Rushil Decor Limited (BOM – 533470) (NSE – RUSHIL)

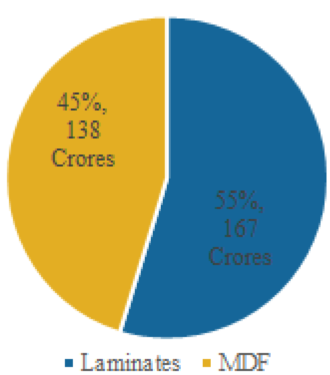
Last Price (12/3)	Market Cap	Industry	Dividend Yield (%)	Return on Equity	Price Target (FY20)
819 INR	1206 INR Crore	Plywood and Laminates	0.05	22%	Rs. 1,173 (43%)

Relative Valuations

	Rushil	Sector	Country
Adjusted P/E	47x	52x	25x
Forward P/E	29x	31x	22x
EV/ EBITDA	19x	20x	14x
P/CF	11x	12x	10x

Source: Imperative Estimates, Bloomberg

Rushil's Product Distribution (2017)



Buy-side:

WPCs, MDFs: capacity expansion of products with high growth expectations

Strong penetration across the states through dealer network allowing for new product push

Macro factors like affordable housing, stable interest rates, growing middle class to help on the demand front

Sell-side:

Pricing can remain under pressure due to global supply

Laminates competitive, resulting in stable margins

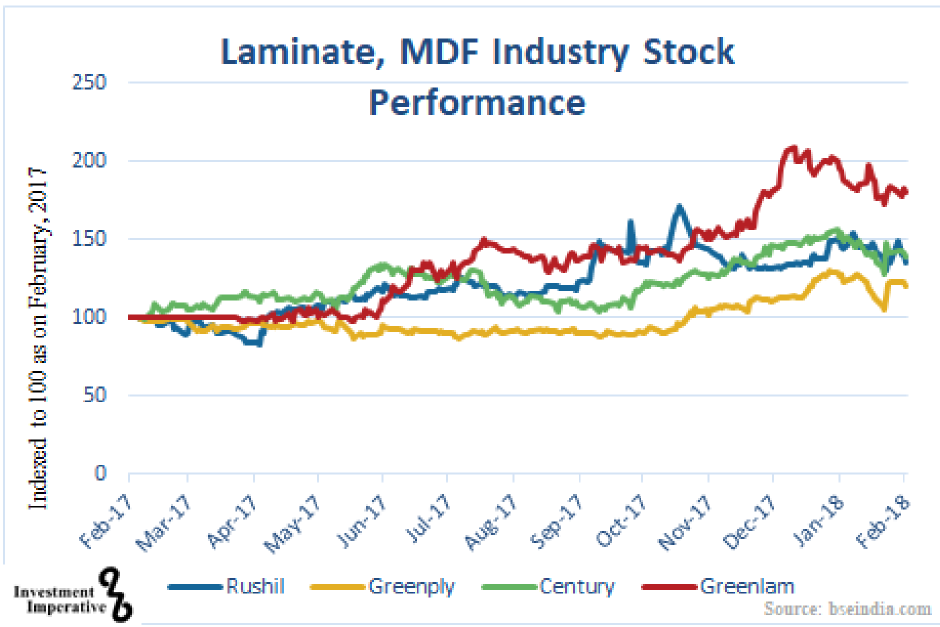
Fluctuating raw material prices can result in fluctuating margins

Rushil Décor Targeting Aggressive Expansion Plans in MDFs, WPCs

~3x Capacity Augmentation

Rushil Decor Limited is betting on aggressive expansion in medium density fibreboard or MDF space and green product wood polymer composite or WPC boards in the current and upcoming years. It is targeting almost three times capacity addition of 800 cbm/ day from the current capacity of 300 cbm/ day. Rushil has also started WPC board plant in January 2018 which is environment friendly and preferred option for green buildings.

Rushil posted revenues of Rs.255 crores in 9M18, compared to Rs.221 crores in the prior year period. The growth reflected higher utilization rates across the laminates and MDF segments due to strong demand backed by residential and commercial development projects. It posted EPS of Rs.15.1 in 9M18, a growth of 20.5% from the prior year period.



MDFs and WPCs are expected to see strong penetration in the Indian markets, as has been the case globally, largely due to their durability, environment friendly nature and premium feel. Rushil is clocking more than 85% utilization rates across laminates and MDF space. For the full year FY2019, we are estimating Rushil Decor's revenues at Rs.450 crores and EBITDA at Rs.82 crores. The company's net is expected to grow by 60% to Rs.45 Crore.

