

India

REDUCE (no change)

Consensus ratings*: Buy 21 Hold 9 Sell 12

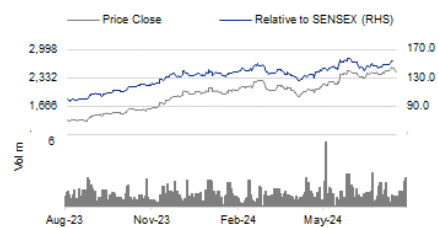
Current price: Rs2,479
 Target price: ▲ Rs1,782
 Previous target: Rs1,627
 Up/downside: -28.1%
 InCred Research / Consensus: -18.1%

Reuters:
 Bloomberg: TVSL IN
 Market cap: US\$16,218m
 Rs1,177,646m
 Average daily turnover: US\$32.1m
 Rs2328.5m
 Current shares o/s: 475.1m
 Free float: 49.7%

*Source: Bloomberg

Key changes in this note

- Sales cut by 1% for FY25F-26F.
- FY25F-26F EBITDA upgrade by ~5%.
- FY25F-26F PAT upgrade by 6-9%.



Source: Bloomberg

Price performance	1M	3M	12M
Absolute (%)	2.0	20.5	82.4
Relative (%)	3.8	12.7	53.1

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

EBITDA margin excels; concerns over FCF

- 1QFY25 standalone EPS grew 33% to Rs11.6, in line with our estimate, as a historic-high EBITDA margin helps overcome the miss on ASP front.
- Rising margin trend led to our 5% EBITDA upgrade for FY25F-26F. However, the automobile subsidiary's loss remaining at an elevated level to hit FCF.
- We reiterate our REDUCE rating on the stock as the rich +2SD above mean level valuation overlooks the demand for funding international losses.

Standalone profits on the rise but subsidiaries' losses continue

TVS Motor Company's (TVS Motor) 1QFY25 EBITDA rose 26% yoy and 4% qoq to Rs9.3bn, in line with our/Bloomberg consensus estimates. The sustained successive quarter of lower raw material costs (140bp) helped improve the EBITDA margin by 20bp qoq to a new high of 11.5% (Fig. 2). However, the lower-than-expected ASP (flat qoq) led to a 5% miss on the sales front. Adjusted for one-off subsidiaries' investments' mark-to-market benefit of Rs285m, normalized PAT grew 33% yoy to Rs5.5bn, 2% above our estimate. Investment in subsidiaries rose 41% qoq to Rs4.3bn in 1Q, as the automotive subsidiary's EBIT loss remained elevated at Rs2bn (Fig. 8).

Management conference-call highlights

Management gave guidance of Rs10bn spending on capex and investment in subsidiaries each in FY25F. As per the annual report, Norton Motorcycle subsidiary suffered a PAT loss of Rs3.9bn (+ 41% yoy) while Swiss E-mobility incurred a loss of Rs2.2bn (+126% yoy), as shown in Fig 5. Norton new bike launches are planned by the end of CY25F, while Swiss E-mobility's market conditions are still weak, and the inventory is high. Management indicated that domestic 2W rural volume growth has been impressive at 17% in 1Q vs. total industry growth of 13%. The company plans to launch one model each in the ICE, EV scooter and E3W segments in the coming months.

EBITDA upgrade by around 5% for FY25F-26F

We maintain our sales volume estimates, as in the last two months the volume momentum has been below expectations in the domestic market. For a better-than-expected gross margin, we raise EBITDA margin by around 60bp for FY25F-26F, leading to EBITDA upgrade of around 5%. The lower-than-expected interest costs in 1Q (-22% yoy) led to our PAT upgrade of 9% for FY25F and 6% for FY26F.

Maintain REDUCE rating for capital allocation challenges

While the standalone business momentum is impressive, the weakness in global subsidiaries is a cause for concern as it is a high capital guzzler. With forward P/E and P/BV valuations near the +2SD above mean, we retain our REDUCE rating. We roll forward our P/E based target price at 32x1-year forward and assign TVS Credit a value of Rs32 per share at 1.5x FY24F BV. The market share challenges in electric vehicles or EVs and the delay in FAME-III subsidy scheme are areas of concern. Key upside risk is better pricing environment in 2W aiding the sustained margin upward trajectory.

