Asbestos Cement Sheets

Company Update

Change in Estimates ☑ Target ☑ Reco☐

14 August 2019

Visaka Industries

Non-asbestos to drive performance; maintaining a Buy

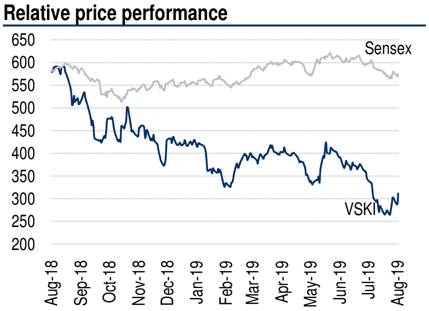
Rating: **Buy**
Target Price: ₹389
Share Price: ₹290

Key data	VSKI IN / VSKI.BO
52-week high / low	₹620 / 261
Sensex/Nifty	37312 / 11029
3-m average volume	$0.2m
Market cap	₹5bn / $69.5m
Shares outstanding	16m

Shareholding pattern (%)	Jun'19	Mar'19	Dec'18
Promoters	41.7	41.7	41.6
- of which, Pledged	*36.4*	*31.7*	*6.1*
Free float	58.3	58.3	58.4
- Foreign institutions	3.0	3.1	3.4
- Domestic institutions	0.1	0.1	0.1
- Public	55.2	55.1	55.0

Estimates revision (%)	FY20e	FY21e
Sales	(1.0)	(1.1)
EBITDA	(3.1)	(1.4)
EPS	(4.1)	(6.8)

Relative price performance



Source: Bloomberg

Visaka's yarn business continuedits robust growth. An exceptional May, however(very hot /elections), increased input prices, and subdued rural demand took a toll on the BP division. Expected price hikes, rationalised costs, sustainable yarn margins and the improving Board utilisation would aid growth. We retain our Buy rating, with a lower TP of ₹389.

BP division: price hike the key. Subdued rural demand and higher raw material prices (cement/chryostile fiber) and no price hikes resulted in the BP division revenue being flat y/y whereas its EBIT margin declined 341bps y/y to 13.7%.With management expecting the AC roofing industry to grow ~5%in FY20 and with price hikes, we expect a 6% revenue CAGR over FY19-21 aided by greater utilisation at Jhajjar and ATUM stabilising.

Yarn division: margins to sustain. The yarn division performance continued to improve. On the 6.7% rise in realisation and 6.6%volume growth, revenue grew 13.4% y/yand the PBIT margin expanded 225bps to 11% Management said the yarn division would grow 5% in FY20 and the current margin sustained.

Boards – in expansion mode. To cater to the south Indian market more efficiently,management talked of setting up a 50,000-ton unit ofthe V-Boards division at Tamil Nadu at ₹1bn capex, expected to be commissioned in FY21. It expects Boards capacity utilisation of ~80% by end-FY20. The Jhajjar plant capacity utilisation was 45%. Management said the Jhajjar plant would break even by end-FY20 and expects double-digit margins for the Boards division aided by lower pulp prices and rationalised cost.

Valuation. Net debt on 31st Jun'19 was ₹1.93bn. With capacity announced, management expects ~₹2bn debt by end-FY20. It talked of rationalising working capital and expects lead-distance rationalising due to the Jhajjar plant commissioning.We expect PAT to clock a 7% CAGR over FY19-21. We retain our Buy, assigning an 8x multiple to FY21e EPS. **Risks:** Rise in input costs, demand slowdown.

