Sharekhan by BNP PARIBAS

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Stock Update

Result Update

TVS Motor Company Ltd

Sustaining high margins

Automobiles	Sharekhan code: TVSMOTOR
Reco/View: Buy ↔	CMP: Rs. 2,565
	Price Target: Rs. 2,839 ↔

↑ 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		↔	

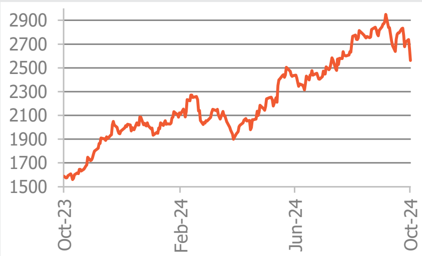
Company details

Market cap:	Rs. 1,21,860 cr
52-week high/low:	Rs. 2,958/ 1,548
NSE volume: (No of shares)	10.4 lakh
BSE code:	532343
NSE code:	TVSMOTOR
Free float: (No of shares)	23.6 cr

Shareholding (%)

Promoters	50.3
FII	22.3
DII	19.0
Others	8.4

Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	-9.0	3.7	28.1	60.1
Relative to Sensex	-4.1	3.7	19.1	38.7

Sharekhan Research, Bloomberg

Summary

- Reported APAT at Rs 663 crore (up 23.5% y-o-y) as against the estimate of Rs 655 crore on 70 bps y-o-y expansion in EBITDA margin to 11.7%.
- This was the consecutive fifth quarter when TVSM has reported EBITDA margins of above 11%.
- We maintain a Buy on the stock with an unchanged PT of Rs 2839 eyeing a gradual revival in export volumes, successful launches in the EV space and sustenance of high EBITDA margins.
- Stock trades at P/E multiple of 30.6x and EV/EBITDA multiple of 18.1x its FY27E estimates.

Broadly, TVSM has reported bottom-line in line with estimates in Q2FY25 led by of sustenance of EBITDA margin at above 11% level. Revenues increased by 13.3% y-o-y to Rs 9228 crore (Vs estimate of Rs 9538 crore) on the back of 14.3% y-o-y increase in volumes as ASPs declined by 0.9% y-o-y. We attribute rise in sales of lower version of I-Qube as a key reason for drop in average selling prices (ASPs) y-o-y. EBITDA increased by 20.0% y-o-y to Rs 1080 crore (Vs estimate of Rs 1093 crore). EBITDA margin expanded by 70 bps y-o-y to 11.7% (Vs estimate of 11.5%). This was the fifth consecutive quarter when TVSM has reported EBITDA margin above 11%while it has yet to account PLI benefits in its financials. With this operating performance and higher-than expected other income at Rs 29.9 crore (against an estimate of Rs 10 crore), APAT has increased by 23.5% y-o-y to Rs 663 crore (versus estimate of Rs 655 crore). Going forward the management has indicated that two-wheeler industry has grown by 11% during Navaratri (4% in the festive season so far) and TVSM has outperformed the industry growth. Further, the rural segment has started picking up and two-wheeler industry is expected to grow by 7-8% in Q3FY25.

Key positives

- Gross margins rose by 250 bps y-o-y largely on the cost cutting initiatives taken by the company.
- Rural segment has been growing at faster rate than urban segment.
- Consistently registering expansion in EBITDA margin despite rise in EV volumes.

Key negatives

- African market and Bangladesh markets are still facing challenges.
- Red Sea issue-related challenges are continued.
- It has yet to accrue PLI benefits though all of its products are eligible.

Management Commentary

- Two-wheeler industry has grown by 11% during Navratri and TVSM has outperformed the industry growth.
- TVSM would launch one more EV product in rest of FY25.
- Overall, two-wheeler industry grew by 4% during the festive season so far, while sales would pick up in coming week.

Our Call

Valuation – Maintain Buy with an unchanged PT of Rs. 2839: With a 250 bps y-o-y expansion in gross margins, TVSM has reported 70 bps expansion in EBITDA margin to 11.7%. With its in-house cost cutting initiatives and focus on quality products, the company has been sustaining an over 11% margin level for last 5 quarters. The company continues to aim to outperform the industry growth and has indicated that two wheeler industry grew by 11% during Navaratri, while so far in the festive season, the two-wheeler industry has grown by 4%. Rural sales growth is outpacing the urban sales growth, and the management is expecting 7-8% growth in two-wheeler industry in Q3FY25. EV business has generated revenue of Rs 1600 crore in Q2FY25. After the success of its electric scooters (iQube) in the domestic market, TVSM has started exporting it in overseas markets also. It is also expected to launch one more EV during the remainder of FY25. TVSM has been playing multiple products in numerous segment approach to build a sustainable business model, which we believe helps the company to capture growth coming in various subsegments at different point of time. TVSM continues 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 continues to emerge as the key beneficiary of the rising premiumisation in the domestic motorcycle segment. We maintain a Buy rating on the stock with an unchanged PT of Rs 2839 in the expectation of a gradual revival in export volumes, successful launches in the EV space and sustenance of high EBITDA margins.