Financial Summary

	Mar-23A	Mar-24A	Mar-25F	Mar-26F	Mar-27F
Revenue (Rsm)	263,781	317,764	348,973	388,364	430,785
Operating EBITDA (Rsm)	26,747	35,141	40,132	44,274	48,679
Net Profit (Rsm)	14,910	20,831	22,410	24,147	27,093
Core EPS (Rs)	30.2	42.0	46.7	50.8	57.0
Core EPS Growth	58.6%	39.1%	11.4%	8.8%	12.2%
FD Core P/E (x)	78.99	56.54	52.55	48.77	43.47
DPS (Rs)	7.0	8.0	9.0	10.0	12.0
Dividend Yield	0.28%	0.32%	0.36%	0.40%	0.48%
EV/EBITDA (x)	44.90	33.86	29.52	26.94	24.43
P/FCFE (x)	1,235.19	188.06	136.17	84.08	151.52
Net Gearing	38.3%	15.8%	9.2%	15.9%	10.0%
P/BV (x)	19.47	15.23	15.41	12.29	10.05
ROE	26.4%	28.9%	28.9%	28.0%	25.4%
% Change In Core EPS Estimates			9.33%	5.88%	(1.08%)
InCred Research/Consensus EPS (x)					

SOURCE: INCRED RESEARCH, COMPANY REPORTS

EBITDA margin excels; concerns over FCF

Management conference-call highlights➤

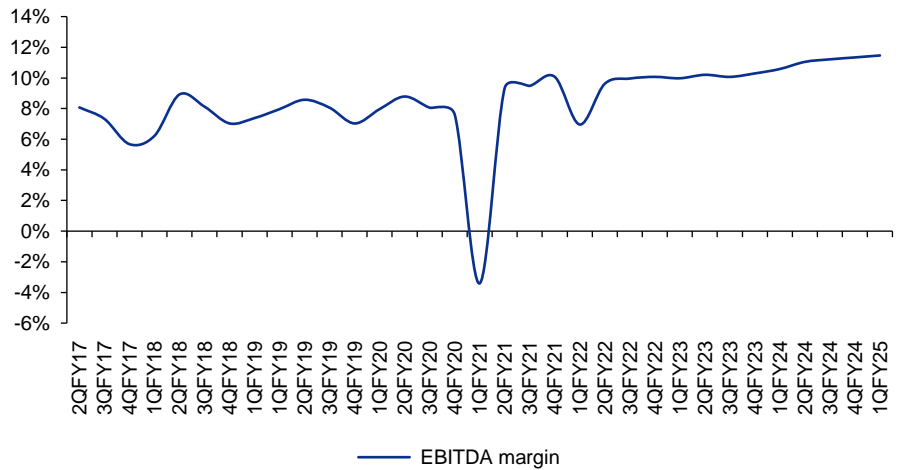
- **Domestic market outlook and performance:** Industry is likely to witness positive growth in FY25F led by employment generation, infrastructure push initiative of the government and management's confidence to grow faster than the industry. In 1QFY25, the rural segment's volume grew 17% yoy vs. urban segment's growth of 12%.
- **Financial performance:** The EBITDA margin for the quarter touched 11.5% during the quarter led by cost initiative efforts, product and geographic mix. Management is confident of maintaining the margin at the current level, as scale and product mix continue to improve.
- **Production-linked incentive (PLI) scheme:** The company has PLI certificate on its two products, and revenue recognition of PLI incentives is in the process.
- **TVS Credit:** It has a 15m customer base with an AUM size of Rs263.5bn, up 20% yoy. PBT for the quarter grew 19% to Rs1.87bn. It has products offering financing for used cars, consumer durables, used commercial vehicles, mid-corporate loan and gold loan, apart from two-wheeler and three-wheeler loans.
- **International business:** Witnessing challenges in the Red Sea that is affecting the transit time and also timely availability of vessel containers, but is likely to improve in 2QFY25.
- **Norton:** Management is planning to launch six new products over the next three years. The first model will be launched internationally by the end of FY25F followed by the launch in India.
- **iQube:** During the quarter, the company introduced new variants to the iQUBE portfolio. TVS iQUBE is now available in three battery options (2.2 kWh, 3.4 kWh, and 5.1 kWh).
- **Products launches:** Going ahead, management plans to launch one product in ICE and another product in the EV segment in the coming quarters.
- **Other expenses:** Other expenses, as a percentage of revenue, was higher led by marketing expenses (Rs.870m), investments in digital technologies and innovation (Rs350m) and variable expenses (Rs600m).
- **Export business:** Export revenue for the quarter stood at Rs.19.63bn, up 16% yoy. During the quarter, exports were impacted due to the Red Sea challenges, while they are likely to improve in 2QFY25F. Select markets in Africa are facing the currency devaluation impact while the regions like LatAm and the Middle East offer huge opportunities for exports. In the global EV industry, inventory level is going up due to weak demand in Europe and the discounts remain at a high level.
- **Spare parts business and price action:** Revenue from the spare parts business stood at Rs8.46bn. During 1QFY25 and so far in 2QFY25, the company took a price hike of 0.2% in each quarter.
- **Capex and Investments:** The company made investment of Rs3bn in TVS Credit, Rs1bn in Norton, and Rs300m in the EV business. Planned a capex of Rs10bn in FY25F.

