Century Plyboards (India) Ltd.

TP: INR 358 - ACCUMULATE

27 October 2017

Building Material

Initiation

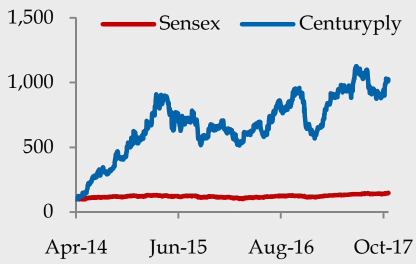
Key Statistics

CMP (INR)	279
Upside/downside (%)	28
Market Cap (INR/USDmn)	61,985/ 968
Shares outstanding (mn)	222
3 months avg volume (mn)	0.42
Dividend Yield (FY17, %)	0.4
52 Wk high/low	314/154
Sensex/Nifty	32,182/10,096
Bloomberg Code	CPBI IN

Performance (%)	1M	3M	12M
Absolute (%)	13.6	-6.3	11.4
Rel. to Sensex (%)	8.6	-8.6	-6.6

Sh. Pattern, % (as on Sept-2017)	
Promoter	72.0
FII	12.8
DII	4.0
Other	11.2
Total	**100.0**

Stock Price Performance*



* Rebased to 100 | Based on daily closing prices

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Fillip to revenue and EBITDA growth with MDF foray

Century Plyboards (CPL) is the largest plywood manufacturer (mkt. share ~25%) and third largest in laminate (mkt. share ~12%). The company has displayed strength of execution through - (1) delivered revenue/PAT growth of more than 20%/25% over the last decade; (2) was quick to capitalize on face veneer business; and (3) has established strong brand/distribution channel with largely retail sales. With sufficient capacity to grow without incurring any immediate capex, company is entering into MDF business which is currently the fastest growing product in Wood Panel market. We expect CPL to post Revenue/EBITDA CAGR of 20%/21% over FY17-FY20E with the new MDF capacity coming on stream and believe it to be one of the best plays on building material companies. Company is expected to improve ROIC to ~20% by FY21E from 17% in FY17. We value stock at 30x FY19E EPS with TP of INR 358 and initiate coverage with ACCUMULATE.

- ✓ **MDF to lead FY17-20E growth given shift from lower end plywood to MDF:** MDF is expected to remain one of the fastest growing (15-20%) wood panel product with pricing differential of MDF vs. cheap plywood (low at ~10-12%) and with better durability & newer applications,. Additionally, capacity constraint of existing players in North India will provide CPL with an opportunity given its strong distribution network and brand awareness to ramp up its production and gain market share in a fast growing category. We expect CPL to achieve 85% utilization levels in MDF by FY20E and thus volumes/revenues are expected to grow at 33%/36% over FY18-21E with sustainable EBITDA margin of ~25%.
- ✓ **Strong distribution network and branding to help in improving market share:** Company has a strong dealer network of nearly 1800 dealers, 31 branch offices, 6 regional distribution centres and 12 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.
- ✓ **Expect Plywood & Laminate to post revenue CAGR of 16% over FY17-20E:** CPL's mid-range brand 'Sainik' is expected to do well and we expect it to post Volume/Revenue CAGR of 28%/34% over FY17-20E due to higher operating costs for unorganized players post GST and increasing brand awareness. Additionally, company's increased focus on Laminates coupled with lower GST rate (18% vs. 28% earlier) and move towards value added products is expected to drive the Laminates Revenue/EBITDA at 23%/25% CAGR over FY17-20E. We expect Plywood & Laminate businesses to post revenue CAGR of 16% over FY17-20E.
- ✓ **ROIC improvement to be led by better product mix and MDF plant coming on stream:** With revenue mix moving towards higher margin MDF together with increased focus on Laminates and commissioning of MDF plant, we expect CPL's ROIC to improve from 17% to 20% over FY17-21E.
- ✓ **Key risks:** Demand slowdown, pricing war in MDF & unfavorable regulation/ban.

Year End (31 Mar)	FY16	FY17	FY18E	FY19E	FY20E
Revenues (INR mn)	16409	18187	21273	26534	31082
Growth (%)	3.3	10.8	17.0	24.7	17.1
EBITDA (INR mn)	2895	3120	3597	4600	5508
EBITDA Margin (%)	17.6	17.2	16.9	17.3	17.7
Adjusted PAT (INR mn)	1671	1881	2038	2651	3025
Adjusted PAT Margin (%)	10.2	10.3	9.6	10.0	9.7
Diluted adj. EPS (INR)	7.6	8.6	9.2	11.9	13.6
Growth (%)	13.4	12.8	7.2	29.8	14.1
ROE (%)	36.8	30.6	25.6	26.9	25.0
P/E (x)	36.69	32.54	30.34	23.38	20.49
P/BV (x)	11.72	8.67	7.06	5.69	4.68
EV/EBITDA (x)	22.90	21.63	19.28	14.79	12.11

Source: Company, YSL estimates; Note: Valuations as on 27th October 2017

Company Overview

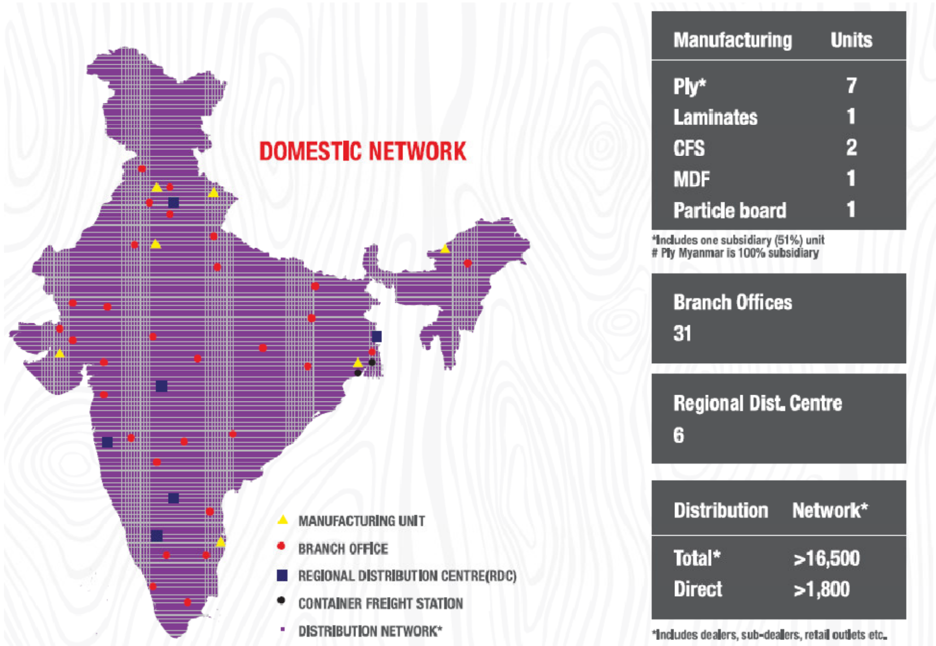
CPL is one of India's leading interior infrastructure product manufacturers. Currently, it has 6 manufacturing facilities in India and 1 facility in Myanmar. Company has a capacity of ~210,000 cbm/annum for timber peeling & plywood manufacturing, which is the highest in India. Company is a co-market leader in plywood having 25% market share and together with GIL it controls nearly 50% of the Indian plywood organized market. It is also among the top 3 laminate producers in the country with an installed capacity of 4.8mn sheets/annum near Kolkata.

The Company also owns Eastern India's largest & first privately owned container freight station (CFS) in Kolkata with a capacity of 156,000 TEUs. It is one of the largest private facilities having a capacity of 156,000 TEUs (on 15 days dwelling time basis) spread across its 2 stations- Sonai (40,000 TEUs) and Jingira Pool (116,000 TEUs) at the Kolkata Port. The CFS business has been operational since 2009 and contributes around 5% to the consolidated revenues. Over FY14-17, CFS Volumes, Revenues & EBITDA have grown at a CAGR of 15%, 17% & 14% respectively. Company is also entitled to a 10 years tax benefit u/s 80IA of IT Act till 2019.

