

India

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REDUCE (no change)

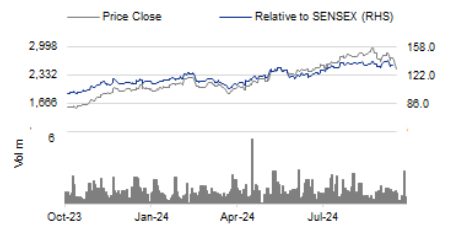
Consensus ratings*: Buy 20 Hold 11 Sell 12

Current price:	Rs2,482
Target price:	Rs1,782
Previous target:	Rs1,782
Up/downside:	-28.2%
InCred Research / Consensus:	-31.8%
Reuters:	TVSM.NS
Bloomberg:	TVSL IN
Market cap:	US\$14,027m
	Rs1,179,333m
Average daily turnover:	US\$31.1m
	Rs2615.0m
Current shares o/s:	475.1m
Free float:	49.7%

*Source: Bloomberg

Key financial forecast

	Mar-25F	Mar-26F	Mar-27F
Net Profit (Rsm)	22,410	24,147	27,093
Core EPS (Rs)	46.73	50.82	57.03
Core EPS Growth	11.4%	8.8%	12.2%
FD Core P/E	53.12	48.84	43.53
Recurring ROE	28.9%	28.0%	25.4%
P/BV (x)	15.43	12.31	10.06
DPS (Rs)	9.00	10.00	12.00
Dividend Yield	0.36%	0.40%	0.48%



SOURCE: BLOOMBERG

Price performance	1M	3M	12M
Absolute (%)	(13.5)	1.3	56.6
Relative (%)	(8.0)	1.3	25.3

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

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TVS Motor Co Ltd

Capital allocation remains a key concern

- 2QFY25 standalone EBITDA grew 20% yoy and 12% qoq to Rs10.8bn, which was below our estimate (5%) and the Bloomberg consensus estimate (2%).
- Rising margin trend is impressive, but the automobile subsidiaries' losses (-18% qoq & +4% yoy) remaining at an elevated level will hit FCF.
- We reiterate our REDUCE rating on the stock, as its rich +2SD above the mean level valuation overlooks the demand for funding international losses.

2Q EBITDA miss by 5% versus our estimate led by flat qoq ASP

- TVS Motor Company's (TVS Motor) 2QFY25 EBITDA rose by 20% yoy and 12% qoq to Rs10.8bn, missing our/Bloomberg consensus estimates by 5% and 2%, respectively.
- Lower employee costs (33bp) and other expenses (4bp) helped improve the EBITDA margin by 24bp qoq to reach a new high of 11.7%.
- However, the lower-than-expected ASP (flat qoq) led to a 3% miss on the sales front.
- Normalized PAT grew by 33% yoy to Rs6.6bn, 1% below our estimate.

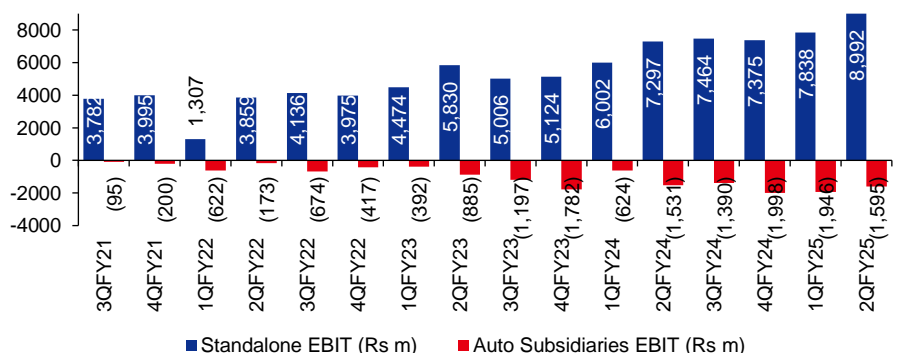
Management conference-call highlights

- Management expects the two-wheeler industry's volume to grow by 7-8% in 3QFY25F. The company is confident of growing faster than the industry.
- 1HFY25 volume saw an 8% yoy growth in rural markets, better than urban markets which grew 7%.
- Management stated that the electric vehicle or EV business turned positive at the contribution level and posted Rs16bn revenue in 2Q. There are plans to launch one new model in FY25F. The company expects a capex of Rs12bn-14bn and Rs15bn investment in FY25F.
- On the export front, LATAM & Asia (Nepal, Sri Lanka) markets are doing well. The company expects its exports to grow qoq. Africa has bottomed out (volume share of 55-57% in exports). Three-wheeler exports are muted as TVS Motor is mainly in Africa.
- Spare parts revenue stood at Rs9.3bn; export revenue at Rs22.29bn.
- No production-linked incentive or PLI scheme benefits were accounted for in 2Q. Management stated that all EV products are PLI-compliant. Staff costs in 2Q includes Rs110-120m ESOP cost.
- TVS Credit Services, its subsidiary, posted a PBT growth of 20% with AUM of Rs267bn, up 13% yoy. The net worth stood at Rs45bn. The share of 2Ws in AUM was 27-28%.

