



Century Plyboards Ltd (NSE Code: CENTURYPLY) – Alpha/Alpha +
stock recommendation for Aug'14

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Company Snapshot (As on 24th Aug'14)

Current Market Price – Rs 86.95

Dividend yield – 1.15%

BSE Code – 532548

NSE Code – CENTURYPLY

Market capitalization – Rs 1,930 cr.

Total Equity shares – 22.21 cr.

Face Value – Rs 1.00

52 Weeks High/Low – Rs 96.90/Rs 22.05

Particulars (in cr.)	FY 09	FY 10	FY 11	FY 12	FY 13	FY 14
Income from operations	647.69	707.91	877.06	1118.35	1181.65	1347.65
Gross profit	238.43	306.55	346.06	438.68	445.25	564.84
Gross Profit margin (%)	36.81%	43.30%	39.46%	39.23%	37.68%	41.91%
EBITDA	51.24	84.5	97.66	147.76	123.37	176.58
EBITDA margin (%)	7.91%	11.94%	11.13%	13.21%	10.44%	13.10%
Foreign exchange fluctuation gain/(loss)	0	21.65	0	-9.22	2.57	-18.36
Foreign exchange effect on borrowing	0	0	0	-21.2	-20.24	-27.28
Other Income						
Div from LT trade investments	22.17	22.16	11.82	0	0	0
Interest on FD Loans and Misc.	0.93	1.24	4.03	4.12	4.64	3.70
Depreciation	-16.92	-18.91	-24.17	-26.51	-27.96	-38.71
Interest	-17.55	-13.00	-13.56	-18.76	-20.12	-33.06
PBT	40.81	96.48	75.78	76.18	62.25	62.86
ROAE	24.87%	48.54%	29.88%	25.78%	21.91%	22.90%
Cash flows from operations	-0.11	84.89	54.49	23.75	60.4	33.85
Net debt	179.31	180.69	200.11	312.39	439.91	541.4

Century Plyboards Ltd – Introduction

Century Plyboards is India's leading wood-panel Company. It operates mainly in two segments: plywood and laminates. Plywood brings in ~76% of its revenues, laminates about 18%. Container Freight Stations (CFS) account for the remaining.

The company has six plywood manufacturing plants spread across the length and breadth of India and one in Myanmar. It is among the top-three laminate manufacturers with capacity of 4.8m sheets and it also has two container-freight stations at the Kolkata port.

Over the last 30 years the company has emerged as a dominant player in the decorative plywood industry with more than 25% share of the organised market worth 4,500 crores. Against the plyboard industry growth rate of 12% for the last 6 years, Century Plyboard has recorded 18% CAGR led by market share gains from the unorganised segment.

Century Ply has also established itself as one of the leading laminate brands in India (third-largest manufacturer in India after Greenply and Merino) and its laminate revenue recorded a 15% CAGR over FY09-14.

It's important to note here that of the total plywood industry (15,000 crores +), the share of organized players is still 30%, though it has increased from 10% a decade back. As is being witnessed in other industries, the share of organized players is expected to inch up further from 30% and if GST is implemented then the gain in market share will be much faster. With strong entry barriers (Govt. licensing as a hedge against de-forestations and difficulty in sourcing raw material) the incumbent organized players like Century will be the key beneficiaries of the shift towards branded products.

In order to sustain the growth momentum, the company recently doubled its laminates capacity to 4.8m sheets and increased the plywood capacity to 210,000 CBM. It has also increased its dealer's base from 1,106 in FY12 to 1,424 in FY14.

As per the management, they are experiencing good demand for their products and expect to sustain 25% + CAGR for the next few years and have in-fact set an ambitious target of 5000 crores revenue by 2020 (1,284 crores in FY 14).

Century Plyboards – digging deeper

Cement and Ferro alloys subsidiary hived off – Besides the business interests in plyboards, laminates and CFS, the company had also been manufacturing ferro alloys and cement and producing captive power through its subsidiaries.

In FY06, it acquired Cement Manufacturing Co. and Meghalaya Technical and Engineers; in FY08, Star Cement Meghalaya; in FY09 Meghalaya Power; and in FY11, NE Hills Hydro to manufacture Ferro alloys and cement and produce power.

However, in FY12, the company acquired Star Ferro and Cement (a fully-owned subsidiary) to hive off the above un-related businesses. In FY13, the scheme of arrangement was affected and the business and interests of the company in manufacturing Ferro alloys, cement and producing captive power were transferred to Star Ferro & Cement and was hived off as another listed entity.

So, with the de-merger, the Company is now engaged in the manufacturing of plywood, laminates, veneer, MDF, block-boards and doors, among others. The Company is also engaged in container freight station (CFS) business, managing the first private CFS at the Kolkata Port.

Century Plyboards is amongst the largest manufacturers of plyboards in India and commands 25% in the organised market and a market share of 7.5% in the overall market. The company is a brand leader in plyboards and commands a price premium of 5%/30% over its nearest competitor/unorganised peers.

