ANANDRATHI

India I Equities

Asbestos Cement Sheets
Result Update

Change in Estimates ☐ Target ☑ Reco ☐

30 July 2016

Visaka Industries

Rating: **Buy**
Target Price: ₹195
Share Price: ₹161

Cost effectiveness bolsters margin growth; we maintain our Buy

Despite lower realisations, Visaka's Q1 margin expanded 120bps yoy to 12.4%. Ongoing expansions in its Boards & Panels and yarn divisions and the increased thrust on infrastructure would benefit it. We raise our TP to ₹195 (earlier ₹146) due to its better-than-competitors' results.

Slight downturn in revenue. In Q1, sales slid 3.8% yoy to ₹3.09bn. The building product (BP) division's revenue slipped 3.5% yoy to ₹2.6bn because of lower realisations. The synthetic yarn division also dipped 1% yoy to ₹437m. Despite a 3.5% drop in the asbestos cement industry, Visaka's volumes grew 3%.

Cost effectiveness led to healthy operating margins. The constant cost-reduction measures led to the operating margin expanding 120bps yoy to 12.4%. The BP division's EBIT margin expanded 340bps yoy to 12.4%; the yarn division's declined 423bps yoy to 13.2%. Its margin in FY18 is likely to come at ~14-15% with turnover growing ~26%, post-expansion.

22% yoy growth in profit. Profit grew 22% yoy to ₹166m aided by declining interest cost, depreciation and the tax rate. With the expansion in Boards and growing demand for ACS, margins and profitability are expected to improve

Roadmap. Visaka is focused on its Boards business and expects this to grow ~15%. The spinning division's capacity expansion is likely to be completed and commence production in Sep'16 at a balance capex of ~₹400m in FY17. Boards and panels production is expected to increase to 105,000 tonnes in FY17. In FY18, the company intends organic expansion of 20,000-30,000 tonnes in the east and north. It expects 15-18% volume growth in Boards in FY17.

Valuation. Rising disposable incomes 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 8x, arriving at a target of ₹195. At the CMP, it quotes at PE of 6.6x FY18e. **Risk.** Rise in input costs.

Key data	VSKI IN / VSKI.BO
52-week high/low	₹189 / ₹85
Sensex/Nifty	28052 / 8639
3-m average volume	$0.3m
Market cap	₹3bn / $38.2m
Shares outstanding	15.9m

Shareholding pattern (%)	Jun'16	Mar'16	Dec'15
Promoters	37.5	37.5	37.5
- of which, Pledged	-	-	-
Free Float	62.5	62.5	62.5
- Foreign Institutions	2.9	3.3	3.3
- Domestic Institutions	0.6	0.5	0.5
- Public	59.0	58.7	58.7

Financials (YE Mar)	FY17e	FY18e
Sales (₹m)	11,232	12,269
Net profit (₹m)	299	389
EPS (₹)	18.8	24.4
Growth (%)	22.6	29.8
PE (x)	8.6	6.6
PBV (x)	0.7	0.6
RoE (%)	8.3	10.0
RoCE (%)	8.9	10.2
Dividend yield (%)	1.9	1.9
Net gearing (%)	0.7	0.7

Source: Anand Rathi Research

Quarterly results (YE Mar)	Q1 FY16	Q1 FY17	% yoy	FY15	FY16	% yoy
Sales (₹ m)	3,215	3,092	(3.8)	10,211	10,049	(1.6)
EBITDA (₹ m)	359	383	6.5	959	952	(0.7)
EBITDA margin (%)	11.2	12.4	120bps	9.4	9.5	9bps
Interest (₹ m)	55	48	(11.7)	220	213	(3.4)
Depreciation (₹ m)	95	81	(14.3)	431	363	(15.7)
Other income (₹ m)	13	5	(62.0)	24	27	12.7
PBT (₹ m)	222	258	16.0	332	404	21.6
Tax (₹ m)	86	92	6.5	120	159	33.1
Tax rate (%)	38.7	35.5	-318bps	36.1	39.5	342bps
PAT (₹ m)	136	166	22.0	212	244	15.1

