

HOLD
 TP: Rs 2,441 | ▼ 5%

TVS MOTOR

| Automobiles

| 24 October 2024

Gearing for structural strength; valuations rich, maintain HOLD

- Q2 revenue grew in double digits at 13%/10% YoY/QoQ to Rs 92.3bn, backed by volume growth of 14%/13% YoY/QoQ to ~1.2mn units
- EBITDA margin rose 65bps/24bps YoY/QoQ to 11.7%; soft commodity prices helped raise gross margin to 28.5% (246bps YoY/flat QoQ)
- We maintain earnings estimates for FY25/FY26/FY27 and continue to value TVS at 30x core business. Retain HOLD, TP of Rs 2,441 (Rs2,363)

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Healthy topline supported by double-digit volume gains: TVSL's Q2FY25 revenue grew in double digits at 13%/10% YoY/QoQ to Rs 92.3bn, backed by volume growth of 14%/13% YoY/QoQ to ~1.2mn units. Net realisation per vehicle (NRPV) was flat at Rs 75.1k YoY. Prices dropped 3% QoQ due to EV segment.

EBITDA margins aided by soft commodity cost: Raw material costs as a percentage of sales dropped 310bps YoY to 71.5% in Q2 (flat QoQ) due to input cost decline. However, EBITDA grew 20%/13% YoY/QoQ to Rs 10.8bn and the margin improved 65bps (24bps QoQ) to 11.7%. Other expenditure rose by ~27% YoY to Rs 10.5bn owing to related expenses and other digital and innovation-related expenses. Employee cost too increased due to investments in high-end engineering and design talent and Rs 110mn/120mn in ESOP provisions.

Product development: (a) TVSL launched Jupiter 110 and is receiving a healthy response from customers. (b) To launch super premium bikes, the first model to be available by FY26-end. (c) TVSL's I-cube launched single pack EV vehicle targeting low-end customers. (d) R&D on the CNG product underway.

Estimates maintained: Factoring H1FY25 performance in the weak business conditions we feel TVSL's earnings will deliver in FY25E despite competition and raw material costs inflation kicking in. We believe investments in electric vehicles (EV) will continue to drag overall performance. We have factored this into our earnings estimates and, hence, retain FY26/FY27 earnings estimates, baking in a 3Y EBITDA/PAT CAGR of 19%/24%.

TP revised; maintain HOLD: We estimate a healthy outlook for high-end products such as *Apache* and *Raider* and benefits from revival in export markets to offset the drag from the EV segment. The focus on premiumisation will continue to balance motorcycle portfolio across segments. We maintain our target P/E for core business at 30x – a marginal premium to TVSL's long-term average, and arrive at a new TP of Rs 2,441 (vs Rs 2,363) with the core business valued at Rs 2,408 and Rs 33/sh for TVS Credit Services. Maintain HOLD as current valuations factor in the positives.

Key changes

Target	Rating
▲	◀ ▶

Ticker/Price	TVSL IN/Rs 2,563
Market cap	US\$ 14.5bn
Free float	48%
3M ADV	US\$ 30.7mn
52wk high/low	Rs 2,958/Rs 1,549
Promoter/FPI/DII	52%/13%/25%

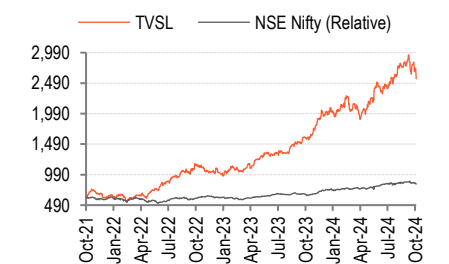
Source: NSE | Price as of 23 Oct 2024

Key financials

Y/E 31 Mar	FY24A	FY25E	FY26E
Total revenue (Rs mn)	3,17,764	3,66,756	4,44,284
EBITDA (Rs mn)	35,141	43,416	53,497
Adj. net profit (Rs mn)	20,830	27,489	35,186
Adj. EPS (Rs)	43.8	57.9	74.1
Consensus EPS (Rs)	43.8	56.9	71.5
Adj. ROAE (%)	26.9	26.9	26.2
Adj. P/E (x)	58.5	44.3	34.6
EV/EBITDA (x)	34.7	28.0	22.7
Adj. EPS growth (%)	39.7	32.0	28.0

