

Century Plyboards

 BSE SENSEX
 27,714

 S&P CNX
 8,551

CMP: INR224
TP: INR263 (+17%)
Buy

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Bloomberg	CPBI IN
Equity Shares (m)	222.5
M.Cap.(INRb)/(USD\$b)	49.8 / 0.7
52-Week Range (INR)	244/135
1, 6, 12 Rel. Per (%)	-2/36/4
Avg Val, INRm	91.0
Free float (%)	26.7

Financials & Valuations (INR b)

Y/E Mar	2016	2017E	2018E
Sales	16.6	18.4	22.7
EBITDA	2.9	3.3	4.3
NP	1.7	1.8	2.4
EPS (Rs)	7.5	8.1	11.0
EPS Gr. (%)	12.2	8.0	35.0
BV/Share (INR)	23.9	30.0	38.6
P/E (x)	29.8	27.6	20.4
P/BV (x)	9.4	7.5	5.8
RoE (%)	36.3	30.1	32.0
RoCE (%)	22.5	20.0	21.0

Estimate change

TP change

Rating change


Standalone - Quarterly Earning

Y/E March	FY16				FY17				(INR Million)			
	1Q	2Q	3Q	4Q	1Q	2QE	3QE	4QE	FY16	FY17E	FY17	Var %
Net Sales	3,695	4,422	3,906	4,547	4,058	4,908	4,414	5,161	16,571	18,403	4,043	0
YoY Change (%)	1.9	8.6	1.2	11.1	9.8	11%	13%	14%	4.3	11.1	9.0	
Total Expenditure	3,024	3,684	3,210	3,774	3,374	4,015	3,708	4,232	13,692	15,146	3,307	
EBITDA	671	738	696	773	683	893	706	929	2,879	3,257	736	-7
Margins (%)	18.2	16.7	17.8	17.0	16.8	18.2	16.0	18.0	17.4	17.7	18.2	
Depreciation	99	107	116	122	93	120	135	190	445	545	130	
Interest	122	135	107	103	89	121	140	170	467	519	100	
Other Income	4	5	7	1	8	11	13	14	17	48	10	
PBT before EO expense	454	501	480	549	510	663	444	583	1,984	2,240	516	-1
Extra-Ord expense	0	0	0	0	0	0	0	0	0	0	0	
PBT	454	501	480	549	510	663	444	583	1,984	2,240	516	-1
Tax	53	39	64	144	80	133	89	117	299	426	103	
Rate (%)	11.6	7.7	13.3	26.2	15.6	20.0	20.0	20.0	15.1	19.0	20.0	
Reported PAT	401	463	416	405	431	531	355	466	1,677	1,806	413	4
Adj PAT	401	463	416	405	431	531	355	466	1,677	1,806	413	4
YoY Change (%)	56.1	29.3	0.6	-15.5	7.3	-33.4	-52.3	-22.4	12.6	7.7	4.0	
Margins (%)	10.9	10.5	10.6	8.9	10.6	10.8	8.1	9.0	10.1	9.8	10.2	

E: MOSL Estimates

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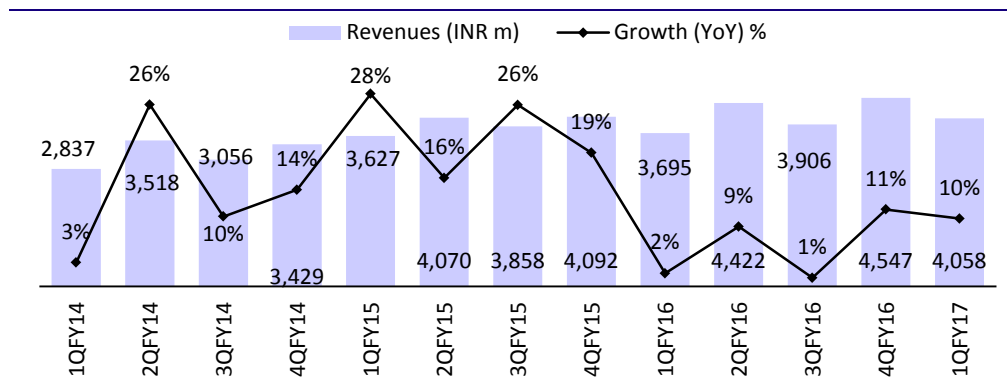
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Results in-line with expectations

