



Company Name	: Stylam Industries
BSE Code	: 526951
Time Duration	: 2 year
CMP	: ₹685 (as on 01 November, 2017)
Target Price	: ₹1010

The Upstream Pick for the month of November is Stylam Industries. We see this as an Upstream Pick as the company has leveraged itself and promoters have 52.71% stake, out of which 41% has been pledged to fund growth. The company is aggressively expanding to cater to demand for large-size laminates for the export market. We note company's D/E was ~2.5x as of FY17. Also, we are seeing slowdown in the new project launches by real estate developers due to weak demand and large inventory pile up. However, demand for commercial spaces has been more resilient. We see that the company has levered itself to expand in a slower growth environment and hence, in our view, it becomes a contra pick/ Upstream Pick.

We expect the company to be able to manage this constrained environment due to better opportunities in the domestic market and increase in product portfolio to cater to export-specific demand. Additionally, the US is seeing a cyclical revival in growth, along with promising outlook in the Middle East and Africa. Additionally, its branding activities and close linkages with architects and dealers can help it gain share from unorganised market.

Capacity expansion benefits to start kicking in from FY18

The company nearly doubled its capacity to ~12 million sheets in high pressure laminates by spending Rs 60 crore on a greenfield project which was completed by Q3FY17. We see that the benefits of capacity expansion with increase in capacity utilisation and operational efficiency will start kicking in from FY18. The company has manufacturing facilities in Panchkula, Haryana.

Additionally, the company expanded its product offering and included "cubicles" in its product offering in FY17 and became the first Indian manufacturer to offer panels with dimensions of 1860x4320mm.

The company is further planning to expand its capacity to manufacture 40 lakh laminate sheets per annum. The management expects to complete the work by the middle of FY18 and, as per management, the civil construction work is already over and the installation of machineries for the new production lines is under progress which is expected to be completed by the middle of the current financial year.

Market opportunity

The market size of decorative laminates is estimated to surpass 12 bn sq mts by 2023 and is expected to grow at 5.5% CAGR over FY16-23. Asia-Pacific contributes ~46% to the revenue from decorative laminates. We see Asia-Pacific demanding a large share due to trend towards customised houses which are pocket-friendly, smooth in surface and durable. Further, increasing trend for customised and attractive interior in homes and offices is anticipated to fuel the demand for decorative laminates in North America. The Middle East and Africa (MEA) region is likely to be attractive market owing to expansion in hotels and real estate industry in South Africa and UAE.

Laminates market is predominantly unorganised, which contribute 65% to the industry revenue. Implementation of GST would provide a level playing field to organised sector and can lead to traction in growth and higher penetration.

IT/BPO property sale – The company has land parcel of 5520 sq mtr in Haryana and it has built eight-storey building on this property with built-up area of 20697.2 sq mtrs. The company plans to sell the same and focus on building material segment. We expect that with this sale the company will be able to get cash and improve its debt position.

Debt rating of the company

The company has Triple B+ rating on its long term facilities and A3 rating on short term bank rating.

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Financial performance

The company's net sales grew by 18% YoY in FY17, which led to expansion in margins by 18 bps. Profit before tax grew 44% to Rs 28.4 crore, while PAT grew 50% YoY to Rs 18.4 crore.

The company derives 70% of its revenue from exports and has seen 13% YoY growth in exports in terms of value.

The company has been witnessing high working capital requirement due to receivable and inventory days of 50 and 56, respectively, while payable days are 27. Hence, its current ratio is 0.87x and quick ratio 0.47x. Though it has high debt, the interest coverage ratio is decent at 3.85x.

Stylam has D/E of 2.47x as of FY17. It has long term borrowings to the tune of Rs 88.3 crore, of which Rs 65.9 crore are secured term loans. A large portion of secured term loans are foreign currency loans of Rs. 65.9 crore from HDFC Bank and State Bank of Patiala.

Valuation and outlook

We see that the company is trading at a high valuation of TTM P/E of 30.7x, which is high compared to established peer Greenply. However, the company has seen high CAGR growth of 16.8% in its revenue over the last three years, while profits have increased at a CAGR of 43.62%. We see that the company has corrected post Q1FY18 results due to lower than expected returns. We expect the company to deliver better results from Q3FY18 and see improvement thereafter. Hence, with the doubling of capacity and better demand scenario in international and domestic markets, we expect the company to provide returns of 47.4% over the next two years.

We urge investors to invest in three tranches as it has low float. Also, we expect weakness in margins to continue for next two quarters and this would provide entry levels and then recover in early FY18.

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

Description	201703	201603	201503	201403	201303
Net Sales	294.71	249.41	214.17	187.45	140.21
Total Income	295.45	250.06	214.46	189.43	141.42
Total Expenditure	251.58	219.25	191.30	169.50	128.28
PBIDT	43.87	30.81	23.16	19.94	13.14
PAT	18.35	12.15	9.39	6.83	4.07
Dividend %					
Adj. EPS(Rs)	25.08	16.60	12.84	9.33	5.56

Quarter On Quarter (Standalone) (Rs in Crore)

Particulars	201706	201703	Q on Q Var%	201606	Y on Y Var%
Net Sales	76.51	80.78	-5.28	72.52	5.51
Total Expenditure	65.11	69.13	-5.81	61.82	5.32
PBIDT (Excl OI)	11.40	11.65	-2.09	10.69	6.65
PAT	4.80	4.29	11.86	4.97	-3.46
PBIDTM% (Excl OI)	14.90	14.42	3.33	14.74	1.09
PBIDTM%	15.05	14.38	4.66	14.87	1.21
PATM%	6.27	5.31	18.08	6.86	-8.60
Adj. EPS(Rs)	6.56	5.87	11.75	6.80	-3.53

