

16 November 2021

Visaka Industries

Greater focus on increasing share of green products; retaining a Buy

Rating: **Buy**

Target Price: Rs.850

Share Price: Rs.600

Healthy V-Next products and a stabilising yarn division helped a seasonally weak Q2. Higher costs are expected to be temporary, and price hikes of AC roofing sheets would help. The expansion (AC roofing sheets, boards) is ending, and phase-II capex will be for the recently launched green products. We retain a Buy rating, at a TP of Rs.850 (earlier Rs.1,079)

Expansion to boost growth. AC roofing sheets operated at 72% capacity; V Next at a healthy 94%, leading to the BP division revenue growing 19% y/y to Rs2.4bn. Higher costs, though (cement/pulp/logistics, etc.), hurt margins, which fell 602bps to 13.4%. The 100,000-ton expansion of AC roofing sheets by Jan'22 (and 50,000 tons of boards by Dec'21) would address higher demand generated by a good monsoon and improving rural demand.

Synthetic yarn back on track. With the economy opening up and normal demand, the synthetic yarn performance was back on track, revenue growing 110% y/y to Rs511m on a low base, at a 14.8% PBIT margin. ATUM revenue grew 25-28% y/y while the focus continues on increasing exports to Africa/ME. At Rs50m capex, ATUM could double revenue (existing capacity can generate Rs750m revenue).

Greater focus on sustainability. Focusing on becoming green with sustainable and environment-friendly products, the company recently ventured into new businesses: ATUM Life, ATUM Charge, VNext Solutions. It plans to open 10 ATUM Life stores in major metros, the first to be opened by Jan'22, in Hyderabad. Of 50 ATUM Charge EV charging stations proposed to be set up in FY22, 10 were set up in Oct'21 totalling 11 stations. The company is seeking to partner with other businesses with vast networks.

Valuations. We introduce FY24e and retain our Buy rating, with a TP of Rs.850, assigning a 9x multiple to FY24e EPS. **Risks:** Rise in input costs, demand slowdown.

Key data	VSKI IN / VSKI.BO
52-week high / low	Rs874 / 338
Sensex / Nifty	60322 / 17999
3-m average volume	\$0.3m
Market cap	Rs10bn / \$133.3m
Shares outstanding	16m

Shareholding pattern (%)	Sept'21	Jun'21	Mar'21
Promoters	45.9	45.9	45.9
- of which, Pledged	9.4	9.4	9.5
Free float	54.2	54.2	54.2
- Foreign institutions	5.6	5.2	2.8
- Domestic institutions	0.0	0.0	0.0
- Public	48.5	49.0	51.3

Estimates revision (%)	FY22e	FY23e
Sales	1.4	(1.3)
EBITDA	3.1	(1.1)
EPS	2.8	(1.7)

Relative price performance



Source: Bloomberg

Key financials (YE Mar)	FY20	FY21	FY22e	FY23e	FY24e
Sales (Rs m)	10,504	11,462	13,053	14,033	15,088
Net profit (Rs m)	493	1,106	1,272	1,413	1,635
EPS (Rs)	31.0	67.1	73.5	81.6	94.4
PE (x)	4.4	7.1	8.2	7.4	6.4
EV / EBITDA (x)	4.2	4.0	5.2	4.3	2.7
PBV (x)	0.4	1.2	1.4	1.2	0.9
RoE (%)	9.8	19.5	18.6	17.7	15.8
RoCE (%)	7.6	14.8	15.6	15.2	13.6
Dividend yield (%)	11.1	3.2	2.5	2.5	2.5
Net debt / equity (x)	0.5	-0.0	0.1	-0.0	-0.3

Source: Company, Anand Rathi Research

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Quick Glance – Financials and Valuations

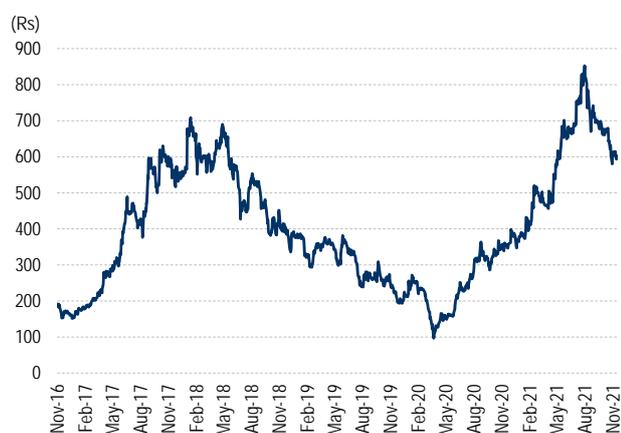
Fig 1 – Income statement (Rs m)

