

Long Term Recommendation: Century Plyboards (India) Ltd

CMP INR 295

Target INR 390

Rating: BUY Upside: 33%

Capex nearing completion; benefits to accrue

Century Plyboards (Century) is present across the entire gamut of wood panel products—plywood, MDF, particleboard, laminates, veneers, etc. The company has recently expanded its plywood capacity, commissioned a new MDF facility and is in the process of expanding its laminates facility, which is envisaged to drive earnings over FY18-20. The cut in GST rate on plywood from 28% to 18% is envisaged to have a huge positive impact on organised players as unorganised share at 70% in the segment is the highest in any building material category. Century's prudent raw material sourcing strategy and capital allocation are estimated to yield ~30% RoCE (higher than any building materials company) in FY20E. Given the undemanding valuations, we initiate coverage with 'BUY' and target price of INR390.

Diversified portfolio, GST sweetener, deepening reach: Market share gain catalysts

Century has, over the years, diversified its portfolio across all wood panel products—plywood, veneer, laminates, MDF, etc—and is currently amongst the top 3 organised players in every segment. Robust distribution network and healthy advertisement spends will ensure that market share gains sustain. Moreover, cut in GST to 18% and ban on timber export by Myanmar & other neighbouring countries are likely to provide significant challenges for unorganised players. This will not only propel Century's market share, but will also enhance outsourcing of lower quality products to struggling unorganised players. Recent capacity additions in MDF and laminates make it the largest and third biggest player in these segments, respectively.

Capacity augmentation spurred utilisation improvement to boost return ratios

The company's capacity augmentation plan included 12% increase in plywood capacity, 50% in laminate capacity and a new 1,98,000CBM MDF plant (largest in the segment by any player). Most of this capex has been completed, with the entire exercise envisaged to be over by FY18. With ramp up in utilisation over the next 2 years and no firm capex plans on the horizon, we anticipate huge free cash flow generation. Jump in utilisation will improve return ratios with RoCE estimated at ~30% in FY20.

Outlook and valuations: Leading the pack; initiate with 'BUY'

Century is a leader across various wood panel segments and is expected to outpace industry growth. GST at 18% and government's thrust on affordable housing are potent tailwinds for this segment. In spite of superior return ratios compared to other building material peers and high free cash flow generation, Century is trading at attractive valuations than most peers. We initiate coverage with 'BUY', valuing it at 25x FY20E P/E and thus arrive at a target price of INR390.

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Bloomberg:	CPBI:IN
52-week range (INR):	314.00 / 154.45
Share in issue (cr):	22
M cap (INR cr):	6,500
Avg. Daily Vol. BSE/NSE : ('000):	200
Promoter Holding (%)	72

Year to March	FY16	FY17	FY18E	FY19E	FY20E
Revenues (INR Cr)	1641	1819	2103	2515	2889
Rev growth (%)	3.3	10.8	15.7	19.6	14.9
EBITDA (INR Cr)	289	312	328	445	521
Net Profit (INR Cr)	170	193	170	272	344
P/E (x)	38.0	33.8	36.8	23.2	18.5
EV/EBITDA (x)	23.7	22.4	21.1	15.0	12.5
RoACE (%)	26.2	22.7	18.2	26.0	30.8
RoAE (%)	36.8	30.6	22.6	30.1	31.0

Date: 27th November 2017

Century is a leader across various wood panel segments and is expected to grow faster versus industry. GST at 18% and government initiatives for affordable housing could provide a tailwind for this segment. In spite of superior return ratios compared with other building material peers and superior free cash flow generation, Century is trading at valuations that are cheaper versus most peers.

**Diversified portfolio:
Several triggers to gain
share in each vertical**

	FY17	FY18E	FY19E	FY20E
Revenue	1,819	2,103	2,515	2,889
EBITDA	312	328	445	521
EBITDA Margin	17.2	15.6	17.7	18.0
PAT	193	170	272	344

**Capex across verticals
nearing completion**

	FY17	FY18E	FY19E	FY20E
RoACE (%)	23	18	26	31
Debt to Equity (x)	0.9	0.8	0.5	0.3

**The unorganised share in
plywood is 70%; and the
reduction in GST rates is
expected to benefit
organised players.**

PB Multiple	Multiple	Price Target
Century Plyboards	25x P/E FY20E	390

Entry = INR 295



Exit = INR 390

**Total
Return of
32%**

Century Plyboards

Price Target	INR 390	Assuming 83% utilization in plywood, 80% utilization in laminates (new capacity) and 105% utilization in MDF in FY20E along with margins slightly below previous peak levels, we arrive at an EPS estimate of INR 15.7 for FY20E. We assign a 25x P/E multiple and arrive at a price target of INR 390
Bull	INR 500	Assuming 90% utilization in plywood, 100% utilization in laminates (new capacity) and 105% utilization in MDF in FY20E along with peak margins, we arrive at an EPS estimate of INR 16.7 for FY20E. We assign a 30x P/E multiple and arrive at a price target of INR 500
Base	INR 390	Assuming 83% utilization in plywood, 80% utilization in laminates and 105% utilization in MDF in FY20E along with margins slightly below previous peak levels, we arrive at an EPS estimate of INR 15.7 for FY20E. We assign a 25x P/E multiple and arrive at a price target of INR 390
Bear	INR 290	Assuming 80% utilization in plywood, laminates (new capacity) and MDF in FY20E along with flat margins, we arrive at an EPS estimate of INR 14.5 for FY20E. We assign a 20x P/E multiple and arrive at a price target of INR 290

Century Plyboards

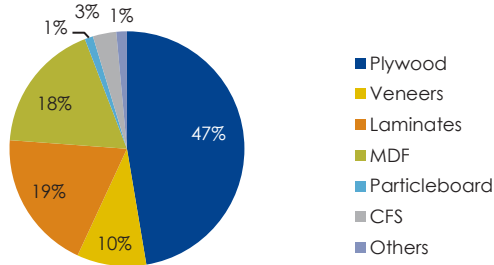
Average Daily Turnover (INR cr)			Stock Price CAGR (%)				Relative to Sensex, CAGR (%)			
3 months	6 months	1 year	1 year	3 years	5 years	10 years	1 year	3 years	5 years	10 years
7.5	15	9	59%	24%	38%	21%	18%	11%	13%	12%

Business Value Drivers	Nature of Industry	The Indian wood-panel industry includes: a) Plywood, b) Engineered wood panels (MDF and particleboard), c) Decorative surface products (laminates). The industry is largely unorganised except for the MDF segment
	Opportunity Size	The wood panel industry is ~INR 28,000 crore in size with 90% of its demand coming from new house construction and 10% from renovation. Opportunity size will increase in the size of the industry due to housing thrust along with market share gains from the unorganised sector
	Capital Allocation	Capex is nearing completion for Century. It has recently increased its plywood capacity by 15%, commissioned a new MDF facility of 1,98,000 CBM and increased laminate capacity by 50%
	Predictability	Century's topline has been subdued over the last 2 years due to minimal capacity expansion and slowdown in housing demand. It has still been able to maintain its margins and grow its bottomline. We expect steady growth on all financial parameters
	Sustainability	Organised players market share has steadily increased from 10% in FY07 to 30% in FY17 led by branding, strong distribution network and prudent capital allocation
	Disproportionate Future	Government's affordable housing thrust along with reduction in GST rates from 28% to 18% is likely to result in reducing price differential for similar quality products between the organised and unorganised segment, resulting in higher growth for the organised segment in the coming years
	Business Strategy & Planned Initiatives	With its planned capex close to completion, current strategy is to ensure higher utilization in each segment and simultaneously firm up capex plans for faster growing segments
	Near Term Visibility	Near-term visibility remains strong due to the soon to be completed capex. MDF and laminate capacities are expected to drive strong topline and margin growth
	Long Term Visibility	Century is amongst the top 3 in every segment in the wood panel industry. It plans to keep expanding capacities in wood panel segments which are growing. Capex is nearly complete.

