Stock Update

Siyaram Silk Mills Ltd.

December 08, 2022

RETAILRESEARCH

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Siyaram Silk Mills Ltd.

Industry	LTP	Recommendation	Base Case Fair Value	Bull Case Fair Value	Time Horizon
Textiles	Rs. 552	Buy in Rs. 547-557 band and add more on dips in Rs. 490-498 band	Rs. 619	Rs. 666	2 quarters

HDFC Scrip Code	SIYSILEQNR
BSE Code	503811
NSE Code	SIYSIL
Bloomberg	SIYA IN
CMP (Dec 07, 2022)	552
Equity Capital (RsCr)	9.4
Face Value (Rs)	2
Equity Share O/S (Cr)	4.8
Market Cap (RsCr)	2590
Book Value (Rs)	220
Avg. 52 Wk Volumes	160360
52 Week High	698
52 Week Low	393

Share holding Pattern % (September, 2022)	
Promoters	67.18
Institutions	8.77
Non Institutions	24.05
Total	100.0

* Refer at the end for explanation on Risk Ratings

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Our Take:

Siyaram Silk Mills Ltd. (SSML) sells its products under multiple brands that enjoy high recall value with consumers. They include brand names such as Siyaram, J Hampstead, Oxemberg, and Cadini. It is one of the largest poly viscose blended fabric players in India. The company has an extensive distribution network that permeates India, giving an aspiring yet underserved vast population ready access to high-quality fabrics and apparel at attractive price points. This makes SSML's brands the preferred choice in India's fast-growing yet untapped market. It is backed by highly integrated and state-of-the-art manufacturing and retailing capabilities.

SSML has one of the most prudent capital allocation track record in the textile and apparel space in India. Despite the Covid-19 pandemic related turmoil, it operated at a Net D/E of 0.2x as on FY22. It has been in a constant endeavour to establish itself as an asset light and a pure branded fabric and apparel player in the highly commoditized and working capital intensive textile industry. The company has positioned its products mainly in the mid-market whereby it competes directly with unorganized and regional fabric players. Its strong balance sheet, deep penetration with consistent and focused approach toward brand building are the key growth drivers for the company.

Valuation & Recommendation:

Going forward, we are positive on the future growth prospects of SSML and we expect it to be a key beneficiary of the unorganized to organized shift in a highly fragmented textile and apparel industry. The shift from un-organized players to organized is a big opportunity as many smaller un-organized players have been impacted by liquidity and survival issues, which can lead to a sustainable tailwind resulting in market share gains for larger organized players like SSML. Further, it aims to improve its efficiency and improve its working capital requirements by reducing its exposure to the consignment driven modern trade segment (for the branded apparels business) which is highly working capital intensive. SSML's core strategy is to consistently invest behind its brands, enhance its product mix and have a deeper penetration thereby leveraging its distribution network in the traditional retail channels.

Prudent Capital Allocation strategy coupled with smart sales strategy has helped the company strengthen its Balance sheet and has led to a meaningful increase in cash accruals. The company would be judiciously using the cash reserves which would further propel the next leap of growth. SSML is aware of the need to manage working capital and earn decent returns on all its new endeavours. It has restructured its costs (including employee and A&P) aggressively over the past two years. It can now reap the benefits of many large organised players leaving the space of blended fabrics and unorganised players opting to be convertors post the tax reforms. Additionally, it is now exploring the export markets with higher vigour as competition from China has reduced. In our view, SSML's revenue and EBITDA is likely to record a growth of 13% and 14% CAGR over FY22-24E while PAT for FY24E is likely to reach Rs. 290 Cr v/s Rs. 216 Cr in FY22 and Rs.69 Cr in FY20. Along with this, we expect the company to benefit from strong operating leverage and generate consistent FCF with improvement in working capital and RoCE from 11% in FY20 to 29% by FY24E.