It has recently (Jul'16) commenced commercial production at its Greenfield Particle board plant, having a capacity of 180 cbm/day (54,000 cbm/annum), at its existing facility in Chennai incurring a total capex of INR 650 mn. CPL is also looking to setup its first MDF plant at Hoshiarpur, Punjab and the plant is expected to be commissioned by 1Q18.

Company currently has 30+ brands & 14 products in various categories. It has a strong distribution network with 1,800 dealers/distributors & 16,500+ retail outlets.

Exhibit 1: Geographical spread of capacity



Source: Company, YSL

Exhibit 2: Major brands

Source: Company, YSL

Exhibit 3: PAN India dealer base

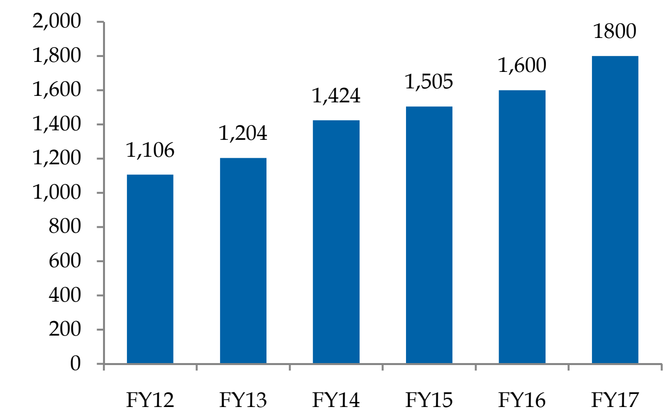
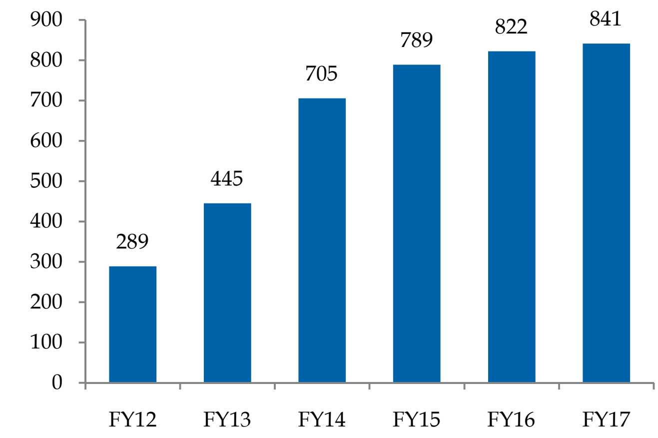


Exhibit 4: Sales force



Source: Company, YSL

Investment Rationale

- **Plywood & Laminate divisions (with a wide range of product offerings) to remain cash cow & provide stability to the overall business:** CPL currently is a co-market leader (with GIL) in the premium plywood market and commands nearly 25% market share of organized market which currently stands at INR 54 bn (Total market size – INR 170 bn, Premium plywood market size – INR 54 bn which includes deco ply and commercial veneer, Economy plywood market size – INR 110 bn). CPL is the 3rd largest company Laminates manufacturing company in India with a market share of ~11% (Total market size – INR 40 bn and Export market size – INR 10 bn). CPL derived 76-77% of its revenues from the premium segment in FY17.

- **Focus on raw material security through backward integration & opportunistic sourcing will help the company control its raw material costs in the Plywood division:** Typically, Core Veneer forms about 90% of the total wood required for Plywood while Face Veneer accounts for the balance 10% but is the most critical component. Core Veneer is easily available domestically due to abundant supply of timber plantations (uses softwood like Eucalyptus). However, Face Veneer derived from hardwoods like Myanmar Gurjan is the crucial value-add component with high aesthetic appeal and higher costs. It is largely imported from countries like Myanmar, Laos etc. where the wood quality is amongst the finest in the World and also because securing large tracts of land and growing hardwoods in India is a challenge. Additionally, there is a blanket ban on felling of naturally grown trees by the Indian Supreme Court.

  So, securing a steady source for Face Veneer supply is a key competitive advantage for Plywood companies. Additionally, raw timber loses around 30% moisture when made into Face Veneer and another 30% of the weight is lost following peeling which results in a significant decline in transportation costs for the company.

  Post the ban on the export of raw timber by Myanmar government in April 2014, there was an acute shortage of Face Veneers for all the players and the prices shot up by 25-50%. Amongst the Indian manufacturers, only CPL and GIL succeeded in establishing manufacturing units in Myanmar post the ban. CPL had the first mover advantage and this helped the company minimize the impact of the ban on its operations as well as capitalize on this opportunity by selling its surplus Face Veneers to both organized & unorganized players.

  CPL currently procures timber from auctions conducted by the Myanmar Government's nominated authority, processes it at its Myanmar unit and exports Face Veneers to India via its subsidiary Century Ply Myanmar Pvt. Ltd. All the payments to its subsidiary are done in USD. The backward integration offers a strong competitive advantage as other smaller operators (or the unorganized sector) are dependent on companies like CPL (or alternate import destinations) to source critical raw material. To further strengthen its raw material supply, CPL has established a presence in Laos by entering into purchase arrangements with several local entities for the purchase of Face Veneer and is also setting up an independent veneer unit in the country. Laos' timber harvesting is based on a quota system of provincial forest management plans with the Laotian Ministry of Agriculture and Forestry regulating logging plans across provinces.

As a result of this backward integration into Myanmar & Laos for sourcing of veneer, CPL has seen its cost of materials as a percentage of sales going down from 56% to 39% over FY13-17 resulting in consolidated gross margin expansion from 38% to 51% over the same period

Though the complex regulatory process required for setting up a manufacturing unit in Myanmar and Laos is a strong entry barrier for new players, we believe that any unfriendly business decision or complete ban on exports of Timber/Veneer by either Myanmar or Laos's government may push up the prices of company's raw materials and is therefore a risk.

Additionally, with implementation of GST, there is a chance that the cost of other raw materials like timber might also go up due to unorganized players having to move to full billing. However, during recent months, company has been moving away from using Gurjan timber (from Myanmar) as face veneer to PQ/Pencil Cedar imported from Solomon Islands which in terms of quality falls between Gurjan/Keruing and Okoume (Gabon). Additionally, PQ Cedar costs ~ USD 340-350/cbm vs. Gurjan's cost of USD 550-600/cbm. Therefore we expect gross margin to remain flat over FY17-20E.

- ✓ **Higher focus & investment towards advertising & promotion (A&P) have helped CPL create a strong brand recall:** CPL has been aggressively doing its brand building through both above the line & below the line advertising and has spent ~ INR 3.9 bn towards brand development over the past decade. As CPL's primary sales are derived from retail (90%) rather than institutional (10%) customers, the investment in branding is important for creating a brand recall among consumers. Company's tagline of "sab sahe mast rahe" and its tie up with Bollywood actors for TV commercials for its Plywood products have been able to create a an impact on consumer's mind. Average spending on A&P has grown at a CAGR of 38% (average ~4% of sales) over FY14-17 and we expect A&P to grow at a CAGR of 21% (average ~5% of sales) over FY17-20E on account of MDF launch and increased focus on Laminate business. Company's Plywood & Laminate brands have a strong presence in Western & Eastern India.

  Company has also expanded its distribution network across India aggressively over the past 3-4 years. Currently the company's marketing infrastructure comprises of 35 marketing offices and depots, 7 regional distribution centers and more than 20,000 retail outlets. Over FY12-16, CPL has increased its dealer network from 1,106 to 1,600 in order to cater to Tier II & Tier III cities along-with the Tier I & Metro cities. Going forward we expect company to continue is focus on retail segment and continue to enter newer markets.

