

Shifting to more asset light model...

About the stock: Siyaram Silk Mills (SSML), a fabric and apparel manufacturer, has created a strong brand portfolio largely catering to Tier II & III towns.

- Siyaram's brand portfolio consists of reputed brands like Siyaram (flagship brand), Oxemberg, MSD and J Hampstead
- Over the last decade, the company has gradually expanded its fabric and garment capacities and simultaneously managed to reduce the debt/equity from 1.0x in FY12 to 0.3x in FY22

Q1FY23 Results: In a disruption free quarter, after two years, Siyaram reported a strong operational performance.

- On a favourable base, SSML reported a strong performance in Q1FY23 with standalone revenue up 72% YoY to ₹ 399 crore (three year CAGR 7%)
- Gross margin declined 470 bps YoY to 44.7% (Q4FY22: 39.8%) due to increased cost of raw material. Positive operating leverage and cost control led to employee cost to sales ratio declining 375 bps to 10.2% while other expense to sales ratio declined 127 bps YoY to 21.5%. This enabled the company to report EBITDA margin of 13% (up 30 bps YoY) in Q1FY23
- Consequently, the company reported PAT of ₹ 31 crore vs. PAT of ₹ 13 crore in Q1FY22 (three year CAGR 46%; Q4FY22: ₹ 77 crore)

What should investors do? Over the last three years, the stock price has appreciated at a CAGR of 28%.

- We maintain **BUY** recommendation on the stock

Target Price and Valuation: We value SSML at ₹ 610 i.e. 11x FY24E EPS.

Key triggers for future price performance:

- SSML is expected to benefit from a demand revival post reduction/removal of restrictions on trade activities owing to its strong brand portfolio, pan-India distribution network and presence across various price points
- Enhanced capital efficiency (low leverage, controlled working capital cycle) and better profitability are expected to result in SSML reporting healthy RoCE of ~22% by FY24E
- Cost rationalisation measure adopted in FY21 led to a significant decline in overheads. The management expects part of these cost savings to be structural in nature and likely aid EBITDA margin, going ahead

Alternate Stock Idea: Besides SSML, in our textile coverage we also like KPR Mills.

- KPR Mills is among select vertically integrated textile players in India that has displayed consistent operating margins with strong return ratios

Siyaram's

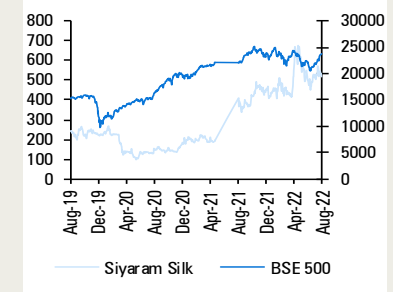
Particulars

Particulars	Amount
Market Capitalisation (₹ crore)	2,348.0
Total Debt (FY22E) (₹ crore)	253.2
Cash (FY22E) (₹ crore)	4.9
EV (₹ crore)	2,596.3
52 Week H / L	700 / 329
Equity Capital (₹ crore)	9.4
Face Value (₹)	2.0

Shareholding pattern

	Jun-21	Sep-21	Dec-21	Mar-22	Jun-22
Promoter	67.2	67.2	67.2	67.2	67.2
FII	1.7	1.9	2.8	3.7	3.3
DII	11.2	10.8	7.8	6.2	6.2
Others	19.9	20.1	22.2	23.0	23.3

Price Chart



Recent event & key risks

- A 3-5% price hike taken across products
- Key Risk:** (i) Inability to pass on higher RM costs (ii) Subdued discretionary consumption can lower sales

Research Analyst

Bharat Chhoda
bharat.chhoda@icicisecurities.com

Cheragh Sidhwa
cheragh.sidhwa@icicisecurities.com

Key Financial Summary

Financials	FY20	FY21	FY22E	5 year CAGR (FY15-20)	FY23E	FY24E	2year CAGR (FY22-24E)
Net Sales	1,699.3	1,089.3	1,905.0	-6.3%	2,160.0	2,390.0	12.0%
EBITDA	167.4	53.8	333.1	-21.0%	351.5	402.0	9.9%
Adjusted PAT	69.2	3.6	216.2	-46.1%	224.6	260.7	9.8%
P/E (x)	33.8	654.6	10.8		10.4	9.0	
EV/EBITDA (x)	16.3	45.8	7.8		7.1	6.0	
RoCE (%)	8.1	-0.8	23.1		21.4	22.4	
RoE (%)	9.1	0.5	23.2		20.4	20.1	

