

FEBRUARY 7, 2019

	6-Feb	% Chg		
		1 Day	1 Mth	3 Mths
Indian Indices				
SENSEX Index	36,975	1.0	3.6	5.7
NIFTY Index	11,062	1.2	3.1	5.1
NSEBANK Index	27,402	0.5	0.8	7.0
NIFTY 500 Index	9,119	0.9	0.7	2.8
CNXMcap Index	16,721	0.1	(5.2)	(3.2)
BSESMCAP Index	13,668	0.0	(6.3)	(5.2)
World Indices				
Dow Jones	25,390	(0.1)	7.9	(3.0)
Nasdaq	7,375	(0.4)	8.1	(2.6)
FTSE	7,173	(0.1)	5.3	0.8
NIKKEI	20,874	0.1	3.5	(6.1)
Hangseng	20,874	0.1	3.5	(6.1)
Shanghai	27,931	(0.0)	9.2	7.9

Value traded (Rs cr)	6-Feb	% Chg Day
Cash BSE	3,010	23.7
Cash NSE	32,345	12.1
Derivatives	650,160	16.4

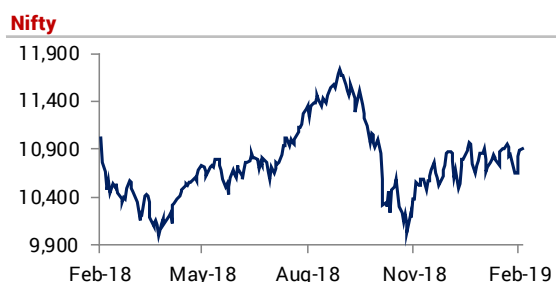
Net inflows (Rs cr)	5-Feb	MTD	YTD
FII	715	1,026	522
Mutual Fund	(431)	(559)	6,602

Nifty Gainers & Losers	Price	Chg	Vol
6-Feb	(Rs)	(%)	(mn)
Gainers			
Tech Mahindra	811	8.0	14.9
Zee Entertainment	388	6.2	25.1
Cipla	535	5.3	8.8
Losers			
Adani Ports	330	(2.8)	6.7
Dr Reddy's	2,790	(1.1)	0.9
Indusind Bank	1,526	(1.0)	1.5

Advances / Declines (BSE)					
6-Feb	A	B	T	Total	% total
Advances	257	356	17	630	100
Declines	171	669	81	921	146
Unchanged	2	18	10	30	5

Commodity	6-Feb	% Chg		
		1 Day	1 Mth	3 Mths
Crude (US\$/BBL)	62.5	(0.4)	8.9	(13.3)
Gold (US\$/OZ)	1,306.6	(0.7)	1.2	6.3
Silver (US\$/OZ)	15.7	(1.1)	0.1	7.5

Debt / forex market	6-Feb	1 Day	1 Mth	3 Mths
10 yr G-Sec yield %	7.4	7.4	7.4	7.8
Re/US\$	71.6	71.6	69.7	73.0



Source: Bloomberg

News Highlights

- ▶ The meeting of the Reserve Bank of India's (RBI) central board, which was slated to take a call on interim dividend, has been deferred to February 18. (ET)
- ▶ To help meet its revised fiscal deficit target of 3.4 per cent of gross domestic product for 2018-19, the Centre is highly likely to rollover as much as Rs 330-350 bn in combined food, petroleum and fertiliser subsidies to 2019-20. (BS)
- ▶ Subhash Chandra's Essel Group expects to raise over Rs. 200 bn by selling its infrastructure business, comprising roads, power transmission and solar energy assets. While Rs. 140 bn will be used to settle the infrastructure unit's debt, the rest will be used to complete group projects and cut promoter debt. (BL)
- ▶ Etihad Airways has pre-purchased **Jet Airways'** tickets worth \$35 million (Rs 2.52 bn) through its loyalty programme company Jet Privilege, infusing some funds into the airline. (ET)
- ▶ **Punjab National Bank** has set a target of recovering Rs 100 bn from bad loans in the March quarter. (BS)
- ▶ **NTPC Limited** is eyeing nearly 1,000 MW of solar power projects in Africa through the International Solar Alliance. This push for overseas projects is in line with the NTPC's strategy to gain from the \$1-million contribution it made to the ISA fund corpus last year. (BL)
- ▶ Dalmia OCL, the refractories business of **Dalmia Bharat** Group, marked its first-ever international acquisition with the takeover of GSB Group GmbH, a German-based speciality refractory maker and a global leader in lance production, which is essential for clean steel production. (BS)
- ▶ Promoters of **Zee Entertainment Enterprises** are open to sell over 50 per cent of their holdings in the firm as a part of their asset monetisation to repay debt, and are in talks with more than two investors for the same. (ET)
- ▶ **GAIL (India) Limited** has cancelled a 124-km pipe-laying contract of Rs 1.66 bn earlier awarded to **IL&FS**. The cancellation comes in the wake of poor project progress on account of acute financial crisis. (BL)
- ▶ The Calcutta High Court has dismissed a nine-year old appeal from the Tea Board of India that alleged **ITC** to be infringing upon the Board's certification-mark rights. (BS)
- ▶ Fitch Ratings has placed **Tata Motors Limited's (TML)** Long-Term Issuer Default Rating (IDR) of 'BB' on Rating Watch Negative (RWN) list to reflect the increasing risks of a disorderly Brexit for its fully owned subsidiary Jaguar Land Rover Automotive plc. (ToI)

What's Inside

- ▶ **Result Update:** Blue Star Ltd, Century Plyboards Ltd, Bodal Chemicals Ltd

Source: ET = Economic Times, BS = Business Standard, FE = Financial Express, IE = Indian Express, BL = Business Line, BQ = BloombergQuint, ToI = Times of India, BSE = Bombay Stock Exchange, MC = Moneycontrol

Result Update

BLUE STAR LTD

Stock Details

Market cap (Rs mn)	:	55958
52-wk Hi/Lo (Rs)	:	842 / 507
Face Value (Rs)	:	2
3M Avg. daily vol (Nos)	:	66,527
Shares o/s (mn)	:	96

Source: Bloomberg

Financial Summary

Y/E Mar (Rs mn)	FY18	FY19E	FY20E
Revenue	44,160	48,791	57,070
Growth (%)	7.5	10.5	17.0
EBITDA	2,452	2,974	3,908
EBITDA margin (%)	5.6	6.1	6.8
PAT	1,420	1,375	2,211
EPS	13.0	16.4	23.2
EPS Growth (%)	4.0	25.8	41.6
BV (Rs/share)	103.4	108.5	122.3
Dividend/share (Rs)	10.0	8.0	8.0
ROE (%)	11.6	15.5	20.1
ROCE (%)	12.0	13.6	17.9
P/E (x)	50.9	36.0	25.4
EV/EBITDA (x)	24.0	19.9	14.9
P/BV (x)	5.8	5.5	4.9

Source: Company, Kotak Securities - PCG

Shareholding Pattern (%)

(%)	Dec-18	Jun-18	Mar-18
Promoters	38.8	38.8	38.9
FII	8.5	8.3	7.8
DII	22.1	22.2	20.8
Others	30.6	30.7	32.6

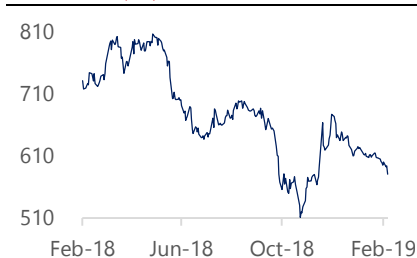
Source: Bloomberg, BSE

Price Performance (%)

(%)	1M	3M	6M
Blue Star	(6.5)	1.0	(16.5)
Nifty	3.1	5.1	(2.9)

Source: Bloomberg

Price chart (Rs)



Source: Bloomberg

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PRICE RS.590

TARGET RS.620

ADD

BSL reported weak set of numbers. While revenue were in line, margin erosion in the room AC business led to major miss on our profit forecast. However, management commentary was positive on business outlook.

