

SELL

TP: Rs 1,200 | ▼ 40%

TVS SRICHAKRA

Auto Components

25 May 2021

Bleak volume and margin outlook; SELL

TVS Srichakra (TVSS) posted a 5% QoQ increase in Q4FY21 revenue, with an above-expected EBITDA margin of 13.3% (11.2% est.). Adj. PAT dipped 2% QoQ to Rs 341mn. We believe the recent spike in prices of natural rubber and crude derivatives warrants caution on margins amidst a weak volume outlook for 2Ws. We expect TVSS to clock a revenue/EBITDA/PAT CAGR of +15%/+11%/-5% over FY21-FY23 and continue to value the stock at 14x FY23E EPS – on par with peers. Maintain SELL with an unchanged Mar'22 TP of Rs 1,200.

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Healthy Q4: TVSS's Q4 revenue increased 5% QoQ to Rs 5.8bn, coming in ahead of estimates. EBITDA margin was at 13.3% (11.2% est.), supported by an above-expected gross margin performance. Higher other income and a lower tax rate (of 23.8% vs. 25.5% est.) further shored up adj. PAT to Rs 341mn. TVSS has realigned the reporting of key parameters in Q4, which led to a Rs 282mn increase in other expenses and a decrease in RM and employee costs by Rs 240mn and Rs 42mn respectively (against method used earlier).

Weak margin outlook: With 12% QoQ cost inflation in the RM basket during Q4, a further expected rise of ~10% QoQ in Q1FY22 and the inability of tyre companies to fully pass on the cost burden, we anticipate gross margin deterioration for our tyre coverage. We factor in a further 300bps drop in TVSS's gross margin over Q4 levels, depleting its operating margin.

Valuations full amid rising earnings pressure: TVSS has planned capex of Rs 10bn over three years which will add significant pressure on the balance sheet. 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 (from 0.2x currently). We maintain our TP at Rs 1,200, based on an unchanged 14x FY23E P/E multiple, which is at par with peers and the stock's long-term average. Maintain SELL.

Ticker/Price	SRTY IN/Rs 1,990
Market cap	US\$ 207.3mn
Shares o/s	8mn
3M ADV	US\$ 0.4mn
52wk high/low	Rs 2,271/Rs 1,025
Promoter/FPI/DII	45%/1%/6%

Source: NSE

STOCK PERFORMANCE

Source: NSE

KEY FINANCIALS

Y/E 31 Mar	FY19A	FY20A	FY21P	FY22E	FY23E
Total revenue (Rs mn)	23,818	20,522	18,758	21,804	24,908
EBITDA (Rs mn)	2,592	2,139	2,235	2,199	2,707
Adj. net profit (Rs mn)	1,032	845	730	600	652
Adj. EPS (Rs)	134.7	110.3	95.3	78.3	85.2
Adj. EPS growth (%)	(12.3)	(18.1)	(13.6)	(17.8)	8.8
Adj. ROAE (%)	13.9	11.1	8.7	6.8	7.1
Adj. P/E (x)	14.8	18.0	20.9	25.4	23.4
EV/EBITDA (x)	7.0	8.7	8.4	7.9	6.5

Source: Company, BOBCAPS Research | P – Provisional

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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)	Q4FY21	Q4FY20	YoY (%)	Q3FY21	QoQ (%)	FY21	FY20	YoY (%)
Net Revenues	5,810	4,171	39.3	5,533	5.0	18,758	20,522	(8.6)
Total Income (A)	5,810	4,171	39.3	5,533	5.0	18,758	20,522	(8.6)
Operating Expenses:								
Raw materials consumed	3,047	2,354	29.5	3,117	5.4	10,577	11,757	(10.0)
Employee Expenses	716	667	7.3	765	(1.0)	2,659	2,822	(5.8)
Other Expenses	1,274	823	54.8	877	13.2	3,287	3,805	(13.6)
Total Expenditure (B)	5,037	3,844	31.0	4,759	5.8	16,523	18,384	(10.1)
EBITDA (A-B)	773	328	135.9	774	0.0	2,235	2,139	4.5
Other Income	30	40	(25.3)	7	351.5	53	95	(43.9)
Depreciation	296	305	(3.0)	252	17.5	1,011	977	3.6
EBIT	508	63	703.3	529	(3.9)	1,277	1,257	1.6
Finance Costs	60	86	(31.0)	64	(6.7)	310	359	(13.7)
PBT	448	(23)	NA	466	(3.5)	967	898	7.7
Tax expense	107	(268)	(139.9)	117	(8.2)	237	54	343.0
Reported PAT	341	245	39.2	349	(2.0)	730	844	(13.5)
Adjusted PAT	341	245	39.2	349	(2.0)	730	844	(13.5)

