

Results ahead of estimates on higher ASPs

First Look

TVS reported adj PAT of INR565mn, ahead of our estimate but marginally below consensus (Nomura: INR531mn; consensus: INR 586mn). EBITDA margin came in at 6.5% as against our expectation of 6.4% and the consensus forecast of 6.6%. RM/sales declined by 210 bps qoq to 73.4%, which is a positive. However, this was offset by higher other expenditure. ASP at INR32,710 was 3% higher than our estimate, possibly helped by the weaker INR.

Looking ahead, we expect domestic volumes to come under pressure from potential industry slowdown and increased competition from Honda. We are currently building in volume growth of 15.5% in FY12F and 9% in FY13F. Current SAAR indicates around 9% volume growth for FY12F. Key reason for this is a sharp slowdown in the motorcycle segment SAAR to flat volumes in FY12 from 11% yoy growth two months back. There could be downside risks to our earnings estimates due to slower growth.

Key result highlights

- Net sales at INR17.3bn was ahead of our estimate of INR16.8bn.
- ASP at INR32,710 was 3% higher than our estimate, possibly helped by the weaker INR.
- EBITDA margins came in at 6.5%, in line with our estimate of 6.4%.
- RM/sales came in at 73.4% compared to our estimate of 75.2%.
- Employee cost/sales came in at 5.2% compared to our estimate of 5.4%.
- Other expenses/sales came in at 16.4% compared to our estimate of 14.7%.
- Effective tax rate was 25.2% compared to our estimate of 24.5%.
- During the quarter, TVSL invested INR374mn in subsidiaries. Total investments in 9MFY12 stand at INR2bn as against our full-year estimate of INR1.8bn. Total investment in Indonesia in 9MFY12 is INR1bn (our FY12 expectation was INR0.6bn) and INR0.65bn in TVS Motor Services (our FY12 expectation was INR0.5bn).

January 31, 2012

Rating Remains	Buy
Target price Remains	INR 87
Closing price January 31, 2012	INR 52

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

Fig. 1: Actual vs. Expectations

	INR m			% difference from	
	Actual	Consensus	Nomura	Consensus	Nomura
Net Sales	17,326	17,663	16,798	-1.9%	3.1%
EBITDA	1,153	1,167	1,099	-1.2%	5.0%
Margin	6.5%	6.6%	6.4%		
Net Profit	565	586	531	-3.5%	6.5%

Source: Company data, Bloomberg, Nomura research

Fig. 2: 3QFY12 results

INR mn	3QFY11A	2QFY12A	3QFY12A	Y/Y	Q/Q	3QFY12F
Net Sales	16,134.6	19,521.6	17,325.9	7.4%	-11.2%	16,797.9
Change (%)	50.4	22.8	7.4			4.1
Expenses	15,460.4	18,535.0	16,468.8	6.5%	-11.1%	16,006.2
(Inc/Dec in Stock)	-659.0	0.0	-612.1			0.0
Raw Materials	12,705.1	14,730.6	13,329.4	4.9%	-9.5%	12,632.0
RM/Sales	74.7	75.5	73.4			75.2
RM/Vehicle	22,984.3	24,378.0	24,009.4	4.5%	-1.5%	23,848.3
Staff Cost	868.0	938.0	904.7	4.2%	-3.6%	909.1
Other Expenditure	2,546.3	2,866.4	2,846.8	11.8%	-0.7%	2,465.1
Operating Profit	674.2	986.6	857.1	27.1%	-13.1%	791.7
Change (%)	31.3	21.7	27.1			17.4
As % of Net Sales	4.2	5.1	4.9			4.7
EBITDA margin(%)	6.1	6.9	6.5			6.4
Other Income	404.2	419.4	297.0	-26.5%	-29.2%	306.9
Extraordinary Income(Expense)	-0.1	0.0	-0.2			0.2
Interest	96.1	111.5	103.2	7.4%	-7.4%	115.8
Depreciation	279.3	285.9	295.1	5.7%	3.2%	280.0
PBT	702.9	1,008.6	755.6	7.5%	-25.1%	703.0
Tax	145.4	243.5	190.3			172.2
Effective Tax Rate (%)	20.7	24.1	25.2			24.5
PAT	557.5	765.1	565.3	1.4%	-26.1%	530.7
Change (%)	136.9	39.7	1.4			-4.8
PAT Margin	3.4	3.8	3.2			3.1
EPS	1.17	1.61	1.19	1.4%	-26.1%	1.12