Figure 1: Results comparison

Y/E Mar (Rs m)	1QFY25	1QFY24	yoy % chg	4QFY24	qoq % chg	Comments for the quarter
Revenue	83,756	72,179	16.0	81,688	2.5	5% below our estimate.
Raw material costs	59,804	53,818	11.1	59,440	0.6	
RM costs as a % of revenue	71.4	74.6	(315.9)	72.8	(136.1)	260bp below our estimate.
EBITDA	9,602	7,638	25.7	9,262	3.7	1% above our estimate.
EBITDA margin (%)	11.5	10.6	88.3	11.3	12.6	
Depreciation & amortization	1,763	1,636	7.8	1,887	(6.5)	-
EBIT	7,838	6,002	30.6	7,375	6.3	
Interest expense	372	474	(21.5)	372	0.0	26% below our estimate.
Other income	78	20	294	173	(54.9)	384% above our estimate.
Pretax profit	7,544	5,548	36.0	7,176	5.1	
Tax	2,056	1,427	44.1	1,862	10.4	
Tax rate (%)	27.3	25.7	153.1	25.9	130.5	
Normalized net profit	5,488	4,121	33.2	5,314	3.3	2% above our estimate.
Exceptionals	285	556		(460)	nm	
Reported net profit	5,773	4,677	23.4	4,854	18.9	
Normalized EPS (Rs)	11.55	8.67	33.2	11.19	3.3	
Volume (units)	10,87,175	9,53,244	14.1	10,62,529	2.3	
Realization (Rs/vehicle)	77,040	75,719	1.7	76,881	0.2	1.8% above our estimate.

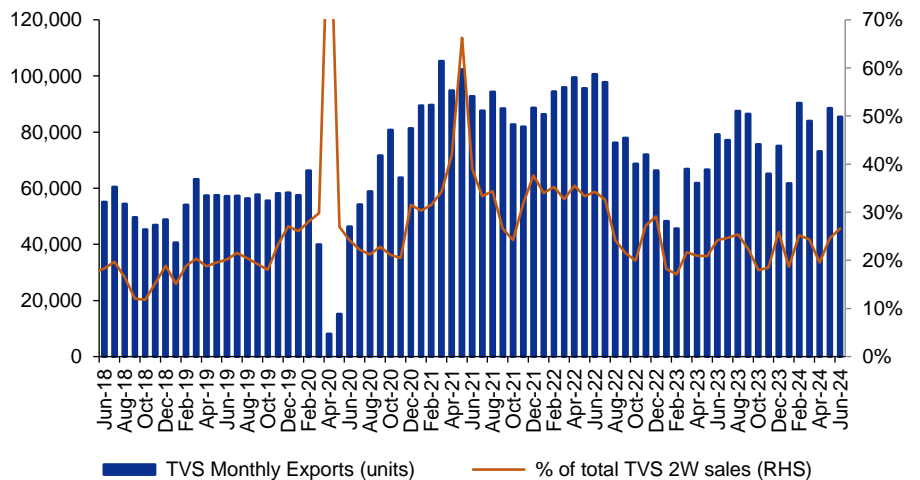
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 2: EBITDA margin gradually scales a new high