Source: Company, BOBCAPS Research

FIG 2 – KEY PARAMETERS

(%)	Q4FY21	Q4FY20	YoY (bps)	Q3FY21	QoQ (bps)	FY21	FY20	YoY (bps)
Gross margin	47.6	43.6	398	43.7	(22)	43.6	42.7	90
EBITDA margin	13.3	7.9	545	14.0	(67)	11.9	10.4	149
EBIT margin	8.7	1.5	722	9.6	(81)	6.8	6.1	68
PBT margin	7.7	(0.6)	827	8.4	(69)	5.2	4.4	78
Tax rate	23.9	NA	NA	25.0	(122)	24.5	6.0	1,855
Adj PAT margin	5.9	5.9	(1)	6.3	(42)	3.9	4.1	(22)

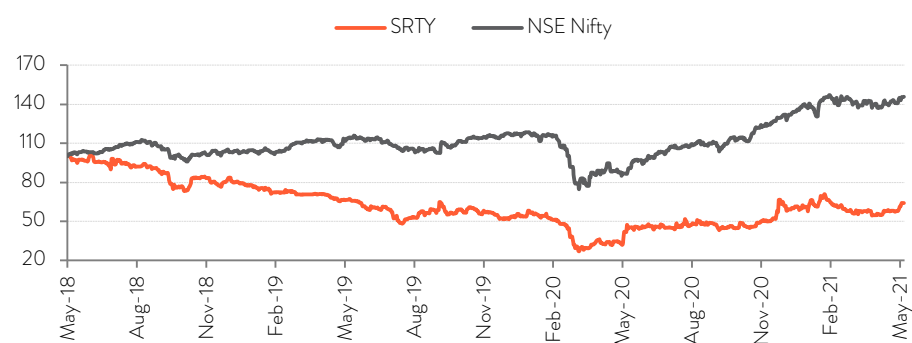
Source: Company, BOBCAPS Research

Valuation methodology

TVSS has planned capex of Rs 10bn over three years which will add significant pressure on its balance sheet. 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 (from 0.2x currently). The company's revenue/EBITDA/PAT are projected to clock a +15%/+11%/ -5% CAGR over FY21-FY23, with a 200bps decline in ROE/ ROCE to 7.1% each by FY23-end.

We maintain our Mar'22 target price of Rs 1,200 based on an unchanged 14x FY23E P/E multiple, which is at par with peers and the stock's long-term average. Retain SELL.

FIG 3 – RELATIVE STOCK PERFORMANCE



Source: NSE

Key risks

- Above-expected recovery in both replacement and OEM channels can lead to higher volumes, posing an 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	FY21P	FY22E	FY23E
Total revenue	23,818	20,522	18,758	21,804	24,908
EBITDA	2,592	2,139	2,235	2,199	2,707
Depreciation	828	977	1,011	1,205	1,496
EBIT	1,878	1,258	1,277	1,067	1,325
Net interest income/(expenses)	(345)	(359)	(310)	(265)	(452)
Other income/(expenses)	114	95	53	73	113
Exceptional items	0	0	(2)	0	0
EBT	1,533	898	965	802	872
Income taxes	501	54	237	202	220
Extraordinary items	0	0	0	0	0
Min. int./Inc. from associates	0	0	0	0	0
Reported net profit	1,032	845	728	600	652
Adjustments	0	0	2	0	0
Adjusted net profit	1,032	845	730	600	652

Balance Sheet

Y/E 31 Mar (Rs mn)	FY19A	FY20A	FY21P	FY22E	FY23E
Accounts payables	3,526	2,113	2,877	2,885	3,338
Other current liabilities	1,336	1,840	2,133	2,578	2,750
Provisions	40	137	177	177	177
Debt funds	4,127	3,288	1,413	3,413	4,813
Other liabilities	988	867	868	868	868
Equity capital	77	77	77	77	77
Reserves & surplus	7,355	7,543	8,329	8,741	9,168
Shareholders' fund	7,432	7,620	8,406	8,818	9,244
Total liabilities and equities	17,448	15,865	15,873	18,738	21,190
Cash and cash eq.	165	111	73	32	29
Accounts receivables	3,236	1,970	2,325	2,628	3,003
Inventories	4,888	4,105	4,161	4,779	5,323
Other current assets	753	903	444	777	819
Investments	1,069	1,091	1,629	1,509	1,499
Net fixed assets	6,222	6,466	6,470	8,266	9,770
CWIP	339	482	424	400	400
Intangible assets	0	0	0	0	0
Deferred tax assets, net	(555)	(230)	(296)	(296)	(296)
Other assets	1,332	967	643	643	643
Total assets	17,448	15,865	15,873	18,738	21,190