Key financials (YE Mar)	FY17	FY18	FY19	FY20e	FY21e
Sales (₹ m)	9,606	10,123	11,364	12,163	12,748
Net profit (₹ m)	428	665	674	686	773
EPS (₹)	26.9	41.8	42.3	43.1	48.6
PE (x)	10.1	15.5	9.8	6.7	6.0
EV / EBITDA (x)	5.2	8.3	6.2	4.2	3.7
PBV (x)	1.1	2.3	1.3	0.8	0.7
RoE (%)	11.4	15.9	14.3	13.0	13.2
RoCE (%)	7.8	11.4	9.9	9.9	10.3
Dividend yield (%)	2.2	1.1	1.7	2.4	2.3
Net debt/equity (x)	0.4	0.5	0.5	0.4	0.3

Source: Company, Anand Rathi Research

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Quick Glance – Financials and Valuations

Fig 1 – Income statement (₹m)

Year-end: Mar	FY17	FY18	FY19	FY20e	FY21e
Net revenues	9,606	10,123	11,364	12,163	12,748
Growth (%)	***-4.4***	***5.4***	***12.3***	***7.0***	***4.8***
Direct costs	**4,955**	**4,939**	**5,523**	**6,051**	**6,394**
SG&A	3,479	3,682	4,405	4,484	4,556
EBITDA	**1,172**	**1,502**	**1,436**	**1,629**	**1,798**
EBITDA margins (%)	*12.2*	*14.8*	*12.6*	*13.4*	*14.1*
- Depreciation	341	348	354	451	500
Other income	57	46	120	52	54
Interest expenses	196	183	200	190	180
PBT	692	1,016	1,003	1,039	1,172
Effective tax rate (%)	*38.2*	*34.5*	*32.8*	*34.0*	*34.0*
+ Associates / (Minorities)					
Net income	428	665	674	686	773
Adjusted income	428	665	674	686	773
WANS	16	16	16	16	16
FDEPS (₹/ sh)	26.9	41.8	42.3	43.1	48.6
Adj. FDEPS growth (%)	*75.1*	*55.5*	*1.3*	*1.7*	*12.8*
Gross margin (%)	*48.4*	*51.2*	*51.4*	*50.3*	*49.8*

Fig 2 – Balance sheet (₹ m)

Year-end: Mar	FY17	FY18	FY19	FY20e	FY21e
Share capital	159	159	159	159	159
Net worth	3,926	4,457	4,995	5,549	6,192
Debt	2,131	2,411	2,464	2,364	2,164
Minority interest					
DTL/(Assets)	184	174	200	200	200
Capital employed	**6,241**	**7,042**	**7,659**	**8,113**	**8,556**
Net tangible assets	3,257	3,208	4,183	3,913	4,663
Net intangible assets	12	8	4	4	4
Goodwill	-	-	-	-	-
CWIP (tang. &intang.)	117	690	12	580	80
Investments (strategic)	-	-	-	-	-
Investments (financial)	-	-	-	-	-
Current assets (ex cash)	3,835	4,710	4,861	5,299	5,553
Cash	383	229	202	150	177
Current liabilities	1,363	1,803	1,602	1,833	1,921
Working capital	2,472	2,907	3,259	3,466	3,632
Capital deployed	**6,241**	**7,042**	**7,659**	**8,113**	**8,556**
Contingent liabilities	302	42	67	-	-

Fig 3 – Cash-flow statement (₹m)

Year-end: Mar	FY17	FY18	FY19	FY20e	FY21e
PBT	692	1,016	1,003	1,039	1,172
+ Non-cash items	341	348	354	451	500
Oper. prof. before WC	1,033	1,365	1,357	1,490	1,672
- Incr./(decr.) in WC	-636	435	352	207	167
Others incl. taxes	273	360	303	353	398
Operating cash-flow	1,396	570	702	930	1,107
- Capex (tang. +intang.)	744	869	646	750	750
Free cash-flow	651	-299	56	180	357
Acquisitions					
- Div.(incl. buyback & taxes)	115	134	134	132	130
+ Equity raised	-	-	-	-	-
+ Debt raised	-1,065	280	53	-100	-200
- Fin investments	-101	-	-	-	-
- Misc. (CFI + CFF)	-60	1	2	0	-0
Net cash-flow	-367	-154	-27	-52	27

