

Stovec Industries Ltd.

Date --- 19th Feb, 2016

MCap - Rs.431.80 cr	Price Rs.2068
Net Sales - Rs.160.82 cr	TTM PAT - Rs.21.88 cr
Dividend yield (%) - 0.75%	

- Stovec Industries Limited (SIL) was incorporated on June 5, 1973 as Stovec Screens India Limited. Stovec is a part of SPGPrints Group, The Netherlands.
- Manufacturing facilities of the company located at N.I.D.C., Near Lambha Village, Post Narol, Ahmedabad, Gujarat.

How does the business make money?

✓ **Company offers products such as --**

- Rotary printing machines
- Rotary screens and chemicals for textile printing
- Anilox and screens for graphic printing
- Digital ink
- Sugar screens

✓ **Customer Segments ---**

- Graphics printing (Supply electroformed products for sugar, packaging and graphics industry)
- Textile printing (Company having leadership in Rotary screen and printing machinery; with that company provides Penta screens, Standard screens, Nova screens, Random screens, Endings, Digital Ink lacquers and chemicals for Textile printing)
- Precision metal

✓ **Key Activities of the company**

- Development and production of consumables for use in Textile and Graphics Printing Industry
- Printing Machines - Supply, Install and after sales support.

✓ **Key raw material of the product is Nickel and other hardware components**

✓ <http://www.spgprints.com/download+center/videos>

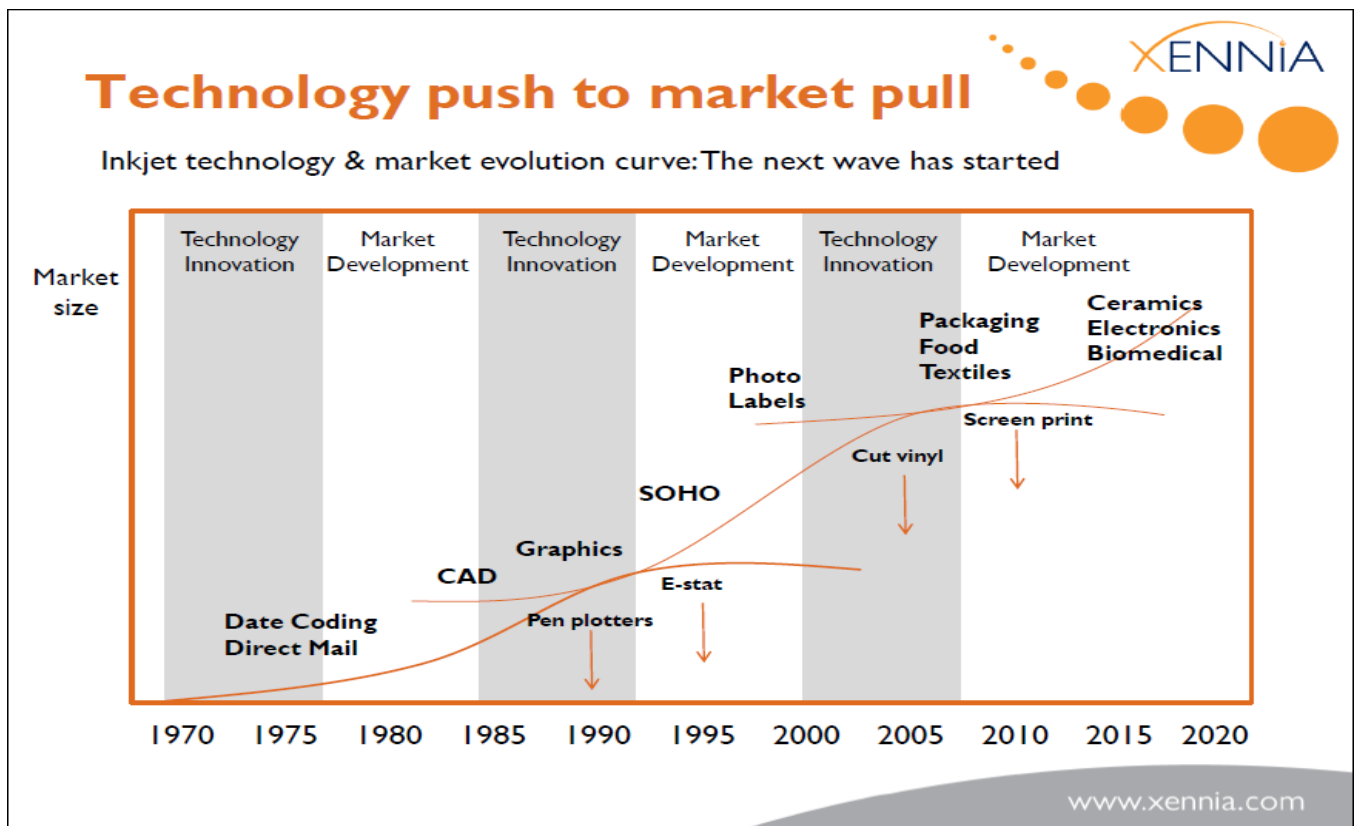
How has the business evolved over time?