Company	Price (Rs sq. ft./19 mm)
Century Ply	140
Green Ply	126
Archid Ply	120
Sarda	125
Uniply	110
National	115

Manufacturing units spread across India

The Company has seven manufacturing units Joka (West Bengal), Guwahati (Assam), Kandla (Gujarat), Chennai (Tamil Nadu), Karnal (Haryana), Roorkee (Uttarakhand), and Myanmar. The Myanmar and the Roorkee units are held through subsidiaries.

Besides, the company also imports and trades in medium density fibreboards (MDFs) in India through its subsidiary Century MDF Ltd.

Plant (Plyboards)	Capacity (cbm)		Capacity utilization	Laminates Capacity (sheets)		Capacity Utilization
	FY 10	FY 14	FY 14	FY 13	FY 14	FY 14
Joka (West Bengal)	25400	37000	75%	2400000	4800000	61%
Chennai	25400	39420	75%			
Guwahati	21600	35000	94%			
Karnal	36000	36000	83%			
Kandla	-	31000	43%			
Roorkee	25000	25000	73%			
Myanmar	-	6000	0%			

During 2013-14, the company increased plywood manufacturing capacity by 21% from 172,420 CBM in 2012-13 to 209,420 CBM in 2013-14. The company commissioned the Myanmar capacity (6,000 CBM) and the Kandla capacity (31,000 CBM) in January 2014.

Post the recent capacity expansion, Century has the largest installed plyboard manufacturing capacity in India. In the laminate segment, however, Greenply is the undisputed leader (almost double the capacity of Century). As per the management they already have spare land at their plant in Gujarat and can add another plyboard line for Rs 40 crore and can add three laminate lines at an investment of Rs 50 crore.

Importance of Kandla Unit: Kandla is a port-based unit, the Company's first in western India and it will strengthen Company's competitiveness in various ways: it will help access raw material from large ships that would be able to enter the Kandla port, enhancing inward logistic efficiencies. Besides, the Kandla unit will be able to address peeling and plywood manufacturing at the same location, saving transportation costs in sending raw timber to a deep land based location from where the end product would have to be transported to consuming markets.

Raw material security

In the wake of recent ban imposed by Myanmar Govt. on the export of raw timber, raw material security is now a major concern for most of the plywood manufacturers in India; however Century Ply has ensured raw material security as it's the only company in India with backward integration for face veneer production in Myanmar.

Basically, plywood manufacturing requires **face timber**, **core timber** and various **chemicals**; while core timber and chemicals are readily available, face timber is imported largely from Myanmar.

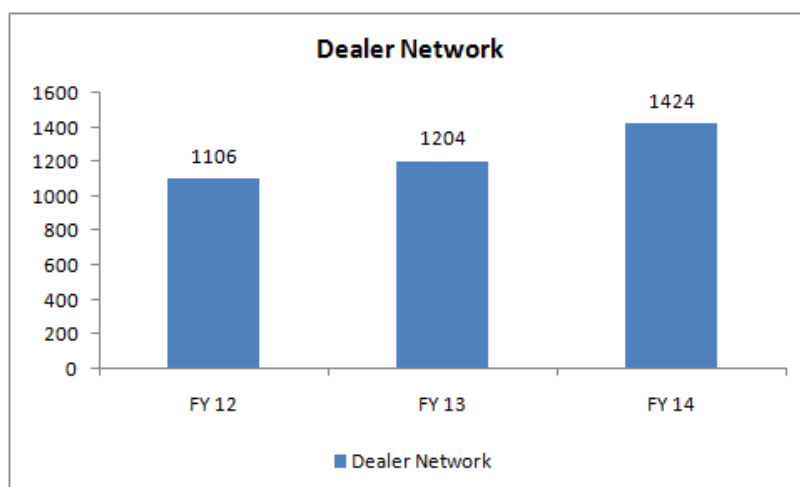
Recently, in Apr'14, Myanmar banned exports of unprocessed timber and allows only semi-processed timber (face veneers) to be exported. Luckily for Century Ply, even before the imposition of ban, they were already in the process of setting up a unit in Myanmar through a wholly owned subsidiary Century Myanmar, and the manufacturing unit got commissioned in FY 14. So, Century Ply now has a 6,000 CBM peeling unit in Myanmar and the same enjoys attractive tax and duty benefits. Management is further contemplating an increase in capacity to 30,000 CBM by the end of first half of 2015.

As per the management, the Myanmar subsidiary purchases timber at government auctions, converts it to veneer, and then exports it to Century Plyboards. Veneers weigh much less than timber; hence, would save on transportation and logistics costs as well for the company.

Distribution reach

Century ply is a pan-India player with not just its manufacturing facilities spread across different parts of India, but also in terms of distribution.

