



HIDDEN GEMS

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EQUITY RESEARCH REPORT

SAHYADRI INDUSTRIES LTD.	BSE CODE: 532841
Industry: Cement - Building Material	CMP: Rs. 173.45 (30/08/2017)
Market Cap: 165.84 (INR in Crore)	Target Price: Rs. 330
Date: August 30, 2017	Time Period: 12 – 24 months



Saral Gyan Capital Services

An Independent Equity Research Firm

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1. Company Background



Sahyadri Industries Ltd is a flagship company of the Patel Group based in Pune, Maharashtra. Sahyadri is an ISO 9001:2008 certified, SAP enabled company and is a player in the building

material space in India for over 6 decades now. The company is mainly engaged in manufacture of fibre cement corrugated and flat sheets and non-fibre cement flat sheets. The company is also into manufacturing of fibre cement roofing sheets under the brand Swastik, Mezzanine application sheets under the brand Cemply, cellulose fibre cement boards under the brand EcoPro, and Cemply Swachhalay - an innovative Green Toilet Technology made for Swachh Bharat Abhiyan.

Sahyadri Industries was incorporated in the year 1994. The group founded by Late Shri. L. B. Patel, who ventured into the trade to timber and building materials, sensing the urban and rural needs for developing shelters to people of all income groups way back in 1947.

The company started its operation as a roofing sheet producer under the brand Swastik. Today the company offers innovative, specialized and futuristic products to bridge the gap between international advancement and technological offerings. With a product portfolio comprising of roofing solutions, well integrated interior and exterior building systems, security doors, power generation and sustainable materials, Sahyadri Industries offers new technologies for metropolitan, urban and rural spaces in India and South Asian, Middle East and African countries.

The sheets are being manufactured by using most modern manufacturing techniques and the latest process control equipments. These sheets are lighter in weight compared to other boards, used in similar applications. They have a good life because the raw materials used are mostly minerals and do not disintegrate or lose their integrity easily.

The company is catering to different geographies, various plants have been set up in Maharashtra, Gujarat, Tamil Nadu and Andhra Pradesh which altogether produce 50,000 MT of roofing materials and 8,000 MT of cement boards every month. Manufacturing plants of the company are strategically located near highway, down freight zones and closer to ports like JNPT, Cochin and Chennai which makes access for exports and imports easier and feasible. The company has 12 depots across India.

The company is also operating 31 windmills situated in the states Maharashtra, Tamilnadu & Rajasthan with the total capacity of 23.2 MW. Indian Wind Power Association adjudged the company's wind mills as Best Performing Wind Farms in the Years 2006-07, 2007-08, 2008-09, and 2010-11.

Products Portfolio

In a six decade journey, the company has developed range of products across different verticals.

1. **SWASTIK** - The company manufactures cement roofing sheets for rural sector under the brand of Swastik. The company has built roofs that last longer and are non-corrosive. Swastik provides a complete range of roofing solutions; we offer over 100 roofing accessories with a diverse range of colours to match everyone's need.



2. **CEMPLY** - The company ventured into flat sheets and cement doors under the banner Cemplly for a variety of applications. The sheets find many applications in both interior and exterior designs, like industrial, commercial, and residential construction spaces.



3. **ENTASAFE** - The company launched anti-theft doors by the name Entasafe for the urban homes. Entasafe doors have superior strength, aesthetic looks and come with advanced security features, can be customised as per customer needs.



4. **ECOPRO** - The company introduced innovative product under brand EcoPro - a building material which is wood-free, light-weight and asbestos-free alternative to conventional materials and asbestos products. EcoPro meets the standard set on all platforms, making it an innovative brand to accelerate the development of building material industry.



5. **SILBUILD** – It is a speedy, innovative and sustainable building solution to enable cost effective quality construction. The systems are factory produced, transportable and erect on site pre-engineering building techniques.



