IDFC SECURITIES

INITIATING COVERAGE

Century Plyboards

Investments done, time to reap benefits...

OUTPERFORMER

1 April 2017

BSE Sensex: 29621

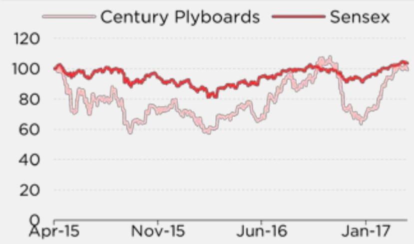
Sector: Home Improvement

Stock data

CMP (Rs)	260
Mkt Cap (Rs bn/USD m)	57.7 /888
Target Price (Rs)	315
Change in TP (%)	NA
Potential from CMP (%)	21.1
Earnings change (%)	
FY17E	⇔
FY18E	⇔
FY19E	⇔

Bloomberg code	CPBI IN
1-yr high/low (Rs)	268/154
6-mth avg. daily volumes (m)	0.3
6-mth avg. daily traded value	
(Rsm/USDm)	61.8/1
Shares outstanding (m)	222.2
Free float (%)	28.0
Promoter holding (%)	72

Price performance – relative & absolute



(%)	3-mth	6-mth	1-yr
CPBI IN	54.0	3.6	51.9
BSE Sensex	11.2	6.3	16.9

Century Plyboards (CPIL) is India's largest integrated wood panel company with joint leadership of the fragmented plywood segment (25% market-share of organised space), third-largest player in laminates, largest in commercial veneers and is in the process of commissioning India's largest MDF facility (to be commissioned in April 2017). Helped by strong brand equity, the widest distribution network and savvy business dealings, Centuryply has industry-leading margins. It was the first player to set up face veneer capacity in Myanmar in 2013 (even before the ban on export of raw timber), thus integrating backwards and ensuring long-term sustainable availability of raw material (focus area). Its peak investment phase is over and demand revival in plywood along with ramping up capacity in MDF should lead to strong 25% CAGR in earnings over FY17-19E. We initiate coverage with an Outperformer rating and target price of Rs315 (25x FY19E EPS).

Biggest beneficiary of demand revival: Centuryply has the most visible retail brand in India, with ~90% of sales driven by retail segment. Its capacity utilisation in the plywood segment averages around 80%, highlighting enough scope for growth once demand revives. We expect demand to revive from H2FY18E given latent un-served demand of H1FY18E (due to destocking because of GST implementation) and a favourable base.

Investments done, time to reap benefits: Centuryply commissioned its particle board plant in FY17 and is about to commission its MDF unit in April 2017. It is also increasing its laminates capacity by 50% by September 2017. These, along with a revival in plywood division sales, will help overall revenue post a CAGR of 24.3% over FY17-19E. As capacities are ramped up through FY19E, this would lead to operating leverage playing out, helping EBITDA post a CAGR of 31.4% while earnings should post a CAGR of 25%, in our view. We expect RoCE to improve by 430bp to 24.8% over the same period.

Valuation and view: Centuryply's peak investments are behind it and we expect it to post an earnings CAGR of 25% over FY17-19E as MDF capacity utilisation ramps ups and plywood growth revives. This coupled with industry-leading return ratios (31.8% RoE in FY19E) deserves premium multiples, in our view. We initiate with an OP rating and TP of Rs315 (25x FY19E EPS).

Key valuation metrics

Year to 31 Mar	FY15	FY16	FY17E	FY18E	FY19E
Net sales (Rs m)	15,884	16,637	17,851	22,488	27,580
Adj. net profit (Rs m)	1,490	1,672	1,797	2,006	2,801
Shares in issue (m)	223	223	223	223	223
Adj. EPS (Rs)	6.7	7.5	8.1	9.0	12.6
% change	147.2	12.2	7.5	11.6	39.6
PE (x)	38.7	34.5	32.1	28.8	20.6
Price/ Book (x)	14.8	10.8	8.9	7.4	5.9
EV/ EBITDA (x)	23.1	21.5	21.6	16.8	12.5
RoE (%)	43.7	36.3	30.5	28.1	31.8
RoCE (%)	23.7	24.3	20.5	21.0	24.8

Source: Company, IDFC Securities Research

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Investment Argument

- Century Plyboards (India) Limited is India's largest integrated wood panel producer with entire gamut of product offerings.
- CPIL was India's first branded plywood player. This has given it a distinct advantage with almost 90% of its plywood sales driven by the retail segment giving it industry leading margins.
- Its plywood capacity utilization stands at ~80% and has recently invested in particle board, MDF and is increasing its laminates capacity by 50%. It should be the biggest beneficiary of demand revival in the Indian wood panel industry.
- We expect Centuryply to post a CAGR of 24.3% in net revenue over FY17-19E and earnings CAGR of 25% over the same period.
- We initiate coverage on Century Plyboards with an Outperformer rating and target price of Rs315, valuing it at 25x FY19E EPS.

