Asbestos Cement Sheets

Company Update

Change in Estimates ☑ Target ☑ Reco ☐

30 May 2017

Visaka Industries

Outstripping the industry; we maintain a Buy

Rating: **Buy**
Target Price: ₹470
Share Price: ₹381

With Visaka's strong brand equity and its boards capacity expansion, in the next two years, the division would post a robust 21% revenue CAGR. The ACS division is expected to do well, backed by rising demand for rural housing. After the ramped up capacity, we expect a 13% revenue CAGR in the yarn division. Improved margin and lower interest cost would lead to a 24% CAGR in profits. We maintain our Buy recommendation, with a TP of ₹470 (₹302 earlier).

Boards to grow sturdily. On Visaka's strong brand equity and capacity expansion, its boards division would report a 21% revenue CAGR over FY17-19. Further, rural-housing demand would boost the ACS division. We expect 6% revenue CAGR in the ACS division. The higher proportion of Boards in revenue is expected to lead to an expanded margin. We expect a 63bp improved margin over the next two years. The company continues to outperform even in the tough industry scenario.

Yarn division to ramp up, post-expansion. On the 26% capacity increase, the yarn-division revenue would come at a 13% CAGR in the next two years. The margin would be better due to the ramped up volumes from the fresh capacity. Management expects a better performance ahead from the division.

Improved financials. Working capital improved in FY17 and debt was reduced. Management plans to reduce debt further. Margin expansion due to the higher share of Boards, better working-capital and lower debt would lead to a 24% profit CAGR over FY17-19. In FY18 the company is expanding its Boards capacity in the North by 50,000 tons at capex of ₹650m-700m.

Valuation. Rising disposable incomes and the government's thrust on infrastructure and rural housing would help Visaka do well in future. We retain our Buy recommendation. We assign a PE of 12x FY19e EPS, arriving at a target of ₹470. At the CMP, the stock is quoting at PE of 11.4x FY18e and 9.7x FY19e. **Risk.** Rise in input costs.

Key financials (YE Mar)	FY15	FY16	FY17	FY18e	FY19e
Sales (₹ m)	10,211	10,049	9,667	10,766	11,831
Net profit (₹ m)	212	244	408	530	624
EPS (₹)	13.3	15.3	25.6	33.3	39.2
Growth (%)	77.4	15.1	67.0	29.9	17.7
PE (x)	28.6	24.8	14.9	11.4	9.7
PBV (x)	1.8	1.7	1.6	1.4	1.3
RoE (%)	6.4	7.2	11.1	13.0	13.7
RoCE (%)	8.4	8.7	11.8	14.0	15.4
Dividend yield (%)	1.3	1.3	1.6	1.6	1.6
Net debt/equity (x)	0.8	0.8	0.5	0.5	0.4

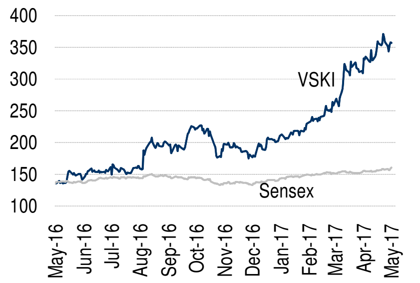
Source: Company, Anand Rathi Research

Key data	VSKI IN / VSKI.BO
52-week high/low	₹392/ ₹137
Sensex/Nifty	31159/9625
3-m average volume	$0.6m
Market cap	₹6bn/$93.3m
Shares outstanding	16m

Shareholding pattern (%)	Mar'17	Dec'16	Sep'16
Promoters	41.2	37.6	37.6
- of which, Pledged	-	-	-
Free Float	58.8	62.4	62.5
- Foreign institutions	0.3	3.6	2.9
- Domestic institutions	3.6	0.4	0.5
- Public	54.9	58.3	59.1

Estimates revision (%)	FY18e	FY19e
Sales	(6.2)	(5.9)
EBITDA	(1.4)	(4.9)
PAT	10.2	3.7

