

5 November 2014

Century Plyboards

Strong operational efficiency, worth a Buy

Rating: **Buy**

Target Price: ₹184

Share Price: ₹139

Key takeaways

Robust top line growth. Century Plyboards' 2QFY15 revenue shot up 15.7% yoy to ₹4.07bn. The rise was fuelled by yoy growth in plywood (13.4%), laminates (22.7%) and logistics (25%). Volumes, respectively, rose 10%, 15% and 22% yoy. 1HFY15 sales grew 21% yoy to ₹7.69bn.

339-bp yoy jump in EBITDA margin. The EBITDA margin rose 339bps yoy to 15.7%, primarily because of raw material cost (down 136bps to 56.7% of sales). Forex gain came at ₹24m against a ₹150m loss a year ago. For 1HFY15, the EBITDA margin jumped 632bps to 14.5%. PAT zoomed to ₹358m (up 62.5% yoy), following lower interest cost and robust margins.

New expansions operating at higher utilisation. The plywood capacity-expansions (in Gujarat) and the laminate doubled capacity resulted in the margin improving. The EBIT margin in plywood and laminates expanded 158bps and 360bps yoy, respectively, to 9.8% and 13.5%. The Myanmar subsidiary, for sourcing raw material, has also entered into contract manufacturing. Its recent foray into the MDF business on the model of outsourcing from Vietnam would drive growth; we haven't factored this into our estimates.

Our take. The higher margins in 2QFY15 lead us to raise our FY15 and FY16 earnings estimates, respectively, 11.5% and 7.5%. The earnings growth momentum in FY16-17 is expected to be robust due to product launches in economy brands, promoting them through television ads, the advantage of sourcing inputs from Myanmar, and the logistical advantage. These would assist in driving volume growth. We have introduced estimates for FY17. We maintain a Buy on the stock, assigning a PE of 15x, FY17e EPS, and arrive at a target of ₹184. It now trades at a PE of 15.7x FY16e and 11.3x FY17e.

Risks: Currency fluctuations, substitutes, high interest rates.

Key data	CPBI IN / CNTP.BO
52-week high / low	₹141 / ₹22
Sensex / Nifty	27721 / 8287
3-m average volume	US\$0.2m
Market cap	₹30.9bn/US0.50bn
Shares outstanding	223m

Shareholding pattern (%)	Sep '14	Jun '14	Mar '14
Promoters	74.4	74.4	72.8
- of which, Pledged	8.4	8.4	8.6
Free Float	25.6	25.6	27.2
- FII	5.8	2.9	1.2
- DII	1.9	0.5	0.0
- Public	17.7	22.1	25.9

Estimates revision (%)	FY15e	FY16e
Sales	-	-
EBITDA	12.4	10.4
EPS	11.5	7.5

Financials (YE Mar)	FY16e	FY17e
Sales (₹m)	20,010	25,003
Net profit (₹m)	1,964	2,727
EPS (₹)	8.8	12.3
Growth (%)	36.8	38.8
PE (x)	15.7	11.3
PBV (x)	5.5	3.9
RoE (%)	40.6	40.1
RoCE (%)	30.3	34.2
Dividend yield (%)	1.0	1.2
Net gearing (%)	0.5	0.3

Source: Anand Rathi Research

Quarterly results (YE Mar)	2QFY14	2QFY15	% yoy	1HFY14	1HFY15	% yoy
Sales (₹m)	3,518	4,070	15.7	6,355	7,698	21.1
EBITDA (₹m)	432	638	47.6	523	1,120	114.3
EBITDA margin (%)	12.3	15.7	339bps	8.2	14.5	632bps
Interest (₹m)	131	124	(5.0)	268	198	(26.1)
Depreciation (₹m)	81	109	33.9	156	213	36.6
Other income (₹m)	10	15	49.8	76	19	(75.7)
PBT (₹m)	230	420	82.5	174	727	316.8
Tax (₹m)	10	62	531.9	(4)	112	NA
Tax rate (%)	4	15	1050bps	(2)	15	NA
Adj. PAT (₹m)	220	358	62.5	178	615	245.4

Source: Company, Anand Rathi Research

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Quick Glance – Consolidated Financials and Valuations

Fig 1 – Income statement (₹ m)

