

Siyaram Silk Mills

Performance Highlights

| Y/E March (₹ cr) | 3QFY17 | 3QFY16 | % chg. (yoy) | 2QFY17 | % chg. (qoq) |
|------------------|------------|------------|---------------|-------------|---------------|
| Net Sales | 339 | 413 | (18.0) | 421 | (19.4) |
| Operating profit | 42 | 47 | (11.4) | 53 | (20.8) |
| OPM (%) | 12.4 | 11.4 | 91bp | 12.6 | (22bp) |
| Adj. PAT | 14 | 21 | (33.6) | 25.4 | (46.2) |

Source: Company, Angel Research

Siyaram Silk Mills (SSML)' results for 3QFY2017 have come in below our estimates, both on top-line and bottom-line front, on back of lower volume growth due to weak consumer buying sentiments.

Top-line grew modest: The top-line for the quarter de-grew by ~18% yoy to ₹339cr, which can be mainly attributed to lower volume growth.

Operating profit declines ~11%: The EBITDA for the quarter de-grew by ~11% yoy to ₹42cr. However, the EBITDA margin has improved by 91bp yoy.

PAT de-grew by ~34%: During the quarter, the net profit de-grew by ~34% yoy to ₹14cr due to lower sales growth, higher depreciation cost and taxes.

Outlook and Valuation: Going forward, we expect SSML to report net sales CAGR of ~7% to ~₹1,857cr and adj. net profit CAGR of ~9% to ₹103cr over FY2016-18E. The same would be on the 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 at affordable pricing points. At the current market price, SSML trades at an inexpensive valuation (at a P/E of 13.1x its FY2018E earnings). **We recommend an Accumulate rating on the stock with the target price of ₹1,605.**

Key financials

| Y/E March (₹ cr) | FY2015 | FY2016 | FY2017E | FY2018E |
|-------------------|--------------|--------------|--------------|--------------|
| Net Sales | 1,510 | 1,619 | 1,652 | 1,857 |
| % chg | 15.9 | 7.2 | 2.0 | 12.4 |
| Net Profit | 79 | 88 | 87 | 103 |
| % chg | 78.8 | 87.6 | 86.6 | 103.2 |
| OPM (%) | 11.5 | 11.6 | 11.6 | 11.7 |
| EPS (₹) | 84.1 | 93.5 | 92.4 | 110.1 |
| P/E (x) | 17.1 | 15.4 | 15.6 | 13.1 |
| P/BV (x) | 3.1 | 2.6 | 2.3 | 2.0 |
| RoE (%) | 18.1 | 17.1 | 14.7 | 15.2 |
| RoCE (%) | 17.9 | 16.3 | 14.3 | 15.4 |
| EV/Sales (x) | 1.1 | 1.0 | 1.0 | 0.9 |
| EV/EBITDA (x) | 9.5 | 9.0 | 8.8 | 7.7 |

Source: Company, Angel Research; Note: CMP as of January 27, 2017,

ACCUMULATE

| | |
|--------------|--------|
| CMP | ₹1,438 |
| Target Price | ₹1,605 |

| | |
|-------------------|-----------|
| Investment Period | 12 Months |
|-------------------|-----------|

Stock Info

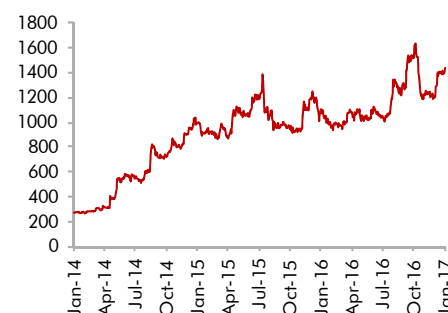
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|--------------------|-------------|
| Sector | Textile |
| Market Cap (₹ cr) | 1,332 |
| Net debt (₹ cr) | 334 |
| Beta | 1.0 |
| 52 Week High / Low | 1,690 / 925 |
| Avg. Daily Volume | 206,664 |
| Face Value (₹) | 10 |
| BSE Sensex | 27,903 |
| Nifty | 8,651 |
| Reuters Code | SIYR.BO |
| Bloomberg Code | SIYA IN |

Shareholding Pattern (%)

| | |
|-------------------------|------|
| Promoters | 67.1 |
| MF / Banks / Indian Fls | 6.3 |
| FII / NRIs / OCBs | 0.6 |
| Indian Public / Others | 26.0 |

| Abs.(%) | 3m | 1yr | 3yr |
|---------|-------|------|-------|
| Sensex | (0.1) | 13.8 | 34.6 |
| SSML | (6.5) | 30.3 | 432.6 |

