

## Strategic changes in model delivering positive results

**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 0.2x in FY23

**Q4FY23 Results :** Siyaram Silk Mills reported a steady operational performance amid a challenging business scenario.

- SSML reported an improved revenue performance in Q4FY23 with consolidated revenues increasing 11% YoY to ₹ 695 crore (three year CAGR of 14% on a favourable base due to impact of Covid in March 2020)
- Gross margin declined 70 bps YoY to 39.1% (Q3FY23: 42.3%) probably due to increased cost of raw material. Higher opex led to EBITDA margin declining by 130 bps YoY to 17.5%. EBITDA grew 3% YoY to ₹ 121 crore
- Consequently, the company reported PAT growth of 14% YoY to ₹ 88.1 crore vs. PAT of ₹ 77.3 crore in Q4FY22 (favourable base due to exceptional expense to the tune of ₹ 5.3 crore in Q4FY22)

**What should investors do?** Over the last six years, the stock price has appreciated at a CAGR of 23%.

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

**Target Price and Valuation:** We value SSML at ₹ 710 i.e. ~10x FY25E EPS.

### Key triggers for future price performance:

- SSML is expected to benefit from a normalised business scenario 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 ~23% by FY25E
- The company has shifted to an asset light model for its exclusive brand outlets (EBOs) and reduced company owned EBOs from 31 in FY19 to nil in FY23, which has enabled it to enhance return ratios
- The company is not planning to add capacity in garments and looking to outsource the requirement from dedicated vendors

**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

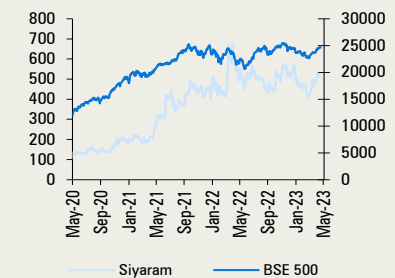
### Particulars

Particulars	Amount
Market Capitalisation (₹ crore)	2,468.0
Total Debt (FY23) (₹ crore)	190.9
Cash (FY23) (₹ crore)	6.0
EV (₹ crore)	2,652.9
52 Week H / L	592 /399
Equity Capital (₹ crore)	9.4
Face Value (₹)	2.0

### Shareholding pattern

	Mar-22	Jun-22	Sep-22	Dec-22	Mar-23
Promoter	67.2	67.2	67.2	67.2	67.2
FII	3.7	3.3	2.7	2.6	2.0
DII	6.2	6.2	6.1	4.5	4.9
Others	23.0	23.3	24.1	25.8	25.9

### Price Chart



### Recent event & key risks

- Exports revenue share stood at ~13%
- Key Risk:** (i) Inability to pass on higher RM costs (ii) Subdued discretionary consumption can lower sales

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### Key Financial Summary

₹ crore	FY20	FY21	FY22	FY23	3 Year CAGR (FY20-23)	FY24E	FY25E	3 Year CAGR (FY20-23E)
Net Sales	1,699.3	1,089.3	1,905.0	2,232.5	9.5%	2,539.8	2,871.0	13.4%
EBITDA	167.4	53.8	333.1	368.4	30.1%	421.8	485.9	14.8%
PAT	69.2	3.6	216.2	251.0		284.4	334.1	
P/E (x)	38.9	752.8	12.5	10.7		9.5	8.1	
EV/Sales (x)	1.8	2.6	1.5	1.3		1.1	1.0	
EV/EBITDA (x)	18.4	52.4	8.8	7.8		6.7	5.8	
RoCE (%)	8.1	-0.8	23.1	23.4		23.0	23.2	
RoE (%)	9.1	0.5	23.2	22.1		20.8	20.4	