Year-end: Mar	FY13	FY14	FY15e	FY16e	FY17e
Net revenues	11,311	12,840	16,068	20,010	25,003
Revenue growth (%)	1.14	13.51	25.14	24.54	24.95
- Oper. expenses	10,183	11,327	13,724	17,025	21,116
EBITDA	1,129	1,512	2,344	2,985	3,886
EBITDA margins (%)	9.98	11.78	14.59	14.92	15.54
- Interest	390	551	301	332	293
- Depreciation	267	332	433	442	490
+ Other income	73	95	80	100	105
- Tax	17	24	253	347	481
Effective tax rate (%)	3.19	3.27	15.00	15.00	15.00
Reported PAT	527	700	1,436	1,964	2,727
Extraordinary items					
Adjusted PAT	527	700	1,436	1,964	2,727
PAT growth (%)	(12.4)	32.9	105.2	36.8	38.8
Adj. FDEPS (₹/sh)	2.4	3.1	6.5	8.8	12.3
Adj. FDEPS growth (%)	(12.4)	32.9	105.2	36.8	38.8

Source: Company, Anand Rathi Research

Fig 2 – Balance sheet (₹ m)

Year-end: Mar	FY13	FY14	FY15e	FY16e	FY17e
Share capital	223	223	223	223	223
Reserves & surplus	2,274	2,692	3,815	5,415	7,725
Net worth	2,497	2,914	4,037	5,637	7,947
Total debt	4,461	4,478	4,128	3,678	3,228
Minority interest	0	0	0	0	0
Def. tax liab. (net)	(2)	(5)	(5)	(5)	(5)
Capital employed	6,956	7,386	8,159	9,309	11,169
Net fixed assets	2,217	2,307	2,324	2,332	2,361
Investments	157	379	379	379	379
- of which, Liquid					
Working capital	3,784	4,520	5,009	6,002	7,468
Cash	797	180	448	596	961
Capital deployed	6,956	7,386	8,159	9,309	11,169
Net debt/equity	1.5	1.5	0.9	0.5	0.3
W C turn (days)	79	92	96	98	102
Book value (₹/sh)	11	13	18	25	36

Source: Company, Anand Rathi Research

Fig 3 – Cash-flow statement (₹ m)

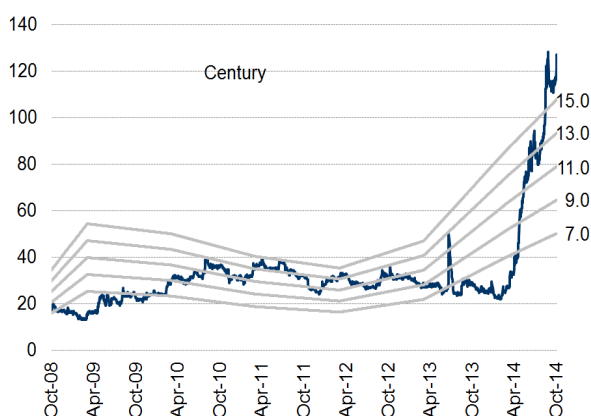
Year-end: Mar	FY13	FY14	FY15e	FY16e	FY17e
Consolidated PAT	527	700	1,436	1,964	2,727
+Non-cash Items	269	329	433	442	490
Cash profit	796	1,029	1,869	2,406	3,217
- Incr./Decr. in WC	545	735	489	993	1,466
Operating cash-flow	252	293	1,380	1,413	1,751
-Capex	377	423	450	450	520
Free cash-flow	(126)	(130)	930	963	1,231
-Dividend	65	252	312	364	417
+ Equity raised	(1,090)	(31)	0	0	0
+ Others	1,082	17	(350)	(450)	(450)
+ Debt raised	(576)	222	0	0	0
-Investments	0	0	0	0	0
Net cash-flow	377	(617)	267	149	365
+Opening cash	421	797	180	448	596
Closing cash	797	180	448	596	961

