

India

REDUCE (no change)

Consensus ratings*: Buy 25 Hold 12 Sell 6

Current price:	Rs1,609
Target price:	Rs1,247
Previous target:	Rs926
Up/downside:	-22.5%
InCred Research / Consensus:	-21.4%
Reuters:	TVSM.NS
Bloomberg:	TVSL IN
Market cap:	US\$9,181m Rs764,320m
Average daily turnover:	US\$18.6m Rs1546.3m
Current shares o/s:	475.1m
Free float:	49.7%

*Source: Bloomberg

Key changes in this note

- Sales raised by ~2% for FY24F-25F.
- EBITDA raised by 6-8% for FY24F-25F.
- EPS raised by 8-12% for FY24F-25F.



Source: Bloomberg

Price performance	1M	3M	12M
Absolute (%)	5.7	16.9	40.4
Relative (%)	8.5	21.3	33.0

Major shareholders	% held
Sundaram Clayton Limited	50.3
ICICI Prudential Fund	9.4
LIC	2.9

Analyst(s)



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TVS Motor Co Ltd

High EBITDA margin difficult to sustain

- 2Q EPS rose 21% qoq to Rs10.5, beating our estimate but not Bloomberg estimate. EBITDA margin at a new high of 11% aided by increase in inventory.
- Raise EPS by 8-12%, as E2W losses below estimate. We feel the current 11% EBITDA margin sustenance is difficult, considering the aggressive launches.
- Raise SOTP-based TP for superior E2W sales momentum, without subsidy help. Retain REDUCE rating because of the rich +2SD P/E & P/BV valuations.

EBITDA margin scales a new high aided by increase in inventory

TVS Motor Company's 2QFY23 EBITDA rose 18% qoq and 22% yoy to Rs8.9bn, 7% above our estimate but 3% below Bloomberg consensus estimate. The increase in inventory helped absorb higher product launches and expanded the EBITDA margin by 50bp to 11%. Interest expenses rose 10% qoq and 49% yoy to Rs523m. Higher other income (+341% qoq) led to a 21% yoy rise in normalized PAT to Rs4.99bn, 9% above our estimate but 8% below consensus estimate. Revaluation of investments led to an extraordinary income of Rs617m. EBIT losses of the subsidiaries continued to expand to Rs1.5bn (see Fig. 7) and they made a fresh investment of Rs2.4bn.

Management conference-call highlights

The company is expanding the exports of its electric two-wheelers or E2Ws and raising their production to 25,000 units per month in 3QFY24F. Despite a sharp cut in FAME incentives in May 2023, management indicated that the contribution margin on E2Ws is still positive. Management indicated that rising losses of the subsidiaries are because of Norton and e-bicycle. Management gave guidance of Rs10bn capex and Rs9bn investment in subsidiaries.

Raise EPS estimates by 8-12% for FY24F-25F

We maintain our sales volume estimates, as TVS Motor Company's export volume recovery is better than its peers. We have raised the EBITDA margin estimate by 60bp for FY24F, as it seems to limit the impact of EV incentive cut on 2Q EBITDA margin. We build in higher capex and investments, as per management. As regards the higher other income, we have raised EPS estimates by 8-12% for FY24F-25F.

Stretched valuation overlooks FCF challenges

The sharp run-up in the stock price on the back of sustained EV momentum of the company and rising market share (see Fig. 11) is well captured in the +2SD above mean P/E and P/BV valuations. We raise our target P/E to the mean level of 30x one-year forward EPS, leading to a new target price of Rs1,247 (Rs926 earlier) to reflect its success in the India E2W space and emerging as the No.2 player, with a minimal impact on its profits. However, rising investments in the subsidiaries to cover their losses is an area of concern, leading to FCF challenges. We reiterate our REDUCE rating on the stock. The upside risk is the success of new launches leading to sustenance of double-digit EBITDA margin.

