

19 May 2018

## Century Plyboards

*Imminent price hike to combat margin pressure; maintaining a Buy*

Rating: Buy

Target Price: ₹330

Share Price: ₹259

**Rising input costs in a tough market impacted Century's Q4 results (more in plywood). We believe the margin pressure in plywood would persist until the company hikes prices. We lower our FY19e and 20e earnings 14% and 11% respectively, owing to the cut in margins. While short-term challenges are visible, we are optimistic about long-term structural growth. We maintain our Buy rating on the stock.**

**Rising input costs impact margins.** While revenue grew 11.4% y/y in Q4, driven by laminates (up 8.6% y/y) and additional revenue from MDF (₹648m), lower realisation (due to inferior mix) impacted plywood (down 13.7% y/y). The adj. EBITDA margin in plywood contracted ~240bps due to rising input costs, which could not be passed on due to the tough market condition. Laminates reported margin expansion y/y; in MDF it contracted due to an inferior mix (one-off).

**Ramp-up of the MDF plant, new laminate capacity to drive short-term growth.** The MDF plant achieved 70% capacity utilization in Q4 FY18 (53% the previous quarter) and is expected to average 80% in FY18. Although manifold growth is expected in MDF, capacity glut by domestic players can squeeze short-term realisations/margins. The company increased laminate capacity by 25% in Jan'18 and is further increasing it by 25% in Q1 FY19.

**Outlook.** Century's major capex is nearly complete and growth would depend on demand revival across segments. While short-term challenges such as rising input costs and keener competition (mainly in plywood and MDF) can be seen, the structural long-term growth outlook is intact. To counter margin pressures, the company is planning a 3-5% price hike in plywood from 1<sup>st</sup> Jun.

**Valuation.** We expect PAT to register a 31% CAGR over FY18-20. We retain our Buy recommendation, with a revised target price of ₹330 (27x FY20e EPS). **Risks:** Rising input costs, currency fluctuations

Key financials (YE Mar)	FY16	FY17	FY18	FY19e	FY20e
Sales (₹ m)	16,357	17,825	19,800	23,989	27,929
Net profit (₹ m)	1,698	1,856	1,590	2,218	2,718
EPS (₹)	7.6	8.3	7.1	10.0	12.2
PE (x)	33.9	31.1	36.3	26.0	21.2
EV / EBITDA (x)	21.9	21.6	19.6	15.6	13.0
PBV (x)	11.0	8.1	6.9	5.7	4.8
RoE (%)	32.3	26.2	19.0	22.0	22.4
RoCE (%)	23.4	19.2	13.6	16.2	17.9
Dividend yield (%)	0.4	0.4	0.6	0.6	1.0
Net debt / equity (x)	0.8	0.8	0.6	0.6	0.3

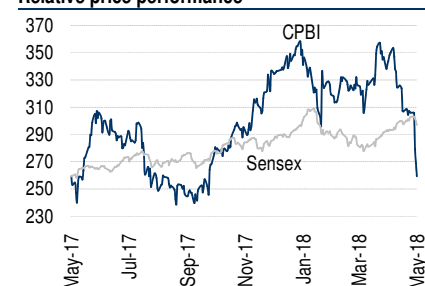
Source: Company, Anand Rathi Research

Key data	CPBI IN / CNTP.BO
52-week high / low	₹364 / ₹235
Sensex / Nifty	34848 / 10596
3-m average volume	\$1.3m
Market cap	₹58bn / \$847.4m
Shares outstanding	222m

Shareholding patter (%)	Mar'18	Dec'17	Sep'17
Promoters	72.0	72.0	72.0
- of which, Pledged	-	-	-
Free float	28.0	28.0	28.0
- Foreign institutions	11.2	11.1	11.4
- Domestic institutions	4.9	4.7	3.8
- Public	11.9	12.2	12.8