6. **SWACHALAY** - Swachalay Toilet Blocks units are modular in design and supplied in the form of a kit. It can be erected on site within an hour, ready for comfortable and hygiene use. Swachalays are green toilets made of 35% fly ash and is based on dry wall technology with no use of wartar, sand and bricks in the construction. These safe and secure toilet units are ready for sanitary fittings to be installed before use.



7. **SWASTIK KUKDOOKOO** - Swastik Kukdookoo is a backyard poultry structure. The unit provides better health and hygiene to the chickens helping farmer with an alternative source of income.



2. Recent Developments

i) Normal Monsoon & GST to Augur well for Company's Roofing Sheet Business

Data for the last 15 years shows that there's a high correlation between monsoon and sale of roofing sheets with some lag in India. Post two consecutive years of poor monsoon in 2014 and 2015, last year was relatively better, with better farm output and more disposable income in the hands of rural customers. With monsoon expected to be above normal this year also, we expect roofing sheet business will see good growth for the next two years.

Moreover, higher GST on steel sheets of 28%, compared with 18% on asbestos cement sheet, will give cement sheet manufacturers the extra edge. Also, the asbestos industry competes with steel roofs, as prices of steel sheets have risen in the past year due to higher steel prices, we expect Sahyadri Industries to be the direct beneficiary.

ii) Launch of Innovative Products to Reduce Dependence on Seasonal Products

Fibre cement roofing sheet is a seasonal business. The company is now focusing to reduce its dependence on seasonal products. Under new initiatives, the company has launched some of the innovative products like Cemply Swachalay and Swastik Kukdookoo.

Cemply Swachalay - Swachalay is the ideal green toilet developed by the company to support Govt initiative – Swachh Bharat Abhiyan: These modular toilet blocks can be installed and ready to use in less than 1 hour. Made using cemply fibre cement sheets and doors and swastik roofs, these safe, secure toilet units are ready for sanitary fittings to be installed before use. Cemply Swachalay is ideal for use in residential, school, tourist spots and inhabitants from the tribal or hilly terrains.



Another uniqueness of this innovative green toilet technology is that it does not use water, sand, brick and mortar, typically used in conventional construction. Raw materials used for making the toilets is slag and fly ash which is a byproduct of the thermal power stations hence saving the environment. Swachalay received the 'Innovative Green Toilet Technology' Award in 2015 in India Sanitation Summit organized by India CSR Group, held at PHD Chambers, New Delhi.

Swastik Kukdookoo – It is a backyard poultry structure developed by the company to support Indian farmers and women to earn a reasonable amount every month as revenue from poultry. The Kukdookoo units provide better health and hygiene to the chickens. It is a DIY (Do-It-Yourself) kit and can be easily set up by 2-3 people at help. A new concept in Poultry production that can yield higher revenue opportunities for the poultry farmer.

