Sushil Finance
ACTIONABLE KNOWLEDGE

Muhurat Pick 2017

VISION 2022

Sushil Finance wishes you a Happy Million-wali & a Dollar-ous Year ahead

Somi Conveyor Beltings Ltd.

Market Cap.	52 Week H/L	CMP	Target Price
Rs. 61 Cr	Rs. 68/32	Rs. 52	Rs. 95

STOCK DATA

Recommendation	BUY
Reuters Code	SOMI.BO
Bloomberg Code	SCBL IN
BSE Code	533001
NSE Symbol	SOMICONVEY
Face Value	Rs. 10
Shares Outstanding*	1.18 Cr
Avg. Daily Volume (6m)	6,296 shares

Price Performance (%)

1M	3M	6M
20	8	(9)

200 Days EMA Rs. 50

* On fully diluted equity Shares

SHARE HOLDING (%)

Promoters	59.01
FII	0.21
FI/Bank	-
Body Corporate	19.10
Public & Others	21.65

A wide range of benefits of conveyor belts would give a push to its usage, going forward: The conveyor belts are cost-effective, enables efficient and quicker handling of material. It is not only less prone to accidents but also environmental friendly. These belts are quieter, adaptive and provide much flexibility while offering more space to the facilities. Moreover, the rising labour costs and labour-related concerns, coupled with growing awareness amongst industrialists helps them consider automation & conveyorization. These features lead to efficiency and effectiveness and thereby, higher productivity.

Low utilizations & healthy margins makes the company a good candidate to gain from operating leverage: Somi Conveyor Beltings Ltd. (SCBL) is currently running at less than 50% of capacity utilizations in light of consistent expansions citing huge opportunity and tepid demand over the last couple of years. Nevertheless, the company has been able to maintain mid-double digit profit margins which can definitely go higher once the demand returns. The recently added steel-cords conveyor belts have much higher realizations and better profitability as compared to rubber/fabric belts. The rise in contribution from the steel belts to the top-line would provide a boost to the profit margins. Further, the company has no capex plans in near future.

India to remain one of the fastest growing economy and to see huge industrial and consumption demand: India remains an attractive hub for foreign investments, particularly in the manufacturing sector. Several luxury automobile brands have already established and many other manufacturers are looking to establish their bases in the country. With implementation of GST, the tax system will make India a common market becoming a big draw for investors. With push towards developing industrial corridors and smart cities, alongwith campaigns like Make In India, the country would need a conducive environment for the industrial development and will promote advance practices in manufacturing.

OUTLOOK & VALUATIONS

The industrial activities are likely to grow with impetus on make in India, infrastructure development and growing foreign investments. An anticipated increase in mining output, cargo movement, growing consumption, and since automation is the key for efficiency and productivity, thereby, will benefit all the leading players in the industry. SCBL has managed to remain relatively resilient during the recent downturn on account of repetitive orders from the existing players owing to shorter life span of the product. The capacity utilizations are still substantially low and realizations are likely to go up going forward with the recent foray into steel cords conveyor belts. Going forward, we expect the company to post top-line of Rs.90 cr in FY20 with a net profit of Rs.5.6 cr translating into an EPS of Rs.4.8. Assigning a target multiple of 20x, we derive our target price of Rs.95 showcasing an upside potential of ~83% from current levels, with an investment horizon of 12-18 months.

Y/E Mar	Net Sales (Rs. Cr)	EBITDA (Rs. Cr)	PAT (Rs. Cr)	NPM (%)	REPS (Rs.)	P/E (x)	P/S (x)	P/BV (x)
FY17	65.3	9.6	0.8	1.3%	0.72	78.4	0.9	1.1
FY18E	**71.9**	**11.6**	**2.9**	**4.1%**	**2.48**	**21.0**	**0.9**	**1.0**
FY19E	**80.5**	**13.9**	**4.1**	**5.1%**	**3.51**	**14.8**	**0.8**	**0.9**
FY20E	**90.2**	**16.7**	**5.6**	**6.1%**	**4.75**	**11.0**	**0.7**	**0.9**

Company Overview

SOMI CONVEYOR BELTINGS LTD.

