



Affordable Housing – A dream closer to reality

GIC HF - BUY		
CMP	Target	Upside
539	714	32.5%
DHFL - BUY		
CMP	Target	Upside
456	569	24.8%
HUDCO- BUY		
CMP	Target	Upside
88	102	16.0%
Prism Cement - BUY		
CMP	Target	Upside
122	154	26.5%
Greenlam Inds. – BUY		
CMP	Target	Upside
956	1,201	25.6%
Century Plyboards - BUY		
CMP	Target	Upside
285	364	27.5%

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Increasing disposable incomes, growing housing affordability

India's housing shortage at the beginning of 12th five year plan was ~6.1 cr, estimated to go up to ~11 cr by 2022 (source: KPMG). A large part of this housing demand was largely unaddressed due to low affordability and lack of availability of funds given low income levels and high cost of financing. However, conditions have improved lately and factors such as stagnant property prices, low (home loan) interest rates and increasing disposable income have increased borrowing power of people. This has given rise to 'low cost or affordable housing' demand from Low and Middle Income Group (LIG/MIG).

PMAY and 'Infrastructure' status – key catalysts for affordable housing

The government, too, has reinforced its commitment to 'Affordable Housing' by launching Pradhan Mantri Awas Yojana (PMAY) - Housing for All (Urban) scheme in 2015. PMAY is being implemented to build ~2 cr homes in urban areas by 2022. The scheme offers Credit Linked Interest Subsidy (CLIS), which will substantially reduce equated monthly installments (EMIs) and interest on home loans (see exhibit:5). Moreover, grant of 'Infrastructure' status to affordable housing has also enabled developers to access cheaper sources of funding. This is expected to result in demand-supply side balance, a key requisite for growth of affordable housing.

Affordable housing to drive strong growth for ancillaries especially HFCs

We believe, Housing Finance Companies (HFCs) with focus on LIG/MIG borrowers (with an average annual income of Rs 2-15 lakhs) and loan ticket size of < Rs 15 lakhs are expected to be the prime beneficiaries of growth in affordable housing. We recommend GIC Housing Finance (GIC HF), Dewan Housing Finance (DHFL) and Housing & Urban Development Corporation (HUDCO), as these are pure play on affordable housing given their established presence in the market. Apart from HFCs, companies dealing in building materials such as cement, plywood and laminates are also in a sweet spot as indirect beneficiaries. Prism Cement, Greenlam Industries and Century Plyboards are our preferred picks in this space.

Exhibit 1: Financial Snapshot

Companies	Mcap (Rs Cr)	FY18E	FY19E	FY18E	FY19E	FY18E	FY19E	EPS CAGR (FY17-19E)	FY18E	FY19E	FY18E	FY19E
		P/ABV (x)		NIM %		EPS (Rs)			P/E (x)		ROE%	
GIC HF	2,882	2.9	2.0	3.8	3.7	37.9	47.8	32%	14.2	11.3	20.3	18.1
DHFL	14,272	1.6	1.4	2.9	3.0	36.4	42.4	19%	12.5	10.7	13.9	14.3
HUDCO	17,597	1.9	1.7	4.7	5.0	4.5	5.6	15%	19.5	15.8	9.7	10.9
	Mcap (Rs Cr)	Revenue (Rs Cr)		OPM(%)		EPS (Rs)		EPS CAGR (FY17-19E)	P/E (x)		ROE%	
Prism Cement	6,116	5,991	6,499	10.3	11.6	4.2	7.0	-	29.0	17.4	17.5	22.6
Greenlam Inds	2,307	1,242	1,472	12.7	13.1	31.4	41.4	42%	30.4	23.1	23.3	24.6
Century Plyboards	6,348	2,256	2,595	17.6	18.4	10.5	13.0	25%	27.3	22.0	25.6	24.9

Source: Company, IIFL Research

Exhibit 2: Sectoral Impact due to rise in affordable housing demand

Sector	Impact	Companies Benefitting
HFCs	Home loans account for major share in HFCs loan book, hence affordable housing scheme to aid their loan book growth	GIC HF, DHFL, HUDCO, Indiabulls HF, Gruh Finance, Repco, Can Fin Homes
Banks	Affordable housing forms 8-10% of banks mortgage lending, so it will contribute to its overall loan book growth	SBIN, HDFC Bank, Axis Bank, ICICI Bank, Kotak Mahindra Bank
Real Estate	Sops for financing for affordable homes will drive their volumes	Ashiana Housing, Mahindra Lifespace
Cement	Cement forms ~15% of total housing construction cost, hence housing demand will drive cement companies volumes	Prism, Shree, Mangalam, Orient, JK Lakshmi
Steel	Steel accounts for ~25% of construction cost, hence housing demand would benefit steel sector	Tata Steel, JSW Steel, Jindal Steel and Power
Tiles	Tiles find usage in housing walls & floorings. Hence, this segment too benefits	Asian Granito, Kajaria Ceramics, Somany Ceramics
Paints	For ~300 sq ft home in urban area, average painting cost works out to Rs 25/sq ft, i.e ~Rs 7500/home. Hence, paint companies sales to improve	Asian Paints, Berger, Kansai Nerolac, Akzo Nobel
Wood Panel	Wood panel demand will be driven by increase in new construction as application covers doors, furniture & cabinets	Century Plyboards, Greenlam Industries, Greenply
Electricals	The consumer electrical sector is expected to grow at healthy rate owing to growth in affordable housing which will drive demand for cables, switchgears, lighting and other appliances	Havells, Crompton Consumer, Bajaj Electricals, Surya Roshni
Plumbing and Sanitaryware	It accounts for ~1-2% of home construction cost. Increasing application of these products will benefit these companies	Astral Poly, Finolex Industries, Supreme Industries, APL Apollo, Surya Roshni, Cera Sanitaryware, HSIL

Source: Industry, IIFL Research

We like GIC HF, DHFL and HUDCO given high exposure to affordable housing and attractive valuations

GIC HF, DHFL and HUDCO - Attractive valuations & promising prospects

Out of the Housing Finance Companies' (HFCs) pack, since a lot of stocks are trading at expensive valuations, we believe GIC HF, DHFL and HUDCO provide better risk reward. GIC HF is likely to see a decent growth in its loan book on account of its focus on Low Income Group (LIG) customer segment. GIC HF is available relatively cheaper at ~2.0x on FY19E P/ABV despite higher earnings potential compared to its peers. DHFL with adequate capital, lower cost of funds and an increasing reach in Tier-2 & 3 cities is well poised to capitalize on the housing boom. It currently trades at a significant discount to its peers at ~1.4x FY19EP/ABV despite better earnings growth. HUDCO is entering the retail home finance segment which is expected to boost its housing loan book growth in the long term along with the stability of business from state governments. HUDCO trades at 1.7x FY19E P/ABV.

Prism Cement - Beneficiary of improving building materials demand

Prism Cement (PCL) is present in cement, tiles, sanitary ware, bath fittings, kitchen fittings and RMC business. Increase in demand for affordable housing will help improve demand in these segments; additionally, cost reduction measures will improve PCL's cash flows. We forecast an earnings improvement from ~0.1/share to ~7.0/share over FY17-19E.

Greenlam Industries - Giving a smoother finish

Indian Laminates industry is expected to benefit from the dual impact of improved demand in the housing sector as well as on account of expanding share of the organized players post GST implementation. The organized laminates industry growth has outpaced that of the overall industry over the past 6-7 years thus implying strengthening position of the organized players. Laminates has cost and usage benefits over other surface decorative and with market expansion post GST, we expect organized laminates industry to grow at 15+% levels going forward. Being the market leader in laminates, we expect Greenlam (GIL) to fully utilize its expanded capacity and hence, benefit from the favorable environment over the next few years. As GIL's new businesses (Engineered Wood Flooring and Engineered Door & Frames) gain traction, we expect the EBITDA margin to improve thus leading to earnings CAGR of ~42% over FY17-19E.

Century Plyboards- upcoming products to provide next leg of growth

Century Plyboards (CPBI) is expected to benefit due to its leadership position in the organized plywood market (~25% market share) and being the 3rd largest player in the laminates market (~12% market share). The GST reforms would have a structural impact leading to a shift in demand for wood panel industry products from unorganized to organized players, benefiting CPBI which has a leading market share profile and a strong brand recall. The company is also entering into high margin MDF (medium density fibre) which is currently the fastest growing product (growing ~20% over past 5 years) in the wood panel market. The expansion into laminate capacity (~50% capacity expansion) and foray into MDF at an opportune time will provide next leg of growth and would improve its cash flows. We expect it to register ~25% earnings CAGR over FY17-19E.

Amongst the indirect beneficiaries; we like Prism, Greenlam and Century Plyboards

India's housing shortage was estimated to be ~6.1 cr (at the start of 12th five year plan)

Affordable Housing – need of the hour

India's housing shortage at the beginning of 12th five year plan was ~ 6.1 cr According to a KPMG report, the requirement for housing is estimated to go up to ~ 11 cr by 2022. The objective of housing for all until now seemed unachievable as the demand largely comes from Low and Middle Income Group (LIG/MIG) which suffers from low incomes and lack of availability of cheaper source of financing. But lately, stagnant property prices, low (home loan) interest rates and increasing disposable income have altogether increased borrowing power of people.

India's rapidly increasing urbanization has further increased the housing demand. India's urban population is likely to rise at an annual average growth of ~2.1% over 2015-2031 to reach to ~60 cr by 2031 (up from 37.7 cr) as per McKinsey report. Hence, construction of affordable houses is essential to keep up pace with rising demand particularly in urban areas.

Exhibit 3: EWS/LIG face the maximum housing shortage

Urban housing shortage in 12 th five year plan	2 cr
Shortage from EWS/LIG	95.6%
Shortage from MIG (Middle Income Group)	4.4%

Source: McKinsey report

PMAY to end the gloom in housing sector

In order to address low cost housing shortage, The Ministry of Housing and Urban Poverty Alleviation (MHUPA) launched PMAY - Housing for All (Urban) scheme in June, 2015 to provide housing for LIG/Economically Weaker Sections (EWS) in urban areas. The scheme offers credit linked interest subsidy which will bring down equated monthly installments (EMIs) on housing loans in urban areas. The scheme's scope was further extended in December 2016 to include a higher housing ticket size and higher income level in interest subsidy. Under the scheme, 2 cr homes are expected to be built in 500 Class I cities by 2022.

Exhibit 4: Features of Credit Linked Subsidy Scheme for EWS/LIG and MIG

Details	EWS	LIG	MIG-I	MIG-II
Household income (Rs Lakhs) -	0-3	3-6	12	18
Interest subsidy	6.5%	6.5%	4%	3%
Loan tenure(Yrs) *	20	20	20	20
Eligible loan for subsidy (Rs Lakh)	6	6	9	12
Carpet unit (Sq. m.)	30	60	90	110
Rate for NPV for subsidy	9%	9%	9%	9%

* Tenure changed with effect from January 01, 2017, Source: IIFL Research and Ministry of Housing & Urban Poverty Alleviation

As depicted in the table below, the subsidy scheme substantially reduces the loan amount and interest burden on borrowers.

Exhibit 5: Substantial saving in EMI/Interest under the scheme

	Income Category (amount is in Rs)	EWS	LIG	MIG-I & MIG-II
1	Eligible loan amount	6,00,000	9,00,000	12,00,000
2	EMI @ 9% for 20 Years	5,399	8,098	10,797
3	Total Interest	6,95,605	10,43,408	13,91,211
	Interest Subsidy rate	6.5%	4.0%	3.0%
4	NPV of interest subsidy	2,67,280	2,35,068	2,30,156
(1-4)	Loan after subsidy	3,32,720	6,64,932	9,69,844
5	EMI @ 9% for 20 Years	2,994	5,983	8,726
6	Total Interest	3,85,737	7,70,884	11,24,382
(2-5)	EMI Saved	2,405	2,115	2,071
(3-6)	Interest Saving	3,09,869	2,72,524	2,66,829
=4	Government Subsidy	2.67,280	2,35,068	2,30,156

Source: GOI, IIFL Research, <http://mhupa.gov.in>, #Discount rate for NPV is 9%, interest rate is assumed to be 9%

Under PMAY, government aims to build 2 cr houses in urban India

Credit linked subsidy scheme (CLSS) will bring down EMIs and interest cost substantially

Measures to give push to affordable housing

- ✧ Budgetary support has been provided to affordable housing by conferring 'Infrastructure' status. This will enable developers to access cheaper sources of funding, including external commercial borrowings (ECBs) up to US\$ 750 mn.
- ✧ Tax benefit for developers of affordable housing projects (approved before March 31, 2019)
- ✧ Developers can raise money by issuing infrastructure bonds in which the withholding tax is just 5%.
- ✧ The 'Infrastructure' status will also attract Insurance and pension funds and alternative investment funds (AIFs) to invest into the affordable housing sector.
- ✧ The deadline for completion of housing project has been extended to five years from earlier three years.
- ✧ Budget 2017-18 allocated Rs 23,000 cr and Rs 6,043 cr to PMAY for rural and urban areas respectively for affordable housing
- ✧ Initiatives by RBI:

As per RBI rules, housing loans of up to Rs 50 lakh (earlier Rs 25 lakh) in metros and Rs 40 lakh (earlier Rs 15 lakh) in non-metros given by banks from the proceeds of long-term bonds will qualify as affordable housing loans. These loans will fall under priority sector lending. RBI has increased LTV ratio to 90% from 80% for loans up to Rs 30 lakh or less. These measures will enable HFCs/Banks to lend more to low monthly income (LMI) customers at lower rates.

