

29<sup>th</sup> December 2023

## Stylam Industries – BUY

**CMP** : Rs. 1,719.0  
**Target Price** : Rs. 2,070.0  
**Upside** : 20%+  
**Stop Loss** : Rs. 1,485.0 (Closing basis)

### Investment Thesis

- Stylam Industries Ltd. (Stylam) is a leading manufacturer of decorative laminates and manufactures a wide range of high-quality decorative laminates, specialty surfaces, PU+ lacquer coating, solid surfaces and compact laminates.
- India's exports of laminate are increasing significantly due to its advantage of low labour costs and the China+1 strategy. The value of India's laminate exports increased by 17% CAGR over the last three years, reaching Rs.3,000Cr in FY23. Stylam's export revenue has grown faster than industry growth. It increased by 28% CAGRs over the previous 3 years, reaching Rs.638Cr in FY23. Its market share in Indian exports rose gradually to ~20% in FY23. Stylam generates 2/3rd of its revenue from exports. It is currently exporting to more than 80 countries in Europe, North America, Russia, the Middle East and Africa. It plans to expand coverage across newer export regions, along with increasing business with existing partners. Its exports are well distributed with no one country accounting for more than 10% of its revenue mix. The top 10 countries account for ~60% of its exports. Recently, its status has been upgraded to 3-Star Export House from the earlier 2-Star Export House as per the Foreign Trade Policy provisions.
- Stylam is leading the industry in terms of domestic revenue growth too, its domestic revenue has grown by 27% CAGR during the last 3 years to Rs.314Cr in FY23. Currently, its domestic market contribution stands at 32.9% in FY23 and it plans to take this to 40%. It aims to strengthen its presence in domestic markets through deeper reach and penetration by improving its distribution network. It wants to improve its brand positioning in the market to narrow its pricing gap with industry leaders. It has highest presence in southern market followed by the north and then the west and the east. However, export is a more profitable market than domestic but the government project profitability is on par with other projects. Stylam has undertaken multiple government projects like, Central Vista (Bathroom), Delhi Metro stations (exterior grade), Tamil Nadu (Railway Stations - exterior grade), Telangana (Government schools use Stylam laminates), etc.
- Stylam is amongst pioneer company in India to manufacture acrylic solid surface using a fully automated German technology plant. India is the largest importer of acrylic solid surfaces in the world and import from majority from South Korea, China, and Hong Kong. Currently, its acrylic solid surface sell is only 2% of its revenue. Stylam plans to sell this in both domestic and export markets and set a target to generates 10-15% in the next 2-3 years.

### Financials

- Stylam Industries' revenue & PAT grew by CAGR of 23.0% and 36.8%, respectively during FY18-23 led by strong demand and its focus on export market.

Standal. (Rs.Mn)	FY21	FY22	FY23	FY24E	FY25E
Revenue	4,795	6,594	9,521	11,235	13,033
EBITDA	990	1,036	1,548	1,811	2,119
EBITDA Margin (%)	20.7%	15.7%	16.3%	16.1%	16.3%
PAT	553	610	960	1,094	1,252
EPS (Rs.)	32.6	36.0	56.6	64.6	73.9
P/E (x)	52.6	47.7	30.3	26.6	23.2
RoE (%)	21.3%	19.3%	23.3%	24.2%	25.2%

### Stock Data

Market Cap (Rs. Mn)	29,125
Market Cap (\$ Mn)	384.8
Shares O/S (in Mn)	16.9
Avg. Volume (3 month)	53,000
52-Week Range (Rs.)	945.00 / 1,970.70

### Shareholding Pattern

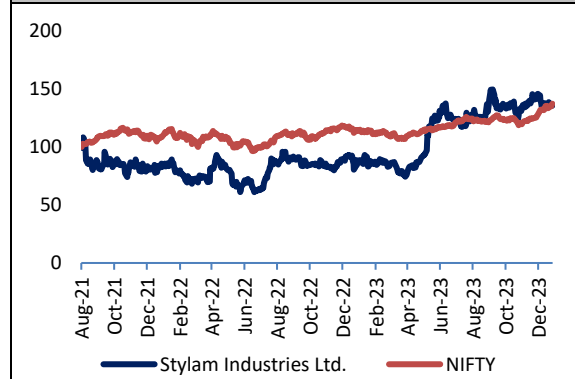
Promoters	54.61%
FII's	3.99%
Institutions	11.61%
Others (incl. body corporate)	29.79%

### Key Ratios

Div Yield	0.0%
TTM PE	26.4x
ROE	24.3%
TTM EPS (Rs.)	65.1/-

### Stock Performance

Performance (%)	1M	6M	1Yr
ABSOLUTE	(4.1%)	10.1%	54.4%
NIFTY IT	(13.6%)	(4.6%)	34.2%



- Stylam Industries has reported 5.0% YoY decline in revenue to Rs.2,339mn in Q2FY24 led by to global turmoil, lower NSR and a cool-off in ocean freight rates.
- Stylam Industries' EBITDA grew by 17.9% YoY on continued cool-off in raw material prices and lower other expenses. As a result of this, EBITDA margin recovers for the sixth consecutive quarter to 19.9% (up 385/145 bps YoY/QuQ), its best in the past nine quarters.

## Key Business Highlights

- Stylam is engaged in manufacturing of decorative laminates under brand name 'STYLAM' and exports its products to European and South East Asian countries. It produces a range of laminates, like decorative laminates, compact laminates, industrial laminates, specialty surfaces, metallic laminates, mirror laminates, magnetic laminates, etc. It also manufactures solid acrylic surfaces and panels. It has developed Asia's largest single-location laminate production factory with a diversified product line that caters to a wide range of customer demands.
- Stylam is the largest laminate producing company in India and it is regarded as a pioneer in India for introducing the PU+ Lacquer Coating process thereby producing high quality, high value-add laminate finishes. Stylam has two manufacturing facilities located in Haryana with an installed capacity of 16 million laminate sheet per year. It can produce 1 million hot coating press annually and over 0.3 million acrylic solid surfaces. It has also expanded into a new market and built a short-cycle press capacity for laminating impregnated paper on Medium Density Fibre (MDF) panels.

