

Century Plyboards (India) Limited

CMP	Target	Rating
Rs. 160	Rs. 195	BUY

Best in Class; Initiate with a BUY

Century Plyboards India (CPBI) is one of the leading players in the organized Indian plywood market and the third largest player in the organized laminates market. The company has over the years created a strong brand image led by quality products and aggressive marketing spends. CPBI has expanded its capacity aggressively over the last two years in both plywood and laminates business. With a strong brand image, widespread dealer network, and enhanced capacities, we believe CPBI is well placed to benefit from rising demand for building products and shift to branded products. Overall, we expect CPBI's revenues and PAT to grow at a CAGR of 20% and 33% over FY15-FY17E. And with low capex requirements over the next two years, we expect free cash flow generation will result in improvement in balance sheet quality. Initiate with a BUY with a TP of Rs. 195/share based on 20x FY17E EPS.

Investment rationale:

- Capacity additions to aid volume strong:** CPBI has over the last two-three years spent aggressively on adding capacities in both its plywood and laminates business. In the plywood business, CPBI increased its capacity by 21% in FY14 to 210k cubic meters (CBM). In the laminates business, the company doubled its capacity to 4.8mn sheets. With significant increase in scale of operations, we expect CPBI to post strong revenue growth of 20% CAGR over FY15-FY17E. The company has spent nearly Rs. 2bn over the last three years in scaling up capacities.
- RM security and GST implementation, key triggers:** Post the export ban on raw timber by the Myanmar government from 1st April 2014, the operations of small scale unorganized players have been impacted adversely. Organized players like, CPBI and GIL have set up facilities in Myanmar to source raw timber locally and manufacture semi-finished product "Veneer" and export it to India. Unorganized players lack the scale and the balance sheet strength to set up manufacturing facilities abroad. Hence CPBI and GIL are well placed on the raw material front. Raw material security coupled with the proposed GST implementation, we expect scope for significant market share gains for organized players led by narrowing cost advantages for unorganized players.
- Strong earnings trajectory; Improved balance sheet quality:** Overall we expect CPBI's revenues and PAT post a CAGR of 20% and 33% respectively over FY5-FY17E. EBITDA margins to expand from 11.5% in FY14 to 14% levels by FY16E led by (1) increasing utilizations; (2) lower logistics cost post the commissioning of Myanmar and Kandla capacity; and (3) realisation growth led by price hikes and product mix. Limited capex and improvement in working capital cycle will lead to strong operating and free cash generation of ~Rs. 5bn and Rs. 2.5bn respectively.
- Valuations:** CPBI trades at 22x FY16E and 17x FY17E EPS. With industry leading growth, expansion in margins, and improvement in balance sheet and returns profile, we expect the current FY16E multiples to sustain going ahead.

Initiating Coverage			
Date	5 th Jan 2015		
Market Data			
SENSEX	27888		
Nifty	8395		
Bloomberg	CPBI IN		
Shares o/s	222.5mn		
Market Cap	Rs. 36bn		
52-wk High-Low	22-176		
3m Avg. Daily Vol	Rs. 7mn		
Index member	BSE 500		
Latest shareholding (%)			
Promoters	74.5		
Institutions	7.8		
Public	17.7		
Stock performance (%)			
	1m	3m	12m
CPBI	-1	43	548
Sensex	-2	5	32

Financial summary (Standalone)

Year	Revenues (Rs. mn)	EBITDA (Rs. mn)	PAT (Rs. mn)	EPS (Rs.)	P/E (x)	RoE%
FY15E	15,596	2,151	1,217	5.5	29.6	35.8%
FY16E	18,747	2,636	1,654	7.4	21.8	36.1%
FY17E	22,553	3,198	2,140	9.6	16.8	34.4%

Century Plyboards (India) Limited

Company Factsheet

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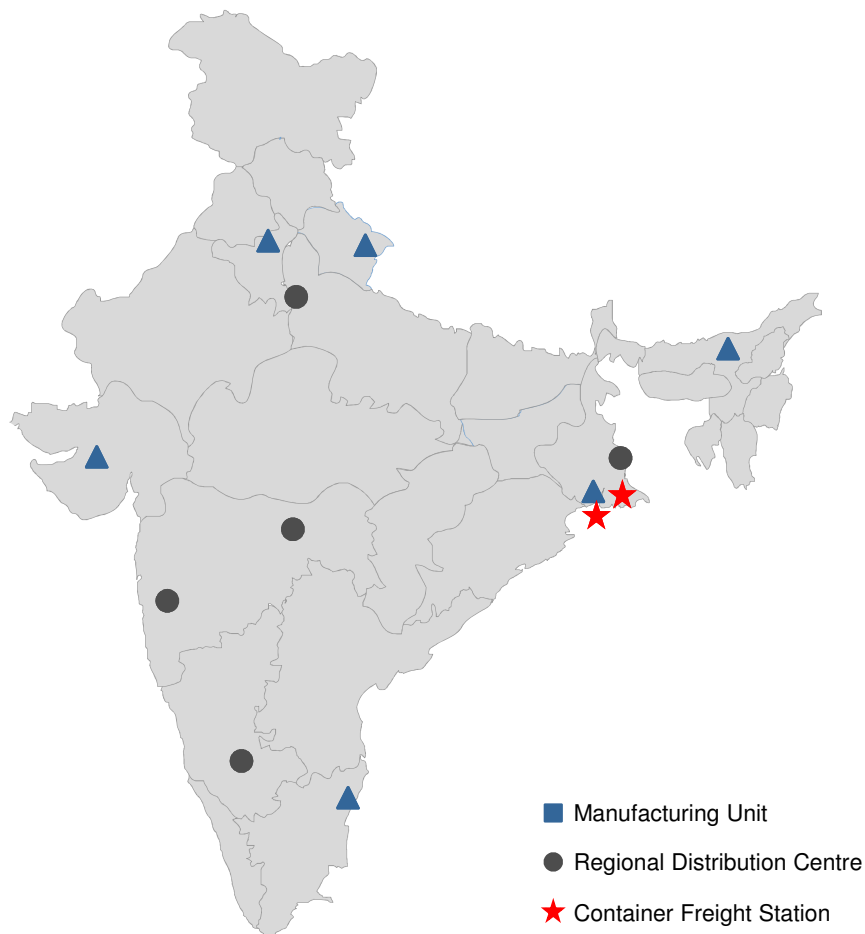
Corporate Factsheet	
Company Background	Century Plyboards is India's leading plywood company with seven manufacturing units . The company's manufacturing units are geographically well spread, with presence in all the regions. The company has a market share of 25% in the organised plywood market. Century is also a leading player (third largest in India) in the laminates market with a capacity of 4.8mn sheets. The company also operates two container freight stations near Kolkata port with an area of 1,00,000 sqm and a capacity of 1,56,000 TEUs.
Presence	The company is headquartered in Kolkata and has a Pan India presence
Management depth	<p>The company is promoted by first generation entrepreneurs. The company is led by its Executive Chairman, Mr. Sajjan Bhajanka, who has ~45 years of industry experience. Other promoters are (1) Mr. Sanjay Agarwal; (2) Mr. Vishnu Khemani, (3) Mr. Prem Bhajanka; and (4) Mr. Hari Prasad Agarwal. Recently, the company has added professional talent to its managerial team. Following are key management personnel:</p> <p>Mr. Ajay Baldawa – Executive Director, Technical</p> <p>Mr. Arun Julasaria – Chief Financial Officer</p> <p>Mr. Anoop Hoon – President, Sales & Marketing. He was marketing head of Asian Paints for 13 years</p> <p>Mr. Amit Gope – GM, Branding. He has 21 years experience in Branding with 7 years in Vodafone, Airtel, and Uninor</p> <p>Mr. Sugata Halder – GM, Human Resources</p>
Revenue contribution	Plywood – 76%, Laminates – 18%, Container Freight Stations – 4%, others – 2%
Distribution network	The company's pan-India presence comprises 33 marketing offices and more than 13,000 retail outlets.
Manufacturing Facilities	The company has seven manufacturing facilities with six in India and one in Myanmar.
Credit Rating	CRISIL – A-
Corporate Bankers	State Bank of India, Punjab National Bank, Corporation Bank, Allahabad Bank, DBS Bank
Auditors	S.R . Batliboi & Co

