AMBIT
Acumen at work

Century Plyboards

BUY

INITIATING COVERAGE	CPBI IN EQUITY	September 10, 2014

Strengthening the core

Timber products (another segment of home building materials which is witnessing rising demand) has a large addressable market, and consumer preference in this segment is shifting to branded products. Century Plyboards, with its enhanced capacities and strong pan-India brand/distribution network is set to be a leading franchise for years to come. Improved management bandwidth and security around critical raw materials will render long-term stability to the business. We expect the company to deliver 52% EPS CAGR over FY14-16 backed by volume traction and margin expansion. We initiate coverage with a BUY; it is trading at 12.0x FY16 EPS and our TP of ₹133 implies 16.5x FY16 EPS.

Competitive position: STRONG   Changes to this position: POSITIVE

Timber products gaining ground in home construction

Increasing residential units, rising urbanisation, higher disposable income and aspirational spending ensured strong growth of home building materials, even in adverse economic cycles (19% 10-year CAGR, 15% 5-year CAGR). Timber products gained prominence (15%+ 7-year CAGR), as furniture penetration improved in India; organised players outperformed, as their brand/distribution was established and cost arbitrage of unorganised players shrunk.

Century: Scale + brand/distribution + raw material security at core

Century is strengthening its franchise by: (a) **building scale** - near doubling of plyboards/laminates' capacities in the last five years, (b) **strengthening distribution and brand** - significant increase in dealers across products; 25% ad spend CAGR over FY10-13, and (c) **increasing management bandwidth** - hired industry veterans in key functions of branding, marketing and HR. Backward integration and long-term relationships with suppliers of key inputs will ensure raw material availability to support production growth.

Long-term profitable growth to materialise

Century is strongly positioned to grow volumes, expand margins and improve RoCE/RoE, with rising demand for timber products and reducing market share of the unorganised segment. We expect 24%/28% revenue/EBITDA CAGR over FY14-16 and RoE to improve to 38% in FY16 (vs 28% in FY14). Strong EBITDA growth and limited capex will help generate ₹3.5/2.7bn CFO/FCF in FY15-16.

Intrinsic multiples yet to be discovered!

The stock is trading at 12.0x FY16 EPS, a 25-50% to other home building materials, like paints, tiles, and pipes; most of the home building material companies/sectors went through multiple re-ratings, as brand association with customers rose and share of unorganised shrunk. Century's P/E multiple will settle at high-teens, with strong and sustained earnings growth but more importantly from its ability to scale the brand profitably. Our TP of ₹133 implies 16.5x FY16 EPS. Key risk: INR depreciation, entry of large retail chains remains.

Key financials (consolidated)

Year to March	FY13	FY14	FY15E	FY16E	FY17E
Revenues	11,747	13,477	16,816	20,531	24,038
Adjusted EBITDA	1,234	1,766	2,280	2,895	3,522
EBITDA margin (%)	10.5%	13.1%	13.6%	14.1%	14.7%
Net Profit (Adj)	552	786	1,262	1,788	2,289
Adjusted EPS (Rs)	2.5	3.5	5.7	8.0	10.3
ROE (%)	21.6%	20.5%	33.0%	35.8%	35.3%
P/E (x)	39.1	27.4	17.1	12.1	9.4

Source: Company, Ambit Capital research

Home Construction

Recommendation

Mcap (bn):	₹22/US$358mn
6M ADV (mn):	₹85/US$1.4
CMP:	₹97
TP (12 mths):	₹133
Upside (%):	37

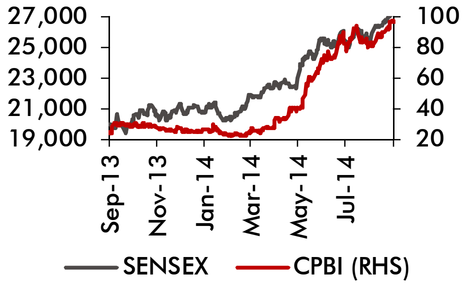
Flags

Accounting:	AMBER
Predictability:	AMBER
Earnings Momentum:	GREEN

Catalysts

- Market share gains in plyboards and laminates
- Margin recovery in laminates with better fixed cost recovery
- Price hikes given lower competition from the unorganised segment

Performance



Source: Bloomberg, Ambit Capital research

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Snapshot of company financials

Profit and Loss

Year to Mar (₹ mn)	FY14	FY15E	FY16E
Net revenues	13,477	16,816	20,531
EBITDA	1,766	2,280	2,895
Depreciation	387	411	417
Interest expense	603	337	317
Adjusted PBT	629	1,579	2,222
Tax	124	284	400
Adjusted net profit	786	1,262	1,788
Reported net profit	633	1,295	1,822
Profit and Loss Ratios			
EBITDA Margin (%)	13.1	13.6	14.1
Net profit margin (%)	5.8	7.5	8.7
EV/ EBITDA (x)	15.0	11.2	8.7
P/E on adjusted basis (x)	27.4	17.1	12.1
EV/Sales (x)	2.0	1.5	1.2

Company Background

Century Plyboards is the largest manufacturer of plyboards in India (with a capacity of 210k cubic metres). It has a market share of 25% in the organised market and a market share of 7.5% in the overall market. Against the plyboard industry growth rates of 12% over the last 6 years, Century Plyboard recorded a 17% CAGR led by market share gains from the unorganised segment.

Century has also established itself as one of the leading laminate brands in India (third-largest manufacturer in India after Greenply and Merino). Its laminate revenue recorded a 15% CAGR over FY09-14; the company plans to expand this segment and it has ramped up capacities to 4.8mn sheets from 2.4mn sheets last year. Century also owns two container freight stations in West Bengal, which comprise 4% of its overall revenues.

Balance Sheet

Year to March (₹ mn)	FY14	FY15	FY16
Total Assets	8,314	8,743	9,693
Fixed Assets	3,164	3,334	3,397
Current Assets	6,793	7,794	9,202
Investments	31	31	31
Total Liabilities	8,314	8,743	9,693
Total networth	2,931	3,827	4,993
Total debt	5,276	4,776	4,526
Current liabilities	1,914	2,417	2,937
Deferred tax liability	(7)	(7)	(7)
Balance Sheet ratios			
RoCE	18.5	22.6	25.0
RoE	33.0	35.8	35.3
Gross Debt/Equity (x)	1.7	1.2	0.9
Net debt (cash)/ Eq (x)	1.6	1.0	0.7
P/B (x)	7.1	5.4	4.2

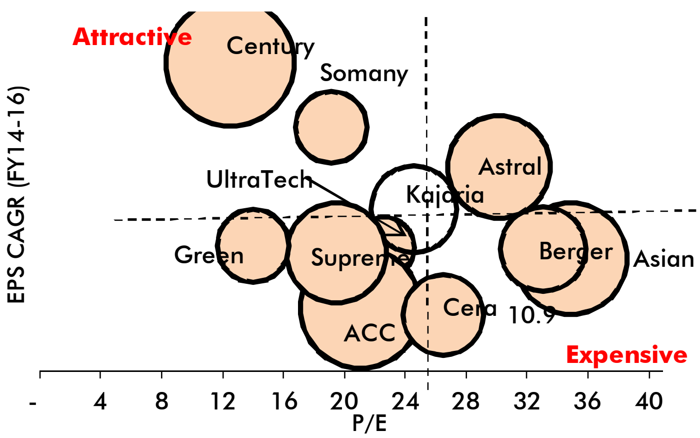
Cash flow

Year to March (₹ mn)	FY14	FY15E	FY16E
PBT	629	1,579	2,222
Depreciation	387	411	417
Tax	(117)	(284)	(400)
Net Working Capital	(1,168)	(52)	(919)
CFO	338	1,943	1,576
Capital Expenditure	643	341	480
Investment	(706)	(294)	(419)
CFI	-	-	-
Issuance of Equity	372	(500)	(250)
Inc/Dec in Borrowings	(60)	(366)	(622)
Net Dividends	(287)	(337)	(317)
Interest paid	(281)	(1,204)	(1,189)
CFF	(649)	446	(32)
Net change in cash	334	833	801
Closing cash balance	629	1,579	2,222

Key events

FY 1987	**Incorporated by Mr. Sajjan Bhajanka and Mr. Sanjay Agarwal**
FY 1998	Century becomes the first plant to introduce borer proof plywood in India
FY 2004	Century Laminates plant commences operations
FY 2004	Century Ply receives ISO 14001 certificate
FY 2005	Starts manufacturing high pressure laminates, pre laminated particle boards and MDF
FY05-08	Adjudged the fastest-growing company with the highest turnover, 5 times in a row by the construction world
FY2010	Establishes economy segment brand 'Sainik'
FY 2011	Starts container and freight forwarding services in JJP, adding capacity of 100,000 TEUs p.a.
FY 2013	Ferro alloys, power and cement business demerged
FY 2013	Increased laminates capacity in Bishnupur (near Kolkata) by 2.0x, to 4,800,000 sheets p.a.
FY 2014	Installed plyboard capacity in Gujarat, Myanmar and Uttarakhand
FY2014	Launched a mid-segment brand Maxima
FY 2015	Introduction of ManoCore, a premium range of single colour laminates that retains 90% gloss.

Century is trading at attractive valuations (bubbles denote RoE)



Source: Company, Ambit Capital research

Company background

A leading brand in a fast-growing segment

Century Plyboards is the largest manufacturer of plyboards in India, with a market share of 25% in the organised market and a market share of **7.5% in the overall market. The company is a brand leader in plyboards, with a price premium of 5%/30% over its nearest competitor/unorganised peers. It ranks amongst the top-3 laminate brands in India. In the last 5-6 years, the company has re-invested** in building scale, strengthened distribution/brand and hired industry veterans at key managerial functions to ensure long-term profitable growth. Near-doubling of capacities in plyboards and laminates and backward integration/long-term relationships with suppliers of critical raw material inputs would likely ensure production stability amidst rising demand for timber products.

Century is the largest manufacturer of plyboards and the third-largest manufacturer of laminates in India

Exhibit 1: Century Plyboard's business segments

Segment	Description	Capacity	Number of plants	Plant location	FY14 % of sales	FY14 EBITDA (₹ mn)	FY14 EBITDA margin	FY14 RoCE
Plywood	Century is the largest plywood manufacturer in India. It produces plyboards across various price segments and has a wide distribution reach across India. Century was the first company to introduce borer-resistant plyboards in India in 1998.	209,457 CBM	7	West Bengal, Tamil Nadu, Haryana, Assam, Gujarat, Myanmar, Uttarakhand	72%	1,379	13.2%	28%
Laminates and allied products	Century is the third-largest manufacturer of laminates in India. It products range from 0.8mm to 1.5 mm in thickness, which are scratch and abrasion resistant.	4,800,000 sheets	1	West Bengal	18%	190	7.4%	6%
CFS	It has set up container freight stations (CFS) near Kolkata (West Bengal), and these CFSs account for two-thirds of Kolkata Port's container handling capacity. The CFSs also act as a captive station for Century's imports from Myanmar.	156k TEUs	2	West Bengal	5%	302	38.6%	18%

Source: Company, Ambit Capital research; Note: CBM = cubic metres and TEU = twenty feet equivalent units

Exhibit 2: Century Plyboard's capacity split

Location	Plywood	Laminates	Plywood Installed (CBM)	Plywood FY14 Utilised (CBM)	Plywood FY14 Utilisation %	Laminates Installed (Sheets)	Laminates FY14 Utilised (Sheets)	Laminates FY14 Utilisation %
Bishnupur, West Bengal	✓	✓	37,037	27,706	75%	4,800,000	2,949,607	61%
Gumudipundi, Tamil Nadu	✓	✗	39,420	29,491	75%	-	-	-
Karnal, Haryana	✓	✗	36,000	30,059	83%	-	-	-
Mirza, Assam	✓	✗	35,000	33,008	94%	-	-	-
Bachau, Gujarat	✓	✗	31,000	13,344	43%	-	-	-
Auro Sundaram (51% sub)	✓	✗	25,000	18,325	73%	-	-	-
Yangoon, Myanmar	✓	✗	6,000	-	0%	-	-	-

Source: Company, Ambit Capital research

The company has five subsidiaries, out of which two are plyboard manufacturing units—Auro Sundaram in Roorkee (Uttarakhand) and Century Myanmar. Century MDF Ltd imports and trades medium density fibreboards (MDFs) in India. The company recently sold its stake in Aegis Overseas (which manages bulk logistics in India's east coast) for ₹55mn as against an initial investment of ₹509n.

Exhibit 3: Details of Century Plyboard's subsidiaries

(₹ mn unless mentioned)	Acquisition Year	Stake	Cost of Acquisition (₹ mn)	Revenue (FY14)	% of Consolidated revenue	(FY14) PBT	% of (FY14) PBT	(FY14) PAT
Auro Sundram	Dec-06	51%	23.1	575.2	4.1%	7.2	1.3%	6.6
Aegis Business Ltd.	Jul-09	51%	5.1	316.1	0.6%	84	26.5%	112
Aegis Overseas Ltd.	Jul-09	100%	0.5	516.2	3.1%	76.4	12.3%	76.4
Century Myanmar	Sep-12	100%	56.5	110	0.0%	(50)	(45.6%)	(50)
Century MDF Ltd.	Jun-12	100%	0.5	362	0.0%	39	10.8%	39

Source: Company, Ambit Capital research

Home improvement/building materials: A large addressable market

Indian home building/improvement materials have seen sharp growth across segments (paints, light electricals, pipes, tiles, etc) over the last decade and a half. Initially, the growth of branded housing materials began with paints and cement in the late 1990s followed by electricals (switches) in the early 2000s. Then, several other home improvement segments, like tiles, pipes and plyboards, followed suit.

Strong growth drivers

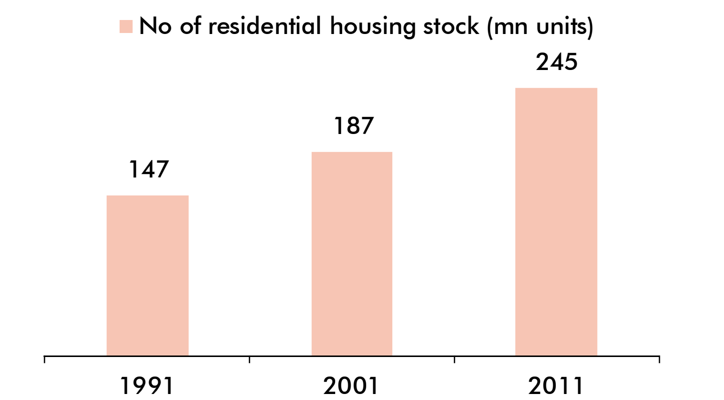
The key drivers to the strong growth are:

(1) Increase in residential housing units

As per Census 2011, housing units in India increased to 245mn in 2011 as against 187mn (up 31%) in 2011. Housing loans (from banks and other financial institutions combined) expanded at 44% CAGR over FY01-07 and sustained a healthy 17% CAGR over FY07-14. Apart from the increase in housing units, the quality of housing improved substantially; for instance, grass/thatch/bamboo/wood/mud/tile roof houses decreased by 16% whilst concrete roofs increased by 14%.

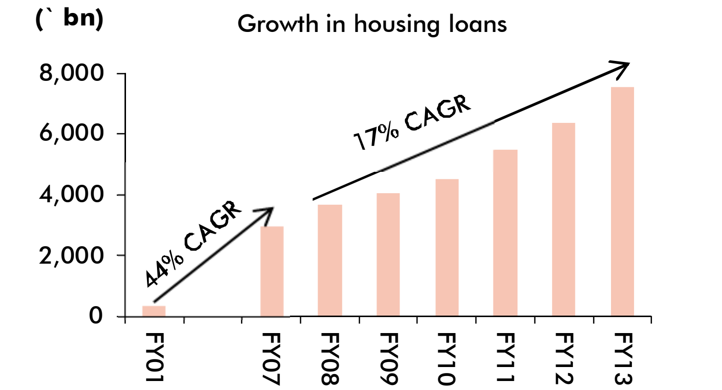
Housing units in India increased to 245mn in 2011 as against 187mn in 2001

Exhibit 4: Sharp increase in residential housing stock…



Source: Census 2011, Ambit Capital research

Exhibit 5: Housing loan disbursals maintained strong growth



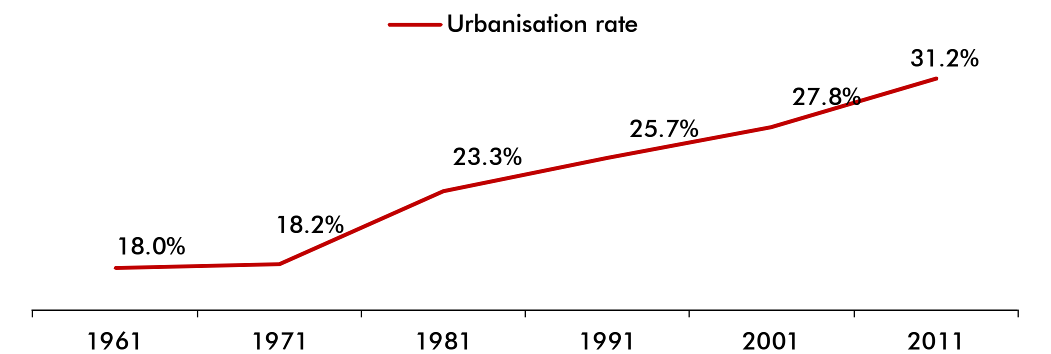
Source: NHB, RBI

(2) Urbanisation: Reasonable growth but still a lot of room to grow

India's urban population expanded at a 2.8% CAGR over FY2000-11 as against overall population growth of 1.4%; urbanisation increased to 31.2% in FY11 of population as against 27.8% in FY01. The shift in the employment pattern from agricultural activities to services has been driving the migration from rural areas to urban areas. Despite reasonable growth in the last decade, there remains ample room for further enhancement in urbanisation rates, due to the improvement in organised manufacturing in India.

Urbanisation increased to 31.2% in FY11 of population as against 27.8% in FY01

Exhibit 6: Urbanisation rates have been rising in India



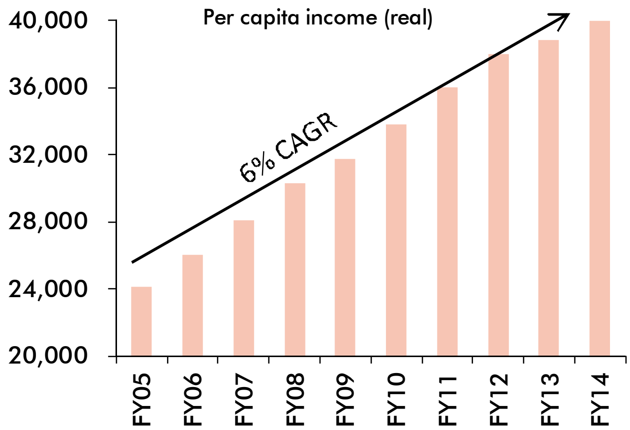
Source: Census, McKinsey, Ambit Capital research

(3) Income escalation+ rise in middle income households

India's per capita income expanded at a 6% CAGR in real terms (15% in nominal terms) over the last decade, driven by improvement in farm output, increase in employment (evident from strong growth in services GDP) alongside sharp rural wage inflation (supported by welfare measures like MNREGA). Note that the middle income households in India (defined as households with an annual income of ₹0.34-1.7mn on 2009-10 prices) increased to 25mn households (10% of overall households) as against a paltry 4mn households in 1991 (3% of overall households). Experts believe that mid-income households could increase to 90mn by FY20 (20% of overall households).

