ANANDRATHI

India I Equities

Plywood

Company Update

Change in Estimates ☑ Target ☑ Reco ☐

31 May 2017

Century Plyboards

Fresh capacities to boost revenues; Buy

Rating: **Buy**
Target Price: ₹318
Share Price: ₹254

The next leg of Century Plyboards' growth would come from its new MDF capacity going on-stream by Jun'17. Its expansion plans in laminates and new capacity for doors would further add to revenue and profitability over FY17-19. An improved product mix favouring MDF is expected to lead to margin betterment. We expect the company to report a 26% CAGR in profitability over next two years. We raise our target to ₹318, while retaining our Buy call.

Strong growth in laminates; curtailed plywood volumes. Robust 16% volume growth in laminates supported the company's growth in FY17. Plywood volumes, however, at 4% during the year were restrained. Logistics reported subdue revenue growth in FY17. With a greater contribution from the MDF plant and other expansion, we expect a 22%revenue CAGR over FY17-19.

Expansions to fuel growth. The MDF plant at Hoshiarpur is likely to commence operations from Jul'17. Also, the company has established a factory at Guwahati, which has commenced production, and would obtain NE-region benefits for the next 10 years. To overcome capacity constraints, the company is ramping up its laminates capacity by 50%, to be completed by Sep'17. Further, it plans to set up a doors unit in collaboration with a Chinese company.

Outlook. Century has planned capex of ₹2.2bn for FY18 and ~₹0.6bn for FY19. Volumes are likely to rise on the expected demand pick-up, capacity expansion, allocation for Housing-for-All and benefits of input sourcing from Myanmar and Laos. GST implementation would drive capacity utilisation.

Valuations. The stock is trading at a P/E of 19.2x FY19e. We assign a PE of 24x to FY19e, and arrive at a revised target of ₹318 (earlier ₹279). **Risks:** Currency fluctuations, substitutes, high interest rates.

Key financials (YE Mar)	FY15	FY16	FY17	FY18e	FY19e
Sales (₹ m)	15,648	16,357	17,825	22,763	26,602
Net profit (₹ m)	1,508	1,698	1,856	2,280	2,947
EPS (₹)	6.8	7.6	8.3	10.2	13.2
Growth (%)	125.3	12.6	9.3	22.9	29.3
PE (x)	37.5	33.3	30.5	24.8	19.2
PBV (x)	14.6	10.8	8.0	6.3	4.9
RoE (%)	44.4	37.2	30.1	28.4	28.9
RoCE (%)	26.7	28.1	25.5	25.5	27.9
Dividend yield (%)	0.8	0.4	0.4	0.6	0.7
Net debt/equity (x)	1.3	0.7	0.7	0.7	0.4

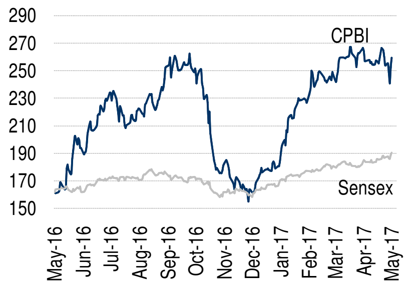
Source: Company, Anand Rathi Research

Key data	CPBI IN / CNTP.BO
52-week high/low	₹271 / ₹154
Sensex/Nifty	31154 / 9625
3-m average volume	$1.0m
Market cap	₹59bn/ $914m
Shares outstanding	222m

Shareholding patter (%)	Mar'17	Dec'16	Sep'16
Promoters	72.0	72.0	72.2
- of which, Pledged	*1.4*	*6.3*	*6.3*
Free Float	28.0	28.0	27.8
- Foreign Institutions	11.5	10.1	10.2
- Domestic Institutions	5.3	6.6	7.9
- Public	11.2	11.3	9.7

Estimates revision (%)	FY18e	FY19e
Sales	(2.2)	(0.7)
EBITDA	(2.2)	4.4
PAT	(1.5)	4.4

Relative price performance



Source: Bloomberg

Girish Solanki
Research Analyst
+9122 66266712
girishsolanki@rathi.com

Prateek Pareek
Research Analyst
+9122 66266814
prateekpareek@rathi.com

Quick Glance – Consolidated Financials and Valuations

Fig 1 – Income statement (₹m)

