

## Strong show continues

Visaka Industries (VIL) posted robust Q4FY17 results with EBITDA/ PAT increasing 10%/12% YoY, as gross margins expanded and cost controls tightened in its Building Material (BP) segment. Results were also driven by the Cement boards/panels (CBP) segment gaining steady market leadership in the domestic market, offsetting the impact of poor export demand and near term low utilisation in the yarn segment. For FY17, the company posted EBITDA/PAT growth of 25%/76% (adj for non-recurring write-offs). VIL also lessened freed-up working capital, which along with strong operational results reduced D:E to 0.5x in FY17 vs. 0.8x a year ago. AOCF almost doubled YoY to Rs1.4bn. We remain confident of strong performance in the Asbestos Cement Sheet (ACS) segment, and margin expansion in the CBP and yarn segments. In our view, strong operating cashflow during FY18/19 can fully fund VIL's planned CBP expansion as well as further reduce leverage. We re-iterate BUY and revise our TP upwards to Rs428.

- **Building product - margin expansion continues on strong cost control:** VIL's BP segment's EBITDA rose 30% YoY buoyed by strong margin expansion in the ACS segment which more than offset ACS volume decline during Q4FY17 (demonetisation drag). Margins increased on operational efficiencies, lower raw material cost and savings from overhead reductions during the quarter and year. The CBP segment's strong leadership presence in the domestic market offset weakness in export sales, thus driving ~10% YoY CBP volume growth in Q4FY17 and 1% YoY growth in FY17. BP segment's margin expansion was moderated by higher promotional expenses in the CBP segment, which is expected to boost domestic sales going ahead.
- **Yarn segment – short term blip in a steady margin business:** In Q4FY17, segmental revenue/EBITDA fell 11%/69% YoY, as demonetisation dragged down sales and the recent 26% capacity expansion (in Q3FY17) remained un-utilised while operating costs piled up, leading to a sharp 927bps YoY margin contraction to 5.1% in Q4FY17. Thus, it was the BP segment's profit, which drove up the company's total EBITDA/PAT to 10%/12% YoY in Q4FY17. Its FY17 EBITDA/PAT rose 25%/76% YoY (adjusted non-recurring write-off of Rs46mn/Rs101mn in FY16/17).
- **Working capital improvement and debt reduction:** In addition to delivering strong profit growth during FY17, VIL also stemmed its inventory days to 74 days (down 10 days YoY and the lowest in the past five years). This helped reduce the cash conversion cycle by 11 days YoY to 104days. Management guided for further improvement in its cash conversion through reduction in debtor days over the next two years. Consequently, AOCF almost doubled YoY to Rs1.4bn in FY17 and resulted in net D:E declining to 0.5x in FY17 vs 0.8x in FY16. VIL is working towards adding another 72K MT CBP capacity expansion in the north by early FY19 with a capex of Rs700mn. This capex can be met with internal accruals thus driving further debt reduction going forward.
- **Strong outlook, reiterate BUY:** We broadly maintain our EBITDA estimates for FY18/19E as we expect good domestic demand for both the ACS and CBP segments and production ramp-up in the yarn segment. We increase our FY18/19E PAT estimates by 7%/4% on lower interest cost driven by higher-than-estimated debt reduction and better working capital management. We retain BUY on VIL with a higher TP of Rs428 (from Rs300 earlier). We move to cash-flow based valuation from P/E based earlier. We expect VIL to deliver 5-year avg AOCF of Rs681mn during FY15-19E. We apply target AOCF/EV yield of 8% (20% discount to its historical average yield of 6.6%). Our TP implies 10.9x P/E and 5.8x EV/EBITDA on our FY19E estimates. Key downside risks: poor monsoon in FY18, lower-than-estimated demand for ACS and CBP and higher-than-estimated increase in fibre costs.

