

Tough market conditions impact FY19 performance

Revenues for Q4FY19 declined marginally by 1.4% YoY to ₹ 587.6 crore. The market environment remained challenging with MBO's facing glitches related to GST transition and tepid consumption demand. EBITDA margins declined 148 bps YoY to 15.0% on account of increase in marketing spends and negative operating leverage. PAT declined 3% YoY to ₹ 46.7 crore (Siyaram had reported an exceptional expense worth ₹ 6 crore in Q4FY18).

Revenue recovery expected from FY20 onwards....

FY19 was a challenging year for the company with moderate topline growth of 4.8% YoY to ₹ 1816.2 crore. The management highlighted that market conditions remained sluggish post implementation of GST while normalisations at dealer's level took longer than anticipated. To address this issue, the management had to invest in marketing spends and trim its average realisations especially for garmenting segment. This translated into 90 bps margin contraction to 13.2% YoY in FY19. With stabilisation of trade channels and higher number of wedding dates in FY20, we expect revenue trajectory to progress. Also, investments in brand building should aid in revenue growth. We model in 10.5% revenue CAGR in FY19-21E.

Garment revenue to rise with introduction of sharper price points

The revenue trajectory for Siyaram's garmenting division decelerated with revenue growth of mere ~3% YoY FY19. Volumes grew at a steady rate of 11% YoY but realisations declined to ~₹ 600/piece, on account of higher discounting and increased proportion of lower price point category in the revenue mix. With sharper price points now in place, and enhanced brand visibility we anticipate garmenting division will bounce back sharply and be the next leg of growth for SSSML.

Valuation & Outlook

FY19 was a year of consolidation for SSML, where the management's key focus was on strengthening its balance sheet in lieu of revenue growth. Working capital cycle witnessed noteworthy recovery with NWC declining by ~10 days to 84 days. Subsequently, higher cash flow generation led to decline in total debt by 22% YoY to ₹ 460.2 crore (D/E: 0.6x in FY19 vs. D/E: 0.9x in FY18). With no major capex plans in the near term, we expect SSML to consistently generate FCF and enable the company to further reduce its debt levels. We roll our estimates to FY21E and expect revenue, EBITDA to grow at a CAGR of 11%, 12%, respectively, in FY21E. SSML's stock price witnessed a significant correction of ~48% in the last 12 months, making it available at valuation of 11.0x FY21E earnings. Hence, we have a **BUY** recommendation with a revised target price of ₹ 410 (13x FY21E EPS).



Particulars

Particular	Amount
Market Capitalisation (₹ Crore)	1,617.0
Debt (FY19) (₹ Crore)	460.2
Cash (FY19) (₹ Crore)	8.6
EV (₹ Crore)	2,068.6
52 week H/L	673 / 303
Equity Capital (₹ Crore)	9.4
Face Value (₹)	2

Key Highlights

- Challenging market conditions post GST implementation and slower than anticipated normalisation at dealer level result in tepid growth of ~5% for FY19
- Investments in brand building and addition of new products at sharper price points to aid revival in revenue growth. We model revenue CAGR of ~11% in FY19-21
- Maintain **BUY** with target price of ₹ 410

Research Analyst

Bharat Chhoda
bharat.chhoda@icicisecurities.com

Cheragh Sidhwa
cheragh.sidhwa@icicisecurities.com

Key Financial Summary

₹ crore	FY18	FY19E	FY20E	FY21E	CAGR (FY19-21E)
Net Sales	1,733.1	1,816.2	2,003.1	2,218.0	10.5%
EBITDA	245.0	239.6	266.1	299.6	11.8%
PAT	110.8	99.1	123.5	148.6	22.5%
P/E (x)	14.6	16.3	13.1	10.9	
EV/Sales (x)	1.3	1.1	1.0	0.9	
EV/EBITDA (x)	8.9	8.6	7.6	6.5	
RoCE (%)	14.5	14.6	15.7	17.2	
RoE (%)	16.3	13.1	14.6	15.5	