Source: Company, Bloomberg, BOBCAPS Research

Stock performance



Source: NSE



Fig 1 – Earnings call highlights

Parameter	Q2FY25	Q1FY25	Our view
Domestic Volume	In Q2FY25, domestic two-wheeler (2W) internal combustion engine (ICE) volumes grew 13% YoY ahead of industry in retail.	In Q1FY25, domestic two-wheeler (2W) internal combustion engine (ICE) volumes grew 14% YoY ahead of industry in retail.	Management's industry guidance is higher single digit growth for FY25 and TVS is expected to beat the industry with a margin.
Exports	Total 2W exports grew 16% YoY as sales increased from 0.24mn units in Q2FY24 to 0.28mn units in Q2FY25. The Red Sea crisis continues to come in the way of exports. For Q2FY25, Africa continues to be the largest export market with a contribution of 55-57% of exports. However, currently the MENA region is facing currency issues. ASEAN and Asia exports are doing well despite experiencing slowdown in Bangladesh due to political turmoil. The LATAM portfolio is currently small, but growing at a very fast rate.	Total exports grew 12% YoY as sales increased from 0.23mn units in Q1FY24 to 0.25mn units in Q1FY25. TVSL has started exporting EVs to LATAM and Asia but sees some challenges in the Bangladesh market.	TVSL exports will be a key delta for volume as opening up key overseas markets, including ASEAN, the Middle East and LATAM, augurs well for TVSL.
Three-wheelers (3W)	TVSL sold ~38k units of 3Ws in Q2FY25 vs ~31k in Q1FY25/43k in Q2FY24.	TVSL sold ~31k units of 3Ws in Q1FY25 vs ~35k in Q1FY24.	Growth in this segment is encouraging. Besides, the EV 3W that is under development should bolster the segment's prospects.
Electric Vehicles	In Q2FY25, TVSL sold ~75k units in the EV segment (~58k in Q2FY24). TVSL is currently exporting i-Qube to a few ASEAN and Asian countries.	In Q1FY25, TVSL sold ~52k units in the EV segment (~39k in Q1FY24) from the 2W side. TVSL started exporting EVs to the LATAM and Asia markets and plans to strengthen its presence in the Middle East. During Q1FY25, TVSL introduced new variants to i-Qube, i.e., 3 battery options to choose from – 2.2kWh, 3.4kWh and 5.1kWh.	TVSL's very planned and structured EV thrust is likely to yield results in the medium term. In the interim the margins may be under pressure.
Margins	EBITDA margin stood at 11.7%, increasing 65bps/24bps YoY/QoQ. TVSL has not been impacted much by increase in commodity prices and further hasn't given any major discounts. During Q1FY25, a lower price i-Qube variant was launched. It reduced the average realisation but did not impact overall margins. Management indicated that all the TVSL products are PLI certified and meet the eligibility criteria, and post developing revenue recognition policies the company may soon enjoy the PLI benefit going forward.	EBITDA margin stood at 11.5%, increasing 88bps/12bps YoY/QoQ. TVSL hiked prices by 0.2% in Q1FY25 and a similar hike in prices of ~0.2% in Q2FY25. TVSL expects margin to be sustainable due to a strong focus on product mix and sustainable cost reduction initiatives. The company has not recognised any PLI in Q1FY25.	We see levers to improve margins through high-end product portfolio offsetting fears of raw material cost inflation. Strong growth may stay sideways in the medium term as TVSL focuses on the R&D investments.
Capex & Investment	Capex guidance majorly unchanged from Q1FY25 for FY25 stands at ~Rs 12bn-14bn and planned investments at Rs 15bn.	The majority of investments by TVSL in Q1FY25 was for credit services of ~Rs 3bn. Investments for the EV cycle business was ~Rs 0.3bn. TVSL is planning capex of ~Rs 10bn-11bn in FY25.	The company's systematic investment and capex guidance should yield results in the long term.
Others	TVS Credit's book size as on Q2FY25 is ~Rs 266bn from Rs 263bn (+1.15% QoQ). Till Q2FY25, TVS Credit had served a ~16.5mn customer base and PBT for Q2FY25 was up 20% at ~Rs 2.15bn from Rs 1.87bn QoQ.	TVS Credit's book size as on Q1FY25 is ~Rs 263bn from Rs 259bn (+1.5% QoQ). Till Q1FY25, TVS Credit had ~150mn customer base and PBT for Q1FY25 was up 19% at ~Rs 1.8bn from Rs 1.57bn YoY.	Other segments continued to perform on a steady footing.

