

CMP: INR 1,609

Rating: Neutral

Target Price: INR 1,661

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)	765,032
52w H/L (INR)	1,617/968
Avg Yearly Vol (in 000')	1,710

Shareholding Pattern %

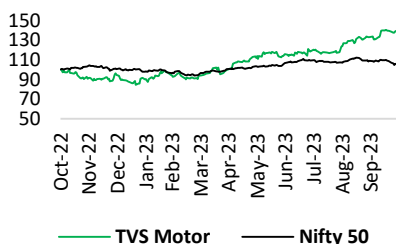
(As on Sept, 2023)

Promoters	50.27
Public & Others	49.73

Stock Performance (%)

	1m	3m	12m
TVS Motors	5.72	18.48	42.73
Nifty	-2.53	-2.57	7.61

TVS Motors Vs Nifty



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TVS Motor Company has Margin Expansion; Better than estimated PAT No's led by a fair valuation of the investments. Standalone revenue stood at INR 81,446 Mn, against our estimate of INR 81,670 Mn registering 12.8% YoY/12.8% QoQ. The growth led by the better sales numbers and also Cumulative TVS iQube sales crosses 2 lakh units EBITDA stood at INR 8,998Mn, against our estimate of INR 9,032Mn, Registering a growth of 22.2%YoY/+17.8%QoQ. On the margins front, EBITDA margin up by bps 47bps QoQ/95bps YoY to 11.05%, against our estimate of 11.1%. The margin expansion led by softening in RM and product mix. Standalone PAT saw a growth of 31.7%YoY/ 14.7% QoQ to INR 5,366 Mn against our estimate of INR 5,160 Mn. PBT for the current quarter includes one-time other income of INR.37.5 crores towards fair valuation of investments. EPS stood at INR 11.3 in Q2FY24 against INR 9.8 in Q1FY24 (INR 8.6 in Q2FY23).

Continue volume enhancement in the EV two-wheeler segment: TVS iQube garners positive feedback and surpasses 2 lakh unit sales. Production increased to 25,000 per month, with plans for further expansion. TVS X is set to redefine the global EV landscape, and the BMW CO2 collaboration is expected to be a global success. The company is confident in its future as a strong player in the EV segment.

Expansion in the margin in Q2 led by better product mix: In Q2, the company achieved a margin of 11.05%, marking a 47bps expansion QoQ. This improvement was driven by cost control initiative and an improved product mix. The previous quarter saw the launch of two new products and significant investments in the EV sector, which has garnered better-than-expected customer feedback. Looking ahead, the company plans to introduce a series of products ranging from 5 kilowatts to 25 kilowatts over the next year.

Increase in Market share led by better product mix in the portfolio: The company boasts a diverse product range, encompassing Apache, Jupiter 110, Jupiter 125, Raider, NTORQ, and HLX in the international market, including Radeon, TVS Ronin, and TVS King in the 3-wheeler segment. The company anticipates that the volume of these products will contribute to an increased market share. With this strong product portfolio, the company is confident in outpacing industry growth in both the Indian market and exports. Particularly, the recently launched Apache RTR is expected to perform exceptionally well for the company.

Outlook and valuation

TVS Motor has reported a good set of numbers in Q2FY24. 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. Margins remain sustainable and expected to expand in the coming quarter amid premiumization with ramp up in sales Apache, Ronin, Ntorq and Raider. However, stocks trades at ~40*/32/25 for FY24e/25e/26e which completely factored in. **We value TVS Motors' standalone business at an FY26E PE of 25x to its EPS estimate of INR 63.5 for FY26E and TVS credit services at 2.1x its BV (INR 73.3/ share), which yields a revised target price of INR 1,661 per share (Earlier target price: INR 1,256 per share). We maintain our Neutral rating on the stock.**

Exhibit 1: Financial Performance

YE March (INR Mn)	Net Sales	EBITDA	PAT	EPS (INR)	EBITDA Margin %	RoCE (%)	P/E (x)
FY23	2,63,781	26,747	14,910	31.4	10.1	24.7	51.3
FY24E	2,91,901	32,553	18,924	39.8	11.2	26.6	40.4
FY25E	3,39,311	40,224	23,927	50.4	11.9	26.4	31.9
FY26E	4,00,907	50,354	30,167	63.5	12.6	26.7	25.3

