Visaka Industries

Building materials

Initiating Coverage 5 October 2015

On a cement spring 'board'

We initiate coverage on Visaka Industries (VIL) with Buy and a TP of Rs200. VIL is India's second largest producer of asbestos-cement roofing sheets (ACS) – largely used in rural housing and cement boards & panels (CBP) – majorly used in urban & commercial buildings. During FY115-18E, VIL's strong ramp-up in CBP segment (both volume growth and margin expansion) should more than offset for weak ACS profits in near term (facing demand and cost headwinds). Further, VIL's 30%+ segmental RoCE (pre-tax) in synthetic yarn spinning is sustainable led by its niche presence, strategically low capital costs, stable margin and 90%+ utilisation. During FY15-18, VIL would ramp up recent expansions, incur lower capex and hence generate 34% PAT CAGR and positive free cash flow in the forecast period.

- **Strong up-tick in CBP margins to more than offset headwinds in ACS division:** Driven by strong demand for its CBP and capacity ramp-up, we expect VIL to deliver 18% volume CAGR during FY15-18E, generating operating leverage benefits. This along with better pricing power should boost segmental net sales/EBITDA contribution to 17%/22% in FY18E from 12%/1% in FY15. Strong traction in CBP profits (210% EBITDA CAGR in FY15-18E) should also offset near term demand (weak monsoon impact on rural demand) and cost headwinds (INR depreciation led higher RM cost) in the ACS segment where we estimate 4% EBITDA CAGR in the forecast period. This should drive total EBIDTA margin expansion by 130bps during FY15-18E despite lower margin for ACS sales.
- **Yarn segment to continue as stable cash spinner:** VIL is a small spinner of synthetic blended yarn using PSF and VSF. However, it caters to a niche customer base in the domestic and export market, limiting competition impact. This along with 90%+ utilisation drives its stable operating margin. We expect yarn revenue/ EBITDA CAGR of 6%/8% during FY15-18E. As VIL is focussed on only opportunistic buy-out of spinning machines from its small competitors, its capital employed would remain low (~8% of total capital employed accounts for 25% of total EBIDTA in FY15), sustaining its 30%+ pre-tax segmental RoCE.
- **Lower capex to further boost free cash flow yield:** VIL is focussing on ramping up its recent capacity expansion in building products segment, hence incremental capex during FY16E/17E will largely be maintenance capex. We have factored in higher capex in FY18E as we foresee need for further expansion mainly in CBP segment (~15% and can be done through de-bottlenecking/ brown-field expansions) to drive segmental growth. Amid strong operating cash flow and lower capex in the forecast period, we expect VIL to deliver free cash flow of ~Rs1bn over the next three years.
- **Valuation and key risks:** We initiate coverage with a BUY, valuing VIL at 7x its Sep'17E EPS, implying one year TP of Rs200. We believe steady margin expansion led by higher demand and utilisation for its CBP, stable growth in the yarn segment and lower capex will drive its 14%/34% EBITDA/PAT CAGRs during FY15-18E. Any meaningful recovery in rural demand and INR appreciation can boost the ACS profit contribution and add to valuation re-rating for the stock. Key risks: Steep increase in chrysotile fibre cost, sharp USD appreciation, and demand slowdown across all business segments.

Target Price	Rs200
CMP*	Rs132
Upside	52%

*Price Performance (%)**

	1M	6M	1Yr
EVI IN	(8.4)	39.9	10.3
Nifty	2.1	(7.4)	0.1

Key Data	
Bloomberg Code	VSKI
Curr Shares O/S (mn)	15.9
Diluted Shares O/S(mn)	15.9
Mkt Cap (Rs bn/USDmn)	2.1/31.9
52 Wk H / L (Rs)	189/85
5 Year H / L (Rs)	189/57.1
Daily Vol. (3M NSE Avg.)	176417

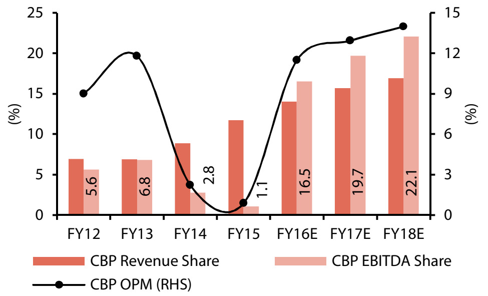
as on 1 October 2015; Source: Bloomberg, Centrum Research

Shareholding pattern (%)*

	Jun-15	Mar-15	Dec-14	Sep-14
Promoter	37.5	37.5	37.5	37.5
FIIs	3.0	2.2	2.2	2.2
DIIs	1.3	1.4	1.3	1.3
Others	58.1	58.9	59.0	59.0

*Source: BSE, *as on 1 October 2015*

Surge in CBP profitability to boost segmental profit contribution, driving total earnings growth



Source: Company, Centrum Research Estimates

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Y/E Mar (Rs mn)	Rev.	YoY (%)	EBITDA	EBITDA (%)	Adj PAT	YoY (%)	FDEPS (Rs)	RoE (%)	RoCE (%)	P/E (x)	EV/EBITDA (x)
FY14	8,921	(2.6)	573	6.4	120	(76.4)	7.5	3.6	3.5	17.5	7.4
FY15	10,211	14.5	959	9.4	212	77.5	13.4	6.4	5.2	9.8	5.0
FY16E	10,964	7.4	1,066	9.7	290	36.7	18.3	8.5	6.3	7.2	4.5
FY17E	12,083	10.2	1,241	10.3	394	35.6	24.8	10.7	7.7	5.3	3.7
FY18E	13,281	9.9	1,421	10.7	512	30.0	32.2	12.8	9.0	4.1	3.3

Source: Company, Centrum Research Estimates

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CBP segment set to lead profit growth

Visaka Industries Ltd (VIL) is headquartered in Hyderabad. It manufactures and sells asbestos-cement roofing sheets (ACS), non-asbestos cement boards & panels (CBP) and synthetic blended yarn. VIL reports its ACS and CBP sales under segmental heading: Building products. While the company's ACS sales are totally domestic, its CBP and yarn are also exported.

Exhibit 1: VIL's business overview

	FY15 Net sales (Rs mn)	Market Positioning in respective industry	Segmental Rev share		Segmental OPM		Segmental EBITDA share		CAGRs FY15-18E	
			FY15 (%)	*FY18E (%)*	*FY15 (%)*	*FY18E (%)*	*FY15 (%)*	*FY18E (%)*	*Rev (%)*	*EBITDA (%)*
Building products	**8,363**		***82***	***84***	***8.7***	***10.0***	***75***	***78***	***10***	***15***
Asbestos Roofing Sheets (ACS)	7,173	2nd largest	*71*	*67*	*10.0*	*9.0*	*74*	*56*	*7*	*4*
Cement Boards & Panels (CBP)	1,190	2nd largest	*12*	*17*	*0.9*	*14.0*	*1*	*22*	*24*	*210*
Synthetic Blended Yarn (Yarn)	**1,796**	**small player**	***18***	***16***	***13.6***	***14.5***	***25***	***22***	***6***	***8***

Source: Company, Industry, Centrum Research Estimates

Leadership presence in CBP in India – 38% volume CAGR during FY10-15

VIL has the largest installed capacity for non-asbestos CBP in India (130 K MT). Currently, it is the second largest in terms of CBP production in India. The company's CBP plants are located in Miryalaguda (Telangana) and Daund (Pune, Maharashtra). It produces a wide range of CBP products under brand *V-Next* which are in high demand both in India and abroad. The export sales of CBP and yarn provide some natural hedge against the raw material imports in the ACS segment.

Exports comprise 25-40% of VIL's CBP sales. It exports to Saudi Arabia, UAE, Qatar, Iraq, Iran, Bahrain, Sri Lanka, etc. It manages its exports from Hyderabad and through its agent network in Dubai and Sri Lanka. As per the company, domestic sales are more profitable than exports, but working capital requirement is lower in case of exports.

As per industry estimates, CBP sales in India is growing at ~15% CAGR. The industry size currently is small at ~Rs4.5 bn. There are about eight companies in this segment, six of which are Indian. Thailand-based Siam Cement group and Mahaphant are two other major suppliers of CBPs in India. In addition to strong domestic demand, there is strong export demand from African and GCC countries; moreover, new export opportunities are opening up such as Australia, Sri Lanka and Maldives.

VIL recorded 38% CBP sales volume CAGR during FY10-15 on rising acceptance of CBPs in urban & commercial constructions in domestic & export markets and as a result of its capacity ramp-up.

Exhibit 2: Indian manufacturers of cement boards and panels (CBPs)

Sr. No	Companies	Location	Capacity (K MT)	FY15 Sales (Rs mn)	Brands
1	**Visaka Industries (VIL)**	**Telangana, Maharashtra**	**130**	**1,190**	**Visaka V Boards**
2	Everest Industries (EVL)	Uttarakhand, Maharashtra	120	1,850	Everest
3	Sahyadri Industries	Maharashtra	95	N/A	Cemply, Ecopro
4	NCL Industries	Uttarakhand, AP	80	940	Bison Panel (wood mixed with cement)
5	Hyderabad Industries (HIL)	AP, Haryana	30	N/A	Aerocon/ Charminar
6	Ramco Industries	Rajasthan	50	350	Ramco Hilux (Calcium Silicate Based)

Source: Industry, Centrum Research

Exhibit 3: VIL's CBP plant capacities, product range and their usage

Plant Location	Capacity (MT)	Year of Commissioning	Product	Product usage
V- Boards				
Miryalaguda, Telangana	48,000	2008	V- Board, V-Premium, V-Designer, V-Plank	V Boards (Roof underlay, mezzanine flooring, acoustic partitions, wall panelling, False ceiling, duct covering, kitchen cabinets, shelves, etc). V Panels (External facade, gate cladding, garden fencing, etc)
Daund, Pune Maharashtra	72,000	2013		
V-Panels				
Miryalaguda, Telangana	9,750	2008	V- Panel	Internal partition, external walls, roof top extension, etc

Source: Company, Centrum Research

Strong rebound in CBP margin to bolster segmental EBITDA share to 20%

Driven by strong demand for CBP in India and abroad, VIL's segmental revenue has grown at 49% CAGR over the past five years. Sensing strong demand for this product, VIL commissioned a new plant (72K MT capacity) in Daund (Pune) in Maharashtra thereby expanding its CBP capacity from 48K MT in FY13 to 120K MT in FY14.

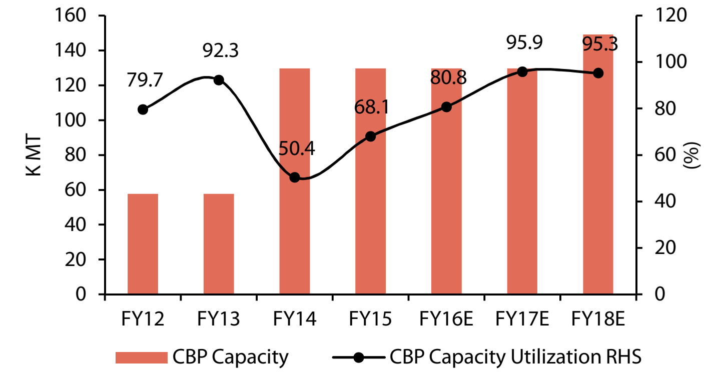
However, with very large capacity expansion (150% increase), capacity utilisation declined during FY14/15 vs that in FY12/13. Further, segmental realisation was muted at 2% CAGR over the last two years vs 12% CAGR in the preceding three years as the company tried to ramp-up production from new plant and also driven by overall economic slowdown.

As per our channel checks, the company along-with other industry players implemented cumulative price hikes of about 6-7% during Mar'15, Aug'15 and Sep'15. Aided by these price hikes and rising utilisation, VIL expects large rebound in its segmental EBITDA margin to more than 15% during FY16/17E. It has already achieved 13.3% EBITDA margin in Q1FY16. We estimate EBITDA margin of 11.5%/ 12.9%/ 14.0% during FY16/17/18E, respectively, vs. 2.2%/0.9% reported in FY14/15.

