

India

REDUCE (no change)

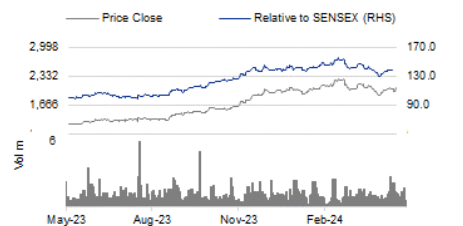
Consensus ratings*: Buy 21 Hold 10 Sell 9

Current price:	Rs2,064
Target price:	Rs1,627
Previous target:	Rs1,485
Up/downside:	-21.2%
InCred Research / Consensus:	-20.7%
Reuters:	TVSM.NS
Bloomberg:	TVSL IN
Market cap:	US\$11,740m Rs980,390m
Average daily turnover:	US\$23.9m Rs1996.4m
Current shares o/s:	475.1m
Free float:	49.7%

*Source: Bloomberg

Key changes in this note

- EBITDA raised by 4-5% for FY25F-26F.
- FY25F-26F EPS upgrade by 5-7%.



Price performance	1M	3M	12M
Absolute (%)	(1.7)	1.3	67.8
Relative (%)	1.9	0.1	43.5

Major shareholders	% held
Sundaram Clayton Limited	50.3
ICICI Prudential Fund	7.9
Government of Singapore	1.4

Research Analyst(s)



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TVS Motor Co Ltd

Concerns over capital allocation worsen

- 4Q EBITDA grew 36% yoy, above our estimate by 9% & Bloomberg consensus estimate by 5%. However, the 45% qoq rise in subsidiaries' losses is a concern.
- We raise our EBITDA by around 5%. However, cash flow challenges from bonus preference share issue, capex and equity investment in the arm worsen.
- Maintain REDUCE rating on the stock as the rich +2SD above the five-year mean P/E and P/BV valuations are a cause of concern.

Subsidiaries' highest-ever EBIT loss and cash infusion continues

TVS Motor Company's (TVS Motor) 4QFY24 EBITDA rose 36% yoy and was flat qoq at Rs9.3bn, 9%/5% above our/Bloomberg consensus estimates, respectively. Lower raw material costs and other expenses helped improve the EBITDA margin by 13bp qoq. Adjusted for one-off subsidiaries' investment's mark-down loss of Rs.460m, PAT growth of 2% qoq was above our/Bloomberg consensus estimates. Management indicated net debt reduction of Rs10bn in FY24 with the help of strong operating cash flow. Investment in the subsidiaries stood at Rs3.1bn in 4Q, as their EBIT loss spiked to Rs2bn (Fig. 7).

Management conference-call highlights

Management expects export volume recovery to be gradual in FY25F. It feels the electric vehicle or EV momentum will drive the expansion of the scooter mix in the 2W sector and may not entirely come by petrol scooter cannibalization in the next five years. New spending on Norton, management feels, will lead to new launches in FY26F. Management gave guidance of Rs10bn capex for FY25F and Rs3bn towards TVS Credit to meet the Reserve Bank of India's higher capital adequacy norms for unsecured lending.

Bonus preference shares plan to worsen capital allocation concerns

We maintain our sales estimates, as challenges from FAME incentive cut on EVs outweigh the benefits of rural demand recovery for the company. Incorporating sustained EBITDA margin expansion, we raise the EBITDA margin by 30-50bp to 10.8% for FY25F-26F, leading to an EBITDA upgrade of 4-5%. The plan to issue Rs19bn cumulative non-convertible redeemable preference shares by way of bonus shares with a 6% coupon rate is an area of concern. Considering the dividend payment of just Rs4bn in FY24, the big outflow of Rs19bn likely in FY26F worsens the capital allocation, with the company continuing to spend a major portion of OCF for EV capex and investment in subsidiaries.

