

India

**REDUCE** (no change)

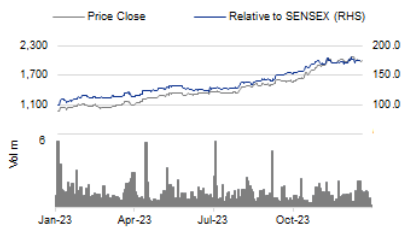
Consensus ratings\*: Buy 20 Hold 12 Sell 10

Current price:	Rs2,001
Target price:	Rs1,485 ▲
Previous target:	Rs1,247
Up/downside:	-25.8%
InCred Research / Consensus:	-20.1%
Reuters:	TVSM.NS
Bloomberg:	TVSL IN
Market cap:	US\$11,435m Rs950,626m
Average daily turnover:	US\$21.8m Rs1814.2m
Current shares o/s:	475.1m
Free float:	49.7%

\*Source: Bloomberg

**Key changes in this note**

- Raise EBITDA by 3-7% for FY24F-26F.
- Raise EPS by 5-7% for FY24F-26F.



Source: Bloomberg

Price performance	1M	3M	12M
Absolute (%)	1.7	26.2	103.4
Relative (%)	1.8	13.8	72.3

Major shareholders	% held
Sundaram Clayton Limited	50.3
ICICI Prudential Fund	7.7
Government of Singapore	1.3

**Research Analyst(s)**



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# TVS Motor Co Ltd

## Sustains EBITDA margin expansion trend

- 3QFY24 EPS grew 4% qoq to Rs11, above our estimate but in line with Bloomberg consensus estimate, sustaining the EBITDA margin qoq uptrend.
- The double-digit EBITDA margin sustaining, despite management's aggressiveness in electric vehicles, led us to raise FY24F-26F EPS by 5-7%.
- Forward P/E and P/BV valuations surpassing +2SD above the mean undermine cashflow demand from global subsidiaries. Retain REDUCE rating.

### EBITDA margin improvement sustains but cash flow concerns stay

TVS Motor Company's 3QFY24 EBITDA rose 3% qoq and 40% yoy to Rs9.2bn, a beat of 6% vs. our estimate but in line with Bloomberg consensus estimate. Lower raw material and employee costs vs. expectations helped improve the EBITDA margin by 20bp qoq to 11.2%. Adjusted for a one-off gain in other income, PAT grew 4% qoq to Rs.5.2bn, in line with Bloomberg consensus estimate but 12% above our estimate. However, its subsidiaries' EBIT losses remain elevated at Rs1.57bn qoq (Fig. 6), leading to the company infusing Rs3bn of its gains in 3Q into international subsidiaries.

### Management conference-call highlights

In the domestic market, management expects the growth momentum to continue in 4QFY24F while export recovery is taking more time than expected. Sri Lanka market seems to be opening up, while Africa is still weak. In electric vehicles or EVs, it plans to double the distribution of electric two-wheelers or E2Ws from 400 dealers in just 4QFY24F itself while it plans to launch E3Ws in FY25F. Management gave guidance of sustenance of Rs2-3bn per quarter demand from the subsidiaries in the short term, whose benefits will accrue in the next two-to-three years. Considering that it forms 70% of FCF and management continues to acquire new entities, it is a cause of concern, in our view.

### Raise FY24F-26F EPS by 5-7%

We maintain our sales volume estimates and await new vehicle launches. The cost reduction benefits and improving EV momentum without any drag on the EBITDA margin led to our 30-70bp EBITDA margin upgrade for FY24F-26F. This led to a 3-7% EBITDA upgrade for FY24F-26F. However, the steep 20% price cut taken by competitors for entry-level EV scooters this month is a cause of concern.

### Valuation above +2SD makes the risk-reward ratio unfavourable

The festive demand euphoria led to a sharp run-up in share prices of 2W companies including TVS Motor Company, which made the forward P/E valuation at +3SD above the five-year mean and the P/BV at +2SD above the 10-year mean. The scooter segment, especially EVs, witnessing a price war recently and deep-pocketed Honda's entry in the coming months is undermined at the current rich valuation. We retain our REDUCE rating with a higher SOTP-based target price of Rs1,485 or 30x FY26F EPS and TVS Credit valuation of Rs155.1 per share. Upside risks: Strong recovery in the domestic market or industry's export volume recovery.