As per the management, the Company's sales are largely retail driven as around 90% of the Company's products are marketed through the price-inelastic retail network while only 10% are marketed through the discount-driven OEM network.



The Company's products are sold in more than 13,000 retail outlets and in order to service them in timely manner the company has 33 marketing offices and has also widened its dealer network from 1,106 in 2011-12 to 1,424 in 2013-14.

It's important to note here that plyboards being bulky products, dealers/retailers prefer lower stocking of inventory and thereby like to partner with companies that can offer **multiple SKUs and also ensure timely supply of products** and this is where unorganized smaller companies are found lacking.

As per various sources, Century Ply ensures 'single-day' delivery given its strong reach and distribution network across India. This allows the dealers to maintain JIT (Just in Time) inventory management, wherein the dealers can limit inventory holding days.

Regarding SKUs, Century offers a wide range of products available across different price points; they come in varying thicknesses and are imbued with superior aesthetic appeal. Unbranded plywood manufacturers offer 400 SKUs compared to Century Ply which offers over 1,500 SKUs.

Brand building

As indicated above, Century Ply is a brand leader in plyboards and commands a price premium of 5%/30% over its nearest competitor/unorganised peers. Century Ply was the first to introduce borer-proof plywood in India and was also amongst the first few companies to evolve from product warrantee to product guarantee.

Though direct end-user involvement in wood-panels purchase decision is still low in comparison to say paints, sanitary ware, electrical items, etc, but the process is definitely gaining ground and some of it can be attributed to brand-building activities of companies like Century ply, Green ply, etc and their premium offerings.

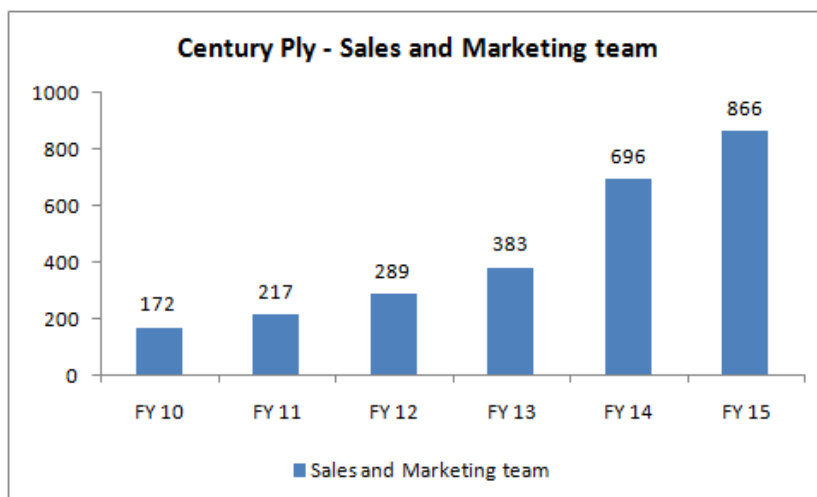
Secondly, aspirations of better-quality housing, increasing income levels has made more urban middle-class households to look for maintenance free high quality products and this is where Century Ply fits in perfectly with its premium offerings and is targeting end users, architects, builders and interior decorators with re-investment into brand building.



Century Ply has been continuously investing in advertisement and branding across platforms like outdoor, tele-commercials and social media and has had several celebrity endorsements from the likes of Late Cricketer Nawab Pataudi, Shahrukh Khan, Amitabh Bachchan and recently appointed Nana Patekar as the brand ambassador and launched a media campaign “Khushiyon ka rangmanch”.

Particulars (in cr.)	FY 09	FY 10	FY 11	FY 12	FY 13	FY 14
Commission on sales	2.08	2.54	4.50	6.44	7.52	7.22
Adv, publicity and sales promotion	13.39	19.93	30.08	32.90	48.38	33.95

As per the management their target is to maintain annual ad spend of about 4% of plywood sales and as the laminates business gains scale, the company may start exclusive campaigns for laminates unit as well.



Besides investing in advertisements and other forms of branding, the company has been on a hiring spree and has recruited more than 700 personnel in the last 4-5 years in the sales and marketing division.

Competitive advantages

Licensing – Century Ply enjoys a competitive advantage as the government’s restricted issuance of licenses owing to stringent environmental considerations has increased industry entry barriers for new entrants. The Company’s experience and infrastructure (marketing, distribution and manufacturing) represent an edge over existing players.

Strategic locations – In pursuance of its strategy to be close to its markets, the company now has facilities in North (61,000m³), South (39,420m³), East (72,000m³) and West (31,000m³). The Company’s strategic locations make it possible for it to supply products pan-India while saving on freight and transportation costs.

Its recently-commissioned plant in Gujarat (31,000m³) affords it competitive edge in tapping western markets aggressively. Through this expansion, it would be able to service the western region, which is one of the largest and most brand-conscious markets. The savings in logistics and distribution costs, along with the improved product mix, could

shore up its operating margins in coming quarters. Additionally, the Kandla port would contribute to reducing its freight bill for imported raw material.