Source: Company

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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
- Oper. expenses	8,348	9,252	9,096	10,160	11,070
EBIDTA	**573**	**959**	**952**	**1,072**	**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 / (minority)	-	-	-	-	-
Adjusted PAT	120	212	244	299	389
+ Extraordinary items	-	-	-	-	-
Reported PAT	120	212	244	299	389
FDEPS (₹ / sh)	7.5	13.3	15.3	18.8	24.4
FDEPS growth (%)	-76.4	77.4	15.1	22.6	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	3,451	3,413	3,113
Minority interest	-	-	-	-	-
Def. tax liab. (net)	297	258	222	222	222
Capital employed	**6,092**	**6,440**	**7,144**	**7,350**	**7,382**
Net fixed assets	3,540	3,111	2,968	2,981	2,831
Intangible assets	14	14	14	14	14
Investments	151	146	101	101	101
- of which, Liquid					
Working capital	2,126	2,888	3,311	3,412	4,276
Cash	261	281	750	842	161
Capital deployed	**6,092**	**6,440**	**7,144**	**7,350**	**7,382**
Working capital (days)	87.0	103.2	120.3	110.9	127.2
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	423	101	864
Operating cash-flow	1,329	-157	148	627	-25
- Capex	1,116	2	219	442	300
Free cash-flow	213	-159	-71	185	-325
- Dividend	47	93	93	56	56
+ Equity raised	-	-	-	-	-
+ Debt raised	-242	398	591	-38	-300
- Investments	-	-5	-45	-	-
- Misc. items	-0	131	2	0	0
Net cash-flow	-75	20	469	92	-681
+ Op. cash & bank bal.	336	261	281	750	842
Cl. Cash & bank bal.	261	281	750	842	161

Source: Company, Anand Rathi Research

Fig 4 – Ratio analysis @ ₹161

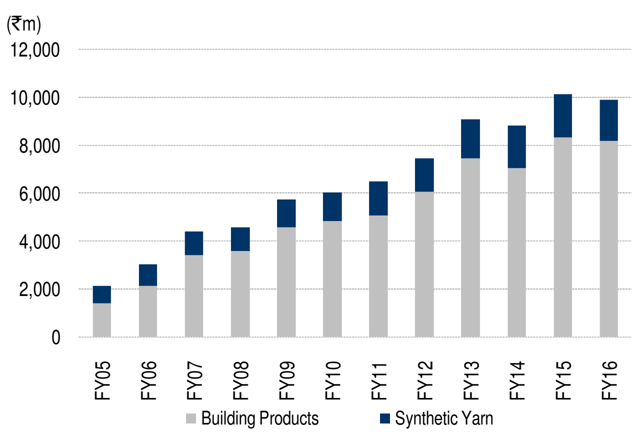
Year-end: Mar	FY14	FY15	FY16	FY17e	FY18e
P/E (x)	21.4	12.1	10.5	8.6	6.6
Cash P/E (x)	7.4	4.0	4.2	3.5	3.1
EV / EBITDA (x)	8.3	5.4	5.5	4.8	4.6
EV / sales (x)	0.5	0.5	0.5	0.5	0.4
P/B (x)	0.8	0.8	0.7	0.7	0.6
RoE (%)	3.6	6.4	7.2	8.3	10.0
RoCE (%)	5.7	8.4	8.7	8.9	10.2
Dividend yield (%)	1.6	3.1	3.1	1.9	1.9
Dividend payout (%)	38.9	43.9	38.1	18.7	14.4
Net debt / equity (x)	0.7	0.8	0.8	0.7	0.7
Debtor (days)	37.5	40.4	50.1	55.0	55.0
Inventory (days)	94.2	78.2	87.6	82.7	87.7
Payables (days)	72.6	78.4	74.3	78.0	78.0
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	4.2

Source: Company, Anand Rathi Research

Fig 5 – Price Movement

Source: Bloomberg, Anand Rathi Research

Fig 6 – Segment-wise break-up



Source: Company

Result Highlights

Fig 7 – Segment-wise results

(₹ m)	Q1 FY16	Q1 FY17	% Chg	FY15	FY16	% Chg
Net revenue						
Building products	2,735	2,640	-3.5	8,335	8,180	-1.9
Synthetic blended yarn	443	437	-1.2	1,796	1,716	-4.5
Segment PBIT						
Building products	245	327	33.0	486	531	9.2
Synthetic blended yarn	77	58	-25.3	216	262	21.3
PBIT margin (%)						
Building products	9.0	12.4	340bps	5.8	6.5	66bps
Synthetic blended yarn	17.4	13.2	-423bps	12.0	15.3	325bps

