

TVS Srichakra

Performance Update

Y/E March (₹ cr)	3QFY2016	3QFY2015	% chg (yoy)	2QFY2016	% chg (qoq)
Total Income	509	489	4.0	522	(2.6)
EBITDA	81	63	29.3	82	(1.2)
EBITDA margin (%)	15.9	12.8	313	15.7	22
Adj PAT	48	26	81.9	49	(1.1)

Source: Company, Angel Research

TVS Srichakra (TVSSL) reported a good set of numbers for 3QFY2016. The top-line grew by 4.0% yoy to ₹509cr. The EBITDA margin expanded by 313bp yoy to 15.7%, mainly due to a 689bp yoy decline in raw material cost as a percentage of sales as domestic rubber prices declined by ~10.0% on a yoy basis and ~8.0% on a qoq basis. As a result, the EBITDA grew by 29.3% yoy to ₹81cr. The company has reduced its debt in the current fiscal. Lower debt level (~₹37cr as on 1HFY2016 excluding current maturities) has resulted in interest expense declining by 57.7% yoy to ₹3cr for 3QFY2016. Owing to a better operational performance and lower interest outgo, the net profit nearly doubled to ₹48cr from ₹26cr in the same quarter of the previous year.

Leadership position in 2W OEM segment and growing share in aftermarket segment: TVSSL is the largest 2W/3W tyre manufacturer with a leadership position in the 2W OEM segment. It is currently the third largest player in the aftermarket segment. Although motorcycle sales have declined in recent times owing to poor rural economy, scooter sales remain strong thus resulting in lower decline for overall 2W segment. TVSSL's key clients who have a higher share in the scooter segment, namely, Honda Motorcycle and Scooter India (HMSI) and TVS Motor are faring better than completion, thus aiding growth for the company. Going forward, the outlook on the overall 2W industry remains positive and given the capacity addition by HMSI, we expect TVSSL to maintain its performance on the top-line front. As for the aftermarket segment, the company is continuously increasing its presence in the space which has enabled it in reporting a top-line growth and in improving its profitability.

Outlook and valuation: We expect TVSSL's top-line to grow at a CAGR of 9.0% over FY2015-17E to ₹2,252cr. We expect the operating margin to be at 15.3% in FY2017E on the back of lower rubber prices and improvement in market share in the aftermarket segment. Consequently, the net profit is expected to be at ₹205cr in FY2017E. At the current market price, the stock is trading at a PE of 9.4x its FY2017E earnings. **We have a Buy rating on the stock with a revised target price of ₹3,217 based on a target PE of 12.0x its FY2017E earnings.**

Key financials

Y/E March (₹ cr)	FY2013	FY2014	FY2015E	FY2016E	FY2017E
Net sales	1,476	1,671	1,896	2,035	2,252
% chg	5.1	13.2	13.5	7.3	10.7
Net profit	36	47	104	190	205
% chg	(10.3)	33.0	118.8	83.4	7.8
EBITDA margin (%)	5.7	7.2	11.5	15.9	15.3
EPS (₹)	46.6	61.9	135.6	248.6	268.1
P/E (x)	54.3	40.8	18.7	10.2	9.4
P/BV (x)	11.3	9.5	7.0	4.4	3.2
RoE (%)	20.9	23.3	37.6	43.6	33.9
RoCE (%)	13.3	17.7	33.7	45.5	37.5
EV/Sales (x)	1.4	1.3	1.1	1.0	0.8
EV/EBITDA (x)	24.8	18.5	9.7	6.2	5.5

Source: Company, Angel Research

BUY

CMP	₹2,528
Target Price	₹3,217

Investment Period	12 Months
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Stock Info