- ✧ Recently, Employee Provident Fund (EPF) scheme has been amended to enable the members to withdraw up to 90% of their funds for making down payments and paying EMIs for homes.
- ✧ Real Estate Regulation and Development Bill was passed in 2016. This bill is likely to bring better accountability from builders and ensure more transparency.
- ✧ The government also plans to launch rural housing scheme where the average loan size would be Rs 2.5-3 lakh for about 25 mn houses.

Housing finance market poised for growth led by affordable housing

India's housing finance market is estimated to be worth ~Rs 14.4 trn currently, registering a CAGR of ~22% (FY12-17). The market was till now dominated by scheduled commercial banks (SCBs) accounting for close to ~70% of the market. However, lower income segment borrowers were largely un-served by these financial institutions. The emergence of housing finance companies particularly to serve a niche segment of affordable housing has given the much needed push to the housing finance sector.

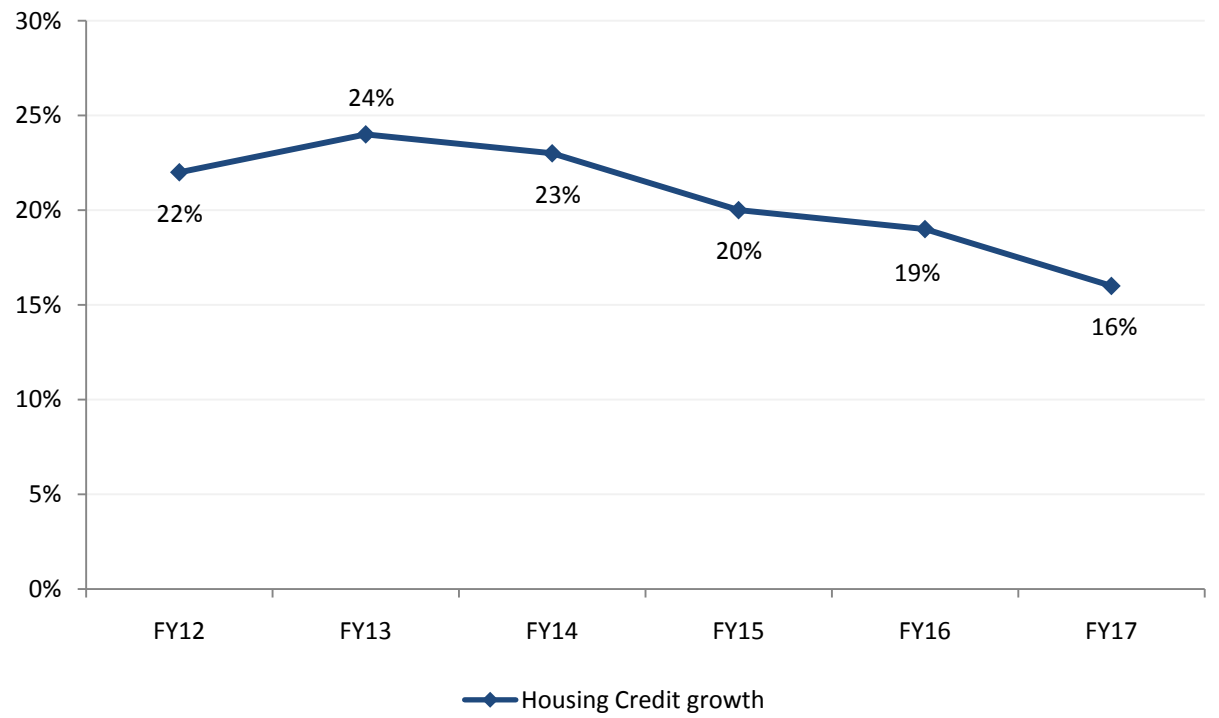
In FY17, housing credit growth, however, moderated to ~16% YoY due to delay in project launches, buyers/ investors deferred their home purchases mainly because of demonetization. However, HFCs operating in the affordable housing space, with a total portfolio of ~Rs 1.2 trn, grew at 28% YoY in FY17. The HFCs' growth was supported by an increase in supply on account of launch of affordable housing projects, improved borrower affordability due to lower interest rates and credit-linked subsidy scheme. At FY17 end, affordable housing contributed 4% to the total retail loan book in India.

RBI has raised limits for loans to be qualified as affordable housing loans, LTV ratio is now at 90% vs 80% earlier

Affordable housing has been granted 'infrastructure status' thereby facilitating financing for developers

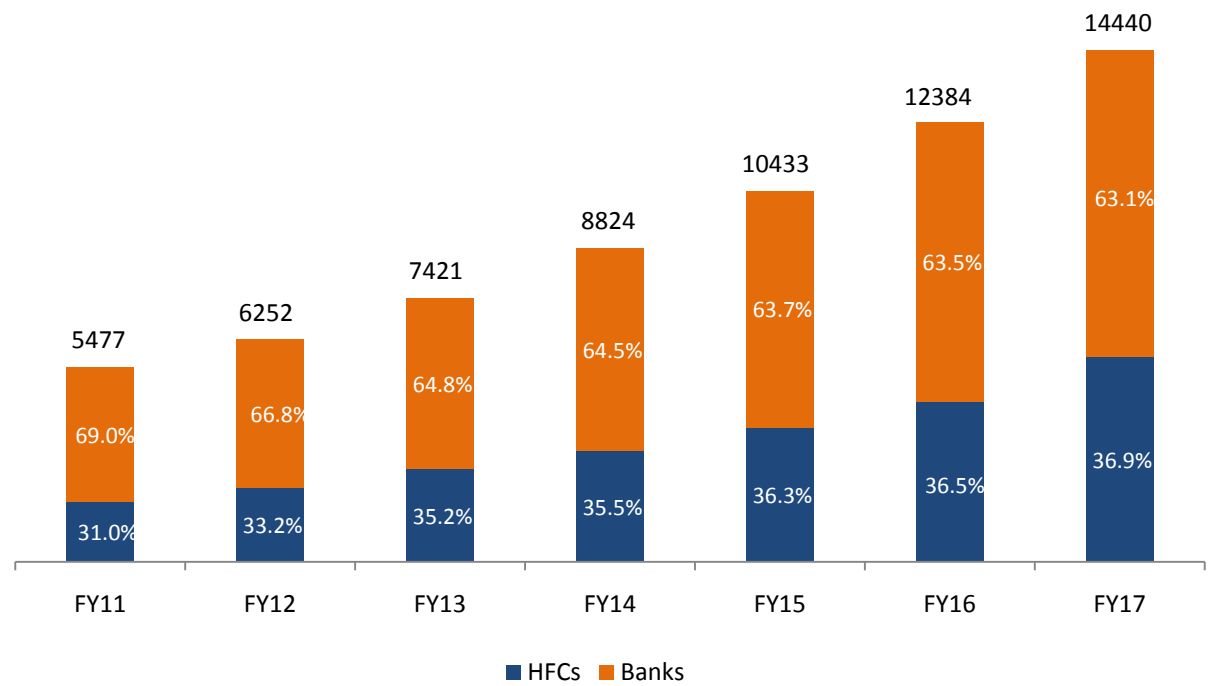
Housing market stands at Rs. 14.4 trn. Share of HFCs is increasing in home loan portfolio

Exhibit 6: Housing Credit Growth (%)



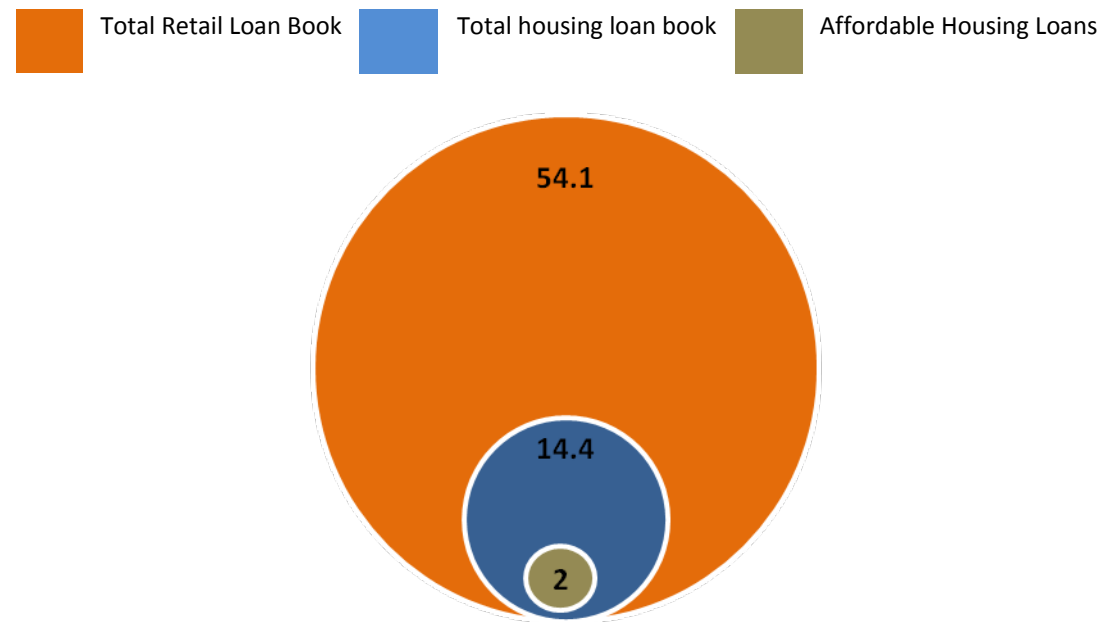
Source: ICRA, IIFL Research

Exhibit 7: Share of HFCs is on a constant rise in home loan portfolio (in Rs. Bn)



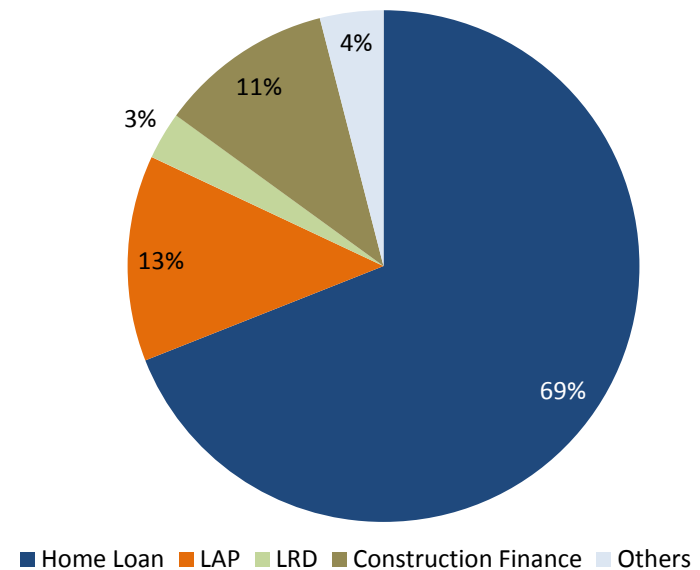
Source: ICRA, IIFL Research

Exhibit 8: Affordable housing share in total retail loan book in 2016-17 (in Rs lakh cr) was ~ 4%



Source: Industry Report, IIFL Research

Exhibit 9: Home loans form 69% of Aggregate portfolio of all HFCs as on December 2016



