

New products to help gain market share

At our recent meeting, Century Plyboard India Limited (CPBI) management stated that ply demand growth is likely to be muted in the near term owing to slowdown in new housing demand. Management opined that volume growth for CPBI is likely to be driven by gaining further market share from unorganized players. Revenue growth is likely to be in single digits for ply in FY16. Overall volume growth is likely to improve in FY17 to 15% owing to capacity expansion in particleboard, which is expected to commission in June 2016.

Capacity expansion to boost volume growth: Management of CPBI indicated that volume growth continues to be sluggish in the plywood segment with no incremental demand due to stagnancy in the housing segment. Growth is likely to be largely driven by market share gains from unorganized players. In FY16, revenue growth is likely to be in single digits for ply (around 75% share) and around 20% for laminates. Revenue growth is likely to be 15% for FY17, largely driven by volume growth. Volume growth drivers for the company are capacity expansion in particleboard and MDF and introduction of GST.

Introduction of more product variants at different price points to aid market share gains: The organized segment in plywood continues to form only ~25% of the total market. CPBI continues to focus on increasing market share by making available more product categories at various price points to compete with the unorganized market. The company does not plan to cut prices to gain market share since it believes that: a) cutting prices is not likely to improve volume growth in a big way and it becomes difficult to increase the same later; and b) dealers would have to bear inventory losses in case of a price cut, which hurts the relationship of the company with the distribution network. Margins are likely to remain stable in the near term since increase in timber cost procured from Myanmar is likely to be offset by increased sourcing of low-cost timber from Laos and increase in volume growth.

Capacity expansions on schedule: MDF is gaining importance in the domestic market, with higher usage of ready-made furniture. CPBI's plant with 600cbm per day capacity is likely to commission by December 2016. The particleboard plant is scheduled to commission in June 2016.

CMP	Rs147
12-mth TP (Rs)	200 (36%)
Market cap (US\$m)	477
Enterprise value(US\$m)	549
Bloomberg	CPBI IN
Sector	Mid-cap

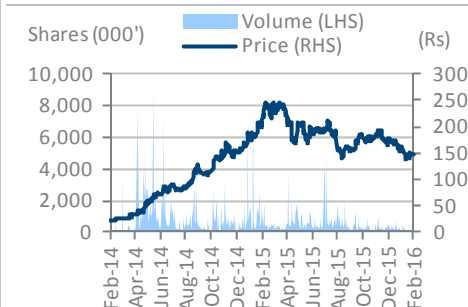
Shareholding pattern (%)

Promoter	73.3
FII	10.6
DII	3.4
Others	12.7
52Wk High/Low (Rs)	262/135
Shares o/s (m)	222
Daily volume (US\$ m)	0.6
Dividend yield FY16ii (%)	1.4
Free float (%)	26.7

Price performance (%)

	1M	3M	1Y
Absolute (Rs)	(7.1)	(19.0)	(27.4)
Absolute (US\$)	(8.3)	(21.4)	(33.6)
Rel. to Sensex	(2.9)	(9.6)	(8.2)
Cagr (%)	3 yrs	5 yrs	
EPS	28.1	13.8	

Stock performance



Financial summary (Rs m)