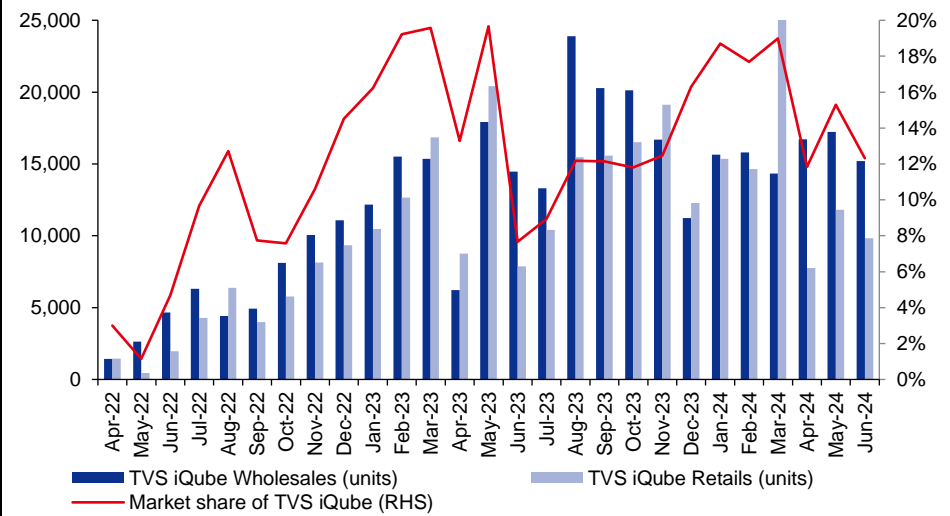
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 3: Export sales volume on the growth path



SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 4: TVS Motor's two-wheeler EV market share slid recently



SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 5: Subsidiaries' financial performance

Subsidiary	FY24 Revenue	FY24 PBT/ PAT	Note
TVS Credit Services	Rs57.96bn up 40% yoy.	PBT grew 49% yoy to Rs7.63bn.	In FY24, overall disbursements stood at Rs250bn, up 16% yoy. AUM was Rs259bn.
Sundaram Auto	Rs7.65bn down 3% yoy.	PBT grew 21% yoy to Rs0.29bn.	
PT. TVS Motor Company Indonesia		EBITDA in FY24 was US\$8m vs. US\$8.3m in FY23.	2W sales up 37% yoy at 0.11m. 3W sales at 7,000 units vs 19,000 units in FY23.
SEMG (E bikes)	Revenue of US\$76.6m.	Net loss of US\$25.4m.	Challenging conditions in the European e-bike market.
Ultraviolette		Net loss of Rs0.60bn vs. Rs0.09bn loss in FY23.	
DriveX Mobility	Revenue of Rs366m vs. Rs97m in FY23.	Net loss of Rs-309.8m vs. Rs.-111.2m in FY23.	
Predictronics	Revenue of Rs47m vs. Rs49m in FY23.	Net loss of Rs-44m vs. Rs.-49m in FY23.	
Scienaptic	Revenue of Rs625m vs. Rs.361m in FY23.	Net profit of Rs12m vs. net loss of Rs171m.	
Altizon	Revenue of Rs.72m flat on yoy basis.	Net profit of Rs4m vs net loss of Rs23m.	
Norton	Revenue of Rs451.8m.	Net loss of Rs-3.94bn in FY24.	

