May 18, 2016

TVS Srichakra

Performance Update

Y/E March (₹ cr)	4QFY2016	4QFY2015	% chg (yoy)	3QFY2016	% chg (qoq)
Total Income	525	465	13.0	509	3.2
EBITDA	76	64	18.5	81	(6.2)
EBITDA margin (%)	14.5	13.8	68bp	15.9	(145)bp
Adj PAT	44	34	28.2	48	(9.4)

Source: Company, Angel Research

TVS Srichakra (TVSSL) reported a good set of numbers for 4QFY2016. Its top-line grew by 13.0% yoy to ₹525cr. On the operating front, the raw material cost came down significantly, ie by 805bp yoy to 48.1% of sales. Still, the EBITDA margin expanded by a marginal 68bp yoy to 14.5% as raw material cost savings were offset by higher employee and other expenses. The depreciation expense declined by 36.1% on a yoy basis owing to higher depreciation in 4QFY2015 (adjustments in accounting policy in the previous year). The other income increased to ₹18cr (against ₹3cr in 4QFY2015) which we believe was owing to profits from sale of its subsidiary. Adjusting for the higher other income, the profit grew by 28.2% yoy to ₹44cr.

Leadership position in 2W OEM segment and growing share in aftermarket segment: TVSSL has been able to maintain its leadership position in the 2W OEM segment and grow further in the aftermarket space which has enabled it to post good growth in the past year despite of fall in realizations. Going forward, we believe the company will be able to maintain growth on the top-line front given the encouraging outlook for the 2W industry. The company continues to invest in brand building and promotions to compete better in the aftermarket space.

Outlook and valuation: TVVSL has been outperforming the tyre industry over the past two years which has resulted in it posting good growth on the top-line front despite of declining realizations. While rubber prices have surged recently, we believe that TVVSL will be able to pass on the increase in RM cost in the OEM segment. Additionally, the outlook on the 2W industry is favorable which augurs well for the company as it is predominantly a 2W tyre manufacturer. We expect the company to post revenue CAGR of 12.6% over FY2016-18E to ₹2,614cr. With higher RM prices, we expect margins to contract by 182bp over FY2016-18E to 13.8%. The company has increased its capacity and plans to invest in further capacity expansion which will increase the depreciation expense going forward. Consequently the bottom-line is expected to improve to ₹204cr in FY2018E. At the current market price, the stock trades at 9.1x its FY2018E earnings. **We have a Buy rating on the stock with a revised target price of ₹2,932 based on a target PE of 11.0x for FY2018E earnings.**

Key financials

Y/E March (₹ cr)	FY2014	FY2015	FY2016	FY2017E	FY2018E
Net sales	1,671	1,896	2,060	2,304	2,614
% chg	13.2	13.5	8.6	11.9	13.4
Net profit	47	104	189	177	204
% chg	33.0	118.8	82.2	(6.4)	15.3
EBITDA margin (%)	7.2	11.5	15.6	13.7	13.8
EPS (₹)	61.9	135.5	247.0	231.1	266.6
P/E (x)	39.1	17.8	9.8	10.5	9.1
P/BV (x)	9.1	6.7	4.4	3.4	2.7
RoE (%)	23.3	37.6	45.2	32.3	29.3
RoCE (%)	17.7	33.7	40.3	33.0	32.0
EV/Sales (x)	1.3	1.1	0.9	0.8	0.7
EV/EBITDA (x)	17.8	9.3	5.9	5.8	4.9

Source: Company, Angel Research; Note: CMP as of May 17, 2016

BUY

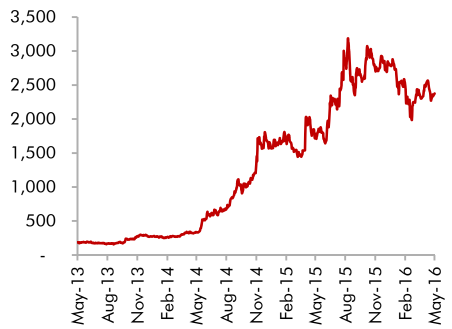
CMP	₹2,419
Target Price	₹2,932
Investment Period	12 Months

