

# Century Plyboards

<b>BSE SENSEX</b>	<b>S&amp;P CNX</b>
24,871	7,564
<b>Bloomberg</b>	<b>CPBI IN</b>
Equity Shares (m)	222.2
M.Cap.(INRb)/(USDb)	33.2 / 0.5
52-Week Range (INR)	262 / 138
1, 6, 12 Rel. Per (%)	-9/-17/-5
12M Avg Val (INR M)	-
Free float (%)	-

## Financials & Valuations (INR b)

Y/E Mar	2016E	2017E	2018E
Net Sales	16.2	18.1	20.8
EBITDA	2.8	3.3	3.8
PAT	1.7	1.8	2.1
EPS (INR)	7.7	8.1	9.5
Gr. (%)	14.8	5.9	16.6
BV/Sh (INR)	23.6	29.6	36.8
RoE (%)	37.4	30.6	28.6
RoCE (%)	26.5	26.3	25.6
P/E (x)	19.5	18.4	15.8
P/BV (x)	6.4	5.1	4.1

Estimate change

13% ↓

TP change

-24% ↓

Rating change

↔

**CMP: INR150 TP: INR190 (+27%)**

**Buy**

## Results below expectations; revival in real estate the key

- Results below expectations:** CPBI revenue was flat YoY at INRINR3.9b (est. of INR4.2b). Plywood revenue de-grew 2% YoY, laminates grew 8% YoY and logistics business grew 29%. EBITDA was INR696m (est. of INR801m) while margins stood at 17.8% (est. of 18.9%), contracting 110bp YoY. Plywood margins stood at 15% (v/s 19% in 3QFY15), logistics at 36% (v/s 33% in 3QFY15) and laminates at 13% (v/s 7% in 3QFY15). PAT was flat YoY at INR416m (est. of INR491m).
- Focus on economy segment products, GST to provide impetus:** In the nine months ended Dec 2015, the plywood (ex Sainik) segment volumes de-grew 8% while Sainik volumes grew 12%. Management highlighted that demand continues to remain weak due to slowdown in real estate sector and expects FY17 to grow in single digits in the absence of any acceleration in the real estate sector. However, the company intends to focus on economy segment products like 'Sainik', where it intends to gain market share from unorganized players, and will continue to invest in brand building of 'Sainik'. Implementation of GST can be a big boost to the company and can reduce price gap between organized and unorganized players.
- Capex plans on track:** Particle board plant is expected to go on stream in March 2016 and will aid margin expansion. MDF plant with capacity of 600CBM per day is expected to commission in December 2016.
- Valuation and view:** We cut our revenue estimates 4%/8%/9% for FY16/FY17/FY18, translating into a corresponding 10%/14%/13% cut in EPS estimates on account of the marked slowdown in real estate and consequent pressure on margins due to focus on economy segment. Given the brand leadership in a duopoly market and minimal penetration of organized players, we believe CPBI is well placed to capture the strong growth potential of India's plywood and laminates markets. Given the strong return ratios (26% RoCE in FY15) and huge opportunity size, we believe CPBI deserves multiples in line with similar building product leaders. Maintain **Buy** with a target price of INR190 (20x FY18E EPS) (rolled over to FY18).

## Standalone - Quarterly Earning Model

Y/E March	FY15				FY16				FY15	FY16E	FY16	Var
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4QE				
Net Sales	3,627	4,070	3,858	4,092	3,709	4,422	3,906	4,174	15,884	16,218	4,244	-8
YoY Change (%)	27.9	15.7	26.3	19.3	2.3	8.6	1.2	2.0	23.7	2.1	10.0	
Total Expenditure	3,146	3,432	3,129	3,299	3,042	3,684	3,210	3,423	13,181	13,380	3,443	
EBITDA	481	638	730	793	668	738	696	751	2,703	2,838	801	-13
Margins (%)	13.3	15.7	18.9	19.4	18.0	16.7	17.8	18.0	17.0	17.5	18.9	
Depreciation	104	109	116	119	101	107	116	109	485	435	109	
Interest	74	124	145	90	123	135	107	122	456	487	122	
Other Income	4	15	9	9	3	5	7	20	33	40	10	
PBT	307	420	478	593	448	501	480	541	1,796	1,956	581	-17
Tax	50	62	64	114	51	39	64	87	296	235	87	
Rate (%)	16.3	14.8	13.5	19.1	11.3	7.7	13.3	16.0	16.5	12.0	15.0	
Reported PAT	257	358	414	480	397	463	416	452	1,490	1,710	491	-15
Adj PAT	257	358	414	480	397	463	416	452	1,490	1,710	491	-15
YoY Change (%)	-710.7	62.5	109.5	63.2	54.4	29.3	0.6	-5.9	122.5	14.8	18.7	
Margins (%)	7.1	8.8	10.7	11.7	10.7	10.5	10.6	10.8	9.4	10.5	11.6	

