

BUY
 TP: Rs 2,242 | ▲ 16%

TVS MOTOR

| Automobiles

| 27 January 2024

On a fast track – raise to BUY

- ICE 2W volume growth beats industry at 33% YoY, supporting 26% revenue growth in Q3
- Volume uptick bolstered EBITDA margin by 115bps YoY to 11.2%; gross margin also healthy at 26% (+180bps)
- Upgrade to BUY with new TP of Rs 2,242 (vs. Rs 1,531) as we raise FY24/FY25 EPS 7% and increase our target P/E to 28x (vs. 26x)

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Revenue growth driven purely by volume uptick...: TVSL's Q3FY24 revenue grew 26% YoY (flat QoQ) to Rs 82.4bn backed by volume growth of 25% YoY (flat QoQ) to ~1.1mn units. Net realisation per vehicle (NRPV) remained flat YoY/QoQ at Rs 74.9k. TVSL's domestic ICE 2W volumes grew 33% YoY to ~800k units, beating the industry growth rate.

...leading to healthy EBITDA and margin gains: Raw material cost as a percentage of sales dropped 180bps YoY to 73.7% in Q3 (flat QoQ). EBITDA increased 40% YoY (+3% QoQ) to Rs 9.2bn and the margin improved 115bps (flat QoQ) to 11.2%. Adj. PAT climbed 68% YoY (+11% QoQ) to Rs 5.9bn with a 7.2% net margin, aided by other income which included gains of ~Rs 823mn from capital reduction of the subsidiary.

Steady revival in export demand: 2W export sales grew 4% YoY (-10% QoQ) to ~216k units, above the industry. TVSL anticipates a pickup in the Middle East, LATAM and ASEAN markets as well as Sri Lanka which has opened up for exports in Q3FY24. Recovery in African markets may take longer than estimated.

Estimates revised: We believe TVSL will continue to beat industry volume growth backed by a strong presence in the high-end motorcycle segment, together with its focus on EV launches and the revival in exports. This apart, easing raw material costs and the company's premium focus will add to margins. We raise our FY24/FY25 earnings estimates by 5%/7% to factor in the above and introduce FY26 projections, baking in a 3Y EBITDA/PAT CAGR of 28%/35%.

TP raised; upgrade to BUY: To factor in the strong outlook for high-end products such as *Apache* and *Raider*, launch plans, and benefits from investments in export markets over the medium term, we revise our target P/E multiple for the core business to 28x from 26x, in line with the stock's long-term average. On rolling valuations over to FY26E, we arrive at a new SOTP-based TP of Rs 2,239 (earlier Rs 1,531), which includes Rs 33/sh for TVS Credit and offers 16% upside potential – upgrade to BUY from HOLD. Slow recovery in export markets remains a key risk.

Key changes

Target	Rating
▲	▲

Ticker/Price	TVSL IN/Rs 1,941
Market cap	US\$ 11.2bn
Free float	48%
3M ADV	US\$ 23.2mn
52wk high/low	Rs 2,109/Rs 990
Promoter/FPI/DII	52%/13%/25%

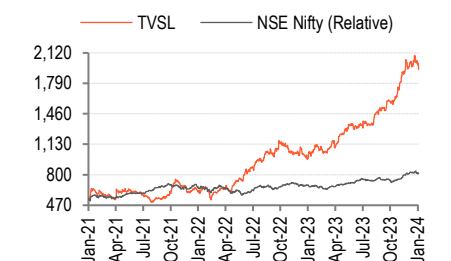
Source: NSE | Price as of 25 Jan 2024

Key financials

Y/E 31 Mar	FY23A	FY24E	FY25E
Total revenue (Rs mn)	2,63,781	3,02,195	3,62,497
EBITDA (Rs mn)	26,747	34,517	45,469
Adj. net profit (Rs mn)	14,910	20,426	28,830
Adj. EPS (Rs)	31.4	43.0	60.7
Consensus EPS (Rs)	31.4	44.0	56.1
Adj. ROAE (%)	24.7	26.1	27.6
Adj. P/E (x)	61.9	45.1	32.0
EV/EBITDA (x)	34.3	26.8	20.2
Adj. EPS growth (%)	66.9	37.0	41.1