Key Highlights

- The Unitary Cooling segment reported margin erosion of 270 bps on a y-o-y basis on account of 1) Investments in the Water Purifier business 2) commodity cost pressures 3) INR depreciation which increased the cost of imports 4) increase in warehousing cost due to higher inventory and 5) Inability of the company to hike product prices due to excess inventory in the system.
- Order book at the end of Q3FY19 stands at Rs 22.8 bn, up 5% on a y-o-y basis.

Valuation and Outlook

In terms of valuation, the stock is trading at 36.0x and 25.4x FY19E and FY20E earnings. Post the downward revision in earnings, our target stands reduced to Rs 620 (Rs 655 earlier). In view of modest upside, we downgrade the rating from "BUY" earlier to "ADD".

Q3FY19 Results

(Rs mn)	Q3 FY19	Q3 FY18	YoY (%)	Q2 FY19	QoQ (%)
Net sales	9,966	8,461	17.8	9,228	8.0
Raw material costs	6,501	4,381	48.4	5,944	9.4
Purchase of Stock in Trade	1,083	1,742	-37.8	955	13.4
Staff costs	939	901	4.3	935	0.4
Other expenditure	1,076	1,068	0.7	935	15.0
Total Expenditure	9,600	8,092	18.6	8,769	9.5
PBDIT	367	369	-0.7	459	-20.2
Other income	27	20	36.9	19	42.6
Finance income	72	13	461.2	30	140.5
Depreciation	169	158	7.0	156	8.6
EBIT	297	244	21.8	353	-15.8
Interest	124	60	107.5	106	16.8
PBT	173	184	-6.0	246	-29.8
Tax	9	56	-84.6	75	-88.6
PAT before non recurring items	164	128	28.4	171	-4.0
Exceptional items	-363	126	-388.6	-27	1234.6
Reported PAT	-199	254	-178.3	144	-237.9
EPS Rs per share	1.8	1.4	1.9	1.9	
PBDIT (%)	3.7	4.4	5.0		
Raw material cost to sales (%)	76.1	72.4	74.8		
Other expenditure to sales (%)	10.8	12.6	10.1		
Staff costs to sales (%)	9.4	10.6	10.1		
Tax rate (%)	5.0	30.4	30.5		

Source: Company

Reported Vs Estimated performance

Rs mn	Reported	Estimated
Revenue	9,966	10,134
EBITDA (%)	3.7	5.5
Adj PAT	164	241

Source: Company and Kotak Securities – Private Client Research

Result Highlights

BSL reported revenues of Rs 9.96 bn in Q3FY19, up 18% on a yoy basis.

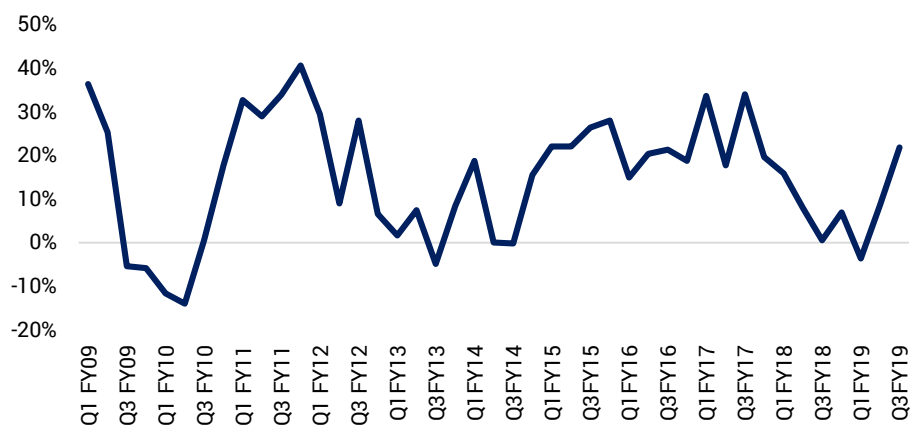
The Electro Mechanical Projects and Packaged Airconditioning Systems (MEP) business accounted for 61% of the total revenues in the quarter. Revenue growth in this segment was healthy at 15% on a y-o-y basis and was driven by the increased pace of execution of projects, and a pick-up in the central air conditioning business, especially chillers and VRF systems.

The company continued to maintain leadership position in Electro Mechanical Projects and Packaged Airconditioning Systems. Further, it enhanced market share in VRF AC segment.

Unitary Cooling Products segment (Room ACs mainly) accounted for 39% of the total revenues of the company during the quarter. This segment's revenue growth was 22% on a y-o-y basis, driven mainly by enhanced demand for deep freezers and storage water coolers in the commercial refrigeration business, and by growth in the air coolers and water purifiers businesses. The room AC sales during the quarter grew at a tepid pace of 8% on a y-o-y basis due to weak festive demand and liquidity crunch faced by the NBFCs.

While the room AC industry reported flat to negative growth on a y-o-y basis in the quarter, BSL managed to outperform industry growth and reported 8% y-o-y revenue growth (Room ACs), thus enhancing its market share further to 12.8% (up by 30 bps).

YoY growth in "Unitary Cooling Products"



Source: Company

Segment Revenue

Rs mn	Q3 FY19	Q3FY18	YoY (%)
Central AC (MEP)	6046	5237	15%
Unitary Cooling products	3920	3216	22%

Source: Company

Contraction in EBITDA margins

EBITDA margins dipped by 70 bps on a y-o-y basis to 3.7%. Gross margins contracted sharply on a y-o-y basis to 23.9% (vs 24.7% on y-o-y basis).

The company attributed decline in gross margins to 1) commodity cost pressures 2) INR depreciation which increased the cost of imports, 3) increase in warehousing cost due to higher inventory and 5) Inability of the company to hike product prices due to excess inventory in the system.

Segment-wise, the MEP (Mechanical Electrical & Plumbing) segment reported 50 bps contraction in EBIT margin, which the management indicated is due to increase in material and input costs.

Segment margins in Unitary Cooling products business dipped sharply due to pricing pressures in the room air conditioners business, owing to a build-up of inventory across the industry. The management informed that the impact on segment margins due to excess inventory was to the extent of 200 bps.

