

India

REDUCE (no change)

Consensus ratings*: Buy 25 Hold 7 Sell 10

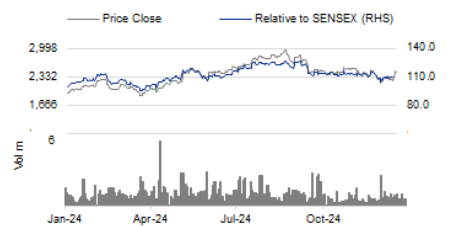
Current price: Rs2,455
 Target price: ▲ Rs1,901
 Previous target: Rs1,782
 Up/downside: -22.6%
 InCred Research / Consensus: -27.5%

Reuters: TVSM.NS
 Bloomberg: TVSL IN
 Market cap: US\$13,466m
 Rs1,166,458m
 Average daily turnover: US\$26.3m
 Rs2278.1m
 Current shares o/s: 475.1m
 Free float: 49.7%

*Source: Bloomberg

Key changes in this note

- Volume upgrade by 4% for FY25F-26F.
- FY25F-27F EBITDA upgrade by 1-4%.
- FY25F-27F PAT upgrade by 8-12%.



Source: Bloomberg

Price performance	1M	3M	12M
Absolute (%)	4.3	(0.1)	25.4
Relative (%)	6.2	3.3	17.2

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

Research Analyst(s)



Pramod AMTHE
 T (91) 22 4161 1541
 E pramod.amthe@incredresearch.com

Ravi GUPTA
 T (91) 02241611552
 E ravi.gupta@incredresearch.com

TVS Motor Co Ltd

Sustains EBITDA margin expansion trend

- 3QFY25 standalone EPS grew by 27% to Rs13.9, beating our estimate by 6%, as a historic-high EBITDA margin helped overcome the miss on the ASP front.
- Rising margin trend led to our 1-4% EBITDA upgrade for FY25F-27F. However, the automobile subsidiary's loss remained at an elevated level which hit FCF.
- We maintain our REDUCE rating on the stock as its rich +2SD above the mean level valuation overlooks the demand for funding international losses.

EBITDA margin expands by 70bp yoy, a 40bp beat to our estimate

TVS Motor Company's (TVS Motor) 3QFY25 EBITDA rose by 17% yoy but was flat qoq at Rs10.9bn, in line with our/Bloomberg consensus estimates. The sustained successive quarter of lower raw material costs (211bp) helped improve the EBITDA margin by 20bp qoq to a new high of 11.9% (Fig. 2). However, the lower-than-expected ASP (flat qoq) led to a 4% miss on the sales front. Adjusted for one-off subsidiaries' investment mark-to-market benefit of Rs415m, normalized PAT grew by 27% yoy to Rs6.6bn, 6% above our estimate. The Rs.7.4bn additional investment was made in subsidiaries, as the automotive arm's EBIT loss remained elevated at Rs2bn (Fig. 6).

Management conference-call highlights

The company's planned capex for FY25F stands at Rs13bn, with Rs3.4bn incurred in 3QFY25. Total investments in 9MFY25 amounted to Rs14bn and is projected to touch Rs17bn by the year-end. In 9MFY25, two-wheeler or 2W retail sales grew by 9% yoy, with rural markets expanding by 10% yoy, while urban market growth lagged slightly. Management expects the growth momentum to sustain in 4QFY25F. The e-bike business faces challenges due to economic conditions in Europe. Norton's first product is expected to be launched by the end of FY25F, with additional products planned for early FY26F.

Volume upgrade by around 4% for FY25F-27F

We upgraded our volume estimates by ~4% for FY25F-27F, as total YTD volume growth remained in double digits (+13% yoy). Flat ASP as of YTD led us to lower upgrade revenue to 2% in the same period. We maintain the EBITDA margin for FY25F-26F, leading to a similar upgrade in EBITDA. The lower-than-expected interest costs in 3Q (-25% yoy) led to our PAT upgrade of 12% for FY25F and 8% for FY26F-27F.

