ANANDRATHI

India I Equities

Asbestos Cement Sheets

Company Update

Change in Estimates ☑ Target ☑ Reco ☐

12 November 2018

Visaka Industries

Expansion to aid growth; Buy

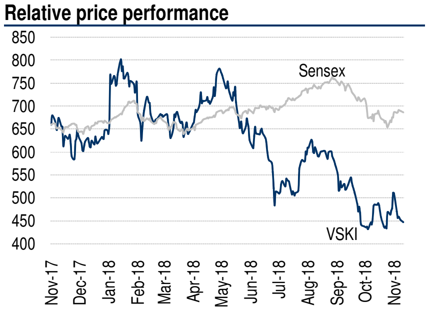
Rating: **Buy**
Target Price: ₹640
Share Price: ₹454

Key data	VSKI IN / VSKI.BO
52-week high / low	₹840 / 416
Sensex/Nifty	34813 / 10482
3-m average volume	$0.3m
Market cap	₹7bn / $97.2m
Shares outstanding	16m

Shareholding pattern (%)	Sept'18	Jun'18	Mar'18
Promoters	41.5	41.3	41.3
- of which, Pledged	*6.1*	*4.6*	*4.6*
Free float	58.5	58.7	58.7
- Foreign institutions	3.9	5.8	6.3
- Domestic institutions	0.1	0.1	0.8
- Public	54.5	52.8	51.6

Estimates revision (%)	FY19e	FY20e
Sales	0.2	(1.5)
EBITDA	(7.1)	(7.7)
EPS	(8.4)	(8.1)

Relative price performance



Source: Bloomberg

Visaka was hit by rising input costs and the high base of the BP division during the quarter. Its yarn division margins, however, continue to recover. The expected price hikes, de-leveraging, improving yarn division, commissioning of the Jhajjar plant and solar roofing (ATUM) would provide the requisite impetus to growth. We retain our Buy rating, with a lower TP of ₹640.

BP division: volume-driven growth. Hurt by rising diesel prices, the depreciating rupee and higher pulp prices, the BP division's PBIT margin declined 421bps y/y to 12.3%. With management talking of double-digit volume growth and 5-6% price hikes to pass on the rising costs, we expect the BP division's revenue and EBIT to register CAGRs over FY18-20 of respectively 8.5% and 3%.

Yarn division: on the path to recovery. Badly bruised by the GST implementation, the yarn division grew well (on the low base). The EBIT margin rose to 12.5% (1.9% a year ago), whereas volumes grew 72% y/y. Management said that the division's EBITDA margin would touch 12% in FY19 (vs. 8% in FY18). We expect the yarn division revenue to clock a 10.5% CAGR over FY18-20, boosted by demand recovering.

Business outlook. With better net cash (improving cashflows) and with better return ratios (no major capex planned so far for the next two years), de-leveraging is on the cards. We expect ~₹500m-600m debt reduction in FY19. On the V-Board plant at Jhajjar commencing, rationalisation of the lead distance is expected. Further, the sharper focus on optimising working capital and improving the yarn division's performance would lead to a 12.8% CAGR over FY18-20 in overall profitability, with expanded return ratios.

Valuation. We maintain a Buy rating and lower our multiple to 12x FY20e EPS in accord with the overall sector reduction in valuations. **Risks.** Rise in input costs, demand slowdown.

Key financials (YE Mar)	FY16	FY17	FY18	FY19e	FY20e
Sales (₹ m)	10,049	9,606	10,123	11,224	11,998
Net profit (₹ m)	244	428	665	744	847
EPS (₹)	15.3	26.9	41.8	46.7	53.2
PE (x)	6.9	10.1	10.9	9.7	8.5
EV / EBITDA (x)	4.2	5.2	6.3	5.6	4.6
PBV (x)	0.5	1.1	1.6	1.4	1.3
RoE (%)	7.1	11.4	15.9	15.6	15.6
RoCE (%)	5.3	7.8	11.4	11.2	12.6
Dividend yield (%)	4.7	2.2	1.5	1.5	1.5
Net debt / equity (x)	0.7	0.4	0.5	0.3	0.2