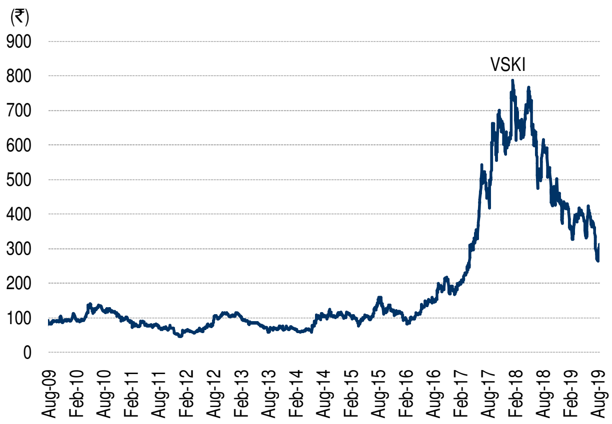
Source: Company, AnandRathi Research

Fig 4 – Ratio analysis

Year-end: Mar	FY17	FY18	FY19	FY20e	FY21e
P/E (x)	10.1	15.5	9.8	6.7	6.0
EV/EBITDA (x)	5.2	8.3	6.2	4.2	3.7
EV / Sales (x)	0.6	1.2	0.8	0.6	0.5
P/B (x)	1.1	2.3	1.3	0.8	0.7
RoE (%)	11.4	15.9	14.3	13.0	13.2
RoCE (%) - after tax	7.8	11.4	9.9	9.9	10.3
Fixed asset T/O (x)	2.9	2.7	2.5	2.3	2.1
DPS (₹ / sh)	6.0	7.0	7.0	6.9	6.8
Dividend yield (%)	2.2	1.1	1.7	2.4	2.3
Dividend payout (%) - incl. DDT	26.9	20.2	19.9	19.2	16.8
Net debt / equity (x)	0.4	0.5	0.5	0.4	0.3
Receivables (days)	57	54	50	52	52
Inventory (days)	74	87	88	87	87
Payables (days)	51	64	51	54	54
CFO : PAT %	326.2	85.6	104.1	135.7	143.1

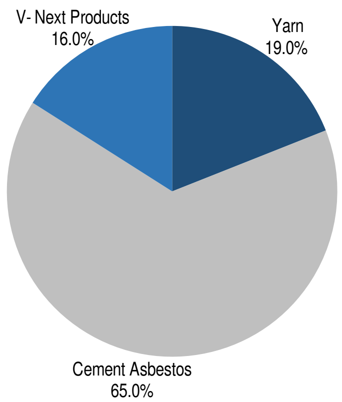
Source: Company, AnandRathi Research

Fig 5 – Price movement



Source: Bloomberg

Fig 6–Segment-wiserevenue break-up (FY19)



Source: Company

Company update

Building Products

The BP divisionmanufacturesasbestos-cement (AC) productsand fibre-cement flat products(V-boards and V-panels), and accounted for ~82% of the company's revenue. The company has a strong distribution network of 6,000 retailers in rural and semi-urban areas.

In Q1 FY20, revenue of the BP division was flat y/y. In May, AC sheet volume and revenue declined 12.28% and 17.28% respectively, whereas margins declined 300bps y/y due to the extreme heat and elections. The subdued May resulted in AC roofing sheet volumes declining 2%y/y.The EBIT margin, though, was down 341bps y/y to 13.7%.

Asbestos Cement sheets

With installed capacity of 802,000 tpa, Visaka is the second-largest cement-asbestos-product manufacturer in India, enjoying close to an 18% market share. Its AC sheet plant operatesat ~88% capacity.

Management expectsthe AC industry overall to grow 5%.Further,management expectsgood revenue and a high RoCE in ATUM, an integrated solar-roofing system (a hybrid product), boosted by a high asset-turnover ratio.It expects a ~4% price hike in AC sheets at end-Q2FY20 and volume growing 5% in FY20.