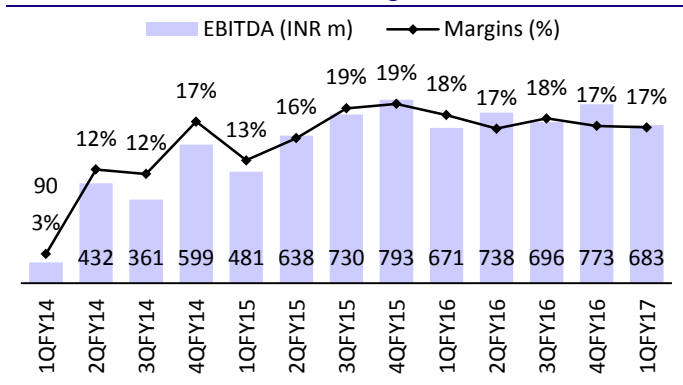
- CPBI revenues posted revenue growth of 10% YoY to INR 4,058m (est. of INR4,043m).
- Plywood and allied products revenue grew by 12% YoY, laminates and allied products grew 3% YoY while logistics business grew 35%.
- EBITDA stood at INR683m (est. of INR736m) while margins stood at 16.8% (est. of 18.2%), contracting 140bp YoY.
- Plywood and allied products PBIT margin came in at 15% (v/s 17% in 1QFY16), logistics margin came in at 34% (v/s 31% in 1QFY16) and laminates margin came in at 15% (v/s 13% in 1QFY16).
- Thus, PAT increased by 7.3% YoY to INR431m (est. of INR413m).

Exhibit 1: Revenue trend



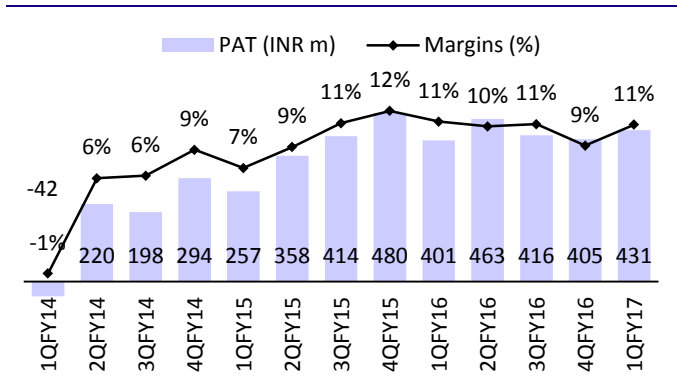
Source: MOSL, Company

Exhibit 2: EBITDA and EBITDA margin trend



Source: MOSL, Company

Exhibit 3: PAT trend



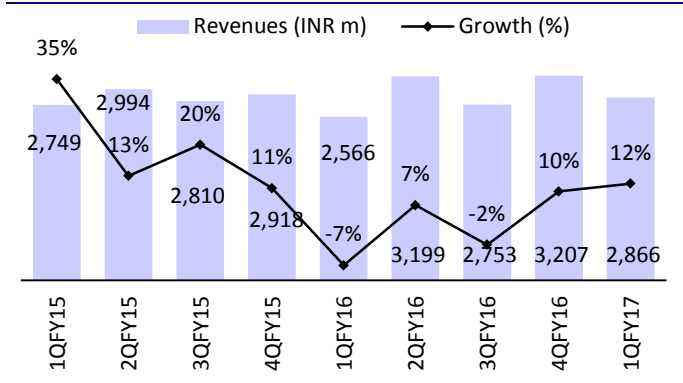
Source: MOSL, Company

Plywood and allied products posts a growth of 11.3%

- Plywood sales grew by 10.7% YoY to INR2,167m, Decorative Plywood sales grew by 1.7% YoY to INR261.9m and Veneer sales grew by 21.5% YoY to INR436m.
- Plywood volumes grew by 12.5% YoY to 189,117 CBM, Decorative Plywood volumes grew by 3.1% YoY to 8,722 CBM and Veneer volumes grew by 43.7% YoY to 44,076 CBM.
- Margins for the division contracted 210 bps to 15.2% as against 17.3% in 1QFY16.

