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Q4FY21 result review
and earnings revision

Building Material

Target price: Rs900

Earnings revision

(%)	FY21E	FY22E
Sales	↑ 3.1	↑ 0.0
EBITDA	↑ 2.2	↑ 4.1
PAT	↑ 3.2	↑ 6.1

Target price revision

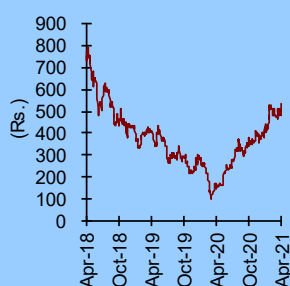
Rs900 from Rs705

Shareholding pattern

	Sep '20	Dec '20	Mar '21
Promoters	44.5	48.4	45.9
Institutional investors	1.3	1.3	2.8
MFs and others	0.0	0.0	0.0
FIs/Banks	0.0	0.0	0.0
FIIIs	1.3	1.3	2.8
Others	54.2	50.3	51.3

Source: CMIE

Price chart



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Visaka Industries

BUY

Maintained

Rs536

Superior execution to drive rerating

Despite losses in ATUM and muted growth in the synthetic yarn segment, strong rural demand for Visaka's (VSKI) ACS roofing sheet and sharp demand recovery in its Vnext segment helped the company report an all-time high PAT (Rs1.11bn) in FY21. Strong free cashflow generation (highest in 10 years) led to significant reduction in net debt (down to Rs0.4bn from Rs2.5bn YoY) amid sharp improvement in working capital (down to 83 vs 124 days YoY) leading to >20% RoCE (highest in 10 years) in FY21. While we expect Vnext and synthetic yarn segment to lead recovery in FY22E, ACS is likely to sustain its growth momentum. With strong cashflow generation going forward (despite Rs1bn capex in FY22E), we expect the company to become a net cash company by FY22E. This would maintain firm RoCEs over FY22E-FY23E, which would likely drive further rerating. **Maintain BUY.**

- Valuation and outlook:** Factoring-in the Q4FY21 performance, we increase our FY22E PAT estimates by 6.1% and roll over to FY23E. We now expect revenue and PAT CAGRs of 9.1% and 34.5% over FY20-FY23E. Strong FCF generation would help maintain its high teen RoCEs over FY22E-FY23E despite incremental capex for the new Vnext and ACS plants. **Maintain BUY** with a revised target price of Rs900 (earlier: Rs705), implying a P/E multiple of 13x FY23E earnings (vs 12x FY22E earlier). Key risks: 1) slowdown in rural demand may impact ACS volumes, and 2) slower recovery in synthetic yarn segment in FY22.
- Sustained demand/pricing tailwinds in ACS/FCB aid outperformance:** VSKI reported its Q4FY21 revenues at Rs3.54bn (I-Sec: Rs3.2bn), up 55.5% YoY, led by sharp rise in Vnext revenues and sustained demand for ACS. Synthetic yarn revenues too recovered by a sharp 2% YoY to Rs542mn. Strong rural demand and expected recovery in urban India is likely to drive sustained growth momentum in ACS and Vnext while we expect synthetic yarn to stage sharp recovery going forward. We thus expect VSKI to exhibit an overall revenue CAGR of 9.2% over FY20-FY23E.
- EBITDA margin in-line at 14.9% (I-Sec: 15.2%) led by operating leverage:** Despite higher input costs across product segments, EBITDA margin came in at 14.9% (I-Sec: 15.2%), up 590bps YoY led largely by operating leverage in ACS/Vnext segments. Synthetic yarn margin too recovered QoQ to 14.8% driven by recovery post Covid. Going forward, we expect EBITDA margin improvement in Vnext and synthetic yarn segments to offset any contraction in margins of the ACS segment. We thus expect the company's overall margins to be in the range of 15-15.5% over FY22E-FY23E.
- Balance sheet to strengthen further; VSKI to become net cash company by end-FY22E:** With higher FCF generation and consequent reduction in debt, VSKI is likely to become a net cash company by end-FY22E. With likely improvement in profitability of its Vnext segment, sharp recovery in the synthetic yarn segment, and sustained strict working capital discipline, we expect RoCE to remain in high teens despite the company's planned capex in its ACS/FCB segments.

