

31st July 2024

Stylam Industries – BUY

CMP : Rs.1,938.0
Target Price : Rs.2,334.0
Upside : 20%+
Stop Loss : Rs.1,680.0 (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, solidsurfaces and compact laminates. It is also one of the fastest growing companies in the high-quality decorative laminates and allied products industry. Stylam is pioneer in India for introducing the PU+ Lacquer Coating process thereby producing high quality, high value-add laminate finishes. Apart from laminates, it also has technologies and manufacturing facilities for Solid Acrylic Surfaces and Panels. Recently, it has diversified into a new segment for lamination of impregnated paper on Medium Density Fiber (MDF) panels.
- 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 18% CAGR over the last three years, reaching Rs.3,200Cr in FY24. Stylam's export revenue has grown faster than industry growth. It increased by 22.5% CAGRs over the previous 3 years, reaching Rs.611Cr in FY24. Its market share in Indian exports rose gradually to ~19% in FY24. Stylam export its products to 80+ countries in Europe, North America, Russia, the Middle East and Africa and generates 2/3rd of its revenue from exports. 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.
- 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.303Cr in FY24. Currently, its domestic market contribution stands at 33.2% in FY24 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 profitability of the government project is at par with other projects.

Financials

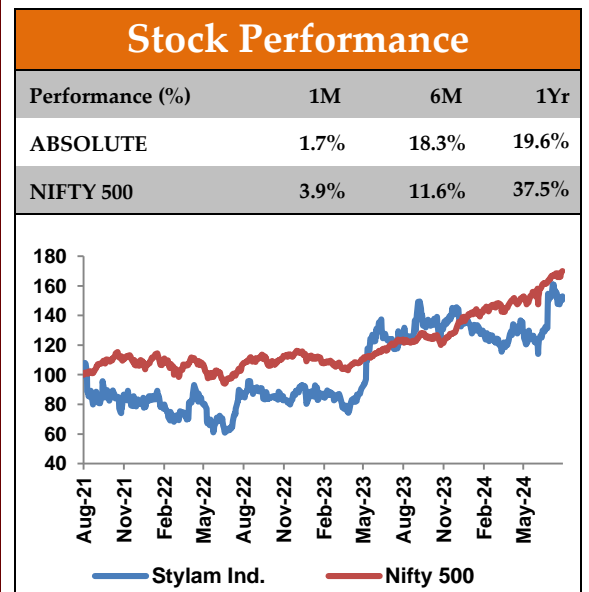
- Stylam's revenue & PAT grew by CAGR of 14.7% and 27.0%, respectively during FY19-24 led by strong demand and its focus on export market.

| Consol. (Rs.Mn) | FY22 | FY23 | FY24 | FY25E | FY26E |
|-------------------|-------|-------|-------|--------|--------|
| Revenue | 6,594 | 9,521 | 9,141 | 10,512 | 12,404 |
| EBITDA | 1,037 | 1,548 | 1,845 | 2,177 | 2,569 |
| EBITDA Margin (%) | 15.7% | 16.3% | 20.2% | 20.7% | 20.7% |
| PAT | 609 | 960 | 1,284 | 1,518 | 1,798 |
| EPS (Rs.) | 35.9 | 56.7 | 75.8 | 89.6 | 106.1 |
| P/E (x) | 54.0 | 34.3 | 25.6 | 21.7 | 18.3 |
| RoE (%) | 19.3% | 23.3% | 23.9% | 25.8% | 27.8% |

| Stock Data | |
|-----------------------|---------------------|
| Market Cap (Rs. Mn) | 32,870 |
| Market Cap (\$ Mn) | 393.18 |
| Shares O/S (in Mn) | 16.90 |
| Avg. Volume (3 month) | 5,18,060 |
| 52-Week Range (Rs.) | 2,090.00 / 1,414.00 |

| Shareholding Pattern | |
|-------------------------------|--------|
| Promoters | 54.61% |
| FII's | 3.84% |
| Institutions | 11.25% |
| Others (incl. body corporate) | 30.30% |

| Key Ratios | |
|---------------|--------|
| Div Yield | 0.1% |
| TTM PE | 25.6x |
| ROE | 23.9% |
| TTM EPS (Rs.) | 75.8/- |



- Stylam has reported 1.3% YoY growth in revenue to Rs.2,399mn in Q4FY24 led by to export sales which grew by 11.0% YoY but pulled by domestic sales which declined by 15.1% YoY in Q4FY24.
- Stylam sold 3.04 million laminate sheets during Q4FY24, a 11.0% YoY growth from 2.73 million in Q4FY23.
- Stylam's EBITDA grew by 17.6% YoY led by continued cool-off in raw material prices and lower other expenses. As a result of this, EBITDA margin grew by 276bps YoY to 19.9% in Q4FY24.

