October 04, 2017

Century Plyboards (India) Limited Revised

Summary of rated instruments

Instrument*	Rated Amount (in crore)	Rating Action
Fund-based Limits – Term Loan	Rs. 416.85 crore	[ICRA]AA-(Stable) reaffirmed
Fund-based Limits – Cash Credit	Rs. 350.00 crore	[ICRA]AA-(Stable) reaffirmed
Non-fund Based Limits	Rs. 540.00 crore	[ICRA]A1+ reaffirmed
Commercial Paper	100.00	[ICRA]A1+ reaffirmed

*Instrument details are provided in Annexure-1

Rating Action

ICRA has reaffirmed the long-term rating of [ICRA]AA- (pronounced ICRA double A minus)[1] for the Rs. 416.85-crore[2] term loans and Rs. 350-crore cash credit facility of Century Plyboards (India) Limited (CPIL). ICRA has also reaffirmed the short-term rating of [ICRA]A1+ for the Rs. 540-crore non-fund based limit and Rs. 100-crore commercial paper programme of the company.

Rationale

The ratings reaffirmation take into account the established brand name and raw material security of the company, leading to sustained overall improvement in business performance. With the company's products commanding premium pricing and control of costs, the operating profitability remained healthy and led to comfortable debt-coverage indicators. The operating income (OI) of the company has increased at a CAGR of ~10% during the period FY2012 to FY2017, primarily aided by an increase in revenues across all product segments. The ratings continue to take into account the more than three decades of experience of the promoters 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 long-term rating, however, continues to be constrained by the intense competition from a large number of unorganised and organised players that restricts pricing flexibility. Additionally, the company's operations remain working-capital intensive and it exposed to forex risks, given the large import content of raw material and the company's policy of leaving the exposure unhedged. However, ICRA notes that with the implementation of Goods and Service Tax (GST) from July 1, 2017, the company is likely to derive benefits by the creation of a level playing field in a highly fragmented industry.

While reaffirming the ratings, ICRA has also taken note of the company's ongoing large debt-funded capital expenditure plans, which includes the set up of an MDF unit at Hoshiarpur. Though project execution risks have been largely reduced due to the advanced stage of the project, with trial production having commenced from July 2017, the overall market acceptance of the product would be a constraining factor. The stabilisation of the new unit and management of working-capital intensity alongside growth in its scale of business and maintenance of operating profitability of its existing business would remain the key rating sensitivities going forward. While incremental loans would result in some deterioration of the capital structure over the short term, the extended repayment schedule of the loans and the healthy cash accruals expected from the MDF unit post commencement of commercial operations are likely to keep debt-coverage indicators at a comfortable level. Moreover, with most of the existing debt scheduled to be repaid by the time the repayment for the fresh debt commences, ICRA expects CPIL's liquidity position to remain healthy and cash flows to remain comfortable relative to its debt-coverage indicators.

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

[2] *100 lakh = 1 crore = 10 million*

Key rating drivers

Credit Strengths

- **Experienced promoters and management team with successful track record of delivering stable performance -** 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 laminate. CPIL offers products across different price points, which enables it to cater to a broader customer base. Within the organised sector, CPIL remains one of the largest manufacturers of plywood and veneer in India. The company has started manufacturing of particle board from July 2016 and MDF from July 2017.
- **Wide distribution network and an established brand name strengthen CPIL's operating profile -** The established brand name of 'Century' helps the company to command higher prices. CPIL has a wide distribution network, coupled with its brand strength, has helped the company achieve a compound CAGR of around 10% in the last five years despite strong competition from the unorganised sector.
- **Backward-integrated company provides raw material security -** CPIL is a backward-integrated company with a veneer-manufacturing unit in Myanmar. The company has also set up facilities in Laos through subsidiary companies. As a result, it enjoys the advantages of raw material security.
- **Healthy financial performance –** The OI of the company has shown healthy growth across all divisions in FY2017, primarily aided by the established brand name of the company in the plywood industry. The operating margin remains healthy on the back of premium pricing and benefits emanating from efficient raw material sourcing. The capital structure of the company remains comfortable as reflected by a gearing of 0.85 times as on March 31, 2017 due to the healthy accretion to reserves. Coverage indicators are also comfortable as reflected by an interest cover of 10.26 times and NCA/Debt of 40% in FY2017.

