

Siyaram Silk Mills

Performance Highlights

Y/E March (₹ cr)	4QFY16	4QFY15	% chg. (yoy)	3QFY16	% chg. (qoq)
Net Sales	505	480	5.2	416	21.5
Operating profit	60	58	3.2	47	28.8
OPM (%)	11.9	12.2	(23bp)	11.3	68bp
Adj. PAT	32	32	(0.3)	21	53.6

Source: Company, Angel Research

Siyaram Silk Mills (SSML)' results for 4QFY2016 have come in below our estimates. The company has reported a lower top-line growth and a flattish bottom-line. During the quarter, the company acquired Balkrishna Synthetics Ltd, which is involved in the business of processing synthetic fabrics, for a consideration of ~₹45cr. This acquisition will help SSML enhance its product portfolio.

Tepid top-line growth: The top-line for the quarter grew by 5% yoy to ₹505cr. The top-line growth was soft owing to lower volume growth.

Underperformance at the EBITDA level: The EBITDA for the quarter grew by ~₹3cr yoy to ₹60cr and the EBITDA margin contracted by 23bp yoy to 11.9% due to higher employee cost and other expenditure.

Strong PAT growth: During the quarter, the net profit came in flat yoy at ₹32cr due to lower sales growth and poor operating margin.

Outlook and Valuation: Going forward, we expect SSML to report a net sales CAGR of ~12% to ~₹2,040cr and adj.net profit CAGR of ~14% to ₹115cr 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 8.6x its FY2018E earnings). **We have a Buy rating on the stock and target price of ₹1,354.**

Key financials

Y/E March (₹ cr)	FY2015	FY2016	FY2017E	FY2018E
Net Sales	1,510	1,619	1,799	2,040
% chg	15.9	7.2	11.1	13.4
Net Profit	79	88	98	115
% chg	78.8	87.6	98.3	114.7
OPM (%)	11.5	11.6	11.6	11.7
EPS (₹)	84.1	93.5	104.9	122.4
P/E (x)	12.6	11.3	10.1	8.6
P/BV (x)	2.3	1.9	1.7	1.4
RoE (%)	18.1	17.1	16.4	16.4
RoCE (%)	17.9	16.3	16.5	17.7
EV/Sales (x)	0.9	0.8	0.7	0.7
EV/EBITDA (x)	7.4	7.1	6.4	5.6

Source: Company, Angel Research; Note: CMP as of May 20, 2016,

BUY

CMP	₹1,058
Target Price	₹1,354

Investment Period	12 Months
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Stock Info

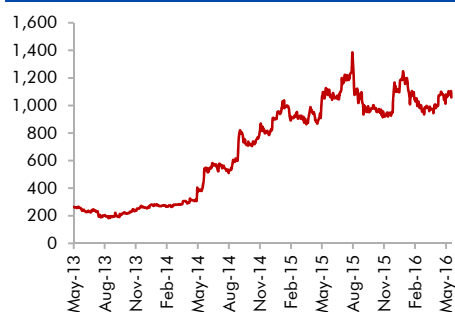
Sector	Textile
Market Cap (₹ cr)	992
Net debt (₹ cr)	334
Beta	1.0
52 Week High / Low	1400 / 896
Avg. Daily Volume	2,453
Face Value (₹)	10
BSE Sensex	25,302
Nifty	7,750
Reuters Code	SIYR.BO
Bloomberg Code	SIYA IN

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	6.7	(9.1)	25.8
SSML	7.9	(3.6)	300.8

3-Year Daily price chart



Source: Company, Angel Research

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Exhibit 1: Quarterly performance