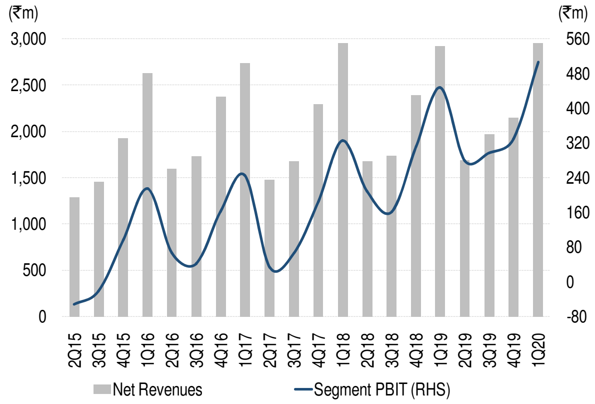
Boards and Panels

With awide variety of applications, a perfect substitute for plywood and gypsum boards, the government's focus on affordable housing, a lower tax rate under the GST and the consistent rise in capacity utilisation, management expects significant growth in its V-Next division.

During Q4FY19, Visaka commissioned its 50,000-tonneV-boards unit at Jhajjar, Haryana. Capacity utilisation was 45% in Q1FY19.The expanded capacity would result in rationalised freight costs in the northern and eastern markets.The Boards division (~170,000tpa now) operates at ~72% capacity, which management expects to reach 80% in FY20. Management expectsthe Boardsdivision to grow 25% in FY20, with have double-digit margins.

To cater to south India more efficiently as well as to retain its position as the largest company in fibre cement boards (by capacity), the company is expanding its V-Boards division. It is setting up a new unit in Tamil Nadu, of 50,000 tonnes at ₹1bn. Management said it would commence by FY21.

Fig 7 – Performance of the building products division



Source: Company, Anand Rathi Research

Textiles

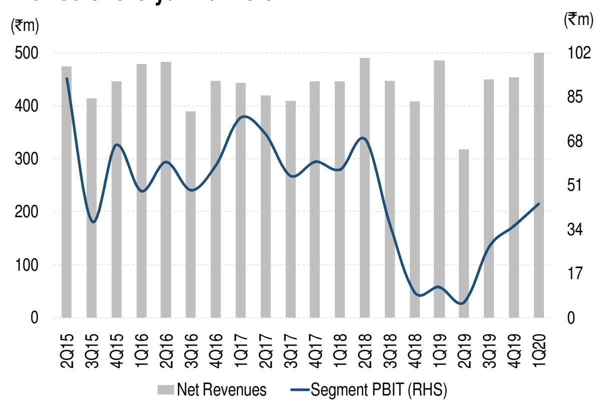
Visaka manufactures niche, value-added cotton touch air-jet spun polyester yarns; its products commandsome of the highest margins in synthetic yarn.Its textiles division brought~18% to revenue.

The company has 2,752 spinning positions at its yarn division. Its textile products are exported to Germany, Egypt, Italy, Taiwan, the USA, Syria, South Africa, Peru, Turkey andthe UK.

In Q1FY20, the synthetic-yarn division's revenue increased 13% y/y to₹568m. Its EBIT margin increased 225bps to 11%.

De-monetization and the GST implementation hurt the yarn division, resulting in its PBIT margin declining to 4.7% in FY18,from 9.6% a year earlier. Management expectsthe spinning division to grow ~5%,while maintaining in FY20theEBITDA margin at the FY19 level.We expect revenue of the yarn division to registera 4.2%CAGR over FY19-21.