Source: Company, BOBCAPS Research

Cash Flows

Y/E 31 Mar (Rs mn)	FY19A	FY20A	FY21P	FY22E	FY23E
Net income + Depreciation	1,860	1,821	1,739	1,804	2,148
Interest expenses	345	359	310	265	(452)
Non-cash adjustments	(114)	(95)	(53)	(73)	(113)
Changes in working capital	(1,270)	1,332	1,469	(802)	(335)
Other operating cash flows	(93)	0	292	0	0
Cash flow from operations	727	3,418	3,756	1,195	1,247
Capital expenditures	(1,177)	(1,364)	(958)	(2,976)	(3,000)
Change in investments	(390)	(22)	(538)	120	10
Other investing cash flows	114	95	53	73	113
Cash flow from investing	(1,452)	(1,291)	(1,443)	(2,783)	(2,877)
Equities issued/Others	0	0	0	0	0
Debt raised/repaid	1,008	(839)	(1,875)	2,000	1,400
Interest expenses	(345)	(359)	(310)	(265)	(452)
Dividends paid	(306)	(185)	(235)	(188)	(226)
Other financing cash flows	379	(797)	66	0	0
Cash flow from financing	735	(2,180)	(2,354)	1,546	722
Changes in cash and cash eq.	10	(53)	(40)	(41)	(908)
Closing cash and cash eq.	165	111	73	32	29

Per Share

Y/E 31 Mar (Rs)	FY19A	FY20A	FY21P	FY22E	FY23E
Reported EPS	134.7	110.3	95.3	78.3	85.2
Adjusted EPS	134.7	110.3	95.3	78.3	85.2
Dividend per share	40.0	24.2	30.7	24.6	29.5
Book value per share	970.2	994.8	1,097.4	1,151.1	1,206.8

Valuations Ratios

Y/E 31 Mar (x)	FY19A	FY20A	FY21P	FY22E	FY23E
EV/Sales	0.8	0.9	1.0	0.8	0.7
EV/EBITDA	7.0	8.7	8.4	7.9	6.5
Adjusted P/E	14.8	18.0	20.9	25.4	23.4
P/BV	2.1	2.0	1.8	1.7	1.6

DuPont Analysis

Y/E 31 Mar (%)	FY19A	FY20A	FY21P	FY22E	FY23E
Tax burden (Net profit/PBT)	67.3	94.0	75.7	74.8	74.8
Interest burden (PBT/EBIT)	81.6	71.4	75.5	75.1	65.8
EBIT margin (EBIT/Revenue)	7.9	6.1	6.8	4.9	5.3
Asset turnover (Revenue/Avg TA)	205.4	168.8	167.0	183.3	177.8
Leverage (Avg TA/Avg Equity)	1.7	1.6	1.4	1.4	1.6
Adjusted ROAE	14.8	11.2	9.1	7.0	7.2

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

Ratio Analysis

Y/E 31 Mar	FY19A	FY20A	FY21P	FY22E	FY23E
YoY growth (%)					
Revenue	10.7	(13.8)	(8.6)	16.2	14.2
EBITDA	2.3	(17.5)	4.5	(1.6)	23.1
Adjusted EPS	(12.3)	(18.1)	(13.6)	(17.8)	8.8
Profitability & Return ratios (%)					
EBITDA margin	10.9	10.4	11.9	10.1	10.9
EBIT margin	7.9	6.1	6.8	4.9	5.3
Adjusted profit margin	4.3	4.1	3.9	2.8	2.6
Adjusted ROAE	13.9	11.1	8.7	6.8	7.1
ROCE	10.9	9.7	8.6	6.7	7.1
Working capital days (days)					
Receivables	43	46	42	41	41
Inventory	63	80	80	75	74
Payables	69	88	90	87	82
Ratios (x)					
Gross asset turnover	0.4	0.5	0.6	0.6	0.7
Current ratio	1.8	1.7	1.4	1.5	1.5
Net interest coverage ratio	5.4	3.5	4.1	4.0	2.9
Adjusted debt/equity	0.6	0.4	0.2	0.4	0.5

Source: Company, BOBCAPS Research

Disclaimer

Recommendation scale: 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)

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, A – Add, R – Reduce, S – Sell

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