# Century Plyboards (I) – BUY

19 September 2014

Institutional Equities

## Leading branded plywood company

**We initiate coverage on Century Plyboard (CPBI), India's leading plywood manufacturer, with a BUY recommendation and one-year target of Rs156. We expect CPBI to record 40% earnings Cagr over FY14-FY17. Demand in the housing segment was sluggish for the past two years. The Indian economy is on the recovery path and we expect a resurgent economy to boost demand for housing. CPBI, a plywood manufacturer with strong brand recall, has expanded capacity by 70% in the past two years. The company should benefit from this improvement in demand. Organised players hold nearly one-third share of Rs45bn in the Indian plywood and panel market estimated at Rs150bn. CPBI is a dominant player with ~25% share in the organised market.**

**Leading plywood producer in India:** CPBI is India's leading plywood producer with the highest volume and revenue. Greenply, a close competitor, is also a pan-India player in the organised market and the other 5-6 organised players are essentially regional. CPBI and Greenply dominate the organised plywood market with a combined ~50% market share. CPBI commands 5% premium over its nearest brand and 20% premium over products of unorganised companies.

**Economic recovery to boost growth:** We believe a strong and stable government with focus on housing segment development would augur well for plywood demand. The plywood industry is likely to clock 10-11% revenue growth and organized players are expected to register 25-30% growth; the unorganized segment is losing market share due to reducing duty differences and preference for products with better and consistent quality. We expect CPBI to record 21% Cagr in revenues for FY14-FY17 against 11% Cagr for the past three years.

**Revival in demand growth to boost return ratios:** CPBI recorded 25% ROE in FY14 despite low utilisation, largely due to a sluggish economy. ROE also suffered due to a huge forex loss of Rs440m because of INR depreciation. This should reverse in FY15. With major capex complete and likely improvement in volumes, return ratios should expand. CPBI spent Rs410m to set up greefield capacity in Kandla, Gujarat for 31000 cbm/annum in FY14. It expects annual revenue of Rs2bn from this expansion with likely payback period of two years.

| | |
|---|---|
| CMP | Rs120 |
| 12-mth TP (Rs) | 156 (30%) |
| Market cap (US$m) | 439 |
| Enterprise value(US$m) | 510 |
| Bloomberg | CPBI IN |
| Sector | Mid-caps |

**Shareholding pattern (%)**

| | |
|---|---|
| Promoter | 74.5 |
| FII | 2.9 |
| DII | 0.5 |
| Others | 22.2 |

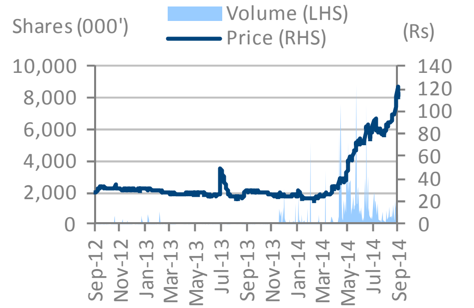
| | |
|---|---|
| 52Wk High/Low (Rs) | 124/22 |
| Shares o/s (m) | 222 |
| Daily volume (US$ m) | 1.3 |
| Dividend yield FY15ii (%) | 1.2 |
| Free float (%) | 25.5 |

**Price performance (%)**

| | 1M | 3M | 1Y |
|---|---|---|---|
| Absolute (Rs) | 43.0 | 57.3 | 297.0 |
| Absolute (US$) | 44.3 | 57.8 | 318.1 |
| Rel. to Sensex | 40.2 | 49.9 | 261.2 |

| Cagr (%) | 3 yrs | 5 yrs |
|---|---|---|
| EPS | (2.8) | 9.3 |

**Stock performance**




**Financial summary (Rs m)**

| Y/e 31 Mar, Parent | FY13A | FY14A | FY15ii | FY16ii | FY17ii |
|---|---|---|---|---|---|
| Revenues (Rs m) | 11,311 | 12,840 | 16,050 | 19,260 | 23,112 |
| *Ebitda margins (%)* | *10.0* | *11.5* | *13.0* | *12.7* | *12.5* |
| Pre-exceptional PAT (Rs m) | 527 | 669 | 1,322 | 1,583 | 1,854 |
| Reported PAT (Rs m) | 527 | 669 | 1,322 | 1,583 | 1,854 |
| Pre-exceptional EPS (Rs) | 2.4 | 3.0 | 5.9 | 7.1 | 8.3 |
| *Growth (%)* | *(26.6)* | *27.1* | *97.5* | *19.7* | *17.1* |
| *IIFL vs consensus (%)* | | | *4.3* | *(9.2)* | *(19.1)* |
| **PER (x)** | **50.8** | **39.9** | **20.2** | **16.9** | **14.4** |
| *ROE (%)* | *18.7* | *24.7* | *39.1* | *36.2* | *33.6* |
| Net debt/equity (x) | 1.5 | 1.5 | 0.9 | 0.8 | 0.6 |
| EV/Ebitda (x) | 26.9 | 20.9 | 14.5 | 12.4 | 10.5 |
| Price/book (x) | 10.7 | 9.2 | 6.9 | 5.4 | 4.4 |