Financial Summary

	Mar-22A	Mar-23A	Mar-24F	Mar-25F	Mar-26F
Revenue (Rsm)	207,905	263,781	311,331	347,723	387,173
Operating EBITDA (Rsm)	19,422	26,747	32,534	34,425	37,943
Net Profit (Rsm)	8,935	14,910	18,275	18,092	20,206
Core EPS (Rs)	19.0	30.2	37.0	38.1	42.5
Core EPS Growth	22.6%	58.6%	22.7%	2.9%	11.7%
FD Core P/E (x)	85.54	51.26	41.83	42.25	37.83
DPS (Rs)	5.0	7.0	8.5	9.5	10.5
Dividend Yield	0.31%	0.44%	0.53%	0.59%	0.65%
EV/EBITDA (x)	40.12	29.44	24.00	22.58	20.24
P/FCFE (x)	(275.47)	801.67	93.76	117.33	59.13
Net Gearing	30.7%	38.3%	22.2%	14.9%	3.5%
P/BV (x)	15.85	12.64	10.23	8.66	7.38
ROE	20.1%	26.4%	26.0%	22.2%	21.1%
% Change In Core EPS Estimates			13.98%	7.70%	1.61%
InCred Research/Consensus EPS (x)					

SOURCE: INCRED RESEARCH, COMPANY REPORTS

High EBITDA margin difficult to sustain

Management conference-call highlights ►

Domestic update: Urban market demand remains strong whereas rural demand is on the recovery path led by improving income levels and government support to infrastructure. Raider, the Super Squad edition, and TVS Jupiter 125 model with SmartXconnect technology did well in the domestic market.

Exports: In 2W, the company launched TVS Apache RTR 310 globally. The African market has recovered and the company is planning to enter Indonesia and LATAM markets by leveraging Apache, Raider and Ntorq. As ICE three-wheelers (3Ws) are doing well in the export market, management plans to launch electric 3Ws soon.

Electric Vehicle: TVS iQube surpassed the 0.2m unit sales mark and continuously grew its market share. The company has started exporting iQube to two-to-three markets and in the next two quarters, iQube should be available in many markets. During the current quarter, the company plans to ramp up production to 25,000 units per month. Management expanded the touch points to 337 and is planning to launch a series of products in the range of 5 - 25 KW in the next one year. The company will start delivering TVS X vehicles in 3QFY24F.

TVS Credit: The loan book size expanded to Rs235bn comprising tractor, used vehicle, consumer durable, MSME and two-wheeler loans. PBT stood at Rs1.8bn, up 39% yoy.

Investments: In 1HFY24, the company made an investment of Rs6.23bn, which is likely to touch Rs9bn by the end of the fiscal year. In 2QFY24, the company invested Rs2.37bn in TVS Motor (Singapore). In FY24F, it budgeted a capex of Rs10bn, mostly for EVs. The company is making investments in Norton to launch a series of products in the super-premium category, and it will continue doing so for the next eight quarters.

Others:

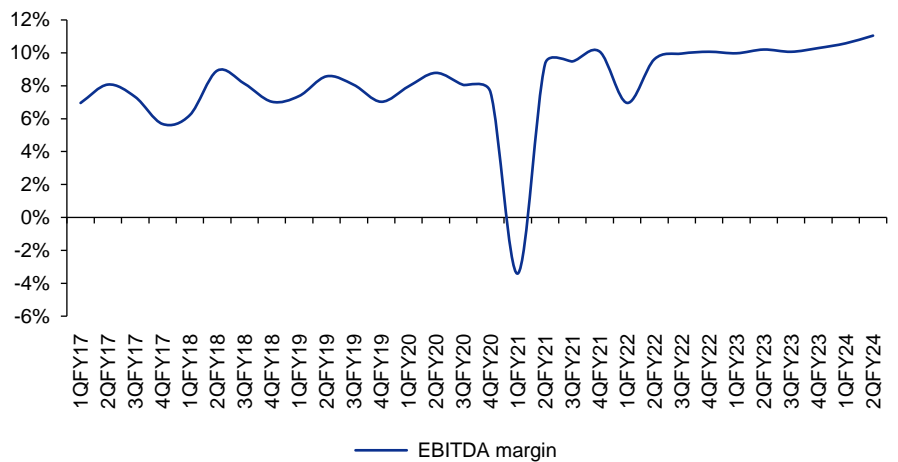
- Management is closely working for the production-linked incentive or PLI scheme, and is confident of getting qualified for the scheme.
- Spare parts revenue stood at Rs7.65bn in 2Q and export revenue was at Rs20bn.