- Parent company had started its operations at 4th August, 1947 as a supplier of an equipment for the dairy industry --- Milk churn washing machines and pasteurization systems were core production areas in the early days.
- In 1952, Company diversified its portfolio to the segments such as tobacco, paper, brewing and transport.
- In 1953, Company enters into the textile market with a flat-bed textile printing machine and in 1963, company manufactured world's first seamless screen & high-speed printing machines for textile.
- In 1975, Company acquired Veco company, which specializes in electro-forming, and laser cutting for the electronics, semi-conductor and sugar industries.
- In 1993, Company made a partnership with DuPont and launch the first Digital Chromalin Series color proofing system.
- Company has made frequent developments in Rotary Screen printing machines and also develop new machines as new technology evolves.

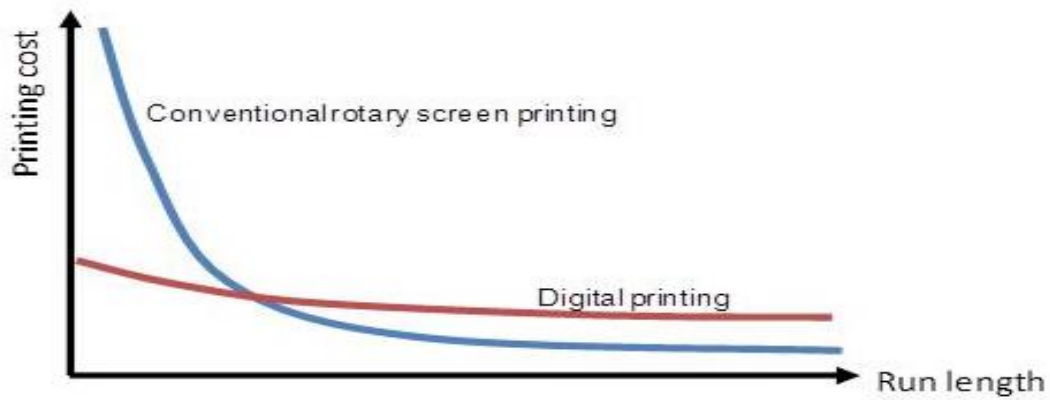
Does the industry have a high degree of change and obsolescence?

✓ **Methods of Textile printing ---**

- Hand block printing
 - Perrotine printing
 - Engraved copperplate printing
 - Roller, cylinder, or machine printing
 - Stencil printing
 - Screen printing
 - Digital textile printing
- ✓ Screen printing is most commonly used printing method now-a-days and there are 2 types of screen printing methods 1) Rotary screen printing and, 2) Flat screen printing. (For details -- http://www.textileinstruments.net/news_pro.asp?id=339&Difference-Between-Flat-Screen-&-Rotary-Screen-Printing.asp)
- ✓ <http://nopr.niscair.res.in/bitstream/123456789/19289/1/IJFTR%2021%281%29%2050-56.pdf>
- ✓ http://www.itma.com/edm/2015/edm08_july/



- ✓ Latest technology in textile printing is ink jet printing machinery and that is more cheaper compare to Rotary printing.

