

SELL

TP: Rs 1,780 | ▼ 11%

TVS SRICHAKRA

Auto Components

15 December 2020

Upsides capped; downgrade to SELL

Having aggressively penetrated the OEM segment, TVS Srichakra (TVSS) now intends to focus on the aftermarket through an elaborate brand building exercise. We expect these efforts to aid a 36% earnings CAGR over FY21-FY23. However, the recent spike in prices of natural rubber and crude derivatives could play spoilsport, warranting caution despite a strong volume outlook. The stock has rallied 25% in last one month and is trading at rich valuations of 16x FY22E EPS – we maintain estimates but cut our rating to SELL from BUY.

Mayur Milak | Nishant Chowhan, CFA

research@bobcaps.in

Strong volume growth factored in; rising input costs a key concern: We build in volume growth of 13% in TVSS's 2W/3W tyres over FY21-FY23. The spike in natural rubber prices from Rs 120/kg to >Rs 160/kg over the last three months and more recently in crude derivatives due to the sudden jump in crude from US\$ 40 to US\$ 50/bbl will clearly have an adverse impact on gross margins (300-400bps QoQ).

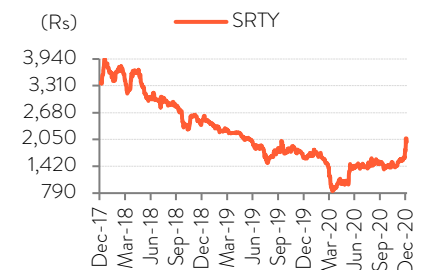
Focus on brand building to reap aftermarket benefits: TVSS is the largest supplier of two-wheeler tyres to most leading domestic 2W OEMs, with ~31% market share in the segment. Management's strategy of targeting aftermarket sales will improve overall margins and also ensure steady growth going forward.

Valuations full, cut to SELL: We factor in strong volume growth led by OEM demand and replacement market gains, but believe margins could come under significant pressure due to the surge in input costs. We expect TVSS to clock a revenue/EBITDA/PAT CAGR of 15%/20%/36% over FY21-FY23. Net D/E stands at 0.3x and we model for ROE/ROCE of 10.6%/9.4% by FY23-end. Our TP remains at Rs 1,780 and is based on an unchanged 14x Sep'22E P/E multiple, at par with peers. But the sharp 25% rally in last one-month caps upsides, leading us to downgrade the stock to SELL (earlier BUY).

| | |
|------------------|------------------|
| Ticker/Price | SRTY IN/Rs 1,993 |
| Market cap | US\$ 206.0mn |
| Shares o/s | 8mn |
| 3M ADV | US\$ 0.7mn |
| 52wk high/low | Rs 2,129/Rs 758 |
| Promoter/FPI/DII | 45%/1%/6% |

Source: NSE

STOCK PERFORMANCE



Source: NSE

KEY FINANCIALS

| Y/E 31 Mar | FY19A | FY20A | FY21E | FY22E | FY23E |
|-------------------------|--------|--------|--------|--------|--------|
| Total revenue (Rs mn) | 23,818 | 20,522 | 18,704 | 22,417 | 24,694 |
| EBITDA (Rs mn) | 2,592 | 1,094 | 2,070 | 2,660 | 2,965 |
| Adj. net profit (Rs mn) | 1,032 | (200) | 559 | 917 | 1,031 |
| Adj. EPS (Rs) | 134.7 | (26.1) | 72.9 | 119.7 | 134.6 |
| Adj. EPS growth (%) | (12.3) | | | 64.1 | 12.4 |
| Adj. ROAE (%) | 13.9 | (2.6) | 6.9 | 10.3 | 10.6 |
| Adj. P/E (x) | 14.8 | (76.3) | 27.3 | 16.6 | 14.8 |
| EV/EBITDA (x) | 7.0 | 17.0 | 9.0 | 6.8 | 6.1 |

Source: Company, BOBCAPS Research

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Important disclosures, including any required research certifications, are provided at the end of this report.