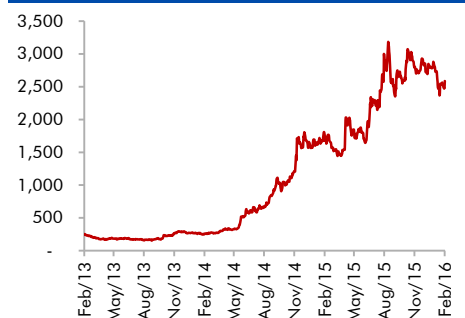
Sector	Tyres
Market Cap (₹ cr)	1,936
Beta	1.1
Net debt (₹ cr)	164
52 Week High / Low	3,249 / 1,408
Avg. Daily Volume	3,954
Face Value (₹)	10
BSE Sensex	24,287
Nifty	7,387
Reuters Code	TVSC.BO
Bloomberg Code	SRTY IN

Shareholding Pattern (%)

Promoters	45.4
MF / Banks / Indian Fls	9.7
FII / NRIs / OCBs	0.9
Indian Public / Others	44.1

Abs.(%)	3m	1yr	3yr
Sensex	(6.3)	(14.3)	25.3
TVSSL	(7.7)	54.5	914.8

3 year price chart



Source: Company, Angel Research

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Exhibit 1: 3QFY2016 performance

Y/E March (₹ cr)	3QFY2016	3QFY2015	% chg (yoy)	2QFY2016	% chg (qoq)	9MFY2016	9MFY2015	% chg
Net Sales	509	489	4.0	522	(2.6)	1,535	1,431	7.2
Net raw material	258	282	(8.5)	271	(5.0)	787	863	(8.7)
(% of Sales)	50.7	57.6	(689)	52.0	(126)	51.3	60.3	(896)
Staff Costs	48	43	11.4	46	4.1	145	122	19.2
(% of Sales)	9.4	8.8	63	8.8	60	9.4	8.5	95
Other Expenses	122	102	19.6	123	(0.8)	356	294	21.3
(% of Sales)	23.9	20.8	313	23.5	44	23.2	20.5	269
Total Expenditure	428	427	0.2	440	(2.9)	1,288	1,278	0.8
Operating Profit	81	63	29.3	82	(1.2)	246	153	60.5
OPM	15.9	12.8	313	15.7	22	16.0	10.7	533
Interest	3	7	(57.7)	4	(14.8)	12	26	(53.8)
Depreciation	10	7	35.9	10	(0.8)	30	21	43.9
Other Income	0	0	26.9	1	(73.2)	4	1	282.7
Exceptional Item	-	(12)		0		0	(12)	
PBT	68	36	88.4	70	(1.9)	208	96	117.4
(% of Sales)	13.4	7.4		13.3		13.5	6.7	
Tax	20	10	105.7	21	(3.7)	62	26	140.4
(% of PBT)	29.5	27.0		30.0		29.8	27.0	
Reported PAT	48	26	81.9	49	(1.1)	146	70	109.0
Adjusted PAT	48	26		49		146	70	
PATM	9.5	5.4		9.3		9.5	4.9	
Equity capital (cr)	8	8		8		8	8	
EPS (₹)	62.8	34.5	81.9	63.5	(1.1)	190.3	91.1	109.0

Source: Company, Angel Research

Exhibit 2: Actual vs. Angel estimate (3QFY2016)

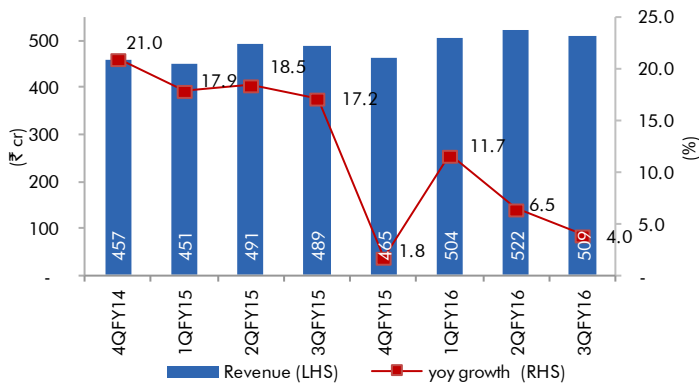
(₹ cr)	Actual (₹ cr)	Estimate (₹ cr)	% variation
Total Income	509	542	(6.2)
EBIDTA	81	83	(2.8)
EBIDTA margin	15.9	15.4	56
Adj. PAT	48	49	(1.6)

Source: Company, Angel Research

Top-line slightly below estimates, overall numbers in-line.