Year-end: Mar	FY15	FY16	FY17	FY18e	FY19e
Net revenues	15,648	16,357	17,825	22,763	26,602
Revenue growth (%)	21.9	4.5	9.0	27.7	16.9
- Oper. expenses	13,150	13,522	14,904	18,807	21,683
EBIDTA	**2,498**	**2,835**	**2,920**	**3,956**	**4,919**
EBITDA margins (%)	16.0	17.3	16.4	17.4	18.5
- Interest	433	465	286	466	558
- Depreciation	448	437	524	703	767
+ Other income	181	65	227	98	137
- Tax	290	300	481	606	783
Effective tax rate (%)	16.1	15.0	20.6	21.0	21.0
+ Associates / (minorities)					
Adjusted PAT	1,508	1,698	1,856	2,280	2,947
+ Extraordinary items	-	-	-	-	-
Reported PAT	1,508	1,698	1,856	2,280	2,947
Adj. FDEPS (₹ / sh)	6.8	7.6	8.3	10.2	13.2
Adj. FDEPS growth (%)	125.3	12.6	9.3	22.9	29.3

Source: Company, Anand Rathi Research

Fig 2 – Balance sheet (₹m)

Year-end: Mar	FY15	FY16	FY17	FY18e	FY19e
Share capital	223	223	223	223	223
Reserves & surplus	3,653	5,028	6,864	8,727	11,206
Net worth	3,876	5,251	7,086	8,949	11,428
Total debt	5,047	4,049	5,571	6,071	5,671
Minority interest	0	0	0	0	0
Def. tax liab. (net)	-70	-655	-689	-689	-689
Capital employed	**8,853**	**8,644**	**11,968**	**14,332**	**16,410**
Net fixed assets	2,316	2,905	5,336	6,833	6,766
Intangible assets					
Investments	451	497	960	960	960
- of which, Liquid					
Working capital	5,915	5,052	5,133	6,427	7,293
Cash	170	190	538	111	1,391
Capital deployed	**8,853**	**8,644**	**11,968**	**14,332**	**16,410**
Working capital (days)	138	113	105	103	100
Book value (₹/ sh)	17	24	32	40	51

Source: Company, Anand Rathi Research

Fig 3 – Cash-flow statement (₹m)

Year-end: Mar	FY15	FY16	FY17	FY18e	FY19e
Adjusted PAT	1,508	1,698	1,856	2,280	2,947
+ Non-cash items	383	(148)	490	703	767
Cash profit	1,891	1,550	2,346	2,983	3,714
- Incr. / (decr.) in WC	943	(863)	81	1,293	866
Operating cash-flow	948	2,413	2,265	1,690	2,848
- Capex	457	1,026	2,955	2,200	700
Free cash-flow	492	1,387	(690)	(510)	2,148
- Dividend	534	267	267	417	469
+ Equity raised	-	0	-	-	-
+ Debt raised	117	(998)	1,522	500	(400)
- Investments	72	46	463	-	-
- Misc. items	12	56	(248)	0	(0)
Net cash-flow	(10)	20	348	(427)	1,279
+ Op. cash & bank bal.	180	170	190	538	111
Cl. Cash & bank bal.	170	190	538	111	1,391

