

India

REDUCE (no change)

Consensus ratings*: Buy 32 Hold 8 Sell 5

Current price:	Rs1,169
Target price:	Rs926
Previous target:	Rs892
Up/downside:	-20.8%
InCred Research / Consensus:	-24.7%
Reuters:	TVSM.NS
Bloomberg:	TVSL IN
Market cap:	US\$6,790m
	Rs555,401m
Average daily turnover:	US\$22.6m
	Rs1848.9m
Current shares o/s:	475.1m
Free float:	49.7%

*Source: Bloomberg

Key changes in this note

- Net sales raised by ~2% for FY24-25F.
- EBITDA maintained for FY24F-25F; EPS raised by 2% for FY24F.



Source: Bloomberg

Price performance	1M	3M	12M
Absolute (%)	7.8	12.9	86.3
Relative (%)	4.2	11.2	68.1

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

On EV expansion mode in FY24F

- 4Q flattish qoq EPS of Rs7.34 was in line with consensus estimate but better than our estimate as ASP rose, and EBITDA margin expanded 20bp qoq.
- We retain FY24F-25F EPS estimates for the standalone entity, while elevated EBIT losses of subsidiaries in the last two quarters is an area of concern.
- Maintain REDUCE rating on the stock with a higher SOTP-based target price of Rs926, where the standalone business is valued at 25x 1-year forward P/E.

Flat qoq profits

TVS Motor's 4QFY23 EBITDA rose 3% qoq and 22% yoy to Rs6.8bn, which was in line with Bloomberg consensus estimate but 7% above our estimate. Sustained ASP momentum (+2% qoq) and lower employee cost led to EBITDA margin expansion of 20bp qoq to 10.3%. Higher other income (+36% qoq) led to a 27% yoy rise in normalized PAT to Rs3.5bn, which was in line with consensus estimate but 10% above our estimate. Revaluation of investment led to an extraordinary income of Rs617m. EBIT losses of subsidiaries continued to stay elevated at Rs1.2bn (Fig. 9), as TVS Motor continues to acquire new businesses (Fig. 7) and made a fresh investment of Rs.3.5bn in 4Q.

EV product expansion and export plan for FY24F

Management clarified that EV charger compensation to meet government norms' compliance will be just Rs200m, which is one of lowest among leading EV OEMs. Considering the 30,000 units-strong order book, it plans to quickly ramp up production. The company plans to launch higher battery capacity E2Ws and E3Ws in the coming quarters and start exports to developed countries. Management seems less worried about short-term EBIT losses in new businesses/acquisitions because it feels new technology will pay off in the medium term.

Maintain our EPS estimates

We marginally tinker our estimates, as new electric vehicle or EV sales volume ramp-up and market share gains to emerge as the No. 2 player in 4QFY23 in the E2W segment (Fig 6) are impressive. However, we feel a longer working capital cycle on EV incentive receivables and international investments, leading to higher debt and interest cost, limits the EPS growth momentum. We build a flattish EBITDA margin close to 10% for FY24F.

Maintain REDUCE rating because of FCF challenges

While profit growth momentum looks impressive, the FCF benefit in the past five years has been challenging, as adjusted for investments in new businesses, it's near zero. With investments now acting as a drag on consolidated EBIT, we feel standalone forward P/E valuation at +1SD above the mean looks rich. With E2W price cuts announced by rivals despite battery upgrade costs, they can be a drag on profitability. Maintain REDUCE rating on the stock with a slightly higher SOTP-based target price of Rs926 for rolling forward EPS. Upward risks: Faster-than-expected recovery in overseas markets & in subsidiaries.

Financial Summary

	Mar-22A	Mar-23A	Mar-24F	Mar-25F	Mar-26F
Revenue (Rsm)	207,905	263,781	305,762	342,374	383,859
Operating EBITDA (Rsm)	19,422	26,747	30,270	32,526	37,618
Net Profit (Rsm)	8,935	14,910	15,425	16,798	19,886
Core EPS (Rs)	19.0	30.2	32.5	35.4	41.9
Core EPS Growth	22.6%	58.6%	7.7%	8.9%	18.4%
FD Core P/E (x)	62.16	37.25	36.01	33.06	27.93
DPS (Rs)	5.0	7.0	8.0	9.0	10.0
Dividend Yield	0.43%	0.60%	0.68%	0.77%	0.86%
EV/EBITDA (x)	29.36	21.63	18.87	17.43	14.76
P/FCFE (x)	(200.17)	582.54	58.28	78.44	37.22
Net Gearing	30.7%	38.3%	22.1%	13.7%	0.0%
P/BV (x)	11.52	9.18	7.70	6.56	5.57
ROE	20.1%	26.4%	23.3%	21.4%	21.6%
% Change In Core EPS Estimates			2.06%	0.30%	
InCred Research/Consensus EPS (x)					

SOURCE: INCRED RESEARCH, COMPANY REPORTS

On EV expansion mode for FY24

3QFY23 earnings-call highlights

Domestic update: Management mentioned that the 125cc segment continues to do well, and that its successful products like Jupiter, Raider and Ntorq ensure that the company grows ahead of the industry. Urban market recovery is visible while rural market recovery has been slow. The key driver for rural market recovery will be the upcoming monsoon season.

