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CMP: INR 1,307

Rating: Neutral

Target Price: INR 1,256

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 mn)	674,716
52w H/L (INR)	1,385/837
Avg Yearly Vol (in 000')	1,736

Shareholding Pattern %

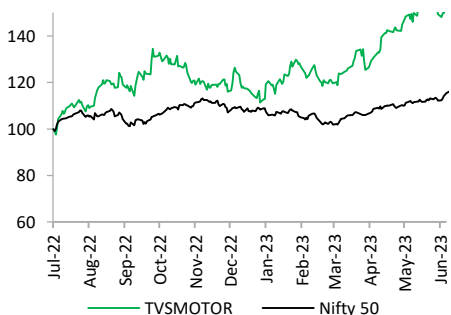
(As on June, 2023)

Promoters	50.27
Public & Others	49.73

Stock Performance (%)

	1m	3m	12m
TVS Motors	3.6	22.4	52.2
Nifty	1.8	19.2	52.2

TVS Motors Vs Nifty



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TVS Motor Company has maintained its EBITDA Margin, However, the overall mix set of Nos in Q1FY24. Standalone revenue stood at INR 53,818 Mn, against our estimate of INR 73,945 Mn registering 10.3% YoY/+9.3% QoQ. EBITDA stood at INR 7,638Mn, against our estimate of INR 8,014Mn, Registering a growth of 15.9%YoY/12.4%QoQ. On the margins front, EBITDA margin up by bps 51bps QoQ/51bps YoY to 10.58 %, against our estimate of 10.8%. The company maintained margin due to improved semiconductor supply, a prudent mix tilted towards high-end models such as Apache and Ronin, strong demand for iQube (EV), and price hikes. Standalone PAT saw a growth of 32.5%YoY/14% QoQ to INR 4,676 Mn against our estimate of INR 4,560 Mn. EPS stood at INR 9.8 in Q4FY23 against INR 8.6 in Q4FY23 (INR 7.4in Q1FY23).

Volume increase in two wheeler EV despite reduction in subsidy: This presents a brief-term obstacle; increasing iQube production and making it more widely accessible, expanding from 309 touch points to 600. In June 2023, electric scooter sales reached 39,000 units, marking a substantial surge compared to the 9,000 units sold in June 2022. Moreover, the demand for TVS iQube remains robust, with ongoing bookings.

Maintain margin in the first quarter led by softening in raw material prices: During the Q2, the company implemented a price increase of ~0.5% in its products. However, there have been no changes on the international front, but the company is monitoring the situation closely and will make decisions accordingly. Looking ahead, the company anticipates a potential decline in raw material prices in the H2FY24 which should aid in further margin expansion.

Enhancement in Market share led by new product launch: The company has a wide range of products, including Apache, Jupiter, Jupiter 125, Raider, NTORQ, Radeon, and TVS Ronin, the company is confident in surpassing the industry's growth in both the Indian market and exports. Notably, TVSL managed to gain a significant 225 basis points (bps) of market share in the two-wheeler segment, reaching 17.42%, mainly due to a remarkable 447 bps expansion in the Motorcycle segment.

Outlook and valuation

TVS Motor has reported a mixed set of numbers in Q1FY24. The company is embarking on a new phase by introducing various new product variants and expanding its presence in international markets. By adopting these strategies, they are determined to outperform both the domestic and international industries. TVSL is currently benefiting from economies of scale and operating leverage, enabling them to maintain a double-digit EBITDA margin. However, it's worth noting that around 40% of TVSL's overall EBITDA comes from its domestic Scooter business, which puts the company at risk of being affected by disruptions caused by the emergence of EVs. **We value TVS Motors' standalone business at an FY26E PE of 23x to its EPS estimate of INR 51.4 for FY26E and TVS credit services at 2.1x its BV (INR 73.3/ share), which yields a revised target price of INR 1,256 per share (Earlier target price: INR 1,223 per share). We downgrade our rating to Neutral from a Hold earlier.**

