

Stock update

Siyaram Silk Mills Ltd.

November 17, 2021





Siyaram Silk Mills Ltd.

Industry	LTP	Recommendation	Base Case Fair Value	Bull Case Fair Value	Time Horizon
Textiles	Rs.461	Buy in the band of Rs.460-465 & add more on dips at Rs.410	Rs.503	Rs.559	2 quarters

HDFC Scrip Code	SIYSILEQNR
BSE Code	503811
NSE Code	SIYSIL
Bloomberg	SIYA IN
CMP Nov 16, 2021	461
Equity Capital (Rs cr)	9
Face Value (Rs)	2
Equity Share O/S (cr)	4.5
Market Cap (Rs cr)	2161
Book Value (Rs)	173
Avg. 52 Wk Volumes	190,750
52 Week High	518
52 Week Low	138

Share holding Pattern % (Sept, 2021)	
Promoters	67.1
Institutions	12.6
Non Institutions	20.3
Total	100



HDFCsec Retail research
stock rating meter

for details about the ratings, refer at the end of the report

* Refer at the end for explanation on Risk Ratings

Fundamental Research Analyst

Nirav Savai

Nirav.savai@hdfcsec.com

Our Take:

Siyaram Silk Mills Ltd (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 0.1x as on FY21. It has been in a constant endeavor 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. SSML is one of the largest poly viscose blended fabric player in India. Its portfolio of products include suiting fabrics, shirting fabrics, casual and formal apparels and home furnishing. SSML has registered a smart recovery in earnings post the 2nd covid-19 wave whereby it reported best ever quarterly performance in Q2FY22. In Q2FY22, it reported a PAT of Rs. 52Cr which was mainly driven by strong operating leverage and its lean cost structure. SSML has positioned its products mainly in the mid-market whereby it competes directly with unorganized and regional fabric players. Its strong balancesheet, deep penetration with consistent and focused approach toward brand building were the key growth drivers for the company. Over FY10-20, it had undergone a cumulative investment of ~Rs. 600Cr behind A&P activities which accounts for 4% of its cumulative revenues. Key demand drivers like social gatherings, marriage season and festivals are likely to play out in H2FY22.

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. Margins may dip a bit going forward as there could be some normalization of marketing spend. Also the low cost inventory benefit enjoyed by the company in Q2FY22 may not be available going forward. In our view, SSML's revenue and EBITDA is likely to record a growth of 23% and 73% CAGR over FY21-24E while PAT for FY24E is likely to reach Rs. 183Cr v/s Rs. 3.5Cr in FY21 and Rs.69Cr 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 7% in FY20 to 19% by FY24E.

On 12th July, 2021, we had initiated a coverage report (<https://www.hdfcsec.com/hsl.research.pdf/Initiating%20Coverage%20Siyaram%20Silk%20Mills%20Ltd.pdf>) on Siyaram Silk Mills Ltd and recommended to buy at LTP at Rs 349 and add further on dips to Rs. 311 for base case target of Rs 395 and bull case target of Rs 431. The



stock has achieved its bull case target on 13th July 2021. Given the healthy growth outlook and strong set of numbers in Q2FY22, we re-iterate our positive view on the stock and expect the stock to further get re-rated. Consequently, we have now revised earnings and increased the target price for SSML. We feel investors can buy the stock in the band of Rs. 460-465 and further add on dips at Rs. 410 for a base case fair value of Rs. 503 (13.5x Sept FY23E) and bull case fair value of Rs. 559 (15x Sept FY23E) for a time horizon of 2 quarters.

