# TRANSFORMING

VISAKA INDUSTRIES LIMITED

Annual Report, 2017-18

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# WELCOME TO OUR
# 2018 ANNUAL REPORT

The corporate identity, financial performance, senior management review, operational review, statutory reports and financial statements and notes sections are based on in-depth assessments of our performance across key areas and form part of the Strategic Report.

### Corporate identity

This section will communicate the ten most important things that readers need to know about Visaka Industries Limited as well as the Company's corporate journey over the years.

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### Financial performance

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**Forward-looking statement**

In this Annual Report, we have disclosed forward-looking information to enable investors to comprehend our prospects and take informed investment decisions. This report and other statements - written and oral - that we periodically make, contain forward-looking statements that set out anticipated results based on the management's plans and assumptions. We have tried wherever possible to identify such statements by using words such as 'anticipates', 'estimates', 'expects', 'projects', 'intends', 'plans', 'believes' and words of similar substance in connection with any discussion of future performance. We cannot guarantee that these forward-looking statements will be realised, although we believe we have been prudent in our assumptions. The achievement of results is subject to risks, uncertainties and even inaccurate assumptions. Should known or unknown risks or uncertainties materialise, or should underlying assumptions prove inaccurate, actual results could vary materially from those anticipated, estimated or projected. Readers should bear this in mind. We undertake no obligation to publicly update any forward-looking statements, whether as a result of new information, future events or otherwise.

## TRANSFORMING...

## THE YEAR 2017-18 WAS CHALLENGING FOR MOST INDIAN COMPANIES; IT WAS ONE OF THE BEST YEARS AT VISAKA INDUSTRIES.

## THE COMPANY REPORTED PROFITABLE GROWTH IN A SLUGGISH ECONOMY DUE TO PROACTIVE TRANSFORMATIONAL INITIATIVES.

Revenues grew 5% profit after tax strengthened 56%.

Credit rating improved from CARE A+ to CARE AA-.

EPS increased to ₹42 from ₹27

We pushed long-standing products; we launched new ones.

## AT VISAKA, OUR AGENDA CAN BE ENCAPSULATED IN ONE WORD.

## TRANSFORMING.

# 10 THINGS YOU NEED TO KNOW ABOUT VISAKA INDUSTRIES LIMITED

## 1 OUR PROMOTERS

Visaka Industries Limited was established in 1981 by Mr. G. Vivekanand, a first-generation entrepreneur. Over the years, the Company has emerged as a sustainable business enterprise on account of proactive future-facing investments translating into leadership position in the Company's product segments and niches.

## 2 OUR BUSINESSES

Visaka commenced the manufacture of corrugated cement fibre sheets in 1985 and seven years later, diversified into the manufacture of synthetic yarn. In 2008, the Company commenced the manufacture of fibre cement boards. The result is that the Visaka of today comprises two business verticals - Building products (Cement asbestos products and fibre cement boards marketed under the V-Boards and V-Panels brands) and synthetic yarn

## 3 OUR SPIRIT

The Company is a spirited outperformer. Even as it was the seventh largest cement asbestos product manufacturer in India in 1996, it invested and outperformed the sector to emerge as the number two brand within the sector. Besides, the Company could have selected to be a commodity textiles player; it grew its presence in the twin airjet spun yarn segment. The Company could have remained a cement asbestos player; it extended to fibre cement boards. The Company could have waited to consolidate; it launched a solar roofing product.

## 4 OUR MANAGEMENT

Visaka reconciles the entrepreneurial vision of its promoters with the professional commitment of its executive management. The Company is stewarded by second-generation entrepreneur Mr. G. Vamsi Krishna (son of Dr. G. Vivekanand and Mrs. Saroja Vivekanand) who is an alumnus of Purdue University. Having worked as Chief Business Strategist from July 2012 to May 2014 and Whole Time Director from June 2014 to May 2017, he was elevated to Joint Managing Director in May 2017. He was responsible for the development of the Company's V-Next business.

## 5 OUR LOCATIONS

Visaka is a pan-India company (12 manufacturing locations) headquartered out of Hyderabad. The Company's manufacturing units are supported by 13 marketing offices across India.

