

Century Plyboards India

Century Ply for enduring returns

Century Plyboards India Ltd (CPIL) is a plywood manufacturer dealing in plywood, laminates, MDF (Medium Density Fibreboard) and others with presence across India and overseas. CPIL is also engaged in logistics business through management of a container freight station.

Shift in trend towards organized plywood sector to propel growth: Indian plywood industry is estimated at ₹18,000cr and is largely unorganised (~75% share of revenues). However, with the implementation of GST, the share of organized players is expected to improve, which would be beneficial for branded players like CPIL. Hence, we believe that CPIL is best placed to gain market share on the back of better product quality, strong brands and wide distribution network. Currently, the company has ~25% market share in the organized plywood industry.

Capacity addition across segments to drive growth: CPIL has recently added new MDF plant (1,98,000 cubic metre, to generate ~₹450-500cr revenue), laminates (4.8 million sheets by scaling ~50%, to generate ~₹250-300cr revenue), particle boards (~100cr of revenue). Capacity addition across segments would boost company's revenue and profitability going ahead.

Pradhan Mantri Awas Yojana - trigger for Plywood & MDF segment: The government's aim to build ~1.2cr houses by 2022 under Pradhan Mantri Awas Yojana (PMAY) would increase demand for plywood industry (for making doors & furniture). Hence, demand for Plywood & MDF would witness an uptick.

Strong brand visibility with wide distribution network: CPIL has been continuously focusing on strong brand visibility, by spending 3-4% (% of sales) on ad spends to increase brand visibility. CPIL's products are available across the country through 31 marketing offices covering over 630 cities and towns addressing 1,800 dealers and ~16,500 retailers.

Outlook & Valuation: We expect CPIL to report net revenue CAGR of ~17% to ~₹2,896cr over FY2017-20E owing to healthy growth in plywood and lamination business, foray into MDF and particle boards coupled with strong brand and distribution network. On the bottom-line front, we expect CAGR of ~16% to ~₹306cr over the same period on the back of strong revenue and better margin in MDF business. **At the current market price of ₹317, the stock trades at a P/E of 23.3x its FY2020E EPS of ₹13.7. We initiate coverage on the stock with a Buy recommendation and Target Price of ₹400 based on 29x FY20E EPS, indicating an upside of ~26% from the current levels.**

Consolidated Key financials

Y/E March (₹ cr)	FY2017	FY2018E	FY2019E	FY2020E
Net sales	1,819	2,007	2,510	2,896
% chg	10.8	10.4	25.1	15.4
Net profit	193	188	248	306
% chg	14.0	(2.9)	31.9	23.4
EBITDA margin (%)	17.2	17.5	17.9	18.1
EPS (₹)	8.7	8.4	11.1	13.7
P/E (x)	36.8	37.9	28.7	23.3
P/BV (x)	10.0	8.1	6.6	5.3
RoE (%)	27.1	21.3	22.9	22.9
RoCE (%)	18.9	17.1	20.2	21.3
EV/Sales (x)	4.2	3.9	3.1	2.7
EV/EBITDA (x)	24.6	22.4	17.4	14.9

Source: Company, Angel Research, Note: CMP as of November 27, 2016

BUY

CMP	₹317
Target Price	₹400
Investment Period	12 Months

Stock Info	
Sector	Plywood
Market Cap (₹ cr)	7,115
Net Debt (₹ cr)	545
Beta	1.0
52 Week High / Low	320/154
Avg. Daily Volume	50,190
Face Value (₹)	1
BSE Sensex	33,724
Nifty	10,400
Reuters Code	CNTP.BO
Bloomberg Code	CPBI.IN

Shareholding Pattern (%)	
Promoters	72.0
MF / Banks / Indian FIs	3.7
FII / NRIs / OCBs	12.8
Indian Public / Others	11.4

Abs.(%)	3m	1yr	3yr
Sensex	6.2	28.0	18.6
CPIL	13.6	66.3	128.2

3-year price chart



Source: Company, Angel Research

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Key investment arguments

Shift in trend towards organized plywood sector to propel growth:

The Indian plywood industry is estimated at ₹18,000cr and is largely unorganised in nature with informal players accounting for ~75% share of revenues. This includes all categories like premium, mass market and low-end plywood.

