INDIA RESEARCH

BUILDING MATERIALS

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ANTIQUE

Wood panel sector

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SECTOR REPORT

Wood Panel Sector

Seize the opportunity

Within the wood panel sector, we are most bullish on the prospects of plywood and MDF, followed by the laminates industry. Structurally, the branded plywood industry looks strongly positioned, led by duopolistic nature of the market, huge outsourcing opportunities, low capital intensity, shift to branded from unbranded products and high return ratios. MDF too, with its increasing awareness and acceptance and rising applications, has the potential to grow at 15-20% CAGR over the next five years. Laminates would continue to grow at 10% CAGR led by growth in the substrate industry (plywood, particle board and MDF) and increasing shift to branded from unbranded products. We initiate coverage on the wood panel sector, with Buy rating on Greenply Industries (GIL) and Century Plyboards India (CPBI) and Hold rating on Greenlam Industries at current valuations.

Plywood industry: Strong re-rating potential

The INR180bn Indian plywood industry has been growing at 6-8% CAGR over the last few years. The fact that the organised industry has been growing at 15-20% CAGR over the last few years, clearly shows the shift is happening unbranded to branded plywood. Over 75% of the industry, valued at INR140bn, is dominated by unorganised players, which are located in various clusters across the country. With unorganised players still occupying a lion's share of the industry and Goods & Services Tax (GST) implementation likely over next one year, there is a considerable opportunity for organised brands to capture a larger portion of the unorganised market over the next few years. The already existing high fixed asset turns, coupled with huge outsourcing opportunities with unorganised clusters geographically spread across India, is expected to drive branded industry RoCEs higher and present a strong case for re-rating of large industry players like GIL and CPBI.

MDF industry: Gaining traction

With increasing urbanisation, demand for ready-made furniture, produced with engineered panels like MDF, is rapidly growing. Penetration of MDF in India is extremely low at 7% of the total wood substrate market as compared to 80% globally. Increasing awareness, entry of large focused players into the segment and increasing applications have resulted in MDF industry growing at 20% CAGR over the last five years. With plywood prices at elevated levels and increasing acceptance of MDF, we expect the MDF industry to grow at a 15-20% CAGR over the next few years.

Laminates industry: Riding on the growth of the substrate industry

With the substrate industry growing at 10% CAGR, the surface industry - laminates and veneers - have also been growing at 10% CAGR over the last five years. Organised players which constitute ~55% of the industry have been growing faster than the unorganised counterparts due to their focus on 1mm and higher thickness laminates and value-added products like textured laminates. With the shift from unbranded to branded products expected to continue, the laminates industry will continue to grow at the same pace going forward.

Recommendation summary

	Rating	CMP (INR)	Target (INR)	Upside (%)	Mcap (INRbn)	Rev. CAGR (FY15-17e)	PAT CAGR (FY15-17e)	P/E (x)		RoCE (%)	
								FY16e	FY17e	FY16e	FY17e
Century Plyboards	Buy	172	212	23	38.2	16%	26%	23.7	16.2	24.0	27.4
Greenply Industries	Buy	947	1,340	41	22.8	13%	33%	16.9	12.7	22.5	26.9
Greenlam Industries	Hold	392	395	1	9.5	20%	81%	29.5	14.9	12.0	18.3

Source: Company, Antique

Indian wood panel industry

The Indian interior infrastructure industry has been growing at a rapid pace over the last few years. One of the major verticals of the interior infrastructure industry is the wood panel market, which comprises of materials used in building furniture: plywood; decorative surface products like laminates and veneers; and engineered wood panels like PB and MDF. **The INR270bn Indian wood panel market has been growing at 10-12% CAGR over the last few years.** The growth drivers include higher disposable income; rising urbanisation; growth in the real estate sector, particularly in Tier II and III cities; shift to branded from unbranded products and the fast growing replacement market.

Indian wood panel market and its constituents

Indian Wood Panel Market (100%)
Size: INR 270 bn
Organised: 33%
Unorganised: 67%
Growth CAGR: 10-12%

Plywood (67%)
Size: INR 180bn
Organised: 25%
Unorganised: 75%
Growth CAGR: 6-8%

Surface products (18%): Laminates & decorative veneers
Size: INR 50bn
Organised: 55%
Unorganised: 45%
Growth CAGR: 10%

Engineered products (15%): MDF & PB
Size: INR 40bn
Organised: 55%
Unorganised: 45%
Growth CAGR: 15-20%

Laminates (15%)
Size: INR 40bn
Organised: 55%
Unorganised: 45%
Growth CAGR:10%

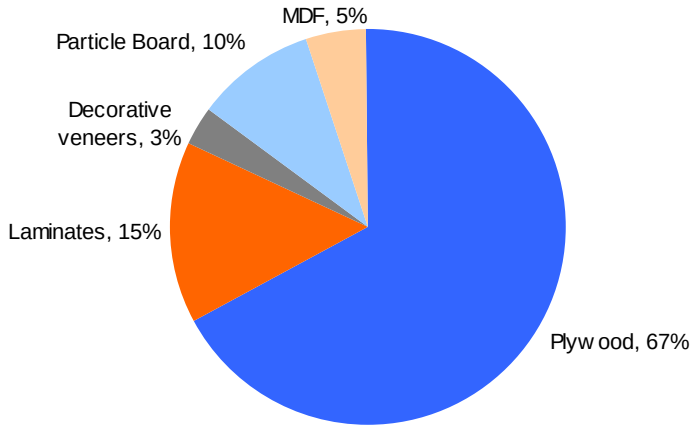
Deco veneers (3%)
Size: INR 10bn
Organised: 65%
Unorganised: 35%
Growth CAGR: 10%

Particle Board (10%)
Size: INR 27bn
Organised: 30%
Unorganised: 70%
Growth CAGR: 15%

MDF (5%)
Size: INR 13bn
Organised: 100%
Unorganised: NIL
Growth CAGR: 20%

Source: Company, Antique

Share of wood panel segments



Source: Company, Antique

Plywood industry

The plywood industry is one of the oldest in the country. Its genesis dates back to the time when the British introduced tea cultivation in the northeast and started cultivating tea-chest plywood for use as packing cases. The industry has been expanding its product range ever since. Its product range now includes boiling water-proof preservative treated plywood, phenol formaldehyde (PF) bonded marine grade plywood and urea formaldehyde (UF) bonded commercial grade plywood, concrete shuttering plywood, marine plywood for boat/ shipbuilding/residential projects, fire-retardant plywood, chequered plywood for flooring, flush doors, etc.

Plywood industry statistics

Industry size	INR180bn
Industry growth	6-8% CAGR
Demand drivers	New construction demand, rising disposable incomes, faster replacement cycle in furniture, etc
Organised to unorganised mix	Over 75% unorganised
Key USP	Quality, branding, distribution and transparency in operations
Key risks	Raw material availability and pricing

Source: Company, Antique

The INR180bn Indian plywood industry is growing at 6-8% CAGR in volume terms over the last decade. The industry is dominated by unorganised players located in clusters across the country, which constitute more than 75% of the industry size (INR140bn), with the balance being accounted for by organised players.

The fact that the organised industry has been growing at 15-20% CAGR (GIL at 28% CAGR and CPBI at 23% CAGR) over the last decade clearly suggest that the shift is consistently happening to branded from unbranded plywood. With the unorganised industry still occupying majority share of the industry, there is a considerable opportunity for organised brands to eye a big pie of the unorganised market going forward over the next five years.

Plywood industry: Phase-wise transformation

Industry Phase I - Prior to the landmark judgement in Dec-96

In the early 90's, the concentration of plywood companies was largely in the northeast, particularly Assam and Arunachal Pradesh, due to the proximity to huge forests resources there. The industry was mostly concentrated and largely dominated by organised industry players, which accounted for 60% of the industry size. The major organised players included Kitply Industries, National Plywood Industries and Anchor Plywood & Boards, while GIL and CPBI were marginal players at that time. The unorganised industry, which accounted for 40% of the industry size, was based out of Bihar, West Bengal, Madhya Pradesh and Haryana. Yamuna Nagar, Haryana had few plywood units during the period, manufacturing cheap commercial grade plywood from agro-forestry/plantation timber.

Industry Phase II (1996-2000) - Major twist in the tale

The plywood industry almost came to a standstill with two major apex court judgements in 1996 and 1998:

- **Ban on tree felling:** The Honourable Supreme Court on **December 12, 1996** in the landmark **TN Godavarman versus Union of India case** suspended tree felling in all 'forest' areas across the entire country. The court also interpreted the word 'forest' by its dictionary meaning. Prior to it, the word 'forest' was limited only to government declared forests, irrespective of whether it had tree cover or not.

  ☞ **Impact on the industry:** This ruling virtually paralysed wood-based industries - saw-mill, veneer and plywood factories - located in states like Arunachal Pradesh, Assam, Manipur, Meghalaya, Mizoram, Nagaland and Tripura due to inadequacy of raw material.

- **Suspending licences of wood-based industries:** Less than two years after the first order in the Godavarman case, another order on January 15, 1998 suspended licences of all wood-based industries in the seven northeast states and ordered relocation of those industries to state-specified industrial zones, where they could be more closely monitored.

  ☞ **Impact on the Industry:** This judgement was a big body blow to industry players located in the northeast, which were hoping that the ban on felling of trees would be lifted at some point in time. By virtue of this order, the court suspended all earlier licences given to saw mills and plywood industries in the northeast.

Industry Phase III (2000-2015)

The dynamics of the plywood Industry changed completely with the Supreme Court rulings. Organised players like CPBI and GIL shifted their factories to West Bengal and started looking to build their manufacturing base in states with close proximity to port (for imported timber) or plantation timber. Leading players like National and Kitply were particularly reluctant to this shift and instead started outsourcing products from unorganised players, resulting in their downfall. Large unorganised clusters in Bihar and Madhya Pradesh, prevalent prior to 2000, started shutting down units or reduce their scale of operations due to high operating costs, led by sourcing of raw material from distant states.

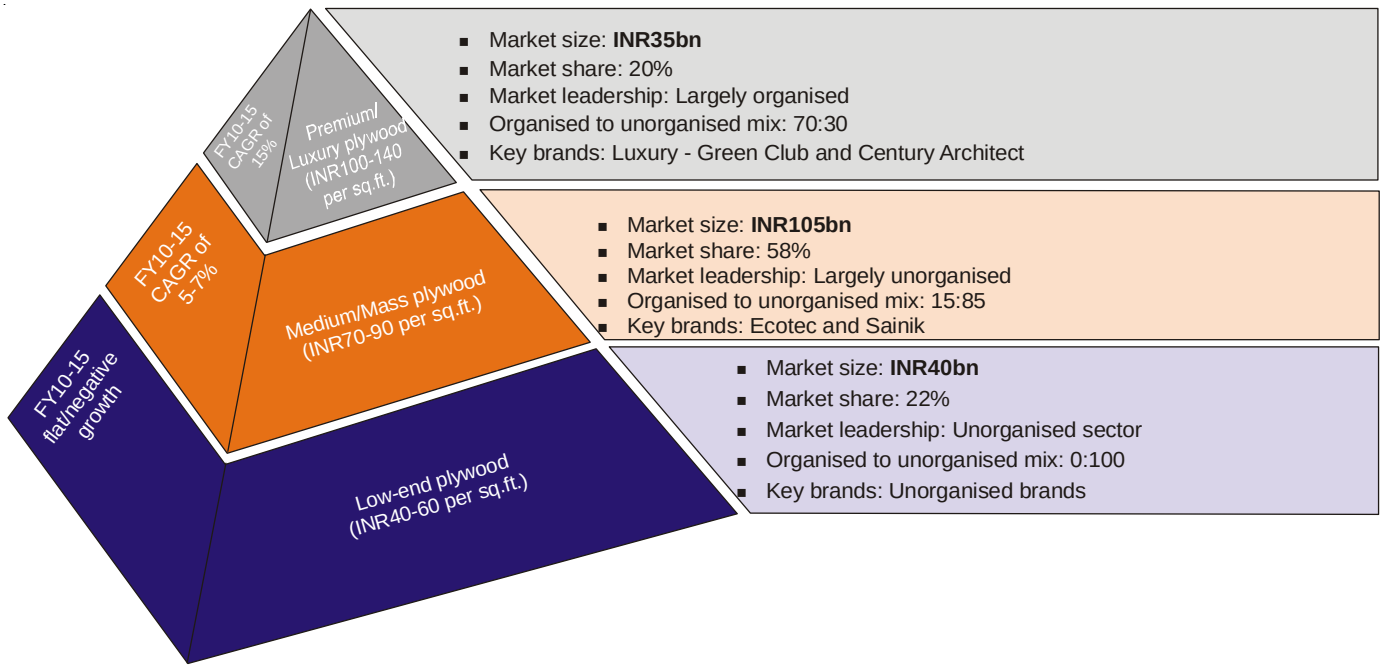
With the industry gradually becoming dependent on plantation timber, small unorganised units started coming up in those states where plantation timber was available in abundance, resulting in scaling up of the so-called unorganised sector. Since then, the unorganised clusters started emerging in a big way in Haryana, Punjab and Uttar Pradesh in the north, Kerala and Karnataka in the south, Gujarat in the west and West Bengal in the east.

With this, the unorganised industry accounted for ~85-90% of the industry size in 2005. However with the emergence of dedicated players - GIL and CPBI - in the agro-forestry space and consistent shift happening from unorganised to organised plywood, the latter now accounts for over 75% of the industry, with Yamuna Nagar in Haryana being recognised as the plywood hub having more than 250 units.

Plywood industry: Key highlights

- The plywood industry has been growing at 6-8/10-12% CAGR in volume/ value terms, respectively, over the last five years
- At present, it is growing at a flattish rate, plagued by rising inventories in the real estate sector
- Top plywood brands - GIL and CPBI - account for ~50% of the organised industry and ~12% of the overall industry size
- Tier II brands occupy another 12% share, while the unorganised industry accounts for more than 75% of the industry pie
- Government regulations represent a large entry barrier. Pursuant to the Supreme Court's order, opening of a new saw mill, veneer or plywood industry requires prior approval from the Central Empowered Committee (CEC)
- Myanmar has been the largest exporter of face veneers to India. Post the ban on export of timber logs from Apr-14, companies like GIL and CPBI have set up factories to source processed face veneers
- Since the ban in exports of logs from Myanmar, face veneer prices have risen 25-30%, resulting in plywood prices remaining at elevated levels
- Unorganised plywood sector is currently facing serious issues, with constraints in availability of face veneers, higher prices of face veneers, lower capacity utilisation and higher working capital requirements
- Top brands like GIL and CPBI are currently de-growing in the premium/luxury segment due to sustained slowdown in metros and Tier I cities
- Commercial plywood of top organised brands have been growing at a brisk space, with consistent shift from unbranded to branded products
- Cheap category plywood (22% of the industry size) have been witnessing stiff competition from the MDF segment, with plywood prices inching upwards

Plywood industry value chain - Price-wise (taking 19mm thickness as base)



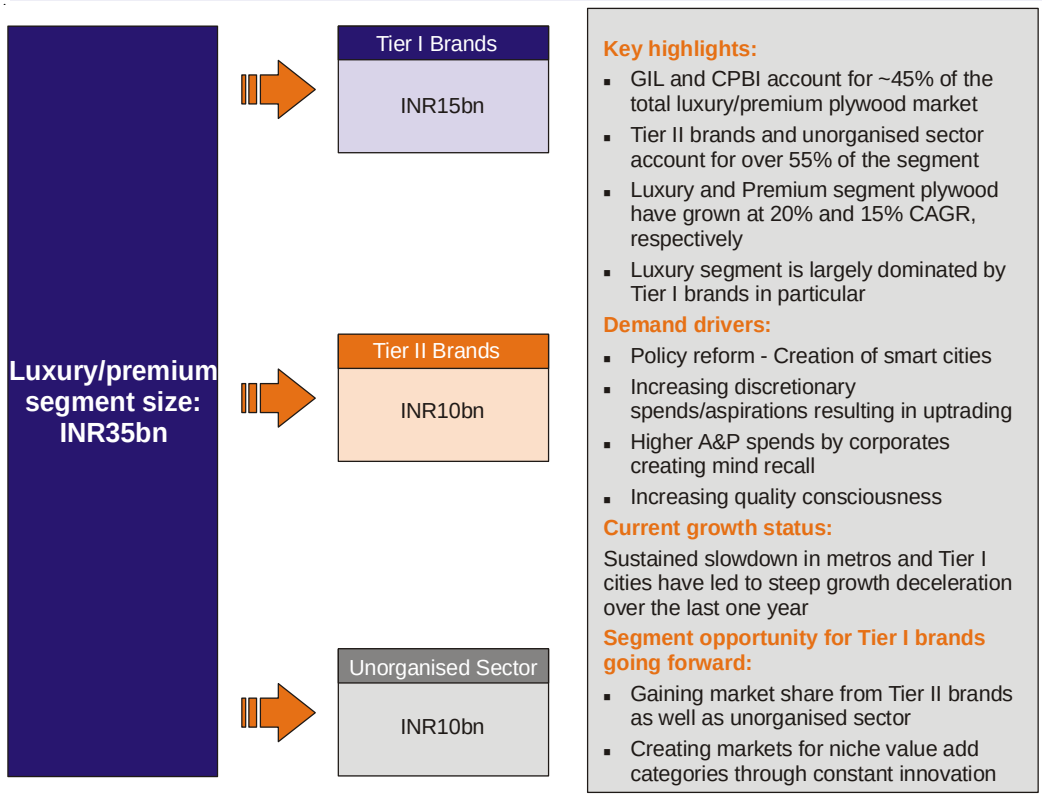
Source: Company, Antique

Addressable market and opportunities across the plywood chain for Tier I brands

Case I: Opportunities for Tier I brands in the luxury/premium plywood space

The INR35bn **luxury/premium plywood** segment accounts for ~20% of the total plywood market. This market is predominantly dominated by the Tier I brands: GIL and CPBI. Both these brands have over 65% of their respective turnover accruing from the luxury/premium plywood space. The following chart illustrates the key highlights of the space, its demand drivers and the opportunities for Tier I brands going forward.

Luxury/premium plywood market space: Demand drivers and opportunities



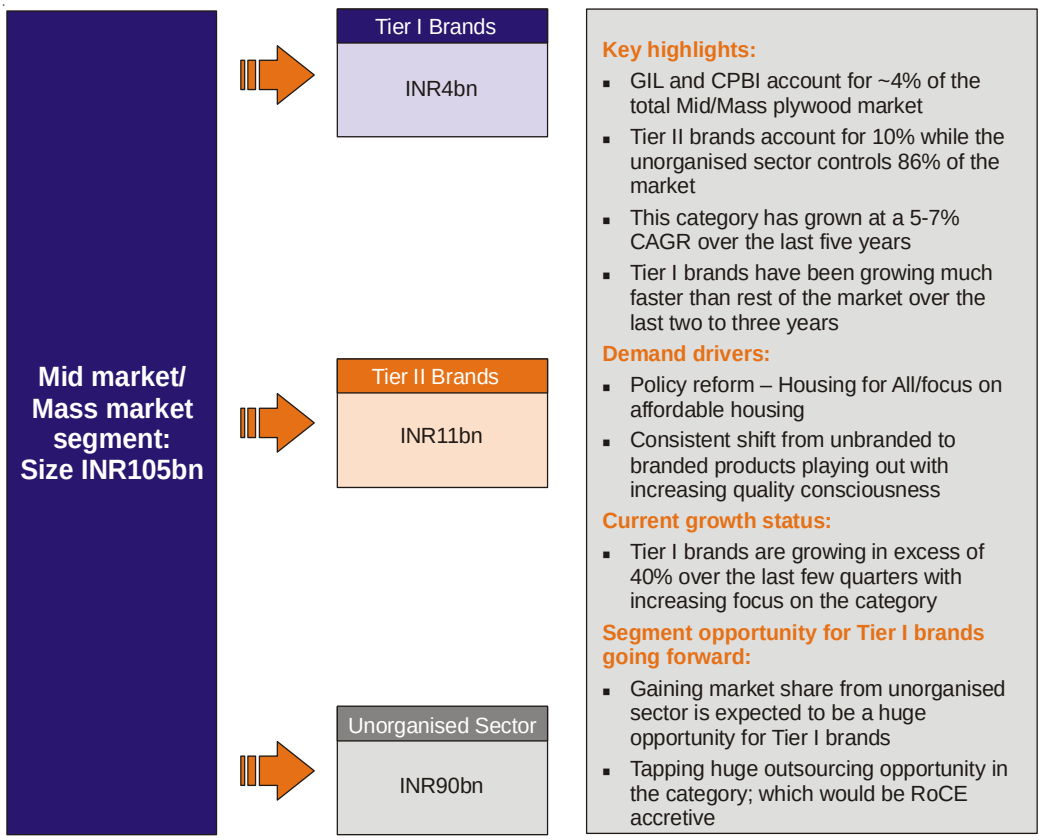
Source: Antique

Demand for luxury/premium plywood is largely confined to metros and Tier I cities and cases where there is uptrading or consumers moving up the value-chain. While Tier I brands would continue to dominate this space with their strong brand pull, the sustained slowdown in metros and Tier I cities in India is likely to result in lower offtake. In the interim, growth for Tier I brands would be restricted to gaining market share from Tier II brands and the unorganised premium plywood space.

Case II: Opportunities for Tier I brands in the medium/mass market plywood space

Market size of the medium/mass market plywood space is currently estimated at INR105bn. This market is predominantly dominated by various unorganised clusters across India. The commercial grade plywood space accounts for 58% of the total plywood market and has been growing at 5-7% over the last decade. Unlike the premium space, Tier I brands account for mere 4% of the mid-market plywood space, while the unorganised sector control 86% of the market. The following chart illustrates the key highlights of the space, its demand drivers and the opportunities for the Tier I brands going forward.

Mid/mass market plywood space - Demand drivers and opportunities



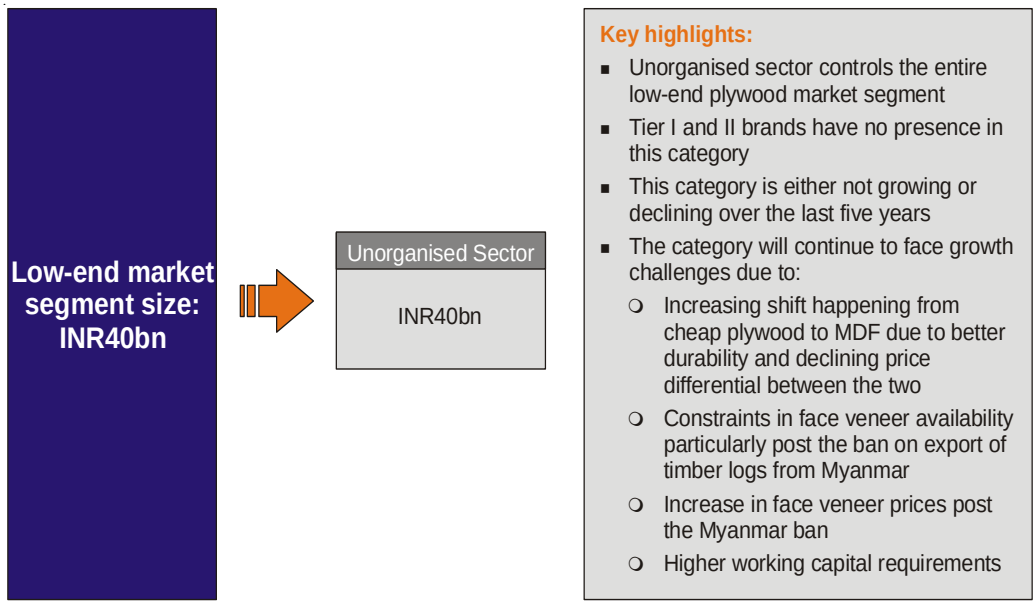
Source: Antique

Demand for mid/mass market/commercial grade plywood is largely confined to Tier II and III cities, where there is strong government thrust on affordable housing. We believe that Tier I brands have a huge structural opportunity in this space in terms of the gradual shift from unorganised to organised brands. In FY15, Tier I brands grew in excess of 40%, with heightened focus by both GIL and CPBI. With the unorganised space commanding the lion's share and rising thrust on affordable housing, we expect the space to continue to grow in higher single-digits, with Tier I brands seen growing at 20-25% CAGR over the next five years.

Case III: Low-end plywood market provides opportunities for MDF players instead

Low-end plywood's market size is currently pegged at INR40bn. This market is entirely dominated by various unorganised clusters spread across India. This cheap plywood category accounts for 22% of the total plywood market and has been either de-growing or growing at a flattish rate over the last five years. Tier I and II brands do not have any presence in this space. The following chart illustrates the key highlights of this space.

Low-end plywood market space - Key highlights and challenges faced by the space



Source: Antique

Low-end plywood is largely a price market, driven by poor quality products. However, this space has been losing market share, with the MDF category witnessing increasing acceptance. Going forward, we expect the space to continue to face challenges, led by: a) Rising plywood prices due to the recent spike in face veneer prices post the Myanmar timber ban; b) Increasing awareness and acceptance of MDF due to better durability and aesthetic capabilities, and c) MDF prices now being either at par or just 5-10% expensive to cheap plywood.

GST: Strong trigger for enabling faster shift from unbranded to branded products

GST is expected to address complexities and inefficiencies of the current indirect tax framework. Post GST, clandestine entities would find it difficult to undertake business and could create a level playing field between the organised and unorganised sector. Once implemented, it is expected to address double taxation, its cascading effects and the regional disparities in tax rates.

Within the building material space, GST is likely to benefit the plywood sector the most, with over 75% of the industry being dominated by the unorganised industry. At present, the price differential between organised and unorganised plywood varies between 15% and 20% in the premium plywood space and between 20% and 50% in the commercial grade plywood space.

Case study: Expect price differential between branded and unbranded products to reduce by 10%

Particulars	Before GST (INR)
Basic price	100.0
Excise duty at 12.5%	12.5
Basic and excise duty	112.5
Value Added Tax (VAT) at 12.5%	14.1
Total cost to a branded company	**126.6**
Basic price (cost INR112.5 + 10% margin)	123.8
VAT at 12.5%	**15.4**
Basic and excise duty	139.2
Less : Input credit	14.1
Total cost to a dealer	**125.1**

Particulars	Post GST (INR)
Basic price	100.0
GST at 24%	24.0
Total cost to a branded company	**124.0**
Basic price (cost INR100 + 10% margin)	110.0
GST at 24%	26.4
Basic and GST	136.4
Less : GST input credit	24.0
Total cost to a dealer	**112.4**
Dealer landing cost of a branded product to reduce by	10%

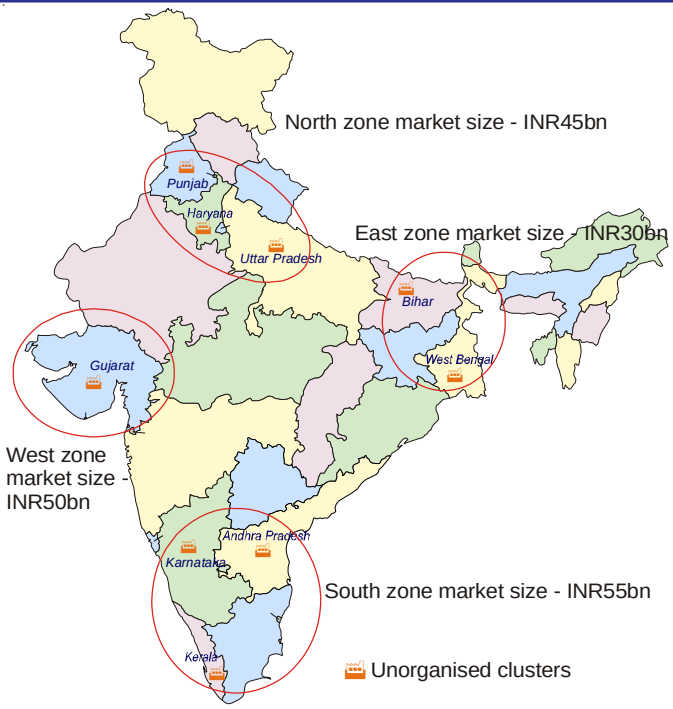
Source: Company, Antique

Post the implementation of GST, assuming a tax rate of 24%, our calculations taking 100 as the base suggests that the price differential between branded and unbranded players would narrow by 10%, which in turn would improve the competitiveness of organised players and help it gain further market share. Apart from this, small manufacturers, who currently escape the excise net by maintaining a turnover below INR15m, are expected to fall into the GST ambit as the threshold limit could be reduced to ~INR2.5m per annum.

Huge outsourcing opportunities for organised brands are RoCE accretive; Potential for re-rating exist

At present, over 75% of the plywood industry is catered to by various unorganised, pan India clusters. Majority of the units in these clusters are manufacturing commercial grade plywood. Currently, these units are facing growth challenges due to: a) Non-availability of face veneers post the Myanmar timber ban, b) Rising plywood prices, and c) Higher working capital requirements, resulting in increasing idle capacities. This offers a strong opportunity for organised brands, which can enter into a third-party outsourcing arrangement with these units for commercial grade category plywood.

Geographic spread of unorganised plywood clusters in India



Source: Antique

The above map depicts the location of unorganised clusters in India in all four geographic zones. This is unlike the ceramic tiles industry, where the current scaling up of outsourcing is restricted to Morbi, Gujarat, which houses more than 600 ceramic units at one location. It provides a strong opportunity for organised brands to tie up with these players for selling the latter's plywood products in zones in which the vendor is located or is in the near proximity, thereby reducing the freight element and logistic cost to market.

The outsourcing trend for commercial grade plywood began in FY11 and is still in the nascent stage. While GIL outsourced 28% of its plywood volumes (entire Ecotec category) in FY15, CPBI outsourced 11-12% of its volumes (60% of Sainik's volumes). With outsourcing opportunities likely to be replicated even for mid-tier categories of these organised brands (Optima Red for GIL/Maxima for CPBI), outsourcing opportunities are expected to open up in a big way going forward.

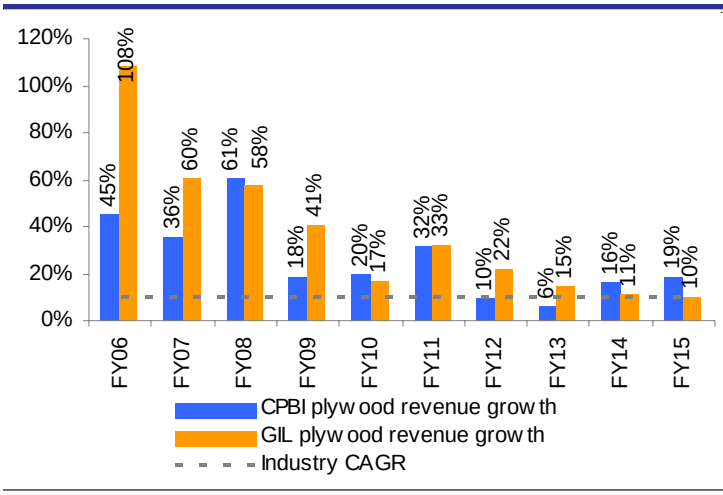
Higher outsourcing for GIL and CPBI expected to result in:

a) Freeing up existing capacities for premium products, which would offset the lower margins from outsourced, non-premium grade plywood,
b) Improving lead time to market and reducing logistic costs as well,
c) Focusing more on brand and distribution,
d) Fixed asset turns inching up further (asset turns are inherently higher for the plywood players at 3.5x), and
e) Asset light model improves the balance sheet, thereby pushing RoCEs higher, triggering a re-rating.

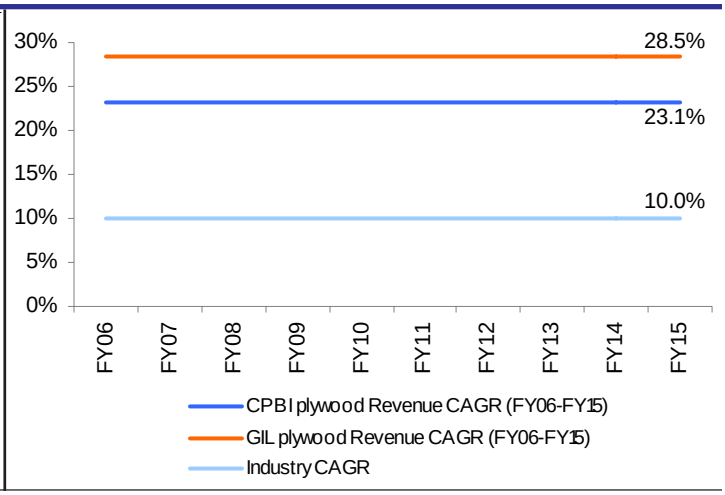
Tier I brands vs industry growth suggest consistent shift

Growth trend for Tier I brands over the last decade suggests that the organised players have been steadily increasing their market share as they have been comfortably outperforming the industry growth of 10-12%. Over the last decade, shift to branded from unbranded products have resulted in the shrinking of unorganised sector to ~75% from 85-90%.

