

Siyaram Silk Mills Ltd.

On the cusp of a high growth trajectory

CMP INR: 920

Target INR: 1570

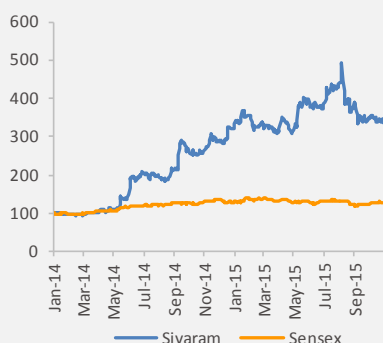
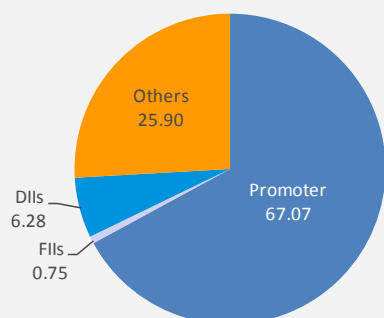
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Bloomberg:	SIYA:IN
52-week range (INR):	1,400 / 522
Share in issue (crs):	0.94
M cap (INR crs):	870
Avg. Daily Vol. BSE :(‘000):	2



Date: 19th November 2015

Siyaram Silk Mills Ltd. (Siyaram) is an integrated textile manufacturer with a domestic focus. Over the past few years, Siyaram is strategically transforming itself from a textile manufacturer to a major garmenting and brand house with a portfolio of marquee brands (Siyaram's, Oxemberg, J. Hampstead, Mistair, etc). The company is aggressively monetizing its brands through high-margin RMG business, which has helped to improve its EBITDA margin and ROCEs from 8% and 6% in FY09 to 12% and 18%, respectively in FY15. The company appears to be in a sweet spot, given these structural tailwinds and a high recall for the Siyaram brand. We expect EPS to grow at 20% CAGR over FY15-17E. Siyaram is an attractive play on: strong brand equity, high business entry barriers, sound management, healthy balance sheet and improving return ratios. We initiate coverage with 'BUY' and a target price of INR 1570, implying 70% upside.

Investment Theme

Leading fabric brand for classes as well as masses

Siyaram is one of the largest manufacturers of blended fabrics for shirting, suiting and apparel in India with over 68 million metres of fabric produced per month. As of FY15, fabrics contributed 76% to the company's total sales with an EBITDA margin of 12% and EBIT margin of 8%. The fabrics business has grown at 12% CAGR over the last 5 years. In spite of operating in a highly fragmented and unorganized market, Siyaram has been able to differentiate itself due to sustained brand-building efforts and a portfolio of strong brands that transcends all price segments. In addition, its strong distribution network of 3,00,000 MBOs and 190 EBOs should help the fabrics segment grow by 10% with stable margins.

Monetizing Siyaram brand to accelerate revenue growth

As fabrics is a B2B business, demand and margins fluctuate based on the market environment. However, RMG is a B2C business where demand has been steady for the past few years, which has facilitated margin improvement from 8.4% in FY07 to 11.5% in FY15. The increasing share of RMG in the total revenues and stable nature of the margins of the business should help the company to curb earnings volatility. In RMG, the company has launched semi-formal and casual brands such as MSD and Oxemberg, besides formal wear under J. Hampstead. RMG has been growing at 28% CAGR over the last 5 years and will continue to grow at 20%+ over the next few years, increasing its contribution to the company's total topline to 20% by FY18.

Changing revenue mix to drive margins

The increasing share of the high-margin readymade garments segment from 7% in FY07 to 16% in FY15 and the gradual diversification from its mass fabric brands to premium brands have aided in operating margin expansion. The company's focus on premium brands, continued traction in realizations of its mid- and mass premium fabric brands and increased RMG contribution will keep margins in double-digits. We expect the operating margin to stabilize at 12.2% by FY17E from the 11.7% margins currently.

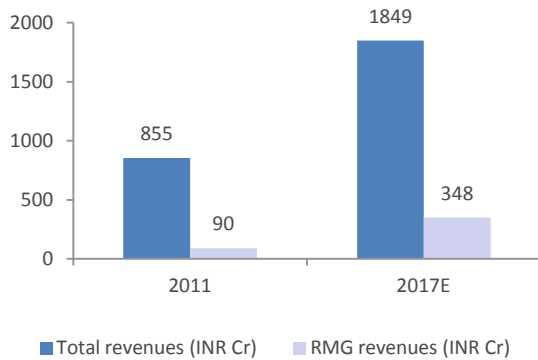
Outlook and Valuations: Attractive

Given the changing product mix to premium products, the increasing share of the high-margin RMG segment and steadily growing "other" segments should improve Siyaram's return ratios. With the company's vast distribution network, any spurt in consumption will lead to volume growth, which will in turn trigger operating leverage. The company appears to be in a sweet spot, given these structural tailwinds and a high recall for the Siyaram brand. The stock currently trades at attractive valuations of 9x FY16E and 8x FY17E EPS of INR 105 and INR 121, respectively. We initiate coverage with a 'BUY' and TP of INR 1570.

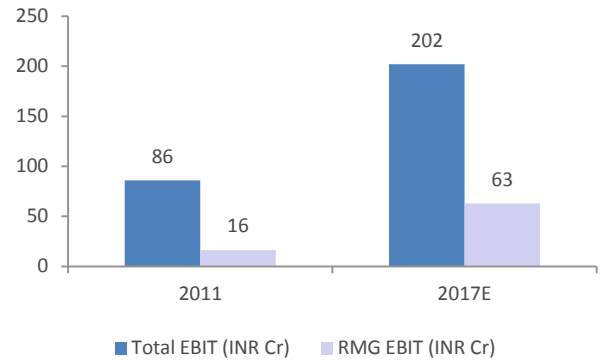
Year to March (INR Cr)	FY13	FY14	FY15	FY16E	FY17E
Net revenues	1,032	1,291	1,496	1,661	1,849
Rev growth (%)	14%	25%	16%	11%	11%
EBITDA margin	11	11	12	12	12
Adjusted PAT	55	69	79	99	113
Adj. EPS (INR)	58	78	84	105	121
EPS growth (%)	-3%	25%	15%	25%	14%
P/E (x)	15.8	11.9	11.1	8.8	7.7
P/B (x)	2.8	2.3	2.0	1.7	1.4
RoACE (%)	15	17	18	19	19
RoAE (%)	19	21	19	21	20
EV/EBITDA (x)	11	8	6.7	6.1	5.4

Focus Charts

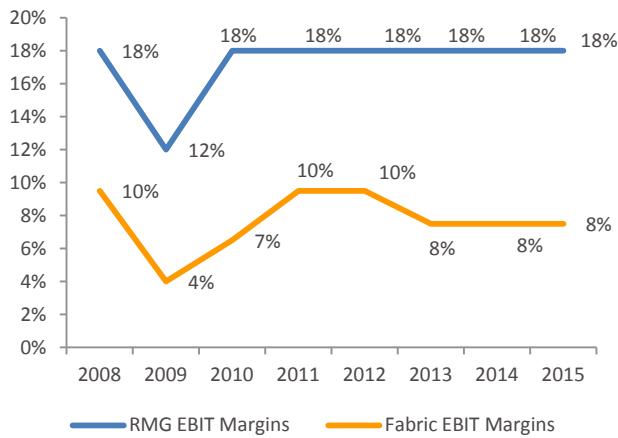
Readymade garment revenues to improve to ~20% of total revenues



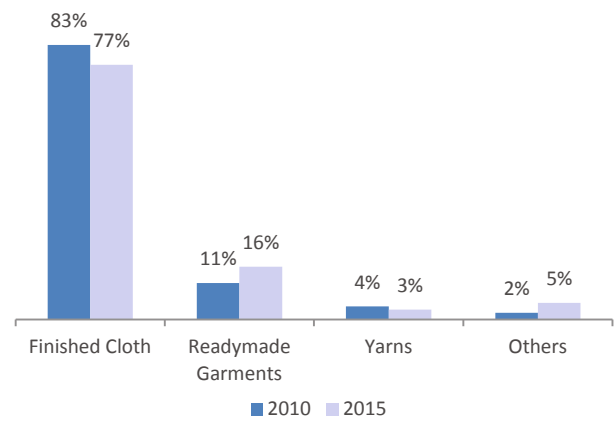
Readymade garments EBIT to improve to 31% of total EBIT



