Roadshow Key takeaways – Strong growth outlook

We hosted Visaka Industries’ (VIL) management for a non-deal roadshow. The management guided that good demand across all three business segments (ACS, CBP and Yarn) has accelerated growth outlook for FY19. However, the INR depreciation during Q2FY19 and rising diesel prices will drag down ACS as well as total margin in Q2FY19. Management expects to pass on this cost increase during H2FY19, through price increase (aided by robust demand in ACS). VIL’s innovating and patented product – ATUM – is expected to go on sale from Q3FY19. We remain positive on VIL owing to its strong positioning across all three business segments and reiterate BUY with an unchanged TP of Rs950.

- Asbestos roofing sheets (ACS segment) – demand rising, near term pressure cost: The industry is witnessing strong demand traction in FY19 after growing by 3% in FY18. VIL guided that it can deliver 8-10% volume growth in FY19 vs 2% volume growth in FY18. The company highlighted demand trends as strong rural demand, rising cost of steel sheets (competitive product) and lower GST rate. The INR depreciation of 5% QoQ during Q2FY19 is a near term concern as the main raw material – Chrysotile fibre (accounting for 30% of net sales) is billed in USD. Further, rising diesel prices have also led to increase in freight cost. Thus, VIL expects 300-400bps margin contraction in Q2FY19. However, as the demand traction is strong, VIL expects the cost increase can be passed on during H2FY19 through price increase during Q3FY19. VIL operated at 88% utilisation in FY18 in the ACS segment. At 8-10% growth rate, utilisation will peak out in FY20. Thereafter, VIL can de-bottleneck capacity by ~10% through equipment upgradation. VIL will not invest in any major capacity expansion in ACS.

- Cement board segment (CBP) – strong demand outlook, new capacity to aid margin recovery: VIL guided that CBP demand is growing at healthy pace and hence it can deliver 15-20% volume growth during FY19 as against 7% increase in FY18. Segmental margin has been dragged during the last 4-5 quarters on account of rising pulp prices (which comprise ~20% of segmental net sales). While pulp prices is expected to remain firm, the commissioning of VIL’s 3rd CBP plant in Haryana from Oct-2018, should reduce overall lead distance and aid margin expansion. VIL will continue to invest in this business. Management is also confident of delivering 15% revenue growth in the yawn segment in FY19 vs 1% decline in FY18. It also expects segmental EBITDA margin to recover to 12-13% in FY19 vs 8% in FY18.

- Solar roofing – ATUM – almost ready to take off: VIL guided that its cement board based solar panels as a roofing product has completed the test phase and will soon hit commercial markets during Q3FY19. The company has currently invested a nominal Rs150mn on its patented technology. The current investment has potential to deliver ~Rs750mn of revenue on optimal utilisation (4-5x asset turn). VIL is serious to expand this market once the product acceptability increases (initial focus is institutional clients – mostly warehouses). Management is confident that high asset turn should lead to high RoCE from first year itself. We have not yet factored in the revenue / profit from this segment currently in our estimates.

- Other updates and valuations: VIL will incur about Rs350mn capex in FY19, towards maintenance capex and towards the completion of the green-field Haryana CBP plant and ATUM plant. Depending on the growth in the CBP segment, it will take up further expansion in this segment FY20 onwards. These capex will be fully funded through internal accruals. VIL is targeting to reduce its gross debt by ~Rs600mn in FY19 (20% reduction YoY) to Rs2.2bn. VIL continues to be the market leader in the CBP segment in India and the No-2 in ACS segment. It is also delivering best margin in the overall BP segment. We re-iterate our BUY on the stock, with a TP of Rs950 (valuing it at 5.9% AOCF/EV yield, implying 17 PE on FY20 basis). During FY19/20, we expect high cash flow generation to drive debt reduction. Key downside risks: lower than estimated demand offtake across all businesses, spike in fibre and cement prices, and further depreciation in INR vs USD.

<table>
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<tr>
<th>Y/E Mar (Rs mn)</th>
<th>Revenue</th>
<th>YoY (%)</th>
<th>EBITDA</th>
<th>EBITDA (%)</th>
<th>Adj PAT</th>
<th>YoY (%)</th>
<th>FDEPS (Rs)</th>
<th>RoE (%)</th>
<th>RoCE (%)</th>
<th>P/E (x)</th>
<th>EV/EBITDA (x)</th>
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<td>10,049</td>
<td>(1.6)</td>
<td>997</td>
<td>9.9</td>
<td>289</td>
<td>36.2</td>
<td>18.2</td>
<td>8.4</td>
<td>5.7</td>
<td>6.8</td>
<td>4.7</td>
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<tr>
<td>FY17</td>
<td>9,606</td>
<td>(4.4)</td>
<td>1,273</td>
<td>13.3</td>
<td>529</td>
<td>82.8</td>
<td>33.3</td>
<td>14.1</td>
<td>8.8</td>
<td>5.5</td>
<td>3.9</td>
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<tr>
<td>FY18</td>
<td>10,123</td>
<td>5.4</td>
<td>1,502</td>
<td>14.8</td>
<td>666</td>
<td>25.9</td>
<td>41.9</td>
<td>15.9</td>
<td>11.2</td>
<td>13.7</td>
<td>7.8</td>
</tr>
<tr>
<td>FY19E</td>
<td>11,177</td>
<td>10.4</td>
<td>1,686</td>
<td>15.1</td>
<td>769</td>
<td>15.6</td>
<td>48.4</td>
<td>16.1</td>
<td>11.8</td>
<td>9.9</td>
<td>5.8</td>
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<tr>
<td>FY20E</td>
<td>12,420</td>
<td>11.1</td>
<td>1,881</td>
<td>15.1</td>
<td>890</td>
<td>15.7</td>
<td>56.0</td>
<td>16.3</td>
<td>12.7</td>
<td>8.6</td>
<td>4.8</td>
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Source: Company, Centrum Research Estimates, Valuations for FY16/17/18 are based on historical average market caps.

In the interest of timeliness, this document is not edited

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Visaka Industries price chart

Source: Bloomberg, Centrum Research
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