Exhibit 1: Financial Performance

YE March (INR Mn)	Net Sales	EBITDA	PAT	EPS (INR)	EBITDA Margin %	RoCE (%)	P/E (x)
FY23	263,781	26,747	14,910	31.4	10.1	24.7	41.6
FY24E	291,041	32,413	18,820	39.6	11.1	26.5	33.0
FY25E	328,637	37,076	21,584	45.4	11.3	24.5	28.8
FY26E	374,503	42,593	24,424	51.4	11.4	23.1	25.4

Source: Arihant Research, Company Filings

Exhibit 2: Quarterly result summary

INR mn	1QFY24	4QFY23	1QFY23	YoY (%)	QoQ (%)
Net Sales	72,179	66,048	65,454	10.3	9.3
- Consumption of Raw Material	53,818	49,797	49,429	8.9	8.1
(% of Net Sales)	74.6	75.4	75.5	-96bps	-96bps
- Staff Expenditure	3,789	3,377	3,409	11.1	12.2
(% of Net Sales)	5.2	5.1	5.2	4bps	4bps
- Other Expenditure	6,935	6,076	6,027	15.1	14.1
(% of Net Sales)	9.6	9.2	9.2	40bps	40bps
Total Expenditure	64,542	59,250	58,865	9.6	8.9
EBITDA	7,638	6,798	6,589	15.9	12.4
EBITDA Margin (%)	10.58	10.29	10.07	51bps	51bps
Depreciation	1,636	1,674	1,583	3.3	(2.3)
EBIT	6,002	5,124	5,006	19.9	17.1
EBIT Margin (%)		7.76		0bps	0bps
Interest	474	363	316	49.9	30.7
Other income	576	705	65	786.9	(18.4)
PBT	6,104	5,466	4,755	28.4	11.7
Tax	1,427	1,364	1,227	16.3	4.6
Tax Rate (%)	23%	25%	26%	(9.4)	(6.3)
Adjusted PAT	4,677	4,103	3,528	32.6	14.0
Exceptional Item	-	-	-		
Reported PAT	4,676.7	4,102.7	3,527.5	32.6	14.0
EPS (INR)	9.8	8.6	7.4	32.6	13.9
Total Volumes (In Nos)	972,801	868,417	906,791	7.3	12.0
Net Realisation (INR)	74,197	76,055	72,182	2.8	(2.4)
EBITDA / Vehicle (INR)	7,851	7,828	7,267	8.0	0.3

Volumes

Volumes (In Nos)	1QFY24	4QFY23	1QFY23	YoY (%)	QoQ (%)
Motorcycles	462,821	388,535	433,662	6.7	19.1
Scooters	332,063	340,179	308,085	7.8	(2.4)
Mopeds	112,682	79,695	119,048	(5.3)	41.4
EV scooters	30,473	43,055	8,724		
Total 2W	938,039	808,409	869,519	7.9	16.0
3Ws	34,762	29,122	45,996	(24.4)	19.4
Total Volumes	972,801	868,417	906,791	7.3	12.0
Exports	424,417	185,466	338,121	25.5	128.8

Mix (%)	1QFY24	4QFY23	1QFY23	QoQ (bps)	YoY(bps)
Motorcycles	47.6	44.7	47.8	284	(25)
Scooters	34.1	39.2	34.0	(504)	16
Mopeds	11.6	9.2	13.1	241	(155)
3Ws	3.6	3.4	5.1	22	(150)
Exports	43.6	21.4	37.3	2,227	634