Year-end: Mar	FY20	FY21	FY22e	FY23e	FY24e
Net revenues	10,504	11,462	13,053	14,033	15,088
<i>Growth (%)</i>	-7.6	9.1	13.9	7.5	7.5
Direct costs	5,132	5,240	6,371	6,871	7,409
SG&A	4,283	4,288	4,490	4,746	5,105
EBITDA	1,089	1,935	2,192	2,416	2,575
<i>EBITDA margins (%)</i>	10.4	16.9	16.8	17.2	17.1
- Depreciation	410	400	467	547	578
Other income	66	86	78	98	226
Interest expenses	174	128	102	79	38
PBT	571	1,493	1,700	1,889	2,185
<i>Effective tax rates (%)</i>	13.7	25.9	25.2	25.2	25.2
+ Associates / (Minorities)	-	-	-	-	-
Net income	493	1,106	1,272	1,413	1,635
Adjusted income	493	1,106	1,272	1,413	1,635
WANS	16	16	17	17	17
FDEPS (Rs / sh)	31.0	67.1	73.5	81.6	94.4
<i>Adj. FDEPS growth (%)</i>	-26.9	116.8	9.4	11.1	15.7

Fig 3 – Cash-flow statement (Rs m)

Year-end: Mar	FY20	FY21	FY22e	FY23e	FY24e
PBT (Adj. OI and Interest)	679	1,535	1,725	1,870	1,997
+ Non-cash items	410	400	467	547	578
Oper. prof. before WC	1,089	1,935	2,192	2,416	2,575
- Incr. / (decr.) in WC	221	-1,107	881	167	257
Others incl. taxes	137	401	428	475	550
Operating cash-flow	731	2,641	883	1,773	1,767
- Capex (tang. + intang.)	359	265	1,808	450	450
Free cash-flow	372	2,376	-925	1,323	1,317
Acquisitions					
- Div.(incl. buyback & taxes)	287	248	260	260	260
+ Equity raised	-	193	145	-	2,169
+ Debt raised	165	-1,474	250	-700	-400
- Fin investments	-	0	-	-	-
- Misc. (CFI + CFF)	259	-125	24	-19	-188
Net cash-flow	-9	973	-814	383	3,015

Source: Company, Anand Rathi Research

Fig 5 – Price movement


Source: Bloomberg

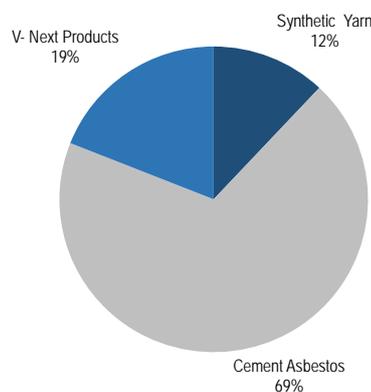
Fig 2 – Balance sheet (Rs m)

Year-end: Mar	FY20	FY21	FY22e	FY23e	FY24e
Share capital	159	165	173	173	173
Net worth	5,050	6,269	7,426	8,580	12,124
Debt	2,629	1,155	1,405	705	305
Minority interest					
DTL / (Assets)	142	127	127	127	127
Capital employed	7,821	7,551	8,958	9,412	12,556
Net tangible assets	4,060	3,962	5,303	5,206	5,078
Net intangible assets	-	-	-	-	-
Goodwill	-	-	-	-	-
CWIP (tang. & intang.)	88	51	50	50	50
Investments (strategic)	-	0.2	0.2	0.2	0.2
Investments (financial)	-	-	-	-	-
Current assets(excl.cash)	5,095	4,309	5,364	5,767	6,201
Cash	193	1,165	351	734	3,749
Current liabilities	1,615	1,936	2,110	2,345	2,522
Working capital	3,480	2,373	3,254	3,422	3,679
Capital deployed	7,821	7,551	8,958	9,412	12,556
Contingent liabilities	60	63	-	-	-

