

BUY

TP: Rs 2,382 | ▲ 15%

TVS MOTOR

| Automobiles

| 13 May 2024

Cruising on the right track; maintain BUY

- ICE 2-wheeler volume grew 18% YoY, supporting 24% revenue growth in Q4. FY24 growth was 19% YoY vs. industry's 13%
- Steady gains in EBITDA margin to 11.3% vs 10.6% YoY, flat QoQ; softening commodity cost aids gross margin to 27.2% (+180bps YoY)
- Maintain BUY with new TP of Rs 2,382 (vs. Rs 2,242) as we raise our target P/E to 30x (vs. 28x) given healthy structural gains in next 2 years

Milind Raginwar

research@bobcaps.in

Revenue growth driven by healthy volume uptick: TVSL's Q4FY24 revenue grew 22% YoY (flat QoQ) to Rs 81.7bn, backed by volume growth of 22% YoY (-3% QoQ) to ~1.1mn units. Net realisation per vehicle (NRPV) remained flat YoY/+3% QoQ at Rs 76.8k due to better product mix. TVSL's domestic ICE 2W volumes grew 18% YoY to ~750k units while exports grew by a healthy 47% YoY.

Healthy margin gains helped by softening commodity cost: Raw material costs as a percentage of sales dropped 180bps YoY to 72.8% in Q4 (~100bps QoQ fall) due to input cost decline. EBITDA grew 36% YoY (flat QoQ) to Rs 9.2bn and the margin improved 70bps (flat QoQ) to 11.3%. Adj. PAT climbed only 13% YoY (-18% QoQ) to Rs 4.9bn with a 6.7% net margin, impacted by other income loss (notional) of ~Rs 460mn incurred due to investment valuations.

Steady revival in export demand: 2W export sales grew strongly by 47%/9% YoY /QoQ to ~236k units, above the industry. TVSL anticipates a positive momentum in the South-East Asian and LATAM markets. Recovery in African markets is only marginal and may be neutral for TVSL in the medium term.

Estimates maintained: Backed by a strong presence in the preferred high-end motorcycle segment, revival in key export markets and focused EV launch approach will help TVSL beat industry volume growth. Though raw material costs are inflating marginally the company's premium focus will aid margins with pass through. We have factored the same into our FY25/FY26 earnings estimates and continue to maintain our earnings baking in a 3Y EBITDA/PAT CAGR of 28%/35%.

TP raised; maintain BUY: We estimate a healthy outlook for high-end products such as *Apache* and *Raider*, systematic EV launch plans, and medium-term benefits from investments in export markets. Factoring in the same, we revise our target P/E for the core business to 30x from 28x, a marginal premium to the stock's long-term average. We arrive at a new SOTP-based TP of Rs 2,382 (earlier Rs 2,242) with the core business valued at Rs 2,349 and Rs 33/sh for TVS Credit, offering 14% upside potential. Maintain BUY. Slow recovery in export markets remains a key risk.

Key changes

Target	Rating
▲	◀ ▶

Ticker/Price	TVSL IN/Rs 2,069
Market cap	US\$ 12.0bn
Free float	48%
3M ADV	US\$ 27.1mn
52wk high/low	Rs 2,313/Rs 1,220
Promoter/FPI/DII	52%/13%/25%

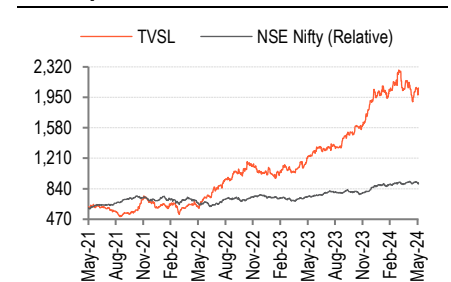
Source: NSE | Price as of 13 May 2024

Key financials

Y/E 31 Mar	FY24P	FY25E	FY26E
Total revenue (Rs mn)	3,17,764	3,62,497	4,29,846
EBITDA (Rs mn)	35,141	45,469	56,091
Adj. net profit (Rs mn)	20,819	28,887	36,889
Adj. EPS (Rs)	43.8	60.8	77.6
Consensus EPS (Rs)	43.8	56.6	69.9
Adj. ROAE (%)	26.9	27.5	26.6
Adj. P/E (x)	47.2	34.0	26.6
EV/EBITDA (x)	28.0	21.6	17.5
Adj. EPS growth (%)	39.6	38.8	27.7

