ICRA

January 10, 2017

Century Plyboards (India) Ltd.

Instrument*	Rated Amount (in crore)	Rating Action
Commercial Paper	100.00	[ICRA]A1+ assigned
Fund Based Limits – Term Loan	Rs. 436.85 crore	[ICRA]AA-(Stable) outstanding
Fund Based Limits – Cash Credit	Rs. 350.00 crore	[ICRA]AA-(Stable) outstanding
Non Fund Based Limits	Rs. 520.00 crore	[ICRA]A1+ outstanding

*Instrument details are provided in Annexure-1

Rating Action

ICRA has assigned the [ICRA]A1+ (pronounced ICRA A one plus)[1] rating to the Rs 100 crore Commercial Paper (CP) programme of Century Plyboards (India) Ltd. (CPIL). ICRA also has an outstanding rating of [ICRA]AA-(Stable) and [ICRA]A1+ for the Rs. 786.85 crore long term and Rs. 520 crore short term bank lines of the company.

Rationale

The rating takes into account the experience of the promoters of more than three decades in the plywood and laminate industry, CPIL's dominant position in the industry and its large product portfolio with multiple brands positioned across the entire price spectrum. The rating also incorporates CPIL's wide distribution network and its brand strength. ICRA notes that CPIL gets continued raw material supply, through its wholly-owned subsidiary in Myanmar, which has a veneer manufacturing facility, thus enabling it to enjoy a competitive edge over other players. This has enabled CPIL to post healthy financial performance in FY2015 and FY2016, which coupled with debt repayments and high accretion to reserves have resulted in comfortable capital structure and coverage indicators of the company. The rating is however, constrained by the highly competitive business environment on account of intense competition from a large number of unorganised and organised players restricting pricing flexibility. Additionally, the company's operations remain working capital intensive and it also remains exposed to forex risks, given the large import content of raw material and the company's policy of leaving the exposure unhedged. ICRA has taken note of the company's ongoing large debt funded capital expenditure to set up an MDF unit at Hoshirpur. Although the incremental loans would result in some deterioration of the capital structure, over the short term, the extended repayment schedule of the loans, which have already been contracted, and the healthy cash accruals expected from the MDF unit post commencement of commercial operations, is likely to keep debt coverage indicators at a comfortable level. The timely commencement and stabilization of the new unit, managing working capital intensity while growing its scale of business and maintaining operating profitability of its existing business would remain the key rating sensitivities going forward.

Key rating drivers
Credit Strengths

- Experience of the promoters of more than three decades in the plywood and laminate industry
- Wide distribution network, along with an established brand name strengthen CPIL's operating profile
- Backward integrated company provides raw material security
- Healthy financial performance

[1] For complete rating scale and definitions, please refer to ICRA's website www.icra.in or other ICRA Rating Publications

Credit Weakness

- Large debt funded capex plans
- Highly fragmented nature of the industry
- Exposure to currency fluctuations since a sizeable portion of the raw materials are imported

Description of key rating drivers highlighted above:

Established player in the domestic plywood and laminate industry with around three decades of operations

Incorporated in 1982, CPIL has established itself as a renowned brand in the veneers, plywood and laminates industry. The company offers a wide range of products in all segments like commercial, decorative, plywood, and marine. CPIL offers products across different price points which enable it to cater to a broader customer base. The plywood market is primarily controlled by the unorganised sector, which accounts for around 70% of the total market size. Within the organised sector, CPIL remains one of the largest manufacturers of plywood and veneer in India. CPIL's business is also backward integrated after it commenced operations in its particle board unit in Chennai in July 2016. The company is in the process of setting up an MDF Board unit at Hoshiarpur, Punjab, which is expected to commence production from Q1 FY2018, diversifying the existing product range of the company.

Strategic location of the manufacturing units leading to lower lead time and freight cost; capacity expansion in the past complemented by significant dealer network expansion

CPIL has seven manufacturing units for its plywood division and one for its laminate division. The manufacturing facilities of its plywood division are strategically located in Joka (West Bengal), Guwahati (Assam), Kandla (Gujarat), Chennai (Tamil Nadu), Karnal (Haryana), Roorkee (Uttarakhand) and Myanmar. The Myanmar and Roorkee units operate through subsidiaries. Three out of its seven manufacturing facilities are located near shipping ports, which reduce freight cost of raw materials.

As the laminate and plywood business is distribution-intensive, CPIL has complimented its capacity expansion by enhancing its distribution strength. At present, it has an extensive dealer network of 18,000 across India. The company has a pan India presence with over 35 branches and six regional distribution centres across the country for better reach to its target market. CPIL's wide distribution network and its brand strength helped the company achieve a compound CAGR of around 11% in the last six years despite strong competition from the unorganised sector.

Backward integrated company with a veneer manufacturing unit, through a 100% subsidiary, in Myanmar provides competitive advantage

The company used to procure a sizeable portion of its timber requirements through imports from Myanmar for manufacturing plywood, which made it vulnerable to fluctuations in currency movements and therefore, any adverse movement in the exchange rate impacted the company's profitability.