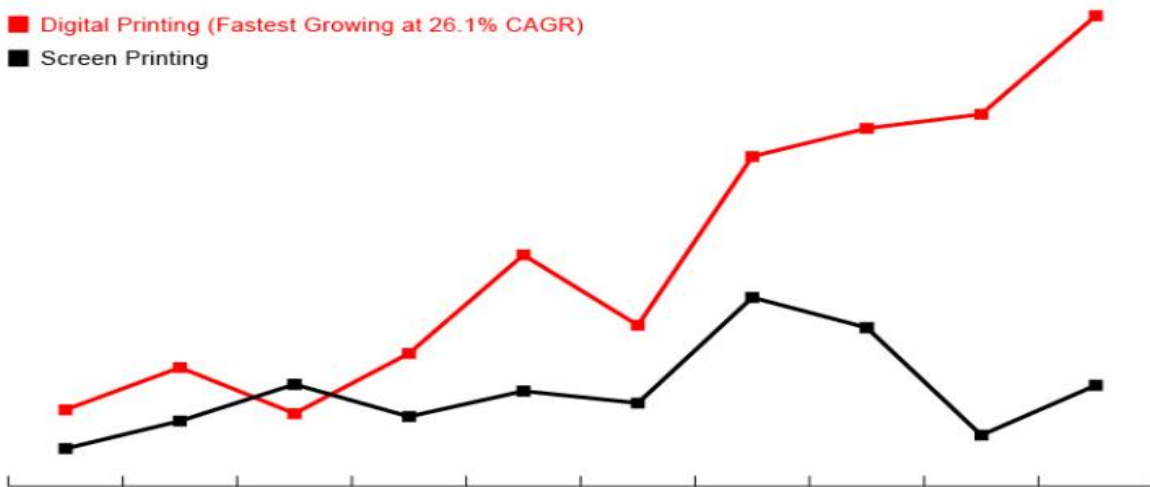


- ✓ Currently Rotary screen printing cover major market share but digital textile printing is cheaper in costing and currently growing faster.

http://www.strategy.com/MarketResearch/Textile_Printing_Market_Trends.asp

Global Market by Product Segment

- Digital Printing (Fastest Growing at 26.1% CAGR)
- Screen Printing



Market Share of Textile Printing Technologies

Inkjet Forum India

Textile Printing Machine Type		% Share
Rotary Screen Printing		65%
Automatic Flat Screen Printing		25%
Copper Roller Printing		< 1%
Hand Printing		3%
Transfer Printing		4%
Digital Textile Printing		~2%

- ✓ Key players includes Agfa Graphics, Brother Industries Ltd., Dickson Coatings, Fisher Textiles Inc., Glen Raven Inc., Hollanders Printing Systems, Huntsman Corporation, Jaysynth Dyestuff (India) Limited, Konica Minolta Inc., Kornit Digital Ltd., Mehler Texnologies GmbH, Mimaki Engineering Co. Ltd., Mutoh Industries Ltd., Reggiani Macchine Spa, Roland DG Corporation, Seiko I Infotech Inc., SPGPrints B.V., and Xennia Technology Ltd.,Etc.
- ✓ So by above details company have to become specialized in digital textile printing which is fastest growing technology in textiles printing. Company producing digital textile printing machinery but as per sources, company is leader in Rotary screen printing.
- ✓ Digital textile printing --- <https://www.youtube.com/watch?v=aKwKJW2tAmU>
- ✓ India having 1446 machinery and components manufacturing units and from those 600 units producing complete machinery. Though such large numbers of units available, only 53% of domestic demands fulfilled by Indian firms and 47% are importing from outside. Thus, Indian firms having vast opportunity to grow market share.

Can the market for the company grow at above 10%+ per annum in volumes over the next 10 years?

