

December 12th, 2014

BSE Code: 532343 **NSE Code:** TVSMOTOR **Reuters Code:** TVSM.NS **Bloomberg Code:** TVSL:IN

TVS Motor Company Ltd (TVS Motor) founded in 1978, is the flagship company of the TVS Group. The operations of the company spans across automobile component manufacturing, components distribution, manufacturing of powered two-wheelers, computer peripherals, financial services, contract manufacturing services and software development. TVS Motors is the third largest two-wheeler manufacturer in the country with four manufacturing plants, three located in India and one in Indonesia. TVS has always stood for innovative, easy-to-handle, and environment-friendly products, backed by reliable customer service.

Investment's Rationale a

Domestic market share to improve to ~15% in FY15E - TVS Motor has done excellent job on the volume front, both in domestic as well as export market with 34.8% YoY jump in total sales volumes in Q2FY15. We believe that volume growth, coupled with better product mix, is expected to improve its margins. The company has been aggressively pursuing for higher domestic market share through new launches. A consistent product launch programme has pushed TVS Motor, ahead of the two-wheeler market leader, Hero MotoCorp (Hero Motor) in terms of the domestic sales volumes from scooter segment. On the back of strong scooter demand, the company intends to further increase its domestic market share in the two-wheeler market segment from 12.6% in Q2FY15 to ~15% by FY15E.

New launches to facilitate growth: During Q2FY15, the company launched TVS Scooty Zest 110, in a move to expand its scooter portfolio, and TVS Star City+, a 110 cc feature rich motorcycle. Despite of fierce competition from Honda and Hero, the company continues to remain among the top three players in the two-wheeler market segment on the back of new launches. Further, the company is planning to launch two motorcycles each in Q3FY15 and Q4FY15.

Manufacturing capabilities to provide higher upside: The company is planning to set up an engine manufacturing plant in Himachal Pradesh with an investment of ₹1.5 bn. This new facility will be the company's second manufacturing plant in the state. From its existing plant in Himachal Pradesh, the company manufactures TVS Star City, TVS Sport, TVS Jupiter and Moped. Though the plant has a production capacity of six lakh units, it produces three lakh units and caters to north and central India markets. However, the company is taking efforts to reach the maximum capacity utilization, which we believe would enhance its revenue visibility by FY16E.

Staging a comeback in the scooter segment: During H1FY15, TVS Motors witnessed a sharp improvement in its market share to 15.6% in the scooter market from 12.5% in the corresponding period last year. We expect the company to remain on strong foot to gain market share in the scooter segment aided by new launches in the most competitive category.

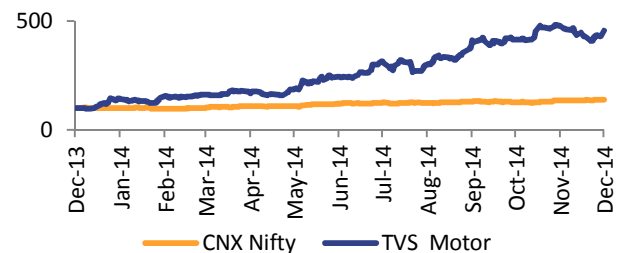
Market Data

Rating	BUY
CMP (₹)	251.2
Target (₹)	310
Potential Upside	~23.4%
Duration	Long Term
Face Value (₹)	1.0
52 week H/L (₹)	266.7/52.5
Adj. all time High (₹)	266.7
Decline from 52WH (%)	5.8
Rise from 52WL (%)	378.4
Beta	1.2
Mkt. Cap (₹bn)	119.3
Enterprise Value (₹bn)	124,596