Footprints

Incorporated in 1993, Rushil is engaged in manufacturing of decorative laminate products and MDFs. The company has an operating capacity of approximately 35 lakh sheets per annum in the laminates segment, forming ~3% of India's total production capacity, marketed across the globe with a major concentration in Asia and Middle East.

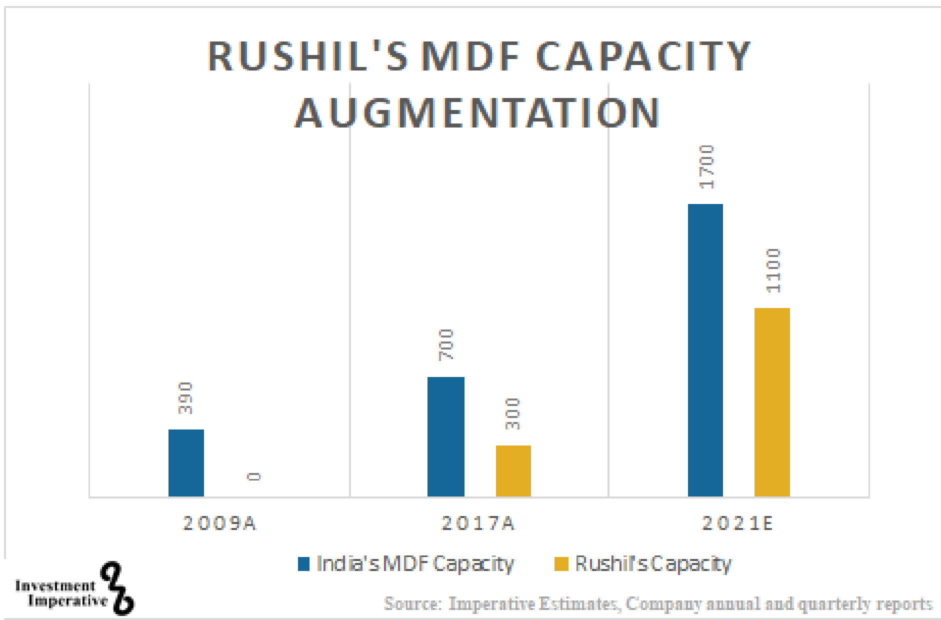
Aggressive capacity addition plans with favourable capital structure

Strong penetration amid brand building process to help achieve quick utilization rates

Capacity Augmentation in MDFs in Andhra Pradesh

Rushil Décor forayed in MDF space in 2012 and garnered more than 80% utilization rates within 3-4 years of entering in full fledged operations. The company is now targeting almost 3x capacity augmentation with the total project cost of Rs.340 crores to be funded with a debt to equity ratio of 2:1. Out of the total cost, Rs. 55 crores will come from internal accruals, Rs. 20 crores from private equity or QIP route, Rs.34 crores in form of unsecured loan and remaining in form of term loan, ECB and suppliers credit.

The plant is expected to be operational by FY20 and will have first full year of operations in FY21. This would increase Rushil's MDF capacity from 300 cbm/ day to 1100 cbm/ day. We are expecting the new plant to contribute revenues of Rs.200 crores by FY21 and Rs.340 crores at its peak utilization by FY23 at current market prices. The facility, low cost of funding and economies of scale should help the company garner EBITDA margins of ~25% and PAT margins of ~8.5%.



Stage wise completion

Rushil Décor has already identified land at Atchutapuram, Vishakhapatnam, Andhra Pradesh. The company has paid Rs.2.10 crores to Andhra Pradesh Industrial Infrastructure Corporation APIIC and has also garnered quotations for plant and machinergy, civil construction. Rushil is already operating one plant in Karnataka, which should allow the company to avail necessary approvals in the timely manner.

WPC plant

Rushil Décor's another capacity expansion is that of Wood Polymer Composite which is made out of recycled natural wood fibre, agricultural waste including rice husk, bagasse, wheat straw, and polymers including PVC. The eco friendly nature of the product allows its push in green building as well as among growing environment conscious society. The company has begin operations in January 2018 at Chikmangaluru, Karnataka with installed capacity of 5,760 MT per annum.