Maintain REDUCE rating for capital allocation challenges

While the standalone business momentum is impressive, the weakness in global subsidiaries is a cause of concern as it is a high capital guzzler. With forward P/E and P/BV valuations +2SD and +1SD above the mean, respectively, we retain our REDUCE rating on the stock. We roll forward our P/E based target price, at 31x1-year forward, and assign subsidiary TVS Credit a value of Rs32/share at 1.5x FY24 BV, leading to a higher target price of Rs1,901 (Rs1,782 earlier). Flat growth in ASP and demand post OBD -2B norms are areas of concern. Key upside risk: Better pricing environment in 2Ws aiding the sustained margin upward trajectory.

Financial Summary

	Mar-23A	Mar-24A	Mar-25F	Mar-26F	Mar-27F
Revenue (Rsm)	263,781	320,743	355,327	395,036	439,154
Operating EBITDA (Rsm)	26,747	38,120	41,751	44,639	49,624
Net Profit (Rsm)	14,910	23,810	25,081	26,179	29,113
Core EPS (Rs)	30.2	48.2	52.3	55.1	61.3
Core EPS Growth	58.6%	59.7%	8.7%	5.3%	11.2%
FD Core P/E (x)	78.24	48.99	46.51	44.56	40.07
DPS (Rs)	7.0	8.0	9.0	10.0	12.0
Dividend Yield	0.29%	0.33%	0.37%	0.41%	0.49%
EV/EBITDA (x)	44.48	30.92	28.04	26.37	23.62
P/FCFE (x)	1,223.45	186.27	101.56	74.53	123.53
Net Gearing	38.3%	15.8%	5.3%	10.7%	4.5%
P/BV (x)	19.29	15.09	14.74	11.60	9.41
ROE	26.4%	33.2%	31.8%	29.1%	25.9%
% Change In Core EPS Estimates			12.02%	8.41%	7.45%
InCred Research/Consensus EPS (x)					

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Sustains EBITDA margin expansion trend

Management conference-call highlights >

- **Industry outlook:** In 9MFY25, two-wheeler or 2Ws retail sales grew by 9% yoy, with rural markets expanding 10% yoy, while urban market growth lagged slightly. Management expects the growth momentum to sustain in 4QFY25F, supported by government infrastructure initiatives and favourable reservoir water levels.
- **Financial performance:** The EBITDA margin expanded by 70bp. The company plans to start reporting the Production Linked Incentive (PLI) scheme benefits from 4QFY25F. Improved product mix and cost-reduction initiatives are expected to drive further margin improvement.
- **Electric vehicles (EVs):** The EV two-wheeler industry grew by 36% yoy in 9MFY25, with the penetration reaching 5.8%, slightly better than that of the previous year. TVS Motor's EV 2W sales in 3QFY25 surged 57% yoy, contributing Rs8bn to the top line.
- **TVS iQube:** TVS Motor introduced a new variant in its iQube portfolio, offering battery options of 2.2 kWh, 3.4 kWh, and 5.1 kWh. All iQube models qualify for the PLI scheme. The company currently sells EV 2Ws through 900 dealers, with plans to expand this network to 1,400 dealers. The Indian scooter market continues to grow due to its convenience, which supports iQube's market potential.
- **TVS King EV Max:** It offers a range of 179km and can be fully charged in 2.15 hours. Equipped with real-time navigation alerts and vehicle diagnostics accessible via smartphones. The EV3W category penetration YTD stands at 21%, rising to 26% in the last quarter.
- **Micro-mobility:** The company has partnered with Hyundai Motor to unveil concept models for the micro-mobility segment, signaling further innovation in this space.
- **International business:** 3QFY25 saw an improvement in the African market, with the foray into Morocco expected to add to the growth momentum in North Africa. The HLX 125 five-gear model was launched in several African markets and it received a positive response. Sri Lanka, Nepal, and Bangladesh reported a gradual demand recovery, while the Middle East and Latin America experienced strong growth.
- **Sundaram Auto:** It is a plastics business entity wholly owned by TVS Motor, which will merge with the latter. No additional revenue will be generated from this merger, as 80% of Sundaram Auto's sales are to TVS Motor.
- **OBD 2B norms:** The company is preparing to comply with OBD 2B norms from 1 Apr 2025, with plans to launch new products. Management expects the price hikes to be modest, compared to the transition from BS4 to BS6.
- **Capex and investments:** Planned capex for FY25F stands at Rs13bn, with Rs3.4bn incurred in 3QFY25. Total investments in 9MFY25 amounted to Rs14 bn, which are projected to reach Rs17bn by the year-end. Investments were made in TVS Credit, Norton, e-bikes, new technology initiatives in TVS Singapore, and establishing a new hub in Dubai for international operations.
- **TVS Credit:** Added over 3m new customers during the quarter, bringing the total loan book size to Rs272bn, up 7% yoy. Profit before tax grew by 40% yoy to Rs3.21bn. In addition to two-wheeler financing, TVS Credit provides loans for consumer durables, mobile phones, cars, tractors, used commercial vehicles, and unsecured loans. Gross NPAs stand at 3%.
- **E-bike business and Norton:** The e-bike business faces challenges due to economic conditions in Europe. Norton's first product is expected to be launched by the end of FY25F, with additional products planned in early FY26F.

