



Muted revenue; Margins surprised positively

Stylam Industries posted a mixed bag of results with revenue 4% below our estimates and bottomline in line with our estimates.

Key business highlights

- The company reported a 7% volume de-growth for Q3FY24 on a YoY basis and 11% on a QoQ basis.
- The exports revenue de-grew by 6.5% on a YoY basis & de-grew 5% on a QoQ basis.
- The domestic revenue de-grew by 11% on a YoY basis & de-grew 14% QoQ.
- Solid acrylic sheets reported a subdued performance recording sales of Rs 5.37 crores (7 crs in Q3FY23).

Key Financial Highlights

- Revenue at INR 2146Mn, -8.3% qoq/-8.3% yoy
- EBITDA (excl OI) at INR 478Mn, +1.2% qoq/+21.4% yoy
- EBITDA margin at 22.28% vs 16.82% vs 20.2% in Q3FY23/Q2FY24
- PAT at INR 313Mn, -1.3% qoq/+30.4% yoy
- EPS at INR 18.5 vs 14.2/18.7 in Q3FY23/Q2FY24

Outlook

- Expecting exports to pick up gradually going forward
- Aiming to sustain current EBITDA margins
- Capex has been increased from 150crs to 200-225crs (for the new plant) on account of additional line being installed and the new plant to commence commercial production from Q3FY25

Financial Summary

Y/E Mar (Rs mn)	FY22	FY23	FY24E	FY25E	FY26E
Net sales	6,593	9,521	9,146	10,801	13,212
EBIDTA	1,036	1,548	1,877	2,150	2,669
Margins (%)	15.7	16.3	20.5	19.9	20.2
Adjusted net profit	610	960	1,265	1,380	1,716
EPS (Rs)	36.0	56.6	74.6	81.4	101.3
P/E (x)	44	28	21	20	16
EV/EBITDA (x)	27	17	14	12	10
RoCE (%)	21.08	30.04	30.92	27.38	27.30
RoE (%)	19.30	23.29	23.68	20.66	20.54

Source: Company, Dalal & Broacha Research

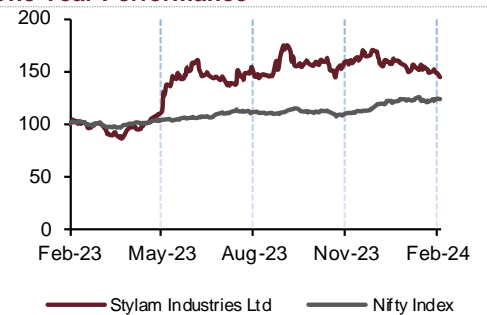
Rating	TP (Rs)	Up/Dn (%)
HOLD	1,823	14

Market data

Current price	Rs	1,584
Market Cap (Rs.Bn)	(Rs Bn)	27
Market Cap (US\$ Mn)	(US\$ Mn)	324
Face Value	Rs	5
52 Weeks High/Low	Rs	1979.95 / 941.7
Average Daily Volume	('000)	20
BSE Code		526951
Bloomberg		SYIL.IN

Source: Bloomberg

One Year Performance



Source: Bloomberg

% Shareholding	Dec-23	Sep-23
Promoters	54.61	54.61
Public	45.39	45.39
Total	100	100

Source: Bloomberg

Harsh Shah
+91 22 67141496

harsh.shah@dalal-broacha.com

Concall Highlights:

➤ **Export Market Prospects and Challenges:**

The company is cautiously optimistic about a recovery in its export markets, recognizing that ongoing issues in the Red Sea region pose potential setbacks. The conflict has already resulted in a delay of 20 crores in sales to Israel during the third quarter of fiscal year 2024, with expectations to recognize these sales in the following quarter. Despite these challenges, the company is focused on expanding its market share internationally.

➤ **Financial Performance and Margin Outlook:**

The company anticipates maintaining its current gross margins but foresees potential pressure on EBITDA margins due to escalating freight costs, which may not be fully transferable to customers.

➤ **Strategic Capital Expenditure (Capex) Expansion:**

In response to growing demand and opportunities in export markets, the company has decided to increase its capital expenditure from 150 crores to a range of 200-225 crores. This investment will fund the addition of a new production line designed to manufacture large-size sheets (up to 20 feet), specifically catering to export demands. The funding for this expansion will be sourced entirely from internal accruals, with the new facility expected to begin operations in Q3FY25.

