



ACE EQUITY INVESTOR

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presents

Tiny CAPS

Unlocking Small Cap Potential

Feb 2017 Stock Recommendation

Shreyans Industries Ltd (BSE Code: 516016)

Current Market Price: ₹ 114.90 (BSE)

Buying Range: Less than ₹ 150

Target Range: ₹ 300

Timeframe: 24 Months

Date:

03-Feb-2017

1. Single Page Summary:

About The Company: Shreyans Industries Limited was incorporated in 1979 in Punjab and it is primarily involved in manufacturing of writing and printing paper with a capacity of 85,000 MTs per annum. It has two plants both based in Punjab having a cheaper access to agro based raw input materials.

Growth Prospect: Company has a good growth prospect because of following key contributing factors:

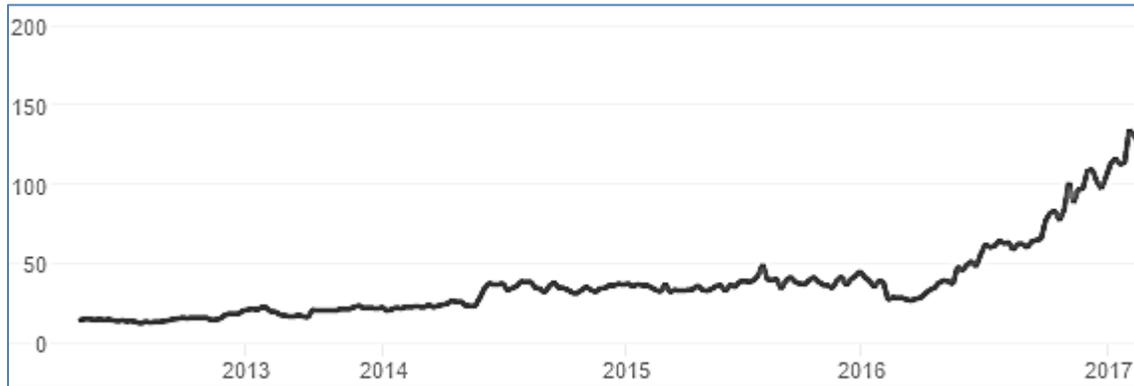
- Cheaper input costs due to proximity to wheat (primary input for manufacturing paper) producing lands in Punjab & better operating efficiency with help of imported machinery.
- Huge scope for increase in per capita paper consumption in India (currently at 12kg vs world average of 50kg)
- Improved productivity from both factories & recent increase in paper prices has helped to earn more revenue.
- Stock is trading at very attractive valuations as compared to many peers and other large players in the industry. It offers good return potential from these levels.

Scorecard Indicator: TCIGS® (Tiny CAPS Investment Grade Scorecard) is our proprietary scorecard specifically designed to evaluate micro/tiny caps companies. Our scorecard assigns a score of 7.5, which puts Sheryans Industries into a “Buy” to “Strong Buy” zone.

Recommendation: Shreyans Industries is currently trading at ₹ 114 on BSE. AI believes that the fair value of this stock is around ₹ 190. Based on projections, it can reach ₹ 300 in next 2 year and ₹ 427 in next 5 years. We recommend our subscribers to buy Shreyans Industries at current market price or lower. Maximum buy price is ₹ 150. We may upgrade/downgrade target prices in future (based on company performance and our investment thesis). Same will be communicated to all subscribers in our biannual review reports.

PS: Please go through rest of the research report for more in-depth analysis. Committed to AI's philosophy, we provide simplistic, concise & unbiased stock advisory services with less financial jargons!