## 6 OUR FOOTPRINT

Visaka's products are available pan-India through a distribution channel that comprises 7000 dealer outlets. The Company's products are also exported to many countries.

## 7 OUR REVENUES

~ 90 % of the Company's cement asbestos product revenues are derived from suburban and rural India. Almost the entirety of its V-Next (V-Boards and V-Panels) revenues are derived from urban markets. 25% of the revenues from the yarn division are derived from exports and the rest from the domestic market.

# OUR CAPACITIES

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Visaka has invested in adequate scale to service the growing appetite of downstream customers across its three business segments. The Company's aggregate capacity of 8,02,000 TPA for cement asbestos products accounted for 18% of the industry capacity; the Company's textile capacity is the highest in the twin air-jet yarn segment; the Company's V-Next products accounted for 26% of the sectoral share as on March 31, 2018.

| Cement asbestos products | Fibre cement products | Textiles |
|---|---|---|
| Total capacity of 8,02,000 metric tonnes per annum | Total capacity 1,29,750 metric tonnes per annum | Annual production capacity of 2752 twin-jet spinning positions, translating to 82,560 spindles |
| Capacity utilisation of 88 % during FY2017-18 | Capacity utilisation of 83 % during FY2017-18 | Capacity utilisation of 78% during FY2017-18 |

# OUR LISTING AND RESPECT

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Visaka's equity shares are listed and actively traded on the Bombay and National Stock Exchanges. The Company enjoyed a market capitalisation of ₹1,031 crores as on March 31, 2018. The promoters owned 41.28 % of the Company's equity share capital. CARE, the prominent credit rating company, upgraded Visaka's rating related to bank facilities and fixed deposit programmes from CARE A+ to CARE AA- in December 2017.

# OUR ETHICAL MOORING

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## Vision

Committed to be a 'credible', 'passionate' and 'innovative' solutions-providing company

## Mission

- To be a complete cost effective and qualitative building solutions provider
- To identify potential products, which, add value to the societal needs
- To explore and enhance our niche textile markets
- To create value and trust among all the stakeholders

## Values

- Initiative, responsibility and accountability
- Care, compassion and courtesy
- Ethical functioning, fairness and transparency
- Trust, good faith and integrity

**Business divisions**

| Cement asbestos | V-Next | Yarns |
|---|---|---|
| Corrugated cement fibre sheets | V-Board | Cotton-touch airjet-spun polyester yarns |
| Close-fitting adjustable ridges | V-Premium | |
| Apron pieces | V-Designer | |
| Cladding/Walling | V-Plank | |
| North light ridges | V-Panel | |
| Barge boards | ATUM | |
| North light curves | | |
| Serrated adjustable ridges | | |
| Roof lights | | |

# PERFORMANCE

**Revenues 2017-18**

From building products segment (%) 83

From synthetic yarns segment (%) 17

**Building products**

Number of countries exported to 18

Percentage revenues derived from exports 2

**Synthetic yarns**

Number of countries exported to 16

Percentage revenues derived from exports 15

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# THIS IS WHAT WE HAVE ACHIEVED OVER THE DECADES

## 1981
Incepted in 1981 to manufacture corrugated cement fibre sheets.

## 1985
Commenced the commercial production of cement sheets at its factory in Patancheru, Andhra Pradesh, with a capacity of 36,000 metric tonnes per annum.

## 1992
Diversified into textile yarn manufacturing by establishing a factory in Nagpur to produce about 2,000 metric tonnes of man-made fibre yarns per annum.

## 2006
Emerged as the seventh-largest cement asbestos product manufacturer in India

## 2009
Established the fibre-cement board and panel division in Miryalaguda, Andhra Pradesh, with a capacity of 50,000 MTPA to cater to the needs of modern construction designs

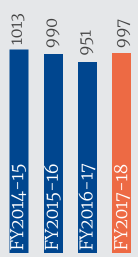
## 2013
Set up the second factory in Daund, Maharashtra, and thereby more than doubled the boards & panels capacity to 129,750 metric tonnes per annum

## 2017
Achieved a cement asbestos capacity of 802,000 metric tonnes per annum coupled with boards and panels capacity of 129,750 metric tonnes; emerged as the second largest player in India and also installed 41MTS Machines with 2,752 spinning positions.