Raw material security – To manufacture plywood, most domestic plywood manufacturers import timber from Myanmar. From 31 Mar'14, however, the government of Myanmar banned export of timber, to promote the domestic wood processing industry.

Following the Myanmar Government's decision to ban log exports, Century Plyboard's 100% Myanmar subsidiary, Century Myanmar P. Ltd., supplies face veneers to the company and helps it gain the first-mover advantage over competitors. The subsidiary purchases timber at government auctions, converts it to veneer, and then exports it to Century Plyboards.

In fact, small unorganized players will now be dependent on Century Ply to a certain extent for their face timber requirement.

Industry Overview

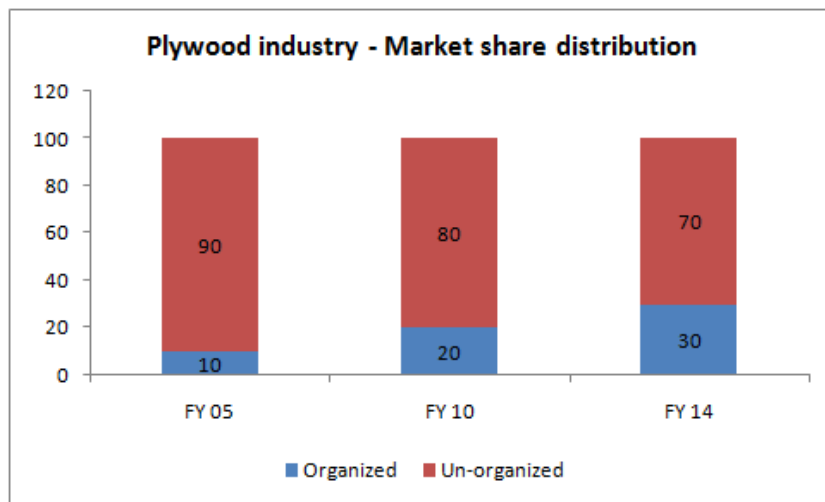
India's plywood market is pegged at Rs 15,000 crore with the branded plywood segment accounting for a small share (Rs 4,500 crore, 2013-14). The industry has been growing at a rate of 10-12% and is creating an annual incremental opportunity worth Rs 1,000 crore for organized players to capitalize on.

Organized players are growing at a higher rate (15% +) on the back of rising per capita income, demand for premium housing, office and commercial space, and a boom in hospitality and healthcare sectors.

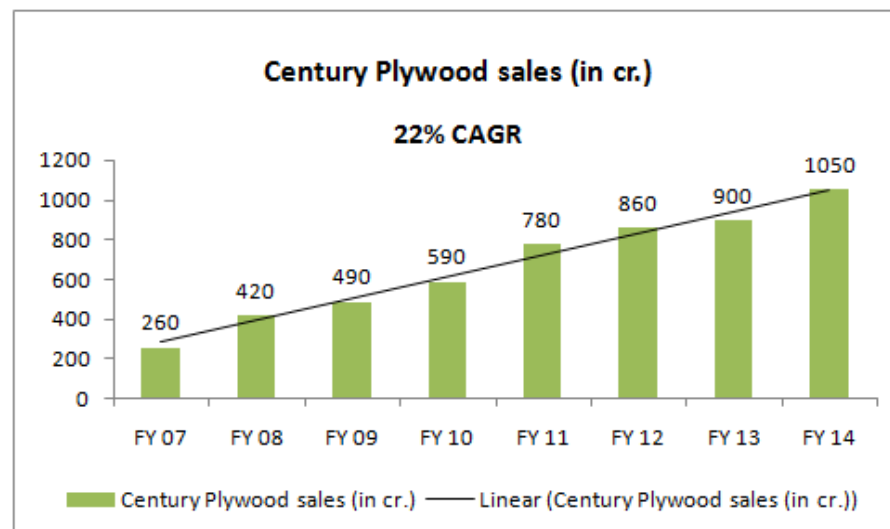
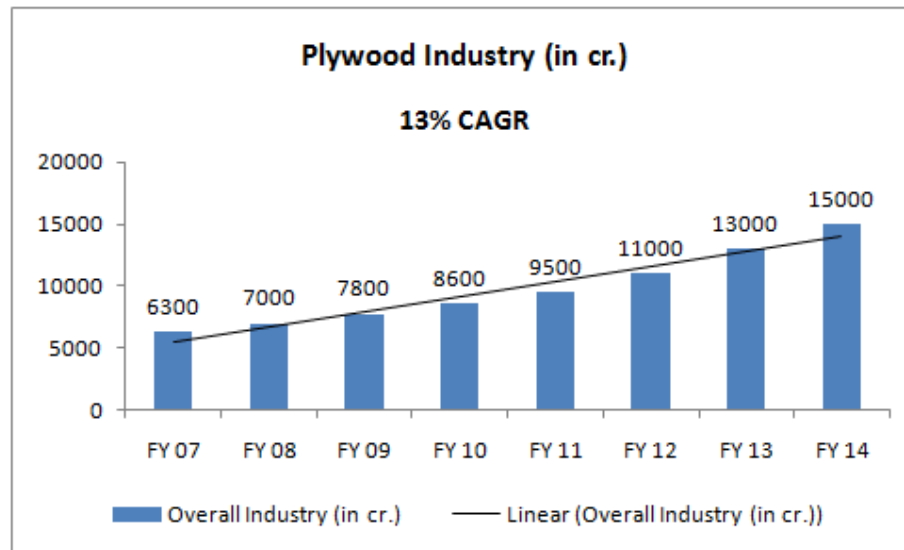
Laminates is a related industry with similar demand drivers as plywood's and is approximately a 4000 crore industry with 10% annual growth rate and 65% market share of organized players.

