

1 August 2021

## Visaka Industries

*Healthy demand outlook; maintaining a Buy*

**On the bright demand outlook, AC roofing sheets and boards capacity expansion and the Yarn division recovering, Visaka's performance would be good despite a high base. The balance sheet continues strong, with working-capital management in control and debt reducing. We retain a Buy rating, with a TP of Rs.1,079 (earlier Rs.768)**

**Healthy performance continues.** Despite some operating regions locked down, the BM division's revenue grew 17.5% y/y, at 105% capacity (AC sheets ~113%, boards ~ 74%). With 60% revenue from its schools business, the yarn division's revenue slid 45% q/q, but y/y grew 123% on the low base. On price hikes and the yarn division's greater contribution, EBITDA rose 11% y/y to Rs649m.

**Expanding capacity; product launches.** To capture new markets in the rural NE, Bihar, etc, Visaka is expanding AC-roofing-sheet capacity by 100,000 tons at Lucknow. Further, it is expanding board and panel capacity by respectively 50,000 and 10,000 tons in TN by Dec'21. Funded via internal accruals, the expanded capacity will generate Rs600m-800m in FY21 and Rs1.8bn in FY23. Foraying into new products, it will set up ATUM Life stores in Hyderabad and ATUM charge EV charging stations in tier-1 and -2 cities across the country.

**Business outlook.** The AC roofing division is expected to grow in high single digits in the next five years, and the boards division 20-25% due to the upswing in demand. With lockdowns being lifted, product innovation, etc, the yarn division is expected to get back on track. Working capital continues to improve on greater collections and lower stocks (72 days, vs. 76 a year ago). Net debt came at Rs520m vs Rs800m on 30<sup>th</sup> June'20. With no further dilution in margins, return ratios are expected to be firm.

**Valuation.** We maintain our Buy rating, with a TP of Rs.1,079, assigning a 13x multiple to FY23e EPS. **Risks:** Rise in input costs, demand slowdown.

Key financials (YE Mar)	FY19	FY20	FY21	FY22e	FY23e
Sales (Rs m)	11,364	10,504	11,462	12,878	14,215
Net profit (Rs m)	674	493	1,106	1,238	1,438
EPS (Rs)	42.3	31.0	67.1	71.5	83.0
P/E (x)	9.8	4.4	7.1	11.5	9.9
EV / EBITDA (x)	6.2	4.2	4.0	7.2	6.0
P/BV (x)	1.3	0.4	1.2	1.9	1.7
RoE (%)	14.3	9.8	19.5	18.1	18.0
RoCE (%)	9.9	7.6	14.8	15.3	15.6
Dividend yield (%)	1.7	11.1	3.2	1.8	1.8
Net debt / equity (x)	0.5	0.5	-0.0	0.1	0.1

Source: Company, Anand Rathi Research

Rating: Buy

Target Price: Rs.1,079

Share Price: Rs.819

Key data	VSKI IN / VSKI.BO
52-week high / low	Rs.850 / 268
Sensex / Nifty	52587 / 15763
3-m average volume	\$1.2m
Market cap	Rs.13bn / \$181.4m
Shares outstanding	16m

Shareholding pattern (%)	Jun'21	Mar'21	Dec'20
Promoters	45.9	45.9	45.9
- of which, Pledged	9.4	9.5	9.4
Free float	54.2	54.2	54.2
- Foreign institutions	5.2	2.8	1.3
- Domestic institutions	0.0	0.0	0.0
- Public	49.0	51.3	52.8

Estimates revision (%)	FY22e	FY23e
Sales	1.6	3.4
EBITDA	4.2	8.8
EPS	4.1	8.1

### Relative price performance



Source: Bloomberg

Manish Valecha  
Research Analyst

Vibha Jain  
Research Associate

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## Quick Glance – Financials and Valuations

Fig 1 – Income statement (Rs m)

