

August 06, 2024

RESULT REPORT Q1 FY25 | Sector: Automobile

TVS Motor Co

Margins resilient despite inflated operating exp.

Valuation and View – New launches on cards, Norton unveil by end FY26

TVSL 1QFY25 results were in line operationally as margins continues to be resilient at 11.5% (+90bp YoY/ +20bp QoQ). Gross margin expanded ~320bp YoY (+140bp QoQ) at 28.6% led by favorable mix and sustained cost controls. However, this was offset by higher staff and other expense due to increased variable cost linked to production (Rs600m) and brand/digital exp impact of Rs1.2b. Key operating metrics such as EBITDA/vehicle increased further to Rs8.8k/unit (+10.2% YoY/ +1.3% QoQ). The management indicated 2 new 2W launches each in ICE and EVs in 2QFY25 and EV 3W in FY25E. The management indicated rural/semi-urban markets are performing better vs urban (we have been indicating the trend since last 3-4 months 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 competitive launches in the 125cc segment and market share impact thereof.

In our view, EBITDA margins expansion to continue given largely stable RM and price hikes. TVSL currently trades at 34.1x/29.1x of FY25/FY26 EPS (v/s HMCL/ BJAUT of 20-24x on FY26 EPS). We believe, it should continue to trade at premium as we expect EPS CAGR of ~24.6% 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 Rs2,706 as we continue to value co at 30x Mar-27 EPS plus Rs124 value to TVS credit. Our FY25 is unchanged while FY26 EPS is upgraded by ~3% to factor in for cost controls.

Result Highlights – Steady as gains on GMs offset by higher other exp.

- Revenues grew 16% YoY (+2.5% QoQ) at ~Rs83.8b (est Rs84.8b) led by 14.1% YoY (+2.2% QoQ) growth in volumes at ~1.09m units while ASP grew 1.7% YoY (flat QoQ) at ~Rs77k/unit (est Rs78k/unit).
- Gross margins came in better at 28.6% (+140bp QoQ, est 26.9%) led by benign RM and favorable product mix. This was partially offset by higher other expenses at Rs9.6b (est Rs8.8b, +38% YoY/+9% QoQ) due to increase in variable payout due to higher production and brand/marketing spends. Hence, EBITDA grew 27.7% YoY (+3.7% QoQ) at Rs9.6b (est Rs9.5b) with margins at 11.5% (+90bp YoY/+20bp QoQ, est 11.2%).
- Led by lower depreciation at Rs1.76b (est Rs1.9b, -6.5% QoQ) due to write-off of slow moving products tools, Adj.PAT came in at ~Rs5.8b (+23.4% YoY/+18.9% QoQ, est Rs5.7b).

Exhibit 1: Actual vs estimates

Rs mn	Actual	Estimate		% variation		Remarks
		Yes Sec	Consensus	Yes Sec	Consensus	
Sales	83,756	84,837	83,759	(1.3)	(0.0)	Gains on gross margins offset by higher other expenses
EBITDA	9,602	9,502	9,471	1.1	1.4	
EBITDA margins %	11.5	11.2	11.3	30bp	20bp	
Adjusted PAT	5,773	5,746	5,618	0.5	2.8	

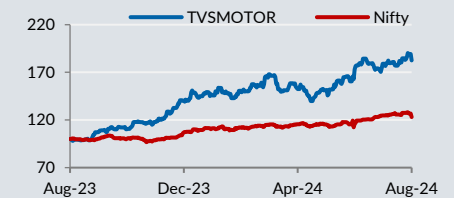
Source: Company, YES Sec

Reco	: ADD
CMP	: Rs 2,465
Target Price	: Rs 2,706
Potential Return	: +9.8%

Stock data (as on Aug 06, 2024)

Nifty	23,993
52 Week h/l (Rs)	2,602 / 1,317
Market cap (Rs/USD mn)	12,27,720 / 14,635
Outstanding Shares (mn)	475
6m Avg t/o (Rs mn):	2,152
Div yield (%):	0.3
Bloomberg code:	TVSL IN
NSE code:	TVSMOTOR