Exports update: Management indicated that inventory destocking in the export market could be nearing its end. Wholesales have been rising month over month. However, African market might take longer to recover.

Price hikes and commodity costs: The company took price hikes of 0.5% in 4QFY23, 1% at the end of Mar 2023 and 0-8-1% for certain models in Apr 2023. Management mentioned the commodity cost benefit of 90bp in 4QFY23. It expects commodity prices to remain range-bound or soften slightly going ahead.

EV update: EV order book topped 30,000 units as its distribution reach expands to 235 touch points across 135 cities. It plans to launch a series of new products ranging from 5-25kWh over the next 9-15 months. E2W sales were hit in Apr 2023 due to supply challenges relating to AIS156 (battery safety norms) changeover and due to electronic component shortage. However, management expects sales to bounce back in May 2023F. It plans to launch both cargo and passenger E3Ws in 2QFY24F. The company is offering a refund (Rs1,700 per vehicle on an average) to customers who have paid above the threshold limit fixed by FAME. These costs should be less than Rs200m, as per management.

Investments rise: In 4QFY23, the company invested Rs3,548m in TVS Motor (Singapore), Rs2,000m in TVS Credit Services, and Rs500m in non-convertible debentures or NCDs of TVS Motor Services. The investment in TVS Motor (Singapore) was towards Norton and to support recent e-mobility investments. Management stated that its rationale for these investments is that they would yield good long-term results, as seen with TVS Credit and an Indonesia subsidiary.

TVS Credit Services: Loan book size stood at Rs205bn, with FY23 PBT at Rs5.1bn and 4QFY23 PBT at Rs1.4bn. Management mentioned that the book is well-diversified and the collections have been robust, thus warranting minimum provisioning.

Other key data:

- In FY24F, budgeted capex (including EV) should be Rs9-10bn, while investments should be Rs7bn.
- Spares revenue stood at Rs6.7bn for 4QFY23 and Rs26.4bn for FY23.
- Export revenue stood at Rs13.7bn for 4QFY23.

