Century Plyboards (I) – BUY

30 November 2015

Growth to accelerate in 2H

At our recent meeting with Century Ply (CPBI), management indicated that demand has improved from mid August at the onset of the festive season and 2H is likely to be better than 1H. CPBI is expecting 10-15% revenue growth in FY16 (this works out to 16% YoY growth in 2H at the lower band), primarily driven by volume growth in the economy segment brands. Management opined that Ebitda margins are likely to remain at ~17% since CPBI is procuring more timber from Laos (15% cheaper) to offset the increase in Myanmar timber prices (15% hike since May). We expect likely economic revival and expansions in particleboard, MDF, and possibly laminates to boost revenue growth from FY17 and drive 18% earnings Cagr through FY15-18. The stock trades at 16x PER on our FY18 estimates.

Sainik likely to expedite volume growth: CPBI registered a muted 5% YoY revenue growth in 1HFY16 owing to sluggishness in the economy. Management is confident of 10% overall revenue growth in FY16 with 20-25% growth in laminates; ply growth is likely to be driven by Sainik and Maxima. Prices are not likely to be cut in order to gain market share. However, given an increasing proportion of economic segment sales, average realisation is likely to reduce [Sainik with 15% of volumes, is 15% cheaper than Century PF, the (flagship brand)].

Efforts to revive waning raw material benefits: CPBI's operating margins are currently 17%, higher than that of peers, owing to lower timber costs and strong brand power. However, royalty on timber (60% of total timber cost) has increased 25%. Management is taking efforts to maintain these margins by procuring raw material from other sources such as Laos/Indonesia (15%/30% cheaper than timber in Myanmar).

Market mix change to help gain share from unorganized players: CPBI is not only increasing focus on ply volumes of Sainik and Maxima, it is also setting up a Rs600mn particleboard plant of 180cbm per day (31% expansion). The plant is likely to commission in Jan 2016 in Chennai and a 600cbm per day MDF plant for Rs2.4bn (at ~3/4ths the average replacement cost) should commission by FY17-end. This is likely to boost revenue growth in FY17 and help CPBI gain market share.

CMP	**Rs184**
12-mth TP (Rs)	**222 (21%)**
Market cap (US$m)	**612**
Enterprise value(US$m)	**686**
Bloomberg	**CPBI IN**
Sector	**Mid-caps**

Shareholding pattern (%)

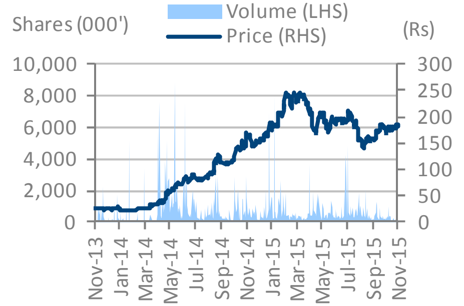
Promoter	73.3
FII	10.7
DII	3.4
Others	12.5

52Wk High/Low (Rs)	262/137
Shares o/s (m)	222
Daily volume (US$ m)	1.0
Dividend yield FY16ii (%)	1.1
Free float (%)	26.7

Price performance (%)

	1M	3M	1Y
Absolute (Rs)	2.5	16.2	10.8
Absolute (US$)	(0.2)	15.0	3.8
Rel. to Sensex	6.7	16.7	19.0
Cagr (%)		**3 yrs**	**5 yrs**
EPS		28.1	13.8

Stock performance



Financial summary (Rs m)

Y/e 31 Mar, Parent	FY14A	FY15A	FY16ii	FY17ii	FY18ii
Revenues (Rs m)	12,840	15,648	16,743	19,757	23,709
Ebitda margins (%)	*11.5*	*16.0*	*17.0*	*16.5*	*16.0*
Pre-exceptional PAT (Rs m)	669	1,508	1,927	2,102	2,474
Reported PAT (Rs m)	669	1,508	1,927	2,102	2,474
Pre-exceptional EPS (Rs)	3.0	6.8	8.7	9.4	11.1
Growth (%)	*27.1*	*125.3*	*27.8*	*9.0*	*17.7*
IIFL vs consensus (%)			*4.0*	*(8.7)*	*0.2*
PER (x)	**61.2**	**27.1**	**21.2**	**19.5**	**16.5**
ROE (%)	*24.7*	*44.4*	*42.1*	*35.0*	*32.4*
Net debt/equity (x)	1.6	1.3	0.9	1.0	0.6
EV/Ebitda (x)	30.8	18.3	16.0	14.6	12.2
Price/book (x)	14.1	10.6	7.8	6.1	4.8

