

Century Plyboards India Ltd

Bloomberg Code: CPBI IN

India Research - Stock Broking

BUY

Brand Bonded with Growth and Profitability

Brand conviction of durability: Century Plyboards India Ltd. (CPIL) came into existence in 1986. It is a leading manufacturer and supplier of quality plywood, laminate sheets, marine wood, Medium Density Fiber (MDF) boards and veneer wood. The prominent brands in plywood include CenturyPly Club Prime, Architect and CenturyPly Marine; Slimline and Opulenza are popular brands in laminates.

Sustainable raw material linkage: Raw material linkage plays vital role in plywood industry, as timber logs procurement depends on available expanses of global forests. Environmental policies of local governments influence quantity of tree logs that can be used for industrial purpose. Over the years, CPIL has managed to cater to raw material scarcity well in time and implement appropriate strategy to overcome the same. After the ban on timber log exports from Myanmar, CPIL opened a peeling unit in Myanmar to procure face veneers instead of raw timber logs. It is now looking for other alternative species of plywood like Beech from Europe, MLH (Mixed Light Hardwood) from Solomon Islands and Papua (New Guinea) at much lower cost than Gurjan ply from Myanmar, thereby improving margins.

Revival in Housing and Construction demand: Real estate inventories in six prominent urban locations remained at very high levels in FY15. The reduction in lending rates by banks and new government's emphasis on infrastructure & housing would lead to progressive liquidation of unsold apartments in next two years. The subsequent acceleration in the off-take of interior infrastructure products can help to increase CPIL's revenues.

Valuation and Outlook

At current price of Rs195, the stock is trading at PE of 25.4x and 17.6x of its FY16E and FY17E earnings respectively. It has P/BV of 8.2x and 5.9x for FY16E and FY17E respectively. We recommend a **"BUY"** rating on CPIL with a target price of Rs.226 with an upside potential of 16.2%.

Key Risks

Slowdown in real estate and construction sector may hamper CPIL's revenue growth. GST rates and its implementation date would decide the actual benefits for plywood industry. As applicable to any plywood manufacturer, CPIL is vulnerable to raw material availability and price rise.

Exhibit 1: Valuation Summary (Rs. Mn)

YE Mar (Rs. Mn)	FY13	FY14	FY15	FY16E	FY17E
Net Sales	11747	13362	15884	18502	23683
EBITDA	1234	1582	2559	2816	3908
EBITDA Margin (%)	10.5	11.8	16.1	15.2	16.5
Adj. Net Profit	552	603	1490	1705	2456
EPS (Rs.)	2.5	2.7	6.7	7.7	11.0
RoE (%)	11.2	22.0	43.7	37.2	38.8
PE (x)	78.5	71.9	29.1	25.4	17.6

Source: Company, Karvy Research

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Recommendation (Rs.)

CMP (as on Jul 24, 2015)	195
Target Price	226
Upside (%)	16.2

Stock Information

Mkt Cap (Rs.mn/US\$ mn)	43268 / 676
52-wk High/Low (Rs.)	262 / 78
3M Avg. daily volume (mn)	0.7
Beta (x)	1.7
Sensex/Nifty	28112 / 8522
O/S Shares(mn)	222.2
Face Value (Rs.)	1.0

Shareholding Pattern (%)

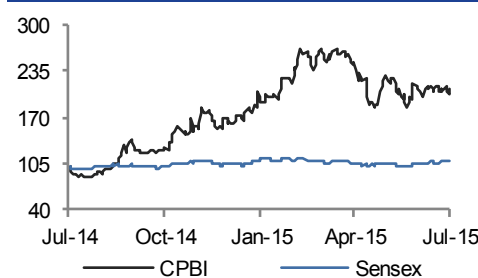
Promoters	73.3
FII	8.8
DII	3.1
Others	14.7

Stock Performance (%)

	1M	3M	6M	12M
Absolute	1	(11)	9	106
Relative to Sensex	(1)	(13)	14	93

Source: Bloomberg

Relative Performance*



Source: Bloomberg; *Index 100

Analyst Contact

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Company Financial Snapshot (Y/E Mar)
Profit & Loss (Rs. Mn)

	FY15	FY16E	FY17E
Net sales	15884	18502	23683
Optg. Exp (Adj for OI)	13326	15686	19775
EBITDA	2559	2816	3908
Depreciation	485	473	599
Interest	456	472	552
Other Income	177	195	215
PBT	1796	2066	2971
Tax	296	341	490
Adj. PAT	1490	1705	2456
Profit & Loss Ratios			
EBITDA margin (%)	16.1	15.2	16.5
Net margin (%)	9.4	9.2	10.4
P/E (x)	29.1	25.4	17.6
EV/EBITDA (x)	18.8	17.4	12.8
Dividend yield (%)	0.9	1.0	1.0

Source: Company, Karvy Research

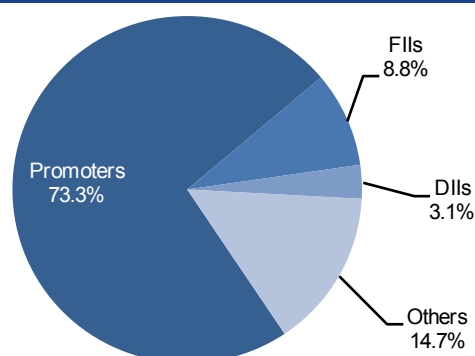
Balance sheet (Rs. Mn)

	FY15	FY16E	FY17E
Total Assets	10675	12462	15848
Net Fixed assets	2782	3809	4910
Current assets	7793	8554	10838
Other assets	100	100	100
Total Liabilities	10675	12462	15848
Networth	3894	5263	7383
Minority interest	55	75	100
Debt	5138	5898	6898
Current Liabilities	1552	1190	1430

Balance Sheet Ratios

RoE (%)	43.7	37.2	38.8
RoCE (%)	25.0	24.9	27.4
Net Debt/Equity	1.2	1.1	0.9
Equity/Total Assets	36.5	42.2	46.6
P/BV (x)	11.1	8.2	5.9

Source: Company, Karvy Research

Exhibit 2: Shareholding Pattern (%)


