Sharekhan by BNP PARIBAS

Powered by the Sharekhan 3R Research Philosophy

TVS Motor Company Ltd

Expecting revival in exports

Automobiles	Sharekhan code: TVSMOTOR

Reco/View: Buy	↔	CMP: Rs. 1,533	Price Target: Rs. 1,769	↑

↑ Upgrade ↔ Maintain ↓ Downgrade

3R MATRIX	+	=	-
Right Sector (RS)	✓		
Right Quality (RQ)	✓		
Right Valuation (RV)		✓	

+ Positive = Neutral – Negative

What has changed in 3R MATRIX

	Old		New
RS		↔	
RQ		↔	
RV		↔	

ESG Disclosure Score NEW

ESG RISK RATING 13.67
Updated Aug 08, 2023

Low Risk

NEGL	LOW	MED	HIGH	SEVERE
0-10	10-20	20-30	30-40	40+

Source: Morningstar

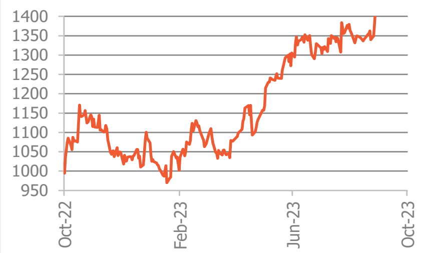
Company details

Market cap:	Rs. 72,831 cr
52-week high/low:	Rs. 1,546/ 968
NSE volume: (No of shares)	14.2 lakh
BSE code:	532343
NSE code:	TVSMOTOR
Free float: (No of shares)	23.6 cr

Shareholding (%)

Promoters	50.3
FII	18.1
DII	23.4
Others	8.2

Price chart



Price performance

Price performance
(%) 1m 3m 6m 12m

(%)	1m	3m	6m	12m
Absolute	8.3	15.6	45.3	49.5
Relative to Sensex	7.6	14.4	32.8	34.9

Sharekhan Research, Bloomberg

Summary

- Export volumes recovered to above 1 lakh units in September 2023, first time after July 2022.
- TVSM is targeting a ramp-up of EV production and plans to expand EV portfolio in coming months.
- We maintain our BUY rating on TVS Motor (TVSM) with revised PT of Rs 1769 in expectation of gradual revival in export volumes, successful launches in EV space and sustenance of high EBITDA margins.
- The stock trades at a P/E multiple of 23.8xand EV/EBITDA multiple of 13.2x its FY2026E estimates.

We reiterate a BUY on TVSM as it has been registering improvement in export volumes and consistently focussing on improvement in EBITDA Margin. In Sep 2023, TVSM has reported export volumes at 100,294, which was 14.6% up on m-o-m basis and this was the first time when TVSM has reported monthly export volumes above 1 lakh units after July 2023. In FY24, its export volume run rate stands at 84,073 units against 89,005 units. The management is indicating for a early signs of a revival in export markets, which believe would help TVSM in registering improvement in volume traction in coming months on assuming a sustainable demand recovery in its export markets. The company has been continuing to maintain traction in domestic markets as it has registered 17.2% increase in domestic volumes in 6MYtd FY24. TVSM continues to target to grow ahead of domestic industry backed by its product launches and diversified product portfolio. We expect a healthy festive season this year and believe that TVSM would be able to see healthy traction in volumes during the festive season backed by its product portfolio. The management largely assumes a favourable raw material cost trend and believes that improvement in volumes would result in EBITDA margin expansion on operating leverage benefit and gross margin expansion. The company is continuously looking to expand its EV portfolio and targeting to launch EVs in export markets in FY24. Further, the company is aiming to launch electric three wheelers in near term.

