

Century Plyboards

23 May 2014

Reuters: CNTP.IN; Bloomberg: CPBI IN

We had a meeting recently with the management of Century Plyboards (CPL). The company is the second-largest player in Indian wood panel market with revenue share of 75.5%/18.5%/6.0 from plywood/laminate/other businesses, respectively in FY14. We believe CPL is a turnaround story. Following are the key takeaways:

Multi-fold jump in profitability: We believe CPL is on the verge of a turnaround. CPL was the largest player in the wood panel market with a strong position in plywood earlier, but it concentrated mainly on the cement business in the past few years. With a reduced focus on plywood and laminate segments, CPL lost market share to Greenply Industries (GIL) and other players, and is now the second-largest player in the wood panel industry. CPL has now demerged its cement business and is focusing on the core plywood business. The company plans to increase its dealer base at an aggressive rate of 50%. CPL was weak in the western region, but with the setting up of capacity in Gujarat, the company is set to increase its market penetration in the region. The company also doubled the capacity of its laminate division. With higher capacity, strengthened dealer network and renewed focus on the wood panel market, CPL expects a 25% growth in plywood/laminate revenue each in FY15E. It also expects net profit to increase from Rs603mn in FY14 to ~Rs1,500mn in FY15E. At FY15E EPS of Rs6.7 the stock trades at 9.0 P/E, which appears very attractive with a high RoCE of 15.0%. Other players in home décor, like Kajaria Ceramics, with a RoCE of 20.9% in FY14, trades at 27.8x/21.2x FY15E/FY16E P/E, respectively.

Myanmar imposes ban on timber exports: Myanmar produces about ~283,000cbm of teak wood and 1.98mn cbm of hard wood annually. Myanmar is a major exporter of teak wood in the world, accounting for 75% of the global market. It ships teak wood to China, India and other countries. In order to conserve its depleting forest reserves, Myanmar banned the export of timber from 1 April 2014. This resulted in ~30% increase in timber prices in India and ~20% decline in timber prices in Myanmar. The quality of timber produced in India is inferior compared to Myanmar timber and so it cannot serve as a substitute. CPL and GIL have already procured five-six months' timber inventory from Myanmar in advance, but on account of weak balance sheet, unorganised players could not do so. Therefore, the profitability of organised players is likely to improve significantly. GIL and CPL are setting up plywood piling units in Myanmar, which are expected to be operational in the next six months. While the export of timber is not allowed in Myanmar, there is no restriction on export of piled timber. Hence, both these players would be able to source high quality piled timber from Myanmar at attractive prices.

CPL likely to turn free cash flow (FCF) positive: CPL has already increased its capacity in FY14 and, therefore, capex is expected to remain subdued in FY15. With low capex and better profitability, CPL is expected to generate healthy FCF.

Y/E March (Rsmn)	FY10	FY11	FY12	FY13	FY14
Revenue	12,908	13,601	16,674	11,817	13,477
YoY (%)	14.5	5.4	22.6	(29.1)	14.0
EBITDA	2,713	2,493	2,646	1,234	1,582
EBITDA (%)	21.0	18.3	15.9	10.4	11.7
Reported PAT	1,462	1,546	1,228	552	603
Adj. PAT	1,462	1,546	1,427	552	603
FDEPS (Rs)	6.4	6.8	6.3	2.5	2.7
YoY (%)	64.6	5.7	(7.7)	(60.4)	9.2
RoE (%)	34.3	27.7	21.1	11.2	22.0
RoCE (%)	23.9	17.4	13.0	7.4	15.0
RoIC (%)	24.7	17.0	13.0	7.4	15.6
P/E (x)	8.7	8.2	8.9	22.6	20.7
EV/EBITDA (x)	6.1	7.2	8.5	13.6	10.9