Source: Arihant Research, Company Filings

Exhibit 2: Quarterly result summary

INR mn	2QFY24	1QFY24	2QFY23	YoY (%)	QoQ (%)
Net Sales	81,446	72,179	72,192	12.8	12.8
- Consumption of Raw Material	60,276	53,818	54,975	9.6	12.0
(% of Net Sales)	74.0	74.6	76.2	-214bps	-56bps
- Staff Expenditure	3,929	3,789	3,456	13.7	3.7
(% of Net Sales)	4.8	5.2	4.8	4bps	-42bps
- Other Expenditure	8,244	6,935	6,396	15.1	14.1
(% of Net Sales)	10.1	9.6	8.9	126bps	51bps
Total Expenditure	72,449	64,542	64,826	11.8	12.3
EBITDA	8,998	7,638	7,365	22.2	17.8
EBITDA Margin (%)	11.05	10.58	10.10	95bps	47bps
Depreciation	1,701	1,636	1,535	10.8	4.0
EBIT	7,297	6,002	5,830	25.2	21.6
EBIT Margin (%)	8.96	8.32	8.08	88bps	64bps
Interest	523	474	352	48.6	10.3
Other income	462	576	14	3,275.2	(19.7)
PBT	7,237	6,104	5,492	31.8	18.6
Tax	1,871	1,427	1,418	32.0	31.1
Tax Rate (%)	26%	23%	26%	0.2	10.6
Adjusted PAT	5,366	4,677	4,075	31.7	14.7
Exceptional Item	-	-	-		
Reported PAT	5,365.5	4,676.7	4,075	31.7	14.7
EPS (INR)	11.3	9.8	8.6	31.6	14.7
Total Volumes (In Nos)	1,074,378	953,244	1,027,437	4.6	12.7
Net Realisation (INR)	75,808	75,719	70,264	7.9	0.1
EBITDA / Vehicle (INR)	8,375	8,012	7,169	16.8	4.5

Volumes (In Nos)	2QFY24	1QFY24	2QFY23	YoY (%)	QoQ (%)
Motorcycle	493,427	462,821	1,976,780	(75.0)	6.6
Scooter	419,969	332,063	382,722	9.7	26.5
E-Scooter	57,549	38,642	15,140	280.1	48.9
Moped	117,976	123,598	117,424	0.5	(4.5)
2W Domestic	792,342	721,479	725,145	9.3	9.8
2W Exports	239,030	197,003	251,781	(5.1)	21.3
2W Total	1,031,372	918,482	976,926	5.6	12.3
3W Domestic	5,014	4,351	4,174	20.1	15.2
3W Exports	37,992	30,411	46,337	(18.0)	24.9
3W Total	43,006	34,762	50,511	(14.9)	23.7
3W Domestic	797,356	725,830	729,319	9.3	9.9
3W Exports	277,022	227,414	298,118	(7.1)	21.8
Total	1,074,378	953,244	1,027,437	4.6	12.7
Mix (%)	2QFY24	1QFY24	2QFY23	QoQ (bps)	YoY(bps)
Motorcycle	45.9	48.6	192.4	(263)	(14,647)
Scooter	39.1	34.8	37.3	425	184
E-Scooter	5.4	4.1	1.5	130	388
Moped	11.0	13.0	11.4	(199)	(45)
2W Domestic	73.7	75.7	70.6	(194)	317
2W Exports	22.2	20.7	24.5	158	(226)
3W Domestic	0.5	0.5	0.4	1	6
3W Exports	3.5	3.2	4.5	35	(97)
3W Domestic	74.2	76.1	71.0	(193)	323
3W Exports	25.8	23.9	29.0	193	(323)

