

CMP: INR 2001

Rating: Hold

Target Price: INR 2,188

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) | 952.5 |
| 52w H/L (INR) | 2104/971 |
| Avg Yearly Vol (in 000') | 1252 |

Shareholding Pattern %

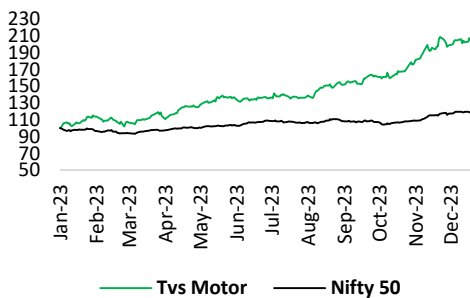
(As on Dec, 2023)

| | |
|-----------------|-------|
| Promoters | 50.27 |
| Public & Others | 49.73 |

Stock Performance (%) 1m 3m 12m

| | | | |
|------------|------|-------|-------|
| TVS Motors | 1.7 | 26.22 | 103.3 |
| Nifty | 0.06 | 11.27 | 19.91 |

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 82,450 Mn, against our estimate of INR 84,285 Mn registering 26% YoY/1.2% QoQ. The growth led by the better sales numbers and also the share of premium product sales for the company is on the rise. EBITDA stood at INR 9,244 Mn, against our estimate of INR 9,500 Mn, Registering a growth of 40.3%YoY/+2.7%QoQ. On the margins front, EBITDA margin up by bps 16bps QoQ/114bps YoY to 11.21%, against our estimate of 11.3%. The margin expansion led by softening in RM and product mix. Standalone PAT saw a growth of 68.2%YoY/ 10.6% QoQ to INR 5,933.5 Mn against our estimate of INR 5,460 Mn. EPS stood at INR 12.5 in Q3FY24 against INR 11.3 in Q2FY24 (INR 7.4 in Q3FY23).

Continue volume enhancement in the EV two-wheeler segment: In Q3, the EV industry rebounded, and strategic actions were taken. The TVS iQube has consistently outpaced industry growth for six consecutive quarters, **expanding its availability to over 400 touchpoints in India and will double it in Q4.** 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.

Expansion in the margin in Q3 led by better product mix: In Q3, the company achieved a margin of 11.21%, marking a 16bps expansion QoQ/114bps YoY. The enhanced margins are attributed to effective cost-control initiatives and a decline in raw material prices. The positive margin trajectory is led by investments in innovative products and technologies, emphasizing timely product delivery, customer satisfaction, and a continuous commitment to cost reduction. Even in the face of stable commodity prices and a lack of substantial price hikes, the company remains vigilant and attuned to potential opportunities in the global market.

Increase in Market share led by better product mix in the portfolio: In Q3, the company entered the European market with Emil Frey, launching ICE and EV products. Prioritizing strong two-wheeler demand countries, it aims to expand with brands like Apache, Jupiter, Raider, and Ntorq. The company anticipates growth in Q3 momentum, and in 9MFY24, gained a 187bps market share (17.53%) with a 232bps expansion in Motorcycles and 130bps gain in Scooters, driven by TVS Raider and Apache demand.

Outlook and valuation

In 3Q, TVS Motors showed strong performance with robust volumes led by TVS Raider and Apache. Expect continued strong volume growth in the next quarter with increased sales of Apache, Ronin, Ntorq, and Raider. We increase our FY24E/25E/26E EPS by 3%/5.1%/6.5%, factoring improvement in volume and margin. However, stocks trades at 48.8/37.8/29.6 for FY24e/25e/26e which completely factored in. **We value TVS Motors' standalone business at an FY26E PE of 31x to its EPS estimate of INR 67.6 for FY26E and TVS credit services at 2.6x its BV (INR 90.7/ share), which yields a revised target price of INR 2,188 per share (Earlier target price: INR 1,661 per share). We upgrade our rating to Hold from Neutral 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 | 63.8 |
| FY24E | 3,13,533 | 34,206 | 19,474 | 41.0 | 10.9 | 27.7 | 48.8 |
| FY25E | 3,61,262 | 42,446 | 25,177 | 53.0 | 11.7 | 28.7 | 37.8 |
| FY26E | 4,10,403 | 50,922 | 32,140 | 67.6 | 12.4 | 29.6 | 29.6 |

