

Quarterly Update Q4FY20 Visaka Industries Ltd.

Weak set of numbers with uncertainty in performance

Visaka Industries' (VIL) business has been impacted due to severe disruption in operations caused by the novel coronavirus, or COVID-19, led lockdown. Sales degrew 24% YoY to INR 228 crore (21.8% below our estimate) mainly impacted by the 27.3% and 10.9% degrowth in the building products (BP) and yarn segments, respectively. However, gross margin expanded 430bps YoY to 53.3% despite severe sales loss in the BP segment. Earnings before interest, taxes, depreciation, and amortisation (EBITDA) degrew ~40% YoY to INR 21 crore (~3% above our estimate), with EBITDA margin contracting 240bps YoY to 9%, due to lower sales in the BP segment. Profit after tax (PAT) stood at INR 7 crore, with PAT margin at 3.1% versus 4.7% in Q4FY19. Given the company's continuous weak performance even in pre COVID-19 times, we believe it will continue to face challenges in the current difficult scenario. However, being a rural-focused company and low base of the previous year, it is expected to see a lesser impact in FY21. The stock has corrected significantly and is trading at 10.6/5.6x FY21/22E earnings, respectively, below its long-term average price-to-earnings (P/E) of 7x. We reduce our rating to HOLD with a revised target price of INR 176 per share.

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CMP INR: 164
Rating: HOLD
Target Price INR 176
Upside: 7%

Building product segment: Weak performance, core business of roofing impacted the most

Revenue for the segment was down 27.3% YoY to INR 175 crore, with volume degrowth of 29.2%. However, realisation improved 2.6% driven by an increase in the board and panels' contribution to the BP segment. Fall in sales volume was led by halt in construction activity due to the lockdown. The company derives ~79% revenue from the sale of building materials. EBITDA margin contracted 430bps to 7.7% and EBITDA decreased 53.5% to INR 13.5 crore in the BP segment.

Yarn segment hit by the lockdown

Sales in the yarn segment fell 10.9% to INR 53 crore, with a volume de-growth of 6.7% and realisation down 4.4% YoY in Q4FY20. Reported EBITDA was up 10.9% YoY to INR 8.6 crore with a margin expansion of ~320bps to 16.2%, which will be difficult to sustain in coming years. Volumes have been impacted by the lockdown and demand recovery will depend on future developments that are highly uncertain. It may take time for demand to return to full normalcy. The yarn business is expected to see a severe correction in sales in FY21.

Valuation and outlook: Maintain BUY rating

VIL reported weak performance in FY20 with sales/EBITDA/PAT degrowth of 7.6/24.2/26.9%, respectively. The sector will continue to face challenges in the near term, with various uncertainties arising from the pandemic. However, the management is taking various prudent measures like cost reduction, monitoring cash inflows and outflows with specific focus on maintaining liquidity, and re-engineering operations to achieve efficiencies. The company has also seen significant improvement in its roofing business in May-20 given the pent up demand. This resulted in double-digit growth in realisation. Despite Q1 being a seasonally strong quarter, it was impacted the most due to the lockdown and will severely impact its yearly performance. We have cut our rating to HOLD from BUY with a revised target price of INR 176, valuing the stock at 6x FY22E earnings due to future uncertainties in the business.

Bloomberg:	VSKI:IN
52-week range (INR):	94 / 448
Share in issue (cr):	2
M cap (INR cr):	258
Promoter Holding (%)	42.46

(INR Cr)	Q4FY20	Q4FY19 % change	Q3FY20 % change	FY19	FY20	FY21E	FY22E		
Net sales	228	300	-24.0%	241	-5.7%	1,136	1,050	877	1,051
Growth (%)					12.3%	12.3%	-7.6%	-16.5%	
EBITDA	21	34	-39.9%	21	-3.9%	144	109	88	115
PAT	7	14	-50.5%	6	12.7%	67	49	25	47
Growth (%)					1%	1%	-27%	-50%	
Dil. EPS (INR)	4.4	8.8	-50.5%	3.9	12.7%	42.3	31.0	15.5	29.3
Diluted P/E (x)					3.9	5.3	10.6	5.6	
EV/EBITDA (x)					4.8	4.8	4.8	4.8	
ROACE (%)					15.0	9.1	6.0	9.2	

Date: 28th May, 2020

Visaka Industries Ltd.