Source: Company, Bloomberg, BOBCAPS Research

Stock performance



Source: NSE



Fig 1 – Earnings call highlights

Parameter	Q3FY24	Q2FY24	Our View
Domestic volumes	In Q3FY24, domestic two-wheeler (2W) ICE volumes grew 33% YoY, beating the industry growth rate.	In Q2FY24, 2W domestic ICE volumes grew 4% YoY, ahead of the industry.	Aided by new launches at regular intervals, TVSL is likely to continue to beat the industry.
Exports	<p>TVSL's 2W export volumes grew 4% YoY to ~216k units in Q3FY24, ahead of the industry. Management indicated that export market recovery is taking longer than expected due to delays in currency availability, especially for African markets. Hurdles to container availability amid the Red Sea crisis could further delay revival.</p> <p>During Q3, TVSL announced its foray into Europe in partnership with Emil Frey for launching both ICE and EV products.</p>	<p>TVSL's 2W exports sales stood at ~239k units in Q2FY24, outperforming the industry due to improvement in retail sales.</p> <p>The company has launched <i>Norton Commando</i> in the UK and expects the overall e-bike business (currently halted amidst high inflation) to improve in the long term. Management also expects a good response to <i>Apache</i>, <i>Raider</i> and <i>Ntorq</i> in LATAM markets.</p>	Opening up of key overseas markets, including ASEAN, the Middle East, Asia and LATAM, augurs well for TVSL. Whereas the Red Sea issue is a temporary one, concerns over African markets persist.
Three-wheelers (3W)	TVSL sold ~38k 3Ws during Q3FY24 (vs. ~43k units in Q3FY23).	3W sales during Q2FY24 totalled ~43k units against ~50k units in Q2FY23.	Improvement in exports is a positive. The EV 3W that is under development should bolster the segment's prospects.
Electric vehicles (EV)	<p>During Q3FY24, TVSL sold ~48k units of <i>iQube</i> (against ~29k units in Q3FY23), growing ahead of the industry for the last six quarters as per management. As on Q3, <i>iQube</i> is available at >400 touchpoints.</p> <p>Capacity expansion in EVs is expected in 3-4 months as TVSL has a developed supply chain and enough counter measures with correct investments.</p> <p>Management also intends to launch a series of EV products in the coming quarters coupled with a buildout of EV infrastructure.</p>	<p><i>iQube</i> sales during Q2FY24 totalled ~58k units vs. ~39k units in Q1FY24 (cumulatively surpassing ~200k units to date). As on H1FY24, <i>iQube</i> had 337 touchpoints and management intends to expand the same during Q3/Q4FY24.</p> <p>Management plans to launch a series of products in the 5-25kW range by FY25.</p> <p>Currently, TVSL's EV batteries are designed and developed in house where only the battery cell is imported. Management expects to continue this strategy going forward.</p> <p>An EV 3W is in the development stage and details will be notified by management closer to launch.</p>	TVSL's EV thrust is likely to yield results in the medium term. The focus on inhouse infrastructure development is an added benefit.
Margins	EBITDA margin stood at 11.2% compared to 10.1% in Q3FY23 (flat QoQ). Raw material cost has declined 8% QoQ due to sustained reduction in input prices and a better overall product mix. Management expects to leverage its revenue growth, premiumisation and cost reduction initiatives to improve profitability in Q4FY24.	EBITDA margin grew 80bps YoY (+42bps QoQ) to 11% in Q2FY24 as a result of revenue growth, material cost reduction and a better product mix. Management expects commodity costs to soften and margins to further improve in Q3/Q4FY24.	We see adequate levers to improve margins.
Capex & Investment	Investment deployment in Q3FY24 has been ~Rs 800mn in <i>Norton</i> motorcycles and Rs 2.1bn-2.2bn in other subsidiaries (Killwat, TVS Digital). Investments over 9MFY24 have totalled ~Rs 9bn and management has guided for a further ~Rs 2bn in Q4FY24.	During Q2FY24, the company invested ~Rs 2.4bn in subsidiary TVS Motor (Singapore) and divested Rs 1bn CCPS in TVS Credit Services, Chennai. Investments during H1FY24 totalled ~Rs 6.2bn and are guided to reach Rs 8bn-9bn by end-FY24.	The company's medium/long-term growth looks assured given consistent capex.

