

Century Plyboards

Refer to important disclosures at the end of this report

Muted growth in near term; downgrade to Accumulate

- Weak quarter – Revenue grew by meagre 2.6% to Rs4.7bn, EBITDA declined by 2.2% to Rs740mn below our estimate of Rs805mn and APAT came in at Rs401mn, down 18.6% yoy due to higher tax rate (lower profitability at exempted Assam unit).
- Plywood segment revenues declined by 6% to Rs3.1bn; realisations were affected due to unfavourable mix which also led to decline in the EBIT margins by 190bps to 13.2%. Laminates grew by 22% yoy to Rs1.2bn as favorable GST rate of 18% has enabled the company to gain market share from unorganized players.
- Century Plyboards (CPBI) growth is expected to be boosted by 50% capacity addition in laminates and commercialization of MDF in Q3FY18.
- CPBI has aggressive expansion with commissioning of MDF plant and capacity expansion in laminates. However, near term growth remains a concern with pressure on operating margins. We cut our estimate by 12%/10% for FY18E/19E and introduce FY20E with an EPS of Rs15. We downgrade the stock to Accumulate with TP of Rs300 (20x FY20E)

Plywood suffers; laminates reports strong growth

CPBI reported Q2FY18 revenue growth of 2.6% yoy to Rs 4.7bn. Revenue growth was affected by plywood segment due to temporary disruptions on account of raw material unavailability at Assam unit. Laminates segment did exceedingly well as favourable GST rate helped gain market share from unorganised players. EBITDA declined by 2.2% yoy to Rs740mn and EBITDA margins contracted by 80bps yoy to 15.6%, partially due to higher personnel expenses. Plywood EBIT margins corrected by 190bps yoy to 13.2% due to unfavorable mix, while Laminates EBIT margins improved by 20bps yoy to 16.9%. APAT stood at Rs 401mn, down 18.6% yoy due to higher tax rate for the quarter which was a result of lower profitability at exempted Assam unit.

New laminates capacity & MDF commissioning to be next leg of growth

CPBI is increasing laminates capacity by 50% by December 2017. Management has stated that it operated at 125% capacity levels in Q2. MDF plant will be commercialized in Q3 and management expects the utilization levels to be 75% in Q3 and 85-90% in Q4 with a revenue target of Rs1.5-2bn for H2FY18 and operating margin target of 25-30%. Near term growth remains a concern due to higher GST rate of 28% in plywood and postponement of E-way bill to April 2018. If status quo with respect to GST rate is maintained then management will take a price hike.

Muted growth in near term; downgrade to Accumulate

CPBI has aggressive expansion with commissioning of MDF plant and capacity expansion in laminates. However, near term growth remains a concern with pressure on operating margins. We cut our estimate by 12%/10% for FY18E/19E and introduce FY20E with an EPS of Rs15. We downgrade the stock to Accumulate with TP of Rs300 (20x FY20E)

Financial Snapshot (Standalone)

(Rs mn)	FY16	FY17	FY18E	FY19E	FY20E
Revenue	16,357	17,825	20,215	24,808	28,251
EBITDA	2,835	2,904	3,405	4,925	5,814
EBITDA Margin (%)	17.3	16.3	16.8	19.9	20.6
APAT	1,701	1,839	1,763	2,633	3,333
EPS (Rs)	7.7	8.3	7.9	11.9	15.0
EPS (% chg)	12.8	8.1	(4.1)	49.3	26.6
ROE (%)	37.1	29.7	22.8	27.7	27.7
P/E (x)	36.8	34.1	35.5	23.8	18.8
EV/EBITDA (x)	23.5	23.3	20.3	13.7	11.2
P/BV (x)	11.8	8.8	7.5	5.9	4.7

Source: Company, Emkay Research

CMP	Target Price
Rs 282 as of (November 1, 2017)	Rs 300 (■) 12 months
Rating	Upside
ACCUMULATE (▼)	6.4 %

Change in Estimates

EPS Chg FY18E/FY19E (%)	(12)/(10)
Target Price change (%)	NA
Target Period (Months)	12
Previous Reco	BUY