### Financial Summary

	Mar-22A	Mar-23A	Mar-24F	Mar-25F	Mar-26F
Revenue (Rsm)	207,905	263,781	312,709	350,052	391,012
Operating EBITDA (Rsm)	19,422	26,747	33,616	36,755	40,274
Net Profit (Rsm)	8,935	14,910	19,868	19,426	21,415
Core EPS (Rs)	19.0	30.2	39.2	40.9	45.1
Core EPS Growth	22.6%	58.6%	30.0%	4.3%	10.2%
FD Core P/E (x)	106.40	63.76	47.85	48.94	44.39
DPS (Rs)	5.0	7.0	8.5	10.0	11.5
Dividend Yield	0.25%	0.35%	0.42%	0.50%	0.57%
EV/EBITDA (x)	49.71	36.41	28.73	26.25	23.77
P/FCFE (x)	(342.61)	997.08	104.93	239.56	82.56
Net Gearing	30.7%	38.3%	19.6%	15.7%	6.3%
P/BV (x)	19.71	15.72	12.46	10.45	8.89
ROE	20.1%	26.4%	27.2%	23.2%	21.6%
% Change In Core EPS Estimates			5.91%	7.38%	5.98%
InCred Research/Consensus EPS (x)					

SOURCE: INCRED RESEARCH, COMPANY REPORTS

## Sustains EBITDA margin expansion trend

### Management conference-call highlights

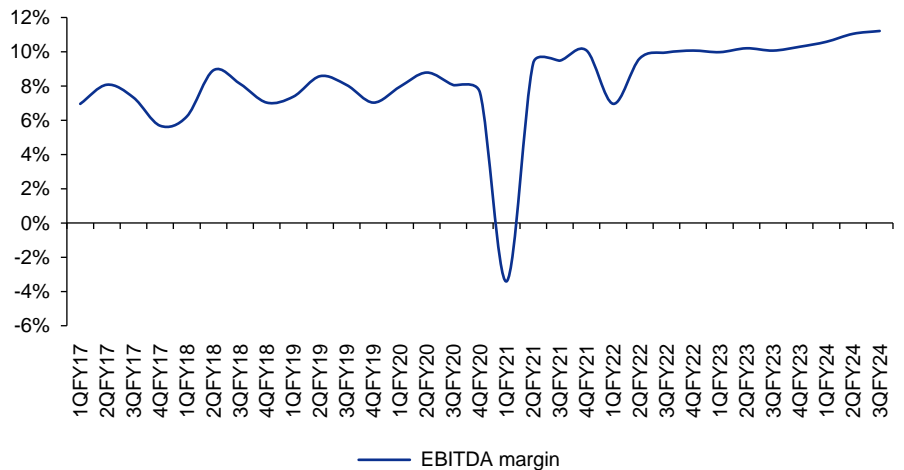
- **Outlook:** In the domestic market, growth momentum is likely to continue in 4QFY24F. Management stated that export market recovery is taking more time than expected.
- **Financial performance:** The EBITDA margin for the quarter grew by 114bp yoy to 11.2% led by cost management, softening of input costs and a rich product mix.
- **International business:** The African market is witnessing currency depreciation and inflation is settling down while the Middle East, LATAM and Asian countries provide growth visibility and Sri Lanka is opening its market. Due to adverse developments in the Red Sea, there could be a delay in container availability and a rise in freight costs.
- **TVS iQube Electric:** Currently, the company has 400 touch points, which it will double in the next three months. Exports started during the quarter and more products will be launched in 4QFY24F. Margins remain in the positive space, with an aim to deliver products in the pipeline. For new launches, the production unit will require three-to-four months to set its capacity.
- **Investments:** During the quarter, the company made an investment of Rs3bn in its overseas subsidiary, TVS Motor, Singapore, invested Rs800m in Norton and Rs1.2bn in a technology company. It plans to make a further investment of Rs2bn in 4QFY24F. Management's agenda is to make investment in product development, technology, and customer experience.
- **Other income:** The company received Rs3.1bn from Sundaram Auto Components, a wholly-owned subsidiary, towards the reduction of its capital and thereby a profit of Rs823m has been recognized as a part of other income. The notional loss at fair valuation stood at Rs90m.
- **Products front:** The company hopes that Ronin and Apache will drive volume growth led by the young population of India. During the quarter, the company discontinued production of Pep Scotty as weak demand and moped volume growth will be led by rural markets (still not on a normal level).
- **e3W:** The company is at an advanced stage to launch e3W, with the segment witnessing robust demand and government push.
- **TVS Credit:** The loan book size expanded to Rs250bn, with gross non-performing assets or GNPA's at 3.1%. Retail financing touched the healthy 65% level.
- **Exports and spare parts revenue:** Export revenue stood at Rs18.82bn and spare parts revenue at Rs7.92bn during the quarter.