With best in-class portfolio of brands, robust growth prospects, superior financial strength along with great track record of capital allocation and corporate governance, SSML deserves higher valuation in our opinion. **We think the base case fair value of the stock is Rs. 619 (10x FY24E EPS) and the bull case fair value of is Rs 666 (11x FY24E EPS). Investors can buy the in stock Rs 547-557 band (9x FY24E EPS) and add more on dips in Rs. 490-498 (8x FY24E EPS).**

Financial Summary

Particulars (in Rs Cr)	Q2FY23	Q2FY22	YoY-%	Q1FY23	QoQ-%	FY20	FY21	FY22	FY23E	FY24E
Operating Income	636	480	32%	399	59%	1,699	1,089	1,905	2,177	2,439
EBITDA	119	85	41%	52	130%	167	54	333	375	432
APAT	80	53	52%	31	160%	69	4	216	246	290
Diluted EPS (Rs)	17.1	11.3	52%	6.6	160%	14.8	0.8	46.2	52.5	61.9
RoE-%						9.1	0.5	25.4	23.8	23.4
P/E (x)						37.4	719.3	12.0	10.5	8.9
EV/EBITDA						17.5	49.8	8.3	7.3	5.8

(Source: Company, HDFC sec)

Q2FY23 Result Highlights

Revenue for Q2FY23 was higher by 32% YoY. It was led by both Fabrics and Garment. Fabrics constituted 69%, followed by Garments constituting 25% of Total Revenue. EBITDA for Q2FY23 increased by 41% YoY and EBITDA margins increased by 128bps YoY to 20% in Q2FY23. PAT increased by 52% YoY and PAT margins increased by 159bps YoY to 13% in Q2FY23. Fabrics Revenue was up 14% YoY, Garment Revenue up by 102% YoY. Fabrics Volume was higher 1% YoY, Garment volume was higher 92% YoY. Realisations for Fabrics were higher 13% YoY, Garment realisations were higher 5% YoY.

Fabrics to remain the dominant contributor; Gradual premiumisation would be a key catalyst

SSML's fabric segment maintains the lion's share in total revenue. Fabrics have been consistently contributing 75-85% of overall revenue (which has now fallen to ~70%). Domestic constitutes 90% of overall sales; export market is witnessing positive traction especially for its niche products. The company's premium suiting segments - J.Hampstead (~Rs 200 Cr in FY22) & Cadini (~Rs 250 Cr in FY22) combined contribution has been consistently increasing from ~20% in FY18 to ~25% in FY22 of the segmental revenues. Company has seen a meaningful increase in both volume and value growth. Realisations imparts an optimistic view given increasing premiumisation. Margins for the Fabric business remain in the range of ~15-20%.

Garments revival on the cards

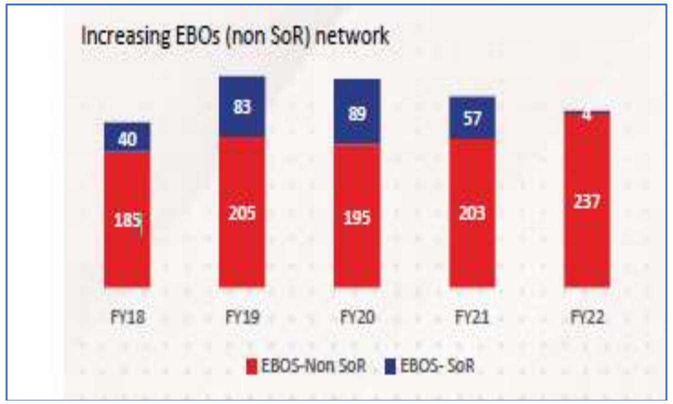
SSML's garment vertical is directed toward the company's effort of moving up the value chain according to changes in customer preferences. Garments formed 15-20% of the revenue in FY18-22. This vertical is dominated by primarily Oxemberg, J.Hampstead and Moretti and lately Mozzo. Garment Revenue witnessed a reduction in FY21 compared to FY19 and FY20 due to a change in sales strategy by the company. The company has discontinued its sales on SoR (sales or Returns) strategy thereby reflecting the normalised sales during the FY22 period. The company has set up unit for Indigo dyeing used in cotton jean manufacturing and also manufacturing of knitted fabrics as a mean of forward integration.

