

Institutional Equities  
 India Research

# Siyaram Silk Mills

**RESULT REVIEW**

 Bloomberg: SIYA IN  
 Reuters: SIYR.BO

**BUY**

## EBITDA Margin under pressure; Sales growth intact

*Siyaram Silk Mills (SSML) sales, EBITDA and net income grew by 26%, 7% and 5% YoY respectively.*

**Revenue Growth:** The Company's top-line grew 25.6% YoY to Rs. 2,788 mn (our expectations Rs. 2,450 mn) during Q3FY13, while sequential growth was registered at 4%. The Company has introduced some value added products like 100% linen etc. to improve average realizations otherwise topline growth is largely attributed to volume.

**Operating margins under pressure:** The Company's EBITDA grew 6.7% YoY to Rs. 312 mn (our expectations Rs. 265 mn) during Q3FY13 on account of higher raw-material and other input costs. EBITDA margin for the quarter declined 199 bps YoY to 11.2% however on sequential basis improved by 161 bps. The Company is confident to clear inventory under discount sales in Q4FY13. Net Income for Q3FY13 grew 4.6% YoY to Rs. 138 mn (our expectations of Rs. 120 mn).

The Company's is under capex of 20 MMPA and 7.2 mn pcs per annum of readymade garments. 25% of new fabric capacity is expected to start commercial production by Q4FY13 while rest would commence during FY14. Also, during Q3FY13, the Company added around 20 stores to reach approx. 140 stores.

We revised up our sales by 3.0% and 4.3% and EBITDA marginally by 0.5% and 0.4% for FY13E and FY14E respectively. Expected net income has been revised down by 1.4% and 2.3% for FY13E and FY14E respectively on higher interest charges for capacity expansion.

## Outlook & Valuation

SSML's revenue and net income are expected to grow at a CAGR of 15.7% and 6.6%, respectively over FY12-14E. At CMP of Rs. 276, the stock trades at 4.0x of FY13E and 4.3x of FY14E earnings and EV/EBITDA respectively. We maintain our "BUY" recommendation and revised down our price target to Rs. 344 (Rs. 352), which has a potential upside of 25%.

### Exhibit: Key Financials

Y/E Mar (Rs. mn)	FY2010	FY2011	FY2012	FY2013E	FY2014E
Net Sales	6,597	8,548	9,095	10,345	12,184
EBIDTA	719	1,049	1,105	1,060	1,407
Net Profit	320	575	567	522	644
EPS (Rs)	34.2	61.4	60.5	55.7	68.7
PER (x)	8.1	4.5	4.6	5.0	4.0
EV/EBITDA (x)	6.2	5.2	4.5	5.2	4.3

Source: Company, Karvy Institutional Research

### Recommendation

CMP:	Rs276
Target Price:	Rs344
Upside (%)	25%

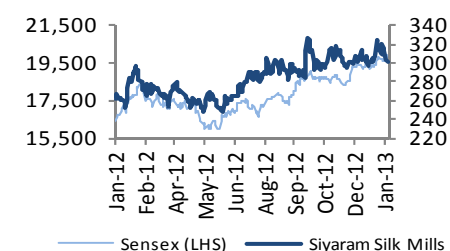
### Stock Information

Market Cap. (Rs bn / US\$ mn)	03/48
52-week High/Low (Rs)	354/231
3m ADV (Rs mn /US\$ mn)	01/0.0
Beta	0.9
Sensex/ Nifty	19,468/5,887
Share outstanding (mn)	09

### Stock Performance (%)

	1M	3M	12M	YTD
Absolute	(6.8)	(9.9)	(2.5)	(8.4)
Rel. to Sensex	(4.1)	(15.3)	(8.4)	(8.6)

### Performance



Source: Bloomberg

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**Siyaram Silk Mills**
**Exhibit 1: Quarterly Performance**

(Rs Mn)	Q3FY12	Q2FY13	Q3FY13	QoQ (%)	YoY (%)
Total Op. Income	2,220	2,673	2,788	4.3	25.6
Operating Costs	1,927	2,417	2,476	2.5	28.5
EBIDTA	292	256	312	21.9	6.7
EBIDTA Margin (%)	13.2	9.6	11.2	1.6	(2.0)
Other Income	27	104	33	(68.0)	25.3
Interest	69	69	79	15.6	14.3
Depreciation	63	50	56	11.6	(11.9)
Profit Before Tax	186	241	210	(12.8)	12.8
Tax	54	62	72	16.5	32.5
Tax Rate (%)	29.2	25.7	34.3		
Rep. PAT	132	179	138	(22.9)	4.6

Source: Company, Karvy Institutional Research

**Exhibit 2: Variance from Our Earlier Estimates**

(Rs mn)	Previous Estimates		Current Estimates		Variance (%)	
	FY13E	FY14E	FY13E	FY14E	FY13E	FY14E
Revenue	10,045	11,685	10,345	12,184	3.0	4.3
EBITDA	1,055	1,402	1,060	1,407	0.5	0.4
Net Income	530	660	522	644	(1.4)	(2.3)
EPS	56.5	70.4	55.7	68.7	(1.4)	(2.3)
ROCE (%)	10.0	11.6	10.1	11.5	0.2	(0.1)
ROE (%)	18.3	19.5	18.1	19.1	(0.2)	(0.4)

