

CMP: INR 2474

Rating: Neutral

Target Price: INR 2,384

Stock Info

BSE 509243

NSE TVSMOTOR

Bloomberg TVSL IN

Reuters TVSM.BO

Sector Auto -2&3
Wheelers

Face Value (INR) 1

Equity Capital (INR mn) 475

Mkt Cap (INR bn) 11,84,550

52w H/L (INR) 2602/1317

Avg Yearly Vol (in 000') 1054

Shareholding Pattern %

(As on March, 2024)

Promoters 50.27

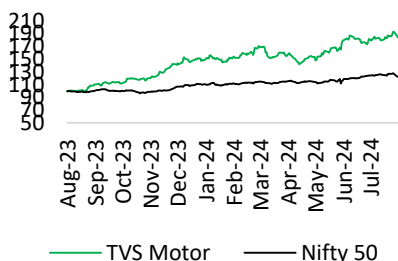
Public & Others 49.73

Stock Performance (%) 1m 3m 12m

TVS Motors 1.8 20.2 82.0

Nifty -1.4 6.8 22.8

TVS Motors Vs Nifty



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TVS Motor Company has reported slightly below our estimate on all fronts. Standalone revenue stood at INR 83,756 Mn, below our estimate of INR 85,330 Mn registering growth 16% YoY/2.5% QoQ. The growth is led by the growth in Automotive Vehicles & Components. The company introduced new variants to the TVS iQube portfolio and received a very good customer response. EBITDA stood at INR 9602 Mn, below our estimate of INR 9,865 Mn, Registering a growth of 25.7%YoY/+3.7%QoQ. On the margins front, EBITDA margin up by bps 13bps QoQ/down 88bps YoY to 11.46%, below our estimate of 11.6%. The margin expansion led by softening in RM. Standalone PAT saw a growth of 23.4%YoY/ +19% QoQ to INR 5,773 Mn below our estimate of INR 5,860 Mn. Other income for the quarter ended 30th June 2024 includes INR 284.8 Mn being gained on fair valuation of an investment held by the Company. The Company has invested in its subsidiaries: INR 1635.8 Mn in TVS Motor (Singapore) Pte Limited, Singapore. INR 2826.7 Mn in TVS Credit Services Limited, Chennai. EPS stood at INR 12.2 in Q1FY25 against INR 10.2 in Q4FY24 (INR 9.8 in Q1FY24).

Continue volume enhancement in the EV two-wheeler segment: The TVS iQUBE now offers three battery options (2.2 kWh, 3.4 kWh, 5.1 kWh) and five variants in 11 colors. Feedback has been positive. The company plans to expand its EV lineup and sales to ASEAN, Asia, and other markets, with India expected to become a key export hub. They are confident in their continued strength in the EV segment due to ongoing improvements in the supply chain and infrastructure. With plans for further expansion and upcoming EV offerings for diverse customer segments, TVS aims to solidify its position in the EV market amid a well-planned product lineup and improving infrastructure.

Sustainable margin led by better product mix: Margins will remain sustainable due to a strong focus on product mix and sustainable cost reduction initiatives. The company continually adjusts selling prices based on commodity costs and leverages its brand presence. Material cost reduction is driven by volume, with the potential to switch between suppliers for better deals. Overall, a combination of product mix, geographic diversification, and cost reduction strategies ensures ongoing margin stability.

Outlook and valuation

We expect continued strong volume growth in the next quarter with increased sales of (Apache, Ronin, Ntorq, Raider, Jupiter 125, and iQube) and new product launches. We expect TVS Motor to continue to work on improving its profitability and factor 73bps EBITDA margin expansion over FY25E-FY27E. Valuation at 35.5x/30.2 FY26E/FY27E EPS largely reflects its strong earnings growth potential. **We value TVS Motors' standalone business at an FY27E PE of 27x to its EPS estimate of INR ~82 for FY26E and TVS credit services at 2.5x its BV (~INR 174/ share), which yields a revised target price of INR 2,384 per share (Earlier target price: INR 2,138 per share). We downgrade our rating to Neutral from Hold earlier on the stock.**

