# Century Plyboards Ltd.

Initiating Note | Regular Coverage

Absolute : LONG
Relative : Overweight
14% ATR in 16 months

## Strong brand with complete product portfolio to play wood panel industry, initiate with LONG

Building Materials



| Rating Information | |
|---|---|
| Price (Rs) | 290 |
| Target Price (Rs) | 342 |
| Target Date | 30th Sep'18 |
| Target Set On | 07th Jun'17 |
| Implied yrs of growth (DCF) | 15 |
| Fair Value (DCF) | 306 |
| Fair Value (DDM) | 242 |
| Ind Benchmark | BSETCD |
| Model Portfolio Position | - |

| Stock Information | |
|---|---|
| Market Cap (Rs Mn) | 64,486 |
| Free Float (%) | 28.00 % |
| 52 Wk H/L (Rs) | 283.55/154.45 |
| Avg Daily Volume (1yr) | 351,148 |
| Avg Daily Value (Rs Mn) | 78 |
| Equity Cap (Rs Mn) | 222 |
| Face Value (Rs) | 1 |
| Bloomberg Code | CPBI IN |

| Ownership | Recent | 3M | 12M |
|---|---|---|---|
| Promoters | 72.0 % | 0.0 % | -1.3 % |
| DII | 4.0 % | -0.6 % | 0.7 % |
| FII | 12.8 % | 0.7 % | 0.7 % |
| Public | 11.2 % | -0.1 % | -0.1 % |

| Price % | 1M | 3M | 12M |
|---|---|---|---|
| Absolute | 14.0 % | 19.1 % | 76.4 % |
| Vs Industry | 13.4 % | 9.5 % | 46.8 % |
| Greenply | -6.1 % | -11.3 % | 21.8 % |
| Greenlam | 32.0 % | 31.2 % | 38.5 % |

Standalone Quarterly EPS forecast

| Rs/Share | 1Q | 2Q | 3Q | 4Q |
|---|---|---|---|---|
| EPS (17A) | 1.9 | 2.2 | 1.7 | 2.5 |
| EPS (18E) | 2.0 | 2.0 | 2.6 | 3.2 |

Century Plyboards Limited (CPL) is the co-market leader (mkt. share - 25%)/3rd largest player (mkt. share - 12%) in organized plywood & laminates market respectively. It is also foraying into MDF which is currently the fastest growing product in Wood Panel market. Currently, both the Plywood & Laminate markets have a large presence of unorganized players. We expect CPL to post Revenue/EBITDA CAGR of 21%/23% over FY17-FY20E with the new MDF capacity coming on stream and believe it to be one of the best plays on building material companies. We initiate coverage on CPL with a LONG rating and Sep'18 TP of Rs. 342 at 28x TTM EPS of Rs. 12.2.

**Plywood & Laminates to provide stability to the core business:** CPL's mid-range brand 'Sainik' is expected to do well and we expect it to post Volume/Revenue CAGR of 28%/34% over FY17-20E due to higher operating costs for unorganized players post GST and increasing brand awareness. Additionally, company's increased focus on Laminates coupled with lower GST rate (18% vs. 28% earlier) and move towards value added products is expected to drive the Laminates Revenue/EBITDA at 23%/25% CAGR over FY17-20E. We expect Plywood & Laminate businesses to post revenue CAGR of 16% over FY17-20E.

**MDF capacity to drive next leg of growth given shift from lower end plywood to MDF:** With pricing differential of MDF vs. cheap plywood low at ~10-12% and with better durability & newer applications, MDF is expected to remain one of the fastest growing (15-20%) wood panel product. Additionally, capacity constraint of existing players in North India will provide CPL with an opportunity given its strong distribution network and brand awareness to ramp up its production and gain market share in a fast growing category. With CPL's MDF capacity commencing post 1QFY18; we expect company to achieve 85% utilization levels by FY20E and MDF Volumes/Revenues are expected to grow at 33%/36% over FY18-21E with sustainable EBITDAM of 25%.

**ROIC improvement to be led by better product mix and MDF plant coming on stream:** With revenue mix moving towards higher margin MDF together with increased focus on Laminates and commissioning of MDF plant, we expect CPIL's Core ROIC to improve from 17% to 22% over FY17-20E.

**Key risks:** Slower pick-up in demand, pricing war in MDF & any adverse environmental regulation/ban are key downside risks.

Consolidated Financials

| Rs. Mn YE Mar | FY17A | FY18E | FY19E | FY20E |
|---|---|---|---|---|
| Sales | 18,187 | 22,690 | 27,943 | 31,976 |
| EBITDA | 3,120 | 3,968 | 5,083 | 5,840 |
| Depreciation | 593 | 808 | 1,059 | 1,147 |
| Interest Expense | 302 | 497 | 519 | 432 |
| Other Income | 226 | 154 | 155 | 157 |
| Reported PAT | 1,881 | 2,290 | 2,976 | 3,175 |
| Recurring PAT | 1,905 | 2,290 | 2,976 | 3,175 |
| Total Equity | 7,149 | 9,037 | 11,478 | 13,984 |
| Gross Debt | 6,167 | 8,420 | 7,697 | 5,846 |
| Cash | 672 | 592 | 704 | 756 |
| **Rs Per Share** | **FY17A** | **FY18E** | **FY19E** | **FY20E** |
| Earnings | 8.6 | 10.3 | 13.4 | 14.3 |
| Book Value | 32 | 41 | 52 | 63 |
| Dividends | 1.0 | 1.5 | 2.0 | 2.5 |
| FCFF | -4.2 | -7.2 | 8.1 | 13.0 |
| P/E (x) | 33.9 | 28.2 | 21.7 | 20.3 |
| P/B (x) | 9.0 | 7.1 | 5.6 | 4.6 |
| EV/EBITDA (x) | 22.4 | 18.2 | 14.1 | 11.9 |
| ROE (%) | 31 % | 28 % | 29 % | 25 % |
| Core ROIC (%) | 17 % | 17 % | 18 % | 22 % |
| EBITDA Margin (%) | 17 % | 17 % | 18 % | 18 % |
| Net Margin (%) | 10 % | 10 % | 11 % | 10 % |

### Analyst Corner

Time to reap the rewards of investment

# Company Snapshot

### How we differ from Consensus

| | - | Equirus | Consensus | % Diff | Comment |
|---|---|---|---|---|---|
| EPS | FY18E | 10.3 | 9.8 | 5 % | |
| | FY19E | 13.4 | 12.8 | 4 % | |
| Sales | FY18E | 22,690 | 22,743 | 0 % | |
| | FY19E | 27,943 | 26,958 | 4 % | |
| PAT | FY18E | 2,290 | 2,183 | 5 % | |
| | FY19E | 2,976 | 2,855 | 4 % | |

**Our Key Investment arguments:**

1. **Government's thrust on affordable housing likely to create huge growth opportunity in furniture industry:** CPIL enjoys a strong brand recall in both Plywood & Laminates. With Government's thrust on affordable housing and infrastructure development, company is well placed to grab the opportunity. We expect CPIL's commercial plywood brand 'Sainik' to be a major beneficiary of this (Volume/Revenues CAGR of 28%/34% over FY17-20E)
2. **GST will be a game changer for organized players:** Currently about 70%/40% of the plywood/laminates market is currently controlled by unorganized players. Reduction in GST rates in Laminates is expected to shift consumer preference from unbranded to branded players due to lower price differential while increased compliance costs in Plywood are expected to increase prices for unbranded players.
3. **Timely foray into fast growing MDF board coupled with capacity additions in Plywood & Laminates divisions is expected to lead to** Revenue/PAT CAGR of 21%/19% over FY17-FY20E

**Risk to Our View:**

1. **Lower level of GST compliance**
2. **Forex volatility**
3. **Slower pick-up of MDF sales**

- Growth of real estate sector and affordable housing
- GST leading to higher compliance costs for unorganized players

| Sensitivity to Key Variables | % Change | % Impact on EPS |
|---|---|---|
| Raw Material Cost | 1 % | -9 % |
| Interest Cost | 1 % | -5 % |
| - | - | - |

### DCF Valuations & Assumptions

| Rf | Beta | Ke | Term. Growth | Debt/IC in Term. Yr |
|---|---|---|---|---|
| 6.7 % | 0.9 | 11.8 % | 3.0 % | 39.7 % |

| - | FY18E | FY19E | FY20-22E | FY23-27E | FY28-32E |
|---|---|---|---|---|---|
| Sales Growth | 25 % | 23 % | 14 % | 10 % | 2 % |
| NOPAT Margin | 11 % | 12 % | 15 % | 15 % | 15 % |
| IC Turnover | 1.29 | 1.44 | 1.38 | 1.45 | 1.45 |
| RoIC | 16.6 % | 17.7 % | 22.7 % | 23.1 % | 22.7 % |
| | | | | | |
| Years of strong growth | 1 | 1 | 5 | 10 | 15 |
| Valuation as on date (Rs) | 80 | 96 | 193 | 260 | 280 |
| Valuation as of Sep'18 | 88 | 105 | 211 | 285 | 306 |

Based on DCF, assuming 15 years of 2% CAGR growth and 23% average ROIC, we derive current fair value of Rs. 280 and Sep'18 fair value of Rs. 306.

**Company Description:**

Century Plyboards (CPL) is the 28 years old company and mainly operates in three segments: plywood, laminates and container freight station (CFS). It is a co-market leader in plywood and controls 25% of the organized market. It is the third largest manufacturer of laminates after Greenply and Merino. It also has two CFS units (capacity: 156,000 TEUs) at Kolkata port in West Bengal.

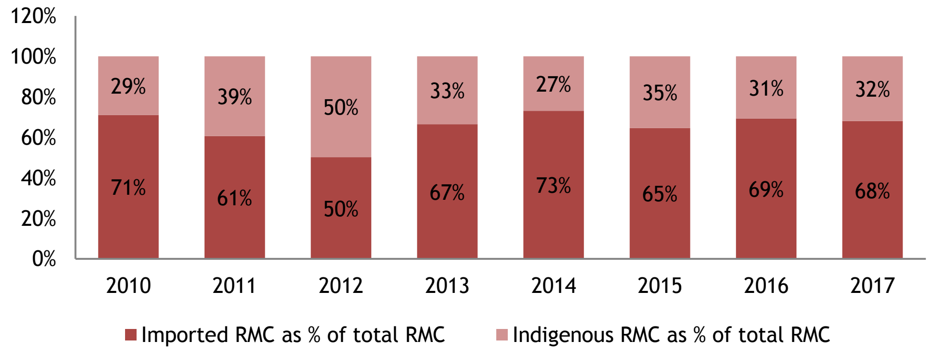
### Key Triggers

| Comparable valuation | | | Mkt Cap | Price | Target | EPS | | | P/E | | | BPS | P/B | RoE | | | Div Yield | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Company | Reco. | CMP | Rs. Mn. | Target | Date | FY17A | FY18E | FY19E | FY17A | FY18E | FY19E | FY17A | FY18E | FY17A | FY18E | FY19E | FY17A | FY18E |
| Century Ply | LONG | 290 | 64,486 | 342 | 30th Sep'18 | 8.6 | 10.3 | 13.4 | 33.9 | 28.2 | 21.7 | 32.1 | 7.1 | 31 % | 28 % | 29 % | 0.3 % | 0.5 % |
| Greenply Industries | ADD | 268 | 32,864 | 297 | 30th Sep'18 | 9.7 | 11.9 | 12.3 | 27.8 | 22.6 | 21.9 | 63.0 | 3.6 | 17 % | 17 % | 15 % | 0.2 % | 0.3 % |
| Greenlam | NR | 848 | 20,468 | NR | NR | 20.6 | 30.2 | 39.1 | 41.1 | 28.1 | 21.7 | 101.6 | 5.7 | 16 % | 22 % | 17 % | 0.1 % | 0.4 % |

## Key areas where the company has differed from competition

**A. Focus on raw material security through backward integration & opportunistic sourcing will help the company control its raw material costs in the Plywood division:** Typically, Core Veneer forms about 90% of the total wood required for Plywood while Face Veneer forms the rest 10% but is the most critical component. Core Veneer is easily available domestically due to abundant supply of timber plantations (softwood like Eucalyptus). However, Face Veneer derived from hardwoods like Myanmar Gurjan, which contributes around 10% to plywood making, is the most value-added component with high aesthetic appeal and costs more. It is largely imported from countries like Myanmar, Laos etc. where the wood quality is among the finest in the World and also because securing large tracts of land and growing hardwoods in India is a challenge. Additionally, there is a blanket ban on felling of naturally grown trees by the Indian Supreme court.

**Exhibit 1: % of Imported RM is high due to a rise in Veneer Imports from Myanmar & Laos**




**Source: Company, Equirus Securities**

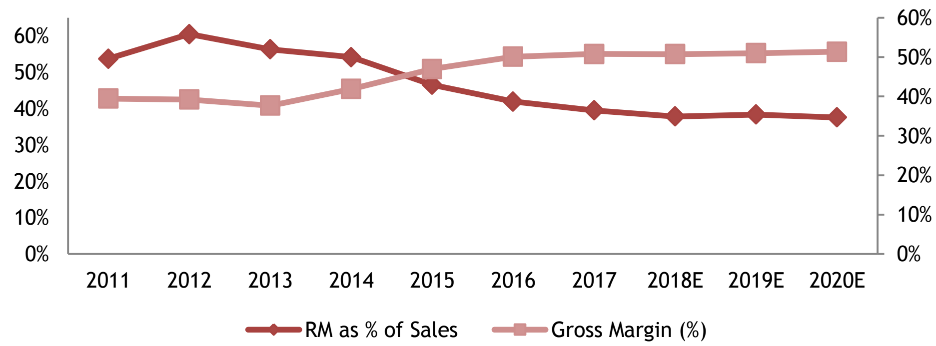
So, securing a steady source for Face Veneer supply is a key competitive advantage for Plywood companies. Additionally, raw timber loses around 30% moisture when made into Face Veneer and another 30% weight is lost following peeling which results in a significant decline in transportation costs for the company.

