Visaka Industries

Performance Highlights

Y/E March (₹ cr)	2QFY16	2QFY15	% chg (yoy)	1QFY16	% chg (qoq)
Net sales	192	210	(8.2)	321	(40.2)
EBITDA	15	19	(21.6)	36	(57.6)
EBITDA Margin (%)	*7.9*	*9.3*	*(135)bp*	*11.2*	*(326)bp*
Adjusted PAT	0.8	3.7	(78.9)	13.6	(94.3)

Source: Company, Angel Research

For 2QFY2016, Visaka Industries reported a mixed set of numbers. The top-line, at ₹192cr (8.2% yoy decline), was marginally below our estimate of ₹205cr. The EBITDA declined by 21.6% yoy to ₹15cr and the EBITDA margin contracted by 135bp yoy to 7.9%, owing to a 109bp yoy increase in raw material cost as a percentage of sales to 50.2% and 157bp yoy increase in employee expense to 8.0% of sales. Other expenses declined by 131bp yoy to 33.9% of sales. We had built in an EBITDA margin estimate of 6.4%. Interest expense at ₹5cr was higher by 19.7% on a yoy basis. Consequently, the net profit declined by 78.9% yoy to ₹0.8cr, against our estimate of ₹1.5cr.

Near term pressure for Asbestos Cement Products (ACP); Overall long term prospects intact: The ACP division of the Building Products segment is likely to face pressure in the near term on account of subdued rural sentiment. However, the company is a major player with ~17% market share. With the rural economy expected to improve in the longer run, we expect the division to perform well going forward. The Building products segment is also supported by strong performance of its V-boards division which is expected to post a robust performance on account of growing acceptance and cost advantages against substitute products and increasing contribution of exports. Additionally, we expect the Synthetic yarn segment to remain a steady contributor, thus aiding top-line growth.

Outlook and Valuations: We have marginally revised our estimates downwards for FY2017E to factor in the lower than estimated numbers. At the current market price of ₹119, the stock is trading at a valuation of 4.1x FY2016E EPS, which continues to be attractive. **We continue to maintain our Buy rating on the stock, with a revised target price of ₹144, valuing the stock at 5.0x on FY2017E earnings.**

Key financials

Y/E March (₹ cr)	FY2013	FY2014	FY2015E	FY2016E	FY2017E
Net sales	916	892	1,021	1,086	1,197
% chg	*22.0*	*(2.6)*	*14.5*	*6.4*	*10.2*
Adj. net profit	51	12	21	34	46
% chg	*47.5*	*(76.3)*	*76.5*	*61.0*	*33.5*
EBITDA Margin (%)	11.6	6.4	9.4	9.9	10.2
EPS (₹)	31.9	7.5	13.4	21.5	28.7
P/E (x)	3.7	15.7	8.9	5.5	4.1
P/BV (x)	0.6	0.6	0.6	0.5	0.5
RoE (%)	15.6	3.6	6.4	9.6	11.6
RoCE (%)	13.4	5.3	7.7	10.1	11.7
EV/Sales (x)	0.5	0.5	0.4	0.4	0.4
EV/EBITDA (x)	9.5	3.9	5.2	6.5	7.0

Source: Company, Angel Research; Note: CMP as of November 17, 2015

BUY

CMP	₹119
Target Price	₹144
Investment Period	12 Months

Stock Info	
Sector	Cement Products
Market Cap (₹ cr)	189
Net Debt	262
Beta	1.4
52 Week High / Low	189 / 85
Avg. Daily Volume	17,961
Face Value (₹)	10
BSE Sensex	25,864
Nifty	7,838
Reuters Code	VSKI.BO
Bloomberg Code	VSKI.IN

Shareholding Pattern (%)	
Promoters	37.5
MF / Banks / Indian FIs	0.7
FII / NRIs / OCBs	3.9
Indian Public / Others	57.8

Abs.(%)	3m	1yr	3yr
Sensex	(7.6)	(8.6)	40.7
Visaka	(25.8)	(6.3)	(4.8)

3 Year Price Chart

Source: Company, Angel Research

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Exhibit 1: 2QFY2016 performance