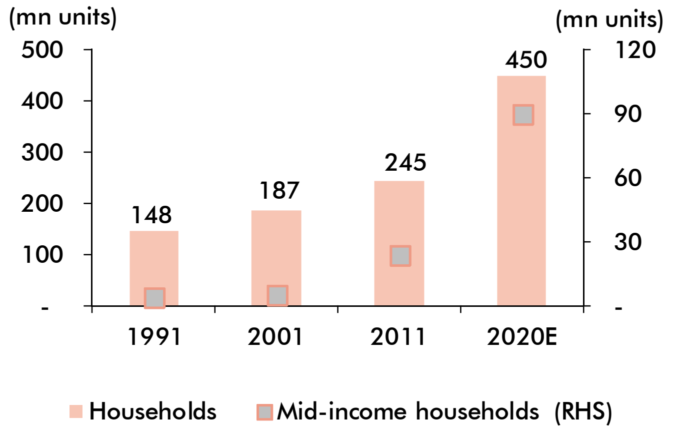
Middle income households in India increased to 25mn households (10% of overall households) as against a paltry 4mn households in 1991

Exhibit 7: Increasing per capita income



Source: RBI database, Ambit Capital research

Exhibit 8: Mid-income households on the rise



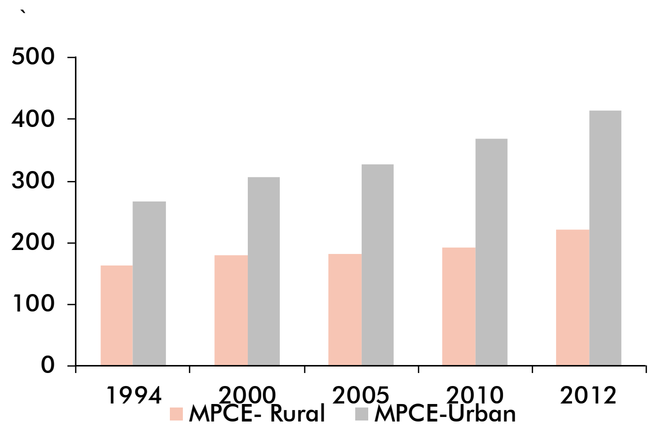
Source: Industry sources, Ambit Capital research

(4) Shifting consumption patterns

In the last two decades, the monthly per capita expenditure (MPCE) of rural/urban households increased by 3%/4% CAGR in real terms and 14%/15% CAGR in nominal terms. More importantly, the share of food expenditure as a percentage of total expenditure dropped to 38% in FY14 as against 55% in FY94. This implies expenditure is increasing towards other household needs like education, durables, and entertainment. It is worth noting that the share of durables (including furniture and electrical items) as a percentage of total household expenditure nearly doubled to 6.3% in FY14 as against 3.3% in FY94.

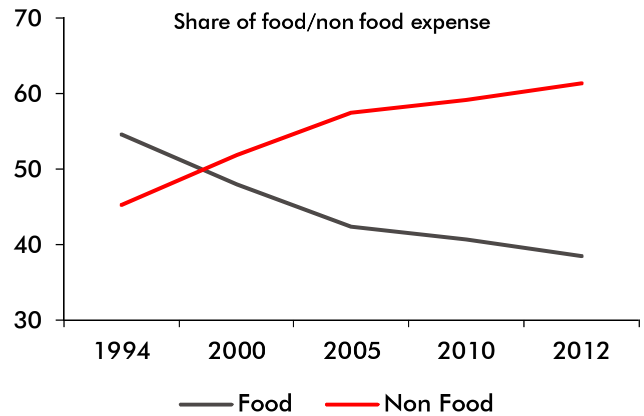
Share of food expenditure as a percentage of total expenditure dropped to 38% in FY14 as against 55% in FY94

Exhibit 9: Alongside steady growth in MPCE...



Source: RBI database, Ambit Capital research; Note that the MPCE data is indexed to 1988 prices

Exhibit 10: ...the share of food in MPCE dropped



Source: RBI database, Ambit Capital research

Resilience to economic cycles

Note that most of the organised internal home building materials segment sustained high revenue growth even though India's GDP growth decelerated in the last 4-5 years. These sectors do not have a one-one correlation to the GDP, as several of these industries are highly under-penetrated and brand awareness is driving a market share shift from the unorganised segment to the organised segment. Increasing income, affordability and growing aspirations alongside growth of new urban centres in tier-II/III cities ensured that all the sectors grew ahead of the 15% nominal GDP CAGR over FY04-14. The table below highlights the growth of the various sub-segments of internal home building materials, and for this analysis, we aggregate the revenue of the top-5 manufacturers (accounting for majority of the organized market share) and compare each segment's growth to the nominal GDP growth.

India's nominal GDP CAGR

Period	Nominal GDP CAGR
FY04-09	15.1%
FY09-14	14.6%
FY04-14	14.8%

Source: Company, Ambit Capital research

Exhibit 11: Majority of the sectors have shown resilience to economic cycles; pipes and plyboards have posted the highest multiplier over the last decade

Sectors *(number of players considered, mentioned on RHS)*	FY04 (₹ mn)	FY09 (₹ mn)	FY14 (₹ mn)	CAGR			Sector growth / nominal GDP growth (X)		
				FY04-09	FY09-14	FY04-14	FY04-09	FY09-14	FY04-14
Cement	118,191	331,308	626,049	23%	14%	18%	1.5	0.9	1.2
Paints	39,159	91,240	206,024	18%	18%	18%	1.2	1.2	1.2
Light electricals	14,528	52,148	114,695	29%	17%	23%	1.9	1.2	1.5
Pipes	4,613	16,434	46,993	29%	23%	26%	1.9	1.6	1.8
Tiles	8,630	21,059	46,128	20%	17%	18%	1.3	1.2	1.2
Adhesives	6,538	19,863	42,832	25%	17%	21%	1.6	1.1	1.4
Plyboards	2,899	14,862	34,597	39%	18%	28%	2.6	1.3	1.9
Sanitaryware	1,744	4,919	15,447	23%	26%	24%	1.5	1.8	1.6
Total size (₹ mn)	**196,301**	**551,834**	**1,132,765**	23%	15%	19%	**1.5**	**1.1**	**1.3**
Total size (US$ mn)	**3,272**	**9,197**	**18,879**	23%	15%	19%	**1.5**	**1.1**	**1.3**

Source: Company, MOSPI, Ambit Capital research

Number of players considered

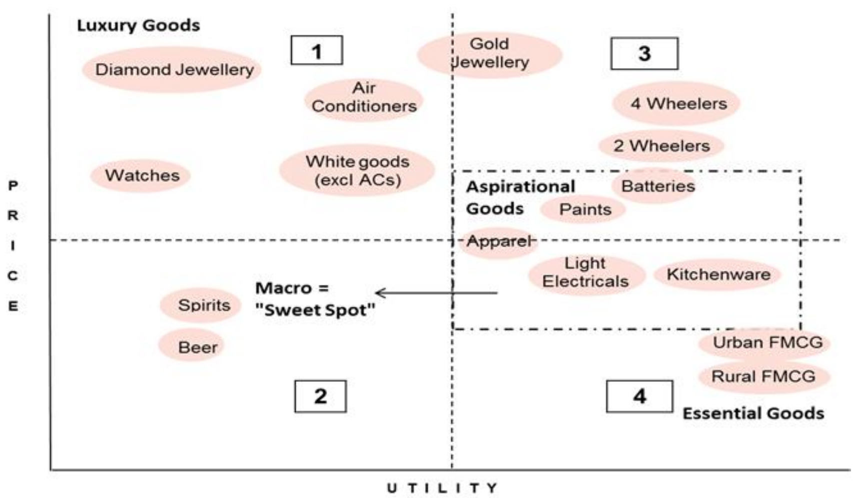
Segment	Number of companies	Market share (organised)
Cement	12	80%
Paints	4	95%
Pipes	3	80%
Tiles	5	75%
Plyboard	5	70%
Light Electricals	5	90%
Adhesives	1	80%
Sanitaryware	2	65%

Source: Company, Ambit Capital research

Sectors in the 'sweet spot'

The exhibit below shows the segmentation of the Indian consumer space under four grids of price and utility. We believe that consumer spending has moved a level higher from basic essential FMCG goods to aspirational spending in durable segments (marked as a dotted box in the chart). The characteristics of this segment are: (a) low penetration, (b) mid-ticket size of ₹2,000-10,000 per household (highly affordable for an average middle income household), and (c) rising brand awareness, i.e. shift in consumer preference towards branded products.

Exhibit 12: Affordable mid-ticket segment consumer goods are in the 'sweet spot'



Source: Ambit Capital research

Indian timber products: The high-growth sub-segment

Timber products (plyboards, laminates, etc) are emerging as another sub-segment of internal home building materials, which have sustained strong growth over the last decade (more than 20% CAGR). Aspirations of better-quality housing and rising disposable income and middle income households supported the strong demand for timber products like: (a) plyboard (₹150bn industry; 12% CAGR over FY08-14), (b) laminates (₹40bn industry; 10% CAGR), and (c) MDF (₹35bn industry; 8% CAGR). Unorganised players hold a market share of 70%. In the organised segment, Century Ply and Greenply are joint leaders in plyboards (with 25% market share each).

Aspirations of better-quality housing and rising disposable income and middle income households supported the strong demand for timber products

An expert's view on home decoration in India

"Interior design for homes is no longer the preserve of the rich and wealthy. The concept of good living is catching up with the middle class Indians. They do not mind spending the extra buck in decorating their houses. When decorating a new residence, buying decision is left to the builder, architect, interior decorator or the owner. When renovating a residence, the buying decision in made by the builder, architect or interior designer. Exposure, coupled with easy availability of funds, has made more urban middle-class couples to look for interior decorators whilst doing up their houses. In short, it is important to target architects, builders and interior designers."

Exhibit 13: Snapshot of plyboard...

Plywood	
Size of the market (₹ bn)	150
CAGR: FY08-14	12%
Top-3 players	Century, Greenply, Archidply
Organised: Unorganised	30:70
Primary distribution Channel	Dealer
Capital intensity	Low

Source: Industry Sources, Ambit Capital research

Exhibit 14: ...laminate and...

Laminates	
Size of the market (₹ bn)	40
CAGR: FY08-14	10%
Top-3 players	Greenply, Merino, Century Ply, Royal Touche
Organised: Unorganised	65:35
Primary distribution Channel	Distributor
Capital intensity	Medium

Source: Industry Sources, Ambit Capital research

Exhibit 15: ...MDF industry in India

MDF	
Size of the market (₹ bn)	35
CAGR: FY08-14	8%
Top-3 players	Bajaj Hindustan, Greenply
Organised: Unorganised	100:0
Primary distribution channel	Dealer
Capital intensity	High

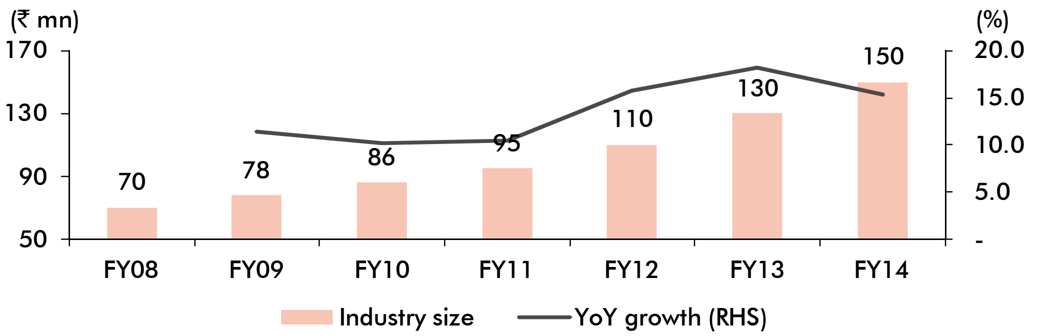
Source: Industry Sources, Ambit Capital research

(A) Plyboards: Unorganised market shrinks

The Indian plyboards industry has more than doubled in size over the last six years (to ₹150bn in FY14 as against ₹70bn in FY08), as furniture penetration in India has increased. As mentioned earlier, the key drivers supporting the stellar growth were: (1) rising residential units (especially in tier-II/III and rural markets), alongside increase in commercial construction, residential and hospitality construction, (2) urbanisation and increase in mid-income families, (3) increase in nuclear families (less than four-member families). Industry participants highlight that the cost of furniture as a percentage of overall interior cost has reduced to 20% as against 50% 4-5 years back and consumers prefer branded and superior-quality plyboards.

The Indian plyboards industry has more than doubled in size over the last six years

Exhibit 16: The plywood industry size has more than doubled in the last six years



Source: Industry Sources, Ambit Capital research

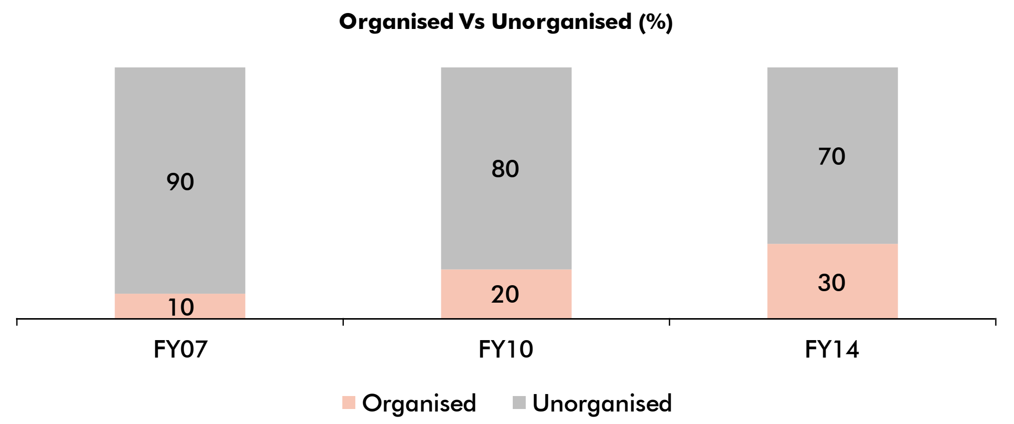
Organised segment gains ground

Similar to most other building materials (like paints, tiles, and pipes), the plyboard industry is rapidly shifting from unorganised to organised. The organised segment accounted for only 10% of the overall segment in FY07 vs ~30% of the overall segment currently. A major impetus to the organised segment was in FY08, when the excise duty on plywood manufacturing was reduced to 8% from 16% (and 12% currently).

The organised segment accounted for only 10% of the overall segment in FY07 vs ~30% of the overall segment currently

The organised share is likely to increase further due to: (1) Myanmar's ban on timber exports in April 2014 (now only veneer can be imported), which has made the unorganised segment dependent on large domestic producers like Century and Greenply for raw material procurement, (2) GST implementation, which will eradicate the tax arbitrage enjoyed by the unorganised players (as the cascading effect of taxes will fade under unified tax credits).

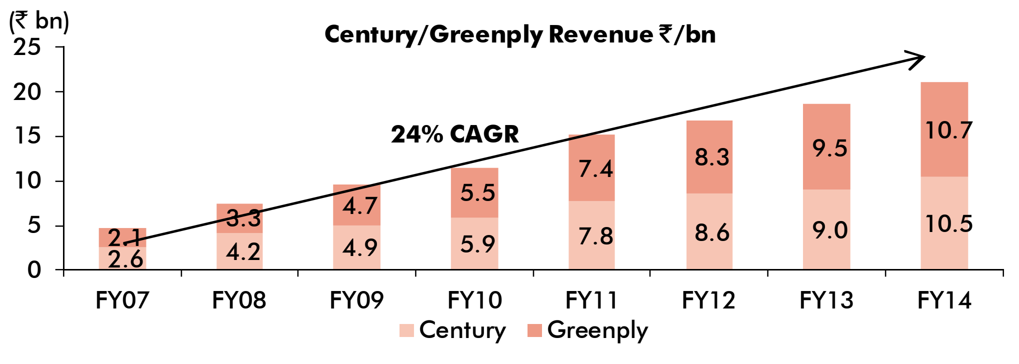
Exhibit 17: Unorganised players are ceding market share to organised players



Source: Industry Sources, Company, Ambit Capital research

Whilst the overall industry expanded at a 13% CAGR over FY08-14, Century and Greenply combined grew at 23%, signifying an increasing shift towards organised and branded products.

Exhibit 18: Century Ply and Greenply have grown materially higher than the industry



Source: Industry Sources, Ambit Capital research

GST to support further market share gains for organised players

GST will facilitate the market share shift from the unorganised players (70% of overall market) to the organized players, as it will reduce indirect tax inefficiencies and improve logistics. GST will remove the cascading effect of taxes and enable indirect tax credit on inter-state transactions, which will reduce the production cost arbitrage enjoyed by the unorganised players. Century and Greenply are leveraging their brand and have started outsourcing production to unorganised players in the mid-to-low category plyboards.

GST will remove the cascading effect of taxes and enable indirect tax credit on inter-state transactions

Raw material sourcing becomes tougher

Plyboard manufacturing requires **three key raw materials**: **(1) face timber –** the outer layer of the plywood which forms 50% of raw material cost, sourced primarily from Myanmar and some parts of Africa (albeit in very small quantities) and **(2) core timber –** low-quality timber, available in abundance in India and forms 30% of overall raw material costs, **(3) adhesives/fuel in boilers –** forms 20% of overall raw material cost. Myanmar (the key source of face veneer) banned exports of unprocessed timber from April 2014, restricting critical raw material supplies for Indian plyboard manufacturers. Note that imports from Myanmar can be done only in semi-processed form (face veneers). Century has a plant in Myanmar and Greenply is setting up a JV (commercial production to begin in a few months) but the unorganised players are now largely dependent on these two players for their raw material needs.

Myanmar banned exports of unprocessed timber from April 2014, restricting critical raw material supplies for Indian plyboard manufacturers

Distribution - Akin to the cement industry

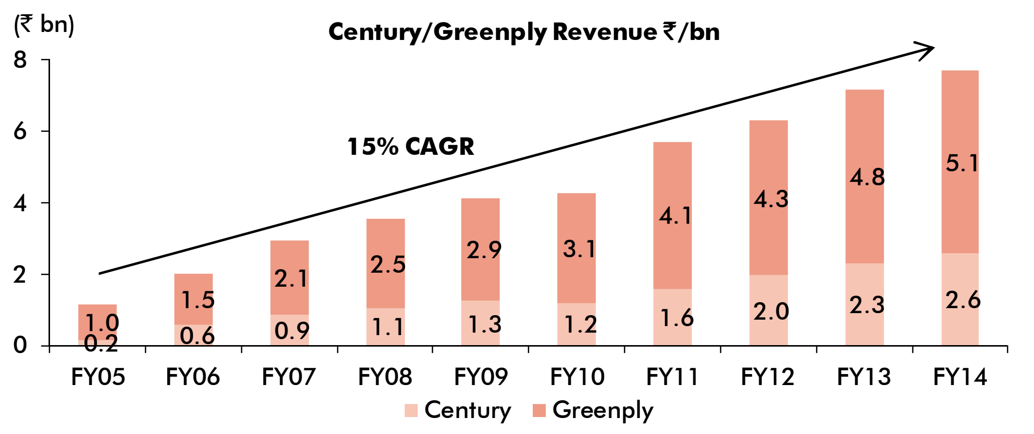
Plywood is largely sold through retail channels, with dealers spread across cities and large distributors catering to the dealers. Strong distribution and reach is a key advantage for plywood companies, as most of the plyboard sales are in the retail segment and hence a presence across demand centres is necessary. Similar to the cement dealers, the plyboard dealers maintain inventory, given the commoditised nature of the product.

