19 August 2014

Century Plyboards

Monetising brand equity; initiating coverage with Buy

Rating: **Buy**
Target Price: ₹115
Share Price: ₹82

Well positioned with strong brand equity. In the past three decades, Century Plyboards has emerged as a dominant player in the decorative plywood industry, garnering an enviable 25% share of the organised market. A consistent tilt towards the organised sector and, within that, premiumisation, augurs well for the company. Its strong brand equity (Century Ply) and well-dispersed manufacturing facilities should enable it to improve realisations as well as margins in the coming years.

Greenfield expansions to fuel revenue growth. In pursuance of its strategy to be close to its markets, the company now has facilities in North (61,000m³), South (39,420m³) and East (72,000m³). Its recently-commissioned plant in Gujarat (31,000m³) affords it competitive edge in tapping western markets aggressively. This would be ably aided by the increase in its laminate capacity (2x) and widening of its product offerings (~100 SKUs a year).

GST and raw-material sourcing could prove game changers. The company could counter the ban on timber imports from Myanmar (a key input source for the industry), as it has a 100% subsidiary there. Additionally, implementation of GST would accelerate the shift towards organised players and enable it to capitalise on its brand equity.

Strong balance sheet with healthy returns. The company has posted revenue CAGR of 12.9% for FY09-14, backed by commensurate volume growth. Stable EBIDTA margins, completion of capex and impending deleveraging would enable it to report healthy capital-efficiency ratios in the years ahead (RoE >25%, RoCE >20%).

Our take. With inclement factors like strong and sustained demand growth, pricing power, and advantages in raw-material sourcing & logistics, revenue, profit and capital ratios could scale up. Hence, we initiate coverage with a Buy, assigning 14x PE to FY16e EPS and arriving at a target of ₹115. **Key risks.** Currency fluctuations, substitutes, high interest rates.

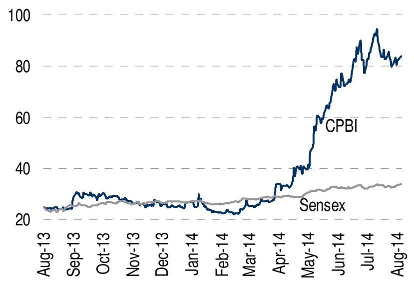
Key financials (YE Mar)	FY12	FY13	FY14	FY15e	FY16e
Sales (₹m)	11,183	11,311	12,840	16,068	20,010
Net profit (₹m)	601	527	700	1,288	1,827
EPS (₹)	2.7	2.4	3.1	5.8	8.2
Growth (%)	(19.4)	(12.4)	32.9	84.1	41.9
PE (x)	30.4	34.7	26.1	14.2	10.0
PBV (x)	5.8	7.3	6.3	4.7	3.4
RoE (%)	19.2	21.1	25.9	37.9	39.5
RoCE (%)	17.9	13.4	17.8	22.5	27.7
Dividend yield (%)	1.2	0.3	1.2	1.5	1.7
Net gearing (%)	95	147	147	99	64

Source: Company, Anand Rathi Research

Key data	CPBI IN / CNTP.BO
52-week high / low	₹97 / ₹22
Sensex / Nifty	26390/ 7874
3-m average volume	US$1.6m
Market cap	₹18bn / US$0.3bn
Shares outstanding	222m

Shareholding pattern (%)	Jun '14	Mar '14	Dec '13
Promoters	74.5	72.8	72.8
- *of which, Pledged*	8.46	8.65	8.65
Free Float	25.5	27.2	27.2
- Foreign Institutions	2.9	1.2	1.2
- Domestic Institutions	0.5	0.0	0.0
- Public	22.1	25.9	25.9

Relative price performance



Source: Bloomberg

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Quick Glance – Financials and Valuations

Fig 1 – Income statement (₹ m)

Year-end: Mar	FY12	FY13	FY14	FY15e	FY16e
Net revenues	11,183	11,311	12,840	16,068	20,010
Revenue growth (%)	28%	1%	14%	25%	25%
- Oper. expenses	9,796	10,183	11,327	13,982	17,306
EBIDTA	**1,388**	**1,129**	**1,512**	**2,086**	**2,704**
EBITDA margin (%)	12%	10%	12%	13%	14%
- Interest expenses	400	390	551	301	332
- Depreciation	265	267	332	433	442
+ Other income	(91)	73	95	80	100
- Tax	31	17	24	143	203
Effective tax rate (%)	5%	3%	3%	10%	10%
Reported PAT	**601**	**527**	**700**	**1,288**	**1,827**
+/- Extraordinary items	-	-	-	-	-
Adjusted PAT	601	527	700	1,288	1,827
PAT growth (%)	(19.4)	(12.4)	32.9	84.1	41.9
Adj. FDEPS (₹/sh)	2.7	2.4	3.1	5.8	8.2
Adj. FDEPS growth (%)	(19.4)	(12.4)	32.9	84.1	41.9

Source: Company, Anand Rathi Research

Fig 2 – Balance sheet (₹ m)

Year-end: Mar	FY12	FY13	FY14	FY15e	FY16e
Share capital	228	223	223	223	223
Reserves & surplus	2,898	2,274	2,692	3,667	5,130
Net worth	3,125	2,497	2,914	3,890	5,352
Total debt	3,379	4,461	4,478	4,128	3,678
Minority interest	0	0	0	0	0
Def. tax liab. (net)	(4)	(2)	(5)	(5)	(5)
Capital employed	**6,500**	**6,956**	**7,386**	**8,012**	**9,024**
Net fixed assets	2,107	2,217	2,307	2,324	2,332
Investments	733	157	379	379	379
- of which, Liquid					
Net working capital	3,240	3,784	4,520	5,040	6,036
Cash and bank balance	421	797	180	269	278
Capital deployed	**6,500**	**6,956**	**7,386**	**8,012**	**9,024**
Net debt	95	147	147	99	64
WC days	68	82	90	96	98
Book value (₹/sh)	14	11	13	17	24