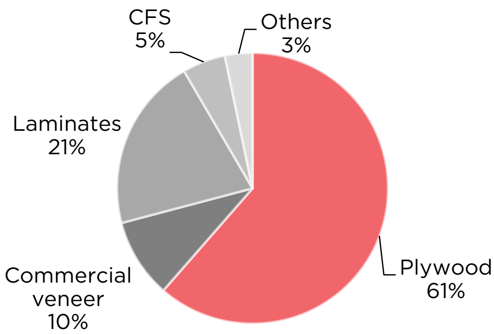
India's largest wood panel player

India's largest integrated wood panel player

Centuryply is the joint leader, with Greenply, in plywood sales with ~25% revenue market share of India's organised plywood market

Century Plyboards (India) Limited is India's largest integrated wood panel producer with the entire gamut of product offerings. It owns India's largest plywood manufacturing capacity of 210,000 CBM (or 52.5MSM), ~60% higher than Greenply's. It is the joint leader, with Greenply, in plywood sales with ~25% revenue market share of India's organised plywood market. Apart from plywood, CPIL is also a significant player in laminates (third largest in India), commercial veneers (largest player in India), decorative veneers, pre-laminated particle boards (recently opened capacity) and its MDF capacity (of 198,000cbm) will be commissioned in March/April 2017. Apart from six strategically located plywood manufacturing facilities in India, CPIL has set up veneer processing and plywood manufacturing units in Myanmar (through a 100% subsidiary) and Laos (through a JV) ensuring sustainable availability of raw material. It also operates two CFS at Kolkata port.

Exhibit 1: Sales breakdown



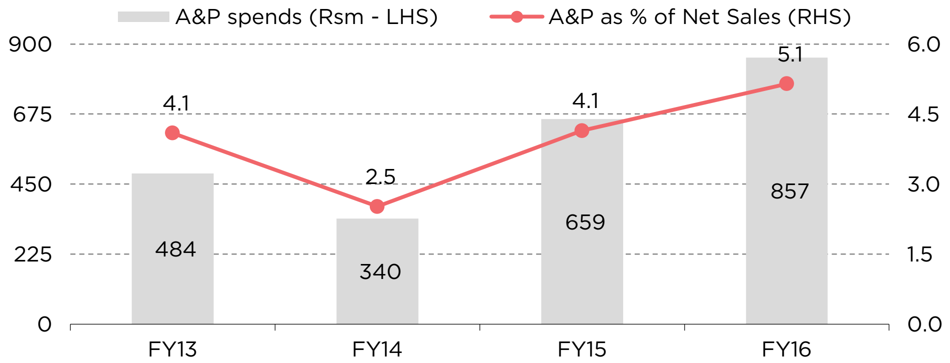
Source: Company, IDFC Securities Research

Almost 90% of its plywood sales are driven by the retail segment

❑ Strong retail connect, plywood offerings across price points

CPIL launched its first television commercial way back in 1993 and was India's first branded plywood player. This has given it a distinct advantage with almost 90% of its plywood sales driven by the retail segment, thus lowering its dependence on the institutional segment. In the past four years, it has spent an average 4% of net sales on advertisement, publicity and sales promotion. CPIL's distribution network consists of 1,800 distributors/stockists and another 18,000 touch-points (retailers, etc), while Greenply has 1,800 distributors/stockists and 10,000 touch-points.

Exhibit 2: High A&P spends as % of net sales



Source: Company, IDFC Securities Research

CPIL continues to make inroads in the mass-market category

CPIL's plywood portfolio comprises brands across the luxury ('Architect Ply', 'Club Prime'), premium ('Centuryply') and economy ('Sainik') categories. Thus, it is able to cater to ~78% of the entire plywood market in India including the luxury/premium segment and the medium/mass-market segment. CPIL does not have any product offering for the low-end plywood market. In the recent past, the premium/luxury category has slowed down considerably; however, CPIL continues to make inroads in the mass-market category through strong growth in the 'Sainik' brand. The 'Sainik' brand's revenue has posted above 30% CAGR over the past three years (FY13-16).

Exhibit 3: Key brands with their prices

Name of Brand	Key characteristic	Thickness	Rate psf (Rs)
Century Architect Ply	Boiling water proof	19 mm	163
Century Club Prime	Boiling water proof	19 mm	127
Centuryply	Commercial	19 mm	102
Century Sainik	Commercial	19 mm	76

Source: Plydunia, IDFC Securities Research

CPIL has increased its plywood capacity by 42% to 209,420cbm

❑ Enough spare capacity – Best placed for demand revival

Over the past six years, CPIL has increased its plywood capacity by 42% to 209,420cbm. As stated earlier, its existing capacity is almost 60% higher than of its nearest competitor. In FY17E, CPIL set up a 20,000cbm plywood manufacturing and peeling capacity in Laos with the help of a JV/FDI partner. This will not only augment its plywood manufacturing capacity, but also help secure face veneers for captive consumption in its India plants.