Parameter	Q3FY24	Q2FY24	Our View
	Capex guidance for FY24 has been retained at ~Rs 10bn (predominantly for EVs).	Capex for FY24 is guided to exceed ~Rs 10bn with most of the expenditure on EVs.	
Others	<p>TVS Credit's book size as on Q3FY24 stood at ~Rs 253bn (+8% QoQ) and reported PBT was at ~Rs 2.3bn.</p> <p>TVSL's spares revenue was ~Rs 8bn and export revenue was Rs 18.9bn in Q3.</p> <p>Other income for Q3 came in at ~Rs 734mn and includes profit of ~Rs 823mn recognised towards capital reduction of subsidiary Sundaram Auto Components and a ~Rs 90mn notional loss from fair valuation of investments.</p>	<p>TVS Credit's book size has crossed ~Rs 235bn in Q2FY24 and reported PBT stood at Rs 1.8bn.</p> <p>TVSL's spares revenue was ~Rs 7.7bn and export revenue totalled Rs 20.1bn in Q2.</p> <p>Other income for Q2 at ~Rs 0.5bn includes a one-time fair valuation gain of ~Rs 0.4bn arising out of investment in TVS Supply Chain Solutions.</p>	Performance of the vehicle loan business is steadily improving.

Source: Company, BOBCAPS Research

Fig 2 – Quarterly performance

(Rs mn)	Q3FY24	Q3FY23	YoY (%)	Q2FY24	QoQ (%)	9MFY24	9MFY23	YoY (%)
Volume	1,100,843	879,423	25.2	1,089,359	1.1	3,143,446	2,828,632	11.1
Avg. Realisation per Vehicle	74,897	74,429	0.6	74,765	0.2	75,101	69,904	7.4
Net Revenues	82,450	65,454	26.0	81,446	1.2	236,075	197,733	19.4
Total Income (A)	82,450	65,454	26.0	81,446	1.2	236,075	197,733	19.4
Operating Expenses:								
Raw materials consumed	60,756	49,429	22.9	60,276	0.8	174,850	150,132	16.5
Employee Expenses	4,036	3,409	18.4	3,929	2.7	11,753	10,074	16.7
Other Expenses	8,414	6,027	39.6	8,244	2.1	23,593	17,579	34.2
Total Expenditure (B)	73,206	58,865	24.4	72,449	1.0	210,196	177,784	18.2
EBITDA (A-B)	9,244	6,589	40.3	8,998	2.7	25,879	19,949	29.7
Other Income	734	65	1031.0	462	58.7	1,772	301	489.3
Depreciation	1,781	1,583	12.5	1,701	4.7	5,117	4,639	10.3
EBIT	8,198	5,071	61.7	7,759	5.7	22,535	15,611	44.3
Finance Costs	448	316	41.5	523	(14.4)	1,444	1,044	38.4
PBT before exceptional items	7,750	4,755	63.0	7,237	7.1	21,090	14,568	44.8
Exceptional items	-	-	0.0	-	0.0	-	-	0.0
PBT after exceptional items	7,750	4,755	63.0	7,237	7.1	21,090	14,568	44.8
Tax expense	1,817	1,227	48.0	1,871	(2.9)	5,115	3,760	36.0
Reported PAT	5,934	3,528	68.2	5,366	10.6	15,976	10,808	47.8
Adjusted PAT	5,934	3,528	68.2	5,366	10.6	15,976	10,808	47.8
Adj EPS (Rs)	12.5	7.4	68.2	11.3	10.6	33.6	22.7	47.8
Key Ratios (%)			(bps)		(bps)			(bps)
Gross Margin	26.3	24.5	183	26.0	32	25.9	24.1	186
EBITDA Margin	11.2	10.1	114	11.0	16	11.0	10.1	87
EBIT Margin	9.9	7.7	220	9.5	42	9.5	7.9	165
PBT Margin	9.4	7.3	214	8.9	51	8.9	7.4	157
Tax Rate	23.4	25.8	(237)	25.9	(241)	24.3	25.8	(156)
Adj PAT Margin	7.2	5.4	181	6.6	61	6.8	5.5	130

