Century Plyboards (India) Limited

December 07, 2018

Summary of rating action

Instrument*	Previous Rated Amount(Rs. crore)	Current Rated Amount(Rs. crore)	Rating Action[1]
CP Programme[2]	100.00	100.00	[ICRA]A1+; Reaffirmed
Fund Based Limits- TL	416.85	368.20	[ICRA]AA-(stable); Reaffirmed
Fund Based Limits- Cash Credit	350.00	350.00	[ICRA]AA-(stable); Reaffirmed
Non-Fund Based Limits	540.00	540.00	[ICRA]A1+; Reaffirmed
Unallocated Bank lines	-	48.65	[ICRA]AA-(stable)/[ICRA]A1+; Reaffirmed
Total Limits	**1406.85**	**1406.85**	

*Instrument details are provided in Annexure-1

Rationale

The ratings reaffirmation continues to reflect CPIL's strong business risk profile, driven by its dominant position in the plywood industry having large product portfolio with multiple brands positioned across the entire price spectrum. ICRA also notes that with the commencement of the medium density fibre (MDF) unit, coupled with expansion at other plants, is likely to further strengthen CPIL's operating profile in the near to medium term. The rating also incorporates CPIL's wide distribution network and its brand strength, which helped the company achieve a compounded annual growth rate (CAGR) of around 12% in the last five years despite strong competition from the unorganised sector. While the operating margin remained comfortable at around 15.7% during FY2018, increase in input costs in the laminate segment and softer realisations of the MDF division, given large capacity addition in the domestic industry, adversely impacted the operating profitability in the first half of FY2019. Nonetheless, the capital structure and debt coverage indicators continued to remain comfortable, notwithstanding an increase in interest costs given capitalisation of the enhanced facilities. The ratings continue to consider more than three decades of experience of the promoters in the plywood and laminate industry. The above strengths are partially offset by the intense competition from a large number of unorganised and organised players in the plywood industry. While the long-term demand outlook, particularly that of the MDF segment, is favourable, large addition of MDF capacity in India in the recent past is likely to keep the performance of the company's division under check, at least over the short term. ICRA also notes that the company's operations remain working-capital intensive and it is exposed to fluctuations in exchange rates, given the sizeable imported raw materials and some amount of foreign currency debt on its books. The company, however, has mitigated the impact of forex fluctuations by hedging a major part of its exposure. With the major capital expenditure programme of the company is already over and there is no major capex plans in the near future, ICRA expects the debt protection metrics of the company to remain comfortable, going forward.

Outlook:

ICRA believes that CPIL will maintain a stable business risk profile backed by dominant market position, strong distribution network and long-standing presence. The outlook may be revised to positive on stabilisation and ramp-up of

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

[2] *While assigning the rating, ICRA notes that the proceeds from the rated CP Programme are intended to be utilized for funding the working capital requirements, as per the objects of the issue. A deviation from the above that has the effect of exerting pressure on the asset-liability position of the company would be a rating sensitivity.*

the MDF operation, leading to an overall improved financial performance of the company. The outlook may be revised to negative if there is a sharp deterioration in the financial performance which adversely impacts the liquidity position as well as debt-coverage indicators.

Key rating drivers

Credit strengths

Completion of sizeable capital expenditure; benefit of the same is likely to accrue in the near to medium term - CPIL has incurred a significant capex of around Rs. 721 crore (FY2015-H1FY2019) primarily towards setting up an MDF unit (Rs. 344 crore) and the rest towards modernisation/expansion of other plants. The completion of major capex is likely to strengthen CPIL's operating profile in terms of product diversification and enhanced capacity and is expected to support the revenue and profits of the company in the near to medium term.

Leading manufacturer of plywood - The Indian plywood industry is dominated by unorganised players, which account for around 70% of the total plywood market. However, CPIL commands around 25% market share within the organised segment.

Wide distribution network and an established brand name strengthen CPIL's operating profile - The established brand name of 'Century' helps the company command higher prices. CPIL has an extensive network of 2,000 dealers and 22,000 retailers across India, which coupled with its brand strength, has helped the company achieve a compound CAGR of around 12% in the last five years despite strong competition from the unorganised sector.

