

Siyaram Silk Mills

Performance Update

Y/E March (₹ cr)	1QFY19	1QFY18	% chg (yoy)	4QFY18	% chg (qoq)
Net sales	322.1	320.6	0.5	595.9	(45.9)
EBITDA	34.0	33.1	2.7	98.0	(65.3)
EBITDA margin (%)	10.5	10.3	23bp	16.4	(589bp)
Adjusted PAT	9.9	10.4	(4.3)	52.0	(80.9)

Source: Company, Angel Research

For 1QFY2019, Siyaram Silk Mills (SSML) posted subdued set of results, which were below our expectations on both, top-line as well as bottom-line fronts. Revenue was flat yoy, however, the company reported operating margin improvement. On the bottom-line front, SSML reported de-growth of ~4% yoy to ~₹10cr due to subdued top-line growth.

Overall top-line remained subdued: The company's top-line grew almost flattish yoy to ₹322cr. During the quarter, marriage dates remained very low compared to last year (70% of revenue comes from tier 2 & 3 cities), which impacted overall sales.

PAT de-grew by 4%: On the operating front, the company's margin has improved by 23bps yoy at 10.5%. However, the company's operating profit growth remained flat mainly due to lower revenue growth.

Outlook and Valuation: Going forward, we expect SSML to report a net sales CAGR of ~12% to ~₹2,166cr and adj. net profit CAGR of ~15% to ₹152cr over FY2018-20E on the back of market leadership in blended fabrics, strong brand building, wide distribution channel, strong presence in tier II and tier III cities and 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 ₹700.**

Key Financials

Y/E March (₹ cr)	FY2017	FY2018	FY2019E	FY2020E
Net sales	1,574	1,733	1,920	2,166
% chg	(2.8)	10.1	10.8	12.8
Adj. Net profit	91	111	131	152
% chg	91.0	115.0	131.2	152.4
EBITDA margin (%)	12.5	14.2	14.3	14.3
EPS (₹)	19.4	24.5	28.0	32.5
P/E (x)	26.4	20.9	18.3	15.7
P/BV (x)	4.0	3.5	3.0	2.6
RoE (%)	15.3	18.1	16.5	16.4
RoCE (%)	15.8	14.8	15.3	16.1
EV/Sales (x)	1.7	1.7	1.5	1.3
EV/EBITDA (x)	13.6	11.9	10.6	9.3

Source: Company, Angel Research Note: CMP as of August 17, 2018

Please refer to important disclosures at the end of this report

BUY

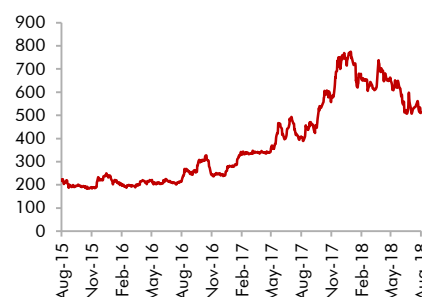
CMP	₹512
Target Price	₹700
Investment Period	12 months

Sector	Textiles
Market Cap (Rs cr)	2,446
Net Debt	549
Beta	0.6
52 Week High / Low	799/385
Avg. Daily Volume	2,781
Face Value (Rs)	2
BSE Sensex	38,245
Nifty	11,543
Reuters Code	SIYR.BO
Bloomberg Code	SIYA IN

Shareholding Pattern (%)	
Promoters	67.1
MF / Banks / Indian Fls	8.5
FII / NRIs / OCBs	1.7
Indian Public / Others	22.8

Abs. (%)	3m	1yr	3yr
Sensex	8.0	19.3	36.1
SSM	(20.9)	25.3	137.0

Historical share price chart



Source: Company, Angel Research

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Exhibit 1: 4QFY2018 Performance

Y/E March (₹ cr)	1QFY19	1QFY18	% chg. (yoy)	4QFY18	% chg. (qoq)	FY18	FY17	% chg
Net Sales	322	321	0.5	596	(45.9)	1,733	1,574	10.1
Net raw material	127.7	129	(0.8)	299.5	(57.4)	773.8	738.61	4.8
(% of Sales)	39.7	40.2	(50)	50.3	(1,061)	44.7	46.9	
Employee Cost	47	44	5.0	52	(10.0)	190	169	12.6
(% of Sales)	14.4	13.8	62	8.7	577	11.0	10.7	
Other Expenses	114	114	(0.5)	147	(22.4)	524	470	11.4
(% of Sales)	35.4	35.7	(35)	24.6	1,073	30.2	29.9	
Total Expenditure	288	288	0.2	498	(42.1)	1,487	1,377	8.0
Operating Profit	34	33	2.7	98	(65.3)	246	197	25
OPM (%)	10.5	10.3	23	16.4	(589)	14.18	12.50	168
Interest	11	6	76.9	12	(10.2)	34	32	7.9
Depreciation	16	15	4.3	16	0.5	61	55	11.0
Other Income	8	4	83.8	9	(11.8)	26	26	3.3
PBT before exceptional	15	16	(6.2)	79	(80.8)	177	136	30.4
(% of Sales)	4.7	5.0		13.3		10.2	8.6	
Exceptional Items		-		6.0		6.0	-	
PBT	15	16	(6.2)	73.0	(79.3)	171.3	136.0	26.0
Tax	5	6	(9.7)	25	(79.0)	60	45	32.7
(% of PBT)	34.5	35.8		31.5		33.7	33.1	
Reported PAT	10	10	(4.3)	48	(79.4)	111	91	22.6
PATM	3.1	3.2		8.1		6.4	5.8	
Extra-ordinary Items		-		(4)		(4)	-	
Adj PAT	10	10	(4.3)	52	(80.9)	115	91	26.8