## Key takeaways of Q4FY23 and FY23 results

- The management indicated that growth was led by a better product mix as sale of premium fabrics was higher than last year
- On the segmental front, in FY23 the revenue share of fabrics was at 77% while garments contributed ~ 17% of total revenues. The revenue share of garments has increased from its low of 11% in FY21 to 17% in FY23 but it is still below pre-Covid levels of ~ 20-22%
- On the raw material pricing front, the management indicated that raw material prices remained volatile. The company is able to pass on the increase to the customers with a lag effect
- The company has implemented changes in its business model and reduced the consignment sales to negligible level. This would enable SSML to de-risk sales and collection cycle, eliminating provisions for returns and replacements and reduce working capital requirements
- The number of EBOs with sale or return (SoR) has reduced from 83 in FY19 to only four in FY23. 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 FY23
- Exports constitute 13% of revenues. The company is witnessing strong demand in international markets and expects exports revenues to grow 20%+ 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
- The company incurred a capex of ~ ₹ 36 crore in FY23. 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 FY24E & FY25E, 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 company is planning to maintain a healthy mix of affordable and premium products. Further, SSML will maintain the asset light approach for manufacturing and distribution with a focus on improving the return ratios

## Financial Summary

### Exhibit 1: Profit and loss statement ₹ crore

(Year-end March)	FY22	FY23P	FY24E	FY25E
<b>Total operating Income</b>	<b>1,905.0</b>	<b>2,232.51</b>	<b>2,539.8</b>	<b>2,871.0</b>
Growth (%)	74.9	17.2	13.8	13.0
Raw Material Expenses	1,075.0	1,298.8	1,470.4	1,653.0
Employee Expenses	160.3	179.8	203.2	229.7
Manufacturing & Other Expens	336.6	385.5	444.5	502.4
Total Operating Expenditure	1,571.9	1,864.1	2,118.0	2,385.1
<b>EBITDA</b>	<b>333.1</b>	<b>368.4</b>	<b>421.8</b>	<b>485.9</b>
Growth (%)	519.6	10.6	14.5	15.2
Depreciation	58.9	58.2	71.0	74.0
Interest	18.1	19.7	16.5	14.3
Other Income	34.5	40.3	45.7	48.8
Exceptional Item	0.0	0.0	0.0	0.0
PBT	290.5	330.76	380.1	446.4
Growth (%)	8,272.9	13.8	14.9	17.5
Total Tax	74.3	79.8	95.7	112.4
<b>PAT</b>	<b>216.2</b>	<b>251.0</b>	<b>284.4</b>	<b>334.1</b>
Growth (%)	5,939.9	16.1	13.3	17.5
<b>EPS (₹)</b>	<b>46.1</b>	<b>53.6</b>	<b>60.7</b>	<b>71.3</b>

Source: Company, ICICI Direct Research

### Exhibit 2: Cash flow statement ₹ crore

(Year-end March)	FY22	FY23P	FY24E	FY25E
PAT	216.2	251.0	284.4	334.1
Add: Depreciation	58.9	58.2	71.0	74.0
(Inc)/dec in Current Assets	-270.0	-61.1	-206.5	-160.9
Inc/(dec) in CL and Provisions	12.6	-15.2	50.9	31.5
Others	0.0	0.0	0.0	0.0
<b>CF from operating activities</b>	<b>17.7</b>	<b>232.9</b>	<b>199.7</b>	<b>278.6</b>
(Inc)/dec in Investments	1.6	-85.1	-68.9	-144.6
(Inc)/dec in Fixed Assets	-83.5	-36.2	-40.0	-40.0
(Inc)/dec in CWIP	0.4	-3.0	2.7	1.4
Others	-13.6	1.9	0.0	0.0
<b>CF from investing activities</b>	<b>-95.1</b>	<b>-122.4</b>	<b>-106.2</b>	<b>-183.2</b>
Issue/(Buy back) of Equity	0.0	0.0	0.0	0.0
Inc/(dec) in loan funds	128.3	-62.2	-30.9	-20.0
Others	-50.2	-48.2	-54.2	-66.8
<b>CF from financing activities</b>	<b>78.1</b>	<b>-110.4</b>	<b>-85.1</b>	<b>-86.8</b>
Net Cash flow	0.7	0.1	8.4	8.6
Opening Cash	5.2	6.0	6.0	14.5
<b>Closing Cash</b>	<b>6.0</b>	<b>6.0</b>	<b>14.5</b>	<b>23.0</b>