Healthy financial profile characterised by low gearing and strong debt servicing indicators – The OI of the company has shown healthy growth during FY2018 and H1 FY2019, primarily aided by commencement of MDF operations. The operating margin remained comfortable at around 15.7% during FY2018. However, in the current year, low capacity utilisation and softer realisation in the MDF segment, coupled with increase in input costs in the laminate segment, has impacted the operating margin, primarily in Q2 FY2019. CPIL's capital structure remained comfortable, as reflected by a gearing of 0.65 times as on March 31, 2018, despite undertaking significant capital expenditure in the last four financial years. Coverage indicators were also comfortable, as reflected by an interest cover of 9.42 times and NCA/Debt of 39% in FY2018. Though coverage indicators were slightly impacted in H1 FY2019 owing to an increase in interest costs given capitalisation of the enhanced facilities, it continued to remain comfortable.

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 various segments like commercial, decorative, plywood, and laminate. CPIL offers products across different price points, which enable it to cater to a broader customer base. Within the organised sector, CPIL remains one of the largest manufacturers of plywood in India. The company has started manufacturing particle board from July 2016 and MDF from July 2017, thus further diversifying the existing product range of the company.

Credit challenges

Highly fragmented nature of the plywood 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.

Current oversupply situation in the MDF market with significant capacity addition in last two years- The MDF market is largely dominated by the organised players, owing to capital intensive nature of the product. However, there has been significant capacity addition in the last two years, leading to price competition, which is likely to put pressure on the margins of all the players including CPIL. Nonetheless, the long-term growth opportunities of MDF are favourable, considering MDF is still under-penetrated in India compared to that in developed economies.

Exposed to currency fluctuations as a sizeable portion of raw materials is imported - The profitability of the company remains exposed to forex risks, given the sizeable import content of raw materials and some amount of foreign currency debt on its books. However, going forward, the impact of the same is likely to be limited since the company has recently hedged most of its forex exposure.

Liquidity Position

CPIL is expected to maintain a comfortable liquidity position, aided by its healthy cash accruals from core operations relative to the debt-servicing requirement of the company. The company's unutilised fund-based limits provide additional support to its liquidity.

Analytical approach:

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology
Parent/Group Support	Not applicable
Consolidation / Standalone	The ratings are based on the standalone financial profile of the company

About the company:

CPIL was incorporated in January 1982 by Mr. Sajjan Bhajanka and Mr. Sanjay Agarwal. The company manufactures plywood, veneer, laminates and allied products. The installed capacities of the plywood is 2,14,000 cubic metre (cbm). 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 production from July 2017.

Key financial indicators (audited)

	FY2017	FY2018
Operating Income (Rs. crore)	1784.17	1967.21
PAT (Rs. crore)	183.57	156.06
OPBDIT/OI (%)	16.46%	15.65%
RoCE (%)	28.00%	20.48%
Total Debt/TNW (times)	0.85	0.65
Total Debt/OPBDIT (times)	2.05	1.76
Interest coverage (times)	10.26	9.42

Status of non-cooperation with previous CRA:

CRA	Status of Non-Cooperation	Date of Press Release
CRISIL	On account of inadequate information and lack of management cooperation, CRISIL has migrated the ratings on bank facilities of CPIL to 'CRISIL A/Stable Issuer Not Cooperating'.	April 10, 2018

Any other information: None

Rating history for past three years:

		Current Rating (FY2019)				Chronology of Rating History for the Past 3 Years		
	Instrument	Type	Amount Rated (Rs. crore)	Amount Outstanding-Sep 2018 (Rs. crore)	Date & Rating Dec 2018	Date & Rating in FY2018 Oct 2017	Date & Rating in FY2017 Jan 2017	Date & Rating in FY2017 Oct 2016
1	Cash Credit	Long Term	350.00	142.69	[ICRA]AA- (stable)	[ICRA]AA- (stable)	[ICRA]AA- (stable)	[ICRA]AA- (stable)
2	Term Loan	Long Term	368.20	NA	[ICRA]AA- (stable)	[ICRA]AA- (stable)	[ICRA]AA- (stable)	[ICRA]AA- (stable)
3	Non-fund Based Limits	Short Term	540.00	120.11	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+
4	Commercial Paper	Short Term	100.00	NA	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+
5	Unallocated limits	Long/short Term	48.65	NA	[ICRA]AA- (stable)/ [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: Instrument Details

ISIN No	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Cash Credit	NA	NA	NA	350.00	[ICRA]AA-(stable)
NA	Term Loan	FY2015-18	NA	FY2023-24	368.20	[ICRA]AA-(stable)
NA	Non-fund Based Limits	NA	NA	NA	540.00	[ICRA]A1+
NA	Commercial Paper	NA	NA	Unplaced	100.00	[ICRA]A1+
NA	Unallocated limits	NA	NA	NA	48.65	[ICRA]AA-(stable)/ [ICRA]A1+

Source: Company

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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.

For more information, visit www.icra.in

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