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 6: Investment in Subsidiaries

Particulars (in Rs.bn)		FY22	FY23	FY24
TVS Motor (Singapore) Pte. Limited, Singapore	Subsidiary	18.93	20.21	35.76
TVS Credit Services Limited, Chennai	Subsidiary	14.61	19.61	19.60
PT.TVS Motor Company Indonesia, Jakarta	Subsidiary	3.89	3.89	3.89
Sundaram Auto Components Limited, Chennai	Subsidiary	3.36	3.36	1.08
TVS Motor Services Limited, Chennai	Subsidiary	1.49	1.49	1.48
Ultraviolette Automotive Private Limited, Bengaluru	Associate	1.21	1.21	1.21
Emerald Haven Realty Limited, Chennai	Associate	1.11	1.11	1.11

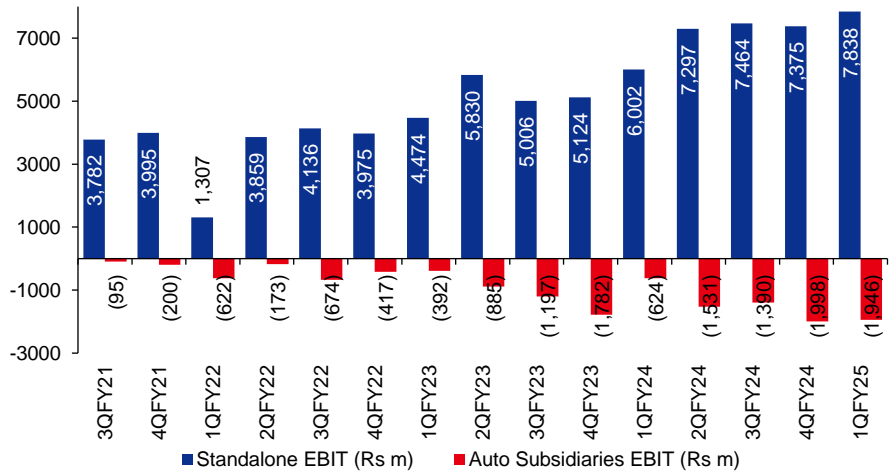
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 7: Consolidated automobile segment's EBIT

Consolidated Performance (Rs m)	1QFY25	1QFY24	YoY	4QFY24	QoQ
Major Segment Revenue					
a) Automotive Vehicles & Parts	87,213	76,974	13.3%	84,104	3.7%
b) Automotive Components	2009.2	1,889	6.4%	2,020	-0.5%
c) Financial Services	16,353	13,535	20.8%	14,953	9.4%
EBIT					
a) Automotive Vehicles & Parts	5,892	5,378	9.6%	5,380	9.5%
b) Automotive Components	94	90.9	3.3%	138	-31.8%
c) Financial Services	2,159	1,561	38.3%	1,741	24.0%

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 8: Consolidated EBIT of the automobile segment impacted by rising losses of subsidiaries



SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 9: Standalone earnings revision summary

Rs m	FY25F		FY26F		FY27F	
	Old	New	Old	New	Old	New
Total Volume (nos.)	44,64,989	44,64,989	48,77,243	48,77,243	52,69,248	52,69,248
% change		0.0%		0.0%		0.0%
Net Sales	3,52,843	3,48,973	3,92,653	3,88,364	4,35,500	4,30,785
% change		-1.1%		-1.1%		-1.1%
EBITDA	38,107	40,132	42,407	44,274	48,776	48,679
% change		5.3%		4.4%		-0.2%
EBITDA margin	10.8%	11.5%	10.8%	11.4%	11.2%	11.3%
bp change		65		56		9
PAT	20,306	22,126	22,805	24,147	27,389	27,093
% change		9.0%		5.9%		-1.1%
EPS (Rs)	42.7	46.6	48.0	50.8	57.6	57.0
% change		9.0%		5.9%		-1.1%

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 10: 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	1,14,760	1,27,643	1,40,531
- Moped	14,458	14,666	16,579	17,918	19,186	20,453
- 3W	17,395	18,827	17,028	16,496	17,913	19,733
- 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	3,44,215	3,83,040	4,24,827
% yoy	23.4%	27.1%	20.6%	9.8%	11.3%	10.9%
EBITDA (Rs m)	19,422	26,747	35,141	40,132	44,274	48,679
EBITDA margin %	9.3%	10.1%	11.1%	11.5%	11.4%	11.3%
PAT (Rs m)	9,070	14,131	19,630	22,126	24,147	27,093