3-Year Daily price chart



Source: Company, Angel Research

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Exhibit 1: Quarterly performance

| Y/E March (₹ cr) | 3QFY17 | 3QFY16 | % chg. (yoy) | 2QFY17 | % chg. (qoq) | 9MFY17 | 9MFY16 | % chg |
|--------------------------|------------|------------|--------------|------------|---------------|--------------|--------------|---------------|
| Net Sales | 339 | 281 | 20.5 | 421 | (19.4) | 1,041 | 1,106 | (5.9) |
| Net raw material | 141 | 122 | 15.2 | 207 | (32.0) | 472 | 550 | (14.2) |
| (% of Sales) | 41.6 | 43.5 | (190) | 49.2 | (767) | 45.3 | 49.8 | |
| Employee Cost | 42 | 37 | 14.5 | 42 | 0.0 | 124 | 107 | 15.5 |
| (% of Sales) | 12.5 | 13.1 | (65) | 10.1 | 243 | 11.9 | 9.7 | |
| Other Expenses | 114 | 92 | 23.2 | 118 | (3.8) | 320 | 316 | 1.5 |
| (% of Sales) | 33.6 | 32.8 | 76 | 28.1 | 546 | 30.8 | 28.5 | |
| Total Expenditure | 297 | 252 | 18.0 | 368 | (19.2) | 917 | 974 | (5.8) |
| Operating Profit | 42 | 30 | 40.9 | 53 | (20.8) | 125 | 133 | (6) |
| OPM (%) | 12.4 | 10.6 | 179 | 12.6 | (22) | 11.97 | 12.00 | (3) |
| Interest | 9 | 9 | (0.3) | 9 | 3.8 | 26.87 | 22.77 | 18.0 |
| Depreciation | 17 | 11 | 52.7 | 13 | 24.6 | 42.84 | 38.22 | 12.1 |
| Other Income | 5 | 6 | (2.5) | 7 | (22.3) | 18 | 13 | 44.2 |
| PBT | 22 | 15 | 41.1 | 38 | (42.7) | 73 | 84 | (13.4) |
| (% of Sales) | 6.4 | 5.5 | | 9.0 | | 7.0 | 7.6 | |
| Tax | 8 | 5 | 50.0 | 12 | (35.7) | 25.72 | 28.05 | (8.3) |
| (% of PBT) | 36.9 | 34.7 | | 32.9 | | 35.2 | 33.3 | |
| Reported PAT | 14 | 10 | 36.3 | 25 | (46.2) | 47 | 56 | (15.9) |
| PATM | 4.0 | 3.6 | | 6.0 | | 4.5 | 5.1 | |

Source: Company, Angel Research

Investment arguments

Leadership in blended fabric to support growth

Revenue to grow at a CAGR of ~7% over FY2016-18E to ₹1,857cr

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 brands 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 ~10% over FY2016-18E to ₹1,948.

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.

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. The company plans to increase the number of stores through franchisees to 500 by FY2017.

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 revenue of ~₹38cr from the segment and it plans to grow it to ₹500cr in the coming four to five years as there 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.

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

Outlook and valuation

Going forward, we expect SSML to report net sales CAGR of ~7% to ~₹1,857cr and adj. net profit CAGR of ~9% to ₹103cr over FY2016-18E. The same would be on the 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 at affordable pricing points. At the current market price, SSML trades at an inexpensive valuation (at a P/E of 13.1x its FY2018E earnings). **We recommend an Accumulate rating on the stock with the target price of ₹1,605.**