(B) Laminates: A supplement to plyboards

Laminates are made from paper and plastic resins used on furniture tops usually on flat surfaces like tables and cabinets. It is a supplement to plyboards and enhances the look and durability of furniture (due to resistance to moisture, weather, etc). Laminates has the same client base and growth drivers as plyboards and hence has been growing alongside the plyboard industry. Greenply is the largest player in this segment, followed by Merino and then CenturyPly. The laminates industry in India has expanded at 7-8% CAGR over the last 5-6 years; however, the organised players grew at ~10% in the same period (market share increased to 65% in FY14 from 50% in FY09). The combined sales of Century and Greenply expanded at a 19% CAGR over FY07-14 driven by industry growth and higher branded sales.

The laminates industry in India has expanded at 7-8% CAGR over the last 5-6 years; however, the organised players grew at ~10% in the same period (market share increased to 65% in FY14 from 50% in FY09)

Exhibit 19: Century's and Greenply's laminate sales grew much ahead of the industry



Source: Company, Ambit Capital research

Distribution - No middlemen, akin to paints

Distribution for laminates is akin to paints wherein the dealer is not a stockist (as the varieties make it impossible to stock) with more than 500-600 SKUs. There are usually distributors or company warehouses in every state and they supply to the dealers (within 24 hours for the top brands) based on the demand. A successful franchise requires investment in reach, enabling quick supplies to the dealer shops.

(C) Medium Density Fibre (MDF): Not well accepted

Medium density fibreboard is engineered wood made by breaking down wood residuals into fibres. MDF forms 64% of total panel products globally as against less than 3.5% in India. Plywood currently accounts for ~95% of the panel industry in India, as housing furniture accounts for most of the demand for timber products in India. The MDF market has grown in size (to ₹35bn in FY14 vs ₹20bn in FY08), but it has been largely non-profitable for Indian manufacturers, due to high capital intensity, low margins and competition from Chinese imports.

The MDF market has grown in size (to ₹35bn in FY14 vs ₹20bn in FY08), but it has been largely non-profitable for Indian manufacturers

Greenply's commentary in its 2014 Annual Report

"The MDF business experienced lower demand, as the market conditions remained challenging throughout the year under review. A majority of MDF demand was derived from the commercial sector, which in itself faced a serious slowdown. Greenply suffered from low capacity utilisation.

Even as we maintained per unit profitability, overall profitability declined. The other challenge is that carpenters are not keen on using MDF instead of plywood as they lack the necessary expertise."

Dealers highlight that MDF is 50% cheaper than plyboards but the IHB customer is brand-conscious and hence prefers plyboards over MDF.

Porter's five force analysis

Exhibit 20: Porter analysis of the north Indian plyboard industry

Bargaining power of suppliers

HIGH

- Core timber, face timber and adhesives are the three key raw material requirements for plyboard manufacturing.
- Whilst core timber and adhesives are abundant, there is a severe shortage of face timber, especially after the ban on import of raw face timber from Myanmar.

Bargaining power of buyers

HIGH

- Given the abundance of unorganised and regional brands, consumers have several choices, which limit the pricing power of the companies.
- Increasing brand awareness and receding competitiveness of the unorganised players have reduced the bargaining power of consumers in recent years.

Competitive intensity

HIGH

- The plyboard/laminate industry is highly fragmented, with 70%40% of the market share held by unorganised players.
- The unorganised players have an inherent advantage of lower duty structure both due to their SSI status and also due to clandestine sales.
- However, organised players are now displaying pricing discipline.

Barriers to entry

MEDIUM

- Plyboard manufacturing is neither capital nor technology intensive and hence it is relatively easy for a new entrant to set up manufacturing. However, laminate is capital-intensive and not as easy to set-up; however, brand creation can take large amounts of money and time.
- Limited availability of face veneer is a key barrier to entry; furthermore, key competitive advantages of plyboard companies are the brand and the distribution reach, which are very difficult for a new entrant to build.

Threat of substitution

MEDIUM

- MDF is a direct and cheaper substitute to plyboards.
- Plastic furniture is also a substitute to wood-based furniture.

Improving   Unchanged   Deteriorating

Source: Ambit Capital research

Exhibit 21: SWOT analysis of Century Plyboards

Strengths	Weaknesses
▪ Capacity leader in plyboards; third-largest capacities in laminates ▪ Strong brand, with 10%/30% realisation premium over Greenply/unorganised players ▪ Strong distribution reach with capacities located across India ▪ Backward integration and strong relationships for critical raw materials	▪ No presence in MDF, which could be a major growth driver in the long term ▪ Not a premium player in laminates; realisations lower than Royal Touche and Greenply ▪ Under-utilisation of the container freight stations business
Opportunities	**Threats**
▪ Gaining prominence in the affordable segment; outsourcing production to unorganised players. ▪ Growth in ready-made furniture through retail chains like Nesta ▪ Reduction in market share of unorganised players with GST implementation ▪ Further penetration in tier-II/III markets with expanding dealer reach	▪ INR depreciation to lead to forex losses, given unhedged buyers credits and imports of chemicals ▪ Rising acceptance of MDF leading to slow growth for plyboards ▪ Entry of large global retail chains like IKEA would lead to commoditisation of furniture in India

Source: Company, Ambit Capital research

Century vs the competition

I. Century and Greenply miles ahead of their peers

The Indian plyboard industry is highly fragmented, with unorganised players accounting for 70% of the market share. Within the organized segment, Century and Greenply hold 50% of the market share, with the balance 50% held by regional players like Sarda Plywood, National Ply and Kitply.

Comparison on operational parameters

We compared the plyboard manufacturers on the most-important operational parameters for any consumer durable company such as: (1) capacities, (2) raw material security, (3) distribution reach, and (4) brand. We believe Century and Greenply are the only two companies with the scale, brand and operational architecture to benefit from the fast growth of the plyboard industry, as the other companies are significantly smaller in size, brand and reach.

Capacities: Post the recent capacity expansion, Century has the largest installed plyboard manufacturing capacity in India. In the laminate segment, however, Greenply is the undisputed leader (almost double the capacity of Century). Century already has spare land at its plant in Gujarat and can add another plyboard line for ₹400mn. It can add three laminate lines at an investment of ₹500mn. Furthermore, the company has spare land in Nellore, Andhra Pradesh, which can be used for further capacity expansion.

Raw material security: The critical raw material inputs for a plyboard manufacturer are: (a) face timber, (b) core timber and (c) chemicals. Century has ensured seamless supplies for all the three inputs, as explained in the exhibit below.

Exhibit 22: Century has a well-established raw material procurement arrangement

Raw material	Source	% of overall cost	Century's procurement arrangement
Face timber	Imports - largely Myanmar	50%	**The only company in India with backward integration for face veneer production in Myanmar**. Not only does it meet its own requirement but also for several unorganised players from its capacity. The company has a 7-year supply agreement in Myanmar. Greenply has recently entered into a JV to ensure face veneer supply.
Core timber	Partially imported but largely domestic	30%	Abundant availability in India and the company also sources from Vietnam for its Gujarat plant
Chemicals		20%	
Phenol	Imported	5%	Imported from China and Singapore; no constraints on supply
Formaldehyde	Domestic	10%	Sourced from large domestic manufacturers like Assam Petro and Kanoria Chemicals; no constraint on supply
Others	Imported	5%	Largely imported

Source: Industry Sources, Company, Ambit Capital research

Distribution: Century has seven plants, six in India and one in Myanmar, spread across India to ensure supplies across regions. Also, **Century has over 10,000 sales points, ~2,000 dealers/distributors and 33 branch offices/warehouses across India** (it is focused on increasing sales points further). Apart from Century and Greenply, no other plyboard manufacturer has pan-India reach. Note that Plyboard is a bulky product, and thus, it is difficult to stock. Dealers prefer to partner with companies that ensure the lowest lead time in supplies, to limit inventory at their end. Furthermore, given that the tier-II/III cities are major growth locations, well-established distribution architecture and timely supplies are key competitive advantages, which cannot be easily cloned by new entrants/small players.

Brand: Century is the most premium plyboard brand in India and commands a price premium of 10%/30% over Greenply/unorganised players. Through various brand-building initiatives in recent years, the company has further strengthened its brand; the management is committed to invest further in branding and increase brand recall across India.

Exhibit 23: Two leaders amongst several *'me-too'* players

Company	Capacity		Raw material security	No of plants	Sales touch points	Reach	Ad spend - % of sales *	Price (₹/ sq feet/19mm)
	Plywood ('000 cubic metres)	Laminates						
Century	●	◕	●	●	◕	●	●	●
Green	◕	●	◕	●	●	●	◕	◕
Archid	◑	◔	◑	◑	◑	◑	◑	◑
Sarda	◔	◔	◑	◔	◔	◑	◕	◕
Uniply	◔	◔	◔	◔	◔	◔	◔	◔
National	◔	◔	◔	◔	◔	◔	◔	◑
Kitply	◔	◔	◔	◕	◔	◑	◑	◕

Source: Company, Ambit Capital research; Note: ● *- Strong;* ◕*- Relatively Strong;* ◑*- Average;* ◔*Relatively weak*

Exhibit 24: The numbers behind our competitive mapping

Company	Capacity		Raw material security	Number of plants	Sales touch points	Reach	Ad spend - % of sales *	Price (₹ sq feet/19mm)
	Plywood ('000 cubic metres)	Laminates (mn sheets)						
Century	210	4.8	Yes	7	~10,000	Pan-India	3.50%	140
Green	129	10	Yes	7	~15,000	Pan-India	2.80%	126
Archid	78	NA	No	3	~2,500	Regional	1.90%	120
Sarda	35	NA	No	2	~2,000	Regional	2.30%	125
Uniply	50	NA	No	1	~800	Regional	0.60%	110
National	25	1.8	No	2	~800	Regional	0.30%	115
Kitply	60	0.036	No	6	~1000	Regional	1.30%	125

*Source: Company, Ambit Capital research; Note: * four-year average*

Financial comparison

We compared the top-7 plyboard companies on the following financial parameters: (1) size and growth, (2) EBITDA growth and margins, (3) Balance sheet strength, and (4) capital efficiency and profitability. Century appears superior on all the metrics, barring size and growth (due to Greenply's materially higher laminate revenues).

Exhibit 25: Century ranks #1 on all metrics barring size

Parameters/ Company	Century	Greenply	Archid	Sarda	Uniply	National	Kitply	Comments
Size and growth	2	1	4	3	6	5	7	Greenply ranks #1 on account of higher market share (plywood and laminates) and revenue growth than peers over FY08-13
EBITDA growth/margin	1	2	3	5	6	4	7	Century ranks #1 on account of materially higher EBITDA growth and EBITDA margin expansion to 10% in FY14 from 2% in FY08
Balance Sheet strength (D/E+ Interest Coverage)	1	2	3	4	6	5	7	Century ranks #1, despite higher debt:equity (rank #3) on account better interest coverage than its peers
Capital Efficiency and Profitability (CE Turnover + RoCE)	1	2	3	4	5	6	7	Century ranks #1 in capital efficiency and profitability; its asset turnover is materially higher than its peers
Overall Rank	**1**	**2**	**3**	**4**	**6**	**5**	**7**	**Century ranks #1 in all metrics barring size. Greenply ranks #2, the other players are significantly behind.**

Source: Company, Ambit Capital research

Size and growth - Greenply ranks #1 on account of higher market share (plywood and laminates combined) and higher revenue growth rates than peers over FY08-13: Although both Century and Greenply have equivalent market share in plywood, Greenply's laminate revenue is materially higher, which justifies the higher rank. The other players are materially smaller in size (the combined market share of the next five players is 20%). Note that we have excluded Greenply's MDF revenues and Century's logistic revenues in the analysis.

Exhibit 26: Size - Greenply ranks #1 due to its much bigger laminate franchise

(₹ mn unless mentioned) (Ply + Laminates)	FY08	FY09	FY10	FY11	FY12	FY13	CAGR (FY08-13)	Market Share (%)	Rank
Greenply	6,625	8,625	9,816	13,310	14,936	17,083	20.9%	49.7%	1
Century Ply	5,244	6,179	7,154	9,400	10,529	11,351	16.7%	33.0%	2
Sarda Plywood	655	777	906	1,276	1,510	1,687	20.8%	4.9%	3
Archid Ply	1,446	1,593	1,631	1,575	1,945	2,065	7.4%	6.0%	4
National	89	157	182	242	325	341	30.8%	1.0%	5
Uniply	993	849	825	929	1,106	1,205	4.0%	3.5%	6
Kitply	NA	958	846	891	792	651	-9.2%	1.9%	7
Total	**15,053**	**19,137**	**21,360**	**27,624**	**31,143**	**34,385**	**18.0%**	100.0%	

Source: Company, Ambit Capital research, MCA

EBITDA growth and margin: Whilst Greenply's average EBITDA margin over FY08-13 is higher than Century's, **Century ranks #1 on account of its materially higher growth and EBITDA margin expansion to 10% in FY13 from 2% in FY08**. Century's EBITDA margin is now similar to Greenply's despite Century's lower proportion of the high-margin laminate segment. Increasing capacities of laminates and backward integration of raw materials would likely drive further margin expansion from hereon.

Exhibit 27: Century Plyboards ranks #1 on account of higher growth and margin expansion

EBITDA (₹ mn unless mentioned)	FY08	FY09	FY10	FY11	FY12	FY13	CAGR (FY08-13)	EBITDA margin (FY08-13)	Rank
Century Ply	551	201	598	615	1,164	1,024	13.2%	8.1%	1
Greenply	1,286	1,325	1,409	1,509	1,704	1,477	2.8%	12.4%	2
Archid Ply	268	278	235	161	196	172	-8.6%	12.8%	3
National	1	7	9	(13)	2	1	7.7%	0.6%	4
Sarda Plywood	26	2	38	72	(42)	23	-2.0%	1.7%	5
Uniply	51	0	74	99	107	19	-18.0%	5.9%	6
Kitply		(190)	(41)	(104)	(215)	(59)	-25.3%	-14.7%	7
Total	**2,182**	**1,623**	**2,201**	**2,339**	**2,917**	**2,658**	**4.0%**	7.7%	

Source: Company, MCA, Ambit Capital research

Balance sheet strength: We ascertain balance sheet strength by comparing peers on debt:equity and interest coverage**. Century ranks #1 despite higher debt: equity (rank #3) on account better interest coverage than its peers**. Furthermore, note that a large proportion of Century's debt is buyers credit for funding working capital, and if we were adjust for this, the debt/equity would drop to 1.0x.

Exhibit 28: Century ranks #1 due to superior interest coverage

Particulars	Debt/Equity 3-yr Average	Debt/Equity 6-yr Average	Debt/Equity Rank	Interest Coverage 3-yr Average	Interest Coverage 6-yr Average	Interest Coverage Rank	Overall Rank
Century Ply	1.5	1.2	3	24%	20%	1	1
GreenPly	1.8	1.6	4	33%	29%	2	2
Archid Ply	0.6	0.7	1	65%	45%	3	3
Sarda Plywood	1.2	0.9	2	148%	104%	6	4
National	(0.8)	(0.9)	6	-15%	48%	4	5
Uniply	2.6	2.8	5	81%	105%	7	6
Kitply	(0.9)	(1.9)	7	-64%	-79%	5	7

Source: Company, Ambit Capital research

Capital efficiency and Profitability: Century ranks #1 in capital efficiency and profitability. Its asset turnover is materially higher than any other Indian plyboard manufacturer. Whilst its six-year average RoCE is lower than Greenply, its three-year average is better, as its margins improved in the last few years, with increasing revenue share of laminates and operating leverage benefits in plyboard. Whilst we have considered capital employed turnover, we have not compared the companies on WC/GB turnover separately, given the non-comparable business segments. (Century had cement and ferro alloys business until FY12, and Greenply has MDF business in its capital employed.)

Its asset turnover is materially higher than any other Indian plyboard manufacturer

Exhibit 29: Century ranks #1 due to the highest CE turnover and high RoCEs

Particulars	CE Turnover (X) 3-yr Average	CE Turnover (X) 6-yr Average	CE Turnover Rank	RoCE (%) 3-yr Average	RoCE (%) 6-yr Average	RoCE Rank	Overall Rank
Century Ply	3.1	3.1	1	22.1	20.2	2	1
GreenPly	2.2	1.9	3	21.9	25.7	1	2
Archid Ply	1.1	1.1	5	7.5	13.1	3	3
Sarda Plywood	2.4	2.0	2	1.2	2.1	6	4
Uniply	1.8	1.5	4	10.3	5.5	4	5
National	(2.7)	(2.5)	7	6.6	2.3	5	6
Kitply	(1.0)	(0.2)	6	(60.4)	(20.8)	7	7

Source: Company, Ambit Capital research

II. Century Ply vs Greenply

Century and Greenply are both leading plyboard/laminate brands. Both the companies have manufacturing locations spread across India and both have a well-established pan-India brand. Dealers highlight that Century's plyboard realisations are 5-10% higher than Greenply's (in comparable segments); however, in laminates, Greenply is materially better in terms of scale, brand and distribution.

Exhibit 30: Century has higher plywood capacity whereas GreenPly is materially bigger in laminates

Century Ply	Plywood			Laminates		
	Installed (CBM)	Utilised (CBM)	Utilisation %	Installed (Sheets)	Utilised (Sheets)	Utilisation %
Bishnupur near Kolkata	37,037	27,706	75%	4,800,000	2,949,607	61%
Gumudipundi near Chennai	39,420	29,491	75%	-	-	-
Karnal, Haryana	36,000	30,059	83%	-	-	-
Mirza near Guwahati Assam	35,000	33,008	94%	-	-	-
Bachau, Gujarat	31,000	13,344	43%	-	-	-
Roorke, Auro Sundaram	25,000	18,325	73%	-	-	-
Yangoon, Myanmar	6,000	-	0%	-	-	-
Greenply						
Location	**Installed (SBM)**	**Utilised (SBM)**	**Utilisation %**	**Installed (Sheets)**	**Utilised (Sheets)**	**Utilisation %**
Titzit, Nagaland	18,000	17,820	99%	-	-	-
Pantnagar, Uttarakhand	24,000	30,000	125%	-	-	-
Kriparampur, West Bengal	45,600	38,304	84%	-	-	-
Bamanbore, Gujarat	42,000	52,500	125%	-	-	-
Behror, Rajasthan	-	-	-	5,340,000	5,500,200	103%
Nalagarh, Himachal Pradesh	-	-	-	4,680,000	5,241,600	112%

Source: Company, Ambit Capital research

(1) Volume comparison - Comparable scale in plyboards; materially lower in laminates

Plyboards: Century's and Greenply's volumes were broadly the same in FY14, though Century's volume growth has been marginally higher than Greenply's over FY10-14. In our view, Century's volume growth would be materially higher than Greenply's for the next 2-3 years, as Century's volumes would pick up from its recently added capacities.