Source: Company, IIFL Research. Priced as on 27 November 2015

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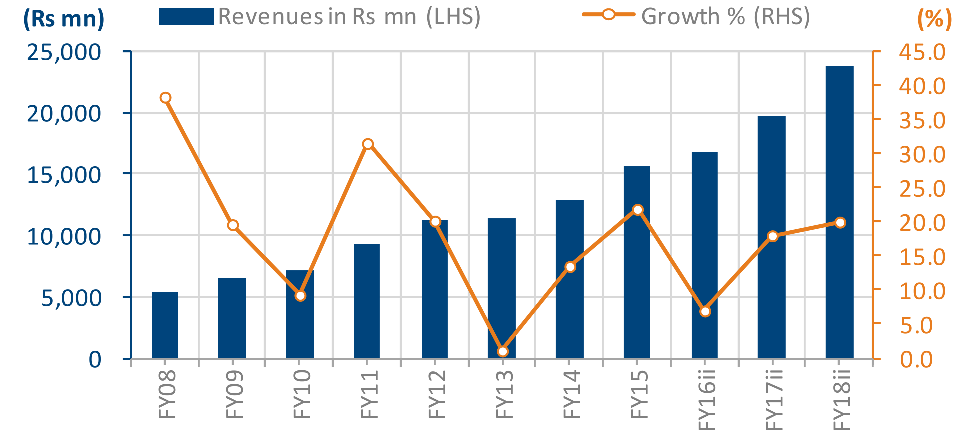
2H to witness an uptick in revenue growth: CPBI registered a modest 5% revenue growth in 1H owing to depressed ply volume growth and a high base due to Diwali occurring in 2Q last year. Management witnessed pickup in ply sales from mid August onwards and seeing further improvement in demand in the current quarter. It is confident of 10-15% revenue growth in FY16, which works out to 16% revenue growth in 2H, primarily driven by volume growth. The laminates segment is likely to grow 20-25%.

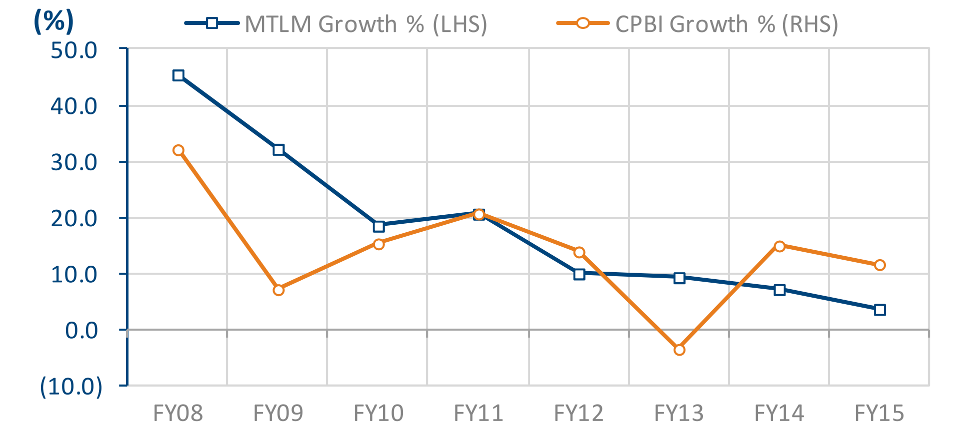
CPBI's economy segments (Sainik and Maxima) are likely to drive volume growth. Sainik's volumes grew 38% in 2QFY16. Sainik currently contributes to 15% of volumes. This proportion is likely to go up to 50% with the introduction of GST. Sainik is 15% cheaper than Century PF and prior to the aggressive marketing spend, it had higher operating margins than Century PF. Premium brands of CPBI such as Architect ply are 2x Century's Club prime brand and are not stocked by dealers and are distributed on order basis.

