

Siyaram Silk Mills

Performance Highlights

Particulars (₹ cr)	3QCY2012	3QCY2011	%chg (yoy)	2QCY2011	%chg (qoq)
Net sales	222.0	228.0	(2.6)	244.4	(9.2)
EBITDA	29.2	29.8	(2.0)	32.8	(10.7)
EBITDA margin (%)	13.2	13.1	9bp	13.4	(23)bp
Net profit	13.2	15.9	(17.0)	17.0	(22.3)

Source: Company, Angel Research

For 3QFY2012, Siyaram Silk Mills (SSM) reported a weak performance. The company's net sales declined by 9.2% qoq and 2.6% yoy to ₹222cr. OPM expanded by 9bp yoy to 13.2%. Net profit witnessed a 17.0% yoy decline to ₹13cr. **We continue to maintain our Buy view on the stock.**

Top line declines, EBITDA margin flat: During the quarter, SSM's top line declined by 9.2% qoq and 2.6% yoy to ₹222cr, on the back of slowdown in demand. EBITDA declined by 2.0% yoy to ₹29cr on the back of lower revenue during the quarter. EBITDA margin expanded by 9bp yoy to 13.2% due to lower raw-material cost, which declined by 283bp yoy to 36.3% (39.1%) of sales. The decline in raw-material cost was partially offset by a 224bp yoy increase other expenditure to 21.4% (19.1%) of sales. For 3QFY2012, SSM witnessed a 17.0% yoy decline in PAT to ₹13cr on the back of lower revenue and higher interest and depreciation cost.

Outlook and valuation: SSM is in a strong expansion mode. The company plans to add 286 looms (479 current looms) in a phased manner over FY2011-13 in the fabric segment and will be adding 400 machines in its readymade garment (RMG) segment by June 2012. Moreover, timely capacity expansion will help the company to take full advantage of the growing demand in India, which will drive its revenue at an 11.6% CAGR over FY2011-13E. The stock is currently trading at reasonable valuation of 4.4x FY2013E earnings (as against its historical median of 6x one-year forward EPS). **We continue to maintain our Buy rating on the stock with a revised target price of ₹380, valuing the stock at 6x FY2013E earnings.**

Key financials

Y/E March (₹ cr)	FY2010	FY2011	FY2012E	FY2013E
Net sales	660	859	917	1,069
% chg	24.4	30.2	6.8	16.6
Net profit	34	58	55	59
% chg	194.2	71.2	(4.7)	8.0
FDEPS (₹)	35.9	61.5	58.6	63.3
EBITDA margin (%)	10.6	12.7	12.9	12.2
P/E (x)	7.7	4.5	4.7	4.4
RoE (%)	21.6	29.6	22.8	20.7
RoCE (%)	13.0	19.5	16.9	16.6
P/BV (x)	1.5	1.2	1.0	0.8
EV/Sales (x)	0.6	0.6	0.6	0.5
EV/EBITDA (x)	6.0	4.8	4.8	4.2

Source: Company, Angel Research

BUY

CMP	₹277
Target Price	₹380

Investment Period	12 Months
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Stock Info

Sector	Textile
Market Cap (₹cr)	260
Beta	1.0
52 Week High / Low	464/224
Avg. Daily Volume	3,702
Face Value (₹)	10
BSE Sensex	17,707
Nifty	5,368
Reuters Code	SIYR.BO
Bloomberg Code	SIYA@IN

Shareholding Pattern (%)

Promoters	67.1
MF / Banks / Indian Fls	6.6
FII / NRIs / OCBs	0.1
Indian Public / Others	26.3

Abs.(%)	3m	1yr	3yr
Sensex	0.2	(1.0)	89.3
Siyaram Silk Mills	(11.1)	(4.7)	433

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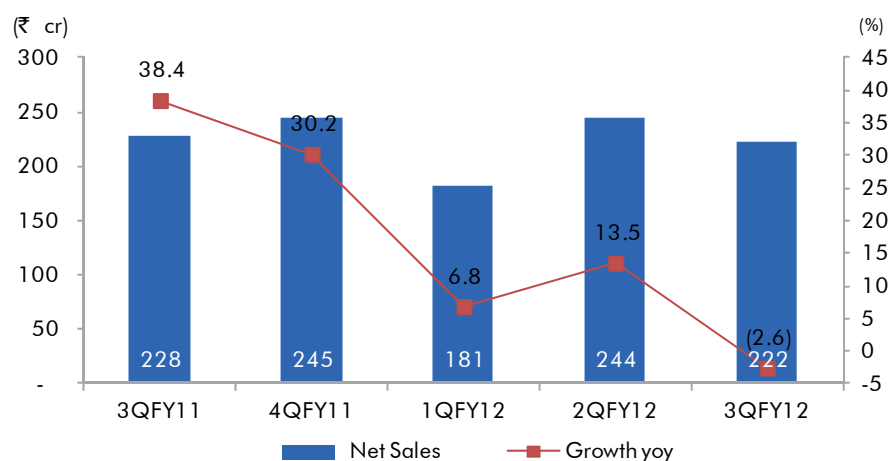
Exhibit 1: 3QFY2012 performance highlights

