

Century Plyboards (India) Limited

Initiating Coverage

Organized Sector will grow faster and GST will be game changer...

Cmp: INR 176.50

Target: INR 220

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Company Details :	
CMP	176.5
NSE Symbol	CENTURYPLY
Bloomberg Code	CPBI:IN
BSE Code	532548
Sector:	Const. Materials
Face Value	1.00
Dividend Yield (%)	1.07
P/B Ratio (x):	13.9
Market Cap (Cr)	3950
EPS - TTM:	6.79
P/E Ratio (x):	26
Relative P/E vs. SENSEX	1.36
52w High/Low	262/65

Professionally owned with 73.34% promoters' shareholding

Category	Mar-15	Dec-14	Sept-14
Promoter	73.34	74.46	74.46
FII	8.54	6.02	5.87
DII	3.28	2.83	1.98
Others	14.84	16.69	17.69
Total	100	100	100



Century Plyboards (I) Ltd. (CPIL) came into existence in 1986 as a result of the foresightedness of two visionaries, Mr. Sajjan Bhajanka and Mr. Sanjay Agarwal. Since then, the company has taken giant strides and is today, the largest seller of multi-use plywood and decorative veneers in the Indian organized plywood market. Century Plyboards is a key player in plywood and laminate industry in India. Besides, it exports range of premium products to over 20 countries.

Today, Century Plyboards is a one-point manufacturing unit of all kinds of plywood and plywood related products, offering International quality and one of the highest Return-on-Investments to every stakeholder.

Sector Overview: Housing and Infrastructure are key growth drivers

The Indian Plyboard industry is highly fragmented, with unorganised players accounting for 70% of the market share. Within the organized segment, **Century and Greenply** hold 50% of the market share, with the balance 50% held by regional players like Sarda Plywood, National Ply and Kitply.

Century and Greenply are both leading Plyboard/laminate brands. Both the companies have manufacturing locations spread across India and both have a well established Pan-India brand.

Industry Overview:

- ✓ **Indian Plywood & Panel Industry is ~ Rs. 20,000 Crores market.**
- ✓ Share of organized sector is 30%.
- ✓ 50% of organized market controlled by two national players Century and Green. At national level the industry is virtually oligopoly.
- ✓ Balance 50% are region based confined to one or two states
- ✓ Overall Industry expected to grow at 10%
- ✓ Organized sector to grow at a faster pace of 25% -30%

Industry Challenges:

- ✓ Raw Material Linkages
- ✓ Foreign Exchange Volatility
- ✓ Labour intensive
- ✓ Unorganized sector dominance
- ✓ Environmental Regulations

Growth Drivers:

- ✓ Growing Real Estate and Construction sector
- ✓ New Government's emphasis on infrastructure and housing
- ✓ Rising per Capita Income and growing employment opportunities
- ✓ Urbanization and Government proposal of new Smart cities
- ✓ Recent policy measures: Housing for All & Affordable Housing Loans.
- ✓ Reduced Home renovation cycle from 15 years (decade back) to 5 years

Industry Opportunities:

- ✓ Potential Housing and Infrastructure boom
- ✓ GST
- ✓ Stable Government
- ✓ Brand and Quality awareness
- ✓ Supportive Government policies

Source: Marketresearch.com/ Company Presentation

About Century Plyboards

One of India's largest plywood manufacturers with more than 30% share of India's organised plywood sector.

Legacy

Promoted by first generation entrepreneurs— Sri Sajjan Bhajanka and Sri Sanjay Agarwal

Line of Business

The company is engaged in the manufacture of Plywood, Laminates, Veneer, MDF, Block-boards and doors among others. The company is also engaged in Container Freight Station (CFS) business, managing the first private CFS at the Kolkata Port.