Change in Estimates

	Previous		Revised		
	FY22E	FY23E	FY22E	FY23E	FY24E
Revenue	1363	1767	1609	1814	2013
EBITDA	160	201	253	259	278
PAT	84	112	155	165	183
EPS	18.0	23.9	33.1	35.2	39.1

(Source: Company, HDFC sec)

Financial Summary

Particulars (Rs cr)	Q2FY22	Q2FY21	YoY-%	Q1FY22	QoQ-%	FY20	FY21	FY22E	FY23E	FY24E
Total Operating Income	480	174	176	233	106	1699	1089	1609	1814	2013
EBITDA	85	-6	-1544	29	192	167	54	253	259	278
Depreciation	16	16	-1	15	6	73	61	64	67	69
Other Income	7	12	-46	8	-19	34	41	35	38	42
Interest Cost	5	9	-47	5	-5	43	30	17	10	6
Tax	18	-5	-490	4	360	16	0	52	55	61
PAT	52	-14	-471	13	301	69	3	155	165	183
Diluted EPS (Rs)	11.2	-3.0	-473.3	2.6	330.8	15.3	1.1	33.1	35.2	39.1
RoE						9%	0%	19%	18%	19%
P/E (x)						30	407	14	13	12
EV/EBITDA						13	42	9	9	8

(Source: Company, HDFC sec)

Q2FY22 Result Review

- SSSML in Q2FY22 reported a strong performance. Overall revenues stood at Rs. 480Cr which grew by 1.76x/1.06x on a YoY/QoQ basis. Segment-wise, branded Fabric, garments and yarn revenue for the quarter stood 80/16/4% respectively.
- Fabric segment reported a volume of 23lk Mtrs which grew 70% on sequential basis while realization stood at Rs. 164/ mtr on QoQ basis registering a growth of 23% due to lower discounting and improved product mix.



- Garments segment volumes for the quarter stood at 12lk pcs up 97% on QoQ basis while realization stood at Rs. 632 - up 20% on a QoQ basis while Yarn segment volume for the quarter stood at 6lk MT - up 6% on a QoQ basis while realization stood at Rs. 299.5/MT - up 8% on a QoQ basis.
- EBITDA for the quarter stood at Rs.85 Cr v/s a loss of Rs. 6Cr in Q2FY21 while on a sequential basis EBITDA grew by 1.92x. SSML reported best ever operating performance for the quarter whereby it clocked highest ever quarterly EBITDA margin of 17.6% v/s 12.4% in Q1FY22.
- Consequently, PAT for the quarter stood at Rs. 52Cr v/s a loss of Rs. 14Cr in Q2FY22. Sequentially it reported a growth of 3x in PAT over Q1FY22.

Quarterly Operational performance trend

	Apr-Dec '20	Q4FY21	Q1FY22	Q2FY22
Product-wise Revenue Break-up				
Fabric	465	431	182	384
Garments	74	42	34	79
Yarn	37	33	16	18
Others	5	1	1	0
	580	507	232	481
Product-wise Volume Break-up				
Fabric (lk Mtrs)	332.7	323.8	137.7	234.5
Garments (lk pcs)	27.6	11.1	6.4	12.5
Yarn (lk MT)	18.7	13.1	5.6	5.9
Product-wise Realisation				
Fabric	140	133	133	164
Garments	270	378	529	632
Yarn	199	254	278	299
EBITDA	2	80	29	85
EBITDA Margin	0.3%	15.7%	12.4%	17.6%
PAT	-54	58	13	52
PAT Margin	-9.3%	11.4%	5.6%	10.8%

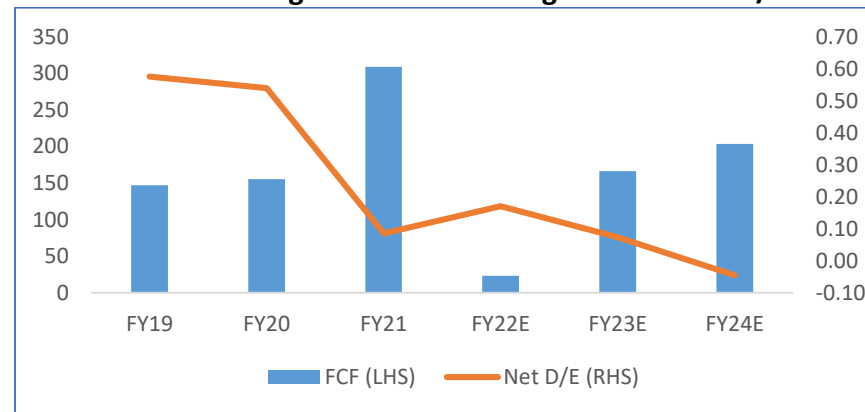
(Source: Company, HDFC sec)



