

October 30, 2023

RESULT REPORT Q2 FY24 | Sector: Automobile

TVS Motor Co

Resilient performance

Valuation and View - Market share gains to persist

TVSL 2QFY24 were in-line to our/street estimates as better than expected gross margins at 26% (+210 YoY/ +60bp QoQ, est 25%) due to favorable mix and soft RM was partially offset by higher other expense at Rs8.2b (+28.9% YoY/ +18.9% QoQ, est Rs7.3b). This was led by couple of launches (at international platform) and brand spending for export markets. Key operating metrics such as EBITDA/vehicle increased further to Rs8.4k/unit (+16.8% YoY/ +4.5% QoQ). Going ahead, margin expansion to continue given soft RM and favorable mix. With iQube production run-rate ramped up to ~25k units/month and more launches planned (in 5-25kwh capacity, both in 2W and 3W segments), TVSL continues to focus on EV ramp-up. 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.

In our view, EBITDA margins expansion to continue given RM softening and price hikes. TVSL currently trades at 28.9x/25x of FY25/FY26 EPS (v/s HMCL/ BJAUT of 14.5-18x). We believe, it should continue to trade at a premium as we expect EPS CAGR of ~33% over FY23-25E. We believe sustained market share gains in domestic EV 2Ws 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 Rs1,838 as we continue to value co at 27x Mar-26 EPS plus Rs76 value to TVS credit. We upgrade FY25/FY26 EPS by 4-7% to factor in for better gross margins.

Result Highlights – In-line results, investments in subs continues

- Revenues grew 12.8% YoY and QoQ each at Rs81.4b (in-line) as ASP grew 7.9% YoY (flat QoQ) at Rs75.8k/unit (in-line) whereas volumes grew 4.6% YoY (+12.7% QoQ) at 1.07m units. TVS have taken moderate price hikes in 2Q while no price hikes have been taken so-far in 3QFY24.
- Gross margins came in-line better at 26% (+220bp YoY/ +60bp QoQ, est 25%). This was led by price hikes, favorable product mix and RM softening.
- EBITDA grew 22% YoY (+18% QoQ) at Rs8.99b (in-line, cons Rs6.5b) with margins at 11% (+80bp YoY/ +40bp QoQ, in-line, cons 10%). We think the performance is resilient given EV contribution remain highest (~58k units sold).
- Led by healthy operating performance and higher than expected other income at Rs462m (est Rs300m v/s Rs14m in 2QFY23), Adj.PAT came in at Rs5.4b (+31.7% YoY/ +14.7% QoQ).

Exhibit 1: Actual vs estimates

Rs m	Actual	Estimate		% variation		Remarks
		Yes Sec	Consensus	Yes Sec	Consensus	
Sales	81,446	82,572	81,669	(1.4)	(0.3)	TVSL's 2QFY24 results were in-line with our and street estimates operationally.
EBITDA	8,998	9,331	9,125	(3.6)	(1.4)	
EBITDA margins %	11.0	11.3	11.2	-30bp	-10bp	
Adjusted PAT	5,366	5,618	5,315	(4.5)	1.0	

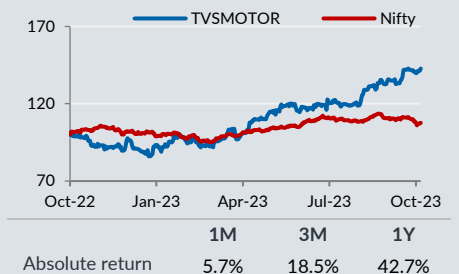
Source: Company, YES Sec

Reco	: ADD
CMP	: Rs 1,609
Target Price	: Rs 1,838
Potential Return	: +14%

Stock data (as on Oct 30, 2023)

Nifty	19,141
52 Week h/l (Rs)	1617 / 968
Market cap (Rs/USD mn)	756267 / 9084
Outstanding Shares (mn)	475
6m Avg t/o (Rs mn):	1,447
Div yield (%):	0.3
Bloomberg code:	TVSL IN
NSE code:	TVSMOTOR