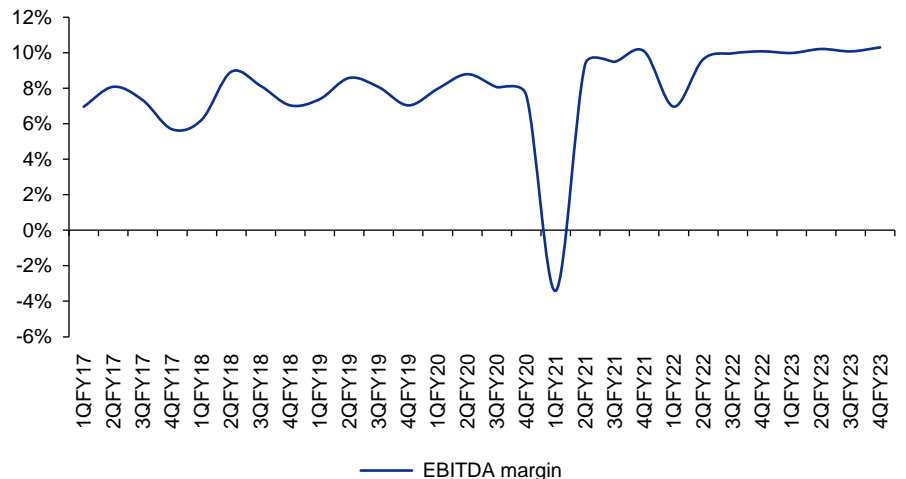
Figure 1: Results comparison

FYE Mar (Rs m)	4QFY23	4QFY22	yoy % chg	3QFY23	qoq % chg	FY23	FY22	yoy % chg	Comments for the quarter
Revenue	66,048	55,303	19.4	65,454	0.9	2,63,781	2,07,905	26.9	3% above our estimates.
Raw Materials	49,797	42,115	18.2	49,429	0.7	1,99,928	1,58,082	26.5	
RM as % of revenue	75.4	76.2	(75.7)	75.5	(12.3)	75.8	76.0	(24.2)	21bp below our estimates.
EBITDA	6,798	5,568	22.1	6,589	3.2	26,747	19,422	37.7	7% above our estimates: higher gross margins & lower employee cost.
EBITDA margin (%)	10.3	10.1	22.3	10.1	22.5	10.1	9.3	79.8	
Deprn & amort.	1,674	1,593	5.1	1,583	5.7	6,312	6,144	2.7	2% below our estimates.
EBIT	5,124	3,975	28.9	5,006	2.4	20,434	13,278	53.9	
Interest expense	363	330	9.9	316	14.7	1,407	1,259	11.7	9% below our estimates.
Other income	88	82	7.7	65	35.7	170	190	(10.6)	252% above our estimates.
Pretax profit	4,849	3,727	30.1	4,755	2.0	19,197	12,208	57.2	
Tax	1,364	982	38.9	1,227	11.1	5,066	3,139	61.4	
Tax rate (%)	28.1	26.3	177.3	25.8	230.7	26.4	25.7	68.4	
Normalised Net profit	3,486	2,745	27.0	3,528	(1.2)	14,131	9,070	55.8	10% above our estimates: higher other income & lower interest costs.
Exceptionals	617	-		-	nm	779	(135)	nm	
Reported net profit	4,103	2,745	49.5	3,528	16.3	14,910	8,935	66.9	
Normalised EPS (Rs)	7.34	5.78	27.0	7.42	(1.2)	29.7	19.1	55.8	
Volume (units)	8,68,417	8,56,456	1.4	8,79,423	(1.3)	36,82,068	33,09,578	11.3	
Realisation (Rs/vehicle)	76,055	64,572	17.8	74,429	2.2	71,639	62,819	14.0	3% above our estimate.

SOURCE: INCRED RESEARCH, COMPANY REPORTS

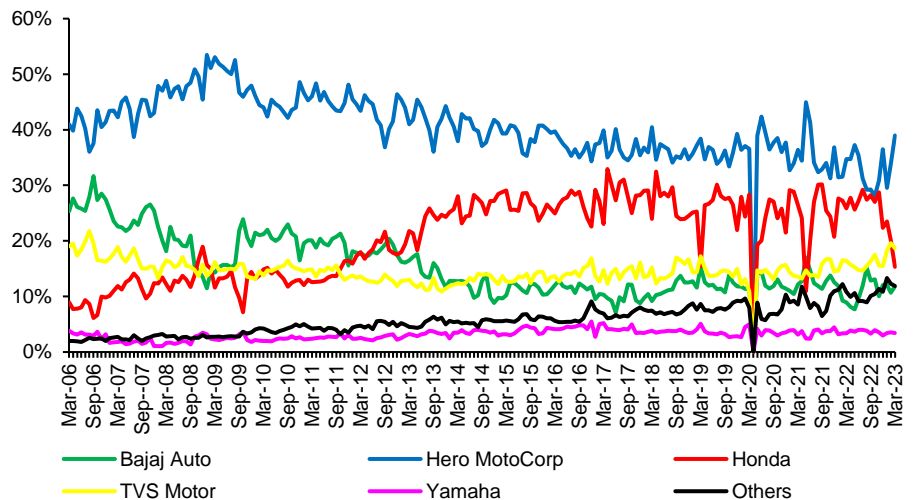
EBITDA margin remains relatively stable as the company has been taking frequent price hikes and had some benefit of lower commodity costs.

Figure 2: Sustains EBITDA margin



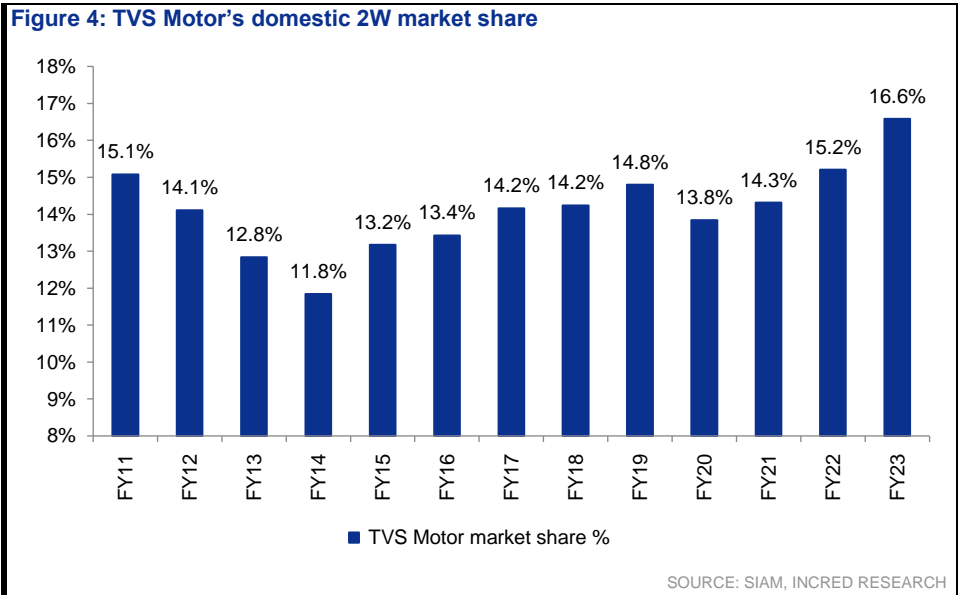
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 3: Domestic 2W monthly market share trend



SOURCE: SOCIETY OF INDIAN AUTOMOBILE MANUFACTURERS (SIAM), INCRED RESEARCH

Domestic market share improves for TVS Motor on the back of its successful product launches as well as a strategic shift in focus to the domestic market in the face of a challenging macroeconomic environment in the export market.