Post the ban on the export of raw timber by Myanmar government in April 2014, there was an acute shortage of Face Veneers for all the players and the prices shot up by 25-50%.Amongst the Indian manufacturers, only Century and Greenply succeeded in establishing manufacturing units in Myanmar post the ban. Century had the first mover advantage and this helped the company minimize the impact of the ban on its operations as well as capitalize on this opportunity by selling its surplus Face Veneers to both organized & unorganized players.

Century currently procures timber from auctions conducted by the Myanmar government nominated authority, processes it at its Myanmar unit and exports Face Veneers to India via its subsidiary Century Ply Myanmar Pvt. Ltd. All the payments to its subsidiary are done in USD. The backward integration offers a strong competitive advantage as other smaller operators (or the unorganized sector) are dependent on companies like Century (or alternate import destinations) to source critical raw material. To further strengthen its raw material supply, Century has established a presence in Laos by entering into purchase arrangements with several local entities for the purchase of Face Veneer and is also setting up an independent veneer unit in the country. Laos' timber harvesting is based on a quota system of provincial forest management plans with the Laotian Ministry of Agriculture and Forestry regulating logging plans across provinces.

As a result of this backward integration into Myanmar & Laos for sourcing of veneer, Century has seen its cost of materials as % of Sales going down from 56% to 39% over FY13-17 (see Exhibit 2) resulting in consolidated gross margin improvement from 38% to 51% over the same period

**Exhibit 2: Drop in Raw material cost as % of sales has led to substantial improvement in Gross margins over FY13-17**



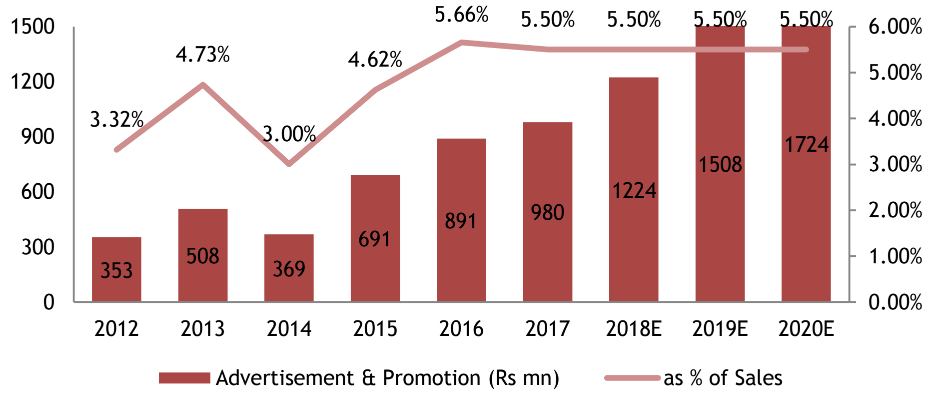

**Source: Company, Equirus Securities**

Though the complex regulatory process required for setting up a manufacturing unit in Myanmar and Laos is a strong entry barrier for new players, we believe that any unfriendly business decision or complete ban on exports of Timber/Veneer by either Myanmar or Laos's government may push up the prices of company's raw materials.

Additionally, with implementation of GST, there is a chance that cost of other raw materials like Timber might also go up due to unorganized players having to move to full billing. However, during recent months, company has been moving away from using Gurjan timber (from Myanmar) as face veneer to PQ/Pencil Cedar imported from Solomon Islands which quality wise comes between Gurjan/Keruing and Okoume (Gabon). Additionally, PQ Cedar costs around USD 340-350/cbm vs. Gurjan's costing of USD 550-600/cbm. Therefore we expect gross margin to remain flat over FY17-20E.

**B. Higher focus & investments into advertisements & promotion have helped Century create a strong brand recall:** Century has been aggressively doing its brand building via both above the line & below the line advertising and has spent nearly Rs.3.9bn for brand development in last decade. As Century's primary sales are derived from retail (90%) rather than institutional (10%) customers, the investment in branding is important for creating a brand recall among consumers. Company's tagline of "sab sahe mast rahe" and its tie up with Bollywood actors for TV commercials for its Plywood products have been able to create a very good impact on consumer's mind. Average spending on Advertisement & Promotion has grown at a CAGR of 38% (average ~4% of sales) over FY14-17 and we expect A&P to grow at 21% CAGR (average ~5% of sales) over FY17-20E on account of MDF launch and increased focus on Laminate business. Company's Plywood & Laminate brands have a strong presence in Western & Eastern India.

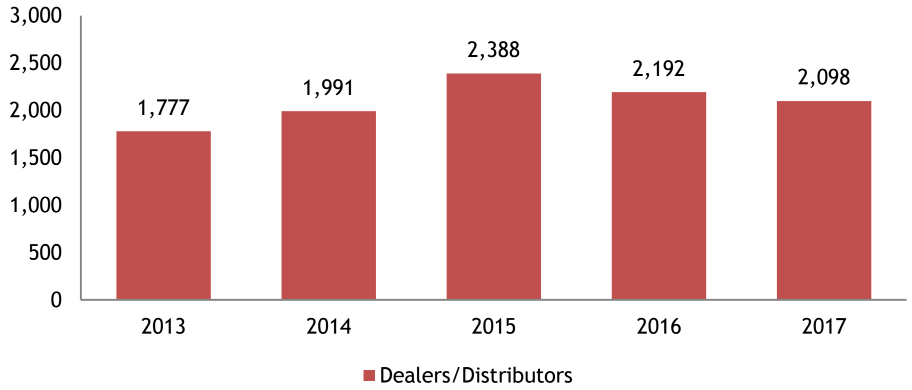
**Exhibit 3: Absolute A&P spending to increase going forward due to commissioning of MDF along with increased focus on developing Laminate business**




**Source: Company, Equirus Securities**

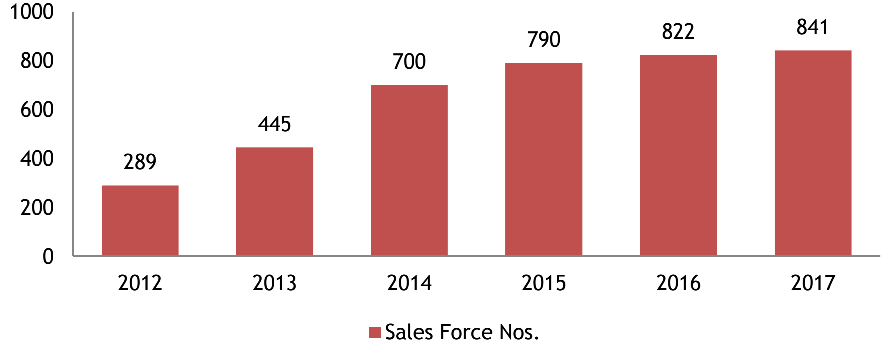
Company has also expanded its distribution network across India aggressively since last 3-4 years. Currently company's marketing infrastructure comprises of 35 marketing offices and depots, 7 regional distribution centers and more than 20,000 retail outlets. Over FY12-16, Century has increased its dealer network from 1,106 to 1,600 in order to cater to Tier II & Tier III cities along-with the Tier I & Metro cities. Going forward we expect company to continue is focus on retail segment and continue to enter newer markets.

**Exhibit 4: Company has been streamlining its dealer network and focusing more on reaching Tier II & Tier III cities**




**Source: Company, Equirus Securities**

**Exhibit 5: CPL has grown its Sales force by 20% on absolute basis over FY2014-17**




**Source: Company, Equirus Securities**

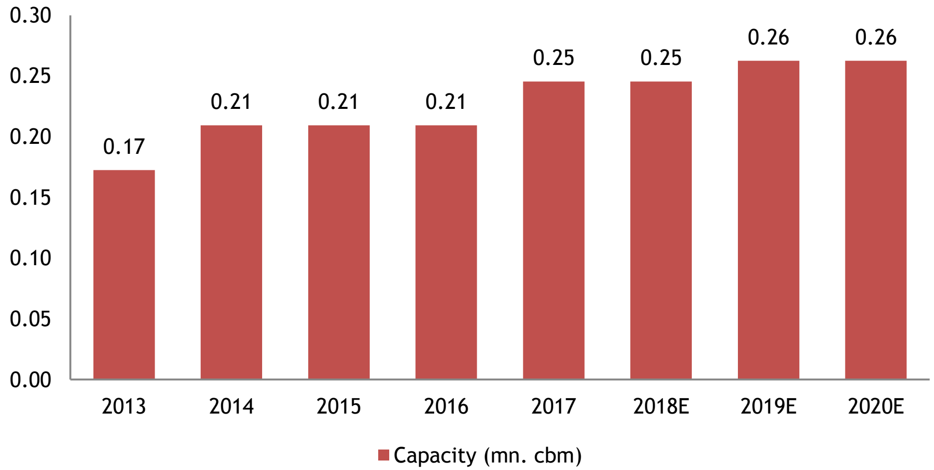
## Investment Rationale

**Plywood & Laminate divisions with a wide range of product offerings to remain cash cow &provide stability to the overall business**

Century currently is a co-market leader with Greenply Industries Ltd.in the premium plywood market and commands nearly 25% market share of organized market which currently stands at Rs. 54bn (Total market size – Rs. 180bn, Premium plywood market size – Rs. 54bn which includes deco ply and commercial veneer, Economy plywood market size – Rs. 110bn). CPL is the 3rd largest company Laminates manufacturing company in India with a market share of ~11% (Total market size – Rs. 37bn and Export market size - Rs. 9bn). CPL derived 76-77% of its revenues from the premium segment in FY17.

**Capacity expansion in Plywood division will ensure growth in slow moving plywood market:** Post the demerger of its Cement & Ferro Alloy business in FY13, Century went for immediate capacity expansion both in Plywood & Laminate Divisions. In Plywood, the capacity has grown from 0.17mn cbm to 0.21mn cbm and is further set to increase to 0.23mn cbm by FY19E with additional 17,000cbm/annum of plywood and particleboard capacity at its plant in Hoshiarpur, Punjab by FY19E involving a total capex of Rs. 640mn. It is waiting for clarity from GST implementation and how the competition, particularly the unorganized players, will move before incurring additional capex.

**Exhibit 6: Timely capacity expansion in Plywood over FY13-17 helped company in maintaining its market share, expansion to continue going forward but a slower pace**




Source: Company, Equirus Securities

**Presence across product categories in plywood business helps the company cater to a large consumer base:** CPL currently has presence in Premium & Mid-market segments while it does not have any presence in the cheap low quality plywood market. Luxury brands include 'Architect Ply', 'Club Prime' etc. while 'Centuryply' and 'Sainik' are the premium & economy brands respectively.

**Exhibit 7: Plywood pricing differential between Centuryply, Greenply & Unbranded players (for various thicknesses - Rs/sq. ft.)**

Luxury

| Thickness | Rs/Sq. ft. | | |
|---|---|---|---|
| | Century Architect ply | Green Club | Sonear |
| 4mm | 61 | 59 | 55 |
| 6mm | 75 | 72 | 71 |
| 8/9mm | 86 | 81 | 87 |
| 12mm | 110 | 105 | 106 |
| 15/16mm | 139 | 131 | 133 |
| 18/19mm | 156 | 148 | 146 |
| 25mm | 247 | 233 | 229 |

Waterproof (BWR 710)

| Thickness | Rs/Sq. ft. | | | | |
|---|---|---|---|---|---|
| | Century PF 710 | Green Prima Ply | Sonear | Kitply | Unorganized |
| 4mm | 47 | 47 | 42 | 44 | 30 |
| 6mm | 59 | 56 | 57 | 56 | 40 |
| 8/9mm | 68 | 66 | 67 | 67 | 52 |
| 12mm | 87 | 84 | 86 | 85 | 60 |
| 15/16mm | 110 | 106 | 109 | 106 | 78 |
| 18/19mm | 123 | 117 | 118 | 117 | 95 |
| 25mm | 194 | 185 | 176 | 179 | |

Commercial Grade

| Thickness | Rs/Sq. ft | | | | |
|---|---|---|---|---|---|
| | Sainik | Ecotec | Sonear | Kitply | Unorganized |
| 4mm | 32 | - | - | - | 20 |
| 6mm | 39 | 38 | 38 | 38 | 28 |
| 8/9mm | 46 | 45 | 45 | 46 | 35 |
| 12mm | 56 | 55 | 53 | 54 | 43 |
| 15/16mm | 72 | 70 | 71 | 72 | 57 |
| 18/19mm | 80 | 78 | 79 | 79 | 60 |
| 25mm | 127 | 129 | 119 | - | 85 |

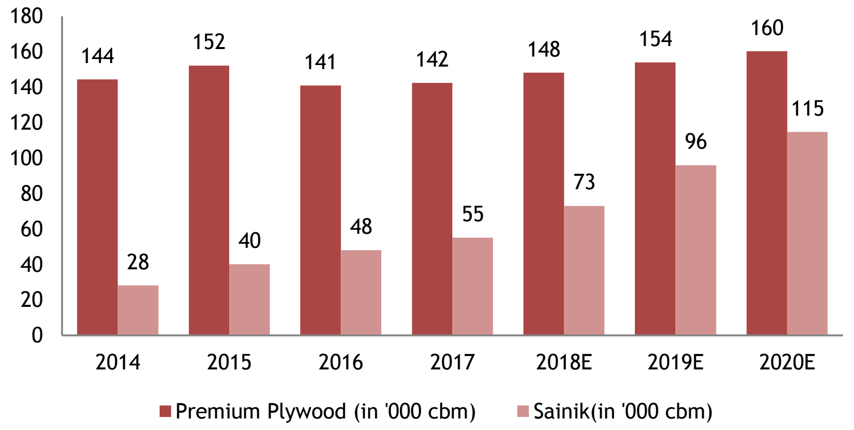
**Source: Equirus Securities**

Over FY13-17, the Plywood market size has increased from Rs. 120bn to Rs. 180bn and CPL was able to make effective use of its expanded capacity, strong branding initiative and distribution network leading to a volume/revenue CAGR of 7%/11% and succeeded in maintaining its market share at 25%. Additionally, the blended realizations for the Plywood segment grew at 3% CAGR with majority contribution coming from Commercial Veneer (5%/8% volume/realization CAGR) as company was able to sell excess imported Veneer in Indian markets in FY15 at very lucrative rates due to ban in Myanmar.

