# OPPORTUNITY-**READY**

Visaka Industries Limited | Annual Report 2018-19

CONTENTS

# WELCOME TO OUR 2018-19 ANNUAL REPORT

The corporate identity, financial performance, senior management review, operational review, statutory reports, 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 twelve most important things that readers need to know about Visaka Industries Limited as well as the Company's corporate journey over the years.



## Financial performance

This section captures the Company's performance during the past four years on the basis of all the major performance indicators so that readers can assess how Visaka has improved year-on-year.



## Senior management review

In this segment, Visaka's senior management – Joint Managing Directors and Chief Financial Officer present their views on their Company's performance during FY2018-19 and what shareholders can look forward to in the coming years.



## Operational review

This section details the Company's transformation, developments, integrated value report, various strengths, and risk management protocols of Visaka Industries. Readers can also get incisive insights into the various business segments of the Company, their performance highlights for the year under review, their strengths and their outlooks for FY2019-20.



## Statutory reports

This segment contains reports which need to be part of the Company's annual report in accordance to the guidelines laid down under the Companies Act, 2013.



## Financial statements and notes

This segment contains Visaka's financial statements and notes prepared in accordance with Ind-AS.



**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 realized, although we believe we have been prudent in 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.

# At Visaka Industries, being opportunity-ready means…

Investing ahead of the curve

*Protecting the Balance Sheet in a slowdown*

Enhancing the brand's respect and recall

*Leveraging technologies to enhance efficiencies*

Scaling capacities to address prospective demand growth

*Seeding tomorrow's products across a large number of consumers*

Translating into a CAGR in revenues of 4.4% and a CAGR in PAT of 40.2% in the three years ending 2018-19

# 12 things you need to know about Visaka Industries

## Values

**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

## Status

The Company has grown from being the seventh-largest cement asbestos product manufacturer in India (by volume) in 1996 to the second largest today, accounting for a 18% share of the Indian market. The Company is also a leader in the twin air-jet spun yarn segment and in the fibre cement board segment.

## Promoters

**Visaka Industries Limited was established in 1981 by Dr. G. Vivekanand, a first-generation entrepreneur.**

The Company is now being stewarded by Mr. G. Vamsi Krishna, son of Dr. G. Vivekanand and Mrs. Saroja Vivekanand. Following his schooling in India and Singapore and graduation from Purdue University, Mr Vamsi Krishna worked as the Chief Business Strategist and Whole-time Director before being elevated to the position of Joint Managing Director.

## Products

**The Company commenced the manufacture of corrugated cement fibre sheets in 1985.**

The Company diversified into the manufacture of synthetic yarns in 1992 and in 2009, it commenced the manufacture of V-Next fibre cement boards. In 2018, the Company launched a solar roofing product (ATUM) to capitalise on the growing rooftop solar market.

## Sustainability initiative

We sold 85 mn sq ft (out of total capacity of 130 mn sq ft) of V-Next products, a plywood substitute, saving ~48,400 trees from being felled.

Our eco-friendly roofs helped substitute steel sheet roofs, reducing our carbon footprint and generating clean energy.

We manufactured sustainable yarns at zero-discharge facilities, ensuring compliance with environmental standards and leading to the recycling of ~45 mn PET bottles.

## Portfolio

**The Company's building products division comprised cement asbestos sheets that were largely consumed in rural India, whereas Non asbestos products (fibre cement boards and panels) were consumed in urban and suburban markets.**

The non-asbestos component of the overall business is expected to account for 50% (currently 35%) of overall revenues over the next three years.

## Presence

**The Company has a national presence with 12 manufacturing locations and is headquartered out of Hyderabad.**

The Company's building products facility possesses an annual aggregate production capacity of 8,02,000 tonnes of cement asbestos sheets and 1,79,750 tonnes of fibre cement flat board products. It's yarn spinning plant comprises 2,752 twin air-jet spinning positions equivalent to 82,560 spindles. The Company's manufacturing units are supported by 13 marketing offices across India.