Source: Arihant Research, Company Filings

Exhibit 2: Quarterly result summary

| INR mn | 3QFY24 | 2QFY24 | 3QFY24 | YoY (%) | QoQ (%) |
|-------------------------------|-----------|-----------|----------|---------|---------|
| Net Sales | 82,450 | 81,446 | 65,454 | 26.0 | 1.2 |
| - Consumption of Raw Material | 60,756 | 60,276 | 49,429 | 22.9 | 0.8 |
| (% of Net Sales) | 73.7 | 74.0 | 75.5 | -183bps | -32bps |
| - Staff Expenditure | 4,036 | 3,929 | 3,409 | 18.4 | 2.7 |
| (% of Net Sales) | 4.9 | 4.8 | 5.2 | -31bps | 7bps |
| - Other Expenditure | 8,414 | 8,244 | 6,027 | 39.6 | 2.1 |
| (% of Net Sales) | 10.2 | 10.1 | 9.2 | 100bps | 8bps |
| Total Expenditure | 73,206 | 72,449 | 58,865 | 24.4 | 1.0 |
| EBITDA | 9,244 | 8,998 | 6,589 | 40.3 | 2.7 |
| EBITDA Margin (%) | 11.21 | 11.05 | 10.07 | 114bps | 16bps |
| Depreciation | 1,781 | 1,701 | 1,583 | 12.5 | 4.7 |
| EBIT | 7,464 | 7,297 | 5,006 | 49.1 | 2.3 |
| EBIT Margin (%) | 9.05 | 8.96 | 7.65 | 140bps | 9bps |
| Interest | 474 | 523 | 316 | 49.9 | (9.3) |
| Other income | 576 | 462 | 65 | 786.9 | 24.5 |
| PBT | 7,565 | 7,237 | 4,755 | 59.1 | 4.5 |
| Tax | 1,427 | 1,871 | 1,227 | 16.3 | (23.7) |
| Tax Rate (%) | 23% | 26% | 26% | (9.4) | (9.6) |
| Adjusted PAT | 5,934 | 5,366 | 3,528 | 68.2 | 10.6 |
| Exceptional Item | - | - | - | | |
| Reported PAT | 5,933.5 | 5,365.5 | 3,527.5 | 68.2 | 10.6 |
| EPS (INR) | 12.5 | 11.3 | 7.4 | 68.3 | 10.6 |
| Total Volumes (In Nos) | 11,00,843 | 10,74,378 | 9,63,557 | 14.2 | 2.5 |
| Net Realisation (INR) | 74,897 | 75,808 | 67,930 | 10.3 | (1.2) |
| EBITDA / Vehicle (INR) | 8,397 | 8,375 | 6,839 | 22.8 | 0.3 |

| Volumes (In Nos) | 3QFY24 | 2QFY24 | 3QFY24 | YoY (%) | QoQ (%) |
|------------------|-----------|-----------|----------|---------|---------|
| Motorcycle | 5,22,850 | 4,93,427 | 4,34,279 | 20.4 | 6.0 |
| Scooter | 4,04,051 | 4,19,969 | 2,95,635 | 36.7 | (3.8) |
| E-Scooter | 48,167 | 57,549 | 29,230 | 64.8 | (16.3) |
| Moped | 1,35,876 | 1,17,976 | 1,06,024 | 28.2 | 15.2 |
| 2W Domestic | 8,46,962 | 7,92,342 | 6,29,033 | 34.6 | 6.9 |
| 2W Exports | 2,15,815 | 2,39,030 | 2,06,905 | 4.3 | (9.7) |
| 2W Total | 10,62,777 | 10,31,372 | 8,35,938 | 27.1 | 3.0 |
| 3W Domestic | 5,335 | 5,014 | 4,038 | 32.1 | 6.4 |
| 3W Exports | 32,731 | 37,992 | 39,447 | (17.0) | (13.8) |
| 3W Total | 38,066 | 43,006 | 43,485 | (12.5) | (11.5) |
| 3W Domestic | 8,52,297 | 7,97,356 | 5,24,216 | 62.6 | 6.9 |
| 3W Exports | 2,48,546 | 2,77,022 | 4,39,341 | (43.4) | (10.3) |
| Total | 11,00,843 | 10,74,378 | 9,63,557 | 14.2 | 2.5 |

| Mix (%) | 3QFY24 | 2QFY24 | 3QFY24 | QoQ (bps) | YoY(bps) |
|-------------|--------|--------|--------|-----------|----------|
| Motorcycle | 47.5 | 45.9 | 45.1 | 157 | 243 |
| Scooter | 36.7 | 39.1 | 30.7 | -239 | 602 |
| E-Scooter | 4.4 | 5.4 | 3.0 | -98 | 134 |
| Moped | 12.3 | 11.0 | 11.0 | 136 | 134 |
| 2W Domestic | 76.9 | 73.7 | 65.3 | 319 | 1,166 |
| 2W Exports | 19.6 | 22.2 | 21.5 | -264 | -187 |
| 3W Domestic | 0.5 | 0.5 | 0.4 | 2 | 7 |
| 3W Exports | 3.0 | 3.5 | 4.1 | -56 | -112 |
| 3W Domestic | 77.4 | 74.2 | 54.4 | 321 | 2,302 |
| 3W Exports | 22.6 | 25.8 | 45.6 | -321 | -2,302 |

