

Century Plyboards

Refer to important disclosures at the end of this report

Higher costs impact margins, Maintain ACCUMULATE

- Century Plyboards (CPBI) reported revenue growth of 11.4% yoy, led by 8.6% yoy growth in Laminates and ramp-up of MDF unit, which reported 36.1% qoq revenue growth. EBITDA was almost flat yoy at Rs832mn, but OPM contracted by 187bps yoy to 15.3%.
- Plywood segment revenue declined by 13.7% yoy, as realizations were affected by unfavorable mix (higher sales of low-value products). Higher Raw Material costs led to 492bps yoy contraction in OPM of this segment.
- Laminates revenue grew by 8.6% yoy, backed by the favorable GST tax, which helped to gain market share from the unorganized players. In the MDF segment, margin shrank by 959bps qoq due to the sale of inferior quality products manufactured earlier.
- The management remains confident of achieving higher growth and improving margins in the MDF segment. We downgrade EPS estimates by 17%/16% for FY19/20E considering higher costs. Maintain ACCUMULATE with a TP of Rs291 (23x FY20E EPS).

Higher costs impact Plywood margins; Laminates performs better

CPBI reported revenue growth of 11.4% yoy, led by growth in the Laminates segment and additional revenue from the MDF segment. Revenue in the Plywood segment declined by 13.7% yoy on the back of lower realization and 26.6% yoy decline in the volume of Commercial Veneer. OPM of this segment contracted by 492bps yoy on account of higher RM costs. Revenue in the Laminates segment grew by 8.6% yoy on the back of the favourable GST regime, which helped it to gain market share from the unorganised players. Laminates segment's EBITDA margin improved by 98bps yoy to 12.2%. MDF segment's margins were affected due to the sale of inferior quality products manufactured during the stabilization phase. Led by lower margins in the Plywood segment, overall OPM declined by 187bps yoy, whereas EBITDA remained flat due to contribution from the MDF unit.

New Laminates capacity and MDF ramp-up to be next growth catalysts

CPBI has increased its Laminates capacity by 25% and is further increasing it by 25%. The MDF plant had commenced operations in Oct'17 and the management expects the utilization level to reach 80% in FY19E, with revenue growth of 166% yoy to Rs4bn. Margins in this segment are expected to be at 20%. It is planning a price hike of 3-5% in Plywood from 1st June and expects input costs to fall by 1.5%, which would help to improve overall margins.

Downgrade estimates; Maintain Accumulate

CPBI should benefit from improvement in the utilization rate of MDF units and expansion of Laminates capacity. Price hikes in the Plywood segment and stability of the MDF unit should aid in margin improvement. We downgrade EPS estimates by 17%/16% for FY19/20E considering higher costs. Maintain ACCUMULATE with TP of Rs291 (23x FY20E). This is a coverage transfer to Sanjeev Kumar Singh from Amit Purohit.

Financial Snapshot (Standalone)

(Rs mn)	FY16	FY17	FY18	FY19E	FY20E
Revenue	16,357	17,825	19,672	23,477	27,154
EBITDA	2,835	2,904	3,513	4,114	4,885
EBITDA Margin (%)	17.3	16.3	17.9	17.5	18.0
APAT	1,701	1,839	2,019	2,198	2,813
EPS (Rs)	7.7	8.3	9.1	9.9	12.7
EPS (% chg)	12.8	8.1	9.8	8.9	28.0
ROE (%)	37.1	29.7	26.4	24.2	25.3
P/E (x)	35.1	32.5	29.6	27.2	21.2
EV/EBITDA (x)	22.4	22.3	18.4	15.3	12.4
P/BV (x)	11.3	8.4	7.3	6.0	4.9

Source: Company, Emkay Research

CMP	Target Price
Rs 269 as of (May 17, 2018)	Rs 291 (▼) 12 months
Rating	Upside
ACCUMULATE (■)	8.1 %

Change in Estimates

EPS Chg FY19E/FY20E (%)	(17)/(16)
Target Price change (%)	(3.1)
Target Period (Months)	12
Previous Reco	ACCUMULATE

Emkay vs Consensus

	EPS Estimates	
	FY19E	FY20E
Emkay	9.9	12.7
Consensus	10.9	13.5
Mean Consensus TP (12M)	Rs 387	