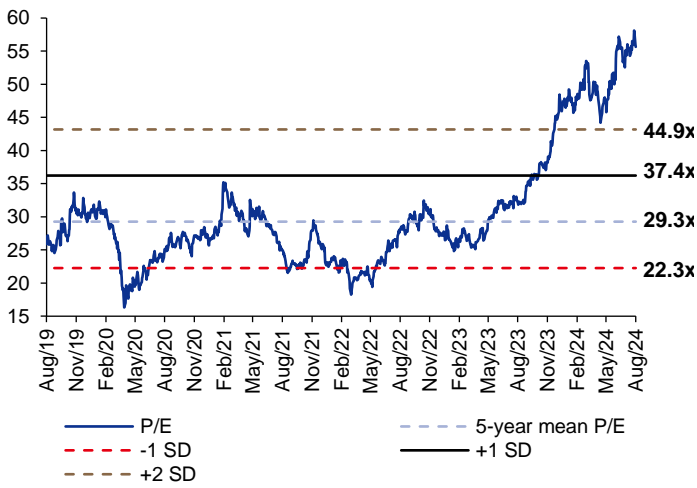
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 11: Sum-of-the-parts or SOTP-based target price

	Methodology	Multiple	Value per share (Rs)
TVS Motor	P/E	30x 1-year forward	1,749.5
TVS Credit	P/BV	1.5x FY24 book value	32.4
SOTP-based valuation			1,782.0

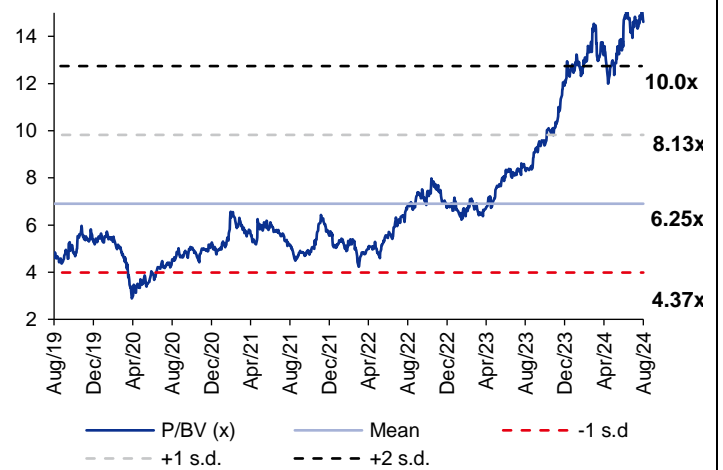
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 12: One-year forward P/E above the +3SD level



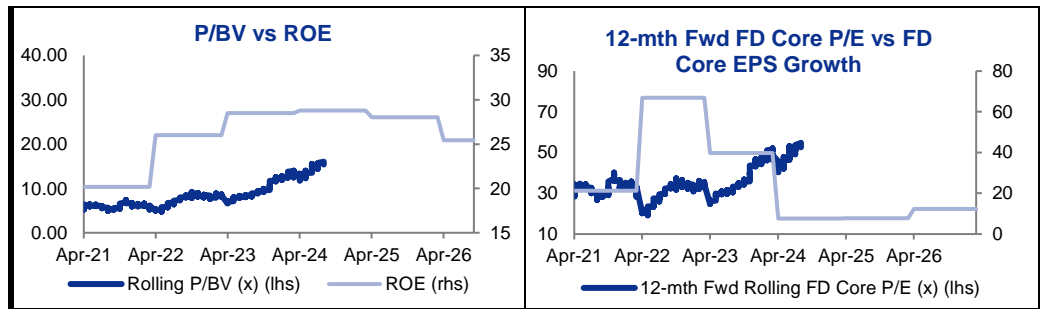
SOURCE: BLOOMBERG, INCRED RESEARCH, COMPANY REPORTS

