

## Shreyans Industries Ltd

### Tapping the paper potential

Shreyans Industries Ltd (SIL) is engaged in the manufacturing of writing and printing paper. It has two plants i.e. Shreyans Papers and Shree Rishabh Papers, both located in Punjab. The company's products include high brightness paper, cream wove, coloured paper, duplicating paper, surface sized printing paper, azure laid paper, maplitho paper, stamp paper, inland letter paper, postal envelope paper, super printing paper, etc. SIL offers its products in various grades ranging from 44 grams per square meter (GSM) to 200 GSM. SIL's combined capacity for the manufacturing of writing and printing paper is ~85,000MT pa.

**Indian paper industry at a sweet spot:** Indian paper industry is witnessing a demand revival scenario. The industry is estimated to grow at a CAGR of 7.6% over the next couple of years backed by healthy demand and in-line with the GDP growth of India. Further, the per capita paper consumption in India is at a little over 13 kg, which is very low compared to world average of 57 kg, indicating potential for an increase in demand.

**Ban in China to boost paper prices:** The Chinese Government has banned the import of waste paper, which is the primary raw material for finished paper. Thus, the production of finished paper would be impacted in China. This in turn would lead to an increase in the prices of finished paper. Eventually, the paper manufacturing companies like SIL would witness volume growth and also benefit due to the increased paper prices.

**Upgradation of existing units to improve production efficiency:** In the Shree Rishabh Papers Plant, a major capital expenditure has been planned (expected to be completed by FY2018 end), which will entirely revamp both pulp mill and paper machine. Total project is expected to cost ~`20.4cr, which is being partially financed by a term loan of `13cr. Moreover, for the Shreyans Papers Plant, capital expenditure has also been planned during FY18 in order to further improve and debottleneck the operations.

**Outlook and Valuation:** We forecast SIL to report healthy top-line CAGR of ~9% to `545cr over FY17-20E on the back of healthy demand growth in printing. On the bottom-line front (reported PAT), we estimate ~14% CAGR owing to strong improvement in operating performance. Further, improvement in manufacturing efficiency and benefits from increasing global finished paper prices (ban in China) would aid margins. **We initiate coverage on SIL with a Buy recommendation and target price of `247 (10x FY2020E EPS), indicating an upside of ~20% from the current levels.**

### Key financials

Y/E March (₹ cr)	FY2016	FY2017	FY2018E	FY2019E	FY2020E
<b>Net Sales</b>	<b>389</b>	<b>420</b>	<b>459</b>	<b>500</b>	<b>545</b>
% chg	5.4	7.8	9.2	9.0	8.8
<b>Net Profit</b>	<b>9</b>	<b>23</b>	<b>29</b>	<b>31</b>	<b>34</b>
% chg	(11.5)	166.6	26.7	4.9	10.9
OPM (%)	5.9	11.1	11.8	11.9	12.0
<b>EPS (Rs)</b>	<b>6.3</b>	<b>16.7</b>	<b>21.2</b>	<b>22.2</b>	<b>24.7</b>
P/E (x)	32.7	12.3	9.7	9.2	8.3
P/BV (x)	2.9	2.3	2.3	1.9	1.7
RoE (%)	8.8	19.0	23.9	20.9	20.2
RoCE (%)	10.1	23.7	25.3	24.6	24.5
EV/Sales (x)	0.8	0.7	0.6	0.6	0.5
EV/EBITDA (x)	13.9	6.1	5.4	4.8	4.2

Source: Company, Angel Research, Note: CMP as of December 29, 2017

## Quick take

### BUY

CMP	₹ 205
Target Price	₹ 247
Investment Period	12 Months

#### Stock Info

Sector	Paper Industry
Market Cap (₹ cr)	283
Net Debt (₹ cr)	(6)
Beta	1.4
52 Week High / Low	219/ 97
Avg. Daily Volume	7,405
Face Value (₹)	10
BSE Sensex	34,057
Nifty	10,531
Reuters Code	SHRY.BO
Bloomberg Code	SHYI.IN

#### Shareholding Pattern (%)

Promoters	47.3
MF / Banks / Indian FIs	0.1
FII / NRIs / OCBs	1.1
Indian Public / Others	51.6

Abs. (%)	3m	1yr	3yr
Sensex	8.2	29.1	23.6
SIL	22.9	105.8	469.8

### 3 year daily price chart



Source: Company, Angel Research

#### Amarjeet S Maurya

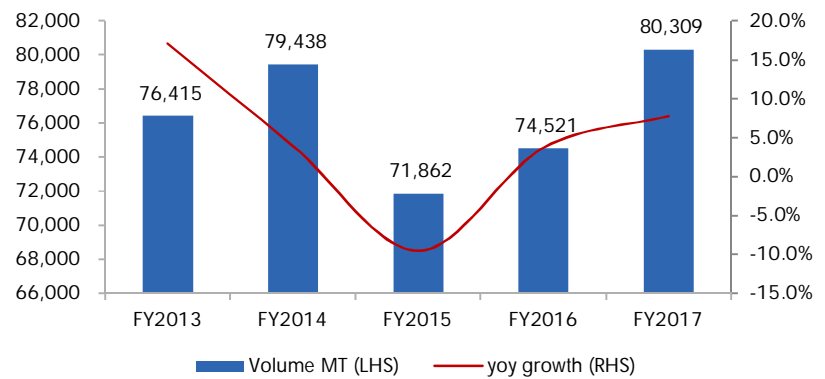
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### Company Background