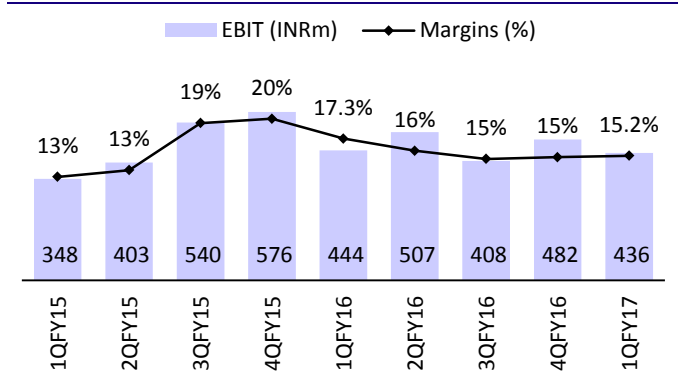
- The growth was mainly volume driven across segment and the within plywood, Sainik posted 30% volume growth on a low base while premium category grew 7% as demand for economy products was high due to tough environment.
- The realization in Prime (premium ply) was down 2% as CPLY increased discounts as the competition has taken price cut. The total value sales in Prime were INR1,640m and Sainik was INR523m.

Exhibit 4: Plywood (incl allied) grew by 12%



Source: MOSL, Company

Exhibit 5: Plywood EBIT margin trend

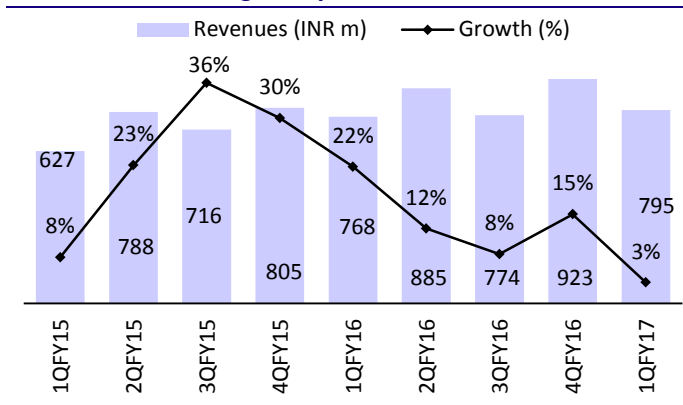


Source: MOSL, Company

Laminates segment revenue grew at 3%

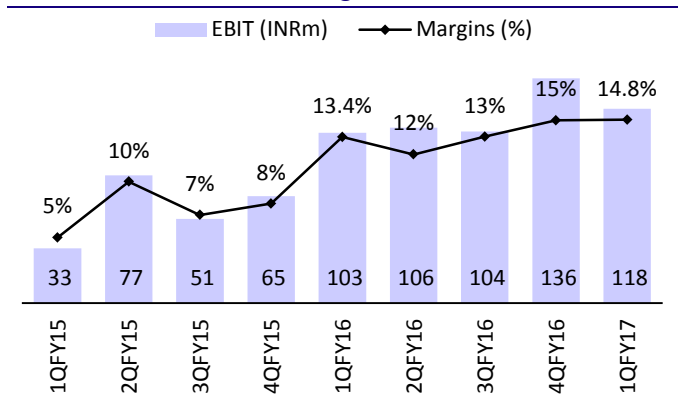
- Laminates division posted 3% YoY revenue growth to INR795m and 140bp PBIT margin expansion to 14.8%.
- Laminates volume registered growth of 15.8% YoY while Pre-lam volumes declined by 35%.
- The lower growth in Laminates was due to postponement of shipment to 2QFY17 which is expected to see a bump in growth.

