

**CMP : Rs.59**

**Reco : BUY**

**Target : Rs.78**

**STOCK INFO**

BSE	532548
NSE	CENTURPLY
Bloomberg	CPBI IN
Reuters	CNTP.BO
Sector	Forest Products
Face Value (Rs)	1
Equity Capital (Rs mn)	222
Mkt Cap (Rs mn)	13,110
52w H/L (Rs)	70.0/44.0
3m Avg Daily Volume (BSE + NSE)	16,067

**SHAREHOLDING PATTERN**

	%
<i>(as on 30th Jun. 2012)</i>	
Promoters	72.9
FII's	1.0
DII's	0.0
Public & Others	26.2

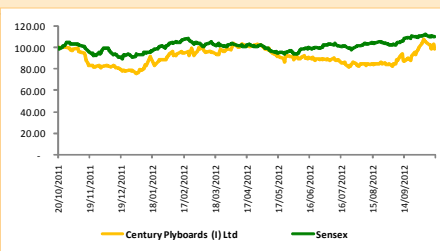
Source: BSE

**STOCK PERFORMANCE (%) 1m 3m 12m**

	1m	3m	12m
CENTURY PLY.	13	15	-2
SENSEX	1	9	10

Source: Capitaline, IndiaNivesh Research

**CENTURY PLY. v/s SENSEX**



Source: Capitaline, IndiaNivesh Research

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- Century ply, announced that it intends to come out with new Plyboard plant in Myanmar by Q4FY13. Investment in this greenfield unit would be to the tune of Rs 500 mn and would be through a local partner and under the company subsidiary, Century Plyboards Myanmar Ltd. This is in addition to their ongoing greenfield Plyboard plant being set-up in Kandla, Gujarat with an investment outlay of Rs 750 mn. Each of these units would have a production capacity of 25,000 sq. meter of plywood/ day.
- Currently, Century has an operational cement capacity of 1.2 mtpa & is currently in the process of setting up 1.75 mtpa clinker unit at Meghalaya and 1.6 mtpa cement grinding unit each at Assam & Bihar. Once these plants get commissioned, cement capacity would increase to 3.2 mtpa. Of the total Rs 13 bn of investments planned, Rs 9 bn of debt has already been tied. The remaining Rs 4 bn is likely to be funded through internal accruals. These new plants are likely to get commissioned by Q4FY13.
- Recently, the company announced that it is setting-up a green field medium fiber board & particle board unit in Nellore, A.P with a capital outlay of ~Rs 5 bn. Land has been acquired & the company recently finished the process of finalizing plant and machinery. Accordingly, we sense that, it would take another 18-20 months for this plant to get commissioned (i.e. by Q1FY15-end). The Company currently does not manufacture MDF Board's. Once fully operational, Century Ply's MDF Board's installed capacity would increase to 600 meter per day.
- Century Ply is expanding its Timber peeling-Veneer capacities by 31,000 cbm, taking the installed capacity to 180,000 cbm. Further, Century also intends to expand its laminate sheets capacity from 2.4 mn to 3.6mn sheets at their Joka plant in Kolkata. Century is working on expanding its capacities its pre-laminated board capacity from 80,000 sqm to 160,000 sqm at its Chennai plant.
- These expansion initiatives were to get commissioned during FY13 at an investment outlay of Rs 500 mn. We await to get more clarity on the commissioning date for these brown field expansions.
- Management has sounded confident that these capacity additions would strengthen their positions within the respective markets. On successful commissioning of these projects, management expects that Century would command 28-30% of the domestic market share in plywood, 12-15% of the decorative veneer, and 7-10% of the domestic laminates market.
- Century recently forayed in to mid-premium readymade furniture segment under brand name "Nesta". Currently, the furniture is sourced from China, Malaysia, Thailand & other South-East Asian economies. The company plans to start with 2-mega show-rooms across Kolkata and Bangalore. Management has also maintained that they would get in to furniture produce business, once they successfully test the waters, over the next 2-3 years.
- The company invested Rs 272 mn towards all these above-mentioned capex initiatives in FY12 (to-date Rs 2.2 bn has been invested towards these expansion initiatives). We expect that the Company would require additional equity funding of ~Rs 4 bn during FY13E-15E. With annual cash flow from operations generated to the tune of Rs 2-3 bn, equity funding for capex initiatives would not be a big concern for the company.

## Other initiatives

- Century plans to expand their retail dealership network from current 4,000 dealers to 7,000 dealers in a year's time.
- Further management commented that they have allocated Rs 220 mn towards new campaign launches during Q2FY13. This is in line with their marketing and branding investment commitments of Rs 500-1,000 mn for FY13E.

## Our View & Valuation

- We sense the Myanmar expansion plan to be more of an economic sense, given that the company already imports some of their raw materials for Plywood manufacture. Even though management has commented that the Myanmar plant would be operational by Q4FY13, we do not see this plant to be operational at least by Q4FY14E (we have not modeled any business contribution from this plant). This is based on our assumption that (1) plant set-up process would commence from now on, and (2) it would take atleast 15-18 months to set-up a plant.
- Timber logs (as raw material) as % of Plywood revenues accounted for 30.3% of FY12 & 35.4% of FY11 revenues. Now, with a new manufacturing base planned in Myanmar, we sense that timber dependency on a whole would come down by another 20-35 bps, once Myanmar plant is fully operational.
- Post implementation of the expansion plans, the total installed capacity of Plywood sheets would increase from the current 122,420 cubic metres (cbm) to ~172,420 cbm.
- The capex outlay of the company stands at Rs 18 bn (equity part being Rs 6 bn), which is to be deployed over the time period FY11-15E. The company annually generates cash flow from operations to the tune of Rs 2-3 bn annually and currently has consolidated debt of Rs 6.2 bn (indicating a debt to equity ratio of 0.8x). This comforts us over the point that funding would not be concern for the company. We sense that the overall debt requirements of the company would increase from here-on (consolidated debt to equity ratio would increase to 1.7x by FY14E), till new capacities start contributing to the top-line.
- Recent marketing drive would translate to increase in top-line for H2FY13 and FY14 and the capex would meaningfully contribute to top-line from FY15 onwards. Accordingly, we have not made any changes to our EPS assumptions.
- We continue to maintain our FY13E & FY14E EPS estimates of Rs 7.2 and 9.7, respectively. With more clarity on their (1) new de-merger scheme to emerge, going forward, when coupled with (2) their 3x cement capacity expansion plans, (3) recent product launches in laminates business, (4) capacity expansion across entire spectrum of product offerings, and (5) operational benefits likely to flow-in from restructuring initiatives, we sense that the stock is poised for a strong earnings growth during FY13-15E.
- At CMP of Rs 59, as per our estimates the stock is trading at FY13E and FY14E, P/E multiple of 8.4x and 6.2x, respectively. We continue to maintain our BUY rating on the stock with FY14E, price target of Rs 78, indicating 32% upside potential from current levels.

Capex Outlay	(Rs bn)
<b>Cement Capex</b>	<b>13</b>
Debt	9
Equity	4
<b>Plywood, Laminates, MDF Capex</b>	<b>6</b>
Debt	4
Equity	2
<b>Total Capex</b>	<b>19</b>

Source: Company; IndiaNivesh Research



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