Y/E Mar (Rs mn)	Q4FY17	Q4FY16	YoY (%)	Q3FY17	QoQ (%)	Q4FY17E	Variance %
Net Sales	2,547	2,757	(7.6)	2,024	25.8	2,450	3.9
Op. cost	2,244	2,481	(9.6)	1,808	24.1	2,162	3.8
<b>EBITDA</b>	<b>303</b>	<b>276</b>	<b>9.7</b>	<b>216</b>	<b>40.3</b>	<b>288</b>	<b>5.2</b>
EBITDA margin (%)	11.9	10.0	188 bps	10.7	123 bps	11.8	14 bps
Depreciation	91	83	9.5	87	4.1	93	(2.2)
Interest	51	53	(3.8)	47	7.5	50	1.3
Taxes paid	66	56	19.1	32	108.4	57	17.2
<b>Adjusted PAT</b>	<b>100</b>	<b>89</b>	<b>12.1</b>	<b>54</b>	<b>85.5</b>	<b>92</b>	<b>8.2</b>

Source: Company, Centrum Research Estimate

Y/E Mar (Rs mn)	Rev.	YoY (%)	EBITDA	EBITDA (%)	Adj PAT	YoY (%)	FDEPS (Rs)	RoE (%)	RoCE (%)	P/E (x)	EV/EBITDA (x)
FY15	10,211	14.5	959	9.4	212	77.5	13.4	6.4	5.3	8.3	5.0
FY16	10,049	(1.6)	997	9.9	289	36.2	18.2	8.5	5.7	6.8	4.8
FY17P	9,667	(3.8)	1,249	12.9	509	75.9	32.1	13.9	8.4	5.7	4.0
FY18E	10,665	10.3	1,320	12.4	540	6.1	34.0	13.2	9.5	9.8	5.6
FY19E	11,884	11.4	1,487	12.5	625	15.7	39.4	13.7	10.3	8.5	4.9

Source: Company, Centrum Research Estimates

Target Price	Rs428	Key Data		
CMP*	Rs335	Bloomberg Code	VSKI IN	
Upside	28%	Curr Shares O/S (mn)	15.9	
Previous Target	Rs300	Diluted Shares O/S(mn)	15.9	
Previous Rating	Buy	Mkt Cap (Rs bn/USDmn)	5.3/82.6	
Price Performance (%)*		52 Wk H / L (Rs)	354/116.8	
		5 Year H / L (Rs)	354/65.8	
VSKI IN	6.3	183.7	Daily Vol. (3M NSE Avg.)	114511
Nifty	1.3	9.0	20.4	

\*as on 8 May 2017; Source: Bloomberg, Centrum Research

### Shareholding pattern (%)\*

	Mar-17	Dec-16	Sep-16	Jun-16
Promoter	41.2	37.6	37.6	37.5
FIIIs	3.6	3.6	2.9	2.9
DIIIs	0.3	0.4	0.5	0.7
Others	54.9	58.3	59.2	58.9

Source: BSE, \*as on 8 May 2017

### Segmental operational performance

	Q4FY17	Q4FY16	YoY (%)	Q3FY17	QoQ (%)
<b>Building products (BP: ACS+ CBP)</b>					
BP Sales vol (K-MT)	219	230	(5.1)	158	37.9
Rev (Rs mn)	2,138	2,293	(6.8)	1,573	35.9
EBITDA (Rs mn)	281	217	29.5	173	62.6
OPM (%)	13.1	9.5	368bps	11.0	216 bps
<b>Textiles/ Yarn Spinning</b>					
Yarn Sales vol K-(MT)	2.1	2.5	(15.0)	2.4	(9.2)
Yarn Rev (Rs mn)	396	446	(11.1)	436	(9.2)
Yarn EBITDA (Rs mn)	20	64	(68.5)	42	(51.6)
Yarn OPM (%)	5.1	14.3	(927) bps	9.5	(444) bps

