

Century Plyboards (India)

Reco: Buy

Stock Update

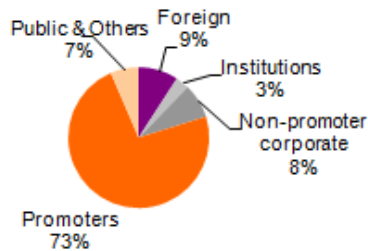
Buy maintained with PT revised to Rs260

CMP: Rs188

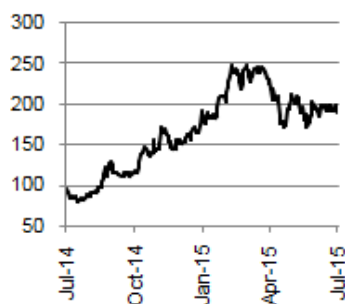
Company details

Price target:	Rs260
Market cap:	Rs4,191 cr
52 week high/low:	Rs261/78
NSE volume: (no. of shares)	5.6 lakh
BSE code:	532548
NSE code:	CENTURYPLY
Sharekhan code:	CENTURYPLY
Free float: (no. of shares)	5.9 cr

Shareholding pattern



Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	-3.8	-15.9	3.2	108.6
Relative to Sensex	-6.7	-18.4	3.9	87.6

Key points

- Muted revenue growth:** Century Plyboards India (Century) posted a muted top-line growth of 2.3% YoY, which was the reflection of a weak off-take in the plyboard business. The plyboard sales declined by 6.3% YoY; while the laminate business grew at a robust 23% on a Y-o-Y basis. Across the board, the home improvement business has witnessed deceleration and contraction in volumes.
- Earnings performance aided by soft raw material:** Aided by soft raw material and lower logistical cost, the gross margins improved by 652BPS YoY, which resulted in a robust 500-BPS margin expansion at the operating level. Consequently, the operating profit grew by 41.5% YoY. A healthy operating performance with lower tax resulted in a 54.3% Y-o-Y growth in the net earnings. Adjusted for forex gains, the net earnings grew by 59.3% YoY.
- Entering into the MDF business:** In the wake of weak demand and price cut by the competition, resulting in channel blocking, the management has revised its revenue growth guidance downwards from 20-25% to around 15% for the quarter. Further, enthused by the changing dynamics and improving economies of the medium density fibreboard (MDF) business, the management has decided to enter into the segment, though details of the plan are yet to be rolled out.
- Revised revenue estimates downwards:** Taking cognisance of the weak demand in the plyboard business, along with a full-fledged recovery being still two to three quarters away, we reduce our volume growth estimates for the plywood division (which constitutes around 70% to the top line) from 15% growth to 8% growth. Margins are likely to sustain with an upward bias. This results in a 25.1% CAGR in net earnings. Taking into account the revised estimates, our new price target for the stock is Rs260; based on 25x its FY2017E earnings.
- Maintain Buy with revised price target of Rs260:** We believe that Century with its top-of-the-mind brand recall is well positioned to ride the economic revival-driven recovery in demand and increase its market dominance in the plywood and laminate segments. The play on robust revenue growth and the margin expansion would enable the company to deliver a strong growth ahead. We expect it to post a 25.1% earnings CAGR over FY2015-17. The implementation of Goods and Services Tax (GST) Bill would provide a fillip to the revenue and earnings performance. In view of these positives, we maintain our Buy rating on the stock with a revised price target of Rs260.