Growth of GIL and CPBI over FY05-15



Source: Company Antique



Source: Company Antique

While the overall industry grew 10-12/6-8% CAGR in value/volume terms over FY05-15, Tier I brands - CPBI and GIL - have grown at 23/28% CAGR, respectively. We anticipate the share of organised players, Tier I brands in particular, to accelerate further on account of:

a) **Raw material security:** Historically, face veneers for Indian manufacturers have been imported largely from Myanmar. However since the ban imposed by Myanmar Government on the export of raw timber, this has had an adverse impact on unorganised players with regards to availability of face veneers. Moreover, a surge in face veneer prices by 25-30% has increased their working capital requirements. Tier I brands on the other hand have been successful in establishing their own timber peeling units, either through a joint venture (JV) or their own equity, to ensure uninterrupted supply of face veneers.

b) **Thrust on commercial grade plywood:** Increasing thrust by Tier I brands on the commercial grade plywood segment is expected to substantially increase organised share over the next decade.

c) **Implementation of GST** is likely to accelerate the shift from unorganised to organised plywood, as the same would address the complexities and inefficiencies of the current indirect tax framework and reduce the price differential between the branded and unbranded players.

Comparison: GIL vs CPBI

The Indian organised plywood market is dominated by two Tier I brands: GIL and CPBI. Both companies account for ~50% of the organised market and have over the years built significant scale, brand and distribution, which is expected to drive strong growth growing forward, considering the sea of opportunities at their disposal.

A quick comparison between the Tier I plywood companies

Parameters (FY15 data)	Greenply Industries Limited	CENTURYPLY
Business segments	Plywood and MDF	Plywood, laminates and container freight stations
Revenue mix	Plywood (74%) and MDF (26%)	Plywood (74%), laminates (19%), container freight stations (CFS) (5%) and others (3%)
Revenue from the plywood division	INR11.52bn. Its core plywood revenue is higher by 9% vs CPBI	INR11.47bn. Its core plywood revenue is lower by 9% vs GIL
Core plywood capacity	129,600 CBM	209,450 CBM
Face veneer peeling capacity	12,600 CBM	80,000 CBM
Plywood division volumes	195,147 CBM	233,944 CBM
Plywood division realisations	INR59,036/CBM	INR49,032/CBM
Plywood division revenue mix	Premium plywood (68%), commercial grade plywood (20%), decorative veneers (9%) and commercial veneers (3%)	Premium plywood (66%), commercial grade plywood (14%), decorative veneers (8%) and commercial veneers (12%)
Plywood brands	Luxury brand: **Green Club** Premium brand: **Greenply** Mid-tier brand: **Optima Red** Commercial grade brand: **Ecotec**	Luxury brand: **Architect** Premium brand: **Centuryply** Mid-tier brand: **Maxima** Commercial grade brand: **Sainik**
Quality	Superior quality but lacked in consistency. Recent steps though have addressed the issue	First-rate and consistent quality
Plywood dealer network	Over 1,100 dealers, largely project focused	Over 1,500 dealers, largely retail focused
Plywood EBIT margins	8.9%	16.3%
Outsourcing	20% of plywood revenue	11% of plywood revenue
Key markets	South and North India	West and East India
Zonal revenue mix	South (35%), North (22%), West (22%) and East (21%)	South (29%), North (28%), West (20%) and East (23%)
Working capital	52 days	125 days

Source: Company, Antique

A) Plywood capacity and utilisation

CPBI's plywood manufacturing units are spread across India and has a manufacturing capacity of 209,456CBM, whereas GIL's capacity of 129,600CBM is located in all zones, barring the south. As far as face veneer capacities are concerned, CPBI has a face veneer peeling capacity of 72,000CBM vs GIL's 12,600CBM at Myanmar.

Plywood manufacturing capacities

GIL	Capacity (CBM)	CPBI	Capacity (CBM)
Tizit, Nagaland	18,000	Kolkata, West Bengal	37,036
Kriparampur, West Bengal	24,000	Chennai, Tamil Nadu	39,420
Rudrapur, Uttaranchal	42,000	Guwahati, Assam	35,000
Rajkot, Gujarat	45,600	Karnal, Haryana	36,000
		Bhachau, Gujarat (started in FY14)	31,000
		Roorkee, Uttaranchal	25,000
		Myanmar	6,000
Total capacity	**129,600**	**Total capacity**	**209,456**
Face veneer peeling units			
Myanmar	12,600	Myanmar	32,000
		Laos	40,000
Total capacity	**12,600**	**Total capacity**	**72,000**

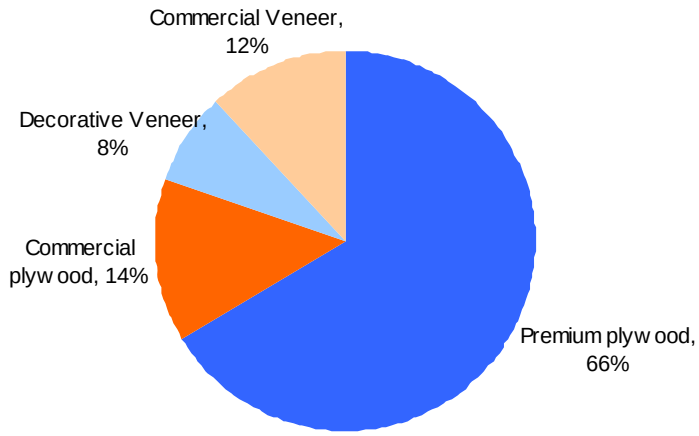
Source: Company, Antique

In FY15, GIL operated at 102% utilisation, while the same for CPBI was ~72%. While CPBI has enough capacities to utilise and grow over the next two-to-three years, GIL's growth would accrue from further sweating of its assets to 120-125% levels, apart from incrementally outsourcing its fastest growing commercial grade segment.

B) Plywood division revenue mix

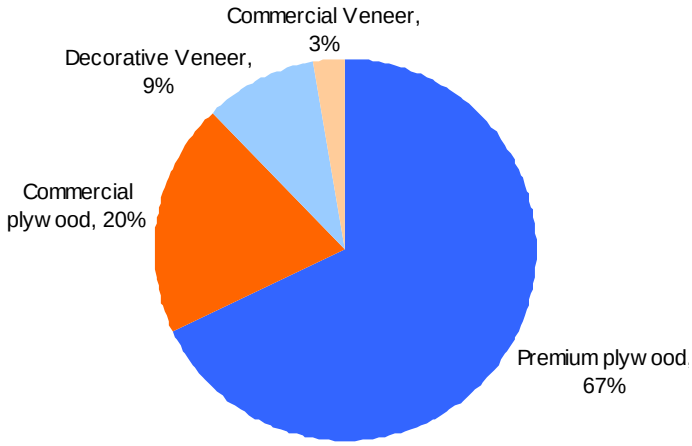
Plywood division revenues for both companies is almost at par at INR11.5bn as at FY15-end. However, the divisional break-up of both the brands stand as under:

CPBI



Source: Company, Antique

GIL



Source: Company, Antique

C) Core plywood revenues

Over the years, Tier I brands - GIL and CPBI - have been predominantly focusing on the premium plywood segment, as reflected by their premium segment contribution, which stands at 70/79% of volumes and 77/83% of core plywood revenues, respectively. Commercial plywood, which accounts for the balance, has been growing at an aggressive pace, while the premium segment has seen a significant slowdown particularly over the last one-year.

Segment-wise plywood revenues, volumes and realisation for CPBI and GIL over the last two years

Parameters	CPBI		GIL		Growth (%)	
	FY14	FY15	FY14	FY15	CPBI	GIL
Sales volume (CBM)						**Volume gr.(%)**
Premium plywood	144,246	152,095	130,634	124,004	-5.4%	-5.1%
Commercial plywood	28,148	40,098	39,211	52,657	42.5%	34.3%
Total	**172,395**	**192,193**	**169,845**	**176,661**	**11.5%**	**4.0%**
Sales value (INRm)						**Sales gr. (%)**
Premium plywood	6,568	7,624	7,223	7,768	16.1%	7.5%
Commercial plywood	1,029	1,592	1,540	2,272	54.8%	47.5%
Total	7,596	9,216	8,763	10,040	21.3%	14.6%
Realisation (INR/CBM)						**Realisation gr. (%)**
Premium plywood	45,532	50,127	55,295	62,647	10.1%	13.3%
Commercial plywood	36,540	39,705	39,276	43,141	8.7%	9.8%
Total	44,063	47,952	51,597	56,832	8.8%	10.1%
Plywood sales mix (%)						**Variance (bps)**
Premium plywood	83.7%	79.1%	76.9%	70.2%	-460bps	-670bps
Commercial plywood	16.3%	20.9%	23.1%	29.8%	460bps	670bps

Source: Company, Antique

On core plywood sales/volume growth

Both brands have intensified their focus on the commercial plywood segment, as reflected in their FY15 volume and sales growth. With sustained slowdown in metros and Tier I cities, we expect the growth challenges to persist in the premium segment, while increased focus in the commercial segment would lead to strong growth for both brands over the next few years.

On plywood realisation

GIL's realisations are significantly higher in both the premium and commercial plywood segments. We believe both brands have different treatment for conversion for block boards and doors categories in CBM, which provides misleading results. There is only a marginal differential between the realisations of both brands, post the adjustment of block boards and doors segment.

On plywood outsourcing

GILs focus on outsourcing is evident as the share of commercial plywood volumes, which is completely outsourced, has increased to 30% in FY15 from 23% in FY14. CPBI, which partly manufactures and outsources its commercial plywood, has seen its outsourcing increasing to 11-12% in FY15 from 5-6% in FY14.

D) Decorative veneers

Decorative veneers accounted for 8-9% of plywood revenues for both brands in FY15. With growth slowing down in metros and Tier I cities in FY15, decorative veneer growth too has tapered off for both the brands.

Decorative veneer revenues, volumes and realisation for CPBI and GIL over the last two years

Particulars	CPBI		GIL		Change (%)	
	FY14	FY15	FY14	FY15	CPBI	GIL
Sales volume (CBM)	5,379	6,217	8,208	7,764	15.6%	-5.4%
Sales (INRm)	734	882	1,117	1,062	20.2%	-4.9%
Realisation (INR/CBM)	136,525	141,954	136,042	136,836	4.0%	0.6%

Source: Company, Antique

While CPBI product profile included decorative, reconstituted and teak veneers in FY15, GIL's revenue included contribution from teak and reconstituted veneers. Over the next two years, GIL is expected to outperform CPBI in growth due to the recent launch of natural decorative veneers.

E) Commercial veneers

Commercial/face veneers have been predominantly imported from Myanmar and to a limited extent from Indonesia, Europe and African countries. However, with effect from April 1, 2014, segment dynamics changed completely as Myanmar, where superior quality timber is available, banned exports of raw timber. Earlier, Indian players used to import the raw timber and process it at their factories in India. However, with the ban on raw timber exports, only processed timber from Myanmar can be imported.

CPBI is the largest Indian player in commercial veneers, with over one-third market share. While CPBI actively trades in this category and sells to unorganised companies, GIL uses premium quality face veneers for captive consumption and sells only lower grade veneers externally.

Commercial veneer revenues, volumes and realisation for CPBI and GIL over the last two years

Particulars	CPBI		GIL		Change (%)	
	FY14	FY15	FY14	FY15	CPBI	GIL
Sales volume (CBM)	43,524	35,534	12,932	10,723	-18.4%	-17.1%
Sales (INRm)	1,314	1,372	428	325	4.4%	-24.2%
Realisation (INR/CBM)	30,184	38,615	33,098	30,268	27.9%	-8.6%

Source: Company, Antique

Since the ban, CPBI has richly benefited from this segment, with the company having commercialised its peeling unit even before the export ban of timber logs was announced by the Myanmar government. GIL on the other hand commenced its peeling unit through a JV with a Singapore-based company in Sep-14.

Post the ban, the prices of face veneers in India shot up alarmingly as reflected in the increase in face veneer realisations of CPBI in FY15. Realisations for GIL were however down as the company had to sell low-cost face veneers imported from Indonesia and Europe due to availability constraints in Myanmar. Volume growth remained elusive for both the brands as the timber logs supply in Myanmar remained erratic during the year. However there was a big spike in commercial veneer margins due to higher realisaions, resulting in windfall gains for CPBI, in particular.

Going forward, CPBI is expected to intensify its focus on the segment by ramping up production at its Myanmar unit and increasing capacity arrangements in Laos which in turn is likely to provide strong volume and sales growth in the segment over the next two-to-three years. GIL on the other hand is contemplating a capacity increase in Myanmar, but has not yet finalised the quantum of incremental capacity addition.

F) EBIT margin: CPBI scores a significant edge over GIL

CPBI's plywood EBIT margin has historically been higher than GIL on account of its superior raw material management and strong retail penetration. In FY15, the differential in plywood EBIT margin between CPBI and GIL was as high as 740bps.

Plywood EBIT margins for both brands over the last two years

Companies	FY14	FY15	Variance
CPBI	11.1%	16.3%	520bps
GIL	9.1%	8.9%	-20bps

Source: Company, Antique

The margin differential between the two brands in FY15 is largely attributed to the following:

- **Focus on retail vs projects:** Over the years, CPBI has created a strong and widespread dealer network, with a strong retail penetration, such that no single dealer accounts for more than 1% of its plywood revenue. This has ensured superior margin over GIL, whose dealer network focuses more on projects historically.
- **Hedging costs for procurement of raw material:** One of the issues with CPBI has been its vulnerability to forex volatility since it does not hedge its payables. Post FY13, GIL has adopted a 100% forex policy and is thus least impacted by the same. Since GIL completely hedges for raw material imports, its margin is lower by ~150bps as compared to CPBI on account of hedging cost, which gets loaded to input cost.
- **Superior raw material management:** Historically, CPBI has had the knack of sourcing raw materials from overseas at cost effective rates. It already commands the first mover advantage as it set up a face veneer plant in Myanmar. CPBI has recently entered into geographies like Laos, Papua New Guinea and Solomon Islands for sourcing of timber/face veneers at lower costs, again being the first player to do so. This has ensured better gross margin for CPBI vs GIL over the last two years.
- **Trading in face veneers:** CPBI has been a dominant player in the face veneers segment, with over one-third market share in India. GIL does not focus much on this segment, using premium grades in-house, while selling low-grade veneers in the market. Post the Myanmar timber ban, CPBI has immensely benefitted, with FY15 EBIDTA margin expanding to 30-35% in the face veneer segment. Going forward, until we see availability of face veneers improving from other geographies, margins are likely to remain strong in the space.

G) Working capital cycle: GIL better off than CPBI

CPBI's working capital cycle appears poorer than GIL due to lower creditor days and higher inventory build-up.

Working capital (WC) cycle comparison

CPBI	FY13	FY14	FY15	GIL	FY13	FY14	FY15
Debtor days	56	57	62	Debtor days	60	58	60
Inventory days	71	83	77	Inventory days	46	51	45
Payable days	27	21	14	Payable days	50	53	53
WC days	**100**	**119**	**125**	**WC days**	**56**	**57**	**52**

Source: Company Antique

While receivable days have been almost at par with respect to the two brands, the difference is material enough as far as inventory and payable days are concerned. Inventory days are higher for CPBI due to higher stocking of face veneers and laminates in particular, where the management has been intensifying its focus over the last two years.

Payable days for CPBI are lower as it finances overseas raw material imports (65% of overall raw material costs) through buyer's credit (classified as short-term debt and not as creditors). GIL on the other hand sources just 25% of its total raw material requirement through imports. Moreover, MDF (26% of FY15 revenue) has much lower inventory days than CPBI's laminates revenue (25% of FY15 revenue).

H) Focus on outsourcing

GIL currently outsources its entire volume in commercial grade plywood brand 'Ecotec' from vendors across India. In FY15, outsourced volume accounted for 28% of overall volumes and 20% in value terms. With the impetus on the Ecotec category only going to increase, we expect the share of outsourcing to increase. Going forward, the company aims to source its mid-premium brand 'Optima Red' under the outsourcing model as well.

CPBI has relatively lower outsourcing focus. It partially outsources its commercial grade plywood brand 'Sainik', while manufacturing the balance. In FY15, outsourced volumes accounted for 14% of overall volumes and 11% in value terms. Going forward, the company expects the share of outsourcing to increase.

I) Dealer network

GILs had a plywood dealer network of over 1,100 in FY15, with a higher proportion of wholesale dealers focusing on projects. However, over the past few quarters, the company is taking steps to reduce dependence on large dealers by converting some of its sub-dealers into direct dealers. It is also in the process of adding new dealers in areas with a population of more than 75,000/100,000 to increase its retail participation.

CPBI has over 1,500 plywood dealers under its belt, with majority of them focused on the retail segment. The company has a widespread dealer network, with no dealer size exceeding more than 1% of its overall revenue.

J) Advertising and promotional (A&P) spends

GIL and CPBI both spend ~4% of plywood revenues on brand building through above-the-line activities - media ad spends with celebrity endorsements, in-film branding, etc, and various below-the-line activities like participation in exhibitions, organising carpenter/architect meets, etc. CPBI spent INR660m in FY15 towards brand spends on both the plywood and laminates segments, which works out to ~4% of segmental revenue. GIL on the other hand spent INR430m in FY15 towards the plywood segment, which works out to 4% of plywood revenue. However, the company does not spend on branding towards the MDF segment.

MDF industry

Of the total wood-based substrate industry in India, the INR13bn MDF market currently accounts for a mere 7% as compared to 80% globally. Albeit on a lower base, the domestic MDF market has been growing at 15-20% CAGR over the last five years. With increasing urbanisation, the demand for ready-made furniture, manufactured with engineered panels like MDF, is rapidly growing as consumers are increasingly finding themselves short on time and inconvenient to get customised furniture fabricated by carpenters. One of the biggest advantages of using MDF is that it is far more affordable than plywood and can be carved and moulded to one's liking.

MDF industry: Current statistics

Statistics	
Industry size	INR13bn
Industry growth	15-20% CAGR
Demand drivers	New construction demand particularly in commercial real estate and retail, modular furniture, increasing applications, etc
Organised to unorganised mix	100% organised
Key USP	Distribution and availability
Key risks	Imports

Source: Company, Antique

MDF industry: Players and market share

Size of MDF market in India in FY15

Company	Volume (CBM)	Size (INRm)	Market share
Mangalam Timber	17,000	400	3%
Shirdi Industries	12,000	280	2%
Action Group	115,000	2,750	21%
Greenply Industries	161,000	4,080	31%
Rushil Décor	60,000	1,050	8%
Domestic total (A)	**365,000**	**8,560**	**66%**
Imports (B)	200,000	4,440	34%
Total size (A+B)	**565,000**	**13,000**	100%

Source: Comp[any, Antique

Players, brands and their year of inception

Company	Year	Capacity (in CBM)	Brand	Raw material base	Factory location
Mangalam Timber Products	1987	45,000	Duratuff	Timber	Nabarangpur, Odisha
Nuchem	1992	*60,000	Nuwud	Timber	Tohana, Haryana
Shirdi Industries	2007	42,000	Asis	Timber	Rudrapur, Uttaranchal
Bajaj Hindustan (BHL)	2008	*160,000	Bajaj boards	Bagasse	Uttar Pradesh (two units)
Action Group	2009	160,000	Action Tesa	Timber	Sitarganj, Uttaranchal
Greenply Industries	2010	180,000	Green Panelmax	Timber	Rudrapur, Uttaranchal
Rushil Décor	2012	84,000	Vir Boards	Timber	Chikmagalur, Karnataka

Source: Comp[any, Antique Note*: Operations shut

MDF industry: At a glance

MDF's history in India dates back to the late 1980s when **Mangalam Timber Products l**aunched MDF by setting up the first plant in the country in 1987. After another five years, **Nuchem** forayed into the MDF segment in 1992. From 1993-2006 (a span of fourteen years), no new MDF factories were added, considering the slow acceptance of the product and the high capital intensity involved in setting up a project.

Post 2006, five new players joined the bandwagon, and with that product awareness increased considerably. **Shirdi Industries** was the first among the five new players to come up with a MDF plant in CY06. However, entry of **Bajaj Hindustan (BHL) and GIL changed the industry's fortunes.**

In 2008, BHL set up two MDF units at Lakhimpur Kheri and Gonda, Uttar Pradesh, with each unit having a manufacturing capacity of 80,000CBM MDF boards per annum. Its MDF project was perceived to enjoy several competitive advantages due of its access to in-house available raw material bagasse in place of timber and captive power plant.

Gradually, the market realised the inferior quality of Bajaj Boards to timber-based MDF due of the use of bagasse as raw material. Bagasse contains silica, which results in MDF becoming harder, thus making smooth carving/cutting difficult. This is one of the main USPs of MDF. With demand for its board declining since launch, BHL's management finally shut its Gonda/ Lakhimpur Kheri units in FY12/13, respectively, and opted out of the segment.

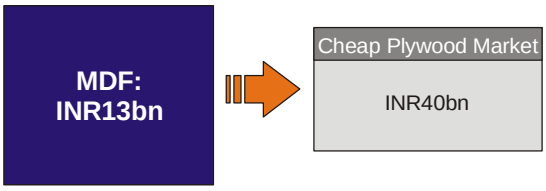
GIL's MDF foray: As part of its entry strategy, the management decided to go aggressive by building capacity equivalent to 50% of the market size: 180,000CBM. The market size of MDF in 2008 was ~360,000CBM, with imports contributing more than 50%. In FY10, GIL set up a European plant with continuous press technology, which has been a key differentiator as compared to the multi-opening cycle press technology used by other domestic players. This plant offers distinct advantages like uniformity in thickness; higher efficiency, resulting in lower cost of production, and flexibility in terms of size and thickness. With the aggressive marketing and 'on the ground' approach, GIL has already achieved INR4bn in MDF revenue and is contemplating setting up another greenfield project in Andhra Pradesh by 1HFY19.

Action Group and Rushil Décor: The former launched thin MDF in 2009, under the 'Action Tesa' brand, at a time when the other players were focusing on thick MDF. Action also launched thick MDF in May-13. Since then, it has scaled up well and attained a size of ~INR2.75bn in FY15. Rushil Décor also forayed into MDF in Dec-12 with 'Vir Boards', the management's focus primarily being on thick MDF. In FY15, the company's annual MDF revenue exceeded INR1bn for the first time.

Strong opportunities ahead for MDF

MDF, the engineered wood panel substrate, has been growing at 15-20% CAGR over the last five years, led by increasing awareness and acceptance. It currently accounts for a mere 7% of the wood panel substrate market, while globally it commands a share of over 80%. Going forward, we see strong growth opportunities, led by MDF gradually being preferred over cheap plywood segment and increasing demand for modular furniture.

Key highlights, demand drivers and opportunities in MDF



Key highlights:

- With increase in plywood prices, MDF prices are almost at price or 5-10% higher than the cheap plywood
- Increasing shift happening from cheap plywood to MDF due to increasing awareness and availability, increasing affordability and higher durability
- This category has grown at a 15-20% CAGR over the last five years
- Imports account for ~35% of the MDF market - thereby representing an opportunity for domestic MDF players to replace them

Demand drivers:

- Rapidly increasing demand for ready-made furniture
- Affordable product and more suited for aesthetic purposes over other substrate products (MDF has strong carving capabilities)
- Increasing preference over particle board due to higher durability
- Increasing applications within the thin MDF segment
- Niche products – veneered and laminated flooring, exterior grade MDF boards, UV coated MDF boards and pre-laminated MDF boards to drive the industry growth further

Current growth status:

- Industry is currently growing at 5-10% due to steep slowdown in projects

Segment opportunity going forward:

- Increasing awareness and entry of large corporates in the segment to drive growth and acceptance
- Replacing cheap category plywood – an INR 40bn opportunity for MDF players
- Putting MDF facility in South India could provide significant opportunity for domestic MDF players by effectively competing with imports (40% of MDF market size)
- Niche value added products could throw upon sizeable growth opportunities for MDF players

Source: Company, Antique

MDF industry expected to grow by 15-20% CAGR due to the following demand drivers:

Large focused players joining the bandwagon leading to increasing awareness and acceptance

Globally, 80% of the wood panel used for furniture has been MDF as compared to less than 10% for India. While the first Indian MDF plant was commissioned in 1987, the product category lagged in terms of awareness until 2006 due to absence of large number of players entering this segment. Mangalam Timber and Nuchem were the only players manufacturing MDF during 1987-2006, resulting in limited product acceptance.

However, the inflection point actually occurred post CY06 when new players forayed into the segment - Shirdi Industries, BHL, GIL, Action and Rushil Decor, which led to increasing awareness and acceptance of MDF. The entry of large wood panel players like CPBI over the next couple of years would further aid the growing acceptance.

Increasing demand for modular furniture

With increasing urbanisation, demand for ready-made furniture, manufactured with engineered panels like MDF, is rapidly growing as consumers are increasingly finding themselves short on time and inconvenient to get customised furniture fabricated by carpenters. Affordable housing and the culture of ready-to-move-in offices/retail outlets, with low-cost modular furniture, which is comparatively new to India, are fast gaining popularity.

Affordability and aesthetic attributes key USP of MDF

The other advantage of using MDF is its affordability and its carving and moulding attributes. MDF is highly affordable as compared to premium plywood and is on par or mere 5-10% expensive to cheap category plywood. At present, MDF largely competes with cheap category plywood as it is has better density and thus durability; better finish and carving attributes.

Increasing applications

MDF usage is not only restricted to furniture, but has diverse applications. MDF is used in over 100 applications including handicrafts, gift boxes, photo lamination and frames, shoe heels, automobile door trims, loud speakers, textiles planks, among others. These applications have been replacing cardboard and hardboard with MDF due to better durability.




Industry gradually moving towards value addition

MDF predominantly has been looked upon as a commodity product by the trade. However, with few players like GIL and Action recently entering into the niche value-add MDF segments - pre-laminated MDF boards, laminated flooring, UV coated boards and exterior grade MDF boards, the industry seems to be moving towards value addition, which could be another potential growth driver going forward.





Threat from cheap imports to persist

With demand exceeding supply over the last many years, import of plain MDF boards has been growing at a brisk pace. Plain MDF imports in FY15 was estimated at INR4.4bn, accounting for more than one-third of India's MDF consumption. Key MDF exporters to India include companies from Thailand, Malaysia, Sri Lanka, China, New Zealand, Indonesia and Vietnam.

The landed cost of imports of plain MDF boards is 5-15% cheaper as compared to the pricing of domestic brands, thus posing a threat to domestic manufactures. Imports are more competitive in areas near ports like in South and East India. However, for other zones, domestic manufactured MDF is more competitive due to the freight element incurred by importers.

South India (50% of the Indian MDF market), in particular, is the most vulnerable to cheap imports. Key players like GIL and Action have facilities in North India and spend 10-12% on logistic costs for feeding the southern market. As a result, they continue to face stiff competition from imports. To mitigate this, GIL has firmed up capex plans for setting up a huge capacity in South India to capitalise on the key MDF market and turn competitive by saving on logistic costs.

Anti-dumping duty on MDF boards lapsed, notification expected soon

Post the lapse in anti-dumping duty on plain MDF boards in Feb-15, the Ministry of Commerce and Industry accorded permission for a time extension up to August 17, 2015 with regards to sunset review of imports of plain MDF boards from China, Malaysia, Thailand and Sri Lanka. On August 17, the ministry notified its final findings and recommended imposition of anti-dumping duty from the date of notification to be issued by the central government on all imports from China, Thailand, Malaysia and Sri Lanka. It recommended imposition of definitive anti-dumping duty equal to the lesser of the margin of dumping and the margin of injury to the domestic industry. The domestic industry has also filed a separate petition for imposition of anti-dumping duty on imports from Indonesia and Vietnam, which is under consideration.

Laminate industry

With the substrate industry growing at 10% CAGR, the surface industry - laminates and veneers - have also been growing at 10% CAGR over the last five years. The size of Indian laminate industry in FY15 was estimated to be ~8mn sheets per month (~100m sheets per annum), aggregating INR40bn, with an average realisation of INR400 per sheet.

Organised players, which constitute ~55% of the industry, have been growing faster than their unorganised counterparts due to their intense focus on 1mm thickness laminates and value-added products like textured, exterior grade and compact laminates. With the shift from unbranded to branded products seen continuing, we expect the laminate industry to continue to grow at the same pace going forward.

The 1mm thickness laminate market is estimated to account for 40% of total industry volumes and 60% of the industry size in value terms. The 0.8mm and 0.7mm thickness laminates account for 40% of industry volumes and 30% of the industry size in value terms. The other lower thickness segments - 0.5mm and 0.6mm - are price driven and entirely dominated by the unorganised industry.

Laminate industry statistics

Industry size	INR40bn
Industry growth	10% CAGR
Demand drivers	New construction demand, rising disposable incomes, faster replacement cycle in furniture, etc
Organised to unorganised mix	55% unorganised
Key (USP)	Branding, distribution and innovation
Key risks	Obsolescence in designs

Source: Company, Antique

Laminate industry: 1mm thickness key growth driver

Break-up of the laminate industry thickness-wise

Thickness-wise laminates	Volume mix	Volume (sheets)	Value mix	Value (INRm)	Average realisation
1mm	40%	40,000,000	60%	24,000	600
0.7mm and 0.8mm	40%	40,000,000	30%	12,000	300
0.5mm and 0.6mm	20%	20,000,000	10%	4,000	200
Total	**100%**	**100,000,000**	**100%**	**40,000**	**400**

Source: Company, Antique

Key profile of each thickness segment in laminates

Laminate industry - Thickness wise	Dynamics	Organised to unorganised mix	Price differential	Segment CAGR
1mm	Brand driven	60:40	20-25%	10-15%
0.7mm and 0.8mm	Price driven	40:60	40-50%	5-10%
0.5mm and 0.6mm	Price driven	20:80	40-50%	Flat growth

Source: Company, Antique

1mm thickness laminates: The fastest growing segment

Over the last decade, the focus of the laminate industry has been towards the higher (1mm) thickness laminates, which have invariably been the fastest moving laminate (in terms of thickness) across the country. The organised industry has been focusing on this segment, as margins and realisations are higher than lower thickness categories. Competition levels in this segment too have been increasing over the last few years, hence branding has played a key role for this segment.

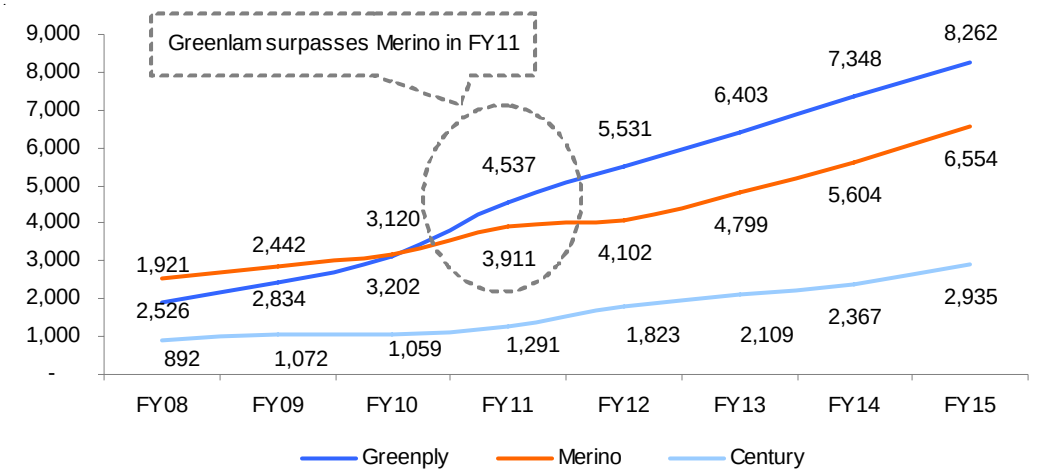
Top of the mind recall and architect specification plays a vital role for success of a particular brand in this thickness. At present, the 1mm thickness market size is close to 3.3m sheets per month, aggregating 40m sheets per annum. The size of this market is pegged at INR24bn, which is dominated by organised brands to the extent of 60% in value terms.

Positioning of the top three laminate brands

Merino Industries was among the first movers to enter the Indian laminates market way back in late 1970s, while GIL forayed into laminates in 1994 and CPBI in 2004. However, post the commissioning of Nalagarh plant in Himachal Pradesh, Greenlam's growth accelerated alarmingly and the company managed to surpass Merino's revenue in FY11 . CPBI lacked focus in the initial period of launch, but intensified its focus on this segment post its restructuring exercise in FY13 when it demerged its non-core businesses.

While Greenlam today enjoys the best brand equity, Merino too is not so far behind, being in this business for over four decades. However, Greenlam with its strong retail focus over the last few years has significantly improved its brand equity and would now have a slight edge over Merino. The latter continues to remain a preferred brand in projects, as it is priced 10-12% lower to Greenlam, which has grown at 21% CAGR over FY10-15 vs Merino/CPBI's 15/23% CAGR, respectively.

