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Q4FY20 result review
and earnings revision

Building Material

Target price: Rs250

Earnings revision

(%)	FY20E	FY21E
Sales	↓ 6.3	↓ 20.0
EBITDA	↓ 4.8	↓ 30.3
PAT	↓ 1.9	↓ 48.5

Target price revision

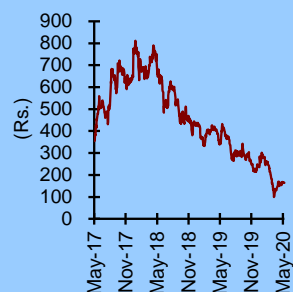
Rs250 from Rs380

Shareholding pattern

	Sep '19	Dec '19	Mar '20
Promoters	41.7	42.2	42.5
Institutional investors	1.9	1.5	1.5
MFs and others	0.0	0.0	0.0
FIs/Banks	0.1	0.2	0.2
FII	1.8	1.3	1.3
Others	56.4	56.3	56.0

Source: CMIE

Price chart



Visaka Industries

BUY

Maintained

Rs162

Allied segments outshine ACS segment

Visaka Industries (VSKI) has reported better-than-expected EBITDA margin in Q4FY20 at 9% (I-Sec: 7.3%), down 240bps YoY due to higher gross margin of 430bps YoY. Vnext and Synthetic yarn segments reported improvement in EBITDA margin by 180bps & 320bps YoY, respectively. However, ACS segment has reported a sharp decline in EBITDA margin by 560bps led by ACS revenue declining 35% YoY due to the lockdown. Vnext segment has reported only 2.5% YoY decline in revenue despite lockdown with incremental volume from new Jhajjar plant. We expect ACS being rural centric & need-based product to have lesser impact on revenue than other two segments in the near term. With stock price correcting significantly amid Covid-19 crisis, we believe valuations are compelling at 5.3x FY20. Maintain BUY.

- Valuation and outlook:** Factoring in Q4FY20 performance, we cut FY21 revenue/PAT estimates by 20%/48.5%, respectively, and introduce FY22 numbers. Improving the mix of non-cyclical businesses, lower debt and minimal capex to help improve RoCEs from 9.8% in FY20 to 11.2% in FY22E. Maintain **BUY** with a revised SoTP-based target price of Rs250 (earlier: Rs380), implying a P/E multiple of 8x (earlier: 9.7x FY21E) FY22E earnings. We remain conservative amid volatile demand environment with higher uncertainty going forward.
- Sharp decline in ACS volume impacts the overall revenue by 24% YoY:** VSKI reported in-line revenue for the quarter at Rs2.28bn, down 24% YoY due to sharp decline in ACS revenue by 35% YoY due to the lockdown. While Vnext/Synthetic yarn declined by 2.5%/10.9% YoY, respectively, Vnext segment reported strong volume growth in FY20 at 12.7% YoY in Q4FY20. Going forward, with higher utilisation of Jhajjar plant (Vnext), higher exports, incremental ATUM revenue, price hikes in both ACS & Vnext segment will drive revenue CAGR of 2.7% over FY20-22E.
- EBITDA margin at 9% (I-Sec: 7.3%) led by strong performance of allied segments:** EBITDA margin came in at 9% (I-Sec: 7.3%), down 240bps YoY. The beat was driven by strong EBITDA margin improvement in Vnext/Synthetic yarn segment by 180bps/320bps YoY, respectively. However, the core ACS segment reported 560bps contraction in margin due to operating deleverage. With lower pulp cost, price hikes in ACS & Vnext segments and lower ATUM-related losses will aid EBITDA margin improvement in FY20-22E. We expect overall EBITDA margin to improve from 10.4% in FY20 to 10.9% in FY22E led by improvement in Vnext EBITDA margin.
- Reported PBT down 64.7% YoY at Rs76mn (I-Sec: Rs39mn):** VSKI's PBT was down 64.7% YoY largely due to the muted performance of ACS segment. Lower tax rate due to one-time refund of Rs10mn led to lower PAT decline of 51% YoY at Rs69mn. We expect the company to report an overall PBT CAGR of 8% over FY20-22E.

