

July 27, 2017

Siyaram Silk Mills (SIYSIL)

₹ 2200

Strong topline growth amid turbulent times...

- Despite destocking of inventories at the dealer level (before implementation of GST), Siyaram reported healthy topline growth of 13.4% YoY to ₹ 320.6 crore.
- On account of better product mix (higher share of premium brands), gross margins expanded 370 bps YoY to 59.8%. However, increase in processing charges (up 131 bps YoY) and other expenses (up 266 bps YoY) led to decline in EBITDA margins by 30 bps YoY to 10.3%. Subsequently absolute EBITDA increased by 10.4% YoY to ₹ 33.1 crore.
- Decline in interest cost (down 33% YoY) coupled with lower effective tax rate (35.8% vs. 39.1% in Q1FY17), resulted in PAT growth of 26.1% YoY to ₹ 10.4 crore.
- The board has approved stock split having a face value of ₹ 10 into five equity shares having a face value of ₹ 2 each.

Higher share of premium brands continue to enhance gross margins

Siyaram is India's largest manufacturer of blended high fashion suitings and shirting's. After successfully establishing its flagship brand '*Siyaram*', the company over the years has constantly focused to enhance its product portfolio. Brands such as '*J. Hampstead*' and '*Cadini*' have seen healthy traction over the past couple of years. Increase in share of premium fabrics in total fabric sale will lead to enhancement of gross margins. The same trend has been witnessed wherein the gross margins expanded 400 bps and 370 bps YoY in FY17 and Q1FY18 respectively. In FY17 the new brand Cadini reported strong revenue growth of 121% to ₹ 99.8 crore, albeit on a smaller base. Share of Cadini brand in total fabric sales had increased from 4% in FY16 to 9% in FY17.

Higher focus on garmenting segment to drive revenue growth

After making a mark in the fabric industry, Siyaram has forayed into the ready-made apparel segment. The company sells garments under the brands, '*Oxemberg*', '*J. Hampstead*' and '*Cadini*'. The management is on track to increase the proportion of garmenting in their revenue. In FY17, the segment reported robust revenue growth of 22.5% YoY to ₹ 324 crore. The shift towards garmenting is visible as share of garments has increased from 16% in FY16 to 21% in FY17. With a strong fabric backbone, the company is well placed to forward integrate into the garmenting segment, which would yield higher margins.

Decent performance despite challenging times; Recommend HOLD

Various trade channels faced pre-GST disruptions on account of de-stocking of inventory at the dealers level in June 2017. Despite the negative impact, Siyaram managed to report healthy topline growth in Q1FY18. We expect normalcy to stabilise by the beginning of the new festive season. With constant focus on increasing the share of garments in the overall revenue mix and introduction of premium brands like Cadini, we believe these efforts will translate into improvement in operating margins. We have revised our estimates marginally downwards for FY18E and FY19E. However as the stock has already run up ~17% since our last update, we assign a HOLD recommendation with a target price of ₹ 2265 (based on 15x FY19E EPS of ₹ 151.0).

Rating matrix		
Rating	:	Hold
Target	:	₹ 2265
Target Period	:	12 months
Potential Upside	:	3%

What's changed?		
Target	Changed from ₹ 2270 to ₹ 2265	
EPS FY18E	Changed from ₹ 116.8 to ₹ 113.8	
EPS FY19E	Changed from ₹ 151.4 to ₹ 151.0	
Rating	Changed from Buy to Hold	

Quarterly performance					
	Q1FY18	Q1FY17	YoY (%)	Q4FY17	QoQ (%)
Revenue	320.6	282.7	13.4	529.3	-39.4
EBITDA	33.1	30.0	10.4	72.6	-54.4
EBITDA (%)	10.3	10.6	-28 bps	13.7	-340 bps
PAT	10.4	8.2	26.1	43.7	-76.3

Key financials					
₹ Crore	FY16	FY17E	FY18E	FY19E	
Net Sales	1,609	1,574	1,743	1,965	
EBITDA	193	197	227	283	
Net Profit	84	91	107	142	
EPS (₹)	89.7	97.1	113.8	151.0	