Relative price performance



Source: Bloomberg

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Quick Glance – Financials and Valuations

Fig 1 – Income statement (₹ m)

Year-end:Mar	FY15	FY16	FY17e	FY18e	FY19e
Net revenues	10,211	10,049	9,667	10,766	11,831
Revenue growth (%)	14.5	(1.6)	(3.8)	11.4	9.9
- Oper. expenses	9,252	9,096	8,520	9,452	10,352
EBIDTA	**959**	**952**	**1,148**	**1,313**	**1,479**
EBITDA margins (%)	9.4	9.5	11.9	12.2	12.5
- Interest	220	213	180	156	139
- Depreciation	431	363	341	376	418
+ Other income	24	27	38	22	24
- Tax	120	159	256	273	321
Effective tax rate (%)	36.1	39.5	38.5	34.0	34.0
+ Associates / (minorities)	0	0	0	0	0
Adjusted PAT	212	244	408	530	624
+ Extraordinary items	0	0	0	0	0
Reported PAT	212	244	408	530	624
Adj. FDEPS (₹ / sh)	13.3	15.3	25.6	33.3	39.2
Adj. FDEPS growth (%)	77.4	15.1	67.0	29.9	17.7

Source: Company, Anand Rathi Research

Fig 2 – Balance sheet (₹ m)

Year-end: Mar	FY15	FY16	FY17e	FY18e	FY19e
Share capital	159	159	159	159	159
Reserves & surplus	3,163	3,311	3,719	4,138	4,650
Net worth	3,322	3,471	3,879	4,297	4,809
Total debt	2,860	3,451	2,494	2,294	1,994
Minority interest	0	0	0	0	0
Def. tax liab. (net)	258	222	213	213	213
Capital employed	**6,440**	**7,144**	**6,586**	**6,805**	**7,017**
Net fixed assets	3,111	2,968	3,371	3,495	3,428
Intangible assets	14	14	14	14	15
Investments	146	101	0	0	0
- of which, Liquid					
Working capital	2,888	3,311	2,818	3,201	3,387
Cash	281	750	383	94	189
Capital deployed	**6,440**	**7,144**	**6,586**	**6,805**	**7,018**
Working capital (days)	103	120	106	109	104
Book value (₹ / sh)	209	218	244	270	302

Source: Company, Anand Rathi Research

Fig 3 – Cash-flow statement (₹ m)

Year-end: Mar	FY15	FY16	FY17e	FY18e	FY19e
Adjusted PAT	212	244	408	530	624
+ Non-cash items	392	327	332	376	418
Cash profit	605	571	740	906	1,042
- Incr. / (decr.) in WC	762	423	(493)	383	186
Operating cash-flow	(157)	148	1,233	523	856
- Capex	2	219	744	500	350
Free cash-flow	(159)	(71)	489	23	506
- Dividend	96	96	112	112	112
+ Equity raised	-	-	-	-	-
+ Debt raised	398	591	(957)	(200)	(300)
- Investments	(5)	(45)	(101)	-	-
- Misc. items	129	0	(112)	(0)	0
Net cash-flow	20	469	(367)	(289)	94
+ Op. cash & bank bal.	261	281	750	383	94
Cl. Cash & bank bal.	281	750	383	94	189

