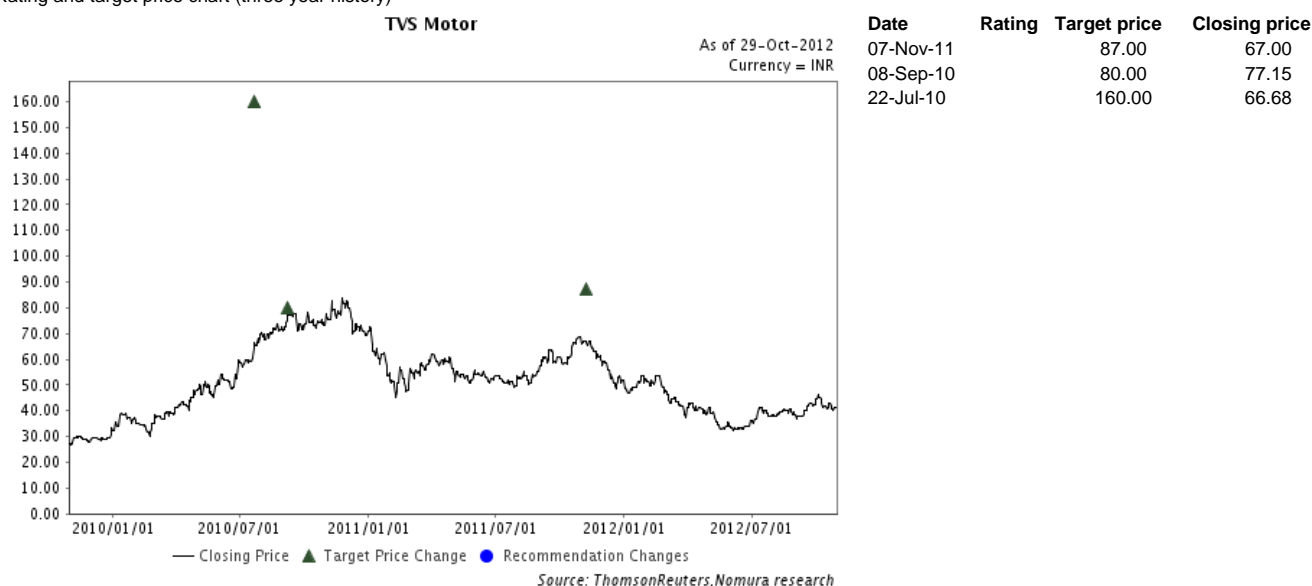
## Previous Rating

Issuer name	Previous Rating	Date of change
TVS Motor	Neutral	24-Aug-2009

## TVS Motor (TVSL IN)

INR 39 (31-Oct-2012) Buy (Sector rating: Not rated)

Rating and target price chart (three year history)



For explanation of ratings refer to the stock rating keys located after chart(s)

**Valuation Methodology** We value TVS based on DCF using 4% terminal growth and 13.1% cost of equity. We have discounted our cashflows back to Oct-12 to arrive at our one year forward target price of INR87.

**Risks that may impede the achievement of the target price**

- Slower-than-expected GDP growth: Our FY13F domestic volume growth estimates of 8% are based on Nomura's GDP growth assumption of 7.9% in FY13F. In case GDP growth slows substantially, there would be downside risks to our estimates.
- Increased competition: We believe that the intensity of competition will remain low for TVS, especially in the mopeds and scooters segments. In case there are aggressive new entrants, there will be downside risk to our estimates.
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