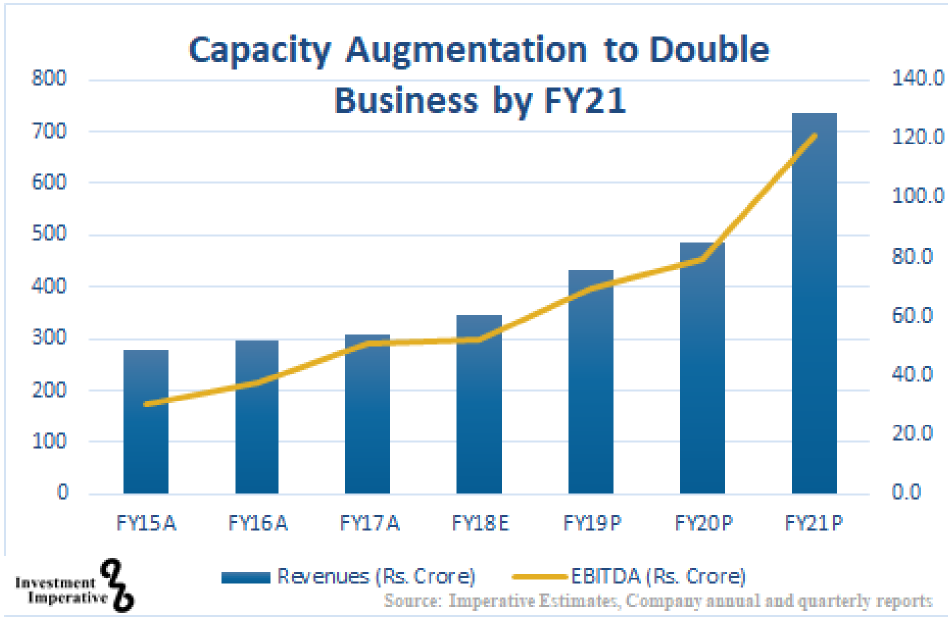
MDFs, WPCs having high teen growth rate expectations and huge potential vis a vis global markets

Rushil to lead in mid segment furnishing with majority capacity in MDFs space

Expanding into areas commanding high operating margins

Industry Dynamics Favoring Long Term Prospects for Rushil

Rushil is building up on its strong presence in the Laminates space by augmenting capacity in high growth areas such as MDFs and WPCs. India is net importer of MDFs, allowing for Rushil to replace that supply as well as cater to ~20% CAGR growing market. Globally, almost two third of the consumption in plywood sector is that of MDF, whereas, penetration in India is just 6% allowing for huge growth potential.



Industry wide, MDF capacity by 2021 is expected to touch ~1800 cbm/ day out of which Rushil would contribute majority number of 1100 cbm/ day. With the implementation of GST, unorganized market's contribution is shifting towards organized players. Initiatives like Make in India, affordable housing project and smart cities will further boost demand for MDFs, WPCs and laminates.

Globally, MDF market has grown almost ~11x over the past couple of decades with an implied CAGR of 13%, forming 65% of the total plywood and MDF consumption. Whereas, India's market has grown by 20% over the past five years forming just 6% of the total plywood and MDF consumption.

WPC prospects

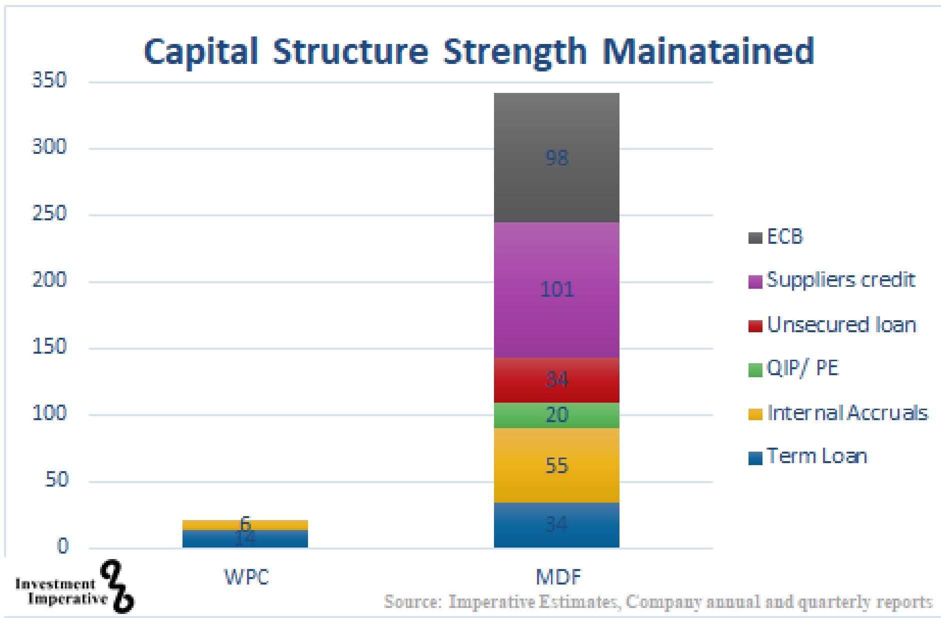
Rushil Decor has engaged in relative diversification of product offering with the introduction of WPC from its plant in Karnataka. The product is environment friendly and is expected to grow at ~11% globally over the next five years. The market is at nascent stage from India's perspective with penetration of just 1% as compared to high traction in Americas, Europe and China.

