

**HOLD**

TP: Rs 2,363 | ▼ 5%

**TVS MOTOR**

| Automobiles

| 07 August 2024

**No challenges in performance; valuations gain pace**

- Q1 revenue increased by 16% YoY driven by volume growth of 14.1% YoY to ~1.1mn units
- EBITDA margin was 11.5%, up 88bps/12bps YoY/QoQ. Softening commodity prices aided rise in gross margin to 28.6% (316bps YoY)
- We lower our earnings estimates by 5%/4% for FY25/FY26 and continue to value TVS at 30x core business. Downgrade to HOLD, TP of Rs 2,363

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**Strong volume growth supported topline:** TVSL's Q1FY25 revenue grew 16% YoY (2.5% QoQ) to Rs 83.7bn, backed by volume growth of 14% YoY (2.3% QoQ) to ~1.1mn units. Net realisation per vehicle (NRPV) increased by 1.7% YoY/ flat QoQ at Rs 77.0k due to better product mix.

**Softening commodity costs aided EBITDA margins:** Raw material costs as a percentage of sales dropped 316bps YoY to 71.4% in Q1 (~136bps QoQ fall) due to input cost decline. EBITDA grew 25.7% YoY (3.6% QoQ) to Rs 9.6bn and the margin improved 88bps (12bps QoQ) to 11.5%. Other expenditure rose by 37.9% YoY to Rs 9.5bn driven by increase in marketing expenses by Rs 0.87bn. Variable expense related to packing and freight went up ~Rs 0.6bn and digital and other innovation by Rs 0.35bn. Adj. PAT climbed 23.4% YoY (18.9% QoQ) to Rs 5.7bn.

**Product development:** (a) TVSL plans to launch 6 new products in Norton over the next 3 years with the first model available by the end of FY26. It will deliver volume post the international launch. (b) TVSL's launches include one product in ICE and one in electric vehicles (EV) in Q2-Q3 of FY25. (c) During Q1FY25, TVSL added HLX 125, a 5-gear, to its portfolio which will strengthen the international product portfolio. (d) TVSL announced the launch of TVS Apache RTR 160 racing edition.

**Estimates maintained:** Given the weak start to FY25 and severe competition with raw material costs inflation ticking in and EV investments dragging the overall performance, we lower our FY25/FY26 estimates by 5%/4%. We introduce FY27 earnings estimates, baking in a 3Y EBITDA/PAT CAGR of 19%/24%.

**TP maintained; revise to HOLD:** We estimate a healthy outlook for high-end products such as *Apache* and *Raider* and medium-term benefits from investments in export markets being offset by drag from EV segment. Further, we feel the current run-up in valuations factor in premiumisation focus. We maintain our target P/E for the core business at 30x – a marginal premium to the stock's long-term average. We arrive at a new SOTP-based TP of Rs 2,363 (vs Rs 2,382) with the core business valued at Rs 2,330 and Rs 33/sh for TVS Credit Services. Downgrade to HOLD.

**Key changes**

Target	Rating
▼	▼

Ticker/Price	TVSL IN/Rs 2,479
Market cap	US\$ 14.0bn
Free float	48%
3M ADV	US\$ 30.7mn
52wk high/low	Rs 2,602/Rs 1,317
Promoter/FPI/DII	52%/13%/25%

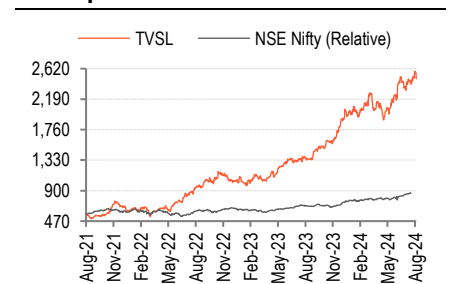
Source: NSE | Price as of 6 Aug 2024

**Key financials**

Y/E 31 Mar	FY24A	FY25E	FY26E
Total revenue (Rs mn)	3,17,764	3,62,497	4,31,291
EBITDA (Rs mn)	35,141	43,312	53,490
Adj. net profit (Rs mn)	20,830	27,411	35,180
Adj. EPS (Rs)	43.8	57.7	74.0
Consensus EPS (Rs)	43.8	56.6	69.9
Adj. ROAE (%)	26.9	26.8	26.2
Adj. P/E (x)	56.5	43.0	33.5
EV/EBITDA (x)	33.6	27.2	22.0
Adj. EPS growth (%)	39.7	31.6	28.3

