



HIDDEN GEMS

UNEXPLORED MULTIBAGGER SMALL CAP STOCKS

EQUITY RESEARCH REPORT

SHREYANS INDUSTRIES LTD.	BSE CODE: 516016 NSE CODE: SHREYANIND
Industry: Paper	CMP: Rs. 160.65 (30/09/2017)
Market Cap: 222.02 (INR in Crore)	Target Price: Rs. 320
Date: September 30, 2017	Time Period: 12 – 24 months



Saral Gyan Capital Services

An Independent Equity Research Firm

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1. Company Background



Shreyans Industries Ltd.

The company was incorporated in 1979 as Shreyans Paper Mills Ltd, the name was subsequently changed to Shreyans Industries Ltd. The company has been promoted by well known Oswal family of Ludhiana.

The operations of the company at its paper division at Ahmedgarh were expanded and modernised at regular intervals. In 1990-91, encouraged by its success in paper operations, the company set up a cotton spinning unit with an installed capacity of 25,000 spindles. The year 1994-95 saw this division achieve the status of an Export House.

In Feb 1994, it took over the paper division of Zenith, a BIFR division of the Birla Group Company. The unit has since contributed substantially to the turnover of the company. The company implemented a project of setting up a chemical recovery plant with power generation at Shreyans Paper Mills, Ahmedgarh, at a cost of Rs 14.50 crore, which were commissioned in 1995-96.

The expansion scheme for Rishabh Papers unit which was undertaken was completed successfully during 2000-2001. The modernisation scheme for Chemical Recovery Plant and Co-generation Plant were also commissioned during the year. The company entered into contract with overseas buyers for supply and commissioning of Continuous Digesters. Later, to make its product more superior the company undertook Extraction cum Oxygen Bleaching project for its Ahmedgarh unit.

Presently, the company has two paper manufacturing units located at Ahmedgarh (Distt. Sangrur) & at Banah (Distt. Nawanshaher) in the state of Punjab. Over the years number of modernization-cum-expansion schemes were undertaken. After certain modifications in both the paper divisions, the combined present capacity for manufacturing of writing and printing papers stands at 94,000 MTs per annum.

Based on usage of raw material, paper mills are divided into three categories namely, wood-based, agro-based and waste paper based (recycled fiber). The company uses agro waste raw materials, viz. wheat straw, sarkanda as the primary raw materials.

The company is keeping a close eye on the new product development in paper and upgradation of technology in existing products. Upgradation and automation in various areas of plant and machinery is continuously carried out. In FY16-17, the company has installed online quality controller sequence at unit Shree Rishabh Papers at Banah and also installed new oxygen delignification plant in paper machine at unit Shreyans Papers at Ahmedgarh, which will lead to improvement in paper quality and also improve productivity and process control.

Product Range

The company is operating with a wide product mix with well accepted quality in the market based on non-conventional raw materials. Major consumers of the company's products includes Major Publishers, Copy Manufacturers, Job Printers, Various states Text Book Boards, Exporters of Notebooks & Diaries, Printing & Stationary Dept., Railways, P&T Dept., Security Press etc.

Paper Products in the range of 44 GSM to 200 GSM

- | | |
|--------------------------------|--------------------------|
| ▪ High Brightness Paper | ▪ Inland Letter Paper |
| ▪ Cream Wove | ▪ Postal Envelope Paper |
| ▪ Coloured Paper | ▪ Offset Paper |
| ▪ Duplicating Paper | ▪ Cover Paper |
| ▪ Surface Sized Printing Paper | ▪ Super Calendered Paper |
| ▪ Azure Laid Paper | ▪ Rail Ticket Paper |
| ▪ Maplitho Paper | ▪ Super Printing Paper |
| ▪ Stamp Paper | |

Indian Paper Industry Growth Outlook

India holds 15th rank among paper producing countries in the world. The total installed capacity is approximately 13 million tonnes. The per capita consumption of paper is around 13 kgs against the global average of 57 kgs and the Asian average of 40 kgs. India's share in world paper production is about 2.6%. The industry is fragmented with over 750 paper mills, of which only 50 mills have a capacity of 50,000 TPA or more. About 70% of the total installed capacity of paper production in India is accounted by Gujarat, West Bengal, Orissa, Andhra Pradesh, Karnataka and Maharashtra. Uttar Pradesh, Tamil Nadu, Haryana, Kerala, Bihar and Assam together account for about 25% of the total paper production in India.

