May 20, 2016

COMPANY REPORT

Stylam Industries

Decorating path for sustainable growth

BUY

Nifty: 7,783; Sensex: 25,340

CMP	**Rs230**
Target Price	**Rs355**
Potential Upside/Downside	**+54%**

Key Stock Data

Sector	Consumer Discretionary
Bloomberg / Reuters	SYIL IN/STYL.BO
Shares o/s (mn)	7.3
Market cap. (Rs mn)	1,678
Market cap. (US$ mn)	25
3-m daily average vol.	15,020

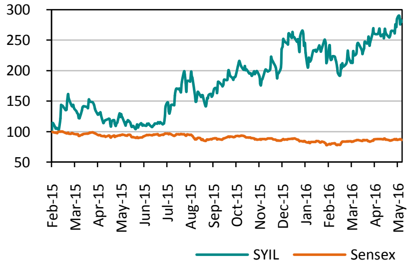
Price Performance

52-week high/low			Rs244/82
	-1m	-3m	-12m
Absolute (%)	4	25	126
Rel to Sensex (%)	6	18	134

Shareholding Pattern (%)

Promoters	58.8
FIIs	1.8
Non Promoter Corporate	5.9
Public & Others	33.5

Relative to Sensex



Source: Capitaline

Summary

Stylam Industries Ltd. (Stylam), manufacturer of high pressure decorative laminates for home and industry use, derives over 70% of revenue from export market from over 60 countries. The company is doubling its capacity to nearly 12 mn sheets with a greenfield project at an estimated capex of ~Rs600 mn, which is likely to complete by July 2016. Almost 35% of the new capacity is dedicated to wider sheet (14ftX6ft), where Stylam would be pioneer in India and has a huge demand in export market (commands 10%-15% premium over regular sheets). Further, the company is strengthening its presence in domestic market with direct penetration (gradually phasing out distributors), giving better margin and higher brand recall. The company opened 25 branches within a couple of years and likely to expand upto 40 within a year. Further, implementation of GST would change the landscape of entire highly unorganized (65%) industry and could act as a key catalyst for significant re-rating. As the major capex is getting over along with improving working capital & return ratio, FCF is set to improve from FY18. Its revenue/EBITDA/PAT has grown at a CAGR of 27%/30%/50% during FY12-FY15 and we expect it to grow at 23%/27%/29% during FY15-FY18. The stock is currently trading at a P/E of 11.8x/8.4x to FY17E/FY18E earnings. Initiate with a BUY rating (TP Rs355/share on P/E multiple of 13x FY18E; 54% upside).

Investment rationale and outlook

- **Doubling capacity, change in product-mix to drive growth**
  Stylam, one of the top 3 laminate exporters in India, has a strong presence in both domestic and international market (contributes 70% in total revenue). The company is doubling its capacity at a capex of Rs600 mn, likely to complete by July 2016. Total capacity would increase to over 12 mn sheets post expansion. The company expects utilization to reach 50% for new plant within a period of six months due to introduction of new product (14ftX6ft wider sheet) which has strong demand in export market and commands a premium of 10%-15% from regular products.
- **Change in strategy for domestic market yielded healthy result**
  The company is strategically moving towards end-users by opening their own depots in domestic market (eliminating distributors). They have currently opened 25 stores primarily North and Eastern region in the span of just two years. It has resulted in higher margin and better brand recall which also translated into higher volume in FY16. Overall, contribution from domestic market has gone up to 30% in 9MFY16 from 20% in FY14. The company expects to increase the number of depots to 40 within a year and expects domestic contribution to go up to 40% by 2020.
- **Margins to sustain; better earning visibility post capex**
  The benefit of lower chemical cost, better volume growth (due to capacity expansion) along with the combination of debt reduction process (gradually) and continues focus on working capital management (112 days in FY13 to 75 days in FY16 and further 61 days in FY18E) would give strong boost to the earnings.
- **Major capex to over H1FY17; benefit to accrue fully in FY18**
  As major capex is getting over by Q2FY17, the visibility of improvement in return ratios and free cash flow persist. OCF/FCF should improve to Rs148/128 mn in FY18 from Rs10 mn/(Rs115 mn) in FY15. ROE/ROCE is expected to improve to 25.4/18.8% in FY18 from 23.9/15.8% in FY15.
- **Initiate coverage with BUY recommendation and a TP of Rs355**
  Its revenue/EBITDA/PAT has grown at a CAGR of 27%/30%/50% during FY12-FY15 and we expect it to grow at 23%/27%/29% during FY15-FY18E. The stock is currently trading at a P/E of 11.8x/8.4x to FY17E/FY18E earnings. Initiate with a **BUY** rating with a TP Rs355/share (based on P/E multiple of 13x on FY18E), which offers 54% upside from current level.

Table: Financial snapshot **(Rs mn)**

Year	Revenue	EBITDA	EBITDA (%)	Adj. PAT	EPS (Rs)	P/E (x)	EV/EBITDA (x)	RoE (%)	RoCE (%)
FY15	2,138	224	10.5	94	12.8	18.0	11.0	23.9	15.8
FY16E	2,389	287	12.0	120	16.4	14.1	9.4	24.0	16.7
FY17E	3,010	351	11.7	144	19.6	11.8	8.2	22.9	16.1
FY18E	3,998	455	11.4	201	27.3	8.4	6.0	25.4	18.8

Source: Company; IDBI Capital Research

Key Investment Rationale

Capacity expansion to tap growing export market

- **Doubling the capacity by H1FY17**

Currently, the company is operating at a capacity of nearly 6.4 mn laminate sheets per annum with its plant in Panchkula, which is operating at over 90% of capacity utilization. The company is currently expanding it capacity to meet the growing domestic demand on all India basis and export needs. The company is investing ~Rs600 mn to set up Asia's largest laminates manufacturing unit under one roof and likely to increase its capacity by 6mn sheets which would almost double its capacity. New capacity would include 8000-tonne hydraulic press of 14ft x 6ft sheet and three 4ft x 8ft production line. The new capacity is expected to complete by July 2016.

Table: Capacity expansion at different phases

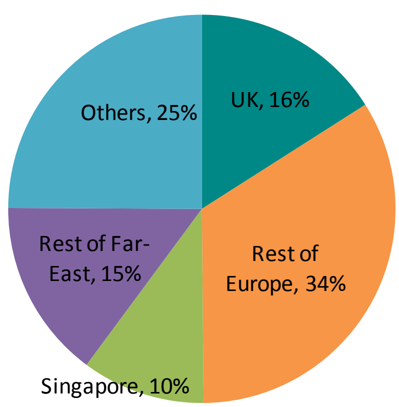
Year	Total capacity addition (Lakh sheets/annum)	Total capex (Rs mn)
1991-2010	34	300-340
2010-2013	14	120-140
2013-2015	16	160-180
2013-2015	4	40-45
2016E	60	550-600

Source: Company; IDBI Capital Research

- **Export business continue to report robust growth**

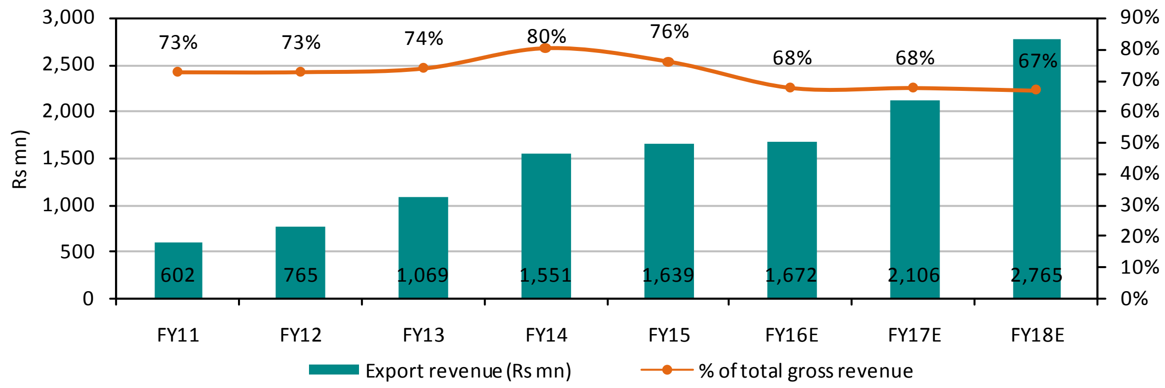
Since beginning, the company maintained its focus in export market which reflects its superior quality and healthy relationship. The company exports to over 60 countries with higher dominance in European region. The company's ~50% of revenues comes from Europe where UK is the largest contributor with nearly Rs280 mn. Also, Far-East market also growing very fast especially Singapore and Malaysia region. Far-East market, which is currently contributing nearly 25% of total export, is expected to increase to 30% by FY18. Also, Contribution from Middle East is currently about 20% which is likely to decline slightly due to higher growth else-where.