Valuation summary				
	FY16	FY17E	FY18E	FY19E
P/E	24.5	22.7	19.3	14.6
Target P/E	25.2	23.3	19.9	15.0
EV to EBITDA	12.7	12.2	10.6	8.5
Price to book	4.1	3.5	3.0	2.6
RONW (%)	16.6	15.3	15.8	17.7
ROCE (%)	15.5	15.0	15.8	18.8

Stock data	
Particular	Amount
Market Capitalisation (₹ Crore)	2,150.0
Debt (FY17) (₹ Crore)	352.0
Cash (FY17) (₹ Crore)	4.9
EV (₹ Crore)	2,497.1
52 week H/L	2499 / 994
Equity Capital (₹ Crore)	9.4
Face Value (₹)	10

Price performance				
	1M	3M	6M	12M
Siyaram Silk Mills	16.8	36.1	64.5	120.8
Kewal Kiran Clothing	1.0	-1.8	-1.3	-4.6
Arvind	1.7	-8.6	-0.5	21.5

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Variance analysis

₹ crore	Q1FY18	Q1FY18E	Q1FY17	YoY (%)	Q4FY17	QoQ (%)	Comments
Revenue	320.6	N/A	282.7	13.4	529.3	-39.4	Reported healthy topline growth despite de-stocking by dealers prior to GST
Other Income	4.2	N/A	5.7	-26.0	6.9	-39.4	
Raw Material Expense	128.7	N/A	124.2	3.6	266.4	-51.7	Marginal decline in EBITDA margins on account increase in processing charges and other expense.
Employee Expense	44.3	N/A	39.5	12.1	44.4	-0.2	
Processing & Labour Expense	33.4	N/A	25.8	29.7	45.2	-26.1	
Other Expense	81.1	N/A	63.2	28.3	100.6	-19.4	
EBITDA	33.1	N/A	30.0	10.4	72.6	-54.4	
EBITDA Margin (%)	10.3	N/A	10.6	-28 bps	13.7	-340 bps	
Depreciation	14.9	N/A	12.9	15.7	11.7	27.5	
Interest	6.2	N/A	9.2	-32.9	4.8	28.4	
PBT	16.1	N/A	13.5	19.7	63.0	-74.4	
Tax Outgo	5.8	N/A	5.3	9.9	19.3	-70.0	
PAT	10.4	N/A	8.2	26.1	43.7	-76.3	Decline in interest cost (down 33% YoY) coupled with lower effective tax rate, resulted in PAT growth of 26.1% YoY

Source: Company, ICICIdirect.com Research Note: Estimates for Q1FY18 have not been published

Change in estimates

(₹ Crore)	FY18E			FY19E			Comments
	Old	New	% Change	Old	New	% Change	
Revenue	1,743.3	1,743.3	0.0	1,965.3	1,965.3	0.0	We have maintained our estimates
EBITDA	238.9	226.7	-5.1	286.2	283.3	-1.0	
EBITDA Margin (%)	13.7%	13.0%		14.6%	14.4%		
PAT	109.5	106.6	-2.6	141.9	141.5	-0.3	We have revised our estimates marginally downwards
EPS (₹)	116.8	113.8	-2.6	151.4	151.0	-0.3	

Source: Company, ICICIdirect.com Research

Assumptions

	Current			Earlier	
	FY17	FY18E	FY19E	FY18E	FY19E
Cloth Volume (Lakh Mtrs)	852.7	917.1	982.3	917.1	982.3
Average Realisation (₹)	135	139	145	139	145
Readymade Garments					
Volume Lakh Pcs)	52.5	58.7	65.3	58.7	65.3
Average Realisation (₹)	618	667	707	667	707

Source: Company, ICICIdirect.com Research

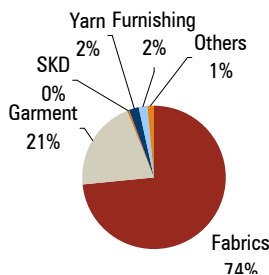
Company Analysis

Revenue growth in FY18E to be driven by garmenting segment

Historically, segment wise, the fabrics division, which comprises ~74% of overall topline in FY17, registered a CAGR of 13% in FY12-16 while the branded garments division revenue grew at a CAGR of 22% during the same period. Garmenting contributed 21% of overall revenue in FY17. We expect the garmenting segment to contribute ~ 24% in FY19E.

