Visaka Industries

Performance Highlights

Y/E March (₹ cr)	4QFY16	4QFY15	% chg (yoy)	3QFY16	% chg (qoq)
Net sales	276	285	(3.3)	215	28.0
EBITDA	29	27	6.6	16	73.8
EBITDA Margin (%)	*10.4*	*9.4*	*96bp*	*7.7*	*274bp*
Adjusted PAT	10	6	58.6	1	767.2

Source: Company, Angel Research

Visaka Industries posted a good set of numbers for 4QFY2016. Although the top-line declined, the performance on the operating and bottom-line fronts was favorable. The top-line declined by 3.3% yoy to ₹276cr. On the operating front the EBITDA grew by 6.6% yoy to ₹29cr and the EBITDA margin improved by 96bp yoy to 10.4%. There was an exceptional expense related to diminution in value of investment during the quarter amounting to ₹1cr, adjusting for which, other expenses declined by 192bp yoy to 24.6% of sales. Raw material and employee expenses remained flat as a proportion of sales, thus resulting in EBITDA margin expansion. Aided by lower interest and depreciation, the adjusted net profit grew by 58.6% yoy to ₹10cr.

Overall long term prospects intact: The company's performance in FY2016 was impacted on account of drop in volumes and realizations for its main business, ie Asbestos Cement Sheets (ACS). However, the company is aiming at growing its Boards and Synthethic yarn business in order to lower its dependence on the ACS business. While the long term prospects of ACS are intact the outlook for the Boards and Synthetic yarn business also looks favorable which should drive growth for the company going forward. The Yarn business has better margins while the Boards business has shown significant improvement in profitability which should only improve once the business scales up.

Outlook and Valuations: We have introduced our FY2018E estimates for the company and have lowered our expectation for FY2017E on account of near term dampness in the ACS division. At the current market price of ₹135, the stock is trading at a valuation of 5.9x its FY2018E EPS, which is attractive. **We continue to maintain our Buy rating on the stock with a revised price target of ₹162, valuing the stock at 7.0x its FY2018E earnings.**

Key financials

Y/E March (₹ cr)	FY2014	FY2015	FY2016	FY2017E	FY2018E
Net sales	892	1,021	1,005	1,051	1,138
% chg	*(2.6)*	*14.5*	*(1.6)*	*4.6*	*8.3*
Adj. net profit	12	21	28	33	37
% chg	*(76.3)*	*76.6*	*29.8*	*21.0*	*10.2*
EBITDA Margin (%)	6.4	9.4	9.9	10.3	10.4
EPS (₹)	7.5	13.4	17.4	21.0	23.1
P/E (x)	17.9	10.1	7.8	6.4	5.9
P/BV (x)	0.6	0.6	0.6	0.6	0.5
RoE (%)	3.6	6.4	7.9	9.0	9.2
RoCE (%)	5.3	7.7	8.8	8.7	8.6
EV/Sales (x)	0.5	0.5	0.4	0.5	0.4
EV/EBITDA (x)	7.7	5.0	4.5	4.5	4.2

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

BUY

CMP	₹135
Target Price	₹162
Investment Period	12 Months

Stock Info	
Sector	Cement Products
Market Cap (₹ cr)	215
Net Debt	262
Beta	1.5
52 Week High / Low	189 / 89
Avg. Daily Volume	18,326
Face Value (₹)	10
BSE Sensex	25,302
Nifty	7,750
Reuters Code	VSKI.BO
Bloomberg Code	VSKI.IN

Shareholding Pattern (%)	
Promoters	37.5
MF / Banks / Indian FIs	0.5
FII / NRIs / OCBs	3.3
Indian Public / Others	58.7

Abs.(%)	3m	1yr	3yr
Sensex	7.1	(8.1)	25.6
Visaka	42.0	14.6	28.3

3 Year Price Chart

Source: Company, Angel Research

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Exhibit 1: 2QFY2016 performance