Figure 1: Results comparison

Y/E Mar (Rs m)	2QFY24	2QFY23	yoy % chg	1QFY24	qoq % chg	Comments for the quarter
Revenue	81,446	72,192	12.8	72,179	12.8	1.8% below our estimate.
Raw material costs	60,276	54,975	9.6	53,818	12.0	
Raw material costs as a % of revenue	74.0	76.2	(214.4)	74.6	(55.5)	159bp below our estimate, for inventory benefit.
EBITDA	8,998	7,365	22.2	7,638	17.8	7.2% above our estimate; lower raw material cost.
EBITDA margin (%)	11.0	10.2	84.5	10.6	46.6	
Depreciation & amortization	1,701	1,535	10.8	1,636	4.0	
EBIT	7,297	5,830	25.2	6,002	21.6	
Interest expenses	523	352	48.6	474	10.3	23% above our estimate.
Other income	87	14	538.0	20	341.4	119% above our estimate.
Pre-tax profit	6,862	5,492	24.9	5,548	23.7	
Tax	1,871	1,418	32.0	1,427	31.1	
Tax rate (%)	27.3	25.8	145.9	25.7	154.8	
Normalized net profit	4,991	4,075	22.5	4,121	21.1	9% above our estimate.
Exceptional items	375	-		556	nm	
Other comprehensive income	-	-	nm	-	nm	
Reported net profit	5,366	4,075	31.7	4,677	14.7	
Normalized EPS (Rs)	10.5	8.6	22.5	8.7	21.1	
Volume (units)	1,074,378	1,027,437	4.6	953,244	12.7	
Realization (Rs/vehicle)	75,808	70,264	7.9	75,719	0.1	1.8% below our estimate.

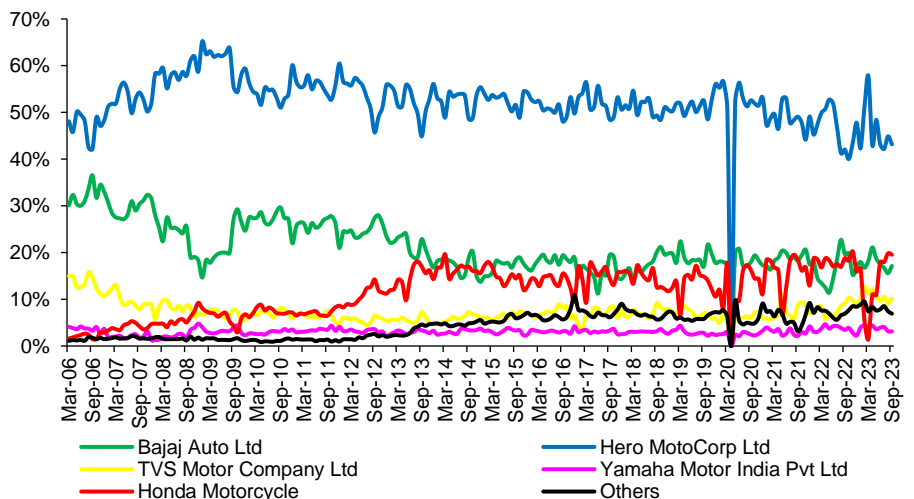
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 2: EBITDA margin gradually scales a new high



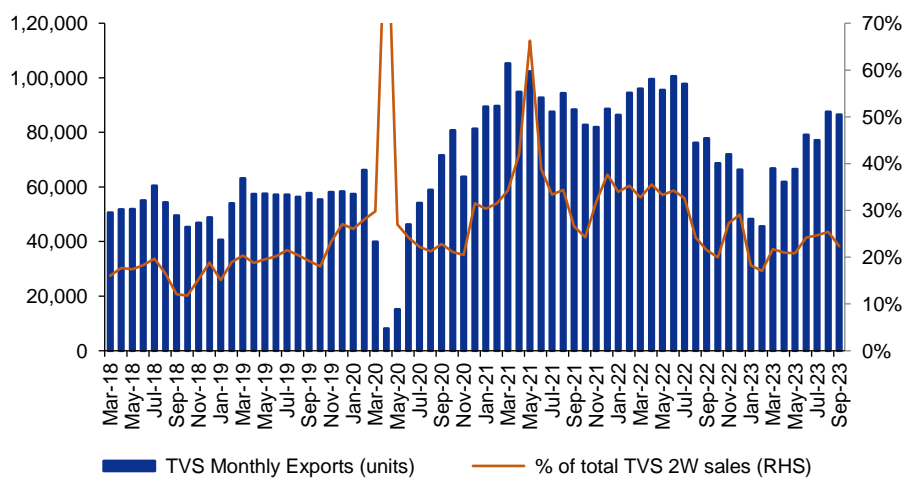
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 3: Domestic 2W monthly market share is on a gradual uptrend



