ANANDRATHI

India I Equities

Asbestos Cement Sheets

Result Update

Change in Estimates ☐ Target ☑ Reco ☐

11 May 2016

Visaka Industries

Growth ahead due to better macro-economic conditions; Buy

Rating: **Buy**

Target Price: ₹146

Share Price: ₹120

Key data	VSKI IN / VSKI.BO
52-week high/low	₹189 / ₹89
Sensex/Nifty	25597/7849
3-m average volume	US$0.1m
Market cap	₹1.9bn / $30m
Shares outstanding	15.9m

Visaka's revenue dropped because of its BP division. The margin improved 60bps yoy to 10% with profit shooting up 47% yoy to ₹89m. With the increased thrust on infrastructure, demand is likely to rise. We maintain a Buy with a revised target price of ₹146.

Declining revenue in Q4. Visaka Industries' Q4 FY16 revenue declined 3.3% yoy to ₹2.75bn because of a 3.3% decline in its building product (BP) division (~83% of its sales) to ₹2.29bn. The synthetic yarn division was flat at ₹446m. For FY16, revenue declined 1.6% yoy to ₹10.05bn.

Margins improved across divisions. Despite declining revenue (due to shrinking realisations and volumes) in the BP division, the margin improved 123bps yoy to 8.1%. The EBIT margin of the yarn division grew 31bps yoy to 13.5%. Overall, capital employed was ₹6.39bn.

Sharp rise in net profit in Q4. Because of the drop in other expenses, the EBITDA margin expanded a marginal 60bps yoy, to 10%. The company expects fibre cost to come down, in turn improving its margins. Reported PAT shot up 47.1% yoy to ₹89m because of lower depreciation, tax rate and interest cost and an increase in other income. For FY16, net profit climbed 15.1% to ₹244m.

Outlook. The company expects to ramp up its ACS and fibre cement sheets business through increases in volumes. The yarn division's performance is sustainable. It has planned to expand spinning capacity at ~₹700m capex funded through ~₹600m debt and internal accruals. The boards and panels capacities are expected to increase to 160,000 tonnes at a minimum capex of ~₹50m-60m.

Valuation. Rising rural incomes, a diversified portfolio and the government's greater thrust on infrastructure and rural housing would help Visaka do well in the years ahead. We maintain a Buy on the stock; we assign a one-year-forward PE of 6x, arriving at a target of ₹146. At the CMP, it quotes at PE of 6.4x FY17e and 4.9x FY18e. **Risk.** Rise in input costs.

Shareholding pattern (%)	Mar'16	Dec'15	Sep'15
Promoters	37.5	37.5	37.5
- of which, Pledged	-	-	-
Free Float	62.5	62.5	62.5
- Foreign Institutions	3.3	3.3	3.9
- Domestic Institutions	0.5	0.5	0.7
- Public	58.7	58.7	57.8

Financials (YE Mar)	FY17e	FY18e
Sales (₹m)	11,232	12,269
Net profit (₹m)	299	389
EPS (₹)	18.8	24.4
Growth (%)	22.5	29.8
PE (x)	6.4	4.9
PBV (x)	0.5	0.5
RoE (%)	8.3	10.0
RoCE (%)	9.0	10.2
Dividend yield (%)	2.5	2.5
Net debt/equity (x)	0.7	0.7

Source: Anand Rathi Research

Quarterly results (YE Mar)	Q4 FY15	Q4 FY16	% yoy	FY15	FY16	% yoy
Sales (₹ m)	2,850	2,757	(3.3)	10,211	10,049	(1.6)
EBITDA (₹ m)	269	276	2.8	959	952	(0.7)
EBITDA margin (%)	9.4	10.0	60bps	9.4	9.5	9bps
Interest (₹ m)	72	53	(26.6)	220	213	(3.4)
Depreciation (₹ m)	95	83	(12.6)	431	363	(15.7)
Other income (₹ m)	2	4	108.0	24	27	12.7
PBT (₹ m)	104	145	39.4	332	404	21.6
Tax (₹ m)	43	56	28.5	120	159	33.1
Tax rate (%)	41.7	38.4	-324bps	36.1	39.5	342bps
PAT (₹ m)	61	89	47.1	212	244	15.1

