

## Sarla Performance Fibers

Textile

Result Update

14 September 2017

## Favourable change in product mix leads to revenue beat

We maintain our BUY on Sarla Performance Fibers and TP of Rs75 as we value the company based on our conservative adj. OCF based methodology. We believe the sales growth of the company would continue on the back of higher contribution from industrial and performance yarn. While volume during the quarter was flat YoY partly impacted by implementation of GST, we believe de-bonding of Vapi would help in volume growth from H2FY18. Further margins would improve once the product mix changes and as sales from SOHL increase. Sarla Flex continues to disappoint and is currently at mere 15% capacity utilisation impacting profitability. We believe any upswing in Sarla Flex can offer significant upside to our estimates.

- **Q1FY18 result highlights:** Consolidated net sales rose 5.4% YoY to Rs791mn while standalone net sales increased 9.6% YoY to Rs670mn. Wind power sales declined 11.7% YoY to Rs22mn as the company has yet to sign PPAs for two windmills for which the revenues would be booked in Q2FY18. Operating profit fell 15% YoY to Rs157mn with margins contracting 475bps to 19.9%. Gross margin stood at 53.3% (down 508bps YoY) on consol basis with standalone gross margin at 48.3%. PAT was flat YoY at Rs91mn (in-line with expectations) on the back of lower taxes and high other income.
- **Standalone business grows at a healthy pace:** The standalone yarn business posted gross sales growth of 10.2% at Rs686mn with exports growing by 5% and domestic sales growing by 17% YoY. Volume growth was flat at 2506MT and the bulk of the growth was driven by realisations. Sales were partly impacted due to implementation of GST during the quarter. Movement towards performance and industrial yarn helped in increasing realisation. SOHL posted revenue growth of 19% on the back of realisations despite volume growth of only 2% YoY. SOHL's PAT increased 57% to Rs51mn.
- **US business continues to disappoint:** Net sale in the US business fell 31% YoY to Rs70mn on the back of a 25% drop in volumes. Currently the plant is running at mere 15% capacity utilisation. For FY17, the company posted volume drop of 36% since they lost a couple of major clients. Further revenue declined 37% to Rs343mn. The company posted operating loss of Rs14mn during the quarter against a loss of Rs3mn in Q1FY17. In FY17 the company had posted an operating loss of Rs169mn. Further PAT loss stood at Rs17mn against a loss of Rs22mn in Q1FY17. In FY17 the company posted a loss of Rs115mn despite having high other income of Rs121mn. We believe the company would continue to post losses in the US business unless they are able to increase capacity utilisation.
- **Estimates reduced; Maintain BUY:** We have reduced our operating profit estimate by ~2.8% each for FY18E and FY19E factoring lower gross margin while PAT estimate has been reduced by ~4% each for FY18E and FY19E. We maintain our BUY on Sarla Performance Fibres with a TP of Rs75 as we value it on adjusted OCF (AOCF = OCF – Interest) to enterprise value (EV) yield. We believe bulk of the growth for the company would be on account for the domestic business due to debonding of the Vapi unit and higher exports though SOHL. Operating profit CAGR would be 15% over FY17-19E for standalone business. We believe there could be further upside from Sarla Flex with increase in capacity utilisation given the high fixed cost. Key risks being sustained losses in the US business and raw material volatility.

Y/E Mar (Rsmn)	Q1FY18	Q1FY17	YoY (%)	Q4FY17	QoQ (%)	Q1FY18E	Var (%)
Net Sales	791	750	5.4	741	6.7	745	6.1
COGS	369	312	18.3	416	(11.2)	325	13.6
Employee Expenses	53	53	1.2	73	(27.7)	63	(15.6)
Admin & Other Exp	211	200	5.2	311	(32.2)	220	(4.2)
EBITDA	157	185	(14.9)	(59)	(366.8)	137	14.9
EBITDA margin (%)	19.9	24.7	(475) bps	(8.0)	2,788 bps	18.4	153 bps
Depreciation & Amm.	51	45		40		45	
Other Income	42	37		195		49	
Interest	22	32		20		21	
PBT	127	146	(13.0)	76	66.5	120	5.5
Tax	36	54		12		30	
Adjusted PAT	91	91	(0.9)	64	42.1	90	0.7