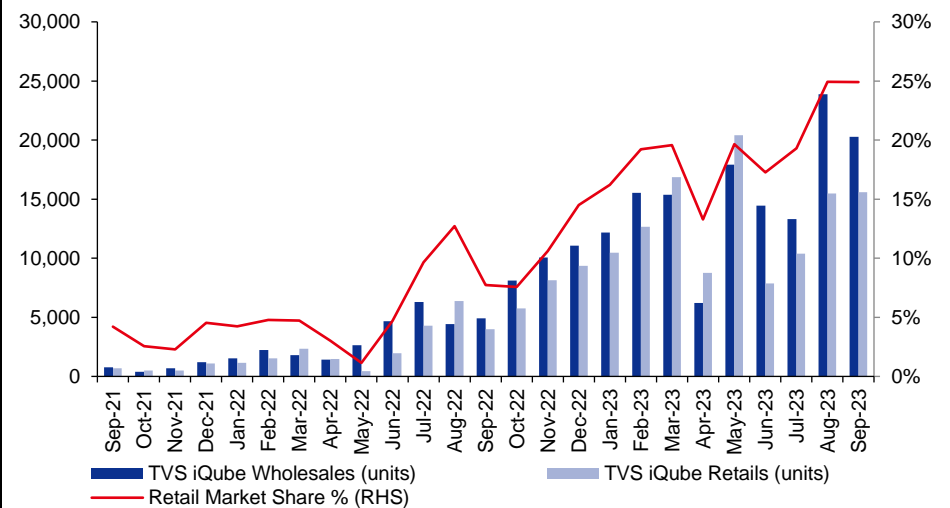
SOURCE: SIAM, INCRED RESEARCH, COMPANY REPORTS

Figure 4: Export sales trend improves gradually



SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 5: TVS Motor's two-wheeler EV market share scales a new high



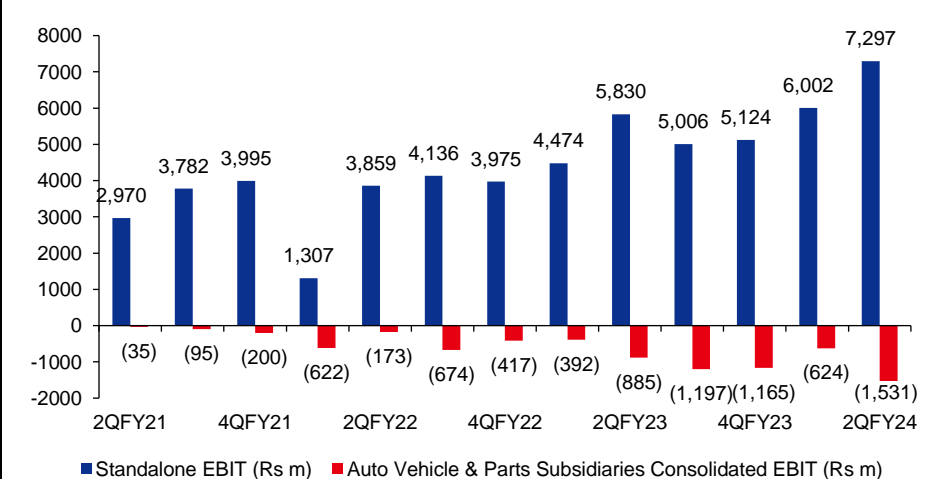
SOURCE: VAHAN, SIAM, INCRED RESEARCH, COMPANY REPORTS

Figure 6: Consolidated automobile segment's EBIT

Consolidated Performance (Rs m)	2QFY24	2QFY23	YoY	1QFY24	QoQ
Major Segment Revenue					
a) Automotive Vehicles & Parts	84,471	74,731	13.0%	76,141	10.9%
b) Automotive Components	1,956	2,372	-17.5%	1,886	3.7%
c) Financial Services	13,951	9,611	45.2%	13,506	3.3%
EBIT					
a) Automotive Vehicles & Parts	5,766	4,945	16.6%	5,378	7.2%
b) Automotive Components	112	(61)	NA	91	23.3%
c) Financial Services	1,791	1,280	40.0%	1,561	14.8%

