

Siyaram Silk Mills

Performance Highlights

Y/E March (₹cr)	2QFY17	2QFY16	% chg. (yoy)	1QFY17	% chg. (qoq)
Net Sales	420	394	6.7	281	49.3
Operating profit	54	50	7.0	30	80.1
OPM (%)	12.7	12.7	4bp	10.6	218bp
Adj. PAT	27	25	6.1	10	167.1

Source: Company, Angel Research

Siyaram Silk Mills (SSML)' results for 2QFY2017 have come in below our estimates, both on top-line and bottom-line front, on back of lower volume growth due to weak consumer buying sentiments.

Top-line grew modest: The top-line for the quarter grew by ~6.7% yoy to ₹420cr, which can be mainly attributed to lower volume growth.

EBITDA margin remain flat: The EBITDA for the quarter grew by ~7% yoy to ₹54cr, while the EBITDA margin remained flat yoy basis.

PAT grew by ~6%: During the quarter, the net profit grew by ~6.1% yoy to ₹27cr due to lower sales growth, higher interest cost and taxes.

Outlook and Valuation: Going forward, we expect SSML to report net sales CAGR of ~10% to ~₹1,948cr and adj. net profit CAGR of ~11% to ₹107cr over FY2016-18E. The same would be on the back of market leadership in blended fabrics, strong branding, wide distribution channel, strong presence in tier II and tier III cities, and emphasis on latest designs at affordable pricing points. At the current market price, SSML trades at an inexpensive valuation (at a P/E of 10.4x its FY2018E earnings). **We recommend a Buy rating on the stock with the target price of ₹1,605.**

Key financials

Y/E March (₹ cr)	FY2015	FY2016	FY2017E	FY2018E
Net Sales	1,510	1,619	1,733	1,948
% chg	15.9	7.2	7.0	12.4
Net Profit	79	88	91	107
% chg	78.8	87.6	90.5	107.4
OPM (%)	11.5	11.6	11.6	11.7
EPS (₹)	84.1	93.5	96.6	114.7
P/E (x)	14.1	12.7	12.3	10.4
P/BV (x)	2.6	2.2	1.9	1.6
RoE (%)	18.1	17.1	15.3	15.7
RoCE (%)	17.9	16.3	15.9	16.9
EV/Sales (x)	0.9	0.9	0.8	0.7
EV/EBITDA (x)	8.1	7.7	7.2	6.3

Source: Company, Angel Research; Note: CMP as of November 21, 2016,

BUY

CMP	₹1,187
Target Price	₹1,605

Investment Period	12 Months
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Stock Info

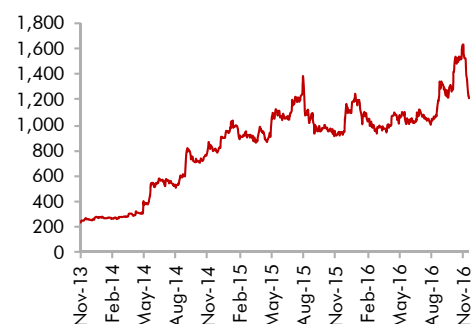
Sector	Textile
Market Cap (₹ cr)	1,113
Net debt (₹ cr)	334
Beta	1.0
52 Week High / Low	1,690 / 922
Avg. Daily Volume	1,113
Face Value (₹)	10
BSE Sensex	25,765
Nifty	7,929
Reuters Code	SIYR.BO
Bloomberg Code	SIYA IN

Shareholding Pattern (%)

Promoters	67.1
MF / Banks / Indian Fls	6.3
FII / NRIs / OCBs	0.6
Indian Public / Others	26.0

Abs.(%)	3m	1yr	3yr
Sensex	(7.0)	2.6	25.4
SSML	11.3	33.1	400.0

3-Year Daily price chart



Source: Company, Angel Research

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Exhibit 1: Quarterly performance