Stock performance



	1M	3M	1Y
Absolute return	+2.0%	+20.5%	+82.4%

Shareholding pattern (As of June'24)

Promoter	50.3%
FII+DII	41.2%
Others	8.6%

Δ in stance

(1-Yr)	New	Old
Rating	ADD	ADD
Target Price	2,706	2,521

Δ in earnings estimates

	FY25E	FY26E
EPS (New)	55.3	72.4
EPS (Old)	55.7	70.3
% change	(0.7%)	+2.9%

Financial Summary

Y/E MARCH (Rs b)	2024	2025E	2026E
Sales	318	356	412
EBITDA	35.1	42.2	53.4
Adj. PAT	20.8	26.3	34.4
Adj. EPS (INR)	43.8	55.3	72.4
EPS Gr. (%)	39.7	26.2	30.8
BV/Sh. (INR)	162.7	214.0	282.4
RoE (%)	30.2	29.4	29.1
RoCE (%)	29.9	31.7	33.5
Payout (%)	9.1	7.2	5.5
P/E (x)	56.2	44.6	34.1
P/BV (x)	15.1	11.5	8.7
EV/EBITDA (x)	33.9	28.0	22.0
Div. Yield (%)	0.2	0.2	0.2

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Exhibit 2: Quarterly snapshot

Y/e Mar (Rs mn)	Q1FY25	Q1FY24	YoY chg (%)	Q4FY24	FY24	FY23	YoY chg (%)
Net Revenues	83,756	72,179	16.0	81,688	317,764	263,781	20.5
Raw Materials	59,804	53,818	11.1	59,440	234,290	199,928	17.2
% of Net Sales	71.4%	74.6%		72.8%	73.7%	75.8%	
Personnel	4,788	3,789	26.4	4,205	15,959	13,451	18.6
% of Net Sales	5.7%	5.2%		5.1%	5.0%	5.1%	
Manufacturing & Other Exp	9,563	6,935	37.9	8,782	32,374	23,655	36.9
% of Net Sales	11.4%	9.6%		10.8%	10.2%	9.0%	
Total Expenditure	74,154	64,542	14.9	72,427	282,623	237,034	19.2
EBITDA	9,602	7,638	25.7	9,262	35,141	26,747	31.4
EBITDA Margin (%)	11.5%	10.6%		11.3%	11.1%	10.1%	
Depreciation	1,763	1,636	7.8	1,887	7,004	6,312	11.0
EBIT	7,838	6,002	30.6	7,375	28,138	20,434	37.7
Interest Expenses	372	474	(21.5)	372	1,816	1,407	29.1
Non-operating income	363	576		(287)	1,485	1,006	47.7
Extraordinary Income	-	-		-	-	-	
PBT	7,829	6,104	28.3	6,716	27,807	20,033	38.8
Tax-Total	2,056	1,427	44.1	1,862	6,977	5,123	36.2
Tax Rate (%) - Total	26.3%	23.4%		27.7%	25.1%	25.6%	
Reported PAT	5,773	4,677	23.4	4,854	20,830	14,910	39.7
Adj. PAT	5,773	4,677	23.4	4,854	20,830	14,910	39.7
PAT Margin	6.9%	6.5%		5.9%	6.6%	5.7%	
Key Operating Metrics							
Sales Volume (nos)	1,087,175	953,244	14.1	1,062,529	4,190,994	3,682,068	13.8
Net Realisation/Vehicle	77,040	75,719	1.7	76,881	75,821	71,639	5.8
Material cost / vehicle	55,009	56,458	(2.6)	55,942	55,903	54,298	3.0
Gross Profit / vehicle	22,031	19,262	14.4	20,940	19,917	17,342	14.9
Employee cost /vehicle	4,404	3,974	10.8	3,958	3,808	3,653	4.2
Other expenses / vehicle	8,796	7,275	20.9	8,265	7,725	6,424	20.2
EBITDA/vehicle	8,832	8,012	10.2	8,717	8,385	7,264	15.4
Net Profit/vehicle	5,310	4,906	8.2	4,569	4,970	4,049	22.7

