

Steady show; credible EV strategy at play

In 2QFY24, TVS Motor (TVSL) reported EBITDA margin of 11% (+80bps YoY, +40bps QoQ), broadly in-line with JMFe led by cost reduction efforts, favourable mix and higher operating leverage. Domestic 2W demand is led by improving consumer sentiments (as indicated by festive demand) and expected rural recovery. Affordability and currency related challenges in the international markets have largely bottomed out. In relation to EVs, TVS plans to ramp-up EV business by introducing new products and expanding its footprint globally going ahead. Overall, we expect TVSL's outperformance to continue on the volume front (led by premiumization and EV product launches), while steady/softening RM prices, operating leverage and astute cost management would help on the margin front. We estimate revenue / EPS CAGR of 15%/28% over FY23-26E. We maintain BUY with a Mar'25 TP of INR1,650 (25x Mar'26E EPS). Prolonged slowdown in international market remains a key risk.

- 2QFY24 – Broadly in-line margin performance:** In 2QFY24, TVS Motor reported net sales of INR 81.5bn (+13% YoY & QoQ), c.1% below JMFe. Volumes increased 5% YoY (13% QoQ). Blended realisation increased 8%YoY / flattish QoQ. EBITDA margin stood at 11% (+80bps YoY, +40bps QoQ), broadly in-line with JMFe led by cost reduction initiatives (incl. material cost), favourable mix and higher operating leverage. Reported EBITDA stood at INR 9bn (+22%YoY, +18%QoQ). Adj. PAT for the quarter was INR 5.4bn (+32% YoY, +15% QoQ), 6% below JMFe. Other income includes gain on fair valuation of an investment of INR 375.5mn.
- Demand environment:** Domestic 2W retail sales are gradually improving and demand recovery was led by premium segment (125cc+) in the urban region. The company expects rural growth to recover on gradual revival in consumer sentiments led by rising income levels, strong govt spends on Infra partially offset by uneven spread of monsoon which may act as a dampner. In the near-term, festive demand remains healthy. Overall, the management expects TVSL to outperform the industry in both domestic and export segments led by its extensive product portfolio. In the international market, high inflation and currency depreciation has impacted the demand. Management, however, indicated that worst is over and it expects exports to gradually recover going ahead. Inventory in international market is optimum (20-30 days) and thus wholesale volume performance is expected to be in-line with retail demand.
- Margin outlook:** Benefit of cost reduction initiatives (incl. material cost), favourable mix, and higher operating leverage partially offset by higher marketing spends drove margin expansion during 2Q. The company indicated that it will continue to judiciously invest towards brand building / marketing going ahead. Commodity prices are expected to remain steady / soften during 3Q & 4Q. Overall, TVSL expects a) steady RM prices, b) cost-reduction initiatives, c) higher operating leverage (especially for EVs) to be additional levers for margin expansion going ahead.
- Update on EV initiatives:** The company plans ramp-up of iQube volumes to 25k units/month going ahead. Currently, TVS iQube is present across 337 touchpoints and the company plans to expand its presence to 600 touchpoints by FY24 end. It also plans to

Recommendation and Price Target

Current Reco.	BUY
Previous Reco.	BUY
Current Price Target (12M)	1,650
Upside/(Downside)	2.6%
Previous Price Target	1,400
Change	17.9%

Key Data – TVSL IN

Current Market Price	INR1,609
Market cap (bn)	INR764.3/US\$9.2
Free Float	48%
Shares in issue (mn)	475.0
Diluted share (mn)	475.0
3-mon avg daily val (mn)	INR1,562.3/US\$18.8
52-week range	1,617/968
Sensex/Nifty	64,113/19,141
INR/US\$	83.2

Price Performance

%	1M	6M	12M
Absolute	5.7	41.3	42.7
Relative*	8.5	34.7	35.2

* To the BSE Sensex

JM Financial Research is also available on:
Bloomberg - JMFR <GO>,
Thomson Publisher & Reuters,
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Please see Appendix I at the end of this report for Important Disclosures and Disclaimers and Research Analyst Certification.