Figure: Geography wise contribution



Source: Company; IDBI Capital Research

Figure: Export contribution

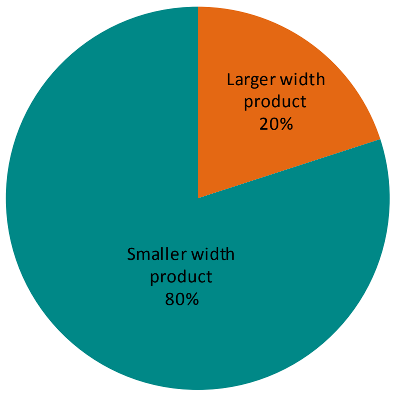


Source: Company; IDBI Capital Research

- **14ft X 6ft product is likely to strengthen its presence in overseas market**

  As the company is implementing Asia's largest laminate manufacturing unit which would be able to make much wider sheet from current levels. Stylam claims it to first of its kind in India which can produce 14ftX6ft laminate sheet which has lower wastage and wider application. This finds huge demand in foreign including US where the company's presence is currently negligible. The company expects it to tap the US market with this product which would fetch nearly 15% better pricing from current 8ftX6ft (for an equal size). Out of the total new capacity, almost 30% would be dedicated to this product, which is expected to expand overall margin for the company.

Figure: Share of new 14ftX6ft product – post expansion



Source: Company; IDBI Capital Research

- **Constructing building at Panchkula IT Park: regular income expected from FY17**

  The company is constructing a building at Panchkula IT Park, Haryana with a total built-up area of 2.25 lacs square foot. Out of the total area, the company is planning to occupy nearly 20,000sq ft for its own office purpose and planning to shift all its existing office under one roof, which would take care of entire planning, sourcing and marketing for both domestic and export market. Also, the company is planning to lease out rest of the area for the commercial purposes which would provide them a fixed rental income. The management is expecting average rate of nearly Rs30-35/sq ft, which is expected to generate annual revenue of about Rs70-80 mn on full occupancy. The company expects the building to complete within three months. However, on a conservative basis, we are not factoring any revenue from rental income.

Domestic market: Change in strategy driving higher growth

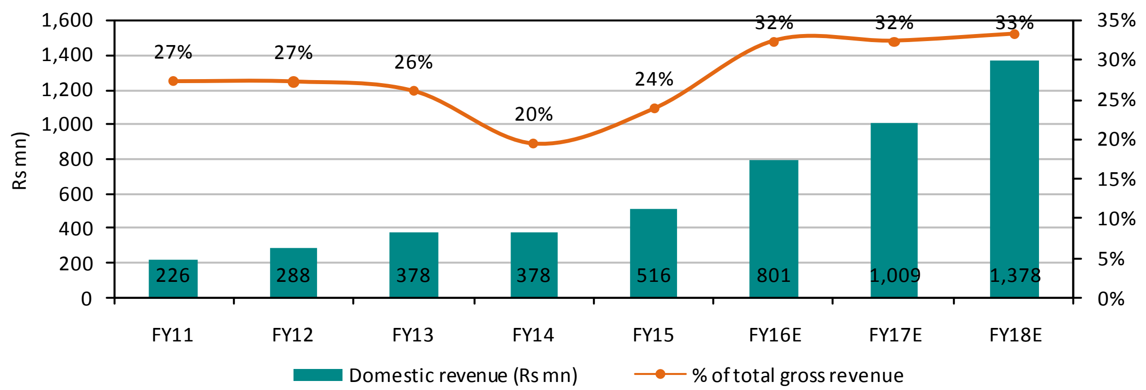
- **Removing distributorship in phases helping in many ways**

  Prior to FY15, the company's entire focus was on export business which was contributing nearly 80% of revenues. Stylam was operating through distributors to reach to the end market. However, since FY15 the company started cutting down distributors and directly opened their own branches which helped in multiple ways. Firstly, it started saving the margins which they were giving to the distributors; Secondly, cash realization also started improving as most of the dealers are taking the cash discount of 4% (if they pay within 2 days); Thirdly, the company raising prices more effectively where they start grabbing market share, which helped in improving margins.

- **Contribution from domestic market improved to 30% from 20% within 2 years**

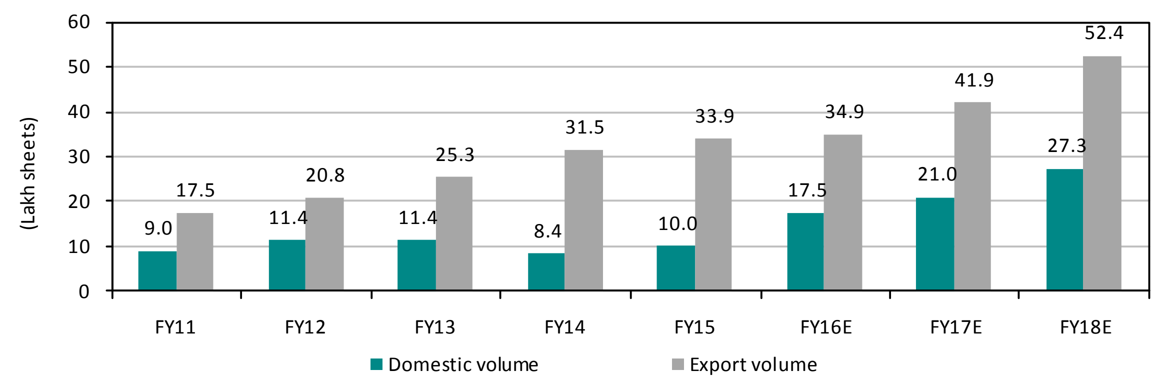
  The company opened nearly 25 own depots since FY15 primarily in Northern and Western region like Punjab, Haryana, Delhi, Rajasthan, Gujarat, Maharashtra, Madhya Pradesh and also have little presence in Southern market which includes Chennai and Bangalore. Consequently, domestic market also started marking a significant contribution which is expected to increase to nearly 30% in FY16 from 20% in FY14. The company is planning to increase its own presence in at least 40 cities within a year and expects contribution from domestic business to increase further to nearly 40% by FY18.

