HDFC securities

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20 YEARS

Initiating Coverage

Visaka Industries Ltd.

15-March-2021

RETAIL RESEARCH

Visaka Industries Ltd.

Industry	LTP	Recommendation	Base Case Fair Value	Bull Case Fair Value	Time Horizon
Building Materials	Rs. 482	Buy at LTP band & add on dips to Rs 432	Rs. 555	Rs.635	2 quarters

HDFC Scrip Code	VISINDEQNR
BSE Code	509055
NSE Code	VISAKAIND
Bloomberg	VSKI IN
CMP March 12,2021	482
Equity Capital (Rscr)	16
Face Value (Rs)	10
Equity Share O/S (cr)	1.6
Market Cap (Rscrs)	794
Book Value (Rs)	348
Avg. 52 Wk Volumes	72,110
52 Week High	535
52 Week Low	94

Share holding Pattern % (Dec, 2020)	
Promoters	45.85
Institutions	1.3
Non Institutions	52.85
Total	100.0

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Our Take:

Visaka Industries, for the last 4 decades, has been one of the leaders in cement asbestos based roofing solutions in India. Its flagship brands 'Visaka"& "Shakti" command a strong brand patronage in Southern India and is mainly used in rural housing. It is No.2 player in this segment with a capacity of 802k MT (scaled-up its capacity by 22x in last 3.5 decades) commanding a Pan-India market share of 18%. Along with this on the building material side, it has enriched its product offerings with a launch of non-asbestos based fiber cement boards and panels in 2009 under its brand "V-Next". Over last decade, this segment has been one of the key growth drivers for the company. "V-next" has been one of the prominent brands across India with one the largest capacity (170kMT of Fiber Boards & 9750MT for Panels) with dominant Pan-India market share of 32% which is majorly used in urban and commercial buildings. Apart from its building material portfolio, the company also presence in a synthetic yarn spinning facility which has been impacted the most due to pandemic and is likely to recover FY22 onwards.

Going forward, the company aims to further expand its capacity in margin accretive, value-add V-Next segment. The on-going 50k MT capacity is likely to commence operations in FY22. The company aims to reach sales in the V-Next products category of Rs. 600Cr over next 5-7 year from Rs.198Cr as on FY20 translating into a revenue growth CAGR of ~20%.

Valuations & Recommendation:

Visaka's earnings grew at a CAGR 18% during FY15-20. Going forward, we are positive on the future growth prospects of rural housing and building material segment apart from this a revival in the synthetic yarn segment provides good visibility of growth. In the building material space, we expect, Visaka Industries to be ahead of the industry performance. In our view, Visaka's revenue and PAT is likely to record a growth of 8.7% and 36% CAGR over FY20-23E along with consistent FCF generation, stable working capital & up-tick in ROE's from 10% in FY20 to 18% by FY23E. Segment-wise, we expect, V-Next and Cement asbestos revenue to grow at CAGR 15.6% and 9.5% respectively over the same period.

The stock is currently trading at valuation of 6x FY23E earnings. We feel the base case fair value of the stock is Rs. 555 (7x FY23E) and bull case fair value is Rs. 635 (8x FY23E). Investors willing to take risk can buy the stock at current levels of Rs. 482 and add on dips at the price of Rs 432.

Financial Summary

Particulars (Rs cr)	Q3FY21	Q3FY20	YoY-%	Q2FY21	QoQ-%	FY19	FY20	FY21E	FY22E	FY23E
Total Operating Income	280.7	241.4	16.3	226.2	24.1	1,136.4	1,050.4	1,098.6	1,224.6	1,351.0
EBITDA	41.8	21.4	95.5	40.6	3.0	143.6	108.9	175.8	194.7	216.2
Depreciation	10.1	10.0	0.8	10.0	0.7	35.4	41.0	40.6	43.1	46.7
Other Income	2.2	1.4	52.4	2.4	-10.3	12.0	6.6	8.8	11.0	13.5
Interest Cost	2.7	4.3	-35.7	3.0	-9.3	20.0	17.4	12.2	13.5	15.1
Tax	8.1	2.4	239.9	7.7	5.8	32.9	7.8	32.9	37.3	42.0
PAT	23.0	6.2	274.6	22.3	3.3	67.4	49.3	98.8	111.8	125.9
Diluted EPS (Rs)	14.0	3.9	261.2	13.9	0.8	127.1	100.4	62.0	70.2	79.0
RoE						14%	10%	18%	18%	18%
P/E (x)						11	16	8	7	6
EV/EBITDA						7	9	5	4	4

(Source: Company, HDFC sec)