Fiscal Year Ended

Y/E	FY13A	FY14A	FY15E	FY16E
Revenue (₹bn)	75.1	83.8	98.6	119.2
EBITDA (₹bn)	4.4	4.9	6.9	9.1
Net Profit (₹bn)	2.0	1.9	3.2	4.5
EPS (₹)	4.2	3.9	6.7	9.5
P/E (x)	60.4	64.0	37.7	26.3
P/BV (x)	13.3	10.3	8.5	6.5
EV/EBITDA (x)	29.1	25.6	17.93	13.5
ROCE (%)	15.2	19.5	28.2	33.2
ROE (%)	22.0	16.0	22.5	24.8

One year Price Chart



Shareholding Pattern	Sep'14	Jun'14	Diff.
Promoters	57.4	57.4	-
FII	11.6	8.8	2.87
DII	11.8	14.5	(2.65)
Others	19.2	19.3	(0.22)

TVS Motor is the third largest two-wheeler manufacturer in India and one among the top ten in the world.

The company has four manufacturing plants, three located in India (Hosur, Tamil Nadu and Mysore, Karnataka and Nalagarh, Himachal Pradesh) and one in Indonesia (Karawang).

TVS Motor - the third largest two-wheeler manufacturer in India

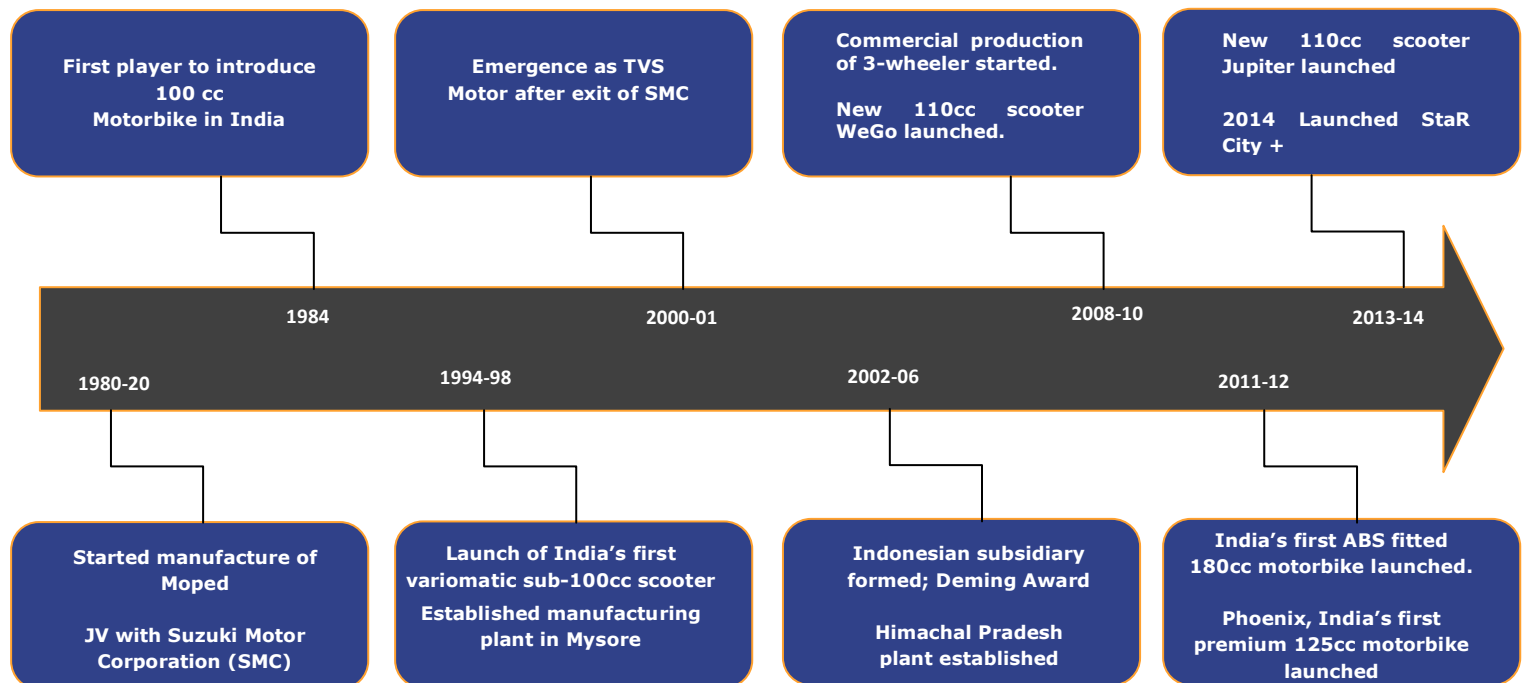
TVS Motor Company (TVS Motor) is the third largest two-wheeler manufacturer in India and among the top ten players in the world, with an annual turnover of more than USD 1.3 bn in FY14. The company is the flagship company of the USD 7.0 bn TVS Group. The company has four manufacturing plants, three located in India (Hosur, Tamil Nadu and Mysore, Karnataka and Nalagarh, Himachal Pradesh) and one in Indonesia (Karawang).