CBP's share in total EBITDA to increase to 20% in FY16-8E vs. 2% during FY14-15

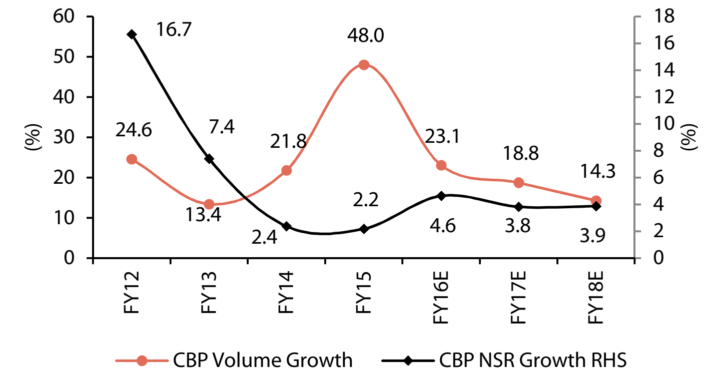
With the strong rebound in CBP margin and 24% revenue CAGR, we expect segmental EBITDA to grow at 210% CAGR during FY15-18E. Hence, CBP's share in total EBITDA should jump to ~20% during FY16-18E from 2% EBITDA share in the preceding two years, driving total margin expansion as the segmental profitability of the other building material (ACS roofing) would decline in FY16E (impact of demand and cost headwinds – discussed later in the report).

Exhibit 4: Large capacity increase in FY14 led to lower utilisation in FY14/15; Operating leverage benefits should kick in as utilisation increases



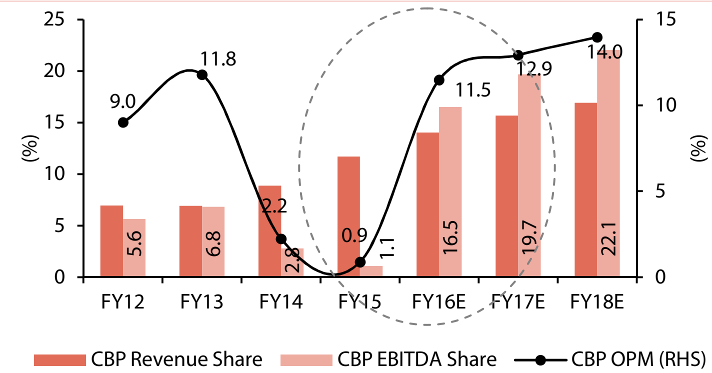
Source: Company, Centrum Research Estimates

Exhibit 5: Strong demand to sustain VIL's double-digit volume growth; recent price hikes to boost realisation and margins



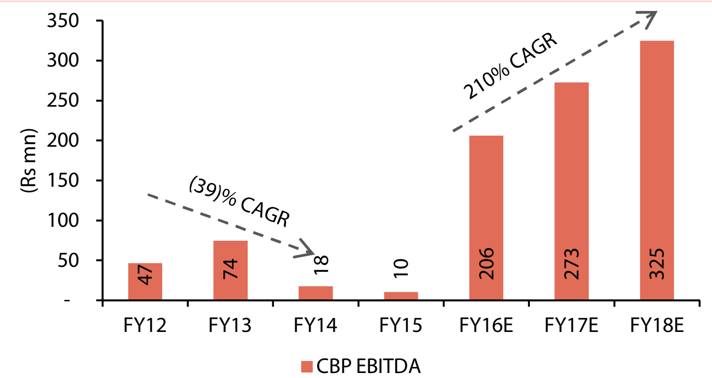
Source: Company, Centrum Research Estimates

Exhibit 6: Rising utilisation and NSR to boost segmental OPM and CBP's share in total EBITDA



Source: Company, Centrum Research Estimates

Exhibit 7: Strong rebound expected in CBP profitability should drive total margin expansion and profit growth



Source: Company, Centrum Research Estimates

VIL's cement boards are certified by Exova Warrington fire rating – globally recognised agency providing independent testing of passive fire protection products

CBP's demand growth drivers

CBPs are modular, ready-to-install products with shorter on-site labour needs as well as dry walling requirement. CBP product range is increasingly gaining traction in urban construction. These products offer better aesthetic appeal in premium housing projects and commercial applications and compete with particle board/medium-density fibreboard (MDF) industry as both have overlapping applications.

CBPs have an added advantage over particle boards/MDF boards as they are resistant to fire, moisture, dampness and termites. This is driving its rising penetration into the residential segment (especially wet areas) and in hotels & hospitals (additional feature - acoustic properties).

Exhibit 8: Advantages of CBPs over Plywood products

Sr No	Parameters	CBPs	Plywood products
1	Cost	Upto 40% cheaper	Costly compared to CBPs
2	Durability	15-20 years	5-10 years
3	Resistance to weathering	Yes	Less
4	Environmental friendly	Yes	No
5	Time Savings	Yes	Yes in some cases
6	Aesthetics	Excellent	Require additional materials

Source: Company, Centrum Research

As per data from the Government of India and UN, India will witness steady urbanisation over the next 15 years. While India's population growth during FY01-22 is pegged at 0.8% CAGR, the share of urban population is expected to expand to 36% by 2022 from ~21% in 2001. Government of India's study on 'Smart Cities' states that India will be the forerunner in urban population growth among emerging countries, and the urban share of India's GDP should expand at a faster pace during FY00-30 as against the preceding 30 years.

Exhibit 9: Demand triggers driving urban sales of CBPs in India

Office Space	As per NASSCOM estimates, 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.
Organised retail	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.
Healthcare industry	As per a McKinsey study, the healthcare industry in India is expected to grow at a fast pace during 2012-20 to 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.
Hotel industry	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: Industry, Centrum Research

Increasing demand from rural and semi-urban regions

CBP sales has also picked up in construction of toilets under the on-going "Swachh Bharat Abhiyaan" (SBA) project of the Central Government. In its stated objective to accomplish the vision of a 'Clean India by 2nd Oct 2019, the Government would spend Rs620 bn. A part of the SBA program is to eliminate open defection by building toilets on demand – mostly in rural areas. CBP is being used in making modular bathrooms walls and doors. As per our discussions with various CBP producers, demand from this sector has been picking up recently thereby offering new growth avenue for the CBP industry as a whole.

CBPs are also being used in making small modular structures / low cost housing solution. Tata Shaktee's product – Nest In solution uses cement particle /fibre boards, AAC blocks, etc for construction of a wide range of product offerings like *Houses, Shops, Medical Clinics, Community Centres, Site offices, Guard Huts, Aanganwadi, etc*. The use of CBPs along with light steel frame structures allows very fast construction of these structures – ready to shift in less than two week time frame. Total cost for these structures range between Rs1200-1500 per sq foot.

Yarn business - cash spinner, strong return ratio to continue

VIL's yarn division manufactures polyester spun yarns with counts ranging from 30s to 76s used in the value-added segment of home textiles. Over 50% of its textile portfolio comprised value-added products in FY15. VIL manufactures these yarns using Twin Airjet Spinning (MTS) machines (made by Murata, Japan). Its plant in Nagpur (Maharashtra) currently has 33 MTS machines (equivalent to 65,000 spindles) with production capacity of ~10,000 MT per annum.

Its products range includes Melange Yarns, High Twist Yarn and specialty yarns with different blend styles. VIL has earned recognition as the largest unit in the world with MTS installation at a single location. VIL uses Polyster Staple Fibre (PSF) and Viscose Staple Fibre (VSF) which are sourced locally. Exports comprise ~25-30% of its total yarn sales which also provides some natural forex hedge against the raw material import for ACS division.

VIL diversified into yarn spinning business in 1992 when its ACS business was small. Thereafter its spinning business continued to do well and the management increased focus on growing the building production segment. Having been in the spinning business for 23 years now, VIL's systems, products, key markets and management team is mostly set, and hence, does not require significant management time. Over the next 2-4 years, the company plans to continue with opportunistic buying-out of a few machines from its smaller competitors (hence low capex) to drive its 5% volume CAGR.

Cost efficiency, lower capital costs and niche positioning drive strong return ratios

VIL's yarn products figure in top 5 percentile of the globally recognised Uster Standards, implying high quality of its product

VIL is a small player in the overall textile industry. However, it has created premium positioning among its customer base, both in domestic and export markets, as it specialises in the niche segment (polyester spun yarns as well as products from 30-70s counts – double yarn).Over the past 3-4 years, VIL's plants have been operating at 90%+ utilisation, indicating strong demand for its product.

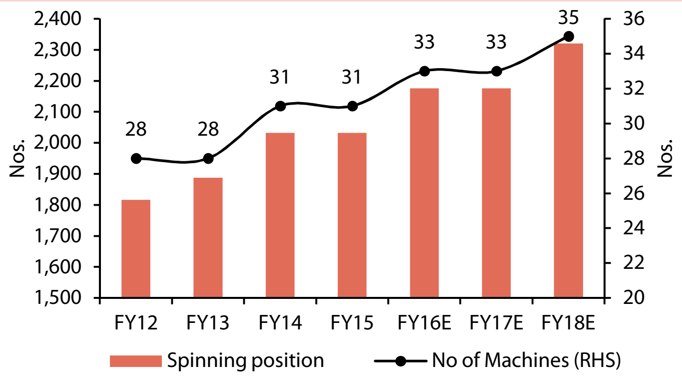
VIL operates its MTS machine at a higher than the manufacturer rated speed. Further, Murarta quotes VIL's Twin Airjet productivity as the benchmark for its equipment. This along with economies of scale (as all manufacturing at single location) support VIL's stable operating margin.

VIL's capital employed in its textile business is currently Rs600mn vs. current replacement cost value of Rs3,000mn (end of FY15). It has been strategically buying out these MTS machines from smaller spinners at very low cost as these smaller spinners are moving away from the old technology machine. This works out favourably for VIL, which has expertise and economies of scale in production through this technology. In FY16, VIL bought two more such machines at a total cost of Rs10mn and increased its production capacity by ~7%.

Segmental EBITDA contribution to remain stable at 20-25%

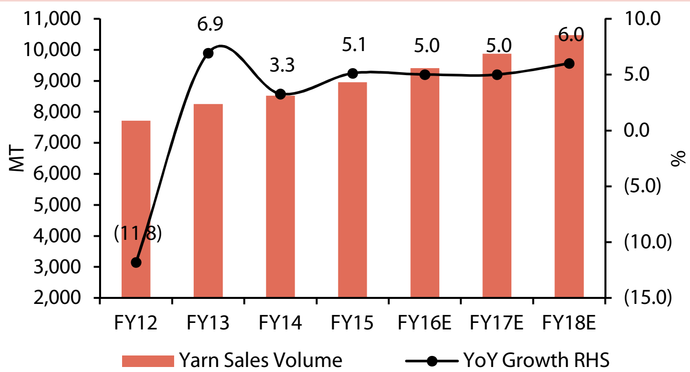
VIL expects to maintain ~5% sales volume CAGR and ~14-15% EBITDA margin during FY15-18E, similar to what it had delivered in the preceding three years. These would imply 8% segmental EBITDA CAGR and maintain the segmental contribution to total EBITDA at 22-24%.

Exhibit 10: VIL has 2 spinning machines in FY16 totalling to 33 machines currently (~10K MT production capacity)



Source: Company, Centrum Research Estimates

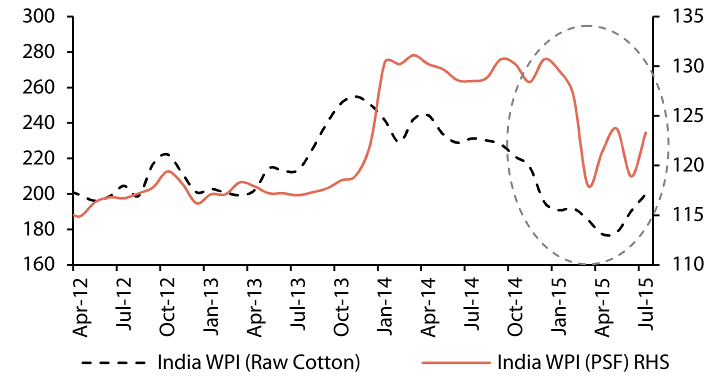
Exhibit 11: VIL's yarn sales to continue to grow at 5% CAGR amid 90%+ utilisation and limited near term capex



Source: Company, Centrum Research Estimates

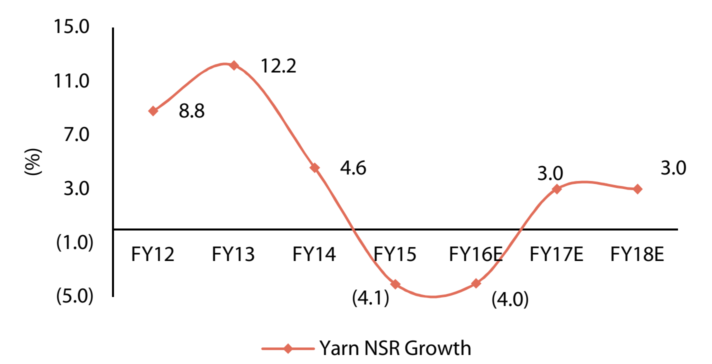
Price of synthetic fibre is linked to crude prices and price of the synthetic yarn moves in tandem with cotton price. Amid lower crude prices, the raw material cost for VSF/PSF has declined. However, with decline in cotton yarn prices, the price of the synthetic yarn (substitute to cotton) has also declined, restricting benefits for the spinners from the lower input costs. We have factored in 4% lower NSR YoY in FY16E, driven by pass-through of lower input costs. Thereafter, we estimate 3% NSR growth during FY16/17E as we expect normalisation in input costs.