Exhibit 6: Laminates grew by 3%



Source: MOSL, Company

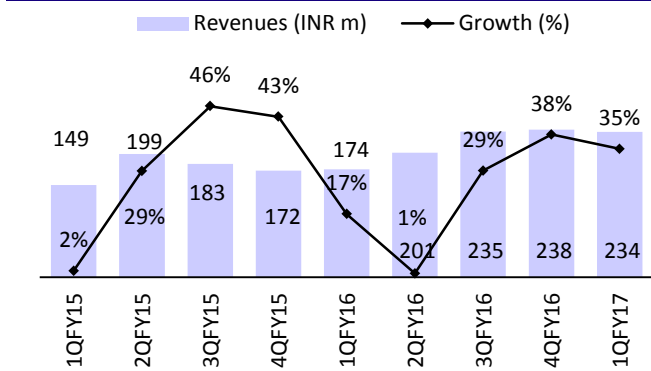
Exhibit 7: Laminates EBIT margin trend



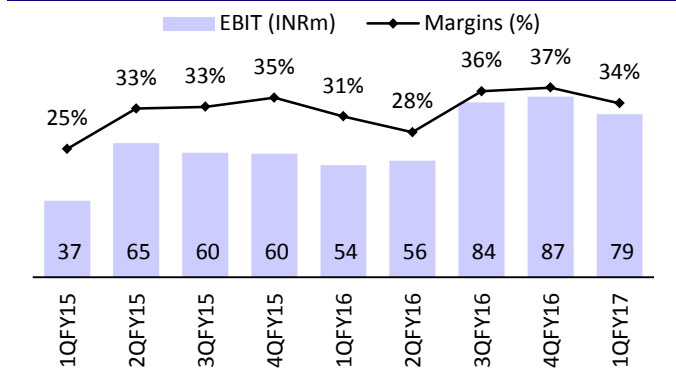
Source: MOSL, Company

Logistics post 29% growth

- Logistics division grew by 35% contributing 6% to revenues and 13% to EBIT.
- Margins for the division expanded 300 bps to 34% as against 31% in 1QFY16.

Exhibit 8: Logistics revenue trend

Source: MOSL, Company

Exhibit 9: Logistics EBIT trend

Source: MOSL, Company

Laos sourcing issue resolved

- The management highlighted that the company has got permission from Laos government to allow export of face timber. However, core timber will not be allowed to be exported and only existing stock will be exported. The company is of the belief that cost of transporting core timber is very high as it has to pass through Vietnam before reaching India while taxation rate is also same like face timber.
- The government had initially banned export of unfinished goods (in view of illegal forestry) and face timber was classified in the same. However, CPLY took up the argument with government formally and won the same.

Particleboard plant goes on stream, MDF plant installation as per schedule

- CPLY announced commissioning of Particleboard plant (180CBM per day capacity) which is expected to reach 70% utilizations levels by 4QFY16. We factor in revenue of INR304m in FY17 at a realization of INR12,500 per CBM.
- Additionally, MDF plant is expected to be commissioned by February 2018 with a capacity of 600CBM per day. As it will take time to stabilize we expect it operate at average capacity of 35% in the first year of operations. Accordingly, at a realization of INR19,500, we expect it to post revenue of INR1,351m in FY18.
- As per management, both Particleboard and MDF is expected enjoy 30% EBITDA margins.

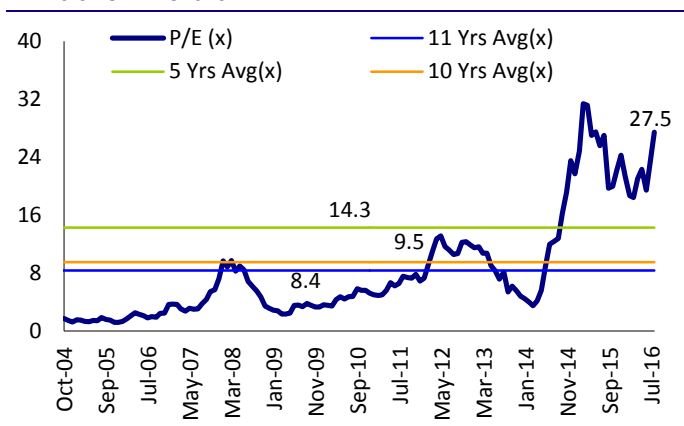
GST to be highly beneficial to CPLY

- The management highlighted that currently there are subject to ~30% of indirect taxes which under the GST regime will save 12% if the rate is notified at 18%.
- This will lead to pressure on unorganized players as there is a high import component which under GST will be charged to tax at first point of entry and hence intermediaries will not be able to manipulate. This will pressurize the buyer to insist on full billing.
- Additionally, import of Timber from AFTA countries is currently subject to Nil customs duty and Countervailing duty and 4% CET which will come under the ambit of GST and discourage manipulation.
- CPLY intends to fully pass on the benefits of savings in GST which shall also lead reduced price differential between unorganized and organized segment.