## Network

**The Company markets products directly to retailers as opposed to pursuing the conventional distributor-retailer methodology, facilitating a superior understanding of marketplace realities.**

The Company's distribution network comprises >7,000 dealers in urban, rural and suburban markets.

# Operating efficiency

## Cement asbestos products

Capacity
**8,02,000**
metric tonnes per annum

Capacity utilisation of
**92%**
during FY2018-19

## Fibre cement products

Capacity
**1,79,750**
metric tonnes per annum

Capacity utilisation of
**67%**
during FY2018-19

## Textiles

Capacity
**2,752**
Spinning positions

Capacity utilisation of
**94%**
during FY2018-19

## Performance

**In 2018-19, Visaka's sales increased 13% to ₹1,127 crore while PAT increased 1.29% to ₹67 crore.**

The Company derived 81% of its revenues from building products and 19% from textiles. The Company's EBIDTA margin was 13.8% while ROCE was 14.9% and debt-equity ratio 0.57. Exports accounted for 5% of total revenues; building products were exported to 16 countries and yarn to 15 countries.

## Listing

**Visaka Industries' equity shares are listed and actively traded on the Bombay and National Stock Exchanges.**

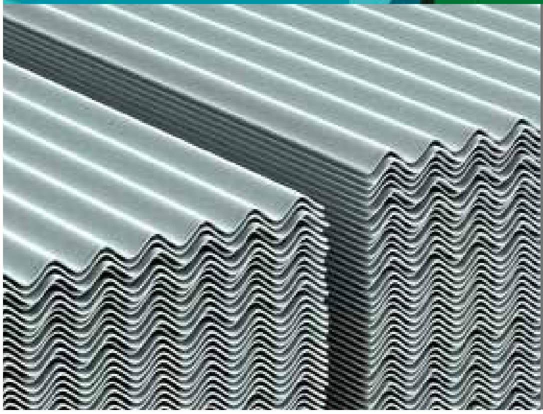
The Company enjoyed a market capitalisation of ₹656 crore as on 31st March 2019. The promoters owned 41.56% of the Company's equity share capital.

## Respect

CARE, the credit rating company, upgraded Visaka's rating on bank facilities and fixed deposit programmes from CARE A+ to CARE AA- in December 2017. The Company was accredited with certifications like Star Export House, BIS and TUV.

# Business segments

## Cement asbestos



- Corrugated cement fibre sheets
- Close-fitting adjustable ridges
- Apron pieces
- Cladding/Walling
- North light ridges
- Barge boards
- North light curves
- Serrated adjustable ridges
- Roof lights
- Ridge finals

## V-Next

- V-Board
- V-Premium
- V-Designer
- V-Plank
- V-Panel
- V-Infill
- ATUM

## Yarns

- Cotton-touch air-jet-spun polyester yarns

# Our culture of opportunity-readiness is reflected in our consistent outperformance

## Revenues (₹ crore)

| | |
|---|---|
| FY2018-19 | 1127 |
| FY2017-18 | 997 |
| FY2016-17 | 951 |
| FY2015-16 | 990 |

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

**Why is this measured?**
It is an index that showcases the Company's ability to enhance revenues despite marketplace challenges.

**What does it mean?**
It indicates the competitiveness of the Company's products, translating into offtake.

**Value impact**
Improved product offtake enhanced the Company's reputation in the market. Aggregate sales increased by 13% to reach ₹1,127 crore in FY2018-19 due to an increasing demand for existing products and the strategic launch of new ones.

## EBITDA (₹ crore)

| | |
|---|---|
| FY2018-19 | 155.65 |
| FY2017-18 | 154.73 |
| FY2016-17 | 122.90 |
| FY2015-16 | 97.76 |

**Definition**
Earnings before the 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 the retrospective average 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 maintained its EBIDTA in FY2018-19 despite doubling Advertisement & Sales promotion spend, booking losses in its Jhajjar plant and a limited impact from ATUM offtake, which commenced operations in the last quarter of the year – an outcome of painstaking team efforts improving operational efficiency.