Source: Arianth Research, Company Filings

Q3Y24 Conference-Call highlights

TVS Motor sees a turnaround in exports, with domestic growth surpassing industry trends. They are set to launch one electric vehicle in Q4, backed by a substantial 10,000 Mn capex in the EV segment.

- **Festive Season:** During the Diwali and festive season, observed a remarkable 65% increase, marking one of the most impressive figures in retail finance.
- **Raw Materials (RM):** The company improved raw material cost as a percentage through pricing and other factors.
- **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 in the EV sector during Q3FY24. 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 Norton about approximately INR 80 crores and INR 100 -120 crores in other subsidiaries. Further company has invested in Norton, SCNB, and Killwatt 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 1900 Mn in NTORQ and SCMG, with divestment of INR 1000 Mn 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:** Apache segments are performing exceptionally well, anticipating growth due to robust infrastructure development and positive outlook based on favorable demographics.
- **Export Revenue:** INR 1882 Cr, with INR 792 Cr from spare revenue in Q3FY24.
- **Capital Expenditure and Investments:** The total capital expenditure is set at INR 20,000 mn, with INR 10,000 primarily allocated to the EV business. The company has made total investments of INR 9000 Mn in 9MFY24 and foresees an additional INR 2000 Mn in the Q4. In Q3, investments in Norton amounted to INR 800 mn, and INR 2200 bn will be allocated for Norton's engineering, development, and supply chain enhancements.
- **Supply chain:** The company possesses a strong supply chain in India, having enough countermeasures and investments in terms of the right capacity.
- **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.
- **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:** TVS iQube has consistently outpaced industry growth for the past six quarters. Currently accessible at over 400 touchpoints, demonstrating a widespread presence.
- **Product Range:** The company boasts a diverse product range across segments, focusing on EBITDA margin improvements.
- **Ultraviolet:** The company is strategically planning in response to competitive pressures.
- **PLI Incentive:** Actively engaged in the PLI scheme and are in advance stages, expecting results soon.
- **Jupiter vs. IQube:** Anticipating growth in the scooter segment, with increased market share for EV and ICE vehicles.
- **Other Income:** Other income of INR 82 crores, attributed to a transaction involving Sundaram Auto Components
- **In-House Battery Management:** The company plans to design and disclose its in-house battery management solutions.
- **TVS credit-** The book size of TVS Credit services stands at 250bn. The PBT stood at INR 2300 Mn in Q3FY24 vs 1.80bn in Q3FY23. GNPA was 3.1% and capital adequacy was 8.6%.