Source- Company, YES Sec

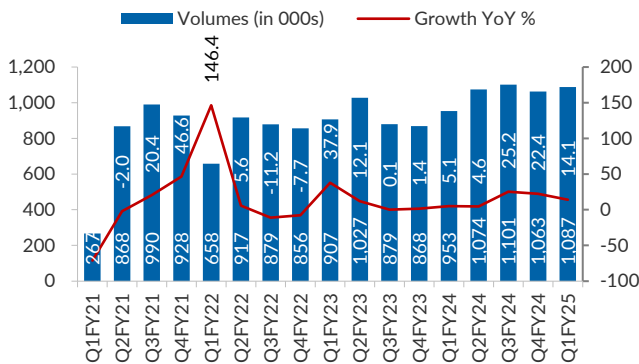
KEY CON-CALL HIGHLIGHTS

- **Outlook - Domestic 2W volumes to grow >10% in FY25E**
 - Expect rural recovery to accelerate with expectation of normal monsoon.
 - **Saw rural markets doing better than urban for the first time in many quarters. This should help drive healthy volumes in 2QFY25E and >10% volume growth in FY25E. In 1QFY25, while 2W industry grew ~13% while rural/semi-urban grew ~17%.**
 - Within rural, self-employed customer is now looking at upgrade/new purchase, after a long time.
 - **Expect to launch 1 product each in ICE and EV for 2W in 2QFY25 itself and 3W in 3QFY25.**
- **Outlook - Exports outlook is improving with African market reaching low base**
 - **Red sea issues is still impacting transit as well as containers availability.** Expect situation to improve in 2Q.
 - **African** markets are still facing some currency related challenges. With low base expects volumes likely to be flat in FY25.
 - **LATAM and ME** present high growth opportunity where co is strengthening its position.
 - **Asia** – Bangladesh is seeing some challenges though. BG volume share is small. Have started slow exports to SL while Nepal is doing well.
 - ASEAN is some time away from volume recovery.
 - **Europe** – dispatching in few markets including Italy but all are developed markets. So-far the distribution is through BMW and for the first time will sell through TVS brand.
 - The launch of HLX 125 should help overall exports volumes.
- **EV** – introduced new variant with iQube now available in 3 variants such as 2.2kWh, 3.4kWh, 5.1kWh with 5 variants in 11 colors.
 - **Domestic reach** – sold by ~750 dealers which covers 450+ cities.
 - **Exports** - Have started exports to ASEAN and Asia last year. For ASEAN will have sourcing advantage as will utilize Indonesian facility with minimal investments envisaged specific to EVs.
- **Norton** – Product launch expected for both Indian and global markets
 - To launch ~6 new products with 1st launch expected by end of FY26E.
 - The product launch will be targeted at lower price points vs current line up but will significantly aid to premiumization.
- **E mobility (Europe)** – seeing impact of muted economic growth leading to higher stock levels discounts.
- **Have not recognized PLI benefits in 1QFY25.** Products are eligible and qualify for PLI while process is underway for the finalization of revenues.
- **Gross margins expansion was led by, 1) sustained RM reduction benefit, geography and product mix and 2) Price increase of 0.2% each in 1QFY25/2QFY25.** Saw some RM inflation in 1QFY25 and expect marginal increase in 2QFY25 as well.
- **Employee cost increase was led by** performance appraisal (~10%), investments in digital/EV/software manpower strength (have added 400-500 headcount) and Rs50m impact due to increase variable cost due to higher production.