Figure: Revenue from domestic market and contribution



Source: Company; IDBI Capital Research

Figure: Volume break-up



Source: Company; IDBI Capital Research

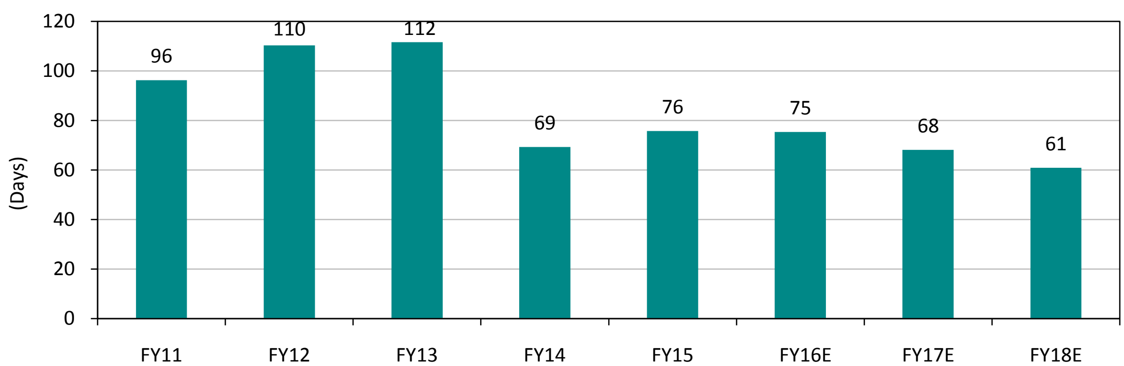
- **Going aggressive on brand building exercise to augment its domestic business**

  The company is currently spending almost Rs20 mn (just 1% of net sales) on account of business promotional activities. As the company has strengthened its presence in domestic market, the company is required to aggressively market its brand name. In view of that, recently the company has hired a new PR firm 'Thinkstr' for creating and marketing its brand name in broadcast media, digital media and print media. The company is planning to invest over Rs50-100 mn for the brand building exercise which would be hardly 2% of the sales as compared to its peer group average of about 3-4%. This is likely to bolster its presence in domestic market and would allow the company to charge some premium over its product.

- **Working capital cycle set to improve further**

  Stylam's working capital cycle has improved significantly over the past couple of years due to better inventory management. The company's working capital cycle has come down to nearly 75 days from over 110 days in FY13 driven by better inventory management. The company has increased its sourcing bandwidth to multiple countries which gives it flexibility to operate at even lower inventory level. Currently, nearly 60% of raw material in FY15 was imported from different countries primarily Europe, which has increased from 27% in FY11. Also, as the new capacity would be operational from Q2FY17, we expect that working capital cycle would further go down due to much better inventory management. Management expects it to improve further to 60 days from current around 75 days.

Figure: Working capital cycle



Source: Company; IDBI Capital Research

GST: A Big Trigger Ahead

The plywood and laminates industry faces huge competition from the unorganized sector, which contributes nearly 70% of the total industry. But laminates manufacturers in the organized sector expect the rollout of the goods and services tax (GST) to boost their sales in a market dominated by the unorganized sector. GST will address complexities and inefficiencies of current indirect tax framework through robust technology platform. Post GST clandestine business will be almost impossible. GST will be a win-win situation for all stake holders i.e. Government, Honest Businessmen and Consumers as it will lower tax incidence, ease business and increase tax buoyancy coupled with tax collection. As per a study carried out GST will have significant positive impact on GDP growth. Under the GST regime, companies with turnover of more than Re1 mn will have to pay the tax against the earlier threshold of Rs.15 mn.

Effects on unorganized sector

- Price advantage enjoyed by them will actually diminish which makes high quality laminate competitive.
- Lowering of excise duty to less than 10 per cent would force the unorganized laminate units to make excise payments regularly.
- As inferior-quality laminate would become less competitive. This would also lead to a reduction in the import of low-cost Chinese laminate in the coming years.

Table: Comparison of before and after GST

	Pre-GST	
Rs/sq ft	**Organised**	**Unorganised**
Basic price	100.0	100.0
Excise duty (12.36%)	12.4	0.0
VAT (12.5%)	14.0	12.5
Total price	**126.4**	**112.5**
Basic price for dealers	112.4	100.0
Dealer margin (10%)	11.2	10.0
VAT (12.5%)	15.4	13.8
Less: Input tax	14.0	12.5
Final price	**125.0**	**111.3**

Source: Industry; IDBI Capital Research

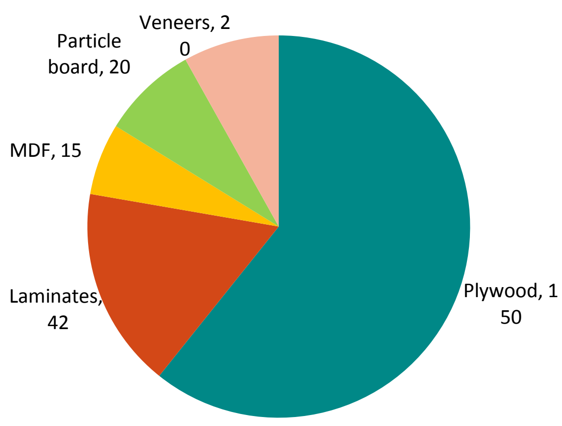
	Post-GST	
Rs/sq ft	**Organised**	**Unorganised**
Basic price	100.0	100.0
VAT (25%)	25.0	25.0
Total price	**125.0**	**125.0**
Basic price for dealers	100.0	100.0
Dealer margin (10%)	10.0	10.0
VAT (25%)	27.5	27.5
Less: Input tax	25.0	25.0
Final price	**112.5**	**112.5**

Source: Industry; IDBI Capital Research

Laminates industry: on a growth trajectory

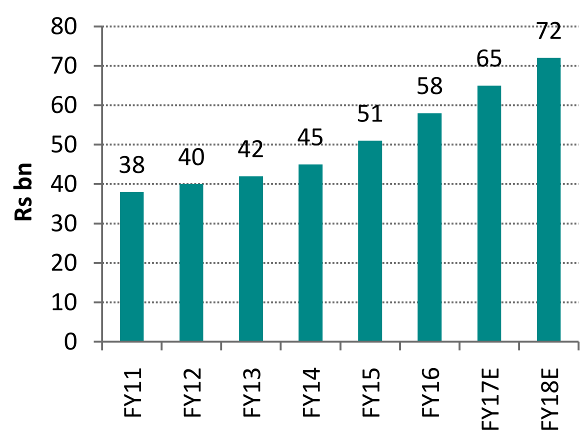
India has nearly 165 laminate producing establishments in India including both decorative and non-decorative. Laminates industry is currently manufacturing over 17mn sheets every month that includes domestic and export market both. Indian Laminate industry is estimated to be of Rs 60-65 bn per annum in India including the export market. Out of the total market, just ~35% is organized while almost 65% is unorganized market. Merino and Greenlam are the market leaders with almost 7% of overall market share (20% of organized) in volumes and 26%-31% market share in value terms in organized space. Industry has grown at a CAGR of 7.6% during FY11-FY15 and expected to grow at a CAGR of 12.2% during FY15-FY18E. Growth in Laminate industry generally grows at 1.5 times the GDP growth.