Y/E March (₹ cr)	4QFY16	4QFY15	% chg (yoy)	3QFY16	% chg (qoq)	FY2016	FY2015	% chg (yoy)
Total operating income	276	285	(3.3)	215	28.0	1,005	1,021	(1.6)
Net raw material	162	167	(3.2)	124	30.5	572	578	(1.0)
(% of Sales)	58.8	58.7	4bp	57.7	110bp	56.9	56.6	33bp
Employee cost	17	15	13.4	17	3.7	68	59	14.5
(% of Sales)	6.3	5.4	93bp	7.8	(147)bp	6.8	5.8	95bp
Other Expenses	68	75	(10.3)	58	16.8	266	288	(7.9)
(% of Sales)	24.6	26.5	(192)bp	26.9	(237)bp	26.4	28.2	(181)bp
Total expenditure	247	258	(4.3)	199	24.2	905	925	(2.2)
EBITDA	29	27	6.6	16	73.8	100	96	4.0
EBITDA Margin (%)	10.4	9.4	96bp	7.7	274bp	9.9	9.4	53bp
Interest	5	7	(26.6)	6	(8.2)	21	22	(3.3)
Depreciation	8	10	(12.6)	9	(7.4)	36	43	(15.7)
Other income	0	0	108.0	0	(5.1)	3	2	12.7
Extraordinary Exp./(Inc.)	1	-		-		5	-	
PBT	15	10	(7.8)	2	(23.4)	40	33	9.6
(% of Sales)	5.3	3.7		1.0		4.6	4.3	
Tax	5.6	4.3	28.5	1.1	398.2	16	12	33.1
(% of PBT)	38.4	41.7		50.2		39.5	36.0	
Reported PAT	9	6	47.1	1	704.1	24	21	15.0
Exceptional items	1	-		-		3.15	-	
Adjusted PAT	10	6	58.6	1	767.2	28	21	29.8
PATM (%)	3.5	2.1		0.5		2.7	2.1	

Source: Company, Angel Research

Exhibit 2: Actual vs. Estimate

Actual v/s Angel's Estimates	Actual (₹ cr)	Estimate (₹ cr)	% variation
Total Income (₹ cr)	276	291	(5.3)
EBITDA (₹ cr)	29	21	36.0
EBITDA Margin (%)	10.4	7.2	316bp
Adjusted PAT (₹ cr)	10	7	46.0

Source: Company, Angel Research

Top-line disappoints, margin and bottom-line impress

The top-line during the quarter witnessed a de-growth of 3.3% yoy to ₹276cr which is below our estimate of ₹291cr. This was on account of decline in volumes and realizations for the ACS division and lower realizations for the Synthetic Yarn segment. On the operational front, raw material and employee expense both as a percentage of sales remained flat while other expenses, adjusting for provision for diminution in value of ₹1cr (₹4.5cr for FY2016), declined by 192bp yoy to 24.6% of sales. Aided by lower other expense, the EBITDA grew by 6.6% yoy to ₹29cr and the EBITDA margin expanded by 96bp yoy to 10.4%. The deviation in the EBITDA margin from our estimates is on account of we having estimated for higher other expenses. Interest expense declined by 26.6% yoy to ₹5cr while depreciation declined by 12.6% yoy to ₹8cr. Consequently, the adjusted net profit grew by 58.6% yoy to ₹10cr.

Segmental performance

Building products: The sgements' top-line for the quarter witnessed a 3.3% yoy decline to ₹229.3cr on account of decline in volumes as well as realizations for the ACS division. However, the V-boards division's revenue improved by ~23% yoy, thus arresting any sharp decline in overall revenues. Aided by improvement in profitability, the Boards division's building products EBIT grew by 14.0% yoy to ₹18.6cr. As per the management, the boards division's EBIDTA margin improved to 7.9% (in 4QFY2016) after having posted -2.5% margin in 4QFY2015.

Synthetic Yarn: The segment's top-line remained flat at ₹44.6cr while the margins reported a 32bp yoy improvement to 13.5%.