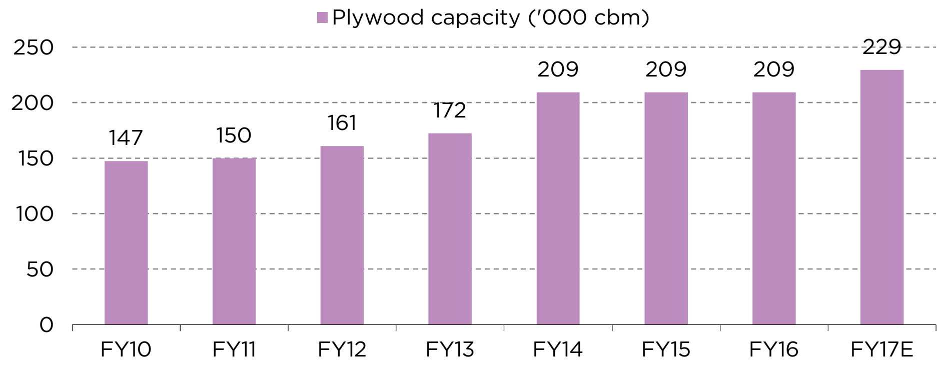
Exhibit 4: Centuryply's plywood capacity

	CBM annually
Bishnupur, Kolkata	37,000
Gumudipundi, Chennai	39,420
Karnal, Haryana	36,000
Mirza , Guwahati	35,000
Kandla, Gujarat	31,000
Roorkee, Uttarakhand	25,000
Myanmar (100% subsidiary)	6,000
Total	**209,420**
Laos (51% JV)	20,000

Source: Company, IDFC Securities Research

CPIL's plywood capacity utilisation stands at around ~80% and this can be ramped up to 110-115% if the need be. It is also setting up another plywood capacity in Punjab (near its MDF facility) and that will further augment capcity.

Exhibit 5: Consistent addition in capacity by Centutyply over the years



Source: Company, IDFC Securities Research

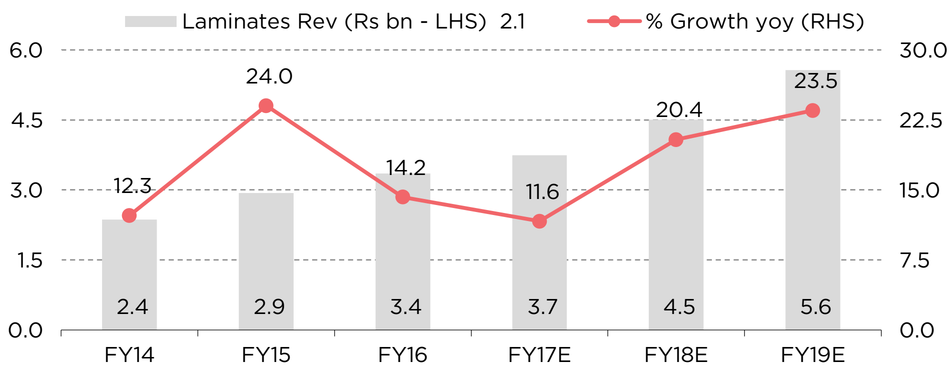
Over the past five years, the Indian plywood industry has grown at a 6-8% CAGR, whereas the organised players, especially CPIL and Greenply, have clearly outperformed industry growth. In the recent past, growth for the two large players has decelerated given the slowdown in the luxury/ premium plywood market across Metro and Tier I towns. Given CPIL's excess capacity, we believe it will be the largest beneficiary of any rebound in growth.

❑ Laminates expansion continues, to aid overall growth as it vies for top spot

CPIL had doubled its laminates production capacity to 4.8m sheets in FY14 and is in the process of increasing this to 7.2m sheets by September 2017

Laminates are basically decorative paper that are given special attributes with the help of resins. They are overlaid on plywood to improve its aesthetics and durability. The demand drivers for laminates are the same as that for plywood. CPIL had doubled its laminates production capacity to 4.8m sheets in FY14 and is in the process of increasing this to 7.2m sheets by September 2017. It is currently the third-largest player in India's organised laminates market after Merino and Greenlam. CPIL currently has 700 SKUs in its folder and is adding almost 100 every year. CPIL is addressing the largest segment of 1mm thickness along with value-added plays such as textured and exterior grade laminates. Over the past five years (FY11-16), CPIL's laminates division has grown at a healthy CAGR of 16.4% and we expect it to post a strong CAGR of 22% over FY17-19E. Its revenue contribution to overall sales would remain around 20%.

Exhibit 6: Laminate revenue growth profile



Source: Company, IDFC Securities Research

With its own particle board manufacturing facility in Chennai, margins should improve

CPIL's laminate division consists of decorative laminates. CPIL also has a facility for particle board pre-lamination. Until now, it had been outsourcing particle boards, which it used to laminate and sell in the market; however, with its own particle board manufacturing facility in Chennai (commissioned in Q2FY17), margins should improve in pre-laminated particle board sales.