Figure 1: Revenue growth trend for CPBI



Source: Company, IIFL Research

Figure 2: Volume growth trend – CPBI vs. Greenply



Source: Companies, IIFL Research

Margins to be intact: CPBI expects to maintain 17% margins for FY16. Royalty prices (60% of total timber cost) increased 25%, leading to an increase in raw material cost by 15%. CPBI's raw material cost forms 54% of sales. Efforts to purchase timber from Laos and Indonesia, which is 15% and 30% cheaper than Myanmar timber respectively (~USD430 per cbm) would address this issue. Currently, timber is procured in equal proportion from Myanmar and Laos. With increase in timber cost from Myanmar by 15% since May, the proportion of timber procured from Laos is likely to increase. Additionally, strong growth in the laminates and CFS segments is likely to support margins. The company procured timber for a brief period from Papua New Guinea but this was not well accepted in the Indian market.

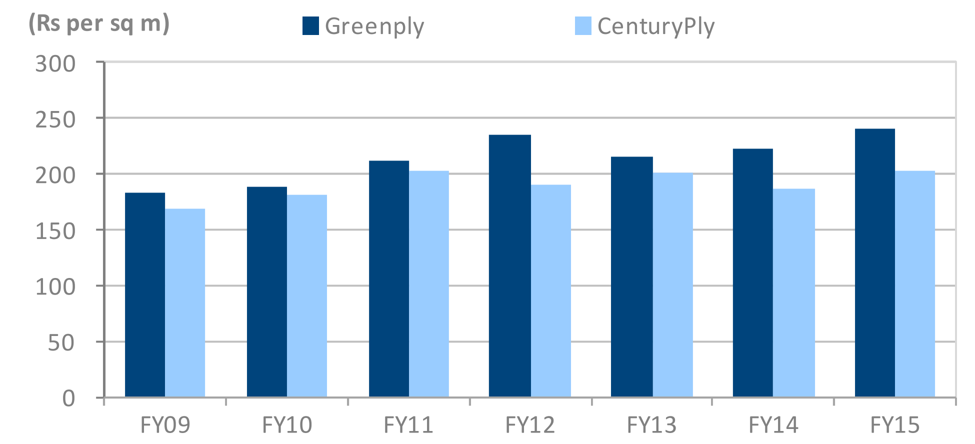
Figure 3: Timber cost break up

USD per cbm	Previously	Revised
Royalty	244	306
Contractor charges	39	39
Middleman margin	67	67
Transportation	17	17
Timber cost in Myanmar	**367**	**428**
Timber cost in Laos		**364**
Timber cost in Indonesia		**299**

Source: Company, IIFL Research

CPBI is not likely to cut prices to gain market share. The company, like its peers, has offered various discount schemes in the last few quarters, depending on the demand situation. No player has officially cut prices in FY16. On an average, CPBI charges 5% premium in its flagship products over its closest peer. However, with the share of economic segment sales increasing, average realisation has been below that of its closest peer, and the gap is widening.

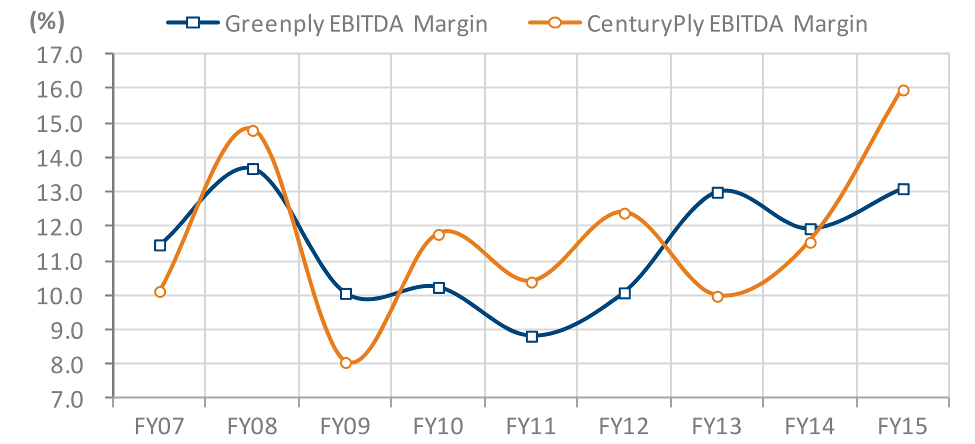
Figure 4: Average realization – Century vs Green



