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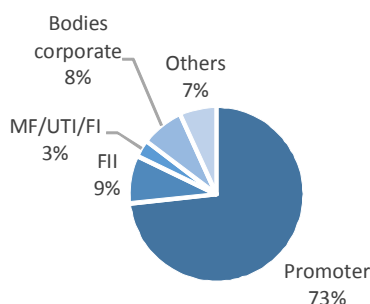
Stock details

BSE code	: 532548
NSE code	: CENTURYPLY
Market cap (Rs mn)	: 38051
Free float (%)	: 26.66
52 wk Hi/Lo (Rs)	: 262/109.5
Avg daily volume	: 358217
Shares (o/s) (mn)	: 222.5

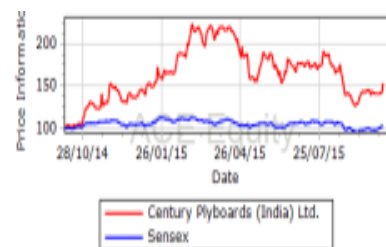
Summary table

(Rs mn)	FY15	FY16E	FY17E
Sales	15,525	18,618	21,909
Growth (%)	20.9	19.9	17.7
EBITDA	2,519	3,165	3,834
EBITDA margin (%)	16.2	17.0	17.5
PBT	1,798	2,276	2,863
Net profit	1,508	1,935	2,433
EPS(Rs)	6.8	8.7	10.9
Growth(%)	125.3	28.3	25.7
CEPS (Rs)	8.8	10.7	13.2
BVPS (Rs)	17.4	24.6	34.0
DPS (Rs)	1.2	1.2	1.2
ROE (%)	44.4	41.4	37.3
ROCE (%)	26.7	29.4	30.7
Net debt	4,848	4,426	3,940
NW capital (Days)	140.1	147.0	147.0
P/E (x)	25.1	19.5	15.5
P/BV (x)	9.8	6.9	5.0
EV/Sales (x)	2.7	2.2	1.9
EV/EBITDA (x)	16.8	13.2	10.8

Source: Company,
Kotak Securities - Private Client Research

Shareholding pattern

Source: ACE Equity

Relative to Sensex

Source: Bloomberg

Century Plyboards (India) Ltd**PRICE: Rs.170****TARGET PRICE: Rs.230****RECOMMENDATION: BUY****FY17E P/E: 15.5x**

Century Plyboards is the largest plywood manufacturer with more than 30% share in the India's organized plywood sector. With an annual capacity of 209420 CBM, distributed across strategically located six plants, company caters to the customer's demand through a robust distribution network of over 1500 direct dealers. It has also expanded its laminates capacity to 4.8 mn sheets to address the surface furniture segment. With its wide product portfolio, product premiumization, increased spend on branding and advertisements and expected GST implementation by mid FY17, company is likely to benefit from shift of customer's preferences from unorganized to organized segment. We value the company at 21x P/E based on its relative comparisons with companies in the same segment or riding on consumerism. Recommend BUY with a price target of Rs 230 on FY17 estimates.

Key Investment argument

- ❑ **Demand environment likely to revive in medium term** - Plywood industry is currently impacted by demand slowdown in the real estate sector with inventories being stuck up with builders and investors. We however expect the demand to recover at 10-12% every year going forward in medium to long term mainly led by rising income levels, increasing urbanization, change in consumer preferences as well as higher spend on interior home decoration products.
- ❑ **GST implementation to be a game changer for the sector** - GST implementation is likely to be a game changer for the sector as it is likely to result in higher taxation for the unorganized sector. With GST implementation, organized players would be able to tap the low cost segment captured by unorganized segment as it would bring both the segments on a level playing field. Century Ply is ideally positioned to capture the incremental demand likely to come post GST implementation
- ❑ **Strong distribution network and branding to help in improving market share** - Company has a strong dealer network of nearly 1500 dealers, 35 branch offices, 6 regional distribution centres and 7 manufacturing locations. With strong dealer base, company wants to enhance its reach in C & D category towns which will help in improving its market share further.
- ❑ **Volume expansion and strong margin to drive PAT growth going ahead** - We expect revenues and net profits to grow at a CAGR of 19% and 27% respectively between FY15-FY17 led by improvement in capacity utilizations, increase in the share of economic products such as Sainik plywood as well as formation of JV's to capture the incremental demand coming from B&C category plywood. Margin are also likely to remain strong due to higher value added product mix and lower raw material prices.
- ❑ **Attractive valuations** - At current price of Rs 170, stock is trading at 19.5x and 15.5x P/E and 13.2x and 10.8x EV/EBITDA on FY16 and FY17 estimates respectively. We expect the stock to trade at higher multiples going forward also as the company is ideally positioned to capture the upcoming demand as well as increased consumption with its leadership position and strong branding.