Source: Company, ICICI Direct Research

Exhibit 1: Variance Analysis

₹ crore	Q4FY19	Q4FY19E	Q4FY18	YoY (%)	Q3FY19	QoQ (%)	Comments
Revenue	587.6	N/A	595.9	-1.4	446.3	31.7	Subdued performance growth across fabric and garmenting division for Q4FY19
Other Income	7.0	N/A	8.7	-20.4	7.5	-6.7	
Raw Material Expense	284.6	N/A	299.5	-5.0	196.9	44.5	
Employee Expense	49.7	N/A	51.7	-3.9	50.1	-0.8	
Processing & Labour Expense	52.6	N/A	48.5	8.4	36.9	42.7	
Other Expense	112.8	N/A	98.2	14.8	109.7	2.8	
EBITDA	87.9	N/A	98.0	-10.3	52.8	66.6	
EBITDA Margin (%)	15.0	N/A	16.4	-148 bps	11.8	314 bps	Higher other expense owing to increase in advertisement spends and negative operating leverage impact operating
Depreciation	15.2	N/A	15.5	-2.2	15.0	1.1	
Interest	11.7	N/A	12.2	-4.3	13.7	-14.8	
Exceptional Item	0.0	N/A	-6.0		0.0		Exceptional expense for Q4FY18 pertains to write off towards common effluent treatment plant expense done in earlier
PBT	68.0	N/A	73.0	-6.8	31.5	115.9	
Tax Outgo	21.3	N/A	24.9	-14.5	11.4	86.4	
PAT	46.7	N/A	48.1	-2.8	20.1	132.7	

Source: Company, ICICI Direct Research

Exhibit 2: Change in estimates

	FY19A	FY20E			FY21E
(₹ Crore)	Actual	Old	New	% Change	Introduced
Revenue	1,816.2	2,056.3	2,003.1	-2.6	2,218.0
EBITDA	239.6	288.8	266.1	-7.9	299.6
EBITDA Margin (%)	13.2	14.0	13.3	-76 bps	13.5
PAT	99.1	137.9	123.5	-10.5	148.6
EPS (₹)	21.1	29.4	26.3	-10.4	31.7

Source: Company, ICICI Direct Research

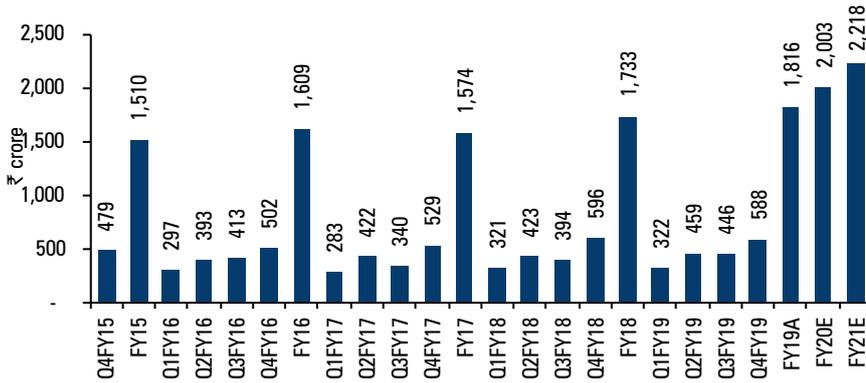
Exhibit 3: Assumptions

	FY17	FY18	FY19E	FY20E	FY21E
Cloth Volume (Lakh Mtrs)	852.7	915.5	915.7	975.3	1,044.5
Average Realisation (₹)	136	139	144	147	150
Readymade Garments					
Volume Lakh (Pcs)	52.5	59.6	65.9	73.5	84.0
Average Realisation (₹)	640	675	628	634	640