Source: Companies, IIFL Research

However, INR depreciation presents a risk to operating margins if it is not passed immediately. Timber is purchased in USD from Laos and Myanmar and imported raw materials form 65% of total raw material cost. Every Re1 depreciation in INR is likely to depress margins by 1.5%. Ad expenditure is likely to maintain at 4% of revenues.

Figure 5: CPBI vs Greenply Ebitda margins

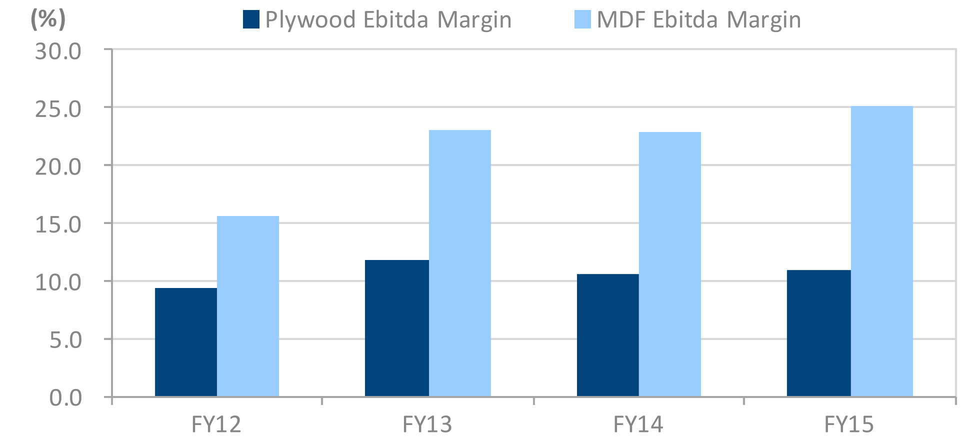


Source: Companies, IIFL Research

Product portfolio undergoing a change: CPBI, which primarily was present in premium plywood segments, is gradually altering its mix towards economy segment ply, particleboard, and MDF. Particleboard is made by combining fine sawdust and is less durable and more economical than MDF, which is made from combining small wood chips. These two types are seeing more acceptance in the non-residential market to which CPBI currently caters, only to the extent of 15% (~35% in case of its closest peer).

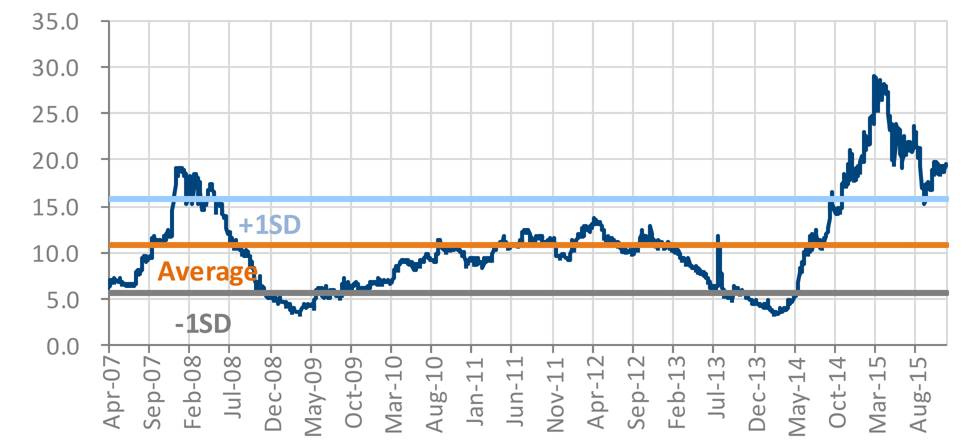
Realisations of MDF are on an average half of that of plywood due to cheaper raw material costs and fewer core layers as opposed to ply. However, historical data from Greenply shows that MDF makes Ebitda margin of 10pps more than plywood. Greenply's ROCE in MDF, which was at 22%/18% in FY13/14, 200bps lower than ROCE of ply, was 26% in FY15 (21% for ply). Initially, to establish the brand in the market, CPBI is likely to price MDF at a discount to existing players.

