

24 October 2024

India | Equity Research | Q2FY25 results review

## TVS Motor Company

Automotives

### Continuing to move up the margin curve; downgrade to HOLD on steep valuations

TVS Motor Company (TVSL) continued to move up the profitability curve. The company delivered yet another quarter of record margin at 11.7% (vs. consensus 11.8%), up 65bps/25bps YoY/QoQ despite the EV mix increasing 70bps/130bps in Q2FY25 (EV revenues ~10% in H1). TVS expects rural demand to recover, and it expects to see 7–8% industry growth in Q3. We believe, TVS has the capability to deliver 12–12.5% EBITDAM in FY25–26E, despite e2W scaling in excess of ~30k units/month with 10% CAGR in overall volume in FY24–26E. However, TVSL's stock (up ~70%) has outperformed the Nifty index (up ~27%) over the last one year, reducing its upside. Accordingly, we downgrade TVSL to **HOLD**, from Add, with a DCF-based unchanged TP of INR 2,596, implying 30x FY26E standalone EPS.

### Conference call takeaways

- Despite higher EV volume, TVS' EBITDAM continued to mark new highs with margin increasing to 11.7% in Q2. ASP was 1%/2% lower YoY/QoQ, likely due to discounting and launch of affordable e2W offering. TVS is aiming to launch more e2W models in H2FY25 to further expand its portfolio and compete with peers. TVS has started exporting EVs to ASEAN markets. The company is planning to launch e3Ws, both for domestic and export markets. In exports, recovery is mixed with Africa (~55% of export volumes) seeing slow recovery, but LatAm, and Asia markets growing well; management expects exports to pick up in Africa and Middle East. With rural road infra improving rapidly and healthy reservoir levels, management expects to see improvement in rural demand; rural 2W retail volume growth in H1FY25 (+9% YoY) was marginally higher than urban (+7% YoY). While industry growth was only ~4% YoY in the festive season so far (+11% YoY in Navratri period, followed by slower growth), TVS has outperformed the industry; TVSL expects industry growth of 7–8% in Q3, and is confident of outperforming industry.
- TVS is guiding for capex/investment of ~INR 12–14bn each in FY25, with investments going towards funding of its captive NBFC, funding of Norton losses and fresh investments for EVs/digitalisation. Ex-standalone losses were at INR 745mn vs. past eight quarters' average levels of INR 920mn. We believe that with Norton scaling up over the next couple of years and its captive NBFC's profitability rising, these losses should ease in the next couple of years. TVS is planning to launch six new products in Norton over the next three years – first launch likely in H2FY26. TVS' credit book size was up 13% YoY in Q2 to INR 266bn, and its PBT grew 20% YoY to INR 2.2bn.

### Financial Summary

Y/E March (INR mn)	FY23A	FY24A	FY25E	FY26E
Net Revenue	2,63,781	3,17,764	3,82,188	4,60,830
EBITDA	26,747	35,141	46,822	58,203
EBITDA %	10.1	11.1	12.3	12.6
Net Profit	14,910	20,830	29,364	37,672
EPS (INR)	31.4	43.8	61.8	79.3
EPS % Chg YoY	61.4	39.7	41.0	28.3
P/E (x)	81.7	58.5	41.5	32.3
EV/EBITDA (x)	48.0	36.3	27.0	21.3
RoCE (%)	62.4	81.6	103.3	84.7
RoE (%)	27.4	30.2	32.7	31.8

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#### Market Data

Market Cap (INR)	1,218bn
Market Cap (USD)	14,484mn
Bloomberg Code	TVSL IN
Reuters Code	TVSM.BO
52-week Range (INR)	2,958 / 1,548
Free Float (%)	49.0
ADTV-3M (mn) (USD)	30.9

Price Performance (%)	3m	6m	12m
Absolute	3.7	31.2	61.7
Relative to Sensex	4.1	22.6	37.7

ESG Score	2023	2024	Change
ESG score	72.6	71.4	(1.2)
Environment	59.3	64.2	4.9
Social	74.4	71.4	(3.0)
Governance	80.1	75.9	(4.2)

Note - Score ranges from 0 - 100 with a higher number indicating a higher ESG score.

