

**Long Term Recommendation: Visaka Industries Ltd.**

CMP INR: 715  
 Rating: BUY  
 Target Price INR: 1,075  
 Upside: 50%

**Aligned to national priorities**

Visaka Industries was established in 1985. Visaka has two main divisions; building products division which manufactures cement asbestos sheets and fiber cement boards & panels (CBPs) and the textile division. The building products division accounts for a majority of the revenue – of over 80%. Visaka has 11 manufacturing facilities across India with an aggregate production capacity of 802 KTPA in cement asbestos sheets, 180 KTPA in V-boards and panels and 11,000 MT of yarn production per annum. Burgeoning market share, improved product portfolio and wide distribution reach are bound to aid Visaka clock 28% earnings CAGR over FY17-20E, healthy cash flows and improving return ratios. We initiate coverage with 'BUY' recommendation.

**Visaka - Prominent rural and semi-urban brand in building materials**

Visaka is the second largest player in the domestic cement asbestos market, has a wide distribution network of 6,000+ retailers that garner 85% of sales. Visaka expected to deliver healthy sales on the following counts: government's initiative in favour of affordable housing, an increase in rural income, lowering of the GST rate supported by two consecutive good monsoons and moderate inflation. Also, Visaka has launched a new roofing product - 'ATUM' which is eco-friendly, energy efficient and energy generating roof, which is expected to further enhance sales.

**Fiber cement boards and panels: Visaka moving to non-asbestos products**

CBPs market is growing at an average rate of 15% (domestic demand at ~20%+), on account of increasing awareness level and its faster nationwide acceptance. Visaka with its enhanced capacity, expected to capitalise the growing demand. Visaka expects to achieve ~50% sales from non-asbestos products, up from 33% currently, over the next three years.

**Textiles – Improving realisation and robust offtake**

Visaka's spinning capacity expanded by 26% in FY17; this will increase manufacture of premium yarns with potentially higher realisation and could result in robust offtake. We expect ~7% of sales growth with healthy margin of 12% in this segment.

**Ample levers to spur operating margin**

We estimate Visaka's operating margin to catapult 310bps over FY17-20E on four counts: (a) increased contribution of CBPs; (b) improvement in realisation in both building product and yarn segments, c) lower RM prices and d) keen focus on branding and distribution. Ergo, we estimate the company's EBITDA margin to jump to 15.1% by FY20E.

**Outlook and valuation: On a strong turf; initiate with 'BUY'**

We like Visaka mainly on account of its unique product mix (aligned to national priorities and hence likely to benefit from the government's growth and social welfare push), significant position in the industry in all the products they make, scope for significant growth in topline/bottomline, strong balance sheet and strong management pedigree. We expect it to deliver, 6%/15%/28% CAGR in sales/EBITDA/PAT respectively over FY17-20E. We initiate coverage on the stock with a 'BUY' recommendation and target price of INR1,075 based on 20x FY20E earning.

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Bloomberg:	VSKI:IN
52-week range (INR):	838.60 / 208.80
Share in issue (cr):	2
M cap (INR cr):	1,110
Avg. Daily Vol. BSE/NSE :('000):	150
Promoter Holding (%)	41.28

Year to March	FY16	FY17	FY18E	FY19E	FY20E
Revenues (INR Cr)	1,005	969	1,027	1,073	1,164
Rev growth (%)	(1.6)	(3.5)	6.0	4.4	8.5
EBITDA (INR Cr)	95	115	135	149	174
Net Profit (INR Cr)	24	41	60	68	86
P/E (x)	46.6	27.9	19.1	16.6	13.3
EV/EBITDA (x)	14.5	11.5	9.8	8.7	7.1
RoACE (%)	8.7	12.3	15.3	15.8	17.5
RoAE (%)	7.2	11.1	14.4	14.6	16.0

Date: 15<sup>th</sup> February 2018

Visaka is expected to clock revenue CAGR of ~6% over FY17-20E driven by capacity addition, domestic business improvement, enhancement in realisations and wide distribution network of more than 6,000 retailers in the rural and semi-urban markets. Further, lowering of GST rate and increase in substitute product prices would help the sales growth. We estimate the company to clock revenue/EBITDA/PAT CAGR of 6%/15%/28% over FY17-20E, respectively, with healthy RoCE of ~18%.

Visaka is targeting growth in sales, driven by - rising capacity, utilisation and increase in contribution of non-asbestos products

	FY17	FY18E	FY19E	FY20E
Revenue	969	1,027	1,073	1,164
EBITDA	115	135	149	174
EBITDA margin(%)	11.8	13.2	13.9	15.0
PAT	41	60	68	86
EPS (INR)	25.63	37.44	42.96	53.74

Multiple levers for margin expansion - increase in realisations, restrict RM costs and increase in sales of high margin products

	FY17	FY18E	FY19E	FY20E
RoACE (%)	12.3	15.3	15.8	17.5
EV/Sales (x)	1.4x	1.3x	1.2x	1.1x

Higher free cash flow generation & lighter balance sheet to help further growth

FY20E	EPS (INR)	Target Multiple PE (x)	Price Target (INR)
Visaka	53.7	20x	1,075

Entry = INR 715



PAT CAGR of 28% over FY17-FY20E to lead to exit multiple of 20x FY20E P/E

Total Return of 50%

**Risk-reward extremely favourable**

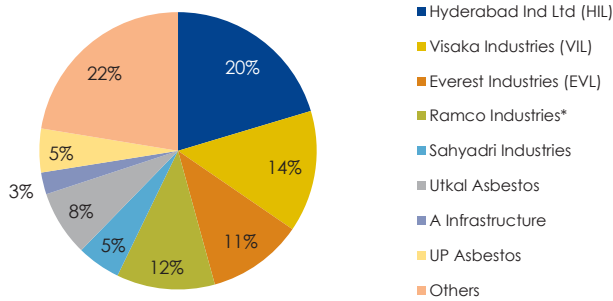
<b>Price Target</b>	<b>INR 1,075</b>	We have arrived at a target price of INR 1,083, assigning 20x FY20E earnings. The company's revenue is estimated to clock CAGR of ~6% over FY17-20E, driven primarily by the increase in sales volume, improvement in utilisation and increase in the capacity of CBPs. We expect the decent sales growth, margin improvement and restricted depreciation and interest expenses, to result in PAT CAGR of 28% over FY17-20E.
<b>Bull</b> 25x Bull Case FY20E EPS	<b>INR 1,508</b>	Assuming revenue CAGR of 7.5% and 385bps improvement in EBITDA margin, we expect Visaka to generate EPS of INR 60 in FY20E. Assigning 25x FY20E earnings.
<b>Base</b> 20x Base Case FY20E EPS	<b>INR 1,075</b>	Assuming revenue CAGR of ~6% and 310bps improvement in EBITDA margin, we expect Visaka to generate EPS of ~INR 54 in FY20E. Assigning 20x FY20E earnings.
<b>Bear</b> 15x Bear Case FY20E EPS	<b>INR 740</b>	Assuming revenue CAGR of 4% and 190bps improvement in EBITDA margin, we expect Visaka to generate EPS of ~INR 43.5 in FY20E. Assigning 15x FY20E earnings.

Average Daily Turnover (INR cr)			Stock Price (CAGR)				Relative to Sensex, CAGR (%)			
3 months	6 months	1 year	1 year	3 years	5 years	10 years	1 year	3 years	5 years	10 years
32	36	27	231%	80%	53%	33%	22%	10%	10%	14%

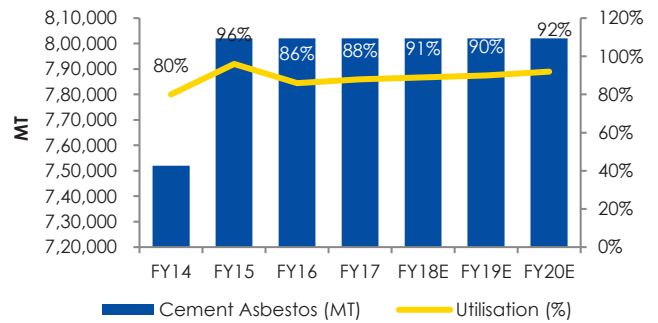
<b>Business Value Drivers</b>	<b>Nature of Industry</b>	The roofing industry is valued at ~INR 42,000 cr and is expected to grow at 6-8% depending on GDP growth, rural income and the monsoons. In India, the fiber cement roofing Industry has a market of nearly INR12,000 cr and has an opportunity from kutcha and semi pucca houses. The top 6 companies control ~76% of the market capacity. Fiber cement boards and panels have a market size of INR 1,000 cr. Solar roofing is a new product initiated in the market and presents a huge opportunity.
	<b>Opportunity Size</b>	The current industry composition provides an opportunity with the reduction in GST rate for roofing products. The GST rate for metal sheets, a competitive product, is kept at the pre-GST rate at 18%, thus, AC sheets have become more price competitive versus substituted products. Market size of the plywood industry is currently estimated at INR 20,000 cr, out of which ~INR 5,400 cr is the low-end plywood segment (100% unorganised). This segment offers a replacement opportunity for fiber cement boards and panels. Solar roofing has a fair opportunity from the government's thrust on solar power.
	<b>Capital Allocation</b>	In the last six years, Visaka has completed capex of INR 313 cr and generated additional sales of INR 360 cr. Visaka is expected to spend INR 50 cr in forthcoming years towards increasing CBPs capacity and maintenance activities.
	<b>Predictability</b>	In the scenario of improving rural and semi urban market alongside GST rate cuts and Gol's initiatives in the direction of affordable housing and farm income — key drivers for growth — Visaka with its capacity expansion, large product portfolio and wide distribution reach is likely to be the biggest beneficiary. Visaka is poised to gain from its innovative product, ATUM.
	<b>Sustainability</b>	The six major players account for 76% of the AC roofing and 100% of CBPs capacity. Their respective distribution, branded and innovative products and manufacturing capacities are expected to sustain their respective dominance in the market. Visaka is driven by its goal of achieving 50% of sales from non-asbestos sales. This is accompanied by margin expansion from an increase in CBPs sales as well as AC sheets realisation improvement that Visaka expects to achieve with the structural changes related to this sector.
	<b>Disproportionate Future</b>	With increasing product mix in favour of value added CBPs, realisation improvement of AC sheets, improvement in yarn margins, rising market share with sales volume expansion and geographic penetration – all these counts ensure that future performance in terms of return ratios are likely to be better than the past.
	<b>Business Strategy &amp; Planned Initiatives</b>	The current focus is on capacity expansion, geographic penetration, capacity utilisation, product innovation e.g. ATUM, wherein the company expects margin improvement with a change in product mix and realisation improvement.
	<b>Near Term Visibility</b>	With sales growth (~6% CAGR over FY17-20E), margin improvement (310bps expansion over FY17-20E) and restricted depreciation and interest expenses, this scenario is expected to result in PAT CAGR of 28% over FY17-20E.
	<b>Long Term Visibility</b>	To remain one of the biggest AC sheets and CBP manufacturers in India with increasing domestic market share and rising export sales in yarn. Also, innovative products e.g. ATUM are expected to gain traction from the government's thrust on greater solar power production.

Focus Charts – Story in a nutshell

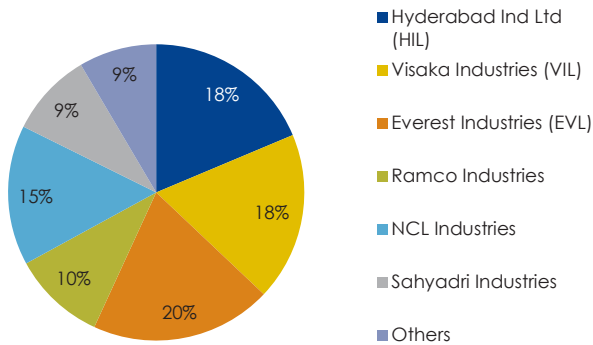
AC sheets roofing - capacity market share



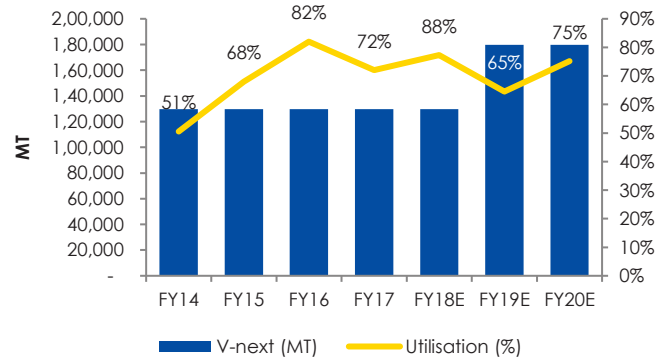
Visaka roofing capacity & utilisation



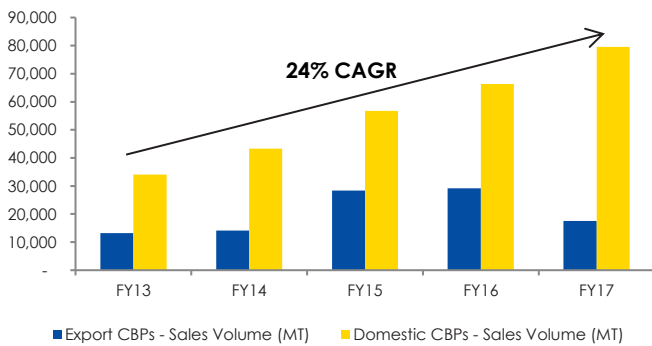
Fiber cement boards & panels - capacity market share



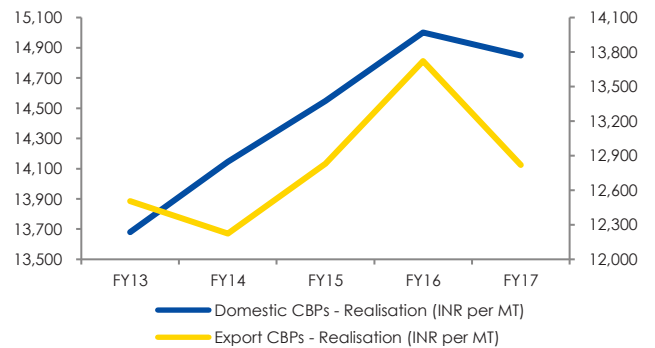
Visaka CBPs capacity & utilisation



Visaka CBPs sales – domestic volumes picking up faster



Visaka CBPs realisation – domestic realisation improving



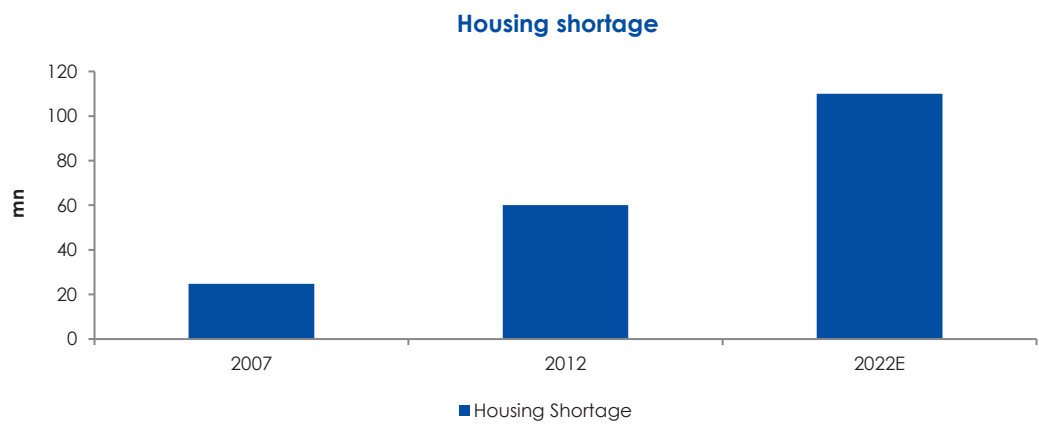
Source: Company, Edelweiss Investment Research

### I. Roofing solutions – Multiple growth drivers for AC sheets

Asbestos cement roofing sheets (ACS), have existed for the last 80 years in India. They represent a convenient roofing product in rural and semi-urban India; nearly 50% of the country's rural population lives in kutcha or semi-pucca dwellings wherein this product represents a convenient fit. Among the pucca houses, less than half used RCC slabs; the rest utilised ready-to-use house roofing products (fiber cement roofing/ metal roofing). Fiber cement roofing costs one-fifths that of an RCC ceiling slab. Asbestos cement sheets are mainly used as roofing materials in rural/semi-urban housing by industries and poultry units.

