

TVS Motors

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Not Rated
Rs418

Truly more smiles per hour!

TVS Motors (TVSM) net profit grew nearly 200% YoY to Rs308mn in Q2FY03, in line with our estimate of Rs314mn. Net sales stood at Rs7051mn, a growth of 65% over the corresponding period of last year. Though the results are more or less in line with our expectations, we are a bit surprised by the 20bps sequential drop in OPM to 8.7%.

	Q1FY03	Q2FY02	Q2FY03	Rs Mn % chg YoY
Sales volume	264,874	202,223	292,468	44.6
Net Sales	6300	4283	7051	64.6
Total Expenditure	5738	3997	6434	61.0
(Inc.)/Dec. in stock	83	-175	-88	49.7
Consumption of R.M.	4443	3171	5002	57.7
Staff cost	225	186	254	37.1
Other expenditure	987	814	1266	55.5
Operating Profit	562	286	616	115.4
Interest	27	29	8	-73.6
Gross Profit	535	257	608	136.6
Depreciation	133	137	152	11.6
Other income	22	43	37	-12.9
PBT	424	164	493	201.8
Current tax	123	36	140	290.8
Deferred Tax	33	24	45	88.6
PAT	268	104	308	196.9
OPM (%)	8.9	6.7	8.7	
GPM (%)	8.5	6.0	8.6	
NPM (%)	4.3	2.4	4.4	

Source: Company reports

Topline growth continues unabated

TVSM continued its stellar topline growth, thanks largely to sales of its flagship bike *Victor*. The *Victor* has clearly surpassed everyone's expectations and is currently the fastest growing bike in the executive segment. What is especially encouraging for TVS is that there were no hints of any slowdown in sales during September despite absence of any price discounts.

Sequential drop in OPM

Cost cutting helped improve OPM by 200 bps to 8.7% from Q2 FY02. While raw material costs as a percentage of net sales fell by 30bps, overheads and personnel expenses as a percentage of net sales fell 110 bps and 70 bps, respectively. However, on a sequential basis, a sharp increase in other expenditure resulted in the OPM dipping by 20bps.

Cost break up

As % of Net Sales	FY02Q1	FY02Q2	FY02Q3	FY02Q4	FY03Q1	FY03Q2
RM costs	292.9	317.1	361.4	417.4	444.3	500.2
Other expenditure	17.9	18.6	18.9	19.4	22.5	25.4
Personnel exp	69.4	81.4	93.2	95.9	98.7	126.6

Improvement in realisations

Unlike competition, TVS did not offer across the board price cuts on its motorcycle models. In fact, the company offered Rs2000 discount on its *Max* series and that too only in the North. Despite this, average realisations per vehicle have actually improved from Q1FY03. We believe this could be on account of the higher number of *Victor* sales in the total product mix.

Interest costs dip sharply

Interest expense for the quarter under review amounted to just Rs8mn as opposed to Rs29mn in Q2FY02 and Rs27mn in Q1FY03. While we think, this is just a one-quarter aberration we will be speaking with the management later in the day to get at the reason for this and will keep investors posted.

View and valuation

Despite the fact that TVS remains the fastest growing company in the two-wheeler segment, thanks to the performance of *Victor* and a lower base relative to Hero Honda and Bajaj Auto, we think that TVS' reliance on the *Victor* alone makes it a far more risky proposition than either Hero Honda or Bajaj Auto. Also, notwithstanding that TVS has a few new launches in the pipeline, the fact remains that *Victor* is positioned in the most competitive segment of the motorcycle market -- the executive segment --and is susceptible to cut throat competition.

According to our initial estimates, the stock trades at 9.3x FY03E. Await our detailed report on TVSM, which will be released after we meet the company's management.