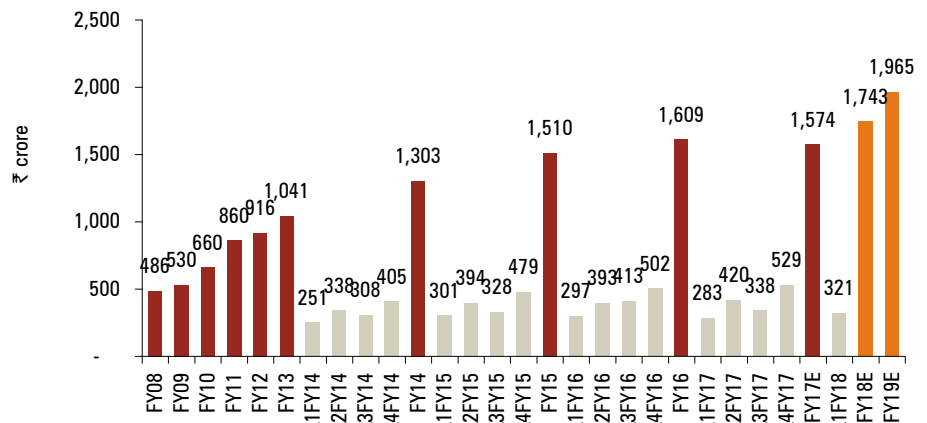
FY17 saw a decline in revenue growth by 2.2% YoY on the back of poor consumer sentiments and demonetisation disrupting the trade channels in Tier II and Tier III towns. The total fabric sales declined 4.2% YoY to ₹ 1150.7 crore led by a fall in volumes (down 6.2% YoY). However, the garmenting segment continued on its strong growth trajectory registering a robust revenue growth of 22.5% to ₹ 324 crore in FY17. The strong trajectory was derived by 11.8% volume growth and 9.6% realisation growth. Going forward, we expect the fabrics division to return to its original growth trajectory and register 11.1% CAGR in FY17-19E while we expect the garments segment to record 19.4% CAGR in FY17-19E.

Revenue mix (FY17)



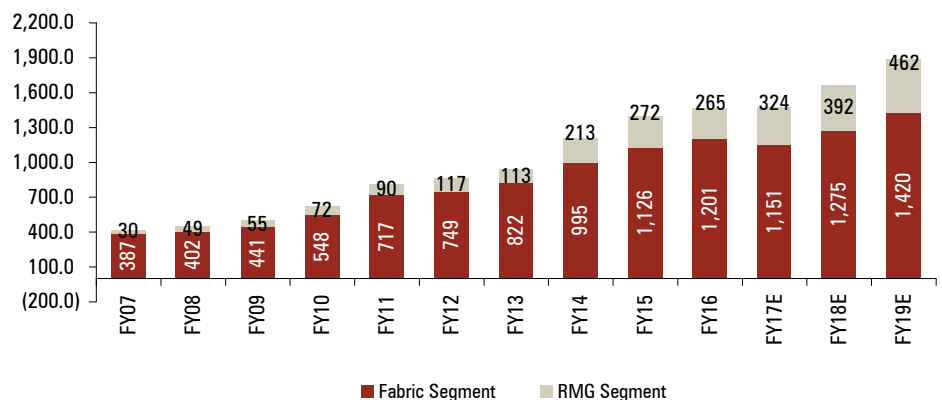
Source: Company, ICICIdirect.com Research