Laminates: Greenply is the largest laminate manufacturer in India and Asia (and the third-largest globally). Its FY14 laminate sales were almost 4x of Century's. The recent laminate capacity additions by Century will reduce the scale gap with laminates; however, Greenply will remain the leader in this segment for at least the next 2-3 years.

Century's plyboard volume growth has been marginally higher than Greenply's over FY10-14

Exhibit 31: Century and Greenply - volume comparison

Volumes	FY10	FY11	FY12	FY13	FY14	CAGR FY09-14
Plyboards (CBM)						
Century	117	141	160	155	176	11.9%
YoY Growth		20.5%	13.5%	-3.1%	13.5%	
Greenply	110	121	152	166	174	10.8%
YoY Growth		10.0%	25.6%	9.2%	4.8%	
Laminates (pcs)						
Century	1,822,774	2,106,653	2,444,042	2,698,740	2,915,978	7.3%
YoY Growth	-10.5%	15.6%	16.0%	10.4%	7.5%	
Greenply	7,148,131	9,324,854	9,920,000	10,370,000	10,760,000	13.3%
YoY Growth	24.2%	30.5%	6.4%	4.5%	3.8%	

Source: Company, Ambit Capital research

(2) Realisation comparison - Greenply's realisation higher due to better product mix

Plyboards (excluding veneer): Whilst our dealer checks suggest that Century sells at a premium to Greenply in comparable segments, Greenply's realisations are marginally higher than Century's due to its higher mix of premium segment plyboards. (Century has increased focus on affordable segment plyboards in the last 4-5 years.)

Note that Century includes veneer revenues in plyboards whereas Greenply includes it in laminates (12% of overall laminate revenue in FY14) and hence realisations are not strictly comparable. Furthermore, note that laminate exports account for 30% of Greenply's laminate revenues as against NIL for Century.

Exhibit 32: Greenply's realisation is higher due to its higher mix of premium sales

Plyboard Realisation (₹ '000/CBM)	FY10	FY11	FY12	FY13	FY14	CAGR FY09-14
Century	51	47	54	58	60	4.1%
YoY Growth	4.0%	-8.1%	14.7%	9.2%	2.3%	
Greenply	62	68	64	59	63	3.2%
YoY Growth	15.0%	10.2%	-5.0%	-8.7%	6.4%	
Laminate Realisation (₹ '000/sheet)						
Century	573	620	627	667	693	2.2%
YoY Growth	5.7%	-16.1%	12.9%	6.3%	4.5%	
Greenply	442	464	540	725	789	11.1%
YoY Growth	-5.2%	5.0%	16.2%	34.3%	8.9%	

Source: Company, Ambit Capital research

(3) Segmental margin comparison - Greenply superior but Century closing the gap

Plyboards: Greenply's EBITDA margin has historically been higher than Century's (see Exhibit 33); however, Century has bridged the gap considerably in recent years. (Century's EBITDA margin was 130bps higher than Greenply's in FY14).

Laminates: Even in laminates, Greenply's margins have been superior than Century's due to its higher scale and high proportion of exports. Century's laminate EBITDA margin dropped in FY14 due to higher fixed expenses post the commissioning of the new unit. As volumes from the new capacities pick up, the margin differential will narrow.

Exhibit 33: Century's margin differential with Greenply has narrowed significantly

Particulars	FY10	FY11	FY12	FY13	FY14
Plyboard EBITDA margin					
Century	7.7%	6.1%	10.5%	8.3%	11.4%
Greenply	16.8%	12.6%	8.3%	11.3%	10.1%
Laminate EBITDA margin					
Century	11.0%	8.9%	13.3%	11.9%	7.4%
Greenply	24.5%	14.2%	17.8%	13.2%	12.1%

*Source: Company, Ambit Capital research; Note: * Greenply's plyboard margins do not include MDF but its laminate includes the decorative veneer margin business, which forms part of Century's plyboard business*

(4) Capital employed turnover, working capital cycle and RoCE

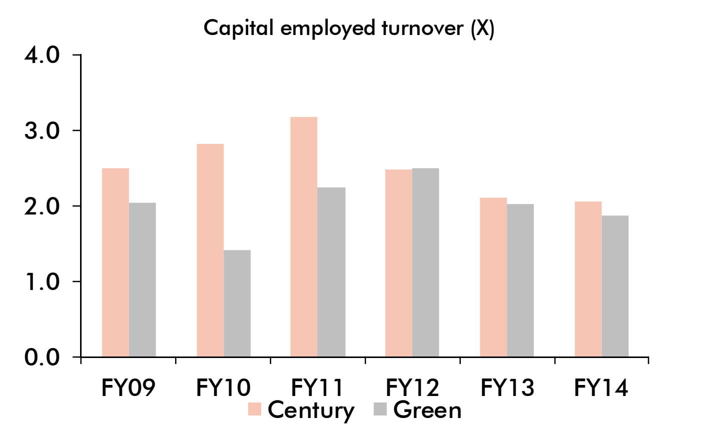
Capital employed turnover higher than Greenply: Century's capital employed turnover has historically been materially better than Greenply's due to lower proportion of the capital-intensive laminate segment. Century's capital employed turnover dropped materially in FY13 and FY14 on account of: (a) significant investment in capacity additions (doubling of laminate capacity and significant increase in plyboard capacity) which is yet to reflect in volumes, and (b) higher working capital investment due to inventory build-up of face timber (ahead of the ban in Myanmar); however, it still remains higher than Greenply's.

Cash conversion cycle poorer than Green: Century appears poorer than Greenply on cash conversion cycle primarily due to materially lower creditor days. This on due to the following reasons: (a) Whilst Century financed raw material imports through buyers credit (classified as short-term debt, creditors do not reflect on the books), Greenply used Letter of credits (and hence creditors balances are outstanding till LCs are cleared), and (b) Greenply's higher laminate sales (wherein credit terms are better) leads to a longer creditor payment period for the overall business.

Difference in cash conversion cycle is a function of lower creditor days

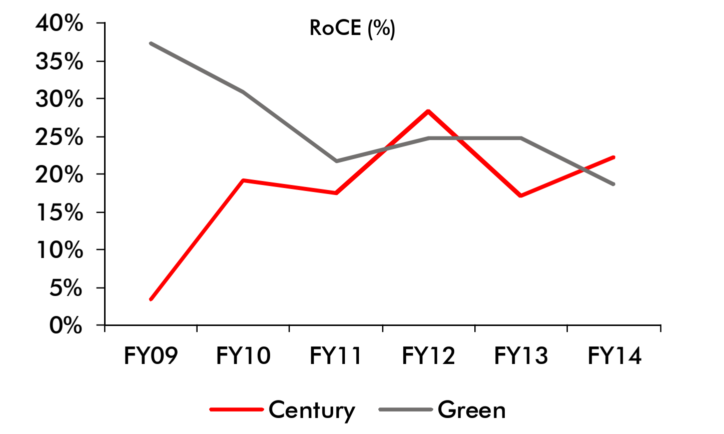
RoCEs have improved and now are ahead of Greenply's: Despite better capital employed turnover, low EBIT margin (due to lower share of laminates) led to Century's RoCE being lower than Greenply's over FY09-11. Century's high EBIT margins from FY10 onwards and superior capital employed turnover led to its RoCE topping Greenply's in recent years.

Exhibit 34: Century's capital employed turnover has been higher than Greenply's



Source: Company, Ambit Capital research

Exhibit 35: Century's RoCE is now better than Greenply's against being significantly lower earlier



Source: Company, Ambit Capital research

Exhibit 36: Greenply's cash conversion cycle is materially better than Century

Particulars	Cash conversion cycle		Average debtor days		Average inventory days		Average creditor days		CFO/EBITDA	
	FY13	FY14	FY13	FY14	FY13	FY14	FY13	FY14	FY13	FY14
Century Ply	112.4	128.6	58.6	61.9	70.2	88.5	16.5	21.7	48.2%	26.5%
Greenply	72.4	75.9	61.6	63.6	63.8	72.6	53.0	60.3	57.0%	58.6%
Divergence from Greenply	40.02	52.68	(2.99)	(1.77)	6.48	15.84	(36.53)	(38.61)	-9%	-32%

Source: Company, Ambit Capital research

Common size analysis

Greenply's sales are 1.6x of Century's, primarily due to higher laminate revenue.

Raw material costs: Greenply's raw material cost is lower than Century's, due to higher proportion of laminate sales, which have a higher gross margin. The difference in Greenply's and Century's RM cost declined to 20bps in FY14 from 500bps in FY13, mainly due to lower procurement costs for Century.

Employee cost: Century's employee costs are higher than Greenply's due to higher number of employees—6,333 employees in Century as against 5,233 employees in Greenply.

Other manufacturing, general overheads and selling costs: Other manufacturing expenses and selling expenses are broadly similar for both Century and Greenply. General administration expenditure is slightly higher for Greenply, as they have different administrative divisions for the ply and laminate businesses.

Overall, Century's EBITDA margin is slightly lower than Greenply's, due to higher employee costs and lower proportion of high-margin laminate sales.

Exhibit 37: Common size analysis - Century vs Green

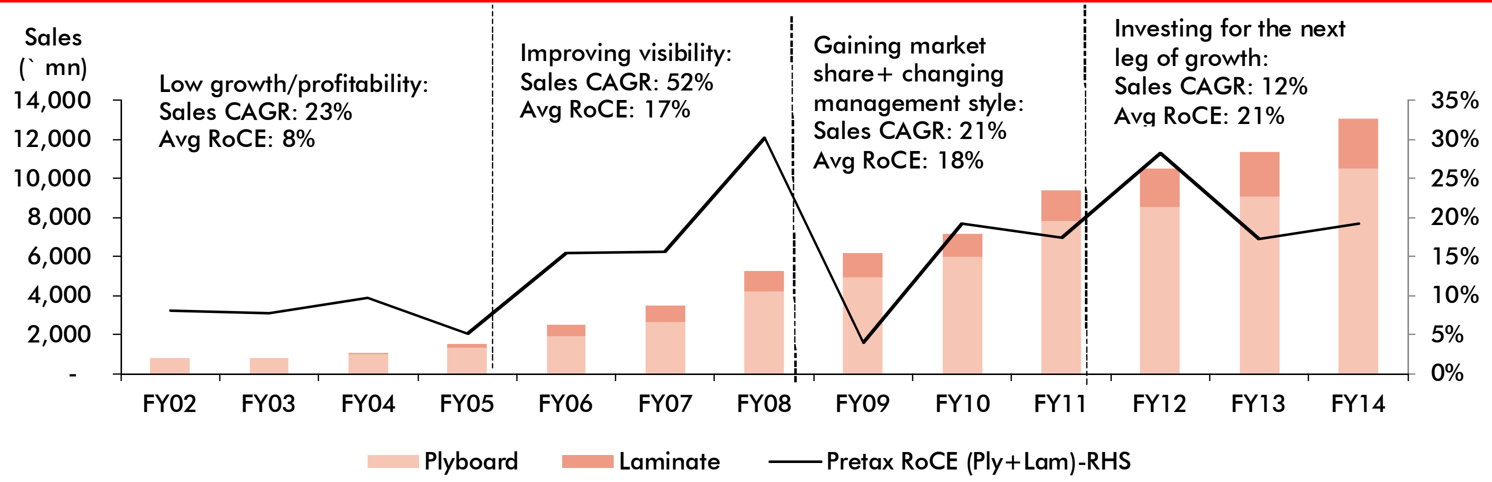
Particulars (% of sales unless mentioned)	FY13		FY14	
	Century	Green	Century	Green
Net Sales (₹ mn)	11,816	20,484	13,477	22,172
Raw material cost	62.3%	57.9%	58.1%	57.9%
Power & Fuel Cost	2.3%	4.9%	2.3%	4.0%
Employee Cost	10.3%	8.9%	12.0%	10.0%
Other Manufacturing Expenses	5.6%	5.7%	6.1%	5.8%
General and Administration Expenses	1.8%	2.7%	3.3%	3.5%
Selling and Distribution Expenses	7.2%	6.8%	6.5%	6.7%
Total Expenditure	89.6%	86.8%	88.3%	87.8%
EBITDA	**10.4%**	**13.2%**	**11.7%**	**12.2%**
Other Income	0.6%	0.3%	0.3%	0.4%
Depreciation	2.4%	2.6%	2.9%	2.7%
EBIT	8.7%	10.9%	9.1%	9.8%
Interest	3.4%	3.2%	4.5%	2.9%
Profit Before Tax	5.3%	7.7%	4.7%	6.9%
Provision for Tax	0.4%	1.8%	0.0%	1.6%
Profit After Tax	**4.9%**	**5.8%**	**4.7%**	**5.3%**

Source: Company, Ambit Capital research

Evolution of Century Plyboards

Whilst Century's presence in plyboards manufacturing spans over two decades, the company gained prominence only in the last 7-8 years and is now amongst the top-2 plyboard brands in India. **Over FY02-14, Century's sales expanded at a 26% CAGR and its RoCE improved to 20% in FY14 from 8% in FY02.** Century has ramped up capacities and invested in brand building to ensure the next leg of growth and profitability. We have explained the phases in the exhibit below.

Exhibit 38: Phase-wise analysis of Century Plyboards



Source: Company, Ambit Capital research

Phase I - Low growth/profitability: The plyboard industry in India was in its infancy and was not used for internal home building. Nearly 90% of the industry was unorganised given the sharp difference in the cost of manufacturing due to the tax structure (16% excise for organised players). Century highlighted in its FY03 Annual Report that: *"Due to the inherent advantages of the unorganised sector, the branded sector has witnessed a price war"*. Century's sales grew at 23% over FY02-05 on a very small base of FY02, whilst its average RoCE was 8%. The company expanded horizontally in FY04 by entering into laminate manufacturing.

Nearly 90% of the industry was unorganised; Century's sales grew at 23% over FY02-05 on a very small base of FY02, whilst its average RoCE was 8%

Phase II - Improving visibility: Increase in housing construction across India led to a sharp increase in demand for plywood. Whilst the industry grew at 20-25% over FY05-08, organised players like Century grew materially higher (almost double the industry growth rates), given their investments in brand and reach. Most importantly, excise duty rates for plyboard manufacturing was cut to 8% in FY07 from 16% earlier, which led to a shrinking differential between manufacturing costs for organised and unorganised players (which enjoyed excise exemption due to SSI status). The company's sales expanded at 52% CAGR over FY05-08 and its RoCE improved to 17% in this phase as against 8% in the previous phase.

Organised players like Century grew double than the industry;

Century's sales expanded at 52% CAGR over FY05-08 and its RoCE improved to 17%

Phase III - Gaining market share + changing management style: The plyboard industry grew at 12-15% in this phase; however, Century grew faster than the industry, as it continued to gain market share from the unorganised players. Century increased its focus on building its brand and hired industry marketing veterans from top consumer goods companies to support its marketing functions. In this phase, Century started transitioning from a *'promoter and family driven Indian business'* towards a *'professionally run consumer goods company'*. Century's sales grew at a 21% CAGR and its RoCE averaged 18% over FY08-11.

Transitioned from a *'promoter and family driven Indian business'* towards a *'professionally run consumer goods company'*; sales grew at a 21% CAGR and its RoCE averaged 18% over FY08-11

Phase IV – Investing for the next leg of growth: Century maintained its focus on brand building (marketing expenditure more than doubled; marketing and sales personnel increased to 696 in FY14 as against 172 in FY10). Further, the company ramped up its dealer network to 1,424 in FY14 vs 1,155 in FY12. In addition, it significantly increased capacities both in plyboards (to 210k CBM in FY14 from 120k CBM in FY09) and laminates (to 4.8mn sheets from 2.4mn sheets in FY13). It sales grew at a 12% CAGR and average RoCE improved to 21% in FY12-14.

It ramped up capacities and distribution and laid emphasis on brand building

Getting the growth ingredients right!

We have seen historically in multiple home improvement segments (such as paints, tiles, and electricals) that a successful franchise needs to invest, in three critical areas to establish its brand pan-India, and outpace competition.

(1) The company **needs to build scale** to gain prominence.

(2) It needs a **strong distribution network** to reach out to the major demand centres not only in large cities but also tier-II/III/IV markets.

(3) It needs a **strong and established brand**, which is a key influencer of the customers' buying preference and also the premium he/she is ready to pay over other brands.

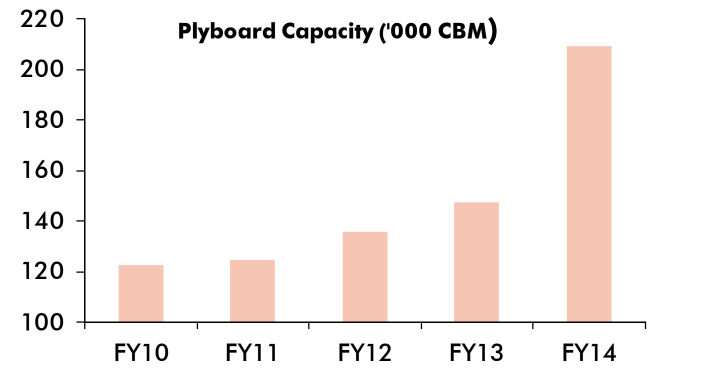
Apart from the above three, **a professional management with a clear understanding of supply chain and branding, marketing and strong HR practices (in terms of hiring marketing professionals)** is a necessity for a successful franchise in the long term.

Century is establishing a high-quality home construction franchise and is implementing the above four parameters judiciously; our explanation for this is given below.

Parameter #1 - Scale: Significant capacity expansion

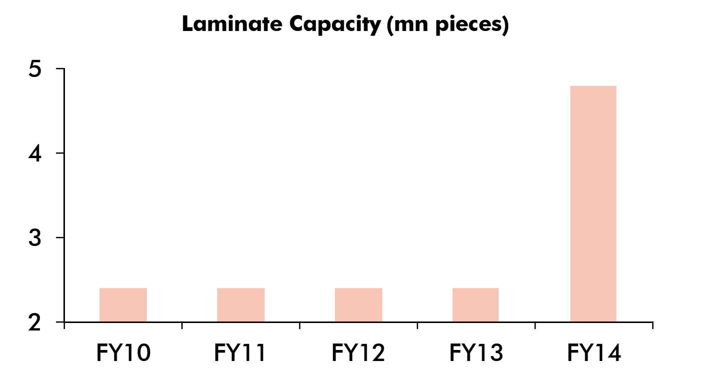
In the last five years, Century has made material investments in both the plyboard and laminate segments; plyboard capacity increased to 210k CBM in FY14 from 120k in FY09 and laminate capacity increased to 4.8mn sheets in FY14 from 2.4mn sheets in FY09. Alongside, the company has added a face veneer plant in Myanmar to ensure long-term supply of the most critical raw material input in plyboard manufacturing.

Exhibit 39: Significantly ramped up plyboard...