- **Other expenses were higher led by Rs600m impact in variable (production linked), Rs870m brand building expenses and Rs350m digital and innovation expenses.**
- Decline in depreciation QoQ was led by write-off of slow moving product tools in 4QFY24 to an extent of Rs150m.
- Fair value gain is due to increase in share price of TVS supply chain.
- **Investments in subs during 1QFY25** – TVSCS ~Rs2.83b, Norton ~Rs1b (total investment of Rs1.2b till date), EV cycles Rs300m and Singapore Rs1.64b. Don't expect further investment in TVSCS in FY25E with capital adequacy of ~18.3%.
- Capex expected Rs10-11b and investments of Rs10-12b in FY25E.
- **Spares revenues** at Rs8.46b in 1QFY25 (vs Rs8.15b in 4QFY24 and Rs7.92b in 3QFY24).
- **Exports revenues** at Rs19.63b in 1QFY25 (vs Rs20.38b in 4QFY24 and Rs18.82b in 3QFY24). USD/INR realization at Rs83.2/USD.
- **TVS Credit services performance** – have ~1.5cr customer base, book size Rs262.51b which grew +20%, PBT grew +19% YoY at Rs1.87b (vs 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.
- Other operating income of Rs840m reported in 1QFY25 at co level.

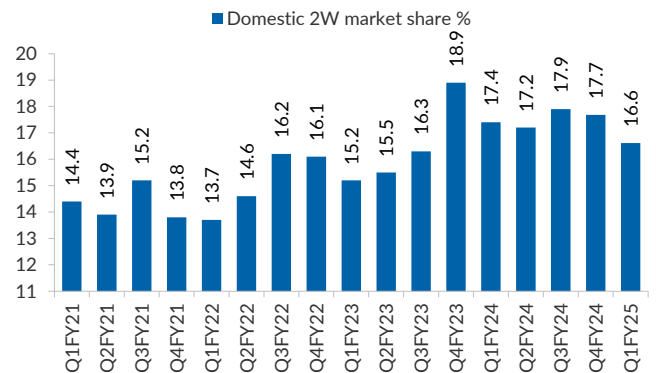
CHARTS

Exhibit 1: Volumes grew 14.1% YoY (+2.3% QoQ)



