

# TVS Motors

Refer to important disclosures at the end of this report

## Increasing focus on EVs with plans to launch six vehicles in next two years

<b>CMP</b>	<b>Target Price</b>
<b>Rs 610</b> as of (July 15, 2021)	<b>Rs 730 (■)</b> 12 months
<b>Rating</b>	<b>Upside</b>
<b>BUY (■)</b>	<b>19.7%</b>

- TVSL management has highlighted the company's increased focus on electric vehicles (EVs) with a strong product pipeline and a Rs10bn investment plan over the next two years ([management interview](#)). EV launches are targeted at segments such as premium scooters, high-performance sporty motorcycles, commuter space, delivery market and three-wheelers.
- Creon* electric scooter is expected to be launched by Mar'22. The model is likely to have advanced connectivity features, multiple driving modes, regenerative braking, parking assistant, anti-theft security, GPS navigation and geo-fencing.
- TVSL has set up a dedicated facility for EVs, which is scalable. It is also developing an integrated vehicle architecture with a critical backend manufacturing of battery and other critical parts managed in house. Management expects significant growth in EVs over the next 3-5 years, which provides a case for investments of Rs10bn.
- It is eyeing partnerships to create an ecosystem of public charging infrastructure. It is in talks with several private and public distribution companies to install fast-charging infrastructure.
- Expects positive gross margin for iQube by FY22-end:** TVSL currently sells its iQube electric scooter in cities such as Bengaluru, Chennai, Coimbatore, Delhi and Pune. The company is expanding its distribution and is planning to make the model available across 1,000 dealerships in major towns and cities by Mar'22. Led by higher scale, management expects positive gross margin by the end of FY22.
- Reducing total cost of ownership (TCO) gap for 2Ws:** TCO indicates acquisition and running costs till the vehicle is disposed of, calculated on per km basis. Supported by the recent increase in FAME-II incentives and state government subsidies, the TCO gap between ICEs and EVs for monthly usage of 500kms has narrowed notably in several states, and our calculations indicate that TCO is almost similar in Maharashtra, including the early bird incentives. At higher monthly usage, TCO for EVs would be favorable, which should attract customers from the commercial segment.
- EV penetration to increase over the medium term:** E-2W volumes stood at 143,837 units in FY21, representing penetration levels below 1%. However, this could improve to 5-10% over the medium term with falling EV prices due to the reduction in battery costs, localization efforts and scale benefits. Large listed OEMs (Hero MotoCorp, TVS Motors and Bajaj Auto) are positioning themselves to benefit from the anticipated EV adoption. However, considering competition from other OEMs (Hero Electric, Ola Electric, Okinawa, Ampere, etc.), we expect some pressure on market share and margin in the medium term.
- Reaffirm Buy on TVSL with TP of Rs730:** Domestic 2W volume outlook is positive and premium motorcycles/scooters could outperform going ahead. In addition, the export outlook is encouraging across most markets on higher commodity prices and better forex availability for importers. We expect a volume CAGR of 14% over FY21-24E. We build in robust revenue/earnings CAGRs of 17%/39% over FY21-24E. We recommend Buy with a TP of Rs730, based on 25x FY23E EPS and value of TVS Credit Services at Rs25/share.

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**Exhibit 1: Total Cost of Ownership for ICEs and EVs are almost similar in Maharashtra state, including early bird incentives**

Total Cost of Ownership	Monthly usage (kms)		
	300	500	700
ICE (Rs/km)	8.3	6.1	5.1
E-2W at Normal incentives (Rs/km)	11.0	6.7	4.9
E-2W including Early bird incentives (Rs/km)	9.9	6.1	4.4

Source: FAME, Ather, Bikedekho, Emkay Research; Note: TCO calculation includes purchase cost, fuel cost, interest expenses and maintenance charges. Resale value at the end of 5 years is also part of calculation. ICE model is Honda Activa, while EV model is Ather 450 Plus.

**Exhibit 2: Strong launch pipeline across OEMs**

OEM	Segment	New products expected
TVS Motor	2W/3W	6 new products targeted at segments such as premium scooters, high-performance sporty motorcycles, commuter space, delivery market and 3Ws
Hero Motorcorp	2W	One new scooter in FY22. Another product expected in tie-up with Gogoro, Taiwan
Hero Electric	2W	Few products under AXLHE/AE platform by 2022
Okinawa Autotech	2W	Oki100 by 2021, Crusier by FY23
Ampere Electric	2W	Has partnered with eBikeGo for launch of performance scooters
Ather energy	2W	Company plans to bring more variants of Ather 450 product line over the next year and a new product within the next two years
Ola Electric	2W	Scooter in Aug'21
Suzuki	2W	Burgman Electric scooter in FY22
Tork Motors	2W	T6X motorcycle
Ultraviolette (TVSL associate)	2W	Motorcycle by mid FY22
Yamaha	2W	Scooter
Honda	2W	Benly-e scooter
Simple Energy	2W	Simple one scooter in FY22
Emflux Motors	2W	Super bike in FY22
Husqvarna	2W	E-Pilen electric bike in March 2022
Bajaj Auto	2W/3W	E-3W launch by Dec'21

Source: Industry, Media reports, Emkay Research

## Emkay Rating Distribution

Ratings	Expected Return within the next 12-18 months.
BUY	Over 15%
HOLD	Between -5% to 15%
SELL	Below -5%

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