Exhibit 12: Synthetic fibre cost fell during CY16 following the declining trend in cotton & crude prices



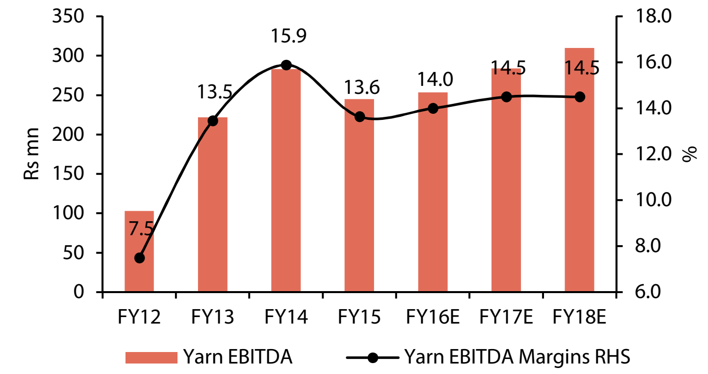
Source: Bloomberg, Centrum Research

Exhibit 13: Declining crude and cotton prices leading to both lower NSR and RM (synthetic fibre) during FY15/16E



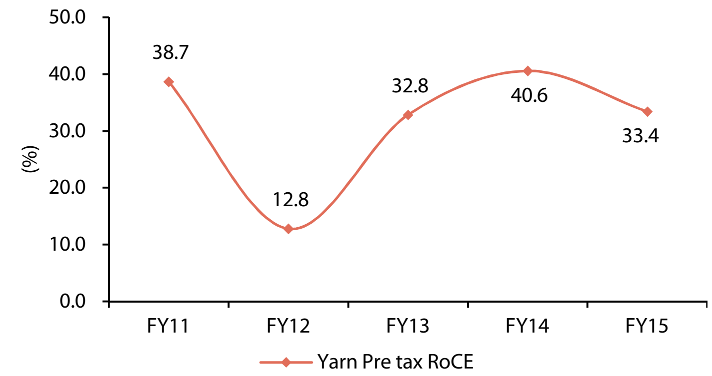
Source: Company, Centrum Research Estimates

Exhibit 14: Yarn EBITDA margin has remained steady over the last three years



Source: Company, Centrum Research Estimates

Exhibit 15: Yarn business has been delivering strong returns



Source: Company, Centrum Research

Peer Comparison of Visaka with its peer group in textiles

VIL though a small player in the textile industry, has delivered superior EBITDA margin and return ratios compared to its peer group on account of its niche positioning, cost efficiencies and lower capital cost.

Exhibit 16: Peer Comparison of Visaka in textiles division

Company	Mkt Cap (Rs mn)	Net Sales (Rs mn)				*EBITDA margin (%)*				*CAGR (FY12-FY15) (%)*		*Pre-Tax ROCE (%)*			
		FY12	FY13	FY14	FY15	*FY12*	*FY13*	*FY14*	*FY15*	*Net Sales*	*EBITDA*	*FY12*	*FY13*	*FY14*	*FY15*
VIL ^^	**2,088**	**1,375**	**1,649**	**1,781**	**1,796**	***7.5***	***13.5***	***15.9***	***13.6***	***9.3***	***33.5***	***12.8***	***32.8***	***40.6***	***33.4***
Sutlej Textiles	7,064	15,370	16,802	18,806	18,782	*10.8*	*11.8*	*14.3*	*12.5*	*6.9*	*12.0*	*15.8*	*24.1*	*34.3*	*25.9*
RSWM Ltd	6,561	19,870	24,533	28,701	30,034	*7.1*	*14.0*	*12.7*	*12.2*	*14.8*	*37.6*	*7.1*	*21.7*	*28.8*	*24.1*
Suryalata Spinning	465	2,526	2,695	3,703	3,654	*7.6*	*12.1*	*9.2*	*10.4*	*13.1*	*25.5*	*12.1*	*17.4*	*N.A.*	*34.5*
Suryalakshmi Cotton Mills	1,617	6,687	7,054	7,019	7,050	*13.7*	*14.7*	*11.4*	*11.9*	*1.8*	*(3.0)*	*18.6*	*18.3*	*11.5*	*11.5*
Bannari Amman Spinning Mills	2977	4,597	5,597	6,997	6,673	*7.3*	*20.3*	*16.9*	*11.9*	*13.2*	*33.1*	*(0.6)*	*17.4*	*18.0*	*18.0*

Source: Bloomberg, Company, Centrum Research, ^^ Visaka Industries financials are based on the segmental data provided by the company

ACS business: near term headwinds for the industry

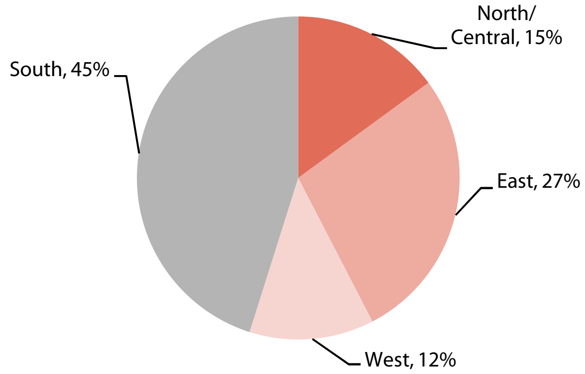
Second largest ACS player in, India with large presence in east and south markets

VIL is the second largest ACS producer in India, with a pan-India manufacturing footprint. The eastern and southern regions comprise 73% of its total installed capacity of 802K MT. The western and north/central regions comprise the remaining. The southern and eastern regions account for 70% of its total sales. VIL sells its product under brands Visaka and Shakti.

About 60% of VIL's ACS capacity is less than 10 years old. VIL started ACS production in 1985 in the south and remained a regional player until 2003. Thereafter, it expanded in the eastern region in 2003 and central/northern region in 2005. In 2006, it acquired Shakti Roofing, gaining access to the western region. As its plant utilisation peaked during FY08-09 (100-110%), VIL expanded its capacity by 20% in FY10 through de-bottlenecking at plants across all regions. Thereafter, it commissioned another plant in the east (100k MT in Sambalpur, Orissa) in 2011, leading to 15% increase in total capacity. In FY15, it again increased its total capacity by 7% through de-bottlenecking/brownfield expansion.

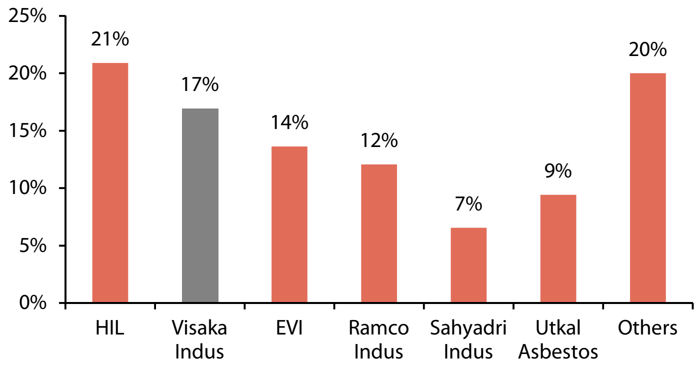
VIL currently has 17% market share in AC roofing sales. During FY10-15, its sales volume rose at 5% CAGR, largely driven by strong growth in eastern and western regions where Visaka made large capacity additions. Its ACS sales in the south has remained muted over the past three years.

Exhibit 17: VIL's ACS capacity spread across India



Source: Company, Centrum Research

Exhibit 18: VIL is second largest AC sheets seller in India



Source: Industry, Centrum Research

Exhibit 19: VIL's ACS plant location and other details

ACS Roofing capacity plant-wise	Region	Year of commissioning	FY15 capacity (MT)
Patancheru, AP	South	1985	72,000
Paramathi, TN	South	1997	90,000
Tumkur, Karnataka	South	2005	1,00,000
Vijayawada, AP	South	2006	1,00,000
Midnapur, WB	East	2003	1,00,000
Sambalpur, Odisha	East	2011	1,20,000
Luknow, UP	North/ Central	2005	1,20,000
Pune, Maharashtra	West	2006	1,00,000
Total (MT)			**8,02,000**

Source: Company, Centrum Research

ACS capacity in India is getting concentrated with limited players – top 5 producers account for 70% of total sales

Exhibit 20: Major AC sheet producers in India

Sr. No	Companies	Capacity (K- MT)	*Sales Mkt share (%)*	Regional Presence	Brand Names
1	Hyderabad Ind Ltd (HIL)	1,140	*21*	Pan India	Charminar
2	**Visaka Industries (VIL)**	**802**	***17***	**Pan India barring north**	**Visaka/ Shakti**
3	Everest Industries (EVL)	718	*14*	Pan India	Everest
4	Ramco Industries	746	*12*	Pan India barring north	Ramco
5	Sahyadri Industries	540	*7*	West & South	Swastik
6	Utkal Asbestos	430	*9*	WB, Orissa and UP	Konark
7	A Infrastructure	180	*4*	North, Central & West	Jai Kirti
8	UP Asbestos	216	*2*	North and Central	UPAL
9	ARL Infratech	175	*3*	North and Central	Ankur
	Others	880	*11*	Mostly regional	N/A
	Total	**5,830**	***100***	**-**	**-**

Source: Industry, Centrum Research

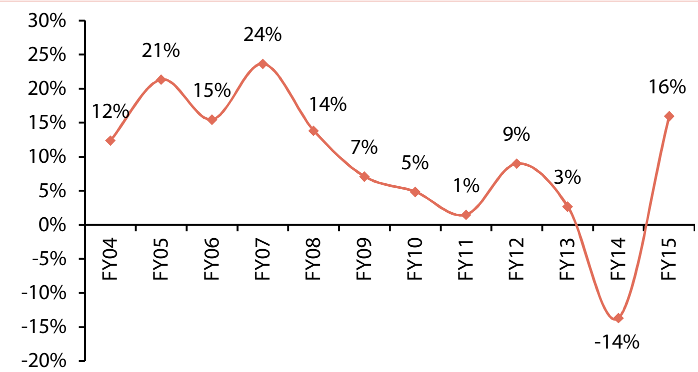
Headwinds driven by lower steel price, weak monsoon and INR deprecation

Rising competition from metal roofing sheets:

The asbestos-cement products mainly comprise AC corrugated roofing sheets/ACS (90%) and AC pipes (10%). ACS is a cheaper alternative to thatched and clay-tiled roofs and comparable in prices to low-end metal sheets. In addition, AC roofing sheets are mostly corrosion resistant, weather & fire proof and can easily last for many decades. These sheets are easy to install and require very little maintenance in subsequent years. However, over the past few years, the ACS industry has been facing stiff competition from colour-coated metal roofing sheets, and hence, ACS demand in the urban region and from industrial segment has contracted.

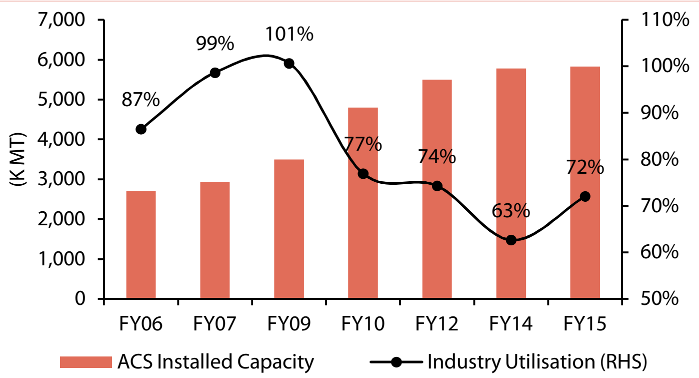
The premium quality colour-coated metal sheets (with better aesthetics and good durability) are expensive by ~60-80% than AC roofing sheets. However, there is huge influx of low-grade metal roofing sheets with price premium of 10-30% and low-cost GI sheets which have also eaten into the demand share of ACS in urban areas. Furthermore, the recent correction in steel prices by ~20% has reduced the premium vs. ACS, thus impacting ACS growth. However, these low-cost metal sheets get corroded in less than five years, making them more expensive in the long run, and hence, a part of these rural customers are expected to move back to durable ACS.