Source: Company, ICICI Direct Research

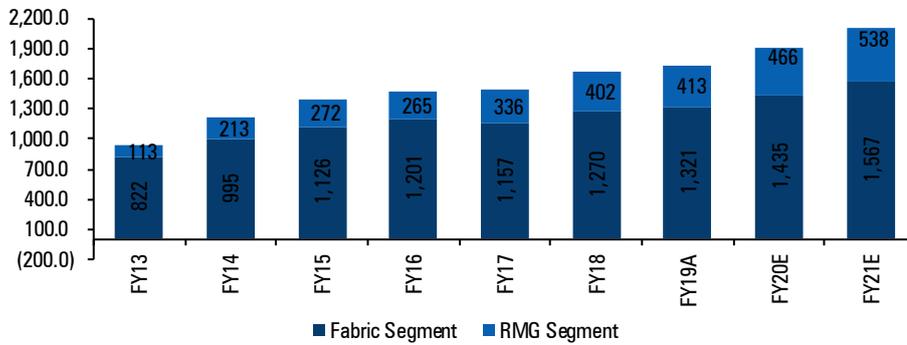
Financial story in charts

Exhibit 4: Revenue trend



Source: Company, ICICI Direct Research

Exhibit 5: Segmental revenue contribution



Source: Company, ICICI Direct Research

Revenue mix (9MFY19)

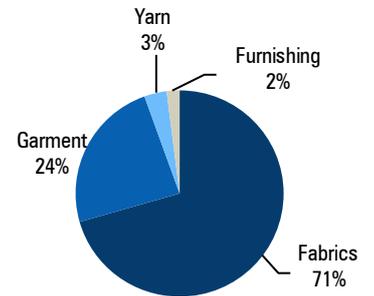
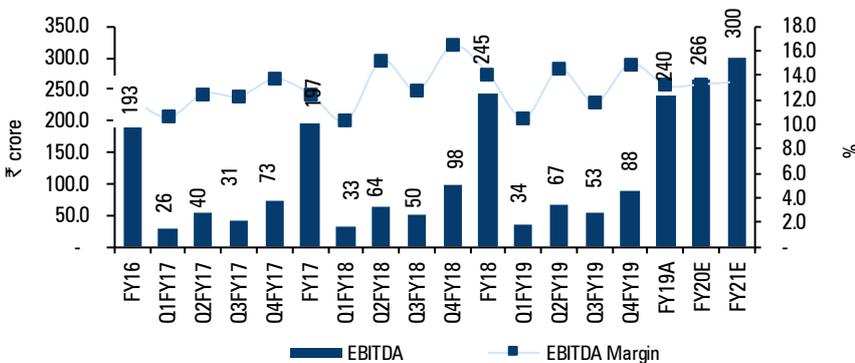
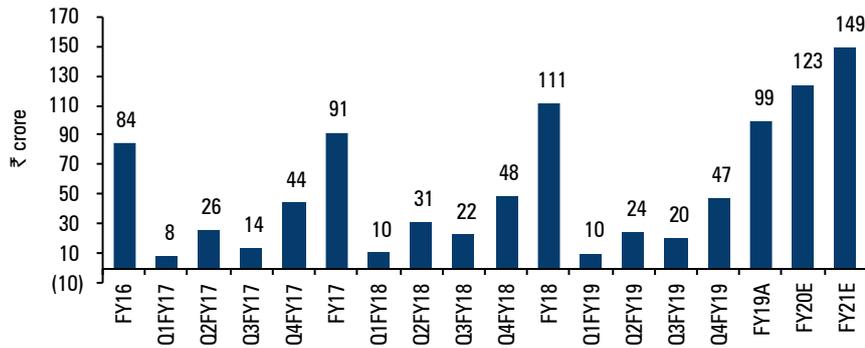