Q3FY21 Result Review

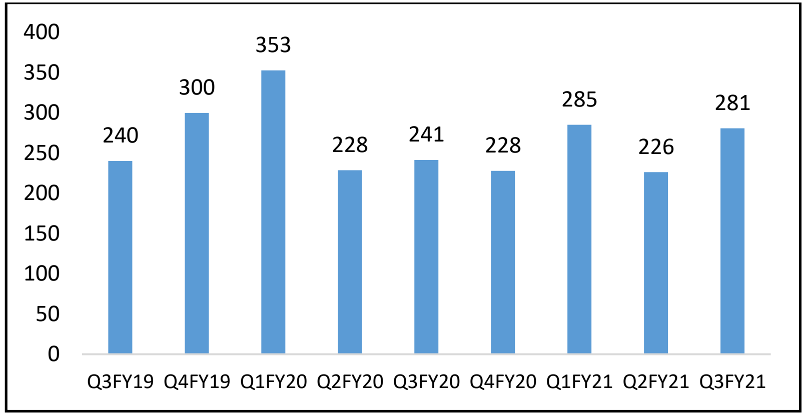
- In the midst of Covid-19 pandemic, Visaka in Q3FY21 reported stellar operating performance. Overall revenues stood at Rs. 280Cr which grew by 16.3% on YoY and 24% on sequential basis. Segment-wise Building materials which comprised of ~83% of overall revenues which grew by 25.5%/16.8% on YoY/QoQ basis. This was mainly driven by both 13.2% volume growth and 12.3% realization growth on YoY basis. Higher growth in this segment was mainly attributed to strong rural demand post good monsoon and high steel prices v/s asbestos sheets which makes its products more competitive. On the contrary the synthetic yarn segment had been badly impacted by covid-pandemic and sluggish demand across the textile value chain. This segment revenues declined by 15% YoY which was on account of decline of 10%/5% in volume/realization.
- EBITDA stood at Rs.41.8Cr registering a growth of 95%/3% on YoY/QoQ basis while EBITDA Margins expanded by 600bps to 14.9% v/s 8.9% in Q3FY20. Better operating performance was driven by strong positive operating leverage. Segment-wise Building materials EBIT margins for the quarter stood at 17% up 1000bps on YoY basis while synthetic yarn EBIT margins stood at 7% v/s 12% in Q3FY20.
- Consequently, PAT stood at Rs.23Cr up 274%/ 22% on YoY/QoQ basis.

Recent Triggers

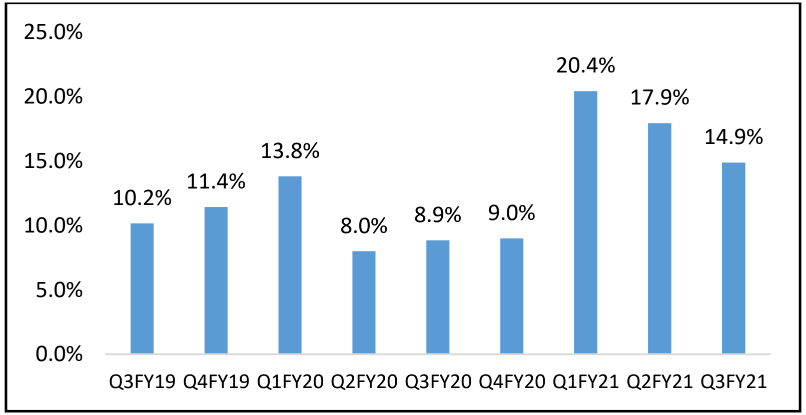
Strong pent-up demand post lockdown coupled with margin expansion driven by cost rationalization

In the universe of building materials space, asbestos-cement roofing sheets (ACS) and cement boards & panels (CBP) were relatively less impacted on account of Covid-19 related slowdown. Despite the economy slowdown, there was robust demand for ACS products which resulted in best-in-class operating performance. ACS products benefited mainly due to its rural centric target audience which had strong demand-side tailwinds on the back of higher farm income due to good monsoon and high steel prices which made ACS more competitive compared to metal sheets. We expect the demand for ACS to remain firm in the near to medium term driven by the rural markets. Also on the CBP side, there was a strong tailwind of accelerated demand in affordable replacement of traditional products like plywood, gypsum boards and calcium silicate boards etc. Visaka being one of the leading players in this segment had been a beneficiary of the rising demand. Strong pricing power along with cost rationalization measures like cut in A&P, decline in employee cost and other overheads resulted in sturdy operating performance over 9MFY21.