Century Plyboards (India) Limited

Geographical Presence and Product Portfolio

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Century Plyboard – Geographical spread of plants and distribution network



Plant-wise Capacity Details

Plant details	Capacity
Plywood	Cubic metres (cbm)
Bishnupur, Kolkata	37,000
Gumudipundi . Chennai	39,420
Karnal, Haryana	36,000
Mirza , Guwahati	35,000
Bachau, Kandla, Gujarat	31,000
Roorkee, Uttarakhand	25,000
Yangoon, Myanmar (100% subsidiary)	6,000
Laminates (nos.)	Million sheets
Bishnupur, Kolkata	4.8

Source: Company

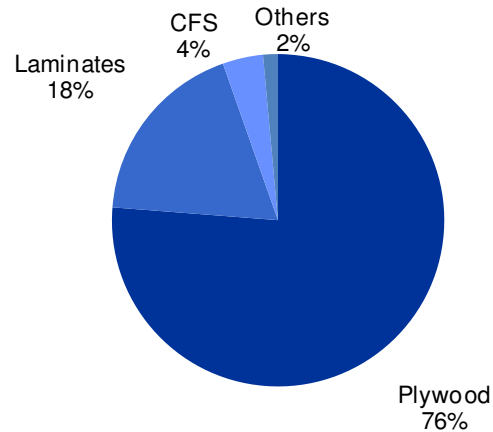
Source: Spark Capital Research

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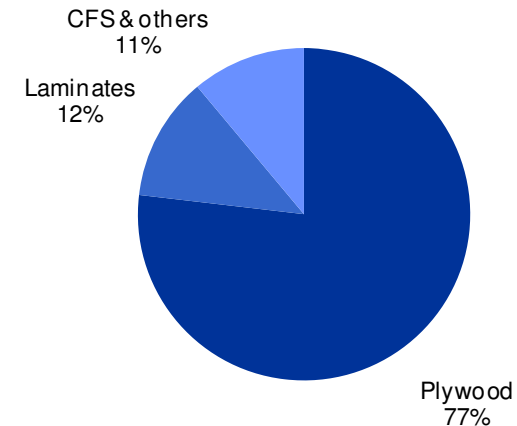
Business Segments

Revenue mix – FY14



Source: Spark Capital Research, CFS - Container Freight Stations

EBITDA mix – FY14



Source: Spark Capital Research

Century Ply brands

CENTURYPLY
CLUB PRIME
PLYWOOD

CENTURYPLY
sab sahe mast rahe

SAINIK
HAMESHA TAIYYAR

sharon
PLYWOODS

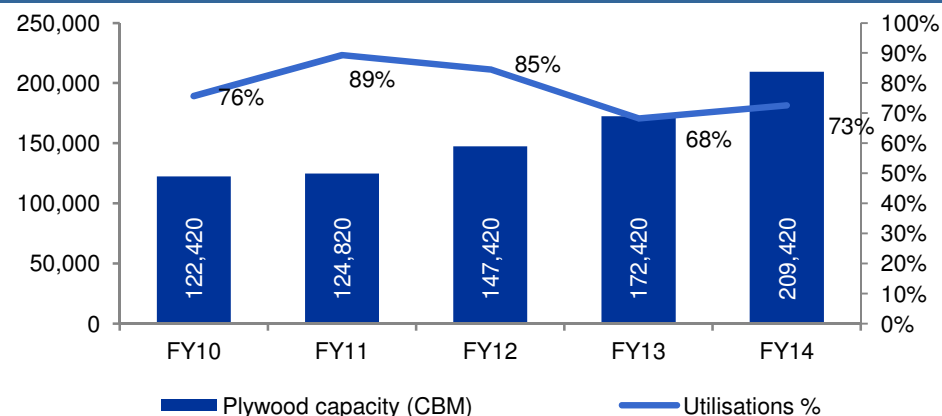
CENTURYPLY
MAXIMA
PLYWOOD

Source: Spark Capital Research

- CPBI operates mainly in three business segments (1) Plywood & allied products; (2) Laminates & allied products; and (3) Container freight stations (CFS).
- In the plywood business, the company has the largest manufacturing capacity in India. It produces plywood across various price points.
- In the laminates business, CPBI is the third-largest manufacturer in India with a capacity of 4.8mn sheets.
- In the CFS business, CPBI operates two stations located near the Kolkata port with a capacity to handle 1,56,000 TEUs. The two stations account for ~2/3rd of Kolkata port's container handling capacity.
- Further, the company has recently entered into related business of furniture trading and modular kitchens using plywood and laminates.

