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TINY TREASURE

August 2018

The Trick Is To Spot Them At The Larval Stage

BSE Code	:	509055
Time Duration	:	1 year
CMP	:	₹587 (as on 23 August, 2018)
Target Price	:	₹770

Visaka Industries

Cementing The Bond of Profitable Growth

Our Tiny Treasure for the month of August is Visaka Industries Limited. Its business consists of two verticals, i.e. building products (cement asbestos products and fibre cement boards) and synthetic yarn. The roofing products are marketed under the brands of V-Boards and V-Panels. In FY18, its revenue mix consisted of building products (83%) and synthetic yarn (17%). It is a pan-India company having manufacturing facilities at 12 locations. It has a wide distribution channel comprising of more than 7,000 dealer outlets. The company earns 5% of its revenues through exports.

Over the last 3-4 years, the company's production levels have been growing at a robust rate led by growing demand. Due to better monsoons, the demand for products have grown in FY17 and FY18 and, thereby, the company's profits have grown too. With the launch of new solar roofing product ATUM and with capacity expansion, we expect robust growth for the company going forward.

Robust performance across segments:

Cement asbestos – The total capacity of this product's manufacturing facility is 8,02,000 MTPA. In FY18, the capacity utilisation was 88%. Also, in FY18, the company's cement asbestos segment had 18% market share. It generated EBITDA margin of 18% from the segment in FY18. The company expects growth of 5% in this segment in FY19 on the back of good monsoons. Monsoon is one of the key demand drivers for the company's asbestos roofing sheets and FY18 delivered good numbers led by good monsoon and the margins improved significantly by 400 bps. The properties of this product such as fire-resistance, durability and longevity, availability at low cost and resistance to wear and tear clearly differentiates it from other alternative products in the market.

Fibre cement – The company forayed into this segment since 2008. The total capacity of this product's manufacturing facility is 1,29,750 MTPA (post-expansion). In FY18, the capacity utilisation was 83% and generated EBITDA margin of 7%. Its market share in FY18 from fibre cement segment was 26%. During H2FY18, it invested Rs 100 crore in the third unit having capacity of 50,000 tonnes p.a. in Jhajhar, Haryana. The commercial production will start from September 2018. In H2FY19, this plant will produce 20,000 tonnes, generating revenue of Rs 29-30 crore. This capacity expansion is expected to help the company cater to the growing demand of up to 20%. It would strengthen its access to North and East India and will help the company to minimise the logistics cost. These products are exported to Saudi Arabia, UAE, Qatar, Iraq, Iran, Bahrain and Sri Lanka.

Textiles – The annual production capacity of 2752 twin-jet spinning positions is 82,650 spindles. In FY18, the capacity utilisation was 78%. If the company is able to increase its utilisation to 95% level, the segment would contribute more towards the revenue and enhance its margins. In FY18, this segment generated EBITDA margin of 8%.

Efforts to push V-Next products

The company has adopted many measures to spread awareness about its V-Next products. It has conducted various meetings with architects, dealers, contractors, decorators and carpenters and adopted digital and print media options for promotion. Looking at the growth in domestic market and bottoming out of exports, the company expects 20% growth in demand for V-Next products. Although the pulp prices rose in the last few months and despite fluctuation in the currency, the company generated a higher EBITDA margin than the industry. The margins are expected to be in the same range of 15% in FY19 with 18-20% growth in topline.

Launch of ATUM – solar roof product

In H2FY18, the company has set a new plant at Miryalguda in Telangana state to launch the new product ATUM, which is an eco-friendly roofing product. It is an energy efficient and energy generating roof with solar system, which is first of its kind ever to be used in India. The solar panel will be on 12 mm cement boards. It has production capacity of 60 MW p.a. The plant is ready for operations and the commercial production is set to start in September 2018. The company is expecting to generate revenue of Rs 20-25 crore from ATUM product in FY19. On a full year basis, the company has estimated revenue of Rs 58-60 crore in FY20. Going forward, the ATUM segment would be capable of contributing 10-12% towards the total revenue. The company has already bagged orders for the product.

Financial Performance

Over the last three years, the company's PAT has grown at a CAGR of 45.24%. In FY18, although the revenue growth was flat,

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its EBITDA grew by 28% YoY to Rs 150 cr from Rs 117 cr. The growth was led by better operating efficiency with lower cost of materials and excise duty. The EBITDA margin grew from 11.1% to 14.4% on a YoY basis. The PAT for the year increased by 55.6% YoY to Rs 66.56 cr from Rs 42.79 cr due to higher operating profits. The PAT margin improved from 4.05% in FY17 to 6.38% in FY18. By the end of FY18, debt-equity ratio stood at 0.5x and interest coverage ratio improved to 6.6x.