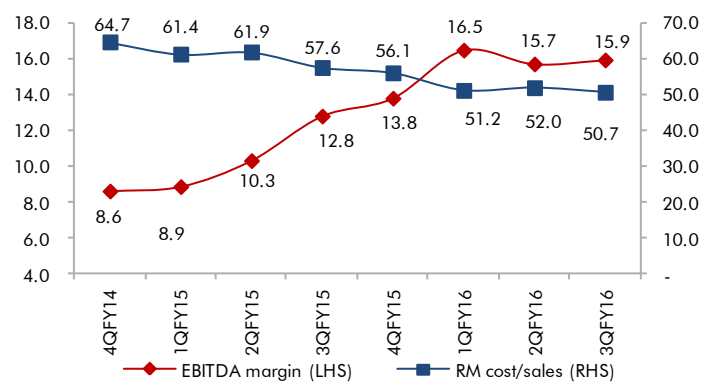
For 3QFY2016, TVS Srichakra (TVSSL) reported a good set of numbers. The top-line grew by 4.0% yoy to ₹509cr, against our estimate of ₹542cr. Although the top-line was below our estimate, TVSSL is performing well and reporting top-line growth while other tyre makers are reporting top-line declines on a yoy basis. This is because TVSSL does not have exposure to the TBR segment and is also helped by its growing presence in the 2W aftermarket segment.

Exhibit 3: Top-line maintaining good growth



Source: Company, Angel Research

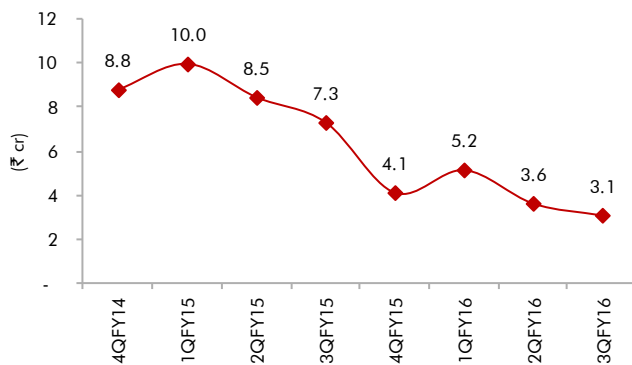
Exhibit 4: Lower RM cost led to margin expansion



Source: Company, Angel Research

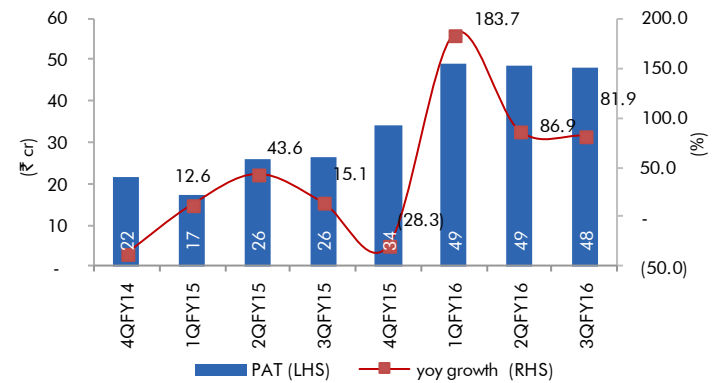
As for operational performance, other expenses as a percentage of sales increased during the quarter by 313bp yoy to 23.9% but raw material expense declined by 689bp yoy to 50.7% of sales. This resulted in the EBITDA margin expanding by 313bp yoy to 15.9% and EBITDA growing by 29.3% yoy to ₹81cr. The margin and EBITDA were both in-line with our expectation of 15.4% and ₹83cr, respectively. The company has reduced its debt in the current fiscal. Lower debt level (~₹37cr as on 1HFY2016 excluding current maturities) has resulted in interest expense declining by 57.7% yoy to ₹3cr. Owing to better operational performance and lower interest outgo the net profit nearly doubled to ₹48cr from ₹26cr in the same quarter of the previous year (against our estimate of ₹49cr).