The current demand is estimated at 13.1 million tonne with domestic production of 11.4 million tonne, export of 0.5 million tonne and import of 2.2 million tonne. The demand is projected to increase to 23.5 million tonne by 2024-25. As per report published by CARE Ratings, Indian paper industry will witness a CAGR of 7% over the next five years to about 20 million tonnes.

India is the fastest growing market for paper in the world with a growth rate of about 6 percent annually. Increase of per capita paper consumption by one kg will increase the demand by about 1.25 million tonne per annum. The sector, which faced challenge from rising input (wood) costs, is now better placed due to a renewed thrust on agro-forestry and softening of pulp costs.

Manufacturing of paper is water and energy intensive, but over the years the paper industry has taken significant leaps in technological upgrade, process optimisation and introduction of better practices to minimise the usage of energy and water. The paper industry has managed to bring down its energy consumption by about 20% in the last five years. Integrated paper mills in India generate 60% of the power they use by utilising the black liquor from the pulping process. On the water front, a few years ago, we used to consume 200 cubic metres of water to produce a tonne of paper. Now, the integrated mills have reduced that to 50 cubic metres. Efforts are on to bring it further down to 40 cubic metres.

The major cost heads for paper industry players are raw material (constituting ~50% of net sales) and power and fuel cost (constituting ~ 16% of net sales). The operating margins of the paper companies were in the range of 14 % during FY09 to FY11 due to lower costs and better price realizations backed by good demand growth. However, during FY12 to FY14, the operating margin trend showed a declining trend with increase in raw material prices and power and fuel cost largely during FY13. Also, with capacity expansion during FY09 to FY11, players could not increase the prices and faced import threat. Due to this the operating margin declined to ~11% during FY12 to FY14. The fall in margin was arrested in FY15 and FY16 witnessed improvement in margins due to declining raw material costs and power & fuel cost.

Pulp is the primary raw material used for manufacturing of paper, and is obtained through processing of fibers separated from wood, wastepaper, agriculture residues etc. Indian paper industry is facing issue of pulpwood deficit in domestic market. To compensate for this deficit, Indian paper companies import pulp. This deficit can be mainly attributed to deforestation, increase in wood demand from other industries like construction industry, plywood & MDF board industry, bio-energy plants etc. To counter the issue of wood deficit, Indian paper companies gave thrust to initiatives like agro forestry which have now started yielding results.

In the last five years, the Indian paper sector has invested about Rs 25,000 crore on capacity enhancement, technology upgrade and acquisitions. The sector is unlikely to witness any significant capacity additions as existing capacities have not been fully absorbed yet. Now with the commencement of several state-of-the-art pulp and paper machines will result in lower operating costs and improved quality.

2. Recent Developments

i) Indian Paper Industry is expected to grow at 7% over next 5 Years

As per CARE Ratings, Indian Paper Industry will witness CAGR of 7% over the next 5 years with domestic consumption of paper reaching to 20 million tonnes. The growth will be largely driven by printing & writing and packaging & paper board segment.

Printing and writing segment caters to office stationery, textbooks, copier papers, notebooks etc. This segment forms ~31% of domestic paper industry. Governments thrust on education through steps like Right to Education, Sarva Shiksha Abhiyan, rise in service sector are key factors contributing to the growth of this segment.

Packaging paper & board segment caters to tertiary and flexible packaging purposes in industries such as FMCG, food, pharma, textiles etc. This segment forms ~47% of the domestic paper industry. This is currently fastest growing segment owing to factors such as rising urbanization, increasing penetration of organized retail, higher growth in FMCG, pharmaceutical.

ii) Agro based paper manufacturing is more sustainable and cost competitive

According to industry experts, using agricultural residues instead of wood fibre is more sustainable for paper manufacturing. Agricultural-based paper is a guaranteed way to reduce the stress of paper production on endangered forests. Some agricultural residue pulps take less time to cook than wood pulps. That means agricultural-based paper uses less energy, less water and fewer chemicals.

Pulp made from wheat and flax straw has half the ecological footprint of pulp made from forests. Non-wood fibre sources account for about 5–10 percent of global pulp production, for a variety of reasons including seasonal availability, problems with chemical recovery, brightness of the pulp etc. Still it is believed that agro-based paper manufacturing is extremely cost-competitive and highly environmental-friendly than wood pulp, resulting in lower cost of production and is the sustainable competitive advantage for companies.