With a volatile and deteriorating export environment, management's focus has shifted to retail sales in order to lower the working capital requirement. However, it indicated that inventory destocking in the export market should be nearing its end. Also, the African market could take longer to recover and should be closely watched.

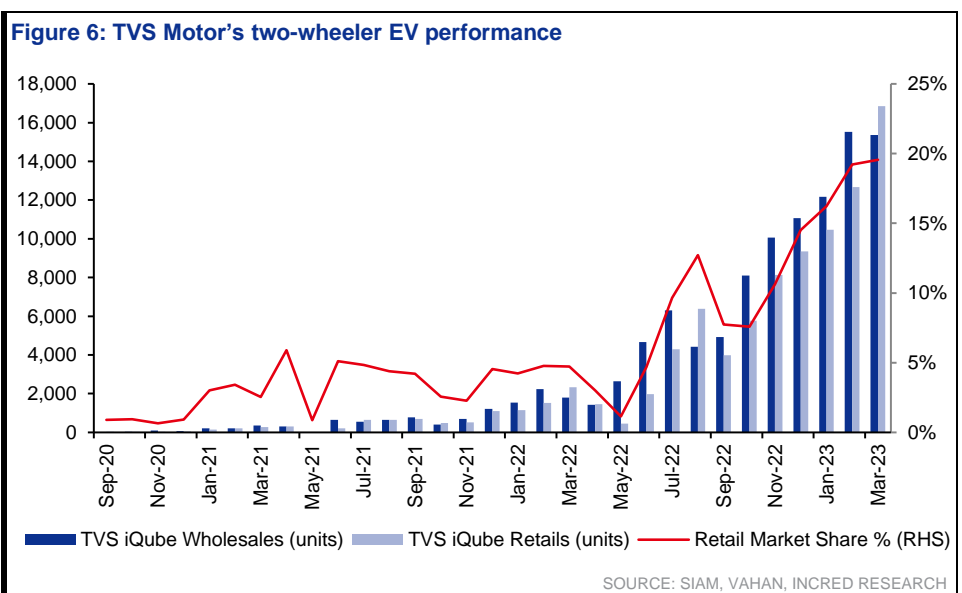
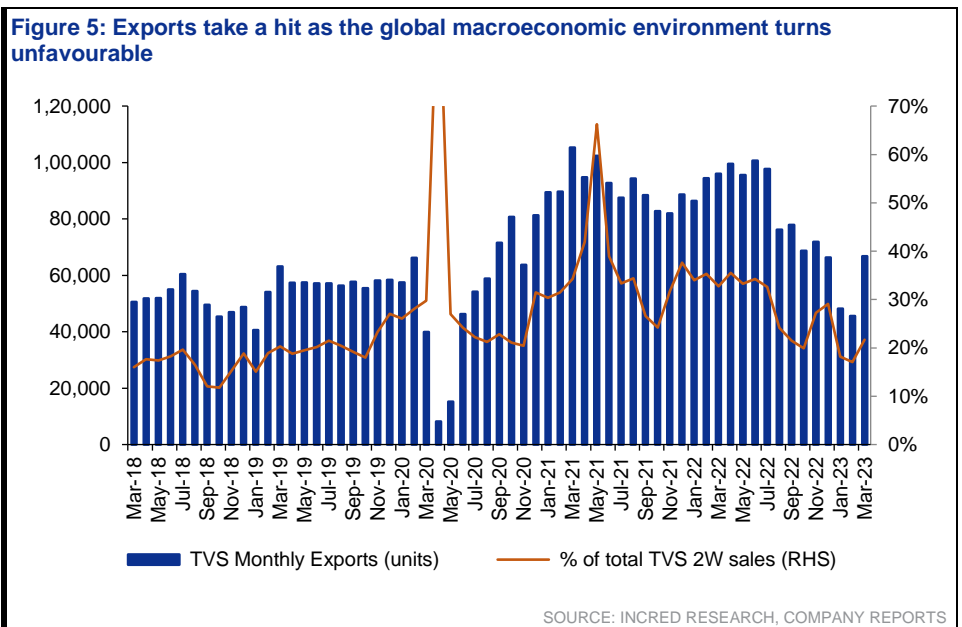


Figure 7: Fast-expanding TVS Motor’s investment book is a cause of concern as it is spread over pre-owned 2W, E-mobility and new tech