➤ **Growth and Potential in the Solid Acrylic Surface Segment:**

The Solid Acrylic Surface business, despite a slight dip in sales from 7 crores in the third quarter of the previous fiscal year to 5.4 crores in the same quarter this year, shows promise for significant growth. With a current capacity utilization of approximately 10%, the company aims to enhance its brand presence with "GRANEX" and is exploring strategies to boost production and market penetration. The initiative to seek anti-dumping measures against imports from China and Korea indicates a proactive approach to safeguarding and nurturing this segment, potentially unlocking 200-300 crores in turnover.

➤ **Domestic Market Strategy Amidst Challenges:**

The company acknowledges the impact of weakened consumer sentiment on the industry in the third quarter and is actively exploring avenues for growth within the domestic market. By establishing new branch offices across the country, the company aims to strengthen its market presence. However, it remains prepared to reevaluate and possibly revamp its domestic strategy should the current efforts not yield the expected results within the next two months, reflecting a flexible and responsive approach to market dynamics.

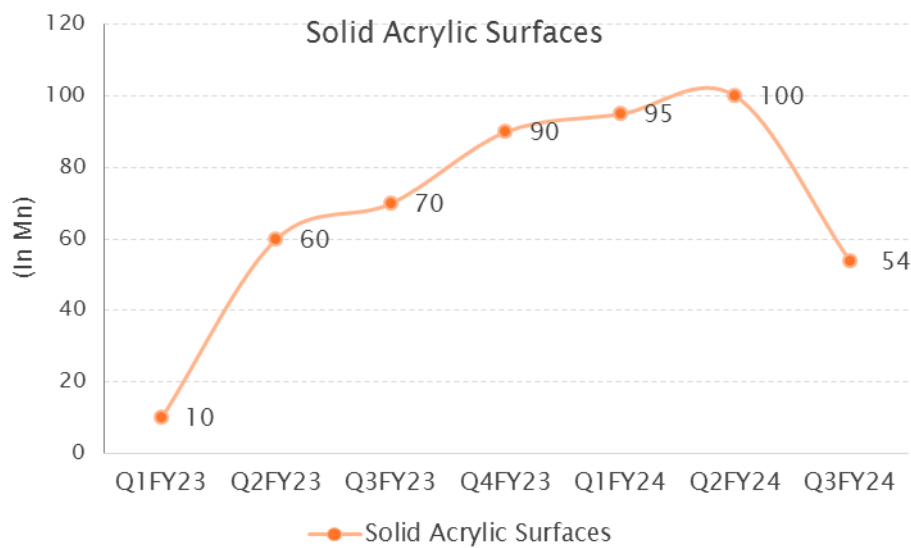
Focus Charts

Exhibit 1: Revenue split between export and domestic market



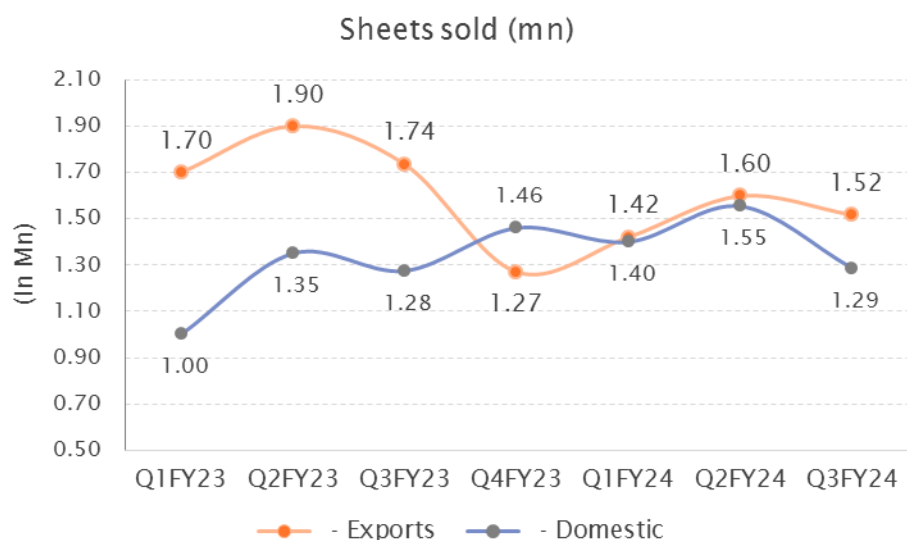
Source: Company, Dalal & Broacha Research