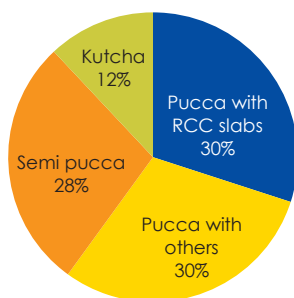
#### a. Housing shortfall to boost demand

The housing shortage in India is expected to increase to INR 11 cr by 2022, this number was INR 6 cr at the beginning of the 12th Five Year Plan. As families become more nuclear and the number of family members per household dips, housing demand is estimated to balloon. The incremental households-to-population ratio is at 3.1 members per household versus 4.8 earlier.

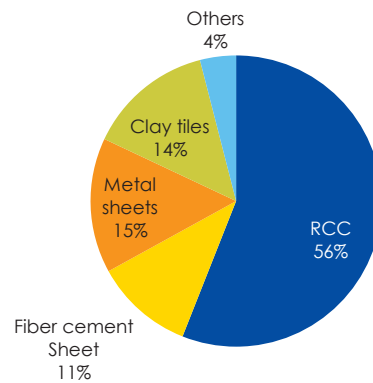


Source: Edelweiss Investment Research

#### Indian households – opportunity from kutcha and semi-pucca houses



#### Current roofing industry – INR 42,000 cr



Source: Edelweiss Investment Research

The roofing industry is valued at ~INR 42,000 cr and is expected to grow at 6-8% relying on GDP growth, rural income and the monsoons. In India, the fiber cement roofing industry has a market of nearly INR 12,000 cr and an opportunity from kutcha and semi-pucca houses.

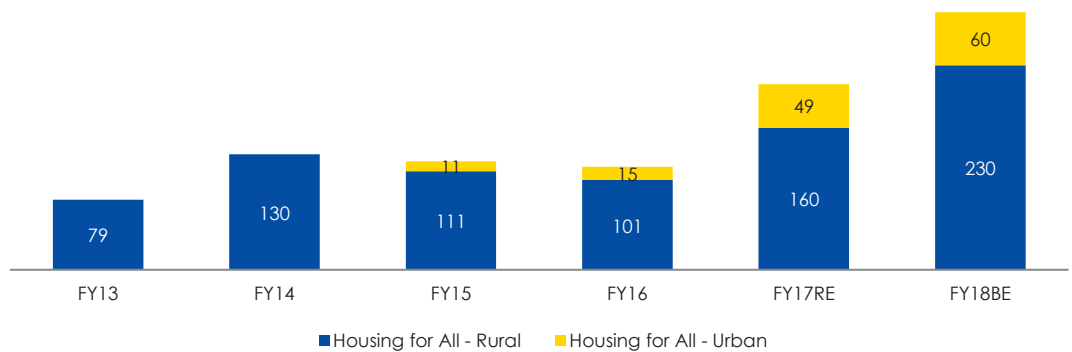
**Opportunity market for Roofing sheets**

Total population (cr)	132
% population in rural areas	69%
Rural population (cr)	91
% kutcha homes	40%
Rural population living in kutcha houses (cr)	36
Avg. household size	5
Potential homes moving to pucca roofing (cr)	7.6
Roofing sheets required/ 1000 sq.ft (MT)	1.4
Average household size (Sq. ft)	500
Potential roofing sheet demand (mn MT)	53.0
Total domestic AC sheet capacity (mn MT)	5.6
Visaka capacity (mn MT)	0.8

**b. Government's thrust for affordable housing**

The slowdown in the housing sector has been due to subdued demand post demonetization, unsold inventory and lack of clarity on the Real Estate Regulation (RERA) bill introduced in 2016. However, the government's mission Housing For All by 2022 has provided the much needed succour to the beleaguered sector. The government, under Pradhan Mantri Awas Yojana (PMAY), an affordable housing initiative, has plans to provide homes to 20mn households in urban India and nearly 30mn in rural India. According to government estimates, there is a shortage of about 60mn housing units currently — 20mn in urban areas and 40mn in rural areas. In order to bridge this gap, it has announced various incentives in the Union Budget 2017 to take this initiative forward.

**Budgetary allocation for PMAY – Steadily rising**



Source: Budget documents, Edelweiss Investment Research

**PMAY status**

**PMAY (Urban)**

Target houses to be built by 2022	20,000,000
Houses built until Oct 2017	216,435
Remaining houses to be built	19,783,565
Remaining months	54
Houses to be built per month for PMAY (urban)	366,362

**PMAY (Rural)**

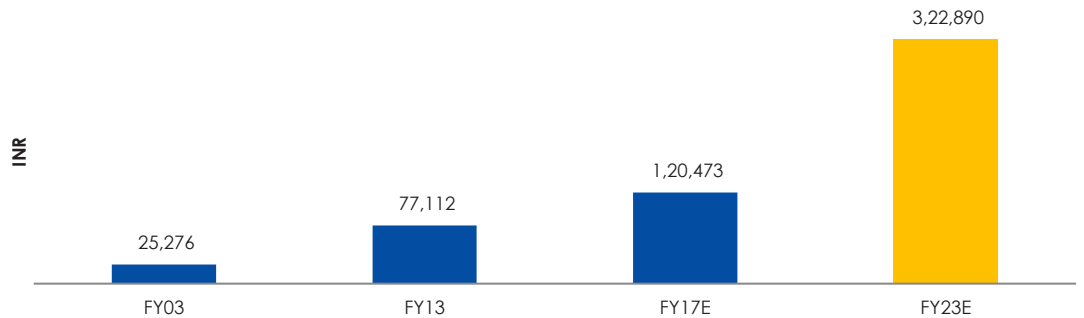
Target houses to be built by 2022	30,000,000
Houses built until Oct 2017	868,262
Remaining houses to be built	29,131,738
Houses to be built per month for PMAY (Rural)	539,477

<b>Total houses to be built every month</b>	<b>905,839</b>
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**c. Government's focus on doubling farmers' income by 2022**

Farmers' household income has doubled every seven years in nominal terms, so the government's target appears optimistic. Higher rural incomes will boost discretionary spending, thereby spurring stronger growth in the country. It is envisaged that rising income levels will spur housing demand. Being cost effective, AC sheets are expected to be the first alternative change choice and should pick up first with rural housing demand.

In India, almost 60% of rural folk use thatched roof/tiles for their shelters. Thatched roofs need regular replacement and tiled roofs need continued maintenance. Therefore, whenever the economic conditions improve, the first choice of the rural poor is to replace the roof over their head with the affordable and relatively durable product i.e. cement asbestos sheets.



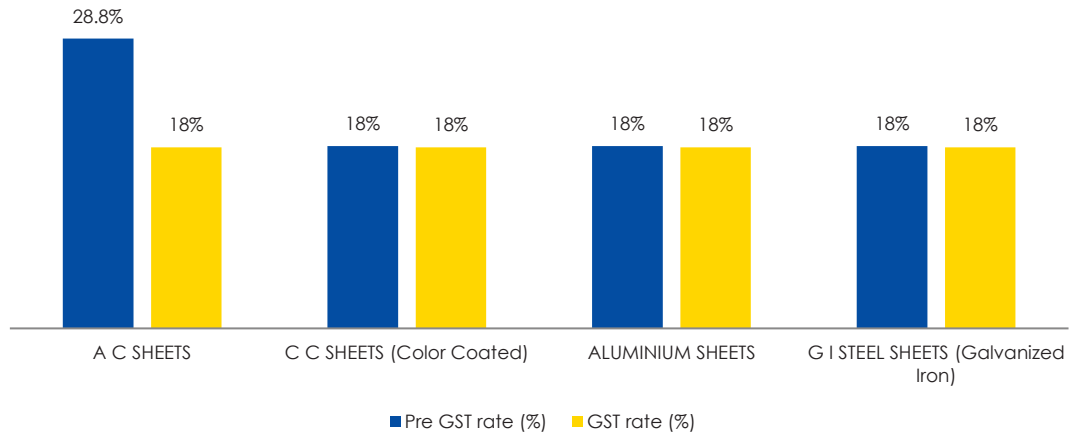
Source: NSSO survey, Edelweiss Investment Research

**d. Lower GST rate on AC sheets and better characteristics to drive growth**

The GST rate on AC sheets has declined to 18%, making it more competitive and affordable in a scenario wherein steel sheet prices as well as the import levy are rising. The GST rate for metal sheets has been maintained at the pre-GST rate of 18%; thus, AC sheets have become more price competitive versus products that are substitutes.



**GST rate - Roofing products**



Source: Edelweiss Investment Research

**Roofing price comparison (pre GST)**

	Price
AC sheets	x
Fiber green sheets	1.4x - 1.5x
Metal sheets	2x
RCC (re-inforced cement concrete)	5x

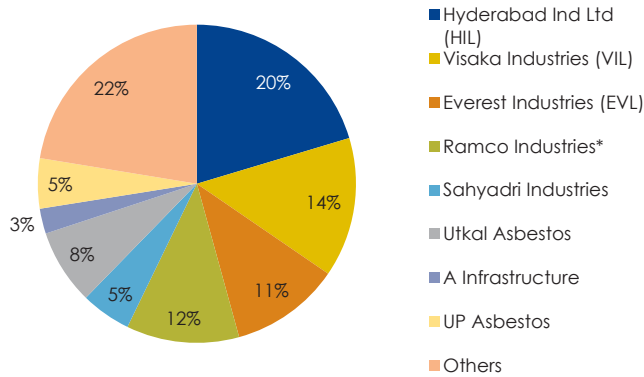
**Comparative characteristics of various roofing materials**

Characteristics	Fiber Cement Sheets	Corrugated Galvanised Iron Sheets (CGI)	Aluminium Sheets	Red Mud Plastic (RMP)
Life Span (years)	50 (Min) Non-Corrosive	5-10 Not (Corrosive)	-	5 (Tends to get Flattened)
Maintenance	Nil	Every 3-5 years	Nil	Nil
Fire Rating	Retardant	Tendency to twist & melt	Tendency to twist melt	Fire Prone
Thermal Conductivity/Insulation	Good	Poor	Poor	Fair
Accoustic rating	Good	Poor	Poor	Poor
Absorption of rain & Wind Noise	Good (Deadens these Noise)	Poor	Poor	Poor
Energy Consumption (KWH/Sqm)	3	36.6	33	48
Manpower Potential	Intensive	Low	Low	Low
Imported Content (INR/Sqm)	5.6	15-22.5	1	33
Wind Resistance when installed	Good	Poor	Poor	Poor

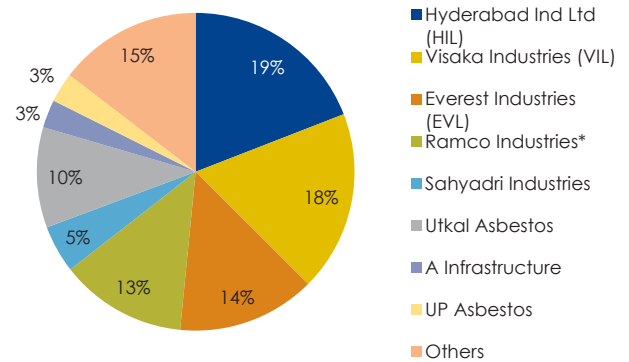
**e. Fiber cement roofing – Oligopolistic market**

Currently there are about 30 entities in the industry with an annual capacity of ~6mn MT throughout the country. The fiber cement roofing industry in India is an oligopoly market with the top six players collectively controlling ~70% of the capacity market and ~80% of the sales market. The leading players are Hyderabad Industries (HIL), Visaka Industries, Everest Industries, Ramco Industries, Sahyadri and Utkal Industries.