The business ranges across automobile component manufacturing, components distribution, manufacturing of powered two-wheelers, computer peripherals, financial services, contract manufacturing services and software development. TVS Motor currently manufactures a wide range of two-wheelers. Following is the range from mopeds to racing inspired motorcycles.

- Motorcycles (Apache Series RTR, Phoenix 125, MAX4R, StaRcity Plus, Sport)
- Scooters (Jupiter, Wego, Scooty Streak, Scooty Pep +)
- Mopeds (TVS XL Super, TVS XL Heavy Duty)

TVS Motor's strength lies in the design and development of new products. The company delivers total customer satisfaction by anticipating customer need and presenting quality vehicles at the right time and at the right price. TVS Motors has always stood for innovative, easy-to-handle, and environment-friendly products, backed by reliable customer service. More than 24 mn customers have bought a TVS product to date. With the winning formula of providing quality products to its customers, TVS Motors proved time and again that the sense of responsiveness of satisfying the ever changing need of the customer and continuously innovate new vehicles. In 2013, TVS Motor launched its premium executive 125cc motorcycle, TVS Phoenix and Scooter, TVS Jupiter.

TVS Motor- shaping Indian two wheeler industry since 1980



Showcased improved performance in Q2FY15 supported by strong volume growth

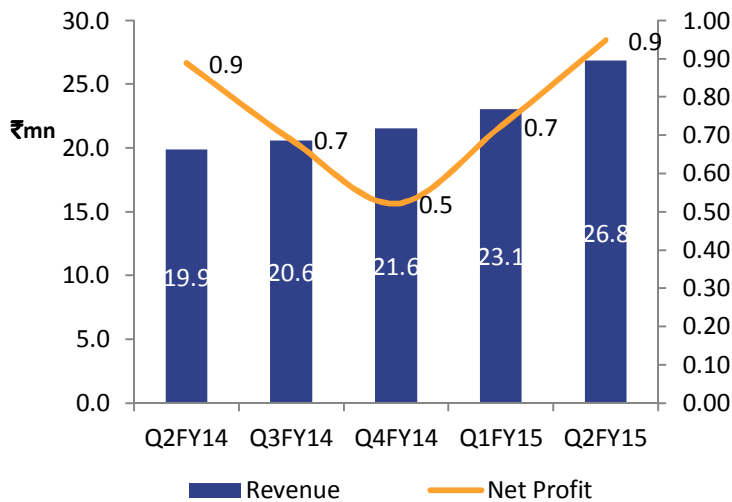
During Q2FY15, the company has witnessed a very strong growth in volumes aided by traction in 2W sales. Sales were buoyed by the success of Star City and Zest launch.

