Century Plyboards (I)

19 June 2014

Visit note - Not rated

IIFL Institutional Equities

Leading branded plywood player

- Century Plyboard (CPBI), India's leading plywood manufacturer with the highest-selling plywood brand, expects housing sector push by the new government to boost demand growth for the industry.
- Indian plywood and panel market is estimated at Rs150bn with the share of organised players at Rs45bn. CPBI is a dominant player with 25% share in the organised market. CPBI expects revenue growth for organised players at 25-30% over the next few years.
- Reduction in excise duty in the past few years, a strong brand and quality awareness, and economies of scale have resulted in organized players growing at more than thrice the rate of unorganised players.
- CPBI is the first to set up a unit in Myanmar, which has ensured un-interrupted supply of quality raw materials to all its units (Myanmar has banned export of raw timber w.e.f 1st April 2014).
- ROE improvement in FY14 was reduced due to huge forex loss of Rs440m because of INR depreciation.
- We expect the likely economic revival to boost the housing segment, which has been sluggish for the past two years. CPBI, a plywood player with strong brand recall, is poised to benefit from likely improvement in demand as it has expanded its capacity by 70% in the last two years. The stock is available at 26x PER on FY14 earnings.

IIFL's score-card for unrated companies

Key Positives	Score of 1-5 (with 5 as most positive)	Key Risks	Score of 1-5 (with 5 as most risky)
Industry growth potential	✓✓✓✓	Regulatory	✗✗✗✗
Dominant position within the industry	✓✓✓	Corporate Governance	✗✗
Balance-sheet strength, profitability ratios	✓✓	Competition (including possible foreign)	✗✗
Execution track record of management	✓✓✓✓	Liquidity (trading volume)	✗✗✗

CMP	**Rs77**
Market cap (US$m)	**285**
Enterprise value(US$m)	**357**
Bloomberg	**CPBI IN**
Sector	**Mid-caps**

Shareholding pattern (%)

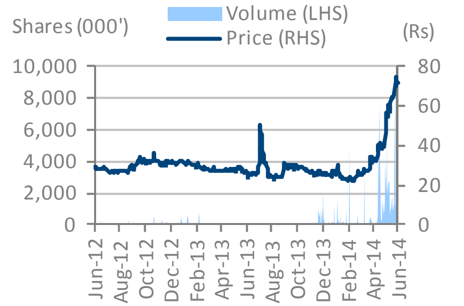
Promoter	74.5
FII	0.9
DII	0.0
Others	24.6
52Wk High/Low (Rs)	78/22
Shares o/s (m)	222
Daily volume (US$ m)	1.1
Dividend yield FY13ii (%)	1.3
Free float (%)	27.1

Price performance (%)

	1M	3M	1Y
Absolute (Rs)	66.2	204.7	187.6
Absolute (US$)	62.5	210.3	179.2
Rel. to Sensex	60.4	187.7	155.5

Cagr (%)	**3 yrs**
EPS	-2.8

Stock performance



Financial summary (Rs m)

Y/e 31 Mar, Parent	FY11A	FY12A	FY13A	FY14A
Revenues (Rs m)	9,309	11,183	11,311	12,840
Ebitda margins (%)	*10.4*	*12.4*	*10.0*	*11.5*
Pre-exceptional PAT (Rs m)	745	733	527	669
Reported PAT (Rs m)	745	601	527	669
Pre-exceptional EPS (Rs)	3.3	3.2	2.4	3.0
Growth (%)	*(8.0)*	*(1.6)*	*(26.6)*	*27.1*
PER (x)	**23.5**	**23.9**	**32.6**	**25.6**
ROE (%)	*29.4*	*24.8*	*18.7*	*24.7*
Net debt/equity (x)	0.7	1.0	1.5	1.5
EV/Ebitda (x)	20.2	14.8	18.5	14.5
Price/book (x)	6.3	5.6	6.9	5.9