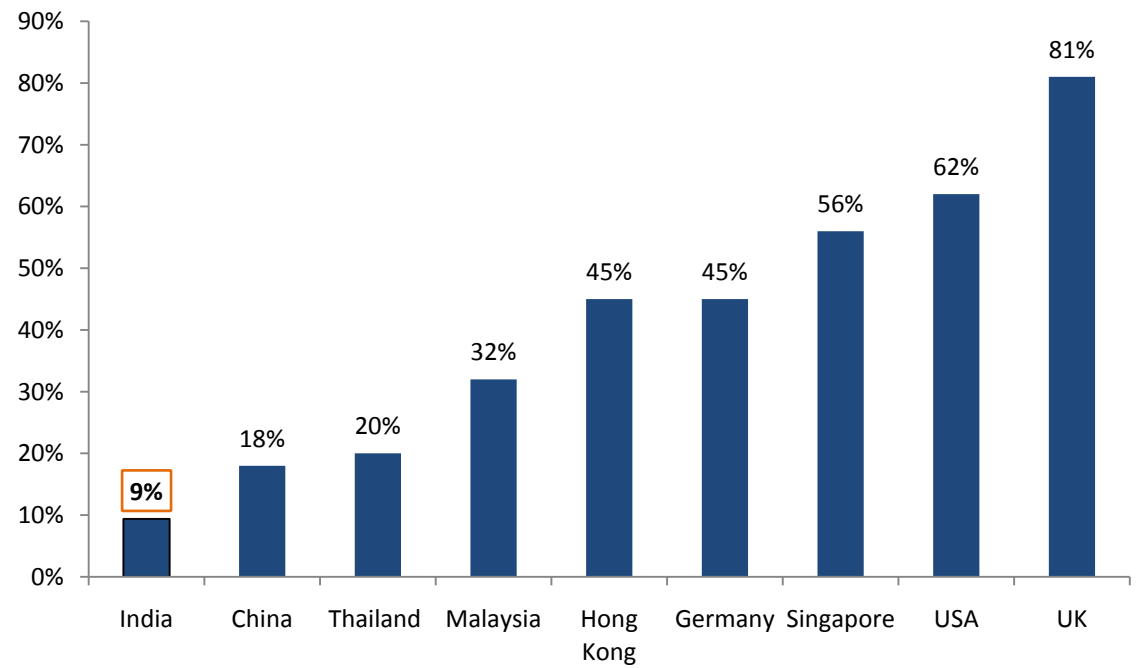
Source: ICRA, IIFL Research

India's mortgage-to-GDP ratio is lowest at 9.4%, indicating huge growth potential for HFCs

Low mortgage-to-GDP ratio indicates further scope for growth

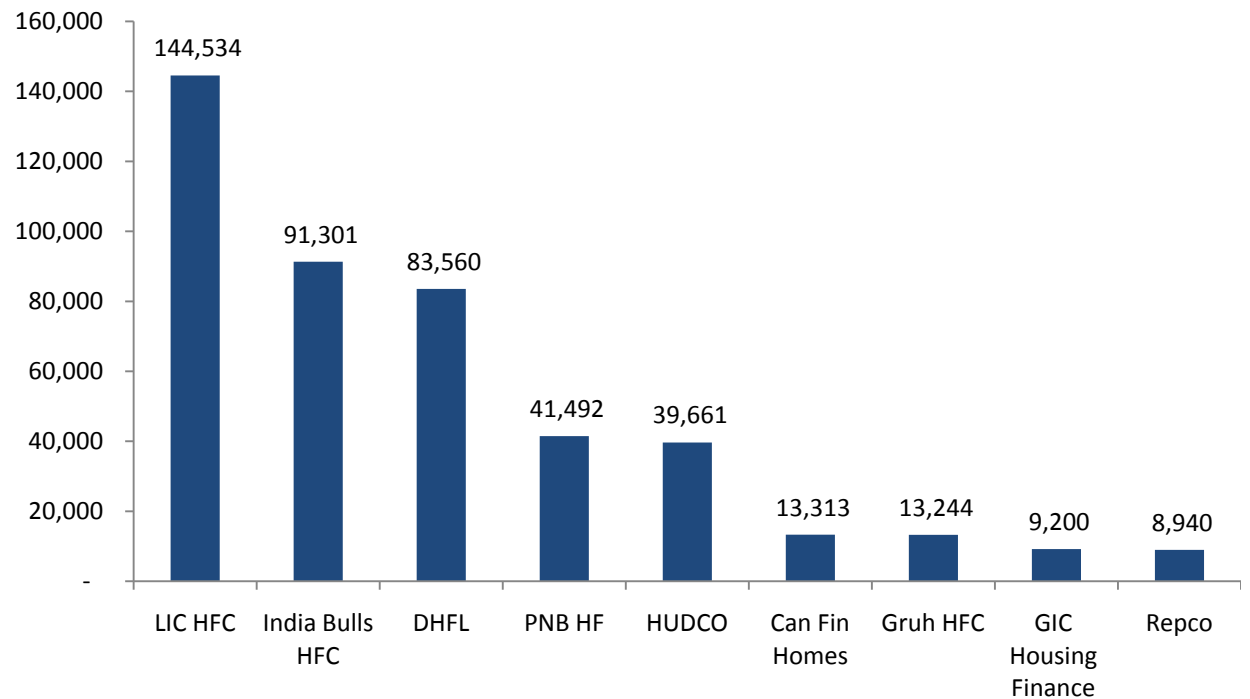
Despite strong growth in disbursement of housing loans in the country in the last few decades, India's mortgage-to-GDP ratio at 9.4% (as on December 2016) is very low as compared to its regional peers (17% for Thailand, 20% for China, 34% of Malaysia). The under penetration indicates huge growth potential for HFCs in India which will be led by affordable housing demand. The growth drivers for affordable housing are urbanization, nuclear families and increase in disposable income.

Exhibit 10: Mortgages share of GDP is very low in India



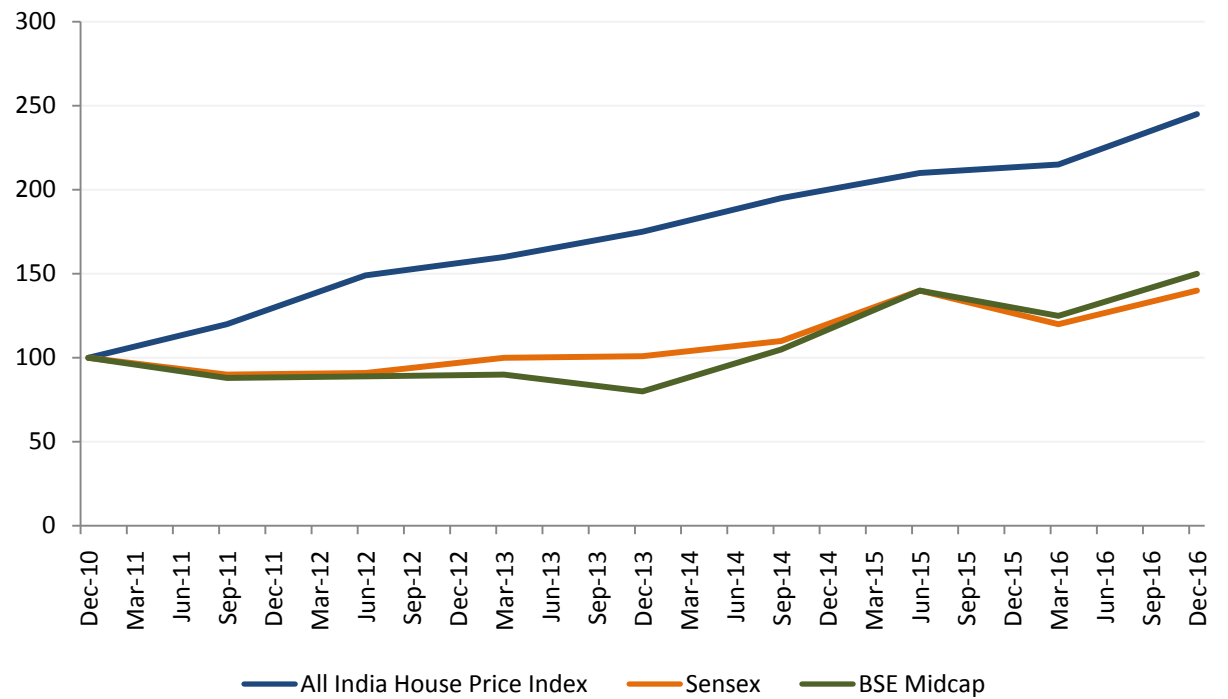
Source: ICRA, PNB Housing Finance Presentation

Exhibit 11: HFCs FY17 AUM (Rs cr)



Source: ICRA, PNB Housing Finance Presentation

Exhibit 12: Real Estate (property) – one of the best investments in recent years



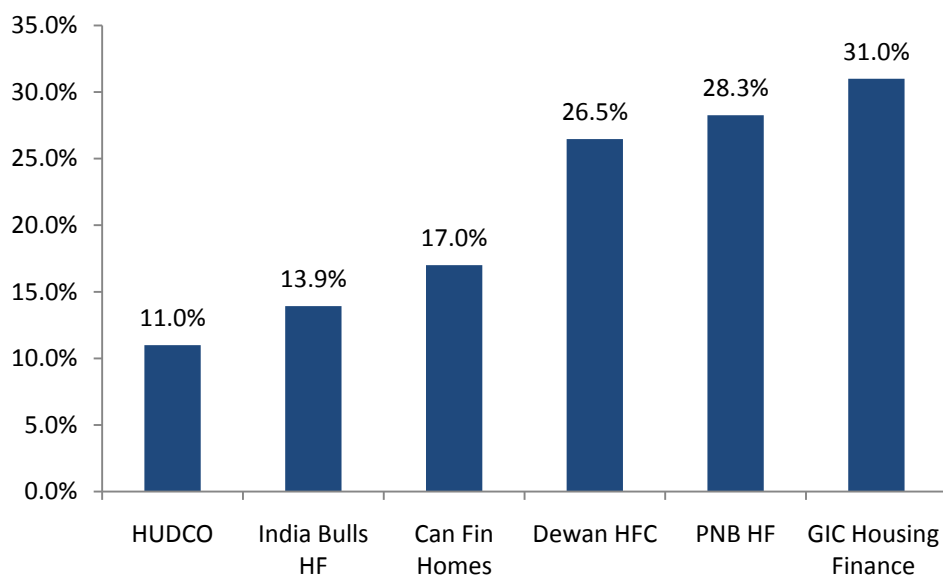
Source: RBI, IIFL Research

We like GIC HF, DHFL and HUDCO given increasing presence in housing finance, attractive valuations and improving returns

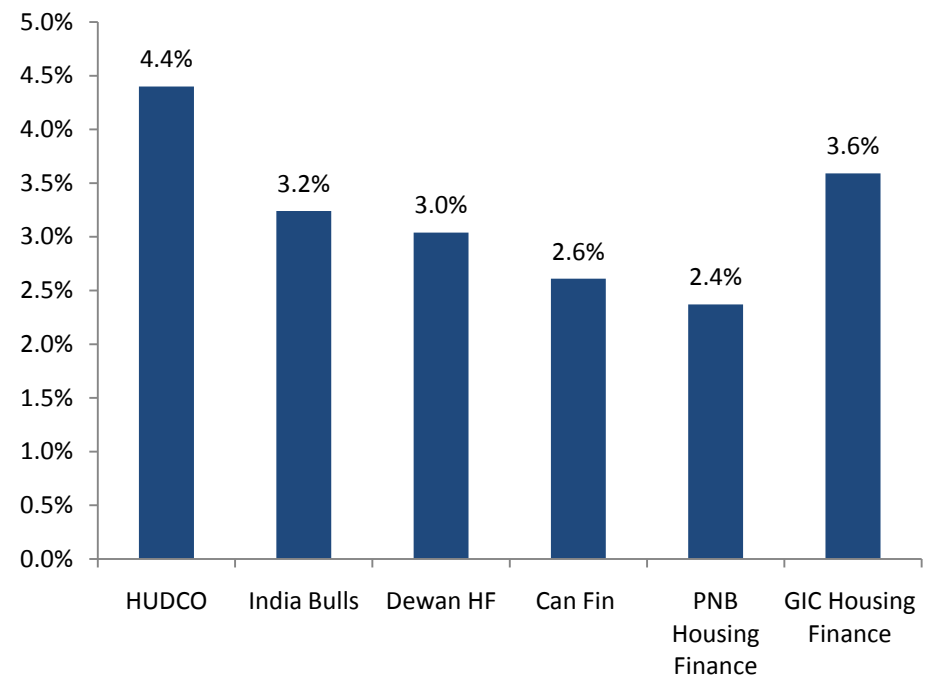
We believe affordable housing sector appears to be in a sweet spot with host of initiatives and measures taken in recent times. Out of the HFCs pack, we are bullish on GIC HF, DHFL and HUDCO given their strong growth prospects driven by exposure to affordable housing and attractive valuations.