Net Sales surged 34.7% YoY on higher sales volume: During Q2FY15, TVS Motor delivered a strong performance with standalone revenue increased by 34.7% YoY and 16.0% QoQ to ₹26.8 bn, mainly due to 34.8% YoY increase in sales volume. Backed by new product launches, the company's total volume increased by 34.8% YoY and 3.4% QoQ to 6.48 lakh units in Q2FY15. Scooters and motorcycle sales grew impressively by 68% YoY and 29% YoY from 1.16 lakh units and 1.97 lakh units in Q2FY14 to 1.95 lakh units and 2.55 lakh units in Q2FY15, respectively. While three wheeler registered a volume growth of 24% YoY, increasing from 22,606 units in Q2FY14 to 27,946 units in Q2FY15. Export sales volume increased by 29% YoY and domestic volume increased by 36% YoY. During Q2FY15, the company launched TVS Scooty Zest 110, expanding its scooter portfolio. With this, TVS Motor Company now has the widest range of scooters in the country. TVS Jupiter and TVS StaR City + launched earlier continued its upward trend.

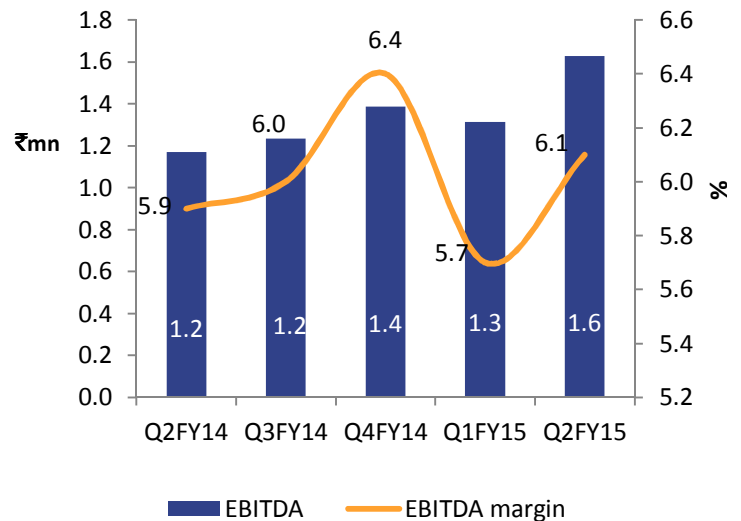
Total volumes grew by 34.8% YoY and 3.4% QoQ to 6.48 lakh units in Q2FY15.

EBITDA margins expanded merely by 17bps impacted by high raw material cost and spending on new launches: While, strong volume growth and lower employee cost & other expenditure led to ~39% YoY rise in its EBITDA to ₹1.6 bn; EBITDA margin continued to remain in single digit due to higher raw material (RM) cost, aggressive pricing of launches and continued spending on the brand-building of new products launch. EBITDA margin grew by 17bps YoY to 6.1% in Q2FY15. RM cost as % of sales rose to 74.4% in Q2FY15 from 72.1% in Q2FY14. Net profit of the company rose by just 6.7% YoY to ₹0.95 bn in Q2FY15, as marketing expenditure on the launches of Star City and Scooty Zest, pegged back profitability gains.

Quarterly performance remained healthy in Q2CY14



Quarterly trend of EBITDA & EBITDA margin



Operating leverage, improved mix and expected improvement in motorcycle franchise should drive margin expansion in FY16E.

Going forward, we believe that new product launches, improvement in exports and 3W & 2W business will lead to higher volumes. The company expects their hedging strategy against appreciating rupee will play out well and prevent any rise in operating expenses. Meanwhile, the management expects a double digit margin by the end of next year. Given lower commodity prices, we expect raw-material cost to ease, which in turn will lead to improvement in margins but at a slower pace as new launches coming up and the company getting forced to invest in marketing expenses.

The industry body, SIAM, expects sales of 2W and 3W to remain subdued for the next two months, but some revival will be seen from early next year.

We expect volume growth momentum in exports to continue with new launches and entry into new geographies.