Exhibit 5: Declining interest cost



Source: Company, Angel Research

Exhibit 6: Improving Profitability



Source: Company, Angel Research

Investment rationale

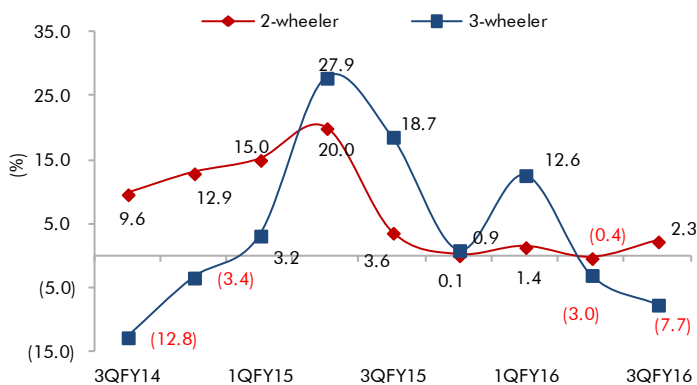
Higher share in Aftermarket segment to aid growth

The company's better performance on both the top-line and the profitability front can largely be attributed to its growing presence in the aftermarket segment. The company over the past few years has concentrated on increasing its share which is reflecting in its improved performance. The company ranks third in terms of market share in the aftermarket segment.

Leadership position in 2W OEM and better outlook on the industry to aid growth

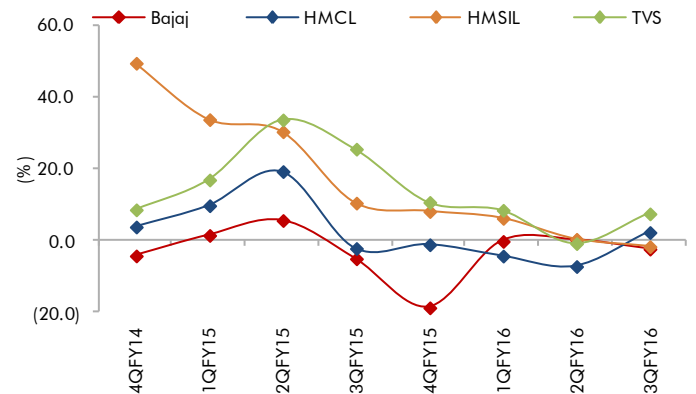
TVSSL is a market leader in the OEM segment with HMSI, Hero MotoCorp (HMCL), TVS Motor, Bajaj Auto and India Yamaha Motor (Yamaha) featuring among its major clients. After posting good growth rates in FY2015, the 2W industry has retraced on account of poor rural sentiment (poor monsoon). While motorcycle sales have been impacted the most on this account, the sales of scooters have remained robust. Although HMSI, which is a key client, posted a yoy decline of 1.4%, its scooter sales have remained intact. The company has been facing constraints as it is working at peak capacities which should normalize once its scooter plant in Gujarat commences operation in the near future. However, its group company TVS Motor has posted stellar numbers, reporting volume growth of 7.7% yoy for the past quarter.

Exhibit 7: 2W/3W growth (yoy)



Source: Company, Angel Research

Exhibit 8: 2W sales growth by manufacturer (yoy)



Source: Company, Angel Research

Given its leadership position in the 2W OEM segment, and positive outlook on the 2W industry, we expect TVSSL to maintain its performance on the top-line front. Moreover, TVSSL is only present in 2W/3W segment with negligible share in off the road segment which has shielded the company from cheaper Chinese tyres.