Fig 8 – Performance of the yarn division



Source: Company, Anand Rathi Research

Fig 9 – Quarterly trend

(₹ m)	Q3 FY17	Q4 FY17	Q1 FY18	Q2 FY18	Q3 FY18	Q4 FY18	Q1 FY19	Q2 FY19	Q3 FY19	Q4 FY19	Q1 FY20	% Y/Y	% Q/Q
Sales	2,188	2,543	3,092	2,011	2,418	2,596	3,457	2,510	2,399	2,998	3,528	2.1	17.7
EBITDA	221	310	467	333	344	357	532	318	244	343	487	(8.4)	42.3
EBITDA margins (%)	*10.1*	*12.2*	*15.1*	*16.6*	*14.2*	*13.8*	*15.4*	*12.7*	*10.2*	*11.4*	*13.8*	*-158bps*	*239bps*
Interest	51	55	40	40	49	54	52	44	51	53	44	(15.3)	(17.6)
Depreciation	87	91	90	86	87	85	86	85	89	93	108	26.2	16.0
Other income	10	8	16	10	10	10	69	20	13	18	15	(78.4)	(16.7)
PBT	93	173	353	217	219	228	463	209	117	214	350	(24.5)	63.8
Tax	34	69	123	76	76	76	160	70	26	73	119	(25.5)	62.7
PAT	59	104	230	141	143	152	303	139	91	140	231	(23.9)	64.3

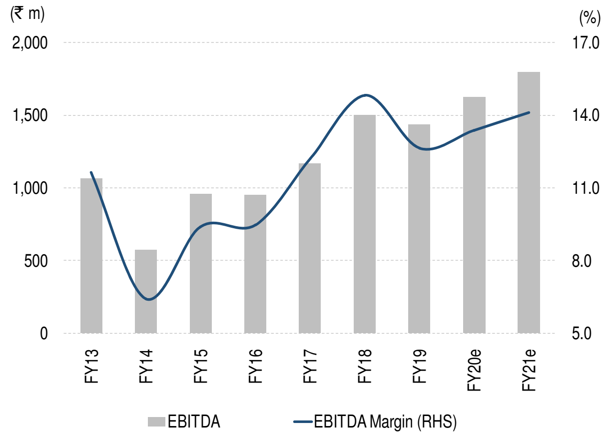
Source: Company, Anand Rathi Research

Fig 10– Segmental Details

(₹)	Q3 FY17	Q4 FY17	Q1 FY18	Q2 FY18	Q3 FY18	Q4 FY18	Q1 FY19	Q2 FY19	Q3 FY19	Q4 FY19	Q1 FY20	% Y/Y	% Q/Q
Net revenues													
Building products	1,743	2,394	2,922	1,694	1,970	2,144	2,956	1,913	1,890	2,401	2,960	0.1	23.3
Synthetic blended yarn	446	408	485	317	449	452	501	597	510	597	568	13.4	(4.8)
Segment-wise PBIT													
Building products	162	313	447	280	298	329	507	235	188	291	407	(19.8)	39.8
Synthetic blended yarn	36	10	12	6	27	35	44	75	53	53	62	42.6	17.9
PBIT margins (%)													
Building products	9.3	13.1	15.3	16.5	15.1	15.3	17.1	12.3	9.9	12.1	13.7	-341bps	162bps
Synthetic blended yarn	8.2	2.4	2.4	1.9	6.1	7.8	8.7	12.5	10.4	8.8	11.0	225bps	212bps

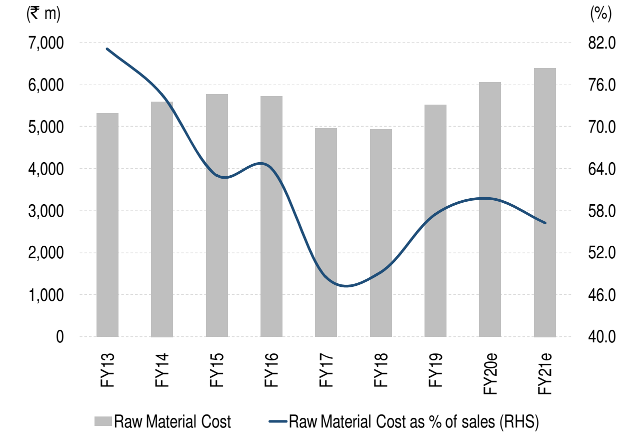
Source: Company, Anand Rathi Research

Fig 11 – EBITDA margin to increase



Source: Company, Anand Rathi Research

Fig 12 – RM / sales to decline



Source: Company, Anand Rathi Research

Change in estimates

To factor in the company'sQ1FY20 performance, we lowerour FY20e and FY21e EBITDA 3% and 1.4% respectively. And, correspondingly, reducePAT 4.1% and 6.8%.

