

Incorporated in 1986, Century Plyboards India Ltd (CPIL) is the largest domestic player in the plywood and decorative veneers space in the organized plywood market, catering to both residential as well as commercial consumers.

☞ **Well-diversified product portfolio:** The company also boasts of a diversified product portfolio ranging from plywood, MDF, particleboard, laminates, veneers, among others. After creating a niche in the plywood & laminates space, the company extended its strength towards panel products like particle boards, MDF and composite boards, among others. This has led the company to become a one-stop interior products brand. CPIL is a leading player in the plywood market in India with a market share of ~25% in the organized plywood industry and an aggregating capacity of 2,10,000 cubic metres (cbm) per annum. The company is also the third largest manufacture of laminates in India with a capacity of 4.8 mn sheets.

☞ **Strong grand equity and wide spread distribution network:** CPIL enjoys a strong brand recall in both Plywood & Laminates. The company's consistent focus on innovation has further strengthened its brand equity. The company spends around 3-4% of its revenue on ad spends to increase brand visibility. Besides, it has a robust distribution network with 31 marketing offices covering over 630 cities and townships addressing 1,800 dealers and nearly 16,500 retailers..

☞ **Positive macro policies to drive growth:** The government focus on affordable housing and housing for all by 2022 is expected to drive demand of wood panel products. The implementation of 7th Pay Commission coupled with growing middle class and rapid urbanisation are also expected to provide tailwind. Besides, The implementation of GST will be a game changer for the organised players as the Indian plywood industry is majorly dominated by unorganised players accounting for ~70% share of revenues. Given, CPIL a reputed player in the plywood space with its quality product, strong brand equity and wide reach is expected to benefit from this transition from unorganised to organized.

Outlook and Valuation:

CPIL's diversified business model along with strong brand recall and change in business mix towards high margin MDF and continuous focus on expanding its portfolio will drive growth going ahead. Consequently, we estimate consolidated revenue/PAT to grow at a CAGR of 15%/16% over FY17-20E. The stock currently trades at ~36x/32x/28x FY18E/19E/20E EPS. We value the stock at 28x FY20E EPS arriving at a target price (TP) of Rs. 369.

Market Data

Rating	BUY
CMP (Rs.)	330
Target (Rs.)	369
Potential Upside	12%
Duration	Long Term
Face Value (Rs.)	1
52 week H/L (Rs.)	348/155
Decline from 52WH (%)	5.3
Rise from 52WL (%)	113
Beta	0.9
Mkt. Cap (Rs.Cr)	10,676

Fiscal Year Ended

Y/E	FY17	FY18E	FY19E	FY20E
Revenue (Rs.Cr)	1,819	2,107	2,410	2,757
Adj. profit (Rs.Cr)	190	202	232	261
Adj. EPS (Rs.)	8.6	9.1	10.4	11.7
P/E (x)	38.6	36.4	31.7	28.2
P/BV (x)	10.3	8.6	6.9	5.6
ROE (%)	30.6	25.6	24.1	21.9

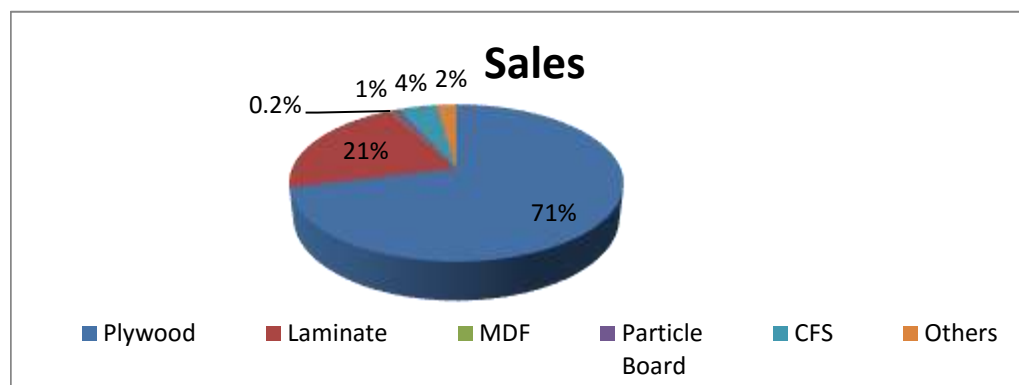
Shareholding Pattern

	Mar-17	Jun-17	Sep-17
Promoters	72.0	72.0	72.0
FII's	11.5	12.2	11.4
MFs/Insti	5.3	4.5	3.8
Public	6.5	6.7	7.7
Others	4.7	4.6	5.1