Source: Company, IIFL Research. Priced as on 18 September 2014

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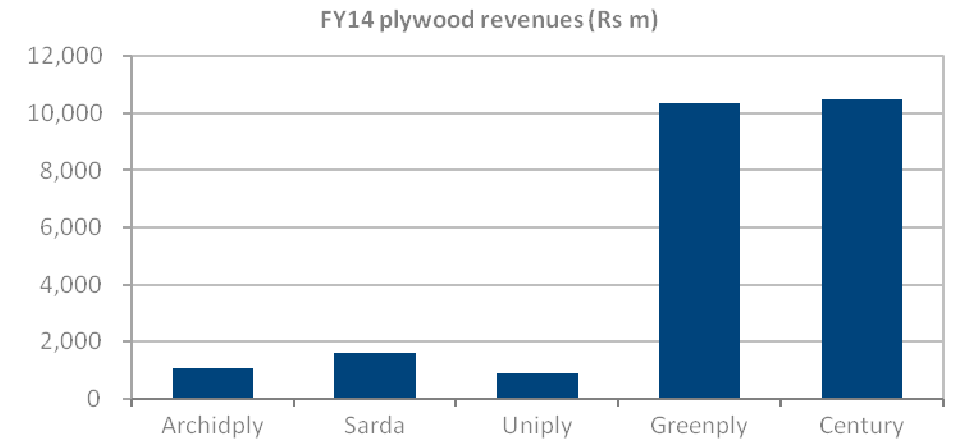
**Strong brands, leadership position in plywood business:** CPBI is India's leading plywood producer with the highest volume and revenue for FY14. CPBI has a pan-India presence. The Indian plywood and panel market is estimated at Rs150bn with the share of organised players at Rs45bn. CPBI has ~25% share in the organized market. Greenply is a close competitor with an equal market share. Other organized players in this segment are small regional players.

**Figure 1: Plywood revenues for major organized players**




Source: Company, IIFL Research

**Figure 2: Plywood brands of Century**


Source: Companies, IIFL Research

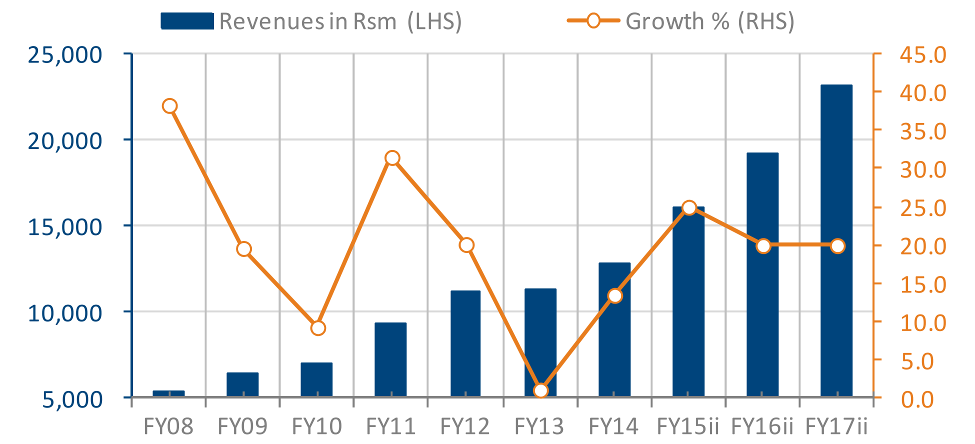
**Narrowing excise duty difference boosted growth of organised players:** The plywood industry is expected have grown at 10-15% over the past few years and growth of organised players is estimated at 20-25%. In FY08, excise duty on plywood-related products was reduced by half to 8% but was increased to 10% in FY11 and further to 12% in FY13. Narrowing excise differential and eligibility to claim MODVAT benefits on inputs have placed the organised sector on par with the unorganized sector. Further, high volumes, quality, and brand recognition place provide distinct advantages to organized players.

**Strong revenue and Ebitda growth despite sluggish economy:** CPBI's revenue and Ebitda grew at 16% Cagr over FY10-FY14 driven by improved demand for products of the organized sector and strong brand recall for CPBI. CPBI has focused on brand building and has spent more than Rs2.2bn on brand promotion in the past 10 years; currently CPBI's spending on brand building forms 4% of revenue; management expects to maintain the current percentage of ad spending, to boost revenue. PAT declined for FY10-FY14 period due to reduction in other income as the cement and ferro alloys businesses were hived off into a separate company.

**Recovery in housing demand likely to boost revenue growth:** We expect the new government to focus on the key housing segment as the BJP manifesto indicates a massive low-cost housing programme. According to a report of the technical Group of Ministry of Housing and Urban Poverty Alleviation, India faced a shortage of 18.8m units in urban housing as of end-2012. The working group on rural housing places the total housing shortage in rural areas at 43.7m units. Given increasing urbanisation, we believe this shortage should escalate. Our channel checks suggest that the severe slowdown in individual housing demand in the past two years is likely to reverse once the economy starts improving.