Source: Company

Girish Solanki

Research Analyst

+9122 66266712

girishsolanki@rathi.com

Quick Glance – Financials and Valuations

Fig 1 – Income statement (₹ m)

Year-end: Mar	FY14	FY15	FY16	FY17e	FY18e
Net revenues	8,921	10,211	10,049	11,232	12,269
Revenue growth (%)	-3	14	-2	12	9
- Op. expenses	8,348	9,252	9,096	10,160	11,070
EBIDTA	**573**	**959**	**952**	**1,073**	**1,199**
EBITDA margins (%)	6.4	9.4	9.5	9.5	9.8
- Interest	214	220	213	226	201
- Depreciation	225	431	363	429	450
+ Other income	54	24	27	50	50
- Tax	68	120	159	168	209
Effective tax rate (%)	36.3	36.1	39.5	36.0	35.0
+ Associates/(Minorities)	-	-	-	-	-
Adjusted PAT	120	212	244	299	389
+ Extraordinary items	-	-	-	-	-
Reported PAT	120	212	244	299	389
Adj. FDEPS (`/share)	7.5	13.3	15.3	18.8	24.4
Adj. FDEPS growth (%)	-76.4	77.4	15.1	22.5	29.8

Source: Company, Anand Rathi Research

Fig 2 – Balance sheet (₹ m)

Year-end: Mar	FY14	FY15	FY16	FY17e	FY18e
Share capital	159	159	159	159	159
Reserves & surplus	3,174	3,163	3,311	3,555	3,888
Net worth	3,334	3,322	3,471	3,714	4,047
Total debt	2,462	2,860	3,314	3,414	3,114
Minority interest	-	-	-	-	-
Def. tax liab. (net)	297	258	222	222	222
Capital employed	**6,092**	**6,440**	**7,007**	**7,350**	**7,383**
Net fixed assets	3,540	3,111	2,968	2,939	2,788
Intangible assets	14	14	14	14	14
Investments	151	146	101	101	101
- of which, Liquid					
Working capital	2,126	2,888	3,174	3,549	4,138
Cash	261	281	750	747	341
Capital deployed	**6,092**	**6,440**	**7,007**	**7,350**	**7,383**
Working capital (days)	87	103	115	115	123
Book value (₹/sh)	209.4	208.7	218.0	233.3	254.2

Source: Company, Anand Rathi Research

Fig 3 – Cash-flow statement (₹m)

Year-end: Mar	FY14	FY15	FY16	FY17e	FY18e
Adjusted PAT	120	212	244	299	389
+ Non-cash items	258	392	327	429	450
Cash profit	377	605	571	728	839
- Incr./(decr.) in WC	-952	762	286	376	589
Operating cash-flow	1,329	-157	286	353	250
- Capex	1,116	2	219	400	300
Free cash-flow	213	-159	66	-47	-50
- Dividend	47	93	93	56	56
+ Equity raised	-	-	-	-	-
+ Debt raised	-242	398	454	100	-300
- Investments	-	-5	-45	-	-
- Misc. items	-0	131	2	0	0
Net cash-flow	-75	20	469	-3	-406
+ Op. cash & bank bal.	336	261	281	750	747
Cl. Cash & bank bal.	261	281	750	747	341