## 2018
- Launched V-Infill (a load bearing wall solution)
- ATUM (solar roofing solution), a first of its kind product in India
- Fibre Cement Plant at Haryana with a capacity 50,000 TPA.

# HOW WE HAVE TRANSFORMED IN A POSITIVE WAY ACROSS THE YEARS

## Revenues (₹ / crores)



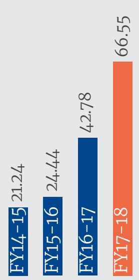

**Definition**
Growth in sales net of taxes and duties

**Why is this measured?**
It is an index that showcases the Company's ability to understand the market and customer needs and efficiently meet their demands.

**What does it mean?**
Aggregate sales increased by 5% to reach ₹997 crores in FY2017-18 due to increasing demand for existing products and the strategic launch of new ones.

**Value impact**
Improved product offtake enhanced the Company's reputation in the market.

## Net profit (₹ / crores)



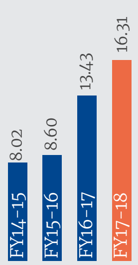

**Definition**
Profit earned during the year after deducting all expenses and provisions

**Why is this measured?**
It highlights the strength in the business model in generating value for its shareholders.

**What does it mean?**
Ensures that adequate cash is available for reinvestment and allows the Company's growth engine to not run out of steam.

**Value impact**
The Company's net profit grew every single year through the last four years. The Company reported a 56% increase in its net profit in FY2017-18 – reflecting the robustness and resilience of the business model in growing shareholder value despite external vagaries.

## ROCE (%)



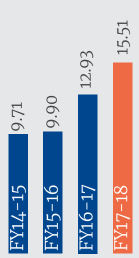

**Definition**
It is a financial ratio that measures a company's profitability and the efficiency with which its capital is employed in the business

**Why is this measured?**
ROCE is a useful metric for comparing profitability across companies based on the amount of capital they use – especially in capital-intensive sectors.

**What does it mean?**
Enhanced ROCE shows how much return the Company generated on every rupee of capital employed, potentially driving valuations and perception

**Value impact**
The Company reported a 285 bps increase in ROCE during FY2017-18.

## EBITDA margin (%)



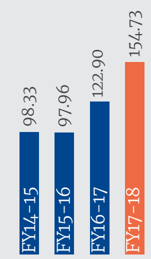

**Definition**
EBITDA margin is a profitability ratio used to measure a company's pricing strategy and operating efficiency

**Why is this measured?**
The EBITDA margin gives an idea of how much a company earns (before accounting for depreciation, interest and taxes) on each rupee of sales.

**What does it mean?**
Demonstrates adequate buffer in the business, which, when multiplied by scale, enhances surpluses.

**Value impact**
The Company reported a 258 bps increase in EBITDA margin during FY2017-18.

## EBITDA (₹ / crores)




**Definition**
Earning before deduction of fixed expenses (interest, depreciation, extraordinary items and tax)

**Why is this measured?**
It is an index that showcases the Company's ability to optimise business operating costs despite inflationary pressures and can be easily compared with retrospective averages of sectoral peers.

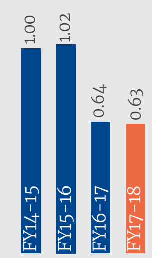
**What does it mean?**
Helps create a robust growth engine and allows the Company to build profits in a sustainable manner.

**Value impact**
The Company's EBITDA grew every single year through the last 4 years. The Company reported a 26% increase in its EBITDA in FY2017-2018 – an outcome of painstaking efforts of its team in improving operational efficiency.



# We didn't just report better numbers during FY2017-18; we brightened our long-term sectoral prospects.

## Gearing (x)



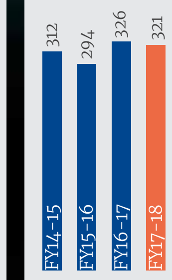

**Definition**
This is derived through the ratio of debt to net worth (less revaluation reserves)

**Why is this measured?**
This is one of the defining measures of a company's financial health, indicating the ability of the Company to remunerate shareholders over debt providers (the lower the gearing the better). In turn, it indicates the ability of the Company to sustain growth in profits, margins and shareholder value.