Maintain REDUCE rating for capital allocation challenges

- We maintain our FY25-FY27F estimates as the domestic 2W industry volume momentum remains muted even in the festive season.
- While the standalone business momentum is impressive, weakness in global subsidiaries is a cause for concern as they are high capital guzzlers.
- With forward P/E and P/BV valuations close to +2SD above mean levels, we retain our REDUCE rating on the stock.

Figure 1: Subsidiaries' losses continue to impact consolidated EBIT



SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 2: Quarterly results comparison

Y/E Mar (Rs m)	2QFY25	2QFY24	yoy % chg	1QFY25	qoq % chg	1HFY25	1HFY24	yoy % chg	Comments for the quarter
Revenue	92,282	81,446	13.3	83,756	10.2	1,76,038	1,53,625	14.6	3% below our estimate.
Raw material costs	66,018	60,276	9.5	59,804	10.4	1,25,822	1,14,094	10.3	
RM costs as a % of revenue	71.5	74.0	(246.8)	71.4	13.7	71.5	74.3	(279.3)	In line with our estimate.
EBITDA	10,798	8,998	20.0	9,602	12.5	20,400	16,635	22.6	5% below our estimate.
EBITDA margin (%)	11.7	11.0	65.4	11.5	23.7	11.6	10.8	76.0	
Depreciation & amortization	1,806	1,701	6.2	1,763	2.4	3,569	3,336	7.0	-
EBIT	8,992	7,297	23.2	7,838	14.7	16,831	13,299	26.6	
Interest expenses	319	523	(39.0)	372	(14.3)	691	997	(30.6)	42% below our estimate.
Other income	299	87	242	78	283.0	377	107	251.9	274% above our estimate.
Pre-tax profit	8,972	6,862	30.8	7,544	18.9	16,517	12,409	33.1	
Tax	2,346	1,871	25.4	2,056	14.1	4,402	3,298	33.5	
Tax rate (%)	26.1	27.3	(112.1)	27.3	(110.4)	26.7	26.6	7.5	
Normalized net profit	6,626	4,991	32.8	5,488	20.7	12,115	9,111	33.0	1% below our estimate.
Exceptional items	-	375		285	nm	285	931	nm	
Reported net profit	6,626	5,366	23.5	5,773	14.8	12,399	10,042	23.5	
Normalized EPS (Rs)	13.95	10.50	32.8	11.55	20.7	25.5	19.2	33.0	
Volume (units)	12,28,223	10,74,378	14.3	10,87,175	13.0	23,15,398	20,27,622	14.2	
Realization (Rs/vehicle)	75,135	75,808	(0.9)	77,040	(2.5)	76,029	75,766	0.3	1.8% above our estimate.

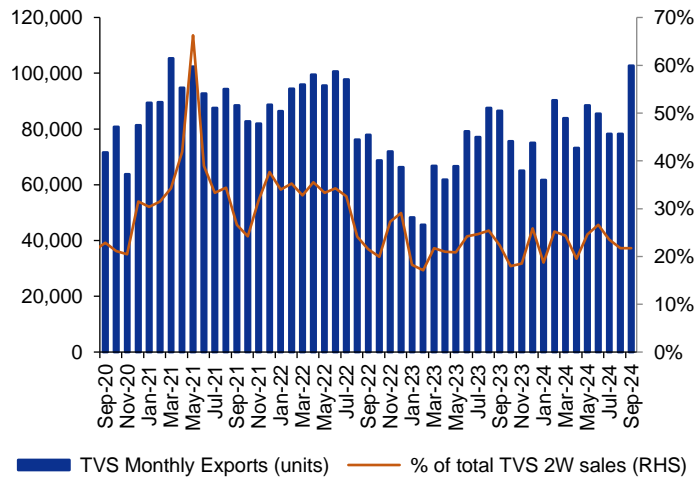
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 3: Consolidated automobile segment's EBIT