Focus Charts – Story in a nutshell

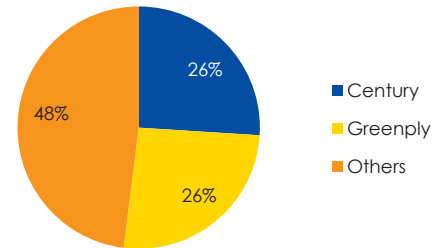
Century has a well diversified portfolio in the wood panel industry

FY20E: Century — Revenue split



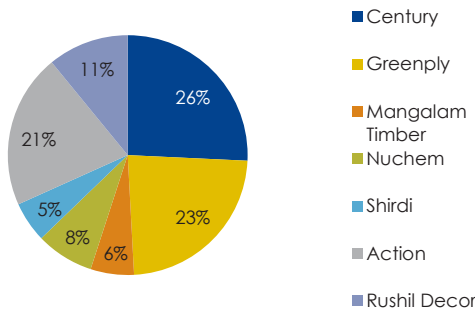
Century is the joint biggest organised player in the plywood segment

Organised market - Controlled by Top 2 players



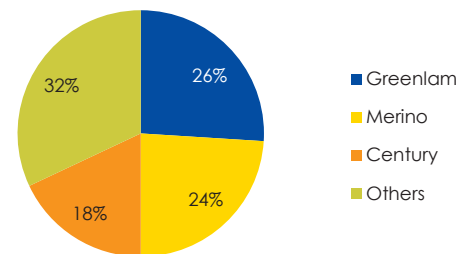
Post its recently commissioned MDF plant, Century is currently the biggest MDF player in India

Current MDF capacity share



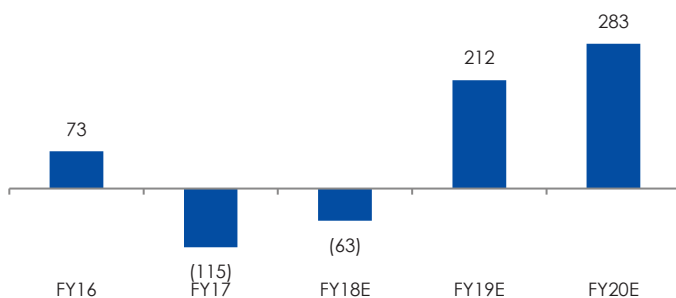
Century is the 3rd biggest player in the laminate segment

Laminates organised players share



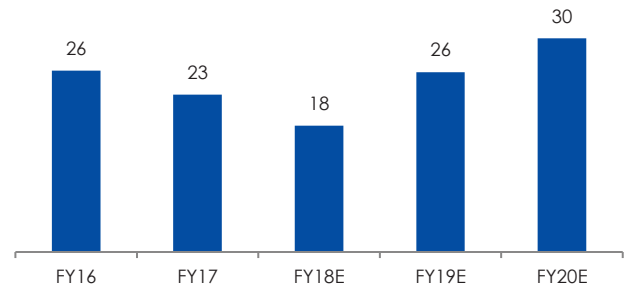
Strong Free Cash flow generation over next 2 years due to completion of capex

Free cash flows



Return ratios to improve as utilisation ramps up; MDF to improve margins

RoCE



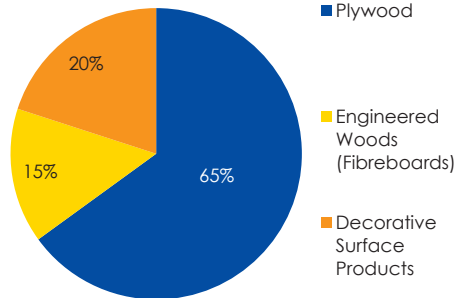
Source: Edelweiss Investment Research

I. Century: A well diversified portfolio in the wood panel industry

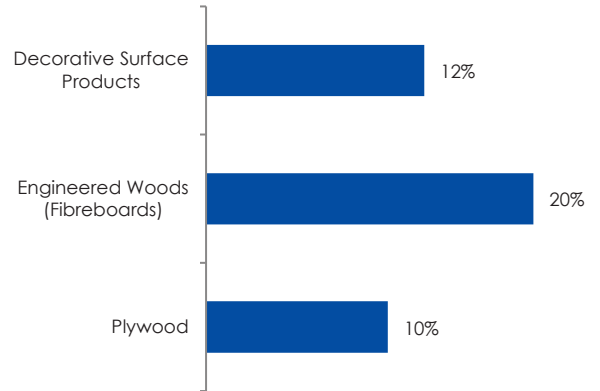
The Indian wood-panel industry is ~INR 28,000 crore in size with 90% of its demand coming from new house construction and 10% from renovation. The wood panel industry includes:

- Plywood
- Engineered wood panels (fibreboard/MDF/particleboard)
- Decorative surface products (laminates)

India wood panel industry



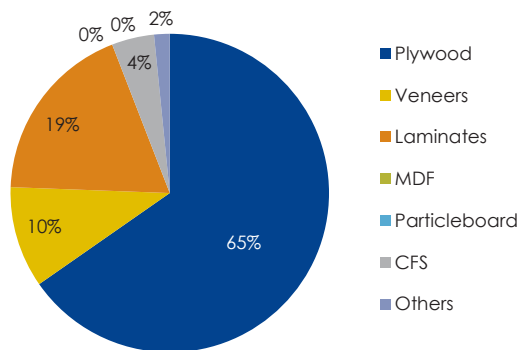
Growth rates (last 4 years)



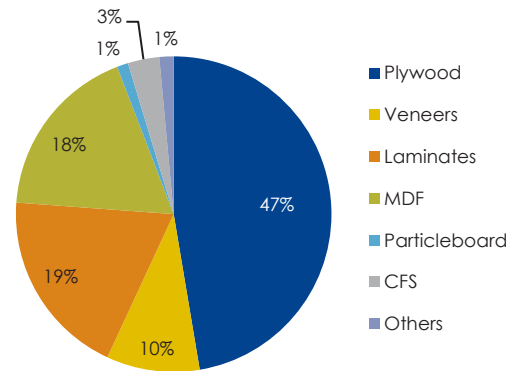
Source: Company, Edelweiss Investment Research

Century has over the years diversified its portfolio across all wood-panel products - plywood, veneer, laminates, MDF etc. and is today amongst the Top 3 organised players in every segment.

FY14: Century — Revenue split



FY20E: Century — Revenue split

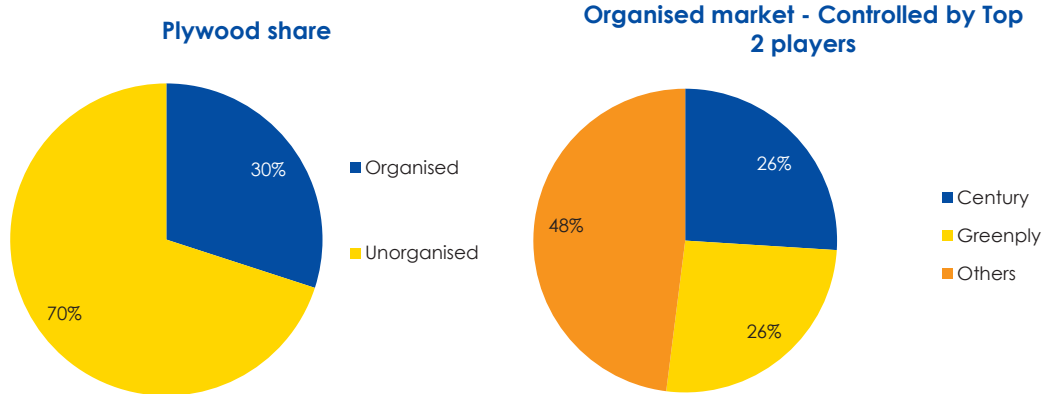


Source: Company, Edelweiss Investment Research

II. Century is the joint biggest player in the plywood segment along with Greenply; and likely to gain substantial share from unorganised players

A. Plywood segment dominated by unorganised players

The Indian plywood industry is the biggest segment in the wood-panel industry with a market size of INR 18,000 Cr., of which the organised segment accounts for only 30%. Century and Greenply control 50% of the organised market while no other organised player has a market share greater than 5%.



Source: Company, Edelweiss Investment Research

B. Century is close to completing its plywood capacity expansion

Century has 7 plywood manufacturing units spread across the country along with a unit in Myanmar. These units have a combined capacity of over 2,10,000 CBM currently but Century is close to completing its expansion plans which will take its total capacity to 2,45,000 CBM.

Ply manufacturing unit	
Location	Current capacity ('000 CBM)
Bishnupur, Kolkata	37
Gumudipundi, Chennai	39
Karnal, Haryana	36
Mirza , Guwahati	35
Kandla, Gujarat	31
Roorkee, Uttarakhand	25
Myanmar	6
Total	210

Source: Company, Edelweiss Investment Research

C. Century to gain market share across all segments in plywood

The plywood industry is broadly divided into three segments wherein organised players are dominant only in the premium category with Century and Greenply having a combined share of 65%. Other organised players are much smaller than Century and Greenply.