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 7: Consolidated EBIT of auto vehicle and parts impacted by rising losses of subsidiaries



SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 8: Standalone earnings revision summary

Rs m	FY24F		FY25F	
	Old	New	Old	New
Total Volume (nos)	4,093,257	4,114,150	4,455,761	4,466,392
% change		0.5%		0.2%
Net Sales	305,762	311,331	342,374	347,723
% change		1.8%		1.6%
EBITDA	30,270	32,534	32,526	34,425
% change		7.5%		5.8%
EBITDA margin	9.9%	10.5%	9.8%	9.9%
bp change		56		10
PAT	15,425	17,344	16,798	18,092
% change		12.4%		7.7%
EPS (Rs)	32.5	36.5	35.2	38.1
% change		12.3%		8.0%

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 9: Key assumptions

Volume assumptions (units)	FY21	FY22	FY23	FY24F	FY25F	FY26F
- Motorcycle	1,341,761	1,731,729	1,733,256	1,934,619	2,113,051	2,309,927
- Scooter	960,946	922,578	1,333,925	1,549,426	1,676,137	1,792,563
- Moped	625,560	483,396	445,773	465,748	498,372	533,326
- 3W	123,596	171,875	169,114	164,356	178,832	195,581
Total volume	3,051,863	3,309,578	3,682,068	4,114,150	4,466,392	4,831,396
% yoy	-6.5%	8.4%	11.3%	11.7%	8.6%	8.2%
Revenue assumptions (Rs m)	FY21	FY22	FY23	FY24F	FY25F	FY26F
- Motorcycle	71,819	102,425	119,943	143,249	159,591	177,949
- Scooter	47,618	49,831	83,073	103,249	116,160	129,198
- Moped	17,324	14,458	14,666	15,630	17,059	18,621
- 3W	11,582	17,395	18,827	18,663	20,713	23,106
- Spare parts	17,369	20,461	23,530	26,354	29,516	33,058
Total revenue (Rs m)	165,713	204,571	260,040	307,145	343,039	381,932
% yoy	3.0%	23.4%	27.1%	18.1%	11.7%	11.3%
EBITDA (Rs m)	15,533	19,422	26,747	32,534	34,425	37,943
EBITDA margin %	9.2%	9.3%	10.1%	10.5%	9.9%	9.8%
PAT (Rs m)	7,368	9,070	14,131	17,344	18,092	20,206

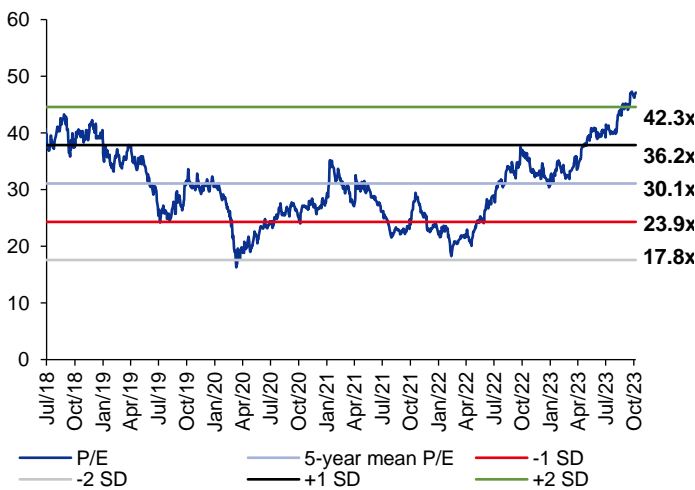
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 10: SOTP-based target price

	Methodology	Multiple	Value per share (Rs)
TVS Motor	P/E	25x 1-year forward	1,220.3
TVS Credit	P/BV	1.0x FY22 book value	26.7
SOTP-based valuation			1,247.0

