

July 29, 2011

Reco	Previous Reco
Accumulate	Accumulate
CMP	Target Price
Rs49	Rs 62
EPS change FY12E/13E (%)	(0.4)/(3.1)
Target Price change (%)	(14)
Nifty	5,482
Sensex	18,197

Price Performance

(%)	1M	3M	6M	12M
Absolute	(7)	(17)	(8)	(28)
Rel. to Nifty	(5)	(13)	(8)	(29)

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)	23/521
Daily Avg Volume (No of sh)	710664
Daily Avg Turnover (US\$m)	0.9

Shareholding Pattern (%)

	Jun-11	Mar-11	Dec-10
Promoters	59.3	59.3	59.3
FII/NRI	4.0	5.1	7.6
Institutions	14.7	13.7	13.3
Private Corp	6.4	6.6	6.5
Public	15.6	15.2	13.3

Source: Capitaline

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- APAT at Rs 588mn in line with our est. Strong top line of Rs 17.5bn (~4% above est.) was offset by weaker margins of 6.7%(est. 6.9%) leading to inline EBITDA (Rs 1.1bn)
- Exports/mopeds/scooters continue to see momentum. However, concerned with sharp drop in domestic 3-wh (down 56%YoY in 1QFY12)
- Lower our FY12/13 by 0.4%/3% due to lower dom. 3 wh sales. Concerns with conso BS continues. Net DE/PBV/ROE at 1.16x/3.4x/ 18.7% vs 0.56x/2.33x/19.5% for standalone (FY11)
- Further invested Rs 225/349 mn in Indonesian/European sub. Retain ACCUMULATE rating with a revised TP of Rs 62 due to downgrade in multiple (balance sheet concerns)

Net Sales ~4% above est.

Net sales at Rs 17.5bn was above our est. of Rs 16.7bn mainly due to higher average selling price (ASP). ASP of Rs 31,844 was up ~8% YoY and ~3% QoQ against our est. of flat growth sequentially (Rs 30,685). Company had taken a price hike of ~1% - 1.5% during April which benefited ASPs.

Product mix %	1QFY11	2QFY11	3QFY11	4QFY11	1QFY12
Motorcycles	43.2	39.8	39.8	41.0	40.1
Scooters	20.6	23.7	23.4	23.2	21.9
Mopeds	34.5	34.6	34.9	33.6	35.8
Three wheelers	1.7	1.9	1.9	2.3	2.1
Total	100.0	100.0	100.0	100.0	100.0
Exports	10.2	11.1	9.8	13.3	14.5
Domestic	89.8	88.9	90.2	86.7	85.5
Units sold	463,840	524,954	524,169	533,772	536,129

Product mix %	1QFY11	2QFY11	3QFY11	4QFY11	1QFY12
Motorcycles (Domestic)					
upto 125cc	79.4	77.2	75.1	70.7	76.6
125cc to 250cc	20.6	22.8	24.9	29.3	23.4
Motorcycles (Exports)					
upto 125cc	59.9	45.4	44.0	63.0	57.6
125cc to 250cc	40.1	54.6	56.0	37.0	42.4

Source: SIAM, Emkay research

Financial Snapshot

YE-	Net Sales	EBITDA (Core)	EBITDA (%)	APAT	EPS (Rs)	EPS % chg	RoE (%)	P/E	EV/ EBITDA	EV/ P/BV
Mar										
FY10	44,301	2,650	6.0	1,171	2.5	254.0	14.9	19.9	11.3	2.8
FY11P	62,899	3,870	6.2	1,989	4.2	69.8	21.7	11.7	7.9	2.3
FY12E	75,007	4,773	6.4	2,503	5.3	25.9	22.9	9.3	6.1	2.0
FY13E	85,189	5,331	6.3	2,967	6.2	18.5	23.1	7.8	5.1	1.7