E: MOSL Estimates

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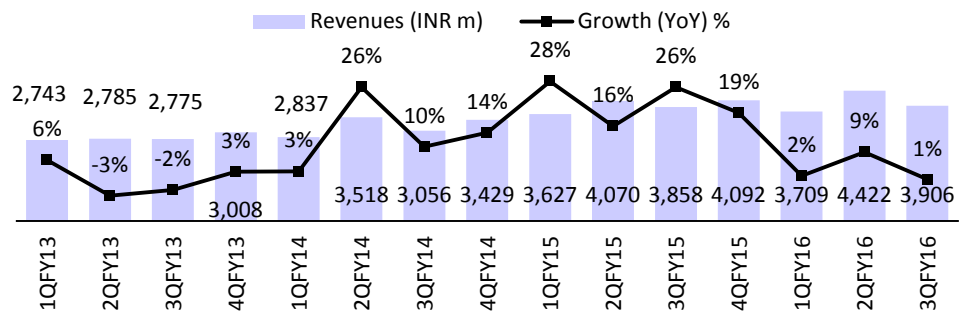
**Investors are advised to refer through important disclosures made at the last page of the Research Report.**

Motilal Oswal research is available on [www.motilaloswal.com/Institutional-Equities](http://www.motilaloswal.com/Institutional-Equities), Bloomberg, Thomson Reuters, Factset and S&P Capital.

**Results below expectations**

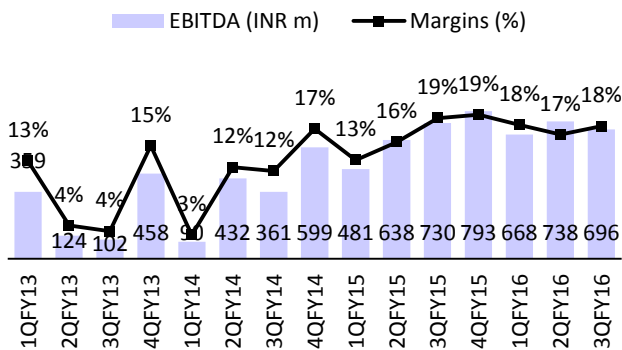
- CPBI revenues posted flat growth YoY to INR INR3.9b (est. of INR4.2b).
- Plywood revenues de-grew 2% YoY, laminates grew 8% YoY while logistics business grew 29%.
- EBITDA stood at INR696m (est. of INR801m) while margins stood at 17.8% (est. of 18.9%), contracting 110bp YoY.
- Plywood margin came in at 15% (v/s 19% in 3QFY15), logistics margin came in at 36% (v/s 33% in 3QFY15) and laminates margin came in at 13% (v/s 7% in 3QFY15).
- PAT stood flat YoY at INR416m (est. of INR491m).

