



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

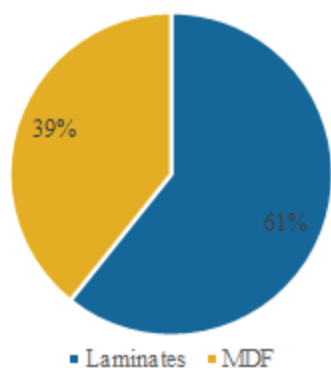
Last Price (7/1) 274.6 INR	Market Cap 385 INR Crore	Industry Plywood and Laminates	Dividend Yield (%) -	Return on Equity 12%
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Relative Valuations

	Rushil	Sector	Country
Adjusted P/E	48x	40x	20x
Forward P/E	31x	27x	17x
EV/ EBITDA	15x	20x	11x
P/CF	12x	11x	9x

Source: Medici Estimates, Bloomberg

Rushil's Product Distribution (FY15)



Buy-side:

MDF segment to support higher growth and profitability in the next few years.

Product mix, innovation and shift towards organized sector will enable high single digit growth in laminates.

Lower input prices to boost margins over the next few quarters

Sell-side:

Global slowdown will lead to excess inventories which can be seen in form of imports.

Highly competitive laminates sector can result in contraction of margins.

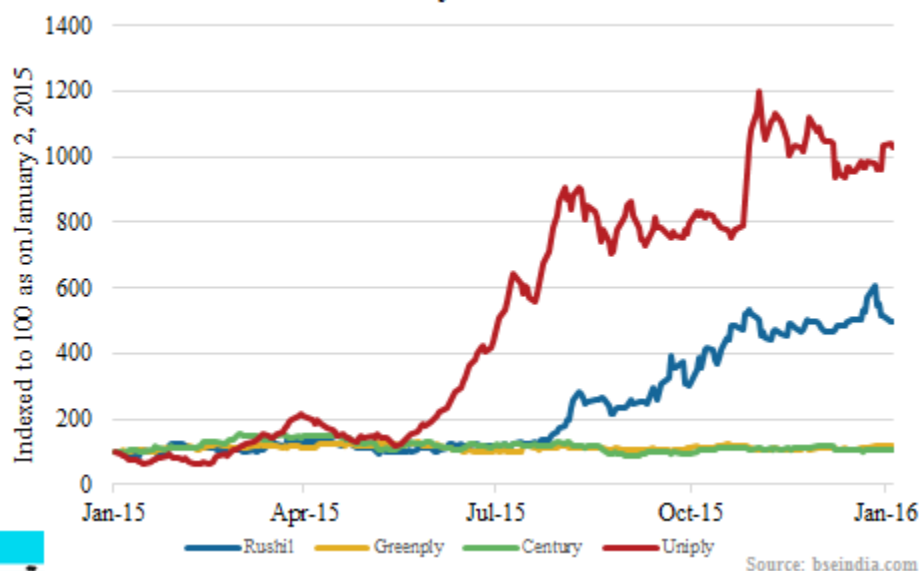
Decline in raw material pricing offset by a weakening rupee.

Rushil's Innovative Offerings and Diversified End Markets to Drive Long Term Growth

Strong Organic Growth

Incorporated in 1993, Rushil Decor Limited is engaged in manufacturing of decorative laminate products and medium density fiber or MDF. The company has an operating capacity of approximately 48 lakh sheets per annum in the laminates segment, forming 3% of India's total production capacity, marketed across the globe with a major concentration in Asia and Middle East.

Laminate Industry Stock Performance



Real estate and infrastructure expansion have been a major driver for the growth of Laminates and plywood industry. Real Estate sector in India has grown to \$90 billion in 2015, up by 50% over the past five years. However, Rushil Decor has more than doubled its revenues to Rs.278 crore over the past five years backed by strong growth in laminates and MDFs.

Product mix, MDFs

The capacity addition by organized and unorganized sectors in high-pressure laminates has been at a rapid pace resulting in a highly competitive market with pressure on maintaining competitive pricing. The production in the high pressure laminates has grown at 12% over the past five years and is expected to register growth in low double digit over the next three years. However, MDF market is less concentrated and is growing at more than 25%. We are expecting growth to continue for at least two to three years before new and existing players start augmenting their capacities. Rushil Decor is expected to boost its bottom-line on the back of MDF growth.