- ✓ **Capacity expansion in Plywood division will ensure growth in the plywood market:** Post the demerger of its Cement & Ferro Alloy business in FY13, CPL undertook capacity expansion both in Plywood & Laminate Divisions. In Plywood, the capacity has grown from 0.17 mn cbm to 0.21mn cbm and is further set to increase to 0.23 mn cbm by FY19E with additional 17,000cbm/annum of plywood and particleboard capacity at its plant in Hoshiarpur, Punjab by FY19E involving a total capex of INR 640 mn. It is waiting for clarity from GST implementation and how the competition, particularly the unorganized players, will move before incurring additional capex.

- ✓ **Presence across product categories in plywood business helps the company cater to a large consumer base:** CPL currently has a presence in Premium & Mid-market segments while it does not have any presence in the cheap low quality plywood market. Luxury brands include 'Architect Ply', 'Club Prime' etc. while 'Centuryply' and 'Sainik' are the premium & economy brands respectively.

Over FY13-17, the Plywood market size has increased from INR 120 bn to INR 170 bn and CPL was able to make an effective use of its expanded capacity, strong branding initiative and distribution network leading to a volume/revenue CAGR of 7%/11% and succeeded in maintaining its market share at 25%. Additionally, the blended realizations for the Plywood segment grew at a CAGR of 3% during the same period with majority contribution coming from Commercial Veneer (CAGR of 5%/8% volume/realization) as the company was able to sell excess imported Veneer in Indian markets in FY15 at very lucrative rates due to ban in Myanmar.

Company' premium brands are priced 5-7% higher than those of GIL. However, the premium & luxury segments (currently contributes ~80% of revenues) have seen growth slowdown particularly in the Metros & Tier I cities and is expected to be in the range of 5-7% for next 2 years. So, the company has increased its focus on developing its mid-market brand 'Sainik' which has led to the brand gaining a strong foothold in the economy value segment and is likely to be the main growth driver in the premium segment. The product is completely outsourced to Auro Sundaram which is a JV in which CPL has 51% stake.

The pricing differential between Sainik and unbranded plywood is currently around 16-17% but dealer feedback suggest that quality wise 'Sainik' is around 20-25% superior. Over the last 3 years, Sainik's volumes/revenues have grown at a CAGR of 25%/32% with the brand contributing around 23-24% to the Plywood revenues in FY17. Over the next 3-5 years, we expect 'Sainik' to drive revenues for CPL's plywood business due to lower pricing differential between quality branded & sub-standard unbranded products. We expect Sainik to achieve volume/revenue CAGR of 29%/35% over FY17-20E with realization CAGR of 5% and brand contributing around 43% of Plywood sales by FY20E. We think that growth in the premium segment for CPL to be muted over the next 2-3 years as demand for real estate continues to be sluggish. We expect volume/ revenue CAGR of 4%/6% in the premium segment over FY17-20E.

Going forward, Plywood & allied segment is expected to post volume/revenue CAGR of 9%/12% and average realizations to grow at a CAGR of 3% over FY17-20E with higher contribution from Plywood (CAGR of 12%/14% in volumes/revenues), particularly from commercial 'Sainik' brand, due to shift from unorganized towards branded products. We expect Plywood EBITDA to grow at a CAGR of 10% over the same time period with sustainable EBITDAM around 16%.

- **Overseas Expansion plans:** In FY16, company has initiated the process of setting up a factory for manufacturing plywood in Laos through a 51%-owned SPV in a SEZ. This factory would be able to consume the entire quantity of core veneer produced by its existing timber processing units which are already set-up in Laos and it will bring the finished product to India. It expects the unit to produce and export INR 1.2 bn worth of Plywood by FY18E.

Exhibit 5: Plywood revenue and EBITDA margin

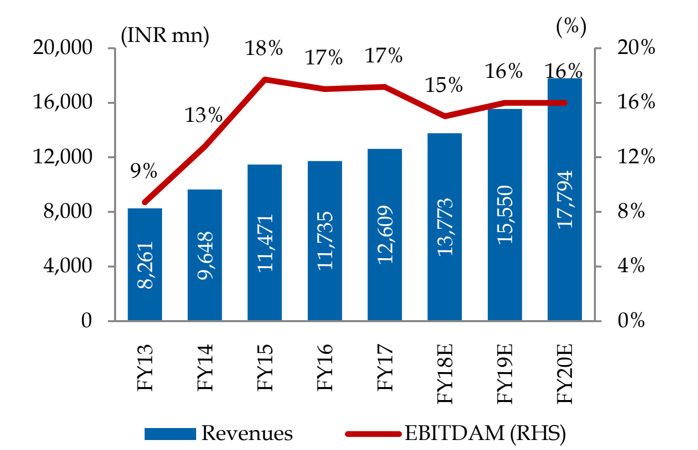
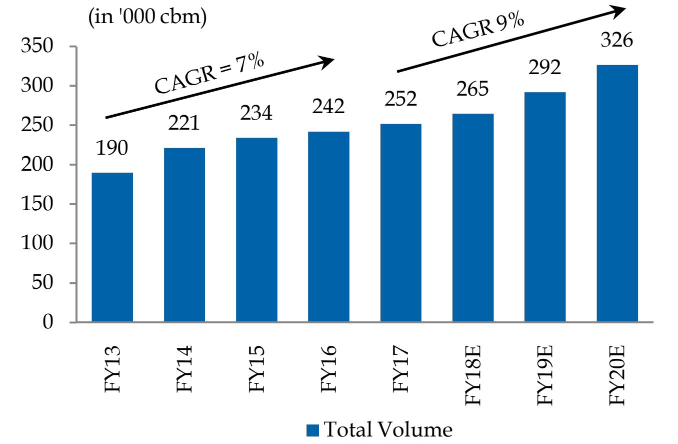


Exhibit 6: Plywood volume



Source: Company, YSL

Exhibit 7: Plywood segment revenue contribution

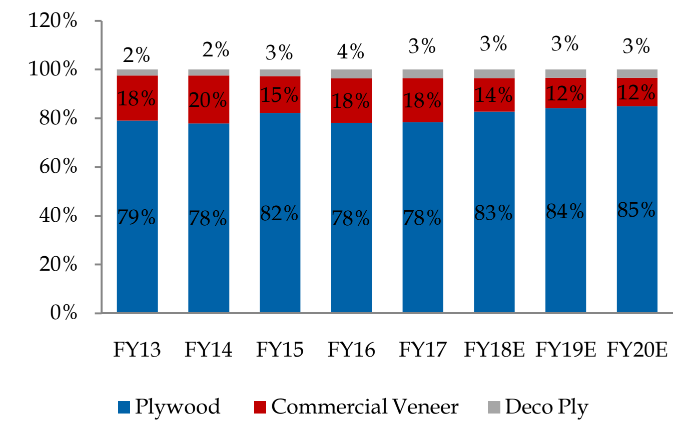
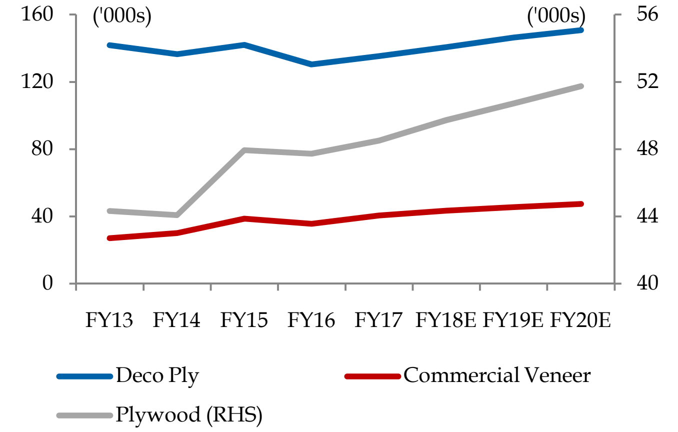