Exhibit 2: Solid Acrylic surfaces sales trend



Source: Company, Dalal & Broacha Research

Exhibit 3: Trend of sheets sold in Export and domestic market



Source: Company, Dalal & Broacha Research

Financial Snapshot

Stylam Industries Particulars (Rs Mns)	Q3FY24	Q3FY23	YoY Growth	Q2FY24	QoQ Growth
Revenue from operations	2,146	2,340	-8.3%	2,339	-8.3%
Other income	20	2	743.6%	19	3.1%
Total Income	2,165	2,342		2,358	
Cost of goods sold	1,092	1,307	-16.5%	1,245	-12.3%
Employee Benefit expenses	190	179	6.2%	187	2.0%
Other Expenses	386	460	-16.1%	435	-11.4%
EBITDA (excl other income)	478	394	21.4%	473	1.2%
Less : Depreciation	56	38	46.2%	53	5.6%
PBIT	422	356		420	
Less: Interest cost	7	41	-82.6%	6	15.7%
PBT (before exceptional)	435	317		433	
PBT (after exceptional)	435	317	37.2%	433	0.5%
Less : Tax	122	77		115	
PAT	313	240	30.4%	318	-1.3%
EPS	18.5	14.2	30.4%	18.7	-1.3%
Gross Margins	49.13%	44.15%		46.78%	
EBITDA Margins	22.28%	16.82%		20.20%	
Net profit Margin	14.47%	10.26%		13.46%	

Source: Company, D&B Research

Valuation & Outlook

Q3FY24 was a soft quarter in terms of topline growth mainly due to sluggish demand in domestic markets and logistics related issue in the export market, however the margins surprised on the upside with a significant improvement in the gross margins (235 bps). Q4FY24 might have some impact due to the red sea issue impacting exports, meanwhile the management is putting all efforts to improve its domestic presence through various initiatives although the strategy will be revamped if there is no material improvement in the performance. The imposition of anti-dumping duty, if any will act as a trigger point for their solid acrylic surfaces business which they have not yet been able to scale up as per their expectations.

We expect the stock to react positively to any improvement in their quarterly revenue runrate (stagnated at ~235 crs over the last 6 quarters) or scaling up of their acrylic segment. In our opinion margins have less room for improvement and any further increase in profitability would be lead by sales growth.

At CMP of Rs 1592, the company is trading at 20x FY25E EPS of Rs 81.4 and 16x FY26E EPS of Rs 101.3.

The stock has already achieved our target price of Rs 1,643 as mentioned in Q4FY23 result update. At the current juncture in the short term we believe the stock is fairly valued unless market dynamics in both export and domestic markets change, therefore **maintain our recommendation of HOLD with a target price of Rs 1,823, an upside of 14% as we roll over our estimates to FY26.**

FINANCIALS

P&L (Rs mn)	FY22	FY23	FY24E	FY25E	FY26E
Net Sales	6,593	9,521	9,146	10,801	13,212
Total Operating Expenses	3,755	5,310	4,847	5,751	7,036
Employee Cost	548	688	756	847	932
Other Expenses	1,255	1,976	1,665	2,052	2,576
Operating Profit	1,036	1,548	1,877	2,150	2,669
Depreciation	233	200	215	313	380
PBIT	803	1,348	1,662	1,837	2,289
Other income	80	14	64	40	40
Interest	78	82	27	25	25
PBT	805	1,281	1,698	1,852	2,304
Profit before tax (post exceptional)	805	1,281	1,698	1,852	2,304
Provision for tax	195	321	433	472	587
Reported PAT	610	959.8	1,265	1,380	1,716
MI	-	-	-	-	-
Net Profit	610	960	1,265	1,380	1,716
Balance Sheet (Rs mn)	FY22	FY23	FY24E	FY25E	FY26E
Equity capital	85	85	85	85	85
Reserves	3,076	4,036	5,259	6,596	8,270
Net worth	3,161	4,121	5,343	6,681	8,355
Non Current Liabilites	230	180	207	211	216
Current Liabilites	1,498	1,080	707	780	876
TOTAL LIABILITIES	4,889	5,381	6,258	7,672	9,448
Non Current Assets	1,830	1,889	2,038	3,729	3,653
Fixed Assets	1,787	1,846	1,992	3,681	3,602
Goodwill	-	-	-	-	-
Non Current Investments	11	11	11	11	11
Deferred Tax Asset	-	-	-	-	-
Other Financial Assets	15	16	16	16	16
Other Non Current Assets	16	15	18	20	23
Current Assets	3,059	3,492	4,220	3,944	5,795
Current investments					
Inventories	1,329	1,598	1,544	1,812	2,215
Trade Receivables	1,188	1,258	1,215	1,431	1,743
Cash and Bank Balances	87	267	1,039	216	1,279
Short Term Loans and Advances	0	2	2	2	2
Other Current Assets	456	366	420	483	556
TOTAL ASSETS	4,889	5,381	6,258	7,672	9,448

