

Century Plyboards

BSE SENSEX	S&P CNX
26,265	7,954
Bloomberg	CPBI IN
Equity Shares (m)	222.5
M.Cap.(INR b)/(USD b)	38.9/0.6
52-Week Range (INR)	262 /135
1, 6, 12 Rel. Per (%)	5/2/26

CMP: INR175
TP: INR250 (+43%)
Buy
Results in line; revival in demand-led growth

- Results in line:** CPBI reported revenue of INR4.4b (est. of INR4.4b) v/s INR4b in 2QFY15, marking an 8.6% growth YoY. Plywood revenue grew 7% YoY to INR3.2b; laminates grew 12% YoY to INR885m while logistics business was flat YoY at INR201m. EBITDA stood at INR738m (est. of INR769m) as against INR638m in 2QFY15. EBITDA margin for 2QFY16 stood at 16.7% (est. of 17.5%) against 15.7% in 2QFY15. Plywood margin came in at 16% (v/s 13% in 2QFY15), logistics margin came in at 28% (v/s 33% in 2QFY15) and laminates margin came in at 12% (v/s 10% in 2QFY15). PAT stood at INR463m (est. of INR434m) compared with INR358m in 2QFY15.
- Revival in consumer demand; growth to be back-ended:** The management highlighted that demand revival was witnessed in 2Q, with pickup from mid-August—and the pick-up was such that August and September saw demand remaining unfulfilled. Management commented that October also has done reasonably well. CPBI took 3-4% price hike in 2QFY16, which offset the higher share of low-value products. Plywood growth was driven by economy products like Sainik—with CPBI taking special efforts to promote these products, targeting consumers migrating from unorganized to organized.
- Large capex lined up:** CPBI has lined up capex of INR3b spread (INR0.6b for particle board plant and INR2.4b for MDF plant) over FY16 and FY17—to be financed 70% through debt and balance through internal accruals. Of the total capex, around INR500m is expected to be incurred in FY16 and balance in FY17. Management highlighted that particle board capacity is expected to be operational in January 2016 while MDF capacity of 600 CBM per day is expected to commence production by CY16-end.
- Valuation and view:** 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 markets. Given the improving return ratios (26% RoCE in FY15; expected to reach 31% by FY17), strong EPS growth (20% CAGR over FY15-17) and strong medium-term growth visibility, we believe CPBI deserves multiples in line with similar building product leaders. Maintain **Buy**. Our target price is INR250 (25x FY17E EPS).

Financials & Valuation (INR Billion)

Y/E Mar	2015	2016E	2017E
Sales	15.9	16.9	19.6
EBITDA	2.7	3.1	3.6
NP	1.5	1.9	2.2
EPS (INR)	6.7	8.5	9.7
EPS Gr. (%)	147.2	27.3	13.8
BV/Sh.(INR)	17.5	24.4	32.0
RoE (%)	43.7	40.7	34.4
RoCE (%)	25.3	29.1	30.8
P/E (x)	26.0	20.4	18.0
P/BV (x)	10.0	7.1	5.4

Estimate change

TP change

Rating change

Standalone - Quarterly Earning Model

Y/E March	FY15				FY16				FY15	FY16E	FY16	Var
	1Q	2Q	3Q	4Q	1Q	2Q	3QE	4QE				
Net Sales	3,627	4,070	3,858	4,092	3,709	4,422	4,244	4,501	15,884	16,851	4,396	1
YoY Change (%)	27.9	15.7	26.3	19.3	2.3	8.6	10.0	10.0	23.7	6.1	8.0	
Total Expenditure	3,146	3,432	3,129	3,299	3,042	3,684	3,443	3,610	13,181	13,750	3,627	
EBITDA	481	638	730	793	668	738	801	891	2,703	3,101	769	-4
Margins (%)	13.3	15.7	18.9	19.4	18.0	16.7	18.9	19.8	17.0	18.4	17.5	
Depreciation	104	109	116	119	101	107	109	109	485	435	125	
Interest	74	124	145	90	123	135	122	122	456	487	116	
Other Income	4	15	9	9	3	5	10	20	33	40	5	
PBT	307	420	478	593	448	501	581	681	1,796	2,218	533	-6
Tax	50	62	64	114	51	39	87	102	296	311	96	
Rate (%)	16.3	14.8	13.5	19.1	11.3	7.7	15.0	15.0	16.5	14.0	18.0	
Reported PAT	257	358	414	480	397	463	491	576	1,490	1,897	434	6
Adj PAT	257	358	414	480	397	463	491	576	1,490	1,897	434	6
YoY Change (%)	-710.7	62.5	109.5	63.2	54.4	29.3	18.7	20.0	122.5	27.3	21.5	
Margins (%)	7.1	8.8	10.7	11.7	10.7	10.5	11.6	12.8	9.4	11.3	9.9	