Year-end: Mar	FY19	FY20	FY21	FY22e	FY23e
Net revenues	11,364	10,504	11,462	12,878	14,215
Growth (%)	12.3	-7.6	9.1	12.4	10.4
Direct costs	5,523	5,132	5,240	6,282	6,964
SG&A	4,405	4,283	4,288	4,470	4,808
<b>EBITDA</b>	<b>1,436</b>	<b>1,089</b>	<b>1,935</b>	<b>2,126</b>	<b>2,443</b>
<b>EBITDA margins (%)</b>	12.6	10.4	16.9	16.5	17.2
- Depreciation	354	410	400	467	554
Other income	120	66	86	77	100
Interest expenses	200	174	128	81	67
PBT	1,003	571	1,493	1,655	1,921
<b>Effective tax rates (%)</b>	32.8	13.7	25.9	25.2	25.2
+ Associates / (Minorities)	-	-	-	-	-
Net income	674	493	1,106	1,238	1,438
Adjusted income	674	493	1,106	1,238	1,438
WANS	16	16	16	17	17
FDEPS (Rs / sh)	42.3	31.0	67.1	71.5	83.0
<b>Adj. FDEPS growth (%)</b>	1.3	-26.9	116.8	6.5	16.1

Fig 2 – Balance sheet (Rs m)

Year-end: Mar	FY19	FY20	FY21	FY22e	FY23e
Share capital	159	159	165	173	173
Net worth	4,995	5,050	6,269	7,392	8,570
Debt	2,464	2,629	1,155	1,155	755
Minority interest					
DTL / (Assets)	200	142	127	127	127
<b>Capital employed</b>	<b>7,659</b>	<b>7,821</b>	<b>7,551</b>	<b>8,674</b>	<b>9,452</b>
Net tangible assets	4,183	4,060	3,962	5,303	5,198
Net intangible assets	4	-	-	-	-
Goodwill	-	-	-	-	-
CWIP (tang. & intang.)	12	88	51	50	50
Investments (strategic)	-	-	0.2	0.2	0.2
Investments (financial)	-	-	-	-	-
Current assets(excl.cash)	4,861	5,095	4,309	5,292	6,115
Cash	202	193	1,165	111	270
Current liabilities	1,602	1,615	1,936	2,082	2,181
Working capital	3,259	3,480	2,373	3,211	3,934
<b>Capital deployed</b>	<b>7,659</b>	<b>7,821</b>	<b>7,551</b>	<b>8,674</b>	<b>9,452</b>
Contingent liabilities	67	60	-	-	-

Fig 3 – Cash-flow statement (Rs m)

Year-end: Mar	FY19	FY20	FY21	FY22e	FY23e
PBT (Adj. OI and Interest)	1,083	679	1,535	1,658	1,889
+ Non-cash items	354	410	400	467	554
Oper. prof. before WC	1,436	1,089	1,935	2,126	2,443
- Incr. / (decr.) in WC	352	221	-1,107	838	723
Others incl. taxes	303	137	401	417	484
Operating cash-flow	781	731	2,641	872	1,237
- Capex (tang. + intang.)	646	359	265	1,808	450
Free cash-flow	135	372	2,376	-936	787
Acquisitions	-	-	-	-	-
- Div.(incl. buyback & taxes)	134	287	248	260	260
+ Equity raised	-	-	193	145	-
+ Debt raised	53	165	-1,474	-	-400
- Fin investments	-	-	0	-	-
- Misc. (CFI + CFF)	81	259	-125	4	-33
Net cash-flow	-27	-9	973	-1,055	160

Source: Company, Anand Rathi Research

Fig 4 – Ratio analysis

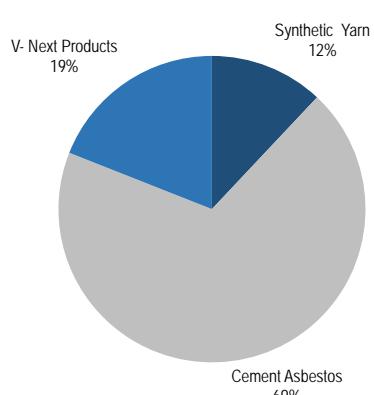
Year-end: Mar	FY19	FY20	FY21	FY22e	FY23e
P/E (x)	9.8	4.4	7.1	11.5	9.9
EV / EBITDA (x)	6.2	4.2	4.0	7.2	6.0
EV / Sales (x)	0.8	0.4	0.7	1.2	1.0
P/B (x)	1.3	0.4	1.2	1.9	1.7
RoE (%)	14.3	9.8	19.5	18.1	18.0
RoCE (%) - after tax	9.9	7.6	14.8	15.3	15.6
Fixed asset T/O (x)	2.5	2.0	2.0	1.9	1.8
DPS (Rs / sh)	7.0	15.0	15.0	15.0	15.0
Dividend yield (%)	1.7	11.1	3.2	1.8	1.8
Dividend payout (%) - incl. DDT	19.9	58.3	22.4	21.0	18.1
Net debt / equity (x)	0.5	0.5	-0.0	0.1	0.1
Receivables (days)	50	49	33	40	42
Inventory (days)	88	106	79	85	90
Payables (days)	51	54	61	58	55
CFO : PAT %	115.8	148.3	238.7	70.4	86.0