Laminates Output to Get a Push from Infrastructure and Real Estate Spending

Rushil Decor generated 58% of its total revenues from laminate sheets in FY15 totaling Rs.159 crore. The segment has grown at a compounded annual growth rate or CAGR of 12%. Its offerings in the segment include decorative laminate sheets, Industrial laminate sheets and Rushil kitchen door. Products are marketed under “Vir Laminate”, “Rushil” and “Signor” brands. The company has three decorative laminate manufacturing units in Gujarat with a total operating capacity of 48 lakh sheets per annum.

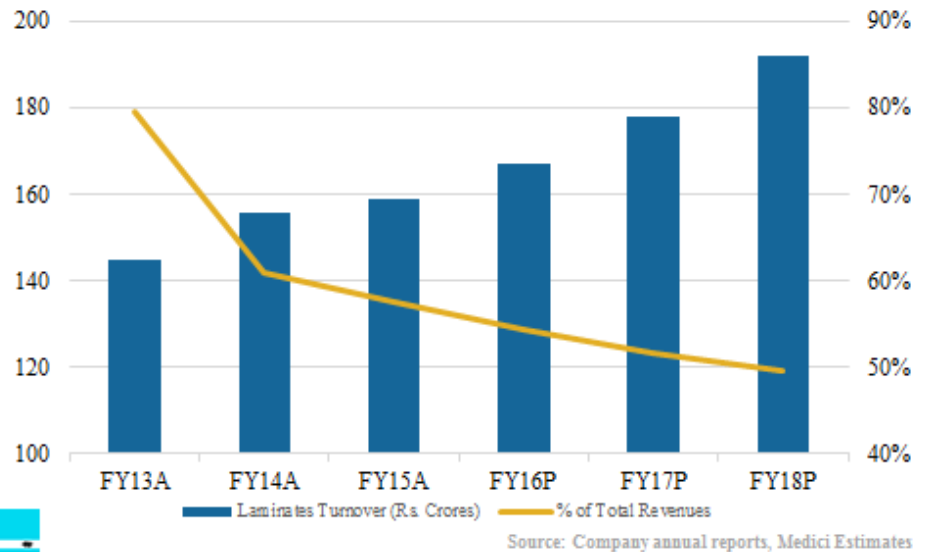
Rushil Decor is cutting through the competition by innovating in designs and offerings on a continual basis. The company has over 1200 designs in laminated sheets with various sizes including 0.8 mm and 1 mm sheets.

Real Estate sector is expected to grow at CAGR of 15% over the next five years.

Government’s initiatives “Housing for all” to prove beneficial for real estate and ancillary industries.

Rushil’s push for penetrating into rural markets can help in augmenting volumes

Rushil Decor's Laminate Segment



Monetary and fiscal push

Laminates and Decorative veneer total market size in India is of Rs.5,000 crores with an unorganized market forming c.33% in 2015 as compared to 40% in 2013, reflecting a clear and gradual shift towards the organized market. The market has grown by 5%-7%, whereas organized players like Greenlam Industries (BOM – 538979, demerged entity of Greenply Industries Limited), Rushil Décor, and Century Plyboards India Ltd. (BOM – 532548) have expanded between 10%-20% over the past few years.

Macro factors like improved housing markets in the Europe backed by quantitative easing till 2018, stable and growing markets in the US will drive the demand for international players. In India, the government has made a major push towards infrastructure and housing projects which is expected to drive high single digit growth in the industry.

Product mix and rural markets

Rushil Decor is focusing on better product mix in order to boost margins for laminate segment. However, the company’s push for rural segment will partially offset those higher margins. Targeting of a rural segment will help in capturing market share and an increased brand presence.