Source: Company, ICICI Direct Research

### Exhibit 3: Balance Sheet ₹ crore

(Year-end March)	FY22	FY23P	FY24E	FY25E
<b>Liabilities</b>				
Equity Capital	9.4	9.4	9.4	9.4
Reserve and Surplus	924.6	1,127.5	1,357.7	1,625.0
Total Shareholders funds	934.0	1,136.9	1,367.1	1,634.4
Total Debt	253.2	190.9	160.0	140.0
Deferred Tax Liability	10.7	10.6	10.6	10.6
Minority Interest / Others	11.2	13.1	13.1	13.1
<b>Total Liabilities</b>	<b>1,209.1</b>	<b>1,351.6</b>	<b>1,550.8</b>	<b>1,798.1</b>
<b>Assets</b>				
Gross Block	857.7	893.8	933.8	973.8
Less: Acc Depreciation	381.4	439.6	510.6	584.6
Net Block	476.3	454.2	423.3	389.2
Capital WIP	2.4	5.4	2.7	1.4
Total Fixed Assets	478.6	459.6	426.0	390.6
Investments	52.6	137.7	206.6	351.2
Inventory	405.0	424.4	521.9	589.9
Debtors	386.4	427.7	521.9	589.9
Loans and Advances	175.3	175.7	190.5	215.3
Cash	6.0	6.0	14.5	23.0
Total Current Assets	972.6	1,033.7	1,248.7	1,418.2
Current Liabilities	281.4	266.1	316.3	347.1
Provisions	13.4	13.4	14.1	14.8
Total Current Liabilities	294.8	279.5	330.4	361.9
Net Current Assets	677.8	754.2	918.3	1,056.3
Others Assets	-	-	-	-
<b>Application of Funds</b>	<b>1,209.1</b>	<b>1,351.6</b>	<b>1,550.8</b>	<b>1,798.1</b>

Source: Company, ICICI Direct Research

### Exhibit 4: Key ratios

(Year-end March)	FY22	FY23P	FY24E	FY25E
<b>Per share data (₹)</b>				
EPS	46.1	53.6	60.7	71.3
Cash EPS	58.7	66.0	75.8	87.1
BV	199.3	242.6	291.7	348.7
DPS	9.2	11.0	12.1	14.3
<b>Cash Per Share</b>	<b>1.3</b>	<b>1.3</b>	<b>3.1</b>	<b>4.9</b>
<b>Operating Ratios</b>				
EBITDA Margin (%)	17.5	16.5	16.6	16.9
PBT Margin (%)	15.3	14.8	15.0	15.5
PAT Margin (%)	11.4	11.2	11.2	11.6
Inventory days	77.6	77.6	69.4	75.0
Debtor days	74.0	74.0	69.9	75.0
Creditor days	72.5	72.5	54.0	60.0
<b>Return Ratios (%)</b>				
RoE	23.2	22.1	20.8	20.4
RoCE	23.1	23.4	23.0	23.2
RoIC	24.3	26.3	26.9	29.4
<b>Valuation Ratios (x)</b>				
P/E	12.5	10.7	9.5	8.1
EV / EBITDA	8.8	7.8	6.7	5.8
EV / Net Sales	1.5	1.3	1.1	1.0
Market Cap / Sales	1.4	1.2	1.1	0.9
Price to Book Value	2.9	2.4	2.0	1.6
<b>Solvency Ratios</b>				
Debt/EBITDA	0.8	0.5	0.4	0.3
Debt / Equity	0.3	0.2	0.1	0.1
Current Ratio	3.3	3.7	3.8	3.9
Quick Ratio	1.9	2.2	2.2	2.3

Source: Company, ICICI Direct Research

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Buy: > 15%

Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: < -15%



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