Source: Company, Bloomberg, BOBCAPS Research

**Stock performance**



Source: NSE



**Fig 1 – Earnings call highlights**

Parameter	Q1FY25	Q4FY24	Our view
Domestic Volume	In Q1FY25, domestic two-wheeler (2W) internal combustion engine (ICE) volumes grew 14% YoY ahead of industry in retail.	In Q4FY24, domestic 2W ICE volumes grew 18% YoY, and FY24 growth was 19% compared to the industry's growth rate of 13%.	TVSL is likely to continue to beat industry, helped by new launches at regular intervals.
Exports	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's 2W export volumes grew 47% YoY to ~236k units in Q4FY24 vs ~161k units in Q4FY23. In exports, the African market was a mixed bag with some recovery visibility, while some continued with challenges with recovery in 2HFY25. Positive momentum is visible in Latin American and Southeast Asian markets.	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 ~31k units of 3Ws in Q1FY25 vs ~35k in Q1FY24.	TVSL sold ~30k 3Ws in Q4FY24 vs ~29k in Q4FY23.	The EV 3W that is under development should bolster the segment's prospects.
Electric Vehicles	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 has 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.	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. Capacity expansion in EVs is expected in the short term with 50k monthly capacity target. 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 of export markets.	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 11.5%, 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 Productivity-Linked Incentive in Q1FY25.	EBITDA margin stood at 11.3% compared to 10.6% in Q4FY23 (11.2% QoQ). Raw material cost hardened in 1QFY25 and TVSL hiked prices by 0.3% to offset commodity cost inflation. Management expects to improve profitability with better product mix, investments in 2W/3W EV segment, and export market revival.	We see levers to improve margins though strong growth may stay sideways in the medium term as TVSL focuses on the right investments.
Capex & Investment	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 plans for capex of ~Rs 10bn-11bn in FY25.	Investment deployment in Q4FY24 was ~Rs 880mn for designing and developing Norton motorcycles. 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.	Given the company's systematic investment and capex guidance, in other businesses too should yield results in the long term
Others	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.	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. TVSL's spares revenue was ~Rs 8.2bn and export revenue was Rs 20.3bn in Q4FY24. Other income for Q4 posted a loss of Rs 286.7mn due to notional loss booked in the investments of Rs 460mn.	Other segments continued to perform on a steady footing.

Source: Company, BOBCAPS Research

**Fig 2 – Quarterly performance**

(Rs mn)	Q1FY25	1QFY24	YoY (%)	4QFY24	QoQ (%)
Volume	10,87,175	9,53,244	14.1	10,62,529	2.3
Avg. Realisation per Vehicle	77,039	75,719	1.7	76,881	0.2
Net Revenues	83,755	72,179	16.0	81,688	2.5
<b>Total Income (A)</b>	<b>83,755</b>	<b>72,179</b>	<b>16.0</b>	<b>81,688</b>	<b>2.5</b>
<b>Operating Expenses</b>					
Raw materials consumed	59,804	53,818	11.1	59,440	0.6
Employee Expenses	4,788	3,789	26.4	4,205	13.8
Other Expenses	9,563	6,935	37.9	8,782	8.9
<b>Total Expenditure (B)</b>	<b>74,154</b>	<b>64,542</b>	<b>14.9</b>	<b>72,427</b>	<b>2.4</b>
<b>EBITDA (A-B)</b>	<b>9,601</b>	<b>7,638</b>	<b>25.7</b>	<b>9,262</b>	<b>3.7</b>
Other Income	363	576	(37.0)	(287)	(226.6)
Depreciation	1,763	1,636	7.8	1,887	(6.5)
EBIT	8,200	6,578	24.7	7,088	15.7
Finance Costs	372	474	(21.5)	372	0.0
PBT after excep items	7,828	6,104	28.3	6,716	16.6
Tax expense	2,056	1,427	44.1	1,862	10.4
<b>Reported PAT</b>	<b>5,772</b>	<b>4,677</b>	<b>23.4</b>	<b>4,854</b>	<b>18.9</b>
<b>Adjusted PAT</b>	<b>5,772</b>	<b>4,677</b>	<b>23.4</b>	<b>4,854</b>	<b>18.9</b>
EPS (Rs)	12.1	9.8	23.4	10.2	18.9
<b>Key Ratios (%)</b>			<b>(bps)</b>		<b>(bps)</b>
Gross Margin	28.6	25.4	315.9	27.2	136.0
EBITDA Margin	11.5	10.6	88.2	11.3	12.5
EBIT Margin	9.8	9.1	67.8	8.7	111.4
PBT Margin	9.3	8.5	89.0	8.2	112.5
Tax Rate	26.3	23.4	288.5	27.7	(146.1)
Adj PAT Margin	6.9	6.5	41.3	5.9	94.9