3. Financial Performance

Sahyadri Industries net profit rises 103.40% in the June 2017 quarter

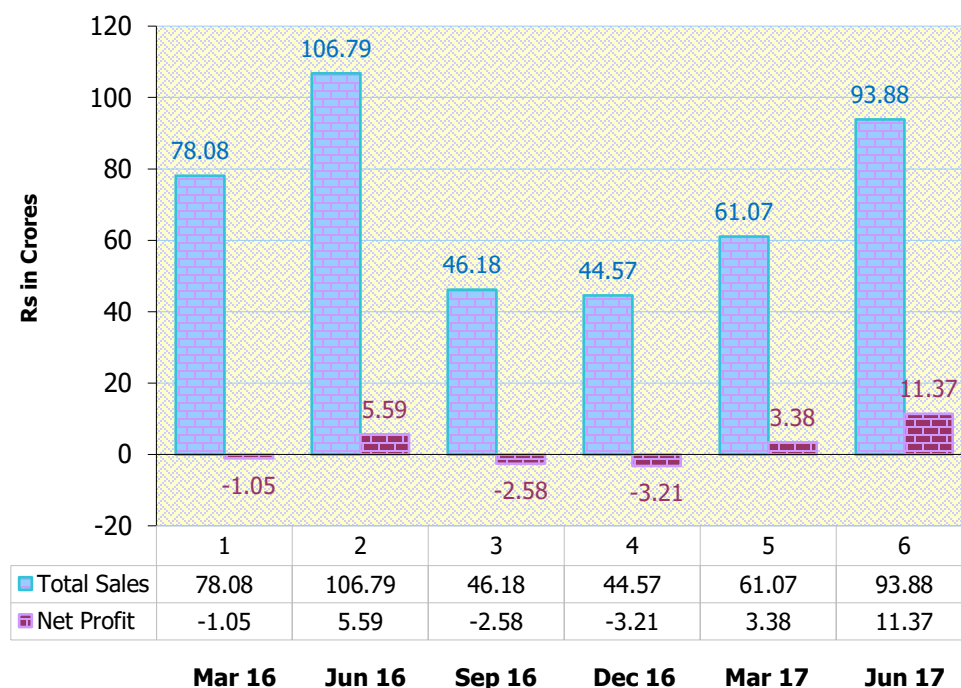
Net profit of Sahyadri Industries rose 103.40% to Rs. 11.37 crore in the quarter ended June 2017 as against Rs. 5.59 crore during the previous quarter ended June 2016. Sales declined 12.09% to Rs. 93.88 crore in the quarter ended June 2017 as against Rs. 106.79 crore during the previous quarter ended June 2016.

Sahyadri Industries reports net profit of Rs 3.38 crore in the March 2017 quarter

Net profit of Sahyadri Industries reported to Rs. 3.38 crore in the quarter ended March 2017 as against net loss of Rs. 1.05 crore during the previous quarter ended March 2016. Sales declined 21.79% to Rs. 61.07 crore in the quarter ended March 2017 as against Rs. 78.08 crore during the previous quarter ended March 2016.

For the full year, net profit reported to Rs. 3.18 crore in the year ended March 2017 as against net loss of Rs. 10.90 crore during the previous year ended March 2016. Sales declined 28.12% to Rs. 258.60 crore in the year ended March 2017 as against Rs. 359.78 crore during the previous year ended March 2016.

Last 6 Quarters Net Sales & Profit



Current & Expected Earnings

Quarterly Ended Profit & Loss Account

Particulars (Rs in Crores)	Sep 2016	Dec 2016	Mar 2017	Jun 2017	Sep 2017 E	Dec 2017 E
Audited / UnAudited	UA	UA	UA	UA	UA	UA
Net Sales	46.18	44.57	61.07	93.88	48.21	47.52
Other Operating Income	0.55	0.47	1.17	0.65	0.45	0.47
Total Income – Operations	46.73	45.04	62.24	94.53	48.66	47.99
Raw Materials Consumed	15.3	20.82	35.82	46.81	16.8	18.81
Purchase of Traded Goods	--	--	--	--	--	--
Increase/Decrease in Stocks	9.73	3.72	-2.46	5.43	6.75	2.97
Power & Fuel	--	--	--	--	--	--
Employees Cost	4.22	4.7	2.4	4.34	4.43	4.9
Depreciation	6.03	5.98	4.78	5.26	5.55	5.45
Provisions And Contingencies	--	--	--	--	--	--
Other Expenses	11.58	10.59	13.9	14.67	11.1	11.2
P/L Before Other Income	-0.13	-0.77	7.8	18.02	4.03	4.66
Other Income	0.06	0.16	0.5	0.04	0.05	0.11
P/L Before Int., E. Items & Tax	-0.07	-0.61	8.31	18.06	4.08	4.77
Interest	4.07	4.08	3.44	3.34	3.22	3.12
P/L Before E. Items & Tax	-4.14	-4.68	4.86	14.72	0.86	1.65
Exceptional Items	--	--	--	2.61	--	--
P/L Before Tax	-4.14	-4.68	4.86	17.33	0.86	1.65
Tax	-1.56	-1.48	1.48	5.96	0.31	0.53
P/L After Tax – Ord. Activities	-2.58	-3.21	3.38	11.37	0.55	1.12
Prior Year Adjustments	--	--	--	--	--	--
Extra Ordinary Items	--	--	--	--	--	--
Net Profit/(Loss)	-2.58	-3.21	3.38	11.37	0.55	1.12
Equity Share Capital	9.56	9.56	9.56	9.56	9.56	9.56
Reserves	--	--	--	--	--	--
Calculated EPS	-2.7	-3.35	3.54	11.82	0.58	1.17
Calculated EPS (Annualised)	-10.8	-13.4	14.16	47.28	2.3	4.69
Public Shares Holding	3208809	3208809	3208809	3208809	NA	NA
Public Share Holding (%)	33.56	33.56	33.56	33.56	NA	NA

