

Improved operational performance continues...

About the stock: Siyaram Silk Mills (SSML), a fabric and apparel manufacturer, has created a strong brand portfolio largely catering to the Tier II & III towns.

- Siyaram's brand portfolio consists of reputed brands like Siyaram (flagship brand), Oxemberg, MSD and J Hampstead
- Over the last decade, the company has gradually expanded its fabric and garment capacities and simultaneously managed to reduce the debt/equity from 1.0x in FY12 to 0.3x in FY22

Q4FY22 Results: SSML reported a strong revenue recovery with a significant improvement in the margin profile, which is its highest EBITDA margin performance.

- SSML reported revenue growth of 28% YoY to ₹ 628 crore (two year CAGR 16%; QoQ growth: 12%)
- Gross margin improved 120 bps YoY to 39.8% (Q3FY22: 45.4%). Positive operating leverage and cost control led other expense to sales ratio to decline by 198 bps YoY to 13.8%. This enabled the company to report all-time high EBITDA margin of 18.7% (up 293 bps YoY)
- Robust operational performance resulted in SSML reporting PAT of ₹ 77 crore vs. PAT of ₹ 58 crore in Q4FY21 (Q3FY22: ₹ 69 crore)

What should investors do? Over the last three years, the stock price has appreciated at a CAGR of 20%.

- We maintain **BUY** recommendation on the stock

Target Price and Valuation: We value SSML at ₹ 665 i.e. 12x FY24E EPS.

Key triggers for future price performance:

- SSML is expected to benefit from a demand revival post reduction/removal of restrictions on trade activities owing to its strong brand portfolio, pan-India distribution network and presence across various price points
- Enhanced capital efficiency (low leverage, controlled working capital cycle) and better profitability would result in SSML reporting healthy RoCE of ~22% by FY24E
- Cost rationalisation measure adopted in FY21 led to a significant decline in overheads. The management expects part of these cost savings to be structural in nature and likely aid EBITDA margin, going ahead

Alternate Stock Idea: Besides SSML, in our textile coverage we also like KPR Mills.

- KPR Mills is among select vertically integrated textile players in India that has displayed consistent operating margins with strong return ratios
- BUY with a target price of ₹ 815

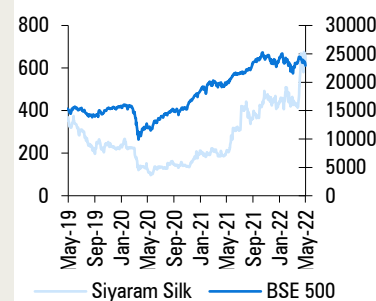
Particulars

Particulars	Amount
Market Capitalisation (₹ crore)	2,620.0
Total Debt (FY22E) (₹ crore)	253.2
Cash (FY22E) (₹ crore)	4.9
EV (₹ crore)	2,868.3
52 Week H / L	700 /203
Equity Capital (₹ crore)	9.4
Face Value (₹)	2.0

Shareholding pattern

	Mar-21	Jun-21	Sep-21	Dec-21	Mar-22
Promoter	67.2	67.2	67.2	67.2	67.2
FII	0.7	1.7	1.9	2.8	3.7
DII	11.2	11.2	10.8	7.8	6.2
Others	20.9	19.9	20.1	22.2	23.0

Price Chart



Recent event & key risks

- Price hikes taken across products
- Key Risk:** (i) Inability to pass on higher RM costs (ii) Extended restrictions on trade can lower sales

Research Analyst

Bharat Chhoda
bharat.chhoda@icicisecurities.com

Cheragh Sidhwa
cheragh.sidhwa@icicisecurities.com

Key Financial Summary

Financials	FY20	FY21	FY22E	5 year CAGR (FY15-20)	FY23E	FY24E	2year CAGR (FY22-24E)
Net Sales	1,699.3	1,089.3	1,905.0	-6.3%	2,160.0	2,390.0	12.0%
EBITDA	167.4	53.8	333.1	-21.0%	351.5	397.2	9.2%
Adjusted PAT	69.2	3.6	216.2	-46.1%	224.9	260.1	9.7%
P/E (x)	38.2	739.7	12.2		11.8	10.2	
EV/EBITDA (x)	18.2	51.5	8.7		7.9	6.9	
RoCE (%)	8.1	-0.8	23.1		21.8	22.1	
RoE (%)	9.1	0.5	23.2		20.4	20.1	