Source: Company, BOBCAPS Research

## Valuation methodology

Given the weak start to FY25, severe competition with raw material costs inflation and EV investments dragging the overall performance, we reduce our FY25/FY26 estimates by 5%/4%. We introduce FY27 earnings, which 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 medium-term benefits from investments in export markets being offset by drag from EV segment. Further, we feel the current run-up in valuations factor in premiumisation focus. We maintain our target P/E for the core business at 30x – a marginal premium to the stock’s long-term average. We arrive at a new SOTP-based TP of Rs 2,363 (vs Rs 2,382) with the core business valued at Rs 2,330 and Rs 33/sh for TVS Credit Services. Downgrade to HOLD.

**Fig 3 – Revised estimates**

(Rs mn)	New			Old			Change (%)		
	FY25E	FY26E	FY27E	FY25E	FY26E	FY27E	FY25E	FY26E	FY27E
Revenue	3,62,497	4,31,291	4,84,544	3,62,497	4,29,846	NA	0.0	0.3	NA
EBITDA	43,312	53,490	60,191	45,469	56,091	NA	(4.7)	(4.6)	NA
Adj PAT	27,411	35,180	39,903	28,887	36,889	NA	(5.1)	(4.6)	NA
Adj EPS (Rs)	57.7	74.0	84.0	60.8	77.6	NA	(5.1)	(4.6)	NA

Source: BOBCAPS Research

**Fig 4 – Key assumptions**

	FY24	FY25E	FY26E	FY27E
2W volume (nos)	39,99,788	45,57,381	52,24,161	57,23,242
3W volume (nos)	1,95,327	2,26,579	2,62,832	2,89,115
Revenues (Rs mn)	3,17,764	3,62,497	4,31,291	4,84,544
EBITDA (Rs mn)	35,141	43,312	53,490	60,191
EBITDA margin (%)	11.1	11.9	12.4	12.4
Adj. PAT (Rs mn)	20,830	27,411	35,180	39,903
EPS (Rs)	43.8	57.7	74.0	84.0

Source: Company, BOBCAPS Research

**Fig 5 – Valuation summary**

Business	1-year forward EPS (Rs)	Target P/E (x)	Value (Rs/sh)
Standalone Business	74	30x	2,329
TVS Credit Services	-	-	33
<b>Total</b>	-	-	<b>2,363</b>

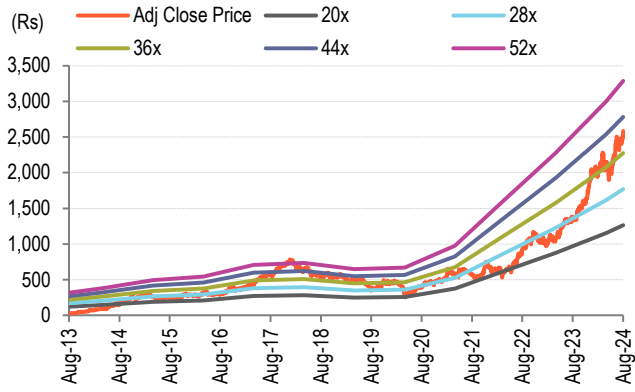
Source: BOBCAPS Research

**Fig 6 – Peer comparison**

Company	Ticker	Rating	Target Price (Rs)	EPS (Rs)		ROE (%)	
				FY25E	FY26E	FY25E	FY26E
TVS Motor Company	TVSL IN	HOLD	2,363	57.7	74.0	30.5	29.7
Eicher Motors	EIM IN	HOLD	4,633	146.0	166.0	22.8	21.4
Bajaj Auto	BJAUT IN	HOLD	9,286	309.0	367.5	25.0	25.5

