

**HOLD**  
 TP: Rs 2,502 | ▲ 7%

**TVS MOTOR**

| Automobiles

| 29 January 2025

**Steady show; aiming at structural strength; maintain HOLD**

- Q3 revenue grew in double digits at 10% YoY (flat QoQ) to Rs 90.97bn, backed by volume growth of 10% YoY (flat QoQ) to ~1.21mn units
- EBITDA margin rose 70bps/20bps YoY/QoQ to 11.9%; soft commodity prices helped raise gross margin to 28.4% (210bps YoY/flat QoQ)
- We maintain earnings estimates for FY25/FY26/FY27 and continue to value TVS at 30x core business. Raise TP to Rs 2,502, retain HOLD

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**Healthy topline supported by double-digit volume gains:** TVSL's Q3FY25 revenue grew in double digits at 10% YoY (flat QoQ) to Rs 90.97bn, backed by volume growth of 10% YoY (flat QoQ) to ~1.21mn units. Net realisation per vehicle (NRPV) was flat at Rs 75.1k YoY. Healthy product mix kept realisations flat YoY.

**Soft commodity costs aided EBITDA margin:** Raw material cost increased 7% YoY to Rs 64.5bn, softening to ~71.6% of sales from 73.7% YoY (flat QoQ) However, EBITDA rose 17% YoY (flat QoQ) to Rs 10.8bn and margins by ~70bps YoY (20bps QoQ) to 11.9%. Other expenditure increased ~20% YoY (down ~4% QoQ) to Rs 10.0bn owing to technology-related expenses and other digital and innovation-related expenses. Employee cost too increased due to investments in high-end engineering and design talent.

**Product development:** The TVS iQube 2.2kWh battery variant was launched in Nepal and Sri Lanka. TVSL launched the 125cc motorcycle segment – the TVS Raider (iGO Variant). It also launched TVS Apache RTR 160 4V.

**Maintain estimates:** Factoring 9MFY25 performance into challenging business conditions we feel TVSL's earnings will deliver in FY25E following a steady revival in the 2W/3W business, distinctly rural demand recovery and prudent handling of raw material costs inflation. However, the electric vehicles (EV) segment will continue to impact overall show. We factor this into our earnings estimates, and retain FY25/FY26/FY27 estimates, baking in a 3Y EBITDA/PAT CAGR of 19%/24%.

**Revise TP; maintain HOLD:** We estimate a healthy outlook for high-end products such as Apache and benefits from the revival in export markets to offset the drag from the EV segment. We believe the focus on premiumisation will continue to balance the 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 2,502 (from Rs 2,441) following roll-forward to December 2026 with the core business valued at Rs 2,469 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 2,336
Market cap	US\$ 12.8bn
Free float	48%
3M ADV	US\$ 18.3mn
52wk high/low	Rs 2,958/Rs 1,873
Promoter/FPI/DII	52%/13%/25%

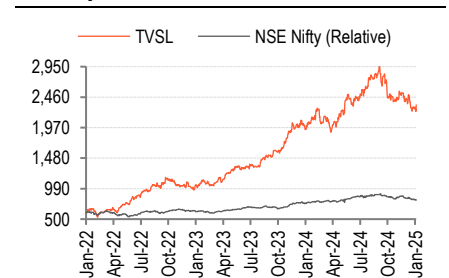
Source: NSE | Price as of 28 Jan 2025

**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	35,139
Adj. EPS (Rs)	43.8	57.9	74.0
Consensus EPS (Rs)	43.8	55.7	70.0
Adj. ROAE (%)	26.9	26.9	26.2
Adj. P/E (x)	53.3	40.4	31.6
EV/EBITDA (x)	31.7	25.5	20.7
Adj. EPS growth (%)	39.7	32.0	27.8