Valuation and view

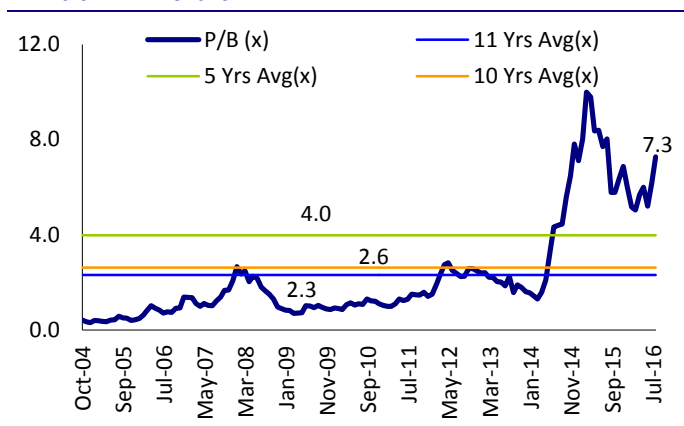
- Duopoly market with strong headroom for growth:** India’s INR200b plywood market is largely unorganized – fragmented players account for 77% of the market. Century Plyboards (CPBI) and Greenply Industries (MTLM) dominate the organized market. They are the only pan-India players and enjoy ~25% share each of the organized plywood market. While the overall plywood market is growing at 5-7%, organized players are growing at 10-15%. There is a shift from the unorganized to the organized segment (estimated at 200bp annually), largely driven by (1) superior quality (organized players offer warranties and termite/borer-resistant products), (2) wider product range (1,600 SKUs against unorganized players’ 400 SKUs), (3) better product aesthetics, and (4) brand pull (aggressive advertising campaigns).
- Century Plyboards the brand leader in the Indian plywood industry:** CPBI is the leader in the organized plywood market with 25% market share. Though MTLM enjoys almost equal market share, market researcher Synovate’s independent studies indicate much higher brand recall for *Century Ply*. The third-largest player, Sarda Plywood, is not even 1/5th the size of CPBI. CPBI invests regularly in marketing activities, with annual ad spends at 3% of sales. It has built its brand reputation on consistent quality, pioneering product features like termite/borer resistance, and warranties.
- Market leadership, strong growth, improving return ratios to drive re-rating:** With brand leadership in a duopoly market coupled with minimal penetration of organized players, we believe CPBI is well-placed to capture the strong growth potential of India’s plywood and laminates market. Brand pull, along with likely implementation of reforms like GST would further accelerate growth, in our view. Post factoring in revenue growth from Particleboard and MDF, we increase our FY18 revenue growth estimates by 7% and earnings growth by 15%. We expect 17%/21% revenue/PAT CAGR over FY16-18E. Given strong return ratios (32% RoE in FY18), huge opportunity size and likely shift from unorganized to organized in wake of GST, we believe CPBI deserves multiples in line with similar building product leaders. Maintain **Buy** with target price of INR263 (24x FY18E EPS).