Source: Company, Bloomberg, BOBCAPS Research | P – Provisional

Stock performance



Source: NSE



Fig 1 – Earnings call highlights

Parameter	Q4FY24	Q3FY24	Our View
Domestic volumes	In Q4FY24, domestic two-wheeler (2W) internal combustion engine (ICE) volumes grew 18% YoY, and FY24 growth was 19% compared to the industry's growth rate of 13%.	In Q3FY24, domestic two-wheeler ICE volumes grew 33% YoY, beating the industry growth rate.	TVSL is likely to continue to beat the industry helped by new launches at regular intervals.
Exports	<p>TVSL's 2W export volumes grew 47% YoY to ~236k units in Q4FY24 vs ~161k units in Q4FY23.</p> <p>In exports African markets are a mixed bag with some recovery visibility while some continue with challenges with recovery in 2HFY25. Positive momentum is visible in Latin American and Southeast Asian markets.</p>	<p>TVSL's 2W export volumes grew 4% YoY to ~216k units in Q3FY24, ahead of the industry.</p> <p>Management indicated that export market recovery is taking longer than expected due to delays in currency availability, especially for African markets. Hurdles to container availability amid the Red Sea crisis could further delay revival.</p> <p>During Q3, TVSL announced its foray into Europe in partnership with Emil Frey for launching both ICE and EV products.</p>	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 ~30k 3Ws during Q4FY24 vs ~29k units in Q4FY23.	TVSL sold ~38k 3Ws during Q3FY24 (~43k units in Q3FY23).	Improvement in exports is a positive. The EV 3W that is under development should bolster the segment's prospects.
Electric vehicles (EV)	<p>In Q4FY24, TVSL sold ~49k units in the EV segment (~43k units in Q4FY23). As on Q4, the EV portfolio is available at >712 touchpoints.</p> <p>Capacity expansion in EVs is expected in the short term with 50k monthly capacity target.</p> <p>Management has a very planned EV launch approach with multiple variants/options based on battery capacity leading to different product and price combinations, new product launches, calibrated increase in availability and further targeting export markets.</p>	<p>During Q3FY24, TVSL sold ~48k units of <i>iQube</i> (against ~29k units in Q3FY23), growing ahead of the industry for the last six quarters as per management. As at Q3, <i>iQube</i> is available at >400 touchpoints.</p> <p>Capacity expansion in EVs is expected in 3-4 months as TVSL has a developed supply chain and enough counter measures with correct investments.</p> <p>Management also intends to launch a series of EV products in the coming quarters coupled with a buildout of EV infrastructure.</p>	TVSL's very planned and structured EV thrust is likely to yield results in the medium term. Though in the interim the volume may be volatile due to government policies.
Margins	EBITDA margin stood at 11.3% compared to 10.6% in Q4FY23 (11.2% QoQ). Raw material cost hardened in 1QFY25 and TVSL has hiked prices by 0.3% to offset the commodity cost inflation. Management expects to improve profitability with better product mix, investments in 2W/3W EV segment and export market revival.	EBITDA margin stood at 11.2% compared to 10.1% in Q3FY23 (flat QoQ). Raw material cost has declined 8% QoQ due to sustained reduction in input prices and a better overall product mix. Management expects to leverage its revenue growth, premiumisation and cost reduction initiatives to improve profitability in Q4FY24.	We see adequate levers to improve margins though strong growth may stay side-ways in the medium term as TVSL focuses on the right investments.
Capex & investment	Investment deployment in Q4FY24 has been ~Rs 880mn in <i>Norton</i> motorcycles for designing and developing. Investments for FY25 will be ~Rs 10bn including the ICE and EV segments. TVS investments will be ~ Rs 11bn/12bn including Rs 3bn/4bn in TVS Credit Services.	Investment deployment in Q3FY24 was ~Rs 800mn in <i>Norton</i> motorcycles and Rs 2.1bn-2.2bn in other subsidiaries (Killwat, TVS Digital). Investments over 9MFY24 totalled ~Rs 9bn and management guided for a further ~Rs 2bn in Q4FY24. Capex guidance for FY24 was retained at ~Rs 10bn (predominantly for EVs).	Given the systematic investment and capex guidance the same should yield results in the premium segment launches in the next 2 years.

