

Strong b/s provides ability to tide over challenging market scenario

Since Q4 is a critical quarter for Siyaram (~32% of revenues), Covid-19 disruptions impacted financials in Q4FY20. Revenue for the quarter de-grew 20.6% YoY ₹ 466.7 crore. As per the management, January-February was a decent period for the company. It was on track to surpass the previous year's topline. However, owing to supply chain issues (logistics issues), the company was unable to execute orders in March. Lower gross margins, coupled with negative operating leverage led EBITDA margins to contract 610 bps YoY to 8.9%. Absolute EBITDA de-grew 53% YoY to ₹ 41.5 crore. PAT fell 50% YoY to ₹ 23.3 crore (effective tax rate: 23% vs. 31% in Q4FY19). While Q1FY21E is expected to be a complete washout quarter, better rural spending and revival in demand owing to festive and wedding season are expected to aid growth. Stringent working capital policy has enabled it to gradually bring down its debt levels (0.5x in FY20 vs. 0.9x in FY18).

Covid to dent FY21E profitability, recovery expected in FY22E

Tepid consumption demand across product categories and a challenging Q4FY20 led to overall topline de-growth of 6.4% YoY to ₹ 1699.3 crore in FY20. On the segmental front, fabrics division (~74% of revenues) de-grew 4% YoY whereas garmenting segment (~20% of revenues) saw revenue de-growth of 14% YoY to ₹ 350.0 crore. Higher competitive intensity and subsequent lower realisation weighed on the performance of garmenting segment. As on date, trading channels are stuck with excess inventory. Hence, primary sales are expected to pick up only when the cash cycle starts to improve. On the profitability front, price cuts and higher trade discounts led gross margins to contract 400 bps YoY to 52.0% in FY20. Furthermore, higher advertising spends and unabsorbed fixed overheads led EBITDA to decline 30% YoY to ₹ 167.4 crore. Subsequently, PAT fell 30% YoY to ₹ 69.3 crore in FY20. We model in revenue de-growth of 14% in FY21 and growth of 19% in FY22. We expect a gradual improvement in the margin profile and expect EBITDA margins to recover to 12.0% in FY22E.

Valuation & outlook

Despite a challenging year, SSML continued to focus on stringent control on cash conversion cycles through better management of working capital days (NWC remained steady at 81 days). Subsequently, the company generated healthy operating cash flows (~₹ 165.0 crore) in FY20. The company's focus on strengthening balance sheet is visible with a decline in debt from ₹ 590.0 crore in FY18 to ₹ 395.0 crore as on FY20. We expect debt to increase for short-term purpose to support its channel partners. However, it is expected to revert back to FY20 levels by end of FY21E. We model earnings CAGR of 16% in FY20-22E and expect the company to generate RoCE of ~11% in FY22E. Owing to significant correction in stock price (down 41% YTD), we upgrade the stock from HOLD to **BUY** with a revised target price of ₹ 160 (8.0x FY22E EPS).

Key Financial Summary

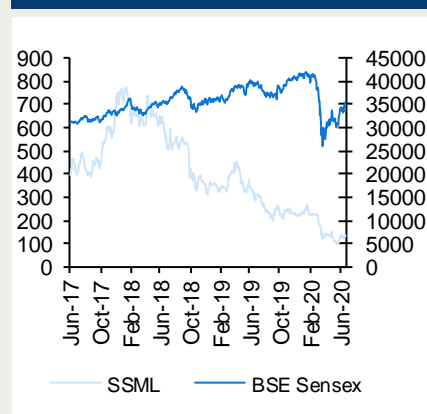
₹ crore	FY19	FY20A	FY21E	FY22E	CAGR (FY20-22E)
Net Sales	1,816.2	1,699.3	1,467.6	1,741.2	1.2%
EBITDA	239.6	167.4	118.2	209.7	11.9%
PAT	99.1	69.3	20.3	94.2	16.6%
P/E (x)	6.4	9.1	31.1	6.7	
EV/Sales (x)	0.6	0.6	0.7	0.5	
EV/EBITDA (x)	4.5	6.1	8.4	4.4	
RoCE (%)	14.6	8.2	3.6	11.3	
RoE (%)	13.1	9.1	2.6	11.4	

Source: ICICI Direct Research, Company

Particulars

Particular	Amount
Market Capitalisation (₹Crore)	642.1
Debt (FY 20) (₹Crore)	395.7
Cash (FY 20) (₹Crore)	5.4
EV (₹Crore)	1,032.4
52 week H/L	315 / 94
Equity Capital (₹Crore)	9.4
Face Value (₹)	2

Price Chart



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Financial summary

Exhibit 1: Profit & Loss Statement				
(Year-end March)	FY19	FY20A	FY21E	FY22E
Total operating income	1,816.2	1,699.3	1,467.6	1,741.2
Growth (%)	4.8	-6.4	-13.6	18.6
Raw Material Expenses	806.6	822.5	709.5	814.2
Employee Expenses	198.2	195.5	184.9	191.5
Manufacturing & Other Exper	571.8	513.9	454.9	525.9
Total Operating Expenditure	1,576.6	1,531.9	1,349.4	1,531.6
EBITDA	239.6	167.4	118.2	209.7
Growth (%)	-2.2	-30.1	-29.4	77.4
Depreciation	62.3	73.0	76.4	80.2
Interest	48.4	43.0	44.0	38.4
Other Income	28.2	33.8	29.4	34.8
Exceptional Item	-4.7	0.0	0.0	0.0
PBT	152.4	85.2	27.2	125.9
Growth (%)	-10.9	-45.8	-68.1	363.5
Total Tax	53.3	15.9	6.8	31.7
PAT	99.1	69.3	20.3	94.2
Growth (%)	-10.6	-30.1	-70.7	363.5
EPS (₹)	21.1	14.8	4.3	20.1