Financial Summary					(INR mn)
Y/E March	FY22A	FY23A	FY24E	FY25E	FY26E
Net Sales	2,07,905	2,63,781	3,12,069	3,61,059	4,01,809
Sales Growth (%)	24.1	26.9	18.3	15.7	11.3
EBITDA	19,617	26,747	34,955	43,009	49,029
EBITDA Margin (%)	9.4	10.1	11.2	11.9	12.2
Adjusted Net Profit	9,237	14,910	20,687	26,623	30,959
Diluted EPS (INR)	19.4	31.4	43.6	56.0	65.2
Diluted EPS Growth (%)	50.9	61.3	38.7	28.7	16.3
ROIC (%)	72.9	68.3	78.3	103.8	123.9
ROE (%)	20.5	27.4	30.0	30.1	27.6
P/E (x)	82.7	51.3	36.9	28.7	24.7
P/B (x)	15.8	12.6	9.9	7.7	6.1
EV/EBITDA (x)	39.8	29.5	22.4	17.9	15.3
Dividend Yield (%)	0.3	0.3	0.5	0.6	0.6

Source: Company data, JM Financial. Note: Valuations as of 30/Oct/2023

export iQube to developed and developing nations during FY24. Recently launched TVS X has been received well amongst customers and the company plans multiple new launches (between 5-25kWh) and build a complete EV product portfolio over next 8 quarters. Launch of E3W is also expected in the near-term. TVSL's increasing focus on the EV segment through new launches as well as strategic tie-ups globally will help build scale in the EV portfolio. The company is closely working with Ministry of Heavy Industries on PLI scheme and is confident of qualifying for the same.

- **Investment, capex and subsidiary performance:** 1) Capex guidance for FY24 stands at INR ~10bn. The company also plans to invest INR 8-9bn in subsidiaries in FY24 (~INR 6.5bn invested during 1H). The management reiterated that all recent investments have been towards future mobility business and will yield returns over the coming years. These investments will also help the company to enter and expand in developed markets. 2) TVS Credit's book size as on Sept 30, 2023 stood at INR 235bn+; PBT came-in at INR 1.80bn vs. INR 1.57bn QoQ.

Exhibit 1. Quarterly financial results

	2QFY24	2QFY23	% YoY	1QFY24	% QoQ	2QFY24E	% A/E
Operating Matrices							
2W (Units)	1,031,372	976,926	5.6	918,482	12.3	1,031,372	0.0
3W (Units)	43,006	50,511	-14.9	34,762	23.7	43,006	0.0
Total Volumes (Units)	1,074,378	1,027,437	4.6	953,244	12.7	1,074,378	0.0
Domestic (Units)	797,356	729,319	9.3	725,830	9.9	797,356	0.0
Exports (Units)	277,022	298,118	-7.1	227,414	21.8	277,022	0.0
Average Realisation (Net, INR)	75,808	70,264	7.9	75,719	0.1	76,628	-1.1
Sales	81,446	72,192	12.8	72,179	12.8	82,328	-1.1
RM	60,276	54,975	9.6	53,818	12.0	61,581	-2.1
As a % of sales	74.0	76.2	-210bps	74.6	-60bps	74.8	-80bps
Employee Exp	3,929	3,456	13.7	3,789	3.7	4,116	-4.5
As a % of sales	4.8	4.8	0bps	5.2	-40bps	5.0	-20bps
Other Costs	8,244	6,396	28.9	6,935	18.9	7,409	11.3
As a % of sales	10.1	8.9	130bps	9.6	50bps	9.0	110bps
EBITDA	8,998	7,365	22.2	7,638	17.8	9,221	-2.4
EBITDA Margin (%)	11.0	10.2	80bps	10.6	40bps	11.2	-20bps
Other Income	462	14	3275.2	576	-19.7	600	-22.9
Interest	523	352	48.6	474	10.3	500	4.5
Depreciation	1,701	1,535	10.8	1,636	4.0	1,675	1.5
PBT	7,237	5,492	31.8	6,104	18.6	7,646	-5.4
Exceptional Item	0	0	NA	0	NA		NA
Tax	1,871	1,418	32.0	1,427	31.1	1,911	-2.1
Tax rate (%)	25.9	25.8	0bps	23.4	250bps	25.0	90bps
PAT (Reported)	5,366	4,075	31.7	4,677	14.7	5,734	-6.4
PAT (Adjusted)	5,366	4,075	31.7	4,677	14.7	5,734	-6.4
EPS (INR)	11.3	8.6	31.7	9.8	14.7	12.1	-6.4