Y/E March (₹ cr)	4QFY16	4QFY15	% chg. (yoy)	2QFY16	% chg. (qoq)	FY2016	FY2015	% chg
Net Sales	505	480	5.2	416	21.5	1,619	1,510	7.2
Net raw material	267	278	(4.0)	212	25.8	810	794	2.0
(% of Sales)	52.9	58.0	(509)	51.1	182	50.0	52.6	
Employee Cost	43	33	30.8	34	26.7	144	123	16.8
(% of Sales)	8.5	6.8	166	8.1	35	8.9	8.2	
Other Expenses	135	111	21.9	123	9.8	478	419	14.1
(% of Sales)	26.7	23.0	366	29.6	(285)	29.5	27.7	
Total Expenditure	445	422	5.5	369	20.5	1,432	1,336	7.2
Operating Profit	60	58	3.2	47	28.8	188	174	8
OPM (%)	11.9	12.2	(23)	11.3	68	11.6	11.5	6
Interest	8	7	23.9	8	3.0	30	31	(0.3)
Depreciation	11	10	5.8	10	0.9	42	41	1.6
Other Income	4	4	12.8	5	(9.8)	17	16	5.5
PBT	46	45	0.4	33	38.5	133	119	11.6
(% of Sales)	9.0	9.5		7.9		8.2	7.9	
Tax	14	13	2.0	12	12.3	45	40	12.5
(% of PBT)	29.7	29.2		36.6		34.0	33.8	
Reported PAT	32	32	(0.3)	20	53.6	88	79	11.1
PATM (%)	6.3	6.7		5.0		5.4	5.2	

Source: Company, Angel Research

Investment arguments

Leadership in blended fabric to support growth

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 12% over FY2016-18E to ₹2040cr.

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 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 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

Revenue to grow at a CAGR of 12% over FY2016-18E to ₹2,040cr

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

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 ~12% to ~₹2,040cr and adj.net profit CAGR of ~14% to ₹115cr 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 8.6x its FY2018E earnings). **We have a Buy rating on the stock and target price of ₹1,354.**

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 March (₹ cr)	FY2013	FY2014	FY2015	FY2016	FY2017E	FY2018E
Total operating income	1,041	1,303	1,510	1,619	1,799	2,040
% chg	13.7	25.2	15.9	7.2	11.1	13.4
Total Expenditure	931	1,163	1,336	1,432	1,590	1,801
Cost of Materials	532	671	794	810	948	1,077
Personnel	89	108	123	144	151	173
Others Expenses	310	384	419	478	491	550
EBITDA	110	140	174	188	209	240
% chg	(5.4)	27.1	24.3	7.8	11.2	14.8
(% of Net Sales)	10.6	10.7	11.5	11.6	11.6	11.7
Depreciation & Amortisation	22	29	41	42	44	45
EBIT	88	111	133	146	165	194
% chg	(6.1)	25.5	20.1	9.6	12.9	17.6
(% of Net Sales)	8.5	8.5	8.8	9.0	9.2	9.5
Interest & other Charges	25	29	31	30	35	40
Other Income	19	16	16	17	17	17
(% of PBT)	22.6	16.1	13.6	12.9	11.7	10.0
Share in profit of Associates	-	-	-	-	-	-
Recurring PBT	82	98	119	133	147	171
% chg	0.7	19.8	21.4	11.6	10.5	16.7
Prior Period & Extraord. Exp./(Inc.)	-	-	-	-	-	-
PBT (reported)	82	98	119	133	147	171
Tax	27	34	40	45	48	57
(% of PBT)	32.7	35.1	33.8	34.0	33.0	33.0
PAT (reported)	55	64	79	88	98	115
Add: Share of earnings of asso.	-	-	-	-	-	-
ADJ. PAT	55	64	79	88	98	115
% chg	55.0	63.6	78.8	87.6	98.3	114.7
(% of Net Sales)	5.3	4.9	5.2	5.4	5.5	5.6
Basic EPS (₹)	58.7	67.8	84.1	93.5	104.9	122.4
Fully Diluted EPS (₹)	58.7	67.8	84.1	93.5	104.9	122.4
% chg	(3.0)	15.6	23.9	11.1	12.3	16.7