Century Plyboards India Ltd: Business overview

The company is the third largest laminate player with more than 650 designs available across price points. It is also engaged in manufacturing MDF, particle boards, doors, PVC boards, veneers, among others. The company markets these products through a wide spread network available across the country through 31 marketing offices covering over 630 cities and townships addressing 1,800 dealers and nearly 16,500 retailers. Besides, it also caters to global markets by exporting its range of premium products to over 20 countries.

Sales Breakup (FY17)



Source: Company, In-house research

Investment Rationale

Well-diversified product portfolio

The company over the years has broadened its product portfolio from a focused premier plywood manufacturer into the manufacture of laminates (third-largest laminate producer in the country with several design variants), veneers, MDFs, blockboards and doors, making it a one-stop destination for interior infrastructure products. As a result, the company enjoys attractive premium over competitors for its plywood products. Further the company has entered into the particle board business by commissioning a 54,000 cubic metre particle board manufacturing facility at a capex of Rs.60 cr in FY17 and reported gross revenues ~Rs.25 cr in FY17, thereby further reinforcing its reputation as a one-stop panel products shop.

Capacity expansion to provide competitive edge

The company is further planning to increase its laminates capacity by 50% from 4.8 mn sheets to 7.2 mn sheets in FY18. We believe the capacity expansion drive will not only help the company in fortifying its competitive strength but will also aid in capturing any incremental demand revival.

MDF capacity to be operational in H2FY18

MDF sector is underpenetrated in India. The market size of the Indian MDF segment was around Rs.15 bn and has grown at a CAGR of around 20% over the last five years. The demand of MDF is driven by the increasing preference for ready-made modular furniture, modular kitchens, ready-to-move offices/retail outlets, among others. Thus, the growth in the housing & commercial real estate sector and growing urbanisation provides a robust opportunity for the company.

Initially CPIL has ventured into medium density fibre boards (MDF) space by outsourcing the product and progressively moved into captive manufacture. The company is in the process of setting up a new MDF plant in Punjab with a capacity of with a 1,98,000 cubic metre per annum, one of the largest in the country. The plant is strategically located in Northern India with easy access to timber enjoying sizeable demand. MDF board is produced by using the residuals of hardwood and softwood as its primary raw material. The new green filed MDF plant has already commenced trial production and is expected to be fully operational by Q3FY18. The company has set aside a capex of Rs. 380 cr for the same, of which ~Rs. 283 cr has already been spent.

Government initiatives to drive growth

The government focus on affordable housing and housing for all by 2022 is expected to drive demand of wood panel products. The implementation of 7th Pay Commission coupled with growing middle class and rapid urbanisation are also expected to provide tailwind. Centuryply, being a leading player in its segment, is expected to emerge as a major beneficiary to capture the demand.

GST – a game-changer

The overall size of the Indian plywood industry is estimated at Rs. 18,000 cr and is majorly dominated by unorganised players accounting for ~70% share of revenues. The implementation of GST will be a game changer for the organised players like CPIL as this will lead to shift in trend from highly unorganised players to organised players. Currently, the company has ~25% market share in the organized plywood industry in India. The GST rate on plywood currently stands at 18%. GST will also lead to narrowing of price differential between organised and unorganised players. Given, CPIL a reputed player in the plywood space with its quality product, strong brand equity and wide reach is expected to benefit the most.