Exhibit 21: ACS demand has grown at 8% CAGR over last 10 years



Source: Industry, Centrum Research

Exhibit 22: ACS industry utilisation bottomed out in FY14 as demand recovered in FY15



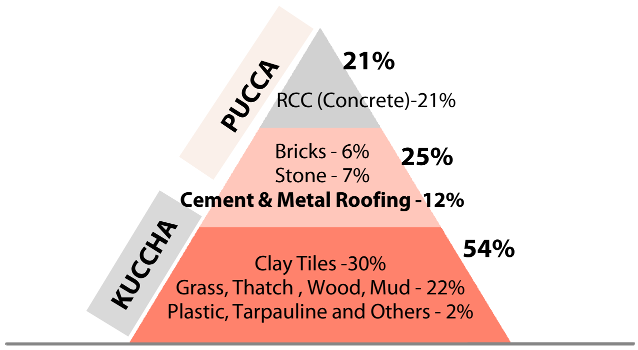
Source: Industry, Centrum Research

Weak monsoon has also moderated demand in subsequent year

During FY09-14, when India had lower than normal rainfall in four of six instances, ACS sales growth rate declined in subsequent years. A good monsoon in FY14 (CY13) boosted roofing sales in FY15. Analysis of past trends suggests negative correlation between inflation and ACS sales. With a major chunk of AC roofing demand coming from rural India, escalation in inflationary pressure had a negative impact on rural demand during FY10-14. With inflationary pressure cooling off in FY15/16E, rural cash-flow is expected to improve; this should partly offset the impact of weak monsoon on ACS sales.

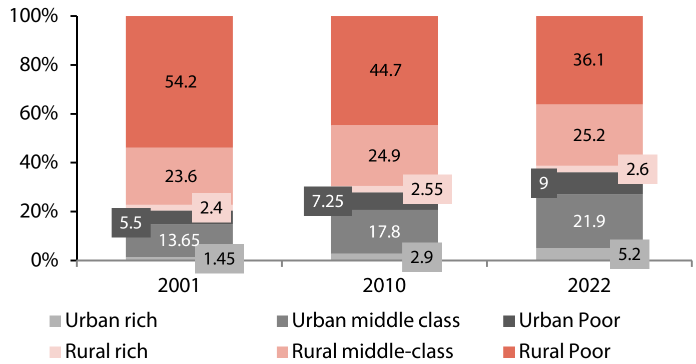
Deficient rainfall in FY15/16E should moderate ACS demand in FY16/17E, and hence, we have factored in segmental sales volume to grow at a slower pace of 3% YoY during FY15-18E.

Exhibit 23: Roofing trends in India – 54% of households had kuchha roof till 2010



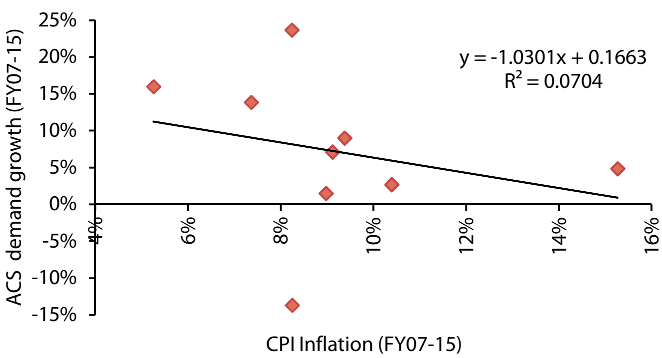
Source: Census 2011 data, Centrum Research

Exhibit 24: Scope for more roofing up-gradation exists



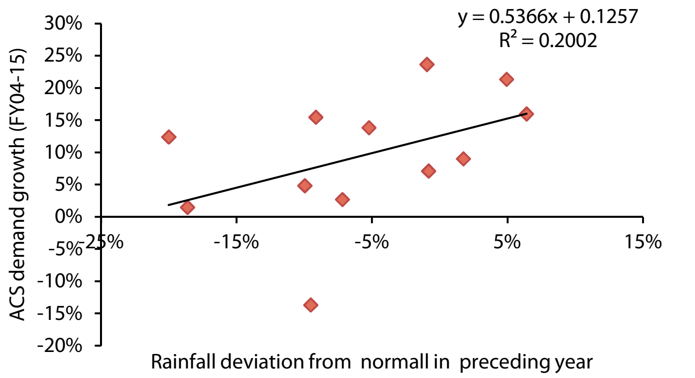
Source: McKinsey report, Centrum Research

Exhibit 25: Higher inflation has negatively impacted ACS demand in the past and vice versa



Source: RBI, Industry, Centrum Research

Exhibit 26: Good monsoon in the preceding year has boosted ACS sales growth and vice versa



Source: Industry, Centrum Research

INR depreciation to impact RM cost leading to ACS margin contraction

Chrysotile fibre is a key ingredient in manufacturing of ACS. All ACS manufacturers in India import this raw material, which is billed in USD irrespective of movements in local currencies of the countries it is imported from. Companies maintain fibre inventory of about 45 days and generally do not hedge their dollar purchase requirements.

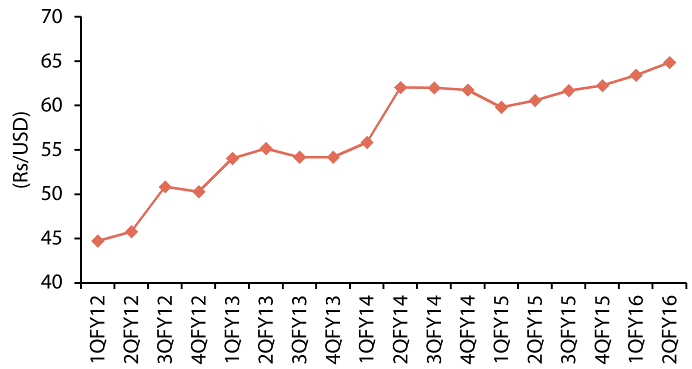
ACS industry's gross margin stands at ~40% and imported fibre cost comprises ~30-35% of total segmental sales. Amid weak demand over the past 3-4 years leading to low gross margin, ACS EBITDA margin has hovered around 10%. Hence, ACS EBITDA margin becomes susceptible to sharp depreciation in INR vs. USD. For every 1% appreciation in USD, ACS margin would dip by 30-35bps (assuming no cost pass through), implying 3-3.5% decline in segmental EBITDA.

The recent INR depreciation vs. USD by ~5-6% implies weaker EBITDA margin during FY16E; hence, we expect VIL's ACS EBITDA margin to contract 160bps YoY in FY16E.

In terms of overall exposure to currency volatility (as none of the ACS manufacturers have hedging policy), VIL and EVL have low net forex exposure due to these companies' rising sales (also led by export sales) in the CBP segment.

Overall, we estimate the ACS segment to deliver 7% revenue growth during FY15-18E. However, amid higher RM cost and competitive pressure leading to subdued EBITDA margin, we estimate segmental EBITDA CAGR at 4%. Subsequently, ACS share in total EBITDA should decline to 56% by FY18 vs 74% in FY15.

Exhibit 27: INR has been depreciating vs USD over the past four years



Source: Bloomberg, Centrum Research

Exhibit 28: Weaker INR along-with subdued pricing power has hit VIL's ACS operating margin during FY14-16E

	Avg USD (in INR)	*INR vs USD YoY (%)*	*ACS NSR YoY (%)*	*ACS OPM (%)*
FY10	47.5	*(3.2)*	*9.7*	*20.9*
FY11	45.6	*4.2*	*(3.5)*	*14.7*
FY12	47.9	*(4.8)*	*5.1*	*12.2*
FY13	54.4	*(11.9)*	*17.6*	*11.6*
FY14	60.4	*(9.9)*	*(1.9)*	*5.2*
FY15	61.1	*(1.1)*	*1.3*	*10.0*
FY16E	64.1 **	*(6.1) ***	*2.0*	*8.4*

*Source: Bloomberg, Company, Centrum Research Estimates ** USD is for H1FY16*

Exhibit 29: VIL and EVL have lower forex exposure among the top-four ACS producers

	FY10	FY11	FY12	FY13	FY14	FY15	5-yr Avg.
Visaka Ind (VIL)							
Chrysotile cost (Rs mn)	1,585	1,619	1,979	2,985	2,542	2,698	
% of Building Products sales	*32.7*	*31.9*	*32.6*	*40.1*	*36.1*	*32.4*	34.6
% of net sales	*26.1*	*24.7*	*26.4*	*32.6*	*28.5*	*26.4*	27.7
Net export/ (import) (Rs mn)	(1,146)	(1,316)	(1,208)	(2,733)	(1,508)	(2,249)	
% of net sales	*(18.9)*	*(20.1)*	*(16.1)*	*(29.9)*	*(16.9)*	*(22.0)*	(21.0)
EVL							
Chrysotile cost (Rs mn)	1,369	1,426	1,609	2,235	2,053	2,396	
% of Building Products sales	*25.9*	*25.4*	*24.2*	*29.1*	*27.0*	*27.6*	26.7
% of net sales	*20.9*	*19.7*	*18.1*	*22.0*	*19.8*	*19.5*	19.8
Net export/ (import) (Rs mn)	(1,071)	(1,238)	(1,249)	(1,999)	(1,505)	(1,605)	
% of net sales	*(16.4)*	*(17.1)*	*(14.1)*	*(19.7)*	*(14.5)*	*(13.0)*	(15.7)
HIL							
Chrysotile cost (Rs mn)	1,965	2,041	2,460	3,147	2,681	3,381	
% of Building Products sales	*28.0*	*28.2*	*28.8*	*30.5*	*30.9*	*30.6*	29.8
% of net sales	*27.9*	*28.2*	*28.7*	*30.4*	*33.8*	*33.7*	30.9
Net export/ (import) (Rs mn)	(1,735)	(1,954)	(2,430)	(3,370)	(1,963)	(3,053)	
% of net sales	*(24.7)*	*(27.0)*	*(28.3)*	*(32.5)*	*(24.7)*	*(30.4)*	(28.6)
Ramco Industries							
Chrysotile cost (Rs mn)	1,492	1,412	1,870	2,404	1,867	2,275	
% of Building Products sales	*34.6*	*31.7*	*33.1*	*37.2*	*35.4*	*36.7*	34.8
% of net sales	*29.2*	*25.2*	*27.7*	*30.7*	*27.9*	*30.2*	28.4
Net export/ (import) (Rs mn)	(1,239)	(1,139)	(1,316)	(2,566)	(1,352)	(1,933)	
% of net sales	*(21.4)*	*(20.4)*	*(19.5)*	*(32.8)*	*(20.2)*	*(25.7)*	(23.7)

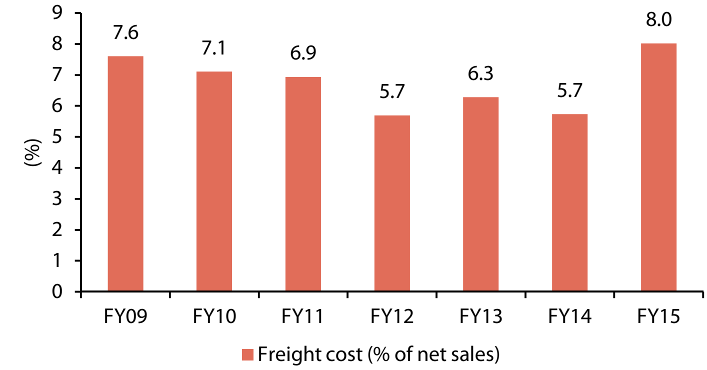
Source: Company, Centrum Research

Declining diesel prices to moderate impact of higher RM costs

Various raw material costs account for ~52% of VIL's total net sales: chrysotile fibre (28%), cement (14%), synthetic fibre (PSF, VSF) (10%). After raw materials, freight cost (largely road based, and hence, sensitive to diesel price movements) is a major cost component which accounts for ~7% of its net sales. Hence, VIL's operating margin should benefit from the recent cool off in crude oil prices, leading to lower diesel price in India.

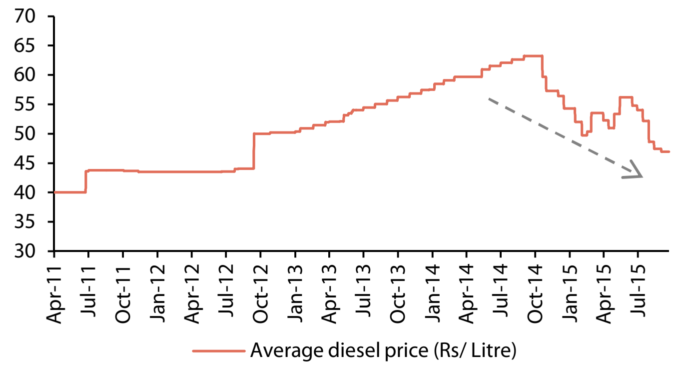
Diesel prices have declined ~15% YoY during H1FY16 and even if the prices increase 3-5% during H2FY16, diesel prices for the full year would reduce by ~10% YoY in FY16E. This should partly cushion the negative impact of higher raw material costs of ACS on total EBITDA margin during FY16E.