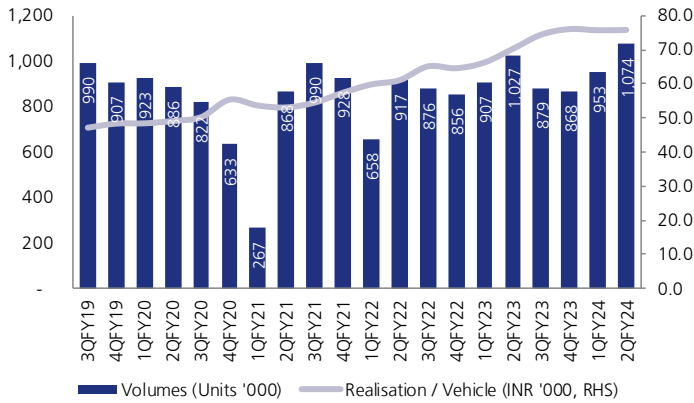
Source: Company, JM Financial

Exhibit 2. TVSL - change in assumptions (standalone)

TVSL	New assumption			Old assumption			% Change		
	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E
Revenue (INR mn)	312,069	361,059	401,809	305,409	354,456	396,461	2.2%	1.9%	1.3%
Volume (mn units)	4.1	4.6	5.0	4.0	4.5	4.9	2.6%	2.2%	1.6%
Growth (%)	12.4%	11.3%	7.9%	9.6%	11.7%	8.6%			
EBITDA (INR mn)	34,955	43,009	49,029	33,655	40,717	46,615	3.9%	5.6%	5.2%
EBITDA margin (%)	11.2%	11.9%	12.2%	11.0%	11.5%	11.8%	20bps	40bps	40bps
PAT (INR mn)	20,687	26,623	30,959	19,775	24,957	29,117	4.6%	6.7%	6.3%
EPS (INR)	43.6	56.0	65.2	41.6	52.5	61.3	4.6%	6.7%	6.3%