Stock performance



Shareholding pattern (As of Sept'23)

Promoter	50.3%
FII+DII	41.6%
Others	8.1%

Δ in stance

(1-Yr)	New	Old
Rating	ADD	ADD
Target Price	1,838	1,741

Δ in earnings estimates

	FY24E	FY25E
EPS (New)	45.3	55.6
EPS (Old)	43.7	51.8
% change	3.6%	7.3%

Financial Summary

Y/E MARCH (Rs b)	2023	2024E	2025E
Sales	264	315	353
EBITDA	26.7	35.8	42.2
Adj. PAT	14.9	21.5	26.4
Adj. EPS (INR)	31.4	45.3	55.6
EPS Gr. (%)	62.8	44.2	22.8
BV/Sh. (INR)	127.3	168.6	220.2
RoE (%)	27.4	30.6	28.6
RoCE (%)	25.5	30.1	30.4
Payout (%)	15.9	8.8	7.2
P/E (x)	51.3	35.5	28.9
P/BV (x)	12.6	9.5	7.3
EV/EBITDA (x)	29.7	22.1	18.5
Div. Yield (%)	0.3	0.2	0.2

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Exhibit 2: Quarterly snapshot

Y/e Mar (Rs m)	Q2FY24	Q2FY23	YoY chg (%)	Q1FY24	H1FY24	H1FY23	YoY chg (%)
Net Revenues	81,446	72,192	12.8	72,179	153,625	132,279	16.1
Raw Materials	60,276	54,975	9.6	53,818	114,094	100,702	13.3
% of Net Sales	74.0%	76.2%		74.6%	74.3%	76.1%	
Personnel	3,929	3,456	13.7	3,789	7,718	6,665	15.8
% of Net Sales	4.8%	4.8%		5.2%	5.0%	5.0%	
Manufacturing & Other Exp	8,244	6,396	28.9	6,935	15,179	11,552	31.4
% of Net Sales	10.1%	8.9%		9.6%	9.9%	8.7%	
Total Expenditure	72,449	64,826	11.8	64,542	136,990	118,919	15.2
EBITDA	8,998	7,365	22.2	7,638	26,747	19,617	36.3
EBITDA Margin (%)	11.0%	10.2%		10.6%	17.4%	14.8%	
Depreciation	1,701	1,535	10.8	1,636	3,336	3,056	9.2
EBIT	7,297	5,830	25.2	6,002	13,299	10,304	29.1
Interest Expenses	523	352	48.6	474	997	728	37.0
Non-operating income	462	14		576	1,038	236	340.2
Extraordinary Income	-	-		-	-	-	
PBT	7,237	5,492	31.8	6,104	13,340	9,813	36.0
Tax-Total	1,871	1,418	32.0	1,427	3,298	2,533	30.2
Tax Rate (%) - Total	25.9%	25.8%		23.4%	24.7%	25.8%	
Reported PAT	5,366	4,075	31.7	4,677	10,042	7,280	37.9
Adj. PAT	5,366	4,075	31.7	4,677	10,042	7,280	37.9
PAT Margin	6.6%	5.6%		6.5%	6.5%	5.5%	
Key Operating Metrics							
Sales Volume (nos)	1,074,378	1,027,437	4.6	953,244	2,027,622	1,934,228	4.8
Net Realisation/Vehicle	75,808	70,264	7.9	75,719	75,766	68,388	10.8
Material cost / vehicle	56,103	53,507	4.9	56,458	56,270	52,063	8.1
Gross Profit / vehicle	19,705	16,757	17.6	19,262	19,496	16,325	19.4
Employee cost /vehicle	3,657	3,363	8.7	3,974	3,806	3,446	10.5
Other expenses / vehicle	7,673	6,225	23.3	7,275	7,486	5,972	25.3
EBITDA/vehicle	8,375	7,169	16.8	8,012	13,191	10,142	30.1
Net Profit/vehicle	4,994	3,966	25.9	4,906	4,953	3,764	31.6