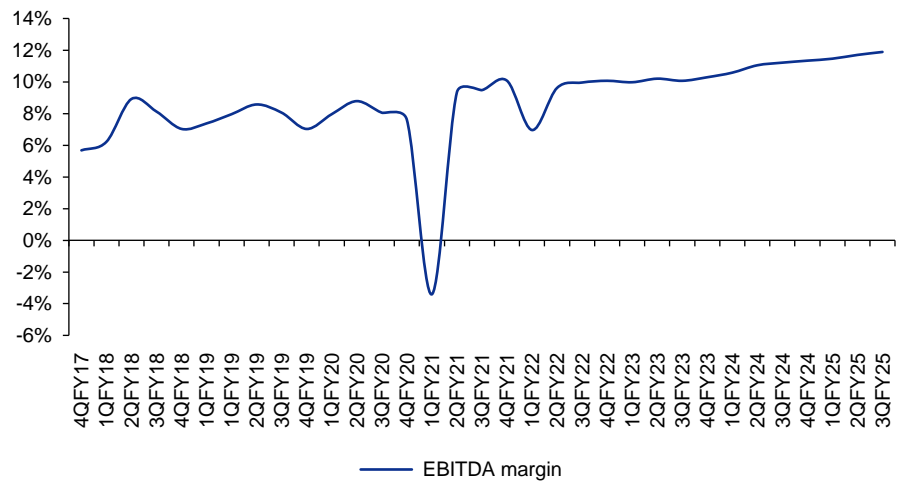
- **Exports and spare parts business:** Export revenue for the quarter stood at Rs20.18bn, while spare parts revenue was at Rs9.50bn.