**Exhibit 1: Revenue trend**



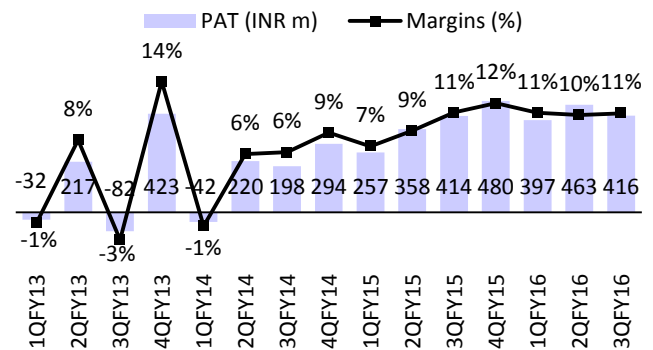
Source: MOSL, Company

**Exhibit 2: EBITDA and EBITDA margin trend**



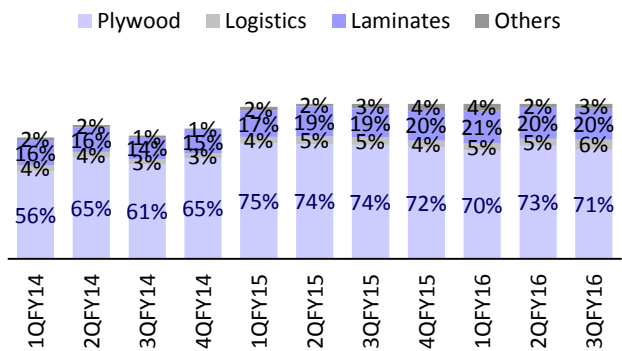
Source: MOSL, Company

**Exhibit 3: PAT trend**



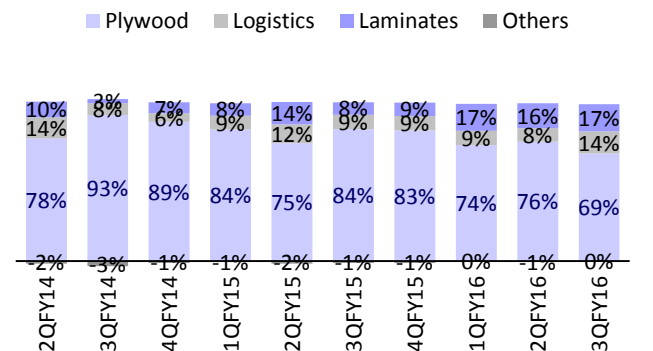
Source: MOSL, Company

**Exhibit 4: Revenue mix: Plywood contributes 71%**



Source: MOSL, Company

**Exhibit 5: EBIT mix: Plywood comprises 69% EBIT**

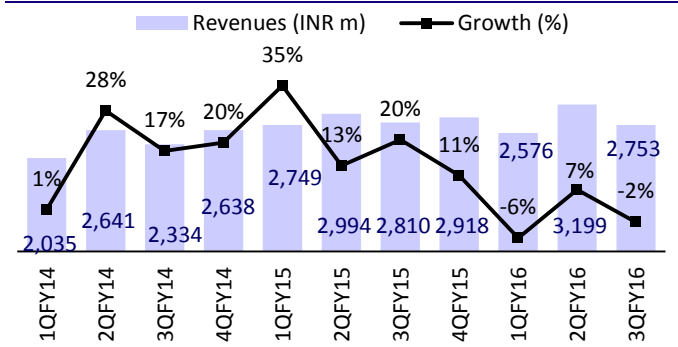


Source: MOSL, Company

**Plywood posts a de-growth of 2%**

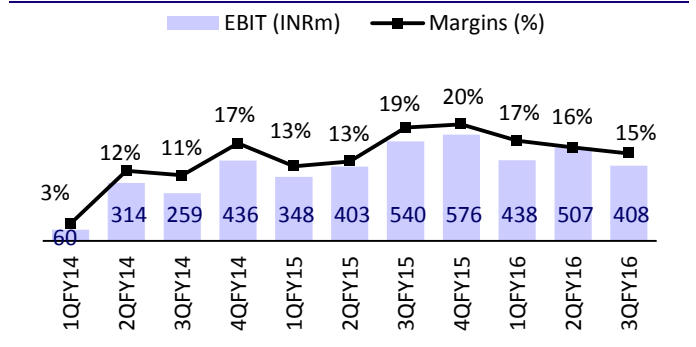
- Plywood de-grew by 2% to INR2.7b, contributing 71% to revenues and 69% to EBIT.
- Margins for the division contracted 400 bps to 15% as against 19% in 3QFY15.

**Exhibit 6: Plywood de-grew by 2%**



Source: MOSL, Company

**Exhibit 7: Plywood EBIT margin trend**

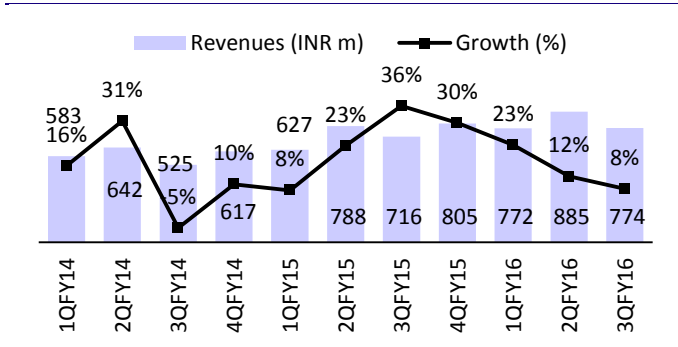


Source: MOSL, Company

**Laminates continue to show strong growth**

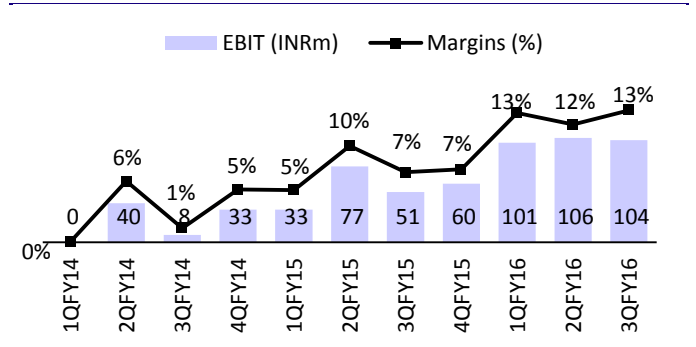
- Laminates division posted 8% revenue growth and 600bp margin expansion.