**AC sheets roofing - capacity market share**

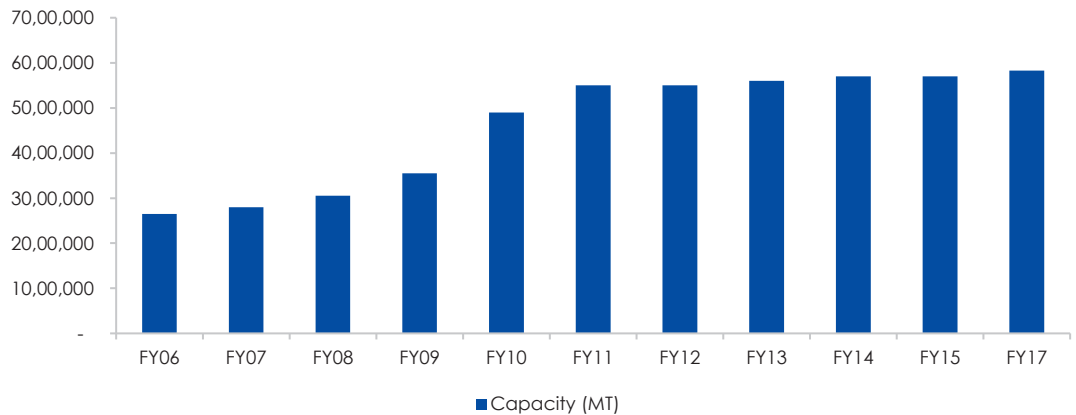


**AC sheets roofing – sales market share**



Source: Company, Edelweiss Investment Research

**Asbestos cement roofing industry – capacity**

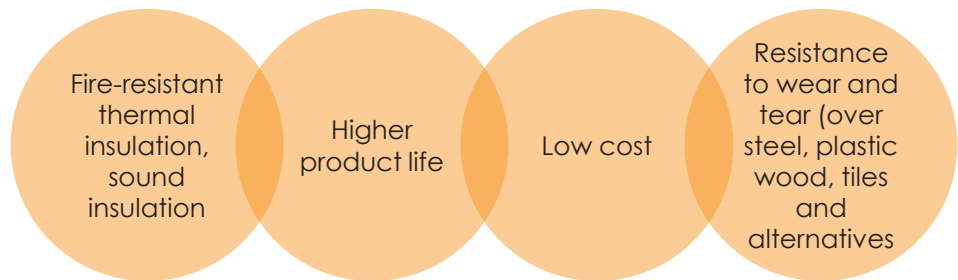


Source: Edelweiss Investment Research

**ACS major players – market share**

Companies	Capacity Mkt. share (%)	Sales Mkt. share (%)	Regional Presence	Plant Location	No. Manufacturing Plants	Brand Names	Sales ('000 M.T)	Sales contribution (%)
Hyderabad Ind Ltd (HIL)	20%	19%	Pan India	Odisha, UP, Jharkhand, Andhra Pradesh, Kerala, Maharashtra	12	Charminar	717	64%
<b>Visaka Industries (VIL)</b>	<b>14%</b>	<b>18%</b>	<b>Pan India barring north</b>	<b>AP, TN, Karnataka, WB, Odisha, UP, Maharashtra</b>	<b>8</b>	<b>Visaka/ Shakti</b>	<b>690</b>	<b>67%</b>
Everest Industries (EVL)	11%	14%	Pan India	Uttarakhand, Maharashtra, West Bengal, Madhya Pradesh, Tamil Nadu, Odisha	7	Everest	528	47%
Ramco Industries	11%	13%	Pan India barring north	Tamil Nadu, Karnataka, MP, Dadra & Nagar Haveli, West Bengal, AP, Gujarat, Bihar	9	Ramco	484	81%
Sahyadri Industries	5%	5%	West & South	-	4	Swastik	182	95%
Utkal Asbestos	8%	10%	WB, Orissa and UP	-	6	Konark	384	81%
A Infrastructure	3%	3%	North, Central & West	-	2	Jai Kirti	107	98%
UP Asbestos	5%	3%	North and Central	-	4	UPAL	114	100%
Others	22%	15%	Mostly regional	-	18	N/A	548	-

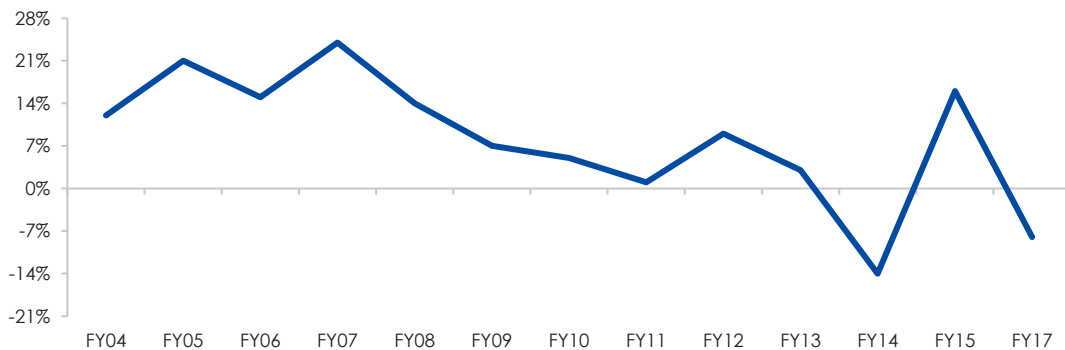
**Advantage of ACSs**



**Asbestos (chrysotile fibre) main raw material in AC sheet manufacturing**

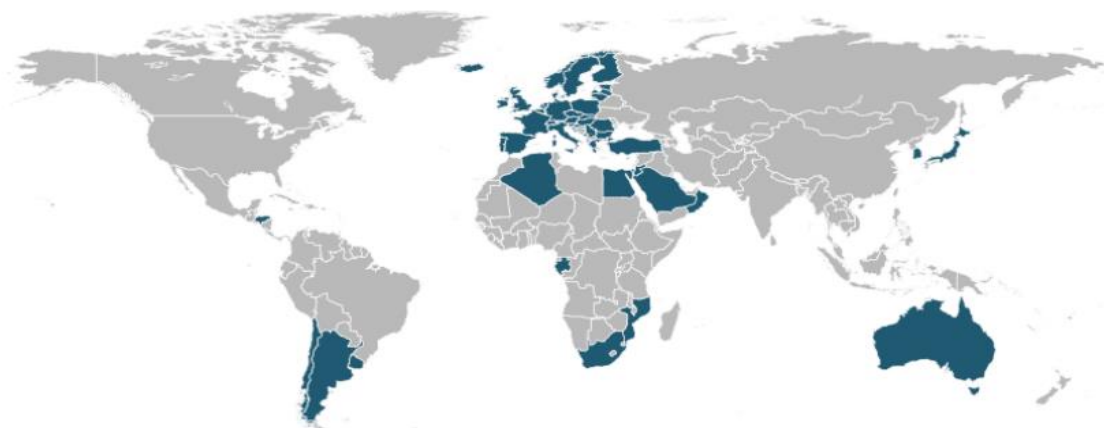
Chrysotile fibre is a key ingredient in the manufacture of AC sheets (ACS); it constitutes ~50-55% of the total raw material cost and is 100% imported. Other key RMs used are cement, fly ash, wood pulp and dry waste. Since there are limited number of suppliers for chrysotile (chiefly three players based out of Russia, Kazakhstan and Brazil), the cost depends on the demand with suppliers and currency movements. Companies maintain a fiber inventory of about 45 days and generally do not hedge their USD purchase requirements. But weak demand until FY15 has led to low gross margin of ~35%, which however, has improved to 45% in FY17 with improvement in product mix and demand. Also, operating margins of ACSs becomes susceptible to sharp depreciation in INR versus USD.

**Asbestos - historical demand growth**



Source: Edelweiss Investment Research

**Asbestos is not banned in most of the large countries**



- NOT BANNED Countries – Russia, Canada, USA, China, Brazil, India
- Banned in 55 countries – mostly European countries, South Africa, Australia, Japan

**Visaka – Asbestos fiber cost**

	FY12	FY13	FY14	FY15	FY16	FY17	FY18E	FY19E	FY20E
<b>Visaka Industries</b>									
Asbestos fiber/woodpulp cost (INR cr)	198	299	254	270	240	191	187	196	206
% of cement asbestos sales		43.6	40.4	37.6	35.3	29.8	28.0	28.0	28.0
% of building products sales	32.6	39.9	35.9	32.2	29.3	24.4	23.0	22.5	21.8
% of net sales	26.4	32.6	28.5	26.4	23.9	19.7	18.9	18.3	17.8

Source: Company, Edelweiss Investment Research

**AC sheets market outlook**

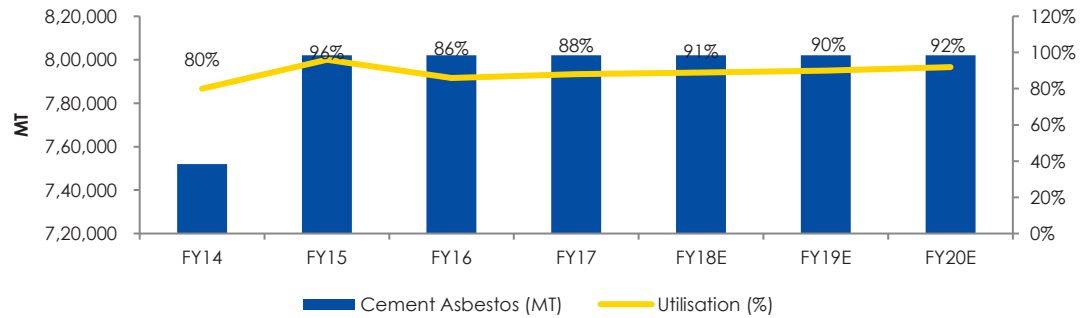
The decrease in rural inflation and sales contraction of steel sheets is expected to catalyse the offtake of asbestos products. The organised players are continuously striving to enhance the product's distribution reach and market presence by strengthening their respective networks of stockists, via resorting to aggressive advertisement campaigning and capitalising on their brands. All of this, coupled with the inherent advantages associated with the product such as affordability etc., are expected to result in a growth rate of 5%-10% in the coming years. The industry is expected to experience recovery in demand:

- Following better monsoons and moderate inflation, we expect healthy sales in forthcoming years
- Decline in rural inflation is expected to increase demand for rural cement asbestos (AC) products
- Declining competition from colour coated steel sheets following an increase in steel prices.
- Consumers' dissatisfaction with their experience of the functionality of colour coated sheets aids reconversion.

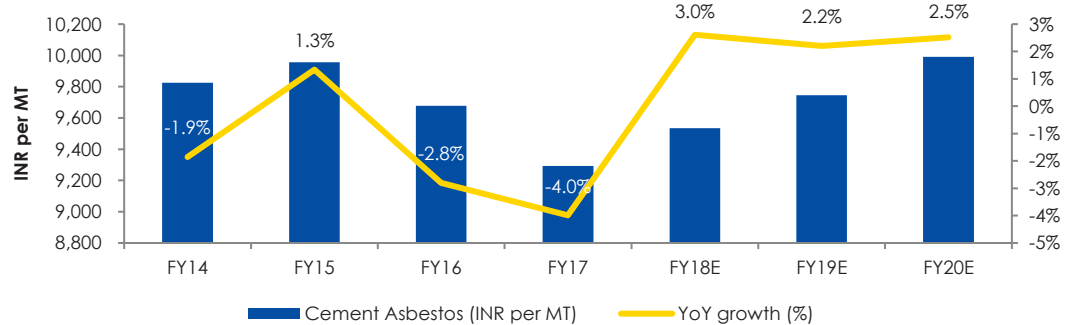
**Visaka roofing solutions – Superior product profile (contributes 67% to sales)**

Visaka's cement asbestos business has an installed capacity of 802,000 TPA and is operating at an 88% utilisation rate – contributing 67% to the total revenue. Visaka continues to make the product superior in terms of load bearing capacity with performance of 650-700 kg per centimeter square, consistently exceeding the ISI requirement of load bearing capacity of 525 kg. Visaka was the seventh largest cement asbestos product manufacturer in India in 1996; it is now the second largest manufacturer in India.

**Visaka: Roofing capacity & utilisation**



**Visaka : Roofing sales volume**

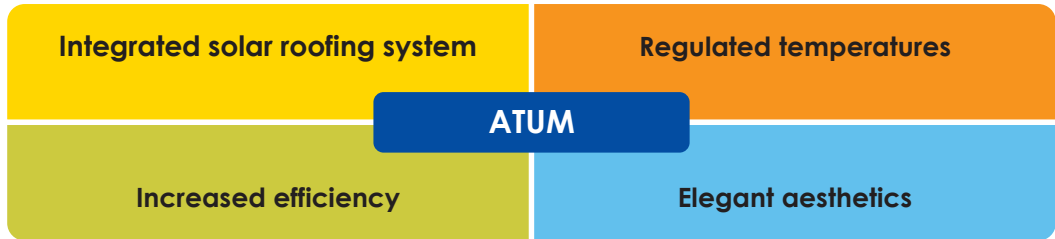


Source: Company, Edelweiss Investment Research

**Visaka - Launch of new product, ATUM**

Visaka Industries launched a new roofing product called ATUM which is eco-friendly, energy efficient and energy generating roof. ATUM is an integrated solar roofing system with a cement base. It reduces thermal conductivity compared with traditional metal roofing. Visaka is the first to launch this unique product in India. It has started conducting pilot projects and expects full-fledged production to start by March 2018. Visaka has proposed capacity addition of 60MW per annum with an investment of INR 10 cr, which is proposed to be financed through internal accruals.

We have not accounted for ATUM sales in our estimates. We believe ATUM to be a growth driver for Visaka's roofing sales in the years ahead.

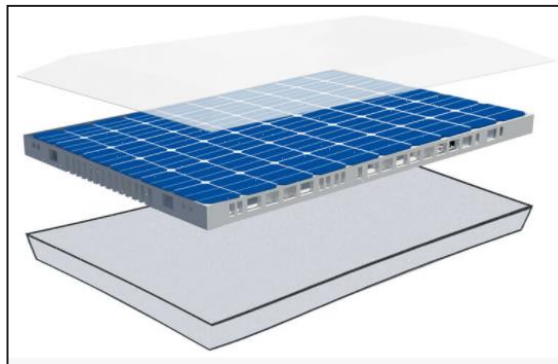


**ATUM – Key highlights**

- Longer lifespan - 12 mm roof with a density of 1,250 kg/cum
- Higher efficiency - due to thermal conductivity of 0.072 W/mtK
- Thermal insulation which reduces the temperatures by 35-40%
- Partnerships with battery and inverter manufacturers to make the process faster and easier

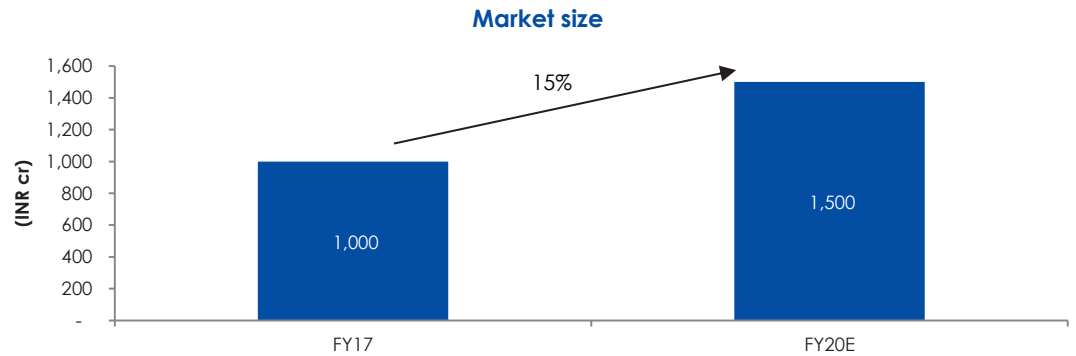
**ATUM – Advantage over substitute products**

- Noise free - ATUM generates no noise and minimises the effects of heat & rain compared with GV sheets
- No need of an insulation mat under the roof
- No rust formation unlike steel sheets; product lasts for more than 25 years
- Fire resistant and electric shock proof compared to galvalume sheets, which are dangerous and can cause shock & electrocution
- Non-hazardous material when compared to galvalume sheets, which conduct radiation and may cause health hazards



## II. Fiber cement boards and panels – NextGen products (contributes 15% to Visaka’s sales)

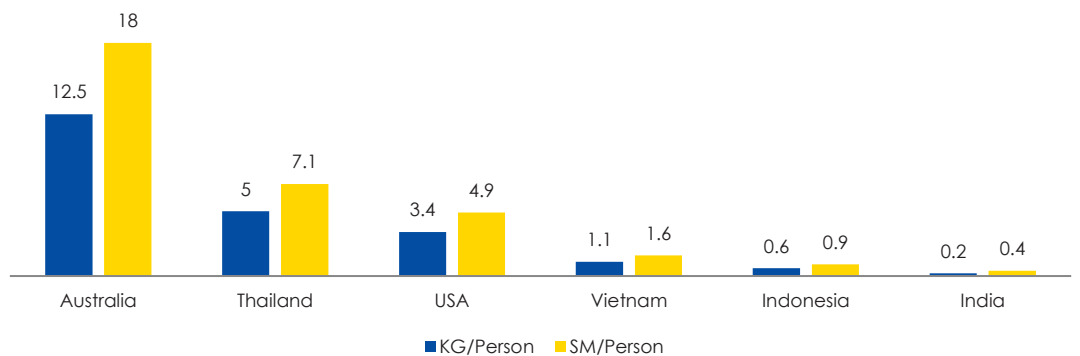
Fiber cement boards and panels (CBPs) is a building material used to cover the exterior and interior of a building in both commercial and domestic applications. Fiber cement is a composite material made of sand, cement and cellulose fiber. CBPs can be used for ‘any and every application’ in commercial/industrial/residential buildings. In India, CBPs are mostly used for interior applications.