Credit Weakness

- **Large debt-funded capex plans -** The company has sizeable capital expenditure plans, which includes the set up of a MDF board unit at Hoshiarpur, Punjab among others. Although most of the planned capex of the company is debt funded, the impact of the same on the capital structure is expected to be only marginal. ICRA notes that stabilisation and offtake risks with regard to the recently launched MDF unit remains. However, the healthy cash accruals and the extended debt repayment from the same are 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.
- **Highly fragmented nature of the industry -** The plywood market is primarily controlled by the unorganised sector, which accounts for around 70% of the total market size. Though, the 'Century' brand name commands premium prices, intense competition from a large number of unorganised and organised players restricts CPIL's pricing flexibility. However, ICRA notes that with the implementation of GST from July 1, 2017, the company is likely to derive benefits by the creation of a level playing field in a highly fragmented industry.

- **Exposure to currency fluctuations as a sizeable portion of the raw materials are imported -** The profitability of the company remains exposed to forex risks, given the large import content of raw materials and it policy of leaving the exposure unhedged. However, favourable movement in exchange rates in FY2017 resulted in the company reporting a forex gain of ~Rs. 18 crore (as against a loss of ~Rs. 13 crore in FY2016).

Analytical approach: While reaffirming the rating, ICRA has applied its rating methodologies as indicated below**.**

Links to applicable Criteria
Corporate Credit Rating –A Note on Methodology

About the Company
CPIL was incorporated in January 1982 by Mr. Sajjan Bhajanka and Mr. Sanjay Agarwal. The company is involved in the manufacture of plywood, veneer, laminates and allied products. The installed capacities of the plywood and laminates are 2,10,000 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 in Kolkata. CPIL has up a Medium Density Fibre (MDF) Board unit at Hoshiarpur, Punjab, which has commenced trial production from July 2017.

Key financial indicators (Audited)

	FY2016	FY2017
Operating Income (Rs. crore)	1636.25	1784.17
PAT (Rs. crore)	169.81	185.56
OPBDIT/ OI (%)	17.37%	16.46%
RoCE (%)	28.11%	28.00%
Total Debt/ TNW (times)	0.87	0.87
Total Debt/ OPBDIT (times)	1.60	2.05
Interest Coverage (times)	6.12	10.26
NWC/ OI (%)	31%	30%

OI: Operating Income; PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation; ROCE: PBIT/Avg (Total Debt + Tangible Net-Worth + Deferred Tax Liability - Capital Work - in Progress);
NWC: Net Working Capital

Status of non-cooperation with previous CRA
CRISIL has in its rationale published on Century Plyboards (India) Limited, dated November 2, 2016, stated the following:

"CRISIL has upgraded its rating on the long-term bank facility of Century Plyboards India Limited (CPIL; part of the Century group) to **'CRISIL A/Stable'** from 'CRISIL A-/Positive'.

The rating action is based on lenders' feedback and information available in the public domain as CPIL has not cooperated with CRISIL in its surveillance process."

Any other information: Not applicable

Rating history for last three years
Table

S.No	Name of Instrument	Current Rating			Chronology of Rating History for the past 3 years					
		Type	Rated amount (Rs. crore)	Month-year & Rating	Month-year & Rating in FY2017	Month-year & Rating in FY2017	Month-year & Rating in FY2016	Month-year & Rating in FY2016	Month-year & Rating in FY2015	Month-year & Rating in FY2015
				Oct 2017	December 2016	September 2016	September 2015	July 2015	November 2014	September 2014
1	Cash Credit	Long Term	350.00	[ICRA] AA- (Stable)	[ICRA] AA- (Stable)	[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] AA- (Stable)	[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	[ICRA] A1	[ICRA] A1	-
4	Commercial Paper	Short Term	100.00	[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
Term Loans	-	-	FY2023	416.85	[ICRA]AA- (Stable)
Cash Credit	-	-	-	350.00	[ICRA]AA- (Stable)
Non-fund Based facilities	-	-	-	540.00	[ICRA]A1+
Commercial Paper	-	-	3 months	100.00	[ICRA]A1+

Source: Century Plyboards (India) Limited

Corrigendum:
Rationale dated October 04, 2017 has been corrected with revisions as detailed below

- Analyst Contact details on page number 8 has been corrected to capture the below noted names:

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About ICRA Limited:

ICRA Limited was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.

Today, ICRA and its subsidiaries together form the ICRA Group of Companies (Group ICRA). ICRA is a Public Limited Company, with its shares listed on the Bombay Stock Exchange and the National Stock Exchange. The international Credit Rating Agency Moody's Investors Service is ICRA's largest shareholder.

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