Financials

CPIL's overall revenue has grown at a CAGR of ~11% over FY14-17 primarily driven by healthy growth in volumes mainly in the laminates business. While, Plywood business volumes has grown at a modest 4% CAGR over FY14-17, laminates business volumes witnessed a tremendous growth of 19% during the same period. As a result, the company's revenue from both plywood & laminates business grew by 10% & 17% respectively over FY14-17. Going ahead, we factor the company to clock consolidated revenue CAGR of 15% over FY17-20E primarily driven by its focus on launching MDF products with value added products coupled with its capacity expansion drive and aggressive brand spending.

ROCE to improve

Although the company's operating cash flow (OCF) remains high in the past (generated OCF to the tune of ~Rs. 700 cr over FY14-17), free cash flow generation remains volatile as the company has incurred significant capex owing to its capacity expansion drive. However, its efficient capital allocation policy coupled with higher profitability and lower financial leverage has allowed the company to generate healthy return ratios over the years with an average ROE/ROCE levels of 33%/22% over FY14-17. With the benefit of operating leverage coupled with improvement in utilisation, we expect significant improvement in ROCE in FY19E & FY20E. However, ROE is expected to moderate going ahead.

Outlook and Valuation

CPIL's diversified business model along with strong brand recall and change in business mix towards high margin MDF and continuous focus on expanding its portfolio will drive growth going ahead. Consequently, we estimate consolidated revenue/PAT to grow at a CAGR of 15%/16% over FY17-20E. The stock currently trades at ~36x/32x/28x FY18E/19E/20E EPS. We value the stock at 28x FY20E EPS arriving at a target price (TP) of Rs. 369.

Key Risks

- Slowdown in housing sector could impact demand.
- Adverse environmental regulation.
- Increasing competition to lead to price war.
- Adverse currency fluctuation

Profit & Loss Account (Consolidated)

Y/E (Rs. Cr)	FY17	FY18E	FY19E	FY20E
Total operating Income	1,819	2,107	2,410	2,757
Raw Material cost	895	1,057	1,196	1,374
Employee cost	273	312	363	419
Other operating expenses	339	387	440	509
EBITDA	312	352	411	455
Depreciation	59	80	96	104
EBIT	253	272	315	350
Interest cost	30	34	31	23
Other Income	23	14	15	16
Profit before tax	245	251	299	344
Tax	51	46	64	79
Profit after tax	193	205	235	265
Minority Interests	3	3	4	4
P/L from Associates	-	-	-	-
Adjusted PAT	190	202	232	261
E/o income / (Expense)	-	-	-	-
Reported PAT	190	202	232	261

Balance Sheet (Consolidated)

Y/E (Rs. Cr)	FY17	FY18E	FY19E	FY20E
Paid up capital	22	22	22	22
Reserves and Surplus	693	836	1,039	1,295
Net worth	715	858	1,061	1,317
Minority interest	12	15	19	23
Total Debt	605	605	505	305
Other non-current liabilities	1	1	1	1
Total Liabilities	1,332	1,479	1,585	1,645
Total fixed assets	611	731	739	690
Goodwill	0	0	0	0
Investments	0	0	0	0
Net Current assets	619	646	744	853
Deferred Tax assets (Net)	67	67	67	67
Other non-current assets	35	35	35	35
Total Assets	1,332	1,479	1,585	1,645

Cash Flow Statement (Consolidated)

Y/E (Rs. Cr)	FY17	FY18E	FY19E	FY20E
Pre tax profit	245	219	302	376
Depreciation	59	80	96	104
Chg in Working Capital	(2)	(71)	(66)	(78)
Others	(39)	21	16	7
Tax paid	(43)	(46)	(64)	(79)
Cash flow from operating activities	221	202	286	330
Capital expenditure	(307)	(200)	(105)	(55)
Chg in investments	0	-	-	-
Other investing cashflow	2	14	15	16
Cash flow from investing activities	(304)	(186)	(90)	(38)
Equity raised/(repaid)	2	-	-	-
Debt raised/(repaid)	141	-	(100)	(200)
Dividend paid	(0)	(27)	(32)	(37)
Other financing activities	(30)	(34)	(31)	(23)
Cash flow from financing activities	112	(61)	(163)	(260)
Net chg in cash	28	(45)	32	31

Key Ratios (Consolidated)