FINANCIALS

Cash Flow St. (Rs. mn)	FY22	FY23	FY24E	FY25E	FY26E
Net Profit	610	960	1,265	1,380	1,716
Add: Dep. & Amort.	233	200	215	313	380
Cash profits (Inc)/Dec in	843	1,160	1,480	1,693	2,096
Sundry debtors	(201)	(71)	43	(215)	(312)
Inventories	(611)	(269)	55	(268)	(403)
Other financial assets	10	(2)	(2)	(3)	(3)
Other Current Assets	(174)	90	(55)	(63)	(73)
Current Liab and Provisions	(39)	(2)	5	8	10
Sundry Creditors	65	(182)	(14)	68	92
Change in working capital	(949)	(437)	32	(473)	(689)
CF from Oper. activities	(106)	595	1,513	1,220	1,407
CF from Inv. activities	(139)	(131)	(361)	(2,001)	(301)
CF from Fin. activities	181	(284)	(380)	(42)	(42)
Cash generated/(utilised)	(65)	181	772	(823)	1,063
Cash at start of the year	151	87	267	1,039	216
Cash at end of the year	87	268	1,039	216	1,279
Ratios	FY22	FY23	FY24E	FY25E	FY26E
OPM	15.71%	16.26%	20.52%	19.91%	20.20%
NPM	9.14%	10.07%	13.74%	12.73%	12.95%
Tax Rate	24.19%	25.05%	25.50%	25.50%	25.50%
Growth Ratios (%)					
Net Sales	37.50%	44.41%	-3.95%	18.10%	22.33%
Operating Profit	4.60%	49.43%	21.24%	14.56%	24.11%
PBIT	13.39%	59.13%	32.60%	9.08%	24.37%
PAT	610	960	1,265	1,380	1,716
Per Share (Rs.)					
Net Earnings (EPS)	36.0	56.6	74.6	81.4	101.3
Cash Earnings (CPS)	13.7	11.8	12.7	18.5	22.4
Dividend	2.5	2.5	2.5	2.5	2.5
Book Value	187	243	315	394	493
Valuation Ratios					
P/E(x)	44.22	28.11	21.33	19.55	15.72
P/B(x)	8.54	6.55	5.05	4.04	3.23
EV/EBIDTA(x)	26.59	17.49	13.84	12.46	9.64
Div. Yield(%)	0.16	0.16	0.16	0.16	0.16
Return Ratios (%)					
ROE	19.30%	23.29%	23.68%	20.66%	20.54%
ROCE	21.08%	30.04%	30.92%	27.38%	27.30%

Source: Company, D&B Research

Disclaimer

Dalal & Broacha Stock Broking Pvt Ltd, hereinafter referred to as D&B (CINU67120MH1997PTC111186) was established in 1997 and is an integrated financial services player offering an extensive range of financial solutions and services to a wide spectrum of customers with varied needs ranging from equities to mutual funds to depository services.

D&B is a corporate trading member of Bombay Stock Exchange Limited (BSE), National Stock Exchange of India Limited (NSE). D&B along with its affiliates offers the most comprehensive avenues for investments and is engaged in the securities businesses including stock broking (Institutional and retail), depository participant, portfolio management and services rendered in connection with distribution of primary market issues and financial products like mutual funds, fixed deposits. Details of associates are available on our website i.e. www.dalal-broacha.com

D&B is registered as Research Analyst with SEBI bearing registration Number INH000001246 as per SEBI (Research Analysts) Regulations, 2014.