Key risks and concerns

- ❑ Demand slowdown
- ❑ Forex volatility
- ❑ Delay in GST implementation
- ❑ Higher raw material prices

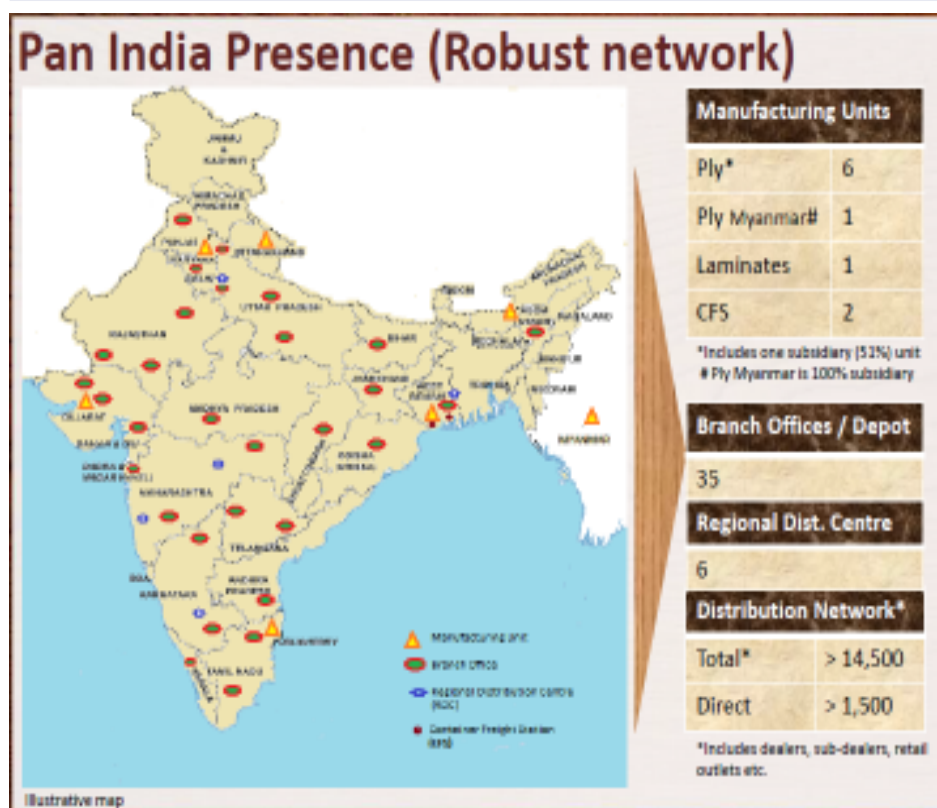
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COMPANY BACKGROUND

Century ply is the largest plywood manufacturer in India with more than 30% share in the India's organized plywood sector. Company is promoted by first generation entrepreneurs – Sri Sajjan Bhajanka, Sri Sanjay Agarwal, Sri Hari Prasad Agarwal and supported by Sri Vishnu Khemani and Sri Prem Kumar Bhajanka. Company has a capacity of 209240 CBM In plywood and 4.8 mn sheets in laminates segment and it is also engaged in container freight station business. It has recently entered in retail furniture chain with brand Nesta and is also setting up a 6000 CBM capacity for particle board in Chennai.

Company has a pan-india presence with more than 13000 retail outlets and has also increased its dealer network from 1106 in FY12 to 1500 in FY15 to maintain its leadership in the India's plywood sector.

Geographical spread of capacity



Source: Company

Plywood

Century ply has a plywood capacity of 209240 CBM spread across seven locations. It had commissioned its greenfield Kandla plant in January 2014, helping it serve the western market faster. It had also commissioned a Myanmar unit (through a wholly-owned subsidiary) with 6,000 cbm capacity in June 2013. On time commissioning of its Myanmar unit helped the company in ensuring uninterrupted supply of raw material from Myanmar even after Myanmar banned export of raw timber. Myanmar plant undertakes peeling of raw timber and then makes face veneers, which are thereafter exported to India. Company's prominent brands are Century Ply Club Prime plywood, Architect Plywood and Century Ply Marine plywood.