Source: Company, Anand Rathi Research

Fig 4 – Ratio analysis @₹120

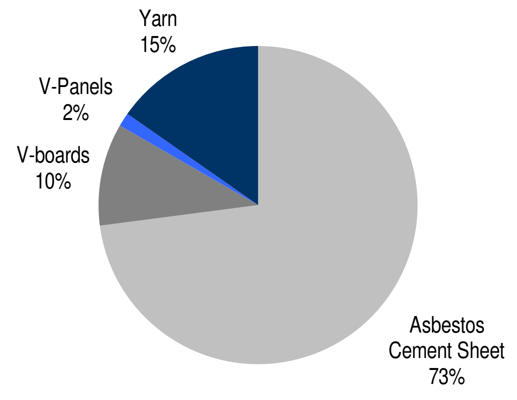
Year-end: Mar	FY14	FY15	FY16	FY17e	FY18e
P/E (x)	16.0	9.0	7.8	6.4	4.9
Cash P/E (x)	5.5	3.0	3.1	2.6	2.3
EV/EBITDA (x)	7.2	4.7	4.7	4.3	3.9
EV/sales (x)	0.5	0.4	0.4	0.4	0.4
P/B (x)	0.6	0.6	0.6	0.5	0.5
RoE (%)	3.6	6.4	7.2	8.3	10.0
RoCE (%)	5.7	8.4	8.8	9.0	10.2
Dividend yield (%)	2.1	4.2	4.2	2.5	2.5
Dividend payout (%)	38.9	43.9	38.1	18.7	14.4
Net debt/equity (x)	0.7	0.8	0.7	0.7	0.7
Debtor (days)	38	40	50	55	55
Inventory (days)	94	78	88	83	88
Payables (days)	73	78	79	78	78
RM/ Sales (%)	62.8	56.6	56.9	58.5	58.2
Fixed asset T/O (x)	2.9	3.1	3.3	3.8	4.3

Source: Company, Anand Rathi Research

Fig 5 – Price movement

Source: Bloomberg

Fig 6 – Segmental Breakup



Source: Company

Result Highlights

Fig 7 – Segment-wise results

(₹ m)	Q4 FY15	Q4 FY16	% Chg	FY15	FY16	% Chg
Net Revenue						
Building products	2,372	2,293	-3.3	8,335	8,180	-1.9
Synthetic blended yarn	446	446	0.0	1,796	1,716	-4.5
Segment PBIT						
Building products	163	186	14.0	486	531	9.2
Synthetic blended yarn	59	60	2.3	216	262	21.3
PBIT Margin (%)						
Building products	6.9	8.1	123bps	5.8	6.5	66bps
Synthetic blended yarn	13.2	13.5	31bps	12.0	15.3	325bps

Source: Company, Anand Rathi Research

Fig 8 – Quarterly Results vs. Expectations

Quarterly results (₹ m)	Q4FY15	Q4FY16	% var	Q3FY16	% var	Q4FY16e	% var
Sales	2,850	2,757	(3.3)	2,154	28.0	2,965	(7.0)
EBIDTA	269	276	2.8	165	67.8	314	(11.9)
PBT	104	145	39.4	22	551.0	144	0.8
PAT	61	89	47.1	11	705.1	74	20.9

Source: Company, Anand Rathi Research

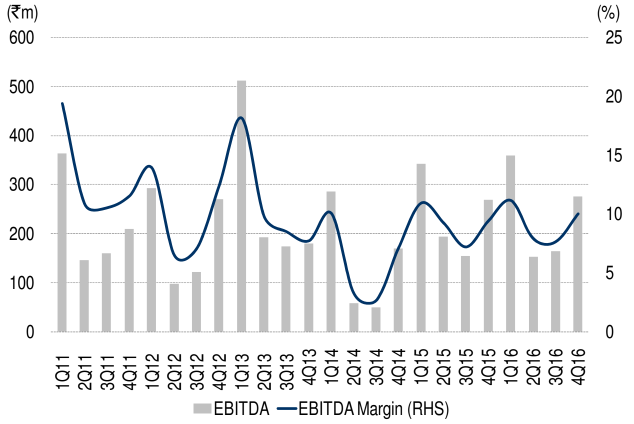
Healthy operating performance

In Q4 FY16 sales of Visaka's building-products division declined 3.3% yoy; the EBIT margin increased 123bps yoy to 8.1%. This stemmed from the slowdown in volumes because of lower demand. The Q4 FY16 gross margin was flat at 41.2%; the synthetic-yarn division too was flat at ₹446m. Its EBIT margin rose 31bps yoy to 13.5%.