Source: Company, Karvy Research

Company Background

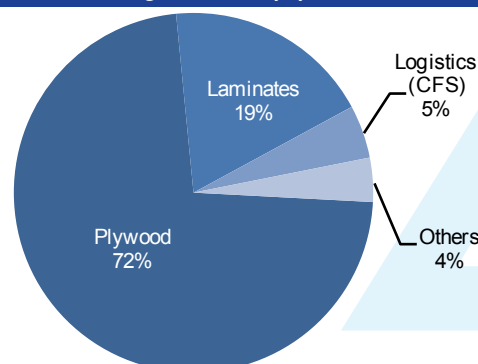
Century Plyboards (I) Ltd (CPIL) came into existence in 1986 and now it is one of the largest seller of multi-use plywood and decorative veneers in the Indian organized plywood market. The company has seven manufacturing units Joka (West Bengal), Guwahati (Assam), Kandla (Gujarat), Chennai (Tamil Nadu), Karnal (Haryana) Roorkee (Uttarakhand), and Myanmar. The Myanmar and the Roorkee units are held through subsidiaries. The company is engaged in the manufacture of plywood, laminates, veneer, MDF, blockboards and doors. The company is also engaged in Container Freight Station (CFS) business, managing the first private CFS at the Kolkata Port. The company exports wide range of premium products to over 20 countries.

It has a strong distribution network with 35 branch offices/sales depots, and more than 14500 channel partners including dealers, sub-dealers and retailers across India. The company has widened its dealer base from 1106 in 2011 to about 1500 in 2015.

Cash Flow (Rs. Mn)

	FY15*	FY16E	FY17E
PBT	1796	2066	2971
Depreciation	485	473	599
Interest (net)	456	472	552
Tax	(296)	(341)	(490)
Changes in WC	(847)	(1172)	(2039)
CF from Operations	1169	1498	1593
Capex	288	(1500)	(1700)
Investments	27	-	-
CF from Investing	315	(1500)	(1700)
Debt	(663)	760	1000
Interest paid	(456)	(472)	(552)
Dividends (Inc. tax)	(325)	(336)	(336)
CF from Financing	(1444)	(48)	112
Change in Cash	40	(49)	6

Source: Company, Karvy Research, * Derived from PL & BS

Exhibit 3: Revenue Segmentation (%)


Source: Company, Karvy Research

Corporate Structure

CPIL was incorporated by Mr. Sajjan Bhajanka and Mr. Sanjay Agarwal. Mr. Sajjan Bhajanka, Executive Chairman is a graduate with 45 years of industry experience. Mr. Sanjay Agarwal, CEO and Managing Director of the company who is graduate with 30 years of industry experience. Other promoters are Mr. Vishnu Khemani, Mr. Prem Kumar Bhajanka and Mr. Hari Prasad Agarwal are Managing Directors handling various functions.

Subsidiary and Associates

Auro Sundram Ply & Door Pvt. Ltd. (ASPDPL), Aegis Business Ltd. (ABL), Aegis Overseas Ltd. (AOL), Century MDF Ltd. (CML), Centuryply Myanmar Pvt. Ltd. (CMPL) and Century Infotech Ltd. are subsidiaries of the company. CML was acquired for the purpose of implementing company's Medium Density Fibre (MDF) business. CMPL has set up a veneer and plywood unit near Yangon city in Myanmar, which has become operational in FY14.

ASPDPL is operating a plywood unit at Raipur Industrial Area, Uttarakhand. This unit is manufacturing plywood and allied products from eco-friendly agro-forestry timber. ABL and AOL are engaged in logistic and trading of mineral and other commodities. ABL has also entered into shipping business by acquiring a super max vessel of 52,261 ton capacity. Century Infotech Ltd. is engaged in business of e-commerce, e-shopping, online information services, online application integration including buying, selling, marketing, trading and dealing in various kinds of products and services on Internet. Ara Suppliers Pvt. Ltd., Arham Sales Pvt. Ltd., Adonis Vyaper Pvt. Ltd., Apnapan Viniyog Pvt. Ltd., Aegis Siam Ltd. (ASL) and Aegis Siam Resources Company Ltd (ASRCL) are associate companies. Both ASL and ASRCL are engaged in the business of trading minerals and analysis & examination of mines. CPIL's wholly owned subsidiary Century Ply (Singapore) Pte. Ltd. in Singapore has incorporated a step-down subsidiary by the name PT Century Ply Indonesia in Indonesia. The said subsidiary has been incorporated with the object of trading in timber, manufacturing and trading in plywood & all wood products & materials and providing related services.

Subsidiaries	Country	% of Voting Power
Auro Sundaram Ply & door pvt. Ltd	India	51
Aegis Business Ltd.	India	51
Aegis Overseas Ltd.	UAE	100
Centuryply Myanmar Pvt. Ltd	Myanmar	100
Century MDF Ltd	India	100
Century Infotech Ltd.	India	75
Century Ply (Singapore) Pte. Ltd.	Singapore	100
PT Century Ply*	Indonesia	100

Source: Company, Karvy Research, *Step-down subsidiary of Century Ply Pte. Ltd.

Associates	Country	% of Owning Interest
Aegis Siam Ltd	Thailand	49
Aegis Siam Resources Company Ltd	Thailand	49
Apnapan Viniyog Private Ltd	India	29.39
Ara Suppliers Private Ltd	India	29.39
Arham Sales Private Ltd	India	29.39
Adonis Vyaper Private Ltd	India	29.39

Source: Company, Karvy Research

Basics of Woodworking

Plywood:

The plywood sheets that are commonly used in the making of wooden furniture are made from several layers of thin sheets of wood. All these layers are firmly pressed and joined with each other to make a plywood sheet. If all these individual layers of wood have been obtained from a hardwood tree, as is usually the case, then the final finished plywood sheet is called 100% hardwood plywood.

Blockboards:

The core of the blockboard is made from solid blocks of wood which are rectangular elongated blocks/strips obtained from a softwood tree. All these small blocks are of almost the same size, and are arranged end to end to form the entire blockboard core. Then as in the case of plywood, a top and bottom layer of wooden ply is bonded / glued over these blocks to form the faces/ surfaces.

Veneer:

In woodworking, veneer refers to thin slices of wood obtained from tree logs, usually thinner than 3 mm (1/8 inch) that typically are glued onto core panels of wood to produce flat panels such as doors, tops, cabinets and parts of furniture.

Laminates:

Laminates are artificially produced materials made from paper and plastic resins. They are also known as decorative laminates. Similar to veneers these are also used as an overlay over wooden surfaces to increase their beauty. In India, people often refer to laminates by the name of Sunmica (which is actually the name of a well-known laminate company that was an early entrant in the Indian laminate market).