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### Historical Revenue volume trend

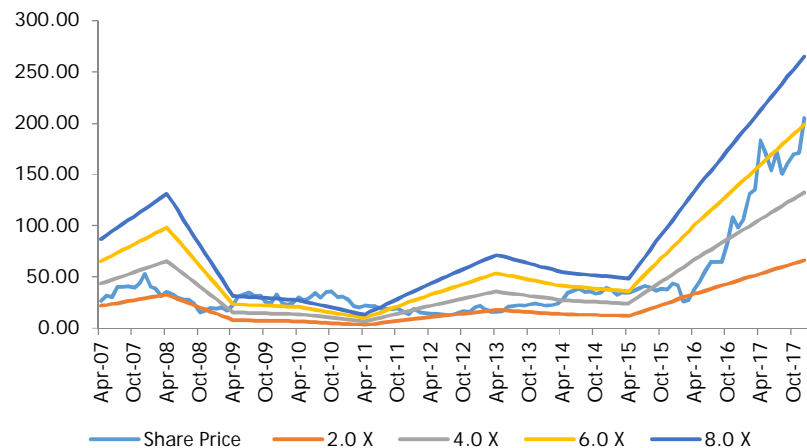


Source: Company, Angel Research

## Outlook and Valuation

We forecast SIL to report healthy top-line CAGR of ~9% to `545cr over FY17-20E on the back of healthy demand growth in printing. On the bottom-line front (reported PAT), we estimate ~14% CAGR owing to strong improvement in operating performance. Further, improvement in manufacturing efficiency and benefits from increasing global finished paper prices (ban in China) would aid margins. **We initiate coverage on SIL with a Buy recommendation and target price of `247 (10x FY2020E EPS), indicating an upside of ~20% from the current levels.**

### Exhibit 1: One year forward PE chart



Source: Company, Angel Research

### Risks to our estimates

- 1) An increase in supply of paper would create a surplus in the market, which would lead to high competition, affecting the overall pricing of paper, and hence, impact the company's profitability
- 2) Increase in raw material prices (bagasse, wheat straw, rice straw, sarkanda, etc.) could impact the company's profitability

**Profit & Loss Statement**

Y/E March (₹ cr)	FY2016	FY2017	FY2018E	FY2019E	FY2020E
<b>Total operating income</b>	<b>389</b>	<b>420</b>	<b>459</b>	<b>500</b>	<b>545</b>
% chg	5.4	7.8	9.2	9.0	8.8
<b>Total Expenditure</b>	<b>367</b>	<b>374</b>	<b>405</b>	<b>441</b>	<b>479</b>
Raw Material	206	213	233	254	277
Personnel	41	46	51	57	63
Others Expenses	120	114	120	130	139
<b>EBITDA</b>	<b>23</b>	<b>46</b>	<b>54</b>	<b>60</b>	<b>65</b>
% chg	(4.6)	103.6	16.5	10.0	9.8
(% of Net Sales)	5.9	11.1	11.8	11.9	12.0
Depreciation & Amortisation	7	8	9	10	11
<b>EBIT</b>	<b>15</b>	<b>38</b>	<b>45</b>	<b>49</b>	<b>54</b>
% chg	(7.4)	148.5	16.0	10.8	10.1
(% of Net Sales)	4.0	9.2	9.7	9.9	10.0
Interest & other Charges	6	6	6	7	7
Other Income	1	3	3	3	3
(% of PBT)	13.4	8.4	7.1	6.5	5.9
Share in profit of Associates	-	-	-	-	-
<b>Recurring PBT</b>	<b>11</b>	<b>36</b>	<b>42</b>	<b>46</b>	<b>51</b>
% chg	(19.7)	223.5	17.4	9.6	10.9
Tax	2	13	13	15	17
(% of PBT)	21.3	35.1	30.0	33.0	33.0
<b>PAT (reported)</b>	<b>9</b>	<b>23</b>	<b>29</b>	<b>31</b>	<b>34</b>
% chg	(11.5)	166.6	26.7	4.9	10.9
(% of Net Sales)	2.2	6.9	6.4	6.1	6.3
<b>Basic EPS (Rs)</b>	<b>6.3</b>	<b>16.7</b>	<b>21.2</b>	<b>22.2</b>	<b>24.7</b>
<b>Fully Diluted EPS (Rs)</b>	<b>6.3</b>	<b>16.7</b>	<b>21.2</b>	<b>22.2</b>	<b>24.7</b>
% chg	(11.5)	166.6	26.7	4.9	10.9