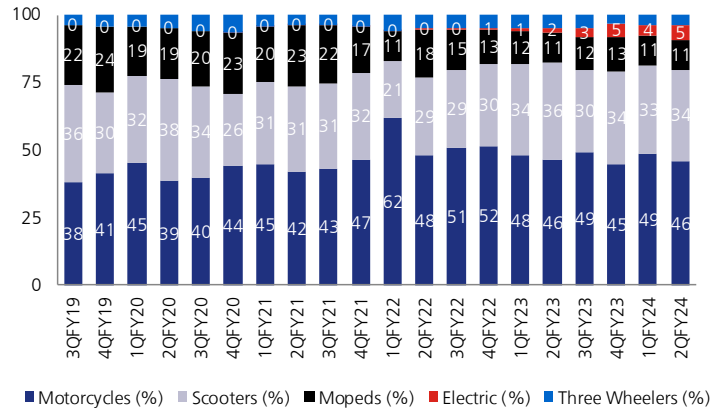
Source: Company, JM Financial

Exhibit 3. Quarterly volume and realisation



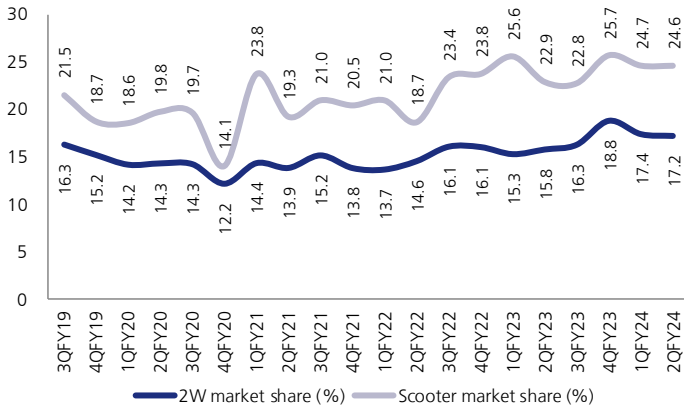
Source: Company, JM Financial

Exhibit 4. Volume mix trend



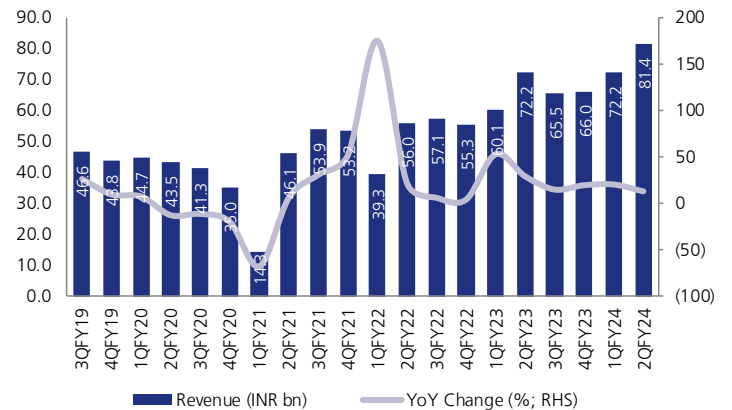
Source: Company, JM Financial

Exhibit 5. TVSL – market share trend



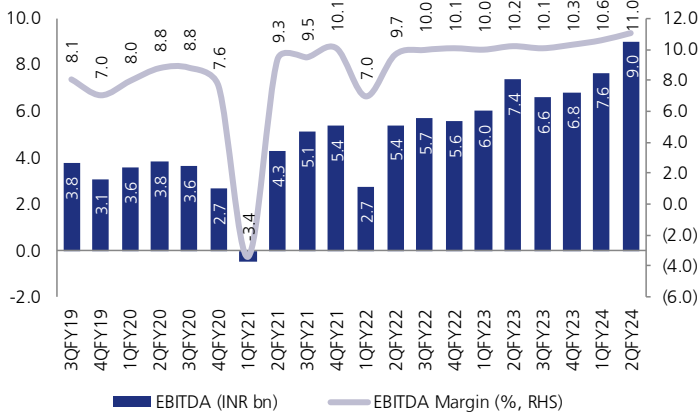
Source: Company, JM Financial

Exhibit 6. Revenue and growth trend



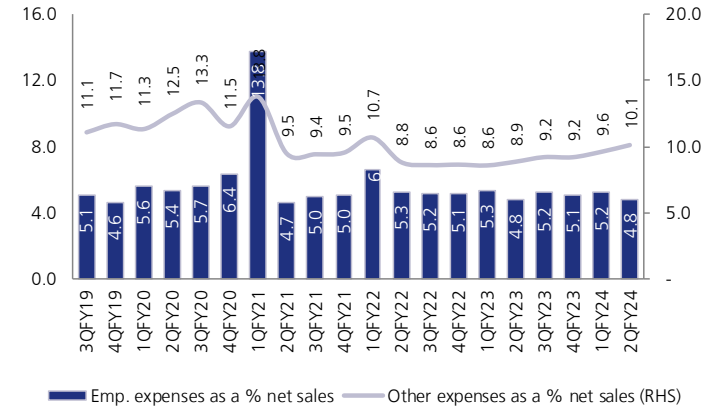
Source: Company, JM Financial

Exhibit 7. EBITDA and EBITDA margin



Source: Company, JM Financial

Exhibit 8. Cost trends



Source: Company, JM Financial

Financial Tables (Standalone)

Income Statement		(INR mn)				
Y/E March	FY22A	FY23A	FY24E	FY25E	FY26E	
Net Sales	2,07,905	2,63,781	3,12,069	3,61,059	4,01,809	
Sales Growth	24.1%	26.9%	18.3%	15.7%	11.3%	
Other Operating Income	0	0	0	0	0	
Total Revenue	2,07,905	2,63,781	3,12,069	3,61,059	4,01,809	
Cost of Goods Sold/Op. Exp	1,58,082	1,99,928	2,31,517	2,65,845	2,94,581	
Personnel Cost	11,364	13,451	15,200	17,023	19,066	
Other Expenses	18,842	23,655	30,398	35,182	39,132	
EBITDA	19,617	26,747	34,955	43,009	49,029	
EBITDA Margin	9.4%	10.1%	11.2%	11.9%	12.2%	
EBITDA Growth	37.3%	36.3%	30.7%	23.0%	14.0%	
Depn. & Amort.	6,114	6,312	6,759	7,434	8,169	
EBIT	13,503	20,435	28,196	35,575	40,861	
Other Income	-1,069	-401	-976	-545	-125	
Finance Cost	0	0	0	0	0	
PBT before Excep. & Forex	12,434	20,034	27,220	35,030	40,735	
Excep. & Forex Inc./Loss(-)	0	0	0	0	0	
PBT	12,434	20,034	27,220	35,030	40,735	
Taxes	3,197	5,123	6,533	8,407	9,776	
Extraordinary Inc./Loss(-)	0	0	0	0	0	
Assoc. Profit/Min. Int.(-)	0	0	0	0	0	
Reported Net Profit	9,237	14,910	20,687	26,623	30,959	
Adjusted Net Profit	9,237	14,910	20,687	26,623	30,959	
Net Margin	4.4%	5.7%	6.6%	7.4%	7.7%	
Diluted Share Cap. (mn)	475.0	475.0	475.0	475.0	475.0	
Diluted EPS (INR)	19.4	31.4	43.6	56.0	65.2	
Diluted EPS Growth	50.9%	61.3%	38.7%	28.7%	16.3%	
Total Dividend + Tax	2,138	2,375	3,800	4,750	4,750	
Dividend Per Share (INR)	4.5	5.0	8.0	10.0	10.0	