Figure 1: Results comparison

Y/E Mar (Rs m)	3QFY25	3QFY24	yoy % chg	2QFY25	qoq % chg	9MFY25	9MFY24	yoy % chg	Comments for the quarter
Revenue	90,971	82,450	10.3	92,282	(1.4)	2,67,009	2,36,075	13.1	4% below our estimate.
Raw material costs	65,112	60,756	7.2	66,018	(1.4)	1,90,934	1,74,850	9.2	
RM costs as a % of revenue	71.6	73.7	(211.4)	71.5	3.6	71.5	74.1	(255.7)	43bp below our estimate..
EBITDA	10,815	9,244	17.0	10,798	0.2	30,989	25,654	20.8	In line with our estimate.
EBITDA margin (%)	11.9	11.2	67.6	11.7	18.7	11.6	10.9	73.9	
Depreciation & amortization	1,883	1,781	5.8	1,806	4.3	5,452	5,117	6.6	-
EBIT	8,931	7,464	19.7	8,992	(0.7)	25,537	20,538	24.3	
Interest expenses	338	448	(24.6)	319	5.8	1,029	1,444	(28.8)	33% below our estimate.
Other income	185	4	4,518	299	(38.2)	562	111	405.3	424% below our estimate.
Pre-tax profit	8,778	7,020	25.0	8,972	(2.2)	25,070	19,205	30.5	
Tax	2,182	1,817	20.1	2,346	(7.0)	6,584	5,115	28.7	
Tax rate (%)	24.9	25.9	(102.2)	26.1	(129.1)	26.3	26.6	(37.0)	
Normalized net profit	6,596	5,204	26.8	6,626	(0.4)	18,486	14,090	31.2	1% below our estimate.
Exceptional items	(412)	730		-	nm	(127)	1,661	nm	
Reported net profit	6,185	5,934	4.2	6,626	(6.7)	18,359	15,751	16.6	
Normalized EPS (Rs)	13.88	10.95	26.8	13.95	(0.4)	38.9	29.7	31.2	
Volume (units)	12,11,952	11,00,512	10.1	12,28,223	(1.3)	35,27,350	31,28,134	12.8	
Realization (Rs/vehicle)	75,061	74,920	0.2	75,135	(0.1)	75,697	75,468	0.3	4% below our estimate.

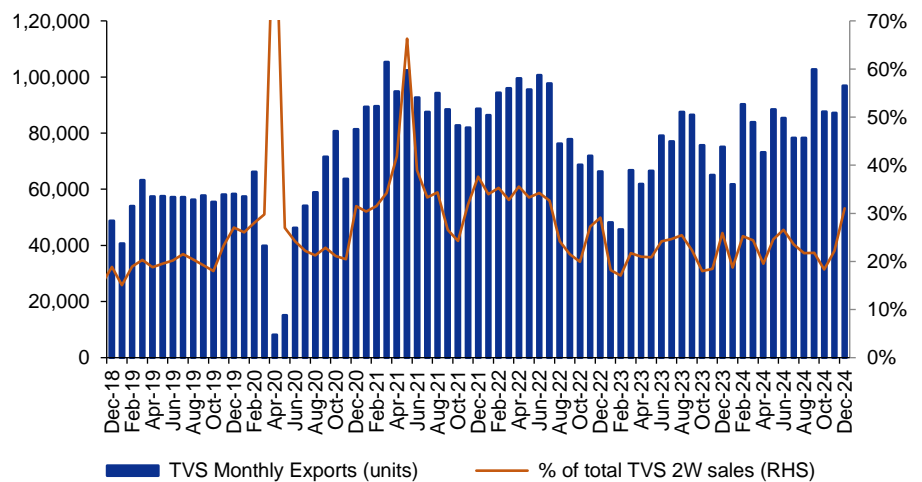
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 2: The EBITDA margin gradually scales a new high



SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 3: Export sales trend improves gradually



SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 4: TVS Motor's two-wheeler EV market share scales a new high