Fig 4 – Ratio analysis

Year-end: Mar	FY20	FY21	FY22e	FY23e	FY24e
P/E (x)	4.4	7.1	8.2	7.4	6.4
EV / EBITDA (x)	4.2	4.0	5.2	4.3	2.7
EV / Sales (x)	0.4	0.7	0.9	0.7	0.5
P/B (x)	0.4	1.2	1.4	1.2	0.9
RoE (%)	9.8	19.5	18.6	17.7	15.8
RoCE (%) - after tax	7.6	14.8	15.6	15.2	13.6
Fixed asset T/O (x)	2.0	2.0	2.0	1.8	1.8
DPS (Rs / sh)	15.0	15.0	15.0	15.0	15.0
Dividend yield (%)	11.1	3.2	2.5	2.5	2.5
Dividend payout (%) - incl. DDT	58.3	22.4	20.4	18.4	15.9
Net debt / equity (x)	0.5	-0.0	0.1	-0.0	-0.3
Receivables (days)	49	33	40	40	40
Inventory (days)	106	79	85	85	85
Payables (days)	54	61	58	60	60
CFO : PAT %	148.3	238.7	69.4	125.5	108.1

Source: Company, Anand Rathi Research

Fig 6 – FY21 revenue break-up, by segment


Source: Company

Company update

Building Products

The BP division manufactures asbestos-cement (AC) products and fibre-cement flat products (V-boards and -panels). It generally brought ~82% to the company’s revenue. The strong distribution network comprises 7,000+ dealers in rural and semi-urban areas.

In Q2 FY22, the BP division’s revenue grew 19.4% y/y to Rs2.4bn due to volumes rising 14.6% y/y, and realisations added a further 4.2% y/y. Higher input costs pulled down the EBIT margin 602bps y/y to 13.4% (from 19.4% a year ago and the quarter prior).

Asbestos Cement sheets

With 802,000tpa installed capacity, Visaka is the second-largest cement-asbestos-product manufacturer in India, enjoying a near 18% market share.

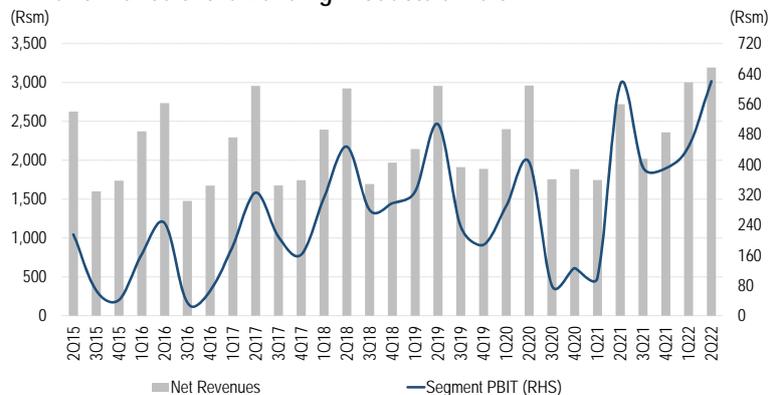
Management expects AC-sheet demand to be aided by the good monsoon and fewer Covid-19 cases in rural areas. Further, it expects good revenue and a high RoCE in ATUM, an integrated solar-roofing system (a hybrid product), boosted by a high asset-turnover ratio. In Q4 FY21, ATUM was patented in South Africa. The BoD approved the expansion of the AC division at the Raebareli unit by setting up an additional line of 100,000tpa, expected to commence by Jan’22.

Boards and Panels

With a wide variety of applications and a perfect substitute for plywood and gypsum boards, the government’s focus on affordable housing, a lower tax rate under the GST and the consistent rise in capacity utilisation, management expects significant growth in its V-Next division.

To cater to south India more efficiently as well as to retain its position as the largest company in fibre-cement boards (by capacity), the company is expanding its V-board capacity. It is setting up a 50,000-tonne unit at Coimbatore, Tamil Nadu, at an estimated Rs1bn. This is expected to start in Dec’21. In Q3 FY21, the Board proposed to expand the Panels division by setting up a 10,000-tonne unit at Udumalper in Tamilnadu at an estimated Rs137.5m, expected to be complete in 13 months.