Source: Company, IIFL Research. Priced as on 17 June 2014

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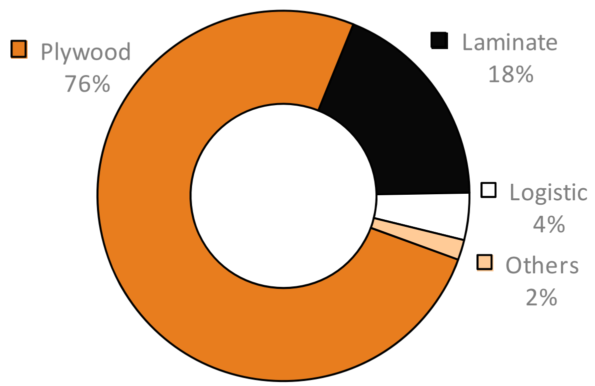
Background

CPBI is India's leading plywood manufacturing company with six manufacturing units in India and one in Myanmar. In India, it has plants in Haryana in north, Tamil Nadu in south, West Bengal in east, Assam in north-east, Gujarat in west, and Uttarakhand in the central region. CPBI is promoted by first-generation promoters. Mr. Sajjan Bhajanka and Mr. Sanjay Agarwal are the key promoters. Mr. Vishnu Khemani, Mr. Prem Bhajanka and Mr. H.P Agarwal are the other promoters. All promoters are first-generation entrepreneurs with over 30 years of experience in plywood and related products.

CPBI's other two major business segments are laminates and logistics. CPBI is India's third largest laminate producer; laminates accounted for 19% of CPBI's revenue in FY14. CPBI recently has doubled laminate capacity from 2.4m sheets to 4.8m sheets.

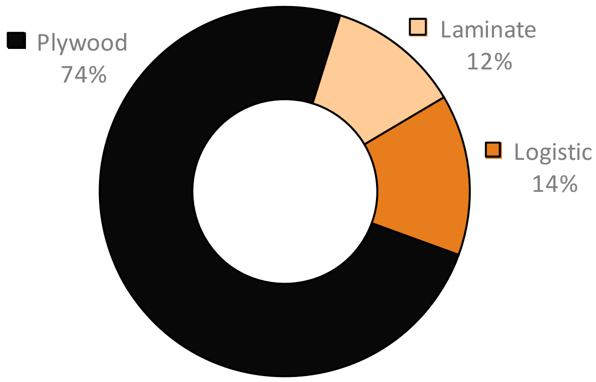
CPBI operates two container freight stations near Kolkata Port area (0.1 m sqm); CFS operations were started in FY09. This is the first privately owned CFS in eastern India.

Figure 1: Revenue mix – FY14



Source: Company

Figure 2: Ebitda mix – FY14



Source: Company

CPBI entered the furniture business in 2012 with two pilot retail show-rooms in Kolkata and Bengaluru. CPBI recently introduced modular kitchen made of plywood with all-proof warranty. CPBI plans to expand the retail furniture business through a franchisee model. CPBI also entered into trading in plywood related chemicals, glues and resins.

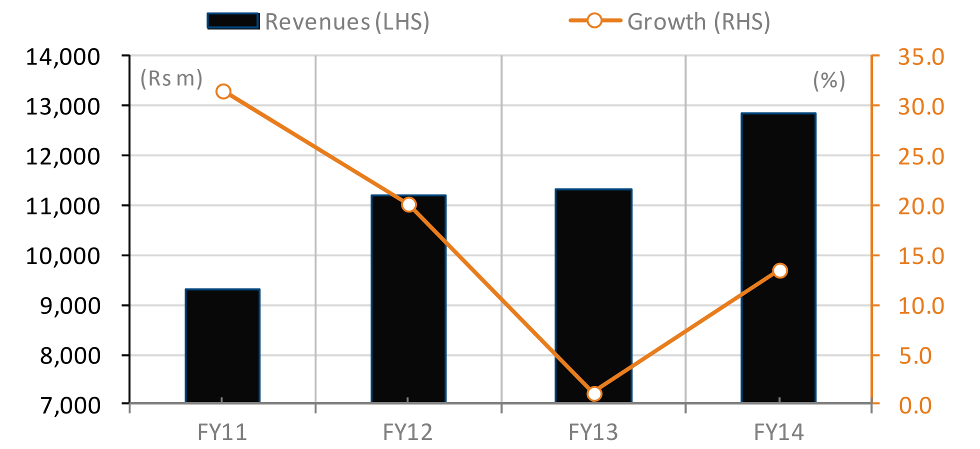
Management

Name	Designation
Sajjan Bhajanka	Chairman
HariPrasad Agarwal	Vice Chairman
Sanjay Agarwal	Managing Director

