

Siyaram Silk Mills

Performance Update

Y/E March (₹ cr)	1QFY20	1QFY19	% chg (yoy)	4QFY19	% chg (qoq)
Net sales	326	322	1.2	588	-44.5
EBITDA	38	34	11.7	88	-56.8
EBITDA margin (%)	11.6	10.5	109bp	15.0	(331bp)
Adjusted PAT	10	10	0.7	47	-78.6

Source: Company, Angel Research

For 1QFY2020, Siyaram Silk Mills (SSML) posted subdued results, which were below our expectations on both top-line and bottom-line fronts. Revenue grew ~1% yoy. On the margin front, the company reported operating margin improvement by 109bps yoy (positive impact mainly due to change in account policy as per Ind AS-116). On the bottom-line front, SSML reported PAT growth of ~1% yoy to ~₹10cr due to subdued top-line growth.

Overall top-line remains muted: The company's top-line grew ~1% yoy to ₹326cr. During the quarter, overall slowdown in urban and rural which impacted the company's sales, especially in tier 2 & 3 cities, which contribute 70% of SSML's revenue.

PAT grew flat: On the operating front, the company's margin improved by 109bps yoy at 11.6% (positive impact mainly due to change in account policy as per Ind AS-116). On the bottom-line front, SSML reported PAT growth of ~1% yoy to ~₹10cr due to subdued top-line growth.

Outlook and Valuation: Going forward, we expect SSML to report net sales CAGR of ~9% to ~₹2,173cr and adj. net profit CAGR of ~13% to ~₹130cr over FY2019-21E on the back of market leadership in blended fabrics, strong brand building, wide distribution channel and strong presence in tier 2 and tier 3 cities coupled with emphasis on latest designs and affordable pricing points. At the current market prices, SSML trades at inexpensive valuations. **We maintain our Buy recommendation on the stock with a Target Price of ₹333.**

Key Financials

Y/E March (₹ cr)	FY2018	FY2019	FY2020	FY2021
Net sales	1,733	1,815	1,975	2,173
% chg	10.1	4.7	8.9	10.0
Adj. Net profit	111	101	115	130
% chg	115.0	101.2	114.8	129.9
EBITDA margin (%)	14.2	13.0	13.2	13.2
EPS (₹)	24.5	21.6	24.5	27.7
P/E (x)	9.6	10.9	9.6	8.5
P/BV (x)	1.6	1.5	1.3	1.1
RoE (%)	18.1	13.4	13.4	13.4
RoCE (%)	14.8	14.5	14.4	14.8
EV/Sales (x)	0.9	0.8	0.8	0.7
EV/EBITDA (x)	6.6	6.4	5.7	5.1

Source: Company, Angel Research Note: CMP as of August 16, 2019

BUY

CMP	₹235
Target Price	₹333
Investment Period	12 months

Stock Info	
Sector	Textiles
Market Cap (₹ cr)	1,101
Net Debt (₹ cr)	412
Beta	0.6
52 Week High / Low	575/229
Avg. Daily Volume	1,619
Face Value (₹)	2
BSE Sensex	37,350
Nifty	11,047
Reuters Code	SIYR.BO
Bloomberg Code	SIYA.IN

Shareholding Pattern (%)			
Promoters			67.1
MF / Banks / Indian			9.7
FII / NRIs / OCBs			1.9
Indian Public/Others			21.3
Abs. (%)	3m	1yr	3yr
Sensex	0.0	(1.4)	32.9
SSM	(26.2)	(56.9)	(20.0)

Historical share price chart



Source: Company, Angel Research

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Exhibit 1: 1QFY2020 Performance