Source: Company, Centrum Research

### Earning Revisions summary

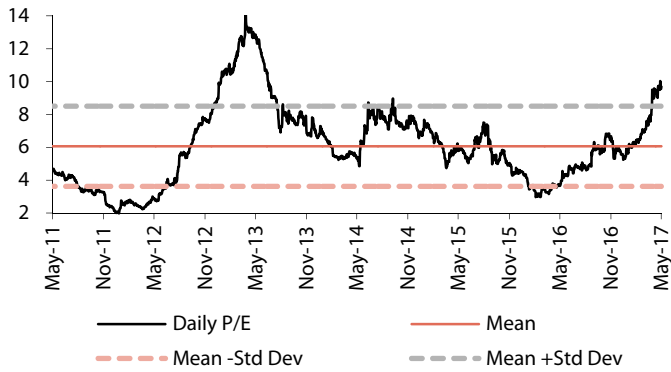
Particulars (Rs mn)	FY18E			FY19E		
	New	Old	Chg (%)	New	Old	Chg (%)
Sales	10,665	10,597	0.6	11,884	11,709	1.5
EBITDA	1,320	1,322	(0.1)	1,487	1,501	(0.9)
Ebitda margin (%)	12.4	12.5		12.5	12.8	
Adj PAT	540	504	7.1	625	602	3.8

Source: Centrum Research Estimates

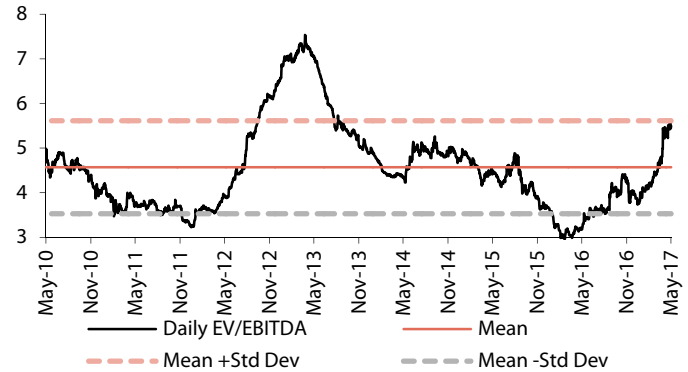
Rajesh Kumar Ravi, rajesh.ravi@centrum.co.in; 91 22 4215 9643  
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## Valuation, peer comparison and key assumptions

**Exhibit 1: 1-yr forward P/E chart**



**Exhibit 2: 1-yr forward EV/EBITDA chart**



Source: Bloomberg, Company, Centrum Research Estimates

Source: Bloomberg, Company, Centrum Research Estimates

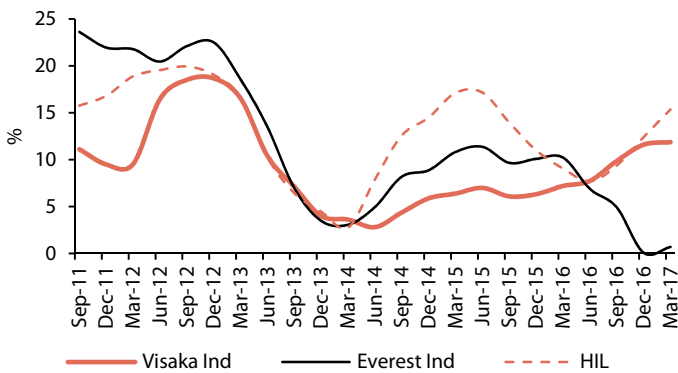
**Exhibit 3: Comparative valuations of VIL with Everest Industries**

Company	Mkt Cap (Rs mn)	CAGR FY17-19E (%)			EBITDA margin (%)			RoCE (%)			RoE (%)			P/E (x)			EV/EBITDA (x)		
		Rev.	EBITDA	PAT	FY17	FY18E	FY19E	FY17	FY18E	FY19E	FY17	FY18E	FY19E	FY17	FY18E	FY19E	FY17	FY18E	FY19E
VIL	5,320	10.9	9.1	10.8	12.9	12.4	12.5	8.4	9.5	10.3	13.9	13.2	13.7	5.7	9.8	8.5	4.0	5.6	4.9
EVL	4,040	9.3	59.3	487.4	3.1	5.6	6.6	3.1	6.5	8.7	0.4	7.7	11.1	305.6	14.6	9.4	15.3	7.4	5.7