Stock Info	
Sector	Tyres
Market Cap (₹ cr)	1,852
Beta	1.1
Net debt (₹ cr)	57
52 Week High / Low	3,249 / 1,600
Avg. Daily Volume	3,954
Face Value (₹)	10
BSE Sensex	25,774
Nifty	7,891
Reuters Code	TVSC.BO
Bloomberg Code	SRTY IN

Shareholding Pattern (%)	
Promoters	45.4
MF / Banks / Indian FIs	1.4
FII / NRIs / OCBs	0.5
Indian Public / Others	52.8

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: 4QFY2016 performance

Y/E March (₹ cr)	4QFY2016	4QFY2015	% chg (yoy)	3QFY2016	% chg (qoq)	FY2016	FY2015	% chg
Net Sales	**525**	**465**	***13.0***	**509**	***3.2***	**2,060**	**1,896**	***8.6***
Net raw material	252	261	*(3.2)*	258	*(2.1)*	1,040	1,123	*(7.4)*
(% of Sales)	*48.1*	*56.1*	*(805)bp*	*50.7*	*(265)bp*	*50.5*	*59.3*	*(877)bp*
Staff Costs	57	43	*33.4*	48	*19.0*	202	164	*22.9*
(% of Sales)	*10.8*	*9.2*	*166bp*	*9.4*	*144bp*	*9.8*	*8.7*	*114bp*
Other Expenses	140	97	*43.8*	122	*14.7*	496	391	*26.9*
(% of Sales)	*26.6*	*20.9*	*571bp*	*23.9*	*266bp*	*24.1*	*20.6*	*346bp*
Total Expenditure	**449**	**401**	***12.1***	**428**	***5.0***	**1,738**	**1,678**	***3.5***
Operating Profit	**76**	**64**	***18.5***	**81**	***(6.2)***	**322**	**218**	***48.1***
OPM	*14.5*	*13.8*	*68bp*	*15.9*	*(145)bp*	*15.6*	*11.5*	*417bp*
Interest	3	4	*(30.3)*	3	*(7.1)*	15	30	*(50.6)*
Depreciation	12	19	*(36.1)*	10	*19.4*	42	40	*6.2*
Other Income	18	3	*573.0*	0	*5487.9*	22	4	*496.5*
Exceptional Item	-	-		-		-	(12)	
PBT	**80**	**44**	***80.9***	**68**	***16.7***	**287**	**140**	***105.9***
(% of Sales)	*15.2*	*9.5*		*13.4*		*14.0*	*7.4*	
Tax	28	10	*179.6*	20	*38.8*	90	36	*152.1*
(% of PBT)	*35.1*	*22.7*		*29.5*		*31.4*	*25.6*	
Reported PAT	**52**	**34**	***52.0***	**48**	***7.4***	**197**	**104**	***90.0***
Adjusted PAT	**44**	**34**		**48**		**189**	**104**	***82.2***
PATM	*8.3*	*7.3*		*9.5*		*9.2*	*5.5*	
Equity capital (cr)	8	8		8		8	8	
EPS (₹)	**56.9**	**44.4**	***28.2***	**62.8**	***(9.4)***	**247.0**	**135.5**	***90.0***

Source: Company, Angel Research

Exhibit 2: Actual vs. Angel estimate (4QFY2016)

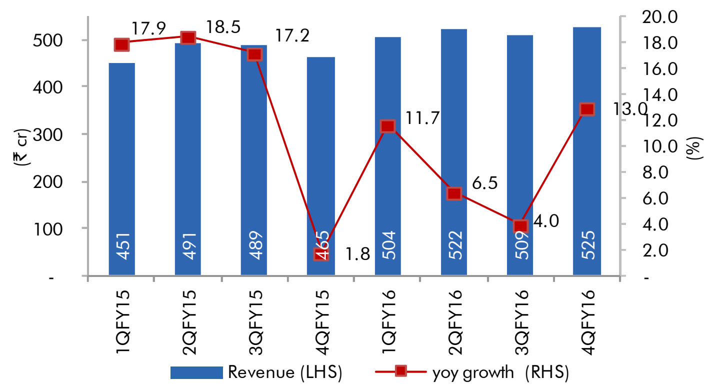
(₹ cr)	Actual (₹ cr)	Estimate (₹ cr)	*% variation*
Total Income	525	502	*4.6*
EBIDTA	76	77	*(1.0)*
EBIDTA margin	*14.5*	*15.3*	*(82)bp*
Adj. PAT	44	45	*(2.7)*

Source: Company, Angel Research

Top-line beats estimates, overall numbers in-line.