GIL, Merino and CPBI laminate revenues at a glance (INRm)

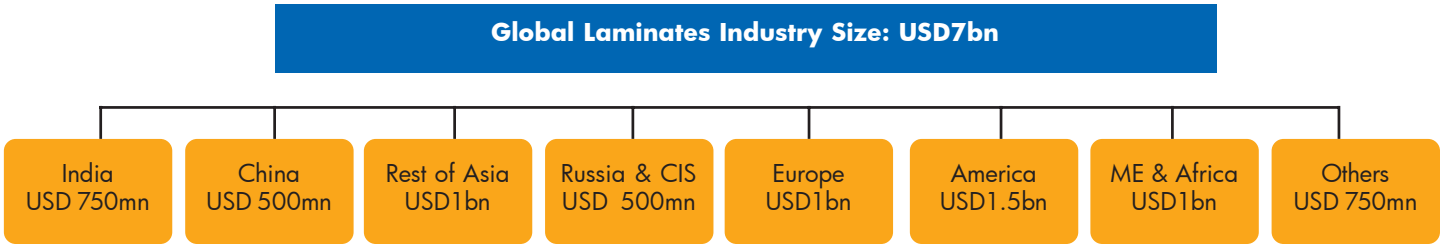


Source: Company, Antique

Global laminate industry

The current size of the global laminates industry is estimated at USD7bn and is growing at 2% CAGR. According to a recent study done by Freedonia Group, the global laminates industry is expected to exhibit 5.6% CAGR over the next four years on: a) Increasing manufacturing of cabinets and ready-to-assemble furniture made from engineered wood and laminates, b) Cost and performance benefits vs veneer and paints, and c) Increased market penetration.

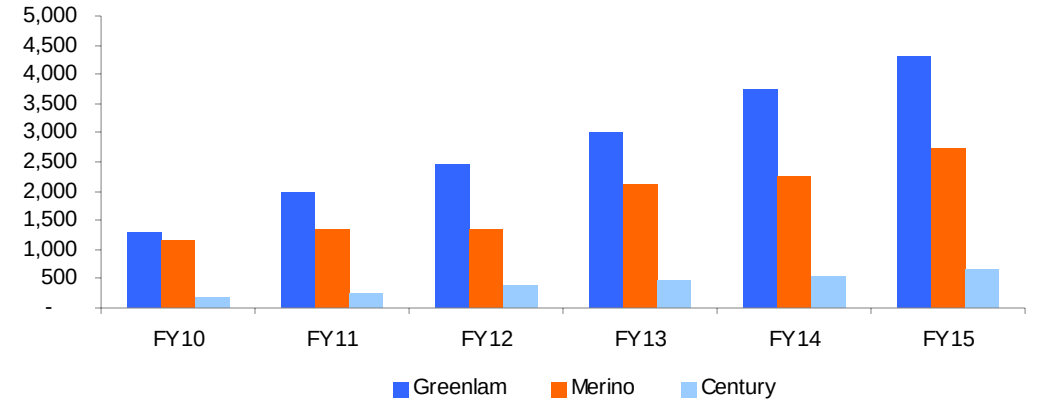
Share of overseas markets in laminates



Source: Company, Antique

The top three Indian laminate brands have performed much better in the export vis-à-vis the domestic market, which has resulted in these brands showcasing decent overall growth.

Trend in export revenues of the top three industry brands (INRm)



Source: Company, Antique

Among the top three bands, Greenlam has performed the best, with export revenues growing at a five year CAGR of 27% over FY10-15, while Merino and CPBI grew at 18% and 29%, respectively. Though CPBI's growth has been the fastest, the same has come on a much lower base as compared to Greenlam and Merino.

Valuations: Wood panel vs other building material peers

Plywood companies: on the cusp of re-rating

The wood panel sector, especially the plywood companies are currently attractively valued as compared to other building material peers - tiles, sanitaryware and pipe companies - as reflected in the valuation table below largely due to the sharp deceleration in growth in the recent past. In our view, this anomaly shall correct going forward as the plywood companies are ideally positioned to outperform in terms of growth over its peers once the recovery in the real estate sector starts shaping up.

The signs of recovery in the real estate sector would be first visible only with the filling up of the existing inventories in the real estate sector which is expected to drive demand for the wood panel sector in particular. Post that, the new construction demand would pick-up which would benefit the entire building material space in general.

Further, higher share of unorganised sector (over 75%) within the plywood space provides a massive opportunity for the organized players i.e. CPBI and GIL, particularly with the likely implementation of GST over the next one year. This is expected to accelerate the growth of these companies in particular which have not been factored into our estimates.

While we value CPBI and GIL at 20xFY17e and 18x FY17e earnings, respectively, there could be a case for further rerating in these stocks once the growth starts surprising on the positive side. Further strong outsourcing opportunities and already high fixed asset turns are likely to push the RoCEs higher towards 30% thereby strengthening the case for further rerating.

Valuation Table

Company name	CMP	EPS (INR)		P/E (x)		EV/EBITDA (x)		RoE (%)		ROCE (%)	
	(INR)	FY16e	FY17e	FY16e	FY17e	FY16e	FY17e	FY16e	FY17e	FY16e	FY17e
Pipe companies											
Supreme Industries	634	25.7	33.0	24.7	19.2	12.0	9.9	26.2	29.2	30.8	34.8
Astral Poly Technik	420	11.8	16.7	35.6	25.2	20.3	15.3	20.5	25.0	24.1	30.1
Finolex Industries	263	14.7	18.7	17.9	14.1	10.4	8.7	22.1	25.4	20.5	24.6
Average				**26.1**	**19.5**	**14.2**	**11.3**	**23.0**	**26.6**	**25.1**	**29.8**
Sanitaryware companies											
HSIL	298	13.4	18.5	22.2	16.1	8.6	7.2	7.2	9.4	9.4	11.2
Cera Sanitaryware	2019	65.8	84.0	30.7	24.0	18.1	14.4	22.1	23.3	28.0	30.1
Average				**26.4**	**20.1**	**13.3**	**10.8**	**14.6**	**16.4**	**18.7**	**20.7**
Tile companies											
Kajaria Ceramics	807	27.4	34.2	24.0	19.3	12.9	10.6	24.7	25.4	30.1	31.7
Somany Ceramics	358	17.3	22.8	20.8	15.7	11.1	8.9	23.0	24.8	23.3	25.6
Average				**22.4**	**17.5**	**12.0**	**9.7**	**23.8**	**25.1**	**26.7**	**28.6**
Wood panel companies											
Century Plyboards	172	7.3	10.6	23.7	16.2	15.3	11.7	36.2	40.6	24.0	27.4
Greenply Industries	947	56.1	74.7	16.9	12.7	10.2	7.9	24.8	26.4	22.5	26.9
Average				**20.3**	**14.5**	**12.8**	**9.8**	**30.5**	**33.5**	**23.2**	**27.1**
Laminate companies											
Greenlam Industries	392	13.3	26.3	29.5	14.9	12.0	8.1	13.6	22.4	12.0	18.3

Source: Company, Antique

Fact sheet and growth assumptions

Company name	Revenue CAGR (%)		EBITDA CAGR (%)		PAT CAGR (%)		EBITDA margins (%)			
	FY13-15	FY15-17e	FY13-15	FY15-17e	FY13-15	FY15-17e	FY14	FY15	FY16e	FY17e
Pipe companies										
Supreme Industries	10%	18%	4%	21%	5%	19%	14%	14%	14%	15%
Astral Poly Technik	32%	27%	21%	40%	13%	63%	14%	12%	14%	14%
Finolex Industries	7%	6%	-17%	55%	-41%	120%	13%	7%	14%	15%
Sanitaryware companies										
HSIL	6%	11%	13%	10%	2%	25%	14%	17%	16%	16%
Cera Sanitaryware	30%	24%	25%	26%	21%	27%	14%	14%	15%	15%
Tile companies										
Kajaria Ceramics	16%	17%	20%	20%	30%	24%	15%	16%	17%	17%
Somany Ceramics	21%	20%	12%	28%	19%	37%	6%	7%	8%	8%
Wood panel companies										
Century Plyboards	16%	16%	48%	18%	64%	26%	12%	17%	17%	18%
Greenply Industries	9%	13%	8%	26%	14%	33%	12%	13%	15%	16%
Laminate companies										
Greenlam Industries	10%	20%	1%	15%	-27%	81%	11%	10%	10%	12%

Source: Company, Antique

Current Reco	:	BUY
CMP	:	INR172
Target Price	:	INR212
Potential Return	:	23%

INITIATING COVERAGE

Century Plyboards India Limited

Time to Buy into the correction

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Century Plyboards (CPBI), one of the leading players in the organised plywood segment, with the largest installed capacity, strong brand equity and distribution network, vast expertise in raw material sourcing and intense focus on product quality, is expected to provide significant revenue and earnings visibility in the plywood segment over the medium- to long-term. With its recently concluded expansion in the laminate segment and expected foray into medium-density fibreboard (MDF) by FY17-end, we expect the company to significantly scale up in these businesses. We foresee the company's revenue and PAT growing at an impressive 16/26% CAGR, respectively, over FY15-17e, with RoCEs expected to cross 27% by FY17e. The stock has corrected ~35% from the highs made in Mar-15. At current the market price of INR172 per share, the stock trades at 16.2x FY17e earnings, given its strong earnings visibility and high sustainable return ratios. We initiate coverage on CPBI with a Buy rating and a target price of INR212 per share, valuing the company at 20x FY17e earnings.

Plywood division revenue growth takes a breather, profitable growth to continue

Post the demerger of its non-core businesses in FY13, CPBI has been aggressive in hiring incremental sales force; widening the distribution network; intensifying focus on commercial brand 'Sainik' and ensuring adequate raw material security. This has led to strong outperformance in the plywood division over its immediate peer Greenply Industries (GIL) and the industry in terms of revenue and profitability. However, growth has been under pressure in the current fiscal due to recent de-growth in its premium segment, led by sustained slowdown in metros and Tier I cities. Bottomline growth though continues to remain impressive, aided by strong operational performance led by superior timber sourcing strategies and focus on retail. Going forward, we expect plywood division revenue to grow at 15% CAGR over FY15-17e, with EBIDTA margin expected to remain healthy at 17/18% for FY16/17e, respectively.

Recent capacity addition in the laminate division to drive growth

We expect the laminate division to exhibit 25% revenue CAGR over FY15-17e, led by ramping up of production, post the recent doubling up of its capacity to 4.8m sheets . Higher capacity utilisation; better realisation and higher pre-laminated particle board (PLPB) margins post the commercialisation of particle board unit by FY16e will also improve the division's EBIDTA margin further to 14% by FY17e from 12.4% in FY15.

Return ratios to improve further

Improving capacity utilisation, firm and sustainable margin and stable free cash flow from operations despite higher capex towards MDF expansion are expected to provide a boost to return ratios. We expect RoCEs to improve by 240bps to 27.4% in FY17e from 25% in FY15.

Key financials

Year-ended March (INRm)	FY13	FY14	FY15	FY16e	FY17e
Revenue	11,816	13,477	15,884	16,980	20,999
EBITDA	1,234	1,582	2,703	2,835	3,785
EBITDA margin (%)	10.5	11.8	17.2	16.7	18.0
PAT	552	603	1,490	1,615	2,357
EPS (INR)	2.5	2.7	6.7	7.3	10.6
P/E (x)	69.4	63.5	25.7	23.7	16.2
P/BV (x)	15.6	13.4	10.2	7.7	5.8
EV/EBITDA (x)	34.6	27.6	15.9	15.3	11.7
RoE (%)	9.4	21.2	42.6	36.2	40.6

Source: Company, Antique

Market data

Sensex	:	26,904
Sector	:	Building material
Market Cap (INRbn)	:	38.2
Market Cap (USDbn)	:	0.590
O/S Shares (m)	:	222.2
52-wk HI/LO (INR)	:	262/110
Avg Daily Vol ('000)	:	730
Bloomberg	:	CPBI IN

Source: Bloomberg

Valuation

	FY15	FY16e	FY17e
EPS (INR)	6.7	7.3	10.6
P/E (x)	25.7	23.7	16.2
P/BV (x)	10.2	7.7	5.8
EV/EBITDA (x)	15.9	15.3	11.7
Dividend yield (%)	1.0	1.2	1.5

Source: Bloomberg

Returns (%)

	1m	3m	6m	12m
Absolute	8	(13)	(28)	49
Relative	3	(10)	(23)	45

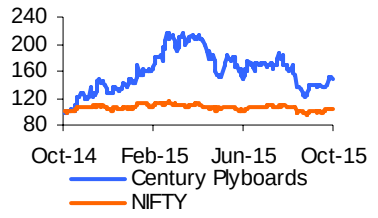
Source: Bloomberg

Shareholding pattern

Promoters	:	55%
FII	:	12%
DII	:	9%
Others	:	24%

Source: Bloomberg

Price performance *vs* Nifty

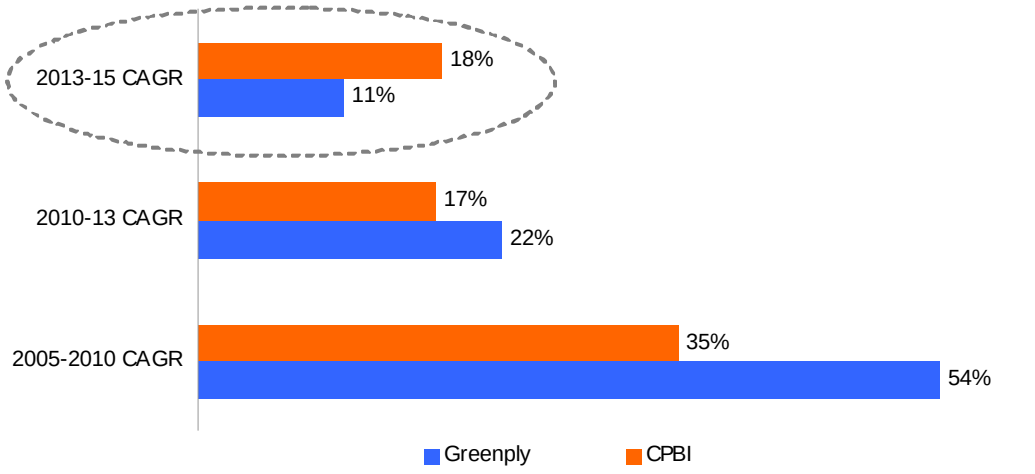


Source: Bloomberg Indexed to 100

Plywood division revenue to grow at 15% CAGR over FY15-17e

CPBI's plywood division revenue grew by 18% CAGR over FY13-15, outperforming market leader GIL (11% CAGR) and industry growth. This is the phase in which the company has managed to outperform growth over GIL as depicted in the chart below.

Tier I brands: Revenue CAGR in phases



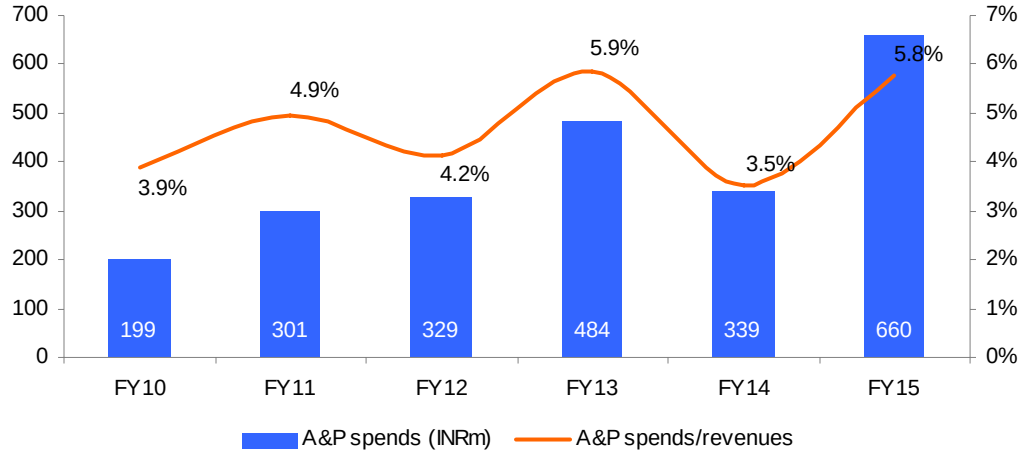
Source: Company, Antique

One of the major reasons for CPBI's outperformance over GIL since FY13 has been its focused and aggressive approach in the plywood segment, post the demerger of its non-core businesses - cement and ferro-alloys division - in FY13. In the last two years, the management has been very aggressive in: a) Hiring an incremental sales force, b) Widening distribution network, with increasing impetus on retail, c) Intensifying its focus on commercial brand Sainik, d) Raising brand spends, and e) Ensuring adequate raw material security, which has driven strong outperformance in the plywood division in terms of revenue and profitability.

Fast increasing brand equity, with focus on quality and aggressive advertising spends

The company has been seen a significant improvement in its brand equity over the last five years. This is largely attributed to its consistent focus on quality; aggressive brand spends over the last three years; and focus on increasing retail penetration. As a result, the company now enjoys an overall market share of 5% and 23% share of the organised plywood market.

Increasing A&P spends

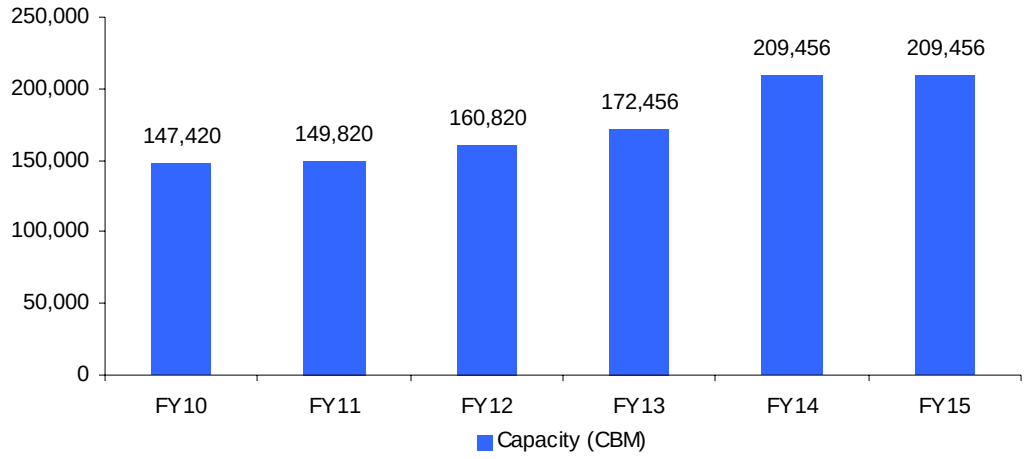


Source: Company, Antique

Aggressive capacity addition in plywood in addition to the Myanmar plant

CPBI has been aggressively adding capacities over the last five years, through a mix of greenfield and brownfield expansion. Capacities have increased to 209,456 CBM in FY15 from 147,420 CBM in FY10, with two new greenfield capacities added in Gujarat: Bhachau and Kandla. It has also put in necessary infrastructure in Myanmar for manufacturing plywood, with an installed annual capacity of 6,000 CBM.

Capacity addition over FY10-15



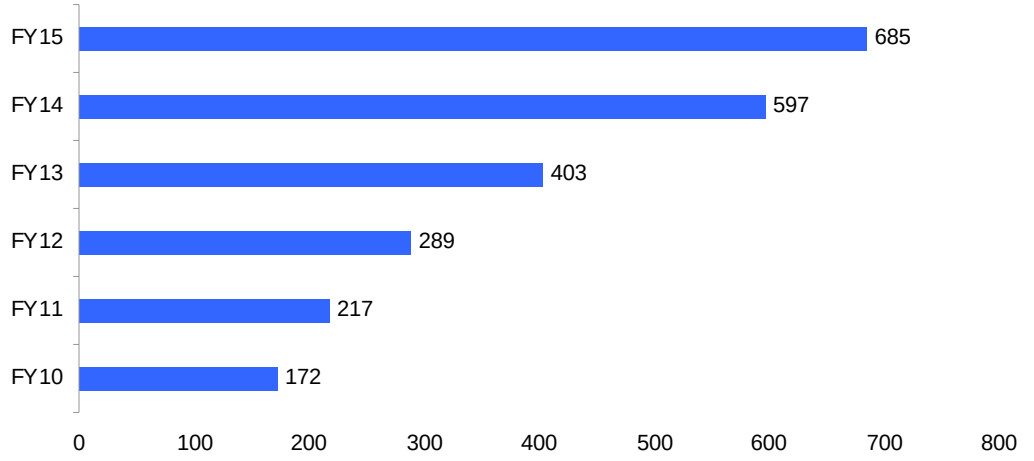
Source: Company, Antique

Apart from this, the management over the last two years has aggressively added capacities in Myanmar and made arrangements in Laos for securing availability of commercial veneers.

Incremental sales force addition

Since FY13, the management has been aggressive in terms of boosting its sales and marketing headcount to 685 at present from 172 in FY10.

Aggressive headcount addition

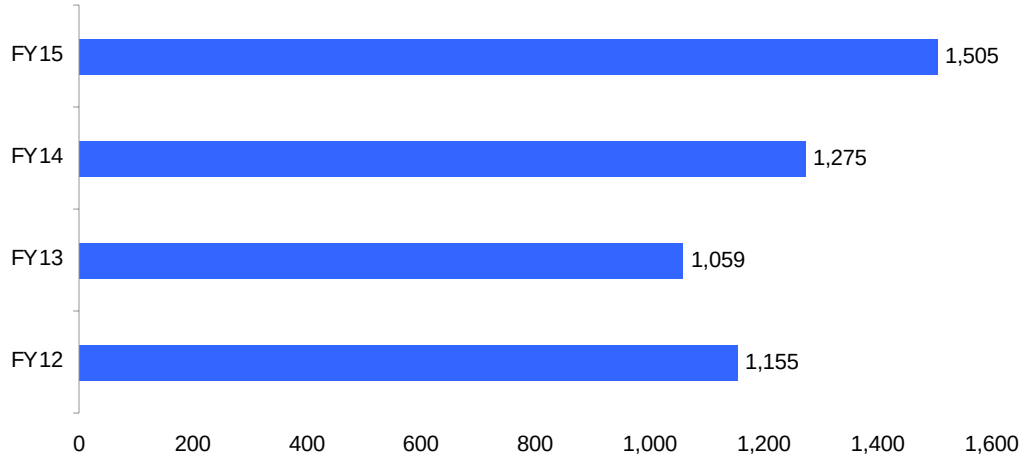


Source: Company, Antique

Incremental dealer addition over FY10-15

CPBI's business model is primarily retail driven, which requires a robust distribution network. It has been able to widen its dealer base significantly to 1,505 in FY15 from 1,155 in FY12, an absolute growth of ~30%.

Increasing distribution network

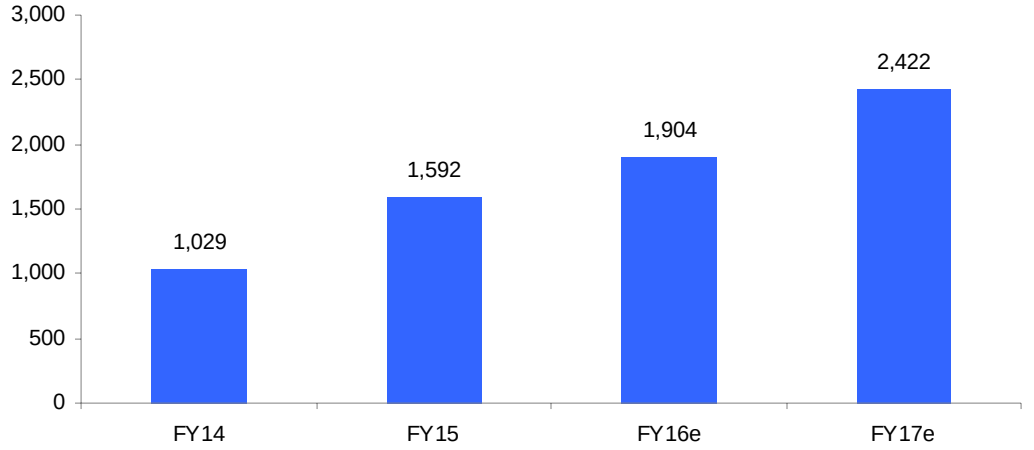


Source: Company, Antique

Focus on commercial brand Sainik

Over the last two years, given the pressure on premium segment volumes, the company has been increasing its focus on its commercial grade plywood brand Sainik, considering the huge opportunities in this segment. CPBI has almost doubled turnover in this segment to INR1.6bn in FY15 from INR0.8bn in FY13. In FY15, 55-60% of Sainik volume was outsourced from local vendors, while the balance was manufactured in-house.

Fast growing 'Sainik' brand (INRm)



Source: Company, Antique

Ensuring raw material security proving blessing in disguise

CPBI's key strength has been sourcing of raw material at competitive rates and ensuring adequate raw material security. Since the timber export ban in Myanmar, the company has ensured adequate raw material security with following sourcing strategies in place:

a) Sourcing processed veneers from its wholly-owned subsidiary in Myanmar;

b) Sourcing processed veneers from two suppliers in Laos at competitive rates, and

c) Importing timber from Papua New Guinea, Solomon Islands and Germany and processing the same at its peeling unit in Joka, Kolkata. Going forward, the management is planning to tap Indonesia as a major source for supply of timber.

The company has the first mover advantage in commercial veneers as it set up a face veneer plant in Myanmar, before the export ban on timber. This resulted in ready accessibility to commercial veneers at a time when no Indian player had access to the same. On the other hand, GIL set up a unit in Myanmar after the ban was imposed. With the export ban on timber, commercial veneer prices in India rose 25-30%, driving windfall gains for CPBI, which was able to generate a margin of ~30% from this segment in FY15, thereby driving overall margin and profitability.

With timber prices in Myanmar rising 20% YoY in 1QFY16, commercial veneer margin from its Myanmar subsidiary is expected to fall to 10-15% in the current fiscal. However, with the management's intensified efforts in sourcing of commercial veneers from two units in Laos (at much lower costs) in the current fiscal, we expect overall margin in commercial veneers to remain strong at 20% over the next two years as higher procurement costs in Myanmar would get offset by competitive sourcing from Laos.

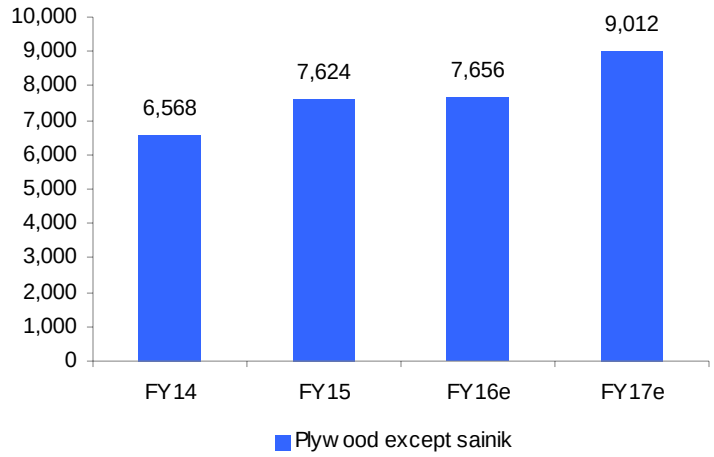
World Map - RM Security

Source: Company, Antique

Going forward, we expect the plywood division to report INR15.2bn in FY17 revenue, which implies 15% CAGR over FY15-17e. We have factored in a volume growth of 5/20% in FY16/17e, respectively, based on the following parameters:

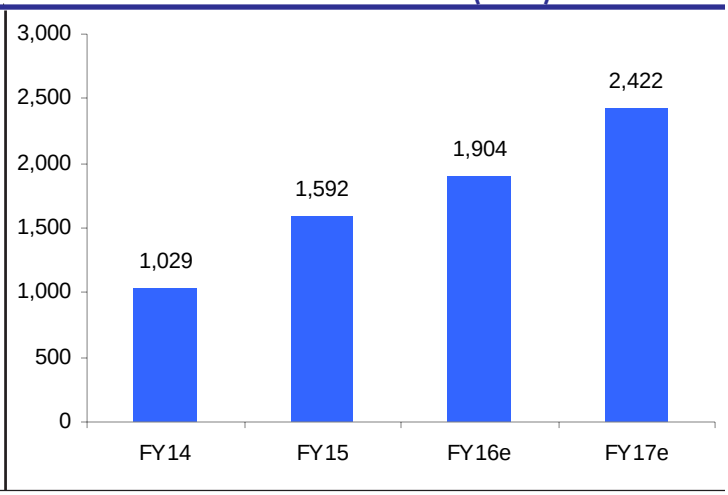
a) Growth in the premium segment to remain muted. However, growth momentum in commercial grade plywood will continue

Growth in premium plywood tapering off (INRm)



Source: Company, Antique

Growth momentum in Sainik to continue (INRm)



Source: Company, Antique

With the premium plywood segment continuing to show signs of sluggishness, the management has been intensifying its focus on mid-category commercial grade plywood Sainik. In the current fiscal, CPBI has also initiated ad spends in this category, which is expected to driver growth in the segment going forward.

Recently aired TV advertisement on Sainik plywood

Source: Company, Antique

With the company targeting deeper penetration in Tier II and III cities in coming years and huge opportunities in terms of shift from unbranded to branded plywood in store, we expect the growth momentum in this segment to continue.

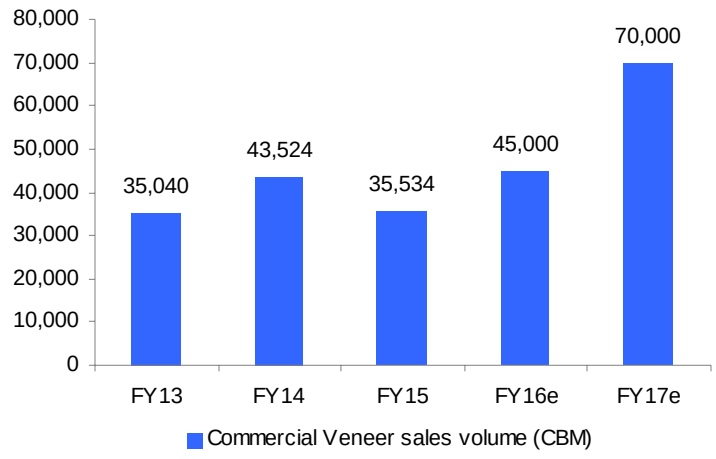
In FY15, Sainik contributed ~14% of total plywood revenue, with 55-60% being outsourced from local vendors and the balance being manufactured in-house. Going forward, we expect Sainik to report 23% revenue CAGR over FY15-17e, while the premium segment is expected to underperform, with 9% revenue CAGR over the same period.

b) Traction in commercial veneer sales:

Apart from Myanmar, the management in the current fiscal has made arrangements for sourcing of commercial veneers from Laos, where timber procurement costs are much lower vs the former.

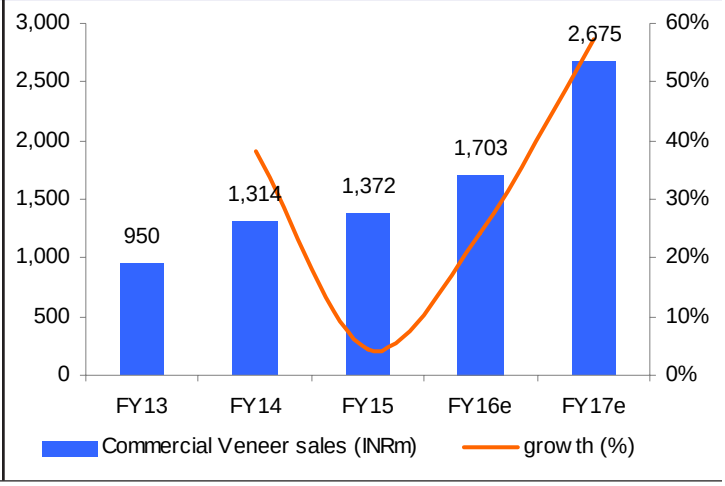
At present, CPBI has nine peeling machines installed, with four units, in Myanmar. It has also entered into arrangement with two units for sourcing of commercial veneers from Laos. Further capacity additions in Myanmar (adding one more peeling machine) and Laos (adding three peeling machines) will take the total available capacity to 104,000 CBM. This provides material upside in terms of raw material security and higher external sales of commercial veneers in the domestic market.