Market Cap	Rs8.8bn/US\$118mn	Year to Mar	FY20	FY21E	FY22E	FY23E
Reuters/Bloomberg	VSKI.BO / VSKI IN	Revenue (Rs mn)	10,504	11,465	12,555	13,599
Shares Outstanding (mn)	16.5	Net Profit (Rs mn)	493	1,106	1,082	1,199
52-week Range (Rs)	536 / 150	Dil. EPS (Rs)	31.0	67.0	62.5	69.2
Free Float (%)	54.1	% Chg YoY	(26.9)	124.4	(2.2)	10.8
FII (%)	2.8	P/E (x)	17.3	8.0	8.6	7.7
Daily Volume (US\$'000)	448	CEPS (Rs)	56.7	91.2	89.3	96.3
Absolute Return 3m (%)	22.2	EV/EBITDA (x)	10.0	4.5	4.7	4.0
Absolute Return 12m (%)	252.6	Dividend Yield (%)	2.8	2.8	2.8	3.2
Sensex Return 3m (%)	(1.5)	RoCE (%)	9.7	21.3	19.1	18.7
Sensex Return 12m (%)	54.9	RoE (%)	9.8	19.5	15.9	15.2

Please refer to important disclosures at the end of this report

Table 1: Q4FY21 result review*(Rs mn, year ending March 31)*

Particulars	Q4FY21A	Q4FY21E	Q4FY20	YoY (%)	Q3FY21	QoQ (%)	FY21	FY20	YoY (%)
Net Sales	3,542	3,201	2,277	55.5	2,809	26.1	11,465	10,504	9.2
Total Op. Income	3,542	3,201	2,277	55.5	2,809	26.1	11,465	10,504	9.2
Expenditure	3,014	2,715	2,072	45.4	2,390	26.1	9,531	9,415	1.2
Raw Materials	1,642	1,550	1,064	54.3	1,303	26.0	5,242	5,132	2.1
Staff Cost	325	310	278	16.7	286	13.7	1,201	1,160	3.5
Other Expenditure	1,047	855	730	43.5	802	30.6	3,087	3,123	(1.1)
Operating Profit	528	486	205	157.7	418	26.2	1,935	1,089	77.7
OPM (%)	14.9	15.2	9.0	590bps	14.9	0bps	16.9	10.4	650bps
Other Income	24	20	17	45.1	22	10.7	86	66	29.7
Interest	31	35	47	(33.3)	27	13.6	128	174	(26.4)
Depreciation	100	103	99	1.1	101	(0.6)	400	410	(2.4)
Exceptional income	0	0	0		0		0		
PBT	421	368	76	457.1	312	35.0	1,493	571	161.3
Tax	112	100	7	1,512.7	81	38.4	386	78	393.7
Tax rate (%)	26.6%	27.2%	9.2%		26.0%		25.9%	13.7%	
PAT	309	268	69	350.2	231	33.8	1,106	493	124.5
Reported PAT	309	268	69	350.2	231	33.8	1,106	493	124.5
NPM (%)	8.7	8.4	3.0	570bps	8.2	50bps	9.7	4.7	500bps

Source: Company data, I-Sec research

Table 2: Change in estimates*(Rs mn)*

Estimates	Old		New			% change	
	FY21E	FY22E	FY21	FY22E	FY23E	FY21E	FY22E
Revenue	11,125	12,558	11,465	12,555	13,599	3.1%	0.0%
EBITDA	1,893	1,833	1,935	1,909	2,042	2.2%	4.1%
EBIDTA margins	17.0%	14.6%	16.9%	15.2%	15.0%	-10bps	60bps
PAT	1072	1019	1106	1082	1199	3.2%	6.1%
EPS	62	58.9	64	62.5	69.2	3.2%	6.1%

Source: Company data, I-Sec research

Financial summary

Table 3: Profit & Loss statement

(Rs mn, year ending March 31)

	FY20	FY21E	FY22E	FY23E
Net Revenues	10,504	11,465	12,555	13,599
Operating Expenses	9,415	9,531	10,646	11,557
EBITDA	1,089	1,935	1,909	2,042
% margins	10.4%	16.9%	15.2%	15.0%
Depreciation & Amortisation	410	400	465	469
Gross Interest	174	128	83	66
Other Income	66	86	85	95
Recurring PBT	571	1,493	1,446	1,602
Less: Taxes	78	386	364	403
Less: Minority Interest	-	-	-	-
Add: Share of profit of associates	-	-	-	-
Net Income (Reported)	493	1,106	1,082	1,199
Extraordinaries (Net)	-	-	-	-
Recurring Net Income	493	1,106	1,082	1,199

Source: Company data, I-Sec research

Table 4: Balance sheet

(Rs mn, year ending March 31)