## Valuation

Stylam is amongst tier-2 brand (tier-1 are Royale Touche laminates, CenturyPly Laminates, Greenlam and Merino) and its laminates sells at 10-15% discount in domestic market mainly due to lower ad expenditure. However, Stylam is increasing the share of the value-added products as these are high-margin products. In FY20, it installed India's first hot coating process machine to manufacture high-quality, high value-added finish laminates. It imported its machine from Germany to apply high gloss and anti-fingerprint finish on laminates and exterior cladding. It is a high-realization and high-margin product and currently contributing ~6% of revenue. In upcoming years too, management sees rapid growth in this product's sales.

Stylam was working at over 80% capacity utilization. So, it is expanding its laminate capacity, which has the potential to boost segmental revenue by up to 40% with a capex of Rs.40Cr, out of which Rs.20Cr is spend in FY23 and remaining will be done in FY24. Stylam is also doing a brownfield laminate expansion project with a capex of Rs.150Cr, expected to be commissioned by the end of FY25. Stylam expects this plant to generate peak additional revenue of Rs.400-500Cr within three years of its commissioning. This plant will mainly manufacture large-sized laminates for high margin export markets, which will boost overall margin. Acrylic plant is working at very low utilization (less than 15%). So this will not require any capex for at least next few years. Once, debottlenecking and brownfield laminate expansion is done and operate at optimum level, we believe Stylam's laminates' revenue potential will be Rs.1,800Cr. Additionally, acrylic business has revenue potential of Rs.400-500Cr if its plant run at full capacity.

With a leading manufacturer of decorative laminates and manufactures a wide range of high-quality decorative laminates, laminate export increasing due to low labour costs and the China+1 strategy and expanding its laminate capacity, we are assigning BUY rating to Stylam Industries Ltd. (Stylam Industries) and value at 28.0x FY25E EPS of Rs.73.90 to arrive at target price of Rs.2,070.00, an upside of ~20.0%+.

## Risk & Concern

- Stylam Industries has capacity expansion plan, any delays in capacity expansion may have adverse impact on future growth of the Company.
- Stylam Industries generates ~60% of its revenue from exports, any negative movement of major currency against rupee may affect margins.

## Graphs & Charts

Figure 1: Net Sales Trend

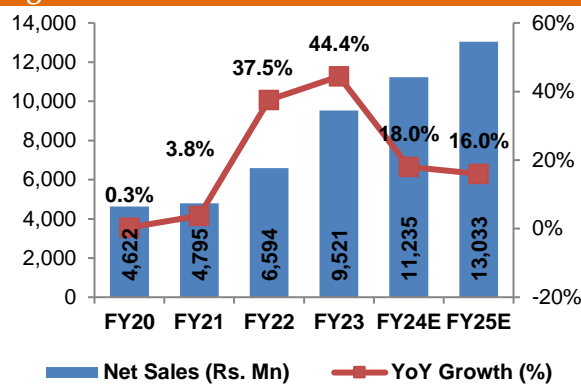


Figure 2: EBITDA & EBITDA Margin Trend

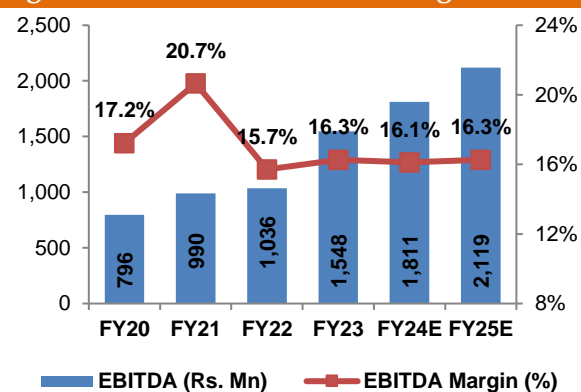


Figure 3: PAT Trend

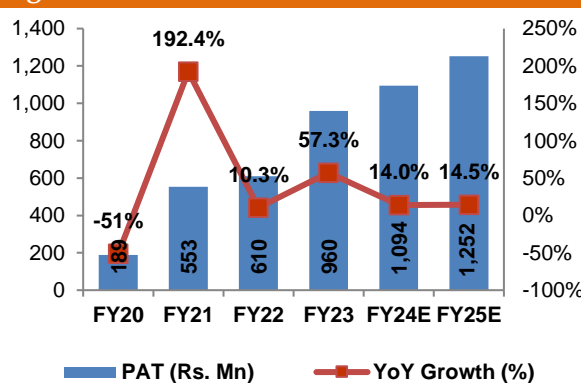
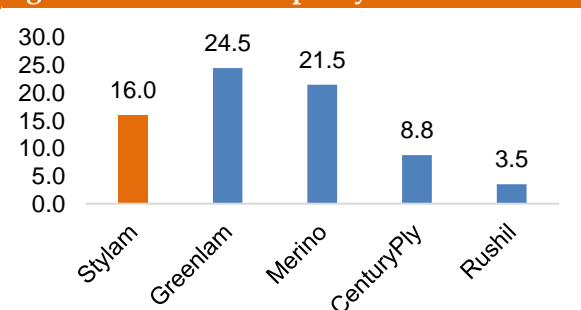


Figure 4: Laminates Capacity (Mn Sheet)



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