Segment margins

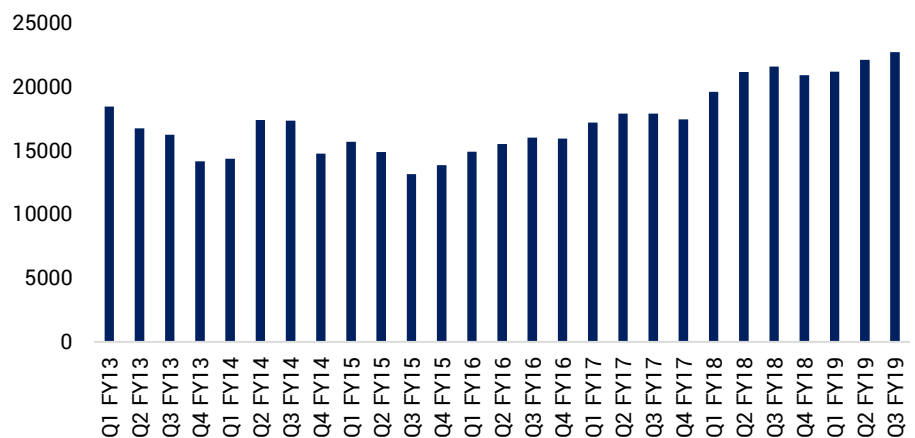
(%)	Q3 FY19	Q3FY18
Central AC (MEP)	5.2%	5.7%
Unitary Cooling products	2.4%	5.1%

Source: Company

Order book up 5% y-o-y

Order book at the end of Q3FY19 stands at Rs 22.8 bn, up 5% on a y-o-y basis. Although the traditional drivers of the MEP segment (IT/ITES and Retail) have remain muted, the company is seeing traction from Government-funded infrastructure projects like Metro and Healthcare.

Order book (Rs mn)



Source: Company

Conference call highlights

- The net borrowing stands at Rs 3.76 bn in Dec 2018 vs Rs 3.0 bn in Sep 2018.
- The Company reported a net loss of Rs 9.4 mn for the quarter due to one-time expenses on the Company's Platinum Jubilee celebrations of Rs 71.7 mn and provision of Rs 144.6 mn towards exposure in its joint venture in Oman. The management indicated that it has provided for all costs in the JV (existing as well as foreseeable) in the third quarter. This decision was taken based on unattractive business potential in Oman.
- The management indicated that it has by end of the third quarter, liquidated substantial excess inventory with it. Even at the industry level, the inventory levels have declined from 7-8 lakh units at the end of June 2018 to 1-2 lakh at the end of December 2018.
- The management expects growth of 8-10% in its room AC sales provided industry grows at 5% growth in the fourth quarter.

- It had taken 5% price hike in early part of the third quarter but not across the categories as the company had to continue giving discounts to normalize excess inventory. However, the management believes that now with the inventory having brought to normal levels, it is in a position to withdraw discounts, which should pull the segment margins back to 8-9% levels.

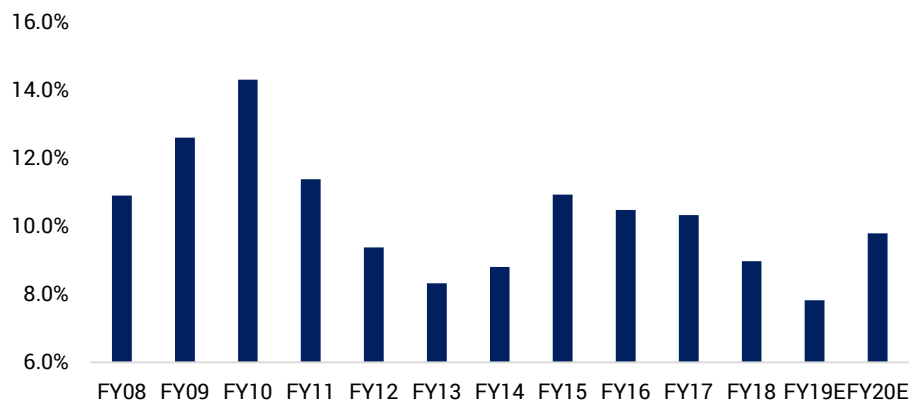
Guidance

In the Electro- Mechanical Projects and Packaged Air Conditioning Systems (MEP) segment, the management is forecasting growth of 10-12% in FY19E.

The room AC sales (part of Unitary Products segment) to register a growth of 8-10% as against market growth of 5%. However, this guidance implies growth of 16% over Q4FY18, which is a bit challenging in our view.

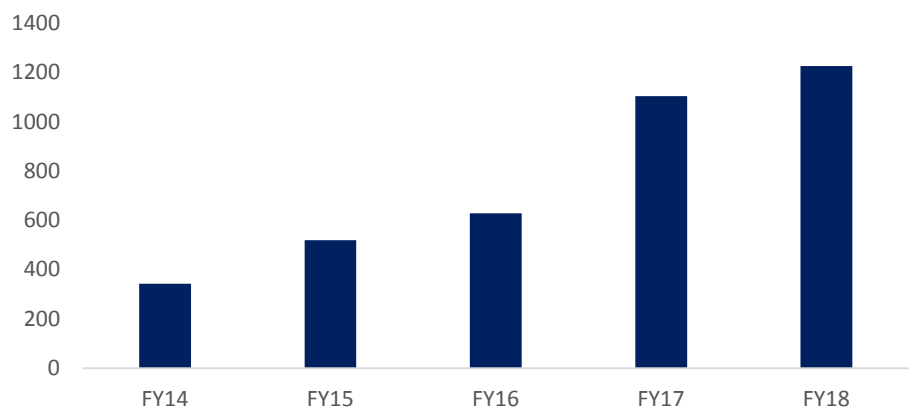
Segment margins in MEP and Unitary Cooling segments to remain at 5.5-6% and 8-8.5% (earlier 9-9.5%) respectively in FY19. The drop in Unitary Cooling segments is partly due to investments (advertisements and promotion) being made in “Water Purifier” business (impact of 150 bps in FY19).

Segment margin in “Unitary Cooling”



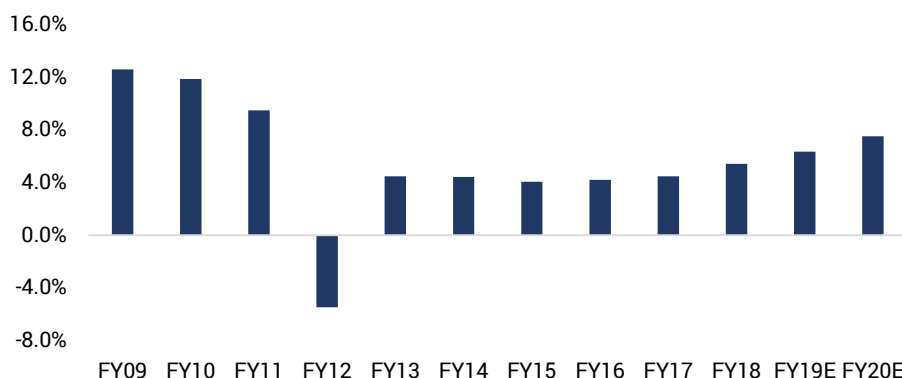
Source: Company and Kotak Securities – Private Client Research

Advertising and Sales promotion expenses (Rs mn)



Source: Company

Segment margins in Electromechanical projects



Source: Company and Kotak Securities – Private Client Research

Capex in FY19 to be Rs 1.5 bn consisting of Rs 1.0 bn of annual maintenance and the balance Rs0.5 bn on capacity expansion in Wada plant.

