

## Siyaram Silk Mills

### Performance Update

Y/E March (₹ cr)	4QFY18	4QFY17	% yoy	3QFY18	% qoq
<b>Net sales</b>	<b>595.9</b>	<b>529.3</b>	<b>12.6</b>	<b>393.6</b>	<b>51.4</b>
EBITDA	98.0	72.6	34.9	50.4	94.5
EBITDA margin (%)	16.4	13.7	272.3	12.8	364.3
<b>Adjusted PAT</b>	<b>52.0</b>	<b>43.7</b>	<b>18.9</b>	<b>22.4</b>	<b>131.7</b>

Source: Company, Angel Research

For 4QFY2018, Siyaram Silk Mills (SSM) posted good set of results, exceeding our expectations on both, top-line as well as bottom-line fronts. Revenues grew by ~12% yoy. On the operating front, the company reported operating margin improvement. On the bottom-line front, SSM reported growth of ~19% yoy to ₹52cr on the back of strong top-line growth and strong operating margin improvement.

**Top-line driven by strong volume growth:** The Company's top-line grew by ~13% yoy to ₹596cr on the back of strong growth in volume and price hike.

**Strong revenue growth and operating performance boost overall profitability:** On the operating front, the company's margin has improved by 272bps yoy at 16.4%. The company reported ~19% yoy rise in its net profit to ₹52cr on the back of strong revenue growth and operating margin improvement.

**Outlook and Valuation:** Going forward, we expect SSML to report a net sales CAGR of ~14% to ~₹2,272cr and adj.net profit CAGR of ~14% to ₹150cr over FY2018-20E on 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 price, SSML trades at an inexpensive valuation. **We have a buy recommendation on the stock and target price of ₹851.**

### Key Financials

Y/E March (₹ cr)	FY2017	FY2018	FY2019E	FY2020E
<b>Net sales</b>	<b>1,574</b>	<b>1,733</b>	<b>1,976</b>	<b>2,272</b>
% chg	(2.8)	10.1	14.0	15.0
<b>Adj. Net profit</b>	<b>91</b>	<b>111</b>	<b>128</b>	<b>150</b>
% chg	91.0	115.0	128.1	149.7
EBITDA margin (%)	12.5	14.2	13.5	13.3
<b>EPS (₹)</b>	<b>19.4</b>	<b>24.5</b>	<b>27.3</b>	<b>32.0</b>
P/E (x)	33.5	26.5	23.8	20.3
P/BV (x)	5.1	5.7	4.7	3.9
RoE (%)	15.3	22.9	19.7	19.1
RoCE (%)	15.8	17.0	17.0	17.8
EV/Sales (x)	2.1	2.1	1.8	1.6
EV/EBITDA (x)	16.9	14.5	13.3	11.7

Source: Company, Angel Research Note: CMP as of May 29, 2018

## BUY

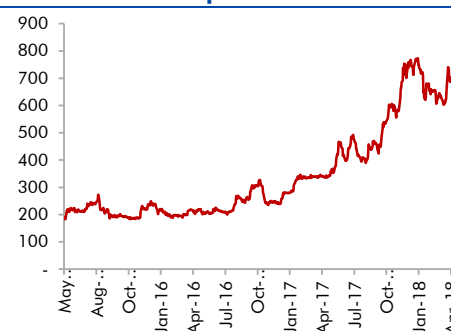
<b>CMP</b>	<b>₹650</b>
<b>Target Price</b>	<b>₹851</b>
<b>Investment Period</b>	<b>12 months</b>

Stock Info	
Sector	Textiles
Market Cap (Rs cr)	3,051
Net Debt	549
Beta	0.6
52 Week High / Low	799/359
Avg. Daily Volume	2,781
Face Value (Rs)	2
BSE Sensex	34,906
Nifty	10,614
Reuters Code	SIYR.BO
Bloomberg Code	SIYA IN

Shareholding Pattern (%)	
Promoters	67.1
MF / Banks / Indian Fls	9.4
FII / NRIs / OCBs	1.7
Indian Public / Others	21.8

Abs. (%)	3m	1yr	3yr
Sensex	7.4	27.1	22.9
SSM	11.1	130.5	232.0

### Historical share price chart



Source: Company, Angel Research

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**Exhibit 1: 4QFY2018 Performance**