❑ Particle board facility commissioned with capacity of 60,000cbm annually

It has now commissioned a particle board manufacturing capacity of 60,000cbm

Despite being an integrated wood panel player, CPIL did not have particle board manufacturing capabilities. However, it has now commissioned a particle board manufacturing capacity of 60,000cbm at a capex of Rs650m in Chennai. The particle board capacity's location has been strategically chosen in Chennai as almost 50% of this plant's raw material requirement would be met by the waste from CPIL's own plywood manufacturing unit in Chennai, with the rest sourced from external plywood units nearby.

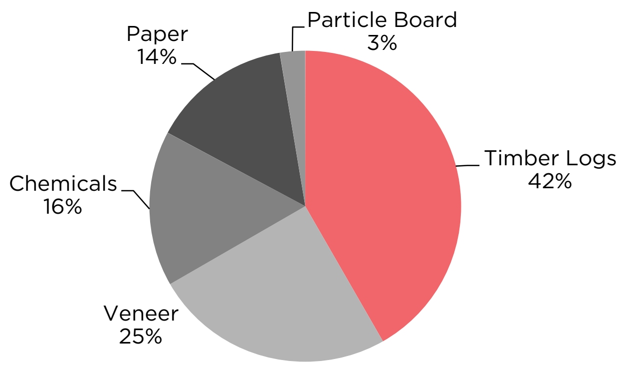
❑ Focus on sustainability of raw material availability

Face veneers (visible ends of the plywood) are extracted from hardwood whereas core veneers (embedded between face veneers) are extracted from softwood. While softwood availability in India is robust (as plantation timber can also be used), hardwood was mostly imported from Myanmar. To ensure smooth supply of hardwood, CPIL set up a peeling unit in Myanmar in mid-2013, the first Indian company to do so. The Myanmar government banned the export of raw timber from 1 April 2014; however, processed timber in the form of veneers was allowed to be exported. This move created havoc in the Indian plywood industry as almost everyone was dependent on Myanmar for face veneers.

CPIL was the only player that was not impacted by Myanmar's ban

CPIL was the only player that was not impacted by this move as its peeling unit in Myanmar was in a position to export processed timber or veneers. This was an immense competitive advantage and later Greenply Industries also set-up a peeling unit in Myanmar in 2014. Setting up a peeling unit helped CPIL in more than one way, (1) its plywood production was not impacted in FY15, (2) it was able to save on transportation costs as veneers are lighter than timber logs, (3) face veneer prices went up by 25-30% in India in FY15 and CPIL, being the largest player in commercial veneers and having spare capacity, benefitted and its plywood margin went up 540bp yoy to 18%, probably its best ever.

Exhibit 7: Raw material expenses break-up for Centuryply



Source: Company, IDFC Securities Research; Note: Average of FY15 & FY16

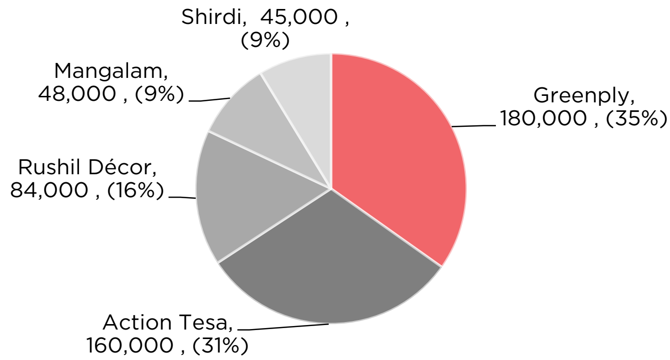
To ensure long-term sustainable availability of raw material, CPIL has set up a peeling and plywood manufacturing unit in Laos through a JV with overall capacity of 20,000cbm. It is also evaluating whether to set up a a similar facility in Indonesia. Other countries from where it sources timber include Papua New Guinea, Solomon Islands, Malaysia, Vietnam, Cambodia and Cameroon.

❑ MDF plant ready to be commissioned soon, adding a further growth driver

CPIL is commissioning India's largest MDF unit in Punjab with 198,000cbm capacity

CPIL has been trading small quantities of MDF for almost 5-6 years. After letting its competitors develop the market, CPIL is commissioning India's largest MDF unit in Punjab with 198,000cbm capacity. The plant is expected to be operational by March/April 2017, seven years after Greenply Industries opened its MDF plant in India. CPIL has spent Rs3.8bn on the MDF plant and will set up another plywood unit nearby at an estimated cost of Rs640m with a capacity of 50,000cbm by FY19E. In its first year of operation itself, CPIL is planning to launch value-added products such as laminated MDF, flooring, doors, etc, and is hopeful of revenue of Rs6bn at optimum capacity utilisation from its MDF plant alone. We expect 13.4% of CPIL's FY19E revenue to be driven by its MDF unit.

