VISIT NOTE

MID CAP

Century Plyboards

Not Rated

Price: Rs 186 | **BSE Index: 26,687** | **17 June 2015**

Share Data

Reuters code	CNTP.BO
Bloomberg code	CPBI IN
Market cap. (US$ mn)	737
6M avg. daily turnover (US$ mn)	2.3
Issued shares (mn)	222

Performance (%)	1M	3M	12M
Absolute	6	(15)	158
Relative	9	(10)	143

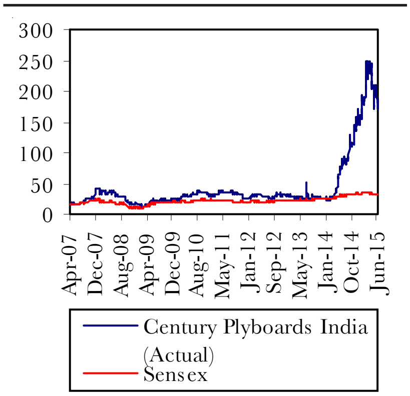
Valuation Ratios (Consolidated)

Yr to 31 Mar	FY13	FY14	FY15P
EPS (Rs)	2.5	2.7	6.7
+/- (%)	(54.0)	9.2	147.2
PER (x)	11.7	10.1	34.9
PBV (x)	2.5	2.1	13.4
Dividend/Yield (%)	0.9	3.7	0.9
EV/Sales (x)	0.9	0.9	3.6
EV/EBITDA (x)	8.8	7.3	20.8

Major shareholders (%)

Promoters	73
FIIs	9
MFs	3
Public & Others	15

Relative performance



Key beneficiary of GST implementation...

Century Plyboards (I) Ltd. (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 (North), Tamil Nadu (South), West Bengal (East), Assam (North East), Gujarat (West) and Uttarakhand (Central region). CPBI is promoted by first-generation promoters. Mr Sajjan Bhajanka and Mr Sanjay Agarwal (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 business segments are laminates and logistics (CFS). Around 90% of the products are marketed through retail network, while only 10% is marketed through the discount driven OEM network. Further, the company commands nearly 5% premium realisation over its nearest competitor and 20% over unorganised products. We met the management of Century Plyboards recently to understand the industry dynamics and future prospects of the company.

Following were the key takeaways.

Indian Wood & Panel industry: Indian Wood & Panel industry is broadly classified into Natural Wood, Plywood, Laminates, MDF, Particle board and Oriented Standard board (OSB) of which market of Plywood is pegged at Rs 150 bn, Laminates at Rs 45 bn and MDF at Rs 35 bn.

Plywood: The Indian plywood industry has grown at a CAGR of 5-7% in the last five years; however, the organised players registered growth in excess of 15% implying a significant shift from unorganised players towards organised players. As per the management, the organised sector got a boost when the excise duty on plywood was reduced to 8% from 16% in FY08 which led to narrowing of cost differential with regards to unorganised players. The excise since then has been gradually increased to 10% in FY12 and 12% in FY13. The share of organised sector is now 30% (up from 10% a decade back) of which 50% is been controlled by two national players viz. Century Ply and Greenply. The balance 50% are region based players that includes brands like Kitply, Kenwood, Archidply, etc.

GST implementation – a potential game changer: India's plywood sector is dominated by the unorganised sector, accounting for a 70% of the total market size. With the proposed implementation of GST, it is expected that large indirect tax differential would narrow, thereby bringing organised and unorganised players on an even tax platform. This potential game changer could give organised players an opportunity to tap into unorganised market ***(Please refer the tentative workings on how GST would benefit the industry on Pg 8).***

Industry growth to pick up: The management expects plywood industry to grow at ~10% and the organised sector at ~25% led by key drivers viz. expected increase in per capita income and various government initiatives like emphasis on infrastructure and housing, proposal of setting up new satellite cities and gradual reduction in home renovation cycle from 15 years to 5 years.

Laminates: CPBI is the third largest player in the organised sector (~60% share) with Greenlam and Merino being the first and second player in the market. The company has doubled its laminates capacity to 4.8 mn sheets in FY14 and is now aiming to increase its market share. It is also planning to increase its SKUs from 700 by adding ~100 SKUs every year.

Particle board unit: The company is setting up greenfield particle board unit at its existing site of Chennai unit. Since the particle board is made from timber wastage, saw mill dust, resins, etc., CPBI intends to put use the wastages generated in its Chennai plant and if need be procure from wood based units in the vicinity. The company intends to spend Rs 600 mn in this project over the next one year.

Capacity expansions to drive growth over next two years: CPBI has increased its plywood capacity from 0.125 mn CBM to 0.21 mn CBM and doubled its laminates capacity to 4.8 mn sheets in the past two-three years. Apart from capacity expansion, the company is also aggressively ramping up its distribution network and intends to bill 10,000 retailers by end of 2015 as against 8,500 currently and increase distributor count to 150 by 2015 as against 127 for Decorative LOB. The management remains confident of registering 25%+ growth in sales for the next two years.

