

October 23, 2024

RESULT REPORT Q2 FY25 | Sector: Automobile

TVS Motor Co

Margins resilient despite inflated staff exp.

Valuation and View – Yet to be accrued PLI benefits to support margins

TVSL 2QFY25 results was mixed bag as ASP decline of 2.5% QoQ (-0.9% YoY) at Rs75.1k/unit (est Rs77.8k/unit) came in as surprise despite price hikes and favorable mix. This was led by launch of iQube 09 variant at lowered price point. However, margins continue to be resilient at 11.7% (+70bp YoY/ +20bp QoQ). Gross margin expanded ~250bp YoY (-10bp QoQ) at 28.5% partially offset by higher employee cost which grew ~26.4% YoY due to; 1) new manpower addition of ~250 each in electric, software and digital initiatives and 2) ESOP provision of Rs110-120m. Key operating metrics such as EBITDA/vehicle remain elevated at ~Rs8.8k/unit (+5% YoY/ -0.5% QoQ). The management indicated rural/semi-urban markets are performing better vs urban (we have been indicating the trend since last 2-3 quarters in our channel check note). We continue to believe TVSL is better placed among 2W OEMs both in ICE and EVs led by better product acceptability which should drive further market share gains. However, we would remain watchful of the TVSL's market share in the 125cc segment and market share thereof.

In our view, EBITDA margins expansion to continue given largely stable RM and price hikes. TVSL currently trades at 36.9x/30.5x of FY26/FY27 EPS (v/s HMCL/ BJAUT of 21-26x on FY27 EPS). We believe, it should continue to trade at premium as we expect EPS CAGR of ~25.9% over FY24-27E. Sustained market share gains led by aggressive product pipeline, scope of external investments in to EV vertical are re-rating triggers. We re-iterate TVS as our preferred pick among 2Ws with ADD with revised TP of Rs3,030 as we continue to value co at 35x Mar-27 EPS plus Rs124 value to TVS credit. We have cut FY26/27 EPS by 4%/2% to reflect upon higher staff cost and lower ASPs.

Result Highlights – Steady as gains on GMs offset by higher staff cost

- Revenues grew 13.3% YoY (+1.2% QoQ) at ~Rs92.3b (est ~Rs95.6b) led by 14.3% YoY (+13% QoQ) growth in volumes at ~1.23m units while ASP de-grew 0.9% YoY (-2.5% QoQ) at ~Rs75.1k/unit (est Rs77.8k/unit). Decline in ASP was led by launch of lower priced iQube 09 variant.
- Gross margins came in-line at 28.5% (-10bp QoQ, est 28.4%) and sustained elevated levels led by benign RM. EBITDA grew ~20% YoY (+12.5% QoQ) at Rs10.8b (est Rs11.4b) with margins at 11.7% (+70bp YoY/+20bp QoQ, est 12%). EBITDA/unit grew ~5% YoY (-0.4% QoQ) at Rs8.8k/unit. EBITDA margin boost as yet to be accrued PLI benefit still to play out.
- Led by lower other income at Rs299m (est Rs465m, -17.6% QoQ), Adj.PAT came in at ~Rs6.6b (+23.4% YoY/+14.7% QoQ, est Rs7.2b, cons Rs7b).
- Investments in Subs during 2QFY25 – TVS Singapore at ~Rs2.2b (v/s ~Rs1.64b in 1QFY25)

Exhibit 1: Actual vs estimates

Rs mn	Actual	Estimate		% variation		Remarks
		Yes Sec	Consensus	Yes Sec	Consensus	
Sales	92,282	95,568	94,191	(3.4)	(2.0)	Gains on gross margins offset by higher staff expenses and lower ASP.
EBITDA	10,798	11,426	11,170	(5.5)	(3.3)	
EBITDA margins %	11.7	12.0	11.9	-30bp	-20bp	
Adjusted PAT	6,621	7,214	6,955	(8.2)	(4.8)	