Source: Company, Anand Rathi Research

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Quick Glance – Financials and Valuations

Fig 1 – Income statement (₹ m)

Year-end: Mar	FY16	FY17	FY18	FY19e	FY20e
Net revenues	10,049	9,606	10,123	11,224	11,998
Growth (%)	*-1.6*	*-4.4*	*5.4*	*10.9*	*6.9*
Direct costs	5,716	4,955	4,939	5,837	6,240
SG&A	3,380	3,479	3,682	3,801	3,956
EBITDA	**952**	**1,172**	**1,502**	**1,586**	**1,802**
EBITDA margins (%)	*9.5*	*12.2*	*14.8*	*14.1*	*15.0*
- Depreciation	363	341	348	390	442
Other income	27	57	46	110	52
Interest expenses	213	196	183	179	128
PBT	404	692	1,016	1,127	1,283
Effective tax rate (%)	*39.5*	*38.2*	*34.5*	*34.0*	*34.0*
+ Associates / (Minorities)					
Net income	244	428	665	744	847
Adjusted income	244	428	665	744	847
WANS	16	16	16	16	16
FDEPS (₹/ sh)	15.3	26.9	41.8	46.7	53.2
Adj. FDEPS growth (%)	*15.1*	*75.1*	*55.5*	*11.8*	*13.8*
Gross margin (%)	*43.1*	*48.4*	*51.2*	*48.0*	*48.0*

Fig 2 – Balance sheet (₹ m)

Year-end: Mar	FY16	FY17	FY18	FY19e	FY20e
Share capital	159	159	159	159	159
Net worth	3,552	3,926	4,457	5,067	5,779
Debt	3,196	2,131	2,411	1,811	1,211
Minority interest					
DTL / (Assets)	193	184	174	174	174
Capital employed	**6,941**	**6,241**	**7,042**	**7,052**	**7,165**
Net tangible assets	2,940	3,257	3,208	3,739	3,546
Net intangible assets	1	12	8	8	8
Goodwill	-	-	-	-	-
CWIP (tang. &intang.)	41	117	690	120	120
Investments (strategic)	100.9	-	-	-	-
Investments (financial)	-	-	-	-	-
Current assets (ex cash)	4,277	3,835	4,710	4,797	5,161
Cash	750	383	229	80	203
Current liabilities	1,168	1,363	1,803	1,691	1,874
Working capital	3,108	2,472	2,907	3,106	3,287
Capital deployed	**6,941**	**6,241**	**7,042**	**7,052**	**7,165**
Contingent liabilities	310	302	42	-	-

Fig 3 – Cash-flow statement (₹ m)

Year-end: Mar	FY16	FY17	FY18	FY19e	FY20e
PBT	404	692	1,016	1,127	1,283
+ Non-cash items	363	341	348	390	442
Oper. prof. before WC	767	1,033	1,365	1,517	1,725
- Incr. / (decr.) in WC	221	-636	435	199	181
Others incl. taxes	195	273	360	383	436
Operating cash-flow	351	1,396	570	935	1,108
- Capex (tang. + intang.)	219	744	869	350	250
Free cash-flow	131	651	-299	585	858
Acquisitions					
- Div.(incl. buyback & taxes)	96	115	134	134	134
+ Equity raised	-	-	-	-	-
+ Debt raised	336	-1,065	280	-600	-600
- Fin investments	-45	-101	-	-	-
- Misc. (CFI + CFF)	-52	-60	1	0	0
Net cash-flow	469	-367	-154	-149	124