Source: Company, Centrum Research

Y/E Mar (Rs.mn)	Revenue	YoY (%)	EBITDA	EBITDA (%)	Adj PAT	YoY %	Fully DEPS	RoE (%)	RoCE (%)	P/E (x)	EV/EBITDA (x)
FY15	3,121	19.2	496	15.9	279	0.6	3.4	14.0	6.5	9.2	7.0
FY16	2,977	(4.6)	597	20.0	450	61.2	5.4	18.3	9.5	10.2	8.9
FY17	3,033	1.9	494	16.3	411	(8.8)	4.9	14.8	8.2	10.0	12.8
FY18E	3,343	10.2	660	19.7	427	3.8	5.1	13.9	8.1	9.6	7.5
FY19E	3,628	8.5	743	20.5	482	13.0	5.8	14.3	8.7	8.5	6.4

Source: Company, Centrum Research Estimates

Target Price	Rs75	Key Data	
CMP*	Rs48	Bloomberg Code	SRPL IN
Upside	56%	Curr Shares O/S (mn)	83.5
Previous Target	Rs77	Diluted Shares O/S(mn)	83.5
Previous Rating	Buy	Mkt Cap (Rsbn/USDmn)	4/62.7
Price Performance (%)*		52 Wk H / L (Rs)	80.1/41.5
	1M 6M 1Yr	5 Year H / L (Rs)	91.5/10.5
SRPL IN	8.7 (6.5) (20.8)	Daily Vol. (3M NSE Avg.)	377773
Nifty	3.8 4.9 15.6		

\*as on 13 September 2017; Source: Bloomberg, Centrum Research

## Shareholding pattern (%)\*

	Jun-17	Mar-17	Dec-16	Sep-16
Promoter	55.4	55.2	55.2	55.2
FIs	1.1	1.2	1.3	1.2
DIs	13.9	14.3	6.3	14.3
Others	29.6	29.3	29.2	29.2

Source: BSE, \*as on 13 September 2017

## Earning Revision

Particulars (Rs bn)	FY18E			FY19E		
	New	Old	Chg (%)	New	Old	Chg (%)
Sales	3,343	3,376	(1.0)	3,628	3,664	(1.0)
EBITDA	660	679	(2.8)	743	764	(2.7)
EBITDA margin (%)	19.7	20.1	(37) bps	20.5	20.9	(37) bps
Adj PAT	427	446	(4.3)	482	503	(4.1)

Source: Centrum Research

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## Valuation

We value SPFL on AOCF/EV yield methodology and arrive at a target AOCF/EV yield of 6.5% for SPFL, and hence, the implied EV/AOCF multiple of 15.5x. We use average cash flows generated over four years (and hence remain conservative) during FY15-19E and apply 6.5% Adj OCF yield to arrive at our target EV and our TP of Rs75. Reiterate Buy. At our TP of Rs75, stock would trade at FY18E/19E P/E of 14.7x/12.9x.

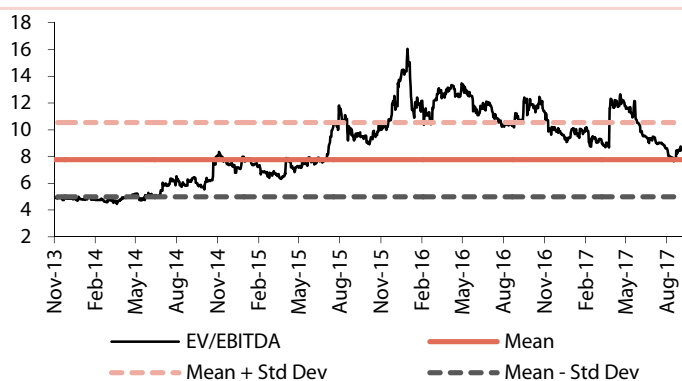
### Exhibit 1: Cash Flow based Valuation

4 Year average Adj. OCF Yield (AOCF/EV) - % (FY14-17)	6.5
Implied EV/AOCF Multiple (x)	15.47
Average Adj. OCF (Rs mn) - FY15-19E	446
Target EV (Rs mn)	6,898
Less: Net debt (FY19E)	635
Target market cap (Rs mn)	6,263
No. of shares (mn)	83.5