1 Stock Price Performance:

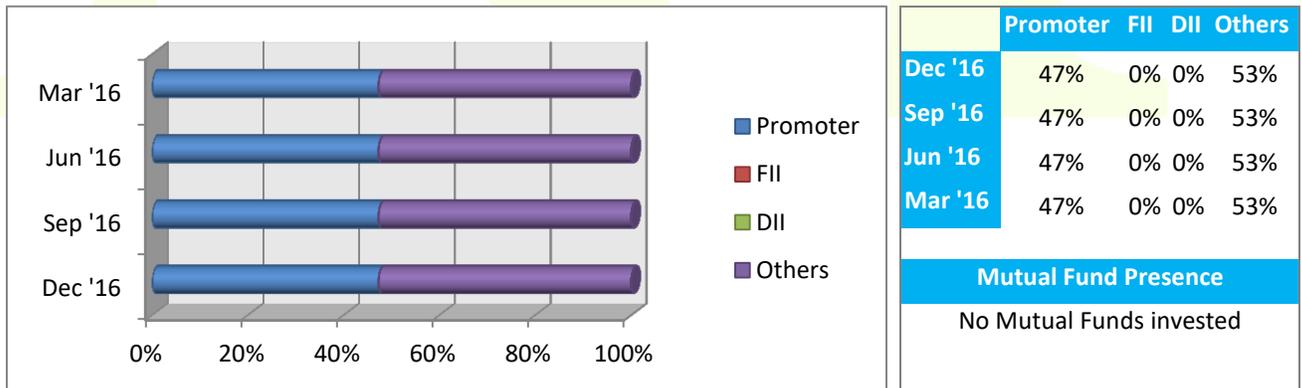


	Year till date	1 Year	3 Year	5 Year
Shreyans Industries	14.92%	392.2%	85.2%	65.56%
BSE Small Cap	10.1%	39.49%	27.11%	17.85%

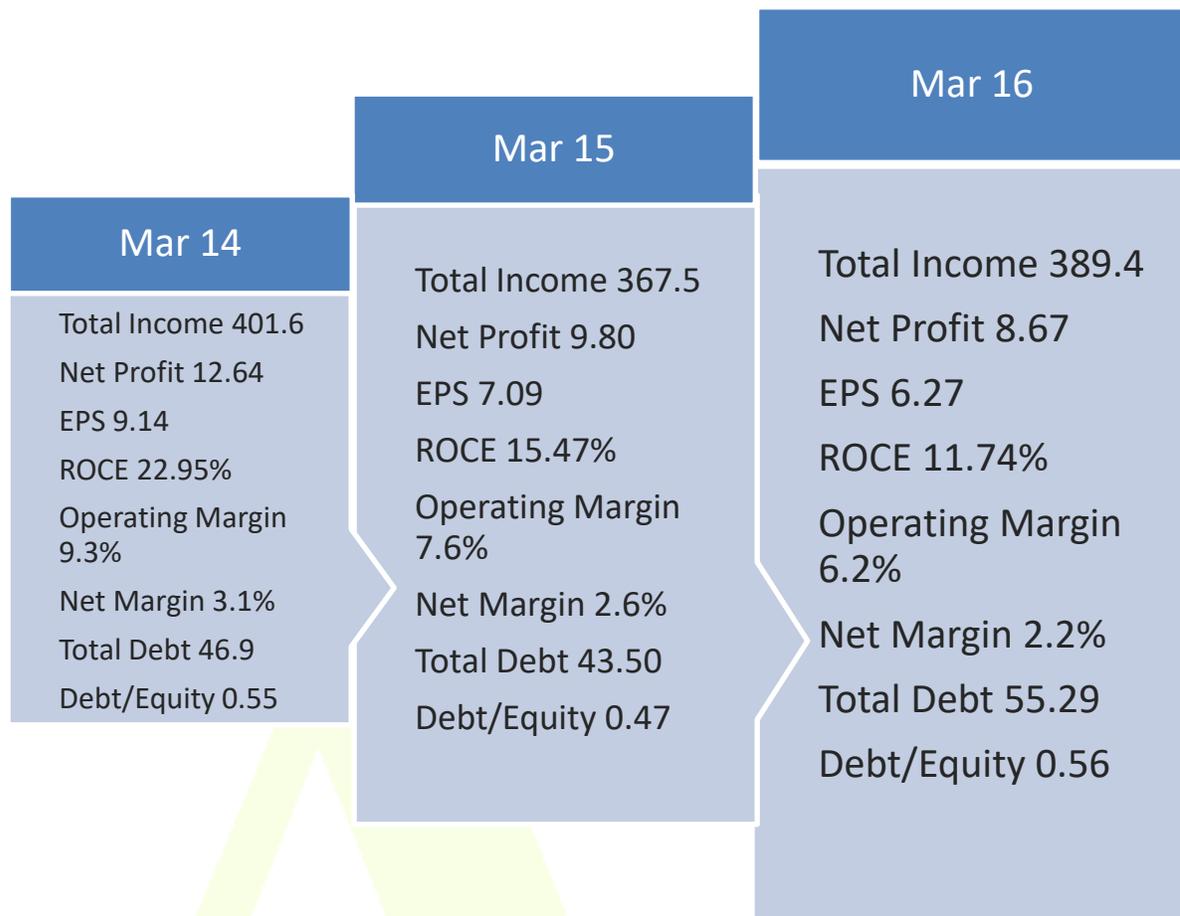
2 Stock Fundamentals:

Stock Movement	52 Weeks High ₹ 123.90	Stock Ratios	Market Capital ₹ 253 Cr
	52 Weeks Low ₹ 23.55		P/E 10.15
	50 Days Moving Avg ₹ 92.5		P/BV 2.16
	200 Days Moving Avg ₹ 63.9		Div Yield 0.65%
	Beta 0.96		PEG 0.20
	Price/Sales 0.6		
	Price/CashFlow 13.3		

