

Stock Update

Near-term issues to persist; maintain Hold with revised PT of Rs. 310

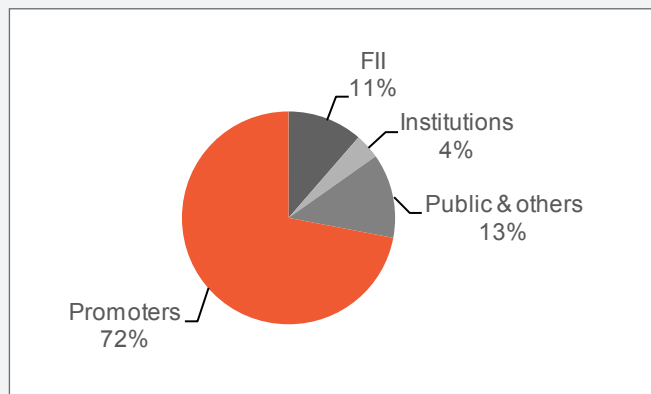
Century Plyboards (India)

Reco: Hold | CMP: Rs295

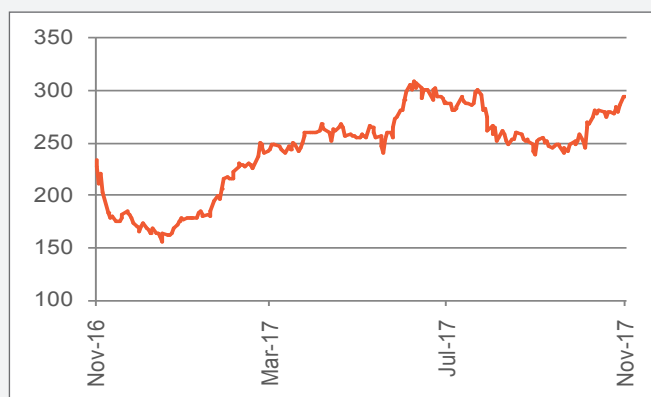
Company details

Price target:	Rs310
Market cap:	Rs6,549 cr
52-week high/low:	Rs313/155
NSE volume: (No of shares)	3.4 lakh
BSE code:	532548
NSE code:	CENTURYPLY
Sharekhan code:	CENTURYPLY
Free float: (No of shares)	6.2 cr

Shareholding pattern



Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	14.2	12.7	15.8	28.4
Relative to Sensex	7.6	7.7	1.4	2.5

Key points

- Laminates outperform while pressure on plywood segment persists:** Century Plyboards (India) Ltd (Century) standalone net sales grew 2.6% y-o-y to Rs. 474.6 crore in Q2FY2018. Revenue growth was supported by strong performance of the laminates segment (revenue up 22% y-o-y), on account of lower GST rate (18%) that led to migration of demand from unorganised to organised sector. Plywood division revenue declined 6% y-o-y on account of a higher GST rate (28%) leading to lower inventory level at dealer level (awaiting GST rate to be reduced to 18%), while unorganised players continued to benefit, as the e-way bill mechanism will take effect from April 1, 2018. The company's gross profit margin and operating margin (OPM) contracted 166 bps and 57 bps, respectively, owing to a rise in raw material prices (supply from Myanmar and Laos dried out). Further, adjusted net profit declined 17% y-o-y owing to: 1) a higher depreciation charge (up 9.5% y-o-y due to commissioning of particle board plant); 2) a 31.4% y-o-y rise in interest expenses; and 3) a higher effective tax rate (due to lower profitability at the exempted Assam unit).
- Capacity expansion during H2FY2018-FY2019:** The company will be increasing its laminates capacity by 50% (current utilisation rate is 125%) from December onwards. Further, the Medium Density Fiberboard (MDF) unit is currently getting stabilised (reached 70% capacity utilisation during Q2FY2018). The company aims to achieve 75% capacity utilisation by Q3FY2018 and 85-90% by Q4FY2018. It is targeting revenue of Rs. 150-200 crore from MDF in H2FY2018 and Rs. 425 crore in FY2019, with an operating margin of 25-30%.
- Outlook – Clarity on resolution of key issues eyed in H2FY2018:** Near-term concerns regarding a higher GST rate on plywood, particle board and MDF, higher raw material cost and implementation of e-way bill mechanism taking effect from April 2018 are likely to benefit the unorganised sector. This effect will be especially pronounced in the plywood segment that will pull down the company's volumes and operating margin. However, resolution of the above issues and capacity expansion benefits coming into play from FY2019 are likely to yield positive results.
- Valuation – Maintain hold with revised PT of Rs. 310:** We have lowered earnings estimates for FY2018-FY2019, factoring lower volumes and operating margins in the plywood segment. We introduce FY2020 earnings estimates. We have rolled forward our valuation multiple to FY2020 and arrived at a price target of Rs. 310. We maintain our Hold rating on the stock.

