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Century Plyboards

Revival in demand to trigger earnings growth

CMP	Target Price
Rs175	Rs190 (▪)
Rating	**Upside**
ACCUMULATE (▼)	8.3 %

Result highlights

- Q2FY16 has witnessed pickup in demand with revenue growth of 8.6% yoy to Rs 4.4bn primarily driven by volume growth in plywood segment
- CPIL also posted 100bps EBIDTA margin expansion to 16.7% resulting into EBIDTA growth of 16%yoy to Rs 738mn however lower tax provisioning at mere 8% resulted into PAT growth of 29%yoy to Rs 462mn
- We believe that continuous shift from unorganized to organised (merely 30% at present), company's advantage in sourcing raw material and sustained capex is likely to drive growth in medium term with GST being catalyst in near term
- We reinitiate coverage on the stock with Accumulate rating and price target of Rs 190 based 20xFY17 EPS of Rs 9.5. FY15-17E EPS CAGR of 19% and RoCE/ROE of 28%/38% are key valuations support

Plywood segment witnesses some revival in growth

Q2FY16 has witnessed some revival in growth as revenues increased 8.6%yoy to Rs 4.4bn. Plywood segment (73% of total sales) has shown increase of 7%yoy to Rs 3.2bn as against decline in sales by 6%yoy in Q1FY16. Pickup in project sales and higher demand from Tier-2/3 cities have contributed to this growth and management expects growth momentum to accelerate in H2FY16. Laminates segment continues to benefit from higher capacity utilization while its logistics business (5% of sales) posted muted sales growth.

EBIDTA margin expansion and lower tax drives profitability

CPIL has witnessed 100bps EBIDTA margin expansion to 16.7% with EBIDTA of Rs 738mn. Lower tax at 8% ETR due to higher production in its Guwahati plant has helped PAT growth of 29% to Rs 462mn. CPIL enjoys strong advantage in raw material sourcing while lower tax advantage will continue to support PAT growth.

Reinitiate with target of Rs 190, recommend Accumulate

We have reinitiated our coverage on the company with price target of Rs 190 based on 20xFY17 EPS of Rs 9.5. We believe that higher capacity utilization will drive ROCE / ROE to 28%/38% and expect revenue / EBIDTA / PAT CAGR of 13%/24%/19% over FY15-17E. Continuous shift from unorganized to organised and challenges in raw material sourcing faced by unorganized players alongwith GST implementation are key catalyst for the industry.

Financial Snapshot (Standalone)

(Rs mn)	FY13	FY14	FY15	FY16E	FY17E
Net Sales	11,311	12,840	15,648	17,254	19,891
EBITDA	1,128	1,482	2,498	3,026	3,693
EBITDA Margin (%)	10.0	11.5	16.0	17.5	18.6
APAT	527	669	1,508	1,760	2,121
EPS (Rs)	2.4	3.0	6.8	7.9	9.5
EPS (% chg)	(12.4)	27.1	125.3	16.7	20.5
ROE (%)	18.7	24.7	44.4	39.8	37.8
P/E (x)	74.0	58.2	25.8	22.1	18.4
EV/EBITDA (x)	38.0	29.2	17.4	14.5	12.1
P/BV (x)	15.6	13.4	10.1	7.9	6.2

Source: Company, Emkay Research

Change in Estimates	
EPS Chg FY16E/FY17E (%)	NA
Target Price change (%)	NA
Previous Reco	BUY

Emkay vs Consensus		
	EPS Estimates	
	FY16E	FY17E
Emkay	7.9	9.5
Consensus	8.0	10.6
Mean Consensus TP		Rs 236

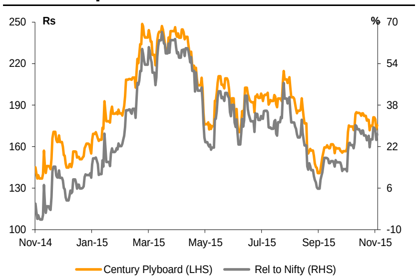
Stock Details	
Bloomberg Code	CPBI IB
Face Value (Rs)	1
Shares outstanding (mn)	222
52 Week H/L	262 / 135
M Cap (Rs bn/USD bn)	39 / 0.59
Daily Avg Volume (nos.)	4,35,365
Daily Avg Turnover (US$ mn)	1.2