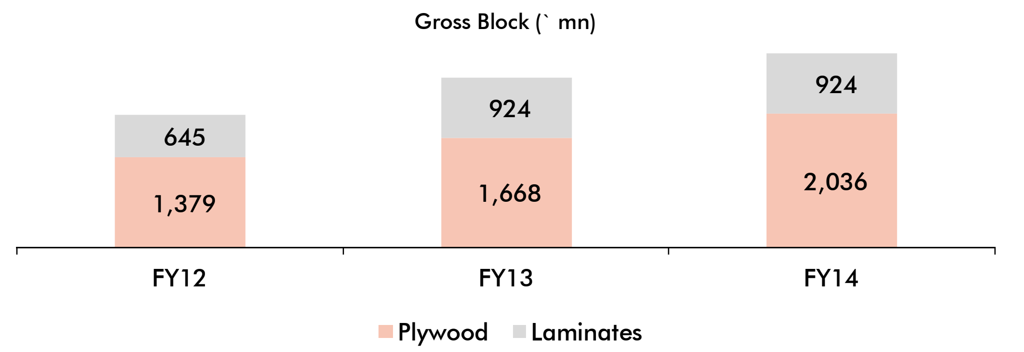
Source: Company, Ambit Capital research

Exhibit 40: ...and laminate capacity



Source: Company Ambit Capital research

Exhibit 41: Century's gross block has increased by 50% in the last two years



Source: Company, Ambit Capital research

Parameter #2 - Distribution: Expanding its reach across India

Century has materially increased its dealer network over the last few years to 1,424 dealers from 1,106 dealers in FY12. The company already has manufacturing facilities spread across India. In addition, the company has branch offices and warehouses at 33 locations across India for better reach to the target markets.

The company is ramping up dealer network and installing SAP for better distribution

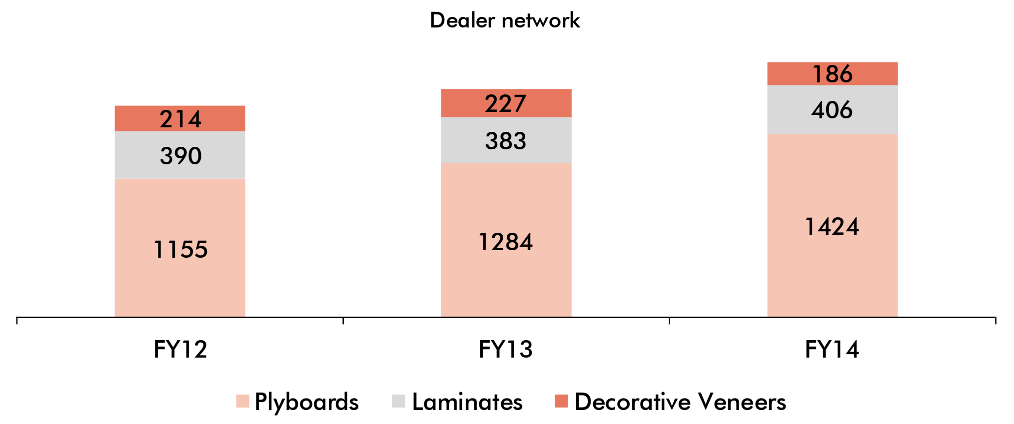
Management commentary on dealer network in FY14 Annual Report

"At Century Plyboards, we recognise the role of dealers in influencing consumer decisions, making their servicing critical. The Company reinforced its supply chain to service dealers in a few hours. The Company retained dealer excitement through the periodic introduction of innovative product features, trade incentives as well as performance recognition initiatives".

Implementation of SAP

The company implemented robust IT systems (SAP) in FY07 and over a period of time has integrated all the Indian manufacturing plants under the software. Not only does the system help improve operational efficiencies in terms of data management, but also helps manage distribution, procurement and inventory at every plant to improvise working capital management.

Exhibit 42: Ramping up the dealer network



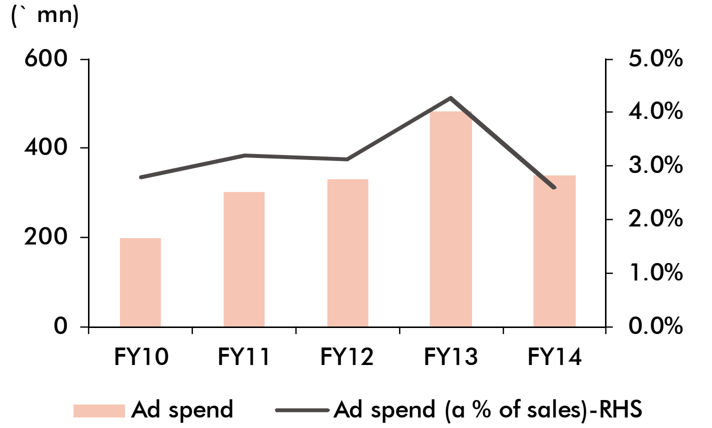
Source: Company, Ambit Capital research

Parameter #3 - Branding: A key focus area

Century has continuously invested in advertisement and branding across platforms like outdoor, tele commercials and social media. The company has spent more than 3% of sales in the last three years in branding and advertisements, and the management has highlighted that the company will continue to invest in branding. Whilst majority of the advertisement expenditure has been focused on the plyboard segment, the company might start exclusive advertisement campaigns for the laminate business. Furthermore, the company's sales manpower has more than quadrupled over the last five years to 866 currently as against 172 in FY10.

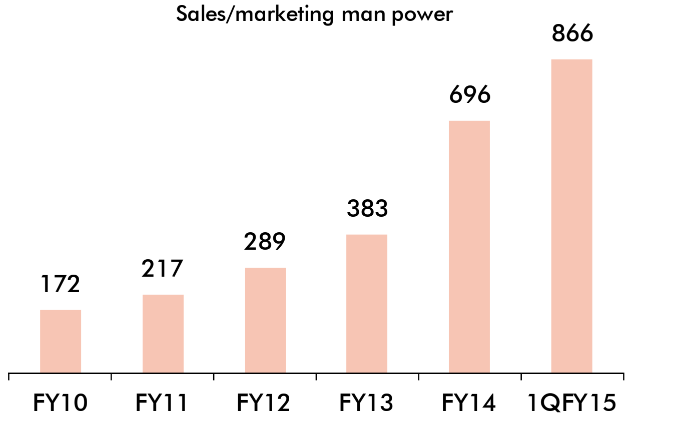
Sales manpower has more than quadrupled over the last five years to 866 currently as against 172 in FY10

Exhibit 43: Rising ad spends (barring FY14)



Source: Company, Ambit Capital research

Exhibit 44: Sharp increase in sales/marketing manpower



Source: Company, Ambit Capital research

Management's view on branding in FY14 Annual Report

"One of the biggest factors driving the offtake of plywood products is being driven by an increased preference for branded products. This preference is manifested by the following numbers: the branded plywood segment is growing at 15-20% annum as against the non-branded segment growing at only 5-7 %. The shift from unbranded to branded products is estimated at 200 basis points per annum as a proportion of the total plywood offtake in India. The increasing inclination for branded plywood is being influenced by a superior price-value proposition. The branded plywood segment offers a wide range of products available across different price points; they come in varying thicknesses and are imbued with superior aesthetic appeal. Unbranded plywood manufacturers offer 400 SKUs compared to branded players who offer 1,600 SKUs. The biggest driver of plywood offtake is their product warranty, ensuring replacement should the product not be resistant to termite action, a feature not provided by unbranded manufacturers.

At Century Plyboards, we recognise that our biggest asset is our brand. Over the years, we have emerged as one of the industry's largest spenders, investing judiciously in endorsement-driven brand spending. Brand-spend efficiency translated into market leadership corresponding to a national plywood market share of 7.5% (30% in the organized segment)."

Recent media campaigns

In 2012, Century launched an outdoor media campaign in eight cities across India—Mumbai, Delhi, Bengaluru, Chennai, Hyderabad, Kolkata, Ahmedabad and Pune. Bates Media handled the creatives for the campaign, whilst Lotus Communications and Marketing executed the campaign in seven cities and Percept OOH executed the campaign in Kolkata. In order to maximise the deliverables against the campaign objectives, a wide range of media formats were deployed including hoardings, bus shelters, mobile vans, Delhi Metro media, Mumbai local trains, and bus back panels.

Exhibit 45: Hoardings across cities to increase brand visibility

Source: Media sources, Ambit Capital research

Recently, Century launched a media campaign, *'Khusiyon ka Rangmanch'* across India on various platforms. The head of the media agency (DB Mundra) which undertook the campaign stated:

"The communication will be done mainly through Electronic Media in a phased manner, with the initial phase slated for 6 weeks. It will consist of 45, 30, 20 and 15 second edits. The television advertising campaign will run across all leading national channels like Star Plus, CNBC TV18, Aaj Tak, etc., and regional channels also, with an emphasis on GEC and news."

***Exhibit 46: The 'Khusiyon Ka Rangmanch'* ad campaign was launched in several platforms including hoardings, TV commercials and social media**

Source: Media sources, Ambit Capital research

The company also runs extensive campaigns on social media platforms and regularly updates new designs on these sources.

Parameter #4 - Management: Becoming professional

Century has transitioned from a 'promoter and family driven business' towards a 'promoter and professionally managed consumer goods company'.

The company has added industry veterans at key managerial roles. The key additions are: (a) **Mr Anoop Hoon**, as the head of marketing (over three decades of experience in marketing and was previously heading sales at Asian Paints), (b) **Mr Sugata Halder** as HR head (22 years' experience in HR management and previously employed with Bharti Airtel), and (c) **Mr Amit Gope** as GM Branding (21 years of experience in branding, and previously with Vodafone, Airtel and Uninor).

The company has added industry veterans at key managerial roles

Historically, in businesses where the brand and supply chain are key to a successful franchise, a strong mid-level management team is paramount. For instance, in the mid-90s, Asian Paints did something similar by recruiting high-quality talent at several key management levels (marketing/branding, HR, etc) and established itself as a much stronger brand in later years. Below is a brief profile of the recent hires in managerial roles.

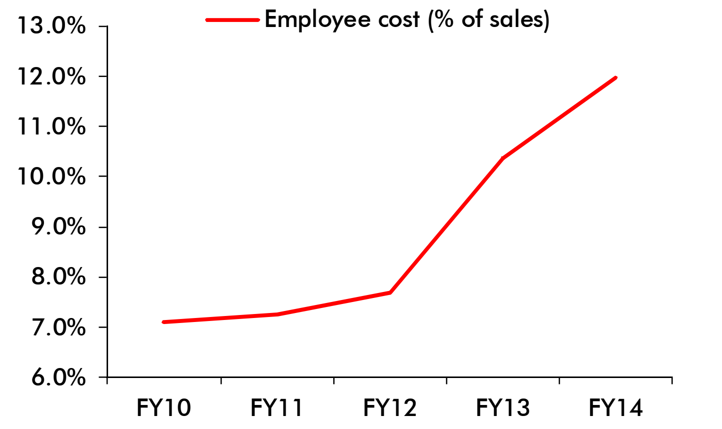
Exhibit 47: Recent hires in managerial positions

Person	Previous employment	Position	Brief Profile
Mr Anoop Hoon	Asian Paints	Head of marketing	Over three decades experience in marketing (marketing head of Asian Paints for 13 years); he holds B.A in Economics and PGDM from XLRI Jamshedpur
Mr Sugata Halder	Bharti Airtel	HR Head	More than two decades of experience in HR and employee training
Mr Amit Gope	Vodafone	GM Branding	More than two decades of experience in branding; he holds a PGDM Marketing from XIMB
Mr Navrun Sen	Uninor- West Bengal business head	Executive Business Head (Panel)	Over two decades of experience in business development; holds a PGDM from IIM Lucknow
Mr Shankho Chowdhury	ByCell Telecom	Executive Business Head (Decorative)	More than 25 years of total experience, including 14 years in large telecom companies like Airtel, Hutch/Vodafone, Reliance and Shinawatra (Thailand)

Source: Company, Ambit Capital research

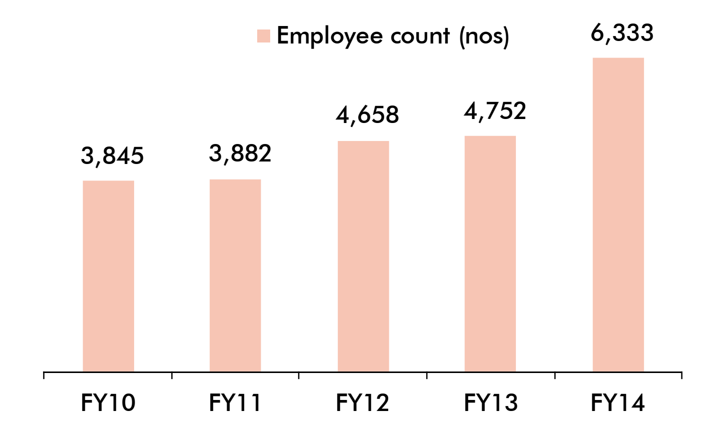
Note that the sharp increase in employee cost has been a function of hiring high-quality talent in recent years and sharp increase in the employee base.

Exhibit 48: Sharp increase in employee costs, due to senior management hires...



Source: Company, Ambit Capital research

Exhibit 49: ..and sharp increase in the employee base



Source: Company, Ambit Capital research

Views of industry participants

Interview with a leading interior designer

We spoke to a leading interior designer/architect, Mr Ninad Tipnis, on the plyboard industry and within that his views on Century Ply and Greenply.

Interview with Ninad Tipnis, Principal Architect and Founder at JTCPL Designs and author of The 5Ds

Can you please give us a brief overview about the interior design industry and the importance of plyboards as well as laminates in this industry?

Ninad Tipnis: The interior design industry is a highly disorganised one, but at the same time, a highly competitive one. The industry is currently about US$2-2.2 billion. The reason it is highly disorganised is because most of the new entrants in this industry are fresh college passouts, carpenters, and the like.

Plyboards and laminates are the building blocks of this industry, and brands like Century Ply and Greenply are highly respected for their quality and for the brand reputation that they have built over the years.

As a brand, how strong is Century Ply? How would you rate Century Ply in terms of both quality and initiatives taken by the company?

Ninad Tipnis: Century Ply, led by Mr. Bhajanka and Mr. Agrawal, has shown phenomenal growth in recent years. Their plyboard business has been expanding at a rapid pace, and Century Ply is definitely at the top end of the plyboard companies because of their top-notch quality. The management is very aggressive and has a hands-on approach, which makes them one of the best. They are the youngest company in the business, and their dealer network is growing by the day. As far as marketing initiatives are concerned, they spend a considerable amount of money on promotional activities, which have made Century a household name today.

The biggest rival for Century Plywood is Greenply. How does Century Ply stack up to Greenply?

Ninad Tipnis: Greenply has been an age old player in this industry, and in terms of market share, it does dominate the market. However, it faces stiff competition from Century Ply, which has grown at a faster rate than Greenply. Having said that, both Century and Greenply are actually very close in terms of rebates and dealer initiatives, and the fact that both of these companies are forward-looking organisations with a great management which is serious about what they do.

In the laminates category, how does Century Ply stack up to the rest of the market, and more specifically, to Greenply?

Ninad Tipnis: Greenply has dominated the laminates category so far, primarily because they have the first mover advantage. Century Ply is also in the same top end category as Greenply, and both of these brands are very strong. They have very broad distribution networks.

Century Plywood has not entered the Medium Density Fibres (MDF) business so far. Can you throw some light on the MDF segment? How do you see the MDF space in the future?

Ninad Tipnis: Whilst Century Ply has not entered the MDF segment, Greenply has been doing some good work so far. The problem with the MDF segment in India is that it has entered much before its time. Orthodox carpenters still refer to Medium Density Fibres as *'bhoosa cardboard'*, which is grossly wrong. People have yet not realised the advantages of Medium Density Fibres, which is why India has been really slow in changing its mindset. MDF is actually a very contemporary and environmentally friendly creation, and we still have some time to go before the mindset of the Indian consumer changes.

I believe the reason Century has not entered the MDF space is because the management is looking to dominate one vertical at a time, and then move forward very strategically.

Whilst you have emphasised that both Century Ply and Greenply are extremely close when it comes to quality and market initiatives, which is the brand that you prefer?

Ninad Tipnis: I would be happy with either one of them, because they are both great companies. However, if I had Re1, I would invest it in Century Ply, because of the rate at which the company has been growing.

Dealer checks

We also spoke to multiple dealers across India to ascertain their feedback on: (a) the **brand recall of Century Ply** (Pull vs Push factor), (b) **distribution** (Promptness), (c) **competitive positioning** in the market vis-a-vis its competitors, and (d) **changes in supply management and brand positioning** in the last five years.

Brand strength of Century Ply (Pull vs Push Factor)

Several prominent dealers highlighted that the Century Ply brand has strengthened further in the last few years, as Indian customers have become more brand-conscious than earlier. Whilst Century charges a premium over competitors, consumers appreciate the quality/guarantee and hence higher price does not influence buying decisions. The new trend that has emerged in recent times is that of the product being 'pulled' into the market instead of the company or the distributors having to 'push' it instead.

Consumers appreciate the quality/guarantee and hence higher price does not influence buying decisions

Distribution (Promptness)

A key reason for dealers' preference of Century Ply over peers is that the company allows them to manage working capital efficiently. Century Ply ensures *'single-day'* delivery given its strong reach and distribution network across India. This allows the dealers to maintain JIT (Just in Time) inventory management, wherein the dealers can limit inventory holding days. A tier-II city-based dealer highlighted, *"If a customer places an order in the morning, I will have the material delivered by evening or maximum next day; the smaller brands sometimes take over three days to deliver."*

Century Ply ensures 'single-day' delivery given its strong reach and distribution network across India

Competitive position in the market vis-a-vis its competitors

Dealers hold both Century and Green in equal regard but highlight that Century has been way more aggressive in recent years. Dealers in tier-II cities were extremely pleased with the initiatives taken by Century Ply, in terms of dealer meets and incentives through freebies, foreign trips, etc. They also highlighted that Century is ahead of the curve in terms of innovative product launches (fire/water resistance, no core gaps, etc).

Dealers in tier-II cities were extremely pleased with the initiatives taken by Century Ply

Changes in the supply chain as well as the brand in the last five years

Most dealers we spoke to highlighted that Century has evolved as a brand in the last five years. In the plyboard segment, the company has begun to supplement its quality improvement with promotional activities and innovative marketing strategies. Its recent advertisement campaign, *'Khushiyon Ka Rangmanch'*, starring a nationally acclaimed actor, has improved visibility in rural areas. Century Ply manages an extremely strong supply chain network, with its USP being that all complaints are resolved within 24-48 hours. A recent innovative initiative of the company is that the marketing manager addresses dealer complaints on mobile messenger applications; the dealer just sends a picture of the defective plyboard, on the basis of which the marketing manager/distributor arranges for prompt replacement. In the laminate segment, dealers believe that Century offers a larger range as compared to most brands but it still lags behind Greenply.