Source: Company, JM Financial

Balance Sheet		(INR mn)				
Y/E March	FY22A	FY23A	FY24E	FY25E	FY26E	
Shareholders' Fund	48,220	60,478	77,366	99,238	1,25,447	
Share Capital	475	475	475	475	475	
Reserves & Surplus	47,745	60,003	76,891	98,763	1,24,972	
Preference Share Capital	0	0	0	0	0	
Minority Interest	0	0	0	0	0	
Total Loans	19,627	26,634	26,634	21,634	19,134	
Def. Tax Liab. / Assets (-)	1,979	1,982	1,982	1,982	1,982	
Total - Equity & Liab.	69,826	89,094	1,05,981	1,22,854	1,46,563	
Net Fixed Assets	37,311	42,236	44,985	47,122	49,052	
Gross Fixed Assets	72,309	81,514	91,791	1,01,299	1,10,870	
Intangible Assets	0	0	0	0	0	
Less: Depn. & Amort.	39,243	45,555	52,314	59,748	67,917	
Capital WIP	4,245	6,277	5,507	5,571	6,098	
Investments	47,160	56,839	67,839	77,839	87,839	
Current Assets	34,007	40,849	59,071	73,421	93,429	
Inventories	11,227	12,363	17,100	19,784	22,017	
Sundry Debtors	9,507	9,551	14,535	15,827	17,614	
Cash & Bank Balances	4,013	2,420	9,270	17,826	31,816	
Loans & Advances	9,260	16,515	18,167	19,983	21,982	
Other Current Assets	0	0	0	0	0	
Current Liab. & Prov.	48,651	50,830	65,913	75,527	83,756	
Current Liabilities	39,914	41,306	55,574	64,298	71,555	
Provisions & Others	8,737	9,524	10,339	11,229	12,201	
Net Current Assets	-14,645	-9,981	-6,842	-2,107	9,673	
Total - Assets	69,826	89,094	1,05,981	1,22,854	1,46,563	

Source: Company, JM Financial

Cash Flow Statement		(INR mn)				
Y/E March	FY22A	FY23A	FY24E	FY25E	FY26E	
Profit before Tax	12,434	20,034	27,220	35,030	40,735	
Depn. & Amort.	6,114	6,312	6,759	7,434	8,169	
Net Interest Exp. / Inc. (-)	0	0	0	0	0	
Inc (-) / Dec in WCcap.	-1,422	-6,257	3,712	3,821	2,211	
Others	0	0	0	0	0	
Taxes Paid	-3,197	-5,123	-6,533	-8,407	-9,776	
Operating Cash Flow	13,930	14,966	31,158	37,877	41,338	
Capex	-10,536	-11,238	-9,507	-9,571	-10,098	
Free Cash Flow	3,394	3,728	21,651	28,306	31,240	
Inc (-) / Dec in Investments	-14,015	-9,679	-11,000	-10,000	-10,000	
Others	0	0	0	0	0	
Investing Cash Flow	-24,550	-20,916	-20,507	-19,571	-20,098	
Inc / Dec (-) in Capital	0	0	0	0	0	
Dividend + Tax thereon	-2,138	-2,375	-3,800	-4,750	-4,750	
Inc / Dec (-) in Loans	8,037	7,006	0	-5,000	-2,500	
Others	-589	-277	0	0	0	
Financing Cash Flow	5,311	4,354	-3,800	-9,750	-7,250	
Inc / Dec (-) in Cash	-5,310	-1,596	6,851	8,556	13,990	
Opening Cash Balance	9,298	4,013	2,420	9,270	17,826	
Closing Cash Balance	3,988	2,417	9,270	17,826	31,816	