Quarterly Revenue growth Trend



Quarterly EBITDA Margin Trend



(Source: Company, HDFC sec)

Long Term Triggers

Consistent market share gains across categories coupled with strong track record of execution

The company has dominant market positioning and presence across categories in the building materials space. Despite being a younger player compared to its largest competitor HIL, it has gained significant ground over last 3 decades. In the asbestos sheet business the company is India's 2nd largest player with 18% market share. Over last three and a half decades the company has almost multiplied its capacity by 22x from 36k MTPA to current 802k MTPA. Also in the "V-Next" segment the company has done a strong ramp-up over last decade, whereby its capacity has increased from 4k MTPA in FY08 to current 180k MTPA. Going forward, with the ongoing capex it further aims to expand this capacity to 240k MTPA by FY22. It currently has a dominant 32% market share in the Cement board and panel segment.

Pan-India presence with clear focus on last mile connectivity

VIL key strength comprises of its deep routed distribution network supported by Pan-India world-class manufacturing set-up. The company markets products directly to retailers as opposed to pursuing the conventional distributor-retailer approach, facilitating a superior understanding of marketplace realities. The company's distribution network comprises >7,000 dealers in India's urban, rural and suburban markets. On the manufacturing side, the company has progressively commissioned plants in regions with attractive off-take but relatively inadequate supply. Its strategy is to service consumers across a radius of 500 Km. Each of the company's plants cover mutually exclusive marketing zones, maximizing national coverage. In the Fibre Cement Roofing Division which is more rural focused and has relatively higher freight cost, the company has 8 manufacturing facilities spread across India- 5 in Southern India (Telangana, Andhra Pradesh, Tamil Nadu, Karnataka & Odisha) 1 in East (West Bengal), 1 in West (Maharashtra) and 1 in North (UP). Also for V-Next business it has set-up 3 facilities in Telangana, Maharashtra and Haryana.

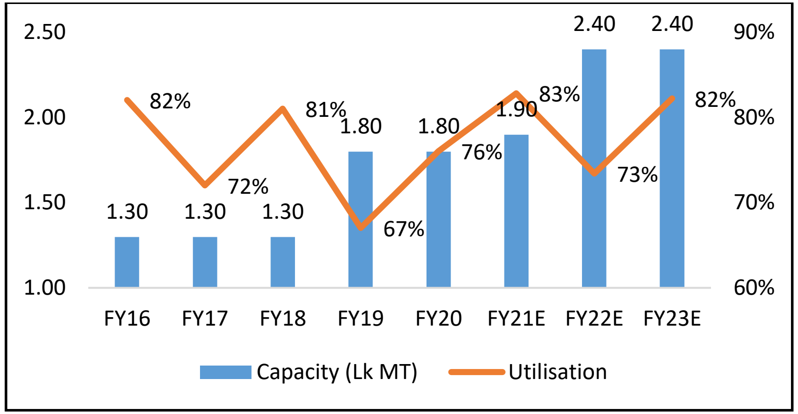
Scale-up in non-seasonal "V-Next" segment to be margin accretive

In order to insulate the seasonality factor of asbestos sheets and to catch-up the fast growing multi-decade growth opportunity in superior eco-friendly and price-value alternatives to wood, VIL ventured into innovative Cement board and panel segment (CBP) under its brand "V-Next" in 2008. These products are cement fibre sheets used wherever particle board and plywood are used in internal structures as well as external prefab applications. The off-take of cement bonded boards has been consistently growing following enhanced product awareness, shift from timber products (due to advantages of fire, water and termite resistance over plywood and particle boards), higher affordability, maintenance-free, low erection cost, functional use by carpenters, easy transportability (rather than be mixed onsite) and safety in seismic zones.

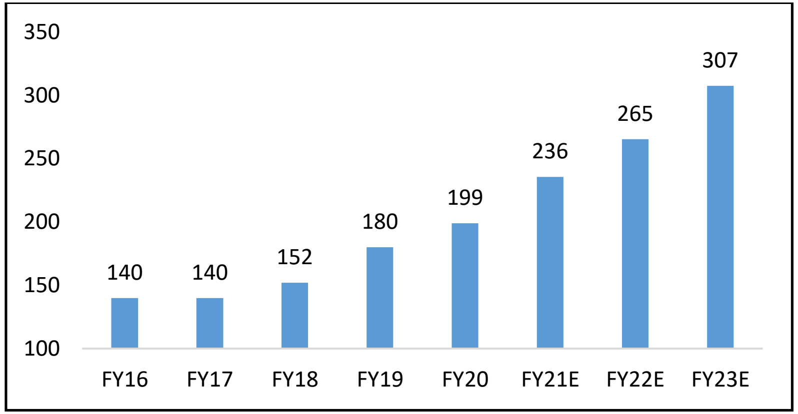
V-Panel is positioned as dry wall substitute. The product is ideal for disaster-prone areas, is low on maintenance, enhances interior living area on account of its thinness and is ideal where real estate is expensive. Its weight is lower than bricks, quicker to erect, matches wall strength and axial load. The product is preferred on account of its weight ratio and dry wall concept. It is labour-efficient as it can be erected by a few individuals. The product is widely used as ready-to-install walls for the sturdy construction of structures like site camps, offices, villas, resorts, farm houses, partitions in malls, hotels and hospitals.