Both laminates and veneers are decorative overlay materials, meant to increase the beauty of the underlying wood. High quality veneers are generally costlier than laminates. Laminates are easier to maintain. They are scratch-resistant, waterproof and usually retain their look for years. In comparison, veneers require more maintenance.

Pre-laminated (Prelam) Particle Boards:

Prelam Particle Boards are wooden blocks/boards that have a decorative laminate surface attached to it at the time of its manufacture. Adding such a decorative laminate over the board surface greatly increases its aesthetic value by making it look more attractive for the end-customer, as also increases the board's resistance to moisture, and to wear and tear. Pre-laminated particle boards have several end-uses such as in the making of ready-made furniture, and for making kitchen cabinets, false ceiling, wall panels, partitions and other such applications. Particle boards are not as strong as plywood or blockboards, however the cost of these boards is also significantly lower than the cost of plywood sheets of the same size.

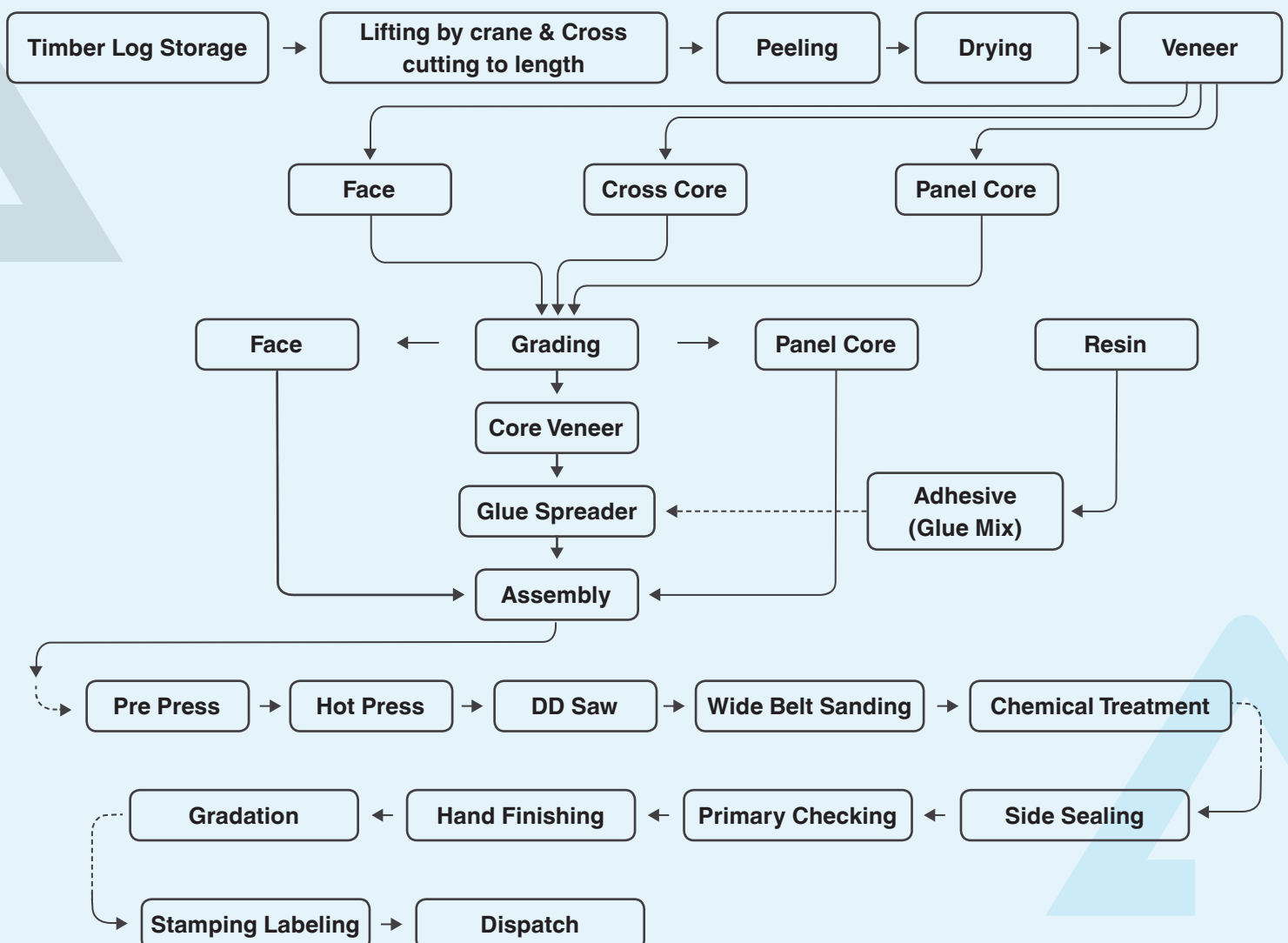
Medium Density Fiberboard (MDF):

MDF is a high grade, composite material that performs better than solid wood in many areas. Made from recycled wood fibers and resin, MDF is machine dried and pressed to produce dense, stable sheets. MDF is more stable than solid wood and stands up better to changes in heat and humidity.

The Making of Plywood

The plywood production can be broadly classified into five major parts, they are:

- 1. Selection of raw material:** It is beginning of the manufacturing process during which only selected medium density hard wood logs are chosen for processing. The logs are sourced from tropical forest zones like Burma or Malaysia and stored inside water to protect it from decaying. The straightness of the log from those areas is a major advantage for processing.
- 2. Preparation of veneer (thin wooden sheets):** The logs are cut to required length like 8 ft, 7 ft, 6 ft and then processed to thin layers starting from 0.30 mm to 3.00 mm through rotary cutting called peeling. The thin smooth wooden layers called face veneer are segregated and so also the thick ones called cores. Then the veneers are trimmed to a required width like 4 ft or 3 ft and they are dried under hot blowers under controlled conditions to a required moisture level.
- 3. Assembling of veneers:** Every layer of veneer is placed perpendicular to its adjacent layer. A special type of adhesive is applied on the layers through a roller to bind the layer together when heat and pressure are applied over the assembly.
- 4. Hot pressing of assembled lot:** Once the assembly is formed, it is pressed under pressure with the application of heat. The adhesive unites the layers and forms a solid mass called plywood. The grade of plywood depends on the type of adhesive used to unite the wooden layers. There are generally two types of adhesives used in plywood industries like phenol adhesives and Amino based adhesives. Phenolic adhesives are most commonly used in manufacturing water proof / Boiled Water Resistant (BWR) grade plywood. Pressing time and temperature depend on the thickness & grade of plywood.
- 5. Final finishing:** The plywood is then trimmed to required dimensions at the automated trimming machines and its surface is polished with sand papers to provide it a smooth surface. All water proof grade plywood is treated externally with preservative chemicals to protect it against micro organism attacks and all grade of plywood are side sealed to minimize the effect of moisture.