Exhibit 13: Operating matrix of HFCs

Cost to Income Ratio - FY17



NIMs - FY17



Source: IIFL Research, Companies

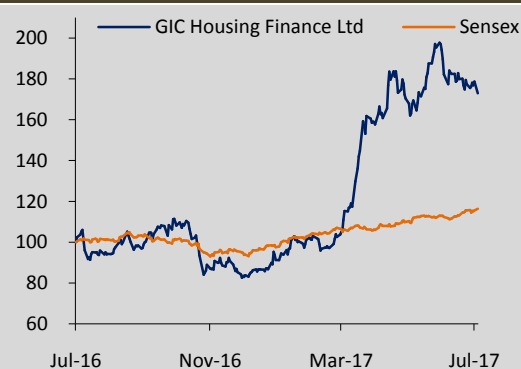
Sector	Housing Finance
Recommendation	Upside
BUY	32.5%

Stock Data	
Sensex	32,246
52 Week h/l (Rs):	623/ 250
Market cap (Rs Cr) :	2,882
BSE code:	511676
NSE code:	GICHSGFIN
FV (Rs):	10
Div yield (%):	0.93

Shareholding Pattern			
	Dec-16	Mar-17	Jun-17
Promoters	42.2	42.2	42.2
DII+FII	16.9	16.3	16.4
Individuals	40.9	41.5	41.4

Source: Source: www.bseindia.com

Share Price Trend



Prices as on 24/07/2017

Analyst- Saurabh Rathi
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July 24, 2017

Government push on affordable housing to drive GICHF's loan book growth

GIC Housing Finance (GIC HF) will see a decent growth in its loan book led by government's focus on affordable housing. GICHF's focus on the low income group (LIG) customer segment makes it the key beneficiary of the government schemes. More than 50% of its loan book is comprised of <15 lakh ticket size loans. Increasing branch network (5-10 branches/year), expansion in its field force and affordable housing potential will aid its loan book growth. Looking at the affordable housing potential, we expect its loan book to register ~25% CAGR over FY17-19E to ~Rs 14,500 cr. Its capital adequacy ratio presently stands at ~17%, which is well above the 12% minimum required level prescribed by the National Housing Bank (NHB), is quite comfortable to exploit the growth opportunity in affordable housing.

Focus on low cost sources of funds & high yield loans to boost NIMs

GIC HF intends to decrease its high cost bank borrowing (~67% of total funds). It has been proportionately increasing the share of cheaper source of funds like, commercial paper and NHB refinancing. We expect its high cost borrowing weight age in total funds to decline by ~17% to ~50% over FY17-19E. The infra status to affordable housing would also indirectly help the company to access lower cost funding, mainly from the NHB. In addition, we believe its share of high yield LAP loans of the total loans will increase by 290 bps to 19% over FY17-19E. We believe that the decline in bank borrowing and increasing share of LAP will boost its NIMs by ~21 bps to ~3.7% over FY16-19E.

Outlook & Valuation

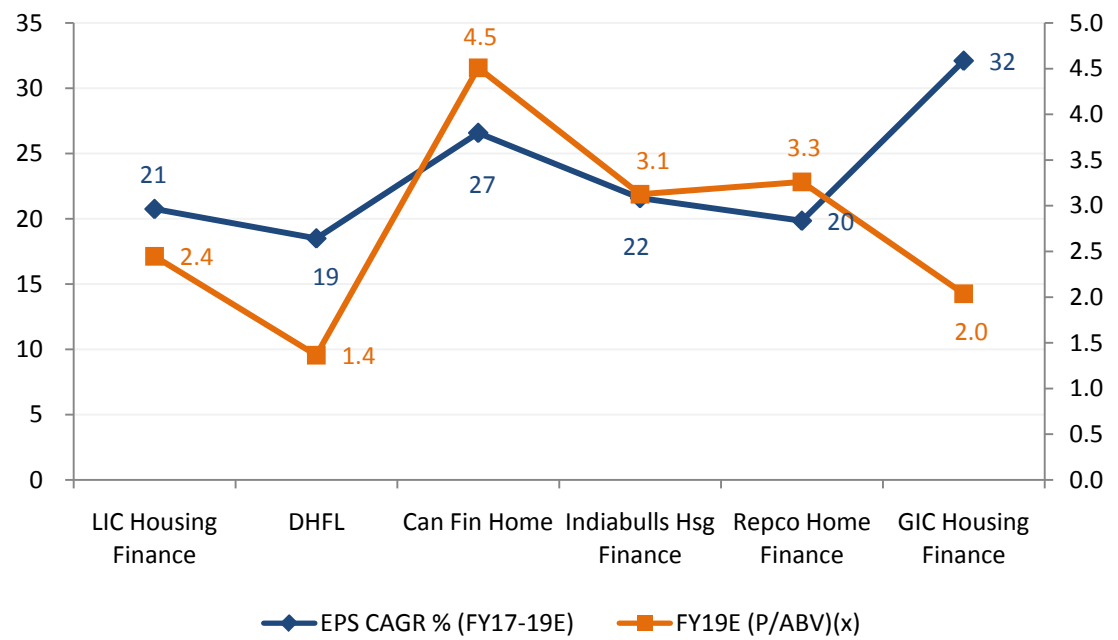
Strong potential in loan book growth, improving LAP share in total loans and inclination towards lower cost of funds will improve its NII. We forecast net profit CAGR of ~32% over FY17-FY19E to ~Rs 258 cr. Given these positives, we value the stock at 2.7x on FY19E P/ABV. We have a BUY rating on the stock with the target price of Rs 714 over next 12 months.

Financial Summary

Rs cr	FY15	FY16	FY17	FY18E	FY19E
Net interest income	207	257	332	440	537
Total operating income	224	276	348	457	557
Pre- provision operating profit	166	207	241	329	412
Net profit	103	125	148	204	258
Growth yoy	5.5%	20.9%	18.7%	38.1%	26.3%
EPS (Rs)	19.1	23.1	27.4	37.9	47.8
PE (x)	28.2	23.3	19.7	14.2	11.3
P/ABV (x)	4.4	4.0	3.5	2.9	2.0
ROE	15.6%	17.0%	17.6%	20.3%	18.1%
ROA	1.8%	1.8%	1.7%	2.0%	1.8%

Source: Company, IIFL Research

Exhibit 14: Housing Finance companies comparison on EPS CAGR % & P/ABV(x)



Based on FY19E P/ABV(x) and FY17-19E earnings CAGR, GIC HF is attractively placed, which comforts our view.

Snapshot of the company

GIC housing Finance Limited (GIC HF) is one of the leading housing finance companies in India with a loan book of ~Rs9,200 cr by FY17 end. It has a very strong presence in the Western region with ~45% of the total branches in Mumbai & Suburban regions, while rest ~55% of the branches are situated in the South, North and the the East regions. The company primarily caters to the Lower Middle Income (LMI) group, with an average ticket size of ~Rs15 lakh in Housing Loan and ~Rs12 lakh in the Loan Against Property (LAP) category. Its loan book grew by ~20% over FY12-FY17. Its GNPA ratio as of March FY17 stands at ~2.33% while it has nil Net NPA, as it provides for 100% provisioning against GNPA.

More than 50% of GIC HF's loan book is comprised of <15 lakh ticket size loans

Exhibit 15: FY17 Customer Profile

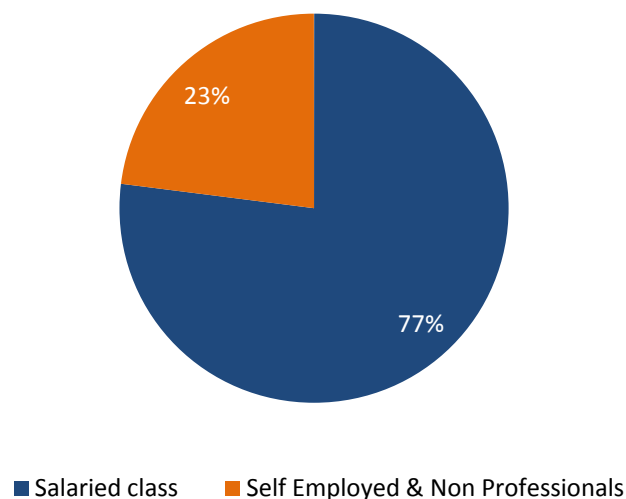
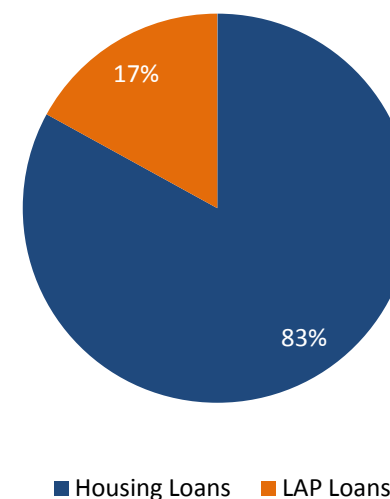


Exhibit 16: FY17 Loan Book Share

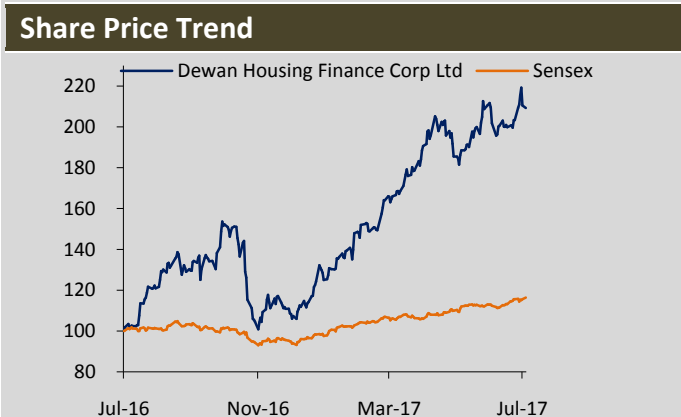


Sector	Banking/Finance
Recommendation	Upside
BUY	24.8%

Stock Data	
Sensex	32,246
52 Week h/l (Rs):	479 / 214
Market cap (Rs Cr) :	14,272
BSE code:	511072
NSE code:	DHFL
FV (Rs):	10.0
Div yield (%):	0.88

Shareholding Pattern			
	Dec-16	Mar-17	Jun-17
Promoters	39.3	39.3	39.2
DII+FII	32.3	32.5	32.0
Individuals	28.4	28.2	28.8

Source: Source: www.bseindia.com



Analysts: Khadija Mantri

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July 24, 2017

Affordable housing to bolster growth in DHFL's core LMI segment

DHFL will be a key beneficiary of government's affordable housing scheme as its average ticket size (ATS) is <Rs 15 lakh which is ~55% of the total home loan market. It mainly caters to Tier 2/3/4 towns and is a market leader in Low Middle Income (LMI) segment. We expect DHFL's housing loan book (~65% of total loan book) to register 21% CAGR over FY17-19E.

Improved capital adequacy provides room for loan growth

DHFL's stake sale in DHFL Pramerica Life Insurance Co (DPLI) in Q4FY17 has improved its net worth by Rs 1,969 cr adding ~Rs 63 to its BVPS. This has strengthened DHFL's CRAR by ~400 bps to 19.1%. This provides headroom for loan book growth. We expect its loan book to grow at 22% CAGR over FY17-19E driven by housing and aided by growth of 23% over FY17-19E in Loan against property (LAP) and project loans.

Lower cost of funds to improve NIMs and keep returns stable

DHFL's cost of funds dropped to 8.83% in FY17 from 9.67% in FY16 as a result of ratings upgrade. In addition, inclination towards cheaper cost of funds like capital markets and fixed deposits will further lower its cost of funds. DHFL is also focused on rationalizing its cost to income ratio. Thus, we expect DHFL's operating margins to improve led by low cost of funds and operating efficiency. Increasing proportion of higher yielding products such as - LAP and project loans is expected to aid margins.

Outlook and Valuation

DHFL's focus on Tier 2/3/4 towns, lower ticket size and higher proportion of salaried customers make it a safe bet to play on affordable housing boom. We expect NIMs to improve by 30 bps to ~3.0% over FY17-19E due to cheaper cost of funds and profits to grow at a CAGR of 19% over the same period. DHFL trades attractively at 1.4x FY19E ABV (significant discount to peers). We believe strong loan book growth, improving NIMs and stable asset quality make a case for re-rating of the stock. We recommend Buy with a Target Price of Rs 569 (1.8x FY19E ABV).