Source: Company, Anand Rathi Research

Fig 5 – Price movement



Fig 6 – FY21 revenue break-up, by segment



## Company update

### Building Products

The BP division manufactures asbestos-cement (AC) products and fibre-cement flat products (V-boards and -panels). It generally brings ~82% to the company's revenue. The strong distribution network comprises over 7,000 dealers in rural and semi-urban areas.

In Q1 FY22, the BP division's revenue grew 17.5% y/y to Rs3bn due to volumes rising 15.3% y/y, and realizations increasing a further 1.9% y/y. With higher input costs, the EBIT margin declined 312bps y/y to 19.4% (22.5% a year ago, 14.9% the quarter prior).

### Asbestos Cement Sheets

With 802,000tpa installed capacity, Visaka is the second-largest cement-asbestos-product manufacturer in India, enjoying a near 18% market share.

Management expects AC-sheet demand to be boosted by the good monsoon and low number of Covid-19 cases in rural areas. Further, it expects good revenue and a high RoCE in ATUM, an integrated solar-roofing system (a hybrid product), boosted by a high asset-turnover ratio. In Q4 FY21, ATUM received its patent for South Africa. The BoD approved the expansion of the AC division at the Raebareli unit, to set up another line of 100,000tpa.

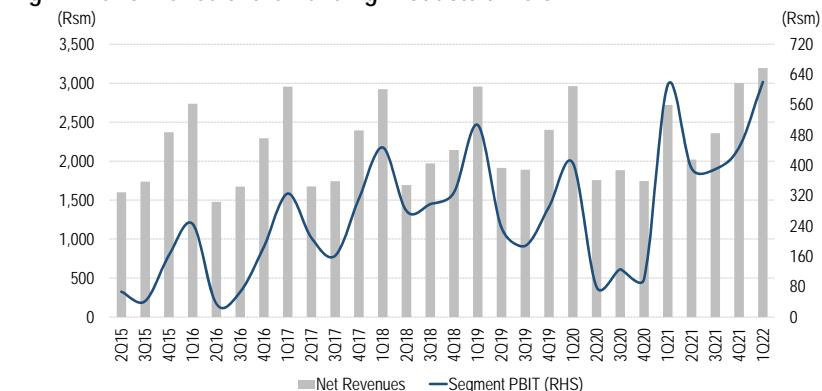
### Boards and Panels

With a wide variety of applications and a perfect substitute for plywood and gypsum boards, government 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.

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-board capacity. It is setting up a 50,000-tonne unit at Coimbatore, Tamil Nadu, at an estimated Rs1bn. It is expected to start in Dec'21.

In Q3 FY21, the Board proposed to expand the panels division by setting up a 10,000-ton unit at Udumalper in Tamilnadu at an estimated Rs137.5m, expected to be complete in 13 months. Management expects the board division's revenue to grow in double digits, and enjoy double-digit margins.

**Fig 7 – Performance of the Building Products division**



Source: Company, Anand Rathi Research

### Synthetic Blended Yarn

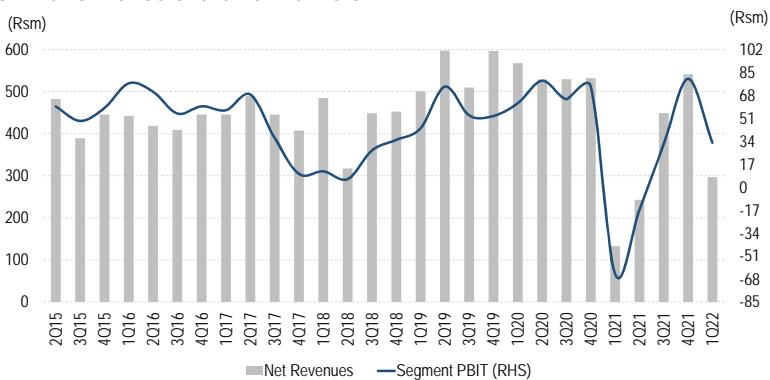
Visaka manufactures niche, value-added cotton-touch, air-jet spun polyester yarns. Its products command some of the highest margins in synthetic yarns.