Y/E	FY16	FY17	FY18E	FY19E
Growth (%)				
Net Sales	11.2	16.0	14.4	14.4
EBITDA	7.8	12.7	17.0	10.5
Net profit	12.7	5.8	15.0	12.5
Margin (%)				
EBITDA	17.2	16.7	17.1	16.5
NPM	10.5	9.6	9.6	9.5
Return Ratios (%)				
RoE	30.6	25.6	24.1	21.9
RoCE	23.6	20.3	21.6	22.7
Per share data (Rs.)				
EPS	8.6	9.1	10.4	11.7
DPS	1.0	1.0	1.2	1.4
Valuation(x)				
P/E	38.6	36.4	31.7	28.2
EV/EBITDA	25.3	22.6	19.0	16.7
EV/Net Sales	4.4	3.8	3.3	2.8
P/B	10.3	8.6	6.9	5.6
Turnover Ratios (x)				
Net Sales/GFA	3.5	2.8	2.6	2.8
Sales/Total Assets	1.3	1.3	1.4	1.5

Rating Criteria

Large Cap.	Return	Mid/Small Cap.	Return
Buy	More than equal to 10%	Buy	More than equal to 15%
Hold	Upside or downside is less than 10%	Accumulate*	Upside between 10% & 15%
Reduce	Less than equal to -10%	Hold	Between 0% & 10%
		Reduce/sell	Less than 0%

* To satisfy regulatory requirements, we attribute 'Accumulate' as Buy and 'Reduce' as Sell.

* Century Plyboards India Ltd is a mid-cap company.

Disclaimer:

The SEBI registration number is INH200000394.

The analyst for this report certifies that all the views expressed in this report accurately reflect his / her personal views about the subject company or companies, and its / their securities. No part of his / her compensation was / is / will be, directly / indirectly related to specific recommendations or views expressed in this report.

This material is for the personal information of the authorized recipient, and no action is solicited on the basis of this. It is not to be construed as an offer to sell, or the solicitation of an offer to buy any security, in any jurisdiction, where such an offer or solicitation would be illegal.

We have reviewed the report, and in so far as it includes current or historical information, it is believed to be reliable, though its accuracy or completeness cannot be guaranteed. Neither Wealth India Financial Services Pvt. Ltd., nor any person connected with it, accepts any liability arising from the use of this document. The recipients of this material should rely on their own investigations and take their own professional advice. Price and value of the investments referred to in this material may go up or down. Past performance is not a guide for future performance.

We and our affiliates, officers, directors, and employees worldwide:

1. Do not have any financial interest in the subject company / companies in this report;
2. Do not have any actual / beneficial ownership of one per cent or more in the company / companies mentioned in this document, or in its securities at the end of the month immediately preceding the date of publication of the research report, or the date of public appearance;
3. Do not have any other material conflict of interest at the time of publication of the research report, or at the time of public appearance;
4. Have not received any compensation from the subject company / companies in the past 12 months;
5. Have not managed or co-managed the public offering of securities for the subject company / companies in the past 12 months;
6. Have not received any compensation for investment banking, or merchant banking, or brokerage services from the subject company / companies in the past 12 months;
7. Have not served as an officer, director, or employee of the subject company;
8. Have not been engaged in market making activity for the subject company;

This document is not for public distribution. It has been furnished to you solely for your information, and must not be reproduced or redistributed to any other person.

Contact Us:

Funds India

Uttam Building, Third Floor |
No. 38 & 39 | Whites Road |
Royapettah | Chennai – 600014 |

T: +91 7667 166 166

Email: contact@fundsindia.com

Dion's Disclosure and Disclaimer

I, Abhijit Kumar Das, employee of Dion Global Solutions Limited (Dion) is engaged in preparation of this report and hereby certify that all the views expressed in this research report (report) reflect my personal views about any or all of the subject issuer or securities.

Disclaimer

This report has been prepared by Dion and the report & its contents are the exclusive property of the Dion and the client cannot tamper with the report or its contents in any manner and the said report, shall in no case, be further distributed to any third party for commercial use, with or without consideration.