Source: Company, BOBCAPS Research

Valuation methodology

We believe TVSL will continue to beat industry volume growth backed by a strong presence in the high-end motorcycle segment, together with its focus on EV launches and the ongoing revival in exports. This apart, easing raw material costs and the company's premium focus will add to margins. We raise our FY24/FY25 earnings estimates by 5%/7% to factor in the above and introduce FY26 projections, baking in a three-year EBITDA/PAT CAGR of 28%/35%. Our operating margin assumptions for FY24-FY26 range from 11-13%.

To factor in the strong outlook for high-end products such as *Apache* and *Raider*, plans for new launches at regular intervals, and benefits from investments in export markets over the medium term, we revise our target P/E multiple for the core business to 28x from 26x, in line with the stock's long-term average.

On rolling valuations over to FY26E, we arrive at a new SOTP-based TP of Rs 2,239 (earlier Rs 1,531), which includes Rs 33/sh for TVS Credit and offers 16% upside potential – this leads us to upgrade TVSL to BUY from HOLD. Slow recovery in export markets remains a key risk to our view.

Fig 3 – Revised estimates

(Rs mn)	New			Old			Change (%)		
	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E
Revenue	302,195	362,497	429,846	293,222	349,957	NA	3.1	3.6	NA
EBITDA	34,517	45,469	56,091	33,090	43,009	NA	4.3	5.7	NA
Adj PAT	20,426	28,830	36,901	19,362	26,955	NA	5.5	7.0	NA
Adj EPS (Rs)	43.0	60.7	77.7	40.8	56.7	NA	5.4	7.1	NA

Source: BOBCAPS Research

Fig 4 – Key assumptions

Parameter	FY23	FY24E	FY25E	FY26E
2W volumes (units)	35,27,935	39,99,788	45,57,381	52,24,161
3W volumes (units)	1,69,114	1,95,327	2,26,579	2,62,832
Revenue (Rs mn)	2,63,781	3,02,195	3,62,497	4,29,846
EBITDA (Rs mn)	26,747	34,517	45,469	56,091
EBITDA margin (%)	10.1	11.4	12.5	13.0
Adj. PAT (Rs mn)	14,910	20,426	28,830	36,901
EPS (Rs)	31.4	43.0	60.7	77.7

Source: Company, BOBCAPS Research

Fig 5 – Valuation summary

Business	FY26E EPS (Rs)	Target P/E (x)	Value (Rs/sh)
Standalone Business	77.7	28x	2,209
TVS Credit	-	-	33
Total	-	-	2,242