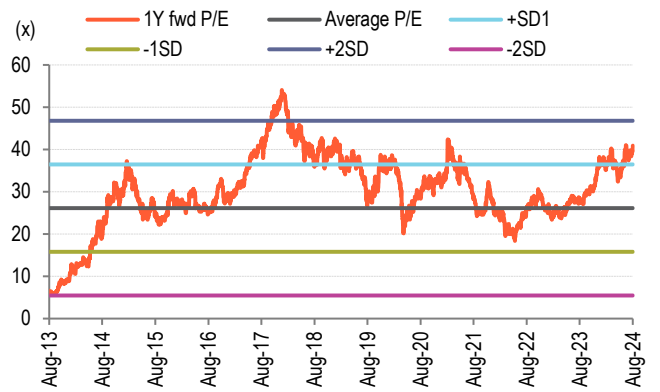
Source: BOBCAPS Research

**Fig 7 – P/E band: TVSL current valuations run-up is sharper and beat earnings pace**



Source: Bloomberg, BOBCAPS Research

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



Source: Bloomberg, BOBCAPS Research

### Key risks

Key upside/downside risks to our estimates are:

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

## 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>3,62,497</b>	<b>4,31,291</b>	<b>4,84,544</b>
EBITDA	26,747	35,141	43,312	53,490	60,191
Depreciation	6,312	7,004	6,751	7,001	7,885
EBIT	21,440	29,623	38,133	48,189	54,151
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	36,695	46,907	52,851
Income taxes	5,123	6,977	9,284	11,727	12,948
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>27,411</b>	<b>35,180</b>	<b>39,903</b>
Adjustments	0	0	0	0	0
<b>Adjusted net profit</b>	<b>14,910</b>	<b>20,830</b>	<b>27,411</b>	<b>35,180</b>	<b>39,903</b>

### Balance Sheet

Y/E 31 Mar (Rs mn)	FY23A	FY24A	FY25E	FY26E	FY27E
Accounts payables	41,306	51,122	44,936	50,234	55,986
Other current liabilities	6,367	7,189	17,351	23,765	26,071
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	1,01,781	1,33,795	1,70,106
Shareholders' fund	60,479	77,311	1,02,256	1,34,270	1,70,581
<b>Total liab. and equities</b>	<b>1,37,942</b>	<b>1,58,753</b>	<b>1,84,387</b>	<b>2,27,250</b>	<b>2,70,922</b>
Cash and cash eq.	2,420	5,310	3,971	6,286	3,392
Accounts receivables	9,551	13,021	15,757	18,174	20,098
Inventories	12,364	13,708	15,264	17,588	20,427
Other current assets	16,515	11,651	17,726	21,105	23,722
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
<b>Total assets</b>	<b>1,37,942</b>	<b>1,58,752</b>	<b>1,84,387</b>	<b>2,27,250</b>	<b>2,70,922</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>24,364</b>	<b>42,910</b>	<b>45,483</b>
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
<b>Cash flow from investing</b>	<b>(19,911)</b>	<b>(23,376)</b>	<b>(21,786)</b>	<b>(37,730)</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)	(2,467)	(3,166)	(3,591)
Other financing cash flows	3	(112)	0	0	0
<b>Cash flow from financing</b>	<b>2,584</b>	<b>(13,412)</b>	<b>(6,792)</b>	<b>(5,429)</b>	<b>(5,751)</b>
<b>Chg in cash &amp; cash eq.</b>	<b>(4,326)</b>	<b>(698)</b>	<b>(4,214)</b>	<b>(249)</b>	<b>(5,494)</b>
<b>Closing cash &amp; cash eq.</b>	<b>2,420</b>	<b>5,310</b>	<b>3,971</b>	<b>6,286</b>	<b>3,392</b>