Source: Company, BOBCAPS Research | PLI: Production-linked Incentives, EV: Electric vehicles

Fig 2 – Quarterly performance

(Rs mn)	Q2FY25	Q2FY24	YoY (%)	Q1FY25	QoQ (%)	2QFY25E
Volume	1,228,223	1,074,378	14.3	1,087,175	13.0	1,228,223
Avg. Realisation per Vehicle	75,135	75,808	(0.9)	77,039	(2.5)	75,498
Net Revenues	92,282	81,446	13.3	83,755	10.2	92,729
Total Income (A)	92,282	81,446	13.3	83,755	10.2	92,729
Operating Expenses						
Raw materials consumed	66,018	60,276	9.5	59,804	10.4	66,612
Employee Expenses	4,967	3,929	26.4	4,788	3.8	4,792
Other Expenses	10,499	8,244	27.4	9,563	9.8	10,200
Total Expenditure (B)	81,485	72,449	12.5	74,154	9.9	81,605
EBITDA (A-B)	10,798	8,998	20.0	9,601	12.5	11,124
Other Income	299	462	(35.3)	363	(17.6)	375
Depreciation	1,806	1,701	6.2	1,763	2.4	1,813
EBIT	9,291	7,759	19.7	8,200	13.3	9,686
Finance Costs	319	523	(39.0)	372	(14.3)	391
PBT after excep items	8,972	7,237	24.0	7,828	14.6	9,295
Tax expense	-	-	NA	-	NA	-
Reported PAT	8,972	7,237	24.0	7,828	14.6	9,295
Adjusted PAT	2,346	1,871	25.4	2,056	14.1	2,417
EPS (Rs)	6,626	5,366	23.5	5,772	14.8	6,878
Key Ratios (%)			(bps)		(bps)	
Gross Margin	28.5	26.0	246.8	28.6	(13.6)	28.2
EBITDA Margin	11.7	11.0	65.4	11.5	23.8	12.0
EBIT Margin	10.1	9.5	54.2	9.8	27.7	10.4
PBT Margin	9.7	8.9	83.8	9.3	37.6	10.0
Tax Rate	26.1	25.9	29.2	26.3	(11.5)	26.0
Adj PAT Margin	7.2	6.6	59.3	6.9	28.8	7.4

Source: Company, BOBCAPS Research

Valuation methodology

Factoring H1FY25's performance in weak business conditions we feel TVS will perform in FY25E despite raw material costs inflation kicking in. Investments in EV will continue to drag the overall performance. We have factored in the same in our earnings estimates and, hence, retain FY26/FY27 earnings estimates and bake in a 3Y EBITDA/PAT CAGR of 19%/24%.

We estimate a healthy outlook for high-end products such as *Apache* and *Raider* and benefits from revival in export markets to offset the drag from EV segment. The focus on premiumisation will continue to maintain balance of the motorcycle portfolio across segments. We maintain our target P/E for the core business at 30x – a marginal premium to the stock's long-term average and arrive at a new SOTP based TP of Rs 2,441 (from Rs 2,363) with the core business valued at Rs 2,408 and Rs 33/sh for TVS Credit Services. Maintain HOLD as current valuations factor in the positives.

Fig 3 – Revised estimates

(Rs mn)	New			Old			Change (%)		
	FY25E	FY26E	FY27E	FY25E	FY26E	FY27E	FY25E	FY26E	FY27E
Revenue	3,66,756	4,44,284	5,10,033	3,62,497	4,31,291	4,84,544	1.17	3.01	5.26
EBITDA	43,416	53,497	60,315	43,312	53,490	60,191	0.24	0.01	0.21
Adj PAT	27,489	35,186	39,996	27,411.0	35,180.0	39,903.0	0.28	0.02	0.23
Adj EPS (Rs)	57.9	74.1	84.2	57.7	74.0	84.0	0.28	0.08	0.22

Source: BOBCAPS Research

Fig 4 – Key assumptions

	FY24	FY25E	FY26E	FY27E
2W volume (nos)	39,99,788	46,93,335	54,26,542	59,97,240
3W volume (nos)	1,95,327	1,56,261	1,81,263	1,99,389
Revenues (Rs mn)	3,17,764	3,66,756	4,44,284	5,10,033
EBITDA (Rs mn)	35,141	43,416	53,497	60,315
EBITDA margin (%)	11.1	11.8%	12.0%	11.8%
Adj. PAT (Rs mn)	20,830	27,489	35,186	39,996
EPS (Rs)	43.8	57.9	74.1	84.2