Incorporated in 2000, SCBL is Jodhpur (Rajasthan) based company, engaged in manufacturing of conveyor belts of different specifications for a wide range of industries including automotive, steel, power, food and beverages, manufacturing and more prominently in mining. The increasing number of airports, shopping malls and commercial retail spaces also support growth of conveyor belts industry. The company claims to have the world-class quality conveyor belts to the likes of leading global manufacturers including Fenner, Yokohama, Dunlop and Continental. The company got listed on BSE and NSE in 2008.

The company began commercial production with an installed capacity of 36,000 meters per annum in 2002 up to the width of 1000 mm and following a series of expansions, the company currently has an installed capacity of 12,00,000 meters per annum up to the width of 2,600 mm. The company operates through two art-of-the-state facilities in Sangaria and Tanwara, Jodhpur, built on nearly 230,000 sq ft of land. The products are customized as per the requirements of the end-consumer and come in a wide range of array with specifications like heat-resistant, fire-resistant, oil-resistant, and other specialties. Conventionally, the company was into rubber conveying belts but recently forayed into steel-cord conveyor belts as well. Over the years, the company has served more than 200 companies in the domestic market and has exported to over 20 countries. The company has marketing offices in South Africa, Indonesia, Tanzania, Ajman and UAE. SCBL markets its products under the brand ‘Somiflex’.

During the year ended March 31, 2017, the top-line grew 12.5% YoY to Rs.65.3 crore. The EBITDA margin declined from 21.9% to 14.7% and the net profit stood at Rs.0.8 crore as against Rs.2.3 cr in the previous fiscal; primarily due to fall in gross margins and increase in staff costs. The promoters’ holding as on September 30, 2017 remained at 59.05%. During Q1 FY18, the top-line stood at Rs.10.8 cr with an EBITDA margin of 19.8% and a net margin of 2.0% translating into an EPS of Rs.0.2.

SCBL belongs to Jodhpur based Om Bhansali Group of Industries having diversified interests in manufacturing of rubber sheets, vulcanizing solutions and other manufacturing solutions for conveying systems (Oliver Micon Inc.), manufacturing of equipments, tools, tackles and spare parts for off-road tyres (Earth Mover Enterprises), import and export of dipped fabrics and steel cords for conveyor belting applications (SRJ Polymers), synthetic/natural rubber trading and exchange (Sajoy Rubber Pvt Ltd.), import and distribution of various chemicals (Sina Chemtrade Pvt. Ltd.), import-export and trading of various rubber products (Joshna Trading Pvt. Ltd.), import-export of carbon black (Manish Tradechem Pvt. Ltd.), and hotels and real estate (Ghunghroo Hotels & Resorts Pvt. Ltd.).

Business Overview

The company operates through two manufacturing facilities and claims to have one of the biggest capacities of rubber conveyor belts in the country with 1,200,000 meters per annum. Of this, nearly 900,000 meters is rubber based conveyor systems and the remaining is steel based; citing the growing demand for the steel conveyor belts, the company had announced its foray into this segment a couple of years back and the capacities are operational now.

The company manufactures a range of conveyor belts from 100 mm to 2600 mm, customized as per the demand of the nature of the industry – the range of products include General Purpose (M-24 grade/Tiger M-27), Heat Resistant, Fire Resistant, Oil Resistant, and Special Conveyor Belts like Bullet Proof, Food Grade, Pipe Conveyors, Rough Top, Fusion, Nylon Fabric, Polyester Fabric etc. The company has installed its conveying systems at the leading cement, power, steel, coal facilities including Aditya Birla Group, Tata Group, Jindal Group, JK Lakshmi Cement, India Cement, Dalmia Cement, Coal India, Adani, BHEL, Nevyeli Lignite, ThyssenKrupp, etc.