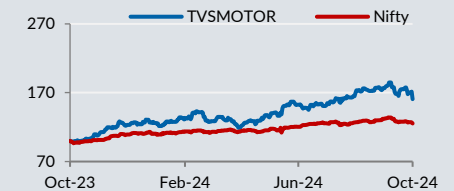
Source: Company, YES Sec

Reco	: ADD
CMP	: Rs 2,565
Target Price	: Rs 3,030
Potential Return	: +18.1%

Stock data (as on Oct 23, 2024)

Nifty	24,436
52 Week h/l (Rs)	2,958 / 1,549
Market cap (Rs/USD mn)	12,09,685 / 15,463
Outstanding Shares (mn)	475
6m Avg t/o (Rs mn):	2,315
Div yield (%):	0.3
Bloomberg code:	TVSL IN
NSE code:	TVSMOTOR

Stock performance



	1M	3M	1Y
Absolute return	(9.9%)	+3.7%	61.7%

Shareholding pattern (As of Jun'24)

Promoter	50.3%
FII+DII	41.2%
Others	8.6%

Δ in stance

(1-Yr)	New	Old
Rating	ADD	ADD
Target Price	3,030	3,092

Δ in earnings estimates

	FY26E	FY27E
EPS (New)	69.5	83.0
EPS (Old)	72.4	84.8
% change	(3.9%)	(2.1%)

Financial Summary

Y/E MARCH (Rs b)	2025E	2026E	2027E
Sales	352	400	437
EBITDA	43.1	51.7	60.4
Adj. PAT	26.9	33.0	39.4
Adj. EPS (INR)	56.6	69.5	83.0
EPS Gr. (%)	29.1	22.9	19.4
BV/Sh. (INR)	215.3	280.8	359.9
RoE (%)	29.9	28.0	25.9
RoCE (%)	32.3	32.3	31.3
Payout (%)	7.1	5.8	4.8
P/E (x)	45.3	36.9	30.9
P/BV (x)	11.9	9.1	7.1
EV/EBITDA (x)	28.6	23.7	19.8
Div. Yield (%)	0.2	0.2	0.2

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Exhibit 2: Quarterly snapshot

VY/e Mar (Rs mn)	Q2FY25	Q2FY24	YoY chg (%)	Q1FY25	1HFY25	1HFY24	YoY chg (%)
Net Revenues	92,282	81,446	13.3	83,756	176,038	153,625	14.6
Raw Materials	66,018	60,276	9.5	59,804	125,822	114,094	10.3
% of Net Sales	71.5%	74.0%		71.4%	71.5%	74.3%	
Personnel	4,967	3,929	26.4	4,788	9,755	7,718	26.4
% of Net Sales	5.4%	4.8%		5.7%	5.5%	5.0%	
Manufacturing & Other Exp	10,499	8,244	27.4	9,563	20,062	15,179	32.2
% of Net Sales	11.4%	10.1%		11.4%	11.4%	9.9%	
Total Expenditure	81,485	72,449	12.5	74,154	155,639	136,990	13.6
EBITDA	10,798	8,998	20.0	9,602	20,400	16,635	22.6
EBITDA Margin (%)	11.7%	11.0%		11.5%	11.6%	10.8%	
Depreciation	1,806	1,701	6.2	1,763	3,569	3,336	7.0
EBIT	8,992	7,297	23.2	7,838	16,831	13,299	26.6
Interest Expenses	319	523	(39.0)	372	691	997	(30.6)
Non-operating income	299	462		363	662	1,038	(36.2)
Extraordinary Income	-	-		-	-	-	
PBT	8,972	7,237	24.0	7,829	16,801	13,340	25.9
Tax-Total	2,346	1,871	25.4	2,056	4,402	3,298	33.5
Tax Rate (%) - Total	26.2%	25.9%		26.3%	26.2%	24.7%	
Reported PAT	6,626	5,366	23.5	5,773	12,399	10,042	23.5
Adj. PAT	6,621	5,366	23.4	5,773	12,395	10,042	23.4
PAT Margin	7.2%	6.6%		6.9%	7.0%	6.5%	
Key Operating Metrics							
Sales Volume (nos)	1,228,223	1,074,378	14.3	1,087,175	2,315,398	2,027,622	14.2
Net Realisation/Vehicle	75,135	75,808	(0.9)	77,040	76,029	75,766	0.3
Material cost / vehicle	53,751	56,103	(4.2)	55,009	54,341	56,270	(3.4)
Gross Profit / vehicle	21,384	19,705	8.5	22,031	21,688	19,496	11.2
Employee cost /vehicle	4,044	3,657	10.6	4,404	4,213	3,806	10.7
Other expenses / vehicle	8,548	7,673	11.4	8,796	8,664	7,486	15.7
EBITDA/vehicle	8,791	8,375	5.0	8,832	8,810	8,204	7.4
Net Profit/vehicle	5,391	4,994	8.0	5,310	5,353	4,953	8.1