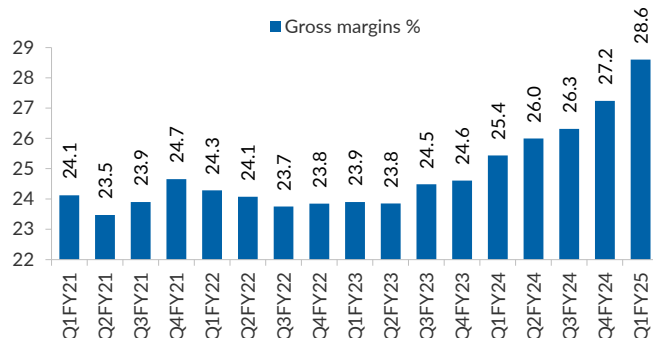
Source: Company, YES Sec

Exhibit 2: TVSL domestic 2W market share trend



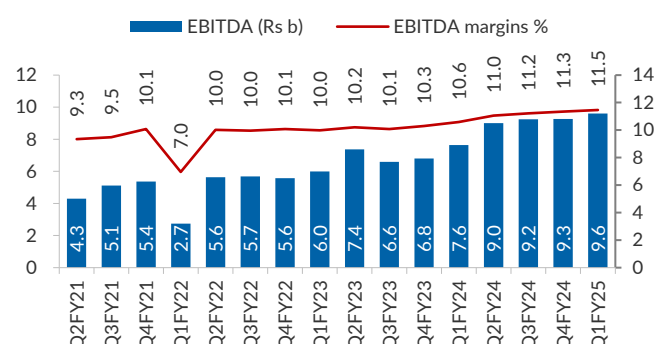
Source: SIAM, YES Sec

Exhibit 3: RM cost control drive GM expansion QoQ



Source: Company, YES Sec

Exhibit 4: Higher other exp. dent GM gains on margins



Source: Company, YES Sec

FINANCIALS

Exhibit 5: Balance Sheet

Y/E March	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	101,218	133,695	172,085
Net Worth	41,710	48,220	60,479	77,310	101,693	134,170	172,560
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	127,139	156,366	191,506
Gross Block	63,232	72,064	79,879	87,263	96,813	106,363	115,913
Less: Accum. Deprn.	33,128	38,998	43,920	49,545	56,816	64,994	73,940
Net Fixed Assets	30,104	33,066	35,959	37,719	39,997	41,370	41,973
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	81,913	93,913	105,913
Curr. Assets, Loans&Adv.	35,939	34,007	40,790	43,690	56,276	76,513	104,981
Inventory	11,518	11,227	12,364	13,708	15,366	22,595	24,915
Account Receivables	8,700	9,507	9,551	13,021	14,596	22,595	24,915
Cash and Bank Balance	9,298	4,013	2,420	5,310	14,663	19,672	43,499
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	60,798	65,631	72,012
Account Payables	39,216	39,914	41,306	51,122	57,304	62,136	68,518
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)	(4,522)	10,882	32,969
Appl. of Funds	60,833	76,105	95,815	106,006	127,139	156,366	191,506

Source: Company, YES Sec

Exhibit 6: Income statement

Y/E March	FY21	FY22	FY23	FY24	FY25E	FY26E	FY27E
Net Sales	167,505	207,905	263,781	317,764	356,189	412,357	454,708
Change (%)	2.0	24.1	26.9	20.5	12.1	15.8	10.3
EBITDA	14,286	19,618	26,747	35,141	42,170	53,356	61,564
Margin (%)	8.5	9.4	10.1	11.1	11.8	12.9	13.5
Depreciation	4,937	6,114	6,312	7,004	7,271	8,178	8,947
EBIT	9,349	13,503	20,435	28,138	34,899	45,178	52,617
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	35,138	45,958	53,864
EO Exp/(Income)	-	302	-	-	-	-	-
PBT after EO Exp.	8,262	12,132	20,034	27,807	35,138	45,958	53,864
Current Tax	2,034	3,000	5,037	7,021	8,855	11,582	13,574
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	26,283	34,377	40,291
PAT Adj for EO items	6,120	9,158	14,910	20,830	26,283	34,377	40,291
Change (%)	(0.9)	49.6	62.8	39.7	26.2	30.8	17.2

Source: Company, YES Sec

Exhibit 7: Cash Flow Statement

Y/E March	FY21	FY22	FY23	FY24	FY25E	FY26E	FY27E
NP/ (Loss) bef Tax and EO	8,262	12,132	20,034	27,807	35,138	45,958	53,864
Depreciation	4,937	6,114	6,312	7,004	7,271	8,178	8,947
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	8,855	11,582	13,574
(Inc)/Dec in WC	13,335	(1,325)	(2,913)	5,923	2,950	(10,396)	1,740
CF from Operations	25,930	15,081	20,013	36,387	37,765	33,104	51,714
Others	(303)	(131)	(85)	(214)	(1,500)	(1,725)	(1,984)
CF from Operating incl EO	25,627	14,950	19,929	36,173	36,265	31,378	49,730
(inc)/dec in FA	(9,458)	(20,199)	(21,877)	(25,148)	(10,000)	(10,000)	(10,000)
Free Cash Flow	16,170	(5,249)	(1,949)	11,025	26,265	21,378	39,730
CF from Investments	(9,206)	(21,410)	(23,118)	(18,963)	(20,500)	(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	9,354	5,009	23,827
Add: Beginning Balance	4,143	8,590	3,287	2,344	5,310	14,663	19,672
Closing Balance	8,608	3,262	2,344	4,858	14,663	19,672	43,499