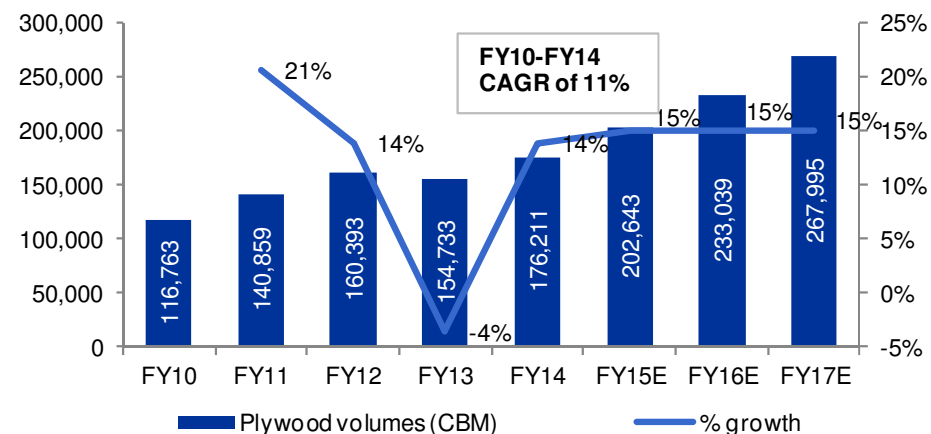
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Plywood capacity up 21% in FY14



Source: Spark Capital Research

Expect strong volume growth led by capacity & market share gains



Source: Spark Capital Research

Significant capacity addition in recent years – well placed for any demand uptick

- CPBI has added significant capacities since FY10 from ~122k CBM to 210K CBM in FY14. The company has a well spread manufacturing presence with a unit in all the regions, thereby giving the company twin advantage of freight savings and faster delivery to end markets. The company commissioned a Greenfield capacity of 31,000 cbm at Kandla, Gujarat in January, 2014. This is a port-based unit and CPBI's first unit in West India. This will strengthen company's competitiveness given significant scope for freight cost savings. The Kandla unit will access raw materials from ships and manufacture plywood at the same location, saving transportation costs in sending raw timber to deep land based location.
- Apart from investing in capacities, the company has significantly ramped up its dealer network to 1,424 from 1,106 in FY12. The company has also implemented SAP to manage procurement and distribution. Plywood is a bulky and a commoditized product wherein dealers stock inventory. Hence dealers would prefer companies delivering the products in the lowest lead times. CPBI is a preferred partner for dealers given well spread presence of its manufacturing units.
- The company has registered a healthy volume CAGR of 11% over FY10-FY14. With 21% increase in capacities and expansion in the distribution network, we expect CPBI to post volume CAGR of 15% over FY15-FY17E.

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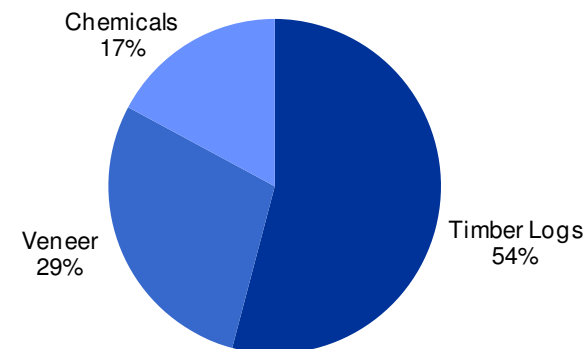
Business Analysis: Plywood – Raw Material Sourcing a Key Focus Area

Manufacturing of plywood needs three critical raw materials, which are (1) face timber (50% of RM costs); (2) core timber (30% of RM costs); and (3) chemicals (20% of RM costs), includes Phenol and adhesives.

Face timber or long cycle timber is imported. The top and bottom layers of plywood is made from face timber/veneer. CPBI sources face timber largely from Myanmar. However, Myanmar has banned exports of unprocessed timber w.e.f. from 1st April 2014., thereby affecting all the Indian plywood manufacturers.

Core timber/veneer or short cycle is available abundantly from domestic sources. Core timber/veneer is used in middle layer of plywood. Chemicals, are imported China and Singapore. Also some part of chemicals are also sourced domestically.

Composition of raw materials - FY14



Source: Spark Capital Research

Raw material security – Key focus area going ahead

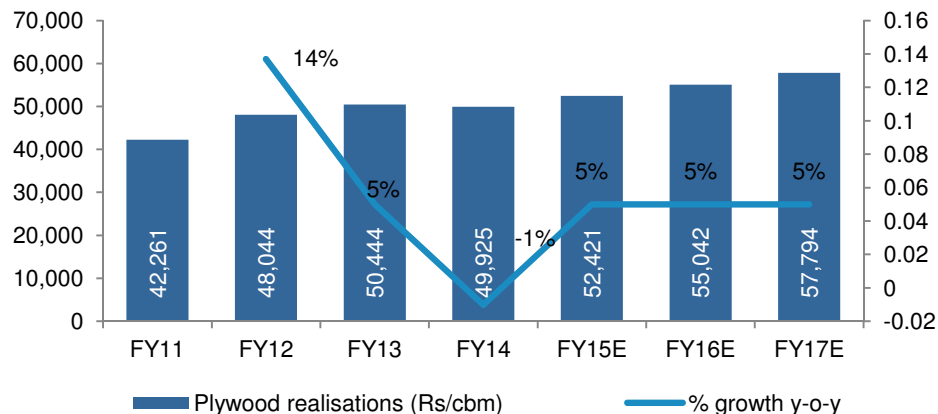
- The Myanmar government had banned the export of raw timber starting from 1st April 2014. This affected the operations of all the Indian Plywood manufactures, except CPBI and GIL. The company had already setup (in June 2013) a peeling unit in Myanmar via its subsidiary Century Myanmar Pvt Ltd, the first by any Indian company. The subsidiary sources raw timber from Myanmar and processes it to a semi-finished product, Veneer, which is then exported to its manufacturing units in India. The current peeling capacity of ~6k cbm at Myanmar can not only meet CPBI's internal requirement but also can sell surplus veneers in the open market to unorganized players. Further, this unit will also aid cost savings as it will replace transportation of bulky raw timber with semi-finished product, veneers.
- Overall, the Myanmar unit will give the company three key advantages, (1) raw material security; (2) logistics cost savings; and (3) external sale of surplus veneer capacity to unorganised players.
- Further, CPBI is scouting for more sources of raw material procurement from Vietnam, Laos, and other African countries. The company has recently tied up with a Laos based company to set up a manufacturing unit, which is due to be commissioned by Mar-15.