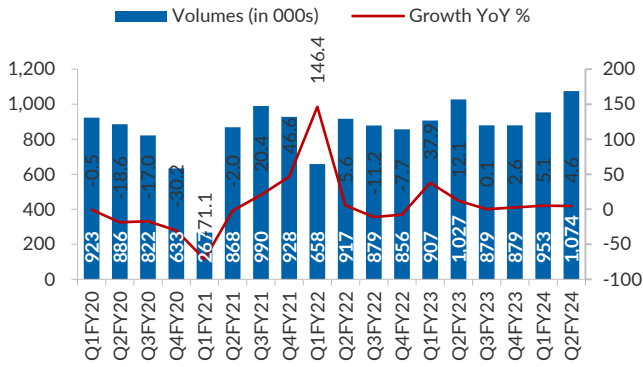
Source- Company, YES Sec

KEY CON-CALL HIGHLIGHTS

- **Demand** - Festive have started well and have grown ahead of the industry but sporadic monsoon have impacted sentiments. Expect better growth to come through from rural areas as well.
- **Exports** - Have done better than the industry and customer retails is improving. Stress in the African markets related to currency availability is gradually settling down and recovery will be more patience. TVS stock is aligned to retails.
- Gross margins expansion was led by moderate price increase, RM reduction and favorable product mix. Have not taken any price hike so-far in 3QFY24. Expect RM to remain soft in coming quarters.
- **Other expense** - Had couple of product launches last quarter as well as investments in digital and connected technologies. Will continue investment behind building brands in international market (both developed and developing markets).
- **TVS Credit performance as of 2QFY24** - Book size - Rs235b, PBT grew +39% YoY ~Rs1.8b (v/s Rs1.29b YoY).
- **EVs** - have sold ~58k units vs ~16k units sold YoY. iQube continues to improve sales and market positioning. Have ramped up iQube production to 25k unit per month with healthy 337 touch points and expanding the same.
 - Planning to launch series of products in 5-25kWh over next 1 year.
 - **TVS X** deliveries will start from 3QFY24. Expect India to be biggest market for TVS X.
 - **Exports** - iQube will be available in many markets including Europe. Expect, ASEAN and African markets will move towards EVs.
 - **EV profitability** - blended 11% EBITDA margins is after highest volumes from EVs.
- **EV 3W** - product is under development and confident about the product. As a co, TVS would want to strengthen its positing on domestic 3W segment.
- **Investment in subs** - Net Rs1b for TVSCS for 1HFY24, Rs2.35b in overseas subsidiary such as Norton and TVS digital services, Rs1.9b to SMEG. European EV bike business is under stress due to macro challenges.
- **Exports revenues** - Rs20.08b (v/s Rs16.65b in 1QFY24). USD/INR at Rs82.5 (v/s Rs82+ in 1QFY24).
- **Spares revenues** - Rs7.65b (v/s Rs7.17b in 1QFY24).
- Capex and investments targets for FY24 - Rs8-9b investments and Rs10b capex (majorly for EVs).
- Finished goods stock would be <4 weeks at end of festive period.