Other Concall Highlights:

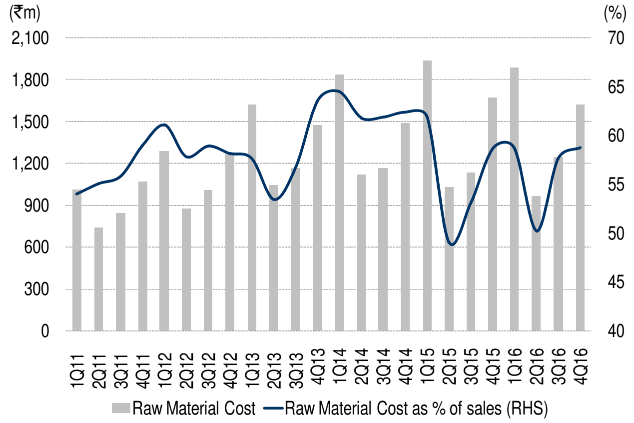
- On account of the poor monsoon and the consequent dull demand, Visaka's revenue was hit. It is expected to be better in FY17. To improve margins the company is aggressively working on cost reduction. Q1 FY17 volumes in fibre cement would be down on account of the summer heat
- The company has been advertising heavily in Maharashtra. It has planned ad spend of ~₹80m in FY17. It plans to further increase its boards capacity at a minimum capex of ~₹50m, and its spinning capacity at capex of ₹700m.
- The proportion of revenue from the asbestos and non-asbestos divisions is planned at the ratio of 1:1 in the next two years.

Fig 9 – EBITDA margin improves yoy



Source: Company

Fig 10 – RM/Sales flat yoy



Source: Company

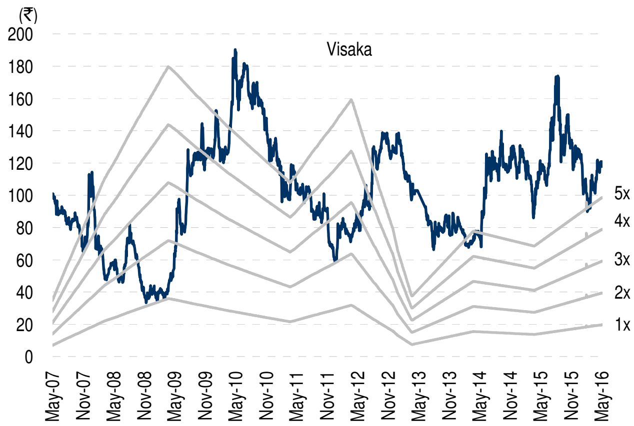
Valuation

The expansion in the fibre cement plant has helped the company grow volumes. We believe the expansion in boards and yarn would drive volume growth in the next two years. The 2.5-MW solar plant in Miryalguda for captive use and the new plant in Pune have been adding to the growth. This would help the company curtail costs and improve margins.

We expect the operating margin to come at ~9.8% over the next two years. Because of its strong brand, it has both increased its revenue and maintained its market share in the past. We believe that, with the government initiatives, the ACS sector is likely to grow. The RoCE over FY17-18 is expected to come at respectively 9% and 10.2%.

We assign a one-year-forward PE of 6x and arrive at a revised target of ₹146. At the ruling price, the stock trades at PE of 6.5x FY17e and 5.0x FY18e. We retain our Buy on it.