Transformation in the industry – Over the last two decades there has been a significant transition in the nature of plywood consumption; from a point where plywood accounted for 50% of the investments in interiors it accounts for only 10% today, indicating that the cost of plywood is now no longer a deterrent.

Second major transformation is increasing preference for branded and superior-quality products.



In India, the plywood industry is still highly fragmented with a major chunk of production coming from small manufacturers, many of whom do not even possess a license to produce, however the balance is gradually tilting in favour of branded players. Around a decade back, organized players accounted for only 10% of the overall market, however various marketing initiatives and launch of superior products enabled organized players to grow at a faster clip and they now account for 30% of the overall market.



Also, certain policy decisions at the government level during 2007-2012 helped the organized players gain momentum. A reduction in excise duty from 16% to 8% in 2007-08 (subsequently increased to 10% in 2010-11), and changes in eligibility criteria to claim MODVAT benefits provided much needed relief to the industry. Besides paving way for a level playing field, the changes gave elbowroom to many to use volume, quality and brand to their advantage. This propelled the growth rates of the big players to over 18-20% vis-à-vis the average industry growth of 10-12%.

The branded market is now driven by a few large companies who have plants at multiple locations, invest heavily in brand building, offer ISI-marked products, and constitute around 25-30% of the industry revenue.

GST and Myanmar ban will shrink unorganized market further

GST implementation – With the new government at centre working aggressively towards the implementation of GST, the management of Century Plywood is extremely hopeful of further shrinkage in the size of unorganized players which currently account for 70% of the market.

As per the management, GST will address complexities and inefficiencies of current indirect tax framework, will address double taxation, cascading effects and regional disparities in tax rates, will make inter-state transactions tax neutral and will thereby put both organized and unorganized sectors at level playing field.

Post GST clandestine business will be almost impossible and therefore cost arbitrage enjoyed by unorganized players will vanish, paving way for further increase in market share for branded players like Century Ply.

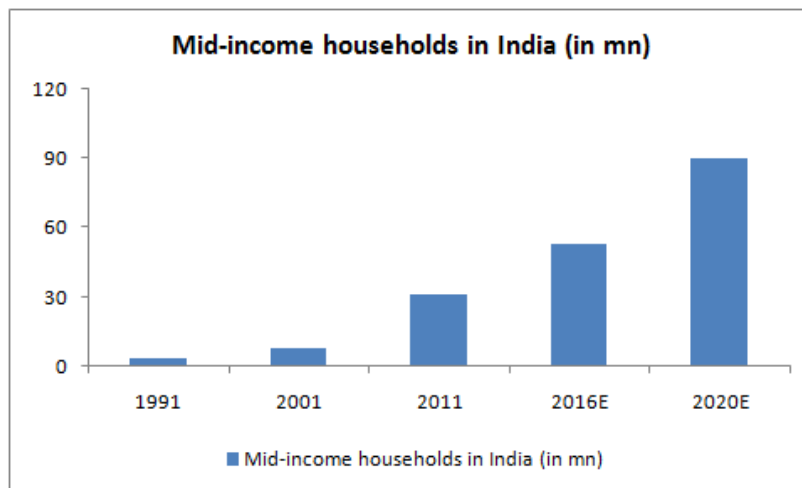
Myanmar ban makes raw material sourcing tougher – As discussed above, Plyboard manufacturing requires three key raw materials: (1) **Face timber** – the outer layer of the plywood which forms 50% of raw material cost and sourced primarily from Myanmar (2) **Core timber** – low-quality timber, available in India and forms 30% of overall raw material costs and (3) **adhesives/fuel** account for the balance 20% of raw material cost.

With Myanmar (the key source of face veneer) banning exports of unprocessed timber from April 2014 and allowing only semi-processed form to be exported, the unorganized players are now dependent to a certain extent on Century ply and Green ply for their face timber needs.

