

**SELL**

TP: Rs 1,200 | ▼ 47%

**TVS SRICHAKRA**

| Auto Components

| 06 August 2021

## Poor demand and high input cost hit profitability

- Q1 revenue in line at Rs 4.8bn but EBITDA margin disappoints at 5.1% due to poor operating efficiency
- High RM cost and limited scope for tyre price hikes will continue to depress profitability
- We maintain our TP of Rs 1,200 based on 14x FY23E P/E and reiterate **SELL**

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**Lacklustre quarter:** TVSS's Q1FY22 revenue declined 65% QoQ to Rs 4.8bn, in line with our expectations. Gross margin contracted 330bps QoQ to 44.2%, reflecting the spike in rubber and crude oil prices and the inability of tyre companies to take adequate price hikes to mitigate the cost inflation. Lower operating efficiency and above-expected other expenses further weakened EBITDA margin to 5.1% (-825bps QoQ). Adj. PAT stood at Rs 2mn with EPS at Rs 0.3.

**Surge in commodity prices to erode margins:** Given the 12% QoQ cost increase in the raw material basket during both Q4FY21 and Q1FY21 (per management), along with the inability of tyre companies to fully pass on the burden, we anticipate gross margin deterioration across the sector in FY22. We bake in a decline of ~200bps in TVSS's gross margin for FY22 over FY21 levels, resulting in a weaker operating margin.

**Estimates intact:** We maintain our revenue and earnings estimates for FY22/FY23 and introduce forecasts for FY24, projecting a revenue/EBITDA/adj. PAT CAGR of +13%/+11%/+2% over FY21-FY24. Our FY22/FY23 EPS estimates are at Rs 78/Rs 85.

**Maintain SELL:** We do not see scope for quick recovery in gross margin over the short-term considering the steep increase in input cost and lag in price hikes taken by tyre companies. Further, TVSS has planned capex of Rs 10bn over three years which will add significant pressure on the balance sheet and depress profits due to higher interest cost. We expect a rise in external borrowings to the tune of Rs 3.4bn over FY22-FY23, taking its D/E ratio to 0.5x by FY23 (vs. 0.2x currently). Reiterate SELL with an unchanged Mar'22 TP of Rs 1,200, set at 14x FY23E EPS – at par with peers and the stock's 7-year average.

## Key changes

Target	Rating
◀ ▶	◀ ▶

Ticker/Price	SRTY IN/Rs 2,258
Market cap	US\$ 231.4mn
Free float	55%
3M ADV	US\$ 0.6mn
52wk high/low	Rs 2,394/Rs 1,327
Promoter/FPI/DII	45%/1%/6%

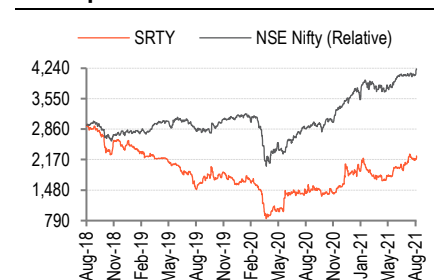
Source: NSE | Price as of 5 Aug 2021

## Key financials

Y/E 31 Mar	FY21A	FY22E	FY23E
Total revenue (Rs mn)	18,758	21,804	24,908
EBITDA (Rs mn)	2,235	2,199	2,707
Adj. net profit (Rs mn)	730	600	652
Adj. EPS (Rs)	95.3	78.3	85.2
Consensus EPS (Rs)	95.3	78.3	85.2
Adj. ROAE (%)	8.7	6.8	7.1
Adj. P/E (x)	23.7	28.8	26.5
EV/EBITDA (x)	9.3	8.8	7.2
Adj. EPS growth (%)	(13.6)	(17.8)	8.8