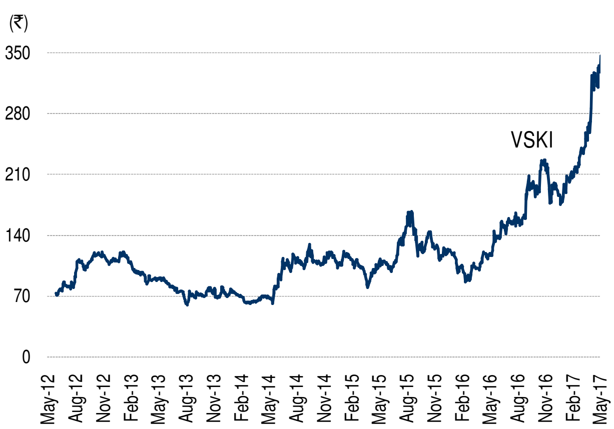
Source: Company, Anand Rathi Research

Fig 4 – Ratio analysis @ ₹381

Year-end: Mar	FY15	FY16	FY17e	FY18e	FY19e
P/E (x)	28.6	24.8	14.9	11.4	9.7
Cash P/E (x)	9.4	10.0	8.1	6.7	5.8
EV / EBITDA (x)	9.0	9.2	7.1	6.3	5.3
EV / sales (x)	0.8	0.9	0.8	0.8	0.7
P/B (x)	1.8	1.7	1.6	1.4	1.3
RoE (%)	6.4	7.2	11.1	13.0	13.7
RoCE (%)	8.4	8.7	11.8	14.0	15.4
Dividend yield (%)	1.3	1.3	1.6	1.6	1.6
Dividend payout (%)	45.0	39.1	27.4	21.1	17.9
Net debt / equity (x)	0.8	0.8	0.5	0.5	0.4
Debtor (days)	40	50	57	55	55
Inventory (days)	78	88	81	81	78
Payables (days)	78	74	75	75	75
RM / sales (%)	57	57	51	52	52
Fixed asset T/O (x)	3.1	3.3	3.0	3.1	3.4

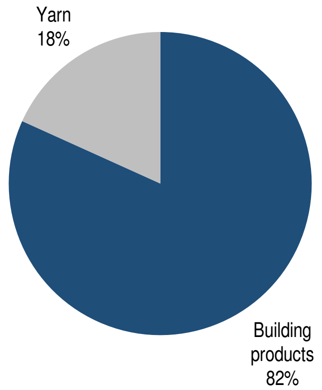
Source: Company, Anand Rathi Research

Fig 5 – Price movement



Source: Bloomberg

Fig 6 – Segment-wise revenue break-up (FY17)



Source: Company

Company update

Revenue of Visaka's building products (BP) division shrank slightly in FY17. Even in the recent tough environment with the industry contracting 5% during FY17, the company outstripped it in performance. Lower material costs helped its margins expand during the year.

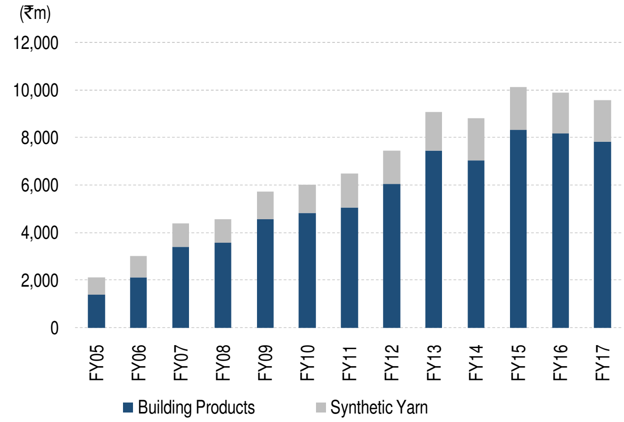
The performance of the yarn division was hit in the last quarter due to lower utilisation at the newly-expanded capacity and the resulting higher costs.

The Boards division is operating at ~75%, which the company expects to rise on the back of robust demand. In ACS, the company is operating at 85% capacity.

The margin of the BP division was robust while that of the yarn division fell on account of lower utilisation at the new capacity. The drop in exports was counter balanced by a 27% increase in domestic sales.