Key Risks

Geopolitical tensions affect commodity prices and cause 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 adversely.

Valuation (Standalone) Rs cr

Particulars	FY23	FY24	FY25E	FY26E	FY27E
Net sales	26,378	31,776	36,512	42,773	48,658
Growth (%)	26.9	20.5	14.9	17.1	13.8
EBIDTA	2,675	3,514	4,345	5,475	6,228
OPM (%)	10.1	11.1	11.9	12.8	12.8
PAT	1,429	2,083	2,654	3,459	3,977
Growth (%)	54.8	45.8	27.4	30.3	15.0
FD EPS (Rs)	30.1	43.8	55.9	72.8	83.7
P/E (x)	85.3	58.5	45.9	35.2	30.6
P/BV (x)	20.1	15.8	12.3	9.5	7.6
EV/EBITDA (x)	43.8	32.5	26.5	20.8	18.1
RoE (%)	23.6	26.9	26.7	27.0	24.7
RoCE (%)	18.7	24.0	24.0	25.0	23.3

Source: Company; Sharekhan estimates

Q2FY25 Result highlights

Festive season

- Two-wheeler industry has grown by 11% during Navratri and TVSM has outperformed the industry growth.
- Overall, two-wheeler industry grew by 4% during the festive season so far.
- TVSM believes that overall, it would outperform the industry growth during the ongoing festive season.

EVs

- The company has not far so far accounted PLI benefits in its financials, while all of its products are eligible for PLI benefits.
- The management stated that it would start accounting PLI benefits after formulating a proper revenue recognition system.
- I Qube now has three battery options depending upon the customer usage and the range. One with 2.2 kW, then 3.4 kW and 5.1 kW.
- Overall EV sales grew by 31% y-o-y to 75000 units.
- TVSM to launch one more EV product in rest of FY25.
- EVs are available with 750 dealers.
- EV business reported a revenue of Rs 1600 crore in H1FY25.

Exports

- TVSM is outperforming retail segment growth in overseas markets.
- The African and Bangladesh markets are still facing some challenges.
- TVSM is a small player in the LATAM markets but aims to increase penetration.
- Red Sea issue continued to impact its export performance in Q2FY25.
- Africa has contributed 55-57% to export volumes in H1FY25.

TVS Credit

- TVS Credit has added 20 lakh new customers in H1FY25
- Book size grew by 13% y-o-y to Rs 26,652 crore.
- The company continued to maintain a strong growth momentum in disbursement, primarily driven by the increase in distribution reach supported by growth in consumption and increased penetration.
- As part of its ongoing risk management and portfolio optimization, the company has taken proactive steps for further strengthened credit norms, ensuring sustained portfolio health amid evolving market conditions.
- For Q2FY25 the PBT grew by 20% at Rs. 215 crore, as against last year.

Outlook

- The management continue to aim to improve its profitability levels.
- Two-wheeler industry to grow by 7-8% in Q3FY25 and TVSM is expected to outperform the industry growth.
- Capex plan for FY25: Rs 1200-1400 crore.
- No need for impairment related provision in its E cycle business.
- Rural market is growing at a faster rate than urban markets. In H1FY25 overall industry grew by 8% (retail) while Urban market grew by 7% and rural market grew by 9%.

Results (Standalone) Rs cr

Particulars	Q2FY25	Q2FY24	%YoY	Q1FY25	%QoQ
Net revenue	9,228	8,145	13.3	8,376	10.2
Total operating costs	8,148	7,245	12.5	7,415	9.9
EBITDA	1,080	900	20.0	960	12.5
Adj EBIDTA	1,080	900	20.0	960	12.5
Depreciation	181	170	6.2	176	2.4
Interest	32	52	(39.0)	37	(14.4)
Other Income	30	46	(35.3)	8	260.8
PBT	897	724	24.0	783	14.6
Tax	235	187	25.4	206	14.1
Reported PAT	663	537	23.5	577	14.8
Adj PAT	663	537	23.5	557	19.0
Adi EPS	13.9	11.3	23.5	11.7	19.0