Production with state-of-the-art technology:

Kolkata Unit:

CPII's ISO 9002 plant with a capacity of 37,000 cubic meter (cbm) (in FY14) is located at Bishnupur near Joka, Kolkata. The 6.6 acre production complex annually rolls out high grade ply, mainly from imported timber and logs. The production facilities include a range of state-of-the-art equipment for cutting, shaving, splicing, polishing and chemical treatment as well as for research and development. This unit also has a laminates manufacturing capacity of 4.8 mn units (FY14).

Chennai unit:

The company has taken over the ownership of Chennai-based Sharon brand by Sharon Veneers Pvt Ltd and Sharon Wood Industries Pvt Ltd to widen its network in South region. The factory is located at Gummidipundi, 48 Kms from Chennai City.

Karnal unit:

The company has also acquired Century Panels Pvt. Ltd, another plywood manufacturer based in Karnal, Haryana that was established in 1997.

Assam unit:

The company has a 35,000 cbm plywood unit in Mirza near Guwahati, Assam that takes care of demand from eastern region.

Kandla unit:

The company has a 31,000 cbm plywood manufacturing facility in Kandla. This is first port-based unit of the company first in western India. It has helped CPII to gain access to raw material from large ships that would be able to enter the Kandla port, enhancing inward logistic efficiencies. The Kandla unit has peeling and plywood manufacturing at the same location, saving transportation costs.

Myanmar unit:

Indian plywood makers used to import logs worth 30,000 cbm a month from Myanmar before the ban became effective from 31st March 2014. The company has commissioned a 6,000 cbm peeling unit in Myanmar through a wholly-owned subsidiary. It's commissioning in June 2013 proved timely as it came within months of Myanmar announcing a ban on raw timber exports. The plant enjoys attractive tax and duty benefits. The Myanmar plant undertakes peeling of raw timber and making face veneers, which are thereafter exported to India. This helps the company to source raw material from Myanmar (as face veneer) as raw timber export from that country and lower transportation cost as face veneer is less bulky than raw timber.

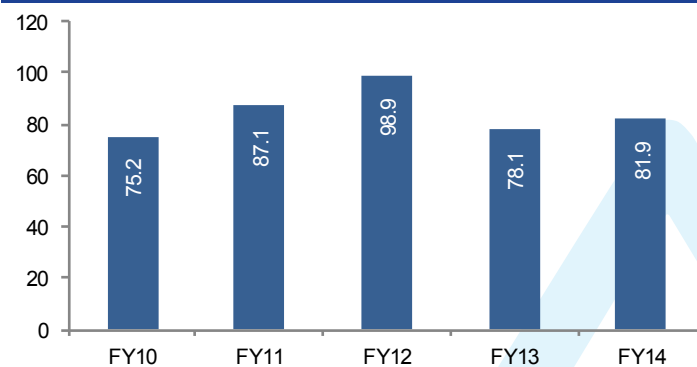
Container Freight Station (CFS):

The company has two CFSs - Century Sonai CFS and Century Jinjira Pole CFS at Khidderpore port, Kolkata with the capacity to handle 160,000 Twenty-foot Equivalent Units (TEUs) which is almost 2/3rd of total CFS capacity available at Kolkata port.

Location	Plywood (cbm)	Laminates (sheets)
Bishnapur, Kolkata	37000	480000
Gumudipundi, Chennai	39420	-
Karnal, Haryana	36000	-
Guwahati, Assam	35000	-
Kandla, Gujarat	31000	-
Roorkee, Uttarakhand	25000	-
Myanmaar	6000	-
Total	209420	480000

Source: Company, Karvy Research

Exhibit 4: Capacity Utilisation (%)



Source: Company, Karvy Research

Capacity expansion plans:

Laos unit:

CPIL has made Laos its major source of processed timber. The company has inducted a 49 per cent partner in its subsidiary Century Ply (Singapore) Pte Ltd to expand its timber processing business in the Southeast Asian country. Century Ply (Singapore) will spearhead its business interest in the region. After successful commissioning of first two units, one in Bolikhamsai and the other in Savannakhet, which are operational with each having capacity of processing 150 cbm a day, the company is in the process of setting up a third unit in country through a (90:10) joint venture of Century Ply (Singapore) with a local partner. The third unit will have similar capacity of around 150 cbm a day. All the three will have four peeling lines and four driers, supplied by Century group along with working capital. The primary processing would be handled by the local partners with licenses and operational infrastructure. Under the arrangement, Century Ply (Singapore) could import all the processed timber to India.

Particle Board unit, Chennai:

CPIL is setting up a green-field particle board unit at existing site of Chennai unit. The unit will make particle board from timber wastage, saw mill and dust etc generated at Chennai unit and procured from wood based units in the vicinity. The unit will backward integrate with company's existing pre-lamination board unit at Chennai.

South-East Asia and South Africa:

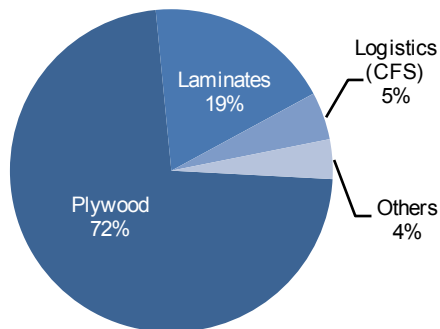
According to industry sources, plywood makers have begun to import timber logs from Papua New Guinea, Solomon Island, Malaysia, Vietnam, Cambodia, Liberia and Cameroon after Myanmar ban. The available log variety in Papua New Guinea and Solomon Island is not only similar to one in Myanmar but also a bit cheaper. These new sources in South-East Asia and Africa are compensating for the drop in supply of the key raw material from Myanmar. CPIL is also exploring South Africa for raw material sourcing, as African logs are cheaper and lighter. This would generate additional savings in logistics cost due to light weight.

MDF plant, Punjab:

CPIL's board has recently approved plans to set up Rs.3000 Mn MDF plant in Punjab, with anticipation of improvement in MDF board demand in India. The company expects commissioning of this plant in 15-18 months from now.

