

Maintaining b/s strength amid tough demand scenario

Given the weak demand scenario for fabric and apparel categories in domestic markets and excess inventory in trade channels, Siyaram (SSML) reported revenue decline of 64.4% YoY to ₹ 173.6 crore (up 3.2x QoQ). However, the recovery rate trajectory has been on an upward trend MoM. Green shoots are visible for the fabric division (~80% of revenues), wherein recovery rate in September reached 60-70% of pre-Covid levels. Garmenting segment continued to be a laggard with recovery rate reaching 30-40% in September. Gross margins (including processing charges) contracted sharply by 900 bps YoY to 34% owing to higher discounting and schemes given to dealers/distributors. However, cost rationalisation measures (employee, other expenses down 54%, 62%, respectively, YoY) curtailed EBITDA losses, to a certain extent. The company reported EBITDA loss of ₹ 5.6 crore (Q1FY21: ₹ 43.7 crore loss, Q2FY20: ₹ 55.2 crore). Subsequently, SSML reported a net loss of ₹ 13.6 crore vs. net profit of ₹ 30.1 crore in Q2FY20 (Q1FY21: ₹ 67.3 crore loss).

Fabrics revenue recovery faster than garmenting division

With the upcoming festive season, we expect recovery rate to pick up pace, especially for the fabric division in Q3FY21E. The company reiterated its stance of not aggressively pushing sales in the trade channels at the cost of stretched working capital cycle (to avoid higher receivable days and risk of sales return later). On the segmental front, fabric division saw better traction (reached 60-70% of pre-Covid sales in September), owing to its strong brand patronage and distribution network that mainly encompasses Tier II/III cities. Higher competitive intensity and sluggish demand offtake continues to weigh on the performance of garmenting segment (reached 30-40% of pre-Covid sales in September). The channel inventory for garment appears to be on the higher side. This has led to lower flow of new orders from dealers/distributors. While H1FY21 was nearly a washout period owing to store closures and subdued demand (revenue de-growth: 74% YoY), we expect H2FY21 to be significantly better on the back of improved consumer sentiments and festive demand.

Valuation & Outlook

Despite challenging times, SSML continued to focus on stringent control on cash conversion cycles, which resulted in further reduction in debt by ~₹ 35 crore in H1FY21. The company's focus on strengthening balance sheet is visible with significant decline in debt from ₹ 590.0 crore in FY18 (D/E: 0.9x) to ₹ 360.0 crore (D/E: 0.5x) as on H1FY21. Some of the cost rationalisation measures undertaken by the company in H1FY21 are likely to sustain post normalisation of demand scenario. This would aid EBITDA margins, going forward. We model earnings CAGR of 19% in FY20-22E (on comparatively low base) and expect the company to generate RoCE of ~13% in FY22E. The company continues to trade at reasonable valuations. Hence, we maintain **BUY** rating with a revised target price of ₹ 170 (8.0x FY22E EPS).

Key Financial Summary

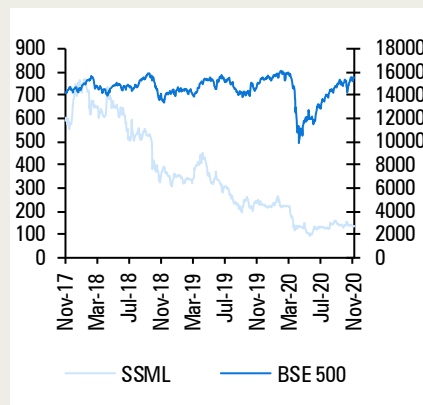
₹ crore	FY19	FY20	FY21E	FY22E	CAGR (FY20-22E)
Net Sales	1,816.2	1,699.3	932.5	1,633.9	-1.9%
EBITDA	239.6	167.4	-18.9	213.8	13.0%
PAT	99.1	69.2	-100.0	99.0	19.5%
P/E (x)	6.4	9.2	-6.4	6.4	
EV/Sales (x)	0.6	0.6	1.0	0.6	
EV/EBITDA (x)	4.5	6.1	-51.0	4.3	
RoCE (%)	14.6	8.1	-8.3	13.4	
RoE (%)	13.1	9.1	-14.6	13.4	



Particulars

Particular	Amount
Market Capitalisation (₹ Crore)	637.4
Debt (FY20) (₹ Crore)	395.7
Cash (FY20) (₹ Crore)	5.5
EV (₹ Crore)	1,027.7
52 week H/L	269 / 94
Equity Capital (₹ Crore)	9.4
Face Value (₹)	2

Price Chart



Research Analyst

Bharat Chhoda
bharat.chhoda@icicisecurities.com

Cheragh Sidhwa
cheragh.sidhwa@icicisecurities.com

Financial summary

Exhibit 1: Profit & Loss Statement

(Year-end March)	FY19	FY20	FY21E	FY22E
Total operating Income	1,816.2	1,699.3	932.5	1,633.9
Growth (%)	4.8	-6.4	-45.1	75.2
Raw Material Expenses	806.6	822.5	511.2	779.6
Employee Expenses	198.2	195.5	121.2	155.2
Manufacturing & Other Expenses	571.8	513.9	318.9	485.3
Total Operating Expenditure	1,576.6	1,531.9	951.3	1,420.1
EBITDA	239.6	167.4	-18.9	213.8
Growth (%)	-2.2	-30.1	-111.3	-1,232.2
Depreciation	62.3	73.0	67.1	72.6
Interest	48.4	43.0	38.2	38.4
Other Income	28.2	33.8	28.0	29.4
Exceptional Item	-4.7	0.0	-28.0	0.0
PBT	152.4	85.2	-124.3	132.2
Growth (%)	-10.9	-45.8	-213.0	-237.4
Total Tax	53.3	15.9	-24.2	33.3
PAT	99.1	69.2	-100.0	99.0
Growth (%)	-10.6	-30.1	-244.4	-198.9
EPS (₹)	21.1	14.8	-21.3	21.1