Parameter	Q4FY24	Q3FY24	Our View
Others	<p>TVS Credit's book size as on Q4FY24 is ~Rs 259bn (+2% QoQ). In FY24, TVS CS achieved a 130mn customer base and PBT was up 49% at ~Rs 7.6bn.</p> <p>TVSL's spares revenue was ~Rs 8.2bn and export revenue was Rs 20.3bn in Q4FY24.</p> <p>Other income for Q4 posted a loss of Rs 286.7mn due to notional loss booked in the investments of Rs 460mn.</p>	<p>TVS Credit's book size as on Q3FY24 stood at ~Rs 253bn (+8% QoQ) and reported PBT was at ~Rs 2.3bn.</p> <p>TVSL's spares revenue was ~Rs 8bn and export revenue was Rs 18.9bn in Q3.</p> <p>Other income for Q3 came in at ~Rs 734mn and includes profit of ~Rs 823mn recognised towards capital reduction of subsidiary Sundaram Auto Components and a ~Rs 90mn notional loss from fair valuation of investments.</p>	Other segments continue to perform on a steady footing.

Source: Company, BOBCAPS Research

Fig 2 – Quarterly performance

(Rs mn)	4QFY24	4QFY23	YoY (%)	3QFY24	QoQ (%)
Volume	1,100,843	879,423	25.2	1,089,359	1.1
Avg. Realisation per Vehicle	74,897	74,429	0.6	74,765	0.2
Net Revenues	82,450	65,454	26.0	81,446	1.2
Total Income (A)	82,450	65,454	26.0	81,446	1.2
Operating Expenses:					
Raw materials consumed	60,756	49,429	22.9	60,276	0.8
Employee Expenses	4,036	3,409	18.4	3,929	2.7
Other Expenses	8,414	6,027	39.6	8,244	2.1
Total Expenditure (B)	73,206	58,865	24.4	72,449	1.0
EBITDA (A-B)	9,244	6,589	40.3	8,998	2.7
Other Income	734	65	1031.0	462	58.7
Depreciation	1,781	1,583	12.5	1,701	4.7
EBIT	8,198	5,071	61.7	7,759	5.7
Finance Costs	448	316	41.5	523	(14.4)
PBT before exceptional items	7,750	4,755	63.0	7,237	7.1
Exceptional items	-	-	0.0	-	0.0
PBT after exceptional items	7,750	4,755	63.0	7,237	7.1
Tax expense	1,817	1,227	48.0	1,871	(2.9)
Reported PAT	5,934	3,528	68.2	5,366	10.6
Adjusted PAT	5,934	3,528	68.2	5,366	10.6
Adj EPS (Rs)	12.5	7.4	68.2	11.3	10.6
Key Ratios (%)			(bps)		(bps)
Gross Margin	27.2	24.6	263.1	26.3	92.5
EBITDA Margin	11.3	10.3	104.6	11.2	12.6
EBIT Margin	8.7	8.8	(14.8)	9.9	(126.5)
PBT Margin	8.2	8.3	(5.4)	9.4	(117.8)
Tax Rate	27.7	24.9	277.9	23.4	428.3
Adj PAT Margin	5.9	6.2	(26.9)	7.2	(125.4)

Source: Company, BOBCAPS Research

Valuation methodology

Backed by a strong presence in the preferred high-end motorcycle segment, revival in key export markets and focused EV launch approach will help TVSL to beat industry volume growth. Though raw material costs are inflating marginally the company's premium focus will aid margins with pass through. We have factored the same into our FY25/FY26 earnings estimates and continue to maintain our earnings baking in a 3Y EBITDA/PAT CAGR of 28%/35%.

We estimate a healthy outlook for high-end products such as *Apache* and *Raider*, systematic and calibrated 5-point EV launch plans, including variants and pricing based on battery size, focus on domestic availability, tapping export markets with developed and developing regions and medium-term benefits from investments in export markets and premium-end products like Norton. Additionally, focus on EV 3Ws in the domestic and export markets also add comfort. These initiatives collectively will yield results in the next 12-18 months and beyond.

Factoring in the same, we revise our target P/E for the core business to 30x from 28x, a marginal premium to the stock's long-term average. We arrive at a new SOTP-based TP of Rs 2,382 (earlier Rs 2,242) with the core business valued at Rs 2,349 and Rs 33/sh for TVS Credit, offering 14% upside potential. Maintain BUY.