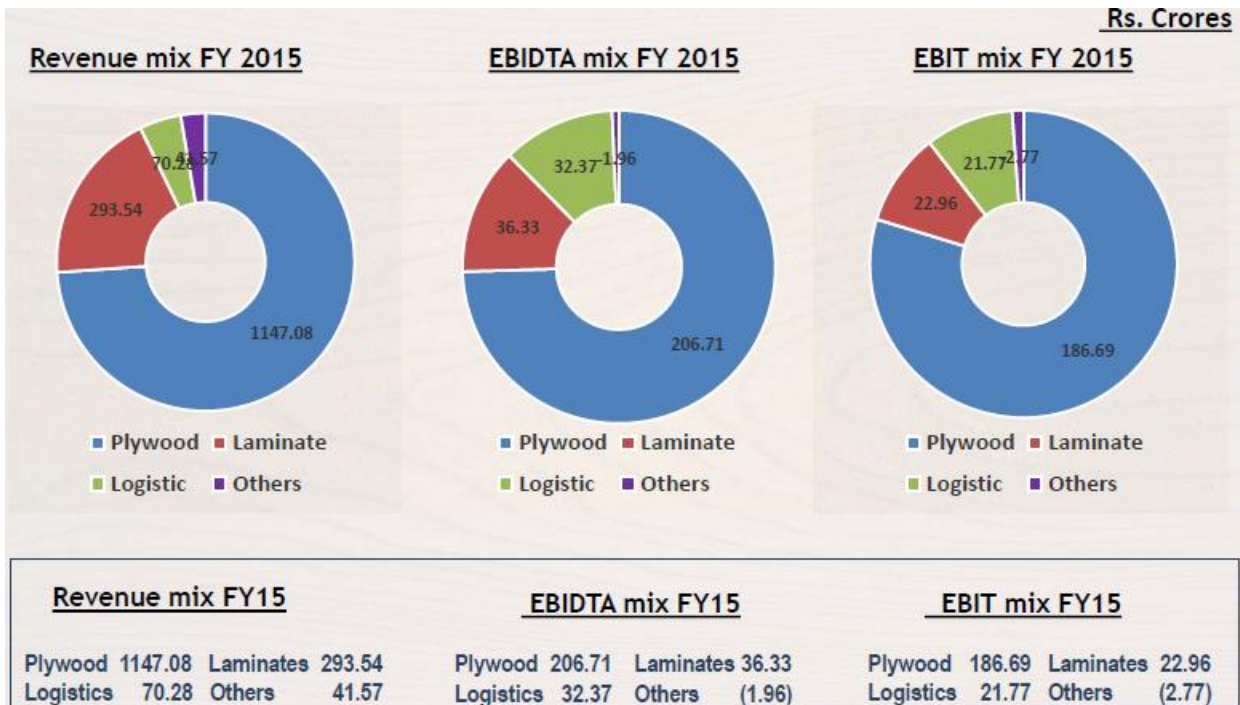
Location

The company has 7 manufacturing units in Joka (West Bengal), Guwahati (Assam), Kandla (Gujarat), Chennai (Tamil Nadu), Karnal (Haryana), Roorkee (Uttarakhand), and Myanmar.

The company's CFS is operated across around one lakh sq. mtr facilities (two locations) near Kolkata Port

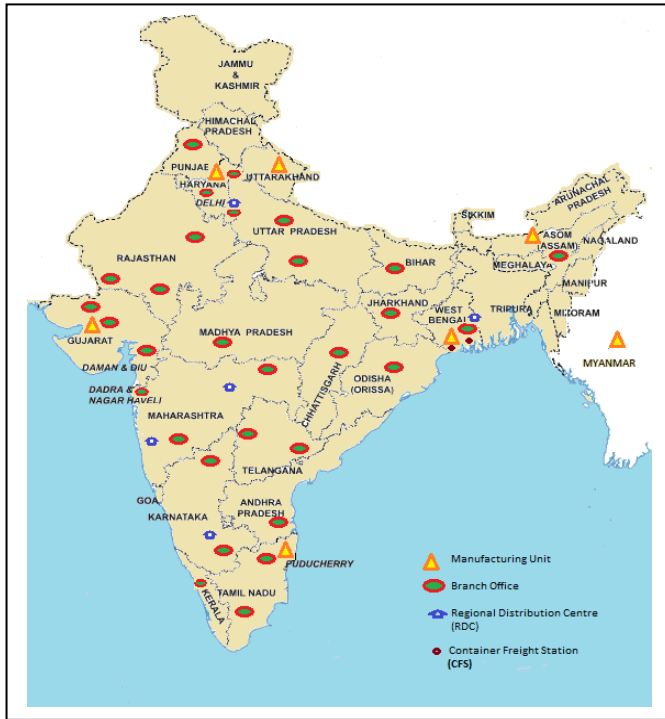
The company's pan-India presence comprises 33 marketing offices and more than 13,000 retail outlets.