Recipient shall not further distribute the report to a third party for a commercial consideration as this report is being furnished to the recipient solely for the purpose of information.

Dion has taken steps to ensure that facts in this report are based on reliable information but cannot testify, nor make any representation or warranty, express or implied, to the accuracy, contents or data contained within this report. It is hereby confirmed that wherever Dion has employed a rating system in this report, the rating system has been clearly defined including the time horizon and benchmarks on which the rating is based.

Descriptions of any company or companies or their securities mentioned herein are not intended to be complete and this report is not, and should not be construed as an offer or solicitation of an offer, to buy or sell any securities or other financial instruments. Dion has not taken any steps to ensure that the securities referred to in this report are suitable for any particular investor. This report is not to be relied upon in substitution for the exercise of independent judgment. Opinions or estimates expressed are current opinions as of the original publication date appearing on this report and the information, including the opinions and estimates contained herein, are subject to change without notice. Dion is under no duty to update this report from time to time.

Dion or its associates including employees engaged in preparation of this report and its directors do not take any responsibility, financial or otherwise, of the losses or the damages sustained due to the investments made or any action taken on basis of this report, including but not restricted to, fluctuation in the prices of securities, changes in the currency rates, diminution in the NAVs, reduction in the dividend or income, etc.

The investments or services contained or referred to in this report may not be suitable for all equally and it is recommended that an independent investment advisor be consulted. In addition, nothing in this report constitutes investment, legal, accounting or tax advice or a representation that any investment or strategy is suitable or appropriate to individual circumstances or otherwise constitutes a personal recommendation of Dion.

REGULATORY DISCLOSURES:

Dion is engaged in the business of developing software solutions for the global financial services industry across the entire transaction lifecycle and inter-alia provides research and information services essential for business intelligence to global companies and financial institutions. Dion is listed on BSE Limited (BSE) and is also registered under the SEBI (Research Analyst) Regulations, 2014 (SEBI Regulations) as a Research Analyst vide Registration No. INH100002771. Dion's activities were neither suspended nor has it defaulted with requirements under the Listing Agreement and / or SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015 with the BSE in the last five years. Dion has not been debarred from doing business by BSE / SEBI or any other authority.

In the context of the SEBI Regulations, we affirm that we are a SEBI registered Research Analyst and in the course of our business, we issue research reports /research analysis etc that are prepared by our Research Analysts. We also affirm and undertake that no disciplinary action has been taken against us or our Analysts in connection with our business activities.

In compliance with the above mentioned SEBI Regulations, the following additional disclosures are also provided which may be considered by the reader before making an investment decision:

1. Disclosures regarding Ownership

Dion *confirms that:*

- (i) Dion/its associates have no financial interest or any other material conflict in relation to the subject company (ies) covered herein at the time of publication of this report.

- (ii) It/its associates have no actual / beneficial ownership of 1% or more securities of the subject company (ies) covered herein at the end of the month immediately preceding the date of publication of this report.

Further, the Research Analyst confirms that:

- (i) He, his associates and his relatives have no financial interest in the subject company (ies) covered herein, and they have no other material conflict in the subject company at the time of publication of this report.

- (ii) he, his associates and his relatives have no actual/beneficial ownership of 1% or more securities of the subject company (ies) covered herein at the end of the month immediately preceding the date of publication of this report.

2. Disclosures regarding Compensation:

During the past 12 months, Dion or its Associates:

- (a) Have not managed or co-managed public offering of securities for the subject company
- (b) Have not received any compensation for investment banking or merchant banking or brokerage services from the subject company
- (c) Have not received any compensation for products or services other than investment banking or merchant banking or brokerage services from the subject.
- (d) Have not received any compensation or other benefits from the subject company or third party in connection with this report

3. Disclosure regarding the Research Analyst's connection with the subject company:

It is affirmed that I, Abhijit Kumar Das employed as Research Analyst by Dion and engaged in the preparation of this report have not served as an officer, director or employee of the subject company

4. Disclosure regarding Market Making activity:

Neither Dion /its Research Analysts have engaged in market making activities for the subject company.

Copyright in this report vests exclusively with Dion.