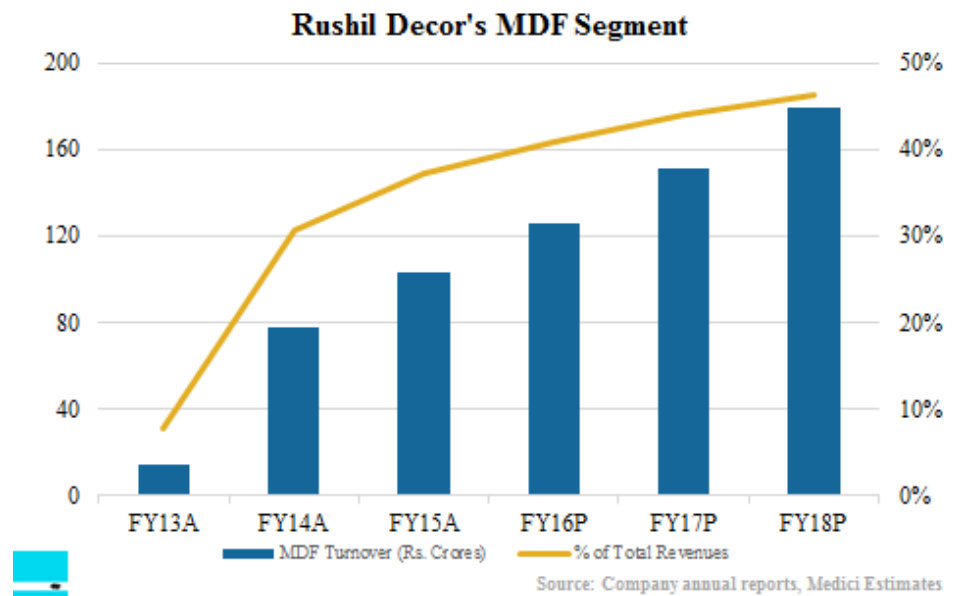
Less Crowded MDF Market to Drive Future Growth

Medium density fiberboards or MDFs market is estimated at Rs.1,500 crore and is expanding at 25% annually. The organized market includes few players like Greenply Industries Pvt. Ltd. (BOM – 526797) with 30% market share, Rushil Decor with 7% market share, Mangalam Timber Products Limited (BOM – 516007) with 3% market share and rest of the consumption is imported mainly from Asian players.

MDF is expected to contribute more than 50% the company's revenues in 2019 and 70% of its profitability

India imports more than a third of its MDF utilization. New capacity additions not sufficient to substitute the same till 2018

Rushil can further improve operating margins by introducing value added products



Improving capacity utilization to boost margins

Rushil Decor operates an MDF manufacturing unit in Chikmagalur, Karnataka with an installed capacity of 90,000 cubic meters per annum with the current capacity utilization of 70%. The company is also planning a plant of HDF or high density fibreboard with estimated capacity of about 36.80 million sq ft. HDF laminate consists of high-density fiberboard topped by one or more layers of decorative paper and a transparent plastic protective layer.

In the second quarter of FY16, MDF constituted 45% of the company's revenues and 54% of the operating profit as compared to 37% of the total revenues and 34% of the operating profit in FY15.

A denser product

Medium-density fiber board or MDF is an engineered wood product formed by breaking down softwood into wood fibers, often in a defibrator, combining it with wax and resin, and forming panels by applying high temperature and pressure.

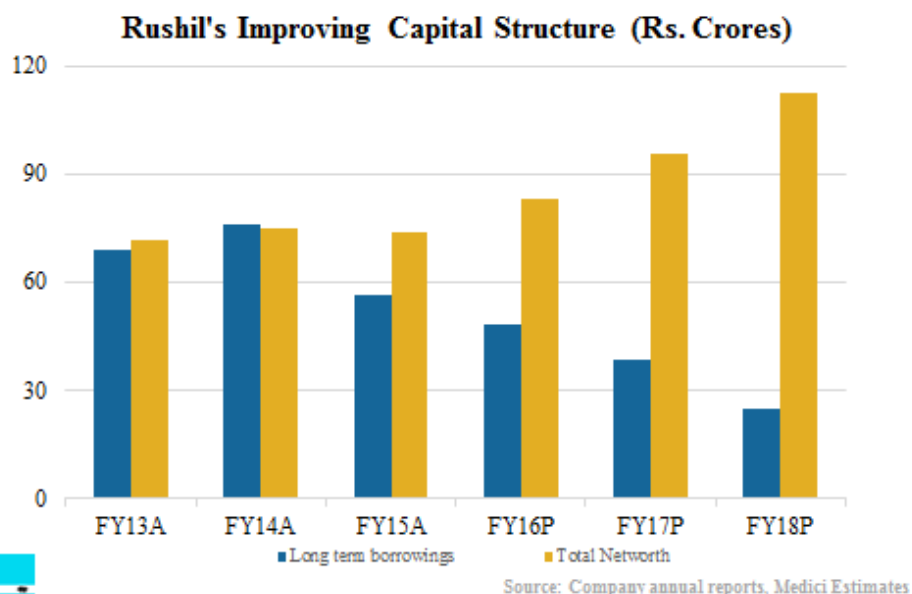
It is a building material similar in application to plywood but made up of separated fibers, not wood veneers. As the hybrid is having better applications, consumers are slowly adapting to this new technology.