Going forward, we believe that the share of the organised sector would increase at a fast pace owing to the shift in market trend from the unorganized to the organized sector. With the implementation of GST, the pricing gap between the organized and unorganized players is expected to reduce, which would make the pricing of organized players equally attractive, and hence the consumer sentiment would favour the products from organised sector. The share of organized players is expected to improve from current levels, which in turn would be beneficial for branded players like CPIL.

Exhibit 1: Break-up of Plywood market in India

	Total Plywood Market	Premium Plywood	Mass plywood	Low-end Plywood
Total	18,000	3,600	9,000	5,400
Organized	4,500	2,520	1,350	-
Unorganized	13,500	1,080	7,650	5,400
Last 5 years CAGR		12%	5-7%	Flat/de-growth
Century Market		Presence	Presence	Started tapping through MDF (Segment has not grown in the past five years due to shift from low-cost ply to MDF)

Source: Company, Angel Research

Hence, we believe that CPIL is best placed to gain market share on the back of better product quality, strong brands and wide distribution network. Currently, the company has ~25% market share in the organized plywood industry.

Strong brand visibility with wide distribution network

CPIL has been continuously focusing on strong brand visibility of its products. The company offers plywood, laminates, veneers, MDF, block boards, doors, fibre cement boards and particle boards. Historically, the company has been spending around 3-4% (percentage of sales) on ad spends to increase its brand visibility.

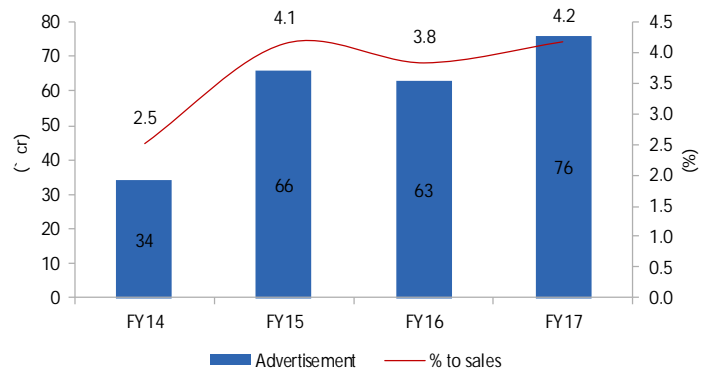
Currently, CPIL's products are available across the country through 31 marketing offices covering over 630 cities and towns addressing 1,800 dealers and nearly 16,500 retailers. The products are available across Tier-I, Tier-II and Tier-III locations. The dealers and retailers are serviced through 40 depots and warehouses.

Exhibit 2: CPIL Brands

Plywood	• CenturyPly • CenturyPly Architect • CenturyPly Marine • CenturyPly Elasto • CenturyPly 710+ BWP Marine • Sharonply • Maxima • Century Win MR • Sainik • Technopine • Fire Safe
Laminates	• CenturyLaminates • Starline • Monocore • CenturyVenLam
Veneers	• NatzuraWoods • SenzuraStyles
Blockboards	• Sainik • Century Club Prime • Century 710+ • Maxima • Technopine
Doors	• Architect Door • Club Prime • Pro • Sainik • Hector WPC Doorframes • Technopine
Prelams	• CenturyPrelams
FaceVeneers	• Century FaceVeneers
New-age products	• Starke (PVC Sheets) • Zykrone (Fibre Cement Board)