Source: Company; Sharekhan Research

Key Ratios (Standalone)

Particulars	Q2FY25	Q2FY24	BPS	Q1FY25	BPS
Gross margin (%)	28.5	26.0	250	28.6	(10)
EBIDTA Margin (%)	11.7	11.0	70	11.5	20
Net profit margin (%)	7.2	6.6	60	6.9	30
Effective tax rate (%)	26.1	25.9	30	26.3	(10)

Source: Company; Sharekhan Research

Volume Analysis Rs/ Vehicle

Particulars	Q2FY25	Q2FY24	%YoY	Q1FY25	%QoQ
Volumes (Units)	12,28,223	10,74,378	14.3	10,87,175	13.0
Average realisation	75,135	75,808	-0.9	77,040	-2.5
Raw material/vehicle	53,751	56,103	-4.2	55,009	-2.3
EBITDA/vehicle	8,791	8,375	5.0	8,832	-0.5
PAT/vehicle	5,395	4,994	8.0	5,120	5.4

Source: Company; Sharekhan Research

Outlook and Valuation

■ Sector Outlook – Optimistic

We expect growth momentum to continue in FY2025E, driven by improvement in rural sentiments in the domestic market. The government's expenditure on infra segment coupled with 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 been delivering healthy growth in volumes, 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 amongst its peers. TVSM would 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 an unchanged PT of Rs. 2839

With 250 bps y-o-y expansion in gross margins, TVSM has reported 70 bps expansion in EBITDA margin to 11.7%. With its in-house cost cutting initiatives and focus on quality products, the company has been sustaining an over 11% margin level for last 5 quarters. The company continues to aim to outperform the industry growth and has indicated that two wheeler industry grew by 11% during Navaratri, while so far in the festive season, the two-wheeler industry has grown by 4%. Rural sales growth is outpacing the urban sales growth, and the management is expecting 7-8% growth in two-wheeler industry in Q3FY25. EV business has generated revenue of Rs 1600 crore in Q2FY25. After the success of its electric scooters (iQube) in the domestic market, TVSM has started exporting it in overseas markets also. It is also expected to launch one more EV during the remainder of FY25. TVSM has been playing multiple products in numerous segment approach to build a sustainable business model, which we believe helps the company to capture growth coming in various sub-segments at different point of time. TVSM continues 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 continues to emerge as the key beneficiary of the rising premiumisation in the domestic motorcycle segment. We maintain a Buy rating on the stock with an unchanged PT of Rs 2839 in the expectation of a gradual revival in export volumes, successful launches in the EV space and sustenance of high EBITDA margins.

Change in earning estimates

Particulars	Earlier		New		% change		Introduction
	FY25E	FY26E	FY25E	FY26E	FY25E	FY26E	FY27E
Revenue	36,512	42,773	36,512	42,773	0.0%	0.0%	48,658
EBITDA	4,345	5,475	4,345	5,475	0.0%	0.0%	6,228
EBITDA margin	11.9%	12.8%	11.9%	12.8%			12.8%
PAT	2,654	3,459	2,654	3,459	0.0%	0.0%	3,977
EPS	55.9	72.8	55.9	72.8	0.0%	0.0%	83.7

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 Website

Top 10 shareholders

Sr. No.	Holder Name	Holding (%)
1	TVS HLDG PVT LTD	50.26
2	ICICI Prudential Asset Management	6.91
3	BlackRock Inc	2.35
4	Capital group	2.21
5	Vanguard Group Inc/The	2.02
6	SBI Funds Management Ltd	1.92
7	Axis Asset Management Co Ltd/India	1.68
8	LIC	1.35
9	Eurospacific growth fund	1.09
10	New World fund	1.03

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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Registration and Contact Details: Name of Research Analyst - Sharekhan Limited, Research Analyst Regn No.: INH000006183. CIN: - U99999MH1995PLC087498.

Registered Office: The Ruby, 18th Floor, 29 Senapati Bapat Marg, Dadar (West), Mumbai – 400 028, Maharashtra, INDIA. Tel: 022-6115000.

Correspondence/Administrative Office Address - Gigaplex IT Park, Unit No 1001, 10th Floor, Building No.9, TTC Industrial Area, Digha, Airoli-West, Navi Mumbai – 400708. Tel: 022 61169000 / 61150000, Fax No. 61169699.

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Compliance Officer: Ms. Binkle R. Oza; Tel: 022-62263303; email id: complianceofficer@sharekhan.com

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