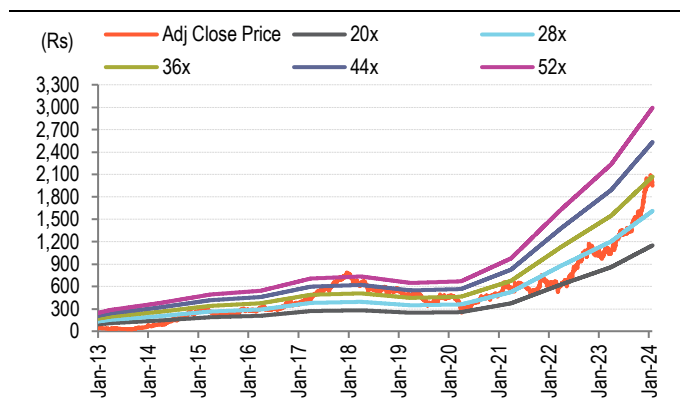
Source: BOBCAPS Research

Fig 6 – Peer comparison

Company	Ticker	Rating	Target Price (Rs)	EPS (Rs)		ROE (%)	
				FY24E	FY25E	FY24E	FY25E
TVS Motor Company	TVSL IN	BUY	2,242	43.0	60.1	29.4	31.2
Eicher Motors	EIM IN	HOLD	3,601	119.9	138.1	23.0	22.1
Bajaj Auto	BJAUT IN	SELL	6,272	258.5	292.8	26.7	26.3

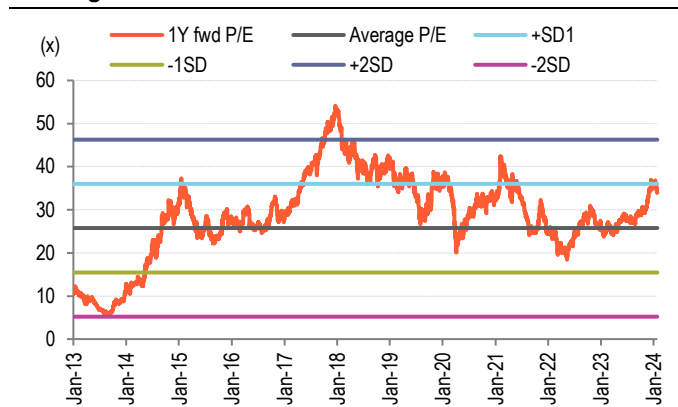
Source: BOBCAPS Research

Fig 7 – P/E band: TVSL continues to command a premium



Source: Bloomberg, BOBCAPS Research

Fig 8 – 1Y fwd P/E: We value the stock at its long-term average



Source: Bloomberg, BOBCAPS Research

Key risks

Key downside risks to our estimates are:

- fierce competition in the premium segment that leads to pricing pressure,
- delays in EV launches and further reversal of key benefits by the government, and
- slower-than-expected export and domestic market recovery.

Sector recommendation snapshot

Company	Ticker	Market Cap (US\$ bn)	Price (Rs)	Target (Rs)	Rating
Ashok Leyland	AL IN	6.1	170	210	BUY
Bajaj Auto	BJAUT IN	26.8	7,598	6,272	SELL
Eicher Motors	EIM IN	12.0	3,616	3,601	HOLD
Escorts	ESCORTS IN	4.7	2,945	2,343	SELL
Mahindra & Mahindra	MM IN	24.9	1,636	1,849	BUY
TVS Motor	TVSL IN	11.2	1,941	2,242	BUY

Source: BOBCAPS Research, NSE | Price as of 25 Jan 2024

Financials

Income Statement

Y/E 31 Mar (Rs mn)	FY22A	FY23A	FY24E	FY25E	FY26E
Total revenue	2,07,905	2,63,781	3,02,195	3,62,497	4,29,846
EBITDA	19,617	26,747	34,517	45,469	56,091
Depreciation	6,114	6,312	6,483	6,896	7,135
EBIT	13,693	21,440	29,362	40,209	50,779
Net interest inc./(exp.)	(1,259)	(1,407)	(1,981)	(2,149)	(2,225)
Other inc./(exp.)	190	1,006	1,328	1,636	1,823
Exceptional items	(302)	0	0	0	0
EBT	12,132	20,034	27,381	38,060	48,554
Income taxes	3,197	5,123	6,955	9,229	11,653
Extraordinary items	0	0	0	0	0
Min. int./Inc. from assoc.	0	0	0	0	0
Reported net profit	8,936	14,910	20,426	28,830	36,901
Adjustments	302	0	0	0	0
Adjusted net profit	9,237	14,910	20,426	28,830	36,901