Source: Company, BOBCAPS Research

Fig 5 – Valuation summary

Business	1-year forward EPS (Rs)	Target P/E (x)	Value (Rs/sh)
Standalone Business	74	30	2,408
TVS Credit Services	-	-	33
Total	-	-	2,441

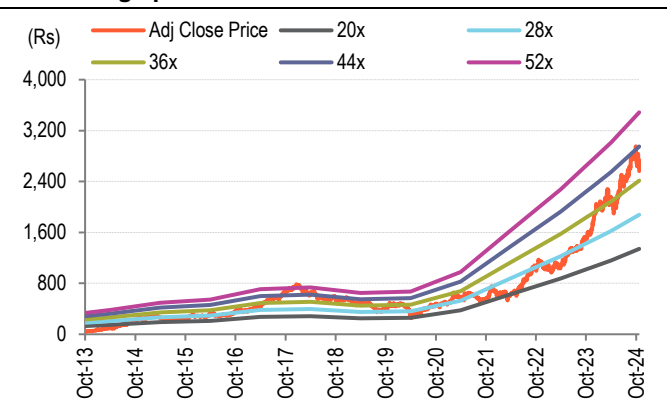
Source: BOBCAPS Research | Valuation is based on 1-year forward earnings

Fig 6 – Peer comparison

Company	Ticker	Rating	Target Price (Rs)	EPS (Rs)		ROE (%)	
				FY26E	FY27E	FY26E	FY27E
TVS Motor Company	TVSL IN	HOLD	2,441	74.1	84.2	29.7	26.2
Bajaj Auto	BJAUT IN	HOLD	11,088	389.5	449.2	28.6	28.0
Eicher Motors	EIM IN	HOLD	4,724	144.5	165.0	23.1	22.3

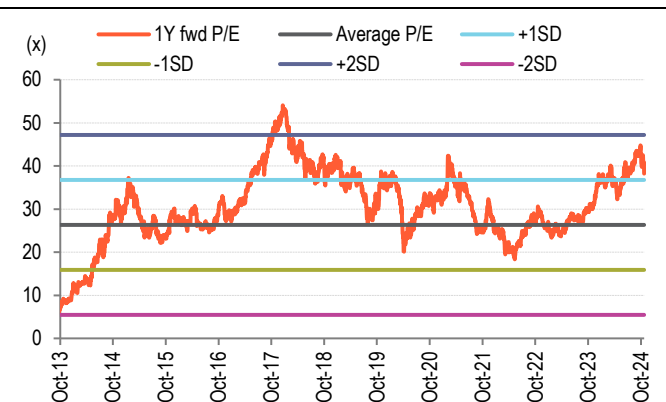
Source: BOBCAPS Research

Fig 7 – P/E band: TVSL’s current valuations fairly reflect its earnings pace



Source: Bloomberg, BOBCAPS Research

Fig 8 – 1Y fwd P/E: We value TVSL at marginal premium to the mean valuations



Source: Bloomberg, BOBCAPS Research

Key risks

Key upside/downside risks to our estimates:

- Strong launch response can pose upside risk to our earnings.
- Commodity cost moving in either direction faster than estimated.
- Faster pace of launches crowding markets can put pricing under pressure

Sector recommendation snapshot

Company	Ticker	Market Cap (US\$ bn)	Price (Rs)	Target (Rs)	Rating
Ashok Leyland	AL IN	7.5	214	283	BUY
Bajaj Auto	BJAUT IN	36.4	10,587	11,088	HOLD
Eicher Motors	EIM IN	15.2	4,678	4,724	HOLD
Escorts Kubota	ESCORTS IN	5.8	3,701	2,514	SELL
Hero MotoCorp	HMCL IN	12.2	5,146	5,245	HOLD
Mahindra & Mahindra	MM IN	41.6	2,794	3,279	BUY
Maruti Suzuki	MSIL IN	42.9	11,956	13,305	HOLD
TVS Motor	TVSL IN	14.5	2,563	2,441	HOLD
VST Tillers Tractors	VSTT IN	0.5	4,468	3,295	SELL