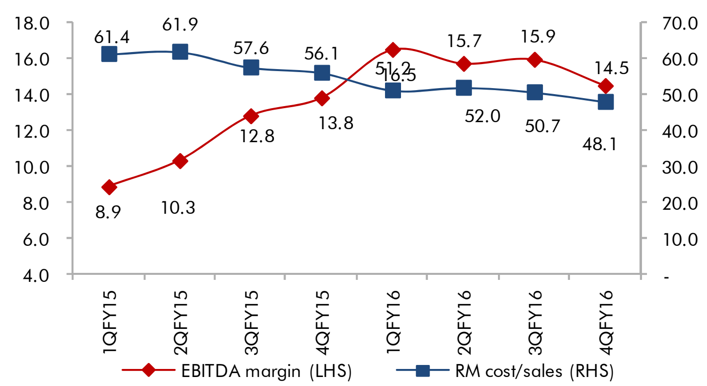
TVSSL reported a good set of numbers for 4QFY2016. The top-line grew by an impressive 13.0% yoy to ₹525cr which is ahead of our expectation of ₹502cr. The company has been outperforming the industry in the past two years with it having gained market share in the aftermarket segment and maintained its leadership position in the OEM segment. The company has increased its capacity from 2.0mn tyres per month as at the end of FY2015 to 2.3mn in December 2015; the Management stated that the company's average production for FY2016 was of 2.2mn tyres per month.

Exhibit 3: Top-line maintaining good growth



Source: Company, Angel Research

Exhibit 4: Lower RM cost led to margin expansion



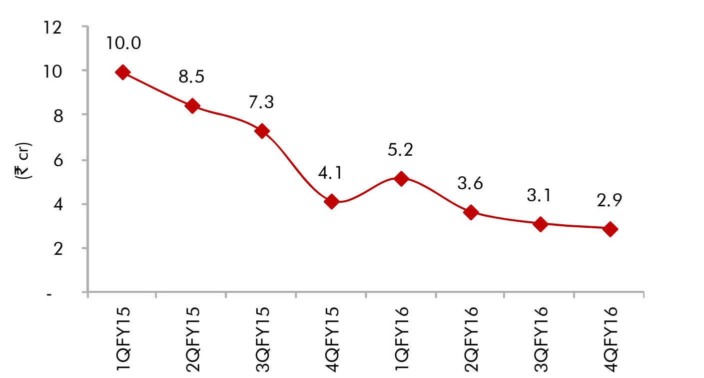
Source: Company, Angel Research

On the operating front, the raw material cost as a percentage of sales declined by 805bp yoy to 48.1%; however, the EBITDA margin expanded only by 68bp yoy to 14.5% (vs our estimate of 15.3%) on account of higher employee and other expenses. The company has been aggressive in terms of promotion over the past few quarters which resulted in other expenses for 4QFY2016 increasing by 571bp yoy to 26.6% of sales. The employee expense too increased by 166bp yoy to 10.8% of sales.

The interest expense declined by 30.3% yoy to ₹3cr while depreciation was lower on a yoy basis by 36.1% (on account of higher depreciation in the corresponding quarter of the previous year due to change in accounting policy).