The plywood segment is divided into three categories:

Segment	Premium	Mid/Commercial	Low
Size (INR cr)	3,600	9,000	5,400
Organised share	70%	15%	0%
CAGR growth	10-12%	5-7%	Flat/De-growth
Price (assuming 19mm thickness)	100-140 per sq ft	70-90 per sq ft	40-60 per sq ft
Century share	Century has a 33% share	Century has a miniscule market share	None
Century to gain market share due to:	Biggest distribution network along with highest marketing spends and best in class raw material sourcing capability to lead to market share gain	Century has entered this segment through its economy brand called "Sainik". It outsources products sold in this segment which will help it gain share faster	MDF is quickly replacing the low plywood category and Century has set up a new 1,98,000 CBM capacity (highest in the industry)

Source: Company, Edelweiss Investment Research

D. GST at 18% will be a game changer to gain market share

The share of organised players was a meagre 10% in FY07. The government's decision at that time to reduce the excise duty from 12% to 6% resulted in a big gain in market share temporarily. However a few years later, the duty was revised back and the shift from unorganised to the organised segment slowed down and the organised players' share is only at 30% today.

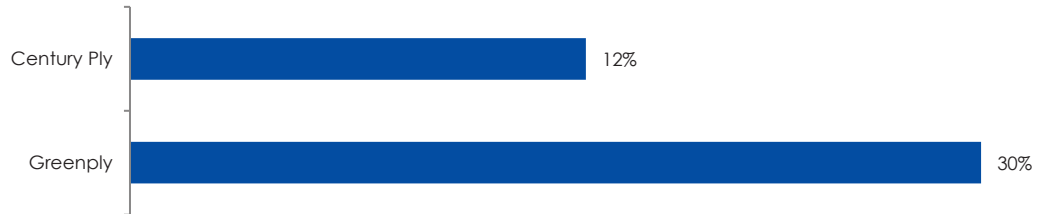
GST is likely to narrow the price gap between organised and unorganised. Also, with GST at 18% and the expected introduction of the E-way bill, a lot of unorganised players are expected to become tax compliant which would narrow the pricing gap further between unorganised and organised from 20% to ~5-7%. This will facilitate a much faster shift from unorganised to organised players.

E. Players like Century are increasing outsourcing

GST is likely to result in difficulties for smaller players in terms of working capital and their ability to compete against the larger players. We expect organised players to take advantage of this phenomenon and increase their share of outsourcing.

Currently Century outsources 12% of its total sales in plywood; this number is expected to increase in the next 2 years. Century will outsource production of its Sainik (mid premium) brand which will help the company gain traction in this segment and will help free up capacities for its premium variants.

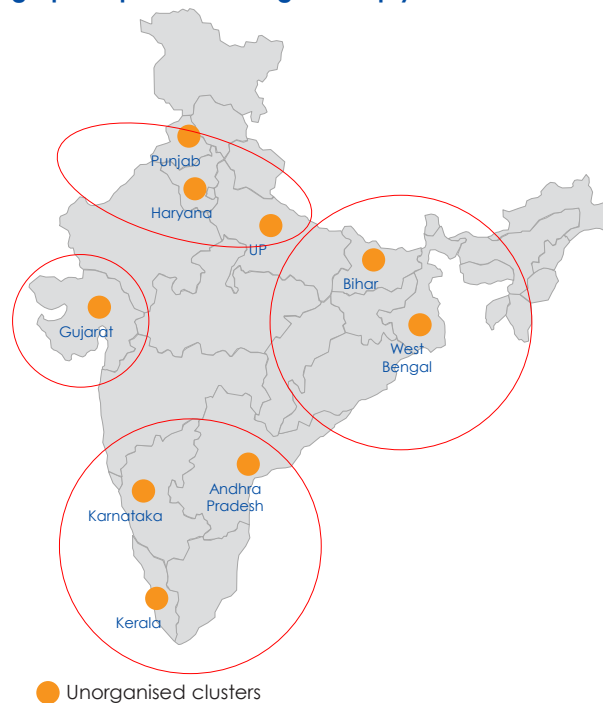
Share of outsourcing of the 2 biggest organised players



Source: Company, Edelweiss Investment Research

Unlike the tiles segment, the unorganised segment is spread out all over India as shown in the map below and hence outsourcing would save a lot on freight cost as well, and give presence across the country. Yamuna Nagar in Haryana is a cluster of small & medium plywood industries with 300 plywood units and produces 50% of the plywood used in India. Other unorganized clusters include Gandhidham (Gujarat), Perumbavoor & Kannur (Kerala) & Uttar Pradesh while smaller clusters include Kolkata, Punjab, Bihar, Mangalore & Vizag.

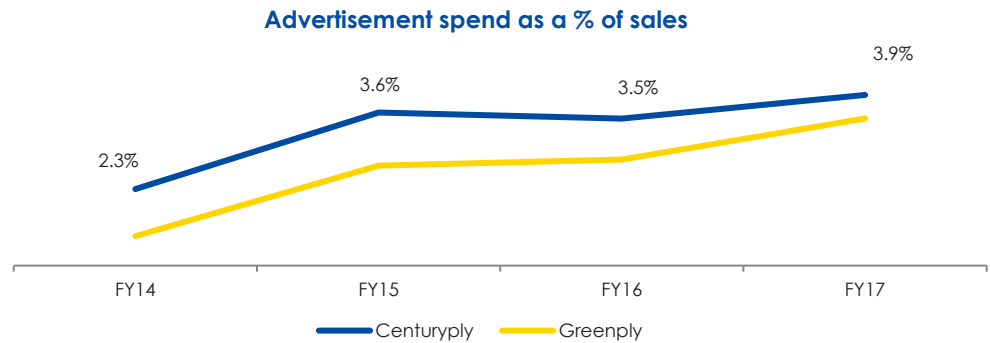
Geographic spread of unorganised plywood clusters in India



Source: Company, Edelweiss Investment Research

F. Aggressive ad spends and robust distribution network to spur share gains

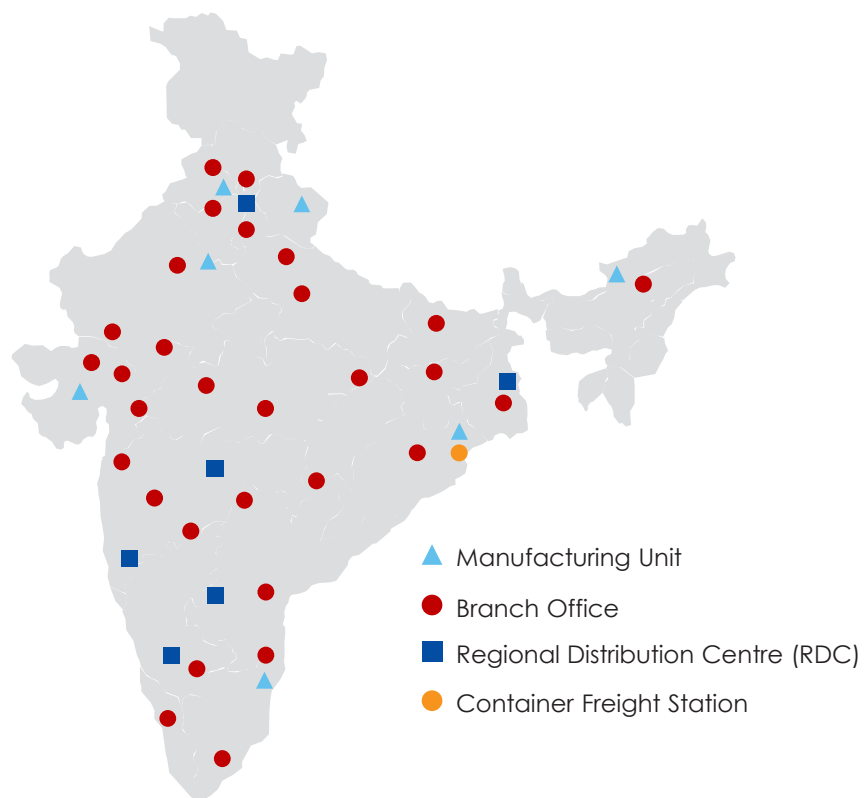
The organised players have spent aggressively on advertisement and building their retail network over the years which have helped grow faster than the industry. Century has the highest advertisement spends at ~4% of sales and this number has been increasing every year.



Source: Company, Edelweiss Investment Research

Century also has a robust distribution network spread across India. It has over 31 branch offices, 6 regional distribution centres and has a distribution network of 18,000 retail, dealer and distributor touch points.