Source: Company, Bloomberg, BOBCAPS Research

## Stock performance



Source: NSE



**Fig 1 – Quarterly performance**

(Rs mn)	Q1FY22	Q1FY21	YoY (%)	Q4FY21	QoQ (%)	FY21	FY20	YoY (%)
Net Revenues	4,760	2,065	130.6	5,810	(64.5)	18,758	20,522	(8.6)
<b>Total Income (A)</b>	<b>4,760</b>	<b>2,065</b>	<b>130.6</b>	<b>5,810</b>	<b>(64.5)</b>	<b>18,758</b>	<b>20,522</b>	<b>(8.6)</b>
<b>Operating Expenses:</b>								
Raw materials consumed	2,656	1,320	101.1	3,047	(56.7)	10,577	11,757	(10.0)
Employee Expenses	702	513	36.9	716	(28.4)	2,659	2,822	(5.8)
Other Expenses	1,162	393	195.7	1,274	(69.1)	3,287	3,805	(13.6)
<b>Total Expenditure (B)</b>	<b>4,519</b>	<b>2,226</b>	<b>103.0</b>	<b>5,037</b>	<b>(55.8)</b>	<b>16,523</b>	<b>18,384</b>	<b>(10.1)</b>
<b>EBITDA (A-B)</b>	<b>241</b>	<b>(161)</b>	<b>NA</b>	<b>773</b>	<b>(120.8)</b>	<b>2,235</b>	<b>2,139</b>	<b>4.5</b>
Other Income	29	10	180.6	30	(65.4)	53	95	(43.9)
Depreciation	201	219	(8.6)	296	(25.8)	1,011	977	3.6
EBIT	69	(370)	NA	508	(172.9)	1,277	1,257	1.6
Finance Costs	66	103	(35.6)	60	72.7	310	359	(13.7)
PBT	3	(473)	NA	448	(205.6)	967	898	7.7
Tax expense	1	(119)	NA	107	(211.2)	237	54	343.0
<b>Reported PAT</b>	<b>2</b>	<b>(354)</b>	<b>NA</b>	<b>341</b>	<b>(203.8)</b>	<b>730</b>	<b>844</b>	<b>(13.5)</b>
<b>Adjusted PAT</b>	<b>2</b>	<b>(354)</b>	<b>NA</b>	<b>341</b>	<b>(203.8)</b>	<b>730</b>	<b>844</b>	<b>(13.5)</b>

Source: Company, BOBCAPS Research

**Fig 2 – Key parameters**

(%)	Q1FY22	Q1FY21	YoY (bps)	Q4FY21	QoQ (bps)	FY21	FY20	YoY (bps)
Gross margin	44.2	36.1	816	48	(334)	43.6	42.7	90
EBITDA margin	5.1	(7.8)	1,287	13	(825)	11.9	10.4	149
EBIT margin	1.5	(17.9)	1,938	9	(728)	6.8	6.1	68
PBT margin	0.1	(22.9)	2,297	8	(765)	5.2	4.4	78
Tax rate	24.1	25.2	(102)	24	26	24.5	6.0	1,855
Adj PAT margin	0.0	(17.2)	1,720	6	(582)	3.9	4.1	(22)

Source: Company, BOBCAPS Research

## Valuation methodology

We maintain our revenue and earnings estimates for FY22/FY23 and introduce forecasts for FY24, projecting a revenue/EBITDA/adj. PAT CAGR of +13%/+11%/+2% for TVSS over FY21-FY24. Our FY22/FY23 EPS estimates are at Rs 78/Rs 85.

TVSS's Q1FY22 gross margin has weakened to 44.2% and we do not see scope for quick recovery in the short-term considering the steep increase in input cost and lag in price hikes taken by tyre companies. Further, TVSS has planned capex of Rs 10bn over three years which will add significant pressure on the balance sheet and depress profits due to higher interest cost. We expect a rise in external borrowings to the tune of Rs 3.4bn over FY22-FY23, taking its D/E ratio to 0.5x by FY23 (vs. 0.2x currently). Reiterate SELL with an unchanged Mar'22 TP of Rs 1,200, set at 14x FY23E EPS – at par with peers and the stock's 7-year average.

