

Underperformer

TVS Motor

Industry: Auto and Auto Components

Industry View: Neutral

Result Update

“Most vulnerable to competition”

Below par performance

TVS reported 7.4% yoy growth in net sales, while on qoq basis, it declined by 11.2% to Rs17.33 mn. This was due to a 1% yoy growth on volumes to 5.27 lakh units, which was a decline of 12.7% qoq. Volumes for the company in the months of November and December were on a decline. Softness in two wheeler industry impacted TVS as monthly volumes saw ~5% qoq declines in the last two months. RM to sales as a % of sales came in at 73.4% v/s 75.5% qoq as commodity prices are cooling off. However, this benefit was taken away by 170 bps sequential increase in other expenses due to higher promotional expenses and 41 bps increase in employee costs at 16% and 5.22% respectively. Due to this, EBITDA margins declined 40 bps qoq and 20 bps yoy to 7.1%. The price hike taken in Q3 was reflected as net realizations moved up by 1.6% qoq. PAT came in at Rs566 mn which was just 1.4% up yoy while it was down 26% qoq.

Market share loss intensifies, competition to hurt further

Absence of significant launches over the past few quarters, and an aged product portfolio, TVS lost market share in each of its segments of operation. In December 2011, TVS's market share in the motorcycle segment stood at 4.8% v/s 7.6% at the end of September 2011, which signifies that competitive brands were preferred to TVS' bikes which are strong only in South India. In the scooter segment, TVS lost 360 bps of market share in the same period to 19.34% on aggressive capacity expansion from its closest rival Honda Activa. While on the 3W side, the company has seen demand reducing for its much hyped 3W King as its sales have gone down from levels of +4500 to ~2500. Even the strategy of 3W production getting ramped up from 6000 to 8000 shortly will not help the company as demand itself is weakening for 3 wheelers. Opening of government permits in various states is pending since a long time but there is no clarity on the same.

With intentions of players such as Honda, Yamaha, Hero and Suzuki to launch new scooters getting clear in the auto expo, we believe that a single scooter launch for TVS in FY 13 will not be sufficient for it to combat with rising competition and arrest a further market share fall. On the motorcycle side as well, a variant of Apache and a similar motorcycle launch (probably Victor 110cc) in FY 13 will not be able to take the aggressive launches from Honda head on. As a result we expect TVS volumes to grow at 9.5%/7% in FY 12E/13E v/s our auto industry growth expectations of 12.3%/10.6% respectively.

Margin performance weakens

Stock Data

Current Market Price (₹)	52
Target Price (₹)	55
Potential upside (%)	5
Reuters	TVSM.BO
Bloomberg	TVSL IN

What's Changed

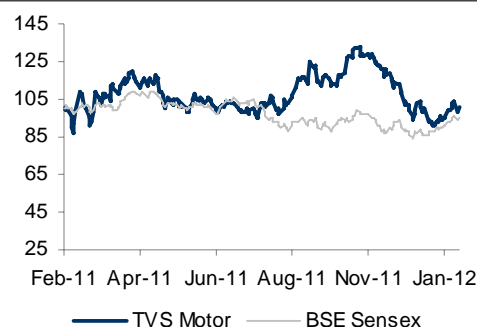
12 month PriceTarget (₹)	60 to 55
F2012 EPS (₹)	4.9 to 4.2
F2013 EPS (₹)	6.6 to 5.5

Key Data

Market Cap (₹bn)	25
52-Week Range (₹)	70 / 44
Avg. Daily Trading Value (₹mn)	134
Promoters (%)	59
FII Holding (%)	5
DII Holding (%)	16
Public & Others Holding (%)	20

Y/E 31 march	FY10	FY11	FY12E	FY13E
Revenues (₹mn)	46,786	65,702	69,760	76,996
EBITDA (%)	6.33	6.35	7.12	7.69
PAT (%)	1.71	2.33	2.86	3.40
EPS (₹)	1.69	3.22	4.20	5.51
EPS growth (%)	N/A	90.6	30.2	31.4
P/E (x)	31.0	16.3	12.5	9.5
P/B(x)	4.0	3.6	2.9	2.2
EV/EBITDA (x)	12.3	8.6	6.9	5.6
ROCE(%)	14.0	38.0	43.5	37.2
ROE(%)	12.9	22.4	23.0	23.5
Dividend yield (%)	0.8	1.1	1.3	1.4