Exhibit 8: Expect steady improvement in realizations



Source: Company, YSL

Exhibit 9: Sainik brand to lead volume growth

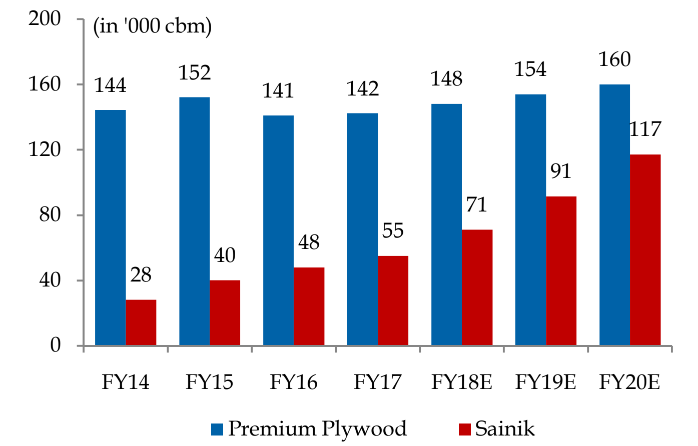
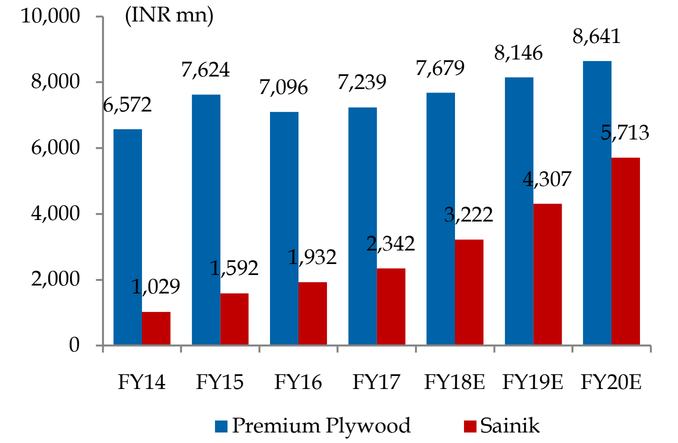


Exhibit 10: Expect 35% CAGR for Sanik over FY17-20E



Source: Company, YSL

✓ **Laminates business to witness a strong growth due to strong brand recall, new capacity coming on stream and favorable GST rate**

In Laminates, CPL has a presence in 1.5mm, 1mm, 0.8mm & 0.6mm thick sheets. CPL's core focus is on the 1 mm & 0.8 mm sheets since these have higher realizations and are more brand and quality driven while 1.5 mm thick laminates are Specialty Laminates like Fire Retardant, Magnetic Laminate etc. manufactured for special purposes.

Company has been focusing on bringing new designs to the markets & refreshing catalogues every 9-12 months. It has commissioned full-sheet displays across 60 pan-India counters to enhance counter share and display space. It has also established "Inspiria" outlets in 12 cities to strengthen its laminate brands. Going forward, CPL plans to extend its priority partner program (Club One) with dealers to drive sales and increase brand visibility.

CPL has a fully integrated Laminate plant near Kolkata wherein capacity has been increased from 2.4 mn sheets/annum to 4.8 mn sheets/annum over FY13-16. During the same period, the Laminate market size has increased from ~INR 30 bn to INR 50 bn (CAGR of 15%) and CPL utilized its expanded capacity effectively to become the 3rd largest Laminate player in the country.

The GST rate for the Laminates has come at 18% vs. 28% currently. This is expected to substantially benefit the organized players as the benefits from the lower tax rate would be immediately passed on by the branded players to the consumers thereby lowering the pricing differential between the branded & unbranded products

Over FY14-17, CPL achieved Laminates volume/revenue CAGR of 19%/20% while realizations grew at a CAGR of 1%. EBITDA for Laminate & allied products grew at a CAGR of 51% over the same period aided by company's focus on high margin 1mm (50% of volumes) & 0.8 mm thick Laminates and strong brand recall among its consumers. Company currently gets nearly 30% of its laminates revenues from exports to Middle East & South East Asian countries. With the strong demand witnessed by CPL in laminates business, CPL plans to set up 2 additional lines by FY18E for laminates at a cost of INR 450 mn as the capacity utilization for its existing capacity has already reached around 97-100%. Upon completion of the capex CPL's capacity in laminates would be enhanced from 4.8 mn cbm to 7.2 mn cbm. The new line is expected to start operations by early 2HFY18.

Going forward, we expect Laminate segment to post volume/revenue CAGR of 20%/22% and average realizations to grow at a CAGR of 2% over FY17-20E led by better growth due to lower GST rates and reduced pricing differential vs. unorganized players. Additionally, Pre-laminate division is expected to post volume/revenue CAGR of 29%/33% due to higher captive consumption from company's Particle Board unit. We expect Laminate & allied product division to post Revenue/EBITDA CAGR of 23%/23% over FY17-20E with sustainable EBITDAM of 16-16.5%.

Exhibit 11: Capacity enhancement for laminates

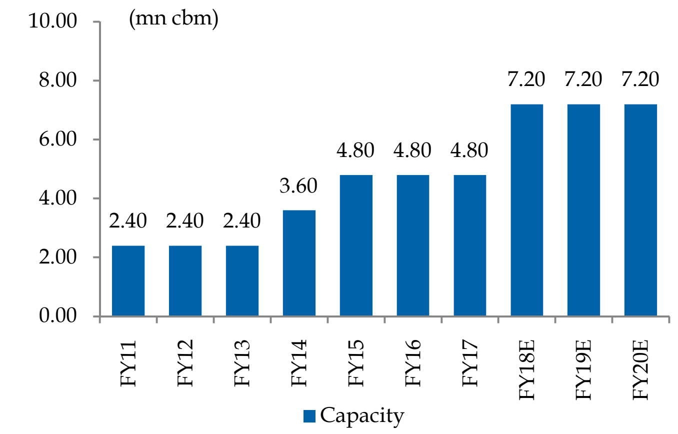
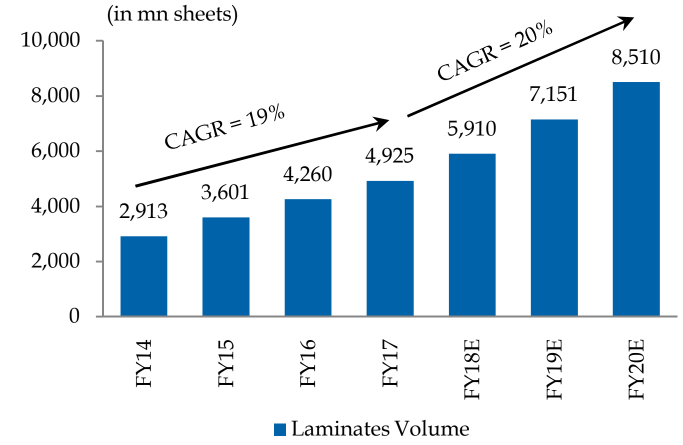


