

India

July 25, 2023 - 12:36 AM

**REDUCE** (no change)

Consensus ratings\*: Buy 26 Hold 12 Sell 5

Current price:	Rs1,307
Target price:	Rs926
Previous target:	Rs926
Up/downside:	-29.2%
InCred Research / Consensus:	-28.8%
Reuters:	
Bloomberg:	TVSL IN
Market cap:	US\$8,552m
	Rs620,986m
Average daily turnover:	US\$20.1m
	Rs1457.8m
Current shares o/s:	475.1m
Free float:	49.7%

\*Source: Bloomberg

Key financial forecast

	Mar-24F	Mar-25F	Mar-26F
Net Profit (Rsm)	15,425	16,798	19,886
Core EPS (Rs)	32.47	35.36	41.86
Core EPS Growth	7.7%	8.9%	18.4%
FD Core P/E	40.26	36.97	31.23
Recurring ROE	23.3%	21.4%	21.6%
P/BV (x)	8.61	7.34	6.23
DPS (Rs)	8.00	9.00	10.00
Dividend Yield	0.61%	0.69%	0.77%



SOURCE: BLOOMBERG

Price performance	1M	3M	12M
Absolute (%)	0.4	17.6	50.1
Relative (%)	(4.7)	6.5	26.1

Major shareholders	% held
Sundaram Clayton Limited	50.3
ICICI Prudential Fund	9.4
LIC	2.9

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Analyst(s)

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# TVS Motor Co Ltd

## In-line 1Q; rising concerns over subsidiaries'

- 1Q normalized EPS rose by 18% qoq to Rs8.7, below our estimate (2%) & Bloomberg consensus estimate (6%) as high interest cost impacted EBITDA.
- Management remains positive on urban demand and electric vehicle or EV exports to drive its monthly EV sales to 25,000 units by Aug 2023F.
- Management's guidance of Rs19bn capex and investment in subsidiaries in FY24F are areas of concern. Retain REDUCE rating due to rich valuation.

### 1QFY24 results highlights

- The EBITDA margin improved by 60bp to 10.6% led by market share improvement and cost initiatives taken by the company.
- The QoQ rise in employee expenses (12%) and other expenses (14%) were higher than the sales growth of 9% because of new hires and marketing expenses.
- Interest cost rose sharply by 31% qoq to Rs474m because of Rs2.5bn of additional loans taken by the company and a 30bp spike in borrowing cost.
- Other income comprised a Rs556m gain from the sale of a realty associate company.
- The company's exports stood at Rs17bn in 1Q, indicating a MoM rise in retail sales.

### Management conference-call highlights

- E2W sales were impacted by halving of the FAME subsidy in Jun 2023. Exports to Nepal have commenced and there are plans to add more countries to the list. The company plans to launch a new E2W in the Sep 2023F quarter and a E3W in the Dec 2023F quarter to expand the product offerings to its customers.
- TVS iQube's (electric scooter) order book stood at 30k at the end of 1Q, as the company added 74 touch points during the quarter (total - 309), which are likely to grow to 600 touch points at the end of this year. The company is ramping up production to touch 25k units in Aug 2023F. It has tied up with Zomato to supply 10k E2Ws, and will also supply to Swiggy, Amazon, Rapido and others.
- The company has launched iQube in Nepal and aims to increase its international presence. It will implement a plan for setting up 2,000+ charging stations for the EV.
- TVS Motor has entered into an agreement with Premji Invest for capital infusion of Rs4.8bn in TVS Credit Services for an equity swap of 5%. TVS Motor's stake would reduce from 86% to 81% after this transaction.
- Management plans to incur a capex of Rs10bn in FY24F towards the EV and new models. It also plans to invest Rs9bn in subsidiaries, of which it has invested Rs2bn in TVS Credit Services, Rs1.8bn in SMEG, and Rs2bn in Nortan.

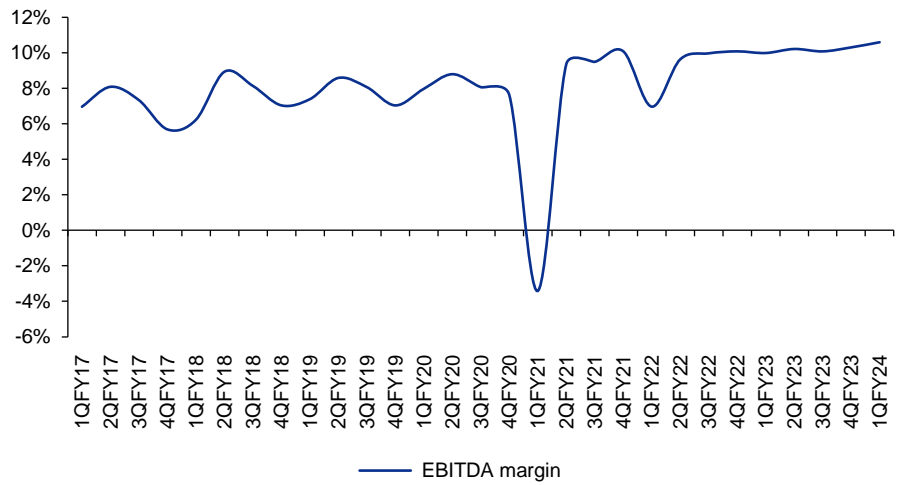
### Rich valuation overlooks subsidiary risk on FCF