Roll forward our valuation; raise TP but maintain REDUCE rating

The sustained domestic 2W market share gain by TVS Motor (Fig. 5) in recent times is impressive along with EV dominance, despite subsidy cuts. However, the worsening capital allocation policy is not factored in with the current rich P/E and P/BV valuations being above +2SD. We retain our REDUCE rating on it with a higher SOTP-based target price of Rs1,627 or 30x FY26F EPS and TVS Credit's valuation at 1.5x P/BV. Upside risk: Strong recovery in the domestic market or industry's export volume recovery.

Financial Summary

	Mar-23A	Mar-24A	Mar-25F	Mar-26F	Mar-27F
Revenue (Rsm)	263,781	317,764	352,843	392,653	435,500
Operating EBITDA (Rsm)	26,747	35,141	38,107	42,407	48,776
Net Profit (Rsm)	14,910	20,831	20,306	22,805	27,389
Core EPS (Rs)	30.2	42.0	42.7	48.0	57.6
Core EPS Growth	58.6%	39.1%	1.9%	12.3%	20.1%
FD Core P/E (x)	65.76	47.07	48.28	42.99	35.80
DPS (Rs)	7.0	8.0	9.0	10.0	12.0
Dividend Yield	0.34%	0.39%	0.44%	0.48%	0.58%
EV/EBITDA (x)	37.52	28.25	25.96	23.45	20.31
P/FCFE (x)	1,028.29	156.56	137.98	58.04	119.62
Net Gearing	38.3%	15.8%	11.9%	15.4%	9.0%
P/BV (x)	16.21	12.68	13.19	10.61	8.59
ROE	26.4%	28.9%	26.8%	27.4%	26.5%
% Change In Core EPS Estimates			4.53%	6.49%	
InCred Research/Consensus EPS (x)					

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Concerns over capital allocation worsen

Management conference-call highlights >

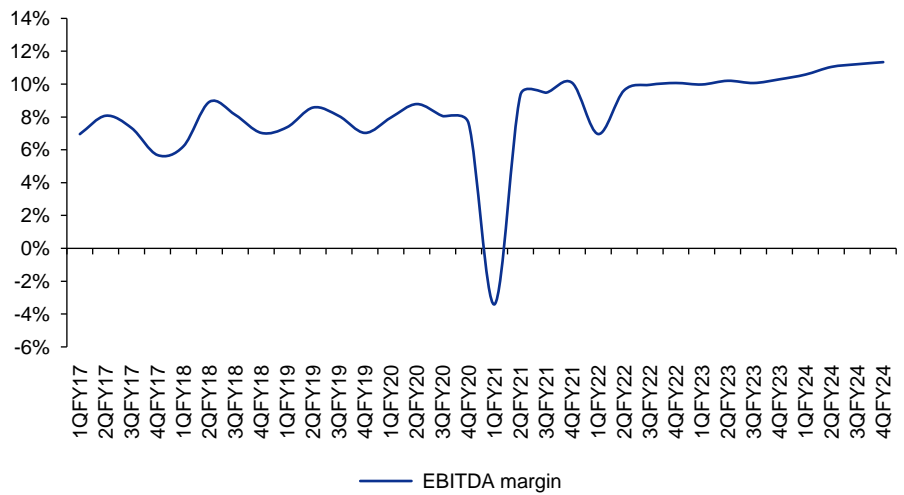
- **Performance:** In FY24, domestic ICE two-wheeler sales grew by 19% vs. the industry growth of 13% yoy. EV volume doubled from 97,000 in FY23 to 194,000 in FY24. TVS Motor sold 49,000 units of electric three-wheelers vs. 43,000 units last year.
- **iQube:** Expanded the network to 712 touch points. The company will be announcing multiple options in TVS iQube to provide appropriate range and price combinations with different battery capacities. This year, it started exporting TVS iQube to a few ASEAN markets.
- **Electric vehicle space:** Industry grew by 32% yoy with the full-year penetration at 5.4% vs. 4.7% in FY23. Government incentives have been scaled down from Rs51,000 per vehicle in the previous financial year to Rs22,000 in Jun 2023. TVS Motor was able to absorb a major portion of this reduction through cost reduction initiatives, scale benefits and commodity cost reduction.
- **ICE vehicle space:** TVS Motor remains committed to introducing new products in the ICE segment. Management anticipates a rising market share in the scooter segment, aiming to surpass the industry's 30-32% currently. Additionally, it plans to expand the presence in the segment where Ronin is present.
- **International market:** Management expects a certain level of recovery this year. Some major African markets are showing some recovery, while some continue with challenges. TVS Motor continues to upgrade its product portfolio to further strengthen its position in the international market.
- **Investments:** TVS Motor has invested in various digital technologies, software, electronics and innovation across areas to improve customer experience, retail and service management, manufacturing, and supply chain.
- **Commodities:** Witnessing softening in commodity prices rising during the quarter, However, management is confident of improving the EBITDA margin led by a better product mix and cost reduction initiatives.
- **TVS Credit:** It now has a 13m customer base. The loan book size topped Rs250bn, up 26% yoy. PBT for the year grew by 49% from Rs.5.12bn in FY23 to Rs.7.63bn in FY24.
- **Other income:** The company reported negative other income of Rs460m due to notional loss on fair valuation of investments.
- **Exports and spare parts business:** International business revenue is at Rs.20.38bn and spare parts registered Rs8.15bn during the quarter.
- **Price action:** In Apr 2024, it took 0.3% price hike due to a marginal improvement in commodity prices.
- **Norton:** TVS Motor invested Rs880m in Norton on design and development and its products are likely to hit the market in 2025F-26F.
- **Capex:** Investment in FY25F is projected to be around Rs11-12bn, including allocations of Rs4bn each for TVS Credit Services and Norton, with an additional Rs4bn for new projects.