Source: Company, Bloomberg, BOBCAPS Research

**Stock performance**



Source: NSE



Fig 1 – Earnings call highlights

Parameter	Q3FY25	Q2FY25	Our view
Domestic Volume	<p>In Q3FY25, domestic two-wheeler (2W) internal combustion engine (ICE) volumes grew 5% YoY ahead of industry growth of 1% YoY.</p> <p>Management has indicated rural volumes doing slightly better than urban volumes in Q3FY25.</p>	<p>In Q2FY25, domestic two-wheeler (2W) internal combustion engine (ICE) volumes grew 13% YoY ahead of industry in retail.</p>	<p>Management's industry guidance is higher single digit growth for FY25 and TVS is expected to continue with a beat to the industry gains.</p>
Exports	<p>2W exports grew by 19% to 0.78mn units in 9MFY25 as against 0.65mn units in 9MFY24. Export revenues in Q3FY25 were Rs 20.18bn.</p> <p>In Q3FY25, there was improvement in the African market and management expects Q4 to be better. TVSL has entered Morocco and experienced a positive response. TVSL continues to grow in the LATAM, Middle East and Nepal markets. Sri Lanka has seen improvement, but Bangladesh continues to experience a tough time.</p>	<p>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 a slowdown in Bangladesh due to political turmoil. The LATAM portfolio is currently small, but growing at a very fast rate.</p>	<p>TVSL's exports will be a key delta for volume as the opening up of key overseas markets, including ASEAN, the Middle East and LATAM, augurs well for TVSL. Encouraging volume revival in African markets only provides additional cushion.</p>
Three-wheelers (3W)	<p>3W sales for Q3FY25 was at 29k units vs 38k units in both Q2FY25 and Q3FY24.</p> <p>TVSL launched the e-3W TVS EV King Max in Jan'25 in partnership with Hyundai. As per management, e-3W penetration was 26% in Q3FY25.</p>	<p>TVSL sold ~38k units of 3Ws in Q2FY25 vs ~31k in Q1FY25/43k in Q2FY24.</p>	<p>Growth in this segment is encouraging. Besides the EV 3W launch recently, increasing penetration should provide added comfort.</p>
Electric Vehicles	<p>In Q3FY25, TVSL sold ~76k units in the EV segment (~48k in Q3FY24). Overall EV 2W industry has 36% penetration (+5.8% YoY).</p>	<p>In Q2FY25, TVSL sold ~75k units in the EV segment (~58k in Q2FY24). TVSL is currently exporting the iQube to a few ASEAN and Asian countries.</p>	<p>Margins may be under pressure in the interim. However, TVSL's very planned and structured EV thrust is likely to yield results in the medium term.</p>
Margins	<p>EBITDA margin stood at 11.9%, increasing 70bps/20bps YoY/QoQ on account of healthy product mix and cost reduction initiatives. TVSL has launched a new iQube variant with 3 different battery options to improve accessibility. iQube has a presence across 900 dealerships, generating a revenue of Rs 8bn in Q3FY25. iQube PLI has been approved and the entire PLI for FY25 is to be accounted in Q4FY25.</p>	<p>EBITDA margin stood at 11.7%, increasing 65bps/24bps YoY/QoQ. TVSL has not been impacted much by the increase in commodity prices and hasn't given any major discounts. During Q1FY25, a lower-price iQube 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.</p>	<p>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 R&amp;D investments with results yielding in the next 4-6 quarters.</p>
Capex & Investment	<p>Rs 7.4bn investment in subsidiaries account for investment in TVS Credit and Norton in Q3FY25. The first product with Norton is expected to be ready by FY25 end or early FY26. TVSL is also investing to set up a hub in Dubai for international business. Guidance on investment for FY25 is Rs 17bn.</p> <p>TVS Supply Chain Investments written off to the extent of Rs 0.41bn in Q3FY25.</p>	<p>Capex guidance majorly unchanged from Q1FY25 for FY25 stands at ~Rs 12bn-14bn and planned investments at Rs 15bn.</p>	<p>Based on the company's systematic investment and capex guidance we expect a long-term favourable outcome.</p>

Parameter	Q3FY25	Q2FY25	Our view
	Capex for Q3FY25 was Rs 3.40bn and guidance for FY25 is Rs 13bn.		
Others	<p>TVS Credit's book size as on Q3FY25 was Rs 271.9bn with 7% YoY growth. TVS Credit added 3mn new customers in Q3FY25. PBT grew by 40% YoY to Rs 3.21bn. GNPA stood at 3%. CAR of 19.4%. Disbursements of Rs 74bn vs Rs 69bn YoY.</p> <p>TVSL is equipped to launch products in compliance with OBD2B norms which will be effective from 1 April 2025.</p>	<p>TVS Credit's book size as on Q2FY25 was ~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.</p>	<p>Other segments continued to perform on a steady footing. The statutory cost inflation due to new norms will impact industry and, hence, can be passed through by price hikes.</p>