Y/E March (₹ cr)	2QFY16	2QFY15	% chg (yoy)	1QFY16	% chg (qoq)	1HFY16	1HFY15	% chg
Total operating income	192	210	*(8.2)*	321	*(40.2)*	514	522	*(1.6)*
Net raw material	97	103	*(6.2)*	189	*(48.8)*	285	296	*(3.7)*
(% of Sales)	*50.2*	*49.1*	*109bp*	*58.7*	*(849)bp*	*55.5*	*56.8*	*(124)bp*
Employee cost	15	13	*14.2*	19	*(17.1)*	34	31	*10.9*
(% of Sales)	*8.0*	*6.4*	*157bp*	*5.8*	*223bp*	*6.6*	*5.9*	*74bp*
Other Expenses	65	74	*(11.7)*	78	*(16.8)*	143	141	*1.4*
(% of Sales)	*33.9*	*35.2*	*(131)bp*	*24.3*	*952bp*	*27.9*	*27.1*	*81bp*
Total expenditure	177	190	*(6.9)*	286	*(38.0)*	463	468	*(1.2)*
EBITDA	15	19	*(21.6)*	36	*(57.6)*	51	54	*(4.6)*
EBITDA Margin (%)	*7.9*	*9.3*	*(135)bp*	*11.2*	*(326)bp*	*10.0*	*10.3*	*(32)bp*
Interest	5	4	*19.7*	5	*(11.8)*	10	9	*15.1*
Depreciation	10	10	*(6.1)*	9	*0.3*	19	24	*(20.0)*
Other income	1	1	*(16.6)*	1	*(56.0)*	2	2	*21.9*
PBT	1	6	*21.1*	22	*17.0*	24	22	*5.6*
(% of Sales)	*0.7*	*2.8*		*6.9*		*4.6*	*4.3*	
Tax	0.6	2.2	*(70.8)*	8.6	*(92.5)*	9	7	*23.4*
(% of PBT)	*45.3*	*37.4*		*38.7*		*39.1*	*33.5*	
Reported PAT	0.8	4	*78.9*	14	*(94.3)*	14	15	*(3.4)*
Exceptional items	0	0		0		0	0	
Adjusted PAT	1	4	78.9	14	(94.3)	14	15	(3.4)
PATM (%)	*0.4*	*1.8*		*4.2*		*2.8*	*2.9*	

Source: Company, Angel Research

Result mostly below our expectations

For 2QFY2016, Visaka Industries reported a mixed set of numbers. The top-line at ₹192cr (8.2% yoy decline) was below our estimates of ₹205cr. The EBITDA declined by 21.6% yoy to ₹15cr and the EBITDA margin contracted by 135bp yoy to 7.9% owing to a 109bp yoy increase in raw material cost as a percentage of sales to 50.2% and 157bp yoy increase in employee expense to 8.0% of sales. We had accounted for a higher raw material expense (52.3% of sales on account of USD appreciation against INR). Other expenses declined by 131bp yoy to 33.9% of sales. We had built in an EBITDA margin estimate of 6.4%. The interest expense at ₹5cr was higher by 19.7% on a yoy basis. As a result, the net profit declined by 78.9% yoy to ₹0.8cr. We had estimated a net profit of ₹1.5cr for the quarter.

Exhibit 2: Actual vs. Estimate

Actual v/s Angel's Estimates	Actual (₹cr)	Estimate (₹cr)	*% variation*
Total Income (₹ cr)	192	205	*(6.1)*
EBITDA (₹cr)	15	13	*16.8*
EBITDA Margin (%)	*7.9*	*6.4*	*155bp*
Adjusted PAT (₹ cr)	0.8	1.5	*(48.4)*

Source: Company, Angel Research

Segmental performance

Sales of the Building products segment declined by 7.7% yoy to ₹147.7cr, while that of Synthetic yarn segment declined by 13.2% yoy to ₹41.9cr. The Building products segment reported an EBIT of ₹3.4cr and EBIT margin of 2.3% as against EBIT and EBIT margin of ₹6.7cr and 4.2%, respectively in the corresponding quarter a year ago. The Synthetic yarn division reported EBIT and EBIT margin of ₹7.1cr and 16.9% respectively, as against ₹6.0cr and 12.4%, in the corresponding quarter a year ago.