With effect from April 1, 2014, Myanmar had banned the export of raw timber, which hindered the procurement of high-quality Myanmar timber. However, this provided CPIL with a competitive edge over its competitors as it has a 100% peeling unit in Myanmar. CPIL being a backward integrated company with a veneer manufacturing unit in Myanmar, enjoyed the advantages of raw material security. It also helped the company reduce the lead time by importing veneer instead of timber logs (which were bulky in nature). ICRA, however, notes that other players have set up similar units in Myanmar. The established brand name of 'Century' further helps the company to command higher prices. Hence CPIL's ability to continue to command premium prices on the back of sustained raw material supply would determine the profitability of the company going forward.

Large capex plans of setting up MDF board unit

The company has sizeable capital expenditure plans, which includes setting up production units for MDF board at Hoshiarpur, Punjab. The plant is expected to commence commercial production from Q1 of FY2018 and would expand the existing product portfolio of the company, by the introduction of higher margin products. ICRA notes that the funding of the capex is largely expected to be funded by debt, the healthy cash accruals ad the extended debt repayment from the same is expected to keep debt coverage indicators at comfortable levels. Additionally, the capex is likely to further strengthen the operating profile of the company going forward.

Healthy financial performance during the last two financial years; leading to strengthening of capital structure and debt coverage indicators

CPIL reported a CAGR of ~11% during the period FY2011-2016, aided by an increase in sales of veneer and laminates. In H1FY2017, the company's operating income has grown by around 3% compared to the corresponding previous. The operating margin of the company improved substantially in FY2015 and FY2016 primarily due to CPIL's established brand name and raw material security which has led to efficient sourcing of raw material, enabling the company to command premium prices. ICRA notes that the company remains exposed to forex risks, given the large import content of raw material and the company's policy of leaving the exposure unhedged. The capital structure of the company remains comfortable as reflected by a gearing of 0.9 time as on March 31, 2016 due to the healthy accretion to reserves coupled with lower working capital debt. Coverage indicators are also comfortable as reflected by an interest cover of 6.1 times and NCA/Debt of 41% in FY2016.

Analytical approach: While reaffirming the rating, ICRA has looked at the consolidated performance of Century Plyboards (India) Ltd.

Links to applicable Criteria

Corporate Credit Rating –A Note on Methodology

About the Company:

Century Plyboards (India) Limited (CPIL) was incorporated in January 1982 by Mr. Sajjan Bhajanka and Mr. Sanjay Agarwal. The company is involved in the manufacturing of plywood, veneer, laminates and allied products. The installed capacities of the plywood and laminates are 210,000 cubic metre (cbm) and 4,800,000 cbm respectively. CPIL's manufacturing units are located in Joka (West Bengal), Guwahati (Assam), Kandla (Gujarat), Chennai (Tamil Nadu), Karnal (Haryana), Roorkee (Uttarakhand) and Myanmar. The Roorkee and Myanmar units operate through subsidiaries. In addition, the company operates two container freight stations located in Kolkata. CPIL is setting up a Medium Density Fibre (MDF) Board unit at Hoshiarpur, Punjab, which is expected to commence production from Q1 FY2018.

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

Rating History for last three years:

Table: Rating History

S.No	Name of Instrument	Current Rating			Chronology of Rating History for the past 3 years			
		Type	Rated amount (Rs. Crores)	Month-year & Rating	Month-year & Rating in FY2016	Month- year & Rating in FY2016	Month- year & Rating in FY2015	Month- year & Rating in FY2015
				September 2016	September 2015	July 2015	November 2014	September 2014
1	Cash Credit	Long Term	350.00	[ICRA]AA- (Stable)	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)	[ICRA]A (Stable)	[ICRA]A (Stable)
2	Term Loan	Long Term	436.85	[ICRA]AA- (Stable)	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)	[ICRA]A (Stable)	-
3	Non fund based Limits	Short Term	520.00	[ICRA]A1+	[ICRA]A1	[ICRA]A1	[ICRA]A1	-

Complexity level of the rated instrument:
ICRA has classified various instruments based on their complexity as "Simple", "Complex" and "Highly Complex". The classification of instruments according to their complexity levels is available on the website www.icra.in

Annexure-1
Details of Instrument

Name of the instrument	Date of issuance	Coupon rate	Maturity Date	Size of the issue (Rs. Cr)	Current Rating and Outlook
Commercial Paper*	-	-	-	100.00	[ICRA]A1+
Term Loan 1	-	-	FY2018	28.00	[ICRA]AA-(Stable)
Term Loan 2	-	-	FY2020	19.35	[ICRA]AA-(Stable)
Term Loan 3	-	-	FY2023	47.50	[ICRA]AA-(Stable)
Term Loan 4	-	-	FY2023	50.00	[ICRA]AA-(Stable)
Term Loan 5	-	-	FY2024	292.00	[ICRA]AA-(Stable)
Cash Credit	-	-	-	350.00	[ICRA]AA-(Stable)
Non Fund based facilities	-	-	-	520.00	[ICRA]A1+

*Not issued as on December 31, 2016

Source: Century Plyboards (India) Limited

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