Figure 13: One-year forward P/BV tops the +3SD 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	317,764	348,973	388,364	430,785
Gross Profit	63,852	83,474	95,968	104,858	114,158
Operating EBITDA	26,747	35,141	40,132	44,274	48,679
Depreciation And Amortisation	(6,312)	(7,004)	(7,929)	(8,991)	(9,942)
Operating EBIT	20,434	28,138	32,203	35,283	38,737
Financial Income/(Expense)	(1,407)	(1,816)	(2,400)	(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	30,103	32,853	36,862
Exceptional Items	779	1,201	285		
Pre-tax Profit	19,976	27,807	30,388	32,853	36,862
Taxation	(5,066)	(6,977)	(7,977)	(8,706)	(9,768)
Exceptional Income - post-tax					
Profit After Tax	14,910	20,831	22,410	24,147	27,093
Minority Interests					
Preferred Dividends					
FX Gain/(Loss) - post tax					
Other Adjustments - post-tax					
Net Profit	14,910	20,831	22,410	24,147	27,093
Recurring Net Profit	14,329	19,931	22,200	24,147	27,093
Fully Diluted Recurring Net Profit	14,329	19,931	22,200	24,147	27,093

Cash Flow

(Rs mn)	Mar-23A	Mar-24A	Mar-25F	Mar-26F	Mar-27F
EBITDA	26,747	35,141	40,132	44,274	48,679
Cash Flow from Invt. & Assoc.					
Change In Working Capital	211	5,001	466	3,870	(2,763)
(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)	(2,100)	(2,430)	(1,875)
Tax Paid	(5,066)	(6,977)	(7,977)	(8,706)	(9,768)
Cashflow From Operations	18,410	34,946	30,349	36,707	33,972
Capex	(11,238)	(11,787)	(11,000)	(12,000)	(13,500)
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)	(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	4,658	(9,744)	2,071
Free Cashflow To Equity	953	6,262	8,649	14,007	7,772
Free Cashflow To Firm	(4,405)	15,392	11,549	18,257	11,522

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	10,740	996	3,067
Total Debtors	9,551	13,021	15,297	18,088	23,605
Inventories	12,364	13,708	17,210	20,216	25,965
Total Other Current Assets	16,515	10,878	11,950	13,150	14,350
Total Current Assets	40,849	43,690	55,197	52,451	66,987
Fixed Assets	42,236	47,020	50,091	53,100	56,658
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	142,013	156,571
Short-term Debt					
Current Portion of Long-Term Debt					
Total Creditors	41,306	51,122	57,365	67,033	75,535
Other Current Liabilities	7,835	8,560	9,060	9,560	10,060
Total Current Liabilities	49,141	59,682	66,425	76,593	85,595
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	89,756	98,623	106,325
Shareholders Equity	60,479	77,310	76,445	95,841	117,233
Minority Interests					
Total Equity	60,479	77,310	76,445	95,841	117,233

Key Ratios					
	Mar-23A	Mar-24A	Mar-25F	Mar-26F	Mar-27F
Revenue Growth	26.9%	20.5%	9.8%	11.3%	10.9%
Operating EBITDA Growth	37.7%	31.4%	14.2%	10.3%	9.9%
Operating EBITDA Margin	10.1%	11.1%	11.5%	11.4%	11.3%
Net Cash Per Share (Rs)	(48.74)	(25.64)	(14.79)	(32.14)	(24.62)
BVPS (Rs)	127.30	162.72	160.90	201.73	246.75
Gross Interest Cover	14.53	15.49	13.42	12.83	17.22
Effective Tax Rate	25.4%	25.1%	26.3%	26.5%	26.5%
Net Dividend Payout Ratio	23.5%	19.4%	19.3%	19.7%	21.0%
Accounts Receivables Days	13.19	12.96	14.81	15.69	17.66
Inventory Days	21.53	20.31	22.30	24.09	26.62
Accounts Payables Days	74.14	72.00	78.25	80.08	82.17
ROIC (%)	74.1%	65.9%	94.9%	92.2%	101.8%
ROCE (%)	26.0%	30.3%	33.3%	33.6%	31.3%
Return On Average Assets	11.7%	14.0%	13.8%	13.8%	13.8%

Key Drivers					
	Mar-23A	Mar-24A	Mar-25F	Mar-26F	Mar-27F
ASP (% chg, main prod./serv.)	15.5%	7.4%	1.9%	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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