

Century Plyboards (India) Ltd.

Solidifying Growth Ahead...

Nifty 8,522.15
Sensex 28,208.76

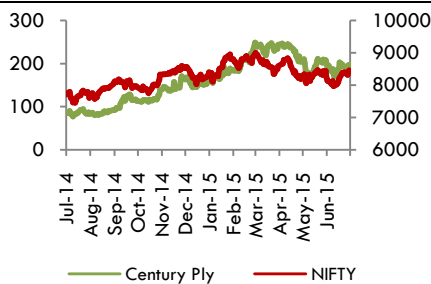
Key Stock Data

Market Cap (Rs. Crs.) ₹4,401.3 crs.
52W High/Low ₹261.75/75.10
Bloomberg CPBI IN
Shares o/s (crs.) 22.8
3-m daily average vol 0.84 lakhs

Shareholding Pattern

Promoters 73.34
FII & DII 11.82
Public & Others 14.84

Comparison Chart



SUMMARY

Century Ply is one of the largest sellers of plywood and decorative veneers in the Indian organized plywood market, catering to both residential as well as commercial consumers. It commands a 25% share in the organized market for plywood and is among the top 3 laminate producers in the country. The company is integrated with 6 manufacturing units spread across India & one in Myanmar (only Veneer). Over the last 18 months the company has readied new capacities in the wake of demand arising out of healthy macro trends in building & construction sector; governments 2020 Vision of Housing for All; and the expected rollout of GST which would lead to the market share moving from unorganized to organized. We expect the company to clock a healthy topline and bottomline going into FY16 & 17.

INVESTMENT RATIONALE

- **GST Rollout – An Inflection Point for Organised Manufacturers:** Indian plywood industry is estimated at ~₹15,000 crs. of which ~30% is the organized market share. The expected GST rollout out in the next fiscal year will help balance the industry with a uniform taxation policy. This will bring the unorganized & the organized on a level playing field. The organized sector will significantly benefit because the price premium between organized and unorganized will narrow down rendering the later less price competitive vis-a-vie the organized sector. In addition we expect that the organized sector will increase outsourcing from the unorganised sector and hence penetrate deeper into newer markets. Hence organized players to grow faster than industry over next few years.
- **Steady-state actual user based housing demand from Tier 2 Tier 3 Cities; affordable housing &; Government's Housing for All 2022:** While the real estate slowdown in Tier 1 & 2 cities is much on the radar, we feel that genuine demand will continue to remain steady. While Tier 1 & 2 cities are seeing demand slowdown from an investment point of view, actual user demand in Tier 2 & 3 cities is continuing. The company has strategically planned to expand its reach across these regions in FY16. Affordable housing is witnessing healthy growth in the country. The government is providing necessary push for housing, sanitation & power for all citizens of India. Housing for all & 100 Smart cities are crucial driver for growth of the plywood industry. Over the last 18 months the company has readied capacities which will enable it to take cognizance of this opportunity & grow by 15-20% over a long term. We believe operating leverage to have some favorable impact on profitability.
- **Raw material linkages & strides in increase in distribution network, key for growth:** Raw material linkages are crucial for this sector especially the face veneer. The unorganized sector is finding it difficult for procurement of face veneers after the ban on timber log exports from Myanmar. Currently in India the private forests are the main source of raw materials for the core & exports from Vietnam, Cambodia, & Myanmar. India's timber quality is not good for the making of face veneers hence majority is imported by all players in the industry. Many nations like Myanmar banned export of Timber logs. This has made it difficult for the unorganized players to procure the same. Century ply has set up its own facility in Myanmar from where it prepares timber sheets & exports to its plants in India. The company is now setting up a plant in 'Laos' too. The 'Laos' Plant is expected by the end of 2016. Apart from this company plans to strengthen its market leadership with an increase in the distribution network. The company plant to increase its distributor network from 127 in FY15 to 150 in FY16. On the retail level it plans to expand network from 8500 to 10000 retailers by FY16 with increased focus on C&D category towns.
- **Container freight segment to add to healthy profitability growth:** The Company has 2 CFS covering 1 lac sq.mt. at Kolkata Port with a capacity of 156000 TEUs. It contributes 4.5% to revenues and ~12% to EBIDTA level. Container traffic at this port is expected to grow at a CAGR of 25%. The logistics business is a high EBITDA business. The two CFS enjoy a ten year tax holiday and hence will add to the profitability going forward.

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COMPANY BACKGROUND

Century Plyboards (India) Ltd. is one of the leading players of Plywood in India since 28 years; with PAN India presence and robust distribution network. It also stands among the top three laminate producers in India. **Plywood continues to be the main product for the company contributing 70% to revenue & 75% to the operating profit.**

Apart from Plywood and Laminates, it also has logistics segment with one of the largest and first privately owned Container Freight Station (CFS) in East India. The logistics business is a high EBITDA business with low risk.