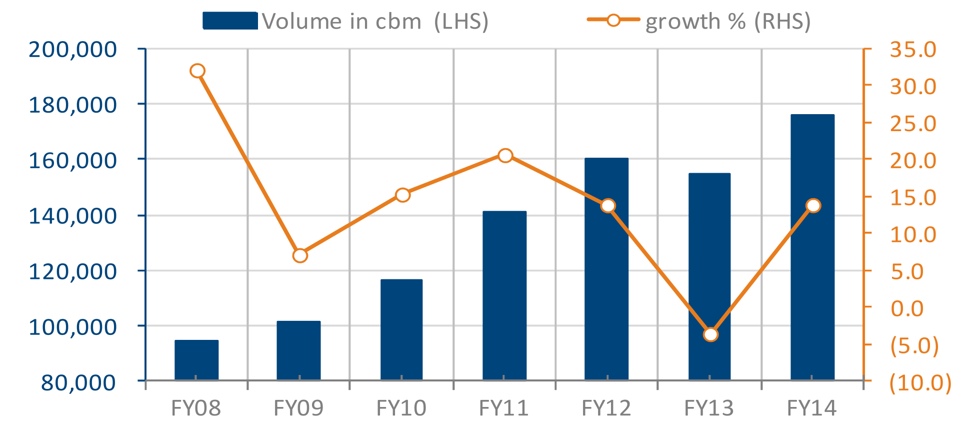
The government increased interest exemption on loans for self-occupied property from Rs150,000 per year to Rs200,000 per year in this year's budget; apart from this, it increased exemption under 80C from Rs100,000 to Rs150,000 (repayment of principal amount on housing loan can be claimed under this section). The government also sanctioned Rs40bn to the National Housing Board for promoting affordable housing. We expect these measures to boost demand for housing which would in turn engender a revival in plywood demand. Our channel checks indicate revival in the cement and building products segment for the past few months. The plywood industry is likely to clock 10-11% revenue growth whereas revenue of organized players is expected to grow at 20-30%; the unorganised segment is losing market share rapidly due to reducing duty differential and changing preference for branded products with better and consistent quality. We expect CPBI's revenue to grow at 21% Cagr for the next three years compared with 11% Cagr for the past three years. Implementation of GST is likely to boost growth substantially for CPBI.

**Figure 3: Revenue and growth trend**




Source: Company, IIFL Research

**Figure 4: Plywood volume and growth trend**

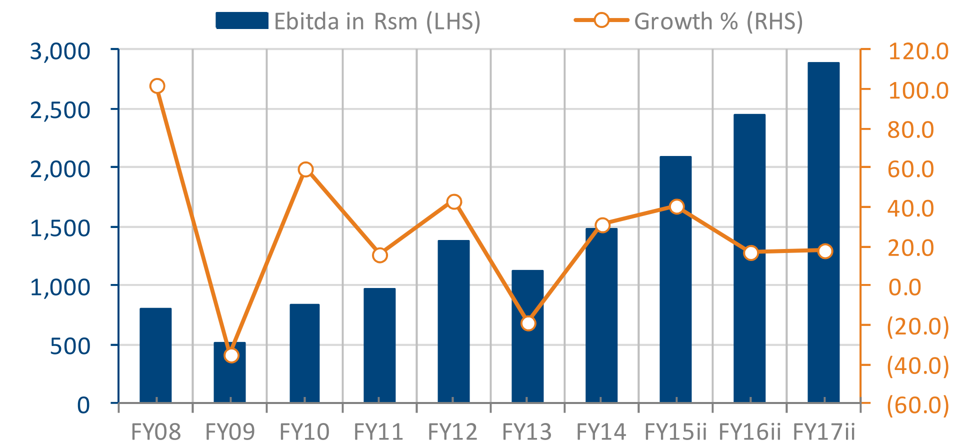



Source: Company, IIFL Research

**Rupee depreciation depresses margins in FY14:** Although revenue has shown resilience for the past two years despite a slowdown in the economy, margins have trended below the long-term average due to increase in cost of imported raw materials due to INR depreciation. For the past two years, INR depreciated sharply and has remained volatile, resulting in volatility in raw material expenses and margins for CPBI. CPBI has reasonable pricing power due to the presence of just a few organised players and discipline in the market. This premium and pricing power have allowed the company to increase prices 6-7 times during a year. However, in the past two years, despite the increase in prices, sharp volatility in raw material prices and in INR depressed margins.

**Reduction in forex loss to boost margins in FY15:** The management expects Ebitda margin of 12-13% (barring major volatility in INR movement) since it is confident of passing cost increases and maintaining profitability. Margin for FY14 suffered due to Rs440mn loss owing to INR depreciation.

**Figure 5: Ebitda and growth trend**




Source: Company, IIFL Research

**Focus on brand building and distribution network:** CPBI spent at an average of more than 3% for the past five years on advertising and promotions. For FY15, management guided to spending of ~4% on sales on advertising and promotion. We expect the run rate to remain largely at the current level since CPBI is likely to strengthen its brands further. CPBI has a strong distribution network of more than 10000 dealers, sub-dealers of which more than 1500 are direct dealers. To cater to pan-India demand, CPBI has six plywood manufacturing facilities with at least one facility in each zone.

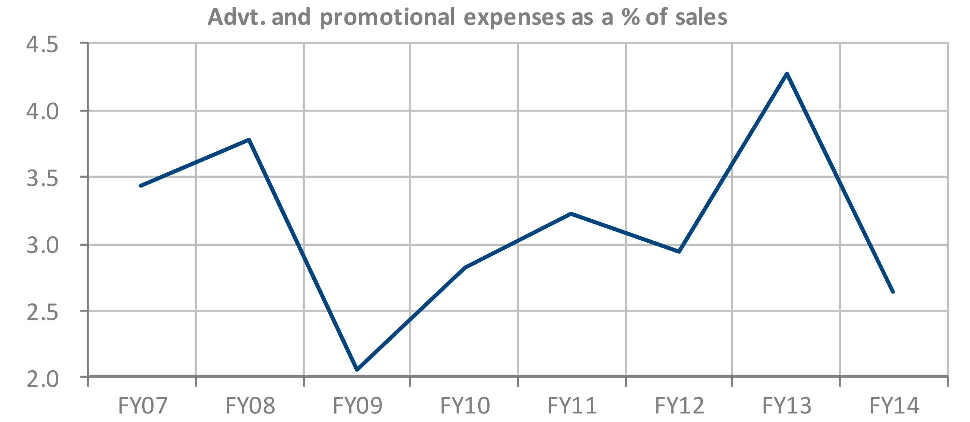
**Capacity in place to tap demand growth:** CPBI has increased its plywood capacity from 0.125m cbm to 0.21m cbm in the past two years through greenfield expansion in Kandla, Gujarat and expansion in Myanmar. Overall utilisation for plywood in FY14 was ~70%. In laminates too, CPBI doubled its capacity to 4.8m sheets in the past two years. CPBI continues to focus on delivery systems by opening new depots regularly. It has implemented SAP to provide better service to customers.

