

Siyaram Silk Mills

Performance Highlights

Y/E March (₹ cr)	2QFY16	2QFY15	% chg. (yoy)	1QFY16	% chg. (qoq)
Net Sales	398	398	0.0	301	32.2
Operating profit	50	49	1.7	31	60.7
OPM (%)	12.5	12.3	20bp	10.3	222bp
Adj. PAT	23	22	4.8	12	92.4

Source: Company, Angel Research

For 2QFY2016, Siyaram Silk Mills (SSML)' results have come in slightly below our estimates. The company has reported a flattish top-line and bottom-line growth.

Flattish top-line growth: The top-line for the quarter came in flat; ie it declined marginally by 0.02% yoy to ₹398cr.

Underperformance at the EBITDA level: The EBITDA for the quarter grew by ~2% yoy to ₹50cr and the EBITDA margin expanded by 20bp yoy to 12.5%. The raw material cost as a percentage of sales declined by 226bp yoy to 48.6% but there was a 99bp yoy and 107bp yoy increase in employee and other expense, respectively, resulting in an almost flat EBITDA margin for the quarter.

Flattish PAT growth: During the quarter, the net profit came in flat at ₹23cr (as against ₹22cr in 2QFY2015) due to lower sales growth.

Outlook and Valuation: Going forward, we expect SSML to report a net sales CAGR of ~10% to ~₹1,815cr and adj.net profit CAGR of ~12% to ₹98cr over FY2015-17E on back of market leadership in blended fabrics, strong branding, wide distribution channel, strong presence in tier II and tier III cities and emphasis on latest designs and affordable pricing points. At the current market price, SSML trades at an inexpensive valuation (at a P/E of 9.0x its FY2017E earnings). **We have a Buy rating on the stock and target price of ₹1,145 (11x FY2017E EPS).**

Key financials

Y/E March (₹ cr)	FY2013	FY2014	FY2015	FY2016E	FY2017E
Net Sales	1,041	1,303	1,510	1,636	1,815
% chg	13.7	25.2	15.9	8.3	10.9
Adj. Net Profit	55	64	79	84	98
% chg	(3.1)	15.6	23.9	7.0	15.8
OPM (%)	10.6	10.7	11.5	11.5	11.5
EPS (₹)	58.8	68.6	84.1	89.9	104.1
P/E (x)	15.9	13.8	11.1	10.4	9.0
P/BV (x)	2.8	2.4	2.0	1.7	1.5
RoE (%)	18.9	18.6	19.6	17.9	17.8
RoCE (%)	15.2	16.4	17.7	16.9	17.4
EV/Sales (x)	1.1	0.9	0.8	0.7	0.6
EV/EBITDA (x)	10.1	8.2	6.6	6.0	5.3

Source: Company, Angel Research; Note: CMP as of November 5, 2015

BUY

CMP	₹934
Target Price	₹1,145

Investment Period	12 Months
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Stock Info

Sector	Textile
Market Cap (₹ cr)	876
Net debt (₹ cr)	276
Beta	1.0
52 Week High / Low	1400 / 742
Avg. Daily Volume	1,180
Face Value (₹)	10
BSE Sensex	26,304
Nifty	7,955
Reuters Code	SIYR.BO
Bloomberg Code	SIYA IN

Shareholding Pattern (%)

Promoters	67.1
MF / Banks / Indian FIs	6.3
FII / NRIs / OCBs	0.8
Indian Public / Others	25.9

Abs.(%)	3m	1yr	3yr
Sensex	(6.8)	(5.8)	40.2
SSML	10.9	10.9	199.1

3-Year Daily price chart



Source: Company, Angel Research

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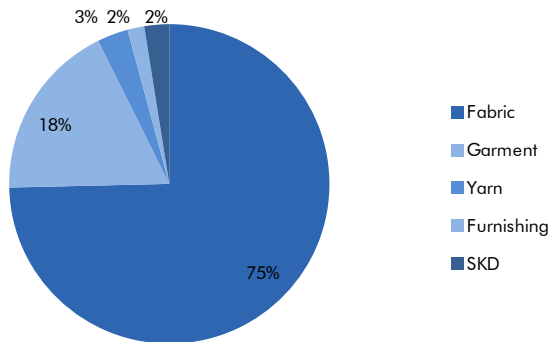
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Exhibit 1: Quarterly performance