Exhibit 30: Freight cost account for ~7% of VIL's total net sales



Source: Company, Centrum Research

Exhibit 31: Lower diesel prices should reduce freight cost, boosting total operating margin



Source: Bloomberg, Centrum Research;
Simple average of Diesel prices across Delhi, Mumbai, Chennai and Kolkata

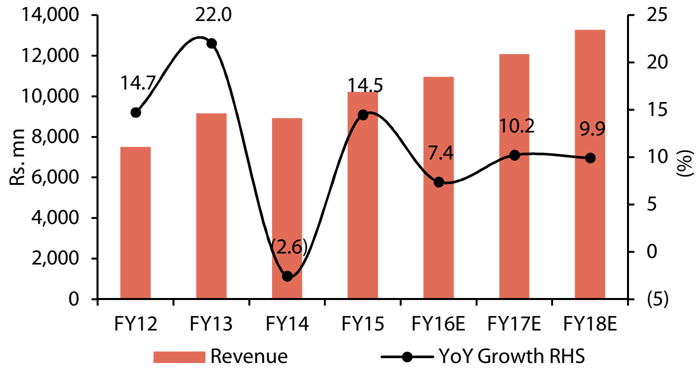
Financial Analysis

Strong free cash flow generation

We estimate VIL's revenue CAGR of 9% during FY15-18E, driven by 24% revenue CAGR in its CBP division. These should lead to 14%/34% EBITDA/PAT CAGRs, led by CBP segment's strong margin expansion (benefits of operating leverage and higher realisation). PAT CAGR and free cash flow generation should further benefit from lower capex of Rs1bn over the next three years as against Rs1.7bn incurred during FY13-15.

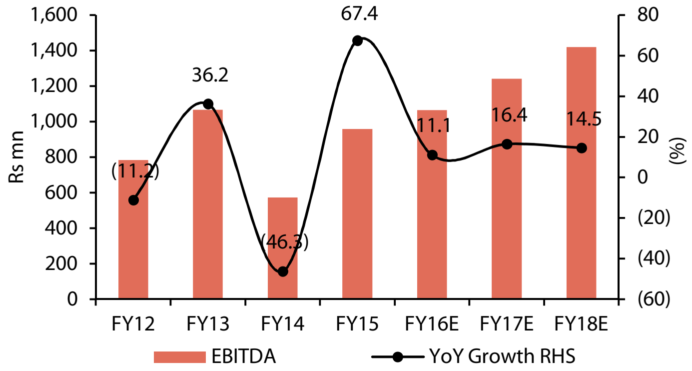
We estimate the company to churn out Rs1.1bn of free cash flow during FY15-18E implying FCF yields of 12%/24% for FY16E/17E. Adjusted for interest pay-out (as ~80% of VIL's debt towards working capital) in the same period, the FCF yield for FY16E/17E stands at 0%/12% respectively.

Exhibit 32: Revenue CAGR of 9% during FY15-18E



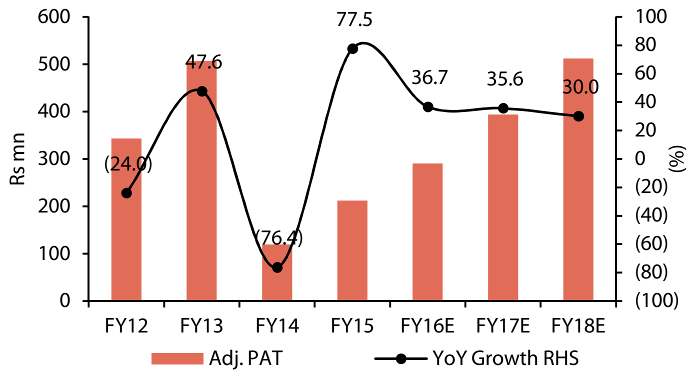
Source: Company, Centrum Research Estimates

Exhibit 33: EBITDA CAGR of 14% during FY15-18E



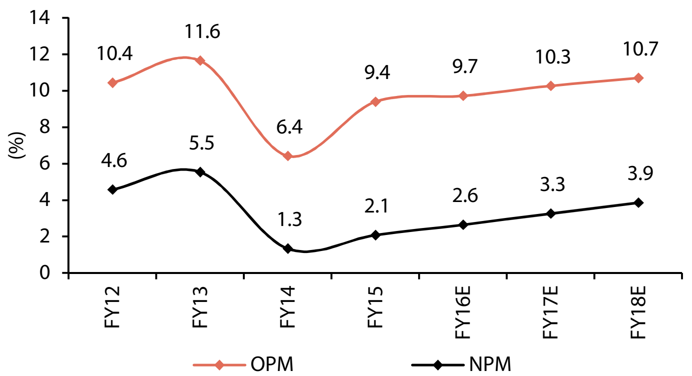
Source: Company, Centrum Research Estimates

Exhibit 34: Adjusted PAT CAGR of 34% during FY15-18E



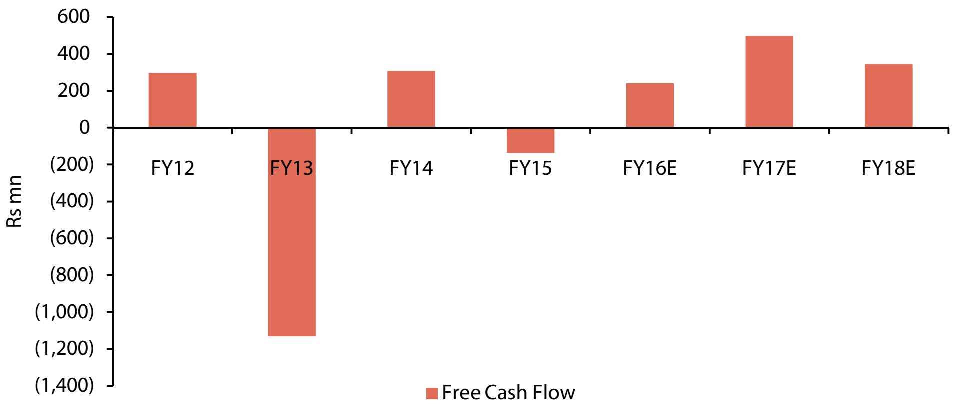
Source: Company, Centrum Research Estimates

Exhibit 35: Steady recovery in EBITDA/ PAT margins



Source: Company, Centrum Research Estimates

Exhibit 36: Strong operating cash flow and lower capex should drive VIL's free cash flow generation during FY16/17/18E



Source: Company, Centrum Research Estimates

Du-Pont analysis – margin expansion and higher utilisation to drive profitability

During FY12-14, VIL's RoE suffered mainly due to decline in operating margin in the ACS segment, as ACS (70-75% of total net sales) EBITDA margin contracted to 5.2% in FY14 from 14.7% in FY11. Even CBP margin contracted during FY14/15 on account of lower utilisation (impact of 150% capacity increase in FY14). This also lead to dip in asset turnover during FY14 thereby impacting RoE.

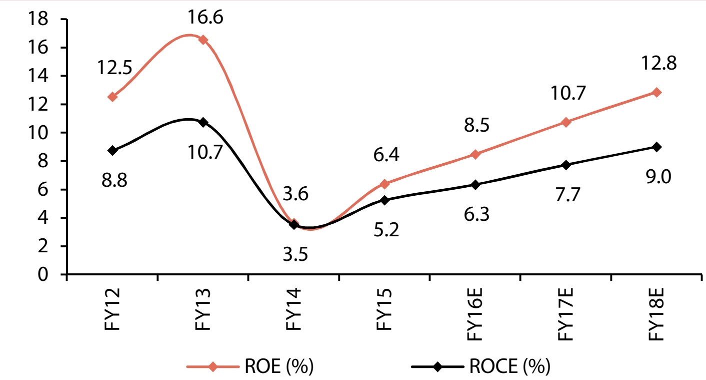
During FY15-18E, we expect its RoE recovery to be driven by (1) margins expansion (strong uptick in CBP margins more than offsetting the near-term margin decline in ACS segment, and stable margin in the textile segment) and (2) increase in asset utilisation in the ACS and CBP segments. We expect PAT margin to expand by ~180bps to 3.9% and asset turnover to increase by ~13% to 1.5x. We expect 4% contraction in leverage factor, all of which should lead to RoE recovery to ~13% in FY18E. Similarly, with improvement in operating performance, RoCE should recover to 9% by FY18E.

Exhibit 37: VIL's Du Pont analysis

	FY12	FY13	FY14	FY15	FY16E	FY17E	FY18E
CBP EBITDA margin (%)	*9.0*	*11.8*	*2.2*	*0.9*	*11.5*	*12.9*	*14.0*
ACS EBITDA margin (%)	*12.2*	*11.6*	*5.2*	*10.0*	*8.4*	*8.7*	*9.0*
Yarn EBITDA margin (%)	*7.5*	*13.5*	*15.9*	*13.6*	*14.0*	*14.5*	*14.5*
Total EBITDA margin (%)	*10.4*	*11.6*	*6.4*	*9.4*	*9.7*	*10.3*	*10.7*
PAT margin (%)	*4.6*	*5.5*	*1.3*	*2.1*	*2.6*	*3.3*	*3.9*
Asset turnover (x)	1.3	1.4	1.2	1.3	1.4	1.5	1.5
Leverage factor (x)	2.0	2.1	2.2	2.3	2.4	2.3	2.2
RoE (%)	***12.5***	***16.6***	***3.6***	***6.4***	***8.5***	***10.7***	***12.8***

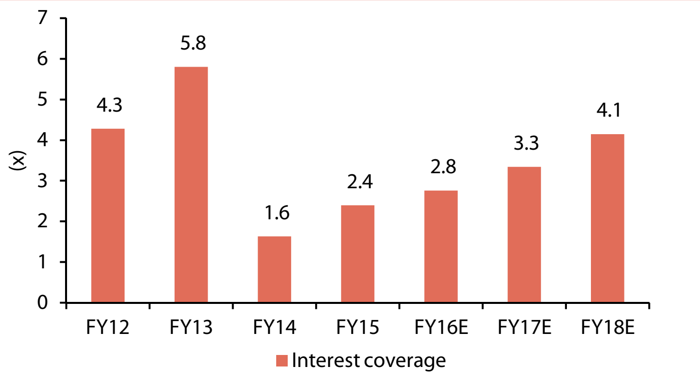
Source: Company, Centrum Research Estimates

Exhibit 38: Return ratio should steadily recover



Source: Company, Centrum Research Estimates

Exhibit 39: Interest coverage to remain comfortable at >2x



Source: Company, Centrum Research Estimates

Working capital analysis

VIL's cash conversion cycle has ranged between 100-120 days over the past five years largely driven by high inventory (of finished goods) build-up in the March quarter in the ACS business (70% of total sales) where peak sales happen in the pre-monsoon June and March quarters. Hence, short term interest cost is highest in the March quarter and as working capital requirement declines in subsequent quarters, interest cost is lower in subsequent quarters. During the last two years, cash conversion cycle in the ACS segment has 107/134 days.

In its CBP segment, VIL is ramping of its recent expansion (by150% in FY14 and in a new market -west) thereby leading to higher working capital requirement. The segmental cash conversion during FY14/15 has been at 125/111 days - similar to that of ACS business. In the CBP segment, the working capital need is driven by both higher inventory and debtor days. The textile segment requires lower relatively working capital with cash conversion cycle at ~40-45 days thereby moderating the overall cash conversion cycle.

Amongst its peers, HIL and EVL have better working capital efficiencies than VIL led by lower their lower debtor days and higher payable days. However, VIL fares better compared to Ramco Industries. Going forward, we expect VIL's cash conversion cycle to remain largely stable around 115-120 days as the revenue share of building product and spinning businesses should remain stable. The decline is ACS sales will be offset by increase in strong traction in CBP sales.