Shareholding Pattern Sep '15	
Promoters	73.3%
FIIs	10.7%
DIIs	3.4%
Public and Others	12.5%

Price Performance

(%)	1M	3M	6M	12M
Absolute	3	(13)	(5)	20
Rel. to Nifty	2	(7)	(3)	27

Relative price chart



Source: Bloomberg

Rohan Gupta
rohan.gupta@emkayglobal.com
+91 22 66121248

Sneha Talreja
sneha.talreja@emkayglobal.com
+91 22 66121313

Exhibit 1: Quarterly Financials

(Y/E Mar, Rs mn)	Q2FY15	Q3FY15	Q4FY15	Q1FY16	Q2FY16	YoY (%)	QoQ (%)	H1 FY15	H1 FY16	YoY (%)
Net Sales	**4,070**	**3,858**	**4,092**	**3,709**	**4,422**	**8.6**	**19.2**	**7,698**	**8,131**	**5.6**
Expenditure	**3,432**	**3,149**	**3,299**	**3,042**	**3,684**	**7.3**	**21.1**	**6,588**	**6,725**	**2.1**
as % of sales	84.3	81.6	80.6	82.0	83.3			85.6	82.7	
Consumption of RM	1,839	1,527	1,506	1,526	1,899	3.3	24.4	3,551	3,426	-3.5
as % of sales	45.2	39.6	36.8	41.2	42.9			46.1	42.1	
Employee Cost	510	494	524	517	568	11.4	9.7	924	1,085	17.4
as % of sales	12.5	12.8	12.8	13.9	12.8			12.0	13.3	
Purchase of finished goods	472	420	597	430	445	-5.8	3.4	909	875	-3.8
as % of sales	11.6	10.9	14.6	11.6	10.1			11.8	10.8	
Others cost	635	707	754	580	763	20.1	31.4	1,245	1,343	7.9
as % of sales	15.6	18.3	18.4	15.6	17.3			16.2	16.5	
Loss on forex	-24	0	-83	-12	9	-139.2	-174.0	-42	-3	-92.2
as % of sales	-0.6	0.0	-2.0	-0.3	0.2			-0.5	0.0	
EBITDA	**638**	**710**	**793**	**668**	**738**	**15.7**	**10.6**	**1,110**	**1,406**	**26.7**
Depreciation	109	116	119	101	107	-1.6	6.6	188	208	10.7
EBIT	**529**	**594**	**675**	**567**	**631**	**19.3**	**11.3**	**922**	**1,198**	**29.9**
Other Income	15	9	9	3	5	-66.9	47.3	28	8	-70.7
Interest	124	145	90	123	135	8.3	9.8	198	257	30.0
PBT	**420**	**458**	**593**	**448**	**501**	**19.5**	**12.0**	**752**	**949**	**26.2**
Total Tax	62	64	114	51	39	-37.7	-23.7	112	89	-20.2
Adjusted PAT	**358**	**394**	**480**	**397**	**463**	**29.4**	**16.5**	**640**	**859**	**34.3**
Extra ordinary items	**0**	**-20**	**0**	**0**	**0**			**25**	**0**	
Reported PAT	**358**	**414**	**480**	**397**	**463**	**29.4**	**16.5**	**615**	**859**	**39.8**
Adjusted EPS	**1.61**	**1.77**	**2.16**	**1.79**	**2.08**	**29.4**	**16.5**	**2.88**	**3.87**	**34.3**

Margins (%)						**(bps)**	**(bps)**			**(bps)**
EBIDTA	15.7	18.4	19.4	18.0	16.7	102	-130	14.4	17.3	287
EBIT	13.0	15.4	16.5	15.3	14.3	127	-101	12.0	14.7	276
EBT	10.3	11.9	14.5	12.1	11.3	103	-73	9.8	11.7	190
PAT	8.8	10.2	11.7	10.7	10.5	168	-24	8.3	10.6	225
Effective Tax rate	14.8	14.1	19.1	11.3	7.7	-706	-361	14.9	9.4	-547