Business Segments

Exhibit 5: Revenue Segmentation (%)



Source: Company, Karvy Research

Plywood and allied products: This segment includes Plywood, Block-Board, Veneer and Timber. It contributes around 73% of the total revenue.

Laminates and allied products: This segment includes Decorative Laminates and Particle Boards contributing around 19% to Century's total revenue. Century is third largest producer of Laminates in India. Green Lam, Merino and Royal touch are its peers. Century's Laminates capacity is 4.8 Million sheets as on May 2015. Almost 23 % of Laminate revenue is from Exports.

Logistics - Container Freight Stations (CFS): This business contributes around 5% to total revenue. The company has first privately owned CFS in Eastern India at Kolkata port. There are two CFS covering around 1 lac square meter area with capacity of handling around 156,000 TEUs.

Others: This segment includes trading of chemicals, minerals and ready-made furniture contributing around 4% to the total revenue of the company. The modular kitchen market in India (around Rs.12 Bn in 2012) is at very nascent stage and has potential to grow up to Rs.60 Bn by 2016. Based on 2 years of experience and research, the company has decided to tap this market and launch modular kitchen made of water proof plywood with all-proof guarantee and custom made designs. The manufacturing is outsourced using company's plywood and laminates. Other than modular kitchen, CPIL is also engaged in the business of selling pest control kits, agri-products, phenol and dolomite.

Brand Conviction

Prominent brands in Plywood:

CenturyPly Club Prime Plywood: It is boiling water resistant plywood. Each veneer is treated with preservatives prior to pressing, ensuring uniform distribution of moisture and adhesives. Unique Glue Line Protection formula makes the plywood borer and termite proof with seven year guarantee.



Architect Plywood: Premium product made from exclusive hardwood species and bonded with an un-extended phenol formaldehyde resin. It is 100% borer and termite proof and marketed with a lifetime guarantee.

CenturyPly Marine Plywood: This ply can withstand alternate drying, wetting and temperature variations.

Top brands in Laminates:

Slimline: The brand covers the 0.8mm laminates range. These laminates are abrasion resistant.



Opulenza: This brand comprises drum special laminates for office shelf needs and non-toxic emission-free laminates for domestic use. Post-forming laminate molds are perfect for corporates that need modular work-stations; fire-retardant laminates, that are manufactured using special chemicals (toxic-free, fire-resistant) ideal for kitchen or office interiors.



Other Brands: CPIL's other renowned brands include **Sainik Ply**, **Sharon Ply** and **Nesta Furniture**.



e-Marketing

CPIL has partnered with Asian Paints and launched a portal '**Nestopia**' for connecting with consumers. Nestopia is one of the India's most comprehensive online communities for the construction and design industry. The community has over 15000 architects, interior designers, decorators and contractors from metros and other cities across India. Nestopia makes it easy to browse through portfolios and connect directly with these professionals on the basis of multiple parameters such as style, budget, location, scope of work etc.



CPIL is also selling some of its products like CenturyDoors Clubprime, CenturyDoors PRO and CenturyDoors Sainik on one of the leading e-commerce website Snapdeal with discounts upto 30% on Maximum Retail Price (MRP) with free home delivery and cash-on-delivery options.

Investment Rationale

Indian Plywood & Panel Industry is around Rs.150,000 Mn. Market share of organized sector is around 30%. Almost 50% of organized market is controlled by two national players Century and Greenply. Balance 50% market share is with players who are regional organized players like Sarda Plywood, Uniply, Archidply, Kitply etc. Overall industry is expected to grow at 10% and organized sector is expected to grow at a faster pace of 25%-30% in next two years.

Exhibit 6: Organized Players Market Share

Plywood	Market Share (%)	Laminates	Market Share (%)
Century Ply	25	Century Laminates	9
Greenply Industries	25	Greenlam	30
Others*	50	Others*	61

Source: Company, Industry Estimates, Karvy Research, *Others include Sarda Ply, Uniply, Archidply, Kitply etc.

Laminates industry is pegged at around Rs.45,000 Mn, out of which the organized market is around Rs.25,000 Mn representing the market share of organized players at ~55%. Century laminates has a market share of ~9% of the total organized market.

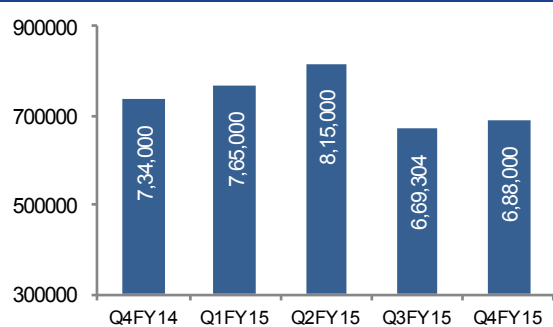
Goods and Service Tax (GST) implementation:

Global GST rates range from 16% to 20%, whereas some Indian states are demanding GST up to 27%. If rates are kept so high, then idea of the GST to boost compliance using a reasonable rate and simple payment method would not get transitioned into actual benefits for industry. The main opposition party (UPA), which pushed for the GST during its decade-long rule seeks an 18% GST rate. NDA Government may finally settle on a rate of about 22% as a political compromise, according to some industry experts. A higher rate may increase risks of encouraging tax evasion and nullifying the benefits of the GST. Further, when the Goods and Services Tax (GST) is implemented, depending upon the rate of GST, price difference between branded and unbranded products will narrow, enabling more consumers to shift to branded products. This will help players including CPIL in the organized market. Immediately however, what might be a catalyst for growth is the pickup in demand in the residential market.

Things to watch on GST front: Final decision on GST rate and implementation date. While some progress is made on these fronts since NDA government came into power, still some distance needs to be covered before the final situation gets crystallized.

Liquidation of Unsold Apartments:

Exhibit 7: Unsold Inventory



Source: Company, Karvy Research

Home loan rates are set to drop with the cut in lending rates by banks. Real estate inventories in six prominent urban locations of India – Mumbai, Delhi-NCR, Bangalore, Pune, Chennai and Hyderabad have been very high during last two years due to overall slowdown in real estate market. After achieving a peak of around 8.15 lacs inventories in Q2FY15 inventories fell 4.4% YoY to around 6.7 lacs in Q3FY15 and fell 6.3% YoY to around 6.88 lacs in Q4FY15. Unsold inventories were hovering at around 7 lacs in FY14. New government's emphasis on infrastructure and housing would lead to progressive liquidation of these unsold apartments. This would lead to subsequent acceleration in the off-take of interior infrastructure products, catalysing CPIL's revenues.