Commercial Veneer sales volume (CBM)



Source: Company, Antique

Commercial Veneer sales (INRm) and sales growth



Source: Company, Antique

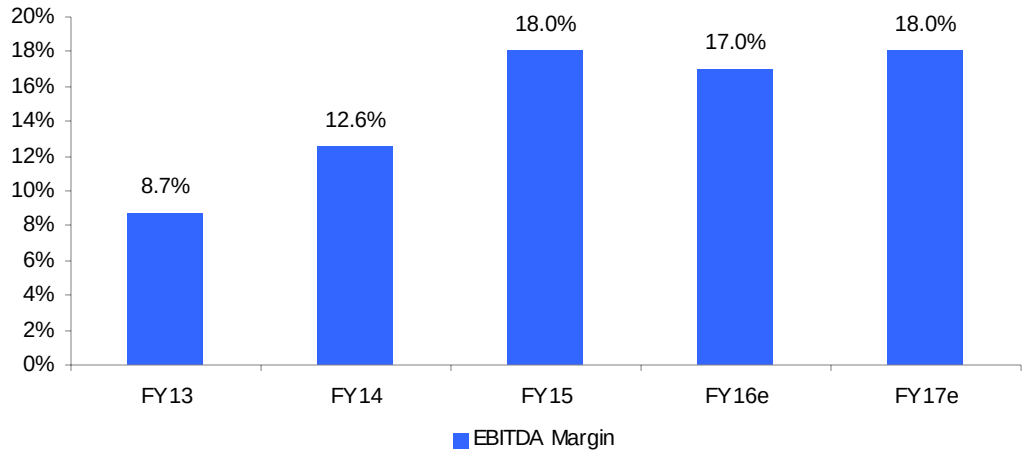
With margin from Laos arrangements expected to be much better than those from Myanmar, we expect overall commercial veneer margin to remain strong at 20% over the next two years, as lower margin in Myanmar would get offset by superior margin from Laos.

In FY15, commercial veneers contributed ~12% of total plywood revenues. Going forward, we expect the segment to report 40% revenue CAGR over FY15-17e, with incremental capacity addition targeted in Myanmar and sourcing arrangements from Laos.

See plywood division margin remaining firm

CPBI's plywood margin remained weak in FY13 and FY14 on forex losses arising from a steep INR depreciation. However, FY15 witnessed a sharp margin revival, led by higher capacity utilisation, superior margin in the commercial veneer segment and forex gains. Excluding forex gains, plywood margin were still impressive ~17%.

Plywood margin trend (%)

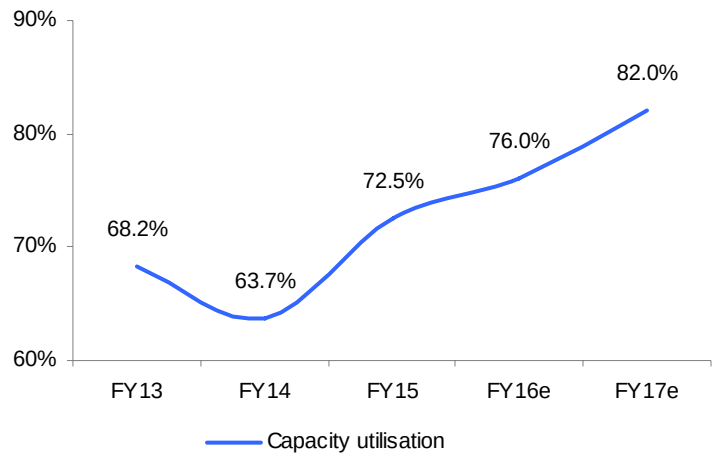


Source: Company, Antique

Going forward, with increasing contribution from commercial veneers and higher capacity utilisation in the plywood segment, we expect margins for the latter to remain firm. We have pencilled in an FY16/17 EBIDTA margin of 17%/18%, respectively.

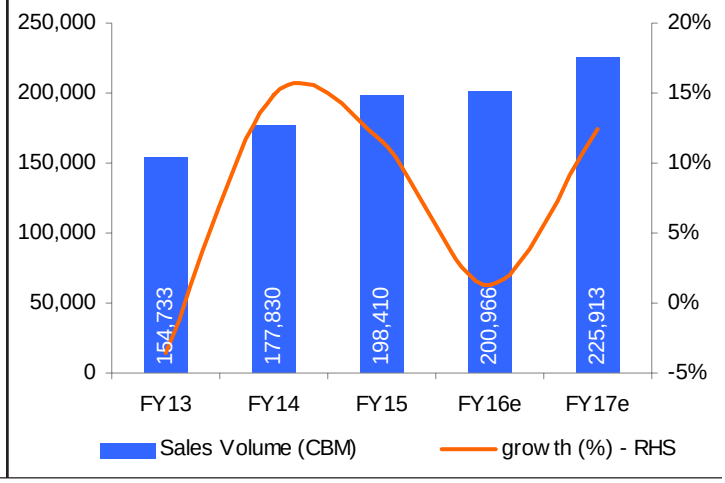
Plywood division performance over FY13-17e

Capacity utilisation trend



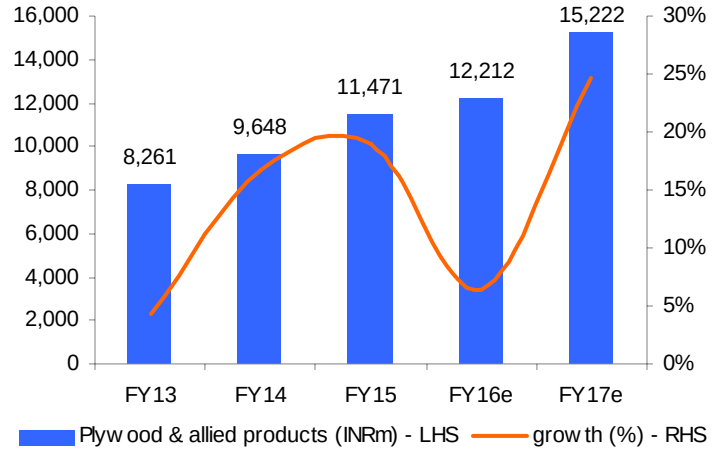
Source: Company, Antique

Sales volume and volume growth trend



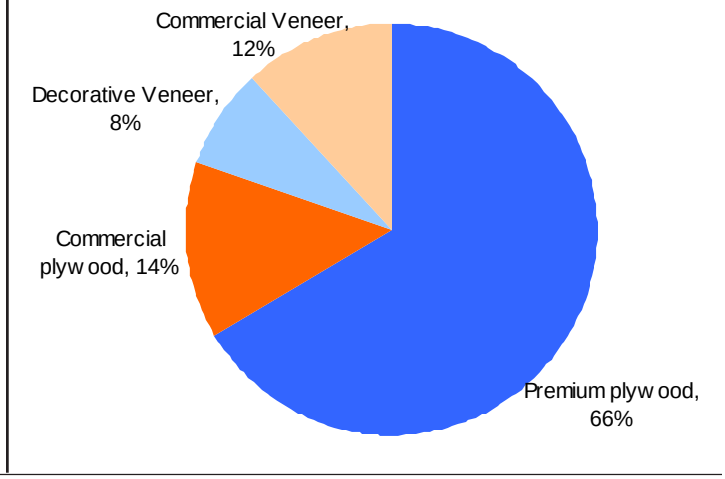
Source: Company, Antique

Revenue and revenue growth trend



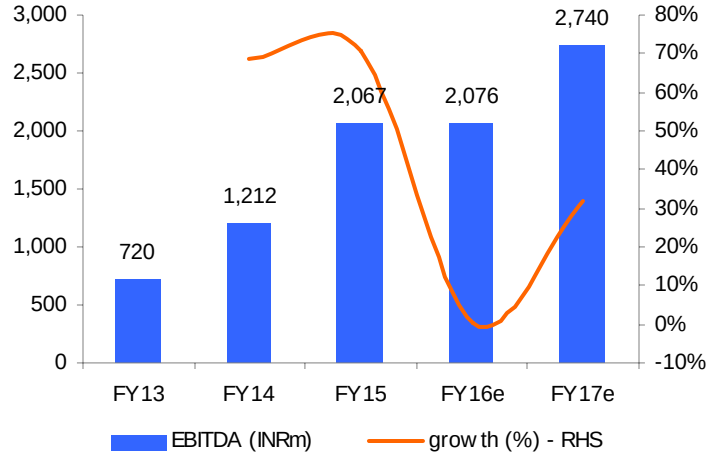
Source: Company, Antique

Plywood division revenue mix (FY15)



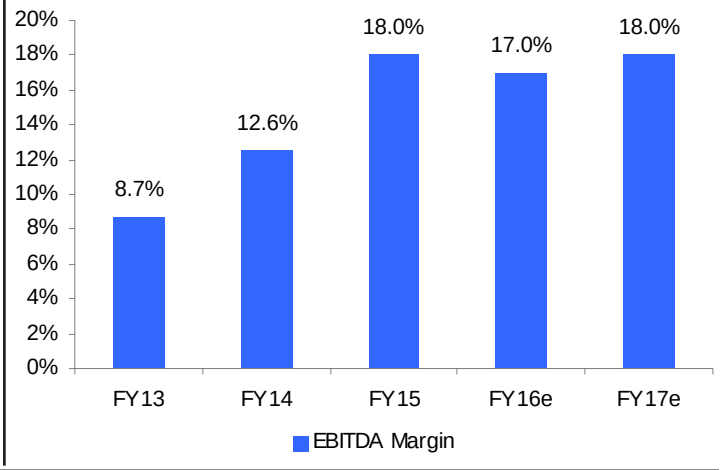
Source: Company, Antique

EBITDA and EBITDA growth trend



Source: Company, Antique

EBITDA margin trend



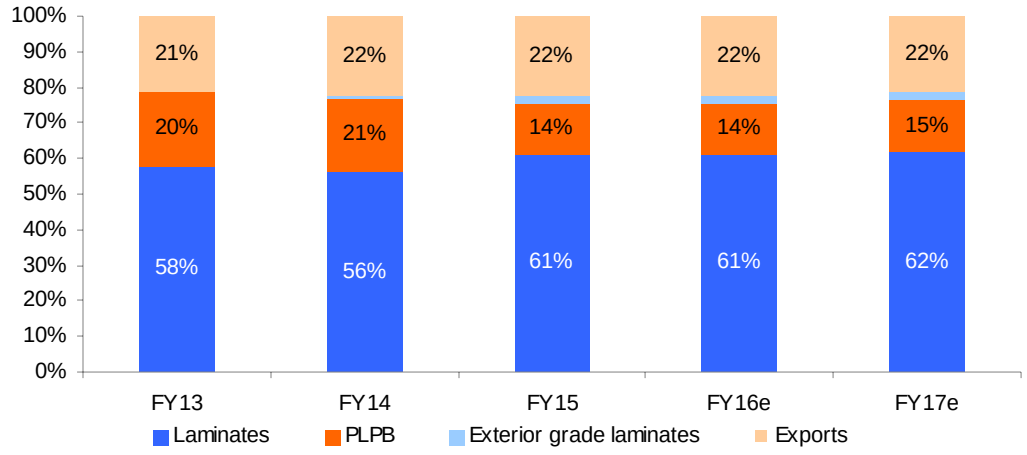
Source: Company, Antique

Laminate division revenue to grow 25% CAGR over FY15-17e

Improvement in capacity utilisation to drive margin expansion

CPBI's laminate division revenue grew an impressive 22.6% CAGR over FY10-15. Recent capacity expansion in the laminate division augurs well for future growth and market share gains. We expect the laminates division, including the pre-laminated particle boards segment, to exhibit 25% revenue CAGR over FY15-17e on: a) Increased capacity utilisation, b) Higher contribution from value-added products, and c) Widening distribution network.

Laminates revenue mix over FY13-17e



Source: Company, Antique

Expect new particle board unit in Chennai to come on stream by Mar-16

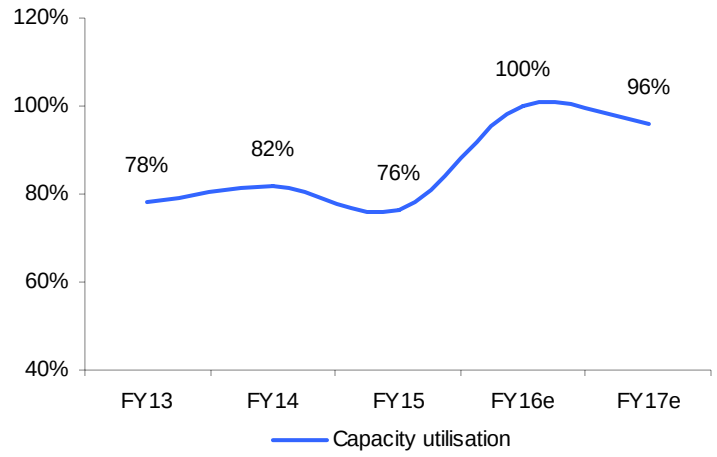
CPBI earlier operated in this segment by outsourcing the particle board to local vendors and pre-laminating it at its two short cycle presses at Chennai and Kolkata. It is now setting up a backward integration facility in Chennai (near its short cycle press) to manufacture particle boards, with an annual installed capacity of 54,000 CBM, at a capex of INR650m. The plant is expected to commence production by Mar-16.

The company is also planning to shift its short cycle press from Kolkata to Chennai by FY16 to facilitate lamination of its entire particle boards' capacity. We expect margin from this unit to be in the 20-25% range, as 50% of the raw material requirements would be met from the waste generated from timber peeling at their Chennai unit, with the balance met via saw mill waste in the vicinity of their Chennai unit.

The basic premise for entering into backward integration is ready access to low-cost raw materials, ensuring significantly better profitability than outsourcing and laminating these boards and selling it.

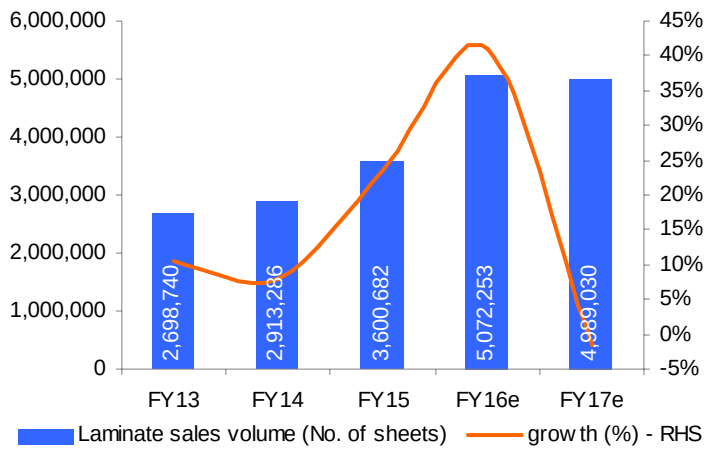
Laminate division performance over FY13-17e

Capacity utilisation trend



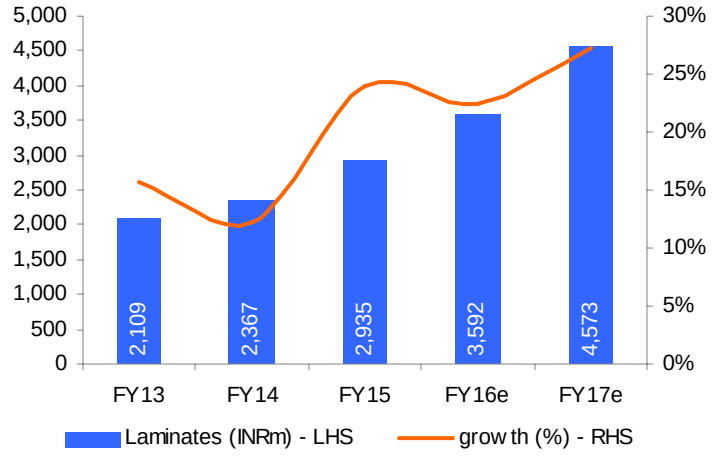
Source: Company, Antique

Sales volume and volume growth trend



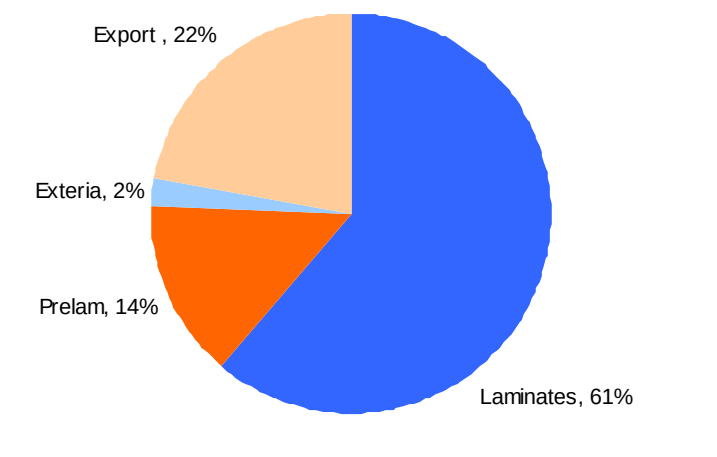
Source: Company, Antique

Revenue and revenue growth trend



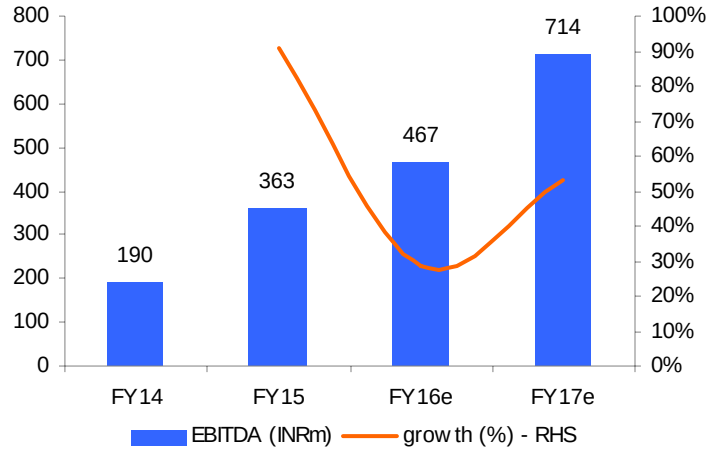
Source: Company, Antique, * FY17e Revenue includes PLPB

Laminate division revenue mix (FY15)



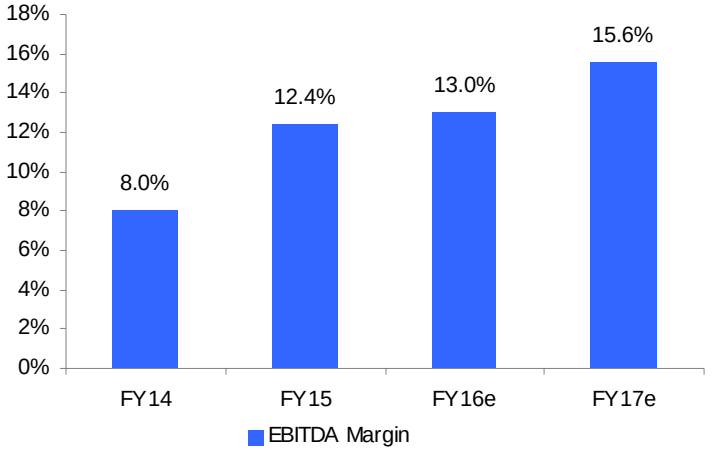
Source: Company, Antique

EBITDA and EBITDA growth trend



Source: Company, Antique, * FY17e EBITDA includes PLPB

EBITDA margin trend



Source: Company, Antique, *FY17e EBITDA margin includes PLPB margin

Container freight station revenue to be margin accretive

In FY08, CPBI entered the container freight station (CFS) business by acquiring 0.1m sq m of Kolkata Port Trust land. With a total capacity of 160,000 TEUs spread across its two CFS at Sonai (40,000 TEUs) and Jingira Pool (120,000 TEUs), it controls almost 50% of CFS capacity at the Kolkata Port.

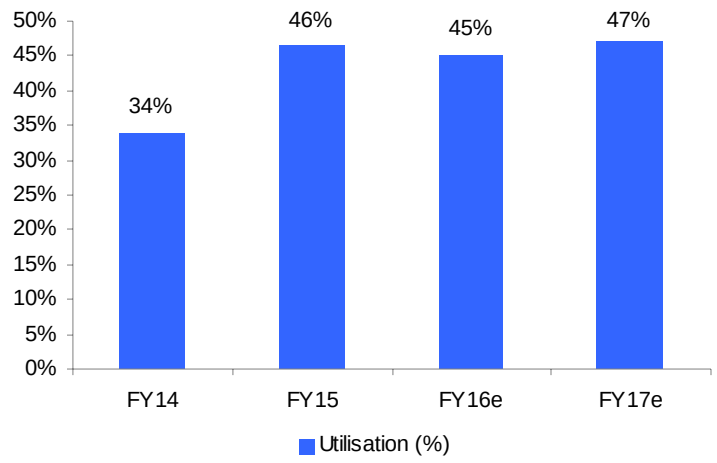
CFS revenue grew 29% CAGR over FY10-15. EBITDA margin in the CFS business are ~40-45%, providing a reasonable earnings cushion to CPBI. At present, the CFS business operates ~45% utilisation. CFS accounts for ~5% of total revenue and 12% of overall EBITDA. Any substantial improvement in utilisation rates would provide substantial upside to the EBITDA margin of the CFS business as operating leverage would come into play. Considering the persistent slowdown in the economy, we estimate CFS revenues to grow at 4% CAGR over FY15-17e.

CPBI's CFS facility

Source: Company, Antique

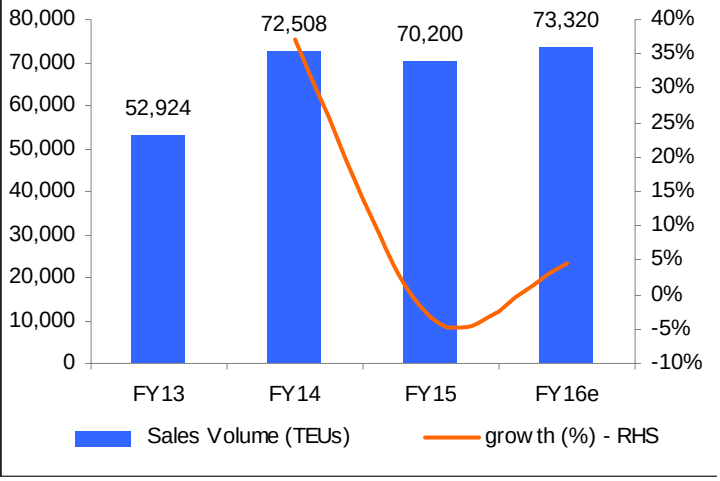
CFS division performance over FY13-17e

Capacity utilisation trend



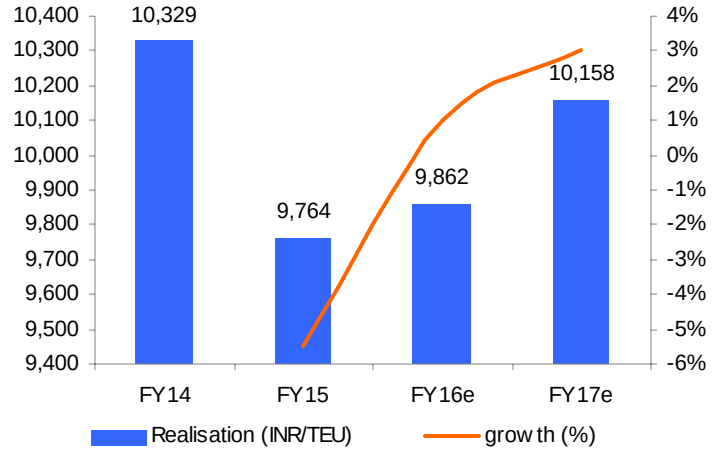
Source: Company, Antique

Sales Volume (TEUs) and volume growth trend



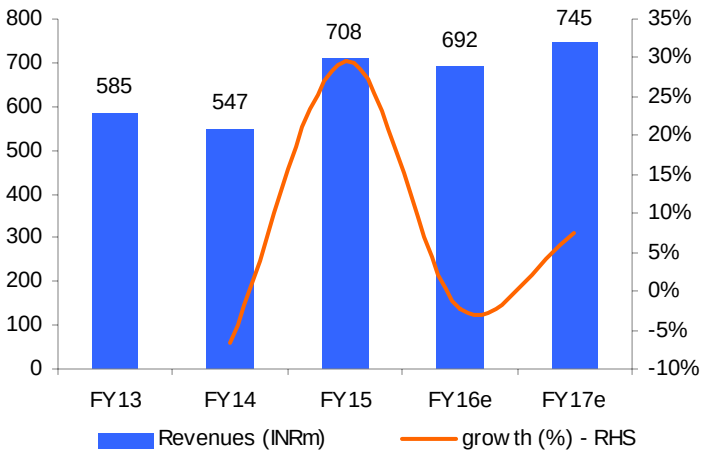
Source: Company, Antique

Realisation and realisation growth trend



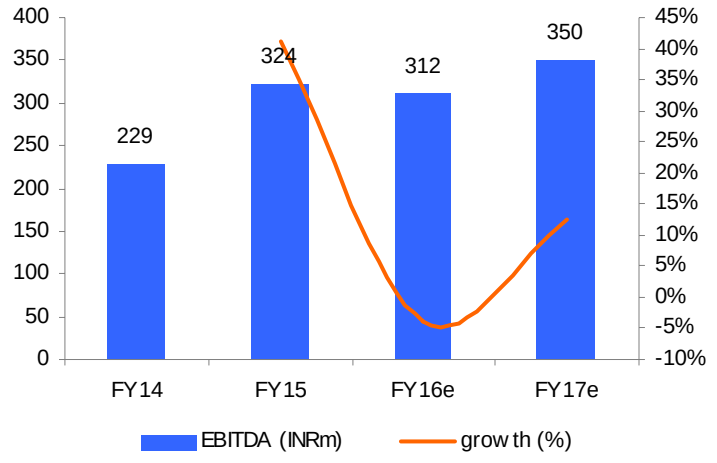
Source: Company, Antique

Revenue and revenue growth trend



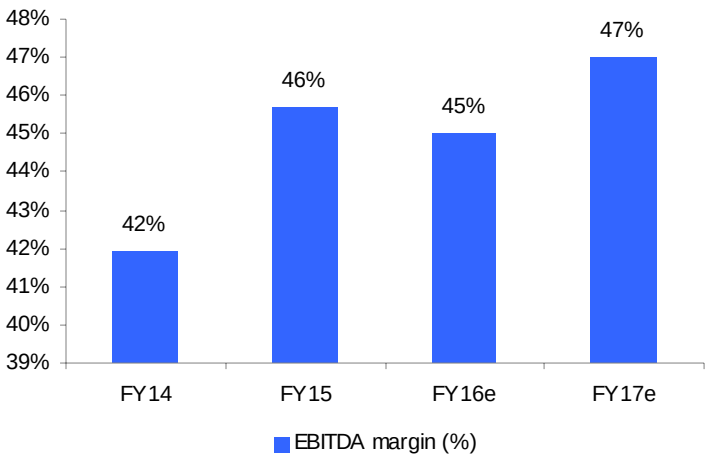
Source: Company, Antique

EBITDA and EBITDA growth trend



Source: Company, Antique

EBITDA margin trend



Source: Company, Antique

Entry into MDF segment to enable one-stop shop offerings

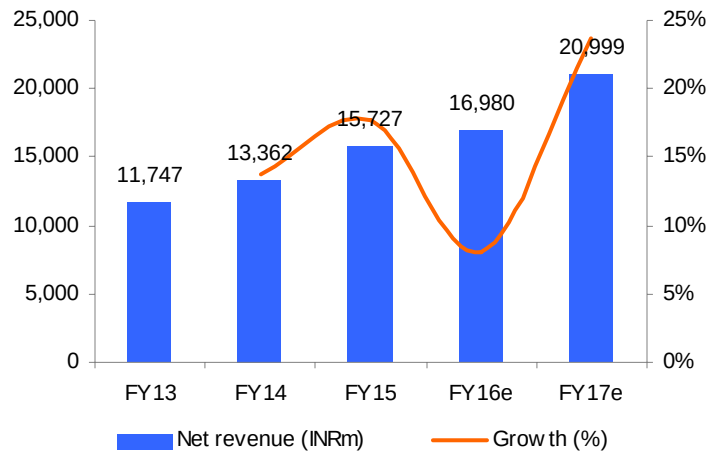
The management has recently approved the setting up of an MDF plant in Punjab as it sees a favourable demand environment for MDF on changing consumption patterns and increasing acceptability of the product. It plans to set up a MDF plant, with a annual manufacturing capacity of 150,000 CBM, at a capex of INR2.5bn, excluding the captive power plant. It plans to build a captive power unit only after operations at the plant stabilise, at an incremental cost of INR500m.

The company is likely to install a Chinese plant vs a European plant for GIL as the management feels Chinese plant manufacturers have significantly upgraded their technology over the last five years and is of the view that it is capable of producing MDF of the same quality standard as that of a European plant. The offerings too would include varied sizes and thicknesses as is capable from a European plant.

It is currently scouting for land for the project. The plant is likely to take 18 months to get commissioned, post the land acquisition. The management expects the plant to generate potential revenue of INR3.75-4bn, at 120% capacity utilisation. We have factored in a FY16/17e capex of INR65/185m, respectively, for this project.