Fig 3 – Key assumptions

Parameter	FY23	FY24P	FY25E	FY26E
2W volumes (units)	35,27,935	39,99,788	45,57,381	52,24,161
3W volumes (units)	1,69,114	1,95,327	2,26,579	2,62,832
Revenue (Rs mn)	2,63,781	3,17,764	3,62,497	4,29,846
EBITDA (Rs mn)	26,747	35,141	45,469	56,091
EBITDA margin (%)	10.1	11.1	12.5	13.0
Adj. PAT (Rs mn)	14,910	20,819	28,887	36,889
EPS (Rs)	31.4	43.8	60.8	77.6

Source: Company, BOBCAPS Research

Fig 4 – Valuation summary

Business	FY26E EPS (Rs)	Target P/E (x)	Value (Rs/sh)
Standalone Business	77.7	30x	2,349
TVS Credit	-	-	33
Total	-	-	2,382

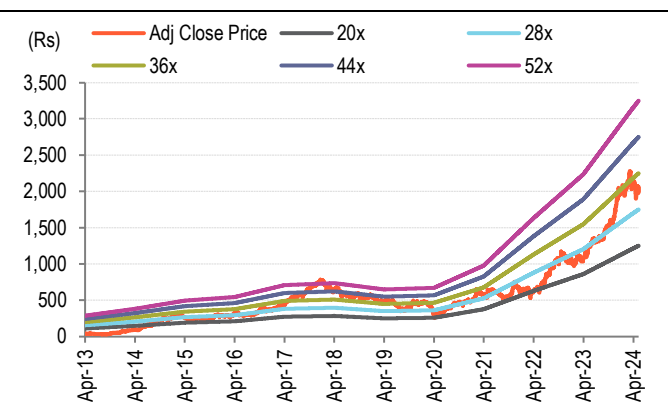
Source: BOBCAPS Research

Fig 5 – Peer comparison

Company	Ticker	Rating	Target Price (Rs)	EPS (Rs)		ROE (%)	
				FY25E	FY26E	FY25E	FY26E
TVS Motor Company	TVSL IN	BUY	2,382	60.8	77.6	31.7	30.3
Eicher Motors	EIM IN	HOLD	4,045	142.3	158.9	22.5	20.9
Bajaj Auto	BJAUT IN	SELL	6,823	299.8	359.1	28.5	27.4

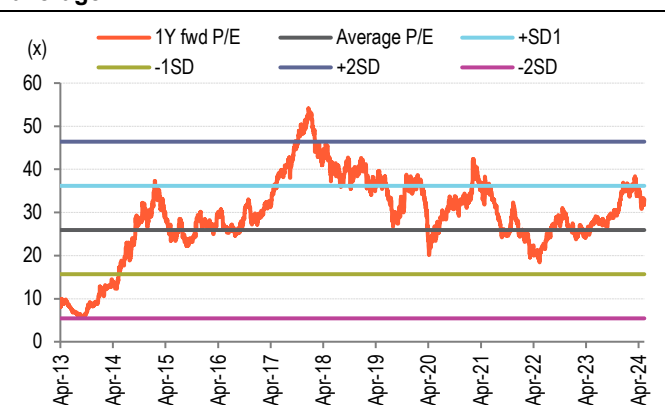
Source: BOBCAPS Research

Fig 6 – P/E band: TVSL continues to command a premium



Source: Bloomberg, BOBCAPS Research

Fig 7 – 1Y fwd P/E: We value the stock at its long-term average



Source: Bloomberg, BOBCAPS Research

Key risks

Key downside risks to our estimates are:

- delays in EV launches and further reversal of key benefits by the government,
- faster-than-expected commodity cost escalation, and,
- slower-than-expected export and domestic market recovery.