Figure 1: Results comparison

Y/E Mar (Rs m)	4QFY24	4QFY23	yoy % chg	3QFY24	qoq % chg	FY24	FY23	yoy % chg	Comments for the quarter
Revenue	81,688	66,048	23.7	82,450	(0.9)	3,12,395	2,63,781	18.4	1.8% below our estimate.
Raw materials cost	59,440	49,797	19.4	60,756	(2.2)	2,34,290	1,99,928	17.2	
RM cost as % of revenue	72.8	75.4	(263.1)	73.7	(92.5)	75.0	75.8	(79.5)	124bp below our estimate due to inventory benefits.
EBITDA	9,262	6,798	36.3	9,244	0.2	29,772	26,747	11.3	9.3% above our estimate; lower raw material costs.
EBITDA margin (%)	11.3	10.3	104.6	11.2	12.6	9.5	10.1	(60.9)	
Depreciation & amortization	1,887	1,674	12.7	1,781	6.0	7,004	6,312	11.0	-
EBIT	7,375	5,124	43.9	7,464	(1.2)	22,769	20,434	11.4	
Interest expenses	372	363	2.6	448	(16.8)	1,816	1,407	29.1	26% below our estimate.
Other income	173	88	96.7	4	4,232.5	1,485	170	774.7	148% above our estimate.
Pre-tax profit	7,176	4,849	48.0	7,020	2.2	22,438	19,197	16.9	
Tax	1,862	1,364	36.6	1,817	2.5	6,977	5,066	37.7	
Tax rate (%)	25.9	28.1	(217.1)	25.9	6.8	31.1	26.4	470.2	
Normalised Net profit	5,314	3,486	52.5	5,204	2.1	15,461	14,131	9.4	9% above our estimate.
Exceptionals	(460)	617		730	nm	-	779	nm	
Reported net profit	4,854	4,103	18.3	5,934	(18.2)	15,461	14,910	3.7	
Normalised EPS (Rs)	11.19	7.34	52.5	10.95	2.1	32.5	29.7	9.4	
Volume (units)	10,62,529	8,68,417	22.4	11,00,512	(3.5)	41,50,541	36,82,068	12.7	
Realisation (Rs/vehicle)	76,881	76,055	1.1	74,920	2.6	75,266	71,639	5.1	1.8% above our estimate.