Exhibit 1: Revenue trend



Source: Company, ICICIdirect.com Research

Exhibit 2: Segmental revenue contribution



Source: Company, ICICIdirect.com Research

Higher share of garments and premium fabric brands to enhance margins

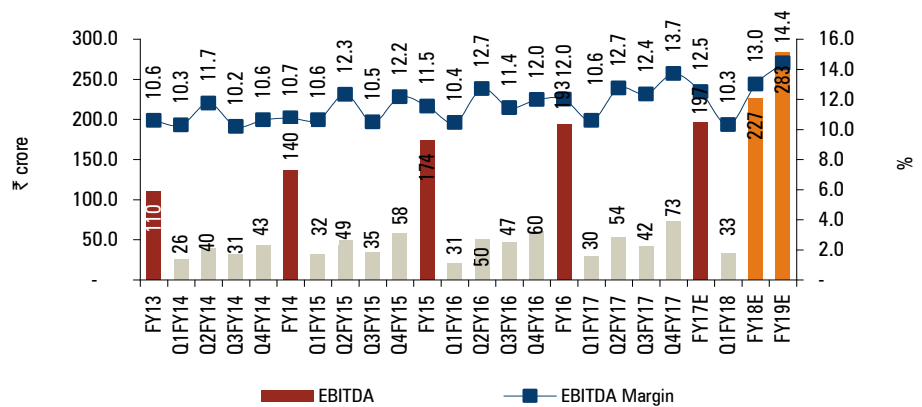
SSML registered steady EBITDA growth of 17.4% CAGR in FY10-16 along with stable EBITDA margins, ranging between 10% and 12%. Siyaram reported robust revenue growth in FY14 with 25% YoY growth, leading to 27% growth in EBITDA for FY14. FY15 saw EBITDA margins expanding ~80 bps to 11.5% and EBITDA registering growth of 24% YoY to ₹ 174.2 crore. In FY16, despite subdued revenue growth, it reported stable EBITDA margin of 11.4%.

Though overall revenues de-grew in FY17, gross margins expanded 400 bps YoY owing to increase in share of garmenting segment in the total revenue mix and higher share of premium brands in fabric segment (Cadini). However, on account of a decline in fabric volumes (down 6.2% YoY), EBITDA margins expanded a mere 50 bps YoY to 12.5% in FY17 (negative operating leverage).

Going forward, we expect EBITDA margins to improve to 14.4% by FY19E due to SSML's focus on enhancing share of garments in overall revenue, while EBITDA is expected to grow at 21% CAGR in FY17-19E.

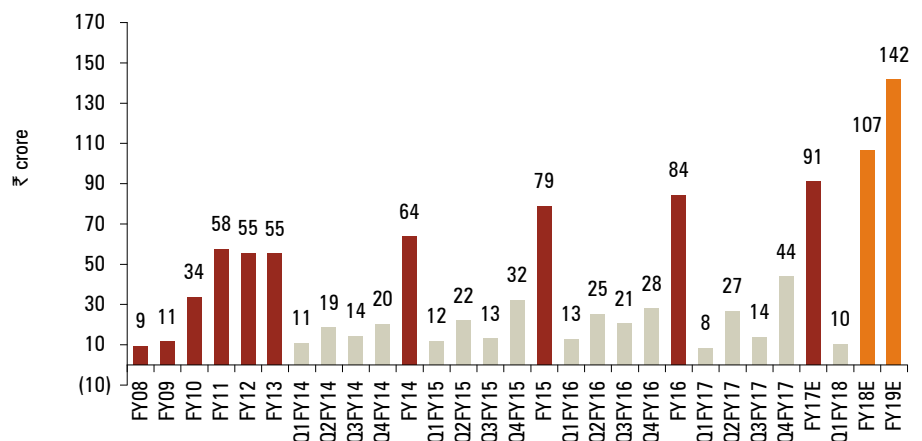
Driven by strong EBITDA generation, we expect PAT to grow 17.2% in FY18E and 32.7% in FY19E to ₹ 141.5 crore.