Exhibit 8: MDF capacities



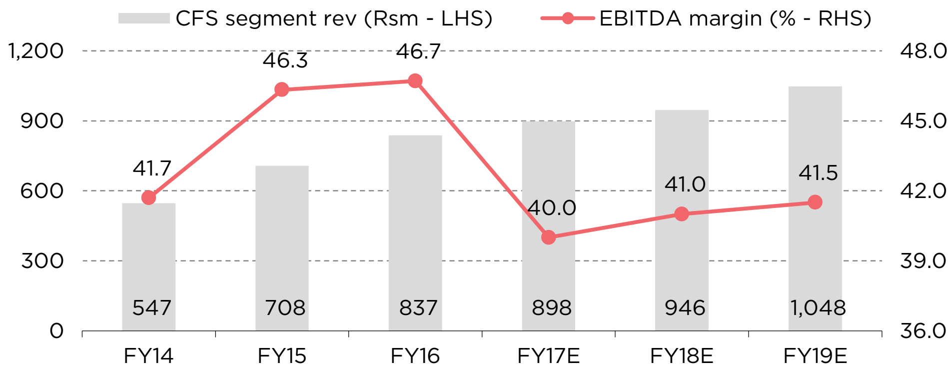
Source: Company, IDFC Securities Research

❑ Container freight station not only helps margins, but also adds a unique advantage

CPIL operates two container freight stations at the Kolkata port with a capacity of 156,000 TEUs

CPIL operates two container freight stations at the Kolkata port with a capacity of 156,000 TEUs (15 days dwelling time basis). It is the first privately-owned CFS in eastern India. As of FY16, its capital employed was Rs595m. It is earnings accretive for CPIL as revenue contribution was 5% in FY16, but EBITDA contribution was 13%. We believe that operating the Kolkata CFS gives CPIL a competitive advantage as it is now well-versed with the operating metrics at various ports in India and hence, it strategically chose to start a plywood manufacturing unit in Kandla, Gujarat, where it could be closer to both raw materials and the western market.

Exhibit 9: CFS revenue margin



Source: Company, IDFC Securities Research

❑ Savvy way of doing business

CPIL's promoters/management are savvy businessmen

We believe that CPIL's promoters/management are savvy businessmen and are ahead of the curve in terms of building in-house competitive advantages. We believe the following examples are proof of their capability of leading profitable growth in the highly competitive wood panel industry in India:

- Given its large timber peeling and plywood production capability, CPIL is the largest consumer of timber in India and is able to derive economies of scale while procuring the same
- CPIL was the first Indian plywood manufacturer to set-up a peeling unit in Myanmar, even before the ban on timber exports
- CPIL has now entered Laos to ensure long-term raw material availability and is diversifying geographical risk
- It waited for the MDF market to develop in India before commissioning its own unit; this should help reach optimum capacity faster than peers
- It is in the process of setting up a particle board plant in Chennai where 50% of the raw material would be the wood waste of its own peeling/plywood manufacturing unit thus saving on costs
- It set up a plywood manufacturing unit in Kandla, port town in Gujarat, where it could be closer to raw material as timber is a bulky product
- Earlier, it never used to hedge its foreign currency exposure, which used to hurt CPIL during currency fluctuations; however, now ~40% of its forex exposure is hedged
- CPIL has shut down the furniture and modular kitchen business after it failed to meet management expectations and continued to be loss-making

❑ GST will be an equaliser

Under GST, the exemption limit would fall to Rs2m, thus bringing all of them into the tax net

Currently, the excise duty exemption limit for turnover is Rs15m and a majority of unorganised players keep their turnover low to avoid paying excise duty. Under GST, the exemption limit would fall to Rs2m, making it difficult for smaller unorganised players to keep their turnover below this limit, thus bringing all of them into the tax net. This would mean that the price differential between organised and unorganised players should come down by 10-20%, further driving conversion from unorganised to organised players. Even low-cost plywood prices are expected to increase by 5-7%, bringing it on par with MDF prices. This should help further penetration of MDF in the market. All branded players including Centuryply are expected to benefit greatly from this move.

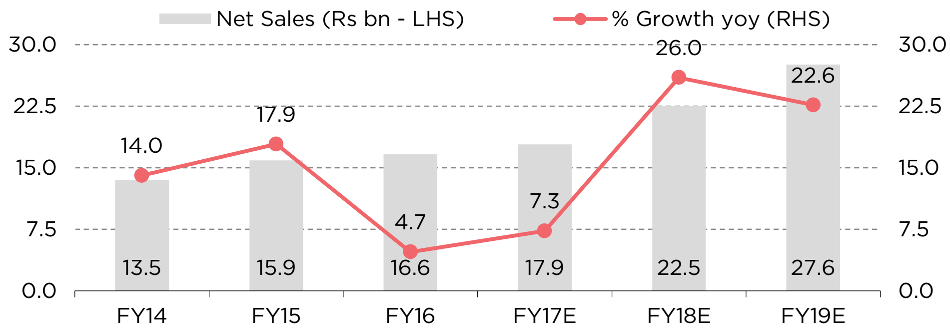
Financial summary

❑ Strong revenue growth led by new capacities coming in FY18E

We expect Centuryply to post a CAGR of 24.3% in net revenue over FY17-19E

We expect Centuryply's plywood division to post a 13.4% CAGR over FY17-19E with a sharp recovery in FY19E. As its laminates capacity is being increased by ~50% from September 2017, we expect its laminates division to post a CAGR of 22% over FY17-19E. Particle boards, though small (2.5% of net sales in FY19E), would grow at a 97% CAGR during the same period while MDF revenue would kick in from FY18E onwards (the plant is being commissioned in April 2017. MDF revenue contribution would increase to 13.4% in FY19E from almost nil in FY17E. Overall, we expect Centuryply to post a CAGR of 24.3% in net revenue over FY17-19E.