Source: Arihant Research, Company Filings

Q1FY24 Conference-Call highlights

- **Guidance:** The company to launch EV products more in FY24-FY25, and get into international market with focus on developed country in the coming year, most likely from 2nd Quarter. Many new product launches in 2W and 3W segment. Sharp focus on premium projects and deliver better EBITDA. Going forward the company will have many variants. The company plans for building TVS brand globally.
- **EV:** In Q1, EV business, achieved an EBITDA margin of 10.6%. With diverse product portfolio, expect to outperform the industry in all segments, including international markets. Leveraging scale benefits, premiumization advantages, and sustained efforts on material cost, company aim to continue growing EBITDA.
- **EV Strategy:** The company has expanded IQ coverage, launched new products in both developing and developed markets, adopted an EV strategy, formed partnerships with last-mile delivery, and invested in charging access for customers.
- **Apache:** Production got impacted in FY23 due to semiconductors but now the company has multiple supplier. Expecting an increase in MS going forward.
- **Capital Infusion in TVS credit:** TVS Credit Services received a capital infusion of around INR 4,800 Mn, and the overall investment is expected to be between INR 7500 Mn-8000 Mn, resulting in TVS Motor Company's stake decreasing from 86% to 81% due to the INR 1800 Mn infusion.
- **FAME Subsidy:** One proportionate come and expecting government is moving very fast and expecting to be completed fast vs 4500 Mn received last year.
- The FAME subsidy was reduced from 52k to 22k starting on June 1st, 2023. However, despite the removal of the subsidy, the company is expecting a volume of 25k in IQUBE next month and anticipates a healthy number of opening bookings. In the short term, the company plans to increase IQUBE production and extend its availability by adding more touchpoints at IQUBE 309 and 600 locations.
- **TVS credit:** With a book size of 220,000 Mn and a profit of 1570 Mn, the company demonstrates strong financial performance. Capital adequacy, debt-to-equity ratio, and gross NPA are well-managed. Collections amounting to nearly INR 50,000 Mn surpass INR 38,000 Mn in last year, and the net worth stands at approximately INR 30,000 Mn.
- **TVS Vehicle business** is ~20-25%
- **USD INR** realization 82 plus.
- **EV product positive in margin** led by fixed cost not increasing as the volume goes up and expects raw material prices to come down.
- **Partnership:** The company has partnership with last mile delivery players, including Zomato's rapido and Amazon's with Iqube and further depend on as per the product launch.
- **Interest cost:** 1) Increased of interest rate by 0.3%; Borrowing increased by 2500 Mn that led to increase by 30bps.
- **Norton Brand :** TVS is well known in India, It is the strategic investment, which company will leverage depending upon next 3 year plan. (Invested Euro 100 Mn)
- **Volume** is doing 3k per month. Taken price increase of ~0.5% in Q2.
- **200 cc:** The company is doing good in >200cc and expected to do well going forward.
- **Spare parts:** Revenue is INR 7,170 Mn
- **Capex:** INR 10,000 Mn including EV; Investment INR 40,000 Mn
- **Export** revenue 1065 cr, the company has done better than the industry in International market.
- Nepal Initial very positive, inventory management of 32-35 days

Exhibit 3: Volume Growth Trajectory

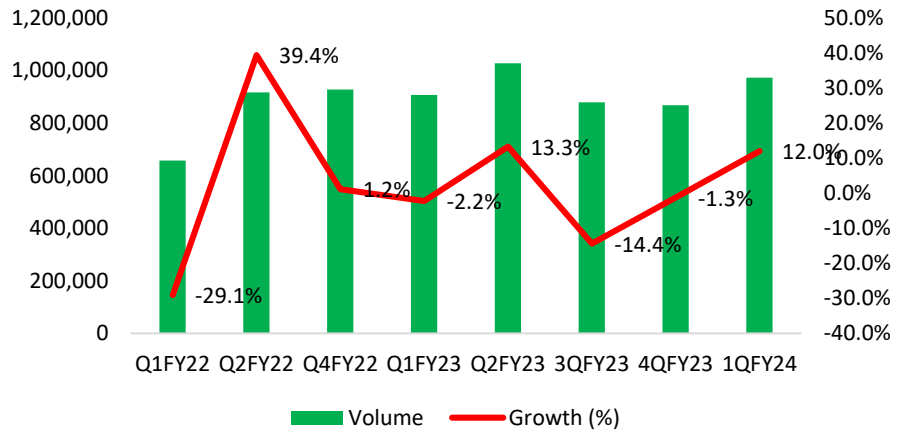


Exhibit 4: EBITDA / Vehicle (INR)