**Exhibit 8: Laminates grew by 8%**



Source: MOSL, Company

**Exhibit 9: Laminates EBIT margin trend**

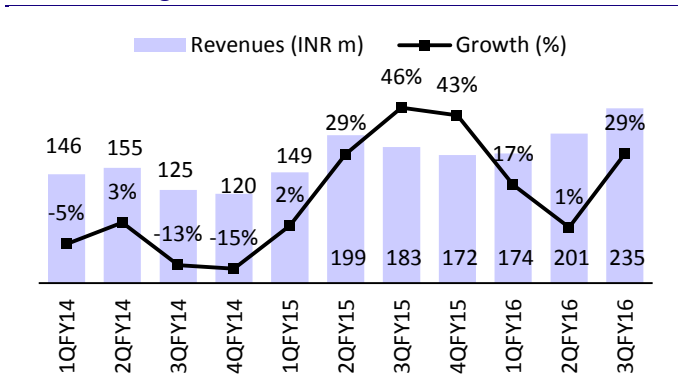


Source: MOSL, Company

**Logistics post 29% growth**

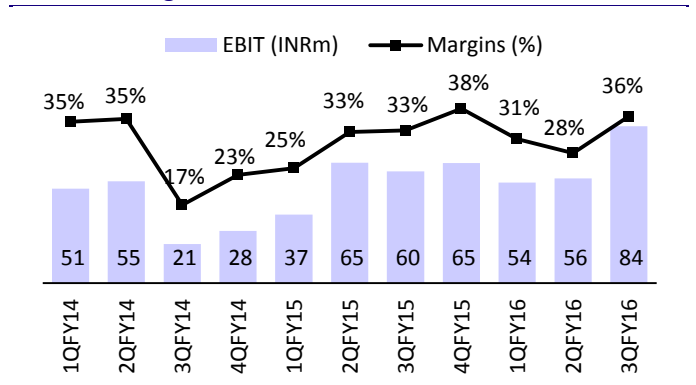
- Logistics division grew by 29% contributing 6% to revenues and 14% to EBIT.
- Margins for the division expanded 300 bps to 36% as against 33% in 3QFY15.

**Exhibit 10: Logistics revenue trend**



Source: MOSL, Company

**Exhibit 11: Logistics EBIT trend**



Source: MOSL, Company

### Focus on economy segment product, GST to provide impetus

- In the nine months ended Dec 2015, the premium segment posted 8% volume de-growth while 'Sainik' posted 12% volume growth.
- The management highlighted that the demand continues to remain weak due to slowdown in real estate sector and expects FY17 to grow in single digits in absence of any boost to real estate sector.
- However, the company intends to focus on economy segment products like 'Sainik' where it intends to gain market share from unorganized players and will continue to invest in brand building of 'Sainik'.
- Implementation of GST can be a big boost to the company which can lead to reduction in price gap between organized and unorganized player.
- The company expects that GST can be a big boost to the company as they incur ~28% of indirect taxes which can significantly reduce incase GST is fixed at 18% rate. Further the price gap is expected to reduce and margins may improve for organized players. This could lead to shift from unorganized to organized as the average rate incurred by unorganized segment is 8-10%.

### Capex plans on track

- Particle board plant is expected to go on stream in March 2016 and will aid margin expansion.
- MDF plant with capacity of 600CBM per day is expected to commission in December 2016.

### Valuation and view

#### Duopoly market with strong headroom for growth

India's INR200b plywood market is largely unorganized – fragmented players account for 77% of the market. Century Plyboards (CPBI) and Greenply Industries (MTLM) dominate the organized market. They are the only pan-India players and enjoy ~25% share each of the organized plywood market. While the overall plywood market is growing at 5-7%, organized players are growing at 10-15%. There is a shift from the unorganized to the organized segment (estimated at 200bp annually), largely driven by (1) superior quality (organized players offer warranties and termite/borer-resistant products), (2) wider product range (1,600 SKUs against unorganized players' 400 SKUs), (3) better product aesthetics, and (4) brand pull (aggressive advertising campaigns).

#### Century Plyboards the brand leader in the Indian plywood industry

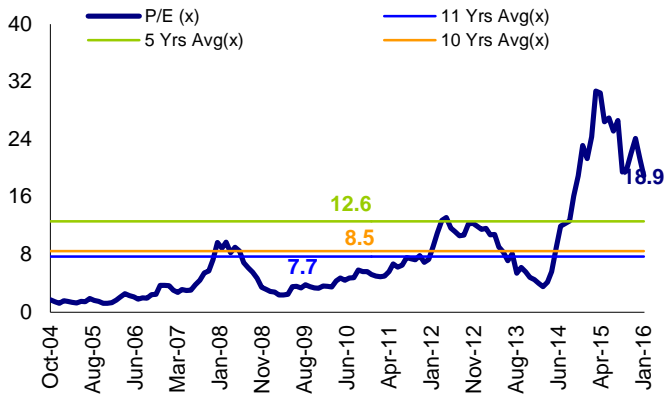
CPBI is the leader in the organized plywood market with 25% market share. Though MTLM enjoys almost equal market share, market researcher Synovate's independent studies indicate much higher brand recall for *Century Ply*. The third-largest player, Sarda Plywood, is not even 1/5<sup>th</sup> the size of CPBI. CPBI invests regularly in marketing activities, with annual ad spends at 3% of sales. It has built its brand reputation on consistent quality, pioneering product features like termite/borer resistance, and warranties.