Source: Company, Anand Rathi Research

Fig 3 – Cash-flow statement (₹ m)

Year-end: Mar	FY12	FY13	FY14	FY15e	FY16e
PAT	601	527	700	1,288	1,827
+ Non-cash items	263	269	329	433	442
Cash profit	864	796	1,029	1,722	2,269
- Incr./(Decr.) in WC	823	545	735	520	996
Operating cash-flow	41	252	293	1,201	1,273
- Capex	618	377	423	450	450
Free cash-flow	(577)	(126)	(130)	751	823
- Dividend	258	65	252	313	365
+ Equity raised	(1)	(1,090)	(31)	0	0
+ Debt raised	1,324	1,082	17	(350)	(450)
- Investments	177	(576)	222	0	0
- Misc. items	0	0	0	0	0
Net cash-flow	311	377	(617)	89	9
+ Op. cash & bank bal.	109	421	797	180	269
Cl. cash & bank bal.	421	797	180	269	278

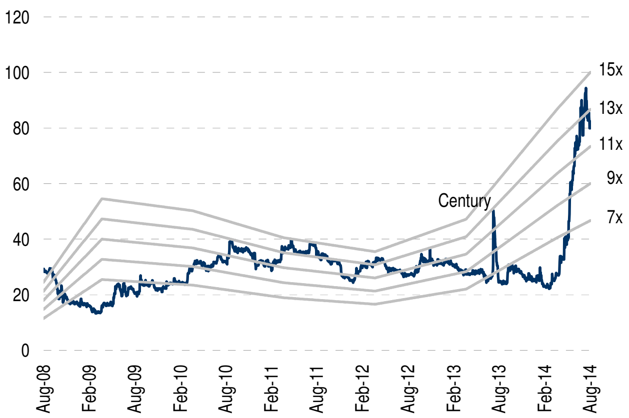
Source: Company, Anand Rathi Research

Fig 4 – Ratio analysis @ ₹82

Year-end: Mar	FY12	FY13	FY14	FY15e	FY16e
P/E (x)	30.4	34.7	26.1	14.2	10.0
Cash P/E (x)	21.5	23.0	17.7	10.6	8.0
EV/EBITDA (x)	15.6	19.4	14.9	10.6	8.0
EV/sales (x)	1.9	1.9	1.8	1.4	1.1
P/B (x)	5.8	7.3	6.3	4.7	3.4
Dividend yield (%)	1.2	0.3	1.2	1.5	1.7
Divi. payout (%)	37.0	10.5	31.7	20.7	17.0
RoE (%)	19.2	21.1	25.9	37.9	39.5
RoCE (%)	17.9	13.4	17.8	22.5	27.7
Debtor days	46.3	55.4	54.1	53.0	55.0
Inventory days	67.6	73.2	81.1	93.0	93.0
Payables days	46.3	47.1	44.9	50.0	50.0
Working cap days	67.6	81.6	90.4	96.0	98.0
Fixed asset T/O (x)	5.3	5.1	5.6	6.9	8.6
Debt to equity (x)	1.1	1.8	1.5	1.1	0.7

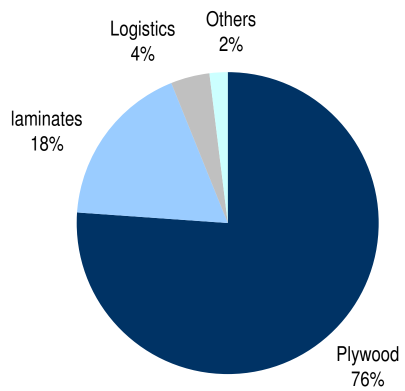
Source: Company, Anand Rathi Research

Fig 5 – PE band



Source: Bloomberg, Anand Rathi Research

Fig 6 – FY14 revenue break-up (standalone)



Source: Company

Industry Outlook

The segment in which Century Plyboards operates, plywood and laminates, can be classified as discretionary spending in the housing segment. Demand-supply dynamics in this segment greatly depend on real-estate-sector growth/churn and changing lifestyle preferences. General economic growth and demographic factors have a huge bearing. Improving income streams/levels, nuclear family structure, and easier financing options have propelled growth of housing-stock in India.

Job creation and rising affluence are buoying up the changing lifestyle preferences and fomenting a move up the value chain. Aesthetics and luxury are now slowly edging out preferences for bare necessities, which was the hallmark of Indian housing interiors. Thus, not only is real estate growing at a brisk clip, but housing derivatives such as sanitaryware, plumbing, electricals, woodwork, etc., are outpacing growth in real estate.

Real-estate and housing industry in India registered slow growth and was restricted to a few metros till the 70s. Data suggests that a combination of factors such as rising per-capita income, changes in rental and ownership laws, loosening of construction norms and increasing availability of financing options boosted growth rates early this millennium. Going forward, changing demographics, a huge population base and rising income levels would help sustain growth rates.

Of the 250m residential units in India, 160m were *pucca* houses (up from 90m in 2001), 60m were semi-*pucc*a (down from 70m in 2001); *kuccha* houses numbered ~30m (unchanged). Pending demand were almost 50m residential units, with almost 30m being urban and the rest in rural areas. Rapid urbanisation, steadily rising income levels in rural areas and multiple welfare schemes can propel by 2017 India's housing stock to 210m *pucca* units (largely urban), 40m semi-*pucca* units (as the up trading from the category exceeded up trading into it) and 35m *kuccha* units. Inferring from the above, 20m units can be created or added in the *pucca* category. These would be prime candidates for interiors, woodwork and furnishings.