Emkay vs Consensus

EPS Estimates		
	FY18E	FY19E
Emkay	7.9	11.9
Consensus	8.6	11.8
Mean Consensus TP (12M)	Rs 301	

Stock Details

Bloomberg Code	CPBI IN
Face Value (Rs)	1
Shares outstanding (mn)	222
52 Week H/L	314 / 154
M Cap (Rs bn/USD bn)	63 / 0.97
Daily Avg Volume (nos.)	4,74,957
Daily Avg Turnover (US\$ mn)	1.9

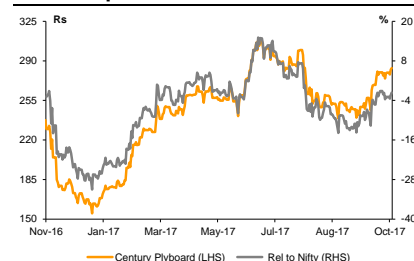
Shareholding Pattern Sep '17

Promoters	72.0%
FIIIs	11.4%
DIIIs	3.8%
Public and Others	12.8%

Price Performance

(%)	1M	3M	6M	12M
Absolute	13	1	10	12
Rel. to Nifty	5	(3)	(2)	(7)

Relative price chart



Source: Bloomberg

This report is solely produced by Emkay Global. The following person(s) are responsible for the production of the recommendation:

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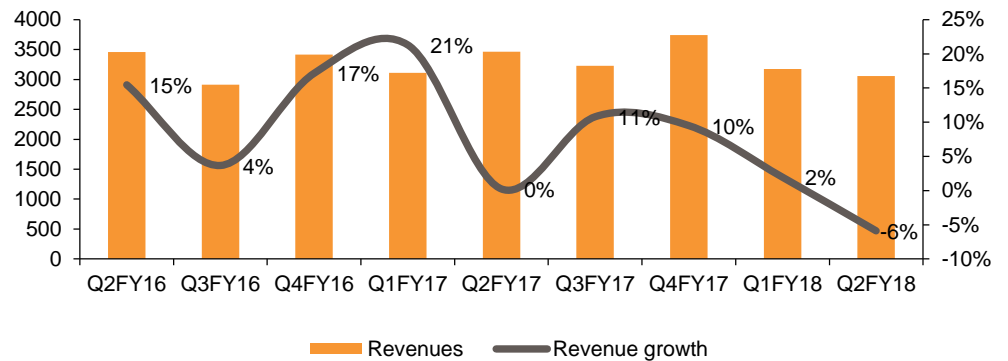
Exhibit 1: Actual V/s estimate

(in Rs mn)	Actual	Estimate (Emkay)	Consensus estimate	% variation		Comment
				Emkay	Consensus	
Sales	4,746	4,984	4,929	-5%	-4%	Plywood segment, affected by GST destocking, posted subdued revenue growth
EBITDA	740	805	763	-8%	-3%	
EBITDA, margin	15.6%	16.2%	15.5%	0.5%	-0.1%	
PAT	401	491	443	-18%	-9%	Higher tax rate during the quarter due to lower profitability of tax exempt Assam unit