Domestic Network

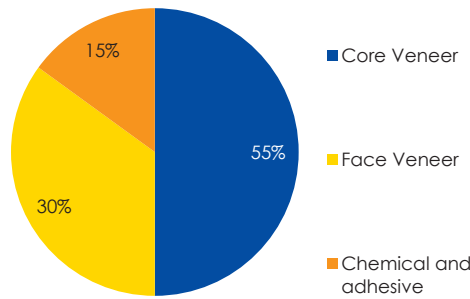


Source: Company, Edelweiss Investment Research

G. Century has the best raw material sourcing in the plywood industry

The raw material for plywood is made up of 3 components - face veneer (30%), core/panel veneer (55%) and chemicals and adhesives (15%). Core Veneer is found in abundance in India. Core veneer is made from poplar trees and Yamuna Nagar in Haryana is the largest poplar market in Asia and also the biggest plywood hub in India. Production in this area has increased recently due to a boom in poplar farms on account of government initiatives. Face Veneer has been the biggest challenge for plywood players over the years. As there is a ban on felling of trees in India, currently face veneer is imported from Myanmar, Laos, Vietnam, Gabon, etc.

Raw material breakup



Raw Material	Status
Core Veneer	Easily available domestically
Face Veneer	Imported from other countries - challenge
Chemicals	Sourced domestically

Source: Company, Edelweiss Investment Research

Century has best in class raw material sourcing

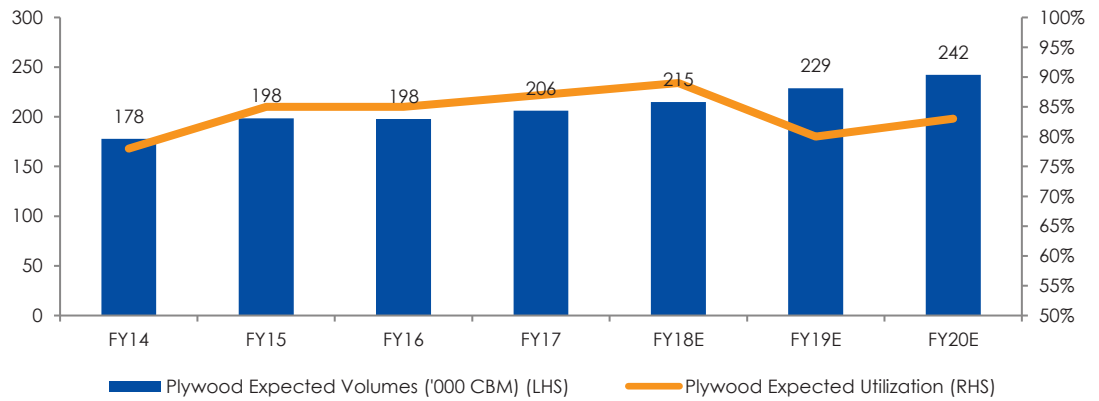
Myanmar, which was one of the key providers of timber logs, banned the export of raw timber in 2014. Century was the first company to establish a face veneer plant in Myanmar which de-risked Century from such judgements. This had an added advantage as the import of face veneer instead of timber logs resulted in a huge transport cost saving as raw timber loses around 30% moisture when made into face veneer and another 30% weight is lost during peeling. The export ban of raw timber is likely to be lifted by March 2018.

Century had also expanded its sourcing to **Laos**, by setting up its own subsidiary for supply of face veneer. The Laos government however imposed a ban on exports of timber logs and veneer in May 2016, which is still in force.

Post the ban in Laos, Century has moved to **Solomon Islands** where it has identified timber varieties that are of the same quality as those from Laos and Myanmar but cheaper. There is no expected ban on selling of raw timber from Solomon Islands.

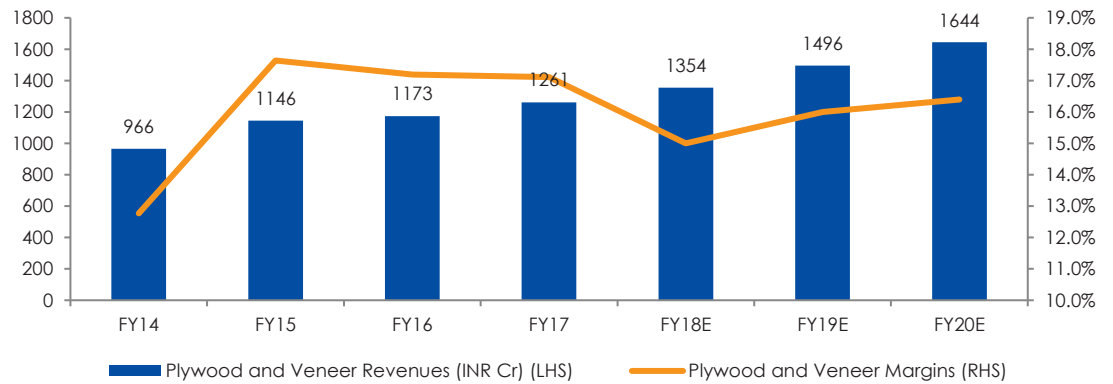
Raw material prices have been stable for the last few years inspite of bans and we believe they pose an entry barrier for new entrants and a challenge for unorganised players. Also total amount of face veneer is expected to be only 8% of Century's revenues in FY20E. Therefore, volatile movements in raw material prices are unlikely to have a big impact on Century.

With the ramp up in capacities, we expect utilization to have a slight dip next year, post which it will pick up in FY20E. In spite of higher outsourcing and new capacity addition from 2,10,000 CBM to 2,45,000 CBM in FY18E, we have built in a conservative volume growth of 5% CAGR over FY17-20E.



Source: Company, Edelweiss Investment Research

FY18E margins were impacted by GST as unorganised players seemed to benefit due to lenient GST implementation, delay of E-way bill and GST rate at 28% which encouraged unorganised players to evade tax. Margins would definitely improve from FY19E but are still expected to be below 17% margins generated from FY15-17, as focus on volume growth to capture share from unorganised will take precedence. FY15 margins expanded ~400 bps as Century set up a peeling factory in Myanmar which reduced raw material price volatility and resulted in freight savings.



Source: Company, Edelweiss Investment Research

III. Century has entered the engineered wood panel segment with a bang

The **engineered wood panel** segment of India is extremely small in size and comprises of a) Particleboard which is INR 2,000 Cr industry size and MDF which is a further INR 2,000 Cr in size.

a) Particleboard

Particleboard is a waste wood product made by heat pressing sawdust and resin. Although particleboard is 20% cheaper than MDF and can be easily moulded and used for making readymade furniture like MDF, it has certain disadvantages such as:

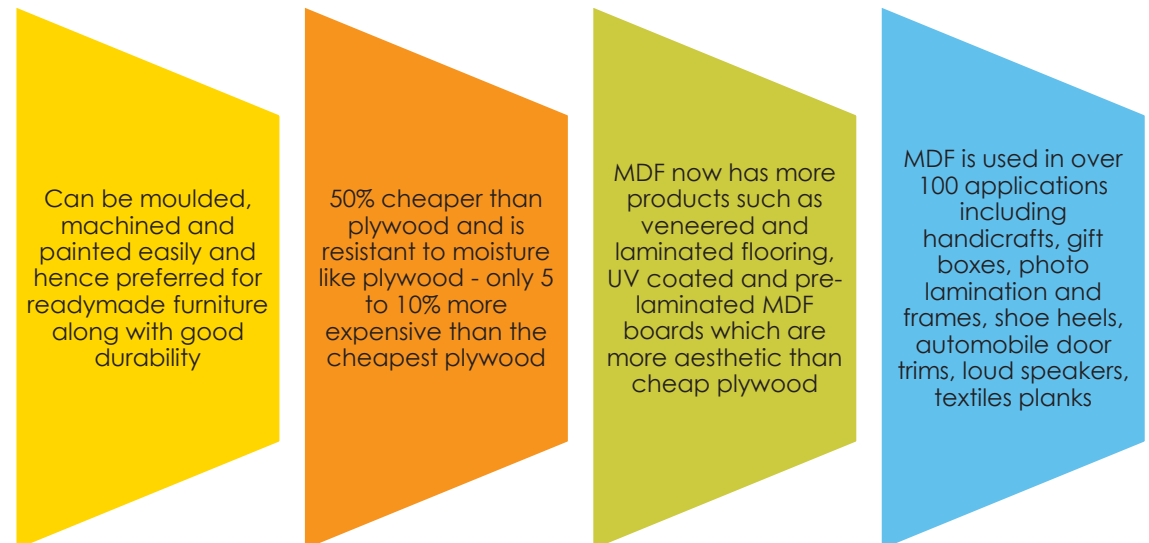
- Lower strength and weight than plywood and MDF
- Material swells in contact with moisture unlike MDF

It is growing slower than MDF at 10-15% and 70% of the industry is unorganised players. **Century is the only big organised player and has commissioned a 54,000 CBM manufacturing facility in FY17. However this is a small unit and is hardly expected to contribute 2-3% to Century's revenues at full utilization.**

b) MDF

MDF is produced by breaking down hardwood and softwood residuals into wood fibre. Wood fibres are then combined using wax, resin and heat press. It is suitable for wardrobe doors and kitchen cabinet shutters.