FIG 1 – QUARTERLY PERFORMANCE

| (Rs mn) | Q2FY21 | Q2FY20 | YoY (%) | Q1FY21 | QoQ (%) | H1FY21 | H1FY20 | YoY (%) |
|------------------------------|--------------|--------------|--------------|--------------|--------------|--------------|---------------|---------------|
| Net Revenues | 5,350 | 5,451 | (1.9) | 2,065 | 159.1 | 7,415 | 11,376 | (34.8) |
| Total Income (A) | 5,350 | 5,451 | (1.9) | 2,065 | 159.1 | 7,415 | 11,376 | (34.8) |
| Operating Expenses: | | | | | | | | |
| Raw materials consumed | 3,093 | 3,130 | (1.2) | 1,320 | 134.3 | 4,413 | 6,720 | (34.3) |
| Employee Expenses | 665 | 724 | (8.1) | 513 | 30.2 | 1,178 | 1,446 | (18.5) |
| Other Expenses | 744 | 992 | (25.1) | 393 | 89.4 | 1,137 | 1,880 | (39.5) |
| Total Expenditure (B) | 4,501 | 4,847 | (7.2) | 2,226 | 102.1 | 6,727 | 10,046 | (33.0) |
| EBITDA (A-B) | 849 | 604 | 40.4 | (161) | NA | 688 | 1,330 | (48.3) |
| Other Income | 7 | 16 | (60.2) | 10 | (37.3) | 17 | 23 | (26.3) |
| Depreciation | 245 | 226 | 8.1 | 219 | 12.4 | 464 | 446 | 4.2 |
| EBIT | 610 | 394 | 55.4 | (370) | NA | 240 | 907 | (73.5) |
| Finance Costs | 84 | 84 | (0) | 103 | (19.1) | 187 | 193 | (3.2) |
| PBT | 526 | 311 | 69.2 | (473) | NA | 29 | 783 | (96.2) |
| Tax expense | 132 | 108 | 23.3 | (119) | NA | 13 | 249 | (94.6) |
| Reported PAT | 394 | 203 | 94.5 | (354) | NA | 16 | 534 | (97.0) |
| Adjusted PAT | 394 | 203 | 94.5 | (354) | NA | 40 | 465 | (91.4) |

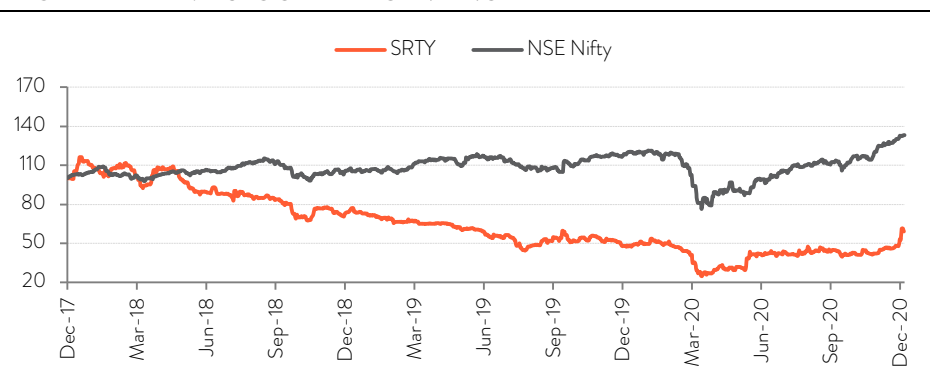
Source: Company, BOBCAPS Research

Valuation methodology

We factor in strong volume growth led by OEM demand and replacement market gains, but believe margins could come under significant pressure due to the sudden surge in input costs. We expect TVSS to clock a revenue/EBITDA/PAT CAGR of 15%/20%/36% over FY21-FY23. Net D/E stands at 0.3x and we model for ROE/ROCE of 10.6%/9.4% by FY23-end.

Our target price remains at Rs 1,780 and is based on an unchanged 14x Sep'22E P/E multiple, at par with peers. But the sharp 25% rally since last one month puts current valuations at 16x FY22E EPS, which caps upside potential and leads us to downgrade the stock to SELL (from BUY).

FIG 2 – RELATIVE STOCK PERFORMANCE



Source: NSE

Key risks

- Above-expected recovery in both replacement and OEM channels can lead to higher volumes, posing upside risk to our estimates.
- A fall in raw material prices could aid margins and earnings.