V-Next products are also exported to the Middle East, Africa, South-East Asian countries and US. The raw material of these product comprises cement, fly ash, cellulose fibre and polystyrene beads.

Capacity addition and incremental utlisation to drive growth



V-next revenue likely to grow at CAGR 15.6% over FY20-23E



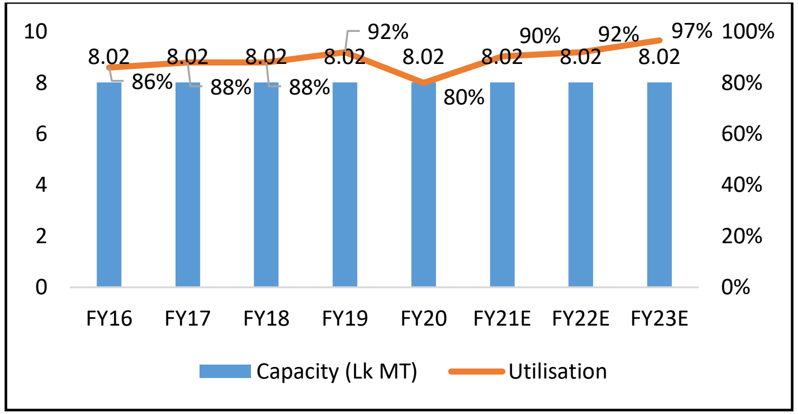
(Source: Company, HDFC sec)

V-next boards and panels have been a key growth driver for VIL over last decade. Its revenues grew from Rs. 50Cr in FY12 to Rs. 200Cr in FY20 translating a revenue CAGR 19% over the same period. Currently V-Boards contribute ~80-85% of its overall revenues whereas products like V-Premium and V-Designer contributes residual 15-20%. Going forward, with incremental capacity of 50k MT in V-Boards and 10k MT in V-Panels, the company further aims to accelerate its growth in V-Next business to Rs. 600Cr over next 5-7 year from Rs.198Cr as on FY20 translating into a revenue growth CAGR of ~20%. As per the management, it aims to expand its margin accretive V-Premium and V-Designer categories which will aid in earning higher sustainable margins of ~18% for this category. We expect V-Next to record a revenue of Rs. 307 cr by FY23E translating a CAGR of 15.6% thereby contributing 23% of overall revenues from 19% as on FY20.

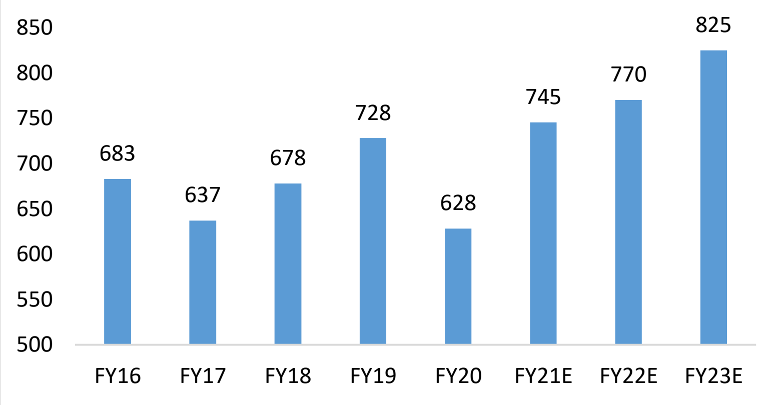
Asbestos Cement sheet (ACS)-Structurally well-placed to capture the rural housing demand

VIL is the 2nd largest ACS producer in India, with a pan-India manufacturing footprint. The southern followed by eastern India comprises of major chunk of its revenues. VIL currently has 18% market share in ACS industry. The asbestos-cement products mainly comprise AC corrugated roofing sheets and AC pipes. It is a cheaper substitute to thatched and clay-tiled roofs and competes in pricing with low end metal sheets. The current demand tailwind in ACS is mainly driven by: 1) higher steel prices as these products competes with GI/metal sheets. Over last six months steel prices has shot-up significantly paving a way for higher demand for these products 2) Strong monsoon resulting in better farm income 3) Low impact of Covid related lockdown in rural areas as rural household comprises of major chunk of revenue stream for ACS products. We expect, these triggers are likely to sustain in the foreseeable future. Going forward, expect ACS volumes and revenue to grow at CAGR 6.5% and 9.5% respectively over FY20-23E.