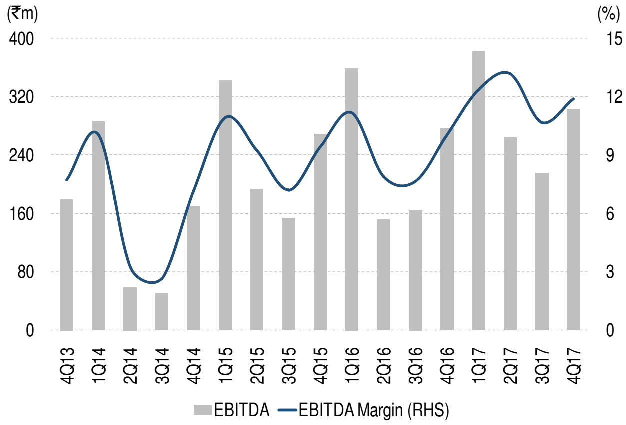
Visaka is expanding its Boards capacity in the North, by 50,000 tons in FY18, at capex of ₹650m-700m. Better working capital helped it shrink its debt during FY17. We believe it will continue to outpace the industry over FY17-19, bolstered by growth in its Boards and Yarn divisions.

Fig 7 – Segment-wise revenue



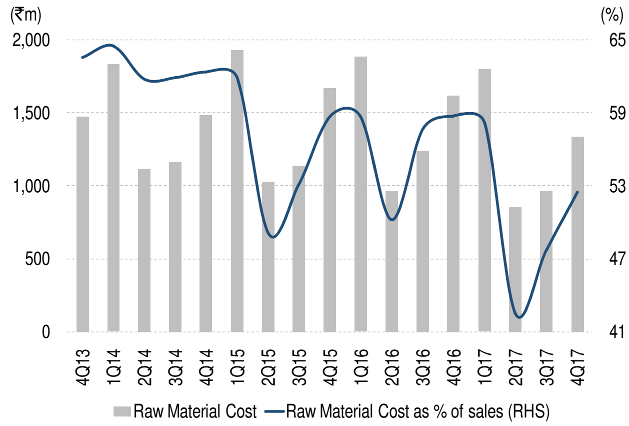
Source: Company

Fig 8 – EBITDA margin improves yoy



Source: Company

Fig 9 – RM / sales decreases yoy



Source: Company

Valuation

We believe that the expansion in Boards and Yarn would drive volume growth in the next two years, which would be supported by modest growth in the ACS Division. The 2.5-MW solar plant at Miryalguda for its own use and the plant in Pune have been adding to growth.

We expect the operating margin in the next two years to come at ~12.5%. Because of its strong brand, Visaka's Boards division is expected to post robust numbers. We believe that, with the government thrust, the ACS division is likely to grow 6% in the next two years. The FY18e and FY19e RoCE are expected to come at respectively 13% and 13.7%.

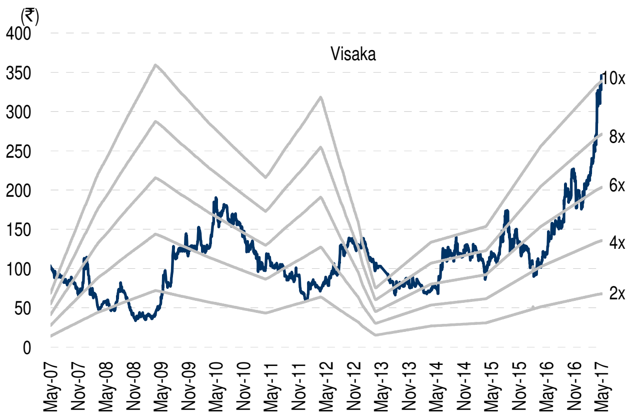
On the back of the margin expansion and lower interest expenses, we believe the company would post a 24% CAGR in PAT over FY17-19. To account for the strong earnings growth, we assign a PE of 12x to FY19e EPS and arrive at a revised target of ₹470. At the ruling price, the stock is trading at PE of 11.4x FY18e and 9.7x FY19e. We retain our Buy recommendation on it.