**Target Price/share (Rs) 75**

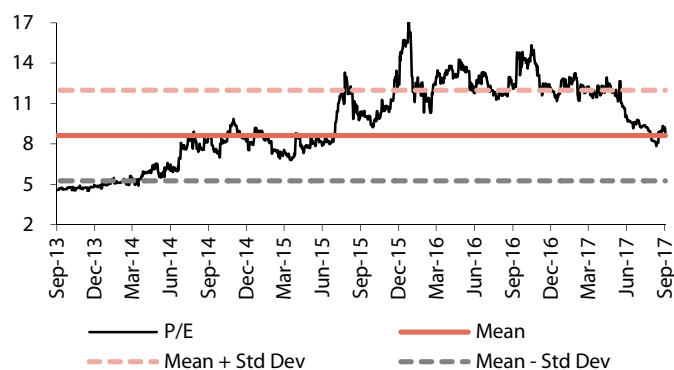
Source: Company, Centrum Research Estimates

### Exhibit 2: 1 year forward EV/EBITDA chart



Source: Bloomberg, Company, Centrum Research Estimates

### Exhibit 3: 1 year forward P/E chart



Source: Bloomberg, Company, Centrum Research Estimates

### Exhibit 4: Comparative Valuations

Company	Mkt Cap (Rsmn)	CAGR FY17-FY19E (%)			EBITDA Margin (%)			PE (x)			EV/EBITDA (x)			RoE (%)			Div Yield (%)		
		Rev.	EBITDA	PAT	FY17	FY18E	FY19E	FY17	FY18E	FY19E	FY17	FY18E	FY19E	FY17	FY18E	FY19E	FY17	FY18E	FY19E
<b>Sarla*</b>	<b>4,012</b>	<b>9.4</b>	<b>22.7</b>	<b>8.3</b>	<b>16.3</b>	<b>19.7</b>	<b>20.5</b>	<b>10.0</b>	<b>9.6</b>	<b>8.5</b>	<b>12.8</b>	<b>7.5</b>	<b>6.4</b>	<b>14.8</b>	<b>13.9</b>	<b>14.3</b>	<b>1.7</b>	<b>3.1</b>	<b>3.6</b>
Vardhman Textiles	68,754	8.2	(6.4)	(11.5)	26.7	17.4	20.0	6.5	11.1	8.7	5.2	6.9	5.5	23.7	13.4	15.2	1.4	1.3	1.8
Nandan Denim	75,857	17.1	6.0	48.1	27.5	22.1	22.5	23.1	11.8	9.7	7.1	6.8	5.9	16.4	24.9	24.9	0.8	1.7	2.1
Welspun India	7,121	12.6	18.2	30.5	15.6	16.7	17.2	10.8	8.7	7.4	5.3	5.1	4.6	14.9	19.0	18.4	0.9	2.6	3.4
KPR Mill	58,333	14.0	14.5	18.6	20.8	20.8	21.0	14.3	16.8	14.4	8.7	9.9	8.8	24.0	23.1	22.0	0.1	1.0	1.2
Himatsingka Seide	33,968	11.1	33.0	33.6	17.7	21.4	25.3	15.1	15.2	10.4	9.5	9.0	6.8	18.6	18.8	22.7	0.7	0.9	1.2
Indo Count Industries	24,379	5.2	(1.2)	(0.1)	19.6	16.7	17.3	14.8	11.7	9.9	9.0	7.6	6.6	31.5	21.7	20.9	1.2	1.0	1.6
<b>Global Peer</b>																			
Unifi Inc#	600	3.2	5.3	9.2	9.9	10.2	10.3	15.4	17.7	15.8	9.3	8.8	9.7	9.6	NA	11.8	0.0	0.0	0.0

Source: Bloomberg consensus, Companies; \*Centrum Research Estimates; #Mcap in USD mn, June End