Figure: Wood panel Industry (FY15 – Rs 247bn)



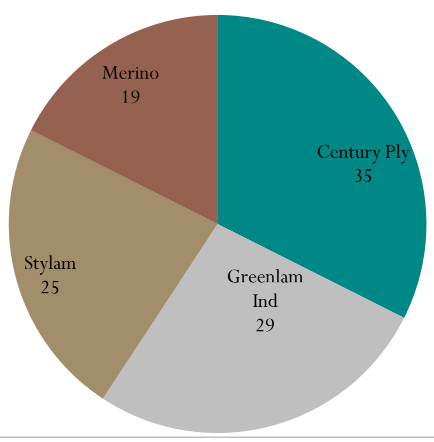
Source: Company; IDBI Capital Research

Figure: Laminates Sector - Market size and trend



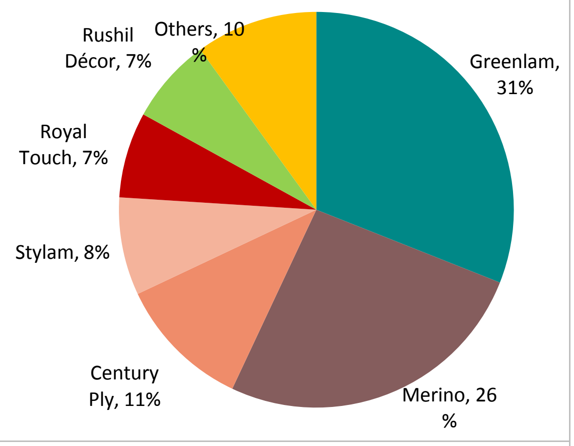
Source: Company; IDBI Capital Research

Figure: Branch offices for key players



Source: Company; IDBI Capital Research

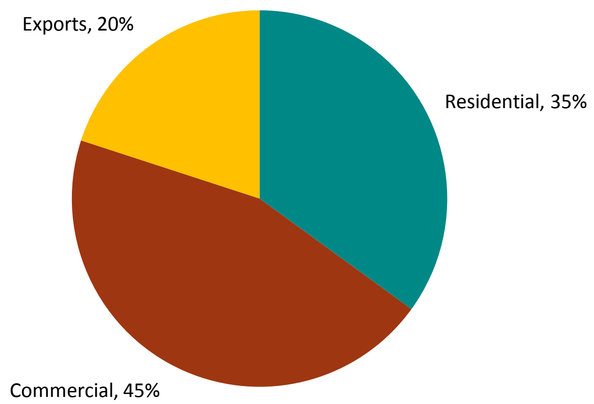
Figure: Organised Market share : Player-wise



Source: Company; IDBI Capital Research

Marino Laminates (Merino), has a market share of nearly 26% in organized space which has a capacity of almost 13mn sheets per annum placed in three locations in India (Ghaziabad, Haryana and Tamilnadu). The company has over 19 branch offices and exporting to over 60 countries. The company has more than 10,000 designs and textures and has strong brand recall in domestic market.

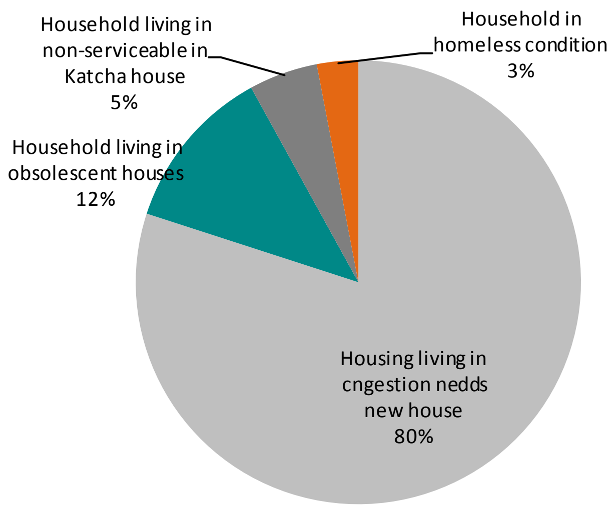
Figure: Demand matrix : Segment-wise



Source: Company; IDBI Capital Research

The growth of laminate industry is primarily led by increasing demand from housing sector. As per the study done by Ministry of Housing and Urban Poverty Alleviation, total housing shortages was estimated at almost 18.8 mn at the end of March 2012. We believe, with the government's focus on housing for all, with increasing affordability and implementation of GST would continue to drive sector's growth.

Figure: Shortage in housing sector

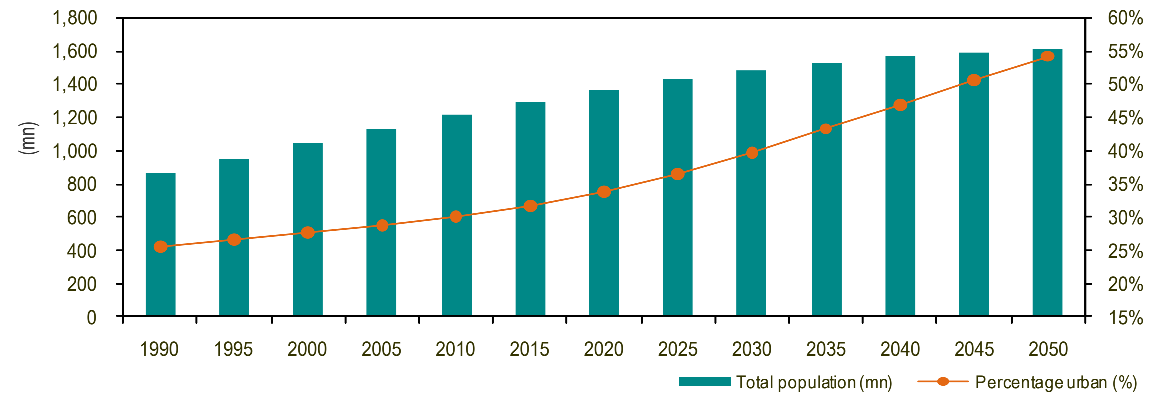


Source: TGUHS; IDBI Capital Research

- **Rising proportion of working age population and growing urbanization to drive growth**

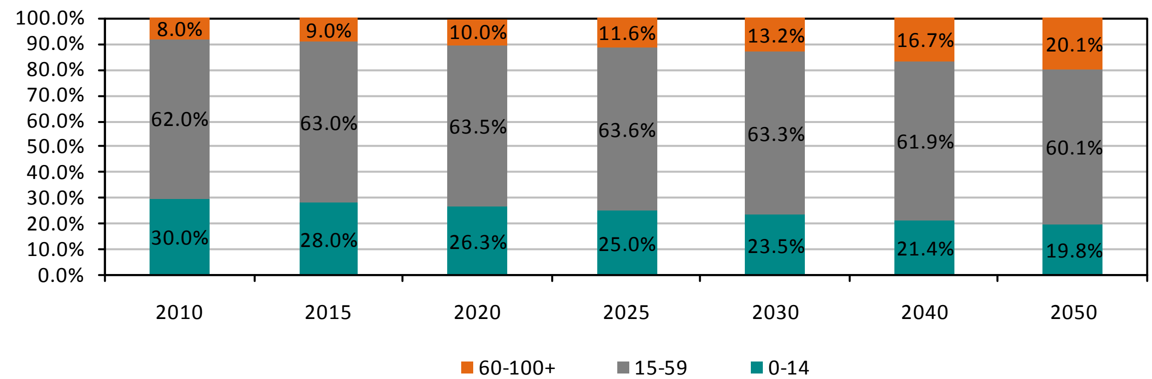
  The average mean age in India is 24 years (Source: ASSOCHAM) with ~48% of population below the age of 25 years and ~92% below the age of 60 years in 2010. A young population with increasing urbanization will result in high consumption demand growth over the next two decades. The % of working age group population (between age group of 15-64) is expected to increase from ~64.6% in 2010 to ~67.6% by 2030. Over the next two decades ~230 mn will be added to this group which will thus result in a sustained demand growth for the new housing thus laminates.

Figure: Growing Urbanisation



Source: United Nations; IDBI Capital Research

Figure: India to have a young till 2050



Source: United Nations; IDBI Capital Research

Competitive Scenario – Indian Peer group

- **Bigger in export but smaller in domestic market**

  The company's almost 70% of revenue (~Rs1.7 bn) comes from the export market as compared to 30% of Century Ply and 48% of Greenlam Industries. The company has bigger market share in export market compared to domestic market where competition from unorganized market is very heavy. Merino and Greenlam are the major companies in domestic market with almost equal no of market share. Stylam is ranked three in terms of export after Greenlam and Merino.