Target Company	Segment	Country	Date	Stake	Amount (Rs b)	Revenue (Rs b)
Killwatt GmbH	E-mobility	Germany	Apr-23	25%	0.18	Pre-revenue
ION Mobility	E-mobility	Indonesia	Feb-23	NA	0.78	FY22 = 0
BBT 35/22 Vermögensverwaltungs GmbH	E-mobility	Germany	Dec-22	100%	0.002	NA
Nkars Mobility Millennial Solutions Pvt. Ltd.	Pre-owned and leasing of 2W	India	Aug-22	48%	0.85	FY22 = 0.09
Passion Vélo	E-mobility	Switzerland	Apr-22	100%	0.22	FY21 = 0.24
EBCO Limited	E-mobility	United Kingdom	Apr-22	70%	0.11	FY21 = 0.09
Swiss E-Mobility Group (Holding) AG	E-mobility	Switzerland	Jan-22	75%	6.00	FY20 = 5.60
Ultraviolette	E2W OEM	India	Dec-21	Increase in stake	0.75	NA
Intellicar Singapore Pte. Ltd	Technology	Singapore	Nov-21	100%	0.15	FY20 = 0.16
the GO corporation (the GO AG)	E-mobility	Switzerland	Sep-21	80%	1.34	FY20 = 4.10

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 8: Losses from subsidiaries drag the consolidated auto segment’s EBIT

Consolidated Performance (Rs m)	4QFY23	4QFY22	YoY	3QFY23	QoQ
Major Segment Revenue					
a) Automotive Vehicles & Parts	67,044	56,966	17.7%	68,628	-2.3%
b) Automotive Components	1,924	1,998	-3.7%	1,930	-0.3%
c) Financial Services	12,348	7,678	60.8%	10,939	12.9%
EBIT					
a) Automotive Vehicles & Parts	3,959	3,558	11.3%	3,809	3.9%
b) Automotive Components	74	(159)	NA	113	-35.0%
c) Financial Services	1,400	754	85.7%	1,303	7.4%

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 9: Consolidated EBIT of auto vehicle and parts subsidiaries negate the benefits of improving standalone EBIT

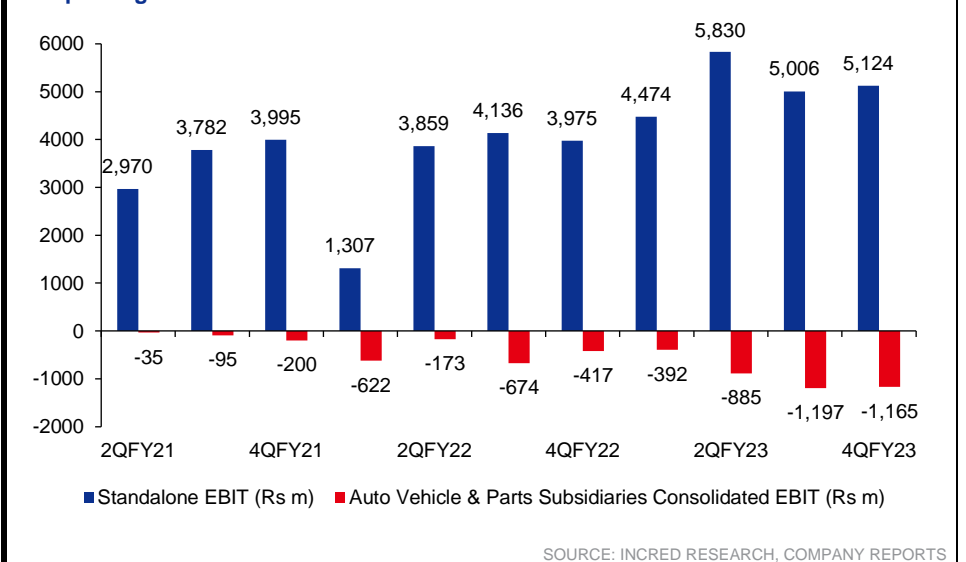


Figure 10: Earnings revision summary

Rs m	FY24F		FY25F	
	Old	New	0	New
Total Volume (nos)	40,55,785	40,93,257	44,02,377	44,55,761
% change		0.9%		1.2%
Net Sales	3,00,442	3,05,762	3,35,072	3,42,374
% change		1.8%		2.2%
EBITDA	29,744	30,270	32,837	32,526
% change		1.8%		-0.9%
EBITDA margin	9.9%	9.9%	9.8%	9.5%
bp change		(0)		(31)
PAT	15,113	15,425	16,747	16,798
% change		2.1%		0.3%
EPS (Rs)	31.8	32.5	35.2	35.4
% change		2.1%		0.3%