Exhibit 1: Financial Performance

YE March (INR Mn)	Net Sales	EBITDA	PAT	EPS (INR)	EBITDA Margin %	P/E (x)
FY24	3,17,764	35,141	20,830	43.8	11.1	56.4
FY25E	3,67,686	42,574	26,911	56.6	11.6	43.7
FY26E	4,10,403	49,885	33,065	69.6	12.2	35.5
FY27E	4,70,559	57,927	38,898	81.9	12.3	30.2

Source: Arihant Research, Company Filings

Exhibit 2: Quarterly result summary

INR mn	Q1FY25	4QFY24	1QFY24	YoY (%)	QoQ (%)
Net Sales	83,756	81,688	72,179	16.0	2.5
- Consumption of Raw Material	59,804	59,440	53,818	11.1	0.6
(% of Net Sales)	71.4	72.8	74.6	-316bps	-136bps
- Staff Expenditure	4,788	4,205	3,789	26.4	13.8
(% of Net Sales)	5.7	5.1	5.2	47bps	57bps
- Other Expenditure	9,563	8,782	6,935	37.9	8.9
(% of Net Sales)	11.4	10.8	9.6	181bps	67bps
Total Expenditure	74,154	72,427	64,542	14.9	2.4
EBITDA	9,602	9,262	7,638	25.7	3.7
EBITDA Margin (%)	11.46	11.34	10.58	88bps	13bps
Depreciation	1,763	1,887	1,636	7.8	(6.5)
EBIT	7,838	7,375	6,002	30.6	6.3
EBIT Margin (%)	9.36	9.03	8.32	104bps	33bps
Interest	372	372	474	(21.5)	0.0
Other income	363	(287)	576	(37.0)	(226.6)
PBT	7,829	6,716	6,104	28.3	16.6
Tax	2,056	1,862	1,427	44.1	10.4
Tax Rate (%)	26.3%	27.7%	23%	12.3	(5.3)
Adjusted PAT	5,773	4,854	4,677	23.4	18.9
Exceptional Item	-	-	-	-	-
Reported PAT	5,773.2	4,854.3	4,676.7	23.4	18.9
EPS (INR)	12.2	10.2	9.8	23.5	18.9
Total Volumes (In Nos)	1,087,175	1,062,529	953,244	14.1	2.3
Net Realisation (INR)	77,040	76,881	75,719	1.7	0.2
EBITDA / Vehicle (INR)	8,832	8,717	8,012	10.2	1.3
Segment Revenue	Q1FY25	4QFY24	1QFY24	YoY (%)	QoQ (%)
Automotive Vehicles & Parts	87213.3	84103.8	76973.8	13.3	3.7
Automotive Components	2009.2	2020.1	1889.2	6.4	(0.5)
Financial services	16352.5	14952.5	13535.2	20.8	9.4
Volumes (In Nos)	Q1FY25	4QFY24	1QFY24	YoY (%)	QoQ (%)
Motorcycle	514,438	511,245	462,821	11.2	0.6
Scooter	418,417	395,914	332,063	26.0	5.7
E-Scooter	51,936	49,485	38,642	34.4	5.0
Moped	123,495	125,034	123,598	(0.1)	(1.2)
2W Domestic	828,323	796,267	721,479	14.8	4.0
2W Exports	228,027	235,926	197,003	15.7	(3.3)
2W Total	1,056,350	1,032,193	918,482	15.0	2.3
3W Domestic	4,674	6,091	4,351	7.4	(23.3)
3W Exports	26,151	24,245	30,411	(14.0)	7.9
3W Total	30,825	30,336	34,762	(11.3)	1.6
3W Domestic	832,997	802,358	725,830	14.8	3.8
3W Exports	254,178	260,171	227,414	11.8	(2.3)
Total	1,087,175	1,062,529	953,244	14.1	2.3
Mix (%)	Q1FY25	4QFY24	1QFY24	QoQ (bps)	YoY(bps)
Motorcycle	47.3	48.1	48.6	(2.5)	(1.7)
Scooter	38.5	37.3	34.8	10.5	3.3
E-Scooter	4.8	4.7	4.1	17.8	2.6
Moped	11.4	11.8	13.0	(12.4)	(3.5)
2W Domestic	76.2	74.9	75.7	0.7	1.7
2W Exports	21.0	22.2	20.7	1.5	(5.5)
3W Domestic	0.4	0.6	0.5	(5.8)	(25.0)
3W Exports	2.4	2.3	3.2	(24.6)	5.4
3W Domestic	76.6	75.5	76.1	0.6	1.5
3W Exports	23.4	24.5	23.9	(2.0)	(4.5)

Source: Arianth Research, Company Filings

Q1Y25 Conference-Call highlights

The company anticipates robust Q2 growth driven by the Government of India's focus on employment, infrastructure, rural economy, and normal monsoon, with a CAPEX plan of INR 10,000-11,000 Mn for FY25. Management expects rural demand to surpass urban demand in Q2 due to normal monsoon expectations and improved economic environment.