Exhibit 3: Volume Growth Trajectory

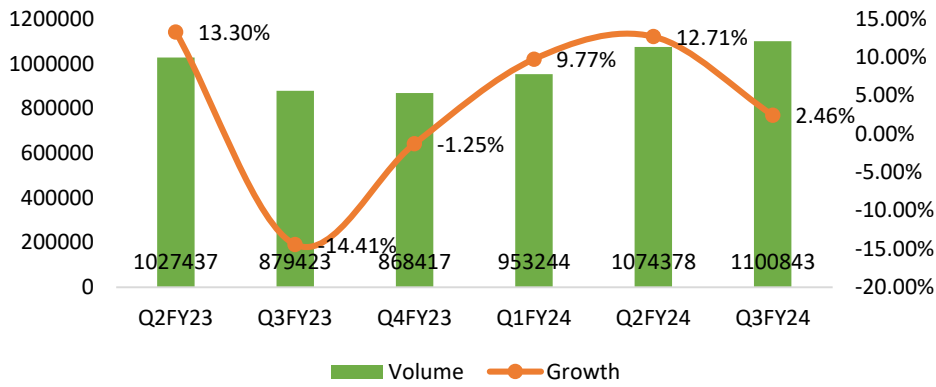


Exhibit 4: EBITDA / Vehicle (INR) & Net realization

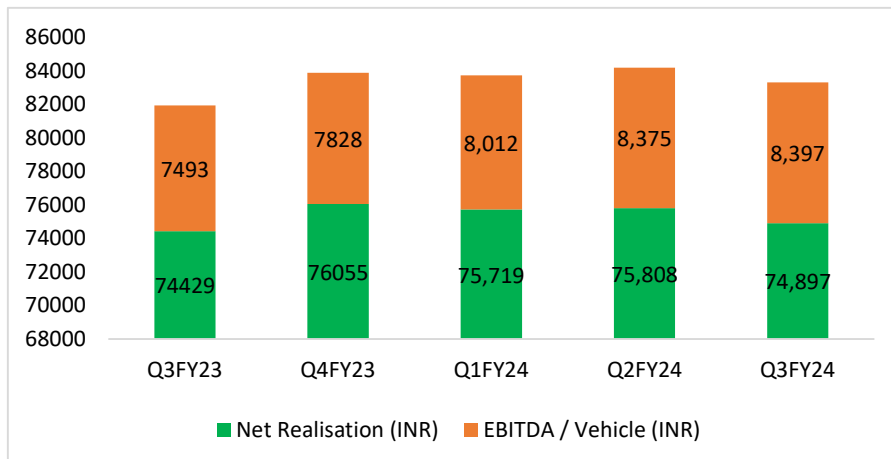
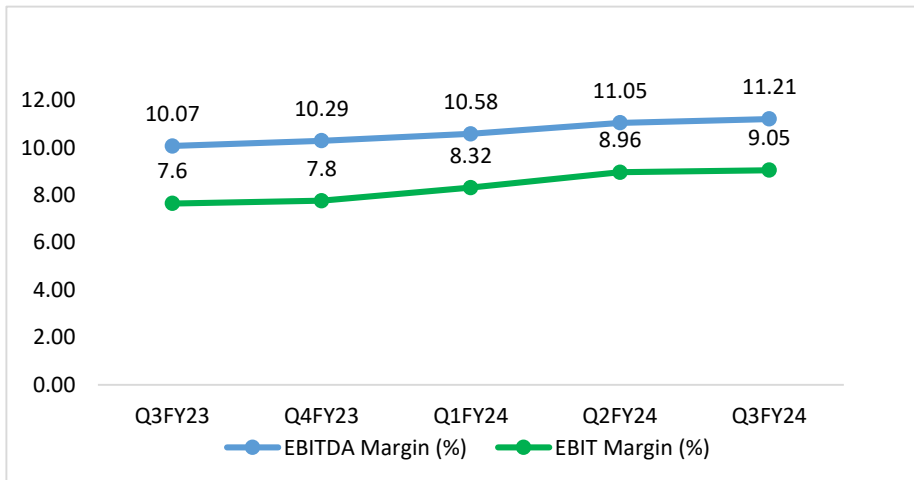


Exhibit 5: Expecting commodity cost soften; sustaining double-digit EBITDA margin



Source: Arianth Research, Company Filings,

| Profit & Loss Statement (Standalone) | | | | |
|--------------------------------------|-----------------|-----------------|-----------------|-----------------|
| YE: Mar (INR mn) | FY23 | FY24E | FY25E | FY26E |
| Net sales | 2,63,781 | 3,13,533 | 3,61,262 | 4,10,403 |
| Growth, % | 26.9 | 18.9 | 15.2 | 13.6 |
| RM expenses | 1,99,928 | 2,30,290 | 2,62,818 | 2,96,311 |
| Employee expenses | 13,451 | 15,132 | 17,024 | 18,999 |
| Other expenses | 23,655 | 33,905 | 38,973 | 44,171 |
| EBITDA (Core) | 26,747 | 34,206 | 42,446 | 50,922 |
| Growth, % | 36 | 28 | 24 | 20 |
| Margin, % | 10.1 | 10.9 | 11.7 | 12.4 |
| Depreciation | 6,312 | 7,012 | 8,512 | 8,009 |
| EBIT | 20,435 | 27,194 | 33,935 | 42,913 |
| Growth, % | 51 | 33 | 25 | 26 |
| Margin, % | 7.7 | 8.7 | 9.4 | 10.5 |
| Interest paid | 1,407 | 2,155 | 1,358 | 981 |
| Other Income | 1,006 | 1,126 | 1,250 | 1,500 |
| Non-recurring Items | - | - | - | - |
| Pre-tax profit | 20,034 | 26,166 | 33,828 | 43,432 |
| Tax provided | 5,123 | 6,692 | 8,651 | 11,292 |
| Profit after tax | 14,910 | 19,474 | 25,177 | 32,140 |
| Exceptional Item | - | - | - | - |
| Net Profit | 14,910 | 19,474 | 25,177 | 32,140 |
| Growth, % | 67 | 31 | 29 | 28 |
| Net Profit (adjusted) | 14,910 | 19,474 | 25,177 | 32,140 |