Source: Company, Anand Rathi Research

Fig 8 – Quarterly Results vs. Expectations

Quarterly results (₹ m)	Q1 FY16	Q1 FY17	% var	Q4 FY16	% var	Q1 FY17e	% var
Sales	3,215	3,092	(3.8)	2,757	12.2	3,531	(12.4)
EBIDTA	359	383	6.5	276	38.4	417	(8.2)
PBT	222	258	16.0	145	77.7	274	(6.0)
PAT	136	166	22.0	89	86.1	178	(6.7)

Source: Company, Anand Rathi Research

Healthy operating performance

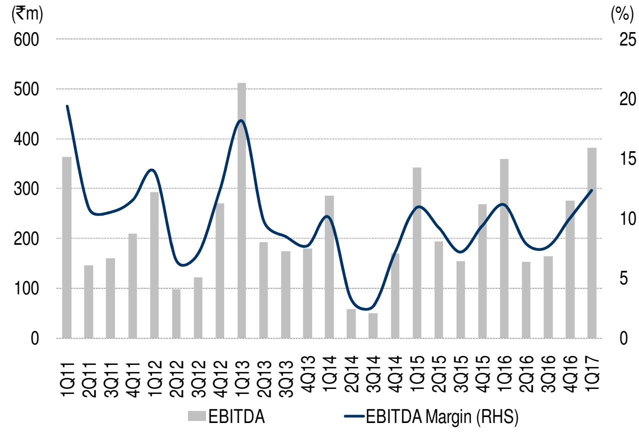
In Q1 FY17 sales of Visaka's building-products division declined 3.5%, though its EBIT margin inched up 340bps yoy to 12.4%. This stemmed from the slowdown in realisations. The Q1 FY17 gross margin increased 52bps yoy to 41.8% In the quarter, the synthetic-yarn division declined 1.2% yoy to ₹437m. Its EBIT margin decreased 423bps yoy, to 13.5%.

Other concall highlights

The tax rate is expected to be maintained at current levels. Volumes in the Boards and Panels division decreased 6% yoy due to lower exports on account of the drop in oil prices in Gulf countries. The domestic boards business grew 17% yoy.

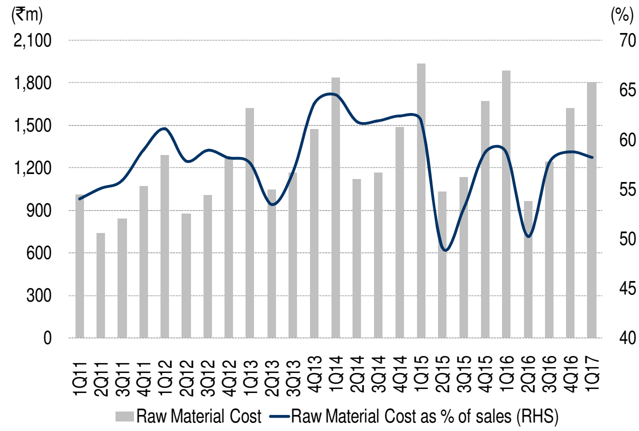
In ACS, the company is doing very well in the East and North. It has improved in the South, and in the West is still underperforming. Capex (including the yarn division expansion) for FY17 would be ~₹480m. The asbestos-cement industry's current capacity utilisation is around 79-80%. Coated steel sheets have taken ~15% of annual demand from asbestos sheets.