Company' Premium brands are priced 5-7% higher than Greenply. However, the premium & luxury segments (currently contributes ~80% of revenues) have seen growth slowdown particularly in the Metros & Tier I cities and growth rate is expected to be around 5-7% for next 2 years. So, company has increased its focus on developing its mid-market brand 'Sainik' which has led to the brand gaining a strong foothold in the economy value segment and is likely to be the main growth driver in the premium segment. The product is completely outsourced to Auro Sundaram which is a JV in which Century has 51% stake.

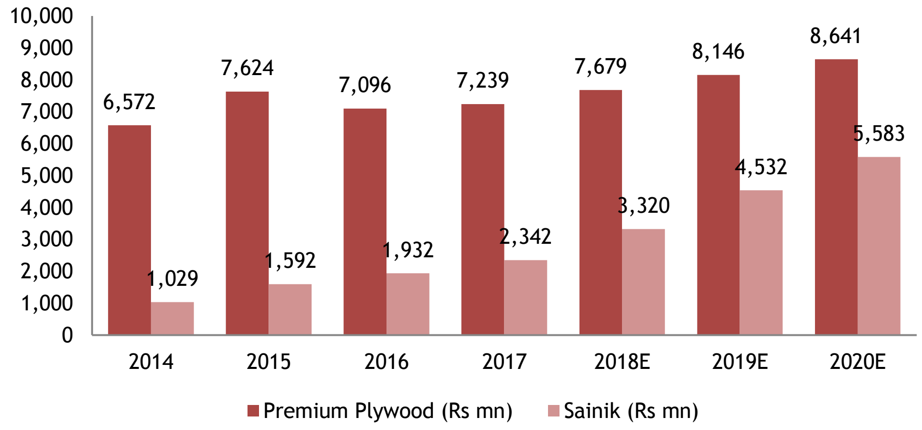
The pricing differential between Sainik and unbranded plywood is currently around 16-17% but dealer feedback suggest that quality wise 'Sainik' is around 20-25% superior. Over the last 3 years, Sainik's volumes/revenues have grown at 25%/32% CAGR with the brand contributing around 23-24% to the Plywood revenues in FY17. Over the next 3-5 years, we expect 'Sainik' to drive revenues for CPL's plywood business due to lower pricing differential between quality branded & sub-standard unbranded products. We expect Sainik to achieve volume/revenue CAGR of 28%/34% over FY17-20E with realization CAGR of 5% and brand contributing around 43% of Plywood sales by FY20E. We think that growth in premium segment for CPL to be muted over the next 2-3 years as demand for real estate continues to be sluggish. We expect volume/ revenue CAGR of 4%/6% in the premium segment over FY17-20E.

**Exhibit 8: Plywood volume growth to be led by Commercial brand 'Sainik'**




**Source: Equirus Securities**

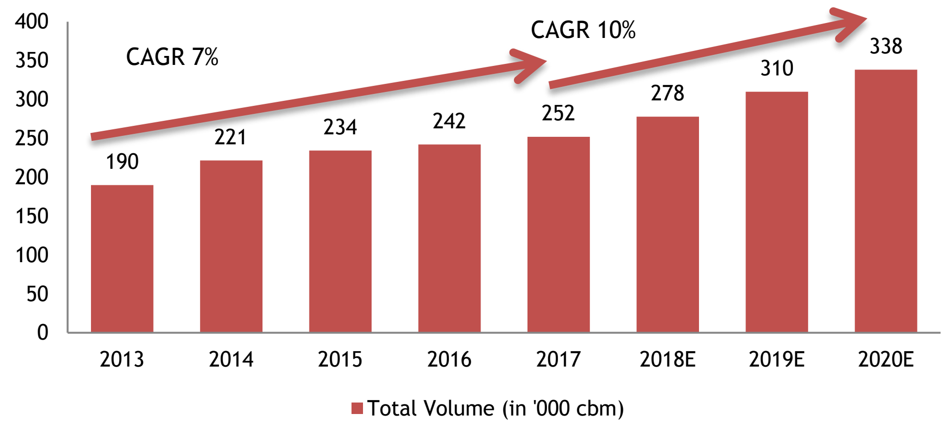
**Exhibit 9: Revenue contribution to be dominated by Premium brands but 'Sainik' revenues to see higher growth rate**




**Source: Equirus Securities**

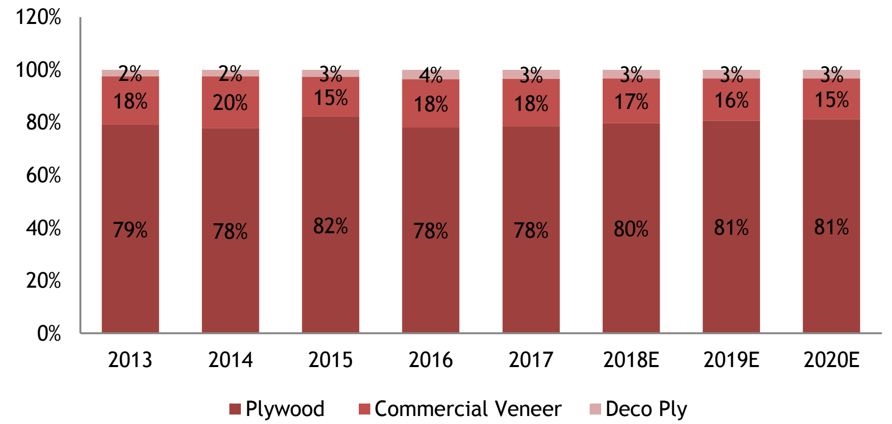
Going forward, Plywood & allied segment is expected to post volume/revenue CAGR of 10%/13% and average realizations to grow at 3% CAGR over FY17-20E with higher contribution from Plywood (12%/14% volume/revenue CAGR), particularly from commercial 'Sainik' brand, due to shift from unorganized towards branded products. We expect Plywood EBITDA to grow at 11% CAGR over the same time period with sustainable EBITDAM of 16%.

**Exhibit 10: Plywood & allied product division Volume Mix - Expect Plywood to continue contributing majorly to volumes going forward**



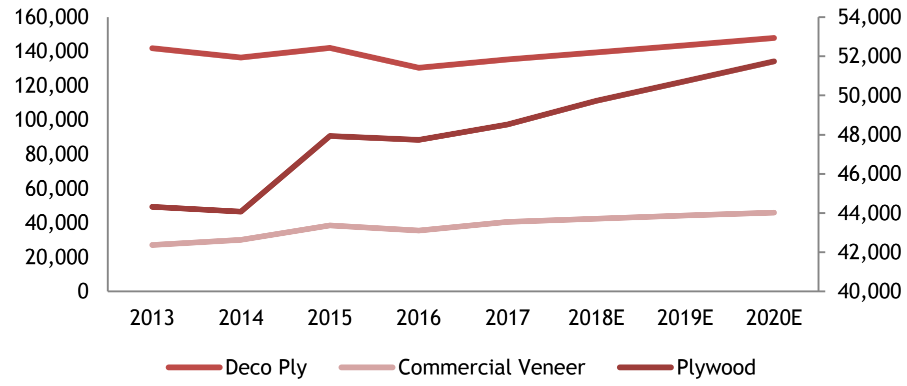

**Source: Equirus Securities**

**Exhibit 11: Expect Plywood, Commercial Veneer & Deco ply volumes to grow at 12%, 5% & 8% CAGR over FY17-20E**



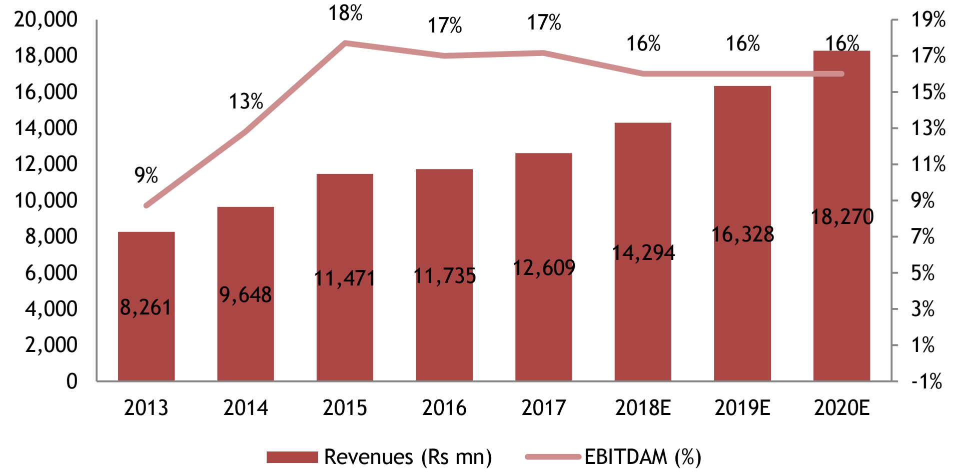

**Source: Equirus Securities**

**Exhibit 12: Expect realizations to improve marginally over FY17-20E**




**Source: Equirus Securities**

**Exhibit 13: We expect Plywood & allied product Revenue CAGR of 13% over FY17-20E with steady state EBITDAM of 16%**




**Source: Equirus Securities**

**Overseas Expansion plans:** In FY16, company has initiated the process of setting up a factory for manufacturing plywood in Laos through a 51%-owned SPV in a SEZ. This factory would be able to consume the entire quantity of core veneer produced by its existing timber processing units which are already set-up in Laos and it will bring the finished product to India. It expects the unit to produce and export Rs. 1.2bn worth of Plywood by FY18E.

**Laminates business to witness strong growth due to strong brand recall, new capacity coming on stream and favorable GST rate**

In Laminates, CPL has presence in 1.5mm, 1mm, 0.8mm & 0.6mm thick sheets. CPL's core focus is on 1mm & 0.8mm sheets since these have higher realizations and are more brand and quality driven while 1.5mm thick laminates are Specialty Laminates like Fire Retardant, Magnetic Laminate etc. manufactured for special purposes.

Company has been focusing on bringing new designs to the markets & refreshing catalogues every 9-12 months. It has commissioned full-sheet displays across 60 pan-India counters to enhance counter share and display space. It has also established "Inspiria" outlets in 12 cities to strengthen its laminate brands. Going forward, CPL plans to extend its priority partner program (Club One) with dealers to drive sales and increase brand visibility.

**Exhibit 14: Laminate pricing differential between various players (for 1mm thickness - Rs/sq. ft.)**

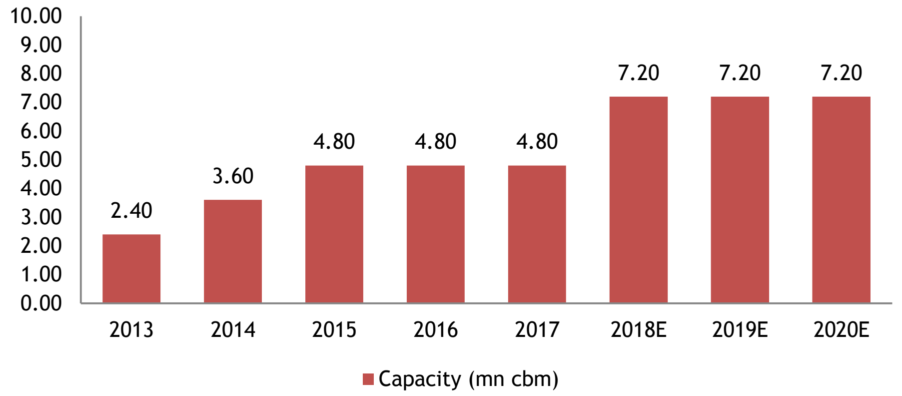
| Thickness (1mm) | Rs/sq.ft | | | | |
|---|---|---|---|---|---|
| | Durian | Rushil | Greenlam | Royal Touche | Century |
| **Suede Finish/Matt Finish** | 1,045 | 950 | 1,170/1,230 | 1,200 | 1,237 |
| **High Gloss** | 1,200 | 1,200 | 1,360 | 1,360 | 1,367 |

| Thickness (1mm) | Rs/sq.ft | | | | |
|---|---|---|---|---|---|
| | Airolam | Bell Laminates | Stylam | Levin | Optus |
| **Suede Finish/Matt Finish** | 1,130 | 1,090 | 915 | 1,060 | 1,040 |
| **High Gloss** | 1,320 | 1,290 | 1,380 | 1,160 | 1,150 |

Century has a fully integrated Laminate plant near Kolkata wherein capacity has been increased from 2.4mn sheets/annum to of 4.8mn sheets/annum over FY13-16.During the same period, the Laminate market size has increased from ~Rs. 30bn to Rs. 46bn (CAGR of 15%) and CPL utilized its expanded capacity effectively to become the 3rd largest Laminate player in the country.

The GST rate for the Laminates has come at 18% vs. 28% currently. This is expected to substantially benefit the organized players as the benefits from the lower tax rate would be immediately passed by the branded players to the consumers thereby lowering the pricing differential between the branded & unbranded products.