Exhibit 3: Segment-wise performance

Y/E Mar (₹ cr)	2QFY16	2QFY15	*% chg (yoy)*	1QFY16	*% chg (qoq)*
Total Revenue					
A) Building Products	147.7	160.0	*(7.7)*	273.5	*(46.0)*
B) Synthetic Yarn	41.9	48.3	*(13.2)*	44.3	*(5.4)*
Total	189.6	(51.4)	*(468.7)*	317.8	*(40.3)*
EBIT					
A) Building Products	3.4	6.7	*(49.0)*	24.5	*(86.1)*
B) Synthetic Yarn	7.1	6.0	*18.3*	7.7	*(8.1)*
Total	10.5	(94.2)	*(111.1)*	32.2	*(67.5)*
EBIT Margin (%)					
A) Building Products	2.3	4.2	*(187)bp*	9.0	*(667)bp*
B) Synthetic Yarn	16.9	12.4	*451bp*	17.4	*(49)bp*

Source: Company, Angel Research

Investment arguments

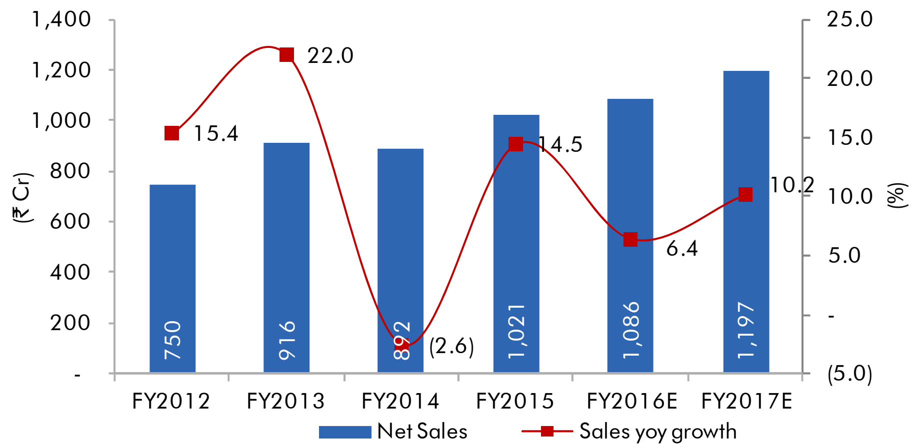
Long term prospects intact, near term pressure for ACP division

The company's Building products segment's sales are dominated by Asbestos Cement Products (accounting for 72% of FY2015 revenue). The company has expanded its capacity from 6,52,000MT in FY2011 to 7,52,000MT in FY2012 to cater to the rising rural demand. In the near term, we expect the Asbestos Cement Products performance to be under pressure on account of poor monsoons impacting rural sentiment. The company has been the second largest cement asbestos products manufacturer in India with a 17% market share supported by its outdoor advertising campaign and strong dealer network. In the longer run, we expect the division to perform well once the rural sentiment turns positive.

The growth in the Building product segment is also supported by strong performance of its V-boards division (capacity of 1,20,000MT). We expect the V-boards division to post a robust performance going ahead as well, on account of growing acceptance in India due to cost advantages against substitute products and increasing contribution of exports.

The company's Synthetic yarn segment has an installed capacity of 55,000 ring spindles (31 MT M/CS). Strong growth in exports coupled with improvement in realizations due to rupee depreciation would enable the company to post decent revenue growth going ahead. As per the Federation of Indian Chamber of Commerce and Industry (FICCI), India's textile exports are expected to rise from US$21bn in 2012 to US$145.6bn by 2023. This augurs well for the company as it is expected to increase its focus on the export business which has higher margins.