Results

Particulars	Q1FY16	Q1FY15	YoY %	Q4FY15	QoQ %
Income from operations	370.9	362.7	2.3	409.2	(9.4)
COGS	195.6	215.0	-9.0	210.3	(7.0)
Gross profit	175.3	147.8	18.6	198.9	(11.9)
Gross margin (%)	47.3	40.7	652	48.6	(134.5)
Employee cost	51.7	41.5	24.8	52.4	(1.3)
Other expenditure	58.0	60.9	-4.8	75.4	(23.1)
Operating profit	66.8	47.2	41.5	79.3	(15.9)
Operating profit margin (%)	18.0	13.0	499	19.4	(139.1)
Finance cost	12.3	7.4	66.5	9.0	36.0
Depreciation	10.1	10.4	-3.4	11.9	(15.0)
Non operating income	0.3	1.3	-74.8	0.9	(61.3)
PBT	44.8	30.7	45.7	59.3	(24.6)
Tax	5.1	5.0	1.4	11.4	(55.4)
Reported PAT	39.7	25.7	54.3	48.0	(17.3)
Tax adjusted forex	(1.0)	(1.4)	-30.6	(6.6)	(85.0)
Adjusted PAT	38.7	24.3	59.3	41.3	(6.4)

Valuations

Particulars	FY13	FY14	FY15	FY16E	FY17E
Net sales (Rs cr)	1,182	1,348	1,588	1,825	2,155
Growth (%)	(29)	14	18	15	18
Adjusted EBITDA (Rs cr)	128	179	274	319	376
EBITDA margin (%)	10.8	13.3	17.2	17.5	17.5
Adjusted PAT	53	77	149	188	234
Growth (%)	(57)	47	94	26	24
Adjusted EPS (Rs)	2.4	3.5	6.7	8.5	10.5
PER (x)	77	71	28.7	22.7	18.3
RoCE (%)	7.1	15.4	23.1	24.2	23.7
RoE (%)	11.7	23.1	44.0	39.5	34.1

Result highlights

Laminate business led the top-line growth: In Q1FY2016 the top line of Century grew by 2.3% year on year (YoY), led by a strong 23% growth in the laminate business. Over the last three quarters, the laminate business has been growing rapidly averaging a growth of 30% YoY, led by improved capacity utilisation. For the quarter, the plyboard business declined by 6.3% YoY. This moderation in growth of the plyboard business is on account of weak consumer demand and lack of off-take at the ground level. With an improvement in the consumer sentiment and uptake in the end users, we expect the demand revival to get reflected in results.

Margin expansion led by soft raw material prices: The operating profit margin (OPM) expanded by 500 basis points (BPS) YoY from 13% in Q1FY2015 to 18% in Q1FY2016. This strong improvement was mainly on account of savings on the raw material cost front and logistics. The raw material cost to sales ratio was down by 652BPS YoY, resulting in an equal expansion in the gross profit margin (GPM). Consequently, a strong sales performance and a robust margin expansion together resulted in a 41% Y-o-Y growth in the operating profit of the company.

Reported earnings grew by 54.3% YoY: The strong operational performance coupled with a low tax payout for the quarter reflected in the strong earnings for the quarter which grew at 54.3% YoY. The reported earnings for both the quarters (Q1FY2015 and Q1FY2016) included an element of foreign exchange (forex) gain, adjusting for which the earnings grew 59.3% YoY.

Plyboard

Particulars	Q1FY16	Q1FY15	YoY %	Q4FY15	QoQ %
Top line	257.6	274.9	(6.3)	291.8	(11.7)
EBIT	43.8	34.8	26.0	57.6	(24.0)
EBIT margin	17.0	12.6	436.0	19.8	274.6
Capital employed	529.8	486.1	9.0	559.8	(5.4)
RoCE (%)	33.1	28.6	447.4	41.2	810.7

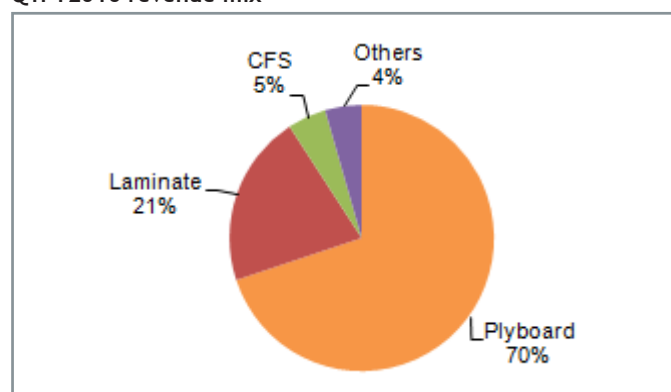
Laminate

Particulars	Q1FY16	Q1FY15	YoY %	Q4FY15	QoQ %
Top line	77.2	62.7	23.0	80.5	(4.1)
EBIT	10.1	3.7	175.2	6.5	56.9
EBIT margin	13.1	5.9	726.3	8.0	(510.6)
Capital employed	175.2	154.0	13.8	170.5	2.8
RoCE (%)	23.1	9.6		15.2	