Stock Details

Bloomberg Code	CPBI IN
Face Value (Rs)	1
Shares outstanding (mn)	222
52 Week H/L	364 / 235
M Cap (Rs bn/USD bn)	60 / 0.88
Daily Avg Volume (nos.)	266,918
Daily Avg Turnover (US\$ mn)	1.3

Shareholding Pattern Mar '18

Promoters	72.0%
FIIIs	11.2%
DIIIs	4.9%
Public and Others	11.9%

Price Performance

(%)	1M	3M	6M	12M
Absolute	(21)	(16)	(9)	2
Rel. to Nifty	(22)	(18)	(12)	(9)

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: Quarterly Result Snapshot

(Y/E Mar, Rs mn)	Q4FY17	Q3FY18	Q4FY18	YoY (%)	QoQ (%)	YTD FY17	YTD FY18	YoY (%)
Net Sales	4,885	5,099	5,441	11.4	6.7	17,825	19,672	10.4
Expenditure	4,048	4,222	4,610	13.9	9.2	14,904	16,612	11.5
as % of sales	82.9	82.8	84.7			83.6	84.4	
Consumption of RM	1,611	1,767	2,028	25.9	14.8	6,026	6,917	14.8
as % of sales	33.0	34.7	37.3			33.8	35.2	
Employee Cost	667	723	752	12.7	4.0	2,567	2,839	10.6
as % of sales	13.7	14.2	13.8			14.4	14.4	
Purchase of finished goods	920	840	710	-22.8	-15.5	3,155	3,313	
as % of sales	18.8	16.5	13.0			17.7	16.8	
Others cost	850	892	1,119	31.8	25.5	3,157	3,543	12.2
as % of sales	17.4	17.5	20.6			17.7	18.0	
Loss on forex	0	0	0					
as % of sales	0.0	0.0	0.0			0.0	0.0	
EBITDA	838	878	832	-0.7	-5.3	2,920	3,060	4.8
Depreciation	156	263	277	78.2	5.4	524	810	54.7
EBIT	682	615	554	-18.7	-9.8	2,397	2,250	-6.1
Other Income	141	42	13	-90.8	-69.4	227	67	-70.5
Interest	26	63	122	377.3	94.5	286	327	14.1
PBT	798	594	445	-44.2	-25.1	2,337	1,990	-14.8
Total Tax	239	128	88	-63.1	-31.0	481	424	-12.0
Adjusted PAT	559	467	357	-36.1	-23.4	1,856	1,566	-15.6
Extra ordinary items	0	0	0			0	0	
Reported PAT	559	467	357	-36.1	-23.4	1,856	1,566	-15.6
Adjusted EPS	2.5	2.1	1.6	-36.1	-23.4	8.3	7.0	-15.5

Margins (%)				(bps)	(bps)			(bps)
EBIDTA	17.1	17.2	15.3	-187	-193	16.4	15.6	-83
EBIT	14.0	12.1	10.2	-378	-187	13.4	11.4	-201
EBT	16.3	11.7	8.2	-815	-347	13.1	10.1	-299
PAT	11.4	9.2	6.6	-488	-259	10.4	8.0	-245
Effective Tax rate	30.0	21.5	19.8	-1017	-169	20.6	21.3	70