Raw material linkage is critical: Manufacturing of plywood involves three main raw materials viz. Face Veneer (~10% of volume and ~31% of raw material cost), Core Veneer (~80% of volume and ~54% of raw material cost) and Chemicals (~10% of volume and ~15% of raw material cost). Both the Veneer are derived from the tree's trunk, the only difference is the thickness of Veneer. While Face Veneer is very thin (0.4 mm), the core veneer is relatively thicker. Though there is no hassle in procuring Core Veneer, availability of Face Veneer is critical for plywood manufacturer. Face veneer is obtained from Natural timber (life of over 50 years), procurement of which is curtailed by various governments. Myanmar remains the key sourcing destination; however, in FY14 Myanmar government had banned the export of raw timber. CPBI remained unaffected by this ban as the ban was not applicable to processed timber. CPBI had a plant in Myanmar through which it process raw timber into veneer and exported to its facilities in India. This proved to be major advantage in FY15 for CPBI, however, recently even Greenply has also commissioned its facility in Myanmar (through JV) thereby diluting CPBI's advantage a bit.

Core Veneer is obtained from general timber and does not have any regulations imposed by the governments. It remains a short cycle cash crop for the farmer as the timber can be grown in 3.5-4.0 years.

Lookout for alternative sources continues: In order to have a sustainable long-term availability of Face Veneer, the company is setting up a timber peeling plant through JV in Laos. In the meanwhile it has entered into a tie up with a local saw mill in Laos and has provided them the technical expertise and machinery on lease. The company intends to spend ~Rs 600 mn in this facility over the next one year. Additionally, the company is also exploring new sourcing destination in Papua New Guinea and the Solomon Islands to procure face veneer.

Entry in MDF business: The company intends to test the market and therefore has cautiously entered the MDF segment on outsource model (importing from Vietnam). The management remained cautious of high capital intense nature of the business (as per them it is not even 1:1); however, in the long run the management opined that they would evaluate economic viability of setting up MDF unit at appropriate time.

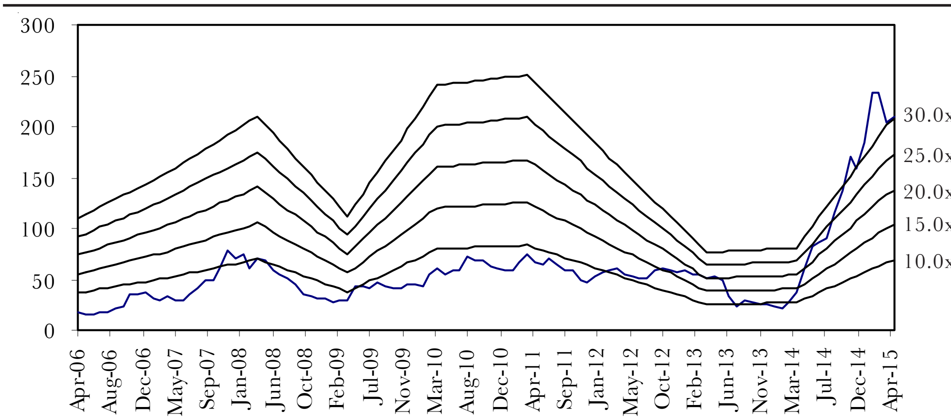
Modular kitchen segment: CPBI is exploring new business opportunities, mainly modular kitchen with aim of forward integration. The company has entered into contract manufacturing and franchise marketing through which it intends to use its own plywood and laminates and outsource the manufacturing.

Tax rate to remain low: Tax rate for the company has been low at ~16.5% in FY15. The management indicated that the tax rate would continue to remain low as the company enjoys benefits (both excise + tax holidays) for couple of its units.

Outlook and valuation

Currently we do not have rating on the company; however, we remain optimistic on the company's financial performance over the next two-three years. At the current market price of Rs 186, CPBI is trading 20x FY16E consensus EPS of Rs 9.2 and 15x FY17E consensus EPS of Rs 12.5.

PER Band



Source: B&K Research

Company background

Century Plyboards (I) Ltd. is the largest seller of plywood and decorative veneers in the Indian organised plywood market, catering to both residential as well as commercial consumers with a range of products that are attractive, durable and safe. As the pioneers in Borer proof plywood and Boiling Water Resistant (BWR) Decorative Veneers and Laminates in India, the company has successfully created a niche in the highly competitive lifestyle segment. From flexible plywoods that offer a unique blend of form and functionality to specially treated, Fire Retardant plywoods that find use in a myriad of construction purposes, CPBI has the right products to target different building needs.

Promoters

Mr Sajjan Bhajanka (Executive Chairman)

He is a graduate with 45 years of industry experience and is responsible for the overall strategic direction and Production and Finance. He is currently President of Federation of Indian Plywood and Panel Industry & All India Veneer manufactures association. He holds 26.71% of total shareholding in the company.

Mr Sanjay Agarwal (CEO & Managing Director)

He is a graduate with 30 years of industry experience and is responsible for sales marketing, IT and HR. He has successfully created 'Century Ply' brand. He holds 26.54% of total shareholding in the company.

Mr Vishnu Khemani (Managing Director)

He is a graduate with 30 years of industry experience and is responsible for timber procurement and heads South India operations of plywood. He holds 8.59% of total shareholding in the company.