Market Cap	Rs2.6bn/US\$34mn	Year to Mar	FY19	FY20	FY21E	FY22E
Reuters/Bloomberg	VSKI.BO / VSKI IN	Revenue (Rs mn)	11,364	10,504	9,587	11,083
Shares Outstanding (mn)	15.9	Net Profit (Rs mn)	674	493	323	498
52-week Range (Rs)	432/99	Dil. EPS (Rs)	42.3	31.0	20.3	31.3
Free Float (%)	57.5	% Chg YoY	1.3	(26.9)	(34.4)	54.1
FII (%)	1.3	P/E (x)	3.8	5.3	8.0	5.2
Daily Volume (US\$'000)	202	CEPS (Rs)	64.6	56.7	46.4	58.6
Absolute Return 3m (%)	(21.0)	EV/EBITDA (x)	3.3	4.4	4.9	3.7
Absolute Return 12m (%)	(54.9)	Dividend Yield (%)	4.3	9.2	5.5	6.1
Sensex Return 3m (%)	(15.7)	RoCE (%)	16.6	9.8	8.0	11.2
Sensex Return 12m (%)	(18.1)	RoE (%)	14.3	9.8	6.3	9.3

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Table 1: Q4FY20 result review*(Rs mn, year ending March 31)*

Particulars	Q4FY20A	Q4FY20E	Q4FY19	YoY (%)	Q3FY20	QoQ (%)	FY20	FY19	YoY (%)
Net Sales	2,277	2,250	2,998	(24.0)	2,414	(5.7)	10,504	11,364	(7.6)
Total Op. Income	2,277	2,250	2,998	(24.0)	2,414	(5.7)	10,504	11,364	(7.6)
Expenditure	2,072	2,085	2,655	(22.0)	2,201	(5.8)	9,415	9,928	(5.2)
Raw Materials	1,064	1,110	1,529	(30.4)	1,186	(10.2)	5,132	5,523	(7.1)
Staff Cost	278	285	287	(2.9)	288	(3.3)	1,160	1,082	7.3
Other Expenditure	730	690	839	(13.1)	727	0.3	3,123	3,323	(6.0)
Operating Profit	205	165	343	(40.2)	214	(4.2)	1,089	1,436	(24.2)
OPM (%)	9.0	7.3	11.4	-240bps	8.9	10bps	10.4	12.6	-220bps
Other Income	17	15	18	(7.0)	14	16.7	66	120	(45.0)
Interest	47	40	53	(12.3)	43	9.5	174	200	(12.8)
Depreciation	99	101	93	6.3	100	(0.9)	410	354	15.9
PBT	76	39	214	(64.7)	85	(11.4)	571	1,003	(43.1)
Tax	7	11	73	(90.5)	24	(70.7)	78	329	(76.3)
Tax rate (%)	9.2%	26.9%	34.3%		27.8%		13.7%	32.8%	
PAT	69	29	140	(51.2)	61	11.5	493	674	(26.9)
Reported PAT	69	29	140	(51.2)	61	11.5	493	674	(26.9)
NPM (%)	3.0	1.3	4.7	-170bps	2.5	50bps	4.7	5.9	-120bps

Source: Company data, I-Sec research

Table 2: Change in estimates*(Rs mn)*

Estimates	Old		New		% change		Introduce FY22E
	FY20E	FY21E	FY20	FY21E	FY20	FY21E	
Revenue	11,211	11,988	10,504	9,587	-6.3%	-20.0%	11,083
EBITDA	1,144	1,366	1,089	952	-4.8%	-30.3%	1,211
EBIDTA margins	10.2%	11.4%	10.4%	9.9%	20bps	-70bps	10.9%
PAT	503	627	493	323	-1.9%	-48.5%	498
EPS	32	39	31	20	-1.9%	-48.5%	31

Source: Company data, I-Sec research

Financial summary

Table 3: Profit & loss statement

(Rs mn, year ending March 31)

	FY19	FY20	FY21E	FY22E
Net Revenues	11,364	10,504	9,587	11,083
Operating Expenses	9,928	9,415	8,635	9,873
EBITDA	1,436	1,089	952	1,211
% margins	12.6%	10.4%	9.9%	10.9%
Depreciation & Amortisation	354	410	416	434
Gross Interest	200	174	179	200
Other Income	120	66	75	90
Recurring PBT	1,004	571	432	666
Less: Taxes	329	78	109	168
Less: Minority Interest	-	-	-	-
Add: Share of profit of associates	-	-	-	-
Net Income (Reported)	674	493	323	498
Extraordinaries (Net)	-	-	-	-
Recurring Net Income	674	493	323	498

Source: Company data, I-Sec research

Table 4: Balance sheet

(Rs mn, year ending March 31)