E: MOSL Estimates

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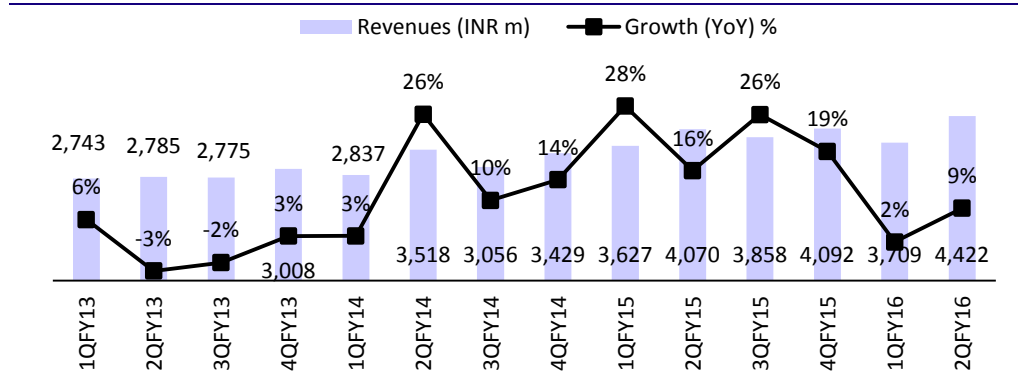
Investors are advised to refer through disclosures made at the end of the Research Report.

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

Results in-line

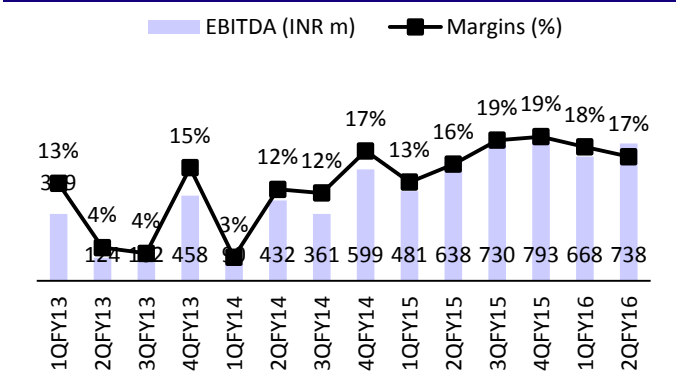
- CPBI reported revenues of INR4.4b (est. of INR4.4b) compared with INR4b in 2QFY15, marking 8.6% growth YoY.
- Plywood business grew 7% YoY to INR3.2b; laminates grew 12% YoY to INR885m while logistics business was flat YoY at INR201m. EBITDA stood at INR738m (est. of INR769m) as against INR638m in 2QFY15.
- EBITDA was impacted by a forex loss of INR108m, on account of weaker USD:INR, of which INR20m was book loss, balance being restatement loss.
- Management highlighted that if the exposure would have been hedged, it would have led to higher costs. The savings in interest are more than forex loss suffered. EBITDA margins for 2QFY16 stood at 16.7% (est. of 17.5%) against 15.7% in 2QFY15.
- Plywood margins came in at 16% (v/s 13% in 2QFY15), logistics margins came in at 28% (v/s 33% in 2QFY15) and laminates margins came in at 12% (v/s 10% in 2QFY15).
- PAT stood at INR463m (est. of INR434m) compared with INR358m in 2QFY15.