Source: Company, Emkay Research

Exhibit 2: Segmental performance

(Y/E Mar, Rs mn)	Q2FY15	Q3FY15	Q4FY15	Q1FY16	Q2FY16	YoY (%)	QoQ (%)	H1 FY15	H1 FY16	YoY (%)
Net Sales	**4,058**	**3,826**	**4,057**	**3,687**	**4,399**	**8.4**	**19.3**	**7,672**	**8,086**	**5.4**
Plywood	2,994	2,810	2,918	2,576	3,199	6.8	24.2	5,743	5,775	0.6
laminates	788	716	805	772	885	12.3	14.7	1,415	1,657	17.1
Logistics	194	186	174	174	201	3.8	15.4	348	375	7.8
Others	82	114	160	165	114	39.5	-30.4	166	279	68.4
EBIT	**536**	**643**	**693**	**592**	**665**	**33.6**	**29.4**	**951**	**1,257**	**32.1**
Plywood	403	540	576	438	507	25.7	15.6	750	945	25.9
laminates	77	51	65	101	106	37.4	4.6	114	207	81.9
Logistics	65	60	60	54	56	-13.1	4.1	98	110	12.6
Others	-8	-8	-8	-1	-4	-49.0	191.0	-11	-6	-49.4
EBIT Margins	**13.2**	**16.8**	**17.1**	**16.1**	**15.1**	**177**	**174**	**12.4**	**15.5**	**314**
Plywood	13.5	19.2	19.8	17.0	15.8	238	-117	13.1	16.4	329
laminates	9.8	7.1	8.0	13.1	12.0	219	-115	8.1	12.5	446
Logistics	33.4	32.3	34.2	31.0	28.0	-544	-304	28.2	29.4	123
Others	-10.2	-7.3	-5.0	-0.9	-3.7	647	-284	-6.8	-2.1	479

Source: Company, Emkay Research

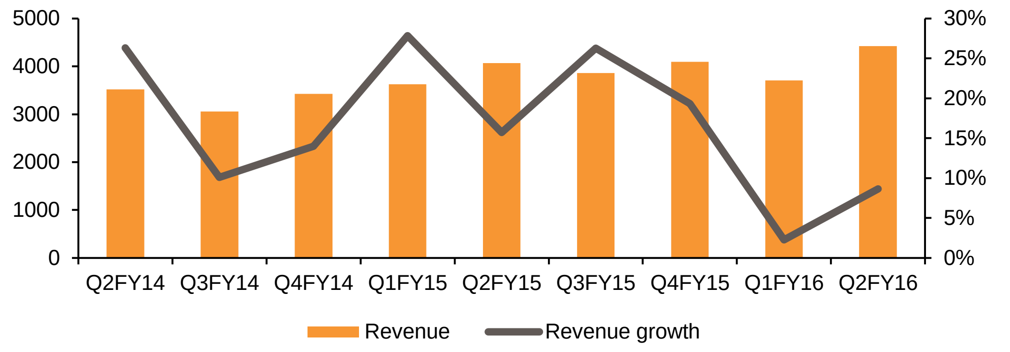
Demand has picked up in non-season since pre-festival period is generally weak for the industry

See revival in demand growth after sluggish Q1FY16 performance

CPIL has started the year with weak numbers with revenue growth of just 2.3% yoy in Q1FY16 mainly on the back of de-growth in its plywood segment (which contributes 73% to the total revenues) by 6% yoy. Although, the growth has picked up compared to last quarter, and topline grew by 8.6% yoy in Q2FY16 to Rs. 4.4bn, it is still well below the 17% CAGR growth seen in the last five years.

As per the management, this pickup in growth (more importantly in non-season growth since pre festive period is generally weak for the industry) is primarily contributed by some pickup in demand from handing over of ready housing inventories to end consumers, pick up in government projects and demand from tier – 2/3 cities. Management is confident of further pickup in demand in H2FY16.