Results (standalone)					Rs cr	
Particulars	Q2FY18	Q2FY17	YoY (%)	Q1FY18	QoQ (%)	
Income from operations	474.6	462.7	2.6	438.6	8.2	
COGS	254.5	240.4	5.8	233.9	8.8	
Gross profit	220.1	222.3	-1.0	204.7	7.5	
Gross margin (%)	46.4	48.0	(166)	46.7	(29.5)	
Employee cost	67.6	62.4	8.3	68.9	(1.9)	
Other expenditure	78.4	85.0	-7.7	74.7	4.9	
Total expenditure	400.5	387.9	3.3	377.5	6.1	
Operating profit	74.0	74.8	-1.0	61.1	21.3	
OPM (%)	15.6	16.2	(57)	13.9	168.0	
Finance cost	7.9	6.0	31.4	6.3	25.8	
Depreciation	13.8	12.6	9.5	13.2	4.8	
Other income	0.6	2.2	-71.9	0.5	13.6	
Forex loss/(gain)	-	(0.9)		-		
PBT	52.9	58.4	-9.3	42.1	25.6	
Tax	12.8	9.1	40.7	8.0	59.5	
Reported PAT	40.1	49.3	-18.6	34.1	17.6	
Adjusted PAT	40.1	48.5	-17.3	34.1	17.6	

Segmental performance					Rs cr	
Particulars	Q2FY18	Q2FY17	YoY (%)	Q1FY18	QoQ (%)	
Plyboards						
Revenue	305.9	325.2	(5.9)	317.3	(3.6)	
EBIT	40.3	49.2	(18.1)	38.5	4.8	
EBIT margin (%)	13.2	15.1	(195)	12.1	(106)	
Capital employed	571.5	553.8	3.2	542.7	5.3	
RoCE (%)	28.2	35.5	(733)	28.3	(13)	
Laminates						
Revenue	124.6	102.2	21.9	80.7	54.5	
EBIT	21.0	17.1	22.7	9.2	129.1	
EBIT margin (%)	16.9	16.7	11	11.4	(549)	
Capital employed	191.9	155.0	23.8	174.1	10.2	
RoCE (%)	43.8	44.2	(40)	21.1	2,272	
CFS						
Revenue	25.0	21.3	17.5	23.9	4.6	
EBIT	6.8	5.6	20.1	6.7	0.8	
EBIT margin (%)	27.1	26.5	59	28.1	103	
Capital employed	45.5	58.0	(21.6)	44.6	2.0	
RoCE (%)	59.5	38.8	2,064	60.2	(76)	
MDF Boards						
Revenue	0.1	1.2	(87.6)	0.6	(75.6)	
EBIT	0.0	0.3	(84.2)	(0.2)	(122.2)	
EBIT margin (%)	27.2	21.2	599	(29.9)	(5,712)	
Capital employed	357.0	150.2	137.6	325.8	9.6	
RoCE (%)	0.0	0.7		(0.2)		
Particle Boards						
Revenue	14.5	3.0	384.0	10.1	42.5	
EBIT	0.2	(1.2)	(120.1)	(3.7)	(106.4)	
EBIT margin (%)	1.7	(40.1)	4,180	(36.8)	(3,847)	
Capital employed	50.6	68.7	(26.3)	54.2	(6.5)	
RoCE (%)	1.9	(7.0)		(27.6)		

Valuation (consolidated)

Particulars	Rs cr				
	FY16	FY17	FY18E	FY19E	FY20E
Net sales	1,641	1,819	2,077	2,521	2,761
Growth y-o-y (%)	3	11	14	21	10
Adjusted EBITDA	295	315	344	488	543
EBITDA margin (%)	18.0	17.3	16.6	19.4	19.7
Adjusted PAT	181	178	161	255	288
Growth y-o-y (%)	21	(1)	(10)	58	13
Adjusted EPS (Rs)	8.1	8.0	7.2	11.5	12.9
P/E (x)	38.9	34.5	40.8	25.7	22.8
RoCE (%)	21.9%	19.7%	14.9%	18.3%	18.0%
RoE (%)	37.0%	31.1%	21.0%	26.8%	24.1%

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