Financial Summary

Rs Cr.	FY15	FY16	FY17	FY18E	FY19E
Net interest income	1,333	1,652	1,959	2,595	3,282
Total Operating income	1,968	2,369	3,029	3,719	4,463
Pre-provision profit	1,077	1,317	1,727	2,087	2,423
Adj. Net profit	641	744	941	1,140	1,328
Growth YoY	21.2%	16.0%	26.4%	21.2%	16.5%
EPS (Rs)	44.0	25.5	30.0	36.4	42.4
P/E (x)	10.4	17.9	15.2	12.5	10.7
P/ ABV (x)	1.3	2.5	1.8	1.6	1.4
ROE	15.0%	14.4%	14.3%	13.9%	14.3%
ROA	1.4%	1.3%	1.3%	1.3%	1.2%

Source: Company, IIFL Research

Company Background

DHFL is amongst top four housing finance companies in India with a total AUM of ~Rs 83,560 cr as on FY17. DHFL focuses on providing easy accessible housing finance to the lower and middle income (LMI) groups in semi urban and rural India with its Tier 2/3 town focused distribution network of 352 centers. DHFL's target customer segment is salaried individuals which comprises of 51% of LMI segment. Its loan portfolio as on FY17 stood at ~Rs 67,600 cr. Home loans account for 66% of its total loan portfolio followed by Loan against Property (17%), Project Loans (14%) and SME loans (3%).

DHFL is amongst top four housing finance companies with focus on lower and middle income (LMI) groups in semi urban and rural India

Exhibit 17: Loan mix is tilted towards home loans

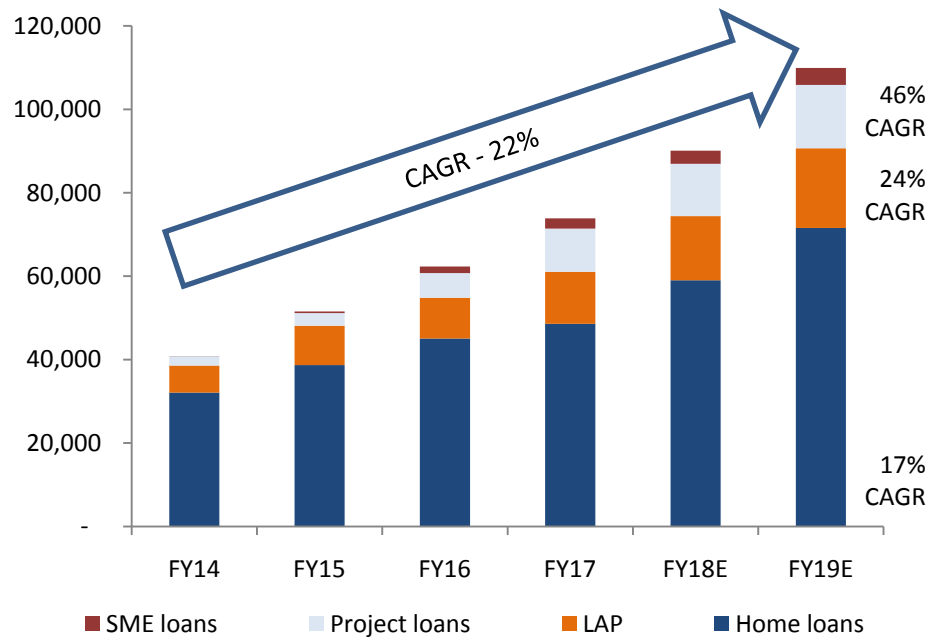
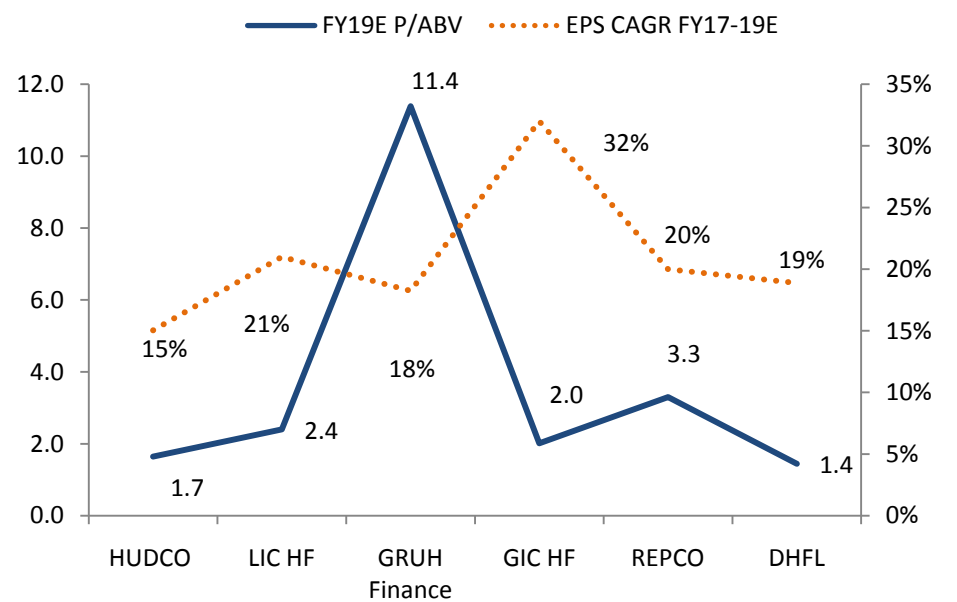


Exhibit 18: DHFL is undervalued despite strong earnings expectations



Source: Company, IIFL Research

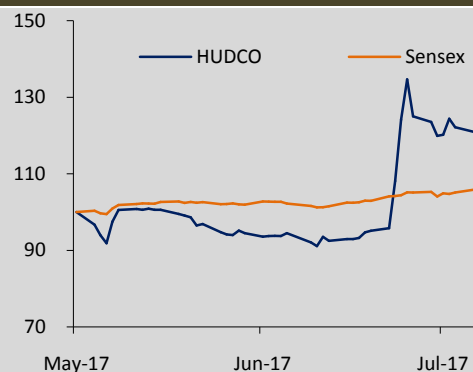
Sector	Banking/Finance
Recommendation	Upside
BUY	16.0%

Stock Data	
Sensex	32,246
52 Week h/l (Rs):	102 / 66
Market cap (Rs Cr) :	17,597
BSE code:	540530
NSE code:	HUDCO
FV (Rs):	10.0
Div yield (%):	0.63

Shareholding Pattern			
	Dec-16	Mar-17	*Jun-17
Promoters	100.0	100.0	89.8
DII+FII	0.0	0.0	3.7
Individuals	0.0	0.0	6.5

Source: Source: www.bseindia.com * listed on May 19, 2017

Share Price Trend



Prices as on 24/07/2017

Analyst- Khadija Mantri
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July 24, 2017

Emerging as a key player in affordable housing and urban infrastructure

HUDCO is emerging as a key player focused on providing housing finance for Low Income Group (LIG) or Economically Weaker Sections (EWS). Its Housing Finance loan book has rapidly grown at a CAGR of 17.4% over FY14-17. This segment has better NIMs and lower gross NPAs @ 3.08% (8.46% for urban infrastructure) as on December 2016. We believe government schemes like Pradhan Mantri Awas Yojana – ‘Housing for All by 2022’ augment well for lenders like HUDCO who appraise as well as fund loans for such schemes. The company also plans to revive its retail home finance portfolio by covering CLSS scheme of affordable housing. Hence, we expect its housing portfolio to grow at 16.5% CAGR (FY17-19E), contributing ~35% to total loan book (currently 32%). Urban Infra schemes like Smart Cities and Deendayal Antyodaya Yojana-National Urban Livelihoods Mission (DAY-NULM) will provide financing opportunities to HUDCO in urban segment. We expect urban infrastructure loan portfolio to support the loan book by growing at 8.5% (FY17-19E).

Large exposure to state governments lessens NPA risk

HUDCO has 90.9% loan exposure to state governments. It has stopped sanctioning loans to private sector since FY14 in order to curb rising NPAs. Gross NPAs for state government loans have been very low at 0.75%. As a result, net NPAs have declined from 2.52% in FY14 to 1.15% in FY17. We expect net NPAs to reduce further to 1.1% by FY19E on the back of improving loan book quality. Under HFC guidelines, zero risk-weight is accorded to loans guaranteed by state governments. Hence, HUDCO’s capital adequacy ratio is as high as 58.6%, thereby providing room for loan growth.

Outlook and Valuation

Government-backed HUDCO enjoys highest credit rating which helps it to access low cost funds. Also, grant of ‘Infrastructure’ status to affordable housing will lower its cost of funds. We envisage decent loan book growth for HUDCO driven by its affordable housing focus, improving credit quality & NIMs. We forecast profits to grow at a CAGR of 15% (FY17-19E). It currently trades at 1.7x on FY19E ABV. Reasonable valuation and positive outlook make us recommend Buy on HUDCO. We value it on 2.0x FY19E ABV to arrive at the target price of Rs 102.

Financial Summary

Consolidated Rs cr	FY15	FY16	FY17	FY18E	FY19E
Net interest income	1,571	1,345	1,523	1,800	2,083
Total operating income	3,428	3,302	3,585	4,044	4,488
Pre-provision profit	1,444	1,197	1,423	1,632	1,889
Adj. Net profit	768	778	842	902	1,115
Growth YoY	4.7%	1.3%	8.2%	7.1%	23.6%
EPS (Rs)	3.8	3.9	4.2	4.5	5.6
P/E (x)	22.9	22.6	20.9	19.5	15.8
P/ ABV (x)	2.4	2.3	2.0	1.9	1.7
ROE	10.6%	10.1%	9.6%	9.7%	10.9%
ROA	2.9%	2.7%	2.5%	2.4%	2.7%

Source: Company, IIFL Research

Company Background

HUDCO's loan portfolio of Rs 39,661 cr (as on FY17) is divided into – Housing Finance (30.6%) and Urban Infrastructure Finance (69.4%)

HUDCO is a wholly-owned government entity with more than 4 decades of experience in providing loans for housing and urban infrastructure in India. It has an outstanding loan portfolio of Rs 39,661 cr (as on FY17), which can be divided into– Housing Finance (30.6%) and Urban Infrastructure Finance (69.4%). By FY17, 90.9% of its loan portfolio comprised of loans to state governments and remaining to the private sector.

HUDCO finances Social Housing and Residential Real Estate through lending to state governments and their agencies, which, in turn, extend the finance to or utilize the finance for the ultimate individual beneficiaries. Under HUDCO Niwas, the company provides financing to individuals directly and bulk loans to state governments, their agencies and public sector undertakings (PSUs) for lending to their employees and to other Housing Finance Companies (HFCs) for lending to the general public. With respect to Urban Infrastructure Finance, HUDCO grants loans for projects related to infrastructure. In May 2017, the government of India divested 10.2% of its stake in HUDCO through listing on Indian stock exchanges.

Exhibit 19: Steady Loan Book growth expected

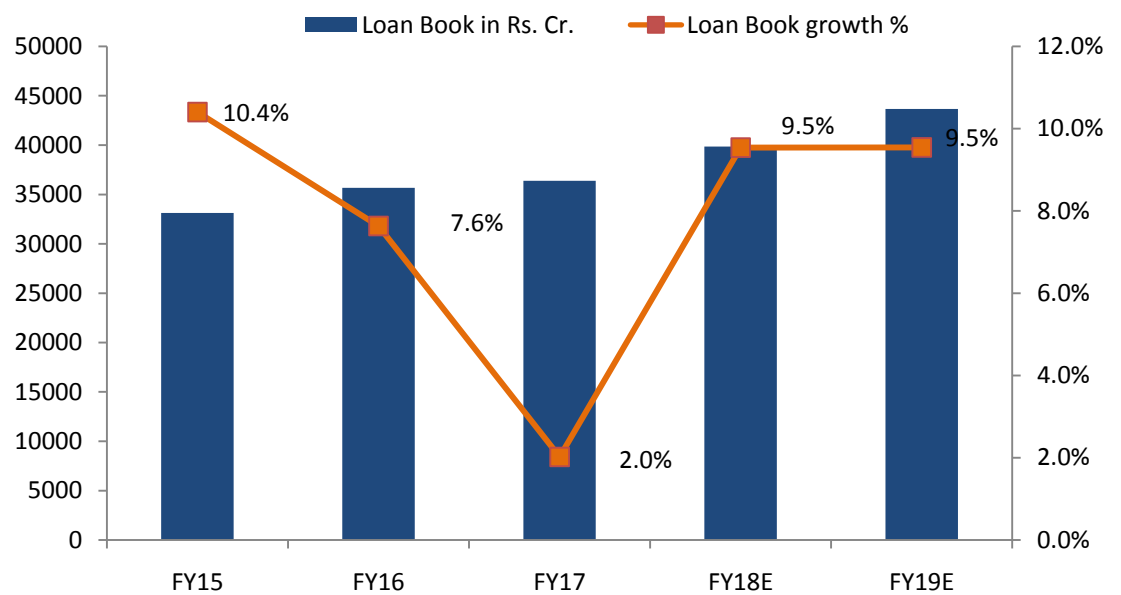
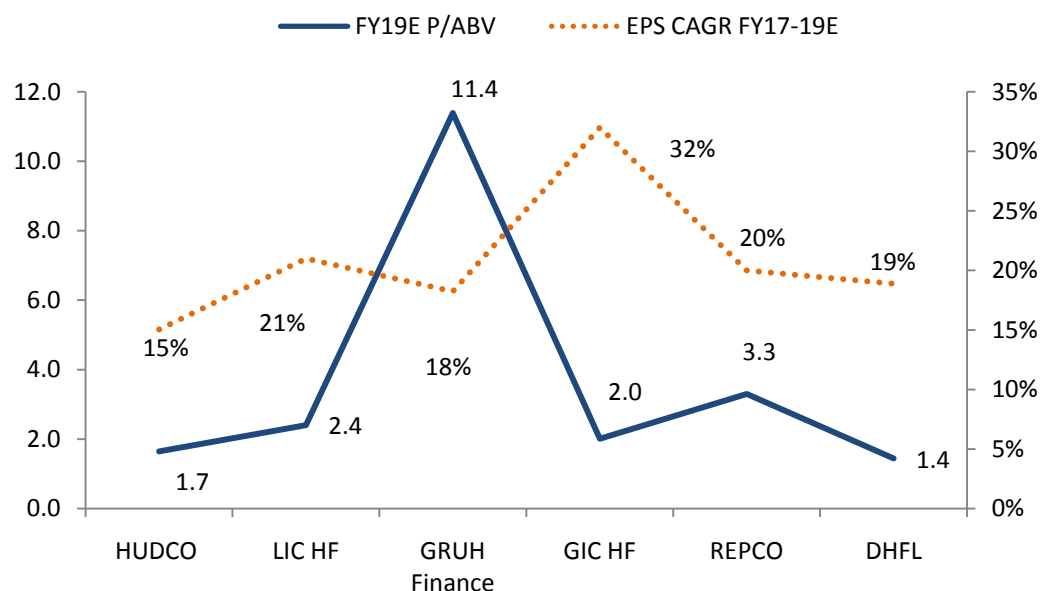