**What does it mean?**
Adds value in the hands of the shareholders by keeping the equity side constant and boosts flexibility by progressively moderating debt costs.

**Value impact**
The Company's gearing stood at .63 in FY2017-18 compared to .64 in FY2016-17. This ratio should ideally be read in conjunction with net debt/ operating profit (a reduction indicating greater ease in terms of servicing debt). Net debt/ operating profit was 1.65 in FY2017-18 vs 1.72 in FY2016-17.

## Net block (₹ / crores)

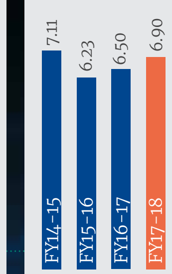



**Definition**
Net block is the total worth of all the assets currently in the possession of a business operation.

**Why is this measured?**
This measure helps in understanding exactly how much is the investment in each of the assets currently held.

**What does it mean?**
By understanding the value of the assets, it is easy to determine the amount of actual profit generated as a result of holding those assets. Simply looking at the purchase price or even the current market value of the assets cannot provide an accurate understanding of whether the assets are generating a return or failing to earn enough profit to justify holding onto those assets.

## Debt cost (%)



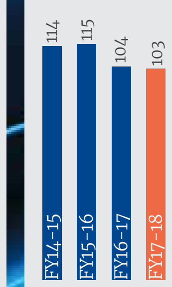

**Definition**
This is derived through the calculation of the average cost of the consolidated debt on the Company's books

**Why is this measured?**
This indicates our ability in convincing bankers and other debt providers of the robustness of our business model, translating into a progressively lower debt cost (potentially leading to higher margins).

**What does it mean?**
Enhanced cash flows; strengthened credit rating for successive declines in debt cost

**Value impact**
The Company's debt cost has progressively declined from a peak of 7.11 % in 2014-15 to 6.90 % in FY2017-18. This ratio should ideally be read in conjunction with net debt/ operating profit (an decrease indicating higher liquidity).

## Working capital cycle (%)



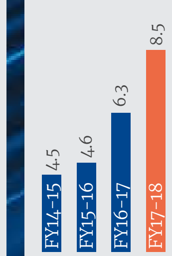

**Definition**
The working capital cycle (WCC) for a business is the length of time it takes to convert net working capital (current assets less current liabilities) all into cash.

**Why is this measured?**
This is measured to understand the ability and efficiency of an organisation to manage its short-term liquidity.

**What does it mean?**
Businesses typically try to manage this cycle by selling inventory quickly, collecting revenue from customers quickly and paying bills slowly to optimise cash flow.

**Value impact**
The Company strengthened its WCC through a reduction in the number of days to 103 days from a peak 115 days.

## Interest cover (%)




**Definition**
This is derived through the division of EBITDA by interest outflow.

**Why is this measured?**
Interest cover indicates the Company's comfort in servicing interest – the higher the better.

**What does it mean?**
A company's ability to meet its interest obligations, an aspect of its solvency, is arguably one of the most important factors in guaranteeing sizeable returns to shareholders.

**Value impact**
The Company strengthened its interest cover from 6.3 in FY2016-17 to 8.5 in FY2017-18.

# TRANSFORMING FOR SCALE

The second largest cement asbestos manufacturing company.

The largest player in V-Next fibre cement board segment.

The largest Twin Airjet spinner in the country.

At Visaka, change is a constant.

There is always a need to widen the product mix, deepen the range, enhance capacity and widen the footprint.

With the objective to moderate costs, increase value-addition and accelerate offtake.

This element of transformation is captured in our business model. We went into business as a cement asbestos manufacturing company. We diversified into the manufacture of synthetic yarn. We diversified into fibre cement boards and panels.

This was done with the objective to service growing aspirations - across rural, semi-urban and urban India.

The result of our focus is our scale: over the years, our agenda of perpetual transformation has made it possible for us to emerge as the country's second-largest cement asbestos sheet manufacturer, the world's largest installation of Murata twin jet spinning machines at a single location and the largest fiber cement board manufacturer.

In turn, this scale has translated into enhanced economies and competitiveness, strengthening our business sustainability.