**Figure 6:CPBI's plant-wise plywood capacity (in msm)**

| Plant | Region | FY10 | FY14 |
|---|---|---|---|
| Joka (West Bengal) | East | 25,400 | 37,000 |
| Chennai | South | 25,400 | 39,420 |
| Guwahati | East | 21,600 | 35,000 |
| Karnal | North | 36,000 | 36,000 |
| Kandla | West | - | 31,000 |
| Roorkee | North | 25,000 | 25,000 |
| Myanmar | Overseas | - | 6,000 |
| Total | | 147,420 | 209,420 |

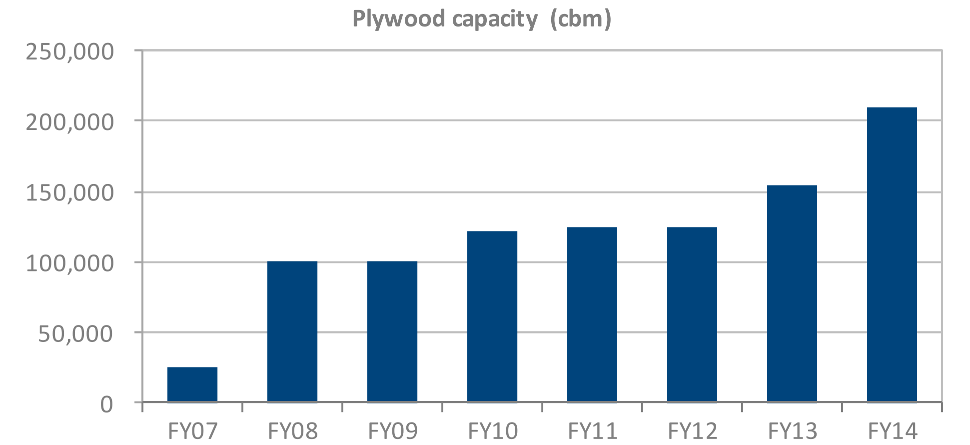
Source: Company, IIFL Research

**Figure 7: Ad and promotion expenses as a % of sales**




Source: Company, IIFL Research

**Figure 8: Plywood capacity trend**




Source: Company, IIFL Research

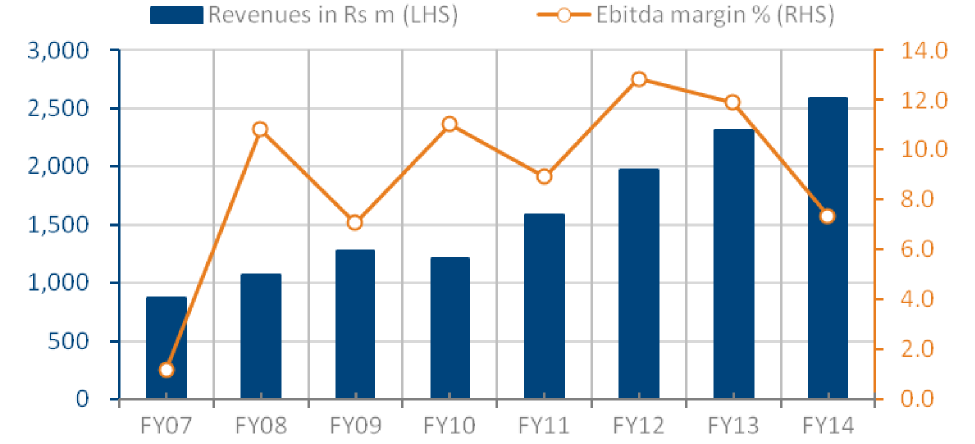
**High entry barriers:** In India, cutting of matured timber is either not allowed or is subject to stringent regulations. Only a few units based on imported raw material-based units hold licenses. Thus, the industry depends heavily on import of matured timber (primarily from Myanmar). With Myanmar banning export of raw timber effective 1 April

2014, unorganised players are at a disadvantage compared with CPBI. CPBI is the first Indian company to set up a wood peeling facility in Myanmar. This ensures an uninterrupted supply of quality raw material to all its units.

**First Indian company to set up wood peeling capacity in Myanmar:** Until recently, CPBI imported unprocessed timber for outer veneer production largely from Myanmar. However, Myanmar banned export of raw timber a year ago. To overcome this disadvantage, CPBI established its timber peeling capacity in Myanmar in FY14 and was the first Indian company to get a licence for timber peeling. This imparts raw material security for CPBI. The current peeling capacity in Myanmar can meet CPBI's needs arising from the expanded plywood capacity.

**Scaling up laminates franchise:** CPBI is the third largest producer of laminates in India. CPBI doubled its laminates capacity to 4.8m sheets in FY13. Greenply is the largest producer of laminates in India followed by Merino and CPBI. Greenply's turnover from laminates is ~3x that of CPBI. CPBI has 700 Stock Keeping Units (SKUs) and it is adding almost 100 SKUs a year. Plywood and laminates have the same customer base. Increase in capacity is likely to boost growth in laminates volume and enhance market share for CPBI, going forward. Although volumes and realization for laminates improved in FY14, increase in capacity resulted in increase in overheads and a sharp decline in Ebitda margin. Going forward, we expect improvement in profitability for laminates division.