Fig 13 –Change in estimates

	Old		New		Change (%)	
	FY20e	FY21e	FY20e	FY21e	FY20e	FY21e
Sales (₹m)	12,292	12,896	12,163	12,748	(1.0)	(1.1)
EBITDA (₹m)	1,681	1,824	1,629	1,798	(3.1)	(1.4)
PAT (₹m)	715	830	686	773	(4.1)	(6.8)

Source: Anand Rathi Research

Key Takeaways and Concall highlights

Financial and Operational highlights

- During Q1FY20, the boards and yarn divisionsbrought 39% to overall revenue.
- Q1 FY20 AC sheet volumesslipped 2%; board and yarn volumes increased respectively 28% and 6.5% y/y.
- In May, AC sheet volumesand revenue declined 12.28% and 17.28% respectively; margins declined 300bps y/y due to extreme heat and elections.
- Q1 FY20 boards and yarn revenue rose respectively 28% and 13.3% y/y.
- Q1 FY20 Boards EBITDA margin was 6%(7% the previous quarter).
- The ATUM product generated ₹8.4m revenue in Q1FY20 and management expects to do 1.5MW during Q2FY20
- The Jhajjar plant operated at 45% capacity. Management expects capacity utilisation of 80% by end-FY20 and to breakeven in FY20.
- Q1FY20 Boards capacity utilisation was 72%; management expects ~80% in FY20.
- The spinning division's EBITDA margin was 13.25% (11% the previous quarter).
- Netdebt at end-Jun'19 was₹1.93bn.Management expects debt of₹2bn by end-FY20.
- High cement and flyash prices resulted a 4% increase in raw material costs.
- The roofing industry, overall, grew 4% in FY19,up from 1% in FY18.

Outlook

- The company had high-cost pulp inventory in Q1FY20. Management expectsthe benefits of lower pulp prices from August
- It is expanding its V-Boards division by setting up a new unit of 50,000 tonnesin Tamil Nadu at ₹1bn capex. The plant is expected to be commissioned in FY21.
- Management focus is to reduce working capital.
- Management expects the roofing industry to grow 5-6%in FY20.
- Management expectsthe industry to hike prices by end-Q2.
- On the reduction in logistics costs, some improvement in realisations and softening pulp prices, Board margins are expected to come in double digits in FY20.
- Management expects the spinning division's FY20 revenues and volumes to grow 6% and 5% respectively, maintaining the FY19-level EBITDA margin.
- Management expects the proportion of Boards revenue to increase to 40% in the next 2-3 years.