Relative Price Performance



One Year Indexed

(%)	1 Month	3 Months	12 Months
Absolute	9	(21)	1
BSE Relative	(2)	(19)	6

Ashwin Patil

ashwin_patil@lkpsec.com

+91 22 6635 1271

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In line with rising promotional expenses and employee costs to sales, margins have weakened to 7.1%. We expect margins to remain in between 7-7.2% in the coming quarters with weakening demand on 3W side coupled with lower utilization rates leading to lower operating leverage. Volume weakening on 2W side in the wake of competition also may lead to margins getting weakened. Higher ad spend stemming from prevention of market share decline may also hurt the margin performance. Softening of commodity prices may give some relief in FY 13. We cut our margin estimates for TVS from 7.6%/8.1% to 7.1%/7.7% in FY 12E/13E respectively.

Outlook and valuation

Given the weakening operational performance and difficult competitive environment, we are turning negative on the stock. We have cut our earnings estimates in the wake of expectations of domestic underperformance and faltering performance in Indonesia, which we believe may not breakeven even in FY 14 given the competition from Honda, Yamaha and Bajaj Auto and significantly low scale of operations of TVS. Strong exports (14% of volumes) may not be able to undermine the domestic weakness. Hence, we are cutting our target price from Rs 60 to Rs 55, valued at 10x times (30% discount to Hero) FY 13E consol EPS of Rs 5.5 and downgrading the stock from BUY to Underperformer.

Per unit parameters

Per unit parameters (₹)	Q4 FY10	Q1 FY11	Q2 FY11	Q3 FY11	Q4 FY11	Q1 FY12	Q2 FY12	Q3 FY12
Net realizations	28442	29527	30285	30785	30032	31844	32308	32833
RM costs	19909	21858	22318	22984	22340	24330	24380	24099
Employee costs	1845	1572	1614	1656	1504	1696	1552	1714
Other expenses	5001	4367	4517	4543	4687	4203	4617	5264
Total costs	26754	27796	28449	29183	28532	30229	30549	31078
EBITDA	2250	2235	2339	2235	2040	2339	2415	2317
PAT	1070	870	1044	1064	779	1096	1265	1072

All figs. in (₹ mn)	Q3 FY12	Q2 FY 12	% qoq	Q3FY11	% yoy
Total reveunes	17622	19917	-12	16467	7
Raw material costs	12717	14731	-14	12046	6
Employee costs	905	938	-4	868	4
Other expenses	2778	938	196	2381	17
EBITDA	1223	1459	-16	1171	4
EBITDA margins(%)	7.1%	7.5%	(40 bps)	7.3%	(20 bps)
Depreciation	364	363	0	445	-18
Other income	1	23	-97	72	-99
Interest expenses	103	112	-7	96	7
PBT	756	1008	-25	703	8
Tax	190	244	-22	145	31
PAT	566	765	-26	558	1

Financial Summary (Consolidated)

Income statement

YE March (₹mn)	FY10	FY11	FY12E	FY 13E
Total Revenues	46,786	65,702	69,760	76,996
Raw Material Cost	32,261	47,418	50,964	55,464
Employee Cost	2,894	3,799	3,695	4,303
Other Exp	8,756	10,399	10,220	11,404
EBITDA	2,875	4,087	4,881	5,826
<i>EBITDA Margin(%)</i>	6.3	6.4	7.1	7.7
Depreciation	1,367	1,336	1,396	1,662
Interest	828	718	693	587
PBT	680	2,033	2,792	3,578
<i>PBT Margin(%)</i>	1.5	3.1	4.0	4.6
Tax	(122)	(505)	838	1,008
PAT	335	1,279	1,994	2,620
<i>PAT Margins (%)</i>	0.7	1.9	2.9	3.4
Adj PAT	802	1,528	1,994	2,620
<i>Adj PAT Margins (%)</i>	1.7	2.3	2.9	3.4