Exhibit 1: Revenue trend



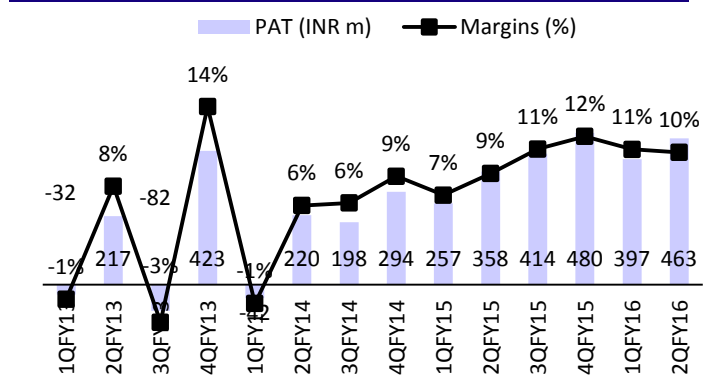
Source: Company, MOSL

Exhibit 2: EBITDA and EBITDA margin trend



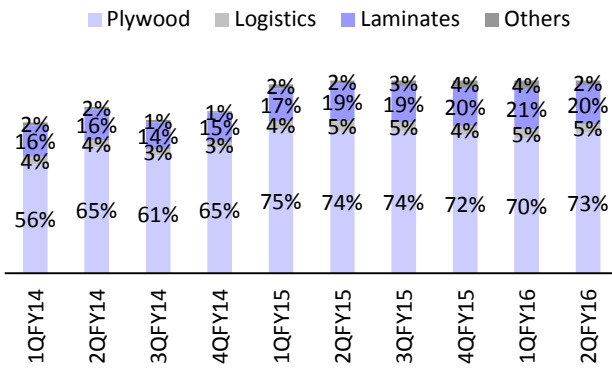
Source: Company, MOSL

Exhibit 3: PAT trend



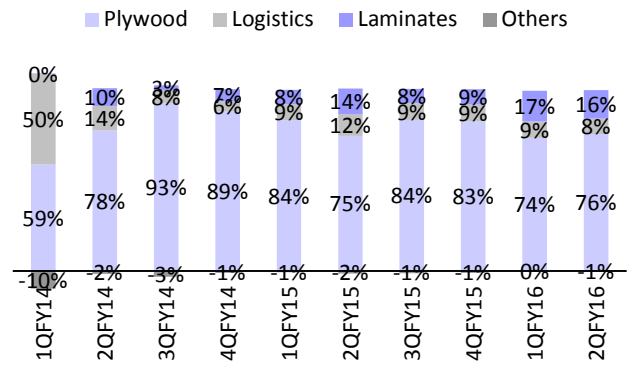
Source: Company, MOSL

Exhibit 4: Revenue mix: Plywood contributes 73%



Source: Company, MOSL

Exhibit 5: EBIT mix: Plywood comprises 76% to EBIT

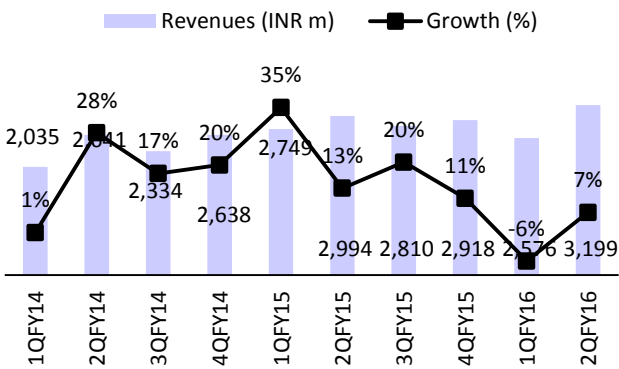


Source: Company, MOSL

Plywood posts a growth of 7%

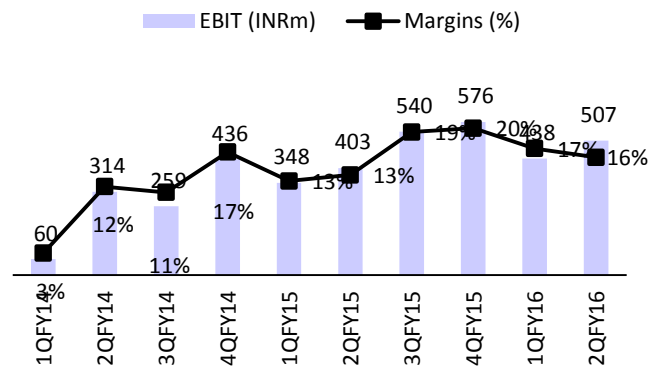
- Plywood grew by 7% to INR3.2b, contributing 73% to revenues and 76% to EBIT. Volume growth stood at 3.6% while realization growth stood at 3.5%.
- Margins for the division expanded 300 bps to 16% as against 13% in 2QFY15.