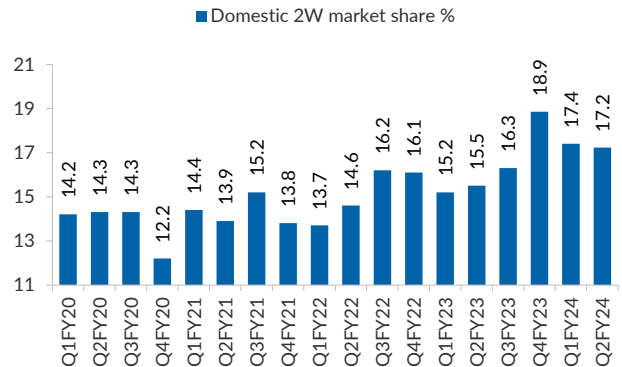
CHARTS

Exhibit 1: 2QFY24 volumes grew 12.7% QoQ



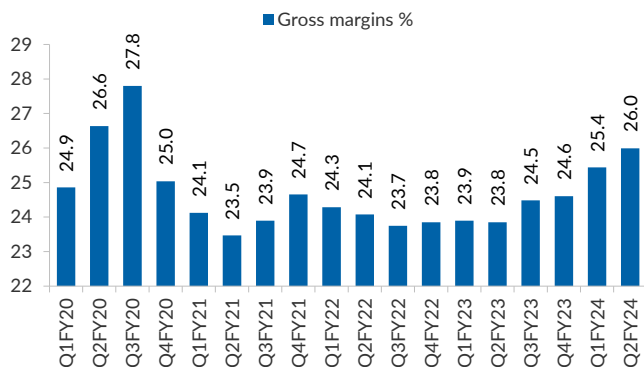
Source: Company, YES Sec

Exhibit 2: TVSL domestic 2W market share trend



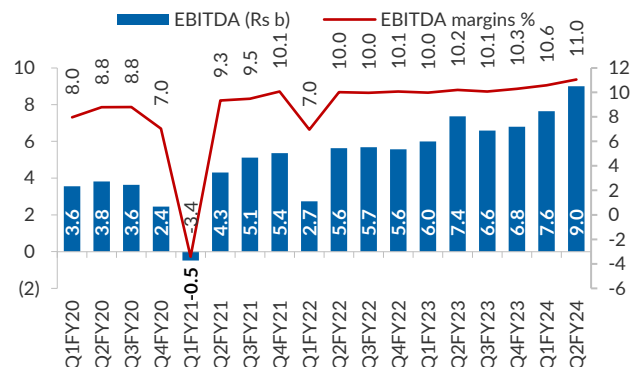
Source: SIAM, YES Sec

Exhibit 3: GM expanded 60bp QoQ at 26.0%



Source: Company, YES Sec

Exhibit 4: 9th consecutive quarter of over 11% margins



Source: Company, YES Sec

FINANCIALS

Exhibit 5: Balance Sheet

Y/E March	FY20	FY21	FY22	FY23	FY24E	FY25E	FY26E
Equity Share Capital	475	475	475	475	475	475	475
Total Reserves	35,706	41,234	47,745	60,003	79,610	104,120	133,227
Net Worth	36,181	41,710	48,220	60,479	80,085	104,595	133,702
Deferred Liabilities	1,581	1,954	1,979	1,982	1,982	1,982	1,982
Total Loans	25,224	17,169	25,906	33,354	30,104	26,854	23,604
Capital Employed	62,985	60,833	76,105	95,815	112,171	133,431	159,288
Gross Block	57,851	63,232	72,064	79,879	89,429	98,979	108,529
Less: Accum. Deprn.	28,851	33,128	38,998	43,920	50,777	58,361	66,713
Net Fixed Assets	28,999	30,104	33,066	35,959	38,652	40,618	41,816
Capital WIP	2,854	2,787	4,245	6,277	6,727	7,177	7,627
Total Investments	26,059	33,145	47,160	56,839	64,839	69,839	74,839
Curr. Assets, Loans&Adv.	35,699	35,939	34,007	40,790	65,099	81,343	108,298
Inventory	10,389	11,518	11,227	12,364	22,435	28,019	31,475
Account Receivables	12,814	8,700	9,507	9,551	21,572	26,087	29,304
Cash and Bank Balance	4,192	9,298	4,013	2,420	4,636	10,781	31,062
Loans and Advances	8,305	6,423	9,260	16,456	16,456	16,456	16,456
Curr. Liability & Prov.	30,626	41,141	42,372	44,050	63,145	65,546	73,292
Account Payables	28,864	39,216	39,914	41,306	60,401	62,801	70,548
Provisions	1,763	1,925	2,458	2,744	2,744	2,744	2,744
Net Current Assets	5,073	(5,202)	(8,366)	(3,260)	1,954	15,797	35,006
Appl. of Funds	62,985	60,833	76,105	95,815	112,171	133,431	159,288