Business Overview



Source: Company Presentation

Pan India Presence (Robust network)



Plywood Business:

- ✓ Pan-India presence: 6 Mfg. facilities
- ✓ Strategically located across India, near Kolkata in East, near Kandla in West, near Chennai in South, near Delhi in North, near Guwahati in North east and near Roorakee in Central.
- ✓ Capacities: Timber Peeling 210000 CBM and Plywood: 210000 CBM. Highest in India.
- ✓ Fully Integrated operations in Myanmar

Laminates Business:

- ✓ Among top three laminate producers
- ✓ Fully integrated plant near Kolkata
- ✓ Capacity –4.8 Million Sheets
- ✓ Focus on niche segment and value added products

Container Freight Station (CFS):

Eastern India's largest and first privately owned CFS, located near Kolkata Port.

- ✓ Area of ~ 100,000 sqm
- ✓ Capacity to handle 160,000 TEUs

Manufacturing Units	
Ply*	6
Ply Myanmar#	1
Laminates	1
CFS	2
*Includes one subsidiary (51%) unit # Ply Myanmar is 100% subsidiary	
Branch Offices / Depot	
35	
Regional Dist. Centre	
6	
Distribution Network*	
Total*	> 14,500
Direct	> 1,500
*Includes dealers, sub-dealers, retail outlets etc.	

Source: Company Presentation

Robust FY15 numbers: Driven by strong Operational efficiency

NET SALES			PAT			EBITDA %		EPS			Trailing			D/E Ratio	ROE
Q4 FY15	QoQ%	YoY%	Q4 FY15	QoQ%	YoY%	Q4 FY15	Q3 FY15	Q4 FY15	QoQ%	YoY%	EPS	Price	P/E		
409.22	6.1%	19%	47.97	16.0%	63.2%	19.4%	18.9%	2.16	16%	64%	6.79	177	26	0.22	38.73%

Century Plyboards clocks highest ever Quarterly Revenue and PBT:

Century Plyboards reported a 63% jump in quarterly profit at Rs 47.97 cr while revenue increased by 19.3% to Rs 409.2 cr. (YoY). The management has clocked more than 25% of growth rate in the last financial year (FY15) and is confident of repeating the same performance in next few years.

Major attraction: Strong Operational Performance:

Operating Margin improved to 19.4% versus 18.9% in the previous quarter. Lower resin prices following the oil price slump, decline in logistics costs and cheaper imports from the Myanmar facility buoyed margins. Century Plyboards has doubled its laminate capacity to 4.8 million sheets in the last one year and has also widened its product offering.

Strong Brand Value: India's most preferred and highest selling Plywood Brand

Over the years, Century Plyboards have emerged as one of the industry's largest spenders, investing judiciously in endorsement-driven brand spending. Brand-spend efficiency translated into market leadership corresponding to a national plywood market share of 7.5% (30% in the organized segment).

The company launched TV commercials with Nana Patekar, increasing its total plywood brand spending. The company has introduced flanking brand to plug its product portfolio gap. The Company recently launched retail furniture chain (brand Nesta) with the launch of two stores. Century Plyboards has extended from the manufacture of plywood to laminates, veneers, block boards and doors, among others, facilitating cross-sale, superior leverage of corporate brand and a better use of dealer network. The result is that the leadership in the plywood segment translated into a number two position in the laminates segment, validating the multi-product strategy and justified aggressive Brand building.

With continued government focus on infrastructure and real estate sector the demand for Company's products is expected to remain buoyant. With strong and preferred "Centuryply" brand under its fold, the Company is expected to perform better in current fiscal.

Organized Sector will grow faster and GST will be game changer

The government is trying its best to build consensus on GST and with likely support from Regional political satraps it is widely expected that the Bill will get through in the forthcoming Monsoon Session of Parliament and the Government is quite confident of implementing the Goods & Service Tax from April 1, 2016.

GST will address complexities and inefficiencies of current indirect tax framework through robust technology platform. **Post GST clandestine business will be almost impossible as it will put both organized and unorganized sector at level playing field.** Evidently, the inequitable indirect duty structure in favour of unorganized players provides a price advantage over organized manufacturers. Post GST Interstate transactions will be tax neutral as it will address the issues of double taxation and its cascading effects. It will also remove regional disparities in tax rates.