Mr Prem Bhajanka (Managing Director)

He is a graduate with 30 years of industry experience and is responsible for timber procurement and operations of four units including Myanmar. He holds 6.24% of total shareholding in the company.

Mr Hari Prasad Agarwal (Vice Chairman)

He is a graduate with 48 years of administrative experience and is responsible for general administration of the company. He holds 6.38% of total shareholding in the company.

Pan-India presence

Source: Company, B&K Research

Mother plant at Bishnupur near Joka, Kolkata is spread over 6.6 acre housing production complex which rolls out high grade ply, mainly from imported timber and logs.

The production facilities include a range of state-of-the-art equipment for cutting, shaving, splicing, polishing and chemical treatment as well as for research and development. Commercial, Marine, Concrete Shuttering and Decorative Plywood are all produced at the plant

Manufacturing units

Manufacturing Units	
Ply*	6
Ply Myanmar#	1
Laminates	1
CFS	2

*Includes one subsidiary (51%) unit
Ply Myanmar is 100% subsidiary

Branches

Branch Offices / Depot	
35	
Regional Dist. Centre	
6	
Distribution Network*	
Total*	> 10,800
Direct	> 1,500

*Includes dealers, sub-dealers, retail outlets etc.

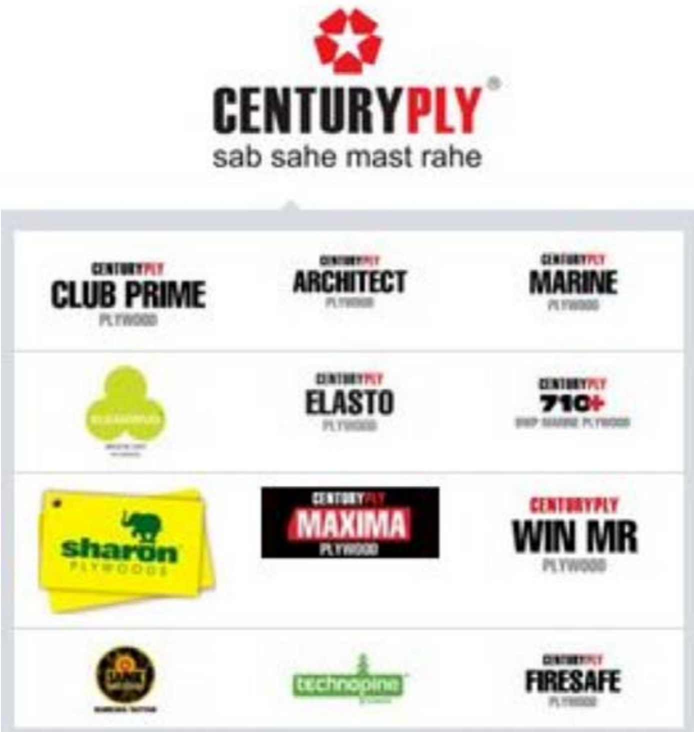
Source: Company, B&K Research

Capacities

Plywood capacity	2,10,000	CBM
Laminates	4.8	mn sheets

Key brands

Century Ply



Century Laminates

Source: Company, B&K Research

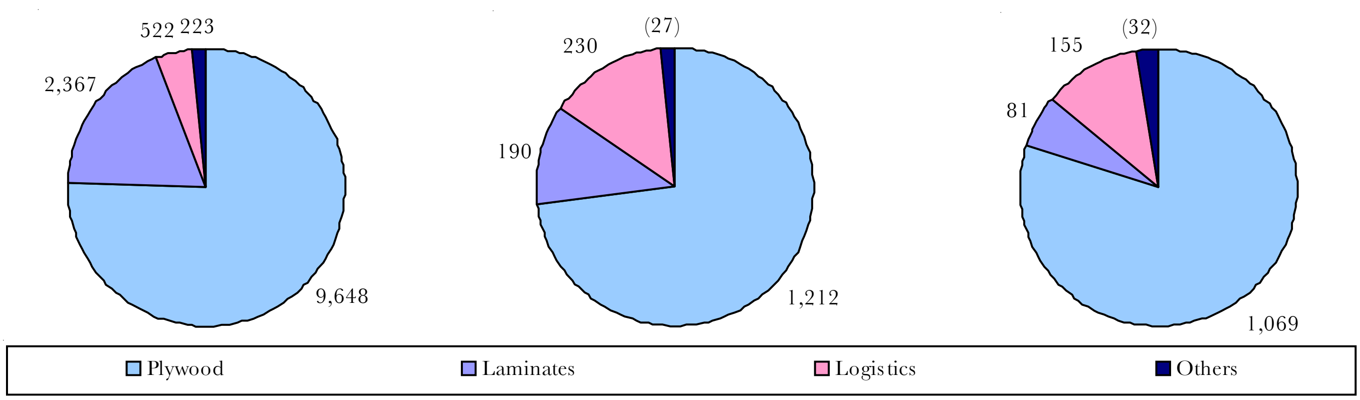
Century Block Boards

Century Veneers

Source: Company, B&K Research

FY14 performance

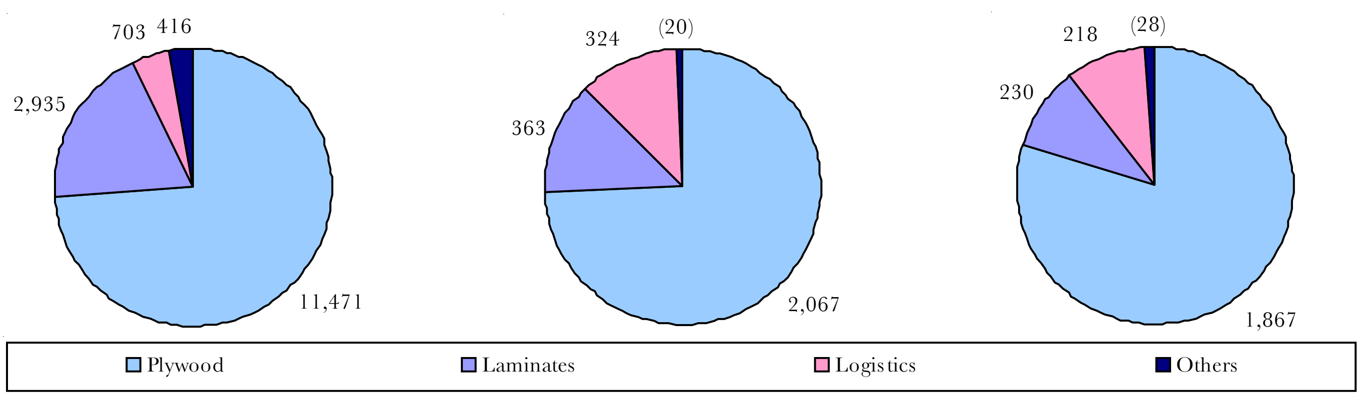
Revenue mix | **EBITDA mix** | **EBIT mix**



Source: Company, B&K Research

FY15 performance

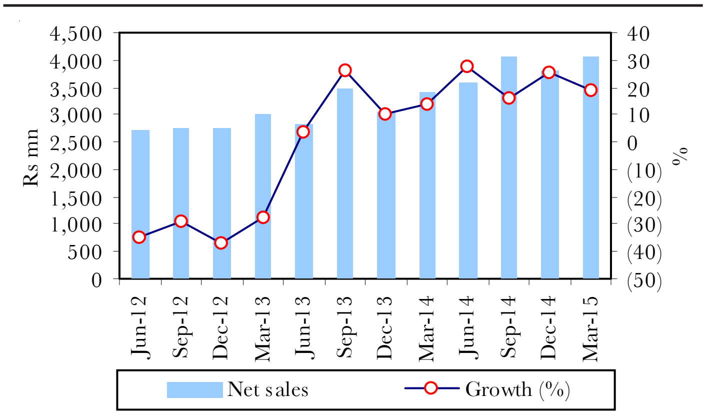
Revenue mix | **EBITDA mix** | **EBIT mix**



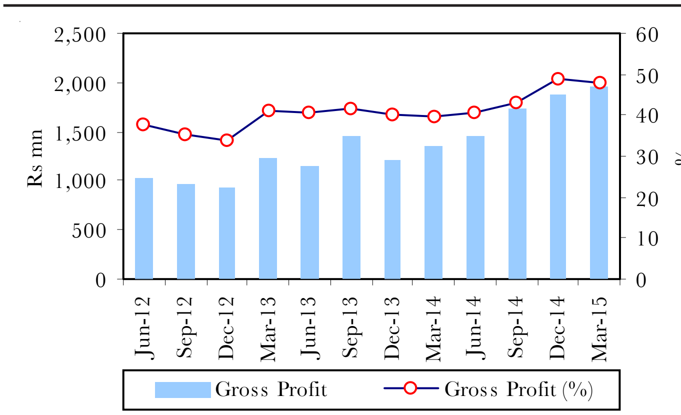
Source: Company, B&K Research

Plywood segment registered growth of 19.3% in FY15 to Rs 11.5 bn led by 6% volume growth and 13% realisation growth. EBITDA witnessed robust growth of 70.6% to Rs 2.06 bn. EBITDA margin improved by 540 bps to 17.9%. Laminates registered growth of 23.5% in FY15 to Rs 2.99 bn led by 11% growth and 12% realisation growth. EBITDA witnessed robust growth of 91.0% to Rs 363.3 m. EBITDA margin improved by 430 bps to 12.1%.

Gaining market share...

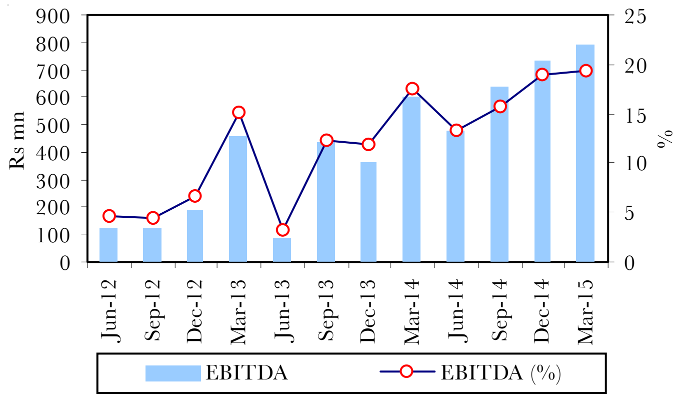


Product mix becoming richer...