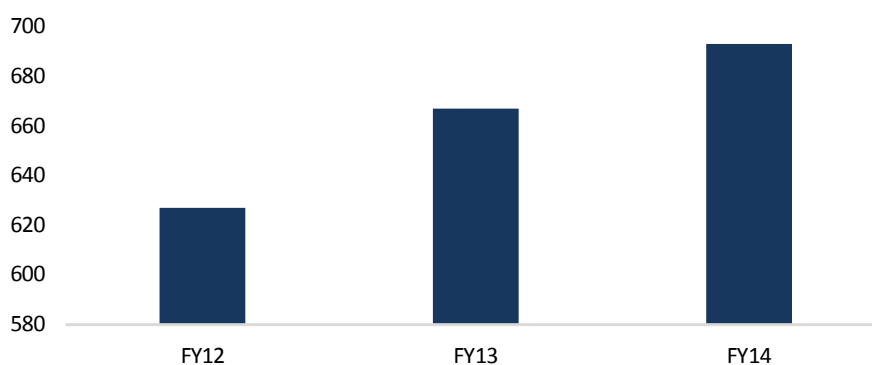
Capacity details

Plant	Capacity (CBM)	
	2009-10	2013-14
Joka (WB)	25,400	37,000
Chennai	39,420	39,420
Guwahati	21,600	35,000
Karnal	36,000	36,000
Kandla	-	31,000
Roorkee	25,000	25,000
Myanmar	-	6,000
Total	147,420	209,420

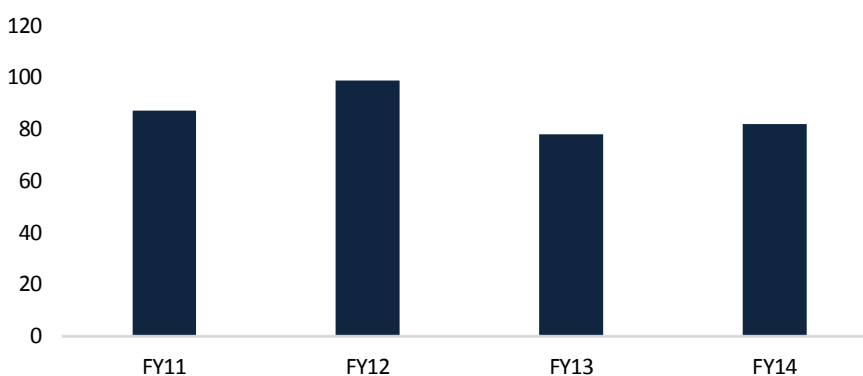
Source: Company

Laminate

Century ply is one of the top three laminate producers in India and has a capacity of 4.8 mn sheets. It offers exotic range of decorative laminates and has also introduced a new catalogue with key brands being Slimline, Opulenza. Raw material requirement for laminates is mostly paper and chemicals. Company has nearly 700 SKUs and is also adding almost 100 every year.

Laminates realization over years (Rs per sheet)

Source: Company

Capital utilization of laminates (%)

Source: Company

Logistics

Company operates two container freight stations with a cumulative capacity of 156,000 TEU at Sonai (36000 TEU) and Jinjira Pole (120,000 TEU) and accounts for almost 50% of the CFS capacity at the Kolkata Port. Company's CFS is the only CFS division in India to work round-the-clock and undertake the entire gamut of responsibilities (warehousing, bonded warehousing, stuffing, de-stuffing, handling project cargo and communicating with customs authorities). The Company is planning to establish a pan-India presence by extending to port locations like Mumbai, Chennai and Mundra by 2015-end.

Others

Company has also entered modular kitchen segment and also launched retail furniture chain (brand Nesta) with the launch of two stores.

KEY INVESTMENT ARGUMENT

Key player in Indian organized plywood industry

Century Plyboards is the largest plywood manufacturer in India with more than 30% share in the India's organized plywood sector. Company has expanded its capacity significantly in last few years to cater to increased demand for the plywood segment. It has a capacity of 209420 CBM in the plywood segment while its peer Greenply industries has a capacity of 129600 CBM. In order to cater to varied customer preferences, company has widened its product portfolio with multiple products at various price points. Company had also doubled its laminate capacity to 4.8mn units to address the growing need of decorative segment. It is also setting up a particle board unit in Chennai to cater to the Pre Laminated Particle Boards markets in the region.

Its pan India presence with strategic locations of six manufacturing locations (and one in Myanmar) and robust distribution network of over 30 branches and over 1500 direct dealers/ distributors is likely to help company maintain its leadership position in the industry. With its wide offerings, company is ideally positioned to capture the growing demand with its strong distribution and dealer network.