Source: Company, Emkay Research

Exhibit 2: Quarterly Segmental Performance

(Y/E Mar, Rs mn)	Q4FY17	Q3FY18	Q4FY18	YoY (%)	QoQ (%)	FY17	FY18	YoY (%)
Net Sales	5,292	5,153	5,511	4.1	7.0	19,235	19,896	3.4
Plywood	3,743	3,227	3,230	-13.7	0.1	13,556	12,689	-6.4
Laminates	1,099	999	1,194	8.6	19.5	4,076	4,246	4.2
MDF	6	476	648	10900.6	36.1	36	1,131	3079.2
Particle Board	117	100	109	-7.2	8.8	252	455	80.6
Logistics	235	276	233	-0.9	-15.6	882	997	13.0
Others	215	651	854	298.0	31.3	721	1,964	172.3
EBITDA	909	869	857	-5.7	-1.4	3,064	3,118	1.8
Plywood	703	456	520	-26.1	14.0	2,164	1,812	-16.3
Laminates	124	148	146	18.0	-1.3	586	631	7.6
MDF	0	117	97		-17.0	0	214	
Particle Board	15	34	21	38.6	-38.4	44	94	113.5
Logistics	88	110	87	-0.8	-20.9	344	382	11.0
Others	-21	3	-14	nm	nm	-74	-14	-80.9
EBITDA Margins (%)	17.2	16.9	15.5	-163	-131	15.9	15.7	-26
Plywood	18.8	14.1	16.1	-270	196	16.0	14.3	-168
Laminates	11.3	14.8	12.2	98	-257	14.4	14.9	47
MDF	-	24.6	15.0	nm	-959	0.0	18.9	1893
Particle Board	13.0	34.4	19.5	643	-1491	17.4	20.6	317
Logistics	37.5	40.1	37.5	4	-252	39.0	38.3	-70
Others	(9.8)	0.5	(1.7)	nm	nm	-10.3	-0.7	958
EBIT	810	651	569	-29.8	-12.6	2,680	2,368	-11.6
Plywood	740	422	480	-35.2	13.9	2,144	1,689	-21.2
Laminates	110	122	115	3.8	-6.2	519	538	3.6
MDF	-6	1	-24	nm	nm	-2	-25	nm
Particle Board	-33	8	-12	nm	nm	-69	-39	nm
Logistics	60	85	62	3.6	-27.1	235	282	19.8
Others	-61	13	-51	nm	nm	-148	-78	nm
EBIT Margins (%)	15.3	12.6	10.3	-498	-231	13.9	11.9	-203
Plywood	19.8	13.1	14.9	-492	180	15.8	13.3	-250
Laminates	10.0	12.2	9.6	-44	-263	12.7	12.7	-7
MDF	-108.1	0.2	-3.7	nm	nm	-4.4	-2.2	nm
Particle Board	-28.3	8.3	-11.4	nm	nm	-27.6	-8.6	nm
Logistics	25.5	30.9	26.7	116	-422	26.7	28.3	159
Others	-28.4	2.0	-6.0	nm	nm	-20.5	-4.0	nm

Source: Company, Emkay Research

Exhibit 3: Change in estimates

Particulars (Rs mn)	FY19E			FY20E		
	Earlier	Revised	% change	Earlier	Revised	% change
Revenues	24,808	23,477	-5.4%	28,251	27,154	-4%
EBITDA	4,925	4,114	-16.5%	5,814	4,885	-16%
EBITDA margins, %	19.9%	17.5%	(233)	20.6%	18.0%	(259)
Net profits	2,632	2,197	-16.5%	3,333	2,813	-15.6%
EPS	11.8	9.9	-16.5%	15.0	12.6	-15.6%

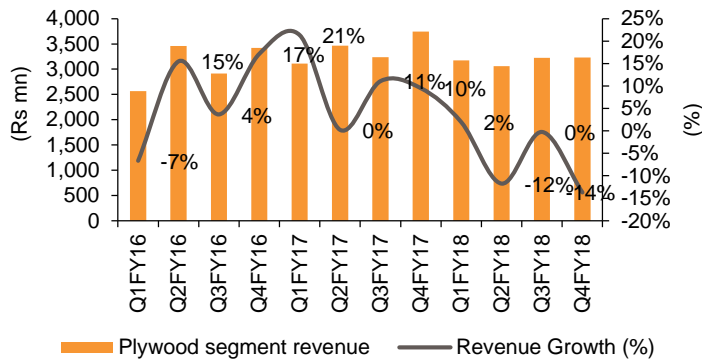
Source: Company, Emkay Research

Exhibit 4: Key assumptions

Parameters	FY16	FY17	FY18	FY19E	FY20E
Revenues of Plywood segment (Rs mn)	12,365	13,548	12,689	14,339	16,490
Growth (yoy)	8%	10%	-6%	13%	15%
EBIT Margins of Plywood segment	14.8%	15.8%	13.3%	12.5%	13.0%
Revenues of Laminates segment (Rs mn)	3,526	4,062	4,246	5,288	6,081
Growth (yoy)	20%	15%	5%	25%	15%
EBIT Margins of Laminates segment	12.6%	12.8%	12.7%	12.8%	13.0%

