

15 September 2014

## Century Plyboards

*Improved Scale of Operations; Buy*

Rating: **Buy**

Target Price: ₹131

Share Price: ₹111

**Dominant player in plywood.** Century Plyboards (Century) is one of the leading manufacturers of plywood and laminates with its manufacturing locations in North (61,000m<sup>3</sup>), East (72,000m<sup>3</sup>) and South (39,420m<sup>3</sup>). Recent expansion in Gujarat (31,000m<sup>3</sup>) will expand its presence in West too. Plywood brings in ~75% of its revenues, and laminates ~20%; the remaining arises from logistics. Besides operating in India, the company exports an array of premium products to over 20 countries.

**Brand equity drives growth.** The company's strong brand equity (Century Ply) has helped it improve realisations and margins by ~3-4% and 94bps over FY10-14 respectively. Implementation of GST would help it capitalise on the shift from unorganised to organised segment. Currently, Century is focused on untapped markets in smaller cities and has launched economy brands like Maxima and Sainik. It has also begun to promote its brands with a newly-launched TV ad from Jun'14. In FY14, the company is expected to spend ~₹0.60bn on advertisement.

**No major capex in future.** Besides expansion in Gujarat, Century has recently set up a plant in Myanmar to curb input costs. It is a move in the right step, as the company imports more than 80% of its timber requirement. The company has no major capex plans in future, which could bring down debt to ₹4.12bn by FY15, easing debt:equity to 1.1x. It has also entered into franchisee business for modular furniture. Out of 13 franchise stores signed, three are already open.

**Our take.** With the new and affordable products, advantages in input sourcing, logistical benefit and increasing capacity utilisation, volume could rise. Hence, we expect 25% revenue growth in FY15, backed by 15% rise in volume and 10% in realisation. Its recent entry into MDF business on the outsourced model from Vietnam would drive growth going ahead. Century continues to enjoy healthy return ratios over the years. We assign PE of 16x to FY16e EPS and arrive at a revised target price of ₹131 (earlier ₹115).

**Risks.** Currency fluctuations, substitutes, high interest rates.

Key data	CPBI IN / CNTP.BO
52-week high / low	₹114 / ₹22
Sensex / Nifty	27061/8105
3-m average volume	US\$1.27m
Market cap	₹24.7bn/US0.4bn
Shares outstanding	223m

Shareholding pattern (%)	Jun '14	Mar '14	Dec '13
Promoters	74.5	72.8	72.8
- of which, Pledged	8.5	8.6	8.6
Free Float	25.5	27.2	27.2
- Foreign Institutions	2.9	1.2	1.2
- Domestic Institutions	0.5	0	0.5
- Public	22.1	25.9	25.9

### Relative price performance



Source: Bloomberg

Key financials (YE Mar)	FY12	FY13	FY14	FY15e	FY16e
Sales (₹m)	11,183	11,311	12,840	16,068	20,010
Net profit (₹m)	601	527	700	1288	1827
EPS (₹)	2.7	2.4	3.1	5.8	8.2
Growth (%)	(19.4)	(12.4)	32.9	84.1	41.9
PE (x)	41.1	46.9	35.3	19.2	13.5
PBV (x)	7.9	9.9	8.5	6.3	4.6
RoE (%)	19.2	21.1	25.9	37.9	39.5
RoCE (%)	17.9	13.4	17.8	22.5	27.7
Dividend yield (%)	0.9	0.2	0.9	1.1	1.3
Net Gearing(x)	0.9	1.5	1.5	1.0	0.6

Source: Company

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## Quick Glance – Financials and Valuations

**Fig 1 – Income statement (₹m)**

Year-end: Mar	FY12	FY13	FY14	FY15e	FY16e
Net revenues	11,183	11,311	12,840	16,068	20,010
Revenue growth (%)	27.51	1.14	13.51	25.14	24.54
- Op. expenses	9,796	10,183	11,327	13,982	17,306
<b>EBIDTA</b>	<b>1,388</b>	<b>1,129</b>	<b>1,512</b>	<b>2,086</b>	<b>2,704</b>
EBITDA margins (%)	12.41	9.98	11.78	12.98	13.51
- Interest	400	390	551	301	332
- Depreciation	265	267	332	433	442
+ Other income	(91)	73	95	80	100
- Tax	31	17	24	143	203
Effective tax rate (%)	4.92	3.19	3.27	10.00	10.00
Reported PAT	601	527	700	1,288	1,827
Extraordinary items	-	-	-	-	-
Adjusted PAT	601	527	700	1,288	1,827
PAT growth (%)	(19.4)	(12.4)	32.9	84.1	41.9
Adj. FDEPS (₹/sh)	2.7	2.4	3.1	5.8	8.2
Adj. FDEPS growth (%)	(19.4)	(12.4)	32.9	84.1	41.9

Source: Company, Anand Rathi Research

**Fig 2 – Balance sheet (₹m)**

Year-end: Mar	FY12	FY13	FY14	FY15e	FY16e
Share capital	223	223	223	223	223
Reserves & surplus	2,898	2,274	2,692	3,667	5,130
Net worth	3,125	2,497	2,914	3,890	5,353
Total debt	3,379	4,461	4,478	4,128	3,678
Minority Interest	-	-	-	-	-
Def. tax liab. (net)	(4)	(2)	(5)	(5)	(5)
<b>Capital employed</b>	<b>6,500</b>	<b>6,956</b>	<b>7,386</b>	<b>8,012</b>	<b>9,025</b>
Net fixed assets	2,107	2,217	2,307	2,324	2,332
Investments	733	157	379	379	379
- of which, Liquid	-	-	-	-	-
Working capital	3,240	3,784	4,520	5,040	6,036
Cash	421	797	180	269	278
<b>Capital deployed</b>	<b>6,500</b>	<b>6,956</b>	<b>7,386</b>	<b>8,012</b>	<b>9,025</b>
Net debt/equity (x)	0.9	1.5	1.5	1.0	0.6
W C turn (days)	64	79	92	96	98
Book value (₹/sh)	14	11	13	17	24