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Business Analysis: Plywood & Allied Products

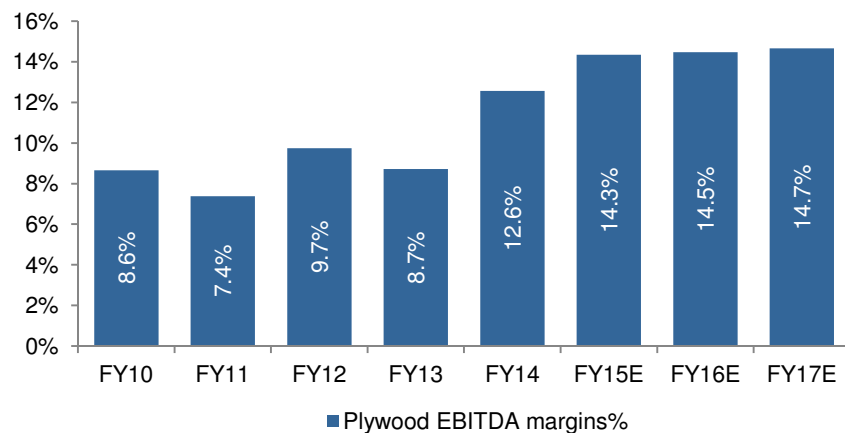
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CPBI's plywood realisation trends



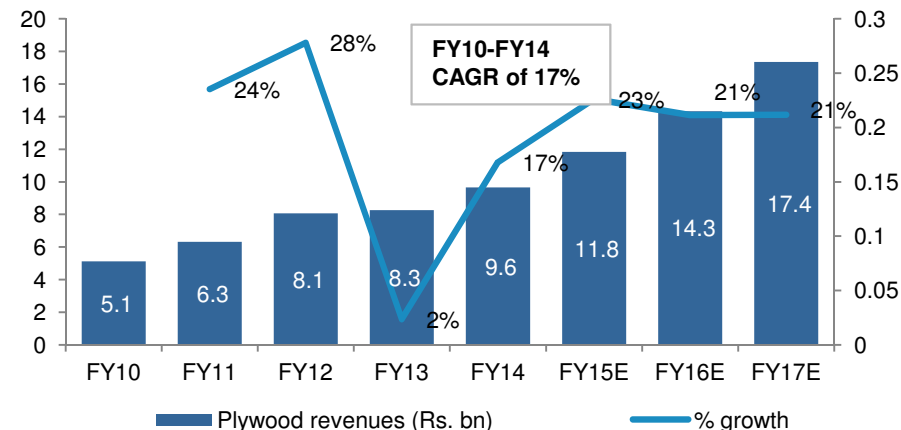
Source: Spark Capital Research

Plywood segment EBITDA margins



Source: Spark Capital Research

Plywood revenue trends



Source: Spark Capital Research

CPBI's plywood revenues have grown at a CAGR of 17% over FY10-FY14 driven by market share gains for the organised players and change in product mix. The company over the last few years have broadened its product portfolio from premium plyboards to affordable segments by introducing new brands (Sainik and Maxima). These brands are 20% cheaper than its flagship brand and targeted towards cost sensitive customers. These affordable segment brands contribute ~25% of revenues versus less than 10% three years back.

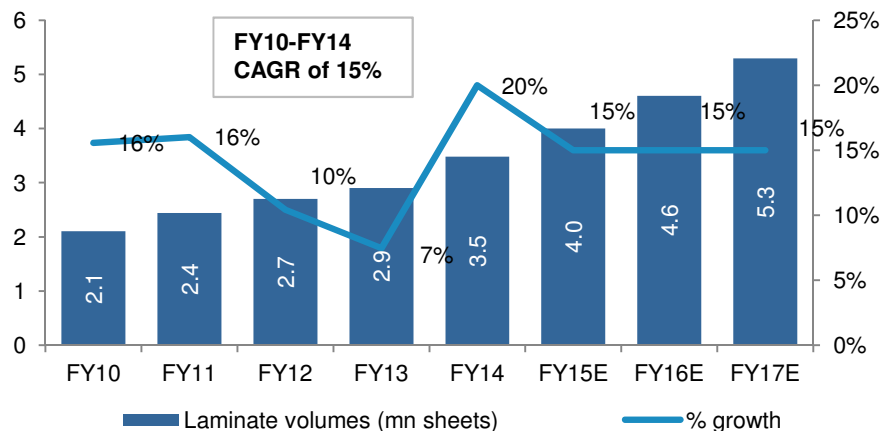
With 21% increase in capacities, expansion in the distribution network and price hikes, we expect CPBI to post volume and revenue CAGR of 15% and 21% respectively over FY15-FY17E.

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Business Analysis: Laminates – Capacity Expansion to aid Volume Growth

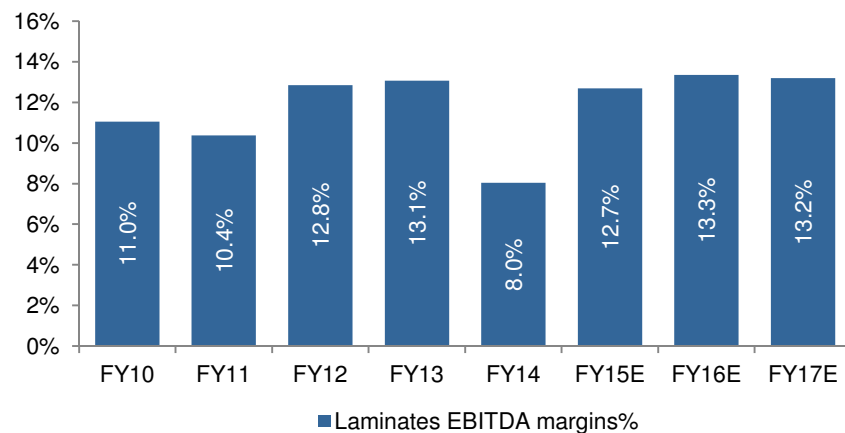
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Laminate volumes trend