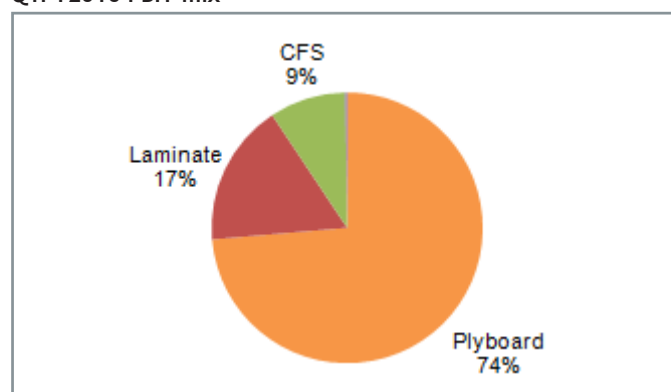
CFS

Particulars	Q1FY16	Q1FY15	YoY %	Q4FY15	QoQ %
Top line	17.4	15.4	13.0	17.4	(0.1)
EBIT	5.4	3.3	62.6	6.0	(9.4)
EBIT margin	31.0	21.6	947	34.2	320
Capital employed	55.8	57.0	(2.1)	60.0	(7.0)
RoCE (%)	38.8	23.3		39.8	

Q1FY2016 revenue mix



Q1FY2016 PBIT mix



Key management takeaways

- ♦ **Plywood revenue decline affected by multiple factors:** The revenue decline of 6.3% in the plywood business was a result of multiple factors viz, (a) Price cut by the competition to pass on the benefit of the lower raw material cost, which the management refrained from doing as it would have a negative effect on the brand; (b) General weakness in the housing sector demand resulting in a volume decline in the premium and mid-premium segment of the market; and (c) The sales of face veneer was flat on a Y-o-Y basis, despite the demand for product on account of lower supply from Myanmar unit and a slight transit delay from the newly commissioned Laos unit.
- ♦ **Revenue guidance for FY2016 revised downwards to 15%; long-term growth trend remains intact at 20-25%:** Owing to the delay in the recovery on the housing segment and lower demand from the premium segment, the management has revised its revenue guidance downwards to 15% for FY2016 as against the earlier guidance of 20-25%. On the long-term basis, it continues to maintain that the revenue growth would be in the range of 20-25%.
- ♦ **To set-up MDF plant in North India:** Capitalising on the improving trend and acceptability of MDF in the panel board coupled with the soft raw material pricing environment, the company is planning to enter the MDF business by setting up its plant in North India (it already has licence in Uttarakhand and Punjab). The said expansion would entail a capital expenditure (capex) of around Rs300 crore and would require 15-18 months post the commencement of the expansion.
- ♦ **Strong focus on the economy plyboard; *Sainik* and *Maxima*:** In order to drive growth from the affordable housing segment, the company is getting aggressive on the economy segment of the business (*Sainik* and *Maxima*). For the current quarter, the company's brand, *Sainik*, has grown at 12% YoY despite a slowdown in the general demand. Further, the company has upped its ante with respect to promoting and advertising on these brands. *Sainik* is now being promoted across all the media platforms.
- ♦ **Face veneer capacity to likely double by year end; veneer to drive revenue growth ahead:** The company currently has a capacity to peel 32,000 cubic meters of face veneer from the Myanmar facility, while the Laos plant would add another 32,000-40,000 cubic meters post the commencement of the second plant and increase in the lines by the year end. India still faces shortage on the face veneer front, the improving supply from Laos and Myanmar would enable Century to improve its revenue from the veneer sales, which continues to earn healthy margins at 25-30%

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