Source: Company, Karvy Institutional Research

## Financials

### Exhibit 3: Profit & loss statement

(Rs mn)	FY10	FY11	FY12	FY13E	FY14E
Net revenues	6,597	8,548	9,095	10,345	12,184
% Growth	24.4	29.6	6.4	13.8	17.8
Raw Material	4,749	5,947	5,646	6,362	7,463
Staff	373	467	628	905	975
Operating Expenses	757	1,086	1,716	2,017	2,339
Operating expenses	5,879	7,499	7,990	9,285	10,777
EBIDTA	719	1,049	1,105	1,060	1,407
% Growth	65.2	45.9	5.3	(4.0)	32.7
EBIDTA margin (%)	10.9	12.3	12.1	10.3	11.6
Other income	93	136	171	185	120
Interest	120	147	240	268	305
Depreciation	202	209	223	226	296
Profit Before Tax	490	828	812	752	927
Provision for tax	153	253	245	229	283
Effective tax rate (%)	31.3	30.6	30.1	30.5	30.5
Adjusted Net Profit	337	575	567	522	644
% Growth	194.2	70.9	(1.4)	(7.9)	23.3
Reported Net Profit	320	575	567	522	644

Source: Company, Karvy Institutional Research

### Exhibit 4: Balance Sheet

(Rs. mn)	FY10	FY11	FY12	FY13E	FY14E
Equity capital	94	94	94	94	94
Reserves & surplus	1,605	2,105	2,578	3,013	3,548
Shareholders funds	1,699	2,199	2,671	3,107	3,642
Short term Loans	681	1,705	1,347	1,622	1,722
Long Term Loans	1,217	1,151	1,035	1,360	1,710
Total Loans	1,897	2,855	2,382	2,982	3,432
Deferred tax liability	183	170	160	160	160
<b>Total Liabilities and Equity</b>	<b>3,779</b>	<b>5,224</b>	<b>5,213</b>	<b>6,248</b>	<b>7,234</b>
Gross block	3,372	3,873	3,873	4,720	5,470
Depreciation	1,370	1,565	1,789	2,014	2,310
Net block	2,001	2,307	2,084	2,706	3,161
Capital WIP	5	11	368	120	70
Other Non-current Assets	-	-	196	228	228
Investments	282	181	30	2	2
Inventory	893	1,492	1,878	2,090	2,437
Debtors	1,168	1,848	1,898	2,173	2,559
Cash & Bank Balance	29	29	20	32	33
Current Assets	2,514	4,079	4,579	5,329	6,186
Sundry Creditors	711	936	1,011	1,127	1,327
Other current liabilities	312	419	1,032	1,011	1,086
Current Liabilities	1,022	1,355	2,043	2,137	2,413
Net current assets	1,492	2,725	2,535	3,192	3,773
<b>Total Assets</b>	<b>3,779</b>	<b>5,224</b>	<b>5,213</b>	<b>6,248</b>	<b>7,234</b>

Source: Company, Karvy Institutional Research

**Siyaram Silk Mills**
**Exhibit 5: Cash Flow Statement**

(Rs mn)	FY10	FY11	FY12	FY13E	FY14E
EBIT	517	839	882	835	1,112
(Inc.)/Dec in working capital	378	(1,234)	181	(644)	(580)
Cash flow from operations	895	(394)	1,062	191	532
Other income	93	136	171	185	120
Depreciation	170	195	223	226	296
Interest paid (-)	(120)	(147)	(240)	(268)	(305)
Tax paid (-)	(153)	(253)	(245)	(229)	(283)
Dividends paid (-)	(66)	(76)	(70)	(87)	(109)
Deferred Tax Liability	3	(13)	(10)	-	-
Net cash from operations	822	(552)	891	17	251
Capital expenditure (-)	(107)	(508)	(356)	(600)	(700)
Net cash after capex	715	(1,060)	534	(583)	(449)
Inc./(Dec.) in short-term borrowing	(223)	1,024	(358)	275	100
Inc./(dec.) in long-term borrowing	(207)	(66)	(116)	325	350
Inc./(dec.) in borrowings	(430)	958	(474)	600	450
(Inc.)/Dec. in investments	(282)	100	151	28	-
Cash from Financial Activities	(711)	1,058	(322)	628	450
Others	5	1	(221)	(32)	-
Opening cash	21	29	29	20	32
Closing cash	29	29	20	32	33
Change in cash	8	(1)	(9)	13	1

Source: Company, Karvy Institutional Research

**Exhibit 6: Key Ratios**

	FY2010	FY2011	FY2012	FY2013E	FY2014E
Raw Material Cost / Sales (%)	72.0	69.6	62.1	61.5	61.3
Manpower Cost / Sales (%)	5.7	5.5	6.9	8.8	8.0
Operating & Other cost / Sales (%)	11.5	12.7	18.9	19.5	19.2
Revenue Growth (%)	24.4	29.6	6.4	13.8	17.8
EBIDTA Margins (%)	10.9	12.3	12.1	10.3	11.6
Net Income Margins (%)	5.1	6.7	6.2	5.0	5.3
ROCE (%)	9.2	12.9	11.8	10.1	11.5
ROE (%)	20.5	29.5	23.3	18.1	19.1

Source: Company, Karvy Institutional Research

**Exhibit 7: Valuation Parameters**

	FY2010	FY2011	FY2012	FY2013E	FY2014E
EPS (Rs)	34.2	61.4	60.5	55.7	68.7
P/E (x)	8.1	4.5	4.6	5.0	4.0
BV (Rs)	181.2	234.6	285.0	331.5	388.6
P/BV (x)	1.5	1.2	1.0	0.8	0.7
EV/EBIDTA (x)	6.2	5.2	4.5	5.2	4.3
Fixed assets turnover ratio (x)	3.3	4.0	4.1	4.3	4.2
Debt/Equity (x)	1.10	1.29	0.88	0.95	0.93
EV/Sales (x)	0.7	0.6	0.5	0.5	0.5

Source: Company, Karvy Institutional Research

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

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