## Quarterly financials, Operating Metrics and Key Performance Indicators

### Exhibit 5: Quarterly Financials

Particulars (Rsmn)	Q2FY16	Q3FY16	Q4FY16	Q1FY17	Q2FY17	Q3FY17	Q4FY17	Q1FY18
<b>Total Income</b>	<b>816</b>	<b>738</b>	<b>701</b>	<b>750</b>	<b>810</b>	<b>746</b>	<b>741</b>	<b>791</b>
COGS	330	281	303	312	289	291	416	369
Employees expenses	56	49	57	53	62	54	73	53
Other expenses	227	235	275	200	256	221	311	211
Total Expenditure	613	565	635	565	608	566	800	633
<b>EBITDA</b>	<b>203</b>	<b>174</b>	<b>66</b>	<b>185</b>	<b>202</b>	<b>180</b>	<b>(59)</b>	<b>157</b>
Depreciation	39	39	38	45	46	48	40	51
EBIT	164	134	28	140	157	132	(99)	106
Interest	14	16	20	32	20	13	20	22
Other Income	31	34	32	37	39	33	195	42
Exceptional Items	0	0	0	0	0	1	1	1
PBT	182	152	40	146	175	152	76	127
Total tax	50	1	(28)	54	38	41	12	36
Reported PAT	132	150	69	91	137	111	64	91
<b>Adj PAT</b>	<b>132</b>	<b>150</b>	<b>69</b>	<b>91</b>	<b>137</b>	<b>111</b>	<b>64</b>	<b>91</b>
<b>Growth %</b>								
Revenue	1.2	(3.7)	(11.7)	(6.2)	(0.7)	1.1	5.8	5.4
EBITDA	51.2	(1.3)	(56.4)	7.3	(0.3)	3.7	(189.7)	(14.9)
PAT	31.3	161.9	(39.0)	(9.0)	3.9	(26.1)	(7.0)	(0.9)
<b>Margins %</b>								
Gross Margin	59.6	62.0	56.8	58.4	64.3	61.0	43.9	53.3
EBITDA	24.9	23.5	9.4	24.7	25.0	24.1	(8.0)	19.9
EBIT	20.1	18.2	3.9	18.7	19.4	17.7	(13.3)	13.5
Adj PAT	16.2	20.4	9.8	12.2	16.9	14.9	8.6	11.5

Source: Company, Centrum Research

## Financials

### Exhibit 6: Income Statement

Y/E March (Rs.mn)	FY15	FY16	FY17	FY18E	FY19E
<b>Revenue</b>	<b>3,121</b>	<b>2,977</b>	<b>3,033</b>	<b>3,343</b>	<b>3,628</b>
Employee Cost	271	215	242	253	262
% of revenue	8.7	7.2	8.0	7.6	7.2
Material cost	1,492	1,224	1,309	1,374	1,502
% of revenue	47.8	41.1	43.2	41.1	41.4
Other expenses	861	940	988	1,056	1,120
% of revenue	27.6	31.6	32.6	31.6	30.9
<b>EBIDTA</b>	<b>496</b>	<b>597</b>	<b>494</b>	<b>660</b>	<b>743</b>
EBIDTA Margins (%)	15.9	20.0	16.3	19.7	20.5
Depreciation & Amortization	145	155	178	209	220
<b>EBIT</b>	<b>351</b>	<b>442</b>	<b>315</b>	<b>450</b>	<b>523</b>
Interest expenses	64	65	71	75	78
<b>PBT for operations</b>	<b>287</b>	<b>377</b>	<b>244</b>	<b>375</b>	<b>445</b>
Other income	117	131	318	185	195
Exceptional item	-	-	-	-	-
<b>PBT</b>	<b>404</b>	<b>508</b>	<b>562</b>	<b>560</b>	<b>640</b>
taxes	123	57	149	133	158
Effective tax rate (%)	30.5	11.1	26.6	23.8	24.6
<b>Net Profit</b>	<b>281</b>	<b>451</b>	<b>412</b>	<b>427</b>	<b>482</b>
Minority interest/associates	(10)	(1)	(2)	0	0
<b>Adj Net Profit</b>	<b>279</b>	<b>450</b>	<b>411</b>	<b>427</b>	<b>482</b>

Source: Company, Centrum Research Estimates

### Exhibit 7: Key Ratios

Y/E March	FY15	FY16	FY17	FY18E	FY19E
<b>Growth ratios (%)</b>					
Revenues	19.2	(4.6)	1.9	10.2	8.5
EBIDTA	6.2	20.3	(17.3)	33.7	12.6
Adj Net Profit	0.6	61.2	(8.8)	3.8	13.0
<b>Margin ratios (%)</b>					
EBIDTA Margins	15.9	20.0	16.3	19.7	20.5
PBT from operations	9.2	12.7	8.0	11.2	12.3
PAT Margins	9.0	15.1	13.5	12.8	13.3
<b>Return Ratios (%)</b>					
ROCE	6.5	9.5	8.2	8.1	8.7
RoNW	14.0	18.3	14.8	13.9	14.3
RoIC	10.3	15.5	8.9	12.1	13.2
<b>Turnover Ratios (Days)</b>					
Gross Block turnover(x)	1.19	1.04	0.89	0.85	0.88
Inventory period	100.9	113.6	94.6	95.0	95.0
Collection period	92.1	95.6	114.9	105.0	105.0
Payment period	32.0	18.9	18.5	20.0	20.0
Cash conversion cycle	161	190	191	180	180
<b>Solvency Ratio</b>					
Debt-equity	1.1	1.0	0.9	0.8	0.7
Net Debt-equity	0.4	0.3	0.3	0.3	0.2
Current ratio	5.7	4.7	3.5	3.7	3.8
Interest coverage ratio	5.5	6.8	4.4	6.0	6.7
Gross debt/EBITDA	5.2	4.5	5.3	3.9	3.5
<b>Per Share (Rs)</b>					
FDEPS (Adjusted)	3.4	5.4	4.9	5.1	5.8
CEPS	5.1	7.2	7.1	7.6	8.4
Book Value	27.5	31.4	35.2	38.5	42.2
Dividend per share	0.8	1.1	1.1	1.5	1.8
Dividend Payout (%)	28.4	23.3	26.9	35.2	36.4
<b>Valuations (x)</b>					
PER	9.2	10.2	10.0	9.6	8.5
P/BV	1.1	1.8	1.4	1.3	1.2
EV/EBIDTA	7.0	8.9	12.8	7.5	6.4
AOCF/EV Yield (%)	3.4	4.5	6.4	8.7	9.4
Dividend yield (%)	2.6	1.9	1.7	3.1	3.6