Q4FY20 Result Highlights

Particulars	Q4FY20	Q4FY19	% change	Q3FY20	% change	FY20	FY19	% change
Income from operations	228	300	-24.0%	241	-5.7%	1050	1136	-7.6%
Direct costs	106	153	-30.4%	119	-10.3%	513	552	-7.1%
Employee expenses	28	29	-3.0%	29	-3.3%	116	108	7.3%
Other expenses	73	84	-13.2%	73	0.3%	428	440	-2.8%
Total operating expenses	207	265	-22.0%	220	-5.9%	942	993	-5.2%
EBITDA	21	34	-39.9%	21	-3.9%	109	144	-24.2%
Depreciation and amortisation	10	9	6.3%	10	-0.9%	41	35	15.9%
EBIT	11	25	-57.3%	11	-6.5%	68	108	-37.3%
Interest expenses	5	5	-12.4%	4	9.4%	17	20	-12.8%
Other income	2	2	-6.8%	1	17.6%	7	12	-45.0%
Profit before tax	8	21	-64.2%	9	-10.4%	57	100	-43.1%
Provision for tax	1	7		2		8	33	
Core profit	7	14	-50.5%	6	12.7%	49	67	-26.9%
Extraordinary items	0	0		0		0	0	
Adjusted net profit	7	14	-50.5%	6	12.7%	49	67	-26.9%
Equity capital (FV INR 10)	16	16		16		16	16	
No. of shares (Cr)	1.6	1.6		1.6		1.6	1.6	
Diluted EPS (INR)	4.4	8.8	-50.5%	3.9	12.7%	31.0	42.4	-26.9%

Segment details

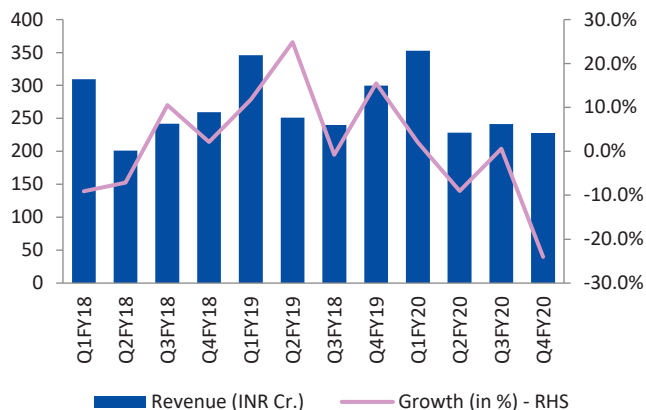
	Q4FY20	Q4FY19	% change	Q3FY20	% change	FY20	FY19	% change
Revenue (INR Cr.)								
Building Products	175	240	-27.3%	188	-7.4%	835	916	-8.9%
Yarn	53	60	-10.9%	53	0.4%	216	220	-2.1%
Volume (in MT)								
Building Products	160,935	227,163	-29.2%	174,757	-7.9%	773,539	853,219	-9.3%
Yarn	2,838	3,043	-6.7%	2,711	4.7%	11,135	11,221	-0.8%
RIz. (in INR/Kg)								
Building Products	10.8	10.6	2.6%	10.8	0.5%	10.8	10.7	0.5%
Yarn	187.4	196.1	-4.4%	195.3	-4.0%	194	196	-1.4%
EBITDA Margins (%)								
Building Products	7.7%	11.8%		7.9%		9.8%	13.9%	
Yarn	16.2%	13.1%		15.0%		15.4%	12.9%	

Visaka Industries Ltd.