| Balance Sheet (Standalone) | | | | |
|---------------------------------------|-----------------|-----------------|-----------------|-----------------|
| YE: Mar (INR mn) | FY23 | FY24E | FY25E | FY26E |
| Cash & bank | 2,420 | 2,892 | 5,958 | 15,469 |
| Marketable securities cost | - | - | - | - |
| Debtors | 9,551 | 11,352 | 13,080 | 14,859 |
| Inventory | 12,364 | 21,131 | 25,338 | 29,909 |
| Loans & advances | - | - | - | 3,470.90 |
| Other current assets | 5,323 | 5,589 | 5,869 | 6,162 |
| Total current assets | 29,657 | 40,965 | 50,245 | 66,399 |
| Investments | 56,839 | 60,839 | 67,839 | 74,839 |
| Gross fixed assets | 83,489 | 1,03,489 | 1,23,489 | 1,43,489 |
| Less: Depreciation | -44,335 | -51,347 | -59,859 | -67,868 |
| Add: Capital WIP | 2,741 | 2,741 | 2,741 | 2,741 |
| Net fixed assets | 39,153 | 52,142 | 63,630 | 75,621 |
| Total assets | 1,28,390 | 1,56,686 | 1,84,455 | 2,19,600 |
| Current liabilities | 42,359 | 48,411 | 55,391 | 62,571 |
| Provisions | 2,744 | 3,019 | 3,320 | 3,653 |
| Total current liabilities | 45,103 | 51,430 | 58,711 | 66,223 |
| Non-current liabilities | 6,170 | 3,079 | 3,079 | 3,079 |
| Total liabilities | 51,273 | 54,509 | 61,790 | 69,302 |
| Paid-up capital | 475 | 475 | 475 | 475 |
| Reserves & surplus | 60,003 | 77,482 | 1,00,662 | 1,30,232 |
| Shareholders' equity | 60,479 | 77,957 | 1,01,137 | 1,30,707 |
| Total equity & liabilities | 1,28,390 | 1,56,686 | 1,84,455 | 2,19,600 |

| Cash Flow | | | | |
|------------------------------|----------------|----------------|----------------|----------------|
| YE: Mar (INR mn) | FY23 | FY24E | FY25E | FY26E |
| Pre-tax profit | 20,034 | 26,166 | 33,827 | 43,430 |
| Depreciation | 6,312 | 7,012 | 8,512 | 8,009 |
| Chg in working capital | -4,461 | -4,508 | 1,067 | 868 |
| Total tax paid | -5,037 | -6,692 | -8,651 | -11,292 |
| CFO | 17,249 | 19,727 | 34,862 | 40,497 |
| Capital expenditure | -9,795 | -20,000 | -20,000 | -20,000 |
| Chg in marketable securities | 0 | 0 | 0 | 0 |
| Chg in investments | -16,686 | -4,000 | -7,000 | -7,000 |
| CFI | -25,475 | -22,874 | -25,750 | -25,500 |
| Free cash flow | 7,455 | -273 | 14,862 | 20,497 |
| Debt raised/(repaid) | 10,774 | 4,489 | -2,693 | -1,939 |
| Dividend (incl. tax) | 0 | -1,995 | -1,995 | -2,566 |
| CFF | 9,368 | 339 | -6,046 | -5,486 |
| Net chg in cash | 1,142 | -2,807 | 3,066 | 9,511 |
| Opening cash balance | 4,013 | 2,420 | 2,892 | 5,958 |
| Closing cash balance | 2,420 | 2,892 | 5,958 | 15,469 |

| Ratios | | | | |
|--------------------------|------|-------|-------|-------|
| YE: Mar | FY23 | FY24E | FY25E | FY26E |
| EPS (INR) | 31.4 | 41.0 | 53.0 | 67.6 |
| PER (x) | 63.8 | 48.8 | 37.8 | 29.6 |
| Price/Book (x) | 15.7 | 12.2 | 9.4 | 7.3 |
| EV/EBITDA (x) | 36.3 | 28.5 | 22.8 | 18.8 |
| EV/Net sales (x) | 3.7 | 3.1 | 2.7 | 2.3 |
| RoE (%) | 25 | 25 | 25 | 25 |
| RoCE (%) | 26.7 | 27.7 | 29 | 30 |
| Fixed Asset turnover (x) | 3.2 | 3.0 | 2.9 | 2.9 |
| Dividend Yield (%) | 0.0 | 0.2 | 0.2 | 0.2 |
| 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 | 0.2 | 0.1 |

Source: Arihant 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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