Exhibit 3: Consistent growth in EBITDA, EBITDA margin



Source: Company, ICICIdirect.com Research

Exhibit 4: PAT to grow at steady pace

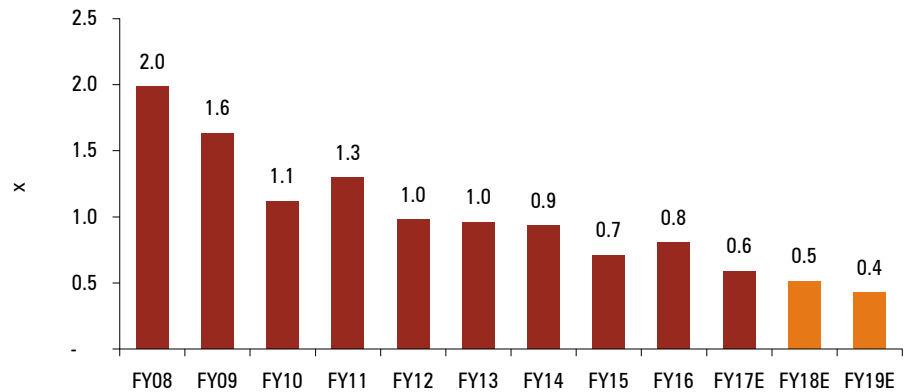


Source: Company, ICICIdirect.com Research

Return, debt/equity ratio to improve from FY18E onwards

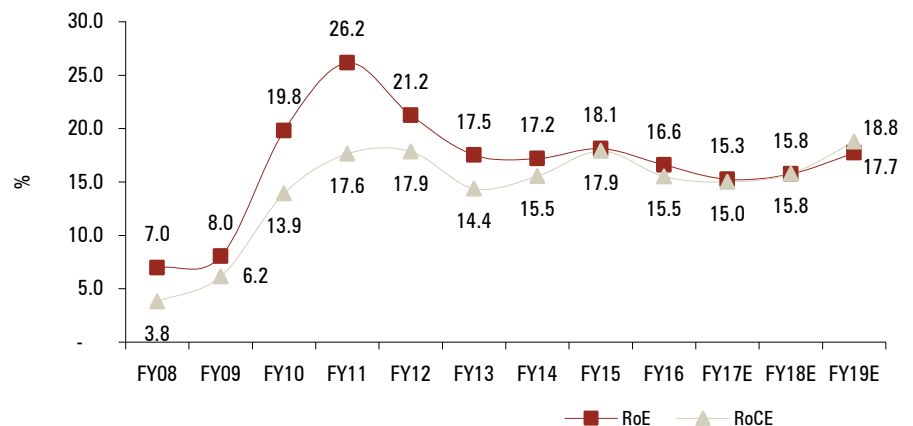
Due to a subdued operational performance in FY17 on account of demonetisation effect, SSML witnessed a drop in its return ratios. However in anticipation of a strong bottomline trajectory, we expect return ratios to also pick up, going forward. We expect return on capital employed (RoCE) to increase from 15% in FY17 to 18.8% in FY19E.

Exhibit 5: Debt-equity ratio to improve



Source: Company, ICICIdirect.com Research

Exhibit 6: Return ratios to recover from FY18E



Source: Company, ICICIdirect.com Research

Valuation

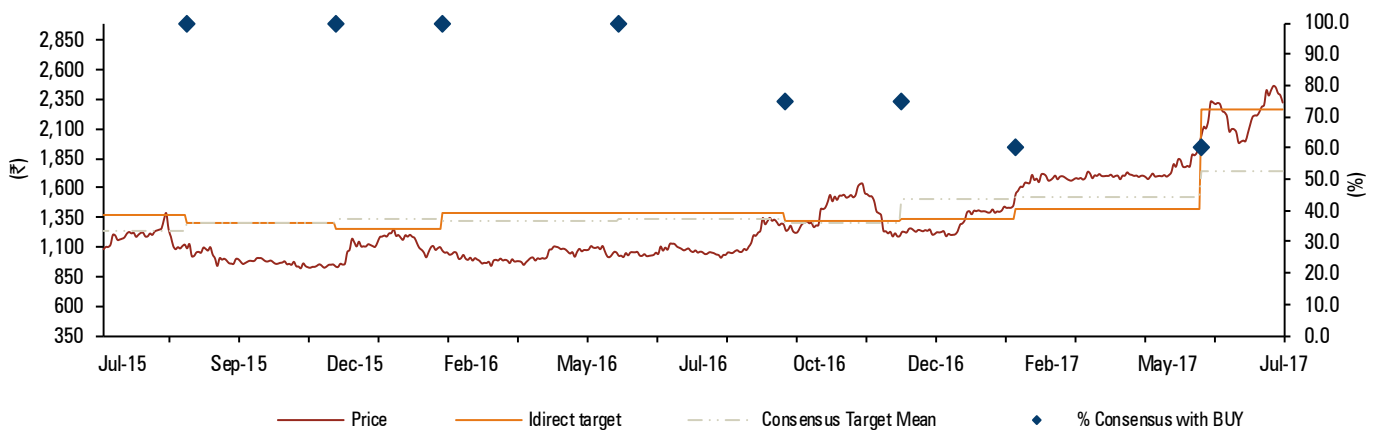
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Exhibit 7: Valuations