Exhibit 3: Segment-wise performance

Y/E Mar (₹ cr)	4QFY16	4QFY15	*% chg (yoy)*	3QFY16	*% chg (qoq)*
Total Revenue					
A) Building Products	229.3	237.2	*(3.3)*	167.4	*37.0*
B) Synthetic Yarn	44.6	44.6	(0.0)	40.9	8.9
Total	**273.9**	**46.0**	***496.0***	**208.3**	***31.5***
EBIT					
A) Building Products	**18.6**	**16.3**	*14.0*	**6.6**	*181.3*
B) Synthetic Yarn	6.0	5.9	2.4	5.5	9.9
Total	**24.6**	**191.2**	***(87.1)***	**12.1**	***103.7***
EBIT Margin (%)					
A) Building Products	*8.1*	*6.9*	*123bp*	*3.9*	*415bp*
B) Synthetic Yarn	13.5	13.2	*32bp*	13.3	*12bp*

Source: Company, Angel Research

Concall highlights

- The ACS division witnessed a volume decline of ~3.0% for FY2016 while the realizations were down by ~2.5%. The division has been impacted by poor rural economy and cannibalization by Chinese steel roofing (color coated) sheets. The Management is optimistic that the division will see improvement on the back of increased rural allocation by the government and expectation of a better monsoon this year which should slowly bring back demand for ACS. The company sold 7.0 lakh tons in FY2016 against 7.2 lakh tons in FY2015 and produced 6.9 lakh tons in FY2016 against 7.7 lakh tons in FY2015, thus resulting in a decline in inventory levels.

- The Boards division has been witnessing good traction and the company has been aggressive in promotion of products. The company has spent ~₹3.5-4cr on advertisement which will likely be ~₹8cr for FY2017. The division's production stood at ~91,000 tons for FY2016 which can reach peak capacity of 1,20,000 tons. The company expects the division to be a significant contributor to revenues in the future.

- The Synthetic yarn segment was impacted on account of lower realizations in FY2016. The company expects margins to improve in FY2017 on account of inventory gains and pickup in demand on account of reversal of in the realization cycle. The company has lined up a capex of ~₹70cr which will get operational by September 2016. Of this, ₹60cr will be funded via debt which will entail interest rebate from the Government of Maharashtra. This will likely benefit the company as the debt servicing cost will come down to ~6%. The capacity of the division post expansion will increase by 26%.

- Overall, the company is expected to benefit from lower chrysotile asbestos fiber prices in FY2016 and we expect the currency to remain stable which will likely keep a check on raw material prices. The company has been prudent with managing expenses and the Management has stated at the same continuing and the trend being sustainable.

Investment arguments

Boards business to drive growth for Building Products segment

The company's ACS business which used to account for ~80% of the revenue in the past has seen its contribution decline to ~65% in FY2016. This has been on account of poor rural sentiment which has impacted volumes as well as realizations in FY2016. Also, this could also be attributable to improvement in the contribution of the Boards business as the company has been aggressive in promoting its V-next (boards) products and expects good growth in the division which will also witness improvement in margins with scale.

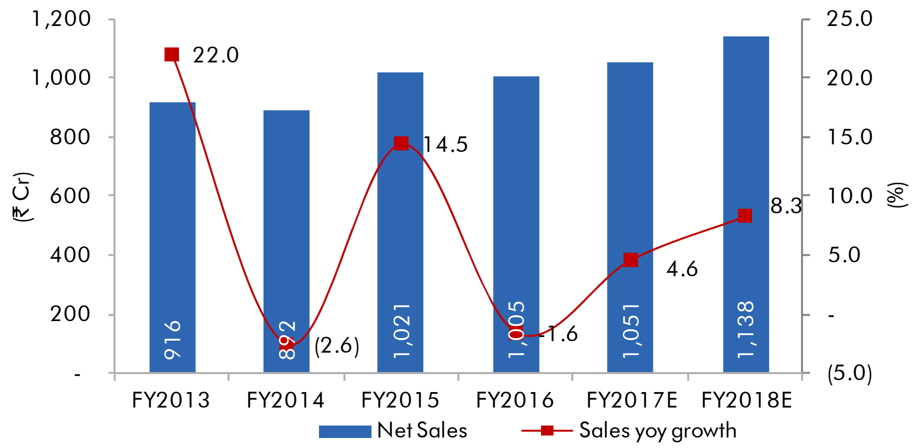
Synthetic yarn business to witness improvement with increase in realizations