Source: Company, Nirmal Bang Institutional Equities Research

NOT RATED

Sector: Wood Products

CMP: Rs56

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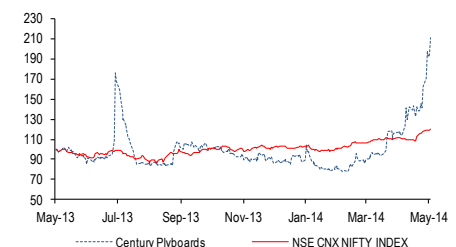
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Key Data

Current Shares O/S (mn)	222.2
Mkt Cap (Rsbn/US\$m)	13.4/229.8
52 Wk H / L (Rs)	61/22
Daily Vol. (3M NSE Avg.)	788,025

One-Year Indexed Stock Performance



Price Performance (%)

	1 M	6 M	1 Yr
Century Plyboards	82.4	131.2	119.3
Nifty Index	7.7	22.9	23.5

Source: Bloomberg

Financials (consolidated)

Exhibit 1: Income statement

Y/E March (Rsmn)	FY10	FY11	FY12	FY13	FY14
Net sales	12,908	13,601	16,674	11,817	13,477
Growth (%)	14.5	5.4	22.6	(29.1)	14.0
Raw material costs	4,677	5,761	7,477	7,364	7,828
Staff costs	826	1,036	1,345	1,219	1,612
Other costs	4,693	4,310	5,206	2,000	2,454
Total expenditure	10,196	11,107	14,027	10,583	11,894
EBITDA	2,713	2,493	2,646	1,234	1,582
Growth (%)	81.4	(8.1)	6.1	(53.4)	28.3
EBITDA margin (%)	21.0	18.3	15.9	10.4	11.7
Other income	11	85	50	72	37
Interest costs	223	232	585	404	603
Gross profit	2,500	2,346	2,111	902	1,016
Growth (%)	99.6	(6.2)	(10.0)	(57.3)	12.6
Depreciation	452	508	556	280	387
Profit before tax	2,048	1,838	1,555	623	629
Growth (%)	138.4	(10.2)	(15.4)	(60.0)	1.0
Tax	216	(59)	58	46	(5)
Effective tax rate (%)	10.6	(3.2)	3.7	7.4	(0.7)
Net profit	1,832	1,897	1,498	577	633
Growth (%)	112.9	3.6	(21.1)	(61.5)	9.8
Minority Interest	370	351	270	25	30
Extraordinary items	-	-	(199)	-	-
Adjusted PAT	1,462	1,546	1,427	552	603
Growth (%)	64.6	5.7	(7.7)	(61.3)	9.2

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 3: Balance sheet

Y/E March (Rsmn)	FY10	FY11	FY12	FY13	FY14
Equity	228	228	228	223	223
Reserves	4,639	6,061	7,038	2,336	2,708
Net worth	4,867	6,289	7,266	2,558	2,931
Minority interest	1,240	1,558	1,794	86	114
Short-term loans	3,873	5,042	10,200	5,417	3,499
Long-term loans	332	622	282	2	1,777
Total loans	4,204	5,664	10,482	5,419	5,276
Deferred tax liability	14	7	0	26	(7)
Liabilities	10,325	13,517	19,542	8,088	8,314
Gross block	5,455	6,756	7,220	4,123	5,187
Depreciation	1,960	2,494	3,091	1,396	1,783
Net block	3,495	4,262	4,129	2,728	3,404
Capital work-in-progress	1,678	2,973	7,626	467	-
Long-term Investments	5	56	88	77	31
Inventories	2,105	2,555	3,105	2,293	3,029
Debtors	1,286	1,522	1,951	1,793	2,089
Cash	496	364	685	1,020	387
Other current assets	2,754	4,142	4,289	980	1,288
Total current assets	6,640	8,583	10,030	6,085	6,793
Creditors	1,403	1,833	1,885	1,148	753
Other current liabilities	92	525	447	120	1,161
Total current liabilities	1,495	2,358	2,331	1,268	1,914
Net current assets	5,146	6,225	7,699	4,817	4,879
Total assets	10,325	13,517	19,542	8,088	8,314

Note: Century demerged its cement and Ferro alloy business from 1 April 2011.