FINANCIALS

Income Statement

| Y/E 31 Mar (Rs mn) | FY19A | FY20A | FY21E | FY22E | FY23E |
|--------------------------------|---------------|---------------|---------------|---------------|---------------|
| Total revenue | 23,818 | 20,522 | 18,704 | 22,417 | 24,694 |
| EBITDA | 2,592 | 1,094 | 2,070 | 2,660 | 2,965 |
| Depreciation | 828 | 977 | 1,103 | 1,260 | 1,434 |
| EBIT | 1,878 | 213 | 1,047 | 1,519 | 1,672 |
| Net interest income/(expenses) | (345) | (359) | (300) | (293) | (293) |
| Other income/(expenses) | 114 | 95 | 80 | 120 | 140 |
| Exceptional items | 0 | 0 | 0 | 0 | 0 |
| EBT | 1,533 | (147) | 747 | 1,226 | 1,378 |
| Income taxes | 501 | 54 | 188 | 309 | 347 |
| Extraordinary items | 0 | 0 | 0 | 0 | 0 |
| Min. int./Inc. from associates | 0 | 0 | 0 | 0 | 0 |
| Reported net profit | 1,032 | (200) | 559 | 917 | 1,031 |
| Adjustments | 0 | 0 | 0 | 0 | 0 |
| Adjusted net profit | 1,032 | (200) | 559 | 917 | 1,031 |

Balance Sheet

| Y/E 31 Mar (Rs mn) | FY19A | FY20A | FY21E | FY22E | FY23E |
|---------------------------------------|---------------|---------------|---------------|---------------|---------------|
| Accounts payables | 3,526 | 2,113 | 2,741 | 2,758 | 3,099 |
| Other current liabilities | 1,336 | 1,840 | 1,452 | 2,085 | 2,122 |
| Provisions | 40 | 137 | 137 | 137 | 137 |
| Debt funds | 4,127 | 3,188 | 3,188 | 3,188 | 3,188 |
| Other liabilities | 988 | 867 | 867 | 867 | 867 |
| Equity capital | 77 | 77 | 77 | 77 | 77 |
| Reserves & surplus | 7,355 | 7,543 | 8,009 | 8,787 | 9,651 |
| Shareholders' fund | 7,432 | 7,620 | 8,086 | 8,864 | 9,728 |
| Total liabilities and equities | 17,448 | 15,765 | 16,470 | 17,899 | 19,141 |
| Cash and cash eq. | 165 | 111 | 221 | 215 | 366 |
| Accounts receivables | 3,236 | 1,970 | 2,511 | 2,887 | 2,977 |
| Inventories | 4,887 | 4,105 | 3,997 | 4,606 | 4,871 |
| Other current assets | 753 | 903 | 820 | 860 | 880 |
| Investments | 1,069 | 1,091 | 1,291 | 1,191 | 1,791 |
| Net fixed assets | 6,222 | 6,467 | 6,564 | 7,103 | 7,170 |
| CWIP | 339 | 482 | 430 | 400 | 450 |
| Intangible assets | 0 | 0 | 0 | 0 | 0 |
| Deferred tax assets, net | (555) | (330) | (330) | (330) | (330) |
| Other assets | 1,332 | 967 | 967 | 967 | 967 |
| Total assets | 17,448 | 15,765 | 16,470 | 17,899 | 19,141 |

Source: Company, BOBCAPS Research

Cash Flows

| Y/E 31 Mar (Rs mn) | FY19A | FY20A | FY21E | FY22E | FY23E |
|-------------------------------------|----------------|----------------|----------------|----------------|----------------|
| Net income + Depreciation | 1,860 | 776 | 1,662 | 2,177 | 2,465 |
| Interest expenses | 345 | 359 | 300 | 293 | (293) |
| Non-cash adjustments | (114) | (95) | (80) | (120) | (140) |
| Changes in working capital | (1,270) | 1,332 | (111) | (374) | 3 |
| Other operating cash flows | (93) | 0 | 0 | 0 | 0 |
| Cash flow from operations | 727 | 2,373 | 1,770 | 1,976 | 2,034 |
| Capital expenditures | (1,177) | (1,364) | (1,148) | (1,770) | (1,550) |
| Change in investments | (390) | (22) | (200) | 100 | (600) |
| Other investing cash flows | 114 | 95 | 80 | 120 | 140 |
| Cash flow from investing | (1,452) | (1,291) | (1,268) | (1,550) | (2,010) |
| Equities issued/Others | 0 | 0 | 0 | 0 | 0 |
| Debt raised/repaid | 1,008 | (939) | 0 | 0 | 0 |
| Interest expenses | (345) | (359) | (300) | (293) | (293) |
| Dividends paid | (306) | (185) | (93) | (139) | (167) |
| Other financing cash flows | 379 | 348 | 0 | 0 | 0 |
| Cash flow from financing | 735 | (1,136) | (392) | (432) | (460) |
| Changes in cash and cash eq. | 10 | (53) | 110 | (6) | (436) |
| Closing cash and cash eq. | 165 | 111 | 221 | 215 | 366 |