Century Ply manages an extremely strong supply chain network, with its USP being that all complaints are resolved within 24-48 hours

Exhibit 50: Century - five years ago and now

Aspect	Five Years Ago...	... And Now
Positioning in the market	A strong brand in certain regions but not across India. Unorganised players dominated and brand was not well established.	A prominent player in the plyboard and laminate segment, and one of the fastest-growing companies in the segment.
Distribution and Dealer Networks	A small and rigid dealer network, one which suffered because of slow processes. If a dealer had a complaint, it had to be routed through a formal letter, which would then follow a lengthy process of approval or rejection.	A vast dealer network, one which works in sync with the company to obtain timely deliveries. If a dealer has a complaint, he can immediately send a picture on a smartphone to his customer care executive, who would work to resolve the matter immediately.
Competitive Advantages	The company followed a penetration pricing policy, and price was the only competitive advantage given the prominence of unorganised players.	The company now follows a normal pricing policy, and looks to gain from its competitive advantages, which are **brand, timely delivery, quality** and **word of mouth publicity.**

Source: Industry sources, Ambit Capital research

Exhibit 51: Quotes from dealers across regions

Region	Quotes
North	**Dealers in tier-I cities:** "Century Ply has been giving us good service. More importantly, they have been giving us good service on a regular basis." **Dealers in tier-II cities:** "This is the only brand which takes the initiative to ask us for feedback, complaints, and suggestions. It is doing everything that it can to cater to our needs."
South	**Dealers in tier-I cities:** "What I admire about the brand is that it conducts a lot of promotional activities such as sponsoring IPL teams. This already makes the consumer aware of the brand." **Dealers in tier-II cities:** "Century Ply is giving regional manufacturers a serious run for their money."
East	**Dealers in tier-I cities**: "They and Greenply together are miles ahead of peers; supplies from south India has reduced post the ban in Myanmar." **Dealers in tier-II cities:** "People took some time to get used to the concept of buying branded plyboard and laminates. But slowly, the change is taking place."
West	**Dealers in tier-I cities:** "We have seen middle class and upper middle class customers insist on Century Ply." **Dealers in tier-II cities:** "A lot of changes have been planned by the new Government. I expect demand to multiply as awareness of branded products increases."

Source: Industry Sources, Ambit Capital research

Scale and brand to drive growth

The above section explains the various strategic initiatives taken by the company to position itself for the expected strong growth of the plyboard industry, as penetration of home improvement durables increases across India.

Century's elevated scale, strong brand and horizontal expansion of product lines (entry in the affordable segment and ready-made furniture/modular kitchen) will help it to gain further market share, especially when raw material sourcing is getting tough for unorganised players and expected regulations like GST would eradicate their cost competitiveness.

Century's elevated scale, strong brand and horizontal expansion of product will help it to gain further market share

Whilst Century's current capacities can support revenue growth of ~25% both in FY15 and FY16, the company can increase outsourced manufacturing and leverage its brand to grow sales in the affordable segments.

Portfolio expansion – Towards Affordable and premium segments and towards ready-made

Century is expanding its product portfolio from premium plyboards to the affordable segment through another line of products (Sainik and Maxima), which are ~15-20% cheaper than the premium category. This helps the company to cater to the demand of the mid-segment buyers who earlier bought non-branded plyboards.

The company outsources production and brands the finished goods as Century Plyboards. **The company will slowly transition into a brand independent of the Century tag, something similar to what Asian Paints did with its '*Tractor*' range of emulsions.**

Exhibit 52: Expanding the brand portfolio, with the addition of offerings across price ranges

₹ mn unless mentioned	Revenue				% of sales			Comments
Brand	FY12	FY13	FY14	CAGR (FY12-14)				
PF	4,160	4,011	3,851	4,160	60%	56%	46%	Flagship brand, premium positioning
Sainik	1,133	1,208	1,505	1,133	16%	17%	18%	Recently launched affordable segment brand
WIN	569	630	696	569	8%	9%	8%	A mid segment product
Teak	404	382	464	404	6%	5%	6%	Premium positioning sold mainly in urban markets
710+	-	90	420	-	0%	1%	5%	Recently launched affordable segment brand
Maxima	-	-	406	-	0%	0%	5%	Waterproof marine ply at affordable cost
ARCHITECT	211	284	397	211	3%	4%	5%	Premium product, no core gaps, besides having a higher face thickness and lifetime guarantee
FD	255	241	323	255	4%	3%	4%	Mid segment product
TECHNOPINE	26	80	85	26	0%	1%	1%	
FLEXOPLY	22	22	19	22	0%	0%	0%	
Kleanwud	-	44	9	-	0%	1%	0%	Low proportion of overall sales, niche segment products with specific added features
FIRE SAFE	2	6	2	2	0%	0%	0%	
Others	191	139	182	191	3%	2%	2%	
	6,972	7,137	8,358	6,972	9%	100%	100%	

Source: Company, Ambit Capital research

Expanding into new verticals

Ready-made standardised products: Century is expanding its portfolio from internal building raw material suppliers to finished goods manufacturers like doors/panels, shelves, lockers and other standard timber based housing needs. These products are gaining popularity, as it ensures consistent and high-quality availability of timber-based products. For instance, Century has forayed into manufacturing doors and has seen remarkable success in this segment (₹1bn in sales; 8% of overall sales).

Retail furniture chains: Furthermore, the company has recently started retail furniture chains, *Nesta,* in Kolkata and plans to grow this chain across India's major cities in the coming years. Albeit this is a low-scale business currently, it will reap dividends when furniture installation changes from customised by carpenters to ready-made purchase from furniture showrooms. The company is also producing modular kitchens (superior quality than MDF-based modular kitchens available in the market). Currently, it has 13 franchisees across India (mainly in tier-II cities), and the management expects to double the count in the next 8-12 months.

MDF - Not a focus area

Century started importing MDF in India (from Dongwha in Vietnam) and booked revenue of ₹82mn in FY14. The company is not going ahead with its own MDF plant, as it finds that the plant may not have favourable profitability. The MDF market is currently facing weak demand from commercial clients (its main client base). Apart from a few players like Greenply and Action, no other players (Mangalam and Bajaj Hindusthan) have managed to grow profitability in this business.

Revenue assumptions

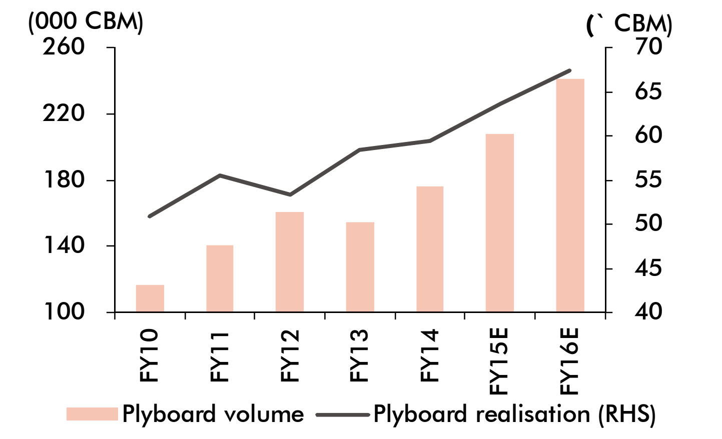
Plyboards: We believe that Century is poised to grow volumes in double-digits both in FY15 and FY16. We think that the industry will do well, as housing construction and spending on home construction picks up with an improvement in the economic cycle. Also, Century will also gain market share over unorganised players as raw material sourcing for unorganised players becomes tougher and rising brand awareness draws customer affinity towards branded products (as seen across building materials previously). We expect 17% volume CAGR in FY14-16 and build in realisation growth of 6-7%. The company recently hiked prices by 5-6% and the dealer network indicated another round of price hikes is likely by end-September.

We expect 17% volume CAGR in FY14-16 and build in realisation growth of 6-7%.

Laminates: Laminates are a complement of plyboards, and its sales usually grow in sync with ply sales. Century has been a laggard in this segment, given materially lower capacities than its peers like Greenply, Merino and Royal Touche. The company has doubled capacity in the last year, which will support market share gains. The company has a decent brand in laminates but increasing branding and promotional spend will improve the brand in the coming years. We have assumed 23% volume CAGR over FY14-16.

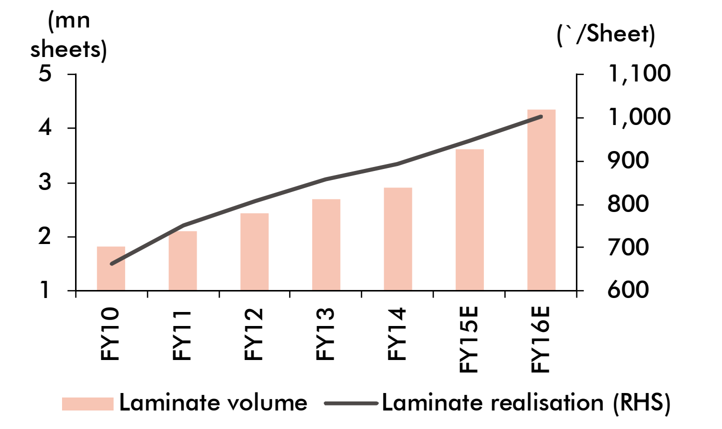
We have assumed 23% volume CAGR over FY14-16

Exhibit 53: Expect strong growth both in plyboard…



Source: Company, Ambit Capital research

Exhibit 54: …and Laminate segment



Source: Company, Ambit Capital research

Realisation growth and operating leverage to drive margin expansion

Century's margin in the plyboard segment (adjusted for forex losses) improved to 13.2% in FY14 (as against 8.3% in FY13), driven by higher realisation and stable timber costs. However, margins dropped in laminates to 7.4% in FY14 as against 11.9% in FY13, as fixed costs increased materially due to doubling of capacity, without a pursuant sales increase. We believe that Century's margins have further room to expand in FY14 and FY15, driven by the following:

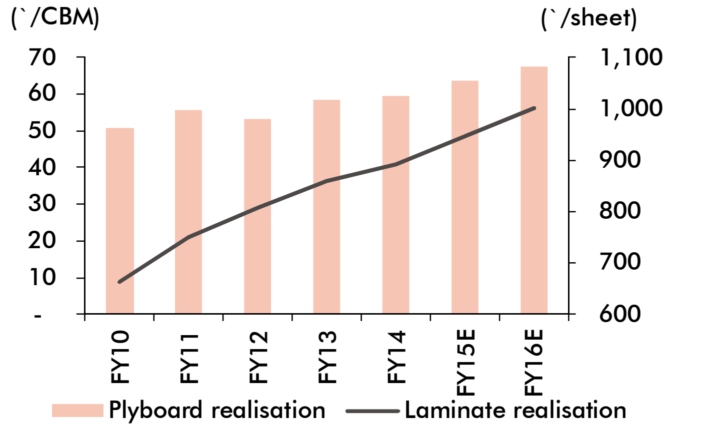
a) **Realisation:** We believe that the company's realisation will improve in the plyboard business driven by 6-7% price hikes (as lower raw material for the industry will reduce production from unorganised players) and in the laminate business as product mix improves.

b) **Operating leverage:** The laminates segment's margin over the long term should be higher than plyboards (as the case for Greenply), and hence as and when utilisation levels increase, overall EBITDA margin will improve. The company is guiding for 100% utilisation by March 2015 but the margin shift from thereon will be dependent upon the product mix. In order to achieve high utilisation, Century will produce a less-than-ideal product mix in the early 10-12 months. In order to sell more value-added products, the company might launch a separate laminate advertising campaign.

Realisation hikes and operating leverage in the laminate segment to drive margin expansion

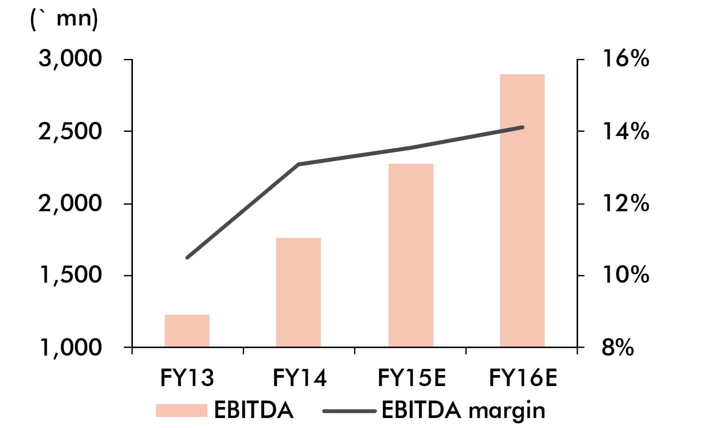
We have built in EBITDA margin of 13.6% in FY15 and 14.1% in FY16 as against 13.1% in FY14 (adjusted for forex loss).

Exhibit 55: Realisation growth in plyboard and laminates…



Source: Company, Ambit Capital research

Exhibit 56: …and better fixed cost recovery to drive margin expansion

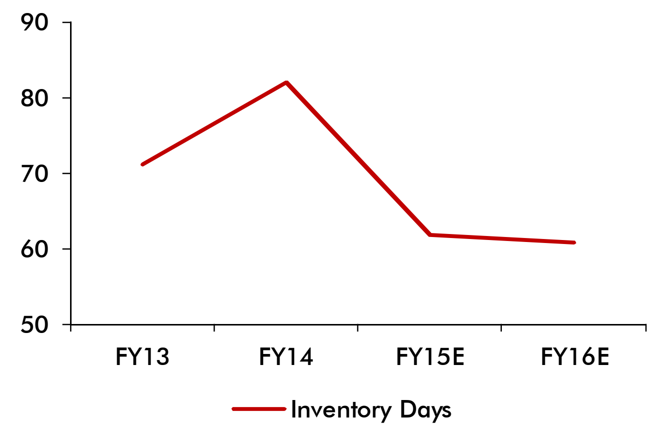


Source: Company, Ambit Capital research

Inventory days likely to decline

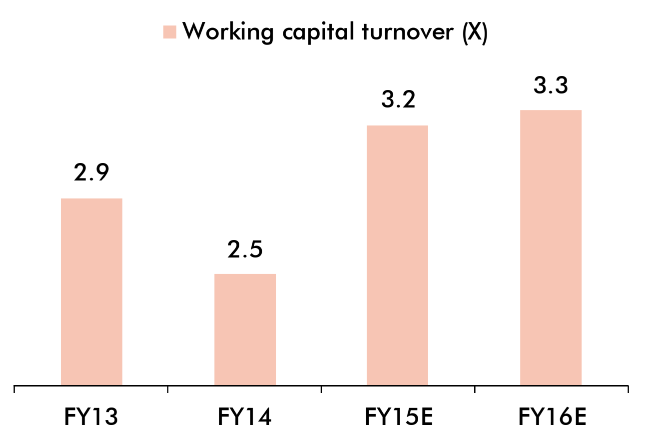
Century earlier used to hold 3 months of timber inventory in India (went up as high as 4 months in FY14). Now the inventory holding period has come down to two months, with imports of timber substituted by face veneer (as explained above), as the processing need not be done in India and the veneer can directly be dispatched to plyboard plants. We expect inventory days (based on sales) to decline to 65 by FY15 as against 84 in FY14. With reduction in inventory days, we expect working capital turnover to improve to 3.2x in FY15 from 2.5 in FY14.

Exhibit 57: Reduction in inventory days…



Source: Company, Ambit Capital research

Exhibit 58: …will improve working capital turnover



Source: Company, Ambit Capital research

Lower imports to bring down buyers credit

However, the change in raw material procurement will reduce the buyers' credit due to the creditors. As of FY14, the company had ₹2bn credit outstanding, which has declined by ₹250mn in 1Q and will reduce to ₹1.5bn by end-FY15. We expect debt:equity (including Buyers credit) to recede to 0.9x in FY15 (from 1.6x in FY14).

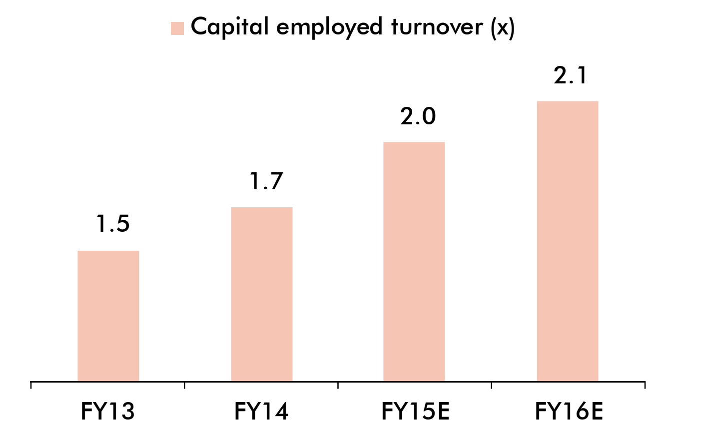
No major stated capex plans

Century does not have any major capacity expansion plans, given the recent expansions. However, the company is investing ₹500mn in a corporate building in Kolkata. Incrementally, we have factored in ₹900mn of capex assuming addition of one new plyboard manufacturing line and 2.4mn sheets laminate expansion.

Higher turnover and margin improvement to drive RoCE/RoE expansion

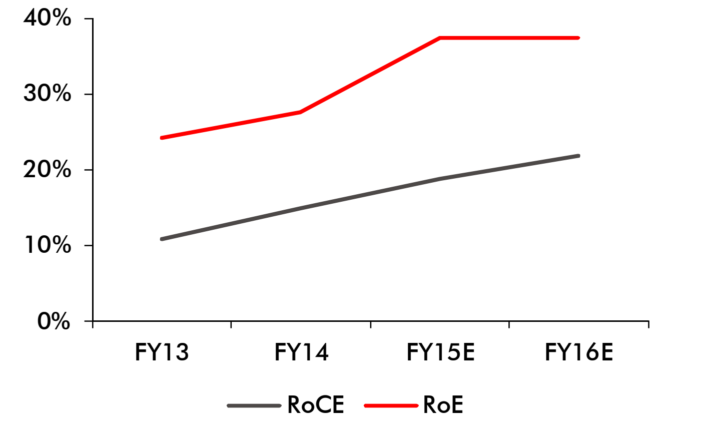
We expect capital employed turnover to improve to 2x/2.1x in FY15/FY16 as against 1.7x in FY14 with improvement in capacity utilisation at recently added capacities. Higher turnover and improving margins would lead to RoCE improving to 22% by FY16 as against 15% in FY14 and RoE to 38% from 24% in FY14.