Source: Company, Anand Rathi Research

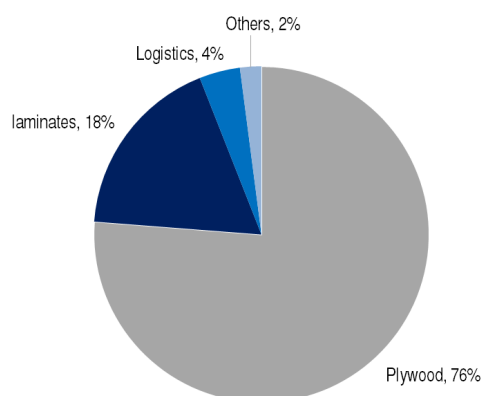
Fig 4 – Ratio analysis @ ₹139

Year-end: Mar	FY13	FY14	FY15e	FY16e	FY17e
P/E (x)	58.7	44.2	21.5	15.7	11.3
Cash P/E (x)	39.0	30.0	16.5	12.9	9.6
EV/EBITDA (x)	30.7	23.3	14.8	11.4	8.5
EV/sales (x)	3.1	2.7	2.2	1.7	1.3
P/B (x)	12.4	10.6	7.7	5.5	3.9
Dividend yield (%)	0.2	0.7	0.9	1.0	1.2
Dividend payout (%)	10.5	31.7	18.6	15.9	13.1
RoE (%)	21.1	25.9	41.3	40.6	40.1
RoCE (%)	13.4	17.8	25.6	30.3	34.2
Debtor days	55.4	54.1	53.0	55.0	59.0
Inventory days	70.2	83.2	93.0	93.0	93.0
Payables days	47.1	44.9	50.0	50.0	50.0
Working capital days	78.6	92.5	96.0	98.0	102.0
Fixed asset T/O (x)	5.1	5.6	6.9	8.6	10.6
Debt to equity (x)	1.8	1.5	1.0	0.7	0.4

Source: Company, Anand Rathi Research

Fig 5 – PE band


Source: Bloomberg, Anand Rathi Research

Fig 6 – Export revenues


Source: Company, Anand Rathi Research

Result Highlights

Strong operating performance

For 2QFY15 Century reported revenue of ₹4.07bn (up 15.7% yoy), though 7.6% below our estimated ₹4.4bn. The yoy growth was driven by the uptick in plywood (13.4%), laminates (22.7%) and logistics (25%). The EBITDA margin shot up 339bps yoy to 15.7% driven by low RMC and a ₹24m forex gain (against a ₹150m loss a year ago).

Ahead, with the ongoing expansions on track, volumes are expected to rise. The rising sales and healthy margin led to profit growing 62.5% yoy to ₹358m, broadly in line with our estimate. Other income grew 50% to ₹14.9m and interest cost declined 5% yoy to ₹124m. EBIT margins in plywood and laminates grew 158bps and 360bps yoy, respectively, to 9.8% and 13.5%. With rising capacity and utilization, return ratios would improve. The company is expected to deliver healthy RoE of ~35-40% in the coming 2-3 years.

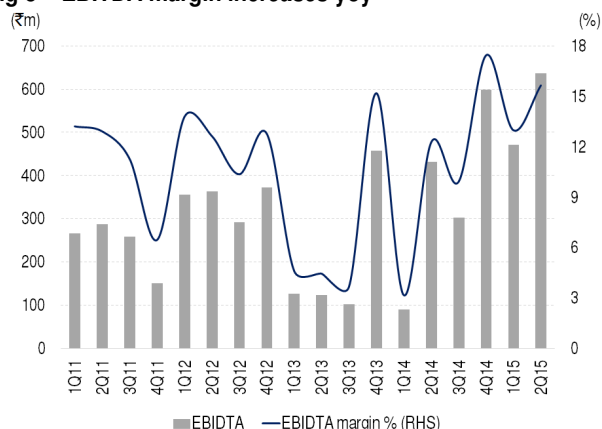
Fig 7 – Quarterly results

Quarterly results	2QFY14	2QFY15	% var	1QFY15	% var	2QFY15e	% var
Sales	3,518	4,070	15.7	3,627	12.2	4,404	(7.6)
EBIDTA	432	638	47.6	472	35.3	572	11.5
PBT	230	420	82.5	307	36.6	401	4.5
PAT	220	358	62.5	257	39.0	361	(1.0)

Source: Company, Anand Rathi Research

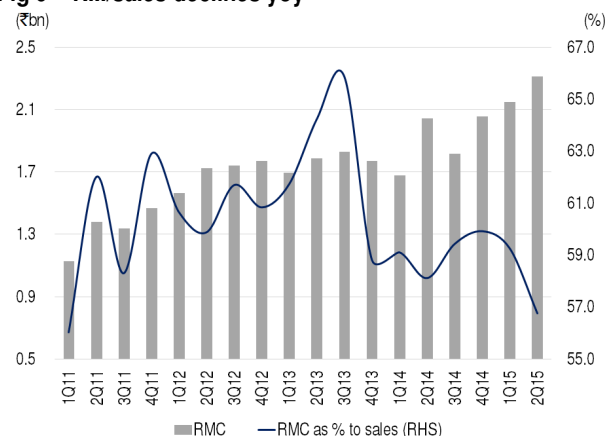
Besides the greenfield expansion in Kandla, Century recently set up a plant in Myanmar to reduce input costs and improve margins. It imports more than 80% of its timber requirement (the balance is sourced from India). It is entering into a venture with a local timber manufacturer in Laos to put up a ~\$2m plant by Feb'15. Over FY15-16 it will incur capex of ₹0.6bn. With no major capex plan, we expect the debt to come at ₹4.12bn by FY15, in turn lowering its debt-equity ratio. Its recent entry into the MDF business on the model of outsourcing from Vietnam would help it grow.

