FIRST LIGHT

08 November 2021

RESEARCH

Century Plyboards | Target: Rs 630 | +4% | HOLD

Century Plyboards (HOLD): Best quarter ever but valuations full

eClerx Services | Target: Rs 2,880 | +23% | BUY

Stellar Q2FY22 performance; upbeat demand environment

Daily macro indicators

Indicator	Current	2D (%)	1M (%)	12M (%)
US 10Y yield (%)	1.55	(1bps)	6bps	65bps
India 10Y yield (%)	6.36	(3bps)	14bps	46bps
USD/INR	74.69	0.3	(0.6)	(0.4)
Brent Crude (US$/bbl)	84.72	0.0	7.9	113.3
Dow	36,053	0.4	6.5	31.2
Shanghai	3,506	(1.1)	(1.8)	7.2
Sensex	60,029	(0.2)	1.5	49.1
India FII (US$ mn)	**01-Nov**	**MTD**	**CYTD**	**FYTD**
FII-D	9.4	9.4	(61.0)	1,966.3
FII-E	(37.1)	(37.1)	6,221.5	(1,104.9)

Source: Bloomberg

SUMMARY

Century Plyboards

- Q2 revenue/PAT came in at Rs 8.1bn/Rs 1bn led by robust price realisations across segments
- EBITDA grew 87% YoY to Rs 1.6bn as margins expanded in all three major businesses
- We raise our target P/E from 25x to 37x on a robust growth trajectory and roll to a new Sep'22 TP of Rs 630 (vs. Rs 395); retain HOLD

Click here for the full report.

eClerx Services

- Q2 revenue grew 7.1% QoQ USD, delivering a strong beat. EBIT margin missed our estimate but outperformed consensus expectations
- Absence of significant project roll-offs plus supportive medium-term demand climate boosts growth visibility beyond FY22
- Talent crunch in client markets and higher acceptance of offshore delivery serving as structural demand catalysts; retain BUY and TP of Rs 2,880

Click here for the full report.

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HOLD

TP: Rs 630 | ⮝ 4%

CENTURY PLYBOARDS | Construction Materials | 03 November 2021

Best quarter ever but valuations full

- **Q2 revenue/PAT came in at Rs 8.1bn/Rs 1bn led by robust price realisations across segments**
- **EBITDA grew 87% YoY to Rs 1.6bn as margins expanded in all three major businesses**
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Strong growth aided by higher realisations: CPBI reported standalone Q2FY22 revenue growth of 56% YoY to Rs 8.1bn, with plywood/MDF/laminates up 66%/36%/ 61% led by the unlocking of pent-up demand post the second Covid wave as well as an improving business climate for real estate. Volumes in the plywood segment grew 64% YoY and laminates 36% while MDF remained flat. Realisations increased across segments with plywood up 22% YoY, laminates 18% and MDF 21%. CPBI expects demand trends to remain strong due to a pickup in housing activity across geographies.

MDF continues to deliver robust growth: MDF EBITDA margin expanded 655bps YoY to 34.6% backed by higher capacity utilisation and price hike benefits. Management expects stronger demand in the MDF segment due to (a) its higher acceptance in the domestic market and (b) lower imports owing to improved demand in respective geographies and higher shipping costs. As per management, work on MDF expansion at the existing Hoshiarpur unit is in full swing, but commissioning of the MDF project in Andhra Pradesh is likely to be delayed to H2FY24.

Rs 50bn revenue roadmap by FY26: Management has chalked out a roadmap to achieve Rs 50bn in revenue by FY26 led by (a) anticipated double-digit growth in the wood panel industry over the next five years, (b) aggressive branding, (c) market share gains in plywood, MDF and laminates, (d) cumulative capex of Rs 12.3bn, and (e) higher ROCE.

Valuations full; retain HOLD: CPBI's results were robust with both key divisions of MDF and plywood witnessing growth. We broadly maintain revenue estimates but raise margins to incorporate the above-expected MDF and plywood performance in H1. Based on the robust growth trajectory, we raise our target one-year forward P/E from 25x to 37x, ~16% premium to the stock's five-year median of ~32x. On rollover, we move to a new Sep'22 TP of Rs 630. While we continue to like CPBI for its broad wood panel product portfolio, improved balance sheet and healthy return ratios, the stock is trading at ~41x FY23E EPS which looks expensive – retain HOLD.

Key changes

Target	Rating
▲	◀ ▶

Ticker/Price	CPBI IN/Rs 606
Market cap	US$ 1.8bn
Free float	27%
3M ADV	US$ 2.2mn
52wk high/low	Rs 615/Rs 178
Promoter/FPI/DII	73%/5%/22%