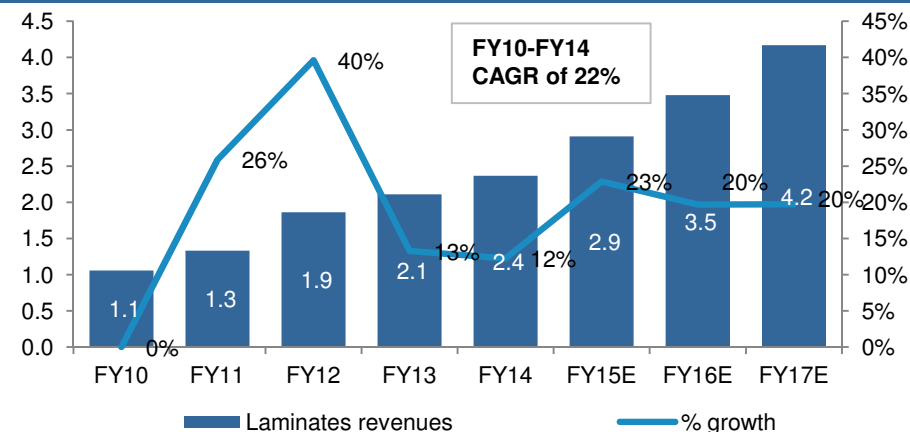
Source: Spark Capital Research

EBITDA margins



Source: Spark Capital Research

Laminate revenue trends



Source: Spark Capital Research

CPBI is the third largest player in the organised laminates market. Greenply is the largest player followed by Merino. Laminates are used to improve durability and aesthetic appeal to plywood. Laminates have the same customer base and demand drivers. Laminates are a thin sheet of decorative paper made out of paper and resins.

CPBI doubled its capacity to 4.8mn sheets in FY14. The incremental capacity will help the company gain market share and boost volume growth going ahead. The company has ~700 SKUs vs. Greenply's 1,200-1,300 SKU's. CPBI plans to add ~100 SKU's every year.

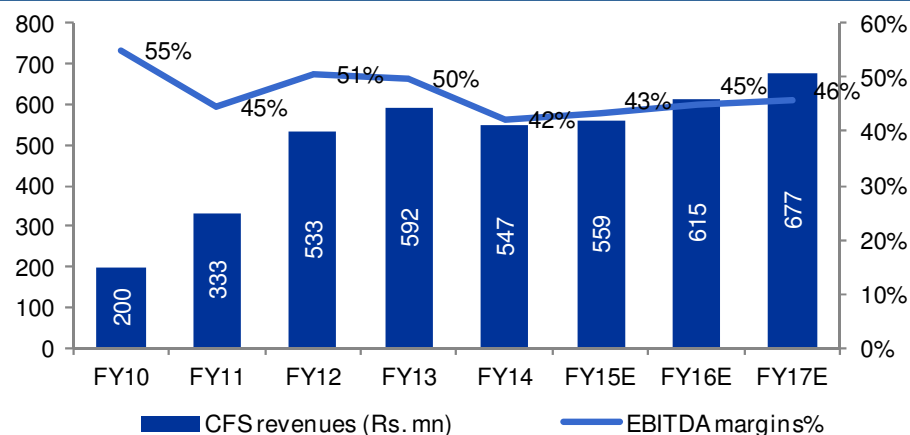
With doubling of capacity, expansion in dealer network, and increasing SKUs, we believe CPBI's laminate division to post a volume CAGR of 15% and revenue CAGR of 20% over FY15-FY17E.

EBITDA margins declined in FY14 due to low utilisations from the capacity additions and corresponding increase in overheads. Going ahead, with increasing utilisations, we expect EBITDA margins to improve.

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Business Analysis: Container Freight Stations and New Verticals

Revenues and EBITDA margins



Source: Spark Capital Research

CPBI operates two stations in Kolkata with a capacity of 1,56,000 TEU covering an area of 1,00,000 sqm.

The company started this business in FY09 and is entitled to 10 years tax benefits. The capital employed in this business as of FY14 is ~Rs. 620mn.

Foray in to modular kitchen business:

- CPBI is exploring new business opportunities with a focus on forward integration. The company has entered into modular kitchen business. The company has launched modular kitchen made of waterproof plywood with product guarantee and customized designs. CPBI will outsource the manufacturing, however will use its own plywood and laminates. Modular kitchen market in India is at a very nascent stage and is worth Rs. 12bn. The company expects big potential given that the existing modular kitchens in India have durability issues given they are made out of MDF. The company will expand this business via franchise route only. The company has launched a separate brand "Nesta" for this line of business.

Entry in to MDF business:

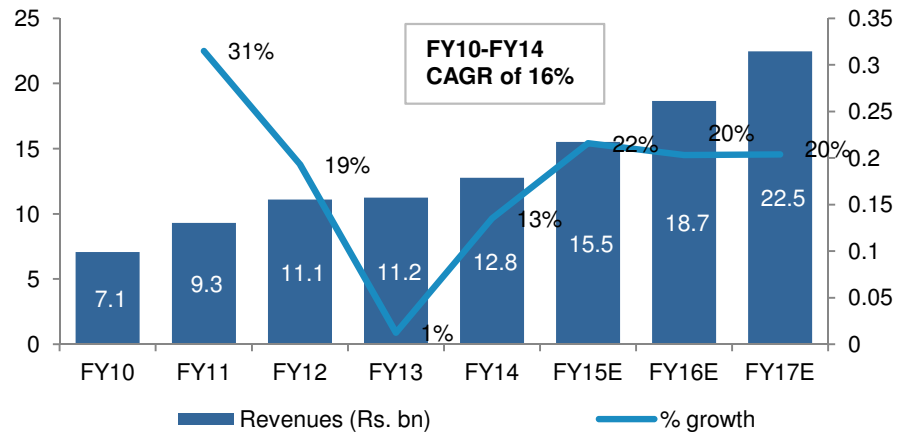
- The company has entered in to MDF business in FY14 with a revenue of ~Rs. 82mn (imported from Vietnam). As per the management, MDF business is still not a focus area given current weak demand, high capital intense nature of the business, and imported MDF is currently cheaper versus domestic manufacture. However, in the long term the company plans to put up its own MDF plant in the state of Andhra Pradesh at a capex of Rs. 5bn.

