

October 16, 2017

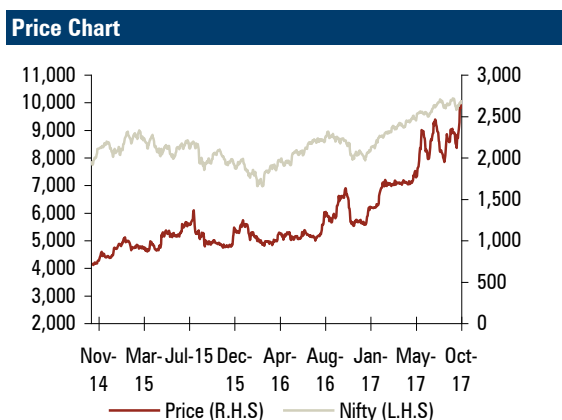
Rating matrix		
Rating	:	Buy
Target	:	₹ 3100
Target Period	:	12 months
Potential Upside	:	17%

What's changed?	
Target	Changed from ₹ 2265 to ₹ 3100
EPS FY18E	Changed from ₹ 113.8 to ₹ 109.1
EPS FY19E	Changed from ₹ 151.0 to ₹ 133.3
EPS FY20E	Introduced at ₹ 172.3
Rating	Changed from Hold to Buy

Key financials				
(₹ crore)	FY17	FY18E	FY19E	FY20E
Net Sales	1,574	1,743	1,984	2,300
EBITDA	197	227	269	325
Net Profit	91	102	125	162
EPS (₹)	97.1	109.1	133.3	172.3

Valuation summary				
	FY17	FY18E	FY19E	FY20E
P/E	27.3	24.3	19.9	15.4
Target P/E	31.9	28.4	23.3	18.0
EV to EBITDA	14.3	12.5	10.6	8.6
Price to book	4.2	3.7	3.2	2.8
RONW (%)	15.3	15.2	16.2	18.0
ROCE (%)	15.1	15.5	17.2	20.2

Stock data	
Particular	Amount
Market Capitalisation (₹ Crore)	2,485.0
Debt (FY17) (₹ Crore)	342.4
Cash (FY17) (₹ Crore)	4.7
EV (₹ Crore)	2,822.8
52 week H/L	2737 / 1135
Equity Capital (₹ Crore)	9.4
Face Value (₹)	10



Research Analyst	
Bharat Chhoda	bharat.chhoda@icicisecurities.com
Cheragh Sidhwa	cheragh.sidhwa@icicisecurities.com

Siyaram Silk Mills (SIYSIL)

₹ 2650

Garmenting segment to spur revenue, margins

Siyaram (SSML) caters to Tier II and III towns across India with its offering of fabrics & readymade garments. The company commenced operations as a fabric manufacturer and later forward integrated to manufacturing readymade garments. After successfully establishing its flagship brand Siyaram, the company has widened its product portfolio by introducing new brands such as Oxemberg, MSD, J Hampstead. It also has a JV with Italian lifestyle brand Cadini. We believe the management's focus on increasing the share of garments in the overall revenue mix and introduction of premium international brands like Cadini would lead to enhanced profitability. Also, Siyaram has recently announced sub-division of its equity shares from ₹ 10/share to ₹ 2/share (record date October 26, 2017), which should improve liquidity in the stock.

Cadini brand providing strong growth impetus

JV with Italian lifestyle brand *Cadini* (to sell superior fabrics, garments) has proved fruitful as the brand has performed significantly well in a short span of time. The brand witnessed healthy traction with 121%, 71.9% revenue growth in FY17, Q1FY18, respectively, albeit on a lower base.

Strong distribution network, rigorous brand building efforts augur well

Siyaram has built a strong brand portfolio, distributed through a robust network of 1600+ dealers & over 3,00,000 MBOs. It has expanded its retail presence mainly through the franchisee route taking store count to 200+ Siyaram Fashion Avenue outlets (SFA). The franchisee stores are asset light in nature (capital infused by franchisee owner) leading to healthy return ratio. Siyaram has constantly invested in brand building by spending ~8.5% of sales annually. This has led to high brand recall for it.

Strong growth in RMG segment to aid improvement in margins

The management is on track to increase the proportion of garmenting in their revenue. In Q1FY18, the garmenting segment reported impressive volume growth of 21.2% YoY to 14.6 lakh pieces. However, higher discounting led to a decline in average realisations by 8.9% YoY to ₹ 496/piece. The shift towards garmenting is visible as the share of garments has increased from 16% in FY16 to 23% in Q1FY18. With a strong fabric backbone, the company is well placed to increase the garmenting share, which would yield higher margins. We expect the share of garmenting to increase to 26% by FY20E.