Consolidated Performance (Rs m)	2QFY25	2QFY24	YoY	1QFY25	QoQ
Major Segment Revenue					
a) Automotive Vehicles & Parts	95,959	84,599	13.4%	87,213	10.0%
b) Automotive Components	2212.5	1,958	13.0%	2,009	10.1%
c) Financial Services	16,343	14,330	14.0%	16,353	-0.1%
EBIT					
a) Automotive Vehicles & Parts	7,397	5,391	37.2%	5,892	25.5%
b) Automotive Components	100	112.1	-11.2%	93.9	6.0%
c) Financial Services	2,094	2,167	-3.4%	2,159	-3.0%

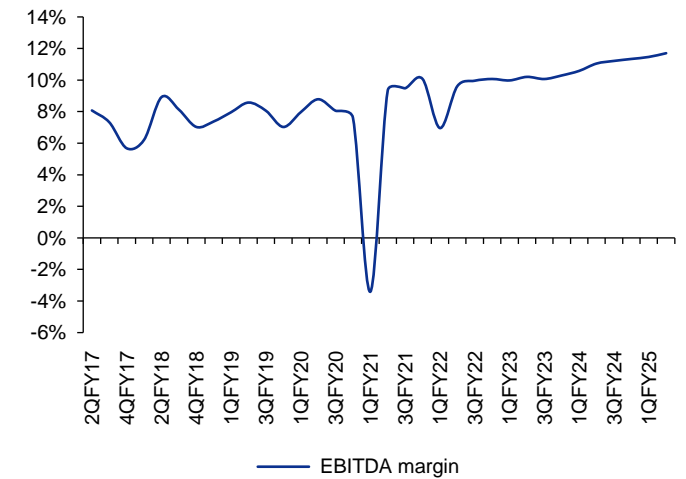
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 4: Exports witnessed a sequential decline



SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 5: Standalone EBITDA continues to make new highs



SOURCE: INCRED RESEARCH, COMPANY REPORTS

Profit & Loss

(Rs mn)	Mar-24A	Mar-25F	Mar-26F	Mar-27F
Total Net Revenues	317,764	348,973	388,364	430,785
Gross Profit	83,474	95,968	104,858	114,158
Operating EBITDA	35,141	40,132	44,274	48,679
Depreciation And Amortisation	(7,004)	(7,929)	(8,991)	(9,942)
Operating EBIT	28,138	32,203	35,283	38,737
Financial Income/(Expense)	(1,816)	(2,400)	(2,750)	(2,250)
Pretax Income/(Loss) from Assoc.				
Non-Operating Income/(Expense)	285	300	320	375
Profit Before Tax (pre-EI)	26,606	30,103	32,853	36,862
Exceptional Items	1,201	285		
Pre-tax Profit	27,807	30,388	32,853	36,862
Taxation	(6,977)	(7,977)	(8,706)	(9,768)
Exceptional Income - post-tax				
Profit After Tax	20,831	22,410	24,147	27,093
Minority Interests				
Preferred Dividends				
FX Gain/(Loss) - post tax				
Other Adjustments - post-tax				
Net Profit	20,831	22,410	24,147	27,093
Recurring Net Profit	19,931	22,200	24,147	27,093
Fully Diluted Recurring Net Profit	19,931	22,200	24,147	27,093

Balance Sheet

(Rs mn)	Mar-24A	Mar-25F	Mar-26F	Mar-27F
Total Cash And Equivalents	6,083	10,740	996	3,067
Total Debtors	13,021	15,297	18,088	23,605
Inventories	13,708	17,210	20,216	25,965
Total Other Current Assets	10,878	11,950	13,150	14,350
Total Current Assets	43,690	55,197	52,451	66,987
Fixed Assets	47,020	50,091	53,100	56,658
Total Investments	69,913	79,913	88,913	99,913
Intangible Assets				
Total Other Non-Current Assets				
Total Non-current Assets	116,933	130,003	142,013	156,571
Short-term Debt				
Current Portion of Long-Term Debt				
Total Creditors	51,122	57,365	67,033	75,535
Other Current Liabilities	8,560	9,060	9,560	10,060
Total Current Liabilities	59,682	66,425	76,593	85,595
Total Long-term Debt	18,265	17,765	16,265	14,765
Hybrid Debt - Debt Component				
Total Other Non-Current Liabilities				
Total Non-current Liabilities	18,265	17,765	16,265	14,765
Total Provisions	5,365	5,565	5,765	5,965
Total Liabilities	83,312	89,756	98,623	106,325
Shareholders Equity	77,310	76,445	95,841	117,233
Minority Interests				
Total Equity	77,310	76,445	95,841	117,233