TVS Motor outpaced the 2W industry growth

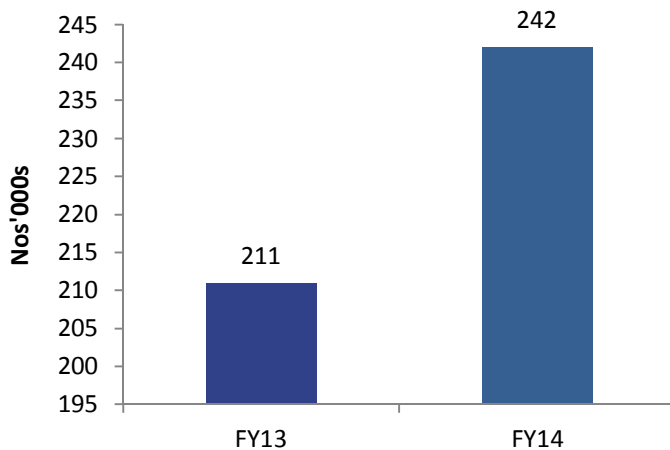
TVS Motor outpaced the two-wheeler industry growth for the month of October 2014. Total two wheeler and three wheeler sales of the company increased by 22% YoY and 14% YoY to 231,990 units and 9,054 units in October 2014, respectively despite the automobile sector witnessing a subdued demand in October 2014, as the festive season was spread across September and October, unlike last year's bunching in October. As per the monthly report by Society of Indian Automobile Manufacturers (SIAM), total sales of two-wheeler declined by 4% YoY to 14.62 lakh units in October 2014. However, the company has witnessed 18% YoY growth in its domestic two wheeler sales to 204,294 units in October 2014. Scooters and motorcycles sales of the company grew by 68% YoY and 10% YoY to 70,571 units and to 90,779 units respectively in October 2014.

Increased focus in overseas geographies & export momentum to enhance revenue visibility

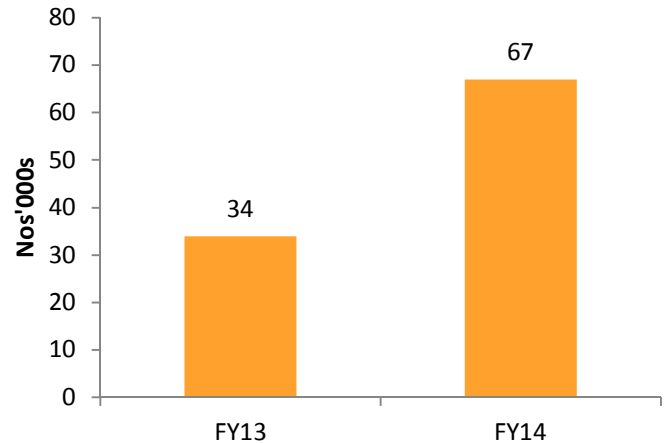
TVS Motor's revenues from the exports grew strongly in FY14. The company's export from 2W and 3W rose by 14.7% YoY and 97.1% YoY in FY14 respectively in value terms. Further, the company's total export grew by 29% with sales volume increasing from 0.80 lakh units in Q2FY14 to 1.03 lakh units in Q2FY15. In the month of October 2014, the company's total exports grew by 51% with sales increasing to 34,855 units from 23,154 units in the month of October 2013.

The company continued to witness higher growth from African countries like Kenya & Nigeria and other Asian markets like Sri Lanka, Bangladesh, & Nepal. In volume terms, Africa contributes 60% to TVS Motor's exports, while Asia's contribution stands at 15% and the balance comes from other markets. The company expects better three-wheeler volume from African, Asian, and Latin American countries, where the company enjoys ~20% market share currently. The company expects 15% and 25% market share from two wheeler and three wheeler exports market, respectively by the end of FY15.

2W Export Sales



3W Export Sales



With a slew of new launches in motorcycles and scooters segment in FY15E, the company expects 30%+ sales volume growth in FY15E, which in turn is expected to increase its market share in two wheeler industry to 14% in FY15E from 12.6% in Q2FY15.

We remain optimistic about TVS Motor's increasing focus towards consolidating its position in the market for scooters in India, which in turn would further result in to higher 2W sales.