Source: Edelweiss Investment Research

The traditional construction practices in India are moving to ‘dry construction’ methods. Such methods ensure that the construction is lighter, faster and also high performance, particularly in terms of heat and sound insulation. This method is used for constructing walls, flooring, ceiling and paneling using products like plywood, particle boards, MDF, laminated boards, gypsum boards and fiber cement boards. Fiber cement boards have some inherent advantages over other dry construction products such as being water resistant, termite resistant and have acoustic insulation properties, good thermal insulation and can also be used both indoors and outdoors. This is driving its rising penetration into the residential segment (particularly wet areas) hotels and hospitals. The market for CBPs is growing at a CAGR of 15%; growth is likely to be sustained on account of increasing adoption in a wide variety of applications. With increasing awareness among contractors-carpenters, and other input providers the market is expanding at a fast pace. There are six players in the industry producing similar products with an annual capacity of approximately 6,99,000 MT (~92% of total industry). However, consumption of fiber cement boards is still at a low level of 0.2 kg per person in India.

### Fiber cement boards consumption



Source: Company, Edelweiss Investment Research

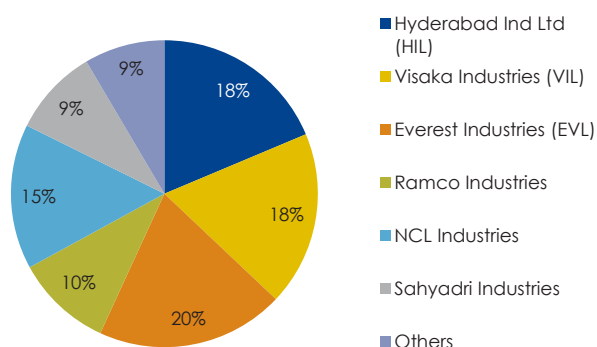
**Fiber cement boards and panels – Robust growth in US market**

**North America External Cladding Share**

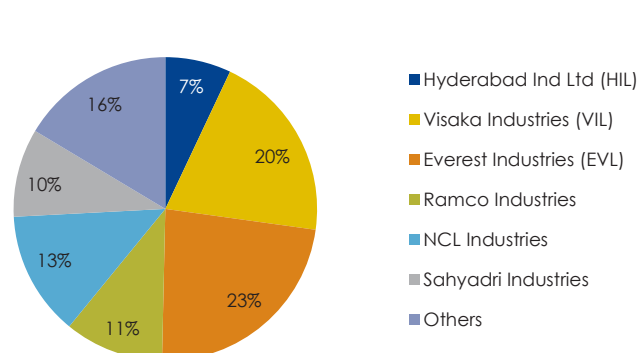
	Dec-14	Dec-15	Dec-16	Dec-17
<b>Fibre Cement</b>	17%	18%	19%	19%
<b>FC Size (Mn. Sq.ft)</b>	799			2,461
<b>Industry size (Mn. Sq.ft)</b>	4,700			12,950

**FC market: 3 Yr CAGR = 45.5%**

**Fiber cement boards and panels - Capacity market share**



**Fiber cement boards and panels – Sales volume market share**



Note: Visaka - capacity market share will enhanced to 24% after capacity increase in Mar-2018.

Source: Company, Edelweiss Investment Research

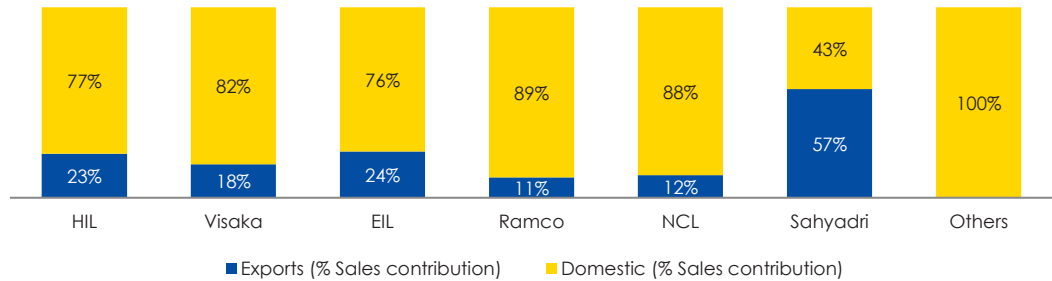
**Fiber cement boards and panels — major players**

Companies	Capacity Mkt Share	Sales Mkt share (%)	Regional Presence	Plant Location	No. Manufacturing Plants	Brand Names	Sales ('000 M.T)	Export ( % of Sales)	Domestic (% of Sales)
Hyderabad Ind Ltd (HIL)	18%	7%	Pan India	AP, Haryana	3	Aerocon/ Charminar	31.2	23%	77%
<b>Visaka Industries (VIL)</b>	<b>18%</b>	<b>20%</b>	<b>Pan India barring north</b>	<b>Telangana, Maharashtra</b>	<b>3</b>	<b>V-Next</b>	<b>89.8</b>	<b>18%</b>	<b>82%</b>
Everest Industries (EVL)	20%	23%	Pan India	Uttarakhand, Maharashtra	2	Everest	103	24%	76%
Ramco Industries	10%	11%	Pan India barring north	TN,Rajasthan	2	Ramco Hilux (Calcium Silicate Based)	47	11%	89%
NCL Industries	15%	13%		Uttarakhand, AP	3	Bison Panel (Cement Bonded particle board)	59	12%	88%
Sahyadri Industries	9%	9%	West & South	Maharashtra	2	Cemply, Ecopro	41.9	57%	43%
Others	8%	16%	Regional Presence	-	3	-	73	0%	100%

Note: Visaka - capacity market share will enhanced to 24% after capacity increase in Mar-2018.



**Fiber cement boards and panels – Export opportunity**



Source: Company, Edelweiss Investment Research

**Fiber cement boards and panels – Growth drivers**

**Housing for All**  
To address the shortage of housing in India, Government initiated Housing for All by the year 2022. Under this initiative Government would develop 2cr urban houses and 3cr rural houses.

**Warehousing Growth**  
The rise in e-Retail coupled with other industrial activities is fuelling the growth of India's warehousing requirement. The demand is expected pick up with GST implementation.

**Rural Demand**  
Sustained improvement of vast rural population on account of enhanced farm income, local rural employment and development of nearby urban centres would sustain the demand for fiber cement boards and roofing sheets in rural housing.

**Need for Speed**  
The need for faster and scalable construction would continue to expand the share of fibre cement boards and dry wall systems.

**Labour Efficient Modular Construction**  
The acute shortage of skilled labour and increasing impact of financial costs on projects have given rise to a demand for modular and ready-to-install products which can save time without compromising on safety or strength

**Affordable Construction**  
The cost of skilled labour and basic materials like cement, bricks and sand has been on the rise. The cost difference is very narrow between on-site construction and ready-to-install modern construction techniques using CBPs. Products and solutions with shorter on-site labour cycles are becoming more popular

**Demand triggers driving urban sales of CBPs in India**

<b>Office space</b>	As per NASSCOM estimates, the IT/ITES sector absorbed ~52% of new office space coming up since 2010. It expects the momentum to continue as the number of employees in the IT/ITES sector is estimated to increase by 2.4mn to reach 5.1 mn by 2022, creating continued demand for office space. Another major sector occupying office space is the BFSI (~16% of total office space). The Planning Commission expects the workforce in this sector to increase by 8.5mn between 2012 and 2020.
<b>Organised retail</b>	Retailing in India is expected to increase at 8% CAGR between 2012 and 2020, with the organised sector contributing ~20% CAGR, which implies strong furnishing demand.
<b>Healthcare industry</b>	As per a McKinsey study, the healthcare industry in India is expected to grow at a fast pace during 2012-20 to a USD280bn market size by 2020. Of these, hospitals will witness the maximum uptick and account for ~70% of the healthcare pie, suggesting rising demand for these construction materials going forward.
<b>Hotel industry</b>	With the expected rise in urbanisation and tourism industry in India, even the number of hotel rooms in India is estimated to grow 50% during FY14-19E. The hotel industry is a major consumer of these CBPs (along with particle boards/MDFs).

Source: Edelweiss Investment Research

**Fiber cement boards and panels — Opportunity market**

Fiber cement boards and panels are a substitute for plywood, gypsum boards and other masonry work. The market size of the plywood industry is estimated currently at INR 20,000 cr, out of which ~INR 5,400 cr is the size of the low-end plywood segment (100% unorganized), and which constitutes a replacement opportunity market for fiber cement boards and panels. The product is expected to make significant inroads leading to the potential for exponential growth.

The company has laid a strong foundation in this segment and is well prepared to capitalize on this emerging opportunity. These products can be used for interior and exterior applications in a building. Fiber cement boards are available in thicknesses ranging from 4 mm to 25 mm, in which 4 mm-6mm are used as gridfalse ceilings. The 6 mm and 8 mm are used for wall paneling and seamless false ceilings respectively. The 10 mm-12 mm are used for dry walls/partitions whereas 16 mm-18 mm are used for kitchen cabinets, wardrobes, mezzanine flooring etc.

**Fiber cement products versus plywood**

Parameter	Fiber cement products	Plywood products
Cost	Cheaper by nearly 40%	Costly as compared to V-next products
Durability/Life	Over 15-20 years	Nearly 5-10 years
Resistance to weathering	Yes	No
Environmental friendly	Yes	No
Fire/termite/water resistant	Yes	No
Time saving	Yes	Yes in some cases
Aesthetics	Excellent	Require other material

**Superior attributes of fiber cement boards and panels**



**Moisture Resistant**



**Fire Resistant**



**Termite Resistant**



**Weather Resistant**



**Impact Resistant**



**Unique Embossed Texture**



**Moisture Resistant**



**Pre-Finished**



**Fire Resistant**

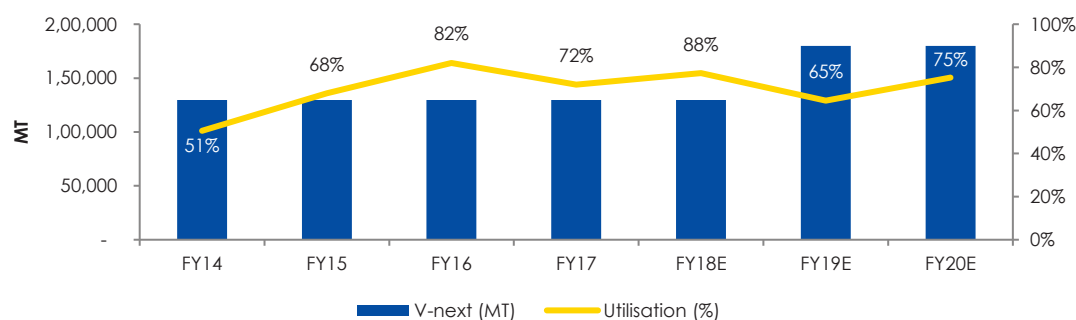
**Fiber cement boards and panels - An opportunity market**

Segment	Low end plywood	MDF	Particleboard	FCB & FCPs
Size (INR cr)	5,400	2,000	2,000	1,000
Organised share	0%	70%	25%	100%
CAGR growth	Flat/De-growth	20%	12%	15% (Domestic 20%+)
Price (INR)	40-60 per sq ft	40-60 per sq ft (25,000 per CBM)	30-50 per sq ft	18-30 per sq ft
Visaka to gain market share due to:				<b>Highest capacity in industry, quick installation, termite-fire-moisture proof</b>

**Visaka CBPs business – Largest domestic player (contributes 15% to sales)**

Visaka's fiber cement boards and panels business has an installed capacity of 129,750 TPA and operates at a utilisation rate of 77%, contributing 15% to total revenue. Visaka is investing in a third unit with 50,000 TPA capacity in Haryana following which the company will have an installed capacity of 179,750 TPA, one of the largest companies in India to manufacture these emerging generation products i.e. CBPs. The total investment in this project is INR 100 cr. The capacity will initially be 50,000 TPA. However, with addition of another INR 15 cr at a later date the capacity can be increased to 75,000 MT. The location of plant i.e. Jhajhar (Haryana) is close to both the raw material sources as well as the market, which would save logistics and time. Production in this unit is expected to commence by end-March 2018. The company has the highest number of designer variants and is increasing the share of designer variants, which are value added products. Visaka's products are exported to countries like Saudi Arabia, the UAE, Qatar, Iraq, Iran, Bahrain and Sri Lanka.