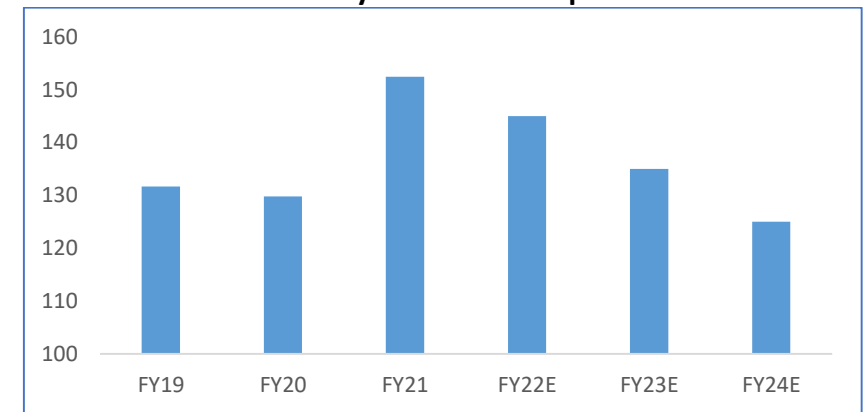
Differentiated business model:

SSML has the highest exposure to the branded B2C segment within the textile industry. It sells its company owned brands like J.Hampstead, Siyaram, Cadini, Mistair, Oxemberg etc. It operates an asset light business model with higher pie of revenues coming from the MBOs and FOFO stores which has resulted in substantially higher asset turns and higher CFO compared to peers. Its higher growth compared to commoditized textile companies has been complemented by consistent improvement in operating performance whereby its EBITDA margins have expanded from 9.8% in FY20 to 15.9% as on H1FY22 resulting in strong FCF generation helping deleverage in its balance sheet.

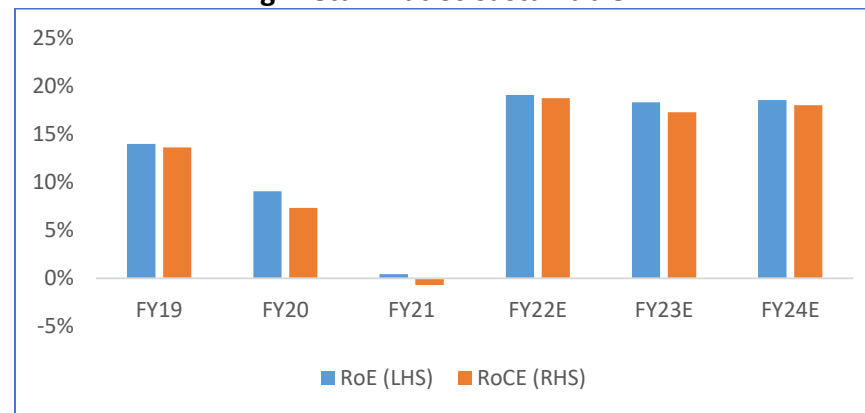
Consistent FCF generation resulting in lower Net D/E



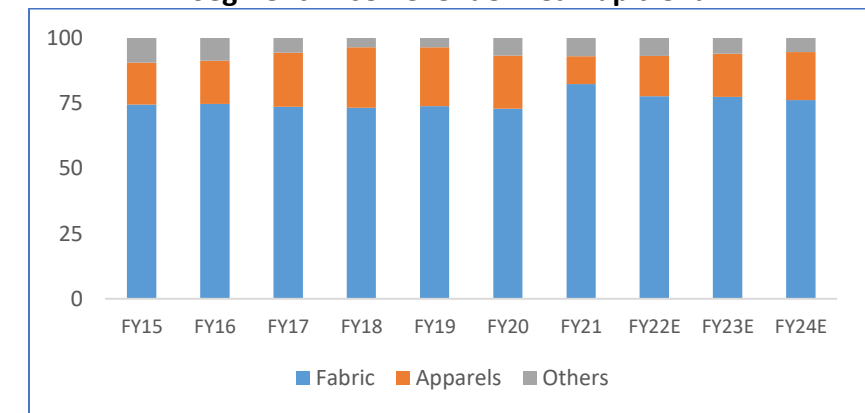
Cash Conversion Days to witness improvement ahead