Y/E March (₹ cr)	4QFY18	4QFY17	% chg. (yoy)	3QFY18	% chg. (qoq)	FY18	FY17	% chg
<b>Net Sales</b>	<b>596</b>	<b>529</b>	12.6	<b>394</b>	51.4	<b>1,733</b>	<b>1,574</b>	10.1
Net raw material	299.5	266	12.4	163.24	83.5	773.8	738.61	4.8
(% of Sales)	50.3	50.3	(8)	41.5	879	44.7	46.9	
Employee Cost	52	44	16.3	47	9.5	190	169	12.6
(% of Sales)	8.7	8.4	28	12.0	(332)	11.0	10.7	
Other Expenses	147	146	0.6	133	10.5	524	470	11.4
(% of Sales)	24.6	27.5	(292)	33.7	(911)	30.2	29.9	
<b>Total Expenditure</b>	<b>498</b>	<b>457</b>	<b>9.0</b>	<b>343</b>	<b>45.1</b>	<b>1,487</b>	<b>1,377</b>	<b>8.0</b>
<b>Operating Profit</b>	<b>98</b>	<b>73</b>	34.9	<b>50</b>	94.5	<b>246</b>	<b>197</b>	25
OPM (%)	16.4	13.7	272	12.8	364	14.18	12.50	168
Interest	12	5	152.8	9	33.0	34	32	7.9
Depreciation	16	12	32.4	15	4.7	61	55	11.0
Other Income	9	7	26.3	8	11.8	26	26	3.3
<b>PBT before exceptional</b>	<b>79</b>	<b>63</b>	25.4	<b>34</b>	131.0	<b>177</b>	<b>136</b>	30.4
(% of Sales)	13.3	11.9		8.7		10.2	8.6	
Exceptional Items	6.0	-		-		6.0	-	
<b>PBT</b>	<b>73.0</b>	<b>63.0</b>	15.9	<b>34.2</b>	113.4	<b>171.3</b>	<b>136.0</b>	
Tax	25	19	29.3	12	111.5	60	45	32.7
(% of PBT)	31.5	30.6		34.4		33.7	33.1	
<b>Reported PAT</b>	<b>48</b>	<b>44</b>	10.0	<b>22</b>	114.4	<b>112</b>	<b>91</b>	22.6
PATM	8.1	8.3		5.7		6.4	5.8	
Extra-ordinary Items	(4)	-		-		(4)	-	
<b>Adj PAT</b>	<b>52</b>	<b>44</b>	18.9	<b>22</b>	131.7	<b>115</b>	<b>91</b>	26.8

Source: Company

## Outlook and Valuation

Going forward, we expect SSML to report a net sales CAGR of ~14% to ~₹2,272cr and adj.net profit CAGR of ~14% to ₹150cr over FY2018-20E on 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 price, SSML trades at an inexpensive valuation. **We have a buy recommendation on the stock and target price of ₹851.**

## 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
<b>Total operating income</b>	<b>1,574</b>	<b>1,733</b>	<b>1,976</b>	<b>2,272</b>
% chg	(2.8)	10.1	14.0	15.0
<b>Total Expenditure</b>	<b>1,377</b>	<b>1,488</b>	<b>1,709</b>	<b>1,970</b>
Cost of Materials	739	774	879	1,011
Personnel	169	190	217	254
Others Expenses	470	524	612	704
<b>EBITDA</b>	<b>197</b>	<b>245</b>	<b>267</b>	<b>302</b>
% chg	4.8	24.8	8.7	13.3
(% of Net Sales)	12.5	14.2	13.5	13.3
Depreciation & Amortisation	55	61	63	65
<b>EBIT</b>	<b>142</b>	<b>185</b>	<b>204</b>	<b>237</b>
% chg	(2.7)	30.0	10.2	16.5
(% of Net Sales)	9.0	10.7	10.3	10.4
Interest & other Charges	32	34	41	44
Other Income	26	26	28	30
(% of PBT)	18.8	14.9	14.6	13.4
Share in profit of Associates	-	-	-	-
<b>Recurring PBT</b>	<b>136</b>	<b>177</b>	<b>191</b>	<b>223</b>
% chg	2.4	30.2	8.0	16.9
Prior Period & Extraordinary Expense/(Inc.)	-	(6)	-	-
<b>PBT (reported)</b>	<b>136</b>	<b>183</b>	<b>191</b>	<b>223</b>
Tax	45	60	63	74
(% of PBT)	33.1	32.8	33.0	33.0
<b>PAT (reported)</b>	<b>91</b>	<b>123</b>	<b>128</b>	<b>150</b>
Add: Share of earnings of associate	-	-	-	-
<b>ADJ. PAT</b>	<b>91</b>	<b>117</b>	<b>128</b>	<b>150</b>
% chg	3.9	26.4	11.4	16.9
(% of Net Sales)	5.8	6.8	6.5	6.6
<b>Basic EPS (Rs)</b>	<b>19.4</b>	<b>24.5</b>	<b>27.3</b>	<b>32.0</b>
<b>Fully Diluted EPS (₹)</b>	<b>19.4</b>	<b>24.5</b>	<b>27.3</b>	<b>32.0</b>
% chg	3.9	26.4	11.4	16.9