Margin: The company's operating EBITDA margin improved by 90 bps to 11.5% from 10.6% last year, with sustainability driven by a strong product mix and cost reduction initiatives, noting significant gains over the past five years.

RM: Material cost reduction initiatives contributed a 1.4% benefit from Q1 to Q4, driven by commodity softening and better supplier negotiations, making it sustainable and equally important as product mix and geographic mix in the company's overall cost reduction strategy.

EV: TVS iQUBE has established a strong EV brand with advanced features and high quality, offering three battery options across five variants in 11 colors, and plans to expand sales to developing and developed markets, with India as a major export hub, while investing in engineering, development, and technology for electric mobility, despite a slow European market this year. iQube product has multiple variants with different price points based on value. Aiming to sell more higher-priced variants to increase margins.

TVS Credit Services: Customer base exceeding INR 115 Mn. Book size crossed INR 263,510 Mn, a 20% increase YoY. PBT for the quarter grew by 19% to INR 1,870 Mn. The company is awaiting regulatory approval for acquiring a small NBFC with a book size of INR 5,500 crores. Acquisition is a strategic decision to house group-related investments in a CIC company. It has cutting edge technology & analytics of portfolio which is diversified covering tractors, used vehicles, consumer durables and MSME besides 2w.

Employee: Performance appraisal costs account for approximately 10% of staff costs.

Government Budget: Indian government's budget focuses on employment generation and infrastructure. Improving road infrastructure and economic environment driving two-wheeler demand.

International: International markets continued to face challenges due to the red sea crisis. Availability of vessel and containers remained a concern for the company. Certain select markets faced difficulty due to currency devaluation. It expects improved performance in Africa in FY25. It is also strengthening its presence in Middle East.

Rural areas seeing better demand; rural demand expected to increase further.

Demand: No gap in customer demand, with consistent monthly demand in most markets. Strategy of "make and buy" based on volume demand and scale.

Investment in TVS supply chain leveraging strong Indian supply chain and BMW relationship.

Price: Driving cost reductions by utilizing multiple suppliers and share of business. Small selling price increase of 0.2% contributed to a 1.4% benefit in Q1. Price increase of over 0.5% last quarter offset by material cost reduction and commodity softening.

Discount: Market facing high discounts, posing a challenge. Catering to budget customers with entry-level models.

Norton- New launches: Planning to launch six new products from Norton over the next three years. New Norton motorcycles to be more affordable while retaining premium positioning. Total investment in Norton so far is INR 12000 Mn. Product monetisation from Norton is envisaged to begin from Q4 FY25 and investment similar to earlier levels shall be made till the first model comes up.

Well-planned product line-up for electric mobility with upcoming launches. In Q1 FY25, TVS HLX 125 with 5 gears was launched for the global markets. This is expected to strengthen the international product portfolio. Upcoming launches include one ICE and one EV product this quarter. Significant investments in product design and development. Series of new product launches starting in 2025, with launches every quarter or two thereafter.

PLI: The company did not realise any PLI (product linked incentives) during the quarter

Profit & Loss Statement (Standalone)				
YE: Mar (INR mn)	FY24	FY25E	FY26E	FY27E
Net sales	3,17,764	3,67,686	4,10,403	4,70,559
Growth, %	20.5	15.7	11.6	14.7
RM expenses	2,34,290	2,67,491	2,96,311	3,39,743
Employee expenses	15,959	17,954	20,036	22,360
Other expenses	32,374	39,667	44,171	50,528
EBITDA (Core)	35,141	42,574	49,885	57,927
Growth, %	31	21	17	16
Margin, %	11.1	11.6	12.2	12.3
Depreciation	7,004	7,537	6,629	7,229
EBIT	28,138	35,038	43,255	50,697
Growth, %	38	25	23	17
Margin, %	8.9	9.5	10.5	10.8
Interest paid	1,816	763	551	507
Other Income	1,485	1,649	1,978	2,374
Non-recurring Items	-	-	-	-
Pre-tax profit	27,807	35,924	44,682	52,564
Tax provided	6,977	9,013	11,617	13,666
Profit after tax	20,830	26,911	33,065	38,898
Exceptional Item	-	-	-	-
Net Profit	20,830	26,911	33,065	38,898
Growth, %	40	29	23	18
Net Profit (adjusted)	20,830	26,911	33,065	38,898