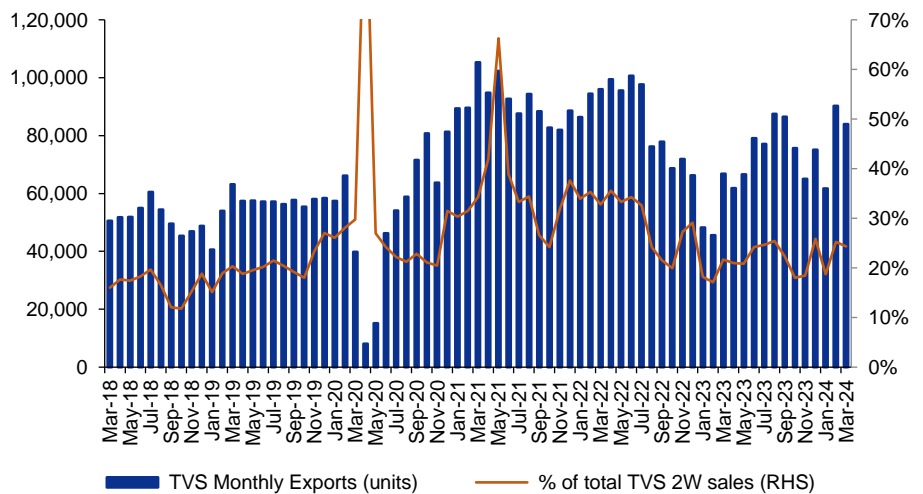
SOURCE: INCRED RESEARCH, COMPANY REPORTS

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's two-wheeler EV market share improved recently