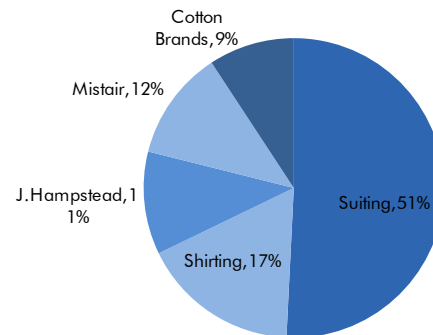
Y/E March (₹ cr)	2QFY16	2QFY15	% chg. (yoy)	1QFY16	% chg. (qoq)	FY2015	FY2014	% chg
Net Sales	398	398	0.0	301	32.2	1,510	1,303	15.9
Net raw material	193	202	(4.4)	137	41.1	794	671	18.3
(% of Sales)	48.6	50.8		45.7		52.6	51.5	
Employee Cost	35	31	12.9	33	5.1	123	108	14.3
(% of Sales)	8.71	7.7		10.9		8.2	8.3	
Other Expenses	120	116	3.7	100	20.3	419	384	9
(% of Sales)	30.2	29.1		33.2		27.7	29.5	
Total Expenditure	348	349	(0.2)	270	29.0	1,336	1,163	14.9
Operating Profit	50	49	1.7	31	60.7	174	140	24
OPM (%)	12.5	12.3		10.3		11.5	10.7	78bp
Interest	7	8	(6.7)	7	3.3	31	29	6.5
Depreciation	11	10	5.8	10	8.0	41	29	40.3
Other Income	4	4	2.4	4	-5.8	16	16	2.9
PBT	36	35	2.4	19	87.2	119	98	21.4
(% of Sales)	8.9	8.7		6.2		7.9	7.5	
Tax	12.5	12.7	(1.8)	7	78.1	40	34	16.6
(% of PBT)	35.1	36.6		38.3		33.8	35.1	
Reported PAT	23	22	4.8	12	92.4	79	64	23.9
PATM (%)	5.8	5.5		4.0		5.2	4.9	

Source: Company, Angel Research

Segmental performance

Exhibit 2: Sales break-up (FY2015)


Source: Company, Angel Research

Exhibit 3: Fabric segment break-up (FY2015)


Source: Company, Angel Research

Exhibit 4: Volume and Realization growth – FY2015

All Segments	Volume Growth (yoy)	Realization growth (yoy)
Fabric	9.4	3.3
Garment	16.7	9.6
Yarn	(14.6)	19.8
Furnishing	(22.0)	36.5
SKD	90.3	(15.4)

Source: Company, Angel Research

Exhibit 5: Volume and Realization growth – FY2015

Fabric Segment	Volume Growth (yoy)	Realization growth (yoy)
Suiting	5.7	(0.1)
Shirting	19.7	22.2
J.Hampstead	19.6	5.6
Mistair	11.9	(7.3)
Cotton Brands	(20.3)	37.3

Source: Company, Angel Research

Investment arguments

Leadership in blended fabric to support growth

Revenue to grow at a CAGR of 9.6% over FY2015-17E to ₹1,815cr

SSML is the largest manufacturer of blended high fashion suitings, shirtings and apparels in the country. A portfolio of strong and value-for-money brands like *Siyaram's*, *J Hampstead* and *Mistair* in the fabric segment, place SSML in a sweet spot. The company has launched two new premium cotton brands – *Zenesis* and *Moretti*, and has penetrated further into new growth areas like cotton shirting, linen fabrics etc.