Why MDF?

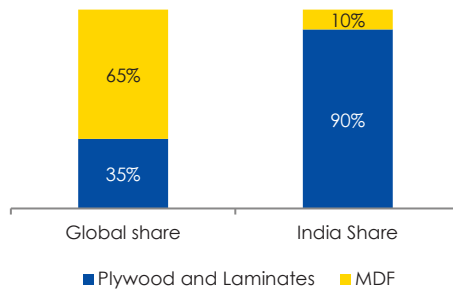


Source: Company, Edelweiss Investment Research

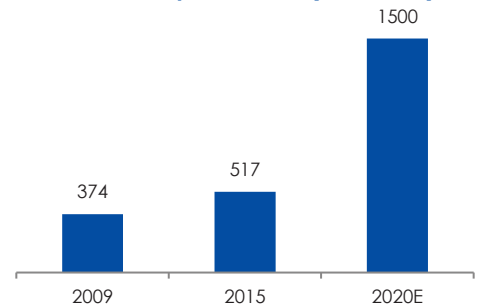
Shift from cheap plywood to MDF has begun in India

Globally the share of fibreboards is 65%, which is diametrically opposite to the Indian share of fibreboards at only 15%. However, MDF is currently growing at 20% plus as it continues to cannibalise the cheap plywood market. This has led to many players proposing to set up/increase their MDF capacity. MDF capacity is expected to nearly triple over the next five years.

India's MDF share is minuscule



India MDF production ('000 CBM)



Source: Company, Edelweiss Investment Research

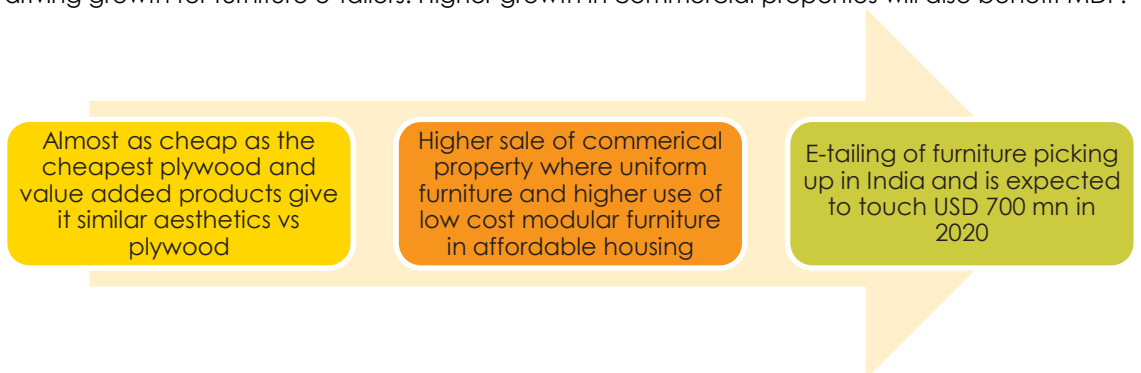
Reasons why MDF has not been popular in India



Source: Company, Edelweiss Investment Research

However popularity in India is growing now due to:

Over the last 2-3 years we have seen a rising preference for readymade furniture. MDF's demand is correlated to the furniture industry which is estimated at USD 20 bln and largely unorganised (~85%) with home furniture making up 65% of the furniture industry. E-tailing has further increased the demand for furniture with online furniture market expected to reach USD 700 mn by 2020. Superior personalisation, consultation services and faster delivery time are driving growth for furniture e-tailers. Higher growth in commercial properties will also benefit MDF.

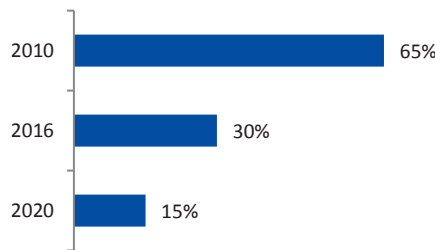


Source: Company, Edelweiss Investment Research

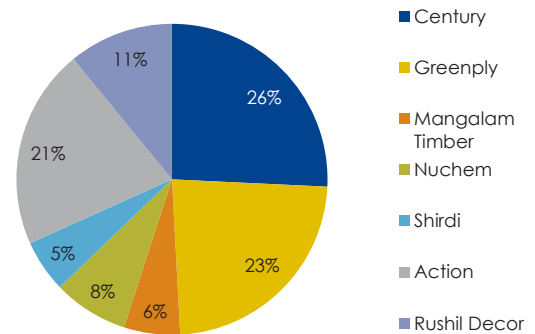
Century’s entry into MDF is expected to capture the rapid segmental growth

The Indian MDF market size is INR 2,000 crore but is growing rapidly at 20% plus with 70% being contributed by the organised sector and 30% from imports. The MDF market has no unorganised player due to the high capex requirement for MDF. Incremental domestic capacity along with anti-dumping duty on exports has led to reducing share of imports. **Century has entered the MDF segment by commissioning its 1,98,000 CBM MDF plant in Q2FY18E, which is the biggest capacity of any player currently.** However, Greenply and Action are increasing capacity in FY19E.

MDF imports are reducing as Indian players ramp up capacity



Current MDF capacity share

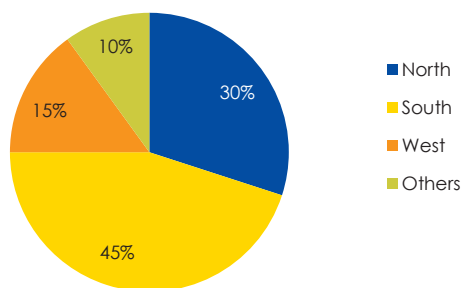


Source: Company, Edelweiss Investment Research

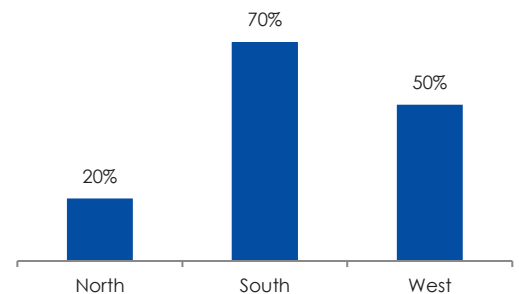
Century’s MDF facility is strategically located

Century's MDF plant is strategically located in Punjab. Its plant is present close to a “mandi” where there is constant supply of raw materials at favourable prices. Also although demand is high in the North, the threat of imports is low resulting in lower competition. Key MDF imports are from Thailand, Malaysia, Sri Lanka, China, New Zealand, Indonesia and Vietnam and arrive at southern ports. Post freight charges required to transport to the North, it would be unlikely for imports to compete with domestic producers.