Exhibit 6: EBITDA and EBITDA margin trend



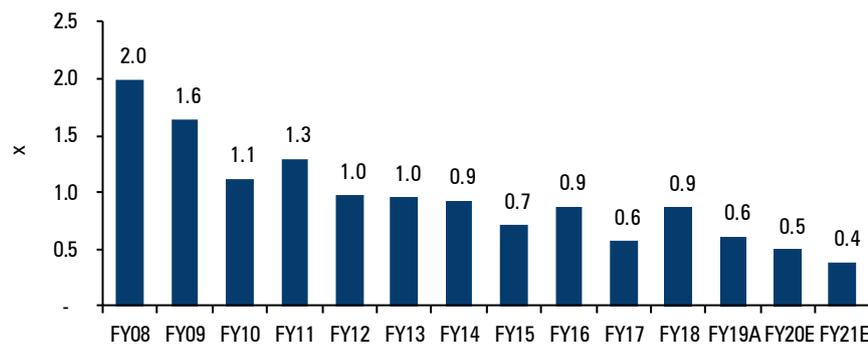
Source: Company, ICICI Direct Research

Exhibit 7: PAT to grow at steady pace



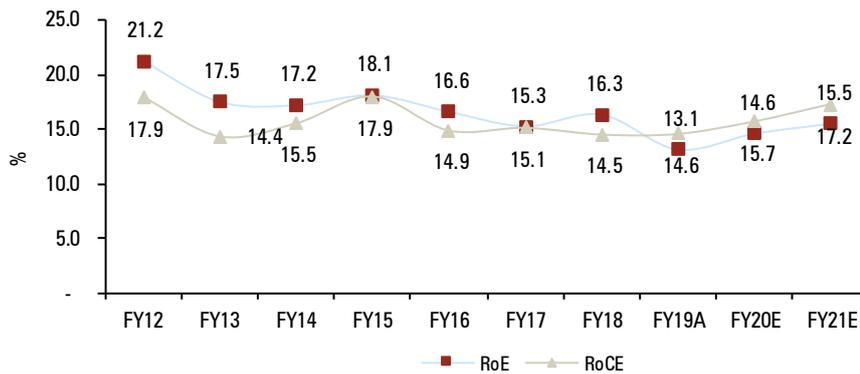
Source: Company, ICICI Direct Research

Exhibit 8: Debt: equity trend



Source: Company, ICICI Direct Research

Exhibit 9: Return ratios to improve, going forward



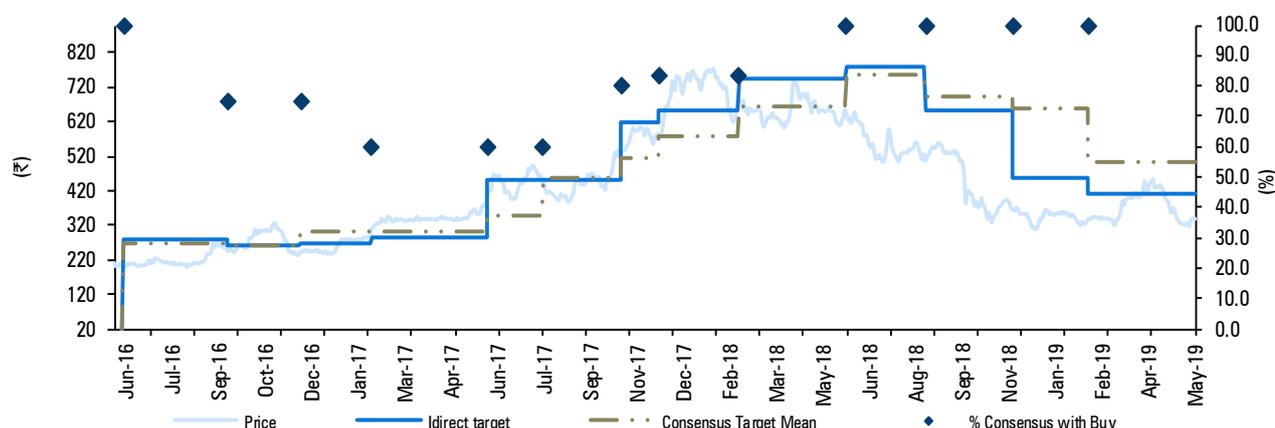
Source: Company, ICICI Direct Research

Exhibit 10: Valuation

	Sales (₹ cr)	Growth (%)	EPS (₹)	Growth (%)	PE (x)	EV/EBITDA (x)	RoNW (%)	RoCE (%)
FY18	1,733.1	10.1	23.6	21.7	14.6	8.9	16.3	14.5
FY19A	1,816.2	4.8	21.1	(10.6)	16.3	8.6	13.1	14.6
FY20E	2,003.1	10.3	26.3	24.6	13.1	7.6	14.6	15.7
FY21E	2,218.0	10.7	31.7	20.4	10.9	6.5	15.5	17.2

Source: Company, ICICI Direct Research

Exhibit 11: Recommendation History vs. Consensus



Source: Bloomberg, Company, ICICI Direct Research

Exhibit 12: Top 10 Shareholders

Rank	Investor Name	Latest Filing Date	% O/S Position (m)	Change (m)
1	Navneet Trust	31-Mar-19	39.73%	90.92
2	HDFC Asset Management Co., Ltd.	31-Mar-19	9.84%	22.52
3	Franklin Templeton Asset Management (India) Pvt. Ltd.	31-Mar-19	4.18%	9.56
4	Somerset Capital Management, L.L.P.	31-Mar-19	2.37%	5.42
5	UTI Asset Management Co. Ltd.	31-Mar-19	1.99%	4.54
6	Gala (Gnanesh D)	31-Mar-19	1.84%	4.20
7	Gala (Kalpesh H)	31-Mar-19	1.83%	4.19
8	Kotak Mahindra Asset Management Company Ltd.	31-Mar-19	1.58%	3.61
9	Gala (Ranjanaben B)	31-Mar-19	1.54%	3.53
10	Gala (Anil Dungarshi)	31-Mar-19	1.45%	3.31