Exhibit 4: Sales to post a CAGR of 8.3% over FY2015-17E

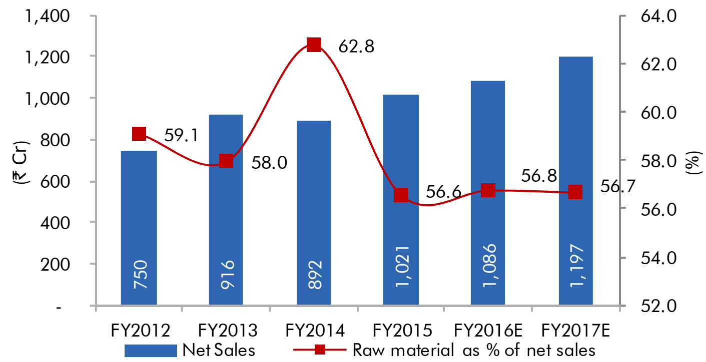


Source: Company, Angel Research

EBIDTA margin to witness an uptrend

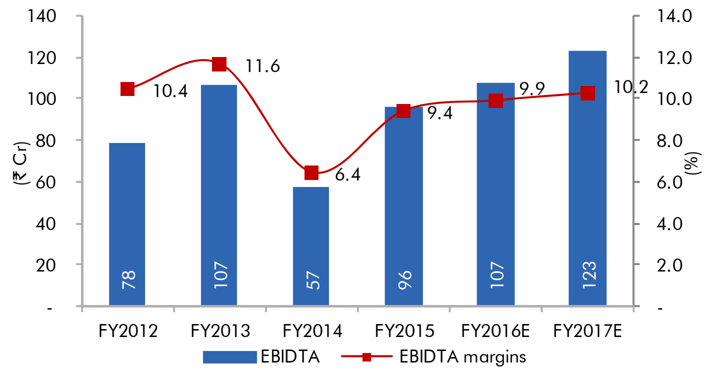
The company's raw material cost is expected to more or less be at levels of FY2015. The company's net raw-material cost as a percentage of sales is expected to be at ~56.7% of sales in FY2017E. Asbestos fibre, the key raw material for asbestos cement products is 100% imported and accounts for 60% of raw material cost of building products segment. The recent depreciation of INR against the USD will impact the raw material cost to some extent. Moreover, asbestos fibre, cement and fly ash prices are expected to remain flat. Freight costs too are expected to remain stable as diesel prices have cooled down. The company is expected to increase exports in its Synthetic yarn business, which has higher margins. As a result, the EBIDTA margin will improve from 9.4% in FY2015 to 10.2% in FY2017E.

Exhibit 5: Raw material costs remain stable



Source: Company, Angel Research

Exhibit 6: EBITDA margin to improve to 10.2%

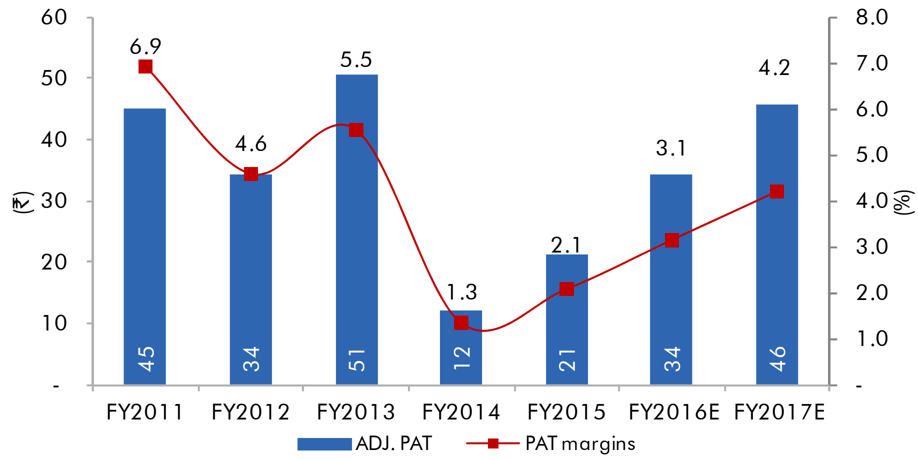


Source: Company, Angel Research

PAT to grow at a CAGR of 46.6% over FY2015-17E

With improvement in EBIDTA margins coupled with lower depreciation cost, especially in FY2017E, the PAT is expected to grow at a CAGR of 46.6% over FY2015-17E to ₹46cr. As a result, the PAT margins are expected to improve from 2.1% in FY2015 to 4.2% in FY2017E.