**Exhibit 15: Laminate capacity saw significant jump over FY13-17 and company plans to boost its capacity by 50% by FY18**

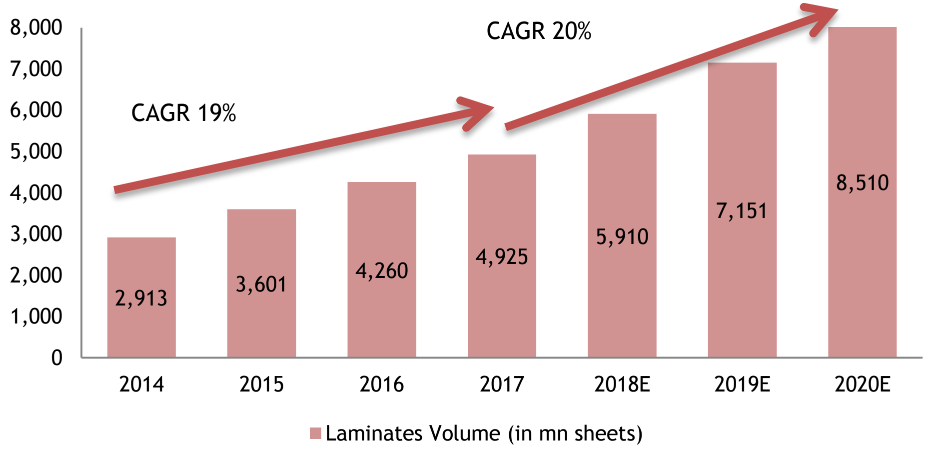



**Source: Company, Equirus Securities**

Over FY14-17, CPL achieved Laminates volume/revenue CAGR of 19%/20% while realizations grew at 1% CAGR. Laminate& allied products EBITDA grew at a CAGR of 51% over the same period aided by company's focus on high margin 1mm (50% of volumes) & 0.8 mm thick Laminates and strong brand recall among its consumers. Company currently gets nearly 30% of its laminates revenues from exports to Middle East & South East Asian countries. With the strong demand witnessed by CPL in laminates business, CPL is setting up 2 additional lines by FY18E for laminates at a cost of Rs. 450mn as the capacity utilization for its existing capacity has already reached around 97-100%. Upon completion of the capex CPL's capacity in laminates would be enhanced from 4.8mn cbm to 7.2mn cbm. The new line is expected to start operations by early 2HFY18.

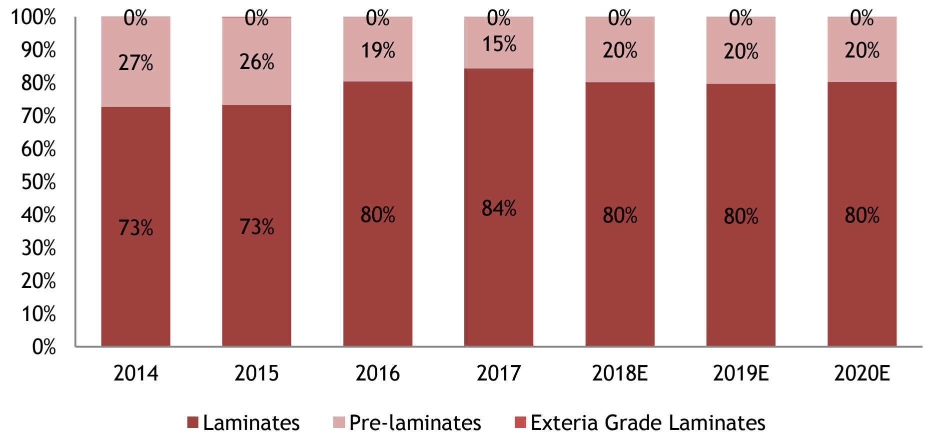
Going forward, we expect Laminate segment to post volume/revenue CAGR of 20%/22% and average realizations to grow at 2% CAGR over FY17-20E led by better growth due to lower GST rates and reduced pricing differential vs. unorganized players. Additionally, Pre-laminate division is expected to post volume/revenue CAGR of 32%/23% due to higher captive consumption from company's Particle Board unit. We expect Laminate & allied product division to post Revenue/EBITDA CAGR of 23%/25% over FY17-20E with sustainable EBITDAM of 16.5-17%.

**Exhibit 16: Expect Laminates volume to post 20% CAGR led by higher capacity utilization on expanded capacity and demand shift towards branded products post GST**



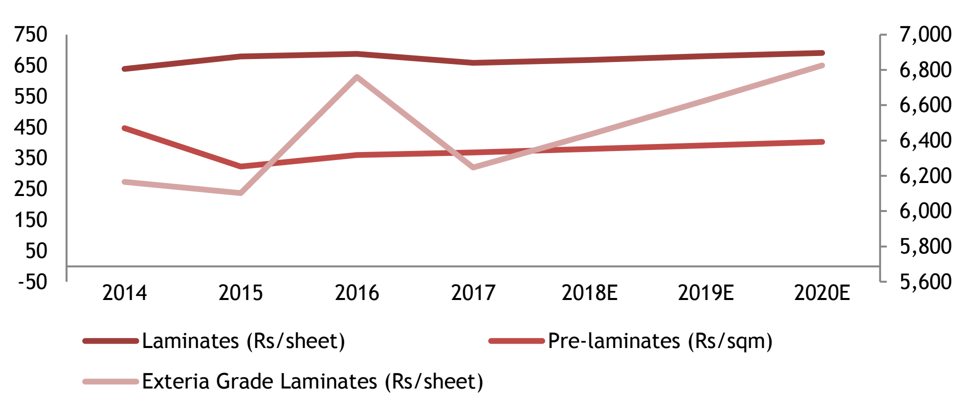

**Source: Company, Equirus Securities**

**Exhibit 17: Laminate & allied products division Volume Mix - Laminates to continue contributing majorly to volumes going forward**



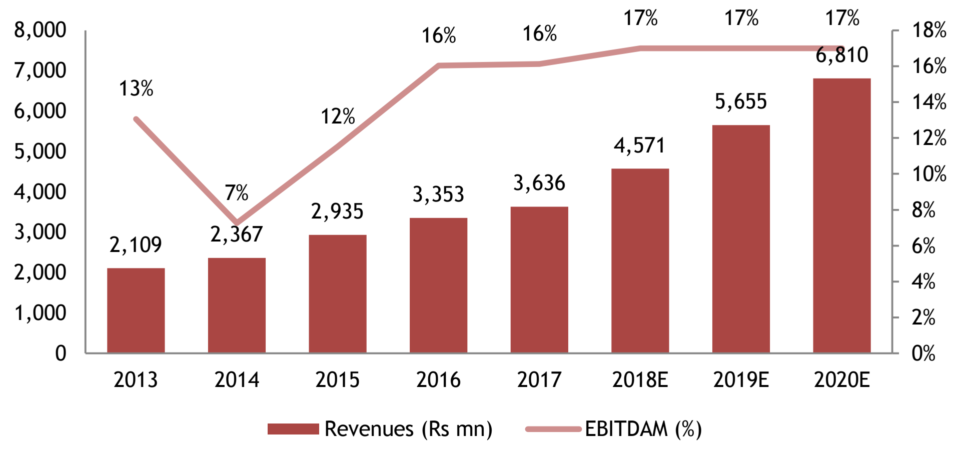

**Source: Company, Equirus Securities**

**Exhibit 18: Expect realizations to grow at 2% & 3% CAGR for Laminate & Pre-laminate over FY17-20E**




**Source: Company, Equirus Securities**

**Exhibit 19: Revenue/EBITDA growth to be led by higher utilization of Laminate division & Particle board divisions**




**Source: Company, Equirus Securities**

## MDF to be a key driver for the next leg of growth over coming 4 years

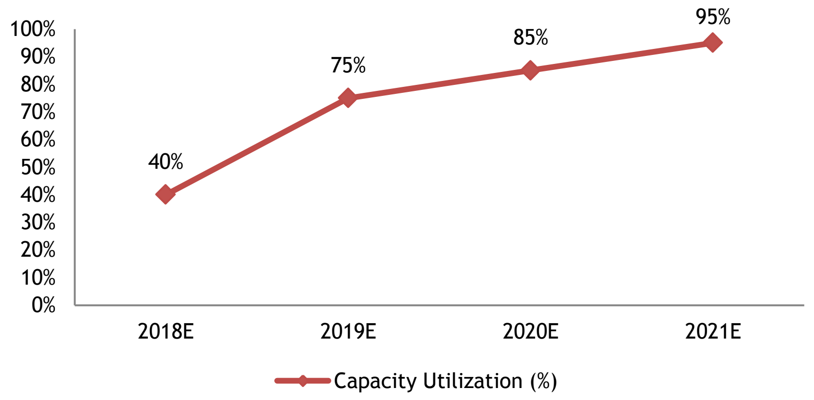
**MDF Foray to propel next leg of revenue growth:** CPL is planning to set up MDF manufacturing unit in Hoshiarpur, Punjab having a capacity of 600 cbm/day (198,000 cbm/annum) with a total capex of Rs. 4bn. The area near the plant is rich in plantation timber, a key raw material for manufacturing of MDF. The plant is expected to get commissioned by 1QFY18and will generate revenues of ~Rs. 5bn at peak capacity utilization.

For its MDF plant, CPL is importing the Hot-press from a Chinese company named "Yalian" which is the largest supplier of MDF machinery in China. In last 2-3 years, Chinese MDF manufacturers have hardly bought any plants from Europe and most of the machineries were supplied by Yalian (almost 30 lines) as they are cheaper than European ones by almost 50% but supposedly give equivalent output. The Refiner, which is the most critical component of an MDF plant, is being imported from an Austrian company Andritz while the Sanding machine is being imported from a Swiss company Steinemann Technology.

**Company's entry into MDF capacity will come at a very opportune time as other players are coming up with increased capacities in FY19:** GIL's MDF plant is also expected to reach its peak utilization by 1HFY18 while Action Tesa is also likely to face capacity constraints. Due to this, Century is likely to be in a sweet spot and will be able to cater to any incremental demand that might arise in Northern India which roughly accounts for ~30% of MDF sales in India. Company's plant in Punjab is in close proximity to the North Indian markets of NCR, Punjab, UP, Delhi etc. Since North India is a land locked, it is very difficult to bring in imported MDF from Western or South Indian ports due to prohibitive freight costs. MDF as a product will compete with Cheap Plywood which roughly accounts for ~Rs.40bn (~22% of industry sales). We believe that in terms of volumes this number would be over ~40% of the entire plywood industry.

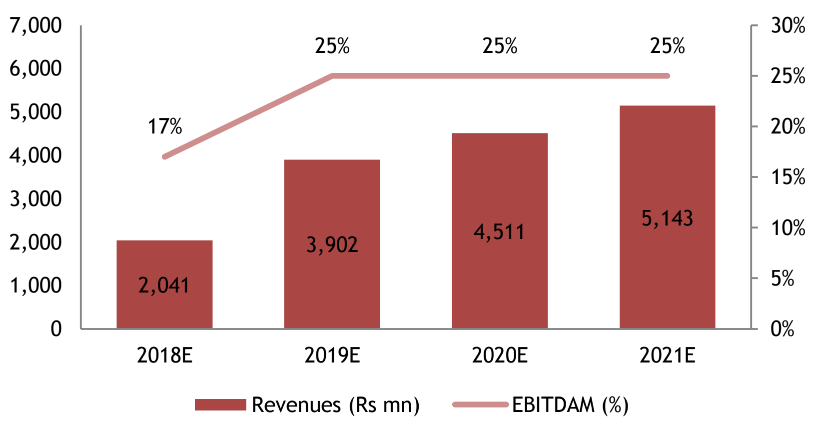
Additionally, there are not many Timber consuming plants/industries in Punjab due to which CPL would be able to get around 6-7% cost arbitrage on timber costs compared to Greenply & Action Tesa plants which are located in Uttarakhand and hence it can be more aggressive in developing the brand. Due to this, company expects to make 28-29% of steady state EBITDAM once plant operations stabilize (we have assumed 24-25% EBIDTAM). We expect MDF capacity utilization to reach 95% by FY21E and revenue/EBITDA CAGR of 36%/55% over FY18E-21E mainly driven by volume CAGR of 33%. The division is likely to contribute around13% of the total revenues by FY21E.

**Exhibit 20: MDF plant utilization to see significant ramp up over next 3 years**




**Source: Company, Equirus Securities**

**Exhibit 21: MDF Revenues to grow at 36% CAGR over FY18E-21E with EBITDAM of around 25% at peak utilization**



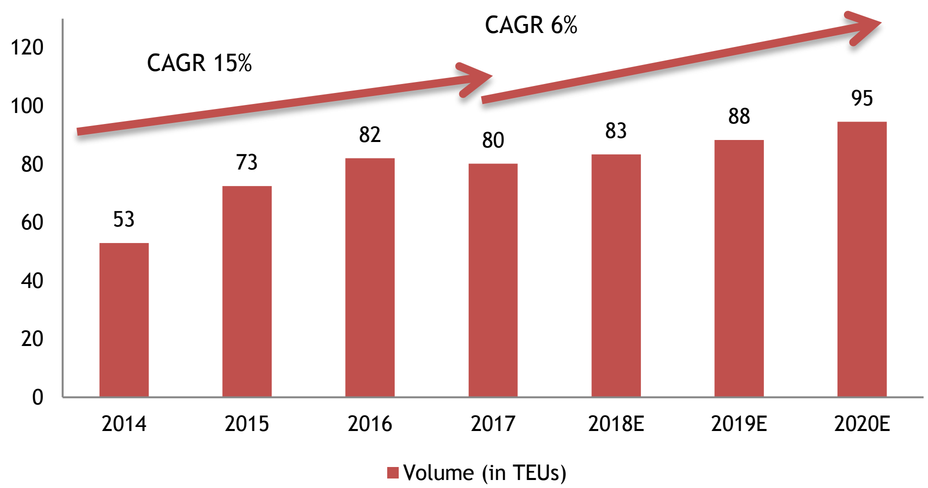

**Source: Company, Equirus Securities**

## CFS to remain a small but high margin business while new age products will provide incremental revenue stream over the long-term

**CFS Business:** Century has 2 CFS facilities covering 0.1mn sq. meter area at Kolkata port. It is one of the largest private facilities having a capacity of 156,000 TEUs (on 15 days dwelling time basis) spread across its 2stations- Sonai (40,000 TEUs) and Jingira Pool (116,000 TEUs) at the Kolkata Port. The CFS business has been operational since 2009 and contributes around 5% to the consolidated revenues. Over FY14-17, CFS Volumes, Revenues & EBITDA have grown at a CAGR of 15%, 17%&14% respectively. Company is also entitled to a 10 years tax benefit u/s 80IA of IT Act till 2019.