Source: Company, Anand Rathi Research

Fig 4 – Ratio analysis

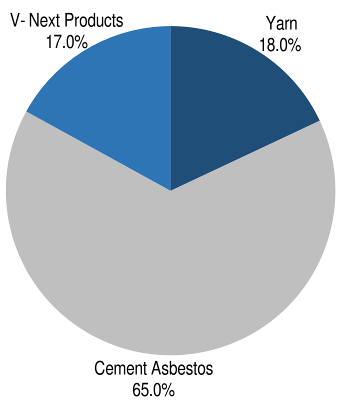
Year-end: Mar	FY16	FY17	FY18	FY19e	FY20e
P/E (x)	6.9	10.1	10.9	9.7	8.5
EV / EBITDA (x)	4.2	5.2	6.3	5.6	4.6
EV / sales (x)	0.4	0.6	0.9	0.8	0.7
P/B (x)	0.5	1.1	1.6	1.4	1.3
RoE (%)	7.1	11.4	15.9	15.6	15.6
RoCE (%) - after tax	5.3	7.8	11.4	11.2	12.6
Fixed asset T/O (x)	2.3	2.9	2.7	2.6	2.4
DPS (₹ / sh)	5.0	6.0	7.0	7.0	7.0
Dividend yield (%)	4.7	2.2	1.5	1.5	1.5
Dividend payout (%) - incl. DDT	39.1	26.9	20.2	18.0	15.8
Net debt / equity (x)	0.7	0.4	0.5	0.3	0.2
Receivables (days)	51	57	54	52	54
Inventory (days)	84	74	87	84	85
Payables (days)	42	51	64	54	56
CFO : PAT %	143.6	326.2	85.6	125.6	130.8

Source: Company, Anand Rathi Research

Fig 5 – Price movement

Source: Bloomberg

Fig 6 – Segment-wise revenue break-up (FY18)



Source: Company

Company update

Building Products

The BP division manufactures asbestos-cement products and fibre-cement flat products (V-boards and V-panels), and accounted for ~82% of the company's revenue. The company has a strong distribution network of 6,000 retailers in rural and se mi-urban areas.

In Q2 FY19, revenue of the BP division was up ~13% y/y, where AC sheet volumes grew 9.4% y/y on account of strong demand. The EBIT margin was down 421bps y/y to 12.3%, hit by rising diesel and pulp prices and the depreciating rupee.

Asbestos Cement Sheets

With installed capacity of 802,000 tpa, Visaka is the second-largest cement-asbestos-product manufacturer in India, enjoying close to an 18% market share. In ACS, it operates at ~88% capacity.

Management expects AC sheet revenue and volumes to grow in double digits in FY19. Further, on the commencement of production of ATUM, an integrated solar-roofing system (a hybrid product), management expects strong revenue and a high RoCE, boosted by a high asset-turnover ratio. At full utilisation, management expects ATUM to generate ~₹650m-700m revenue. It talked about a 5-6% price hike in AC sheets by Jan'19 in order to pass on the mounting costs.

Boards and Panels

With a wide variety of applications, 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.

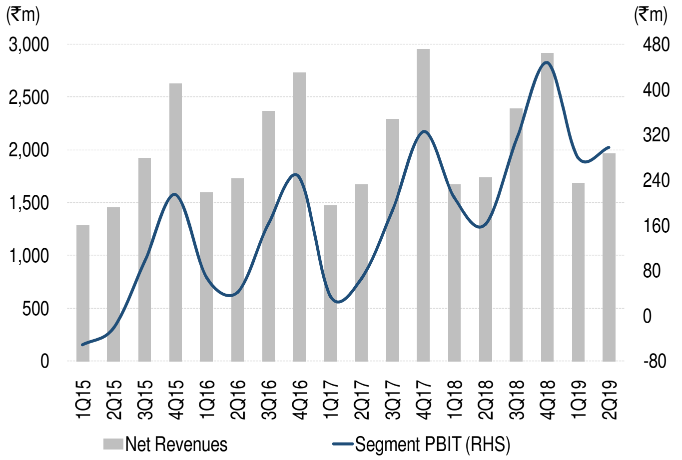
Mounting pulp prices, which constitute 44% of the raw material cost for boards, is a matter of deep concern. To pass on rising pulp prices to end-consumers, in the last 12 months management hiked prices by up to 10%.

With ~130,000tpa now, the boards division operates at ~95% capacity. Its revenue during FY18 grew 9% y/y. Management expects the FY19 margin to be restricted to ~7% (5.1% the previous year).