In Q1FY19, its revenue was marginally up, but better operating efficiency led to EBITDA growth of 13.8% to Rs 60.1 cr from Rs 48.30 cr. The EBITDA margin for the quarter stood at 15.39%. Its PAT grew by 32.1% YoY to Rs 30.34 cr from Rs 22.96 cr., while PAT margin stood at 8.7% as against 6.7% in Q1FY18.

Valuation

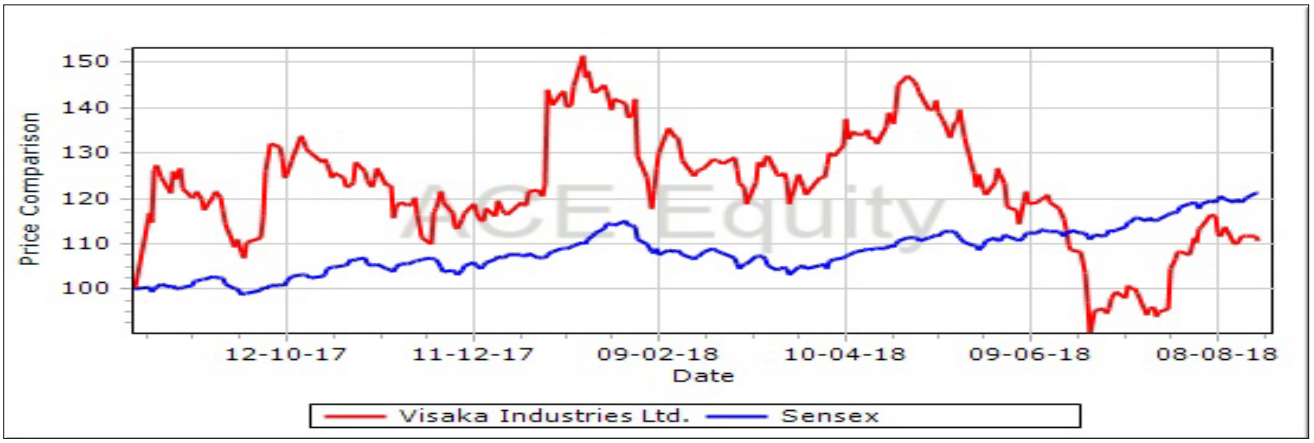
The company is trading at TTM P/E of 12.8x with TTM EPS of Rs 46.56. For FY18, it delivered ROE and ROCE of 15.8% and 18.5%, respectively. The ATUM plant and capacity expansion of the fibre cement plant will bring in additional revenue in FY19. Due to better monsoons, the demand from rural areas for roofing products like V-Next is set to rise. Due to the current floods seen in Kerala, the infrastructure loss has been heavy, and this would give an opportunity to Visaka to gain orders from the state for roofing products, as its major presence is in South India. Also, the textile segment has been growing consistently and post-GST, we see that the company will benefit and continue to deliver strong numbers. Looking at the attractive valuations too, we see this as a right time to enter with potential upside of 31% with target price of Rs 770.

Inc/Exp Statement(Standalone) (Rs in Crore)

Description	201803	201703	201603	201503	201403
Net Sales	1012.32	960.57	1004.85	1021.13	892.10
Total Income	1016.89	966.28	1007.58	1023.55	897.46
Total Expenditure	862.16	843.38	909.62	925.23	834.81
PBIDT	154.73	122.90	97.96	98.33	62.65
PAT	66.56	42.78	24.44	21.24	11.97
Dividend %	70.00	60.00	50.00	50.00	25.00
Adj. EPS(Rs)	41.91	26.94	15.39	13.37	7.54

Quarter On Quarter (Standalone) (Rs in Crore)

Particulars	201806	201803	Q on Q Var%	201706	Y on Y Var%
Net Sales	345.69	259.60	33.16	340.72	1.46
Total Expenditure	292.49	223.90	30.63	294.00	-0.52
PBIDT (Excl OI)	53.20	35.71	49.00	46.72	13.88
PAT	30.34	15.19	99.68	22.96	32.14
PBIDTM% (Excl OI)	15.39	13.75	11.93	13.71	12.25
PBIDTM%	17.39	14.13	23.07	14.18	22.64
PATM%	8.78	5.85	50.09	6.74	30.27
Adj. EPS(Rs)	19.10	9.57	99.58	14.46	32.09



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