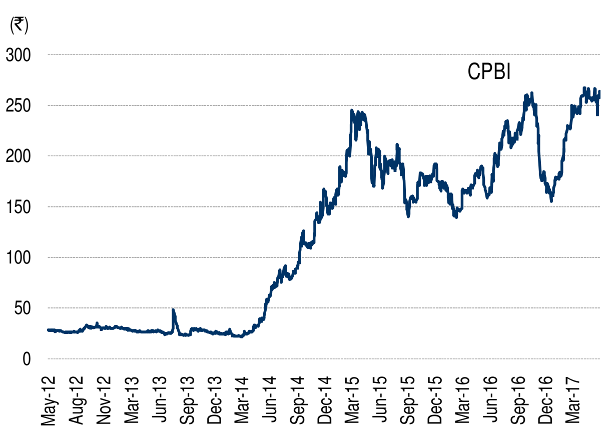
Source: Company, Anand Rathi Research

Fig 4 – Ratio analysis @ ₹254

Year-end: Mar	FY15	FY16	FY17	FY18e	FY19e
P/E (x)	37.5	33.3	30.5	24.8	19.2
Cash P/E (x)	28.9	26.5	23.8	18.9	15.2
EV/EBITDA (x)	24.6	21.3	21.1	15.8	12.4
EV/sales (x)	3.9	3.7	3.5	2.7	2.3
P/B (x)	14.6	10.8	8.0	6.3	4.9
RoE (%)	44.4	37.2	30.1	28.4	28.9
RoCE (%)	26.7	28.1	25.5	25.5	27.9
Dividend yield (%)	0.8	0.4	0.4	0.6	0.7
Dividend payout (%)	29.5	13.1	12.0	15.6	13.6
Net debt/equity (x)	1.3	0.7	0.7	0.7	0.4
Debtor (days)	55	61	63	64	64
Inventory (days)	71	66	55	56	56
Payables (days)	30	43	59	59	59
Working cap (days)	138	113	105	103	100
Fixed asset T/O (x)	6.8	5.6	3.3	3.3	3.9

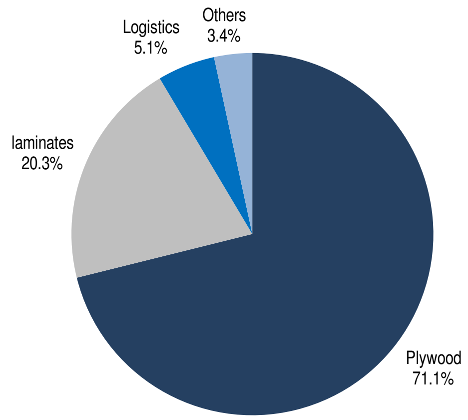
Source: Company, Anand Rathi Research

Fig 5 – Price movement



Source: Bloomberg

Fig 6– FY17 revenue break-up (standalone)



Source: Company

Company update

In FY17 the company's laminates volume growth was robust. Domestic laminates grew 17%, exports 12%. Exterior-grade laminate volumes grew 27% on a small base. The company has planned expansion of two additional lines in laminates, expected to become operational in FY18.

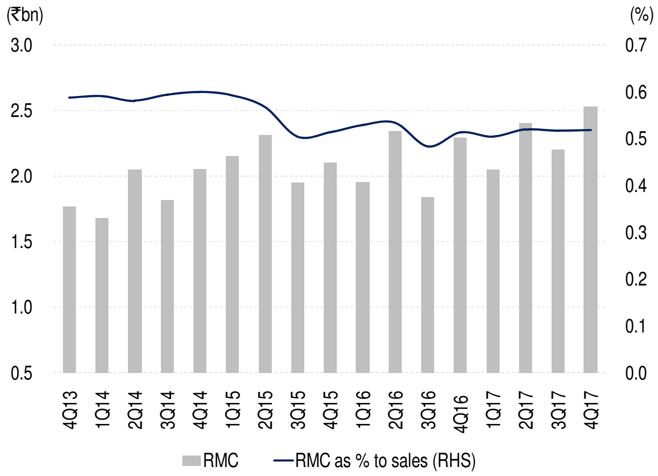
Plywood segment volumes were constrained in FY17 with plywood volumes growing 4% while revenue grew 6%. Commercial veneers did well on account ofbetterrealisations due greater sales of quality timber in the open market aided by using cheaper timber, though of good quality.

The MDF plant is expected to be operational in Jul'17, which would add considerably to revenue. Of ₹3.8bn capex, the company has incurred ₹2.8bn till Mar'17. Management expects the MDF segment to report revenue of ₹2.5bn in FY18.

The company is planning to set up a doors unit in collaboration with a Chinese company at ₹500m capex. It is expected to come up in FY19.