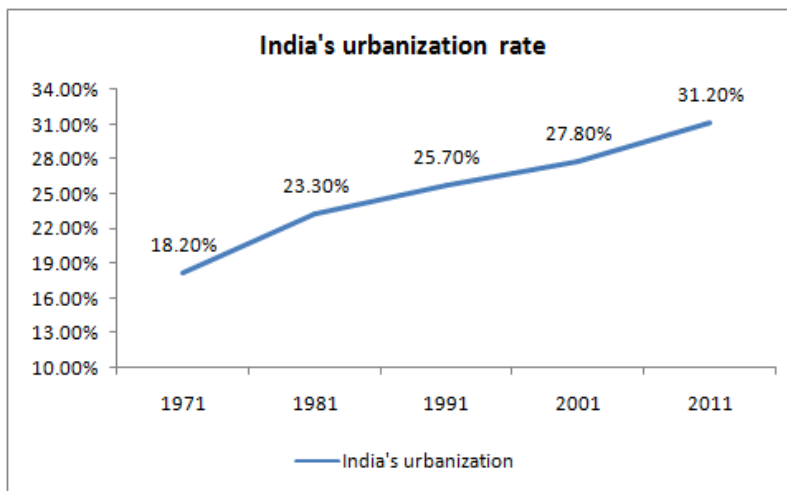
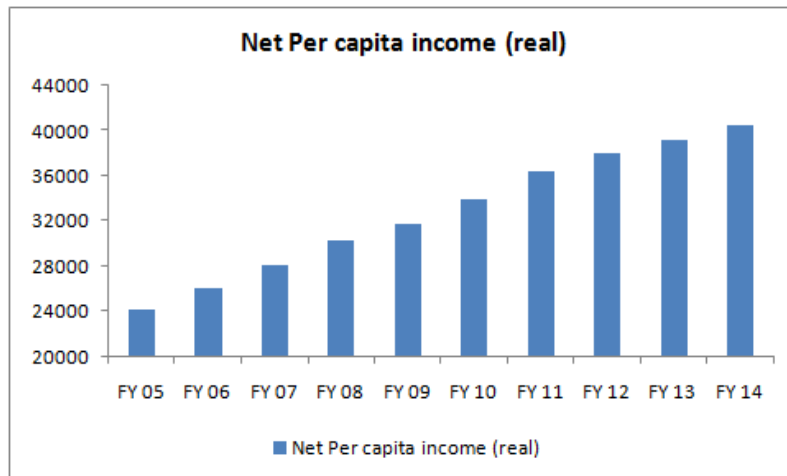
Growth drivers for the wood panels and laminates Industry

In general, the demand for wood-based panels and laminates is rising in India and there are a number of factors driving up the consumption.

One, the sheer quantum of population growth is expected to sustain the off-take of plywood. India's population is growing annually by 1.58%. Besides, India enjoys a unique advantage as a large part of its population falls under the ambit of the 'middle-class' (usually the largest consumption segment within an economy), making it one of the largest segment in the world in terms of purchasing power parity.



Two, the sustained increase in per capita incomes is putting more disposable money in the hands of Indians, translating into increased spending on the home front. For instance, per capita income increased by 10.4% to Rs 74,920 in 2013-14. This increase in affluence would have attractive implications for the country's investments in homes and offices, strengthening plywood off-take.



Three, an Index Mundi study indicates that India's urban population has grown by 2.47% annually over the last decade, making it the fastest urbanising country. India's urban population is expected to increase from 31% today to 40% by 2020, strengthening prospects for plywood manufacturers.

Four, more than 50% of India's population is below the age of 25 and around 65% below the age of 35, making India one of the youngest countries in the world. This combination of youthfulness and economic productivity is catalysing home ownership and investments in interior décor.

Last but not the least, India's realty market is expected to grow from USD 66.8 billion in 2011 to USD 180 billion by 2020, which could enhance the off-take of interior infrastructure brands (including plywood). The growth of the country's real estate sector is likely to be driven by a growth in the mortgage market, decline in the average household size from 4.6 to 4.1 individuals and a concurrent increase in average dwelling sizes from 41 to 48 square metres per unit.

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Century Plyboards – Performance Snapshot

In the below performance snapshot, for FY 09-FY 12 we have depicted standalone results of the company and thereafter consolidated results. As discussed above, till FY 12 Century Plyboards also had cement, Ferro alloy and power division under its fold through various subsidiaries, however in FY 13 it de-merged the Ferro alloy, cement and power divisions and has only Plyboards, Laminates and CFS businesses under Century Ply.

