

27 July 2015

Century Plyboards

Huge spike in margins leads to robust profitability; Buy

Century Plyboards Q1 FY16 revenue grew 2.3% yoy, to ₹3.7bn, with the margin coming at 18%. The declining tax rate and robust margin have resulted in ₹397m PAT (up 54.3% yoy). The company has formed a subsidiary in Indonesia to set up timber-processing units.

Modest revenue growth. Reported Q1 FY16 revenue was ₹3.70bn (up 2.3% yoy, 10.1% below our estimate. A slowdown in the plywood division revenue, which slipped 6.3% yoy to ₹2.57bn, led to the modest growth, though laminates and logistics were up, respectively, 23% and 13% yoy. Laminate volumes grew 25% yoy. Lower demand resulted in the decline in the plywood division.

Soaring margins. The Q1 EBITDA margin shot up 500bps yoy, to 18%, because of the steep decline in raw-material costs (down 652bps to 52.7% of sales, followed by lower oil prices and a drop in logistics cost. Ahead, we expect a healthy, ~17-18%, EBITDA margin.

Net profit up 54% yoy. PAT was ₹397m (up 54.3% yoy) helped by a lower tax rate and robust margins. The tax rate slid substantially, by 495bps yoy, to 11%. And interest cost increased 66.5% yoy, to ₹123m.

Plans ahead. The four new units for veneer in Myanmar have already been commissioned. Overall, 15% growth is expected, driven by the affordable housing scheme of the government and the GST implementation. The company plans to start manufacturing at its newly-established Indonesian subsidiary. Also, it plans to make a foray into MDF; for this, for cost efficiency it might purchase machinery from China, instead of from Europe, at ~₹3bn capex.

Valuation. With the GST implementation, Housing-for-All, campaigning for laminates, advantages in input sourcing from Myanmar, logistical advantage and expanding capacities, volumes are likely to shoot up. We maintain a Buy on the stock, assigning a PE of 20x FY17e. We arrive at a target of ₹240. The stock trades at PE of 22.8x FY16e and 16.8x FY17e. **Risks:** Currency fluctuations, substitutes, high interest rates.

Quarterly results (YE Mar)	Q1FY15	Q1 FY16	% yoy	FY14	FY15e	% yoy
Sales (₹ m)	3,627	3,709	2.3	12,840	15,648	21.9
EBITDA (₹ m)	472	668	41.5	1,482	2,642	78.3
EBITDA margin (%)	13.0	18.0	500bps	11.5	16.9	535bps
Interest (₹ m)	74	123	66.5	551	433	(21.5)
Depreciation (₹ m)	104	101	(3.4)	332	448	34.8
Other income (₹ m)	13	3	(74.8)	95	37	(61.4)
PBT (₹ m)	307	448	45.7	693	1,798	159.4
Tax (₹ m)	50	51	1.4	24	290	1,125.2
Tax rate (%)	16	11	(495)bps	3	16	1271bps
PAT (₹ m)	257	397	54.3	669	1,508	125.3

Source: Company

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Rating: **Buy**

Target Price: ₹240

Share Price: ₹197

Key data	CPBI IN / CNTP.BO
52-week high/low	₹262 / ₹78
Sensex/Nifty	27531 / 8334
3-m average volume	US\$2.1m
Market cap	₹42.7bn/US\$0.67bn
Shares outstanding	223m

Shareholding pattern (%)	Jun'15	Mar'15	Dec'14
Promoters	73.3	73.3	74.4
- of which, Pledged	8.6	8.6	8.4
Free Float	26.7	26.7	25.6
- Foreign Institutions	8.8	8.5	6.0
- Domestic Institutions	3.1	3.2	2.8
- Public	14.7	14.8	16.7

Estimates revision (%)	FY16e	FY17e
Sales	(9.4)	(9.4)
EBITDA	(6.2)	(7.3)
EPS	(7.9)	(9.3)
Target Multiple (x)	-	20

Financials (YE Mar)	FY16e	FY17e
Sales (₹ m)	17712	22247
Net profit (₹ m)	1927	2603
EPS (₹)	8.7	11.7
Growth (%)	27.7	35.1
PE (x)	22.8	16.8
PBV (x)	8.1	5.7
RoE (%)	41.4	39.9
RoCE (%)	31.0	34.9
Dividend yield (%)	0.7	0.8
Net gearing (%)	0.6	0.4