Fig 7 – Housing stock details

(m)	2001	2011	2017e
Kuccha	30	30	35
Semi-pucca	70	60	40
Pucca	90	160	210

Source: Industry

The economic uptrend could also have fallout in commercial spaces. Office space supply in the top-eight Indian cities is expected to reach over 200m sq.ft. over 2012-16. Over 300 hotels are expected to be commissioned in India in the next three years and, by 2015, the Indian hospitality sector is estimated at ₹230bn, registering a robust 12.2% CAGR.

In addition to housing units being built, changing lifestyles and upgraded preferences of a young population with high disposable incomes, coupled with aspiration for a better lifestyle, would also be demand augmenters. We see rising urbanisation, consumer class, nuclear families and millionaire households as primary engines of expansion of the real-estate sector. Lastly, we expect the implementation of the GST and a stable government to contribute to the expansion in the organised/brand-name markets.

The size of the plywood sector is estimated at ~₹160bn, with laminates at ₹42bn, and has registered a 6% CAGR in the past five years. Within this, the organised sector accounts for a mere 30%. Improving quality preferences and well-marked brand equity are now slowly heralding a shift towards branded products in the market; and that is accentuating the shift towards the organised players. Another dogma of the sector is that most dealing in the industry is in cash, even with end users. Of late, however, with the per-household ticket size increasing, the shift towards the banking system by end users is playing a role in tilting the balance in favour of regulated operators.

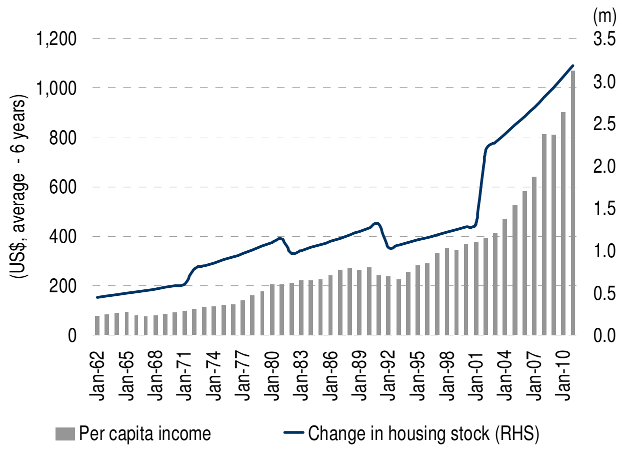
Overall, the sector is expected to register a 6% CAGR in the coming five years. Within this, the organised segment would outstrip sector growth at 25-30% as brand equity, quality, amongst others, make their impact felt on the dynamics of demand. The GST implementation could further erode the share of the unorganised sector.

Century Plyboards is a dominant operator in the organised plywood market and accounts for ~25% of the organised market share. It is comfortably poised to capitalise on the above shift as well as on growth.

Laminate is used to provide an aesthetic look and improve the finishing to wooden furniture. Hence, it has a high degree of co-relation with the plywood market, and the latter has a huge influence on the laminate market. The peculiarity of this sector is that customer involvement is low; so too are brand awareness and product knowledge. Other than being overlaid on plywood, laminates are also utilised in readymade furniture, largely from pre-laminated particle board and MDF. Laminates is now a ₹42bn industry and seeing an 8% CAGR. Century Plyboards, being the third-largest laminate producer, is set to post industry-beating growth in years to come.

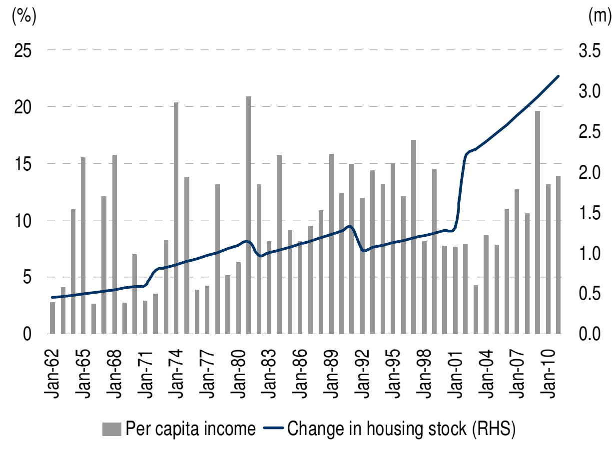
During 1981-2001, the housing sector was in a prolonged lull, stock rising from 119.8m units to 193.5m (a 2.4% CAGR). During this period, while 340m people were added, 73.7m houses were renovated. Since 2001, the number of houses has picked up, 53m houses being added since. This corresponds to per-capita income rising above US$400, which we believe to have been the trigger. Reasons for this trigger could be: (a) rise in population, 214m people added to the base of 1,019m in 2001; and (b) increase in the working population (as percent of total population) from 40% in 2001 to 50% in 2011. According to our analysis, housing stock would rise to 349.3m units by 2021, or a 3.5% CAGR during the decade.

Fig 8 – Housing stock trigger above US$400



Source: Company, Anand Rathi Research

Fig 9 – Low correlation between per capita and housing stock



Source: Company, Anand Rathi Research

Company Business Model

Plywood

Century Plyboards straddles plywood and laminates and these two make up the lion's share of its revenue streams. In plywood, it is the second-largest in the organised sector and has built up formidable size, scale and reach. The plywood business is broken up into plywood and veneer, with the former accounting for 64% and latter 12% of the company's revenues.

It started the trend of long-term guarantees (seven years) in the industry. The high-decibel advertising campaign by regulated operators in the past few years has ensured that not only have they built up brand equity, but also grabbed share from unorganised players.