Higher utilisation on back of volumes led growth



ACS revenue likely to grow at CAGR 9.5% over FY20-23E



(Source: Company, HDFC sec)

Synthetic yarn segment likely to revive FY22 onwards

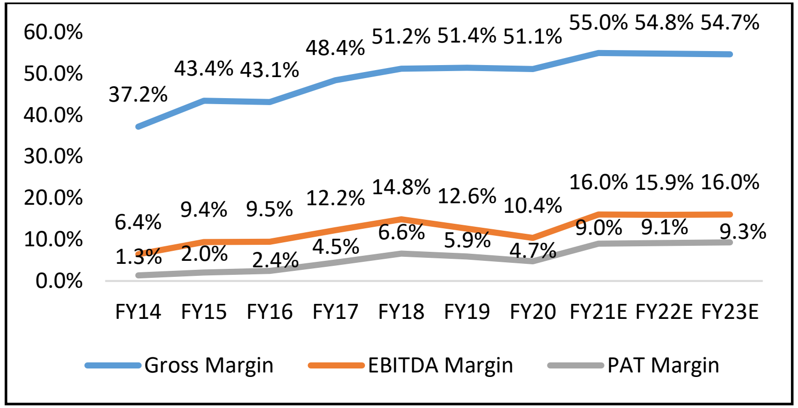
VIL diversified into yarn spinning business in 1992 by commissioning a factory in Nagpur. It initially had a capacity to produce 2k MTPA of man-made yarn which was later expanded it to manufacture a gamut of specialised products (mélange, high twist and specialty yarns) in different blends. The company has scaled-up its capacity to 12k MTPA and has been catering the needs of leading brands like Raymond, Arvind, Siyaram etc. In the current pandemic related lockdown, textile sector had been impacted the most which had resulted in a 50% decline in VIL textile business for 9MFY21. Going forward, the company has no plans to expand its synthetic yarn business. We expect, this business to stabilize once normalcy is back.

Key Financial Summary

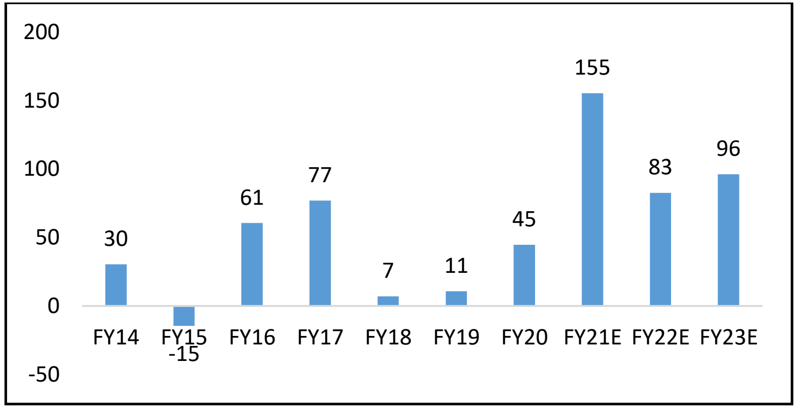
- VIL has delivered a healthy revenue growth of CAGR 8% over FY08-20 aided by its consistent focus on product innovation, expansion of its distribution reach and scale-up of its high margin “V-Next” segment. The contribution of cement board and panel segment had increased from NIL in FY08 to ~20% of overall revenues in FY20. Going forward, we are expecting the company to report a revenue CAGR of 8.7% over FY20-23E, mainly driven by V-Next and Asbestos sheets which is likely to grow by 15.6% and 9.5% respectively. In the textile business, we expect mild decline in FY23 revenues over FY20.
- Its EBITDA and PAT grew by CAGR 9%/17% respectively over FY08-20. Despite seasonality issues, volatile raw material prices, higher opex (in the initial phase of V-next business) VIL reported steady earnings growth over last decade. Its operating performance has been gradually improving with aggressive scale-up of V-Next business. Going forward, we expect its operational performance to stabilize with EBITDA and PAT likely to grow at CAGR 25.4% and 36% respectively over FY20-23E.
- Despite, seasonality challenges in Asbestos sheet business and constant expansion in cement fiber board segment, VIL has been consistently able to reduce debt due to strong cash flow generation and stable working capital structure.

Visaka Industries Ltd.