GST will be a win-win situation for all stakeholders i.e., Government, Honest Businessmen and Consumers as it will lower tax incidence, ease business and increase tax buoyancy coupled with tax collection. As per a study carried out GST will have significant positive impact on GDP growth. **This potential game changer could give Century an opportunity to tap into the unorganized market, whose size is 3 times of the organized market.** Besides, this game changer can accelerate a consumption shift from unorganized players to the branded organized market. This, in turn, can catalyse the growth for players like Century Plyboards.

Adequate Raw Material Security augers well for Century

In Plyboard industry, there is a growing challenge in securing raw material in view of environment concerns and evolving national policies. Last year, Myanmar (a prominent global raw material supplier) banned the export of raw timber, affecting the prospects of all Indian timber importers. **Century Plyboard proactively commissioned a peeling unit in Myanmar, the first such instance from within India's plywood sector. A captive peeling unit made it possible for the Company to source veneers from Myanmar (instead of timber), ensuring that its operations were sustained without interruption.** Besides, this initiative helped the Company to optimise logistic costs, replacing the transportation of bulky raw timber with lighter veneers.

The management is also moving fast to maintain its competitive advantage. It is looking at setting up timber plants in various other geographies outside India. **It has set up a timber-processing unit in Laos for manufacture and supply of veneers. The company is also looking to acquire some existing facilities in Africa so that it can source timber at lower prices and maintain the logistical advantage.**

Emerging Leader in the Plywood Industry

Century is the most premium Plyboard brand in India and commands a price premium of 10% over Greenply and almost 25-30% over unorganised players. Through various brand building initiatives in recent years, the company has further strengthened its brand; the management is committed to invest further in branding and increase brand recall across India to emerge as the leading player in Plywood industry.

Financial Highlights of Q4 FY15

	Greenply	Century
Operating Revenue	429 cr	409.2 cr
Growth (%) YoY	(25%)	19%
EBITDA	53.9	79.3 cr
EBITDA Margin	12.60%	19.30%
Profit after tax	45.6 cr	48 cr
PAT Margin	10.6%	11.7%
Growth (%) YoY	24%	63%

Valuation & Management Efficiency Ratios:

	Greenply	Century
Current P/E Ratio (ttm)	15.6	25.9
Price/Book (x)	3.7	13.9
Return on Equity (ROE)	28.7%	38.7%
Return On Assets (%)	21.4%	41.3%

Completion of Capex will enable Century to consolidate its leadership position in the Plywood space and will also help in gaining more market share in Laminates segment.

Financial Highlights & Valuation

Income Statement (Rs in Crore)

Description	FY 13	FY 14	FY 15	FY 16E
Revenue	1181.65	1347.65	1588	1969
Growth %		14%	18%	24%
Operating Expenditure	-1,056	-1,189	-1,318	-1,667
EBIDTA	126	158	270	302
EBITDA Margin	11%	12%	17%	15%
Depreciation	-27.96	-38.71	-48	-59
Interest	-40.36	-60.34	-45.57	-58.58
Other Income	5	4	3.30	8.00
Profit Before Tax	62	62.9	179.6	192
Tax	-5	0	-30	-29
Profit after tax*	55.19	60.26	148.96	163.60
Net Profit Margin	5%	4%	9%	8%
Equity	22.25	22.25	22.25	22.25
EPS	2.48	2.71	6.7	7.35

- PAT reported after adjusting Minority share

Source: Company Report, 2014-15 / BMA Research

Rich Valuations: The stock is expected to trade in Premium over Greenply due to superior Operational performance.

The stock is trading at 24x of FY16E EPS of Rs. 7.35. Accumulate with TP of Rs. 220 (discounting the stock to trade at 30 times of its FY16E EPS of 7.35) TP will be reviewed after analysing Q1FY16 numbers

Stock Price Performance



Charts Source: Bloomberg

Major Supports: 20DEMA: 195 50DEMA: 202 200DMA: 170

Entry Strategy: The stock has rallied up significantly after the company registered stellar Q2FY15 performance. It is advised to accumulate the stock (Buy 50% around current levels 180 & add in dips if the stock corrects to 160-165 levels)

Key Risk / Concerns:

De-rail in economic growth can adversely impact the overall growth prospects of the sector.

Overall, Plywood industry structure remains duopoly, any resurgence of Greenply will increase the competitive risk.

Myanmar has banned the export of raw timber but veneer export is allowed. If Myanmar were to ban exports of veneer as well, a key raw material source would be eradicated.

Report By: BMA Research Team



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