MDF regional demand



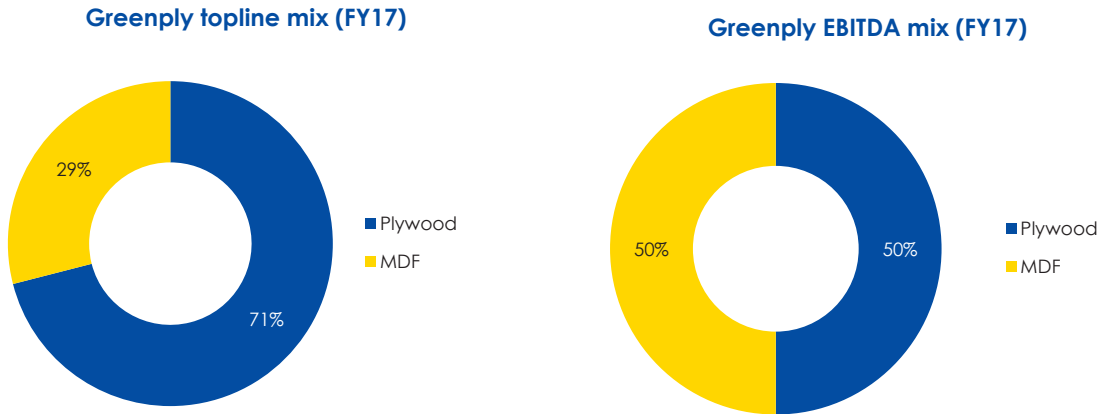
MDF imports by region



Source: Company, Edelweiss Investment Research

High margin MDF to boost Century's margins

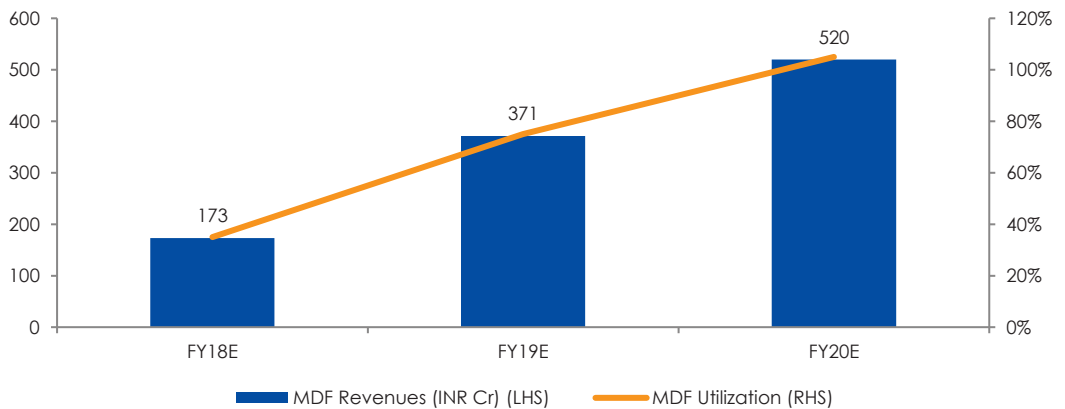
MDF is a high margin business. While plywood margins are close to 16% for Century, MDF margins are expected to be between 25-30% (most peers with operational capacities have margins of 28-30% currently). This can be seen in Greenply's topline and EBITDA contribution mix. While MDF contributes 30% to revenues, it contributes 50% to EBITDA for Greenply.



Source: Company, Edelweiss Investment Research

We expect swift ramp up in MDF capacity utilisation for Century

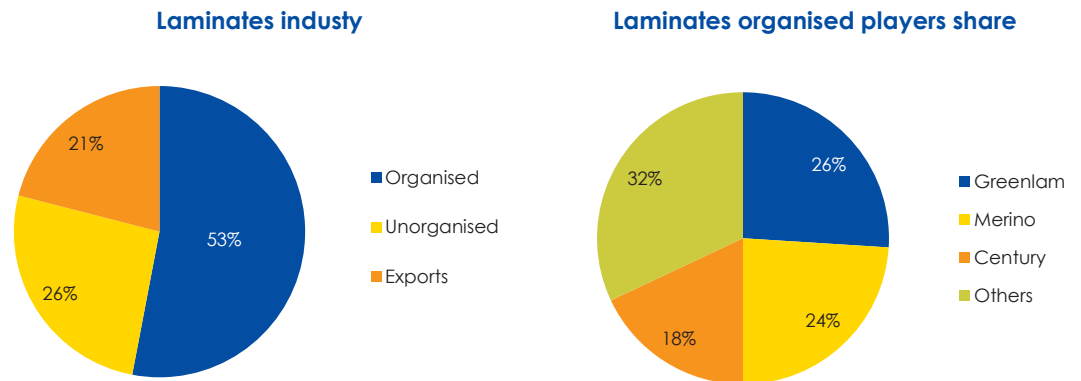
Century commenced in MF facility towards the end of Q2FY18 and has already reached 75% utilization. We expect Century to maintain this utilization over the next year and improve it further in FY20E. We expect slight pressure in margins as Century is likely to sacrifice margins to gain initial market share. Margins are expected at 25% in FY19E and FY20E as against close to 30% for peers running at full capacity.



Source: Company, Edelweiss Investment Research

IV. Century is also set to complete ramp up of its laminate segment

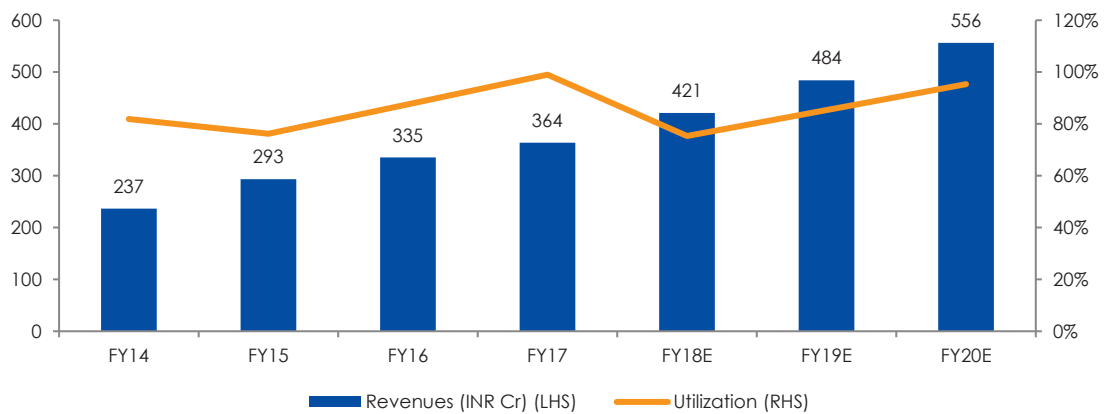
The Indian laminates industry is INR 5,000 Cr of which the domestic Indian laminates industry is estimated to be INR 4000 Cr while exports are INR 1,000 Cr. Of the total pie of domestic and exports, organised share is 55% (INR 2,700 Cr). The growth of this industry depends on the growth in the substrate (plywood, particleboard, MDF) industry which is growing at a 9% CAGR. The share of the organised player has increased vastly from 49% of the industry size to 65% (including exports) in the last five years as the organised players grew faster than the industry at a CAGR of 12%. Post its recently soon to be completed expansion, **Century will be the third biggest player in laminates with a share of 18% in the organised segment.**



Source: Company, Edelweiss Investment Research

Century to complete 50% increase in laminates capacity

Century is increasing its capacity in laminates from 4.8 mln sheets to 7.2 mn sheets. The capex is almost complete and should aid Century as its existing capacity was operating at 100% utilization. We expect strong utilization in new facilities as organised segment is growing much faster due to increasing shift from unbranded to branded, focus on 1mm (higher thickness) laminates and value added products (textured laminates, exterior grade, compact laminates).



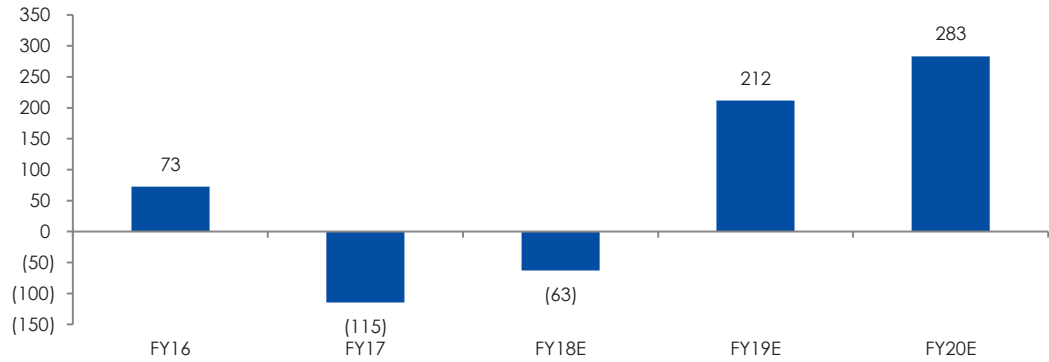
Source: Company, Edelweiss Investment Research

V. Capex complete; significant free cash flow generation and surge in RoCE

Strong free cash flow generation

Century had planned 12% plywood capacity increase, 50% laminate capacity increase and a fresh MDF plant of 1,98,000 CBM (biggest capacity of any player in the MDF segment. Century has completed most of this capex with any pending capex expected to be complete in FY18E itself. With ramp up in utilization over the next 2 years and no firm capex plans on the horizon, we expect huge free cash flow generation.

Free cash flows

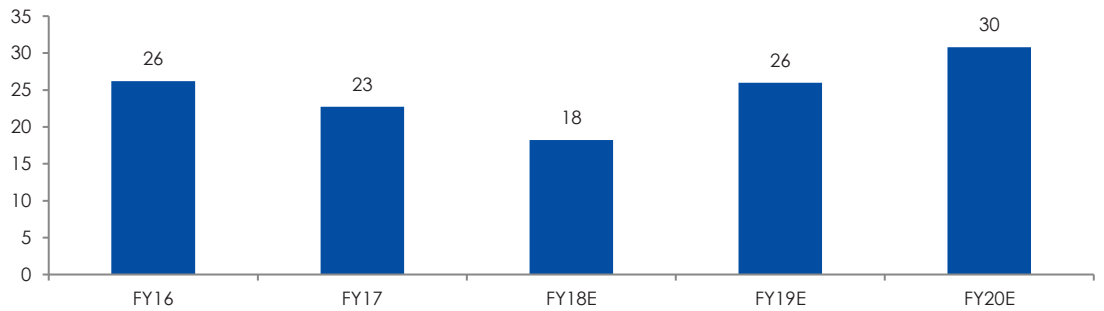


Source: Company, Edelweiss Investment Research

Robust return ratios

The higher utilisation will likely result in meaningful return ratios with RoCE expected to be close to 30% in FY20E.