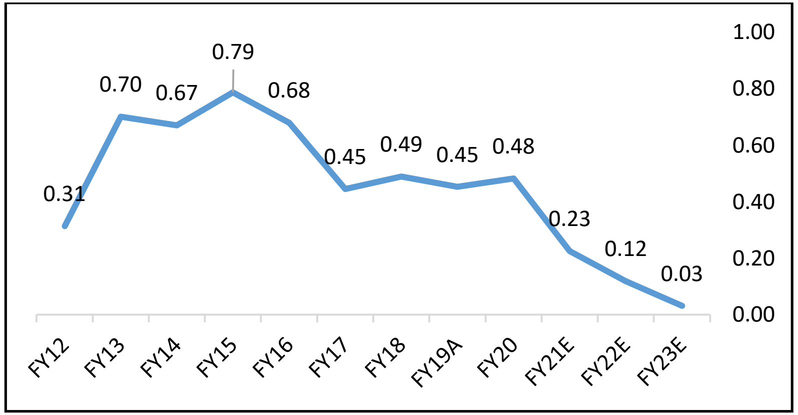
Operating Performance trend



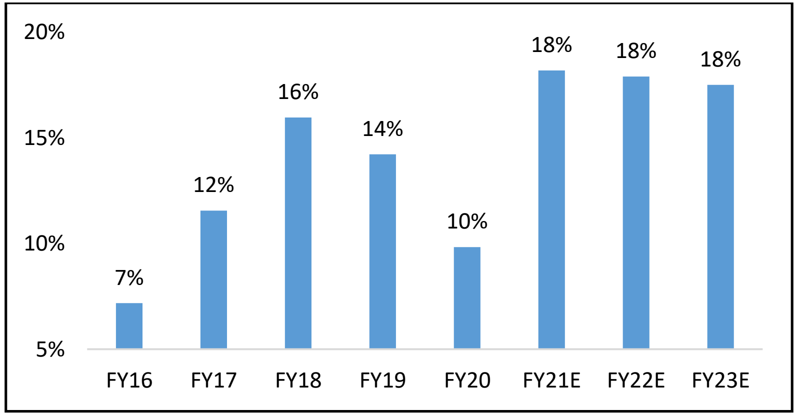
Consistent Free Cash Flow generation



Constant reduction in Net D/E



Improvement in RoE's likely to sustain



(Source: Company, HDFC sec

RETAIL RESEARCH

What could go wrong?

- **Sharp rise in competition intensity**
  VIL has 32% market share in the cement fiber boards and panel (V-Next) business, any big disruptive pricing in the market place due to any unanticipated competition intensity can erode margins of this segment leading to overall deterioration of margins.

- **Inability to expand and grow the cement fiber boards and panel (V-Next) business**
  Historically, VIL has been able to scale-up its V-Next with successful launches and has been able to constantly expand its product portfolio. Going forward, we expect the company to further expedite its focus on accelerated growth in this segment. In case if the execution of this strategy becomes more lengthy and tedious than earlier anticipated than there can an impact on its overall growth and earnings trajectory in short to medium term.

- **Sharp rise in raw material Inflation**
  Chrysotile fibre is a key ingredient in manufacturing of ACS. All ACS manufacturers in India import this raw material, which is billed in USD irrespective of movements in local currencies of the countries it is imported from. ACS EBITDA margin are highly sensitive to any prices of ACS and sharp depreciation in INR vs. USD.

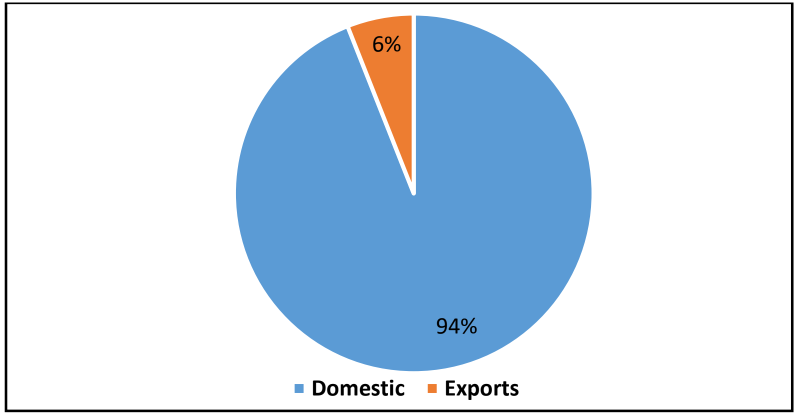
- **Higher freight cost due to increasing diesel prices can impact operational performance of the company**
  Freight cost (largely road based, and hence, sensitive to diesel price movements) is a major cost component which accounts for ~9% of its net sales. In a rising crude oil scenario there can be an adverse impact on the operational performance of the company.