Exhibit 10: Strong growth in net sales over the next two years



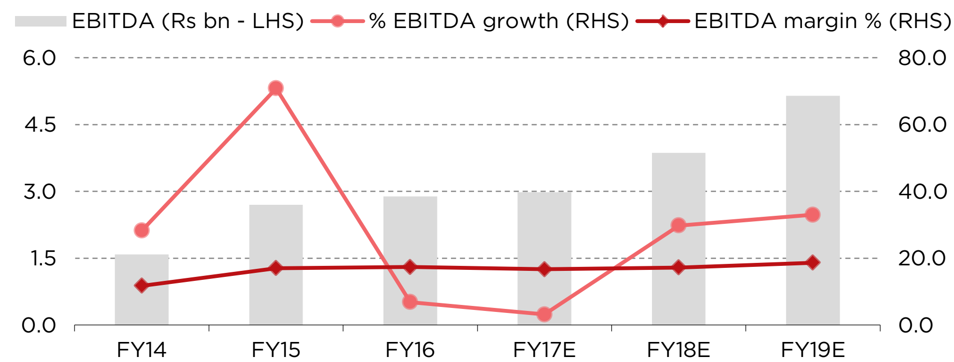
Source: IDFC Securities Research

❑ EBITDA growth to accelerate from lows of FY17E

We expect overall EBITDA margins to improve by 200bp over FY17-19E to 18.7%

FY17E EBITDA growth was impacted by a tepid 7.3% overall net revenue growth and fall in margin in the plywood segment. However, with the contribution of higher-margin businesses (MDF and particle boards) increasing and plywood margins also improving on the back of higher plywood revenue growth, we expect overall EBITDA margins to improve by 200bp over FY17-19E to 18.7%. Correspondingly, it should post a strong 31.4% EBITDA CAGR in FY17-19E, in our view.

Exhibit 11: Strong EBITDA growth over FY17-19E

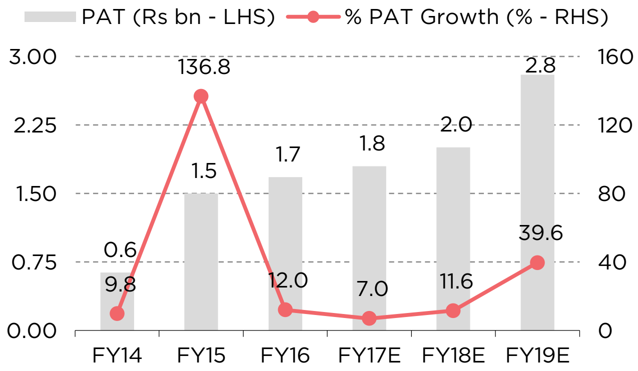


Source: IDFC Securities Research

❑ Return ratios to bounce back in FY19E

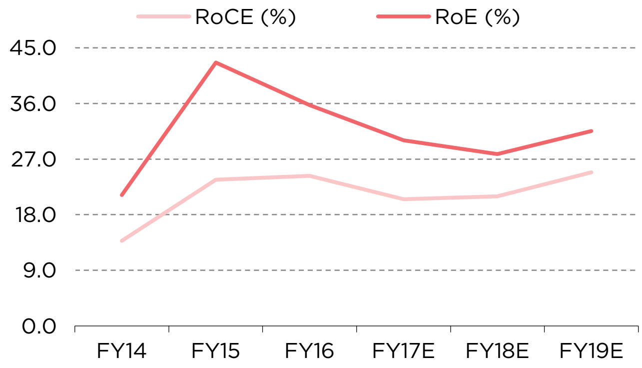
Centuryply invested Rs1.7bn throughout FY14/15/16 and is expected to invest Rs4.9bn in FY17/18 in its new MDF plant, particle board plant and plywood unit. As capacity utilisation improves in FY19E (as the particle board and MDF plants become operational over FY17/18), we expect there to be a sharp jump in profitability, and hence return ratios in FY19E. PAT is expected to post a CAGR of 25% over FY17-19E with bulk of the growth coming in FY19E (39.6% yoy). RoE in FY19E is expected to improve by 130bp over FY17E to 31.8%.