Estimates revision (%)	FY19e	FY20e
Sales	-2.5	-3.0
EBITDA	-11.0	-9.0
PAT	-14.0	-11.0

### Relative price performance



Source: Bloomberg

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## Quick Glance – Financials and Valuations

**Fig 1 – Income statement (₹ m)**

Year-end: Mar	FY16	FY17	FY18	FY19e	FY20e
Net revenues	16,357	17,825	19,800	23,989	27,929
Growth (%)	4.5	9.0	11.1	21.2	16.4
Direct costs	9,677	10,575	11,880	14,394	16,758
SG&A	3,845	4,329	4,743	5,544	6,454
<b>EBITDA</b>	<b>2,835</b>	<b>2,920</b>	<b>3,177</b>	<b>4,052</b>	<b>4,717</b>
EBITDA margins (%)	17.3	16.4	16.0	16.9	16.9
- Depreciation	437	524	810	1,018	1,073
Other income	65	227	71	99	120
Interest expenses	465	286	327	326	324
PBT	1,998	2,337	2,111	2,807	3,440
Effective tax rate (%)	15.0	20.6	24.7	21.0	21.0
+ Associates / (minorities)	-	-	-	-	-
Net income	1,698	1,856	1,590	2,218	2,718
Adjusted income	1,698	1,856	1,590	2,218	2,718
WANS	223	223	223	223	223
FDEPS (₹ / sh)	7.6	8.3	7.1	10.0	12.2
FDEPS growth	12.6	9.3	(14.3)	39.5	22.5
Gross margins (%)	48.5	48.5	48.3	48.0	48.0

**Fig 3 – Cash-flow statement (₹ m)**

Year-end: Mar	FY16	FY17	FY18	FY19e	FY20e
PBT	1,998	2,337	2,111	2,807	3,440
+ Non-cash items	437	524	810	1,018	1,073
Oper. prof. before WC	2,435	2,861	2,921	3,825	4,513
- Incr. / (decr.) in WC	(230)	115	161	1,802	1,205
Others incl. taxes	300	481	521	590	722
Operating cash-flow	2,366	2,265	2,239	1,433	2,586
- Capex (tang. + intang.)	1,099	2,893	1,893	1,800	200
Free cash-flow	1,267	(629)	346	(367)	2,386
Acquisitions					
- Div. (incl. buyback & taxes)	267	267	417	417	651
+ Equity raised	0	-	-	-	-
+ Debt raised	(446)	1,494	(153)	(40)	(1,000)
- Fin investments	44	463	-	-	-
- Misc. (CFI + CFF)	489	(214)	(910)	120	(0)
Net cash-flow	20	348	687	(944)	735