Fig 10 – Change in estimates

	FY18			FY19		
(₹m)	New	Old	Var%	New	Old	Var%
Sales	10,766	11,480	(6.2)	11,831	12,567	(5.9)
EBITDA	1,313	1,332	(1.4)	1,479	1,555	(4.9)
PAT	530	481	10.2	624	602	3.7

Source: Anand Rathi research

Fig 11 – PE band

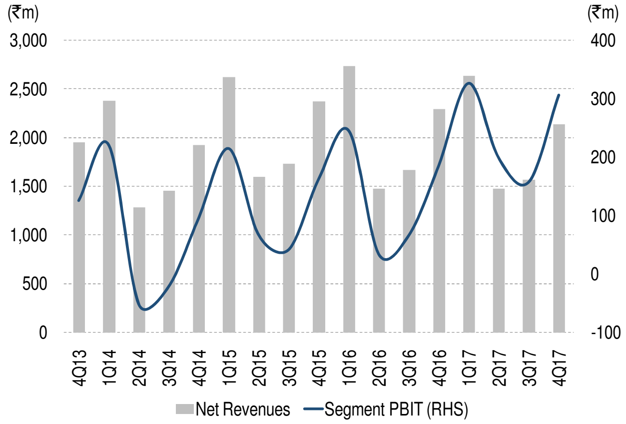


Source: Bloomberg, Anand Rathi research

Risks

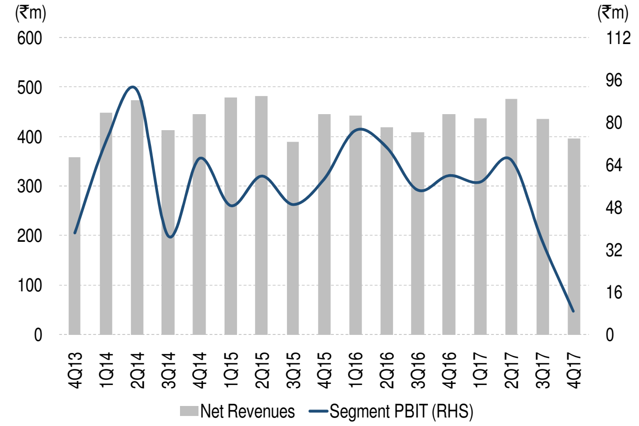
- **Volatile raw-material prices**. Its incapacity because of competition to pass on to consumers the rise in raw-material costs could lead to margins contracting.
- **Competition may lead to pressure on prices.** The company is faced with keen competition from the informal market; therefore, pricing has to be considered with this in mind.
- **Activities of the 'Ban Asbestos' lobby.** Activities of this lobby, instituted by manufacturers of substitute products, are an ongoing issue.

Fig 12 – Performance of the Building Products division



Source: Company

Fig 13 – Performance of the Yarn division



Source: Company

Appendix

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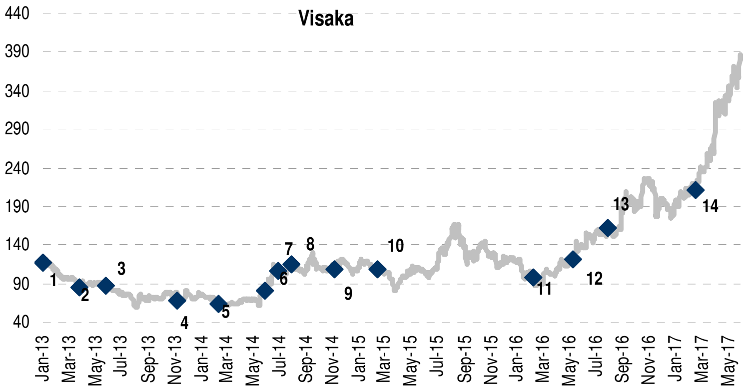

	Date	Rating	TP (₹)	Share Price (₹)
1	07-Jan-13	Buy	189	134
2	28-Mar-13	Buy	157	96
3	28-May-13	Buy	130	102
4	08-Nov-13	Hold	98	86
5	11-Feb-14	Hold	79	71
6	28-May-14	Hold	102	86
7	27-Jun-14	Hold	132	118
8	28-Jul-14	Buy	147	124
9	07-Nov-14	Buy	171	120
10	13-Feb-15	Buy	164	113
11	06-Feb-16	Buy	122	101
12	11-May-16	Buy	146	120
13	30-Jul-16	Buy	195	161
14	15-Feb-17	Buy	302	213

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