	FY20	FY21E	FY22E	FY23E
Assets				
Total Current Assets	5,287	5,476	6,355	7,318
of which cash & cash eqv.	193	1,168	1,449	1,846
Total Current Liabilities & Provisions	1,715	2,016	2,323	2,596
Net Current Assets	3,572	3,460	4,031	4,722
Investments	-	-	-	-
Net Fixed Assets	4,060	3,962	4,497	4,627
Capital Work-in-Progress	88	51	-	-
Goodwill	-	-	-	-
Total Assets	7,720	7,473	8,528	9,349
Liabilities				
Borrowings	2,528	1,077	1,092	792
Deferred Tax Liability	142	127	127	127
Minority Interest	-	-	-	-
Equity Share Capital	159	173	173	173
Face Value per share (Rs)	10	10	10	10
Reserves & Surplus*	4,891	6,096	7,135	8,256
Less: Misc. Exp. n.w.o.	-	-	-	-
Net Worth	5,050	6,269	7,308	8,429
Total Liabilities	7,720	7,473	8,527	9,349

*Excluding revaluation reserves

Source: Company data, I-Sec research

Table 5: Quarterly trend

(Rs mn, year ending March 31)

	Jun-20	Sep-20	Dec-20	Mar-21
Net revenues	2,852	2,263	2,809	3,542
% growth (YoY)	(19.2)	(0.9)	16.3	55.5
EBITDA	583	406	418	528
Margin (%)	20.4	17.9	14.9	14.9
Other income	16	24	22	24
Extraordinaries (Net)	-	-	-	-
Net profit	344	223	231	309

Source: Company data, I-Sec research

Table 6: Cashflow statement

(Rs mn, year ending March 31)

	FY20	FY21E	FY22E	FY23E
Operating Cashflow	748	1,784	1,547	1,668
Working Capital Changes	(206)	1,087	(290)	(293)
Capital Commitments	(356)	(265)	(949)	(600)
Free Cashflow	186	2,606	308	775
Cashflow from Investing Activities	-	-	-	-
Issue of Share Capital	-	133	217	217
Inc (Dec) in Borrowings	149	(1,451)	16	(300)
Dividend paid	(287)	(297)	(260)	(294)
Change in Deferred Tax Liability	(58)	(15)	-	-
Chg. in Cash & Bank balance	(9)	975	281	397

Source: Company data, I-Sec research

Table 7: Key ratios

(Year ending March 31)

	FY20	FY21E	FY22E	FY23E
Per Share Data (Rs)				
EPS	31.0	67.0	62.5	69.2
Cash EPS	56.7	91.2	89.3	96.3
Dividend per share (DPS)	15.0	15.0	15.0	17.0
Book Value per share (BV)	317.2	379.5	421.9	486.7
Growth (%)				
Net Sales	-7.1	9.6	9.5	8.3
EBITDA	-24.2	77.7	-1.3	7.0
PAT	-26.9	124.4	-2.2	10.8
Cash EPS	-12.2	60.8	-2.0	7.8
Valuation Ratios (x)				
P/E	17.3	8.0	8.6	7.7
P/CEPS	9.5	5.9	6.0	5.6
P/BV	1.7	1.4	1.3	1.1
EV / EBITDA	10.0	4.5	4.7	4.0
EV / Sales	1.0	0.8	0.7	0.6
Operating Ratios				
Raw Material / Sales (%)	49.0	45.7	46.3	46.6
Employee cost / Sales (%)	11.1	10.5	10.0	9.9
SG&A / Sales (%)	10.4	12.1	11.2	10.1
Other Income / PBT (%)	11.6	5.8	5.9	5.9
Effective Tax Rate (%)	13.7	25.9	25.2	25.2
Working Capital (days)	124.7	83.3	85.0	85.0
Inventory Turnover (days)	106.0	79.4	80.0	82.0
Receivables (days)	48.8	33.5	35.0	34.0
Payables (days)	30.1	29.6	30.0	31.0
Net D/E Ratio (x)	0.5	0.0	0.0	-0.1
Profitability Ratios (%)				
Net Income Margins	4.7	9.7	8.6	8.8
RoACE	9.7	21.3	19.1	18.7
RoAE	9.8	19.5	15.9	15.2
Dividend Payout	58.1	26.9	24.0	24.6
Dividend Yield	2.8	2.8	2.8	3.2
EBITDA Margins	10.4	16.9	15.2	15.0

Source: Company data, I-Sec research

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