Key takeaways of Q4FY22 & FY22 results

- FY22 has seen a significant improvement in profitability for Siyaram. The management indicated that the improvement in performance was on account of operating efficiencies, better product mix and rationalised marketing initiatives. The management remained upbeat on the demand outlook and recovery post disruption owing to omicron in January, February and is hopeful of a strong wedding season to drive revenue growth
- On the segmental front, the fabric division continues to perform well. For FY22, fabric revenues grew 73% YoY to ₹ 1554 crore (volume growth of 54% to 10.14 crore metre on a favourable base) with share in revenue at ~81%. The management indicated that higher pent up demand and demand revival in Tier 2 & 3 cities enabled the growth
- The apparel segment reported an increase of 121% YoY to ₹ 257 crore in FY22. Share of apparels in total revenue increased to 14% in FY22 from 11% in FY21. The company sold 42 lakh pieces in FY22 (YoY growth of 35%). The apparel business has shown good traction due to new brands and designs. The management indicated that it will pursue an asset light policy, outsource its further requirements and will not be investing in enhancing the garmenting capacity
- On the EBITDA margin front, the management indicated that due to cost re-engineering initiatives taken during the pandemic, it expects margins at ~16-17% on a sustainable basis (historic average is ~ 12-13%)
- SSML's current debt is ~ ₹ 253 crore. The management expects the FY23 debt levels to be around ₹ 180-200 crore
- The company incurred a capex of ~ ₹ 80 crore in FY22. Out of the same, the company spent ₹ 30 crore on forward integrating into indigo knitted fabric (it already has a presence in indigo knitted yarn), which is used in denim and for innerwear. The management indicated that the indigo fabric capacity had a potential revenue of ~ ₹ 100 crore
- On the future capex front, SSML does not envisage any major capex over the next two years with annual capex in the range of ~ ₹ 40 crore for FY23E & FY24E, respectively
- On the export front, SSML is witnessing strong traction and getting enquiries from new prospective customers. For FY22, the company had total export revenues to the tune of ₹ 180 crore and is targeting an annual growth of ~25-30% over the next few years. On margin in the export business, the management indicated it is only marginally lower than domestic business margin
- The shift from unorganised players to organised is a big opportunity as many smaller unorganised players are facing liquidity and survival issues, which can lead to a significant opportunity for market share gains for larger organised players like SSM
- SSML is planning to continue with the sharp SKU assortment strategy. The company continues to be selective with its product strategy and has increased focus on fast running stock keeping units (SKUs) with a target to maintain lower inventory level and reduce working capital cycle. Also, SSML has discontinued SKUs that were not performing well and is focusing on premiumisation of the product portfolio with introduction of newer and innovative products

Financial Summary

Exhibit 1: Profit and loss statement				
	₹ crore			
(Year-end March)	FY21A	FY22E	FY23E	FY24E
Total operating income	1,089.3	1,904.96	2,160.0	2,390.0
Growth (%)	-35.9	74.9	13.4	10.6
Raw Material Expenses	711.7	1,075.0	1,214.6	1,345.1
Employee Expenses	123.5	160.3	183.6	203.1
Manufacturing & Other Expens	200.3	336.6	410.4	444.5
Total Operating Expenditure	1,035.5	1,571.9	1,808.6	1,992.7
EBITDA	53.8	333.1	351.5	397.2
Growth (%)	-67.9	519.6	5.5	13.0
Depreciation	61.2	58.9	70.0	75.0
Interest	30.0	18.1	19.8	17.6
Other Income	40.8	34.5	38.9	43.0
Exceptional Item	0.0	0.0	0.0	0.0
PBT	3.5	290.54	300.6	347.6
Growth (%)	-95.9	8,272.9	3.4	15.7
Total Tax	-0.1	74.3	75.7	87.5
PAT	3.6	216.2	224.9	260.1
Growth (%)	-94.8	5,939.9	4.0	15.7
EPS (₹)	0.8	46.1	48.0	55.5