With more than ~200,000m³ capacity, the company has scale, and the locations of its plants near demand clusters such as Kolkata and Guwahati (East), Karnal and Roorkee (North), Chennai (south), Kutch (West) afford it good logistical advantages in servicing such markets. The Kutch capacity is the most recent and has been set up at an outlay of ₹460m, bringing 31,000m³ in its folds. This would enable it to tap the lucrative western markets more efficiently. Transportation costs would be rationalised and logistics would improve. At present, the company incurs ~4% of operating costs on freight and transportation. The Kandla plant expansion would to a large extent curtail this cost since it is very near the demand centres.

Fig 10 – Plant-wise capacity details

Plant	Capacity
Plywood (m^3)	
Bishnupur near Kolkata	37,000
Gumudipundi near Chennai	39,420
Karnal, Haryana	36,000
Mirza near Guwahati, Assam	35,000
Bachau, near Kandla, Gujarat	31,000
Auro Sundaram (51% subsidiary)	25,000
Yangoon, Myanmar (100% subsidiary)	6,000
Laminates (nos.)	
Bishnupur near Kolkata	4,800,000

Source: Company

Its 100% Myanmar subsidiary, Century Myanmar P. Ltd., supplies face veneers to the company and helps it gain the first-mover advantage over competitors. The subsidiary purchases timber at government auctions, converts it to veneer, and then exports it to Century Plyboards.

Century Plyboards has constantly endeavoured to scale up capacity. On that front, its installed capacity has risen from 249,820m³ in FY09 to 356,457m³ in FY14 (Ply and veneer). Utilisation at present is ~75% (for ply); with the seeding of new markets, this figure could rise considerably.

Revenue from plywood and veneer spiked from ₹4.6bn in FY09 to ₹10.5bn in FY14, a 17.9% CAGR. During this period, volumes exhibited an 11% CAGR, with the balance emerging from realisations. During this period, EBIT also improved; this conveys that the company has got its act together on branding and pricing fronts. With the tilt towards branded and regulated operators becoming evident, we foresee a marginal bump-up in EBIT margins in years to come.

Laminates

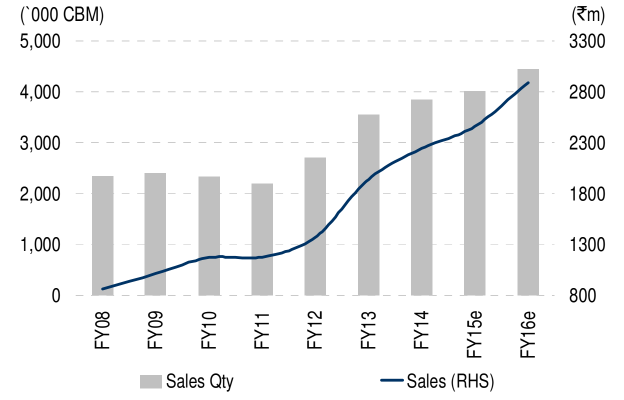
Laminates are more a finishing product than a base material for furniture and interiors. Hence, they are exterior panel products, with high margins. Any capacity expansions in this division would definitely drive the company's growth. Besides being a high-margin business, its brand value would also add to margins. Over the years, Century Plyboards has emerged as the third-largest producer of laminates. This segment made up ~18% of the company's revenue in FY14.

Laminates come in two categories: Decorative laminates and pre-laminated particle boards. A wide range of products and emphasis on quality have driven growth and pricing for the company. It has been adding ~100 SKUs every year to its product range, which now encompasses ~700 SKUs. Installed capacity of the decorative business grew from 2.4m to

3.6m sheets in FY14 and that of pre-laminated particle boards rose from 0.8m sq.mt. in FY09 to 2.37m sq.mt. in FY14. The segment now operates at 67% capacity utilisation. Capacity was recently expanded by 2x, taking the figure from 2.4m to 4.8m sheets, at ~₹247m capex.

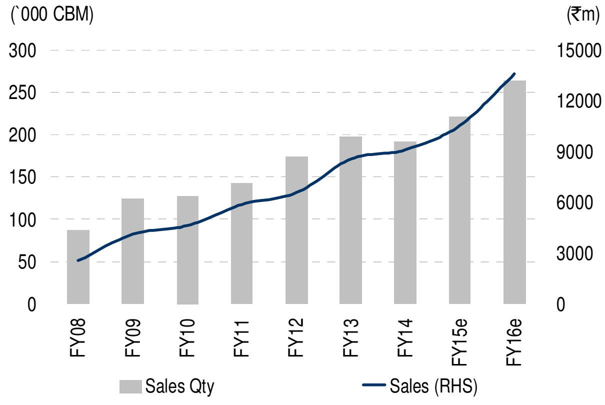
With capacity increasing and a wide dealer network, the laminate division is poised for growth. Revenue in the past five years has come at a 16% CAGR, backed by strong growth in volumes (an 11.5% CAGR). The laminates division has two categories: decorative laminates contributing 14% and pre-laminated particle boards contributing 3% to revenue. We expect overall revenue in this segment to record a 13.7% CAGR over FY14-16, which may be attributable to the 7.6% CAGR in volumes. Volumes are expected to rise on the basis of capacity expansions and yearly addition of SKUs. EBIDTA margin for the segment (excl. forex losses) came at 8% in FY14, down 500bps from FY13. However, the outlook seems to be positive on the basis of capacity expansions, better utilisation, changing political conditions and shifting demand from unorganised to organised market.