SSML has been able to differentiate itself from unorganized and organized competitors in a highly fragmented market. The offerings of the company are available at various price points in the low and mid-range which enable it to compete with peers like Raymond, Reid & Taylor, Grasim, Digjam, and Gwalior, which offer similar products. Shifting preference of consumers from unbranded fabrics to branded blended fabrics would likely aid the company's growth prospects. With a strong market position, pan-India presence and high brand recognition, along with increasing diversification in revenue profile, we expect the company's revenue to grow at a CAGR of 9.6% over FY2015-17E to ₹1,815cr.

Rigorous advertisement and retail expansion to push demand

SSML has built a strong brand presence in the country through continuous advertisement and brand-building efforts. Its emphasis on latest fabrics, innovative and latest designs and affordable pricing points give it an edge over competition. Every brand of the company holds a distinct position in the consumers' minds which has helped the company in creating a niche for itself in a highly competitive industry.

Additionally, the company has been spending rigorously on advertising for the recognition of its brands. The company has signed up celebrities like M S Dhoni (*Siyaram's*, *MSD*), Saif Ali Khan (*Oxemberg*) and Hrithik Roshan (*J. Hampstead*) as brand ambassadors for its products. In FY2014, the company spent ~₹36cr on advertising.

Moreover, SSML has one of the largest distribution networks in the country with over 1,600 dealers and 500 agents supplying to more than 40,000 outlets across India. This enables the company to launch new products with a high success ratio and low marketing cost, giving it an edge over competition. In order to expand its retail footprint, the company continues to add stores through the franchise model (franchisees invest ~₹25lakh on an average for interior works and inventory with minimum space requirement being 800 sq ft). The company plans to increase the number of stores through franchisees to 500 by FY2017E.

Venturing into women's segment – a long term growth driver

The company has ventured into the salwar kameez and ethnic women's wear segment with its brand - *Siya*. *The Siya brand* comprises of semi-stitched cotton, polyester and embroidered designer fabrics, with prices ranging from ₹700 to ₹7,000. For FY2015, the company generated a revenue of ~₹38cr from the segment and it plans to grow it to ₹500cr in the coming four to five years as there

Company has roped in celebrities like Parineeti Chopra and Karishma Kapoor to endorse *Siya*

are hardly any national-level mass brands in the category. SSML has roped in celebrities Parineeti Chopra and Karishma Kapoor to endorse the brand. As per industry reports (Technopak study in 2011), salwar kameez and ethnic women's wear is a ₹20,690cr category, growing at a CAGR of 10%, which gives immense opportunity to the company.

Outlook and valuation

Going forward, we expect SSML to report a net sales CAGR of ~10% to ~₹1,815cr and adj.net profit CAGR of ~12% to ₹98cr over FY2015-17E on back of market leadership in blended fabrics, strong branding, wide distribution channel, strong presence in tier II and tier III cities and emphasis on latest designs and affordable pricing points. At the current market price, SSML trades at an inexpensive valuation (at a P/E of 9.0x its FY2017E earnings). **We have a Buy rating on the stock and target price of ₹1,145 (11x FY2017E EPS).**

Concerns

Decline in rural spending: Unseasonal rains and deficient rainfall in the rural areas may result in lower agriculture output. This in turn could result in lower discretionary spending among rural consumers which could impact the company's overall sales.

Competition from the unorganized sector: SSML, being in a sector that's highly unorganized, faces intense competition from unorganized players as they usually sell their products at a much cheaper rate compared to it. However, due to strong branding efforts, huge distribution network and affordable price points, the company is easily able to differentiate its products from those of competitors.

Fluctuation in raw material prices: SSML operates in a highly price-sensitive market. Any fluctuation in raw-material prices can lead to margin compression, as the company may not be able to pass on the entire increase to the end-user.