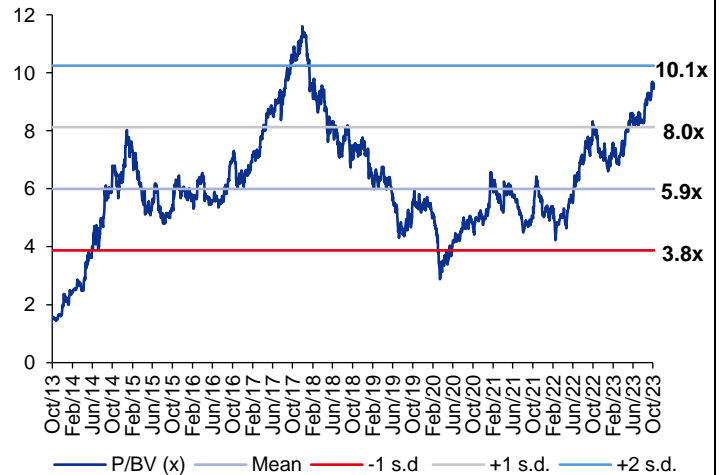
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 11: One-year forward P/E above +2SD level



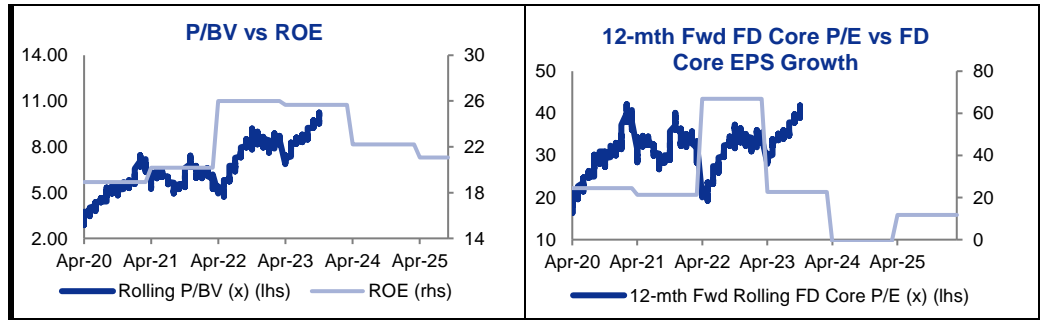
SOURCE: BLOOMBERG, INCRED RESEARCH, COMPANY REPORTS

Figure 12: One-year forward P/BV just below +2SD level



SOURCE: BLOOMBERG, INCRED RESEARCH, COMPANY REPORTS

BY THE NUMBERS



Profit & Loss

(Rs mn)	Mar-22A	Mar-23A	Mar-24F	Mar-25F	Mar-26F
Total Net Revenues	207,905	263,781	311,331	347,723	387,173
Gross Profit	49,823	63,852	78,922	86,931	96,793
Operating EBITDA	19,422	26,747	32,534	34,425	37,943
Depreciation And Amortisation	(6,144)	(6,312)	(7,117)	(8,140)	(8,967)
Operating EBIT	13,278	20,434	25,417	26,284	28,976
Financial Income/(Expense)	(1,259)	(1,407)	(2,000)	(2,200)	(1,900)
Pretax Income/(Loss) from Assoc.					
Non-Operating Income/(Expense)	190	170	180	200	230
Profit Before Tax (pre-EI)	12,208	19,197	23,597	24,284	27,306
Exceptional Items	(135)	779	931		
Pre-tax Profit	12,073	19,976	24,528	24,284	27,306
Taxation	(3,139)	(5,066)	(6,253)	(6,192)	(7,100)
Exceptional Income - post-tax					
Profit After Tax	8,935	14,910	18,275	18,092	20,206
Minority Interests					
Preferred Dividends					
FX Gain/(Loss) - post tax					
Other Adjustments - post-tax					
Net Profit	8,935	14,910	18,275	18,092	20,206
Recurring Net Profit	9,035	14,329	17,581	18,092	20,206
Fully Diluted Recurring Net Profit	9,035	14,329	17,581	18,092	20,206