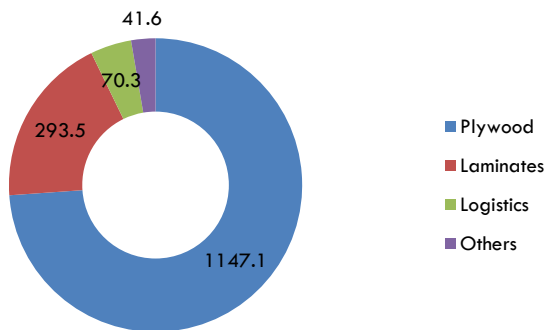
The company is exploring new business ideas and has already entered into furniture trading and modular kitchen business since last 2 years. The company has six manufacturing units of Plywood, two CFS and one Laminate manufacturing unit in India. It has synergistic benefit by having same customer base for Plywood and Laminates.

Product	Capacity
Timber Peeling	2,10,000 CBM
Plywood	2,10,000 CBM
Laminates	48,00,000 Sheets
Container Freight Stations	1,60,000 TEUs

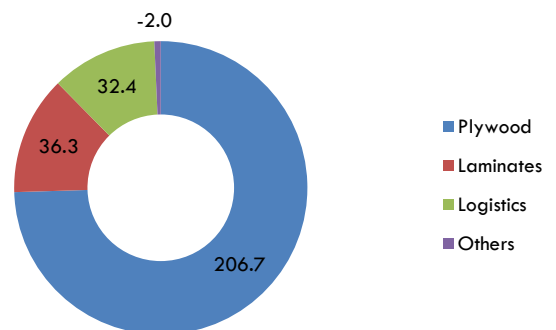
Manufacturing Capacities

REVENUE & EBITDA MIX

Revenue Mix FY15 (₹ Crs.)



EBITDA Mix FY15 (₹ Crs.)



Source: Company, Way2Wealth Research

CENTURY PLY'S DISTRIBUTION STRATEGY & OBJECTIVES

Panel LOB

Distributor / Wholesaler / Retailer Model

Objectives:

- Increase range of selling
- Increase penetration in C & D category towns

Decoratives LOB

Distributor / Retailer Model

Objectives:

- Increase distribution count
- Increase retailers
- Increase penetration in C & D category tow

KEY GROWTH DRIVER: HOUSING FOR ALL BY 2022

➤ The government is providing necessary push for housing, sanitation & power for all citizens of India. Housing for all & 100 Smart cities are crucial driver for growth of the plywood industry. *The opportunity arising out of Housing for All by 2022 bodes well for building materials manufacturers. We believe Century Ply is well poised with new capacities & increased distribution reach to ride this wave and grow faster. Key highlights for this initiative is as follows:*

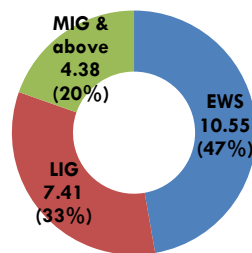
- **By 2022, India needs to develop about 11 cr housing units.** The current housing shortage in the country is ~ 5.9 cr units. This will double by 2022 hence rendering a housing requirement of ~11 cr units.

Particulars	Urban (Cr. units)	Rural (Cr. units)	Total (Cr. units)
Current housing shortage	1.9	4.0	5.9
Required housing units by 2022	2.6 – 2.9	2.3 – 2.5	4.9 – 5.4
Total need	4.4 – 4.8	6.3 – 6.5	10.7 – 11.3

Source: KPMG

- **Urban housing is to account for about 85 to 90% of the total investments;** the focus should be. *In urban housing, it is the affordable housing (houses for EWS/LIG households) which require attention on priority basis, as it alone would require about half of the total investments and 70 per cent of urban housing needs envisaged.*
- **The government recently announced an interest subvention scheme for the economically weak sections & lower income group housing loans.** Under this scheme a 6.5% interest subsidy will be given on a 15 year loan for the LIG & EWS housing loan takers. **This is a step forward in government’s commitment for Housing For All.**

URBAN HOUSING SHORTAGE 2012 (Unit in Crs.)



Source: KPMG

Urban housing shortage largely comprises of EWS/LIG households suggesting that affordable housing development over the last several years was not adequate.

**EWS : Economical Weaker Section
LIG: Lower Income Group
MIGL: Middle Income Group**

RISKS

- Delay in infra & housing investment by the government of India.
- Weaker than expected real estate demand.
- Weak monsoon to impact rural economy demand. The current rainfall though is privy to a normal onset of monsoon.
- Rupee weakness to increase import cost of raw material.