Source: Company, ICICI Direct Research

Exhibit 2: Cash flow statement				
	₹ crore			
(Year-end March)	FY21A	FY22E	FY23E	FY24E
PAT	3.6	216.2	224.9	260.1
Add: Depreciation	61.2	58.9	70.0	75.0
(Inc)/dec in Current Assets	274.1	-271.6	-99.2	-113.6
Inc/(dec) in CL and Provisions	-0.6	12.6	14.1	25.7
Others	0.0	0.0	0.0	0.0
CF from operating activities	338.3	16.1	209.9	247.2
(Inc)/dec in Investments	-20.1	1.6	-10.5	-82.1
(Inc)/dec in Fixed Assets	-22.7	-83.5	-40.0	-40.0
(Inc)/dec in CWIP	1.2	0.4	1.2	0.6
Others	-23.3	-13.6	0.0	0.0
CF from investing activities	-64.9	-95.1	-49.3	-121.5
Issue/(Buy back) of Equity	0.0	0.0	0.0	0.0
Inc/(dec) in loan funds	-270.8	128.3	-63.2	-30.0
Others	-1.6	-49.6	-56.2	-65.0
CF from financing activities	-272.4	78.7	-119.4	-95.0
Net Cash flow	1.0	-0.3	41.1	30.7
Opening Cash	4.2	5.2	4.9	46.1
Closing Cash	5.2	4.9	46.1	76.8

Source: Company, ICICI Direct Research

Exhibit 3: Balance Sheet				
	₹ crore			
(Year-end March)	FY21A	FY22E	FY23E	FY24E
Liabilities				
Equity Capital	9.4	9.4	9.4	9.4
Reserve and Surplus	757.6	924.2	1,092.9	1,288.0
Total Shareholders funds	767.0	933.6	1,102.3	1,297.4
Total Debt	124.9	253.2	190.0	160.0
Deferred Tax Liability	11.7	11.7	11.7	11.7
Minority Interest / Others	24.8	11.2	11.2	11.2
Total Liabilities	928.3	1,209.7	1,315.2	1,480.3
Assets				
Gross Block	774.2	857.7	897.7	937.7
Less: Acc Depreciation	322.5	381.4	451.4	526.5
Net Block	451.7	476.3	446.2	411.2
Capital WIP	2.7	2.4	1.2	0.6
Total Fixed Assets	454.4	478.6	447.4	411.8
Investments	54.2	52.6	63.1	145.2
Inventory	254.9	405.0	461.6	510.7
Debtors	260.3	386.4	443.8	491.1
Loans and Advances	181.5	176.9	162.0	179.2
Cash	5.2	4.9	46.1	76.8
Total Current Assets	701.9	973.2	1,113.5	1,257.9
Current Liabilities	269.9	281.4	294.8	319.8
Provisions	12.3	13.4	14.1	14.8
Total Current Liabilities	282.2	294.8	308.9	334.6
Net Current Assets	419.7	678.4	804.6	923.2
Others Assets	-	-	-	-
Application of Funds	928.3	1,209.7	1,315.2	1,480.3

Source: Company, ICICI Direct Research

Exhibit 4: Key ratios				
(Year-end March)	FY21A	FY22E	FY23E	FY24E
Per share data (₹)				
EPS	0.8	46.1	48.0	55.5
Cash EPS	13.8	58.7	62.9	71.5
BV	163.6	199.2	235.2	276.8
DPS	0.0	10.6	12.0	13.9
Cash Per Share	1.1	1.1	9.8	16.4
Operating Ratios				
EBITDA Margin (%)	4.9	17.5	16.3	16.6
PBT Margin (%)	0.3	15.3	13.9	14.5
PAT Margin (%)	0.3	11.4	10.4	10.9
Inventory days	85.4	77.6	78.0	78.0
Debtor days	87.2	74.0	75.0	75.0
Creditor days	90.4	72.5	68.0	68.0
Return Ratios (%)	82.2	79.1	85.0	85.0
RoE	0.5	23.2	20.4	20.1
RoCE	-0.8	23.1	21.8	22.1
RoIC	-0.9	24.3	23.8	26.1
Valuation Ratios (x)				
P/E	739.7	12.2	11.8	10.2
EV / EBITDA	51.5	8.7	7.9	6.9
EV / Net Sales	2.5	1.5	1.3	1.1
Market Cap / Sales	2.4	1.4	1.2	1.1
Price to Book Value	3.5	2.8	2.4	2.0
Solvency Ratios				
Debt/EBITDA	2.3	0.8	0.5	0.4
Debt / Equity	0.2	0.3	0.2	0.1
Current Ratio	2.5	3.3	3.6	3.8
Quick Ratio	1.6	1.9	2.1	2.2

Source: Company, ICICI Direct Research

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Pankaj Pandey

Head – Research

pankaj.pandey@icicisecurities.com

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

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