The raw materials include natural rubber which constitutes roughly 47% of the product mix, followed by carbon black and cotton/synthetic fabric which forms nearly 28% and 18%, respectively, alongwith zinc oxide, process oil, whitening clay, silica & other vulcanizing agents. Now with foray into steel conveyor belts, steel cords are also part of materials consumed.

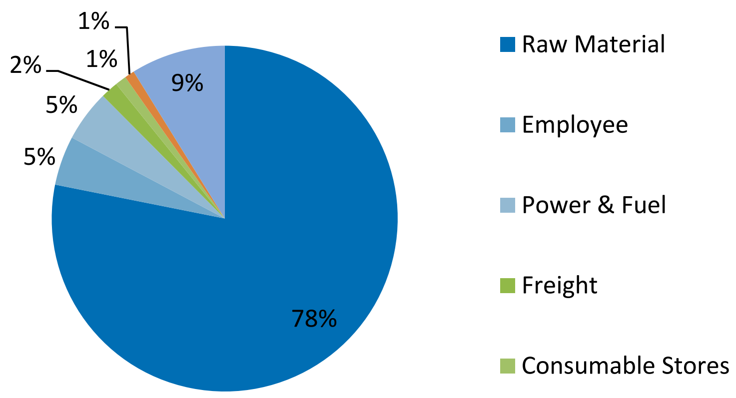
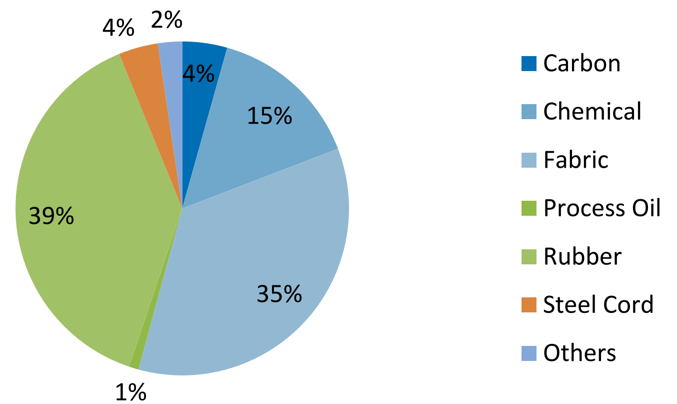
The business is primarily order to sale basis and company has been running on low capacity utilizations in light of consistent expansion programs citing the opportunity and continued slowdown over the last few years, specially in the mining sector. The recently concluded fiscal was also said to be negatively impacted by demonetization. However, the Management stated that the demand is seen to be picking up recently and the company had recently booked some orders from power sector. As on date, the order book stands at around Rs.60 crore and the company is in advanced stages of finalizing a couple of orders.

According to the Management, the average blended realizations for a rubber conveyor belt can be around Rs.2,500 per meter and in case of steel cords conveyor belts, the figures are broadly above Rs.6,000 per meter. This showcase substantial under-utilizations and significant upside potential for top-line scalability once demand returns.

Any business which involves the movement of materials in bulk benefits from usage of conveyors belts as the conveying systems provide the following advantages:

- Cost effective
- Space saving
- Quicker & better handling
- Environmental friendly
- Quiet & adaptive
- Gentle handling of material
- Less prone to accidents

Business Overview

Overall Costs Break-up (FY17)	Raw Material Costs Break-up (FY17)
	

Source: Company Data, Sushil Finance

The usual life of a rubber conveyor belt ranges from 4 months to nearly a year, depending on the nature of the industry it is serving while in case of steel-cords belts the life can vary in a few years. So, a good proportion of their business is repetitive in nature even though the incremental growth relies much on industrial activities, new capex and the economic growth of the country. Since 2004, the company is continuously securing repeat orders from industries like Andhra Pradesh Power Generation Corporation, Karnataka Thermal Power Corporation, Subsidiaries of Coal India, Nevyeli Lignite Corporation, NTPC etc.

The company has been exporting to many countries and is further exploring newer opportunities in overseas markets while the Management is confident of domestic demand picking up in the upcoming quarters. During the year ended March 31, 2017, the company exported goods worth Rs.12.7 cr (17.9% of gross sales) as compared to Rs.4.4 cr (7.0% of the gross sales) in the previous fiscal.