Concerns

Decline in rural spending: Unseasonal rains or 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 fragmented, 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 March (₹ cr) | FY13 | FY14 | FY15 | FY16 | FY17E | FY18E |
|-----------------------------------|--------------|--------------|--------------|--------------|--------------|--------------|
| Total operating income | 1,041 | 1,303 | 1,510 | 1,619 | 1,652 | 1,857 |
| % chg | 13.7 | 25.2 | 15.9 | 7.2 | 2.0 | 12.4 |
| Total Expenditure | 931 | 1,163 | 1,336 | 1,432 | 1,460 | 1,639 |
| Cost of Materials | 532 | 671 | 794 | 810 | 870 | 980 |
| Personnel | 89 | 108 | 123 | 144 | 139 | 158 |
| Others Expenses | 310 | 384 | 419 | 478 | 451 | 500 |
| EBITDA | 110 | 140 | 174 | 188 | 192 | 218 |
| % chg | (5.4) | 27.1 | 24.3 | 7.8 | 2.1 | 13.8 |
| (% of Net Sales) | 10.6 | 10.7 | 11.5 | 11.6 | 11.6 | 11.7 |
| Depreciation & Amortisation | 22 | 29 | 41 | 42 | 50 | 52 |
| EBIT | 88 | 111 | 133 | 146 | 142 | 166 |
| % chg | (6.1) | 25.5 | 20.1 | 9.6 | (3.1) | 17.2 |
| (% of Net Sales) | 8.5 | 8.5 | 8.8 | 9.0 | 8.6 | 8.9 |
| Interest & other Charges | 25 | 29 | 31 | 30 | 35 | 36 |
| Other Income | 19 | 16 | 16 | 17 | 23 | 24 |
| (% of PBT) | 22.6 | 16.1 | 13.6 | 12.9 | 17.8 | 15.6 |
| Share in profit of Associates | - | - | - | - | - | - |
| Recurring PBT | 82 | 98 | 119 | 133 | 129 | 154 |
| % chg | 0.7 | 19.8 | 21.4 | 11.6 | (2.6) | 19.1 |
| Prior Period & Extra. Exp./(Inc.) | - | - | - | - | - | - |
| PBT (reported) | 82 | 98 | 119 | 133 | 129 | 154 |
| Tax | 27 | 34 | 40 | 45 | 43 | 51 |
| (% of PBT) | 32.7 | 35.1 | 33.8 | 34.0 | 33.0 | 33.0 |
| PAT (reported) | 55 | 64 | 79 | 88 | 87 | 103 |
| Add: Share of earnings of asso. | - | - | - | - | - | - |
| ADJ. PAT | 55 | 64 | 79 | 88 | 87 | 103 |
| % chg | (3.0) | 15.6 | 23.9 | 11.1 | (1.1) | 19.1 |
| (% of Net Sales) | 5.3 | 4.9 | 5.2 | 5.4 | 5.2 | 5.6 |
| Basic EPS (₹) | 58.7 | 67.8 | 84.1 | 93.5 | 92.4 | 110.1 |
| Fully Diluted EPS (₹) | 58.7 | 67.8 | 84.1 | 93.5 | 92.4 | 110.1 |
| % chg | (3.0) | 15.6 | 23.9 | 11.1 | (1.1) | 19.1 |

Balance sheet

| Y/E March (₹ cr) | FY13 | FY14 | FY15 | FY16 | FY17E | FY18E |
|-----------------------------|------------|------------|------------|------------|--------------|--------------|
| SOURCES OF FUNDS | | | | | | |
| Equity Share Capital | 9 | 9 | 9 | 9 | 9 | 9 |
| Reserves & Surplus | 305 | 360 | 426 | 503 | 579 | 670 |
| Shareholders Funds | 314 | 370 | 435 | 512 | 588 | 679 |
| Minority Interest | - | - | - | - | - | - |
| Total Loans | 278 | 314 | 309 | 386 | 400 | 400 |
| Deferred Tax Liability | 22 | 26 | 23 | 23 | 23 | 23 |
| Total Liabilities | 614 | 709 | 767 | 920 | 1,011 | 1,102 |
| APPLICATION OF FUNDS | | | | | | |
| Gross Block | 499 | 570 | 589 | 609 | 639 | 659 |
| Less: Acc. Depreciation | 194 | 220 | 258 | 299 | 349 | 401 |
| Net Block | 305 | 349 | 332 | 310 | 290 | 258 |
| Capital Work-in-Progress | 16 | 3 | 7 | 7 | 7 | 7 |
| Investments | 0 | 0 | 0 | 46 | 46 | 46 |
| Current Assets | 466 | 543 | 638 | 773 | 861 | 1,001 |
| Inventories | 222 | 225 | 238 | 326 | 353 | 407 |
| Sundry Debtors | 200 | 260 | 335 | 368 | 385 | 443 |
| Cash | 3 | 6 | 5 | 6 | 15 | 18 |
| Loans & Advances | 33 | 39 | 45 | 57 | 76 | 93 |
| Other Assets | 8 | 13 | 15 | 16 | 33 | 41 |
| Current liabilities | 176 | 190 | 214 | 221 | 202 | 222 |
| Net Current Assets | 290 | 353 | 424 | 551 | 659 | 779 |
| Deferred Tax Asset | 3 | 3 | 4 | 4 | 4 | 4 |
| Mis. Exp. not written off | - | - | - | - | - | - |
| Total Assets | 614 | 709 | 767 | 920 | 1,011 | 1,102 |

