

Institutional Equities
 India Research

Siyaram Silk Mills

RESULT REVIEW

 Bloomberg: SIYA IN
 Reuters: SIYR.BO

BUY

Results in line, Expect Slower Margin recovery; Reiterate "BUY" on Attractive Valuations

Siyaram Silk Mills (SSML) sales grew 8% while EBITDA and net income declined by 9% and 24% YoY respectively during Q4FY13. For the year FY13; sales grew 14% while EBITDA and net income declined 5% and 3% respectively on subdued demand.

Revenue Growth: The Company's top-line grew 8% YoY to Rs. 2,896 mn (our expectations Rs. 2,828 mn) during Q4FY13, while sequential growth was registered at 4%. Amid stable realizations on challenging consumer behavior, revenue growth is largely attributable to well maintained volume thrust.

Operating margins under pressure: The Company's EBITDA declined 9% YoY to Rs. 298 mn (our expectations Rs. 302 mn) during Q4FY13 on account of higher staff and sales & promotional expenses. EBITDA margins for the quarter slipped 194bps YoY to 10.3%. Net Income for Q4FY13 declined 23.8% YoY to Rs. 130 mn (our expectations Rs. 137 mn) on higher tax payments with effective tax rate of 39% for Q4FY13.

SSMLs total capex plan of 20 MMPA fabrics and 7.2 lac pcs per annum of readymade garments, ~10MMPA and ~1.8 lac pcs capacity has been installed while remaining expansion is slowed down keeping in view of the subdued consumer demand. Also, during Q4FY13, the Company added ~25 stores to reach approx. 165 stores. SSML is looking to expand its retail stores with ~90 stores additions in FY14 while aiming ~500 stores in the next 4-5 years.

We revised our sales by 0.5% and 1.8% and EBITDA marginally by (1.2%) and 0.1% for FY14E and FY15E respectively. Expected net income has been revised by (0.9%) and 3.3% for FY14E and FY15E respectively, factoring in higher tax rate going forward.

Outlook & Valuation

SSML's revenue and net income are expected to grow at a CAGR of 18% and 22%, respectively over FY13-15E. At CMP of Rs. 261, the stock trades attractively at 3.0x and 3.3x FY15E EPS and EV/EBITDA respectively. We reiterate our "BUY" recommendation with revised target of Rs. 390 (Rs. 344), valuing at 4.5x FY15E EPS and 4.0x FY15E EV/EBITDA, which has a potential upside of 49%.

Key Financials

Y/E Mar (Rs. mn)	FY2011	FY2012	FY2013	FY2014E	FY2015E
Net Sales	8,548	9,155	10,413	12,250	14,492
EBIDTA	1,049	1,165	1,103	1,390	1,710
Net Profit	575	567	550	638	812
EPS (Rs)	61.4	60.5	58.7	68.1	86.7
PER (x)	4.3	4.3	4.5	3.8	3.0
EV/EBITDA (x)	5.0	4.1	4.6	3.9	3.3

Source: Company, Karvy Institutional Research

Recommendation

CMP:	Rs261
Target Price:	Rs390
Previous Target Price	Rs344
Upside (%)	49%

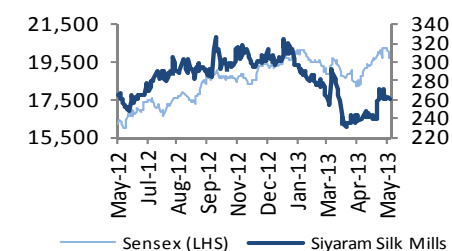
Stock Information

Market Cap. (Rs bn / US\$ mn)	02/44
52-week High/Low (Rs)	354/228
3m ADV (Rs mn /US\$ mn)	01/0.0
Beta	1.0
Sensex/ Nifty	20,161/6,111
Share outstanding (mn)	09

Stock Performance (%)

	1M	3M	12M	YTD
Absolute	6.4	(1.1)	(2.7)	(13.6)
Rel. to Sensex	1.8	(7.5)	(20.8)	(16.7)