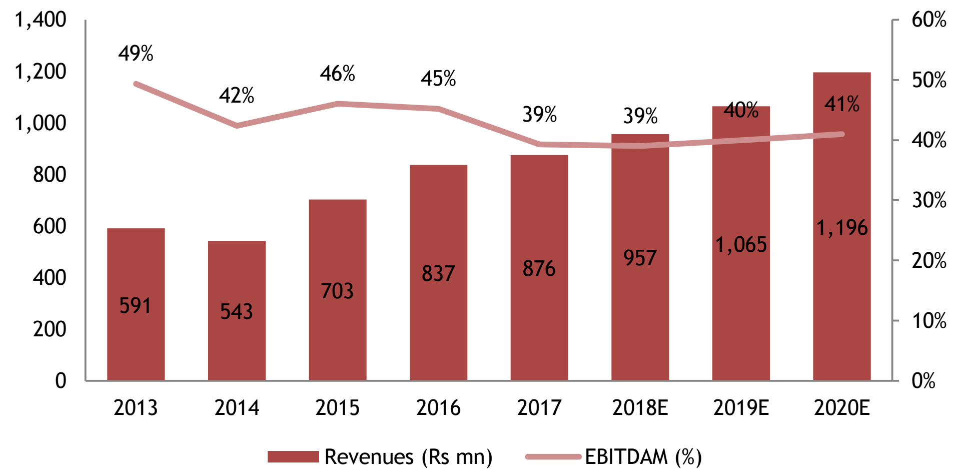
**CFS revenues to be driven by traffic growth at Kolkata Port trust:** Kolkata port registered 16% growth in container traffic in FY17 over FY16. The government has taken several measures to improve operational efficiency through. With government port connectivity schemes like Sagarmala as well as other infrastructure upgrades like mechanization, deepening the draft and speedy evacuations, the pace of growth is expected to accelerate in the coming years. Container traffic at the Kolkata port is expected to grow at 20-25% CAGR over next 4-5 years. However, there are several new ports/terminals planned to be set up in the vicinity of KoPT, which will result in increased competition in the vicinity. So, we expect the division to post revenue/EBITDA CAGR of 11%/13% over FY17-20E with EBITDA margin of around 40-41%.

**Exhibit 22: Expect CFS volumes to grow at 6% CAGR over FY17-20E**




**Source: Company, Equirus Securities**

**Exhibit 23: CFS's high EBITDA margin will provide support to Century's consolidated EBITDA generation**




**Source: Company, Equirus Securities**

**CPIL has done backward integration by setting up a particle board unit in Chennai which will also support company's pre-lamination division:**

Particle boards are mainly supplied to organized furniture manufacturers and is used for making modular furniture, kitchens etc. Earlier Century used to import particle boards, pre-laminate them and sell them in the market. For pre-lamination, it had two short cycle presses at Chennai (near its Plywood plant) and Kolkata. However, due to absence of organized furniture makers in Kolkata, it was not able to utilize its capacity optimally.

Company's peeling unit at Chennai generated a lot of wood wastage due to use of plantation timber and there are also a lot of Saw mills in and around Chennai which also generated wood wastage. So, it decided to setup a fully backward integration facility at its Chennai plant to manufacture particle boards using this wood wastage. The installed capacity of the plant is 54,000cbm/year (180cbm/day) and it incurred a capex of ~Rs. 650mn of which Rs. 500mn would be for plant & machinery and Rs. 150mn would be margin money + other expenses. The plant commenced production from Jul'16.

Century has also shifted its short cycle press from Kolkata to Chennai to facilitate lamination of its entire particle boards' capacity. Company expects peak revenue generation of Rs. 1.25bn with EBITDAM of around 20%. It would be sourcing saw dust both from its own peeling unit (50%) and nearby Saw mills (50%).We are building pre-laminate revenues to jump from Rs. 333mn to Rs. 838 (23% CAGR)led by higher captive consumption from the new Particle board division.

**Increased focus on providing wider product portfolio to serve newer markets will reduce dependence on Plywood:** Over the years, Century has been strengthening its business by expanding its product portfolio and venturing into newer segments. It strategically selects to enter under-addressed product segments since competition is limited, any brand upside translates into attractive market share, the brand does not remain a brand but graduates to a generic name and the company does not have to fight for market share but creates a market that did not exist. It launches the products via imports to test the markets to a point where the demand can justify setting up of a manufacturing facility. For instance, the Company introduced pre-laminated MDF and particle boards via imports. After these products had matured, the company initiated steps for setting-up particle board unit (already commissioned) and MDF unit.

Company launched decorative and molded panel doors in 2015 and introduced fibre cement and PVC boards in FY16 in-line with its strategy of creating a portfolio of non-wood panel products. It has entered the market with imported products and expects to get a 10% market share of the Rs. 10bn Fibre cement board market by 2020. It has also introduced wood-plastic composite panels test-marketed under the "Zykron" brand name and has a presence in laminated doors.

**Exhibit 24: Market Potential of New products in India over next few years**

| Product | Market Potential (Rs bn) |
|---|---|
| Engineered Doors | **15** |
| Cement Boards | **10** |
| WPC Boards | **6** |

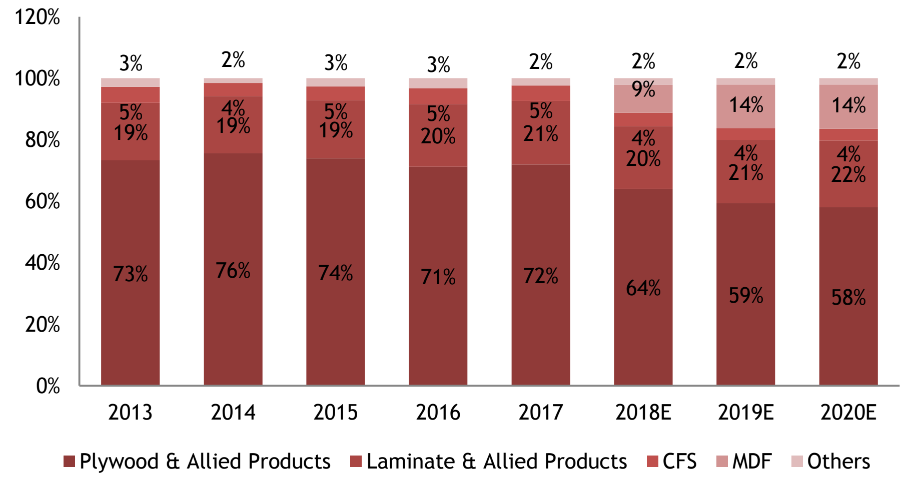
**Source: Company, Equirus Securities**

## Revenue ramp-up from new capacity addition, Gradual improvement in WC cycle & increase in Return ratios should lead to re-rating of the stock

**Revenues/EBITDA/PAT to grow on the back of higher plywood capacity utilization, focus on laminates & MDF foray:** Currently demand remains sluggish for the wood products due to slowdown in real estate sector. Century has been focusing to grow its mid-market plywood 'Sainik' to counter the fall in demand in its premium segment. Laminates demand, which is supplementary to plywood demand, has also not picked up materially, though CPL has been able to grow in the segment due to various initiatives.

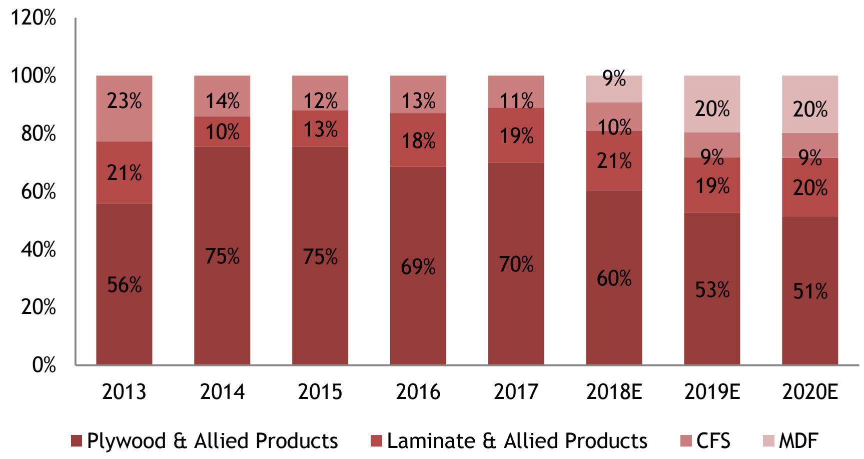
Going forward, demand is set to pick up due to Government's intense focus on Infra development, providing housing for all, development of smart cities and mainly if GDP boost comes in due to GST. CPL's entry into MDF at an opportune time will establish an additional revenue stream for the company in the fast growing MDF market. Therefore, we expect Revenues/EBITDA/PAT CAGR of 21%/23%/19% over FY17-20E with EBITDAM improving by 110bps led by higher utilization in Laminates and increased contribution from higher margin MDF division.

**Exhibit 25: Revenue Mix to be dominated by Plywood & Laminates**



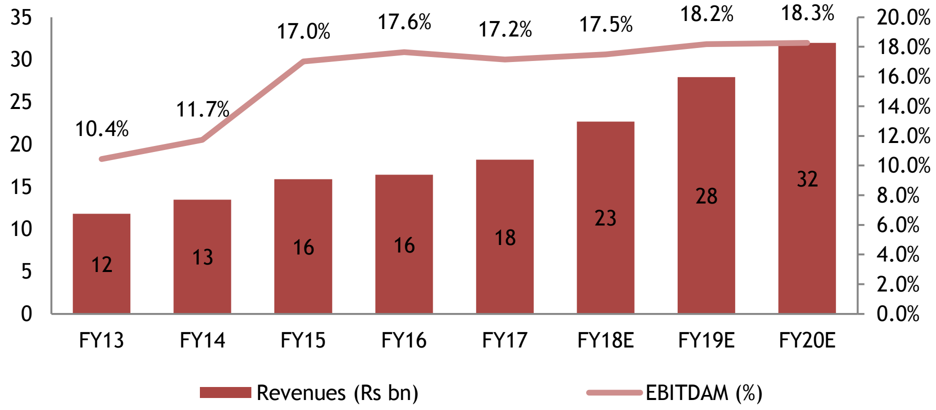

**Source: Equirus Securities**

**Exhibit 26: Plywood contribution in EBITDA to remain highest, MDF to start contributing from FY18**




Source: Equirus Securities

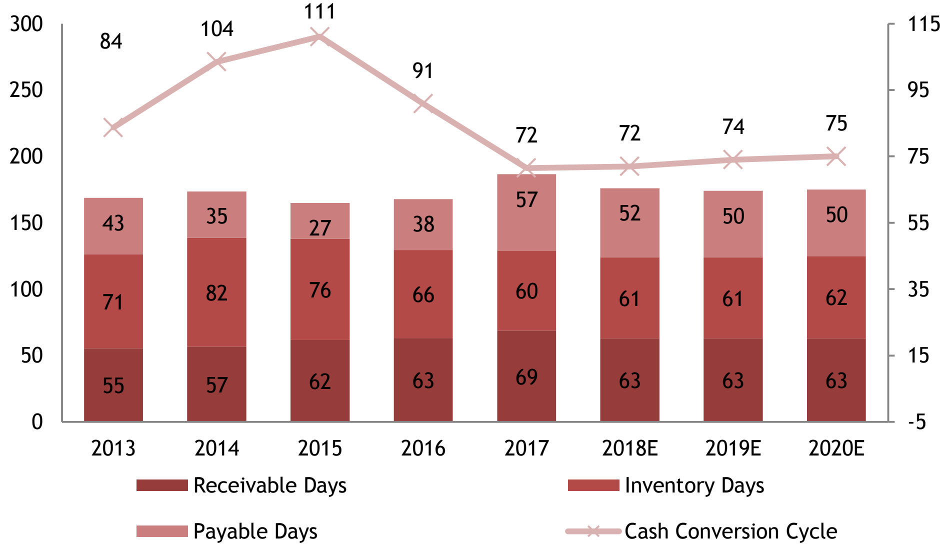
**Exhibit 27: Consolidated Revenues/EBITDA to grow at CAGR of 21%/23% over FY17-20E**




Source: Equirus Securities, Company

**Expect working capital cycle to remain steady going forward:** CPL's working capital cycle is longer than its peers due to higher inventory days and lower payable days. Earlier company used to hold 3-4 months of timber inventory in India since it was importing it from Myanmar. After the establishment of its Myanmar unit in FY14, Century is now directly importing Face Veneers instead of timber due to which its inventory days have been going down (See Exhibit 28). Going forward, we expect the inventory days to remain steady as the churn time has reduced considerably and company has succeeded in getting stability in its raw material supply. We believe that overall WC cycle is likely to remain stable going forward and so we expect cash conversion cycle to remain in the range of 72-75days.