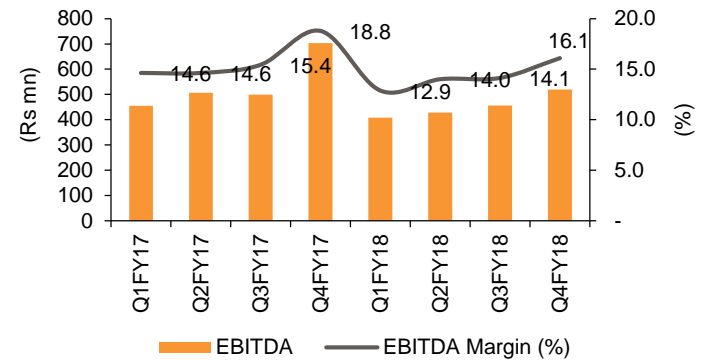
Source: Company, Emkay Research

Exhibit 5: Revenue of Plywood segment under pressure



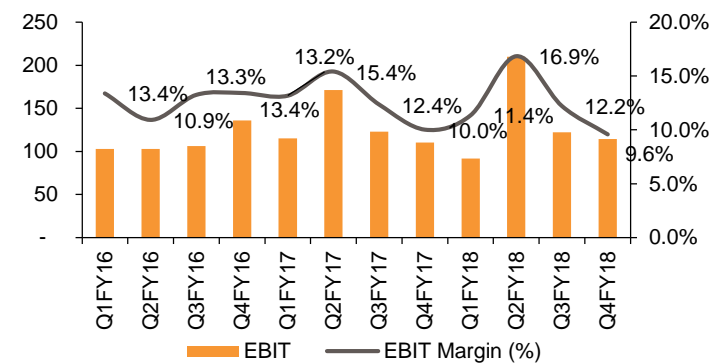
Source: Company, Emkay Research

Exhibit 6: Plywood segment's margins improved sequentially



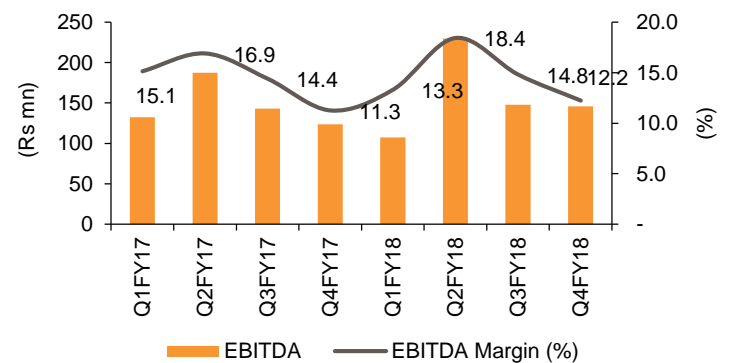
Source: Company, Emkay Research

Exhibit 7: Revenue growth of Laminates segment



Source: Company, Emkay Research

Exhibit 8: Laminates margins under pressure



Source: Company, Emkay Research

Conference Call Takeaways

- **Revenue growth guidance:** The management is confident of growing 25% in FY19E. Revenue from MDF and Particle Boards should grow by Rs2.5bn to Rs4bn. There should be incremental revenue of Rs750mn in Laminates post expansion. Plywood should contribute at least Rs1.5bn more due to capacity addition. Other products CFS will increase by 10%. Overall, incremental revenue in FY19E should be at Rs5bn. In Plywood, growth in FY19E should be at 8-9%; Q1FY19E will close with 8% yoy growth and Q2FY19E will see 10-11% yoy growth. Restrictions have started post the introduction of the E-way bill, which is affecting the unorganised players. Growth will be more in low-to-mid end Plywood segment. In the lower segment, RM costs have been managed well. Margins in the lower segment are higher than the premium segment. It is planning a price hike of 3-5% from 1st June.
- **MDF segment:** The first full quarter of operations (Q3FY18) saw manufacture of some low quality products, which were not sold then and have now been sold partly. Some material has also been destroyed. There will be a one-time impact on MDF margins. Utilisation is now at 60% and expects it to reach 80% in FY19E. The OEM segment is growing well; in Retail, MDF is getting good acceptance and it will gain share from Plywood. The target is to reach 20% EBITDA margins. If imports stop the India market will improve substantially and will be able to increase prices. Other players have exports obligation, while CPBI doesn't have any exports obligation.
- **Forex loss and impact on profits:** There was an adverse forex difference loss vs gain last year, which should provide additional profit of Rs250mn. Also, the new MDF plant is yet to reach full capacity, but depreciation is ~Rs290mn.
- **Impact of GST:** Channel was not buying material due to confusion regarding tax rates under GST, as there were some talks of reduction in the tax rate. The company passed on the entire benefit of GST to the market, which led to lower prices and could not take price increase through the year. Also, higher RM costs affected the margins.
- **RM:** RM from Meghalaya was abruptly reduced, leading to increase in cost; now availability is better compared to last year. In Plywood, OPM should be at 16% for FY19E, similar to FY18. Higher RM costs compressed margins and the same continue to remain elevated.
- **Plywood realizations:** Change in the product mix led to lower realisations. Sales of lower value products is higher compared to premium products. There is no decline premium products. Markets like Maharashtra, Bangalore etc are doing well, but Chhattisgarh, Uttar Pradesh and Madhya Pradesh are seeing some pressure.
- **Laminates margins:** There is huge pressure on RM prices, as phenol is linked to crude oil, which has spurted recently. It has passed on some price increase to customers, but could not pass on the entire price increase. It is targeting 15% EBITDA margin in this segment. Capacity has been expanded by 25% and there would be further capacity increase of 25%. Utilization rate of this segment should reach 70% in FY19E.
- **Veneer imports:** Laos has not allowed exports of Veneer; Myanmar has allowed cutting of timber, but has nationalised it, thus the process is slow. Material is coming at a slower pace, but things will improve in the next few months. India's Face Veneer market has shifted to other geographies; Veneer imports from Soloman Islands and also exploring other timber from Africa. If it is successful, cost of this timber could be lower. It is putting up a unit in Gabon for Commercial Veneer and expects the situation to stabilise in the next one year.