Eyeing over ~30% sales volume growth in FY15E aided by new launches

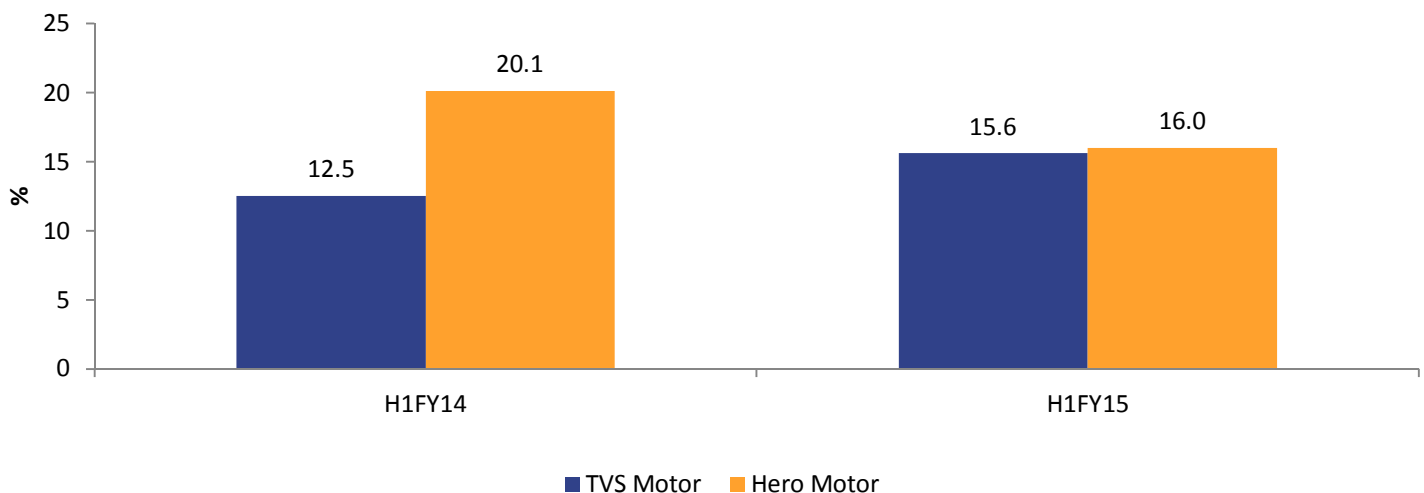
In line with the company's strategy to launch one new product every quarter with an aim to gain market share in the face of fierce competition from Honda Motorcycle & Scooter India (HMSI) and Hero Motors. The company's policy of launching one product every quarter is paying rich dividends. The company started with the launch of the new scooter, Jupiter, in Q3FY14 followed by the Star City+, refreshed Wego and Scooty Zest in the subsequent quarters. This will be followed by an executive segment motorcycle in Q3FY15 and an upgraded model to its premium segment motorcycle, Apache, in Q4FY15. The new launches are expected to help the company maintain a strong growth momentum going forward. We also believe that the launches would help bridge the gap in TVS Motor's product portfolio and create the much needed excitement.

Considering the recent cut in petrol price and the increase in future demand of scooters, we expect that the long term prospects for two wheelers industry continue to be attractive. With a slew of new launches in motorcycles and scooters segment in FY15E, the company expects 30%+ sales volume growth in FY15E, which in turn is expected to increase its market share in two wheeler industry to 14% in FY15E from 12.6% in Q2FY15, thereby strengthening and consolidating its presence in motorcycles and scooter category.

Surpassing peer competition backed by increased scooter demand

TVS Motor is staging a strong comeback in the scooter segment, aided by new launches in the most competitive category. The company, which had been steadily losing streak for three years till 2013-14, has reported improvement in its market share during the first-half of this fiscal as the new product roll-outs seem to be paying off. Increased demand has led to changes in market share as well. During H1FY15, TVS Motors posted a sharp increase in its market share to 15.6% in the scooter market from 12.5% in the corresponding period last year. While, Hero's market share in the scooter market declined to 16% in H1FY15 from 20% last year.