Per Share

| Y/E 31 Mar (Rs) | FY19A | FY20A | FY21E | FY22E | FY23E |
|----------------------|-------|--------|---------|---------|---------|
| Reported EPS | 134.7 | (26.1) | 72.9 | 119.7 | 134.6 |
| Adjusted EPS | 134.7 | (26.1) | 72.9 | 119.7 | 134.6 |
| Dividend per share | 40.0 | 24.2 | 12.1 | 18.1 | 21.8 |
| Book value per share | 970.2 | 994.8 | 1,055.6 | 1,157.2 | 1,270.0 |

Valuations Ratios

| Y/E 31 Mar (x) | FY19A | FY20A | FY21E | FY22E | FY23E |
|----------------|-------|--------|-------|-------|-------|
| EV/Sales | 0.8 | 0.9 | 1.0 | 0.8 | 0.7 |
| EV/EBITDA | 7.0 | 17.0 | 9.0 | 6.8 | 6.1 |
| Adjusted P/E | 14.8 | (76.3) | 27.3 | 16.6 | 14.8 |
| P/BV | 2.1 | 2.0 | 1.9 | 1.7 | 1.6 |

DuPont Analysis

| Y/E 31 Mar (%) | FY19A | FY20A | FY21E | FY22E | FY23E |
|---------------------------------|-------|--------|-------|-------|-------|
| Tax burden (Net profit/PBT) | 67.3 | 136.5 | 74.8 | 74.8 | 74.8 |
| Interest burden (PBT/EBIT) | 81.6 | (69.0) | 71.4 | 80.7 | 82.5 |
| EBIT margin (EBIT/Revenue) | 7.9 | 1.0 | 5.6 | 6.8 | 6.8 |
| Asset turnover (Revenue/Avg TA) | 205.4 | 169.5 | 157.1 | 178.9 | 185.0 |
| Leverage (Avg TA/Avg Equity) | 1.7 | 1.6 | 1.5 | 1.5 | 1.4 |
| Adjusted ROAE | 14.8 | (2.7) | 7.1 | 10.8 | 11.1 |

Source: Company, BOBCAPS Research | Note: TA = Total Assets

Ratio Analysis

| Y/E 31 Mar | FY19A | FY20A | FY21E | FY22E | FY23E |
|--|--------|--------|-------|-------|-------|
| YoY growth (%) | | | | | |
| Revenue | 10.7 | (13.8) | (8.9) | 19.9 | 10.2 |
| EBITDA | 2.3 | (57.8) | 89.1 | 28.5 | 11.5 |
| Adjusted EPS | (12.3) | | | 64.1 | 12.4 |
| Profitability & Return ratios (%) | | | | | |
| EBITDA margin | 10.9 | 5.3 | 11.1 | 11.9 | 12.0 |
| EBIT margin | 7.9 | 1.0 | 5.6 | 6.8 | 6.8 |
| Adjusted profit margin | 4.3 | (1.0) | 3.0 | 4.1 | 4.2 |
| Adjusted ROAE | 13.9 | (2.6) | 6.9 | 10.3 | 10.6 |
| ROCE | 10.9 | 2.4 | 6.6 | 9.1 | 9.4 |
| Working capital days (days) | | | | | |
| Receivables | 43 | 46 | 44 | 44 | 43 |
| Inventory | 63 | 80 | 79 | 70 | 70 |
| Payables | 69 | 88 | 85 | 79 | 77 |
| Ratios (x) | | | | | |
| Gross asset turnover | 0.4 | 0.5 | 0.6 | 0.6 | 0.6 |
| Current ratio | 1.8 | 1.7 | 1.7 | 1.7 | 1.7 |
| Net interest coverage ratio | 5.4 | 0.6 | 3.5 | 5.2 | 5.7 |
| Adjusted debt/equity | 0.6 | 0.4 | 0.4 | 0.4 | 0.3 |

Source: Company, BOBCAPS Research

Disclaimer

Recommendations and Absolute returns (%) over 12 months

BUY – Expected return >+15%

ADD – Expected return from >+5% to +15%

REDUCE – Expected return from -5% to +5%

SELL – Expected return <-5%

Note: Recommendation structure changed with effect from 1 January 2018 (Hold rating discontinued and replaced by Add / Reduce)

RATINGS AND TARGET PRICE (3-YEAR HISTORY): TVS SRICHAKRA (SRTY IN)



B – Buy, A – Add, R – Reduce, S – Sell

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