

NOT RATED**RUSHIL DECOR**

| Building Materials

| 21 March 2024

Management meet takeaways: Aggressive growth plan

- RDL maintained its guidance of trebling revenue over the next five years by increasing its presence across wood panel segments
- Company expects jumbo laminate plant in Gujarat to improve segment margin profile due to foray into high value-added thick product range
- Despite weak industry dynamics, RDL's MDF margin to improve on rise in VAP share, nil export obligation and operating leverage benefit

Meeting with RDL management: We recently met with Rushil Décor's (RDL; Not Rated) senior management (Rushil K. Thakkar, Whole-Time Director; Keyur Gajjar, CEO; and Hiren B. Padhya, CFO) to understand industry dynamics of various wood panel segments and the near-term outlook. Key takeaways from our meeting are:

Future road-map: RDL aims to triple its revenue over FY24-FY29 based on: (a) incremental revenue of ~Rs 3.5bn-4.0bn from the MDF segment which is due to ramp-up existing capacity (to 110% from 75-80% at present) and increased share of value-added products (to 65-70% from 43% in Q3FY24); (b) incremental revenue of Rs 1.5bn-2.0bn from the new jumbo laminate project; (c) incremental revenue of Rs 1.5bn from the new plywood project; and (d) additional revenue contribution from a new wood panel project (expected to be finalised shortly).

Laminate: RDL expects its laminate segment blended margin to improve to 12-13% by FY26, from the present 8-9%, due to its foray into the high value-added thick product range through its upcoming jumbo plant in Gujarat in Q2FY25.

MDF: The MDF industry margin might come under pressure in the near future due to additional incentives of 5-8% offered by domestic players in plain MDF products in Q4FY24 and BIS implementation norms deferred to Mar'25 from Mar'24. However, the company expects its MDF margin profile to improve over the medium term due to (a) a rise in the share of value-added products (VAP) of its Andhra Pradesh (AP) plant to 55-60% over the next year from 30% now; (b) completion of export obligations by Mar'24; and (c) operating leverage benefit due to the ramp up of the AP plant from 70-75% at present to 85-90% over the next two years.

Plywood: RDL recently announced plans to enter the plywood segment through a joint venture (51:49) with Modala Panels and Boards. RDL estimates the plywood project cost to be ~Rs 400mn and the plant to commence operations in FY25.

Valuation: As per Bloomberg Consensus estimates, RDL trades at 8.3x/7.2x/6.0x on FY24/FY25/FY26 EPS. We do not have a rating on the stock.

Utkarsh Nopany

research@bobcaps.in

Ticker/Price	RDL IN/Rs 290
Market cap	US\$ 107.3mn
Free float	44%
52wk high/low	Rs 407/Rs 202
Promoter/FPI/DII	56%/1%/0%

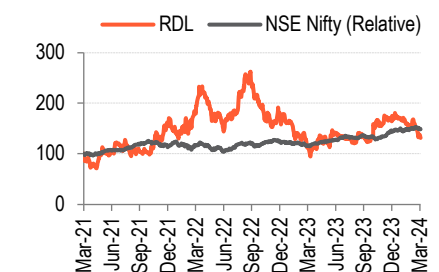
Source: NSE | Price as of 20 Mar 2024

Key financials

Y/E 31 Mar	FY21A	FY22A	FY23A
Total revenue (Rs mn)	3,354	6,242	8,384
EBITDA (Rs mn)	350	739	1,624
Adj. net profit (Rs mn)	126	228	877
Adj. EPS (Rs)	6.4	11.5	44.0
Consensus EPS (Rs)	6.4	11.5	44.0
Adj. ROAE (%)	5.1	8.3	27.0
Adj. P/E (x)	32.8	47.2	5.9
EV/EBITDA (x)	22.3	20.1	5.7
Adj. EPS growth (%)	(45.9)	80.9	284.4

Source: Company, Bloomberg, BOBCAPS Research

Stock performance



Source: NSE



The key takeaways from our meeting with RDL are:

- **RDL's road-map:** The company aims to triple its revenue over FY24-FY29 due to incremental revenue of ~Rs 3.5bn-4.0bn from the ramp-up of capacity at its MDF plant and increased share of value-added products; higher revenue from its new jumbo laminate and plywood projects; and additional revenue contribution from a new wood panel project (which it expects to finalise shortly).
- **Laminates market share:** RDL laminates sales volume fell from 3.2mn sheets in FY16 to 2.9mn sheets in FY23 due to changes in product-mix and capacity constraints. However, management expects its laminates segment volume growth to be healthy from FY25 due to the start of a greenfield plant in Gujarat in Q2FY25.
- **Laminates margin outlook:** RDL's product category realisations are lower than that of its peers as it is operating in the thin laminates product category at the moment. However, management believes the new jumbo laminate plant would help narrow the realisation difference with its major peers as it would cater to the thick laminates product range (which fetches good premium over the thin product). As a result, RDL expects its laminate segment's blended margin to improve to 12-13% by FY26 from 8-9% at present due to better contributions from the new plant.
- **Laminates export share:** RDL expects its exports share in laminates to rise over the medium term (from 64% in FY23) as more than 90% of its jumbo plant capacity is focused on the export market (better realisation than the domestic market). The company's laminate exports are mainly in the B2B segment, but domestic sales mostly take place through its channel network.
- **MDF outlook:** The MDF industry's margin might come under pressure in the near future due to additional incentives offered by domestic players of 5-8% in plain MDF products in Q4FY24 and the BIS implementation norm being deferred by one year from Mar'24 to Mar'25. However, RDL expects its MDF margin profile to improve over the medium term as it expects (a) a rise in the share of value-added products of its AP plant from 30% at present to 55-60% over the next year; (b) completion of export obligations by Mar'24; and (c) operating leverage benefit due to the ramp up of its AP plant over the next two years to 85-90% from 70-75% at present.
- **Particleboard:** Management believes low-end plain-vanilla MDF demand cannot be replaced by particleboard in future due to different product characteristics (i.e. durability, strength, etc). The company exited from the particleboard category due to stiff competition from unorganised players in this segment.
- **Plywood:** RDL recently announced its plan to enter the plywood segment through a JV (51:49) with Modala Panels and Boards as it aims to operate in all the major wood panel segments and leverage its existing distribution network. It estimates the plywood project cost to be Rs 400mn (RDL's share would be 51%) and the plant to commence operations in FY25. Management expects to generate revenue of Rs 1.5bn at peak utilisation from this segment.

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Note: Recommendation structure changed with effect from 21 June 2021

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