Exhibit 12: High growth in PAT in FY19E



Source: IDFC Securities Research

Exhibit 13: Return ratios to improve

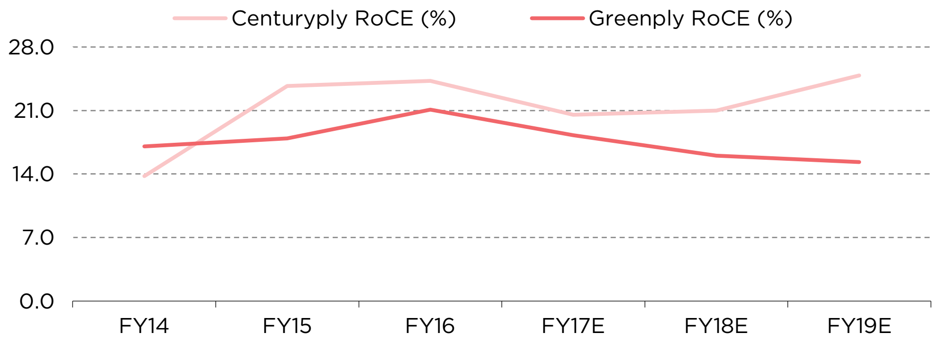


Source: IDFC Securities Research

❑ Return ratios better than Greenply's

While Centuryply's working capital cycle is longer than that of Greenply's, its return ratios are far better. This is because of a better margin profile in the plywood division and a lower tax rate. However, note that FY18/19 return ratios of Greenply are suppressed because of the ongoing capex in the new MDF unit, which will be operational only in mid-FY19E.

Exhibit 14: Centuryply's return ratios are better than its closest competitor

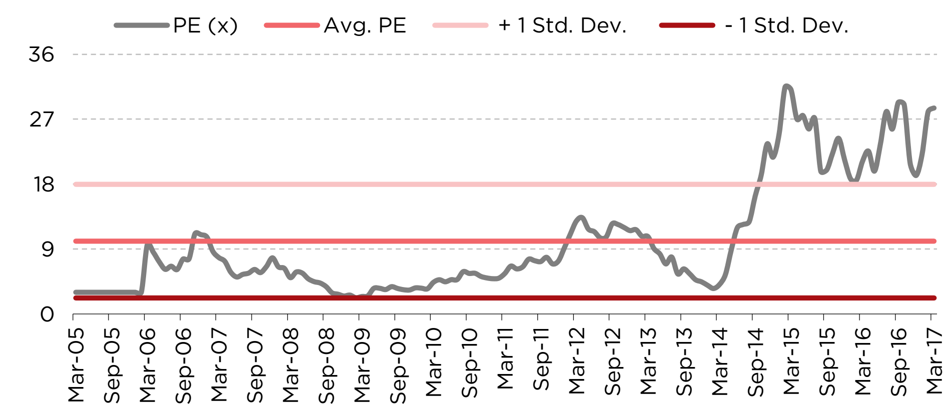


Source: IDFC Securities Research

❑ Valuation and view

Centuryply's peak investments are behind it and we expect it to post an earnings CAGR of 25% over FY17-19E as MDF capacity utilisation ramps ups and plywood growth revives. This coupled with industry-leading return ratios (31.8% RoE in FY19E) deserves premium multiples, in our view. We initiate with an OP rating and TP of Rs315 (25x FY19E EPS).

Exhibit 15: One-year forward PE



Source: IDFC Securities Research

Income statement

Year to 31 Mar (Rs m)	FY15	FY16	FY17E	FY18E	FY19E
Net sales	15,884	16,637	17,851	22,488	27,580
% growth	17.9	4.7	7.3	26.0	22.6
Operating expenses	13,181	13,749	14,871	18,620	22,435
EBITDA	2,703	2,888	2,980	3,868	5,145
% change	70.8	6.8	3.2	29.8	33.0
Other income	33	58	29	32	35
Net interest cost	456	481	348	633	635
Depreciation	485	484	521	760	1,044
Pre-tax profit	1,796	1,981	2,140	2,507	3,501
Deferred tax	0	0	0	0	0
Current tax	296	301	342	501	700
Profit after tax	1,500	1,680	1,797	2,006	2,801
Preference dividend	0	0	0	0	0
Minorities	(10)	(8)	0	0	0
Adjusted net profit	1,490	1,672	1,797	2,006	2,801
Non-recurring items	0	0	0	0	0
Reported net profit	1,490	1,672	1,797	2,006	2,801
% change	147.2	12.2	7.5	11.6	39.6

Balance sheet

As on 31 Mar (Rs m)	FY15	FY16	FY17E	FY18E	FY19E
Paid-up capital	223	223	223	223	223
Preference capital	0	0	0	0	0
Reserves & surplus	3,671	5,104	6,234	7,572	9,571
Shareholders' equity	3,949	5,417	6,546	7,884	9,884
Total current liabilities	1,124	1,529	1,844	2,020	2,377
Total debt	5,138	4,698	7,000	7,900	7,050
Deferred tax liabilities	0	0	0	0	0
Other non-current liabilities	464	148	148	148	148
Total liabilities	6,726	6,376	8,993	10,068	9,575
Total equity & liabilities	10,675	11,792	15,539	17,952	19,459
Net fixed assets	2,782	3,652	6,631	7,271	6,628
Investments	4	2	2	2	2
Cash	374	389	515	522	688
Other current assets	7,419	7,613	8,254	10,020	12,004
Deferred tax assets	70	137	137	137	137
Other non-current assets	26	0	0	0	0
Net working capital	6,669	6,472	6,925	8,523	10,316
Total assets	10,675	11,792	15,539	17,952	19,459