Exhibit 6: Plywood grew by 7% YoY



Source: Company, MOSL

Exhibit 7: Plywood EBIT margin trend

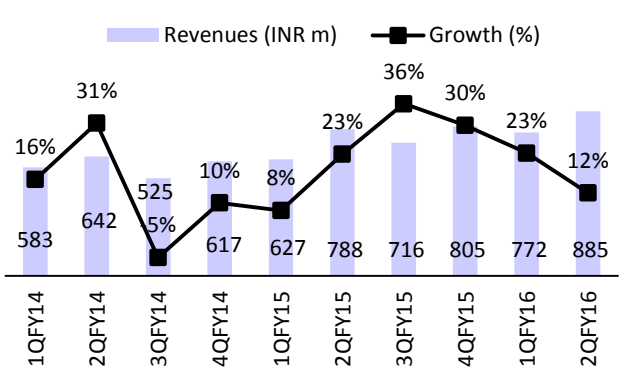


Source: Company, MOSL

Laminates continue to show strong growth

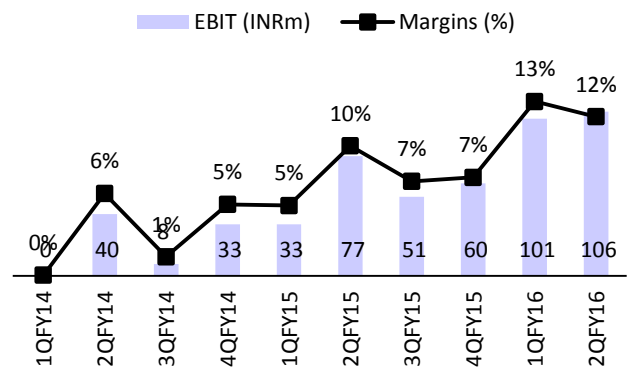
- Laminates division posted 12% revenue growth and 200bp margin expansion.

Exhibit 8: Laminates grew by 12% YoY



Source: Company, MOSL

Exhibit 9: Laminates EBIT margin trend

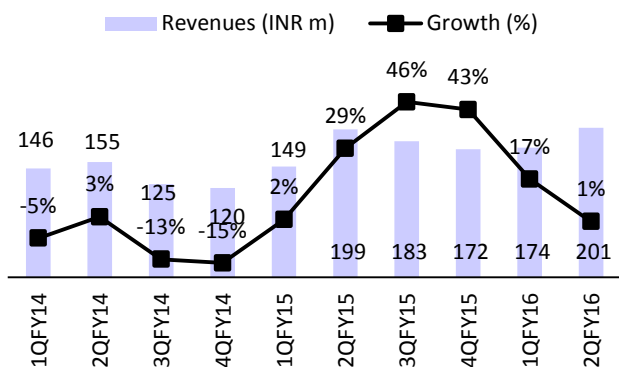


Source: Company, MOSL

Logistics post strong growth coupled with margins expansion

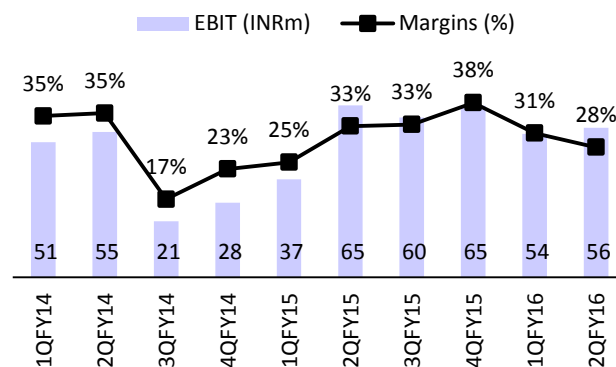
- Logistics division grew by 1% contributing 5% to revenues and 8% to EBIT.
- Margins for the division contracted 500 bps to 28% as against 33% in 2QFY15.