Fig 7 – Performance of the Building Products division



Source: Company, Anand Rathi Research

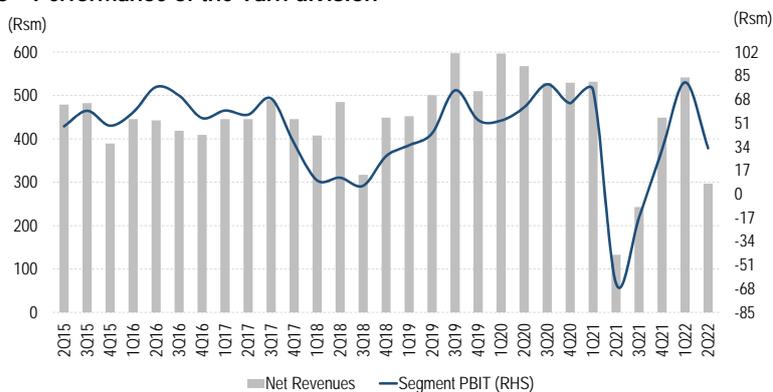
Synthetic Blended Yarn

Visaka manufactures niche, value-added cotton-touch, air-jet spun-polyester yarns. Its products command some of the highest margins in synthetic yarns.

It has 2,752 spinning positions at its yarn division. Its textile products are exported to Germany, Egypt, Italy, Taiwan, the USA, Syria, South Africa, Peru, Turkey and the UK.

In Q2 FY22 the synthetic-yarn category added ~18% to revenue (11% a year ago). Its revenue grew 110% y/y to Rs.511m on a 63.5% y/y rise in volumes, and 28.7% in realisations. It reported Rs75.8m EBIT (vs a Rs17m EBIT loss a year ago).

Fig 8 – Performance of the Yarn division



Source: Company, Anand Rathi Research

Fig 9 – Quarterly trend

(Rs m)	Q4 FY19	Q1 FY20	Q2 FY20	Q3 FY20	Q4 FY20	Q1 FY21	Q2 FY21	Q3 FY21	Q4 FY21	Q1 FY22	Q2 FY22	% Y/Y	% Q/Q
Sales	2,998	3,528	2,284	2,414	2,277	2,852	2,262	2,807	3,542	3,491	2,923	29.2	(16.3)
EBITDA	343	487	183	214	205	583	406	418	528	649	414	2.0	(36.2)
EBITDA margins (%)	11.4	13.8	8.0	8.9	9.0	20.4	17.9	14.9	14.9	18.6	14.2	-378bps	-444bps
Interest	53	44	41	43	47	39	30	27	31	33	24	(20.0)	(27.2)
Depreciation	93	108	101	100	99	98	100	101	100	91	90	(10.3)	(0.8)
Other income	18	15	20	14	17	16	24	22	24	21	20	(16.0)	(3.0)
PBT	214	350	60	85	76	461	300	311	421	546	320	6.9	(41.4)
Tax	73	119	(72)	24	7	117	77	81	112	141	82	7.5	(41.5)
PAT	140	231	132	61	69	344	223	230	309	406	238	6.7	(41.4)

Source: Company, Anand Rathi Research

Fig 10 – Segment-wise details

(Rs m)	Q4 FY19	Q1 FY20	Q2 FY20	Q3 FY20	Q4 FY20	Q1 FY21	Q2 FY21	Q3 FY21	Q4 FY21	Q1 FY22	Q2 FY22	% Y/Y	% Q/Q
Net revenues													
Building products	2,401	2,960	1,756	1,885	1,745	2,719	2,019	2,358	3,000	3,194	2,411	19.4	(24.5)
Synthetic blended yarn	597	568	529	530	532	133	243	449	541	297	511	110.6	72.3
Segment-wise PBIT													
Building products	291	407	79	126	100	613	392	390	447	620	323	(17.6)	(47.9)
Synthetic blended yarn	53	62	79	65	75	(64)	(17)	32	80	33	76	L2P	129.9
PBIT margins (%)													
Building products	12.1	13.7	4.5	6.7	5.7	22.5	19.4	16.6	14.9	19.4	13.4	-602bps	-602bps
Synthetic blended yarn	8.8	11.0	14.9	12.3	14.0	(48.4)	(6.9)	7.1	14.8	11.1	14.8	L2P	372bps