Sector recommendation snapshot

Company	Ticker	Market Cap (US\$ bn)	Price (Rs)	Target (Rs)	Rating
Ashok Leyland	AL IN	7.1	199	226	BUY
Bajaj Auto	BJAUT IN	31.7	8,992	6,823	SELL
Eicher Motors	EIM IN	15.5	4,657	4,045	HOLD
Escorts	ESCORTS IN	5.8	3,600	2,389	SELL
Hero MotoCorp	HMCL IN	11.9	4,886	4,776	HOLD
Maruti Suzuki	MSIL IN	46.6	12,674	12,965	HOLD
TVS Motor	TVSL IN	12.0	2,069	2,382	BUY
VST Tillers Tractors	VSTT IN	0.4	3,326	3,213	HOLD

Source: BOBCAPS Research, NSE | Price as of 13 May 2024

Financials

Income Statement

Y/E 31 Mar (Rs mn)	FY22A	FY23A	FY24P	FY25E	FY26E
Total revenue	2,07,905	2,63,781	3,17,764	3,62,497	4,29,846
EBITDA	19,617	26,747	35,141	45,469	56,091
Depreciation	6,114	6,312	7,004	6,896	7,135
EBIT	13,693	21,440	29,612	40,182	50,748
Net interest inc./(exp.)	(1,259)	(1,407)	(1,816)	(1,511)	(1,563)
Other inc./(exp.)	190	1,006	1,474	1,609	1,793
Exceptional items	(302)	0	0	0	0
EBT	12,132	20,034	27,795	38,671	49,185
Income taxes	3,197	5,123	6,977	9,784	12,296
Extraordinary items	0	0	0	0	0
Min. int./Inc. from assoc.	0	0	0	0	0
Reported net profit	8,936	14,910	20,819	28,887	36,889
Adjustments	302	0	0	0	0
Adjusted net profit	9,237	14,910	20,819	28,887	36,889

Balance Sheet

Y/E 31 Mar (Rs mn)	FY22A	FY23A	FY24P	FY25E	FY26E
Accounts payables	39,914	41,306	37,964	44,744	49,722
Other current liabilities	5,828	6,367	20,347	31,001	36,762
Provisions	2,458	2,785	3,495	3,320	3,653
Debt funds	16,455	22,817	15,134	13,653	15,028
Other liabilities	3,622	4,188	4,501	4,276	4,063
Equity capital	475	475	475	475	475
Reserves & surplus	47,746	60,004	76,835	1,04,560	1,38,129
Shareholders' fund	48,221	60,479	77,310	1,05,035	1,38,604
Total liab. and equities	1,16,498	1,37,942	1,58,751	2,02,031	2,47,831
Cash and cash eq.	4,012	2,420	5,309	4,782	5,889
Accounts receivables	9,507	9,551	13,021	15,757	18,087
Inventories	11,227	12,364	13,708	17,726	22,172
Other current assets	9,260	16,515	11,651	17,726	22,172
Investments	47,160	56,839	69,913	93,781	1,23,281
Net fixed assets	34,849	39,495	44,492	51,095	54,460
CWIP	2,462	2,741	2,528	3,034	3,641
Intangible assets	0	0	0	0	0
Deferred tax assets, net	(1,979)	(1,982)	(1,870)	(1,870)	(1,870)
Other assets	0	0	0	0	0
Total assets	1,16,497	1,37,942	1,58,751	2,02,031	2,47,831

Cash Flows

Y/E 31 Mar (Rs mn)	FY22A	FY23A	FY24P	FY25E	FY26E
Cash flow from operations	13,760	13,000	36,243	36,869	40,303
Capital expenditures	(10,535)	(11,238)	(11,787)	(14,006)	(11,107)
Change in investments	(14,015)	(9,679)	(13,074)	(23,868)	(29,500)
Other investing cash flows	190	1,006	1,474	1,609	1,793
Cash flow from investing	(24,360)	(19,911)	(23,387)	(36,265)	(38,814)
Equities issued/Others	0	0	0	0	0
Debt raised/repaid	6,099	6,363	(7,683)	(1,482)	1,375
Interest expenses	(1,259)	(1,407)	(1,816)	(1,511)	(1,563)
Dividends paid	(1,782)	(2,375)	(2,550)	(2,600)	(3,320)
Other financing cash flows	24	3	(112)	0	0
Cash flow from financing	3,082	2,584	(12,161)	(5,593)	(3,508)
Chg in cash & cash eq.	(7,518)	(4,326)	695	(4,988)	(2,019)
Closing cash & cash eq.	4,012	2,420	5,309	4,782	5,889

Per Share

Y/E 31 Mar (Rs)	FY22A	FY23A	FY24P	FY25E	FY26E
Reported EPS	18.8	31.4	43.8	60.8	77.6
Adjusted EPS	18.8	31.4	43.8	60.8	77.6
Dividend per share	3.7	5.0	5.4	5.5	7.0
Book value per share	101.5	127.3	162.7	221.1	291.7

