

## Sales growth accompanied by improved margins...

**About the stock:** Siyaram Silk Mills (SSML), a fabric and apparel manufacturer, has created a strong brand portfolio largely catering to the 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 0.2x in FY21

**Q3FY22 Results:** SSML reported a strong revenue recovery with a significant improvement in the margin profile, which is its highest EBITDA margin performance.

- SSML reported revenue growth of 47% YoY to ₹ 562 crore (two year CAGR 16%; QoQ growth: 17%)
- Gross margin improved 840 bps YoY to 45.2% (Q2FY22: 43.8%) Improvement in gross margins led the company to report all-time high EBITDA margin of 18.2% (Q2FY22: 17.7%) in spite of increase in other expense to sale ratio by 380 bps to 19.4%
- Robust operational performance resulted in the company reporting PAT of ₹ 69.1 crore vs. PAT of ₹ 28.1 crore in Q3FY21

**What should investors do?** Over the last five years, the stock price has appreciated at a CAGR of 15%.

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

**Target Price and Valuation:** We value SSML at ₹ 610 i.e. 15x FY23E 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 would result in SSML reporting healthy RoCE of ~20% by FY23E
- Cost rationalisation measure adopted in FY21 led to a significant decline in overheads. The management expects 25% of these cost savings to be structural in nature and likely aid EBITDA margin improvement, 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
- BUY with a target price of ₹ 820

**Siyaram's**

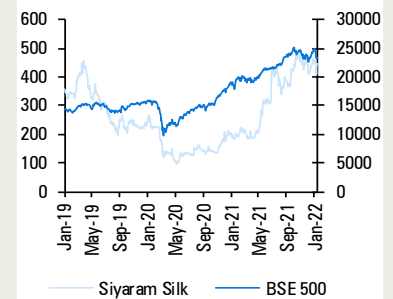
### Particulars

Particulars	Amount
Market Capitalisation (₹ crore)	2,254.0
Total Debt (FY21) (₹ crore)	124.9
Cash (FY21) (₹ crore)	13.2
EV (₹ crore)	2,365.7
52 Week H / L	518 / 167
Equity Capital (₹ crore)	9.4
Face Value (₹)	2.0

### Shareholding pattern

	Dec-20	Mar-21	Jun-21	Sep-21	Dec-21
Promoter	67.2	67.2	67.2	67.2	67.2
FII	0.3	0.7	1.7	1.9	2.8
DII	12.8	11.2	11.2	10.8	7.8
Others	19.7	20.9	19.9	20.1	22.2

### Price Chart



### Recent event & key risks

- Price hikes taken across products
- Key Risk:** (i) Inability to pass on higher RM costs (ii) Extended restrictions on trade can lower sales

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### Key Financial Summary

Financials	FY19	FY20	FY21	5 year CAGR (FY15-20)	FY22E	FY23E	3 year CAGR (FY20-23E)
Net Sales	1,816.2	1,699.3	1,089.3	2.4%	1,826.6	2,070.8	10.4%
EBITDA	239.6	167.4	53.8	-0.8%	294.9	304.7	22.1%
Adjusted PAT	99.1	69.2	3.6	-2.5%	183.5	190.4	40.1%
P/E (x)	21.6	30.9	597.0		11.6	11.2	
EV/EBITDA (x)	10.8	15.1	41.8		7.8	7.5	
RoCE (%)	14.6	8.1	-0.8		21.4	19.9	
RoE (%)	13.1	9.1	0.5		20.7	19.0	