Exhibit 3: Revenue (Rs mn) and YoY growth



Source: Company, Emkay Research

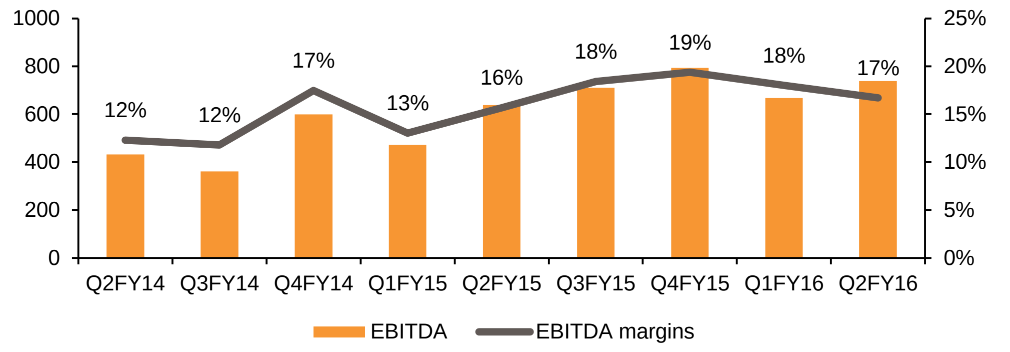
Plywood and Laminates, both the segments have witnessed margins expansion

EBITDA up by 20%; aided by higher margins

EBIDA at Rs. 738 mn (including forex loss) is higher by 20% yoy as compared to Rs 614 mn in Q2FY15. EBITDA margins stood at 17% (higher by 160 bps yoy) led by decline in raw material prices. Raw material (as % of sales) dropped from 56.8% previous year to 53% in current year.

EBIT margins for plywood segment stood at 15.8% +240 bps yoy, Laminates segment margins stood at 12% (+ 220 bps yoy).

Exhibit 4: EBITDA (Rs mn) and YoY growth



Source: Company, Emkay Research

APAT increased by 29% on higher operating profits and lower tax outgo

APAT came at Rs 462.6 mn with growth of 29% yoy compared to Rs. 334 in Q2FY15 mainly led by higher operating profits and lower tax outgo. The tax rate stood at 7.7% compared to 14.8% last year mainly because company had higher production in its Guwahati plant, where it enjoys tax benefits.

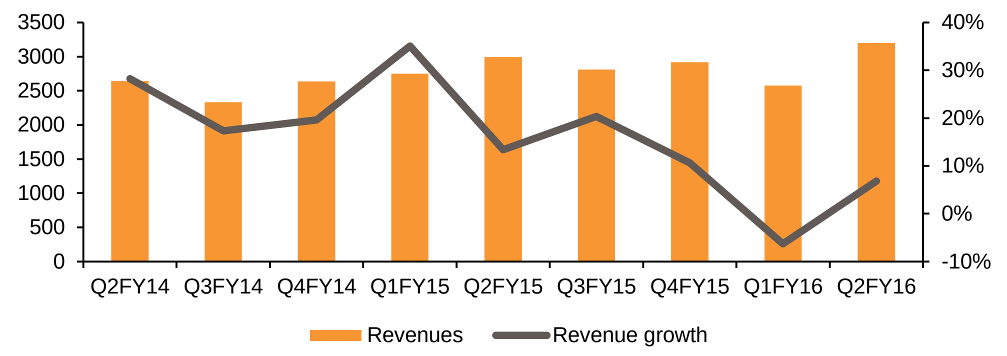
Entry into economy segment to support revenue growth

Plywood segment growth picked up but remain sluggish

Plywood segment has been adversely affected by demand slowdown, delays in project completion and overall slowdown in real estate in recent past after seeing healthy demand growth of 15-25% previously. This segment's growth dropped to negative 6% in Q1FY16 however the same has picked up to 7% in Q2FY16. Management believes there is pickup in demand in plywood segment and is expected to post strong double digit growth in H2FY16.

Its entry into economy segment under the "Sainik" brand is also likely to support growth in plywood. Company's Sainink brand competes with unorganized segment where realisations are 15-20% lower.

Exhibit 5: Plywood Segment Revenue (Rs mn) and YoY growth



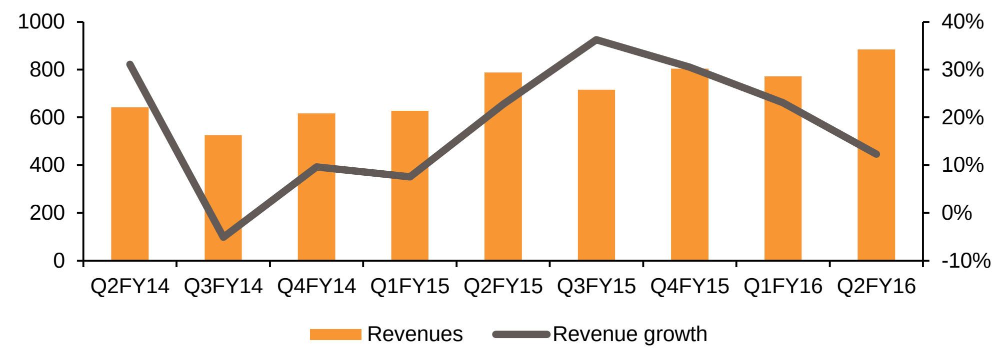
Source: Company, Emkay Research

CPIL is the 3d largest player in the Laminates segment and benefiting from its strong distribution network