Y/E March (₹ cr)	2QFY17	2QFY16	% chg. (yoy)	1QFY17	% chg. (qoq)	1HFY17	1HFY16	% chg
Net Sales	420	394	6.7	281	49.3	702	691	1.5
Net raw material	204	193	5.7	122	67.0	327	331	(1.2)
(% of Sales)	48.6	49.1	(45)	43.5	515	46.6	47.8	
Employee Cost	40	34	15.0	37	7.2	77	67	14.4
(% of Sales)	9.4	8.8	68	13.1	(371)	10.9	9.7	
Other Expenses	123	116	5.7	92	32.8	215	213	1.1
(% of Sales)	29.2	29.5	(27)	32.8	(362)	30.7	30.8	
Total Expenditure	367	344	6.6	252	45.7	618	610	1.3
Operating Profit	54	50	7.0	30	80.1	83	81	3
OPM (%)	12.7	12.7	4bp	10.6	218bp	11.9	11.7	13
Interest	8	7	16.7	9	(6.3)	17	14	24.4
Depreciation	11	11	1.7	11	0.9	22	21	6.4
Other Income	7	4	91.0	6	29.7	13	8	55.3
PBT	41	36	15.5	15	168.7	57	55	3.5
(% of Sales)	9.8	9.1		5.5		8.1	7.9	
Tax	15	11	38.1	5	171.7	20	17	19.4
(% of PBT)	35.1	29.4		34.7		35.0	30.4	
Reported PAT	27	25	6.1	10	167.1	37	38	(3.4)
PATM	6.4	6.4		3.6		5.2	5.5	

Source: Company, Angel Research

Investment arguments

Leadership in blended fabric to support growth

Revenue to grow at a CAGR of ~10% over FY2016-18E to ₹1,948cr

SSML is the largest manufacturer of blended high fashion suitings, shirtings and apparels in the country. A portfolio of strong and value-for-money brands like *Siyaram's*, *J Hampstead* and *Mistair* in the fabric segment, place SSML in a sweet spot. The company has launched two new premium cotton brands – *Zenesis* and *Moretti*, and has penetrated further into new growth areas like cotton shirting, linen fabrics etc.

SSML has been able to differentiate itself from unorganized and organized competitors in a highly fragmented market. The offerings of the company are available at various price points in the low and mid-range, which enable it to compete with brands like Raymond, Reid & Taylor, Grasim, Digjam, and Gwalior, which offer similar products. Shifting preference of consumers from unbranded fabrics to branded blended fabrics would likely aid the company's growth prospects. With a strong market position, pan-India presence and high brand recognition, along with increasing diversification in revenue profile, we expect the company's revenue to grow at a CAGR of ~10% over FY2016-18E to ₹1,948.

Rigorous advertisement and retail expansion to push demand

SSML has built a strong brand presence in the country through continuous advertisement and brand-building efforts. Its emphasis on latest fabrics, innovative and latest designs, and affordable pricing points give it an edge over competition. Every brand of the company holds a distinct position in the consumers' minds, which has helped the company in creating a niche for itself in a highly competitive industry.

Additionally, the company has been spending rigorously on advertising for the recognition of its brands. The company has signed up celebrities like M S Dhoni (*Siyaram's*, MSD), Saif Ali Khan (*Oxemberg*) and Hrithik Roshan (*J. Hampstead*) as brand ambassadors for its products.

Moreover, SSML has one of the largest distribution networks in the country with over 1,600 dealers and 500 agents supplying to more than 40,000 outlets across India. This enables the company to launch new products with a high success ratio and low marketing cost, giving it an edge over competition. In order to expand its retail footprint, the company continues to add stores through the franchise model. The company plans to increase the number of stores through franchisees to 500 by FY2017.

Venturing into women's segment – a long term growth driver

The company has ventured into the salwar kameez and ethnic women's wear segment with its brand - *Siya*. The *Siya* brand comprises of semi-stitched cotton, polyester and embroidered designer fabrics, with prices ranging from ₹700 to ₹7,000. For FY2015, the company generated revenue of ~₹38cr from the segment and it plans to grow it to ₹500cr in the coming four to five years as there are hardly any national-level mass brands in the category. SSML has roped in celebrities Parineeti Chopra and Karishma Kapoor to endorse the brand. As per industry reports (Technopak study in 2011), salwar kameez and ethnic women's

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wear is a ₹20,690cr category, growing at a CAGR of 10%, which gives immense opportunity to the company.

Outlook and valuation

Going forward, we expect SSML to report net sales CAGR of ~10% to ~₹1,948cr and adj.net profit CAGR of ~11% to ₹107cr over FY2016-18E. The same would be on the back of market leadership in blended fabrics, strong branding, wide distribution channel, strong presence in tier II and tier III cities, and emphasis on latest designs at affordable pricing points. At the current market price, SSML trades at an inexpensive valuation (at a P/E of 10.4x its FY2018E earnings). **We recommend a Buy rating on the stock with the target price of ₹1,605.**

Concerns

Decline in rural spending: Unseasonal rains or deficient rainfall in the rural areas may result in lower agriculture output. This, in turn, could result in lower discretionary spending among rural consumers, which could impact the company's overall sales.