Source: Company, Anand Rathi Research

**Fig 5 – Price movement**


Source: Bloomberg

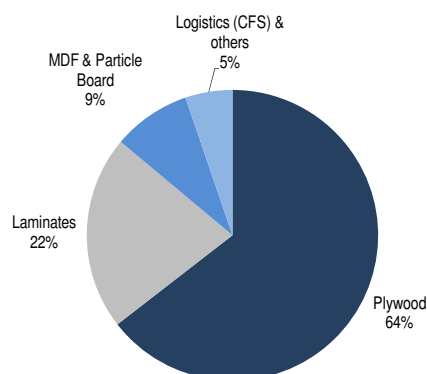
**Fig 2 – Balance sheet (₹ m)**

Year-end: Mar	FY16	FY17	FY18	FY19e	FY20e
Share capital	223	223	223	223	223
Net worth	5,251	7,086	8,379	10,060	12,127
Total debt	4,599	6,093	5,940	5,900	4,900
Minority interest	-	-	-	-	-
DTL / (assets)	(655)	(689)	101	101	101
<b>Capital employed</b>	<b>9,195</b>	<b>12,490</b>	<b>14,421</b>	<b>16,061</b>	<b>17,128</b>
Net tangible assets	2,018	2,480	5,412	6,494	5,921
Net intangible assets	12	7	-	-	-
Goodwill	-	-	-	-	-
CWIP (tang. & intang.)	930	2,842	1,000	700	400
Investments (strategic)	497	960	960	960	960
Investments (financial)	0	0	-	-	-
Current assets (ex cash)	7,172	8,024	8,784	10,622	12,290
Cash	190	538	1,225	281	1,016
Current liabilities	1,624	2,361	2,961	2,997	3,460
Working capital	5,548	5,663	5,823	7,626	8,831
<b>Capital deployed</b>	<b>9,195</b>	<b>12,490</b>	<b>14,421</b>	<b>16,061</b>	<b>17,128</b>
Contingent liabilities	733	841	-	-	-

**Fig 4 – Ratio analysis**

Year-end: Mar	FY16	FY17	FY18	FY19e	FY20e
P/E (x)	33.9	31.1	36.3	26.0	21.2
EV / EBITDA (x)	21.9	21.6	19.6	15.6	13.0
EV / sales (x)	3.8	3.5	3.1	2.6	2.2
P/B (x)	11.0	8.1	6.9	5.7	4.8
RoE (%)	32.3	26.2	19.0	22.0	22.4
RoCE (%) - after tax	23.4	19.2	13.6	16.2	17.9
RoIC	23.9	19.9	14.6	17.1	18.6
DPS (₹ / sh)	1.0	1.0	1.6	1.6	2.5
Dividend yield (%)	0.4	0.4	0.6	0.6	1.0
Dividend payout (%) - incl. DDT	13.1	12.0	22.4	16.1	20.5
Net debt / equity (x)	0.8	0.8	0.6	0.6	0.3
Receivables (days)	63	68	57	60	59
Inventory (days)	61	53	61	60	60
Payables (days)	33	44	51	52	52
CFO:PAT %	139.3	122.0	140.9	64.6	95.1