Source: BOBCAPS Research, NSE | Price as of 23 Oct 2024

Financials

Income Statement

Y/E 31 Mar (Rs mn)	FY23A	FY24A	FY25E	FY26E	FY27E
Total revenue	2,63,781	3,17,764	3,66,756	4,44,284	5,10,033
EBITDA	26,747	35,141	43,416	53,497	60,315
Depreciation	6,312	7,004	6,751	7,001	7,885
EBIT	21,440	29,623	38,236	48,196	54,276
Net interest inc./(exp.)	(1,407)	(1,816)	(1,438)	(1,281)	(1,300)
Other inc./(exp.)	1,006	1,485	1,572	1,700	1,845
Exceptional items	0	0	0	0	0
EBT	20,034	27,807	36,799	46,915	52,975
Income taxes	5,123	6,977	9,310	11,729	12,979
Extraordinary items	0	0	0	0	0
Min. int./Inc. from assoc.	0	0	0	0	0
Reported net profit	14,910	20,830	27,489	35,186	39,996
Adjustments	0	0	0	0	0
Adjusted net profit	14,910	20,830	27,489	35,186	39,996

Balance Sheet

Y/E 31 Mar (Rs mn)	FY23A	FY24A	FY25E	FY26E	FY27E
Accounts payables	41,306	51,122	44,299	49,499	56,475
Other current liabilities	6,367	7,189	18,842	27,169	30,724
Provisions	2,785	3,495	3,320	3,653	4,018
Debt funds	22,817	15,134	12,247	11,265	10,406
Other liabilities	4,188	4,502	4,277	4,063	3,860
Equity capital	475	475	475	475	475
Reserves & surplus	60,004	76,836	1,01,851	1,33,870	1,70,267
Shareholders' fund	60,479	77,311	1,02,326	1,34,345	1,70,742
Total liab. and equities	1,37,942	1,58,753	1,85,311	2,29,994	2,76,225
Cash and cash eq.	2,420	5,310	4,318	7,303	5,291
Accounts receivables	9,551	13,021	15,943	18,726	21,162
Inventories	12,364	13,708	15,445	18,122	21,509
Other current assets	16,515	11,651	17,936	21,746	24,979
Investments	56,839	69,913	78,781	1,01,281	1,36,781
Net fixed assets	39,495	43,723	50,471	53,970	56,585
CWIP	2,741	3,297	4,286	10,716	11,788
Intangible assets	0	0	0	0	0
Deferred tax assets, net	(1,982)	(1,870)	(1,870)	(1,870)	(1,870)
Other assets	0	0	0	0	0
Total assets	1,37,942	1,58,752	1,85,311	2,29,994	2,76,225

Cash Flows

Y/E 31 Mar (Rs mn)	FY23A	FY24A	FY25E	FY26E	FY27E
Cash flow from operations	13,000	36,090	24,717	43,581	46,373
Capital expenditures	(11,238)	(11,787)	(14,489)	(16,930)	(11,572)
Change in investments	(9,679)	(13,074)	(8,868)	(22,500)	(35,500)
Other investing cash flows	1,006	1,485	1,572	1,700	1,845
Cash flow from investing	(19,911)	(23,376)	(21,786)	(37,730)	(45,226)
Equities issued/Others	0	0	0	0	0
Debt raised/repaid	6,363	(7,683)	(2,887)	(982)	(859)
Interest expenses	(1,407)	(1,816)	(1,438)	(1,281)	(1,300)
Dividends paid	(2,375)	(3,801)	(2,474)	(3,167)	(3,600)
Other financing cash flows	3	(112)	0	0	0
Cash flow from financing	2,584	(13,412)	(6,799)	(5,430)	(5,759)
Chg in cash & cash eq.	(4,326)	(698)	(3,867)	422	(4,613)
Closing cash & cash eq.	2,420	5,310	4,318	7,303	5,291

Per Share

Y/E 31 Mar (Rs)	FY23A	FY24A	FY25E	FY26E	FY27E
Reported EPS	31.4	43.8	57.9	74.1	84.2
Adjusted EPS	31.4	43.8	57.9	74.1	84.2
Dividend per share	5.0	8.0	5.2	6.7	7.6
Book value per share	127.3	162.7	215.4	282.8	359.4

Valuations Ratios

Y/E 31 Mar (x)	FY23A	FY24A	FY25E	FY26E	FY27E
EV/Sales	4.6	3.8	3.3	2.7	2.4
EV/EBITDA	45.4	34.7	28.0	22.7	20.1
Adjusted P/E	81.7	58.5	44.3	34.6	30.4
P/BV	20.1	15.8	11.9	9.1	7.1