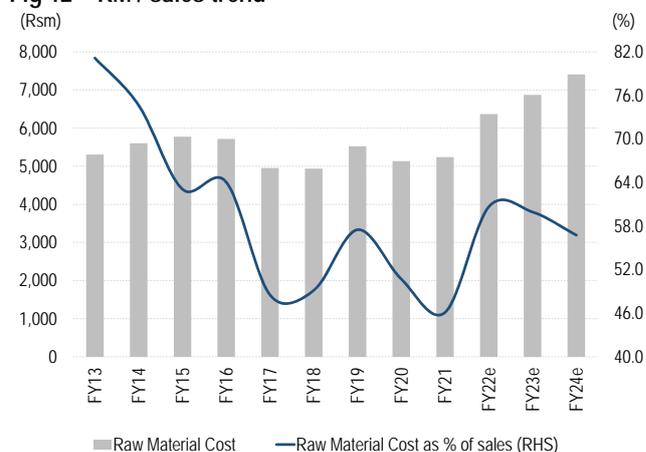
Source: Company, Anand Rathi Research

Fig 11 – EBITDA margin trend



Source: Company, Anand Rathi Research

Fig 12 – RM / sales trend



Source: Company, Anand Rathi Research

Going Green

Sharper focus on sustainability and green products

Visaka's Wonder Yarn, manufactured from sustainable yarn made from PET bottles, has used 116 million PET bottles, which would otherwise have piled up in dump yards and landfills.

Concentrating on deforestation, it developed the VNext line into eco-friendly products, which have helped save over 500,000 trees from being cut down. The world's first integrated solar roof, ATUM was spectacularly introduced by the company in 2018.

Visaka's goal is to become a predominantly green company with environment-friendly and sustainable products and services.

ATUM Life (a chain of physical stores selling environment-friendly products)

ATUM Life is Visaka's chain of retail stores, which will offer fully sustainable, eco-friendly, green products. A one-stop-shop for sustainable products, ATUM Life will deal with VNext sustainable building materials, ATUM solar roofs, eco-friendly apparel made from sustainable yarn, organic detergents, sustainable consumables, electric vehicles and reusable kitchenware and cutlery. It plans to open 100 ATUM Life stores in major metros of India by FY23. ATUM Life will store, sell and promote all such products, making sustainable living accessible to everyone.

ATUM Charge (EV charging stations using ATUM Solar Roofs)

ATUM Charge is a self-sustaining solar powered electric-vehicle-charging station, to be set up across India and elsewhere in the world, to support the movement promoting the use of electric vehicles. ATUM Solar Roof, with its clean and green power, will allow the entire electric-vehicle-charging proposition to move to 100% solar. The company is also seeking to partner with other electric-charging-station providers, who are either in the market or are expected in the near future. It now has 11 operational charging stations.

VNext Solution

VNext Solutions aims at offering turnkey solutions for a wide range of building requirements, ranging from pre-fabricated buildings to furniture. All the solutions offered aim at using only sustainable products, making this a one-of-its-kind offering in the entire building-solutions segment

Key Takeaways, Concall highlights

- The V-Next division operated at 94% capacity and reported its highest quarterly revenue of Rs700m, up 37% y/y, bolstered by the outperforming domestic market. The margins were 10-15%. Visaka commands a 32% market share in Boards.
- Capacity utilisation at the AC roofing-sheet division was 72%. The operating performance was hurt on high freight and cement costs.
- Because of high input costs, prices were hiked by Rs5-7 a sq.ft.
- With the market recovering and a stable textile market, the Yarn division's performance improved. The new product, made from recycled PET bottles brought 15-20% to the Yarn division revenue and is seeing good response from Europe and America.
- ATUM revenue grew 25-28% y/y to Rs100m. At full capacity, ATUM can generate revenue of up to Rs750m, which can be doubled with additional capex of only Rs50m. The order book is healthy and repeat orders have been seen from Hindustan Aeronautics/ hospitals and data centres.
- The ATUM product is the best fit for the PM's vision of India to be a net-zero CO² emission country by 2070 and the Indian Railways to become net zero by 2030.
- The additional lines, of a 100,000-tonne AC unit at Raebareli and the 50,000-tonne Boards unit expansion at Udumalper, Tamil Nadu, are expected to commence by Jan'22 and Dec'21 respectively. The capex of Rs1,500m (Rs800m for boards/panels and Rs700m for the AC unit) would be funded from internal accruals.
- The company set up 10 ATUM Charge EV charging stations in Oct'21 and now has 11 ATUM charge stations in 11 states. The first ATUM Life store will be set up by Jan'22, in Hyderabad.
- At the AGM, management proposed to set up 50 ATUM Charge EV charging stations in FY22. It is seeking to partner with other electric-charging-station providers who are either in the market or are expected in the near future or with other businesses with vast networks.