Exhibit 40: Cash conversion cycle - Segmental (FY14)

(No of days of segmental sales)	ACS	CBP	Spinning	Total
Inventory days	86	91	38	77
Debtor days	41	75	20	40
Payable days	20	41	14	21
Cash Conversion days	**107**	**125**	**45**	**96**

Source: Company, Centrum Research

Exhibit 41: Cash conversion cycle - Segmental (FY15)

(No of days of segmental sales)	ACS	CBP	Spinning	Total
Inventory days	107	69	32	89
Debtor days	49	71	19	46
Payable days	22	29	12	21
Cash Conversion days	**134**	**111**	**39**	**114**

Source: Company, Centrum Research

Exhibit 42: Inventory days comparison with peers (A)

No of days of sales	FY11	FY12	FY13	FY14	FY15
VIL	83	76	109	77	89
EVL	78	65	92	85	81
HIL	76	79	87	80	80
Ramco Ind	74	77	134	110	118

Source: Company, Centrum Research

Exhibit 43: Receivable days comparison with peers (B)

No of days of sales	FY11	FY12	FY13	FY14	FY15
VIL	39	36	34	40	46
EVL	16	17	19	29	31
HIL	32	36	36	31	25
Ramco Ind	29	27	25	28	29

Source: Company, Centrum Research

Exhibit 44: Payable days comparison with peers (C)

No of days of sales	FY11	FY12	FY13	FY14	FY15
VIL	10	11	22	19	21
EVL	33	30	39	43	39
HIL	31	38	31	58	50
Ramco Ind	24	20	13	14	17

Source: Company, Centrum Research

Exhibit 45: Cash conversion cycle comparison (A+B-C)

No of days of sales	FY11	FY12	FY13	FY14	FY15
VIL	112	100	121	98	115
EVL	60	52	71	71	72
HIL	77	77	92	53	55
Ramco Ind	79	84	146	123	130

Source: Company, Centrum Research

Operational summary

In the building products segment, strong volume growth and recent price increases in the CBP sub-segment should drive segmental profit growth. We estimate muted profit growth in the ACS sub-segment amid weak demand and near-term surge in cost pressure. Subsequently, we estimate VIL to deliver 10%/15% revenue/EBIDTA CAGRs in the building product segment during FY15-18E.

In the yarn segment, VIL is already operating at 90%+ utilisation and is not very aggressive in adding new machines, at least for the next three years. It would only buy old machines from its smaller competitors who would be winding up operations. Hence, we estimate segmental revenue/EBITDA CAGR of 6%/8% during FY15-18E.

We have factored in 15% CBP capacity increase during FY18E, largely through de-bottlenecking/brownfield expansions to capitalise on strong demand traction in this segment. Similarly, we estimate 5% capacity increase in ACS segment in FY18E largely through capacity de-bottlenecking. Hence, overall capex requirement is expected to decline during FY16-18E at ~Rs1bn vs. Rs1.7bn in the preceding three years.

Exhibit 46: Key operational summary and assumptions – Building products and Yarn segments

Particulars	FY13	FY14	FY15	FY16E	FY17E	FY18E
ACS (1)						
Installed Capacity (K MT)	752.0	752.0	802.0	802.0	802.0	832.0
Sales volume (K MT)	683.2	640.2	720.4	745.7	775.5	806.5
YoY (%)	*4.4*	*(6.3)*	*12.5*	*3.5*	*4.0*	*4.0*
NSR (Rs/ MT)	10,014	9,825	9,957	10,156	10,562	10,985
YoY (%)	*17.6*	*(1.9)*	*1.3*	*2.0*	*4.0*	*4.0*
OPM (%)	*11.6*	*5.2*	*10.0*	*8.4*	*8.7*	*9.0*
CBP (2)						
Installed Capacity (K MT)	57.8	129.8	129.8	129.8	129.8	149.2
Sales volume (K MT)	47.2	57.5	85.2	104.8	124.4	142.2
YoY (%)	*13.4*	*21.8*	*48.0*	*23.1*	*18.8*	*14.3*
NSR (Rs/ MT)	13,357	13,675	13,973	14,622	15,181	15,769
YoY (%)	*7.4*	*2.4*	*2.2*	*4.6*	*3.8*	*3.9*
OPM (%)	*11.8*	*2.2*	*0.9*	*11.5*	*12.9*	*14.0*
Building Product (1+2)						
Total Sales vol (K MT)	730	698	806	850	900	949
YoY (%)	*4.9*	*(4.5)*	*15.5*	*5.6*	*5.8*	*5.4*
Blended NSR (Rs/ MT)	10,230	10,143	10,381	10,706	11,201	11,702
YoY (%)	*16.9*	*(0.9)*	*2.4*	*3.1*	*4.6*	*4.5*
Segmental Revenue (Rs mn)	7,473	7,077	8,363	9,105	10,080	11,102
YoY (%)	*22.6*	*(5.3)*	*18.2*	*8.9*	*10.7*	*10.1*
Segmental EBITDA (Rs mn)	870.4	343.5	726.5	812.1	956.8	1,110.7
YoY (%)	*20.1*	*(60.5)*	*111.5*	*11.8*	*17.8*	*16.1*
Segmental *OPM (%)*	*11.6*	*4.9*	*8.7*	*8.9*	*9.5*	*10.0*
Textiles/ Yarn Spinning						
Total Sales vol (K MT)	8.3	8.5	9.0	9.4	9.9	10.5
YoY (%)	*6.9*	*3.3*	*5.1*	*5.0*	*5.0*	*6.0*
Blended NSR (Rs/ KG)	199.9	209.0	200.5	192.5	198.3	204.2
YoY (%)	*12.2*	*4.6*	*(4.1)*	*(4.0)*	*3.0*	*3.0*
Segmental Revenue (Rs mn)	1,649	1,781	1,796	1,811	1,958	2,138
YoY (%)	*19.9*	*8.0*	*0.8*	*0.8*	*8.2*	*9.2*
Segmental EBITDA (Rs mn)	222	283	245	254	284	310
YoY (%)	*115.5*	*27.5*	*(13.4)*	*3.5*	*12.0*	*9.2*
Segmental OPM (%)	*13.5*	*15.9*	*13.6*	*14.0*	*14.5*	*14.5*

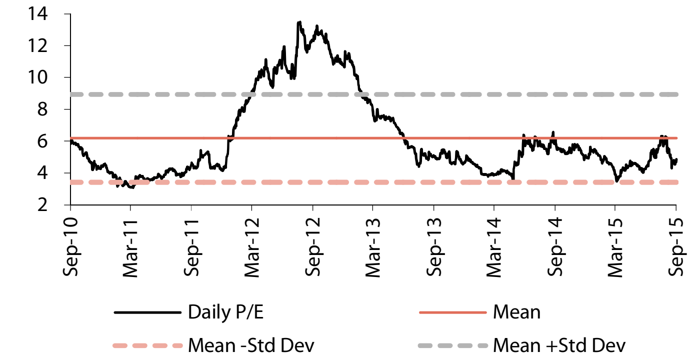
Source: Company, Centrum Research Estimates

Initiate coverage with a BUY recommendation

Valuation and peer comparison

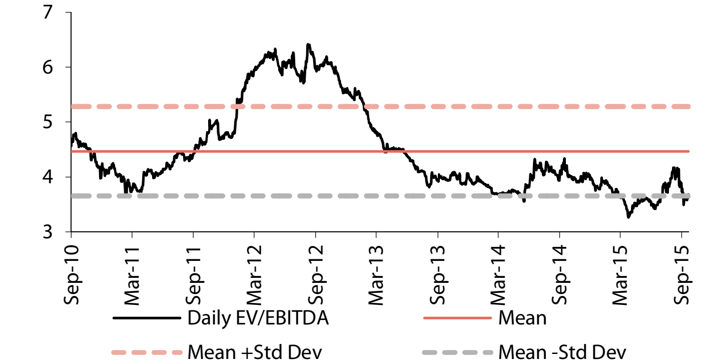
We initiate coverage on the stock with a BUY recommendation valuing it at 7x Sep'17E EPS implying one year TP of Rs200. Over the past five years, the stock has traded at mean P/E multiple 6x (two year rolling forward) and the stock is currently trading well below its mean valuations – closer to one standard deviation. We believe margin expansion driven by strong demand and rising utilisation in its CBP & stable yarn sales will reduce overall earnings volatility which should help VIL command higher valuation multiples. Improvement in the ACS profitability outlook (demand uptick and INR appreciation) will further drive return ratio expansion and can drive further re-rating.

Exhibit 47: Rolling forward P/E chart



Source: Bloomberg, Company, Centrum Research Estimates

Exhibit 48: Rolling forward EV/EBITDA chart



Source: Bloomberg, Company, Centrum Research Estimates

Exhibit 49: Peer comparison – Financial performance over the past three years

Company	Mkt Cap (Rs bn)	CAGR FY12-15 (%)			EBITDA margin (%)			EPS (Rs)			RoE (%)			RoCE (%)		
		Rev	EBITDA	PAT	FY13	FY14	FY15	FY13	FY14	FY15	FY13	FY14	FY15	FY13	FY14	FY15
VIL	**2.05**	**10.8**	**7.0**	**(14.8)**	**11.6**	**6.4**	**9.4**	**31.9**	**7.5**	**13.4**	**16.6**	**3.6**	**6.4**	**10.7**	**3.5**	**5.2**
EVL	4.79	11.6	0.5	(13.4)	9.7	3.8	6.7	34.6	5.9	22.4	19.5	3.1	11.1	12.0	1.7	6.6
HIL	4.89	8.9	1.4	5.1	11.7	5.1	10.1	81.0	14.3	93.8	16.7	2.8	17.1	11.4	2.0	10.3
Ramco Industries	10.15	4.1	(13.7)	5.4	14.4	7.7	9.5	7.8	1.5	10.4	13.5	(0.6)	6.7	9.0	0.4	6.1

Source: Companies, Centrum Research

Exhibit 50: Comparative Valuations of VIL with Everest Industries

Company	Mkt Cap (Rs bn)	CAGR FY15-17E (%)			EBITDA margin (%)			RoCE (%)			RoE (%)			P/E (x)			EV/EBITDA (x)		
		Rev.	EBITDA	PAT	FY15	FY16E	FY17E	FY15	FY16E	FY17E	FY15	FY16E	FY17E	FY15	FY16E	FY17E	FY15	FY16E	FY17E
VIL	**2.05**	**8.8**	**13.7**	**36.2**	**9.4**	**9.7**	**10.3**	**5.2**	**6.3**	**7.7**	**6.4**	**8.5**	**10.7**	**9.8**	**7.2**	**5.3**	**5.0**	**4.5**	**3.7**
EVL	4.79	19.0	30.3	30.3	6.7	7.5	8.0	6.6	8.2	8.9	11.1	13.9	15.4	14.1	10.3	8.3	8.4	6.3	5.4

Source: Company, Centrum Research Estimates

Key risks and sensitivity

- Slower-than-expected demand off-take (triggered by poor monsoon, rise in inflation and/or weak commercial and industrial capex) will lead to lower volume growth, impacting profitability.
- Weak demand in the CBP segment can also lead to roll back of recent price hikes implemented over the past six months. For every 100bps lower than estimated EBIDTA margin in the CBP segment, our total EBITDA and PAT estimates would be lower by 1% and 3% respectively.
- Chrysotile fibre and cement are two major raw materials for VIL accounting for ~30%/13% of its total net sales. Hence, for every 1% rise in fibre cost (through cost increase by suppliers in USD terms and/or USD appreciation vs. INR) which VIL is unable to pass on its total EBIDTA margin would contract by ~30bps, implying 3% lower total EBITDA. Similarly, every 100bps increase in cement price rise would impact EBITDA margin/EBITDA by ~13bps/1.3%, respectively.
- In the Yarn division, raw material (PSF+VSF) cost accounts for ~53% of segmental net sales and 10% of VIL's total net sales. Hence, every 1% increase in raw material cost which VIL is unable to pass on, total EBITDA margin/EBITDA would decline by ~10bps/1% respectively.

We have done a bear/bull case scenario analysis where we have analysed combined impact of lower/higher volumes and EBITDA margins across all the three businesses on the total profitability. The CBP business is expected to drive our base case earnings growth. As we expect strong margin expansion in this segment, we have considered impact of higher volatility in this segment on total profitability. Our bear case scenario suggests 23% lower than estimated FY17E PAT. Our bull case scenario suggests 25% higher PAT than our estimated FY17E PAT.

Exhibit 51: Sensitivity analysis – bear and bull case scenario analysis on FY17E estimates

Sensitivity analysis	Bear Case	Base Case	Bull Case	Comments
ACS volume growth (%)	*2.0*	*4.0*	*6.0*	In the ACS segment, as we have already factored in conservative volume growth and OPM in our base case numbers, we model in lower volume and margin dip in our bear case analysis.
ACS OPM (%)	*7.7*	*8.7*	*9.7*	
CBP volume growth	15.0	18.8	20.0	CBP business has higher operating leverage (~60% gross margin) and as this is the fastest growing segment, we have factored in higher reduction volume and OPM in our bear case scenario. In our bull case, we have factored in 300bps higher OPM which VIL is confident to achieve based on current demand traction.
CBP OPM (%)	*10.0*	*12.9*	*16.0*	
Yarn spinning volume growth (%)	4.0	5.0	6.0	With limited volatility in the business, we model in 1% lower volume growth and ~100bps lower OPM in our bear case for Spinning and vice versa for bull case
Yarn spinning OPM (%)	*13.5*	*14.5*	*15.5*	
Total FY17E EBITDA (Rs mn)	1,102	1,241	1,391	The combined impact implies 11%/23% lower than our base case FY17E EBITDA/ PAT in our bear case scenario and 12%/25% higher EBITDA/PAT in bull case
% Change vs Base case	***(11.2)***		***12.1***	
Total FY17E PAT (Rs mn)	303	394	491	
% Change vs Base case	***(22.9)***		***24.7***	

Source: Companies, Centrum Research Estimates

Exhibit 52: Shareholding pattern (%)

	Q1FY16	Q4FY15	Q3FY15	Q2FY15
Promoter	*37.5*	*37.5*	*37.5*	*37.5*
FII	*3.0*	*2.2*	*2.2*	*2.2*
DII	*1.3*	*1.4*	*1.3*	*1.3*
Others	*58.1*	*58.9*	*59.0*	*59.0*

Source: BSE

Company Background

Established in 1985, Visaka Industries is engaged in two businesses: (1) building products-cement asbestos roofing sheets and fibre cement flat & panels and (2) spinning of synthetic yarns for the textile segment.