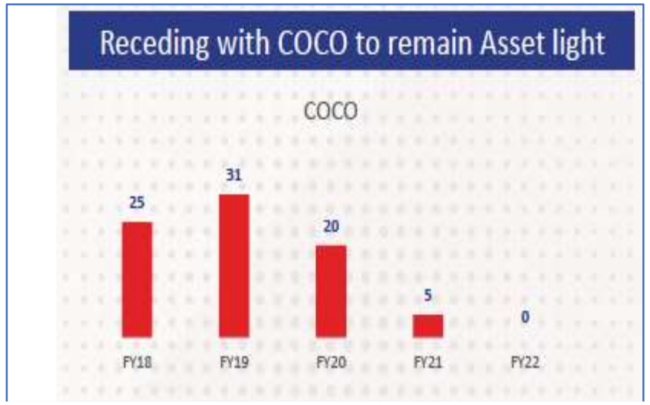
An optimum mix of In-house and Outsourcing makes it a scalable and Asset-light model

The company has a presence across almost the entire value chain, with manufacturing capacities for weaving, knitting, and dyeing. It outsources around 40% of its non-critical manufacturing requirement. The company manufactures newly introduced products in-house to prevent copying of its products, and on later stages it outsources the manufacturing. Going ahead, the share of outsourced products is expected to increase. This model provides the company the flexibility to adopt to market dynamics and manage its fixed costs leading to consistent profitability. Given cyclicality in the textile business, many players (organised + unorganised) faced the crunch of lower realisations and higher working capital requirements. SSML's tactical approach in production strategy has helped in countering volatility in the market. As a result, the company has been consistently able to achieve higher Asset Turnover. Fabrics business has seen a consistent improvement in Asset Turnover over the years. The garment business too is witnessing good traction and is expected to continue the momentum.

Building over Asset Light Model - SSML's market penetration strategy gives great importance to Tier II and Tier III cities. Establishing a solid presence in heartlands of India is a gainful move, as the company is able to root itself in a fragmented and under-penetrated market, which is beginning to grow well. SSML is targeting to capture the share from the unorganised players in Tier II and Tier III cities, who cover a considerable percentage of the Indian textile market. The company has a powerful distribution and franchisee network through which it is targeting the sizeable unorganised market of the country. It is consistently building distribution systems which are not Asset heavy, thus the company has been stopped its COCO model of sales. The company is now steadily strengthening its online platform while better using leading third-party online channels.

Redefining the sales strategy: The company de-risked its sales and collection cycle by changing its sales strategy from consignment sales to net sales. Now, the company books the net sales and there remains no provision for return and replacement of the sold goods. This strategy avoids blockage of working capital, saves management bandwidth and presents a clear picture of the order book.





Export sales on the rise: SSML has seen a rise in exports over the past few years as per the table below. This is despite the fact that India's domestic market is huge and SSML can barely cater to it. It is selective in choosing the type of fabrics, countries and customers so that the overall margins remain similar to the domestic sales while opening new vistas for SSML. Even in FY23, it is expecting a sharp jump in exports over FY22.

Key Risks

Sharp rise in Competition Intensity - For the fabrics division, SSML faces stiff competition from the regional unorganized sector, as it is a highly fragmented and price sensitive industry. In case of Branded Apparels, SSML faces competition from various international and domestic apparel brands, though in its space the competition remains limited.

High input cost pressure - Any prolonged volatility in raw material prices, along with the inability to pass on higher prices due to stiff competitive intensity, can impact overall profitability.

Rural/semi urban Demand Contraction due to lower agricultural produce- India's rural and semi-urban consumption patterns have a high degree of correlation with the monsoon. These markets are more sensitive to any adverse climatic conditions, which impact farm output and productivity. In case of slowdown in rural income growth, revenue growth for SSML can get impacted.