**Visaka CBPs capacity and utilisation**

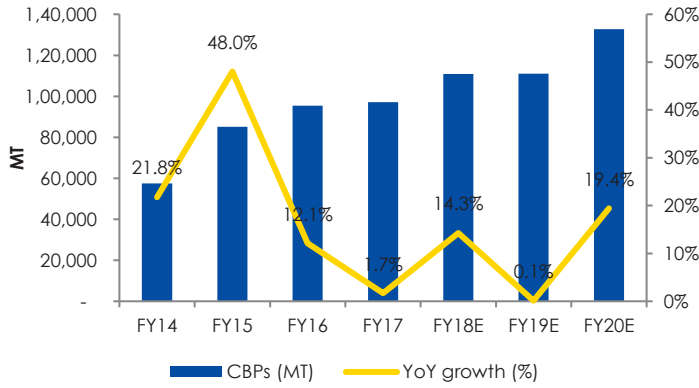


**Visaka – Only player increasing CBPs capacity**

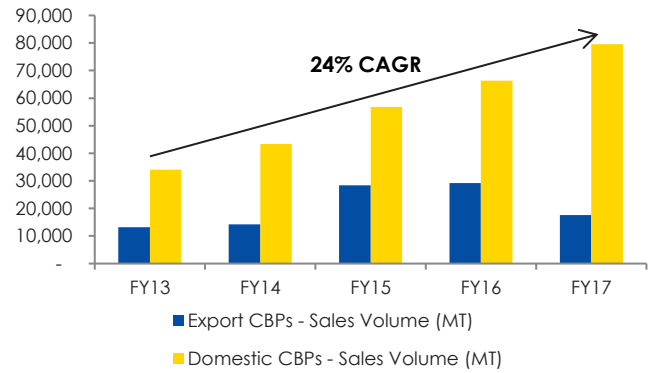
Boards & Panel		FY13	FY14	FY15	FY16	FY17	FY18E	FY19E	FY20E
Visaka	Capacity ('000 M.T)	58	130	130	130	130	130	180	180
	Utilisation (%)	92%	51%	68%	82%	72%	88%	65%	75%
Everest	Capacity ('000 M.T)	136	140	140	140	140	140	140	140
	Utilisation (%)	98%	75%	92%	88%	77%	84%	88%	92%
HIL	Capacity ('000 M.T)	132	132	132	132	132	132	132	132

Source: Company, Edelweiss Investment Research

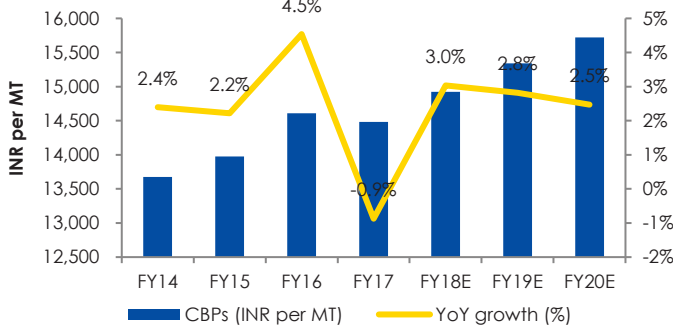
Visaka CBPs sales volume



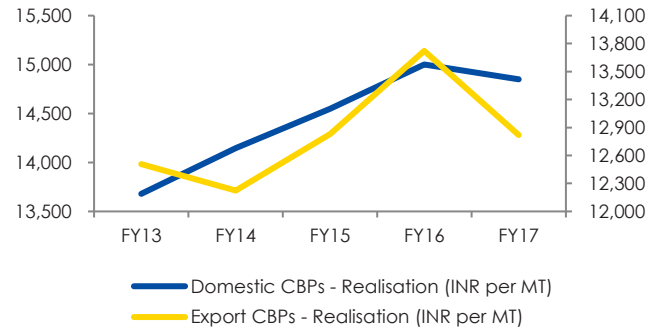
Visaka CBPs sales volume – Domestic sales picking up faster



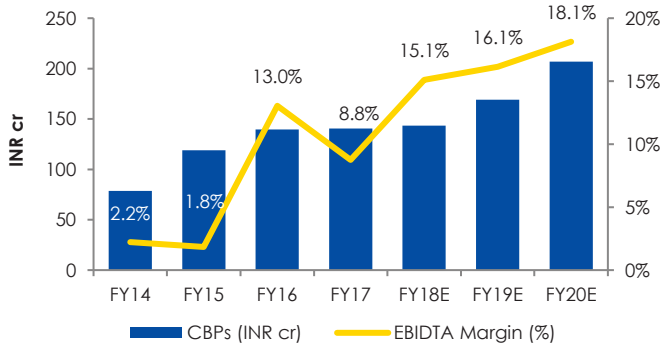
Visaka CBPs realisation



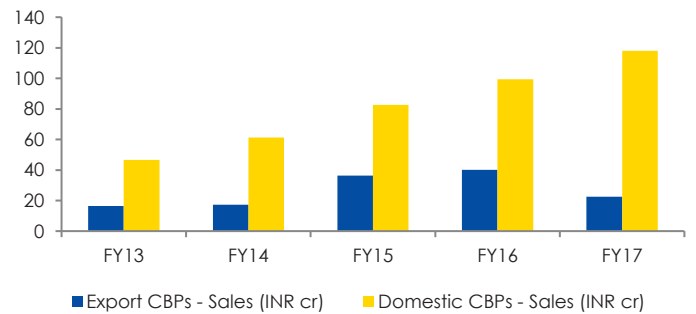
Visaka CBPs realisation – Domestic realisation improving



Visaka - CBPs sales and EBITDA margin



Visaka CBPs - Domestic business replaces export slowdown



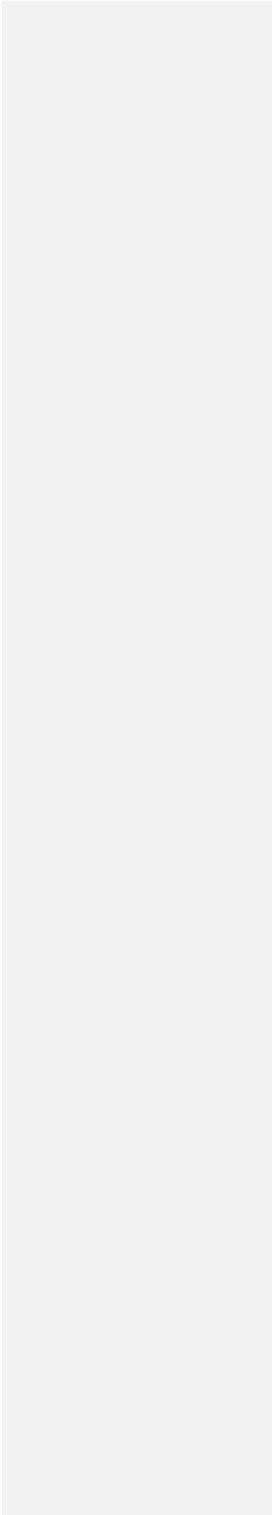
Source: Company, Edelweiss Investment Research

**Visaka V-boards – Superior vs substitute products**



**Visaka CBPs segment outlook**

The industry is growing at an average rate of 15% and domestic demand has been growing at ~20%+. Visaka has plans to expand capacity to capitalise on the growing demand. The market for CBPs until now had been limited to urban centres, however, players are taking initiatives to raise awareness and foster a nationwide acceptance for these products. As plywood is turning out to be costlier, it is expected that consumers' preference will shift towards cement boards.



### III. Yarn business

The Indian textile industry is estimated at US\$ 108 bn and is projected to reach US\$ 223 bn by 2021. The textile sector is one of the largest contributors to India's exports — approximately 11% of its output is being exported. India's textile exports for 2015-16 was nearly \$40 bn; this is expected to reach \$80 bn by 2020.

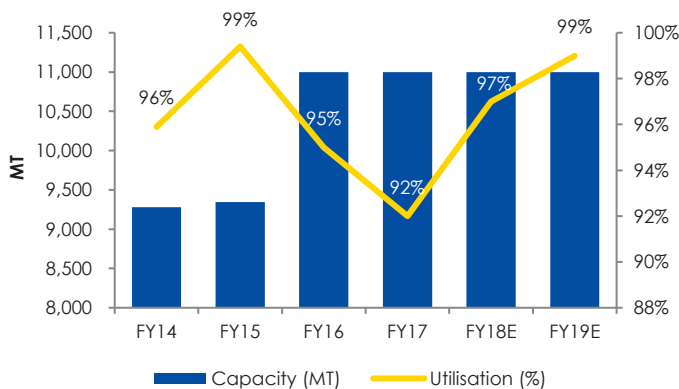
#### Visaka – Yarn business (contributes 18% to sales)

Visaka commenced the manufacture of synthetic yarn in 1992. The company invested in the niche value-added segment of a commodity business (polyester spun yarn as well as synthetic yarn from 30s to 76s counts – double yarn) to insulate itself from price-sensitive competition. Visaka has twin air-jet Murata spinning machines, 41 MTS machines (equivalent to 82,560 ring spindles). The company's domestic textile clients comprise brand-enhancing names like Grasim Industries, Siyaram Silk Mills Ltd, S. Kumar Nationwide Ltd, Shreekar Polyester Pvt. Ltd, Puneet Syntex Pvt. Ltd, Anand Silk Mills, G.M. Knitting Industries Pvt. Ltd, D.C. Textiles, Kalpesh Synthetics Pvt. Ltd. and Raj Rajendra Industries Ltd.

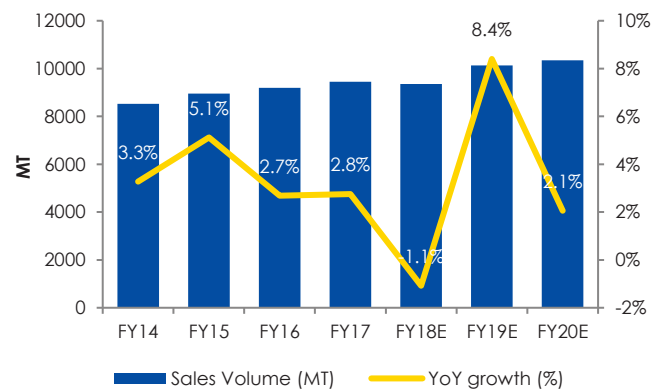
#### Visaka - Yarn capacity

	FY13	FY14	FY15	FY16	FY17	FY18E	FY19E	FY20E
<b>MTS Machines</b>	29	31	31	33	41	41	41	41
<b>Spinning Positions</b>	1816	1816	2176	2176	2752	2752	2752	2752

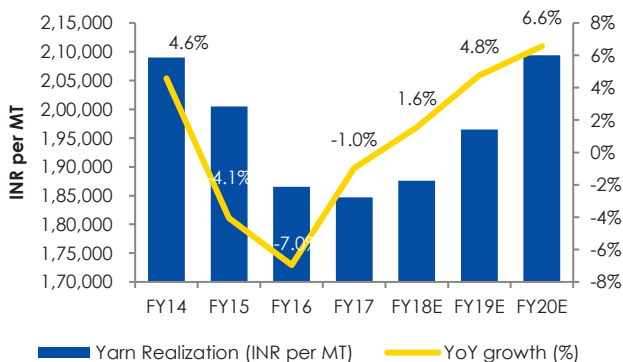
Visaka - Yarn capacity and utilisation



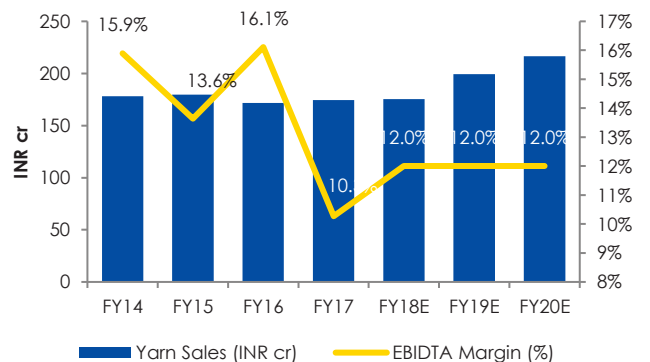
Visaka - Yarn sales volume



Visaka - Yarn realisation



Visaka - Yarn sales and EBITDA margin

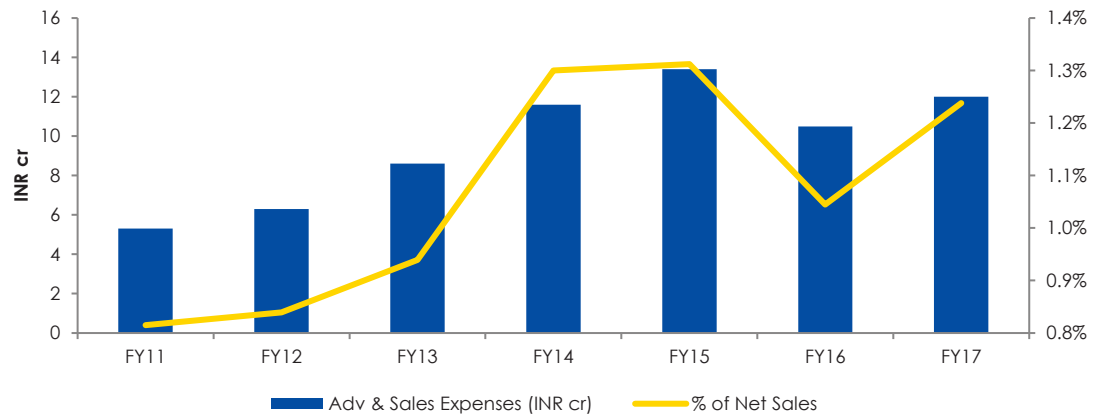


Source: Company, Edelweiss Investment Research

#### IV. Strong distribution network

The company possesses a strong distribution network of 6,000 retailers in rural and semi-urban markets; it derives 85% of its sales from these markets while the remaining 15% is derived from institutional sales to the government, industries and poultry farms. The company generally markets directly to retailers as opposed to the conventional company-distributor retailer model; this facilitates better knowledge of marketplace realities and maintains an efficient distribution chain. The company is also spreading awareness about its innovative products (CBPs etc.) via meetings with carpenters, architects and contractors. Further, the company has depots in 36 major cities and towns, countrywide to ensure the smooth supply of its products. The company's Visaka and Shakti brands account for a significant share (18%) of India's organised cement asbestos market.

Advertisement spend as a % of sales



Source: Company, Edelweiss Investment Research

#### V. De-risked product mix – Diversifying towards non-asbestos products

Visaka is continuously de-risking its business from asbestos based products to non-asbestos based products. Visaka's building products division also comprises fiber cement boards (non-asbestos) used in urban and semi-urban interiors ensuring a well spread out product mix. The non-asbestos component of the company's overall business is growing, an increase from 32% in FY16 to 33% in FY17. The company is expected to reach 50% sales contribution from non-asbestos products from the current 33% in the next three years. To achieve this, Visaka has launched an innovative solar roofing product, ATUM, which will gain traction from the government's push to solar power; and also the company is increasing its capacity in CBPs from 1,30,000 MT to 2,05,000 MT by FY21. Visaka has products other than CBPs for various different applications. Visaka has launched new products e.g. V-Infill, ATUM and instant wall solutions to diversify its product portfolio. Also, Visaka's new age products have green product certifications from the GREEN BUILDING COUNCIL (GBC) OF CII.

## **VI. Visaka – Strong corporate governance**

Visaka is continuously emphasising improving its corporate governance. As a part of this, the company has changed its auditors from M/s. M. Anandam & Co to Price Waterhouse & Co in the 35th annual general meeting of the company. Visaka is also publishing audited results on a quarterly basis. The credit rating company, CARE has upgraded its rating on bank facilities and fixed deposit programme in Dec-2017 from CARE A+ to CARE AA-. The company is also focusing on improving its balance sheet strength with reduction in borrowing from INR 321 cr in FY16 to INR 210cr by FY18E and working capital days from 115 days in FY16 to 104 days in FY17, and further to 84 days in H1FY18. The company also disseminates information to the investors frequently through active management communications.