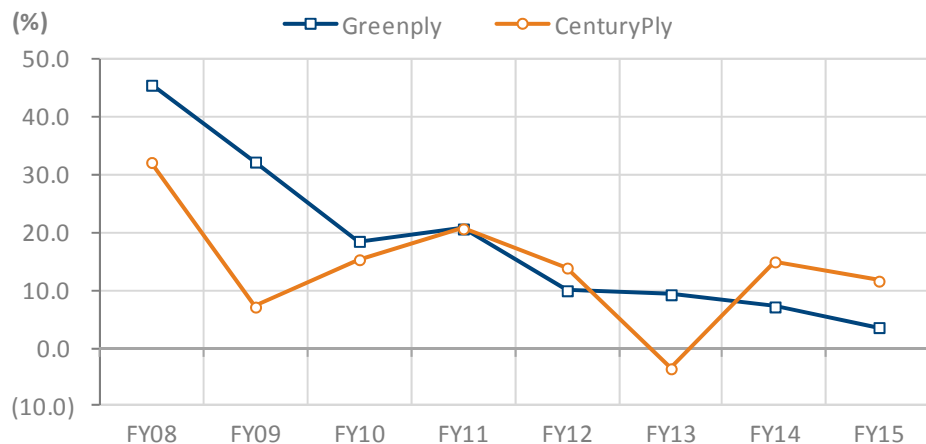
Y/e 31 Mar, Parent	FY14A	FY15A	FY16ii	FY17ii	FY18ii
Revenues (Rs m)	12,840	15,648	16,587	19,075	22,890
Ebitda margins (%)	11.5	16.0	17.0	16.9	16.4
Pre-exceptional PAT (Rs m)	669	1,508	1,713	2,003	2,373
Reported PAT (Rs m)	669	1,508	1,713	2,003	2,373
Pre-exceptional EPS (Rs)	3.0	6.8	7.7	9.0	10.7
Growth (%)	27.1	125.3	13.6	16.9	18.5
IIFL vs consensus (%)			(0.6)	(1.2)	(0.3)
PER (x)	48.9	21.7	19.1	16.3	13.8
ROE (%)	24.7	44.4	38.3	34.9	32.6
Net debt/equity (x)	1.6	1.3	0.9	1.0	0.7
EV/Ebitda (x)	25.3	15.1	13.2	12.1	10.1
Price/book (x)	11.2	8.4	6.5	5.1	4.0

Source: Company, IIFL Research. Priced as on 23 February 2016

Capacity expansion to aid volume growth in FY17: FY16 volume growth for CPBI is likely to be muted owing to sluggish new housing demand. Sluggish demand has led to doubling of the credit period given to large dealers to 120 days owing to the liquidity crunch faced by them (overall receivable days increased from 61 in FY15 end to 69 in 3QFY16). Management indicated that ply volume growth is likely to be in single digits in FY16.

In FY17, management opined that volume growth is likely to improve to 15% owing to cannibalisation of market share from the unorganized segment, various new product categories launched by the company and expansion in the particleboard segment. The laminates segment is likely to report 20% volume growth in FY16, owing to strong domestic volume growth. Weak exports (~22% of laminates revenue) in the laminates segment resulted in overall 14% YoY revenue growth for the segment in 9MFY16, as against 23% YoY domestic revenue growth over the same period.

Figure 1: Ply volume growth – CPBI vs Greenply

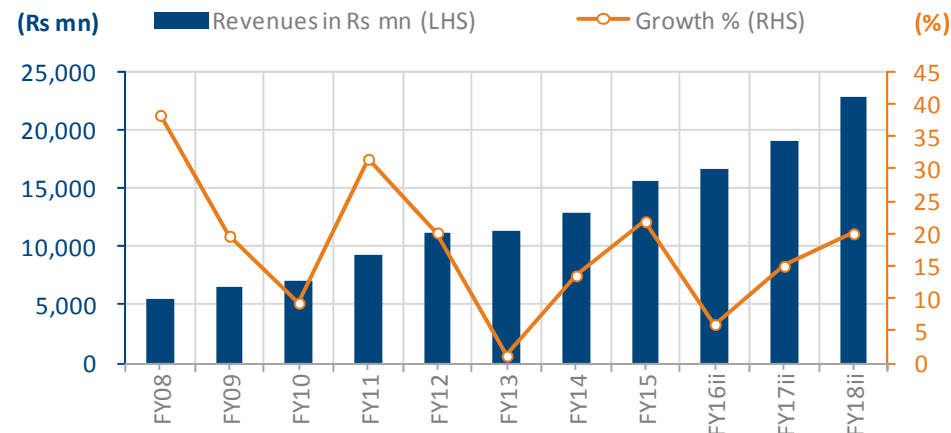


Source: Companies, IIFL Research

Besides capacity expansions, CPBI launched a host of products such as wood plastic composite (70% plastic component and 30% wood fibre to cater to water proofing requirement) and Fibre cement boards (FCB) under the brand name Zykrone. Usage of FCB can halve construction

time and the management believes that this is likely to gain popularity among dealers. FCBs can be used for both walls as well as flooring. It is also water proof and UV resistant. Management expects this product to generate annual revenue of Rs50mn in FY17 and ~Rs300mn in FY18.