Century Plyboards (India) Limited

Business Analysis – Standalone Financials

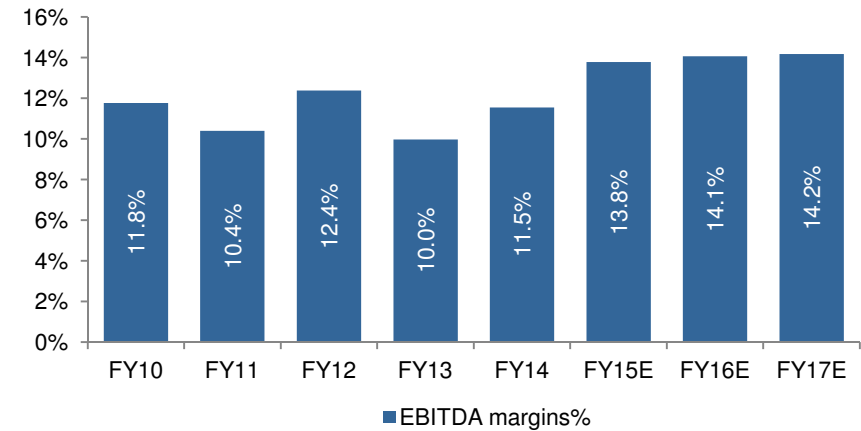
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Revenue momentum to pick up



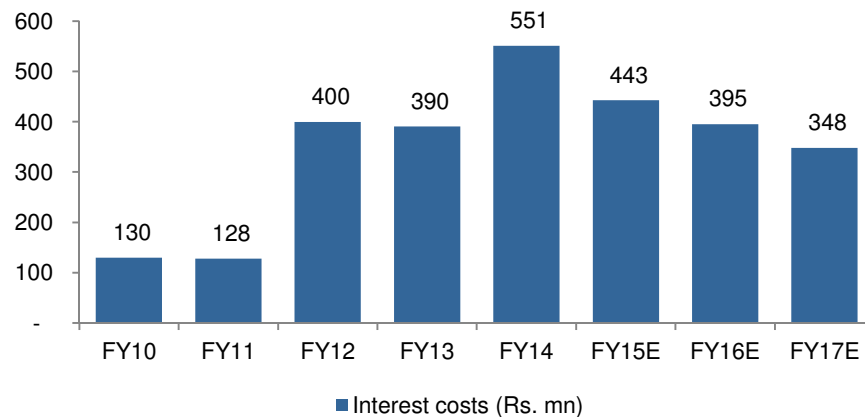
Source: Company, Spark Capital

EBITDA margins to pick up



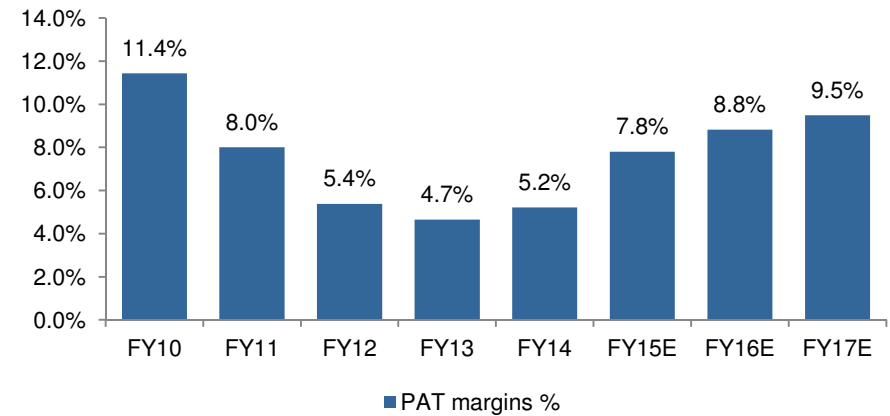
Source: Company, Spark Capital

Interest costs to trend down



Source: Company, Spark Capital

Pat margins to pick up



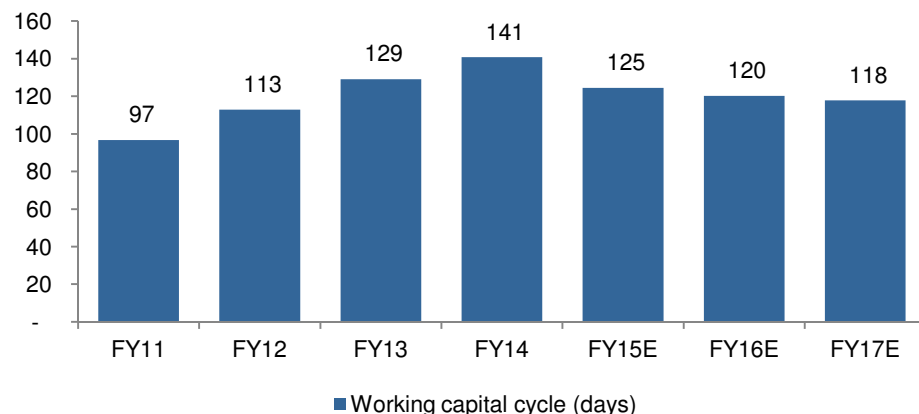
Source: Spark Capital Research

Century Plyboards (India) Limited

Business Analysis – Working Capital and Leverage

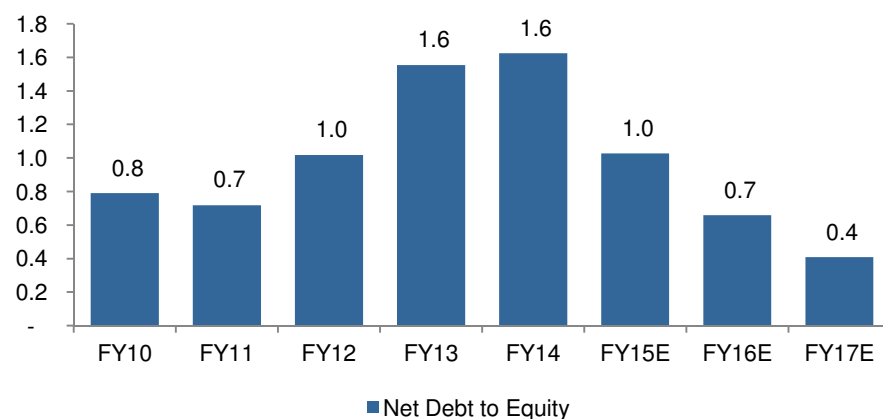
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Working capital trends – Expect improvement in inventories



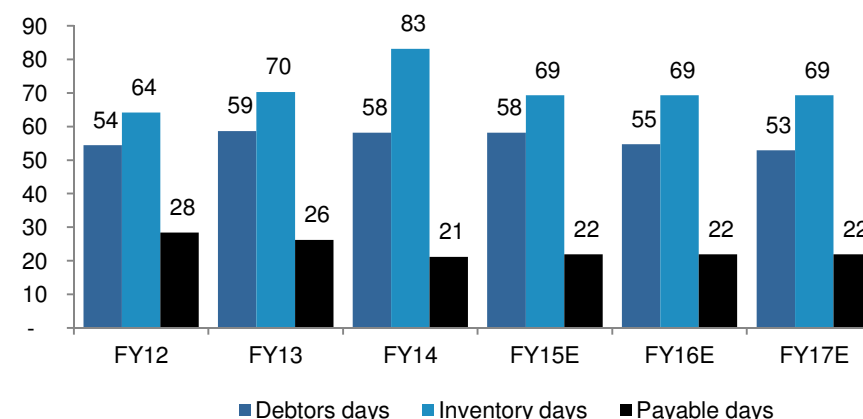
Source: Company, Spark Capital

Net debt to equity



Source: Company, Spark Capital

Composition of working capital



Source: Company, Spark Capital

Plywood manufacturing is working capital intense with two-three months of holding timber inventory, two months credit to dealers, and less than a month of credit from the suppliers. Inventory days increased in FY14 due to procurement of excess timber in anticipation of export ban in Myanmar starting from 1st April 2014. The company expect inventory levels to decrease to two months post the commissioning of their unit in Myanmar, as the imports of timber will be substituted by face veneer.