### Per Share

Y/E 31 Mar (Rs)	FY23A	FY24A	FY25E	FY26E	FY27E
Reported EPS	31.4	43.8	57.7	74.0	84.0
Adjusted EPS	31.4	43.8	57.7	74.0	84.0
Dividend per share	5.0	8.0	5.2	6.7	7.6
Book value per share	127.3	162.7	215.2	282.6	359.0

### Valuations Ratios

Y/E 31 Mar (x)	FY23A	FY24A	FY25E	FY26E	FY27E
EV/Sales	4.4	3.7	3.2	2.7	2.4
EV/EBITDA	43.9	33.6	27.2	22.0	19.5
Adjusted P/E	79.0	56.5	43.0	33.5	29.5
P/BV	19.5	15.2	11.5	8.8	6.9

### 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	10.5	11.2	11.2
Asset turnover (Rev./Avg TA)	338.7	344.6	336.1	321.4	289.8
Leverage (Avg TA/Avg Equity)	1.4	1.3	1.2	1.1	1.1
<b>Adjusted ROAE</b>	<b>27.4</b>	<b>30.2</b>	<b>30.5</b>	<b>29.7</b>	<b>26.2</b>

### Ratio Analysis

Y/E 31 Mar	FY23A	FY24A	FY25E	FY26E	FY27E
<b>YoY growth (%)</b>					
Revenue	26.9	20.5	14.1	19.0	12.3
EBITDA	36.3	31.4	23.3	23.5	12.5
Adjusted EPS	66.9	39.7	31.6	28.3	13.4
<b>Profitability &amp; Return ratios (%)</b>					
EBITDA margin	10.1	11.1	11.9	12.4	12.4
EBIT margin	8.1	9.3	10.5	11.2	11.2
Adjusted profit margin	5.7	6.6	7.6	8.2	8.2
Adjusted ROAE	24.7	26.9	26.8	26.2	23.4
ROCE	20.5	24.1	26.4	26.9	24.4
<b>Working capital days (days)</b>					
Receivables	13	13	14	14	14
Inventory	16	15	15	14	14
Payables	74	72	65	54	54
<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)	(26.5)	(37.6)	(41.6)
<b>Adjusted debt/equity</b>	<b>0.4</b>	<b>0.2</b>	<b>0.1</b>	<b>0.1</b>	<b>0.1</b>

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

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**BUY** – Expected return >+15%

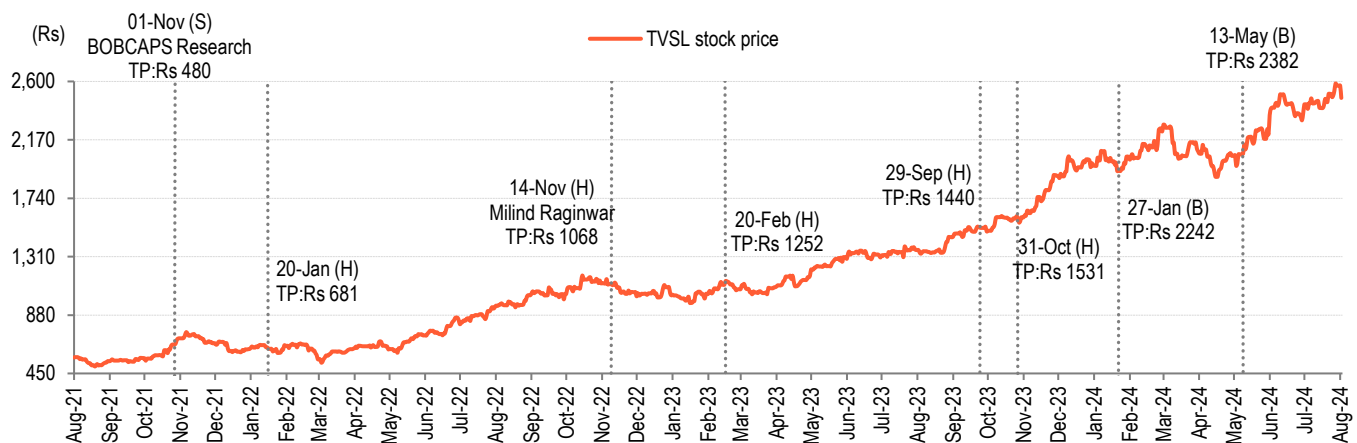
**HOLD** – Expected return from -6% to +15%

**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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