Strong focus on retail customers

Century Ply has a retail dominant sales mix and sells nearly 90% of its total output to retail customers while only 10% is marketed through the discount-driven OEM network. This has protected the company against economic slowdown and volatility in real estate markets. It has been able to achieve 90% sales to retail customers with the help of strong dealer network where Century Ply has an edge over other unorganized players. Company expects the sales mix to continue to remain retail focused as it helps in hedging the volumes against downturns and also helps in maintaining better margins.

Strong dealer and distributor network

Company has a strong dealer network of nearly 1500 dealers, 35 branch offices, 6 regional distribution centres and 7 manufacturing locations. Company's seven manufacturing locations are strategically placed to address dealer needs and enhance responsiveness. For decorative segment ie for laminates, company plans to bill nearly 10000 retailers by 2015 and also to increase the distributor count to 150.

It also wants to enhance its reach in C & D category towns. Company has retained dealer excitement through the periodic introduction of innovative product features, trade incentives as well as performance recognition initiatives.

Wide product portfolio

Company has a multi-product strategy catering to the needs of customers with varied interior products requirement. It extended its offerings from plywood to laminates, veneers, blockboards and doors, among others, facilitating cross-sale leveraging its corporate brand and wide distribution network. Company's wide product portfolio offers multiple products at various price points, enabling it to address a wider customer base. This wide product portfolio is likely to help the company going forward also. Company has also launched retail furniture chain (brand Nesta) with the launch of two stores.

Plywood varieties



Source: Company

Laminate varieties



Source: Company

Veneer varieties



Source: Company

Plywood and Door varieties



Source: Company

Product premiumization and entry into MDF segment

Company has adopted a strategy of premiumization of its products thereby offering value added and aspirational products having marked features such as water proof, termite resistant etc. These products are available at higher price points where competition is also relatively lesser and products are also resistant to demand erosion due to sluggish markets. Premiumization has also led to increasing shift towards the branded products which come with product warranty and replacement features as well as higher number of designs.

Company has also entered MDF business on outsourced model (from Vietnam) and is evaluating economic viability of setting up MDF unit. It plans to purchase machinery from China for cost efficiency, instead of from Europe, at Rs 3bn capex.

Company is also setting up green-field particle board unit at existing site of Chennai unit. The unit will make particle board from timber wastage, saw mill dust etc generated at Chennai unit and procured from wood based units in the vicinity. It will backward integrate with company's existing pre-lamination board units at Chennai and approx capex required is nearly Rs. 600 mn over next one year.

GST implementation to be a game changer for the sector

GST implementation is likely to be a game changer for the sector as it is likely to result in higher taxation for the unorganized sector which has so far been avoiding taxes due to clandestine techniques. Due to excise duty avoidance and lower taxes being paid by the unorganized sector, they were able to price their products at cheaper rates as compared to the organized players. With GST implementation, organized players would be able to tap the low cost segment captured by unorganized segment as it would bring both the segments on a level playing field. Being both organized and unorganized products being available at near similar rates, customers would be prompted to buy products from organized segment, thereby increasing their share meaningfully. Century Ply is ideally positioned to capture the incremental demand likely to come post GST implementation.

We present below the analysis of pricing pre and post implementation of GST -

Price analysis - Pre & Post GST

Illustration Rs per sq ft	Pre GST	
	Organized	Unorganized
Basic price	100.0	100.0
Excise duty @12.36%	12.4	-
Basic + Excise duty	112.4	100.0
VAT @12.5%	14.1	12.5
Total	126.4	112.5
Dealer Basic price	112.4	100.0
Dealer margin @10%	11.2	10.0
Total	123.6	110.0
VAT @12.5%	15.4	13.8
Less input credit	14.1	12.5
Total	125.0	111.3

Source: Industry, Kotak Securities - Private Client Research

Illustration

Rs per sq ft	Post GST	
	Organized	Unorganized
Basic price	100.0	100.0
GST@24% (assumed)	24.0	24.0
Basic + Excise duty	124.0	124.0
Dealer Basic price	100.0	100.0
Dealer margin @10%	10.0	10.0
Total	110.0	110.0
GST@24% (assumed)	26.4	26.4
Less input credit	24.0	24.0
Total	112.4	112.4

Source: Industry, Kotak Securities - Private Client Research

Branding initiatives

In order to maintain its leadership position, company has emerged as one of the industry's largest spender on branding initiatives. Brand spend has also led to its market share of 7.5% in the industry. Company targets an annual spend of 4% of its plywood revenues for brand spending and it has already done an aggregate investment of Rs 2.24 bn in last decade on branding.