Source- Company, YES Sec

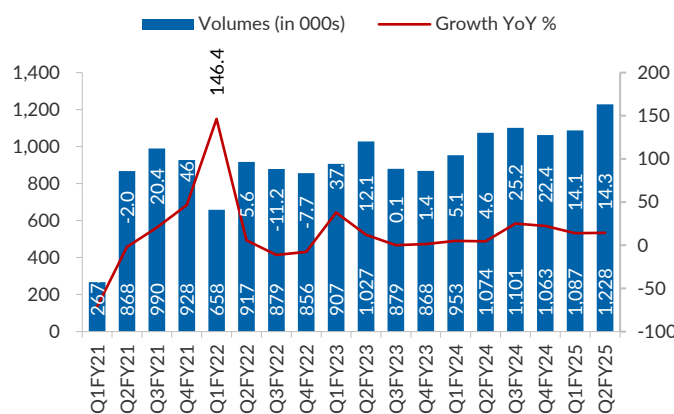
KEY CON-CALL HIGHLIGHTS

- **Outlook**
 - **During Navratri industry grew by 11% while TVSL outperformed.** Overall positive outlook for entire festive and TVSL would maintain outperformance.
 - In 1HFY25 industry grew ~8% YoY, rural grew +9% YoY, urban grew +7% YoY. Seeing rural catching up now after long time. For FY25, expect rural/urban growth be at par in FY25E.
 - Expect industry to grow 7-8% YoY in 3QFY25 while TVSL to outgrow.
- **Have not recognized PLI benefits in 2QFY25.** Products are eligible and qualify for PLI while process is underway for the finalization of revenues.
- **Exports – Revenue for 2QFY25 at Rs22.29b. Due to red crisis, transit time have increased.**
 - **Africa (~55-57% of volumes in 1HFY25)** - Still facing some challenges but QoQ is performing better led by favorable base. Controlled dispatches in African market. TVS is doing better than industry. Worst is over. 55-57% of vol mix for exports. Maintains 1 month stock excl. transit time.
 - **LATAM** – started doing well and market is also growing, network expansion and brand building activities to help gain volumes. All the products and some product from Indonesia are exporting to LATAM.
 - **ASEAN** – Nepal, Sri Lanka started doing well. Bangladesh still have some challenges but will improve gradually.
 - **ME** will do well. Local currency depreciation and increase in interest rate are some challenges having in industry.
- **New Launches: Jupiter 110 which launched before festive is seeing good customer reception**
 - Apache RTR 310 gained good response from the customers. Also, new variant of Ntorq added which attracting lot of new customers
 - Co. will launch few models in EV portfolio in FY25.
 - Will launch EV 3W soon in market.
 - TVS X – premium product will be launched pan India by 3QFY25.
 - Co. Indicated CNG 2W – in close watch how 2W CNG motorcycle working in the market.
- **EV - introduced new variant with iQube now available in 3 battery options such as 2.2kWh, 3.4kWh, 5.1kWh with 5 variants**
 - Co. wants to be strong 2W EV player in India. Aims to grow ahead of industry.
 - EV revenue for 1HFY25 is at ~Rs16b.
 - Current EV reach is 750 dealers and expanding.
 - 2W EV penetration at ~7% in 2QFY25.
 - Started exports to ASEAN markets and exploring opportunities in Asia countries.
 - Expect to launch new products even during rest of FY25E. **Expect to launch EV 3W soon.**
 - EV vertical is contribution positive vertical.
- **Nortron – Currently investing in designing and product development.**
 - Planning to have 6 new product launches expected in FY26 in premium and super premium segment.