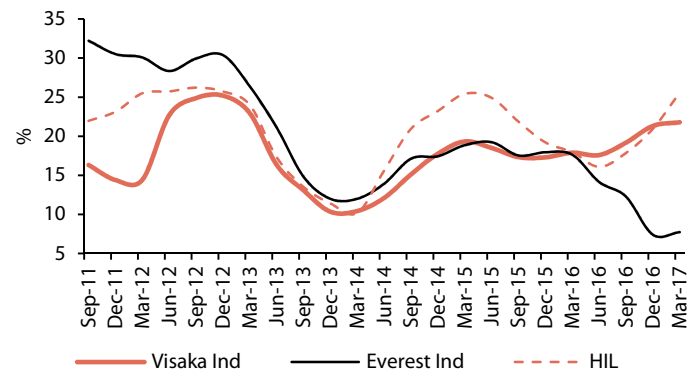
Source: Company, Centrum Research Estimates

VIL has shown consistent improvement in its return ratios and asset turnover over the last three years amid volatile performance by its peers. Over the last nine months, VIL's return profile has outpaced its peers' return ratios. We expect this trend to continue on VIL's continued market share gain across the ACS and CBP segments.

**Exhibit 4: RoE (TTM) comparison of Visaka with its peers**



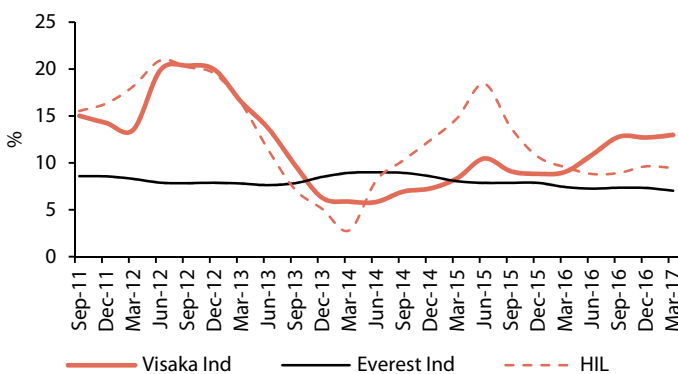
**Exhibit 5: Cash RoE (TTM) comparison**



Source: Company, Centrum Research

Source: Company, Centrum Research

**Exhibit 6: Pre-tax RoCE (TTM) comparison**



Source: Company, Centrum Research

## Key assumptions & cash flow based valuation

### Exhibit 7: Key operational summary and assumptions – Building products and Yarn segments

Particulars	FY14	FY15	FY16	FY17	FY18E	FY19E
ACS Installed Capacity (K MT)	752.0	802.0	802.0	802.0	802.0	802.0
CBP Installed Capacity (K MT)	129.8	129.8	129.8	129.8	129.8	201.8
<b>Building Product (ACS +CBP)</b>						
Building product sales volume (K MT)	698	806	797	787	841	896
Blended Sales volume YoY (%)	(4.5)	15.5	(1.1)	(1.2)	6.8	6.5
Blended NSR YoY (%)	(0.9)	2.4	(0.8)	(3.4)	1.6	2.5
Segmental Revenue (Rs mn)	7,077	8,363	8,203	7,832	8,500	9,278
Segmental EBITDA (Rs mn)	344	726	740	1,074	1,057	1,152
Segmental OPM (%)	4.9	8.7	9.0	13.7	12.4	12.4
<b>Textiles/ Yarn Spinning</b>						
No of Twin-jet machines (Nos.)	31.0	31.0	33.0	41.0	41.0	41.0
Total Sales vol (K MT)	8.5	9.0	9.2	9.5	11.3	13.6
Total Sales vol YoY (%)	3.3	5.1	2.7	2.8	20.0	20.0
Blended NSR YoY (%)	4.6	(4.1)	(7.0)	(0.9)	-	1.0
Segmental Revenue (Rs mn)	1,781	1,796	1,715	1,746	2,096	2,540
Segmental EBITDA (Rs mn)	283	245	284	198	283	356
Segmental OPM (%)	15.9	13.6	16.6	11.3	13.5	14.0

Source: Company, Centrum Research Estimates

We retain BUY on the stock, with a higher TP of Rs428. We move to cash-flow based valuation from P/E based earlier. We expect VIL to deliver 5-year avg AOCF of Rs681mn during FY15-19E. During FY17/18/19E, we estimate VIL to deliver AOCF of Rs1.4bn/Rs0.8bn/Rs0.7bn respectively (higher than the five year mean that we factored in for our valuation). We apply target AOCF/EV yield of 8% (we apply a 20% discount to its historical average yield of 6.6%). Our TP implies 10.9x P/E and 5.8x EV/EBITDA on our FY19E estimates.