Overall tax rate for FY19 to be at 27-28%, which should inch up to 29% by FY20E, the management indicated.

Earnings Revision

(Rs mn)	FY19E		FY20E	
	Earlier	Revised	Earlier	Revised
Revenue	48301	48791	56505	57070
EBITDA (%)	6.6%	6.1%	6.9%	6.8%
EPS	17.70	16.4	25.00	23.2
% change		-7%		-7%

Source: Company and Kotak Securities – Private Client Research

Recommend ADD

In terms of valuation, the stock is trading at 36.0x and 25.4x FY19E and FY20E earnings.

Post the downward revision in earnings, our target stands reduced to Rs 620 (Rs 655 earlier).

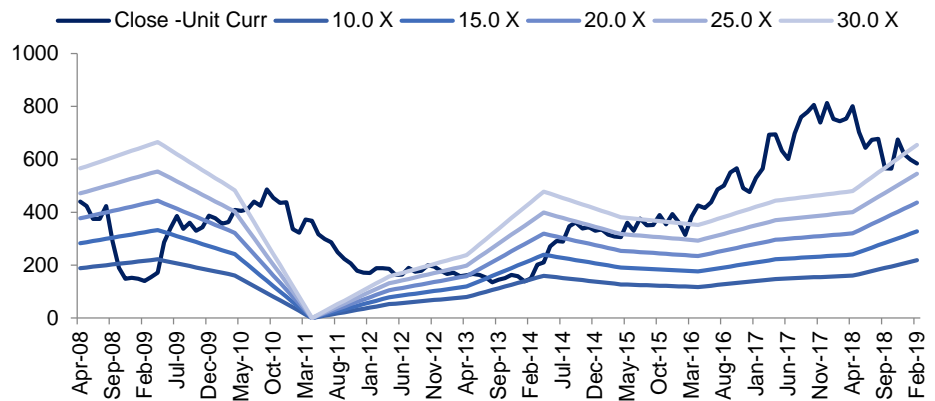
In view of modest upside, we downgrade the rating from “BUY” earlier to “ADD”.

Segment

	Target PE	Est EPS (FY20E)	Target Price
UCP	26	12.9	335
Projects	22	10.3	227
subsidiary - BSEEL	18	3.1	57
Total			620

Source: Company and Kotak Securities – Private Client Research

Forward PE band



Source: Company and Kotak Securities – Private Client Research

Company Background

Blue Star is India’s leading air conditioning and commercial refrigeration company with close to 75 years of experience in providing expert cooling solutions, and has a network of 35 offices, 5 modern manufacturing facilities, 2200 dealers and 600 retailers. It fulfills the cooling requirements of a large number of corporate, commercial as well as residential customers. It also offers expertise in allied contracting activities such as mechanical, electrical, plumbing and fire-fighting services, in order to offer turnkey solutions, apart from execution of specialised industrial projects. The Company’s integrated business model of a manufacturer, contractor and after-sales service provider enables it to offer an end-to-end solution to its customers, which has proved to be a significant differentiator in the market place. It has also recently forayed into the business of residential water purifiers as well as air purifiers and air coolers.

Financials: Consolidated

Profit and Loss Statement (Rs mn)

(Year-end Mar)	FY17	FY18	FY19E	FY20E
Revenues	41,096	44,160	48,791	57,070
% change yoy	16.4	7.5	10.5	17.0
EBITDA	1,995	2,452	2,974	3,908
% change yoy	3.6	22.9	21.3	31.4
Depreciation	550	606	653	714
EBIT	1,446	1,847	2,321	3,194
% change yoy	4.5	27.8	25.7	37.6
Net Interest	306	229	469	465
Other Income	344	161	218	300
Earnings Before Tax	1,483	1,779	2,070	3,029
% change yoy	25.7	20.0	16.3	46.3
Extraordinary income				
Tax	(290)	(538)	(509)	(818)
as % of EBT	(19.5)	(30.2)	(24.6)	(27.0)
PAT bef XO items	1,193	1,241	1,561	2,211
% change yoy	11.4	4.0	25.8	41.6
Extraordinary income/(loss)	-	178.5	(185.7)	-
Reported Net Income	1,193	1,420	1,375	2,211
Shares outstanding (m)	95.3	95.3	95.3	95.3
EPS (Rs)	12.5	13.0	16.4	23.2
DPS (Rs)	7.5	10.0	8.0	8.0
CEPS	18.3	17.9	23.2	30.7

Source: Company, Kotak Securities – Private Client Research

Cash flow Statement (Rs mn)

(Year-end Mar)	FY17	FY18	FY19E	FY20E
PBDIT	1,995	2,452	2,974	3,908
Tax and adjustments	1,112	(276)	(509)	(818)
Cash flow from operations	3,107	2,176	2,465	3,090
Net Change in Working Capital (1,037)	(1,912)	(966)	(459)	
Net Cash from Operations	2,070	264	1,499	2,631
Capital Expenditure	(1,028)	(869)	(750)	(750)
Cash from investing	(183)	109	219	300
Net Cash from Investing	(1,211)	(760)	(531)	(450)
Interest paid	(306)	(229)	(469)	(465)
Issue of Shares	67	1	(1)	-
Dividends Paid	(18)	(864)	(892)	(892)
Debt Raised	(1,364)	1,708	(0)	(900)
Net cash from financing	(1,622)	616	(1,362)	(2,257)
Net change in cash	(762)	120	(395)	(76)
Free cash flow	1,043	(605)	749	1,881
Cash at end	832	646	251	175

Source: Company, Kotak Securities – Private Client Research

Balance sheet (Rs mn)

(Year-end Mar)	FY17	FY18	FY19E	FY20E
Cash and cash equivalents	780	646	251	175
Accounts receivable	8,128	9,548	9,625	11,258
Stocks	5,805	8,224	8,956	10,476
Loans and Advances	38	85	85	85
Others	1,565	2,430	2,500	2,800
Current Assets	16,315	20,934	21,417	24,794
Other non current assets	3,753	4,248	4,249	4,249
Intangible assets	558	631	631	631
LT investments	2,149	2,201	2,201	2,201
Net fixed assets	2,161	2,348	2,445	2,481
Deferred tax assets	1,045	878	878	878
CWIP	215	184	184	184
Total Assets	26,198	31,424	32,004	35,419
Payables	14,893	17,747	17,645	20,639
Others	348	334	348	348
Current liabilities	15,241	18,081	17,993	20,987
LT debt	1,492	3,200	3,200	2,300
Other liabilities	287	284	476	477
Equity & reserves	9,178	9,853	10,336	11,655
Total Liabilities	26,198	31,424	32,004	35,419