High return ratios sustainable



Segment-wise Revenue Break-up trend



Source- Company, HDFC Securities



Financials

Income Statement

(Rs Cr)	FY20	FY21	FY22E	FY23E	FY24E
Net Revenues	1699	1089	1609	1814	2013
Growth (%)	-6%	-36%	48%	13%	11%
Operating Expenses	1532	1035	1356	1554	1735
EBITDA	167	54	253	259	278
Growth	-30%	-68%	372%	3%	7%
EBITDA Margin	9.8%	4.9%	15.7%	14.3%	13.8%
Depreciation	73	61	64	67	69
EBIT	94	-8	189	192	208
Other Income	34	41	35	38	42
Interest expenses	43	30	17	10	6
PBT	85	3	207	220	244
Tax	16	0	52	55	61
RPAT	69	3	155	165	183
APAT	69	3	155	165	183
Growth (%)	-31%	-95%	4544%	6%	11%
EPS	15.3	1.1	33.1	35.2	39.1

Balance Sheet

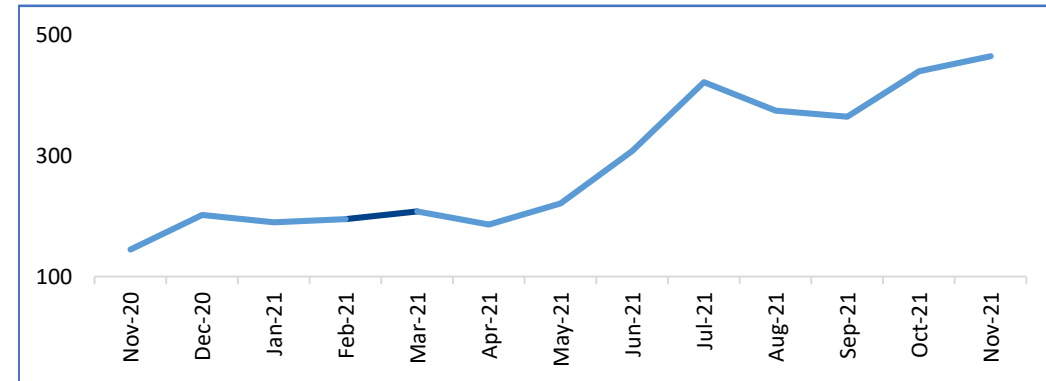
As at March	FY20	FY21	FY22E	FY23E	FY24E
SOURCE OF FUNDS					
Share Capital	9	9	9	9	9
Reserves	758	758	851	933	1025
Shareholders' Funds	767	767	860	942	1034
Long Term Debt	428	79	159	99	59
Other Liabilities	82	71	78	86	94
Minority Interest					
Total Source of Funds	1276	917	1097	1127	1187
APPLICATION OF FUNDS					
Net Block & Goodwill	548	469	445	413	373
CWIP	4	3	3	3	3
Other Non-Current Assets	21	52	80	100	111
Total Non-Current Assets	573	523	528	515	487
Current Investments	25	37	37	37	37
Inventories	428	255	441	447	469
Trade Receivables	324	261	397	422	441
Cash & Equivalents	14	13	-4	28	111
Other Current Assets	133	93	121	145	161
Total Current Assets	923	659	991	1080	1219
Trade Payables	182	176	198	199	221
Other Current Liab & Provisions	38	89	224	269	297
Total Current Liabilities	220	265	422	468	518
Net Current Assets	703	393	569	612	701
Total Application of Funds	1276	917	1097	1127	1187