Quarterly Summary

Rs mn	Q1FY11	Q2FY11	Q3FY11	Q4FY11	Q1FY12	YoY (%)	QoQ (%)
Revenue	13,920	16,147	16,452	16,425	17,460	25.4	6.3
Expenditure	13,032	15,088	15,460	15,421	16,289	25.0	5.6
as % of sales	93.6	93.4	94.0	93.9	93.3		
Consumption of RM	10,138	11,716	12,046	11,936	13,044	28.7	9.3
as % of sales	72.8	72.6	73.2	72.7	74.7		
Employee Cost	729	847	868	804	909	24.7	13.1
as % of sales	5.2	5.2	5.3	4.9	5.2		
Other expenditure	2,165	2,525	2,546	2,681	2,336	7.9	(12.9)
as % of sales	15.6	15.6	15.5	16.3	13.4		
EBITDA	887	1,060	991	1,004	1,171	31.9	16.7
Depreciation	266	280	279	243	277	4.1	13.9
EBIT	622	780	712	760	894	43.8	17.6
Other Income	41	26	72	3	-		
Interest	170	142	96	57	116	(31.7)	105
PBT	493	664	688	707	778	57.8	10.1
Total Tax	99	127	142	228	191	93.2	(16.5)
Adjusted PAT	395	536	546	479	588	49.0	22.8
(Profit)/loss from JV's/Ass/MI	-	-	-	-	-		
Adjusted PAT after MI	395	536	546	479	588	49.0	22.8
Extra ordinary items	9	11	12	(61)	0	(98.4)	(100.2)
Reported PAT	404	548	558	417	588	45.6	40.9
Reported EPS	0.8	1.2	1.2	0.9	1.2	45.6	40.9

Margins (%)						(bps)	(bps)
EBIDTA	6.4	6.6	6.0	6.1	6.7	33	60
EBIT	4.5	4.8	4.3	4.6	5.1	65	49
EBT	3.5	4.1	4.2	4.3	4.5	91	15
PAT	2.8	3.3	3.3	2.9	3.4	53	45
Effective Tax rate	20.0	19.2	20.7	32.3	24.5	449	(779)

Per Vehicle Analysis (Rs)

Revenues	30,009	30,760	31,386	31,358	32,567	8.5	3.9
RM	21,858	22,318	22,981	22,789	24,331	11.3	6.8
Staff Cost	1,572	1,614	1,656	1,534	1,696	7.9	10.5
Other exp	4,667	4,809	4,858	5,119	4,357	(6.6)	(14.9)
EBITDA	1,913	2,019	1,891	1,916	2,184	14.1	14.0
PAT	851	1,022	1,041	914	1,096	28.9	20.0

Source: Company. Emkay Research

EBITDA at Rs 1.1bn in line with est.

EBITDA at Rs 1.1bn was in line with our est. However, EBITDA margins at 6.7% were lower than our est. of 6.9% due to higher input cost pressures. RM to sales at 76.4% was up 240 bps QoQ (230 bps YoY) against our est. of 74.2%. Staff costs were also up ~30 bps QoQ (flat YoY) to 5.3%. This was partially offset by lower other expense at Rs 2.2bn (13.2% of sales). Also amortization expense of Rs 83mn (decline of ~50 bps YoY) was in line with our est. as the company has stopped amortization of new product launch expenses from FY12 onwards.

APAT at Rs 588mn (our est. Rs 585 mn)

Net profits at Rs 588 mn was in line with our est. of Rs 585 mn. Absence of other income (our est. Rs 50mn) was compensated by lower interest costs at Rs 116mn. Effective tax rates of ~24.5% were in line with our est. of ~25%.

Revision in estimates

We raise our volume est. by ~1.5% in FY12 to 2.34mn units but retain our FY13 est. of 2.6mn units. We revise our net sales by 4.5%/4.2% in FY12/13 to factor in improved realizations. We lower our EBITDA margins by 30bps in FY12/13 because of higher RM cost pressures. Our net profit estimates of Rs 2.5bn/2.9bn is lowered by 0.4%/3.1% in FY12/13.