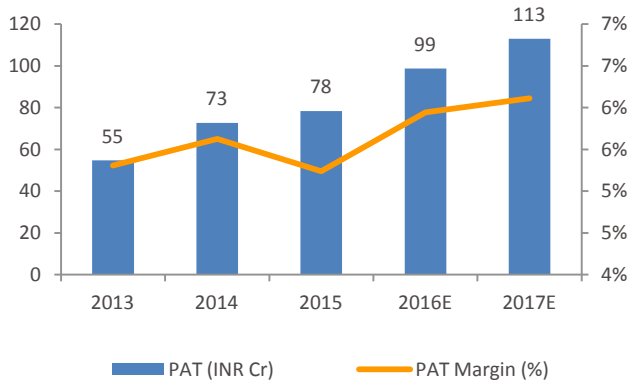
Stable readymade garment margins to reduce earnings volatility



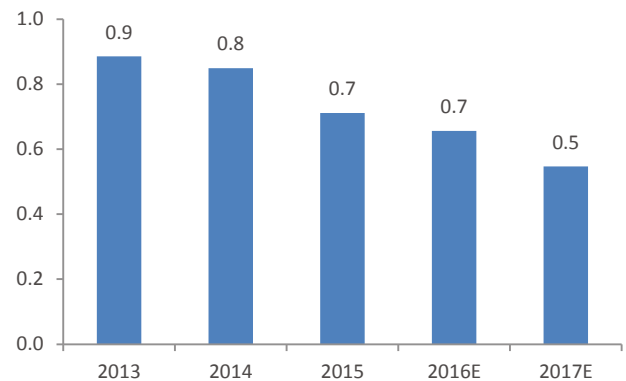
Changing revenue mix to drive margins



PAT growth expected to outpace topline growth



Debt Equity ratio to improve



Source: Company, Edel Invest Research.

Siyaram's Business at a glance

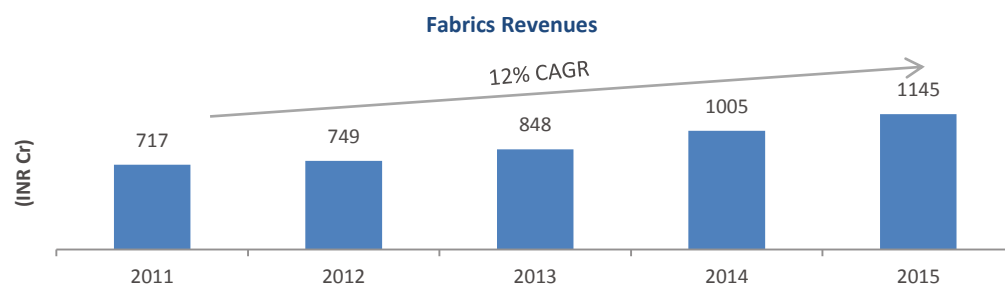
Parameters	Fabrics	Ready Made Garments (RMG)	Others	Yarn
Revenue contribution	76%	17%	4%	3%
Margins	12%	18%	18%	5%
Brands	Siyaram, J Hampstead, Mistair, Moretti, Royal Linen, Cadini, Zenesis	Oxemberg, MSD, J Hampstead	Siya, Unicode, Casa Moda, Little Champs	NA
Price Points	Across all price points	Mass segment	Mass segment	NA
Market position	Domestic No. 2	Domestic leader in mass segment of RMG	Domestic leader in women's ethnic wear (Siya)	NA
Raw materials used	Yarn	Fabrics	Fabrics	Cotton, Polyviscose
Key competitors	Raymond, Unorganized sector	Unorganized sector	Unorganized sector	NA
Sales Growth (last 5 years)	12%	28%	47%	4%
Expected sales growth	10 - 15%	20%	15 - 20%	0%
Demand drivers	Switch from unorganized to organized sector	Switch from stitched clothes to RMG	Switch from unorganized to organized sector	NA

Source: Company, Edel Invest Research.

Investment Rationale







Leading fabric brand for the classes as well as masses

Siyaram is one of the largest manufacturers of blended fabrics for shirting, suiting and apparel in India with over 68 million metres of fabric produced per month. The product mix consists of cotton, linen, wool, polyester viscose and polyester products which are available at varying price points depending on the attributes, quality and end-user segment. As of FY15, fabrics contributed 76% to the company's total revenues with an EBITDA margin of 12% and EBIT margin of 8%. The fabrics business has grown at 12% CAGR for the last 5 years. Although Siyaram outsourced 40% of its fabric production as of FY15, it also has an in-house production facility consisting of spinning, dyeing, weaving & finishing and garmenting. It has the largest weaving infrastructure with over 500 looms. Shifting preference of consumers from unbranded fabrics to branded blended fabrics, a high brand recall and pan-India presence will help the fabrics division grow by 10%.



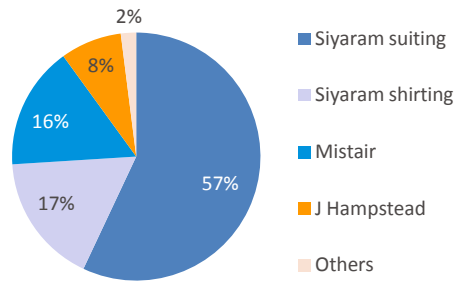
Source: Company, Edel Invest Research

In spite of operating in a highly fragmented and unorganized market, Siyaram has been able to differentiate itself. It has garnered higher realizations and clocked better volume growth compared to its competitors due to sustained brand-building efforts, a strong distribution network and a portfolio of strong brands that are straddled across all price segments. Siyaram's brand portfolio consists of the following brands.

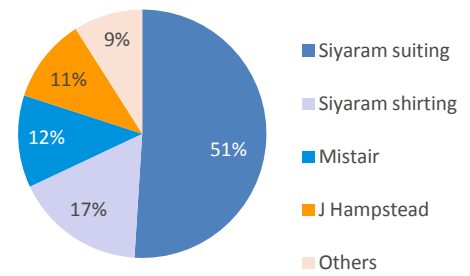
Brand	Price Segment	Base Material	Attributes
	Mass	Blended	Flagship, highest revenue contributing brand providing value-for-money fabrics
 A division of Siyaram Silk Mills Limited	Mid-Premium	Blended	Attribute related fabrics for new age fashion
	Premium	Wool	Wool, cashmere, kidmohair, merino wool silks for luxury suiting
	Premium	Linen	High luster and highly absorbent linen fabrics
	Premium	Cotton	Superfine cotton fabric for new age fashion
	Premium	Cotton	Crisp fresh colors and crafted from pure cotton and cotton blends

Source: Company, Edel Invest Research.

Fabric sales Breakup (FY10)



Fabric sales Breakup (FY15)



Source: Company, Edel Invest Research

Siyaram

Siyaram sells suiting, shirting and apparel fabrics under its flagship brand - Siyaram. This brand is positioned as a “value-for-money” mass brand and therefore the company has focused on achieving a deep penetration into Tier II and Tier III cities. Siyaram’s product pricing is higher than the unorganised market but is still one of the cheapest in branded fabrics. The Siyaram fabric brand contributed ~75% to the total revenues from fabrics segment in FY10. But, this has steadily decreased to ~68% of the fabric revenues in FY15 due to the introduction of other premium and mid-premium brands and a slower growth of suiting fabrics.

J Hampstead

Inspite of J Hampstead being a high quality premium brand for Siyaram, its realization is lower than Raymond, who is the leader in premium fabrics. J Hampstead has witnessed high growth and its share has increased from 8% in FY10 of the total fabric revenues to 11% in FY15.