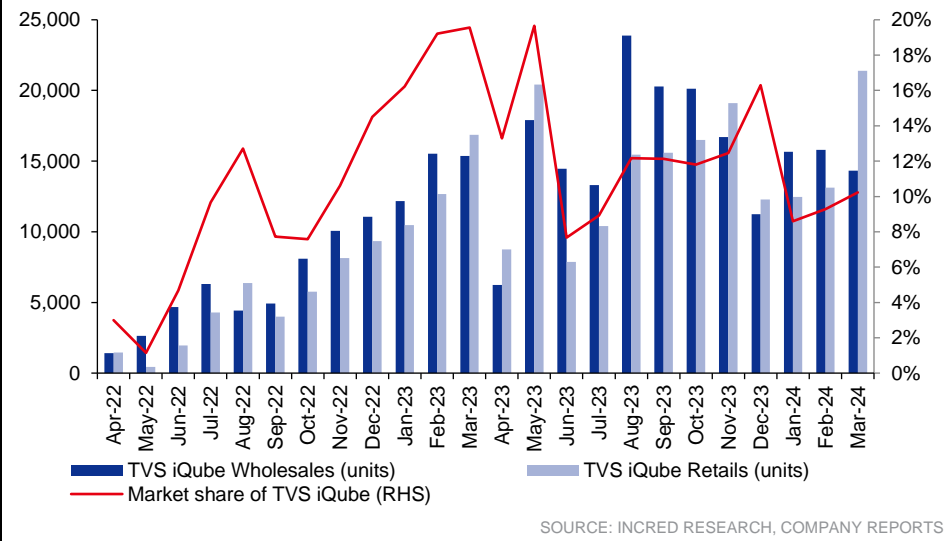


Figure 5: TVS Motor's domestic 2W market share growth is impressive

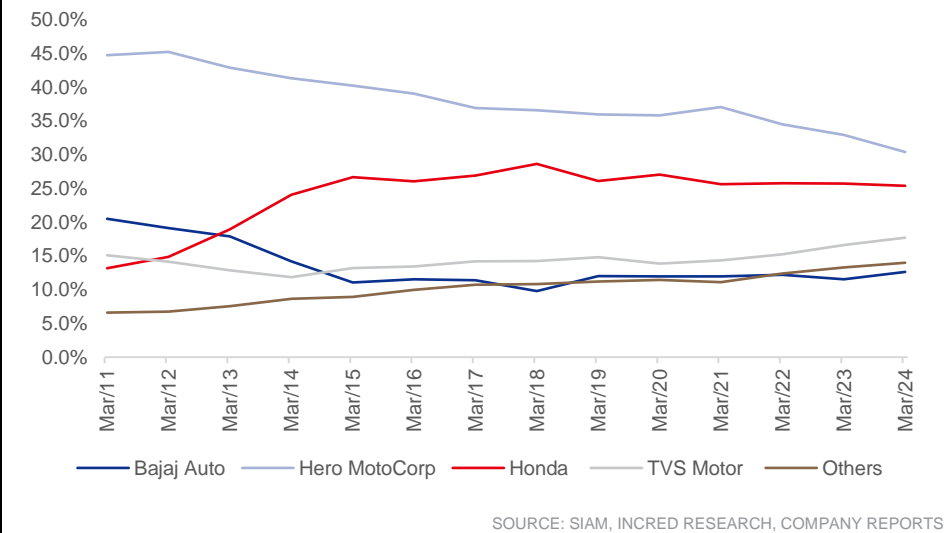
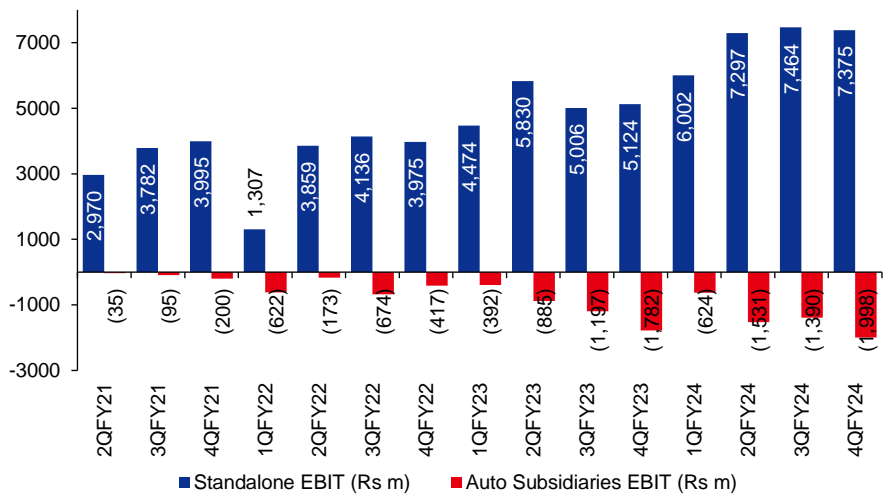


Figure 6: Consolidated automobile segment's EBIT

Consolidated Performance (Rs m)	4QFY24	4QFY23	YoY	3QFY24	QoQ
Major Segment Revenue					
a) Automotive Vehicles & Parts	84,260	67,044	25.7%	85,095	-1.0%
b) Automotive Components	2016.6	1,924	4.8%	1,779	13.3%
c) Financial Services	15,177	12,348	22.9%	15,271	-0.6%
EBIT					
a) Automotive Vehicles & Parts	5,377	3,342	60.9%	5,898	-8.8%
b) Automotive Components	138	73.5	87.2%	60	129.3%
c) Financial Services	1,741	2,017	-13.7%	2,288	-23.9%

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 7: Consolidated EBIT of the automobile segment impacted by rising losses of subsidiaries



SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 8: Standalone earnings revision summary

Rs m	FY25F		FY26F	
	Old	New	Old	New
Total volume (nos)	44,86,508	44,64,989	48,51,897	48,77,243
% change		-0.5%		0.5%
Net sales	3,50,052	3,52,843	3,91,012	3,92,653
% change		0.8%		0.4%
EBITDA	36,755	38,107	40,274	42,407
% change		3.7%		5.3%
EBITDA margin	10.5%	10.8%	10.3%	10.8%
bp change		29		49
PAT	19,426	20,306	21,415	22,805
% change		4.5%		6.5%
EPS (Rs)	40.9	42.7	45.1	48.0
% change		4.5%		6.5%