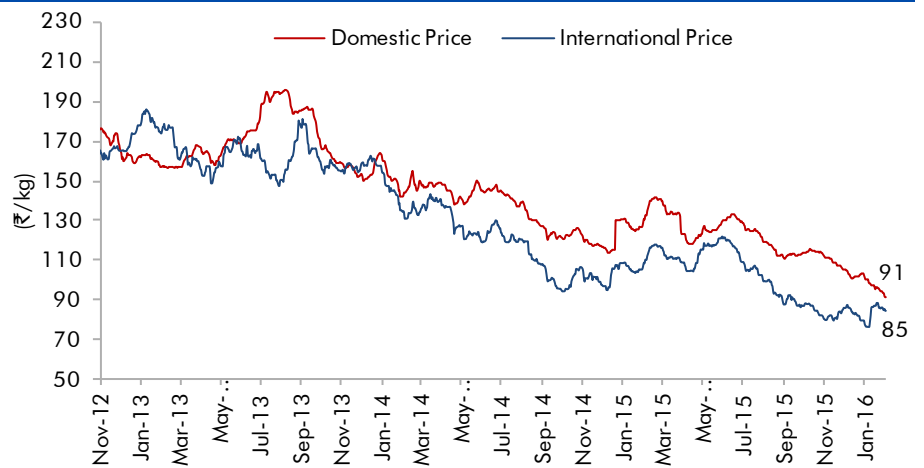
Agreement with Michelin adds to revenue visibility

TVSSSL has entered into an agreement with French tyre major Michelin to manufacture 2W bias tyres designed by Michelin at its Madurai facility. As per the agreement, TVSSSL would contract manufacture 2W bias tyres under the Michelin brand name and it will also be manufacturing some tyres from its own range of 2W tyres. TVSSSL is in the process of continuously expanding its capacity to 2.3 lakh tyres per month by FY2016E which will aid in carrying out the agreement.

Stable rubber prices to help in sustaining margins

Natural Rubber (NR) continues to show weakness as domestic NR prices further slipped by ~10.0% yoy and ~8.0% qoq to ₹109/kg in 3QFY2016. The global prices during the period have declined by ~17.0% yoy and ~14.0% qoq suggesting the higher global inventory is likely to keep prices at lower levels. With lower raw material price environment prevailing, we expect TVSSSL to maintain its margin in the near future.

Exhibit 9: International vs. Domestic rubber price trend

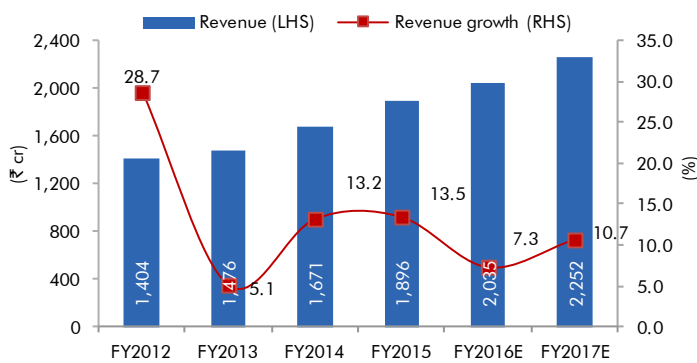


Source: Angel Research

Financial performance

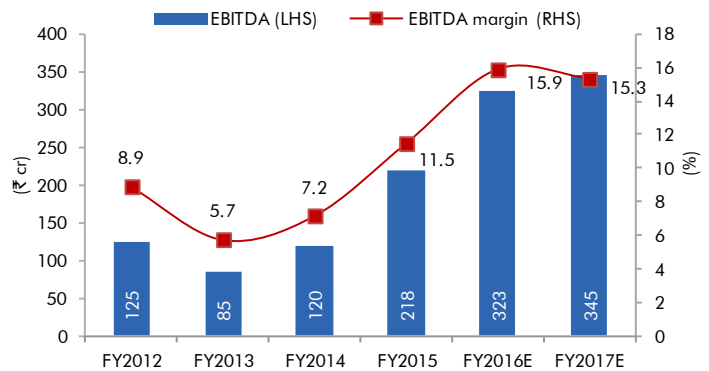
We expect its top-line to grow at a CAGR of 9.0% over FY2015-17E to ₹2,252cr. The company is confident of smooth revenue flow backed by growth in its major OEM consumer segment and is also focusing on increasing its market share in the aftermarket segment. Raw material cost continues to be at lower levels helping the company maintain its margins in 3QFY2016. We expect the lower raw material cost environment to prevail amidst pressure on NR and SBR. We expect the operating margin to be at 15.9% and 15.3% in FY2016E and FY2017E, respectively.