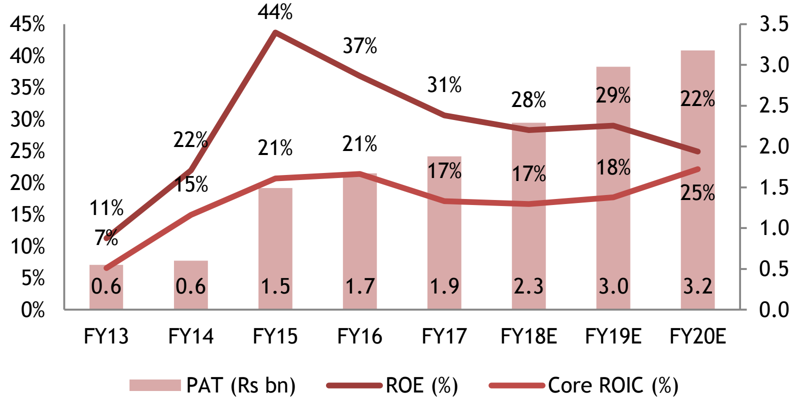
**Exhibit 28: We expect WC days to remain flat over FY17-20E due to steps taken by the company for tying up with SBI for channel financing**




Source: Company, Equirus Securities

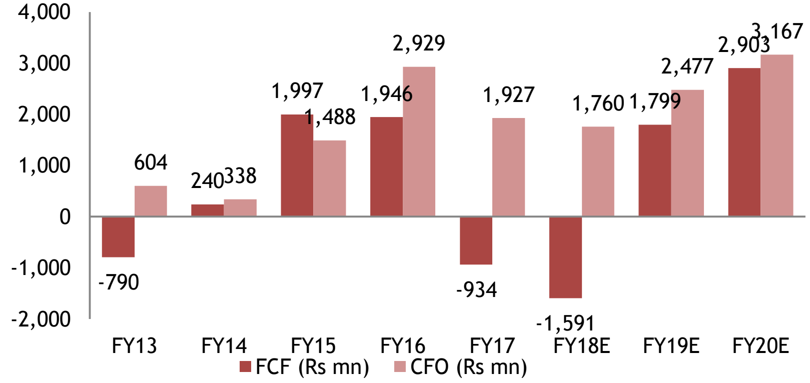
**Return ratios to improve from FY18E-19Ewhile cash flow from operations to increase gradually with rise in profitability:** CPL's cash flow is set to gradually improve over FY18E-21E as it comes out of a major capex period. Profitability is set to improve with increased utilization of Laminates & MDF capacities and we expect PAT to post 20% CAGR over FY17-20E. Company's D/E is likely to improve from current levels of 0.86 to 0.42 in FY20E due to strong cash flow generation from MDF & Laminates business. Core ROIC is expected to improve over FY17-20E from current levels of 17% to 22% in FY20 due to its MDF capacity being operationalized and major capex being completed.

**Exhibit 29: Core ROIC to improve once all major capex gets over and MDF unit stabilizes by FY19E**



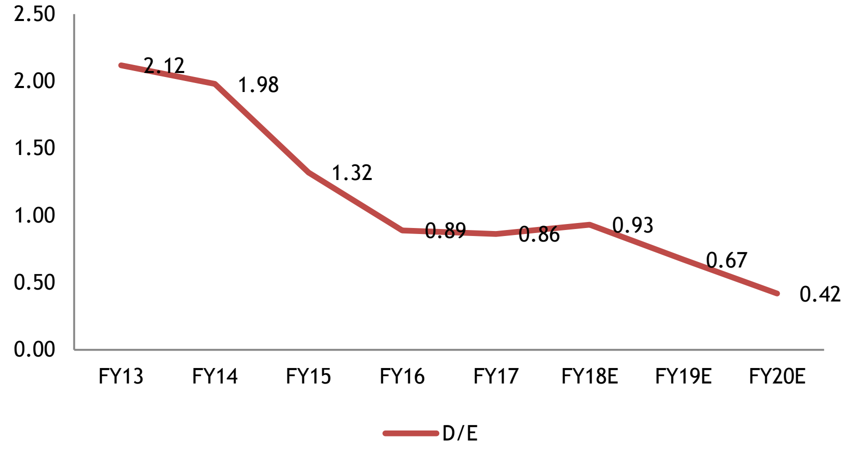

Source: Company, Equirus Securities

**Exhibit 30: CFO to gradually increase due to higher profitability**




Source: Company, Equirus Securities

**Exhibit 31: D/E expected to improve going forward**




Source: Company, Equirus Securities

## Forecast: Key Assumptions & Sensitivity

| Plywood | FY16 | FY17 | FY18E | FY19E | FY20E |
|---|---|---|---|---|---|
| Volume (in cbm) | 189,117 | 197,474 | 221,171 | 249,923 | 274,915 |
| yoy growth (%) | | 4% | 12% | 13% | 10% |
| Sales (Rs mn) | 9,028 | 9,581 | 10,999 | 12,677 | 14,224 |
| yoy growth (%) | | 6% | 15% | 15% | 12% |
| Realization (Rs) | 47,738 | 48,518 | 49,731 | 50,725 | 51,740 |
| yoy growth (%) | | 2% | 3% | 2% | 2% |
| | | | | | |
| **Laminates** | **FY16** | **FY17E** | **FY18E** | **FY19E** | **FY20E** |
| Volume (no. of sheets in '000) | 4,260 | 4,925 | 5,910 | 7,151 | 8,510 |
| yoy growth (%) | | 16% | 20% | 21% | 19% |
| Sales (Rs mn) | 2,930 | 3,242 | 3,950 | 4,862 | 5,875 |
| yoy growth (%) | | 11% | 22% | 23% | 21% |
| Realization (Rs) | 688 | 658 | 668 | 680 | 690 |

| | | | | | |
|---|---|---|---|---|---|
| yoy growth (%) | | -4% | 2% | 2% | 2% |
| | | | | | |
| **MDF** | **FY17E** | **FY18E** | **FY19E** | **FY20E** | **FY21E** |
| Volume (in cbm) | | 79,200 | 148,500 | 168,300 | 188,100 |
| yoy growth (%) | | | 88% | 13% | 12% |
| Sales (Rs mn) | | 2,041 | 3,902 | 4,511 | 5,143 |
| yoy growth (%) | | | 91% | 16% | 14% |
| Realization (Rs) | | 25,764 | 26,279 | 26,805 | 27,341 |
| yoy growth (%) | | | 2% | 2% | 2% |

Source: Equirus Securities

## Valuation:

Centuryply is moving out of a capex cycle and is well-positioned to capture the demand shift from unorganized to organized post GST implementation. We expect all its 3 divisions to contribute to volume and revenue growth over FY17-20E with MDF seeing the highest traction due to its growing usage and capacity constraints of competitors. We expect CPL to post Revenue/EBITDA CAGR of 21%/23% over FY17-20E as margins are set to improve due to changing product mix & higher contribution from MDF segment which commands better margins. The stock is currently trading at 22x FY19 EPS of 13.4 and 20x FY20E EPS 14.3 respectively. We arrive at a TP of Rs 342 by assigning a target multiple 28x on our Sep'18 TTM EPS of Rs 12.2 We expect ROIC to improve from 17% currently to around 22% in FY20 and expect EPS CAGR of 19% over FY17-20E.

**Exhibit 32: TTM P/E vs. 2 yrs. forward EPS growth**

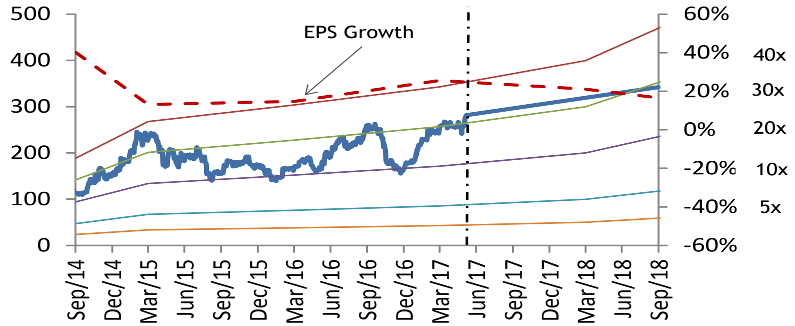



**Exhibit 33: TTM EV/EBITDA vs. 2 yr forward EBITDA growth**

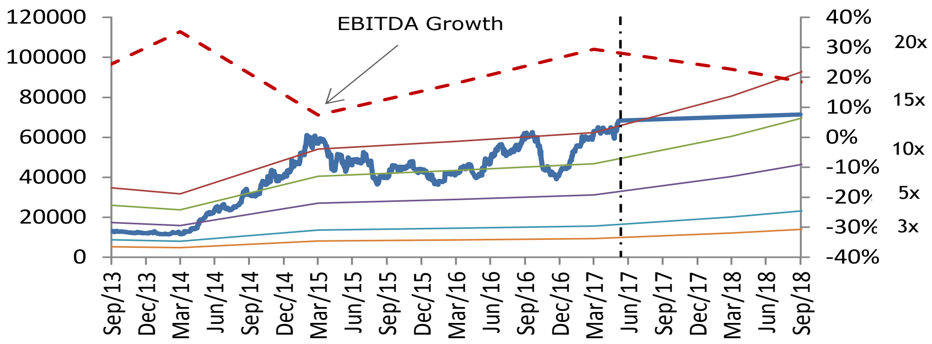
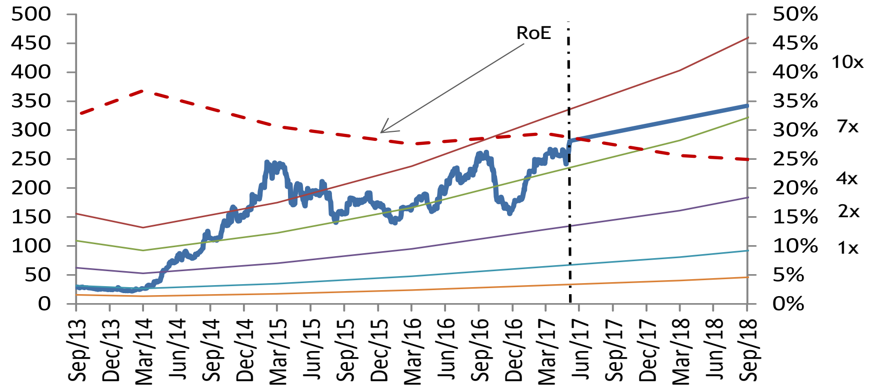



**Exhibit 34: TTM P/B vs. 2 yr forward RoE**




## Investment Risk & Concerns

- **Uncertainty related to any export ban of wood by countries such as Laos or Myanmar might hit supply of face veneer:** The Laos government has recently issued a ban on the export of logs and timber and is likely to extend it for further time period. On the other hand, Myanmar govt. has lifted the year old ban from Apr'17 (barring certain regions) but it will be bringing verifiable legal timber to the international markets going forward.
- **Recovery in real estate industry might be delayed:** The Indian real estate sector has seen significant slowdown in last 2-3 years and this has affected the growth of higher margin luxury/premium plywood. The demonetization step is likely to further delay the

demand recovery by 6-9 months at-least. However, post demand stabilization together with positive effects from Real estate regulation bill & introduction of REITs will definitely give a boost to growth in next 1-2 years.

- **Any unfavorable movement in raw material prices would reduce profitability:** Crude linked chemicals like Phenol form 20% of the total plywood raw material costs while on the MDF side, crude derivative chemicals contribute approximately 35% of the total raw material cost. Though company benefited from crude price fall in last 2 years, any upward price movement would lead to higher costs of chemicals and hit on Gross margins.
- **Excessive competition in MDF might lead to lower realizations:** Century's MDF will compete with Greenply and Action Tesa who are having substantial presence in Northern markets. Action had already initiated price cuts on some of the thicknesses few months back in anticipation of increased MDF supply. Any pricing war might lead to lower than expected realizations resulting in lower profitability
- **Adverse Forex movements might impact bottom-line:** Forex volatility related to sourcing of raw materials like Face Veneers, Craft Paper& Design Paper can impact the profitability adversely

## Corporate Governance

- Company has paid a dividend of Re. 1/share for FY17. Its dividend pay-out ratio is at 14% currently. Its 6 years dividend average pay-out ratio is at 16%
- As on Mar'17, company's Board of Directors comprised of 16 directors. Of these, seven are non-Executive Directors including 9 are executive directors and 7 are Non-Executive Independent Directors. None of the Directors are related inter-se except for Sri Keshav Bhajanka, who is the son of Sri Sajjan Bhajanka.
- 50% of the directors have attended all the five board meetings held during the year. 4/7 Independent directors had attended all the 5 meetings
- Managerial remuneration for last 4 years has averaged at 3.5% of PBT which is under the maximum allowable limit of 5% as per Companies Act
- M/s. Singhi & Co., Chartered Accountants are the Statutory Auditors of the Company since FY15. Prior to that company's books were audited by S.R. Batliboi (E&Y) for previous six years. Auditors have not made any adverse comments in its FY17 annual report.
- Ramkrishna Forgings, Chambal Fertilizers, Gillander Arbuthnot, Aegon Life Insurance, Skipper Ltd. etc. are some of the other companies audited by Singhi & Co.
- At the end of FY16, company had contingent liabilities of Rs. 585mn (vs. Rs. 507mn in FY15). Majority of this is on account of guarantees& claims by government

## Annexure 1: Company Overview

Century Ply boards is one of India's leading interior infrastructure product manufacturers. Currently, it has 6 manufacturing facilities in India and1 facility in Myanmar. Company has timber peeling & plywood manufacturing capacity of ~210,000cbm/annum, which is the highest in India. Company is a co-market leader in plywood having 25% market share and together with Greenply it controls nearly 50% of the Indian plywood organized market (Refer Chart). It is also among the top 3 laminate producers in the country with an installed capacity of 4.8mn sheets/annum near Kolkata. Century also owns Eastern India's largest & first privately owned container freight station (CFS) in Kolkata with a capacity of 156,000 TEUs. It has recently (Jul'16) commenced commercial production at its Greenfield Particle board plant, having capacity of 180 cbm/day (54,000 cbm/annum), at its existing facility in Chennai incurring a total capex of Rs.650mn. Century is also looking to setup its first MDF plant at Hoshiarpur, Punjab and the plant is expected to be commissioned by 1Q18.