Source: Company, BOBCAPS Research | 2W: Two-wheeler, PLI: Production-linked Incentives, EV: Electric vehicles

**Fig 2 – Quarterly performance**

(Rs mn)	3QFY25	3QFY24	YoY (%)	2QFY25	QoQ (%)	3QFY25E
Volume	12,11,952	11,00,843	10.1	12,28,223	13.0	12,11,952
Avg. Realisation per Vehicle	75,061	74,897	0.2	75,135	(2.5)	74,759
Net Revenues	90,971	82,450	10.3	92,282	(1.4)	90,605
<b>Total Income (A)</b>	<b>90,971</b>	<b>82,450</b>	<b>10.3</b>	<b>92,282</b>	<b>(1.4)</b>	<b>90,605</b>
<b>Operating Expenses</b>						
Raw materials consumed	65,112	60,756	7.2	66,018	(1.4)	64,571
Employee Expenses	4,988	4,036	23.6	4,967	0.4	4,972
Other Expenses	10,056	8,414	19.5	10,499	(4.2)	10,420
<b>Total Expenditure (B)</b>	<b>80,156</b>	<b>73,206</b>	<b>9.5</b>	<b>81,485</b>	<b>(1.6)</b>	<b>79,963</b>
<b>EBITDA (A-B)</b>	<b>10,815</b>	<b>9,244</b>	<b>17.0</b>	<b>10,798</b>	<b>0.2</b>	<b>10,642</b>
Other Income	(227)	734		299		311
Depreciation	1,883	1,781	5.8	1,806	4.3	1,872
EBIT	8,704	8,198	6.2	9,291	(6.3)	9,081
Finance Costs	338	448	(24.6)	319	5.8	339
PBT after excep items	8,367	7,750	8.0	8,972	(6.7)	8,741
Tax expense	2,182	1,817	20.1	2,346	(7.0)	2,273
<b>Reported PAT</b>	<b>6,185</b>	<b>5,934</b>	<b>4.2</b>	<b>6,626</b>	<b>(6.7)</b>	<b>6,469</b>
<b>Adjusted PAT</b>	<b>6,185</b>	<b>5,934</b>	<b>4.2</b>	<b>6,626</b>	<b>(6.7)</b>	<b>6,469</b>
EPS (Rs)	13.0	12.5	4.2	13.9	(6.7)	13.6
<b>Key Ratios (%)</b>						
			<b>(bps)</b>		<b>(bps)</b>	
Gross Margin	28.4	26.3	211.4	28.5	(3.6)	28.7
EBITDA Margin	11.9	11.2	67.6	11.7	18.7	11.7
EBIT Margin	9.6	9.9	(37.4)	10.1	(50.0)	10.0
PBT Margin	9.2	9.4	(20.3)	9.7	(52.5)	9.6
Tax Rate	26.1	23.4	263.9	26.1	(6.8)	26.0
Adj PAT Margin	6.8	7.2	(39.8)	7.2	(38.2)	7.1

Source: Company, BOBCAPS Research

## Valuation methodology

Factoring 9MFY25 performance into challenging business conditions we feel TVSL's earnings will deliver in FY25E following steady revival in the 2W/3W business, distinctly rural demand recovery and prudent handling of raw material costs inflation. However, the EV segment will continue to impact the overall show. We factor this into our earnings estimates and retain FY25/FY26/FY27 estimates, baking in a 3Y EBITDA/PAT CAGR of 19%/24%. The statutory cost inflation due to new norms (OBD 2B) will impact the industry and, hence, can be passed through by price hikes.

We estimate a healthy outlook for high-end products such as Apache 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 2,502 (from Rs 2,441) with the core business valued at Rs 2,469 and Rs 33/sh for TVS Credit Services. Maintain HOLD as current valuations factor in the positives.