It 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 and the UK.

In Q1 FY22 the synthetic-yarn category added ~9% to revenue (5% a year ago). Its revenue grew 123% y/y to Rs297m on a 95% y/y rise in volumes, and 14.5% in realisations. It reported Rs33m EBIT (vs a Rs64m EBIT loss a year back). The performance q/q, however, was hit by the Covid-19 second-wave-related restrictions.

Management expects the category to rapidly ramp up sales and margins in coming months since intrinsic demand has been unscathed.

**Fig 8 – Performance of the Yarn division**



Source: Company, Anand Rathi Research

**Fig 9 – Quarterly trend**

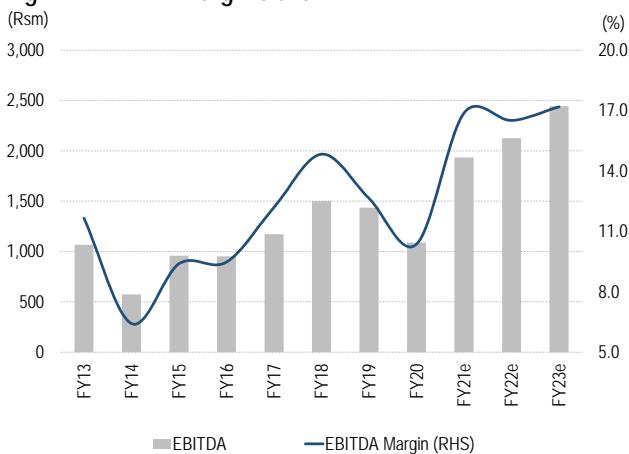
(Rs m)	Q3 FY19	Q4 FY19	Q1 FY20	Q2 FY20	Q3 FY20	Q4 FY20	Q1 FY21	Q2 FY21	Q3 FY21	Q4 FY21	Q1 FY22	% Y/Y	% Q/Q
Sales	2,399	2,998	3,528	2,284	2,414	2,277	2,852	2,262	2,807	3,542	3,491	22.4	(1.4)
EBITDA	244	343	487	183	214	205	583	406	418	528	649	11.4	23.0
EBITDA margins (%)	10.2	11.4	13.8	8.0	8.9	9.0	20.4	17.9	14.9	14.9	18.6	-184bps	369bps
Interest	51	53	44	41	43	47	39	30	27	31	33	(15.9)	6.6
Depreciation	89	93	108	101	100	99	98	100	101	100	91	(7.4)	(9.7)
Other income	13	18	15	20	14	17	16	24	22	24	21	35.3	(12.9)
PBT	117	214	350	60	85	76	461	300	311	421	546	18.5	29.9
Tax	26	73	119	(72)	24	7	117	77	81	112	141	20.4	25.7
PAT	91	140	231	132	61	69	344	223	230	309	406	17.9	31.4

