

Siyaram Silk Mills

Performance Update

Y/E March (₹ cr)	2QFY19	2QFY18	% chg (yoy)	1QFY19	% chg (qoq)
Net sales	459	423	8.5	322	42.4
EBITDA	62	64	(3.8)	34	82.1
EBITDA margin (%)	13.5	15.2	(173bps)	10.5	293bp
Adjusted PAT	27	31	(11.0)	10	175.9

Source: Company, Angel Research

For 2QFY2019, 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 grew ~9% yoy. On the margin front, the company reported operating margin contraction by 173bps yoy. On the bottom-line front, SSML reported de-growth of ~11% yoy to ~₹27cr due to subdued top-line growth.

Overall top-line growth moderate: The company's top-line grew ~9% yoy to ₹459cr. During the quarter, marriage dates remained very low compared to last year, impacting the company's overall sales, especially in tier 2 & 3 cities, which contribute 70% of SSML's revenue.

PAT declined by 11% yoy: On the operating front, the company's margin contracted by 173bps yoy at 13.5%. PAT de-grew by 11% yoy due to poor operating performance, higher interest cost and higher taxes.

Outlook and Valuation: Going forward, we expect SSML to report net sales CAGR of ~12% to ~₹2,166cr and adj. net profit CAGR of ~13% to ₹147cr over FY2018-20E 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 ₹549.**

Key Financials

Y/E March (₹ cr)	FY2017	FY2018	FY2019E	FY2020E
Net sales	1,574	1,733	1,902	2,166
% chg	(2.8)	10.1	9.7	13.9
Adj. Net profit	91	111	117	147
% chg	91.0	115.0	116.9	147.3
EBITDA margin (%)	12.5	14.2	13.8	14.3
EPS (₹)	19.4	24.5	25.0	31.4
P/E (x)	19.3	15.2	15.0	11.9
P/BV (x)	2.9	2.6	2.2	1.9
RoE (%)	15.3	18.1	15.0	16.2
RoCE (%)	15.8	14.8	14.5	16.3
EV/Sales (x)	1.3	1.3	1.2	1.0
EV/EBITDA (x)	10.4	9.2	8.6	7.3

Source: Company, Angel Research Note: CMP as of November 15, 2018

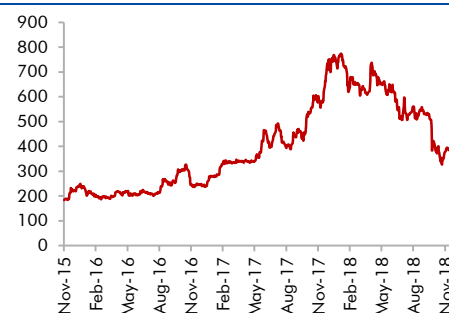
BUY

CMP	₹374
Target Price	₹549
Investment Period	12 months

Stock Info	
Sector	Textiles
Market Cap (₹ cr)	1,752
Net Debt (₹ cr)	549
Beta	0.6
52 Week High / Low	799/321
Avg. Daily Volume	1,743
Face Value (₹)	2
BSE Sensex	35,260
Nifty	10,617
Reuters Code	SIYR.BO
Bloomberg Code	SIYA.IN

Shareholding Pattern (%)			
Promoters			67.1
MF / Banks / Indian			8.1
FII / NRIs / OCBs			1.7
Indian Public/Others			23.2
Abs.(%)	3m	1yr	3yr
Sensex	(7.2)	6.7	36.4
SSM	(27.8)	(33.6)	97.5

Historical share price chart



Source: Company, Angel Research

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Exhibit 1: 2QFY2019 Performance

Y/E March (₹ cr)	2QFY19	2QFY18	% chg. (yoy)	1QFY19	% chg. (qoq)	1HFY19	1HFY18	% chg
Net Sales	459	423	8.5	322	42.4	781	743	5.0
Net raw material	196.8	182	8.0	127.7	54.1	325	311	4.3
(% of Sales)	42.9	43.1	(22)	39.7	326	41.6	41.8	
Employee Cost	51	47	10.4	47	10.5	98	91	7.8
(% of Sales)	11.2	11.0	19	14.4	(324)	12.5	12.2	
Other Expenses	149	129	14.8	114	30.5	262	244	7.6
(% of Sales)	32.4	30.6	177	35.4	(296)	33.6	32.8	
Total Expenditure	397	358	10.7	288	37.7	685	646	6.1
Operating Profit	62	64	(3.8)	34	82.1	96	97	(2)
OPM (%)	13.5	15.2	(173)	10.5	294	12.27	13.10	(83)
Interest	12	7	80.8	11	9.3	23	13	79.0
Depreciation	16	15	5.5	16	3.9	32	30	4.9
Other Income	6	6	9.8	8	(20.1)	14	10	41.5
PBT before exceptional	40	48	(16.9)	15	163.3	55	64	(14.2)
(% of Sales)	8.7	11.4		4.7		7.0	8.6	
Exceptional Items		-					-	
PBT	40	48	(16.9)	15	163.3	55.0	64.1	(14.2)
Tax	15	17	(10.7)	5	195.0	21	23	(10.4)
(% of PBT)	38.7	35.9		34.5		37.5	35.9	
Reported PAT	24	31	(20.5)	10	146.6	34	41	(16.4)
PATM	5.3	7.3		3.1		4.4	5.5	
Extra-ordinary Items	(3)	-				(3)	0	
Adj PAT	27	31	(11.0)	10	175.9	37	41	(9.2)