### Exhibit 8: Cash flow-based valuation

<b>Average AOCF/EV Yield - % - FY13-17</b>	<b>6.6</b>
Discount assigned - %	20
Target AOCF/EV Yield - %	7.9
Implied EV/5 yr AOCF Multiple (x)	12.6
5- yr avg. AOCF (Rs mn) - FY15-19E	681
EV (Rs mn)	8,600
Minus: Net Cash – FY19E	1,797
Fair value mkt cap	6,803
No. of shares (mn)	15.9
<b>Fair Value/share (Rs)</b>	<b>428</b>

Source: Company, Centrum Research Estimates

## Quarterly financial trend

### Exhibit 9: Quarterly financial trend

Y/E Mar (Rs mn)	Q1FY16	Q2FY16	Q3FY16	Q4FY16	Q1FY17	Q2FY17	Q3FY17	Q4FY17
<b>Net Sales</b>	<b>3,215</b>	<b>1,923</b>	<b>2,154</b>	<b>2,757</b>	<b>3,092</b>	<b>2,004</b>	<b>2,024</b>	<b>2,547</b>
Total Expenditure	2,856	1,771	1,989	2,481	2,710	1,740	1,808	2,244
Raw Materials	1,888	966	1,242	1,620	1,800	853	965	1,337
Employee	185	154	167	173	202	183	184	206
Others	782	651	580	687	708	705	659	700
<b>EBITDA</b>	<b>359</b>	<b>152</b>	<b>165</b>	<b>276</b>	<b>383</b>	<b>264</b>	<b>216</b>	<b>303</b>
Depreciation	95	95	90	83	81	81	87	91
EBIT	264	57	75	193	301	183	129	212
Interest	55	48	57	53	48	35	47	51
Other Income	13	6	5	4	5	5	4	5
PBT	222	14	22	145	258	154	86	166
Taxes	86	6	11	56	92	66	32	66
Exceptional inc/ (exp)	-	-	-	-	-	-	-	-
Reported PAT (post minority)	136	8	11	89	166	88	54	100
<b>Adjusted PAT</b>	<b>136</b>	<b>8</b>	<b>11</b>	<b>89</b>	<b>166</b>	<b>88</b>	<b>54</b>	<b>100</b>
<b>YoY Growth (%)</b>								
Revenue	2.9	(8.2)	0.6	(3.3)	(3.8)	4.2	(6.0)	(7.6)
EBITDA	5.1	(21.6)	6.8	2.8	6.5	73.7	31.1	9.7
Adj PAT	21.6	(78.9)	326.5	46.8	22.0	1,024.9	386.4	12.1
<b>Margins (%)</b>								
EBITDA	11.2	7.9	7.6	10.0	12.4	13.2	10.7	11.9
PBT	6.9	0.7	1.0	5.3	8.3	7.7	4.2	6.5
Adj PAT	4.2	0.4	0.5	3.2	5.4	4.4	2.7	3.9
<b>Operational Trends</b>								
<b>Building products</b>								
Revenue (Rs mn)	2,735	1,477	1,674	2,293	2,640	1,476	1,573	2,138
EBITDA (Rs mn)	291	85	111	217	329	210	173	281
OPM (%)	10.6	5.7	6.6	9.5	12.5	14.2	11.0	13.1
Total Vol (K MT)	260.0	139.8	166.7	230.3	264.3	145.8	158.5	218.6
YoY (%)	3.7	(6.2)	(1.9)	(2.4)	1.7	4.3	(4.9)	(5.1)
Blended NSR (Rs/MT)	10,521	10,572	10,043	9,956	9,988	10,129	9,928	9,800
YoY (%)	0.4	(1.6)	(1.8)	(0.9)	(5.1)	(4.2)	(1.2)	(1.6)
<b>Synthetic Yarn</b>								
Revenue (Rs mn)	443	419	409	446	437	477	436	396
EBITDA (Rs mn)	81	73	58	64	58	60	42	20
OPM (%)	18.3	17.5	14.3	14.3	13.3	12.5	9.5	5.1
Yarn Share in total EBITDA (%)	21.8	46.4	34.5	22.8	15.0	22.1	19.4	6.7
Sales volume (K MT)	2.3	2.1	2.2	2.5	2.4	2.5	2.4	2.1
YoY (%)	(2.8)	(6.2)	15.2	6.5	5.8	17.6	5.3	(15.0)
NSR (Rs/Kg)	192	195	183	177	179	189	185	185
YoY (%)	(4.9)	(7.6)	(8.8)	(6.1)	(6.6)	(3.0)	1.3	4.6