Source: Reuters, ICICI Direct Research

Exhibit 13: Recent Activity

Buys			Sells		
Investor name	Value (Mn)	Shares(Mn)	Investor name	Value (Mn)	Shares (Mn)
DSP Investment Managers Pvt. Ltd.	1.21	0.19	Dimensional Fund Advisors, L.P.	-0.06	-0.01
Reliance Nippon Life Asset Management Limited	0.41	0.06	Jalan (Ashok)	-0.01	0.00
Canara Robeco Asset Management Company Ltd.	0.04	0.01			
Agarwal (Priyanka Ruchir)	0.01	0.00			
Poddar (Geetadevi Dharaprasad)	0.00	0.00			

Source: Reuters, ICICI Direct Research

Exhibit 14: Shareholding Pattern

(in %)	Mar-18	Jun-18	Sep-18	Dec-18	Mar-19
Promoter	67.1	67.1	67.1	67.1	67.1
FII	1.6	1.7	1.7	1.5	1.5
DII	9.4	9.4	9.6	10.1	10.8
Others	21.9	21.9	21.7	21.3	20.7

Source: Company, ICICI Direct Research

Financial summary

Exhibit 15: Profit and loss statement				
	₹ crore			
(Year-end March)	FY18	FY19A	FY20E	FY21E
Total operating Income	1,733.1	1,816.2	2,003.1	2,218.0
Growth (%)	10.1	4.8	10.3	10.7
Raw Material Expenses	773.9	806.6	905.0	1,000.2
Employee Expenses	189.8	198.2	217.1	239.5
Manufacturing & Other Expenses	524.5	571.8	615.0	678.7
Total Operating Expenditure	1,488.2	1,576.6	1,737.1	1,918.5
EBITDA	245.0	239.6	266.1	299.6
Growth (%)	24.5	-2.2	11.0	12.6
Depreciation	60.6	62.3	67.1	70.6
Interest	34.2	48.4	42.0	37.0
Other Income	26.3	28.2	30.0	33.3
Exceptional Item	-6.0	-4.7	0.0	0.0
PBT	170.4	152.4	187.1	225.2
Growth (%)	29.7	-10.9	19.0	20.4
Total Tax	59.6	53.3	63.6	76.6
PAT	110.8	99.1	123.5	148.6
Growth (%)	21.7	-10.6	24.6	20.4
EPS (₹)	23.6	21.1	26.3	31.7