Performance



Source: Bloomberg

Earnings Revision

	FY13E	FY14E
Sales	↑0.5	↑1.8
EBITDA	↓1.2	↑0.5
PAT	↓0.9	↑3.3

Source: Karvy Institutional Research

Analysts Contact

Rahul Singh
 +91-40-44857911
 rahulsingh@karvy.com

Siyaram Silk Mills
Exhibit 1: Quarterly Performance

(Rs Mn)	Q4FY12	Q3FY13	Q4FY13	QoQ (%)	YoY (%)
Total Op. Income	2,679	2,788	2,896	3.9	8.1
Operating Costs	2,352	2,476	2,599	4.9	10.5
EBIDTA	327	312	298	(4.6)	(9.0)
EBIDTA Margin (%)	12.2	11.2	10.3	(0.9)	(1.9)
Other Income	28	33	28	(16.9)	(1.8)
Interest	65	79	51	(35.9)	(22.1)
Depreciation	58	56	61	9.3	5.4
Profit Before Tax	232	210	213	1.5	(8.1)
Tax	62	72	84	16.1	35.2
Tax Rate (%)	26.7	34.3	39.2		
Rep. PAT	170	138	130	(6.1)	(23.8)

Source: Company, Karvy Institutional Research

Exhibit 2: Variance from Our Earlier Estimates

(Rs Mn)	Previous Estimates		Current Estimates		Variance (%)	
	FY14E	FY15E	FY14E	FY15E	FY14E	FY15E
Revenue	12,184	14,239	12,250	14,492	0.5	1.8
EBITDA	1,407	1,709	1,390	1,710	(1.2)	0.1
Net Income	644	787	638	812	(0.9)	3.3
EPS	68.7	83.9	68.1	86.7	(0.9)	3.3
ROCE (%)	11.4	12.2	11.7	12.8	0.2	0.6
ROE (%)	18.9	19.6	18.7	20.1	(0.2)	0.5

Source: Karvy Institutional Research

We expect better operating environment with moderate recovery in EBITDA margins over FY13-FY15E period with stabilizing MMF prices and operating costs spreading on new capacities. Moreover, partial benefits are expected to flow in from removal of excise duty on apparels, which contributes around 15% of the total revenues of SSML.

Financials

Exhibit 3: Profit & Loss statement

Y/E Mar (Rs. mn)	FY11	FY12	FY13	FY14E	FY15E
Net revenues	8,548	9,155	10,413	12,250	14,492
% Growth	29.6	7.1	13.7	17.6	18.3
Raw Material	5,947	5,646	6,427	7,503	8,840
Staff	467	628	891	1,004	1,174
Operating Expenses	1,086	1,716	1,993	2,352	2,768
Operating expenses	7,499	7,990	9,311	10,859	12,782
EBIDTA	1,049	1,165	1,103	1,390	1,710
% Growth	45.9	11.1	(5.4)	26.1	23.0
EBIDTA margin (%)	12.3	12.7	10.6	11.4	11.8
Other income	136	110	185	120	120
Interest	147	240	252	282	310
Depreciation	209	223	218	289	326
Profit Before Tax	828	812	818	939	1,194
Provision for tax	253	245	268	300	382
Effective tax rate (%)	30.6	30.1	32.7	32.0	32.0
Adjusted Net Profit	575	567	550	638	812
% Growth	70.9	(1.4)	(3.0)	16.1	27.2
Reported Net Profit	575	567	550	638	812

Source: Company, Karvy Institutional Research

Exhibit 4: Balance Sheet

Y/E Mar (Rs. mn)	FY11	FY12	FY13	FY14E	FY15E
Equity capital	94	94	94	94	94
Reserves & surplus	2,105	2,578	3,047	3,593	4,307
Shareholders funds	2,199	2,671	3,141	3,686	4,401
Short term Loans	1,705	1,347	1,410	1,620	1,820
Long Term Loans	1,151	1,035	1,231	1,381	1,381
Total Loans	2,855	2,382	2,641	3,001	3,201
Deferred tax liability	170	160	192	192	192
Total Liabilities and Equity	5,224	5,213	5,973	6,879	7,793
Gross block	3,873	3,873	4,851	5,669	6,169
Depreciation	1,565	1,789	2,007	2,296	2,622
Net block	2,307	2,084	2,845	3,373	3,547
Capital WIP	11	368	368	50	50
Other Non-current Assets	-	196	78	78	78
Investments	181	30	2	2	2
Inventory	1,492	1,878	2,220	2,572	3,043
Debtors	1,848	1,771	2,004	2,389	2,826
Cash & Bank Balance	29	20	33	34	45
Current Assets	4,079	4,452	5,081	5,975	7,074
Sundry Creditors	936	884	1,178	1,311	1,551
Other current liabilities	419	1,032	1,223	1,289	1,408
Current Liabilities	1,355	1,917	2,400	2,600	2,959
Net current assets	2,725	2,535	2,680	3,375	4,115
Total Assets	5,224	5,213	5,973	6,879	7,793