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 2: Cash flow

Y/E March (Rsmn)	FY10	FY11	FY12	FY13	FY14
EBIT	2,261	1,985	2,090	954	1,195
(Inc.)/dec. in working capital	(511)	(1,211)	(1,153)	3,216	(695)
Cash flow from operations	1,750	774	937	4,170	500
Other income	11	85	50	72	37
Depreciation	452	508	556	280	387
Deferred liabilities	12	(7)	(6)	25	(32)
Interest paid (-)	(223)	(232)	(585)	(404)	(603)
Tax paid (-)	(216)	59	(58)	(46)	5
Dividend paid (-)	(33)	(24)	(48)	(156)	(156)
Minority interest (P&L)	(370)	(351)	(270)	(25)	(30)
Net cash from operations	1,382	811	577	3,918	107
Capital expenditure (-)	(1,470)	(2,571)	(5,076)	8,281	(596)
Net cash after capex	(89)	(1,760)	(4,499)	12,198	(489)
Inc./dec. in short-term borrowing	(91)	1,169	5,158	(4,783)	(1,917)
Inc./dec. in long-term borrowing	229	290	(340)	(280)	1,774
Inc./dec. in preference capital	-	-	-	-	-
Inc./dec. in borrowings	139	1,459	4,818	(5,063)	(143)
(Inc.)/dec. in investments	(1)	(51)	(32)	12	45
Equity issue/buyback	267	318	236	(1,708)	29
Cash from financial activities	-	-	-	(5)	(189)
Extraordinary Items	404	1,726	5,023	(6,764)	(258)
Others	(210)	(98)	(203)	(5,099)	115
Opening cash	390	496	364	685	1,020
Closing cash	496	364	685	1,020	387
Change in cash	105	(132)	321	335	(633)

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 4: Key ratios

Y/E March	FY10	FY11	FY12	FY13	FY14
Per share (Rs)					
EPS	6.4	6.8	6.3	2.5	2.7
Book value	21	28	32	11	13
Valuation (x)					
P/E	8.7	8.2	8.9	22.6	20.7
P/sales	1.0	0.9	0.8	1.1	0.9
P/BV	2.6	2.0	1.8	4.9	4.3
EV/EBITDA	6.1	7.2	8.5	13.6	10.9
EV/sales	1.3	1.3	1.3	1.4	1.3
Return ratios (%)					
RoIC	24.7	17.0	13.0	7.4	15.6
RoCE	23.9	17.4	13.0	7.4	15.0
RoE	34.3	27.7	21.1	11.2	22.0
Margins (%)					
EBITDA margin	21.0	18.3	15.9	10.4	11.7
PBIT margin	17.5	14.6	12.5	8.1	8.9
PBT margin	15.9	13.5	9.3	5.3	4.7
PAT margin	11.3	11.4	8.6	4.7	4.5
Turnover ratio					
Asset turnover ratio (x)	1.3	1.0	0.9	1.5	1.6
Avg. inventory period (days)	74	83	80	78	79
Avg. collection period (days)	36	40	42	55	60
Avg. payment period (days)	50	59	48	39	65
Solvency ratios (x)					
Debt-equity	0.9	0.9	1.4	2.1	1.8
Interest coverage	1.5	2.3	4.0	4.4	3.3
Debt/EBITDA	10.1	8.6	3.6	2.4	2.0
Growth (%)					
Sales	14.5	5.4	22.6	(29.1)	14.0
EBITDA	81.4	(8.1)	6.1	(53.4)	28.3
PAT	64.6	5.7	(7.7)	(61.3)	9.2

Source: Company, Nirmal Bang Institutional Equities Research

Disclaimer

Stock Ratings Absolute Returns

BUY > 15%

HOLD 0-15%

SELL < 0%

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