Exhibit 7: PAT and PAT margins to improve

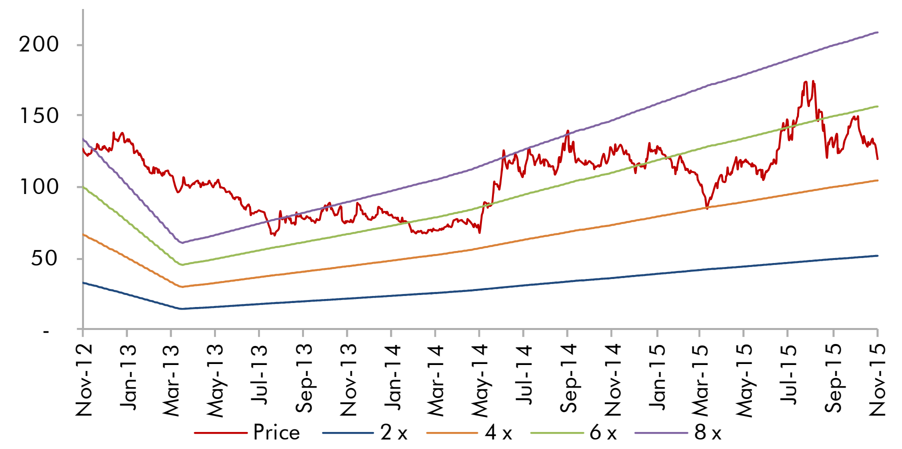


Source: Company, Angel Research

Outlook and valuation

We have marginally revised our estimates downwards for FY2017E to factor in lower than estimated numbers for the quarter. At the current market price of ₹119, the stock is trading at a valuation of 4.1x FY2017E EPS, which continues to be attractive. **We continue to maintain our Buy rating on the stock, with a revised target price of ₹144, valuing the stock at 5.0x on FY2017E earnings.**

Exhibit 8: One-year forward PE band



Source: Company, Angel Research

Relative valuation

The leading players in the industry are Hyderabad Industries, Visaka Industries, Everest Industries and Ramco Industries. These companies account for 70-75% of industry capacity. Visaka Industries is trading at a cheap valuation of 4.1x P/E and 0.5x P/BV on FY2017E as compared to its peers which are trading at relatively high valuations.

Exhibit 9: Comparative analysis

Company	Year end	Mcap	Sales	OPM	PAT	EPS	RoE	P/E	P/BV	EV/Sales	EV/EBIDTA
Visaka Industries	FY2017E	189	1,197	10.2	46	28.7	11.6	4.1	0.5	3.5	0.4
Everest Industries*	FY2017E	437	1,596	7.6	55	36.0	15.1	7.9	1.2	5.5	0.4
Hyderabad Industries*	FY2017E	437	1,370	11.1	81	108.6	16.8	5.4	0.9	3.7	0.4

*Source: Company, Angel Research, *Bloomberg*

Key concerns

Increase in input costs due to rupee depreciation: The continuous increase in cost of inputs is a matter of concern. Asbestos fibre, cement and fly ash and polyester fibre are the key materials. Asbestos fibre is a key raw material and accounts for 60% of overall cost and is 100% imported. Since exports are limited and imports are significant, the company is exposed to forex risk.

Dependence on rural growth: Rural demand for housing is the key growth driver which depends upon increase in spending power and on government schemes. High inflation and lower spend could have an adverse impact on roofing in rural India.

Ban Asbestos Lobby: Asbestos fibre, included with other forms of asbestos, is being considered to be a human carcinogen by the International Agency for Research on Cancer (IARC) and by the U.S. Department of Health and Human Services. Any government initiative to completely ban or restrict use of asbestos fibre will be a negative.

Lack of entry barriers: Lack of entry barriers is attracting new entrants into this line of business. Closure of Canadian and Zimbabwean asbestos mines are a matter of concern.

Company Background

Visaka Industries (established in 1985) is engaged in two businesses – building products (cement asbestos products and fibre cement flat products like V-Boards and V-Panels) and textiles. Its manufacturing facilities are spread across 11 locations supported by nine marketing offices. The company is the second largest cement asbestos products manufacturer in India with a 17% market share. The spinning plant, with 31 MURATA Twinjet spinning machines and 112 Two-For-One twisting machines, is the world's largest installation of its kind, producing about 9,000 tons of yarns per annum.