As one of country's leading manufacturer of conveyor beltings company of all grades, SCBL is also required to provide its customers with a distinctive after sales service which also differentiates the company from the competition in the conveyor beltings market. SCBL performs its after-sales-service through its techno-commercial team. However, currently, the contribution from this remains negligible.

Industry Overview

The demand for conveyor belt is prominently dependent on the general economic activity and industrial investments. Thus, the factors including GDP growth, capex cycle, mining output alongwith investment in infrastructure such as malls, airports, etc. are among major growth drivers for conveyor belt market. Globally, Asia Pacific which comprises two of the fastest emerging economies across the globe, dominates the demand for conveyor belts and the trend is anticipated to continue going forward. Nevertheless, the demand for conveyor belts is anticipated to be well supported by other developing economies in South America and Africa as well.

According to a leading industrial magazine, the size of the Indian conveyor belt market is roughly Rs.2,500 cr. The market is highly fragmented and fiercely competitive in nature which explains the dominance of regional players. SCBL claims to have one of the largest manufacturing capacities and claims to have earned the tag of the most reliable manufacturers and suppliers among its major competitors like Phoenix and MRF which dominates the domestic market, as their products are equally good to the likes of global leaders such as Fenner, Yokohama, Dunlop, Continental & Sempertrans. There are many other players like Oriental, International Conveyors, Shriram, etc.

The challenging scenario in the Indian markets was not different during the last fiscal as compared to last few years. Further, the demand was also negatively impacted by the demonetization of high value currency notes. The demand during the fag-end of the fiscal was also obstructed by ambiguity over implementation and structure of goods and services tax. The major industries being catered by SCBL are coal, lignite, cement, power, steel, fertilizers, sugar, etc. Though, the demand from cement players helped surviving the company, off late, there has been some momentum seen in steel and power sectors as well. Considering the broad-based benefits with regards to time, safety and costs arising from the usage of conveyor belts, the consumption is likely to grow consistently, going forward. In addition, the rising labour costs and labour issues force the industrialists to consider conveyorization and automation. In addition, the growing awareness towards economical investments and strategic partnerships between domestic and international players also leads industrialists to push themselves towards conveyorization and automation.

In the new mining equipment procurement policies drafts released over the last couple of years, the Government has emphasized on importance and demand for increasing automation and usage of material handling equipments in order to improve the productivity. According to the company, the conveyor market all across the globe has grown at a moderate pace over the past few years but is anticipated to grow at higher rate in the near future. Finally, with the implementation of GST, the market sentiment is also likely to improve and gradually picking up industrial manufacturing and opening up of mines will boost the growth, going forward. The long-term outlook for the industry is optimistic based upon the product innovation and cutting edge technology for sustaining growth. With a diverse portfolio of varied types of conveyor belts the company remain optimistic for coming years.

Investment Rationale

A wide range of benefits of conveyor belts would give a push to its usage, going forward: The conveyor belts are cost-effective, enables efficient and quicker handling and transportation of material. These are not only less prone to accidents but also environmental friendly. These belts are quieter, adaptive and provide much flexibility while offering more space to the facilities. Moreover, the rising labour costs and labour-related concerns, coupled with growing awareness of industrialists helps them consider automation & conveyorization. All these features provide better efficiency and improved effectiveness and thereby, higher productivity. The key sectors of the country like cement, coal, power, iron, steel, minerals and agriculture which are ready to take a leap going forward are bound to have inclusion of such processes.

With conveyor belts, coal mining becomes more mechanized and share of underground mining is progressively increasing, with depleting extractable surface reserves in the country

According to Markets & Markets, conveyors market is projected to grow at a CAGR of 9%, to reach $8.8 Bn by 2021 driven by rising need to handle large volumes of cargo, leading to efficiency.