**Fig 3 – Key assumptions**

(Rs mn)	FY21	FY22E	FY23E	FY24E
Revenues	18,758	21,804	24,908	27,170
EBITDA	2,235.2	2,198	2,707	3,091
OPM (%)	11.9	10.1	10.9	11.4
Adj. PAT	729	599	652	766
EPS (Rs)	95.2	78.3	85.2	100.1

Source: Company, BOBCAPS Research

**Fig 4 – Peer comparison**

Company	Ticker	Rating	Target Price (Rs)	Revenue CAGR FY21-23E (%)	EPS (Rs)		ROE (%)		Target P/E (x)
					FY22E	FY23E	FY22E	FY23E	
CEAT	CEAT IN	SELL	840	15.7	57.5	59.9	7.0	6.8	14
Apollo Tyres	APTY IN	SELL	140	11.3	7.9	9.0	4.0	4.2	16
Balkrishna Industries	BIL IN	SELL	1,550	12.4	64.8	70.3	17.9	16.8	22
MRF	MRF IN	SELL	67,000	15.9	2,769.2	3,080.1	7.7	7.9	22
TVS Srichakra	SRTY IN	SELL	1,200	15.2	78.3	85.2	6.8	7.1	14
JK Tyres	JKI IN	SELL	90	12.8	8.0	12.6	6.6	9.6	7

Source: BOBCAPS Research

## Key risks

Key upside risks to our estimates are:

- above-expected volume growth, which can improve profitability and take operating performance ahead of our estimates.
- a meaningful decline in rubber and crude oil prices, which can support operating margin and impact our profit estimates.

## Sector recommendation snapshot

Company	Ticker	Market Cap (US\$ bn)	Price (Rs)	Target (Rs)	Rating
Apollo Tyres	APTY IN	1.7	222	140	SELL
Balkrishna Industries	BIL IN	6.5	2,497	1,550	SELL
Ceat	CEAT IN	0.7	1,350	840	SELL
Eicher Motors	EIM IN	10.1	2,732	2,200	SELL
Escorts	ESC IN	2.0	1,225	1,350	BUY
GNA Axles	GNA IN	0.1	750	540	HOLD
JK Tyre & Industries	JKI IN	0.5	162	90	SELL
Minda Corporation	MDA IN	0.4	133	140	BUY
MRF	MRF IN	4.5	79,663	67,000	SELL
Swaraj Engines	SWE IN	0.3	1,772	1,600	SELL
TVS Srichakra	SRTY IN	0.2	2,258	1,200	SELL

Source: BOBCAPS Research, NSE | Price as of 5 Aug 2021

## Financials

### Income Statement

Y/E 31 Mar (Rs mn)	FY20A	FY21A	FY22E	FY23E	FY24E
<b>Total revenue</b>	<b>20,522</b>	<b>18,758</b>	<b>21,804</b>	<b>24,908</b>	<b>27,170</b>
EBITDA	2,139	2,235	2,199	2,707	3,091
Depreciation	977	1,011	1,205	1,496	1,690
EBIT	1,258	1,277	1,067	1,325	1,555
Net interest inc./(exp.)	(359)	(310)	(265)	(452)	(529)
Other inc./(exp.)	95	53	73	113	153
Exceptional items	0	(2)	0	0	0
EBT	898	965	802	872	1,025
Income taxes	54	237	202	220	258
Extraordinary items	0	0	0	0	0
Min. int./Inc. from assoc.	0	0	0	0	0
<b>Reported net profit</b>	<b>845</b>	<b>728</b>	<b>600</b>	<b>652</b>	<b>767</b>
Adjustments	0	2	0	0	0
<b>Adjusted net profit</b>	<b>845</b>	<b>730</b>	<b>600</b>	<b>652</b>	<b>767</b>