Healthy balance sheet; robust earnings growth; upgrade to BUY

We introduce FY20 estimates and expect revenue, earnings to grow at a CAGR of 13.5%, 21.1%, respectively, in FY17-20E. The triggers contributing towards the strong earnings growth are a) higher share of garments in the revenue mix and b) focus on enhancing premium brands in the fabric segment. SSML has followed an asset light model with minimum capex requirements. This has led to superior return ratios (15%+ RoCE) and high asset turnover of 3.3x to gross block as on FY17. Going forward, SSML intends to incur capex of ~₹ 150 crore over a period of two years towards increasing its processing fabric capacity from current 3.6 million metre to 6 million metre and to set up a value-added indigo yarn dyeing facility. We believe SSML's strong cash flow from operations (CFO) will partially enable it to fund its capex through internal accruals with rest through debt. SSML is comfortably placed with a debt/equity ratio of 0.5x. Given the strong earnings trajectory and a healthy balance sheet, we upgrade SSML from HOLD to **BUY** with a revised target price of ₹ 3100 (18.0x FY20 EPS of ₹ 172.3).

Financial summary

Profit and loss statement				
₹ Crore				
(Year-end March)	FY17	FY18E	FY19E	FY20E
Total operating Income	1,573.9	1,743.3	1,983.8	2,300.1
Growth (%)	-2.2	10.8	13.8	15.9
Raw Material Expenses	738.6	786.2	873.6	988.6
Employee Expenses	168.6	188.3	216.2	250.7
Manufacturing & Other Expenses	470.0	542.2	624.9	736.0
Total Operating Expenditure	1,377.2	1,516.7	1,714.7	1,975.3
EBITDA	196.8	226.7	269.1	324.8
Growth (%)	1.8	15.2	18.7	20.7
Depreciation	54.6	64.4	73.4	78.5
Interest	31.7	33.4	33.1	29.1
Other Income	25.5	26.1	26.8	27.6
PBT	136.0	155.0	189.3	244.8
Growth (%)	7.0	14.0	22.1	29.3
Total Tax	45.0	52.7	64.4	83.2
PAT	91.0	102.3	125.0	161.5
Growth (%)	8.3	12.4	22.1	29.3
EPS (₹)	97.1	109.1	133.3	172.3

Source: Company, ICICIdirect.com Research

Cash flow statement				
₹ Crore				
(Year-end March)	FY17	FY18E	FY19E	FY20E
PAT	91.0	102.3	125.0	161.5
Add: Depreciation	54.6	64.4	73.4	78.5
(Inc)/dec in Current Assets	62.3	-98.1	-122.3	-148.3
Inc/(dec) in CL and Provisions	-24.3	9.3	17.0	24.4
Others	0.0	0.0	0.0	0.0
CF from operating activities	183.5	77.9	93.1	116.2
(Inc)/dec in Investments	0.9	-2.8	-3.3	-4.0
(Inc)/dec in Fixed Assets	-51.0	-71.9	-75.8	-40.8
(Inc)/dec in CWIP	-31.5	7.2	8.7	10.1
Others	0.0	0.0	0.0	0.0
CF from investing activities	-81.5	-67.5	-70.5	-34.7
Issue/(Buy back) of Equity	0.0	0.0	0.0	0.0
Inc/(dec) in loan funds	-102.1	28.8	-2.9	-44.5
Others	-1.1	-22.6	-27.5	-37.5
CF from financing activities	-103.2	6.2	-30.5	-82.1
Net Cash flow	-1.16	16.57	-7.87	-0.63
Opening Cash	5.8	4.7	21.2	13.4
Closing Cash	4.7	21.2	13.4	12.7