Company currently has 30+ brands & 14 products in various categories. It has a strong distribution network with 1,600 dealers/distributors & 18,000+ retail outlets.

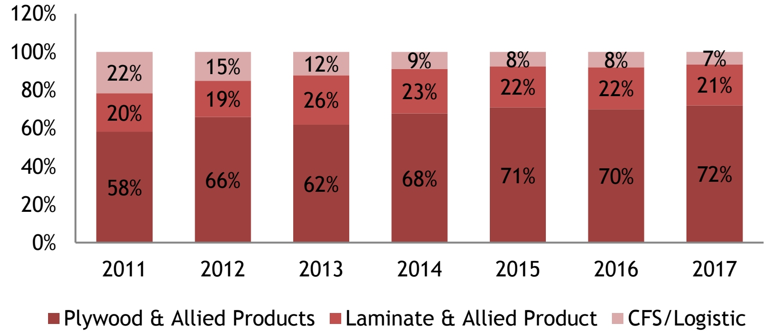
**Exhibit 35: Details of manufacturing units**

**Plywood**

| Locations | Capacity (cbm) |
|---|---|
| Bishnupur, West Bengal | 37,000 |
| Gumudipundi, Tamil Nadu | 39,420 |
| Karnal, Haryana | 36,000 |
| Guwahati, Assam | 71,000 |
| Kandla, Gujarat | 31,000 |
| Roorkee, Uttarakhand | 25,000 |
| Yangoon, Myanmar | 6,000 |
| **Total** | **2,09,420** |

| Laminates | Capacity (mn. Sheet) |
|---|---|
| Bishnupur, West Bengal | **4,80,000** |

**Exhibit 36: Capital Employed across business segments**




## Company's Journey

**1986-96**
- Company started its operations in 1986
- Introduced PF plywood

**1997-02**
- Introduced various products like borer proof plywood, non leachable fire safe plywood, flexoply etc.
- Also introduced BWR grade decorative veneer

**2003-08**
- Introduced flexible decorative veneer, started operation of decorative laminate plant, commenced operations of pre-lam unit
- Merged cement & ferro alloys business wtih CPIL, Sharon Veneer Pvt. Ltd., Sharon Wood Industries Pvt. Ltd. & Century Panel Pvt. Ltd.

**2009-14**
- Added a plywood unit in Guwahati, started CFS at Kolkata port
- Set up the Myanmar facility
- Doubled the laminate production capacity

**2015-16**
- Launched century doors, setup veneer unit in Laos
- Set up PT Centuryply Ply Indonesia for exploring newer markets
- Launched products like Zykron & Starke (Wood Polymer composite & cement fibre boards)
- Setup a particle board unit at Chennai
- Commenced construction of MDF unit in Hoshiarpur, Punjab

Source: Company AR, Equirus Securities

## Board of Directors

| Name | Designation | Experience |
|---|---|---|
| Mr. Sajjan Bhajanka | Executive Chairman | Commerce graduate with 45+ years' experience and is responsible for the overall strategic direction, production, finance and treasury in the company |
| Mr. Sanjay Agarwal | CEO & MD | He is one of the 4 founding members. Has 30+ years of experience and is responsible for sales, marketing, IT & HR |
| Mr. Prem Kumar Bhajanka | Managing Director | A graduate with 30+ years of experience. Handles Timber procurement & operations of 4 units including Myanmar |
| Mr. Vishnu Khemani Konyak | Managing Director | Graduate with 30+ years of experience. Handles Timber procurement & South India plywood operations |
| Mr. Hariprasad Agarwal | Vice Chairman | A graduate with 48+ years of experience. Handles general administration of the company |
| Mr. Keshav Bhajanka | Director | A bachelor of Accounts & Finance from UK and looks after the decorative laminate business and has been involved in new businesses such as MDF, Exteria& Flooring |
| Nikita Bansal | Director | A graduate in Economics and a Minor in Business and Mathematics from New York University. Shecurrently heads the CenturyDoor product line |
| Mr. Manindra Nath Banerjee | Independent Director | |
| Mrs. MangiLal Jain | Independent Director | |
| Mr. Samarendra Mitra | Independent Director | |
| Mr. Santanu Roy | Independent Director | |
| Mr. Vijay Chhibber | Independent Director | A retired IAS officer,1978 batch, Manipur-Tripura Cadre and holds a Masters' degree in History. He has an experience of over 37 years in various capacities in State and Central Government |
| Mr. Mamta Binani | Independent Director | A Fellow Member of the Institute of Company Secretaries of India with over 14 years of experience in corporate consultation & advisory. She is also a member of the Expert Committee of Direct Taxes, Company Law & Economic Affairs of the Indian Chamber of Commerce |
| Mr. Joginder Pal Dua | Independent Director | Holds a degree in Law with Masters in Economics and has served as a GMinOriental Bank of Commerce for 30+ years. Mr. Dua has also served as Chairman and Managing Director |

| | | |
|---|---|---|
| | | of Allahabad Bank for five years and retired as Chairman of Board for Industrial & Financial Reconstruction (B.I.F.R.) in January, 2016. |
| **Mr. Asit Pal** | Director | |
| **Mr. Ajay Baldawa** | Executive Director | |

**Source: Company, Equirus Securities**

## Key Management personnel

| **Name** | **Designation** | **Experience** |
|---|---|---|
| **Mr. Ajay Baldawa** | ED - Technical | He is an M. Tech from IIT with 30 years of experience in Plywood Industry. He is a member of BIS technical committee for plywood |
| **Mr. Arun Julasaria** | CFO | He is an FCA, FCS with 25 years of experience |
| **Mr. Shankho Chowdhury** | Business Head - Decoratives | Has 30 years of experience with MNC & Domestic companies. Currently he is the operations head for Decorative Business |
| **Mr. Amit Gope** | GM - Branding | Has 21 years of experience. Handles all branding & communications activity |
| **Mr. Navarun Sen** | Executive Business Head - Plywood | He currently heads Marketing & Sales for plywood panel business. Also, works closely with management for Strategy & Business Development |
| **Mr. Himanshu Shah** | | 30 years of experience in Sugar, Distillery & Liquor industry. Previously was involved in capital planning & outlay, mgmt. of projects & commercial operations & Bajaj Eco-tech |

**Source: Company, Equirus Securities**

# Standalone Quarterly Earnings Forecast and Key Drivers

| Rs in Mn | 1Q17A | 2Q17A | 3Q17A | 4Q17A | 1Q18E | 2Q18E | 3Q18E | 4Q18E | 1Q19E | 2Q19E | 3Q19E | 4Q19E | FY17A | FY18E | FY19E | FY20E |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Revenue | 4,058 | 4,627 | 4,255 | 4,885 | 4,882 | 5,244 | 5,539 | 6,583 | 6,161 | 7,204 | 6,856 | 7,192 | 17,825 | 22,248 | 27,412 | 31,339 |
| Cost of Materials Consumed | 2,045 | 2,404 | 2,200 | 2,531 | 2,514 | 2,701 | 2,852 | 3,390 | 3,157 | 3,692 | 3,514 | 3,686 | 9,180 | 11,458 | 14,049 | 15,983 |
| Employee Benefit Expenses | 638 | 624 | 637 | 667 | 740 | 724 | 790 | 914 | 895 | 948 | 996 | 996 | 2,567 | 3,168 | 3,836 | 4,452 |
| Other Expenses | 713 | 850 | 744 | 850 | 863 | 1,003 | 907 | 1,121 | 1,018 | 1,294 | 1,152 | 1,256 | 3,157 | 3,895 | 4,721 | 5,383 |
| Forex Exchange Fluctuations | -22 | -9 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | -31 | 0 | 0 | 0 |
| User Defined Standalone Expense | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| EBITDA | 684 | 757 | 674 | 838 | 765 | 816 | 988 | 1,157 | 1,090 | 1,269 | 1,194 | 1,253 | 2,953 | 3,727 | 4,807 | 5,521 |
| Depreciation | 93 | 126 | 149 | 155 | 177 | 184 | 184 | 192 | 218 | 240 | 259 | 271 | 523 | 737 | 988 | 1,075 |
| EBIT | 591 | 631 | 524 | 683 | 588 | 632 | 804 | 965 | 872 | 1,029 | 935 | 983 | 2,430 | 2,990 | 3,819 | 4,446 |
| Interest | 89 | 60 | 112 | 26 | 84 | 129 | 134 | 149 | 104 | 130 | 135 | 150 | 286 | 497 | 519 | 432 |
| Other Income | 8 | 13 | 33 | 141 | 31 | 33 | 42 | 49 | 31 | 36 | 43 | 45 | 196 | 154 | 155 | 157 |
| PBT | 510 | 584 | 445 | 799 | 534 | 536 | 711 | 866 | 799 | 935 | 843 | 877 | 2,339 | 2,647 | 3,454 | 4,170 |
| Tax | 80 | 91 | 72 | 239 | 96 | 96 | 128 | 156 | 144 | 168 | 152 | 158 | 481 | 476 | 622 | 1,168 |
| Recurring PAT | 431 | 493 | 374 | 560 | 438 | 439 | 583 | 710 | 655 | 767 | 691 | 719 | 1,858 | 2,170 | 2,833 | 3,003 |
| Extraordinary | 6 | 6 | 6 | 3 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 20 | 0 | 0 | 0 |
| Reported PAT | 425 | 487 | 368 | 557 | 438 | 439 | 583 | 710 | 655 | 767 | 691 | 719 | 1,838 | 2,170 | 2,833 | 3,003 |
| EPS (Rs) | 1.94 | 2.22 | 1.68 | 2.52 | 1.97 | 1.97 | 2.62 | 3.19 | 2.94 | 3.45 | 3.10 | 3.23 | 8.35 | 9.75 | 12.73 | 13.49 |
| Key Drivers | | | | | | | | | | | | | | | | |
| Plywood Sales (Rs mn) | 2,866 | 3,251 | 3,235 | 3,743 | 3,145 | 3,288 | 3,550 | 4,312 | 3,699 | 4,366 | 4,131 | 4,132 | 13,094 | 14,294 | 16,328 | 18,270 |
| Laminates Sales (Rs mn) | 795 | 979 | 994 | 1,099 | 1,006 | 1,143 | 1,108 | 1,315 | 1,288 | 1,466 | 1,378 | 1,523 | 3,867 | 4,571 | 5,655 | 6,810 |
| CFS Sales (Rs mn) | 234 | 211 | 202 | 235 | 231 | 243 | 244 | 239 | 261 | 275 | 266 | 263 | 881 | 957 | 1,065 | 1,196 |
| - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| Sequential Growth (%) | | | | | | | | | | | | | | | | |
| Revenue | -9 % | 14 % | -8 % | 15 % | 0 % | 7 % | 6 % | 19 % | -6 % | 17 % | -5 % | 5 % | - | - | - | - |
| Cost of Materials Consumed | -11 % | 18 % | -8 % | 15 % | -1 % | 7 % | 6 % | 19 % | -7 % | 17 % | -5 % | 5 % | - | - | - | - |
| EBITDA | -10 % | 11 % | -11 % | 24 % | -9 % | 7 % | 21 % | 17 % | -6 % | 16 % | -6 % | 5 % | - | - | - | - |
| EBIT | -8 % | 7 % | -17 % | 30 % | -14 % | 7 % | 27 % | 20 % | -10 % | 18 % | -9 % | 5 % | - | - | - | - |
| Recurring PAT | 4 % | 14 % | -24 % | 50 % | -22 % | 0 % | 33 % | 22 % | -8 % | 17 % | -10 % | 4 % | - | - | - | - |
| EPS | 4 % | 14 % | -24 % | 50 % | -22 % | 0 % | 33 % | 22 % | -8 % | 17 % | -10 % | 4 % | - | - | - | - |
| Yearly Growth (%) | | | | | | | | | | | | | | | | |
| Revenue | 10 % | 5 % | 12 % | 9 % | 20 % | 13 % | 30 % | 35 % | 26 % | 37 % | 24 % | 9 % | 9 % | 25 % | 23 % | 14 % |
| EBITDA | 2 % | 2 % | -3 % | 10 % | 12 % | 8 % | 47 % | 38 % | 42 % | 55 % | 21 % | 8 % | 4 % | 26 % | 29 % | 15 % |
| EBIT | 3 % | -1 % | -10 % | 7 % | 0 % | 0 % | 53 % | 41 % | 48 % | 63 % | 16 % | 2 % | 1 % | 23 % | 28 % | 16 % |
| Recurring PAT | 7 % | 5 % | -9 % | 35 % | 2 % | -11 % | 56 % | 27 % | 50 % | 75 % | 18 % | 1 % | 9 % | 17 % | 31 % | 6 % |
| EPS | 7 % | 5 % | -9 % | 35 % | 2 % | -11 % | 56 % | 27 % | 50 % | 75 % | 18 % | 1 % | 9 % | 17 % | 31 % | 6 % |
| Margin (%) | | | | | | | | | | | | | | | | |
| EBITDA | 17 % | 16 % | 16 % | 17 % | 16 % | 16 % | 18 % | 18 % | 18 % | 18 % | 17 % | 17 % | 17 % | 17 % | 18 % | 18 % |
| EBIT | 15 % | 14 % | 12 % | 14 % | 12 % | 12 % | 15 % | 15 % | 14 % | 14 % | 14 % | 14 % | 14 % | 13 % | 14 % | 14 % |
| PBT | 13 % | 13 % | 10 % | 16 % | 11 % | 10 % | 13 % | 13 % | 13 % | 13 % | 12 % | 12 % | 13 % | 12 % | 13 % | 13 % |
| PAT | 11 % | 11 % | 9 % | 11 % | 9 % | 8 % | 11 % | 11 % | 11 % | 11 % | 10 % | 10 % | 10 % | 10 % | 10 % | 10 % |