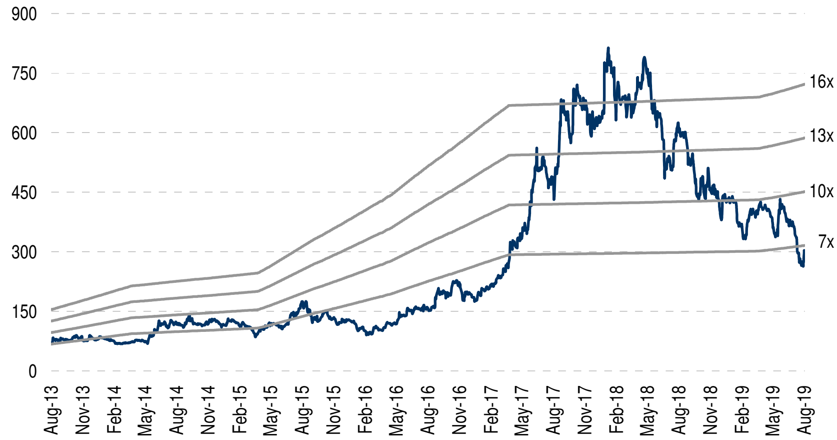
Valuation

We believe that the expansion of Visaka's boards capacities,its operating-cost rationalisation,the yarn division's expanding margins and expected price hikes would help counter-balancemounting input costs and the rupee depreciation.

The synthetic yarn division continues to recover; however, management said the revenue proportions of asbestos and non-asbestos productswould change to 60:30 in FY20. The synergies from the Jhajjar plant and the improving yarn division performance would boost Visaka's performance.

Wemaintain our Buy rating with a lower Target price of ₹389, assigningan8x multiple to the FY21e EPS. At the ruling price, the stock trades at a PE of 6x FY21e.

Fig 14– PE band



Source: Bloomberg, Anand Rathi Research

Risks

- Rise in input costs.
- Demand slowdown.

Appendix

Analyst Certification

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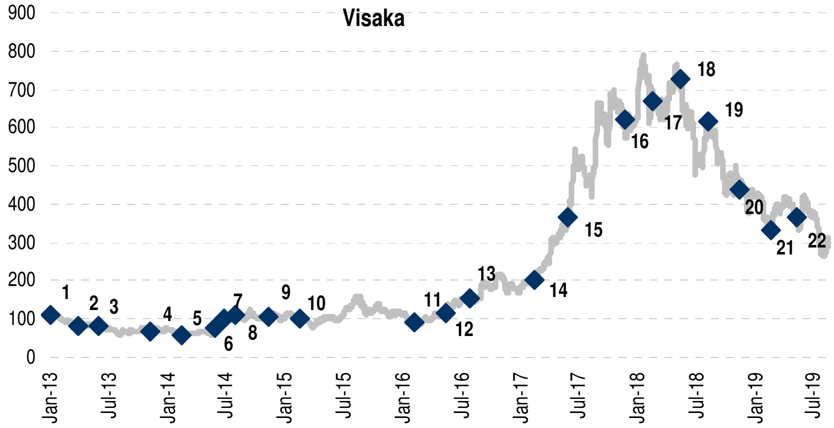
Important Disclosures on subject companies

Rating and Target Price History (as of 14 August 2019)



	Date	Rating	TP (₹)	Share Price (₹)
1	07-Jan-13	Buy	189	134
2	28-Mar-13	Buy	157	96
3	28-May-13	Buy	130	102
4	08-Nov-13	Hold	98	86
5	11-Feb-14	Hold	79	71
6	28-May-14	Hold	102	86
7	27-Jun-14	Hold	132	118
8	28-Jul-14	Buy	147	124
9	07-Nov-14	Buy	171	120
10	13-Feb-15	Buy	164	113
11	06-Feb-16	Buy	122	101
12	11-May-16	Buy	146	120
13	30-Jul-16	Buy	195	161
14	15-Feb-17	Buy	302	213
15	30-May-17	Buy	470	381
16	21-Nov-17	Buy	766	637
17	17-Feb-18	Buy	931	718
18	10-May-18	Buy	985	760
19	06-Aug-18	Buy	868	625
20	12-Nov-18	Buy	640	454
21	15-Feb-19	Buy	494	336
22	08-May-19	Buy	495	385

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Analysts' ratings and the corresponding expected returns take into account our definitions of Large Caps (>US$1bn) and Mid/Small Caps (<US$1bn) as described in the Ratings Table below:

Ratings Guide (12 months)	Buy	Hold	Sell
Large Caps (>US$1bn)	>15%	5-15%	<5%
Mid/Small Caps (<US$1bn)	>25%	5-25%	<5%

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