Cash flow statement

| Y/E March (₹ cr) | FY13 | FY14 | FY15 | FY16 | FY17E | FY18E |
|----------------------------------|-------------|-------------|-------------|-------------|-------------|-------------|
| Profit before tax | 82 | 98 | 119 | 133 | 129 | 154 |
| Depreciation | 22 | 29 | 41 | 42 | 50 | 52 |
| Change in Working Capital | (28) | (87) | (120) | (127) | (99) | (116) |
| Interest / Dividend (Net) | 17 | 19 | 21 | 30 | 35 | 36 |
| Direct taxes paid | (25) | (34) | (40) | (45) | (43) | (51) |
| Others | 1 | 41 | 38 | - | - | - |
| Cash Flow from Operations | 68 | 65 | 58 | 33 | 73 | 75 |
| (Inc.)/ Dec. in Fixed Assets | (70) | (61) | (23) | (112) | (30) | (20) |
| (Inc.)/ Dec. in Investments | 3 | - | - | (46) | - | - |
| Cash Flow from Investing | (73) | (61) | (23) | (66) | (30) | (20) |
| Issue of Equity | - | 0 | - | - | - | - |
| Inc./(Dec.) in loans | - | - | - | 76 | 14 | - |
| Dividend Paid (Incl. Tax) | (7) | (7) | (7) | 11 | 10 | 12 |
| Interest / Dividend (Net) | 14 | 5 | (30) | (52) | (59) | (64) |
| Cash Flow from Financing | 7 | (2) | (38) | 35 | (34) | (51) |
| Inc./(Dec.) in Cash | 2 | 3 | (2) | 2 | 9 | 4 |
| Opening Cash balances | 2 | 3 | 5 | 3 | 6 | 15 |
| Closing Cash balances | 3 | 5 | 3 | 6 | 15 | 18 |

Key ratios

| Y/E March | FY13 | FY14 | FY15 | FY16 | FY17E | FY18E |
|------------------------------|-------|-------|-------|-------|-------|-------|
| Valuation Ratio (x) | | | | | | |
| P/E (on FDEPS) | 24.5 | 21.2 | 17.1 | 15.4 | 15.6 | 13.1 |
| P/CEPS | 71.1 | 82.2 | 101.9 | 113.2 | 112.0 | 133.5 |
| P/BV | 4.3 | 3.6 | 3.1 | 2.6 | 2.3 | 2.0 |
| Dividend yield (%) | 0.5 | 0.5 | 0.7 | 0.7 | 0.7 | 0.9 |
| EV/Sales | 1.6 | 1.3 | 1.1 | 1.0 | 1.0 | 0.9 |
| EV/EBITDA | 14.7 | 11.8 | 9.5 | 9.0 | 8.8 | 7.7 |
| EV / Total Assets | 2.1 | 1.8 | 1.7 | 1.5 | 1.4 | 1.3 |
| Per Share Data (₹) | | | | | | |
| EPS (Basic) | 58.7 | 67.8 | 84.1 | 93.5 | 92.4 | 110.1 |
| EPS (fully diluted) | 58.7 | 67.8 | 84.1 | 93.5 | 92.4 | 110.1 |
| Cash EPS | 20.2 | 17.5 | 14.1 | 12.7 | 12.8 | 10.8 |
| DPS | 7.0 | 7.5 | 9.4 | 10.5 | 10.4 | 12.4 |
| Book Value | 335.2 | 394.5 | 464.2 | 546.4 | 627.8 | 724.7 |
| Returns (%) | | | | | | |
| ROCE | 14.9 | 16.2 | 17.9 | 16.3 | 14.3 | 15.4 |
| Angel ROIC (Pre-tax) | 15.0 | 16.4 | 18.0 | 17.3 | 15.3 | 16.4 |
| ROE | 17.5 | 17.2 | 18.1 | 17.1 | 14.7 | 15.2 |
| Turnover ratios (x) | | | | | | |
| Asset Turnover (Gross Block) | 2.1 | 2.3 | 2.6 | 2.7 | 2.6 | 2.8 |
| Inventory / Sales (days) | 78 | 63 | 58 | 74 | 78 | 80 |
| Receivables (days) | 70 | 73 | 81 | 83 | 85 | 87 |
| Payables (days) | 42 | 34 | 34 | 34 | 33 | 33 |
| WC cycle (ex-cash) (days) | 106 | 102 | 105 | 123 | 130 | 134 |

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Disclosure of Interest Statement

Siyaram Silk Mills

| | |
|---|----|
| 1. Financial interest of research analyst or Angel or his Associate or his relative | No |
| 2. Ownership of 1% or more of the stock by research analyst or Angel or associates or relatives | No |
| 3. Served as an officer, director or employee of the company covered under Research | No |
| 4. Broking relationship with company covered under Research | No |

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)