Market share of TVS Motor vs. Hero Motor



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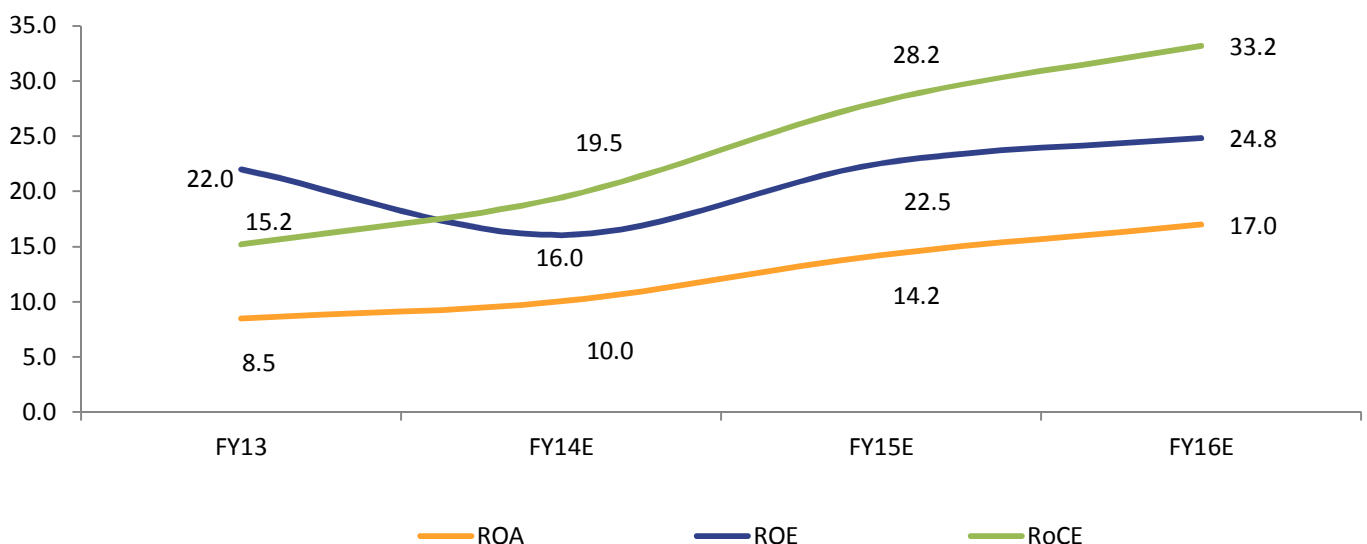
Riding on the steady demand of the TVS Jupiter 110cc scooter, TVS Motor has managed to jump ahead of the nation's largest two-wheeler maker, Hero MotoCorp clinching the second spot in the scooter segment of India.

According to the sales data released by SIAM (Society of Indian Automobile Manufacturers), TVS Motor managed to sell over 1.89 lakh units of scooters in the second quarter of this financial year, while Hero MotoCorp ended with 1.66 units in the same quarter. Honda retained the top slot in the scooters market, churning out a stunning two lakh units every month on an average.

TVS' sales volume growth in the domestic scooter segment was attributed to new launches such as Jupiter and Scooty Zest. Jupiter has been a runaway success, accounting for 50% of the company's total domestic scooter sales. A gradual ramp-up in its production has made sales increase 23 times in the April-September period, compared to last year.

