

Siyaram Silk Mills

Performance Update

Y/E March (₹ cr)	2QFY20	2QFY19	% chg (yoy)	1QFY20	% chg (qoq)
Net sales	488	459	6.3	326	49.6
EBITDA	55	62	-10.8	38	45.4
EBITDA margin (%)	11.3	13.5	(217bp)	11.6	(32bp)
Reported PAT	30	24	23.4	10	202.1

Source: Company, Angel Research

For 2QFY2020, Siyaram Silk Mills (SSML) posted results in-line with our expectations on both top-line and bottom-line fronts. Revenue grew ~6% yoy. On the margin front, the company's operating margin contracted by 217bps yoy. On the bottom-line front, SSML reported PAT growth of ~23% yoy to ~₹30cr due to lower taxes.

Overall top-line remains modest: The company's top-line grew ~6% yoy to ₹488cr. During the quarter, we see some recovery in urban and rural revenue, especially in tier 2 & 3 cities, which contributes 70% of SSML's revenue.

PAT grew flat: On the operating front, the company's margin contracted by 217bps yoy at 11.3%. On the bottom-line front, SSML reported PAT growth of ~23% yoy to ~₹10cr due to lower taxes.

Outlook and Valuation: Going forward, we expect SSML to report net sales CAGR of ~9% to ~₹2,168cr and adj. net profit CAGR of ~13% to ₹143cr 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	FY2020E	FY2021E
Net sales	1,733	1,815	1,971	2,168
% chg	10.1	4.7	8.6	10.0
Adj. Net profit	112	101	119	143
% chg	22.6	(9.3)	17.5	20.2
EBITDA margin (%)	13.8	13.0	12.6	13.1
EPS (₹)	24.6	22.3	25.4	30.5
P/E (x)	9.1	10.1	8.8	7.3
P/BV (x)	1.5	1.4	1.2	1.1
RoE (%)	16.4	13.4	13.8	14.5
RoCE (%)	14.3	14.5	13.4	14.5
EV/Sales (x)	0.9	0.8	0.7	0.6
EV/EBITDA (x)	6.5	6.2	5.8	4.9

Source: Company, Angel Research Note: CMP as of October 18, 2019

BUY

CMP	₹224
Target Price	₹333
Investment Period	12 months

Stock Info

Sector	Textiles
Market Cap (₹ cr)	1,143
Net Debt (₹ cr)	412
Beta	0.6
52 Week High / Low	467/192
Avg. Daily Volume	964
Face Value (₹)	2
BSE Sensex	39,176
Nifty	11,641
Reuters Code	SIYR.BO
Bloomberg Code	SIYA.IN

Shareholding Pattern (%)

Promoters	67.1
MF / Banks / Indian	12.9
FII / NRIs / OCBs	1.3
Indian Public/Others	18.7

Abs. (%)	3m	1yr	3yr
Sensex	1.0	14.5	40.1
SSM	(20.3)	(40.7)	26.7

Historical share price chart



Source: Company, Angel Research

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Exhibit 1: 2QFY2020 Performance

Y/E March (cr)	2QFY20	2QFY19	% chg. (yoy)	1QFY20	% chg. (qoq)	1HFY20	1HFY19	% chg
Net Sales	488	459	6.3	326	49.6	814	781	4.2
Net raw material	234	197	18.7	132.4	76.4	366	325	12.8
(% of Sales)	47.9	42.9	500	40.6	728	45.0	41.6	
Employee Cost	57	51	10.8	47	21.5	104	98	6.1
(% of Sales)	11.7	11.2	48	14.4	(271)	12.8	12.5	
Other Expenses	142	149	(4.5)	109	30.6	251	262	(4.5)
(% of Sales)	29.1	32.4	(331)	33.3	(425)	30.8	33.6	
Total Expenditure	432	397	9.0	288	50.2	720	685	5.2
Operating Profit	55	62	(10.8)	38	45.4	93	96	(2.8)
OPM (%)	11.3	13.5	(217)	11.6	(33)	11.4	12.3	(83)
Interest	11.3	12.0	(5.8)	11	3.1	22.3	23.0	(3.0)
Depreciation	18.1	16.2	12.2	18	(0.7)	36.4	31.7	14.7
Other Income	4.3	6.2	(30.9)	7	(34.7)	10.8	13.9	(22.3)
PBT before exceptional	30	40	(24.7)	15	96.9	45	55	(17.7)
(% of Sales)	6.1	8.7		4.7		5.6	7.0	
Exceptional Items		-					-	
PBT	30	40	(24.7)	15	96.9	45.2	55.0	(17.7)
Tax	(0.2)	15.4	(101.0)	5	(103.0)	5.1	20.6	(75.3)
(% of PBT)	(0.5)	38.7		34.5		11.3	37.5	
Reported PAT	30	24	23.4	10	202.1	40	34	16.8
PATM	6.2	5.3		3.1		4.9	4.4	
Extra-ordinary Items	0	-3				0	-3	
Adj PAT	30	27	10.3	10.0	202.1	40	37	7.6