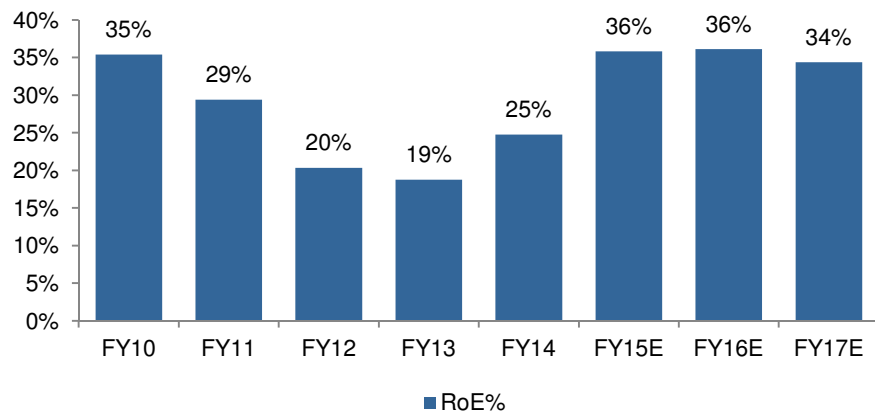
The company's debt of Rs. 4.91bn as on Mar-14 includes buyers credit to the tune of Rs. 3.3bn. CPBI used to import timber from Myanmar via traders in Singapore. The company would raise buyers credit for a tenor of 6-9months and pay the traders immediately. This exposed the company to forex volatility, resulting in a loss of ~Rs. 450mn in FY14. Post the ban on exports from Myanmar and commissioning of its own timber procurement unit in Myanmar, the company's exposure to buyer's credit will come down significantly.

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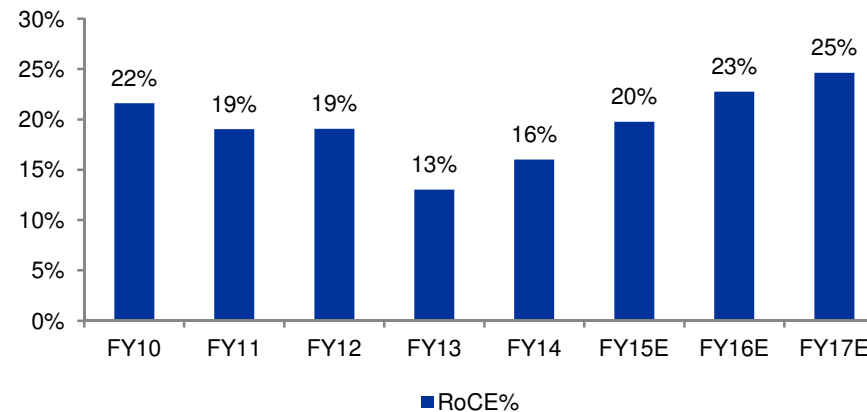
Business Analysis – Return Metrics, Asset Turnover, and Cash Flows