Source: Company, Centrum Research Estimates

### Exhibit 8: Balance Sheet

Y/E March (Rs.mn)	FY15	FY16	FY17	FY18E	FY19E
Share Capital	84	84	84	84	84
Reserves & Surplus	2,215	2,536	2,854	3,130	3,437
<b>Total Shareholders Funds</b>	<b>2,298.36</b>	<b>2,619.33</b>	<b>2,937.40</b>	<b>3,213.73</b>	<b>3,520.68</b>
Loan Funds	2589	2683	2601	2601	2601
Minority Interest	(3)	(2)	(1)	(1)	(1)
Deferred Tax Liabilities	142	77	157	126	96
<b>Total Liabilities</b>	<b>5,026</b>	<b>5,377</b>	<b>5,695</b>	<b>5,940</b>	<b>6,217</b>
Gross Block	2,667	3,036	3,809	4,029	4,229
Less:- Accumulated Depreciation	775	929	1107	1316	1536
Net Block	1,893	2,107	2,702	2,712	2,692
Capital WIP	0	0	0	0	0
<b>Net fixed assets</b>	<b>1,893</b>	<b>2,107</b>	<b>2,702</b>	<b>2,712</b>	<b>2,692</b>
Investments	576	852	840	840	840
Inventory	863	927	786	870	944
Debtors	787	780	954	962	1044
Loans & advances	436	196	399	419	440
Other Assets	80	59	93	93	93
Cash & bank balances	941	1101	771	929	1126
<b>Total current assets</b>	<b>3,106</b>	<b>3,063</b>	<b>3,004</b>	<b>3,274</b>	<b>3,648</b>
Trade payables	273	154	154	183	199
Other current Liab.	187	458	576	568	617
Provisions	89	35	121	134	147
<b>Net current assets</b>	<b>2,556</b>	<b>2,416</b>	<b>2,153</b>	<b>2,389</b>	<b>2,685</b>
<b>Total</b>	<b>5,026</b>	<b>5,377</b>	<b>5,695</b>	<b>5,940</b>	<b>6,217</b>

Source: Company, Centrum Research Estimates

### Exhibit 9: Cash Flow

Y/E March (Rs.mn)	FY15	FY16	FY17	FY18E	FY19E
<b>CF before WC changes</b>	<b>565</b>	<b>648</b>	<b>726</b>	<b>660</b>	<b>743</b>
Working capital changes	(425)	312	243	(77)	(100)
<b>Cash from Operations</b>	<b>20</b>	<b>832</b>	<b>856</b>	<b>419</b>	<b>455</b>
Adj. OCF (OCF-Interest)	(45)	768	785	344	377
Capex	(76)	(369)	(773)	(220)	(200)
Adj. FCF (AOCF-Capex)	(120)	398	12	124	177
<b>Cash from investing</b>	<b>(55)</b>	<b>(567)</b>	<b>(676)</b>	<b>(35)</b>	<b>(5)</b>
<b>Cash from financing</b>	<b>608</b>	<b>(104)</b>	<b>(512)</b>	<b>(226)</b>	<b>(253)</b>
<b>Net change in cash</b>	<b>572</b>	<b>161</b>	<b>(331)</b>	<b>159</b>	<b>197</b>

Source: Company, Centrum Research Estimates

## Appendix A

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### Sarla Performance price chart



Source: Bloomberg, Centrum Research



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		Sarla Performance
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