Figure 6: Greenply Ebitda margins – Ply vs MDF



Source: Company, IIFL Research

Figure 7: PE Chart of CPBI



Source: Bloomberg, IIFL Research

The MDF industry size is ~Rs35bn and does not have any unorganized players. The anti dumping duty of USD46.09/cbm (12% of Greenply's MDF realisation) levied in October 2015 for the next 5 years, is likely to boost the domestic MDF industry growth.

Aggressive expansion plans to sustain growth: CPBI's particleboard greenfield of 180cbm per day in Chennai is likely to commence in Jan 2015. Its MDF 600cbm per day expansion in Punjab of Rs2.5bn (70% funded by debt) is likely to commission in FY17 end. Capex of the MDF plant is at 24% discount to the average replacement cost due to equipment ordered from China. Management is confident of the suppliers' credibility and it has verified them adequately. Additionally Rs0.5bn will be spent on 10MW CPP for the plant, which will be commissioned following ramp-up of the MDF plant. The company has already spent Rs750mn on the MDF plant. The plant would also consist of a ply press. We expect the company to expand in the laminates division also by FY17, given that it is running at 90% utilisation (10-15% market share of the organized sector currently).

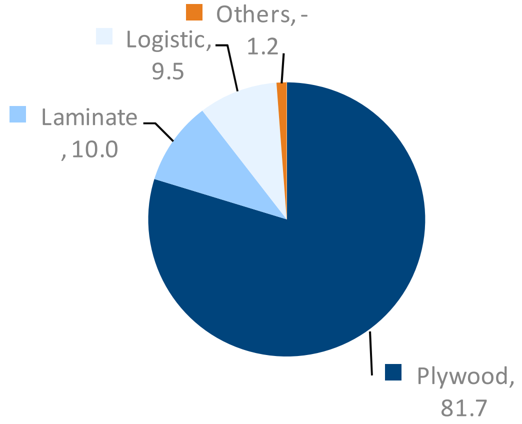
Background: CPBI is India's leading plywood manufacturing company with six manufacturing units in India and one in Myanmar. In India, it has plants in Haryana in north, Tamil Nadu in south, West Bengal in east, Assam in north-east, Gujarat in west, and Uttarakhand in the central region. CPBI is promoted by first-generation promoters. Mr. Sajjan Bhajanka and Mr. Sanjay Agarwal are the key promoters. Mr. Vishnu Khemani, Mr. Prem Bhajanka and Mr. H.P Agarwal are the other promoters. All promoters are first-generation entrepreneurs with over 30 years of experience in plywood and related products. CPBI's other two major business segments are laminates and logistics. CPBI is India's third largest laminate producer; laminates accounted for 19% of CPBI's revenue in FY14. CPBI recently has doubled laminate capacity from 2.4m sheets to 4.8m sheets. CPBI operates two container freight stations near Kolkata Port area (0.1 m sqm); CFS operations were started in FY09. This is the first privately owned CFS in eastern India.

Management

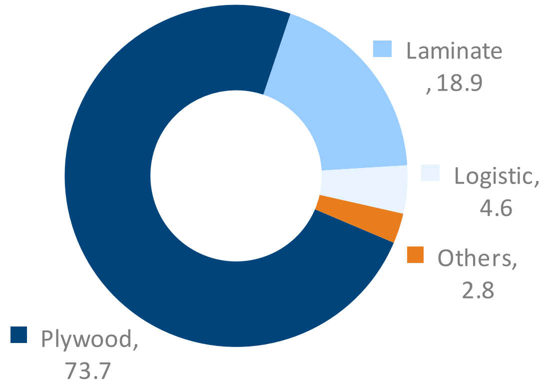
Name	Designation
Sajjan Bhajanka	Chairman
Hari Prasad Agarwal	Vice Chairman
Sanjay Agarwal	Managing Director
Arun Julasiaria	CFO