Leading plywood producer in India: CPBI is India's leading plywood producer with the highest volume and revenue. The close competitor for CPBI is Greenply, also a nation-wide player, whose market share is close to that of CPBI. CPBI and Greenply dominate the organised plywood market with ~50% market share; other organised players are regional (5-6 players). CPBI commands 5% premium over the nearest brand and 20% over products of unorganised players.

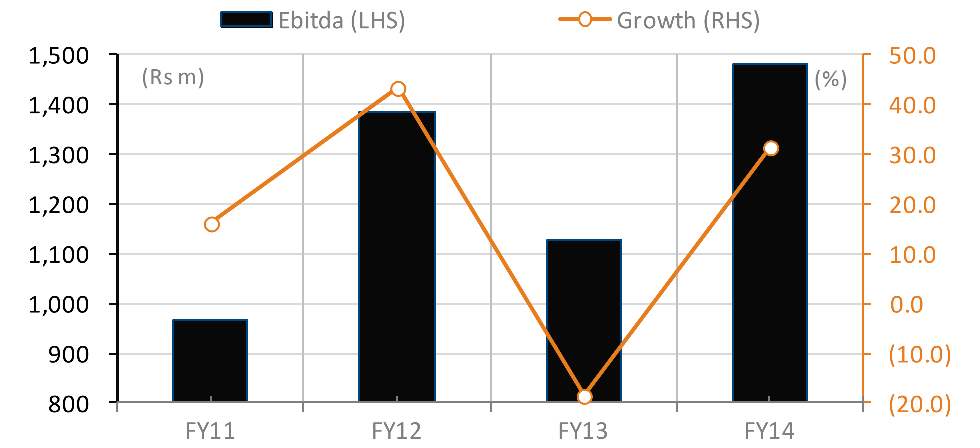
Strong revenue and Ebitda growth despite sluggish economy: CPBI's revenue and Ebitda grew at 16% Cagr over FY10-FY14 driven by improved demand for organized sector products and brand recall for CPBI. CPBI has focused on brand building and has spent more than Rs2.2bn on brand building in the past 10 years; currently CPBI's spending brand building spend forms 4% of revenue; the management expects to maintain the current percentage of ad spending to boost revenue. PAT declined for FY10-FY14 period due to reduction in other income as the cement and ferro alloys businesses were hived off into a separate company.

Figure 3:Revenue and growth trend



Source: Company, IIFL Research

Figure 4:Ebitda and growth trend

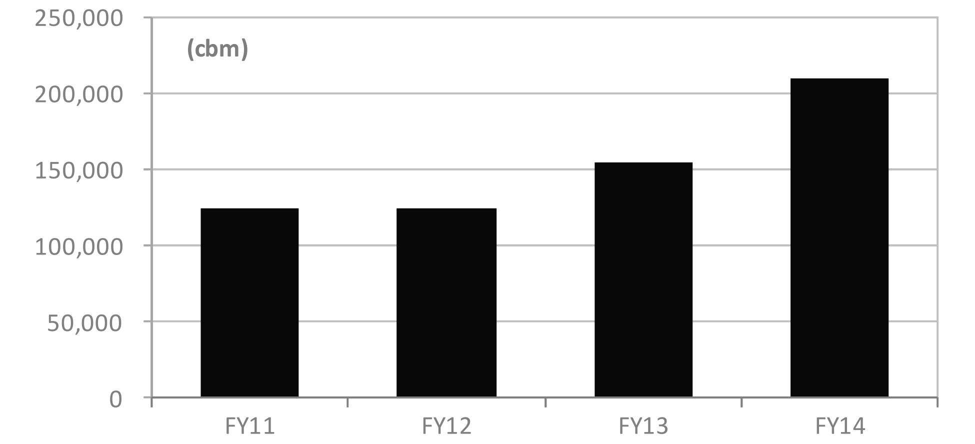


Source: Company, IIFL Research

Recovery in economy likely to boost revenue growth: With formation of strong and stable government, management expects improvement in housing demand and revival in plywood demand. While the industry is likely to clock 10-11% revenue growth, revenue of organized players is expected to grow at 25-30%; the unorganised segment is on a declining trend due to reducing duty differences and preference for products with better and consistent quality. Implementation of GST is likely to boost growth substantially for CPBI.