## **VII. Key risks**

- a. Competition from alternate products (colour coated sheets)
- b. The ban on asbestos products
- c. Currency fluctuation



### VIII. Outlook and Valuation

The better monsoons and decline in rural inflation are expected to increase demand for rural cement asbestos products. Moreover, steel sheet demand would be restricted owing to the increase in steel prices, which will further add to the growth of AC sheets. CBPs industry is growing at an average rate of 15% and domestic demand has been growing at ~20%+. Visaka plans to expand capacity to capitalise on the growing demand. Visaka's businesses are aligned to national priorities and hence growth in the country's economy will benefit Visaka. Visaka is expected to deliver 6%/15%/28% CAGR in sales/EBITDA/PAT respectively over FY17-20E. Visaka is trading at a P/E of 19x/17x/13x FY18E/FY19E/FY20E earnings respectively. We initiate our converge with a target price of INR1,075, valuing the stock at 20x FY20E earnings. The global peers trade at an average of 19.4x 1-year forward PE with an average PEG of 1.8 and domestic peers trade at 15-20x 1-year forward PE with PEG of 0.8-1.0. Visaka looks attractive at 13x FY20E earnings at PEG of 0.5.

#### Visaka versus peers:

- a. Superior product profile
- b. Expansion in high margin products
- c. Fiber cement boards (V-Next products) wide portfolio
- d. Launch of an innovative product in roofing – ATUM

#### Peer comparison

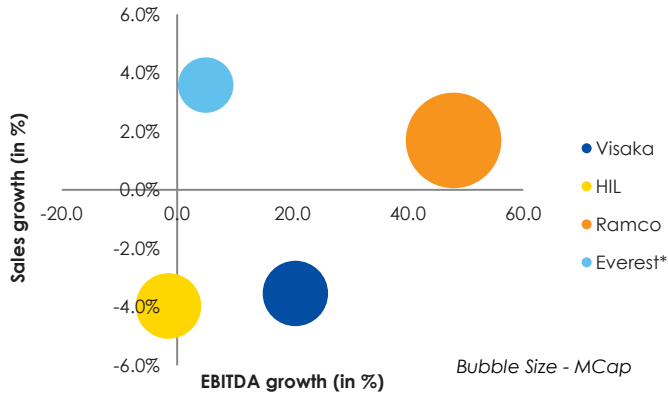
FY19E	Adelaide Brighton Ltd	Boral Ltd	CSR Ltd	Dulux Group Ltd	Fletcher Building Ltd	James Hardie	Reliance Worldwide Corp Ltd	Everest Industries Ltd.	Visaka Industries Ltd	HIL Ltd
Location	Australia	Australia	Australia	Australia	New Zealand and Australian	USA	Australia	India	India	India
PE 12m FWD	19.9	18.2	13.8	196	13.5	24	26.8	15.1	18.0	19.0
PAT 3 Yr. CAGR*	6.2%	14.8%	-5.2%	3.6%	10.6%	15.8%	15.0%	18.3%	39.2%	19.9%
PEG	3.2	1.2	-2.7	5.5	1.3	1.5	1.8	0.8	0.5	1.0

Note: \* over FY16-19E

	Revenue growth (%)			PAT growth (%)			EBITDA margin (%)		
	FY17	FY18E	FY19E	FY17	FY18E	FY19E	FY17	FY18E	FY19E
Everest Industries	(11.1)	8.8	9.0	NA	NA	24.4	3.1	7.6	8.1
<b>Visaka Industries</b>	<b>(3.5)</b>	<b>6.0</b>	<b>4.4</b>	<b>67.0</b>	<b>46.1</b>	<b>14.7</b>	<b>11.8</b>	<b>13.2</b>	<b>13.9</b>
HIL Ltd	(4.0)	15.5	6.6	37.6	0.4	14.5	9.0	10.0	10.3

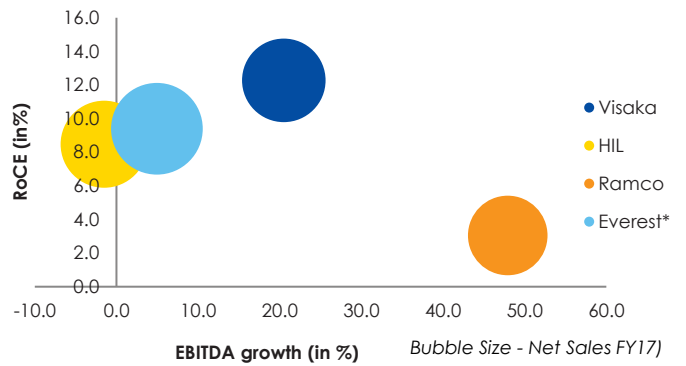
	RoACE (%)			Diluted PE (x)			EV/EBITDA (x)		
	FY17	FY18E	FY19E	FY17	FY18E	FY19E	FY17	FY18E	FY19E
Everest Industries	1.8	12.6	15.4	NA	18.0	14.4	27.5	9.7	8.1
<b>Visaka Industries</b>	<b>12.3</b>	<b>15.3</b>	<b>15.8</b>	<b>27.9</b>	<b>19.1</b>	<b>16.6</b>	<b>11.5</b>	<b>9.8</b>	<b>8.7</b>
HIL Ltd	9.5	9.3	11.4	21.0	22.6	19.8	12.8	10.7	9.7

Peers: Sales and EBITDA growth (FY17)



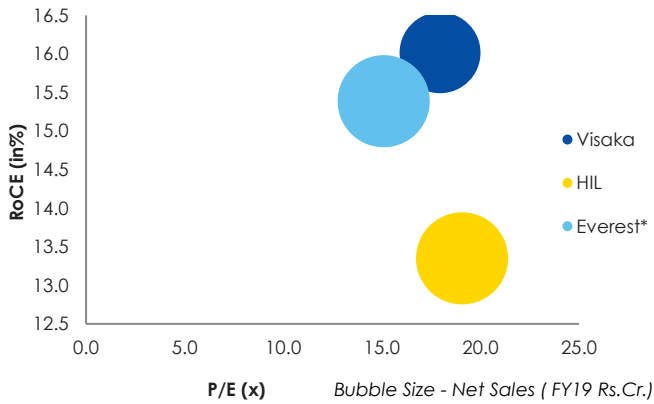
\*FY16 financials are used due to FY17 being a very bad year for EVI

Peers: Operating margin with returns

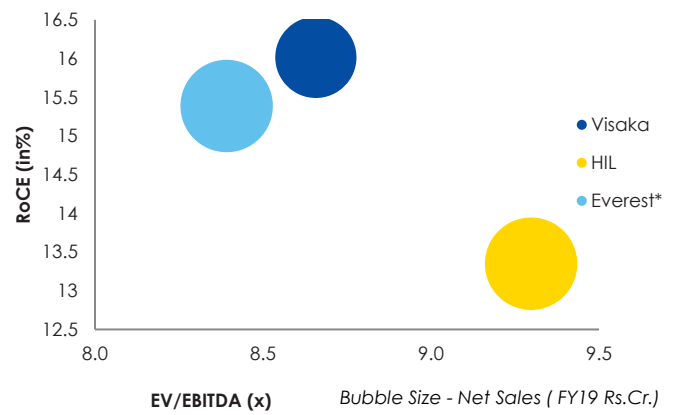


\*FY16 financials are used due to FY17 being a very bad year for EVI

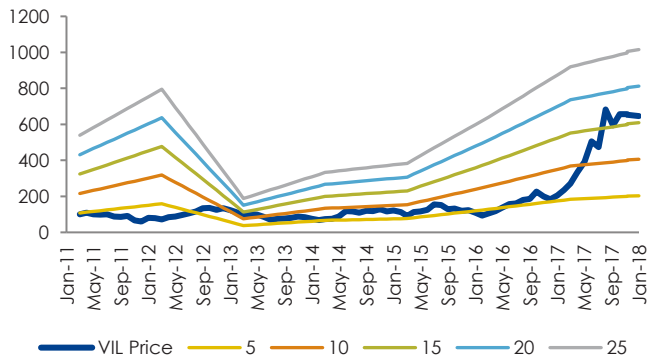
Peer valuations



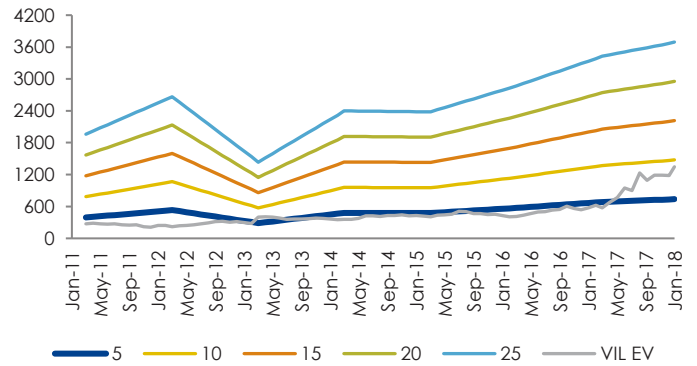
Peer valuations



1 year forward PE band chart



1 year forward EV/EBITDA band chart



Source: Company, Edelweiss Investment Research

**Business Overview - Well diversified business**

**Company Description**

Visaka Industries was established in 1985. Visaka has two main divisions; building products division which manufactures cement asbestos sheets and fiber cement board & panels and the textile division. The building products division accounts for a majority of the revenue – over 80%. The company is the second largest manufacturer of cement asbestos sheets in India. Headquartered in Hyderabad, Visaka has 11 manufacturing facilities across India with an aggregate production capacity of 802 kTPA in cement asbestos sheets, 130 kTPA in V-boards and panels and 10,000 MT of yarn production per annum.

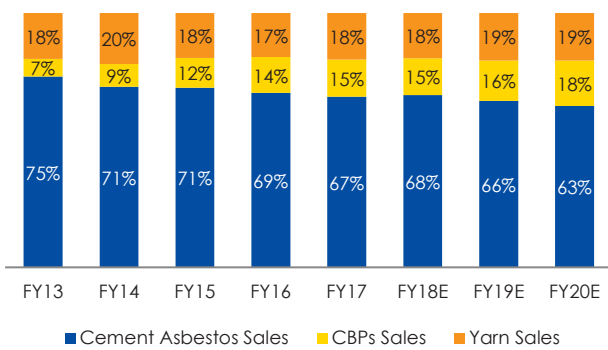
<b>Business Model</b>	The company has 3 segments. 1) Cement asbestos roofing sheets 2) Fiber cement boards and panels 3) Yarn business
<b>Strategic Positioning</b>	Visaka is gradually shifting focus to the value-added segment, to CBPs, which enjoy better realisations and towards the non-asbestos products business, which currently contributes 33%, and is estimated to rise to ~50% in the next couple of years.
<b>Competitive Edge</b>	<ul style="list-style-type: none"> <li>• Diversified product portfolio towards non-asbestos products</li> <li>• Efficient capital allocation</li> <li>• Strong brand and distribution network</li> </ul>
<b>Financial Structure</b>	<ul style="list-style-type: none"> <li>• Major capex in expansion of CBPs is completed; will result in high free cash flows in coming years</li> <li>• Improvement in utilisation and margins to aid return ratios</li> <li>• The company is relatively under-borrowed; its gearing was 0.64 at the end of FY17, which coupled with an interest cover of more than 6x, represents adequate fiscal comfort</li> </ul>
<b>Key Competitors</b>	Everest Industries, HIL Ltd, Ramco Industries
<b>Industry Revenue Drivers</b>	Various government initiatives such as affordable housing thrust and GST. Rural economy tailwinds and an innovative product traction to aid the industry
<b>Shareholder Value Proposition</b>	The company is likely to clock 28% earnings CAGR over FY17-20E, resulting in an EPS of INR 54 in FY20E. A 20x valuation can give a price target of INR 1,075 for the company, which offers an upside of 50%

**Visaka – Segment details**

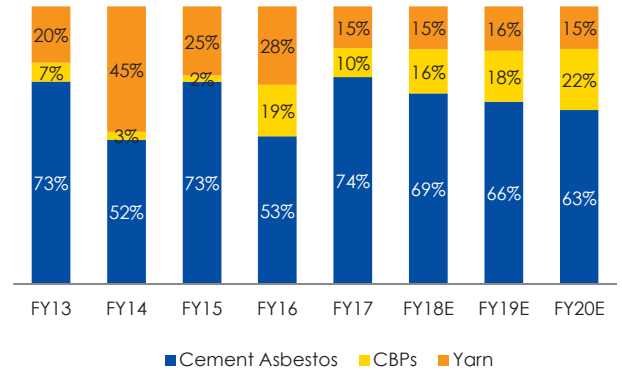
Visaka has three main divisions: Cement Asbestos, V-next Products and Yarn. Cement Asbestos and V-next products come under building products. Visaka has a strong distribution network with over 6,000 dealers pan-India.

Cement Asbestos	V-Next Products	Yarn
<ul style="list-style-type: none"> <li>• Corrugated Cement Fiber Sheets</li> <li>• Close Fitting Adjustable Ridges</li> <li>• Apron Piece</li> <li>• Cladding/Walling</li> <li>• North Light Ridges</li> <li>• Barge Boards</li> <li>• North Light Curve</li> <li>• Serrated Adjustable Ridges</li> <li>• Roof Lights</li> <li>• Ridge Finals</li> </ul>	<ul style="list-style-type: none"> <li>• V-Board</li> <li>• V-Premium</li> <li>• V-Designer</li> <li>• V-Plank</li> <li>• V-panel</li> </ul>	<ul style="list-style-type: none"> <li>• Cotton-Touch Airjet Spun Polyester yarns</li> </ul>