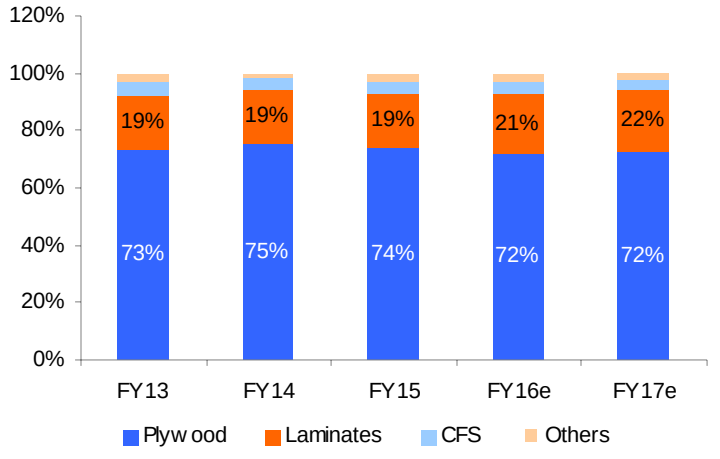
Improving financials

Net revenue and revenue growth trend



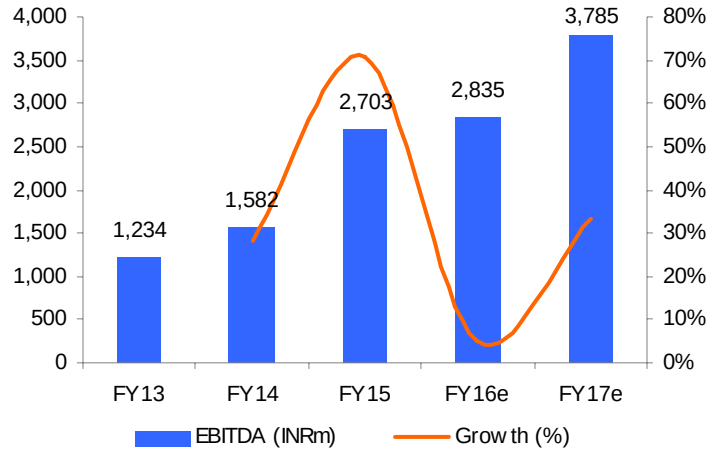
Source: Company, Antique

Revenue mix trend



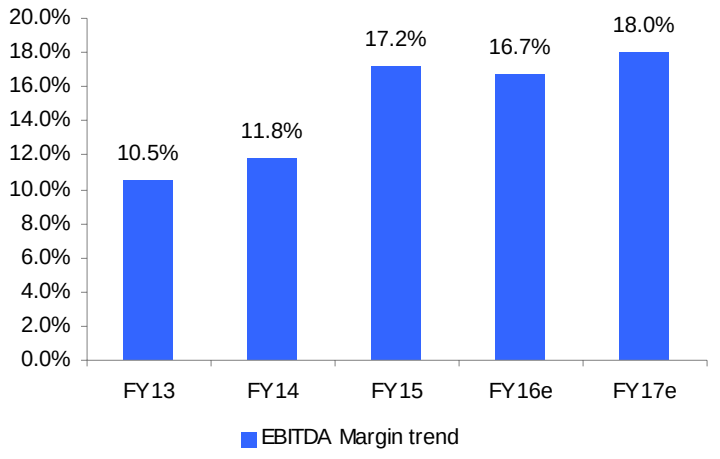
Source: Company, Antique, *FY17e laminaterevenue mix includes PLPB

EBITDA and EBITDA growth trend



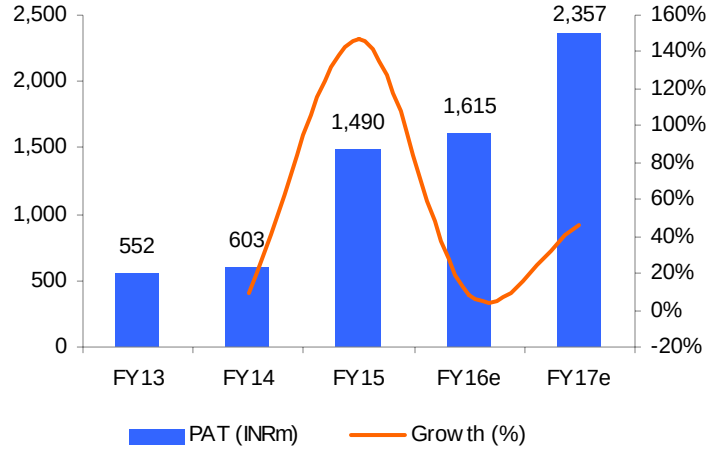
Source: Company, Antique

EBITDA Margin trend



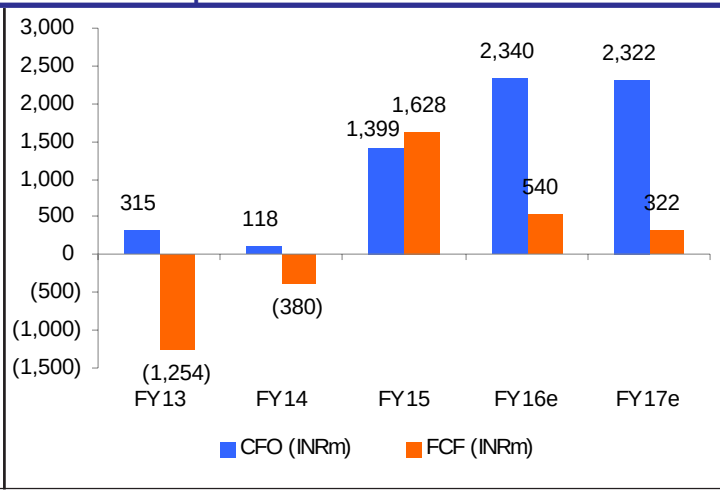
Source: Company, Antique

PAT and PAT growth trend



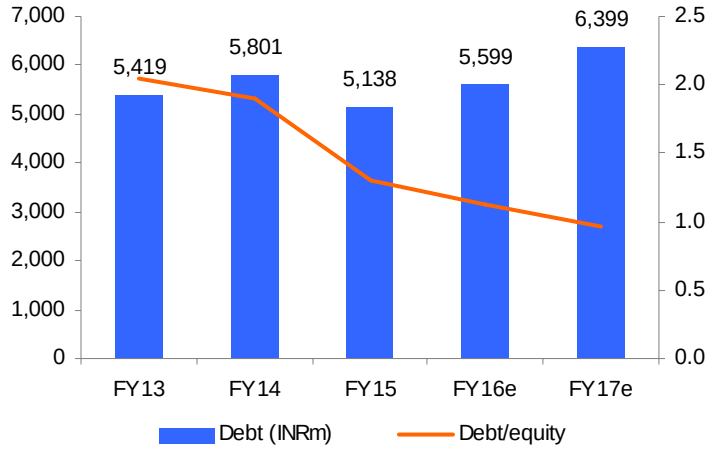
Source: Company, Antique

Cash flow from operations and FCF trend



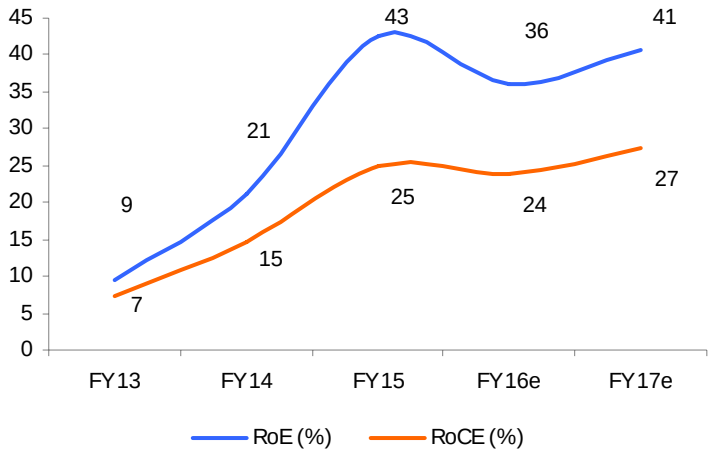
Source: Company, Antique

Debt and debt-to-equity ratio trend



Source: Company, Antique

RoE and RoCE trend



Source: Company, Antique

Key concerns

Raw material imports

CPBI imports ~65% of its raw material requirements, without entering into forward cover or hedging its forex exposure. Volatility in foreign exchange thus exposes it to forex risks, which could significantly impact margin.

Investments in face veneers

The management has aggressively invested on setting up manufacturing unit for producing commercial veneers in Myanmar and making arrangements for sourcing veneers from Laos as well. At present, the company is in a sweet spot as it is one of the only two companies to have opened up a unit in Myanmar and only one to have made outsourcing arrangements in Laos. Any announcement of an export ban on processed veneers from Myanmar/Laos could significantly impact the company.

MDF plant to dilute return ratios till FY18

CPBI has finally decided to enter into the MDF segment by setting up a greenfield project in Punjab. It plans to set up a MDF plant with an annual manufacturing capacity of 150,000 CBM, at a capex of INR2.5bn. Majority of the capex is likely to be incurred by FY17e, which is likely to dilute existing return ratios of the company.

Valuation and recommendation

Improving capacity utilisation and sustainable margin over FY15-17e is expected to provide a strong boost to profitability. We expect CPBI's revenue and PAT to grow at an impressive 16/26% CAGR over FY15-17e, respectively. RoCE is expected to remain firm at 27% by FY17e, despite incurring capex on the MDF project.

The stock has corrected ~35% from the highs of Mar-15. At the current market price of INR172 per share, the stock trades at 16.2x FY17e earnings, which looks attractive given its strong earnings visibility and sustainable return ratios. We initiate coverage on CPBI with a Buy rating and a target price of INR212 per share, valuing the company at 20x FY17e earnings.

Company background

CPBI is an India-based plywood manufacturing company, with a 23% share of the organised Indian wood panel market. The company has seven plywood manufacturing units, with six in India and one in Myanmar. Its pan India presence comprises 33 marketing offices and over 14,500 retail outlets.

Established in 1982, CPBI operates in four segments:

a) Plywood segment consisting of plywood, block-board, commercial veneer, decorative veneer and timber;

b) Laminate segment including decorative laminates, pre-laminated particle boards and exterior grade laminates

c) Container freight station services segment

d) Others segment including trading of furniture and modular kitchen

The company has been one of the leaders in the domestic plywood sector for more than two decades, accounting for nearly one-fourth of all branded plywood sold in India. Leveraging its strong brand equity and dealer network, CPBI has been able to grow its laminates business considerably over the past few years. It now ranks among the top three organised players in the Indian laminates industry.

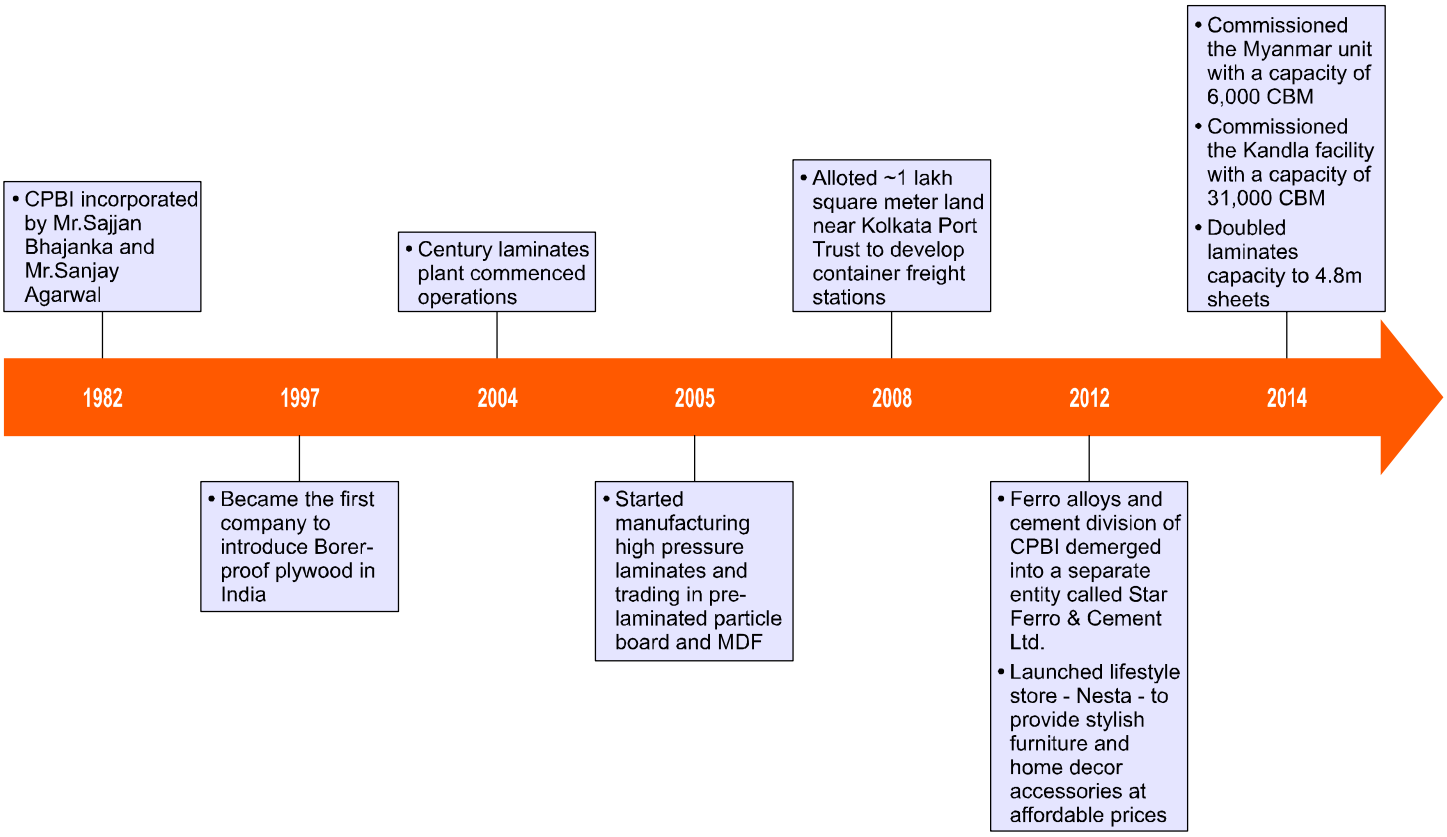
It had demerged its ferro-alloys and cement division into a new wholly-owned subsidiary - Star Ferro & Cement - in FY12 to unlock capacity in each of the businesses and ensure efficient deployment of capital. Subsequently, CPBI's revenue and profits have grown at 16/64% CAGR over FY13-15, respectively.

Business model

Parameters	Plywood	Laminates	CFS	*Others
Year of inception	1982	2004	2009	2012
Factory location	Kolkata, Chennai, Guwahati, Karnal, Bhachau, Roorkee and Myanmar	Chennai	Kolkata	Kolkata and Bengaluru
Capacity	209,420 CBM	4.8m sheets	156,000 TEUs	NA
FY15 revenue (INRm)	9,216	2,935	708	440
Revenue mix	74%	19%	5%	3%
EBIDTA margin	18%	12.4%	45.7%	-4.5%
EBIT (INRm)	1,867	230	218	-28
EBIT mix (%)	82%	10%	10%	-2%
RoCE	33%	13%	36%	-89%
Distribution model	Dealer/Distributor	Distributor	NA	NA
Dealer network	1,505	NA	NA	NA
Industry and market share				
Market size (INRbn)	180.0	40.0	NA	NA
Market share (%)	5%	7%	NA	NA

Source: Company, Antique Note*: Furniture trading and modular kitchen

Key milestones



Source: Company, Antique

Financials

Profit and loss account (INRm)

Year-ended March 31	FY13	FY14	FY15	FY16e	FY17e
Revenues	**11,816**	**13,477**	**15,884**	**16,980**	**20,999**
Expenses	10,583	11,894	13,181	14,145	17,214
Operating Profit	**1,234**	**1,582**	**2,703**	**2,835**	**3,785**
Other income	72	37	33	36	40
EBIDT	**1,306**	**1,619**	**2,736**	**2,871**	**3,825**
Depreciation	280	387	485	508	585
Interest expense	404	603	456	429	420
Profit before tax	**622**	**629**	**1,796**	**1,934**	**2,820**
Taxes incl deferred taxation	46	(5)	296	309	451
PAT before MI & EO Items	**577**	**633**	**1,500**	**1,625**	**2,369**
Minority Interest	25	31	9	10	12
Share in P/L of associates	(0)	1	(1)	-	-
Profit after tax	**552**	**603**	**1,490**	**1,615**	**2,357**
Reported EPS (INR)	**2.5**	**2.7**	**6.7**	**7.3**	**10.6**

Balance sheet (INRm)

Year-ended March 31	FY13	FY14	FY15	FY16e	FY17e
Share Capital	223	223	223	223	223
Reserves & Surplus	2,336	2,708	3,671	4,693	6,345
Networth	**2,558**	**2,931**	**3,894**	**4,915**	**6,568**
Minority Interest	86	114	55	65	77
Debt	5,419	5,801	5,138	5,599	6,399
Deferred Tax Liability	25	(7)	8	8	8
Capital Employed	**8,088**	**8,839**	**9,095**	**10,587**	**13,051**
Gross Fixed Assets	4,123	4,895	4,607	6,083	6,233
Accumulated Depreciation	1,396	1,731	2,151	2,659	3,244
Net Assets	**2,728**	**3,164**	**2,456**	**3,424**	**2,989**
Capital work in progress	467	240	326	650	2,500
Investments	77	31	4	4	4
Deferred Tax Assets			70	70	70
Current Assets					
Inventory	2,293	3,029	3,322	3,489	4,142
Debtors	1,793	2,089	2,683	2,791	3,164
Cash & Bank balance	1,020	387	374	362	372
Loans & advances and others	980	1,289	1,439	1,616	1,866
Current Liabilities & Prov					
Creditors	858	753	622	744	805
Other liabilities & provisions	411	636	959	1,076	1,251
Net Current Assets	**4,817**	**5,404**	**6,239**	**6,438**	**7,488**
Application of Funds	**8,088**	**8,839**	**9,095**	**10,587**	**13,051**

Per share data

Year-ended March 31	FY13	FY14	FY15	FY16e	FY17e
No. of shares (m)	223	223	223	223	223
BVPS (INR)	11.5	13.2	17.5	22.1	29.5
CEPS (INR)	3.7	4.4	8.9	9.5	13.2
DPS (INR)	0.2	0.3	1.8	2.0	2.5

Source: Company, Antique

Cash flow statement (INRm)

Year-ended March 31	FY13	FY14	FY15	FY16e	FY17e
EBT	**598**	**598**	**1,786**	**1,924**	**2,808**
Depreciation & amortisation	280	387	485	508	585
Interest expense	404	603	456	429	420
Interest / Dividend received	(9)	(24)	-	-	-
Other Adjustments	48	(222)	(129)	-	-
(Inc)/Dec in working capital	(968)	(1,253)	(903)	(212)	(1,040)
Tax paid	(46)	5	(296)	(309)	(451)
CF from operating activities	**306**	**94**	**1,399**	**2,340**	**2,322**
Capital expenditure	(1,581)	(544)	201	(1,800)	(2,000)
Net Investments	12	45	27	-	-
Income from investments	9	24	-	-	-
CF from investing activities	**(1,560)**	**(475)**	**229**	**(1,800)**	**(2,000)**
Inc/(Dec) in share capital	(5)	-	-	-	-
Inc/(Dec) in debt	1,967	382	(663)	461	800
Dividends & Interest paid	(469)	(663)	(918)	(1,023)	(1,125)
Other Adjustments	95	29	(59)	10	12
CF from financing activities	**1,588**	**(252)**	**(1,640)**	**(552)**	**(313)**
Net cash flow	**335**	**(633)**	**(13)**	**(12)**	**9**
Opening balance	685	1,020	387	374	362
Closing balance	**1,020**	**387**	**374**	**362**	**372**

Growth indicators (%)

Year-ended March 31	FY13	FY14	FY15	FY16e	FY17e
Revenue	(29.1)	13.7	17.7	8.0	23.7
EBITDA	(56.8)	28.3	70.8	4.9	33.5
PAT	(55.1)	9.2	147.2	8.4	46.0
EPS	(54.0)	9.2	147.2	8.4	46.0

Valuation (x)

Year-ended March 31	FY13	FY14	FY15	FY16e	FY17e
P/E	69.8	63.9	25.8	23.8	16.3
P/BV	15.7	13.5	10.2	7.7	5.8
EV/EBITDA	34.8	27.8	16.0	15.4	11.8
EV/Sales	3.7	3.3	2.8	2.6	2.1
Dividend Yield (%)	0.1	0.2	1.0	1.2	1.4

Financial ratios

Year-ended March 31	FY13	FY14	FY15	FY16e	FY17e
RoE (%)	9.4	21.2	42.6	36.2	40.6
RoCE (%)	7.3	14.5	25.0	24.0	27.4
Debt/Equity (x)	2.0	1.9	1.3	1.1	1.0
EBIT/Interest (x)	2.5	2.0	4.9	5.5	7.7

Margins (%)

Year-ended March 31	FY13	FY14	FY15	FY16e	FY17e
EBITDA	10.5	11.8	17.2	16.7	18.0
EBIT	8.7	9.2	14.3	13.9	15.4
PAT	4.7	4.5	9.5	9.5	11.2

Source: Company Antique

Current Reco	:	BUY
Previsous Reco	:	BUY
CMP	:	INR947
Target Price	:	INR1,340
Potential Return	:	41%

COMPANY UPDATE

Greenply Industries Limited

A compelling Buy!

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We reiterate our Buy rating on Greenply Industries (GIL), given the significant performance improvement in both its business divisions over the next two-to-three years. While the plywood division growth is unlikely to gain traction in FY16 due to persistent slowdown in real estate sector, we expect the same to gain momentum in FY17, led by introduction of new products and gradual uptick in demand. The medium-density fibreboards (MDF) division, post the turnaround in 3QFY15, continues to remain on a strong footing, with the current growth momentum likely to sustain, backed by increasing product awareness and focus on value addition. With sluggishness in the plywood division expected to continue, we have revised our FY16/17e revenue and PAT estimates downward by 6.4/8.3% and 7.7/7.5%, respectively. We now expect the company to report a revenue and PAT CAGR of 13% and 33%, respectively, over FY15-17e. Higher profitability, increasing outsourcing in the plywood segment and lower capex is expected to significantly drive RoCEs to 26.9% in FY17e from 19% in FY15. At the current market price of INR947 per share, the stock is attractively valued at 12.7x FY17e revised earnings. we maintain our buy rating on the stock with revised target price of INR1,340 per share from INR1,448 earlier, valuing it at 18x FY17e earnings.

Plywood division PBT to report 41% CAGR over FY15-17e

The company's plywood division has grown at a healthy 17% CAGR over FY10-15. However, growth has decelerated to ~11% over FY13-15 due to rising inventories in the real estate sector. In fact, growth in the first half of the current fiscal has further deteriorated, with sustained slowdown witnessed in metros and Tier I cities, which has impacted GIL's premium plywood segment. However, growth momentum in the commercial grade plywood segment has sustained, which has partially offsetted premium segment slowdown woes. Going forward, we expect the division to grow at 11.6%/41% CAGR in revenue/PBT, respectively over FY15-17e.

MDF division expected to sustain growth momentum

Increasing awareness and rising plywood prices have augured well for the MDF segment. With prices of cheaper plywood (unorganised) now almost at par with that of MDF, demand for the latter has increased in the last couple of quarters. With focus on niche value-added products, we expect realisations to improve significantly over the next three years, with margin remaining firm at 28% levels. With this, the MDF division is expected to report FY15-17e revenue and PBT CAGR of 17.5% and 45%, respectively.

Increased outsourcing in plywood and lower capex over FY15-17e to significantly improve RoCEs

GIL does not envisage any capacity addition in the plywood division over the next two years as it expects a large part of the growth in plywood to accrue through outsourcing, which is seen rising to 24% of FY17e revenue from 20% in FY15. Despite assuming maintenance capex of INR300m at its existing facilities over FY15-17e and partial capex spending of INR1.75bn towards new greenfield MDF project in Andhra Pradesh by FY17e, higher profitability and increased outsourcing would improve overall RoCEs significantly to 26.9% in FY17e from 19% in FY15.

Key financials

Year-ended March (INRm)	FY13	FY14	FY15	FY16e	FY17e
Revenue	13,148	13,908	15,643	17,109	19,989
EBITDA	1,769	1,733	2,048	2,536	3,238
EBITDA margin (%)	13.5	12.5	13.1	14.8	16.2
PAT	829	773	1,060	1,354	1,803
EPS (INR)	34.3	32.0	51.5	56.1	74.7
P/E (x)	27.6	29.6	21.1	16.9	12.7
P/BV (x)	7.3	6.0	4.7	3.8	3.0
EV/EBITDA (x)	15.1	15.3	12.7	10.2	7.9
RoE (%)	24.6	22.3	25.0	24.8	26.4

Source: Company, Antique

Market data

Sensex	:	26,904
Sector	:	Building material
Market Cap (INRbn)	:	22.8
Market Cap (USDbn)	:	0.353
O/S Shares (m)	:	24.1
52-wk HI/LO (INR)	:	1277/699
Avg Daily Vol ('000)	:	6
Bloomberg	:	MTLM IN

Source: Bloomberg

Valuation

	FY15	FY16e	FY17e
EPS (INR)	51.5	56.1	74.7
P/E (x)	21.1	16.9	12.7
P/BV (x)	4.7	3.8	3.0
EV/EBITDA (x)	12.7	10.2	7.9
Dividend yield (%)	0.3	0.6	0.8

Source: Bloomberg

Returns (%)

	1m	3m	6m	12m
Absolute	5	15	(8)	(4)
Relative	0	18	(1)	(6)

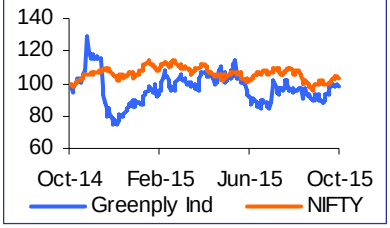
Source: Bloomberg

Shareholding pattern

Promoters	:	55%
FII	:	12%
DII	:	9%
Others	:	24%

Source: Bloomberg

Price performance *vs* Nifty

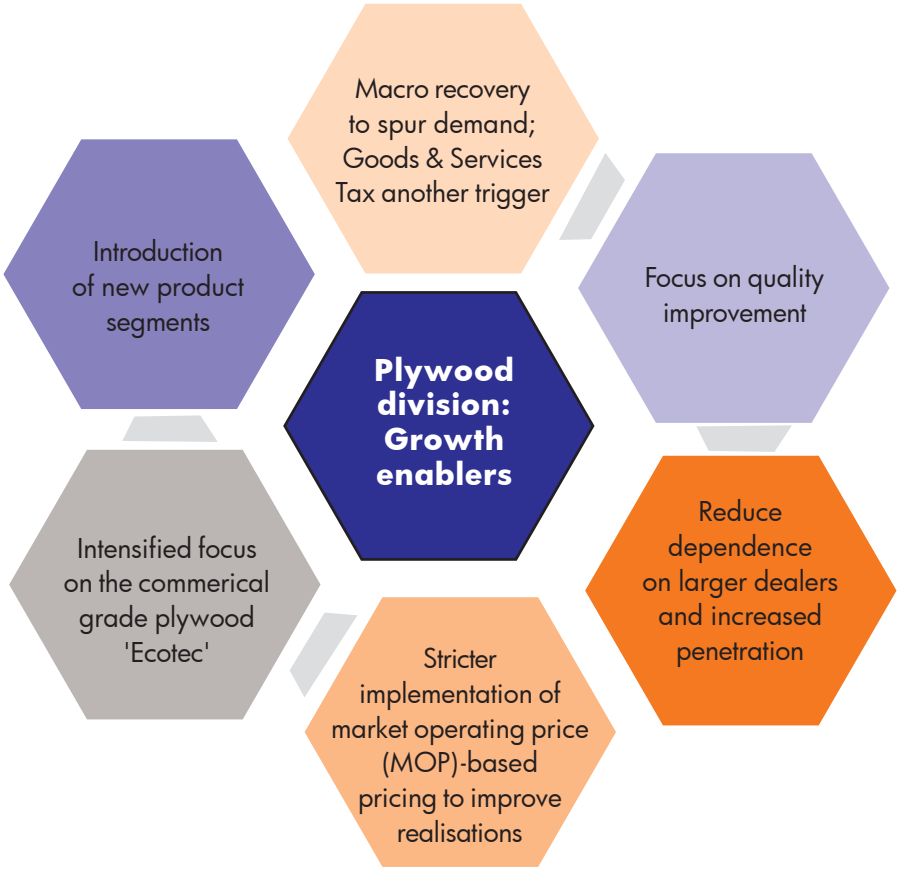


Source: Bloomberg Indexed to 100

Plywood division's growth to accelerate, led by focus on quality, new products, and distribution

The company's plywood segment has grown at a healthy 17% CAGR over FY10-15. However, growth has decelerated to ~10-11% over the last couple of years due to slowdown in the economy, particularly the real estate sector. Also, issues with respect to quality and distribution have impacted growth to some extent.

However, we expect growth in the plywood division to accelerate going forward, led by multiple growth levers:



Source: Comany, Antique

- **Improving demand scenario:** With a likely pick-up in the economy and the government's focus on 'housing for all by 2022', we expect demand for plywood to improve going forward. Also, increasing shift from unbranded to branded plywood is likely to benefit branded players in a big way, as over 75% of the industry is still dominated by unorganised players. The Goods & Services Tax (GST), which is expected to be implemented over next one year, could drive volume growth for branded players in particular.
- **Quality improvement key to gaining organised market share:** Our channel checks suggests that the company has lost some market share to its nearest competitor - Century Plyboards - due to quality issues. At most factories, GIL has been following the traditional process of manufacturing plywood by laying veneers one above the other on the assembly line and subjecting it to hot presses, leading to issues like blisters, warpage, and core gap.

  To overcome this, it has now installed pre-presses at its factories (incurring a capex of INR250m in FY15) for manufacturing plywood using the MAT process. Pre-press is an integral part of the MAT process, which leads to uniform distribution of moisture, thereby eliminating issues like blister, warpage, and core gaps. The management expects this improvised quality to gain acceptance over the next quarter.

- **Expanding dealer network base, while reducing dependence on large wholesale dealers:** Over the last few years, GIL has been increasing its dependence on large dealers, particularly in metros and Tier I cities. This has resulted in lower realisations, on account of incremental discount offerings to dealers, amid price undercutting in those cities. The management has now started taking steps to reduce its dependence on large dealers by converting some of its sub-dealers to direct dealers.

  The company is also targeting deeper penetration in smaller cities and towns, with a population of over 100,000. On a pan-India basis, GIL has identified 250 such cities/towns. In these, it has a 40% presence. The management expects these gaps to be filled by adding new dealers in underpenetrated cities/towns over the next two quarters.

- **Stricter implementation of MOP-based pricing to limit undercutting:** GIL is in the process of strictly implementing market operating price (MOP) to limit the undercutting. Dealer margin have come under pressure, which has affected volumes of relatively smaller dealers, particularly those in metros and Tier I cities, where there are large dealers operating. MOP-based pricing would result in a level-playing field across dealers, which will increase trade volumes and enhance brand equity.

- **Intensified focus on the commercial grade plywood brand 'Ecotec':** Within the plywood segment, we expect the management to focus on growth in two verticals: i) Self-manufactured premium brands: Greenply and Greenply Club; and ii) Commercial brand Ecotec through the outsourcing model. It is also contemplating on setting up separate sales and marketing teams for both these verticals, thereby enhancing focus.

  With the premium brands 'Greenply Club'/'Greenply'/'Optima Red' current facing demand constraints due to sustained slowdown in metros and Tier I cities, the company has intensified its focus on the commercial grade plywood brand Ecotec. With large opportunities existing in brand Ecotec (which is 100% outsourced) by way of a shift from unbranded to branded plywood, we expect contribution from the same to exceed 24% of plywood segment revenues by FY17e.

- **Introduction of new product segments to contribute to growth:**
  - **Commercial veneers:** Joint-venture Greenply Alkemal (Singapore) was incorporated in May-14 for manufacturing commercial veneers in Myanmar. The JV, which is equally owned by GIL and Alkemal (Singapore), has a capacity to manufacture 42MSM of face veneers per annum. It commenced commercial production in Oct-14. We expect the JV to report 90/100% capacity utilisation in FY16/17e, respectively. GIL's share of FY17e revenue and PAT is estimated at INR479m and INR52m, respectively.
  - **Decorative veneers:** The company has commenced commercial production of natural veneers in 2QFY16. It will leverage its existing distribution network and strong brand equity in plywood for decorative veneer sales. We expect GIL to achieve FY16/17e revenues of INR150/500m, respectively.
  - **Wallpapers:** GIL is foraying into wallpaper segment through the outsourcing model. The company's first wallpaper consignment is expected to be imported shortly from the US and Europe. It expects to leverage its existing distribution network and strong brand equity for this segment as well. We expect GIL to achieve FY16/17e revenues of INR100/500m, respectively with EBIDTA margin of 20% by FY17e.

Plywood division to expand margin, despite higher outsourcing

Margins for the plywood division have been hovering ~10% over the last three years, nearly 300bps below FY11 margins of 13%, led by lower demand offtake. This resulted in lower capacity utilisation of 102-107% during the period as compared to 119% in FY11.

While we expect utilisations level to improve marginally to 103% for the plywood segment in FY17e, we have modelled in 40/170bps margin expansion to 9.8/ 11.6% for FY16/17e, respectively on account of a) Higher commercial grade plywood margins due to productivity improvement at the vendor's end led by replacement of old peeling machines b) Traction in sales of value-added products - natural veneers and wallpapers, c) Optimum utilisation of Myanmar plant in the current fiscal, and d) Higher retail penetration. Consequently, we expect the plywood division to report a 41% PBT CAGR over FY15-17e.