Source: Company, ICICI Direct Research

Exhibit 17: Balance sheet				
	₹ crore			
(Year-end March)	FY18	FY19A	FY20E	FY21E
Liabilities				
Equity Capital	9.4	9.4	9.4	9.4
Reserve and Surplus	668.8	745.5	838.1	949.6
Total Shareholders funds	678.2	754.9	847.5	959.0
Total Debt	589.0	460.2	420.0	370.0
Deferred Tax Liability	15.1	19.6	19.6	19.6
Minority Interest / Others	-	-	-	-
Total Liabilities	1,282.4	1,234.7	1,287.1	1,348.5
Assets				
		-21.9%		40.0
Gross Block	571.1	713.4	753.4	793.4
Less: Acc Depreciation	141.1	203.4	270.4	341.0
Net Block	430.0	510.1	483.0	452.4
Capital WIP	92.5	8.0	4.0	2.0
Total Fixed Assets	522.5	518.1	487.0	454.4
Investments	37.8	30.0	28.5	27.1
Inventory	431.1	422.2	472.0	516.5
Debtors	421.8	392.7	428.1	474.0
Loans and Advances	116.6	130.9	150.2	166.4
Cash	23.6	8.6	16.4	31.0
Total Current Assets	993.1	954.4	1,066.7	1,187.9
Current Liabilities	258.6	255.5	282.3	307.3
Provisions	12.4	12.3	12.9	13.5
Total Current Liabilities	271.0	267.7	295.1	320.8
Net Current Assets	722.1	686.6	771.6	867.1
Others Assets	-	-	-	-
Application of Funds	1,282.4	1,234.7	1,287.1	1,348.5

Source: Company, ICICI Direct Research

Exhibit 16: Cash flow statement				
	₹ crore			
(Year-end March)	FY18	FY19A	FY20E	FY21E
PAT	110.8	99.1	123.5	148.6
Add: Depreciation	60.6	62.3	67.1	70.6
(Inc)/dec in Current Assets	-260.0	23.6	-104.5	-106.6
Inc/(dec) in CL and Provisions	70.9	-3.3	27.4	25.7
Others	0.0	0.0	0.0	0.0
CF from operating activities	-17.6	181.7	113.4	138.4
(Inc)/dec in Investments	-23.8	7.8	1.5	1.4
(Inc)/dec in Fixed Assets	-90.6	-142.3	-40.0	-40.0
(Inc)/dec in CWIP	-56.5	84.6	4.0	2.0
Others	-5.3	0.0	0.0	0.0
CF from investing activities	-176.1	-50.0	-34.5	-36.6
Issue/(Buy back) of Equity	0.0	0.0	0.0	0.0
Inc/(dec) in loan funds	246.6	-128.8	-40.2	-50.0
Others	-33.8	-18.0	-30.9	-37.2
CF from financing activities	212.7	-146.8	-71.0	-87.2
Net Cash flow	18.98	-15.06	7.84	14.63
Opening Cash	4.7	23.6	8.6	16.4
Closing Cash	23.6	8.6	16.4	31.0