Profit and Loss

Y/E March (₹ cr)	FY2013	FY2014	FY2015	FY2016E	FY2017E
Net Sales	916	892	1,021	1,086	1,197
Other operating income	-	-	-	-	-
Total operating income	**916**	**892**	**1,021**	**1,086**	**1,197**
% chg	*22.0*	*(2.6)*	*14.5*	*6.4*	*10.2*
Net Raw Materials	531	560	578	617	678
% chg	*19.7*	*5.5*	*3.1*	*6.8*	*10.0*
Power and Fuel costs	51	48	51	53	59
% chg	*31.4*	*(6.4)*	*6.3*	*4.9*	*10.2*
Personnel	47	52	59	67	75
% chg	*12.2*	*10.6*	*14.1*	*13.5*	*12.0*
Selling & Admin Expenses	79	86	119	127	139
% chg	*11.9*	*8.7*	*38.1*	*6.1*	*9.8*
Other	101	89	118	115	123
% chg	*31.0*	*(12.0)*	*33.6*	*(2.7)*	*6.7*
Total Expenditure	809	835	925	979	1,074
EBITDA	**107**	**57**	**96**	**107**	**123**
% chg	*36.1*	*(46.3)*	*67.4*	*12.0*	*14.2*
EBITDA Margin	*11.6*	*6.4*	*9.4*	*9.9*	*10.2*
Depreciation & Amortisation	20	22	43	37	39
EBIT	**87**	**35**	**53**	**70**	**84**
% chg	*43.3*	*(60.0)*	*51.6*	*33.4*	*19.1*
(% of Net Sales)	*9.5*	*3.9*	*5.2*	*6.5*	*7.7*
Interest & other Charges	15	21	22	21	18
Other Income	3	5	2	3	3
(% of Net Sales)	*0.3*	*0.6*	*0.2*	*0.3*	*0.3*
Recurring PBT	**72**	**13**	**31**	**49**	**66**
% chg	*54.7*	*(81.3)*	*129.0*	*59.2*	*35.5*
PBT (reported)	**75**	**19**	**33**	**52**	**69**
Tax	24	7	12	18	24
(% of PBT)	*32.1*	*36.3*	*36.1*	*34.0*	*34.0*
PAT (reported)	**51**	**12**	**21**	**34**	**46**
Extraordinary Expense/(Inc.)	(0.1)	(0.1)	-	-	-
ADJ. PAT	**51**	**12**	**21**	**34**	**46**
% chg	*47.5*	*(76.3)*	*76.5*	*61.0*	*33.5*
(% of Net Sales)	*5.5*	*1.3*	*2.1*	*3.1*	*4.2*
Basic EPS (₹)	**31.9**	**7.5**	**13.4**	**21.5**	**28.7**
Fully Diluted EPS (₹)	**31.9**	**7.5**	**13.4**	**21.5**	**28.7**
% chg	*47.5*	*(76.4)*	*77.3*	*61.0*	*33.5*

Balance Sheet

Y/E March (₹ cr)	FY2013	FY2014	FY2015	FY2016E	FY2017E
SOURCES OF FUNDS					
Equity Share Capital	16	16	16	16	16
Preference Capital	-	-	-	-	-
Reserves& Surplus	310	317	316	341	377
Shareholders' Funds	**326**	**333**	**332**	**357**	**393**
Minority Interest	-	-	-	-	-
Total Loans	277	265	304	288	273
Other long term liabilities	21	24	27	27	27
Net Deferred tax liability	26	30	26	26	26
Total Liabilities	**651**	**652**	**689**	**698**	**719**
APPLICATION OF FUNDS					
Gross Block	421	527	567	606	624
Less: Acc. Depreciation	171	192	255	291	330
Net Block	**250**	**334**	**312**	**315**	**294**
Capital Work-in-Progress	16	21	0	0	0
Lease adjustment	-	-	-	-	-
Goodwill	0	0	0	0	0
Investments	**15**	**15**	**15**	**15**	**15**
Other non-current assets	0	0	0	0	0
Current Assets	419	341	444	445	497
Cash	34	26	28	30	63
Loans & Advances	26	30	37	39	43
Other current assets	0	0	0	0	0
Current liabilities	89	77	101	97	107
Net Current Assets	**330**	**264**	**343**	**348**	**390**
Mis. Exp. not written off	-	-	-	-	-
Total Assets	**651**	**652**	**689**	**698**	**719**