Table: Peers – Business matrix

Company	Capacity (Lakh sheets)	Production (FY16)	Capacity utilisation (%)	Export (% of revenue)	EBITDA (%)	Promotion spend
Stylam Ind	70	53.0	75.7%	70%	12.0%	1% of sales
Century Ply*	48.0	42.6	87.7%	30%	15.8%	4.9% of sales
Greenlam Ind	120	118	98.3%	48%	13.1%	5.7% of sales

**Laminates only*

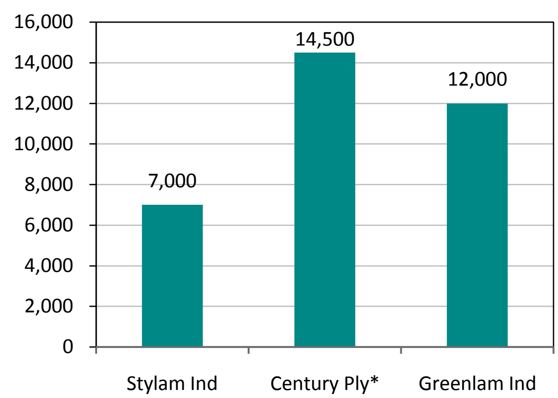
Source Industry; IDBI Capital Research

Table: Peers – Financial matrix

Particulars (Rs mn)	Mkt Cap	Revenues			EBITDA (%)			PAT (Rs mn)			ROE (%)		P/E (x)		EV/EBITDA (x)	
		FY16E	FY17E	FY18E	FY16E	FY17E	FY18E	FY16E	FY17E	FY18E	FY17E	FY18E	FY17E	FY18E	FY17E	FY18E
Stylam Ind.	1,693	2389	3010	3998	12.0	11.7	11.4	120.4	144.0	201.2	22.9	25.4	11.8	8.4	8.2	6.0
Century Ply (Laminates only)	36,625	3434	4018	4701	15.8	15.7	15.6	447.3	523.3	612.3	31.6	29.0	18.9	16.2	11.99	10.3
Greenlam Ind	14,584	10181	11726	13276	13.1	12.4	12.0	400.0	460	520	18.8	24.9	31.7	28.0	13.3	12.2

Source Industry; IDBI Capital Research

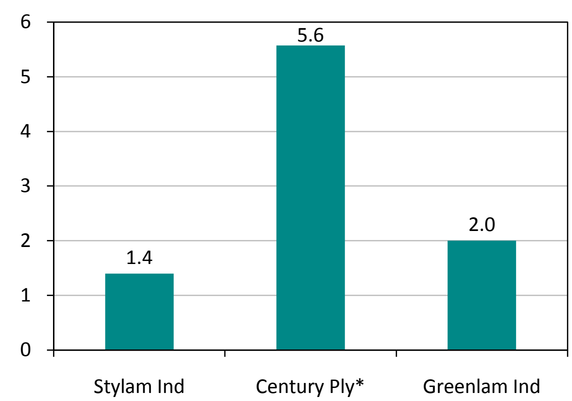
Figure: Peers – Distribution network (FY16E)



**FY16 Actual Numbers*

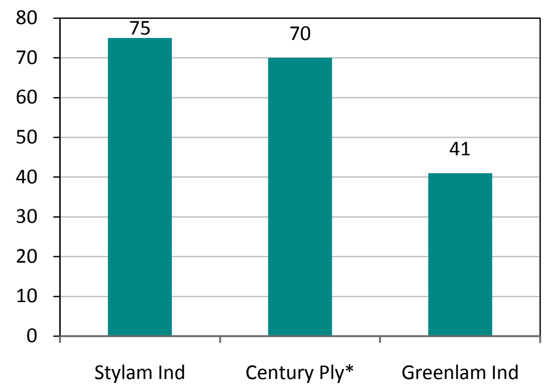
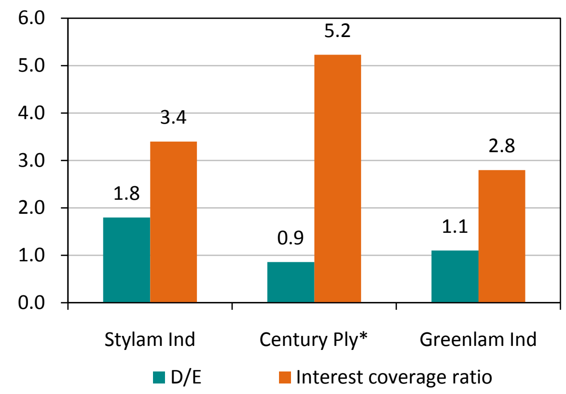
Source: Industry; IDBI Capital Research

Figure: Peers – A/O Ratio (FY16E)



**FY16 Actual Numbers*

Source: Industry; IDBI Capital Research

Figure: Peers – W.Capital cycle (FY16E)	Figure: Peers – D/E & Interest Coverage ratio (FY16E)
	
**FY16 Actual Numbers* *Source: Industry; IDBI Capital Research*	**FY16 Actual Numbers* *Source: Industry; IDBI Capital Research*

Financial Matrix

Table: Financial Summary **(Rs mn)**

Particulars	FY12	FY13	FY14	FY15	FY16E	FY17E	FY18E
Domestic volume (Lakh sheets)	11.4	11.4	8.4	10.0	17.5	21.0	27.3
YoY growth (%)	*26.2*	*0.0*	*(26.2)*	*19.7*	*74.4*	*20.0*	*30.0*
Domestic revenue	287.5	378.0	377.8	516.1	801.0	1,009.2	1377.6
YoY growth (%)	*27.0*	*31.5*	*0.0*	*36.6*	*55.2*	*26.0*	*36.5*
Export volume (lakh sheets)	20.8	25.3	31.5	33.9	34.9	41.9	52.4
YoY growth (%)	*18.8*	*21.8*	*24.3*	*7.7*	*3.0*	*20.0*	*25.0*
Export revenue	765.3	1,068.9	1,550.7	1,639.4	1,671.7	2,106.3	2764.5
YoY growth (%)	*27.2*	*39.7*	*45.1*	*5.7*	*2.0*	*26.0*	*31.3*
Total net revenue	**1,041.7**	**1,402.1**	**1,849.4**	**2,138.2**	**2,388.8**	**3,009.9**	**3997.7**
YoY growth (%)	*25.3*	*34.6*	*31.9*	*15.6*	*11.7*	*26.0*	*32.8*
EBITDA	**101.4**	**124.6**	**179.7**	**224.0**	**286.6**	**350.7**	**455.1**
EBITDA margin (%)	*9.7*	*8.9*	*9.7*	*10.5*	*12.0*	*11.7*	*11.4*
YoY growth (%)	*127.2*	*22.8*	*44.2*	*24.7*	*27.9*	*22.4*	*29.8*
Net profit	**28.2**	**40.7**	**68.4**	**94.0**	**120.4**	**144.0**	**201.2**
NPM margin (%)	*2.7*	*2.9*	*3.7*	*4.4*	*5.0*	*4.8*	*5.0*
YoY growth (%)	*(25.1)*	*44.5*	*68.0*	*37.6*	*28.0*	*19.6*	*39.7*
EPS (Rs)	**3.8**	**5.2**	**9.3**	**12.8**	**16.4**	**19.6**	**27.3**