#### Market leadership, strong growth, improving return ratios to drive re-rating

With brand leadership in a duopoly market coupled with minimal penetration of organized players, we believe CPBI is well-placed to capture the strong growth

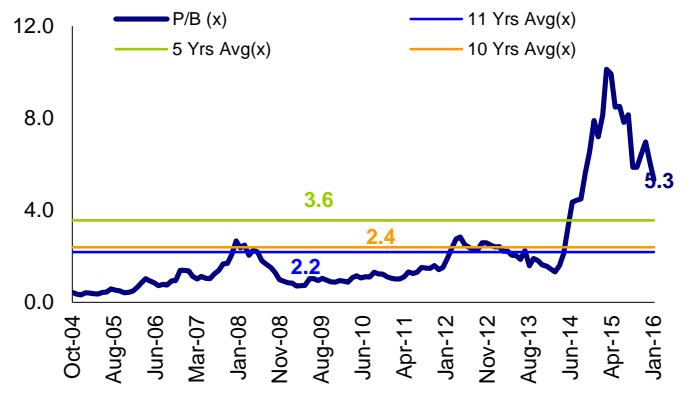
potential of India’s plywood and laminates market. Brand pull, along with likely implementation of reforms like GST would further accelerate growth, in our view. Given strong return ratios (26% RoCE in FY15), huge opportunity size, we believe CPBI deserves multiples in line with similar building product leaders. Maintain **Buy** with a PT of INR190 (20x FY18E EPS) (rolled over to FY18).