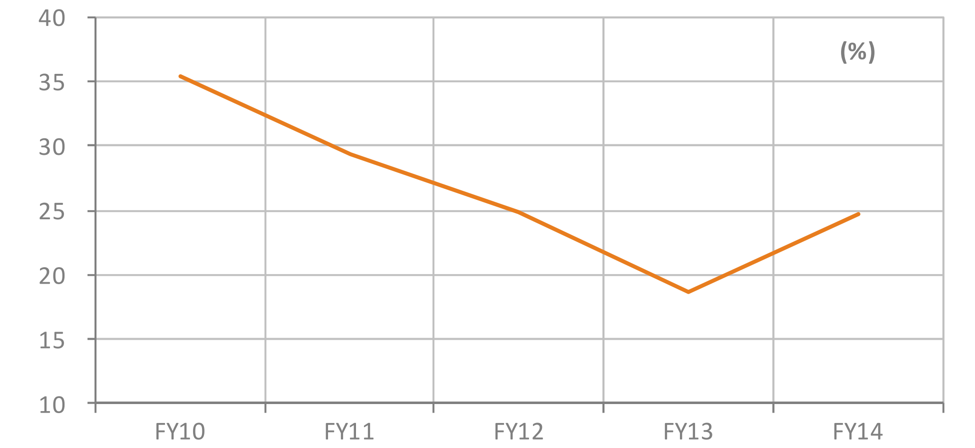
Capacity expansion in place to tap demand growth: CPBI has increased its plywood capacity from 0.125m cbm to 0.21m cbm in the past two years through greenfield expansion in Kandla, Gujarat and expansion in Myanmar. Overall utilisation for plywood in FY14 was ~70%. In laminates too, CPBI doubled its capacity to 4.8m sheets in the past two years. CPBI continues to focus on delivery systems by opening new depots regularly. It has implemented SAP to provide better service to customers.

Figure 5: Plywood capacity trend



Source: Company, IIFL Research

Figure 6: ROE trend for CPBI



Source: Company, IIFL Research

High entry barriers: In India cutting of matured timber is not allowed or is subject to stringent regulations. License is available only for imported raw material-based units and due to this the industry is heavily dependent on import of matured timber (primarily from Myanmar). With Myanmar banning export of raw timber w.e.f. 1st April 2014, unorganised players are at a disadvantage compared with CPBI. CPBI is the first player from India to set up a unit in Myanmar, thus ensuring uninterrupted supply of quality raw material to all its units.

Strong return ratios despite downturn; likely demand growth to boost ratios from here on: CPBI recorded 25% ROE in FY14 despite low utilisation due to sluggish economy. With major capex completed and capacity available to increase revenue at >25% for the next two years, return ratios are likely to expand going forward. CPBI spent Rs410m for 31000 cbm / annum capacity in Kandla, Gujarat in FY14 and expects annual revenue of Rs2bn from this expansion with likely payback period of two years. ROE improvement in FY14 was reduced due to huge forex loss of Rs440m because of INR depreciation. If the recent INR appreciation trend continues, ROE could see a strong bounce back in FY15.

Cement and ferro alloys subsidiary hived off: CPBI hived off the cement and ferro alloys businesses in its subsidiaries into a separate company through a scheme of arrangement in FY13 whereby every share of CPBI was given one share in the demerged new company. PAT Cagr is negative for FY10-FY14 largely due to a decline in other income due to nil dividend receipts from these businesses from FY13.