Source: Company

Outlook and Valuation

Going forward, we expect SSML to report a net sales CAGR of ~12% to ~₹2,166cr and adj. net profit CAGR of ~15% to ₹152cr over FY2018-20E on the back of market leadership in blended fabrics, strong brand building, wide distribution channel, strong presence in tier II and tier III cities and 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 ₹700.**

Downside risks to our estimates include

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 & Loss Statement

Y/E March (₹ cr)	FY2017	FY2018	FY2019E	FY2020E
Total operating income	1,574	1,733	1,920	2,166
% chg	(2.8)	10.1	10.8	12.8
Total Expenditure	1,377	1,488	1,646	1,857
Cost of Materials	739	774	855	964
Personnel	169	190	211	243
Others Expenses	470	524	580	650
EBITDA	197	245	275	310
% chg	4.8	24.8	11.9	12.8
(% of Net Sales)	12.5	14.2	14.3	14.3
Depreciation & Amortisation	55	61	66	69
EBIT	142	185	208	241
% chg	(2.7)	30.0	12.7	15.8
(% of Net Sales)	9.0	10.7	10.8	11.1
Interest & other Charges	32	34	41	44
Other Income	26	26	28	30
(% of PBT)	18.8	14.9	14.3	13.2
Share in profit of Associates	-	-	-	-
Recurring PBT	136	177	196	227
% chg	2.4	30.2	10.6	16.2
Prior Period & Extraordinary Expense/(Inc.)	-	(6)	-	-
PBT (reported)	136	183	196	227
Tax	45	60	65	75
(% of PBT)	33.1	32.8	33.0	33.0
PAT (reported)	91	123	131	152
Add: Share of earnings of associate	-	-	-	-
ADJ. PAT	91	117	131	152
% chg	3.9	26.4	14.0	16.2
(% of Net Sales)	5.8	6.8	6.8	7.0
Basic EPS (₹)	19.4	24.5	28.0	32.5
Fully Diluted EPS (₹)	19.4	24.5	28.0	32.5
% chg	3.9	26.4	14.0	16.2

Balance Sheet

Y/E March (₹ cr)	FY2017	FY2018	FY2019E	FY2020E
SOURCES OF FUNDS				
Equity Share Capital	9	9	9	9
Reserves & Surplus	497	587	669	785
Shareholders Funds	506	597	679	794
Minority Interest	-	-	-	-
Total Loans	408	305	573	570
Deferred Tax Liability	20	20	15	15
Total Liabilities	934	921	1,267	1,411
APPLICATION OF FUNDS				
Gross Block	448	481	582	602
Less: Acc. Depreciation	49	86	143	209
Net Block	398	395	439	392
Capital Work-in-Progress	5	36	93	93
Investments	15	14	33	33
Current Assets	778	714	989	1,182
Inventories	331	316	430	505
Sundry Debtors	363	305	422	489
Cash	6	5	23	33
Loans & Advances	50	55	81	96
Other Assets	28	34	33	58
Current liabilities	261	238	286	288
Net Current Assets	516	476	703	893
Deferred Tax Asset	-	-	-	-
Mis. Exp. not written off	-	-	-	-
Total Assets	934	921	1,267	1,411

Consolidated Cashflow Statement

Y/E March (₹cr)	FY2017	FY2018	FY2019E	FY2020E
Profit before tax	136	177	196	227
Depreciation	55	61	66	69
Change in Working Capital	47	(281)	(179)	(190)
Interest / Dividend (Net)	18	19	41	44
Direct taxes paid	-	-	(65)	(75)
Others	(52)	(4)	-	-
Cash Flow from Operations	203	(28)	59	75
(Inc.)/ Dec. in Fixed Assets	(68)	(176)	(20)	(20)
(Inc.)/ Dec. in Investments	1	(19)	-	-
Cash Flow from Investing	(69)	(158)	(20)	(20)
Issue of Equity	-	-	-	-
Inc./(Dec.) in loans	-	-	(3)	-
Dividend Paid (Incl. Tax)	(0)	1	16	18
Interest / Dividend (Net)	(134)	204	(41)	(44)
Cash Flow from Financing	(135)	205	(28)	(26)
Inc./(Dec.) in Cash	(1)	19	11	29
Opening Cash balances	5	4	23	33
Closing Cash balances	4	23	33	62

Key ratios

Y/E March	FY2017	FY2018	FY2019E	FY2020E
Valuation Ratio (x)				
P/E (on FDEPS)	26.4	20.9	18.3	15.7
P/CEPS	19.4	24.5	28.0	32.5
P/BV	4.0	3.5	3.0	2.6
Dividend yield (%)	2.1	2.7	3.1	3.6
EV/Sales	1.7	1.7	1.5	1.3
EV/EBITDA	13.6	11.9	10.6	9.3
EV / Total Assets	2.3	1.9	1.7	1.5
Per Share Data (₹)				
EPS (Basic)	19.4	24.5	28.0	32.5
EPS (fully diluted)	19.4	24.5	28.0	32.5
Cash EPS	26.4	20.9	18.3	15.7
DPS	10.9	13.8	15.7	18.3
Book Value	127.3	144.8	169.5	198.1
Returns (%)				
ROCE	15.8	14.8	15.3	16.1
Angel ROIC (Pre-tax)	16.1	15.5	16.1	17.2
ROE	15.3	18.1	16.5	16.4
Turnover ratios (x)				
Asset Turnover (Gross Block)	3.3	3.0	3.2	3.5
Inventory / Sales (days)	73	91	96	98
Receivables (days)	71	89	93	95
Payables (days)	33	38	35	33
Working capital cycle (ex-cash) (days)	111	141	154	160

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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