**Balance Sheet**

Y/E March ( ` cr)	FY2016	FY2017	FY2018E	FY2019E	FY2020E
<b>SOURCES OF FUNDS</b>					
Equity Share Capital	14	14	14	14	14
Reserves & Surplus	85	108	135	165	197
<b>Shareholders Funds</b>	<b>99</b>	<b>122</b>	<b>149</b>	<b>178</b>	<b>211</b>
Minority Interest	-	-	-	-	-
Total Loans	55	41	54	54	54
Deferred Tax Liability	25	29	29	29	29
<b>Total Liabilities</b>	<b>179</b>	<b>192</b>	<b>232</b>	<b>261</b>	<b>294</b>
<b>APPLICATION OF FUNDS</b>					
Gross Block	261	277	297	312	327
Less: Acc. Depreciation	124	131	140	150	161
Net Block	<b>138</b>	<b>147</b>	<b>157</b>	<b>162</b>	<b>166</b>
Capital Work-in-Progress	9	3	3	3	3
Investments	18	38	38	38	38
Current Assets	82	76	99	127	159
Inventories	26	29	35	44	48
Sundry Debtors	35	25	31	38	45
Cash	4	3	9	14	25
Loans & Advances	11	8	9	13	19
Other Assets	6	11	14	18	22
Current liabilities	70	74	67	71	74
<b>Net Current Assets</b>	<b>12</b>	<b>2</b>	<b>32</b>	<b>56</b>	<b>84</b>
<b>Deferred Tax Asset</b>	<b>2</b>	<b>2</b>	<b>2</b>	<b>2</b>	<b>2</b>
Mis. Exp. not written off	-	-	-	-	-
<b>Total Assets</b>	<b>179</b>	<b>192</b>	<b>232</b>	<b>261</b>	<b>294</b>

**Cash flow Statement**

Y/E March ( ` cr)	FY2016	FY2017	FY2018E	FY2019E	FY2020E
Profit before tax	11	36	42	46	51
Depreciation	7	8	9	10	11
Change in Working Capital	(3)	18	(24)	(19)	(17)
Interest / Dividend (Net)	4	4	0	0	0
Direct taxes paid	(1)	(10)	(13)	(15)	(17)
Others	1	(1)	0	0	0
<b>Cash Flow from Operations</b>	<b>19</b>	<b>54</b>	<b>15</b>	<b>22</b>	<b>28</b>
(Inc.)/ Dec. in Fixed Assets	(26)	(11)	(20)	(15)	(15)
(Inc.)/ Dec. in Investments	2	(23)	3	0	0
<b>Cash Flow from Investing</b>	<b>(24)</b>	<b>(34)</b>	<b>(17)</b>	<b>(15)</b>	<b>(15)</b>
Issue of Equity	0	0	0	0	0
Inc./(Dec.) in loans	12	(14)	13	0	0
Dividend Paid (Incl. Tax)	(2)	(2)	(2)	(2)	(2)
Interest / Dividend (Net)	(9)	(5)	0	0	0
<b>Cash Flow from Financing</b>	<b>1</b>	<b>(21)</b>	<b>11</b>	<b>(2)</b>	<b>(2)</b>
Inc./(Dec.) in Cash	(5)	(0)	9	5	11
<b>Opening Cash balances</b>	<b>5</b>	<b>1</b>	<b>0</b>	<b>9</b>	<b>14</b>
<b>Closing Cash balances</b>	<b>1</b>	<b>0</b>	<b>9</b>	<b>14</b>	<b>25</b>

### Key Ratios

Y/E March	FY2016	FY2017	FY2018E	FY2019E	FY2020E
<b>Valuation Ratio (x)</b>					
P/E (on FDEPS)	32.7	12.3	9.7	9.2	8.3
P/CEPS	17.7	9.1	7.3	6.9	6.3
P/BV	2.9	2.3	1.9	1.6	1.3
Dividend yield (%)	0.0	0.0	0.0	0.0	0.0
EV/Sales	0.8	0.7	0.6	0.6	0.5
EV/EBITDA	13.9	6.1	5.4	4.8	4.2
EV / Total Assets	1.8	1.5	1.3	1.1	0.9
<b>Per Share Data (Rs)</b>					
EPS (Basic)	6.3	16.7	21.2	22.2	24.7
EPS (fully diluted)	6.3	16.7	21.2	22.2	24.7
Cash EPS	11.6	22.5	28.1	29.5	32.5
DPS	0.0	0.0	0.0	0.0	0.0
Book Value	71.3	88.1	108.0	129.1	152.5
<b>Returns (%)</b>					
ROCE	10.1	23.7	22.0	21.3	20.6
Angel ROIC (Pre-tax)	11.8	31.6	28.5	27.4	27.0
ROE	8.8	19.0	23.9	20.9	20.2
<b>Turnover ratios (x)</b>					
Asset Turnover (Gross Block)	1.5	1.5	1.5	1.6	1.7
Inventory / Sales (days)	25	25	28	32	32
Receivables (days)	33	21	25	28	30
Payables (days)	31	28	28	28	28
Working capital cycle (ex-cash) (days)	26	19	25	32	34

Source: Company, Angel Research

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Disclosure of Interest Statement	Shreyans 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)