Source: Company

Outlook and Valuation

Going forward, we expect SSML to report net sales CAGR of ~12% to ~₹2,166cr and adj. net profit CAGR of ~13% to ₹147cr over FY2018-20E 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 ₹549.**

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)	FY2017	FY2018	FY2019E	FY2020E
Total operating income	1,574	1,733	1,902	2,166
% chg	(2.8)	10.1	9.7	13.9
Total Expenditure	1,377	1,488	1,639	1,857
Cost of Materials	739	774	846	964
Personnel	169	190	209	243
Others Expenses	470	524	584	650
EBITDA	197	245	262	310
% chg	4.8	24.8	6.9	18.0
(% of Net Sales)	12.5	14.2	13.8	14.3
Depreciation & Amortisation	55	61	66	69
EBIT	142	185	196	241
% chg	(2.7)	30.0	6.1	23.0
(% of Net Sales)	9.0	10.7	10.3	11.1
Interest & other Charges	32	34	52	53
Other Income	26	26	30	32
(% of PBT)	18.8	14.9	17.2	14.6
Share in profit of Associates	-	-	-	-
Recurring PBT	136	177	175	220
% chg	2.4	30.2	(1.4)	26.0
Prior Period & Extraordinary Expense/(Inc.)	-	(6)	-	-
PBT (reported)	136	183	175	220
Tax	45	60	58	73
(% of PBT)	33.1	32.8	33.0	33.0
PAT (reported)	91	123	117	147
Add: Share of earnings of associate	-	-	-	-
ADJ. PAT	91	117	117	147
% chg	3.9	26.4	1.7	26.0
(% of Net Sales)	5.8	6.8	6.1	6.8
Basic EPS (₹)	19.4	24.5	25.0	31.4
Fully Diluted EPS (₹)	19.4	24.5	25.0	31.4
% chg	3.9	26.4	1.7	26.0

Balance Sheet

Y/E March (₹ cr)	FY2017	FY2018	FY2019E	FY2020E
SOURCES OF FUNDS				
Equity Share Capital	9	9	9	9
Reserves & Surplus	587	669	772	902
Shareholders Funds	597	679	782	911
Minority Interest	-	-	-	-
Total Loans	305	573	570	570
Deferred Tax Liability	20	15	15	15
Total Liabilities	921	1,267	1,395	1,560
APPLICATION OF FUNDS				
Gross Block	481	582	602	622
Less: Acc. Depreciation	86	143	209	278
Net Block	395	439	392	344
Capital Work-in-Progress	36	93	93	93
Investments	14	33	33	33
Current Assets	714	989	1,163	1,403
Inventories	316	430	500	582
Sundry Debtors	305	422	485	564
Cash	5	23	26	41
Loans & Advances	55	81	95	130
Other Assets	34	33	57	87
Current liabilities	238	286	286	312
Net Current Assets	476	703	877	1,091
Deferred Tax Asset	-	-	-	-
Mis. Exp. not written off	-	-	-	-
Total Assets	921	1,267	1,395	1,560

Consolidated Cashflow Statement

Y/E March (₹cr)	FY2017	FY2018	FY2019E	FY2020E
Profit before tax	136	177	175	220
Depreciation	55	61	66	69
Change in Working Capital	47	(281)	(171)	(199)
Interest / Dividend (Net)	18	19	52	53
Direct taxes paid	-	-	(58)	(73)
Others	(52)	(4)	-	-
Cash Flow from Operations	203	(28)	64	71
(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	14	18
Interest / Dividend (Net)	(134)	204	(52)	(53)
Cash Flow from Financing	(135)	205	(41)	(36)
Inc./(Dec.) in Cash	(1)	19	3	15
Opening Cash balances	5	4	23	26
Closing Cash balances	4	23	26	41

Key ratios

Y/E March	FY2017	FY2018	FY2019E	FY2020E
Valuation Ratio (x)				
P/E (on FDEPS)	19.3	15.2	15.0	11.9
P/CEPS	19.4	24.5	24.9	31.4
P/BV	2.9	2.6	2.2	1.9
Dividend yield (%)	2.9	3.7	3.8	4.7
EV/Sales	1.3	1.3	1.2	1.0
EV/EBITDA	10.4	9.2	8.6	7.3
EV / Total Assets	1.8	1.5	1.3	1.2
Per Share Data (₹)				
EPS (Basic)	19.4	24.5	25.0	31.4
EPS (fully diluted)	19.4	24.5	25.0	31.4
Cash EPS	19.3	15.3	15.0	11.9
DPS	10.9	13.8	14.0	17.7
Book Value	127.3	144.8	166.8	194.5
Returns (%)				
ROCE	15.8	14.8	14.5	16.3
Angel ROIC (Pre-tax)	16.1	15.5	15.2	17.1
ROE	15.3	18.1	15.0	16.2
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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