Particulars (in cr.)	FY 09	FY 10	FY 11	FY 12	FY 13	FY 14
Income from operations	647.69	707.91	877.06	1118.35	1181.65	1347.65
Gross profit	238.43	306.55	346.06	438.68	445.25	564.84
Gross Profit margin (%)	36.81%	43.30%	39.46%	39.23%	37.68%	41.91%
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Div from LT trade investments	22.17	22.16	11.82	0	0	0
Interest on FD Loans and Misc.	0.93	1.24	4.03	4.12	4.64	3.70
Depreciation	-16.92	-18.91	-24.17	-26.51	-27.96	-38.71
Interest	-17.55	-13.00	-13.56	-18.76	-20.12	-33.06
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ROAE	24.87%	48.54%	29.88%	25.78%	21.91%	22.90%
Cash flows from operations	-0.11	84.89	54.49	23.75	60.4	33.85
Net debt	179.31	180.69	200.11	312.39	439.91	541.4

What is also important to note here that above FY 09-FY 12 results also include some contribution from Ferro alloys and Power division and therefore the actual growth in sales of plyboards, laminates and CFS is around 18% CAGR.

Now, looking at the results, the obvious fact is that profits of the company have only inched up by 50% in the last 5 years; however that's an incomplete picture because on the gross profit level and EBITDA level the company has performed really well with 19% and 28% CAGRs respectively, but before tax profitability has been impacted greatly by Indian currency depreciation and thereby foreign exchange losses on imports and buyer's credit.

Foreign exchange losses – Century Ply is a net importer as it has to import large quantities of raw material from Myanmar and other countries. Further, in order to pay the creditors for raw material immediately, the company raises buyer's credit which carries interest at ~2% and re-pays the bank in 60-365 days.

Thus, during the last 2-3 years the company suffered both on account of higher cost of raw materials due to currency depreciation and un-hedged buyer's credit as reflected by foreign exchange effect on borrowing.

Going forward the likelihood of currency depreciation seems extremely low; in fact exporters of goods and services are concerned about probable appreciation of rupee from current levels of 60-61.

So, barring any major unforeseen event, the probability of Century Plyboards incurring foreign exchange losses during the next few years seems low.

Net debt – In the last 2 years the net debt of the company has swelled up to more than 500 crore, however most of it is short term and low cost debt in the form of buyer's credit to finance the working capital requirement (mostly raw material imports) of the company.

As mentioned above, the cost of funds in case of buyer's credit is ~2% (LIBOR + 0.42% to 1.50%) and is repayable to banks in 60-365 days.

Further, in the anticipation of Myanmar ban on exports of unprocessed timber, Century Ply had stocked up high levels of inventory, however with the Myanmar unit of the company becoming operational and imports of timber substituted by face veneer, the

inventory levels are again expected to fall back to lower levels and should therefore lower the requirement of buyer's credit.

Future outlook – As per the management, having increased the capacity for plyboards to 210,000 CBM and with doubling of laminates capacity to 4.8 mn sheets, they expect to sustain 25% + annual growth in sales at least for the next two years.

As per them the demand is really good, and with economic activity picking up it is expected to strengthen further. Further, with increasing affinity for branded products and raw material sourcing challenges for small unorganized players, the market share gains will also help achieve the targeted growth.

Besides strong growth outlook, the management expects to sustain 13-14% blended EBITDA margins on the back of improvement in capacity utilization levels at both plyboards and laminates units and higher realizations with the recent 6-7% price hike in the plyboards segment.

A glimpse of what is expected to follow over the course of next 2 years can probably be gauged from Q1 FY 15 results of the company in which it reported:

- 27.85% growth in sales of Q1 FY 14
- 1.80 crore gain on account of foreign exchange fluctuation against 30.45 crore loss in Q1 FY 14
- 12.50% EBITDA margins
- 50% reduction in interest cost (again due to no negative impact of foreign exchange fluctuation on buyer's credit)

Shareholding pattern

	Jun'14	Mar'14	Dec'13	Sep'13	Jun'13
Promoter and Promoter Group	74.46%	72.88%	72.88%	72.88%	72.88%
India	74.46%	72.88%	72.88%	72.88%	72.88%
Foreign					
Public	25.54%	27.12%	27.12%	27.12%	27.12%
Institutions	3.39%	1.23%	1.19%	1.19%	1.19%
FII	2.89%	1.23%	1.19%	1.19%	1.19%
DII	0.50%	--	--	--	--
Non-Institutions	22.15%	25.89%	25.93%	25.93%	25.93%
Bodies Corporate	11.71%	14.04%	12.87%	11.50%	12.35%
Custodians	--	--	--	--	--
Total	22,21,72,990	22,21,72,990	22,21,72,990	22,21,72,990	22,21,72,990

From a passive investor's perspective it's important for the ones running the company to have high ownership as it aligns their interest in line with those of minority shareholders and in the case of Century Plyboards the promoters own 74.46% equity stake.

In case of Century Plyboards, the Promoters Mr. Sajjan Bhajanka, Executive Chairman, Mr. Sanjay Agarwal, CEO and MD, Mr. Prem Bhajanka, MD all have more than 3 decades of experience of the Plywoods industry and are responsible for overall strategic direction and various critical operations of the company.