Exhibit 12: Laminate to post volume CAGR of 20%



Source: Company, YSL

Exhibit 13: Pre-laminates to grow at faster pace

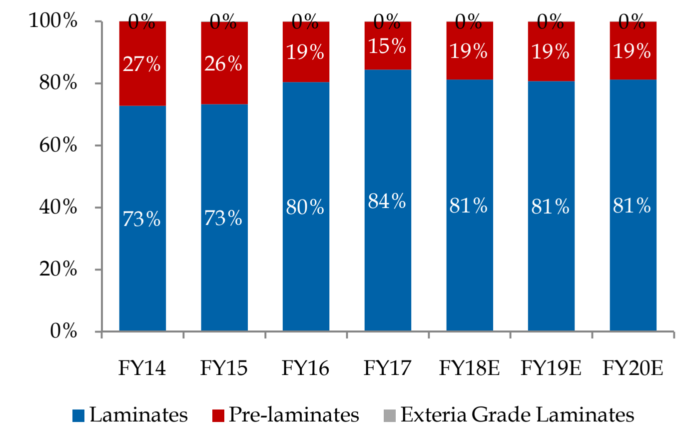
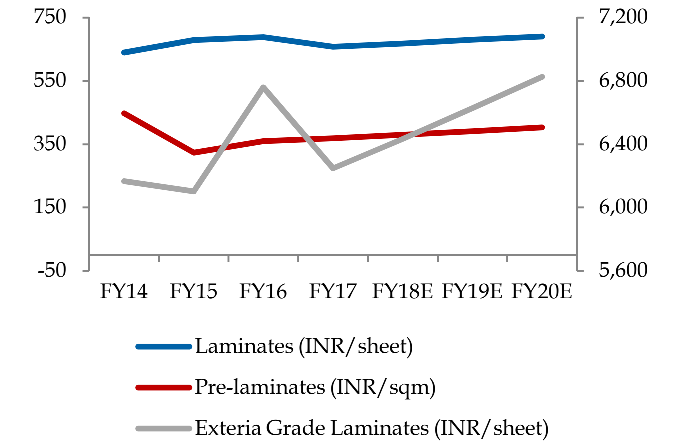


Exhibit 14: Realization trends



Source: Company, YSL

- ✓ **MDF Foray to propel next leg of revenue growth:** CPL is planning to set up a MDF manufacturing unit in Hoshiarpur, Punjab with a capacity of 600 cbm/day (198,000 cbm/annum) and a total capex of INR 4 bn. The area near the plant is rich in plantation timber, a key raw material for manufacturing of MDF. The plant is expected to get commissioned by 2QFY18 and are expected to generate revenues of ~INR 5 bn at peak capacity utilization.

  For its MDF plant, CPL is importing the Hot-press from a Chinese company named "Yalian" which is the largest supplier of MDF machinery in China. In last 2-3 years, Chinese MDF manufacturers have hardly bought any plants from Europe and most of the machineries were supplied by Yalian (almost 30 lines) as they are cheaper than European ones by almost 50% but supposedly give equivalent output. The Refiner, which is the most critical component of an MDF plant, is being imported from an Austrian company Andritz while the Sanding machine is being imported from a Swiss company Steinemann Technology.

- ✓ **Company's entry into MDF capacity will come at a very opportune time as other players are coming up with increased capacities in FY19:** GIL's MDF plant is also expected to reach its peak utilization by 1HFY18 while Action Tesa is also likely to face capacity constraints. Due to this, CPL is likely to be in a sweet spot and will be able to cater to any incremental demand that might arise in Northern India which roughly accounts for ~30% of MDF sales in India. Company's plant in Punjab is in close proximity to the North Indian markets of NCR, Punjab, UP, Delhi etc. Since North India is land locked, it is very difficult to bring in imported MDF from Western or South Indian ports due to prohibitive freight costs. MDF as a product will compete with cheap plywood which roughly accounts for ~INR 40 bn (~22% of industry sales). We believe that in terms of volumes this number would be over ~40% of the entire plywood industry.

Exhibit 15: MDF revenue CAGR of 49% over FY18E-21E

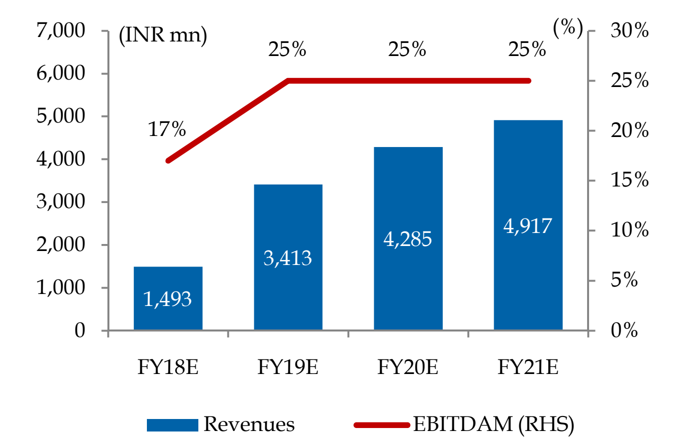
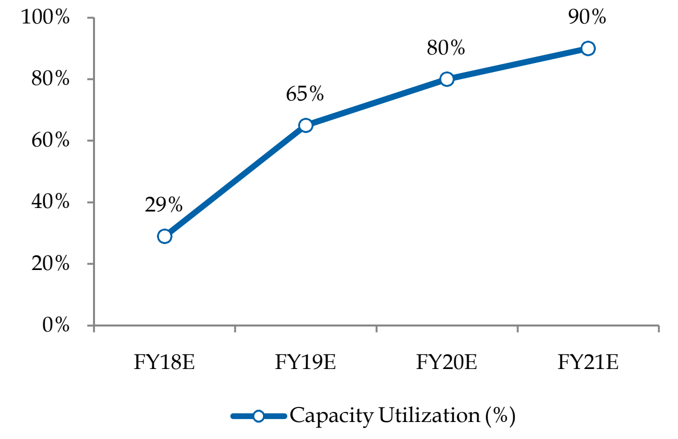


Exhibit 16: Expect fast ramp of new MDF capacity



Source: Company, YSL

Additionally, there are not many Timber consuming plants/industries in Punjab due to which CPL would be able to get around 6-7% cost arbitrage on timber costs compared to GIL & Action Tesa plants which are located in Uttarakhand and hence it can be more aggressive in developing the brand. Due to this, company expects to make 28-29% of steady state EBITDAM once plant operations stabilize (we have assumed ~25% EBIDTAM). We expect MDF capacity utilization to reach 90% by FY21E and revenue/EBITDA CAGR of 49%/69% over FY18E-21E mainly driven by volume CAGR of 46%. The division is likely to contribute ~13% of the total revenues by FY21E.

- ✓ **CFS revenues to be driven by traffic growth at Kolkata Port trust:** Kolkata port registered 16% growth in container traffic in FY17 over FY16. The government has taken several measures to improve operational efficiency. With government port connectivity schemes like Sagarmala as well as other infrastructure upgrades like mechanization, deepening the draft and speedy evacuations, the pace of growth is expected to accelerate in the coming years. Container traffic at the Kolkata port is expected to grow at a CAGR of 20-25% over next 4-5 years. However, there are several new ports/terminals planned to be set up in the vicinity of KoPT, which will result in increased competition in the vicinity. So, we expect the division to post revenue/EBITDA CAGR of 10%/11% over FY17-20E with EBITDA margin of around 40-41%