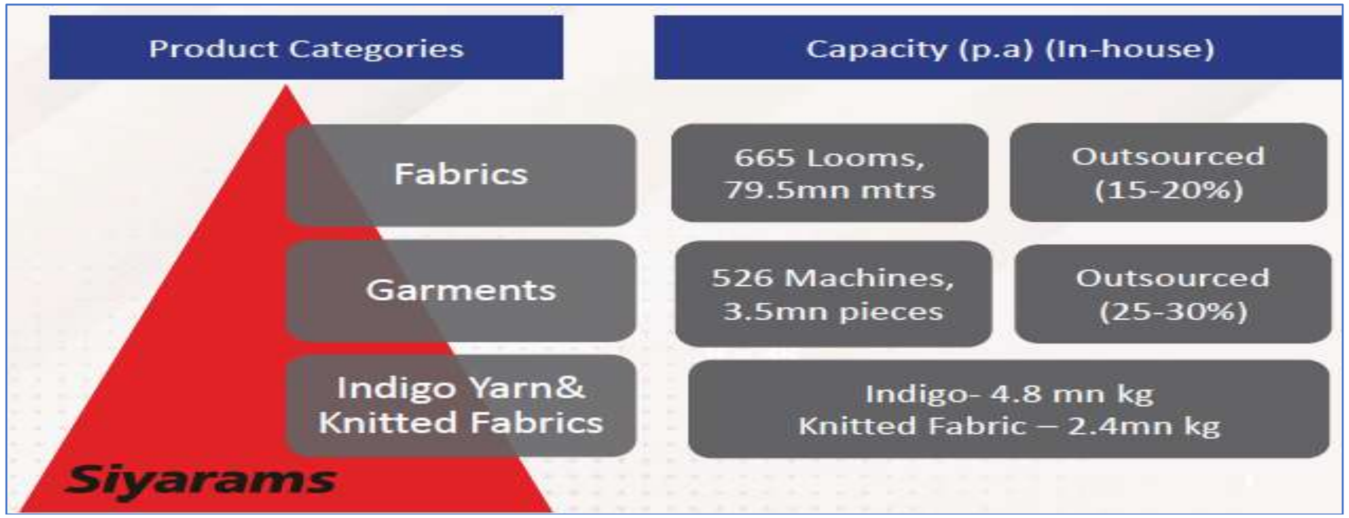
Cotton price has an inverse correlation with demand for SSML's products – When cotton prices are rising, consumers shift to PV fabrics/garments and vice versa. However, this shift happens at the margin and has a limited impact on sales of SSML as PV fabrics are economical and have other advantages compared to cotton fabrics/garments.

Investment of Rs.17 Cr in preference shares of associate company, Balkrishna Paper, may have to be written down in future due to financial problems of the investee company.

Company Overview:

Siyaram Silk Mills (SSML) was incorporated in 1978 and is headquartered in Mumbai, India has been a leading mid-market branded fabric and apparel company in India. Over the years, SSML has built a strong portfolio of brands in the economy and mid-premium segment. The company sells its products under multiple brands that enjoy high recall value with consumers. They include brand names such as Siyaram, J Hampstead, Oxemberg, and Cadini. SSML has an extensive distribution network (4 lacs MBO and 2000 dealers) that permeates India, giving an aspiring yet underserved vast population ready access to high-quality fabrics and apparel at attractive price points. This makes the company's brands the preferred choice in India's fast-growing yet untapped market. It is backed by highly integrated and state-of-the-art manufacturing and retailing capabilities. SSML spends capex of Rs 30-40 Cr p.a. on technology upgradation that results in improving quality and volume of output. Over the years, competitors of SSML like S Kumars, OCM, Grasim (exited business) have reduced their focus on PV fabrics / Garments, hence allowing SSML to have higher market share among organized players.

Manufacturing capabilities



Product offerings

	FABRICS	GARMENT / Men Apparels
Product Category & Brands	**Mass**: Siyaram, Mistair **Premium**: J. Hampstead, Siyaram Royal Linen **Super Premium**: CADINI	**Mass:** Siyaram's- Mozzo **Premium**: Oxemberg **Super Premium**: J. Hampstead
Owned/ Franchise	Owned Brand	Owned Brand
Average Price	**Suiting** - ₹250-3000 **Shirting** - ₹100-500	**Shirt** - ₹700-1000 **Trousers** - ₹1500-2000
Distribution	**Mass & Premium:** MBOs/EBO/Dealers **Super Premium**: EBOs	MBOs/EBO/Siyaram Shop