**Transformation pays.**

**This year we achieved the highest PAT in the history of the Company.**

## HOW VISAKA HAS TRANSFORMED OVER THE YEARS

- The ability to respond with speed to dynamic market realities
- The ability to commission new plants closer to consuming markets
- The ability to enhance value above the sectoral average
- The ability to explore the niche within a commodity business
- The ability to seed the market with new products
- The ability to extend into new businesses

# TRANSFORMING FOR INNOVATION

**The Company is gradually transforming from a large cement asbestos player to an emerging innovative building products player**

The only innovative building-material company to introduce solar roof product

At Visaka, we are driven by the prospect of making the good better.

The result is an ongoing exploration of processes, materials, opportunities and market gaps.

The result is that within each of our businesses, we are widening our product mix. Within each product niche, we are deepening our range. Each product is customised around diverse applications. Each application establishes that our products work well in customer environments or on customer machines.

The Company possesses an attractive track record in product introduction. The Company introduced V-next products (V-board and panels) in 2009. It introduced Visaka yarn in 1992. It launched the innovative hybrid roofing product with an integrated solar roofing system (ATUM), which combines traditional roofing with energy generation; this integrated solar panel with a cement base helps moderate thermal conductivity to lower than the traditional roof.

The product is just the answer to millions of customers - individual and institutions – who seek roofs that make a difference to self, community and the world.

**Transformation excites.**

## HOW VISAKA'S TRANSFORMATION AGENDA ENHANCED VALUE

- Consistent market leadership within the sectors of our presence
- Enhanced EBITDA margins from 9.71% in FY2015 to 15.51% in FY2018
- Moderated borrowing costs and strengthened interest cover
- Strengthened our credit rating at a time of economic weakness
- Increased new business revenues from scratch to 15% of overall revenues
- Strengthened market capital-isation from ₹430 cr (31 March 2017) to ₹1,031 cr (31 March 2018)

# JOINT MANAGING DIRECTOR'S REVIEW

Dear shareholders,

I am excited to present you with an overview of where the Company has come from, where it is competitively placed and where it intends to proceed.

**For years, your company was largely** a cement asbestos roof manufacturer, graduating from being one of the smallest to emerging as one of the largest. During the last few years, the Company has maintained this sectoral leadership through proactive capacity creation, national dispersal of manufacturing capacity in consuming regions and maximising capacity utilisation. The business enhanced value for the Company through volume-driven growth in a relatively thin margin segment.

The Company also grew its specialised synthetic yarns business through prudent investments in advanced technologies. By selecting to address the niche end of the business, the Company protected itself from the commodity whiplash associated with the cyclical textile industry. The business enhanced margins through the combination of volumes and value-addition.

A few years ago, the Company was faced with the prospect of scaling capacity or consolidating its position. The Company selected to consolidate its existing asbestos sheet and yarn capacities while extending into the new fibre cement board product enjoying urban residential and commercial applications.

The result is that over time, Visaka Industries has evolved from being a single business company into a three-business organisation with robust de-risking.

## Future-relevant

**At Visaka, we believe that we are** future-ready for some good reasons.

Each business is aligned with national priorities. Each business has been adequately scaled to address growing downstream customer appetite. As a result, we believe that when customer demand strengthens, our products are attractively positioned to ride the rebound. Our products represent the heart of rural consumption at one end and aspirational urban growth at the other, making them attractive proxies of national income and economic growth.

The big question then relates to the optimism of enhanced incomes over the foreseeable future. At Visaka, we are optimistic on account of a rare convergence of structural corrections within the country – formalisation, financialisation and efficiency gains. In the last 24 years, China's GDP has almost five-folded India's GDP on account of India's credit / GDP proportion for private non-finance entities of 57% compared with China's 211% (BIS data, 2016). This indicates a predominance of Indian savings being invested in unproductive assets at a time when China invested in financial assets and bank deposits. Following digitisation, creation of Jan Dhan accounts, Gold Bonds and demonetisation, India has accelerated transition from the physical (cash and gold in *tijori*) to financial assets faster.

When it comes to formalisation, two inflection points have emerged: demonetisation and GST introduction, which are expected to swing the competitiveness needle away from unorganised sectors across India to organised segments.