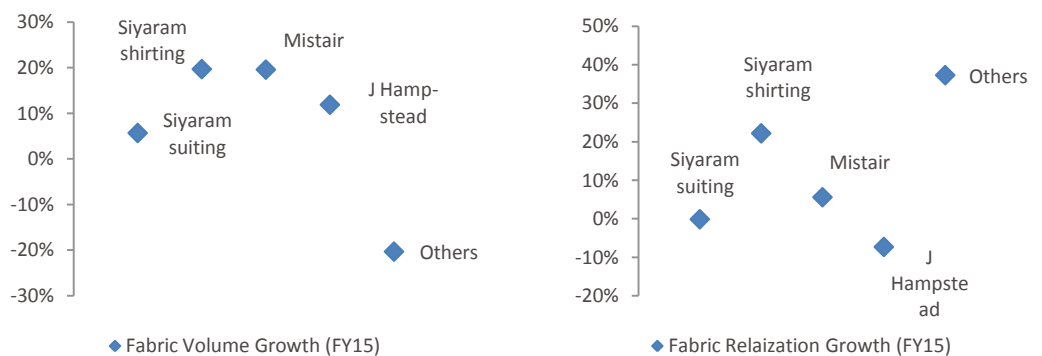
Mistair

Mistair was positioned between Siyaram and J Hampstead as a mid premium brand. Dealers responded positively, as Siyaram was now present across the entire value chain. Mistair has shown good growth but its share in the total fabrics revenues has decreased.

Other Fabric Brands

Siyaram has launched two premium cotton brands – Zenesis and Moretti to penetrate into new growth areas like cotton shirting fabrics. It has also launched a premium linen fabrics brand called Royal Linen. Siyaram’s Miniature brand manufactures stylish fabrics for weddings, anniversary and corporate gifting. These brands currently account for 9% of the total fabrics revenues.

Volume and Realization growth of fabric brands in FY15



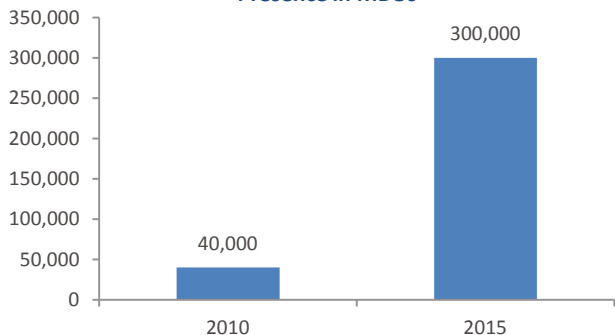
Source: Company, Edel Invest Research

Leveraging distribution network key to growth of fabric brands

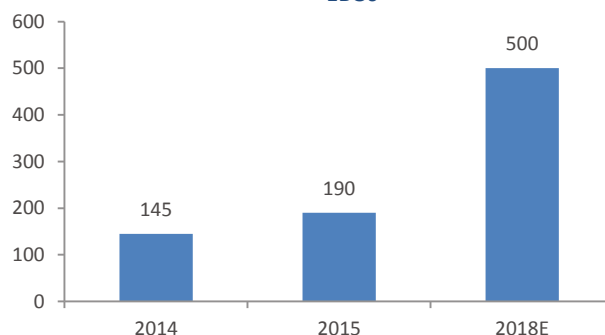
Siyaram has successfully grown in fabrics due to its positioning across all price points, brand building and its wide distribution network. Since Raymond has the majority market share in the metros due to its high-margin premium products, Siyaram has successfully targeted the Tier 2 and Tier 3 cities. People in these cities still prefer buying fabrics, as one can get a customized fit and the total cost is lower than readymade garments. Although there is a lot of competition from the unorganized sector in these cities, Siyaram has tried to establish its fabric brands across all price points. Branding has helped Siyaram charge higher realizations than the unorganized sector while strong brand recall has helped it maintain a steady growth in the fabrics segment.

Siyaram’s distribution network acts as a marketing channel, with 90-95% of the revenues coming from its conventional agent-wholesaler-retailer network. It also reduces marketing costs which helps Siyaram make higher margins. Over the years, Siyaram has tied up with more than 1500 dealers and 500 agents on a pan-India level, but its core distribution is through retail outlets. Siyaram has increased its presence in multi-brand outlet (MBO) stores and Large Format Stores (LFS) from 40,000 outlets in 2010 to over 3,00,000 outlets today. Also, it continues to add exclusive brand outlet (EBOs) stores, which have grown from 145 to 190 in the past one year.

Presence in MBOs



EBOs



Source: Company, Edel Invest Research

Siyaram’s EBOs are through the franchise model where franchisees invest ~INR 25 lakh. These stores offer the entire range of Siyaram products from fabrics to apparels in an average store size ranging between 500 - 1,500 square feet. Out of the current 190 EBOs, only ~10 stores are company-owned company-managed (COCO) stores. Siyaram plans to aggressively expand its EBO network to 500 stores in 2-3 years through the franchisee route.

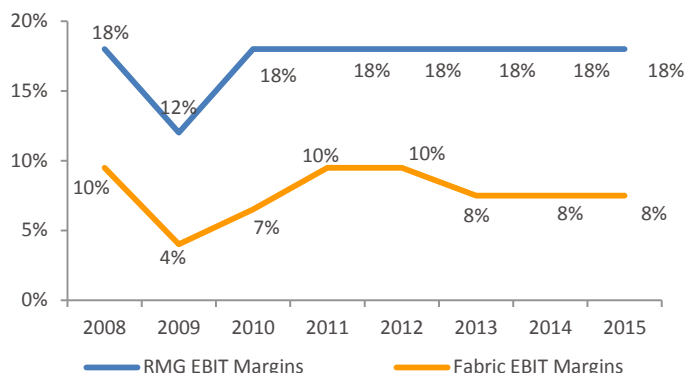
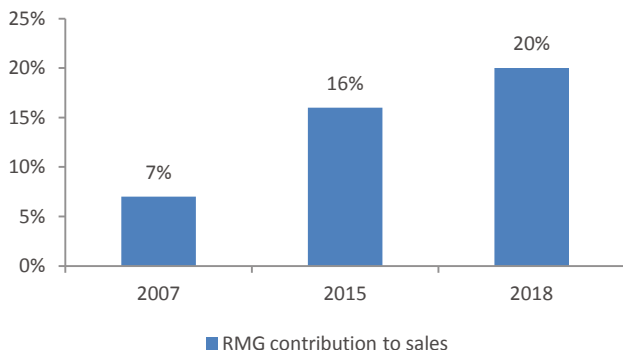
Siyaram Outlets



Monetizing Siyaram brand to accelerate revenue growth

Over the years, the share of RMG has increased from 7% in FY07 to 16% in FY15 and is likely to touch ~20% by FY18E. As fabrics is a B2B business, demand and margins fluctuate based on the market environment. However, RMG is a B2C business where demand has been steady for the past few years, which has facilitated it to maintain stable margins. The increasing share of RMG in the total revenues and stable nature of margins should enable earnings volatility to subside. This sustained shift in a strategy to a segment with high- entry barriers and reduced competition will lead to better margins and improved asset turnovers, thus leading to a higher ROCE.

RMG Share increasing with stable margins

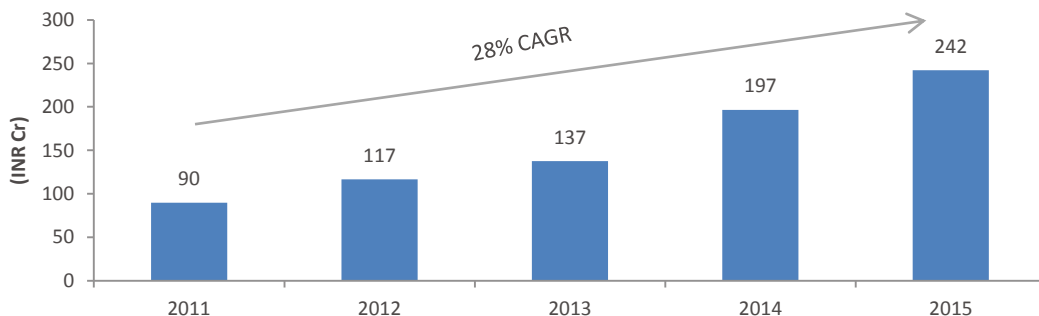


Source: Company, Edel Invest Research.