Source: Company, Angel Research

Exhibit 3: Significant increase in ad spends

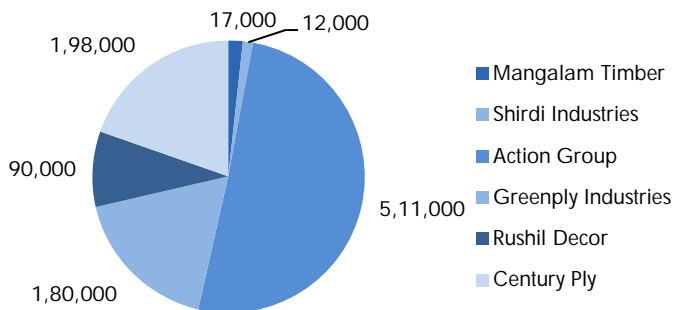


Source: Company, Angel Research

Capacity addition in MDF, Particle boards & Laminates segments

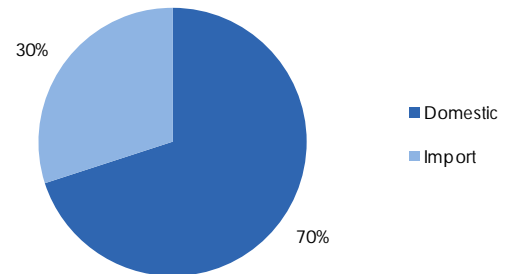
MDF: CPIL has recently added new plant of MDF plant in Punjab with a capacity of 1,98,000 cubic metre (which will be able to generate ₹450-500cr revenue and operating margin in the range of 20-25%). The plant has been already operational in November 2017. The company plans to manufacture value-added products such as laminated MDFs, flooring and doors, among others from this plant. Consequently, management is hopeful of generating revenues in the range of 150-200cr in the current financial year.

Exhibit 4: Current capacity of various players



Source: Company, Angel Research

Exhibit 5: MDF demographic break-up

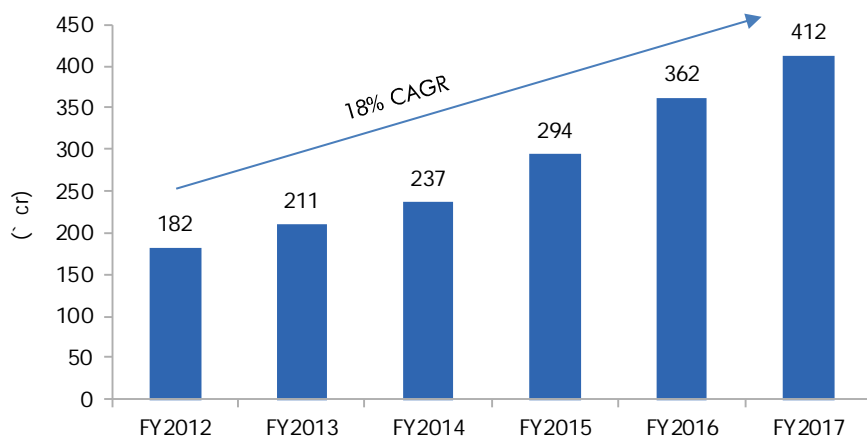


Source: Company, Angel Research

Particle boards: CPIL commissioned a 54,000 cubic metre particle board manufacturing facility at a capex of ₹60cr in FY2017. The location was strategically chosen to be Chennai, as ~50% of the raw material requirement was accessed from a captive unit in the vicinity of the plant and the rest from third party units located in the hinterland. The plant can potentially generate ₹100cr of revenues while operating at peak capacity.

Laminates: In this segment, the company has reported revenue CAGR of ~18% in the last 5 years and expects strong revenue growth going ahead on the back of strong brand and distribution network. The company has doubled its laminate production capacity to 4.8 million sheets by scaling up to 50% in September 2017 in order to capture incremental demand. CPIL also has 650 SKUs, adding 100 odd designs a year. By doing so, CPIL is not only addressing the largest segment (1.0 millimetre thickness laminates) but also value added segments (textured and exterior laminates).