Raw Material Linkages: Gurjan (Myanmar Name) or Keruing (Standard Name), the main species used for face veneers in India is no longer available in the log form from Myanmar, the main supplier until the log export ban was introduced. Indian plywood users have been led to believe that red coloured (Gurjan) wood is stronger than other timbers. CPIL has anticipated this ban much before the ban announcement and commissioned a peeling unit in Myanmar where company is creating inventories of Gurjan/Keruing veneers. At the same time, CPIL is in process of importing Gurjan veneer from its newly commissioned Laos unit to ensure raw material availability. This would ensure sustainability of raw material to cater to Indian demand of Gurjan plywood. Keruing was procured at ~US\$ 600 per cubic meter from Myanmar prior to the ban. As of now, CPIL started procuring other species of wood like Beech from Europe, which is procured at a blended cost of ~US\$ 180-190. Similarly, Papua New Guinea and Solomon Islands are procured at a landed cost of around US\$300. The yields from these species are not as good as Keruing but the timber cost (~US\$300) is very low so that it would help in improving CPIL's margins.

Exhibit 8: Business Assumptions

Y/E Marc (Rs. Mn)	FY14	FY15	FY16E	FY17E	Comments
Consolidated					
Revenue	13362	15884	18502	23683	We expect revival in real estate and construction demand in FY17E.
Revenue Growth (%)	13.7	18.9	16.5	28.0	
EBITDA	1582	2559	2816	3908	
EBITDA Margins (%)	11.8	16.1	15.2	16.5	Premium pricing to drive consistent margins.
Adj. Net Profit	603	1490	1705	2456	
Fully Diluted EPS (Rs.)	2.7	6.7	7.7	11.0	
Fully Diluted EPS Growth (%)	9.2	147.2	14.5	44.0	
Capex	643	(288)	1500	1700	

Source: Company, Karvy Research

Exhibit 9: Karvy vs Consensus

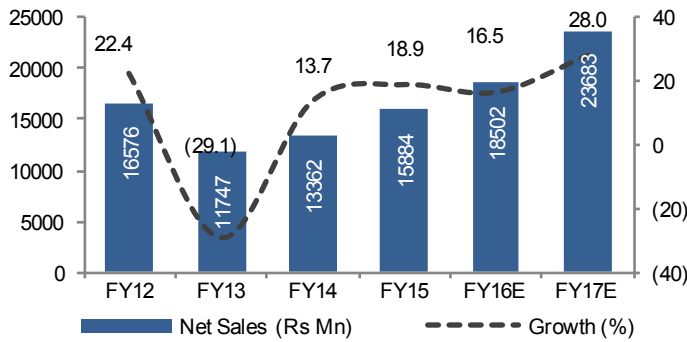
	Karvy	Consensus	Divergence (%)	Comments
Revenues (Rs. Mn)				
FY16E	18502	18563	(0.3)	We expect low to moderate growth in FY16E, whereas higher growth in FY17E.
FY17E	23683	22226	6.6	
EBITDA (Rs. Mn)				
FY16E	2816	3110	(9.5)	
FY17E	3908	3745	4.4	
EPS (Rs.)				
FY16E	7.7	8.5	(9.4)	
FY17E	11.0	10.9	1.3	

Source: Bloomberg, Karvy Research

Premium products driving sales growth

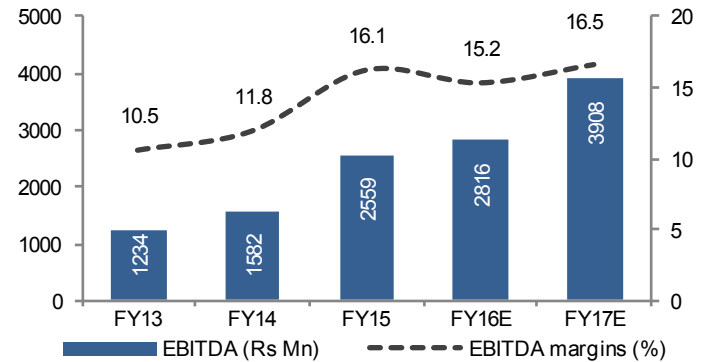
CPIL's revenue grew with a Compounded Annual Growth Rate (CAGR) of ~19% during FY07-FY12 period and CAGR of ~10% in FY13-FY15. Net Sales rose 18.9% YoY in FY15. CPIL has consistently maintained EBITDA margins of above 15% except for FY13 and FY14 due overall slowdown. We expect CPIL to achieve EBITDA margin of 15.2% and 16.5% in FY16E and FY17E respectively.

Exhibit 10: Net Sales and Growth



Source: Company, Karvy Research

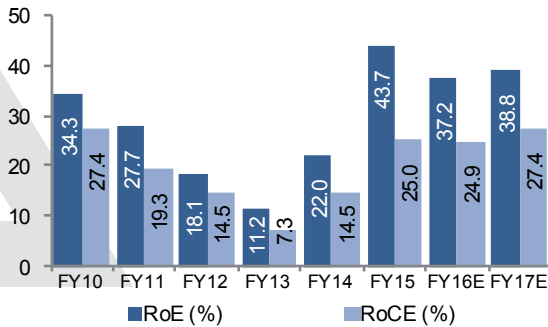
Exhibit 11: EBITDA and EBITDA Margins



Source: Company, Karvy Research

Strong RoE and RoCE track record

Exhibit 12: RoE and RoCE (%)

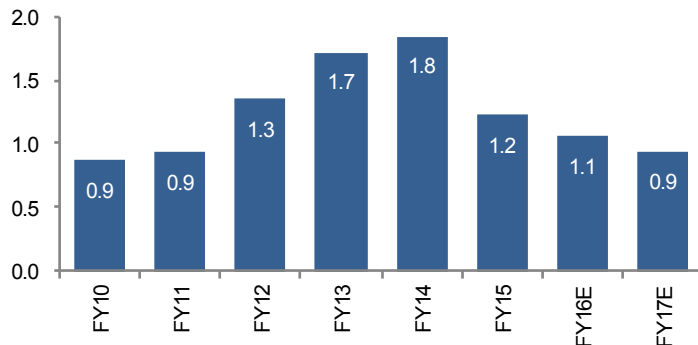


Source: Company, Karvy Research

CPIL achieved robust RoE and RoCE of 43% and 25% respectively in FY15. The company has maintained strong RoE and RoCE of around 20%, except for FY12 (RoE: 18.1% and RoCE: 14.5%) due to slowdown in overall economy and FY13 (RoE: 11.2% and RoCE: 7.3%) due to ban of timber logs in Myanmar.