Figure 2: CPBI revenue growth likely to improve owing to capacity expansions in particleboard and MDF



Source: Company, IIFL Research

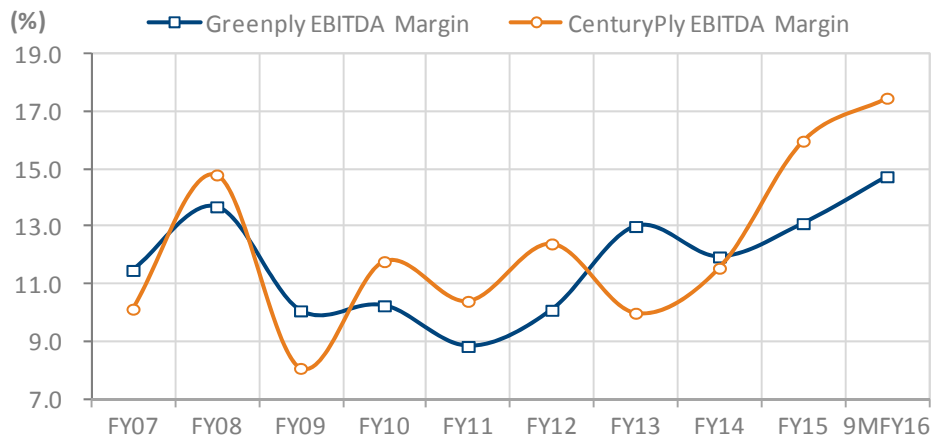
Margins to largely be stable: Management is confident of maintaining ~17% margins for the next two years. Royalty for timber has increased ~25% in Myanmar (CPBI sources ~50% of its veneer requirement from Myanmar). To offset the impact of the same, management is making efforts to procure veneer from Indonesia/Laos, which is 15%/30% cheaper than Myanmar timber.

The company is not likely to cut prices in order to gain market share as the focus remains on maintaining margins at the current level. Management believes that cutting prices is not likely to improve volume growth in a big way and it becomes difficult to increase the same later. Further, dealers would have to bear inventory losses in case of a price cut, which hurts relationship of the company with the distribution network. Dealers generally stock 45-50 days of inventory owing to various bulk discounts offered from time to time. CPBI is known for its

strong distribution network which helps cater to dealer's orders within 24 hours of placing the order.

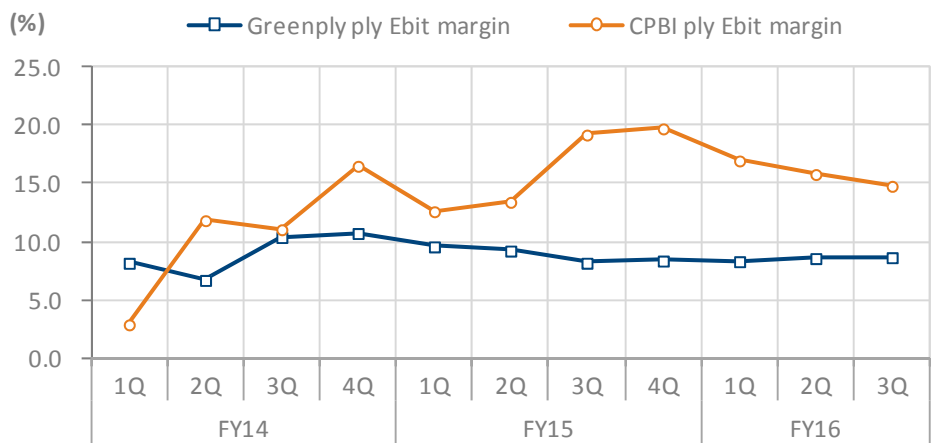
We expect largely stable margins and a likely improvement in ply volume growth to drive 16% earnings Cagr through FY15-FY18.