Balance Sheet (Standalone)				
YE: Mar (INR mn)	FY24	FY25E	FY26E	FY27E
Cash & bank	5,310	5,917	22,567	46,386
Marketable securities cost	-	-	-	-
Debtors	13,021	15,067	16,818	19,283
Inventory	13,708	25,788	29,909	35,582
Loans & advances	-	-	3,470.90	3,514.90
Other current assets	7,958	8,356	8,774	9,213
Total current assets	39,997	55,128	78,068	1,10,464
Investments	69,913	76,913	83,913	90,913
Gross fixed assets	95,489	1,05,489	1,15,489	1,25,489
Less: Depreciation	-51,339	-58,875	-65,505	-72,734
Add: Capital WIP	3,297	3,297	3,297	3,297
Net fixed assets	44,150	46,613	49,984	52,755
Total assets	1,57,357	1,81,951	2,15,261	2,57,428
Current liabilities	57,996	65,714	72,935	83,625
Provisions	3,495	3,844	4,229	4,651
Total current liabilities	61,490	69,558	77,163	88,277
Non-current liabilities	6,372	2,967	2,967	2,967
Total liabilities	67,863	72,525	80,131	91,244
Paid-up capital	475	475	475	475
Reserves & surplus	76,835	98,044	1,24,836	1,56,890
Shareholders' equity	77,310	98,519	1,25,311	1,57,365
Total equity & liabilities	1,57,357	1,81,951	2,15,261	2,57,428

Cash Flow				
YE: Mar (INR mn)	FY24	FY25E	FY26E	FY27E
Pre-tax profit	27,807	35,923	44,680	52,561
Depreciation	7,004	7,537	6,629	7,229
Chg in working capital	12,104	-9,623	1,317	2,537
Total tax paid	-7,021	-9,013	-11,617	-13,666
CFO	40,224	21,154	39,585	46,796
Capital expenditure	-12,556	-10,000	-10,000	-10,000
Chg in marketable securities	0	0	0	0
Chg in investments	-13,074	-7,000	-7,000	-7,000
CFI	-24,145	-15,351	-15,022	-14,626
Free cash flow	27,668	11,154	29,585	36,796
Debt raised/(repaid)	-7,311	-1,513	-1,090	-1,003
Dividend (incl. tax)	-4,560	-5,701	-6,271	-6,841
CFF	-13,688	-7,977	-7,912	-8,351
Net chg in cash	2,391	-2,174	16,651	23,819
Opening cash balance	2,420	5,310	5,917	22,567
Closing cash balance	5,310	5,917	22,567	46,386

Ratios				
YE: Mar	FY24	FY25E	FY26E	FY27E
EPS (INR)	43.8	56.6	69.6	81.9
PER (x)	56.4	43.7	35.5	30.2
Price/Book (x)	15.2	11.9	9.4	7.5
EV/EBITDA (x)	33.7	27.8	23.4	19.7
EV/Net sales (x)	3.7	3.2	2.8	2.4
RoE (%)	27	27	26	25
RoCE (%)	33.2	34	34	32
Fixed Asset turnover (x)	3.3	3.5	3.6	3.7
Dividend Yield (%)	0.3	0.4	0.4	0.5
Receivable (days)	16	15	15	15
Inventory (days)	20	29	30	31
Payable (days)	85	74	74	74
Net D/E ratio (x)	0.1	0.1	(0.1)	(0.2)

Source: Arihant Research, Company Filings

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Stock Rating Scale

BUY	>20%
ACCUMULATE	12% to 20%
HOLD	5% to 12%
NEUTRAL	-5% to 5%
REDUCE	-5% to -12%
SELL	<-12%

Absolute Return

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