Improving Capital Structure to Boost Margins

Closure of Navalgadh Unit

Rushil Decor Limited entered into manufacturing of Particle Board in 2009 with manufacturing facility at Surendranagar, Gujarat. However, the company sold a majority of fixed assets as the unit was generating losses over the past few quarters. In FY15, the company realized an extraordinary loss of Rs.6 crore on the sale of assets. Proceeds from the transaction were utilized to reduce the leverage resulting in a total debt to equity ratio of 1.3x in the second quarter of FY16 as compared to 1.7x in FY14.



Rushil Décor's facilities have been recently upgraded to BBB/A3+ (CARE – July 2015) on improvement in leverage and debt coverage indicators. The company's interest cost is projected to decline by 14% to Rs.12 crore in FY16.

Working Capital Diligence

Rushil Decor working capital requirement peaked in FY14 to Rs.50 crores and has declined to Rs.40 crores in FY15 in spite of 8% growth in the overall turnover. The company has managed to improve its inventory turnover days from 137 days to 123 days. It has also seen improvement in terms for debtors due to a higher composition of MDF in the overall turnover. Rushil funds its working capital requirement entirely from its Rs.47 crore facility from Bank of Baroda.

The company has total facilities of Rs.111 crore including external commercial borrowing with an outstanding loan of \$4.7 million as on March 31, 2015. The company's interest cost is expected to decline with no major capital expenditure in the pipeline to Rs.11 crore by FY17 as compared to Rs.15 crore in FY14.



Excess Capacities, Local Manufacturing Initiatives to Push Competition

Laminate Industry has seen a high capacity addition in the areas of decorative veneers, high-pressure laminates and compacts. Major players have been adding capacities for engineered wood flooring and engineered doors for the upcoming internet of things. Rushil Decor faces competition from both domestic and international players. Consumers are gradually moving towards organized sector which now has almost two third of the total market share.

Rushil's major competitors in Laminates include Greenlam Industries Limited, Century Plyboards India Limited, Uniply Industries Limited and other regional players. The companies in the segment are investing in building their brands, providing innovative offerings which can benefit in improving margins over the long run.

In the MDF segment, the company faces competition primarily from Greenply Industries Limited which is investing in augmenting its capacity by an additional 30% in the current financial year. Global peers, especially from China, are trying to penetrate in the Indian markets for long-term growth prospects.

Trading Comparables

Domestic Peers

Sl. No.	Company	EV (Rs. Crores)	Mkt Cap (Rs. Crores)	EV/ TTM EBITDA	P/ TTM EPS	Dividend Yield (%)	Revenue Growth	EPS Growth	RoE
(As on January 7, 2015)									
A	Greenply Industries Limited	2,557	2,347	13.5x	19.3x	0.3%	-28.0%	6.4%	22.8%
B	Century Plyboards India Limited	4,143	3,726	14.7x	24.7x	1.2%	21.9%	125.6%	44.4%
C	Uniply Industries Limited	376	315	32.7x	715.9x	-	-26.5%	-	-
D	Greenlam Industries Ltd	1,625	1,376	-	56.0x	0.1%	-	-	11.7%
E	Mangalam Timber Products Ltd	42	29	-	-	-	-29.3%	-32.2%	-22.9%
	Mean			20.3x	204.0x				
	Median			14.7x	40.3x				