Cash flow statement

Y/E March (₹ cr)	FY2013	FY2014	FY2015	FY2016E	FY2017E
Profit Before Tax	75	19	33	52	69
Depreciation	20	22	43	37	39
Other Income	(3)	(5)	(2)	(3)	(3)
Change in Working Capital	(136)	59	(77)	(4)	(8)
Direct taxes paid	(24)	(7)	(12)	(18)	(24)
Cash Flow from Operations	**(68)**	**88**	**(15)**	**64**	**73**
(Incr)/ Decr in Fixed Assets	(37)	(111)	(19)	(40)	(18)
(Incr)/Decr In Investments	(29)	22	(2)	-	-
Other Income	3	5	2	3	3
Cash Flow from Investing	**(63)**	**(83)**	**(18)**	**(37)**	**(15)**
Issue of Equity/Preference	-	-	-	-	-
Incr/(Decr) in Debt	123	(7)	39	(16)	(15)
Dividend Paid (Incl. Tax)	(11)	(5)	(10)	(10)	(10)
Others	(0)	(1)	6	-	-
Cash Flow from Financing	**111**	**(12)**	**35**	**(26)**	**(25)**
Incr/(Decr) In Cash	(20)	(7)	2	2	33
Opening cash balance	**54**	**34**	**26**	**28**	**30**
Closing cash balance	**34**	**26**	**28**	**30**	**63**

Key Ratios

Y/E March	FY2013	FY2014	FY2015	FY2016E	FY2017E
Valuation Ratio (x)					
P/E (on FDEPS)	3.7	15.7	8.9	5.5	4.1
P/CEPS	2.7	5.5	2.9	2.7	2.2
P/BV	0.6	0.6	0.6	0.5	0.5
Dividend yield (%)	5.9	2.5	5.1	5.1	5.1
EV/Net sales	0.5	0.5	0.4	0.4	0.4
EV/EBITDA	3.9	7.2	4.7	4.0	3.5
EV / Total Assets	0.6	0.6	0.7	0.6	0.6
Per Share Data (₹)					
EPS (Basic)	31.9	7.5	13.4	21.5	28.7
EPS (fully diluted)	31.9	7.5	13.4	21.5	28.7
Cash EPS	44.3	21.7	40.5	44.8	53.2
DPS	6.0	2.5	5.0	5.0	5.0
Book Value	205.3	209.9	209.2	224.6	247.3
DuPont Analysis					
EBIT margin	9.5	3.9	5.2	6.5	7.0
Tax retention ratio	0.7	0.6	0.6	0.7	0.7
Asset turnover (x)	1.6	1.5	1.6	1.7	1.9
ROIC (Post-tax)	10.1	3.8	5.2	7.1	8.6
Cost of Debt (Post Tax)	3.7	5.1	4.6	4.9	4.2
Leverage (x)	0.7	0.7	0.8	0.7	0.5
Operating ROE	14.6	2.8	5.7	8.6	10.8
Returns (%)					
ROCE (Pre-tax)	13.4	5.3	7.7	10.1	11.7
Angel ROIC (Pre-tax)	14.9	5.9	8.2	10.8	13.1
ROE	15.6	3.6	6.4	9.6	11.6
Turnover ratios (x)					
Asset TO (Gross Block)	2.2	1.7	1.8	1.8	1.9
Inventory / Net sales (days)	85	94	78	85	78
Receivables (days)	32	38	40	40	40
Payables (days)	35	31	36	36	36
WC cycle (ex-cash) (days)	91	109	99	106	98
Solvency ratios (x)					
Net debt to equity	0.7	0.7	0.8	0.7	0.5
Net debt to EBITDA	2.1	3.9	2.7	2.3	1.6
Int. Coverage (EBIT/ Int.)	5.8	1.6	2.4	3.3	4.8

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Disclosure of Interest Statement	**Visaka Industries**
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)*