	FY19	FY20	FY21E	FY22E
Assets				
Total Current Assets	5,063	5,287	5,347	5,844
of which cash & cash eqv.	202	193	215	284
Total Current Liabilities & Provisions	1,687	1,824	1,840	2,045
Net Current Assets	3,376	3,463	3,508	3,799
Investments	-	-	100	100
Net Fixed Assets	4,186	4,060	3,994	3,910
Capital Work-in-Progress	12	88	-	-
Goodwill	-	-	-	-
Total Assets	7,574	7,611	7,602	7,809
Liabilities				
Borrowings	2,379	2,419	2,259	2,159
Deferred Tax Liability	200	142	142	142
Minority Interest	-	-	-	-
Equity Share Capital	159	159	159	159
Face Value per share (Rs)	10	10	10	10
Reserves & Surplus*	4,836	4,891	5,042	5,349
Less: Misc. Exp. n.w.o.	-	-	-	-
Net Worth	4,995	5,050	5,202	5,509
Total Liabilities	7,574	7,612	7,602	7,809

*Excluding revaluation reserves

Source: Company data, I-Sec research

Table 5: Quarterly trend

(Rs mn, year ending March 31)

	Jun-19	Sep-19	Dec-19	Mar-20
Net revenues	3,528	2,284	2,414	2,277
% growth (YoY)	2.1	(9.0)	0.6	(24.0)
EBITDA	487	183	214	205
Margin (%)	13.8	8.0	8.9	9.0
Other income	15	20	14	17
Extraordinaries (Net)	-	-	-	-
Net profit	231	132	61	69

Source: Company data, I-Sec research

Table 6: Cashflow statement

(Rs mn, year ending March 31)

	FY19	FY20	FY21E	FY22E
Operating Cashflow	1,026	751	739	933
Working Capital Changes	(359)	(97)	(22)	(222)
Capital Commitments	(646)	(360)	(262)	(350)
Free Cashflow	21	295	455	360
Cashflow from Investing Activities	-	-	(100)	-
Issue of Share Capital	-	-	-	-
Inc (Dec) in Borrowings	60	41	(161)	(100)
Dividend paid	(134)	(287)	(172)	(191)
Change in Deferred Tax Liability	26	(58)	-	-
Chg. in Cash & Bank balance	(27)	(9)	23	69

Source: Company data, I-Sec research

Table 7: Key ratios

(Year ending March 31)

	FY19	FY20	FY21E	FY22E
Per Share Data (Rs)				
EPS	42.3	31.0	20.3	31.3
Cash EPS	64.6	56.7	46.4	58.6
Dividend per share (DPS)	7.0	15.0	9.0	10.0
Book Value per share (BV)	313.8	317.2	326.7	346.0
Growth (%)				
Net Sales	13.0	-6.8	-8.7	15.6
EBITDA	-4.4	-24.2	-12.6	27.2
PAT	1.3	-26.9	-34.4	54.1
Cash EPS	1.4	-12.2	-18.1	26.2
Valuation Ratios (x)				
P/E	3.8	5.3	8.0	5.2
P/CEPS	2.5	2.9	3.5	2.8
P/BV	0.5	0.5	0.5	0.5
EV / EBITDA	3.3	4.4	4.9	3.7
EV / Sales	0.4	0.5	0.5	0.4
Operating Ratios				
Raw Material / Sales (%)	49.0	48.9	51.8	50.8
Employee cost / Sales (%)	9.6	11.0	9.5	9.5
SG&A / Sales (%)	9.4	10.4	12.1	11.9
Other Income / PBT (%)	12.0	11.6	17.4	13.5
Effective Tax Rate (%)	32.8	13.7	25.2	25.2
Working Capital (days)	112.9	124.2	112.0	105.0
Inventory Turnover (days)	88.3	105.6	90.0	85.0
Receivables (days)	50.3	48.7	54.0	52.0
Payables (days)	25.7	30.0	32.0	32.0
Net D/E Ratio (x)	0.4	0.4	0.4	0.3
Profitability Ratios (%)				
Net Income Margins	6.0	4.7	3.4	4.5
RoACE	16.6	9.8	8.0	11.2
RoAE	14.3	9.8	6.3	9.3
Dividend Payout	19.8	58.1	53.2	38.4
Dividend Yield	4.3	9.2	5.5	6.1
EBITDA Margins	12.7	10.4	9.9	10.9

Source: Company data, I-Sec research

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