Figure 3: CPBI vs Greenply Ebitda margins – Higher ply realizations drives better margins for CPBI



Source: Companies, IIFL Research

Figure 4: CPBI vs Greenply - Plywood Ebit margins

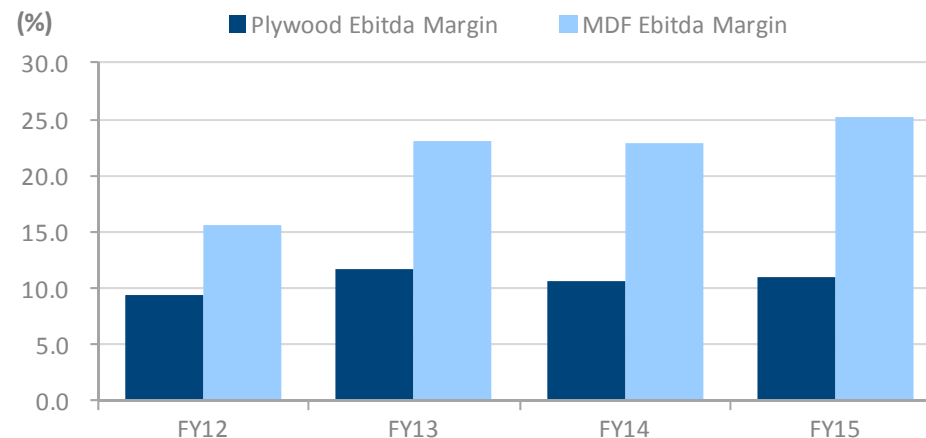


Source: Companies, IIFL Research

Myanmar not likely to be the main source for veneer going forward: Timber from Laos is 15% cheaper (~Rs20,000/cbm) than that from Myanmar. Laos banned export of timber since September 2015. CPBI currently has four peeling lines in Laos (each line has a capacity of peeling ~10,000cbm). The company is setting up five more lines at Laos at a cost of Rs300mn. The company is also setting up two peeling lines in Indonesia.

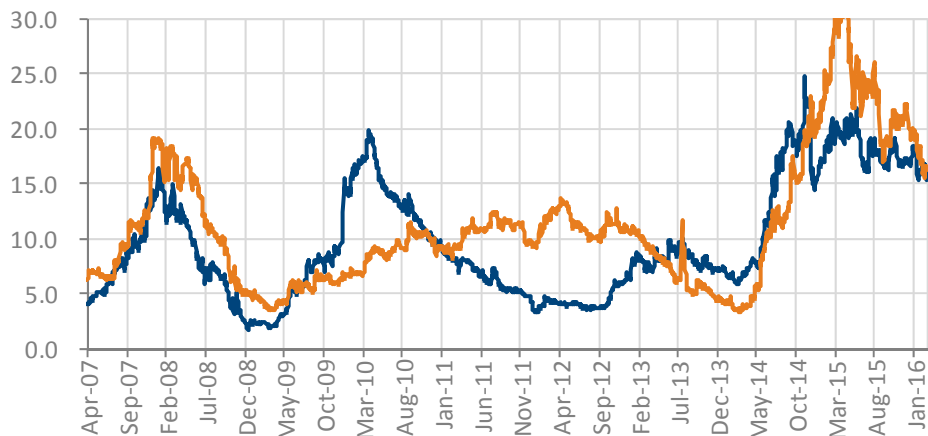
The company's 180cbm per day particleboard expansion is set to commission in June 2016. Capex for the particle board plant is likely to be Rs600mn. The company is also setting up an MDF plant in Punjab of 600cbm per day capacity (marginally above Greenply's existing MDF capacity) at Rs4bn, which is likely to commission by 4QFY17.