Cash flow

Year to 31 Mar (Rs m)	FY15	FY16	FY17E	FY18E	FY19E
Pre-tax profit	1,796	1,981	2,140	2,507	3,501
Depreciation	485	484	521	760	1,044
Chg in Working capital	(961)	237	(326)	(1,591)	(1,627)
Total tax paid	(296)	(301)	(342)	(501)	(700)
Net Interest	456	481	348	633	635
Others	27	18	0	0	0
Operating cash flow	1,608	2,567	2,340	1,808	2,852
Capital expenditure	137	(1,354)	(3,500)	(1,400)	(400)
Free cash flow (a+b)	1,745	1,213	(1,160)	408	2,452
Chg in investments	27	2	0	0	0
Debt raised/(repaid)	(663)	(440)	2,302	900	(850)
Net interest	(456)	(481)	(348)	(633)	(635)
Capital raised/(repaid)	0	0	(189)	0	0
Dividend (incl. tax)	(391)	(445)	(556)	(556)	(668)
Other items	(207)	139	78	(111)	(111)
Net chg in cash	(14)	14	127	7	188

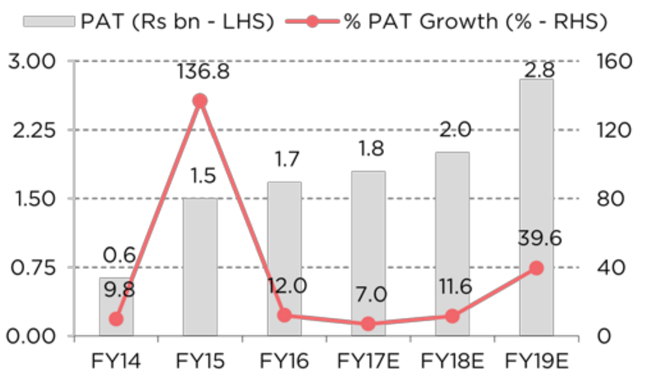
Key ratios

Year to 31 Mar	FY15	FY16	FY17E	FY18E	FY19E
EBITDA margin (%)	17.0	17.4	16.7	17.2	18.7
EBIT margin (%)	14.0	14.5	13.8	13.8	14.9
PAT margin (%)	9.4	10.0	10.1	8.9	10.2
RoE (%)	43.7	36.3	30.5	28.1	31.8
RoCE (%)	23.7	24.3	20.5	21.0	24.8
Gearing (x)	1.2	0.8	1.0	0.9	0.6
Net debt/ EBITDA (x)	1.8	1.5	2.2	1.9	1.2
FCF yield (%)	2.2	1.3	(2.6)	(0.4)	3.2
Dividend yield (%)	0.7	0.8	1.0	1.0	1.2

Valuations

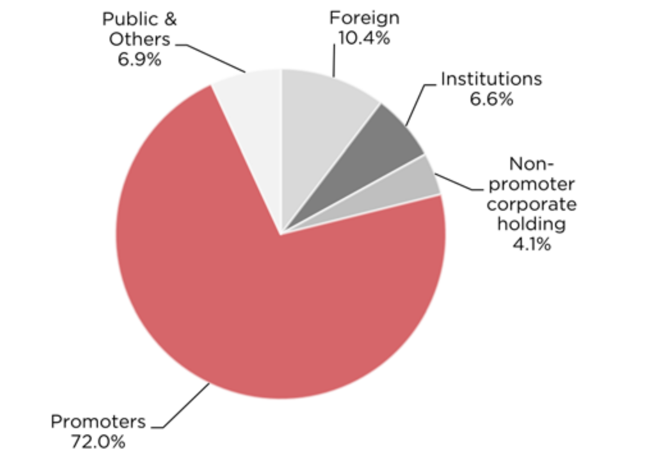
Year to 31 Mar	FY15	FY16	FY17E	FY18E	FY19E
Reported EPS (Rs)	6.7	7.5	8.1	9.0	12.6
Adj. EPS (Rs)	6.7	7.5	8.1	9.0	12.6
PE (x)	38.7	34.5	32.1	28.8	20.6
Price/ Book (x)	14.8	10.8	8.9	7.4	5.9
EV/ Net sales (x)	3.9	3.7	3.6	2.9	2.3
EV/ EBITDA (x)	23.1	21.5	21.6	16.8	12.5
EV/ CE (x)	6.5	6.0	4.7	4.1	3.8

High growth in PAT in FY19E



Source: IDFC Securities Research

Shareholding pattern



As of Dec 16