Balance sheet strength likely to improve going forward: Due to huge capex and low profitability, net debt to equity has increased in the last two years. With likely improvement in profitability and no major capex in the near term, we expect the management to focus on reducing debt.

Financial summary

Income statement summary (Rs m)

Y/e 31 Mar, Parent	FY11A	FY12A	FY13A	FY14A
Revenues	**9,309**	**11,183**	**11,311**	**12,840**
Ebitda	967	1,385	1,128	1,482
Depreciation and amortisation	(242)	(265)	(267)	(332)
Ebit	725	1,120	861	1,150
Non-operating income	160	41	73	95
Financial expense	(128)	(400)	(390)	(551)
PBT	758	762	544	693
Exceptionals	0	(132)	0	0
Reported PBT	758	630	544	693
Tax expense	(13)	(29)	(17)	(24)
PAT	745	601	527	669
Minorities, Associates etc.	0	0	0	0
Attributable PAT	**745**	**601**	**527**	**669**

Ratio analysis

Y/e 31 Mar, Parent	FY11A	FY12A	FY13A	FY14A
Per share data (Rs)				
Pre-exceptional EPS	3.3	3.2	2.4	3.0
DPS	1.0	1.0	0.3	1.0
BVPS	12.2	13.7	11.2	13.1
Growth ratios (%)				
Revenues	31.5	20.1	1.1	13.5
Ebitda	16.1	43.3	(18.6)	31.3
EPS	(8.0)	(1.6)	(26.6)	27.1
Profitability ratios (%)				
Ebitda margin	10.4	12.4	10.0	11.5
Ebit margin	7.8	10.0	7.6	9.0
Tax rate	1.7	4.6	3.2	3.4
Net profit margin	8.0	5.4	4.7	5.2
Return ratios (%)				
ROE	29.4	24.8	18.7	24.7
ROCE	19.3	20.4	13.9	17.3
Solvency ratios (x)				
Net debt-equity	0.7	1.0	1.5	1.5
Net debt to Ebitda	2.1	2.1	3.3	2.9
Interest coverage	5.7	2.8	2.2	2.1

Source: Company data, IIFL Research

Balance sheet summary (Rs m)

Y/e 31 Mar, Parent	FY11A	FY12A	FY13A	FY14A
Cash & cash equivalents	109	421	797	180
Inventories	1,712	1,967	2,177	2,927
Receivables	1,208	1,667	1,816	2,046
Other current assets	945	518	612	625
Creditors	1,122	869	808	742
Other current liabilities	275	440	598	1,037
Net current assets	**2,577**	**3,264**	**3,996**	**3,999**
Fixed assets	1,759	2,107	2,217	2,307
Intangibles	0	0	0	0
Investments	556	732	156	379
Other long-term assets	0	409	605	701
Total net assets	**4,892**	**6,512**	**6,974**	**7,386**
Borrowings	2,110	3,390	4,479	4,478
Other long-term liabilities	(2)	(4)	(2)	(5)
Shareholders' equity	**2,784**	**3,125**	**2,497**	**2,914**
Total liabilities	**4,892**	**6,512**	**6,974**	**7,386**

Cash flow summary (Rs m)

Y/e 31 Mar, Parent	FY11A	FY12A	FY13A	FY14A
Ebit	725	1,120	861	1,150
Tax paid	(106)	(135)	(98)	(112)
Depreciation and amortization	242	265	267	332
Net working capital change	(437)	(375)	(355)	(620)
Other operating items	52	(146)	123	13
Operating cash flow before interest	477	728	798	763
Financial expense	(128)	(400)	(390)	(551)
Non-operating income	160	41	73	95
Operating cash flow after interest	**509**	**370**	**481**	**306**
Capital expenditure	**(429)**	**(641)**	**(689)**	**(482)**
Long-term investments	(52)	(176)	576	(223)
Others	(167)	(35)	(1,271)	(386)
Free cash flow	**(139)**	**(483)**	**(903)**	**(784)**
Equity raising	0	0	0	0
Borrowings	148	1,301	1,280	224
Dividend	(56)	(507)	(1)	(57)
Net chg in cash and equivalents	(46)	312	376	(617)

Source: Company data, IIFL Research

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