Y/E March (cr)	1QFY20	1QFY19	% chg. (yoy)	4QFY19	% chg. (qoq)	FY2019	FY2018	% chg
Net Sales	326	322	1	588	(44.5)	1,815	1,733	4.7
Net raw material	132.4	128	3.7	284.6	(53.5)	806	774	4.2
(% of Sales)	40.6	39.7	98	48.4	(781)	44.4	44.7	
Employee Cost	47	47	0.8	50	(5.6)	198	190	4.2
(% of Sales)	14.4	14.4	(6)	8.5	593	10.9	11.0	
Other Expenses	109	114	(4.6)	165	(34.3)	574	530	8.5
(% of Sales)	33.3	35.4	(202)	28.1	519	31.7	30.6	
Total Expenditure	288	288	(0.0)	500	(42.4)	1,578	1,493	5.7
Operating Profit	38	34	11.7	88	(56.8)	237	240	(1.3)
OPM (%)	11.6	10.5	110	15.0	(332)	13.0	13.8	(80)
Interest	11	11	(0.1)	12	(6.2)	48.4	34.2	41.4
Depreciation	18	16	17.3	15	20.5	61.9	60.6	2.2
Other Income	7	8	(15.5)	7	(6.3)	28.3	26.3	7.3
PBT before exceptional	15	15	0.7	68	(77.6)	154	171	(9.8)
(% of Sales)	4.7	4.7		11.6		8.5	9.9	
Exceptional Items		-					-	
PBT	15	15	0.7	68	(77.6)	154.5	171.3	(9.8)
Tax	5	5	0.6	21	(75.3)	53.3	59.7	(10.6)
(% of PBT)	34.5	34.5		31.3		34.5	34.8	
Reported PAT	10	10	0.7	47	(78.6)	101	112	(9.3)
PATM	3.1	3.1		8.0		5.6	6.4	
Extra-ordinary Items		-				-3	-4	
Adj PAT	10	10	0.7	47	(78.6)	104	115	(9.6)

Source: Company

Outlook and Valuation

Going forward, we expect SSML to report net sales CAGR of ~9% to ~`2,173cr and adj. net profit CAGR of ~13% to ~`130cr over FY2019-21E on the back of market leadership in blended fabrics, strong brand building, wide distribution channel and strong presence in tier 2 and tier 3 cities coupled with emphasis on latest designs and affordable pricing points. At the current market prices, SSML trades at inexpensive valuations. **We maintain our Buy recommendation on the stock with a Target Price of ~`333.**

Downside risks to our estimates include

Decline in rural spending: Unseasonal rain 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, impacting the company's overall sales.

Competition from the unorganized sector: SSML, being in a sector that is 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 users.

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 & Loss Statement

Y/E March (₹ cr)	FY2018	FY2019	FY2020E	FY2021E
Total operating income	1,733	1,815	1,975	2,173
% chg	10.1	4.7	8.9	10.0
Total Expenditure	1,488	1,578	1,715	1,886
Cost of Materials	774	806	841	926
Personnel	190	198	233	256
Others Expenses	524	574	640	704
EBITDA	245	237	261	287
% chg	24.8	(3.6)	10.3	10.0
(% of Net Sales)	14.2	13.0	13.2	13.2
Depreciation & Amortisation	61	62	73	77
EBIT	185	175	188	210
% chg	30.0	(5.6)	7.5	12.0
(% of Net Sales)	10.7	9.6	9.5	9.7
Interest & other Charges	34	48	44	44
Other Income	26	28	28	28
(% of PBT)	14.9	18.3	16.3	14.4
Share in profit of Associates	-	-	-	-
Recurring PBT	177	154	171	194
% chg	30.2	(12.7)	10.9	13.2
Prior Period & Extraordinary Expense/(Inc.)	(6)	-	-	-
PBT (reported)	183	154	171	194
Tax	60	53	57	64
(% of PBT)	32.8	34.5	33.0	33.0
PAT (reported)	123	101	115	130
Add: Share of earnings of associate	-	-	-	-
ADJ. PAT	117	101	115	130
% chg	26.4	(12.0)	13.4	13.2
(% of Net Sales)	6.8	5.6	5.8	6.0
Basic EPS (₹)	24.5	21.6	24.5	27.7
Fully Diluted EPS (₹)	24.5	21.6	24.5	27.7
% chg	26.4	(12.0)	13.4	13.2