Exhibit 20: Lower P/ABV vs Peers



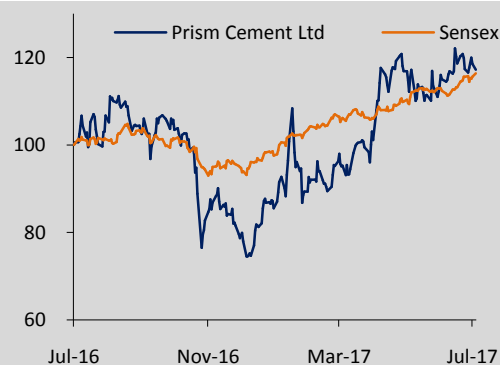
Sector	Building Material
Recommendation	Upside
BUY	26.5%

Stock Data	
Sensex	32,246
52 Week h/l (Rs):	130/ 73
Market cap (Rs Cr) :	6,116
BSE code:	500338
NSE code:	PRISMCEM
FV (Rs):	10
Div yield (%):	-

Shareholding Pattern			
	Dec-16	Mar-17	Jun-17
Promoters	74.9	74.9	74.9
DII+FII	16.3	15.8	15.8
Individuals	8.9	9.3	9.3

Source: Source: www.bseindia.com

Share Price Trend



Prices as on 24/07/2017

Analyst- Saurabh Rathi
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July 24, 2017

Cement demand surge in Central India & efficiency measures to aid EBITDA

Prism Cement's (PCL) operational region of central India is well positioned to benefit from the favorable demand-supply mismatch in view of lack of new capacities. In addition, good monsoon expectation, revival in rural demand and host of government schemes are likely to further aid demand. As a result, its cement division utilization levels are expected to improve by ~13% to ~91% over FY17-19E; additionally it will also enjoy pricing power in its target market. We expect it to register ~8% cement volume CAGR over FY17-19E. It has increased the use of pet coke in the fuel mix (~65% in FY17), lowered logistics cost and rationalized power cost by captive power usage. Further, higher margin value added cement product's share is also expected to improve from ~11% in FY17 to ~17% in FY19E. The cost rationalization measures coupled with improving product mix leaves room for margin improvement for cement division. We forecast its cement business to register ~40% EBITDA CAGR over FY17-19E, mainly attributed to ~21% growth in EBITDA/Mt to ~Rs 770/Mt.

Improving utilization & better product mix to surge TBK & RMC div margins

PCL has scaled up marketing & distribution activities for its TBK (Tiles, Bath Fittings, Kitchen) business and is engaging with its channel partners to boost sales. Additionally, declining gas prices (TBK's substantial part of cost of production) with gas supply issues been addressed, will have a positive bearing on TBK business margins. Its focus to roll out more value added products and to improve capacity utilization levels (RMC ~35% & TBK ~40% for FY17) should see surge in revenues and aid margin revival for both RMC (Ready Mix Concrete) & TBK divisions. We forecast RMC & TBK division's EBITDA margins to improve by 425 bps & 494 bps to ~6.1% & ~8.3% respectively over FY17-19E.

Outlook & Valuation

Improving fundamentals for building materials is expected to scale up PCL's sales across divisions, this coupled with operational efficiency & cost reduction in all its segments will improve PCL's cash flows. We forecast an earnings improvement from ~0.1/share to ~7.0/share over FY17-19E. Given these positives, we value the stock at 12x on FY19E EV/EBITDA. We have a BUY rating on the stock with a target price of Rs 154 over next 12 months.

Financial Summary

Consolidated Rs cr	FY15	FY16	FY17	FY18E	FY19E
Revenue	5,654	5,622	5,562	5,991	6,499
YoY Growth	12.5%	-0.6%	-1.1%	7.7%	8.5%
EBITDA Margin	6.3%	6.9%	6.4%	10.3%	11.6%
PAT	3	3	14	211	351
YoY Growth	-	26.0%	331.8%	1,380.2%	66.6%
EPS (Rs)	0.1	0.1	0.3	4.2	7.0
P/E (x)	-	-	-	29.0	17.4
ROE	0.2%	0.3%	1.4%	17.5%	22.6%

Source: Company, IIFL Research

Snapshot of the company

Prism Cement Limited (PCL) is a building materials conglomerate which was incorporated in 1992. Cement, HRJ and RMC division contributed ~73%, ~34% and ~23% to its consolidated revenues. The company is jointly promoted by the Rajan Raheja group, F L Smidth & Co. of Denmark and the industrialisation fund for Developing Countries, Denmark. In FY10, the company diversified its business through its merger with H. & R. Johnson (India). Ltd and RMC Readymix (India) Private Ltd. PCL thus entered the tile, bath products, kitchen and RMC segments. As of FY16, PCL has a cement capacity of 7mtpa, tiles capacity of ~61mn m2 (61 mn square meter) p.a and RMC capacity at 8.5mn m3 (8.5 mn cubic meter) p.a. PCL cement division has wide network of ~3,810 dealers and ~165 stocking points.

Improving fundamentals for building materials is expected to improve PCL's sales across divisions.

Exhibit 21: Region wise FY17 cement sales mix

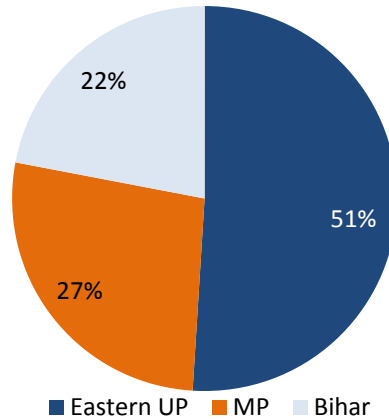
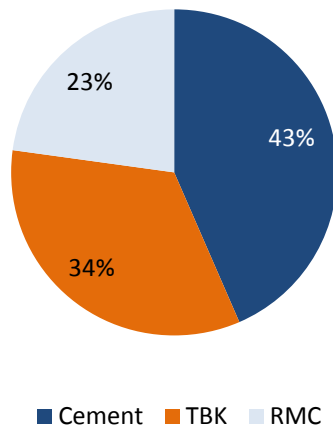


Exhibit 22: Segment wise consol revenue share FY17



Segment wise consol revenue share FY19E

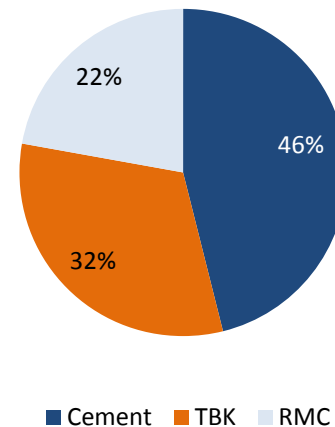
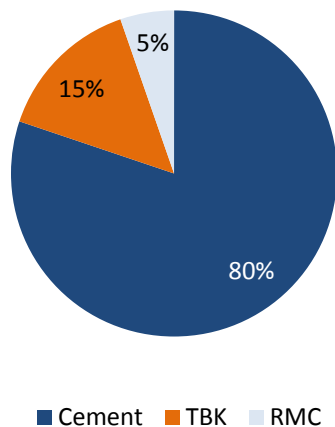
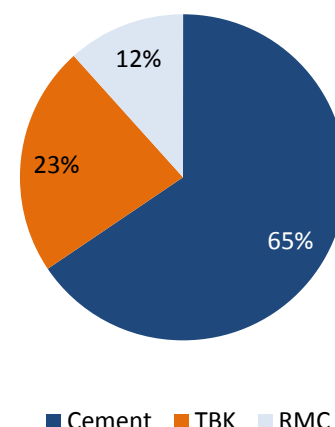


Exhibit 23: Segment wise consol EBITDA share FY17



Segment wise consol EBITDA share FY19E



PCL will gain post GST as its tiles & ready mixed concrete segments will get a boost.

Prism Cement (PCL), a building materials entity which deals in cement, tiles, sanitary ware, bath fittings, kitchen fittings and RMC, is likely to benefit from improving fundamentals of all these sectors. Good monsoon expectation and a revival in rural demand augur well for consumer demand for construction material and services. Going ahead, the cement demand is expected to get a boost led by host of government schemes including affordable housing scheme launched under PMAY. A report by KPMG (a consulting firm) suggests that there will be construction requirement of ~11 cr. units due to housing shortfall. This should pave way for new projects, which will also boost the demand for construction and building materials products. GST is likely to benefit the sectors with significant unorganized presence, e.g Tiles (~50% unorganized) and Ready mixed concrete (~ 60% unorganized) as market share would shift from unorganized to organized players like Prism Cement.

Cement

- ✧ India is ranked 2nd, both in terms of production and consumption, in the global cement market after China. The major consuming sectors for cement are housing segment (67%) followed by infrastructure (13%), commercial (11%) and the remaining from Industrial segment.
- ✧ The impetus on affordable housing mission along with quicker approvals for projects would result in increase in construction activity, which in turn will give a fillip to the cement sales. Beside, government is focusing on strengthening infrastructure, including road sector, developing smart cities, leading to expectations of a revival in the overall economic growth. Its plan to construct cement concrete highways instead of bitumen will increase the consumption of cement in infrastructure sector. In addition, the extensive road construction target (40 kms/day for FY18E) is expected to result in improved demand for the cement sector.
- ✧ For a cement company, power & fuel, freight and raw material are the three major cost drivers that contribute around 21-23% each to the overall cost of production. Under the GST Act, lower rate of 5% is applicable on inputs like coal and limestone bodes well for cement companies.

The impetus on affordable housing mission along with quicker approvals for projects will give a fillip to the cement sales.

Exhibit 24: Central region demand supply scenario

Central Region	FY15	FY16	FY17	FY18E	FY19E	FY20E
Year-end cement capacity (mtpa)	50	53	54	54	60	64
Capacity growth (%)	0	5	1	0	12	6
Effective cement capacity (mtpa)	50	51	53	54	56	62
Effective capacity growth (%)	5	2	4	1	4	11
Production/Despatch (mtpa)	40	42	41	44	46	48
Production/Despatch growth (%)	7	6	-2	6	6	4
Capacity utilisation (%)	79	82	77	81	83	78

Source: Company, IIFL Research

RMC accounts for only ~10% of total cement in India against 50-70% in developed economies.

Lower gas prices – a big part of cost of production for tiles sector will improve sector margins.

Ready Mix concrete (RMC)

With the government impetus on infrastructure, RMC is gaining traction, which is the most viable option to speed up construction.