Balance Sheet

Y/E 31 Mar (Rs mn)	FY22A	FY23A	FY24E	FY25E	FY26E
Accounts payables	39,914	41,306	43,166	50,427	59,345
Other current liabilities	5,828	6,367	21,673	26,187	31,235
Provisions	2,458	2,785	3,019	3,320	3,653
Debt funds	16,455	22,817	21,209	19,728	21,103
Other liabilities	3,622	4,188	3,978	3,779	3,591
Equity capital	475	475	475	475	475
Reserves & surplus	47,746	60,004	77,929	1,04,164	1,37,744
Shareholders' fund	48,221	60,479	78,404	1,04,639	1,38,219
Total liab. and equities	1,16,498	1,37,942	1,71,449	2,08,081	2,57,146
Cash and cash eq.	4,012	2,420	8,892	5,177	7,955
Accounts receivables	9,507	9,551	11,555	14,279	18,087
Inventories	11,227	12,364	14,031	17,726	22,172
Other current assets	9,260	16,515	16,507	17,726	22,172
Investments	47,160	56,839	74,420	99,920	1,29,420
Net fixed assets	34,849	39,495	45,012	51,616	54,981
CWIP	2,462	2,741	3,015	3,618	4,342
Intangible assets	0	0	0	0	0
Deferred tax assets, net	(1,979)	(1,982)	(1,982)	(1,982)	(1,982)
Other assets	0	0	0	0	0
Total assets	1,16,497	1,37,942	1,71,449	2,08,081	2,57,146

Cash Flows

Y/E 31 Mar (Rs mn)	FY22A	FY23A	FY24E	FY25E	FY26E
Cash flow from operations	13,760	13,000	37,128	36,179	41,398
Capital expenditures	(10,535)	(11,238)	(12,274)	(14,103)	(11,224)
Change in investments	(14,015)	(9,679)	(17,581)	(25,500)	(29,500)
Other investing cash flows	190	1,006	1,328	1,636	1,823
Cash flow from investing	(24,360)	(19,911)	(28,527)	(37,967)	(38,900)
Equities issued/Others	0	0	0	0	0
Debt raised/repaid	6,099	6,363	(1,608)	(1,481)	1,375
Interest expenses	(1,259)	(1,407)	(1,981)	(2,149)	(2,225)
Dividends paid	(1,782)	(2,375)	(2,502)	(2,595)	(3,321)
Other financing cash flows	24	3	0	0	0
Cash flow from financing	3,082	2,584	(6,092)	(6,225)	(4,171)
Chg in cash & cash eq.	(7,518)	(4,326)	2,510	(8,013)	(1,673)
Closing cash & cash eq.	4,012	2,420	8,892	5,177	7,955

Per Share

Y/E 31 Mar (Rs)	FY22A	FY23A	FY24E	FY25E	FY26E
Reported EPS	18.8	31.4	43.0	60.7	77.7
Adjusted EPS	18.8	31.4	43.0	60.7	77.7
Dividend per share	3.7	5.0	5.3	5.5	7.0
Book value per share	101.5	127.3	165.0	220.2	290.9

Valuations Ratios

Y/E 31 Mar (x)	FY22A	FY23A	FY24E	FY25E	FY26E
EV/Sales	4.4	3.5	3.1	2.5	2.1
EV/EBITDA	46.5	34.3	26.8	20.2	16.4
Adjusted P/E	103.2	61.9	45.1	32.0	25.0
P/BV	19.1	15.2	11.8	8.8	6.7