Exhibit 12: PE chart



Source: MOSL, Company

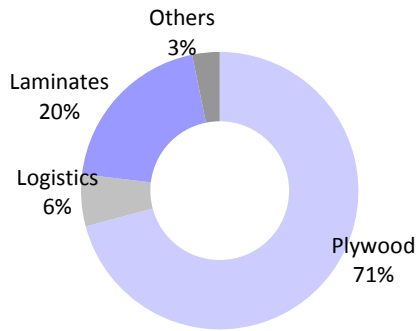
Exhibit 13: PB chart



Source: MOSL, Company

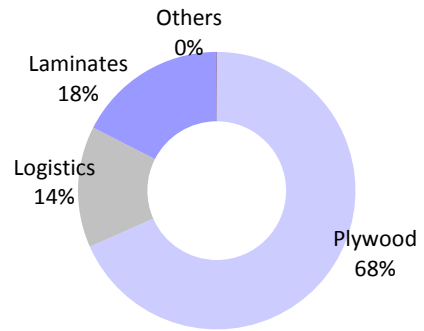
Story in charts

Exhibit 14: Revenue contribution in 3QFY16



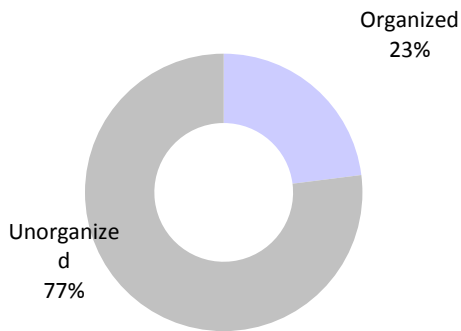
Source: MOSL, Company

Exhibit 15: EBIT contribution in 3QFY16



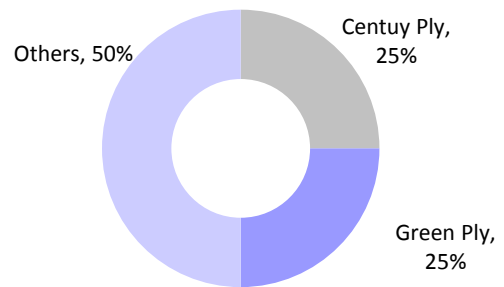
Source: MOSL, Company

Exhibit 16: Plywood industry largely unorganized



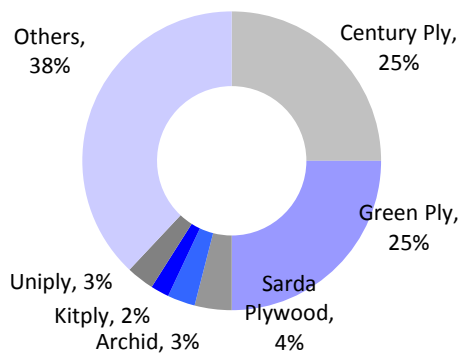
Source: MOSL, Company

Exhibit 17: Market share of organized players



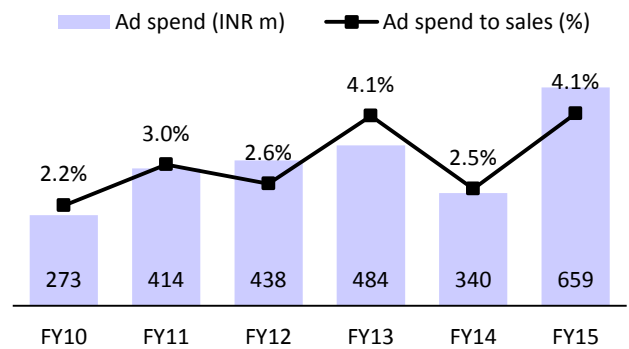
Source: MOSL, Company

Exhibit 18: Century Ply and Greenply dominate the market



Source: MOSL, Company

Exhibit 19: Advertising investments average 3% annually



Source: MOSL, Company

## Financials and Valuations

### Consolidated - Income Statement

(INR Million)

Y/E March	FY11	FY12	FY13	FY14	FY15	FY16E	FY17E	FY18E
<b>Total Income from Operations</b>	<b>13,601</b>	<b>16,674</b>	<b>11,817</b>	<b>13,477</b>	<b>15,884</b>	<b>16,218</b>	<b>18,094</b>	<b>20,791</b>
Change (%)	7.8	22.6	-29.1	14.0	17.9	2.1	11.6	14.9
<b>EBITDA</b>	<b>2,493</b>	<b>2,853</b>	<b>1,234</b>	<b>1,582</b>	<b>2,703</b>	<b>2,838</b>	<b>3,257</b>	<b>3,846</b>
Margin (%)	18.3	17.1	10.4	11.7	17.0	17.5	18.0	18.5
Depreciation	508	556	280	387	485	435	581	753
<b>EBIT</b>	<b>1,985</b>	<b>2,297</b>	<b>954</b>	<b>1,195</b>	<b>2,218</b>	<b>2,403</b>	<b>2,676</b>	<b>3,093</b>
Int. and Finance Charges	232	585	404	603	456	487	444	494
Other Income	85	50	72	37	33	40	48	57
<b>PBT bef. EO Exp.</b>	<b>1,838</b>	<b>1,762</b>	<b>622</b>	<b>629</b>	<b>1,796</b>	<b>1,956</b>	<b>2,280</b>	<b>2,657</b>
EO Items	0	-206	0	0	0	0	0	0
<b>PBT after EO Exp.</b>	<b>1,838</b>	<b>1,555</b>	<b>622</b>	<b>629</b>	<b>1,796</b>	<b>1,956</b>	<b>2,280</b>	<b>2,657</b>
Current Tax	-51	64	17	28	349	235	456	531
Deferred Tax	-7	-6	29	-32	-53	0	0	0
Tax Rate (%)	-3.2	3.7	7.4	-0.7	16.5	12.0	20.0	20.0
Less: Minority Interest	351	270	25	31	10	11	12	13.169
<b>Reported PAT</b>	<b>1,546</b>	<b>1,228</b>	<b>552</b>	<b>603</b>	<b>1,490</b>	<b>1,710</b>	<b>1,812</b>	<b>2,112</b>
<b>Adjusted PAT</b>	<b>1,546</b>	<b>1,426</b>	<b>552</b>	<b>603</b>	<b>1,490</b>	<b>1,710</b>	<b>1,812</b>	<b>2,112</b>
Change (%)	5.7	-7.7	-61.3	9.2	147.2	14.8	5.9	16.6
Margin (%)	11.4	8.6	4.7	4.5	9.4	10.5	10.0	10.2

### Consolidated - Balance Sheet

(INR Million)