Source: Arianth Research, Company Filings

Q2FY24 Conference-Call highlights

- **Festive Season:** The company observed strong momentum in the Vahaan numbers during the festive season, with promising rural and urban performance.
- **Raw Materials (RM):** The focus remains on securing raw materials, staying ahead of industry trends.
- **Cost Control:** The company did not increase prices in October but is consistently exploring price adjustments.
- **Material Cost:** Production costs are improving, positively impacting margins and heading in the right direction.
- **Other Expenses:** Efforts are concentrated on digital and analytics investments. The company aims to invest in technology and innovation, without participating in discounts in this quarter.
- **EV Business:** The company achieved 11% in the EV sector during Q2FY24. Expansion into international markets, starting with IQube, is underway, and a strong pipeline of EV products is anticipated.
- **3-Wheelers:** The company is preparing to launch EV products in the 3-wheeler segment and expects them to perform well globally. International markets are stabilizing.
- **Investments:** Significant investments in TVS Credit, NTORQ, and other strategic areas are expected to yield profits in the future.
- **NTORQ:** The company anticipates improved performance from NTORQ in the upcoming quarters.
- **Subsidiaries:** A net investment of INR 190 Cr in NTORQ and SCMG, with divestment of INR 100 Cr in TVS Credit.
- **Subsidiary Losses:** Challenges in the European e-bike market are affecting demand due to high inflation, but the company is optimistic about future prospects.
- **Apache:** The focus is on different customer segments, and the company is pleased with the progress and improved product mix.
- **Export Revenue:** INR 2008 Cr, with INR 765 Cr from spare revenue in Q2FY24.
- **Capex:** Major investment in the EV sector, totaling INR 1000 Cr. Capex and Investment- Total capex to be Rs 10bn mainly towards EV business. The company has total investment of INR 850Cr in 1HFY24. In 2Q Investments in Singapore in TVS credit around INR 100 cr (INR 200 crs in 1Q) and Norton 180cr and SMEG 190cr.
- Investment to be made on Norton on the Engineering, development and supply chain
- side. Building completely new products, products to be launched in the premium and
- super premium categories from Norton Brand.
- **TVS-X:** Aiming to redefine the super premium and premium customer experience, with a focus on delivering numbers after Diwali.
- **Inventory:** The company plans to maintain 25-30 days of stock to ensure the delivery of fresh products.
- **Exchange Rate:** USD/INR rate at 82.5.
- **LATAM Market:** Emphasizing the LATAM market with a focus on the Apache and NTORQ brands.
- **BMW CE 02:** Clear plans to launch between March and April in FY24, expecting a successful market entry.
- **Inventory Increase:** Seasonal increase due to high demand during the festive season, with stock levels maintained at less than 4 weeks.
- **IQube:** No changes despite the reduction in FAME subsidy. The company continues to focus on EV technology.
- **Product Range:** The company boasts a diverse product range across segments, focusing on EBITDA margin improvements.
- **Navratri Festive Season:** Strong performance with increasing rural demand, supported by government initiatives, while urban demand is a slight concern.
- **Ultraviolet:** The company is strategically planning in response to competitive pressures.
- **PLI Incentive:** Actively engaged in the PLI scheme and expects results soon.
- **Jupiter vs. IQube:** Anticipating growth in the scooter segment, with increased market share for EV and ICE vehicles.
- **Other Income:** One-time fair valuation income of INR 37.5 Cr from TVS Supply Chain Solutions.
- **In-House Battery Management:** The company plans to design and disclose its in-house battery management solutions.
- **Future Growth:** Commitment to outpace industry growth and continuous improvement of EBITDA margins in the future.

Exhibit 3: Volume Growth Trajectory

TVS Motor Company introduced two new products, TVS X, the premium electric crossover and TVS Apache RTR 310, the 'New Freestyle Performance' motorcycle. The company also announced the launch of India's first-ever electric two-wheeler racing championship, TVS Racing Electric One Make Championship

