

FIRST LIGHT

16 December 2020

RESEARCH

TVS Srichakra | Target: Rs 1,780 | -11% | SELL

Upsides capped; downgrade to SELL

SUMMARY

TVS Srichakra

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.

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TOP PICKS

LARGE-CAP IDEAS

Company	Rating	Target
Cipla	Buy	900
GAIL	Buy	155
Petronet LNG	Buy	330
TCS	Buy	3,180
Tech Mahindra	Buy	1,040

MID-CAP IDEAS

Company	Rating	Target
Alkem Labs	Buy	3,600
Greenply Industries	Buy	150
Laurus Labs	Buy	410
Transport Corp	Buy	300
Mahanagar Gas	Sell	750

Source: BOBCAPS Research

DAILY MACRO INDICATORS

Indicator	Current	2D (%)	1M (%)	12M (%)
US 10Y yield (%)	0.89	0bps	0bps	(98bps)
India 10Y yield (%)	5.95	(1bps)	7bps	(85bps)
USD/INR	73.56	0.1	1.4	(3.6)
Brent Crude (US\$/bbl)	50.29	0.6	17.6	(23.0)
Dow	29,862	(0.6)	1.3	5.8
Shanghai	3,369	0.7	1.8	12.9
Sensex	46,253	0.3	6.5	13.0
India FII (US\$ mn)	11 Dec	MTD	CYTD	FYTD
FII-D	326.0	671.8	(13,947.4)	(4,187.8)
FII-E	684.5	3,974.8	20,080.6	26,683.5

Source: Bank of Baroda Economics Research

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SELL

TP: Rs 1,780 | ▼ 11%

TVS SRICHAKRA

Auto Components

15 December 2020

Upsides capped; downgrade to SELL

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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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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)

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