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 9: Key assumptions

Volume assumptions (units)	FY22	FY23	FY24	FY25F	FY26F	FY27F
- Motorcycle	17,31,729	17,33,256	19,53,099	21,60,959	23,82,593	26,11,319
- Scooter	9,22,578	13,33,925	15,67,240	16,49,863	17,99,088	19,23,051
- Moped	4,83,396	4,45,773	4,84,531	5,18,475	5,49,672	5,77,317
- 3W	1,71,875	1,69,114	1,45,671	1,35,691	1,45,890	1,57,562
Total volume	33,09,578	36,82,068	41,50,541	44,64,989	48,77,243	52,69,248
% yoy	8.4%	11.3%	12.7%	7.6%	9.2%	8.0%
Revenue assumptions (Rs m)	FY22	FY23	FY24	FY25F	FY26F	FY27F
- Motorcycle	1,02,425	1,19,943	1,45,969	1,64,734	1,84,354	2,06,093
- Scooter	49,831	83,073	1,06,876	1,18,136	1,31,397	1,44,664
- Moped	14,458	14,666	16,579	18,095	19,376	20,656
- 3W	17,395	18,827	17,028	16,813	18,258	20,113
- Spare parts	20,461	23,530	27,060	30,307	33,944	38,017
Total revenue (Rs m)	2,04,571	2,60,040	3,13,512	3,48,085	3,87,329	4,29,543
% yoy	23.4%	27.1%	20.6%	11.0%	11.3%	10.9%
EBITDA (Rs m)	19,422	26,747	35,141	38,107	42,407	48,776
EBITDA margin %	9.3%	10.1%	11.1%	10.8%	10.8%	11.2%
PAT (Rs m)	9,070	14,131	19,630	20,306	22,805	27,389

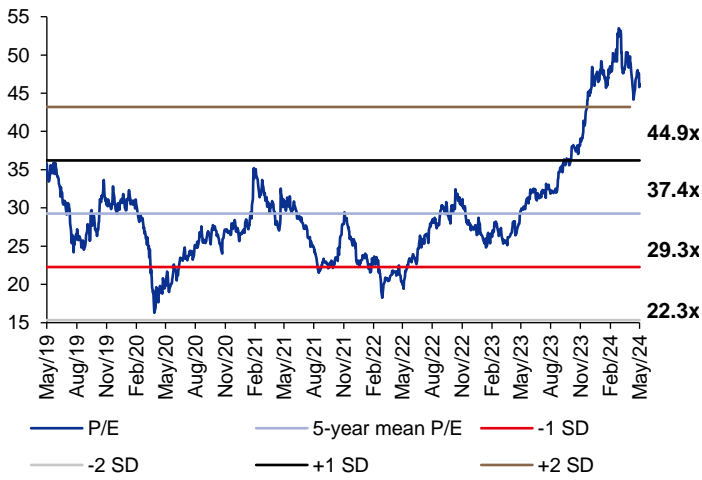
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 10: Sum-of-the-parts or SOTP-based target price

	Methodology	Multiple	Value per share (Rs)
TVS Motor	P/E	30x 1-year forward	1,471.8
TVS Credit	P/BV	1.5x FY23 Book value	155.1
SOTP-based valuation			1,627.0

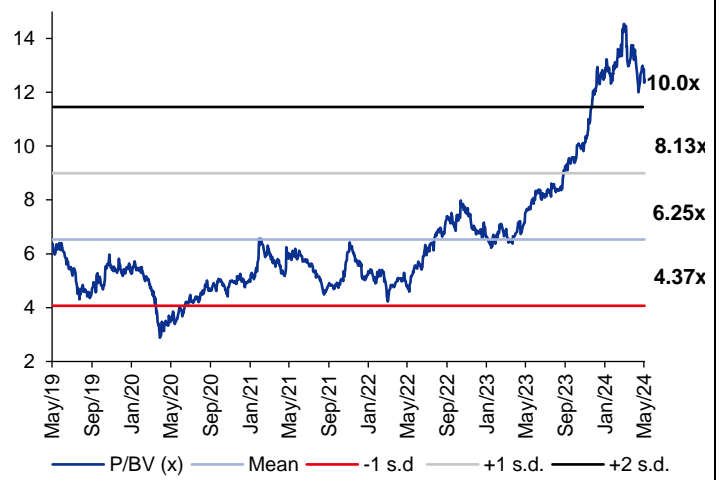
SOURCE: INCRED RESEARCH, COMPANY REPORTS