Branded RMG to grow at 20% CAGR





Siyaram has launched different brands such as MSD and Oxemberg, which cater to different age groups. It has also launched readymade formal wear under its most premium brand, J Hampstead. The company has also roped in Saif Ali Khan, Hrithik Roshan and MS Dhoni to promote Oxemberg, J Hampstead and MSD, respectively. Siyaram has gradually been reducing its dependence on blended fabrics and yarn, and instead has moved towards readymade garments. Currently, it produces more than 4.3 mn units of RMG annually. RMG has been growing at 28% CAGR over the last 5 years and will continue to grow at 20%+ over the next few years.

RMG Revenues (INR Cr)



Source: Company, Edel Invest Research.

RMG Brands:

Brand	Price Segment	Attributes
	Mass	Formal, semi-formals and occasion wear clothing
	Mass	Casual wear and denims brand for the youth
	Premium	Premium shirt and trouser brand
	Premium	Manufacture and sale of fabrics, garments, accessories with specialized Italian design

Oxemberg

Siyaram launched Oxemberg as its first step towards forward integration and it has since become the flagship brand of the Siyaram Apparel Division. Oxemberg stands for giving twists to classical and conventional designs and boasts of pioneering new trends in the formal and semi-formal shirts and trousers. In spite of its mass-market target audience, Oxemberg aspires to be creative and different in its designs. Oxemberg clocked revenues of INR 200 cr last year.

MSD

MSD initially called as “Monday to Sunday Dressing” has been rebranded to “My Style Dressing” and has roped in MS Dhoni as its brand ambassador. MSD specializes in casual and denim wear for the youth and clocked revenues of INR 10 cr last year.

J Hampstead

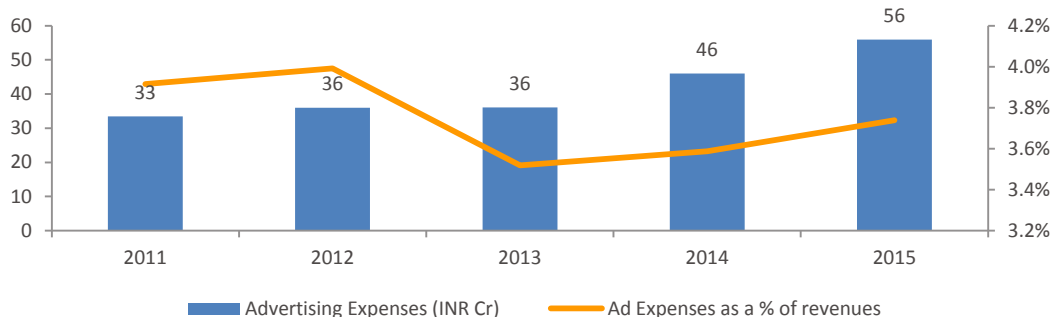
With Oxemberg and MSD being mass brands, Siyaram decided to leverage the success of its premium fabric brand J Hampstead by launching a line of RMG under the same brand name. J Hampstead currently specializes in premium office and party wear. It clocked sales of INR 80 cr last year.

Joint Venture with Italian Brand Cadini

Siyaram recently announced a joint venture with a leading Italian lifestyle fabric brand – Cadini where the company has bought the ownership rights to manufacture and market Cadini brand in India, Sri Lanka and a few countries in the Middle East. The products will be manufactured in Italy and India but the design will be completely Italian. Siyaram expects Cadini to contribute ~INR100 cr in revenues next year. The brand will be available in India in superior fabrics followed by garments and accessories. The company also plans to open exclusive Cadini outlets in the near future.

Advertising expenses growing at 14% CAGR

Effective branding is a vital differentiator in a fragmented market and Siyaram is consistently spending on advertising expenses. Ad spend has grown at a 14% CAGR for the last 5 years and accounts for 3% of sales. Siyaram’s bulk of the marketing expenses are distribution incentives given in the form of trade discounts and rebates. Other expenses are in the form of advertisement, commission given to salesmen and other distribution expenses. As a policy, Siyaram does minimal discount sales.







Source: Company, Edel Invest Research.

Siyaram’s brand building exercise, effective advertisement and retail expansion will help boost demand. The company’s extensive promotional campaign “Come Home to Siyaram’s” has helped in enhancing its brand recall. Siyaram has signed up celebrities like MS Dhoni, Saif Ali Khan and Hrithik Roshan as brand ambassadors for its men’s brands, and Parineeti Chopra and Karishma Kapoor to promote its women’s brands.

Siyaram Celebrity Endorsements and Advertisements



Other Segments

Brand	Segment	Attributes
	Ethnic women's wear	Salwar Kameez Dupatta fabrics and RMG
	Home Furnishing	Curtain, upholstery fabrics (domestic and exports)
	Children's Uniform	School uniforms
	Corporate and other Uniforms	Apparels for corporate and hospitality sectors

Siya

Siya is an ethnic women's wear brand with a range of embroidered designer fabrics featuring salwar, kameez and dupatta (SKD) in the unstitched, semi-stitched and ready-to-stitch cotton and polyester forms. Prices range from INR 700 to INR 7000 per unit. Revenues from Siya grew by 60% from INR 24 cr in FY14 to INR 38 cr in FY15. Siyaram has a big opportunity to expand in this space and estimates SKD to contribute INR 60 cr in FY16 and INR 500 cr in the coming 4-5 years owing to a large industry size (INR 21,000 cr) and absence of established players. Siyaram has roped in celebrities Parineeti Chopra and Karishma Kapoor to endorse the brand. Few big players like Biba etc. are retailers and not manufacturers while Siyaram is involved in the entire value chain from design, manufacturing and marketing. Currently, Siya is undertaking a price penetration strategy to corner a higher market share from the unorganized sector.

Casa Moda

Siyaram manufactures curtains and upholstery fabrics for home decor. These fabrics are available in more than 1000 retail & multi-brand stores across India and the total capacity is 0.5 mln sq. meters per month. Products are customized, water repellent and fire retardant. They are supplied to international as well as domestic institutions, hospitality players and furniture makers. Siyaram plans to scale up Casa Moda in the coming years but most of the brand's sales will be from exports.

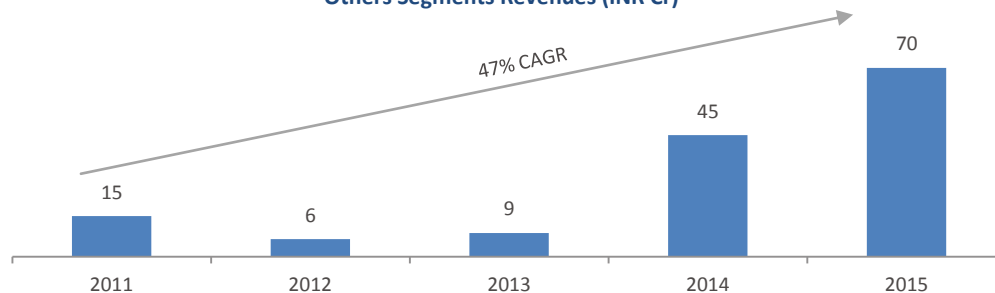
Little Champs

Siyaram also manufactures high performance school uniform fabrics using the relaxed finish (RF) technology. These are customized for schools such as Dhirubhai Ambani International School, Utpal Sanghavi School, Billabong High, Podar International School, Presidium School, etc.

Unicode

Unicode caters to many categories from basic uniforms and corporate uniforms to security uniforms and hospitality apparels. Siyaram customizes these for big companies such as HDFC, Reliance, Nestle, SBI, Mercedes, Castrol, HPCL, Jet Airways, Indian Hotels, etc.