Exhibit 6: Historical strong growth performance of laminate segment



Source: Company, Angel Research

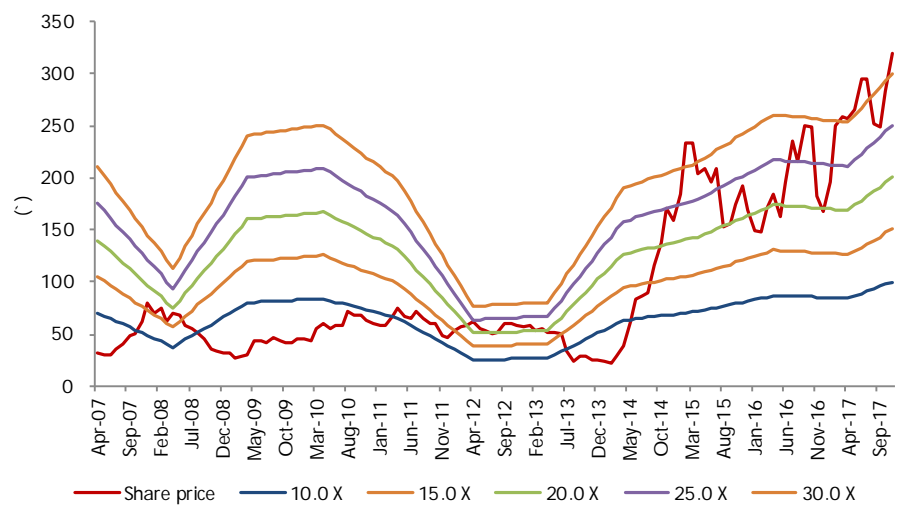
Healthy revenue growth and higher margin in container freight station to boost profitability

The company entered the container freight station (CFS) business by acquiring 0.1m sq mt of Kolkata Port Trust land, which has a total capacity of 160,000 TEUs spread across its two CFS at Sonai (40,000 TEUs) and Jingira Pool (120,000 TEUs). In this segment, the company has reported revenue CAGR of ~10% in last 4 years. On EBITDA margin front, the company has reported more than 24% margins in the last 4 years. Considering the company’s historical track records, we expect the same growth trajectory to continue going ahead.

Outlook and Valuation

We expect CPIL to report net revenue CAGR of ~17% to ~`2,896cr over FY2017-20E owing to healthy growth in plywood and lamination business, foray into MDF and particle boards coupled with strong brand and distribution network. On the bottom-line front, we expect CAGR of ~16% to ~`306cr over the same period on the back of strong revenue and better margin in MDF business. **At the current market price of ~`317, the stock trades at a P/E of 23.3x its FY2020E EPS of ~`13.7. We initiate coverage on the stock with a Buy recommendation and Target Price of ~`400 based on 29x FY20E EPS, indicating an upside of ~26% from the current levels.**

Exhibit 7: One year forward PE Chart



Source: Company, Angel Research

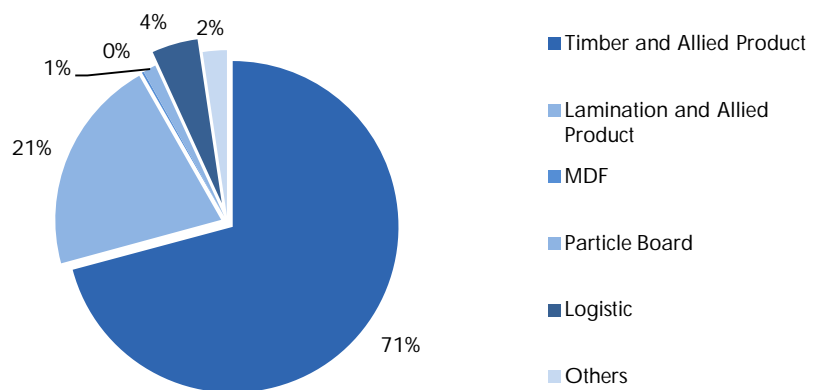
Downside risks to our estimates

- Most of the company's raw materials are imported from other countries and also the company has ECB loan, any unfavorable change in currency may pose forex risks, which could significantly impact margins.
- Recently the company has added new MDF Plant with capex of ~`380cr, any slowdown in MDF market can impact the company's earnings due higher fixed cost overheads.

