

Stock Idea

TVS Motors Company Ltd

24 Feb 2010

Key Data

Equity(Cr)	23.75
FV	1
M Cap (Cr)	1425
Book Value	37
EPS	3.7
P/E	18
52 Week H/L	82 / 18

Share Holding (%)

Promoters	60
FII's	4
Fin Inst / MF	13
Corp Bodies	5
Retailers	18

Key Financials

	2009A	2010E	2011E
Sales	3800	4500	5300
Net Pr	-60	90	120
EPS	0	3.7	5
P/E	0	17	12

TVS Motor Company Ltd, the flagship company of TVS Group with revenues close to 1 USD billion is a classic case of a turnaround story of a fundamentally strong company starting to unlock its value. The company manufactures a wide range of two-wheelers from mopeds to racing inspired motorcycles. The ruler in the moped industry with a clean 100% market share also has a 21% share in scooters and 8% in motor cycles in India. It recently entered the three wheelers market with the launch of TVS King which is showing good response in the segment. At the moment, TVSL looks excellently poised to reduce the huge gap between themselves and the top 2 companies in the domestic 2-wheeler industry and also move up in position on the list of top 10 global manufacturers.

The company's strength lies in design and development of new products which was well displayed with the launch of 7 new products on the same day creating a world record in global automotive history. The company has manufacturing plants at Hosur, Mysore and Himachal Pradesh with annual production capacity of 2.5 million units. With plans to capitalize on the rising population in relevant age and income group, the company has launched "Apache RTR" aimed at the younger male population and the new "TVS Flame" aimed at the executive segment, both segments where the company is presently under represented.

Mopeds and Scooter volumes beat market expectations...

TVSL's Motor cycle volumes have been rather insipid this fiscal. However, growth in the scooter and moped segments has exceeded the expectations. The company is exploring newer geographies for mopeds and this together with strong demand in the scooty range has driven volumes ahead of estimates. In the FY10 YTD, motor cycle's volumes declined by 6%, while the scooter and moped segments grew by 21% and 30% respectively.

Jive and Wego to plug gaps in the product portfolio

TVS has had a bad run with its new motor cycle launches in the past. Discontinuation of victor (100 cc) was followed by delay in the launch of Flame as Bajaj Auto filed a suit against the technology employed for the bike. With the launch of "Jive", TVSL has created a new auto clutch segment in Indian 2-wheeler market. In scooters, TVSL has substantial presence in the 60cc and 90cc categories. The rollout of the 110cc "Wego" will enable TVSL to catch up with Honda and Hero Honda who have been doing rather well in this segment.

Valuation

With expected revenue of Rs. 4500 Cr and a PAT of 90 Cr for FY 10, the stock is available at a PE of 16. The stock has the potential to appreciate by 40 to 50% in the near term, even if excise duty is raised by 2% in the coming budget.