DuPont Analysis

Y/E 31 Mar (%)	FY22A	FY23A	FY24E	FY25E	FY26E
Tax burden (Net profit/PBT)	73.7	74.4	74.6	75.8	76.0
Interest burden (PBT/EBIT)	88.6	93.4	93.3	94.7	95.6
EBIT margin (EBIT/Revenue)	6.6	8.1	9.7	11.1	11.8
Asset turnover (Rev./Avg TA)	345.2	338.7	316.3	312.9	295.4
Leverage (Avg TA/Avg Equity)	1.4	1.4	1.4	1.3	1.2
Adjusted ROAE	20.1	27.4	29.4	31.5	30.4

Ratio Analysis

Y/E 31 Mar	FY22A	FY23A	FY24E	FY25E	FY26E
YoY growth (%)					
Revenue	24.1	26.9	14.6	20.0	18.6
EBITDA	37.3	36.3	29.0	31.7	23.4
Adjusted EPS	46.0	66.9	37.0	41.1	28.0
Profitability & Return ratios (%)					
EBITDA margin	9.4	10.1	11.4	12.5	13.0
EBIT margin	6.6	8.1	9.7	11.1	11.8
Adjusted profit margin	4.4	5.7	6.8	8.0	8.6
Adjusted ROAE	19.2	24.7	26.1	27.6	26.7
ROCE	16.7	20.5	22.9	26.3	26.5
Working capital days (days)					
Receivables	16	13	13	13	14
Inventory	20	16	16	16	17
Payables	92	74	68	64	63
Ratios (x)					
Gross asset turnover	0.4	0.3	0.3	0.3	0.3
Current ratio	0.7	0.8	0.8	0.7	0.7
Net interest coverage ratio	(10.9)	(15.2)	(14.8)	(18.7)	(22.8)
Adjusted debt/equity	0.3	0.4	0.3	0.2	0.2

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

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Recommendation scale: Recommendations and Absolute returns (%) over 12 months

BUY – Expected return >+15%

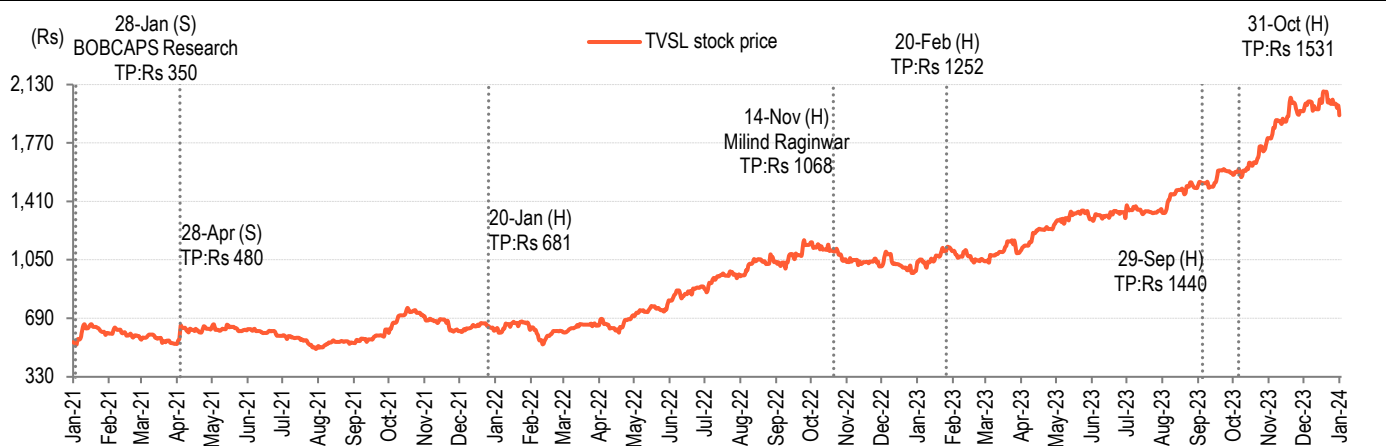
HOLD – Expected return from -6% to +15%

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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