Exhibit 10: PE chart



Source: MOSL, Company

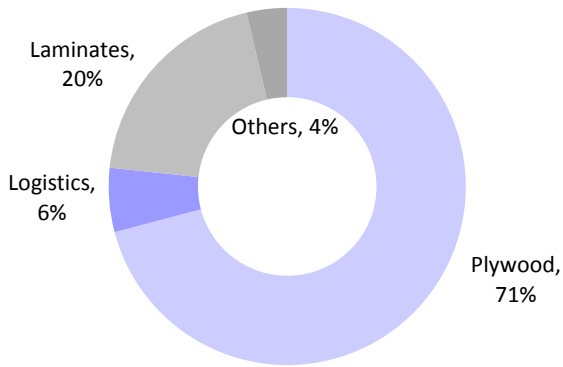
Exhibit 11: PB chart



Source: MOSL, Company

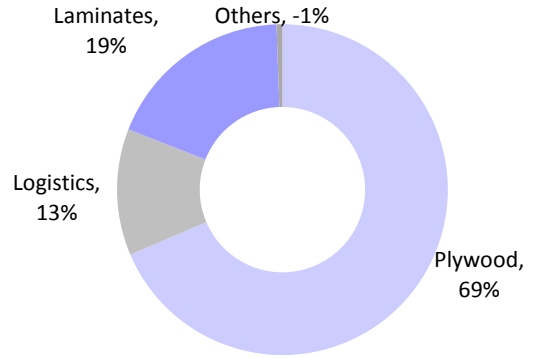
Story in charts

Exhibit 12: Revenue contribution in 1QFY17



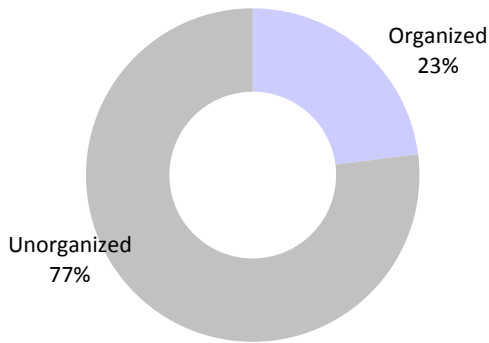
Source: MOSL, Company

Exhibit 13: EBIT contribution in 1QFY17



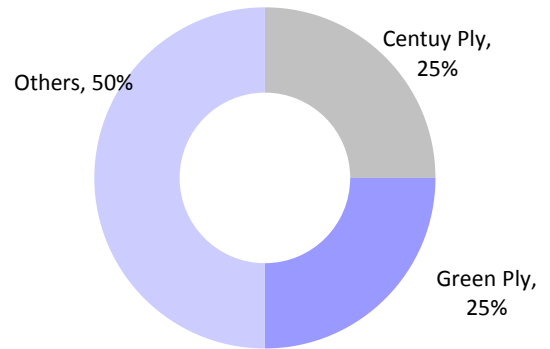
Source: MOSL, Company

Exhibit 14: Plywood industry largely unorganized



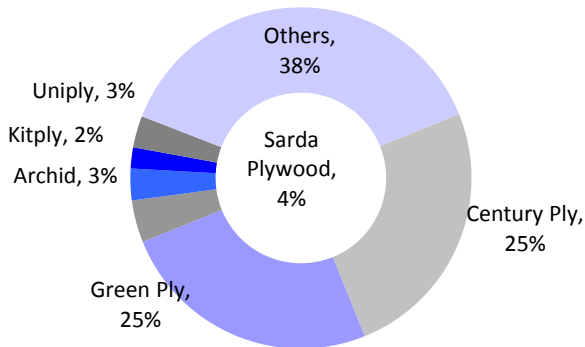
Source: MOSL, Company

Exhibit 15: Market share of organized players



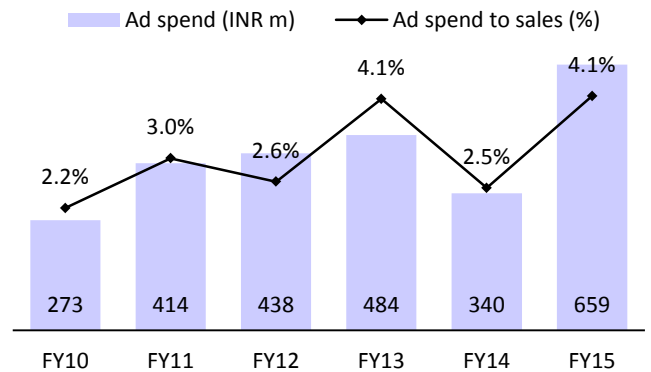
Source: MOSL, Company

Exhibit 16: Century Ply and Greenply dominate the market



Source: MOSL, Company

Exhibit 17: Advertising investments average 3% annually



Source: MOSL, Company

Financials and valuations

Consolidated - Income Statement						(INR Million)	
Y/E March	FY12	FY13	FY14	FY15	FY16	FY17E	FY18E
Total Income from Operations	16,674	11,817	13,477	15,884	16,637	18,403	22,700
Change (%)	22.6	-29.1	14.0	17.9	4.7	10.6	23.3
EBITDA	2,853	1,234	1,582	2,703	2,935	3,257	4,313
Margin (%)	17.1	10.4	11.7	17.0	17.6	17.7	19.0
Depreciation	556	280	387	485	484	545	791
EBIT	2,297	954	1,195	2,218	2,451	2,712	3,522
Int. and Finance Charges	585	404	603	456	481	519	557
Other Income	50	72	37	33	11	48	57
PBT bef. EO Exp.	1,762	622	629	1,796	1,981	2,240	3,022
EO Items	-206	0	0	0	0	0	0
PBT after EO Exp.	1,555	622	629	1,796	1,981	2,240	3,022
Current Tax	64	17	28	349	301	426	574
Deferred Tax	-6	29	-32	-53	0	0	0
Tax Rate (%)	3.7	7.4	-0.7	16.5	15.2	19.0	19.0
Less: Minority Interest	270	25	31	10	8	9	9.8
Reported PAT	1,228	552	603	1,490	1,672	1,806	2,438
Adjusted PAT	1,426	552	603	1,490	1,672	1,806	2,438
Change (%)	-7.7	-61.3	9.2	147.2	12.2	8.0	35.0
Margin (%)	8.6	4.7	4.5	9.4	10.0	9.8	10.7