Figure 5: Greenply – Plywood vs MDF margins



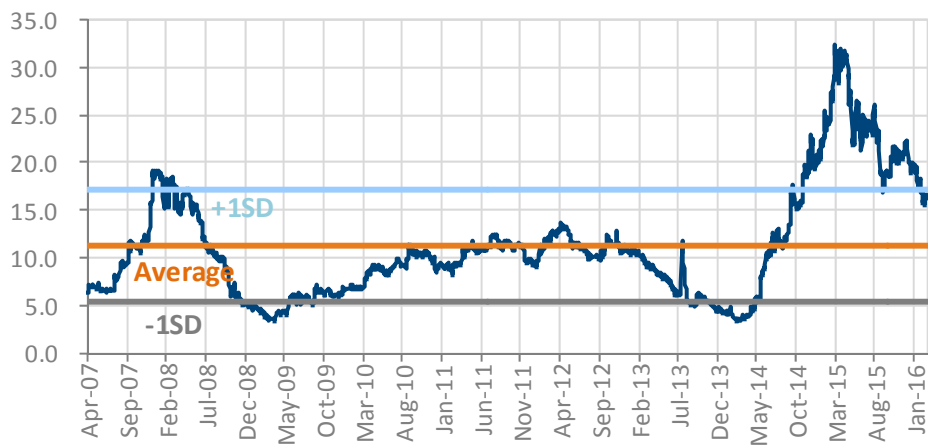
Source: Greenply, IIFL Research

Figure 6: PE chart – Greenply vs CPBI



Source: Bloomberg, IIFL Research

Figure 7: CPBI PE chart



Source: Bloomberg, IIFL Research

Background: CPBI is India's leading plywood manufacturing company with six manufacturing units in India and one in Myanmar. In India, it has plants in Haryana in north, Tamil Nadu in south, West Bengal in east, Assam in north-east, Gujarat in west, and Uttarakhand in the central region. CPBI is promoted by first-generation promoters. Mr. Sajjan Bhajanka and Mr. Sanjay Agarwal are the key promoters. Mr. Vishnu Khemani, Mr. Prem Bhajanka and Mr. H.P Agarwal are the other promoters. All promoters are first-generation entrepreneurs with over 30 years of experience in plywood and related products. CPBI's other two major business segments are laminates and logistics. CPBI is India's third largest laminate producer; laminates accounted for 19% of CPBI's revenue in FY14. CPBI recently has doubled laminate capacity from 2.4m sheets to 4.8m sheets. CPBI operates two container freight stations near Kolkata Port area (0.1 m sqm); CFS operations were started in FY09. This is the first privately owned CFS in eastern India.

Management

Name	Designation
Sajjan Bhajanka	Chairman
Hari Prasad Agarwal	Vice Chairman
Sanjay Agarwal	Managing Director

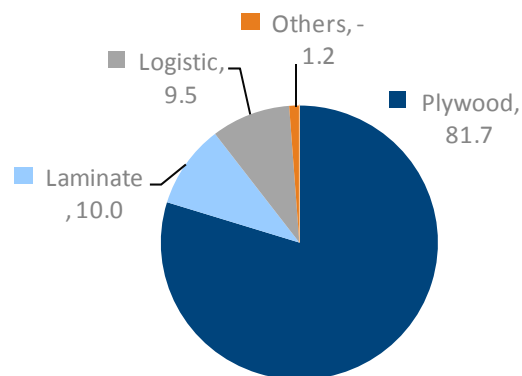
Greenply Inds, Archidply Inds:

Assumptions

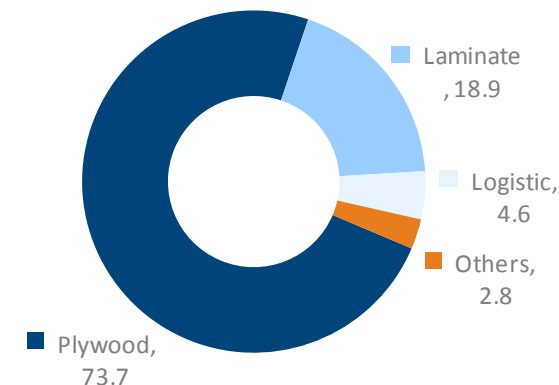
Y/e 31 Mar, Parent	FY14A	FY15A	FY16ii	FY17ii	FY18ii
Sales growth (%)	13.5	21.9	6.0	15.0	20.0
Ebitda margin (%)	11.5	16.0	17.0	16.9	16.4
Effective tax rate (%)	3.4	16.1	12.0	14.0	14.0