- **Spares revenues** at Rs9.3b in 2QFY25 (v/s Rs8.43 in 1QFY25, Rs8.15b in 4QFY24, Rs7.92b in 3QFY24).
- PBT for the quarter includes Rs230m (V/s Rs280 in 1QFY25) of fair valuation gain on the investments held by the Company.
- **FY25 capex expected at Rs12-14b and investments of ~Rs15b in FY25.**
- **Higher employee cost is explained by new manpower addition of ~250 each** in electric, software and digital initiatives. Further ESOP provision of Rs110-120m also inflated cost.
- **Decline in ASP was led by launch of lower priced iQube 09 variant.**
- **TVS credit services performance (TVSCS)**
 - **2QFY25** - have added ~2m customer base, AUM of ~Rs266.5b which grew +13%, PBT grew +20% YoY at Rs2.15b (vs Rs1.8b in 2QFY24 and Rs1.87b in 1QFY25).
 - **Net Worth as on 1HFY25 at Rs44.87b, capital adequacy ratio at 19.1%. Cost of funds at 8.03%, ~27% concentration for 2W.** Have diversified portfolio.
 - **FY24** - AUM of ~Rs250b in FY24 (+26% YoY), PBT grew +40% YoY to Rs7.63b in FY24 vs Rs5.12b in FY23), Net worth of Rs43.33b.
- **E-cycles** - Europe is facing stressful economic condition. Looking for cost cuttings, reduced the inventories and generated cash for working capital. There is no need for impairment provisions.

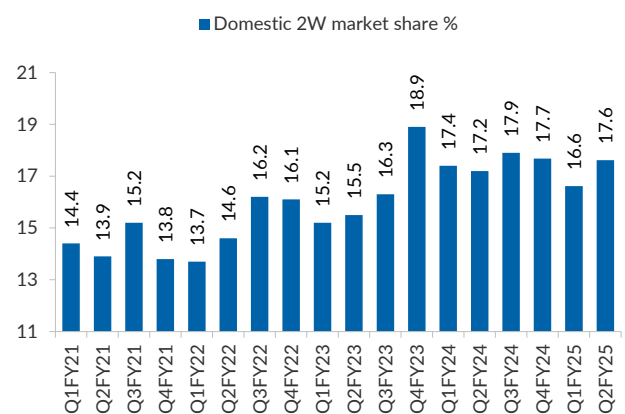
CHARTS

Exhibit 1: Volumes grew 14.3% YoY (+13% QoQ)