Shreyans Industries uses agro based input material in form of wheat straw, sarkanda as primary raw material. The company does not rely on wood based fiber for its raw material requirements.

3. Financial Performance

Shreyans Industries standalone net profit rises 78.64% in the June 2017 quarter

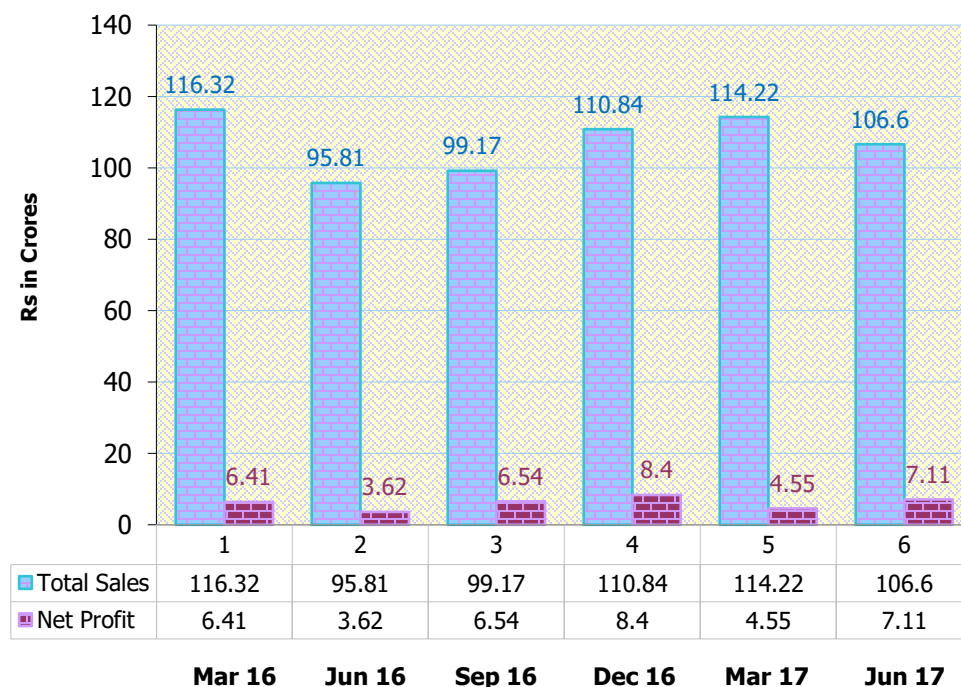
Net profit of Shreyans Industries rose 78.64% to Rs 7.11 crore in the quarter ended June 2017 as against Rs 3.98 crore during the previous quarter ended June 2016. Sales rose 11.26% to Rs 106.60 crore in the quarter ended June 2017 as against Rs 95.81 crore during the previous quarter ended June 2016.

Shreyans Industries standalone net profit declines 29.02% in the March 2017 quarter

Net profit of Shreyans Industries declined 29.02% to Rs 4.55 crore in the quarter ended March 2017 as against Rs 6.41 crore during the previous quarter ended March 2016. Sales declined 1.81% to Rs 114.22 crore in the quarter ended March 2017 as against Rs 116.32 crore during the previous quarter ended March 2016.