Source: Company, ICICIdirect.com Research

Balance sheet				
₹ Crore				
(Year-end March)	FY17	FY18E	FY19E	FY20E
Liabilities				
Equity Capital	9.4	9.4	9.4	9.4
Reserve and Surplus	587.3	665.8	761.7	885.7
Total Shareholders funds	596.6	675.1	771.1	895.1
Total Debt	342.4	371.2	368.3	323.8
Deferred Tax Liability	19.8	20.9	22.5	22.5
Minority Interest / Others	-	-	-	-
Total Liabilities	958.8	1,067.3	1,161.8	1,241.3
Assets				
Gross Block	480.6	552.5	628.3	669.1
Less: Acc Depreciation	85.7	150.1	223.5	302.0
Net Block	394.8	402.4	404.8	367.1
Capital WIP	36.1	28.8	20.2	10.1
Total Fixed Assets	430.9	431.2	425.0	377.2
Investments	14.0	16.7	20.1	24.1
Inventory	315.6	353.4	407.6	472.6
Debtors	304.6	358.2	413.1	478.9
Loans and Advances	89.3	95.9	109.1	126.5
Cash	4.7	21.2	13.4	12.7
Total Current Assets	714.1	828.8	943.2	1,090.8
Current Liabilities	186.0	194.5	210.8	234.5
Provisions	14.1	14.8	15.6	16.4
Total Current Liabilities	200.1	209.4	226.4	250.8
Net Current Assets	514.0	619.4	716.8	840.0
Others Assets	-	-	-	-
Application of Funds	958.8	1,067.3	1,161.8	1,241.3

Source: Company, ICICIdirect.com Research

Key ratios				
(Year-end March)	FY17	FY18E	FY19E	FY20E
Per share data (₹)				
EPS	97.1	109.1	133.3	172.3
Cash EPS	155.3	177.8	211.6	256.1
BV	636.5	720.3	822.6	954.8
DPS	0.0	21.8	26.7	34.5
Cash Per Share	5.0	22.7	14.3	13.6
Operating Ratios				
EBITDA Margin (%)	12.5	13.0	13.6	14.1
PBT Margin (%)	8.6	8.9	9.5	10.6
PAT Margin (%)	5.8	5.9	6.3	7.0
Inventory days	73.2	74.0	75.0	75.0
Debtor days	70.6	75.0	76.0	76.0
Creditor days	69.3	68.0	67.0	67.0
Return Ratios (%)				
RoE	15.3	15.2	16.2	18.0
RoCE	15.1	15.5	17.2	20.2
RoIC	16.1	16.6	18.0	21.0
Valuation Ratios (x)				
P/E	27.3	24.3	19.9	15.4
EV / EBITDA	14.3	12.5	10.6	8.6
EV / Net Sales	1.8	1.6	1.4	1.2
Market Cap / Sales	1.6	1.4	1.3	1.1
Price to Book Value	4.2	3.7	3.2	2.8
Solvency Ratios				
Debt/EBITDA	1.7	1.6	1.4	1.0
Debt / Equity	0.6	0.5	0.5	0.4
Current Ratio	3.6	4.0	4.2	4.3
Quick Ratio	2.0	2.3	2.4	2.5

Source: Company, ICICIdirect.com Research

RATING RATIONALE

ICICIdirect.com endeavours to provide objective opinions and recommendations. ICICIdirect.com assigns ratings to its stocks according to their notional target price vs. current market price and then categorises them as Strong Buy, Buy, Hold and Sell. The performance horizon is two years unless specified and the notional target price is defined as the analysts' valuation for a stock.

Strong Buy: >15%/20% for large caps/midcaps, respectively, with high conviction;

Buy: >10%/15% for large caps/midcaps, respectively;

Hold: Up to +/-10%;

Sell: -10% or more;



Pankaj Pandey

Head – Research

pankaj.pandey@icicisecurities.com

**ICICIdirect.com Research Desk,
ICICI Securities Limited,
1st Floor, Akruti Trade Centre,
Road No 7, MIDC,
Andheri (East)
Mumbai – 400 093
research@icicidirect.com**

Disclaimer

ANALYST CERTIFICATION

We /I, Bharat Chhoda, MBA and Cheragh Sidhwa, MBA Research Analysts, authors and the names subscribed to this report, hereby certify that all of the views expressed in this research report accurately reflect our views about the subject issuer(s) or securities. We also certify that no part of our compensation was, is, or will be directly or indirectly related to the specific recommendation(s) or view(s) in this report.

Terms & conditions and other disclosures:

ICICI Securities Limited (ICICI Securities) is a full-service, integrated investment banking and is, inter alia, engaged in the business of stock brokering and distribution of financial products. ICICI Securities Limited is a Sebi registered Research Analyst with Sebi Registration Number – INH000000990. ICICI Securities is a wholly-owned subsidiary of ICICI Bank which is India's largest private sector bank and has its various subsidiaries engaged in businesses of housing finance, asset management, life insurance, general insurance, venture capital fund management, etc. ("associates"), the details in respect of which are available on www.icicibank.com.

ICICI Securities is one of the leading merchant bankers/ underwriters of securities and participate in virtually all securities trading markets in India. We and our associates might have investment banking and other business relationship with a significant percentage of companies covered by our Investment Research Department. ICICI Securities generally prohibits its analysts, persons reporting to analysts and their relatives from maintaining a financial interest in the securities or derivatives of any companies that the analysts cover.