Cash Flow Statement

(Rs Cr)	FY20	FY21	FY22E	FY23E	FY24E
Reported PBT	85	3	207	220	244
Non-operating & EO items	-15	-20	0	0	0
Interest Expenses	43	30	17	10	6
Depreciation	73	61	64	67	69
Working Capital Change	46	260	-184	-11	-6
Tax Paid	-31	-4	-52	-55	-61
OPERATING CASH FLOW (a)	201	330	52	231	253
Capex	-46	-21	-40	-35	-30
Free Cash Flow	155	309	12	196	223
Investments	0	-20	0	0	0
Non-operating income	18	18	-29	-19	-11
INVESTING CASH FLOW (b)	-28	-23	-69	-54	-41
Debt Issuance / (Repaid)	-65	-271	80	-60	-40
Interest Expenses	-38	-28	-17	-10	-6
FCFE	52	10	75	126	176
Share Capital Issuance	0	0	0	0	0
Others	-74	-8	-55	-75	-83
FINANCING CASH FLOW (c)	-177	-307	8	-145	-129
NET CASH FLOW (a+b+c)	-3	0	-9	32	82

One Year Price Chart



Key Ratios

(Rs Cr)	FY20	FY21	FY22E	FY23E	FY24E
EBITDA Margin	9.8%	4.9%	15.7%	14.3%	13.8%
EBIT Margin	5.5%	-0.7%	11.7%	10.6%	10.4%
APAT Margin	4.1%	0.3%	9.6%	9.1%	9.1%
RoE	9%	0%	19%	18%	19%
RoCE	7%	-1%	19%	17%	18%
Solvency Ratio					
Net Debt/EBITDA (x)	2.5	1.2	0.6	0.3	-0.2
Net D/E	0.5	0.1	0.2	0.1	-0.1
PER SHARE DATA					
EPS	15.3	1.1	33.1	35.2	39.1
CEPS	30.1	14.1	46.8	49.5	53.9
BVPS	163.7	163.7	183.6	201.2	220.7
Turnover Ratios (days)					
Debtor days	77	98	90	85	80
Inventory days	91	114	100	90	85
Creditors days	38	60	45	40	40
VALUATION					
P/E	30	407	14	13	12
P/BV	2.8	2.8	2.5	2.3	2.1
EV/EBITDA	13	42	9	9	8
EV / Revenues	1.3	2.1	1.4	1.2	1.1
Dividend Yield (%)	1.8%	0.9%	2.9%	3.8%	4.2%
Dividend Pay-out	56%	404%	40%	50%	50%

Source- Company, HDFC Securities



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 cyclical 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.

Disclosure:

I, **Nirav Savai, (MBA)**, authors and the names subscribed to this report, hereby certify that all of the views expressed in this research report accurately reflect our views about the subject issuer(s) or securities. HSL has no material adverse disciplinary history as on the date of publication of this report. We also certify that no part of our compensation was, is, or will be directly or indirectly related to the specific recommendation(s) or view(s) in this report.

Research Analyst or his relative or HDFC Securities Ltd. **does not have** any financial interest in the subject company. Also Research Analyst or his relative or HDFC Securities Ltd. or its Associate may have beneficial ownership of 1% or more in the subject company at the end of the month immediately preceding the date of publication of the Research Report. Further Research Analyst or his relative or HDFC Securities Ltd. or its associate **does not have** any material conflict of interest.

Any holding in stock – No

HDFC Securities Limited (HSL) is a SEBI Registered Research Analyst having registration no. INH000002475.

Disclaimer:

This report has been prepared by HDFC Securities Ltd and is meant for sole use by the recipient and not for circulation. The information and opinions contained herein have been compiled or arrived at, based upon information obtained in good faith from sources believed to be reliable. Such information has not been independently verified and no guaranty, representation of warranty, express or implied, is made as to its accuracy, completeness or correctness. All such information and opinions are subject to change without notice. This document is for information purposes only. Descriptions of any company or companies or their securities mentioned herein are not intended to be complete and this document is not, and should not be construed as an offer or solicitation of an offer, to buy or sell any securities or other financial instruments.