Source: Company, Kotak Securities – Private Client Research

Ratio Analysis

(Year-end Mar)	FY17	FY18	FY19E	FY20E
EBITDA margin (%)	4.9	5.6	6.1	6.8
EBIT margin (%)	3.5	4.2	4.8	5.6
Net profit margin (%)	2.9	2.8	3.2	3.9
Adjusted EPS growth (%)	11.4	4.0	25.8	41.6
Receivables (days)	72.2	78.9	72.0	72.0
Inventory (days)	51.6	68.0	67.0	67.0
Sales / Net Fixed Assets (x)	19.0	18.8	20.0	23.0
ROE (%)	13.9	11.6	15.5	20.1
ROCE (%)	12.3	12.0	13.6	17.9
EV/ Sales	1.4	1.3	1.2	1.0
EV/EBITDA	28.5	24.0	19.9	14.9
Price to earnings (P/E)	47.1	50.9	36.0	25.4
Price to book value (P/B)	6.3	5.8	5.5	4.9
Price to cash earnings	32.3	32.9	25.4	19.2

Source: Company, Kotak Securities – Private Client Research

Result Update

CENTURY PLYBOARDS LTD

Stock Details

Market cap (Rs mn)	:	36159
52-wk Hi/Lo (Rs)	:	364 / 150
Face Value (Rs)	:	1
3M Avg. daily vol (Nos)	:	265,746
Shares o/s (mn)	:	222

Source: Bloomberg

Financial Summary

Y/E Mar (Rs mn)	FY18	FY19E	FY20E
Sales	19,672	22,628	26,735
Growth (%)	15.0	15.0	18.1
EBITDA	3,061	3,281	4,144
EBITDA margin (%)	15.6	14.5	15.5
Net profit	1,561	1,792	2,267
EPS (Rs)	7.0	8.1	10.2
Growth (%)	(6.0)	14.8	26.5
BVPS (Rs)	37.7	44.5	53.5
DPS (Rs)	1.0	1.0	1.0
ROE (%)	20.2	19.6	20.8
ROCE (%)	16.5	18.5	22.3
P/E (x)	23.2	20.2	16.0
EV/EBITDA (x)	13.5	12.5	9.7
P/BV (x)	4.3	3.7	3.0

Source: Company, Kotak Securities - PCG

Shareholding Pattern (%)

(%)	Dec-18	Jun-18	Mar-18
Promoters	72.7	72.3	72.0
FII	8.7	10.0	11.4
DII	6.2	5.2	3.8
Others	12.4	12.6	12.8

Source: Bloomberg, BSE

Price Performance (%)

(%)	1M	3M	6M
Century Plyboards	(5.0)	(5.1)	(33.0)
Nifty	3.1	5.1	(2.9)

Source: Bloomberg

Price chart (Rs)



Source: Bloomberg

PRICE Rs.163

TARGET Rs.232

BUY

Century Plyboard results were largely in line with our estimates. Growth in revenues was led by volume gains in all segments – plywood, laminates and MDF while realization was under pressure in plywood and MDF during the quarter. Healthy improvement was being witnessed in MDF plant volumes but realization further declined sequentially due to heightened competition and fight for market share. The volume gain in plywood segment was offset to some extent by volume decline and pricing pressure in commercial veneer. We believe that growth going ahead is likely to be led by volume gains in each segment while pricing may remain under pressure in order to reap market share gains in near term.

Key highlights

Revenue growth of 13.5% YoY was largely in line with our estimates but margins witnessed a decline due to pricing pressure as well as forex losses. This led to net profits coming marginally below our estimates.

Valuation and outlook

At Rs 163, stock is currently trading at 20.2x/16x P/E and 12.5x/9.7x EV/EBITDA on FY19/20 estimates. We tweak our estimates to factor in slightly lower margins and lower depreciation charges. We continue to maintain our price target of Rs 232 based on 23x FY20 estimated earnings. We continue to maintain BUY recommendation on Century Plyboards as we believe that stock price is already factoring in the pricing pressure in MDF segment and with increase compliance towards e-way bill implementation, volumes in plywood and laminate are likely to witness improvement.

Financial highlights

Rs mn	Q3FY19	Q3FY18	YoY (%)	Q2FY19	QoQ (%)
Net Sales	5788.9	5099.3	13.5%	5644.4	2.6%
Total Expenditure	5029.4	4221.6	19.1%	4902.1	2.6%
EBITDA	759.5	877.7	-13.5%	742.3	2.3%
EBITDA margins %	13.1%	17.2%		13.2%	
Depreciation	136.0	263.0		112.6	
EBIT	623.5	614.7	1.4%	629.7	-1.0%
Interest	62.5	62.7		155.0	
EBT (Exc other income)	561.0	552.0	1.6%	474.7	18.2%
Other operating income	15.7	42.3		10.0	
Other Income	0.0	0.0		0	
EBT	576.7	594.3	-3.0%	484.7	19.0%
Tax	162.4	127.6		106.5	
Tax (%)	28.2%	21.5%		22.0%	
Profit After Tax	414.3	466.7	-11.2%	378.2	9.5%
Other comprehensive inc/(loss)	-0.4	-2.6		0.4	
Net profit	413.9	464.0		378.6	
Equity Capital	222.53	222.53		222.53	
Face Value (In Rs)	1	1		1	
EPS (Rs)	1.9	2.1	-10.8%	1.7	9.3%

Source: Company

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Revenue growth led by volume gains in each segment

Revenue growth of 13.5% YoY was in line with our estimates. Growth in revenues was led by volume gains in all segments – plywood, laminates and MDF while realization was under pressure in plywood and MDF during the quarter. For Q3FY19, plywood volumes were up by 7% YoY but realization dropped by 6% YoY due to higher focus on mid-segment sales. Laminate volumes for Q3FY19 were up by 10% while realizations were up by 17% YoY. MDF volumes were up by 48% QoQ while realization is down by 3% QoQ.

Plywood division volumes have improved by 7% YoY and volume growth during the quarter was impacted by real estate slowdown. Management now expects volumes to grow by 10% for full year FY19 as against earlier guidance of 14-15% growth for full year FY19. With continued focus on mid-segment plywood, realizations were under pressure during the quarter. Commercial veneer volumes and realizations continued the sharp decline during this quarter too. Going ahead, company expects plywood volumes to grow by 10% for FY19 largely in the mid and lower segment category.

Laminate division volumes have shown healthy growth on yearly basis. Company expects volumes to grow going forward with incremental volumes from new expansion. Going ahead, we expect 15-20% growth in laminate volumes with commissioning of additional lines.

MDF - MDF plant had commenced commercial production from Q3FY18 and during Q3FY19 company sold 35560 CBM (up 55% QoQ) at an average realization of Rs 20740 per CBM. MDF realizations are continuously under pressure due to commissioning of capacities from various players. Company has mentioned that due to increased competition, market share gain is likely to come at the cost of pricing. Thus we believe that pricing pressure may continue to persist for few more quarters before prices get bottomed out. Going ahead, we expect the capacity utilization to move up while company has maintained the margin guidance of 15%.

We maintain our estimates and expect overall revenues to grow at a CAGR of 16.5% between FY18-20.