Balance sheet

Y/E March (₹ cr)	FY2013	FY2014	FY2015	FY2016E	FY2017E	FY2018E
SOURCES OF FUNDS						
Equity Share Capital	9	9	9	9	9	9
Reserves & Surplus	305	360	426	503	589	690
Shareholders Funds	314	370	435	512	599	699
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	1,021	1,122
APPLICATION OF FUNDS						
Gross Block	499	570	589	609	639	659
Less: Acc. Depreciation	194	220	258	299	343	388
Net Block	305	349	332	310	297	271
Capital Work-in-Progress	16	3	7	7	7	7
Investments	0	0	0	46	46	46
Current Assets	466	543	638	773	900	1,054
Inventories	222	225	238	326	384	447
Sundry Debtors	200	260	335	368	419	486
Cash	3	6	5	6	7	8
Loans & Advances	33	39	45	57	72	92
Other Assets	8	13	15	16	18	20
Current liabilities	176	190	214	221	234	262
Net Current Assets	290	353	424	551	666	792
Deferred Tax Asset	3	3	4	4	4	4
Mis. Exp. not written off	-	-	-	-	-	-
Total Assets	614	709	767	920	1,021	1,122

Cash flow statement

Y/E March (₹ cr)	FY2013	FY2014	FY2015	FY2016E	FY2017E	FY2018E
Profit before tax	82	98	119	133	147	171
Depreciation	22	29	41	42	44	45
Change in Working Capital	(28)	(87)	(120)	(127)	(113)	(125)
Interest / Dividend (Net)	17	19	21	30	35	40
Direct taxes paid	(25)	(34)	(40)	(45)	(48)	(57)
Others	1	41	38	-	-	-
Cash Flow from Operations	68	65	58	33	64	76
(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	12	14
Interest / Dividend (Net)	14	5	(30)	(52)	(59)	(68)
Cash Flow from Financing	7	(2)	(38)	35	(33)	(54)
Inc./(Dec.) in Cash	2	3	(2)	2	1	2
Opening Cash balances	2	3	5	3	6	7
Closing Cash balances	3	5	3	6	7	8

Key ratios

Y/E March	FY2013	FY2014	FY2015	FY2016	FY2017E	FY2018E
Valuation Ratio (x)						
P/E (on FDEPS)	18.0	15.6	12.6	11.3	10.1	8.6
P/CEPS	58.8	67.9	84.2	93.5	105.0	122.5
P/BV	3.2	2.7	2.3	1.9	1.7	1.4
Dividend yield (%)	0.7	0.7	0.9	1.0	1.1	1.3
EV/Sales	1.2	1.0	0.9	0.8	0.7	0.7
EV/EBITDA	11.5	9.3	7.4	7.1	6.4	5.6
EV / Total Assets	1.6	1.4	1.3	1.2	1.1	1.0
Per Share Data (₹)						
EPS (Basic)	58.7	67.8	84.1	93.5	104.9	122.4
EPS (fully diluted)	58.7	67.8	84.1	93.5	104.9	122.4
Cash EPS	18.0	15.6	12.6	11.3	10.1	8.6
DPS	7.0	7.5	9.4	10.5	11.8	13.8
Book Value	335.2	394.5	464.2	546.4	638.8	746.5
Returns (%)						
ROCE	14.9	16.2	17.9	16.3	16.5	17.7
Angel ROIC (Pre-tax)	15.0	16.4	18.0	17.3	17.4	18.6
ROE	17.5	17.2	18.1	17.1	16.4	16.4
Turnover ratios (x)						
Asset Turnover (Gross Block)	2.1	2.3	2.6	2.7	2.8	3.1
Inventory / Sales (days)	78	63	58	74	78	80
Receivables (days)	70	73	81	83	85	87
Payables (days)	42	34	34	34	34	34
WC cycle (ex-cash) (days)	106	102	105	123	129	133

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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%)