Particulars (Rs cr)	3QCY2012	3QCY2011	%chg (yoy)	2QCY2011	%chg (qoq)
Net Sales	222.0	228.0	(2.6)	244.4	(9.2)
Total Expenditure	192.7	198.2	(2.8)	211.7	(9.0)
EBITDA	29.2	29.8	(2.0)	32.8	(10.7)
OPM (%)	13.2	13.1	9bp	13.4	(23) bp
Depreciation	6.3	5.4	18.1	5.1	23.0
EBIT	22.9	24.5	(6.4)	27.6	(17.0)
Interest	6.9	3.6	92.0	6.1	14.4
Other Income	2.7	2.1	28.0	4.0	(33.2)
Excp. Item	-	-	-	-	-
PBT	18.6	22.9	(18.7)	25.5	(27.0)
Tax	5.4	7.0	(22.7)	8.6	(36.4)
Net Profit	13.2	15.9	(17.0)	17.0	(22.3)
NPM (%)	5.9	7.0	(103) bp	6.9	(100) bp
Diluted EPS (₹)	14.1	17.0	(17.0)	18.1	(22.3)

Source: Company, Angel Research

Revenue down by 9.2% qoq and 2.6% yoy

For 3QFY2012, SSM registered a 9.2% qoq and 2.6% yoy decline in its revenue to ₹222cr on the back of slowdown in demand witnessed during the quarter. Demand is expected to remain sluggish in the next quarter as well and, thus, we do not expect any significant growth in the coming quarter.

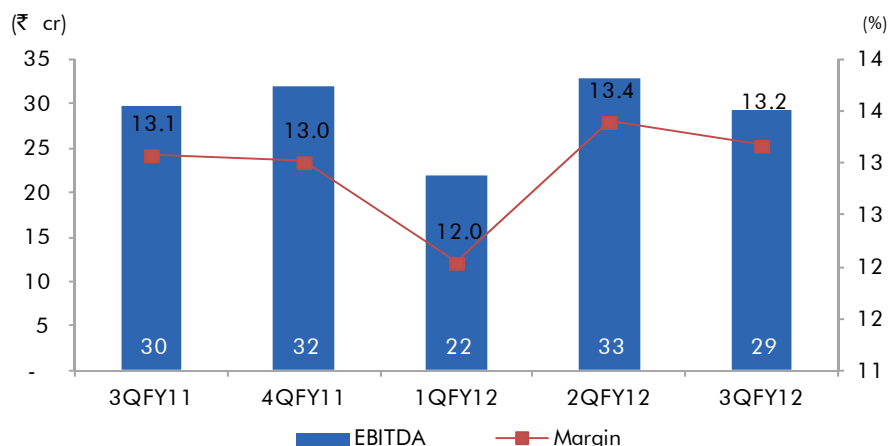
Exhibit 2: Revenue trend


Source: Company, Angel Research

EBITDA margin expands by 9bp yoy

During the quarter, EBITDA declined by 2.0% yoy to ₹29cr on the back of lower revenue. EBITDA margin expanded by 9bp yoy to 13.2% due to lower raw-material cost, which declined by 283bp yoy to 36.3% (39.1%) of sales. The decline in raw-material cost was partially offset by a 224bp yoy increase in other expenditure to 21.4% (19.1%) of sales.