Operating margins impacted by pricing pressure and forex losses

Operating margins declined to 13.1% for Q3FY19 as compared to 17.2% in Q3FY18. Margin decline in plywood division is led by higher focus towards mid-end plywood sales and steep fall in commercial veneer realization as commercial veneer supplies are coming from Solomon island which have lower realizations. Company is now setting up a timber peeling capacity in Gabon at an investment of Rs 300 mn. Cost of timber is also low from Gabon and yield is also much higher, thus it will help in reducing the costs going forward. Laminate division margins declined on yearly basis due to higher raw material cost such as melamine, phenol, paper which is not fully passed on despite 17% YoY improvement in laminate realization. Going forward, laminate margins should improve as per the management.

MDF margins declined YoY due to lower realization but improved sequentially led by higher operational efficiencies despite lower realization and stood at 16% during the quarter (vs 6% during Q2FY19). Also during the quarter, glue prices and electricity cost had come down along with reduced glue consumption. Company has also calibrated the timber consumption as per the actual (lower) requirements. Thus going forwards, margins are likely to improve for MDF. Realizations of the company for the quarter stood at Rs 21964 per CBM, down 6% YoY and 3% QoQ. Company expects margins to improve to 15% in the MDF

segment led by improvement in capacity utilization. Forex losses on unhedged borrowings also impacted margins during the quarter. Out of the total forex loss of Rs 198.6 mn, Rs 95.2 mn is taken from EBITDA while Rs 103.4 mn is treated as borrowing cost.

We revise our estimates to factor in Q3FY19 performance and expect margins of 14.5%/15.5 % by FY19/20 respectively. (earlier assumption of 15.3%/15.7% by FY19/20 respectively)

Net profit performance impacted by lower margins and forex losses

Net profit performance was impacted by pressure on margins and forex losses. Tax rate is in line with management's guidance. For the full year, company expects the tax rate to be around MAT ie 21-22%. Company has reduced its exposure to Rs 1.42 bn in various currencies including ECB, buyers credit, working capital and due to rupee depreciation during the quarter, forex loss stood at Rs 198.6 mn. Out of this, Rs 103.4 mn has been treated as borrowing cost while remaining Rs 95.2 mn is taken off from EBITDA. Company is continuously trying to reduce the exposure to reduce forex losses.

Company has also taken a board approval for setting up a capacity in particle board and MDF in UP. Currently, company would focus on setting up particle board unit only for a capacity of 400 CBM per day at an investment of Rs 1 bn and would plan for MDF later.

We tweak our estimates to factor in lower margins and expect net profits to grow at a CAGR of 20.5% between FY18-20.

Valuation and outlook

At Rs 163, stock is currently trading at 20.2x/16x P/E and 12.5x/9.7x EV/EBITDA on FY19/20 estimates. We tweak our estimates to factor in slightly lower margins and lower depreciation charges. We continue to maintain our price target of Rs 232 based on 23x FY20 estimated earnings. We continue to maintain BUY recommendation on Century Plyboards as we believe that stock price is already factoring in the pricing pressure in MDF segment and with increase compliance towards e-way bill implementation, volumes in plywood and laminate are likely to witness improvement.

About the company

Century plyboards is a leading player in plywood and laminate segment. In order to cater to varied customer preferences, companies have widened their product portfolio with multiple products at various price points. Century ply has expanded its laminate capacity and has entered into MDF and particle board recently. Company is also engaged in the container freight station (CFS) at Kolkata Port and also ventured into the readymade furniture market in 2013.

Financials: Standalone

Profit and Loss Statement (Rs mn)

(Year-end Mar)	FY17	FY18	FY19E	FY20E
Revenues	17,825	19,672	22,628	26,735
% change YoY	8.0	10.4	15.0	18.1
EBITDA	2,920	3,061	3,281	4,144
% change YoY	6.0	4.8	7.2	26.3
Other Income	227	67	25	25
Depreciation	524	810	499	562
EBIT	2,623	2,317	2,807	3,607
% change YoY	7.0	(11.7)	21.1	28.5
Net interest	286	327	501	494
Profit before tax	2,337	1,990	2,305	3,113
% change YoY	18.0	(14.8)	15.8	35.0
Tax	481	424	507	841
as % of PBT	20.6	21.3	22.0	27.0
Profit after tax	1,856	1,567	1,798	2,273
Other adj	(20)	(6)	(6)	(6)
Net income	1,836	1,561	1,792	2,267
% change YoY	9.0	(15.0)	14.8	26.5
Shares outstanding (m)	222.5	222.5	222.5	222.5
EPS (reported) (Rs)	8.3	7.0	8.1	10.2
CEPS (Rs)	10.6	10.7	10.3	12.7
DPS (Rs)	-	1.0	1.0	1.0

Source: Company, Kotak Securities – Private Client Research

Cash flow Statement (Rs mn)

(Year-end Mar)	FY17	FY18	FY19E	FY20E
EBIT	2,604	2,311	2,801	3,601
Depreciation	524	810	499	562
Change in working capital	(389)	129	(517)	(475)
Chgs in other net current assets	237	(347)	253	-
Operating cash flow	2,975	2,903	3,036	3,688
Interest	(286)	(327)	(501)	(494)
Tax	(481)	(424)	(507)	(841)
Cash flow from operations	2,208	2,153	2,027	2,354
Capex	(2,955)	(2,092)	(1,500)	(1,000)
(Inc)/dec in investments	(464)	(0)	(0)	(0)
Cash flow from investments (3,419)	(2,092)	(1,500)	(1,000)	(1,000)
Proceeds from issue of equity	-	-	-	-
Increase/(decrease) in debt	1,560	(434)	(300)	(1,100)
Proceeds from share premium	-	-	-	-
Dividends	-	-	(267.9)	(267.9)
Cash flow from financing	1,560	(434)	(568)	(1,368)
Opening cash	190	538	165	124
Closing cash	539	165	124	110

Source: Company, Kotak Securities – Private Client Research

Balance sheet (Rs mn)

(Year-end Mar)	FY17	FY18	FY19E	FY20E
Cash and cash equivalents	538	165	124	110
Accounts receivable	3,353	3,145	3,410	3,809
Inventories	2,638	3,382	3,462	4,091
Loans and Adv & Others	2,478	2,166	2,400	2,365
Current assets	9,007	8,858	9,396	10,375
Other non current assets	241	157	157	157
LT investments	960	960	961	961
Net fixed assets	5,336	6,618	7,618	8,056
Total assets	15,545	16,593	18,132	19,549
Payables	1,411	1,764	1,826	2,344
Others	381	285	285	285
Current liabilities	1,791	2,049	2,111	2,629
Provisions	185	15	268	268
LT debt	6,482	6,048	5,748	4,648
Min. int and def tax liabilities	-	101	101	101
Equity	223	223	223	223
Reserves	6,864	8,157	9,681	11,680
Total liabilities	15,545	16,593	18,132	19,549
BVPS (Rs)	31.8	37.7	44.5	53.5

