

Century Plyboards

Ply revenue surprise, so does low interest cost

Revenue growth of 20% YoY was better than our expectation of 14.6%. The growth was largely led by the revenues (Rs476mn) from the newly commissioned MDF capacity during the quarter. Plywood segment surprised us positively with 7% growth YoY against our expectation of 4% decline. We believe that in anticipation of price hikes in December and January, channel may have increased its inventory of Century's premium category ply, which may have resulted in realisation and volume growth in the plywood segment. Under laminates, the industry is facing pressure from new 0.8mm capacities that have recently come up in Yamuna Nagar, Haryana. EBITDA margin of 17.2% was in line with our expectation as higher EBITDA margin MDF capacity has started contributing to the revenues. Lower interest cost of Rs63mn (against our expectation of Rs141mn) came in as a surprise and may be due to one-time forex gain adjustments. We have kept our TP Under Review and will revisit our numbers post the earnings call. Our last published TP of Rs260 implies 20x FY19 P/E.

Key questions to ask the management in tomorrow's earnings call:-

- What is the current capacity utilization level of the MDF capacity, channel checks suggest 50-60% for January? Were there some hiccups in the ramping up MDF capacity utilisation during the quarter?
- What were the realisations for MDF during the quarter? What is the timeline for the launch of Pre-laminated and Exterior grade MDF? What is the customer profile for Century's MDF and what was the ratio of institutional vs. retail sales during the quarter?
- How is the competitive intensity in the MDF segment? What are the new MDF capacities in the industry that are expected in the next two years?
- Is the growth in the plywood segment due to revival in demand for ply or due to increase in channel's inventory level?
- Were there some forex gains during the quarter that may have been adjusted to the interest cost?
- Our channel checks suggest increased competitive intensity in the laminates segment as there are a few new laminate manufacturers that have come up in Yamuna Nagar and have flooded the market with new 0.8mm catalogues. What are the plans set in by the management to ward off against this new competition?
- How will working capital cycle change for the company with ramp-up of MDF capacity utilisation?

UNDER REVIEW

Result Update

Stock Information

Bloomberg Code:	CPBI IN
CMP (Rs):	310
TP (Rs):	UR
Mcap (Rs bn/US\$ mn):	69/1,074
3M ADV (Rs mn/US\$ mn):	110/1.7

Stock Performance (%)

	1M	3M	12M	YTD
Absolute	(9)	10	51	(9)
Rel. to Sensex	(12)	6	26	(12)

Source: Bloomberg, Ambit Capital research

Ambit Estimates – Last published (Rs mn)

	FY17	FY18	FY19
Revenues	18,187	22,611	28,543
EBITDA	3,100	3,877	5,183
EPS (Rs)	8.7	9.2	13.5

Source: Bloomberg, Ambit Capital research

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Exhibit 1: Quarterly Summary: Revenue grew by 20% YoY and EBITDA margins expanded by 170bps

Particulars (Rs mn unless mentioned)	3QFY17	2QFY18	3QFY18	YoY	QoQ	Ambit Est.	Dev.	9MFY17	9MFY18	YoY
Net Sales	4,255	4,746	5,099	19.9%	7.5%	4,874	5%	12,961	14,231	10%
Operating costs	3,595	4,005	4,222	17.4%	5%	4,002	5%	10,861	12,002	11%
Raw material costs	1,464	1,675	1,767	20.7%	6%			4,415	4,889	11%
Purchase of RM	737	870	840	14.0%	-3%			2,235	2,603	16%
Employee cost	637	676	723	13.4%	7%			1,899	2,087	10%
For-ex loss	13	-	-	-100.0%	NM			4	-	
Other expenditure	744	784	892	19.9%	14%			2,307	2,424	5%
EBITDA	660	740	878	33%	19%	872	1%	2,100	2,229	6%
EBITDA margin	15.5%	15.6%	17.2%	170bps	161bps	17.9%	-69bps	16.2%	15.7%	-54bps
Depreciation	149	138	263	76%	90%	184	43%	368	533	45%
EBIT	510	602	615	20%	2%	668	-8%	1,731	1,696	-2%
Other income	33	6	42	28%	582%	10	333%	54	54	-1%
Interest cost	99	79	63	-36%	-21%	141	-55%	248	205	-17%
PBT	445	529	594	34%	12%	537	11%	1,538	1,545	0%
Tax	72	128	128	78%	0%	130	-2%	242	336	39%
PAT	373	401	467	25%	16%	407	15%	1,296	1,209	-7%
EPS (adjusted)	1.7	1.8	2.1	25%	16%	1.8	15%	6	5	-7%

Source: Company, Ambit Capital research

Exhibit 2: Segment results: 7% growth in plywood segment surprised positively

Particulars	3QFY17	2QFY18	3QFY18	YoY	QoQ
Segmental Sales (Rs mn)					
Plywood & Allied Products	3,013	3,059	3,227	7%	6%
Laminates & Allied Products	892	1,246	999	12%	-20%
MDF	4	1	476	NM	NM
CFS	202	250	276	37%	10%
Others	82	110	175	115%	59%
Segmental EBIT (Rs mn)					
Plywood & Allied Products	475	403	422	-11%	5%
Laminates & Allied Products	123	210	122	-1%	-42%
MDF	(0)	0	1	-774%	2484%
CFS	41	68	85	110%	26%
Others	(28)	1	3	-112%	505%
Segmental EBIT Margin (%)					
Plywood & Allied Products	16%	13%	13%	-272bps	-11bps
Laminates & Allied Products	14%	17%	12%	-156bps	-463bps
MDF	-4%	3%	0%	432bps	-250bps
CFS	20%	27%	31%	1079bps	382bps
Others	-34%	1%	2%	3627bps	145bps