Competition from the unorganized sector: SSML, being in a sector that's highly fragmented, faces intense competition from unorganized players as they usually sell their products at a much cheaper rate compared to it. However, due to strong branding efforts, huge distribution network and affordable price points, the company is easily able to differentiate its products from those of competitors.

Fluctuation in raw material prices: SSML operates in a highly price-sensitive market. Any fluctuation in raw-material prices can lead to margin compression, as the company may not be able to pass on the entire increase to the end-user.

Company background

SSML is the largest manufacturer of blended fabrics in India. The company enjoys a strong brand presence across the country, with brands such as *Siyaram's*, *Mistair*, *MSD*, *J. Hampstead* and *Oxemberg* in its kitty. The company has also launched three premium brands - *Royal Linen* (linen fabrics for men and women), *Moretti* (cotton shirting) and *Zenesis* (cotton suitings). SSML has built a strong brand presence in the country through continuous advertisement and brand-building efforts over the past 30 years. The company has created a niche for itself in a highly competitive industry.

It has a wide distribution network comprising 1,600 dealers and 500 agents supplying to more than 40,000 outlets across India and has ~160 franchise stores. The company operates four plants – one at Tarapur near Mumbai for weaving and yarn dyeing, two at Daman for garments and one at Silvassa for weaving.

Profit and loss statement

Y/E March (₹ cr)	FY13	FY14	FY15	FY16	FY17E	FY18E
Total operating income	1,041	1,303	1,510	1,619	1,733	1,948
% chg	13.7	25.2	15.9	7.2	7.0	12.4
Total Expenditure	931	1,163	1,336	1,432	1,532	1,719
Cost of Materials	532	671	794	810	913	1,028
Personnel	89	108	123	144	146	166
Others Expenses	310	384	419	478	473	525
EBITDA	110	140	174	188	201	229
% chg	(5.4)	27.1	24.3	7.8	7.1	13.8
(% of Net Sales)	10.6	10.7	11.5	11.6	11.6	11.7
Depreciation & Amortisation	22	29	41	42	44	45
EBIT	88	111	133	146	157	183
% chg	(6.1)	25.5	20.1	9.6	7.6	16.5
(% of Net Sales)	8.5	8.5	8.8	9.0	9.1	9.4
Interest & other Charges	25	29	31	30	39	40
Other Income	19	16	16	17	17	17
(% of PBT)	22.6	16.1	13.6	12.9	12.7	10.7
Share in profit of Associates	-	-	-	-	-	-
Recurring PBT	82	98	119	133	135	160
% chg	0.7	19.8	21.4	11.6	1.8	18.7
Prior Period & Extra. Exp./ (Inc.)	-	-	-	-	-	-
PBT (reported)	82	98	119	133	135	160
Tax	27	34	40	45	45	53
(% of PBT)	32.7	35.1	33.8	34.0	33.0	33.0
PAT (reported)	55	64	79	88	91	107
Add: Share of earnings of asso.	-	-	-	-	-	-
ADJ. PAT	55	64	79	88	91	107
% chg	(3.0)	15.6	23.9	11.1	3.4	18.7
(% of Net Sales)	5.3	4.9	5.2	5.4	5.2	5.5
Basic EPS (₹)	58.7	67.8	84.1	93.5	96.6	114.7
Fully Diluted EPS (₹)	58.7	67.8	84.1	93.5	96.6	114.7
% chg	(3.0)	15.6	23.9	11.1	3.4	18.7