Exhibit 17: CFS volume CAGR of 5% over FY17-20E

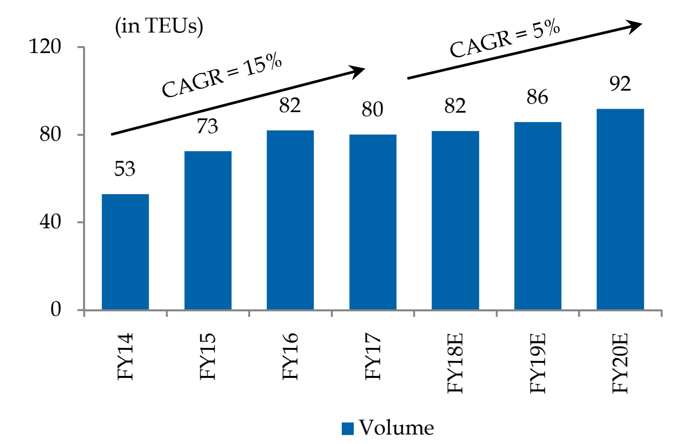
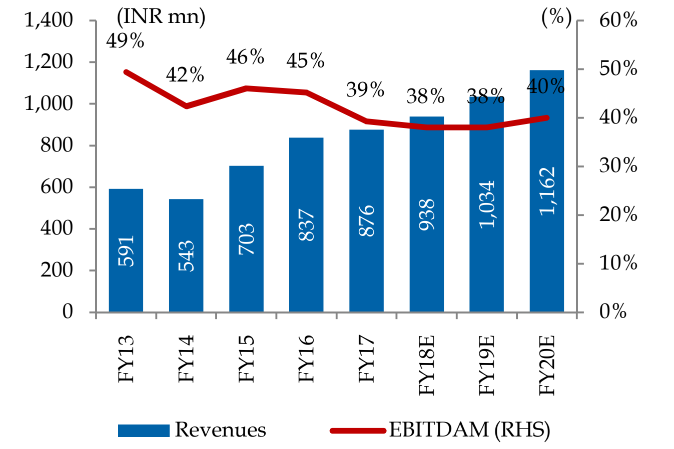


Exhibit 18: EBITDA margins to expand by 100 bps



Source: Company, YSL

- ✓ **CPL has done backward integration by setting up a particle board unit in Chennai which will also support company's pre-lamination division:** Particle boards are mainly supplied to organized furniture manufacturers and is used for making modular furniture, kitchens etc. Earlier CPL used to import particle boards, pre-laminate them and sell them in the market. For pre-lamination, it had two short cycle presses at Chennai (near its Plywood plant) and Kolkata. However, due to absence of organized furniture makers in Kolkata, it was not able to utilize its capacity optimally.

  Company's peeling unit at Chennai generated a lot of wood wastage due to use of plantation timber and there are also a lot of Saw mills in and around Chennai which also generated wood wastage. So, it decided to setup a fully backward integration facility at its Chennai plant to manufacture particle boards using this wood wastage. The installed capacity of the plant is 54,000cbm/year (180cbm/day) and it incurred a capex of ~INR 650 mn of which INR 500 mn would be for plant & machinery and Rs. 150mn would be margin money + other expenses. The plant commenced production from Jul'16.

  CPL has also shifted its short cycle press from Kolkata to Chennai to facilitate lamination of its entire particle boards' capacity. Company expects peak revenue generation of INR 1.25 bn with EBITDAM of around 20%. It would be sourcing saw dust both from its own peeling unit (50%) and nearby Saw mills (50%).We are building pre-laminate revenues to jump to INR 838 mn (23% CAGR) led by higher captive consumption from new Particle board division.

- ✓ **Increased focus on providing wider product portfolio to serve newer markets will reduce dependence on Plywood:** Over the years, CPL has been strengthening its business by expanding its product portfolio and venturing into newer segments. It strategically selects and enters under-addressed product segments since competition is limited and any brand upside translates into an attractive market share since the brand does not remain a brand but graduates to a generic name and the company does not have to fight for market share but creates a market that did not exist. It launches the products via imports to test the markets to a point where the demand can justify setting up of a manufacturing facility. For instance, the Company introduced pre-laminated MDF and particle boards via imports. After these products had matured, the company initiated steps for setting-up particle board unit (already commissioned) and MDF unit.

Company launched decorative and molded panel doors in 2015 and introduced fibre cement and PVC boards in FY16 in-line with its strategy of creating a portfolio of non-wood panel products. It has entered the market with imported products and expects to get a 10% market share of the INR 10 bn Fibre cement board market by 2020. It has also introduced wood-plastic composite panels test-marketed under the "Zykron" brand name and has a presence in laminated doors.

- ✓ **Revenues/EBITDA/PAT to grow on the back of higher plywood capacity utilization, focus on laminates & MDF foray:** Currently demand is sluggish for the wood products due to the slowdown in real estate sector. CPL has been focusing to grow its mid-market plywood 'Sainik' to counter the fall in demand in its premium segment. Laminates demand, which is supplementary to plywood demand, has also not picked up materially, though CPL has been able to grow in the segment due to various initiatives.

  Going forward, demand is set to pick up due to Government's intense focus on Infra development, providing housing for all, development of smart cities and rollout of GST. CPL's entry into MDF at an opportune time will establish an additional revenue stream for the company in the fast growing MDF market. Therefore, we expect Revenues/EBITDA/PAT CAGR of 20%/21%/16% over FY17-20E with EBITDAM improving by 50bps led by higher utilization in Laminates and increased contribution from higher margin MDF division.

- ✓ **Expect working capital cycle to remain steady going forward:** CPL's working capital cycle is longer than its peers due to higher inventory days and lower payable days. Earlier the Company used to hold 3-4 months of timber inventory in India since it was importing it from Myanmar. After the establishment of its Myanmar unit in FY14, CPL is now directly importing Face Veneers instead of timber due to which its inventory days have been going down. Going forward, we expect the inventory days to remain steady as the churn time has reduced considerably and company has succeeded in getting stability in its raw material supply. We believe that overall WC cycle is likely to remain stable going forward and so we expect cash conversion cycle to remain in the range of 100 days.

- ✓ **Return ratios to improve from FY18E-19E while cash flow from operations to increase gradually with rise in profitability:** CPL's cash flow is set to gradually improve over FY18E-21E as it comes out of a major capex period. Profitability is set to improve with increased utilization of Laminates & MDF capacities and we expect PAT to grow at a CAGR of 16% over FY17-20E. Company's net D/E is likely to improve from current levels of 0.86 to 0.36 in FY20E due to strong cash flow generation from MDF & Laminates business. Core ROIC is expected to improve over FY17-20E from current levels of 17% to 20% in FY21 due to its MDF capacity being operational and major capex being completed.

Valuation:

- CPL is moving out of a capex cycle and is well-positioned to capture the demand shift from unorganized to organized post GST implementation. We expect all its 3 divisions to contribute to volume and revenue growth over FY17-20E with MDF seeing the highest traction due to its growing usage and capacity constraints of competitors. We expect CPL to post Revenue/EBITDA CAGR of 20%/21% over FY17-20E as margins are set to improve due to changing product mix & higher contribution from MDF segment which commands better margins. The stock is currently trading at 22x FY19 EPS and 20x FY20E EPS respectively. We arrive at a TP of INR 358 by assigning a target multiple 30x on our FY19E EPS. We expect ROIC to improve from 17% currently to around 20% in FY21E.

Investment Risks

- **Uncertainty related to any export ban of wood by countries such as Laos or Myanmar might hit supply of face veneer:** The Laos government has recently issued a ban on the export of logs and timber and is likely to extend it for further time period. On the other hand, Myanmar Govt. has lifted the year old ban from Apr'17 (barring certain regions) but it will be bringing verifiable legal timber to the international markets going forward.

- **Recovery in real estate industry might be delayed:** The Indian real estate sector has seen significant slowdown in last 2-3 years and this has affected the growth of higher margin luxury/premium plywood. The demonetization step is likely to further delay the demand recovery by 6-9 months at-least. However, post demand stabilization together with positive effects from Real estate regulation bill & introduction of REITs will definitely give a boost to growth in next 1-2 years.

- **Any unfavorable movement in raw material prices would reduce profitability:** Crude linked chemicals like Phenol form 20% of the total plywood raw material costs while on the MDF side, crude derivative chemicals contribute approximately 35% of the total raw material cost. Though company benefited from crude price fall in last 2 years, any upward price movement would lead to higher costs of chemicals and hit on Gross margins.