Source: SES ESG, I-sec research

#### Previous Reports

07-08-2024: [Q1FY25 results review](#)  
09-05-2024: [Q4FY24 results review](#)

**Exhibit 1: Q2FY25 result review (standalone)**

Standalone (INR mn)	Q2FY25	Q2FY24	YoY	Q1FY25	QoQ
<b>Income from operations</b>	<b>92,282</b>	<b>81,446</b>	<b>13.3%</b>	<b>83,756</b>	<b>10%</b>
Raw material cost	66,018	60,276	10%	59,804	10%
As % of sales	71.5%	74.0%	-247 bps	71.4%	14 bps
<b>Gross profit</b>	<b>26,264</b>	<b>21,170</b>	<b>24%</b>	<b>23,952</b>	<b>10%</b>
<b>Gross margin (%)</b>	<b>28.5%</b>	<b>26.0%</b>	<b>247 bps</b>	<b>28.6%</b>	<b>-14 bps</b>
Employee expenses	4,967	3,929	26%	4,788	4%
As % of sales	5.4%	4.8%	56 bps	5.7%	-33 bps
Other expenses	10,499	8,244	27%	9,563	10%
As % of sales	11.4%	10.1%	126 bps	11.4%	-4 bps
<b>EBITDA</b>	<b>10,798</b>	<b>8,998</b>	<b>20%</b>	<b>9,602</b>	<b>12%</b>
<b>EBITDA margin</b>	<b>11.7%</b>	<b>11.0%</b>	<b>65 bps</b>	<b>11.5%</b>	<b>24 bps</b>
Depreciation/amortisation	1,806	1,701	6%	1,763	2%
<b>EBIT</b>	<b>8,992</b>	<b>7,297</b>	<b>23%</b>	<b>7,838</b>	<b>15%</b>
<b>EBIT margin</b>	<b>9.7%</b>	<b>9.0%</b>	<b>79 bps</b>	<b>9.4%</b>	<b>39 bps</b>
Other income	299	462	-35%	363	-18%
Interest	319	523	-39%	372	-14%
<b>PBT</b>	<b>8,972</b>	<b>7,237</b>	<b>24%</b>	<b>7,829</b>	<b>15%</b>
Tax expenses	2,346	1,871	25%	2,056	14%
Effective tax rate	26.1%	25.9%	29 bps	26.3%	-11 bps
<b>PAT</b>	<b>6,626</b>	<b>5,366</b>	<b>23%</b>	<b>5,773</b>	<b>15%</b>

Source: I-Sec research, Company data

**Exhibit 2: Q2FY25 per vehicle matrix**

Per vehicle matrix (INR/vehicle)	Q2FY25	Q2FY24	YoY	Q1FY25	QoQ
Vehicles sold	12,28,223	10,74,378	14%	10,87,175	13%
Net realisation per vehicle	75,135	75,808	-1%	77,040	-2%
Raw material costs	53,751	56,103	-4%	55,009	-2%
Gross profit	21,384	19,705	9%	22,031	-3%
Employee expenses	4,044	3,657	11%	4,404	-8%
Other expenses	8,548	7,673	11%	8,796	-3%
EBITDA	8,791	8,375	5%	8,832	0%

Source: I-Sec research, Company data

**Exhibit 3: Q2FY25 volume and mix breakup**

Category	Q2FY25	Q2FY24	YoY	Q1FY25	QoQ
Motorcycles	5,60,828	4,93,427	14%	5,14,438	9%
Scooters	4,90,375	4,77,518	3%	4,70,353	4%
Mopeds	63,984	60,427	6%	71,559	-11%
Three wheelers	37,914	43,006	-12%	30,825	23%
<b>Total</b>	<b>11,53,101</b>	<b>10,74,378</b>	<b>7%</b>	<b>10,87,175</b>	<b>6%</b>
<b>Product Mix</b>					
Motorcycles	48.6%	45.9%	271 bps	47.3%	132 bps
Scooters	42.5%	44.4%	-192 bps	43.3%	-74 bps
Mopeds	5.5%	5.6%	-8 bps	6.6%	-103 bps
Three wheelers	3.3%	4.0%	-71 bps	2.8%	45 bps
<b>Total</b>	<b>100.0%</b>	<b>100.0%</b>		<b>100.0%</b>	