- ✓ The Indian textiles industry, currently estimated at around US\$ 108 billion, is expected to reach US\$ 223 billion by 2021, which is ~13% growth in the industry.
- ✓ Growth of Stovec is highly dependence on growth of textiles sector (Revenue from textiles machinery and consumable is Rs.130 cr in CY15 vs Rs.79 cr in CY14, growth of ~65% and contributing ~80% of total revenue in CY15)and as per the sector news, textile industry expected to grow at ~13%.
- ✓ <http://www.cci.in/pdfs/surveys-reports/textile-industry-in-india.pdf>
- ✓ <http://www.indiantextilemagazine.in/>
- ✓ <http://www.indiantextilemagazine.in/textile-machinery/india-has-huge-potential-in-digital-textile-printing-atexco/>
- ✓ [http://india-itme.com/pdfs/Textile Machinery Market.pdf](http://india-itme.com/pdfs/Textile_Machinery_Market.pdf)
- ✓ As per January - 2016, The Indian textiles industry, currently estimated at around US\$ 108 billion, is expected to reach US\$ 223 billion by 2021. The industry is the second largest employer after agriculture, providing employment to over 45 million people directly and 60 million people indirectly. The Indian Textile Industry contributes approximately 5 per cent to India's gross domestic product (GDP), and 14 per cent to overall Index of Industrial Production (IIP).
- ✓ http://indiainbusiness.nic.in/newdesign/index.php?param=industryservices_landing/351/1

Can the company grow its sales and profits at 15%+ and maintain ROE in excess of 20% for next 10 years?

- ✓ Sales of the company grows at 6% CAGR in last 10 years and 17% CAGR in last 5 years which is similar to LMW(7% CAGR in last 10 years and 17% CAGR in last 5 years).
- ✓ ROE(%) of the company remains highly fluctuate, at lower side 6.52% in FY07 and at higher side 25.37% in FY09; average ROE(%) of last 10 years is 16.66%.
- ✓ ROE(%) of LMW is much less fluctuate and average ROE(%) of last 10 years is 22.40%.
- ✓ Thus, Sales grows as per the industry standard but ROE(%) remains weak compared to peers.
- ✓ As not estimating future growth but looking at the textile machinery segments, more growth is still on the way.
- ✓ As per the government initiatives taken for the industry, we can say that performance and growth is not just cyclical but can be a sustainable.
(http://indiainbusiness.nic.in/newdesign/index.php?param=industryservices_landing/351/1)

What is the competitive landscape, and how intense is the competition?

✓ **Competitors ---**

■ **Indian Peers ---**

- Stovec Industries (Listed)
- LMW (Listed)
- Veejay Lakshmi Engineering Works Limited (Listed)

- Integra engineering India ltd.(Listed)
- Rieter India
- Kirloskar Toyota Textile Machinery Pvt. Ltd.
- Dhall Group
- Prashant Group
- Swastik
- Advanced Rubber Industries
- JD Engineers
- Indotex India
- KB Corporation
- Techno Industries
- Sunshine Engineering
- China Peers ---
 - Ningbo TEC Industry and Trade Co.
 - Linqing Xinfeng Screen Printing Machinery
 - Weifang Jielong Textile Co.
 - Wuxi Kangda Printing & Dyeing Equipment Co.

✓ India having 1446 machinery and components manufacturing units and from those 600 units producing complete machinery. Though such large numbers of units available, only 53% of domestic demands fulfilled by Indian firms and 47% are importing from outside. Thus, Indian firms having vast opportunity to grow market share.

Does the business have high/low switching cost?

- Cost of Rotary screen machinery is very high though clients will not easily switch to new machinery; which indicates high switching costs to the textile companies.
- Second hand machinery also available at high cost.
(<http://www.alibaba.com/showroom/used-rotary-screen-printing-machine.html>)

Has the company been growing its sales and profits consistently over the past 8-10 years?