- **Excessive competition in MDF might lead to lower realizations:** CPL's MDF will compete with GIL and Action Tesa who are having substantial presence in Northern markets. Action had already initiated price cuts on some of the thicknesses few months back in anticipation of increased MDF supply. Any pricing war might lead to lower than expected realizations resulting in lower profitability

- **Adverse Forex movements might impact bottom-line:** Forex volatility related to sourcing of raw materials like Face Veneers, Craft Paper& Design Paper can impact the profitability adversely.

Key Financial Charts

Exhibit 19: Revenue CAGR of 20% over FY17-20E

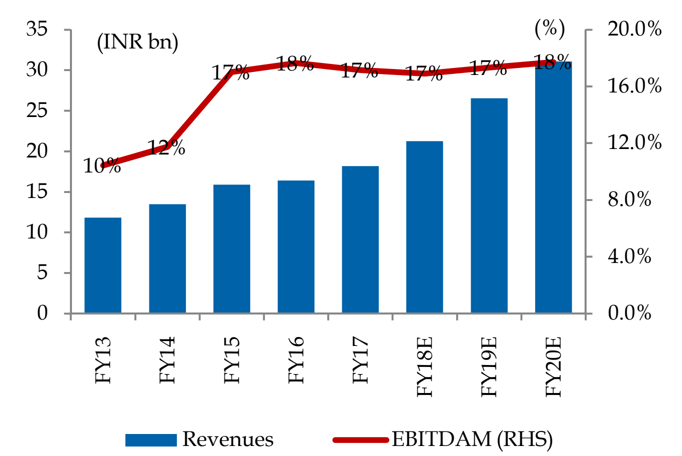
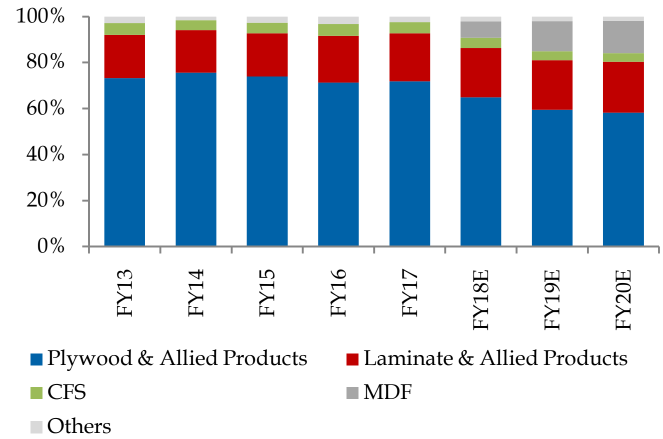


Exhibit 20: Revenue mix changing in favour of MDF



Source: Company, YSL

Exhibit 21: EBITDA mix changing in favour of MDF

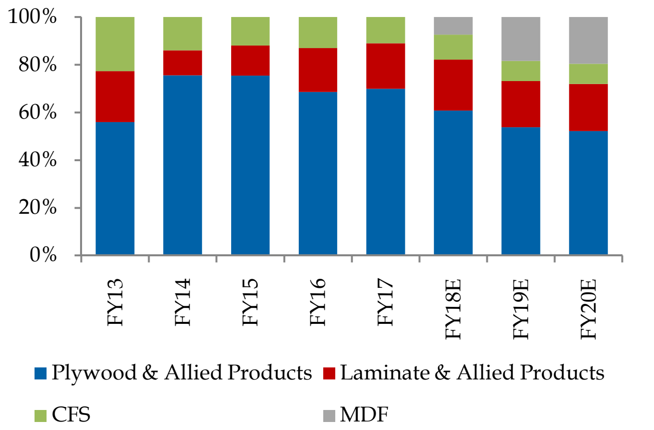
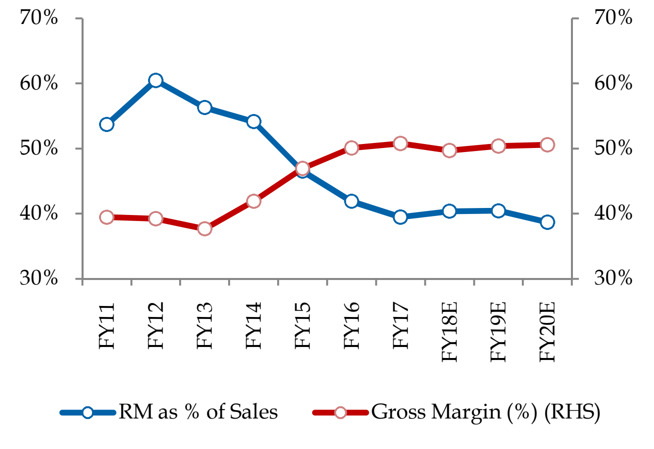


Exhibit 22: Gross margin expected to remain steady



Source: Company, YSL

Exhibit 23: Profitability and return ratios

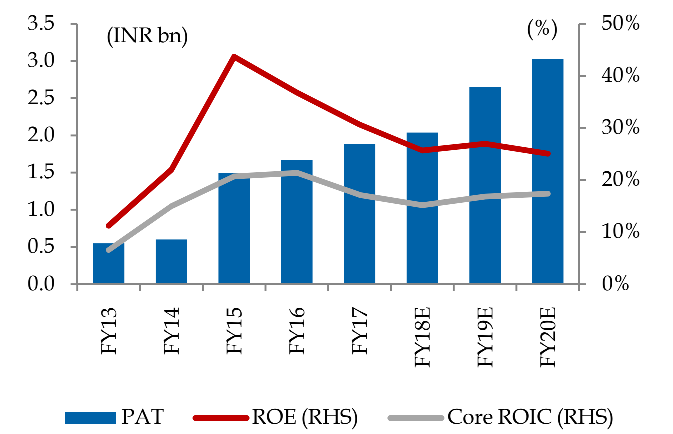
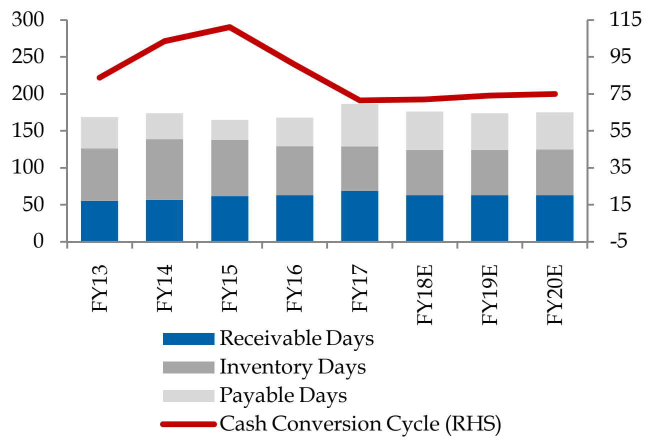


Exhibit 24: Working capital variables



Source: Company, YSL

Exhibit 25: Expect to generate FCF from FY19E

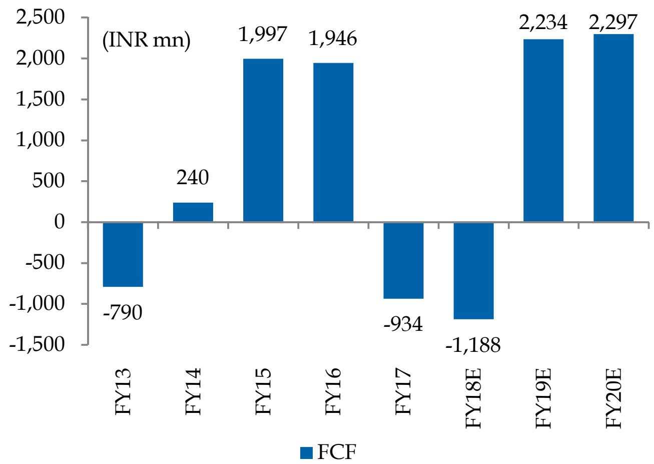
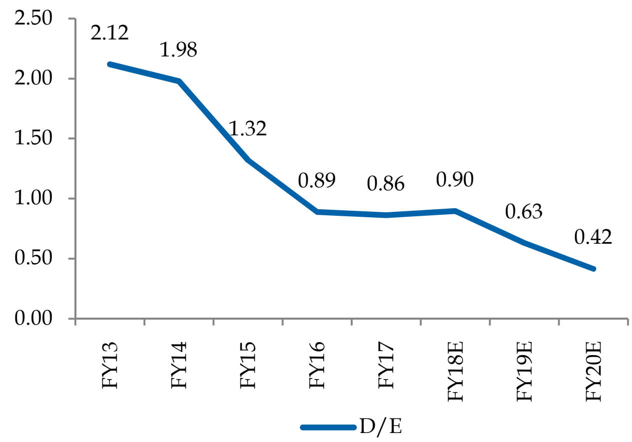