Laminates segment benefiting from increase in capacity

Company has doubled its capacity from 2.4 to 4.8 million sheets in 2013-14, making it the third largest player in India post Green Lam and Merino. We expect, laminates segment to perform much better than plywood segment (mainly on low base) and drive the revenue growth for company. Moreover, the share of laminates segment in total revenues has increased from 16% to 20% in the last four years. With recent increase in capacity and strong revenue growth from this segment, we expect share of laminates segment to increase.

Exhibit 6: Laminates Segment Revenue (Rs mn) and YoY growth



Source: Company, Emkay Research

Particle board unit to commission in Q4 FY16.

Century plyboard is setting up green-field particle unit at existing site of Chennai unit. The unit will make particle board from timber wastage, saw mill dust etc generated at Chennai unit and procured from wood based units in the vicinity. The unit will require a capex of Rs. 600 million over the next one year and help company backward integrate with company's existing pre-lamination board units at Chennai. The unit is expected to get commissioned by Jan 2016 compared to March 2016 guided earlier.

MDF plant to add to revenue growth from FY17 onwards

Century Ply has entered the MDF segment through outsource model from Vietnam. Looking at increasing demand for MDF in India, company is planning to set-up a Greenfield MDF capacity of 600 cubic meters by FY17. The company plans to incur capex of Rs. 2.4bn over FY16 and FY17.

Raw material sourcing is the key in plywood segment and CPIL has benefited from its well-focused strategy of securing raw material

First mover in terms of raw material security

The Indian plywood players faced many challenges post the export ban of raw timber logs export from Myanmar in April 2014. However, the ban on raw timber imports turned out to be a boon for Century plyboards, as the company was ahead of time and had set-up a unit in Myanmar just before Myanmar's new reformist government imposed an export ban on raw timber logs to save its forests.

Recently, in September, government of LAOS banned the export of raw logs. Being the first mover, company is already setting up new unit through 51% owned SPV (49% local partner) in SEZ Area of LAOS. Currently, the company has secured supply of face veneer through an existing unit in LAOS, to which company provides technical expertise and machinery on lease. The new unit with a capex of Rs 300 million over FY16 and FY17 will provide further security of raw material.

Margins likely to sustain at around 16-18% over the next two years

Over the last few quarters management has reported healthy margins of around 16-18% compared to 10-12% margins reported between FY10 to FY14. This is because, the company has put-up raw material plants in Myanmar and in Laos and is able to secure raw material at 50-60% of the earlier cost. Company expects these margins to sustain at these levels over the next two years as other players will take some time to gain this competitive advantage.

Century plyboards has more than 25% share in the India's organised plywood sector

Share of organised sector continues to increase

The share of organised sector has increased to 30% from 10% a decade earlier. Although the market is still dominated by unorganised players, with increasing preference for branded wood panel products there is a clear shift from unorganised to organised segment. Century plyboards has more than 25% share in the India's organised plywood sector. Moreover, company has significantly expanded its capacity in the last few years. With its leadership position, company is ideally positioned to capture the market share.

Robust Distributor network

Century Plywood has pan India presence with strategic locations of six manufacturing facilities across all parts of India (North, South, East, West, North East, and Central). The company also has a robust distributor network of 8500 retailers and 127 distributors. The company further plans to increase this count to 10,000 retailers and 150 distributors in 2015-16. The company is also focusing on untapped market segments in smaller cities which will help company expand its presence and gain market share.

GST is a potential "Game Changer"

As mentioned earlier, the plywood market today is largely controlled by the unorganized sector which accounts for 70% of total industry. The uneven indirect duty structure in favour of unorganized players has provided them with a huge price advantage vis-à-vis organized manufacturers. With implementation of GST, the large indirect tax differential will wane and will bring the organised and unorganised players at level playing field. This provides organised players like CPIL with an opportunity to tap into the unorganized market, which is currently 3 times of organised market.