Low utilizations & healthy margins makes SCBL a good candidate to gain from operating leverage: SCBL is currently running at substantially low capacity utilizations in light of consistent expansions citing huge opportunity and tepid demand over the last couple of years. Nevertheless, the company has been able to maintain mid-double digit profit margins which can definitely go higher as the demand returns. The recently added steel-cords conveyor belts have much higher realizations and better profitability as compared to rubber/fabric belts. The rise in contribution from the steel belts to the top-line would provide a boost to the profit margins. Further, the company has no capex plans in near future and has almost repaid its term loan. However, the long cash conversion cycle is a concern when it comes to financials but we believe will improve once demand comes back.

India to remain one of the fastest growing economy and to see huge industrial and consumption demand: India remains an attractive hub for foreign investments, particularly in the manufacturing sector. Several luxury automobile brands have already established and many other manufacturers are looking to establish their bases in the country. With implementation of GST, the tax system will make India a common market becoming a big draw for investors. With push towards developing industrial corridors and smart cities, alongwith campaigns like Make In India, the country would need a conducive environment for the industrial development and will promote advance practices in manufacturing. According to a recent publication of IBEF, the spending on engineering services is projected to increase to USD 1.1 tn by 2020-21.

The cabinet has approved the National Steel Policy (NSP) 2017; targets 300 MT steel capacity & 160 kgs per capita steel consumption by 2030; requires high degree of attention for automation

Peer Comparison

International Conveyors Ltd. (ICL) is another listed player in the Indian conveyors belts market, however, both are not like-to-like comparable as ICL is into PVC conveyor belts where as SCBL offers a wide range of rubber/fabric conveyor belts. Hence, the demand scenario and profit margins may differ in both the businesses. Nevertheless, taking into consideration that both the companies cater to the similar markets and offer similar products we have compared SCBL to ICL.

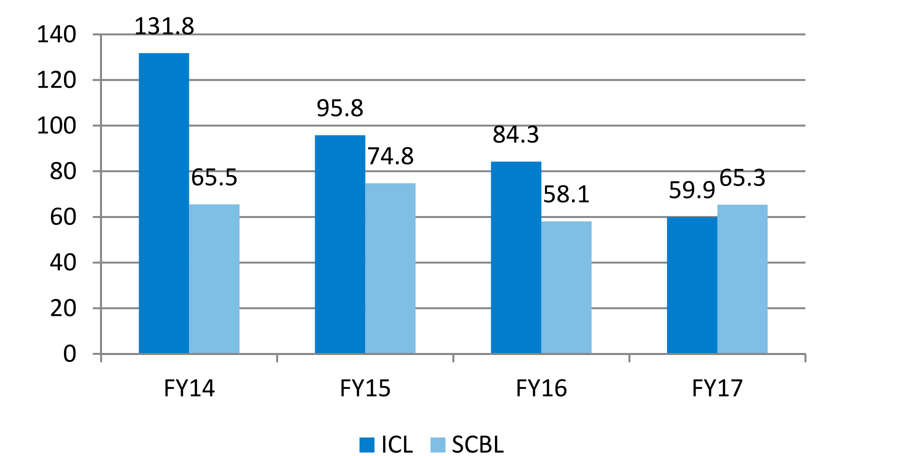
As on March 31, 2017, ICL had an installed capacity of 11,25,800 meters per annum of PVC Fire Resistant Antistatic Solid Woven Coal Conveyor Belt and SCBL had an installed capacity of 12,00,000 meters per annum of Rubber Fabric Conveyor Belt and Steel Cords Conveyor Belts, together.