Source: Company, Anand Rathi Research

**Fig 6 – FY18 revenue break-up (standalone)**


Source: Company

## Financial highlights

**Fig 7 – Financials**

(₹ m)	Q4 FY17	Q1 FY18	Q2 FY18	Q3 FY18	Q4 FY18	% Y/Y	% Q/Q	FY17	FY18	% Y/Y
Income	4,885	4,386	4,746	5,099	5,441	11.4	6.7	17,825	19,672	10.4
EBITDA	838	611	740	878	832	(0.7)	(5.3)	2,952	3,060	3.7
PBT	798	421	529	594	445	(44.2)	(25.1)	2,337	1,990	(14.8)
PAT	559	341	401	467	357	(36.1)	(23.4)	1,856	1,566	(15.6)
EPS (calculated)	2.5	1.5	1.8	2.1	1.6	(36.1)	(23.4)	8.3	7.0	(15.6)
<b>As % of income</b>						<b>bps YoY</b>	<b>bps QoQ</b>			<b>bps YoY</b>
<b>Gross margin</b>	48.2	46.7	46.4	48.9	49.7	148	80	48.5	48.0	(49)
Employee cost	13.7	15.7	14.2	14.2	13.8	16	(35)	14.4	14.4	3
Other expenses	17.4	17.0	16.5	17.5	20.6	318	308	17.5	18.0	48
<b>EBITDA margin</b>	<b>17.1</b>	<b>13.9</b>	<b>15.6</b>	<b>17.2</b>	<b>15.3</b>	<b>(187)</b>	<b>(193)</b>	<b>16.6</b>	<b>15.6</b>	<b>(101)</b>
PBT margin	16.3	9.6	11.2	11.7	8.2	(815)	(347)	13.1	10.1	(299)
Effective tax rate	30.0	19.0	24.2	21.5	19.8	(1,017)	(169)	20.6	21.3	70
PAT margin	11.4	7.8	8.5	9.2	6.6	(488)	(259)	10.4	8.0	(245)
<b>Segment-wise results</b>										
<b>Revenue mix (%)</b>						<b>bps Y/Y</b>	<b>bps Q/Q</b>			<b>bps Y/Y</b>
Plywood and allied products	3,743	3,427	3,059	3,227	3,230	(13.7)	0.1	13,557	12,944	(4.5)
Laminate and allied products	1,099	891	1,246	999	1,194	8.6	19.5	4,106	4,330	5.5
Medium-density fibre board	6	6	1	476	648	-	36.1	36	1,131	3,079.2
Particle board	117	111	145	100	109	(7.2)	8.8	252	465	84.4
CFS services	235	239	250	276	233	(0.9)	(15.6)	883	997	12.8
Others	91	94	110	75	98	7.0	30.6	436	378	(13.4)
<b>Revenues (% Y/Y)</b>										
Plywood and allied products	9.5	10.1	(11.8)	(0.2)	(13.7)					
Laminate and allied products	8.6	2.0	9.4	0.5	8.6					
Medium-density fibre board	(12.6)	(56.2)	(87.6)	-	-					
Particle board	-	-	350.6	(2.4)	(7.2)					
CFS services	(3.0)	2.0	17.5	36.6	(0.9)					
<b>EBIT margin (%)</b>						<b>bps Y/Y</b>	<b>bps Q/Q</b>			<b>bps Y/Y</b>
Plywood and allied products	19.8	11.2	13.2	13.1	14.9	(492)	180	15.8	13.0	(276)
Laminate and allied products	10.0	10.3	16.9	12.2	9.6	(44)	(263)	12.7	12.4	(22)
Medium-density fibre board	(108.1)	(29.9)	27.2	0.2	(3.7)	10,437	(395)	(4.4)	(2.2)	220
Particle board	(28.3)	(33.6)	1.7	8.3	(11.4)	1,689	(1,974)	(27.6)	(8.4)	1,915
CFS services	25.5	28.1	27.1	30.9	26.7	116	(422)	26.6	28.3	164

Source: Company, Anand Rathi Research

**Fig 8 – Segment-wise revenues and EBITDA margins**

(₹ m)	FY14	FY15	FY16	FY17	FY18
<b>Revenues</b>					
Plywood	9,662	11,523	11,585	12,618	12,689
Laminates	2,425	2,996	3,307	3,707	4,246
MDF	-	-	-	-	1,205
Particle board	-	-	-	267	502
Logistics (CFS)	551	714	849	880	994
<b>% Y/Y</b>					
Plywood		19.3	0.5	8.9	0.6
Laminates		23.5	10.4	12.1	14.5
MDF					
Particle board					87.9
Logistics (CFS)		29.6	19.0	3.7	13.0
<b>EBITDA margin (adj to forex)</b>					
Plywood	13.8	17.2	17.0	16.6	14.2
Laminates	8.3	8.6	15.7	14.4	15.2
MDF					19.0
Particle board				19.2	21.1
Logistics (CFS)	42.2	44.8	44.6	39.1	38.4

Source: Company

## Key Concall Highlights

### MDF

- Profitability in Q4FY18 was impacted by the sub-standard boards produced (one-off in nature)
- Capacity utilization during the quarter was 70%.
- Further capacity addition from 600cbm/day to 1,000cbm/day can happen at a low capex of ₹1bn-1.2bn.
- The 20% EBITDA margin is sustainable in this segment on a long term basis.

### Industry scenario

- Current domestic capacity is ~4,000cbm/day (~1.5m cbm annually)
- Further capacity addition is underway by key players, which may heighten competition temporarily due to a supply glut, but high growth in the industry (helped by import substitution) would absorb them soon.
- One of the competitors had reduced prices by ~4% in Apr'18; others followed. This would help reduce imports.
- Imports are likely to be almost nil in the next 6-12 months due to less competition after the rupee depreciation (5%) and price cuts by domestic operators (~5%)
- There is also an export opportunity for domestic manufacturers as many have imported machinery under the export obligation scheme.
- Now, MDF is widely available in retail shops as well, due to its increasing acceptance.