Others Segments Revenues (INR Cr)

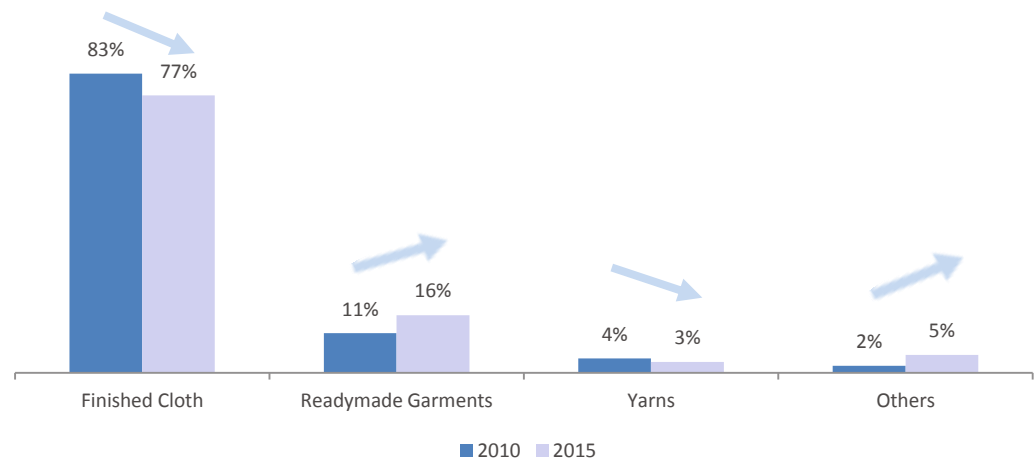


Source: Company, Edel Invest Research

Changing revenue mix to drive margins

Over the years, the share of the high-margin readymade garments segment has increased from 7% in FY07 to 16% in FY15. Siyaram has also gradually diversified from its mass fabric brands and launched premium brands such as Moretti and Royal Linen (in premium cotton and linen fabrics). These have aided in operating margin expansion from 8.4% in FY07 to 11.5% in FY15. Further, the company's focus on premium brands (underscored by the recent tie-up with premium Italian brand Cadini) and the continued traction in realizations of its mid and mass premium fabric brands would continue to aid margin expansion in the fabrics segment. RMG's contribution to overall revenues is set to rise further and will contribute ~20% to Siyaram's revenues by FY18E, which will further aid margins. We expect the EBIT margin to stabilize at 10% by FY17E from the current level of 9%.

Changing Revenue Mix



Source: Company, Edel Invest Research.

Efficient capital allocation

Siyaram has undertaken expansion via an asset light model. The distribution happens through the franchisee route with a few flagship COCO stores. The company plans to scale up its franchisee stores from 190 in FY15 to 500+ in 2-3 years. In terms of manufacturing, the company's capacity will be enhanced once the new segments gain critical mass. These will enable the company to maintain a healthy balance sheet. The net debt/equity is expected to decline from 0.7x in FY2015 to 0.5x in FY2017E due to healthy cash generation from operations. With high utilization levels aiding in operating leverage, the return ratios are also expected to improve going forward.

Design Studio and R&D team to usher in new trends and designs

Being one of the oldest textile players in India, Siyaram has a design library with 30+ years of fashion trends in fabrics. This library has been developed by a passionate R&D team, which generates new designs every month. The R&D team is located at a sampling house comprising Dornier Rapier looms where sample weaving is done using a library of over 10,000 different yarns. The house also has 4 single end warping machines for flexible and cheap production testing.

Ultra modern facilities and intense focus on quality

Siyaram's production facilities are equipped with ultra-modern weaving machines like Airjet, Picanol, Somet Dornier & preparatory machines like Auto Drawing Machine, Auto Warping Machines etc to provide highest level of efficiency for weaving. Siyaram uses the best scouring and pre-finish machines bought from Osthoff (Germany) and Parex (UK). It also uses the RF2000 for superior quality and finishing. Most of the weaving machines are equipped with the latest Staubli selvedge name writing jacquard machines.

Outlook and valuations

Given the changing product mix towards premium products, increasing share of the high-margin RMG segment and steadily growing “other” segments should improve Siyaram’s return ratios. With the company’s vast distribution network, any spurt in consumption will lead to volume growth, which will in turn trigger operating leverage. The company appears to be in a sweet spot, given these structural tailwinds and strong brand recall for Siyaram.

The stock currently trades at extremely attractive valuations of 9x FY16E and 8x FY17E EPS of INR 105 and INR 121, respectively. We initiate coverage with a ‘BUY’ and target price of INR 1570, valuing the company on blended P/E on FY17E EPS.

SOTP Valuation

Segments	EPS (FY17E)	Target P/E (x)	Price	Comments
Fabrics	75	10	750	Stable cash generator with 10% growth
RMG	40	20	800	High growth, superior margin and ROCE segment
Others	4	5	20	High growth from Siya and home furnishing exports
Total			1570	

Comparative Valuations – FY15

Company Name	CMP	Diluted EPS	Diluted P/E (x)	ROCE (%)	Market Cap (INR Cr)
Siyaram	930	83.0	11.0	19.0	872
Raymond	420	18.4	14.6	7.5	2,588
Arvind	278	13.2	22.0	13.0	7,120
Zodiac	271	4.6	58.6	3.6	514
KKCL	2,100	53.7	39.1	29.4	2,600
Indian Terrain	615	25.0	24.6	23.7	442

Peers Data

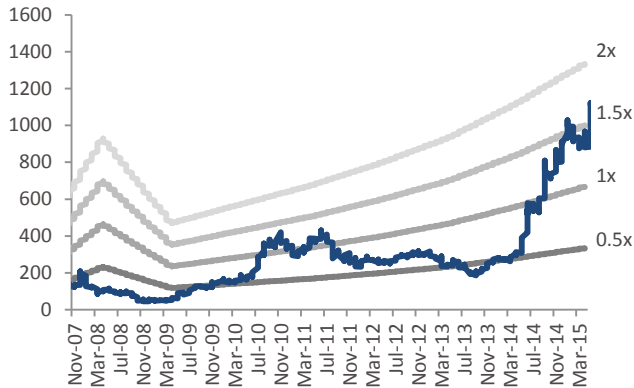
Company (FY15)	Siyaram	Raymond	Arvind	Madura	Zodiac	KKCL	Indian Terrain	Zara (Trent)
Revenues (INR Cr)	1,496	5,341	7,851	3,735	394	416	290	729
Branded Apparel Rev (%)	17%	17%	22%	<75%	52%	100%	100%	100%
Sales Growth (5 year CAGR)	18%	16%	19%	25%	5%	18%	24%*	50%*
Operating Margin	12%	8%	13%	12%	6%	24%	12%	19%
Net Profit Margin	5%	2%	5%	NA	2%	16%	6%	12%
ROCE	18%	8%	13%	72%	4%	31%	24%	37%
Debt/ Equity	0.7	4.4	1.2	NA	0.2	0.1	0.3	NA
Ad Spend (% revenues)	3%	5%	1-2%	4-5%	2-3%	4%	4%	0%
EBOs	200	1017	796	1850	129	316	105	16
% EBO Franchisees	90%	<80%	81%	<75%	0%	100%	70%	100%

*4 year CAGR as operations commenced in 2011
Source: Company, Edel Invest Research.

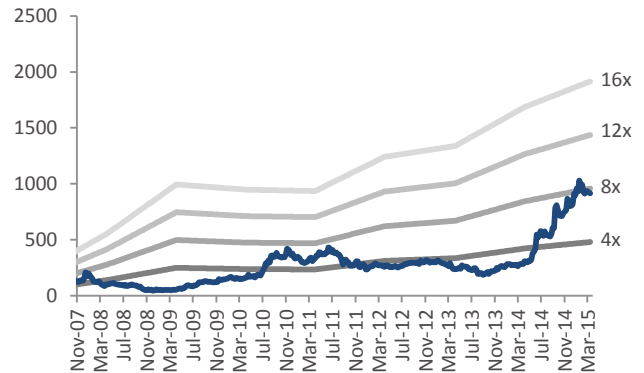
Valuation

The changing product mix towards premium products, increasing share of the high-margin RMG segment and steadily growing “other” segments should improve Siyaram’s return ratios. With Siyaram’s vast distribution network, any spurt in consumption will lead to volume growth, which will in turn trigger operating leverage. The company appears to be in a sweet spot, given these structural changes and a high recall for the Siyaram brand. The stock currently trades at attractive valuations of 9x FY16E and 8x FY17E EPS of INR 105 and INR 121, respectively.