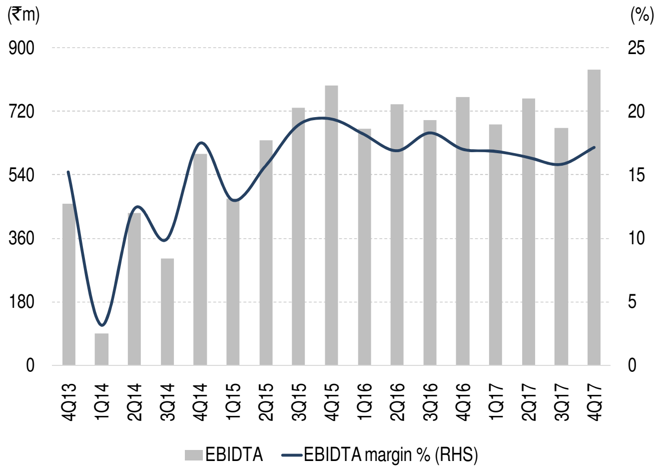
We believe that higher capacities and greater utilisation are likely to boost growth in coming years.

Fig 7 – RMC as % of sales



Source: Company

Fig 8 – Margin trend



Source: Company

Concall Highlights

- Revenue for the quarter was mainly driven by 12.3%yoygrowth in laminate volumes and a 3.1% yoy increase in plywood volumes.
- The increase in commercial veneer realisations was chiefly because of greater sales of quality timber in the open market,aided by using cheaper timber of good quality.
- Plywood margins for the quarter were a high ~19.8% up 642bps and included a 1% increase due to forex gains, some savings in RMC costs for veneers and provisions written back for channel discounts.
- The company expects its plywood margins to hold at ~17%, growth coming in primarily from greater volumes.
- Sales volumes in "Sainik" in Q4 were 14,441cb.mtr; for the full year they were 52,000cb.mtr.
- The GST rate for plywood is likely to be 28%,and 18% for laminates and commercial veneers.
- The tax rate for the quarter was higher, at 30%,chiefly because of greater forex gains, fully taxable as they relate to tax-paying units.
- Century has entered into channel financing with SBI at 9%. This would be a win-win situation for the company as thecash-discount rate is higher than the channel-financing rate.
- The MDF plant (capacity: 600cb.mtr.a day) is expected to be commissioned by July'17 and management expects it to contribute ₹2.5bn to total FY18 revenues.

Valuation

On implementation, the GST would lead to a shift from unorganised business to the organised sector, boosting the company's prospects. The Housing-for-All initiative would add to its growth. It has been promoting its brandsrelentlessly (especially its mid-range "Sainik"). The separate campaigns for laminates and the Sainik brand would help improve operational efficiency. The recent capacity expansions would drive top-line growth in coming years.

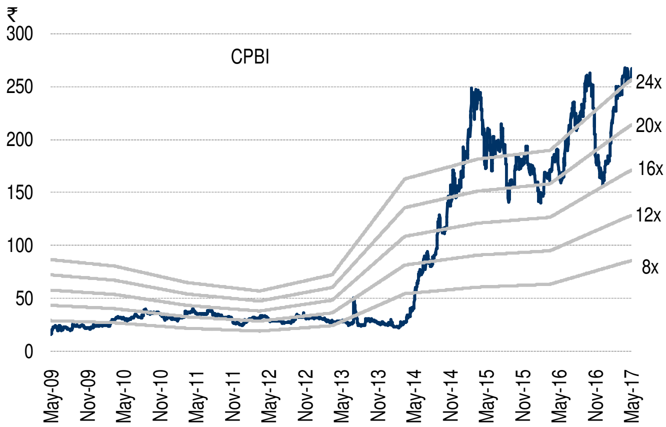
At the ruling price of ₹254, the stock is trading at 19.2x FY19e P/E and 12.4x EV/EBITDA. We believe that the strong return ratios, rising free cash-flows and constant payouts would drive growth. On the above analysis, we maintain a Buy on the stock, assigning a PE of 24x to FY19e earnings and arrive at a revised price target of ₹318 (earlier ₹279).

Fig 9 – Change in estimates

(₹ m)	Old estimates		New estimates		Change (%)	
	FY18e	FY19e	FY18e	FY19e	FY18e	FY19e
Revenue	23,282	26,787	22,763	26,602	(2.2)	(0.7)
EBITDA	4,046	4,712	3,956	4,919	(2.2)	4.4
EPS (₹)	2,314	2,822	2,280	2,947	(1.5)	4.4

Source: Anand Rathi Research

Fig 10 – PE band



Source: Bloomberg, Anand Rathi Research

Risks

- **Currency volatility:** Since the company imports a large part of the raw material it requires, currency fluctuations would affect its margins. At present, raw material costs amount to ~50-52% of its net sales.
- **Threat from substitutes:** The shifting demand of consumers from plywood to multi-density fibreboard (MDF, less expensive than ply) would pose a threat.
- **Higher interest rate:** Century Plyboards' exposure to interest-rate fluctuations in its foreign-currency borrowing could hurt it.