Source: Company, Anand Rathi Research

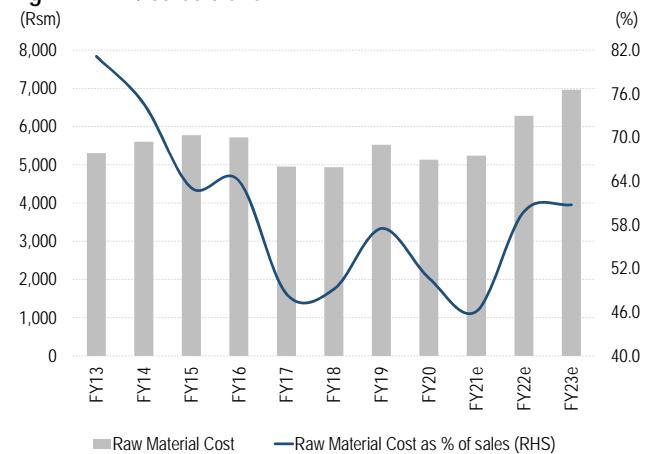
**Fig 10 – Segment-wise details**

(Rs m)	Q3 FY19	Q4 FY19	Q1 FY20	Q2 FY20	Q3 FY20	Q4 FY20	Q1 FY21	Q2 FY21	Q3 FY21	Q4 FY21	Q1 FY22	% Y/Y	% Q/Q
<b>Net revenues</b>													
Building products	1,890	2,401	2,960	1,756	1,885	1,745	2,719	2,019	2,358	3,000	3,194	17.5	6.5
Synthetic blended yarn	510	597	568	529	530	532	133	243	449	541	297	123.2	(45.2)
<b>Segment-wise PBIT</b>													
Building products	188	291	407	79	126	100	613	392	390	447	620	1.2	38.7
Synthetic blended yarn	53	53	62	79	65	75	(64)	(17)	32	80	33	L2P	(58.9)
<b>PBIT margins (%)</b>													
Building products	9.9	12.1	13.7	4.5	6.7	5.7	22.5	19.4	16.6	14.9	19.4	-312bps	451bps
Synthetic blended yarn	10.4	8.8	11.0	14.9	12.3	14.0	(48.4)	(6.9)	7.1	14.8	11.1	L2P	-371bps

Source: Company, Anand Rathi Research

**Fig 11 – EBITDA margin trend**

Source: Company, Anand Rathi Research

**Fig 12 – RM / sales trend**

Source: Company, Anand Rathi Research

## Key Takeaways, Concail highlights

### Financial and Operational highlights

- Capacity utilisation at the AC roofing-sheet division was 85%; for boards, 85-90%. Performance was hit by lockdowns at various places (TN, etc.). ATUM capacity utilisation in FY22 is expected at 40-50%.
- The cement-asbestos market share held at 20%, whereas the boards and panels market share was 35%.
- V-Next products are 25% less expensive than MDF products and 100% less expensive than plywood. The difference in prices between steel roofing sheets and fibre-cement-asbestos roofing sheets is now ~20%.
- On high input costs, the company hiked prices 5-8% a sq.ft. No further pressure of input cost is expected ahead and margins would be stable.
- The FY21 RoCE and RoNW was 20.31% and 18% respectively, and is expected to hold at the same levels in FY22.
- Net debt on 30<sup>th</sup> Jun'21 was Rs520m (Rs800m a year ago).
- Working-capital days shrank to 72 (from 76 a year back) on greater collections and lower stocks.
- The company made a foray into ATUM Life, a chain of physical stores selling sustainable products: ATUM Charge, electric-vehicles charging stations using ATUM solar roofing, and Vnext Solutions, which offer turnkey solutions for a wide range of building requirements ranging from prefabricated buildings to interior furniture.
- It plans to open 10 ATUM Life stores in major metropolises in India and set up 10 ATUM Charge EV charging stations (first phase).

### Expansion and Capex

- The additional 100,000-ton line for AC units at Rae Bareli, the 50,000-ton boards-unit expansion and the 10,000-ton panel-unit expansion at Udumalper, Tamil Nadu, is expected to commence by Dec'21. The Rs1,500m capex (Rs800m for boards/panels, Rs700m for the AC unit) will be funded via internal accruals.
- Maximum revenue-generation from the AC unit could be Rs1bn; from boards/panels unit, Rs800m. For FY22, Rs600m-700m revenue is expected from both capacities.
- The company is setting up its first ATUM Life store in Hyderabad and ATUM Charge EV charging stations in tier-1 and -2 cities in the country. It will spend Rs500m in the first phase.

### Demand outlook

- The AC-roofing sector have grown at less than 5% in the last 10 years. The company's AC-roofing division is expected to grow in high single digits in five years (FY22 ~10%). V-Next is expected to grow 20-25% and generate Rs2.5bn-3bn revenue in coming years (Rs2bn in FY21).
- The yarn division was hit by lockdowns at its main market, Bhiwandi (Mumbai) and Bhilwara (Rajasthan) where 60% of the business depends on school uniforms. Product development, easing lockdowns and export opportunities would provide the requisite fillip. For FY22, Rs2bn revenue is expected from the yarn division.