Key takeaways of Q1FY23 results

- The strong demand momentum of Q4FY22 continued in the first half of Q1FY23 but demand weakened towards the later part of the quarter, which led the company to resort to higher discounting to spur sales growth. The management is hopeful of demand improvement driven by ensuing festive and wedding season
- On the segmental front, for Q1FY23, the fabric division revenue grew 64% to ₹ 300 crore while garmenting revenue grew 70% YoY to ₹ 56 crore. Yarn/knitting revenues increased from ₹ 15 crore in Q1FY22 to ₹ 40 crore in Q1FY23. Fabric volumes increased 30% YoY to 17.8 million metre while garment volumes increased 28% YoY to 0.82 million pieces
- The company has taken a price hike of 3-5% across product categories, which should aid in improving the margin over the next few quarters
- The company has implemented changes in its business model and reduced the consignment sales to negligible level. The number of EBOs with sale or return (SoR) has reduced from 83 in FY19 to only four in FY22. With focus on becoming asset light, the company has reduced company owned company operated (COCO) exclusive brand outlets (EBO) from 31 in FY19 to nil in FY22
- Exports constitute 10% of the company's revenues. The company is witnessing strong demand in international markets and expects exports revenues to grow 25-30%+ over the next two to three years. On margin in the export business, the management indicated it is only marginally lower than domestic business margin
- The apparel business has shown good traction due to new brands and designs. The management indicated that it will pursue an asset light policy, outsource its further requirements and will not be investing in enhancing the garmenting capacity
- SSML's current debt is ~ ₹ 268 crore. The management expects FY23 debt levels to be ~ ₹ 200-250 crore
- The company incurred a capex of ~ ₹ 80 crore in FY22. Out of the same, SSML spent ₹ 30 crore on forward integrating into indigo knitted fabric (it already has a presence in indigo knitted yarn), which is used in denim and for innerwear. The management indicated that the indigo fabric capacity had a potential revenue of ~ ₹ 100-150 crore
- On the future capex front, SSML does not envisage any major capex over the next two years with annual capex in the range of ~ ₹ 40 crore for FY23E & FY24E, respectively
- The shift from unorganised players to organised is a big opportunity as many smaller unorganised players are facing liquidity and survival issues, which can lead to a significant opportunity for market share gains for larger organised players like SSML
- SSML is planning to continue with the sharp SKU assortment strategy. The company continues to be selective with its product strategy and has increased focus on fast running stock keeping units (SKUs) with a target to maintain lower inventory level and reduce working capital cycle. Also, SSML has discontinued SKUs that were not performing well and is focusing on premiumisation of the product portfolio with introduction of newer and innovative products. The share of premium products increased from 20% in Q1FY22 to 25% in Q1FY23

Financial Summary

Exhibit 1: Profit and loss statement				
	₹ crore			
(Year-end March)	FY21A	FY22E	FY23E	FY24E
Total operating Income	1,089.3	1,904.96	2,160.0	2,390.0
Growth (%)	-35.9	74.9	13.4	10.6
Raw Material Expenses	711.7	1,075.0	1,214.6	1,345.1
Employee Expenses	123.5	160.3	183.6	198.4
Manufacturing & Other Expens	200.3	336.6	410.4	444.5
Total Operating Expenditure	1,035.5	1,571.9	1,808.6	1,988.0
EBITDA	53.8	333.1	351.5	402.0
Growth (%)	-67.9	519.6	5.5	14.4
Depreciation	61.2	58.9	68.2	75.0
Interest	30.0	18.1	17.6	14.4
Other Income	40.8	34.5	34.6	35.8
Exceptional Item	0.0	0.0	0.0	0.0
PBT	3.5	290.54	300.2	348.4
Growth (%)	-95.9	8,272.9	3.3	16.1
Total Tax	-0.1	74.3	75.6	87.7
PAT	3.6	216.2	224.6	260.7
Growth (%)	-94.8	5,939.9	3.9	16.1
EPS (₹)	0.8	46.1	47.9	55.6