Source: Anand Rathi Research

Girish Solanki
Research Analyst
+9122 6626 6712
girishsolanki@rathi.com

Quick Glance – Financials and Valuations

Fig 1 – Income statement (₹ m)

Year-end: Mar	FY13	FY14	FY15	FY16e	FY17e
Net revenues	11,311	12,840	15,648	17,712	22,247
Revenue growth (%)	1.14	13.51	21.87	13.19	25.61
- Oper. expenses	10,183	11,327	13,006	14,570	18,279
EBIDTA	1,129	1,512	2,642	3,142	3,969
EBITDA margin (%)	9.98	11.78	16.89	17.74	17.84
- Interest expenses	390	551	433	410	363
- Depreciation	267	332	448	476	546
+ Other income	73	95	37	38	39
- Tax	17	24	290	367	496
Effective tax rate (%)	3.19	3.27	16.12	16.00	16.00
Reported PAT	527	700	1,508	1,927	2,603
+/- Extraordinary items					
Adjusted PAT	527	700	1,508	1,927	2,603
PAT growth (%)	(12.4)	32.9	115.5	27.7	35.1
Adj. FDEPS (₹/share)	2.4	3.1	6.8	8.7	11.7
Adj. FDEPS growth (%)	(12.4)	32.9	115.5	27.7	35.1

Source: Company, Anand Rathi Research

Fig 2 – Balance sheet (₹ m)

Year-end: Mar	FY13	FY14	FY15	FY16e	FY17e
Share capital	223	223	223	223	223
Reserves & surplus	2,274	2,692	3,653	5,215	7,402
Net worth	2,497	2,914	3,876	5,438	7,625
Total debt	4,461	4,478	4,587	3,678	3,228
Minority Interest	0	0	0	0	0
Def. tax liab. (net)	(2)	(5)	(70)	(70)	(70)
Capital employed	6,956	7,386	8,392	9,045	10,782
Net fixed assets	2,217	2,307	2,316	2,840	2,814
Investments	157	379	451	451	451
- of which, Liquid					
Net working capital	3,784	4,520	5,455	5,554	7,084
Cash and bank balance	797	180	170	200	433
Capital deployed	6,956	7,386	8,392	9,045	10,782
Net debt/Equity (x)	1.5	1.5	1.1	0.6	0.4
WC days	79	92	86	91	98
Book value (₹/sh)	11	13	17	24	34

Source: Company, Anand Rathi Research

Fig 3 – Cash-flow statement (₹ m)

Year-end: Mar	FY13	FY14	FY15	FY16e	FY17e
PAT	527	700	1,508	1,927	2,603
+ Non-cash items	269	329	383	476	546
Cash profit	796	1,029	1,891	2,403	3,149
- Incr./ (Decr.) in WC	545	735	935	99	1,530
Operating cash-flow	252	293	956	2,304	1,619
- Capex	377	423	457	1,000	520
Free-cash flow	(126)	(130)	499	1,304	1,099
- Dividend	65	252	521	364	417
+ Equity raised	(1,090)	(31)	(26)	(0)	0
+ Debt raised	1,082	17	109	(909)	(450)
- Investments	(576)	222	72	0	0
- Misc. items	0	0	0	0	0
Net cash-flow	377	(617)	(10)	30	233
+ Op. cash & bank bal.	421	797	180	170	200
Cl. cash & bank bal.	797	180	170	200	433