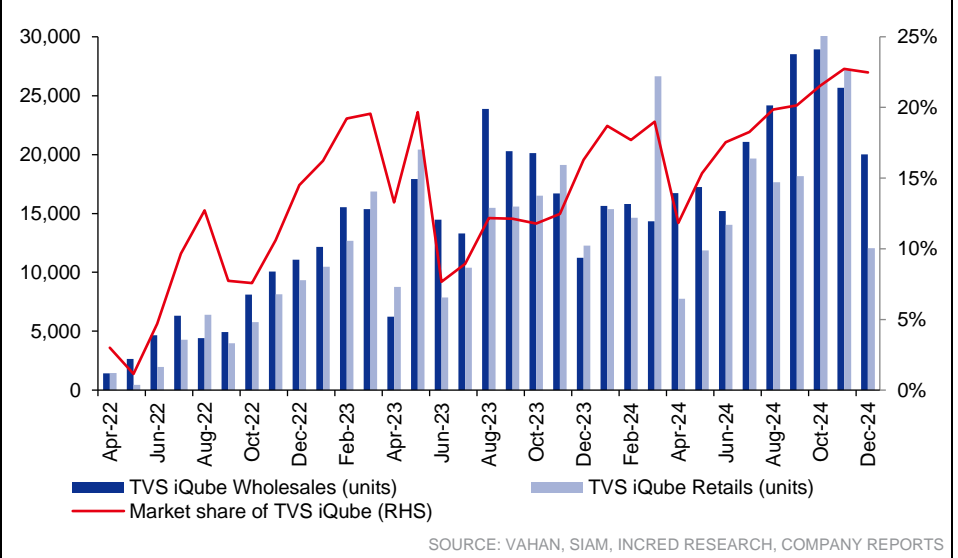


Figure 5: Consolidated automobile segment's EBIT

Consolidated Performance (Rs m)	3QFY25	3QFY24	YoY	2QFY25	QoQ	9MFY25	9MFY24	YoY
Major Segment Revenue								
a) Automotive Vehicles & Parts	94,162	86,207	9.2%	95,674	-1.6%	2,77,050	2,47,780	11.8%
b) Automotive Components	2243.1	1,780	26.0%	2,213	1.4%	6,465	5,627	14.9%
c) Financial Services	16,834	15,100	11.5%	16,628	1.2%	49,815	42,966	15.9%
EBIT								
a) Automotive Vehicles & Parts	6,932	6,074	14.1%	7,112	-2.5%	19,936	16,842	18.4%
b) Automotive Components	38	60	-36.8%	100	-61.9%	231	263	-12.1%
c) Financial Services	2,911	2,113	37.8%	2,379	22.4%	7,449	5,840	27.5%

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 6: Consolidated EBIT of auto vehicle and spare parts impacted by rising losses of subsidiaries