Y/E March	FY11	FY12	FY13	FY14	FY15	FY16E	FY17E	FY18E
Equity Share Capital	228	228	223	223	223	223	223	223
Total Reserves	6,061	7,038	2,336	2,708	3,671	5,020	6,367	7,963
<b>Net Worth</b>	<b>6,289</b>	<b>7,266</b>	<b>2,558</b>	<b>2,931</b>	<b>3,894</b>	<b>5,243</b>	<b>6,590</b>	<b>8,186</b>
Minority Interest	1,558	1,794	86	115	55	55	55	55
Deferred Liabilities	35	29	27	4	8	8	8	8
Total Loans	5,664	10,482	5,419	5,801	5,138	4,138	4,738	5,138
<b>Capital Employed</b>	<b>13,545</b>	<b>19,570</b>	<b>8,090</b>	<b>8,850</b>	<b>9,095</b>	<b>9,443</b>	<b>11,391</b>	<b>13,386</b>
Gross Block	6,756	7,220	4,123	4,895	4,607	5,507	8,007	9,507
Less: Accum. Deprn.	2,494	3,091	1,396	1,731	2,151	2,586	3,167	3,920
<b>Net Fixed Assets</b>	<b>4,262</b>	<b>4,129</b>	<b>2,728</b>	<b>3,164</b>	<b>2,456</b>	<b>2,921</b>	<b>4,840</b>	<b>5,587</b>
<b>Curr. Assets, Loans&amp;Adv.</b>	<b>8,583</b>	<b>10,030</b>	<b>6,085</b>	<b>6,793</b>	<b>7,816</b>	<b>8,048</b>	<b>8,299</b>	<b>9,822</b>
Inventory	2,555	3,105	2,293	3,029	3,322	3,172	3,609	4,147
Account Receivables	1,522	1,951	1,793	2,089	2,683	2,666	2,826	3,247
Cash and Bank Balance	364	685	1,020	387	374	658	158	552
Loans and Advances	4,142	4,289	980	1,289	1,436	1,551	1,706	1,877
<b>Curr. Liability &amp; Prov.</b>	<b>2,358</b>	<b>2,331</b>	<b>1,268</b>	<b>1,389</b>	<b>1,580</b>	<b>1,602</b>	<b>1,825</b>	<b>2,100</b>
Account Payables	2,052	2,303	1,166	1,063	1,152	1,564	1,779	2,044
Provisions	306	28	102	326	428	39	46	56
<b>Net Current Assets</b>	<b>6,225</b>	<b>7,699</b>	<b>4,817</b>	<b>5,404</b>	<b>6,236</b>	<b>6,446</b>	<b>6,474</b>	<b>7,723</b>
Deferred Tax assets	28	29	2	11	70	70	70	70
Misc Expenditure	0	0	0	0	3	3	3	3
<b>Appl. of Funds</b>	<b>13,545</b>	<b>19,571</b>	<b>8,090</b>	<b>8,850</b>	<b>9,095</b>	<b>9,444</b>	<b>11,391</b>	<b>13,386</b>

## Financials and Valuations

### Ratios

Y/E March	FY11	FY12	FY13	FY14	FY15	FY16E	FY17E	FY18E
<b>Basic (INR)</b>								
<b>EPS</b>	<b>6.8</b>	<b>6.3</b>	<b>2.5</b>	<b>2.7</b>	<b>6.7</b>	<b>7.7</b>	<b>8.1</b>	<b>9.5</b>
Cash EPS	9.0	8.7	3.7	4.4	8.9	9.6	10.8	12.9
BV/Share	27.6	31.9	11.5	13.2	17.5	23.6	29.6	36.8
DPS	1.0	1.0	0.3	1.0	2.0	1.4	1.8	2.0
Payout (%)	16.8	21.1	11.8	41.8	35.9	21.1	25.6	24.4
<b>Valuation (x)</b>								
P/E				55.4	22.4	19.5	18.4	15.8
Cash P/E				33.7	16.9	15.6	13.9	11.6
P/BV				11.4	8.6	6.4	5.1	4.1
EV/Sales				2.9	2.4	2.3	2.1	1.8
EV/EBITDA				24.5	14.1	13.0	11.7	9.9
Dividend Yield (%)	0.7	0.7	0.2	0.7	1.3	0.9	1.2	1.3
FCF per share	-5.7	-14.3	-4.3	-1.4	7.0	9.6	-0.9	4.5
<b>Return Ratios (%)</b>								
RoE	27.7	21.0	11.2	22.0	43.7	37.4	30.6	28.6
RoCE	19.7	15.8	8.0	14.7	25.3	26.5	26.3	25.6
<b>Working Capital Ratios</b>								
Asset Turnover (x)	1.0	0.9	1.5	1.5	1.7	1.7	1.6	1.6
Inventory (Days)	69	68	71	82	76	71	73	72.8
Debtor (Days)	39	40	51	52	57	56	53	53
Creditor (Days)	130	112	58	50	50	69	69	69
Working Cap. Turnover (Days)	157	154	117	136	135	130	127	126
<b>Leverage Ratio (x)</b>								
Current Ratio	3.6	4.3	4.8	4.9	4.9	5.0	4.5	4.7
Interest Cover Ratio	9	4	2	2	5	5	6	6
Debt/Equity	0.9	1.4	2.1	2.0	1.3	0.8	0.7	0.6

### Consolidated - Cash Flow Statement

(INR Million)