Figure 1: Results comparison

Y/E Mar (Rs m)	3QFY24	3QFY23	yoy % chg	2QFY24	qoq % chg	9MFY24	9MFY23	yoy % chg	Comments for the quarter
Revenue	82,450	65,454	26.0	81,446	1.2	2,36,075	1,97,733	19.4	1.8% below our estimate.
Raw Materials	60,756	49,429	22.9	60,276	0.8	1,74,850	1,50,132	16.5	
RM as % of revenue	73.7	75.5	(182.9)	74.0	(31.8)	74.1	75.9	(186.1)	159bp below our estimate due to inventory benefit.
<b>EBITDA</b>	<b>9,244</b>	<b>6,589</b>	<b>40.3</b>	<b>8,998</b>	<b>2.7</b>	<b>25,654</b>	<b>19,724</b>	<b>30.1</b>	<b>7.2% above our estimate; lower raw material costs.</b>
<i>EBITDA margin (%)</i>	<i>11.2</i>	<i>10.1</i>	<i>114.5</i>	<i>11.0</i>	<i>16.5</i>	<i>10.9</i>	<i>10.0</i>	<i>89.2</i>	
Depreciation & amortization	1,781	1,583	12.5	1,701	4.7	5,117	4,639	10.3	-
EBIT	7,464	5,006	49.1	7,297	2.3	20,538	15,086	36.1	
Interest expenses	448	316	41.5	523	(14.4)	1,444	1,044	38.4	23% above our estimate.
Other income	4	65	(93.8)	87	(95.4)	111	82	36.1	119% above our estimate.
Pre-tax profit	7,020	4,755	47.6	6,862	2.3	19,205	14,124	36.0	
Tax	1,817	1,227	48.0	1,871	(2.9)	5,115	3,703	38.1	
Tax rate (%)	25.9	25.8	6.8	27.3	(139.0)	26.6	26.2	41.4	
<b>Normalized Net profit</b>	<b>5,204</b>	<b>3,528</b>	<b>47.5</b>	<b>4,991</b>	<b>4.3</b>	<b>14,090</b>	<b>10,421</b>	<b>35.2</b>	<b>9% above our estimate.</b>
Exceptionals	730	-		375	nm	1,661	162	nm	
Reported net profit	5,934	3,528	68.2	5,366	10.6	15,751	10,583	48.8	
Normalized EPS (Rs)	10.95	7.42	47.5	10.50	4.3	29.7	21.9	35.2	
Volume (units)	11,00,512	8,79,423	25.1	10,74,438	2.4	31,28,194	28,13,651	11.2	
Realization (Rs/vehicle)	74,920	74,429	0.7	75,803	(1.2)	75,467	70,276	7.4	1.8% below our estimate.