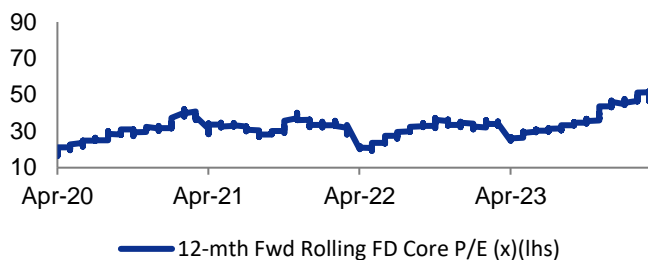
Cash Flow

(Rs mn)	Mar-24A	Mar-25F	Mar-26F	Mar-27F
EBITDA	35,141	40,132	44,274	48,679
Cash Flow from Invt. & Assoc.				
Change In Working Capital	5,001	466	3,870	(2,763)
(Incr)/Decr in Total Provisions	3,312	(172)	(300)	(300)
Other Non-Cash (Income)/Expense				
Other Operating Cashflow				
Net Interest (Paid)/Received	(1,531)	(2,100)	(2,430)	(1,875)
Tax Paid	(6,977)	(7,977)	(8,706)	(9,768)
Cashflow From Operations	34,946	30,349	36,707	33,972
Capex	(11,787)	(11,000)	(12,000)	(13,500)
Disposals Of FAs/subsidiaries				
Acq. Of Subsidiaries/Investments				
Other Investing Cashflow	(9,583)	(10,200)	(9,200)	(11,200)
Cash Flow From Investing	(21,371)	(21,200)	(21,200)	(24,700)
Debt Raised/(repaid)	(7,313)	(500)	(1,500)	(1,500)
Proceeds From Issue Of Shares			(19,000)	
Shares Repurchased				
Dividends Paid	(3,801)	(4,276)	(4,751)	(5,701)
Preferred Dividends				
Other Financing Cashflow	1,201	285		
Cash Flow From Financing	(9,913)	(4,491)	(25,251)	(7,201)
Total Cash Generated	3,663	4,658	(9,744)	2,071
Free Cashflow To Equity	6,262	8,649	14,007	7,772
Free Cashflow To Firm	15,392	11,549	18,257	11,522

Key Ratios

	Mar-24A	Mar-25F	Mar-26F	Mar-27F
Revenue Growth	20.5%	9.8%	11.3%	10.9%
Operating EBITDA Growth	31.4%	14.2%	10.3%	9.9%
Operating EBITDA Margin	11.1%	11.5%	11.4%	11.3%
Net Cash Per Share (Rs)	(25.64)	(14.79)	(32.14)	(24.62)
BVPS (Rs)	162.72	160.90	201.73	246.75
Gross Interest Cover	15.49	13.42	12.83	17.22
Effective Tax Rate	25.1%	26.3%	26.5%	26.5%
Net Dividend Payout Ratio	19.4%	19.3%	19.7%	21.0%
Accounts Receivables Days	12.96	14.81	15.69	17.66
Inventory Days	20.31	22.30	24.09	26.62
Accounts Payables Days	72.00	78.25	80.08	82.17
ROIC (%)	65.9%	94.9%	92.2%	101.8%
ROCE (%)	30.3%	33.3%	33.6%	31.3%
Return On Average Assets	14.0%	13.8%	13.8%	13.8%

12-mth Fwd Rolling FD Core P/E (x)



Key Drivers

	Mar-24A	Mar-25F	Mar-26F	Mar-27F
ASP (% chg. main prod./serv.)	7.4%	1.9%	1.8%	2.6%
Unit sales grth (%. main prod./serv.)	12.7%	7.6%	9.2%	8.0%

SOURCE: INCRED RESEARCH, COMPANY REPORTS

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- Add** The stock's total return is expected to exceed 10% over the next 12 months.
- Hold** The stock's total return is expected to be between 0% and positive 10% over the next 12 months.
- Reduce** The stock's total return is expected to fall below 0% or more over the next 12 months.

The total expected return of a stock is defined as the sum of the: (i) percentage difference between the target price and the current price and (ii) the forward net dividend yields of the stock. Stock price targets have an investment horizon of 12 months.

Sector Ratings

Definition:

- Overweight** An Overweight rating means stocks in the sector have, on a market cap-weighted basis, a positive absolute recommendation.
- Neutral** A Neutral rating means stocks in the sector have, on a market cap-weighted basis, a neutral absolute recommendation.
- Underweight** An Underweight rating means stocks in the sector have, on a market cap-weighted basis, a negative absolute recommendation.

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Definition:

- Overweight** An Overweight rating means investors should be positioned with an above-market weight in this country relative to benchmark.
- Neutral** A Neutral rating means investors should be positioned with a neutral weight in this country relative to benchmark.
- Underweight** An Underweight rating means investors should be positioned with a below-market weight in this country relative to benchmark.