Fig 11 – Laminate - Revenue trend



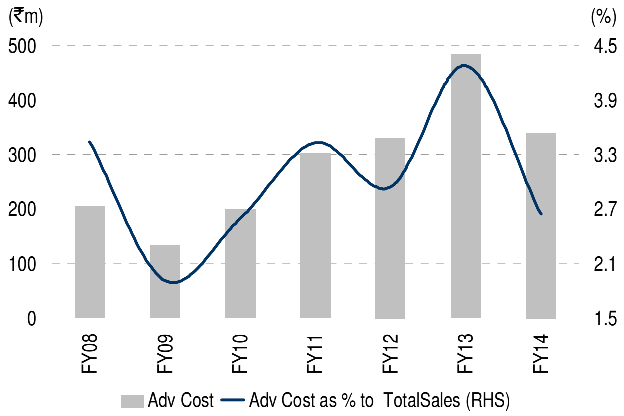
Source: Company, Anand Rathi Research

Fig 12 – Plywood - Revenue trend



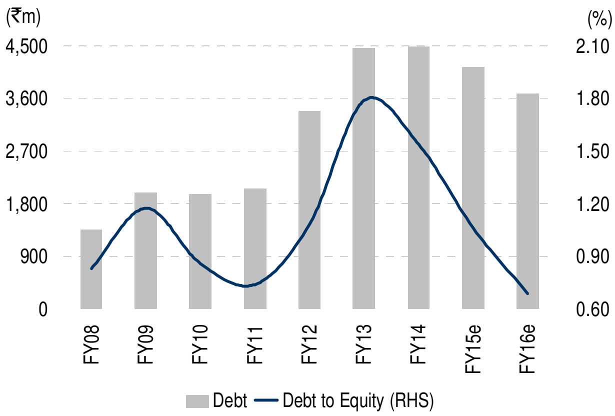
Source: Company, Anand Rathi Research

Fig 13 – Advertising cost, as percent of sales



Source: Company, Anand Rathi Research

Fig 14 – Debt-to-equity trend



Source: Company, Anand Rathi Research

Other businesses

Logistics

Fig 15 – Logistics segment details

(₹m)	FY12	FY13	FY14
Revenue	533	585	543
% of Total Sales	4.5	4.8	3.9
EBIT	188	216	155
EBIT Margin %	35.3	36.9	28.5
Capital Employed	740	691	620

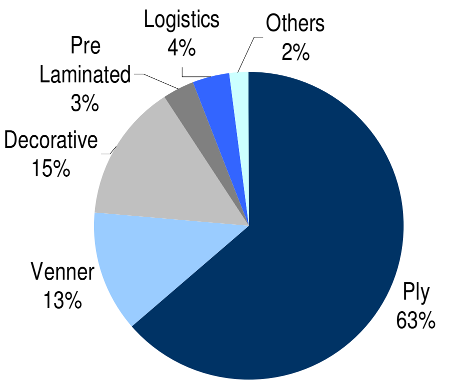
Source:

Century Plyboards also operates a small logistics business. Started in FY08 with ~20 acres near Kolkata port allotted by the Kolkata Port Trust to develop a container freight station (CFS), it is the first privately-owned CFS in eastern India, with complete facilities and requisite technology. Its capacity is ~150,000 TEUs with an average dwelling time of 15 days. These operations have registered a CAGR of 28% over the past four years, with revenues of ₹543m in FY14. After excluding forex losses in this business, EBIT margin came in at 29% in FY14. Encouragingly, the company has been reducing its capital deployment in this business, bringing it down from ₹740m in FY12 to ₹620m at present. We do not anticipate significant deployment of resources in this division in the future and have assumed marginal growth in revenues over the next two years.

Other businesses

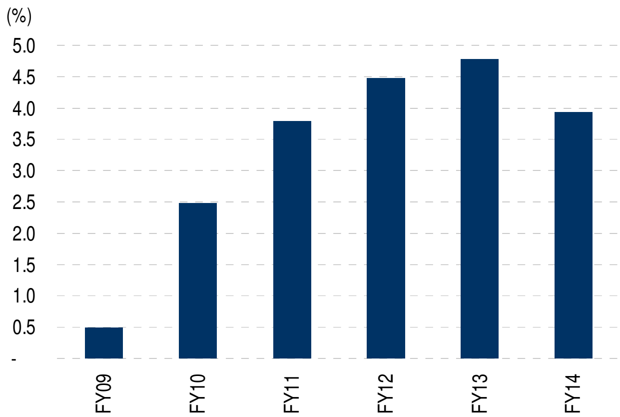
The company's other businesses are chiefly in chemicals related to furniture and plywood. It has a 51% subsidiary, Aegis Business, which owns and operates a Supramax vessel on time charter. Century Plyboards recently introduced modular kitchens of plywood and plans to expand through the franchisee module. It entered the furniture business with two pilot showrooms. This segment contributed ~2% to revenue in FY14.

Fig 16 – Revenue mix



Source: Company, Anand Rathi Research

Fig 17 – Logistics revenue as % of sales



Source: Company, Anand Rathi Research

Hiving off of a subsidiary

For the past six years, the company had been manufacturing ferro alloys and cement and producing captive power through its subsidiaries. In FY06, it acquired Cement Manufacturing Co. and Meghalaya Technical and Engineers; in FY08, Star Cement Meghalaya; in FY09 Meghalaya Power; and in FY11, NE Hills Hydro to manufacture ferro alloys and cement and produce power. However, in FY12, the company acquired Star Ferro and Cement (a fully-owned subsidiary) to hive off the above businesses. In FY13, the scheme of arrangement was effected, the business and interests of the company in manufacturing ferro alloys and cement and producing captive power were transferred to Star Ferro & Cement. With this scheme, Star Ferro & Cement was hived off.

During FY13, the company acquired Century MDF (100%) to enter the MDF business. It also formed a wholly-owned subsidiary (Century Myanmar) that year to set up veneer and plywood plants.

Key Triggers

Implementation of GST; gaining competitive advantage

Century Plyboards faces stiff competition from a large portion of unorganised operators, who constitute about 70% of the plywood market. An uneven excise duty structure coupled with unethical and uncalled-for business practices by the unorganised players have put the company at a disadvantage in many markets over the years.