## Net profit (₹ crore)

| | |
|---|---|
| FY2018-19 | 67.41 |
| FY2017-18 | 66.55 |
| FY2016-17 | 42.78 |
| FY2015-16 | 24.44 |

**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 shareholders.

**What does it mean?**
Ensures that adequate cash is available for reinvestment and allows the Company's growth engine to sustain.

**Value impact**
The Company reported a 1.3% increase in its net profit in FY2018-19 – reflecting the robustness and resilience of the business model in growing shareholder value despite external challenges.

## EBITDA margin (%)

| | |
|---|---|
| FY2018-19 | 13.82 |
| FY2017-18 | 15.51 |
| FY2016-17 | 12.93 |
| FY2015-16 | 9.90 |

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

**Why is this measured?**
The EBIDTA margin gives an idea of how much a company earns (before accounting for interest, depriciation 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 170 bps decrease in EBIDTA margin during FY2018-19 due to a slowdown in rural growth in the second half of FY 19, doubling advertising and sales promotion spend and booking losses in the Jhajjar plant and ATUM, which commenced operations during the close of the financial year.

## Average debt cost (%)

| | |
|---|---|
| FY2018-19 | 7.10 |
| FY2017-18 | 6.90 |
| FY2016-17 | 6.50 |
| FY2015-16 | 6.23 |

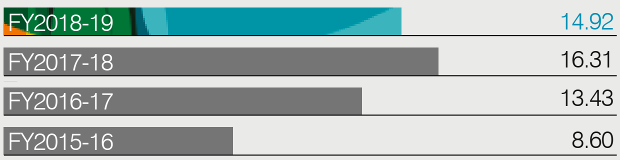
**Definition**
This is derived through the calculation of the average cost of the consolidated debt on the Company's books

**Why is this measured?**
This indicates our ability in convincing bankers and other fund 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 remained low across years.This ratio should ideally be read in conjunction with net debt/operating profit (an increase indicating higher liquidity).

## ROCE (%)



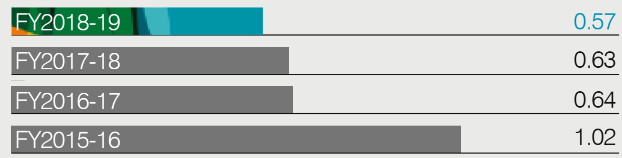

**Definition**
This is a financial ratio that measures a company's profitability and the efficiency with which its capital is employed in the business

**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 can potentially drive valuations and perception (on listing)

**Value impact**
The Company reported a 139 bps decline in ROCE during FY2018-19, reflecting the increase in capital employed for the Jhajjar and ATUM plants during the last part of the financial year.

## Gearing (x)



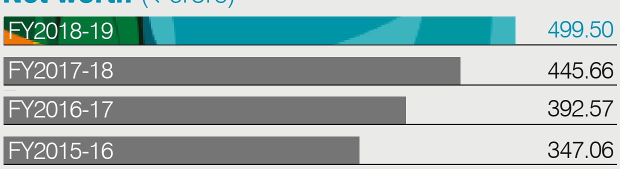

**Definition**
This is derived through the ratio of debt to net worth (less revaluation reserves)

**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 a 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 boosting flexibility by progressively moderating debt costs.

**Value impact**
The Company's gearing stood at 0.57 in FY2018-19 compared to 0.63 in FY2017-18. This ratio should ideally be read in conjunction with net debt/ operating profit (a reduction indicating greater ease in terms of servicing debt).