Sustained capex plan to drive growth however debt level to increase

Company is planning to incur capex of Rs 3 billion over FY16 and FY17. The capex will be largely spent towards the MDF and particle board plant. Of the total capex requirement, company is planning to raise Rs 2 billion through borrowings. With some repayments also scheduled, company is likely to have total debt of Rs 6-6.5 billion by FY17 compared to around Rs.4.5 billion at the end of FY15.

Reinitiate with Accumulate rating with price target of Rs 190

We believe that plywood industry is going through strong structural changes which includes – shift from unorganized to organised and challenges in raw material sourcing faced by unorganized players. We also believe that there are some near term catalysts like GST implementation which are significantly positive for the organised plywood players. However growth in plywood industry has moderated in near past due to slowdown in project sale, but the same has seen some sign of recovery.

We have reinitiated our coverage on the company with price target of Rs 190 based on 20xFY17 EPS of Rs 9.5. We believe that higher capacity utilization will drive ROCE / ROE to 28%/38% and expect revenue / EBIDTA / PAT CAGR of 13%/24%/19% over FY15-17E.

Key Financials (Standalone)

Income Statement

Y/E Mar (Rs mn)	FY13	FY14	FY15	FY16E	FY17E
Net Sales	**11,311**	**12,840**	**15,648**	**17,254**	**19,891**
Expenditure	**10,183**	**11,358**	**13,150**	**14,228**	**16,197**
EBITDA	**1,128**	**1,482**	**2,498**	**3,026**	**3,693**
Depreciation	267	332	448	450	535
EBIT	**861**	**1,149**	**2,050**	**2,576**	**3,159**
Other Income	73	95	181	18	20
Interest expenses	390	551	433	561	653
PBT	**544**	**693**	**1,798**	**2,033**	**2,525**
Tax	17	24	290	272	404
Extraordinary Items	0	0	0	0	0
Minority Int./Income from Assoc.	0	0	0	0	0
Reported Net Income	**527**	**669**	**1,508**	**1,760**	**2,121**
Adjusted PAT	**527**	**669**	**1,508**	**1,760**	**2,121**

Balance Sheet

Y/E Mar (Rs mn)	FY13	FY14	FY15	FY16E	FY17E
Equity share capital	223	223	223	223	228
Reserves & surplus	2,274	2,692	3,653	4,742	6,031
Net worth	**2,497**	**2,914**	**3,876**	**4,964**	**6,259**
Minority Interest	**0**	**0**	**0**	**0**	**0**
Loan Funds	**4,678**	**4,478**	**4,587**	**4,958**	**6,158**
Net deferred tax liability	(2)	(5)	(70)	(70)	(70)
Total Liabilities	**7,173**	**7,386**	**8,392**	**9,852**	**12,347**
Net block	**1,857**	**2,120**	**2,089**	**2,239**	**1,845**
Investment	**156**	**379**	**451**	**451**	**451**
Current Assets	**5,978**	**6,480**	**7,662**	**8,740**	**10,375**
Cash & bank balance	797	180	170	118	520
Other Current Assets	576	212	113	90	90
Current liabilities & Provision	**1,179**	**1,780**	**2,037**	**2,378**	**2,729**
Net current assets	**4,799**	**4,700**	**5,625**	**6,362**	**7,646**
Misc. exp	0	0	0	0	5
Total Assets	**7,172**	**7,386**	**8,392**	**9,852**	**12,347**

Cash Flow

Y/E Mar (Rs mn)	FY13	FY14	FY15	FY16E	FY17E
PBT (Ex-Other income) (NI+Dep)	**471**	**598**	**1,617**	**2,015**	**2,505**
Other Non-Cash items	0	0	0	0	0
Chg in working cap	(594)	(522)	(1,000)	(789)	(882)
Operating Cashflow	**(632)**	**936**	**1,040**	**1,921**	**2,302**
Capital expenditure	(377)	(423)	(457)	(1,173)	(1,741)
Free Cash Flow	**(1,010)**	**513**	**584**	**748**	**562**
Investments	577	(223)	(72)	0	0
Other Investing Cash Flow	0	0	0	0	0
Investing Cashflow	**272**	**(551)**	**(348)**	**(1,155)**	**(1,721)**
Equity Capital Raised	(5)	0	0	0	5
Loans Taken / (Repaid)	1,133	(200)	109	371	1,200
Dividend paid (incl tax)	(1)	(251)	(379)	(628)	(731)
Other Financing Cash Flow	0	0	0	0	0
Financing Cashflow	**737**	**(1,002)**	**(702)**	**(817)**	**(180)**
Net chg in cash	**377**	**(617)**	**(10)**	**(52)**	**402**
Opening cash position	421	797	180	170	118
Closing cash position	**797**	**180**	**170**	**118**	**520**

