

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 |

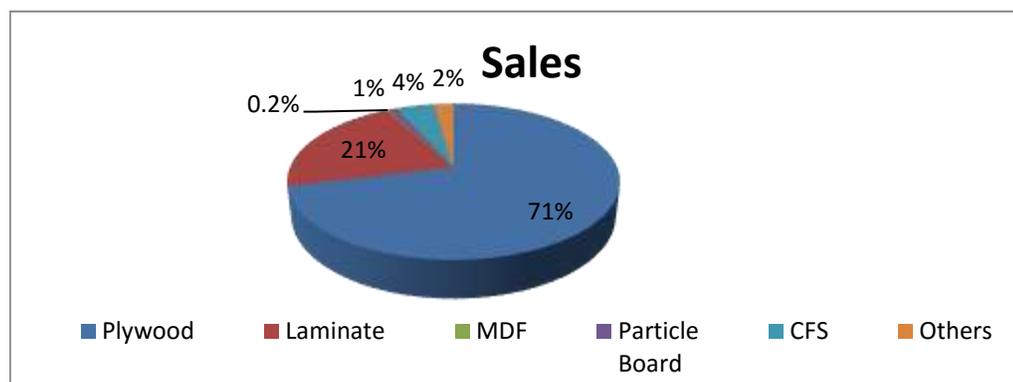
Shareholding Pattern

| | 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.

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