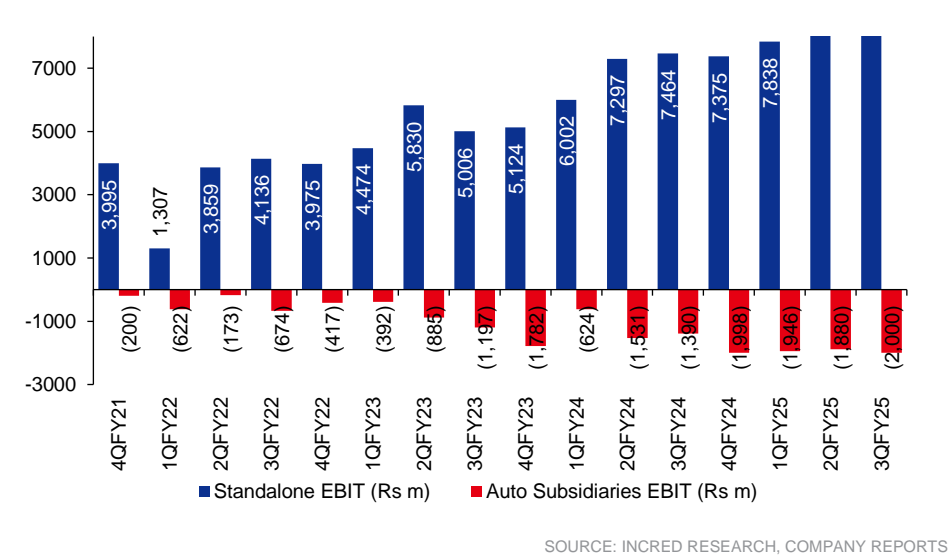


Figure 7: Standalone earnings revision summary

Rs m	FY25F		FY26F		FY27F	
	Old	New	Old	New	Old	New
Total Volume (nos)	44,64,989	46,55,212	48,77,243	50,78,282	52,69,248	54,98,761
% change		4.3%		4.1%		4.4%
Net Sales	3,48,973	3,55,327	3,88,364	3,95,036	4,30,785	4,39,154
% change		1.8%		1.7%		1.9%
EBITDA	40,132	41,751	44,274	44,639	48,679	49,624
% change		4.0%		0.8%		1.9%
EBITDA margin	11.5%	11.8%	11.4%	11.3%	11.3%	11.3%
bp change		22		(9)		0
PAT	22,126	24,796	24,147	26,179	27,093	29,113
% change		12.1%		8.4%		7.5%
EPS (Rs)	46.6	52.2	50.8	55.1	57.0	61.3
% change		12.1%		8.4%		7.5%

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 8: Key assumptions

Volume assumptions (units)	FY22	FY23	FY24	FY25F	FY26F	FY27F
- Motorcycle	17,31,729	17,33,256	19,93,053	21,56,741	23,80,373	26,13,463
- Scooter	9,22,578	13,33,925	15,67,240	18,32,302	19,89,321	21,36,709
- Moped	4,83,396	4,45,773	4,84,531	5,37,622	5,70,108	5,99,030
- 3W	1,71,875	1,69,114	1,45,611	1,28,547	1,38,481	1,49,559
Total volume	33,09,578	36,82,068	41,90,435	46,55,212	50,78,282	54,98,761
% yoy	8.4%	11.3%	13.8%	11.1%	9.1%	8.3%
Revenue assumptions (Rs m)	FY22	FY23	FY24	FY25F	FY26F	FY27F
- Motorcycle	1,02,425	1,19,943	1,48,955	1,61,189	1,80,571	2,02,218
- Scooter	49,831	83,073	1,06,876	1,25,576	1,39,064	1,53,848
- Moped	14,458	14,666	16,579	18,396	19,702	21,012
- 3W	17,395	18,827	17,021	15,101	16,431	18,100
- Spare parts	20,461	23,530	27,060	30,307	33,944	38,017
Total revenue (Rs m)	2,04,571	2,60,040	3,16,491	3,50,569	3,89,712	4,33,196
% yoy	23.4%	27.1%	21.7%	10.8%	11.2%	11.2%
EBITDA (Rs m)	19,422	26,747	38,120	41,751	44,639	49,624
EBITDA margin %	9.3%	10.1%	11.9%	11.8%	11.3%	11.3%
PAT (Rs m)	9,070	14,131	22,609	24,796	26,179	29,113

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 9: SOTP-based target price

	Methodology	Multiple	Value per share (Rs)
TVS Motor	P/E	31x 1-year forward	1,868.7
TVS Credit	P/BV	1.5x FY24 book value	32.4
SOTP-based valuation			1,901.1

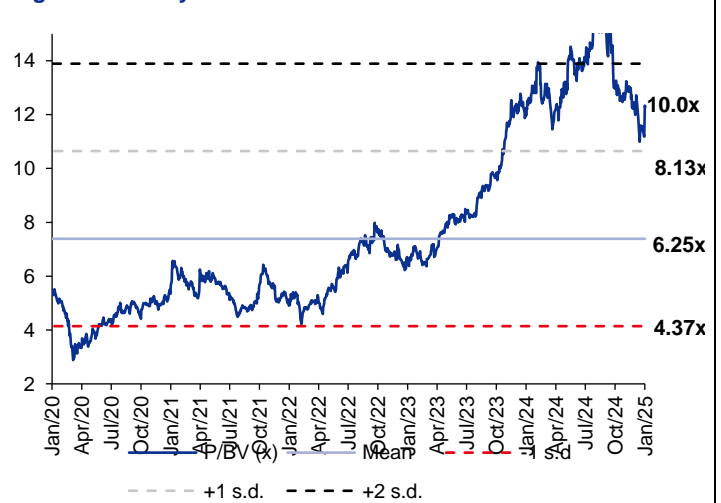
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 10: One-year forward P/E above the +2SD level