Fig 8 – EBITDA margin increases yoy



Source: Company, Anand Rathi Research

Fig 9 – RM/sales declines yoy



Source: Company, Anand Rathi Research

Valuations

The Gujarat and Myanmar expansions would be game-changers. The ban on timber imports to India from Myanmar (a key raw material source) would be offset because of the company's 100% subsidiary there. With the GST implementation, a shift from the informal to the formal sector is expected, adding to the company's prospects. It is aggressive in brand publicity and has begun to promote its brands with a newly-launched TV ad (in Jun'14).

At the current price of ₹139, the stock trades at 15.7x FY16e P/E and 11.4x EV/EBIDTA. We believe that the strong return ratios, improving free-cash flows and constant payouts would drive growth for the company. On the above analysis, we maintain a Buy on the stock, assigning a PE of 15x to FY'17e earnings, and arrive at a target of ₹184.

Concall Highlights

- Of the 2Q revenue, plywood, laminates, logistics and others brought in respectively 74%, 19.5%, 4.5% and 2%. Volumes in plywood, laminates and logistics grew respectively 10%, 15% and 22% yoy. The company aims at 25% growth in coming years. Till now prices have been raised 6-7%, and so will not be raised till Mar'14.
- Recruitment for the capacity expansions led to employee costs shooting up 30%. The company expects its EBIDTA margin over the next two years to be within the range of 15% to 17%.
- The company has been importing raw material from Myanmar and has expanded capacity there. A third line has been commissioned and the process has begun for a fourth.
- The new venture in Laos is likely to be commissioned by Feb'15 at ~\$2m. It would help source raw material at a cheaper rate, saving in logistics cost, lower duty and generating better margins.
- The company will be launching a separate campaign for laminates from Dec'14. It is expanding its modular furniture and kitchen division, focusing on untapped markets in smaller cities and launching economy brands such as Sainik Maxima. Sainik has been outsourced and, in 1HFY15, grew 19% yoy, accounting for almost 25% of the plywood volumes. The company expects this brand to do well and contribute more to revenue.

Risks

- **High degree of currency volatility:** Since the company imports a major portion of its raw material, currency fluctuation would affect its margin. At present, raw material costs constitute about 60% of net sales.
- **Threat from substitutes:** The shifting focus of the consumer from plywood to multi-density fiberboard (MDF, less expensive than plywood) would pose a threat.
- **Higher interest rate:** Exposure to interest-rate fluctuations in its foreign-currency borrowing could affect Century Plyboards.

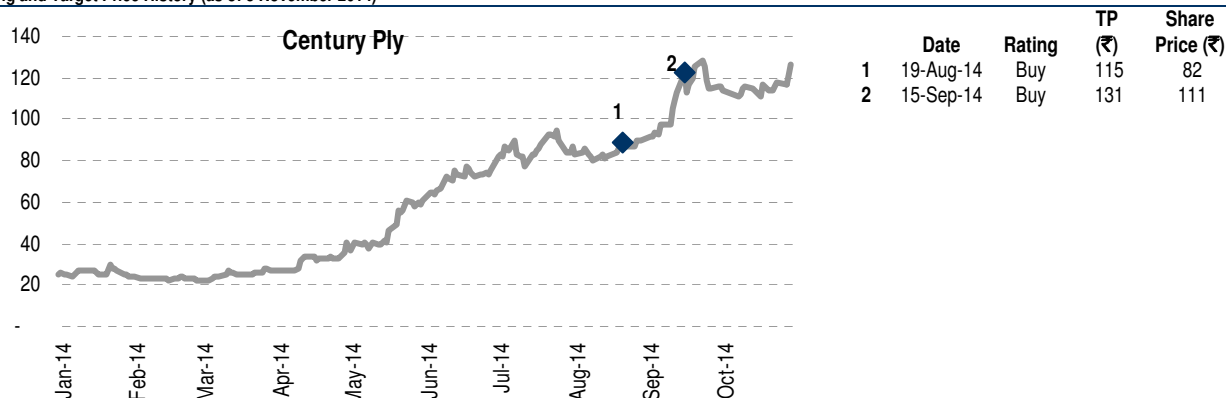
Appendix

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