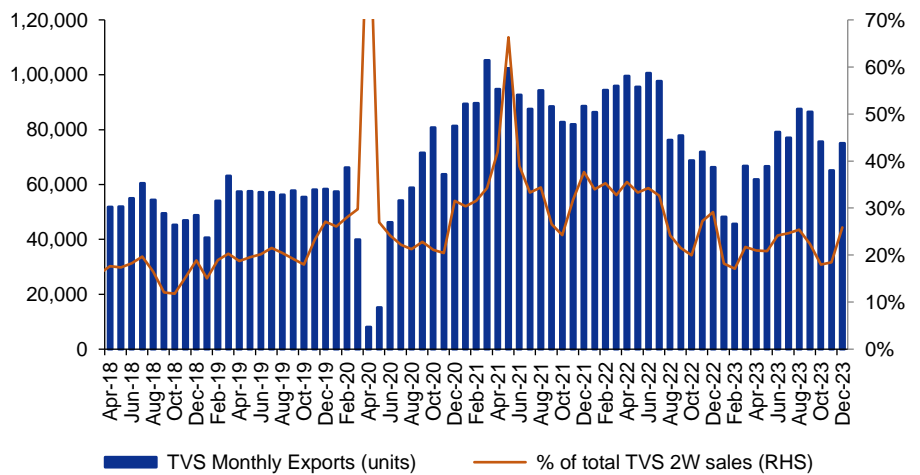
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 2: EBITDA margin gradually scales a new high



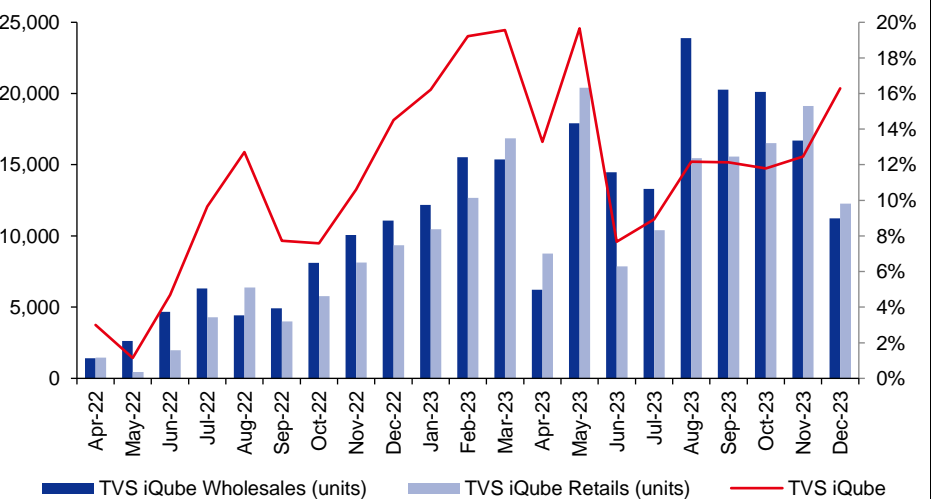
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 3: Export sales volume recovery is gradual



SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 4: TVS Motor Company's two-wheeler EV market share improved recently



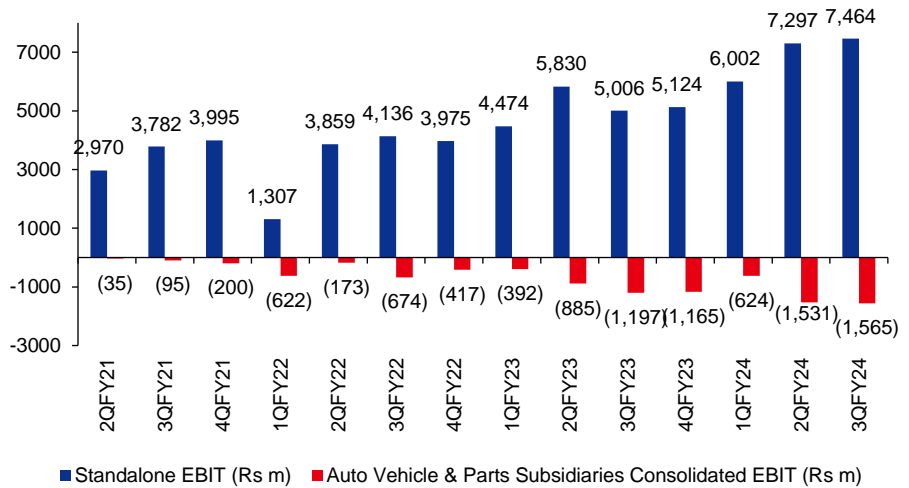
SOURCE: SIAM, INCRED RESEARCH, COMPANY REPORTS

