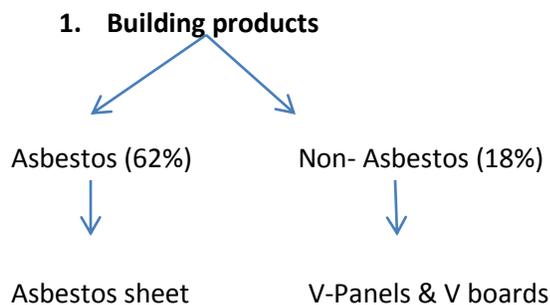


Visaka Industries Overview

Visaka industries was started in the year 1985 by first gen Entrepreneur Mr. G Vivekanandan. The industry serves in 2 main streams 1. Building materials 2. Textiles the Company currently has 11 manufacturing units across India with a Pan -India presence. The company has invested over the years in its capacity and is the 2nd largest player in the building segments materials with a market share of 18% . Building materials segments is considered to be in a good growth phase with housing initiatives by the Narendra Modi government.

Business verticals:



This vertical is the major contributor to the company with near 80% market share and within that Asbestos is a major contributor and Non-asbestos contributes 18% . The non-asbestos is growing at a 15% CAGR, The contribution from Non-Asbestos is set to be increased to 50% of this segment revenue of the company. The full industry growth of Asbestos is declining and stagnant due to diversification in roofing panels like Aluminum sheets, Color steel roofing's etc. . The segment is set to gain from the housing theme . The demand for asbestos being stagnant can see revival and V-boards and panels used in Interiors and wall -separation seems to be a good growth trajectory.

2. Textiles

The company has diversified into this segment and currently manufactures synthetic yarn , there is no meaningful connect between Building products and synthetic yarn but this diversification has not been a big problem with the numbers for the company as the contribution of this segment is around 20%

Business outlook

The building material segment is set to be a good growth story as per the latest AR & Inv presentation of Shankara Build pro the identified segments that will do well in the building products category for the next 5 years are

1. Cement - 8 - 8.5% CAGR
2. Plumbing - PVC pipes 10- 12%
3. Ceramic tiles and Sanitary ware - 10.5 - 11%
4. Plywood and laminates - 11- 11.5%
5. Structural steel - 7-8%
6. Lighting - 11-13%

The above identifies areas with their respective growth potential with an overall value of 4500 - 4800 cr opportunity.

Note: From latest investor presentation of Shankara Build pro

The textile division has been sluggish and no meaningful contribution is been given by that division. The main theme behind Visaka would be Building products and their current focus on Non-asbestos segment which is growing well at the current phase.

Opportunity Size:

Cement , Paints, Building materials, Lightings together has a opportunity size of 4500-4800 Billion. The roofing consists of 20% of a new building or a house. Thus Visaka industries diversifying its product mix currently with increasing its revenues from Non-asbestos which is preferred more in interiors of Hotels , Office premises and housing sector is a good opportunity for the company

Qualitative view

So far there were commitments given for implementing plants and commissioning of plants a few of them delayed but all was completed as promised. The consistent debt reduction by the management even in the sluggish years of 2008-09. There are a few related party transactions for loans and advances given/taken . company is able to maintain its 18% market share from 2008.

The company has kept debt at optimum levels and did not depend on debt for funding its capex except of some instances. Promoters have increased the stake over the years in the company from 37.54 % to 41.22% . Cash flows are positive and Working capital management is good without big funds stuck to working capital.

Capacity :

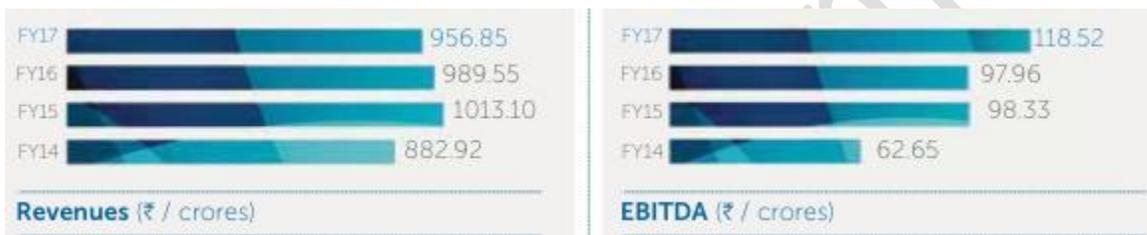
Cement asbestos capacity - 8, 02,000 MT , 88% utilization