Consolidated - Balance Sheet						(INR Million)	
Y/E March	FY12	FY13	FY14	FY15	FY16	FY17E	FY18E
Equity Share Capital	228	223	223	223	223	223	223
Total Reserves	7,038	2,336	2,708	3,671	5,104	6,445	8,367
Net Worth	7,266	2,558	2,931	3,894	5,327	6,668	8,589
Minority Interest	1,794	86	115	55	90	90	90
Deferred Liabilities	29	27	4	8	7	7	7
Total Loans	10,482	5,419	5,801	5,138	4,194	6,194	6,194
Capital Employed	19,570	8,090	8,850	9,095	9,618	12,959	14,880
Gross Block	7,220	4,123	4,895	4,607	6,287	9,287	10,487
Less: Accum. Deprn.	3,091	1,396	1,731	2,151	2,635	3,180	3,971
Net Fixed Assets	4,129	2,728	3,164	2,456	3,652	6,107	6,516
Capital WIP	7,626	467	240	326	0	0	0
Total Investments	88	76	31	4	2	2	2
Curr. Assets, Loans&Adv.	10,030	6,085	6,793	7,816	8,002	8,542	10,435
Inventory	3,105	2,293	3,029	3,322	2,975	3,310	4,215
Account Receivables	1,951	1,793	2,089	2,683	2,873	2,874	3,545
Cash and Bank Balance	685	1,020	387	374	389	416	540
Loans and Advances	4,289	980	1,289	1,436	1,765	1,942	2,136
Curr. Liability & Prov.	2,331	1,268	1,389	1,580	2,175	1,829	2,210
Account Payables	2,303	1,166	1,063	1,152	2,080	1,782	2,154
Provisions	28	102	326	428	95	46	56
Net Current Assets	7,699	4,817	5,404	6,236	5,827	6,713	8,225
Deferred Tax assets	29	2	11	70	137	137	137
Misc Expenditure	0	0	0	3	0	0	0
Appl. of Funds	19,571	8,090	8,850	9,095	9,618	12,959	14,880

E: MOSL Estimates

Financials and valuations

Ratios

Y/E March	FY12	FY13	FY14	FY15	FY16	FY17E	FY18E
Basic (INR)							
EPS	6.3	2.5	2.7	6.7	7.5	8.1	11.0
Cash EPS	8.7	3.7	4.4	8.9	9.7	10.6	14.5
BV/Share	31.9	11.5	13.2	17.5	23.9	30.0	38.6
DPS	1.0	0.3	1.0	2.0	1.4	1.8	2.0
Payout (%)	21.1	11.8	41.8	35.9	21.6	25.7	21.2
Valuation (x)							
P/E			82.7	33.5	29.8	27.6	20.4
Cash P/E			50.4	25.2	23.1	21.2	15.4
P/BV			17.0	12.8	9.4	7.5	5.8
EV/Sales			4.1	3.4	3.2	3.0	2.4
EV/EBITDA			34.9	20.2	18.3	17.1	12.9
Dividend Yield (%)	0.4	0.1	0.4	0.9	0.6	0.8	0.9
FCF per share	-14.3	-4.3	-1.4	7.0	7.7	-4.4	5.4
Return Ratios (%)							
RoE	21.0	11.2	22.0	43.7	36.3	30.1	32.0
RoCE	15.2	7.4	14.9	21.2	22.5	20.0	21.0
RoIC	20.7	10.0	16.4	22.3	23.6	20.2	21.2
Working Capital Ratios							
Asset Turnover (x)	0.9	1.5	1.5	1.7	1.7	1.4	1.5
Inventory (Days)	68	71	82	76	65	66	67.8
Debtor (Days)	40	51	52	57	58	53	53
Creditor (Days)	112	58	50	50	93	70	69
Working Cap. Turnover (Days)	154	117	136	135	119	125	124
Leverage Ratio (x)							
Current Ratio	4.3	4.8	4.9	4.9	3.7	4.7	4.7
Interest Cover Ratio	4	2	2	5	5	5	6
Debt/Equity	1.4	2.1	2.0	1.3	0.8	0.9	0.7

Consolidated - Cash Flow Statement

(INR Million)