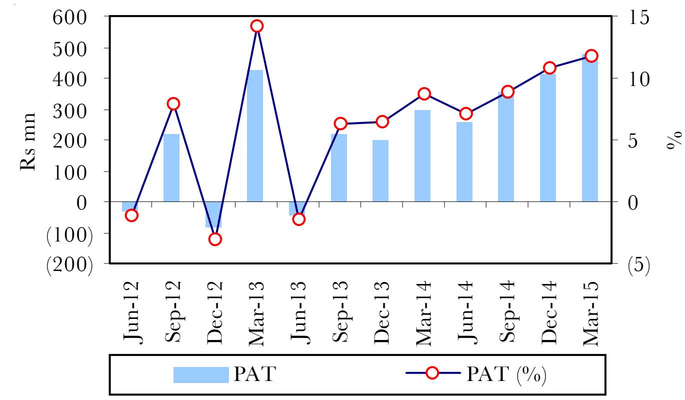


Source: Company, B&K Research

Deriving operating leverage...

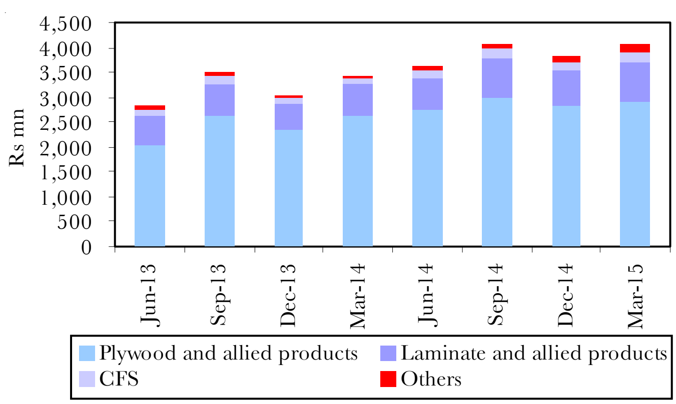


Resulting into healthy profits...

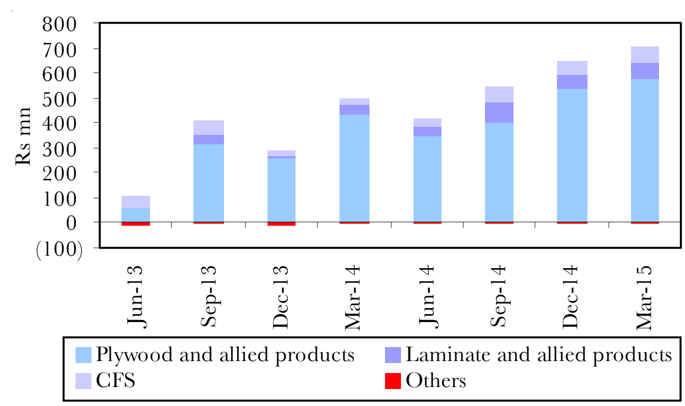


Source: Company, B&K Research

Segmental revenue



Segmental EBIT



Source: Company, B&K Research

Simultaneously, small manufacturers who escape from the excise net by maintaining a turnover below Rs 15.0 mn per annum will now come into the GST net since their turnover will exceed the GST limit of Rs 1-2 mn per annum

GST a potential game changer

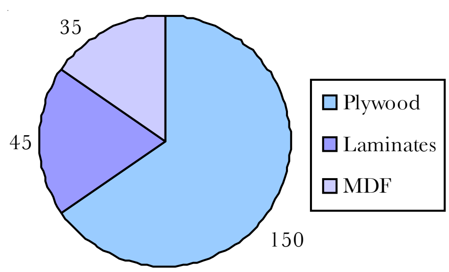
	Particulars	Current (Rs)		Particulars	Post GST
Manufacturer	*Base price	100.00	Manufacturer	*Base price	100.00
	*Excise Duty @ 12.36%	12.36		*GST @ 24%	24.00
	Base + Excise	112.36		Total	124.00
	*VAT @ 12.5%	14.05			
	Total	126.41			
Dealer	Base + Excise	112.36	Dealer	Base price	100.00
	*+10% Margin	11.24		*+10% Margin	10.00
	Total	123.60		Total	110.00
	*VAT @12.5%	15.45		*GST @ 24%	26.4
	Total	139.05		Total	136.40
	Less: Input credit	14.05		Less: GST input credit	24.00
	Final price	125.00		Final price	112.40

Note: Under proposed GST regime, dealer cost of purchases from organised player reduces from Rs 125 to Rs 112.4 (~10%), which will help to improve the competitiveness of the organised players. *Assumptions.