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



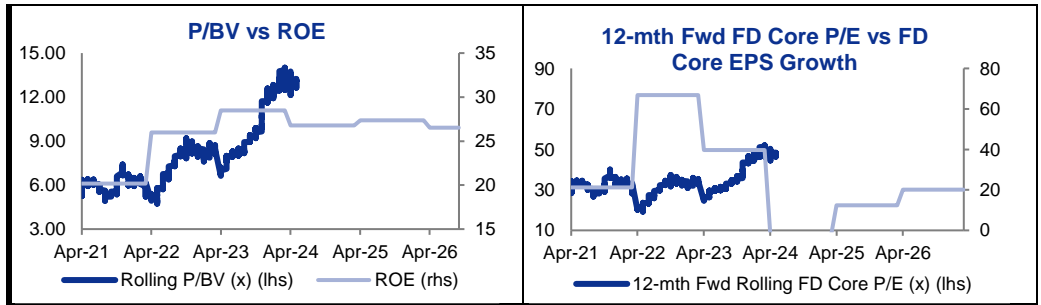
SOURCE: INCRED RESEARCH, COMPANY REPORTS

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



SOURCE: INCRED RESEARCH, COMPANY REPORTS

BY THE NUMBERS



Profit & Loss

(Rs mn)	Mar-23A	Mar-24A	Mar-25F	Mar-26F	Mar-27F
Total Net Revenues	263,781	317,764	352,843	392,653	435,500
Gross Profit	63,852	83,474	92,092	101,304	114,101
Operating EBITDA	26,747	35,141	38,107	42,407	48,776
Depreciation And Amortisation	(6,312)	(7,004)	(7,929)	(8,949)	(9,638)
Operating EBIT	20,434	28,138	30,178	33,458	39,138
Financial Income/(Expense)	(1,407)	(1,816)	(2,850)	(2,750)	(2,250)
Pretax Income/(Loss) from Assoc.					
Non-Operating Income/(Expense)	170	285	300	320	375
Profit Before Tax (pre-EI)	19,197	26,606	27,628	31,028	37,263
Exceptional Items	779	1,201			
Pre-tax Profit	19,976	27,807	27,628	31,028	37,263
Taxation	(5,066)	(6,977)	(7,321)	(8,222)	(9,875)
Exceptional Income - post-tax					
Profit After Tax	14,910	20,831	20,306	22,805	27,389
Minority Interests					
Preferred Dividends					
FX Gain/(Loss) - post tax					
Other Adjustments - post-tax					
Net Profit	14,910	20,831	20,306	22,805	27,389
Recurring Net Profit	14,329	19,931	20,306	22,805	27,389
Fully Diluted Recurring Net Profit	14,329	19,931	20,306	22,805	27,389

Cash Flow

(Rs mn)	Mar-23A	Mar-24A	Mar-25F	Mar-26F	Mar-27F
EBITDA	26,747	35,141	38,107	42,407	48,776
Cash Flow from Invt. & Assoc.					
Change In Working Capital	211	5,001	742	7,139	(4,830)
(Incr)/Decr in Total Provisions	(2,244)	3,312	(172)	(300)	(300)
Other Non-Cash (Income)/Expense					
Other Operating Cashflow					
Net Interest (Paid)/Received	(1,237)	(1,531)	(2,550)	(2,430)	(1,875)
Tax Paid	(5,066)	(6,977)	(7,321)	(8,222)	(9,875)
Cashflow From Operations	18,410	34,946	28,806	38,593	31,896
Capex	(11,238)	(11,787)	(11,000)	(11,000)	(11,000)
Disposals Of FAs/subsidiaries					
Acq. Of Subsidiaries/investments					
Other Investing Cashflow	(12,985)	(9,583)	(10,200)	(9,200)	(11,200)
Cash Flow From Investing	(24,222)	(21,371)	(21,200)	(20,200)	(22,200)
Debt Raised/(repaid)	6,766	(7,313)	(500)	(1,500)	(1,500)
Proceeds From Issue Of Shares				(19,000)	
Shares Repurchased					
Dividends Paid	(3,326)	(3,801)	(4,276)	(4,751)	(5,701)
Preferred Dividends					
Other Financing Cashflow	779	1,201			
Cash Flow From Financing	4,219	(9,913)	(4,776)	(25,251)	(7,201)
Total Cash Generated	(1,593)	3,663	2,830	(6,858)	2,495
Free Cashflow To Equity	953	6,262	7,106	16,893	8,196
Free Cashflow To Firm	(4,405)	15,392	10,456	21,143	11,946