Source: Company, ICICI Direct Research

Exhibit 18: Key ratios				
(Year-end March)	FY18	FY19A	FY20E	FY21E
Per share data (₹)				
EPS	23.6	21.1	26.3	31.7
Cash EPS	36.6	34.4	40.6	46.8
BV	144.7	161.1	180.8	204.6
DPS	5.2	4.8	6.6	7.9
Cash Per Share	5.0	1.8	3.5	6.6
Operating Ratios				
EBITDA Margin (%)	14.1	13.2	13.3	13.5
PBT Margin (%)	9.8	8.4	9.3	10.2
PAT Margin (%)	6.4	5.5	6.2	6.7
Inventory days	90.8	84.8	86.0	85.0
Debtor days	88.8	78.9	78.0	78.0
Creditor days	85.6	79.5	80.0	80.0
Return Ratios (%)	94.0	84.3		
RoE	16.3	13.1	14.6	15.5
RoCE	14.5	14.6	15.7	17.2
RoIC	16.6	15.2	16.3	18.0
Valuation Ratios (x)				
P/E	14.6	16.3	13.1	10.9
EV / EBITDA	8.9	8.6	7.6	6.5
EV / Net Sales	1.3	1.1	1.0	0.9
Market Cap / Sales	0.9	0.9	0.8	0.7
Price to Book Value	2.4	2.1	1.9	1.7
Solvency Ratios				
Debt/EBITDA	2.4	1.9	1.6	1.2
Debt / Equity	0.9	0.6	0.5	0.4
Current Ratio	3.7	3.6	3.6	3.7
Quick Ratio	2.1	2.0	2.0	2.1

Source: Company, ICICI Direct Research

RATING RATIONALE

ICICI Direct endeavors to provide objective opinions and recommendations. ICICI Direct assigns ratings to its stocks according to their notional target price vs. current market price and then categorizes them as Buy, Hold, Reduce and Sell. The performance horizon is two years unless specified and the notional target price is defined as the analysts' valuation for a stock

Buy: >15%

Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



Pankaj Pandey

Head – Research

pankaj.pandey@icicisecurities.com

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

ANALYST CERTIFICATION

I/We, Bharat Chhoda, MBA; Cheragh Sidhwa MBA, Research Analysts, authors and the names subscribed to this report, hereby certify that all of the views expressed in this research report accurately reflect our views about the subject issuer(s) or securities. We also certify that no part of our compensation was, is, or will be directly or indirectly related to the specific recommendation(s) or view(s) in this report. It is also confirmed that above mentioned Analysts of this report have not received any compensation from the companies mentioned in the report in the preceding twelve months and do not serve as an officer, director or employee of the companies mentioned in the report

Terms & conditions and other disclosures:

ICICI Securities Limited (ICICI Securities) is a full-service, integrated investment banking and is, inter alia, engaged in the business of stock broking and distribution of financial products. ICICI Securities Limited is a Sebi registered Research Analyst with SEBI Registration Number – INH000000990. ICICI Securities Limited Sebi Registration is INZ000183631 for stock broker. ICICI Securities is a subsidiary of ICICI Bank which is India's largest private sector bank and has its various subsidiaries engaged in businesses of housing finance, asset management, life insurance, general insurance, venture capital fund management, etc. ("associates"), the details in respect of which are available on www.icicibank.com

ICICI Securities is one of the leading merchant bankers/ underwriters of securities and participate in virtually all securities trading markets in India. We and our associates might have investment banking and other business relationship with a significant percentage of companies covered by our Investment Research Department. ICICI Securities generally prohibits its analysts, persons reporting to analysts and their relatives from maintaining a financial interest in the securities or derivatives of any companies that the analysts cover.

Recommendation in reports based on technical and derivative analysis centre on studying charts of a stock's price movement, outstanding positions, trading volume etc as opposed to focusing on a company's fundamentals and, as such, may not match with the recommendation in fundamental reports. Investors may visit icidirect.com to view the Fundamental and Technical Research Reports.

Our proprietary trading and investment businesses may make investment decisions that are inconsistent with the recommendations expressed herein.

ICICI Securities Limited has two independent equity research groups: Institutional Research and Retail Research. This report has been prepared by the Retail Research. The views and opinions expressed in this document may or may not match or may be contrary with the views, estimates, rating, target price of the Institutional Research.