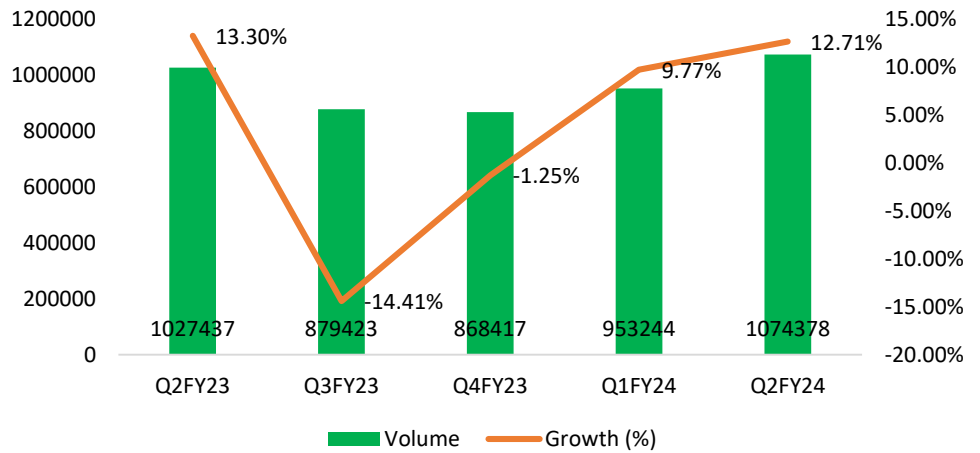


Exhibit 4: EBITDA / Vehicle (INR) & Net realisation

The Company's cumulative TVS iQube sales surpassed 2 lakh units. During the quarter under review, the Company sold 0.58 Lakh units as against 0.16 Lakh units during quarter ended September 2022.

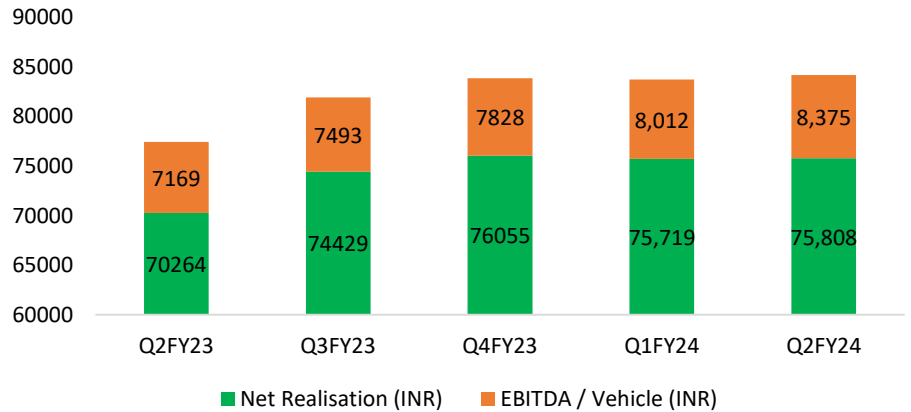
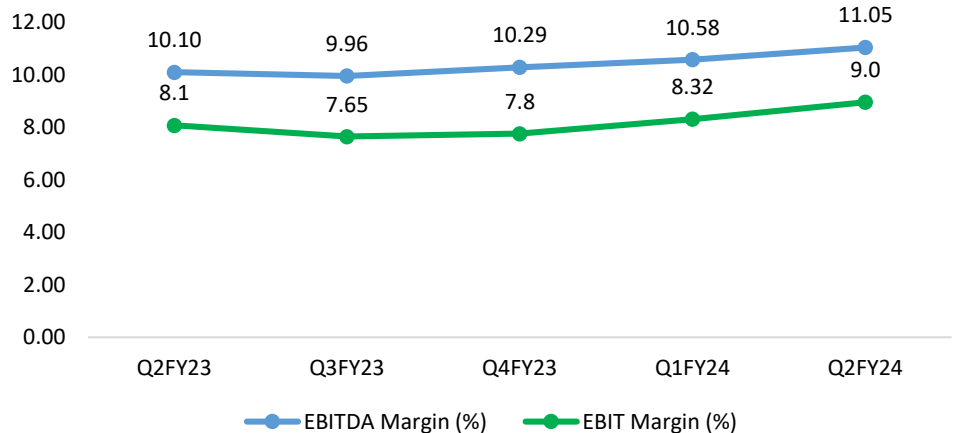


Exhibit 5: Expecting commodity cost soften; sustaining double-digit EBITDA margin

Production costs are improving, positively impacting margins and heading in the right direction.