Headquartered in Hyderabad, Visaka Industries has 11 manufacturing facilities across India. These plants possess an aggregate production capacity (annual) of about 8,02,000MT of AC roofing sheets, 1,29,750MT of non-asbestos CBPs, and 10,000MT of cotton-touch synthetic yarns. The company's nine pan-India marketing offices support its manufacturing units.

Exhibit 53: Promoters and Key management personnel

Name	Position	Qualification and experience
Mr. Bhagirat Merchant	Chairman & Non – Executive Independent Director	Mr. Merchant has long and varied experience in Accounts, Finance and Capital markets. He is Non-Executive Independent Chairman at Visaka Industries Limited and has been its Independent Director since 1983. He is Chief Mentor of Sundaram Multi Pap Ltd. Mr. Merchant has led many fund raising assignments through equity, debt, quasi equity and loan syndication. Some of the well-known assignments managed by him include Reliance Industries Limited, JK Tyres Limited, GNFC, GACL and the first FERA dilution of Hindustan Levers Limited. From 1994 to 1995, he served as President of BSE Ltd.
Dr. Vivekanand Gaddam	Vice Chairman & Non-Executive Director	Dr. Gaddam is an M.B.B.S and earlier served as Managing Director of Visaka Industries from 1 April 2000 to 26 October 2009. He serves as Director of Normak Fashions Private Limited, Venus Energy Private Limited, Maddi Constructions Private Limited, Visaka Industries Limited, Visaka Thermal Power Private Limited, Dyka Accessories Private Limited and A-Bond Strands Private Limited. He has also served as an Independent Non-Executive Director of Pennar Industries Limited from 30 October 2006 to 6 August, 2014.
Mrs. Saroja V. Gaddam	Managing Director	Mrs. Gaddam holds a bachelor's degree in arts. She has been on the board since 2003 and has exposure to all functions of the company.
Mr. Vallinath Vepa	Whole time Director & CFO	Mr. Vepa is a commerce graduate and a member of Institute of Chartered Accountants of India and the Cost and Management Accountants of India. Before joining the company in 1988, he had worked in various private and public sector companies. Over the past 26 years, he has dealt with various key operations of the company such as Finance, Business Strategy, Management Information System, taxation, Costing, and a few others.
Mr. Vamsi Krishna	Whole time Director	Mr. Krishna holds a bachelor's degree in science from Purdue University, USA, and joined the company as Management Trainee in June 2011. He has made significant contributions to increase the size of the company's Cement Board's division.
Mr. Nagam Krishna Rao	Independent Director	Mr. Rao is a leading Jewellery Merchant in Hyderabad and was a Member of Andhra Pradesh Legislative Assembly. He was also the Chairman of Hyderabad Urban Development Authority.
Mr. V.Pattabhi	Independent Director	Mr. Pattabhi (B.E.) is an independent consultant. He has over 50 years of experience in the Asbestos Cement industry. He has also handled environmental issues related to the Asbestos Cement industry and is considered as an expert in the field. He has immense knowledge about non-asbestos cement products as well. He has also worked with Hyderabad Industries Ltd.
Mr. Gusti Noria	Independent Director	Mr. Noria, (B.Sc. M.A.) is Managing Director of Normak Fashions Pvt. Ltd., manufacturer of the 'Estelle' brand artificial jewellery. He has a long and varied experience in manufacturing, marketing and export of artificial jewellery.
Mr. P. Abraham	Independent Director	Mr. Abraham is a retired IAS officer. He served the government as Commissioner of Industries Andhra Pradesh, Chairman of Maharashtra State Electricity Board and Union Energy Secretary. He was a member of the Union Public Service Commission.
Mr. Srikar Reddy	Additional Independent Director	Mr. Reddy has been with Sonata Software Limited since 1986 and has been pivotal in building Sonata as a trusted and reliable IT services partner. At present, he is the Managing Director & CEO of Sonata. He holds an engineering degree from REC, Tiruchirapalli, and post graduate degree in management from Indian Institute of Management, Calcutta.

Source: Industry, Company, Centrum Research

Quarterly financial trend

- During Q1FY16, VIL's net sales rose 3% YoY, driven by 4% volume growth in building product segment and 2% growth in yarn sales volume.
- Weak demand for ACS led to muted 2% YoY volume growth as well as 200bps lower EBITDA margin to 10.2%. However, CBP demand remained strong, leading to 19% YoY volume growth. Amid strong demand, the company took price hikes in CBP at the end of Mar'15 quarter which led to 6% YoY NSR growth. These boosted CBP EBITDA margin to 13.3% vs. 1.2% in Q1FY15. This more than offset for the decline in ACS profitability, driving total EBITDA margin expansion by 30bps YoY to 11.2%.
- In case of yarn sales, NSR declined tracking lower input costs but amid strong demand for its product, segmental EBITDA margin expanded 600bps YoY to 18.3%. The company reported Rs18mn duty drawback in yarn EBITDA, adjusted for which Q1FY16 EBITDA margin stands at 14.2%.
- These drove total EBITDA growth by 5%. VIL's PAT grew 21% YoY boosted by lower depreciation YoY (fixed-asset re-assessment led to a surge in depreciation in Q1FY15).

Exhibit 54: Quarterly financials trend

Y/E Mar (Rs mn)	Q2FY14	Q3FY14	Q4FY14	Q1FY15	Q2FY15	Q3FY15	Q4FY15	Q1FY16
Net Sales	**1,808**	**1,879**	**2,381**	**3,124**	**2,096**	**2,141**	**2,850**	**3,215**
Total Expenditure	1,750	1,830	2,211	2,782	1,902	1,987	2,582	2,856
Raw Materials	1,118	1,164	1,485	1,934	1,030	1,137	1,674	1,888
Employee	115	124	130	171	135	135	153	185
Others	518	543	595	677	737	715	755	782
EBITDA	**58**	**50**	**170**	**342**	**194**	**154**	**269**	**359**
Depreciation	52	63	62	136	102	98	95	95
EBIT	7	(13)	108	206	93	56	174	264
Interest	38	63	71	49	40	59	72	55
Other Income	8	6	34	8	7	7	2	13
PBT	(23)	(69)	72	165	59	4	104	222
Taxes	(7)	(22)	27	53	22	1	43	86
Exceptional inc/ (exp)	-	-	-	-	-	-	-	-
Reported PAT (post minority)	(16)	(47)	45	112	37	3	61	136
Adjusted PAT	**(16)**	**(47)**	**45**	**112**	**37**	**3**	**61**	**136**
YoY Growth (%)								
Revenue	*(8.0)*	*(8.3)*	*2.6*	*9.5*	*15.9*	*13.9*	*19.7*	*2.9*
EBITDA	*(70.8)*	*(71.4)*	*(5.2)*	*16.2*	*233.1*	*209.8*	*57.8*	*5.1*
Adj PAT	*n/m*	*n/m*	*(22.0)*	*(18.3)*	*n/m*	*n/m*	*35.1*	*21.6*
Margins (%)								
EBITDA	*3.2*	*2.6*	*7.2*	*10.9*	*9.3*	*7.2*	*9.4*	*11.2*
PBT	*(1.3)*	*(3.7)*	*3.0*	*5.3*	*2.8*	*0.2*	*3.7*	*6.9*
Adj PAT	*(0.9)*	*(2.5)*	*1.9*	*3.6*	*1.8*	*0.1*	*2.1*	*4.2*
Operational Trends								
Building products								
Revenue (Rs mn)	1,288	1,455	1,926	2,626	1,600	1,737	2,372	2,735
EBITDA (Rs mn)	(28)	15	133	292	132	105	209	291
OPM (%)	*(2.2)*	*1.0*	*6.9*	*11.1*	*8.2*	*6.0*	*8.8*	*10.6*
Total Vol (K MT)	127.5	144.4	192.5	250.6	149.0	169.8	236.1	260.0
YoY (%)	*(12.6)*	*(10.4)*	*(0.8)*	*7.4*	*16.9*	*17.6*	*22.6*	*3.7*
Blended NSR (Rs/MT)	10,165	10,135	10,034	10,501	10,799	10,263	10,077	10,554
YoY (%)	*(2.1)*	*(0.8)*	*(0.7)*	*2.7*	*6.2*	*1.3*	*0.4*	*0.5*
ACS Volume growth YoY (%)	*(13.3)*	*(13.3)*	*(4.2)*	*4.2*	*13.3*	*14.6*	*21.0*	*2.4*
ACS NSR growth YoY (%)	(3.3)	(2.7)	(2.3)	1.7	5.2	0.4	(0.5)	(0.8)
ACS OPM (%)	*(3.7)*	*1.8*	*8.2*	*12.1*	*9.6*	*6.5*	*10.4*	*10.2*
CBP Volume growth YoY (%)	*(5.1)*	*29.0*	*49.7*	*61.4*	*51.0*	*45.5*	*38.3*	*18.6*
CBP NSR growth YoY (%)	4.3	4.5	3.2	2.3	4.0	(0.0)	2.7	6.3
CBP OPM (%)	*7.8*	*(4.3)*	*(2.0)*	*3.2*	*1.2*	*3.8*	*(0.4)*	*13.3*
Synthetic Yarn								
Revenue (Rs mn)	474	413	445	479	483	389	446	443
EBITDA (Rs mn)	95	41	72	59	69	56	62	81
OPM (%)	*20.1*	*9.8*	*16.2*	*12.2*	*14.3*	*14.4*	*13.8*	*18.3*
Vol (K MT)	2.2	2.0	2.1	2.4	2.3	1.9	2.4	2.3
YoY (%)	*(0.2)*	*2.1*	*25.6*	*6.3*	*5.7*	*(3.3)*	*11.3*	*(2.8)*
NSR (Rs/Kg)	219	206	210	202	211	201	189	192
YoY (%)	*10.3*	*0.8*	*(1.2)*	*0.4*	*(3.7)*	*(2.6)*	*(10.0)*	*(4.9)*

Source: Company, Centrum Research

Financials - Historical

Exhibit 55: Income Statement

Y/E Mar(Rs mn)	FY09	FY10	FY11	FY12	FY13
Net Sales	**5,807**	**6,063**	**6,541**	**7,504**	**9,156**
Raw Materials	3,267	3,104	3,662	4,435	5,308
as % of sales	*56.3*	*51.2*	*56.0*	*59.1*	*58.0*
Employee	261	289	335	419	470
as % of sales	*4.5*	*4.8*	*5.1*	*5.6*	*5.1*
Others	1,436	1,577	1,663	1,867	2,311
as % of sales	*24.7*	*26.0*	*25.4*	*24.9*	*25.2*
EBITDA	**843**	**1,094**	**882**	**783**	**1,067**
EBITDA margin (%)	*14.5*	*18.0*	*13.5*	*10.4*	*11.6*
Depreciation	166	184	164	176	196
EBIT	677	910	718	607	871
Interest	170	109	102	142	150
Other income	47	63	69	47	26
PBT	554	864	684	512	746
Tax	195	292	232	169	239
Tax rate (%)	*35.2*	*33.8*	*34.0*	*33.0*	*32.1*
Adj PAT Pre-minority	359	572	452	343	507
Adj PAT (post minority)	**359**	**572**	**452**	**343**	**507**
EO items	-	-	-	-	-
Reported PAT (post minority)	359	572	452	343	507