Global Peers

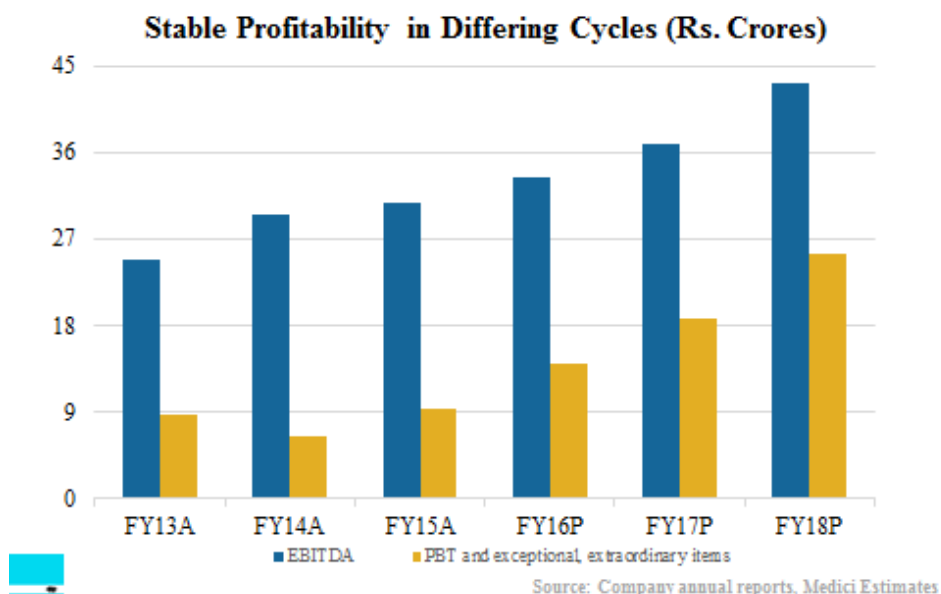
Sl. No	Company	EV (Rs. Crores)	Mkt Cap (Rs. Crores)	EV/ TTM EBITDA	P/ TTM EPS	Dividend Yield	Revenue Growth	EPS Growth	RoE
(As on January 7, 2015)									
A	Armstrong World Industries, Inc. (US)	20,721	15,728	8.4x	23.8x		-0.5%	-16.2%	12.8%
B	Nanxing Furniture Machinery (China)	5,375	5,227	-	62.9x	-	21.9%	125.6%	44.4%
C	Vanachai Group Pub Co Ltd (Thailand)	3,985	4,713	10.8x	15.9x	3.1%	-26.5%	-	-
D	Tarkett SA (France)	16,876	12,071	8.5x	27.1x	1.5%	-4.1%	-26.8%	11.7%
E	Evergreen Fibreboard BHD (Malaysia)	2,101	2,454	8.8x	14.5x	-	-29.3%	-32.2%	-22.9%
	Mean			9.1x	28.8x				
	Median			8.7x	23.8x				



How Global Factors can Impact Performance of Rushil Decor

Macro risks

Rushil Decor generated Rs.83.5 crores in revenues for FY15 through exports primarily to Middle-east and Asia Pacific region. The company deploys raw materials including kraft paper, tissue paper, base paper, melamine, methanol, phenol and formaldehyde for manufacturing of laminates and other products. It's imported raw material totaling Rs.61 crores in FY15, forming 73% of total exports. This set up provides natural foreign exchange hedge to the company and results in lower risk related to the fluctuations.



Europe to Drive Housing Growth in the Next Decade

Europe, China and Japan are engaged in competitive quantitative easing in order to buttress their economic growth and push for exports primarily to the US. However, the slowdown in China is offsetting any positive developments in the developed countries resulting in lower global growth.

Any major recession in China or other major regions/ countries can result in slowing housing and infrastructural market. This can further result in building up of inventories and declining commodity prices as have been the case in the recent quarters. Rushil Decor's exports are being targeted to regions with marginally better prospects which can augment well for the company in a long run.



Rushil Decor is Garnering Premium Valuations on Growth Prospects

Valuations

Rushil Decor went public in 2011 stock has more than doubled since its listing. However, its operating performance got negatively impacted by particle board sales over the past few years. The company's exit from the business and a strong growth in MDF segment propped up stock prices by approximately 400% over the past one year. The company is currently trading at an adjusted price to earnings (excluding a one-time loss from the sale of Navalgadh Unit) of 48x as compared to the industry price to earnings of 40x. On one year forward price to earning basis, it is trading at 31x as compared to peers trading at 27x.

Exit Valuation on Current Multiples

On the basis of EV/ EBITDA

Sl. No.	Parameter	Multiple (x)	EBITDA (Rs. Crore)	EV (Rs. Crore)	Equity Value (Rs. Crore)	Price Per share
A	Exit in 2018	20.3x	43	875	795	552
B	Exit in 2019	20.3x	49	984	937	651
C	Exit in 2020	20.3x	54	1,101	1,063	738

On the basis of Price / Earnings

Sl. No.	Parameter	Multiple (x)	PAT (Rs. Crore)	Equity Value (Rs. Crore)	Price Per share (Rs.)
A	Exit in 2018	40.3x	17	678	471
B	Exit in 2019	40.3x	21	858	596
C	Exit in 2020	40.3x	26	1,040	722