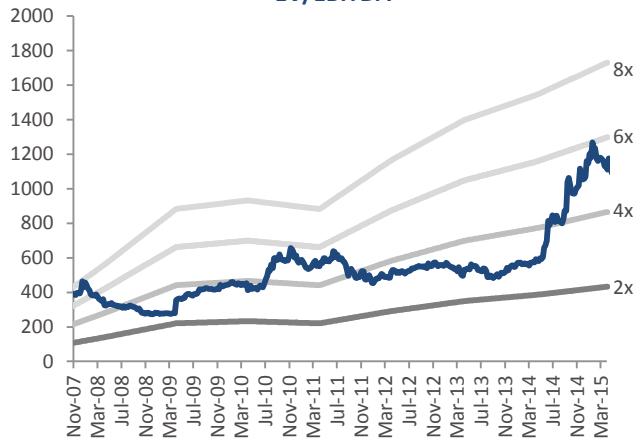
Price-Book



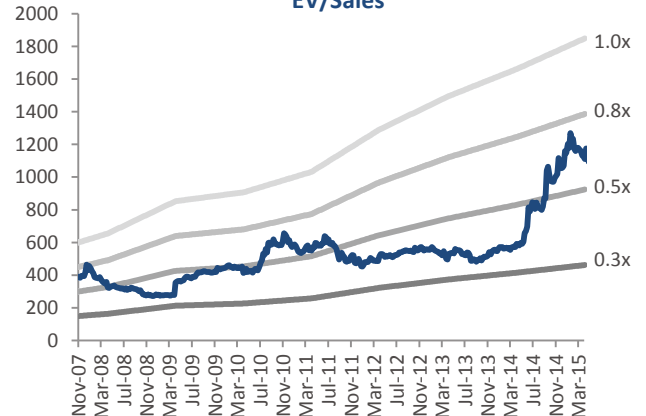
Price-Earnings



EV/EBITDA



EV/Sales



Source: Company, Edel Invest Research.

Key Management

Siyaram is part of the Poddar group which was promoted by Mahabir Prasad Poddar and Dhara Prasad Poddar. The Poddar group also owns Balkrishna Industries and Govind Rubber. After an amicable family separation, it was agreed upon that Siyaram would be managed by Dhara Prasad's children – Ramesh Poddar, Pawan Poddar, Kishan Poddar and family members of the late Pramod Poddar. Their vast experience in the family business gives Siyaram a very strong foundation to grow in the future.

Name	Designation	Description
Ramesh Poddar	<i>Chairman & Managing Director</i>	Mr. Poddar joined the family business after completing his Bachelor degree in Science in 1978. After four years of training from his father (Mr. Dharaprasad Poddar), he took full charge of the business in 1982. His leadership has made Siyaram the market leader in blended suitings and a popular household name.
Pawan Poddar	<i>Joint Managing Director</i>	Mr. Pawan Poddar also joined Siyaram in 1978, post completing his Bachelor's degree in Commerce. He has been responsible for producing innovative shades/designs in yarn dyeing. He oversees all important aspects of Siyaram's business.
Kishan Poddar	<i>Executive Director</i>	Mr. Kishan Poddar is responsible for handling Casa Moda (home furnishings). He also looks after the women's brand Siya

Source: Company, Edel Invest Research.

SWOT Analysis**Strength**

- * One of the most experienced textile players
- * Stable financials and efficient operations
- * Strong distribution network
- * Established brand
- * Quality Management
- * Changing Mix

Weakness

- * No presence in premium RMG
- * Bulk of the revenues coming from the lower margin fabrics segment

Threat

- * Fluctuation in raw material prices
- * Competition
- * Semi-urban slowdown
- * Limited Pricing Flexibility

Opportunity

- * Use brand to leverage volumes
- * Growth of RMG segment
- * Favorable macroeconomics and demographics
- * Reducing influence of the unorganized sector

Key Risks and Concerns

Fluctuation in raw material prices

As Siyaram's business is highly price-sensitive, any fluctuation in raw-material prices can lead to margin compression, as the company may not be able to pass on the entire increase to the consumers. Siyaram is therefore dependant on the price of cotton and crude oil, as one of its raw materials polyviscose is a crude derivative.

Competition

For the fabrics division, Siyaram faces competition from the unorganized sector, as fabrics is a highly fragmented segment and unorganized players sell at far cheaper rates. For its RMG division, Siyaram faces competition from various international and domestic apparel brands.

Semi-Urban slowdown

As Siyaram's target consumers are from Tier 2 and Tier 3 cities, any material economic slowdown in the these areas could result in lower discretionary spending by these consumers which would impact sales growth.

Limited Pricing Flexibility

Due to the high competition and price sensitive nature of the market, pricing flexibility is limited. Passing on raw material price benefits or the potential to increase realizations at will be restricted.

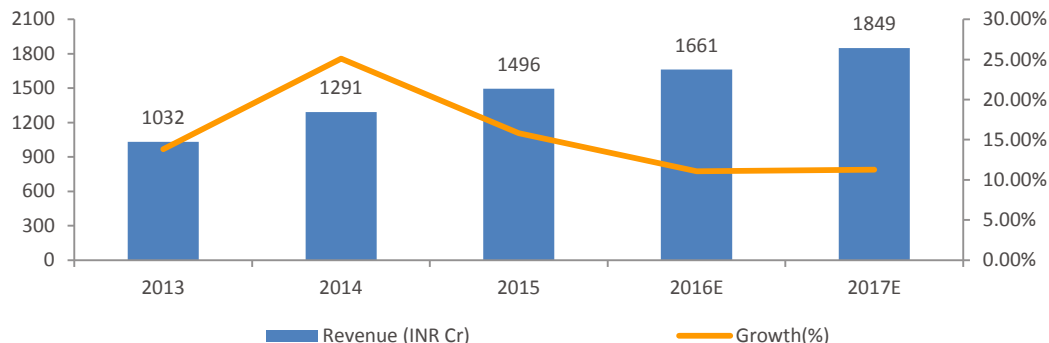


Source: Company, Edel Invest Research.

Financial Analysis

Siyaram’s revenue has grown steadily at a CAGR of 15% over the last 5 years. It is expected to continue growing at ~12%, with fabrics segment growth estimated at 10% and the readymade garments segment growth estimated at 18-20%.

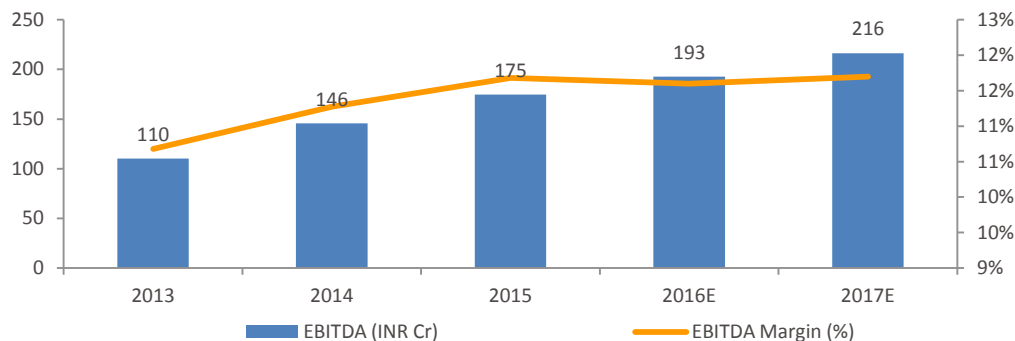
Steady Revenue Growth



Source: Company, Edel Invest Research.

Siyaram’s EBITDA has grown at a 20% CAGR over the last 5 years with EBITDA margins continuously expanding due to the growing contribution of the high-margin RMG segment to the overall revenues. This trend is expected to continue going forward, which will gradually push margins higher.