**Fig 3 – 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	35,139	39,996
EPS (Rs)	43.8	57.9	74.0	84.2

Source: Company, BOBCAPS Research

**Fig 4 – Valuation summary**

Business	1-year forward EPS (Rs)	Target P/E (x)	Value (Rs/sh)
Standalone Business	84.2	30	2,469
TVS Credit Services	-	-	33
<b>Total</b>	-	-	<b>2,502</b>

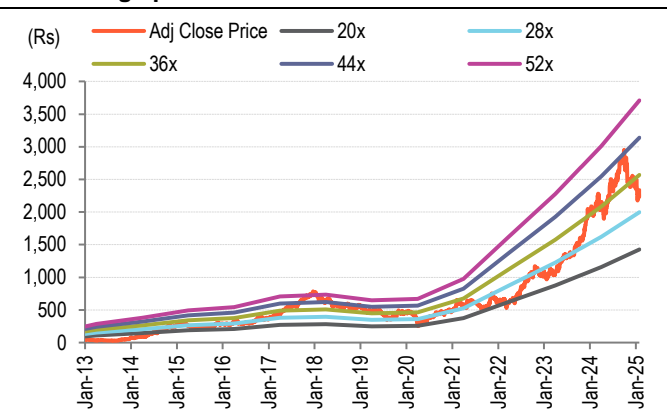
Source: BOBCAPS Research | Valuation is based on Dec-26 earnings

**Fig 5 – Peer comparison**

Company	Ticker	Rating	Target Price (Rs)	EPS (Rs)		ROE (%)	
				FY26E	FY27E	FY26E	FY27E
TVS Motor Company	TVSL IN	HOLD	2,502	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	4,885	165	185	22.3	21.1

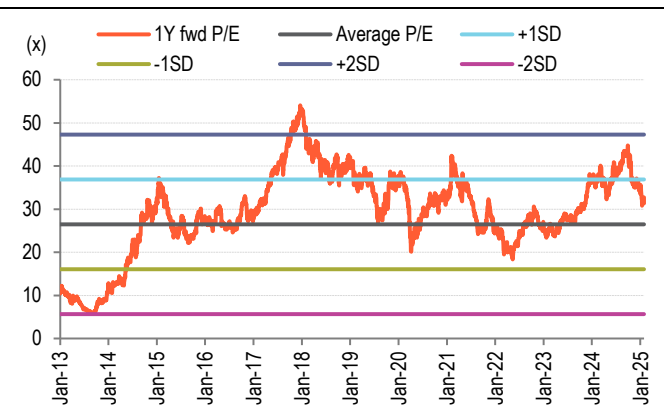
Source: BOBCAPS Research

**Fig 6 – P/E band: TVSL’s current valuations fairly reflect its earnings pace**



Source: Bloomberg, BOBCAPS Research

**Fig 7 – 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.

## Financials

### Income Statement

Y/E 31 Mar (Rs mn)	FY23A	FY24A	FY25E	FY26E	FY27E
<b>Total revenue</b>	<b>2,63,781</b>	<b>3,17,764</b>	<b>3,66,756</b>	<b>4,44,284</b>	<b>5,10,033</b>
EBITDA	26,747	35,141	43,416	53,497	60,315
Depreciation	6,312	7,004	6,751	7,064	7,885
EBIT	21,440	29,623	38,236	48,134	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	46,852	52,975
Income taxes	5,123	6,977	9,310	11,713	12,979
Extraordinary items	0	0	0	0	0
Min. int./Inc. from assoc.	0	0	0	0	0
<b>Reported net profit</b>	<b>14,910</b>	<b>20,830</b>	<b>27,489</b>	<b>35,139</b>	<b>39,996</b>
Adjustments	0	0	0	0	0
<b>Adjusted net profit</b>	<b>14,910</b>	<b>20,830</b>	<b>27,489</b>	<b>35,139</b>	<b>39,996</b>

### 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	1,33,828	1,70,224
Shareholders' fund	60,479	77,311	1,02,326	1,34,303	1,70,699
<b>Total liab. and equities</b>	<b>1,37,942</b>	<b>1,58,753</b>	<b>1,85,311</b>	<b>2,29,951</b>	<b>2,76,183</b>
Cash and cash eq.	2,420	5,310	4,318	5,323	3,311
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	55,908	58,523
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
<b>Total assets</b>	<b>1,37,942</b>	<b>1,58,752</b>	<b>1,85,311</b>	<b>2,29,951</b>	<b>2,76,183</b>