Source: Company data, Nomura estimates

Fig. 3: Cost ratios

	3QFY11A	2QFY12A	3QFY12A	Y/Y	Q/Q	3QFY12F
staff cost / sales	5.4%	4.8%	5.2%	-0.2%	0.4%	5.4%
Other exp / sales	15.8%	14.7%	16.4%	0.6%	1.7%	14.7%
RM / Sales	74.7%	75.5%	73.4%	-1.3%	-2.1%	75.2%
Gross margins	25.3%	24.5%	26.6%	1.3%	2.1%	24.8%
OPM	4.2%	5.1%	4.9%	0.8%	-0.1%	4.7%
EBITDA per vehicle (INR)	1286	1633	1618	25.8%	-0.9%	1495
RM/vehicle (INR)	22,984	24,378	24,009	4.5%	-1.5%	23,848
Realisation per vehicle (INR)	30,785	32,307	32,710	6.3%	1.2%	31,713

Source: Company data, Nomura estimates

Appendix A-1

Analyst Certification

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Mentioned companies

Issuer name	Ticker	Price	Price date	Stock rating	Sector rating	Disclosures
TVS Motor	TVSL IN	INR 52	31-Jan-2012	Buy	Not rated	

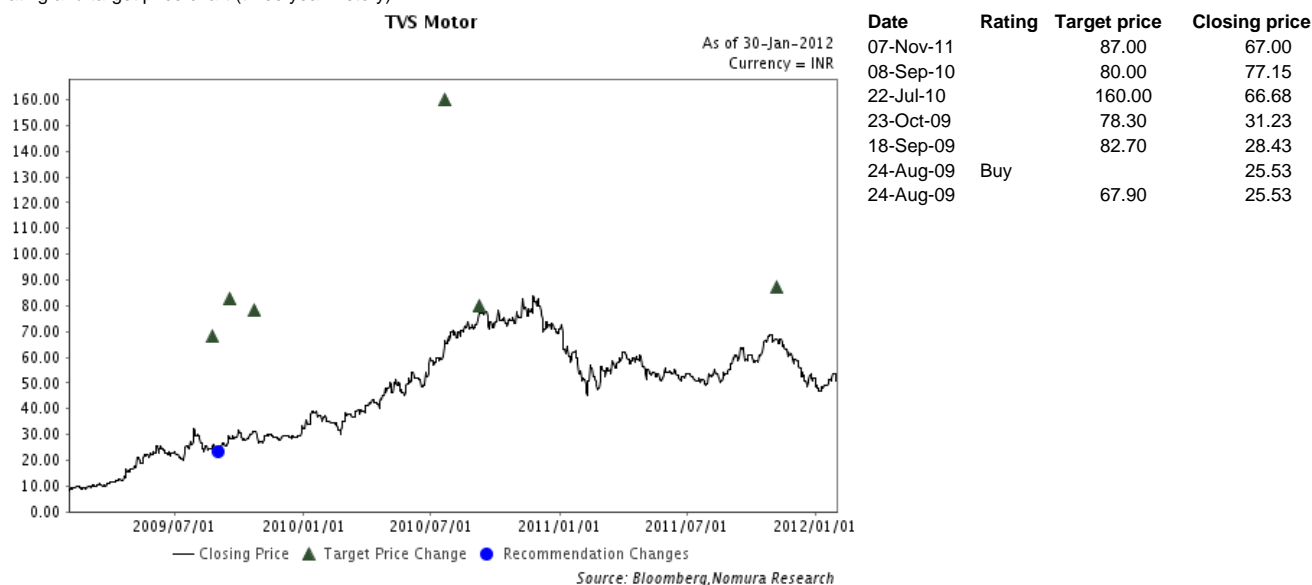
Previous Rating

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

TVS Motor (TVSL IN)

INR 52 (31-Jan-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.
- **Higher-than-expected raw material costs:** We have built in some decline in raw material costs due to decline in commodity prices. If commodity prices are higher than expected, there can be downside risks to our estimates.

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STOCKS

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Explanation of Nomura's equity research rating system in Japan and Asia ex-Japan

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