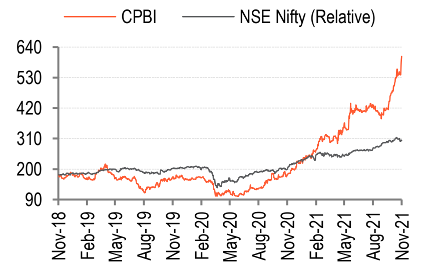
Source: NSE | Price as of 3 Nov 2021

Key financials

Y/E 31 Mar	FY21A	FY22E	FY23E
Total revenue (Rs mn)	21,304	25,467	30,401
EBITDA (Rs mn)	3,355	4,542	5,509
Adj. net profit (Rs mn)	1,996	2,701	3,357
Adj. EPS (Rs)	9.0	12.2	15.1
Consensus EPS (Rs)	9.0	12.4	15.3
Adj. ROAE (%)	16.9	19.4	20.0
Adj. P/E (x)	67.5	49.9	40.1
EV/EBITDA (x)	41.3	29.9	24.5
Adj. EPS growth (%)	26.4	35.3	24.3

Source: Company, Bloomberg, BOBCAPS Research

Stock performance



Source: NSE

BOBCAPS
TRUST | INNOVATION | EXCELLENCE

BUY
TP: Rs 2,880 | ⮝ 23%

ECLERX SERVICES | Technology & Internet | 03 November 2021

Stellar Q2FY22 performance; upbeat demand environment

- **Q2 revenue grew 7.1% QoQ USD, delivering a strong beat. EBIT margin missed our estimate but outperformed consensus expectations**
- **Absence of significant project roll-offs plus supportive medium-term demand climate boosts growth visibility beyond FY22**
- **Talent crunch in client markets and higher acceptance of offshore delivery serving as structural demand catalysts; retain BUY and TP of Rs 2,880**

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Stellar growth: ECLX reported Q2FY22 revenue growth of 7.1% QoQ in dollar terms, outperforming our estimate of 5.1%. Growth was led by emerging clients (non-top 10 accounts) which grew 11.3% QoQ USD while revenue from the top 10 clients increased 4.5%. Revenue growth was well balanced between onsite and offshore locations, resulting in a static offshore mix (flat sequentially at 80% of revenue). The company performed well across verticals and saw an uptick in onsite consulting business as well as its evolving service portfolio.

Supply challenges limit margin expansion: EBIT margin stood at 26.7%, below our estimate of 30.3% but above consensus (25.6%). Despite stellar revenue growth, EBIT margin expansion was limited to 110bps QoQ to 26.7% due to supply pressure. Attrition rose 960bps QoQ to 41.3%, back to pre-Covid levels. ECLX's net headcount increased to 13,572 (up 662 people QoQ or 5% QoQ), driving up employee cost. About 85% of the headcount addition was in the offshore base. Management attributed the increased staffing to high attrition and buoyant demand. FY22 EBITDA margin guidance remains at 28-32%.

Supportive demand environment: Management expects a supportive demand climate over the short-to-medium term. This drives visibility and confidence on double-digit topline growth for FY23. Moreover, talent shortage in client markets, higher acceptability of offshore delivery and suboptimal operations of captives have structurally boosted demand. ECLX is also gaining from the absence of significant project roll-offs (the prime reason for its stagnant revenues over FY16-FY20). Per management, the company has not experienced any material unplanned project roll-offs over the last 18 months and does not foresee any in the near term.

Reiterate BUY: We keep our above-consensus FY23/FY24 EPS estimates largely unchanged and reiterate BUY with an unchanged Sep'22 TP of Rs 2,880. We continue to value the stock at 19.5x one-year forward P/E, ~50% discount to our target multiple for mid-sized IT companies under our coverage.

Key changes

Target	Rating
◀ ▶	◀ ▶

Ticker/Price	ECLX IN/Rs 2,343
Market cap	US$ 1.2bn
Free float	45%
3M ADV	US$ 1.7mn
52wk high/low	Rs 2,470/Rs 671
Promoter/FPI/DII	54%/20%/26%

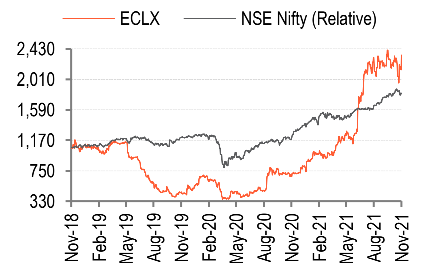
Source: NSE | Price as of 3 Nov 2021

Key financials

Y/E 31 Mar	FY21A	FY22E	FY23E
Total revenue (Rs mn)	15,644	21,074	24,369
EBITDA (Rs mn)	4,642	6,637	7,653
Adj. net profit (Rs mn)	2,828	4,203	4,873
Adj. EPS (Rs)	82.8	123.8	143.6
Consensus EPS (Rs)	82.8	108.0	120.0
Adj. ROAE (%)	20.1	27.0	28.4
Adj. P/E (x)	28.3	18.9	16.3
EV/EBITDA (x)	18.2	12.7	11.0
Adj. EPS growth (%)	49.4	49.5	15.9

Source: Company, Bloomberg, BOBCAPS Research

Stock performance



Source: NSE

Disclaimer

Recommendation scale: Recommendations and Absolute returns (%) over 12 months

BUY – Expected return >+15%

HOLD – Expected return from -6% to +15%

SELL – Expected return <-6%

Note: Recommendation structure changed with effect from 21 June 2021

Our recommendation scale does not factor in short-term stock price volatility related to market fluctuations. Thus, our recommendations may not always be strictly in line with the recommendation scale as shown above.

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