Source: Company, ICICI Direct Research

Exhibit 2: Cash Flow Statement

(Year-end March)	FY19	FY20	FY21E	FY22E
PAT	99.1	69.2	-100.0	99.0
Add: Depreciation	62.3	73.0	67.1	72.6
(Inc)/dec in Current Assets	23.6	36.8	161.8	-96.1
Inc/(dec) in CL and Provisions	-3.3	-1.2	-68.2	53.8
Others	0.0	0.0	0.0	0.0
CF from operating activities	181.7	177.9	60.8	129.2
(Inc)/dec in Investments	7.8	-4.1	-3.4	-3.7
(Inc)/dec in Fixed Assets	-142.3	-42.1	-20.0	-35.0
(Inc)/dec in CWIP	84.6	4.0	2.0	1.0
Others	0.0	-6.8	0.0	0.0
CF from investing activities	-50.0	-49.0	-21.4	-37.8
Issue/(Buy back) of Equity	0.0	0.0	0.0	0.0
Inc/(dec) in loan funds	-128.8	-64.5	-45.7	-30.0
Others	-18.0	-67.6	25.0	-49.5
CF from financing activities	-146.8	-132.1	-20.7	-79.5
Net Cash flow	-15.1	-3.1	18.6	12.0
Opening Cash	23.6	8.6	5.5	24.1
Closing Cash	8.6	5.5	24.1	36.1

Source: Company, ICICI Direct Research

Exhibit 3: Balance Sheet

(Year-end March)	FY19	FY20	FY21E	FY22E
Liabilities				
Equity Capital	9.4	9.4	9.4	9.4
Reserve and Surplus	745.5	752.7	677.7	727.2
Total Shareholders funds	754.9	762.1	687.1	736.5
Total Debt	460.2	395.7	350.0	320.0
Deferred Tax Liability	19.6	14.1	14.1	14.1
Minority Interest / Others	-	48.6	48.6	48.6
Total Liabilities	1,234.7	1,220.4	1,099.7	1,119.1
Assets				
Gross Block	709.3	751.5	771.5	806.5
Less: Acc Depreciation	199.2	261.3	328.5	401.0
Net Block	510.1	490.2	443.1	405.5
Capital WIP	8.0	3.9	2.0	1.0
Total Fixed Assets	518.1	494.1	445.0	406.5
Investments	30.0	34.1	37.5	41.2
Inventory	422.2	429.8	344.9	385.0
Debtors	392.7	324.0	281.0	335.7
Loans and Advances	130.9	155.1	121.2	122.5
Cash	8.6	5.5	24.1	36.1
Total Current Assets	954.3	914.4	771.2	879.3
Current Liabilities	255.5	253.4	184.6	237.7
Provisions	12.3	13.2	13.8	14.5
Total Current Liabilities	267.7	266.6	198.4	252.2
Net Current Assets	686.6	647.9	572.8	627.1
Others Assets	-	44.4	44.4	44.4
Application of Funds	1,234.7	1,220.4	1,099.7	1,119.1

Source: Company, ICICI Direct Research

Exhibit 4: Key Ratios

(Year-end March)	FY19	FY20	FY21E	FY22E
Per share data (₹)				
EPS	21.1	14.8	-21.3	21.1
Cash EPS	34.4	30.4	-7.0	36.6
BV	161.1	162.6	146.6	157.1
DPS	4.2	10.8	-5.3	10.6
Cash Per Share	1.8	1.2	5.1	7.7
Operating Ratios				
EBITDA Margin (%)	13.2	9.9	-2.0	13.1
PBT Margin (%)	8.4	5.0	-13.3	8.1
PAT Margin (%)	5.5	4.1	-10.7	6.1
Inventory days	84.8	92.3	135.0	86.0
Debtor days	78.9	69.6	110.0	75.0
Creditor days	79.5	80.6	80.0	77.0
Return Ratios (%)				
RoE	13.1	9.1	-14.6	13.4
RoCE	14.6	8.1	-8.3	13.4
RoIC	15.2	8.5	-8.8	14.4
Valuation Ratios (x)				
P/E	6.4	9.2	-6.4	6.4
EV / EBITDA	4.5	6.1	-51.0	4.3
EV / Net Sales	0.6	0.6	1.0	0.6
Market Cap / Sales	0.4	0.4	0.7	0.4
Price to Book Value	0.8	0.8	0.9	0.9
Solvency Ratios				
Debt/EBITDA	1.9	2.4	-18.5	1.5
Debt / Equity	0.6	0.5	0.5	0.4
Current Ratio	3.6	3.4	3.9	3.5
Quick Ratio	2.0	1.8	2.1	2.0

Source: Company, ICICI Direct Research

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Buy: >15%

Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



Pankaj Pandey

Head – Research

pankaj.pandey@icicisecurities.com

**ICICI Direct Research Desk,
ICICI Securities Limited,
1st Floor, Akruiti Trade Centre,
Road No 7, MIDC,
Andheri (East)
Mumbai – 400 093
research@icicidirect.com**

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