

FIRST LIGHT

26 May 2021

RESEARCH

TVS Srichakra | Target: Rs 1,200 | -40% | SELL

Bleak volume and margin outlook; SELL

SUMMARY

TVS Srichakra

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.

[Click here for the full report.](#)

TOP PICKS

LARGE-CAP IDEAS

Company	Rating	Target
TCS	Buy	3,780
Tech Mahindra	Buy	1,190
Tata Power	Buy	131

MID-CAP IDEAS

Company	Rating	Target
Alkem Labs	Buy	3,750
Ajanta Pharma	Buy	2,300
Alembic Pharma	Buy	1,230

Source: BOBCAPS Research

DAILY MACRO INDICATORS

Indicator	Current	2D (%)	1M (%)	12M (%)
US 10Y yield (%)	1.61	(1bps)	8bps	95bps
India 10Y yield (%)	5.97	(1bps)	(7bps)	20bps
USD/INR	72.97	(0.2)	2.8	3.7
Brent Crude (US\$/bbl)	68.50	3.1	1.6	84.2
Dow	34,394	0.5	1.2	39.8
Shanghai	3,497	0.3	0.6	21.6
Sensex	50,652	0.2	5.1	63.4
India FII (US\$ mn)	21 May	MTD	CYTD	FYTD
FII-D	(40.0)	261.3	(2,131.0)	(103.7)
FII-E	45.5	(386.7)	5,450.5	(1,875.8)

Source: Bank of Baroda Economics Research

BOBCAPS Research

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SELL

TP: Rs 1,200 | ▼ 40%

TVS SRICHAKRA

| Auto Components

| 25 May 2021

Bleak volume and margin outlook; SELL

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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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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)

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