Source: Arianth Research, Company Filings,

Profit & Loss Statement (Standalone)				
YE: Mar (INR mn)	FY23	FY24E	FY25E	FY26E
Net sales	2,63,781	2,91,901	3,39,311	4,00,907
Growth, %	26.9	10.7	16.2	18.2
RM expenses	1,99,928	2,12,650	2,45,458	2,88,252
Employee expenses	13,451	15,132	17,024	19,152
Other expenses	23,655	31,566	36,605	43,149
EBITDA (Core)	26,747	32,553	40,224	50,354
Growth, %	36	22	24	25
Margin, %	10.1	11.2	11.9	12.6
Depreciation	6,312	6,637	7,387	8,137
EBIT	20,435	25,916	32,838	42,217
Growth, %	51	27	27	29
Margin, %	7.7	8.9	9.7	10.5
Interest paid	1,407	1,616	1,939	2,715
Other Income	1,006	1,126	1,250	1,263
Non-recurring Items	-	-	-	-
Pre-tax profit	20,034	25,427	32,149	40,765
Tax provided	5,123	6,503	8,221	10,598
Profit after tax	14,910	18,924	23,927	30,167
Exceptional Item	-	-	-	-
Net Profit	14,910	18,924	23,927	30,167
Growth, %	67	27	26	26
Net Profit (adjusted)	14,910	18,924	23,927	30,167

Balance Sheet (Standalone)				
YE: Mar (INR mn)	FY23	FY24E	FY25E	FY26E
Cash & bank	2,420	7,553	26,707	53,569
Marketable securities cost	-	-	-	-
Debtors	9,551	10,569	12,285	14,516
Inventory	12,364	19,673	23,798	29,217
Loans & advances	-	-	-	3,470.90
Other current assets	5,323	5,589	5,869	6,162
Total current assets	29,657	43,384	68,660	1,03,463
Investments	56,839	63,839	70,839	77,839
Gross fixed assets	83,489	93,489	1,03,489	1,13,489
Less: Depreciation	-44,335	-50,972	-58,359	-66,495
Add: Capital WIP	2,741	2,741	2,741	2,741
Net fixed assets	39,153	42,517	45,130	46,993
Total assets	1,28,390	1,52,481	1,87,370	2,31,037
Current liabilities	42,359	44,756	52,025	61,296
Provisions	2,744	3,019	3,320	3,653
Total current liabilities	45,103	47,775	55,346	64,949
Non-current liabilities	6,170	3,079	3,079	3,079
Total liabilities	51,273	50,853	58,425	68,028
Paid-up capital	475	475	475	475
Reserves & surplus	60,003	76,932	98,862	1,26,459
Shareholders' equity	60,479	77,407	99,337	1,26,934
Total equity & liabilities	1,28,390	1,52,481	1,87,370	2,31,037

Cash Flow				
YE: Mar (INR mn)	FY23	FY24E	FY25E	FY26E
Pre-tax profit	20,034	25,427	32,148	40,763
Depreciation	6,312	6,637	7,387	8,137
Chg in working capital	-4,461	-5,922	1,450	1,661
Total tax paid	-5,037	-6,503	-8,221	-10,598
CFO	17,249	16,849	33,452	41,415
Capital expenditure	-9,795	-10,000	-10,000	-10,000
Chg in marketable securities	0	0	0	0
Chg in investments	-16,686	-7,000	-7,000	-7,000
CFI	-25,475	-15,874	-15,750	-15,737
Free cash flow	7,455	6,849	23,452	31,415
Debt raised/(repaid)	10,774	4,489	5,387	6,464
Dividend (incl. tax)	0	-1,995	-1,995	-2,566
CFF	9,368	878	1,452	1,184
Net chg in cash	1,142	1,853	19,155	26,861
Opening cash balance	4,013	2,420	7,553	26,707
Closing cash balance	2,420	7,553	26,707	53,569

Ratios				
YE: Mar	FY23	FY24E	FY25E	FY26E
EPS (INR)	31.4	39.8	50.4	63.5
PER (x)	51.3	40.4	31.9	25.3
Price/Book (x)	12.6	9.9	7.7	6.0
EV/EBITDA (x)	29.3	24.1	19.1	14.9
EV/Net sales (x)	3.0	2.7	2.3	1.9
RoE (%)	25	24	24	24
RoCE (%)	26.7	26.6	26	27
Fixed Asset turnover (x)	3.2	3.1	3.3	3.5
Dividend Yield (%)	0.0	0.2	0.2	0.3
Receivable (days)	15	14	14	14
Inventory (days)	21	28	29	30
Payable (days)	72	63	63	64
Net D/E ratio (x)	0.3	0.3	0.1	(0.1)

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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