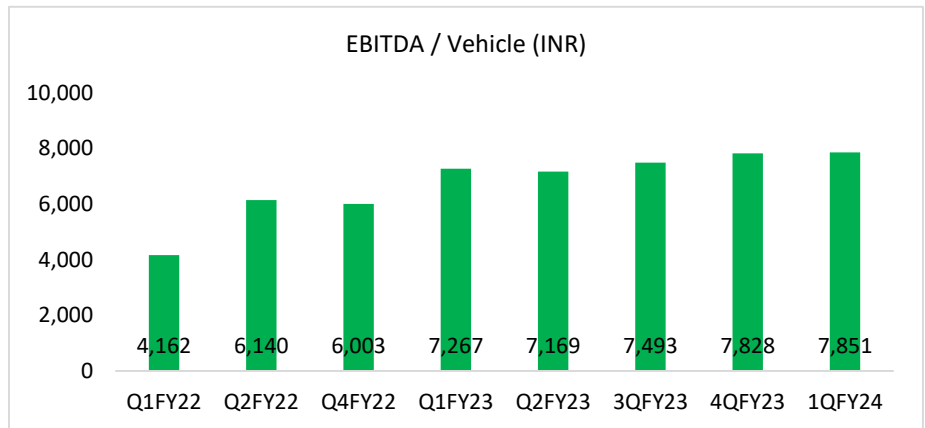
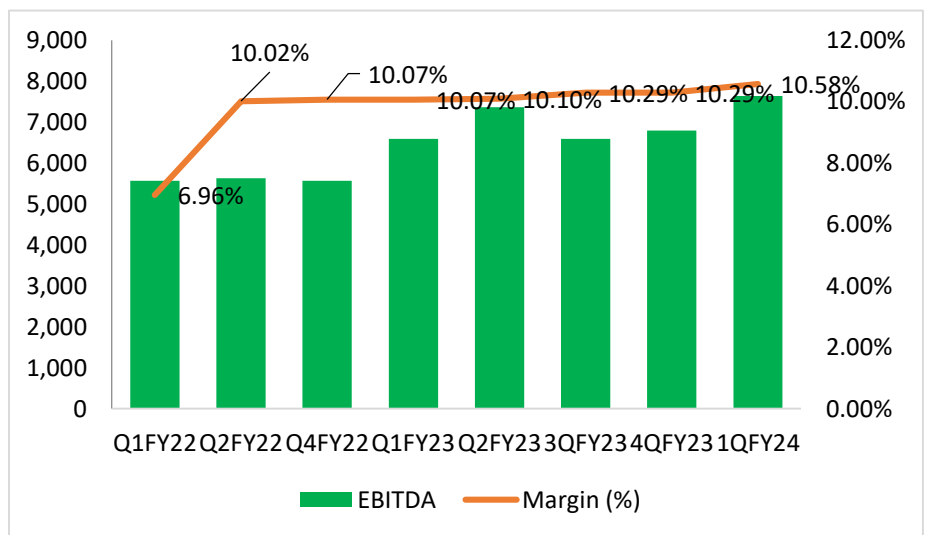


Exhibit 5: Expecting commodity cost soften; sustaining double-digit EBITDA margin



