

The Trick Is To Spot Them At The Larval Stage



BSE Code : 509055

Time Duration : 1 year

CMP : ₹543 (as on 24 August, 2017)

Target Price : ₹712

Visaka Industries

RURAL PENETRATION TO LEAD TO ROBUST GROWTH

Our Tiny Treasure for the month of August is Visaka Industries. The company is engaged in manufacturing of cement asbestos products and fibre cement boards, i.e. V-boards and V-panels and synthetic yarns. It enjoys 18% market share in India. In FY17, it derived 82% of its revenues from building products and remaining 18% from textiles. The company has pan-India presence and it also exports its building products to more than 15 countries. The company's exports account for 7.1% of the total revenues.

Better monsoons & demand in rural areas

Cement asbestos caters to the needs of rural and semi-urban population which lives in kutcha or semi-pucca dwellings. The company has eight manufacturing locations across India and operates in 35 towns. It possesses annual production capacity of 8,02,000 tonnes. These sheets have average durability of 50 years and as asbestos is available naturally, the construction cost is cheap.

Due to better monsoons and moderate inflation, the company's sales are expected to grow by 6% in this segment for FY18, with corresponding increase in profits and margins. The company management believes rural demand for asbestos products will rise going forward. In the current scenario, steel prices are going up and consumers are demanding coloured steel sheets, which we expect would boost the volumes and flourish the asbestos cement industry. The company is operating at around 75% capacity utilisation in asbestos cement sheet. Company has no plans for any capex in the next three years.

V-Next products - Next major revenue driver

The company has installed capacity of 1,20,000 tonnes for V-boards and 9750 tonnes of V-panels. It exports these products to countries like Saudi Arabia, UAE, Qatar, Iran, Iraq, Bahrain and Sri Lanka. In FY17, exports dipped by 40% due to global market pressures, but high domestic demand compensated for the same. This segment is expected to grow by 20% annually. Since the beginning of FY18, exports have increased which would strengthen the margins. V-boards can be used in all segments of construction business and be a substitute for plywood industry. Due to growing demand, the company increased capacity utilisation to 95%. A greenfield project worth Rs 75 crore in North India with annual capacity of 50,000 tonnes will get operational

in FY18. The management expects this segment to attract highest demand and would contribute 40-50% towards total revenue till 2020.

Capacity expansion in yarns division to drive volumes

The company produces polyester spun and synthetic yarns from 30s to 76s counts – double yarn. In FY17, its spinning capacity expanded by 26%, leading to higher realisations. In FY18, margins are expected to rebound on the back of rising demand due to trade normalisation. The 2.5 MW solar plant in Miryalguda for captive use and the new plant in Pune have been contributing to the growth. The management expects additional production of 250 tonnes per month. By FY19, the production volume is expected to grow by 12-15% which would expand its margins.

Industry analysis

The Indian real estate sector is one of the most recognised sectors globally and is expected to reach a market size of US\$ 180 billion by 2020. The growth in this sector will boost the growth in construction and building products segment in India. Fibre cement building product comprises about 20% of the market and is growing at a robust pace. It is estimated that about 54% of houses in rural India are kutcha houses and this deficit in rural housing offers tremendous opportunity of sustained growth of new-age construction practices as well as building products.

Nearly 70% of the Indian population stays in rural areas. Despite India's growing economic stature, India has as many as 78 million homeless people. To overcome this problem, the government has come up with many initiatives like 'Pradhan Mantri Awaas Yojana', 'Rajiv Aavas Yojana', credit-linked subsidy scheme for middle income groups and 'Rural Housing Fund'.

Financial Performance

In FY17, although the company's revenue declined, its EBITDA margin expanded from 9.48% in FY16 to 11.87%. Its net profit margin also rose from 2.2% in FY16 to 3.8% in FY17. The debt-equity ratio improved to 0.55x in FY17 from 0.92x in FY16. Its interest coverage ratio in FY17 was 4.68x as against 2.9x in FY16. The company declared dividend of Rs 6 per share for FY17.

The company posted good numbers in Q1FY18. Although rev-

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enue remained flattish, operating profit rose by 23.6% YoY in Q1FY18. Its net profit too increased by 37.7% on a YoY basis due to lower finance cost. Its EPS too rose from Rs 10.5 in Q1FY17 to Rs 14.46 in Q1FY18.

Valuation & Outlook

The company is trading at TTM P/E of 17.35 with TTM EPS of Rs

29.69. It delivered ROE and ROCE of 11.1% and 13.29% in FY17. Considering the positive outlook of cement and construction industry and increasing demand for the products, we expect the company to show strong growth in the upcoming years. Its diversified product portfolio, reduction in debt and attractive valuations are the factors on which we see an upside of 32% with a target price of Rs 712.

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

Description	201703	201603	201503	201403	201303
Net Sales	966.73	1004.85	1021.13	892.10	915.60
Total Income	970.50	1007.58	1023.55	897.46	918.16
Total Expenditure	851.98	909.62	925.23	834.81	808.94
PBIDT	118.52	97.96	98.33	62.65	109.22
PAT	40.80	24.44	21.24	11.97	50.69
Dividend %	60.00	50.00	50.00	25.00	60.00
Adj. EPS(Rs)	25.69	15.39	13.37	7.54	31.92

Quarter On Quarter (Standalone) (Rs in Crore)

Particulars	201706	201703	Q on Q Var%	201606	Y on Y Var%
Net Sales	340.72	252.86	34.74	340.10	0.18
Total Expenditure	294.00	224.37	31.03	303.81	-3.23
PBIDT (Excl OI)	46.72	30.31	54.15	36.29	28.73
PAT	22.96	10.00	129.50	16.68	37.67
PBIDTM% (Excl OI)	13.71	11.90	15.21	10.67	28.49
PBIDTM%	14.18	12.10	17.19	11.49	23.41
PATM%	6.74	3.93	71.50	4.90	37.55
Adj. EPS(Rs)	14.46	6.30	129.52	10.50	37.71