	Sales (₹ cr)	Growth (%)	EPS (₹)	Growth (%)	PE (x)	EV/EBITDA (x)	RoNW (%)	RoCE (%)
FY16	1,608.9	6.5	89.7	6.7	24.5	12.7	16.6	15.5
FY17E	1,573.9	(2.2)	97.1	8.3	22.7	12.2	15.3	15.0
FY18E	1,743.3	10.8	113.8	17.2	19.3	10.6	15.8	15.8
FY19E	1,965.3	12.7	151.0	32.7	14.6	8.5	17.7	18.8

Source: Company, ICICIdirect.com Research

Recommendation history vs. consensus estimate



Source: Bloomberg, Company, ICICIdirect.com Research

Key events

Date	Event
Jul-09	Revenue grows 31% YoY in June 2009 while net profit increases multifold from ₹ 0.46 crore to ₹ 3.77 crore
Jul-10	Revenues grow 22% YoY for FY10 to ₹ 796 crore and net profit almost tripled from ₹ 11.44 crore to ₹ 33.66 crore
Jan-11	Continues its momentum of revenue and earning growth with YoY revenue and PAT growth of 38% and 139%, respectively, for Q3FY11
Jul-11	After strong growth over FY09-11, Q1FY12 records slower YoY growth in sales and PAT of 7% and 12%, respectively
Jan-12	Revenue and net profit decline YoY by 3% and 17%, respectively, for the quarter ended December 2011
Jul-12	Revenue growth revives with double digit YoY growth while net profit grew 8%
Jan-13	Though the company reported strong YoY revenue growth of 26%, lower EBITDA margin led to net profit growth being restricted to 5% YoY
May-13	In spite of 9% YoY growth in revenues, net profit declined 26% on account of lower EBITDA margins
Sep-13	After two quarters of de-growth, revenues increased 19.6% YoY to ₹ 76.8 crore
Nov-13	Subdued EBITDA margin keep net profit subdued (YoY growth of 3%), despite revenue increasing 22%
May-14	Strong revenue growth of 40% YoY leads net profit to grow 56% YoY
Sep-15	Siyaram announces a JV with Italian brand Cadini

Source: Company, ICICIdirect.com Research

Top 10 Shareholders

Rank	Name	Latest Filing Date	% O/S	Position (m)	Change (m)
1	PKP Enterprises, L.L.P.	30-Jun-17	23.7	2.22	0.00
2	Poddar (Ashadevi Rameshkumar)	30-Jun-17	6.9	0.65	0.00
3	DSP BlackRock Investment Managers Pvt. Ltd.	30-Jun-17	5.3	0.49	0.00
4	Poddar (Vibhadevi Shrikishan)	30-Jun-17	4.6	0.43	0.00
5	Poddar (Gaurav Pramod)	30-Jun-17	4.2	0.39	0.00
6	Poddar (Ankit Pramodkumar)	30-Jun-17	4.2	0.39	0.00
7	Poddar (Rameshkumar D)	30-Jun-17	3.6	0.33	0.00
8	Poddar (Avnish Pawankumar)	30-Jun-17	3.5	0.33	0.00
9	Poddar (Anurag Pawankumar)	30-Jun-17	3.5	0.33	0.00
10	Poddar (Shrikishan Dharaprasad)	30-Jun-17	3.3	0.31	0.00