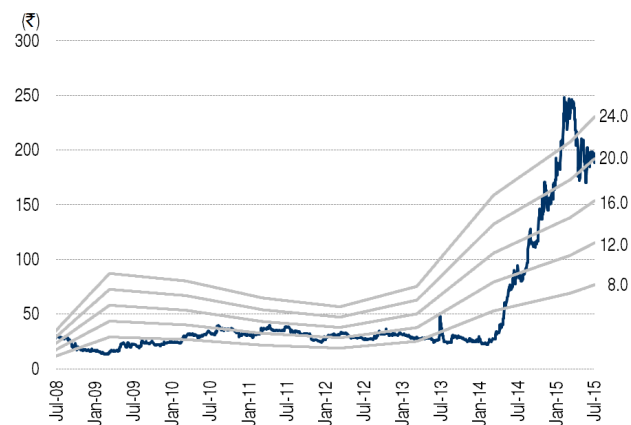
Source: Company, Anand Rathi Research

Fig 4 – Ratio analysis @ ₹197

Year-end: Mar	FY13	FY14	FY15	FY16e	FY17e
P/E (x)	83.3	62.6	29.1	22.8	16.8
Cash P/E (x)	55.2	42.5	22.4	18.2	13.9
EV/EBITDA (x)	42.1	31.8	18.3	15.1	11.8
EV/sales (x)	4.2	3.7	3.1	2.7	2.1
P/B (x)	17.6	15.0	11.3	8.1	5.7
Dividend yield (%)	0.1	0.5	1.0	0.7	0.8
Dividend payout (%)	10.5	31.7	29.5	16.2	13.7
RoE (%)	21.1	25.9	44.4	41.4	39.9
RoCE (%)	13.4	17.8	28.3	31.0	34.9
Debtor days	55.4	54.1	54.8	57.0	60.0
Inventory days	70.2	83.2	74.7	79.0	82.0
Payables days	47.1	44.9	43.1	45.0	44.0
Working capital days	78.6	92.5	86.4	91.0	98.0
Fixed asset T/O (x)	5.1	5.6	6.8	6.2	7.9
Debt to equity (x)	1.8	1.5	1.2	0.7	0.4

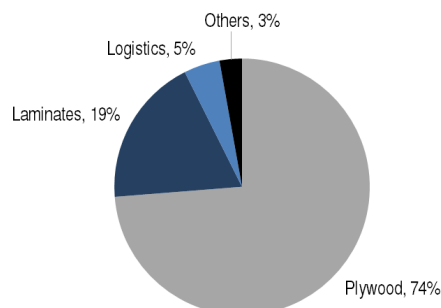
Source: Company, Anand Rathi Research

Fig 5 – PE band



Source: Anand Rathi Research

Fig 6 – Revenue Breakup (FY15)



Source: Company

Result Highlights

Robust operating performance

For Q1 FY16 Century Plyboards reported ₹3.70bn revenue (up 2.3% yoy), 10.1% below our estimated ₹4.12bn. This was driven by the 23% yoy growth in laminates and the 13% yoy growth in logistics. The Q1 EBITDA margin expanded 500bps yoy to 18%, assisted by low raw-material costs.

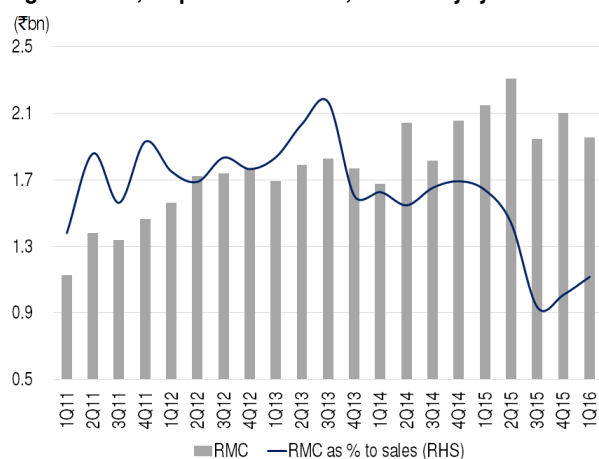
Ahead, with the focus on backward integration, the operating margin is likely to improve. Because of the healthy margins and the low tax rate, profit grew 54% yoy, to ₹397m, beating our estimate by 14%. The EBIT margins in plywood and in laminates grew, respectively, 440bps yoy to 17% and 720bps to 13.1%. With mounting capacity and greater utilisation, return ratios could rise. In the coming 2-3 years, a healthy, ~35-40%, RoE is expected.