Source: Company data, IIFL Research

EBIT mix (%) - FY15



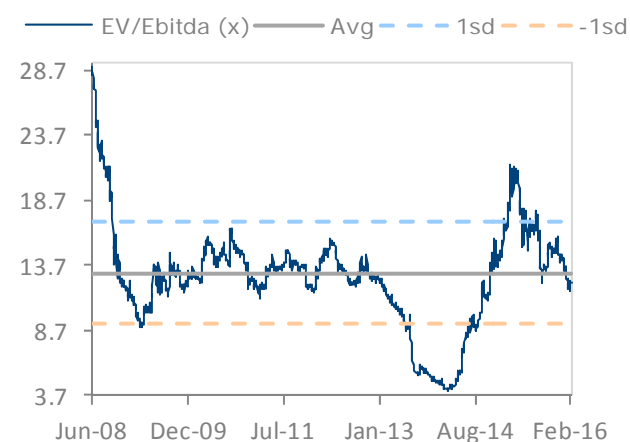
Revenue mix (%) - FY15



PE chart



EV/Ebitda



Financial summary

Income statement summary (Rs m)

Y/e 31 Mar, Parent	FY14A	FY15A	FY16ii	FY17ii	FY18ii
Revenues	12,840	15,648	16,587	19,075	22,890
Ebitda	1,482	2,498	2,820	3,224	3,754
Depreciation and amortisation	(332)	(448)	(448)	(545)	(725)
Ebit	1,150	2,050	2,372	2,678	3,029
Non-operating income	95	181	75	75	75
Financial expense	(551)	(433)	(500)	(425)	(345)
PBT	693	1,798	1,947	2,329	2,759
Exceptionals	0	0	0	0	0
Reported PBT	693	1,798	1,947	2,329	2,759
Tax expense	(24)	(290)	(234)	(326)	(386)
PAT	669	1,508	1,713	2,003	2,373
Minorities, Associates etc.	0	0	0	0	0
Attributable PAT	669	1,508	1,713	2,003	2,373

Ratio analysis

Y/e 31 Mar, Parent	FY14A	FY15A	FY16ii	FY17ii	FY18ii
Per share data (Rs)					
Pre-exceptional EPS	3.0	6.8	7.7	9.0	10.7
DPS	1.0	1.3	2.0	2.5	2.5
BVPS	13.1	17.4	22.8	28.9	36.6
Growth ratios (%)					
Revenues	13.5	21.9	6.0	15.0	20.0
Ebitda	31.3	68.6	12.9	14.3	16.4
EPS	27.1	125.3	13.6	16.9	18.5
Profitability ratios (%)					
Ebitda margin	11.5	16.0	17.0	16.9	16.4
Ebit margin	9.0	13.1	14.3	14.0	13.2
Tax rate	3.4	16.1	12.0	14.0	14.0
Net profit margin	5.2	9.6	10.3	10.5	10.4
Return ratios (%)					
ROE	24.7	44.4	38.3	34.9	32.6
ROCE	16.5	26.7	26.5	24.3	23.1
Solvency ratios (x)					
Net debt-equity	1.6	1.3	0.9	1.0	0.7
Net debt to Ebitda	3.2	2.0	1.6	2.0	1.4
Interest coverage	2.1	4.7	4.7	6.3	8.8

Source: Company data, IIFL Research

Balance sheet summary (Rs m)

Y/e 31 Mar, Parent	FY14A	FY15A	FY16ii	FY17ii	FY18ii
Cash & cash equivalents	180	170	22	301	471
Inventories	2,927	3,200	3,518	4,051	4,890
Receivables	2,046	2,719	2,594	2,983	3,580
Other current assets	625	760	1,095	1,095	1,095
Creditors	742	652	691	795	954
Other current liabilities	584	924	924	924	924
Net current assets	4,452	5,274	5,614	6,711	8,158
Fixed assets	2,307	2,316	2,768	5,022	4,497
Intangibles	0	0	0	0	0
Investments	379	451	451	451	451
Other long-term assets	701	812	812	812	812
Total net assets	7,839	8,852	9,644	12,996	13,918
Borrowings	4,931	5,047	4,647	6,647	5,847
Other long-term liabilities	(5)	(70)	(70)	(70)	(70)
Shareholders' equity	2,914	3,876	5,068	6,420	8,142
Total liabilities	7,839	8,853	9,645	12,997	13,919