### Plywood

- Average realisation in Q4 FY18 was down due to the inferior product mix toward mid-segment brands (*Sainik/Bond*), which grew faster than the premium segment.
- Margins in the segment were impacted by an abrupt rise in raw material prices owing to availability constraints at the Guwahati plant. The situation is gradually returning to normal.
- Prices of face veneer for premium products are going up due to availability issues from Laos, Myanmar.
- The company has procured two months' inventory at high cost, which may impact margins in Q1 FY19, in the absence of a price hike.
- While Q1 FY19 would see volumes growing ~8%, growth will be gradual and reach 15% in FY19.
- The focus on the mid-segment would continue due to the larger growth opportunity (shift from the unregulated to the formal sector).
- The EBITDA margin should sustain at 15-16% in the medium term.

### Laminates

- Margins were impacted as the increase in phenol prices were not fully passed on to distributors.
- The market is highly competitive, and the company will aim at a 15%

EBITDA margin in coming quarters.

- **Capex.** Of the additional two lines, one became operational from 21<sup>st</sup> Jan'18; the second is expected in Q1 FY19.

### **Price increase**

- The company plans to increase plywood prices by 3-5% from 1<sup>st</sup> Jun across segments to offset input cost pressures.
- Plywood – price cut, post-GST, could not be restored to offset raw material cost pressures due to the tough market conditions.

### **Outlook**

- The company aims to grow revenue 25% in FY19 (~₹5bn addition) driven by
  - ₹2.5bn addition from MDF + particle board to reach ₹4bn
  - ₹1.5bn addition in plywood (from the new Guwahati plant + optimising existing plants)
  - ₹750m in laminates from the new capacity addition
  - ₹100m from CFS and others.
- Plywood will see ~14% volume growth in FY19 (7-8% in the premium segment and ~20% in the mid-segment).
- The company says this would not impact margins as the mid-segment has similar or better margins due to the easy availability of raw materials at reasonable prices.

## Valuation

The government's focus on Housing-for-All would increase real-estate activities, which are prime users of plywood and laminates. With a strong brand image (especially its mid-range *Sainik*), product launches under the *Century Bond* brand (in between the premium *Club* brand and the mid-segment *Sainik* brand) and planned capex, Century is set to gain from demand revival across products. The separate campaigns for laminates and the *Sainik* brand would help to greater operational efficiency. Reduction in GST and successful implementation of the e-way bill would support demand shifting to the regulated sector. On the other side, huge capacity additions of MDF by domestic players are posing risks to margins for these players. While some short-term challenges remain, the structural long-term growth outlook is intact.

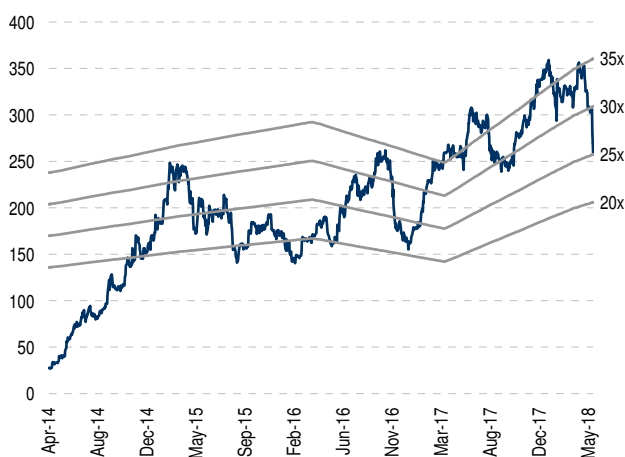
The stock currently trades at ~22x FY20e EPS on revised earnings estimates. We maintain our Buy rating on it, with a revised target price of ₹330 (27x FY20e EPS).