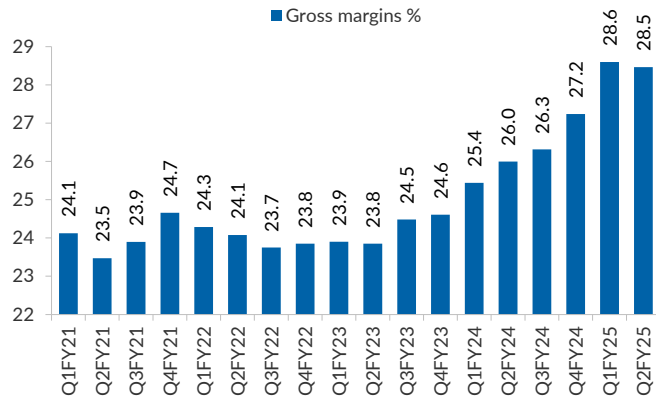
Source: Company, YES Sec

Exhibit 2: TVSL domestic 2W market share trend



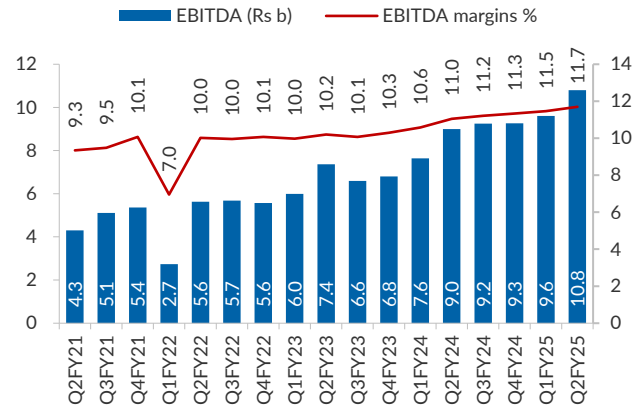
Source: SIAM, YES Sec

Exhibit 3: GM came in flat QoQ led by benign RM



Source: Company, YES Sec

Exhibit 4: EBITDAM expanded 20bps QoQ at 11.7%



Source: Company, YES Sec

FINANCIALS

Exhibit 5: Balance Sheet

Y/E March (Rs mn)	FY21	FY22	FY23	FY24	FY25E	FY26E	FY27E
Equity Share Capital	475	475	475	475	475	475	475
Total Reserves	41,234	47,745	60,003	76,835	101,819	132,953	170,494
Net Worth	41,710	48,220	60,479	77,310	102,294	133,428	170,969
Deferred Liabilities	1,954	1,979	1,982	1,871	1,871	1,871	1,871
Total Loans	17,169	25,906	33,354	26,825	23,575	20,325	17,075
Capital Employed	60,833	76,105	95,815	106,006	127,739	155,624	189,915
Gross Block	63,232	72,064	79,879	87,263	98,813	108,363	117,913
Less: Accum. Deprn.	33,128	38,998	43,920	49,545	56,895	65,234	74,172
Net Fixed Assets	30,104	33,066	35,959	37,719	41,918	43,130	43,742
Capital WIP	2,787	4,245	6,277	9,301	9,751	10,201	10,651
Total Investments	33,145	47,160	56,839	69,913	84,913	96,913	108,913
Curr. Assets, Loans&Adv.	35,939	34,007	40,790	43,690	51,241	69,110	95,890
Inventory	11,518	11,227	12,364	13,708	15,174	21,903	23,922
Account Receivables	8,700	9,507	9,551	13,021	14,414	21,903	23,922
Cash and Bank Balance	9,298	4,013	2,420	5,310	10,002	13,652	36,395
Loans and Advances	6,423	9,260	16,456	11,651	11,651	11,651	11,651
Curr. Liability & Prov.	41,141	42,372	44,050	54,616	60,084	63,729	69,281
Account Payables	39,216	39,914	41,306	51,122	56,590	60,234	65,786
Provisions	1,925	2,458	2,744	3,495	3,495	3,495	3,495
Net Current Assets	(5,202)	(8,366)	(3,260)	(10,927)	(8,843)	5,380	26,609
Appl. of Funds	60,833	76,105	95,815	106,006	127,739	155,624	189,915