Source: Arianth Research, Company Filings,

Profit & Loss Statement (Standalone)					Balance Sheet (Standalone)				
YE: Mar (INR mn)	FY23	FY24E	FY25E	FY26E	YE: Mar (INR mn)	FY23	FY24E	FY25E	FY26E
Net sales	263,781	291,041	328,637	374,503	Cash & bank	2,420	7,406	23,758	44,383
Growth, %	26.9	10.3	12.9	14.0	Marketable securities cost	-	-	-	-
RM expenses	199,928	212,023	239,084	272,451	Debtors	9,551	10,538	11,899	13,560
Employee expenses	13,451	15,132	17,024	19,152	Inventory	12,364	19,615	23,050	27,293
Other expenses	23,655	31,473	35,454	40,307	Loans & advances	-	-	-	3,471
EBITDA (Core)	26,747	32,413	37,076	42,593	Other current assets	5,323	5,589	5,869	6,162
Growth, %	36	21	14	15	Total current assets	29,657	43,148	64,576	91,397
Margin, %	10.1	11.1	11.3	11.4	Investments	56,839	63,839	70,839	77,839
Depreciation	6,312	6,637	7,387	8,137	Gross fixed assets	83,489	93,489	103,489	113,489
EBIT	20,435	25,776	29,689	34,456	Less: Depreciation	-44,335	-50,972	-58,359	-66,495
Growth, %	51	26	15	16	Add: Capital WIP	2,741	2,741	2,741	2,741
Margin, %	7.7	8.9	9.0	9.2	Net fixed assets	39,153	42,517	45,130	46,993
Interest paid	1,407	1,616	1,939	2,715	Total assets	128,390	152,245	183,286	218,971
Other Income	1,006	1,126	1,250	1,263	Current liabilities	42,359	44,624	50,389	57,421
Non-recurring Items	-	-	-	-	Provisions	2,744	3,019	3,320	3,653
Pre-tax profit	20,034	25,286	29,000	33,004	Total current liabilities	45,103	47,643	53,709	61,074
Tax provided	5,123	6,467	7,416	8,581	Non-current liabilities	6,170	3,079	3,079	3,079
Profit after tax	14,910	18,820	21,584	24,424	Total liabilities	51,273	50,722	56,788	64,152
Exceptional Item	-	-	-	-	Paid-up capital	475	475	475	475
Net Profit	14,910	18,820	21,584	24,424	Reserves & surplus	60,003	76,828	96,414	118,268
Growth, %	67	26	15	13	Shareholders' equity	60,479	77,303	96,889	118,743
Net Profit (adjusted)	14,910	18,820	21,584	24,424	Total equity & liabilities	128,390	152,245	183,286	218,971

Cash Flow					Ratios				
YE: Mar (INR mn)	FY23	FY24E	FY25E	FY26E	YE: Mar	FY23	FY24E	FY25E	FY26E
Pre-tax profit	20,034	25,286	28,999	33,002	EPS (INR)	31.4	39.6	45.4	51.4
Depreciation	6,312	6,637	7,387	8,137	PER (x)	41.6	33.0	28.8	25.4
Chg in working capital	-4,461	-5,965	991	1,167	Price/Book (x)	10.3	8.0	6.4	5.2
Total tax paid	-5,037	-6,467	-7,416	-8,581	EV/EBITDA (x)	24.0	19.8	17.0	14.4
CFO	17,249	16,702	30,650	35,178	EV/Net sales (x)	2.4	2.2	1.9	1.6
Capital expenditure	-9,795	-10,000	-10,000	-10,000	RoE (%)	25	24	22	21
Chg in marketable securities	-	-	-	-	RoCE (%)	26.7	26.5	24	23
Chg in investments	-16,686	-7,000	-7,000	-7,000	Fixed Asset turnover (x)	3.2	3.1	3.2	3.3
CFI	-25,475	-15,874	-15,750	-15,737	Dividend Yield (%)	0.0	0.3	0.3	0.3
Free cash flow	7,455	6,702	20,650	25,178	Receivable (days)	15	14	14	14
Debt raised/(repaid)	10,774	4,489	5,387	6,464	Inventory (days)	21	28	29	30
Dividend (incl. tax)	0	-1,995	-1,995	-2,566	Payable (days)	72	63	63	63
CFF	9,368	878	1,452	1,184	Net D/E ratio (x)	0.3	0.3	0.1	(0.0)
Net chg in cash	1,142	1,706	16,353	20,625					
Opening cash balance	4,013	2,420	7,406	23,758					
Closing cash balance	2,420	7,406	23,758	44,383					

Source: Arianth Research, Company Filings

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Stock Rating Scale	Absolute Return
BUY	>20%
ACCUMULATE	12% to 20%
HOLD	5% to 12%
NEUTRAL	-5% to 5%
REDUCE	-5% to -12%
SELL	<-12%

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