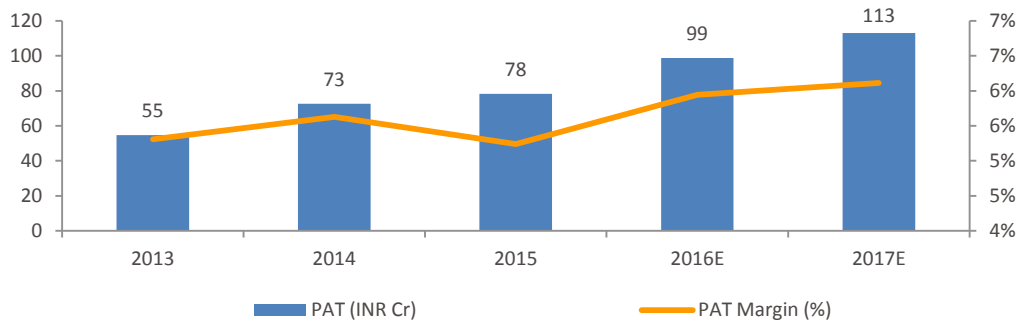
Stable EBITDA Margins



Source: Company, Edel Invest Research.

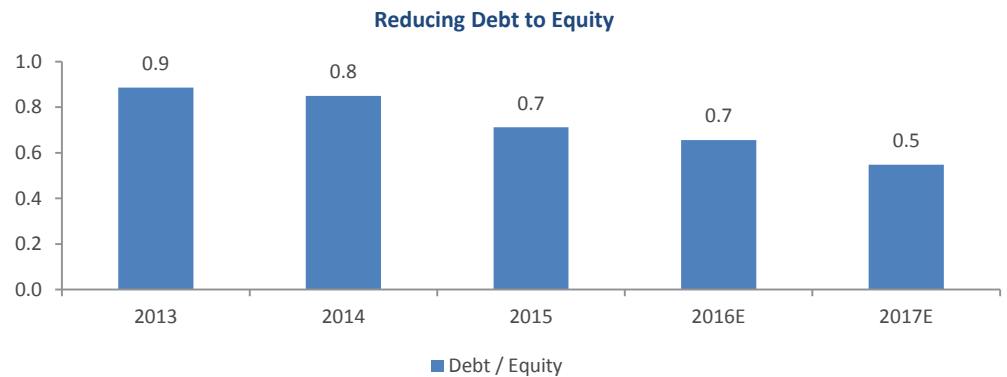
PAT has grown at a CAGR of 19% in the past 5 years with stable PAT margins. Going forward, PAT margins are expected to expand due to lower depreciation and interest expenses. Depreciation expenses will reduce going ahead, as Siyaram has completed most of its capex for the near future.

Increasing PAT



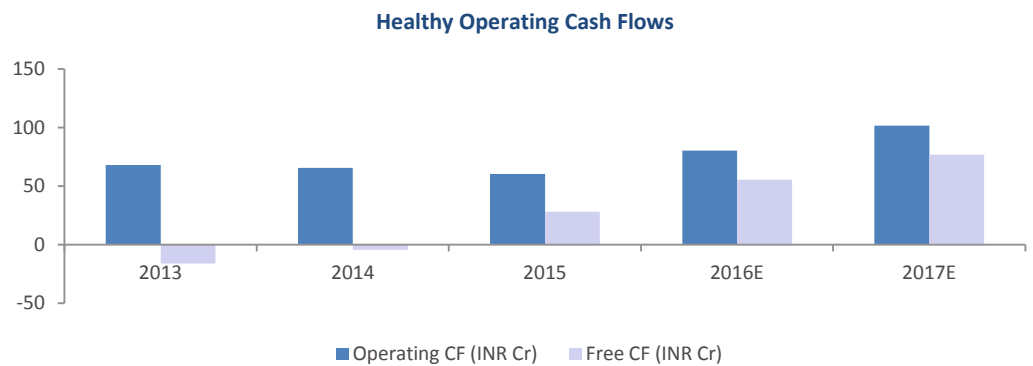
Source: Company, Edel Invest Research.

The company's Debt - Equity has been decreasing over the last 5 years due to stable debt and rising networth. With most of the capex completed, Siyaram would not require high additional debt. The company's efficient capital allocation will see its debt to equity fall to 0.5x in FY17E.



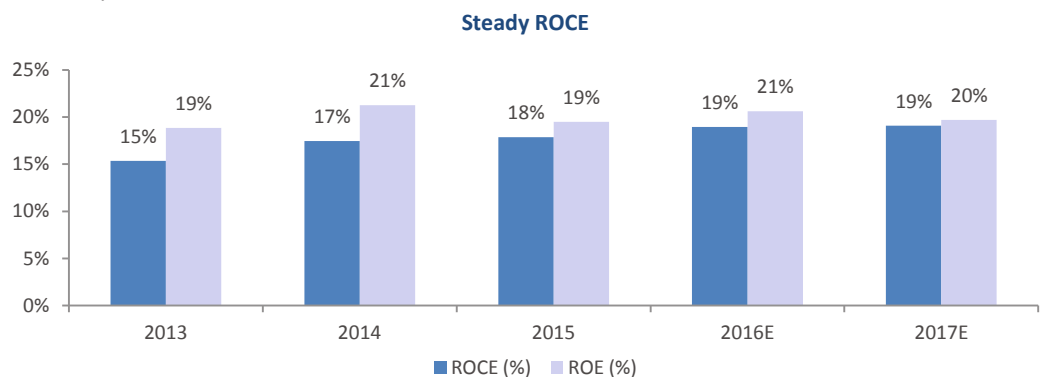
Source: Company, Edel Invest Research.

While operating cash flows have been stable, free cash flow has seen a big jump, as there has been no major capex recently. Going forward, operational efficiencies and subdued capex will lead to big spurts in operating as well as free cash flows.



Source: Company, Edel Invest Research.

ROE and ROCE ratios have been steady over the past 5 years, and are expected to remain in this range for the next 2 years.



Source: Company, Edel Invest Research.

Financials

Financial Statements					INR Cr
Year to March	FY13	FY14	FY15	FY16E	FY17E
Net revenue	1,032	1,291	1,496	1,661	1,849
Materials costs	532	672	794	855	952
Gross profit	500	619	701	806	897
Power & fuel	69	88	105	115	128
Employee costs	89	108	123	130	142
SG&A	232	278	299	369	410
EBITDA	110	146	175	193	216
Depreciation & Amortization	22	29	41	33	34
EBIT	88	116	134	160	182
Other income	19	16	16	17	18
EBIT incl. other income	107	132	150	177	200
Interest expenses	25	29	31	28	30
Profit before tax	82	103	119	149	170
Provision for tax	27	34	40	50	57
Adjusted Profit	55	69	79	99	113
Basic shares outstanding (crs)	0.9	0.9	0.9	0.9	0.9
EPS (Rs.)	58.5	77.5	83.6	105.4	120.6
Dividend per share (Rs.)	7.5	8.0	10.0	10.0	10.0
Dividend payout (%)	15%	13%	14%	11%	10%

Common size metrics - as % of net revenues

Year to March	FY13	FY14	FY15	FY16E	FY17E
Materials costs	51.6%	52.0%	53.1%	51.5%	51.5%
Power and fuel	6.7%	6.9%	7.0%	6.9%	6.9%
Employee cost	8.6%	8.4%	8.2%	7.8%	7.7%
SG&A	22.5%	21.5%	20.0%	22.2%	22.2%
Depreciation	2.1%	2.3%	2.7%	2.0%	1.8%
EBITDA margins	10.7%	11.3%	11.7%	11.6%	11.7%
EBIT margins	8.6%	9.0%	8.9%	9.6%	9.9%
Adj profit margins	5.3%	5.6%	5.2%	5.9%	6.1%
Net profit margins	5.3%	5.3%	5.3%	5.9%	6.1%

Growth ratios (%)

Year to March	FY13	FY14	FY15	FY16E	FY17E
Revenues	13.8%	25.1%	15.8%	11.1%	11.3%
EBITDA	-5.4%	32.0%	20.0%	10.3%	12.2%
PBT	0.7%	26.5%	15.4%	24.6%	14.4%
Adj profit	-1.3%	32.7%	7.9%	26.0%	14.4%
Net profit	-3.1%	25.5%	14.8%	24.6%	14.4%