Particular	Last 5 years CAGR (%)	Last 8 years CAGR (%)	Last 10 years CAGR (%)
Stovec Industries			
Net Sales	17%	16%	6%
Net Profits	12%	23%	21%
LMW			
Net Sales	17%	2%	7%
Net Profits	17%	-1%	4%
Veejay Lakshmi Engineering			
Net Sales	0%	-1%	3%
Net Profits	31%	-19%	-14%
Integra engineering			
Net Sales	42%	12%	-7%
Net Profits	-60%	-48%	-40%

- ✓ From above table, we can see that Stovec Industries reported superior growth compared to peers over a different time period.
- ✓ Total 10 years PAT is Rs.60.25 cr and CFO is Rs.57.06 cr. Here, we can see that CFO is near to PAT which indicates that company can able to convert its profit into CFO; and this is a very healthy sign for the company.
- ✓ Total Reserve of the company grown by 13% CAGR in last 10 years from Rs.20.65 cr in CY06 to Rs.70.67 cr in CY15; and MCap grown by 35% CAGR in last 10 years from Rs.28.56 cr in CY06 to Rs.431.80 cr in CY15.

Has the company earned more than 15% ROE (consistently) over the past 8-10 years, and what has been the driver of the same?

- ✓ ROE(%) of the company remains highly fluctuate, at lower side 6.52% in FY07 and at higher side 25.37% in FY09; average ROE(%) of last 10 years is 16.66%.
- ✓ ROE(%) of LMW is much less fluctuate and average ROE(%) of last 10 years is 22.40%.
- ✓ Other peers having very low ROE(%)---
 - Veejay Lakshmi Engineering --- Average 3.80 % in last 10 years
 - Integra Engineering --- Average 11.82 % in last 10 years (Due to high ROE(%) in CY07,CY08, CY09 which is 70.38%, 34.15% and 20.92% respectively)

Does the company have > 0.7 times debt/equity?

- ✓ Stovec Industries is zero debt company with zero total debt / equity (x). Also LMW and Integra engineering having same situation with zero total debt / equity (x). Only Veejay lakshmi engineering has total debt / equity(x) is 0.66 in last 10 years average and 0.46x in FY15.
- ✓ Cash conversion cycle of Stovec is poor compared to LMW which indicate lower quality of working capital management.

Does the company have a large FCCB borrowing (foreign currency convertible bonds)?

- ✓ Company does not have any FCCB borrowing.

Does the industry have high capital intensity?

- ✓ Company is not in a capital intensive business. Also Capital Intensity Ratio of the company is 0.75x in CY15 and last 10 years average 1.07x.

Does the company earn rising and positive FCF?

- ✓ Company doesn't generate positive FCF in CY14 but if we took last 10 years average FCF then its Rs.2.21 crore.

Does company have business with accrual earnings?

- ✓ Sloan ratio is 18% in CY14 which indicates warning sign of building up accruals but if we look at last 10 years average Sloan ratio which is 2% (-10% to 10% indicates safe zone).
- ✓ Cash Flow Aggregate Accrual Ratio is -0.20 in CY14 and 10 years' average is at -0.01 which is very low. (Low is better).
- ✓ Thus, both ratio indicates that there is not an issue of business with accruals.

Does the management make more than 3% of net profit as salary?

- ✓ Yes, management taken salary 10.41% of PAT in CY14, 6.09% of PAT in CY13 and 14.99% of PAT in CY12; which is far higher than LMW (salary 8.78% of PAT in FY15, 4.59% of PAT in FY14 and 4.76% of PAT in FY13).

Has the management pledged more than 20% of shares?

- ✓ The management has not pledge any shares of the company.

Does the company sell at PE > 20x?

- ✓ Company sell at 19.73x TTM P/E.

- ✓ CY11 EPS was Rs.22.72 and TTM EPS is Rs.104.80 which gives 36% CAGR in 5 years. CY11 stock price was Rs.31.81 and Current stock price is Rs.2068 which gives 130% CAGR. Thus, P/E expansion contributes ~73% in stock return. This shows higher return have major contribution from P/E expansion rather than growth in earnings.