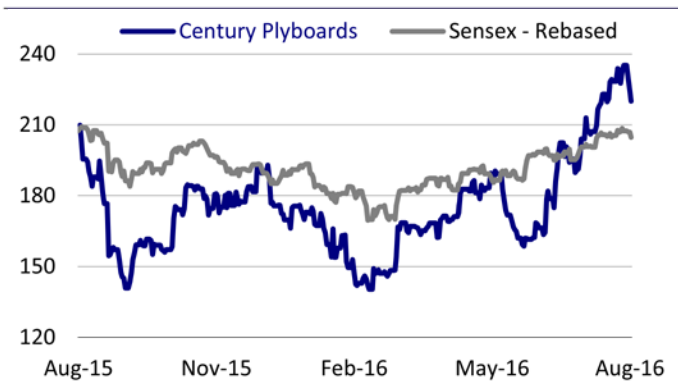
Y/E March	FY12	FY13	FY14	FY15	FY16	FY17E	FY18E
OP/(Loss) before Tax	1,555	623	629	1,796	1,981	2,240	3,022
Depreciation	556	280	387	485	484	545	791
Interest & Finance Charges	554	395	580	440	481	519	557
Direct Taxes Paid	-365	-105	-117	-337	-301	-426	-574
(Inc)/Dec in WC	-1,239	-600	-1,168	-877	424	-859	-1,389
CF from Operations	1,062	592	311	1,507	3,069	2,020	2,407
Others	157	12	28	-19	-8	-9	-10
CF from Operating incl EO	1,219	604	339	1,488	3,061	2,011	2,398
(inc)/dec in FA	-4,466	-1,570	-643	68	-1,354	-3,000	-1,200
Free Cash Flow	-3,247	-966	-305	1,556	1,707	-989	1,198
CF from Investments	-4,233	-1,812	-690	128	-1,317	-3,000	-1,200
Issue of Shares	0	-5	0	0	0	0	0
Inc/(Dec) in Debt	4,512	-5,063	382	-649	-944	2,000	0
Interest Paid	-623	-404	-594	-465	-481	-519	-557
Dividend Paid	-478	-65	-59	-462	-361	-465	-516
Others	-77	7,079	-11	-52	57	0	0
CF from Fin. Activity	3,335	1,542	-281	-1,628	-1,730	1,016	-1,074
Inc/Dec of Cash	321	334	-632	-13	14	27	124
Opening Balance	364	685	1,019	387	374	389	416
Closing Balance	685	1,019	387	374	389	416	540

Corporate profile

Company description

Century Plyboards (CPBI) operates in four key verticals: Plywood, Laminates and Logistics. The plywood segment contributes ~74% to revenues, while the laminates segment contributes ~19% to revenues and logistics contributes ~4% to revenues. Around 90% of CPBI's products are marketed through the retail network. Only 10% are marketed through the discount-driven OEM network. CPBI invests regularly in marketing activities, with annual ad spends at 3% of sales (4% for plywood division).

Exhibit 1: Sensex rebased



Source: MOSL/Bloomberg

Exhibit 2: Shareholding pattern (%)

	Jun-16	Mar-16	Jun-15
Promoter	73.3	73.3	73.3
DII	7.6	3.3	3.1
FII	8.5	12.1	8.8
Others	10.5	11.3	14.7

Note: FII Includes depository receipts Source: Capitaline

Exhibit 3: Top holders

Holder Name	% Holding
Government Pension Fund Global	2.5
Sundaram Mutual Fund A/C Sundaram Select Microcap Series V	1.4
Canara HSBC Oriental Bank of Commerce Life Insurance Company Ltd	1.2
NA	0.0
NA	0.0

Source: Capitaline

Exhibit 4: Top management

Name	Designation
Sajjan Bhajanka	Chairman & Managing Director
Hari Prasad Agarwal	Vice Chairman
Prem Kumar Bhajanka	Managing Director
Sanjay Agarwal	Managing Director
Vishnu Khemani	Managing Director
Ajay Baldawa	Executive Director
Sundeep Jhunjhunwala	Company Secretary

Source: Capitaline

Exhibit 5: Directors

Name	Name
Asit Pal	Mamta Binani
Mangi Lal Jain	Manindra Nath Banerjee
Samarendra Mitra	Santanu Ray
Joginder Pal Dua	Keshav Bhajanka

*Independent

Exhibit 6: Auditors

Name	Type
B G Chowdhury & Co	Cost Auditor
MKB & Associates	Secretarial Audit
Singhi & Co	Statutory

Source: Capitaline

Exhibit 7: MOSL forecast v/s consensus

EPS (INR)	MOSL forecast	Consensus forecast	Variation (%)
FY17	8.1	-	-
FY18	11.0	-	-

Source: Bloomberg

Disclosures

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