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RoE trends



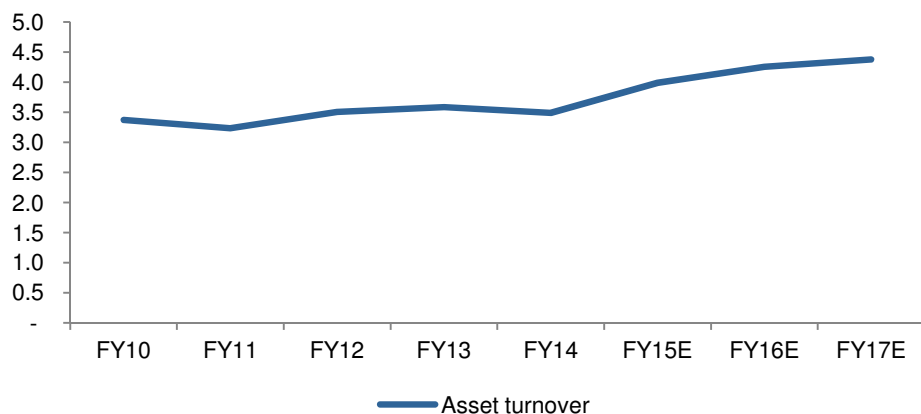
RoCE trends



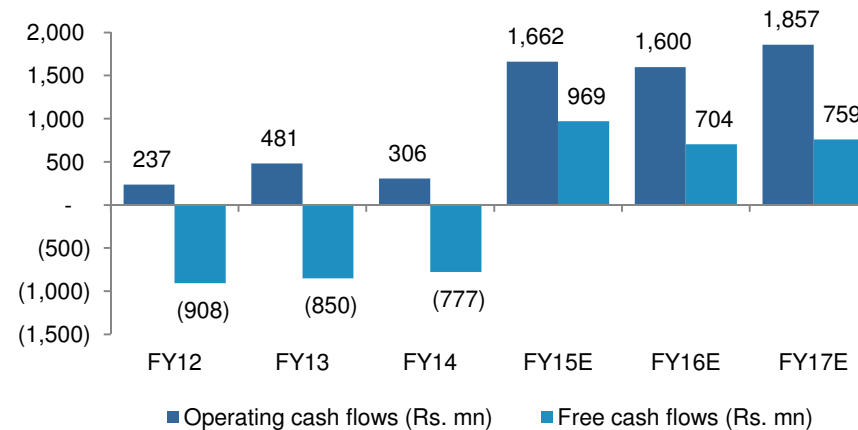
Source: Company, Spark Capital

Source: Company, Spark Capital

Asset turns



Free cash flow generation will aid de-leveraging



Source: Company, Spark Capital

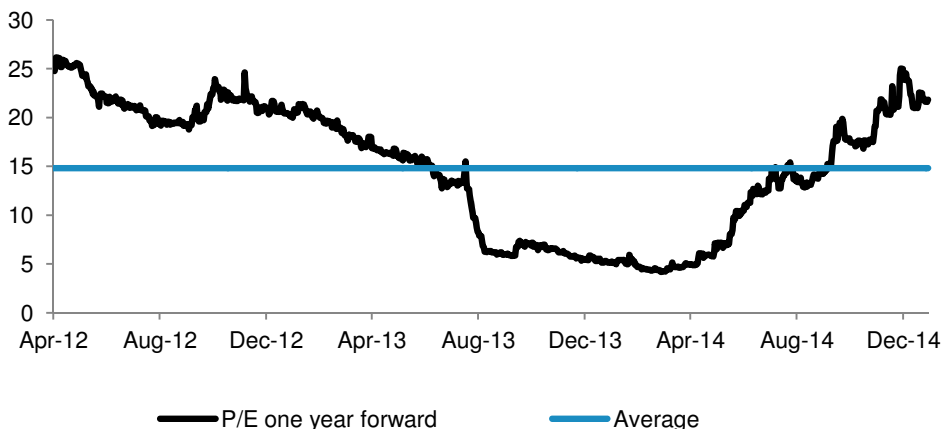
Source: Spark Capital Research

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Valuations – Expect Premium Multiples to Sustain

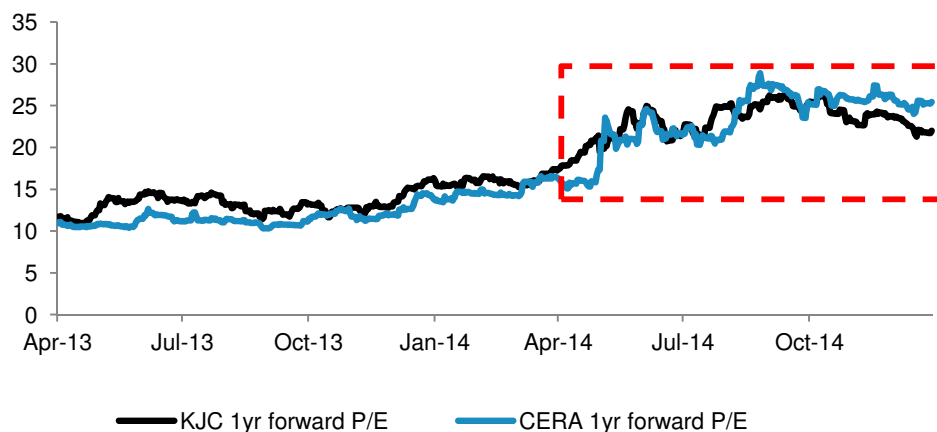
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P/E multiple has re-rated significantly



Source: Spark Capital, Actual EPS used for computation of historical one year forward P/E

P/E chart of comparable peers – Kajaria and CERA



Source: Spark Capital Research

Century Plyboards is a joint leader in the organised plywood market with a strong with a strong brand image, well located manufacturing facilities and wide distribution network. With the company's capex phase done, we expect strong cash flow generation ahead and corresponding improvement in balance sheet capacity. The stock trades at 22x FY16E and 157x FY7E EPS. This compared to other building material players, like Kajaria Ceramics (23x FY16E and 18x FY17E) and Cera Sanitaryware (25x FY16E and 19x FY17E). Taking into account growth characteristics of CPBI and business model, we attribute 20x on FY17E to arrive at an TP of Rs. 195/share

Key risks include: (1) INR depreciation; (2) Delay in implementation of GST; and (3) Faster than expected acceptance of MDF;

Century Plyboards (India) Limited

Financial Summary

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Abridged Financial Statements (Standalone)				
Rs. m n	FY14	FY15E	FY16E	FY17E
Profit & Loss				
Revenues	12,840	15,596	18,747	22,553
EBITDA	1,482	2,151	2,636	3,198
Other Income	95	94	112	135
Depreciation	332	370	407	467
EBIT	1,244	1,874	2,342	2,866
Interest	551	443	395	348
PBT	693	1,431	1,946	2,518
Exceptionals loss/(Income)	-	-	-	-
Tax	24	215	292	378
PAT after exceptionals	669	1,217	1,654	2,140
Balance Sheet				
Net worth	2,914	3,879	5,281	7,169
Total Debt	4,912	4,412	3,912	3,412
Deferred Tax & MI	(5)	(5)	(5)	(5)
Total Net worth & Liabilities	7,821	8,285	9,187	10,575
Gross Block	3,682	3,932	4,432	5,182
Net Block + CWIP	2,307	2,187	2,280	2,563
Investments	378.9	378.9	378.9	378.9
Net working capital (ex cash)	4,954	5,321	6,178	7,276
Cash	180	398	350	357
Net working capital	5,134	5,719	6,528	7,634
Total Assets	7,821	8,285	9,187	10,575
Cash Flows				
Cash flows from operating	306	1,662	1,600	1,857
Cash flows from investing	(533)	(250)	(500)	(750)
Cash flows from financing	(391)	(1,195)	(1,147)	(1,100)
Free Cash Flow s	(777)	969	704	759

Key metrics				
	FY14	FY15E	FY16E	FY17E
Segment revenues				
Ply wood	9,648	11,830	14,333	17,367
Laminates	2,367	2,909	3,481	4,168
CFS	547	559	615	677
Growth ratios				
Revenues	14%	21%	20%	20%
EBITDA	31%	45%	23%	21%
PBT	27%	107%	36%	29%
PAT	27%	82%	36%	29%
Margins Ratios				
EBITDA	11.5%	13.8%	14.1%	14.2%
PBT	5.4%	9.2%	10.4%	11.2%
PAT	5.2%	7.8%	8.8%	9.5%
Performance Ratios				
Net Debt to Equity (x)	1.6	1.0	0.7	0.4
RoAE (%)	24.7%	35.8%	36.1%	34.4%
RoCE (%)	16.0%	19.8%	22.8%	24.6%
Gross Asset Turnover (x)	3.8	4.1	4.5	4.7
Net Working Capital Days	141	125	120	118
Interest coverage (x)	2.3	4.2	5.9	8.2
Valuation metrics				
Shares Outstanding (mn)	223	223	223	222.5
Market Cap (Rs. mn)	36,049	36,049	36,049	36,049
EPS	3.0	5.5	7.4	9.6
P/E(x)	53.9	29.6	21.8	16.8
Price to Book (x)	12.4	9.3	6.8	5.0
EV/EBITDA (x)	27.4	18.5	15.0	12.2
Dividend yield (%)	0.6%	0.6%	0.6%	0.6%