

BUY

TP: Rs 1,780 | ▲ 24%

TVS SRICHAKRA

Auto Components

12 November 2020

Q2 along expected lines; maintain BUY

TVS Srichakra's (TVSS) Q2FY21 revenue was marginally below expectations at Rs 5.4bn, but a sharp 25% YoY drop in other expenses led to superior operating margins at 15.9% (13.9% est.). Adj. PAT was in line, rising 95% YoY to Rs 394mn. Having aggressively penetrated the OEM segment, TVSS now intends to focus on improving its footprint in the aftermarket through an elaborate brand building exercise. We expect these efforts to aid a 36% earnings CAGR over FY21-FY23. Retain BUY with an unchanged Sep'21 TP of Rs 1,780.

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Above-expected margins: Though TVSS's Q2 revenue was ~5% below our estimate at Rs 5.4bn (-2% YoY), operating performance bettered our forecast. Below-expected other expenses (as a percentage of sales) supported a beat on EBITDA margin (15.9% vs. 13.9% est.), leading to EBITDA growth of 40% YoY at Rs 849mn. Adj. PAT was in line, increasing 95% YoY to Rs 394mn due to a normalised tax rate (25% vs. 35% in Q2FY20).

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 not only improve overall margins but also ensure steady growth going forward. We expect EBITDA margins to expand 150bps over our three-year forecast period to ~12% in FY23.

Maintain BUY: We estimate a revenue CAGR of 15% over FY21-FY23, with stronger margins aiding a higher EBITDA/PAT CAGR of 20%/36%. Net D/E stands at 0.4x and we expect the company to deliver ROE/ROCE of 11.1%/9.4% by FY23-end. Our TP remains at Rs 1,780, based on an unchanged 14x Sep'22E P/E multiple, at par with peers. BUY.

Ticker/Price	SRTY IN/Rs 1,439
Market cap	US\$ 147.1mn
Shares o/s	8mn
3M ADV	US\$ 0.2mn
52wk high/low	Rs 1,887/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)	10.7	(55.0)	19.7	12.0	10.7
EV/EBITDA (x)	5.4	13.2	7.0	5.2	4.7

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

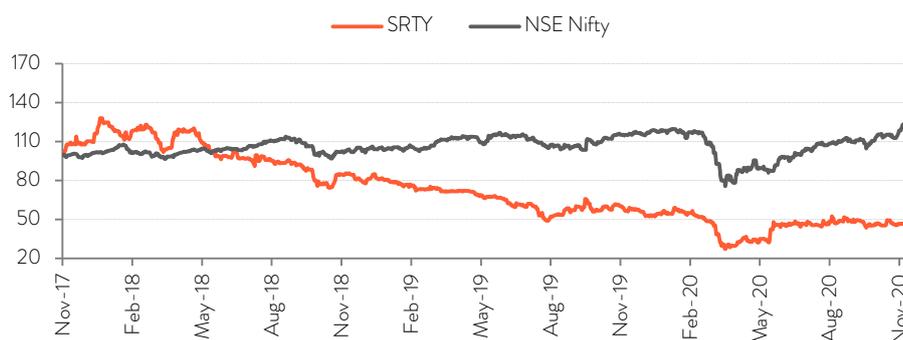
(Rs mn)	Q2FY21	Q2FY20	YoY (%)	Q1FY21	QoQ (%)	H1FY21	H1FY20	YoY (%)
Net Revenues	5,350	5,451	(1.9)	2,065	159.1	7,415	11,376	(34.8)
Total Income (A)	5,350	5,451	(1.9)	2,065	159.1	7,415	11,376	(34.8)
Operating Expenses:								
Raw materials consumed	3,093	3,130	(1.2)	1,320	134.3	4,413	6,720	(34.3)
Employee 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 estimate a revenue CAGR of 15% over FY21-FY23, with stronger margins aiding a higher EBITDA/PAT CAGR of 20%/36%. Net D/E stands at 0.4x and we expect the company to deliver ROE/ROCE of 11.1%/ 9.4% by FY23-end. Our TP remains at Rs 1,780, based on an unchanged 14x Sep'22E P/E multiple, at par with peers. BUY.

FIG 2 – RELATIVE STOCK PERFORMANCE



Source: NSE

Key risks

- Below-expected recovery in both replacement and OEM channels can lead to lower volumes, posing downside risk to our estimates.
- A surge in raw material prices could dent 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	0.6	0.7	0.8	0.6	0.6
EV/EBITDA	5.4	13.2	7.0	5.2	4.7
Adjusted P/E	10.7	(55.0)	19.7	12.0	10.7
P/BV	1.5	1.4	1.4	1.2	1.1

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

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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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