It has a strong brand value which has been depicted by company coming in top 100 most valuable brands of India as per 4P survey 2010. CenturyPly has also been adorned as 'Master Brand' by the CMO council with top of the mind awareness value of 98% as per Synovate.

Various celebrities such as Late Cricketer Nawab Pataudi and Sharmila Tagore, Shahrukh Khan (through publicity sponsoring of movies Billu and My name is Khan), Amitabh Bachchan (through publicity sponsoring of movie Aarakshan) and Nana Patekar (Brand Ambassador) have endorsed the brand.

Advertisement



Source: Company

Advertisement



Source: Company

Capacity utilization improvement and volume expansion to drive revenue growth

Company's revenues have grown at a CAGR of 17% between FY12-15 led by pricing and volume led growth. We expect volumes in plywood and laminate to remain strong due to healthy demand expected going forward. Growth in volumes for the company going forward is likely to come from improvement in capacity utilizations, increase in the share of economic products such as Sainik plywood as well as formation of JV's to capture the incremental demand coming from B&C category plywood.

We expect revenues to grow at a CAGR of 19% between FY15-FY17 led by improvement in plywood and laminate realizations coupled with growth in volumes in both the divisions.

Assured Raw material supply

Century ply had proactively set up a 6000 CBM peeling facility in Myanmar in June, 2013 in order to assure raw material supply. It's commissioning in June 2013 proved timely as it came within months of Myanmar announcing a ban on raw timber exports. Now company operates 4 lines (each line equals to 8000 cbm p.a.) in Myanmar for peeling timber and are running at an avg. utilization of 80%. It plans to enhance the capacity by an additional 1 line of 8000 CBM each in FY16. So in Myanmar, company would have a capacity of 40000 CBM.

Century ply is also in process of setting up new unit in Laos at a capex of Rs 600 mn through 51% owned SPV and remaining with the local partner in SEZ Area. It has given the technical expertise and machinery on lease to the local player in Laos and is assured by the local player a committed supply of face veneer. This unit assures secure raw material supply for future growth. Both these plants would be having two lines each (8000cbm p.a.). So in all 4 lines of 8000 CBM each, company would have a capacity of 32000 CBM at Laos.

Operating at an effective utilization of 75%, company would produce nearly 54000 CBM of veneer. With a yield of nearly 35000 CBM, company would be able to use nearly 50% inhouse for manufacturing plywood while remaining is expected to be sold in open market.

Margins likely to remain strong

Company's margins are likely to remain strong going forward due to decline in the raw material prices coupled with lower prices of phenol. Realizations are also likely to witness an improvement of 5-6% going forward which is also likely to aid margins. Company had posted operating margins of 10% and 11.5% in FY13 and FY14 respectively. Margins improved to 16.5% during FY15 and we expect margins to remain strong at 17.5% going forward for the company. Margins of Century Ply are better than Greenply industries on account of higher proportion of veneer sales to third parties.

KEY RISKS AND CONCERNS

- **Demand slowdown:** Further demand slowdown is likely to impact the offtake of the company. However, company's products are priced at higher price points and are resistant to demand erosion due to sluggish markets.
- **Forex volatility:** Forex volatility may impact the profitability of the company as most of its raw material requirement for plywood and laminate segment are imported and hence sharp rupee depreciation can impact the costs adversely.
- **Delay in GST implementation:** Delay in GST implementation could result in lower than expected volume growth for FY17 and onwards as the shift from unorganized segment to organized would get further delayed.
- **Higher raw material prices:** Higher raw material prices such as face veneer or phenol or imported paper can result in putting adverse pressure on margins. However, company is continuously hedging its raw material supply by sourcing face veneer from various other locations apart from Myanmar.

RELATIVE VALUATION

We also compare the company with peers in the same space as well as related space of consumerism such as Kajaria Ceramics, Somany Ceramics, Havells, Bajaj Electricals, Pidilite, Asian Paints, Berger Paints etc which are governed by the similar factors of customer preferences for home interiors. We believe that company is attractively valued given the growth expected in revenues and profits and expected improvement in RoE/RoCE.