Capacity expansion

Visaka is expanding its boards capacity in the North, by 50,000 tons at ~₹1bn capex, expected to commence by end-Nov'18. For FY19, management expects ₹150m revenue from the Jhajjar plant. V Next capacities are running at 95%; management said it would be 75% on the Jhajjar plant commissioning. The expanded capacity would result in rationalised freight cost in northern and eastern markets. We believe the company will continue to outpace the industry over FY18-20, bolstered by growth in its boards and asbestos-cement-sheet volumes.

Fig 7 – Performance of the Building Products division



Source: Company, Anand Rathi Research

Textiles

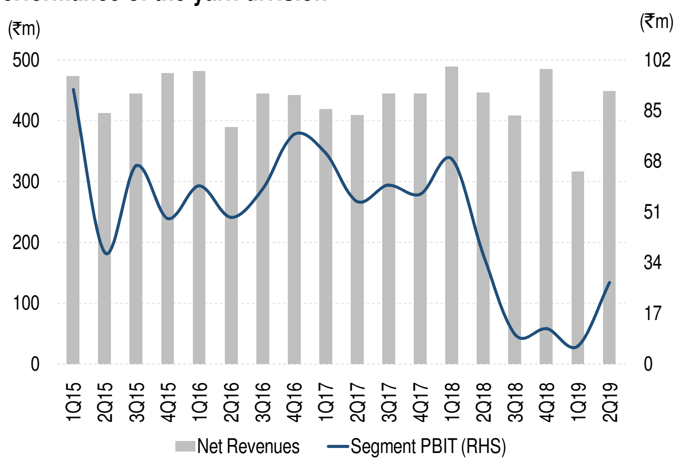
Visaka manufactures niche, value-added cotton touch air-jet spun polyester yarns and its products have some of the highest margins in the synthetic yarn industry. The textiles division brought~18% to revenue.

The company 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 FY19, the synthetic-yarn division's revenue increased a robust 88% y/y to ₹597m. Its EBIT margin on a low base shot up 1,058bps y/y to 12.5%.

De-monetization and the GST implementation slammed the yarn division, resulting in its PBIT margin declining to 4.7% in FY18 (9.6% a year earlier). However, management sees growth returning and expects the yarn business to clock double-digit volume growth (on the sizable inventory to address demand growth) and~12-13% EBITDA margins in coming quarters. We expect the yarn division revenue to register a 10.5% CAGR over FY18-20.

Fig 8 – Performance of the yarn division



Source: Company, Anand Rathi Research

Fig 9 – Quarterly trend

(₹ m)	Q2 FY19	Q1 FY19	Q4 FY18	Q3FY18	Q2FY18	FY18	FY19e	FY20e
Sales	2,510	3,457	2,596	2,418	2,011	10,123	11,224	11,998
EBITDA	318	532	357	344	333	1,502	1,586	1,802
EBITDA margins (%)	*12.7*	*15.4*	*13.8*	*14.2*	*16.6*	*14.8*	*14.1*	*15.0*
Interest	44	52	54	49	40	183	179	128
Depreciation	85	86	85	87	86	348	390	442
Other income	20	69	10	10	10	46	110	52
PBT	209	463	228	219	217	1,016	1,127	1,283
Tax	70	160	76	76	76	351	383	436
Adj. PAT	139	303	152	143	141	665	744	847