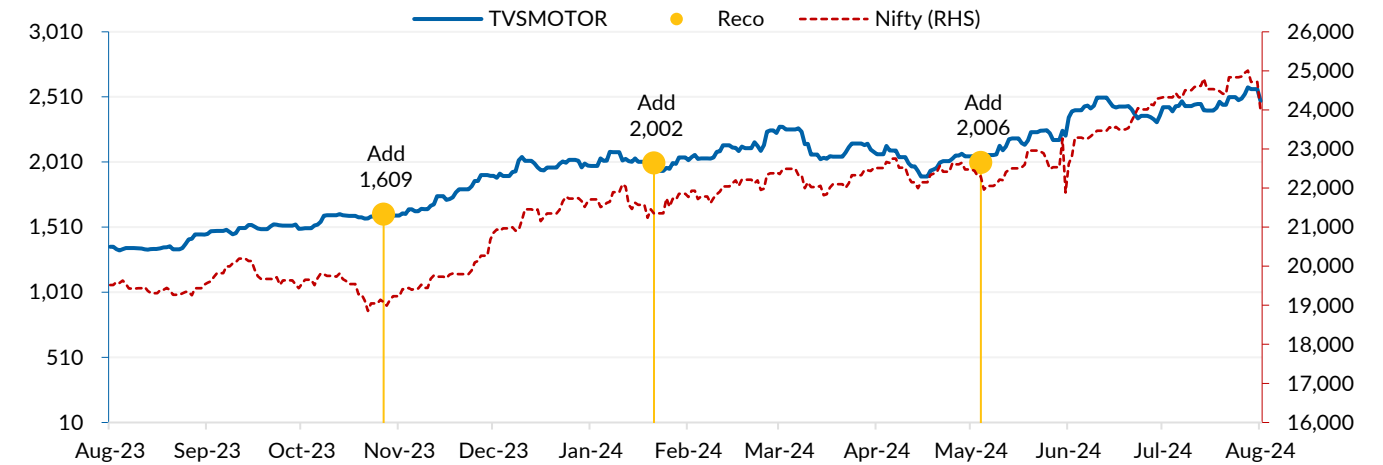
Exhibit 8: Growth and Ratio matrix

Y/E March	FY21	FY22	FY23	FY24	FY25E	FY26E	FY27E
Basic (INR)							
EPS	12.9	19.3	31.4	43.8	55.3	72.4	84.8
Growth (%)	(0.9)	49.6	62.8	39.7	26.2	30.8	17.2
Cash EPS	23.3	32.1	44.7	58.6	70.6	89.6	103.6
BV/Share	87.8	101.5	127.3	162.7	214.0	282.4	363.2
DPS	3.5	3.8	5.0	4.0	4.0	4.0	4.0
Payout (%)	27.2	19.9	15.9	9.1	7.2	5.5	4.7
Valuation (x)							
P/E	191.3	127.9	78.5	56.2	44.6	34.1	29.1
Cash P/E	105.9	76.7	55.2	42.1	34.9	27.5	23.8
P/BV	28.1	24.3	19.4	15.1	11.5	8.7	6.8
EV/Sales	7.0	5.7	4.6	3.8	3.3	2.8	2.5
EV/EBITDA	82.5	60.8	44.9	33.9	28.0	22.0	18.6
Dividend Yield (%)	0.1	0.2	0.2	0.2	0.2	0.2	0.2
Return Ratios (%)							
EBITDA Margins (%)	8.5	9.4	10.1	11.1	11.8	12.9	13.5
Net Profit Margins (%)	3.7	4.4	5.7	6.6	7.4	8.3	8.9
RoE	15.7	20.4	27.4	30.2	29.4	29.1	26.3
RoCE	16.1	20.6	25.5	29.9	31.7	33.5	31.7
RoIC	23.0	41.6	46.1	58.6	82.0	90.2	91.4

Y/E March	FY21	FY22	FY23	FY24	FY25E	FY26E	FY27E
Operating Ratios							
Fixed Asset Turnover (x)	2.6	2.9	3.3	3.6	3.7	3.9	3.9
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)	(19.7)	(7.8)	(8.5)
Leverage Ratio (x)							
Current Ratio	0.9	0.8	0.9	0.8	0.9	1.2	1.5
Interest Cover Ratio	6.6	10.7	14.5	15.5	27.7	47.8	71.4
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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