RELATIVE VALUATIONS

	Price (Rs)	Mkt Cap (Rs mn) (as on 6th Oct,15)	P/E(x)		EV/EBIDTA (x)		RoE (%)	
			FY16E	FY17E	FY16E	FY17E	FY16E	FY17E
Plywood and laminates								
Century Plyboards	171	38050	19.7	15.6	13.3	10.8	41.4	37.3
Greenply industries	940	22689	18.7	14.5	10.4	8.5	22.5	23.3
Ceramics								
Kajaria Ceramics	808	64212	26.2	21.7	14.4	12.1	28.7	27.1
Somany Ceramics	358	13962	22.5	16.3	11.9	9.5	20.2	22.6
Electric equipment								
Havells Ltd	255	159334	29.7	24.8	17.1	14.2	26.3	25.6
Bajaj Electricals	248	24502	29.5	14.9	10	6.5	11.6	20
Paint and related industries								
Asian Paints	854	818698	42.7	34.1	27.5	22.2	30.7	29.8
Kansai Nerolac	242	130303	36.6	31.4	22.5	19.4	19.7	20.3
Pidilite industries	580	294462	38.1	34.5	24.7	22.9	30.7	28.3

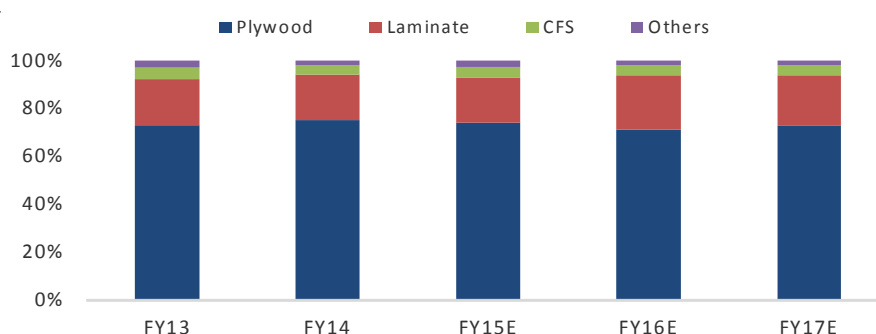
Source: Kotak Securities - Private Client Research; Bloomberg

FINANCIAL OUTLOOK

Revenues likely to grow at a CAGR of 19.3% between FY14-FY17

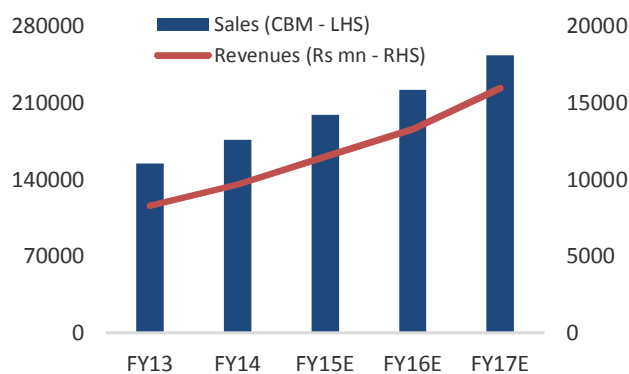
Revenue growth for Century Plyboards is likely to be led by volume expansion as well as better capacity utilizations at its laminate plant. We expect volumes and revenues of plywood segment to grow at a CAGR of 12.8% and 18.0% respectively for FY14-17. Laminate segment volumes are likely to jump on better capacity utilizations and we thus expect volumes and revenues of laminate segment to grow at a CAGR of 18% and 23.7% respectively for FY14-17. CFS segment is likely to grow at a CAGR of 20% between FY14-17 while other businesses are likely to contribute only a small proportion of revenues. Overall revenues are likely to grow at a CAGR of 19.3% between FY14-17.

Revenue breakup (%)



Source: Company, Kotak Securities – Private Client Research

Plywood revenue (Rs mn)



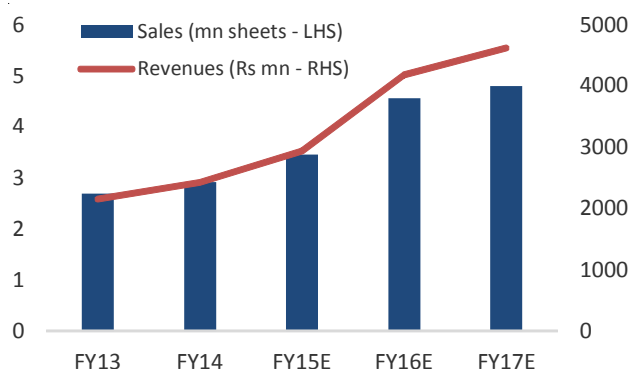
Source: Company, Kotak Securities – Private Client Research