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 operates one of the largest single location laminate manufacturing plants in Asia located in Haryana with an installed capacity of 16 million laminate sheet per year.
- Stylam has India's first hot coating process machine for manufacturing high pressure laminates for making high-quality, high-gloss and anti-fingerprint laminates in a wide range. 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 setting up a new plant for the manufacturing of laminate sheet adjoining to its existing plant in Manak Tabra, Haryana with a capex of Rs.200-225Cr to be commissioned by Q3FY25. The new plant is expected to add an annual capacity of 4.8 million laminate sheets. Post capacity addition, total installed capacity will increase to 20.8 million laminate sheet per year, which will 30% higher from current capacity.

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.

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, Being largest supplier of cryogenic equipment in India, exports its products we are assigning **BUY** rating to Stylam Industries Ltd. (Stylam) and value at 22.0x FY26E EPS of Rs.106.10 to arrive at target price of Rs.2,334.00, an upside of ~20.0%+.

Risk & Concern

- Stylam has capacity expansion plan, any delays in capacity expansion may have adverse impact on future growth of the Company.
- Stylam generates ~66% of its revenue from exports, any negative movement of major currency against rupee may affect margins.

Graphs & Charts

Figure 1: Net Sales Trend

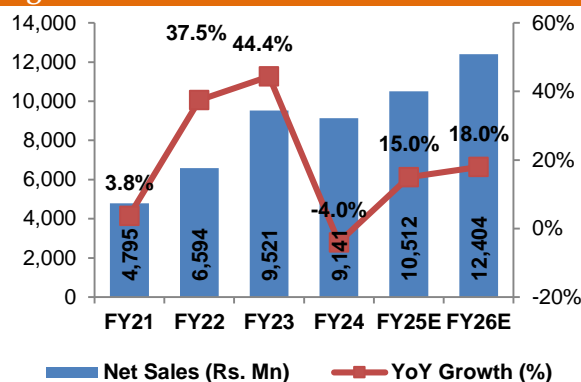


Figure 2: EBITDA & EBITDA Margin Trend

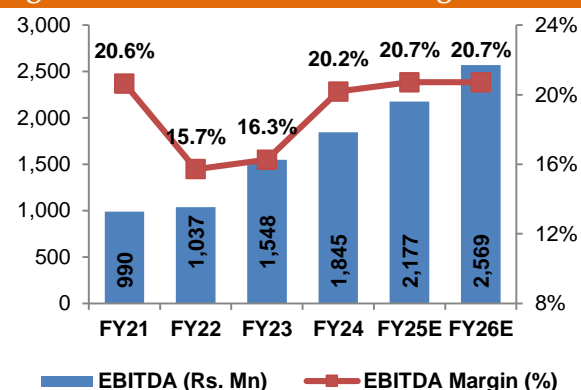


Figure 3: PAT Trend

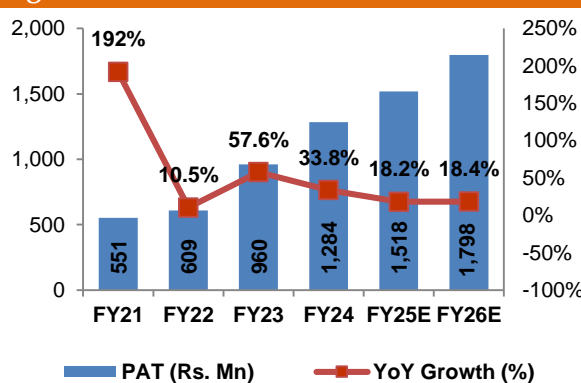
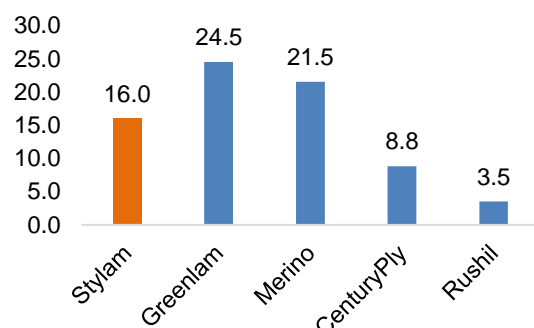


Figure 4: Laminates Capacity (Mn Sheet P.A.)



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