The information and opinions in this report have been prepared by ICICI Securities and are subject to change without any notice. The report and information contained herein is strictly confidential and meant solely for the selected recipient and may not be altered in any way, transmitted to, copied or distributed, in part or in whole, to any other person or to the media or reproduced in any form, without prior written consent of ICICI Securities. While we would endeavour to update the information herein on a reasonable basis, ICICI Securities under no obligation to update or keep the information current. Also, there may be regulatory, compliance or other reasons that may prevent ICICI Securities from doing so. Non-rated securities indicate that rating on a particular security has been suspended temporarily and such suspension is in compliance with applicable regulations and/or ICICI Securities policies, in circumstances where ICICI Securities might be acting in an advisory capacity to this company, or in certain other circumstances.

This report is based on information obtained from public sources and sources believed to be reliable, but no independent verification has been made nor is its accuracy or completeness guaranteed. This report and information herein is solely for informational purpose and shall not be used or considered as an offer document or solicitation of offer to buy or sell or subscribe for securities or other financial instruments. Though disseminated to all the customers simultaneously, not all customers may receive this report at the same time. ICICI Securities will not treat recipients as customers by virtue of their receiving this report. Nothing in this report constitutes investment, legal, accounting and tax advice or a representation that any investment or strategy is suitable or appropriate to your specific circumstances. The securities discussed and opinions expressed in this report may not be suitable for all investors, who must make their own investment decisions, based on their own investment objectives, financial positions and needs of specific recipient. This may not be taken in substitution for the exercise of independent judgment by any recipient. The recipient should independently evaluate the investment risks. The value and return on investment may vary because of changes in interest rates, foreign exchange rates or any other reason. ICICI Securities accepts no liabilities whatsoever for any loss or damage of any kind arising out of the use of this report. Past performance is not necessarily a guide to future performance. Investors are advised to see Risk Disclosure Document to understand the risks associated before investing in the securities markets. Actual results may differ materially from those set forth in projections. Forward-looking statements are not predictions and may be subject to change without notice.

ICICI Securities or its associates might have managed or co-managed public offering of securities for the subject company or might have been mandated by the subject company for any other assignment in the past twelve months.

ICICI Securities or its associates might have received any compensation from the companies mentioned in the report during the period preceding twelve months from the date of this report for services in respect of managing or co-managing public offerings, corporate finance, investment banking or merchant banking, brokerage services or other advisory service in a merger or specific transaction.

ICICI Securities or its associates might have received any compensation for products or services other than investment banking or merchant banking or brokerage services from the companies mentioned in the report in the past twelve months.

ICICI Securities encourages independence in research report preparation and strives to minimize conflict in preparation of research report. ICICI Securities or its associates or its analysts did not receive any compensation or other benefits from the companies mentioned in the report or third party in connection with preparation of the research report. Accordingly, neither ICICI Securities nor Research Analysts and their relatives have any material conflict of interest at the time of publication of this report.

It is confirmed that, Bharat Chhoda, MBA and Cheragh Sidhwa, MBA, Research Analysts of this report have not received any compensation from the companies mentioned in the report in the preceding twelve months.

Compensation of our Research Analysts is not based on any specific merchant banking, investment banking or brokerage service transactions.

ICICI Securities or its subsidiaries collectively or Research Analysts or their relatives do not own 1% or more of the equity securities of the Company mentioned in the report as of the last day of the month preceding the publication of the research report.

Since associates of ICICI Securities are engaged in various financial service businesses, they might have financial interests or beneficial ownership in various companies including the subject company/companies mentioned in this report. It is confirmed that, Bharat Chhoda, MBA and Cheragh Sidhwa, MBA, Research Analysts do not serve as an officer, director or employee of the companies mentioned in the report.

ICICI Securities may have issued other reports that are inconsistent with and reach different conclusion from the information presented in this report.

Neither the Research Analysts nor ICICI Securities have been engaged in market making activity for the companies mentioned in the report.

We submit that no material disciplinary action has been taken on ICICI Securities by any Regulatory Authority impacting Equity Research Analysis activities.

This report is not directed or intended for distribution to, or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction, where such distribution, publication, availability or use would be contrary to law, regulation or which would subject ICICI Securities and affiliates to any registration or licensing requirement within such jurisdiction. The securities described herein may or may not be eligible for sale in all jurisdictions or to certain category of investors. Persons in whose possession this document may come are required to inform themselves of and to observe such restriction.