Exhibit 10: Logistics revenue trend



Source: Company, MOSL

Exhibit 11: Logistics EBIT margin trend



Source: Company, MOSL

Revival in consumer demand seen, growth to be back ended

- The management highlighted that demand revival was experienced in 2Q, with pickup seen from mid-August.
- Management commented that October also has done well. CPBI took 3-4% price hikes in 2QFY16, which offset higher share of low value products.
- Plywood growth was driven through economy products like Sainik, with CPBI taking efforts targeting consumers migrating from unorganized to organized.

Large capex lined up

- CPBI has lined up capex of INR3b spread (INR0.6b for Particle Board Plant and INR2.4b for MDF plant) over FY16 and FY17 – to be financed 70% through debt and balance through internal accruals.
- Of this around 500m is expected to be incurred in FY16, while balance would be incurred in FY17.
- Management highlighted that particle board capacity is expected to be operational in January 2016 while MDF capacity of 600 CBM per day is expected to commence production by end of CY16.

Other conference call highlights

- **Raw material supply:** Many countries have banned exports of raw timber. Myanmar banned export of raw timber last year; Laos followed a similar path last month. However, since CPBI has processing capacities in place in Myanmar and Laos, the company is confident of raw material security. CPBI is looking at selling surplus veneer from Laos in secondary market in India. CPBI is also exploring a possibility of putting up processing facilities in Indonesia.
- Management highlighted that industry is looking forward to GST which can propel demand for the organized sector.
- **Growth outlook:** Management guided that volume growth for FY16 should be single digits, while value growth should be ~12-13%. CPBI targets to have revenues in excess of INR17b for FY16. Management expects FY17 to see growth close to ~25% with all investments in place and operational - particle board and MDF. Margins should remain close to ~18% and can expect expansion once share of high value products increases.

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 1/5th 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 improving return ratios (26% RoCE in FY15; expected to reach 31% by FY17), strong EPS growth (20% CAGR over FY15-17), and strong medium-term growth visibility, we believe CPBI deserves multiples in line with similar building product leaders. Maintain **Buy** with a PT of INR250 (25x FY17E EPS).

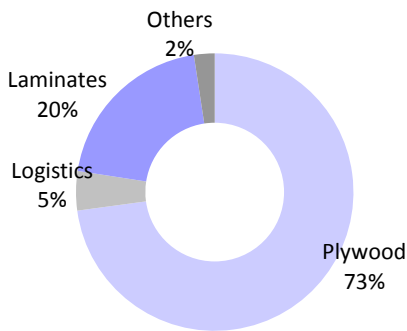
Exhibit 12: Peer comparison

Company Name	CMP (INR)	Market Cap (INR b)	PE (x)		
			FY15	FY16E	FY17E
Century Plyboards India Ltd	174	38.9	26.0	20.4	18.0
Greenply Industries Ltd	876	21.1	17.0	18.8	17.2
Other building product companies					
Kajaria Ceramics Ltd	881	69.9	38.7	31.0	24.9
Astral Polytechnik Ltd	419	49.6	63.1	36.1	25.6
Asian Paints Ltd	802	769	54.2	44.1	37.1
Average			43.3	32.5	26.2

Source: Company, MOSL

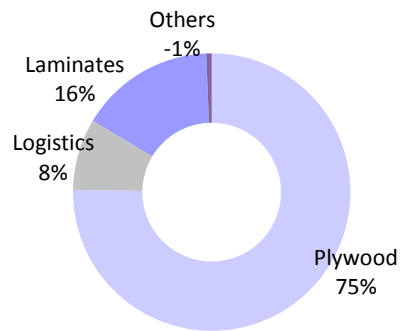
Story in charts

Exhibit 13: Revenue Contribution in 2QFY16 (%)