Source: Company; IDBI Capital Research

Table: Standalone quarterly performance **(Rs mn)**

Particulars	Q1FY15	Q2FY15	Q3FY15	Q4FY15	Q1FY16	Q2FY16	Q3FY16	Q4FY16E
Revenue	486.1	513.8	539.5	585.1	603.2	602.5	580.9	602.1
YoY growth (%)	*(8.3)*	*5.7*	*5.0*	*8.5*	*3.1*	*(0.1)*	*(3.6)*	*3.7*
EBITDA	60.9	65.1	33.2	48.3	62.1	73.7	73.1	77.7
EBITDA margin (%)	*12.5*	*12.7*	*6.2*	*8.3*	*10.3*	*12.2*	*12.6*	*13.0*
YoY growth (%)	*906.3*	*6.9*	*(48.9)*	*45.2*	*28.7*	*18.5*	*(0.7)*	*6.2*
Adjusted net profit	21.1	22.6	26.5	21.0	26.7	25.7	28.6	39.4
YoY growth (%)	*4.3*	*4.4*	*4.9*	*3.6*	*4.4*	*4.3*	*4.9*	*6.5*
EPS	2.9	3.1	3.6	2.9	3.6	3.5	3.9	5.4

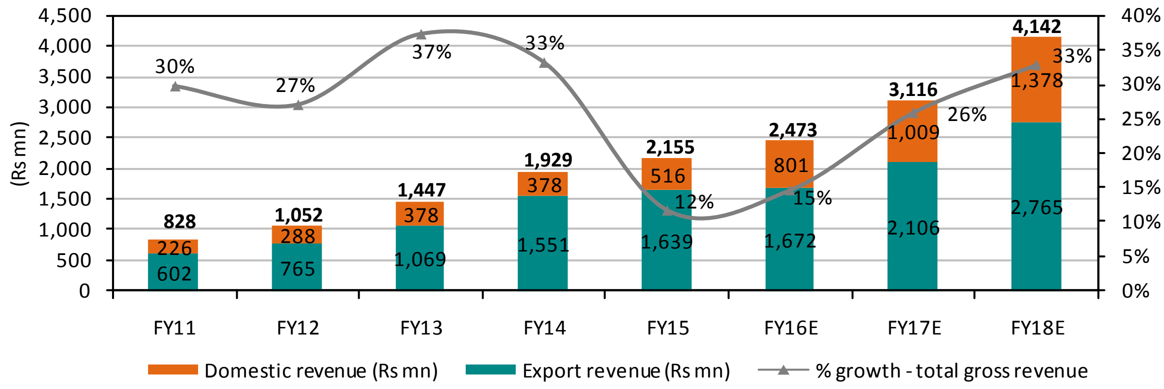
Source: Company; IDBI Capital Research

- **Revenue to see 23% CAGR during FY15-FY18E**

  During FY12-FY15, Stylam's revenue saw a robust CAGR of 27% driven primarily by strong growth in its export business. Export grew at 29% during that period led by 18% volume growth and 10% realization growth. At the same time, domestic business witnessed a growth of 21.5% primarily due to higher realization which increased 27%, partially offset by 4% fall in volume.

  Going forward, we expect its volume in export/domestic market to grow at a CAGR of 15%/40% during FY15-FY18E, while realization to remain almost stable. As a result, we expect its revenue to grow at a CAGR of 23% during the period fuelled by capacity addition from H2FY17.

Figure: Revenue break-up



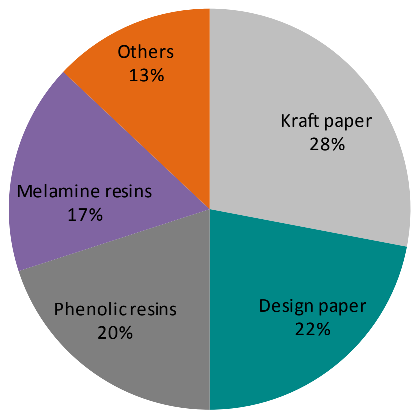
Source: Company; IDBI Capital Research

- **Higher contribution from export and better cost management lifted profits**

Contribution from export market increased from 73% in FY12 to 76% in FY15 which is a higher margin market. Along with this better cost management helped Stylam to achieve EBITDA CAGR of 30% during FY12-FY15 while EBITDA margin witnessed marginal improvement of 75bps. Also, due to the company's efforts to replace high cost debt with low cost foreign debt bodes well for its earnings. PAT saw a CAGR of 49.5% during FY12-FY15.

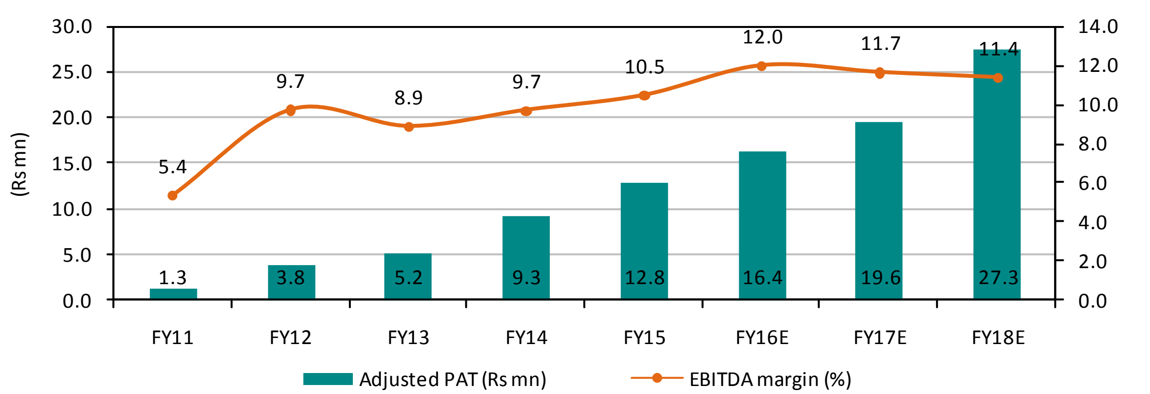
Going forward, we expect the company's EBITDA to report a CAGR of 26.6% during FY15-FY18 with margin expansion of 90bps owing to benefit from lower chemical prices. This is expected to translate into a PAT CAGR of 28.8% during the period.

Figure: Raw material break up



Source: Company; IDBI Capital Research

Figure: PAT and EBITDA margin

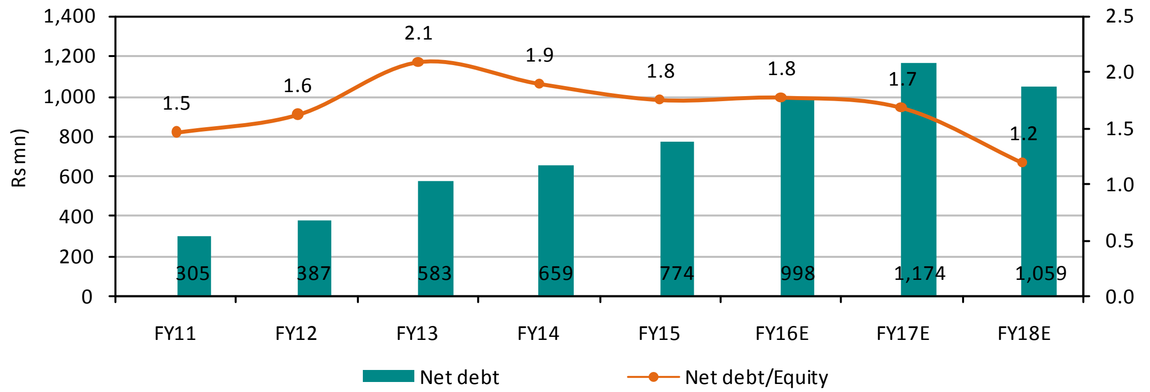


Source: Company; IDBI Capital Research

Lower debt level to keep interest cost under check

Till H1FY16, Stylam had a total debt level of Rs866 mn which includes a foreign currency debt of Rs 310 mn for the capacity expansion project and Rs250 mn for its upcoming Pankchkula IT park. Interest rate for these projects are at a very attractive level of LIBOR + 3% for expansion project and LIBOR +2.5% for the IT Park building. The company's total earnings from export market is nearly Rs1,750 mn and imports raw material of worth nearly Rs 300 mn. Still the company is net inflow of about Rs1,200 mn which provide natural hedge to foreign currency loan.