Source: Company, Kotak Securities – Private Client Research

Ratio Analysis

(Year-end Mar)	FY17	FY18	FY19E	FY20E
EBITDA margin (%)	16.4	15.6	14.5	15.5
EBIT margin (%)	14.7	11.8	12.4	13.5
Net profit margin (%)	10.3	7.9	7.9	8.5
Receivables (days)	63.7	60.3	55.0	52.0
Inventory (days)	55.2	55.9	55.9	55.9
Sales/assets(x)	3.3	3.0	3.0	3.3
Interest coverage (x)	9.2	7.1	5.6	7.3
Debt/equity ratio(x)	0.9	0.8	0.6	0.5
ROE (%)	29.8	20.2	19.6	20.8
ROCE (%)	22.1	16.5	18.5	22.3
EV/ Sales (x)	2.3	2.1	1.8	1.5
EV/EBITDA (x)	14.1	13.5	12.5	9.7
Price to earnings (x)	19.8	23.2	20.2	16.0
Price to book value (x)	5.1	4.3	3.7	3.0
Price to Cash Earnings (x)	15.4	15.3	15.8	12.8

Source: Company, Kotak Securities – Private Client Research

Result Update

BODAL CHEMICALS LTD

Stock Details

Market cap (Rs mn)	:	12097
52-wk Hi/Lo (Rs)	:	156 / 95
Face Value (Rs)	:	2
3M Avg. daily vol (Nos)	:	94,246
Shares o/s (mn)	:	122

Source: Bloomberg

Financial Summary

Y/E Mar (Rs mn)	FY18	FY19E	FY20E
Revenue	11,661	14,178	15,568
Growth (%)	(12.9)	21.6	9.8
EBITDA	1,944	2,402	2,697
EBITDA margin (%)	16.7	16.9	17.3
PAT	1,246	1,393	1,586
EPS	10.2	11.4	13.0
EPS Growth (%)	(6.3)	11.8	13.9
BV (Rs/share)	57	68	80
Dividend/share (Rs)	0.8	0.8	0.8
ROE (%)	17.9	16.9	16.8
ROCE (%)	12.0	12.4	12.7
P/E (x)	9.7	8.7	7.7
EV/EBITDA (x)	7.1	5.4	4.7
P/BV (x)	1.7	1.5	1.3

Source: Company, Kotak Securities - PCG

Shareholding Pattern (%)

(%)	Dec-18	Jun-18	Mar-18
Promoters	57.4	55.7	55.7
FII	6.2	6.5	6.2
DII	6.5	6.6	6.5
Others	29.9	31.3	30.5

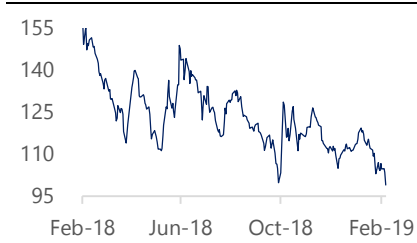
Source: Bloomberg, BSE

Price Performance (%)

(%)	1M	3M	6M
Bodal Chemicals	(15.8)	(17.2)	(25.3)
Nifty	3.1	5.1	(2.9)

Source: Bloomberg

Price chart (Rs)



Source: Bloomberg

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PRICE RS.99

TARGET RS.117

BUY

Bodal Chemicals Q3FY19 PAT was below our estimates, due to increase in interest expenses and higher tax rate. However, on the revenue front, due to change in product mix, increase in export share and higher than expected contribution from SPS led to 8.8% YoY jump in revenue. Going ahead, we foresee contribution from new dyestuff capacity to support revenue growth.

Key Highlights

- SPS performance declined sequentially and reported Rs142 mn of revenue and loss of Rs18 mn, due to decline in H- Acid prices during the quarter to Rs406/kg, while Trion Chemicals continues saw some recovery, but continues to report the loss. Trion reported loss of Rs15mn in 3QFY19.
- The company commissioned Thionyl Chloride (TC) capacity of 36,000 tonnes per annum and commercial production is expected to start by end of Q4FY19. Dyestuff expansion is on track.
- The company incorporated two new subsidiaries to further increase the business activities in China and other geographies - Bodal Chemicals Trading Private Limited in India and Bodal Chemicals Shijiazhuang Ltd in China.

Valuation & outlook

Given the future road map in terms of revenue visibility and margin expansion plans in place, by undertaking an aggressive capex plan, we believe that long term story still remains intact. In the near term, contribution for Dyestuff expansion shall support the earnings, but a weak performance from Trion chemicals and lower intermediates realisation would partly offset the benefit. Factoring 3QFY19 performance, we have revised our FY19E earnings to Rs11.4 (earlier Rs10.9). The stock at current valuations of 8.7x/7.7X FY19E/FY20E earnings, factors in all the potential negatives. But re-rating will take some more time. Given the sharp correction in the stock price, we upgrade the stock to BUY (earlier Accumulate) with revised target price Rs117 (earlier Rs130).

Quarterly performance table

Particulars (Rs Mn)	3QFY19	3QFY18	% YoY	2QFY19	% QoQ
Net Sales	3,343	3,072	8.8	3,932	(15.0)
Raw Materials	2,131	1,931		2,339	
Employee Costs	184	125		171	
Total Expenditures	2,786	2,538		3,204	
EBITDA	557	534	4.2	728	(23.5)
EBITDA Margin	16.7	17.4		18.5	
Depreciation	55	74		54	
EBIT	502	460		675	
Interest	27	13		20	
Other Income	5	20		30	
PBT	480	468		685	
Tax	196	163		234	
PAT	285	304	(6.4)	450	(36.8)
Share of Asso	0	(9)		0	
PAT	285	295	(3.5)	450	(36.8)

Source: Company, Kotak Securities – Private Client Research

Increased share of export boost the operating performance

During the quarter, the company reported revenue of Rs3.34 bn, up 8.8% YoY, driven by better realisation, as volume remained flat. Volume during the quarter stood at 46,798 tonnes, flat YoY due to environment related issues and maintenance shutdown. Besides lower volume, drop in realisation led to a 15% QoQ drop in revenue. Export revenue during the quarter stood at Rs1.56 bn, up 78% YoY, Vinyl Sulphone and H-Acid realisation declined and stood at Rs251 vs Rs278/kg in 2QFY19 and Rs406 vs Rs451/kg in 2QFY19, respectively. Current prices of both these intermediates are 2-3% lower than the average of 3QFY19.

Higher export sales, coupled with increased in captive consumption of dye intermediates partly offset the impact of increased in raw materials and employee cost and led to 4.2% YoY jump in EBITDA to Rs557mn (down 23.5% QoQ), with an EBITDA margin of 16.7%. Basic chemical share in overall product basket remained flat QoQ at 10%, on the other hand, high value product such as Dye intermediates and dye stuff, share increased to 47% and 39%. PAT during the quarter declined by 3.5%/36.8% YoY/QoQ to Rs285 mn.