Exhibit 10: Revenue to grow at 9.0% CAGR



Source: Company, Angel Research

Exhibit 11: EBITDA Margin to be at 15.3% in FY2017E



Source: Company, Angel Research

Owing to lower interest expense and better operational performance, we expect the company to report a profit of ₹205cr in FY2017E.

Outlook and valuation

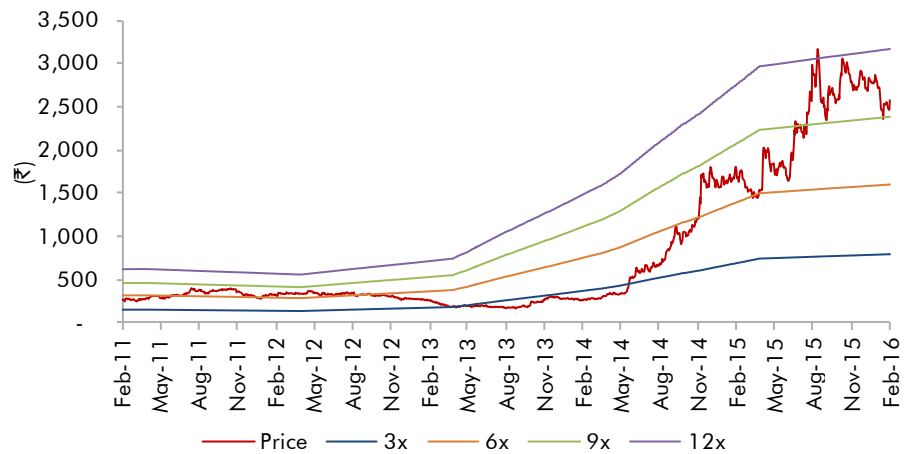
We expect the top-line of the company to grow at a CAGR of 9.0% over FY2015-17E to ₹2,252cr. We expect the operating margin to be at 15.3% in FY2017E owing to lower rubber prices and improvement in market share in the aftermarket segment. Consequently, the net profit is expected to be at ₹205cr in FY2017E. At the current market price, the stock is trading at a PE of 9.4x its FY2017E earnings. **We have a Buy rating on the stock with a revised target price of ₹3,217 based on a target PE of 12.0x for FY2017E earnings.**

Exhibit 11: Relative valuation

Company	Year	Mcap (₹ cr)	Sales (₹ cr)	OPM (%)	PAT (₹ cr)	EPS (₹)	ROE (%)	P/E (x)	P/BV (x)	EV/Sales (x)
TVSSL	FY2017E	1,936	2,252	15.3	205	268.1	39.4	9.4	3.2	0.8
CEAT	FY2017E	3,699	6,597	13.7	453	111.9	18.5	8.2	1.5	0.6
Apollo tyres	FY2017E	6,986	12,689	16.0	968	19.0	13.0	7.2	0.9	0.7
MRF	FY2017E	14,499	14,488	21.1	1,611	3,797.9	21.2	9.0	1.7	0.9

Source: Company, Angel Research, Bloomberg

Exhibit 12: One-year forward PE band



Source: Company, Angel Research

Key downside risks to our recommendation: Any rise in rubber prices, increase in inflation, increasing competition, slowdown in 2W and 3W industry and lower-than-expected demand in the replacement market, will have an adverse impact on the company’s performance. The import duty on NR has been increased from 20% or ₹30/kg to 25% or ₹30/kg. Further upward revision in the duty will have an adverse impact on TVSSL’s profitability.

The Company

TVSSL is a part of the TVS Group. The company is a leading manufacturer of two-wheeler and three-wheeler tyres. The company manufactures a complete range of two-wheeler and three-wheeler tyres for the domestic market. For the export market, the company manufactures industrial pneumatic tyres, farm and implements tyres, skid steer tyres, multipurpose tyres and floatation tyres, among others. TVSSL’s manufacturing units are located at Madurai, Tamil Nadu and Pantnagar, Uttarakhand rolling out ~250 lakh tyres per year. With a network of over 2,400 dealers and 34 depots across the country, the company is a major supplier to TVS Motors, Hero MotoCorp, HMSI, Bajaj Auto, LML, Piaggio, Atul Auto Ltd., Mahindra 2Wheelers and India Yamaha Motor. The company also exports to the US, Europe, South America, Africa and Australia.