Fig 7 – Quarterly results

(₹m)	Q1 FY15	Q1 FY16	% var	Q4 FY15	% var	Q1 FY16e	% var
Sales	3,627	3,709	2.3	4,092	(9.4)	4,126	(10.1)
EBIDTA	472	668	41.5	793	(15.9)	615	8.5
PBT	307	448	45.7	593	(24.6)	434	3.0
PAT	257	397	54.3	480	(17.3)	347	14.2

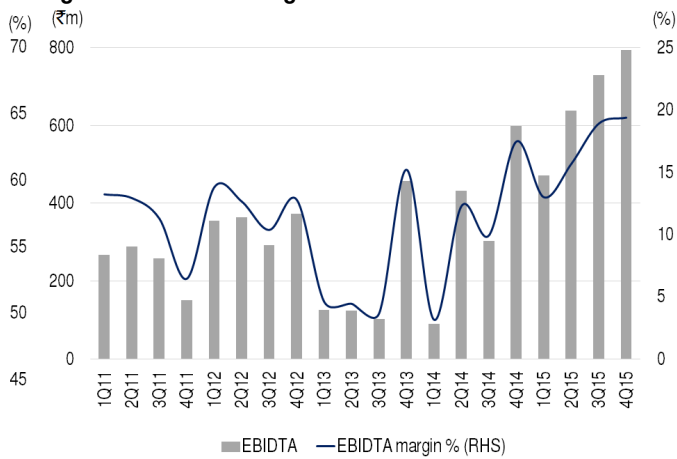
Source: Anand Rathi Research

Fig 8 – RMC, as percent of sales, declined yoy



Source: Company, Anand Rathi Research

Fig 9 – Increase in margins



Source: Company, Anand Rathi Research

Valuation

With the GST implementation, a shift from the informal to the regulated market is expected, furthering the company's prospects. The Housing-for-All initiative would help the company grow. It is aggressive in brand publicity and has begun to promote its brands. The separate campaign for laminates would help it improve its operational efficiency.

At the ruling price of ₹197, the stock trades at 22.8x FY16e P/E and 15.1x EV/EBIDTA. We believe that the strong return ratios, improving free-cash flows and constant payouts would drive growth. On the above analysis, we maintain a Buy on the stock, assigning a PE of 20x to FY17e earnings, and arrive at a price target of ₹240.

Other concall highlights:

- The margins are better because of lower raw-material prices and the company's not reducing its selling prices.
- The company plans to enter the MDF sub-segment; for this it will purchase machinery from China at ~₹3bn capex (400 cubic metres a day). The market for MDF is better in south India than in north India, and demand in south India has fully recovered.
- Plantation timber prices are going down due to lower demand.
- The Sainik brand registered 12% yoy growth.

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 consumers from plywood to multi-density fiberboard (MDF, less expensive than plywood) would pose a threat to the company.
- **Higher interest rate:** Century Plyboards' exposure to interest-rate fluctuations in its foreign-currency borrowing could bother it.

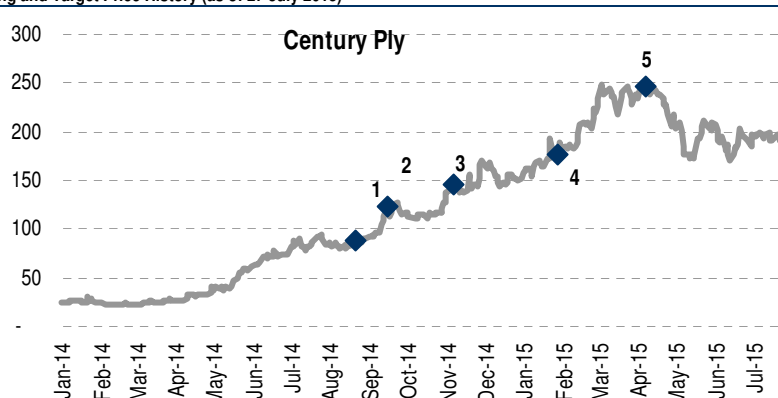
Appendix

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	Date	Rating	TP (₹)	Share Price (₹)
1	19-Aug-14	Buy	115	82
2	15-Sep-14	Buy	131	111
3	5-Nov-14	Buy	184	139
4	27-Jan-15	Buy	226	177
5	5-May-15	Buy	257	208

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