## Key takeaways of recent quarter

- The revenue growth has been driven by volume growth of ~35%. The company took a price hike across product categories (8-10%). Due to Omicron led trade disruption, business experienced a slowdown in January. However, the management expects the same to pick up in February and March 2022
- On the EBITDA margin front, the Q3FY22 EBITDA margin is not sustainable as it is higher on account of benefit of low cost old inventory. However, due to cost re-engineering initiatives taken during the pandemic, the management expects the margin to be ~ 14-15% on a sustainable basis (historic average is ~ 10-12%)
- The company is witnessing strong demand for its products and Q3FY22 revenues were driven by strong festive and wedding demand. The fabric segment continues to grow faster than garments and constitutes ~ 75-80% of the company's revenues
- SSML's current debt is ~ ₹ 185 crore. The management expects the FY22, FY23 debt levels to be around ₹ 200 crore, ₹ 220 crore, respectively
- On the garment segment front, the company is operating at full utilisation level and is planning to outsource further requirements. It does not intend to do further capex in the segment and utilise asset light model for the same
- On the export front, SSML is witnessing strong traction and getting enquiries from new prospective customers. For 9MFY22, the company has total export revenues to the tune of ₹ 150 crore and is targeting an annual growth of ~25-30% over the next few years
- On the capex front, the company has incurred ~₹ 60 crore for YTD FY22. SSML does not envisage any major capex over the next two years with annual capex in the range of ~ ₹ 35 crore for FY23E
- 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
- 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

## Financial Summary

Exhibit 1: Profit and loss statement				
	₹ crore			
(Year-end March)	FY20	FY21A	FY22E	FY23E
<b>Total operating Income</b>	<b>1,699.3</b>	<b>1,089.25</b>	<b>1,826.6</b>	<b>2,070.8</b>
Growth (%)	-6.4	-35.9	67.7	13.4
Raw Material Expenses	970.4	711.7	1,029.4	1,196.6
Employee Expenses	195.5	123.5	158.9	180.2
Manufacturing & Other Expens	365.9	200.3	343.4	389.3
Total Operating Expenditure	1,531.9	1,035.5	1,531.7	1,766.1
<b>EBITDA</b>	<b>167.4</b>	<b>53.8</b>	<b>294.9</b>	<b>304.7</b>
Growth (%)	-30.1	-67.9	448.5	3.3
Depreciation	73.0	61.2	62.6	67.8
Interest	43.0	30.0	20.0	19.8
Other Income	33.8	40.8	32.9	37.3
Exceptional Item	0.0	0.0	0.0	0.0
PBT	85.2	3.47	245.2	254.4
Growth (%)	-45.8	-95.9	6,966.2	3.8
Total Tax	15.9	-0.1	61.7	64.0
<b>PAT</b>	<b>69.2</b>	<b>3.58</b>	<b>183.5</b>	<b>190.4</b>
Growth (%)	-30.1	-94.8	5,025.2	3.8
<b>EPS (₹)</b>	<b>14.8</b>	<b>0.8</b>	<b>39.1</b>	<b>40.6</b>

Source: Company, ICICI Direct Research

Exhibit 2: Cash flow statement				
	₹ crore			
(Year-end March)	FY20	FY21A	FY22E	FY23E
PAT	69.2	3.6	183.5	190.4
Add: Depreciation	73.0	61.2	62.6	67.8
(Inc)/dec in Current Assets	36.8	241.3	-220.0	-118.7
Inc/(dec) in CL and Provisions	-1.2	15.6	36.8	19.6
Others	0.0	0.0	0.0	0.0
<b>CF from operating activities</b>	<b>177.9</b>	<b>321.7</b>	<b>62.8</b>	<b>159.1</b>
(Inc)/dec in Investments	-4.1	-20.1	-5.4	-6.0
(Inc)/dec in Fixed Assets	-42.1	-22.7	-60.0	-35.0
(Inc)/dec in CWIP	4.0	1.2	1.4	0.7
Others	-6.8	0.0	0.0	0.0
<b>CF from investing activities</b>	<b>-49.0</b>	<b>-41.6</b>	<b>-64.1</b>	<b>-40.3</b>
Issue/(Buy back) of Equity	0.0	0.0	0.0	0.0
Inc/(dec) in loan funds	-64.5	-270.8	75.1	-10.0
Others	-67.6	-1.6	-64.2	-76.2
<b>CF from financing activities</b>	<b>-132.1</b>	<b>-272.4</b>	<b>10.9</b>	<b>-86.2</b>
Net Cash flow	-3.1	7.7	9.7	32.6
Opening Cash	8.6	5.5	13.2	22.8
<b>Closing Cash</b>	<b>5.5</b>	<b>13.2</b>	<b>22.8</b>	<b>55.4</b>