Exhibit 3: EBITDA margin up yoy

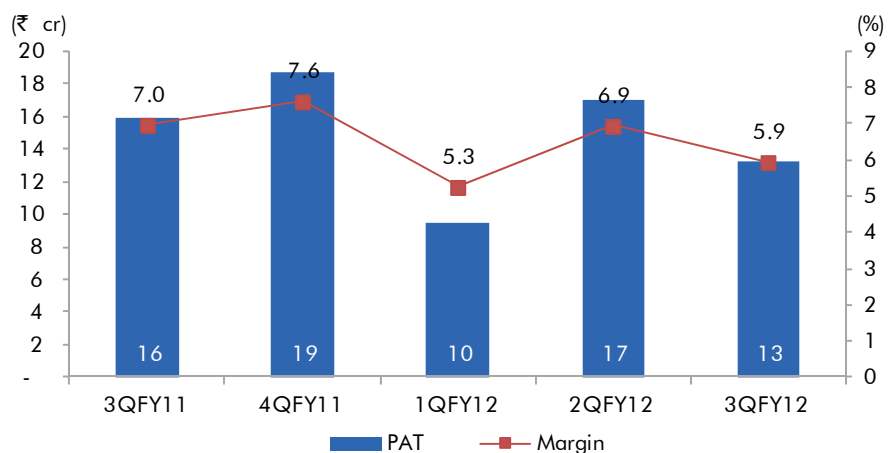


Source: Company, Angel Research

PAT declines by 17.0% yoy

For 3QFY2012, the company witnessed a 17.0% yoy decline in PAT to ₹13cr on the back of lower revenue and higher revenue depreciation and interest cost. Depreciation cost increased by 18.1% yoy and interest cost surged by 92.0% yoy. Consequently, PAT margin declined by 103bp yoy to 5.9% (7.0%).

Exhibit 4: PAT trend



Source: Company, Angel Research

Investment arguments

SSM is one of the leading textile manufacturers in India. The company enjoys a strong brand presence across the country, with brands such as *Siyaram*, *Mistair*, *J Hampstead* and *Oxemberg* in its kitty.

Strong brand presence: SSM has built a strong brand presence in the country through continuous advertisement and brand-building efforts over the past 30 years. The company has created a niche for itself in a highly competitive industry. SSM enjoys a monopolistic position for its fabric segment under the *Siyaram* brand, which constitutes nearly 85% of its revenue.

Largest distribution network across India: SSM has one the largest distribution networks in the country. The company has a strong network of over 1,500 dealers and 500 agents supplying to more than 40,000 outlets across India. This enables the company to launch new products with a high success ratio and low marketing cost, giving it an edge over competitors.

Higher utilization to drive growth: SSM's yarn segment achieved 57% capacity utilization in FY2011 compared to 41.9% in FY2009, which is further expected to improve to 80% in FY2012E.

Outlook and valuation: SSM is in a strong expansion mode. The company plans to add 286 looms (479 current looms) in a phased manner over FY2011-13 in the fabric segment and will be adding 400 machines in its RMG segment by June 2012. Moreover, timely capacity expansion will help the company to take full advantage of the growing demand in India, which will drive its revenue at an 11.6% CAGR over FY2011-13E. The stock is currently trading at reasonable valuation of 4.4x FY2013E earnings (as against its historical median of 6x one-year forward EPS). **We continue to maintain our Buy rating on the stock with an upgraded target price of ₹380, valuing the stock at 6x FY2013E earnings.**

Exhibit 5: Key assumptions

Particulars (%)	Estimates	
	FY2012	FY2013
Sales growth	6.8	16.6
EBITDA margin	12.9	12.2
Tax rate	31.5	31.5
NPM	6.0	5.5

Source: Company, Angel Research

Profit and loss statement

Y/E Mar. (₹ cr)	FY2009	FY2010	FY2011	FY2012E	FY2013E
Total operating income	530	660	859	917	1,069
% chg	9.1	24.4	30.2	6.8	16.6
Total expenditure	488	589	750	799	939
EBITDA	42	70	109	118	131
% chg	32.0	66.1	54.8	9.0	10.5
(% of Net sales)	8.0	10.6	12.7	12.9	12.2
Depreciation & amortisation	19	20	21	24	30
Interest & other charges	16.8	12	15	25	26
Adj. Other income	8.4	11	10	11	11
(% of PBT)	57.1	22.3	11.9	13.4	13.0
Recurring PBT	15	49	83	80	87
Extraordinary expense/(Inc.)	-	-	-	-	-
PBT (reported)	15	49	83	80	87
Tax	3.2	15	25	25	27
(% of PBT)	21.9	31.3	30.5	31.5	31.5
PAT (reported)	11	34	58	55	59
Less: Minority interest (MI)	-	-	-	-	-
Prior period items	-	-	-	-	-
PAT after MI (reported)	11	34	58	55	59
ADJ. PAT	11	34	58	55	59
% chg	20.4	194.2	71.2	(4.7)	8.0

Balance sheet

Y/E Mar. (₹ cr)	FY2009	FY2010	FY2011	FY2012E	FY2013E
SOURCES OF FUNDS					
Equity share capital	9.4	9.4	9.4	9.4	9.4
Reserves & surplus	133	160	211	254	300
Shareholders' funds	142	170	220	263	309
Total loans	233	190	286	319	295
Deferred tax liability	18	18	17	17	17
Total liabilities	393	378	522	598	621
APPLICATION of FUNDS					
Gross block	325	337	387	436	526
Less: Acc. depreciation	120	137	157	181	210
Net block	205	200	231	256	316
Capital work-in-progress	2	-	1	75	-
Investments	-	28	18	3	3
Current Assets	248	251	408	405	461
Current liabilities	61	102	135	140	160
Net Current Assets	186	149	272	265	302
Total Assets	393	378	522	598	621