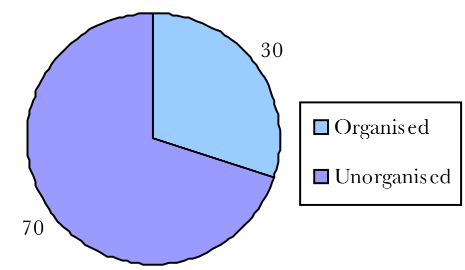
Industry

Indian Wood & Panel industry is broadly classified into Natural Wood, Plywood, Laminates, MDF, Particle board and Oriented Standard board (OSB) of which market of Plywood is pegged at Rs 150 bn, Laminates at Rs 45 bn and MDF at Rs 35 bn. The plywood industry is dominated by the unorganized sector, accounting for a 70% of the total market size.

Industry size (Rs bn)



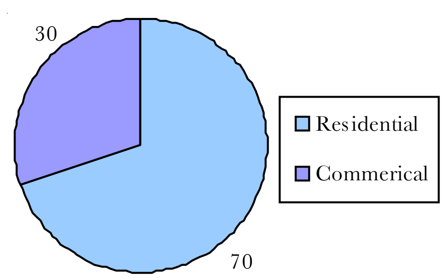
Industry split



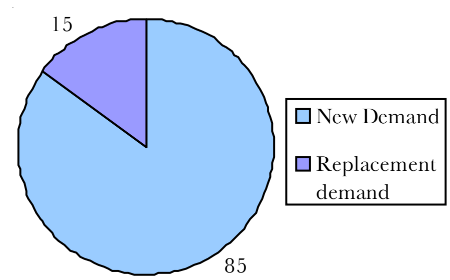
Source: Company, B&K Research

~70% of the demand is from the residential while remaining 30% is from commercial. Bulk of the demand i.e. ~85% is from the new demand, while ~15% is replacement in nature.

Demand split



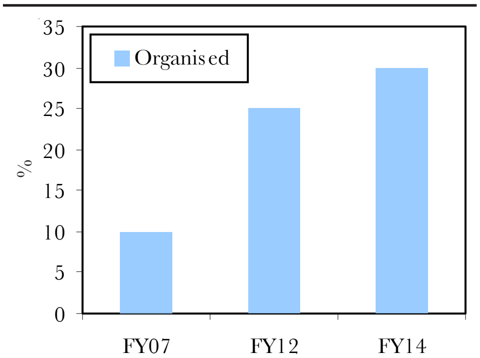
Nature of demand



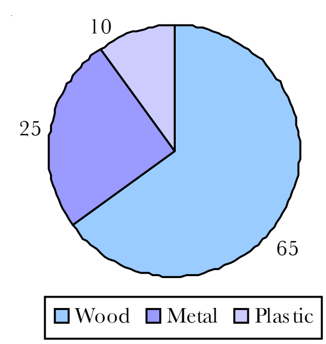
Source: Company, B&K Research

The share of organised sector is now 30% (up from 10% a decade back) of which 50% is been controlled by two national players viz. Century Ply and Greenply. The balance 50% are region-based players that includes brands like Kitply, Kenwood, Archidply, etc.

Organised market gaining share



Raw materials



Source: Company, B&K Research

Manufacturing of plywood involves three main raw materials viz. Face Veneer (~10% of volume and ~31% of raw material cost), Core Veneer (~80% of volume and ~54% of raw material cost) and Chemicals (~10% of volume and ~15% of raw material cost).

Income Statement (Consolidated)

Period end (Rs mn)	Mar 12	Mar 13	Mar 14	Mar 15
Net sales	**16,674**	**11,816**	**13,362**	**15,727**
Growth (%)	*22.6*	*(29.1)*	*13.1*	*17.7*
Operating expenses	(13,821)	(10,583)	(11,894)	(13,181)
Operating profit	**2,853**	**1,234**	**1,467**	**2,546**
Other operating income	0	0	115	157
EBITDA	**2,853**	**1,234**	**1,582**	**2,703**
Growth (%)	*14.4*	*(56.8)*	*28.3*	*70.8*
Depreciation	(556)	(280)	(387)	(485)
Other income	50	72	37	33
EBIT	**2,347**	**1,026**	**1,232**	**2,251**
Finance cost	(585)	(404)	(603)	(456)
Exceptional & extraordinary	(206)	0	0	0
Profit before tax	**1,555**	**622**	**629**	**1,796**
Tax (current + deferred)	(58)	(46)	5	(296)
P/(L) for the period	**1,498**	**577**	**633**	**1,500**
P/L of Associates, Min Int, Pref Div	(270)	(25)	(31)	(10)
Reported Profit/(Loss)	1,228	552	603	1,490
Adjusted net profit	1,228	552	603	1,490
Growth (%)	*(20.6)*	*(55.0)*	*9.2*	*147.2*

Balance Sheet (Consolidated)