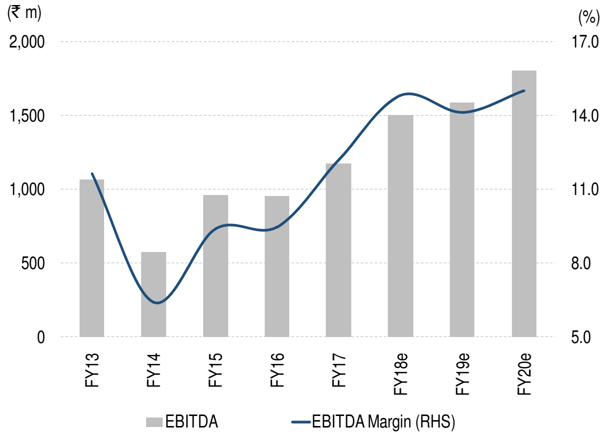
Source: Company, Anand Rathi Research

Fig 10 – Segment-wise results

(₹ m)	Q2 FY19	Q1 FY19	Q4 FY18	Q3 FY18	Q2 FY18	FY18	FY19e	FY20e
Net revenue								
Building products	1,913	2,956	2,144	1,970	1,694	8,420	9,316	9,917
Synthetic blended yarn	597	501	452	449	317	1,703	1,908	2,081
Segment-wise PBIT								
Building products	235	507	329	298	280	1,354	1,351	1,438
Synthetic blended yarn	75	44	35	27	6	80	191	208
PBIT margins (%)								
Building products	12.3	17.1	15.3	15.1	16.5	16.1	14.5	14.5
Synthetic blended yarn	12.5	8.7	7.8	6.1	1.9	4.7	10.0	10.0

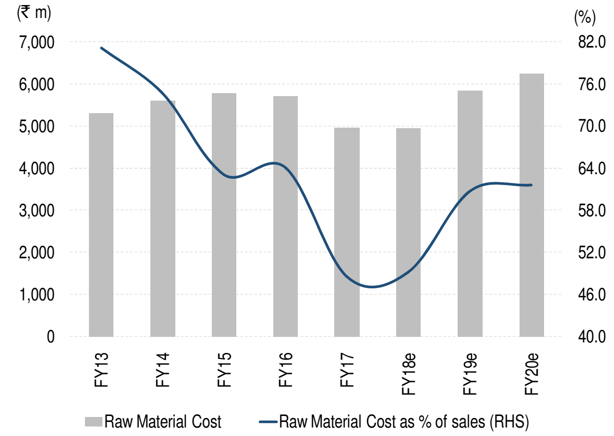
Source: Company, Anand Rathi Research

Fig 11 – EBITDA margin improves y/y



Source: Company, Anand Rathi Research

Fig 12 – RM / sales increase y/y



Source: Company, Anand Rathi Research

Change in estimates

To factor in the demand growth expected in the economy and the company's H1 FY19 performance besides the rising input costs and delayed Jhajjar plant commissioning, we lower our FY20e revenue 1.5% and our FY19e and FY20e EBITDA respectively 7.1% and 7.7%. We reduce our FY19e and FY20e PAT respectively 8.4% and 8.1%.

Fig 13 – Change in estimates

	Old		New		Change (%)	
	FY19e	FY20e	FY19e	FY20e	FY19e	FY20e
Sales (₹ m)	11,207	12,181	11,224	11,998	0.2	(1.5)
EBITDA (₹ m)	1,708	1,953	1,586	1,802	(7.1)	(7.7)
PAT (₹ m)	812	921	744	847	(8.4)	(8.1)

Source: Anand Rathi Research

Key Takeaways and Concall highlights

Financial and Operational highlights

- During Q2 FY19, the AC sheet, board and yarn divisions brought respectively 65%, 17% and 18% to overall revenue.
- ACS, board and yarn volumes grew respectively 9.4%, 22% and 71% y/y during Q2 FY19.
- V Next untilisation is running at 95%; management said it would be 75% after the Jhajjar plant commissioning.
- EBITDA margins for ACS, boards and yarn came at respectively 15%, 7% and 14%.
- On account of the rupee depreciation, rising diesel costs and pulp prices, management hike prices 3% in the V Next division, and 1% for AC sheets.
- The company spent ₹30m towards advertising expense. Management said it would be ~₹100m-120m in FY19.
- Working capital days reduced from 103 to 81.

Debt and Capex

- Debt on 30th Sep'18 was ₹2.16bn. Management said debt of ₹600m would be repaid in FY19.
- Management expects to spend ₹250m-300m on capex in FY19

ATUM

- With 30MW capacity, management expects ATUM to generate ₹650m-700m at full utilisation.
- ATUM is aimed at commercial consumers (large warehouses, godowns, factories, etc.).
- The ATUM plant commenced in Sep'18.
- Management expects ATUM to generate a good RoCE on account of a high asset-turnover ratio