Cash flow statement

Y/E Mar. (₹ cr)	FY2009	FY2010	FY2011	FY2012E	FY2013E
Profit before tax	15	49	83	80	87
Depreciation	19	20	21	24	30
Change in working capital	34	46	(95)	7	(37)
Less: Other income	8	11	10	11	11
Direct taxes paid	3	15	25	25	27
Cash Flow from Operations	56	89	(26)	75	41
(Inc.)/Dec. in Fixed assets	(19)	(11)	(51)	(123)	(15)
(Inc.)/Dec. in Investments	0	(28)	10	15	-
(Inc.)/Dec. in loans and advances	(1)	(8)	(29)	-	-
Other income	8	11	10	11	11
Cash Flow from Investing	(12)	(36)	(60)	(97)	(4)
(Inc.)/Dec. in loans	(38)	(43)	96	33	(24)
Dividend paid (Incl. Tax)	(5)	(7)	(8)	(12)	(13)
Others	0	(2)	(3)	-	-
Cash Flow from Financing	(43)	(52)	85	21	(37)
Inc./(Dec.) in Cash	1.0	0.8	(0.1)	(0.6)	0.3
Opening Cash balances	1.1	2.1	2.9	2.9	2.2
Closing Cash balances	2.1	2.9	2.9	2.2	2.5

Key ratios

Y/E Mar.	FY2009	FY2010	FY2011	FY2012E	FY2013E
Valuation Ratio (x)					
P/E (on FDEPS)	22.7	7.7	4.5	4.7	4.4
P/E (on basic, reported EPS)	22.7	7.7	4.5	4.7	4.4
P/CEPS	8.5	4.8	3.3	3.3	2.9
P/BV	1.8	1.5	1.2	1.0	0.8
Dividend yield (%)	1.8	2.2	2.5	3.9	4.3
Market cap. / Sales	0.5	0.4	0.3	0.3	0.2
EV/Sales	0.9	0.6	0.6	0.6	0.5
EV/EBITDA	11.6	6.0	4.8	4.8	4.2
EV / Total Assets	1.2	1.1	1.0	1.0	0.9
Per Share Data (Rs)					
EPS (Basic)	12.2	35.9	61.5	58.6	63.3
EPS (fully diluted)	12.2	35.9	61.5	58.6	63.3
Cash EPS	32.7	57.5	83.8	84.2	94.8
DPS	5	6	7	11	12
Book value	151.8	181.2	234.6	280.5	330.1
Dupont Analysis (%)					
EBIT margin	4.4	7.6	10.2	10.3	9.5
Tax retention ratio	78.1	68.7	69.5	68.5	68.5
Asset turnover (x)	1.3	1.8	2.0	1.7	1.8
ROIC (Post-tax)	4.4	9.3	14.4	11.8	11.5
Cost of debt (Post Tax)	5.2	3.9	4.3	5.7	5.8
Leverage (x)	1.8	1.2	1.1	1.1	1.0
Operating RoE	3.1	16.0	25.1	18.8	17.1
Returns (%)					
RoCE (Pre-tax)	5.7	13.0	19.5	16.9	16.6
Angel RoIC (Pre-tax)	5.7	13.6	20.7	18.6	17.9
RoE	8.2	21.6	29.6	22.8	20.7
Turnover ratios (x)					
Asset turnover (Gross Block)	1.7	2.0	2.4	2.2	2.2
Asset turnover (Net Block)	2.6	3.3	4.0	3.8	3.7
Asset turnover (Total Assets)	1.3	1.7	1.9	1.6	1.8
Operating income / Invested capital	1.3	1.8	2.0	1.7	1.8
Inventory / Sales (days)	71	52	51	61	59
Receivables (days)	85	64	64	71	64
Payables (days)	41	45	51	55	51
WC cycle (ex-cash) (days)	138	91	88	106	96
Solvency ratios (x)					
Gross debt to equity	1.6	1.1	1.3	1.2	1.0
Net debt to equity	1.6	0.9	1.2	1.2	0.9
Net debt to EBITDA	5.5	2.3	2.4	2.6	2.2
Interest coverage (EBIT / Interest)	2.5	5.9	7.4	4.7	5.0

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Disclosure of Interest Statement	Siyaram Silk Mills
1. Analyst ownership of the stock	No
2. Angel and its Group companies ownership of the stock	No
3. Angel and its Group companies' Directors ownership of the stock	No
4. Broking relationship with company covered	No

Note: We have not considered any Exposure below ₹ 1 lakh for Angel, its Group companies and Directors

Ratings (Returns):	Buy (> 15%) Reduce (-5% to 15%)	Accumulate (5% to 15%) Sell (< -15%)	Neutral (-5 to 5%)
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