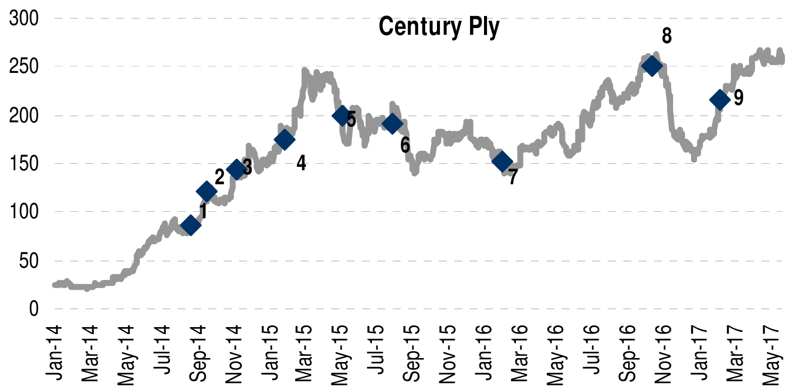
Appendix

Analyst Certification

The views expressed in this Research Report accurately reflect the personal views of the analyst(s) about the subject securities or issuers and no part of the compensation of the research analyst(s) was, is, or will be directly or indirectly related to the specific recommendations or views expressed by the research analyst(s) in this report. The research analysts are bound by stringent internal regulations and also legal and statutory requirements of the Securities and Exchange Board of India (hereinafter "SEBI") and the analysts' compensation are completely delinked from all the other companies and/or entities of Anand Rathi, and have no bearing whatsoever on any recommendation that they have given in the Research Report.

Important Disclosures on subject companies

Rating and Target Price History (as of 31 May 2017)



	Date	Rating	TP (₹)	Share Price (₹)
1	19-Aug-14	Buy	115	82
2	15-Sep-14	Buy	131	111
3	05-Nov-14	Buy	184	139
4	27-Jan-15	Buy	226	177
5	05-May-15	Buy	257	208
6	27-Jul-15	Buy	240	197
7	01-Feb-16	Buy	202	151
8	10-Aug-16	Buy	250	211
9	03-Feb-17	Buy	279	216

Anand Rathi Ratings Definitions

Analysts' ratings and the corresponding expected returns take into account our definitions of Large Caps (>US$1bn) and Mid/Small Caps (<US$1bn) as described in the Ratings Table below:

Ratings Guide (12 months)

	Buy	Hold	Sell
Large Caps (>US$1bn)	>15%	5-15%	<5%
Mid/Small Caps (<US$1bn)	>25%	5-25%	<5%

Research Disclaimer and Disclosure inter-alia as required under Securities and Exchange Board of India (Research Analysts) Regulations, 2014

Anand Rathi Share and Stock Brokers Ltd. (hereinafter refer as ARSSBL) (Research Entity) is a subsidiary of Anand Rathi Financial Services Ltd. ARSSBL is a corporate trading and clearing member of Bombay Stock Exchange Ltd, National Stock Exchange of India Ltd. (NSEIL), Multi Stock Exchange of India Ltd (MCX-SX), United Stock Exchange and also depository participant with National Securities Depository Ltd (NSDL) and Central Depository Services Ltd. ARSSBL is engaged in the business of Stock Broking, Depository Participant and Mutual Fund distributor.

The research analysts, strategists, or research associates principally responsible for the preparation of Anand Rathi research have received compensation based upon various factors, including quality of research, investor client feedback, stock picking, competitive factors and firm revenues.