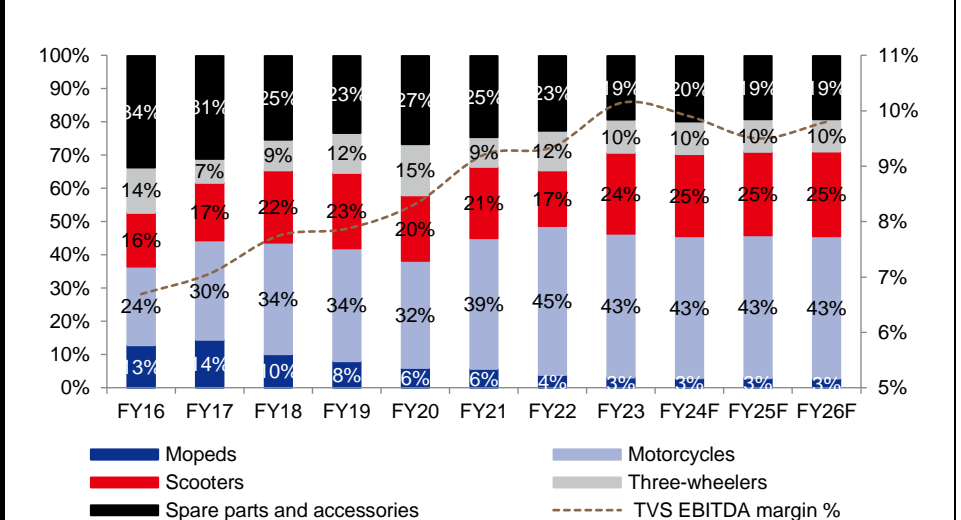
SOURCE: INCRED RESEARCH ESTIMATES, COMPANY REPORTS

Figure 11: TVS Motor – key assumptions

Volume assumptions (units)	FY21	FY22	FY23	FY24F	FY25F	FY26F
- Motorcycle	13,41,761	17,31,729	17,33,256	18,97,226	20,81,489	22,76,023
- Scooter	9,60,946	9,22,578	13,33,925	15,48,730	16,78,496	18,31,912
- Moped	6,25,560	4,83,396	4,45,773	4,67,641	5,00,416	5,35,574
- 3W	1,23,596	1,71,875	1,69,114	1,79,659	1,95,360	2,13,597
Total volume	30,51,863	33,09,578	36,82,068	40,93,257	44,55,761	48,57,107
% yoy	-6.5%	8.4%	11.3%	11.2%	8.9%	9.0%
Revenue assumptions (Rs m)						
- Motorcycle	71,819	1,02,425	1,19,943	1,37,855	1,54,268	1,72,060
- Scooter	47,618	49,831	83,073	1,01,273	1,14,149	1,29,566
- Moped	17,324	14,458	14,666	15,693	17,129	18,699
- 3W	11,582	17,395	18,827	20,401	22,627	25,234
- Spare parts	17,369	20,461	23,530	26,354	29,516	33,058
Total revenue (Rs m)	1,65,713	2,04,571	2,60,040	3,01,576	3,37,690	3,78,618
% yoy	3.0%	23.4%	27.1%	16.0%	12.0%	12.1%
EBITDA (Rs m)	15,533	19,422	26,747	30,270	32,526	37,618
EBITDA margin %	9.2%	9.3%	10.1%	9.9%	9.5%	9.8%
PAT (Rs m)	7,368	9,070	14,131	15,425	16,798	19,886

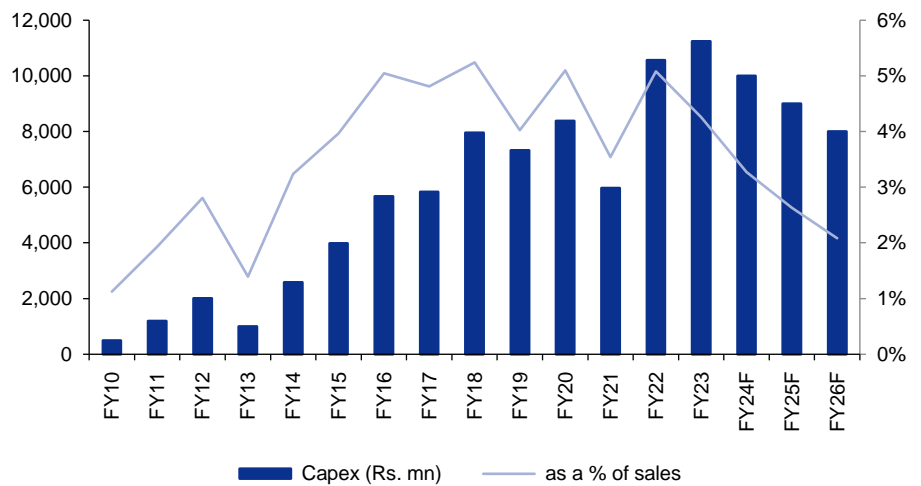
SOURCE: INCRED RESEARCH ESTIMATES, COMPANY REPORTS