**Figure 5: Consolidated automobile segment's EBIT**

Consolidated Performance (Rs m)	3QFY24	3QFY23	YoY	2QFY24	QoQ
<b>Major Segment Revenue</b>					
a) Automotive Vehicles & Parts	85,095	68,628	24.0%	84,471	0.7%
b) Automotive Components	1,779	1,930	-7.8%	1,956	-9.0%
c) Financial Services	15,271	13,951	9.5%	13,951	9.5%
<b>EBIT</b>					
a) Automotive Vehicles & Parts	5,898	3,809	54.8%	5,766	2.3%
b) Automotive Components	60	113	-46.9%	112	-46.5%
c) Financial Services	2,288	1,303	75.6%	1,791	27.7%

SOURCE: INCRED RESEARCH, COMPANY REPORTS

**Figure 6: Consolidated EBIT of automobiles and sparts parts impacted by rising losses of subsidiaries**



**Figure 7: Standalone earnings revision summary**

Rs m	FY24F		FY25F		FY26F	
	Old	New	Old	New	Old	New
Total volume (nos)	41,14,150	41,45,896	44,66,392	44,86,508	48,31,396	48,51,897
% change		0.8%		0.5%		0.4%
Net sales	3,11,331	3,12,709	3,47,723	3,50,052	3,87,173	3,91,012
% change		0.4%		0.7%		1.0%
EBITDA	32,534	33,616	34,425	36,755	37,943	40,274
% change		3.3%		6.8%		6.1%
EBITDA margin	10.4%	10.8%	9.8%	10.5%	9.8%	10.3%
bp change		29		71		51
PAT	17,344	18,207	18,092	19,426	20,206	21,415
% change		5.0%		7.4%		6.0%
EPS (Rs)	36.5	38.3	38.1	40.9	42.5	45.1
% change		5.0%		7.3%		6.1%

SOURCE: INCRED RESEARCH, COMPANY REPORTS

**Figure 8: Key assumptions**

Volume assumptions (units)	FY21	FY22	FY23	FY24F	FY25F	FY26F
- Motorcycle	13,41,761	17,31,729	17,33,256	19,55,761	21,55,057	23,53,997
- Scooter	9,60,946	9,22,578	13,33,925	15,55,209	16,53,259	17,69,621
- Moped	6,25,560	4,83,396	4,45,773	4,79,752	5,13,364	5,49,392
- 3W	1,23,596	1,71,875	1,69,114	1,55,173	1,64,829	1,78,888
<b>Total volume</b>	<b>30,51,863</b>	<b>33,09,578</b>	<b>36,82,068</b>	<b>41,45,896</b>	<b>44,86,508</b>	<b>48,51,897</b>
% yoy		-6.5%	8.4%	11.3%	12.6%	8.2%
<b>Revenue assumptions (Rs m)</b>						
- Motorcycle	71,819	1,02,425	1,19,943	1,44,815	1,62,763	1,81,344
- Scooter	47,618	49,831	83,073	1,03,634	1,15,676	1,30,009
- Moped	17,324	14,458	14,666	16,100	17,572	19,182
- 3W	11,582	17,395	18,827	17,620	19,840	22,178
- Spare parts	17,369	20,461	23,530	26,354	29,516	33,058
<b>Total revenue (Rs m)</b>	<b>1,65,713</b>	<b>2,04,571</b>	<b>2,60,040</b>	<b>3,08,523</b>	<b>3,45,368</b>	<b>3,85,771</b>
% yoy		3.0%	23.4%	27.1%	18.6%	11.9%
<b>EBITDA (Rs m)</b>	<b>15,533</b>	<b>19,422</b>	<b>26,747</b>	<b>33,616</b>	<b>36,755</b>	<b>40,274</b>
<b>EBITDA margin %</b>	<b>9.2%</b>	<b>9.3%</b>	<b>10.1%</b>	<b>10.8%</b>	<b>10.5%</b>	<b>10.3%</b>
<b>PAT (Rs m)</b>	<b>7,368</b>	<b>9,070</b>	<b>14,131</b>	<b>18,207</b>	<b>19,426</b>	<b>21,415</b>