Key Financials (Standalone)**Income Statement**

Y/E Mar (Rs mn)	FY16	FY17	FY18	FY19E	FY20E
Revenue	16,357	17,825	19,672	23,477	27,154
Expenditure	13,522	14,920	16,159	19,363	22,269
EBITDA	2,835	2,904	3,513	4,114	4,885
Depreciation	437	524	810	1,120	1,160
EBIT	2,398	2,380	2,702	2,994	3,725
Other Income	65	227	67	70	74
Interest expenses	465	286	327	300	260
PBT	1,998	2,321	2,443	2,764	3,538
Tax	297	481	424	567	725
Extraordinary Items	0	0	0	0	0
Minority Int./Income from Assoc.	0	0	0	0	0
Reported Net Income	1,701	1,839	2,019	2,198	2,813
Adjusted PAT	1,701	1,839	2,019	2,198	2,813

Balance Sheet

Y/E Mar (Rs mn)	FY16	FY17	FY18	FY19E	FY20E
Equity share capital	223	223	223	223	223
Reserves & surplus	5,066	6,864	7,974	9,771	12,049
Net worth	5,289	7,086	8,197	9,993	12,272
Minority Interest	0	0	0	0	0
Loan Funds	4,050	5,571	6,464	6,004	5,504
Net deferred tax liability	(136)	(689)	(689)	(689)	(689)
Total Liabilities	9,203	11,968	13,972	15,308	17,087
Net block	2,044	2,497	4,697	3,765	2,805
Investment	497	960	960	960	960
Current Assets	7,852	8,562	11,132	13,942	17,205
Cash & bank balance	190	538	1,496	2,847	4,501
Other Current Assets	244	1,886	2,075	2,282	2,511
Current liabilities & Provision	2,121	2,890	2,918	3,460	3,984
Net current assets	5,732	5,672	8,214	10,483	13,221
Misc. exp	0	0	0	0	0
Total Assets	9,203	11,968	13,972	15,308	17,087

Cash Flow

Y/E Mar (Rs mn)	FY16	FY17	FY18	FY19E	FY20E
PBT (Ex-Other income) (NI+Dep)	1,933	2,094	2,376	2,694	3,465
Other Non-Cash items	0	0	0	0	0
Chg in working cap	(157)	(145)	(1,585)	(917)	(1,085)
Operating Cashflow	3,159	3,024	1,119	2,700	3,148
Capital expenditure	(1,098)	(2,884)	(272)	(188)	(200)
Free Cash Flow	2,061	140	848	2,512	2,948
Investments	(46)	(463)	0	0	0
Other Investing Cash Flow	(35)	(227)	(67)	(70)	(74)
Investing Cashflow	(1,114)	(3,348)	(272)	(188)	(200)
Equity Capital Raised	0	0	0	0	0
Loans Taken / (Repaid)	(536)	1,520	893	(461)	(500)
Dividend paid (incl tax)	(45)	(268)	(267)	(401)	(534)
Other Financing Cash Flow	(979)	(295)	(190)	0	0
Financing Cashflow	(2,025)	672	110	(1,161)	(1,294)
Net chg in cash	20	348	958	1,351	1,654
Opening cash position	170	190	538	1,496	2,847
Closing cash position	190	538	1,496	2,847	4,501