Standalone Profit & Loss Statement

Y/E March (₹ cr)	FY2013	FY2014	FY2015	FY2016E	FY2017E
Total operating income	1,476	1,671	1,896	2,035	2,252
% chg	5.1	13.2	13.5	7.3	10.7
Net Raw Materials	1,011	1,104	1,123	1,043	1,171
% chg	7.1	9.2	1.7	(7.2)	12.3
Other Mfg costs	106	124	146	180	198
% chg	5.1	16.4	18.1	23.0	10.0
Personnel	113	125	164	194	213
% chg	17.4	10.5	31.5	18.0	10.0
Other	161	198	245	296	326
% chg	17.0	23.3	23.3	21.0	10.0
Total Expenditure	1,391	1,551	1,678	1,712	1907
EBITDA	85	120	218	323	345
% chg	(32.1)	41.1	81.7	48.5	6.7
(% of Net Sales)	5.7	7.2	11.5	15.9	15.3
Depreciation & Amortisation	24	24	40	41	49
EBIT	61	96	178	282	296
% chg	(41.8)	58.5	85.0	58.8	4.9
(% of Net Sales)	4.1	5.8	9.4	14.0	13.3
Interest & other Charges	57	42	30	16	11
Other Income	44	1	4	6	9
(% of Net Sales)	3.0	0.1	0.1	0.2	0.2
Recurring PBT	3	55	148	266	285
% chg	(92.9)	1477.9	171.2	79.8	7.1
Exceptional Item	-	-	(12)	-	-
PBT (reported)	47	56	140	272	293
Tax	12	8	36	82	88
(% of PBT)	24.5	15.2	25.6	30.0	30.0
PAT (reported)	36	47	104	190	205
Extraordinary Expense/(Inc.)	-	-	-	-	-
ADJ. PAT	36	47	104	190	205
% chg	(10.3)	33.0	118.8	83.4	7.8
(% of Net Sales)	2.4	2.9	5.5	9.4	9.2
Basic EPS (₹)	46.6	61.9	135.6	248.6	268.1
Fully Diluted EPS (₹)	46.6	61.9	135.6	248.6	268.1
% chg	(10.3)	33.0	118.8	83.4	7.8
Dividend	6	12	26	26	31
Retained Earning	30	35	73	160	169

Standalone Balance Sheet

Y/E March (₹ cr)	FY2013	FY2014	FY2015	FY2016E	FY2017E
SOURCES OF FUNDS					
Equity Share Capital	8	8	8	8	8
Reserves & Surplus	163	196	269	429	598
Shareholders' Funds	171	204	276	436	606
Total Loans	233	304	205	123	123
Other Long Term Liabilities	29	10	15	30	30
Long Term Provisions	2	3	8	8	8
Deferred Tax Liability	23	22	23	23	23
Total Liabilities	458	541	527	620	789
APPLICATION OF FUNDS					
Gross Block	303	370	446	531	611
Less: Acc. Depreciation	117	141	179	220	269
Net Block	185	229	267	311	342
Capital Work-in-Progress	31	20	18	20	20
Goodwill	-	-	-	-	-
Investments	19	19	32	32	32
Long Term Loans and advances	50	53	65	65	65
Other Non-current asset	8	12	7	7	7
Current Assets	525	505	411	494	668
Cash	45	8	9	20	144
Loans & Advances	40	24	25	27	29
Inventory	253	207	210	215	237
Debtors	186	266	167	233	257
Other current assets	-	-	-	-	-
Current liabilities	362	297	274	310	345
Net Current Assets	164	207	137	184	323
Misc. Exp. not written off	-	-	-	-	-
Total Assets	458	541	527	620	789