For the full year, net profit rose 166.55% to Rs 23.11 crore in the year ended March 2017 as against Rs 8.67 crore during the previous year ended March 2016. Sales rose 7.84% to Rs 420.03 crore in the year ended March 2017 as against Rs 389.49 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	99.17	110.84	114.22	106.6	110.36	124.59
Other Operating Income	0.27	0.23	1.25	--	0.32	0.26
Total Income – Operations	99.44	111.06	115.47	106.6	110.68	124.85
Raw Materials Consumed	49.74	57.64	52.85	53.01	53.63	61.79
Purchase of Traded Goods	--	--	--	--	--	--
Increase/Decrease in Stocks	0.04	-0.16	3.99	-0.81	0.06	-0.14
Power & Fuel	16.39	17.12	--	--	17.11	19.25
Employees Cost	11.05	11.61	12.44	12.03	12.21	12.57
Depreciation	2.01	1.93	2.01	2.07	2.11	2.15
Provisions And Contingencies	--	--	--	--	--	--
Other Expenses	8.06	8.83	26.97	29.85	8.64	11.43
P/L Before Other Income	12.14	14.1	17.2	10.45	16.92	17.8
Other Income	0	0.1	--	1.15	0.2	0.15
P/L Before Int., E. Items & Tax	12.15	14.2	17.2	11.6	16.94	17.95
Interest	1.45	1.36	1.52	1.36	1.39	1.35
P/L Before E. Items & Tax	10.69	12.84	15.69	10.24	15.55	16.6
Exceptional Items	--	--	-9.12	--	--	--
P/L Before Tax	10.69	12.84	6.57	10.24	15.55	16.6
Tax	4.15	4.44	2.02	3.13	4.81	5.11
P/L After Tax – Ord. Activities	6.54	8.4	4.55	7.11	10.74	11.49
Prior Year Adjustments	--	--	--	--	--	--
Extra Ordinary Items	--	--	--	--	--	--
Net Profit/(Loss)	6.54	8.4	4.55	7.11	10.74	11.49
Equity Share Capital	13.83	13.83	13.83	13.83	13.83	13.83
Reserves	--	--	--	--	--	--
Calculated EPS	4.73	6.08	3.29	5.15	7.77	8.31
Calculated EPS (Annualised)	18.92	24.32	13.16	20.6	31.09	33.26
Public Shares Holding	7291663	7291663	7291663	7291663	NA	NA
Public Share Holding (%)	52.74	52.74	52.74	52.74	NA	NA

The company has posted robust revenue as well as profit growth in FY16-17 supported by shortage in supply and increase in paper prices.

We believe reasonable working capital cycle, minimal capex requirement over next 1 to 2 years and repayment of loans are key positives which will aid to net earnings growth

4. Peer Group Comparison

PEER GROUP	SHREYANS INDUSTRIES	STAR PAPER MILLS	RUCHIRA PAPERS	SESHASAYEE PAPER
CMP	160.65	172.95	156.30	735.20
52 W L/H	60.65/207.45	55.15/226.50	70.40/182.00	375.00/870.00
Market Cap	222.02	269.97	350.42	927.09
Results (in Crores)	Jun-17	Jun-17	Jun-17	Jun-17
Net Sales	106.60	88.93	118.70	238.64
PAT	7.11	13.52	11.81	21.75
Equity	13.83	15.61	22.42	12.61
EPS (TTM)	19.24	38.89	16.33	100.27
P/E	8.3	4.5	9.6	7.3

Shreyans Industries is a smaller player with market capital of 222 crores. Improved productivity in its plants and recent increase in paper prices resulted in strong bottom line growth. We find Shreyans Industries valuations attractive compared to other listed players in the Industry.

5. Key Concerns / Risks

- A good monsoon helps agriculture & produces more wheat straw which is a primary raw material for the company. In case agriculture is adversely affected due to poor monsoon, there is a risk of input cost escalation.
- Water is a basic requirement for paper manufacturing, any restriction in usage of water can adversely impact the production of the company.
- With lot of thrust on e-learning and e-governance under Digital India initiative by the Government, it may negatively impact demand for printing paper.

6. Saral Gyan Recommendation

- ✚ An investment of over Rs 25,000 crore in the last five years in capacity creation and technology upgrade has supported the drive to produce paper which matches world-class standards to meet the growing needs. While the paper industry has been witnessing declining demand in the developed markets in view of the increased use of information technology, Indian paper industry is well poised for growth. Expanding middle class, rise in disposable incomes and exposure to international trends are leading to lifestyle changes, which in turn are providing a fillip to consumption of paper in India.
- ✚ Despite the continued focus on digitisation, India's demand for paper is expected to rise 53 percent in the next six years, primarily due to a sustained increase in the number of school-going children in rural areas. Growing consumerism, modern retailing, rising literacy (continued government spending on education through the Sarva Shiksha Abhiyan) and the increasing use of documentation will keep demand for writing and printing paper buoyant.
- ✚ The exponential growth of e-commerce in the country has opened up a new horizon and could contribute significantly to the demand where paper is being extensively used for packaging. Though India's per capita consumption is quite low compared to global peers, things are looking up and demand is set to rise from the current 13 MT to an estimated 20 MT by 2020. This indicates there is a lot of headroom for growth in India. This will have a positive impact for paper industry as a whole, hence expected to augur well for the company.
- ✚ One of the company's plant i.e. Shree Rishabh Papers unit has witnessed lower productivity due to breakdowns in the past. Now the company is revamping it by upgrading the technology for paper machinery & other supporting equipment. We believe the impact of the same can be seen during this financial year with significant increase in revenues going forward. The company has installed online quality control system to focus on paper quality. In 2016, company installed imported calendar rolls & spoiler bars for better operating efficiency of the plant.
- ✚ The company has registered sales CAGR of 8.8% and profit CAGR of 65.4% with ROE of 15.1% over last 5 years. The company has reduced its debt significantly over last 12 months.

