

FIRST LIGHT

RESEARCH

Century Plyboards | Target: Rs 735 | +37% | BUY

Strong quarter; raise to BUY post correction

BOB Economics Research | Currency Outlook

Pressure on INR

Kajaria Ceramics | Target: Rs 1,460 | +55% | BUY

Muted volume growth and higher gas prices play spoilsport

Consumer Durables

EESL's retail push unlikely to shake up the market

SUMMARY

Century Plyboards

- Q4 revenue/PAT came in at Rs 8.9bn/Rs 0.9bn led by robust price realisations across segments (ex-plywood)
- EBITDA grew 27% YoY to Rs 1.6bn with 80bps margin expansion to 18% as employee cost declined 110bps
- We maintain our TP at Rs 735 (achieved on 23 Mar); upgrade from HOLD to BUY post recent correction

[Click here for the full report.](#)

India Economics: Currency Outlook

DXY continued to hover around a 20-year high in May'22 amidst safe-haven demand as well as expectations of aggressive rate hikes by Fed. US outlook too remain favorable. Safe-haven flows also helped drive some appreciation in JPY. Other currencies lost ground against the dollar, with EM currencies being the worst hit. High global commodity prices and resultant rise in inflation as well as persistent FPI outflows are hurting EM currencies. Even in India, inflation risks have exacerbated prompting RBI to hike rates. Further, external sector risks have increased amidst elevated oil prices and persistent FPI outflows. We expect INR to remain under pressure in the near-term. INR is likely to trade in the range of 77-78/\$ in the next fortnight with a depreciating bias.

[Click here for the full report.](#)

Daily macro indicators

Indicator	13-May	16-May	Chg (%)
US 10Y yield (%)	2.92	2.88	(4bps)
India 10Y yield (%)	7.24	7.32	7bps
USD/INR	77.43	77.45	0.0
Brent Crude (US\$/bbl)	111.6	114.2	2.4
Dow	32,197	32,223	0.1
Hang Seng	19,899	19,950	0.3
Sensex	52,794	52,974	0.3
India FII (US\$ mn)	11-May	12-May	Chg (\$ mn)
FII-D	3.0	(43.9)	(46.9)
FII-E	(388.7)	(619.9)	(231.2)

Source: Bank of Baroda Economics Research

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Kajaria Ceramics

- Q4 revenue grew 16% YoY (+3% QoQ) spurred by a 13% rise in tile realisations; volume growth was subdued at 2%
- EBITDA margin declined 500bps YoY to 15.1% on higher power & fuel cost (+535bps)
- We retain BUY and our TP of Rs 1,460 given strong growth prospects and attractive valuations

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Consumer Durables

- EESL plans to expand its footprint in B2C retail with products such as smart bulbs, energy-efficient ACs and fans
- In our view, this merely adds one more player and is unlikely to distort the industry in a major way
- HAVL, VOLT and POLYCAB feature among our top picks in consumer durables

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BUY

TP: Rs 735 | ▲ 37%

CENTURY PLYBOARDS

Construction Materials

17 May 2022

Strong quarter; raise to BUY post correction

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Ruchitaa Maheshwari

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Strong growth aided by higher realisations: CPBI reported standalone Q4FY22 revenue growth of 21% YoY to Rs 8.9bn, with plywood up 19%, MDF 37%, laminates 14% and particle board 57%. Volumes in the plywood, MDF and laminate segments grew 13%, 1% and 1% YoY respectively. Realisations increased 28% YoY in MDF and 9% in laminates whereas plywood saw a 6% decline.

MDF continues to perform well: MDF EBITDA margin expanded 600bps YoY to 32.8% backed by higher capacity utilisation and price hike benefits. Management expects stronger demand traction ahead due to (a) higher acceptance of MDF in the domestic market and (b) lower imports owing to improved demand in respective geographies and higher shipping costs. As per management, work on MDF expansion by 350cbm/day at the existing Hoshiarpur unit is in full swing and commissioning is likely by October-end. The MDF project in Andhra Pradesh is on track to come online in H2FY24 with a capacity of 950cbm/day at a capex of Rs 6bn.