- **Early sign of revival in exports:** Despite high base TVSM continue to maintain traction in volumes supported by new launches and offering of better value proposition. On 6mytd basis it reported 4.8% growth in total volumes led by 6.1% increase in two-wheeler sales as its three-wheeler sales has yet to recover. Three-wheeler sales declined by 20.4% on 6Mytd basis. Given the muted macros in overseas markets, TVSM has been facing headwinds in export volume growth, However its export volume performance in Sep 2023 has surprised positively. In September 2023 TVSM's export volumes bounce backed strongly, and it dispatched more than 1 lakh units in oversseas markets in Sep 2023 first time after July 2022. Further the management has indicated for a revival in retail volumes in overseas markets, which we believe would reflect in its dispatches in coming months. We expect a gradual recovery in export volumes would augur well for its overall volume growth performance in the medium term.
- **EVs: opportune time for legacy players:** With cut down in FAME subsidy the electric two-wheeler players have been facing challenges to sustain volume growth. However, we believe that the subsidies must cut down at some point as it is not possible for any government to keep supporting any industry via subsidies. In light of that, we believe the legacy players would gain market share on the back of their financial muscles and capacity to absorb losses in intermittent period. Amongst the legacy players TVSM has successfully established its electric product (I – Qube) in the market. In 6MYTD, TVSM has dispatched 96,190 units (96,654 units in FY23), which reflects a healthy customer response to its deliveries. Further the company has also recently introduced its second electric scooter – TVS -X with a price tag of Rs 2.50 lakh and indicated its aspirations to cater to super premium markets. TVSM started exporting iQube to Nepal and plans to expand to other markets in FY24. It is expected to launch electric 3 wheelers in the coming quarters. For EV business, TVSM has been looking for 600 touch points by the end of FY24 from over 300 touch points currently.
- **Focus on margins:** Despite building up its EV portfolio, TVSM has been maintain its EBITDA margin around ~ 10% range, given EV business is assumed to be margins dragging initially. TVSM has been reporting EBITDA margin in the range of ~10% for last eight quarters. Going forward the management has been making efforts to improve EBITDA margins further via a better product mix, price hikes and focus on premiumization along with in house cost control efforts. Beyond its core business, the company has invested around Rs 1,200 crore in FY22 and FY23 in businesses through TVS Motor (Singapore) Pte Ltd, which we believe would support TVSM in diversifying its revenue streams in the medium to long term and open up doors to play in multiple geographies. Recently TVSM has raised ~ Rs 100 crore by divesting its stake partially in TVS Credit.

Our Call

Valuation – Maintain Buy with revised PT of Rs 1769: The company is aiming to expand its product portfolio in EV space in both domestic and international markets. With a hope of gradual improvement in volumes the company is looking to sustain high EBITDA margins as it is looking for recovery in many of its overseas market in H2FY24. Despite challenges in export markets, production constraints in EV space, absorption of rise in cost due to cut down in FAME subsidy, TVSM is hoping for further expansion in EBITDA margin in coming period on gradual recovery in volumes. TVSM has been playing multiple products in numerous segment approach to build a sustainable business model, which we believe helps company to capture growth coming in various subsegments at different point of time. Ronin has been well accepted in the market and the company continue to aim to expand its penetration in premium segment. Going forward TVSM aims to expand its EV product portfolio in domestic as well as in overseas market. The company continue to emerge as the key beneficiary of the rising premiumisation in the domestic motorcycle segment. With introduction of estimates for FY26E, we maintain our BUY rating on the stock with a revised PT of Rs. 1769 in expectation of a gradual revival in export volumes, successful launches in EV space and sustenance of high level of EBITDA margins.

Key Risks

Geopolitical tensions can affect commodity prices and supply constraints. Rising raw-material prices may pose a threat to profitability if commodity prices continue to rise for a longer period. Continued headwinds in export market may impact its performance.

Valuation (Standalone) Rs cr

Particulars	FY21	FY22	FY23	FY24E	FY25E	FY26E
Net sales	16,751	20,791	26,378	29,762	34,313	39,413
Growth (%)	2.0	24.1	26.9	12.8	15.3	14.9
EBIDTA	1,429	1,962	2,675	3,274	3,946	4,927
OPM (%)	8.5	9.4	10.1	11.0	11.5	12.5
PAT	611	923	1,429	1,845	2,347	3,056
Growth (%)	-2.0	51.0	54.8	29.2	27.2	30.2
FD EPS (Rs)	12.9	19.4	30.1	38.8	49.4	64.3
P/E (x)	119.1	78.9	51.0	39.5	31.0	23.8
P/BV (x)	17.5	15.1	12.0	9.6	7.6	6.2
EV/EBITDA (x)	48.0	34.8	25.5	20.6	16.7	13.2
RoE (%)	14.7	19.1	23.6	24.3	24.6	25.9
RoCE (%)	13.6	15.7	18.7	20.1	21.2	22.9

Source: Company Data; Sharekhan estimates

Outlook and Valuation

■ Sector Outlook – Sales volumes likely to improve

We expect growth momentum to recover in FY2024E, driven by improvement in rural sentiments in the domestic market. The government's expenditure on infrastructure segment and increased preference for personal transport are expected to improve volumes. With rise in ownership cost due to price hikes and implementation of new regulations the entry level segment is facing headwinds, however the premium segment is continuously performing. While export volumes have been muted but reaching to bottom. The export volumes are expected to improve gradually in coming months. A positive recovery in African markets would augur well for the two-wheeler exports from India.