### Cash Flows

Y/E 31 Mar (Rs mn)	FY23A	FY24A	FY25E	FY26E	FY27E
<b>Cash flow from operations</b>	<b>13,000</b>	<b>36,090</b>	<b>24,717</b>	<b>43,597</b>	<b>46,373</b>
Capital expenditures	(11,238)	(11,787)	(14,489)	(18,930)	(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
<b>Cash flow from investing</b>	<b>(19,911)</b>	<b>(23,376)</b>	<b>(21,786)</b>	<b>(39,730)</b>	<b>(45,226)</b>
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)	(3,163)	(3,600)
Other financing cash flows	3	(112)	0	0	0
<b>Cash flow from financing</b>	<b>2,584</b>	<b>(13,412)</b>	<b>(6,799)</b>	<b>(5,425)</b>	<b>(5,759)</b>
<b>Chg in cash &amp; cash eq.</b>	<b>(4,326)</b>	<b>(698)</b>	<b>(3,867)</b>	<b>(1,558)</b>	<b>(4,613)</b>
<b>Closing cash &amp; cash eq.</b>	<b>2,420</b>	<b>5,310</b>	<b>4,318</b>	<b>5,323</b>	<b>3,311</b>

### Per Share

Y/E 31 Mar (Rs)	FY23A	FY24A	FY25E	FY26E	FY27E
Reported EPS	31.4	43.8	57.9	74.0	84.2
Adjusted EPS	31.4	43.8	57.9	74.0	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	282.7	359.3

### Valuations Ratios

Y/E 31 Mar (x)	FY23A	FY24A	FY25E	FY26E	FY27E
EV/Sales	4.2	3.5	3.0	2.5	2.2
EV/EBITDA	41.3	31.7	25.5	20.7	18.4
Adjusted P/E	74.4	53.3	40.4	31.6	27.7
P/BV	18.3	14.4	10.8	8.3	6.5

### 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	331.0	304.9
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
<b>YoY growth (%)</b>					
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	27.8	13.8
<b>Profitability &amp; Return ratios (%)</b>					
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
<b>Working capital days (days)</b>					
Receivables	13	13	14	14	14
Inventory	16	15	15	14	14
Payables	74	72	66	54	53
<b>Ratios (x)</b>					
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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## Disclaimer

Name of the Research Entity: **BOB Capital Markets Limited**

Registered office Address: **1704, B Wing, Parinee Crescenzo, G Block, BKC, Bandra East, Mumbai 400051**

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

Brand Name: **BOBCAPS**

Trade Name: **www.barodaetrade.com**

CIN: **U65999MH1996GOI098009**



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

**BUY** – Expected return >+15%

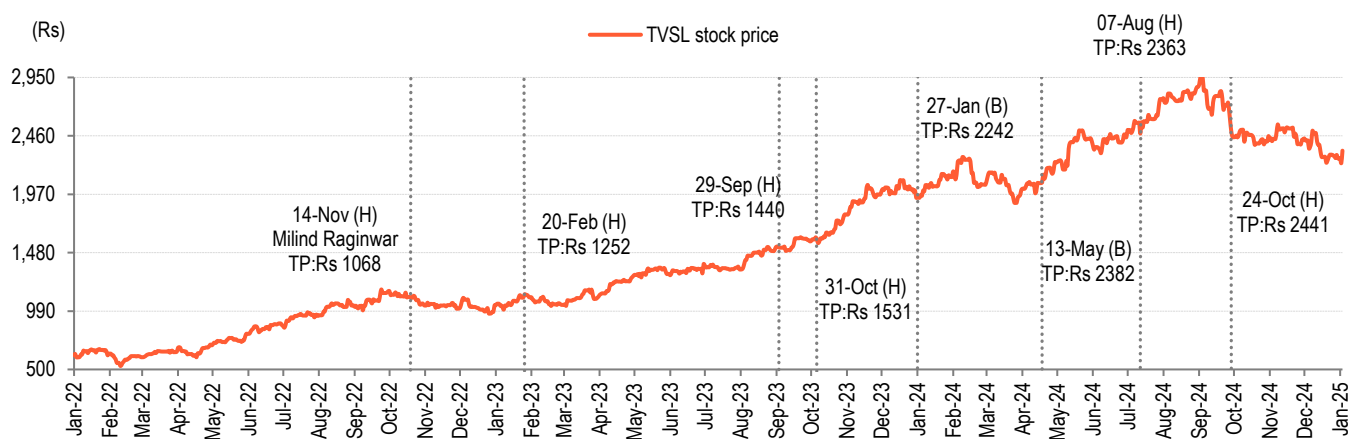
**HOLD** – Expected return from -6% to +15%

**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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