Expected Growth on Long-Term Holdings

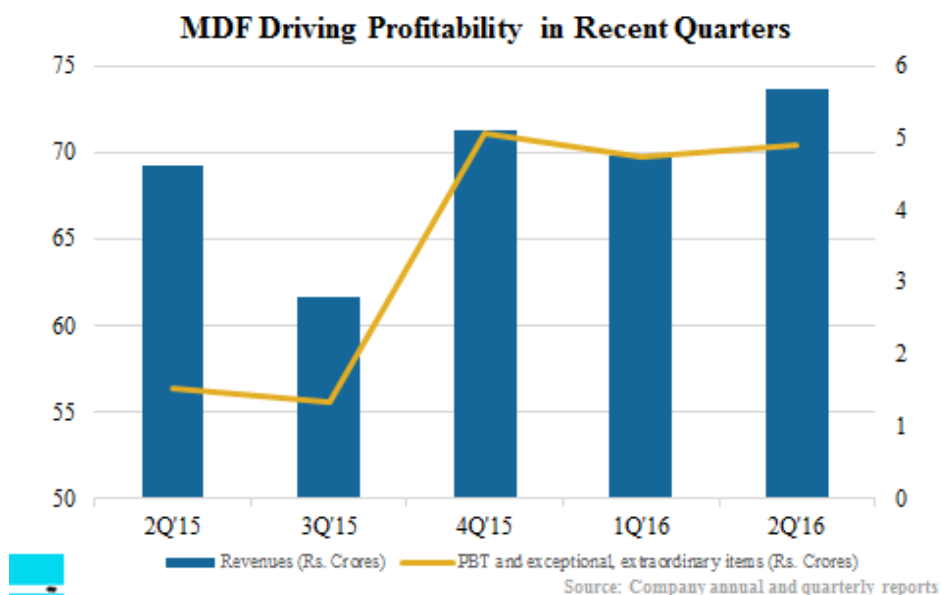
Rushil Decor is expected to improve its profitability backed by strong growth in MDFs, nominal growth in Laminates, improved working capital prudence, and better product mix. Considering current price to earnings and enterprise value to earnings before interest, taxes and depreciation multiples, Rushil Decor stock is expected to deliver CAGR growth of 25%-30% over the next three to four years.

The company's focus on exports to new countries and target to rural markets is expected to push the growth of Laminates in high single digits as compared to existing 2%-5%. Its growth for MDFs is expected to be high at least for next three to four years post which existing and new players are expected to augment their capacities.



Performance in recent quarters

In 6MFY16, Rushil Decor expanded its revenues by 5% to Rs.147 crores, helped primarily by strong sales in medium density fibreboard. Its domestic sales were mainly to states in southern India followed by western and north India. In terms of exports, forming approximately one third of total revenues, Middle East was the major region followed by Asia and a very small portion to the US and Europe.



Improved Profitability

Rushil's operating profit improved significantly with EBITDA expanding by 46% in six months of FY16 to Rs. 19 crore as compared to the prior year's period. The expansion was mainly due to better margins in the MDF business.

MDF segment now contributes more than half of the company's profitability and is expected to significantly boost profitability at least over the next couple of years.

Rushil has also benefited from a decline in global commodity prices resulting in a significant reduction of raw material costs. Its raw material costs decreased by 5% as compared to 5% increase in revenues. This was partially offset by an increase in employee benefit expenses and other manufacturing expenses. The company's finance costs also declined to Rs.6.4 crore in 6MFY16 as compared to Rs.7.2 crore in the prior year period.



Pricing Trends, Industry Performance

MDF global production capacity has surpassed 90 million cubic meters in 2015, with China being the largest producer with almost 50% of the global capacity, followed by Europe with almost 25% of the global capacity. China has more than doubled its capacity in the MDF production over the past decade supported by strong housing growth and exports growth. India continues to be a net importer of MDFs, with more than a third of its utilization met through foreign supplies. MDF market is expected to witness robust growth over the next decade mainly due to following reasons:

- High spending in retail, infrastructure to attract branded products
- Highly durable product with lower cost
- Environment friendly, incentives from government
- Supply side economics to catch up with the rising demand
- Highly automated process to result in economies of scale
- Demand for value added products, engineered products

MDF Prices

MDF derives its pricing from international markets. Globally, MDF prices peaked in 2007 to \$320 for 2.5mm panels and then declined substantially due to a global slowdown. Currently, global commodity prices have been declining down due to a slowdown in China. The companies tend to maintain 10% operating margins as input costs for raw materials decline alongside the commodity prices.