This report is not directed to, or intended for display, downloading, printing, reproducing or for distribution to or use by, any person or entity who is a citizen or resident or located in any locality, state, country or other jurisdiction where such distribution, publication, reproduction, availability or use would be contrary to law or regulation or what would subject HSL or its affiliates to any registration or licensing requirement within such jurisdiction.

If this report is inadvertently sent or has reached any person in such country, especially, United States of America, the same should be ignored and brought to the attention of the sender. This document may not be reproduced, distributed or published in whole or in part, directly or indirectly, for any purposes or in any manner.

Foreign currencies denominated securities, wherever mentioned, are subject to exchange rate fluctuations, which could have an adverse effect on their value or price, or the income derived from them. In addition, investors in securities such as ADRs, the values of which are influenced by foreign currencies effectively assume currency risk.

It should not be considered to be taken as an offer to sell or a solicitation to buy any security. HSL may from time to time solicit from, or perform broking, or other services for, any company mentioned in this mail and/or its attachments.

HSL and its affiliated company(ies), their directors and employees may; (a) from time to time, have a long or short position in, and buy or sell the securities of the company(ies) mentioned herein or (b) be engaged in any other transaction involving such securities and earn brokerage or other compensation or act as a market maker in the financial instruments of the company(ies) discussed herein or act as an advisor or lender/borrower to such company(ies) or may have any other potential conflict of interests with respect to any recommendation and other related information and opinions.

HSL, its directors, analysts or employees do not take any responsibility, financial or otherwise, of the losses or the damages sustained due to the investments made or any action taken on basis of this report, including but not restricted to, fluctuation in the prices of shares and bonds, changes in the currency rates, diminution in the NAVs, reduction in the dividend or income, etc.

HSL and other group companies, its directors, associates, employees may have various positions in any of the stocks, securities and financial instruments dealt in the report, or may make sell or purchase or other deals in these securities from time to time or may deal in other securities of the companies / organizations described in this report.

HSL or its associates might have managed or co-managed public offering of securities for the subject company or might have been mandated by the subject company for any other assignment in the past twelve months.

HSL or its associates might have received any compensation from the companies mentioned in the report during the period preceding twelve months from t date of this report for services in respect of managing or co-managing public offerings, corporate finance, investment banking or merchant banking, brokerage services or other advisory service in a merger or specific transaction in the normal course of business.

HSL or its analysts did not receive any compensation or other benefits from the companies mentioned in the report or third party in connection with preparation of the research report. Accordingly, neither HSL nor Research Analysts have any material conflict of interest at the time of publication of this report. Compensation of our Research Analysts is not based on any specific merchant banking, investment banking or brokerage service transactions. HSL may have issued other reports that are inconsistent with and reach different conclusion from the information presented in this report.

Research entity has not been engaged in market making activity for the subject company. Research analyst has not served as an officer, director or employee of the subject company. We have not received any compensation/benefits from the subject company or third party in connection with the Research Report.

HDFC securities Limited, I Think Techno Campus, Building - B, "Alpha", Office Floor 8, Near Kanjurmarg Station, Opp. Crompton Greaves, Kanjurmarg (East), Mumbai 400 042 Phone: (022) 3075 3400 Fax: (022) 2496 5066

Compliance Officer: Binkle R. Oza Email: complianceofficer@hdfcsec.com Phone: (022) 3045 3600

HDFC Securities Limited, SEBI Reg. No.: NSE, BSE, MSEI, MCX: INZ000186937; AMFI Reg. No. ARN: 13549; PFRDA Reg. No. POP: 11092018; IRDA Corporate Agent License No.: CA0062; SEBI Research Analyst Reg. No.: INH000002475; SEBI Investment Adviser Reg. No.: INA000011538; CIN - U67120MH2000PLC152193

Mutual Funds Investments are subject to market risk. Please read the offer and scheme related documents carefully before investing.