

We recently met the management of Century Plyboards (India) Ltd. to under more about the plywood and laminate industry and the company in particular.

Century Plyboards (India) Ltd. (Century Plyboards) is India's premier wood panel company. The company mainly operates into two segments: plywood and laminates. These two segments combined contributed around 93% of sales of the company in FY14, while its container freight station (CFS) at Kolkata port contributed around 4%.

- The Indian plywood and panel market is estimated at around ₹15,000 crores. The market is dominated by unorganized sector with higher market share of around 70%. **The organized market of around ₹4,500 crores is dominated by two national player Century Plyboards and Greenply Industries Ltd.** Century Plyboards has around 25% market share of the organized plywood industry.
- The management expects the overall plywood industry to grow by around 5%-6% whereas the **organized sector to grow by around 25% to 30% for next two to three years.**
- In the plywood segment the company has six manufacturing facilities including one at Myanmar spread across north, south, east, west of India with a **total plywood manufacturing capacity of 2,10,000 cubic meters (CBM) per annum.** In FY14 the plywood segment contributed to around 75% of the total sales revenue of the company. The company is the **first to introduce seven year product guarantee (not warranty) for its plywood in the industry.** The management claims that its products are priced at around 5% premium over its nearest competitor and 20% over un-organized plywood product due to its superior quality and brand image.
- The company is the third largest player in the laminates segment with a capacity of 4.80 million sheets. The company has a **market share of around 9% in the organized laminate industry** and enjoys strong position in the market with its laminate brand "**Century Lam**". The company has seen capacity constraint in FY13 with utilization around 95%, so it has recently augmented its laminate capacity **from 2.40 million sheets at its Bishnupur plant near Kolkata to 4.80 million sheet** with a total capex of around ₹20 crores.
- In FY08 the company entered the container freight station (CFS) business in Kolkata by winning a bid to acquire an area of one lakh sq meter. **It is currently running two container freight stations with a total capacity of 150000 TEU.** On account of heavy congestion faced at the port, the Port Trust has mandated the cargo arriving at the port to be cleared with a day and stored in the CFS's. The company controls almost 50% of the CFS capacity at Kolkata port. **At optimum utilization this business has around high EBIDTA margin of around 50% plus.** The management expects this business to grow in FY15e & FY16e on account of stable foreign exchange scenario which will lead to

CMP

₹80

STOCK INFO

CO. NAME	Century Plyboards (India) Ltd.
BSE	532548
NSE	CENTURYPLY
BLOOMBERG	CPBI IN
REUTERS	CNTP.BO
INDUSTRY	Building Products
FACE VALUE (₹)	1
EQUITY CAPITAL (₹ cr)	22.25
MKT CAP (₹ cr)	1780
52W H/L (₹)	92.5/22.05
AVG DAILY VOL (BSE+NSE)	5,03.210

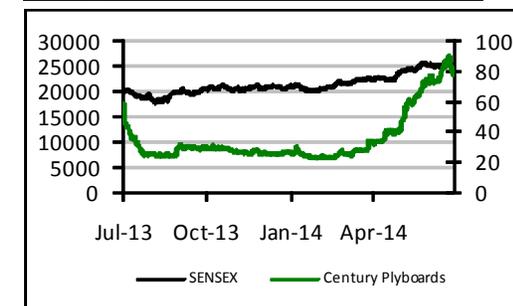
SHAREHOLDING PATTERN (March'14)

	%
FOREIGN INSTITUTIONS	1.23
INDIAN INSTITUTIONS	-
OTHERS, INCL PUBLIC	25.89
PROMOTERS	72.88

PERFORMANCE

	3m	12m
Century Plyboards	129.80%	51.80%
BSE SENSEX	11.30%	24.90%

Century Plyboards Ltd VS. BSE SENSEX



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increased import/export activity and a growth of CFS business revenues. The traffic at Kolkata port is expected to grow at a CAGR 25% for next two to three years.

- As mentioned earlier 75% of the total plywood market is unorganized. The uneven indirect duty structures in favour of unorganized players provide them price advantage over organized manufacturer. **With the implementation of GST, the management believes that both organized and unorganized players will then come at an even tax platform which they feel to be a potential “Game Changer” for the plywood manufacturers that could give them an opportunity to tap unorganized market whose size is almost 3x of that of organized market.**
- Following the trend set by other timber rich nations, **Myanmar government has also decided to ban the export of raw timber (a major raw material for manufacture of plywood) from the country w.e.f from April 2014.** The move aims at establishing a domestic wood processing industry that would enhance value addition, which in turn would generate duty/tax and increase employment opportunity. Century Plyboards used to import a sizeable portion of its timber requirement from Myanmar for manufacturing plywood. **However the ban turned out to be positive for the company as it has already set up a 100% timber peeling and manufacturing subsidiary in Myanmar.**
- The company has a timber peeling and plywood manufacturing capacity of 16,000 CBM and 6,000 CBM per annum respectively in Myanmar. The company has retained supply of its raw material requirement from Myanmar, but instead of importing raw timber logs, it will be importing face veneers (an intermediate product for production of plywood). The unorganized players does not have the capability to set up units in Myanmar, while among the organized players only Greenply Industries is now setting up a unit through a 50:50 joint venture partnership. **We believe that Century Plyboards is likely to enjoy a first mover advantage as Indian plywood producers will now find it difficult to procure high quality Myanmar timber/veneer.**
- Usually the cost of transportation of raw timber from Myanmar is high because of its bulky nature, however once converted into veneers the bulk weight reduces substantially as typically 30% of moisture content in logs is removed and post peeling the weight further reduces by another 30%. **Hence, in veneer form the total bulk handling weight reduces by around 50%.** As the company will now be importing veneers, the company is expected to get benefitted on account of lower transportation cost. The company will also sell surplus face veneers in the market in which it is a market leader with around 30% market share.
- The company is now comfortably sitting on 8/9 months of inventory of timber logs imported from Myanmar. **As per the management post the ban of raw timber imports from Myanmar, the prices of face veneers in India has shot up by around 25%, while the prices of raw timber logs in Myanmar has declined by 20%-25% because of low imports by India.** Hence the company margins on sale of veneers have shot up sharply. We feel that it is a short tem phenomenon which is expected to boost margins of the plywood segment of the company.

- The company was impacted by forex loss of ₹44.0 crores in FY14 on account of rupee depreciation against dollar. The company imports around 70% of its raw material requirement of logs and chemicals. **However, now over the past six months due to stability in the foreign exchange rate the management expects forex losses to reduce substantially in FY15.**
- The company has an extensive dealership network of around 5000 dealers with around 33 marketing office on a pan India basis and has also planned for dealer addition of around 1500 new dealers over next 2-3 years.
- **Century Plyboards is best placed to be benefit from recovery in India's housing segment, driving demand for the wood panel industry and also a key beneficiary of implement of proposed GST in India.**
- **We recommend a Buy on "Century Plyboards" with long term view at current prices.**

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