Source: Company, YES Sec

Exhibit 6: Income statement

Y/E March (Rs mn)	FY21	FY22	FY23	FY24	FY25E	FY26E	FY27E
Net Sales	167,505	207,905	263,781	317,764	351,751	399,738	436,582
Change (%)	2.0	24.1	26.9	20.5	10.7	13.6	9.2
EBITDA	14,286	19,618	26,747	35,141	43,052	51,723	60,420
Margin (%)	8.5	9.4	10.1	11.1	12.2	12.9	13.8
Depreciation	4,937	6,114	6,312	7,004	7,350	8,339	8,938
EBIT	9,349	13,503	20,435	28,138	35,702	43,384	51,482
Int. and Finance Charges	1,416	1,259	1,407	1,816	1,261	945	737
Other Income - Rec.	330	190	1,006	1,485	1,500	1,725	1,984
PBT bef. EO Exp.	8,262	12,434	20,034	27,807	35,941	44,165	52,729
EO Exp/(Income)	-	302	-	-	-	-	-
PBT after EO Exp.	8,262	12,132	20,034	27,807	35,941	44,165	52,729
Current Tax	2,034	3,000	5,037	7,021	9,057	11,129	13,288
Deferred Tax	108	196	87	(44)	-	-	-
Tax Rate (%)	25.9	26.3	25.6	25.1	25.2	25.2	25.2
Reported PAT	6,120	8,936	14,910	20,830	26,884	33,035	39,441

Y/E March (Rs mn)	FY21	FY22	FY23	FY24	FY25E	FY26E	FY27E
PAT Adj for EO items	6,120	9,158	14,910	20,830	26,884	33,035	39,441
Change (%)	(0.9)	49.6	62.8	39.7	29.1	22.9	19.4

Source: Company, YES Sec

Exhibit 7: Cash Flow Statement

Y/E March (Rs mn)	FY21	FY22	FY23	FY24	FY25E	FY26E	FY27E
NP/ (Loss) bef Tax and EO	8,262	12,132	20,034	27,807	35,941	44,165	52,729
Depreciation	4,937	6,114	6,312	7,004	7,350	8,339	8,938
Interest & Finance Charges	1,416	1,259	1,407	1,816	1,261	945	737
Direct Taxes Paid	2,020	3,100	4,826	6,162	9,057	11,129	13,288
(Inc)/Dec in WC	13,335	(1,325)	(2,913)	5,923	2,609	(10,574)	1,514
CF from Operations	25,930	15,081	20,013	36,387	38,104	31,745	50,630
Others	(303)	(131)	(85)	(214)	(1,500)	(1,725)	(1,984)
CF from Operating incl EO	25,627	14,950	19,929	36,173	36,603	30,020	48,646
(inc)/dec in FA	(9,458)	(20,199)	(21,877)	(25,148)	(12,000)	(10,000)	(10,000)
Free Cash Flow	16,170	(5,249)	(1,949)	11,025	24,603	20,020	38,646
CF from Investments	(9,206)	(21,410)	(23,118)	(18,963)	(25,500)	(20,275)	(20,016)
(Inc)/Dec in Debt	(8,949)	4,825	6,576	(7,295)	(3,250)	(3,250)	(3,250)
Interest Paid	(1,129)	(1,231)	(1,371)	(2,137)	(1,261)	(945)	(737)
Dividend Paid	(998)	(1,904)	(2,918)	(3,801)	(1,900)	(1,900)	(1,900)
CF from Fin. Activity	(11,956)	1,132	2,245	(14,696)	(6,411)	(6,095)	(5,887)
Inc/Dec of Cash	4,465	(5,328)	(944)	2,515	4,692	3,650	22,743
Add: Beginning Balance	4,143	8,590	3,287	2,344	5,310	10,002	13,652
Closing Balance	8,608	3,262	2,344	4,858	10,002	13,652	36,395