Greenply Inds, Archidply Inds

EBIT mix (%) - FY15



Revenue mix (%) - FY15



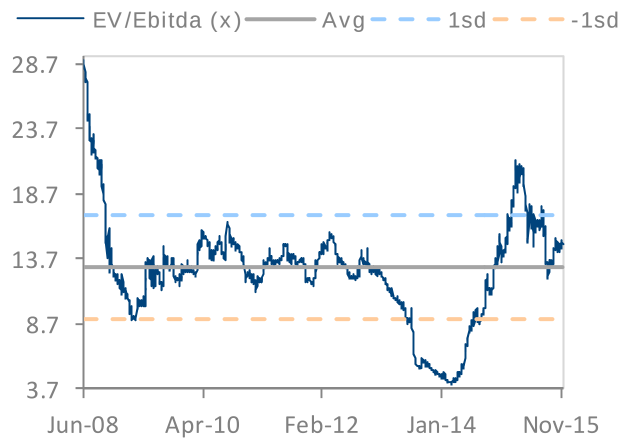
Assumptions

Y/e 31 Mar, Parent	FY14A	FY15A	FY16ii	FY17ii	FY18ii
Sales growth (%)	13.5	21.9	7.0	18.0	20.0
Ebitda margin (%)	11.5	16.0	17.0	16.5	16.0
Effective tax rate (%)	3.4	16.1	12.0	14.0	14.0

Source: Company data, IIFL Research

PE chart

EV/Ebitda



Financial summary

Income statement summary (Rs m)

Y/e 31 Mar, Parent	FY14A	FY15A	FY16ii	FY17ii	FY18ii
Revenues	**12,840**	**15,648**	**16,743**	**19,757**	**23,709**
Ebitda	1,482	2,498	2,846	3,260	3,793
Depreciation and amortisation	(332)	(448)	(448)	(572)	(752)
Ebit	1,150	2,050	2,398	2,688	3,041
Non-operating income	95	181	181	181	181
Financial expense	(551)	(433)	(389)	(425)	(345)
PBT	693	1,798	2,190	2,444	2,877
Exceptionals	0	0	0	0	0
Reported PBT	693	1,798	2,190	2,444	2,877
Tax expense	(24)	(290)	(263)	(342)	(403)
PAT	669	1,508	1,927	2,102	2,474
Minorities, Associates etc.	0	0	0	0	0
Attributable PAT	**669**	**1,508**	**1,927**	**2,102**	**2,474**

Ratio analysis

Y/e 31 Mar, Parent	FY14A	FY15A	FY16ii	FY17ii	FY18ii
Per share data (Rs)					
Pre-exceptional EPS	3.0	6.8	8.7	9.4	11.1
DPS	1.0	1.3	2.0	2.5	2.5
BVPS	13.1	17.4	23.7	30.3	38.5
Growth ratios (%)					
Revenues	13.5	21.9	7.0	18.0	20.0
Ebitda	31.3	68.6	13.9	14.5	16.4
EPS	27.1	125.3	27.8	9.0	17.7
Profitability ratios (%)					
Ebitda margin	11.5	16.0	17.0	16.5	16.0
Ebit margin	9.0	13.1	14.3	13.6	12.8
Tax rate	3.4	16.1	12.0	14.0	14.0
Net profit margin	5.2	9.6	11.5	10.6	10.4
Return ratios (%)					
ROE	24.7	44.4	42.1	35.0	32.4
ROCE	16.5	26.7	27.6	24.8	23.3
Solvency ratios (x)					
Net debt-equity	1.6	1.3	0.9	1.0	0.6
Net debt to Ebitda	3.2	2.0	1.6	2.0	1.5
Interest coverage	2.1	4.7	6.2	6.3	8.8

Source: Company data, IIFL Research

Balance sheet summary (Rs m)