### Balance Sheet

Y/E 31 Mar (Rs mn)	FY20A	FY21A	FY22E	FY23E	FY24E
Accounts payables	2,113	2,877	2,885	3,338	3,704
Other current liabilities	1,840	2,133	2,578	2,750	2,914
Provisions	137	177	177	177	177
Debt funds	3,288	1,413	3,413	4,813	4,813
Other liabilities	867	868	868	868	868
Equity capital	77	77	77	77	77
Reserves & surplus	7,543	8,329	8,741	9,168	9,663
Shareholders' fund	7,620	8,406	8,818	9,244	9,740
<b>Total liab. and equities</b>	<b>15,865</b>	<b>15,873</b>	<b>18,738</b>	<b>21,190</b>	<b>22,215</b>
Cash and cash eq.	111	73	32	29	214
Accounts receivables	1,970	2,325	2,628	3,003	3,275
Inventories	4,105	4,161	4,779	5,323	5,806
Other current assets	903	444	777	819	893
Investments	1,091	1,629	1,509	1,499	2,199
Net fixed assets	6,466	6,470	8,266	9,770	9,081
CWIP	482	424	400	400	400
Intangible assets	0	0	0	0	0
Deferred tax assets, net	(230)	(296)	(296)	(296)	(296)
Other assets	967	643	643	643	643
<b>Total assets</b>	<b>15,865</b>	<b>15,873</b>	<b>18,738</b>	<b>21,190</b>	<b>22,215</b>

### Cash Flows

Y/E 31 Mar (Rs mn)	FY20A	FY21A	FY22E	FY23E	FY24E
<b>Cash flow from operations</b>	<b>3,418</b>	<b>3,756</b>	<b>1,195</b>	<b>1,247</b>	<b>1,473</b>
Capital expenditures	(1,364)	(958)	(2,976)	(3,000)	(1,000)
Change in investments	(22)	(538)	120	10	(700)
Other investing cash flows	95	53	73	113	153
<b>Cash flow from investing</b>	<b>(1,291)</b>	<b>(1,443)</b>	<b>(2,783)</b>	<b>(2,877)</b>	<b>(1,547)</b>
Equities issued/Others	0	0	0	0	0
Debt raised/repaid	(839)	(1,875)	2,000	1,400	0
Interest expenses	(359)	(310)	(265)	(452)	(529)
Dividends paid	(185)	(235)	(188)	(226)	(271)
Other financing cash flows	(797)	66	0	0	0
<b>Cash flow from financing</b>	<b>(2,180)</b>	<b>(2,354)</b>	<b>1,546</b>	<b>722</b>	<b>(801)</b>
<b>Chg in cash &amp; cash eq.</b>	<b>(53)</b>	<b>(40)</b>	<b>(41)</b>	<b>(908)</b>	<b>(874)</b>
<b>Closing cash &amp; cash eq.</b>	<b>111</b>	<b>73</b>	<b>32</b>	<b>29</b>	<b>214</b>

### Per Share

Y/E 31 Mar (Rs)	FY20A	FY21A	FY22E	FY23E	FY24E
Reported EPS	110.3	95.3	78.3	85.2	100.1
Adjusted EPS	110.3	95.3	78.3	85.2	100.1
Dividend per share	24.2	30.7	24.6	29.5	35.4
Book value per share	994.8	1,097.4	1,151.1	1,206.8	1,271.5

### Valuations Ratios

Y/E 31 Mar (x)	FY20A	FY21A	FY22E	FY23E	FY24E
EV/Sales	1.0	1.1	0.9	0.8	0.7
EV/EBITDA	9.6	9.3	8.8	7.2	6.2
Adjusted P/E	20.5	23.7	28.8	26.5	22.6
P/BV	2.3	2.1	2.0	1.9	1.8

### DuPont Analysis

Y/E 31 Mar (%)	FY20A	FY21A	FY22E	FY23E	FY24E
Tax burden (Net profit/PBT)	94.0	75.7	74.8	74.8	74.8
Interest burden (PBT/EBIT)	71.4	75.5	75.1	65.8	65.9
EBIT margin (EBIT/Revenue)	6.1	6.8	4.9	5.3	5.7
Asset turnover (Rev./Avg TA)	168.8	167.0	183.3	177.8	179.1
Leverage (Avg TA/Avg Equity)	1.6	1.4	1.4	1.6	1.6
<b>Adjusted ROAE</b>	<b>11.2</b>	<b>9.1</b>	<b>7.0</b>	<b>7.2</b>	<b>8.1</b>