Figure: Total debt and D/E trend

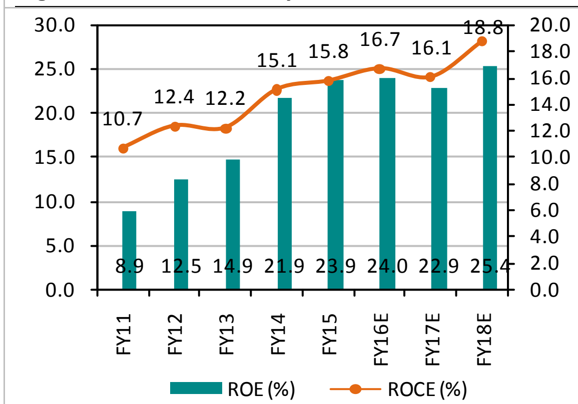


Source: Company; IDBI Capital Research

Return ratio to improve significantly post end of capex cycle

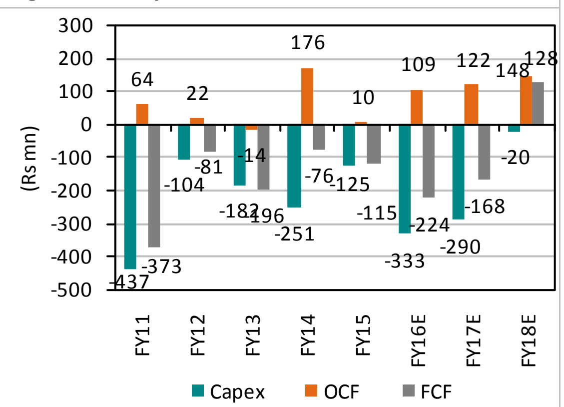
The company's capex is getting over where both of its project new production line and IT park building is completing by H1FY17. Stylam's return ratio is on an uptrend from past several years due to its rising capacity utilization. ROE/ROCE has improved from 12.5%/12.4% in FY12 to 23.9%/15.8% in FY15E. However, due to its higher capex, these ratios would be under pressure for next couple of years before witnessing significant improvement in FY18 where it is expected to improve to 25.5%/18.8% in FY18E, respectively.

Fig.: ROE/ROCE for last 6 years



Source: Company; IDBI Capital Research

Fig.: OCF/FCF profile



Source: Company; IDBI Capital Research

Valuation and Outlook

- **Initiate coverage with TP of Rs355 provides 54% upside potential; BUY**

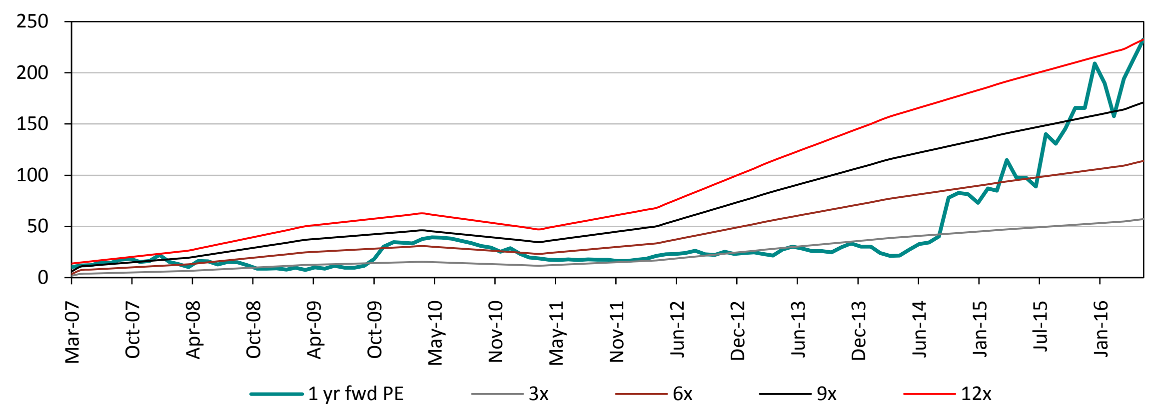
The company is trading at a P/E multiple of 8.4x and EV/EBITDA of 6.0x on FY18E. However, its peer group is trading at an average P/E multiple of 22.1x and EV/EBITDA of 11.3x. Further, on a laminate business, its capacity and utilization level is almost similar to Century Ply which has an advantage of superior brand name. Even, return ratio is likely to reach closer to its peer group in FY18 post utilization of new capacity. Looking at the strong growth in export market, strengthening its position in domestic market along with brand building exercise, improving return ratio and declining debt levels, we believe Stylam to be a potential candidate for strong re-rating. We are valuing the company on a P/E multiple of 13x (20% discount to Century Ply and 40% discount to average) on FY18E, which gives us a target price of Rs355. At current price, it gives an upside potential of 54%. Any upside from its rental income from the building in Panchkula IT Park would provide further upside which we have currently not factored in. We are initiating coverage on the company with **BUY** rating.

Table: Valuation summary

Particulars	FY18E
EPS (Rs)	27.3
P/E mutiple (x)	13.0
Target price (Rs)	**355**
CMP (Rs)	230
Upside potential (%)	**54**

Source Industry; IDBI Capital Research

Figure: One-year forward P/E chart



Source: Company; IDBI Capital Research

About the Company

Stylam Industries Ltd. (Stylam) manufactures high pressure plain and decorative Laminates for home and office purpose with under the brand name of 'STYLAM'. The company was incorporated on 28th November 1991 as a Private Limited company with the name of Golden Laminates Ltd and got listed four years later in BSE in 1995. Later in year 2010, it changed its name to Stylam Industries Ltd. The company is headquartered in Chandigarh and has its manufacturing capacity in Panchkula, Haryana. It implemented phase 1 capacity with 3L sheets per annum at a capex of Rs36.8 mn, which was completed in December 1992. It started manufacturing mixed laminate sheets with lower width of 0.6mm to 1mm. Gradually, it keeps adding capacities as it started capturing market share and expanded its footprint in new geographies and currently operating at a capacity of nearly 60l sheets/year. Since inception, the company's focus was on export market which contributes about 70%-80% to the revenue.

The company was started by Late Mr. N R Aggarwal in 1991 and is currently promoted by two brothers Mr. Jagdish Gupta (Managing Director) and Mr Satish Gupta (Executive Director) who are primarily focused for export market and domestic market respectively. The company is primarily engaged in manufacturing high pressure laminates. However, since FY15, the company upgraded its product profile and started manufacturing decorative laminates (Brand name: VIOLAM), exterior cladding (Brand name: FASCIA) and exterior floor boards (Brand name: WALKON). Currently, contribution from these three products is nearly 30% of the domestic sales which is witnessing huge demand mainly from northern region.