Source: Company, ICICI Direct Research

Exhibit 2: Cash Flow Statement				
(Year-end March)	FY19	FY20A	FY21E	FY22E
PAT	99.1	69.3	20.3	94.2
Add: Depreciation	62.3	73.0	76.4	80.2
(Inc)/dec in Current Assets	23.6	36.8	2.8	-35.4
Inc/(dec) in CL and Provision	-3.3	-1.2	-24.7	24.4
Others	0.0	0.0	0.0	0.0
CF from operating activiti	181.7	177.9	74.8	163.4
(Inc)/dec in Investments	7.8	-4.1	-3.4	-3.7
(Inc)/dec in Fixed Assets	-142.3	-42.1	-40.0	-40.0
(Inc)/dec in CWIP	84.6	4.0	2.0	1.0
Others	0.0	-6.8	0.0	0.0
CF from investing activitie	-50.0	-49.0	-41.4	-42.8
Issue/(Buy back) of Equity	0.0	0.0	0.0	0.0
Inc/(dec) in loan funds	-128.8	-64.5	4.3	-80.0
Others	-18.0	-67.6	-5.1	-47.1
CF from financing activitie	-146.8	-132.1	-0.8	-127.1
Net Cash flow	-15.1	-3.1	32.5	-6.5
Opening Cash	23.6	8.6	5.4	38.0
Closing Cash	8.6	5.4	38.0	31.5

Source: Company, ICICI Direct Research

Exhibit 3: Balance Sheet				
(Year-end March)	FY19	FY20A	FY21E	FY22E
Liabilities				
Equity Capital	9.4	9.4	9.4	9.4
Reserve and Surplus	745.5	752.7	767.9	815.0
Total Shareholders funds	754.9	762.1	777.3	824.4
Total Debt	460.2	395.7	400.0	320.0
Deferred Tax Liability	19.6	14.1	14.1	14.1
Minority Interest / Others	-	48.6	48.6	48.6
Total Liabilities	1,234.6	1,220.4	1,239.9	1,207.0
Assets				
Gross Block	713.4	755.7	795.7	835.7
Less: Acc Depreciation	203.4	265.5	341.8	422.1
Net Block	510.1	490.2	453.8	413.6
Capital WIP	8.0	3.9	2.0	1.0
Total Fixed Assets	518.1	494.1	455.8	414.6
Investments	30.0	34.1	37.5	41.2
Inventory	422.2	429.8	450.3	429.3
Debtors	392.7	324.0	345.8	381.6
Loans and Advances	130.9	155.1	110.1	130.6
Cash	8.6	5.4	38.0	31.5
Total Current Assets	954.3	914.4	944.1	973.0
Current Liabilities	255.5	253.4	228.0	251.7
Provisions	12.3	13.2	13.8	14.5
Total Current Liabilities	267.7	266.6	241.9	266.2
Net Current Assets	686.6	647.8	702.3	706.8
Others Assets	-	44.4	44.4	44.4
Application of Funds	1,234.6	1,220.4	1,239.9	1,207.0

Source: Company, ICICI Direct Research

Exhibit 4: Key Ratios				
(Year-end March)	FY19	FY20A	FY21E	FY22E
Per share data (₹)				
EPS	21.1	14.8	4.3	20.1
Cash EPS	34.4	30.4	20.6	37.2
BV	161.1	162.6	165.8	175.9
DPS	4.8	12.9	1.1	10.0
Cash Per Share	1.8	1.2	8.1	6.7
Operating Ratios				
EBITDA Margin (%)	13.2	9.9	8.1	12.0
PBT Margin (%)	8.4	5.0	1.9	7.2
PAT Margin (%)	5.5	4.1	1.4	5.4
Inventory days	84.8	92.3	112.0	90.0
Debtor days	78.9	69.6	86.0	80.0
Creditor days	79.5	80.6	80.0	80.0
Return Ratios (%)				
RoE	13.1	9.1	2.6	11.4
RoCE	14.6	8.2	3.6	11.3
RoIC	15.2	8.5	3.8	12.1
Valuation Ratios (x)				
P/E	6.4	9.1	31.1	6.7
EV / EBITDA	4.5	6.1	8.4	4.4
EV / Net Sales	0.6	0.6	0.7	0.5
Market Cap / Sales	0.3	0.4	0.4	0.4
Price to Book Value	0.8	0.8	0.8	0.8
Solvency Ratios				
Debt/EBITDA	1.9	2.4	3.4	1.5
Debt / Equity	0.6	0.5	0.5	0.4
Current Ratio	3.6	3.4	3.9	3.7
Quick Ratio	2.0	1.8	2.0	2.0

Source: Company, ICICI Direct Research

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Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



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