## Net worth (₹ crore)



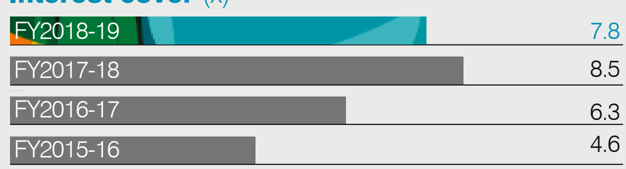

**Definition**
This is derived through the accretion of shareholder-owned funds

**Why is this measured?**
Net worth indicates the financial soundness of the Company – the higher the better.

**What does it mean?**
This indicates the borrowing capacity of the Company and influences the gearing (which, in turn, influences the cost at which the Company can mobilise debt).

**Value impact**
The Company strengthened its net worth from ₹445.66 crore in FY2017-18 to ₹499.50 crore in FY2018-19.

## Interest cover (x)




**Definition**
This is derived through the division of EBIDTA 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 4.6 in FY2015-16 to 7.8 in FY2018-19.

## How Visaka's equity price (CAGR) performed vis-à-vis the BSE Sensitive Index

| | 1 year | 3 years | 5 years | 10 years |
|---|---|---|---|---|
| Stock price | -36 % | 58% | 42% | 26% |
| Sensex | 17% | 15% | 12% | 15% |

## Key performance indicators

| | 2017-18 | 2018-19 | INCREASE/ (DECREASE) |
|---|---|---|---|
| Working capital cycle (days) | 103 | 112 | 9 |
| Debtors' turnover cycle (days) | 53 | 50 | (3) |
| Inventory turnover cycle (days) | 85 | 88 | 3 |
| Return on gross block (%) * | 31 | 23 | (8) |

*The capitalisation of the ATUM and V-Next projects at Jhajjar towards the end of FY 19 was ₹104 crores

From the Joint Managing Director's desk

# As an opportunity-ready company, Visaka is attractively placed to grow even faster as it gets larger

The year 2018-19 was the worst of years and the best of years.

The Indian economy reported attractive growth in the first two quarters of the financial year but thereafter faltered to report one of the most sluggish subsequent quarters in recent memory. This divergence was the result of a crisis in a large non-banking finance company that translated into a national liquidity paralysis which, in turn, induced caution in consumer sentiment across regions and product categories.

The performance of Visaka Industries must be appraised against the backdrop of this national economic landscape. The Company reported a 13% growth in revenues and a 1.3% increase in profit after tax (before comprehensive income) during the year under review, which is a creditable achievement during a challenging economic phase.

At Visaka, we continued to strengthen our business during this period. We are convinced that, based on our previous experience, every sluggish period in a consumption-driven economy like India will be followed by an extended period of robust growth. In line with our commitment to be opportunity-ready, the Company invested in its business during the course of this slowdown. The principal message that I intend to communicate is that the Company is adequately invested in terms of capacities and capabilities and is attractively placed to capitalise on the imminent demand rebound whenever that transpires.

**Strengthening the business**

I am pleased to report that when it may have been convenient for Visaka to be cautious about its investments in 2018-19, the Company reaffirmed its commitment to the business instead through timely investments.

One, Visaka emerged as the largest producer of fibre cement boards and panels in India.

Two, Visaka introduced a revolutionary solar roofing solution called ATUM that combined the need for durable roofing on the one hand and renewable energy-centric solution on the other.

Three, Visaka retained its position as the largest twin-airjet spinner and second-largest cement asbestos sheet manufacturer in the country.

Four, Visaka commissioned a manufacturing facility for boards and panels(V-Next) in North India, strengthening our pan-India leadersip positioning.

We believe that by the virtue of these investments and market-visible positions, we reinforced the sustainability of our business during the year under review. While the quarter-on-quarter performance of our company may be influenced by economic and sectoral developments, we are attractively placed to resist downtrends better because of our potential to strengthen offtake higher than the sectoral average in the past. By broadbasing of our organisational pyramid has placed us in a better position to maintain the sustainability of our business.

**Performance review**

At Visaka, we have consistently focused on opportunity-readiness. Over the

**13%**

**Revenue growth during the year**