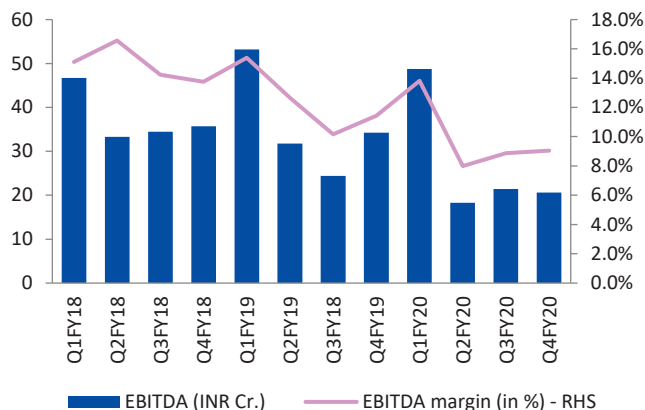
Q4FY20 Result Highlights

Financial Charts

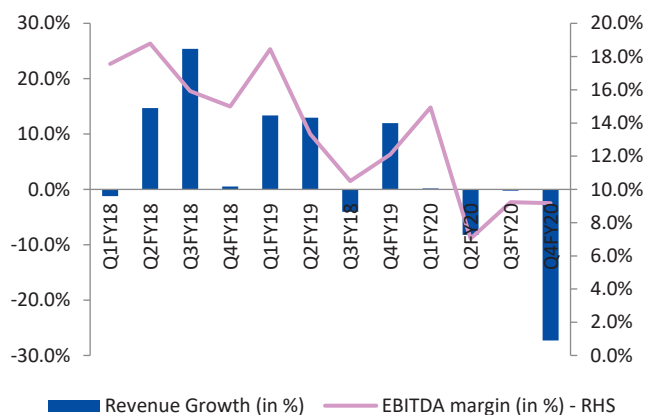
Revenue Profile



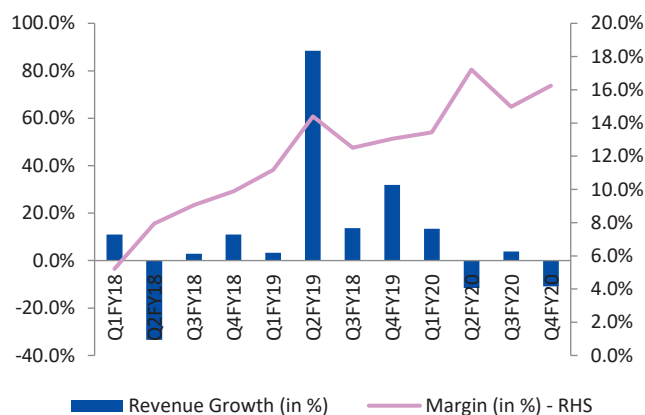
EBITDA Profile



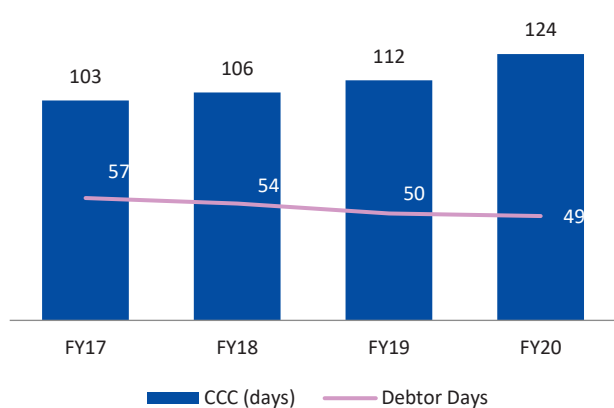
Building Product Segment Performance



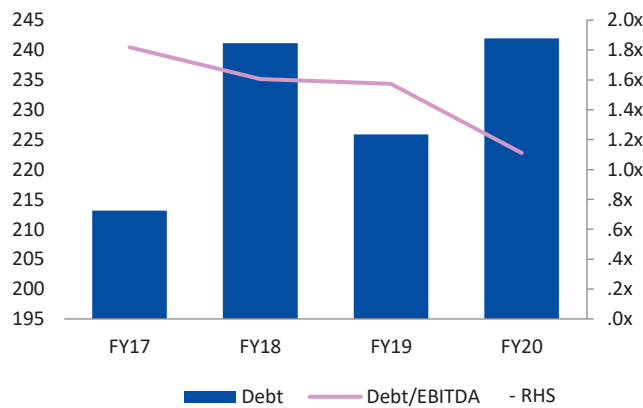
Yarn Segment Performance



Cash Conversion Profile



Debt Profile



Source: Edelweiss Professional Investor Research

Visaka Industries Ltd.