Outlook

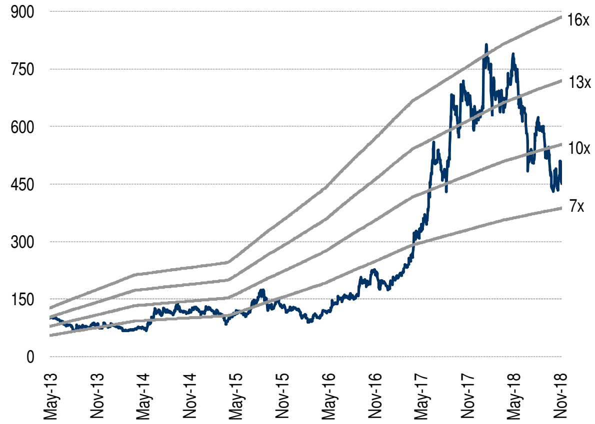
- It expects synthetic yarn revenue to grow in double digits and margins in FY19 to come at 12-13%.
- It expects AC sheet, board and synthetic yarn volumes to grow in double digits in FY19.
- For V Next, management said 20% volume growth would be sustainable and improve further on the commissioning of the Jhajjar plant
- It expects the Jhajjar plant to contribute ₹150m in FY19.
- Management talked about a ~5-6% price hike on AC sheets by Jan'19 in order to pass on rising input costs.
- It expects working capital to be constant.
- It expects the Jhajjar plant to commence by end-Nov'18.

Valuation

We believe that the expansion in board capacities, operating-cost rationalisation, the yarn division's expanding margins and the expected price hikes would help the company counter the rising input costs and rupee depreciation. We expect the operating margin in the next two years to come at ~15%. Further, we expect asbestos volumes to rise, driven by revival in demand and various positives for the industry, including a lower tax rate and a rise in steel prices.

We maintain a Buy rating and lower our multiple to 12x FY20e EPS in accord with the overall sector reduction in valuation. At the ruling price, the stock trades at PE of 8.5x FY20e.

Fig 14 – PE band



Source: Bloomberg, Anand Rathi research

Risks

- Rise in input costs.
- Demand slowdown.

Appendix

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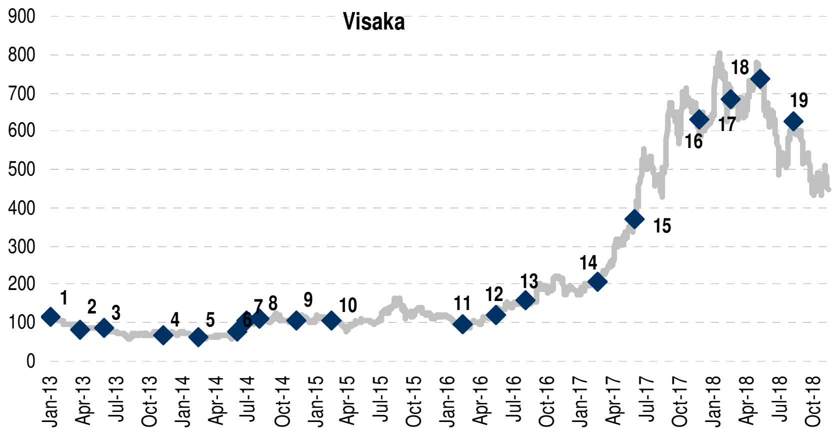

	Date	Rating	TP (₹)	Share Price (₹)
1	07-Jan-13	Buy	189	134
2	28-Mar-13	Buy	157	96
3	28-May-13	Buy	130	102
4	08-Nov-13	Hold	98	86
5	11-Feb-14	Hold	79	71
6	28-May-14	Hold	102	86
7	27-Jun-14	Hold	132	118
8	28-Jul-14	Buy	147	124
9	07-Nov-14	Buy	171	120
10	13-Feb-15	Buy	164	113
11	06-Feb-16	Buy	122	101
12	11-May-16	Buy	146	120
13	30-Jul-16	Buy	195	161
14	15-Feb-17	Buy	302	213
15	30-May-17	Buy	470	381
16	21-Nov-17	Buy	766	637
17	17-Feb-18	Buy	931	718
18	10-May-18	Buy	985	760
19	06-Aug-18	Buy	868	625

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