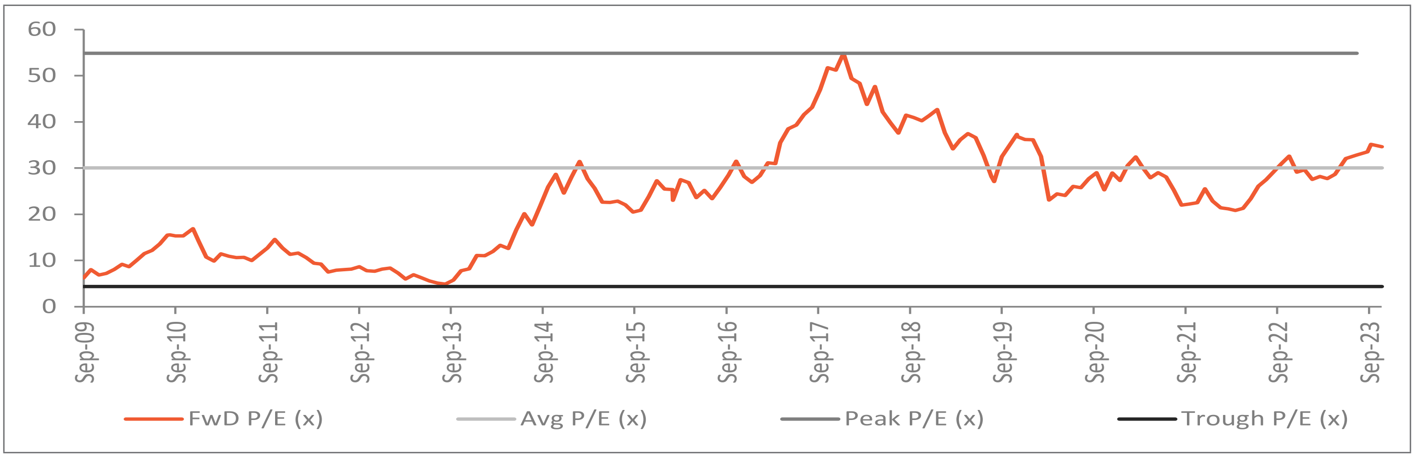
■ Company Outlook – Poised to be in top gear in two-wheeler space

TVSM has gained market share in the two-wheeler industry, with the number rising from 11.8% in FY2014 to about 16.4% in FY2023, driven by successful new launches and a widening distribution network. Moreover, the company has been able to strengthen its presence in the high realisation scooters and motorcycles category. Cost-control measures, better vendor negotiations and operating leverage benefits due to better scale have resulted in TVSM emerging as the two-wheeler maker to post the fastest earnings growth among peers. TVSM is expected to remain the fastest-growing company in the two-wheeler segment going ahead, given its aggressive product launches, foray into new markets, and investments in newer and cleaner technologies.

■ Valuation – Maintain Buy with revised PT of Rs 1769

The company is aiming to expand its product portfolio in EV space in both domestic and international markets. With a hope of gradual improvement in volumes the company is looking to sustain high EBITDA margins as it is looking for recovery in many of its overseas market in H2FY24. Despite challenges in export markets, production constraints in EV space, absorption of rise in cost due to cut down in FAME subsidy, TVSM is hoping for further expansion in EBITDA margin in coming period on gradual recovery in volumes. TVSM has been playing multiple products in numerous segment approach to build a sustainable business model, which we believe helps company to capture growth coming in various subsegments at different point of time. Ronin has been well accepted in the market and the company continue to aim to expand its penetration in premium segment. Going forward TVSM aims to expand its EV product portfolio in domestic as well as in overseas market. The company continue to emerge as the key beneficiary of the rising premiumisation in the domestic motorcycle segment. With introduction of estimates for FY26E, we maintain our BUY rating on the stock with a revised PT of Rs. 1769 in expectation of a gradual revival in export volumes, successful launches in EV space and sustenance of high level of EBITDA margins.