- ✧ RMC demand in India has been growing steadily over the past few years; ~10% of total cement used for concrete in India is through RMC route v/s 50-70% in developed economies. As per AT Kearney (a consulting firm) RMC's market share is likely to grow from ~10% currently to ~25% by 2025. Earlier, the RMC's consumption was mostly confined to metros but now it is finding usage in Tier 2&3 cities as well.
- ✧ Urbanization, Infrastructure and affordable housing offer tremendous growth opportunity and act as demand drivers for the RMC industry. Also Infra order book is at historical highs that will benefit the RMC industry (Prism Cement being 2nd largest player).

Tiles, Bath fitting and kitchen (TBK)

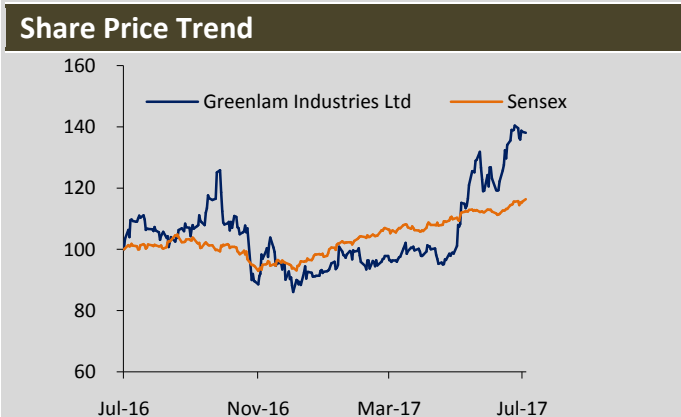
- ✧ Indian tile industry is estimated to be ~763 million sq. mtr as of March 2016. The major players in Indian tiles market - Kajaria, H&R Johnson, Nitco, Somany and Asian Granito account for majority of the sales. As per PWC (a consulting firm) report, the Indian tile industry market size is presently estimated to be around ~Rs30,000 cr. growing at ~10% pa.
- ✧ The per capita consumption of ceramic tiles in India is only 0.59 per sq. mtr. It lags behind Brazil, China and Vietnam which have per capita consumption of ~4.1, ~3.3 and ~2.8 sq. Mtr. respectively. Nearly 4% of India's rural population lives in houses with tile flooring and ~63% of rural population lives in houses with mud flooring, providing sizeable opportunity for ceramic tile manufacturers.
- ✧ Positive outlook on the TBK industry, on the sidelines of governmental reforms in order to attract more foreign investment in real estate and retail section. Further, government programmes such as 'Make-in-India', Smart Cities Mission, Swachh Bharat Abhiyaan (Sanitation for All by 2019), Atal Mission for Rejuvenation and Urban Transformation (AMRUT) and Housing for All by 2022 would act as big push in demand for ceramic industry in India in years to come.
- ✧ The gas prices have come down significantly, which will have positive bearing on the sector as it accounts for substantial part of cost of production.

Sector	Building Material
Recommendation	Upside
BUY	25.6%

Stock Data	
Sensex	32,246
52 Week h/l (Rs):	1,067 / 562
Market cap (Rs Cr) :	2,307
BSE code:	538979
NSE code:	GREENLAM
FV (Rs):	5
Div yield (%):	0.16

Shareholding Pattern			
	Dec-16	Mar-17	Jun-17
Promoters	55.2	54.7	54.7
DII+FII	16.0	16.2	16.2
Individuals	28.9	29.1	29.1

Source: Source: www.bseindia.com



Prices as on 24/07/2017

Analyst- Milan Desai
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July 24, 2017

Greenlam Industries (GIL)- A leader in Laminates Industry

GIL is a leading player in the Laminates industry; it is the 3rd largest laminates producer in the world and the largest in Asia with a production capacity of 12.02mn sheets pa. It is on the verge of enhancing it to 14.02mn sheets in FY18E. GIL's Laminates & Allied products segment contributes 87% to revenues and has grown at 11% CAGR over FY12-17 (~18% CAGR for FY10-16). The segment is supported by the company's strong brand equity and India's largest dealer network with 12,000+ distributors & retailers. This has enabled it to overtake Merino which had more than two decade advantage over GIL. Going forward, we believe that GIL can further strengthen its position with GST coupled with an improvement in exports market (were affected by currency depreciation of key exports market).

Major Capex behind, minor incremental capex can boost top-line

GIL is past its capex cycle having invested ~Rs 200cr for expanding its Laminates facility and entering other segments like Melamine Faced Chipboards, Engineered Wood Flooring (EWF) and Engineered Door & Frames (EDF). The laminates capex is at an outlay of ~Rs 25 cr and it has potential to generate revenue of ~Rs 120 cr. GIL has infrastructure in place to further add 2mn sheets (to reach 16.02mn sheets pa) at similar cost and we expect GIL to further expand capacity to increase its market share.

Veneered and Allied products to recover

EWF & EDF businesses which are part of the Veneered & Allied Products are still in the nascent stage and GIL is investing in businesses which will require more time before they start contributing meaningfully. These businesses are loss making (EBITDA level) and the management expects them to break-even at EBITDA level in FY18E. Without these losses, the EBITDA margin of core business is close to 14.0% which augurs well for GIL once these businesses reach desired scale and become profitable.

Outlook & Valuation

We expect GIL to fully utilize its newly added capacity and hence lead to volume CAGR of 16% over FY17-19E for its Laminates business. Improvement in utilization level of Veneer and other businesses are expected to drive overall revenue CAGR of 17% over the same period (estimating negligible realization growth). With shrinking losses of EWF/EDF by FY19E, we expect EBITDA margin to expand by 300bp to 13.1% over FY17-19E. At CMP, the stock is trading at 23.1x its FY19E earnings. Prior to demonetization, GIL was trading in top quartile of price band of 28x-32x. We value GIL at 29.0x which is +1sd to its life time avg. of 25.6x. Moreover, its PEG ratio is 0.8x for FY19E which is reasonable. Hence we recommend BUY on GIL with target of Rs 1,201.

Financial Summary

Consolidated Rs cr	FY16	FY17	FY18E	FY19E
Revenue	1,030	1,076	1,242	1,472
YoY growth	11.2%	4.5%	15.5%	18.5%
EBITDA Margin	12.3%	12.8%	12.7%	13.1%
PAT	38	50	76	100
YoY Growth	95.2%	32.1%	52.3%	31.8%
EPS (Rs)	15.6	20.6	31.4	41.4
P/E (x)	61.2	46.3	30.4	23.1
ROE	16.2%	18.6%	23.3%	24.6%

Source: Company, IIFL Research

Company Background

GIL has ~19% market share in domestic organized laminates segment

Greenlam (GIL) was formed post demerger of Greenply's decorative business comprising laminates and allied products in 2014. It has ~19% market share in domestic organized laminates segment and 6% market share in decorative veneer. It is India's largest exporter of laminates with 40% market share. Its operates in two segments –

- ✧ Laminate & Allied: Decorative Laminates, Compact Laminates & Melamine Faced Chipboards
- ✧ Decorative Veneer & Allied: Decorative Veneer, Engineered Wood Flooring & Engineered Doors.

Exhibit 25: GIL revenue break up FY17

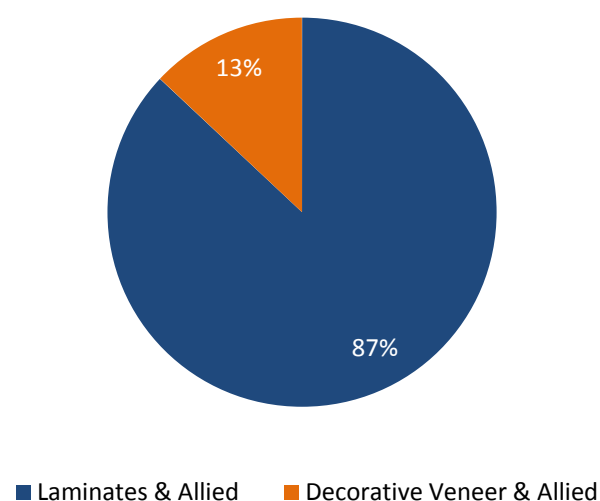
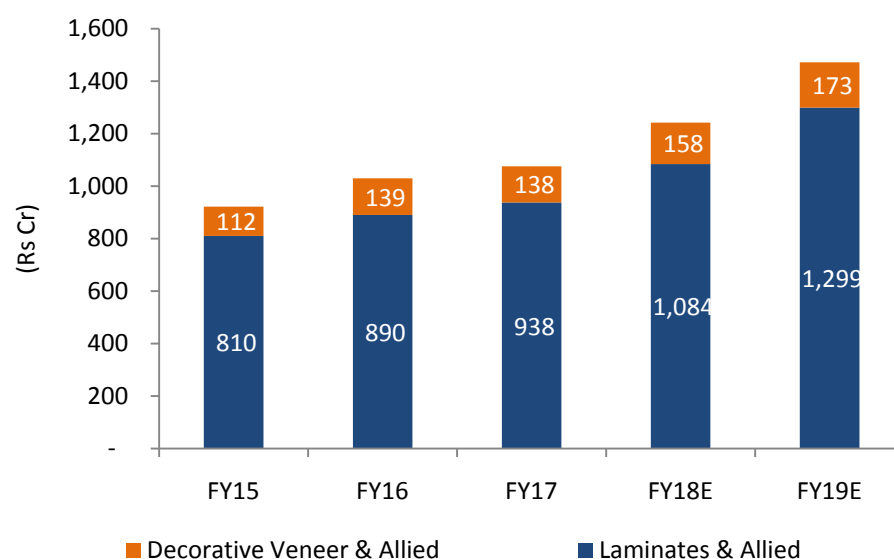


Exhibit 26: Revenue Growth FY17-19E



Source: Company, IIFL Research

Exhibit 27: Better operating parameters v/s peers

	Revenue			EBIT Margin			ROCE		
	FY15	FY16	FY17	FY15	FY16	FY17	FY15	FY16	FY17
Greenlam	826	890	938	7.2%	12.9%	14.3%	13.3%	27.8%	42.0%
Centuryply (Laminates)	294	335	412	7.8%	13.3%	12.6%	13.5%	28.4%	32.4%
Stylam	214	249	295	8.7%	10.2%	12.8%	15.0%	15.2%	15.3%

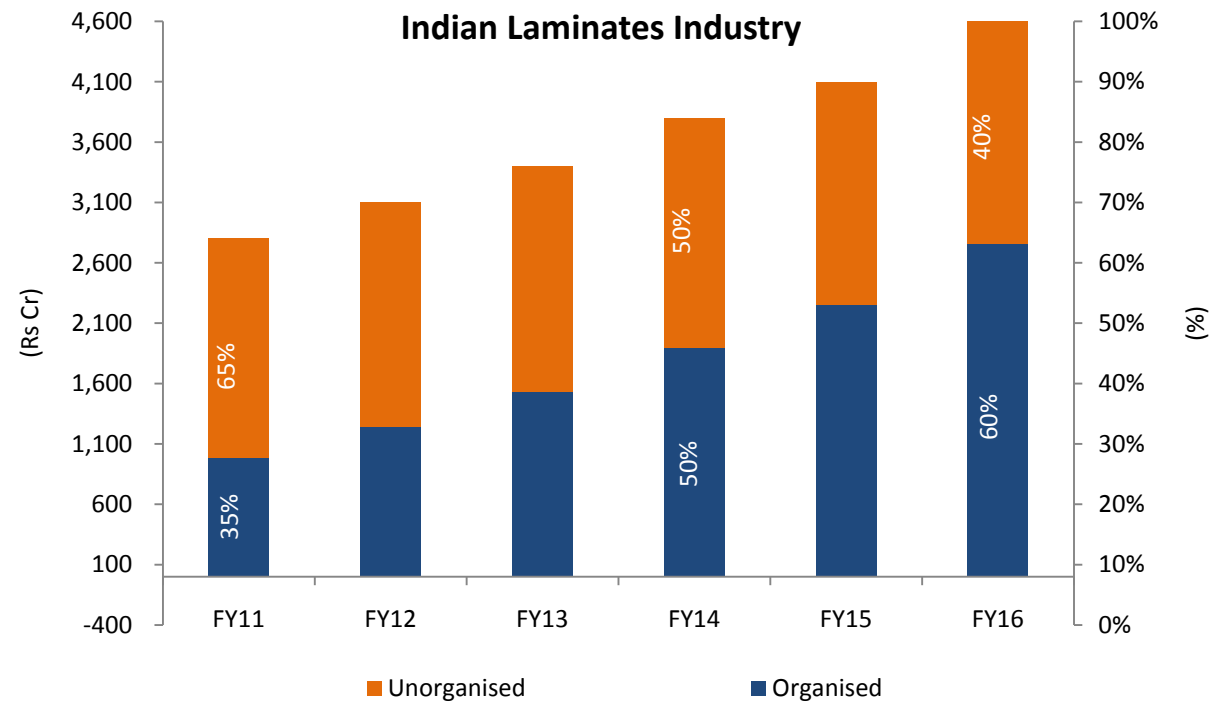
Source: Ace Equity, IIFL Research

20-25% CAGR for organized laminates segment vs. 10% CAGR for overall industry

Laminate Industry

As per industry reports, Indian Laminates Industry size stands at Rs 4,600 cr in FY17, largely unchanged from FY16. This can be attributed to poor demand from the real estate sector as well as impact of demonetization. Prior to FY17, reports suggest that the overall Industry posted CAGR of ~10% over FY11-16. However, it is estimated that organized industry has grown at a rate of 20-25% over FY11-16, thereby increasing their share from ~40% in FY11 to ~60% in FY16.