Source: I-Sec research, Company data

**Exhibit 4: Volume assumptions**

Year to March	FY20	FY21	FY22	FY23	FY24	FY25E	FY26E
Dom. Motorcycle sales (units)	7,55,391	6,27,656	7,07,563	9,10,376	12,23,838	13,97,223	15,78,862
Dom. Scooter sales (units)	10,18,424	9,19,325	8,66,851	12,45,993	14,51,409	15,91,216	17,50,338
Dom. Moped sales (units)	6,36,940	6,17,247	4,73,150	4,41,567	4,81,803	4,43,259	4,07,798
<b>Total Domestic sales (units)</b>	<b>24,10,755</b>	<b>21,64,228</b>	<b>20,47,564</b>	<b>25,97,936</b>	<b>31,57,050</b>	<b>34,31,698</b>	<b>37,36,998</b>
2W Exports (units)	6,48,841	7,44,039	10,65,139	8,95,018	8,65,774	9,89,439	11,50,484
Dom. 3W sales (units)	11,934	8,266	8,823	15,640	20,425	23,489	25,838
3W Exports (units)	1,61,977	1,15,330	1,63,052	1,51,695	1,24,307	1,34,252	1,54,389

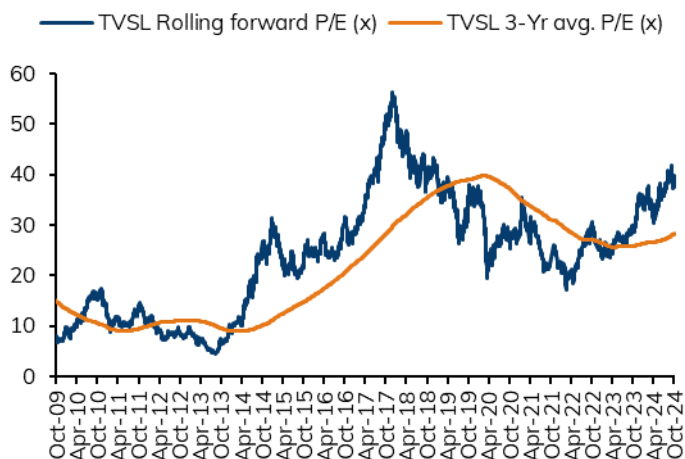
Source: I-Sec research, Company data

### Exhibit 5: Margin and investment assumptions

Year to March	FY20	FY21	FY22	FY23	FY24	FY25E	FY26E
Total Volume (units)	32,63,507	30,51,863	33,09,578	36,80,289	41,89,556	46,02,638	50,92,656
ASP (INR)	50,320	54,886	62,819	71,674	75,847	83,037	90,489
EBITDA Margin (%)	8.2%	8.5%	9.4%	10.1%	11.1%	12.3%	12.6%
EBITDA / unit	3,926	4,552	5,701	7,047	8,187	9,975	11,236
Capex (INR mn)	8,379	5,973	10,535	11,238	11,787	12,057	13,825
Investments (INR mn)	2,994	3,438	6,526	14,206	14,999	12,000	10,000

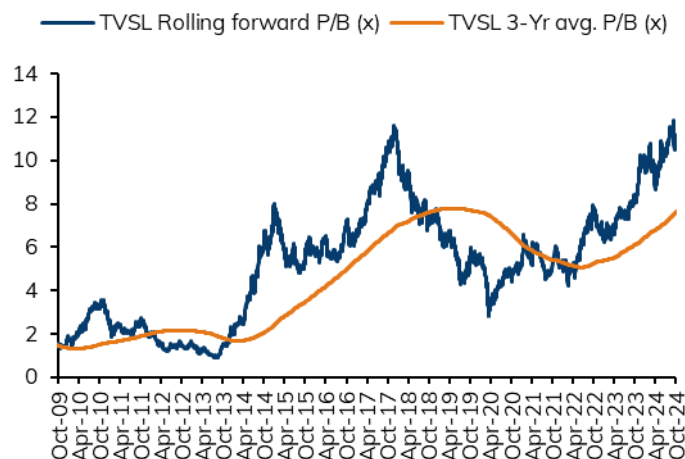
Source: I-Sec research, Company data

### Exhibit 6: Three-year moving P/E



Source: Bloomberg, I-Sec research

### Exhibit 7: Three-year moving P/B



Source: Bloomberg, I-Sec research

### Upside risks

- Substantial increase in market share on a sustained basis.
- Faster-than-expected recovery in exports and rural markets.
- Improvement in profit margins on a sustained basis, and reducing exposure to group companies.