Period end (Rs mn)	Mar 12	Mar 13	Mar 14	Mar 15P
Share capital	228	223	223	223
Reserves & surplus	7,038	2,336	2,708	3,671
Shareholders' funds	**7,266**	**2,558**	**2,931**	**3,894**
Minority Int, Share Appl, Pref Capital	1,794	86	114	55
Non-current liabilities	**6,650**	**2,193**	**1,799**	**850**
Long-term borrowings	6,209	2,148	1,777	814
Other long term liab, Prov, DTL	441	45	23	36
Current liabilities	**6,163**	**4,521**	**5,395**	**5,876**
Short-term borrowings, curr maturity	4,273	3,285	4,032	3,863
Other current liab + provi	1,890	1,235	1,363	2,013
Total (equity and liab.)	**21,873**	**9,358**	**10,239**	**10,675**
Non-current assets	**12,839**	**3,794**	**4,075**	**3,507**
Fixed assets (net block)	11,755	3,195	3,404	2,782
Non-current investments	88	77	31	4
Long-term loans and advances	960	501	603	625
Other non-current assets, DTA, Goodwill	35	22	37	96
Current assets	**9,034**	**5,564**	**6,165**	**7,168**
Cash & current investment	685	1,020	387	374
Other current assets	8,349	4,544	5,778	6,794
Total (assets)	21,873	9,358	10,239	10,675
Total debt	10,482	5,434	5,808	4,677
Capital employed	19,983	8,123	8,876	8,662

Cash Flow Statement (Consolidated)

Period end (Rs mn)	Mar 12	Mar 13	Mar 14	Mar 15P
Profit before tax	**1,555**	**622**	**629**	**1,796**
Depreciation	(556)	(280)	(387)	(485)
Change in working capital	(1,360)	3,586	(1,207)	(388)
Total tax paid	(64)	(21)	(28)	(352)
Others	(333)	4,176	(281)	168
Cash flow from oper. (a)	**1,222**	**4,799**	**347**	**1,964**
Capital expenditure	(5,076)	8,280	(596)	137
Change in investments	(32)	12	45	27
Others	59	87	31	33
Cash flow from inv. (b)	**(5,049)**	**8,379**	**(520)**	**198**
Free cash flow (a+b)	**(3,827)**	**13,177**	**(173)**	**2,161**
Equity raised/(repaid)	0	(5)	0	0
Debt raised/(repaid)	4,818	(5,048)	375	(1,131)
Dividend (incl. tax)	(1)	(63)	(252)	(513)
Others	(669)	(7,726)	(582)	(530)
Cash flow from fin. (c)	**4,148**	**(12,842)**	**(460)**	**(2,174)**
Net chg in cash (a+b+c)	**321**	**335**	**(633)**	**(13)**

Key Ratios (Consolidated)

Period end (%)	Mar 12	Mar 13	Mar 14	Mar 15P
Adjusted EPS (Rs)	5.4	2.5	2.7	6.7
Growth	(20.6)	(54.0)	9.2	147.2
CEPS (Rs)	7.8	3.7	4.4	8.9
Book NAV/share (Rs)	31.9	11.4	13.1	17.4
Dividend/share (Rs)	0.0	0.2	1.0	2.0
Dividend payout ratio	0.0	11.8	41.8	34.4
EBITDA margin	17.1	10.4	11.7	17.0
EBIT margin	14.1	8.7	9.2	14.3
Tax Rate	3.7	7.4	(0.7)	16.5
RoCE	13.9	7.3	14.5	25.7
Total debt/Equity (x)	0.1	0.9	0.1	0.4
Net debt/Equity (x)	1.2	2.1	1.9	1.2
Du Pont Analysis - ROE				
Net margin	7.4	4.7	4.5	9.5
Asset turnover (x)	0.9	0.8	1.4	1.5
Leverage factor (x)	2.8	3.2	3.6	3.1
Return on equity	18.2	11.3	22.1	43.9

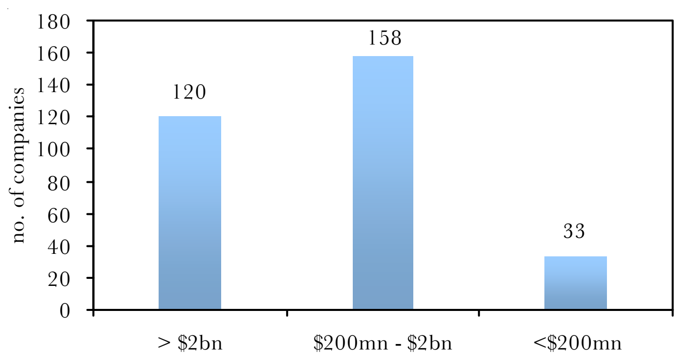
Valuations (Consolidated)

Period end (x)	Mar 12	Mar 13	Mar 14	Mar 15P
PER	5.9	11.7	10.1	34.9
PCE	4.0	7.8	6.1	26.3
Price/Book	1.0	2.5	2.1	13.4
Yield (%)	0.0	0.9	3.7	0.9
EV/EBITDA	6.0	8.8	7.3	20.8

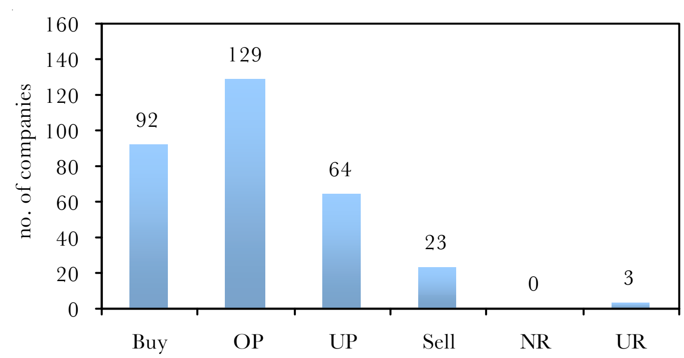
B&K Research
research.equities@bksec.com
+91-22-4031 7000

B&K Universe Profile

By Market Cap (US$ mn)



By Recommendation



B&K Securities is the trading name of Batlivala & Karani Securities India Pvt. Ltd.