Q4FY20 Result Highlights

Previous Result Outlook

- **In Q1FY20** – Visaka has reported above expectation results, however, slowdown in rural India & impact of lok sabha election was clearly visible in its numbers. The management is hopeful to improve the building product segment's performance later in year with minimizing losses from ATUM & Jhajjar plant as well as benefits from correction in pulp & cement prices. The yarn business expected to continue with healthy performance. Visaka currently trading at 6.7x/5.6x FY20E/FY21E earnings, respectively, considering 12% earnings CAGR over FY19- 21E. We maintain our 'BUY' rating with revised target price of INR 640, valuing at 12x FY21E earnings.
- **In Q2FY20** - Visaka has reported a weak performance, mainly as there is a slowdown in the rural market and its major markets have experienced heavy rains. However, the company's realisation in BP segment has improved, mainly due to the product mix change. The price correction in building products was around 1-1.2% for vs. that of the competition at ~5%, as per management. We believe the sector would continue to face challenges in the near term with raw material cost inflation and slowdown in rural market. However, we also believe that Visaka's strategy to maintain its pricing is better for its profitability. We have revised our earnings estimate downwards by ~20% for FY20E/FY21E each, to factor in the slowdown in the building products segment. The company is currently trading at 7x/6x FY20E/FY21E earnings respectively. We maintain our BUY rating with a revised target price of INR 520, valuing the stock at 12x FY21E earnings.

Q1FY20

Quarterly Statement Q1FY20									
Revenue in Lakhs Crores									
Revenue	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000
Operating Profit	100	100	100	100	100	100	100	100	100
Profit After Tax	80	80	80	80	80	80	80	80	80
EPS	10	10	10	10	10	10	10	10	10
Dividend	5	5	5	5	5	5	5	5	5
Book Value	100	100	100	100	100	100	100	100	100
Debt to Equity	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5
Operating Profit Margin	10%	10%	10%	10%	10%	10%	10%	10%	10%
Profit After Tax Margin	8%	8%	8%	8%	8%	8%	8%	8%	8%
EPS Margin	10%	10%	10%	10%	10%	10%	10%	10%	10%
Dividend Yield	5%	5%	5%	5%	5%	5%	5%	5%	5%
Operating Profit Growth	10%	10%	10%	10%	10%	10%	10%	10%	10%
Profit After Tax Growth	8%	8%	8%	8%	8%	8%	8%	8%	8%
EPS Growth	10%	10%	10%	10%	10%	10%	10%	10%	10%
Dividend Growth	5%	5%	5%	5%	5%	5%	5%	5%	5%
Book Value Growth	10%	10%	10%	10%	10%	10%	10%	10%	10%
Debt to Equity Growth	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5
Operating Profit Margin Growth	10%	10%	10%	10%	10%	10%	10%	10%	10%
Profit After Tax Margin Growth	8%	8%	8%	8%	8%	8%	8%	8%	8%
EPS Margin Growth	10%	10%	10%	10%	10%	10%	10%	10%	10%
Dividend Yield Growth	5%	5%	5%	5%	5%	5%	5%	5%	5%
Operating Profit Growth Growth	10%	10%	10%	10%	10%	10%	10%	10%	10%
Profit After Tax Growth Growth	8%	8%	8%	8%	8%	8%	8%	8%	8%
EPS Growth Growth	10%	10%	10%	10%	10%	10%	10%	10%	10%
Dividend Growth Growth	5%	5%	5%	5%	5%	5%	5%	5%	5%
Book Value Growth Growth	10%	10%	10%	10%	10%	10%	10%	10%	10%
Debt to Equity Growth Growth	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5