The company's Synthetic yarn business, which although is a commoditized business, uses superior technology (Japanese twin jet machines) to produce high quality yarn. The yarn is supplied to key clients like Raymond, Siyaram Silk Mills, Pantaloons, etc which require superior quality yarn for their fabrics and hence the product entails better margin for the company in comparison to other yarn manufacturers. The business' contribution to overall revenue in FY2016 has declined owing to falling realizations which however should turnaround once poly staple fibre and oil prices stabilize and rebound. Overall, the outlook for the business looks stable in the near term owing to improvement in domestic demand for the Indian textile sector although exports have been hindered due to a poor global demand scenario. This should support volumes for the company till we witness a revival in global demand.

Financials

On account of bleak near term outlook for the ACS division, we have estimated a revenue CAGR of ~4.0% for the division over FY2016E-FY2018E. We have built in a revenue CAGR of 12.8% for the Boards division in our estimates led by volume/realization CAGR of ~8%/5% over FY2016E-18E. We expect the Synthetic yarn business' volumes/realization to post a CAGR of ~8%/4% over FY2016E-18E, resulting in revenue CAGR of 12.5%. As a result, the overall revenue is expected to post a CAGR of 6.4% over FY2016-18E to ₹1,138cr.

Exhibit 4: Sales to post a CAGR of 6.4% over FY2016-18E

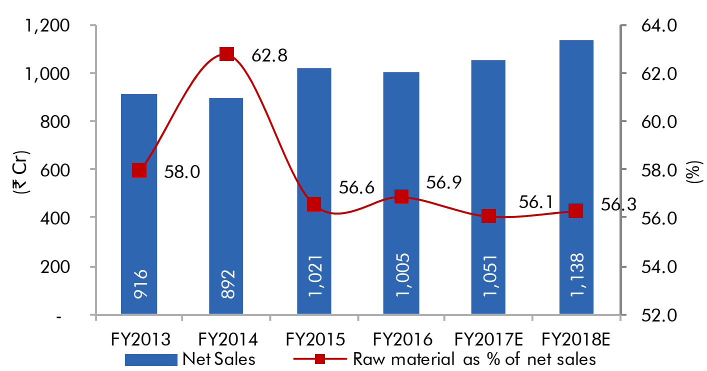


Source: Company, Angel Research

EBIDTA margin to trend upwards

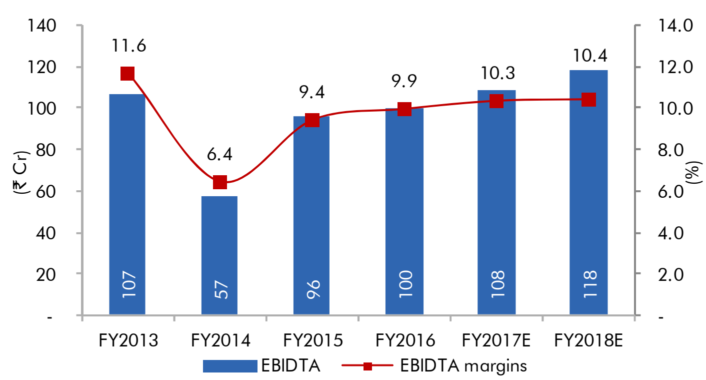
With chrysotile fibre prices are expected to remain soft and with the currency expected to remain stable, we expect the raw material cost to come down in FY2017E and increase from thereon. The company has undertaken steps to curb its expense which has resulted in savings in the past year and we expect the cost to sustain at the same levels in term of percentage of sales. As a result, the EBIDTA margin will improve from 9.9% in FY2016 to 10.4% in FY2017E.