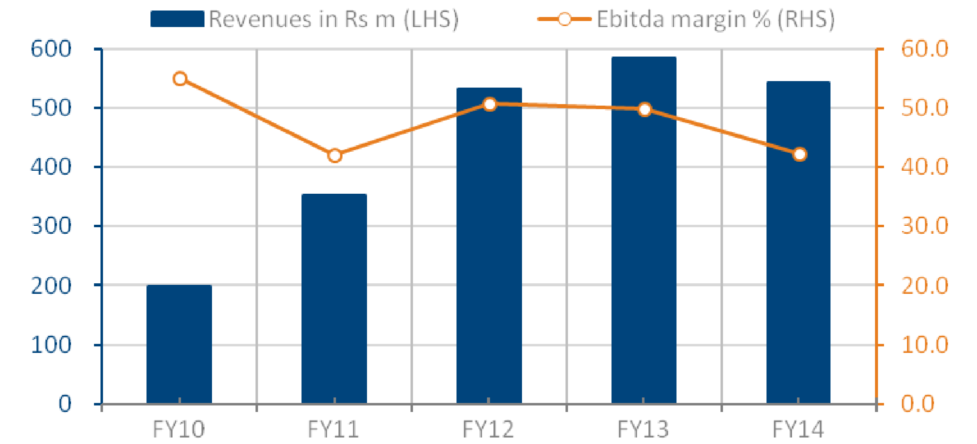
**Figure 9: Laminates revenue and Ebitda margin trend**




Source: Company, IIFL Research

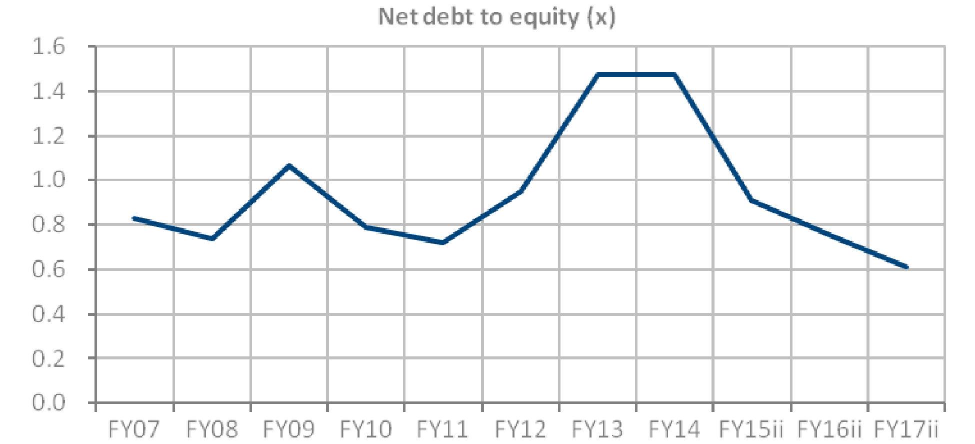
**Operates two container freight stations in Kolkata:** CPBI operates two container freight stations (CFS) in Kolkata with total capacity of 156,000 TEU covering an area of 0.1m sqm. CPBI entered the CFS business in FY09. Capacity utilisation is 50% for FY14. Although the revenue from the CFS segment was just 4% of total revenue, Ebitda was 15% of the total for FY14. CPBI is entitled for a 10-year tax benefit u/s 80IA of Income Tax Act. CPBI is exploring further expansion in the logistics sector and has plans to expand the CFS business to other ports.

**Figure 10: CFS revenue and Ebitda margin trend**




Source: Company, IIFL Research

**Figure 11: Net debt/equity trend of CPBI**

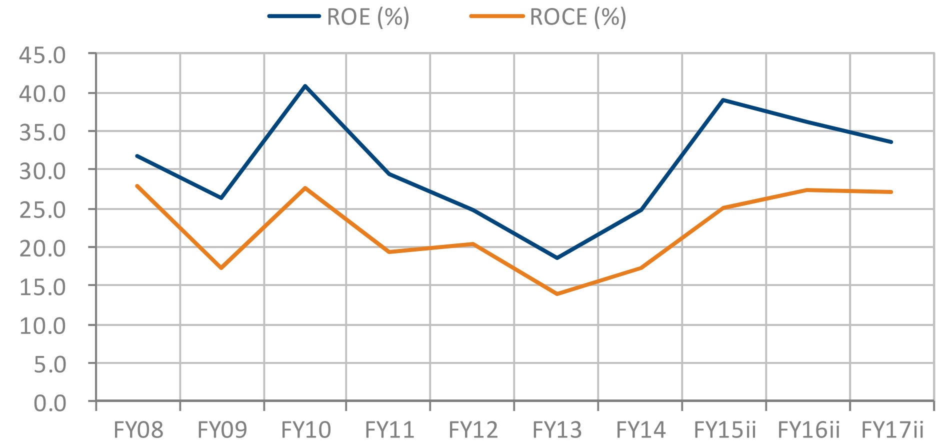



Source: Company, IIFL Research

**Balance sheet strength likely to improve:** Due to huge capex and low profitability, net-debt-to-equity has increased in the past two years. With likely improvement in profitability and no major capex in the near term, we expect the management to focus on reducing debt. We expect the capex to increase from FY16 onwards, as the current capacity is likely to be utilised fully when demand growth improves. Despite the likely improvement in capex from FY16, we expect net debt-to-equity to improve from 1.5x in FY14 to 0.6x in FY17 led by an upturn in the economy.