Exhibit 59: Increasing capital employed turnover…



Source: Company, Ambit Capital research

Exhibit 60: …to support RoCE/RoE expansion



Source: Company, Ambit Capital research

Exhibit 61: Financial assumptions

Particulars (₹ mn unless mentioned)	FY14	FY15	FY16	Change (%)		Comments
				FY15	FY16	
Volumes						
Plyboard	176,211	207,929	241,198	18%	16%	Pick up in home construction/improvement alongside market share gains of organised players to drive growth
Laminate	2,900,000	3,625,000	4,350,000	25%	20%	Doubling of capacity in FY14 to support strong volume growth
Realisation						
Plyboard (₹/CBM)	13,477	16,816	20,531	25%	22%	Realisation improvement to be driven by price hikes
Laminate (₹/sheet)	1,582	2,280	2,895	44%	27%	Realisation growth to be driven by improving product mix
Financials	11.7%	13.6%	14.1%	182 bps	54 bps	
Net Sales	1,766	2,280	2,895	29%	27%	Significant volume growth in both segments drive revenue growth
Reported EBITDA	13.1%	13.6%	14.1%	46 bps	54 bps	Strong revenue growth alongside 50bps margin expansion both in FY15/FY16 driving EBITDA growth; margin expansion will be a function of higher realisation and improving operating leverage
Reported EBITDA margin (%)	387	411	417	6%	2%	
Adjusted EBITDA	603	337	317	-44%	-6%	
Adjusted EBITDA margin (%)	786	1,262	1,788	61%	42%	
Depreciation	5.8%	7.5%	8.7%	168 bps	120 bps	Marginal increase as capacities get capitalised
Interest	13,477	16,816	20,531	25%	22%	Sharp decline with no forex loss and reduction in buyers credit
PAT	1,582	2,280	2,895	44%	27%	Sharp increase with higher EBITDA and lower interest costs
PAT margin (%)	11.7%	13.6%	14.1%	182 bps	54 bps	
Cash flow parameters						
CFO	338	1,943	1,576	474%	-19%	Increase on account of higher EBITDA, lower inventory days
Capex	(665)	(341)	(480)	-49%	41%	Capex to fund office building, maintenance and possible addition of new plyboard/laminate lines
FCF	(327)	1,603	1,096	NA	-32%	
Turnover ratios						
Working capital (ex-cash)	2.5	3.3	3.5	0.8	0.2	Improving WC cycle with lower inventory days
Gross Block	3.0	3.2	3.6	0.3	0.3	GB turnover to improve as utilisation rates pick up
Capital employed	1.7	2.0	2.2	0.3	0.2	Higher GB and WC turnover to drive capital employed turnover
Profitability Ratios						
RoCE	14.3%	18.5%	22.6%	426 bps	404 bps	Improvement in EBIT margins and higher capital employed turnover to drive profitability for the company
RoE	20.5%	33.0%	35.8%	1245 bps	282 bps	
ROIC	16.3%	20.0%	24.9%	374 bps	481 bps	

Source: Company, Ambit Capital research

Key operational developments

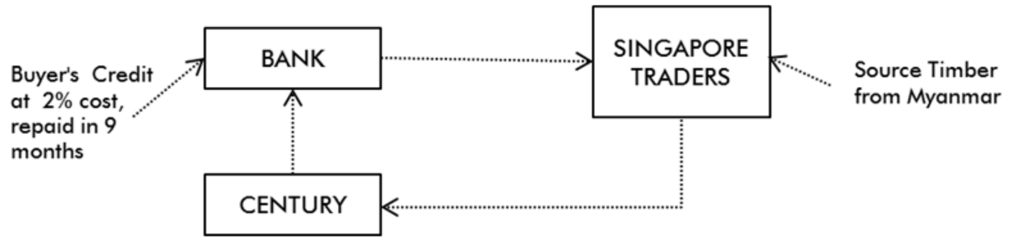
Forex loss - A thing of the past?

Face timber, 70% of the company's overall imports, will decline to negligible levels post the ban of export of raw timber from Myanmar

One of the major investor concerns in the last year was foreign exchange losses of ₹450mn, and the likelihood of it not repeating again, given that company keeps its forex unhedged. We highlight that the company's raw material sourcing has undergone a structural change. Face timber which used to account for 70% of the company's overall imports will decline to negligible levels post the ban of export of raw timber from Myanmar. We explain the arrangement below:

Earlier: The company would import timber from Myanmar but the transaction was routed through wood traders in Singapore. Century would raise a buyer's credit (at a 2% cost—Libor+0.5%+1% processing charge) to pay the trader immediately and would repay the bankers in 9 months. Given that the INR depreciated materially last year, the company had to book losses on its open positions (unhedged) of the buyers credit which led to a ₹450mn loss.

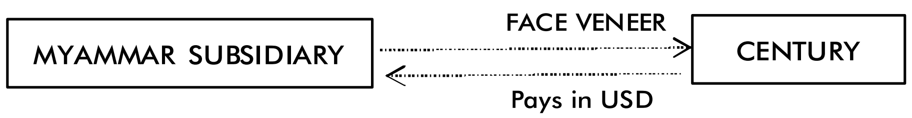
Exhibit 62: Previous face timber procurement



Source: Ambit Capital research

Now: Century's subsidiary in Myanmar sources timber locally, manufactures face veneer, and in turn exports the semi-finished goods to India. The subsidiary invoices the Indian entity, and pays the creditors directly in USD (and not through buyer's credit), and hence the situation of forex loss on timber imports will not arise on timber.

Exhibit 63: Face veneer procurement now



Source: Ambit Capital research

Myanmar more about raw material security than margin expansion

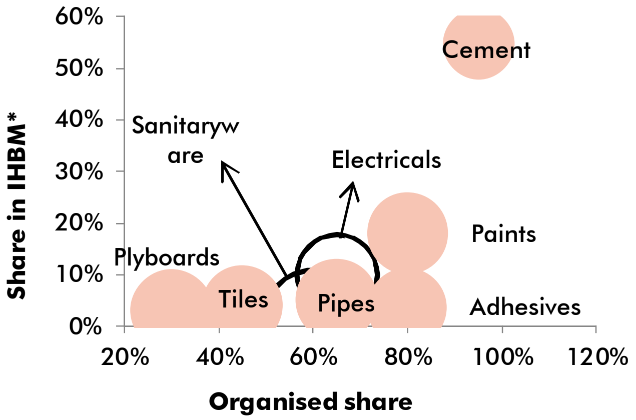
Myanmar ensures long-term supply of face veneer, the most critical input in plyboards

A common investor perception is that Century's Myanmar plant gives them exclusive access to face veneer, which is not entirely true. Whilst the scarcity of face veneer, post the ban on import of raw timber, will earn the company high trading margins for 6-8 months, we believe this will normalise as other large players set up capacities in Myanmar. (Greenply is setting up a JV to source face veneer from Myanmar). The bigger advantage from this plant is that it ensures long-term supply of the face veneer, the most critical input in plyboards (it has a 7-year procurement agreement). Alongside the company is trying to develop other sources of face veneer in Vietnam, Mauritius and Africa to ensure uninterrupted raw material supply.

Intrinsic multiple yet to be discovered!

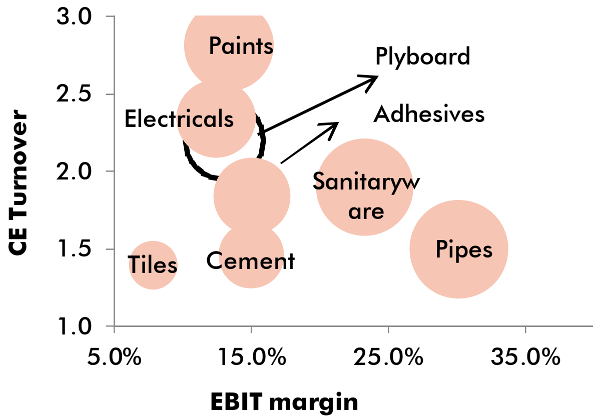
We believe that the organised plyboard industry has significant room to grow, as furniture penetration increases in India, alongside rising share of the organised segment with the shift in consumer preference towards branded products. Plyboard companies trade at a material discount to other more established segments like cement (40% discount), paints (60% discount), tiles (40% discount) and pipes (40% discount) given the lower customer association but we believe that the discount is excessive, given the strong growth potential and high RoEs.

Exhibit 64: Plyboards still a very small sector in the home building space...



*Source: Company, Ambit Capital research. Note: Size of the bubbles denotes sales CAGR for five years. *IHBM- internal home building materials*

Exhibit 65: ...however, comparable profitability to several other sectors would drive a rerating as scale increases



Source: Company, Ambit Capital research. Note: Size of the bubbles denotes RoE

DCF valuation at ₹133/share

We value Century based on a DCF methodology, wherein EBITDA margin, working capital turnover and capital expenditure are the key variables controlling the valuation. Our DCF value for the company is ₹133/share, implying 16.5x FY16 EBITDA.

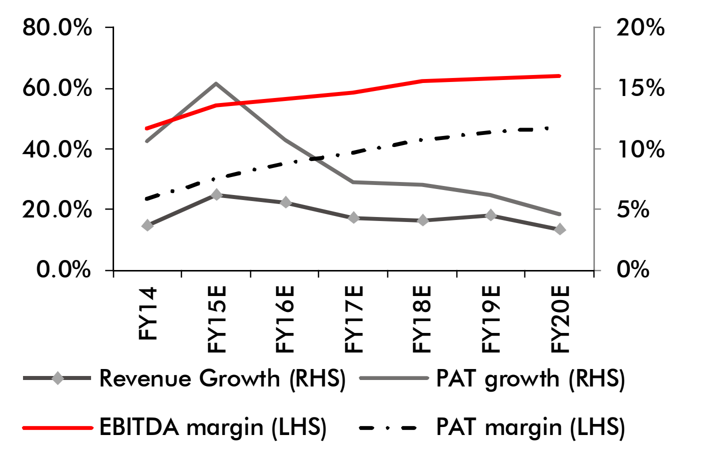
We project the company's growth in two distinct phases and then we project the terminal growth

Phase I: FY15-20 - High growth and margin expansion

We believe the industry is poised for a strong growth phase as the housing deficit is bridged and furniture penetration rises (with increasing demand for consumer durables). Century, with its well-entrenched competitive advantages of scale, brand and reach, will outgrow the industry, primarily through market share gains from the unorganised segment, which still accounts for ~70% of the overall market. Hence, we build in strong revenue growth (17% CAGR) and sustained margins expansion (to 16% by FY20 as against 13% in FY14) with benefits of scale and improvement in pricing power.

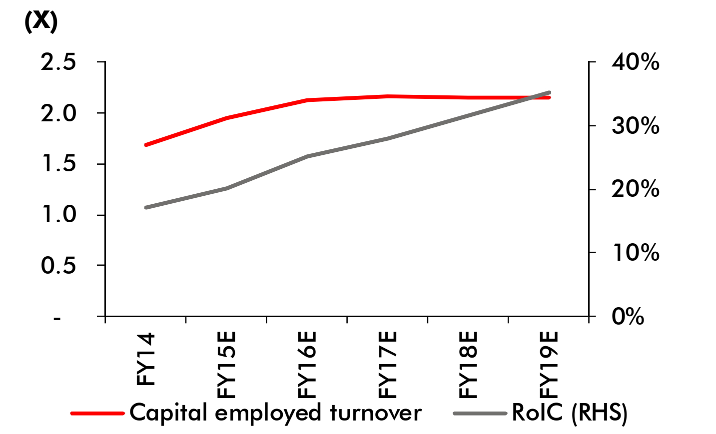
We expect capital employed turnover to increase to 2.1x by FY20 from 1.7x in FY14, which alongside improving margins will lead to RoICs increasing to 36.2% in FY20 as against 17.2% in FY14. Our estimates imply FCF CAGR of 19%.

Exhibit 66: Strong revenue growth and EBITDA margin expansion



Source: Company, Ambit Capital research

Exhibit 67: Higher capital employed turnover and margin expansion driving RoCEs

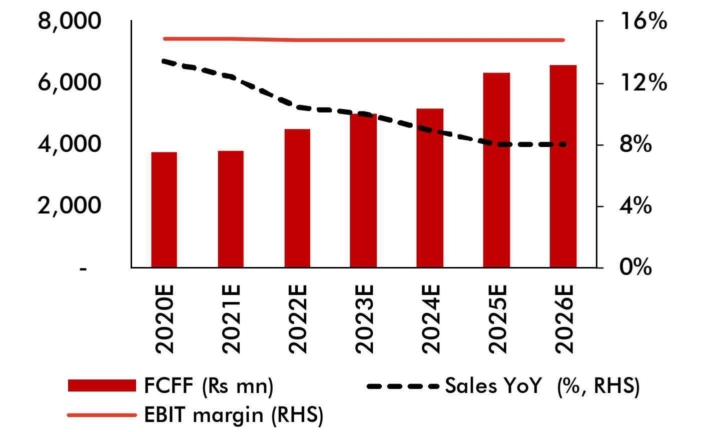


Source: Company, Ambit Capital research

Phase II: Growth converging with industry averages, possible shift in business dynamics (B2C to B2B) and tapering margin assumptions

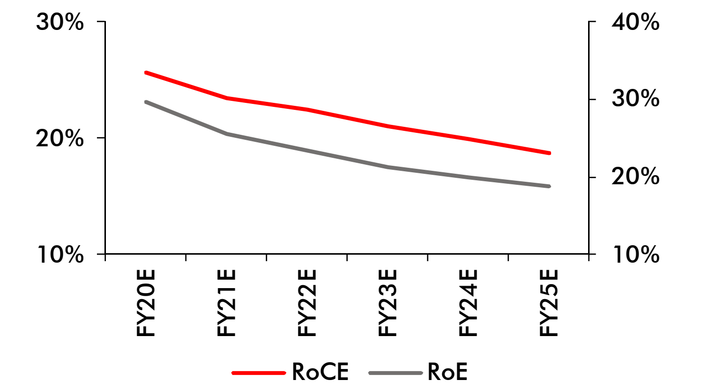
We expect revenue growth to normalise to industry averages (8-10%) and market share to stabilise. Furthermore, we believe that there is a high likelihood of a structural change in furniture purchases in India and the business model for plyboard manufacturers will shift to B2B (retail furniture manufacturers) from B2C currently. This would result in declining EBITDA margins, and hence we have assumed EBITDA margin would decline to 15.4% in FY26 as against 16% in FY20. Our estimates imply FCF CAGR of 12%.

Exhibit 68: Revenue growth rates declining and stable EBIT margins



Source: Company, Ambit Capital research

Exhibit 69: RoCE/RoE declining to the mid-teens



Source: Company, Ambit Capital research

Terminal growth assumptions

We build in 5% terminal growth rate, in line with the long-term sustainable GDP growth rate of India.

WACC assumptions

We build in a WACC of 15%, building in a very high cost of equity of 18% and debt:equity mix of 70:30. We assume a high cost of equity to factor in the riskiness of the business, due to: (a) early stages of evolution of the business, (b) management's previous decisions like digressing in logistics business and expending ₹500mn in unproductive assets like corporate building.

Sensitivity to WACC and terminal growth assumptions

Exhibit 70: Sensitivity to WACC and terminal growth rate

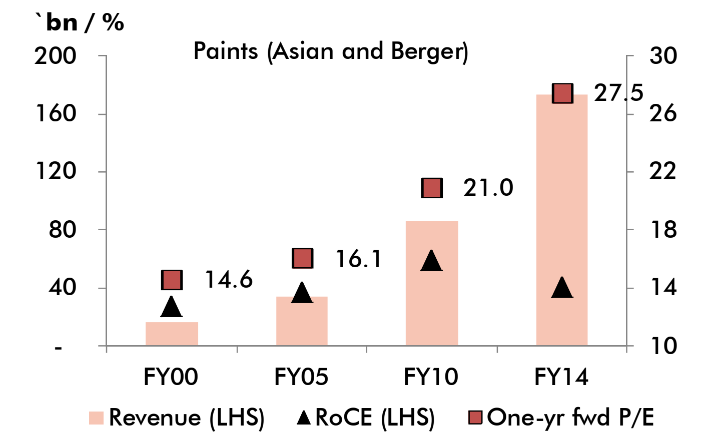
Terminal Growth rate	WACC 14.0%	14.5%	15.0%	15.5%	16.0%
4.0%	143	134	126	119	112
4.5%	148	138	129	122	114
5.0%	153	142	**133**	125	117
5.5%	158	147	137	128	120
6.0%	164	152	142	132	124

Source: Company, Ambit Capital research

Strong earnings growth and RoE expansion to drive P/E re-rating

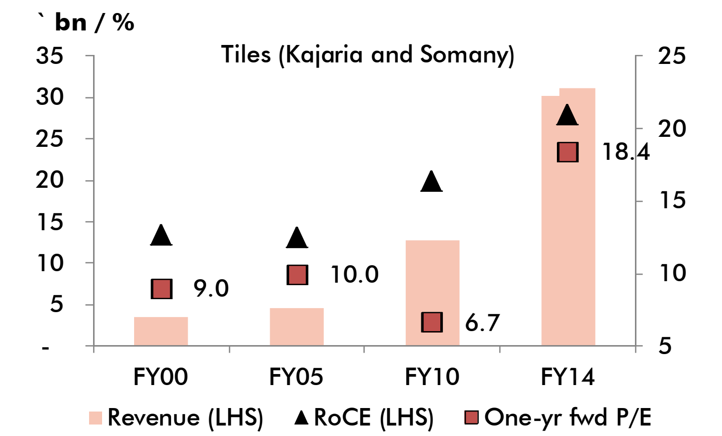
With majority of the capex incurred, Century will need to deliver strong earnings growth alongside RoE expansion for valuation upgrades. We expect Century Ply to report 52% earnings CAGR over FY14-16 (albeit on a low base of FY14) and RoE to improve to 36%/38% in FY15/FY16 as against 28% in FY14. We have seen historically that as the brand of an internal building material becomes bigger, the valuation multiples undergo a sharp re-rating, provided the RoEs sustain at reasonably high levels.