Q2FY20

Quarterly Statement Q2FY20									
Revenue in Lakhs Crores									
Revenue	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000
Operating Profit	100	100	100	100	100	100	100	100	100
Profit After Tax	80	80	80	80	80	80	80	80	80
EPS	10	10	10	10	10	10	10	10	10
Dividend	5	5	5	5	5	5	5	5	5
Book Value	100	100	100	100	100	100	100	100	100
Debt to Equity	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5
Operating Profit Margin	10%	10%	10%	10%	10%	10%	10%	10%	10%
Profit After Tax Margin	8%	8%	8%	8%	8%	8%	8%	8%	8%
EPS Margin	10%	10%	10%	10%	10%	10%	10%	10%	10%
Dividend Yield	5%	5%	5%	5%	5%	5%	5%	5%	5%
Operating Profit Growth	10%	10%	10%	10%	10%	10%	10%	10%	10%
Profit After Tax Growth	8%	8%	8%	8%	8%	8%	8%	8%	8%
EPS Growth	10%	10%	10%	10%	10%	10%	10%	10%	10%
Dividend Growth	5%	5%	5%	5%	5%	5%	5%	5%	5%
Book Value Growth	10%	10%	10%	10%	10%	10%	10%	10%	10%
Debt to Equity Growth	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5
Operating Profit Margin Growth	10%	10%	10%	10%	10%	10%	10%	10%	10%
Profit After Tax Margin Growth	8%	8%	8%	8%	8%	8%	8%	8%	8%
EPS Margin Growth	10%	10%	10%	10%	10%	10%	10%	10%	10%
Dividend Yield Growth	5%	5%	5%	5%	5%	5%	5%	5%	5%
Operating Profit Growth Growth	10%	10%	10%	10%	10%	10%	10%	10%	10%
Profit After Tax Growth Growth	8%	8%	8%	8%	8%	8%	8%	8%	8%
EPS Growth Growth	10%	10%	10%	10%	10%	10%	10%	10%	10%
Dividend Growth Growth	5%	5%	5%	5%	5%	5%	5%	5%	5%
Book Value Growth Growth	10%	10%	10%	10%	10%	10%	10%	10%	10%
Debt to Equity Growth Growth	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5

Visaka Industries Ltd.

Financials

Income statement

(INR Cr)

Year to March	FY18	FY19	FY20	FY21E	FY22E
Income from operations	1,012	1,136	1,050	877	1,051
Direct costs	544	552	513	438	531
Employee costs	92	108	116	105	105
Other expenses	319	440	428	351	404
Total operating expenses	862	993	942	789	935
EBITDA	150	144	109	88	115
Depreciation and amortisation	35	35	41	41	42
EBIT	115	108	68	47	74
Interest expenses	18	20	17	19	16
Other income	5	12	7	5	5
Profit before tax	102	100	57	33	62
Provision for tax	35	33	8	8	16
Core profit	67	67	49	25	47
Extraordinary items	-0	0	0	0	0
Profit after tax	66	67	49	25	47
Minority Interest	0	0	0	0	0
Share from associates	0	0	0	0	0
Adjusted net profit	66	67	49	25	47
Equity shares outstanding (mn)	2	2	2	2	2
EPS (INR) basic	41.6	42.3	31.0	15.5	29.3
Diluted shares (Cr)	1.6	1.6	1.6	1.6	1.6
EPS (INR) fully diluted	41.6	42.3	31.0	15.5	29.3
Dividend per share	6.0	7.0	21.8	0.0	7.0
Dividend payout (%)	17.2	19.7	84.8	0.0	28.7

Common size metrics- as % of net revenues

Year to March	FY18	FY19	FY20	FY21E	FY22E
Operating expenses	85.2	87.4	89.6	89.9	89.0
Depreciation	3.4	3.1	3.9	4.7	4.0
Interest expenditure	1.8	1.8	1.7	2.1	1.6
EBITDA margins	14.8	12.6	10.4	10.1	11.0
Net profit margins	6.5	5.9	4.7	2.8	4.4

Growth metrics (%)

Year to March	FY18	FY19	FY20	FY21E	FY22E
Revenues	5.4	12.3	(7.6)	(16.5)	19.8
EBITDA	28.1	(4.4)	(24.2)	(18.9)	30.6
PBT	46.8	(1.3)	(43.1)	(42.3)	89.1
Net profit	55.6	1.3	(26.9)	(50.0)	89.1
EPS	54.6	1.9	(26.9)	(50.0)	89.1

Visaka Industries Ltd.