TVS Motor claims to be offering the widest range of scooters straddling all segments of the scooter market. Promoted as a unisex two-wheeler for families, the Jupiter is directly pitted against India's top-selling scooter, the Honda Activa. Hero sells the Maestro in this category (of 110-cc scooters), but targets it at the male buyer. All three are powered by engines of nearly the same size. Jupiter saw sales of 170,687 units during six months ended Sept'14. The success of Jupiter enabled TVS Motor to substantially increase the scooter volumes. Now with the launch of Scooty Zest in August 2014 alongside its smaller siblings, the Pep+ and Streak, the company has given a powerful engine option in the small scooter category targeted at female customers wherein the company enjoys a higher brand recall. Thus, with the two key launches, the company balanced its scooter portfolio, as it was earlier not present in the large scooter category, which dominated the fast growing scooter segment. With the positive customer response from its new scooter launch of Jupiter and Zest, the company expects its market share in the scooter segment to increase to 18% by the end of FY15E.

Key Return Ratios Trend (%)



Balance Sheet (Consolidated)

Y/E (₹mn)	FY13A	FY14A	FY15E	FY16E
Share Capital	475.1	475.1	475.1	475.1
Reserve and surplus	8,508	11,133	13,583	17,779
Net Worth	8982.8	11608.3	14057.6	18254.6
Minority Interest	69	0	0	0
Long term borrowings	8,457	5,178	4,349	3,653
Deferred tax liability	818	1333.1	1333.1	1333.1
Long-term provisions	562.3	625.9	563.31	506.979
Current Liabilities	14,921	17,571	19,888	22,634
Total Liabilities	33,809	36,316	40,191	46,382
Fixed assets	16,292	15,654	16,124	19,348
Investment	3,477	4,387	5,688	6,831
Loans & adv	3028.2	4246.2	4170.094	4095.51
Current Assets	11,012	12,029	14,209	16,108
Total Assets	33,809	36,316	40,191	46,382

Key Ratios (Consolidated)

Y/E	FY13A	FY14A	FY15E	FY16E
EBITDA Margin (%)	5.8	5.8	7.0	7.6
EBIT Margin (%)	3.8	4.4	5.8	6.6
NPM (%)	2.6	2.2	3.2	3.8
ROCE (%)	15.2	19.5	28.2	33.2
ROE (%)	22.0	16.0	22.5	24.8
EPS (₹)	4.2	3.9	6.7	9.5
P/E (x)	60.4	64.0	37.7	26.3
BVPS (₹)	18.9	24.4	29.6	38.4
P/BVPS (x)	13.3	10.3	8.5	6.5
EV/Net sales (x)	1.7	1.5	1.3	1.0
EV/EBITDA (x)	29.1	25.6	17.93	13.5

Profit & Loss Account (Consolidated)

Y/E (₹mn)	FY13A	FY14A	FY15E	FY16E
Revenue	75,105	83,790	98,601	119,151
Expenses	70,721	78,921	91,699	110,039
EBITDA	4,383	4,870	6,902	9,112
Other Income	242	267	293	323
Depreciation	1,756	1,490	1,478	1,552
EBIT	2,869	3,647	5,718	7,883
Interest	1,034	801	513	441
Prior period adjustment	1,062	225	0	0
Profit Before Tax	2,897	3,071	5,205	7,442
Tax	915	1,202	2,030	2,902
Minority interest	(10)	(12)	(12)	(13)
Associates' Profit/(Loss)	3	6	6	7
Net Profit	1,975	1,863	3,169	4,534

Valuation and view

Holding a dominant position in the Indian two wheeler industry, we believe that the growth opportunity for TVS Motors is large, on the back of new launches. TVS Motors is gaining market share in two wheeler and three wheeler segment and we expect the launch of scooter Jupiter and the tie up with BMW Motorrad could fuel the revenue growth of the company.

Further, we believe that strong volume growth, better product mix with higher contribution from top-end models to result in to higher operating margin growth. With the expectation of 10% growth in domestic two wheeler industry in FY15E, we expect TVS Motor to outperform the industry with new launches.

Considering the above aspects, we rate the stock as 'BUY' at a current CMP of ₹251.2, attractively placed at EV/Net sales of ~1.3x and ~1.0x, for FY15E and FY16E, respectively to arrive at a target price of ₹310, with a potential upside of ~23.4% for the coming 12 months.



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