DuPont Analysis

Y/E 31 Mar (%)	FY23A	FY24A	FY25E	FY26E	FY27E
Tax burden (Net profit/PBT)	74.4	74.9	74.7	75.0	75.5
Interest burden (PBT/EBIT)	93.4	93.9	96.2	97.3	97.6
EBIT margin (EBIT/Revenue)	8.1	9.3	10.4	10.8	10.6
Asset turnover (Rev./Avg TA)	338.7	344.6	339.9	330.9	304.8
Leverage (Avg TA/Avg Equity)	1.4	1.3	1.2	1.1	1.1
Adjusted ROAE	27.4	30.2	30.6	29.7	26.2

Ratio Analysis

Y/E 31 Mar	FY23A	FY24A	FY25E	FY26E	FY27E
YoY growth (%)					
Revenue	26.9	20.5	15.4	21.1	14.8
EBITDA	36.3	31.4	23.5	23.2	12.7
Adjusted EPS	66.9	39.7	32.0	28.0	13.7
Profitability & Return ratios (%)					
EBITDA margin	10.1	11.1	11.8	12.0	11.8
EBIT margin	8.1	9.3	10.4	10.8	10.6
Adjusted profit margin	5.7	6.6	7.5	7.9	7.8
Adjusted ROAE	24.7	26.9	26.9	26.2	23.4
ROCE	20.5	24.1	26.5	26.9	24.5
Working capital days (days)					
Receivables	13	13	14	14	14
Inventory	16	15	15	14	14
Payables	74	72	66	54	53
Ratios (x)					
Gross asset turnover	0.3	0.3	0.3	0.3	0.3
Current ratio	0.8	0.7	0.8	0.8	0.8
Net interest coverage ratio	(15.2)	(16.3)	(26.6)	(37.6)	(41.7)
Adjusted debt/equity	0.4	0.2	0.1	0.1	0.1

Source: Company, BOBCAPS Research | Note: TA = Total Assets

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SEBI Research Analyst Registration No: **INH000000040 valid till 03 February 2025**

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Recommendation scale: Recommendations and Absolute returns (%) over 12 months

BUY – Expected return >+15%

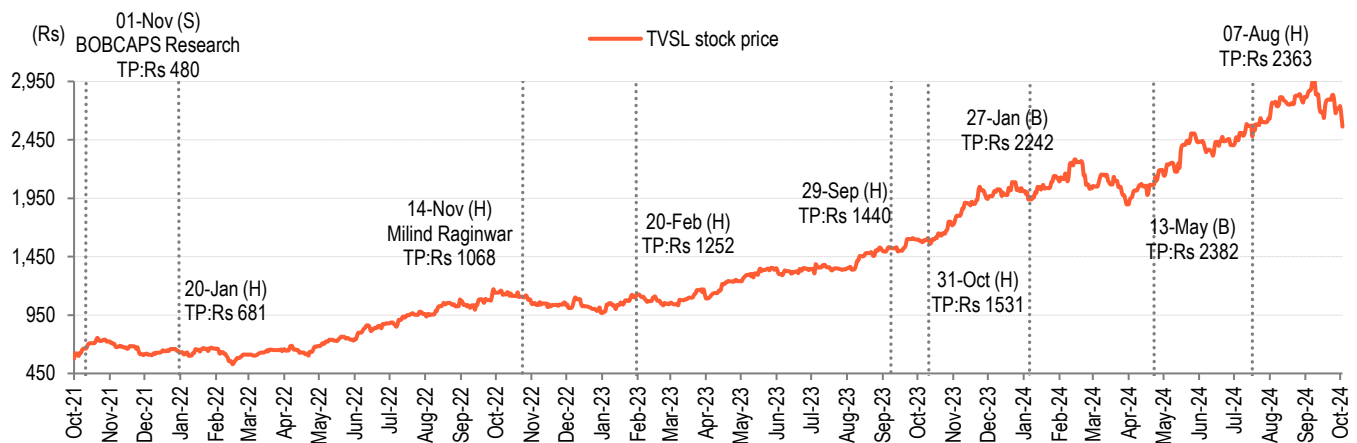
HOLD – Expected return from -6% to +15%

SELL – Expected return <-6%

Note: Recommendation structure changed with effect from 21 June 2021

Our recommendation scale does not factor in short-term stock price volatility related to market fluctuations. Thus, our recommendations may not always be strictly in line with the recommendation scale as shown above.

Ratings and Target Price (3-year history): TVS MOTOR (TVSL IN)



B – Buy, H – Hold, S – Sell, A – Add, R – Reduce

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