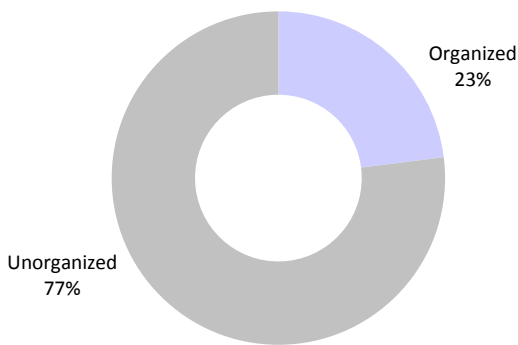
Source: MOSL, Company

Exhibit 14: EBIT mix (%)



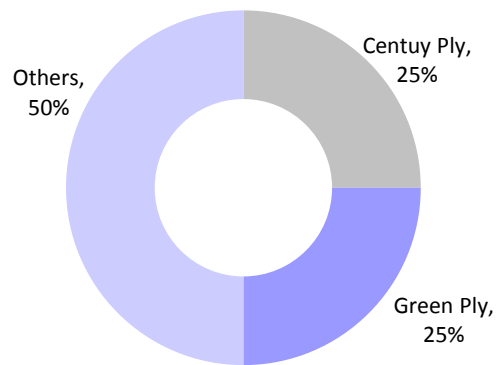
Source: MOSL, Company

Exhibit 15: Plywood industry largely unorganized currently



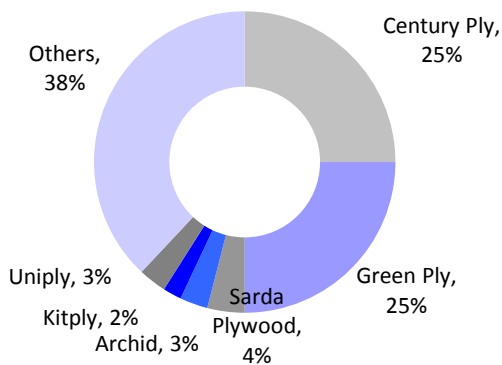
Source: MOSL, Company

Exhibit 16: Market share of organized players



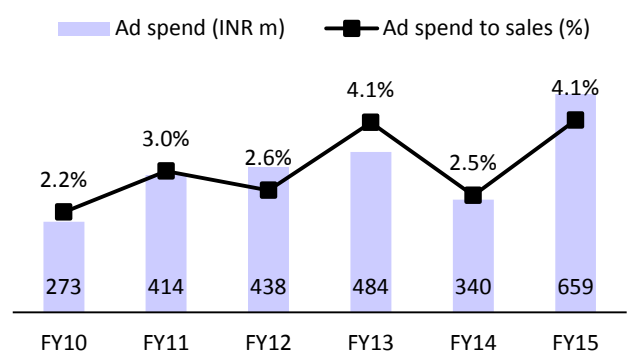
Source: MOSL, Company

Exhibit 17: Century Ply and Greenply dominate the market



Source: MOSL, Company

Exhibit 18: Advertising investments average 3% annually



Source: MOSL, Company

Financials and valuations

Consolidated - Income Statement							(INR Million)	
Y/E March	FY10	FY11	FY12	FY13	FY14	FY15	FY16E	FY17E
Total Income from Operations	12,618	13,601	16,674	11,817	13,477	15,884	16,851	19,565
Change (%)	12.4	7.8	22.6	-29.1	14.0	17.9	6.1	16.1
EBITDA	2,451	2,493	2,853	1,234	1,582	2,703	3,101	3,620
Margin (%)	19.4	18.3	17.1	10.4	11.7	17.0	18.4	18.5
Depreciation	452	508	556	280	387	485	435	581
EBIT	1,999	1,985	2,297	954	1,195	2,218	2,666	3,038
Int. and Finance Charges	252	232	585	404	603	456	487	434
Other Income	301	85	50	72	37	33	40	48
PBT bef. EO Exp.	2,049	1,838	1,762	622	629	1,796	2,218	2,652
EO Items	0	0	-206	0	0	0	0	0
PBT after EO Exp.	2,049	1,838	1,555	622	629	1,796	2,218	2,652
Current Tax	205	-51	64	17	28	349	311	530
Deferred Tax	12	-7	-6	29	-32	-53	0	0
Tax Rate (%)	10.6	-3.2	3.7	7.4	-0.7	16.5	14.0	20.0
Less: Minority Interest	370	351	270	25	31	10	11	12
Reported PAT	1,462	1,546	1,228	552	603	1,490	1,897	2,110
Adjusted PAT	1,462	1,546	1,426	552	603	1,490	1,897	2,110
Change (%)	62.6	5.7	-7.7	-61.3	9.2	147.2	27.3	11.2
Margin (%)	11.6	11.4	8.6	4.7	4.5	9.4	11.3	10.8