### Downside risks

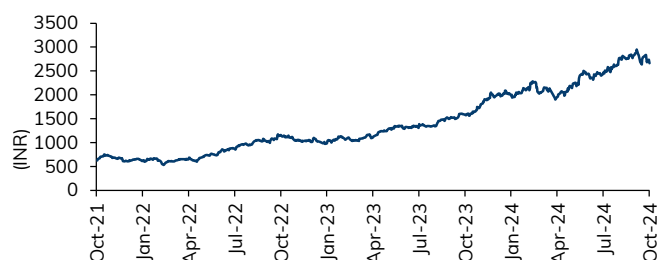
- Rising competitive intensity in e2W and reduction in FAME subsidy could pose a risk to profitability improvement of TVSL.
- Continuation of weak demand from target export markets could pose a risk to our demand estimates.
- Higher-than-expected cash outflow w.r.t. investments and rising losses from subsidiaries could pose a risk to current valuation multiple levels.

### Exhibit 8: Shareholding pattern

%	Mar'24	Jun'24	Sep'24
Promoters	50.3	50.3	50.3
Institutional investors	41.1	41.3	41.4
MFs and others	16.6	16.4	15.5
FIs/Banks	0.1	0.7	0.7
Insurance	2.7	2.8	2.6
FIIIs	21.7	21.4	22.6
Others	8.6	8.4	8.3

Source: Bloomberg, I-Sec research

### Exhibit 9: Price chart



Source: Bloomberg, I-Sec research

## Financial Summary

### Exhibit 10: Profit & Loss

(INR mn, year ending March)

	FY23A	FY24A	FY25E	FY26E
Net Sales	2,63,781	3,17,764	3,82,188	4,60,830
<b>Operating Expenses</b>	<b>37,106</b>	<b>48,333</b>	<b>56,216</b>	<b>64,732</b>
EBITDA	26,747	35,141	46,822	58,203
<b>EBITDA Margin (%)</b>	<b>10.1</b>	<b>11.1</b>	<b>12.3</b>	<b>12.6</b>
<b>Depreciation &amp; Amortization</b>	<b>6,312</b>	<b>7,004</b>	<b>7,969</b>	<b>8,917</b>
EBIT	20,434	28,138	38,853	49,286
Interest expenditure	1,407	1,816	1,500	1,000
Other Non-operating Income	1,006	1,485	1,800	1,944
Recurring PBT	20,033	27,807	39,153	50,230
<b>Profit / Loss from Associates</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
Less: Taxes	5,123	6,977	9,788	12,558
PAT	14,910	20,830	29,364	37,671
Less: Minority Interest	-	-	-	-
Extraordinaries (Net)	-	-	-	-
Net Income (Reported)	14,910	20,830	29,364	37,672
Net Income (Adjusted)	14,910	20,830	29,364	37,672

Source Company data, I-Sec research

### Exhibit 11: Balance sheet

(INR mn, year ending March)

	FY23A	FY24A	FY25E	FY26E
Total Current Assets	42,774	43,690	66,244	98,541
of which cash & cash eqv.	2,420	5,310	10,748	34,151
Total Current Liabilities & Provisions	55,018	66,307	82,720	98,479
<b>Net Current Assets</b>	<b>(12,244)</b>	<b>(22,617)</b>	<b>(16,476)</b>	<b>62</b>
Investments	54,914	69,913	81,913	91,913
Net Fixed Assets	39,495	43,723	47,219	52,127
ROU Assets	-	-	-	-
Capital Work-in-Progress	2,741	3,297	3,889	3,889
Total Intangible Assets	-	-	-	-
Other assets	-	-	-	-
Deferred Tax assets	-	-	-	-
<b>Total Assets</b>	<b>84,906</b>	<b>94,316</b>	<b>1,16,545</b>	<b>1,47,991</b>
Liabilities				
Borrowings	22,446	15,134	12,164	11,164
Deferred Tax Liability	1,982	1,871	1,982	1,982
Provisions	-	-	-	-
Other Liabilities	-	-	-	-
Equity Share Capital	475	475	475	475
Reserves & Surplus	60,003	76,835	1,01,924	1,34,370
<b>Total Net Worth</b>	<b>60,479</b>	<b>77,310</b>	<b>1,02,399</b>	<b>1,34,845</b>
Minority Interest	-	-	-	-
<b>Total Liabilities</b>	<b>84,906</b>	<b>94,316</b>	<b>1,16,545</b>	<b>1,47,991</b>