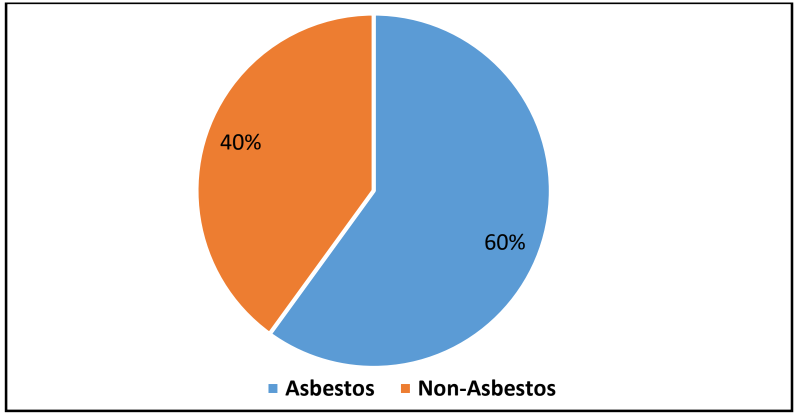
- **Seasonality**
  Historically Q1 and Q4 are the best quarters due to lumpiness in sales of ACS. However with rising contribution from other products, this is coming down.

Company Profile:

Visaka Industries was established in 1985. Visaka has two main divisions; building products division which manufactures cement asbestos sheets and fiber cement boards & panels (CBPs) and the textile division. As on FY20, the building products division accounted for a majority of the revenue – of ~ 80%. (Asbestos-60% & V-Next ~20%) followed by synthetic yarn segment which comprised of residual 20% of overall revenues. Visaka has 14 manufacturing facilities across India with a distribution network of 7000+ dealers network and an aggregate production capacity of 802 KTPA in cement asbestos sheets, 180 KTPA in V-boards and panels and 11,000 MT of yarn production per annum.

Visaka Industries Ltd.





(Source: Company, HDFC sec)

Peer Comparison

	Mcap	Revenue			EBITDA Margin			PAT			ROE			Net D/E		
		FY18	FY19	FY20	FY18	FY19	FY20	FY18	FY19	FY20	FY18	FY19	FY20	FY18	FY19	FY20
Visaka Industries	793	1012	1136	1050	14.80%	12.60%	10.40%	67	67	49	16%	14%	10%	0.5	0.5	0.5
HIL Industries	2300	1,280	2169	2555	12.00%	11.00%	9.00%	81	101	106	14%	16%	14%	0.1	0.9	0.9
Everest Industries	500	1271	1408	1285	7.00%	7.00%	3.00%	53	62	14	13%	14%	3%	0.2	0.2	0.2

	EPS Growth	P/E			EV/EBITDA		
	FY20A-23E	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E
Visaka Industries	36.10%	7.8	6.9	6.1	5.1	4.4	3.7
HIL Industries	49.10%	10.2	11	10	6.5	6.6	6.2
Everest Industries	NA	40	NA	NA	8.1	NA	NA

(Source: Bloomberg Consensus, HDFC sec)

Visaka Industries Ltd.

Financials

Income Statement

(Rs Cr)	FY19	FY20	FY21E	FY22E	FY23E
Net Revenues	**1136.4**	**1050.4**	**1098.6**	**1224.6**	**1351.0**
Growth (%)	12%	-8%	5%	11%	10%
Operating Expenses	992.8	941.5	922.8	1029.9	1134.8
EBITDA	**143.6**	**108.9**	**175.8**	**194.7**	**216.2**
Growth (%)	**-4%**	**-24%**	**61%**	**11%**	**11%**
EBITDA Margin (%)	**12.6%**	**10.4%**	**16.0%**	**15.9%**	**16.0%**
Depreciation	35.4	41.0	40.6	43.1	46.7
EBIT	**108.3**	**67.9**	**135.2**	**151.6**	**169.5**
Other Income	12.0	6.6	8.8	11.0	13.5
Interest expenses	20.0	17.4	12.2	13.5	15.1
PBT	**100.4**	**57.1**	**131.7**	**149.1**	**167.9**
Tax	32.9	7.8	32.9	37.3	42.0
RPAT	**67.4**	**49.3**	**98.8**	**111.8**	**125.9**
APAT	**67.4**	**49.3**	**98.8**	**111.8**	**125.9**
Growth (%)	0%	-27%	100%	13%	13%
EPS	127.1	100.4	62.0	70.2	79.0