Source: Company

Outlook and Valuation

Going forward, we expect SSML to report net sales CAGR of ~9% to ~`2,168cr and adj. net profit CAGR of ~13% to `143cr 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	1,971	2,168
% chg	10.1	4.7	8.6	10.0
Total Expenditure	1,493	1,578	1,723	1,884
Cost of Materials	774	806	840	924
Personnel	190	198	233	256
Others Expenses	530	574	650	705
EBITDA	240	237	248	284
% chg	21.8	(1.3)	5.0	14.4
(% of Net Sales)	13.8	13.0	12.6	13.1
Depreciation & Amortisation	61	62	73	77
EBIT	179	175	175	208
% chg	26.0	(2.5)	0.4	18.4
(% of Net Sales)	10.3	9.6	8.9	9.6
Interest & other Charges	34	48	44	44
Other Income	26	28	28	28
(% of PBT)	15.4	18.3	17.6	14.7
Share in profit of Associates	-	-	-	-
Recurring PBT	171	154	159	191
% chg	26.0	(9.8)	2.9	20.2
Prior Period & Extraordinary Expense/(Inc.)	-	-	-	-
PBT (reported)	171	154	159	191
Tax	60	53	40	48
(% of PBT)	34.8	34.5	25.2	25.2
PAT (reported)	112	101	119	143
Add: Share of earnings of associate	-	-	-	-
ADJ. PAT	112	101	119	143
% chg	26.8	(9.6)	14.1	20.2
(% of Net Sales)	6.4	5.6	6.0	6.6
Basic EPS (₹)	24.6	22.3	25.4	30.5
Fully Diluted EPS (₹)	24.6	22.3	25.4	30.5
% chg	26.8	(9.6)	14.1	20.2

Balance Sheet

Y/E March (` cr)	FY2018	FY2019	FY2020E	FY2021E
SOURCES OF FUNDS				
Equity Share Capital	9	9	9	9
Reserves & Surplus	669	748	853	979
Shareholders Funds	679	757	862	988
Minority Interest	-	-	-	-
Total Loans	573	444	444	444
Deferred Tax Liability	15	20	20	20
Total Liabilities	1,267	1,221	1,354	1,515
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	1,152	1,355
Inventories	430	421	459	505
Sundry Debtors	422	393	459	564
Cash	23	8	37	69
Loans & Advances	81	105	118	130
Other Assets	33	27	79	87
Current Liabilities	286	283	296	282
Net Current Assets	703	670	856	1,073
Deferred Tax Asset	-	-	-	-
Mis. Exp. not written off	-	-	-	-
Total Assets	1,267	1,221	1,354	1,515

Cashflow Statement

Y/E March (` cr)	FY2018	FY2019	FY2020E	FY2021E
Profit before tax	177	159	159	191
Depreciation	61	62	73	77
Change in Working Capital	(281)	(57)	(157)	(185)
Interest / Dividend (Net)	19	27	44	44
Direct taxes paid	-	-	(40)	(48)
Others	(4)	(0)	-	-
Cash Flow from Operations	(28)	192	79	79
(Inc.)/ Dec. in Fixed Assets	(176)	(12)	(20)	(20)
(Inc.)/ Dec. in Investments	(19)	-	-	-
Cash Flow from Investing	(158)	(12)	(20)	(20)
Issue of Equity	-	-	-	-
Inc./(Dec.) in loans	-	(139)	-	-
Dividend Paid (Incl. Tax)	1	(20)	14	17
Interest / Dividend (Net)	204	(35)	(44)	(44)
Cash Flow from Financing	205	(194)	(30)	(27)
Inc./(Dec.) in Cash	19	(15)	29	32
Opening Cash balances	4	23	8	37
Closing Cash balances	23	8	37	69

Key ratios

Y/E March	FY2018	FY2019	FY2020E	FY2021E
Valuation Ratio (x)				
P/E (on FDEPS)	9.1	10.1	8.8	7.3
P/CEPS	23.5	21.2	24.2	29.1
P/BV	1.5	1.4	1.2	1.1
Dividend yield (%)	6.2	5.6	6.4	7.7
EV/Sales	0.9	0.8	0.7	0.6
EV/EBITDA	6.5	6.2	5.8	4.9
EV / Total Assets	1.0	1.0	0.9	0.8
Per Share Data (₹)				
EPS (Basic)	24.6	22.3	25.4	30.5
EPS (fully diluted)	24.6	22.3	25.4	30.5
Cash EPS	9.5	10.6	9.3	7.7
DPS	13.8	12.5	14.3	17.2
Book Value	144.8	161.7	184.0	210.9
Returns (%)				
ROCE	14.3	14.5	13.4	14.5
Angel ROIC (Pre-tax)	15.0	14.9	14.1	15.5
ROE	16.4	13.4	13.8	14.5
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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