Financials

Income Statement

Particulars (in Rs Cr)	FY20	FY21	FY22	FY23E	FY24E
Net Revenues	**1699**	**1089**	**1905**	**2177**	**2439**
Growth (%)	***-6.4***	***-35.9***	***74.9***	***14.3***	***12.0***
Operating Expenses	1532	1035	1572	1803	2007
EBITDA	**167**	**54**	**333**	**375**	**432**
Growth (%)	***-30.1***	***-67.9***	***519.5***	***12.4***	***15.3***
EBITDA Margin (%)	***9.9***	***4.9***	***17.5***	***17.2***	***17.7***
Depreciation	73	61	59	62	65
Other Income	34	41	34	39	44
EBIT	**128**	**33**	**309**	**352**	**411**
Interest expenses	43	30	18	21	20
PBT	**85**	**3**	**291**	**330**	**391**
Tax	16	0	74	85	100
PAT	**69**	**4**	**216**	**246**	**290**
Share of Asso./Minority Int.	0	0	0	0	0
Adj. PAT	**69**	**4**	**216**	**246**	**290**
Growth (%)	***-30.1***	***-94.8***	***5906.4***	***13.7***	***18.0***
EPS	14.8	0.8	46.2	52.5	61.9

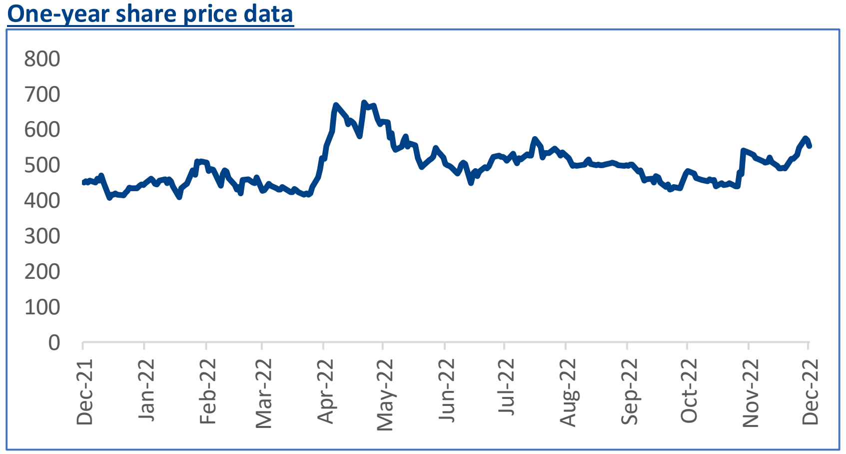
Balance Sheet

Particulars (in Rs Cr) - As at March	FY20	FY21	FY22	FY23E	FY24E
SOURCE OF FUNDS					
Share Capital	9	9	9	9	9
Reserves	753	758	925	1119	1346
Shareholders' Funds	**762**	**767**	**934**	**1128**	**1355**
Minority Interest	0	0	0	0	0
Total Debt	348	115	212	186	159
Net Deferred Taxes	14	12	11	11	11
Total Sources of Funds	**1124**	**893**	**1156**	**1325**	**1525**
APPLICATION OF FUNDS					
Net Block & Goodwill	490	473	486	464	444
CWIP	4	3	2	2	2
Investments	34	54	53	53	53
Other Non-Curr. Assets	30	31	17	17	14
Total Non-Current Assets	**559**	**560**	**558**	**536**	**513**
Inventories	430	255	405	508	553
Debtors	340	260	386	447	468
Cash & Equivalents	5	6	6	36	210
Other Current Assets	125	129	157	199	238
Total Current Assets	**900**	**650**	**955**	**1191**	**1468**
Creditors	182	176	213	233	267
Other Current Liab & Provisions	160	157	136	162	182
Total Current Liabilities	**342**	**333**	**349**	**394**	**449**
Net Current Assets	558	317	605	796	1018
Total Application of Funds	**1124**	**893**	**1156**	**1325**	**1525**