**Fig 9 – Change in estimates**

(₹ m)	Old estimates		New estimates		% Var	
	FY19	FY20	FY19	FY20	FY19	FY20
Total Income	24,605	28,793	23,989	27,929	-2.5	-3.0
EBITDA	4,553	5,184	4,052	4,717	-11.0	-9.0
PAT	2,579	3,054	2,218	2,718	-14.0	-11.0
EPS (₹)	11.6	13.7	10.0	12.2	-14.0	-11.0

Source: Anand Rathi Research

**Fig 10 – PE band**



Source: Bloomberg, Anand Rathi Research

**Fig 11 – Peer comparison**

	M-cap (₹ bn)	CAGR (FY18-20e)		EBITDA margin		RoE %		P/E (x)	
		Revenue	PAT	FY19	FY20	FY19	FY20	FY19	FY20
Century Ply (AR est)	57.5	18.8	30.8	16.9	16.9	22.0	22.4	26.0	21.2
Century Ply	57.5	20.9	37.0	16.5	17.3	24.2	24.5	24.3	19.7
Greenply	35.1	22.9	15.9	14.8	15.4	15.5	16.7	21.8	17.4
Greenlam	26.8	14.8	35.6	14.9	15.8	23.1	24.5	29.5	21.9

Source: Bloomberg, Anand Rathi Research

**Risks**

- **Unfavourable price movement and availability issue regarding key raw materials.** Sourcing of key raw materials (face veneers, etc.) at reasonable prices is the key challenge due to environmental concerns. Also, a few of its raw materials such as phenol follows crude oil prices which is now in an uptrend. These things pose risks to margins.
- **Currency volatility.** Since the company imports the major portion of its raw material, currency fluctuations could cut into its margins.
- **Higher interest rate.** Century Plyboards' exposure to interest-rate fluctuations in its foreign-currency borrowing could hurt it.



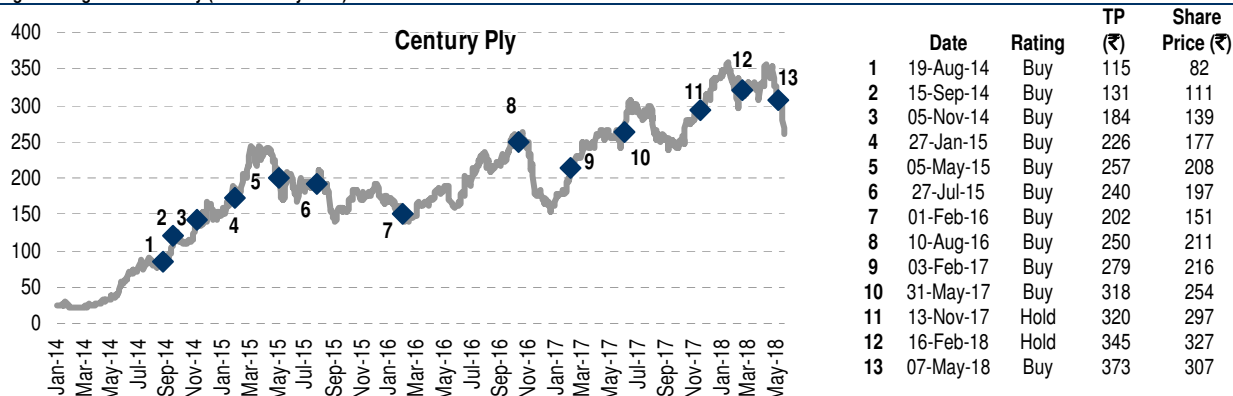
## Appendix

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	Buy	Hold	Sell
Large Caps (>US\$1bn)	>15%	5-15%	<5%
Mid/Small Caps (<US\$1bn)	>25%	5-25%	<5%

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