Company Background

Century Plyboards (India) Ltd (CPIL) is a plywood manufacturer. The company's segments include plywood, laminate, CFS services and others. The company's geographical segments are India and overseas. The plywood segment includes plywood, block-board, veneer and timber. The laminate segment includes decorative laminates and pre-laminated boards. The CFS services segment includes container freight station services. The others segment includes mainly trading of chemicals, minerals, readymade furniture and equipments. The company's product portfolio includes doors, decorative veneer, new age products (NAP), fiber cement boards, particle boards, look book, slimline, mono core, magnetic laminates and prelaminated boards. CPIL is also engaged in the logistics business through the management of a container freight station. The Company's units are spread across India in Joka (West Bengal), Guwahati (Assam), Kandla (Gujarat), Chennai (Tamil Nadu) and Karnal (Haryana).

Exhibit 8: Revenue break-up for FY2017



Source: Company, Angel Research

Consolidated Profit & Loss Statement

Y/E March (₹ cr)	FY2015	FY2016	FY2017	FY2018E	FY2019E	FY2020E
Total operating income	1,588	1,641	1,819	2,007	2,510	2,896
% chg	17.9	3.3	10.8	10.4	25.1	15.4
Total Expenditure	1,318	1,351	1,507	1,656	2,061	2,372
Raw Material	843	819	895	987	1,235	1,425
Personnel	201	236	273	307	389	455
Others Expenses	275	296	339	361	437	492
EBITDA	270	289	312	351	449	524
% chg	70.8	7.1	7.8	12.6	27.9	16.6
(% of Net Sales)	17.0	17.6	17.2	17.5	17.9	18.1
Depreciation & Amortisation	48	47	59	67	75	77
EBIT	222	242	253	284	374	447
% chg	85.6	9.1	4.4	12.6	31.6	19.5
(% of Net Sales)	14.0	14.7	13.9	14.2	14.9	15.4
Interest & other Charges	46	48	30	55	70	70
Other Income	3	6	23	8	9	10
(% of PBT)	1.8	3.0	9.2	3.4	2.9	2.6
Share in profit of Associates	-	-	-	-	-	-
Recurring PBT	180	200	245	238	314	387
% chg	185.6	11.5	22.4	(2.9)	31.9	23.4
Tax	30	30	52	50	66	81
(% of PBT)	16.5	15.2	21.0	21.0	21.0	21.0
PAT (reported)	150	170	193	188	248	306
Minority Interest (after tax)	1	-	-	-	-	-
Profit/Loss of Associate Company	(0)	-	-	-	-	-
ADJ. PAT	149	170	193	188	248	306
% chg	147.2	13.9	14.0	(2.9)	31.9	23.4
(% of Net Sales)	9.4	10.3	10.6	9.4	9.9	10.6
Basic EPS (₹)	6.7	7.6	8.7	8.4	11.1	13.7
Fully Diluted EPS (₹)	6.7	7.6	8.7	8.4	11.1	13.7
% chg	147.2	13.9	14.0	(2.9)	31.9	23.4

Consolidated Balance Sheet

Y/E March (₹ cr)	FY2015	FY2016	FY2017	FY2018E	FY2019E	FY2020E
SOURCES OF FUNDS						
Equity Share Capital	22	22	22	22	22	22
Reserves & Surplus	367	507	693	858	1,062	1,312
Shareholders Funds	389	529	715	881	1,084	1,334
Minority Interest	6	9	12	12	12	12
Total Loans	514	474	619	780	770	770
Deferred Tax Liability	1	1	1	1	1	1
Total Liabilities	909	1,013	1,347	1,674	1,867	2,118
APPLICATION OF FUNDS						
Gross Block	461	298	412	924	948	973
Less: Acc. Depreciation	215	48	106	173	248	325
Net Block	246	250	306	751	700	648
Capital Work-in-Progress	33	102	299	299	299	299
Investments	0	6	6	6	6	6
Current Assets	782	751	905	836	1,139	1,480
Inventories	332	298	301	330	426	500
Sundry Debtors	268	284	342	379	488	571
Cash	37	39	67	34	46	96
Loans & Advances	79	90	160	60	138	261
Other Assets	65	39	35	32	40	52
Current Liabilities	158	162	238	286	345	385
Net Current Assets	624	588	667	549	793	1,095
Deferred Tax Asset	7	66	69	69	69	69
Mis. Exp. not written off	-	-	-	-	-	-
Total Assets	909	1,013	1,347	1,674	1,867	2,118