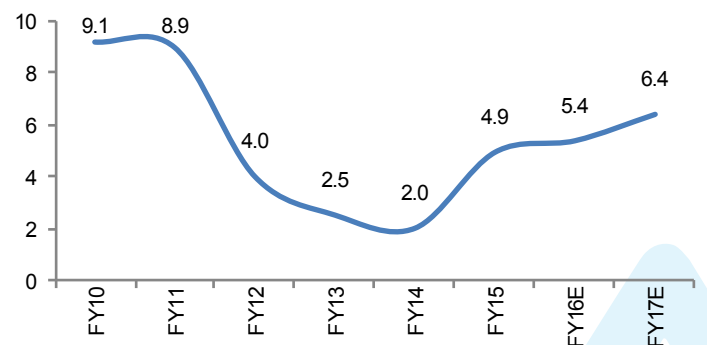
The company, with the help of its consistent internally accrued earnings, managed to keep its Net/Debt equity ratio at levels ranging from 0.9x to 1.8x in previous years, in spite raising debt for capital expenditure and working capital requirements.

Exhibit 13: Net Debt Equity Ratio (x)



Source: Company, Karvy Research

Exhibit 14: Interest Coverage Ratio (x)

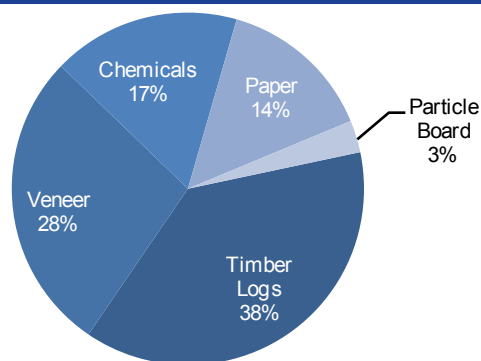


Source: Company, Karvy Research

Raw Materials Consumed

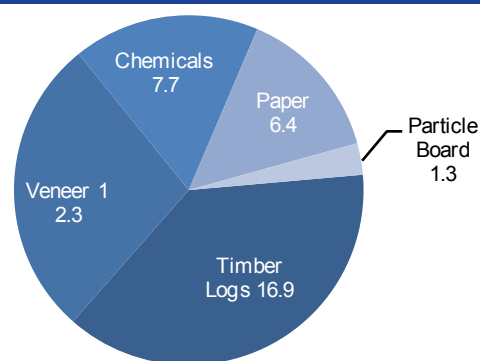
As discussed in the making of plywood above, manufacturing of plywood includes veneers that are bonded together with an adhesive. Timber logs and Veneers together form majority (~66%) of the total raw material cost of CPIL.

Exhibit 15: Raw material cost segmentation (%)



Source: Company, Karvy Research

Exhibit 16: Raw material cost as % of Sales



Source: Company, Karvy Research

Chemistry of Plywood:

Phenol formaldehyde resins represent an important type of adhesive employed in the production of wood-based panels of superior water resistance.

Urea formaldehyde resins are preferred for bonding plywood and other wood based panels mainly due to the easy availability of raw materials required for resins at lower costs, colorless glue line and fast setting at elevated temperatures.

Melamine-formaldehyde resin, obtained by chemical combination of melamine (a crystalline solid derived from urea) and formaldehyde (a highly reactive gas obtained from methane). A complex, interlinked polymer that cures to clear, hard, chemically resistant resin melamine formaldehyde is employed in plywood.

Chemicals form around 17% of the total raw material cost and around 8% of net sales in FY15.

For laminates the raw material is **Paper**. CPIL procures paper from Indian companies for the base layer and imports design paper from European countries for the top layer.

Paper cost forms around 14% of the total raw material cost and around 6% of net sales in FY15.

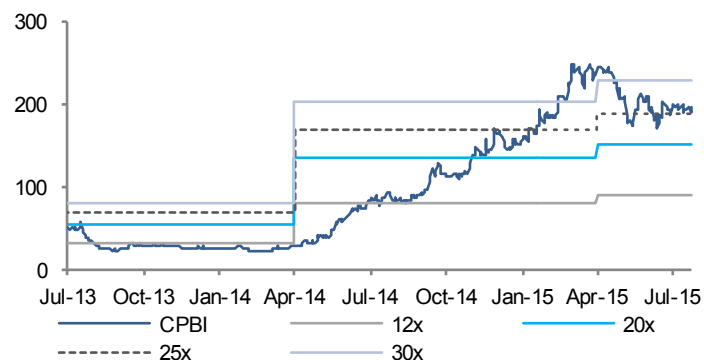
Exhibit 17: Company Snapshot (Ratings)

	Low				High
	1	2	3	4	5
Quality of Earnings				✓	
Domestic Sales				✓	
Exports	✓				
Net Debt/Equity			✓		
Working Capital requirement			✓		
Quality of Management				✓	
Depth of Management				✓	
Promoter				✓	
Corporate Governance				✓	

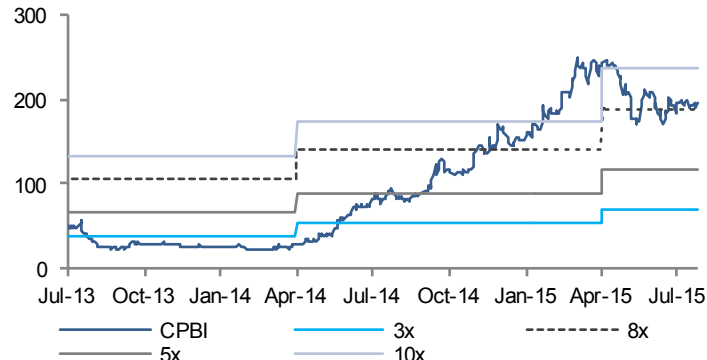
Source: Company, Karvy Research

Valuation & Outlook

At current price of Rs195, the stock is trading at PE of 25.4x and 17.6x of its FY16E and FY17E earnings respectively. It has P/BV of 8.2x and 5.9x for FY16E and FY17E respectively. We recommend a “**BUY**” rating on CPIL with a target price of Rs.226 with an upside potential of 16.2%.