Rs mn	FY12E			FY13E		
	Earlier	Revised	% Change	Earlier	Revised	% Change
Volumes	2,307,446	2,340,967	1.5	2,627,276	2,627,276	-
Sales	71,745	75,007	4.5	81,791	85,189	4.2
EBIDTA	4,789	4,773	(0.3)	5,455	5,331	(2.3)
EBIDTA margins (%)	6.7	6.4		6.7	6.3	
Net Profits	2,514	2,503	(0.4)	3,060	2,967	(3.1)
EPS	5.3	5.3	(0.4)	6.4	6.2	(3.1)

Source: Emkay Research

Valuations and View

At CMP of Rs 49, the stock trades at 9.3x/7.8x PER and 6.1x/5.1x EV/EBIDTA of our FY12/13 estimates. However, concerns continue to persist in the consolidated Balance Sheet (disclosed with 1QFY12 results release). Conso net debt to equity stands at 1.16x vs 0.56x in standalone. Also, higher P/BV at 3.4x on lower RONW at 18.7% (Standalone P/BV at 2.3x and RONW at 19.5%) highlights weak conso BS quality. TVS further invested Rs 225mn/349 mn in Indonesian/European subsidiary in Q1FY12. We lower our target multiple to 10x PER and 6.1x EV/EBIDTA on our FY13 est. due to balance sheet concerns. We retain our ACCUMULATE rating on the stock but lower our TP to Rs 62.

FY11 (Rs mn)	Consolidated	Standalone
Net profit	1,279	1,946
Net Worth	6,830	10,000
Debt	10,560	7,850
Fixed Assets	13,510	9,950
Investments	2,210	6,610
Cash	430	60
Net Debt	7,920	5,580
Ratios		
Net Debt/Equity	1.16	0.56
P/BV	3.41	2.33
RONW (%)	18.73	19.46

Financials

Income Statement

Y/E, Mar (Rs. mn)	FY10	FY11P	FY12E	FY13E
Net Sales	44,301	62,899	75,007	85,189
Growth (%)	18.5	42.0	19.2	13.6
Expenditure	41,652	59,029	70,234	79,857
Materials Consumed	31,374	45,966	55,434	63,024
Employee Cost	2,512	3,373	3,944	4,571
Other Exp	7,766	9,690	10,857	12,262
EBITDA	2,650	3,870	4,773	5,331
Growth (%)	41.6	46.1	23.3	11.7
EBITDA margin (%)	6.0	6.2	6.4	6.3
Depreciation	1,025	1,065	1,167	1,215
EBIT	1,625	2,805	3,606	4,116
EBIT margin (%)	3.7	4.5	4.8	4.8
Other Income	139	232	253	297
Interest expenses	711	521	522	456
PBT	1,053	2,516	3,337	3,956
Tax	-118	528	834	989
Effective tax rate (%)	(11.2)	21.0	25.0	25.0
Adjusted PAT	1,171	1,989	2,503	2,967
Growth (%)	254.6	69.8	25.9	18.5
Net Margin (%)	2.6	3.2	3.3	3.5
(Profit)/loss from JV's/Ass/MI	-	61.0	-	-
Adj. PAT After JV's/Ass/MI	1,171	1,928	2,503	2,967
E/O items	524	-	-	-
Reported PAT	1,695	1,928	2,503	2,967
Growth (%)	254.6	64.6	29.8	18.5