The implementation of GST would nullify these disadvantages and create a level playing field. Subsequently, we expect the elimination of a price differential to result in a strong brand emerging as a differentiator for companies like Century Plyboards. Realising this, the company has been ramping up its advertisement & promotion activities in the past few years. This could prove to be a game changer for the company, enabling it to outpace industry growth on the revenue front—and improve margins too.

Greenfield Expansion in Kandla (Gujarat)

It recently set up a capacity of 31,000m^3 at an outlay of ₹313m in Kandla to enhance its reach in western India. Through this expansion, it would be able to service the western region, which is one of the largest and most brand-conscious markets. The savings in logistics and distribution costs, along with the improved product mix, could shore up its operating margins in coming quarters. Additionally, the Kandla port would contribute to reducing its freight bill for imported raw material.

The company has also expanded its distribution network from 1,450 distributors (in 2008) to 5,000 (in 2014), with 33 marketing offices in India. But more importantly, it has been the financial strength of its dealer network that has resulted in minuscule levels of bad debts in the past few years. With plans to enhance the dealer count by 30% yearly, deeper penetration would boost growth for the company.

Raw material sourcing

To manufacture plywood, most domestic plywood manufacturers import timber from Myanmar. From 31 Mar'14, however, the government of Myanmar banned export of timber, to promote the domestic wood-processing industry. Despite being one of the largest importers of timber from Myanmar, this ban would not affect Century Plyboards' operations as operates a plant there to supply the raw material. Century Myanmar (a 100% subsidiary), with timber-peeling capacity of 16,000m^3 and plywood manufacturing capacity of 6,000m^{3,} provides a steady supply of raw material (face veneer). Due to the ban on timber imports, Century imports face veneers (an intermediate product) manufactured by its subsidiary.

Veneers weigh much less than timber; hence, would save on transportation and logistics costs. Century Myanmar is expected to ramp up operations from Sep'14. According to the management, the rise in prices of veneers in India by 25% and the decline in timber prices in Myanmar by ~25% would widen margins of the company.

Plans

The company plans to recruit more than 200 in frontline sales to elevate its business plans. Alongside, it is aggressive in brand publicity and has begun to promote its brands with a newly-launched TV ad from Jun'14. It also plans a new-look catalogue for laminates and decorative veneers.

Financials

With a 20% expansion in its plywood division (at ~₹460m capex) and 2x expansion in its laminate division in FY14 (at ~₹247m capex), we expect revenues to record a 24.5% CAGR over FY14-16, following growth in volumes. Plywood volumes are expected to register a 17% CAGR over FY14-16 and those in laminates are expected to see a 14.5% CAGR in the next two years.

Also, EBIDTA margin has grown healthily in the past few years, though it had dipped in FY13 due to high input costs. In that year, the scheme of arrangement being effective, the business and interests of the company in ferro alloys and the cement division were transferred and vested in Star Ferro and Cement. The company is incurring huge ad spend to promote its brand. Advertising cost has seen an 18.7% CAGR over FY08-13. In FY14, the company incurred adspend of ₹350m. EBIDTA margin tends to improve year on year, reaching ~13.5% in FY16 because of better capacity utilisation. In the past five years, EBIDTA has registered a 23.7% CAGR, signifying healthy absorption of fixed costs. EBIDTA margin of the plywood division has significantly improved in FY14. The FY14 margins of the laminate and CFS divisions declined.

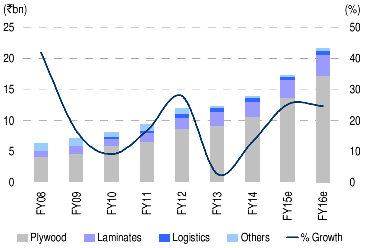
We expect Century Plyboards to turnaround in FY15. It imports its raw material, and stability in the Indian currency would help curtail forex losses. The capacity expansions in Gujarat & Myanmar would drive growth. Additionally, the implementation of the GST would give Century Plyboards pricing power. PAT which registered a CAGR of 44.5% FY09-14 could accelerate to 62% CAGR over the next two years. We expect the EPS to expand, coming at ₹8.2 in FY16.

With rising capacity and utilization, return ratios could improve. In FY14, Century Plyboards had RoE and RoCE of 25.9 and 17.8%, respectively. The latter is expected to cross 20% in years to come. The company is expected to deliver healthy RoE of ~35-40% in the coming two years.

It plans to add 80-100 SKUs in laminate and decorative veneers. On 31 Mar'14, it had debt of ~₹4.4bn, which is expected to slide to ₹3.6bn by FY16, hence improving its debt-equity ratio to 0.7x, from the present 1.5x.

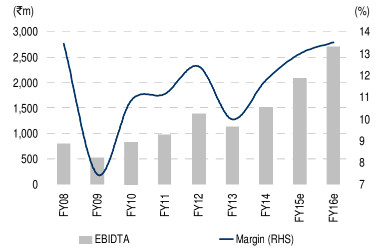
The company has an asset-light business with a fixed-asset turnover of 5.6x, which is likely to increase above 8x by FY16. We expect the working-capital cycle to be constant over the next two years. With proper capacity utilization, free-cash flows are likely to increase year on year.