Y/E March	FY11	FY12	FY13	FY14	FY15	FY16E	FY17E	FY18E
OP/(Loss) before Tax	1,838	1,555	623	629	1,796	1,956	2,280	2,657
Depreciation	508	556	280	387	485	435	581	753
Interest & Finance Charges	189	554	395	580	440	487	444	494
Direct Taxes Paid	-363	-365	-105	-117	-337	-235	-456	-531
(Inc)/Dec in WC	-338	-1,239	-600	-1,168	-877	74	-528	-855
<b>CF from Operations</b>	<b>1,835</b>	<b>1,062</b>	<b>592</b>	<b>311</b>	<b>1,507</b>	<b>2,718</b>	<b>2,320</b>	<b>2,517</b>
Others	18	157	12	28	-19	-11	-12	-13
<b>CF from Operating incl EO</b>	<b>1,853</b>	<b>1,219</b>	<b>604</b>	<b>339</b>	<b>1,488</b>	<b>2,707</b>	<b>2,308</b>	<b>2,504</b>
(inc)/dec in FA	-3,144	-4,466	-1,570	-643	68	-574	-2,500	-1,500
<b>Free Cash Flow</b>	<b>-1,291</b>	<b>-3,247</b>	<b>-966</b>	<b>-305</b>	<b>1,556</b>	<b>2,133</b>	<b>-192</b>	<b>1,004</b>
<b>CF from Investments</b>	<b>-3,301</b>	<b>-4,233</b>	<b>-1,812</b>	<b>-690</b>	<b>128</b>	<b>-574</b>	<b>-2,500</b>	<b>-1,500</b>
Issue of Shares	0	0	-5	0	0	0	0	0
Inc/(Dec) in Debt	1,651	4,512	-5,063	382	-649	-1,000	600	400
Interest Paid	-203	-623	-404	-594	-465	-487	-444	-494
Dividend Paid	-81	-478	-65	-59	-462	-361	-465	-516
Others	-51	-77	7,079	-11	-52	0	0	0
<b>CF from Fin. Activity</b>	<b>1,317</b>	<b>3,335</b>	<b>1,542</b>	<b>-281</b>	<b>-1,628</b>	<b>-1,848</b>	<b>-308</b>	<b>-610</b>
<b>Inc/Dec of Cash</b>	<b>-132</b>	<b>321</b>	<b>334</b>	<b>-632</b>	<b>-13</b>	<b>284</b>	<b>-500</b>	<b>394</b>
Opening Balance	496	364	685	1,019	387	374	658	158
<b>Closing Balance</b>	<b>364</b>	<b>685</b>	<b>1,019</b>	<b>387</b>	<b>374</b>	<b>658</b>	<b>158</b>	<b>552</b>

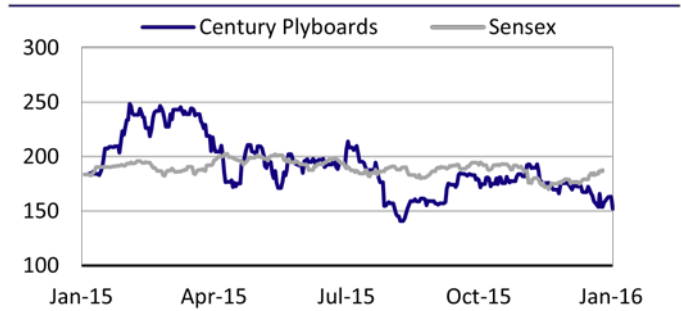


## Corporate profile

### Company description

Century Plyboards (CPBI) operates in four key verticals: Plywood, Laminates and Logistics. The plywood segment contributes ~74% to revenues, while the laminates segment contributes ~19% to revenues and logistics contributes ~4% to revenues. Around 90% of CPBI's products are marketed through the retail network. Only 10% are marketed through the discount-driven OEM network. CPBI invests regularly in marketing activities, with annual ad spends at 3% of sales (4% for plywood division).

### Exhibit 1: Sensex rebased



Source: MOSL/Bloomberg

### Exhibit 2: Shareholding pattern (%)

	Sep-15	Jun-15	Sep-14
Promoter	73.3	73.3	74.5
DII	3.4	3.1	2.0
FII	10.7	8.8	5.9
Others	12.5	14.7	17.7

Note: FII Includes depository receipts

Source: Capitaline

### Exhibit 4: Top management

Name	Designation
Sajjan Bhajanka	Chairman & Managing Director
Hari Prasad Agarwal	Vice Chairman
Prem Kumar Bhajanka	Managing Director
Sanjay Agarwal	Managing Director
Vishnu Khemani	Managing Director
Ajay Baldawa	Executive Director
Sundeep Jhunjhunwala	Company Secretary

Source: Capitaline

### Exhibit 6: Auditors

Name	Type
B G Chowdhury & Co	Cost Auditor
MKB & Associates	Secretarial Audit
Singhi & Co	Statutory

Source: Capitaline

### Exhibit 3: Top holders

Holder Name	% Holding
Government Pension Fund Global	2.5
Canara Hsbc Oriental Bank Of Commerce Life Insurance Company Ltd	1.2

Source: Capitaline

### Exhibit 5: Directors

Name	Name
Asit Pal	Mamta Binani
Mangi Lal Jain	Manindra Nath Banerjee
Samarendra Mitra	Santanu Ray

\*Independent

### Exhibit 7: MOSL forecast v/s consensus

EPS (INR)	MOSL forecast	Consensus forecast	Variation (%)
FY16	8.5	8.0	6.6
FY17	9.5	10.2	-6.7
FY18	10.9	14.5	-25.0

Source: Bloomberg

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