Key Ratios

Profitability (%)	FY13	FY14	FY15	FY16E	FY17E
EBITDA Margin	10.0	11.5	16.0	17.5	18.6
EBIT Margin	7.6	9.0	13.1	14.9	15.9
Effective Tax Rate	3.2	3.4	16.1	13.4	16.0
Net Margin	4.7	5.2	9.6	10.2	10.7
ROCE	13.5	17.1	28.3	28.4	28.6
ROE	18.7	24.7	44.4	39.8	37.8
RoIC	15.6	18.4	28.9	32.1	36.2

Per Share Data (Rs)	FY13	FY14	FY15	FY16E	FY17E
EPS	2.4	3.0	6.8	7.9	9.5
CEPS	3.6	4.5	8.8	10.0	12.0
BVPS	11.2	13.1	17.4	22.3	28.1
DPS	1.0	0.3	1.0	2.0	0.0

Valuations (x)	FY13	FY14	FY15	FY16E	FY17E
PER	74.0	58.2	25.8	22.1	18.4
P/CEPS	25.2	20.0	10.2	9.0	7.5
P/BV	15.6	13.4	10.1	7.9	6.2
EV / Sales	3.8	3.4	2.8	2.5	2.2
EV / EBITDA	38.0	29.2	17.4	14.5	12.1
Dividend Yield (%)	0.6	0.1	0.6	1.1	0.0

Gearing Ratio (x)	FY13	FY14	FY15	FY16E	FY17E
Net Debt/ Equity	1.6	1.5	1.1	1.0	0.9
Net Debt/EBIDTA	3.4	2.9	1.8	1.6	1.5
Working Cap Cycle (days)	129.1	128.5	127.2	132.1	130.8

Growth (%)	FY13	FY14	FY15	FY16E	FY17E
Revenue	1.1	13.5	21.9	10.3	15.3
EBITDA	(10.0)	31.3	68.6	21.1	22.1
EBIT	(12.9)	33.5	78.3	25.6	22.6
PAT	(12.4)	27.1	125.3	16.7	20.5

Quarterly (Rs mn)	Q2FY15	Q3FY15	Q4FY15	Q1FY16	Q2FY16
Revenue	4,070	3,858	4,092	3,709	4,422
EBITDA	638	710	793	668	738
EBITDA Margin (%)	**15.7**	**18.4**	**19.4**	**18.0**	**16.7**
PAT	358	414	480	397	463
EPS (Rs)	**1.6**	**1.8**	**2.2**	**1.8**	**2.1**

Shareholding Pattern (%)	Sep-14	Dec-14	Mar-15	Jun-15	Sep-15
Promoters	74.5	74.5	73.3	73.3	73.3
FIIs	5.9	6.0	8.5	8.8	10.7
DIIs	2.0	2.8	3.3	3.1	3.4
Public and Others	17.7	16.7	14.8	14.7	12.5

Emkay Rating Distribution

BUY	Expected total return (%) (Stock price appreciation and dividend yield) of over 25% within the next 12-18 months.
ACCUMULATE	Expected total return (%) (Stock price appreciation and dividend yield) of over 10% within the next 12-18 months.
HOLD	Expected total return (%) (Stock price appreciation and dividend yield) of upto 10% within the next 12-18 months.
REDUCE	Expected total return (%) (Stock price depreciation) of upto (-) 10% within the next 12-18 months.
SELL	The stock is believed to underperform the broad market indices or its related universe within the next 12-18 months.

Emkay Global Financial Services Ltd.
CIN - L67120MH1995PLC084899
7th Floor, The Ruby, Senapati Bapat Marg, Dadar - West, Mumbai - 400028. India
Tel: +91 22 66121212 Fax: +91 22 66121299 Web: www.emkayglobal.com