- Our FY24F estimate shows that for the remaining nine-month period, sales growth is likely to be 15% and the EBITDA margin at 10%. Hence, we see limited risk in our estimate. The rich 35x FY25F P/E overlooks the large losses of its subsidiaries and the investment requirement.

Figure 1: 1QFY24 financial results						
FYE Mar (Rs m)	1Q FY24	1Q FY23	yoy % chg	4Q FY23	qoq % chg	Comments for the quarter
Revenue	72,179	60,087	20.1	66,048	9.3	1.4% below our estimates.
Raw Materials	53,818	45,728	17.7	49,797	8.1	
RM as % of revenue	74.6	76.1	(154.0)	75.4	(83.3)	114bp below our estimates, for inventory benefit.
<b>EBITDA</b>	<b>7,638</b>	<b>5,995</b>	<b>27.4</b>	<b>6,798</b>	<b>12.4</b>	<b>1% below our estimates; higher other expenses.</b>
EBITDA margin (%)	10.6	10.0	60.5	10.3	28.9	
Depn & amort.	1,636	1,520	7.6	1,674	(2.3)	-
EBIT	6,002	4,474	34.1	5,124	17.1	
Interest expense	474	376	26.2	363	30.7	18% above our estimates.
Other income	20	3	538.7	88	(77.5)	74% below our estimates.
Pretax profit	5,548	4,102	35.3	4,849	14.4	
Tax	1,427	1,058	34.8	1,364	4.6	
Tax rate (%)	25.7	25.8	(8.1)	28.1	(239.7)	
<b>Normalised Net profit</b>	<b>4,121</b>	<b>3,043</b>	<b>35.4</b>	<b>3,486</b>	<b>18.2</b>	<b>2% below our estimates; higher interest costs.</b>
Exceptionals	556	162		617	nm	
Reported net profit	4,677	3,205	45.9	4,103	14.0	
Normalised EPS (Rs)	8.67	6.41	35.4	7.34	18.2	
Volume (units)	9,53,244	9,06,791	5.1	8,68,417	9.8	
Realisation (Rs/vehicle)	75,719	66,263	14.3	76,055	(0.4)	1.4% below our estimate.

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 2: EBITDA margin stabilizes



SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 3: Forward P/E valuation scales near +2SD above 5-year mean



SOURCE: INCRED RESEARCH, COMPANY REPORTS

### Profit & Loss

(Rs mn)	Mar-23A	Mar-24F	Mar-25F	Mar-26F
<b>Total Net Revenues</b>	<b>263,781</b>	<b>305,762</b>	<b>342,374</b>	<b>383,859</b>
<b>Gross Profit</b>	<b>63,852</b>	<b>75,523</b>	<b>84,566</b>	<b>95,965</b>
<b>Operating EBITDA</b>	<b>26,747</b>	<b>30,270</b>	<b>32,526</b>	<b>37,618</b>
Depreciation And Amortisation	(6,312)	(7,764)	(8,428)	(9,176)
<b>Operating EBIT</b>	<b>20,434</b>	<b>22,506</b>	<b>24,098</b>	<b>28,442</b>
Financial Income/(Expense)	(1,407)	(1,700)	(1,750)	(1,800)
Pretax Income/(Loss) from Assoc.				
Non-Operating Income/(Expense)	170	180	200	230
<b>Profit Before Tax (pre-EI)</b>	<b>19,197</b>	<b>20,986</b>	<b>22,548</b>	<b>26,872</b>
Exceptional Items	779			
<b>Pre-tax Profit</b>	<b>19,976</b>	<b>20,986</b>	<b>22,548</b>	<b>26,872</b>
Taxation	(5,066)	(5,561)	(5,750)	(6,987)
Exceptional Income - post-tax				
<b>Profit After Tax</b>	<b>14,910</b>	<b>15,425</b>	<b>16,798</b>	<b>19,886</b>
Minority Interests				
Preferred Dividends				
FX Gain/(Loss) - post tax				
Other Adjustments - post-tax				
<b>Net Profit</b>	<b>14,910</b>	<b>15,425</b>	<b>16,798</b>	<b>19,886</b>
Recurring Net Profit	14,329	15,425	16,798	19,886
<b>Fully Diluted Recurring Net Profit</b>	<b>14,329</b>	<b>15,425</b>	<b>16,798</b>	<b>19,886</b>