Source: Company, Centrum Research, Segmental EBITDA includes other income

## Financials

### Exhibit 10: Income Statement

Y/E March (Rsmn)	FY15	FY16	FY17	FY18E	FY19E
<b>Revenues</b>	<b>10,211</b>	<b>10,049</b>	<b>9,667</b>	<b>10,665</b>	<b>11,884</b>
Materials cost	5,775	5,716	4,940	5,567	6,299
% of revenues	56.6	56.9	51.1	52.2	53.0
Employee Cost	594	680	774	890	1,025
% of revenues	5.8	6.8	8.0	8.3	8.6
Others	2,884	2,656	2,705	2,888	3,075
% of revenues	28.2	26.4	28.0	27.1	25.9
<b>EBITDA</b>	<b>959</b>	<b>997</b>	<b>1,249</b>	<b>1,320</b>	<b>1,487</b>
EBITDA Margins (%)	9.4	9.9	12.9	12.4	12.5
Depreciation & Amortisation	431	363	341	379	419
EBIT	<b>528</b>	<b>634</b>	<b>908</b>	<b>940</b>	<b>1,067</b>
Interest expenses	220	213	180	142	134
<b>PBT from operations</b>	<b>308</b>	<b>421</b>	<b>727</b>	<b>798</b>	<b>933</b>
Other Income	24	27	38	20	14
Exceptional loss/(gain)	-	(45)	(101)	-	-
PBT	332	404	664	818	947
Taxes	120	159	256	278	322
Effective tax rate (%)	36.0	39.5	38.5	34.0	34.0
Net Profit	212	244	408	540	625
Reported Net Profit	212	244	408	540	625
<b>Adj Net Profit</b>	<b>212</b>	<b>289</b>	<b>509</b>	<b>540</b>	<b>625</b>

Source: Company, Centrum Research Estimates

### Exhibit 11: Key Ratios

Y/E March	FY15	FY16	FY17P	FY18E	FY19E
<b>Growth ratios (%)</b>					
Revenues	14.5	(1.6)	(3.8)	10.3	11.4
EBITDA	67.4	4.0	25.2	5.7	12.7
Adj Net Profit	77.5	36.2	75.9	6.1	15.7
<b>Margin ratios (%)</b>					
EBITDA Margin	9.4	9.9	12.9	12.4	12.5
PBT from operations Margin	3.0	4.2	7.5	7.5	7.9
Adj PAT Margin	2.1	2.9	5.3	5.1	5.3
<b>Return Ratios (%)</b>					
RoE	6.4	8.5	13.9	13.2	13.7
RoCE	5.3	5.7	8.4	9.5	10.3
RoIC	5.2	5.9	8.8	9.7	10.5
<b>Turnover Ratios (days)</b>					
Gross block turnover (x)	1.9	1.7	1.6	1.6	1.7
Debtors	46	53	59	55	54
Inventory	89	84	74	73	74
Creditors	21	23	29	28	28
Cash conversion cycle	114	115	104	100	99
<b>Solvency Ratio</b>					
Net debt-equity	0.9	0.8	0.5	0.5	0.4
Debt-equity	1.0	1.0	0.6	0.5	0.4
Interest coverage ratio	2.4	3.0	5.0	6.6	8.0
Gross debt/EBITDA	3.5	3.5	2.0	1.7	1.4
Current Ratio	4.6	5.3	3.9	3.5	3.5
<b>Per Share (Rs)</b>					
Adjusted EPS	13.4	18.2	32.1	34.0	39.4
BVPS	209.2	218.5	244.2	271.2	302.3
CEPS	40.5	41.1	53.5	57.9	65.8
DPS	5.0	5.0	6.0	6.0	7.0
Dividend payout %	45.0	39.1	27.5	20.8	20.9
<b>Valuations (x)(Avg Mkt Cap)</b>					
P/E (adjusted)	8.3	6.8	5.7	9.8	8.5
P/BV	0.5	0.6	0.7	1.2	1.1
EV/EBITDA	5.0	4.8	4.0	5.6	4.9
Dividend yield %	4.5	4.0	3.3	1.8	2.1
5 Yr Avg AOCF/EV yield %	3.8	6.0	8.9	10.0	9.6