Cash Flow

(Rs mn)	Mar-22A	Mar-23A	Mar-24F	Mar-25F	Mar-26F
EBITDA	19,422	26,747	32,534	34,425	37,943
Cash Flow from Invt. & Assoc.					
Change In Working Capital	183	211	227	(1,517)	2,054
(Incr)/Decr in Total Provisions	768	(2,244)	4,165	500	400
Other Non-Cash (Income)/Expense					
Other Operating Cashflow					
Net Interest (Paid)/Received	(1,069)	(1,237)	(1,820)	(2,000)	(1,670)
Tax Paid	(3,139)	(5,066)	(6,253)	(6,192)	(7,100)
Cashflow From Operations	16,165	18,410	28,852	25,215	31,627
Capex	(10,565)	(11,238)	(10,000)	(9,000)	(8,000)
Disposals Of FAs/subsidiaries					
Acq. Of Subsidiaries/Investments					
Other Investing Cashflow	(15,185)	(12,985)	(9,200)	(8,200)	(9,200)
Cash Flow From Investing	(25,751)	(24,222)	(19,200)	(17,200)	(17,200)
Debt Raised/(repaid)	6,811	6,766	(1,500)	(1,500)	(1,500)
Proceeds From Issue Of Shares					
Shares Repurchased					
Dividends Paid	(2,376)	(3,326)	(4,038)	(4,513)	(4,989)
Preferred Dividends					
Other Financing Cashflow	(135)	779	931		
Cash Flow From Financing	4,301	4,219	(4,607)	(6,013)	(6,489)
Total Cash Generated	(5,285)	(1,593)	5,045	2,001	7,938
Free Cashflow To Equity	(2,775)	953	8,152	6,515	12,927
Free Cashflow To Firm	(8,327)	(4,405)	11,652	10,215	16,327

SOURCE: INCRED RESEARCH, COMPANY REPORTS

BY THE NUMBERS...cont'd

Balance Sheet					
(Rs mn)	Mar-22A	Mar-23A	Mar-24F	Mar-25F	Mar-26F
Total Cash And Equivalents	4,013	2,420	7,465	9,466	17,404
Total Debtors	9,507	9,551	15,353	19,053	21,215
Inventories	11,227	12,364	20,471	22,864	25,458
Total Other Current Assets	9,260	16,515	13,250	13,650	14,150
Total Current Assets	34,007	40,849	56,539	65,034	78,228
Fixed Assets	37,311	42,236	45,119	45,979	45,011
Total Investments	47,160	56,839	65,839	73,839	82,839
Intangible Assets					
Total Other Non-Current Assets					
Total Non-current Assets	84,471	99,075	110,958	119,817	127,850
Short-term Debt					
Current Portion of Long-Term Debt					
Total Creditors	39,914	41,306	55,442	60,018	66,827
Other Current Liabilities	7,093	7,835	8,335	8,835	9,335
Total Current Liabilities	47,008	49,141	63,778	68,853	76,163
Total Long-term Debt	18,813	25,578	24,078	22,578	21,078
Hybrid Debt - Debt Component					
Total Other Non-Current Liabilities					
Total Non-current Liabilities	18,813	25,578	24,078	22,578	21,078
Total Provisions	4,437	4,726	4,926	5,126	5,326
Total Liabilities	70,257	79,445	92,782	96,558	102,567
Shareholders Equity	48,220	60,479	74,715	88,293	103,511
Minority Interests					
Total Equity	48,220	60,479	74,715	88,293	103,511

Key Ratios					
	Mar-22A	Mar-23A	Mar-24F	Mar-25F	Mar-26F
Revenue Growth	23.2%	26.9%	18.0%	11.7%	11.3%
Operating EBITDA Growth	25.0%	37.7%	21.6%	5.8%	10.2%
Operating EBITDA Margin	9.3%	10.1%	10.5%	9.9%	9.8%
Net Cash Per Share (Rs)	(31.15)	(48.74)	(34.97)	(27.60)	(7.73)
BVPS (Rs)	101.50	127.30	157.26	185.84	217.87
Gross Interest Cover	10.54	14.53	12.71	11.95	15.25
Effective Tax Rate	26.0%	25.4%	25.5%	25.5%	26.0%
Net Dividend Payout Ratio	26.2%	23.5%	23.3%	24.9%	24.7%
Accounts Receivables Days	15.98	13.19	14.60	18.06	18.98
Inventory Days	26.26	21.53	25.78	30.33	30.37
Accounts Payables Days	91.35	74.14	75.97	80.80	79.72
ROIC (%)	65.1%	74.1%	59.3%	64.4%	65.6%
ROCE (%)	21.3%	26.0%	26.9%	24.6%	24.2%
Return On Average Assets	9.1%	11.7%	12.2%	11.2%	11.1%

Key Drivers					
	Mar-22A	Mar-23A	Mar-24F	Mar-25F	Mar-26F
ASP (% chg, main prod./serv.)	14.4%	15.5%	6.3%	2.9%	2.9%
Unit sales grth (% , main prod./serv.)	8.4%	11.3%	11.7%	8.6%	8.2%

SOURCE: INCRED RESEARCH, COMPANY REPORTS

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