While being family driven business, off-late Century Ply has been expanding its management bandwidth and had added industry veterans at key managerial roles. Key inclusions to the management team are as below:

Mr. Anoop Hoon – He has been appointed as the head of marketing and has over three decades of experience in the field of marketing. Prior to joining Century Ply, he was marketing head at Asian Paints.

Mr. Sugata Halder – He has been appointed as HR head and has over 2 decades of experience in HR management and was previously employed with Bharti Airtel.

Mr. Amit Gope – He has been appointed as GM Branding and has more than two decades of experience in the field of branding. Mr. Gope holds PGDM marketing from XIMB and was previously employed with Vodafone.

There have also been other inclusions; however we like the fact that company is hiring well-experienced professionals for important jobs like branding, marketing and sales.

As on 30th Jun'14, the major shareholders of the company and their stakes are as below:

Name of the shareholder	Category	% stake in Century Plyboards
Mr. Sajjan Bhajanka and PAC	Promoter	74.46%
GMO Emerging Domestic	Public	1.87%
Patton International	Public	1.34%
Subham Agarwal	Public	1.27%
Brij Bhushan Agarwal	Public	1.17%

Dividend Policy

Dividend Payout ratio						
	FY 09	FY 10	FY 11	FY 12	FY 13	FY 14
Dividend Payout ratio	49.95%	27.47%	29.85%	37.03%	10.55%	33.22%

Century Ply got listed in 1997 and has an uninterrupted history of dividends since then.

As can be observed above, the company has been consistently paying out more than 25% of its profits in the form of dividends and considering high promoter holding, we expect the company to maintain high dividend payout, though we would have preferred lower payout and more focus on debt reduction.

Valuations

Before discussing valuations, let's recall all that we have learnt about Century Plyboards in the above sections:

- Century Plyboards is the second largest player in India in the segment of plyboards and laminates which are used for interior decoration in housing and commercial units.
- In the past the company had diversified into un-related businesses, however in 2013 it de-merged the cement, Ferro alloys and power units and now focuses only on Plyboards and laminates in Century Plyboards
- Over the years Century has worked on four key pillars of business which are manufacturing, distribution, raw material sourcing and brand building and has significant advantages over its competitors in all the four.
- While in general there are strong growth drivers for wood panels and laminates industry, organized players like Century Plyboards will gain significantly on account of ban imposed by Myanmar on exports of unprocessed timber and gain further market share in case of GST implementation.
- Government's restricted issuance of licenses owing to stringent environmental considerations make plyboards manufacturing a relatively high entry barrier business. Also, the use of MDF is very low in India (around 3.5% share in wood panels industry) and therefore doesn't pose much risk to plyboards industry.
- Excluding the impact of foreign exchanges losses, the performance of Century Plyboards has been extremely good over the years with consistent growth in sales and expansion in EBITDA margins from 8-9% to around current levels of 12-13%
- Barring any unforeseen major event, the probability of further depreciation of currency seems low and therefore foreign exchanges losses are unlikely to repeat for the next few years.
- Though net debt of the company is high at around 500 crore, most of it is short term and low cost in the form of buyer's credit with ~2% rate of interest.
- With recent capacity expansion at both plyboards and laminates unit, the management is confident of achieving 25% + annual growth for the next two years and with better capacity utilization they are also hopeful of sustaining blended EBITDA margins of 13-14%.

- Last but not the least, the company has a strong team with experienced promoters at the helm and their interests are directly aligned with those of minority shareholders.

Coming back to valuations, at around current price of 87-88, Century Ply is trading at 16-17 times FY 15 (E) earnings. Similar leading companies from other building products segment are trading at around 25-30 times + FY 15 (E) earnings.

Considering the quality of operations, strong entry barriers and very good growth prospects, we believe there's scope for re-rating of Century Plyboards stock to 20-25 times 1 year forward earnings.

Risks & Concerns

- Century Ply is a net importer as it has to import large volumes of raw materials. During the last 2 years the company suffered heavily at the hands of rupee depreciation on account of both imports and buyer's credit secured for imports. Though the probability of further currency depreciation seems low, however in case of depreciation the company will again incur foreign exchange losses.
- At the moment plywood dominates the wooden panel industry in India with 95% share and MDF accounts for only 3.5% share, however globally MDF accounts for more than 50% of total panel products and is therefore a threat to companies like Century Plyboards which do not have sizable presence in MDF segment.
- Myanmar's ban on export of unprocessed timber is currently working in favor of Century Ply, however if the Myanmar Government moves a step ahead and bans export of semi-processed timber (face veneers) then even Century Plyboards will get affected negatively.
- In the past the promoters have diversified into unrelated businesses of Ferro chrome and cement, though they did take the right decision of de-merging them into another

listed entity. Going forward if they again diversify into unrelated businesses with poor economics, the stock may witness value erosion.

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