Source: Reuters, ICICIdirect.com Research

Shareholding Pattern

(in %)	Jun-16	Sep-16	Dec-16	Mar-17	Jun-17
Promoter	67.1	67.1	67.1	67.1	67.1
FII	0.6	0.7	0.8	1.4	1.5
DII	6.4	7.6	8.5	8.5	8.5
Others	26.0	24.7	23.7	23.0	23.0

Recent Activity

Buys			Sells		
Investor name	Value (Mn)	Shares(Mn)	Investor name	Value (Mn)	Shares (Mn)
Canara Robeco Asset Management Company Ltd.	0.09	0.00	DPP Enterprises, L.L.P.	-29.56	-1.13
DSP BlackRock Investment Managers Pvt. Ltd.	0.05	0.00			
Jalan (Ashok)	0.03	0.00			

Source: Reuters, ICICIdirect.com Research

Financial summary

Profit and loss statement				
₹ Crore				
(Year-end March)	FY16	FY17E	FY18E	FY19E
Total operating Income	1,608.9	1,573.9	1,743.3	1,965.3
Growth (%)	6.5	-2.2	10.8	12.7
Raw Material Expenses	820.0	738.6	786.2	906.7
Employee Expenses	152.8	168.6	195.3	206.4
Manufacturing & Other Expenses	442.8	470.0	535.2	569.0
Total Operating Expenditure	1,415.7	1,377.2	1,516.7	1,682.1
EBITDA	193.2	196.7	226.7	283.3
Growth (%)	10.9	1.8	15.2	25.0
Depreciation	51.6	54.6	65.2	69.6
Interest	31.4	31.7	26.0	24.4
Other Income	16.8	25.5	26.1	25.2
PBT	127.1	136.0	161.6	214.4
Growth (%)	6.9	7.0	18.8	32.7
Total Tax	43.0	45.0	54.9	72.9
PAT	84.1	91.0	106.6	141.5
Growth (%)	6.7	8.3	17.2	32.7
EPS (₹)	89.7	97.1	113.8	151.0

Source: Company, ICICIdirect.com Research

Cash flow statement				
₹ Crore				
(Year-end March)	FY16	FY17E	FY18E	FY19E
Profit before Tax	127.1	136.0	161.6	214.4
Add: Depreciation	51.6	54.6	65.2	69.6
(Inc)/dec in Current Assets	-143.1	67.1	-154.8	-140.9
Inc/(dec) in CL and Provisions	55.5	-79.2	70.8	29.3
Taxes Paid	-43.0	-45.0	-54.9	-72.9
Others	22.8	23.2	17.5	15.9
CF from operating activities	70.8	156.6	105.3	115.3
(Inc)/dec in Investments	-6.3	6.5	0.0	0.0
(Inc)/dec in Fixed Assets	-142.3	-49.0	-73.0	-75.8
Others	25.1	-15.9	17.4	8.8
CF from investing activities	-123.5	-58.4	-55.6	-67.0
Issue/(Buy back) of Equity	0.0	0.0	0.0	0.0
Inc/(dec) in loan funds	97.7	-54.7	-5.3	-7.7
Dividend paid & dividend tax	-12.4	-12.7	-14.9	-19.7
Others	-31.4	-31.7	-26.0	-24.4
CF from financing activities	53.9	-99.1	-46.1	-51.8
Net Cash flow	1.3	-1.0	3.6	-3.5
Opening Cash	4.6	5.9	4.9	8.5
Closing Cash	5.9	4.9	8.5	5.0