Plywood division margin to move northwards

Positive margin contributors:

1. Higher margins from brand 'Ecotec' due to productivity improvement at the vendor's end
2. Traction in sales of value-added products
3. Higher retail penetration
4. Marginal increase in capacity utilisation

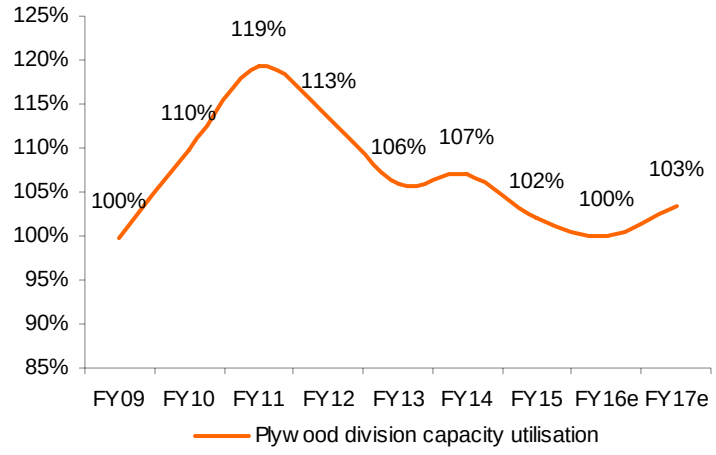
Negative margin contributors:

1. Higher contribution from outsourced brand Ecotec
2. Increase in advertising and promotion spends to 2.5% from 1.3% of revenues

Source: Antique

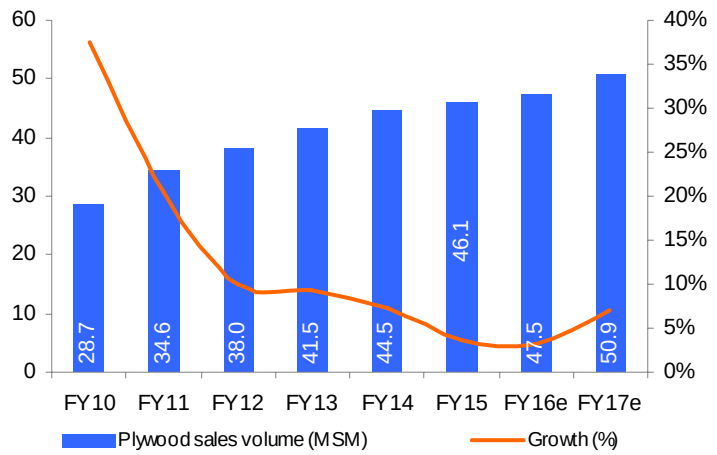
Plywood division performance to improve over FY15-17e

Capacity utilisation trend



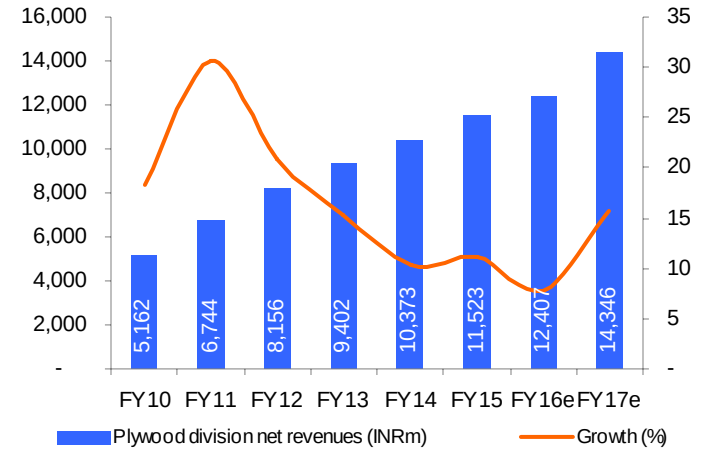
Source: Company, Antique

Sales volume and volume growth trend



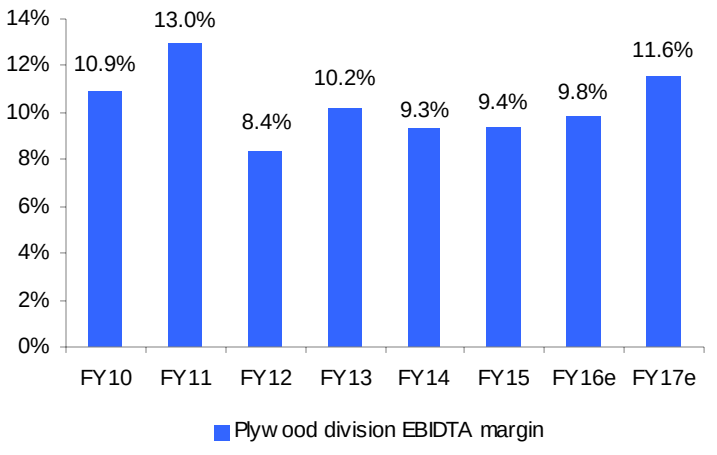
Source: Company, Antique

Revenue and revenue growth trend



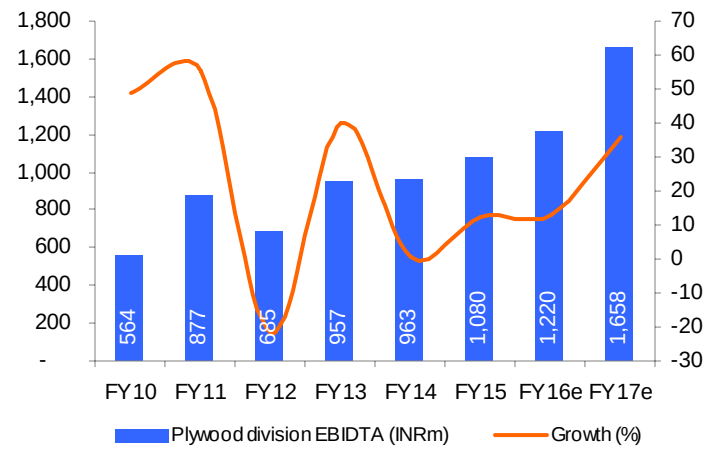
Source: Company, Antique

EBIDTA margin trend



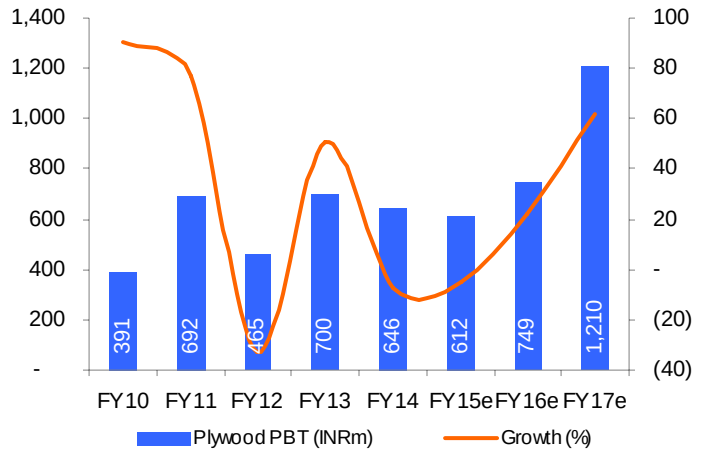
Source: Company, Antique

EBIDTA and EBIDTA growth trend



Source: Company, Antique

PBT and PBT growth trend

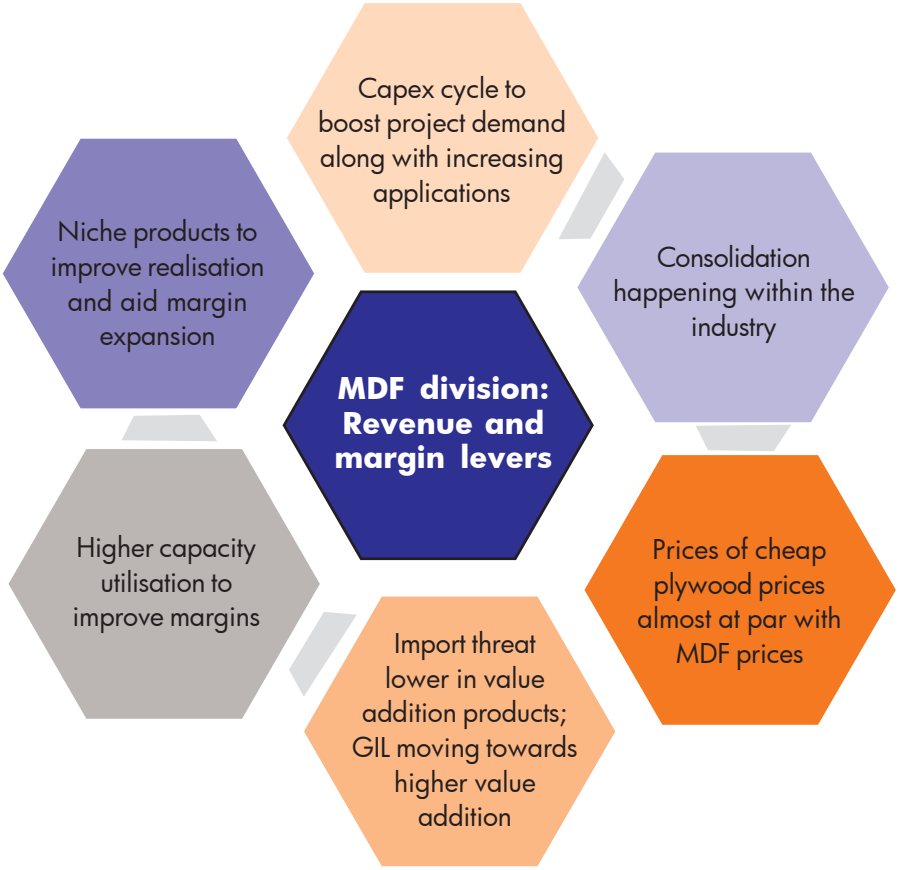


Source: Company, Antique

Turnaround in the MDF division to drive revenues and profitability

Performance of GIL's MDF segment had been sluggish since FY13 owing to: a) Considerable slowdown in commercial projects; and b) Higher MDF prices as compared to cheap unorganised plywood prices. However, significant turnaround has been witnessed since 3QFY15, which saw almost 100%+ capacity utilisation, sales volume growth of 35-40% and EBIT margin expansion of ~500-700 bps.

We expect turnaround in the MDF division to strengthen, which would lead to revenue and PAT CAGR of 17.5% and 49%, respectively, over FY15-17e, led by multiple levers:



Source: Company, Antique

- **Capex cycle upturn and increasing applications:** With an expected pick-up in the economy and the government's focus on infrastructure, we see demand for MDF improving going forward. Thick MDF traditionally finds application in commercial projects. Thus, any capex cycle upturn is expected to drive strong demand for MDF in particular. Ever increasing applications in the thin MDF category like handicrafts, shoe heels, jewellery/ gift boxes, photo lamination and frames, auto door trims, slates, etc have resulted in strong visibility for the segment.
- **Consolidation within domestic manufacturers; Cheap imports remain a challenge:** Over the last three years, there has been huge consolidation within the MDF industry, with players like Bajaj Hindusthan and Nuchem shutting down operations, while Shirdi Industries has been struggling due to financial woes. Mangalam Timber Products too has been struggling to grow over the last decade. Competitive intensity among domestic players is fairly low with only three players competing:- GIL, Action group, and Rushil Décor. With demand for MDF likely to grow and consolidation now in the past, GIL's Green Panelmax MDF boards have the strongest brand equity and are expected to be the biggest beneficiary going forward.

However, imports have grown substantially over the last decade and currently accounting for ~35% for the industry as a whole. Imported MDF is 10-12% cheaper vs domestic manufactured and is far more competitive in Southern India. Hence, the management is contemplating to set up a new mega greenfield project in Andhra Pradesh to effectively compete with imports.

- **MDF prices turn competitive vs cheap plywood:** Apart from increasing awareness and acceptability of MDF in India, it presents a strong opportunity to replace cheap unbranded plywood in India, as its durability is much better than the latter.

  Cheap, unbranded plywood in India is an INR40bn market, while the current market for MDF stands at INR13bn. With prices of cheap plywood on a rise, due to higher face veneer prices, MDF prices are now almost at par with the former. This could drive higher MDF volumes going forward.

- **GIL moving towards further value addition, where the import threat is lower:** Over the last one-year, GIL has taken steps to improve the product mix by value addition. Of the total capacity of 180,000 CBM, it has converted 67,500 CBM capacities to value addition: Pre-laminated and UV-coated MDF boards and laminated flooring. Within plain MDF boards, the company is increasing its share of value-added exterior grade MDF boards, particularly in the south.

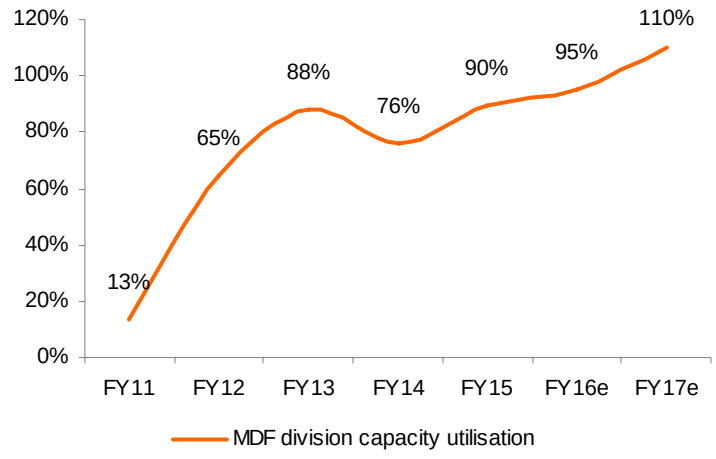
  Pre-laminated, exterior grade and UV-coated MDF boards face a much lower threat from imports. While the company has already launched pre-laminated and exterior grade MDF boards over the last two years, it has launched UV-coated boards in Oct-15.

  As far as the laminated flooring space is concerned, the company is the only domestic player to manufacture laminated flooring, apart from the Action Group. The laminated flooring market in India is currently dominated by imports, the majority (70%) of which are from China. The range and quality of Chinese imports have always been an issue, thereby leaving ample opportunities for domestic manufacturers like GIL to penetrate going forward.

- **Higher capacity utilisation and focus on niche products to improve realisations and margins:** We expect the company to report volume CAGR of 11% over FY15-17e. This will result in higher capacity utilisation of 110% in FY17e from 90% in FY15. With the increasing contribution from value-added products, we expect realisations to increase by 6% CAGR and EBIDTA margins to improve to 28% by FY17e from 23.3% in FY15.

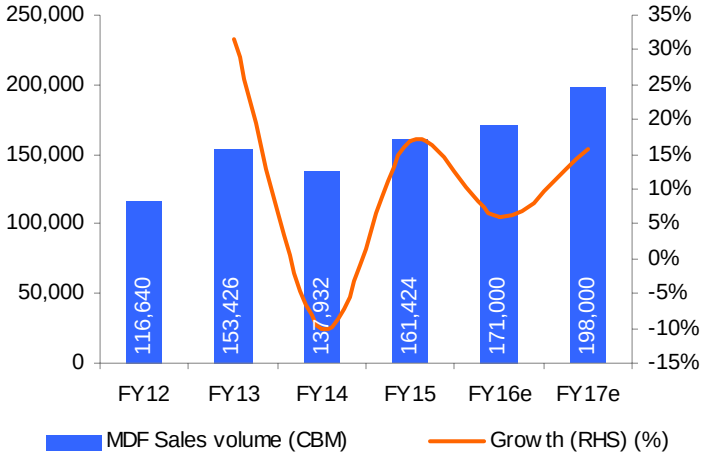
MDF division to post a strong turnaround after a lull

Capacity utilisation trend



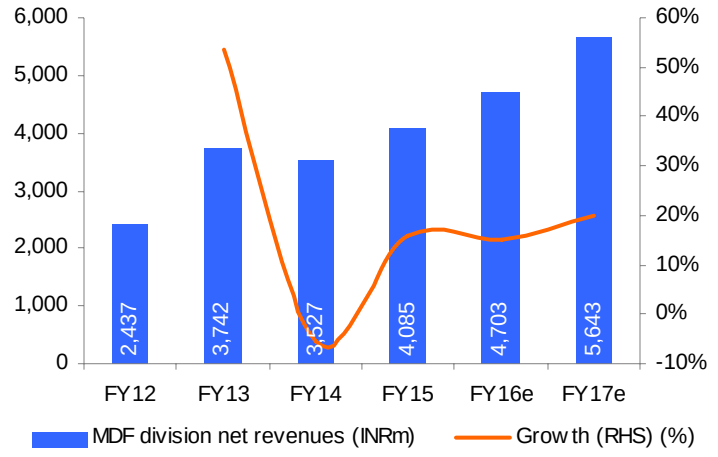
Source: Company, Antique

Sales volume and volume growth trend



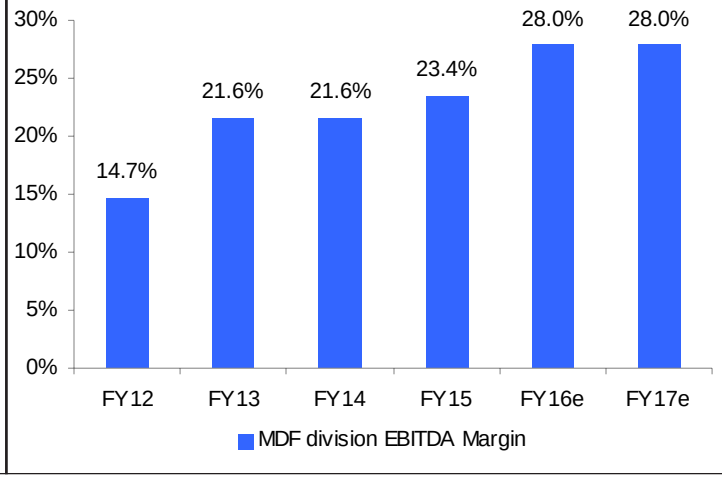
Source: Company, Antique

Revenue and revenue growth trend



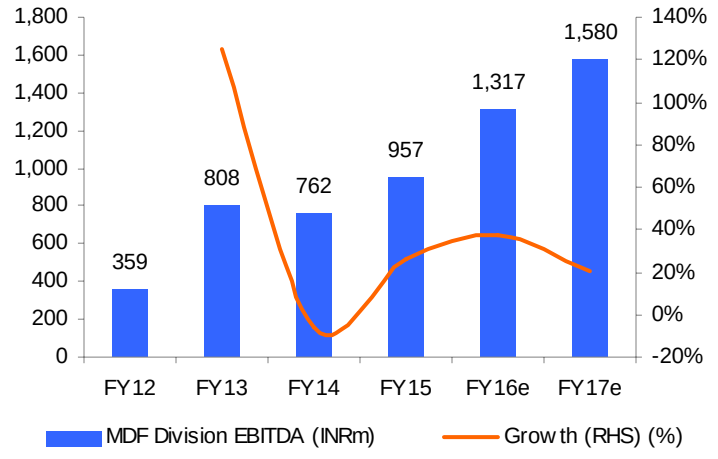
Source: Company, Antique

EBIDTA margin trend



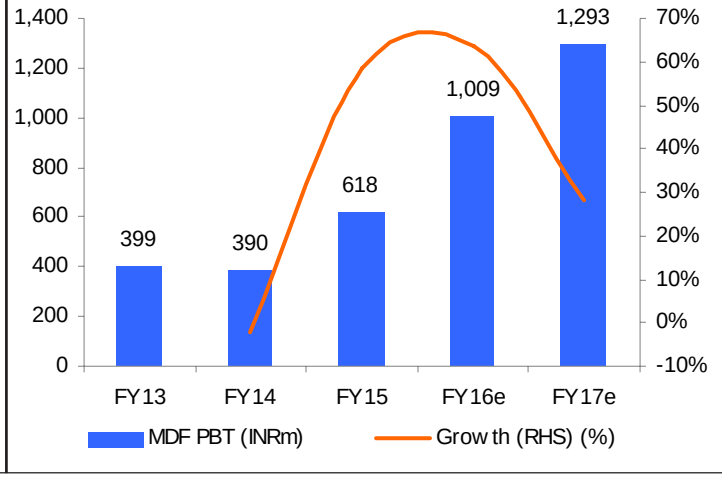
Source: Company, Antique

EBIDTA and EBIDTA growth trend



Source: Company, Antique

PBT and PBT growth trend



Source: Company, Antique

Muted capex at its existing facilities over FY15-17e; Mega MDF project capex to be spent over three years (2HFY16-FY19)

The management does not envisage any capacity addition in the plywood division, with its focus largely on outsourcing in the segment. The MDF plant is also expected to be optimally utilised only by FY17e. GIL expects to incur a mere INR300m towards maintenance capex at its existing facilities over FY16-17e. We see the company incurring a partial capex to the tune of INR1.75bn, of the estimated at INR6bn, over the next two years (INR0.5/1.25bn in FY16/17e, respectively) for setting up a mega greenfield MDF plant in South India, with a capacity to manufacture 360,000 CBM of MDF boards. We expect the entire spending to be funded through internal accruals.

Increased outsourcing in plywood and higher free cash flow generation over FY15-17e to significantly improve RoCEs

With no capacity addition expected in the plywood division over the next three years, a large part of the growth is expected to accrue through outsourcing. While the company has been outsourcing 100% of its Ecotec requirement to domestic vendors, it is contemplating outsourcing the Optima Red brand from FY18e. We expect outsourcing revenue to increase to 24% of total sales by FY17e from 20% in FY15.

With increasing FCF generation, despite factoring in spending towards its mega MDF project over the next two years, and maintenance capex at its existing facilities, GIL is expected to pare down its debt level to INR2.7bn in FY17e from INR3.3bn in FY15 and drive RoCE significantly to 26.9% in FY17e from 19% in FY15.

Sustainable green initiatives for raw material security

The company is a pioneer in undertaking various self-sustainable eco-friendly green initiatives. To tackle raw material availability, it is promoting replenishable, large-scale plantations of fast-growing, short-rotation plywood species on marginal and degraded farm lands.

GIL is putting in place long-term strategies to meet its entire raw material needs over the next five-to-six years through farm/agro-forestry around all its manufacturing units on a sustainable basis. This will reduce dependence on overseas timber and reduce logistic costs incurred in procurement of local timber.

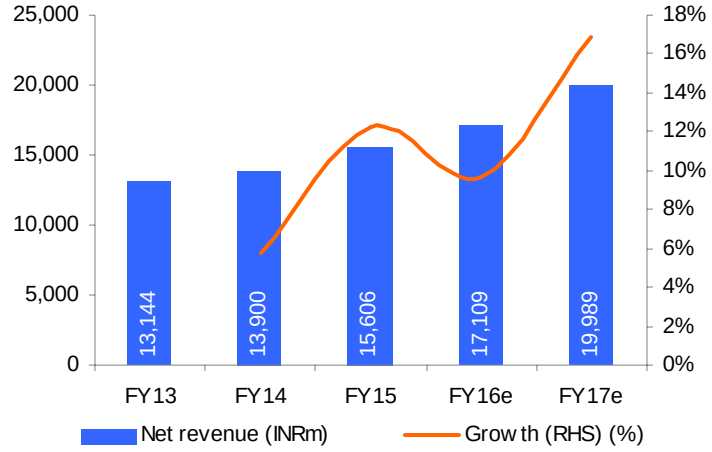
Strategies for raw material security at each of its manufacturing facilities

Existing plants	Status of clonal propagation center	FY16 target for clones/saplings	Development of species
Rudrapur	Started	1m	Eucalyptus and Melia Dubia
Nagaland	Started	0.5m	Melia Dubia
Rajkot	Under-development	1m	Eucalyptus
Kriparampur	Under-development	0.5m	Eucalyptus, Melia, and Dysoxylon

Source: Company, Antique

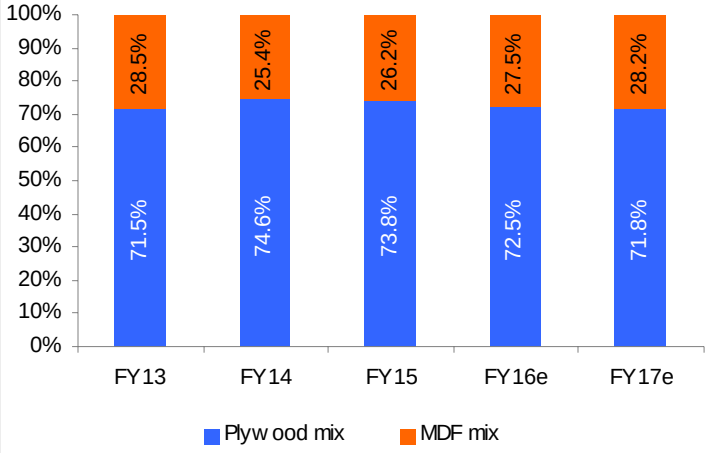
Financial performance to improve significantly over FY15-17e

Net revenue and revenue growth trend



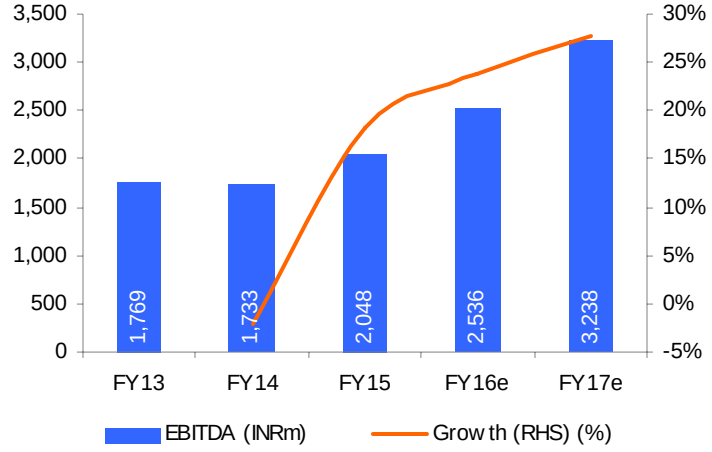
Source: Company, Antique

Revenue mix trend



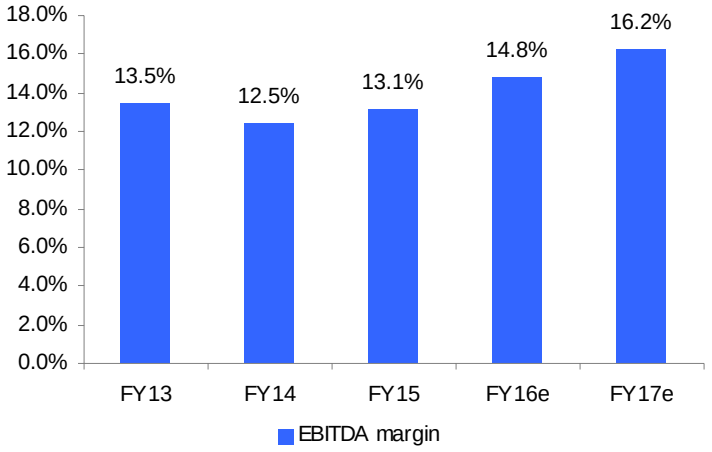
Source: Company, Antique

EBIDTA and EBIDTA growth trend



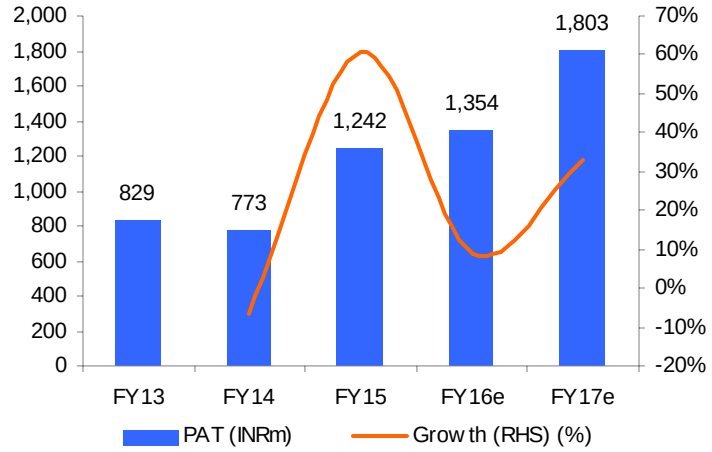
Source: Company, Antique

EBIDTA margin trend



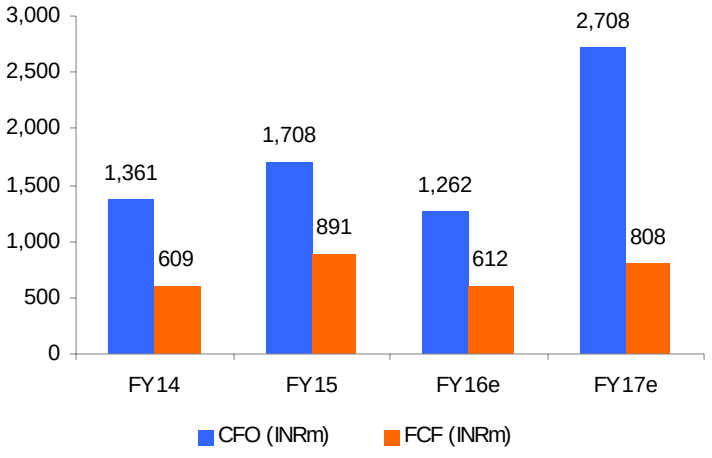
Source: Company, Antique

PAT and PAT growth trend



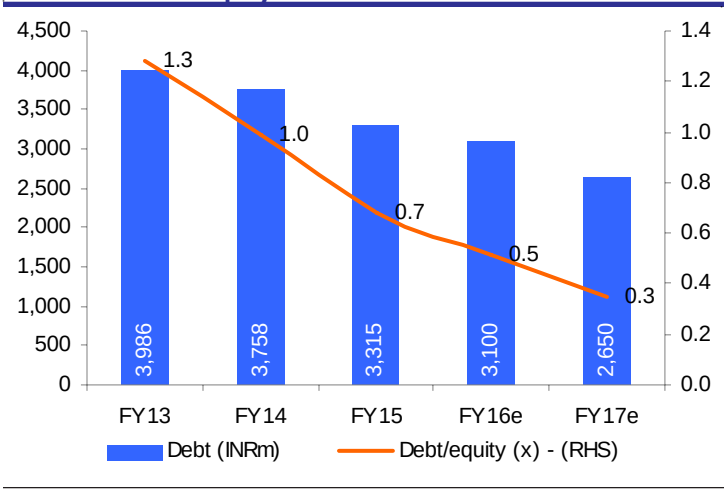
Source: Company, Antique

Cash flow from operations and FCF trend



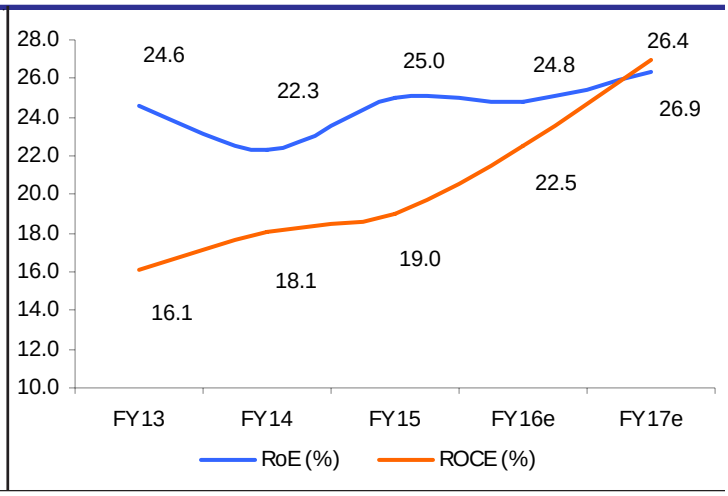
Source: Company, Antique

Debt and debt-to-equity ratio trend



Source: Company, Antique

RoE and RoCE trend



Source: Company, Antique

Key concerns

Aggression in MDF capex: GIL has huge expansion plans in MDF. It has already acquired land in Andhra Pradesh and would begin project execution from 2HFY16. The project is expected to be commissioned by FY19e. Since the capacity here would be twice that of its existing Rudrapur plant, any slump in MDF demand, or lower-than-anticipated offtake in value-added products, would have an adverse impact on its financials, when the plant commences commercial production.

Foreign exchange risk: The company faces foreign exchange exposure in the plywood segment, since it sources its entire face veneer and timber requirements for some of its facilities from overseas. Any adverse forex volatility could thus impact its financials. Since mid-FY14, it has resorted to a 100% forex hedging policy for sourcing of raw materials, apart from hedging Libor (London Interbank Offered Rates)/Euribor (Euro Interbank Offered Rate) rates for long-term loan repayments.

Excise and corporate tax benefits: At present, GIL enjoys excise duty and corporate tax benefits at its plywood and MDF unit in Rudrapur, which is likely to expire in FY19. This might affect its competitive advantage against its peers.

Exemptions status

Factories	Excise duty exemptions	Corporate tax exemptions
Rudrapur (plywood)	100% exemption from FY07-16	30% exemption from FY12-16
Rudrapur (MDF)	100% exemption from FY10-19	30% exemption from FY15-19

Source: Company, Antique

Valuation and recommendation

We expect the company to report a revenue and PAT CAGR of 13% and 33% over FY15-17e, respectively. With GIL expected to witness better profitability, higher FCF generation, and consequent debt reduction over FY15-17e, RoCE is likely to expand ~800bps to 26.9% by FY17e from 19% in FY15, thereby offering a strong potential for a P/E re-rating. At the current market price of INR947 per share, the stock is valued at 12.7x FY17e earnings. We continue to value GIL at 18x FY17e earnings to arrive at our revised target price of INR1,340 per share, an upside of 41% over its current market price.

Company background

Greenply Industries is India's largest substrate wood panel company, with FY15 revenue of close to INR15.6bn. It offers the most comprehensive product portfolio including plywood and MDF. The company recently demerged its decorative division (manufacturing surface products like laminates and veneers) into Greenlam Industries. With a pan-India presence, it offers its range of products through its wide network of over 10,000 retail outlets. GIL currently accounts for 25% of the organised plywood market and 30% of the overall MDF market in India. It has five state-of-art manufacturing facilities producing substrate wood panel products - four facilities for plywood (Nagaland, West Bengal, Uttarakhand and Gujarat) and one for MDF (Uttarakhand).

GIL's business model

- Numero uno brand in India
- Strong brand recall
- 25% organised market share
- Strong distribution network
- Wide range of brands, with diverse price points
- 74% of FY15 revenue

- Number one brand in India
- Superior technology to peers
- Offers variety of sizes and thicknesses unlike peers
- 30% overall market share
- Unique marketing approach
- Rising distribution network
- 26% of FY15 revenue

Source: Company, Antique

Business model segment-wise

Parameters	Plywood division	MDF division
Background/history		
Year of inception	**1988**	**2010**
Product head	Rajesh Mittal	Shobhan Mittal
Factories and location	Four factories - Kolkata, Uttarakhand, Rajkot, and Nagaland	Uttarakhand
Capacities - FY13	32.4 MSM	180,000 CBM
Distribution model	Dealer	Stockists
GIL's organised market share (%)	25	30
GIL's overall market share (%)	6	30
Financial parameters (FY15):		
Net revenue (INRbn)	11.5	4.1
Revenue mix (%)	74	26
EBIDTA margin (%)	9.2	23.3
Asset turnover (x)	3.7	1.0
Branding/distribution:		
Key branding activity	Media	Below the line activities
Channel partners	1,170	550

Source: Company, Antique

Plywood and allied products division (74% of FY15 revenue)

Plywood segment - Factories, capacity, capacity utilisation, and revenues (FY14)

Factories	Tizit	Kriparampur	Rudrapur	Rajkot	Outsourcing	Total
Capacity (MSM)	4.5	6.0	10.5	11.4	na	**32.4**
Production (MSM)	4.6	7.3	12.0	9.2	na	**33.1**
Capacity utilisation (%)	101	122	115	81	na	**102**
Sales volume (MSM)	4.6	7.3	11.9	9.2	13.2	**46.1**
Sales volume mix (%)	10	16	26	20	28	**100**

Source: Company, Antique

Key competitive strengths in the plywood segment:

Comprehensive and wide range of plywood products present across diverse price points: GIL markets its premium plywood and board products under its flagship brand 'Greenply' and luxury brands under 'Green Club' and 'Green Club Plus'. Besides its presence in premium brands, it also exists in the mid-premium segment - 'Optima Red', and in the economic segment: 'Ecotec'. With these brands, GIL has positioned itself across various price points - right from the high to low-end plywood - to meet the requirements of various target segments.