### Ratio Analysis

Y/E 31 Mar	FY20A	FY21A	FY22E	FY23E	FY24E
<b>YoY growth (%)</b>					
Revenue	(13.8)	(8.6)	16.2	14.2	9.1
EBITDA	(17.5)	4.5	(1.6)	23.1	14.2
Adjusted EPS	(18.1)	(13.6)	(17.8)	8.8	17.5
<b>Profitability &amp; Return ratios (%)</b>					
EBITDA margin	10.4	11.9	10.1	10.9	11.4
EBIT margin	6.1	6.8	4.9	5.3	5.7
Adjusted profit margin	4.1	3.9	2.8	2.6	2.8
Adjusted ROAE	11.1	8.7	6.8	7.1	7.9
ROCE	9.7	8.6	6.7	7.1	7.7
<b>Working capital days (days)</b>					
Receivables	46	42	41	41	42
Inventory	80	80	75	74	75
Payables	88	90	87	82	86
<b>Ratios (x)</b>					
Gross asset turnover	0.5	0.6	0.6	0.7	0.7
Current ratio	1.7	1.4	1.5	1.5	1.5
Net interest coverage ratio	3.5	4.1	4.0	2.9	2.9
<b>Adjusted debt/equity</b>	<b>0.4</b>	<b>0.2</b>	<b>0.4</b>	<b>0.5</b>	<b>0.5</b>

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

## Disclaimer

### Recommendation scale: Recommendations and Absolute returns (%) over 12 months

**BUY** – Expected return >+15%

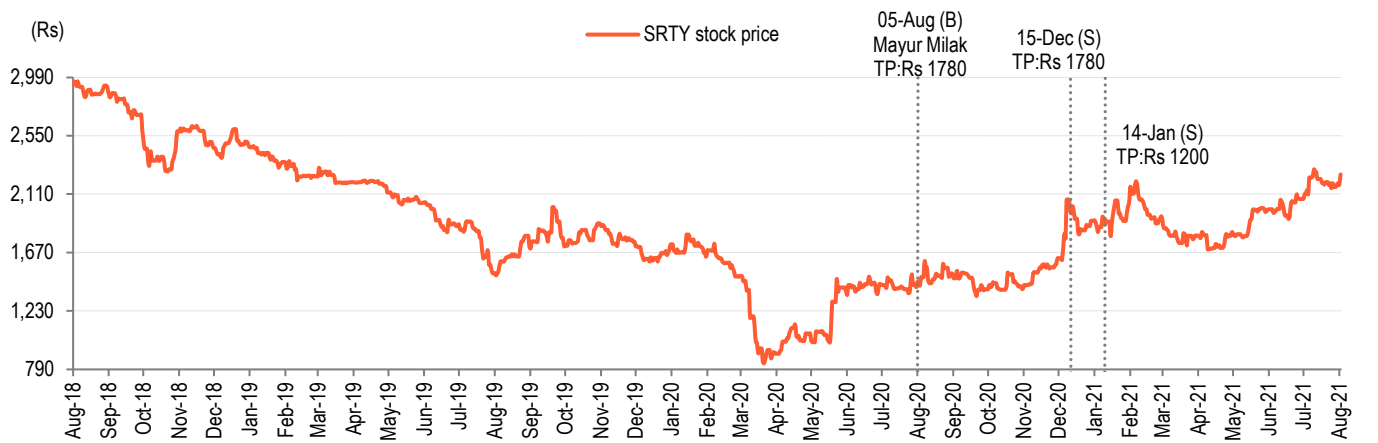
**HOLD** – Expected return from -6% to +15%

**SELL** – Expected return <-6%

**Note:** Recommendation structure changed with effect from 21 June 2021

Our recommendation scale does not factor in short-term stock price volatility related to market fluctuations. Thus, our recommendations may not always be strictly in line with the recommendation scale as shown above.

### Ratings and Target Price (3-year history): TVS SRICHAKRA (SRTY IN)



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

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