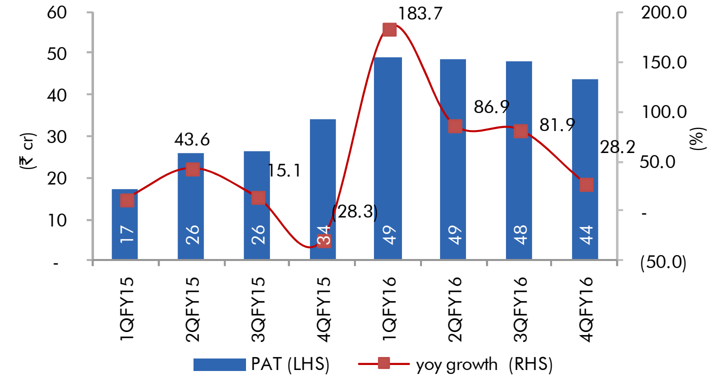
The other income increased to ₹18cr (against ₹3cr in 4QFY2015) which we estimate to be on account of profits from the recent sale of its subsidiary. Adjusting for this, the net profit grew by 28.2% yoy to ₹44cr, which is in-line with our estimate of ₹45cr.

Exhibit 5: Declining interest cost



Source: Company, Angel Research

Exhibit 6: Profits growth yoy



Source: Company, Angel Research

Investment rationale

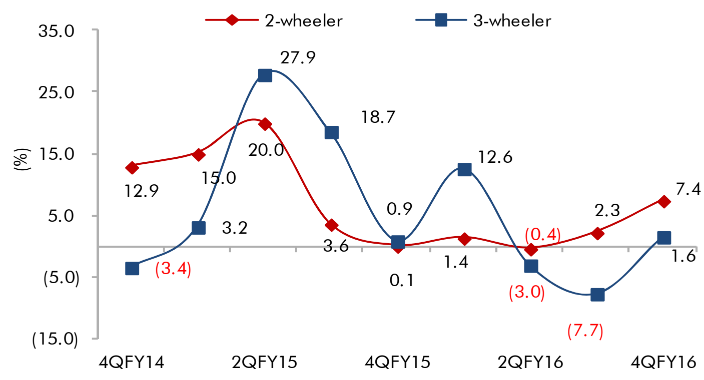
Higher share in Aftermarket segment to aid growth

The company's outperformance to the industry in FY2016 is mainly on back of its increasing share in the aftermarket segment. The company ranks third in terms of market share in the aftermarket space and has been aggressive in promotions and advertisements to attain higher brand recall, which should enable it to sustain if not grow its market share. As we had reported in the past, Chinese tyres do not cover a significant market share in the aftermarket segment for two-wheelers and therefore are not much of a threat to the company.

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

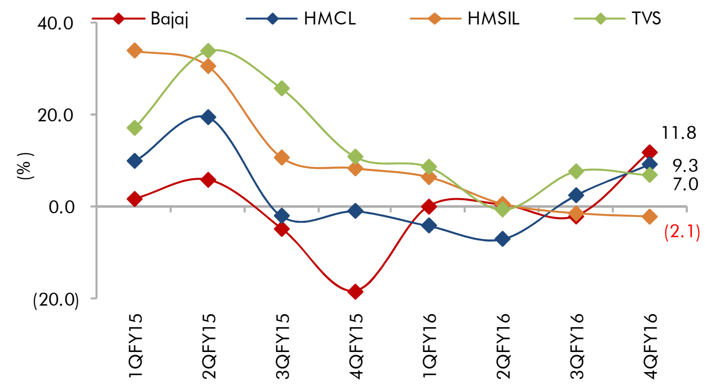
After a stellar 9.3% growth in 2W sales in FY2015, the segment reported a muted growth of 2.6% for FY2016 on account of stressed rural economy. Despite of muted numbers posted by the 2W industry in FY2016, TVSSL numbers suggest that it was able to maintain its share with key clients like HMSI which posted flattish volumes and especially its group company TVS Motor which reported sales volume growth of 5.6% in FY2016. Within the 2W space, the scooter segment has performed well with sales growing by 12.6% in FY2016 against flattish growth in the motorcycle segment. Both HMSI and TVS Motor reported strong growth rates of 12.1% yoy and 6.2% yoy respectively in the scooter segment.