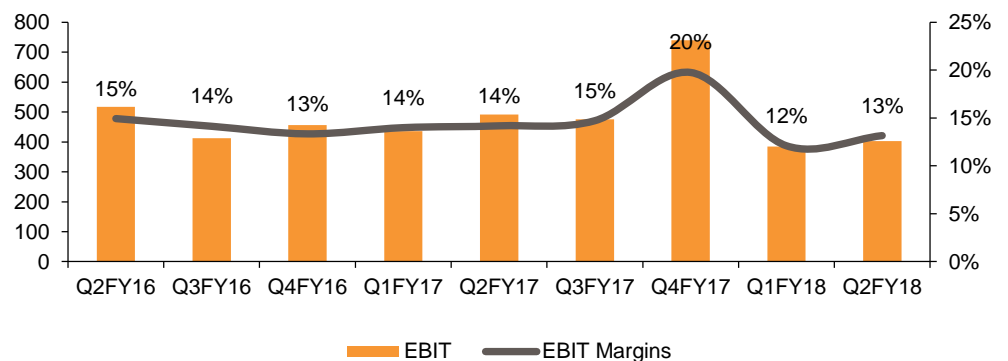
Source: Company, Emkay Research

Other key takeaways of conference call

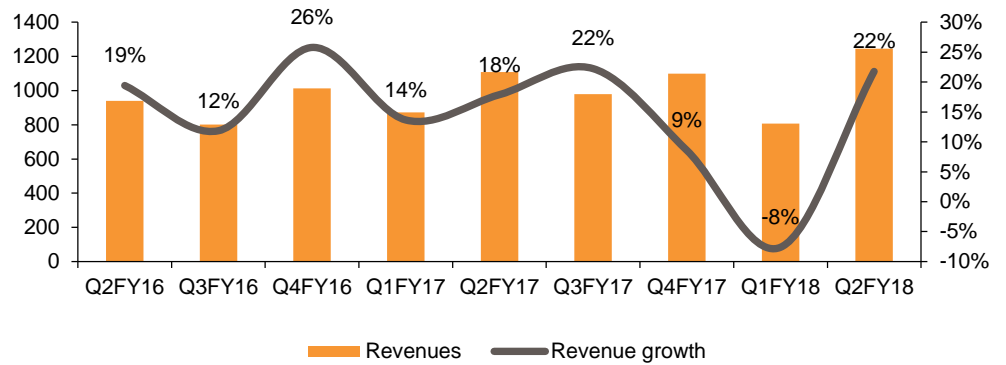
- Myanmar government has allowed cutting of timber from April 2018 onwards. This will reduce CPBI's sourcing cost and operating margins in plywood will improve in FY19E
- Final decision taken by Laos government is that veneer will not be allowed to be exported out of the country. Company has plywood manufacturing plant which will enable it to export plywood.
- New Assam unit which was supposed to get sales tax benefits will continue to do so under new tax regime though the state has not yet communicated the modalities of the same under new GST structure

Exhibit 2: Plywood segment under pressure

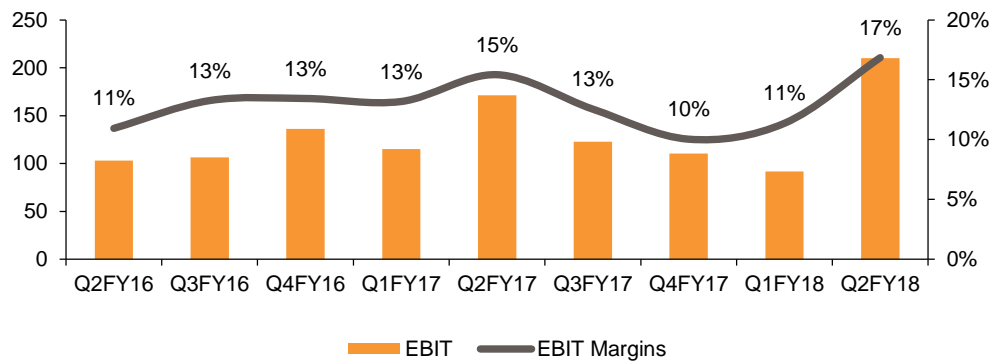
Source: Company, Emkay Research

Exhibit 3: Plywood operating profile

Source: Company, Emkay Research

Exhibit 4: Laminates Segment reported stellar performance

Source: Company, Emkay Research

Exhibit 5: Laminates margins at a high

Source: Company, Emkay Research

Exhibit 6: Revision in estimates; Introducing FY20E

Rs mn	FY18E			FY19E			FY20E
	Old	New	% chg.	Old	New	% chg.	Introduction
Revenues	21,807	20,215	-7%	26,617	24,808	-7%	28,251
EBITDA	3,635	3,405	-6%	5,184	4,925	-5%	5,814
EBITDA margins, %	16.7%	16.8%	-0.1%	19.5%	19.9%	-0.4%	20.6%
Net profits	1,992	1,763	-11%	2,901	2,632	-9%	3,333
EPS	9.0	7.9	-12%	13.1	11.8	-10%	15.0