Source: Company, Centrum Research Estimates

### Exhibit 12: Balance Sheet

Y/E March (Rsmn)	FY15	FY16	FY17P	FY18E	FY19E
Equity Share Capital	159	159	159	159	159
Reserves & surplus	3,163	3,311	3,719	4,147	4,642
<b>Total Shareholders' Fund</b>	<b>3,322</b>	<b>3,471</b>	<b>3,879</b>	<b>4,307</b>	<b>4,801</b>
Total Debt	3,309	3,530	2,499	2,234	2,023
Def tax liab. (net)	258	222	213	213	213
<b>Total Liabilities</b>	<b>6,889</b>	<b>7,222</b>	<b>6,591</b>	<b>6,754</b>	<b>7,037</b>
Gross Block	5,666	5,843	6,617	6,717	7,567
Less:- Accumulated Depreciation	2,545	2,902	3,243	3,622	4,041
Net Block	3,121	2,941	3,374	3,095	3,526
Capital WIP	5	41	11	511	11
Net Fixed assets	3,126	2,982	3,385	3,606	3,537
Investments	146	101	-	-	-
Inventories	2,501	2,320	1,960	2,133	2,401
Sundry Debtors	1,289	1,470	1,562	1,600	1,753
Cash & bank balances	281	750	383	183	226
Loans & Advances	560	554	400	480	511
Other Assets	-	-	-	-	-
Total current assets	4,631	5,094	4,305	4,396	4,891
Trade payables	587	625	763	821	927
Other current liabilities	309	278	276	352	380
Provisions	117	52	60	75	83
Net current assets	3,618	4,139	3,206	3,148	3,500
<b>Total</b>	<b>6,889</b>	<b>7,222</b>	<b>6,591</b>	<b>6,754</b>	<b>7,037</b>

Source: Company, Centrum Research Estimates

### Exhibit 13: Cash Flow

Y/E March (Rsmn)	FY15	FY16	FY17P	FY18E	FY19E
<b>Op profit before WC changes</b>	<b>942</b>	<b>802</b>	<b>1,085</b>	<b>1,041</b>	<b>1,165</b>
Working capital changes	(866)	90	484	(142)	(309)
<b>Cash from Operations</b>	<b>76</b>	<b>892</b>	<b>1,569</b>	<b>900</b>	<b>855</b>
<b>Adj. OCF (OCF-Interest)</b>	<b>(144)</b>	<b>683</b>	<b>1,389</b>	<b>758</b>	<b>721</b>
Net capex	(218)	(284)	(662)	(600)	(350)
Adj. FCF (AOCF-Capex)	<b>(362)</b>	<b>399</b>	<b>727</b>	<b>158</b>	<b>371</b>
<b>Cash from investing</b>	<b>(213)</b>	<b>(284)</b>	<b>(624)</b>	<b>(580)</b>	<b>(336)</b>
<b>Cash from financing</b>	<b>157</b>	<b>(139)</b>	<b>(1,211)</b>	<b>(519)</b>	<b>(476)</b>
Net change in cash	20	469	(266)	(200)	43

Source: Company, Centrum Research Estimates

## Appendix A

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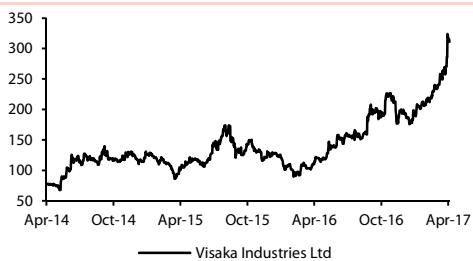
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### Visaka Industries price chart



Source: Bloomberg, Centrum Research

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