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



Source: Company, Angel Research

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



Source: Company, Angel Research

Exhibit 9: Key Clients Sales (Domestic +Exports) Growth

	HMSI			TVS Motor		
(Units)	FY2015	FY2016	yoy (%)	FY2015	FY2016	yoy (%)
Scooters	25,80,161	28,92,779	*12.1*	14,60,290	15,51,074	6.2
Motorcycles	18,59,820	15,91,056	*(14.5)*	9,52,242	10,16,807	6.8

Source: SIAM, Angel Research

Going forward, 2W sales are expected to improve on account of increased rural allocation in the Union Budget 2016-17, expectations of a favorable monsoon, and positive impact of the Seventh Pay Commission. The scooter segment is expected to maintain its growth rate and HMSI is likely to post robust numbers as it is expected to commence a second production line at its Gujarat facility in order to bring down the waiting period for Activa from near six months.

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.

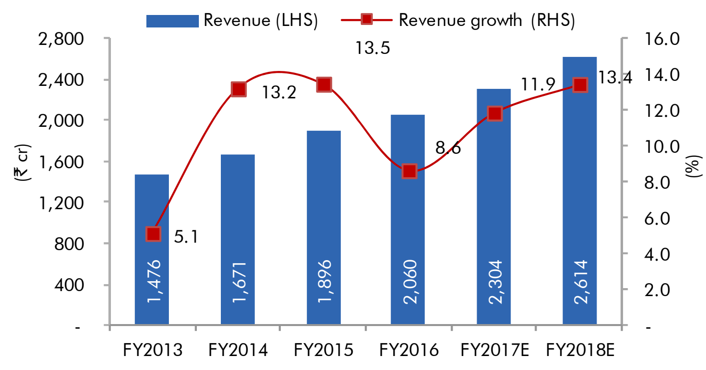
Agreement with Michelin adds to revenue visibility

TVSSL has an agreement with French tyre major Michelin to manufacture 2W bias tyres designed by Michelin at its Madurai facility. As per the agreement, TVSSL 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. The agreement is encouraging as it not only provides revenue visibility but also speaks volumes about trust in TVSSL's technological and manufacturing capabilities.

Financial performance

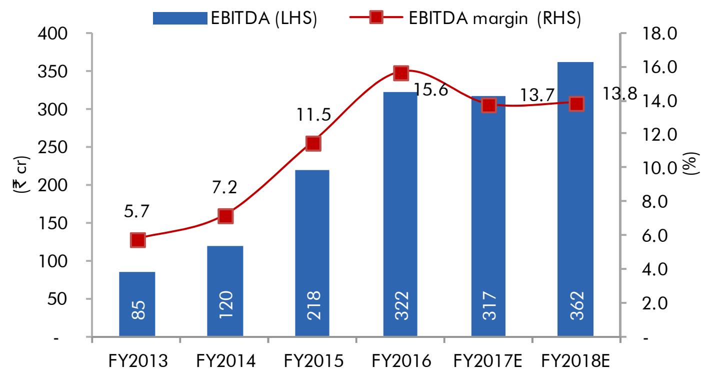
The company is estimated to have posted good volume growth in the range of 11-12% in FY2016 while realizations were down which resulted in 8.6% yoy growth in top-line for the year. As for realizations from the OEM segment, escalations in raw material prices are passed on and this should protect the company from the recent rebound in natural rubber prices in the domestic market which have jumped by ~31.4% in 1QFY2017 to ₹131/Kg. On account of higher realizations coupled with improvement in volumes, we expect the company to post revenue CAGR of 12.6% over FY2016-18E to ₹2,614cr.

Exhibit 10: Revenue to grow at 12.6% CAGR



Source: Company, Angel Research

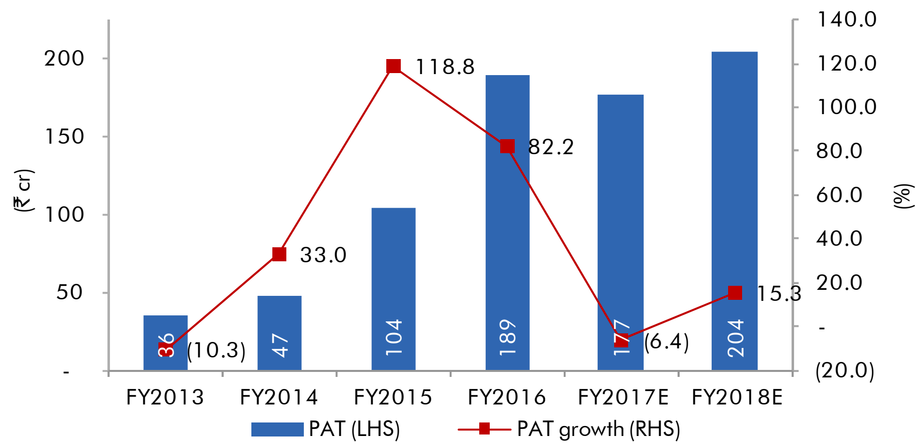
Exhibit 11: EBITDA Margin to witness contraction