RoCE



Source: Company, Edelweiss Investment Research

VI. Valuation and peers

Century is a leader across various wood panel segments and is expected to grow faster than the industry. GST at 18% and government initiatives of affordable housing could provide tailwinds for this segment. In spite of superior return ratios compared with other building material peers and high free cash flow generation, Century is trading at valuations that are cheaper versus peers. We initiate coverage with a 'BUY' rating, valuing Century at 25x FY20E P/E and thus arrive at a target price of INR 390.

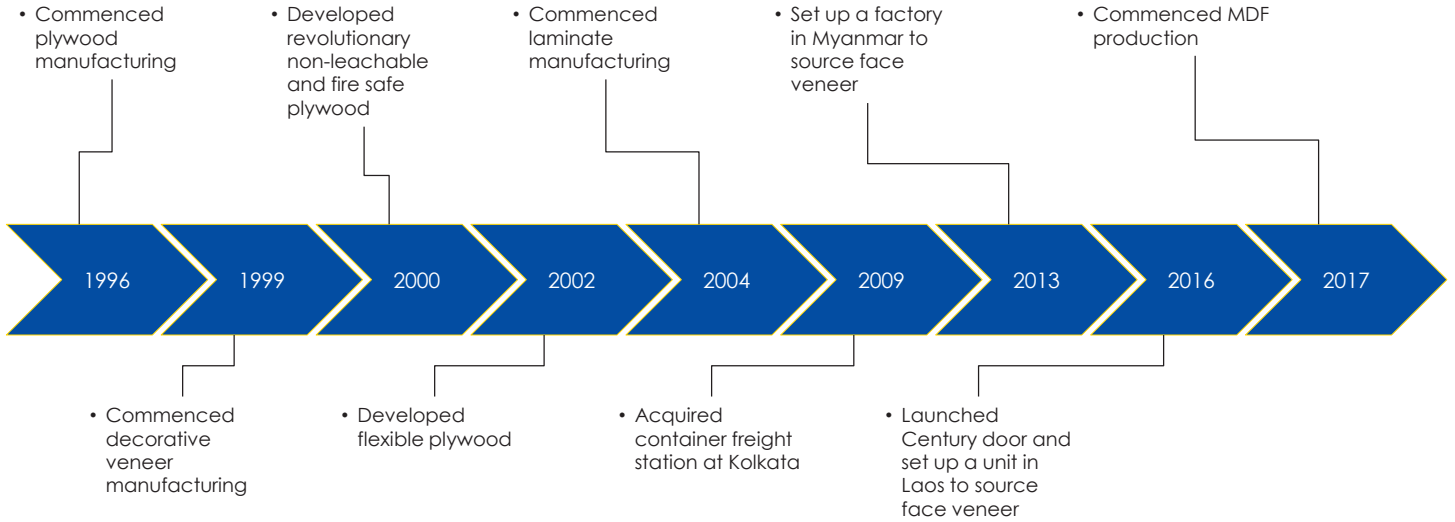
Estimated EPS (FY20E)	Target multiple	Target price
15.6	25x	390

PAT growth is depressed due to FY18E PAT decline on account of GST. We expect a 35% plus PAT CAGR for FY19E and FY20E.

	Revenue growth (FY17-20E)	PAT growth (FY17-20E)	RoE (FY20E)	P/E (FY20E)
Kajaria	9%	17%	21	23.2
Somany	14%	22%	22	20.4
CERA	16%	20%	22	24.8
HSIL	10%	23%	13	15.3
Greenlam	15%	34%	25	19.1
Greenply	15%	20%	19	17.9
Supreme	16%	21%	27	22.3
Astral	17%	33%	23	28.1
Century	17%	22%	30	18.9

Source: Company, Edelweiss Investment Research

TIMELINE



Key Management

Name	Designation	Profile
Mr. Sajjan Bhajanka	<i>Chairman</i>	Mr. Sajjan Bhajanka is a graduate with over 45 years of industry experience. He is directly responsible for the overall strategic direction, production, finance and treasury. He is also the president of the Federation of Indian Plywood and Panel Industry and All India Veneer Manufacturers Association and a governing body member of Indian Plywood Industry Research and Training Institute.
Mr. Sanjay Agarwal	<i>Managing Director</i>	Mr. Sanjay Agarwal is the CEO and Managing Director, and is also one of the co-founders. He is a graduate with 30 years of Industry experience and is responsible for sales, marketing, IT and HR. The CenturyPly brands was his brainchild, which has today reached great heights.
Mr. Keshav Bhajanka	<i>Executive Director</i>	Mr. Keshav Bhajanka is the Executive Director. He is responsible for the growth in the decorative vertical which includes successful implementation of new supply chain projects and foray into new businesses such as MDF, Exteria and flooring

Key Risks

- Slowdown in housing
- Raw material price volatility
- Increase in competition in MDF segment

Business Overview

Company Brief

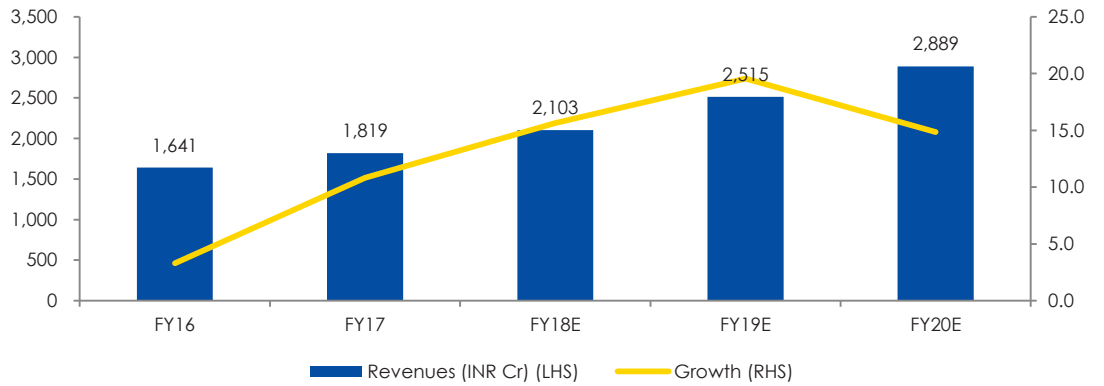
Century Plyboards (Century) is present across the entire gamut of wood panel products such as plywood, MDF, particleboard, laminates, veneer etc. Century has recently expanded its plywood capacity, commissioned a new MDF facility and is in the process of expanding the laminates facility, all of which will likely drive earnings in the forthcoming two years.

Business Model	The company has 3 major segments. 1) Plywood 2) MDF and Particleboard 3) Laminates
Strategic Positioning	The company is the joint leader in plywood, currently the biggest player in MDF and the third biggest player in laminates
Competitive Edge	Diversified portfolio Prudent raw material sourcing Efficient capital allocation Strong brand and distribution network
Financial Structure	Completion of capex will result in high free cash flows. Ramp up in utilization and improvement in margins to aid return ratios
Key Competitors	Greenply and unorganised competition
Industry Revenue Drivers	Various government initiatives such as affordable housing thrust and GST. Macroeconomic tailwinds and a very high unorganised share to aid the industry
Shareholder Value Proposition	In spite of superior return ratios compared with other building material peers and superior free cash flow generation, Century is trading at valuations that are cheaper versus most peers. We initiate coverage with a 'BUY' rating, valuing Century at 25x FY20E P/E and thus arrive at a target price of INR 390.

VII. Financial Analysis

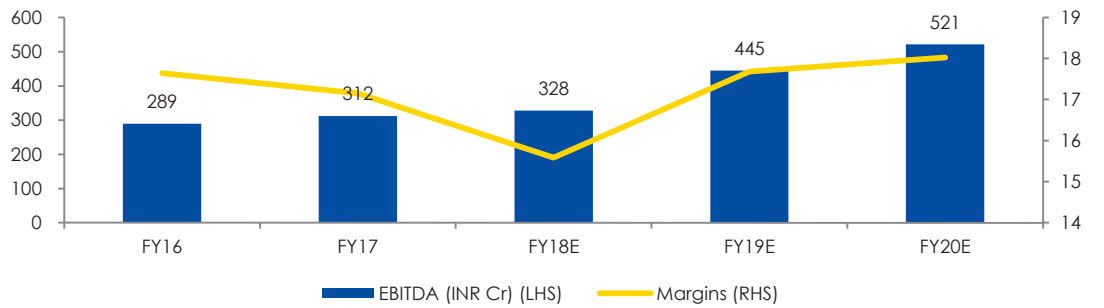
MDF and laminates to drive revenue growth

Revenue growth has been muted for the last 2 years but is expected to significantly pick up due to the commissioning of a new MDF facility in Q2FY18, along with an expansion in laminate capacity and plywood capacity.