### Balance Sheet

(Rs mn)	Mar-23A	Mar-24F	Mar-25F	Mar-26F
Total Cash And Equivalents	2,420	8,148	10,953	21,123
Total Debtors	9,551	15,079	18,760	21,033
Inventories	12,364	20,105	22,512	25,240
Total Other Current Assets	16,515	13,250	13,650	14,150
<b>Total Current Assets</b>	<b>40,849</b>	<b>56,582</b>	<b>65,876</b>	<b>81,547</b>
Fixed Assets	42,236	44,472	45,044	43,869
Total Investments	56,839	62,839	69,339	76,339
Intangible Assets				
Total Other Non-Current Assets				
<b>Total Non-current Assets</b>	<b>99,075</b>	<b>107,311</b>	<b>114,383</b>	<b>120,207</b>
Short-term Debt				
Current Portion of Long-Term Debt				
Total Creditors	41,306	54,451	59,095	66,255
Other Current Liabilities	7,835	8,335	8,835	9,335
<b>Total Current Liabilities</b>	<b>49,141</b>	<b>62,786</b>	<b>67,930</b>	<b>75,591</b>
Total Long-term Debt	25,578	24,078	22,578	21,078
Hybrid Debt - Debt Component				
Total Other Non-Current Liabilities				
<b>Total Non-current Liabilities</b>	<b>25,578</b>	<b>24,078</b>	<b>22,578</b>	<b>21,078</b>
Total Provisions	4,726	4,926	5,126	5,326
<b>Total Liabilities</b>	<b>79,445</b>	<b>91,791</b>	<b>95,635</b>	<b>101,995</b>
Shareholders Equity	60,479	72,103	84,625	99,759
Minority Interests				
<b>Total Equity</b>	<b>60,479</b>	<b>72,103</b>	<b>84,625</b>	<b>99,759</b>

### Cash Flow

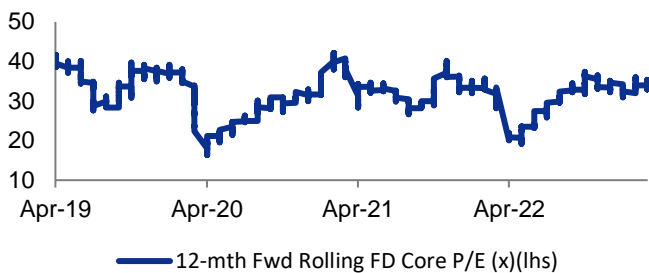
(Rs mn)	Mar-23A	Mar-24F	Mar-25F	Mar-26F
EBITDA	26,747	30,270	32,526	37,618
Cash Flow from Invt. & Assoc.				
Change In Working Capital	211	(124)	(1,445)	2,159
(Incr)/Decr in Total Provisions	(2,244)	4,165	500	400
Other Non-Cash (Income)/Expense				
Other Operating Cashflow				
Net Interest (Paid)/Received	(1,237)	(1,520)	(1,550)	(1,570)
Tax Paid	(5,066)	(5,561)	(5,750)	(6,987)
<b>Cashflow From Operations</b>	<b>18,410</b>	<b>27,230</b>	<b>24,281</b>	<b>31,621</b>
Capex	(11,238)	(10,000)	(9,000)	(8,000)
Disposals Of FAs/subsidiaries				
Acq. Of Subsidiaries/investments				
Other Investing Cashflow	(12,985)	(6,200)	(6,700)	(7,200)
<b>Cash Flow From Investing</b>	<b>(24,222)</b>	<b>(16,200)</b>	<b>(15,700)</b>	<b>(15,200)</b>
Debt Raised/(repaid)	6,766	(1,500)	(1,500)	(1,500)
Proceeds From Issue Of Shares				
Shares Repurchased				
Dividends Paid	(3,326)	(3,801)	(4,276)	(4,751)
Preferred Dividends				
Other Financing Cashflow	779			
<b>Cash Flow From Financing</b>	<b>4,219</b>	<b>(5,301)</b>	<b>(5,776)</b>	<b>(6,251)</b>
Total Cash Generated	(1,593)	5,729	2,805	10,170
<b>Free Cashflow To Equity</b>	<b>953</b>	<b>9,530</b>	<b>7,081</b>	<b>14,921</b>
<b>Free Cashflow To Firm</b>	<b>(4,405)</b>	<b>12,730</b>	<b>10,331</b>	<b>18,221</b>

### Key Ratios

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

### 12-mth Fwd Rolling FD Core P/E

(x)



### Key Drivers

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

SOURCE: INCRED RESEARCH, COMPANY REPORTS

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