The company has posted strong profit growth in Jun'17 quarter. Sahyadri reported net profits of Rs. 11.37 for Jun'17 quarter against net profit of Rs. 5.59 in Jun'16. We expect company will turn around its performance completely during this financial year by reporting profits during next 2 quarters against losses reported for Sept'16 and Dec'16 quarter last year.

4. Peer Group Comparison

PEER GROUP	SAHYADRI INDUSTRIES	EVEREST INDUSTRIES	HIL	VISAKA INDUSTRIES
CMP	173.45	354.15	1225.30	679.10
52 W L/H	64.00/176.00	180.30/421.40	576.20/1250.00	150.00/698.70
Market Cap	165.84	550.05	909.69	1078.87
Results (in Crores)	Jun-17	Jun-17	Jun-17	Jun-17
Net Sales	93.88	378.02	427.48	340.72
PAT	11.37	16.95	36.87	22.96
Equity	9.56	15.42	7.49	15.88
EPS (TTM)	9.37	4.94	80.35	29.69
P/E	18.5	72.1	15.2	22.9

Sahyadri Industries is a smaller player with market capital of ~166 crores operating in fibre cement sheet business. The company has posted strong profit growth in its June quarter with expected turnaround during this fiscal year, which makes it attractive compared to other listed players in the Industry.

5. Key Concerns / Risks

- The main raw materials for fibre cement products are cement, pulp, fly ash and imported fibres. Any hike in prices of cement or fibre may have adverse impact on the margin of the company.
- Rural schemes like MNREGA, Indira Awas Yojna, etc. play a vital role for the business of the company. Any change or decrease in spending by the government on these schemes could reduce the purchasing power of rural people. A poor monsoon could also have adverse effect on the demand for roofing in rural India.
- There is limited pricing power due to large number of players operating in fibre cement products and hence pass through of increased costs is not possible.

6. Saral Gyan Recommendation

- ✚ Manufacturing plant of Sahyadri Industries at Vijaywada was set up and expenses were capitalized by the company during the last financial year. Similarly, Chinchwad plant of the company was also set up in the FY15-16. The company has incurred large amount of capital expenses for the same, both the plants commenced its manufacturing activities. However, with lower utilization of these plant's capacity and higher fixed expenses and capital cost, operating margins were eroded as the company was not able to recover its fixed overhead expenses. Hence, the company posted net loss of 10.9 crores in FY15-16 and net profit of Rs. 3.2 crores in FY16-17.
- ✚ As monsoon plays a vital role in growth of rural economy, market conditions for roofing sheets was adverse due to poor monsoon in past. Last year was relatively better, with better farm output and more disposable income in the hands of rural customers. With monsoon above normal this year also, we expect roofing sheet business of the company to see good growth over next two years.
- ✚ Due to depressed steel prices in previous years, coloured steel roofs were preferred over asbestos roofing for Industrial and warehousing applications which impacted the growth of fibre cement sheets manufacturers. However, with rising base metal prices which are expected to remain firm, we believe cement sheet will be preferred choice for construction activities going forward. Moreover, higher GST on steel sheets of 28%, compared with 18% on asbestos cement sheet, will give cement sheet manufacturers the extra edge and hence Sahyadri will be the direct beneficiary.
- ✚ Fibre cement roofing sheet is a seasonal business as industry as a whole depend upon seasonable of demand. Considering downturn in housing and infrastructure sector in past, company has taken new initiatives over last few years to insulate it from seasonability of demand for traditional products. The company started evolving its product line by introducing high margin non-infrastructure related products. Cemply Swachalay and Swastik Kukdookoo are some of the products launched under this initiative. Sahyadri has tied up with several self-help groups such as Dilasa Janvikas Pratishthan to make Swastik Kukdookoo available across India.
- ✚ The company has registered sales CAGR of 4.5% with ROE of 4% over last 5 years. The company's financials were impacted in past due to high capital expenses incurred towards expansion. The company has reduced its debt significantly over last 2 years.