Plywood capacity utilization (%)



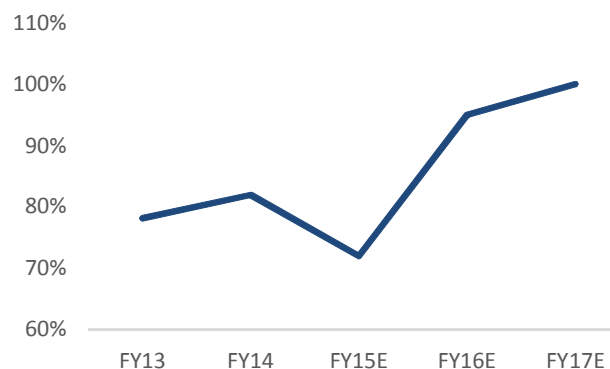
Source: Company, Kotak Securities - Private Client Research

Laminate sales (Rs mn)



Source: Company, Kotak Securities - Private Client Research

Laminate capacity utilizations (%)

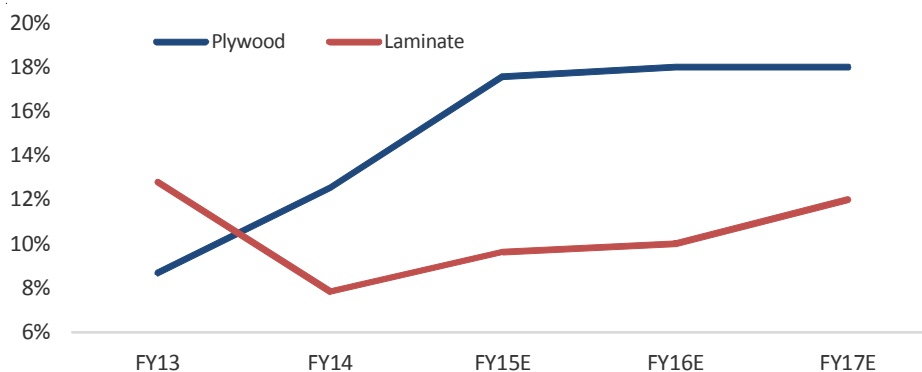


Source: Company, Kotak Securities - Private Client Research

Margins likely to remain strong

Company's margins are likely to remain strong going forward due to decline in the raw material prices coupled with lower prices of phenol. Realizations are also likely to witness an improvement of 5-6% going forward which is also likely to aid margins. We expect company to post margins of 17% and 17.5% for FY16 and FY17 respectively.

EBITDA margin (%)



Source: Company, Kotak Securities – Private Client Research

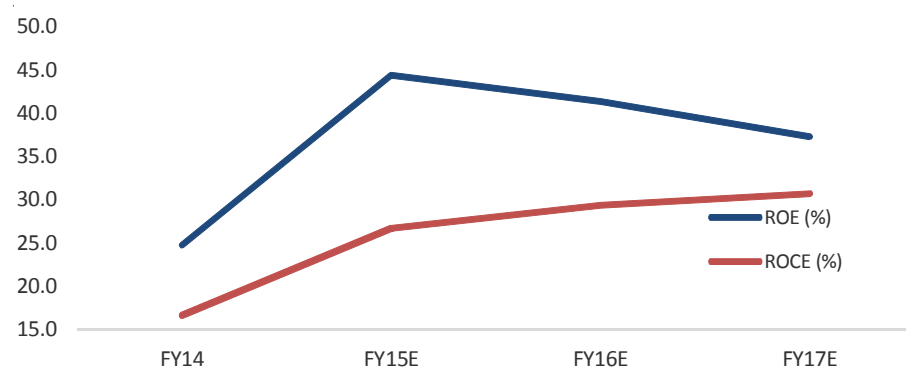
PAT likely to grow at a CAGR of 27% between FY15-17 led by healthy improvement in revenues, strong margins and tax benefits

Company's profitability is likely to grow at a CAGR of 27% between FY15-17 led by healthy growth in revenues coupled with improvement in margins. Company's manufacturing unit in Guwahati enjoys tax benefits and its CFS division in Kolkata also enjoys income tax exemptions, thereby resulting in lower effective tax rate for the company at 15%.

Return ratios to remain strong

Company's return ratios have remained strong in past and are likely to remain better than its peers as profitability is likely to jump up on higher capacity utilizations and margin improvement.