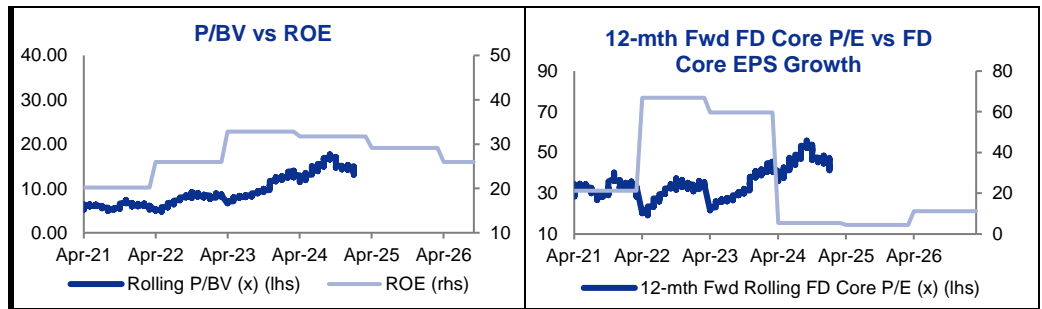
SOURCE: BLOOMBERG, INCRED RESEARCH, COMPANY REPORTS

Figure 11: One-year forward P/BV above the +1SD level



SOURCE: BLOOMBERG, 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	320,743	355,327	395,036	439,154
Gross Profit	63,852	86,453	101,624	110,610	122,963
Operating EBITDA	26,747	38,120	41,751	44,639	49,624
Depreciation And Amortisation	(6,312)	(7,004)	(7,643)	(8,563)	(9,583)
Operating EBIT	20,434	31,117	34,108	36,077	40,042
Financial Income/(Expense)	(1,407)	(1,816)	(1,400)	(1,500)	(1,500)
Pretax Income/(Loss) from Assoc.					
Non-Operating Income/(Expense)	170	285	800	800	800
Profit Before Tax (pre-EI)	19,197	29,585	33,508	35,377	39,342
Exceptional Items	779	1,201	285		
Pre-tax Profit	19,976	30,786	33,793	35,377	39,342
Taxation	(5,066)	(6,977)	(8,712)	(9,198)	(10,229)
Exceptional Income - post-tax					
Profit After Tax	14,910	23,810	25,081	26,179	29,113
Minority Interests					
Preferred Dividends					
FX Gain/(Loss) - post tax					
Other Adjustments - post-tax					
Net Profit	14,910	23,810	25,081	26,179	29,113
Recurring Net Profit	14,329	22,881	24,870	26,179	29,113
Fully Diluted Recurring Net Profit	14,329	22,881	24,870	26,179	29,113

Cash Flow

(Rs mn)	Mar-23A	Mar-24A	Mar-25F	Mar-26F	Mar-27F
EBITDA	26,747	38,120	41,751	44,639	49,624
Cash Flow from Invt. & Assoc.					
Change In Working Capital	211	5,001	919	3,911	(2,752)
(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)	(600)	(700)	(700)
Tax Paid	(5,066)	(6,977)	(8,712)	(9,198)	(10,229)
Cashflow From Operations	18,410	37,925	33,186	38,352	35,643
Capex	(11,238)	(11,787)	(11,000)	(12,000)	(13,500)
Disposals Of FAs/subsidiaries					
Acq. Of Subsidiaries/investments					
Other Investing Cashflow	(12,985)	(12,562)	(10,200)	(9,200)	(11,200)
Cash Flow From Investing	(24,222)	(24,350)	(21,200)	(21,200)	(24,700)
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	285		
Cash Flow From Financing	4,219	(9,913)	(4,491)	(25,251)	(7,201)
Total Cash Generated	(1,593)	3,663	7,494	(8,099)	3,742
Free Cashflow To Equity	953	6,262	11,486	15,652	9,443
Free Cashflow To Firm	(4,405)	15,392	13,386	18,652	12,443