Source: Company, Karvy Institutional Research

Siyaram Silk Mills
Exhibit 5: Cash Flow Statement

Y/E Mar (Rs. mn)	FY11	FY12	FY13E	FY14E	FY15E
EBIT	839	942	884	1,101	1,385
(Inc.)/Dec in working capital	(1,234)	181	(132)	(694)	(729)
Cash flow from operations	(394)	1,123	752	407	656
Other income	136	110	185	120	120
Depreciation	195	223	218	289	326
Interest paid (-)	(147)	(240)	(252)	(282)	(310)
Tax paid (-)	(253)	(245)	(268)	(300)	(382)
Dividends paid (-)	(76)	(70)	(82)	(93)	(98)
Deferred Tax Liability	(13)	(10)	32	-	-
Net cash from operations	(552)	891	587	141	311
Capital expenditure (-)	(508)	(356)	(979)	(500)	(500)
Net cash after capex	(1,060)	534	(392)	(359)	(189)
Inc./Dec.) in short-term borrowing	1,024	(358)	63	210	200
Inc./dec.) in long-term borrowing	(66)	(116)	196	150	-
Inc./dec.) in borrowings	958	(474)	259	360	200
(Inc.)/Dec. in investments	100	151	28	-	-
Cash from Financial Activities	1,058	(322)	287	360	200
Others	1	(221)	119	-	-
Opening cash	29	29	20	33	34
Closing cash	29	20	33	34	45
Change in cash	(1)	(9)	13	1	11

Source: Company, Karvy Institutional Research

Exhibit 6: Key Ratios

Y/E Mar	FY11	FY12	FY13	FY14E	FY15E
Raw Material Cost / Sales (%)	69.6	61.7	61.7	61.3	61.0
Manpower Cost / Sales (%)	5.5	6.9	8.6	8.2	8.1
Operating & Other cost / Sales (%)	12.7	18.7	19.1	19.2	19.1
Revenue Growth (%)	29.6	7.1	13.7	17.6	18.3
EBIDTA Margins (%)	12.3	12.7	10.6	11.4	11.8
Net Income Margins (%)	6.7	6.2	5.3	5.2	5.6
ROCE (%)	12.9	12.6	10.6	11.7	12.8
ROE (%)	29.5	23.3	18.9	18.7	20.1

Source: Company, Karvy Institutional Research

Exhibit 7: Valuation Parameters

Y/E Mar	FY11	FY12	FY13	FY14E	FY15E
EPS (Rs)	61.4	60.5	58.7	68.1	86.7
P/E (x)	4.3	4.3	4.5	3.8	3.0
BV (Rs)	234.6	285.0	335.1	393.3	469.5
P/BV (x)	1.1	0.9	0.8	0.7	0.6
EV/EBIDTA (x)	5.0	4.1	4.6	3.9	3.3
Fixed assets turnover ratio (x)	4.0	4.2	4.2	3.9	4.2
Debt/Equity (x)	1.29	0.88	0.83	0.80	0.72
EV/Sales (x)	0.6	0.5	0.5	0.4	0.4

Source: Company, Karvy Institutional Research

Institutional Equities Team

Rangachari Muralikrishnan	Head – Institutional Equities / Research / Strategy	+91-22 61844301	muralikrishnan@karvy.com
K. Anant Rao	Head - Sales-Trading & Derivatives	+91-22 61844303	k.anantrao@karvy.com
Uday Raval	Karvy Inc. USA	+1 212 2674334	udayr@karvy.com