Figure 12: TVS Motor's product mix shift towards motorcycles driving EBITDA margin uptick



SOURCE: INCRED RESEARCH ESTIMATES, COMPANY REPORTS

Figure 13: TVS Motor's capex is expected to remain elevated



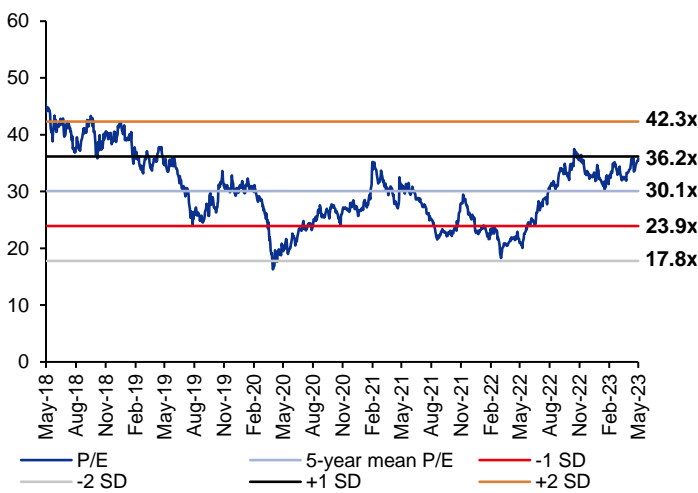
SOURCE: INCRED RESEARCH ESTIMATES, COMPANY REPORTS

Figure 14: SOTP-based target price

	Methodology	Multiple	Value per share (Rs)
TVS Motor	P/E	25x 1-year forward	899.1
TVS Credit	P/BV	1.0x FY22 Book value	26.7
SOTP-based valuation			926.0

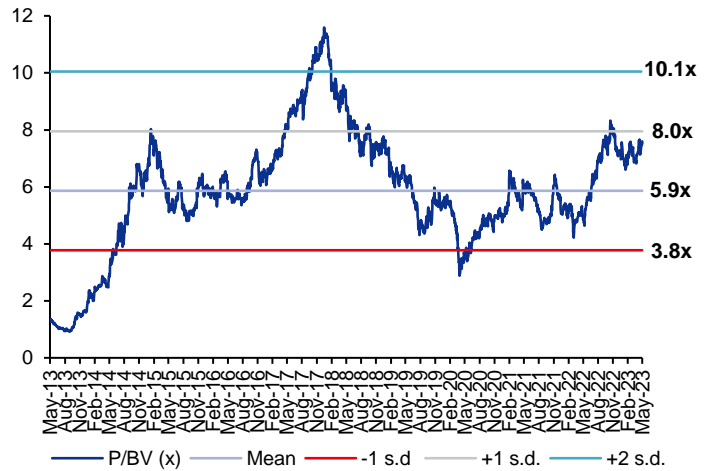
SOURCE: INCRED RESEARCH ESTIMATES, COMPANY REPORTS