**Strong return ratios despite downturn; likely demand growth to boost ratios from here on:** CPBI recorded 25% ROE in FY14 despite low utilisation, largely due to a sluggish economy. With major capex complete and capacity available to increase revenue at >25% for the next two years, return ratios are likely to expand, going forward. CPBI spent Rs410m for 31000 cbm / annum capacity in Kandla, Gujarat in FY14 and expects annual revenue of Rs2bn from this expansion with likely payback period of two years. Further, ROE suffered in FY14 due to a huge forex loss of Rs440m because of INR depreciation. If the recent INR appreciation trend continues, ROE should bounce back strongly in FY15. ROE could marginally come down in FY16 and FY17 due to huge CWIP in the books, but should remain healthy at above 30%.

**Figure 12: ROE and ROCE trend for CPBI**




Source: Company, IIFL Research

**Cement and ferro alloys subsidiary hived off:** CPBI hived off the cement and ferro alloys businesses in its subsidiaries into a separate company through a scheme of arrangement in FY13 whereby every share of CPBI was given one share in the demerged new company. Standalone PAT Cagr is negative for FY10-FY14 due to decline in other income because it received no dividend receipts from these businesses since FY13.

**Valuations reasonable; initiating coverage with BUY rating:** CPBI is trading at 16x PER on our FY16 estimates. With envisaged improvement in the overall economy, earnings visibility for CPBI has improved substantially. Although the stock has outperformed the broad market by a huge margin for the past few months, we believe that further re-rating is possible given the strong growth outlook for the business and the company. We value the stock at 22x PER on our FY16 estimates. Comparable branded building material stocks are trading at 18-34x PER on FY16 consensus estimates. We expect CPBI to record one of the highest return ratios for FY16 in the building material space and we expect the re-rating to continue.

**Figure 13: Valuation of Building material stocks**

| Company | Market Cap | PER (x) | | ROE (%) | | P/BV (x) | |
|---|---|---|---|---|---|---|---|
| | (USD m) | FY15 | FY16 | FY15 | FY16 | FY15 | FY16 |
| Pidilite Industries | 3,257 | 36.1 | 29.4 | 25.6 | 26.6 | 8.7 | 7.3 |
| Asian Paints | 10,157 | 41.3 | 34.1 | 33.9 | 34.3 | 12.9 | 10.9 |
| Berger Paints | 1,953 | 40.7 | 32.4 | 24.6 | 25.7 | 9.4 | 7.9 |
| Kansai Nerolac | 1,652 | 37.3 | 30.1 | 17.1 | 18.4 | 6.2 | 5.4 |
| Akzo Nobel | 968 | 32.6 | 27.6 | 20.5 | 21.7 | 5.6 | 5.1 |
| Kajaria Ceramics | 802 | 31.1 | 23.7 | 25.8 | 26.5 | 7.1 | 5.7 |
| HSIL | 368 | 29.7 | 17.7 | 7.3 | 11.4 | 2.1 | 1.9 |
| Cera Sanitary | 342 | 30.7 | 25.4 | 25.9 | 25.4 | 7.3 | 5.8 |
| Greenply | 396 | 16.0 | 13.2 | 23.2 | 22.3 | 3.3 | 2.7 |
| Century Plyboard | 427 | 20.5 | 14.9 | 38.9 | 39.4 | 7.0 | 5.2 |

Source: Bloomberg consensus, IIFL Research

# Appendix 1: Plywood – An Overview

### Plywood

Plywood is an engineered board made of thin layers of woods (plies or veneers). Veneer refers to thin slices of wood that are peeled off the wood. Veneers are glued together and bonded under heat and pressure with strong adhesive. These veneers are glued together with adjacent plies having their wood grain at right angles to each other. Plywood is one of the most widely used wood products across the globe. Plywood is used instead of plain wood because of its resistance to cracking, shrinkage, splitting and twisting, and its general high degree of strength. Housing sector growth is the key driver of plywood demand.

Commercial ply and waterproof ply are the most popularly used plies in India. Commercial ply is the lower range ply used for general purposes. The durability of the commercial ply is considerably lower than water proof plywood. Waterproof ply is water resistant, durable, and unbreakable for many years owing to the strong gluing.

### Laminates

Laminate is the thin sheet of decorative paper pressed on a hard substance using an adhesive. It is pasted on ply board, wood, MDF, etc. to give desired look to the interiors or furniture.

### Medium density fibreboard (MDF)

MDF is made of fine wood dust. Wood dust is glued with resin and compressed under heat; the board is cut into appropriate lengths after it has dried. MDF is usually covered with a plastic laminate and sealant to increase the aesthetics and prevent the fibres from becoming loos and airborne. The advantage of MDF is its cost is low, compared with plywood. However, its strength, durability and moisture resistance are poor compared with plywood.

### Particle board

Particleboards are a relatively a new type of engineered wood product that are made from gluing together small chips and saw dust. The main advantage of particle board over plywood is its low cost. However, durability of a particleboard is low. Particleboards are machine manufactured to desired dimensions and used for mass production of furniture. Plywood furniture is usually custom-made by carpenters as per the requirements of the customers.