Key Ratios

YE March	FY10	FY11	FY12E	FY 13E
Per Share Data (₹)				
Adj. EPS	1.69	3.22	4.20	5.51
CEPS	3.59	5.52	7.15	9.03
BVPS	13.08	14.40	18.30	23.50
DPS	0.41	0.56	0.69	0.73
Growth Ratios(%)				
Total revenues	22.8	40.4	6.2	10.4
EBITDA	146.9	42.2	19.4	19.4
PAT	N/A	437.7	30.5	31.4
EPS Growth	N/A	90.6	30.2	31.4
Valuation Ratios (X)				
PE	31.0	16.3	12.5	9.5
P/CEPS	14.6	9.5	7.3	5.8
P/BV	4.0	3.6	2.9	2.2
EV/Sales	0.8	0.5	0.5	0.4
EV/EBITDA	12.3	8.6	6.9	5.6
Operating Ratios (Days)				
Inventory days	27.4	30.0	32.0	34.0
Receivable Days	81.5	80.0	80.0	78.0
Payables day	18.1	18.0	22.0	24.0
Net Debt/Equity (x)	1.08	1.16	0.78	0.50
Profitability Ratios (%)				
ROCE	14.0	38.0	43.5	37.2
ROE	12.9	22.4	23.0	23.5
Dividend payout	31	17	16	13
Dividend yield	0.8	1.1	1.3	1.4

Source: Company, LKP Research

Balance sheet

YE March (₹mn)	FY10	FY11	FY12E	FY 13E
SOURCES OF FUNDS				
Equity Share Capital	238	475	475	475
Reserves & Surplus	5,964	6,345	8,200	10,662
Total Networkth	6,201	6,827	8,675	11,137
Total debt	11,834	10,567	11,000	12,500
Net Deferred Tax Liability	518	276	617	617
Total Liabilities	18,682	17,727	20,292	24,254
APPLICATION OF FUNDS				
Net block	11,685	12,938	13,542	13,380
Capital WIP	294	576	776	976
Investments	3,866	2,208	2,210	2,210
Current Assets				
Cash and Bank	1,250	432	2,050	4,715
Inventories	3,416	6,025	6,009	7,059
Sundry Debtors	2,258	2,861	4,131	4,983
Loan, Advances & others	3,498	3,177	3,862	4,000
Current Liab & Prov				
Current liabilities	7,207	9,505	11,170	11,853
Provisions	720	985	1,117	1,216
Net Current Assets				
Miscellaneous expenses	343	0	0	0
Total Assets	18,682	17,727	20,292	24,254

Cash Flow

YE March (₹mn)	FY10	FY11	FY12E	FY 13E
PBT	213	1,784	2,842	3,638
Depreciation	1,367	1,336	1,396	1,662
Interest	(65)	(157)	(42)	(42)
Chng in working capital	870	(467)	(159)	(1,258)
Tax paid	(294)	(832)	(838)	(1,008)
Other operating activities	481	522	915	809
CF from operations (a)	2,572	2,185	4,114	3,801
Capital expenditure	(86)	(2,780)	(2,200)	(1,700)
Chng in investments	7,549	10,090	0	0
Other investing activities	(9,300)	(7,881)	40	42
CF from investing (b)	(1,838)	(571)	(2,160)	(1,658)
Free cash flow (a+b)	734	1,614	1,954	2,143
Equity raised/(repaid)	724	0	0	0
Inc/dec in borrowings	1,794	(3,022)	433	1,500
Dividend paid (incl. tax)	(389)	(416)	(328)	(348)
Other financing activities	(1,238)	181	318	(629)
CF from financing (c)	891	(3,257)	422	523
Net chng in cash (a+b+c)	1,625	(1,642)	2,376	2,666
Closing cash & cash equiv.	1,316	(326)	2,050	4,715

LKP

Team LKP

Pratik Doshi	Director	-	98210 47676		pratik_doshi@lkpsec.com
S. Ranganathan	Head of Research	Pharmaceuticals , Agriculture	98212 22510	6635 1270	s_ranganathan@lkpsec.com
Ashwin Patil	Research Analyst	Automobiles & Telecom	98195 78395	6635 1271	ashwin_patil@lkpsec.com
Deepak Darisi	Research Analyst	Energy	99301 44866	6635 1220	deepak_darisi@lkpsec.com
Hardik Mehta	Sales	-	98190 66569	6635 1246	hardik_mehta@lkpsec.com
Varsha Jhaveri	Sales	-	93241 47566	6635 1296	varsha_jhaveri@lkpsec.com
Hitesh Doshi	Sales	-	93222 45130	6635 1281	hitesh_doshi72@lkpsec.com
Gurdarshan Singh	Sales	-	93228 61461	6635 1246	gurdarshan_singh@lkpsec.com
Bharat Shah	Dealing	-	98337 97256	6635 1210	bharat_shah@lkpsec.com