Figure 15: One-year forward P/E near +1SD



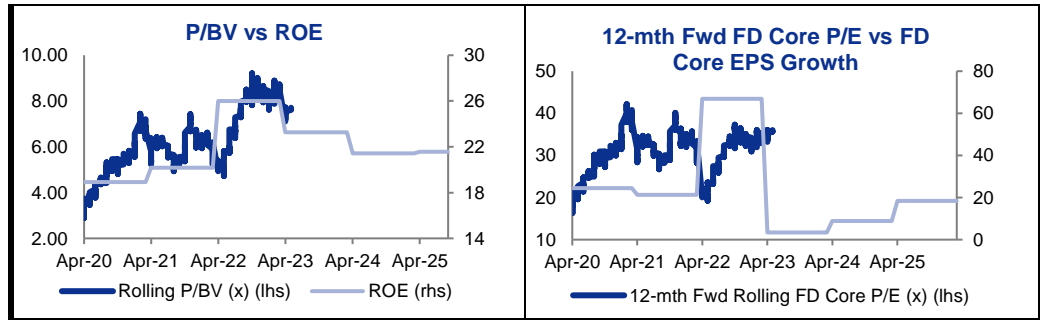
SOURCE: BLOOMBERG, INCRED RESEARCH ESTIMATES, COMPANY REPORTS

Figure 16: One-year forward P/BV near +1SD



SOURCE: BLOOMBERG, INCRED RESEARCH ESTIMATES, 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	305,762	342,374	383,859
Gross Profit	49,823	63,852	75,523	84,566	95,965
Operating EBITDA	19,422	26,747	30,270	32,526	37,618
Depreciation And Amortisation	(6,144)	(6,312)	(7,764)	(8,428)	(9,176)
Operating EBIT	13,278	20,434	22,506	24,098	28,442
Financial Income/(Expense)	(1,259)	(1,407)	(1,700)	(1,750)	(1,800)
Pretax Income/(Loss) from Assoc.					
Non-Operating Income/(Expense)	190	170	180	200	230
Profit Before Tax (pre-EI)	12,208	19,197	20,986	22,548	26,872
Exceptional Items	(135)	779			
Pre-tax Profit	12,073	19,976	20,986	22,548	26,872
Taxation	(3,139)	(5,066)	(5,561)	(5,750)	(6,987)
Exceptional Income - post-tax					
Profit After Tax	8,935	14,910	15,425	16,798	19,886
Minority Interests					
Preferred Dividends					
FX Gain/(Loss) - post tax					
Other Adjustments - post-tax					
Net Profit	8,935	14,910	15,425	16,798	19,886
Recurring Net Profit	9,035	14,329	15,425	16,798	19,886
Fully Diluted Recurring Net Profit	9,035	14,329	15,425	16,798	19,886

Cash Flow

(Rs mn)	Mar-22A	Mar-23A	Mar-24F	Mar-25F	Mar-26F
EBITDA	19,422	26,747	30,270	32,526	37,618
Cash Flow from Invt. & Assoc.					
Change In Working Capital	183	211	(124)	(1,445)	2,159
(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)	(1,520)	(1,550)	(1,570)
Tax Paid	(3,139)	(5,066)	(5,561)	(5,750)	(6,987)
Cashflow From Operations	16,165	18,410	27,230	24,281	31,621
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)	(6,200)	(6,700)	(7,200)
Cash Flow From Investing	(25,751)	(24,222)	(16,200)	(15,700)	(15,200)
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)	(3,801)	(4,276)	(4,751)
Preferred Dividends					
Other Financing Cashflow	(135)	779			
Cash Flow From Financing	4,301	4,219	(5,301)	(5,776)	(6,251)
Total Cash Generated	(5,285)	(1,593)	5,729	2,805	10,170
Free Cashflow To Equity	(2,775)	953	9,530	7,081	14,921
Free Cashflow To Firm	(8,327)	(4,405)	12,730	10,331	18,221

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	8,148	10,953	21,123
Total Debtors	9,507	9,551	15,079	18,760	21,033
Inventories	11,227	12,364	20,105	22,512	25,240
Total Other Current Assets	9,260	16,515	13,250	13,650	14,150
Total Current Assets	34,007	40,849	56,582	65,876	81,547
Fixed Assets	37,311	42,236	44,472	45,044	43,869
Total Investments	47,160	56,839	62,839	69,339	76,339
Intangible Assets					
Total Other Non-Current Assets					
Total Non-current Assets	84,471	99,075	107,311	114,383	120,207
Short-term Debt					
Current Portion of Long-Term Debt					
Total Creditors	39,914	41,306	54,451	59,095	66,255
Other Current Liabilities	7,093	7,835	8,335	8,835	9,335
Total Current Liabilities	47,008	49,141	62,786	67,930	75,591
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	91,791	95,635	101,995
Shareholders Equity	48,220	60,479	72,103	84,625	99,759
Minority Interests					
Total Equity	48,220	60,479	72,103	84,625	99,759

Key Ratios					
	Mar-22A	Mar-23A	Mar-24F	Mar-25F	Mar-26F
Revenue Growth	23.2%	26.9%	15.9%	12.0%	12.1%
Operating EBITDA Growth	25.0%	37.7%	13.2%	7.4%	15.7%
Operating EBITDA Margin	9.3%	10.1%	9.9%	9.5%	9.8%
Net Cash Per Share (Rs)	(31.15)	(48.74)	(33.53)	(24.47)	0.09
BVPS (Rs)	101.50	127.30	151.76	178.12	209.98
Gross Interest Cover	10.54	14.53	13.24	13.77	15.80
Effective Tax Rate	26.0%	25.4%	26.5%	25.5%	26.0%
Net Dividend Payout Ratio	26.2%	23.5%	24.6%	25.5%	23.9%
Accounts Receivables Days	15.98	13.19	14.70	18.04	18.92
Inventory Days	26.26	21.53	25.74	30.17	30.27
Accounts Payables Days	91.35	74.14	75.90	80.38	79.46
ROIC (%)	65.1%	74.1%	52.5%	59.6%	65.7%
ROCE (%)	21.3%	26.0%	24.2%	23.2%	24.5%
Return On Average Assets	9.1%	11.7%	11.0%	10.5%	11.1%

Key Drivers					
	Mar-22A	Mar-23A	Mar-24F	Mar-25F	Mar-26F
ASP (% chg, main prod./serv.)	14.4%	15.5%	4.7%	2.9%	2.9%
Unit sales grth (% , main prod./serv.)	8.4%	11.3%	11.2%	8.9%	9.0%

SOURCE: INCRED RESEARCH, COMPANY REPORTS

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