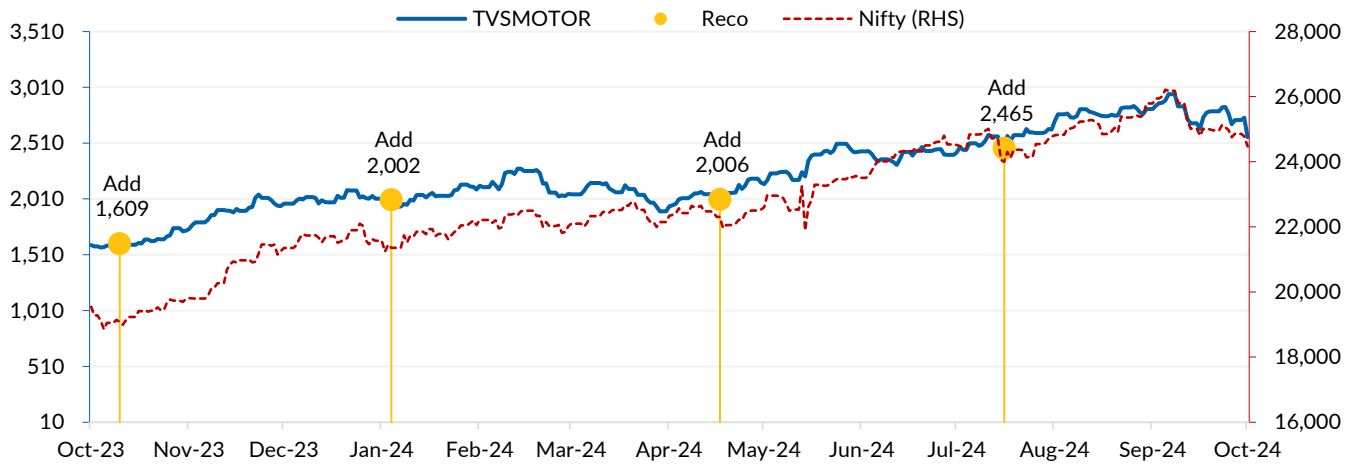
Exhibit 8: Growth and Ratio matrix

Y/E March	FY21	FY22	FY23	FY24	FY25E	FY26E	FY27E
Basic (INR)							
EPS	12.9	19.3	31.4	43.8	56.6	69.5	83.0
Growth (%)	(0.9)	49.6	62.8	39.7	29.1	22.9	19.4
Cash EPS	23.3	32.1	44.7	58.6	72.1	87.1	101.8
BV/Share	87.8	101.5	127.3	162.7	215.3	280.8	359.9
DPS	3.5	3.8	5.0	4.0	4.0	4.0	4.0
Payout (%)	27.2	19.9	15.9	9.1	7.1	5.8	4.8
Valuation (x)							
P/E	199.1	133.1	81.7	58.5	45.3	36.9	30.9
Cash P/E	110.2	79.8	57.4	43.8	35.6	29.5	25.2
P/BV	29.2	25.3	20.1	15.8	11.9	9.1	7.1
EV/Sales	7.3	6.0	4.7	3.9	3.5	3.1	2.7
EV/EBITDA	85.9	63.2	46.7	35.3	28.6	23.7	19.8
Dividend Yield (%)	0.1	0.1	0.2	0.2	0.2	0.2	0.2
Return Ratios (%)							

Y/E March	FY21	FY22	FY23	FY24	FY25E	FY26E	FY27E
EBITDA Margins (%)	8.5	9.4	10.1	11.1	12.2	12.9	13.8
Net Profit Margins (%)	3.7	4.4	5.7	6.6	7.6	8.3	9.0
RoE	15.7	20.4	27.4	30.2	29.9	28.0	25.9
RoCE	16.1	20.6	25.5	29.9	32.3	32.3	31.3
RoIC	23.0	41.6	46.1	58.6	81.0	81.5	84.7
Operating Ratios							
Fixed Asset Turnover (x)	2.6	2.9	3.3	3.6	3.6	3.7	3.7
Inventory (Days)	25.1	19.7	17.1	15.7	15.7	20.0	20.0
Debtor (Days)	19.0	16.7	13.2	15.0	15.0	20.0	20.0
Creditor (Days)	85.5	70.1	57.2	58.7	58.7	55.0	55.0
Working Capital (Days)	(31.6)	(21.7)	(7.9)	(18.6)	(19.6)	(7.6)	(8.2)
Leverage Ratio (x)							
Current Ratio	0.9	0.8	0.9	0.8	0.9	1.1	1.4
Interest Cover Ratio	6.6	10.7	14.5	15.5	28.3	45.9	69.9
Debt/Equity	0.4	0.5	0.6	0.3	0.2	0.2	0.1

Source- Company, YES Sec

Recommendation Tracker



Source - YES Sec

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