Healthy market share, strong brand equity, and wide distribution network: At present, the company has a market share of ~25% in the organised plywood industry, with an overall market share of 6%. Century Plyboards is its biggest competitor, with core plywood revenue 8% lower as compared to GIL. It enjoys a strong brand recall in the plywood industry. It currently spends 2.5% of revenue on branding to strengthen its market share. The key branding measures include ATL (above the line) activities like media and print advertisements, various BTL (below the line) steps like outdoor advertising in the form of kiosks, hoardings and posters, regular participation in international and domestic trade fairs and exhibitions, in-shop meets at dealer outlets, carpenter meets at regular intervals, etc.

Strong and increasing distribution network: Over the years, it has been able to build a strong distribution network with 1,170 pan-Indian dealers. It has a reputed and strong dealer base, thereby offering a competitive edge over its peers.

Leveraging its brand through outsourcing and focusing on value addition: With the establishment of a strong and reputed brand over the years, GIL started outsourcing Ecotec (medium-end commercial plywood) in FY10-11. In FY12, with the product stabilising in the market, it phased out Ecotec from its Rudrapur factory. The vacant capacity is now being utilised by value-addition brands. Ecotec, which was initially sourced from China, is now sourced largely from local vendors in India

MDF division (26% of FY15 revenue)

Particulars (FY15)	Uttarakhand
Capacity (CBM)	180,000
Production (CBM)	161,229
Capacity utilisation (%)	90
Sales volumes	161,424
Net revenue (INRbn)	4.1

Source: Company, Antique

Key competitive strengths in the MDF segment:

Undisputed leader and a strong brand in Green Panelmax Boards: Within four years of its MDF launch, GIL is now close to utilising its full capacity. It has gained a market share of 30%, which is a considerably higher than its nearest competitor. The company is thus an undisputed leader in the MDF segment. It has gained prominence in both thick as well as thin MDF boards. Over the last two years, it has successfully launched niche products in this category like exterior grade and Ecolite plain MDF boards and laminated flooring, which has been well received by the trade.

Superior technology: GIL has the latest continuous press technology as opposed to multi-opening cycle press technology used by other domestic players, leading to flexibility in the production of MDF in all thicknesses and sizes, higher efficiency in operations, etc.

MDF marketing strategy a key differentiator: The company has differentiated itself in a major way vis-à-vis its peers in terms of its marketing approach. Over the past two years, it has been successful in creating niche markets by producing different MDF applications, particularly in the thin segment. Thus, ensuring better margin vs its peers, who rely largely on supplying their boards to original equipment manufacturers.

Strong distribution network: It has a strong and well-placed distribution network, with 550 stockist and direct dealers. Its focus is to further expand the distribution network into Tier II and III cities, where the demand for MDF has been growing rapidly.

Financials

Profit and loss account (INRm)

Year-ended March 31	FY13	FY14	FY15	FY16e	FY17e
Revenues	**13,148**	**13,908**	**15,643**	**17,109**	**19,989**
Expenses	11,379	12,175	13,594	14,573	16,750
Operating Profit	**1,769**	**1,733**	**2,048**	**2,536**	**3,238**
Other income	47	39	11	11	12
EBIDT	**1,817**	**1,772**	**2,059**	**2,548**	**3,251**
Depreciation	321	359	471	479	490
Interest expense	396	377	359	310	257
Profit before tax	**1,099**	**1,037**	**1,230**	**1,758**	**2,504**
Taxes incl deferred taxation	270	264	170	404	701
PAT before MI & EO Items	**829**	**773**	**1,060**	**1,354**	**1,803**
Profit after tax	**829**	**773**	**1,060**	**1,354**	**1,803**
Reported EPS (INR)	**34.3**	**32.0**	**51.5**	**56.1**	**74.7**

Balance sheet (INRm)

Year-ended March 31	FY13	FY14	FY15	FY16e	FY17e
Share Capital	121	121	121	121	121
Reserves & Surplus	2,997	3,685	4,743	5,927	7,504
Networth	**3,118**	**3,806**	**4,863**	**6,048**	**7,625**
Debt	3,986	3,758	3,315	3,100	2,650
Deferred Tax Liability	340	431	403	403	403
Capital Employed	**7,444**	**7,995**	**8,582**	**9,551**	**10,678**
Gross Fixed Assets	6,012	6,533	7,263	7,552	8,202
Accumulated Depreciation	1,220	1,525	1,933	2,412	2,902
Net Assets	**4,792**	**5,007**	**5,330**	**5,140**	**5,300**
Capital work in progress	172	266	139	500	1,750
Investments	1	138	351	351	351
Current Assets					
Inventory	1,674	1,960	1,903	2,156	2,738
Debtors	2,163	2,200	2,572	2,906	3,012
Cash & Bank balance	152	72	77	174	69
Loans & advances and others	856	958	1,116	1,304	1,354
Current Liabilities & Prov					
Creditors	1,812	2,006	2,249	2,344	3,176
Other liabilities & provisions	554	601	658	638	721
Net Current Assets	**2,479**	**2,584**	**2,761**	**3,559**	**3,276**
Application of Funds	**7,444**	**7,995**	**8,582**	**9,551**	**10,678**

Per share data

Year-ended March 31	FY13	FY14	FY15	FY16e	FY17e
No. of shares (m)	24	24	24	24	24
BVPS (INR)	129.2	157.7	201.5	250.6	315.9
CEPS (INR)	47.7	46.9	63.4	76.0	95.0
DPS (INR)	3.0	3.0	3.0	6.0	8.0

Source: Company, Antique

Cash flow statement (INRm)

Year-ended March 31	FY13	FY14	FY15	FY16e	FY17e
EBT	**1,099**	**1,037**	**1,412**	**1,758**	**2,504**
Depreciation & amortisation	321	359	471	479	490
Interest expense	396	377	359	310	257
Interest / Dividend received	(29)	(32)	(8)	(11)	(12)
Other Adjustments	(741)	(18)	(168)	2	20
(Inc)/Dec in working capital	1,908	(129)	(196)	(703)	158
Tax paid	(270)	(264)	(170)	(404)	(701)
CF from operating activities	**2,684**	**1,329**	**1,700**	**1,431**	**2,715**
Capital expenditure	1,964	(615)	(604)	(650)	(1,900)
Net Investments	-	(137)	(213)	-	-
Income from investments	29	32	8	11	12
CF from investing activities	**1,994**	**(720)**	**(809)**	**(639)**	**(1,888)**
Inc/(Dec) in share capital	(1,163)	-	-	-	-
Inc/(Dec) in debt	(3,039)	(228)	(443)	(215)	(450)
Dividends & Interest paid	(481)	(461)	(444)	(479)	(483)
CF from financing activities	**(4,683)**	**(689)**	**(887)**	**(695)**	**(933)**
Net cash flow	**(5)**	**(80)**	**4**	**98**	**(105)**
Opening balance	158	152	72	77	174
Closing balance	**152**	**72**	**77**	**174**	**69**

Growth indicators (%)

Year-ended March 31	FY13	FY14	FY15	FY16e	FY17e
Revenue	(23.0)	5.8	12.3	9.6	16.8
EBITDA	2.8	(2.1)	18.2	23.8	27.7
PAT	46.2	(6.8)	40.4	24.8	33.1
EPS	46.2	(6.8)	40.4	24.8	33.1

Valuation (x)

Year-ended March 31	FY13	FY14	FY15	FY16e	FY17e
P/E	27.6	29.6	21.1	16.9	12.7
P/BV	7.3	6.0	4.7	3.8	3.0
EV/EBITDA	15.1	15.3	12.7	10.2	7.9
EV/Sales	2.0	1.9	1.7	1.5	1.3
Dividend Yield (%)	0.3	0.3	0.3	0.6	0.8

Financial ratios

Year-ended March 31	FY13	FY14	FY15	FY16e	FY17e
RoE (%)	24.6	22.3	25.0	24.8	26.4
RoCE (%)	16.1	18.1	19.0	22.5	26.9
Debt/Equity (x)	1.3	1.0	0.7	0.5	0.3
EBIT/Interest (x)	3.8	3.8	4.4	6.7	10.8

Margins (%)

Year-ended March 31	FY13	FY14	FY15	FY16e	FY17e
EBITDA	13.5	12.5	13.1	14.8	16.2
EBIT	11.4	10.2	10.2	12.1	13.8
PAT	6.3	5.6	7.0	7.9	9.0

Source: Company Antique

Reco	:	HOLD
CMP	:	INR392
Target Price	:	INR395
Potential Return	:	1%

INITIATING COVERAGE

Greenlam Industries Limited

Emerging as a decorative surface solutions manufacturer!

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Greenlam Industries, Asia's largest laminate manufacturer, with a domestic market share of 10%, and India's largest exporter, has currently diversified its business model from a principally laminates company to a holistic decorative surface solutions manufacturer by recently foraying into niche segments like engineered wood flooring and doors. The company is likely to be in a sweet spot going forward as it is nearing the end of its three-year capex cycle and is expected to witness strong cash flows, led by a quantum jump in revenue, significant operating leverage and strong bottomline growth. This in turn would lead to reduction in debt and RoCE expansion over the next two-to-three years. We expect the company to report FY15-17 revenue/ PAT CAGR of 20/81%, respectively, with RoCE expanding 870bps to 18.3% by FY17e. At the current market price, the stock trades at 14.9x FY17e earnings. We initiate coverage on the stock with a Hold rating and a target price of INR395 per share (15x FY17e earnings).

Market leader in laminates with strong brand equity

Greenlam's laminate revenue has grown at an impressive 21% CAGR over FY10-15, led by strong brand equity, increasing focus on value-add textured and niche laminate segments and increasing distribution network. Going forward, we expect leadership and growth momentum (16% CAGR over FY15-17e) to continue on the back of its recent capacity expansion by 20% to 12m sheets, focus on niche products like compact and exterior grade laminates and steady-state demand for decorative surface products.

Veneer and allied product segment revenue to grow exponentially

The company has recently forayed into niche categories like engineered wood flooring and doors. While it's engineered wood flooring (EWF) unit became operational in Sep-15, its engineered doors (ED) facility commenced operations in 2QFY16. The revenue potential from both these units is expected to be in the INR3.5-4bn range over the next four-to-five years. Going forward, we expect the veneer and allied products segment to grow at 53% CAGR over FY15-17e led by: a) Decorative veneers growing at 25% CAGR, aided by recent launch of teak and recon veneers, and b) Niche product categories (EWF and ED) cumulatively expected to touch ~INR1bn in revenue by FY17e.

Strong traction in RoCEs going forward

Over the last two years, its RoCEs have fallen to 9.7% in FY15 from 15% in FY13. This is largely due to the company entering into the capex cycle, wherein it invested INR2bn over FY14-15 on new business units like melamine face chip (MFC) boards, EWF and ED. While majority of these product segments have high margins and RoCE potential, it will take few quarters for the company to set the ball rolling, achieve scale and gaining traction in the bottomline. We expect Greenlam to witness an 870bps expansion in RoCE to 18.3% by FY17, which has the potential to inch upwards in FY18/19e with higher traction expected in niche categories.

Key financials

Year-ended March (INRm)	FY13	FY14	FY15	FY16e	FY17e
Revenue	7,326	8,269	9,256	10,863	13,405
EBITDA	891	921	901	1,099	1,562
EBITDA margin (%)	12.2	11.2	10.2	10.1	11.7
PAT	368	404	193	321	635
EPS (INR)	15.2	16.7	8.0	13.3	26.3
P/E (x)	25.7	23.4	48.9	29.5	14.9
P/BV (x)	5.8	4.7	4.3	3.8	3.0
EV/EBITDA (x)	13.8	14.3	14.8	12.0	8.1
RoE (%)	22.7	22.1	9.1	13.6	22.4

Source: Company, Antique

Market data

Sensex	:	26,904
Sector	:	Building material
Market Cap (INRbn)	:	9.5
Market Cap (USDbn)	:	0.146
O/S Shares (m)	:	24.1
52-wk HI/LO (INR)	:	582/299
Avg Daily Vol ('000)	:	2
Bloomberg	:	GRLM IN

Source: Bloomberg

Valuation

	FY15	FY16e	FY17e
EPS (INR)	8.0	13.3	26.3
P/E (x)	48.9	29.5	14.9
P/BV (x)	4.3	3.8	3.0
EV/EBITDA (x)	14.8	12.0	8.1
Dividend Yield (%)	0.0	0.0	0.0

Source: Bloomberg

Returns (%)

	1m	3m	6m	12m
Absolute	2	18	(11)	nm
Relative	(3)	21	(4)	nm

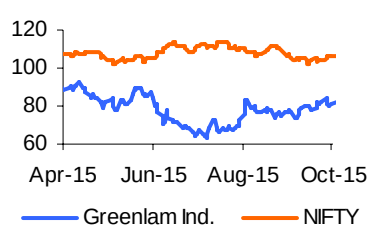
Source: Bloomberg

Shareholding pattern

Promoters	:	55%
FII	:	12%
DII	:	8%
Others	:	25%

Source: Bloomberg

Price performance *vs* Nifty



Source: Bloomberg Indexed to 100

Laminates and allied product segment on a strong footing

The company's flagship laminate brand 'Greenlam' is the leading brand in the decorative laminates space, offering the widest range of innovative designs, exclusive array of textures and special value-adds like post-forming laminates and anti-bacterial laminates. It commands a market share of 10% in domestic laminates and is the third largest manufacturer of laminates globally. The company is also accredited with commanding a 40% market share of India's laminate exports.

Steadily improving brand equity to drive domestic volume growth

With the fast improving brand equity, Greenlam's domestic revenue has grown at 17% CAGR over FY10-15. Within that period, it also managed to surpass Merino Laminates (in FY11) and become the leading player in the domestic laminates space.

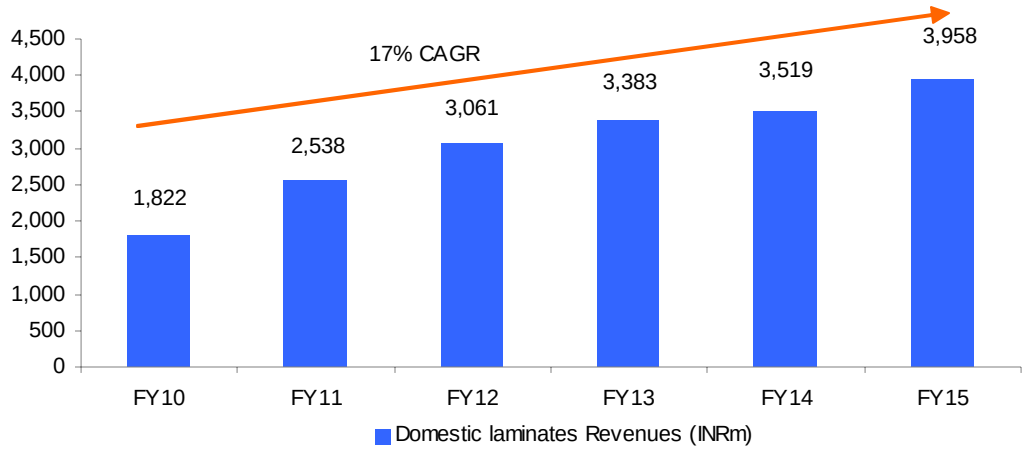
Greenlam brand: Distinct edge over its peers

Greenlam Industries Limited

- Rapidly increasing brand equity
- Wide and comprehensive array of offerings
- Superior quality priced at a premium to any brand
- Strong distribution network with focus on retail
- Focus on niche products adding to its scalability
- Increasing thrust on value addition

Source: Company, Antique

Greenlam's impressive domestic growth over last five years



Source: Company, Antique

With increasing brand equity and the recently concluded capacity expansion, we expect the company to maintain its leadership position and further consolidate its market share by gaining share from unbranded and branded players.

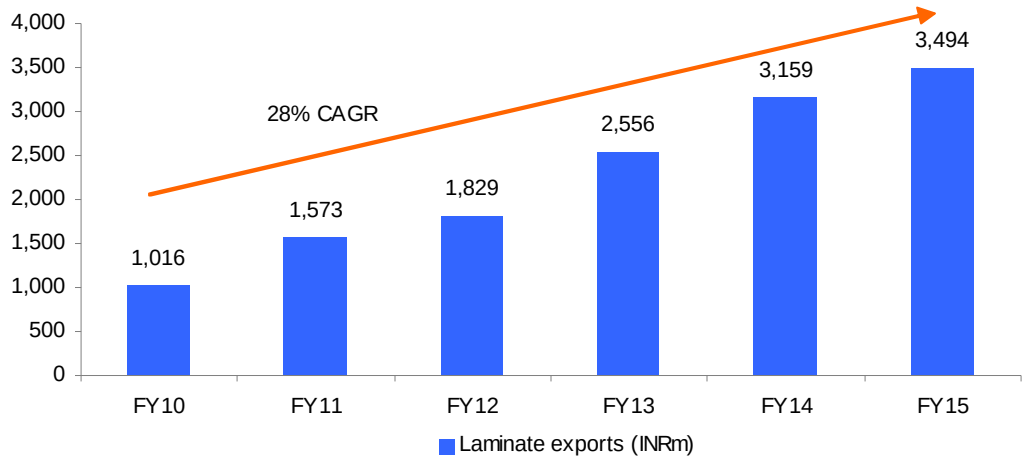
Focus on international markets to drive export growth

The global laminates industry is currently pegged at USD7bn and is growing at 2% CAGR. According to a recent study by the Freedonia Group, the global laminates industry is expected to exhibit 5.6% CAGR over the next four years on: a) Increasing manufacturing of cabinets and ready-to-assemble furniture made from engineered wood and laminates, b) Cost and performance benefits versus veneer and paints, and c) Increased market penetration.

Greenlam was the first non-US company to acquire Green Guard Certification for its anti-bacterial laminates. It thus joined the league of international brands like Formica Corporation (US), Lamin-Art (US), Nevamar (US), Panolam Industries International (US) and Wilsonart Industries (US) to acquire this low-emitting product certification.

With intense management focus on key laminates markets globally, it has been extending its presence in key geographies like Asia-Pacific, Europe, North America, West Asia, and Africa and Russia over the last five years. Its exports turnover has grown at an impressive five year CAGR of 28% over FY10-15.

Greenlam's impressive export growth over the last five years



Source: Company, Antique

Overseas revenue growth, including gross profit margin of subsidiaries, geography-wise

Geographies	FY10	FY11	FY12	FY13	FY14	FY15	CAGR
Asia-Pacific	733	1,163	1,506	1,510	2,046	2,204	25%
North America	149	235	348	453	501	749	38%
Europe	172	283	238	453	520	499	24%
West Asia	226	278	336	302	318	426	13%
Others	19	40	42	302	355	426	87%
Total exports	**1,298**	**1,999**	**2,470**	**3,020**	**3,740**	**4,304**	**27%**

Source: Company, Antique

With the recent steps undertaken by the management, including setting up warehouses in different countries, hiring specification and designing team and expanding distribution network, it expects export revenue to grow at 15% CAGR over the next three-to-four years.

Incremental capacity expansion to drive growth without any significant capex

The company's capacity utilisation in laminates stood at 114% in FY15. In Sep-15, it commissioned two press lines at its factory in Nalagarh, Himachal Pradesh, which increased its overall capacity by 20% to 12m sheets at a minimal capex of INR200m. Greenlam already has infrastructure in place for 40% incremental capacity - 4m sheets, which would require an additional capex of INR400m. These expansions would play a major role in scaling up profitability, particularly RoCE of the laminates division, going forward.

With existing capacity in hand, we expect utilisation levels in the laminate segment to move to 115% by FY17, considering our volume growth assumption of 10% CAGR over the next two years. We see the company incurring a capex of INR200m in 2HFY17 to ensure adequate supply of laminates for another two years.

Niche offerings in laminates segment to be an additional growth driver

A) Compact laminates

The compact laminates are self-sustainable boards panels manufactured using decorative surface papers, with décor finish on both sides. Greenlam's compact laminates vertical offers three solutions: a) Compact boards; b) Service oriented solutions and c) Exterior grade solutions.

- **Compact boards:** These are used vertically or horizontally for applications like wall panelling, lab benches, tables, office furniture, etc. It is ideal for high traffic locations, requiring almost zero maintenance
- **Service oriented solutions:** Through its recently launched brand 'Greenlam Sturdo', the company offers a wide range of rest room cubicles, locker systems and restroom accessories. Some of the key benefits of these solutions include: i) Hygienic and easy to maintain, ii) Resistance to harmful germs and clearing agents, iii) High wear and abrasion resistance, and iv) Exceptional water, humidity and high temperature resistance
- **Exterior grade solutions:** Greenlam markets façade laminates under its brand 'Greenlam CLADS'. Exterior grade laminates are resistant against fading, fire, extreme weather conditions, microbial threats and moisture. Manufactured using special chemicals, the exterior grade range is primarily used to externally decorate residential units, office or the entire building structure.

Restroom cubicles

Locker systems

Facades (exterior grade laminates)

Source: Company, Antique

In FY15, compact laminates accounted for ~13% of segment revenue, with compact boards comprising 75%. With intense management focus on its recently launched brands - Sturdo and CLAD, we expect the segment to deliver impressive growth over the next two-to-three years.

B) Melamine faced chipboards (MFC)

MFC are generally used in organised carpentry, primarily by original equipment manufacturers (OEMs) like modular furniture and kitchen manufacturers. In Oct-14, Greenlam commenced production at the MFC unit adjoining its laminate facility in Behror, Rajasthan, with an installed capacity of 2MSM, at a capex of INR200m. The basic premise for entering this segment was to offer one-stop shop solutions in the laminates segment. The absence of this product earlier resulted in it losing out on the laminates business as the customer/OEM would prefer to buy both products together from the same vendor. MFC can be used for a variety of applications including kitchens, cabinets, shelves, partitions, office furniture, retail stores, etc.

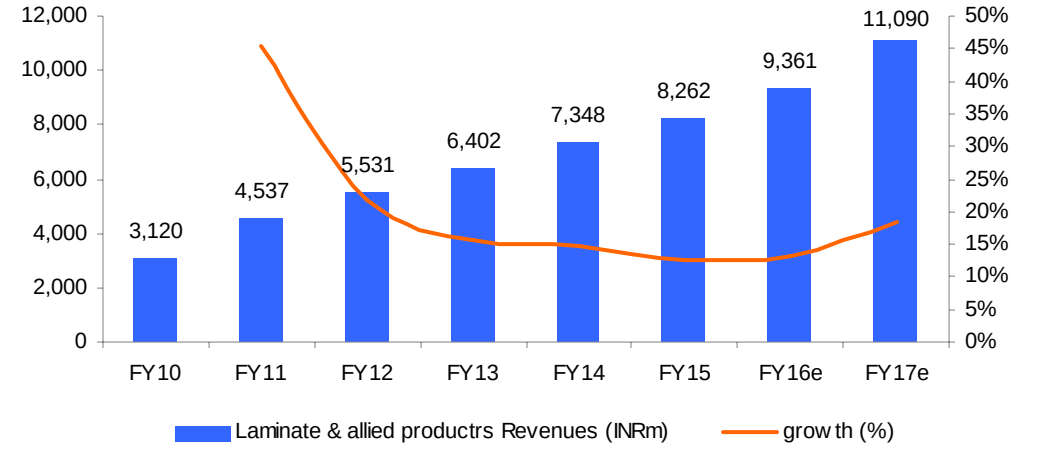
MFC and its applications

Source: Company, Antique

Laminate segment expected to exhibit 16% CAGR over FY15-17e

The consolidated laminates segment has grown at 21.5% CAGR over FY10-15. With its entry into niche product segments, recently concluded capacity expansion and focus on increasing its share of exports, we expect the consolidated laminates segment to report ~16% revenue CAGR over FY15-17e.

Laminates segment revenue and revenue growth over FY10-17e



Source: Company, Antique

Veneer and allied product segment to witness exponential growth

Over the last five years, the veneer segment has grown at a mere 6% CAGR. Post the demerger of the company from the erstwhile Greenply Industries (GIL), the management has intensified its focus on this vertical by expanding its product categories in the decorative veneers segment and foraying into niche value-added categories like EWF and ED. With this, scalability of the vertical is expected to improve significantly over the next five years. Consequently, we expect exponential growth in divisional revenue over the next few years.

Decorative veneers

Greenlam is the largest manufacturer of natural decorative veneers in India, commanding a 12% market share. It has one of the widest offerings in the natural veneers category, with more than 500 SKUs under the brand 'Decowood'. The management is looking to intensify its focus on this segment by widening the product range. It has recently launched teak and reconstituted veneers as well. While it launched teak veneers in Apr-15, recon veneers were launched in Aug-15. With these launches, we expect the decorative veneers segment to grow at 20% CAGR over FY15-17.

With a view to become a holistic decorative surface solutions manufacturer, the company has recently forayed into niche categories like EWF and ED. While its EWF unit commenced operations in Sep-15, its ED facility started operations in 2QFY16.

Engineered wood flooring

The INR5bn Indian EWF market is still at a nascent stage, with majority of the market being dominated by imports. The same is expected to grow at 20-25% CAGR. Greenlam is the first and only Indian EWF manufacturer marketing its products under the brand 'Mikasa'. It has an annual capacity of 1MSM, while the current size of the Indian market stands at 2MSM.

Mikasa's products are available in three ranges:

a) Pristine - 15mm thickness

b) Arbor - 13mm thickness

c) Atmos - 10mm thickness

Mikasa's product range

Products	Pristine	Arbor	Atmos
Product thickness	15mm	13mm	10mm
Decorative veneer thickness	Up to 3mm	Up to 2mm	Up to 0.6mm
Core material	Pine	HDF	HDF
MRP/sq ft (INR)	600-900	400-550	300-400
Available sizes	1,800/2,400mm x 135mm/210mm	1,200mm x 120mm	1,200mm x 120mm
Warranty	30 years	20 years	10 years
Target audience	Institutional/ premium projects	Architect specified	Architect specified
Current SKUs (units)	13	13	14

Source: Company, Antique

Within the 15mm thickness category, Mikasa currently manufactures only a single strip product while two and three strip products are expected to be launched shortly. It is currently marketing 14 colours in 10mm, 13 colours in 13mm and 13 colours in 15mm, taking its SKUs to 111. Greenlam now intends to further expand its product offering, once it starts manufacturing two and three strip products in the 15mm product category.

Engineered wood flooring - high on aesthetic value

Source: Company, Antique

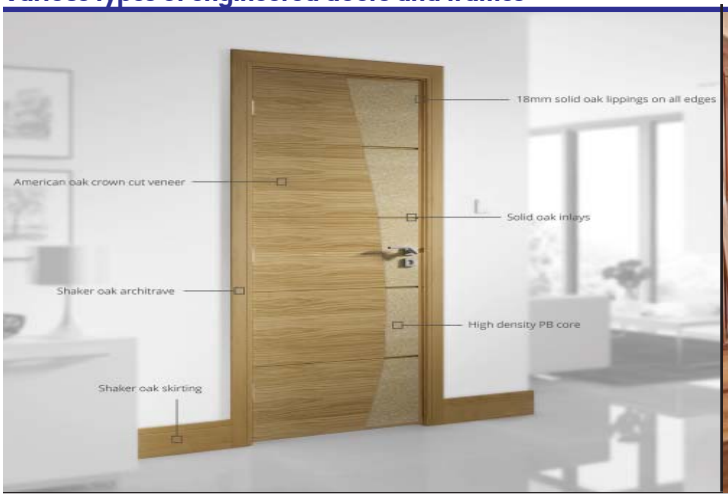
Significant revenue potential

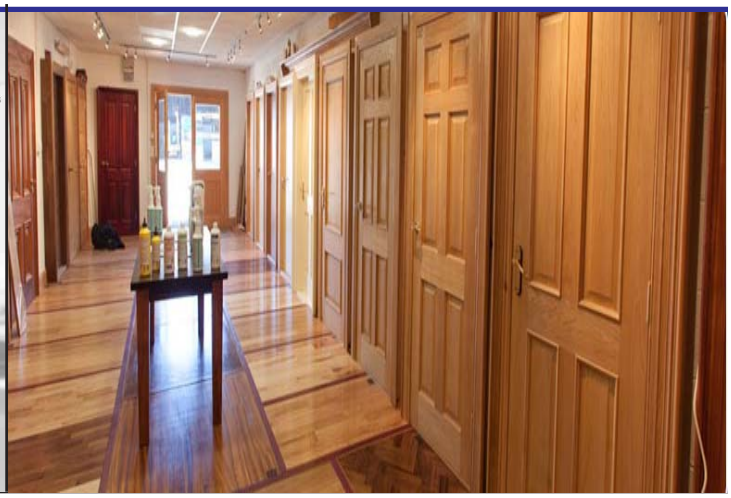
The company has invested INR1bn on establishing the 1MSM facility at Behror. Average realisations of ~INR2,500-3,000/sq m would result in a revenue potential of ~INR2.5-3bn at optimum utilisation levels. The unit, which commenced operation in Sep-14, clocked a revenue of INR280m in FY15. It is expected to achieve EBIDTA/PAT break-even at 12/20% capacity utilisation, respectively. We expect it to achieve 15% utilisation and revenue over INR400m by FY17.

Engineered doors and frames

Recently, Greenlam commissioned a 120,000 engineered door sets and door leafs per annum facility, at a capex of INR270m: the first in India. It is the first organised company to launch engineered, factory finished, door solutions in the country. The potential revenue from this facility is pegged ~INR1bn over the next three years. The management plans to manufacture engineered doors in sizes varying from 7x3' and 8x4', with 32/38mm thickness for the domestic market and 44/54MM thickness for the export market.

Various types of engineered doors and frames





Source: Company, Antique

These door solution offerings would include aperture measurements, door leaf, matching frame and hardware. At present, none of the organised players provide complete solutions, thereby providing it a first mover advantage. The main advantage of factory engineered door sets and leafs is the precision with which they are made and the ease with which it can be fitted in an already fully furnished house. These doors are created in made-to-order sizes and are ready-to-fit.

The Indian door market is estimated at 18m units annually and is growing at 8-10% CAGR. The engineered doors concept is still at a nascent stage in India, but is slowly gaining acceptance because of its environmental benefits (it would substitute use of real wood with substitutes like particle board, laminates etc) and aesthetic finish.

Scale and synergies expected with the integration of these veneer and allied product segments

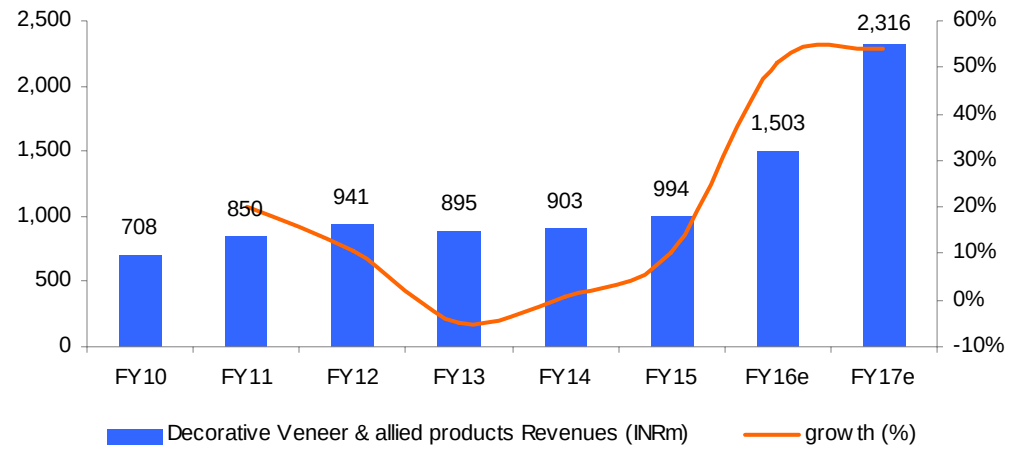
Integrated products like veneers and engineered doors and wood floors are combined under one segment: veneers and allied. We expect the following synergies to unfold going forward:

- Economies of scale in sourcing of decorative veneers
- EWF and door plant integrated with decorative veneer facility to drive better synergies in manufacturing
- One-stop shop solutions for interior décor products as a large number of customers would prefer to buy a wider range of products from a single location

Veneer and allied product segment to exhibit 53% CAGR over FY15-17e

Post the commissioning of EWF and ED units, coupled with the recent launch of teak and recon veneers within the decorative veneer segment, we expect the division to grow exponentially over the next few years. The revenue potential from both the niche product categories - EWF and ED - is expected to be in the INR3.5-4bn range over the next four-to-five years.