Exhibit 28: Indian Laminates Industry



Source: IIFL Research, Industry reports

Laminates demand is expected to be driven by improving demand for Plywoods & Panels

Laminates and Veneers are two most commonly used materials for decorating plywood, wooden furniture and particle/cement boards. As a result, the demand for laminates is dependent on overall Wood Panel Industry. The demand for Plywood & Panels is expected to expand on account of recovery in the real-estate sector aided by government initiatives like housing for all. Moreover, the rising disposable incomes and shortening renovation cycles are expected to complement the demand for Plywood and in turn for laminates.

GST implementation will expand the market for organized segment

Laminates have seen an increase in application due to better aesthetics, variety, easy maintenance, cheaper alternative to veneers and longer life. The industry has seen a significant shift in preference towards higher thickness laminates which is the fastest growing segment. The organized players have increased their presence in this category as it has better margins and realizations than low thickness laminates (High unorganized presence). Owing to increasing preference for branded high thickness laminates, we estimate that the organized players will continue to outperform unorganized players. Implementation of GST will improve cost competitiveness of organized companies and present opportunity for organized space to capture the market. We estimate that the organized players will continue to maintain 15%+ CAGR going forward on account of above mentioned factors.

Exhibit 29: GST rate for Laminates

Wood Panel Constituents	Pre GST	GST	Impact
Plywood		28%	Neutral
Decorative Laminates	~28%	18%	Positive
Decorative Veneers		28%	Neutral

Source: IIFL Research, Industry reports

We are positive on Greenlam Industries and expect it be a key beneficiary of this expansion of market for organized players considering its leadership position, largest distribution network in India and its strong brand equity.

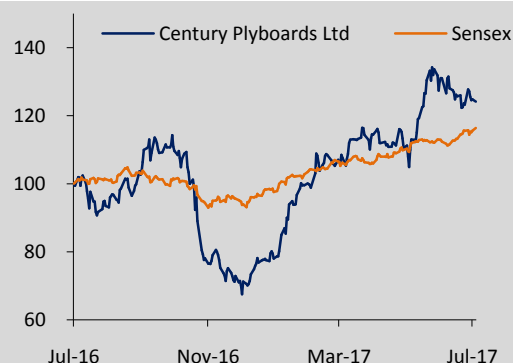
Sector	Building Material
Recommendation	Upside
BUY	27.5%

Stock Data	
Sensex	32,246
52 Week h/l (Rs):	314/ 154
Market cap (Rs Cr) :	6,348
BSE code:	532548
NSE code:	CENTURYPLY
FV (Rs):	1
Div yield (%):	0.34

Shareholding Pattern			
	Dec-16	Mar-17	Jun-17
Promoters	72.0	72.0	72.0
DII+FII	16.7	16.8	16.8
Individuals	11.3	11.2	11.2

Source: Source: www.bseindia.com

Share Price Trend



Prices as on 24/07/2017

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New product launches, capacity ramp up to increase market share

Government's thrust on host of schemes such as building smart cities, affordable housing under PMAY would accelerate the construction activity and hence would benefit the plywood & laminate companies. Century Plyboards (CPBI) is expected to benefit due to its leadership position in the organized plywood market (~25% market share) and being the 3rd largest player in the laminates market (~12% market share). CPBI is also entering into high margin MDF (medium density fibre) which is currently the fastest growing product (growing ~20% over past 5 years) in wood panel market. The expansion of laminates capacity (~50% expansion) and MDF foray at an opportune time to would add ~Rs320 cr of incremental revenue (to form ~12% of FY19E revenues) over FY17-19E. We expect CPBI to improve its market share across products aided by its strong distribution network & brand recall. We forecast CPBI to register ~15% revenue CAGR over FY17-19E to ~Rs 2,595 Cr.

GST reform a game changer for organized plywood/laminate players

Unorganized players currently control ~70%/~40% of the plywood/laminates market. GST rate in Laminates has been fixed at ~18% against earlier 27-29% tax bracket resulting in organized players becoming more competitive (benefit of 8-10%). Also, GST rate for Plywood & MDF has been fixed at ~28%, which will escalate the cost for unorganized players products for plywood & MDF making them un-competitive. Hence, the consumer preference is expected to shift from unbranded to branded players which bodes well for CPBI (strong brand recall among consumers, across products).

Moderating capex cycle & improving margins to improve free cash flows

CPBI's capacity expansions will largely be through by Q2FY18 and its upcoming value added products would improve revenue and margins over FY17-19E. This will result in cash profit improvement of ~ Rs 136 cr over FY17-19E and we expect its financial leverage to reduce. We forecast its Debt: Equity ratio to decline by ~48 bps to 0.32x over FY17-FY19E.

Outlook & Valuation

The GST reforms would have a structural impact leading to shift in demand for wood panel industry products from unorganized to organized players, benefiting CPBI which has leading market share profile and strong brand recall. Further, its upcoming high margin MDF product and expansion in laminates & particleboard capacity will improve its market share & earnings. We expect it to register ~25% earnings CAGR over FY17-19E. We value the stock at 28x on FY19E P/E to arrive at the target price of Rs 364. We recommend BUY for next 12 months horizon.

Financial Summary

Consolidated Rs cr	FY15	FY16	FY17	FY18E	FY19E
Revenue	1,588	1,664	1,962	2,256	2,595
YoY Growth	17.9%	4.7%	17.9%	15.0%	15.0%
EBITDA Margin	16.1%	17.4%	15.9%	17.6%	18.4%
PAT	149	168	186	233	289
YoY Growth	147.2%	12.4%	10.8%	25.3%	24.3%
EPS (Rs)	6.7	7.5	8.3	10.5	13.0
P/E (x)	42.6	37.9	34.2	27.3	22.0
ROE	38.3%	31.4%	26.0%	25.6%	24.9%

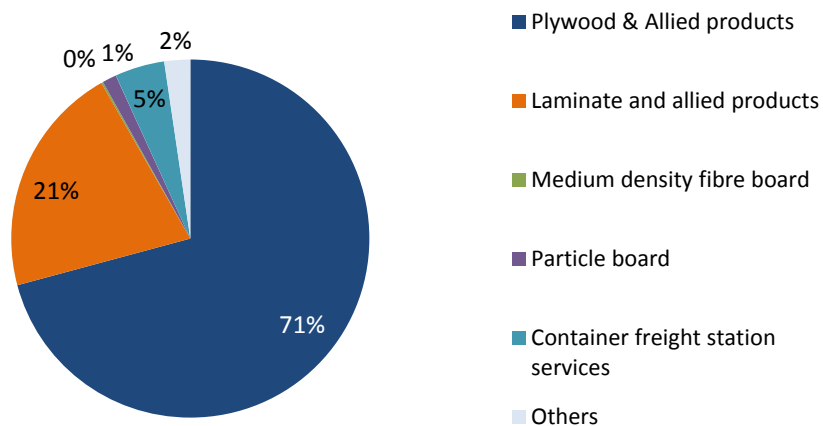
Source: Company, IIFL Research

Snapshot of the company

It is a market leader in Plywood industry with ~25% market share in organized market. CPBI is the 3rd largest manufacturer of laminates after Greenply and Merino. CPBI has doubled laminate capacity from 2.4m sheets to 4.8m sheets (over FY13-16) and it is further ramping up its laminates capacity by 50% from 4.8 mn sheets to 7.2 mn sheets by FY18E. Besides, its 600 CBM per day capacity MDF plant is expected to come on stream by July, 2017. It operates two container freight stations (CFSs) near Kolkata Port (0.1 m sqm). The company invests ~3% of its revenues in marketing activities. CPBI sells its plywood under its commercial brand 'Sainik'. Company currently has 30+ brands & ~14 products in various categories. It has a strong distribution network with ~1,600 dealers/distributors & ~20,000 retail outlets.

Moderating capex cycle & improving margins to improve free cash flows for CPBI.

Exhibit 30: Revenue Breakup FY17



Revenue Breakup FY19E

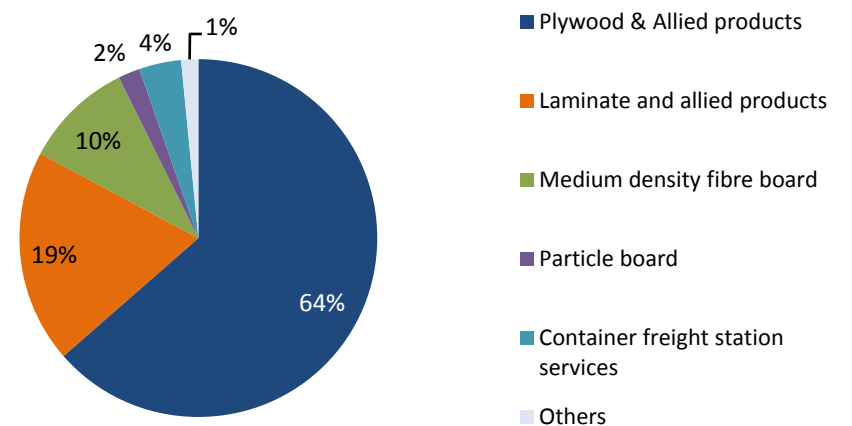
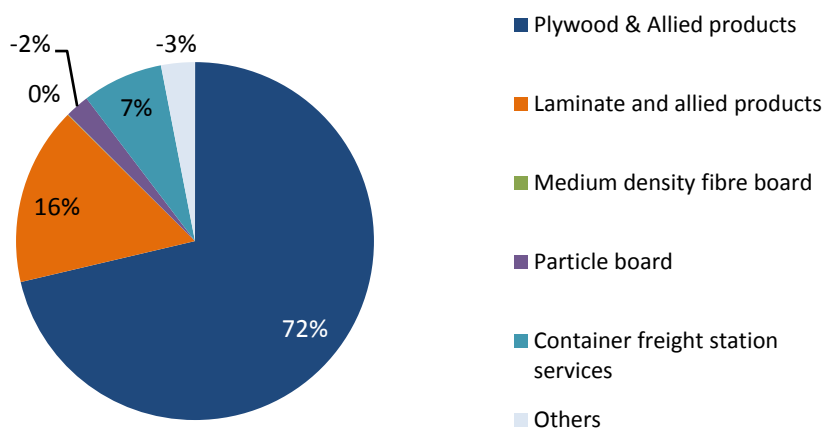
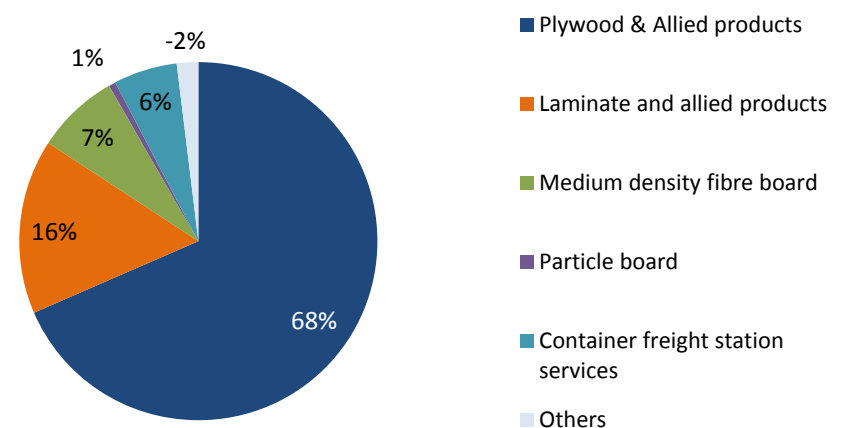


Exhibit 31: EBIT Breakup FY17



EBIT Breakup FY19E



Source: Company, IIFL Research

Recommendation Parameters for Fundamental/Technical Reports:

Buy – Absolute return of over +10%

Accumulate – Absolute return between 0% to +10%

Reduce – Absolute return between 0% to -10%

Sell – Absolute return below -10%

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