## Valuation

We retain our Buy rating, with a higher target price of Rs1079, assigning a 13x multiple to the FY23e EPS. At the ruling price, the stock trades at a PE of 10x FY23e.

### Change in estimates

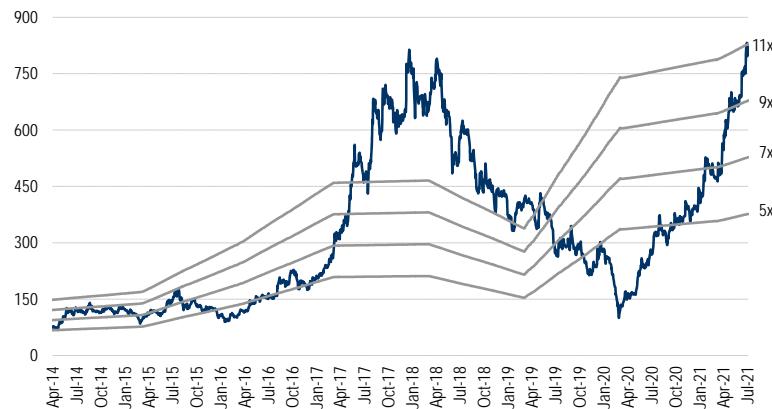
We raise our FY22e and FY23e revenue 1.6% and 3.4%; EBITDA 4.2% and 8.8%, and PAT 4.1% and 8.1%, respectively.

**Fig 13 – Change in estimates**

(Rs m)	Old		New		Change (%)	
	FY22e	FY23e	FY22e	FY23e	FY22e	FY23e
Sales	12,671	13,748	12,878	14,215	1.6	3.4
EBITDA	2,040	2,245	2,126	2,443	4.2	8.8
PAT	1,190	1,330	1,238	1,438	4.1	8.1

*Source: Anand Rathi Research*

**Fig 14 – PE band**



*Source: Bloomberg, Anand Rathi Research*

### Risks

- Rise in input costs
- Demand slowdown.

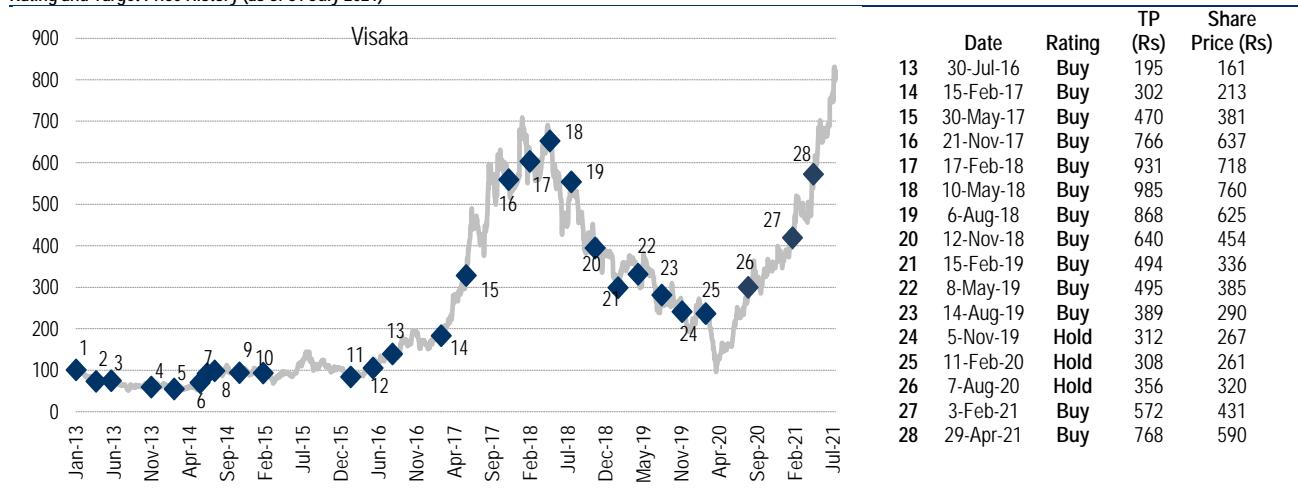
## Appendix

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	Buy	Hold	Sell
Large Caps (>US\$1bn)	>15%	5-15%	<5%
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