Source: Company, ICICI Direct Research

Exhibit 3: Balance Sheet				
	₹ crore			
(Year-end March)	FY20	FY21A	FY22E	FY23E
<b>Liabilities</b>				
Equity Capital	9.4	9.4	9.4	9.4
Reserve and Surplus	752.7	757.6	876.8	991.1
Total Shareholders funds	762.1	767.0	886.2	1,000.4
Total Debt	395.7	124.9	200.0	190.0
Deferred Tax Liability	14.1	11.7	11.7	11.7
Minority Interest / Others	48.6	24.8	24.8	24.8
<b>Total Liabilities</b>	<b>1,220.4</b>	<b>928.3</b>	<b>1,122.7</b>	<b>1,226.9</b>
<b>Assets</b>				
Gross Block	751.5	774.2	834.2	869.2
Less: Acc Depreciation	261.3	322.5	385.1	452.9
Net Block	490.2	451.7	449.1	416.3
Capital WIP	3.9	2.7	1.4	0.7
Total Fixed Assets	494.1	454.4	450.5	417.0
Investments	34.1	54.2	59.6	65.6
Inventory	429.8	254.9	400.3	453.9
Debtors	324.0	260.3	350.3	397.1
Loans and Advances	155.1	152.5	137.0	155.3
Cash	5.5	13.2	22.8	55.4
Total Current Assets	914.4	680.8	910.5	1,061.8
Current Liabilities	253.4	269.9	306.1	325.0
Provisions	13.2	12.3	12.9	13.5
Total Current Liabilities	266.6	282.2	318.9	338.5
Net Current Assets	647.9	398.6	591.5	723.3
Others Assets	44.4	21.1	21.1	21.1
<b>Application of Funds</b>	<b>1,220.4</b>	<b>928.3</b>	<b>1,122.7</b>	<b>1,226.9</b>

Source: Company, ICICI Direct Research

Exhibit 4: Key ratios				
(Year-end March)	FY20	FY21A	FY22E	FY23E
<b>Per share data (₹)</b>				
EPS	14.8	0.8	39.1	40.6
Cash EPS	30.4	13.8	52.5	55.1
BV	162.6	163.6	189.1	213.5
DPS	10.8	0.0	13.7	16.2
<b>Cash Per Share</b>	<b>1.2</b>	<b>2.8</b>	<b>4.9</b>	<b>11.8</b>
<b>Operating Ratios</b>				
EBITDA Margin (%)	9.9	4.9	16.1	14.7
PBT Margin (%)	5.0	0.3	13.4	12.3
PAT Margin (%)	4.1	0.3	10.0	9.2
Inventory days	92.3	85.4	80.0	80.0
Debtor days	69.6	87.2	70.0	70.0
Creditor days	68.3	90.4	75.0	70.0
<b>Return Ratios (%)</b>				
RoE	9.1	0.5	20.7	19.0
RoCE	8.1	-0.8	21.4	19.9
RoIC	8.5	-0.9	23.2	22.2
<b>Valuation Ratios (x)</b>				
P/E	30.9	597.0	11.6	11.2
EV / EBITDA	15.1	41.8	7.8	7.5
EV / Net Sales	1.5	2.1	1.3	1.1
Market Cap / Sales	1.3	2.0	1.2	1.0
Price to Book Value	2.8	2.8	2.4	2.1
<b>Solvency Ratios</b>				
Debt/EBITDA	2.4	2.3	0.7	0.6
Debt / Equity	0.5	0.2	0.2	0.2
Current Ratio	3.4	2.4	2.9	3.1
Quick Ratio	1.8	1.5	1.6	1.8

Source: Company, ICICI Direct Research

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Reduce: -15% to -5%;

Sell: <-15%



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