**Balance Sheet**

Y/E March (₹ cr)	FY2017	FY2018	FY2019E	FY2020E
<b>SOURCES OF FUNDS</b>				
Equity Share Capital	9	9	9	9
Reserves & Surplus	587	528	641	773
<b>Shareholders Funds</b>	<b>597</b>	<b>538</b>	<b>651</b>	<b>782</b>
Minority Interest	-	-	-	-
Total Loans	305	549	549	549
Deferred Tax Liability	20	20	20	20
<b>Total Liabilities</b>	<b>921</b>	<b>1,429</b>	<b>1,548</b>	<b>1,692</b>
<b>APPLICATION OF FUNDS</b>				
Gross Block	481	659	679	699
Less: Acc. Depreciation	86	146	209	274
Net Block	<b>395</b>	<b>513</b>	<b>470</b>	<b>425</b>
Capital Work-in-Progress	36	36	36	36
Investments	14	14	14	14
Current Assets	714	1,056	1,243	1,463
Inventories	316	430	493	566
Sundry Debtors	305	422	487	573
Cash	5	24	36	52
Loans & Advances	55	128	158	182
Other Assets	34	52	69	91
Current liabilities	238	190	216	247
<b>Net Current Assets</b>	<b>476</b>	<b>866</b>	<b>1,028</b>	<b>1,217</b>
Deferred Tax Asset	-	-	-	-
Mis. Exp. not written off	-	-	-	-
<b>Total Assets</b>	<b>921</b>	<b>1,429</b>	<b>1,548</b>	<b>1,692</b>

**Consolidated Cashflow Statement**

Y/E March (₹cr)	FY2017	FY2018	FY2019E	FY2020E
Profit before tax	136	177	191	223
Depreciation	55	61	63	65
Change in Working Capital	47	(370)	(149)	(174)
Interest / Dividend (Net)	18	34	41	44
Direct taxes paid	-	(60)	(63)	(74)
Others	(52)	-	-	-
<b>Cash Flow from Operations</b>	<b>203</b>	<b>(159)</b>	<b>82</b>	<b>85</b>
(Inc.)/ Dec. in Fixed Assets	(68)	(20)	(20)	(20)
(Inc.)/ Dec. in Investments	1	-	-	-
<b>Cash Flow from Investing</b>	<b>(69)</b>	<b>(20)</b>	<b>(20)</b>	<b>(20)</b>
Issue of Equity	-	-	-	-
Inc./(Dec.) in loans	-	246	3	4
Dividend Paid (Incl. Tax)	(0)	14	15	18
Interest / Dividend (Net)	(134)	(62)	(68)	(71)
<b>Cash Flow from Financing</b>	<b>(135)</b>	<b>198</b>	<b>(50)</b>	<b>(49)</b>
Inc./(Dec.) in Cash	(1)	20	13	15
<b>Opening Cash balances</b>	<b>5</b>	<b>4</b>	<b>24</b>	<b>36</b>
<b>Closing Cash balances</b>	<b>4</b>	<b>24</b>	<b>36</b>	<b>52</b>

**Key ratios**

Y/E March	FY2017	FY2018	FY2019E	FY2020E
<b>Valuation Ratio (x)</b>				
P/E (on FDEPS)	33.5	26.5	23.8	20.3
P/CEPS	19.2	24.2	27.0	31.5
P/BV	5.1	5.7	4.7	3.9
Dividend yield (%)	1.7	2.1	2.4	2.8
EV/Sales	2.1	2.1	1.8	1.6
EV/EBITDA	16.9	14.5	13.3	11.7
EV / Total Assets	2.9	2.2	2.0	1.8
<b>Per Share Data (₹)</b>				
EPS (Basic)	19.4	24.5	27.3	32.0
EPS (fully diluted)	19.4	24.5	27.3	32.0
Cash EPS	33.9	26.8	24.1	20.6
DPS	10.9	13.8	15.4	18.0
Book Value	127.3	114.8	138.9	167.0
<b>Returns (%)</b>				
ROCE	15.8	17.0	17.0	17.8
Angel ROIC (Pre-tax)	16.1	17.6	17.7	18.8
ROE	15.3	22.9	19.7	19.1
<b>Turnover ratios (x)</b>				
Asset Turnover (Gross Block)	3.3	2.6	2.9	3.2
Inventory / Sales (days)	73	91	91	91
Receivables (days)	71	89	90	92
Payables (days)	34	31	31	31
Working capital cycle (ex-cash) (days)	110	148	150	152

Source: Company, Angel Research

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Disclosure of Interest Statement	Siyaram Silk Mills
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

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