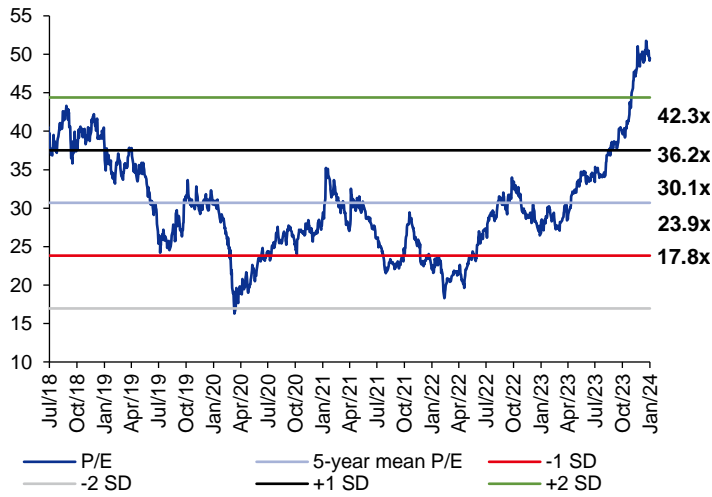
SOURCE: INCRED RESEARCH, COMPANY REPORTS

**Figure 9: Sum-of-the-parts or SOTP-based target price**

	Methodology	Multiple	Value per share (Rs)
TVS Motor	P/E	30x 1-year forward	1,329.9
TVS Credit	P/BV	1.5x FY23 book value	155.1
<b>SOTP-based valuation</b>			<b>1,485.0</b>

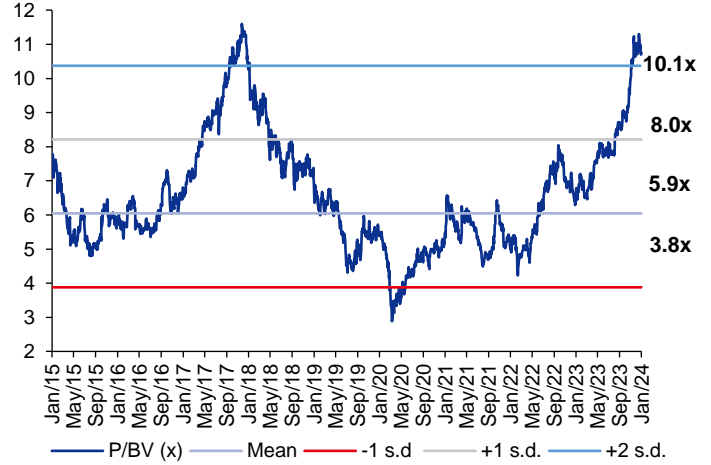
SOURCE: INCRED RESEARCH, COMPANY REPORTS

**Figure 10: One-year forward P/E above +3SD level**



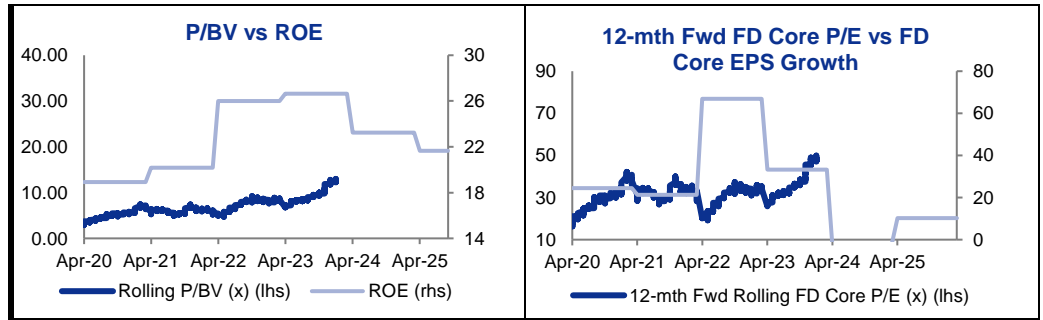
SOURCE: BLOOMBER, INCRED RESEARCH, COMPANY REPORTS