SOURCE: INCRED RESEARCH, COMPANY REPORTS

BY THE NUMBERS...cont'd

Balance Sheet					
(Rs mn)	Mar-23A	Mar-24A	Mar-25F	Mar-26F	Mar-27F
Total Cash And Equivalents	2,420	6,083	8,912	2,054	4,548
Total Debtors	9,551	13,021	15,467	18,288	23,863
Inventories	12,364	13,708	17,400	20,439	26,249
Total Other Current Assets	16,515	10,878	11,950	13,150	14,350
Total Current Assets	40,849	43,690	53,730	53,931	69,011
Fixed Assets	42,236	47,020	50,091	52,142	53,504
Total Investments	56,839	69,913	79,913	88,913	99,913
Intangible Assets					
Total Other Non-Current Assets					
Total Non-current Assets	99,075	116,933	130,003	141,055	153,417
Short-term Debt					
Current Portion of Long-Term Debt					
Total Creditors	41,306	51,122	58,002	71,000	77,555
Other Current Liabilities	7,835	8,560	9,060	9,560	10,060
Total Current Liabilities	49,141	59,682	67,062	80,560	87,615
Total Long-term Debt	25,578	18,265	17,765	16,265	14,765
Hybrid Debt - Debt Component					
Total Other Non-Current Liabilities					
Total Non-current Liabilities	25,578	18,265	17,765	16,265	14,765
Total Provisions	4,726	5,365	5,565	5,765	5,965
Total Liabilities	79,445	83,312	90,392	102,591	108,345
Shareholders Equity	60,479	77,310	74,341	92,395	114,083
Minority Interests					
Total Equity	60,479	77,310	74,341	92,395	114,083

Key Ratios					
	Mar-23A	Mar-24A	Mar-25F	Mar-26F	Mar-27F
Revenue Growth	26.9%	20.5%	11.0%	11.3%	10.9%
Operating EBITDA Growth	37.7%	31.4%	8.4%	11.3%	15.0%
Operating EBITDA Margin	10.1%	11.1%	10.8%	10.8%	11.2%
Net Cash Per Share (Rs)	(48.74)	(25.64)	(18.63)	(29.91)	(21.51)
BVPS (Rs)	127.30	162.72	156.47	194.48	240.12
Gross Interest Cover	14.53	15.49	10.59	12.17	17.39
Effective Tax Rate	25.4%	25.1%	26.5%	26.5%	26.5%
Net Dividend Payout Ratio	23.5%	19.4%	21.1%	20.8%	20.8%
Accounts Receivables Days	13.19	12.96	14.74	15.69	17.66
Inventory Days	21.53	20.31	21.77	23.70	26.51
Accounts Payables Days	74.14	72.00	76.38	80.81	84.35
ROIC (%)	74.1%	65.9%	88.9%	88.3%	122.6%
ROCE (%)	26.0%	30.3%	31.5%	32.7%	32.4%
Return On Average Assets	11.7%	14.0%	13.0%	13.1%	13.9%

Key Drivers					
	Mar-23A	Mar-24A	Mar-25F	Mar-26F	Mar-27F
ASP (% chg, main prod./serv.)	15.5%	7.4%	3.1%	1.8%	2.6%
Unit sales grth (% , main prod./serv.)	11.3%	12.7%	7.6%	9.2%	8.0%

SOURCE: INCRED RESEARCH, COMPANY REPORTS

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