Relative Valuation

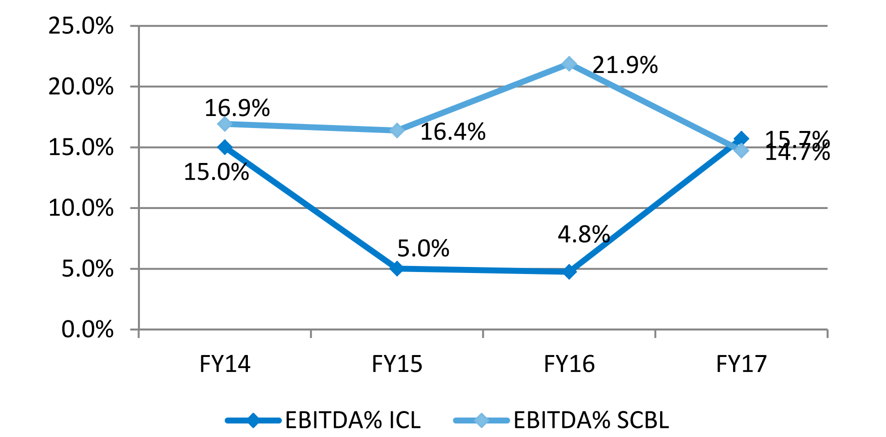
	ICL	SCBL
P/S	2.8x	0.9x
P/B	2.4x	1.1x
P/E	411.7x	66.6x
EV/EBITDA	39.8x	8.8x

Source: *Capitaline, Sushil Finance*

Sales Comparison (Rs. Cr)



EBITDA Margin Comparison



Source: Company Data, Sushil Finance

PROFIT & LOSS STATEMENT (Rs.Cr)

Y/E Mar.	FY17	FY18E	FY19E	FY20E
Net Sales	**65.3**	**71.9**	**80.5**	**90.2**
Raw material cost	43.5	47.4	52.7	58.6
Employee cost	2.6	2.7	3.0	3.2
Other costs	9.6	10.1	10.9	11.7
Total Expenditure	55.7	60.2	66.6	73.5
EBITDA	**9.6**	**11.6**	**13.9**	**16.7**
Depreciation	5.7	4.9	4.9	5.1
Finance cost	3.2	2.6	3.0	3.2
Other Income	0.5	0.5	0.5	0.5
PBT	**1.3**	**4.6**	**6.6**	**8.9**
Tax expense	0.5	1.7	2.4	3.3
PAT	**0.8**	**2.9**	**4.1**	**5.6**
EPS	**0.7**	**2.5**	**3.5**	**4.8**
CEPS	**5.5**	**6.7**	**7.7**	**9.1**

BALANCE SHEET STATEMENT (Rs.Cr)

As on 31st Mar.	FY17	FY18E	FY19E	FY20E
Share Capital	11.8	11.8	11.8	11.8
Reserves & Surplus	45.9	48.9	53.0	58.6
Net Worth	**57.7**	**60.6**	**64.8**	**70.4**
LT Borrowings	0.1	0.5	0.5	0.5
LT Liabilities	1.0	1.0	1.0	1.0
ST Borrowings	26.3	29.8	31.9	34.7
Trade Payables	9.5	11.7	13.0	14.5
Other Current Liabilities	8.3	9.1	9.8	10.6
LT & ST Provisions	0.2	0.2	0.2	0.2
Assets & Cap WIP	35.0	36.2	39.4	43.3
Trade Receivables	25.8	27.6	28.7	29.6
Cash & Bank Bal.	2.9	7.3	9.0	12.3
Loans & Advances	4.1	4.1	4.1	4.1
Inventory	31.5	33.8	36.1	38.5
Deferred Tax Assets (Net)	0.2	0.2	0.2	0.2
Other Current Assets	0.9	0.9	0.9	0.9
Total Assets	**103.2**	**113.0**	**121.2**	**131.8**

Source: Company, Sushil Finance Research Estimates

CASH FLOW STATEMENT

(Rs.Cr)