One-year forward P/E (x) band



Source: Sharekhan Research

Change in estimates Rs cr

Particulars	Earlier		New		% change		Introduction
	FY24E	FY25E	FY24E	FY25E	FY24E	FY25E	FY26E
Volumes	3954482	4364298	3954482	4364298	0.0%	0.0%	4759298
Revenue	29,762	34,313	29,762	34,313	0.0%	0.0%	39,413
EBITDA	3,274	3,946	3,274	3,946	0.0%	0.0%	4,927
EBITDA margin	11.0%	11.5%	11.0%	11.5%			12.5%
PAT	1,845	2,347	1,845	2,347	0.0%	0.0%	3,056
EPS	38.8	49.4	38.8	49.4	0.0%	0.0%	64.3

Source: Company; Sharekhan Research

About the company

TVSM is the flagship company of TVS Group and is the third largest two-wheeler manufacturer in the country. TVSM is the only manufacturer present across all three categories of two-wheeler, viz. motorcycles, scooters, and mopeds. TVSM also manufactures Three-wheelers mainly for the export market. TVSM has been focusing on growing exports with the overseas market.

Investment theme

TVSM is one of the leading manufacturers in the two-wheeler industry, with products ranging from moped, scooters to motorcycles. The company has a capability to roll out new products and facelifts at regular intervals. Lately, the company has been focussing on technology platforms by investing in the company and start-ups. TVSM is expected to continue outpacing the industry, driven by new product launches and enhancing distribution network. Margin improvement is expected to sustain given cost-control initiatives and benefits of operating leverage. TVSM is expected to remain the fastest-growing company among 2Ws, given its focus on exports, scooters, and bikes. We expect export volumes to recover in medium term.

Key Risks

- Geopolitical tensions globally can impact adversely to commodity prices and supply constraints.
- Rising input prices may affect margins if rising commodity costs are not passed on to customers. In a scenario of price competition, TVSM may not be in an advantageous position due to lower margins among peers.

Additional Data

Key management personnel

Mr. Ralf Dieter Speth	Chairman
Mr. Venu Srinivasan	Managing Director
Mr K Gopala Desikan	Chief Financial Officer
Mr K N Radhakrishnan	CEO

Source: Company

Top 10 shareholders

Sr. No.	Holder Name	Holding (%)
1	Sundaram-Clayton Ltd	50.3
2	ICICI Prudential Asset Management Co Ltd	8.5
3	Life Insurance Corp of India	2.9
4	SBI Funds Management Ltd	2.9
5	BlackRock Inc	1.7
6	Vanguard Group Inc/The	1.6
7	Jwalamukhi Investment Holdings	1.6
8	Axis Asset Management Co Ltd/India	1.5
9	Westbridge AIF I	1.4
10	Tree Line Asia Master Fund	1.4

Source: Bloomberg

Understanding the Sharekhan 3R Matrix

Right Sector	
Positive	Strong industry fundamentals (favorable demand-supply scenario, consistent industry growth), increasing investments, higher entry barrier, and favorable government policies
Neutral	Stagnancy in the industry growth due to macro factors and lower incremental investments by Government/private companies
Negative	Unable to recover from low in the stable economic environment, adverse government policies affecting the business fundamentals and global challenges (currency headwinds and unfavorable policies implemented by global industrial institutions) and any significant increase in commodity prices affecting profitability.
Right Quality	
Positive	Sector leader, Strong management bandwidth, Strong financial track-record, Healthy Balance sheet/cash flows, differentiated product/service portfolio and Good corporate governance.
Neutral	Macro slowdown affecting near term growth profile, Untoward events such as natural calamities resulting in near term uncertainty, Company specific events such as factory shutdown, lack of positive triggers/events in near term, raw material price movement turning unfavourable
Negative	Weakening growth trend led by led by external/internal factors, reshuffling of key management personal, questionable corporate governance, high commodity prices/ weak realisation environment resulting in margin pressure and detoriating balance sheet
Right Valuation	
Positive	Strong earnings growth expectation and improving return ratios but valuations are trading at discount to industry leaders/historical average multiples, Expansion in valuation multiple due to expected outperformance amongst its peers and Industry up-cycle with conducive business environment.
Neutral	Trading at par to historical valuations and having limited scope of expansion in valuation multiples.
Negative	Trading at premium valuations but earnings outlook are weak; Emergence of roadblocks such as corporate governance issue, adverse government policies and bleak global macro environment etc warranting for lower than historical valuation multiple.

Source: Sharekhan Research

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by BNP PARIBAS

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