Source: Company, JM Financial

Dupont Analysis		FY22A	FY23A	FY24E	FY25E	FY26E
Y/E March						
Net Margin		4.4%	5.7%	6.6%	7.4%	7.7%
Asset Turnover (x)		3.3	3.3	3.2	3.2	3.0
Leverage Factor (x)		1.4	1.5	1.4	1.3	1.2
RoE		20.5%	27.4%	30.0%	30.1%	27.6%

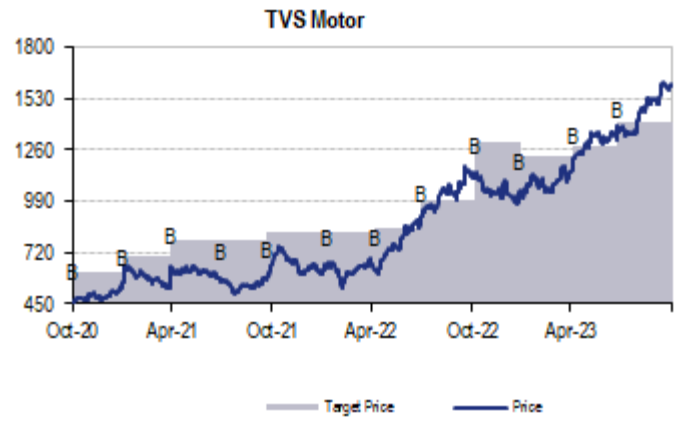
Key Ratios		FY22A	FY23A	FY24E	FY25E	FY26E
Y/E March						
BV/Share (INR)		101.5	127.3	162.9	208.9	264.1
ROIC		72.9%	68.3%	78.3%	103.8%	123.9%
ROE		20.5%	27.4%	30.0%	30.1%	27.6%
Net Debt/Equity (x)		0.3	0.4	0.2	0.0	-0.1
P/E (x)		82.7	51.3	36.9	28.7	24.7
P/B (x)		15.8	12.6	9.9	7.7	6.1
EV/EBITDA (x)		39.8	29.5	22.4	17.9	15.3
EV/Sales (x)		3.8	3.0	2.5	2.1	1.9
Debtor days		17	13	17	16	16
Inventory days		20	17	20	20	20
Creditor days		77	64	73	74	74

Source: Company, JM Financial

History of Recommendation and Target Price

Date	Recommendation	Target Price	% Chg.
4-Feb-20	Hold	490	
13-Apr-20	Hold	325	-33.7
28-May-20	Hold	360	10.8
30-Jul-20	Hold	395	9.7
24-Aug-20	Buy	560	41.8
30-Oct-20	Buy	615	9.8
28-Jan-21	Buy	700	13.8
28-Apr-21	Buy	780	11.4
29-Jul-21	Buy	780	0.0
21-Oct-21	Buy	825	5.8
7-Feb-22	Buy	825	0.0
5-May-22	Buy	850	3.0
28-Jul-22	Buy	1,000	17.6
6-Nov-22	Buy	1,300	30.0
25-Jan-23	Buy	1,225	-5.8
4-May-23	Buy	1,275	4.1
24-Jul-23	Buy	1,400	9.8

Recommendation History



APPENDIX I

JM Financial Institutional Securities Limited

Corporate Identity Number: U67100MH2017PLC296081

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Rating	Meaning
Buy	Total expected returns of more than 10% for stocks with market capitalisation in excess of INR 200 billion and REITs* and more than 15% for all other stocks, over the next twelve months. Total expected return includes dividend yields.
Hold	Price expected to move in the range of 10% downside to 10% upside from the current market price for stocks with market capitalisation in excess of INR 200 billion and REITs* and in the range of 10% downside to 15% upside from the current market price for all other stocks, over the next twelve months.
Sell	Price expected to move downwards by more than 10% from the current market price over the next twelve months.

* REITs refers to Real Estate Investment Trusts.

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