Financials

Balance sheet

(INR Cr)

As on 31st March	FY18	FY19	FY20	FY21E	FY22E
Equity share capital	16	16	16	16	16
Preference Share Capital	0	0	0	0	0
Reserves & surplus	430	484	489	514	547
Shareholders funds	446	500	505	530	563
Secured loans	182	148	156	176	141
Unsecured loans	59	78	86	86	86
Borrowings	241	226	242	262	227
Minority interest	0	0	0	0	0
Sources of funds	687	725	747	792	790
Gross block	387	519	548	568	593
Depreciation	65	101	142	183	225
Net block	322	419	406	385	369
Capital work in progress	69	1	9	0	0
Total fixed assets	391	420	415	385	369
Unrealised profit	0	0	0	0	0
Investments	0	0	0	50	50
Inventories	242	272	304	254	259
Sundry debtors	151	155	140	156	141
Cash and equivalents	23	20	19	23	38
Loans and advances	43	0	0	0	0
Other current assets	0	41	44	75	85
Total current assets	459	489	507	508	523
Sundry creditors and others	172	141	149	149	149
Provisions	8	2	4	4	4
Total CL & provisions	180	143	153	153	153
Net current assets	279	346	354	355	370
Net Deferred tax	-17	-17	-8	-14	-14
Misc expenditure	35	-23	-14	15	15
Uses of funds	687	725	747	792	790
Book value per share (INR)	280	314	317	333	354

Cash flow statement

Year to March	FY18	FY19	FY20	FY21E	FY22E
Net profit	67	67	49	25	47
Add: Depreciation	35	35	41	41	42
Add: Misc expenses written off	-19	58	-9	-29	0
Add: Deferred tax	-1	-1	-9	6	0
Add: Others	0	0	0	0	0
Gross cash flow	82	160	72	43	88
Less: Changes in W. C.	24	70	9	-3	0
Operating cash flow	57	91	63	46	88
Less: Capex	87	65	36	12	25
Free cash flow	-30	26	27	34	63

Visaka Industries Ltd.

Financials

Ratios

Year to March	FY18	FY19	FY20	FY21E	FY22E
ROAE (%)	15.9	14.3	9.8	4.8	8.5
ROACE (%)	17.4	15.0	9.1	6.0	9.2
Debtors (days)	54	50	49	65	49
Current ratio	2.5	3.4	3.3	3.3	3.4
Debt/Equity	0.5	0.5	0.5	0.5	0.4
Inventory (days)	87	88	106	106	90
Payable (days)	35	25	30	30	25
Cash conversion cycle (days)	106	112	124	141	114
Debt/EBITDA	1.6	1.6	2.2	3.0	2.0
Adjusted debt/Equity	0.5	0.4	0.4	0.5	0.3

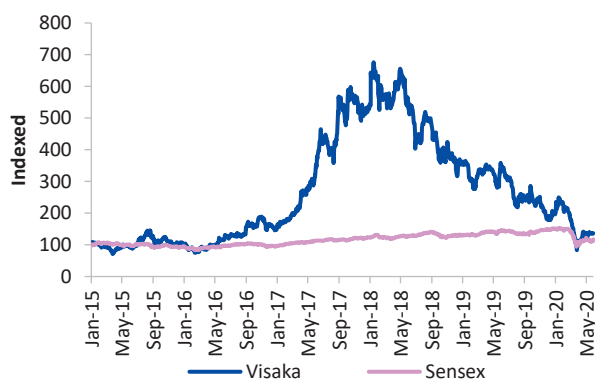
Valuation parameters

Year to March	FY18	FY19	FY20	FY21E	FY22E
Diluted EPS (INR)	41.6	42.3	31.0	15.5	29.3
Y-o-Y growth (%)	54.6	1.9	(26.9)	(50.0)	89.1
CEPS (INR)	63.7	64.5	56.7	41.6	55.4
Diluted P/E (x)	3.9	3.9	5.3	10.6	5.6
Price/BV(x)	0.6	0.5	0.5	0.5	0.5
EV/Sales (x)	0.5	0.4	0.5	0.6	0.4
EV/EBITDA (x)	3.2	3.2	4.4	5.7	3.9
Diluted shares O/S	1.6	1.6	1.6	1.6	1.6
Basic EPS	41.6	42.3	31.0	15.5	29.3
Basic PE (x)	3.9	3.9	5.3	10.6	5.6
Dividend yield (%)	3.7	4.3	13.3	0.0	4.3

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Rating	Expected to
Buy	appreciate more than 15% over a 12-month period
Hold	appreciate between 5-15% over a 12-month period
Reduce	Return below 5% over a 12-month period



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