Source Company data, I-Sec research

### Exhibit 12: Quarterly trend

(INR mn, year ending March)

	Dec-23	Mar-24	Jun-24	Sep-24
Net Sales	82,450	81,688	83,756	92,282
% growth (YOY)	26	23.7	16.0	13.3
EBITDA	9,244	9,262	9,602	10,798
Margin %	11.2%	11.3	11.5	11.7
Other Income	734	183	363	299
Extraordinaries	-	(470)	-	-
Adjusted Net Profit	5,934	5,324	5,773	6,626

Source Company data, I-Sec research

### Exhibit 13: Cashflow statement

(INR mn, year ending March)

	FY23A	FY24A	FY25E	FY26E
<b>Operating Cashflow</b>	<b>23,249</b>	<b>41,316</b>	<b>36,442</b>	<b>52,510</b>
Working Capital Changes	623	13,263	(702)	6,864
Capital Commitments	(11,238)	(11,787)	(12,057)	(13,825)
<b>Free Cashflow</b>	<b>12,011</b>	<b>29,529</b>	<b>24,385</b>	<b>38,685</b>
Other investing cashflow	(14,206)	(13,513)	(10,200)	(8,056)
<b>Cashflow from Investing Activities</b>	<b>(25,443)</b>	<b>(25,301)</b>	<b>(22,257)</b>	<b>(21,881)</b>
Issue of Share Capital	-	(197)	0	0
Interest Cost	(1,407)	(1,816)	(1,500)	(1,000)
Inc (Dec) in Borrowings	4,383	(7,311)	(2,971)	(1,000)
Dividend paid	(2,376)	(3,801)	(4,276)	(5,226)
Others	-	-	-	-
<b>Cash flow from Financing Activities</b>	<b>601</b>	<b>(13,126)</b>	<b>(8,747)</b>	<b>(7,226)</b>
Chg. in Cash & Bank balance	(1,593)	2,890	5,439	23,403
Closing cash & balance	2,420	5,310	10,748	34,151

Source Company data, I-Sec research

### Exhibit 14: Key ratios

(Year ending March)

	FY23A	FY24A	FY25E	FY26E
<b>Per Share Data (INR)</b>				
Reported EPS	31.4	43.8	61.8	79.3
Adjusted EPS (Diluted)	31.4	43.8	61.8	79.3
Cash EPS	44.7	58.6	78.6	98.1
Dividend per share (DPS)	5.0	8.0	9.0	11.0
Book Value per share (BV)	127.3	162.7	215.5	283.8
Dividend Payout (%)	15.9	18.2	14.6	13.9
<b>Growth (%)</b>				
Net Sales	26.9	20.5	20.3	20.6
EBITDA	36.3	31.4	33.2	24.3
EPS (INR)	61.4	39.7	41.0	28.3
<b>Valuation Ratios (x)</b>				
P/E	81.7	58.5	41.5	32.3
P/CEPS	57.4	43.7	32.6	26.1
P/BV	20.1	15.7	11.9	9.0
EV / EBITDA	48.0	36.3	27.0	21.3
EV / Sales	4.9	4.0	3.3	2.7
<b>Profitability Ratios</b>				
Gross Profit Margins (%)	24.2	26.3	27.0	26.7
EBITDA Margins (%)	10.1	11.1	12.3	12.6
EBIT Margins (%)	7.7	8.9	10.2	10.7
Net Profit Margins (%)	5.7	6.6	7.7	8.2
RoCE (%)	62.4	81.6	103.3	84.7
RoE (%)	27.4	30.2	32.7	31.8
Dividend Yield (%)	0.2	0.3	0.4	0.4
<b>Operating Ratios</b>				
Fixed Asset Turnover (x)	6.2	6.8	7.5	8.2
Inventory Turnover Days	17	18	16	15
Receivables Days	13	13	14	14
Payables Days	70	66	67	69
Effective Tax Rate (%)	25.6	25.1	25.0	25.0
Net Debt / Equity (x)	0.3	0.1	0.0	(0.2)
Net Debt / EBITDA (x)	0.7	0.3	0.0	(0.4)

Source Company data, I-Sec research

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