Well-placed to benefit from demand revival: We expect CPBI's growth momentum to sustain over the near-to-medium term supported by (a) double-digit growth in plywood and laminates given a pickup in the housing sector alongside a gradual demand shift from unorganised to organised players, and (b) double-digit growth and better margins in MDF and particle boards amid buoyant demand for readymade furniture and exports. Overall, we believe the company's EBITDA margin will expand backed by a higher MDF contribution, superior product mix, operating leverage and cost rationalisation.

Valuations reasonable; BUY: CPBI achieved our TP of Rs 735 on 23 Mar 2022 but has since corrected ~30% and is now trading at 28x FY24E EPS compared to its 5Y median of 31.4x. We find valuations attractive and upgrade the stock to BUY from HOLD while retaining our TP at Rs 735, set at an unchanged 35x FY24E P/E multiple. In our view, CPBI's long-term growth story remains intact given its strong fundamentals, impressive return ratios and healthy balance sheet.

Key changes

Target	Rating
◀ ▶	▲

Ticker/Price	CPBI IN/Rs 538
Market cap	US\$ 1.5bn
Free float	27%
3M ADV	US\$ 3.4mn
52wk high/low	Rs 749/Rs 342
Promoter/FPI/DII	73%/7%/20%

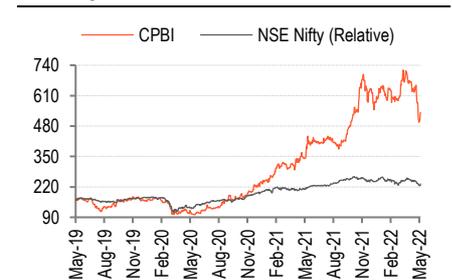
Source: NSE | Price as of 17 May 2022

Key financials

Y/E 31 Mar	FY22P	FY23E	FY24E
Total revenue (Rs mn)	30,270	35,677	41,343
EBITDA (Rs mn)	5,308	6,407	7,420
Adj. net profit (Rs mn)	3,148	4,012	4,675
Adj. EPS (Rs)	14.2	18.1	21.0
Consensus EPS (Rs)	14.2	17.0	21.4
Adj. ROAE (%)	22.3	23.0	21.7
Adj. P/E (x)	38.0	29.8	25.6
EV/EBITDA (x)	22.7	18.6	16.1
Adj. EPS growth (%)	57.7	27.5	16.5

Source: Company, Bloomberg, BOBCAPS Research | P – Provisional

Stock performance



Source: NSE



CURRENCY OUTLOOK

17 May 2022

Pressure on INR

DXY continued to hover around a 20-year high in May'22 amidst safe-haven demand as well as expectations of aggressive rate hikes by Fed. US outlook too remain favorable. Safe-haven flows also helped drive some appreciation in JPY. Other currencies lost ground against the dollar, with EM currencies being the worst hit. High global commodity prices and resultant rise in inflation as well as persistent FPI outflows are hurting EM currencies. Even in India, inflation risks have exacerbated prompting RBI to hike rates. Further, external sector risks have increased amidst elevated oil prices and persistent FPI outflows. We expect INR to remain under pressure in the near-term. INR is likely to trade in the range of 77-78/\$ in the next fortnight with a depreciating bias.

Aditi Gupta
Economist

How have currencies fared?

Emerging risks to global growth drove global currencies lower in the last fortnight. On the other hand, safe-haven dollar (DXY index) and Japanese yen (JPY) strengthened. Global outlook has worsened significantly amidst lockdowns in major Chinese cities, Russia-Ukraine war, high inflation and monetary policy tightening across the world. DXY surged to a 20-year high, driven by as expectations of aggressive policy by Fed as well as better growth prospects in the US. Fed hiked rates by 50bps-highest in over 22 years, and indicated 2 more rate hikes of similar magnitude in the next two meetings and also signaled winding down its US\$ 9tn balance sheet. As a result, US10Y yield also shot up significantly to above 3%, for the first time since Nov'18.