Exhibit 26: Debt reduction to start from FY19E



Source: Company, YSL

INCOME STATEMENT

(INR Millions)

Year ending March	FY16	FY17	FY18E	FY19E	FY20E
Total operating revenues	16,409	18,187	21,273	26,534	31,082
Growth (%)	3.3	10.8	17.0	24.7	17.1
EBITDA	2,895	3,120	3,597	4,600	5,508
EBITDA margin (%)	17.6	17.2	16.9	17.3	17.7
Growth (%)	7.1	7.8	15.3	27.9	19.7
Depreciation & amortization	475	593	778	1,010	1,058
EBIT	2,420	2,527	2,819	3,591	4,450
EBIT margin (%)	14.7	13.9	13.3	13.5	14.3
Interest	479	302	420	474	394
Other income	60	226	123	146	152
Profit before tax	2,001	2,450	2,521	3,263	4,208
Tax	304	515	479	612	1,183
Minority interest	-8	-30	-0	-0	-0
Reported net profit	1,698	1,935	2,043	2,651	3,025
Extraordinary items	19	24	5	-	-
Adjusted net profit	1,671	1,881	2,038	2,651	3,025
Adjusted net margin (%)	10.2	10.3	9.6	10.0	9.7
Diluted EPS (INR)	7.6	8.6	9.2	11.9	13.6
Growth (%)	13.4	12.8	7.2	29.8	14.1

CASH FLOW STATEMENT

(INR Millions)

Year ending March	FY16	FY17	FY18E	FY19E	FY20E
PBT	2,001	2,450	2,521	3,263	4,208
Depreciation	475	593	778	1,010	1,058
Others	561	-24	-5	-	-
Tax Paid	-467	-515	-479	-612	-1,183
Changes in Working Capital	359	-577	-772	-969	-1,119
Net Cash from Operations	**2,929**	**1,927**	**2,044**	**2,692**	**2,964**
Capex	-1,498	-3,099	-3,573	-844	-950
Change in Investment	106	-	-	-	-
Others	2	-	-	-	-
Net Cash from Investing	**-1,389**	**-3,099**	**-3,573**	**-843**	**-950**
Change in debt	-461	1,470	1,717	-1,020	-1,356
Change in Equity	20	247	-	-	-
Others	-1,084	-261	-342	-546	-683
Net Cash from Financing	**-1,525**	**1,456**	**1,375**	**-1,566**	**-2,040**
Net Change in Cash	**14**	**283**	**-154**	**283**	**-26**
Ending Cash Balance	389	672	518	802	776
Free cash flow (FCF)	**1,946**	**-934**	**-1,188**	**2,234**	**2,297**

BALANCE SHEET

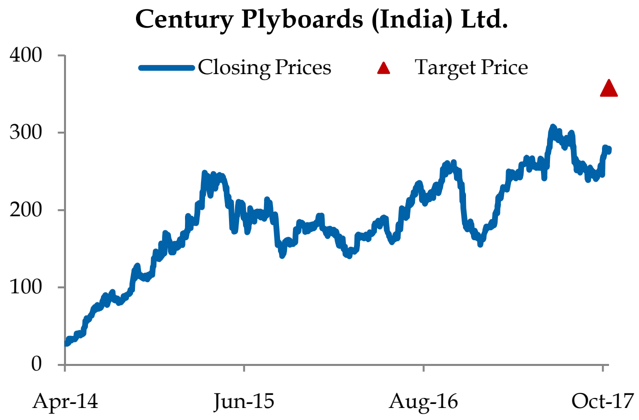
(INR Millions)

Year ending March	FY16	FY17	FY18E	FY19E	FY20E
SOURCE OF FUNDS					
Share capital	223	223	223	223	223
Reserve & Surplus	5,066	6,927	8,562	10,678	13,033
Total shareholder's funds	5,288	7,149	8,785	10,900	13,256
Minority Interest	90	120	120	120	120
Debt	4,697	6,167	7,884	6,864	5,508
Deferred tax liabilities/(assets)	14	20	80	69	56
TOTAL	**10,089**	**13,456**	**16,869**	**17,954**	**18,940**
APPLICATION OF FUNDS					
Fixed assets	5,188	6,339	10,447	11,397	12,347
Less: Depn. and amort.	2,626	3,219	3,997	5,007	6,065
Net block	2,562	3,120	6,450	6,390	6,282
Capital WIP	1,020	2,988	947	-	-
Long term investments	-	-	-	-	-
Other long term assets	1,058	1,038	2,544	3,384	3,384
Inventories	2,975	3,006	3,555	4,434	5,280
Debtors	2,842	3,422	3,672	4,580	5,365
Cash & cash equivalents	389	672	518	802	776
Loans & advances	208	805	932	1,018	1,022
Other current assets	696	797	788	303	179
Total current liabilities	1,661	2,393	2,538	2,957	3,348
Net current assets	5,449	6,310	6,928	8,180	9,273
TOTAL	**10,089**	**13,456**	**16,868**	**17,954**	**18,939**

KEY RATIOS

Year ending March	FY16	FY17	FY18E	FY19E	FY20E
PROFITABILITY RATIOS					
EBITDA Margin (%)	17.6	17.2	16.9	17.3	17.7
Adjusted net margin (%)	10.3	10.5	9.6	10.0	9.7
Return on invested capital (%)	21.4	17.1	15.2	16.8	17.4
Return on equity (%)	36.8	30.6	25.6	26.9	25.0
EFFICIENCY RATIOS					
Asset Turnover	4.6	3.0	2.9	4.2	4.9
Debt to equity	0.9	0.9	0.9	0.6	0.4
Net debt to equity	0.8	0.8	0.8	0.6	0.4
Interest coverage	5.1	8.4	6.7	7.6	11.3
Debtor days	63.2	68.7	63.0	63.0	63.0
Inventory days	66.2	60.3	61.0	61.0	62.0
Payable days	38.5	57.5	52.0	50.0	50.0
PER SHARE DATA					
Diluted EPS (INR)	7.6	8.6	9.2	11.9	13.6
Book value per share (INR)	23.8	32.1	39.5	49.0	59.6
DPS (INR)	1.0	1.0	1.5	2.0	2.5
VALUATION RATIOS					
P/E	36.69	32.54	30.34	23.38	20.49
P/BV	11.72	8.67	7.06	5.69	4.68
EV/EBITDA	22.90	21.63	19.28	14.79	12.11
Dividend Yield (%)	0.36	0.36	0.54	0.72	0.90

Recommendation History



Date	Rating	Target Price	Closing Price
27-Oct-17	ACCUMULATE	358	279

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Analysts assign ratings to the stocks according to the expected upside/downside relative to the current market price and the estimated target price. Depending on the expected returns, the recommendations are categorized as mentioned below. The performance horizon is 12 to 18 months unless specified and the target price is defined as the analysts' valuation for a stock. No benchmark is applicable to the ratings mentioned in this report.

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NO VIEW: Not in regular research coverage

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