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	13,577	5,478	9,220
Total Debtors	9,551	13,021	15,576	18,399	24,063
Inventories	12,364	13,708	17,523	20,564	26,470
Total Other Current Assets	16,515	10,878	11,950	13,150	14,350
Total Current Assets	40,849	43,690	58,626	57,590	74,103
Fixed Assets	42,236	47,020	50,377	53,815	57,732
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	130,290	142,727	157,645
Short-term Debt					
Current Portion of Long-Term Debt					
Total Creditors	41,306	51,122	58,410	68,184	77,002
Other Current Liabilities	7,835	8,560	9,060	9,560	10,060
Total Current Liabilities	49,141	59,682	67,470	77,744	87,062
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	90,800	99,775	107,793
Shareholders Equity	60,479	77,310	79,115	100,543	123,955
Minority Interests					
Total Equity	60,479	77,310	79,115	100,543	123,955

Key Ratios

	Mar-23A	Mar-24A	Mar-25F	Mar-26F	Mar-27F
Revenue Growth	26.9%	21.6%	10.8%	11.2%	11.2%
Operating EBITDA Growth	37.7%	42.5%	9.5%	6.9%	11.2%
Operating EBITDA Margin	10.1%	11.9%	11.7%	11.3%	11.3%
Net Cash Per Share (Rs)	(48.74)	(25.64)	(8.82)	(22.71)	(11.67)
BVPS (Rs)	127.30	162.72	166.52	211.63	260.90
Gross Interest Cover	14.53	17.13	24.36	24.05	26.69
Effective Tax Rate	25.4%	22.7%	25.8%	26.0%	26.0%
Net Dividend Payout Ratio	23.5%	16.8%	17.2%	18.1%	19.6%
Accounts Receivables Days	13.19	12.84	14.69	15.70	17.65
Inventory Days	21.53	20.31	22.47	24.44	27.15
Accounts Payables Days	74.14	72.00	78.79	81.23	83.80
ROIC (%)	74.1%	75.4%	101.2%	95.5%	105.1%
ROCE (%)	26.0%	33.6%	34.8%	33.2%	30.9%
Return On Average Assets	11.7%	16.0%	14.8%	14.0%	14.0%

Key Drivers

	Mar-23A	Mar-24A	Mar-25F	Mar-26F	Mar-27F
ASP (% chg, main prod./serv.)	15.5%	7.5%	(0.4%)	1.8%	2.6%
Unit sales grth (% , main prod./serv.)	11.3%	13.8%	11.1%	9.1%	8.3%

SOURCE: INCRED RESEARCH, COMPANY REPORTS

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InCred Research Services Private Limited

Research Analyst SEBI Registration Number: INH000011024

Registered Office: Unit No 1203, 12th Floor, B Wing, The Capital, C-70, G Block, BKC, Bandra (E), Mumbai – 400051

Phone: +91-22-6844-6100

Corporate Office: 05th floor, Laxmi Towers, Plot No. C-25, G Block, Bandra – Kurla Complex, Bandra (East), Mumbai – 400051

Phone: +91-22-4161-1500

Name of the Compliance Officer: Mr. Yogesh Kadam

Email ID: compliance@incredresearch.com, Phone No: +91-22-41611539

For any queries or grievances, you may contact the Grievance Officer.

Name of the Grievance Officer: Mr. Rajarshi Maitra

Phone no. +91-022-41611546

Email ID: rajarshi.maitra@incredresearch.com

CIN: U74999MH2016PTC287535

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Definition:

- 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.

Country Ratings

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.