Balance Sheet

As at March	FY19	FY20	FY21E	FY22E	FY23E
SOURCE OF FUNDS					
Share Capital	15.9	15.9	15.9	15.9	15.9
Reserves	483.6	489.1	563.9	651.7	753.6
Shareholders' Funds	**499.5**	**505.0**	**579.8**	**667.6**	**769.5**
Long Term Debt	246.4	262.9	162.9	112.9	62.9
Net Deferred Taxes	20.0	14.2	14.5	14.8	15.0
Other Liabilities	0.4	0.2	0.2	0.2	0.3
Minority Interest	1.0	0.0	0.0	0.0	0.0
Total Source of Funds	**767**	**782**	**757**	**795**	**848**
APPLICATION OF FUNDS					
Net Block & Goodwill	418.7	406.0	440.4	467.3	490.6
CWIP	1.2	8.8	8.8	8.8	8.8
Other Non-Current Assets	14.1	15.1	22.0	18.4	20.3
Total Non-Current Assets	**433.9**	**429.8**	**471.1**	**494.4**	**519.7**
Current Investments	0.0	0.0	0.0	0.0	0.0
Inventories	272.4	303.9	240.8	268.4	296.1
Trade Receivables	155.3	140.0	135.4	167.8	185.1
Cash & Equivalents	20.2	19.3	31.7	30.8	36.2
Other Current Assets	45.3	50.5	49.4	36.7	33.8
Total Current Assets	**493.2**	**513.7**	**457.4**	**503.7**	**551.2**
Short-Term Borrowings				0.0	0.0
Trade Payables	79.0	86.0	90.3	100.7	111.0
Other Current Liabilities	80.8	75.3	80.9	102.0	112.1
Total Current Liabilities	**159.8**	**161.3**	**171.2**	**202.6**	**223.1**
Net Current Assets	333.4	352.4	286.2	301.0	328.1
Total Application of Funds	**767**	**782**	**757**	**795**	**848**

Visaka Industries Ltd.

Cash Flow Statement

(Rs Cr)	FY19	FY20	FY21E	FY22E	FY23E
Reported PBT	100.4	57.1	131.7	149.1	167.9
Non-operating & EO items	-2.3	-3.9	0	0	0
Interest Expenses	19	16	12.2	13.5	15.1
Depreciation	35.4	41	40.6	43.1	46.7
Working Capital Change	-54.3	-10.4	78.7	-15.8	-21.6
Tax Paid	-37.8	-16.3	-32.9	-37.3	-42
OPERATING CASH FLOW (a)	**60.3**	**83.5**	**230.3**	**152.7**	**166.1**
Capex	-49.5	-38.8	-75	-70	-70
Free Cash Flow	10.7	44.7	155.3	82.7	96.1
Investments	0	0	0	0	0
Non-operating income	1.6	4	-6.9	4.7	-0.8
INVESTING CASH FLOW (b)	**-48**	**-34.9**	**-81.9**	**-65.3**	**-70.8**
Debt Issuance / (Repaid)	5.6	16.7	-100	-50	-50
Interest Expenses	-18	-15	-12.2	-13.5	-15.1
FCFE	-1.7	46.4	43.1	19.1	31.1
Share Capital Issuance	0	0	0	0	0
Others	-2.7	-51.2	-23.8	-24.8	-24.8
FINANCING CASH FLOW (c)	**-15.1**	**-49.5**	**-136**	**-88.3**	**-89.9**
NET CASH FLOW (a+b+c)	**-2.8**	**-0.9**	**12.4**	**-1**	**5.5**

Key Ratios

(Rs Cr)	FY19	FY20	FY21E	FY22E	FY23E
EBITDA Margin	12.60%	10.40%	16.00%	15.90%	16.00%
EBIT Margin	9.50%	6.50%	12.30%	12.40%	12.50%
APAT Margin	5.90%	4.70%	9.00%	9.10%	9.30%
RoE	14%	10%	18%	18%	18%
RoCE	15%	9%	18%	20%	21%
Solvency Ratio					
Net Debt/EBITDA (x)	1.6	2.2	0.7	0.4	0.1
Net D/E	0.5	0.5	0.2	0.1	0
PER SHARE DATA					
EPS	127.1	100.4	62	70.2	79
CEPS	12.9	11.4	17.5	19.4	21.7
Dividend	7	15	15	15	15
BVPS	313.8	317.2	364.2	419.4	483.4
Turnover Ratios (days)					
Debtor days	49.2	51.3	45	50	50
Inventory days	83	100	80	80	80
Creditors days	28	29	30	30	30
VALUATION					
P/E	11.4	15.5	7.8	6.9	6.1
P/BV	1.5	1.5	1.3	1.1	1
EV/EBITDA	6.9	9.3	5.1	4.4	3.7
EV / Revenues	0.9	1	0.8	0.7	0.6
Dividend Yield (%)	1.5%	3.1%	3.1%	3.1%	3.1%
Dividend Pay-out	5.5	14.9	24.2	21.4	19

(Source: Company, HDFC sec)

Visaka Industries Ltd.

One Year Stock Price Chart

(Source: Company, HDFC sec)

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