Consolidated - Balance Sheet							(INR Million)	
Y/E March	FY10	FY11	FY12	FY13	FY14	FY15	FY16E	FY17E
Equity Share Capital	228	228	228	223	223	223	223	223
Total Reserves	4,639	6,061	7,038	2,336	2,708	3,671	5,207	6,852
Net Worth	4,867	6,289	7,266	2,558	2,931	3,894	5,429	7,075
Minority Interest	1,240	1,558	1,794	86	115	55	55	55
Deferred Liabilities	35	35	29	27	4	8	8	8
Total Loans	4,204	5,664	10,482	5,419	5,801	5,138	4,138	4,538
Capital Employed	10,345	13,545	19,570	8,090	8,850	9,095	9,630	11,675
Gross Block	5,455	6,756	7,220	4,123	4,895	4,607	5,507	8,007
Less: Accum. Deprn.	1,960	2,494	3,091	1,396	1,731	2,151	2,586	3,167
Net Fixed Assets	3,495	4,262	4,129	2,728	3,164	2,456	2,921	4,840
Curr. Assets, Loans&Adv.	6,640	8,583	10,030	6,085	6,793	7,816	8,327	8,728
Inventory	2,105	2,555	3,105	2,293	3,029	3,322	3,361	3,902
Account Receivables	1,286	1,522	1,951	1,793	2,089	2,683	2,770	3,055
Cash and Bank Balance	496	364	685	1,020	387	374	645	64
Loans and Advances	2,754	4,142	4,289	980	1,289	1,436	1,551	1,706
Curr. Liability & Prov.	1,495	2,358	2,331	1,268	1,389	1,580	1,695	1,970
Account Payables	1,403	2,052	2,303	1,166	1,063	1,152	1,656	1,923
Provisions	92	306	28	102	326	428	39	46
Net Current Assets	5,146	6,225	7,699	4,817	5,404	6,236	6,632	6,759
Deferred Tax assets	21	28	29	2	11	70	70	70
Misc Expenditure	2	0	0	0	0	3	3	3
Appl. of Funds	10,345	13,545	19,571	8,090	8,850	9,095	9,630	11,675

Financials and valuations

Ratios

Y/E March	FY10	FY11	FY12	FY13	FY14	FY15	FY16E	FY17E
Basic (INR)								
EPS	6.4	6.8	6.3	2.5	2.7	6.7	8.5	9.5
Cash EPS	8.4	9.0	8.7	3.7	4.4	8.9	10.5	12.1
BV/Share	21.4	27.6	31.9	11.5	13.2	17.5	24.4	31.8
DPS	1.0	1.0	1.0	0.3	1.0	2.0	1.4	1.8
Payout (%)	18.4	16.8	21.1	11.8	41.8	35.9	19.0	22.0
Valuation (x)								
P/E					64.4	26.0	20.4	18.4
Cash P/E					39.2	19.6	16.6	14.4
P/BV					13.2	10.0	7.1	5.5
EV/Sales					3.3	2.7	2.5	2.2
EV/EBITDA					27.9	16.1	13.6	12.0
Dividend Yield (%)					0.6	1.1	0.8	1.0
FCF per share					-1.4	7.0	9.5	-0.4
Return Ratios (%)								
RoE	34.3	27.7	21.0	11.2	22.0	43.7	40.7	33.7
RoCE	27.4	19.7	15.8	8.0	14.7	25.3	29.1	29.1
Working Capital Ratios								
Asset Turnover (x)	1.2	1.0	0.9	1.5	1.5	1.7	1.7	1.7
Inventory (Days)	61	69	68	71	82	76	73	73
Debtor (Days)	36	39	40	51	52	57	56	53
Creditor (Days)	110	130	112	58	50	50	69	69
Working Cap. Turnover (Days)	135	157	154	117	136	135	130	125
Leverage Ratio (x)								
Current Ratio	4.4	3.6	4.3	4.8	4.9	4.9	4.9	4.4
Debt/Equity	0.9	0.9	1.4	2.1	2.0	1.3	0.8	0.6