Valuation

We retain our Buy rating, with a lower target price of Rs.850, assigning a 9x multiple to the FY24e EPS. At the ruling price, the stock trades at a PE of 6.4x FY24e.

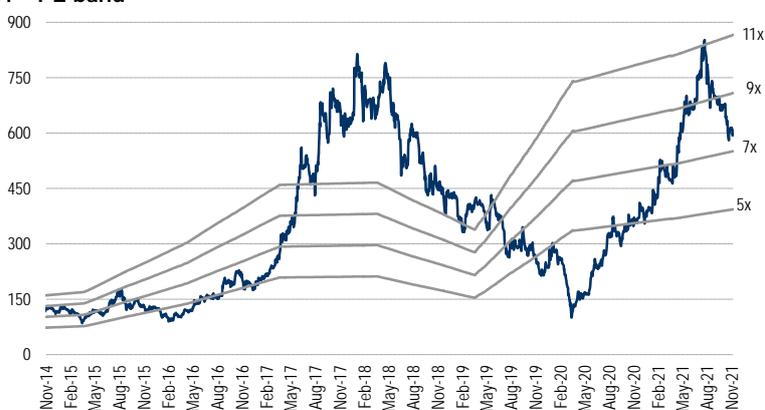
Change in estimates

Fig 13 – Change in estimates

(Rs m)	Old		New		Change (%)	
	FY22e	FY23e	FY22e	FY23e	FY22	FY23
Sales	12,878	14,215	13,053	14,033	1.4	(1.3)
EBITDA	2,126	2,443	2,192	2,416	3.1	(1.1)
PAT	1,238	1,438	1,272	1,413	2.8	(1.7)

Source: Anand Rathi Research

Fig 14 – PE band



Source: Bloomberg, Anand Rathi Research

Risks

- Rise in input costs
- Demand slowdown.

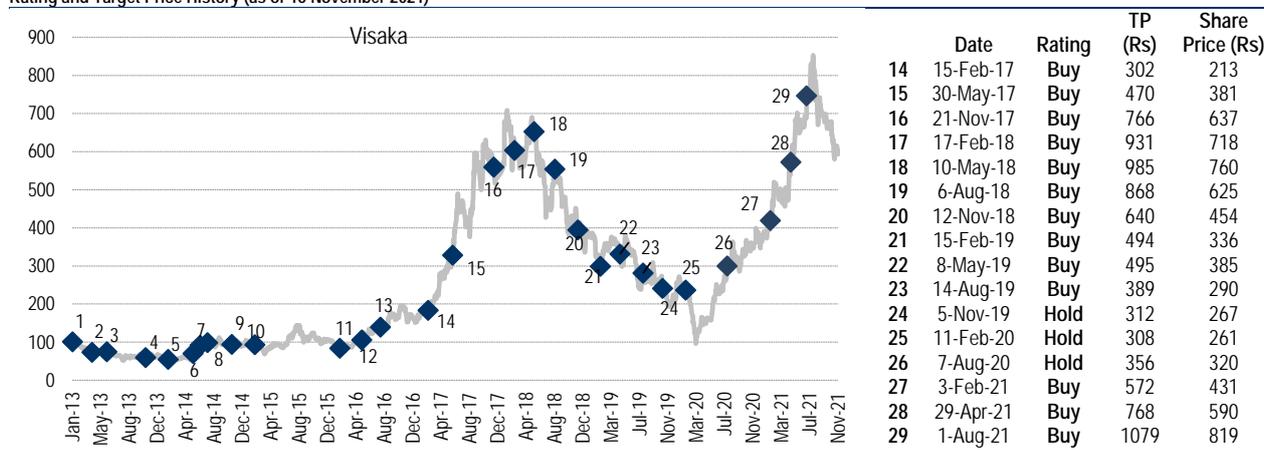
Appendix

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