Exhibit 5: Raw material costs remain stable



Source: Company, Angel Research

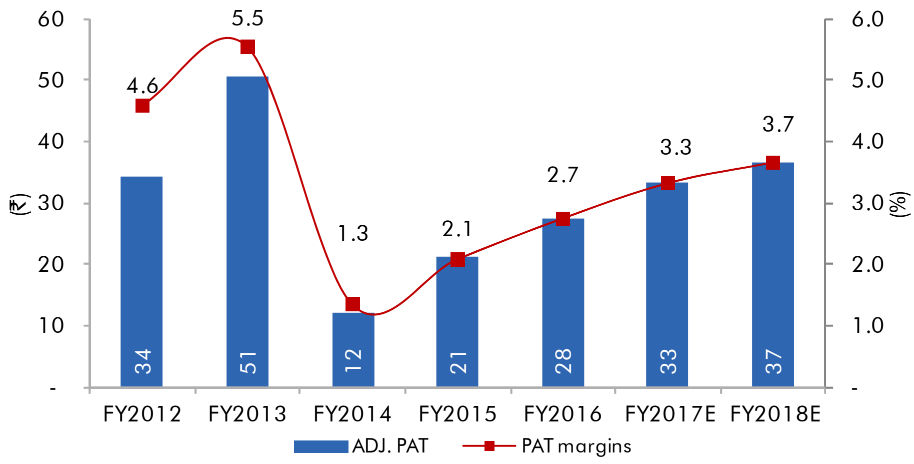
Exhibit 6: EBITDA margin to improve to 10.2%



Source: Company, Angel Research

On account of extended capacities being operationalized in FY2017E (Synthetic Yarn) and FY2018E (Boards), the depreciation expense is estimated to increase from current levels. On factoring the same, the bottom-line is expected to improve from ₹28cr in FY2016 to ₹37cr in FY2018E.

Exhibit 7: PAT and PAT margins to improve

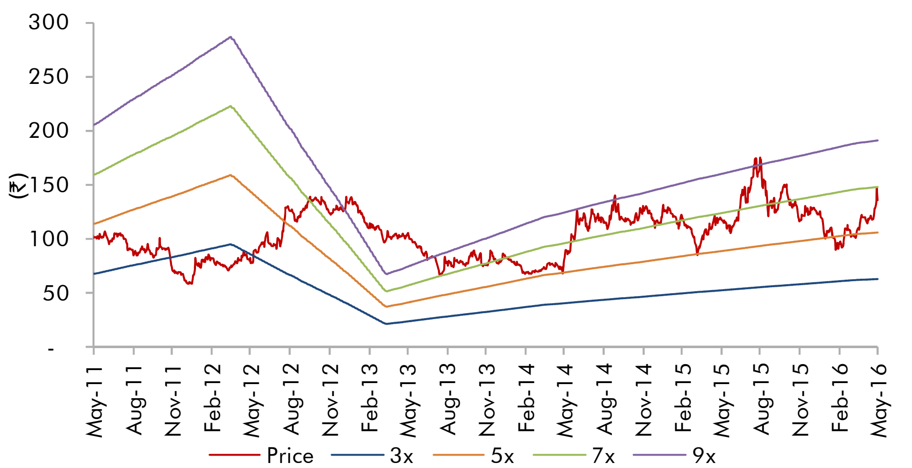


Source: Company, Angel Research

Outlook and valuation

We have introduced our FY2018E estimates for the company and have lowered our expectation for FY2017E on account of near term dampness in the ACS division. At the current market price of ₹135, the stock is trading at a valuation of 5.9x FY2018E EPS, which is attractive. **We continue to maintain our Buy rating on the stock, with a revised target price of ₹162, valuing the stock at 7.0x its FY2018E earnings.**

Exhibit 8: One-year forward PE band



Source: Company, Angel Research

Exhibit 9: Comparative analysis

Company	Year end	Mcap	Sales	OPM	PAT	EPS	RoE	P/E	P/BV	EV/EBITDA	EV/Sales
Visaka Industries	FY2018E	215	1,138	10.4	37	23.1	9.2	5.9	0.5	4.2	0.4
Everest Industries*	FY2018E	438	1,687	7.8	61	39.9	15.4	7.2	1.1	4.7	0.4
Hyderabad Industries*	FY2018E	387	1,325	9.9	61	81.7	11.9	6.4	0.7	4.0	0.4

*Source: Company, Angel Research, *Bloomberg*

Key concerns

Forex risk: Asbestos fibre is a key raw material and accounts for 60% of overall costs 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 a 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.