Source: Company, YES Sec

Exhibit 6: Income statement

Y/E March	FY20	FY21	FY22	FY23	FY24E	FY25E	FY26E
Net Sales	164,233	167,505	207,905	263,781	314,948	352,654	396,152
Change (%)	(9.8)	2.0	24.1	26.9	19.4	12.0	12.3
EBITDA	13,459	14,286	19,618	26,747	35,800	42,202	48,596
Margin (%)	8.2	8.5	9.4	10.1	11.4	12.0	12.3
Depreciation	4,890	4,937	6,114	6,312	6,857	7,583	8,352
EBIT	8,568	9,349	13,503	20,435	28,943	34,619	40,244
Int. and Finance Charges	1,022	1,416	1,259	1,407	2,001	1,393	1,185
Other Income - Rec.	321	330	190	1,006	1,810	2,082	2,394
PBT bef. EO Exp.	7,867	8,262	12,434	20,034	28,753	35,308	41,453
EO Expense/(Income)	323	-	302	-	-	-	-
PBT after EO Exp.	7,544	8,262	12,132	20,034	28,753	35,308	41,453
Current Tax	2,339	2,034	3,000	5,037	7,246	8,898	10,446
Deferred Tax	(717)	108	196	87	-	-	-
Tax Rate (%)	21.5	25.9	26.3	25.6	25.2	25.2	25.2
Reported PAT	5,923	6,120	8,936	14,910	21,507	26,410	31,007
PAT Adj for EO items	6,176	6,120	9,158	14,910	21,507	26,410	31,007
Change (%)	(7.8)	(0.9)	49.6	62.8	44.2	22.8	17.4

Source: Company, YES Sec

Exhibit 7: Cash Flow Statement

Y/E March	FY20	FY21	FY22	FY23	FY24E	FY25E	FY26E
NP/ (Loss) bef Tax and EO	7,544	8,262	12,132	20,034	28,753	35,308	41,453
Depreciation	4,890	4,937	6,114	6,312	6,857	7,583	8,352
Interest & Finance Charges	1,022	1,416	1,259	1,407	2,001	1,393	1,185
Direct Taxes Paid	1,850	2,020	3,100	4,826	7,246	8,898	10,446
(Inc)/Dec in WC	2,619	13,335	(1,325)	(2,913)	(2,997)	(7,699)	1,073
CF from Operations	14,226	25,930	15,081	20,013	27,368	27,687	41,616
Others	11	(303)	(131)	(85)	(1,810)	(2,082)	(2,394)
CF from Operating incl EO	14,237	25,627	14,950	19,929	25,558	25,606	39,222
(inc)/dec in FA	(13,178)	(9,458)	(20,199)	(21,877)	(10,000)	(10,000)	(10,000)
Free Cash Flow	1,059	16,170	(5,249)	(1,949)	15,558	15,606	29,222
CF from Investments	(12,889)	(9,206)	(21,410)	(23,118)	(16,190)	(12,918)	(12,606)
(Inc)/Dec in Debt	5,888	(8,949)	4,825	6,576	(3,250)	(3,250)	(3,250)
Interest Paid	(1,003)	(1,129)	(1,231)	(1,371)	(2,001)	(1,393)	(1,185)
Dividend Paid	(2,000)	(998)	(1,904)	(2,918)	(1,900)	(1,900)	(1,900)
CF from Fin. Activity	2,705	(11,956)	1,132	2,245	(7,151)	(6,543)	(6,335)
Inc/Dec of Cash	4,053	4,465	(5,328)	(944)	2,217	6,144	20,281
Add: Beginning Balance	390	4,143	8,590	3,287	2,420	4,636	10,781
Closing Balance	4,444	8,608	3,262	2,344	4,636	10,781	31,062