Return ratios (%)



Source: Company, Kotak Securities – Private Client Research

VALUATION & RECOMMENDATION

- At current price of Rs.170, stock is trading at 19.5x and 15.5x P/E and 13.2x and 10.8x EV/EBITDA on FY16 and FY17 estimates respectively.
- We expect the stock to trade at higher multiples going forward also as the company is ideally positioned to capture the upcoming demand as well as increased consumption with its leadership position and strong branding.
- With timely implementation of GST, company is also expected to tap the unorganized market, whose size is more than two times the organized market. This is also likely to justify higher valuation multiples for the company going forward.
- We thus value the company at 21x FY17 estimates in line with its peers in the same consumption driven segment. We arrive at a target price of Rs.230 on FY17 estimates and would recommend BUY on the stock.

FINANCIALS: CENTURY PLYBOARDS (I) LTD

Profit and Loss Statement

(Rs mn)	FY15	FY16E	FY17E
Revenues	15,525	18,618	21,909
% change YoY	21	20	18
EBITDA	2,519	3,165	3,834
% change YoY	70	26	21
Other Income	160	100	100
Depreciation	448	448	512
EBIT	2,231	2,818	3,422
% change YoY	79	26	21
Net interest	433	541	559
Profit before tax	1,798	2,276	2,863
% change YoY	159	27	26
Tax	290	341	429
as % of PBT	16	15	15
Profit after tax	1,508	1,935	2,433
% change YoY	125	28	26
Shares outstanding (m)	222.5	222.5	222.5
EPS (reported) (Rs)	6.8	8.7	10.9
CEPS (Rs)	8.8	10.7	13.2
DPS (Rs)	1.25	1.25	1.25

Source: Company, Kotak Securities - Private Client Research

Balance sheet

(Rs mn)	FY15	FY16E	FY17E
Cash and cash equivalents	170	393	479
Accounts receivable	2,719	3,316	3,902
Inventories	3,200	3,673	4,322
Loans and Adv & Others	1,643	1,867	2,165
Current assets	7,732	9,248	10,867
Misc exp.	-	-	-
LT investments	451	451	451
Net fixed assets	2,316	2,568	2,856
Total assets	10,500	12,268	14,174
Payables	747	1,173	1,381
Others	433	433	433
Current liabilities	1,179	1,606	1,813
Provisions	426	367	367
LT debt	5,019	4,819	4,419
Equity	223	223	223
Reserves	3,653	5,254	7,353
Total liabilities	10,500	12,268	14,174
BVPS (Rs)	17.4	24.6	34.0

Source: Company, Kotak Securities - Private Client Research

Cash Flow Statement (Rs mn)

(Rs mn)	FY15	FY16E	FY17E
EBIT	2,231	2,818	3,422
Depreciation	448	448	512
Change in working capital	(1,740)	(867)	(1,325)
Changes in other net current assets	311	(59)	-
Operating cash flow	1,250	2,339	2,609
Interest	(433)	(541)	(559)
Tax	(290)	(341)	(429)
Cash flow from operations	527	1,457	1,620
Capex	(457)	(700)	(800)
(Increase)/decrease in investments	72	-	-
Cash flow from investments	(384)	(700)	(800)
Proceeds from issue of equity	-	-	-
Increase/(decrease) in debt	107	(200)	(400)
Proceeds from share premium	-	-	-
Dividends	(259.9)	(334.3)	(334.4)
Cash flow from financing	(153)	(534)	(734)
Opening cash	180	170	393
Closing cash	170	393	479

Source: Company, Kotak Securities - Private Client Research

Ratio Analysis

	FY15	FY16E	FY17E
EBITDA margin (%)	16.2	17.0	17.5
EBIT margin (%)	14.4	15.1	15.6
Net profit margin (%)	9.7	10.4	11.1
Receivables (days)	56.0	65.0	65.0
Inventory (days)	72.0	72.0	72.0
Sales/assets(x)	6.7	7.2	7.7
Interest coverage (x)	5.2	5.2	6.1
Debt/equity ratio(x)	1.5	1.1	0.7
ROE (%)	44.4	41.4	37.3
ROCE (%)	26.7	29.4	30.7
EV/ Sales	2.7	2.2	1.9
EV/EBITDA	16.8	13.2	10.8
Price to earnings (P/E)	25.1	19.5	15.5
Price to book value (P/B)	9.8	6.9	5.0
Price to Cash Earnings	19.3	15.9	12.8

Source: Company, Kotak Securities - Private Client Research