Y/e 31 Mar, Parent	FY14A	FY15A	FY16ii	FY17ii	FY18ii
Cash & cash equivalents	180	170	85	98	347
Inventories	2,927	3,200	3,551	4,216	5,089
Receivables	2,046	2,719	2,618	3,090	3,708
Other current assets	625	760	1,095	1,095	1,095
Creditors	742	652	698	823	988
Other current liabilities	584	924	924	924	924
Net current assets	**4,452**	**5,274**	**5,728**	**6,751**	**8,327**
Fixed assets	2,307	2,316	2,868	5,295	4,743
Intangibles	0	0	0	0	0
Investments	379	451	451	451	451
Other long-term assets	701	812	812	812	812
Total net assets	**7,839**	**8,852**	**9,859**	**13,309**	**14,333**
Borrowings	4,931	5,047	4,647	6,647	5,847
Other long-term liabilities	(5)	(70)	(70)	(70)	(70)
Shareholders equity	**2,914**	**3,876**	**5,282**	**6,733**	**8,557**
Total liabilities	**7,839**	**8,853**	**9,859**	**13,310**	**14,334**

Cash flow summary (Rs m)

Y/e 31 Mar, Parent	FY14A	FY15A	FY16ii	FY17ii	FY18ii
Ebit	1,150	2,050	2,398	2,688	3,041
Tax paid	(112)	(344)	(263)	(342)	(403)
Depreciation and amortization	332	448	448	572	752
Net working capital change	(845)	(832)	(540)	(1,010)	(1,327)
Other operating items	238	307	0	0	0
Operating cash flow before interest	764	1,629	2,044	1,908	2,064
Financial expense	(551)	(433)	(389)	(425)	(345)
Non-operating income	95	181	181	181	181
Operating cash flow after interest	**307**	**1,377**	**1,836**	**1,664**	**1,900**
Capital expenditure	**(482)**	**(533)**	**(1,000)**	**(3,000)**	**(200)**
Long-term investments	(239)	(107)	0	0	0
Others	(370)	(409)	0	0	0
Free cash flow	**(784)**	**328**	**836**	**(1,336)**	**1,700**
Equity raising	0	0	0	0	0
Borrowings	224	121	(400)	2,000	(800)
Dividend	(57)	(460)	(521)	(651)	(651)
Net chg in cash and equivalents	(617)	(11)	(85)	13	249

Source: Company data, IIFL Research

Disclosure : Published in 2015, © India Infoline Ltd 2015

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Name, Qualification and Certification of Research Analyst: J Radhakrishnan(CWA, CFA), Krithika Subramanian(Chartered Accountant)

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BUY - Absolute - Stock expected to give a positive return of over 20% over a 1-year horizon.

SELL - Absolute - Stock expected to fall by more than 10% over a 1-year horizon.

In addition, **Add** and **Reduce** recommendations are based on expected returns relative to a hurdle rate. Investment horizon for **Add** and **Reduce** recommendations is up to a year. We assume the current hurdle rate at 10%, this being the average return on a debt instrument available for investment.

Add - Stock expected to give a return of 0-10% over the hurdle rate, i.e. a positive return of 10%+.

Reduce - Stock expected to return less than the hurdle rate, i.e. return of less than 10%.

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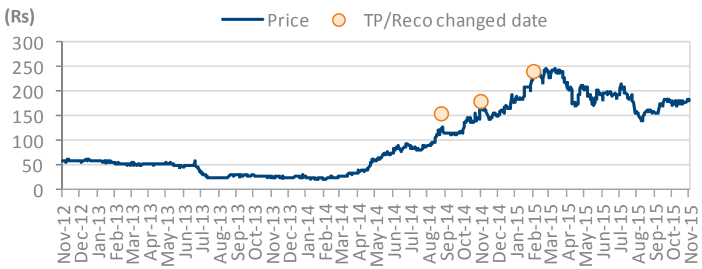
Century Plyboards: 3 year price and rating history



Date	Close price (Rs)	Target price (Rs)	Rating
19 Sep 2014	120	156	BUY
27 Nov 2014	151	181	BUY
27 Feb 2015	220	242	BUY