Rushil has installed capacity of 5,760 MT per annum with a total project cost Rs.20 crores, funded by a mix of term loans and internal accruals. The company is expected to garner Rs.60-Rs.65 crores in topline at 90% utilization rates with an expected EBITDA margins of 16%-17%.

Financial Leverage and Cost of Capital to Boost Net Profitability

Rushil Decor exports laminate sheets to more than 30 countries including US, Switzerland, Australia, China, middle east and Asia pacific countries. The company garnered Rs.102 crores in export revenues for FY17, a growth of 11% from the previous year. Dollar backed revenues have allowed it to raise capital in dollar denomination at lower cost.

Out of proposed project cost of Rs.341 crores, suppliers credit and external commercial borrowing amount of Rs.198 crores are expected to be funded at a rate of 5%-6%. Term loan of Rs.34 crores is proposed at 10.5%. The low cost of funding would allow the company garner higher net margins over the long run and generate higher return for equity holders.



Rushil Decor's facilities have been recently upgraded to A-/A2+ (FITCH – August 2017) on debt coverage indicators, utilization rates, liquidity and strong marketing network. The company's capital structure is flexible to accommodate major capital outlay for MDF capacity expansion.

Improving operating cycle

Rushil Decor garners cash discounts from its suppliers allowing for lower payables. However, maintains inventory days around 120-140 in order to stock wide variety of product offerings. The company provides credit period of 45 days resulting in receivables of ~50 days. Rushil funds its working capital requirement entirely from its Rs.47 crore facility from Bank of Baroda.

Strong Balance Sheet

Rushil Decor's Balance Sheet has grown to Rs.275 crores with total equity of Rs.110 crores in FY17, compared to Rs.264 crores and Rs.80 crores in the previous year. The company's balance sheet size is expected to expand above Rs.1000 crores by FY21 helped by capacity augmentation, expected profitability from WPC offering and continued organic growth.

GST, Organized play, Green Building Opportunities to Augment Scale

Indian markets are attracting equities across the sectors with a large allocation towards infrastructure, Make in India projects, affordable housing, smart cities. Overall, the economy is expected to grow in the range of 7%-9% over the next decade. With the introduction of goods and sales tax, focus on developing domestic industry, organized sector is gaining market share amid unorganized sector's stagnant or declining operations.

Organized sector and Rushil Decor

(Rs. Crores)

	Organized Sector (Laminates + MDFs)	Implied growth (%)	Rushil Decor (All Segments)	Implied growth (%)
FY16	4,100		298	
FY17	4,592	12%	309	4%
FY18	5,143	12%	347	12%
FY19	5,709	11%	432	24%
FY20	6,337	11%	486	13%
FY21	7,034	11%	734	51%

Source: Imperative Estimates, Bloomberg Estimates

Globally, nations have benefited from one market and tax rate that has lead to savings in taxes especially for manufacturing space. In India, the laminates and MDF sectors have attracted an average tax rate of 25-27% for the end product.

The unorganized sector has managed lower pricing due to avoidance of these taxes. However, post the implementation of GST in the sector at 18%, unorganized sector's pricing is in line with that of organized sector. Hence over the period of time there can be substantial shift in market share. MDF market is dominated completely by organized players and is expected to grow at 16%-18% over the next five years. Whereas, in laminates and veneers, organized sector commands 55% of the total market share.

The self-imposing goods and services tax with strong surveillance and other measures will bring small players under the tax bracket. The price difference between unorganized and organized players is declining under the current tax regime.