Key risks

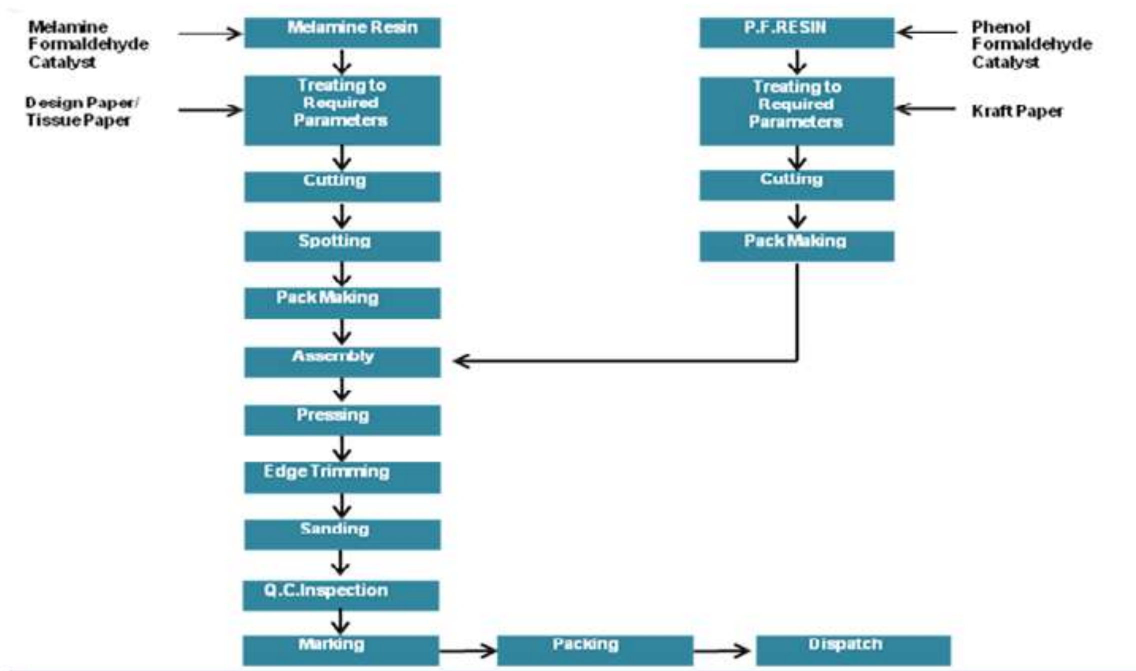
- Delay in GST implementation: GST would be significantly positive for the company and for the entire sector which would kill the unorganized players in a big way. This would be more positive for smaller players in organized space as large player anyway enjoys the premium. Any delay in implementation of GST would be a key risk to the growth of the company.
- Change in consumer preference: Currently, wood panel industry is dependent on plywood, laminates, veneer and MDF. Any change in consumer preference for MDF or veneer over laminates may hurt the company's growth.
- Foreign currency fluctuation: The company's almost 70% of revenue comes from export market where it has exposure in US dollar and Euro. Any significant foreign exchange fluctuation on either side may impact the company's revenue positively or negatively.

Annexure

- **Laminate Manufacturing process**

Laminates can be broadly classified into two types – High Pressure Laminates (HPL) and Low Pressure Laminates (LPL). When it is manufactured under pressure of 70 to 100 bars and temperature of over 300 degree Fahrenheit, it is called HPL while LPL is developed under lower pressure of below 50 bars and higher temperature of above 330 degree Fahrenheit. HPL generally have higher durability and it comes at higher price compared to LPL. Manufacturing process is shown below:

Diagram: Laminate Manufacturing Process



Source: Company; IDBI Capital Research

Financial summary

Profit & Loss Account (Rs mn)

Year-end: March	FY15	FY16E	FY17E	FY18E
Net sales	**2,138**	**2,389**	**3,010**	**3,998**
Growth (%)	*15.6*	*11.7*	*26.0*	*32.8*
Operating expenses	(1,914)	(2,102)	(2,659)	(3,543)
EBITDA	**224**	**287**	**351**	**455**
Growth (%)	*24.7*	*27.9*	*22.4*	*29.8*
Depreciation	(42)	(48)	(68)	(87)
EBIT	**182**	**238**	**282**	**368**
Interest paid	(49)	(71)	(78)	(80)
Other income	6	15	14	17
Pre-tax profit	**139**	**183**	**218**	**305**
Tax	(45)	(62)	(74)	(104)
Effective tax rate (%)	*32.4*	*34.0*	*34.0*	*34.0*
Net profit	**94**	**120**	**144**	**201**
Adjusted net profit	**94**	**120**	**144**	**201**
Growth (%)	*37.6*	*28.0*	*19.6*	*39.7*
Shares o/s (mn nos)	*7.4*	*7.4*	*7.4*	*7.4*

Cash Flow Statement (Rs mn)

Year-end: March	FY15	FY16E	FY17E	FY18E
Pre-tax profit	139	183	218	305
Depreciation	42	48	68	87
Tax paid	(44)	(61)	(72)	(101)
Chg in working capital	(128)	(61)	(91)	(141)
Other operating activities	1	(0)	(1)	(2)
CF from operations (a)	**10**	**109**	**122**	**148**
Capital expenditure	(125)	(333)	(290)	(20)
Chg in investments	-	-	-	-
Other investing activities	-	-	-	-
CF from investing (b)	**(125)**	**(333)**	**(290)**	**(20)**
Equity raised/(repaid)	-	-	-	-
Debt raised/(repaid)	99	227	175	(100)
Dividend (incl. tax)	-	-	(8)	(13)
Chg in minorities	-	-	-	-
Other financing activities	-	-	-	-
CF from financing (c)	**99**	**227**	**167**	**(113)**
Net chg in cash (a+b+c)	**(16)**	**4**	**(1)**	**16**

Balance Sheet (Rs mn)

Year-end: March	FY15	FY16E	FY17E	FY18E
Net fixed assets	794	1,078	1,300	1,233
Investments	-	-	-	-
Current assets	**701**	**785**	**921**	**1,152**
Inventories	255	284	328	396
Sundry Debtors	336	375	442	548
Cash and Bank	19	23	22	37
Loans and advances	88	98	124	164
Total assets	**1,495**	**1,863**	**2,221**	**2,385**
Shareholders' funds	**441**	**561**	**697**	**885**
Share capital	74	74	74	74
Reserves & surplus	367	488	623	812
Total Debt	**793**	**1,021**	**1,196**	**1,096**
Secured loans	415	465	465	415
Unsecured loans	378	556	731	681
Other liabilities	16	18	19	22
Curr Liab & prov	**244**	**263**	**309**	**382**
Current liabilities	217	233	271	331
Provisions	27	30	38	50
Total liabilities	**1,054**	**1,301**	**1,524**	**1,499**
Total equity & liabilities	**1,495**	**1,863**	**2,221**	**2,385**
Book Value (Rs)	**60**	**76**	**95**	**120**

Source: Company; IDBI Capital Research

Financial Ratios

Year-end: March	FY15	FY16E	FY17E	FY18E
Adj EPS (Rs)	12.8	16.4	19.6	27.3
Adj EPS growth (%)	37.6	28.0	19.6	39.7
EBITDA margin (%)	10.5	12.0	11.7	11.4
Pre-tax margin (%)	6.5	7.6	7.3	7.6
RoE (%)	23.9	24.0	22.9	25.4
RoCE (%)	15.8	16.7	16.1	18.8
Turnover & Leverage ratios (x)				
Asset turnover	1.5	1.4	1.5	1.7
Leverage factor	3.6	3.4	3.2	2.9
Net margin (%)	4.4	5.0	4.8	5.0
Net Debt/Equity	1.8	1.8	1.7	1.2
Working Capital & Liquidity ratios				
Inventory days	43	43	40	36
Receivable days	57	57	54	50
Payable days	25	25	25	25

Valuations

Year-end: March	FY15	FY16E	FY17E	FY18E
PER (x)	18.0	14.1	11.8	8.4
Price/Book value (x)	3.8	3.0	2.4	1.9
PCE (x)	12.4	10.0	8.0	5.9
EV/Net sales (x)	1.2	1.1	1.0	0.7
EV/EBITDA (x)	11.0	9.4	8.2	6.0

Notes

Dealing	(91-22) 6637 1150	dealing@idbicapital.com

Key to Ratings

Stocks:

BUY: Absolute return of 15% and above; **ACCUMULATE:** 5% to 15%; **HOLD:** Upto ±5%; **REDUCE:** -5% to -15%; **SELL:** -15% and below.

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