Division to grow at 53% CAGR over the next two years

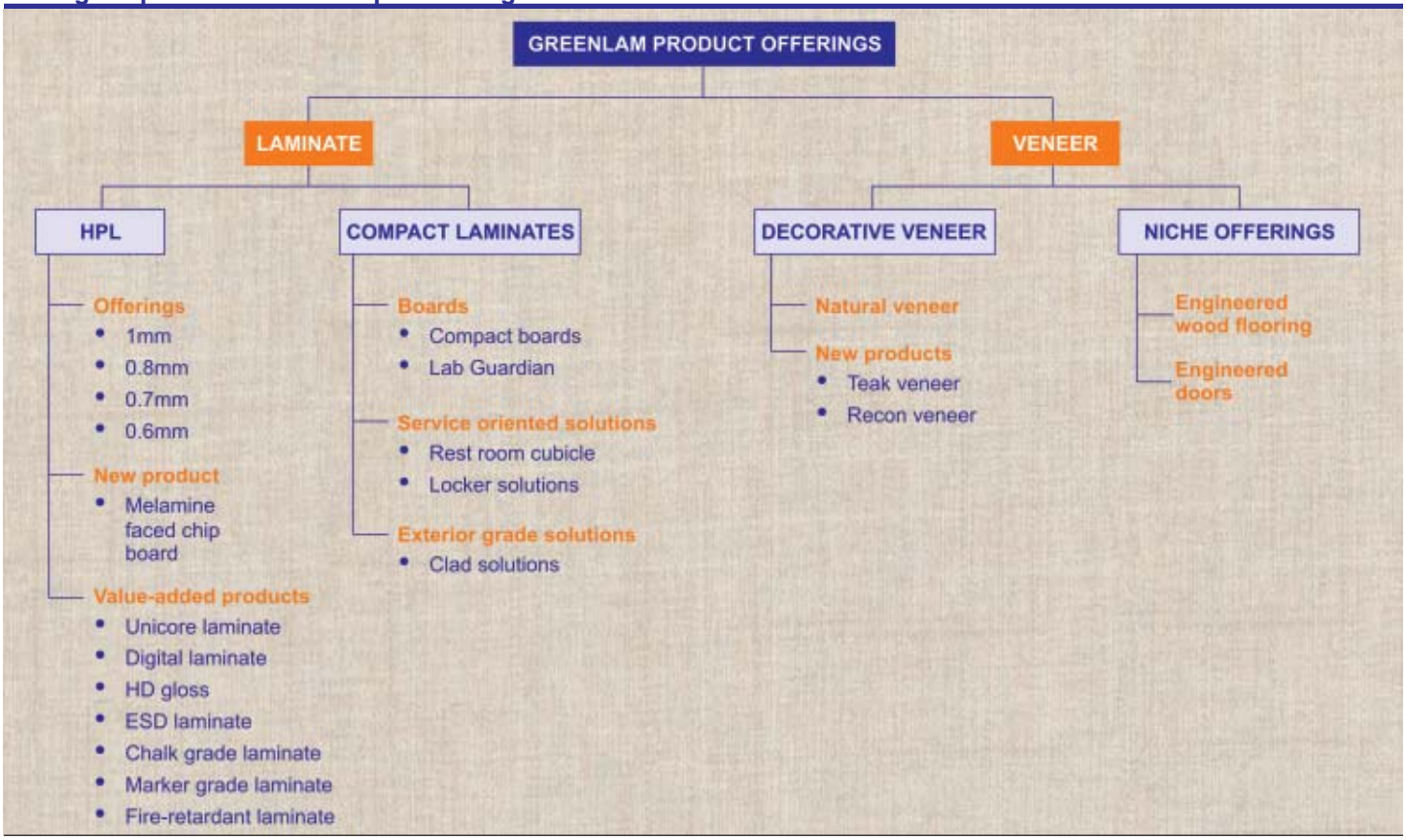


Source: Company, Antique

Over FY15-17e, we expect the veneer and allied products segment to grow at 53% CAGR led by: a) Decorative veneers segment growing at 20% CAGR, aided by recent launch of teak and recon veneers, and b) Niche product categories (EWF and ED) cumulatively expected to achieve ~INR1bn in revenue by FY17e.

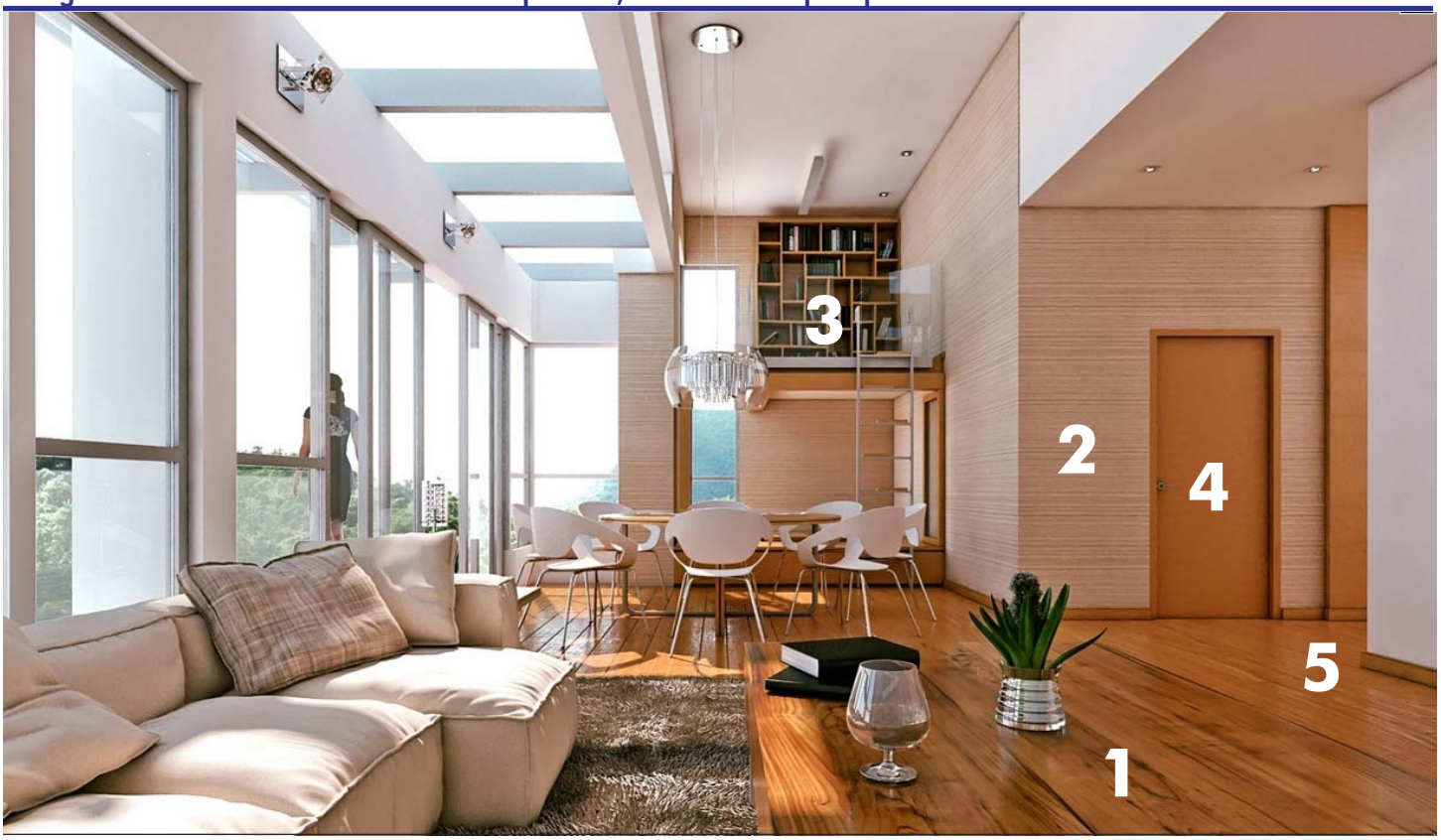
Vast range of product offering; Niche products to add significant scale

Existing comprehensive and wide product range Chart



Source: Company, Antique

Emerges a holistic decorative surface solutions provider; To offer one-stop shop solutions



Source: Antique ;

Note: Markings 1 & 2 denote Greenlam's products used for décor applications like furniture and paneling applications. Post diversification, products marked 3 (PLPB), 4 (ED) & 5 (EWF) would incrementally add to its product offerings and scalability

Greenlam has one of the largest sales and distribution networks in the country, with a pan India presence, nine company-owned regional distribution centres and over 12,000 distributors, dealers and retailers. It has a presence in over 100 countries, with 11 international offices and five company operated warehouses.

Widespread distribution network, product quality, serviceability, aggressive branding measures, wide product offerings, etc have all contributed to its growing brand awareness among consumers/influencers: architects, contractors, carpenters, etc. The following are the brand building measures adopted by Greenlam for creating a brand pull:

- **Above-the-line** activities like media advertisements and outdoor publicity like hoardings, neon signs, etc to create mind recall
- **Below-the-line** activities:
  - Carpenter/contractor promotional activities
  - Carpenter meets at dealer shops
  - In-shop activities at the dealer shop and occupying showroom space at the dealer end
  - Sending samples/catalogues to architects, carpenters, contractors, etc at the time of new launches
  - Brand promotion through Architect Leadership Council
- Putting up display centers (currently 28) - Green Design Studio/Green Shoppe/New Mika Showcase/Mikasa Experience Centre to create brand awareness

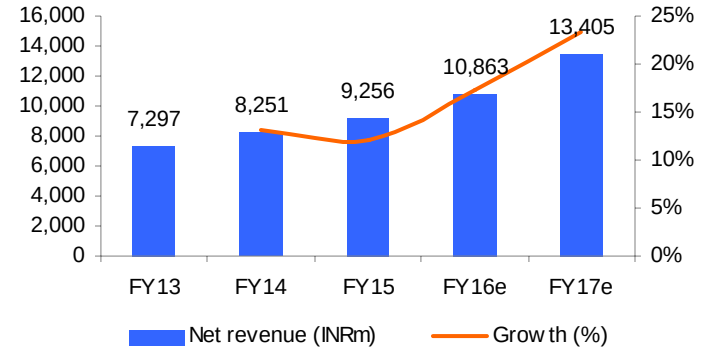
Strong traction in RoCE going forward

Over the last two years, Greenlam's RoCE fell to 9.7% in FY15 from 15% in FY13. This is largely due to the company entering a capex cycle, wherein it invested INR2bn on new business units like MFC boards, EWF and ED. The recent commissioning of incremental capacity in laminates and niche product categories would significantly boost revenue and PAT growth over the next two years.

Capital intensity over FY15-17e is likely to be minimal ~INR700m, which would result in improving free cash flow generation and consequent reduction of debt over the same period. As a result, we expect the company to witness an 870bps expansion in RoCE to 18.3% by FY17, which has the potential to rise to ~20-25% post FY17, with a further traction in niche categories.

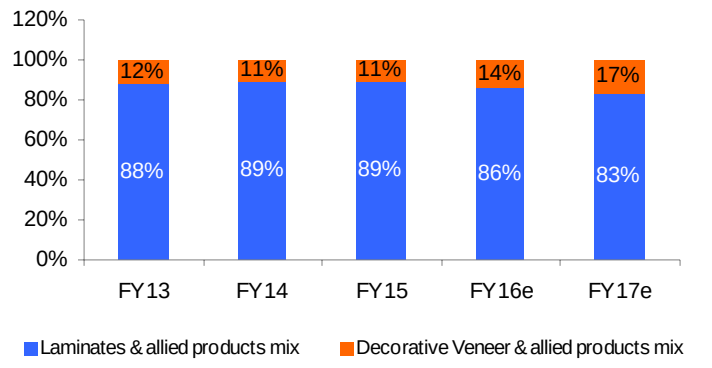
Financials to improve significantly over FY15-17e

Net revenue and revenue growth trend



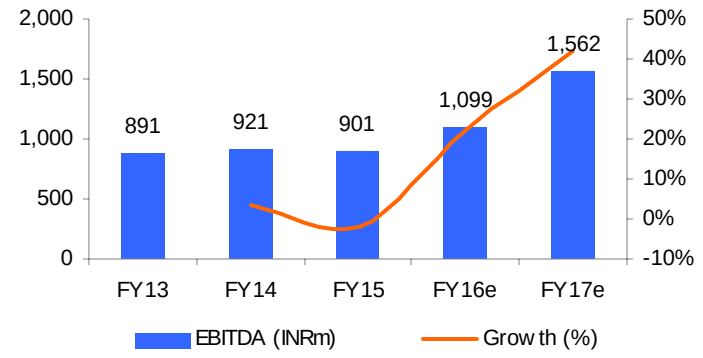
Source: Company, Antique

Revenue mix trend



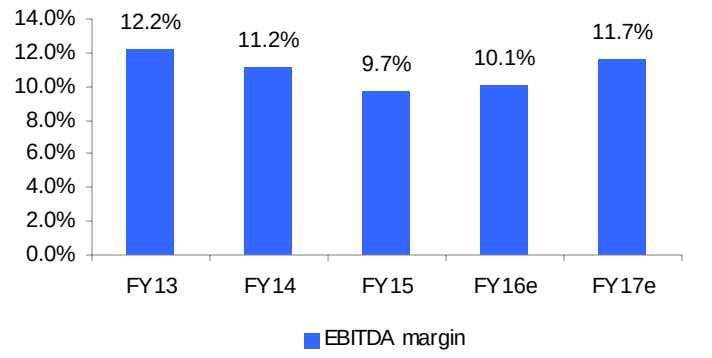
Source: Company, Antique

EBITDA and EBITDA growth trend



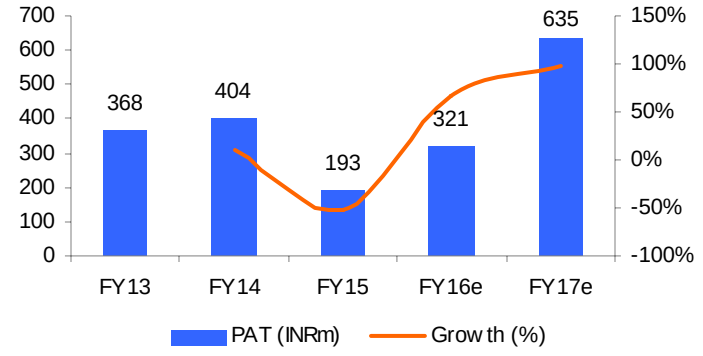
Source: Company, Antique

EBITDA margin trend



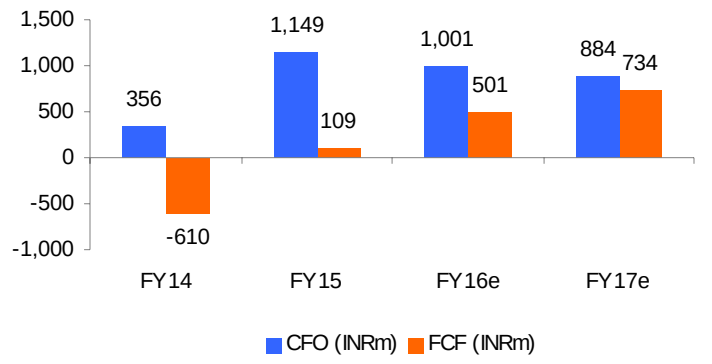
Source: Company, Antique

PAT and PAT growth trend



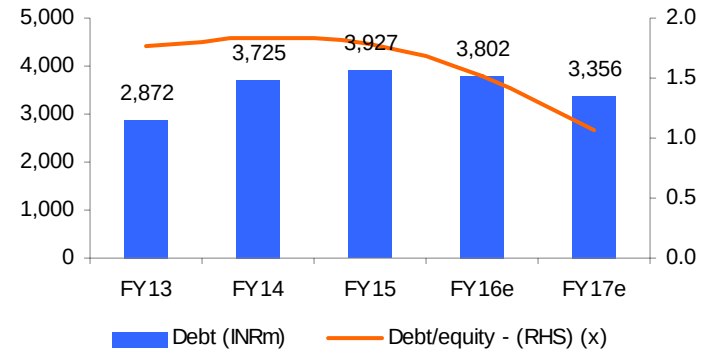
Source: Company, Antique

Cash flow from operations and FCF trend



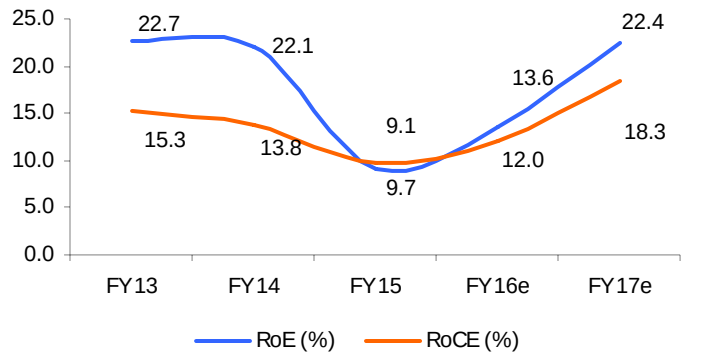
Source: Company, Antique

Debt and debt-to-equity ratio trend



Source: Company, Antique

Return ratios to improve significantly



Source: Company, Antique

Key concerns

Persistent slowdown in the real estate sector could impact growth in the laminate segment

Over the last four years, Greenlam has witnessed significant decline in laminate revenue growth to 12% in FY15 from 22% in FY12. We have modelled in 16% CAGR in laminate revenue, considering its recent capacity expansion and management's intensified focus on new products like MFC boards and compact laminates. However, there could be downside risk to our growth assumption if these new products fail to achieve further traction or the slowdown in real estate segment persists.

New business initiatives in veneer segment may take time to achieve traction

The management has significantly invested in its new business initiatives: EWF and ED. However, these are largely new product categories, which are yet to have an established market in India. Failure on the company's part to adequately market these products could significantly affect its profitability.

Import of raw materials exposes the company to forex risks

Kraft and decorative paper are main raw materials used in the manufacture of laminates. However, majority of these materials are imported, which exposes the company to forex fluctuations, where any extreme volatility could have a substantial impact on its profitability. Since the company exports ~38% of its overall revenue to various geographies, it stands naturally hedged to that extent.

Valuations and recommendation

We expect the company to report a revenue/PAT CAGR of 20/81% over FY15-17, respectively with RoCE expansion of 870bps to 18.3% by FY17. At the current market price, the stock trades at 14.9x FY17e earnings. While we remain positive on the new business initiatives and management's execution capabilities, we believe that FY18 would be a strong inflection point where Greenlam would report meaningful traction in revenues and earnings. We initiate coverage on the stock with a Hold rating at current valuations and a target price of INR395 per share (15x FY17e earnings).

Post FY17, we believe that the company could be at a huge inflection point, where it could start witnessing strong traction in its EWF and ED segment, led by expected pick-up in demand, particularly in metros and Tier I cities. We thus expect a significant jump in profitability as these segments are likely to achieve PAT break-even by FY17. RoCE too could see a major jump to ~25% levels, which could further drive a re-rating to the stock post FY17.

Company background

Greenlam is India/Asia's leading and globally the third largest manufacturer of decorative laminates. It is India's only integrated and largest manufacturer of decorative surfacing products from the laminate and wood panel industry. It commands a domestic market share of 10% in laminates and enjoys 12% share in the decorative veneer segment. The company has one of the largest sales and distribution networks in the country, with a pan India presence, nine company owned regional distribution centres and over 12,000 distributors, dealers and retailers. It is present in over 100 countries, with exports contributing ~52%/38% to the laminate segment/overall revenues, respectively.

Last year, GIL demerged its decorative business into a new company: Greenlam Industries. As per terms of the demerger, Greenlam issued and allotted one equity share in the company for every one equity share held by GIL's shareholders. The composite scheme of arrangement between GIL and Greenlam for demerger of the decorative business was approved by the Guwahati High Court vide its order dated October 31, 2014, which came into effect on November 17, 2014. The company finally made its debut on the bourses on March 2, 2015.

Greenlam business model is divided into two business segments: i) Laminates and allied products (89% of FY15 revenues), and ii) Veneers and allied products (11% of FY15 revenues).

Product offerings by the laminates and allied products segment

- **Laminates** are decorative surface material used on top of a substrate like plywood, MDF or a particle board as a surface cover
- **Compact laminates** are self sustainable board panels made with decorative surface papers on both sides
- **Melamine faced chip board (MFC):** Laminated MFC are uses in organised carpentry, primarily by OEMs like modular furniture and kitchen manufactures

Product offerings by decorative veneer and allied products

- **Decorative veneers:** These are premium decorative surface materials similar to a laminate, but have more aesthetic value than the former due to usage of natural timber in place of paper in laminates
- **EWF:** These are decorative wooden planks for flooring, having a high aesthetic value. Hence, they are priced significantly higher than conventional ceramic tiles and laminated flooring.
- **ED solutions:** These factory finished doors and door frames are created in made-to-order sizes and are ready-to-fit.

Greenlam's products, capacities, utilisation and location

Manufacturing units	Nalagarh	Behror	Total
Laminates			
Capacity (m sheets)	4.68	5.34	10.02
FY15 utilisation	112%	103%	108%
MFC			
Capacity (MSM)	-	2	2
FY15 utilisation	-	3%	3%
Decorative veneers			
Capacity (MSM)	-	4.2	4.2
FY15 utilisation	-	26%	26%
EWF			
Capacity (MSM)	-	1	1
FY15 utilisation	-	5%	5%
ED			
Capacity (units)	-	120,000	120,000
FY15 utilisation	-	-	-

Source: Company, Antique

Greenlam's business model

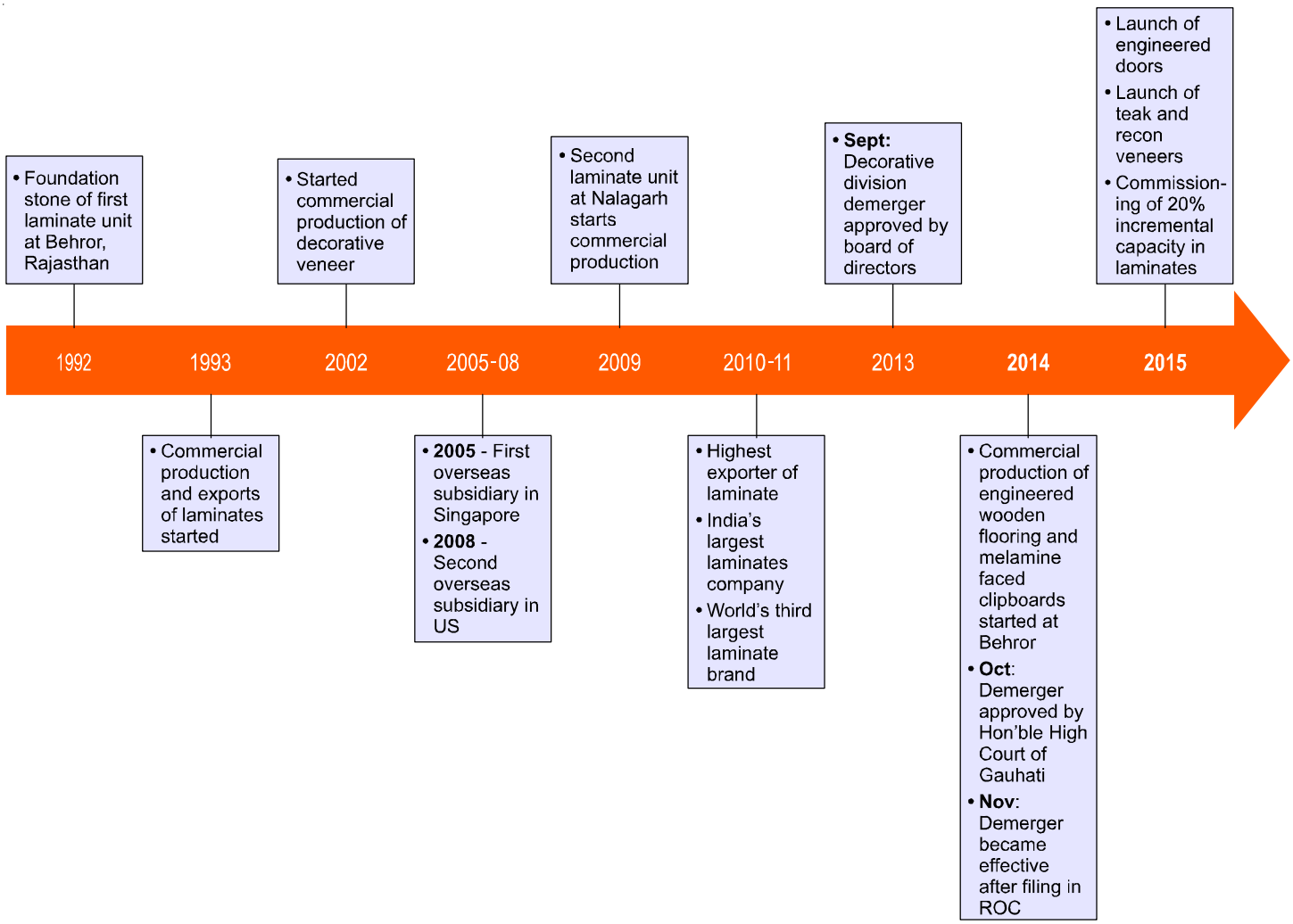
Parameters	Laminates and allied products	Veneer and allied products
Products	Laminates, compact laminates and MFC	Decorative veneers, EWF and ED
Capacity	Laminates: 12m sheets, Melamine faced chipboard: 2MSM	Decorative veneers: 4.2MSM, EWF: 1MSM; ED: 120,000 units
Factory location	Behror, Rajasthan and Nalagarh, Himachal Pradesh	Behror,- Rajasthan
FY15 revenue (INRm)	8,262	946
FY15 Revenue Mix (%)	89%	11%
Revenue CAGR (FY10-15)	21.5%	6%
SKUs	Over 2,500	Decorative veneers: 500+; EWF: 111; ED: 24
Market size (INRbn)	40	10
Market share	10%	12%
Key competitors	Merino, CPBI, Royal Touch and Rushil Décor	CPBI, Greenply Industries and Timex

Source: Company, Antique

EWF CATEGORY AT A GLANCE	Industry size Volumes: 2MSM Value: INR5bn	Industry CAGR 20-25%
Organised vs Imports 100% imports	Major influencers Architects/Interior Designers	Top brands in the category CAHRS, Pergo, Quickstep, Haro, Boen and Ego
Greenlam's capacity 1 MSM	Optimum revenue potential INR2.5–3bn	Capex INR0.9bn
Brand Mikasa	Current SKUs 111	Thicknesses offered 10mm, 13mm and 15mm
Warranty offered 10-30 years	Raw material HDF, pine and real wood	Existing dealer network 60
Margin expectations 18–20%	Working capital 45days	RoCE expectations 20–22%

ED CATEGORY AT A GLANCE	Industry size Volumes: 18m doors Value: INR140bn	Industry CAGR 8–10%
Organised vs Unorganised Largely unorganised	Major influencers Architects/Interior Designers/ contractors/builders/developers	Top brands in the category Bloom Decor, TDSL and Coast to Coast
Greenlam's capacity 120,000 doors	Optimum revenue potential INR1bn	Capex INR270m
Brand Mikasa	Current SKUs 16 laminated and 8 veneered doors	Offerings Veneered and painted doors/door sets
Warranty offered 5-10 years	Raw material Halspan core, tubular core, MDF/ plywood, veneer/laminate, hardwood lumber, paints, polishing and laquer,etc	Existing dealer network 50
Margin expectations 12–14%	Working capital 45days	RoCE expectations 18–20%

Key milestones



Source: Company, Antique

Financials

Profit and loss account (INRm)

Year-ended March 31	FY13	FY14	FY15	FY16e	FY17e
Revenues	**7,326**	**8,269**	**9,256**	**10,863**	**13,405**
Expenses	6,436	7,348	8,355	9,764	11,843
Operating Profit	**891**	**921**	**901**	**1,099**	**1,562**
Other income	22	33	19	16	20
EBIDT	**913**	**954**	**921**	**1,115**	**1,582**
Depreciation	215	237	334	346	373
Interest expense	223	225	302	328	304
Profit before tax	**475**	**492**	**285**	**440**	**905**
Taxes incl deferred taxation	108	89	92	119	270
PAT before MI & EO Items	**368**	**404**	**193**	**321**	**635**
Profit after tax	**368**	**404**	**193**	**321**	**635**
Reported EPS (INR)	**15.2**	**16.7**	**8.0**	**13.3**	**26.3**

Balance sheet (INRm)

Year-ended March 31	FY13	FY14	FY15	FY16e	FY17e
Share Capital	121	121	121	121	121
Reserves & Surplus	1,502	1,911	2,077	2,399	3,034
Networth	**1,622**	**2,032**	**2,198**	**2,519**	**3,154**
Minority Interest	0	0	1	1	1
Debt	2,872	3,725	3,927	3,802	3,356
Deferred Tax Liability	67	61	150	150	150
Capital Employed	**4,562**	**5,819**	**6,276**	**6,472**	**6,661**
Gross Fixed Assets	2,816	3,159	4,797	5,389	5,589
Accumulated Depreciation	963	1,185	1,518	1,864	2,237
Net Assets	**1,853**	**1,974**	**3,280**	**3,525**	**3,352**
Capital work in progress	62	684	92	0	0
Goodwill	5	6	0	0	0
Current Assets					
Inventory	1,904	2,283	2,307	2,768	3,232
Debtors	1,294	1,534	1,820	2,232	2,755
Cash & Bank balance	31	50	59	97	106
Loans & advances and others	759	915	866	854	904
Current Liabilities & Prov					
Creditors	1,162	1,366	1,861	2,679	3,305
Other liabilities & provisions	186	262	286	325	382
Net Current Assets	**2,641**	**3,155**	**2,904**	**2,947**	**3,309**
Application of Funds	**4,562**	**5,819**	**6,276**	**6,472**	**6,661**

Per share data

Year-ended March 31	FY13	FY14	FY15	FY16e	FY17e
No. of shares (m)	24	24	24	24	24
BVPS (INR)	67.2	84.2	91.1	104.4	130.7
CEPS (INR)	24.1	26.5	21.8	27.7	41.8
DPS (INR)	-	-	-	-	-

Margins (%)

Year-ended March 31	FY13	FY14	FY15	FY16e	FY17e
EBITDA	12.2	11.2	10.2	10.1	11.7
EBIT	9.6	8.7	6.6	7.1	9.0
PAT	5.0	4.9	2.2	3.0	4.7

Source: Company, Antique

Cash flow statement (INRm)

Year-ended March 31	FY13	FY14	FY15	FY16e	FY17e
EBT	**492**	**285**	**440**	**905**	
Depreciation & amortisation	237	334	346	373	
Interest expense	225	302	328	304	
Other Adjustments	(41)	(1)	21	15	
(Inc)/Dec in working capital	(469)	322	(16)	(368)	
Tax paid	(89)	(92)	(119)	(270)	
CF from operating activities	**356**	**1,150**	**1,001**	**960**	
Capital expenditure	(966)	(1,040)	(500)	(200)	
CF from investing activities	**(966)**	**(1,040)**	**(500)**	**(200)**	
Inc/(Dec) in share capital	-	-	(10)	-	
Inc/(Dec) in debt	853	202	(125)	(447)	
Dividends & Interest paid	(225)	(302)	(328)	(304)	
CF from financing activities	**628**	**(100)**	**(463)**	**(751)**	
Net cash flow	**19**	**9**	**38**	**9**	
Opening balance	31	50	59	97	
Closing balance	**50**	**59**	**97**	**106**	

Growth indicators (%)

Year-ended March 31	FY13	FY14	FY15	FY16e	FY17e
Revenue	NA	13.1	12.2	17.4	23.4
EBITDA	NA	3.4	(2.2)	21.9	42.2
PAT	NA	9.8	(52.1)	66.1	97.7
EPS	NA	9.7	(52.1)	66.1	97.7

Valuation (x)

Year-ended March 31	FY13	FY14	FY15	FY16e	FY17e
P/E	25.7	23.4	48.9	29.5	14.9
P/BV	5.8	4.7	4.3	3.8	3.0
EV/EBITDA	13.8	14.3	14.8	12.0	8.1
EV/Sales	1.7	1.6	1.5	1.2	0.9
Dividend yield (%)	0.0	0.0	0.0	0.0	0.0

Financial ratios

Year-ended March 31	FY13	FY14	FY15	FY16e	FY17e
RoE (%)	22.7	22.1	9.1	13.6	22.4
RoCE (%)	15.3	13.8	9.7	12.0	18.3
Debt/Equity (x)	1.8	1.8	1.8	1.5	1.1
EBIT/Interest (x)	3.1	3.2	1.9	2.3	4.0

Source: Company Antique

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