Balance Sheet

Y/E March (₹ cr)	FY2018	FY2019	FY2020E	FY2021E
SOURCES OF FUNDS				
Equity Share Capital	9	9	9	9
Reserves & Surplus	669	748	849	963
Shareholders Funds	679	757	858	973
Minority Interest	-	-	-	-
Total Loans	573	444	444	444
Deferred Tax Liability	15	20	20	20
Total Liabilities	1,267	1,221	1,350	1,495
APPLICATION OF FUNDS				
Gross Block	582	720	740	760
Less: Acc. Depreciation	143	201	274	351
Net Block	439	519	466	409
Capital Work-in-Progress	93	8	8	8
Investments	33	25	25	25
Current Assets	989	953	1,148	1,336
Inventories	430	421	460	506
Sundry Debtors	422	393	460	566
Cash	23	8	30	47
Loans & Advances	81	105	119	130
Other Assets	33	27	79	87
Current liabilities	286	283	297	283
Net Current Assets	703	670	851	1,053
Deferred Tax Asset	-	-	-	-
Mis. Exp. not written off	-	-	-	-
Total Assets	1,267	1,221	1,350	1,495

Consolidated Cashflow Statement

Y/E March (₹ cr)	FY2018	FY2019	FY2020E	FY2021E
Profit before tax	136	177	172	218
Depreciation	177	159	171	194
Change in Working Capital	61	62	73	77
Interest / Dividend (Net)	(281)	(57)	(159)	(185)
Direct taxes paid	19	27	44	44
Others	-	-	(57)	(64)
Cash Flow from Operations	(4)	(0)	-	-
(Inc.)/ Dec. in Fixed Assets	(28)	192	73	66
(Inc.)/ Dec. in Investments	(176)	(12)	(20)	(20)
Cash Flow from Investing	(19)	-	-	-
Issue of Equity	(158)	(12)	(20)	(20)
Inc./(Dec.) in loans	-	-	-	-
Dividend Paid (Incl. Tax)	-	(139)	-	-
Interest / Dividend (Net)	1	(20)	14	16
Cash Flow from Financing	204	(35)	(44)	(44)
Inc./(Dec.) in Cash	205	(194)	(31)	(29)
Opening Cash balances	19	(15)	22	17
Closing Cash balances	4	23	8	30

Key ratios

Y/E March	FY2018	FY2019	FY2020E	FY2021E
Valuation Ratio (x)				
P/E (on FDEPS)	9.6	10.9	9.6	8.5
P/CEPS	17.5	15.4	17.4	19.7
P/BV	1.6	1.5	1.3	1.1
Dividend yield (%)	5.9	5.2	5.9	6.6
EV/Sales	0.9	0.8	0.8	0.7
EV/EBITDA	6.6	6.4	5.7	5.1
EV / Total Assets	1.0	1.0	0.9	0.8
Per Share Data (₹)				
EPS (Basic)	24.5	21.6	24.5	27.7
EPS (fully diluted)	24.5	21.6	24.5	27.7
Cash EPS	13.4	15.3	13.5	11.9
DPS	13.8	12.1	13.8	15.6
Book Value	144.8	161.7	183.2	207.6
Returns (%)				
ROCE	14.8	14.5	14.4	14.8
Angel ROIC (Pre-tax)	15.5	14.9	15.0	15.6
ROE	18.1	13.4	13.4	13.4
Turnover ratios (x)				
Asset Turnover (Gross Block)	3.0	2.5	2.7	2.9
Inventory / Sales (days)	91	85	85	85
Receivables (days)	89	79	85	95
Payables (days)	38	35	35	35
Working capital cycle (ex-cash) (days)	141	128	135	145

Source: Company, Angel Research

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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

Note: We have not considered any Exposure below ₹ 1 lakh for Angel, its Group companies and Directors

Ratings (Returns):	Buy (> 15%) Reduce (-5% to -15%)	Accumulate (5% to 15%) Sell (< -15%)	Neutral (-5 to 5%)
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