Valuations Ratios

Y/E 31 Mar (x)	FY22A	FY23A	FY24P	FY25E	FY26E
EV/Sales	4.7	3.7	3.1	2.7	2.3
EV/EBITDA	49.6	36.6	28.0	21.6	17.5
Adjusted P/E	110.0	65.9	47.2	34.0	26.6
P/BV	20.4	16.3	12.7	9.4	7.1

DuPont Analysis

Y/E 31 Mar (%)	FY22A	FY23A	FY24P	FY25E	FY26E
Tax burden (Net profit/PBT)	73.7	74.4	74.9	74.7	75.0
Interest burden (PBT/EBIT)	88.6	93.4	93.9	96.2	96.9
EBIT margin (EBIT/Revenue)	6.6	8.1	9.3	11.1	11.8
Asset turnover (Rev./Avg TA)	345.2	338.7	344.6	329.7	306.3
Leverage (Avg TA/Avg Equity)	1.4	1.4	1.3	1.2	1.2
Adjusted ROAE	20.1	27.4	30.2	31.7	30.3

Ratio Analysis

Y/E 31 Mar	FY22A	FY23A	FY24P	FY25E	FY26E
YoY growth (%)					
Revenue	24.1	26.9	20.5	14.1	18.6
EBITDA	37.3	36.3	31.4	29.4	23.4
Adjusted EPS	46.0	66.9	39.6	38.8	27.7
Profitability & Return ratios (%)					
EBITDA margin	9.4	10.1	11.1	12.5	13.0
EBIT margin	6.6	8.1	9.3	11.1	11.8
Adjusted profit margin	4.4	5.7	6.6	8.0	8.6
Adjusted ROAE	19.2	24.7	26.9	27.5	26.6
ROCE	16.7	20.5	24.1	27.3	27.1
Working capital days (days)					
Receivables	16	13	13	14	14
Inventory	20	16	15	16	17
Payables	92	74	62	56	54
Ratios (x)					
Gross asset turnover	0.4	0.3	0.3	0.3	0.3
Current ratio	0.7	0.8	0.7	0.7	0.8
Net interest coverage ratio	(10.9)	(15.2)	(16.3)	(26.6)	(32.5)
Adjusted debt/equity	0.3	0.4	0.2	0.1	0.1

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

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

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

BUY – Expected return >+15%

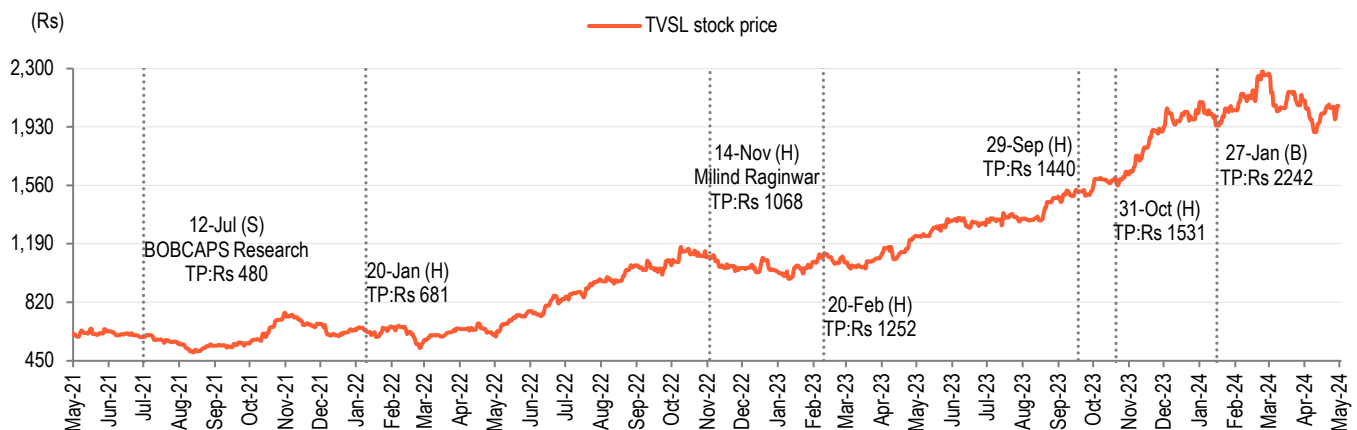
HOLD – Expected return from -6% to +15%

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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