From	:	01-06-2017
To	:	23-11-2017
Performance	:	55%
Recommendation	:	CLOSED

Background & Business

Established in 1981 by Mr. G. Vivekananda, a first-generation entrepreneur, Visaka Industries Limited (Visaka) FY17 revenues Rs. 10bn, M Cap Rs. 7.7bn ($118mn @ Rs.64.45/$) commenced the manufacture of corrugated cement fibre sheets in 1985. Seven years later, it diversified into the manufacture of synthetic yarn. In 2008, the company forayed into the manufacture of Fibre Cement Boards & allied products under the brand name "V-Board". Presently, the company operates under 2 divisions – a. Building Products (82% of FY17 Revenues & 87% of FY17 EBIT) - Comprising of Cement Asbestos Roofing sheets & allied products and Fibre Cement Boards comprising of V-Boards and V-Panels. b. Synthetic Yarn (18% of FY17 Revenues & 13% of FY17 EBIT). The company was the 7th largest cement asbestos product manufacturer in India by volume in 1996; it is however, No. 2 today with 18% M. share (Brands – Visaka & Shakti). It is a leading player in twin air-jet spun yarn.It is a significant player in the V-Next products.

Investment Thesis

a) **Cement Asbestos** (In Visaka's FY17 Annual Report, management had mentioned that the company would lower the proportion of Cement Asbestos sheet revenue from 67% in FY17 to 50% by 2020 to safeguard itself from environmental issues in this industry, revenues from this segment rose by ~18% YoY in Q2FY18. Its EBITDA margins stood at ~20% in current quarter and contribution to total revenues remained steady at 66%. Notably, in this segment the overall industry itself is expected to grow in low single digit and are operating at ~5% EBITDA margins. Hence we are of the opinion that maintaining these margins going ahead would be difficult for the management).

b) **V-Boards** (The V-Boards segment which was expected to be the key revenue driver with VBoards being the substitute for plywood, has not been able to ramp up as per expectations. Also going ahead, we do not see any tax advantage for the VBoards segment since GST rates for VBoards and Plywoods, post the recent rates revision have been brought at the same level. This is illustrated in the table below. In this context the management guidance of 8-10% EBITDA margins for VBoards in H2FY18 against 5% in H1FY18 looks difficult to achieve).

c) **Synthetic Yarn** (The Yarn business is impacted by GST implementation leading to degrowth of 35% YoY in topline in thissegment. In last 5 years, its EBITDA margins has broadly remained in the range of 10-16%, however in Q2FY18 margins have declined to ~6%. Though management has guided that margins would normalize by H2FY18, we are of the opinion that it may take little longer to get this business on track at the operational level).

Outlook

Broadly speaking, we feel that there is some contradiction in the outlook provided by the management. On one hand, the management has guided for reducing contribution from the very segment (Cement asbestos) in which it makes highest margins. On the other hand, the V-Boards segment, from which greater revenue contribution is expected, has seen difficulty in revenue-ramp and profitability. All this does not augur well for healthy operating performance going ahead. We have made handsome gains of 55% over the investment period and hence, we move to other more compelling stories.

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