Fig 18 – Annual revenue trend



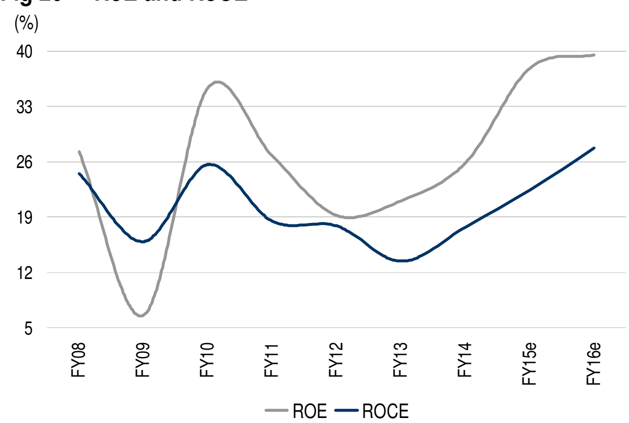
Source: Company, Anand Rathi Research

Fig 19 – EBIDTA and OPM trends



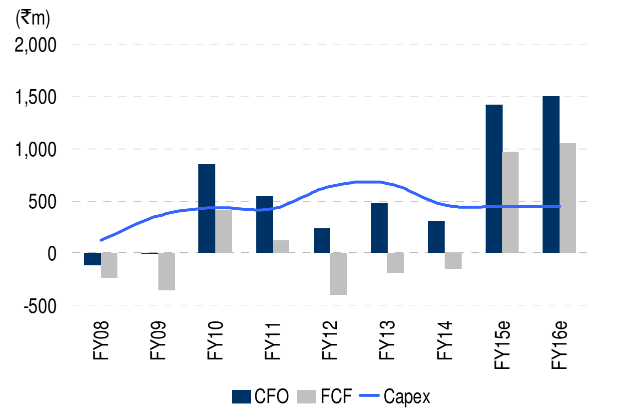
Source: Company, Anand Rathi Research

Fig 20 – RoE and RoCE



Source: Company, Anand Rathi Research

Fig 21 – Improving FCF trend



Source: Company, Anand Rathi Research

Outlook and Valuations

With the new government and a stable rupee, we see the company's financials improving. Also, a push would arise from the real-estate sector. The XII Five-Year Plan focuses on infrastructure development, with investment of about ₹50trn. The GST implementation, increased hospitality, healthcare and government spending would prove to be keys to the success of Century Plyboards' business.

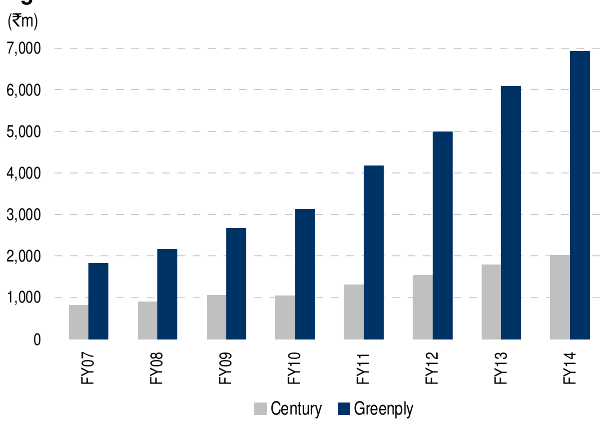
Its expansions in Gujarat and Myanmar would be game changers. The Myanmar subsidiary would help curb raw-material costs, thus expanding the overall margin. With the GST implementation, a shift from the unorganised to the organised sector is expected, adding to the company's prospects.

We are extremely sanguine on the company's near-future outlook. Its primary segment, plywood, which brings in about 76% of revenue, is expected to post a ~27.5% CAGR over FY14-16. In the past five years, it has registered a ~18% CAGR. The laminate division is expected to record a ~18.2% CAGR in the next two years. Overall revenue is likely to record a 25% CAGR over FY14-16, supported by strong volume and realisation growth. We see EBIDTA margin expanding to ~13.5% by FY16.

We have attempted to arrive at the fair valuation metrics of the company by comparing it with its peer set. Considering the market which it is addressing, it would be fair to label the company as a housing/household derivative. The peer set would involve industries like tile, Sanitaryware, electrical cable etc. In these, brand equity offers advantages on realisations, margins, asset turnover, capital ratios etc. It also enables a company to distribute/ outsource its manufacturing facilities and free up capital from manufacturing operations and thus improve capital efficiency ratios.

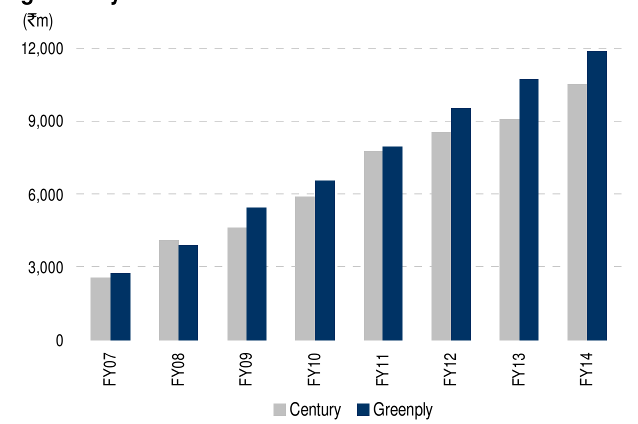
The peer set reports high RoE and stable EBIDTA margins. On these fronts, Century Plyboards comes at the upper part of the league table. Aligning with the average of its peer set on parameters like fixed asset turnover, earnings and book value, we arrive at a fair price of ₹115 for the stock. It is noteworthy that the company is set to report RoE of 38% and 39.5% for FY15 and FY16, respectively. Based on this, the justifiable P/B metrics would be 5-5.2x. These become relevant as the company would be deleveraging quite sharply in the coming years.