B&K Investment Ratings.

	LARGE CAP (Market Cap > USD 2 bn)	**MID CAP (Market Cap of USD 200 mn to USD 2 bn)**	**SMALL CAP (Market Cap <USD 200 mn)**
BUY	>+20% (absolute returns)	>+25% (absolute returns)	>+30% (absolute returns)
OUTPERFORMER	+10% to +20%	+15% to +25%	+20% to +30%
UNDERPERFORMER	+10% to -10%	+15% to -15%	+20% to -20%
SELL	<-10% (absolute returns)	<-15% (absolute returns)	<-20% (absolute returns)

Disclaimer: This report was prepared, approved, published and distributed by Batlivala & Karani Securities India Private Limited ("B&K") located outside of the United States (a "non-US Group Company"), which accepts responsibility for its contents. It is distributed in the U.S. by Enclave Capital, a U.S. registered broker dealer, on behalf of B&K, only to major U.S. institutional investors (as defined in Rule 15a-6 under the U.S. Securities Exchange Act of 1934 (the "Exchange Act")) pursuant to the exemption in Rule 15a-6. Neither the report nor any analyst who prepared or approved the report is subject to U.S. legal requirements or the Financial Industry Regulatory Authority, Inc. ("FINRA") or other regulatory requirements pertaining to research reports or research analysts. No non-US Group Company is registered as a broker-dealer under the Exchange Act or is a member of the Financial Industry Regulatory Authority, Inc. or any other U.S. self-regulatory organization. Outside the United States, this report is distributed by B&K or an authorized affiliate of B&K.

The report has been compiled or arrived from sources believed to be reliable and in good faith, but no representation or warranty, express or implied is made as to their accuracy, completeness or correctness. B&K has not verified the factual accuracy, assumptions, calculations or completeness of the information. Accordingly, B&K accepts no liability whatsoever for any direct or consequential loss or damage arising from (i) the use of this communication (ii) reliance of any information contained herein, (iii) any error, omission or inaccuracy in any such Information or (iv) any action resulting there from. B&K provides the information for the purpose of the intended recipient's analysis and review and recipients are advised to verify the factual accuracy, assumptions, calculations and completeness of the information.

This report was produced by B&K solely for information purposes and for the use of the recipient. It is not to be reproduced under any circumstances and is not to be copied or made available to any person other than the recipient. All estimates, expressions of opinion and other subjective judgments contained herein are made as of the date of this document. Emerging securities markets may be subject to risks significantly higher than more established markets. In particular, the political and economic environment, company practices and market prices and volumes may be subject to significant variations. The ability to assess such risks may also be limited due to significantly lower information quantity and quality. By accepting this document, you agree to be bound by all the foregoing provisions. This document does not constitute an offer of, or an invitation by or on behalf of B&K or its affiliates or any other company to any person, to buy or sell any security.

The views of any Analyst reflected in this report are given in compliance with the Research Analyst Regulations, 2014. All analysts covering the securities/ companies mentioned in this report have complied will the appropriate set of rules, regulations & procedures in their detailed coverage report(s) of the respective securities/companies.

Analyst Certification: Each of the analysts identified in this report certifies, with respect to the companies or securities that the individual analyses, that (1) the views expressed in this report reflect his or her personal views about all of the subject companies and securities and (2) no part of his or her compensation was, is or will be directly or indirectly dependent on the specific recommendations or views expressed in this report.

Important US Regulatory Disclosures on Subject Companies

1. B&K or its Affiliates have not recently been the beneficial owners of 1% or more of the securities mentioned in this report.
2. B&K or its Affiliates have not managed or co-managed a public offering of the securities mentioned in the report in the past 12 months.
3. B&K or its Affiliates have not received compensation for investment banking services from the issuer of these securities in the past 12 months and do not expect to receive compensation for investment banking services from the issuer of these securities within the next three months.
4. However, one or more person of B&K or its affiliates may, from time to time, have a long or short position in any of the securities mentioned herein and may buy or sell those securities or options thereon either on their own account or on behalf of their clients.
5. B&K or its Affiliates may, to the extent permitted by law, act upon or use the above material or the conclusions stated above or the research or analysis on which they are based before the material is published to recipients and from time to time provide investment banking, investment management or other services for or solicit to seek to obtain investment banking, or other securities business from, any entity referred to in this report.
6. As of the publication of this report, Enclave Capital does not make a market in the subject securities.

Enclave Capital is the distributor of this document in the United States of America. Any US customer wishing to effect transactions in any securities referred to herein or options thereon should do so only by contacting a representative of Enclave Capital and any transaction effected by a U.S. customer in the securities described in this report must be effected through Enclave Capital (19 West 44th Street, suite 1700, New York, NY 10036).