Amongst other advanced economies, GBP depreciated sharply by 2.1% on growth concerns. BoE, while raising rates by another 25bps to 1% (highest since 2009), warned against the risk of recession. EUR too depreciated by another 1.1% as EU's proposed import ban on Russian oil imports threatens the economic growth in the region.

EM currencies have been most severely hit amidst a broad-based dollar strength. MSCI EM currency index has fallen by 1.7% in this month. Turkish lira (TRY) depreciated sharply by 4.5% this fortnight, led by fears of widening CAD and high inflation. CNY has depreciated sharply by 2.6% as fears of economic slowdown due to stringent and continued lockdowns in several cities weigh on the currency.

Macro data showed that China's exports, retail sales and industrial production slowed down in Apr'22. Korean won (KRW) is down by 2.2% and Brazilian real (BRL) has also depreciated by 1.8%. INR depreciated by 1.3% in the last fortnight to a record-low of 77.46/\$ on 9 May 2022. Elevated oil prices, high inflation, persistent FPI outflows as well as a stronger dollar continue to weigh on the rupee.



BUY
 TP: Rs 1,460 | ▲ 55%

KAJARIA CERAMICS

Construction Materials

17 May 2022

Muted volume growth and higher gas prices play spoilsport

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- EBITDA margin declined 500bps YoY to 15.1% on higher power & fuel cost (+535bps)
- We retain BUY and our TP of Rs 1,460 given strong growth prospects and attractive valuations

Ruchitaa Maheshwari
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Higher realisation buoys topline: KJC's Q4FY22 revenue increased 16% YoY (+3% QoQ) to Rs 11bn, backed by a 13% rise in realisations to Rs 385/sqm. However, sale volumes grew just 2% to 26msm as the third Covid-19 wave hit demand in the months of January and February. Revenue from the tiles business rose 16% YoY to Rs 10bn, with the company's own manufacturing, subsidiaries and outsourcing businesses contributing Rs 5.6bn (+8% YoY), Rs 1.4bn (+9%) and Rs 2.9bn (+39%) respectively. Sanitaryware and plywood revenue climbed 18% YoY to Rs 1bn.

Margins contract: Due to higher power & fuel cost (+535bps YoY) – mainly high gas cost averaging Rs 49.79/scm – gross margin contracted 510bps YoY to 25.5%. EBITDA margin declined 500bps YoY and 215bps QoQ to 15.1%.

Revenue guided to grow 20-25% in FY23: Management expects volume growth to the tune of 15-20% and revenue growth of 20-25% in FY23. The company has avoided giving any outlook on margins as gas prices are at a peak and supply is erratic.

Expansion projects commissioned: In Apr'22, KJC commissioned 4.4msm of PVT capacity at subsidiary Kajaria Vitrified Pvt Ltd (formerly Jaxx Vitrified), 4.2msm of ceramic floor tiles at the Gailpur plant (Rajasthan) and 3.8msm of value-added glazed vitrified tiles at Srikalahasti (Andhra Pradesh).

Long-term value play; retain BUY: We believe that KJC has long-term structural growth drivers from improving real estate demand in tier-3-and-below towns, domestic market share gains from Morbi and an increasing focus on exports. The stock has corrected ~36% from its 52-week high (19 Jan 2022) and is trading at an FY24E P/E of 25.8x compared to its 5Y median of 41x, which is reasonable given its increasing volumes and healthy return ratios. We continue to value the stock at 40x FY24E EPS and retain our TP of Rs 1,460 with a BUY rating given strong growth prospects and attractive valuations.