Fig 22 – Decorative laminates revenue



Source: Company, Anand Rathi Research

Fig 23 – Plywood & veneer revenue



Source: Company, Anand Rathi Research

Fig 24 – Peer Valuation

	PE		P/BV		EV/EBIDTA (x)		EV/Sales (x)		ROE %	
Company	**FY15e**	**FY16e**	**FY15e**	**FY16e**	**FY15e**	**FY16e**	**FY15e**	**FY16e**	**FY15e**	**FY16e**
Greenply Industries	14.6	12.0	3.0	2.4	8.4	7.4	1.1	1.0	23.0	22.0
Kajaria Ceramics	29.0	22.0	6.7	5.4	13.8	10.9	2.1	1.7	25.8	26.4
Somany Ceramics	23.0	16.0	3.8	3.3	10.5	8.5	0.7	0.6	17.8	22.0
Cera Sanitary	32.0	26.0	7.4	5.9	18.0	14.5	2.5	2.1	25.3	24.7
V-Guard	25.4	20.3	5.9	4.8	15.3	12.7	1.3	1.1	24.8	25.5
Finolex cable	14.5	11.8	2.5	2.1	10.5	8.6	1.1	1.0	18.3	19.5
Havells	26.2	21.7	7.6	6.3	16.4	14.0	1.7	1.5	31.3	30.9
Average	**23.5**	**18.5**	**5.3**	**4.3**	**13.3**	**10.9**	**1.5**	**1.3**	**23.8**	**24.4**
Century Ply	14.2	10.0	4.7	3.4	10.6	8.0	1.4	1.1	37.9	39.5

Source: Bloomberg, Anand Rathi Research

Fig 25 – Peer Valuation

	Net sales (₹bn)		Total Assets (₹bn)		Fixed Assets (₹bn)		Total Asset Turnover (x)		F A Turnover (x)	
Company	**FY13**	**FY14**	**FY13**	**FY14**	**FY13**	**FY14**	**FY13**	**FY14**	**FY13**	**FY14**
Century Ply	11.3	12.8	7.0	7.4	2.2	2.3	1.63	1.74	5.10	5.56
Greenply Industries	20.0	21.6	15.3	17.2	6.5	6.9	1.31	1.25	3.07	3.15
Kajaria Ceramics	15.9	18.8	9.3	10.0	4.6	5.0	1.71	1.87	3.42	3.73
Somany Ceramics	10.5	12.6	6.2	7.2	2.0	2.2	1.70	1.76	5.26	5.83
Cera Sanitary	4.9	6.6	3.8	4.5	1.3	1.5	1.29	1.46	3.90	4.37

Source: Bloomberg, Anand Rathi Research

At the current price of ₹82, the stock trades at 10x FY16e P/E and 8x EV/EBIDTA. We believe that the strong return ratios, improving free-cash flows and constant payouts would drive growth for the company; the better debt-equity ratio to 0.7x would call for a re-rating. On the above analysis, we recommend a Buy on the stock, assigning PE of 14x to FY16e earnings, and arrive at a price target of ₹115, which gives us an upside of 40%.

Risks

- **High degree of currency volatility** Since the company imports a major portion of its raw material, currency fluctuation would affect its margin. At present, raw material costs constitute about 60% of net sales.
- **Threat from substitutes.** The shifting focus of the consumer from plywood to multi-density fibreboard (MDF, less expensive than plywood) would pose a threat to the company.
- **Higher interest rate.** Century Plyboards' exposure to interest-rate fluctuations in its foreign-currency borrowing could affect it.

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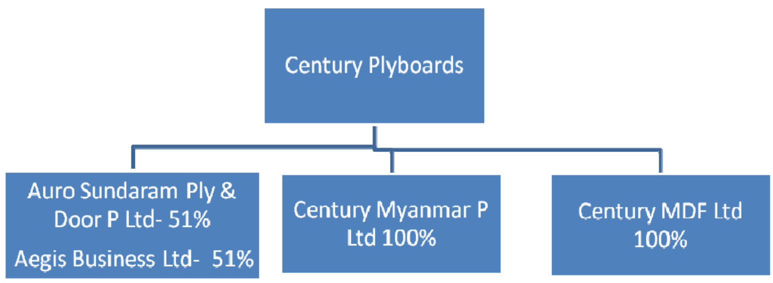
Company Background & Management

Century Plyboards is the first ISO 9002 company in India for veneers and plywood. It has manufacturing plants in north (61,000m^3), 72,000m^3 in the eastern region and 39,420m^3 in the southern region. Incorporated in 1982 and headed by Mr Sajjan Bhajanka, it makes the well-known "Century Ply" brand, India's leading plywood brand endorsed by Nawab Pataudi, Sharmila Tagore, Shahrukh Khan and Amitabh Bachhan. Nana Patekar was inducted as brand ambassador. In the last decade its aggregate brand investment was ~Rs2.2bn. With an asset-light model and a 21% market share in the organised market, it has positioned itself among the leading plywood manufacturers. It manufactures the entire range of commercial, marine, concrete, shuttering and decorative plywoods. It has an all-India presence, with 33 marketing offices and over 5,000 dealers and more than 5,500 employees.

Century Plyboards (India) is India's premier wood-panel company. It operates mainly in two segments: plywood and laminates. Plywood brings in ~76% of its revenues, laminates about 18%. The rest arises from its logistics division. The company has six plywood manufacturing plants across India and one in Myanmar. It is among the top-three laminate manufacturers, with capacity of 4.8m sheets. It has two container-freight stations at the Kolkata port.

Besides its operations in India, it exports a wide range of premium products to more than 20 countries. The laminate range, Century Mica, is widely acclaimed by global customers as a product of quality. The range of products meets stringent international standards.

Fig 26 – Corporate structure



Source: Company

Promoters and Management

Key promoter and chairman Mr Sajjan Bhajanka has over 30 years of experience in the plywood segment. He is considered an industry icon. Under his leadership, all the promoters are involved in day-to-day management.

Mr Hari Prasad Agarwal is vice-chairman.

Mr Sanjay Agarwal, Mr Prem Kumar Bhajanka and Mr Vishnu Khemani are managing directors of the company with about 30 years of industry experience each.

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.

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

Anand Rathi Research Ratings Distribution (as of 1 July 2014)	**Buy**	**Hold**	**Sell**
Anand Rathi Research stock coverage (196)	60%	27%	13%
% who are investment banking clients	4%	0%	0%

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