Operational Parameters

Revenue Break-up (Rs mn)

Product	Q3FY19	Q3FY18	% YoY	Q2FY19	% QoQ
Dye Intermediates	1,558	1,703	(8.5)	1,822	(14.5)
Dyestuff	1,293	943	37.1	1,301	(0.6)
Basic Chemicals	332	304	9.0	379	(12.5)
Others	133	91	45.3	176	(24.7)

Source: Company

Domestic vs Export

Particulars	Q3FY19	Q3FY18	% YoY	Q2FY19	% QoQ
Domestic	1,757	2,190	(19.8)	1,950	(9.9)
Export	1,558	851	83.0	1,730	(9.9)

Source: Company

Margin to improve

Management expects the margin profile to improve in the range of 18-20%, with the commissioning of TC unit (30% will be captive consumption) and dye stuff expansion. The company will be selling 70% of its TC production to the third party and current price for the same is Rs30/kg. Post the commissioning of dye stuff capacity, dye intermediates sales volume will drop down by ~60%, which will further support the margin expansion, as product mix improves. But, in the near term, we believe that, the decline in the blended realisation of intermediates act as a key headwind. Hence, we expect margin to be in the range of 16-17.5%.

Other Highlights:

Trion Chemicals: Production increased during the quarter, due to decline in raw material prices, despite that the unit reported a loss of Rs15 mn. Management expects, if the unit produces 340 tonnes monthly for the next 3-4 months at the current raw material prices, the unit could achieve break-even in the next six months. However, in case of increasing raw material prices, break-even would further delay.

SPS: The drop in revenue at SPS was largely attributed to decline H-Acid realisation during the quarter. VS facility is yet to commence operation

Dyestuff expansion: The company is on track to further expand dyestuff (powder) capacity by 6000 MTPA, at Unit- 7, at an estimated cost of Rs.260 mn. Management expect the new facility to come on stream by 1QFY20. Post the completion of the expansion, total Dyestuff capacity (powder) of the company will be 35,000 MTPA.

Company Background

Bodal Chemicals Limited is integrated company, offering end-to-end solution to our customers globally. The company is among world's largest manufacturer and exporter of Dyes Intermediate, Dyestuff and Sulphuric Acid, with vertically and horizontally integrated who provides product solutions and service solution on fastest possible route to their customers. BCL having its presence not only in India but across the globe and serving to 50+ countries with its Innovative products and services. BCL with presence across dyestuff value chain and strong domestic/exports penetration is aptly placed to take benefit of opportunities in dyestuff industry.

Financials: Consolidated

Profit and Loss Statement (Rs mn)

(Year-end Mar)	FY17	FY18	FY19E	FY20E
Net sales	13,392	11,661	14,178	15,568
growth (%)	47.2	(12.9)	21.6	9.8
Operating expenses	11,132	9,718	11,776	12,871
EBITDA	2,260	1,944	2,402	2,697
growth (%)	50.9	(14.0)	23.6	12.3
Depreciation & amortisation	289	121	196	234
EBIT	1,972	1,823	2,206	2,463
Other income	105	95	73	68
Interest paid	87	53	81	65
Exceptional items	49	0	0	0
PBT	2,038	1,865	2,198	2,465
Tax	709	619	769	843
Effective tax rate (%)	34.8	33.2	35.0	34.2
Net profit	1,329	1,246	1,429	1,622
Share of Asso.	(0)	0	36	36
Reported Net profit	1,329	1,246	1,393	1,586
growth (%)	54.6	(6.3)	11.8	13.9

Source: Company, Kotak Securities – Private Client Research

Cash flow Statement (Rs mn)

(Year-end Mar)	FY17	FY18	FY19E	FY20E
Pre-tax profit	2,038	1,865	2,198	2,279
Depreciation	289	121	196	234
Chg in working capital	(448)	(902)	1,016	(170)
Total tax paid	698	619	769	843
Other operating activities	(12)	53	81	65
Operating CF	1,169	518	2,722	1,565
Capital expenditure	(531)	(1,044)	(1,685)	(1,053)
Chg in investments	0	(44)	0	0
Other investing activities	(236)	0	0	0
Investing CF	(767)	(1,088)	(1,685)	(1,053)
Equity raised/(repaid)	0	2,224	0	0
Debt raised/(repaid)	(101)	308	(629)	(250)
Dividend (incl. tax)	(40)	(114)	(114)	(114)
Other financing activities	(87)	(53)	(81)	(65)
Financing CF	(228)	2,364	(825)	(429)
Net chg in cash & bank bal.	174	1,795	212	83
Closing cash & bank bal	167	59	271	282

Source: Company, Kotak Securities – Private Client Research

Balance sheet (Rs mn)

(Year-end Mar)	FY17	FY18	FY19E	FY20E
Cash & Bank balances	167	59	271	282
Other Current assets	4,366	5,672	4,888	5,222
Investments	125	169	169	169
Net fixed assets	2,306	4,553	6,041	6,860
Other non-current assets	10	264	264	264
Total assets	6,975	10,717	11,634	12,797
Current liabilities	1,686	1,684	1,916	2,080
Borrowings	1,490	1,808	1,179	929
Other non-current liabilities	190	244	244	244
Total liabilities	3,365	3,736	3,338	3,252
Share capital	218	218	244	244
Reserves & surplus	3,374	6,751	8,004	9,218
Shareholders' funds	3,593	6,969	8,248	9,462
Minority interest	18	11	47	83
Total equity & liabilities	6,975	10,717	11,634	12,797

Source: Company, Kotak Securities – Private Client Research

Ratio Analysis

(Year-end Mar)	FY17	FY18	FY19E	FY20E
Profitability and return ratios (%)				
EBITDAM	16.9	16.7	16.9	17.3
EBITM	14.7	15.6	15.6	15.8
NPM	9.6	10.7	9.8	10.2
RoE	35.6	17.9	16.9	16.8
RoCE	19.2	12.0	12.4	12.7
Per share data (Rs)				
EPS	11.7	10.2	11.4	13.0
FDEPS	11.7	10.2	11.4	13.0
CEPS	14.4	11.2	13.0	14.9
BV	31.4	57.0	67.5	79.7
DPS	0.3	0.8	0.8	0.8
Valuation ratios (x)				
PE	8.5	9.7	8.7	7.7
P/BV	3.2	1.7	1.5	1.3
EV/EBITDA	5.4	7.1	5.4	4.7
EV/Sales	0.9	1.2	0.9	0.8
Other key ratios				
D/E (x)	0.4	0.3	0.1	0.1
Debtors Days	54	90	90	90

Source: Company, Kotak Securities – Private Client Research

RATING SCALE

Definitions of ratings

BUY	–	We expect the stock to deliver more than 15% returns over the next 12 months
ADD	–	We expect the stock to deliver 5% - 15% returns over the next 12 months
REDUCE	–	We expect the stock to deliver -5% - +5% returns over the next 12 months
SELL	–	We expect the stock to deliver < -5% returns over the next 12 months
NR	–	Not Rated. Kotak Securities is not assigning any rating or price target to the stock. The report has been prepared for information purposes only.
SUBSCRIBE	–	We advise investor to subscribe to the IPO.
RS	–	Rating Suspended. Kotak Securities has suspended the investment rating and price target for this stock, either because there is not a sufficient fundamental basis for determining, or there are legal, regulatory or policy constraints around publishing, an investment rating or target. The previous investment rating and price target, if any, are no longer in effect for this stock and should not be relied upon.
NA	–	Not Available or Not Applicable. The information is not available for display or is not applicable
NM	–	Not Meaningful. The information is not meaningful and is therefore excluded.
NOTE	–	Our target prices are with a 12-month perspective. Returns stated in the rating scale are our internal benchmark.

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