D&B hereby declares that it has not defaulted with any stock exchange nor its activities were suspended by any stock exchange with whom it is registered in any time in the past. It has not been debarred from doing business by any Stock Exchange / SEBI or any other authorities; nor has its certificate of registration been cancelled by SEBI at any point of time.

SEBI and Stock Exchanges have conducted the routine inspection and based on their observations have issued advice letters or levied minor penalty on D&B for certain operational deviations in routine course of business.

D&B offers research services to clients as well as prospects. The analyst for this report certifies that all of the views expressed in this report accurately reflect his or her personal views about the subject company or companies and its or their securities, and no part of his or her compensation was, is or will be, directly or indirectly related to specific recommendations or views expressed in this report.

Other disclosures by D&B (Research Entity) and its Research Analyst under SEBI (Research Analyst) Regulations, 2014 with reference to the subject company(s) covered in this report:-

D&B or its associates may have financial interest in the subject company.

D&B or its associates do not have any material conflict of interest in the subject company.

The Research Analyst or Research Entity (D&B) has not been engaged in market making activity for the subject company.

D&B or its associates may have actual/beneficial ownership of 1% or more securities of the subject company at the end of the month immediately preceding the date of publication of Research Report.

Disclosures in respect of Research Analyst:

Whether Research Analyst or his/her relatives have actual/beneficial ownership of 1% or more securities of the subject company at the end of the month immediately preceding the date of publication of Research Report:	No
Whether the Research Analyst or his/her relative's financial interest in the subject company.	No
Whether the research Analyst has served as officer, director or employee of the subject company	No
Whether the Research Analyst has received any compensation from the subject company in the past twelve months	No
Whether the Research Analyst has managed or co-managed public offering of securities for the subject company in the past twelve months	No
Whether the Research Analyst has received any compensation for investment banking or merchant banking or brokerage services from the subject company in the past twelve months	No
Whether the Research Analyst has received any compensation for products or services other than investment banking or merchant banking or brokerage services from the subject company in the past twelve months	No
Whether the Research Analyst has received any compensation or other benefits from the subject company or third party in connection with the research report	No

D&B and/or its affiliates may seek investment banking or other business from the company or companies that are the subject of this material. Our salespeople, traders, and other professionals may provide oral or written market commentary or trading strategies to our clients that reflect opinions that are contrary to the opinions expressed herein, and our proprietary trading and investing businesses may make investment decisions that may be inconsistent with the recommendations expressed herein.

In reviewing these materials, you should be aware that any or all of the foregoing, among other things, may give rise to real or potential conflicts of interest including but not limited to those stated herein. Additionally, other important information regarding our relationships with the company or companies that are the subject of this material is provided herein. This report is not directed to, or intended for distribution to or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction where such distribution, publication, availability or use would be contrary to law or regulation or which would subject D&B or its group companies to any registration or licensing requirement within such jurisdiction. Specifically, this document does not constitute an offer to or solicitation to any U.S. person for the purchase or sale of any financial instrument or as an official confirmation of any transaction to any U.S. person. Unless otherwise stated, this message should not be construed as official confirmation of any transaction. No part of this document may be distributed in Canada or used by private customers in United Kingdom. All material presented in this report, unless specifically indicated otherwise, is under copyright to D&B. None of the material, nor its content, nor any copy of it, may be altered in any way, transmitted to, copied or distributed to any other party, without the prior express written permission of D&B. All trademarks, service marks and logos used in this report are trademarks or registered trademarks of D&B or its Group Companies. The information contained herein is not intended for publication or distribution or circulation in any manner whatsoever and any unauthorized reading, dissemination, distribution or copying of this communication is prohibited unless otherwise expressly authorized. Please ensure that you have read "Risk Disclosure Document for Capital Market and Derivatives Segments" as prescribed by Securities and Exchange Board of India before investing in Indian Securities Market. In so far as this report includes current or historic information, it is believed to be reliable, although its accuracy and completeness cannot be guaranteed.

Address: - 508, Maker Chambers V, 221 Nariman Point, Mumbai 400 021.
Tel: 91-22- 2282 2992, 2287 6173 | E-mail: equity.research@dalal-broacha.com