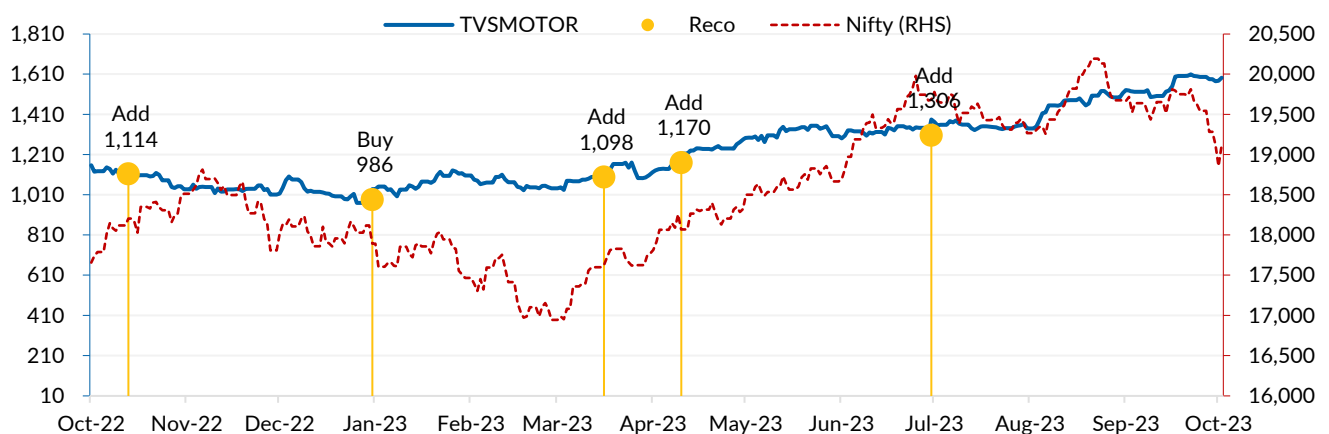
Source- Company, YES Sec

Exhibit 8: Growth and Ratio matrix

Y/E March	FY20	FY21	FY22	FY23	FY24E	FY25E	FY26E
Basic (INR)							
EPS	13.0	12.9	19.3	31.4	45.3	55.6	65.3
Growth (%)	(7.8)	(0.9)	49.6	62.8	44.2	22.8	17.4
Cash EPS	23.3	23.3	32.1	44.7	59.7	71.6	82.8
BV/Share	76.2	87.8	101.5	127.3	168.6	220.2	281.4
DPS	1.4	3.5	3.8	5.0	4.0	4.0	4.0
Payout (%)	13.5	27.2	19.9	15.9	8.8	7.2	6.1
Valuation (x)							
P/E	123.8	124.9	83.5	51.3	35.5	28.9	24.7
Cash P/E	69.1	69.1	50.1	36.0	27.0	22.5	19.4
P/BV	21.1	18.3	15.9	12.6	9.5	7.3	5.7
EV/Sales	4.8	4.6	3.8	3.0	2.5	2.2	1.9
EV/EBITDA	58.4	54.1	40.1	29.7	22.1	18.5	15.6
Dividend Yield (%)	0.1	0.2	0.2	0.3	0.2	0.2	0.2
Return Ratios (%)							
EBITDA Margins (%)	8.2	8.5	9.4	10.1	11.4	12.0	12.3
Net Profit Margins (%)	3.8	3.7	4.4	5.7	6.8	7.5	7.8
RoE	17.7	15.7	20.4	27.4	30.6	28.6	26.0
RoCE	15.8	16.1	20.6	25.5	30.1	30.4	29.5
RoIC	18.9	23.0	41.6	46.1	50.9	52.0	55.0
Operating Ratios							
Fixed Asset Turnover (x)	2.8	2.6	2.9	3.3	3.5	3.6	3.7
Inventory (Days)	23.1	25.1	19.7	17.1	26.0	29.0	29.0
Debtor (Days)	28.5	19.0	16.7	13.2	25.0	27.0	27.0
Creditor (Days)	64.1	85.5	70.1	57.2	70.0	65.0	65.0
Working Capital (Days)	2.0	(31.6)	(21.7)	(7.9)	(3.1)	5.2	3.6
Leverage Ratio (x)							
Current Ratio	1.2	0.9	0.8	0.9	1.0	1.2	1.5
Interest Cover Ratio	8.4	6.6	10.7	14.5	14.5	24.9	34.0
Debt/Equity	0.7	0.4	0.5	0.6	0.4	0.3	0.2

Source- Company, YES Sec

Recommendation Tracker



Source - YES Sec

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