DIRECTOR PROFILE

Directors	Position	Description	Beneficial Ownership/ (% O/S)
Ghanshyambhai A. Thakkar	Chairman, Promoter	Has an experience of more than four decades in the industry of laminated sheets, plywood, particle board, prelam board and allied items. He holds Bachelor of Science degree from Gujarat University and holds Diploma in Civil Engineering from Department of Technical Education from Gujarat State. As a Whole Time Director he is involved in day to day operations of Company. He is looking into the finance management, purchase of raw material etc.	2025950 14.1%
Krupeshbhai G. Thakkar	Managing Director, Promoter	Has an experience of more than 15 years in industry of laminated sheets and allied items. He has been conferred with several accolades which include the "Rajiv Gandhi Shiromani Award" and the "Indira Gandhi Sadbhavana Award" in 2007 for his achievement in his field of work and contribution to the nation.	1542484 10.7%
Kaushikbhai J. Thakkar	Director	Has wide experience of admin, business affairs of branches as well as business with consignment agents	-
Jingle P. Thakkar	Independent Director	Has significant experience in the field of finance and accounts	-
Shankar Prasad Bhagat	Independent Director	Has an experience of 25 years in the field of finance and accounts	-
Rohitbhai B. Thakkar	Independent Director	Has vast experience across various domains of the business	-



Projected Financials

Rushil Decor's Income Statement

(All figures in INR Crores unless stated otherwise)

	FY11A	FY12A	FY13A	FY14A	FY15A	FY16P	FY17P	FY18P	FY19P	FY20P
Revenue from operations	123	153	182	256	276	307	344	386	438	493
Other income*	1	1	1	2	2	3	3	3	4	4
Total Revenues	124	154	184	257	278	310	347	390	442	497
Operating Expenses										
Raw Material Cost	85	100	119	171	181	203	227	255	289	325
[+] Power Cost	7	7	11	19	18	20	24	26	29	33
[+] Employee Cost	5	6	9	14	16	17	18	20	23	26
[+] Other Manufacturing Expenses	2	1	1	2	2	2	2	3	3	3
[+] Admin & Misc Expenses	16	18	21	28	31	35	38	43	49	55
[-] Total Operating Expenses	109	136	159	228	247	276	310	347	394	443
EBITDA	15	19	25	30	31	33	37	43	49	54
[-] Depreciation	2	3	5	8	7	6	7	7	8	8
EBIT	13	16	20	22	24	27	30	36	41	46
[-] Interest	6	8	11	15	14	13	11	11	9	7
PBT and exceptional, extraordinary items	7	8	9	7	9	14	19	25	32	39
Extraordinary item	(0)	(0)	-	-	(6)	-	-	-	-	-
PBT	7	8	9	7	3	14	19	25	32	39
[-] Taxes	2	2	5	4	4	5	6	9	11	13
PAT	4	6	4	3	(1)	9	12	17	21	26
Shares in issue (Lakhs)	88	144	144	144	144	144	144	144	144	144
Earnings per share (Rs.)	5.11	3.93	2.80	2.09	(0.45)	6.42	8.56	11.67	14.76	17.90



Rushil Decor's Balance Sheet

(All figures in INR Crores unless stated otherwise)

	FY11A	FY12A	FY13A	FY14A	FY15A	FY16P	FY17P	FY18P	FY19P	FY20P
Liabilities & Equity										
Current Liabilities & Provisions										
Cash Credit / Overdraft Utilization	34	41	43	51	43	31	35	44	33	46
[+] Accounts payable	35	42	49	55	49	56	69	68	89	86
[+] Other Current Liabilities	13	7	17	21	20	24	27	30	32	34
[+] Short Term Provisions	2	1	1	1	1	1	1	1	1	1
Total Current Liab. & Prov.	84	91	110	128	113	111	131	142	155	166
Non Current Liabilities										
Long term borrowings	41	64	69	76	56	48	39	25	14	3
Deferred tax liabilities	5	6	9	11	14	17	19	22	25	28
Other Long term liabilities	21	4	5	6	4	4	4	4	4	4
Long term provisions	0	0	0	1	1	1	1	1	1	1
[+] Total Non Current Liabilities	67	75	83	94	75	70	63	52	44	36
Networth										
Share Capital	9	14	14	14	14	14	14	14	14	14
Reserves and surplus	17	55	57	60	60	69	81	98	119	145
[+] Total Networth	25	69	72	75	74	83	96	112	134	159
Total Liabilities & Equity	177	234	265	296	262	264	289	307	332	362
Assets										
Current Assets										
Cash & Cash Equivalent	11	5	5	6	7	1	2	1	9	20
[+] Inventory	39	39	50	65	56	61	70	74	79	87
[+] Account Receivables	26	33	40	42	44	44	56	63	70	74
[+] Loans & Advances	7	17	17	20	10	7	5	5	5	5
Total Current Assets	83	94	112	133	117	113	132	144	163	186
[+] Net Fixed Assets	43	46	149	155	137	143	148	155	160	167
[+] CWIP	45	90	0	0	-	-	-	-	-	-
[+] Non-current investments	0	0	0	0	0	0	0	0	0	0
[+] Long term loans and advances	4	4	3	5	4	4	4	4	4	4
[+] Other non current assets	1	1	1	4	4	4	4	4	4	4
Total Assets	177	234	265	296	262	264	289	307	332	362