3 Shareholder Pattern (%):



4 Key Financial Performance (in ₹ Crores):



5 Investment Thesis:



A) Key drivers to growth

- (1) Scope for improvement in per capita paper consumption:** In India per capita consumption of paper is 12kg as compared to world average of 50kg and Asian average of 40kg. There is huge scope for increasing per capita consumption in India, with growing economy & improving literacy rates it is expected increase at a rate of 6% per annum
- (2) Lower input costs and revival in paper prices:** Company uses agro based input material in form of wheat straw, sarkanda as primary raw material. Last year's good monsoon ensured a healthy supply of raw material at lower costs. This has positively impacted operating margins. At the same time there has been revival in paper prices in Q4 2016. Both these factors are positively adding to the top line as well as bottom line
- (3) Dip in supply:** Globally there has been increase in paper demand due to shutdown of multiple Chinese factories on environment issue. In India also on the leading player, Ballarpur Industries shut down three plants leading to substantial spike in demand. This is favorable with Shreyans for increasing market share.
- (4) Government focus on plastic ban:** Indian government has been putting lot of emphasis on banning plastics for retail purchases. Many largescale branded retailers and fast food corporations (like McDonalds) are already complying and using of paper based packaging for takeaway orders.
- (5) Quality Products & Machinery:** Company has an online quality control system in place. Paper sales account for more than 91% of the total revenue, so it is critical for the company to focus on paper quality. In 2016, company installed imported calendar rolls & spoiler bars for better operating efficiency of the plant.
- (6) Improving productivity & technology upgradation:** One the plants (Shree Rishabh Papers Plant) had witnessed lower productivity due to breakdowns in the past. Company is revamping it by upgrading the technology for paper

machinery & other supporting equipment. It will start showing impact from FY 2018 onwards. It will add to the top line growth of the company.

(7) Ecommerce helping paper industry: In last decade, growing digitization reduced demand for paper products & many companies were forced to close their factories. However, with increased e-commerce platforms the demand for paper in packaging has increased steadily. This will have a positive impact for paper industry as a whole.

(8) Industry on cusp of Rerating: Past decade has been tough for this industry and consolidation took place. Many unorganized players were either merged or closed shops. Now consolidation phase is over and renewed demand promises increased revenue & sector's rerating.

(9) Competent Management: Company is run by Rajneesh Oswal since more than two decades. Mr Oswal has done MBA from US and understands the industry very well. He is cautious of the quality & his background helps him to understand paper manufacturing technology

B) Key risks to growth

(1) Raw Material Availability: A good monsoon helps agriculture & produces more wheat straw which is a primary input material for producing papers. There is a risk of input cost escalation if agriculture is adversely affected due to poor monsoon.

(2) Government push for Digital India: Government of India is pushing for "digital India" initiative, which will negatively impact demand for printing paper. There is also emphasis on e-learning & e-governance models which reduces demand for papers.

(3) Environmental Regulation: Any changes in environmental regulations will have a negative impact for the company

(4) Cheaper imports from nearby countries: Company faces threat from cheaper import from nearby countries such as China. Government has put a minimum import duty on all such imports but any changes in such policy will adversely impact growth prospects for the company.

6 TCIGS® (Tiny CAPS Investment Grade Scorecard):

TCIGS® (Tiny CAPS Investment Grade Scorecard) is our home grown proprietary metrics which is specifically designed to quantify the potential for micro/tiny caps companies. It combines the investment philosophy of famous legendary investor Peter Lync along with GARP (Growth at reasonable price) approach.

Tiny CAPS Investment Grade Scorecard			
Parameter	Score	Weightage	Weighted Score
Quantitative Scorecard			5.3
Earnings Growth	7	10%	0.7
Profit Growth	7	10%	0.7
Solvency	6	10%	0.6
PEG	9	10%	0.9
ROE	6	10%	0.6
FII/MF Investments	9	10%	0.9
Financial Transparency	9	10%	0.9
Qualitative Scorecard			2.2
Promoter Pledging	10	10%	1
Business Sustainability	6	10%	0.6
Business Moat	6	10%	0.6
Total Score			7.5
Strong Buy:	Score more than 7.5		
Buy:	Score more than 6.0 less than 7.5		
Hold:	Score more than 5.0 but less than 6.0		
Sell:	Score less than 5.0		

For Shreyans Industries, scorecard assigns a rating of 7.5 out of 10. This implies a “Buy” to “Strong Buy” recommendation by TCIGS framework.

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