Company background

SSML is the largest manufacturer of blended fabrics in India. The company enjoys a strong brand presence across the country, with brands such as *Siyaram's*, *Mistair*, *MSD*, *J. Hampstead* and *Oxemberg* in its kitty. The company has also launched three premium brands - *Royal Linen* (linen fabrics for men and women), *Moretti* (cotton shirting) and *Zenesis* (cotton suitings). SSML has built a strong brand presence in the country through continuous advertisement and brand-building efforts over the past 30 years. The company has created a niche for itself in a highly competitive industry.

It has a wide distribution network comprising 1,600 dealers and 500 agents supplying to more than 40,000 outlets across India and has ~160 franchise stores. The company operates four plants – one at Tarapur near Mumbai for weaving and yarn dyeing, two at Daman for garments and one at Silvassa for weaving.

Profit and loss statement

Y/E Mar. (₹ cr)	FY2013	FY2014	FY2015	FY2016E	FY2017E
Net Sales	1,041	1,303	1,510	1,636	1,815
Other operating income	-	-	-	-	-
Total operating income	1,041	1,303	1,510	1,636	1,815
% chg	13.7	25.2	15.9	8.3	10.9
Net Raw Materials	532	671	794	860	955
% chg	15.7	26.2	18.3	8.3	10.9
Power and Fuel	19	27	32	34	38
% chg	21.5	37.9	18.0	8.3	10.9
Personnel	89	108	123	134	149
% chg	41.8	21.0	14.3	8.8	10.9
Other	290	357	387	419	465
% chg	11.6	23.0	8.3	8.2	10.9
Total Expenditure	931	1,163	1,336	1,448	1,606
EBITDA	110	140	174	188	209
% chg	(5.4)	27.1	24.3	8.0	10.9
(% of Net Sales)	10.6	10.7	11.5	11.5	11.5
Depreciation	22	29	41	47	49
EBIT	88	111	133	141	160
% chg	(6.2)	25.5	20.1	5.7	13.7
(% of Net Sales)	8.5	8.5	8.8	8.6	8.8
Interest & other Charges	25	29	31	32	33
Other Income	19	16	16	17	18
(% of Net Sales)	1.8	1.2	1.1	1.0	1.0
Recurring PBT	63	82	103	109	127
% chg	(9.9)	30.0	24.9	6.2	16.9
PBT (reported)	82	98	119	126	146
Tax	27	34	40	42	48
(% of PBT)	32.8	35.1	33.8	33.0	33.0
PAT (reported)	55	64	79	84	98
Extraordinary Expense/(Inc.)	-	-	-	-	-
ADJ. PAT	55	64	79	84	98
% chg	(3.1)	15.6	23.9	7.0	15.8
(% of Net Sales)	5.3	4.9	5.2	5.2	5.4
Basic EPS (₹)	58.8	68.6	84.1	89.9	104.1
Fully Diluted EPS (₹)	58.8	68.6	84.1	89.9	104.1
% chg	(0.5)	16.6	22.5	7.0	15.8

Balance sheet

Y/E Mar. (₹ cr)	FY2013	FY2014	FY2015	FY2016E	FY2017E
SOURCES OF FUNDS					
Equity Share Capital	9	9	9	9	9
Reserves & Surplus	305	360	426	499	581
Shareholders' Funds	314	370	435	509	590
Total Loans	241	275	280	286	292
Other Long Term Liabilities	23	26	31	31	31
Long Term Provisions	5	6	7	7	7
Deferred Tax (Net)	19	22	19	16	16
Total liabilities	602	698	772	849	936
APPLICATION OF FUNDS					
Gross Block	499	570	596	685	747
Less: Acc. Depreciation	194	220	261	308	357
Net Block	305	349	335	377	390
Capital Work-in-Progress	16	3	4	6	8
Goodwill	-	-	-	-	-
Investments	0	0	0	0	0
Long Term Loans and adv.	8	13	15	16	18
Other Non-current asset	-	-	-	-	-
Current Assets	458	530	623	672	769
Cash	3	6	5	31	54
Loans & Advances	33	39	45	49	54
Inventory	222	225	238	265	298
Debtors	200	260	335	327	363
Other current assets	0	0	0	0	0
Current liabilities	186	198	205	223	249
Net Current Assets	273	333	418	450	520
Misc. Exp. not written off	-	-	-	-	-
Total Assets	602	698	772	849	936