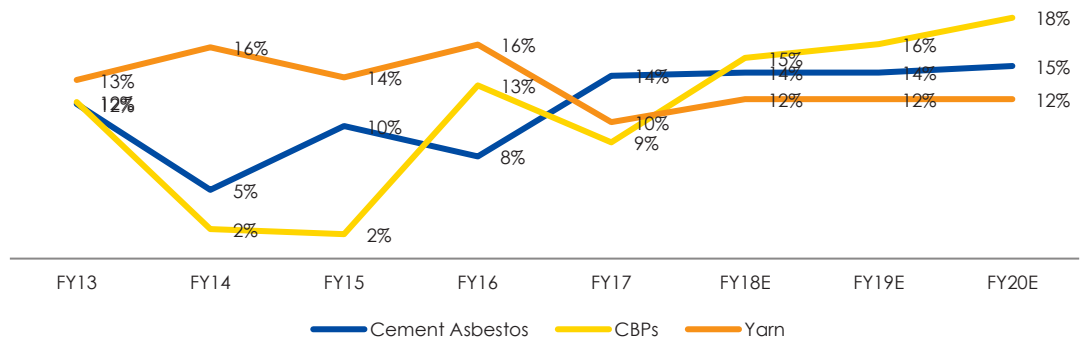
**Visaka - sales contribution**



**Visaka - EBITDA contribution**



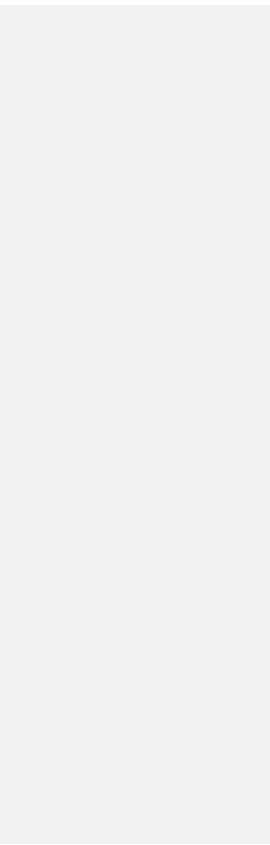
**Visaka - Segment wise EBITDA margin**



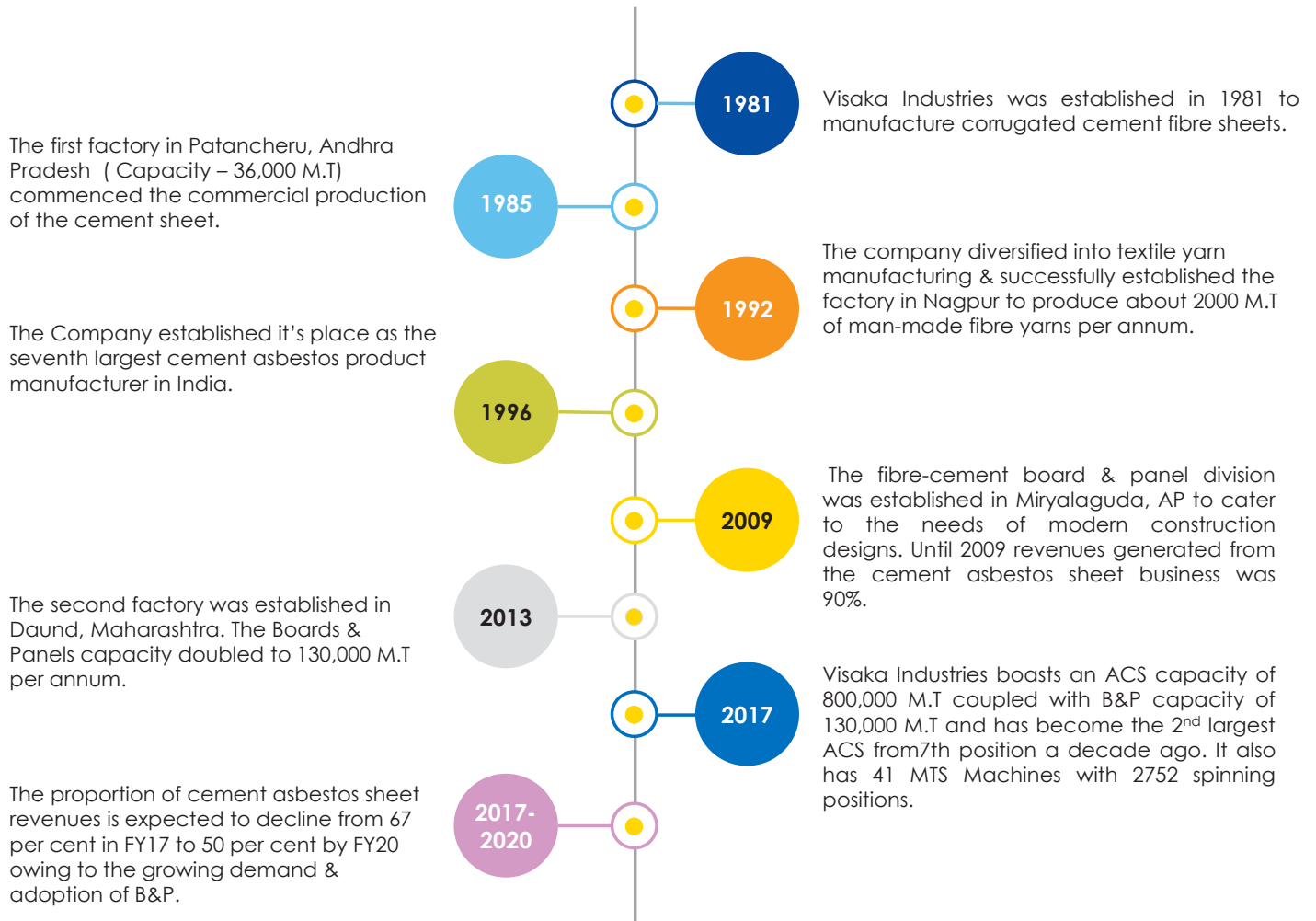
Source: Company, Edelweiss Investment Research

Porter Five Forces Analysis

Low competitive intensity	
<ul style="list-style-type: none"> <li>➤ An oligopoly market with top six players collectively controlling ~70% of the capacity market and ~80% of sales market</li> <li>➤ Restricted use of raw material, brand and distribution depth keep competition low</li> </ul>	
Threat of New Entrants	Substitute Products
Brand and Distribution requirements and restricted raw material, restrict the new entrants competition	Product is price and quality sensitive, high competition from substitute products but low pricing restricting it
Bargaining Power of Suppliers	Bargaining Power of Customers
➤ As raw material is restricted to use globally and India is largest consumer. Also oligopolistic domestic market, keep bargaining power with business.	Lower Price point product and high number of substitute products, keep high bargaining power with the customers



Major milestones

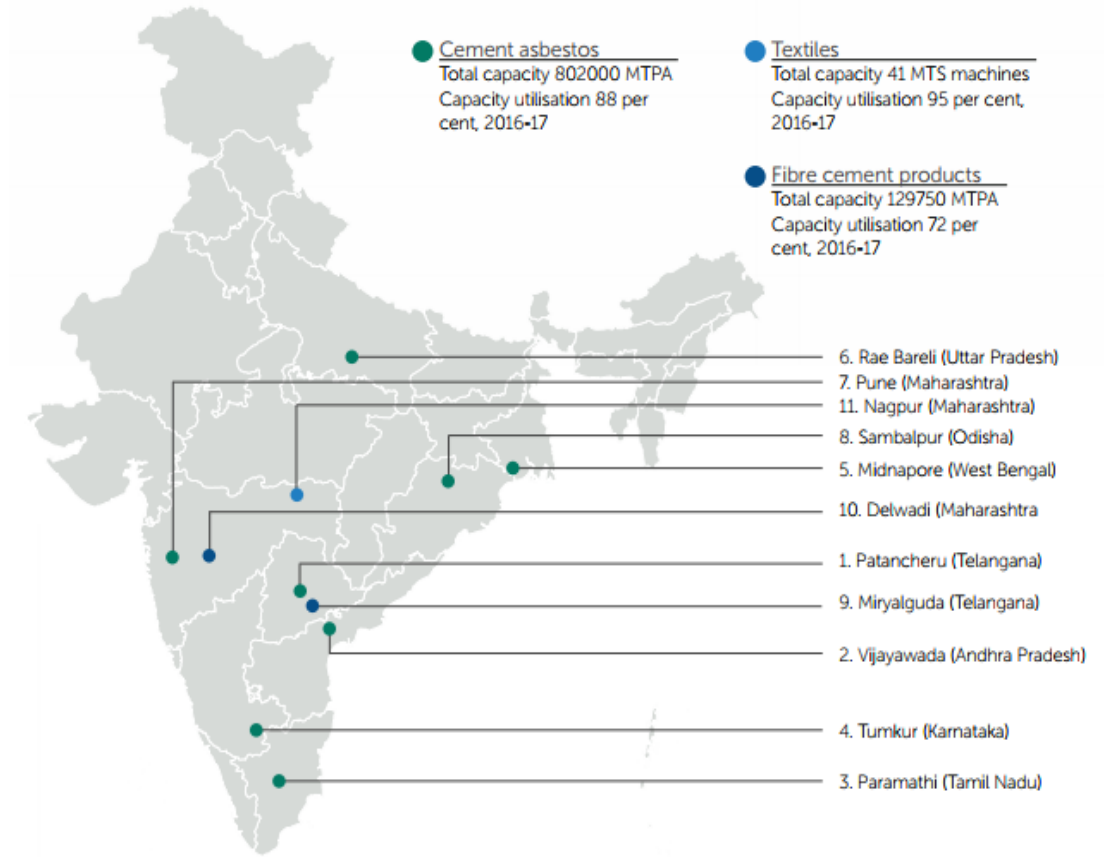


**Key management – Strong and experienced leadership**

Name	Designation	Profile
<b>Dr. G. Vivekanand</b>	<i>Vice Chairman</i>	An MBBS graduate from Osmania University and a former member of Parliament. He is a first-generation entrepreneur and has played a pivotal role in the growth of the company. It is under his leadership and guidance the company has grown multifold and diversified into the businesses of building products and synthetic blended yarn with a prominent position in both industries.
<b>Smt. G. Saroja Vivekanand</b>	<i>Managing Director</i>	She has been on the board of the company since January 2003. She has a good exposure to the functioning of the company in all respects and is the managing director of the company since 2009.
<b>Mr. Vamsi Krishna</b>	<i>Joint Managing Director</i>	Mr. Vamsi Krishna holds a bachelor's degree in science from Purdue University, USA. He joined Visaka in June 2010 as a management trainee and was later appointed as chief business strategist. He has made significant contributions to increase the size of the company's cement board division. He was a whole time director before becoming the joint managing director. He is currently spearheading the growth of new products and innovations in the company.
<b>Mr. Vallinath Vepa</b>	<i>Whole-time Director &amp; CFO</i>	Mr. Vepa is a commerce graduate and a member of the Institute of Chartered Accountants of India and the Cost and Management Accountants of India. At Visaka he has been heading the finance function since 1997, presently playing a dual role of whole time director and chief financial officer. He has a rich and varied experience of over 33 years spread over various key operations of finance, business strategy, management information system, taxation, costing and other related areas in various key positions.

### Manufacturing facilities

The company's cement asbestos product manufacturing facilities are dispersed nationally which helps address regional needs – four in south India, one in north India, two in east India and one in west India.

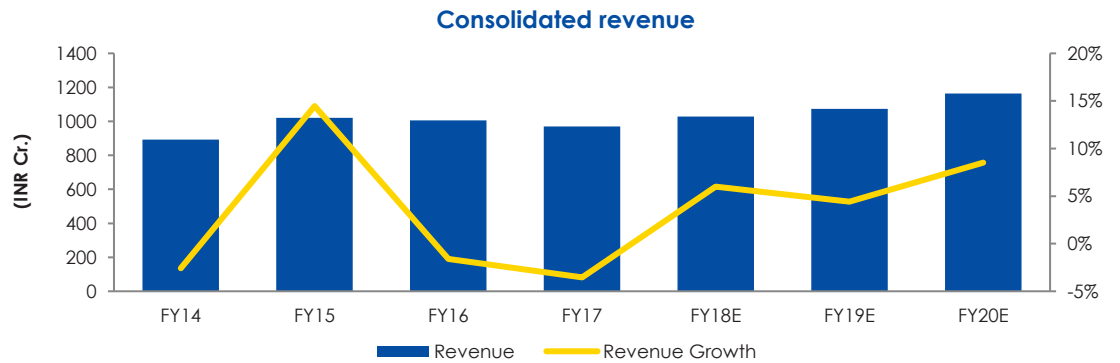




### Financial Analysis

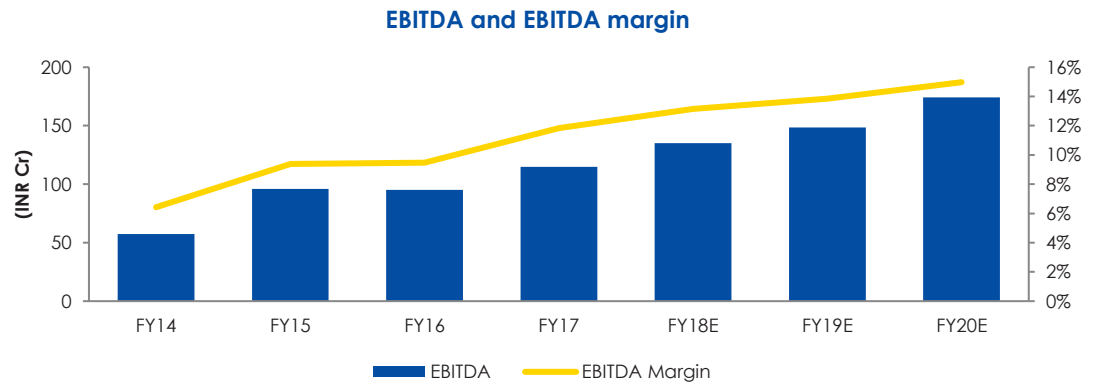
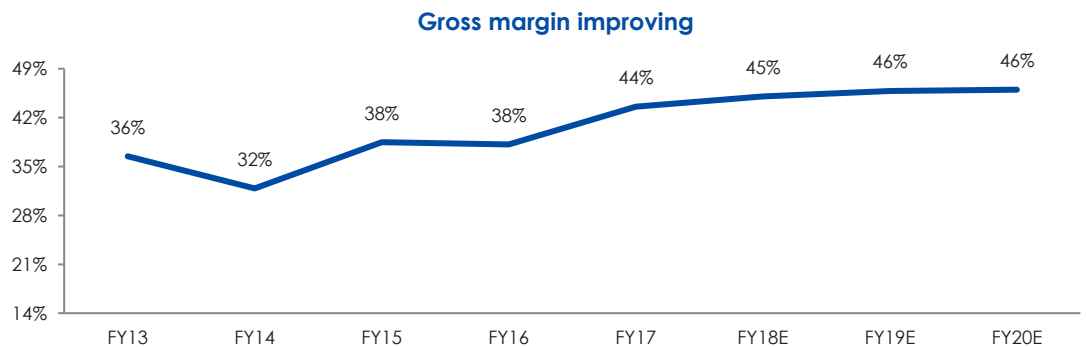
#### Capacity addition and improvement in utilisation drives revenue

Revenue has grown at ~3% CAGR during FY14-17; previously it was lower due to a slowdown in rural economy as well as export sales (mainly to the Middle East). We expect revenue growth of ~6% during FY17-20E; driven by capacity addition, domestic business improvement and higher realisations.



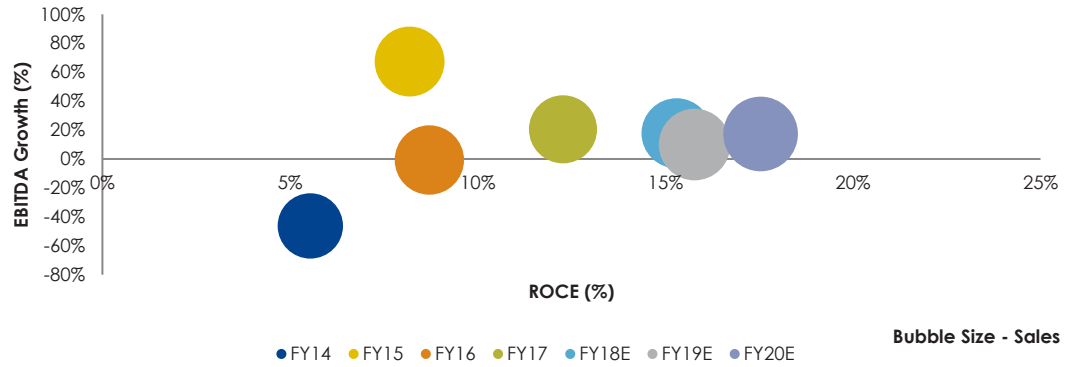
#### Higher capacity utilisation and increase in CBPs sales to boost operating margin

EBITDA margin is poised to improve by ~310 bps over the next two years on account of benefits from product mix - incremental value-added products in the portfolio as well as realisation improvement. We estimate EBITDA to post CAGR of ~15% during FY17-20E, which was reflected in Visaka's numbers over FY14-17, delivering 26% CAGR.