Non -Cement asbestos - V-Boards - 1,20,000 TPA , 72% Utilization

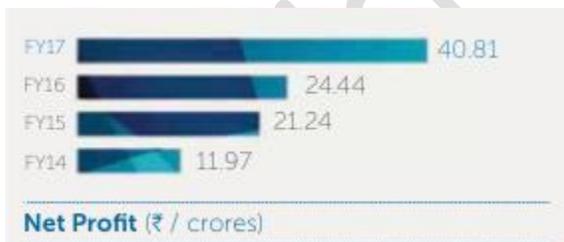
V-Panels - 9750 TPA

Textile - 41 MTS machine - 95% utilization

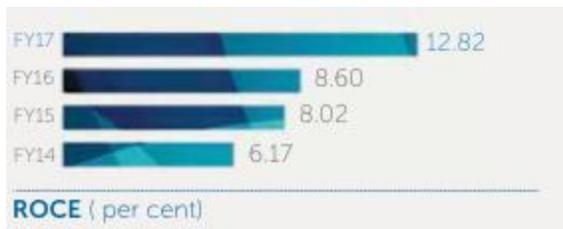
Revenue & EBITDA



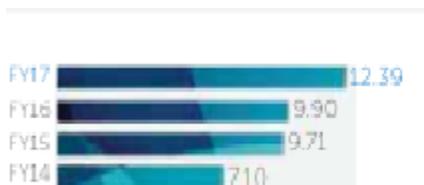
Net Profit : The net profit of the company has raised nearly 4 fold from the year 2014.



Return ratios: The company has just managed to achieve 12.82% in the year FY17 , With further margins expansion in the Non-asbestos category we can see the company to invest in high margin and return projects. The below chart shows that the Cost of debt for the company has worked out around 8-10% on average, Until now the company has not been able to create sustainable value in invested amount.



EBITDA Margins : The company has been able to increase its EBITDA margins gradually YOY for the past 4 years.



5 Year cash flows:

Capex - 10 years capex 426 Crores

Net profit - 284 Cr

Free cash flow - 191 CR

For each Rs spent on Capex the company has earned 0.66 in Net profit and 0.44 in cash flow

Capital employed (Net fixed assets + Working capital) 5 years = 2082 CR average

Sales 2017 - 966 Cr

$966 / 2082 = 0.46$ capital turnover

Visaka industries is low turnover and a Low margin business. For per 1Rs on capital employed it brings about 0.46 in sales which is low in a manufacturing business.

Cash flow yield : 14%

Challenges and risk: The Raw materials are imported from Brazil and Russia which involves risks of unavailability, Forex fluctuation risks and

The number of players in the building segment is been increasing due to the attractive opportunity and the segment and company being a very low entry barrier business poses risks of competition, pricing issues and foregoing market share by way of competitor products.

The business is very capital-intensive and low margin business which makes it more risky in times of sluggish demand and off take in economy

Opportunities: The housing segment is the main revenue drier for the company and being a Proxy play for housing industry the company operates in a competitive environment with peers like HIL , Everest industries , Sahyadhri competing in the same segment.

Citing problems and competition from Steel roofing's, aluminum sheets and colored fibre sheets the company is planning to increase its revenues from the NON-Asbestos (V-Boards and V-panels) which is growing at a faster clip than the Asbestos segment.

10 Year summary of Visaka Industries

	Mar 2005	Mar 2006	Mar 2007	Mar 2008	Mar 2009	Mar 2010	Mar 2011	Mar 2012	Mar 2013	Mar 2014	Mar 2015	Mar 2016	Mar 2017	TTM
Sales	208.08	295.76	419.95	433.13	573.94	604.25	654.12	750.45	915.60	892.10	1,021.13	1,004.85	966.73	998.23
Expenses	173.39	248.17	362.15	393.49	494.99	495.44	569.89	672.07	808.93	834.79	925.22	909.62	851.98	873.18
Operating Profit	34.69	47.59	57.80	39.64	78.95	108.81	84.23	78.38	106.67	57.31	95.91	95.23	114.75	125.05
OPM	16.67%	16.09%	13.76%	9.15%	13.76%	18.01%	12.88%	10.44%	11.65%	6.42%	9.39%	9.48%	11.87%	12.37%
Other Income	2.75	3.86	5.36	6.45	11.44	8.35	10.68	4.67	2.56	5.36	2.42	2.73	3.77	3.05
Interest	7.56	11.77	14.37	17.24	18.36	12.40	10.22	14.17	15.01	21.40	22.03	21.29	18.05	17.19
Depreciation	7.55	10.60	14.76	15.66	16.60	18.39	16.40	17.64	19.58	22.46	43.09	36.30	34.08	34.99
Profit before tax	22.33	29.08	34.03	13.19	55.43	86.37	68.29	51.24	74.63	18.79	33.21	40.38	66.39	75.90
Tax	7.98	9.83	10.75	5.52	19.49	29.16	23.22	16.90	23.94	6.82	11.98	15.94	25.59	28.77
Net Profit	14.35	19.25	23.28	7.67	35.94	57.21	45.07	34.34	50.69	11.97	21.24	24.44	40.80	47.14
EPS (unadj)	12.67	17.24	14.13	4.31	21.90	35.09	27.48	20.77	30.84	7.09	12.32	14.33	25.63	
Dividend Payout	22.48%	16.76%	20.57%	62.43%	17.76%	13.95%	17.62%	23.12%	18.80%	33.17%	37.38%	32.49%	23.35%	%