Cash flow statement

Y/E Mar. (₹ cr)	FY2013	FY2014	FY2015	FY2016E	FY2017E
Profit before tax	82	98	119	126	146
Depreciation	22	29	41	47	49
Change in Working Capital	(15)	(57)	(86)	(5)	(48)
Direct taxes paid	(27)	(34)	(40)	(42)	(48)
Others	6	30	(16)	(17)	(18)
Cash Flow from Operations	68	66	17	110	80
(Inc.)/Dec. in Fixed Assets	(97)	(58)	(27)	(91)	(63)
(Inc.)/Dec. in Investments	3	-	-	-	-
(Incr)/Decr In LT loans & adv.	12	(5)	(2)	(1)	(2)
Others	10	2	16	17	18
Cash Flow from Investing	(73)	(61)	(13)	(76)	(47)
Issue of Equity	-	0	-	-	-
Inc./Dec. in loans	26	34	5	6	6
Dividend Paid (Incl. Tax)	(8)	(9)	(11)	(13)	(16)
Others	(12)	(28)	1	-	-
Cash Flow from Financing	6	(3)	(5)	(8)	(11)
Inc./Dec. in Cash	1	2	(1)	26	23
Opening Cash balances	2	3	6	5	31
Closing Cash balances	3	6	5	31	54

Key ratios

Y/E Mar.	FY2013	FY2014	FY2015	FY2016E	FY2017E
Valuation Ratio (x)					
P/E (on FDEPS)	15.9	13.8	11.1	10.4	9.0
P/CEPS	11.4	9.4	7.3	6.7	6.0
P/BV	2.8	2.4	2.0	1.7	1.5
EV/Net sales	1.1	0.9	0.8	0.7	0.6
EV/EBITDA	10.1	8.2	6.6	6.0	5.3
EV / Total Assets	1.9	1.7	1.5	1.4	1.2
Per Share Data (₹)					
EPS (Basic)	58.7	67.8	84.1	89.9	104.1
EPS (fully diluted)	58.7	67.8	84.1	89.9	104.1
Cash EPS	81.9	98.9	127.7	140.3	155.9
DPS	7.5	8.0	10.0	12.0	15.0
Book Value	335	394	464	543	629
DuPont Analysis					
EBIT margin	8.5	8.5	8.8	8.6	8.8
Tax retention ratio	0.7	0.6	0.7	0.7	0.7
Asset turnover (x)	1.8	2.0	2.0	2.1	2.1
ROIC (Post-tax)	10.6	10.8	11.9	11.9	12.5
Cost of Debt (Post Tax)	7.4	7.2	7.3	7.5	7.6
Leverage (x)	0.8	0.7	0.6	0.5	0.4
Operating ROE	12.9	13.4	14.8	14.0	14.5
Returns (%)					
ROCE (Pre-tax)	15.2	16.4	17.7	16.9	17.4
Angel ROIC (Pre-tax)	15.7	16.6	17.9	17.7	18.7
ROE	18.9	18.6	19.6	17.9	17.8
Turnover ratios (x)					
Asset TO (Gross Block)	2.3	2.4	2.6	2.6	2.5
Inventory / Net sales (days)	72	63	56	56	57
Receivables (days)	68	64	72	74	69
Payables (days)	76	60	55	54	54
WC cycle (ex-cash) (days)	94	92	100	93	94
Solvency ratios (x)					
Net debt to equity	0.8	0.7	0.6	0.5	0.4
Net debt to EBITDA	2.2	1.9	1.6	1.4	1.1
Int. Coverage (EBIT/ Int.)	3.5	3.9	4.4	4.4	4.9

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Disclosure of Interest Statement	Siyaram Silk Mills
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%)
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