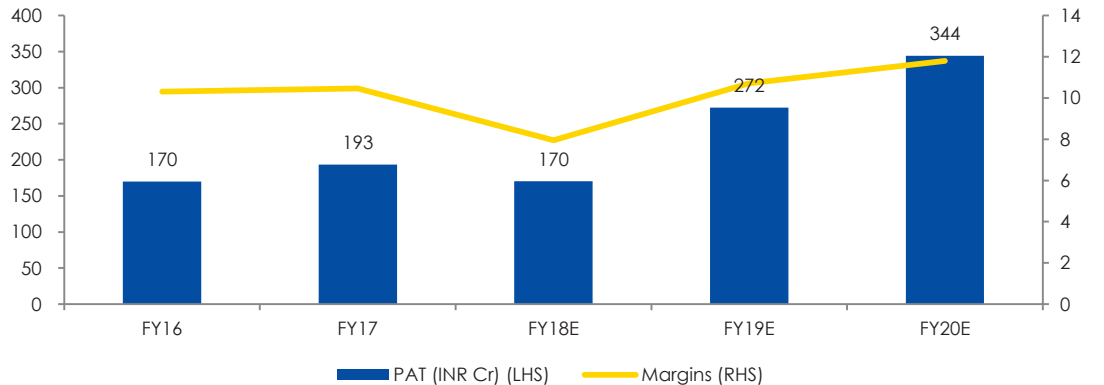
Increasing MDF share to drive margins

MDF is a high margin business. While plywood margins are close to 16% for Century, MDF margins are expected to be between 25-30%. This can be seen in Greenply's topline and EBITDA contribution mix. While MDF contributes 30% to revenues, it contributes 50% to the EBITDA.



PAT and PAT margin to improve substantially

Completion of pending capex in FY18E is likely to result in flattish depreciation and interest expenses and thus we expect strong bottomline growth from FY19E.



Source: Company, Edelweiss Investment Research

Financials

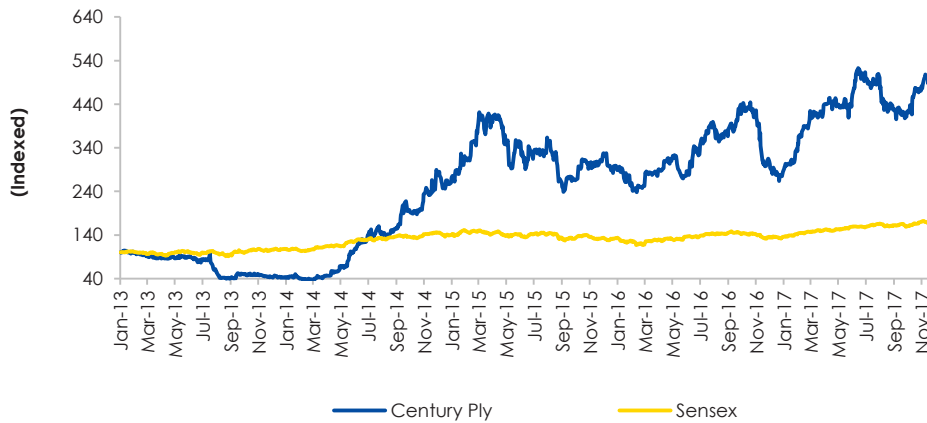
Income statement						Balance sheet						Ratios						
	(INR crs)						(INR cr)											
Year to March	FY16	FY17	FY18E	FY19E	FY20E	As on 31st March	FY16	FY17	FY18E	FY19E	FY20E	Year to March	FY16	FY17	FY18E	FY19E	FY20E	
Income from operations	1,641	1,819	2,103	2,515	2,889	Equity share capital	22	22	22	22	22	ROAE (%)	37	31	23	30	31	
Direct costs	854	938	1,094	1,278	1,461	Preference Share Capital	0	0	0	0	0	ROACE (%)	26	23	18	26	31	
Employee costs	236	273	316	378	434	Reserves & surplus	507	693	807	987	1,214	Debtors (days)	63	69	69	67	65	
Other expenses	498	569	682	792	907	Shareholders funds	529	715	829	1,009	1,237	Current ratio	4.4	4	5	4	4	
Total operating expenses	1,351	1,507	1,776	2,070	2,368	Secured loans	470	521	571	371	221	Debt/Equity	0.9	0.9	0.8	0.5	0.3	
EBITDA	289	312	328	445	521	Unsecured loans	5	97	97	97	97	Inventory (days)	66	60	70	65	62	
Depreciation and amortisation	47	59	80	73	71	Borrowings	474	619	669	469	319	Payable (days)	34	44	42	41	40	
EBIT	242	253	248	372	450	Minority interest	9	12	12	12	12	Cash conversion cycle (days)	95	85	97	91	87	
Interest expenses	48	30	45	40	28	Sources of funds	1,012	1,345	1,509	1,490	1,567	Debt/EBITDA	1.6	2	2	1	1	
Other income	6	23	15	15	15	Gross block	298	412	592	622	662	Adjusted debt/Equity	0.8	1	1	0	0	
Profit before tax	200	245	218	347	438	Depreciation	48	106	186	259	330							
Provision for tax	30	52	47	75	94	Net block	250	306	406	363	332							
Core profit	170	193	170	272	344	Capital work in progress	102	299	100	0	0							
Extraordinary items	0	-0	0	0	0	Total fixed assets	352	605	506	363	332							
Profit after tax	170	193	170	272	344	Unrealised profit	0	0	0	0	0							
Minority Interest	-1	-3	-3	-3	-3	Investments	6	6	6	6	6							
Share from associates	0	0	0	0	0	Inventories	298	301	403	448	491							
Adjusted net profit	169	190	167	269	341	Sundry debtors	284	342	396	462	514							
Equity shares outstanding (mn)	22	22	22	22	22	Cash and equivalents	39	67	193	208	220							
EPS (INR) basic	7.6	8.6	7.9	12.4	15.7	Loans and advances	90	160	200	239	274							
Diluted shares (Cr)	22.3	22	22	22.25	22	Other current assets	0	0	0	0	0							
EPS (INR) fully diluted	7.6	8.6	7.9	12.4	15.7	Total current assets	711	870	1,192	1,357	1,500							
Dividend per share	2.2	0	3	4	5	Sundry creditors and others	153	219	242	282	317							
Dividend payout (%)	29.6	0.0	34.8	34.8	34.8	Provisions	9	19	20	21	22							
						Total CL & provisions	162	238	262	303	338							
						Net current assets	549	633	930	1,054	1,161							
						Net Deferred tax	65	67	67	67	67							
						Misc expenditure	39	34	0	0	0							
						Uses of funds	1,012	1,345	1,509	1,490	1,567							
						Book value per share (INR)	24	32	37	45	56							
Common size metrics- as % of net revenues																		
Year to March	FY16	FY17	FY18E	FY19E	FY20E													
Operating expenses	82.4	82.8	84.4	82.3	82.0	Cash flow statement												
Depreciation	2.9	3.3	3.8	2.9	2.4	Year to March	FY16	FY17	FY18E	FY19E	FY20E							
Interest expenditure	2.9	1.7	2.1	1.6	1.0	Net profit	170	194	178	280	352							
EBITDA margins	17.6	17.2	15.6	17.7	18.0	Add: Depreciation	47	59	80	73	71							
Net profit margins	10.3	10.5	7.9	10.7	11.8	Add: Misc expenses written off/Other	23	5	34	0	0							
						Add: Deferred tax	-59	-2	0	0	0							
						Add: Others	-1	-3	-3	-3	-3							
						Gross cash flow	180	252	289	350	419							
						Less: Changes in W. C.	-14	55	172	108	96							
						Operating cash flow	194	197	117	242	323							
						Less: Capex	121	312	180	30	40							
						Free cash flow	73	-115	-63	212	283							
Growth metrics (%)																		
Year to March	FY16	FY17	FY18E	FY19E	FY20E													
Revenues	3.3	10.8	15.7	19.6	14.9													
EBITDA	13.1	7.8	5.1	35.6	17.1													
PBT	11.5	22.4	(11.2)	59.5	26.1													
Net profit	13.2	14.0	(12.0)	60.0	26.3													
EPS	13.5	12.6	(8.2)	58.5	25.9													

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Head Research

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Rating	Expected to
Buy	appreciate more than 15% over a 12-month period
Hold	appreciate between 5-15% over a 12-month period
Reduce	Return below 5% over a 12-month period



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