General Disclaimer: This Research Report (hereinafter called "Report") is meant solely for use by the recipient and is not for circulation. This Report does not constitute a personal recommendation or take into account the particular investment objectives, financial situations, or needs of individual clients. The recommendations, if any, made herein are expression of views and/or opinions and should not be deemed or construed to be neither advice for the purpose of purchase or sale of any security, derivatives or any other security through ARSSBL nor any solicitation or offering of any investment /trading opportunity on behalf of the issuer(s) of the respective security (ies) referred to herein. These information / opinions / views are not meant to serve as a professional investment guide for the readers. No action is solicited based upon the information provided herein. Recipients of this Report should rely on information/data arising out of their own investigations. Readers are advised to seek independent professional advice and arrive at an informed trading/investment decision before executing any trades or making any investments. This Report has been prepared on the basis of publicly available information, internally developed data and other sources believed by ARSSBL to be reliable. ARSSBL or its directors, employees, affiliates or representatives do not assume any responsibility for, or warrant the accuracy, completeness, adequacy and reliability of such information / opinions / views. While due care has been taken to ensure that the disclosures and opinions given are fair and reasonable, none of the directors, employees, affiliates or representatives of ARSSBL shall be liable for any direct, indirect, special, incidental, consequential, punitive or exemplary damages, including lost profits arising in any way whatsoever from the information / opinions / views contained in this Report. The price and value of the investments referred to in this Report and the income from them may go down as well as up, and investors may realize losses on any investments. Past performance is not a guide for future performance. ARSSBL does not provide tax advice to its clients, and all investors are strongly advised to consult with their tax advisers regarding taxation aspects of any potential investment.

Opinions expressed are our current opinions as of the date appearing on this Research only. We do not undertake to advise you as to any change of our views expressed in this Report. Research Report may differ between ARSSBL's RAs and/ or ARSSBL's associate companies on account of differences in research methodology, personal judgment and difference in time horizons for which recommendations are made. User should keep this risk in mind and not hold ARSSBL, its employees and associates responsible for any losses, damages of any type whatsoever.

ARSSBL and its associates or employees may; (a) from time to time, have long or short positions in, and buy or sell the investments in/ security of company (ies) mentioned herein or (b) be engaged in any other transaction involving such investments/ securities of company (ies) discussed herein or act as advisor or lender / borrower to such company (ies) these and other activities of ARSSBL and its associates or employees may not be construed as potential conflict of interest with respect to any recommendation and related information and opinions. Without limiting any of the foregoing, in no event shall ARSSBL and its associates or employees or any third party involved in, or related to computing or compiling the information have any liability for any damages of any kind.

Details of Associates of ARSSBL and Brief History of Disciplinary action by regulatory authorities & its associates are available on our website i.e. www.rathionline.com

Disclaimers in respect of jurisdiction: This report is not directed to, or intended for distribution to or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction where such distribution, publication, availability or use would be contrary to law or regulation or which would subject ARSSBL to any registration or licensing requirement within such jurisdiction(s). No action has been or will be taken by ARSSBL in any jurisdiction (other than India), where any action for such purpose(s) is required. Accordingly, this Report shall not be possessed, circulated and/or distributed in any such country or jurisdiction unless such action is in compliance with all applicable laws and regulations of such country or jurisdiction. ARSSBL requires such recipient to inform himself about and to observe any restrictions at his own expense, without any liability to ARSSBL. Any dispute arising out of this Report shall be subject to the exclusive jurisdiction of the Courts in India.

Statements on ownership and material conflicts of interest, compensation - ARSSBL and Associates

Answers to the Best of the knowledge and belief of ARSSBL/ its Associates/ Research Analyst who is preparing this report

ARSSBL/its Associates/ Research Analyst/ his Relative have actual/beneficial ownership of one per cent or more securities of the subject company, at the end of the month immediately preceding the date of publication of the research report?	No
ARSSBL/its Associates/ Research Analyst/ his Relative have actual/beneficial ownership of one per cent or more securities of the subject company	No
ARSSBL/its Associates/ Research Analyst/ his Relative have any other material conflict of interest at the time of publication of the research report?	No
ARSSBL/its Associates/ Research Analyst/ his Relative have received any compensation from the subject company in the past twelve months	No
ARSSBL/its Associates/ Research Analyst/ his Relative have managed or co-managed public offering of securities for the subject company in the past twelve months	No
ARSSBL/its Associates/ Research Analyst/ his Relative have received any compensation for investment banking or merchant banking or brokerage services from the subject company in the past twelve months	No
ARSSBL/its Associates/ Research Analyst/ his Relative have received any compensation for products or services other than investment banking or merchant banking or brokerage services from the subject company in the past twelve months	No
ARSSBL/its Associates/ Research Analyst/ his Relative have received any compensation or other benefits from the subject company or third party in connection with the research report	No
ARSSBL/its Associates/ Research Analyst/ his Relative have served as an officer, director or employee of the subject company.	No