VALUATIONS

The macro-economic environment is currently full of skepticism. The real estate slowdown, the looming monsoon failure & the slowdown in consumer demand all translates into a braking of economic growth. Having said that the government’s investment push for urban infrastructure & healthy demand for affordable housing do provide a cushion for growth for the plywood industry. Century ply is the leader in the organized plywood market commanding 25% market share. Over the last 12 to 18 months the company has readied new capacities in the wake of demand arising out of healthy macro trends in building & construction sector; governments 2020 Vision of Housing for All; and the expected rollout of GST which would lead to the sector moving from unorganized to organized. **We expect the company to clock a healthy topline and bottomline going into FY16. At the CMP of ₹198.1/- the stock trades at ~26x it FY16 estimated EPS of ₹7.6/-.** **We advice investors to ACCUMULATE THE STOCK ON DIPS with medium to long term investment horizon.**

FINANCIALS

PROFIT & LOSS ACCOUNT	FY14	FY15	FY16E
Net Revenue from Operations	1,359.1	1,588.4	1,747.3
Other Income	3.7	3.3	4.0
Total Revenue	1,362.8	1,591.7	1,751.3
Total Expenses	1,189.4	1,318.1	1,454.2
EBIDTA	169.7	270.3	297.0
Depreciation and Amortisation Expense	38.7	48.5	55.0
EBIT	134.7	225.1	246.0
Finance Cost	60.3	45.6	40.0
PBT before Exceptional Items	74.3	179.6	206.0
Exceptional Items	-	-	-
PBT after Exceptional Items	74.3	179.6	206.0
Total Tax	(0.5)	29.6	35.0
Profit for the year before minority interest	63.3	150.0	171.0
Minority Interest	3.1	0.9	1.0
Profit for the year	60.2	149.1	170.0
Add/(Less): Proportionate share of Profit/(Loss) in Associates	0.1	(0.1)	(0.1)
Less: Preference dividend for the year (including Tax on Dividend) (₹ in Lacs)	-	-	-
Profit After Tax	60.3	149.0	169.9
Earnings per equity share	2.7	6.7	7.6

Growth Ratios	FY14	FY15	FY16E
Net Sales	14.4%	16.9%	10.0%
EBIDTA	30.3%	59.3%	9.9%
PAT	9.2%	147.2%	14.1%
Profitability Ratios			
EBIDTA Margins	12.5%	17.0%	17.0%
EBIT Margins	9.9%	14.2%	14.1%
PBT Margins	5.5%	11.3%	11.8%
APAT Margins	4.4%	9.4%	9.7%
ROCE	27.8%	46.9%	38.6%
RONW	20.6%	38.3%	30.4%
Valuation Ratios			
BV	13.2	17.5	25.1
CEPS	4.4	8.9	10.1
EPS	2.7	6.7	7.6
P/BV	15.0	11.3	7.9
P/CEPS	44.5	22.3	19.6
P/EPS	73.1	29.7	26.0
EV/EBIDTA	28.5	17.7	16.4
Debt/Networth	1.8	1.2	0.9

BALANCE SHEET	FY14	FY15	FY16E
(₹ Cr.)			
EQUITY AND LIABILITIES			
Shareholder's Funds	293.1	389.4	559.3
Share Capital	22.3	22.3	22.3
Reserves & Surplus	270.8	367.1	537.0
Minority Interest	11.4	5.5	8.0
Non Current Liabilities	179.9	85.0	70.0
Long Term Borrowings	177.7	81.4	66.0
Deferred Tax Liabilities (Net)	0.4	0.8	1.0
Other Long Term Liabilities	1.6	2.8	3.0
Long Term Provisions	-	-	-
Current Liabilities	539.5	587.6	632.0
Short Term Borrowings	349.9	386.3	412.0
Trade Payables	75.0	62.2	78.0
Other Current Liabilities	82.0	96.3	88.0
Short Term Provisions	32.6	42.8	54.0
TOTAL	1,023.9	1,067.5	1,269.3
ASSETS			
Non Current Assets	407.5	350.7	408.2
Fixed Assets	340.4	278.2	388.2
Non Current Investments	3.1	0.4	1.0
Deferred Tax Assets (Net)	1.1	7.0	5.0
Long term Loans and Advances	60.3	62.5	66.0
Other Non Current Assets	2.6	2.6	2.7
Current Assets	616.5	716.8	786.5
Inventories	302.9	332.2	357.0
Trade Receivables	208.9	268.3	311.0
Cash and Bank Balances	38.7	37.4	16.5
Short Term Loans and Advances	47.1	69.8	88.0
Other Current Assets	18.9	9.0	14.0
TOTAL	1,023.9	1,067.5	1,269.3

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Name of the Security	Century Plyboards (India) Ltd.
Name of the analyst	Shivani Vishwanathan
Analysts' ownership of any stock related to the information contained	No
Financial Interest	No
Analyst :	No
Analyst's Relative : Yes / NO	No
Analyst's Associate/Firm : Yes/No	No
Conflict of Interest	No
Receipt of Compensation	No
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