Balance sheet					INR Cr
As on 31st March	FY13	FY14	FY15	FY16E	FY17E
Equity capital	9	9	9	9	9
Reserves & surplus	305	360	426	513	615
Borrowings	278	314	309	343	342
Other long-term liabilities	28	31	38	38	40
Sources of funds	620	715	782	904	1,007
Gross Block	499	569	589	609	629
Accumulated Depreciation	(194)	(220)	(258)	(291)	(325)
CWIP	16	3	7	12	17
Net Fixed Assets	321	353	339	331	322
Net intangible assets	0	0	-	-	-
Investments	0	0	0	0	0
Inventories	222	225	238	264	302
Sundry debtors	200	260	335	373	405
Cash and equivalents	3	6	5	75	125
Loans and advances	33	39	45	57	63
Total current assets	458	530	623	770	894
Sundry creditors and others	139	149	163	176	193
Provisions	10	10	13	14	15
Total current liabilities & provisions	149	159	176	190	208
Net current assets	310	371	447	579	686
Deferred tax assets	(19)	(22)	(19)	(22)	(20)
Other long-term assets	8	13	15	15	18
Uses of funds	620	715	782	904	1,007
Book value per share (Rs.)	335.2	394.5	464.2	557.9	666.7

Free cash flow					INR Cr
Year to March	FY13	FY14	FY15	FY16E	FY17E
Net profit	55.0	69.0	79.2	98.7	113.0
Add : Depreciation	21.8	29.2	40.9	33.0	34.1
Others	19.4	26.1	60.7	10.9	12.0
Gross cash flow	96.2	124.2	180.8	142.6	159.0
Changes in WC	-28.1	-58.7	-120.5	-62.2	-57.4
Operating cash flow	68.1	65.5	60.3	80.4	101.7
Capex	-84.2	-70.0	-32.2	-25.0	-25.0
Free cash flow	-16.2	-4.5	28.2	55.4	76.7

Cash flow metrics					INR Cr
Year to March	FY13	FY14	FY15	FY16E	FY17E
Cash flow from operations	68.1	65.5	60.3	80.4	101.7
Cash Flow from investing activities	-73.0	-60.6	-22.5	-8.0	-7.0
Cash Flow from financing activities	6.2	-2.7	-38.2	-5.3	-42.0
Capex	-84.2	-70.0	-32.2	-25.0	-25.0
Dividends	-7.0	-7.0	-7.5	-11.0	-11.0

Profitability & efficiency ratios

Year to March	FY13	FY14	FY15	FY16E	FY17E
ROAE (%)	19%	21%	19%	21%	20%
ROACE (%)	15%	17%	18%	19%	19%
ROIC (%)	12%	13%	13%	14%	15%
Inventory day	152	122	109	113	116
Debtors days	71	74	82	82	80
Payable days	95	81	75	75	74
Cash conversion cycle (days)	108	103	108	111	111
Current ratio	3.1	3.3	3.5	3.7	3.7
Debt/Equity	0.9	0.8	0.7	0.7	0.5
Core ROACE (%)	16%	18%	18%	20%	22%

Operating ratios

Year to March	FY13	FY14	FY15	FY16E	FY17E
Total asset turnover	1.8	1.9	2.0	2.0	1.9
Fixed asset turnover	2.3	2.4	2.6	2.8	3.0
Equity turnover	3.6	3.8	3.7	3.5	3.2

Du pont analysis

Year to March	FY13	FY14	FY15	FY16E	FY17E
NP margin (%)	5.3%	5.6%	5.2%	5.9%	6.1%
Total assets turnover	1.8	1.9	2.0	2.0	1.9
Leverage multiplier	2.0	2.0	1.9	1.8	1.7
ROAE (%)	18.8%	21.3%	19.5%	20.6%	19.7%

Valuation parameters

Year to March	FY13	FY14	FY15	FY16E	FY17E
Diluted EPS (Rs.)	58.5	77.5	83.6	105.4	120.6
Y-o-Y growth (%)	-1.3	32.7	7.9	26.0	14.4
Diluted PE (x)	15.9	12.0	11.1	8.8	7.7
Price/BV (x)	2.8	2.4	2.0	1.7	1.4
EV/Sales (x)	1.1	0.9	0.8	0.7	0.6
EV/EBITDA (x)	10.7	8.1	6.7	6.1	5.4
Dividend yield (%)	0.8	0.9	1.1	1.1	1.1

Corporate Factsheet

Promoter Background	Incorporated in Jun.'78 as a private limited company, Siyaram Silk Mills (SSML) was converted into a public limited company in 1980. The company belongs to the Siyaram-Poddar group. Other group companies are Balkrishna Industries and Govind Rubber. Promoters own a 67% stake in the company.
Presence	It has a pan India distribution network comprising 500 agents, 1,500 dealers and 365,000 retailers and over 200 franchise stores
Management Depth	Ramesh Poddar - Chairman & Managing Director, Pawan Poddar - Joint Managing Director, Kishan Poddar - Executive Director, Surendra Shetty - CFO
Business	Siyaram is a diverse player in textiles. Its business portfolio consists of: (1) Fabrics (brands include Siyaram, J. Hampstead, Mistair, etc.) (2) Readymade Garments (brands include Oxemberg, MSD, J. Hampstead) (3) Other segments (Women's Ethnic wear - Siya, Home Furnishing - Casa Moda and Uniforms - Unicode and Little Champs) (4) Small yarn division
Corporate Structure	The company has no subsidiaries
Revenue Model (FY15)	Fabrics - 76%, Readymade Garments - 16%, Others - 5%, Yarn - 3%
Manufacturing Setup	The company operates four plants – one at Tarapur for weaving and yarn dyeing, two at Daman for garments and one at Silvassa for weaving
Key Success Factors	(1) Wide distribution network for its fabrics brands (2) Successful entry into higher margin readymade garments segment (3) Introduction of premium fabric brands such as Moretti and Royal Linen and tie-up with Italian brand Cadini
Credit Rating	CRISIL: A+
Corporate Bankers	(1) Bank of Baroda (2) Central Bank of India (3) Corporation Bank
Auditors	Jayantilal Thakkar & Co.

Source: Company, Edel Invest Research

Corporate Governance

Cases Against Management/Company	There are no notable cases against Siyaram
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Auditors

Current Auditors of the company	Any change in auditors over last five years?
Jayantilal Thakkar and Co.	There has been no change in the auditors over the last five years

Well diversified Board

Committee	Ramesh Poddar	Kishan Poddar	Pawan Poddar	Gaurav Poddar	Ashok Jalan	Ashadevi Poddar	Mangesh Teli	Dileep Shinde	Harish Motiwalla	Shailesh Vaidya	Ashok Garodia	Pramod Jalan	Arvind Poddar	Tarun Govil
Audit							Y	Y	Y					
Remuneration							Y		Y			Y		
Investor	Y		Y					Y						

Board of Directors Remuneration

Name	Position	Remuneration	Remuneration as a % of PAT	Executive/ Non-Executive	Independent/ Non-Independent
Ramesh D Poddar	Chairman & Managing Director	36106000	4.57%	Executive	NA
Shrikishan D Poddar	Executive Director	30956000	3.92%	Executive	NA
Pawan D Poddar	Joint Managing Director	30267000	3.83%	Executive	NA
Gaurav P Poddar	Executive Director	23516000	2.98%	Executive	NA
Ashok M Jalan	Director	6731000	0.85%	Executive	NA
Ashadevi R Poddar	Executive Director	3160000	0.40%	Executive	NA
Mangesh D Teli	Director	120000	0.02%	Non-Executive	Independent
Dileep H Shinde	Director	135000	0.02%	Non-Executive	Independent
Harish N Motiwalla	Director	195000	0.02%	Non-Executive	Independent
Shailesh S Vaidya	Director	60000	0.01%	Non-Executive	Independent
Ashok N Garodia	Director	45000	0.01%	Non-Executive	Independent
Pramod S Jalan	Director	90000	0.01%	Non-Executive	Independent
Arvind M Poddar	Director	15000	0.00%	Non-Executive	Non-Independent
Tarun Kumar Govil	Director	30000	0.00%	Non-Executive	Independent

Shares Pledged

Number of Pledged Shares	There are no pledged shares
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Source: Company, Edel Invest Research