Source: Company, Ambit Capital research

(Our last published financials)
Balance sheet

Rs mn unless mentioned	FY16	FY17	FY18E	FY19E
Share capital	223	223	223	223
Reserves and surplus	5,066	6,927	8,708	11,325
Total Net worth	5,288	7,149	8,931	11,547
Loans	4,194	5,664	6,064	5,764
Deferred tax liability (net)	(653)	(675)	(675)	(675)
Sources of funds	8,920	12,258	14,449	16,775
Net block	2,500	3,057	6,731	6,630
Investments	233	830	31	31
Cash and bank balances	389	672	1,615	3,853
Sundry debtors	2,842	3,422	3,151	3,746
Inventories	2,975	3,006	3,646	3,902
Loans and advances	1,132	1,182	1,893	2,185
Total Current Assets	7,337	8,283	10,547	13,928
Current liabilities and provisions	2,172	2,902	2,822	3,775
Net current assets	5,165	5,380	7,725	10,153
Application of funds	8,920	12,258	14,449	16,775

Source: Company, Ambit Capital research; Note: FY15 ends in June, rest March ending

Income statement

Rs mn unless mentioned	FY16	FY17	FY18E	FY19E
Revenue	16,409	18,187	22,611	28,543
Plyboards	11,664	12,609	13,800	15,897
Laminates	3,363	3,636	4,119	5,141
MDF	-	-	1,701	4,296
Total expenses	13,515	15,068	18,735	23,360
EBITDA	2,717	3,100	3,877	5,183
Depreciation	475	593	805	862
EBIT	2,302	2,733	3,199	4,553
Other income	60	226	127	232
Adj PBT	2,001	2,450	2,664	4,012
Provision for taxation	304	515	613	1,003
Adjusted PAT	1,672	1,926	2,042	2,999
EPS basic (Rs)	7.5	8.7	9.2	13.5

Source: Company, Ambit Capital research; Note: FY16 is a 9 month period

Cash flow statement

Rs mn unless mentioned	FY16	FY17	FY18E	FY19E
PBT	1,981	2,450	2,664	4,012
Depreciation	484	593	805	862
Interest paid	481	283	535	541
CFO before change in WC	3,037	3,100	3,877	5,183
Change in working capital	359	98	(1,403)	(189)
Direct taxes paid	(468)	(537)	(613)	(1,003)
CFO	2,928	2,662	1,861	3,991
Net capex	1,533	3,119	1,488	761
CFI	(1,389)	(3,490)	(562)	(529)
Proceeds from borrowings	(461)	1,470	400	(300)
Change in share capital	20	(36)	-	-
Interest & finance charges paid	(272)	(283)	(535)	(541)
Dividends paid	(601)	-	(261)	(383)
CFE	(1,525)	1,151	(396)	(1,224)
Net increase in cash	14	323	903	2,238
FCF	1,395	(457)	373	3,230

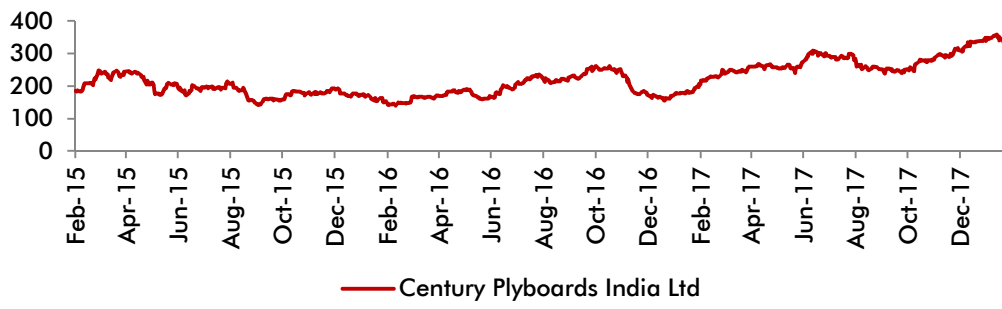
Source: Company, Ambit Capital research; Note: FY16 is a 9 month period

Ratio analysis / Valuation parameters

Particulars	FY16	FY17	FY18E	FY19E
EBITDA margin (%)	16.6	17.0	17.1	18.2
EBIT margin (%)	14.0	15.0	14.1	16.0
Net margin (%)	10.2	10.6	9.0	10.5
RoCE (%)	22.1	19.4	17.6	21.0
RoIC (%)	25.3	22.5	25.3	29.4
RoE (%)	35.7	32.0	25.0	28.9
Working capital turnover (x)	2.9	3.3	3.4	3.2
Debt/Equity (x)	0.8	0.8	0.7	0.5
Net debt/Equity (x)	0.7	0.6	0.5	0.2
Valuation metrics				
P/E (x)	41.2	35.8	33.7	23.0
P/B (x)	12.7	9.5	7.6	5.9
EV/Sales (x)	4.4	4.1	3.3	2.5
EV/EBITDA (x)	25.2	23.8	18.9	13.7

Source: Company, Ambit Capital research

Century Plyboards India Ltd (CPBI IN, UNDER REVIEW)



Source: Bloomberg, Ambit Capital research

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BUY	>10%
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