Balance sheet

Y/E March (₹ cr)	FY13	FY14	FY15	FY16	FY17E	FY18E
SOURCES OF FUNDS						
Equity Share Capital	9	9	9	9	9	9
Reserves & Surplus	305	360	426	503	582	677
Shareholders Funds	314	370	435	512	592	686
Minority Interest	-	-	-	-	-	-
Total Loans	278	314	309	386	400	400
Deferred Tax Liability	22	26	23	23	23	23
Total Liabilities	614	709	767	920	1,014	1,109
APPLICATION OF FUNDS						
Gross Block	499	570	589	609	639	659
Less: Acc. Depreciation	194	220	258	299	343	388
Net Block	305	349	332	310	297	271
Capital Work-in-Progress	16	3	7	7	7	7
Investments	0	0	0	46	46	46
Current Assets	466	543	638	773	882	1,025
Inventories	222	225	238	326	370	427
Sundry Debtors	200	260	335	368	404	464
Cash	3	6	5	6	13	18
Loans & Advances	33	39	45	57	69	88
Other Assets	8	13	15	16	26	29
Current liabilities	176	190	214	221	225	250
Net Current Assets	290	353	424	551	657	775
Deferred Tax Asset	3	3	4	4	4	4
Mis. Exp. not written off	-	-	-	-	-	-
Total Assets	614	709	767	920	1,014	1,109

Cash flow statement

Y/E March (₹ cr)	FY13	FY14	FY15	FY16	FY17E	FY18E
Profit before tax	82	98	119	133	135	160
Depreciation	22	29	41	42	44	45
Change in Working Capital	(28)	(87)	(120)	(127)	(98)	(114)
Interest / Dividend (Net)	17	19	21	30	39	40
Direct taxes paid	(25)	(34)	(40)	(45)	(45)	(53)
Others	1	41	38	-	-	-
Cash Flow from Operations	68	65	58	33	76	79
(Inc.)/ Dec. in Fixed Assets	(70)	(61)	(23)	(112)	(30)	(20)
(Inc.)/ Dec. in Investments	3	-	-	(46)	-	-
Cash Flow from Investing	(73)	(61)	(23)	(66)	(30)	(20)
Issue of Equity	-	0	-	-	-	-
Inc./(Dec.) in loans	-	-	-	76	14	-
Dividend Paid (Incl. Tax)	(7)	(7)	(7)	11	11	13
Interest / Dividend (Net)	14	5	(30)	(52)	(63)	(68)
Cash Flow from Financing	7	(2)	(38)	35	(38)	(55)
Inc./(Dec.) in Cash	2	3	(2)	2	8	4
Opening Cash balances	2	3	5	3	6	13
Closing Cash balances	3	5	3	6	13	18

Key ratios

Y/E March	FY13	FY14	FY15	FY16	FY17E	FY18E
Valuation Ratio (x)						
P/E (on FDEPS)	20.2	17.5	14.1	12.7	12.3	10.4
P/CEPS	58.7	67.8	84.1	93.5	96.6	114.7
P/BV	3.5	3.0	2.6	2.2	1.9	1.6
Dividend yield (%)	0.6	0.6	0.8	0.9	0.9	1.1
EV/Sales	1.3	1.1	0.9	0.9	0.8	0.7
EV/EBITDA	12.6	10.1	8.1	7.7	7.2	6.3
EV / Total Assets	1.8	1.6	1.4	1.3	1.2	1.1
Per Share Data (₹)						
EPS (Basic)	58.7	67.8	84.1	93.5	96.6	114.7
EPS (fully diluted)	58.7	67.8	84.1	93.5	96.6	114.7
Cash EPS	20.2	17.5	14.1	12.7	12.3	10.4
DPS	7.0	7.5	9.4	10.5	10.9	12.9
Book Value	335.2	394.5	464.2	546.4	631.5	732.4
Returns (%)						
ROCE	14.9	16.2	17.9	16.3	15.9	16.9
Angel ROIC (Pre-tax)	15.0	16.4	18.0	17.3	16.9	17.9
ROE	17.5	17.2	18.1	17.1	15.3	15.7
Turnover ratios (x)						
Asset Turnover (Gross Block)	2.1	2.3	2.6	2.7	2.7	3.0
Inventory / Sales (days)	78	63	58	74	78	80
Receivables (days)	70	73	81	83	85	87
Payables (days)	42	34	34	34	34	34
WC cycle (ex-cash) (days)	106	102	105	123	129	133

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1. Financial interest of research analyst or Angel or his Associate or his relative	No
2. Ownership of 1% or more of the stock by research analyst or Angel or associates or relatives	No
3. Served as an officer, director or employee of the company covered under Research	No
4. Broking relationship with company covered under Research	No

Ratings (Based on expected returns over 12 months investment period):	Buy (> 15%)	Accumulate (5% to 15%) Reduce (-5% to -15%)	Neutral (-5 to 5%) Sell (< -15)
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