Consolidated - Cash Flow Statement

(INR Million)

Y/E March	FY10	FY11	FY12	FY13	FY14	FY15	FY16E	FY17E
OP/(Loss) before Tax	2,048	1,838	1,555	623	629	1,796	2,218	2,652
Depreciation	452	508	556	280	387	485	435	581
Interest & Finance Charges	213	189	554	395	580	440	487	434
Direct Taxes Paid	-335	-363	-365	-105	-117	-337	-311	-530
(Inc)/Dec in WC	-310	-338	-1,239	-600	-1,168	-877	-125	-707
CF from Operations	2,068	1,835	1,062	592	311	1,507	2,704	2,429
Others	-83	18	157	12	28	-19	-11	-12
CF from Operating incl EO	1,986	1,853	1,219	604	339	1,488	2,694	2,417
(inc)/dec in FA	-1,455	-3,144	-4,466	-1,570	-643	68	-574	-2,500
Free Cash Flow	530	-1,291	-3,247	-966	-305	1,556	2,120	-83
CF from Investments	-1,558	-3,301	-4,233	-1,812	-690	128	-574	-2,500
Inc/(Dec) in Debt	152	1,651	4,512	-5,063	382	-649	-1,000	400
Interest Paid	-214	-203	-623	-404	-594	-465	-487	-434
Dividend Paid	-222	-81	-478	-65	-59	-462	-361	-465
Others	-38	-51	-77	7,079	-11	-52	0	0
CF from Fin. Activity	-323	1,317	3,335	1,542	-281	-1,628	-1,848	-498
Inc/Dec of Cash	105	-132	321	334	-632	-13	271	-581
Opening Balance	390	496	364	685	1,019	387	374	645
Closing Balance	496	364	685	1,019	387	374	645	64

Corporate profile: Century Plyboards

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 19: Sensex rebased

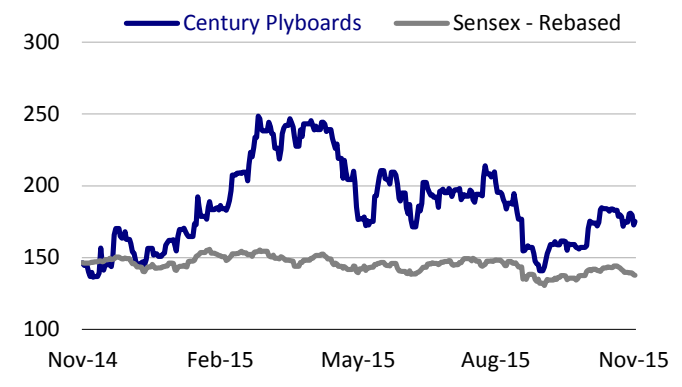


Exhibit 20: Shareholding pattern (%)

	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	6.0
Others	12.5	14.7	17.6

Note: FII Includes depository receipts

Exhibit 22: Top management

Name	Designation
Sajjan Bhajanka	Chairman
Hari Prasad Agarwal	Vice Chairman
Vishnu Khemani	Managing Director
Sanjay Agarwal	Managing Director
Prem Kumar Bhajanka	Managing Director
Ajay Baldawa	Executive Director

Exhibit 24: Auditors

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

Exhibit 21: Top holders

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

Exhibit 23: Directors

Name	Name
Sajjan Bhajanka	Santanu Ray*
Hari Prasad Agarwal	Mangi Lal Jain*
Vishnu Khemani	Samarendra Mitra*
Sanjay Agarwal	Manindra Nath Banerjee*
Prem Kumar Bhajanka	Mamta Binani*
Asit Pal*	Ajay Baldawa

*Independent

Exhibit 25: MOSL forecast v/s consensus

EPS (INR)	MOSL forecast	Consensus forecast	Variation (%)
FY16	8.5	-	-
FY17	9.5	-	-

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