Source: Company, Emkay Research

Exhibit 7: Quarterly Summary

(Y/E Mar, Rs mn)	Q2F717	Q1FY18	Q2FY18	YoY (%)	QoQ (%)	YTD FY17	YTD FY18	YoY (%)
Net Sales	4,627	4,386	4,746	2.6	8.2	8,685	9,132	5.1
Expenditure	3,870	3,775	4,005	3.5	6.1	7,244	7,780	7.4
as % of sales	83.6	86.1	84.4			83.4	85.2	
Consumption of RM	1,513	1,447	1,675	10.7	15.7	2,952	3,122	5.8
as % of sales	32.7	33.0	35.3			34.0	34.2	
Employee Cost	624	689	676	8.3	-1.9	1,262	1,365	8.1
as % of sales	13.5	15.7	14.2			14.5	14.9	
Purchase of finished goods	892	892	870	-2.4	-2.5	1,498	1,762	17.7
as % of sales	19.3	20.3	18.3			17.2	19.3	
Others cost	850	747	784	-7.7	4.9	1,563	1,532	-2.0
as % of sales	18.4	17.0	16.5			18.0	16.8	
Loss on forex	-9	0	0	-100.0	NA	-31	0	-100.0
as % of sales	-0.2	0.0	0.0			-0.4	0.0	
EBITDA	757	611	740	-2.2	21.3	1,441	1,351	-6.2
Depreciation	126	132	138	9.5	4.8	219	270	23.5
EBIT	631	479	602	-4.5	25.8	1,222	1,081	-11.5
Other Income	13	5	6	-52.9	13.6	21	12	-45.0
Interest	60	63	79	31.4	25.8	149	142	-4.6
PBT	584	421	529	-9.3	25.6	1,094	951	-13.1
Total Tax	91	80	128	40.7	59.5	171	208	21.9
Adjusted PAT	493	341	401	-18.6	17.6	923	743	-19.6
Extra ordinary items	0	0	0			0	0	
Reported PAT	493	341	401	-18.6	17.6	923	743	-19.6
Adjusted EPS	2.2	1.5	1.8	-18.6	17.6	4.15	3.34	-19.6

Margins (%)				(bps)	(bps)			(bps)
EBIDTA	16.4	13.9	15.6	-76	168	16.6	14.8	-179
EBIT	13.6	10.9	12.7	-94	177	14.1	11.8	-223
EBT	12.6	9.6	11.2	-146	155	12.6	10.4	-219
PAT	10.7	7.8	8.5	-219	68	10.6	8.1	-250
Effective Tax rate	15.6	19.0	24.2	859	513	15.6	21.9	629

Source: Company, Emkay Research

Exhibit 8: Quarterly Segmental Performance

(Y/E Mar, Rs mn)	Q2F717	Q1FY18	Q2FY18	YoY (%)	QoQ (%)	YTD FY17	YTD FY18	YoY (%)
Net Sales	4,943	4,421	4,811	-2.7	-16.5	9,325	9,232	-1.0
Plywood	3,465	3,173	3,059	-11.7	-3.6	6,578	6,232	-5.3
laminates	1,110	807	1,246	12.3	54.5	1,983	2,053	3.5
Logistics	211	239	250	18.4	4.6	445	489	9.8
Others	157	202	256	63.2	26.9	319	458	43.8
EBIT	686	500	684	-0.3	-41.1	1,315	1,184	-9.9
Plywood	492	385	403	-18.1	4.8	928	788	-15.1
laminates	171	92	210	22.7	129.1	286	302	5.4
Logistics	56	67	68	20.1	0.8	135	135	-0.1
Others	-33	-43	3	-110.2	-107.8	-35	-40	15.0
EBIT Margins	13.9	11.3	14.2	34	291	14.1	12.8	-127
Plywood	14.2	12.1	13.2	-102	106	14.1	12.6	-147
laminates	15.4	11.4	16.9	142	549	14.4	14.7	25
Logistics	26.7	28.1	27.1	38	-103	30.3	27.6	-273
Others	-21.2	-21.3	1.3	2252	2266	-10.8	-8.7	217