Consolidated Cashflow Statement

Y/E March (₹ cr)	FY2015	FY2016	FY2017	FY2018E	FY2019E	FY2020E
Profit before tax	180	200	245	238	314	387
Depreciation	48	47	59	67	75	77
Change in Working Capital	(88)	34	(54)	84	(232)	(251)
Interest / Dividend (Net)	44	47	30	55	70	70
Direct taxes paid	(34)	(47)	(43)	(50)	(66)	(81)
Others	(2)	10	(17)	0	0	0
Cash Flow from Operations	149	293	221	394	160	202
(Inc.)/ Dec. in Fixed Assets	7	(150)	(305)	(512)	(24)	(25)
(Inc.)/ Dec. in Investments	6	11	0	0	0	0
Cash Flow from Investing	13	(139)	(304)	(512)	(24)	(25)
Issue of Equity	0	0	0	0	0	0
Inc./(Dec.) in loans	(65)	(44)	142	162	(10)	0
Dividend Paid (Incl. Tax)	(39)	(50)	(0)	(22)	(45)	(56)
Interest / Dividend (Net)	(54)	(59)	(30)	(55)	(70)	(70)
Cash Flow from Financing	(158)	(153)	112	85	(124)	(126)
Inc./(Dec.) in Cash	4	1	28	(33)	12	51
Opening Cash balances	33	37	39	67	34	46
Closing Cash balances	37	39	67	34	46	96

Key ratios

Y/E March	FY2015	FY2016	FY2017	FY2018E	FY2019E	FY2020E
Valuation Ratio (x)						
P/E (on FDEPS)	47.3	41.5	36.4	37.5	28.4	23.0
P/CEPS	35.5	32.4	27.9	27.6	21.8	18.4
P/BV	18.1	13.3	9.9	8.0	6.5	5.3
Dividend yield (%)	0.6	0.7	0.8	0.3	0.6	0.8
EV/Sales	4.7	4.6	4.2	3.9	3.1	2.7
EV/EBITDA	27.8	25.8	24.3	22.2	17.3	14.7
EV / Total Assets	8.3	7.4	5.6	4.6	4.2	3.6
Per Share Data (Rs)						
EPS (Basic)	6.7	7.6	8.7	8.4	11.1	13.7
EPS (fully diluted)	6.7	7.6	8.7	8.4	11.1	13.7
Cash EPS	8.9	9.8	11.4	11.4	14.5	17.2
DPS	2.0	2.2	2.5	1.0	2.0	2.5
Book Value	17.5	23.8	32.1	39.6	48.7	60.0
Returns (%)						
ROCE	24.6	24.1	18.9	17.1	20.2	21.3
Angel ROIC (Pre-tax)	25.6	25.3	20.0	17.6	20.8	22.3
ROE	38.3	32.1	27.1	21.3	22.9	22.9
Turnover ratios (x)						
Asset Turnover (Gross Block)	3.4	5.5	4.4	2.2	2.6	3.0
Inventory / Sales (days)	76	66	60	60	62	63
Receivables (days)	62	63	69	69	71	72
Payables (days)	14	19	28	31	31	31
Working capital cycle (ex-cash) (days)	124	110	101	98	102	104

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1. Financial interest of research analyst or Angel or his Associate or his relative	No
2. Ownership of 1% or more of the stock by research analyst or Angel or associates or relatives	No
3. Served as an officer, director or employee of the company covered under Research	No
4. Broking relationship with company covered under Research	No

Ratings (Based on expected returns over 12 months investment period):

Buy (> 15%)

Accumulate (5% to 15%)
Reduce (-5% to -15%)

Neutral (-5 to 5%)
Sell (< -15%)