Ratio Analysis

(All figures are dimensionless unless stated otherwise)

	FY11A	FY12A	FY13A	FY14A	FY15A	FY16P	FY17P	FY18P	FY19P	FY20P
Profit Margins										
EBITDA Margin	12.4%	12.2%	13.7%	11.6%	11.1%	10.9%	10.7%	11.2%	11.1%	11.0%
EBIT Margin	10.5%	10.5%	10.9%	8.6%	8.6%	8.8%	8.7%	9.3%	9.4%	9.4%
PBT and extraordinary Margin	5.4%	5.2%	4.7%	2.6%	3.4%	4.6%	5.4%	6.6%	7.3%	7.9%
PAT Margin	3.6%	3.7%	2.2%	1.2%	-0.2%	3.0%	3.6%	4.3%	4.8%	5.2%
Growth Rates										
Revenue		24.9%	18.8%	40.5%	7.8%	11.4%	12.0%	12.4%	13.5%	12.4%
EBITDA		22.0%	33.8%	18.7%	3.7%	9.0%	10.4%	16.8%	12.5%	11.8%
EBIT		24.7%	23.3%	10.9%	8.3%	14.3%	10.2%	20.5%	13.7%	13.1%
PBT		18.8%	9.1%	-24.4%	44.4%	48.8%	33.3%	36.2%	26.6%	21.2%
PAT		27.1%	-28.9%	-25.3%	NM	NM	33.3%	36.2%	26.6%	21.2%
As a % of Sales										
Raw Material Cost	69.5%	65.1%	65.4%	66.7%	65.7%	66.0%	66.1%	65.9%	66.0%	66.0%
Power Cost	5.6%	4.6%	6.0%	7.5%	6.5%	6.6%	6.9%	6.7%	6.7%	6.8%
Employee Cost	4.1%	3.9%	5.2%	5.7%	5.7%	5.4%	5.3%	5.2%	5.2%	5.2%
Other manufacturing business	1.3%	0.9%	0.7%	0.6%	0.8%	0.7%	0.7%	0.7%	0.7%	0.7%
Admin & Misc Expenses	12.9%	11.5%	11.7%	11.1%	11.1%	11.3%	11.2%	11.2%	11.2%	11.2%
Liquidity Ratio										
Current Ratio	1.00x	1.03x	1.02x	1.03x	1.03x	1.01x	1.01x	1.01x	1.06x	1.12x
Quick Ratio	0.54x	0.60x	0.56x	0.52x	0.53x	0.47x	0.48x	0.49x	0.55x	0.59x
Return Ratio										
Return on Average Equity		12.0%	5.7%	4.1%	-0.9%	11.8%	13.8%	16.2%	17.3%	17.6%
Pre Tax Return on Average Capital Employed		13.6%	13.3%	13.6%	15.0%	18.0%	19.2%	22.4%	24.0%	24.9%
Post Tax ROACE		9.0%	8.8%	9.0%	9.9%	11.9%	12.7%	14.8%	15.8%	16.4%
Return on Average Assets		2.8%	1.6%	1.1%	-0.2%	3.5%	4.5%	5.6%	6.7%	7.4%
Leverage Ratio										
Debt/ Equity	2.1x	1.0x	1.2x	1.3x	1.0x	0.9x	0.7x	0.5x	0.3x	0.2x
Debt/ EBITDA	3.5x	3.8x	3.4x	3.3x	2.5x	2.2x	1.8x	1.3x	0.9x	0.7x
Interest Coverage	2.1x	2.0x	1.8x	1.4x	1.7x	2.1x	2.7x	3.4x	4.7x	6.3x



Credits:

Ravi Kataria

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