Source: Company, Angel Research

We have revised our natural rubber cost per Kg upwards from our flattish estimate of ₹118/kg to ₹130/Kg for FY2017E and expect rubber prices to rise up to ~₹140/kg in FY2018E. As a result, we expect margins to come under pressure and expect 182bp contraction in EBITDA margin over FY2016-18E to 13.8%. The company is estimated to have incurred capex of ~₹160cr in FY2016 to increase its capacity to 2.3mn tyres/month. The company will be scaling it up to 2.5mn tyres/month in FY2017E and we estimate it to further expand the capacity by similar quantum in FY2018E which will result in higher depreciation expense. As a result, the net profit is expected to be at ₹204cr in FY2018E.

Exhibit 12: Net profit trend



Source: Company, Angel Research

Outlook and valuation

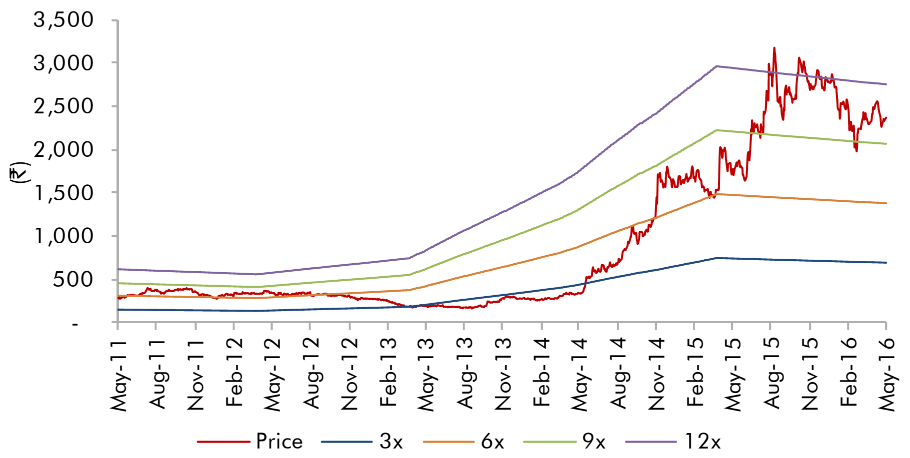
TVVSL has been outperforming the tyre industry over the past two years which has resulted in it posting good growth on the top-line front despite of declining realizations. While rubber prices have surged recently, we believe that TVVSL will be able to pass on the increase in RM cost in the OEM segment. Additionally, the outlook on the 2W industry is favorable which augurs well for the company as it is predominantly a 2W tyre manufacturer. We expect the company to post revenue CAGR of 12.6% over FY2016-18E to ₹2,614cr. With higher RM prices, we expect margins to contract by 182bp over FY2016-18E to 13.8%. The company has increased its capacity and plans to invest in further capacity expansion which will increase the depreciation expense going forward. Consequently the bottom-line is expected to improve to ₹204cr in FY2018E. At the current market price, the stock trades at 9.1x its FY2018E earnings. **We have a Buy rating on the stock with a revised target price of ₹2,932 based on a target PE of 11.0x for FY2018E 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	**FY2018E**	**1,852**	**2,614**	**13.8**	**204**	**266.6**	**29.3**	**9.1**	**2.7**	**0.7**
CEAT	FY2018E	4,066	7,116	13.0	498	122.9	18.1	8.2	1.4	0.6
Apollo tyres	FY2018E	7,819	14,731	15.2	1,108	21.8	14.5	7.0	1.0	0.6
MRF	FY2018E	13,920	16,985	20.1	1,733	4,015.0	19.0	8.2	1.5	0.8

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 natural rubber 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. 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.