Source: Company, ICICIdirect.com Research

Balance sheet				
₹ Crore				
(Year-end March)	FY16	FY17E	FY18E	FY19E
Liabilities				
Equity Capital	9.4	9.4	9.4	9.4
Reserve and Surplus	497.5	587.2	667.6	789.4
Total Shareholders funds	506.9	596.6	677.0	798.8
Total Debt	406.7	352.0	346.7	339.0
Deferred Tax Liability	23.3	19.8	21.1	21.1
Minority Interest / Others	-	-	-	-
Total Liabilities	936.9	968.4	1,044.8	1,158.9
Assets				
Gross Block	731.8	780.8	853.8	929.6
Less: Acc Depreciation	317.5	372.1	437.3	506.9
Net Block	414.3	408.8	416.5	422.8
Capital WIP	3.8	36.1	17.2	16.9
Total Fixed Assets	418.1	444.8	433.7	439.7
Investments	6.5	-	-	-
Inventory	330.7	315.6	353.4	403.8
Debtors	363.5	304.6	406.0	468.4
Loans and Advances	82.0	89.1	104.6	132.7
Other Current Assets	-	-	-	-
Cash	5.9	4.9	8.4	4.9
Total Current Assets	782.1	714.1	872.4	1,009.9
Current Liabilities	257.5	176.4	175.9	206.4
Provisions	12.3	14.1	85.5	84.2
Total Current Liabilities	269.8	190.5	261.4	290.6
Net Current Assets	512.4	523.5	611.1	719.2
Others Assets	-	-	-	-
Application of Funds	936.9	968.4	1,044.8	1,158.9

Source: Company, ICICIdirect.com Research

Key ratios				
(Year-end March)	FY16	FY17E	FY18E	FY19E
Per share data (₹)				
EPS	89.7	97.1	113.8	151.0
Cash EPS	144.7	155.3	183.4	225.2
BV	540.7	636.5	722.2	852.1
DPS	11.0	11.7	13.7	18.1
Cash Per Share	6.3	5.2	9.0	5.2
Operating Ratios				
EBITDA Margin (%)	12.0	12.5	13.0	14.4
PBT Margin (%)	7.9	8.6	9.3	10.9
PAT Margin (%)	5.2	5.8	6.1	7.2
Inventory days	75.0	73.2	74.0	75.0
Debtor days	82.5	70.6	85.0	87.0
Creditor days	79.0	69.3	64.0	67.0
Return Ratios (%)				
RoE	16.6	15.3	15.8	17.7
RoCE	15.5	15.0	15.8	18.8
RoIC	15.8	15.7	16.2	19.1
Valuation Ratios (x)				
P/E	24.5	22.7	19.3	14.6
EV / EBITDA	12.7	12.2	10.6	8.5
EV / Net Sales	1.5	1.5	1.4	1.2
Market Cap / Sales	1.3	1.3	1.2	1.0
Price to Book Value	4.1	3.5	3.0	2.6
Solvency Ratios				
Debt/EBITDA	2.1	1.8	1.5	1.2
Debt / Equity	0.8	0.6	0.5	0.4
Current Ratio	2.9	3.7	3.3	3.5
Quick Ratio	1.7	2.1	2.0	2.1

Source: Company, ICICIdirect.com Research

ICICIdirect.com coverage universe (Apparel)

Sector / Company			CMP			M Cap (₹ Cr)	EPS (₹)			P/E (x)			EV/EBITDA (x)			RoCE (%)			RoE (%)		
			(₹)	TP(₹)	Rating		FY16	FY17E	FY18E	FY16	FY17E	FY18E	FY16	FY17E	FY18E	FY16	FY17E	FY18E	FY16	FY17E	FY18E
Kewal Kiran	Clothing		1751	1844	Hold	2182	55.1	69.2	65.9	32.1	25.6	26.8	21.0	21.7	18.5	30.5	23.8	29.9	22.7	23.8	23.0
Page Industries			16786	12500	Sell	18808	208.5	238.7	296.6	80.5	70.3	56.6	42.6	38.8	31.0	61.0	53.0	59.1	46.0	40.0	44.5
Rupa & Company			487	425	Buy	3906	8.3	9.1	12.0	58.8	53.7	40.5	23.7	22.1	18.1	22.9	23.6	25.3	17.9	16.4	19.2
Vardhman Textiles (MAH)			1193	1240	Hold	6890	100.9	179.0	107.6	13.0	7.3	12.2	8.3	7.3	6.9	14.1	14.5	14.3	15.4	23.0	13.1
Arvind Ltd (ARVMIL)			365	480	Buy	9431	12.3	12.4	17.5	33.2	32.4	22.9	14.5	13.9	11.5	11.6	10.1	12.9	11.9	9.0	12.6

Source: Company, ICICIdirect.com Research

RATING RATIONALE

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