Input prices

Commodity prices are expected to see a spike especially for unorganized sector owing to a turn in global commodity cycle. The companies having supply linkages can enter into long term purchase contracts in order to avoid any dent in operating margins.

Input costs for unorganized players have increased in the recent past mainly due to a ban on exports of unprocessed timber from Myanmar one of the major suppliers of the commodity. On the demand front, US and China are expected to see renewed investments in infrastructure and real estate which should create marginal pressure on input prices in the medium term.

Unlocking value through expansion

Rushil Decor is focusing on brand building process and carving out a niche in mid to high segment, product offerings. The company is foraying into green, durable products keeping a tab on global trends and expected changes in the current consumption.

Rushil's foray in to MDFs has been quick and rewarding with high utilization rates, and higher operating margins. The company is looking to scale its capacity, as well as foray into WPCs to cater to green buildings, smart cities, and state of the art infrastructure projects in the country.

Capex of Rs.20 crores in FY18 and Rs.341 during FY19-FY20 period is expected to bring leverage of ~Rs.280 crores book equity of Rs.110 crores in FY17. We are expecting leverage to decline below 1x by FY22, within two years of implementation of MDFs project.

The company is currently trading at 19x on enterprise value to earnings before income tax on LTM basis. It is commanding premium in line with the industry averages largely due to strong growth expectations of the overall sector.

We are giving a target of Rs.1,277 for FY20 with an expectation for timely implementation of MDFs project in AP, utilization rate of above 80% for newly implemented WPC project by FY20.

Exit Valuation on Current Multiples

On the basis of EV/ EBITDA

Sl. No.	Parameter	Multiple (x)	EBITDA (Rs. Crore)	EV (Rs. Crore)	Equity Value (Rs. Crore)	Price Per share
A	Exit in 2019	16.6x	69	1,152	1,135	789
B	Exit in 2020	16.6x	79	1,313	1,358	943
C	Exit in 2021	16.6x	121	2,009	1,958	1,305

On the basis of Price / Earnings

Sl. No.	Parameter	Multiple (x)	PAT (Rs. Crore)	Equity Value (Rs. Crore)	Price Per share (Rs.)
A	Exit in 2019	34.0x	40	1,360	945
B	Exit in 2020	34.0x	46	1,564	1,086
C	Exit in 2021	34.0x	59	2,007	1,393

Source: Imperative Estimates, Bloomberg Estimates

Projected Financials

Rushil Decor's Income Statement

(All figures in INR Crores unless stated otherwise)	FY13A	FY14A	FY15A	FY16P	FY17P	FY18P	FY19P	FY20P	FY21P
Revenue from operations	**182**	**256**	**276**	**297**	**306**	**344**	**428**	**481**	**730**
Other income*	1	2	2	1	3	**3**	**4**	**4**	**4**
Total Revenues	**184**	**257**	**278**	**298**	**309**	**347**	**432**	**486**	**734**
Operating Expenses									
Raw Material Cost	119	171	181	187	168	203	248	274	418
[-] Stock Adjustments	3	7	(0)						
[+] Power Cost	11	19	18	19	20	22	27	31	49
[+] Employee Cost	9	14	16	18	21	24	27	31	46
[+] Other Manufacturing Expenses	1	2	2	2	4	3	4	5	8
[+] Admin & Misc Expenses	21	28	31	34	46	43	55	65	92
[-] Total Operating Expenses	**159**	**228**	**247**	**260**	**260**	**295**	**362**	**407**	**613**
EBITDA	**25**	**30**	**31**	**38**	**49**	**52**	**69**	**79**	**121**
[-] Depreciation	5	8	7	7	7	7	7	8	20
EBIT	**20**	**22**	**24**	**31**	**42**	**46**	**62**	**71**	**101**
[-] Interest	11	15	14	12	10	7	6	6	18
PBT and exceptional, extraordinary items	**9**	**7**	**9**	**19**	**32**	**38**	**56**	**65**	**83**
Extraordinary item	-	-	(6)	-	-	-	-	-	
PBT	**9**	**7**	**3**	**19**	**32**	**38**	**56**	**65**	**83**
[-] Taxes	5	4	4	11	9	**11**	**16**	**19**	**24**
PAT	**4**	**3**	**(1)**	**8**	**23**	**27**	**40**	**46**	**59**
Shares in issue (Lakhs)	144	144	144	144	144	144	144	144	144
Earnings per share (Rs.)	2.80	2.09	(0.45)	4.96	15.78	18.96	27.53	32.05	40.92

**Includes export incentives*

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