Fig 11 – PE Band

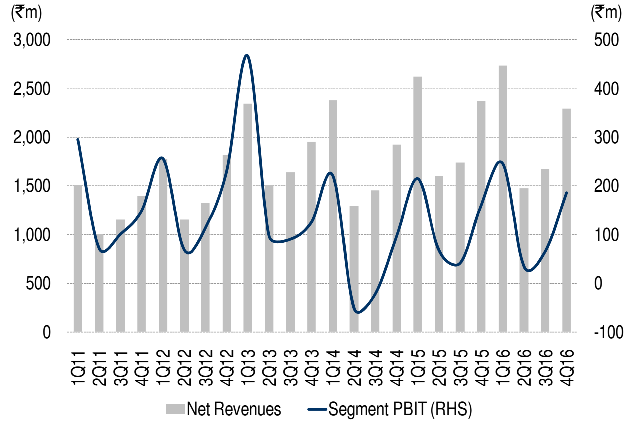


Source: Bloomberg, Anand Rathi Research

Risks

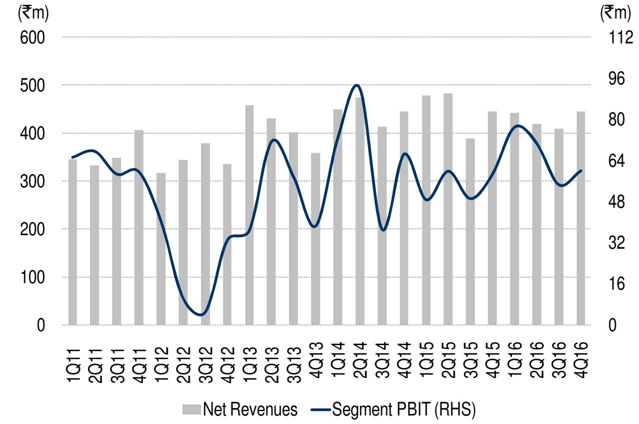
- **Volatile raw-material prices**. The continuous rise in cost of inputs—white asbestos fibre (chrysotile), cement, steel, wood pulp and fly ash—(accounting for 55% of sales) is a cause of grave concern. The inability to pass on the increase in raw-material costs because of competition may put its margins to the test. For all the above raw materials, we have pencilled in a 5% price increase annually.
- **Competition may lead to pricing pressure.** The company is faced with competition from the unregulated market; therefore, pricing has to be determined with this in mind.
- **Activities of the 'Ban Asbestos' lobby.** Activities of this lobby, instigated by manufacturers of substitute products, make for a continuing cause of concern.

Fig 12 – Performance of the Building Products division



Source: Company, Anand Rathi Research

Fig 13 – Performance of the Yarn division



Source: Company, Anand Rathi Research

Appendix

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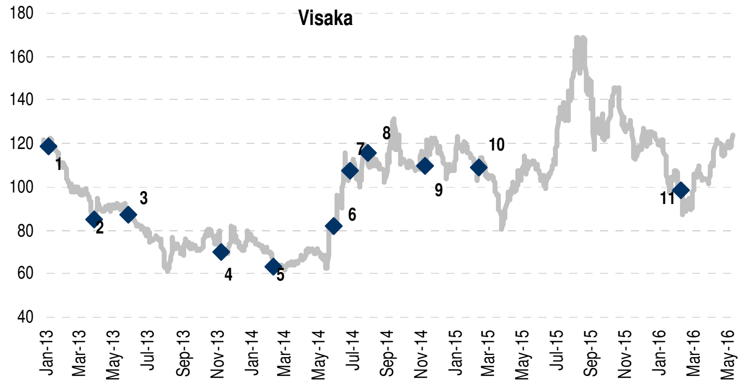

	Date	Rating	TP (₹)	Share Price (₹)
1	07-Jan-13	Buy	189	134
2	28-Mar-13	Buy	157	96
3	28-May-13	Buy	130	102
4	08-Nov-13	Hold	98	86
5	11-Feb-14	Hold	79	71
6	28-May-14	Hold	102	86
7	27-Jun-14	Hold	132	118
8	28-Jul-14	Buy	147	124
9	07-Nov-14	Buy	171	120
10	13-Feb-15	Buy	164	113
11	06-Feb-16	Buy	122	101

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