Y/E Mar.	FY17	FY18E	FY19E	FY20E
PAT	0.8	2.9	4.1	5.6
Depreciation & Amortization	5.7	4.9	4.9	5.1
Finance Cost	3.2	2.6	3.0	3.2
Chg. in Inventories	(7.2)	(2.3)	(2.3)	(2.4)
Chg. In Receivables	(1.4)	(1.8)	(1.1)	(1.0)
Chg. In Payables	2.2	2.2	1.3	1.4
Other Changes in WK	(0.6)	0.7	0.7	0.8
Taxes Paid	0.5	1.7	2.4	3.3
Net Operating Cash Flow	**3.0**	**11.0**	**13.1**	**16.1**
Capex	(0.7)	(7.2)	(8.1)	(9.0)
Cash Flow from Investing	**(0.6)**	**(6.1)**	**(8.1)**	**(9.0)**
Change in Others	(5.0)	(4.4)	(5.5)	(6.5)
Change in Borrowings	(3.9)	4.0	2.1	2.8
Cash Flow from Financing	**(8.8)**	**(0.4)**	**(3.4)**	**(3.7)**
Opening Cash	**9.3**	**2.9**	**7.3**	**9.0**
Cashflow during the year	(6.4)	4.5	1.6	3.3
Cash at the End of the Year	**2.9**	**7.3**	**9.0**	**12.3**

FINANCIAL RATIO STATEMENT

Y/E Mar.	FY17	FY18E	FY19E	FY20E
Growth (%)				
Net Sales	12.5	10.0	12.0	12.0
EBITDA	(24.3)	21.0	19.6	19.8
Reported Net Profit	(62.9)	244.0	41.5	35.3
Profitability (%)				
EBIDTA Margin (%)	14.7	16.2	17.3	18.5
Net Profit Margin (%)	3.9	1.2	4.1	5.1
ROCE (%)	4.7	7.4	9.3	11.0
ROE (%)	1.4	4.8	6.4	7.9
Per Share Data (Rs.)				
EPS (Rs.)	0.7	2.5	3.5	4.7
CEPS (Rs.)	5.5	6.7	7.7	9.1
BVPS (Rs)	49.0	51.5	55.0	59.7
Valuation				
PER (x)	78.4	21.0	14.8	11.0
P/BV (x)	1.1	1.0	0.9	0.9
EV/EBITDA (x)	8.8	7.3	6.1	5.1
P/ Sales (x)	0.9	0.9	0.8	0.7
Turnover				
Inventory Days	264	260	250	240
Debtor Days	144	140	130	120
Creditors Days	80	90	90	90
Gearing Ratio				
D/E	0.5	0.5	0.5	0.5

Source: Company, Sushil Finance

Outlook & Valuation

SCBL, in-line with the Indian conveyor belts industry is currently going through the dull phase owing to general economic slowdown, downturn in capex cycle and low mining activity. The demonetization and implementation of GST have had negative impact on the growth, however, citing the long-term benefits and government's initiatives we expect a recovery in the upcoming quarters followed by healthy growth in light of upcoming general elections. The industrial activities are likely to grow with the impetus on make in India, infrastructure development and growing foreign investments. With anticipated increase in mining output, cargo movement, growing constant consumption, the automation is the key for efficiency and productivity, thereby, benefiting all the leading players in the industry. SCBL has managed to remain relatively resilient during the recent downturn on account of repetitive orders from the existing players owing to shorter life span of the product. The capacity utilizations are still substantially low and realizations are likely to go up going forward with the recent foray into steel cords conveyor belts. Going forward, we expect the company to post a top-line of Rs.90.2 cr in FY20 with a net profit of Rs.5.6 cr translating into an EPS of Rs.4.8. Assigning a target multiple of 20x, we derive our target price of Rs.95, showcasing an upside potential of ~83% from current levels, with an investment horizon of 12-18 months.

Key Risks

- Slowdown to continue longer than anticipated
- Impact on exports on account of geo-political risks
- Change in Government policies with regards to exports, imports or taxes
- Further increase in competition may impact growth and profitability
- Natural rubber is a key raw material, substantial increase in prices of which can hurt margins

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Analyst Stock Ownership	No
Stock Recommended to Clients	Yes
Remuneration/Benefits received from company in 12 months	No
Merchant Banking Market Making activities / projects	No
Sushil Financial Services Pvt. Ltd and Group Companies Holding	Yes
Sushil Financial Services Pvt. Ltd and Group Directors Holding	Yes
Broking Relationship with the company covered	No