Fig 9 – EBITDA margin improves yoy



Source: Company, Anand Rathi Research

Fig 10 – RM/sales decreases yoy



Source: Company, Anand Rathi Research

Valuation

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

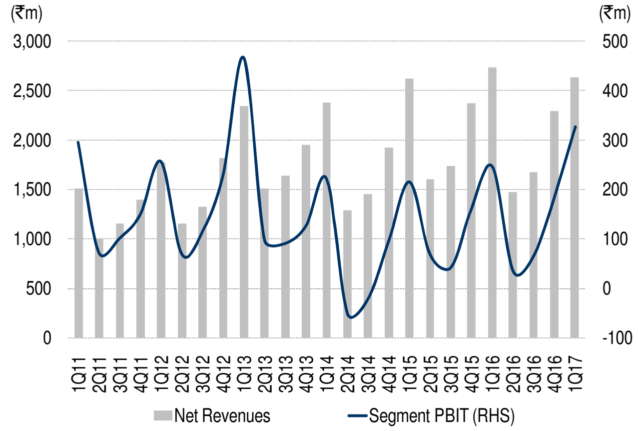
We expect the operating margin to come at ~9.8% over the next two years. Because of Visaka's strong brand, it has both increased its revenue and maintained its market share in the past. The ACS sector, we believe, is likely to grow due to government support. The company's RoCE over FY17-18 is expected to come at 10.2%.

We assign a one-year-forward PE of 8x and arrive at a revised target of ₹195. At the ruling price, the stock trades at PE of 8.6x FY17e and 6.6x FY18e. We retain our Buy on the stock.

Risks

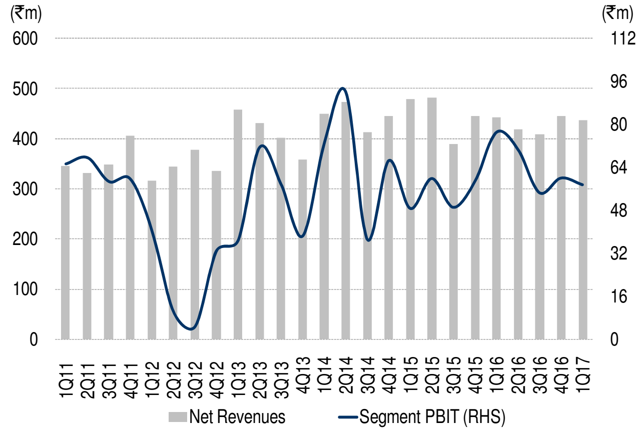
- **Volatile raw-material prices**. The continuous rise in cost of inputs—white asbestos fibre (chrysotile), cement, steel, wood pulp & fly ash—(accounting for 55% of sales) is a cause of deep concern. The inability to pass on the increase in raw-material costs because of competition may squeeze margins. 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 concern.

Fig 11 – Performance of the Building Products division



Source: Company, Anand Rathi Research

Fig 12 – Performance of the Yarn division



Source: Company, Anand Rathi Research

Appendix

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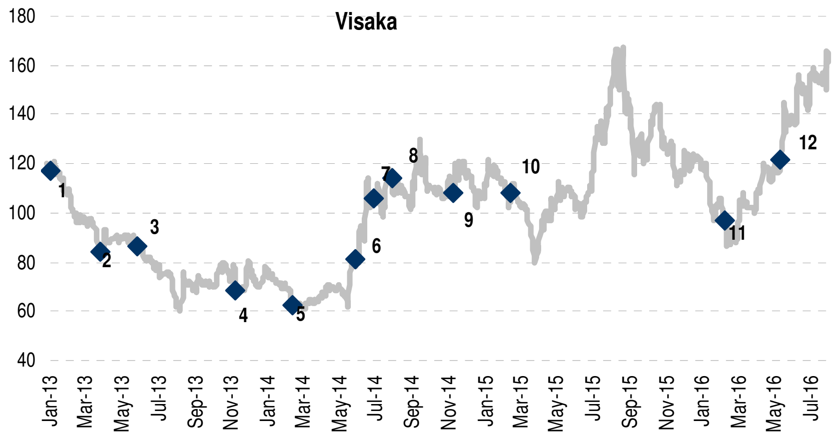

	Date	Rating	TP (₹)	Share Price (₹)
1	07-Jan-13	Buy	189	134
2	28-Mar-13	Buy	157	96
3	28-May-13	Buy	130	102
4	08-Nov-13	Hold	98	86
5	11-Feb-14	Hold	79	71
6	28-May-14	Hold	102	86
7	27-Jun-14	Hold	132	118
8	28-Jul-14	Buy	147	124
9	07-Nov-14	Buy	171	120
10	13-Feb-15	Buy	164	113
11	06-Feb-16	Buy	122	101
12	11-May-16	Buy	146	120

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