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 9 marketing offices. The company is the second largest cement asbestos products manufacturer in India with a 17% market share. The spinning plant, with 33 MURATA Twinjet spinning machines is the world's largest installation of its kind, producing about ~10,800 tons of yarn per annum.

Profit and Loss

Y/E March (₹ cr)	FY2014	FY2015	FY2016	FY2017E	FY2018E
Total operating income	892	1,021	1,005	1,051	1,138
% chg	*(2.6)*	*14.5*	*(1.6)*	*4.6*	*8.3*
Net Raw Materials	560	578	572	589	641
% chg	*5.5*	*3.1*	*(1.0)*	*3.1*	*8.7*
Personnel	52	59	68	74	78
% chg	*10.6*	*14.1*	*14.5*	*8.3*	*6.0*
Other Expenses	223	288	266	280	301
% chg	*(3.6)*	*29.5*	*(7.9)*	*5.3*	*7.7*
Total Expenditure	835	925	905	943	1,020
EBITDA	57	96	100	108	118
% chg	*(46.3)*	*67.4*	*4.0*	*8.7*	*9.1*
EBITDA Margin	*6.4*	*9.4*	*9.9*	*10.3*	*10.4*
Depreciation & Amortisation	22	43	36	39	43
EBIT	35	53	63	70	75
% chg	*(60.0)*	*51.6*	*20.1*	*9.7*	*7.6*
(% of Net Sales)	*3.9*	*5.2*	*6.3*	*6.9*	*7.5*
Interest & other Charges	21	22	21	23	24
Other Income	5	2	3	3	4
(% of Net Sales)	*0.6*	*0.2*	*0.3*	*0.3*	*0.4*
Recurring PBT	13	31	42	47	51
% chg	*(81.3)*	*129.1*	*36.8*	*10.7*	*8.6*
Extraordinary Expense/(Inc.)	-	-	5	-	-
PBT (reported)	19	33	40	50	55
Tax	7	12	16	16	18
(% of PBT)	*36.3*	*36.0*	*39.5*	*33.0*	*33.0*
PAT (reported)	12	21	24	33	37
Exceptional Item	0.1	-	3.2	-	-
ADJ. PAT	12	21	28	33	37
% chg	*(76.3)*	*76.6*	*29.8*	*21.0*	*10.2*
(% of Net Sales)	*1.3*	*2.1*	*2.7*	*3.3*	*3.7*
Basic EPS (₹)	7.5	13.4	17.4	21.0	23.1
Fully Diluted EPS (₹)	7.5	13.4	17.4	21.0	23.1
% chg	*(76.4)*	*77.5*	*29.8*	*21.0*	*10.2*

Balance Sheet

Y/E March (₹ cr)	FY2014	FY2015	FY2016E	FY2017E	FY2018E
SOURCES OF FUNDS					
Equity Share Capital	16	16	16	16	16
Preference Capital	-	-	-	-	-
Reserves& Surplus	317	316	331	355	382
Shareholders' Funds	**333**	**332**	**347**	**371**	**398**
Minority Interest	-	-	-	-	-
Total Loans	265	304	318	378	417
Other long term liabilities	24	27	32	32	32
Net Deferred tax liability	30	26	22	22	22
Total Liabilities	**652**	**689**	**719**	**803**	**870**
APPLICATION OF FUNDS					
Gross Block	527	567	589	648	743
Less: Acc. Depreciation	192	255	291	330	373
Net Block	**334**	**312**	**298**	**318**	**370**
Capital Work-in-Progress	21	0	0	40	10
Lease adjustment	-	-	-	-	-
Goodwill	-	-	-	-	-
Investments	15	15	10	10	10
Other non-current assets	0	0	0	0	0
Current Assets	**341**	**444**	**483**	**500**	**548**
Cash	26	28	75	99	120
Loans & Advances	30	37	29	30	33
Other current assets	0	0	0	0	0
Current liabilities	**77**	**101**	**99**	**93**	**98**
Net Current Assets	**264**	**343**	**384**	**407**	**450**
Mis. Exp. not written off	-	-	-	-	-
Total Assets	652	689	719	803	870