# Appendix 2: Century Plyboard manufacturing and distribution network

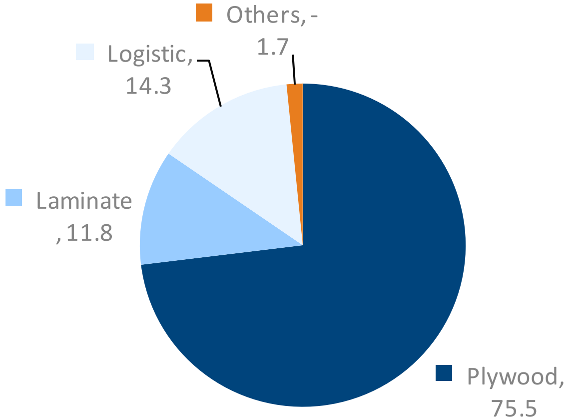
**Background:** CPBI is India's leading plywood manufacturing company with six manufacturing units in India and one in Myanmar. In India, it has plants in Haryana in north, Tamil Nadu in south, West Bengal in east, Assam in north-east, Gujarat in west, and Uttarakhand in the central region. CPBI is promoted by first-generation promoters. Mr. Sajjan Bhajanka and Mr. Sanjay Agarwal are the key promoters. Mr. Vishnu Khemani, Mr. Prem Bhajanka and Mr. H.P Agarwal are the other promoters. All promoters are first-generation entrepreneurs with over 30 years of experience in plywood and related products. CPBI's other two major business segments are laminates and logistics. CPBI is India's third largest laminate producer; laminates accounted for 19% of CPBI's revenue in FY14. CPBI recently has doubled laminate capacity from 2.4m sheets to 4.8m sheets. CPBI operates two container freight stations near Kolkata Port area (0.1 m sqm); CFS operations were started in FY09. This is the first privately owned CFS in eastern India.

**Management**

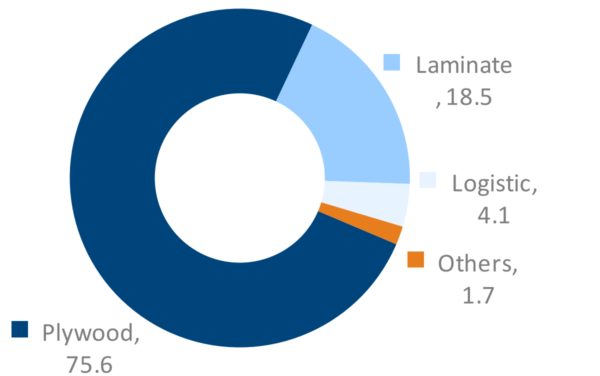
| Name | Designation |
|---|---|
| Sajjan Bhajanka | Chairman |
| Hari Prasad Agarwal | Vice Chairman |
| Sanjay Agarwal | Managing Director |

**Greenply Inds, Archidply Inds:**

**Ebitda mix (%) - (FY14)**




**Revenue mix (%) - FY14**



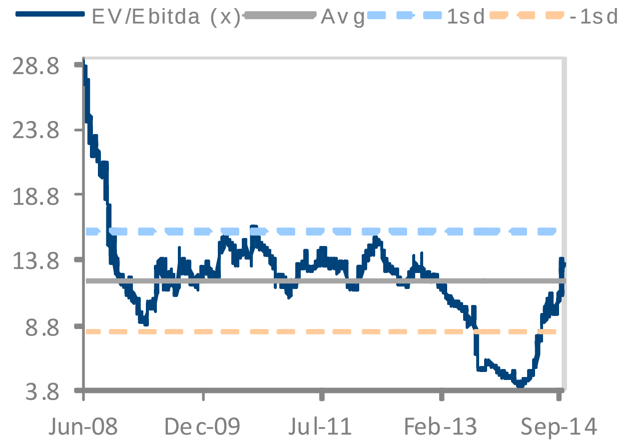

**Assumptions**

| Y/e 31 Mar, Parent | FY13A | FY14A | FY15ii | FY16ii | FY17ii |
|---|---|---|---|---|---|
| Sales growth (%) | 1.1 | 13.5 | 25.0 | 20.0 | 20.0 |
| Ebitda margin (%) | 10.0 | 11.5 | 13.0 | 12.7 | 12.5 |
| Effective tax rate (%) | 3.2 | 3.4 | 12.0 | 14.0 | 14.0 |

Source: Company data, IIFL Research

**PE chart**


**EV/Ebitda**



# Financial summary

**Income statement summary (Rs m)**

| Y/e 31 Mar, Parent | FY13A | FY14A | FY15ii | FY16ii | FY17ii |
|---|---|---|---|---|---|
| **Revenues** | **11,311** | **12,840** | **16,050** | **19,260** | **23,112** |
| Ebitda | 1,128 | 1,482 | 2,086 | 2,446 | 2,889 |
| Depreciation and amortisation | (267) | (332) | (332) | (332) | (460) |
| Ebit | 861 | 1,150 | 1,754 | 2,114 | 2,429 |
| Non-operating income | 73 | 95 | 95 | 95 | 95 |
| Financial expense | (390) | (551) | (346) | (368) | (368) |
| PBT | 544 | 693 | 1,503 | 1,840 | 2,155 |
| Exceptionals | 0 | 0 | 0 | 0 | 0 |
| Reported PBT | 544 | 693 | 1,503 | 1,840 | 2,155 |
| Tax expense | (17) | (24) | (180) | (258) | (302) |
| PAT | 527 | 669 | 1,322 | 1,583 | 1,854 |
| Minorities, Associates etc. | 0 | 0 | 0 | 0 | 0 |
| **Attributable PAT** | **527** | **669** | **1,322** | **1,583** | **1,854** |