As an extension of this argument, I believe that India is placed at the cusp of leading the global change in the use of renewable energy. India is making an unprecedented investment in solar energy, helping moderate power costs to less than half, which could enhance India's manufacturing and service competitiveness.

At Visaka, we believe that we are attractively placed to capitalise on these incipient trends, creating a foundation of our long-term sustainability.

## Business overview

**I am pleased to report the Company's** performance for FY2017-18 for some good reasons.

The Company reported profitable growth: revenues increased 5% while profit after tax strengthened 56%.

After a considerable period, the cement asbestos segment reported sales growth, indicating that the downtrend has reversed.

Even as the domestic fiber cement products market grew nearly 14%, our sales of this business grew 8%; exports bottomed out.

The Company's spinning unit addressed challenges arising out of GST introduction and the domestic garment sales being affected on account of imports. Our yarns business revenues declined only by 2.7% during the year under review.

The concurrent improvement in working across all our businesses was a rare occurrence, resulting in a broad-based response to challenges.

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## The GST challenge

**I am pleased to report that Visaka** outperformed the sectoral and the economic growth average despite the GST challenge.

As a responsive future-facing company, we engaged the prestigious EY to guide us in GST implementation.

The impact of this landmark tax reform proved beneficial for our building products division. The GST applicable on our cement asbestos sheets and V-Next products was fixed at 18% against the erstwhile 28%, strengthening our business competitiveness.

In our yarns division, the rate applicable on raw material (polyester staple fibre) and finished product (polyester spun yarn) was fixed at 18% while GST on fabric moved from nil to 4%. This inverted duty structure posed serious implications for the textiles value-chain.

A number of textile manufacturers selected to shut operations, affecting production. After due consideration, the government reduced GST on yarn to 12%, which ensured that spinners were able to absorb the entire input credit and fabric makers could claim the entire GST as input credit.

## Going ahead

**At Visaka, we strengthened our** business by launching new products across segments. While the solar roofing product was the first of its kind in India (production from the first quarter of FY2019), we reinforced designer products in the V-Next gallery (offered a solid load bearing wall solution, V-Infill). Towards the end of the financial year under review, the third V-Board project neared completion in Jajjar (Haryana), indicating attractive prospects from June 2018.

The Company increased awareness of V-Next products through engagements with architects, dealers, contractors, builders, interior decorators, carpenters as well as promotions in the digital and print media.

I am pleased to report that our credit rating was upgraded from A+ to AA-, which, going ahead, promises to moderate our cost of debt and enhance our profitability.

From a functional point of view, Visaka upgraded Oracle ERP to the latest R 12 version, strengthening our information access leading to informed decision-making.

## Visaka. Always transforming...

- Visaka entered the business of fiber cement boards in 2009
- The Company's manufacturing units (Maharashtra and Telangana) addressed zonal needs
- The Company's positioning of this product as a superior alternative to plywood helped
- The Company invested in proprietary brands, range and distribution
- The Company is now adding capacity in North India (50,000 MTPA), creating a national presence

## Outlook

**At Visaka, we intend to enhance** awareness of cement asbestos products in rural housing as a preferred product over colour-coated steel sheets. The initiatives to increase the awareness momentum for V-Next products are expected to sustain. The result is a stronger base of our business pyramid, which should translate into superior performance.

The Company's cement asbestos business is expected to grow 5% in FY2019 subject to good monsoons. The demand for our V-Next products appears favourable and this trend is likely to sustain following 14% domestic growth and a bottoming-out of our exports. The Company expects a growth upwards of 20%. The commissioning of the third unit in Haryana will strengthen our access to North and East India and moderate our logistics costs. We believe that our ability to sweat our spinning machines at 95% capacity utilisation should enhance our margins and segment surplus.

We expect that the interplay of the three businesses should translate into enhanced revenues, margins and profit growth, strengthening our business sustainability. The Company has started to transform in many ways.

Sincerely,
G. Vamsi Krishna

## OUR BUSINESS STRATEGY

- Increasing our network of business constituents
- Extending into new geographies
- Increasing our order book
- Bidding for large projects

## OUR REVENUE GROWTH PLAN

- Increasing turnover
- Timely expansion commissioning
- Engaging directly with customers (no sub-contracting)
- Extending into solar roofing solutions
- Climbing the value chain