Standalone Cash Flow Statement

Y/E March (₹ cr)	FY2013	FY2014	FY2015	FY2016E	FY2017E
Profit before tax	47	56	140	272	293
Depreciation	24	24	40	41	49
Change in Working Capital	129	(81)	72	(36)	(15)
Less: Direct taxes paid	(12)	(8)	(37)	(82)	(88)
Others	4	25	27	(6)	(9)
Cash Flow from Operations	192	15	242	189	231
(Inc.)/Dec. in Fixed Assets	(19)	(57)	(74)	(86)	(80)
(Inc.)/Dec. in Investments	1	0	(13)	-	-
Interest received	(21)	(7)	(7)	-	-
Others	81	(7)	(1)	6	9
Cash Flow from Investing	42	(70)	(95)	(80)	(71)
Issue of Equity	-	0	-	-	-
Inc./(Dec.) in loans	(106)	71	(88)	(67)	-
Dividend Paid (Incl. Tax)	(7)	(14)	(31)	(30)	(36)
Others	(82)	(38)	(26)	-	-
Cash Flow from Financing	(195)	19	(145)	(98)	(36)
Inc./(Dec.) in Cash	39	(37)	1	11	124
Opening Cash balances	6	45	8	9	20
Closing Cash balances	45	8	9	20	144

Standalone Key Ratios

Y/E March	FY2013	FY2014	FY2015E	FY2016E	FY2017E
Valuation Ratio (x)					
P/E (on FDEPS)	54.3	40.8	18.7	10.2	9.4
P/CEPS	32.3	27.2	13.5	8.4	7.6
P/BV	11.3	9.5	7.0	4.4	3.2
Dividend yield (%)	0.3	0.6	1.3	1.3	1.6
EV/Net sales	1.4	1.3	1.1	1.0	0.8
EV/EBITDA	24.8	18.5	9.7	6.2	5.5
EV / Total Assets	4.6	4.1	4.0	3.2	2.4
Per Share Data (₹)					
EPS (Basic)	46.6	61.9	135.6	248.6	268.1
EPS (fully diluted)	46.6	61.9	135.6	248.6	268.1
Cash EPS	78.2	92.9	187.6	302.0	331.9
DPS	7.5	16.0	33.8	33.8	40.0
Book Value	223.2	266.0	360.8	569.9	791.2
DuPont Analysis					
EBIT margin	4.1	5.8	9.4	14.0	13.3
Tax retention ratio	0.8	0.8	0.7	0.7	0.7
Asset turnover (x)	4.1	3.4	4.0	3.7	3.8
ROIC (Post-tax)	12.6	16.5	28.3	36.1	34.9
Cost of Debt (Post Tax)	18.5	11.6	10.8	9.3	6.5
Leverage (x)	1.6	1.2	1.0	0.4	0.0
Operating ROE	3.2	22.2	45.3	46.2	36.0
Returns (%)					
ROCE (Pre-tax)	13.3	17.7	33.7	45.5	37.5
Angel ROIC (Pre-tax)	16.7	19.5	38.1	51.6	49.9
ROE	20.9	23.3	37.6	43.6	33.9
Turnover ratios (x)					
Asset TO (Gross Block)	4.9	4.9	4.6	4.1	3.9
Inventory / Net sales (days)	69	51	40	38	37
Receivables (days)	47	50	42	42	42
Payables (days)	85	77	62	66	66
WC cycle (ex-cash) (days)	29	44	25	29	29
Solvency ratios (x)					
Net debt to equity	1.1	1.5	0.7	0.2	0.0
Net debt to EBITDA	2.0	2.3	0.8	0.2	(0.2)
Int. Coverage (EBIT/ Int.)	1.1	2.3	5.9	17.2	26.0

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Disclosure of Interest Statement	TVS Srichakra
1. Analyst ownership of the stock	No
2. Angel and its Group companies ownership of the stock	No
3. Angel and its Group companies' Directors ownership of the stock	No
4. Broking relationship with company covered	No

Note: We have not considered any Exposure below ₹1 lakh for Angel, its Group companies and Directors

Ratings (Based on expected returns over 12 months investment period):	Buy (> 15%)	Accumulate (5% to 15%)	Neutral (-5 to 5%)
		Reduce (-5% to -15%)	Sell (< -15)