INSTITUTIONAL RESEARCH

Analysts	Industry / Sector	Desk Phone	Email ID
Amey Chalke	Research Associate - Pharmaceuticals	+91 -22 61844325	amey.chalke@karvy.com
Hatim Broachwala, CFA	Banking	+91-22 61844329	hatim.broachwala@karvy.com
Kruti Shah, CFA	Economist	+91-22 61844320	kruti.shah@karvy.com
Manoj Kumar Manish	Derivatives and Quant Analyst	+91-22 61844327	manojkumar.m@karvy.com
Maruti Kadam	Research Associate	+91-22 61844326	maruti.kadam@karvy.com
Mitul Shah	Automobiles	+91-22 61844312	mitul.shah@karvy.com
Paresh Jain	BFSI	+91-22 61844324	paresh.jain@karvy.com
Parikshit Kandpal	Infra / Real Estate / Strategy	+91-22 61844311	parikshit.kandpal@karvy.com
Rahul Sharma	Pharmaceuticals	+91-22 61844310	rahul.sharma@karvy.com
Rahul Singh	MidCap	+91-40-44857911	rahulsingh@karvy.com
Rajesh Kumar Ravi	Cement & Logistics	+91-22 61844313	rajesh.ravi@karvy.com
Rupesh Sankhe	Power/Capital Goods	+91-22 61844315	rupesh.sankhe@karvy.com
Sagar Shah	Media & Entertainment	+91 22 61844316	sagar.shah@karvy.com
Varun Chakri	Research Associate	+91 22 61844326	varun.chakri@karvy.com
Vinay Nair	Oil & Gas	+91-22 61844319	vinaynair@karvy.com

INSTITUTIONAL SALES

Dinesh Bajaj	Sales	+91-22 61844341	dinesh.bajaj@karvy.com
R. Sriram	Sales	+91-22 61844340	sriram.rangarajan@karvy.com
Shabbir Dahodwala	Sales (USA)	+1-212-2674334	shabbir@karvy.com
Tejash Gandhi	Sales	+91-22 61844345	tejash.gandhi@karvy.com

INSTITUTIONAL SALES TRADING & DEALING

Bhavesh Gandhi	Institutional Dealer	+91-22 61844368 /69	bhavesh.gandhi@karvy.com
Prashant Oza	Institutional Dealer	+91-22 61844370 /71	prashant.oza@karvy.com
Gurdarshan Singh Kharbanda	Sales Trader	+91-22-61844368 / 69	gurdarshansingh.k@karvy.com

PRODUCTION

Asim Kumar Mohapatra	Editor	+91-22 61844318	asim.mohapatra@karvy.com
Vijayalaxmi L. Moolya	Production	+91-22 61844328	vijayalaxmi.m@karvy.com

Stock Ratings		Absolute Returns
Buy	:	> 15%
Hold	:	5-15%
Sell	:	< 5%

For further enquiries please contact:

research@karvy.com

Tel: +91-22-6184 4300

Disclosures Appendix

Analyst certification

The following analyst(s), who is (are) primarily responsible for this report, certify (ies) that the views expressed herein accurately reflect his (their) personal view(s) about the subject security (ies) and issuer(s) and that no part of his (their) compensation was, is or will be directly or indirectly related to the specific recommendation(s) or views contained in this research report.

Disclaimer

The information and views presented in this report are prepared by Karvy Stock Broking Limited. The information contained herein is based on our analysis and upon sources that we consider reliable. We, however, do not vouch for the accuracy or the completeness thereof. This material is for personal information and we are not responsible for any loss incurred based upon it. The investments discussed or recommended in this report may not be suitable for all investors. Investors must make their own investment decisions based on their specific investment objectives and financial position and using such independent advice, as they believe necessary. While acting upon any information or analysis mentioned in this report, investors may please note that neither Karvy nor Karvy Stock Broking nor any person connected with any associate companies of Karvy accepts any liability arising from the use of this information and views mentioned in this document.

The author, directors and other employees of Karvy and its affiliates may hold long or short positions in the above mentioned companies from time to time. Every employee of Karvy and its associate companies are required to disclose their individual stock holdings and details of trades, if any, that they undertake. The team rendering corporate analysis and investment recommendations are restricted in purchasing/selling of shares or other securities till such a time this recommendation has either been displayed or has been forwarded to clients of Karvy. All employees are further restricted to place orders only through Karvy Stock Broking Ltd. This report is intended for a restricted audience and we are not soliciting any action based on it. Neither the information nor any opinion expressed herein constitutes an offer or an invitation to make an offer, to buy or sell any securities, or any options, futures nor other derivatives related to such securities.

Karvy Stock Broking Limited

Institutional Equities

Office No. 702, 7th Floor, Hallmark Business Plaza, Opp.-Gurunanak Hospital, Mumbai 400 051

Regd Off : 46, Road No 4, Street No 1, Banjara Hills, Hyderabad – 500 034.

Karvy Stock Broking Research is also available on: Bloomberg - KRVY <GO>, Thomson Publisher & Reuters.