Cash flow summary (Rs m)

Y/e 31 Mar, Parent	FY14A	FY15A	FY16ii	FY17ii	FY18ii
Ebit	1,150	2,050	2,372	2,678	3,029
Tax paid	(112)	(344)	(234)	(326)	(386)
Depreciation and amortization	332	448	448	545	725
Net working capital change	(845)	(832)	(489)	(818)	(1,277)
Other operating items	238	307	0	0	0
Operating cash flow before interest	764	1,629	2,098	2,080	2,091
Financial expense	(551)	(433)	(500)	(425)	(345)
Non-operating income	95	181	75	75	75
Operating cash flow after interest	307	1,377	1,673	1,730	1,821
Capital expenditure	(482)	(533)	(900)	(2,800)	(200)
Long-term investments	(239)	(107)	0	0	0
Others	(370)	(409)	0	0	0
Free cash flow	(784)	328	773	(1,070)	1,621
Equity raising	0	0	0	0	0
Borrowings	224	121	(400)	2,000	(800)
Dividend	(57)	(460)	(521)	(651)	(651)
Net chg in cash and equivalents	(617)	(11)	(148)	279	170

Source: Company data, IIFL Research

Disclosure : Published in 2016, © India Infoline Ltd 2016

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Name, Qualification and Certification of Research Analyst: J Radhakrishnan(CWA, CFA), Krithika Subramanian(Chartered Accountant)

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BUY - Absolute - Stock expected to give a positive return of over 20% over a 1-year horizon.

SELL - Absolute - Stock expected to fall by more than 10% over a 1-year horizon.

In addition, **Add** and **Reduce** recommendations are based on expected returns relative to a hurdle rate. Investment horizon for **Add** and **Reduce** recommendations is up to a year. We assume the current hurdle rate at 10%, this being the average return on a debt instrument available for investment.

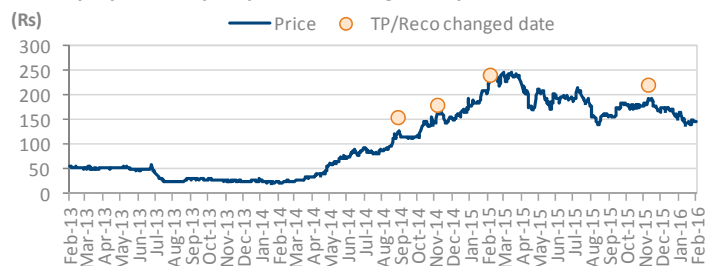
Add - Stock expected to give a return of 0-10% over the hurdle rate, i.e. a positive return of 10%+.

Reduce - Stock expected to return less than the hurdle rate, i.e. return of less than 10%.

Distribution of Ratings: Out of 185 stocks rated in the IIFL coverage universe, 104 have BUY ratings, 7 have SELL ratings, 49 have ADD ratings and 25 have REDUCE ratings.

Price Target: Unless otherwise stated in the text of this report, target prices in this report are based on either a discounted cash flow valuation or comparison of valuation ratios with companies seen by the analyst as comparable or a combination of the two methods. The result of this fundamental valuation is adjusted to reflect the analyst’s views on the likely course of investor sentiment. Whichever valuation method is used there is a significant risk that the target price will not be achieved within the expected timeframe. Risk factors include unforeseen changes in competitive pressures or in the level of demand for the company’s products. Such demand variations may result from changes in technology, in the overall level of economic activity or, in some cases, in fashion. Valuations may also be affected by changes in taxation, in exchange rates and, in certain industries, in regulations. Investment in overseas markets and instruments such as ADRs can result in increased risk from factors such as exchange rates, exchange controls, taxation, and political and social conditions. This discussion of valuation methods and risk factors is not comprehensive – further information is available upon request.

Century Plyboard: 3 year price and rating history



Date	Close price (Rs)	Target price (Rs)	Rating
19 Sep 2014	120	156	BUY
27 Nov 2014	151	181	BUY
27 Feb 2015	220	242	BUY
30 Nov 2015	184	222	BUY