**Figure 11: One-year forward P/BV crosses +2SD level**



SOURCE: BLOOMBER, INCRED RESEARCH, COMPANY REPORTS

BY THE NUMBERS



Profit & Loss

(Rs mn)	Mar-22A	Mar-23A	Mar-24F	Mar-25F	Mar-26F
<b>Total Net Revenues</b>	<b>207,905</b>	<b>263,781</b>	<b>312,709</b>	<b>350,052</b>	<b>391,012</b>
<b>Gross Profit</b>	<b>49,823</b>	<b>63,852</b>	<b>81,148</b>	<b>89,963</b>	<b>99,708</b>
<b>Operating EBITDA</b>	<b>19,422</b>	<b>26,747</b>	<b>33,616</b>	<b>36,755</b>	<b>40,274</b>
Depreciation And Amortisation	(6,144)	(6,312)	(7,074)	(8,225)	(9,268)
<b>Operating EBIT</b>	<b>13,278</b>	<b>20,434</b>	<b>26,542</b>	<b>28,530</b>	<b>31,006</b>
Financial Income/(Expense)	(1,259)	(1,407)	(1,950)	(2,300)	(2,100)
Pretax Income/(Loss) from Assoc.					
Non-Operating Income/(Expense)	190	170	180	200	230
<b>Profit Before Tax (pre-EI)</b>	<b>12,208</b>	<b>19,197</b>	<b>24,772</b>	<b>26,430</b>	<b>29,136</b>
Exceptional Items	(135)	779	1,661		
<b>Pre-tax Profit</b>	<b>12,073</b>	<b>19,976</b>	<b>26,433</b>	<b>26,430</b>	<b>29,136</b>
Taxation	(3,139)	(5,066)	(6,565)	(7,004)	(7,721)
Exceptional Income - post-tax					
<b>Profit After Tax</b>	<b>8,935</b>	<b>14,910</b>	<b>19,868</b>	<b>19,426</b>	<b>21,415</b>
Minority Interests					
Preferred Dividends					
FX Gain/(Loss) - post tax					
Other Adjustments - post-tax					
<b>Net Profit</b>	<b>8,935</b>	<b>14,910</b>	<b>19,868</b>	<b>19,426</b>	<b>21,415</b>
Recurring Net Profit	9,035	14,329	18,620	19,426	21,415
<b>Fully Diluted Recurring Net Profit</b>	<b>9,035</b>	<b>14,329</b>	<b>18,620</b>	<b>19,426</b>	<b>21,415</b>

Cash Flow

(Rs mn)	Mar-22A	Mar-23A	Mar-24F	Mar-25F	Mar-26F
<b>EBITDA</b>	<b>19,422</b>	<b>26,747</b>	<b>33,616</b>	<b>36,755</b>	<b>40,274</b>
Cash Flow from Invt. & Assoc.					
Change In Working Capital	183	211	314	(1,483)	2,132
(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)	(1,770)	(2,100)	(1,870)
Tax Paid	(3,139)	(5,066)	(6,565)	(7,004)	(7,721)
<b>Cashflow From Operations</b>	<b>16,165</b>	<b>18,410</b>	<b>29,760</b>	<b>26,668</b>	<b>33,215</b>
Capex	(10,565)	(11,238)	(10,000)	(11,000)	(11,000)
Disposals Of FAs/subsidiaries					
Acq. Of Subsidiaries/Investments					
Other Investing Cashflow	(15,185)	(12,985)	(9,200)	(10,200)	(9,200)
<b>Cash Flow From Investing</b>	<b>(25,751)</b>	<b>(24,222)</b>	<b>(19,200)</b>	<b>(21,200)</b>	<b>(20,200)</b>
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)	(4,751)	(5,464)
Preferred Dividends					
Other Financing Cashflow	(135)	779	1,661		
<b>Cash Flow From Financing</b>	<b>4,301</b>	<b>4,219</b>	<b>(3,877)</b>	<b>(6,251)</b>	<b>(6,964)</b>
Total Cash Generated	(5,285)	(1,593)	6,683	(783)	6,052
<b>Free Cashflow To Equity</b>	<b>(2,775)</b>	<b>953</b>	<b>9,060</b>	<b>3,968</b>	<b>11,515</b>
<b>Free Cashflow To Firm</b>	<b>(8,327)</b>	<b>(4,405)</b>	<b>12,510</b>	<b>7,768</b>	<b>15,115</b>