Profit & Loss Statement (Standalone)

Y/E March (₹ cr)	FY2014	FY2015	FY2016	FY2017E	FY2018E
Total operating income	1,671	1,896	2,060	2,304	2,614
% chg	*13.2*	*13.5*	*8.6*	*11.9*	*13.4*
Net Raw Materials	1104	1123	1040	1225	1408
% chg	*9.2*	*1.7*	*(7.4)*	*17.8*	*14.9*
Personnel	125	164	202	220	242
% chg	*10.5*	*31.5*	*22.9*	*8.9*	*10.1*
Other	322	391	496	543	603
% chg	*20.6*	*21.3*	*26.9*	*9.5*	*11.0*
Total Expenditure	1551	1678	1738	1987	2252
EBITDA	**120**	**218**	**322**	**317**	**362**
% chg	*41.1*	*81.7*	*48.1*	*(1.8)*	*14.2*
(% of Net Sales)	*7.2*	*11.5*	*15.6*	*13.7*	*13.8*
Depreciation& Amortisation	24	40	42	57	72
EBIT	**96**	**178**	**280**	**260**	**290**
% chg	*58.5*	*85.0*	*57.5*	*(7.2)*	*11.6*
(% of Net Sales)	*5.8*	*9.4*	*13.7*	*11.4*	*11.2*
Interest & other Charges	**42**	**30**	**15**	**14**	**10**
Other Income	1	4	22	7	12
(% of Net Sales)	*0.1*	*0.2*	*0.2*	*0.0*	*0.0*
Recurring PBT	**55**	**148**	**265**	**246**	**279**
% chg	*1477.9*	*171.2*	*79.4*	*(7.3)*	*13.6*
Exceptional Item	-	(12)	-	-	-
PBT (reported)	**56**	**140**	**287**	**253**	**291**
Tax	8	36	90	76	87
(% of PBT)	*15.2*	*25.6*	*31.4*	*30.0*	*30.0*
PAT (reported)	**47**	**104**	**197**	**177**	**204**
Extraordinary Expense/(Inc.)	-	-	8	-	-
ADJ. PAT	**47**	**104**	**189**	**177**	**204**
% chg	*33.0*	*118.8*	*82.2*	*(6.4)*	*15.3*
(% of Net Sales)	*2.9*	*5.5*	*9.3*	*7.8*	*7.9*
Basic EPS (₹)	**61.9**	**135.5**	**247.0**	**231.1**	**266.6**
Fully Diluted EPS (₹)	**61.9**	**135.5**	**247.0**	**231.1**	**266.6**

Balance Sheet (Standalone)

Y/E March (₹ cr)	FY2014	FY2015	FY2016E	FY2017E	FY2018E
SOURCES OF FUNDS					
Equity Share Capital	8	8	8	8	8
Reserves& Surplus	196	269	411	540	689
Shareholders' Funds	**204**	**276**	**419**	**548**	**696**
Total Loans	304	205	156	119	91
Other Long Term Liabilities	10	15	88	88	88
Long Term Provisions	3	8	4	4	4
Deferred Tax Liability	22	23	28	28	28
Total Liabilities	**541**	**527**	**694**	**786**	**907**
APPLICATION OF FUNDS					
Gross Block	370	446	536	670	844
Less: Acc. Depreciation	141	179	222	279	350
Net Block	**229**	**267**	**314**	**391**	**493**
Capital Work-in-Progress	20	18	92	80	40
Goodwill	-	-	-	-	-
Investments	19	32	87	87	87
Long Term Loans and adv.	53	65	35	35	35
Other Non-current asset	12	7	1	1	1
Current Assets	**505**	**411**	**429**	**499**	**598**
Cash	8	9	12	36	72
Loans & Advances	24	25	38	43	49
Inventory	207	210	208	232	263
Debtors	266	167	171	189	214
Other current assets	-	-	-	-	-
Current liabilities	**297**	**274**	**264**	**307**	**348**
Net Current Assets	**207**	**137**	**165**	**192**	**250**
Misc. Exp. not written off	-	-	-	-	-
Total Assets	**541**	**527**	**694**	**786**	**907**