Cash flow statement

Y/E March (₹ cr)	FY2014	FY2015	FY2016	FY2017E	FY2018E
Profit Before Tax	19	33	40	50	55
Depreciation	22	43	36	39	43
Other Income	(5)	(2)	(3)	(3)	(4)
Change in Working Capital	59	(77)	5	1	(22)
Direct taxes paid	(7)	(12)	(16)	(16)	(18)
Cash Flow from Operations	**88**	**(15)**	**63**	**70**	**54**
(Incr)/ Decr in Fixed Assets	(111)	(19)	(22)	(98)	(65)
(Incr)/Decr In Investments	22	(2)	(2)	(1)	(2)
Other Income	5	2	3	3	4
Cash Flow from Investing	**(83)**	**(18)**	**(22)**	**(96)**	**(63)**
Issue of Equity/Preference	-	-	-	-	-
Incr/(Decr) in Debt	(7)	39	15	60	39
Dividend Paid (Incl. Tax)	(5)	(10)	(10)	(10)	(10)
Others	(1)	6	-	-	-
Cash Flow from Financing	**(12)**	**35**	**6**	**51**	**30**
Incr/(Decr) In Cash	(7)	2	46	24	21
Opening cash balance	**34**	**26**	**28**	**75**	**99**
Closing cash balance	**26**	**28**	**75**	**99**	**120**

Key Ratios

Y/E March	FY2014	FY2015	FY2016	FY2017E	FY2018E
Valuation Ratio (x)					
P/E (on FDEPS)	17.9	10.1	7.8	6.4	5.9
P/CEPS	6.2	3.3	3.4	3.0	2.7
P/BV	0.6	0.6	0.6	0.6	0.5
Dividend yield (%)	2.2	4.5	4.5	4.5	4.5
EV/Net sales	0.5	0.5	0.4	0.5	0.4
EV/EBITDA	7.7	5.0	4.5	4.5	4.2
EV / Total Assets	0.7	0.7	0.6	0.6	0.6
Per Share Data (₹)					
EPS (Basic)	7.5	13.4	17.4	21.0	23.1
EPS (fully diluted)	7.5	13.4	17.4	21.0	23.1
Cash EPS	21.7	40.5	40.2	45.5	50.5
DPS	2.5	5.0	5.0	5.0	5.0
Book Value	209.9	209.2	218.6	233.5	250.6
DuPont Analysis					
EBIT margin	3.9	5.2	6.3	6.6	6.6
Tax retention ratio	0.6	0.6	0.6	0.7	0.7
Asset turnover (x)	1.5	1.6	1.6	1.6	1.6
ROIC (Post-tax)	3.8	5.2	6.1	7.1	6.9
Cost of Debt (Post Tax)	5.1	4.6	4.1	4.1	3.9
Leverage (x)	0.7	0.8	0.7	0.7	0.7
Operating ROE	2.8	5.7	7.4	9.4	9.0
Returns (%)					
ROCE (Pre-tax)	5.3	7.7	8.8	8.7	8.6
Angel ROIC (Pre-tax)	5.9	8.2	10.0	10.6	10.3
ROE	3.6	6.4	7.9	9.0	9.2
Turnover ratios (x)					
Asset TO (Gross Block)	1.7	1.8	1.7	1.6	1.5
Inventory / Net sales (days)	94	78	88	82	80
Receivables (days)	38	40	50	45	45
Payables (days)	31	36	36	36	35
WC cycle (ex-cash) (days)	109	99	113	107	102
Solvency ratios (x)					
Net debt to equity	0.7	0.8	0.7	0.7	0.7
Net debt to EBITDA	3.9	2.7	2.3	2.5	2.4
Int. Coverage (EBIT/ Int.)	1.6	2.4	3.0	3.0	3.1

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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)*