Source: Company, ICICI Direct Research

Exhibit 2: Cash flow statement				
	₹ crore			
(Year-end March)	FY21A	FY22E	FY23E	FY24E
PAT	3.6	216.2	224.6	260.7
Add: Depreciation	61.2	58.9	68.2	75.0
(Inc)/dec in Current Assets	274.1	-271.6	-99.2	-113.6
Inc/(dec) in CL and Provisions	-0.6	12.6	14.1	25.7
Others	0.0	0.0	0.0	0.0
CF from operating activities	338.3	16.1	207.8	247.8
(Inc)/dec in Investments	-20.1	1.6	-10.5	-82.1
(Inc)/dec in Fixed Assets	-22.7	-83.5	-40.0	-40.0
(Inc)/dec in CWIP	1.2	0.4	1.2	0.6
Others	-23.3	-13.6	0.0	0.0
CF from investing activities	-64.9	-95.1	-49.3	-121.5
Issue/(Buy back) of Equity	0.0	0.0	0.0	0.0
Inc/(dec) in loan funds	-270.8	128.3	-33.2	-60.0
Others	-1.6	-49.6	-56.2	-65.2
CF from financing activities	-272.4	78.7	-89.3	-125.2
Net Cash flow	1.0	-0.3	69.1	1.2
Opening Cash	4.2	5.2	4.9	74.1
Closing Cash	5.2	4.9	74.1	75.2

Source: Company, ICICI Direct Research

Exhibit 3: Balance Sheet				
	₹ crore			
(Year-end March)	FY21A	FY22E	FY23E	FY24E
Liabilities				
Equity Capital	9.4	9.4	9.4	9.4
Reserve and Surplus	757.6	924.2	1,092.7	1,288.3
Total Shareholders funds	767.0	933.6	1,102.1	1,297.6
Total Debt	124.9	253.2	220.0	160.0
Deferred Tax Liability	11.7	11.7	11.7	11.7
Minority Interest / Others	24.8	11.2	11.2	11.2
Total Liabilities	928.3	1,209.7	1,345.0	1,480.5
Assets				
Gross Block	774.2	857.7	897.7	937.7
Less: Acc Depreciation	322.5	381.4	449.7	524.7
Net Block	451.7	476.3	448.0	413.0
Capital WIP	2.7	2.4	1.2	0.6
Total Fixed Assets	454.4	478.6	449.2	413.6
Investments	54.2	52.6	63.1	145.2
Inventory	254.9	405.0	461.6	510.7
Debtors	260.3	386.4	443.8	491.1
Loans and Advances	181.5	176.9	162.0	179.2
Cash	5.2	4.9	74.1	75.2
Total Current Assets	701.9	973.2	1,141.5	1,256.3
Current Liabilities	269.9	281.4	294.8	319.8
Provisions	12.3	13.4	14.1	14.8
Total Current Liabilities	282.2	294.8	308.9	334.6
Net Current Assets	419.7	678.4	832.6	921.7
Others Assets	-	-	-	-
Application of Funds	928.3	1,209.7	1,345.0	1,480.5

Source: Company, ICICI Direct Research

Exhibit 4: Key ratios				
(Year-end March)	FY21A	FY22E	FY23E	FY24E
Per share data (₹)				
EPS	0.8	46.1	47.9	55.6
Cash EPS	13.8	58.7	62.5	71.6
BV	163.6	199.2	235.1	276.9
DPS	0.0	10.6	12.0	13.9
Cash Per Share	1.1	1.1	15.8	16.1
Operating Ratios				
EBITDA Margin (%)	4.9	17.5	16.3	16.8
PBT Margin (%)	0.3	15.3	13.9	14.6
PAT Margin (%)	0.3	11.4	10.4	10.9
Inventory days	85.4	77.6	78.0	78.0
Debtor days	87.2	74.0	75.0	75.0
Creditor days	90.4	72.5	68.0	68.0
Return Ratios (%)	82.2	79.1	85.0	85.0
RoE	0.5	23.2	20.4	20.1
RoCE	-0.8	23.1	21.4	22.4
RoIC	-0.9	24.3	23.9	26.4
Valuation Ratios (x)				
P/E	654.6	10.8	10.4	9.0
EV / EBITDA	45.8	7.8	7.1	6.0
EV / Net Sales	2.3	1.4	1.2	1.0
Market Cap / Sales	2.2	1.2	1.1	1.0
Price to Book Value	3.1	2.5	2.1	1.8
Solvency Ratios				
Debt/EBITDA	2.3	0.8	0.6	0.4
Debt / Equity	0.2	0.3	0.2	0.1
Current Ratio	2.5	3.3	3.7	3.8
Quick Ratio	1.6	1.9	2.2	2.2

Source: Company, ICICI Direct Research

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Pankaj Pandey

Head – Research

pankaj.pandey@icicisecurities.com

ICICI Direct Research Desk,
ICICI Securities Limited,
1st Floor, Akruiti Trade Centre,
Road No 7, MIDC,
Andheri (East)
Mumbai – 400 093
research@icicidirect.com

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