Source: Company, Emkay Research

Key Ratios

Profitability (%)	FY16	FY17	FY18	FY19E	FY20E
EBITDA Margin	17.3	16.3	17.9	17.5	18.0
EBIT Margin	14.7	13.4	13.7	12.8	13.7
Effective Tax Rate	14.9	20.7	17.3	20.5	20.5
Net Margin	10.4	10.3	10.3	9.4	10.4
ROCE	28.0	24.6	21.4	20.9	23.5
ROE	37.1	29.7	26.4	24.2	25.3
RoIC	31.7	31.3	28.4	26.2	32.5

Per Share Data (Rs)	FY16	FY17	FY18	FY19E	FY20E
EPS	7.7	8.3	9.1	9.9	12.7
CEPS	9.6	10.6	12.7	14.9	17.9
BVPS	23.8	31.9	36.9	45.0	55.2
DPS	2.0	1.0	1.0	1.0	1.5

Valuations (x)	FY16	FY17	FY18	FY19E	FY20E
PER	35.1	32.5	29.6	27.2	21.2
P/CEPS	27.9	25.3	21.1	18.0	15.0
P/BV	11.3	8.4	7.3	6.0	4.9
EV / Sales	3.9	3.6	3.3	2.7	2.2
EV / EBITDA	22.4	22.3	18.4	15.3	12.4
Dividend Yield (%)	0.7	0.4	0.4	0.4	0.6

Gearing Ratio (x)	FY16	FY17	FY18	FY19E	FY20E
Net Debt/ Equity	0.7	0.7	0.6	0.3	0.1
Net Debt/EBIDTA	1.4	1.7	1.4	0.8	0.2
Working Cap Cycle (days)	123.7	105.1	124.7	118.7	117.2

Growth (%)	FY16	FY17	FY18	FY19E	FY20E
Revenue	4.5	9.0	10.4	19.3	15.7
EBITDA	13.5	2.4	21.0	17.1	18.7
EBIT	17.0	(0.7)	13.5	10.8	24.4
PAT	12.8	8.1	9.8	8.9	28.0

Quarterly (Rs mn)	Q4FY17	Q1FY18	Q2FY18	Q3FY18	Q4FY18
Revenue	4,885	4,386	4,746	5,099	5,441
EBITDA	838	611	740	878	832
EBITDA Margin (%)	17.1	13.9	15.6	17.2	15.3
PAT	559	341	401	467	357
EPS (Rs)	2.5	1.5	1.8	2.1	1.6

Source: Company, Emkay Research

Shareholding Pattern (%)	Mar-17	Jun-17	Sep-17	Dec-17	Mar-18
Promoters	72.0	72.0	72.0	72.0	72.0
FIs	12.8	13.2	11.4	11.2	11.2
DIs	4.0	3.6	3.8	4.7	4.9
Public and Others	11.2	11.2	12.8	12.2	11.9

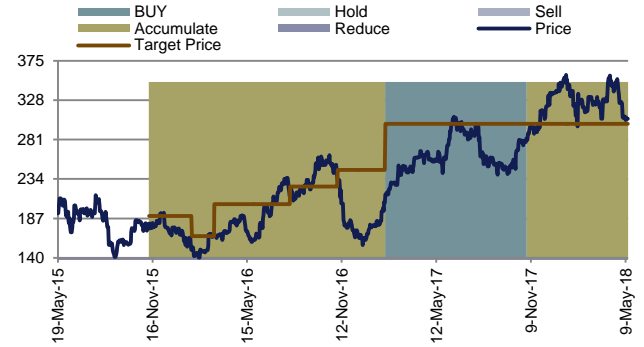
Source: Capitaline

RECOMMENDATION HISTORY TABLE

Date	Closing Price	TP	Period (months)	Rating	Analyst
1-Nov-17	280	300	12m	Accumulate	Amit Purohit
3-Aug-17	275	300	12m	Buy	Amit Purohit
24-May-17	241	300	12m	Buy	Amit Purohit
3-Feb-17	216	300	12m	Buy	Rohan Gupta
4-Nov-16	230	245	12m	Accumulate	Rohan Gupta
5-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
9-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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