Source: Company, Emkay Research

Key Financials (Standalone)**Income Statement**

Y/E Mar (Rs mn)	FY16	FY17	FY18E	FY19E	FY20E
Revenue	16,357	17,825	20,215	24,808	28,251
Expenditure	13,522	14,920	16,810	19,883	22,437
EBITDA	2,835	2,904	3,405	4,925	5,814
Depreciation	437	524	720	1,010	1,140
EBIT	2,398	2,380	2,685	3,915	4,674
Other Income	65	227	18	12	12
Interest expenses	465	286	492	636	520
PBT	1,998	2,321	2,211	3,291	4,166
Tax	297	481	447	658	833
Extraordinary Items	0	0	0	0	0
Minority Int./Income from Assoc.	0	0	0	0	0
Reported Net Income	1,701	1,839	1,763	2,633	3,333
Adjusted PAT	1,701	1,839	1,763	2,633	3,333

Balance Sheet

Y/E Mar (Rs mn)	FY16	FY17	FY18E	FY19E	FY20E
Equity share capital	223	223	223	223	223
Reserves & surplus	5,066	6,864	8,171	10,402	13,201
Net worth	5,289	7,086	8,393	10,625	13,424
Minority Interest	0	0	0	0	0
Loan Funds	4,050	5,571	6,964	6,004	5,504
Net deferred tax liability	(136)	(689)	(689)	(689)	(689)
Total Liabilities	9,203	11,968	14,669	15,940	18,238
Net block	2,044	2,497	6,843	6,433	5,893
Investment	497	960	960	960	960
Current Assets	7,852	8,562	9,761	11,996	15,326
Cash & bank balance	190	538	652	1,354	3,295
Other Current Assets	244	1,886	2,075	2,282	2,511
Current liabilities & Provision	2,121	2,890	2,995	3,649	4,140
Net current assets	5,732	5,672	6,766	8,347	11,186
Misc. exp	0	0	0	0	0
Total Assets	9,205	11,968	14,669	15,940	18,238

Cash Flow

Y/E Mar (Rs mn)	FY16	FY17	FY18E	FY19E	FY20E
PBT (Ex-Other income) (NI+Dep)	1,933	2,094	2,193	3,279	4,154
Other Non-Cash items	0	0	0	0	0
Chg in working cap	(157)	(145)	(980)	(879)	(898)
Operating Cashflow	3,159	3,024	1,995	3,399	4,095
Capital expenditure	(1,098)	(2,884)	(2,326)	(700)	(600)
Free Cash Flow	2,061	140	(331)	2,699	3,495
Investments	(46)	(463)	0	0	0
Other Investing Cash Flow	(35)	(227)	(18)	(12)	(12)
Investing Cashflow	(1,114)	(3,348)	(2,326)	(700)	(600)
Equity Capital Raised	0	0	0	0	0
Loans Taken / (Repaid)	(536)	1,520	1,393	(961)	(500)
Dividend paid (incl tax)	(45)	(268)	(267)	(401)	(534)
Other Financing Cash Flow	(979)	(295)	(190)	0	0
Financing Cashflow	(2,025)	672	445	(1,997)	(1,554)
Net chg in cash	20	348	114	702	1,941
Opening cash position	170	190	538	652	1,354
Closing cash position	190	538	652	1,354	3,295

Source: Company, Emkay Research

Key Ratios

Profitability (%)	FY16	FY17	FY18E	FY19E	FY20E
EBITDA Margin	17.3	16.3	16.8	19.9	20.6
EBIT Margin	14.7	13.4	13.3	15.8	16.5
Effective Tax Rate	14.9	20.7	20.2	20.0	20.0
Net Margin	10.4	10.3	8.7	10.6	11.8
ROCE	28.0	24.6	20.3	25.7	27.4
ROE	37.1	29.7	22.8	27.7	27.7
RoIC	31.7	31.3	26.1	29.7	34.4

Per Share Data (Rs)	FY16	FY17	FY18E	FY19E	FY20E
EPS	7.7	8.3	7.9	11.9	15.0
CEPS	9.6	10.6	11.2	16.4	20.1
BVPS	23.8	31.9	37.8	47.8	60.4
DPS	2.0	1.0	1.0	1.0	1.5