SOURCE: INCRED RESEARCH, COMPANY REPORTS

**BY THE NUMBERS...cont'd**

<b>Balance Sheet</b>					
<b>(Rs mn)</b>	<b>Mar-22A</b>	<b>Mar-23A</b>	<b>Mar-24F</b>	<b>Mar-25F</b>	<b>Mar-26F</b>
Total Cash And Equivalents	4,013	2,420	9,102	8,320	14,371
Total Debtors	9,507	9,551	15,421	19,181	21,425
Inventories	11,227	12,364	20,562	23,017	25,710
Total Other Current Assets	9,260	16,515	13,250	13,650	14,150
<b>Total Current Assets</b>	<b>34,007</b>	<b>40,849</b>	<b>58,335</b>	<b>64,168</b>	<b>75,657</b>
Fixed Assets	37,311	42,236	45,162	47,937	49,669
Total Investments	47,160	56,839	65,839	75,839	84,839
Intangible Assets					
Total Other Non-Current Assets					
<b>Total Non-current Assets</b>	<b>84,471</b>	<b>99,075</b>	<b>111,001</b>	<b>123,775</b>	<b>134,507</b>
Short-term Debt					
Current Portion of Long-Term Debt					
Total Creditors	39,914	41,306	55,688	60,420	67,490
Other Current Liabilities	7,093	7,835	8,335	8,835	9,335
<b>Total Current Liabilities</b>	<b>47,008</b>	<b>49,141</b>	<b>64,023</b>	<b>69,255</b>	<b>76,825</b>
Total Long-term Debt	18,813	25,578	24,078	22,578	21,078
Hybrid Debt - Debt Component					
Total Other Non-Current Liabilities					
<b>Total Non-current Liabilities</b>	<b>18,813</b>	<b>25,578</b>	<b>24,078</b>	<b>22,578</b>	<b>21,078</b>
Total Provisions	4,437	4,726	4,926	5,126	5,326
<b>Total Liabilities</b>	<b>70,257</b>	<b>79,445</b>	<b>93,028</b>	<b>96,960</b>	<b>103,230</b>
Shareholders Equity	48,220	60,479	76,309	90,984	106,935
Minority Interests					
<b>Total Equity</b>	<b>48,220</b>	<b>60,479</b>	<b>76,309</b>	<b>90,984</b>	<b>106,935</b>

<b>Key Ratios</b>					
	<b>Mar-22A</b>	<b>Mar-23A</b>	<b>Mar-24F</b>	<b>Mar-25F</b>	<b>Mar-26F</b>
Revenue Growth	23.2%	26.9%	18.5%	11.9%	11.7%
Operating EBITDA Growth	25.0%	37.7%	25.7%	9.3%	9.6%
Operating EBITDA Margin	9.3%	10.1%	10.8%	10.5%	10.3%
Net Cash Per Share (Rs)	(31.15)	(48.74)	(31.52)	(30.01)	(14.12)
BVPS (Rs)	101.50	127.30	160.62	191.50	225.08
Gross Interest Cover	10.54	14.53	13.61	12.40	14.76
Effective Tax Rate	26.0%	25.4%	24.8%	26.5%	26.5%
Net Dividend Payout Ratio	26.2%	23.5%	22.2%	24.5%	25.5%
Accounts Receivables Days	15.98	13.19	14.57	18.04	18.95
Inventory Days	26.26	21.53	25.95	30.58	30.53
Accounts Payables Days	91.35	74.14	76.44	81.47	80.13
ROIC (%)	65.1%	74.1%	61.9%	69.0%	66.0%
ROCE (%)	21.3%	26.0%	27.9%	26.2%	25.3%
Return On Average Assets	9.1%	11.7%	12.7%	11.8%	11.5%

<b>Key Drivers</b>					
	<b>Mar-22A</b>	<b>Mar-23A</b>	<b>Mar-24F</b>	<b>Mar-25F</b>	<b>Mar-26F</b>
ASP (% chg, main prod./serv.)	14.4%	15.5%	6.0%	3.4%	3.3%
Unit sales grth (% , main prod./serv.)	8.4%	11.3%	12.6%	8.2%	8.1%

SOURCE: INCRED RESEARCH, COMPANY REPORTS

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