Other Disclosures pertaining to distribution of research in the United States of America

This report was prepared, approved, published and distributed by the Anand Rathi Share and Stock Brokers Limited (ARSSBL) located outside of the United States (a "non-US Group Company"). This report is distributed in the U.S. by Enclave Capital LLC, a U.S. registered broker dealer, on behalf of ARSSBL only to major U.S. institutional investors (as defined in Rule 15a-6 under the U.S. Securities Exchange Act of 1934 (the "Exchange Act")) pursuant to the exemption in Rule 15a-6 and any transaction effected by a U.S. customer in the securities described in this report must be effected through Enclave Capital. ARSSBL accepts responsibility for its contents. Any US customer wishing to effect transactions in any securities referred to herein or options thereon should do so only by contacting a representative of Enclave Capital LLC at 646-454-8600

Neither the report nor any analyst who prepared or approved the report is subject to U.S. legal requirements or the Financial Industry Regulatory Authority, Inc. ("FINRA") or other regulatory requirements pertaining to research reports or research analysts. No non-US Group Company is registered as a broker-dealer under the Exchange Act or is a member of the Financial Industry Regulatory Authority, Inc. or any other U.S. self-regulatory organization.

This material was produced by ARSSBL, solely for information purposes and for the use of the recipient. It is not to be reproduced under any circumstances and is not to be copied or made available to any person other than the recipient. It is distributed in the United States of America by Enclave Capital LLC (19 West 44th Street, Suite 1700, New York, NY 10036) and elsewhere in the world by ARSSBL or an authorized affiliate of ARSSBL (such entities and any other entity, directly or indirectly, controlled by ARSSBL, the "Affiliates"). This document does not constitute an offer of, or an invitation by or on behalf of ARSSBL or its Affiliates or any other company to any person, to buy or sell any security. The information contained herein has been obtained from published information and other sources, which ARSSBL or its Affiliates consider to be reliable. None of ARSSBL or its Affiliates accepts any liability or responsibility whatsoever for the accuracy or completeness of any such information. All estimates, expressions of opinion and other subjective judgments contained herein are made as of the date of this document. Emerging securities markets may be subject to risks significantly higher than more established markets. In particular, the political and economic environment, company practices and market prices and volumes may be subject to significant variations. The ability to assess such risks may also be limited due to significantly lower information quantity and quality. By accepting this document, you agree to be bound by all the foregoing provisions.

1. ARSSBL or its Affiliates may or may not have been beneficial owners of the securities mentioned in this report.

2. ARSSBL or its affiliates may have or not managed or co-managed a public offering of the securities mentioned in the report in the past 12 months.

3. ARSSBL or its affiliates may have or not received compensation for investment banking services from the issuer of these securities in the past 12 months and do not expect to receive compensation for investment banking services from the issuer of these securities within the next three months.

4. However, one or more of ARSSBL or its Affiliates may, from time to time, have a long or short position in any of the securities mentioned herein and may buy or sell those securities or options thereon, either on their own account or on behalf of their clients.

5. As of the publication of this report, ARSSBL does not make a market in the subject securities.

6. ARSSBL or its Affiliates may or may not, to the extent permitted by law, act upon or use the above material or the conclusions stated above, or the research or analysis on which they are based before the material is published to recipients and from time to time, provide investment banking, investment management or other services for or solicit to seek to obtain investment banking, or other securities business from, any entity referred to in this report.

Enclave Capital LLC is distributing this document in the United States of America. ARSSBL accepts responsibility for its contents. Any US customer wishing to effect transactions in any securities referred to herein or options thereon should do so only by contacting a representative of Enclave Capital LLC.

Additional information on recommended securities/instruments is available on request.

ARSSBL registered address: 4th Floor, Silver Metropolis, Jaicoach Compound, Opposite Bimbisar Nagar, Goregaon (East), Mumbai - 400 063.
Tel No: +91 22 4001 3700 | Fax No: +91 22 4001 3770 | CIN: U67120MH1991PLC064106.