Balance sheet

	Mar 2005	Mar 2006	Mar 2007	Mar 2008	Mar 2009	Mar 2010	Mar 2011	Mar 2012	Mar 2013	Mar 2014	Mar 2015	Mar 2016	Mar 2017
Share Capital	13.21	13.21	15.92	15.92	15.92	15.92	15.92	15.92	15.92	15.92	15.92	15.92	15.92
Reserves	59.36	74.62	140.02	143.37	171.87	219.81	245.43	270.56	310.13	317.45	316.26	331.14	371.94
Borrowings	104.88	150.90	186.17	198.05	168.75	162.03	172.86	158.72	277.45	264.94	304.35	321.03	214.94
Other Liabilities	47.48	77.68	83.94	94.94	109.96	128.71	104.97	128.81	136.88	130.68	154.27	152.48	168.32
Total Liabilities	222.43	313.91	426.05	452.28	466.50	526.47	539.18	574.01	740.38	728.99	790.80	820.57	771.12
Fixed Assets	119.02	152.07	186.21	172.23	198.25	207.76	202.25	244.45	249.87	334.45	312.09	294.10	326.84
CWIP	0.83	3.90	3.50	37.27	10.51	9.16	8.21	3.97	16.44	20.99	0.47	4.09	11.70
Investments	0.01	0.01	1.25	0.00	2.22	2.30	14.97	15.06	15.07	15.07	14.58	10.09	0.00
Other Assets	102.57	157.93	235.09	242.78	255.52	307.25	313.75	310.53	459.00	358.48	463.66	512.29	432.58
Total Assets	222.43	313.91	426.05	452.28	466.50	526.47	539.18	574.01	740.38	728.99	790.80	820.57	771.12

Cash Flow report

	Mar 2005	Mar 2006	Mar 2007	Mar 2008	Mar 2009	Mar 2010	Mar 2011	Mar 2012	Mar 2013	Mar 2014	Mar 2015	Mar 2016	Mar 2017
Cash from Operati...	19.94	20.43	4.82	33.17	86.88	75.35	27.29	70.51	-53.67	121.32	7.56	89.25	151.73
Cash from Investin...	-49.52	-46.73	-49.80	-37.89	-20.39	-29.54	-42.40	-40.86	-59.47	-90.62	-21.32	-28.39	-63.88
Cash from Financin...	30.62	33.37	70.43	-8.72	-51.78	-30.50	8.09	-29.62	92.85	-38.18	15.73	-13.91	-124.57
Net Cash Flow	1.04	7.07	25.03	-13.44	14.71	15.31	-7.02	0.03	-20.29	-7.48	1.97	46.94	-36.72

Future Outlook & valuation

The company has guided that their revenues would be around 1500 Cr in year 2020 that would be a growth of 18% CAGR in bottom line from current levels and the revenues from Non-asbestos segment would be increased from current 18% to 50% of the building segment division. With 1500 Cr in revenues and 5% Net margin we get an Earnings Per share value of 50 (1.5 Cr in Outstanding shares) and with a 20 X current multiple the target would be 1000 in 3 years with a implied 50% upside.

The company has been very sluggish in growth and its cash flows are not predictable, With current average CFO of 62 CR and a P/CF of 5 x we estimate CFO to be around 100-120 cr and with a multiple of P/CF of 8 times we get per share value of 960.

The companies Interest coverage ratio and CF are positive which can fund its own growth in the future. The company's Net margins are very low at 4-5% which after the new category of V-panels and Boards should improve.

The company has not diluted equity for the past 10 years which is another good sign that it can fund its own growth and as mentioned the cost of debt for the company being around 8-9% and ROCE and ROE being low is a concern.

Disclaimer: Report prepared by K.Ragavendhra Perumall, Sebi-Registered analyst. There are no recommendations on this company. Please consult your financial advisor before taking any action.

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