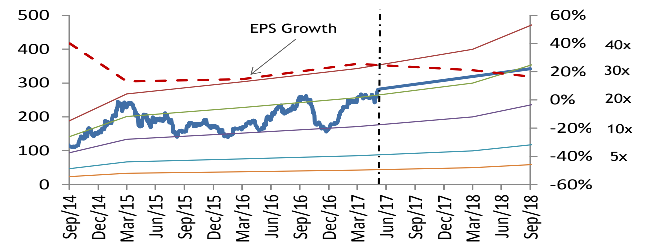
# Consolidated Financials

| P&L (Rs Mn) | FY17A | FY18E | FY19E | FY20E |
|---|---|---|---|---|
| Revenue | 18,187 | 22,690 | 27,943 | 31,976 |
| Op. Expenditure | 15,067 | 18,722 | 22,860 | 26,137 |
| EBITDA | 3,120 | 3,968 | 5,083 | 5,840 |
| Depreciation | 593 | 808 | 1,059 | 1,147 |
| EBIT | 2,527 | 3,160 | 4,024 | 4,693 |
| Interest Expense | 302 | 497 | 519 | 432 |
| Other Income | 226 | 154 | 155 | 157 |
| PBT | 2,450 | 2,817 | 3,660 | 4,417 |
| Tax | 515 | 528 | 683 | 1,242 |
| PAT bef. MI & Assoc. | 1,935 | 2,290 | 2,976 | 3,175 |
| Minority Interest | 30 | 0 | 0 | 0 |
| Profit from Assoc. | 0 | 0 | 0 | 0 |
| Recurring PAT | 1,905 | 2,290 | 2,976 | 3,175 |
| Extraordinaires | 24 | 0 | 0 | 0 |
| Reported PAT | 1,881 | 2,290 | 2,976 | 3,175 |
| FDEPS (Rs) | 8.6 | 10.3 | 13.4 | 14.3 |
| DPS (Rs) | 1.0 | 1.5 | 2.0 | 2.5 |
| CEPS (Rs) | 11.2 | 13.9 | 18.1 | 19.4 |
| FCFPS (Rs) | -4.2 | -7.2 | 8.1 | 13.0 |
| BVPS (Rs) | 32.1 | 40.6 | 51.6 | 62.8 |
| EBITDAM (%) | 17 % | 17 % | 18 % | 18 % |
| PATM (%) | 10 % | 10 % | 11 % | 10 % |
| Tax Rate (%) | 21 % | 19 % | 19 % | 28 % |
| Sales Growth (%) | 11 % | 25 % | 23 % | 14 % |
| FDEPS Growth (%) | 13 % | 20 % | 30 % | 7 % |

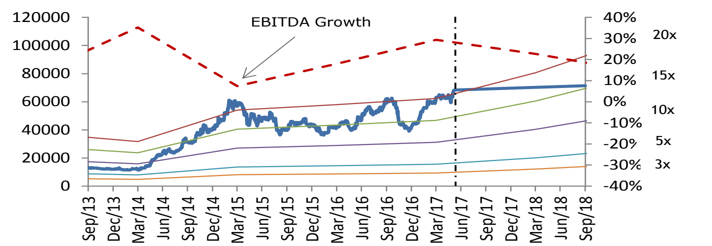
| Balance Sheet (Rs Mn) | FY17A | FY18E | FY19E | FY20E |
|---|---|---|---|---|
| Equity Capital | 223 | 223 | 223 | 223 |
| Reserve | 6,927 | 8,815 | 11,255 | 13,761 |
| Networth | 7,149 | 9,037 | 11,478 | 13,984 |
| Long Term Debt | 6,167 | 8,420 | 7,697 | 5,846 |
| Def Tax Liability | 20 | 85 | 78 | 59 |
| Minority Interest | 120 | 120 | 120 | 120 |
| Account Payables | 1,410 | 1,592 | 1,879 | 2,134 |
| Other Curr Liabi | 983 | 1,080 | 1,215 | 1,279 |
| Total Liabilities & Equity | 15,849 | 20,334 | 22,466 | 23,421 |
| Net Fixed Assets | 3,120 | 7,010 | 6,851 | 6,279 |
| Capital WIP | 2,988 | 540 | 0 | 0 |
| Others | 1,038 | 2,544 | 3,284 | 3,284 |
| Inventory | 3,006 | 3,792 | 4,670 | 5,432 |
| Account Receivables | 3,422 | 3,916 | 4,823 | 5,519 |
| Other Current Assets | 1,602 | 1,939 | 2,134 | 2,150 |
| Cash | 672 | 592 | 704 | 756 |
| Total Assets | 15,849 | 20,334 | 22,465 | 23,420 |
| Non-cash Working Capital | 5,638 | 6,975 | 8,533 | 9,688 |
| Cash Conv Cycle | 113.1 | 112.2 | 111.5 | 110.6 |
| WC Turnover | 3.2 | 3.3 | 3.3 | 3.3 |
| FA Turnover | 3.0 | 3.0 | 4.1 | 5.1 |
| Net D/E | 0.8 | 0.9 | 0.6 | 0.4 |
| Revenue/Capital Employed | 1.5 | 1.5 | 1.5 | 1.6 |
| Capital Employed/Equity | 1.9 | 1.9 | 1.8 | 1.5 |

| Cash Flow (Rs Mn) | FY17A | FY18E | FY19E | FY20E |
|---|---|---|---|---|
| PBT | 2,450 | 2,817 | 3,660 | 4,417 |
| Depreciation | 593 | 808 | 1,059 | 1,147 |
| Others | -24 | 0 | 0 | 0 |
| Taxes Paid | 515 | 528 | 683 | 1,242 |
| Change in WC | -577 | -1,337 | -1,558 | -1,155 |
| Operating C/F | 1,927 | 1,760 | 2,477 | 3,167 |
| Capex | -3,099 | -3,756 | -1,100 | -575 |
| Change in Invest | 0 | 0 | 0 | 0 |
| Others | 0 | 0 | 0 | 0 |
| Investing C/F | -3,099 | -3,756 | -1,100 | -575 |
| Change in Debt | 1,470 | 2,252 | -723 | -1,851 |
| Change in Equity | 247 | 0 | 0 | 0 |
| Others | -261 | -337 | -543 | -688 |
| Financing C/F | 1,456 | 1,916 | -1,266 | -2,540 |
| Net change in cash | 283 | -80 | 112 | 52 |
| RoE (%) | 31 % | 28 % | 29 % | 25 % |
| RoIC (%) | 18 % | 17 % | 18 % | 18 % |
| Core RoIC (%) | 17 % | 17 % | 18 % | 22 % |
| Div Payout (%) | 14 % | 18 % | 18 % | 21 % |
| P/E | 33.9 | 28.2 | 21.7 | 20.3 |
| P/B | 9.0 | 7.1 | 5.6 | 4.6 |
| P/FCFF | -69.1 | -40.6 | 35.9 | 22.2 |
| EV/EBITDA | 22.4 | 18.2 | 14.1 | 11.9 |
| EV/Sales | 3.8 | 3.2 | 2.6 | 2.2 |
| Dividend Yield (%) | 0.3 % | 0.5 % | 0.7 % | 0.9 % |

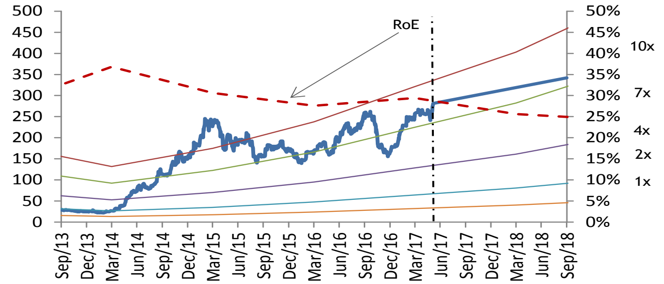
TTM P/E vs. 2 yrs. forward EPS growth




TTM EV/EBITDA vs. 2 yrs. forward EBITDA growth




TTM P/B vs. 2 yrs. forward RoE



# Historical Consolidated Financials

| P&L (Rs Mn) | FY14A | FY15A | FY16A | FY17A |
|---|---|---|---|---|
| Revenue | 13,477 | 15,884 | 16,409 | 18,187 |
| Op. Expenditure | 11,894 | 13,181 | 13,515 | 15,067 |
| EBITDA | 1,582 | 2,703 | 2,895 | 3,120 |
| Depreciation | 387 | 485 | 475 | 593 |
| EBIT | 1,195 | 2,218 | 2,420 | 2,527 |
| Interest Expense | 603 | 456 | 479 | 302 |
| Other Income | 37 | 33 | 60 | 226 |
| PBT | 629 | 1,796 | 2,001 | 2,450 |
| Tax | -5 | 296 | 304 | 515 |
| PAT bef. MI & Assoc. | 633 | 1,500 | 1,698 | 1,935 |
| Minority Interest | 31 | 9 | 8 | 30 |
| Profit from Assoc. | 1 | -1 | 0 | 0 |
| Recurring PAT | 603 | 1,490 | 1,689 | 1,905 |
| Extraordinaires | 0 | 0 | 19 | 24 |
| Reported PAT | 603 | 1,490 | 1,671 | 1,881 |
| EPS (Rs) | 2.7 | 6.7 | 7.6 | 8.6 |
| DPS (Rs) | 1.0 | 2.0 | 1.0 | 1.0 |
| CEPS (Rs) | 4.4 | 8.8 | 9.7 | 11.2 |
| FCFPS (Rs) | 1.1 | 8.9 | 8.7 | -4.2 |
| BVPS (Rs) | 13.2 | 17.5 | 23.8 | 32.1 |
| EBITDAM (%) | 12 % | 17 % | 18 % | 17 % |
| PATM (%) | 4 % | 9 % | 10 % | 10 % |
| Tax Rate (%) | -1 % | 16 % | 15 % | 21 % |
| Sales growth (%) | 14 % | 18 % | 3 % | 11 % |
| FDEPS growth (%) | 9 % | 147 % | 13 % | 13 % |

| Balance Sheet (Rs Mn) | FY14A | FY15A | FY16A | FY17A |
|---|---|---|---|---|
| Equity Capital | 223 | 223 | 223 | 223 |
| Reserve | 2,709 | 3,671 | 5,066 | 6,927 |
| Networth | 2,932 | 3,894 | 5,288 | 7,149 |
| Long Term Debt | 5,801 | 5,138 | 4,697 | 6,167 |
| Def Tax Liability | 20 | 36 | 14 | 20 |
| Minority Interest | 114 | 55 | 90 | 120 |
| Account Payables | 753 | 622 | 864 | 1,410 |
| Other Curr Liabi | 620 | 930 | 797 | 983 |
| Total Liabilities & Equity | 10,240 | 10,675 | 11,750 | 15,849 |
| Net Fixed Assets | 3,164 | 2,456 | 2,562 | 3,120 |
| Capital WIP | 240 | 329 | 1,020 | 2,988 |
| Others | 671 | 723 | 1,058 | 1,038 |
| Inventory | 3,029 | 3,322 | 2,975 | 3,006 |
| Account Receivables | 2,089 | 2,683 | 2,842 | 3,422 |
| Other Current Assets | 660 | 788 | 904 | 1,602 |
| Cash | 387 | 374 | 389 | 672 |
| Total Assets | 10,240 | 10,675 | 11,750 | 15,849 |
| Non-cash Working Capital | 4,405 | 5,242 | 5,060 | 5,638 |
| Cash Conv Cycle | 119.3 | 120.4 | 112.6 | 113.1 |
| WC Turnover | 3.1 | 3.0 | 3.2 | 3.2 |
| FA Turnover | 4.0 | 5.7 | 4.6 | 3.0 |
| Net D/E | 1.8 | 1.2 | 0.8 | 0.8 |
| Revenue/Capital Employed | 1.6 | 1.8 | 1.7 | 1.5 |
| Capital Employed/Equity | 3.1 | 2.6 | 2.1 | 1.9 |

| Cash Flow (Rs Mn) | FY14A | FY15A | FY16A | FY17A |
|---|---|---|---|---|
| PBT | 629 | 1,796 | 2,001 | 2,450 |
| Depreciation | 387 | 485 | 475 | 593 |
| Others | 607 | 421 | 561 | -24 |
| Taxes Paid | 117 | 337 | 467 | 515 |
| Change in WC | -1,168 | -877 | 359 | -577 |
| Operating C/F | 338 | 1,488 | 2,929 | 1,927 |
| Capex | -644 | 68 | -1,498 | -3,099 |
| Change in Invest | 42 | 44 | 106 | 0 |
| Others | -104 | 16 | 2 | 0 |
| Investing C/F | -706 | 128 | -1,389 | -3,099 |
| Change in Debt | 372 | -650 | -461 | 1,470 |
| Change in Equity | 0 | 0 | 20 | 247 |
| Others | -653 | -927 | -1,084 | -261 |
| Financing C/F | -281 | -1,577 | -1,525 | 1,456 |
| Net change in cash | -649 | 39 | 14 | 283 |
| RoE (%) | 22 % | 44 % | 37 % | 31 % |
| RoIC (%) | 14 % | 21 % | 22 % | 18 % |
| Core RoIC (%) | 15 % | 21 % | 21 % | 17 % |
| Div Payout (%) | 42 % | 36 % | 16 % | 14 % |
| P/E | 107.1 | 43.3 | 38.2 | 0.0 |
| P/B | 22.0 | 16.6 | 12.2 | 0.0 |
| P/FCFF | 270.0 | 32.5 | 33.2 | -69.1 |
| EV/EBITDA | 44.2 | 25.6 | 23.8 | 0.0 |
| EV/Sales | 5.2 | 4.4 | 4.2 | 0.0 |
| Dividend Yield (%) | 0.3 % | 0.7 % | 0.3 % | 0.3 % |