Source: Company, Edelweiss Investment Research

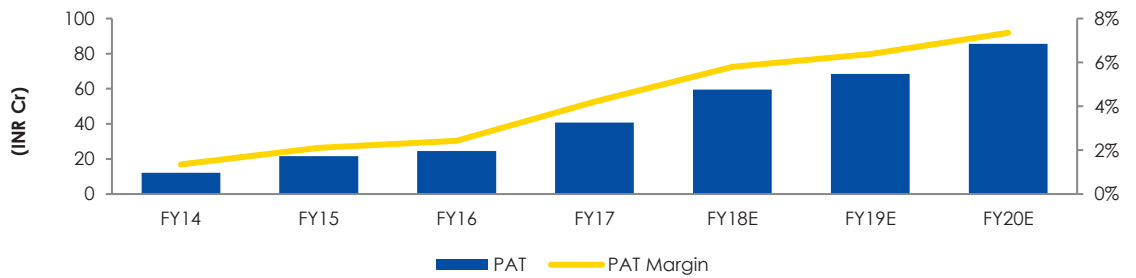
**EBITDA growth and RoCE**



**Robust PAT growth**

We estimate the moderate sales growth, margin improvement and restricted depreciation and interest expenses, to result in a PAT CAGR of 28% over FY17-20E. PAT margin is estimated to improve from 4.2% in FY17 to 7.4% in FY20E.

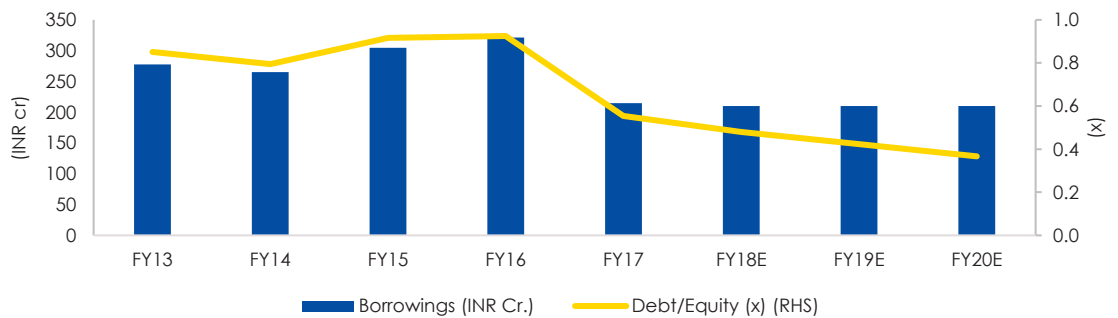
**PAT and PAT margin**



**Debt to dip significantly**

The company is relatively under-borrowed; its gearing was 0.64 at the end of FY17, which coupled with an interest cover of more than 6x, represents adequate fiscal comfort. The average cost of the company's debt was 8.75%. There is a growing reliance on cash to fund operations and derive the best procurement bargains. We estimate Visaka's debt-equity ratio to improve to 0.4x in FY20E with positive free cash flow. Capacity expansion with low capex will keep the balance sheet stress free and help improve return ratios going forward.

**Debt/Equity**

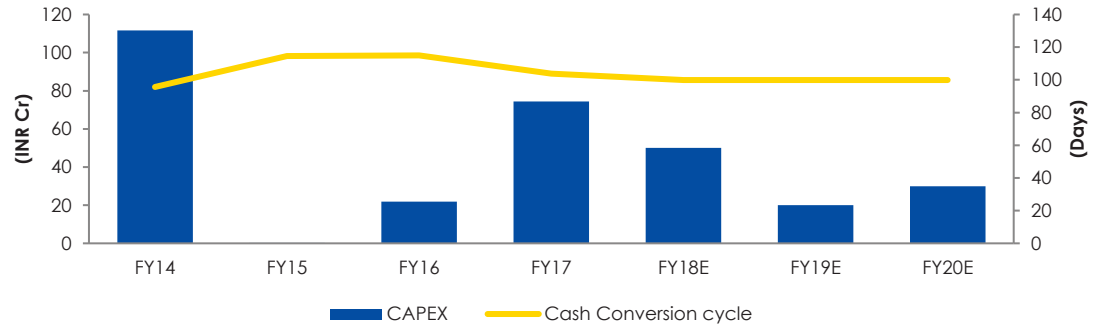


Source: Company, Edelweiss Investment Research

**Lower capex and improving cash conversion cycle**

Visaka's cash conversion cycle (days) have improved from 121 to 104 from FY13 to FY17 on account of improvement in product mix and domestic sales supported by its wide distribution network and chiefly, with improvement in its inventory days.

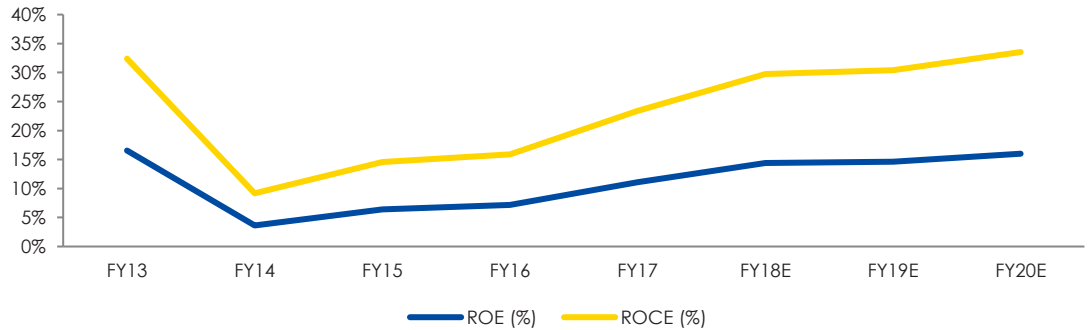
**Capex and cash conversion cycle**



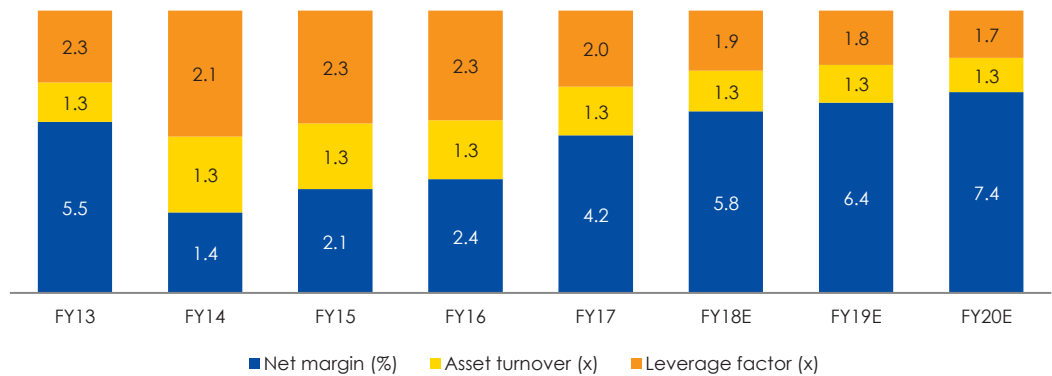
**Return ratios to improve as utilisation picks up**

With improving margins, we estimate Visaka's RoCE and RoE to improve ~530 bps and 490 bps, respectively over the next two years. We expect the company to clock higher RoCE on account of better product mix and higher realisations.

**RoAE and RoACE**



**DuPont Analysis**



Source: Company, Edelweiss Investment Research

## Financials

Income statement					
(INR cr)					
Year to March	FY16	FY17	FY18E	FY19E	FY20E
Income from operations	1,005	969	1,027	1,073	1,164
Direct costs	621	547	565	581	629
Employee costs	68	77	82	86	85
Other expenses	288	307	327	343	361
Total operating expenses	910	855	892	924	990
EBITDA	95	115	135	149	174
Depreciation and amortisation	36	34	36	38	40
EBIT	59	81	99	110	134
Interest expenses	21	18	17	17	17
Other income	3	4	8	10	12
Profit before tax	40	66	89	103	129
Provision for tax	16	26	30	35	44
Core profit	24	41	60	68	86
Extraordinary items	0	0	0	0	0
Profit after tax	24	41	60	68	86
Minority Interest	0	0	0	0	0
Share from associates	0	0	0	0	0
Adjusted net profit	24	41	60	68	86
Equity shares outstanding (mn)	2	2	2	2	2
EPS (INR) basic	15.3	25.6	37.4	43.0	53.7
Diluted shares (Cr)	1.6	1.6	1.6	1.6	1.6
EPS (INR) fully diluted	15.3	25.6	37.4	43.0	53.7
Dividend per share	5.0	0.0	6.0	6.0	6.0
Dividend payout (%)	32.5	0.0	16.0	14.0	11.2

### Common size metrics- as % of net revenues

Year to March	FY16	FY17	FY18E	FY19E	FY20E
Operating expenses	90.5	88.2	86.8	86.1	85.0
Depreciation	3.6	3.5	3.5	3.6	3.4
Interest expenditure	2.1	1.9	1.7	1.6	1.5
EBITDA margins	9.5	11.8	13.2	13.9	15.0
Net profit margins	2.4	4.2	5.8	6.4	7.4

### Growth metrics (%)

Year to March	FY16	FY17	FY18E	FY19E	FY20E
Revenues	(1.6)	(3.5)	6.0	4.4	8.5
EBITDA	(0.7)	20.5	17.8	10.0	17.3
PBT	21.6	64.5	34.7	15.2	25.3
Net profit	15.1	67.0	46.1	14.7	25.1
EPS	15.1	67.0	46.0	14.7	25.1

### Ratios

Year to March	FY16	FY17	FY18E	FY19E	FY20E
ROAE (%)	7.2	11.1	14.4	14.6	16.0
ROACE (%)	8.7	12.3	15.3	15.8	17.5
Debtors (days)	53	59	55	55	55
Current ratio	3.7	2.8	2.8	3.2	3.7
Debt/Equity	0.9	0.6	0.5	0.4	0.4
Inventory (days)	84	74	74	74	74
Payable (days)	23	29	29	29	29
Cash conversion cycle (days)	115	104	100	100	100
Debt/EBITDA	3.4	1.9	1.6	1.4	1.2
Adjusted debt/Equity	0.7	0.5	0.4	0.3	0.2

### Valuation parameters

Year to March	FY16	FY17	FY18E	FY19E	FY20E
Diluted EPS (INR)	15.3	25.6	37.4	43.0	53.7
Y-o-Y growth (%)	15.1	67.0	46.0	14.7	25.1
CEPS (INR)	38.1	47.0	60.2	67.0	78.8
Diluted P/E (x)	46.6	27.9	19.1	16.6	13.3
Price/BV(x)	3.3	2.9	2.6	2.3	2.0
EV/Sales (x)	1.4	1.4	1.3	1.2	1.1
EV/EBITDA (x)	14.5	11.5	9.8	8.7	7.1
Diluted shares O/S	1.6	1.6	1.6	1.6	1.6
Basic EPS	15.3	25.6	37.4	43.0	53.7
Basic PE (x)	46.6	27.9	19.1	16.6	13.3
Dividend yield (%)	0.7	0.0	0.8	0.8	0.8

Balance sheet					
(INR cr)					
As on 31st March	FY16	FY17	FY18E	FY19E	FY20E
Equity share capital	16	16	16	16	16
Preference Share Capital	0	0	0	0	0
Reserves & surplus	331	372	422	481	557
Shareholders funds	347	388	438	497	573
Secured loans	169	147	150	150	150
Unsecured loans	152	67	60	60	60
Borrowings	321	215	210	210	210
Minority interest	0	0	0	0	0
<b>Sources of funds</b>	<b>668</b>	<b>603</b>	<b>648</b>	<b>707</b>	<b>783</b>
Gross block	584	651	691	732	762
Depreciation	290	324	360	398	438
Net block	294	327	331	334	324
Capital work in progress	4	12	22	0	0
Total fixed assets	298	339	352	334	324
Unrealised profit	0	0	0	0	0
Investments	10	0	35	60	65
Inventories	232	196	208	217	235
Sundry debtors	147	156	155	162	175
Cash and equivalents	75	38	23	58	105
Loans and advances	28	22	24	25	27
Other current assets	0	0	0	0	0
Total current assets	482	413	409	461	542
Sundry creditors and others	122	139	139	139	139
Provisions	6	6	6	6	6
Total CL & provisions	129	145	145	145	145
Net current assets	353	268	264	316	397
Net Deferred tax	-22	-21	-21	-21	-21
Misc expenditure	29	18	18	18	18
<b>Uses of funds</b>	<b>668</b>	<b>603</b>	<b>648</b>	<b>707</b>	<b>783</b>
Book value per share (INR)	218	244	275	312	360
	-0	0	0	0	0

### Cash flow statement

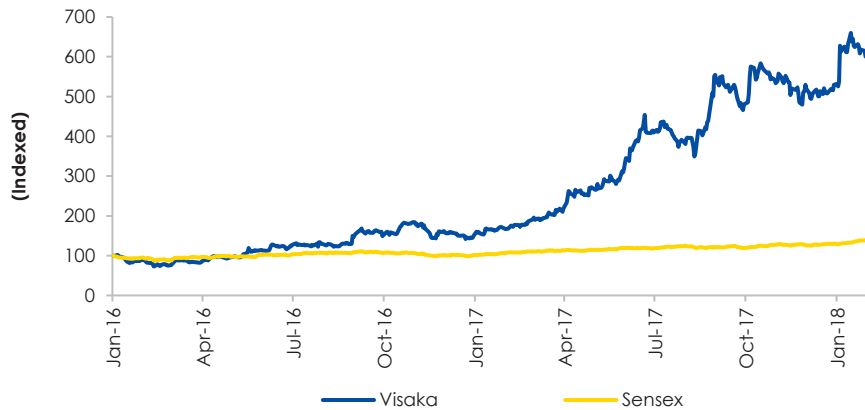
Year to March	FY16	FY17	FY18E	FY19E	FY20E
Net profit	24	41	60	68	86
Add: Depreciation	36	34	36	38	40
Add: Misc expenses written off	-36	11	0	0	0
Add: Deferred tax	-4	-1	0	0	0
Add: Others	0	0	0	0	0
Gross cash flow	21	85	96	107	125
Less: Changes in W. C.	-36	-49	12	17	34
Operating cash flow	57	134	84	90	91
Less: Capex	22	74	50	20	30
<b>Free cash flow</b>	<b>35</b>	<b>59</b>	<b>34</b>	<b>70</b>	<b>61</b>

**Vinay Khattar**

Head Research

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Rating	Expected to
<b>Buy</b>	appreciate more than 15% over a 12-month period
<b>Hold</b>	appreciate between 5-15% over a 12-month period
<b>Reduce</b>	Return below 5% over a 12-month period



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