**Ratio analysis**

| Y/e 31 Mar, Parent | FY13A | FY14A | FY15ii | FY16ii | FY17ii |
|---|---|---|---|---|---|
| **Per share data (Rs)** | | | | | |
| Pre-exceptional EPS | 2.4 | 3.0 | 5.9 | 7.1 | 8.3 |
| DPS | 0.3 | 1.0 | 1.5 | 2.0 | 2.5 |
| BVPS | 11.2 | 13.1 | 17.3 | 22.1 | 27.5 |
| **Growth ratios (%)** | | | | | |
| Revenues | 1.1 | 13.5 | 25.0 | 20.0 | 20.0 |
| Ebitda | (18.6) | 31.3 | 40.8 | 17.2 | 18.1 |
| EPS | (26.6) | 27.1 | 97.5 | 19.7 | 17.1 |
| **Profitability ratios (%)** | | | | | |
| Ebitda margin | 10.0 | 11.5 | 13.0 | 12.7 | 12.5 |
| Ebit margin | 7.6 | 9.0 | 10.9 | 11.0 | 10.5 |
| Tax rate | 3.2 | 3.4 | 12.0 | 14.0 | 14.0 |
| Net profit margin | 4.7 | 5.2 | 8.2 | 8.2 | 8.0 |
| **Return ratios (%)** | | | | | |
| ROE | 18.7 | 24.7 | 39.1 | 36.2 | 33.6 |
| ROCE | 13.9 | 17.3 | 25.0 | 27.5 | 27.3 |
| **Solvency ratios (x)** | | | | | |
| Net debt-equity | 1.5 | 1.5 | 0.9 | 0.8 | 0.6 |
| Net debt to Ebitda | 3.3 | 2.9 | 1.7 | 1.5 | 1.3 |
| Interest coverage | 2.2 | 2.1 | 5.1 | 5.7 | 6.6 |

Source: Company data, IIFL Research

**Balance sheet summary (Rs m)**

| Y/e 31 Mar, Parent | FY13A | FY14A | FY15ii | FY16ii | FY17ii |
|---|---|---|---|---|---|
| Cash & cash equivalents | 797 | 180 | 40 | 36 | 31 |
| Inventories | 2,177 | 2,927 | 2,878 | 3,639 | 4,377 |
| Receivables | 1,816 | 2,046 | 2,558 | 2,762 | 3,315 |
| Other current assets | 612 | 625 | 625 | 843 | 843 |
| Creditors | 808 | 742 | 928 | 1,114 | 1,336 |
| Other current liabilities | 598 | 1,037 | 1,037 | 1,037 | 1,037 |
| **Net current assets** | **3,996** | **3,999** | **4,136** | **5,130** | **6,193** |
| Fixed assets | 2,217 | 2,307 | 2,175 | 2,442 | 2,582 |
| Intangibles | 0 | 0 | 0 | 0 | 0 |
| Investments | 156 | 379 | 379 | 379 | 379 |
| Other long-term assets | 605 | 701 | 701 | 701 | 701 |
| **Total net assets** | **6,974** | **7,386** | **7,391** | **8,653** | **9,856** |
| Borrowings | 4,479 | 4,478 | 3,551 | 3,751 | 3,751 |
| Other long-term liabilities | (2) | (5) | (5) | (5) | (5) |
| **Shareholders' equity** | **2,497** | **2,914** | **3,846** | **4,908** | **6,111** |
| **Total liabilities** | **6,974** | **7,386** | **7,391** | **8,653** | **9,856** |

**Cash flow summary (Rs m)**

| Y/e 31 Mar, Parent | FY13A | FY14A | FY15ii | FY16ii | FY17ii |
|---|---|---|---|---|---|
| Ebit | 861 | 1,150 | 1,754 | 2,114 | 2,429 |
| Tax paid | (98) | (112) | (180) | (258) | (302) |
| Depreciation and amortization | 267 | 332 | 332 | 332 | 460 |
| Net working capital change | (355) | (620) | (278) | (998) | (1,068) |
| Other operating items | 123 | 13 | 0 | 0 | 0 |
| Operating cash flow before interest | 798 | 763 | 1,628 | 1,190 | 1,520 |
| Financial expense | (390) | (551) | (346) | (368) | (368) |
| Non-operating income | 73 | 95 | 95 | 95 | 95 |
| **Operating cash flow after interest** | **481** | **306** | **1,377** | **917** | **1,246** |
| **Capital expenditure** | **(689)** | **(482)** | **(200)** | **(600)** | **(600)** |
| Long-term investments | 576 | (223) | 0 | 0 | 0 |
| Others | (1,271) | (386) | 0 | 0 | 0 |
| **Free cash flow** | **(903)** | **(784)** | **1,177** | **317** | **646** |
| Equity raising | 0 | 0 | 0 | 0 | 0 |
| Borrowings | 1,280 | 224 | (927) | 200 | 0 |
| Dividend | (1) | (57) | (391) | (521) | (651) |
| Net chg in cash and equivalents | 376 | (617) | (140) | (4) | (5) |

Source: Company data, IIFL Research

Institutional Equities



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**Key to our recommendation structure**

**BUY** - Absolute - Stock expected to give a positive return of over 20% over a 1-year horizon.

**SELL** - Absolute - Stock expected to fall by more than 10% over a 1-year horizon.

In addition, **Add** and **Reduce** recommendations are based on expected returns relative to a hurdle rate. Investment horizon for **Add** and **Reduce** recommendations is up to a year. We assume the current hurdle rate at 10%, this being the average return on a debt instrument available for investment.

**Add** - Stock expected to give a return of 0-10% over the hurdle rate, i.e. a positive return of 10%+.

**Reduce** - Stock expected to return less than the hurdle rate, i.e. return of less than 10%.

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