Key Financial Parameters	Mar 2013	Mar 2014	Mar 2015	Mar 2016	Mar 2017
Return on Equity (%)	11.0	16.7	8.0	9.7	25.9
ROCE (%)	11.0	14.5	8.9	9.3	20.6
Operating Profit Margin (%)	8.2	9.3	7.6	6.2	10.4
Net Profit Margin (%)	2.3	3.1	2.7	2.2	5.5
Debt to Equity (%)	0.5	0.6	0.5	0.6	0.3
Working Capital Days	77	75	90	87	85

- ✚ In India per capita consumption of paper is 13 kgs as compared to world average of 57 kgs and Asian average of 40 kgs which indicates huge scope for increasing per capita consumption in India. As per report published by CARE Ratings, paper industry in India will witness CAGR of 7% over next 5 years with growing economy & improving literacy rates. Shreyans Industries will be one of the direct beneficiary with rise in consumption of paper in coming years.
- ✚ Shreyans Industries uses agro based input in form of wheat straw, sarkanda as primary raw material. Agro based paper manufacturing requires less energy, less water, fewer chemicals and is highly environmental-friendly compared to companies using wood pulp, resulting in lower cost of production. We believe agro based paper manufacturing coupled with environmental-friendly production process are key sustainable competitive advantage for Shreyans Industries. Also, good monsoon during the year will ensure healthy supply of raw material at lower costs which will lead to healthy operating margins.
- ✚ Globally there has been increase in paper demand due to shutdown of multiple factories at China on environment issue. In India also, one of the leading player Ballarpur Industries has shut down its three plants due to financial crisis which lead to substantial spike in demand. Moreover, paper mills located in southern states - Tamil Nadu, Kerala and Karnataka had to shut down their operations during this year due to water shortage. Any such situation arising again will become favourable for Shreyans Industries with geographical advantage.
- ✚ As of Jun'17, promoter's shareholding in the company is at 47.26%. Promoter's shareholding is same without any change since Dec 2015. Promoters have not pledged any shares, Institution shareholding in the company is negligible at 0.05%.
- ✚ The company is paying regular dividend since 2013. For FY 2016-17, the company has paid dividend of Rs. 1.50 per share. At current market price, the dividend yield is at 0.93%.

YEAR	Mar'13	Mar'14	Mar'15	Mar'16	Mar'17
EPS	5.63	9.14	7.09	6.27	16.71
Dividend / Share (In Rs)	1.00	1.20	1.20	1.20	1.50

- ✚ As per our estimates, Shreyans Industries can deliver PAT of 34.15 crores in FY17-18 and Rs. 38.45 crores in FY18-19 with annualized EPS of Rs 24.7 and Rs. 27.8 respectively. At current price of 160.65, stock is available at forward P/E multiple of 5.8X based on FY18-19 earnings. Company's valuation looks attractive considering expected increase in revenues with sustainable margins over next 1 to 2 years.
- ✚ On equity of Rs. 13.83 crore, the estimated annualized EPS for FY18-19 works out to Rs. 27.8 and the Book Value per share is Rs. 93.19. At current market price of Rs. 160.65, stock price to book value is 1.7.

The paper industry in India has become more promising as the domestic demand is on the rise. Increasing population and literacy rate, growth in GDP, improvement in manufacturing sector, rise in ecommerce and lifestyle of individuals are expected to account for the growth in the paper industry of India. The focus of paper industry is now shifting towards more ecofriendly products and technology. Considering company's agro based paper manufacturing with lower cost of production, recent upgradation of its machinery to improve production as well as quality of paper and its geographical advantage, Saral Gyan team recommends **"Buy"** on **Shreyans Industries Ltd** at current market price of Rs. 160.45 for target of Rs. 320 over a period of 12 to 24 months.

Buying Strategy:

- 60% at current market price of 160.65
- 40% at price range of 120 - 130 (in case of correction in stock price in near term)

Portfolio Allocation: 3% of your equity portfolio.

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