Source: Company, Centrum Research

Exhibit 56: Key Ratios

Y/E Mar(Rs mn)	FY09	FY10	FY11	FY12	FY13
Growth Metrics (%)					
Net Sales	*33.3*	*4.4*	*7.9*	*14.7*	*22.0*
EBITDA	*108.1*	*29.7*	*(19.4)*	*(11.2)*	*36.2*
Adj PAT	*368.6*	*59.2*	*(21.0)*	*(24.0)*	*47.6*
Profitability Metrics (%)					
EBIT margin	*11.7*	*15.0*	*11.0*	*8.1*	*9.5*
PBT margin	*9.5*	*14.2*	*10.5*	*6.8*	*8.2*
Adj PAT margin	*6.2*	*9.4*	*6.9*	*4.6*	*5.5*
Return Ratios (%)					
RoE	*20.7*	*27.0*	*18.2*	*12.5*	*16.6*
RoCE	*11.9*	*15.5*	*10.9*	*8.8*	*10.7*
RoIC	*13.4*	*18.1*	*12.9*	*10.3*	*12.0*
Turnover ratios (No of days)					
Inventory period	57	70	83	76	109
Collection period	33	31	39	36	34
Creditors period	31	34	25	27	22
Cash conversion cycle	59	67	96	85	121
Solvency Ratio (x)					
D/E	0.9	0.7	0.7	0.6	0.9
Net D/E	0.7	0.4	0.5	0.4	0.7
Interest coverage	4.0	8.3	7.0	4.3	5.8
Current ratio	2.6	2.6	3.8	3.0	4.2
Dividend					
DPS (Rs)	4.0	5.0	5.0	5.0	6.0
Dividend yield (%)	*3.0*	*3.8*	*3.8*	*3.8*	*4.6*
Dividend pay-out (%)	20.7	16.2	20.6	27.1	*22.0*
Per share (Rs)					
Basic EPS- reported	22.6	36.0	28.4	21.6	31.9
Basis EPS- adjusted	22.6	36.0	28.4	21.6	31.9
FDEPS- reported	22.6	36.0	28.4	21.6	31.9
FDEPS- adjusted	22.6	36.0	28.4	21.6	31.9
CEPS	33.1	47.6	38.8	32.7	44.2
BVPS	118.3	148.4	164.6	180.4	205.3
Valuations Metrics (x)					
P/E	5.8	3.7	4.6	6.1	4.1
Price/Cash earnings	4.0	2.8	3.4	4.0	3.0
Price/BV	1.1	0.9	0.8	0.7	0.6
EV/Sales	0.6	0.5	0.5	0.4	0.5
EV/EBITDA	3.8	2.8	3.6	4.0	4.1

Source: Company, Centrum Research

Exhibit 57: Balance Sheet

Y/E Mar(Rs mn)	FY09	FY10	FY11	FY12	FY13
Sources of Funds:					
Share Capital	159	159	159	159	159
Reserves	1,719	2,198	2,454	2,706	3,101
Shareholders Fund	1,878	2,357	2,614	2,865	3,260
Debt	1,688	1,620	1,729	1,587	2,775
Net deferred tax	113	119	229	254	264
Total Liabilities	**3,678**	**4,097**	**4,571**	**4,706**	**6,299**
Application of Funds:					
Gross Block	3,123	3,310	3,375	3,964	4,209
Accumulated Depn.	1,141	1,232	1,353	1,519	1,710
Net Fixed Assets	1,983	2,078	2,023	2,445	2,499
Capital WIP	105	92	82	40	164
Investments	22	23	150	151	151
Inventories	900	1,167	1,483	1,556	2,731
Sundry Debtors	531	508	695	740	863
Cash & Liquid Investments	456	609	539	539	336
Loans & Advances	659	783	415	270	655
Other Current Assets	0	0	0	0	0
Total Current Assets	2,546	3,066	3,131	3,104	4,584
Sundry creditors	493	560	179	231	556
Other liabilities & provisions	485	601	635	801	543
Total Current Liabilities	978	1,161	814	1,032	1,100
Net Current Assets	1,568	1,905	2,317	2,072	3,485
Total Assets	**3,678**	**4,097**	**4,571**	**4,706**	**6,299**

Source: Company, Centrum Research

Exhibit 58: Cash Flow

Y/E Mar(Rs mn)	FY09	FY10	FY11	FY12	FY13
PBT & extraord. Items	554	864	683	512	746
Add: Depreciation	166	184	164	176	196
Add: Interest	170	109	98	142	150
Add: Others	40	29	0	1	2
Operating profit before WC changes	930	1,186	945	831	1,095
Trade & other receivables	65	41	(134)	(49)	(288)
Inventories	41	(267)	(316)	(73)	(1,176)
Trade payables	7	57	12	138	86
Net change - WC	112	(169)	(438)	16	(1,378)
Direct taxes	(174)	(263)	(234)	(143)	(254)
Net cash from operating activities	**869**	**754**	**273**	**705**	**(537)**
Capital expenditure	(182)	(295)	(297)	(408)	(595)
Others	(22)	1	(127)	(1)	(0)
Net Cash from investing activities	**(204)**	**(295)**	**(424)**	**(409)**	**(595)**
Net free cash flows	**665**	**459**	**(151)**	**297**	**(1,131)**
Issue of share capital	-	-	-	-	-
Debt change	(293)	(67)	268	(120)	1,219
Dividend paid	(55)	(129)	(92)	(38)	(137)
Interest paid	(170)	(109)	(95)	(138)	(154)
Net cash from financing activities	**(518)**	**(305)**	**81**	**(296)**	**928**
Net change in cash	147	154	(70)	0	(203)

Source: Company, Centrum Research

Financials

Exhibit 59: Income Statement

Y/E Mar(Rs mn)	FY14	FY15	FY16E	FY17E	FY18E
Net Sales	**8,921**	**10,211**	**10,964**	**12,083**	**13,281**
Raw Materials	5,601	5,775	6,269	6,919	7,445
as % of sales	*62.8*	*56.6*	*57.2*	*57.3*	*56.1*
Employee	520	594	677	765	872
as % of sales	*5.8*	*5.8*	*6.2*	*6.3*	*6.6*
Others	2,227	2,884	2,953	3,159	3,543
as % of sales	*25.0*	*28.2*	*26.9*	*26.1*	*26.7*
EBITDA	**573**	**959**	**1,066**	**1,241**	**1,421**
EBITDA margin (%)	*6.4*	*9.4*	*9.7*	*10.3*	*10.7*
Depreciation	225	431	390	405	425
EBIT	348	528	676	836	996
Interest	214	220	245	250	240
Other income	54	24	25	20	20
PBT	188	332	456	606	776
Tax	68	120	165	212	264
Tax rate (%)	*36.3*	*36.0*	*36.3*	*35.0*	*34.0*
Adj PAT Pre-minority	120	212	290	394	512
Adj PAT (post minority)	**120**	**212**	**290**	**394**	**512**
EO items	-	-	-	-	-
Reported PAT (post minority)	120	212	290	394	512

Source: Company, Centrum Research Estimates

Exhibit 60: Key Ratios

Y/E Mar(Rs mn)	FY14	FY15	FY16E	FY17E	FY18E
Growth Metrics (%)					
Net Sales	*(2.6)*	*14.5*	*7.4*	*10.2*	*9.9*
EBITDA	*(46.3)*	*67.4*	*11.1*	*16.4*	*14.5*
Adj PAT	*(76.4)*	*77.5*	*36.7*	*35.6*	*30.0*
Profitability Metrics (%)					
EBIT margin	*3.9*	*5.2*	*6.2*	*6.9*	*7.5*
PBT margin	*2.1*	*3.3*	*4.2*	*5.0*	*5.8*
Adj PAT margin	*1.3*	*2.1*	*2.6*	*3.3*	*3.9*
Return Ratios (%)					
RoE	*3.6*	*6.4*	*8.5*	*10.7*	*12.8*
RoCE	*3.5*	*5.2*	*6.3*	*7.7*	*9.0*
RoIC	*3.8*	*5.6*	*6.8*	*8.3*	*9.7*
Turnover ratios (No of days)					
Inventory period	77	89	91	89	89
Collection period	40	46	47	47	46
Creditors period	19	21	19	19	19
Cash conversion cycle	98	114	120	117	116
Solvency Ratio (x)					
D/E	0.8	0.9	0.9	0.8	0.7
Net D/E	0.7	0.8	0.8	0.7	0.7
Interest coverage	1.6	2.4	2.8	3.3	4.1
Current ratio	3.6	3.5	4.2	3.9	4.0
Dividend					
DPS (Rs)	2.5	5.0	4.6	6.2	8.1
Dividend yield (%)	*1.9*	*3.8*	*3.5*	*4.7*	*6.1*
Dividend pay-out (%)	*38.8*	*45.0*	*29.4*	*29.4*	*29.4*
Per share (Rs)					
Basic EPS- reported	7.5	13.4	18.3	24.8	32.2
Basis EPS- adjusted	7.5	13.4	18.3	24.8	32.2
FDEPS- reported	7.5	13.4	18.3	24.8	32.2
FDEPS- adjusted	7.5	13.4	18.3	24.8	32.2
CEPS	21.7	40.5	42.8	50.3	59.0
BVPS	209.9	209.2	222.1	239.6	262.3
Valuations Metrics (x)					
P/E	17.5	9.8	7.2	5.3	4.1
Price/Cash earnings	6.1	3.2	3.1	2.6	2.2
Price/BV	0.6	0.6	0.6	0.5	0.5
EV/Sales	0.5	0.5	0.4	0.4	0.4
EV/EBITDA	7.4	5.0	4.5	3.7	3.3

Source: Company, Centrum Research Estimates

Exhibit 61: Balance Sheet

Y/E Mar(Rs mn)	FY14	FY15	FY16E	FY17E	FY18E
Sources of Funds:					
Share Capital	159	159	159	159	159
Reserves	3,174	3,163	3,367	3,645	4,007
Shareholders Fund	3,334	3,322	3,527	3,804	4,166
Debt	2,649	2,997	3,197	2,997	3,097
Net deferred tax	297	258	258	258	258
Total Liabilities	**6,280**	**6,577**	**6,982**	**7,060**	**7,521**
Application of Funds:					
Gross Block	5,269	5,666	5,816	6,016	6,616
Accumulated Depn	1,925	2,545	2,935	3,340	3,765
Net Fixed Assets	3,345	3,121	2,881	2,676	2,851
Capital WIP	210	5	55	205	55
Investments	151	146	146	146	146
Inventories	1,875	2,501	2,741	2,960	3,254
Sundry Debtors	973	1,289	1,425	1,547	1,660
Cash & Liquid Investments	261	281	392	324	379
Loans & Advances	470	560	548	604	664
Other Current Assets	0	0	0	0	0
Total Current Assets	3,579	4,631	5,107	5,435	5,957
Sundry creditors	464	587	570	628	691
Other liabilities & provisions	540	738	636	773	797
Total Current Liabilities	1,004	1,325	1,206	1,402	1,487
Net Current Assets	2,575	3,306	3,901	4,034	4,470
Total Assets	**6,280**	**6,577**	**6,982**	**7,060**	**7,521**

Source: Company, Centrum Research Estimates

Exhibit 62: Cash Flow

Y/E Mar(Rs mn)	FY14	FY15	FY16E	FY17E	FY18E
PBT & extraord. Items	188	332	456	606	776
Add: Depreciation	225	431	390	405	425
Add: Interest	214	220	245	250	240
Add: Others	3	6	(25)	(20)	(20)
Operating profit before WC changes	630	989	1,066	1,241	1,421
Trade & other receivables	(106)	(425)	(125)	(177)	(173)
Inventories	856	(626)	(240)	(219)	(293)
Trade payables	(99)	185	(119)	196	86
Net change - WC	651	(866)	(483)	(201)	(381)
Direct taxes	(67)	(47)	(165)	(212)	(264)
Net cash from operating activities	**1,213**	**76**	**417**	**828**	**776**
Capital expenditure	(906)	(218)	(200)	(350)	(450)
Others	-	5	25	20	20
Net Cash from investing activities	**(906)**	**(213)**	**(175)**	**(330)**	**(430)**
Net free cash flows	**307**	**(138)**	**242**	**498**	**346**
Issue of share capital	-	-	-	-	-
Debt change	(101)	424	200	(200)	100
Dividend paid	(65)	(47)	(85)	(116)	(151)
Interest paid	(216)	(220)	(245)	(250)	(240)
Net cash from financing activities	**(382)**	**157**	**(130)**	**(566)**	**(291)**
Net change in cash	(75)	20	111	(68)	55

Source: Company, Centrum Research Estimates

Notes

Notes

Notes

Appendix A

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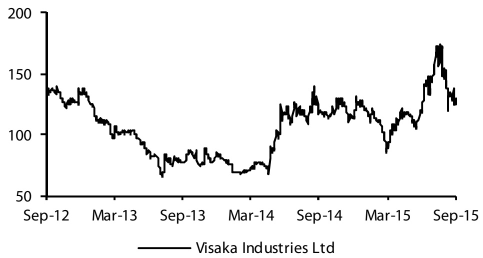

Source: Bloomberg, Centrum Research

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