Cash Flow Statement (Standalone)

Y/E March (₹ cr)	FY2014	FY2015	FY2016	FY2017E	FY2018E
Profit before tax	56	140	287	253	291
Depreciation	24	40	42	57	72
Change in Working Capital	(81)	72	(26)	(3)	(21)
Direct taxes paid	(8)	(37)	(85)	(76)	(87)
Others	25	27	(22)	(7)	(12)
Cash Flow from Operations	**15**	**242**	**197**	**224**	**242**
(Inc.)/Dec. in Fixed Assets	(57)	(74)	(163)	(122)	(134)
(Inc.)/Dec. in Investments	0	(13)	(55)	-	-
(Incr)/Decr In LT loans & adv.	(7)	(7)	36	-	-
Others	(7)	(1)	22	7	12
Cash Flow from Investing	**(70)**	**(95)**	**(159)**	**(115)**	**(122)**
Issue of Equity	0	-	-	-	-
Inc./(Dec.) in loans	71	(88)	20	(37)	(28)
Dividend Paid (Incl. Tax)	(14)	(31)	(55)	(48)	(55)
Others	(38)	(26)	-	-	-
Cash Flow from Financing	**19**	**(145)**	**(35)**	**(85)**	**(84)**
Inc./(Dec.) in Cash	(37)	1	3	24	37
Opening Cash balances	**45**	**8**	**9**	**12**	**36**
Closing Cash balances	**8**	**9**	**12**	**36**	**72**

Key Ratios (Standalone)

Y/E March	FY2014	FY2015	FY2016	FY2017E	FY2018E
Valuation Ratio (x)					
P/E (on FDEPS)	39.1	17.8	9.8	10.5	9.1
P/CEPS	26.1	12.9	8.0	7.9	6.7
P/BV	9.1	6.7	4.4	3.4	2.7
Dividend yield (%)	0.7	1.4	2.5	2.1	2.5
EV/Net sales	1.3	1.1	0.9	0.8	0.7
EV/EBITDA	17.8	9.3	5.9	5.8	4.9
EV / Total Assets	3.9	3.8	2.8	2.4	2.0
Per Share Data (₹)					
EPS (Basic)	61.9	135.5	247.0	231.1	266.6
EPS (fully diluted)	61.9	135.5	247.0	231.1	266.6
Cash EPS	92.9	187.6	312.9	305.5	360.2
DPS	16.0	33.8	60.0	52.0	60.0
Book Value	266.0	360.8	546.6	715.1	909.5
DuPont Analysis					
EBIT margin	5.8	9.4	13.7	11.4	11.2
Tax retention ratio	0.8	0.7	0.7	0.7	0.7
Asset turnover (x)	3.4	4.0	4.1	3.9	3.7
ROIC (Post-tax)	16.5	28.3	38.2	31.2	28.7
Cost of Debt (Post Tax)	11.6	10.8	6.5	8.1	8.1
Leverage (x)	1.2	1.0	0.4	0.1	-0.1
Operating ROE	22.2	45.3	49.7	32.7	27.6
Returns (%)					
ROCE (Pre-tax)	17.7	33.7	40.3	33.0	32.0
Angel ROIC (Pre-tax)	19.5	38.1	55.6	44.5	41.0
ROE	23.3	37.6	45.2	32.3	29.3
Turnover ratios (x)					
Asset TO (Gross Block)	4.9	4.6	4.2	3.8	3.4
Inventory / Net sales (days)	51	40	37	35	35
Receivables (days)	50	42	30	30	30
Payables (days)	77	62	56	56	56
WC cycle (ex-cash) (days)	44	25	27	25	25
Solvency ratios (x)					
Net debt to equity	1.5	0.7	0.3	0.2	0.0
Net debt to EBITDA	2.3	0.8	0.2	(0.0)	(0.2)
Int. Coverage (EBIT/ Int.)	2.3	5.9	18.9	18.9	27.6

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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%)* *Reduce (-5% to -15%)*	*Neutral (-5 to 5%)* *Sell (< -15)*