Exhibit 18: PE Band


Source: Company, Karvy Research

Exhibit 19: PB Band


Source: Company, Karvy Research

Peer Comparison

Exhibit 20 (a): Comparative Valuation Summary

	CMP (Rs.)	Mcap (Rs. Mn)	EV/EBITDA (x)				P/E (x)				EPS (Rs.)			
			FY14	FY15	FY16E	FY17E	FY14	FY15	FY16E	FY17E	FY14	FY15	FY16E	FY17E
Century Plyboards	195	43268	30.8	18.8	17.4	12.8	71.9	29.1	25.4	17.6	2.7	6.7	7.7	11.0
Greenply Industries	938	22640	5.5	12.2	10.1	8.4	7.8	21.7	17.2	13.9	47.4	43.2	54.6	67.6

Source: Bloomberg, Karvy Research

Exhibit 20 (b): Comparative Operational Metrics Summary

	CAGR % (FY15-17E)			RoE (%)				Price Perf (%)			Net Sales (Rs. Mn)			
	Sales	EBITDA	EPS	FY14	FY15	FY16E	FY17E	3m	6m	12m	FY14	FY15	FY16E	FY17E
Century Plyboards	22.1	23.6	28.4	22.0	43.7	37.2	38.8	(10.8)	9.2	106.3	13362	15884	18502	23683
Greenply Industries	(1.3)	2.1	12.6	21.6	23.2	24.1	24.4	(6.1)	2.5	11.3	21580	15534	17961	20768

Source: Bloomberg, Karvy Research

Key Risks

Slowdown in real estate and construction sector may hamper CPIL's revenue growth. GST rates and its implementation date would decide the actual benefits for plywood industry. As applicable to any plywood manufacturer, CPIL is also vulnerable to raw material availability and price rise.

Financials

Exhibit 21: Income Statement

YE Mar (Rs. Mn)	FY13	FY14	FY15	FY16E	FY17E
Revenues	11747	13362	15884	18502	23683
Growth (%)	(29.1)	13.7	18.9	16.5	28.0
Operating Expenses	10583	11894	13326	15686	19775
EBITDA	1234	1582	2559	2816	3908
Growth (%)	(56.8)	28.3	61.7	10.0	38.8
Depreciation & Amortization	280	387	485	473	599
Other Income	72	37	177	195	215
EBIT	1026	1232	2251	2538	3523
Interest Expenses	404	603	456	472	552
PBT	622	629	1796	2066	2971
Tax	46	(5)	296	341	490
Adjusted PAT	552	603	1490	1705	2456
Growth (%)	(7.7)	9.2	147.2	14.5	44.0

Source: Company, Karvy Research

Exhibit 22: Balance Sheet

YE Mar (Rs. Mn)	FY13	FY14	FY15	FY16E	FY17E
Cash & Bank balances	1020	387	374	325	330
Sundry Debtors	1793	2089	2683	3041	3893
Inventory	2293	3029	3322	3802	4866
Loans & Advances	833	1073	1323	1295	1658
Investments	77	31	4	4	4
Gross Block	4123	4895	4607	5907	7407
Net Block	3195	3404	2782	3809	4910
CWIP	433	240	390	590	790
Miscellaneous	149	226	187	187	187
Total Assets	9358	10239	10675	12462	15848
Current Liabilities & Provisions	1255	1370	1552	1190	1430
Debt	5419	5801	5138	5898	6898
Other Liabilities	40	23	36	36	36
Total Liabilities	6714	7194	6726	7124	8364
Shareholders Equity	223	223	223	223	223
Reserves & Surplus	2336	2708	3671	5041	7161
Total Network	2558	2931	3894	5263	7383
Minority Interest	86	114	55	75	100
Total Network & Liabilities	9358	10239	10675	12462	15848

Source: Company, Karvy Research

Exhibit 23: Cash Flow Statement

YE Mar (Rs. Mn)	FY13	FY14	FY15*	FY16E	FY17E
PBT	622	629	1796	2066	2971
Depreciation	280	387	485	473	599
Interest	404	603	456	472	552
Tax Paid	(105)	(117)	(296)	(341)	(490)
Inc/dec in Net WC	(600)	(1168)	(847)	(1172)	(2039)
Cash flow from operating activities	604	338	1169	1498	1593
Inc/dec in capital expenditure	(1570)	(643)	288	(1500)	(1700)
Inc/dec in investments	(21)	26	27	0	0
Cash flow from investing activities	(1582)	(596)	315	(1500)	(1700)
Inc/dec in borrowings	1968	262	(663)	760	1000
Dividend paid (Incl tax)	(1)	(60)	(325)	(336)	(336)
Interest paid	(419)	(594)	(456)	(472)	(552)
Cash flow from financing activities	1544	(391)	(1444)	(48)	112
Net change in cash	566	(649)	40	(49)	6

Source: Company, Karvy Research, * Derived from PL&BS

Exhibit 24: Key Ratios

YE Mar	FY13	FY14	FY15	FY16E	FY17E
EBITDA Margin (%)	10.5	11.8	16.1	15.2	16.5
EBIT Margin (%)	8.7	9.2	14.2	13.7	14.9
Net Profit Margin (%)	4.7	4.5	9.4	9.2	10.4
Dividend Payout ratio	11.8	43.1	40.5	36.0	25.0
Net Debt/Equity	1.7	1.8	1.2	1.1	0.9
RoE (%)	11.2	22.0	43.7	37.2	38.8
RoCE (%)	7.3	14.5	25.0	24.9	27.4

Source: Company, Karvy Research

Exhibit 25: Valuation Parameters

YE Mar	FY13	FY14	FY15	FY16E	FY17E
EPS (Rs.)	2.5	2.7	6.7	7.7	11.0
DPS (Rs.)	0.2	1.0	1.3	1.3	1.3
BV (Rs.)	11.5	13.2	17.5	23.7	33.2
PE (x)	78.5	71.9	29.1	25.4	17.6
P/BV (x)	16.9	14.8	11.1	8.2	5.9
EV/EBITDA (x)	38.7	30.8	18.8	17.4	12.8
EV/Sales (x)	4.1	3.6	3.0	2.6	2.1

Source: Company, Karvy Research; *Represents multiples for FY13, FY14 & FY15 are based on historic market price

Stock Ratings	Absolute Returns
Buy	: > 15%
Hold	: 5-15%
Sell	: <5%

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