The information and opinions in this report have been prepared by ICICI Securities and are subject to change without any notice. The report and information contained herein is strictly confidential and meant solely for the selected recipient and may not be altered in any way, transmitted to, copied or distributed, in part or in whole, to any other person or to the media or reproduced in any form, without prior written consent of ICICI Securities. While we would endeavour to update the information herein on a reasonable basis, ICICI Securities is under no obligation to update or keep the information current. Also, there may be regulatory, compliance or other reasons that may prevent ICICI Securities from doing so. Non-rated securities indicate that rating on a particular security has been suspended temporarily and such suspension is in compliance with applicable regulations and/or ICICI Securities policies, in circumstances where ICICI Securities might be acting in an advisory capacity to this company, or in certain other circumstances.

This report is based on information obtained from public sources and sources believed to be reliable, but no independent verification has been made nor is its accuracy or completeness guaranteed. This report and information herein is solely for informational purpose and shall not be used or considered as an offer document or solicitation of offer to buy or sell or subscribe for securities or other financial instruments. Though disseminated to all the customers simultaneously, not all customers may receive this report at the same time. ICICI Securities will not treat recipients as customers by virtue of their receiving this report. Nothing in this report constitutes investment, legal, accounting and tax advice or a representation that any investment or strategy is suitable or appropriate to your specific circumstances. The securities discussed and opinions expressed in this report may not be suitable for all investors, who must make their own investment decisions, based on their own investment objectives, financial positions and needs of specific recipient. This may not be taken in substitution for the exercise of independent judgment by any recipient. The recipient should independently evaluate the investment risks. The value and return on investment may vary because of changes in interest rates, foreign exchange rates or any other reason. ICICI Securities accepts no liabilities whatsoever for any loss or damage of any kind arising out of the use of this report. Past performance is not necessarily a guide to future performance. Investors are advised to see Risk Disclosure Document to understand the risks associated before investing in the securities markets. Actual results may differ materially from those set forth in projections. Forward-looking statements are not predictions and may be subject to change without notice.

ICICI Securities or its associates might have managed or co-managed public offering of securities for the subject company or might have been mandated by the subject company for any other assignment in the past twelve months.

ICICI Securities or its associates might have received any compensation from the companies mentioned in the report during the period preceding twelve months from the date of this report for services in respect of managing or co-managing public offerings, corporate finance, investment banking or merchant banking, brokerage services or other advisory service in a merger or specific transaction.

ICICI Securities encourages independence in research report preparation and strives to minimize conflict in preparation of research report. ICICI Securities or its associates or its analysts did not receive any compensation or other benefits from the companies mentioned in the report or third party in connection with preparation of the research report. Accordingly, neither ICICI Securities nor Research Analysts and their relatives have any material conflict of interest at the time of publication of this report.

Compensation of our Research Analysts is not based on any specific merchant banking, investment banking or brokerage service transactions.

ICICI Securities or its subsidiaries collectively or Research Analysts or their relatives do not own 1% or more of the equity securities of the Company mentioned in the report as of the last day of the month preceding the publication of the research report.

Since associates of ICICI Securities are engaged in various financial service businesses, they might have financial interests or beneficial ownership in various companies including the subject company/companies mentioned in this report.

ICICI Securities may have issued other reports that are inconsistent with and reach different conclusion from the information presented in this report.

Neither the Research Analysts nor ICICI Securities have been engaged in market making activity for the companies mentioned in the report.

We submit that no material disciplinary action has been taken on ICICI Securities by any Regulatory Authority impacting Equity Research Analysis activities.

This report is not directed or intended for distribution to, or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction, where such distribution, publication, availability or use would be contrary to law, regulation or which would subject ICICI Securities and affiliates to any registration or licensing requirement within such jurisdiction. The securities described herein may or may not be eligible for sale in all jurisdictions or to certain category of investors. Persons in whose possession this document may come are required to inform themselves of and to observe such restriction.