Balance Sheet

Y/E, Mar (Rs. mn)	FY10	FY11P	FY12E	FY13E
Equity share capital	238	475	475	475
Reserves & surplus	8,416	9,583	11,353	13,452
Net worth	8,654	10,058	11,828	13,927
Minority Interest	-	-	-	-
Secured Loans	7,197	7,197	6,697	6,197
Unsecured Loans	2,836	653	653	653
Loan Funds	10,033	7,851	7,351	6,851
Net deferred tax liability	1,146	960	960	960
Total Liabilities	19,832	18,868	20,139	21,738
Gross Block	19,091	19,720	20,470	21,322
Less: Depreciation	9,534	10,599	11,766	12,981
Net block	9,557	9,121	8,705	8,341
Capital work in progress	271	829	829	829
Investment	7,393	6,610	7,610	8,610
Current Assets	9,652	12,020	15,056	17,677
Inventories	2,897	5,280	6,343	7,239
Sundry debtors	2,203	2,710	3,255	3,715
Cash & bank balance	1,010	60	265	799
Loans & advances	3,520	3,950	5,173	5,903
Other current assets	22	20	20	20
Current lia & Prov	7,341	9,770	12,073	13,732
Current liabilities	6,672	8,850	10,968	12,471
Provisions	669	920	1,105	1,261
Net current assets	2,311	2,250	2,982	3,945
Misc. exp	300.8	58.7	13.4	13.4
Total Assets	19,832	18,868	20,139	21,738

Cash Flow

Y/E, Mar (Rs. mn)	FY10	FY11P	FY12E	FY13E
PBT (Ex-Other income)	914	2,284	3,084	3,659
Depreciation	1,025	1,065	1,167	1,215
Interest Provided	711	521	522	456
Other Non-Cash items	190.7	-	-	-
Chg in working cap	1,057	-889	-528	-428
Tax paid	118	-528	-834	-989
Operating Cashflow	3,389	2,453	3,411	3,914
Capital expenditure	(304)	(1,187)	(750)	(852)
Free Cash Flow	3,085	1,266	2,661	3,062
Other income	139	232	253	297
Investments	(2,688)	1,025	-1,000	-1,000
Investing Cashflow	-2,853	70	-1,497	-1,555
Equity Capital Raised	0	0	0	0
Loans Taken / (Repaid)	973	-2,183	-500	-500
Interest Paid	-711	-710	-477	-456
Dividend paid (incl tax)	(641)	(581)	(732)	(868)
Income from investments				
Others	424			
Financing Cashflow	880	-3,473	-1,709	-1,824
Net chg in cash	1,417	-950	205	534
Opening cash position	421	1,010	60	265
Closing cash position	1,837	60	265	799

Key ratios

Y/E, Mar	FY10	FY11P	FY12E	FY13E
Profitability (%)				
EBITDA Margin	6.0	6.2	6.4	6.3
Net Margin	2.6	3.2	3.3	3.5
ROCE	9.4	15.8	19.8	21.1
ROE	14.9	21.7	22.9	23.1
RoIC	14.0	25.3	31.7	35.9
Per Share Data (Rs)				
EPS	2.5	4.2	5.3	6.2
CEPS	4.6	6.4	7.7	8.8
BVPS	17.6	21.1	24.9	29.3
DPS	1.2	1.0	1.3	1.6
Valuations (x)				
PER	19.9	11.7	9.3	7.8
P/CEPS	10.6	7.6	6.3	5.6
P/BV	2.8	2.3	2.0	1.7
EV / Sales	0.7	0.5	0.4	0.3
EV / EBITDA	11.3	7.9	6.1	5.1
Dividend Yield (%)	2.4	2.1	2.7	3.2
Gearing Ratio (x)				
Net Debt/ Equity	0.8	0.7	0.5	0.3
Net Debt/EBIDTA	2.5	1.9	1.2	0.7
Working Cap Cycle (days)	(12.9)	(5.0)	(6.7)	(6.5)

* 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
03/05/2011	TVS Motor Q4FY11 Result Update	Accumulate	56	72
21/01/2011	TVS Motor Q3FY11 Result Update	Accumulate	62	72
25/10/2010	TVS Motor Q2FY11 Result Update	Reduce	74	72
22/07/2010	TVS Motor Q1FY11 Result Update	Hold	133	133

Recent Research Reports

Date	Reports	Reco	CMP	Target
28/07/2011	Tata Motors JLR FY11 Conference Call Update	Buy	951	1,450
26/07/2011	Maruti Suzuki Q1FY12 Result Update	Accumulate	1,178	1,400
25/07/2011	Ashok Leyland Company Update	Accumulate	52	57
21/07/2011	Hero Honda Q1FY12 Result Update	Hold	1,789	1,840

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