Cash Flow Statement

Particulars (in Rs Cr)	FY20	FY21	FY22	FY23E	FY24E
Reported PBT	85	3	291	330	391
Non-operating & EO items	0	-7	-7	13	10
Interest Expenses	28	18	6	21	20
Depreciation	73	61	59	62	65
Working Capital Change	15	259	-227	-173	-57
Tax Paid	0	-4	-77	-85	-100
OPERATING CASH FLOW (a)	**201**	**330**	**45**	**169**	**328**
Capex	-43	-15	-66	-40	-45
Free Cash Flow	158	315	-21	129	283
Investments	0	-19	0	0	0
Non-operating income	15	12	12	0	0
INVESTING CASH FLOW (b)	**-28**	**-22**	**-53**	**-40**	**-45**
Debt Issuance / (Repaid)	-65	-270	91	-26	-27
Interest Expenses	-38	-28	-29	-21	-20
FCFE	70	9	54	82	237
Share Capital Issuance	0	0	0	0	0
Dividend	-50	0	-50	-52	-63
FINANCING CASH FLOW (c)	**-153**	**-299**	**13**	**-99**	**-110**
NET CASH FLOW (a+b+c)	**20**	**9**	**5**	**30**	**173**

One-year share price data



Key Ratios

Particulars	FY20	FY21	FY22	FY23E	FY24E
Profitability Ratios (%)					
EBITDA Margin	9.9	4.9	17.5	17.2	17.7
EBIT Margin	7.5	3.1	16.2	16.2	16.8
APAT Margin	4.1	0.3	11.4	11.3	11.9
RoE	9.1	0.5	25.4	23.8	23.4
RoCE	11.3	3.4	30.5	28.6	29.0
Solvency Ratio (x)					
Net Debt/EBITDA	2.0	2.0	0.6	0.4	-0.1
Net D/E	0.4	0.1	0.2	0.1	0.0
Per Share Data (Rs)					
EPS	14.8	0.8	46.2	52.5	61.9
CEPS	30.4	13.8	58.7	65.7	75.8
BV	162.7	163.7	199.4	240.8	289.3
Dividend	8.6	4.6	9.2	11.0	13.5
Turnover Ratios (days)					
Debtor days	79	101	62	70	68
Inventory days	92	115	63	77	79
Creditors days	38	60	37	37	37
VALUATION					
P/E	37.4	719.3	12.0	10.5	8.9
P/BV	3.4	3.4	2.8	2.3	1.9
EV/EBITDA	17.5	49.8	8.3	7.3	5.8
EV / Revenues	1.7	2.5	1.5	1.2	1.0
Dividend Yield (%)	1.6	0.8	1.7	2.0	2.4
Dividend Payout	58.2	598.6	19.9	21.0	21.8

(Source: Company, HDFC sec)

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HDFC Sec Retail Research Rating description

Green Rating stocks

This rating is given to stocks that represent large and established business having track record of decades and good reputation in the industry. They are industry leaders or have significant market share. They have multiple streams of cash flows and/or strong balance sheet to withstand downturn in economic cycle. These stocks offer moderate returns and at the same time are unlikely to suffer severe drawdown in their stock prices. These stocks can be kept as a part of long term portfolio holding, if so desired. This stocks offer low risk and lower reward and are suitable for beginners. They offer stability to the portfolio.

Yellow Rating stocks

This rating is given to stocks that have strong balance sheet and are from relatively stable industries which are likely to remain relevant for long time and unlikely to be affected much by economic or technological disruptions. These stocks have emerged stronger over time but are yet to reach the level of green rating stocks. They offer medium risk, medium return opportunities. Some of these have the potential to attain green rating over time.

Red Rating stocks

This rating is given to emerging companies which are riskier than their established peers. Their share price tends to be volatile though they offer high growth potential. They are susceptible to severe downturn in their industry or in overall economy. Management of these companies need to prove their mettle in handling cyclicality of their business. If they are successful in navigating challenges, the market rewards their shareholders with handsome gains; otherwise their stock prices can take a severe beating. Overall these stocks offer high risk high return opportunities.

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