Key Financial Parameters	Mar 2013	Mar 2014	Mar 2015	Mar 2016	Mar 2017
Return on Equity (%)	17.2	-5.2	6.0	-9.3	8.4
ROCE (%)	11.3	2.1	6.2	1.7	7.4
Operating Profit Margin (%)	15.1	5.4	8.7	8.2	1.8
Net Profit Margin (%)	4.8	-1.6	1.6	-3.0	1.2
Debt to Equity (%)	1.6	1.4	1.6	1.5	1.0
Working Capital Days	155	170	138	165	145

- ✚ Due to company's subdued performance in last couple of years, the management has taken various initiatives and cost control steps. These measures are likely to bring in gradual increase in turnover going forward. The company also intend to focus on increasing its overseas markets share by offering innovative and unique building solutions. As per future plans, innovative product extension, green environment friendly products, and applications like infill walls, solid walls, dry-wall construction system, wall cladding, mezzanine applications, fast-track housing solutions, roof-underlay would be on priority list of the company.
- ✚ As of Jun'17, promoter's shareholding in the company is at 66.44%. Promoter's shareholding is same without any change since March 2015. Promoters have not pledged any shares, Institution shareholding in the company is negligible at 0.01%.
- ✚ For FY 2014-15, the company paid dividend of Rs. 1.50 per share. The company has not paid dividend later as company incurred losses mainly due to slowdown in rural economy and capacity expansion taken at Vijaywada. With recent turnaround in performance, we expect company to pay regular dividends going forward.
- ✚ As per our estimates, Sahyadri can deliver PAT of 16.65 crores in FY17-18 and Rs. 19.53 crores in FY18-19 with annualized EPS of Rs 17.4 and Rs. 20.4 respectively. At current price of 173.45, stock is available at forward P/E multiple of 8.5X based on FY18-19 earnings. Company's valuation looks attractive considering robust growth outlook for cement sheet business with uplift in rural economy over next 1 to 2 years.
- ✚ On equity of Rs. 9.56 crore, the estimated annualized EPS for FY18-19 works out to Rs. 20.4 and the Book Value per share is Rs. 123. At current market price of Rs. 173.45, stock price to book value is 1.3.

Government's initiatives with focus on rural economy will help in improving disposable income in rural India, and that will have positive impact on the company's business of roofing and other building materials. Considering rise in rural spending with favourable monsoon, company's plan to reduce its dependency on seasonal products by introducing high margin non infrastructure related products, increasing focus on exports, and company's improved business fundamentals with robust growth outlook, Saral Gyan team recommends **"Buy"** on **Sahyadri Industries Ltd** at current market price of Rs. 173.45 for target of Rs. 330 over a period of 12 to 24 months.

Buying Strategy:

- 60% at current market price of 173.45
- 40% at price range of 130 - 140 (in case of correction in stock price in near term)

Portfolio Allocation: 3% of your equity portfolio.

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