Source: Company, Anand Rathi Research

**Fig 3 – Cash-flow statement (₹m)**

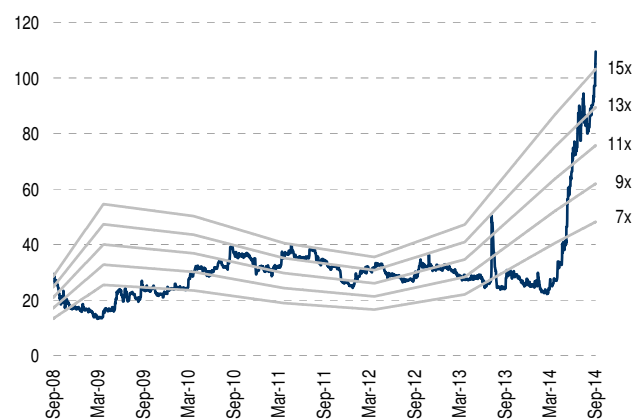
Year-end: Mar	FY12	FY13	FY14	FY15e	FY16e
PAT	601	527	700	1,288	1,827
+ Non-cash items	263	269	329	433	442
Cash profit	864	796	1,029	1,722	2,269
- Incr./decr. WC	823	545	735	520	996
Operating cashflow	41	252	293	1,201	1,273
- Capex	618	377	423	450	450
Free cash-flow	(577)	(126)	(130)	751	823
- Dividend	258	65	252	313	365
+ Equity raised	(1)	(1,090)	(31)	0	0
+ Debt raised	1,324	1,082	17	(350)	(450)
- Investments	177	(576)	222	0	0
- Misc. items	0	0	0	0	0
Net cash-flow	311	377	(617)	89	9
+ Op. cash & bank	109	421	797	180	269
Cl. Cash & bank	421	797	180	269	278

Source: Company, Anand Rathi Research

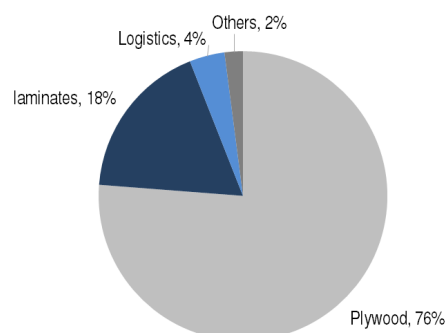
**Fig 4 – Ratio analysis @ ₹111**

Year-end: Mar	FY12	FY13	FY14	FY15e	FY16e
P/E (x)	41.1	46.9	35.3	19.2	13.5
Cash P/E (x)	28.5	31.1	23.9	14.3	10.9
EV/EBITDA (x)	19.9	25.1	19.2	13.7	10.4
EV/sales (x)	2.5	2.5	2.3	1.8	1.4
P/B (x)	7.9	9.9	8.5	6.3	4.6
Dividend yield (%)	0.9	0.2	0.9	1.1	1.3
Dividend payout (%)	37.0	10.5	31.7	20.7	17.0
RoE (%)	19.2	21.1	25.9	37.9	39.5
RoCE (%)	17.9	13.4	17.8	22.5	27.7
Debtor days	46.3	55.4	54.1	53.0	55.0
Inventory days	64.2	70.2	83.2	93.0	93.0
Payables days	46.3	47.1	44.9	50.0	50.0
Working capital days	64.2	78.6	92.5	96.0	98.0
Fixed asset T/O (x)	5.3	5.1	5.6	6.9	8.6
Debt to equity (x)	1.1	1.8	1.5	1.1	0.7

Source: Company, Anand Rathi Research

**Fig 5 – PE band**


Source: Bloomberg, Anand Rathi Research

**Fig 6 – FY14 revenue break-up**


Source: Company

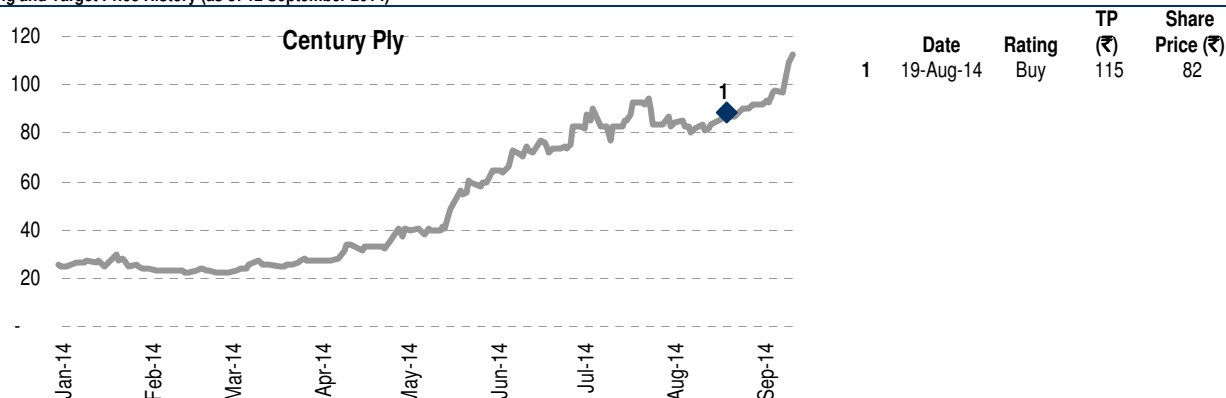
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