Key changes

Target	Rating
◀ ▶	◀ ▶

Ticker/Price	KJC IN/Rs 943
Market cap	US\$ 1.9bn
Free float	53%
3M ADV	US\$ 3.3mn
52wk high/low	Rs 1,375/Rs 885
Promoter/FPI/DII	48%/21%/31%

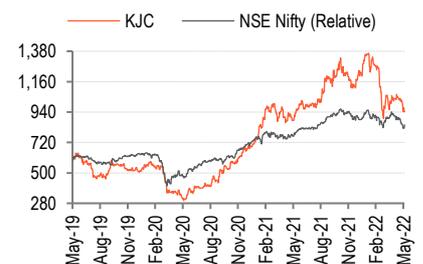
Source: NSE | Price as of 17 May 2022

Key financials

Y/E 31 Mar	FY22P	FY23E	FY24E
Total revenue (Rs mn)	37,052	43,635	49,791
EBITDA (Rs mn)	6,107	7,643	9,225
Adj. net profit (Rs mn)	3,770	4,710	5,800
Adj. EPS (Rs)	23.7	29.6	36.5
Consensus EPS (Rs)	23.7	31.8	38.3
Adj. ROAE (%)	18.9	21.6	25.1
Adj. P/E (x)	39.8	31.8	25.8
EV/EBITDA (x)	24.2	19.2	16.1
Adj. EPS growth (%)	22.4	24.9	23.1

Source: Company, Bloomberg, BOBCAPS Research | P – Provisional

Stock performance



Source: NSE



CONSUMER DURABLES

17 May 2022

EESL's retail push unlikely to shake up the market

- EESL plans to expand its footprint in B2C retail with products such as smart bulbs, energy-efficient ACs and fans
- In our view, this merely adds one more player and is unlikely to distort the industry in a major way
- HAVL, VOLT and POLYCAB feature among our top picks in consumer durables

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EESL announces major retail push...: State-run Energy Efficiency Services (EESL) – the organisation responsible for implementation of the government's Ujala scheme – plans to increase its presence in the B2C retail space through offline and online channels, with products such as smart bulbs, inverter bulbs, energy-efficient ACs, fans and induction cooking stoves. EESL already has an online presence through EESLmart.in and the company now plans to set up 1,000 brick-and-mortar shops across the country in the next three years, as per media articles.

...and can emerge as a competitor: The new stores will be a combination of own outlets, franchises and tie-ups with the Department of Posts and CSC (Common Service Centre). These two entities had assisted in the distribution of LED bulbs under the Ujala scheme. While EESL would be the front end, it intends to invite tenders from manufacturing companies to make energy-efficient products.

No material impact on sector dynamics: Growth in Indian consumer durables still remains largely secular, driven by under-penetration of these products, and the addition of one more player is unlikely to disrupt the market in a major way. Almost all players have similar energy-efficient products on offer and are fully geared for any potential energy rating changes in the near term. Pricing may be one aspect that could face some disruption but despite its competitive nature, the consumer durables sector has historically maintained price discipline and we expect this trend to continue.

Our picks – HAVL, VOLT, POLYCAB: In an inflationary environment where companies are grappling with raw material cost challenges, we prefer the larger players in their respective segments. We rate the following stocks as top picks from among those on which we have assumed coverage – HAVL (BUY, TP Rs 1,500), VOLT (BUY, TP Rs 1,250) and POLYCAB (BUY, TP Rs 3,000).

Recommendation snapshot

Ticker	Price	Target	Rating
AMBER IN	2,704	3,500	HOLD
BLSTR IN	1,009	1,200	HOLD
CROMPTON IN	352	621	BUY
DIXON IN	3,343	5,431	HOLD
HAVL IN	1,236	1,500	BUY
ORIENTEL IN	287	350	HOLD
POLYCAB IN	2,572	3,000	BUY
VGRD IN	213	321	BUY
VOLT IN	952	1,250	BUY
WHIRL IN	1,547	2,901	BUY

Price & Target in Rupees | Price as of 16 May 2022



Disclaimer

Recommendation scale: Recommendations and Absolute returns (%) over 12 months

BUY – Expected return >+15%

HOLD – Expected return from -6% to +15%

SELL – Expected return <-6%

Note: Recommendation structure changed with effect from 21 June 2021

Our recommendation scale does not factor in short-term stock price volatility related to market fluctuations. Thus, our recommendations may not always be strictly in line with the recommendation scale as shown above.

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