Exhibit 71: With rising scale, the P/E re-rated for paints…



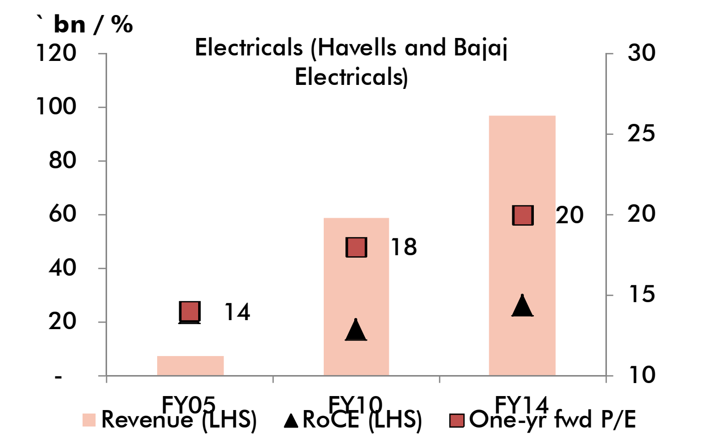
Source: Company, Ambit Capital research, Bloomberg

Exhibit 72: …tile majors…



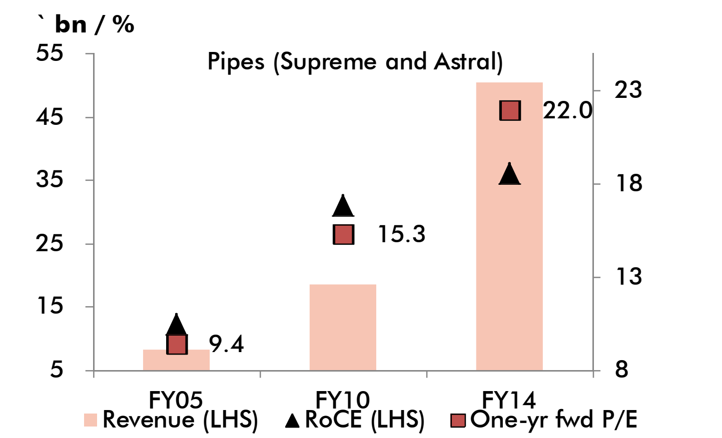
Source: Company, Ambit Capital research, Bloomberg

Exhibit 73: …light electricals



Source: Company, Ambit Capital research, Bloomberg

Exhibit 74: ..and also plastic pipe companies



Source: Company, Ambit Capital research, Bloomberg

Relative valuation - Discount vs other building material categories

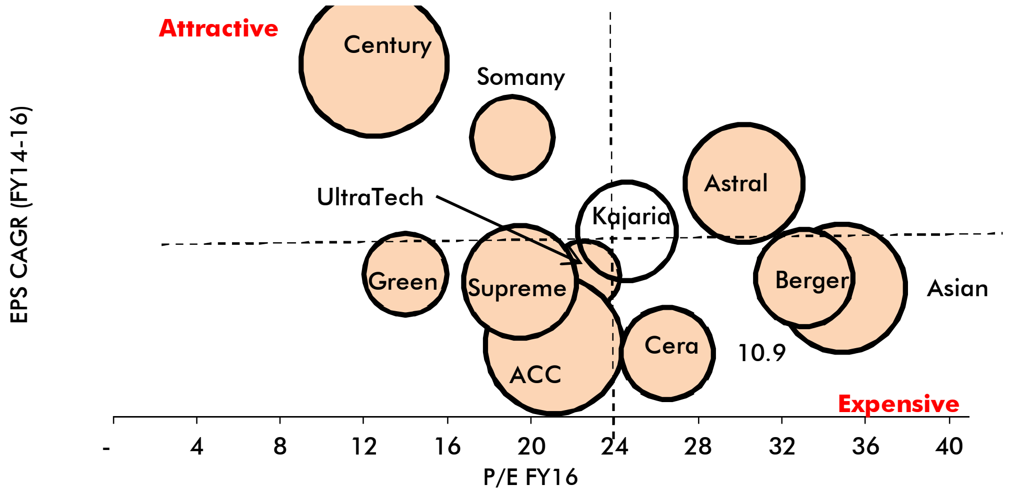
Century is trading at a material discount to other internal home building material categories such as cement (40-45%), paints (60-65%), tiles (35-50%) and pipes (35-60%). We believe that a discount will continue in the future as well, as the other categories have much more established brands, lower unorganised competition and also higher customer association. However, **we believe that the current discount is excessive for a company which can deliver both in terms of strong growth and profitability in coming years**, given its well-established brand in a fast growing industry; we expect its P/E multiples to settle in the mid-teens in the coming years. We highlight that Century's expected RoEs in FY15 and FY16 is amongst the highest across the home building companies and its EBITDA/PAT growth expectation is also significantly higher than several companies (Asian, Berger, Kajaria, Somany, etc) that are trading at materially higher FY16 EPS.

Exhibit 75: Relative valuation summary

Companies	Mcap	EV/EBITDA (x)		P/E (x)		P/B (x)		RoE (x)		CAGR (FY14-16)		
	US$ mn	FY15	FY16	FY15	FY16	FY15	FY16	FY15	FY16	Sales	EBITDA	EPS
PLYBOARDS	**779**	**11.4**	**9.3**	**17.0**	**13.2**	**4.6**	**3.6**	**30.6**	**30.5**	**17.4**	**21.1**	**42.3**
Century Plyboard	357	13.4	10.3	17.0	12.5	5.8	4.3	37.9	39.1	21.4	25.0	60.3
Green Ply	423	9.4	8.3	17.0	14.0	3.5	2.8	23.2	22.0	13.4	17.1	24.4
TILES AND SANITARY WARE	**1,832**	**11.8**	**10.6**	**27.2**	**22.2**	**4.5**	**4.1**	**16.6**	**18.4**	**17.8**	**20.1**	**46.1**
Kajaria Ceramics	838	15.1	11.9	32.3	24.6	7.4	6.0	25.8	26.4	22.6	26.0	31.6
Somany Ceramics	200	12.8	10.3	27.8	19.1	4.6	2.4	17.9	22.0	21.4	21.2	47.7
Cera Sanitaryware	358	14.3	11.8	32.6	26.5	7.6	6.1	25.3	24.8	10.1	10.3	10.9
HSIL	397	10.7	8.6	30.9	18.6	2.2	2.0	7.7	11.9	17.2	22.8	94.2
PAINTS	**12,530**	**25.0**	**20.7**	**41.1**	**34.0**	**11.2**	**9.4**	**29.2**	**30.0**	**17.6**	**19.8**	**22.9**
Asian Paints	10,503	26.1	21.8	42.2	34.9	13.2	11.1	33.8	34.2	17.6	18.7	22.0
Berger Paints	2,027	23.9	19.6	40.0	33.1	9.2	7.7	24.6	25.9	17.5	20.9	23.7
CEMENT	**22,593**	**15.3**	**12.0**	**26.9**	**21.3**	**3.6**	**3.2**	**14.6**	**21.7**	**14.9**	**20.1**	**16.5**
UltraTech	12,290	16.2	12.9	29.3	22.6	3.9	3.4	14.4	18.7	18.3	17.7	24.1
Ambuja	5,503	14.0	11.3	24.5	20.1	3.3	3.0	6.5	9.8	14.6	24.1	13.1
ACC	4,800	15.6	11.9	26.9	21.1	3.5	3.3	22.8	36.7	11.9	18.5	12.3
PIPES	**2,141**	**18.7**	**15.4**	**31.8**	**24.8**	**8.7**	**6.8**	**31.0**	**30.8**	**22.0**	**19.2**	**31.5**
Astral Poly	774	24.4	19.6	39.8	30.2	11.0	8.2	31.7	31.4	27.4	23.9	39.9
Supreme Industries	1,367	13.1	11.3	23.8	19.5	6.4	5.3	30.2	30.2	16.5	14.4	23.1

Source: Bloomberg, Company, Ambit Capital research

Exhibit 76: Century is trading at attractive valuations, despite superlative growth and RoE expectations



Source: Ambit Capital research, Company, Bloomberg. Note: Size of the bubble denotes RoE

Plyboards/Tiles/Paints - Similarities and differences

Plyboards, tiles and paints all come under the gamut of internal home building materials and involve significant customer association. In all the three segments, brand (a proxy to quality) plays a key role in influencing the customer's choice. In the last few years, all the three segments have recorded significant growth, especially in tier-II/III cities (with rising affluence in these markets and aspirations of better-quality residences). From a company's perspective, all the sectors require reach and distribution network across India alongside a strong brand for a successful franchise.

Exhibit 77: Similarities and differences - Plyboards vs Paints and Tiles

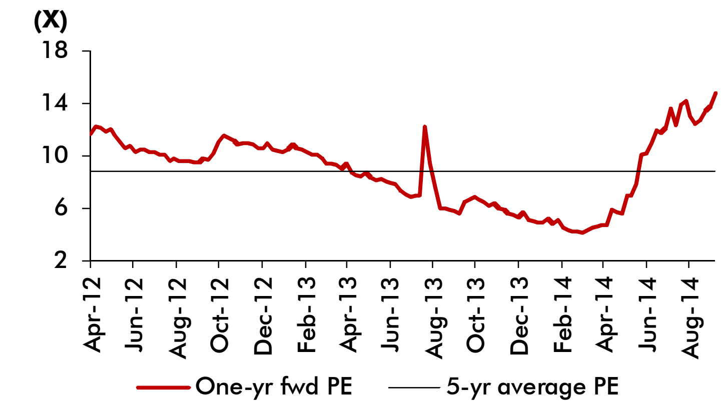
Paints	
Similarities	**Differences**
Architect/mason has a major influence on decision-making	A much more matured industry than plyboards
High customer involvement	Used both internally/externally, plyboards use is primarily internally
Branding and distribution is paramount for a successful franchise	Unorganised sector is much smaller in paints (30% in paints as against 70% in tiles)
Unorganised segment is shrinking	Shorter replacement cycles (2-3 years as against 10-15 years in plyboards)
Growth driven by urbanisation majorly in tier II/III states	Key raw materials are chemicals and available in abundance; timber for plyboards on the other hand are natural and supply is a constraint
Dealer is not a stockist in laminates given high number of SKUs	Top-2 brands have 70% market share in paints as against 20% in plyboards
Tiles	
Similarities	**Differences**
Architect/mason has a major influence on decision-making	In recent years, exclusive showrooms have opened up for tiles - not the same with plyboards
High customer involvement	Unorganised sector is smaller in tiles (50% in tiles as against 70% in plyboards)
Branding and distribution is paramount for a successful franchise	Tile companies are not dependent on any other country for its key raw material requirements; plyboard companies are largely dependent on Myanmar for face veneer needs
Unorganised segment is shrinking	Replacement cycles for tiles are coming down, given ease of installation but this is not so for plyboards
Growth driven by urbanisation majorly in tier II/III states	Manufacturing of plyboards is set-up across India; tile manufacturing is largely based in north India

Source: Ambit Capital research

Cross-cycle valuations

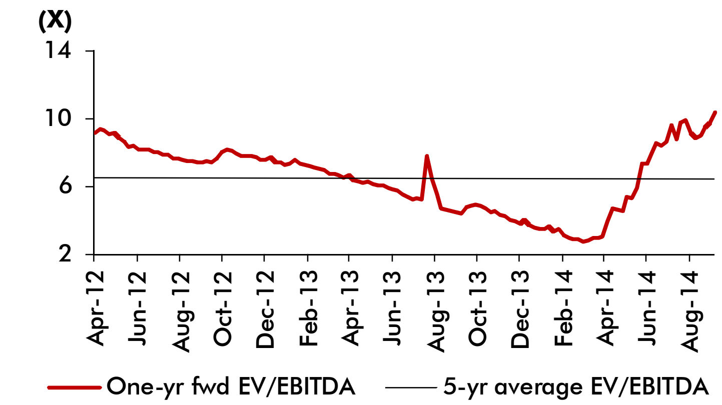
Note that cross-cycle valuations are not comparable for the company, as it demerged the cement and ferro alloys business in FY12 and also due to limited consensus coverage. Below is the cross-cycle P/E and EV/EBITDA comparison for the last three years; note that the stock significantly de-rated, as forex losses ate into a large proportion of the EBITDA and rising capex needs led to RoE suppression. The recent re-rating has been driven by sharp volume growth post commissioning of capacities, visibility of margin improvement and low likelihood of forex losses.

Exhibit 78: P/E multiples recovered as earnings growth improved



Source: Ambit Capital research, Company, Bloomberg

Exhibit 79: One-year forward EV/EBITDA multiples recovered as operational performance improved



Source: Ambit Capital research, Company, Bloomberg

Key catalysts

Strong demand growth and market share gains: Despite moderate growth in plyboard industry volumes, Century's volume grew at 22% in 1QFY15. If industry volume growth surprises positively and Century gains further market share, volume growth can exceed our expectations.

Price hikes acceptance: Given that the unorganised players are losing ground due to raw material unavailability, the organised players have significant headroom to increase prices. Significant price hikes, if sustained, will drive strong realisation growth.

Rising utilisation in laminates: With capacities doubled in the laminate business and the company spending money on improving its brand, laminate segments can grow significantly over the next 2-3 years, driving profitability.

Success of new ventures: New ventures like Nesta furniture, modular kitchens and ready-made doors, if successful, can be a significant contributor of revenue growth.

Risks

INR depreciation: The company has ₹1.7bn of buyers credit outstanding in USD and if the INR depreciates before the payments, the company will suffer forex losses.

Face veneer export ban in Myanmar: Myanmar has banned the export of raw timber but face veneer export is allowed. If Myanmar were to ban exports of face veneer as well, a key raw material source would be eradicated.

Acceptance of MDF: MDF is yet to be accepted in retail furniture, given its poor quality and low durability. However, if large retail chains push modular furniture at extremely competitive prices, MDF may find rising acceptance, which is a negative for Century.

Capital misallocation: Century is incurring ₹500mn to build a corporate headquarters in Kolkata. The management's argument is that, given the increasing scale of the business and high-profile talent acquisition, the company needs a corporate office. We believe that Century's CFO generation will be much higher than it capex needs and if the company misallocates or digresses in unrelated businesses, it will erode shareholder value. In the past, the Group has expanded into multiple businesses from one listed entity; in the last year, the company has demerged its cement business into a separate ferro chrome and cement subsidiary (Star Ferro and Cement). Now the company is further correcting its past decisions and has recently divested its stake in Aegis Logistics.

Corporate governance checks

Board of directors: The company has 12 directors, out of which 50% are independent (in compliance with the Companies Act). Also, 50% of the directors attended all the five board meetings held during the year.

Managerial remuneration: Century Plyboards' managerial remuneration as a percentage of PBT was 4.5%, both in FY13 and FY14; the maximum allowable as per the Companies Act is 5%.

Auditor: The company's books of accounts are audited by S.R. Batliboi (Ernst and Young) for the last six years, one of the top-4 auditors globally.

Related party transactions: The company has not entered into significant related party transactions.

Exhibit 80: Ambit vs consensus

Particulars	Consensus	Ambit	Divergence	Comments
Revenue (₹ mn)				
FY15	15,576	16,816	8.0%	Our revenue estimates are higher than consensus as we believe that market share gains will drive superlative growth for Century
FY16	18,935	20,531	8.4%	
EBITDA (₹ mn)				
FY15	2,019	2,280	13.0%	Our EBITDA estimates are higher than consensus due to higher revenue and higher EBITDA margin on account of operating leverage in the laminate business
FY16	2,622	2,895	10.4%	
PAT (₹ mn)				
FY15	1269	1,268	-0.1%	Our FY16 PAT estimates are higher than consensus due to higher EBITDA and hence better interest and depreciation coverage
FY16	1819	2,216	21.8%	

Source: Bloomberg, Ambit Capital research

Exhibit 81: Explanation for the accounting flags

Segment	Score	Comments
Accounting	AMBER	Century's cash conversion cycle is materially longer than Greenply (110-130 days in FY13-14 as against 70-76 days for Greenply), mainly due to significantly lower creditor days (16-20 days in FY13-14 against 53-60 days for Greenply. Century's CFO/EBITDA has been low at <50% for the two years, as revenue growth required investment in working capital.
Predictability	AMBER	Management has made time announcements of capacity expansion and volume growth guidance has been fair. The only concern is unpredictable forex losses.
Earnings momentum	GREEN	Consensus estimates have been revised upwards by 7% in the last month.

Source: Company, Bloomberg, Ambit Capital research

Balance Sheet

Year to March (₹ mn)	FY13	FY14	FY15E	FY16E	FY17E
Share capital	223	223	223	223	223
Reserves and surplus	2,336	2,708	3,605	4,770	6,263
Total Networth	**2,558**	**2,931**	**3,827**	**4,993**	**6,485**
Loans	5,162	5,276	4,776	4,526	4,176
Deferred tax liability (net)	25	(7)	(7)	(7)	(7)
Sources of funds	**7,831**	**8,314**	**8,743**	**9,693**	**10,872**
Net block	2,728	3,164	3,334	3,397	3,427
Capital work-in-progress	467	-	-	-	-
Investments	77	31	31	31	31
Cash and bank balances	1,020	387	833	801	972
Sundry debtors	1,793	2,089	2,534	3,094	3,622
Inventories	2,293	3,029	2,856	3,431	4,083
Loans and advances	833	1,100	1,382	1,687	1,976
Total Current Assets	6,065	6,793	7,794	9,202	10,842
Current liabilities and provisions	1,504	1,914	2,417	2,937	3,428
Net current assets	**4,560**	**4,879**	**5,378**	**6,265**	**7,414**
Application of funds	**7,831**	**8,314**	**8,743**	**9,693**	**10,872**

Source: Company, Ambit Capital research

Income statement

Year to March (₹ mn)	FY13	FY14	FY15E	FY16E	FY17E
Revenue	**11,747**	**13,477**	**16,816**	**20,531**	**24,038**
yoy growth	-29%	15%	25%	22%	17%
Total expenses	10,749	11,961	14,536	17,635	20,516
EBITDA	**1,234**	**1,766**	**2,280**	**2,895**	**3,522**
yoy growth	-57%	43%	29%	27%	22%
Net depreciation / amortisation	280	387	411	417	451
EBIT	1,026	1,416	1,916	2,539	3,137
Interest and financial charges	404	603	337	317	301
Other income	72	37	47	61	65
Adj PBT	622	629	1,579	2,222	2,836
Provision for taxation	141	124	284	400	511
Adjusted PAT	552	786	1,262	1,788	2,289
yoy growth	-55%	42%	61%	42%	28%
Reported PAT	577	633	1,295	1,822	2,326
EPS diluted (₹)	2	3	6	8	10
DPS (₹)	0.2	1.0	1.4	2.4	3.1

Source: Company, Ambit Capital research

Cash Flow statement

Year to March (₹ mn)	FY13	FY14	FY15E	FY16E	FY17E
PBT	622	629	1,579	2,222	2,836
Depreciation	280	387	411	417	451
Interest paid	404	603	337	317	301
CFO before change in WC	1,309	1,623	2,280	2,895	3,522
Change in working capital	(600)	(1,168)	(52)	(919)	(977)
Direct taxes paid	(105)	(117)	(284)	(400)	(511)
CFO	604	338	1,943	1,576	2,034
Net capex	1,570	643	341	480	481
CFI	(1,581)	(706)	(294)	(419)	(415)
Proceeds from borrowings	1,967	372	(500)	(250)	(350)
Change in share capital	(5)	-	-	-	-
Interest & finance charges paid	-	(287)	(337)	(317)	(301)
Dividends paid	(1)	(60)	(366)	(622)	(797)
CFF	1,543	(281)	(1,204)	(1,189)	(1,447)
Net increase in cash	566	(649)	446	(32)	172
FCF	(966)	(305)	1,603	1,096	1,554
Opening cash balance	654	983	387	833	801
Closing cash balance	983	334	833	801	972

Source: Company, Ambit Capital research, Note: All financials pertain to IFRS consolidated accounts

Ratio Analysis

Year to March (%)	FY13	FY14	FY15E	FY16E	FY17E
Revenue growth	(29.1)	14.7	24.8	22.1	17.1
EBITDA growth	(57.0)	43.1	29.1	27.0	21.6
PAT growth	(61.5)	9.8	104.4	40.8	27.6
EPS norm (dil) growth	(55.0)	42.4	60.7	41.6	28.1
EBITDA margin	10.5	13.1	13.6	14.1	14.7
EBIT margin	8.7	10.5	11.4	12.4	13.0
Net margin	4.7	5.8	7.5	8.7	9.5
RoCE	14	19	23	25	27
RoIC	16	20	25	27	31
RoE	21	37	41	40	39

Source: Company, Ambit Capital research

Valuation Parameter

Year to March	FY13	FY14	FY15E	FY16E	FY17E
P/E (x)	39.1	27.4	17.1	12.1	9.4
P/B(x)	8.2	7.1	5.4	4.2	3.2
Debt/Equity(x)	2.0	1.7	1.2	0.9	0.6
Net debt/Equity(x)	1.5	1.6	1.0	0.7	0.5
EV/Sales(x)	2.2	2.0	1.5	1.2	1.0
EV/EBITDA(x)	20.8	15.0	11.2	8.7	7.0

Source: Company, Ambit Capital research, Note: All financials pertain to IFRS consolidated accounts

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