Valuations (x)	FY16	FY17	FY18E	FY19E	FY20E
PER	36.8	34.1	35.5	23.8	18.8
P/CEPS	29.3	26.5	25.2	17.2	14.0
P/BV	11.8	8.8	7.5	5.9	4.7
EV / Sales	4.1	3.8	3.4	2.7	2.3
EV / EBITDA	23.5	23.3	20.3	13.7	11.2
Dividend Yield (%)	0.7	0.4	0.4	0.4	0.5

Gearing Ratio (x)	FY16	FY17	FY18E	FY19E	FY20E
Net Debt/ Equity	0.7	0.7	0.8	0.4	0.2
Net Debt/EBIDTA	1.4	1.7	1.9	0.9	0.4
Working Cap Cycle (days)	123.7	105.1	110.4	102.9	102.0

Growth (%)	FY16	FY17	FY18E	FY19E	FY20E
Revenue	4.5	9.0	13.4	22.7	13.9
EBITDA	13.5	2.4	17.3	44.6	18.1
EBIT	17.0	(0.7)	12.8	45.8	19.4
PAT	12.8	8.1	(4.1)	49.3	26.6

Quarterly (Rs mn)	Q2FY17	Q3FY17	Q4FY17	Q1FY18	Q2FY18
Revenue	4,627	4,255	4,885	4,386	4,746
EBITDA	757	706	838	611	740
EBITDA Margin (%)	16.4	16.6	17.1	13.9	15.6
PAT	493	373	559	341	401
EPS (Rs)	-	-	-	-	-

Source: Company, Emkay Research

Shareholding Pattern (%)	Sep-16	Dec-16	Mar-17	Jun-17	Sep-17
Promoters	72.2	72.0	72.0	72.0	72.0
FIs	12.8	10.1	12.8	13.2	11.4
DIs	5.2	6.6	4.0	3.6	3.8
Public and Others	9.7	11.3	11.2	11.2	12.8

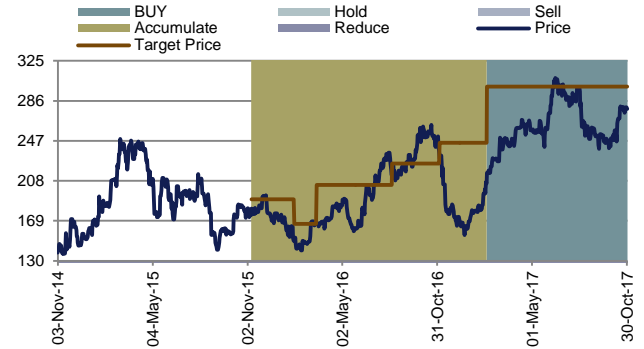
Source: Capitaline

RECOMMENDATION HISTORY TABLE

Date	Closing Price	TP	Period (months)	Rating	Analyst
03-Aug-17	275	300	12m	Buy	Amit Purohit
24-May-17	241	300	12m	Buy	Amit Purohit
03-Feb-17	216	300	12m	Buy	Rohan Gupta
04-Nov-16	230	245	12m	Accumulate	Rohan Gupta
05-Aug-16	224	225	12m	Accumulate	Rohan Gupta
13-Mar-16	167	204	12m	Accumulate	Rohan Gupta
30-Jan-16	150	166	12m	Accumulate	Rohan Gupta
09-Nov-15	181	190	12m	Accumulate	Rohan Gupta

Source: Company, Emkay Research

RECOMMENDATION HISTORY CHART



Source: Bloomberg, Company, Emkay Research

Emkay Rating Distribution

BUY	Expected total return (%) (Stock price appreciation and dividend yield) of over 25% within the next 12-18 months.
ACCUMULATE	Expected total return (%) (Stock price appreciation and dividend yield) of over 10% within the next 12-18 months.
HOLD	Expected total return (%) (Stock price appreciation and dividend yield) of upto 10% within the next 12-18 months.
REDUCE	Expected total return (%) (Stock price depreciation) of upto (-) 10% within the next 12-18 months.
SELL	The stock is believed to underperform the broad market indices or its related universe within the next 12-18 months.

Completed Date:

Dissemination Date:

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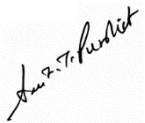
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