

Century Plyboards

GST to be the game changer; maintain Accumulate

CMP Rs213	Target Price Rs225 (▲)
Rating ACCUMULATE (■)	Upside 5.5 %



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- Q1 FY17, revenue growth of 10% yoy to Rs 4.1 bn is broadly in line with estimates as higher than estimated revenue growth in plywood segment (+12% yoy) compensated for muted growth in laminates segment (+3% yoy)
- EBITDA at Rs.661 mn has remained flat yoy mainly due to drop in margins of plywood segment by ~200 bps. However, lower depreciation and interest cost resulted in increase in PAT by 7% yoy to Rs. 431 mn (higher than our estimate of Rs 406 mn)
- Management expects strong growth momentum to continue led by healthy volume increase from plywood and laminates segment. Further, commissioning of Particle board and MDF plant will support earnings growth
- Given that Century Plyboards has one of the strongest brand recall and is likely to be key beneficiary of GST implementation we upgrade our valuation multiple to 22x (from 20x) and upgrade target to Rs 225 while maintaining Accumulate rating

Q1FY17 results – driven by strong volume growth in plywood segment

Century Plyboards reported revenue growth of 10% yoy to 4.1 bn in line with our estimate as higher than estimated volume growth in plywood segment compensated for muted growth in laminates segment. Laminates segment's growth was impacted by de-growth in exports market (due to weak demand in June on account of Ramzan) and fall in average realisations due to change in product mix. EBITDA margins at 16.3% is down by 150 bps yoy mainly because of drop in plywood segment's margins by 200 bps, while laminates segments has reported margin expansion of 140 bps to 14.8%. Drop in margins of plywood segment is due to high margin base of last year and tough competition from unorganized segment. However, the same was compensated by decline in interest and depreciation expenses as company reported PAT growth of Rs 7% to Rs 7.3% to Rs 431 mn. Management expects strong growth momentum to continue led by healthy volume increase from plywood and laminates segment. Further, commissioning of Particle board and MDF plant is likely to support earnings growth.

Upgrade target price; Maintain Accumulate

We believe that organised players like Century Plyboards will be the key beneficiary of GST implementation as 70% of the market share in plywood sector is with unorganized players. Given that the company has one of the strongest brand recall in plywood segment and shrinking unorganised share is likely to bode well, we increase target multiple to 22x from 20x and upgrade target price to Rs 225 while maintaining Accumulate rating.

Financial Snapshot (Standalone)

(Rs mn)	FY14	FY15	FY16	FY17E	FY18E
Net Sales	12,840	15,648	16,469	18,740	25,244
EBITDA	1,482	2,498	2,829	3,181	4,624
EBITDA Margin (%)	11.5	16.0	17.1	16.9	18.2
APAT	669	1,508	1,634	1,847	2,267
EPS (Rs)	3.0	6.8	7.4	8.3	10.2
EPS (% chg)	27.1	125.3	8.4	13.0	22.7
ROE (%)	24.7	44.4	35.7	31.5	31.1
P/E (x)	70.8	31.4	29.0	25.6	20.9
EV/EBITDA (x)	34.9	20.7	18.1	17.0	11.7
P/BV (x)	16.3	12.2	9.0	7.3	5.8

Source: Company, Emkay Research

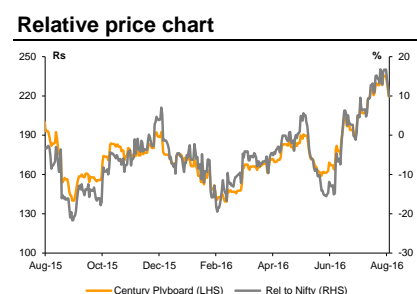
Change in Estimates	
EPS Chg FY17E/FY18E (%)	NA
Target Price change (%)	10
Previous Reco	ACCUMULATE

Emkay vs Consensus		
EPS Estimates		
	FY17E	FY18E
Emkay	8.3	10.2
Consensus	8.5	10.3
Mean Consensus TP	Rs 207	

Stock Details	
Bloomberg Code	CPBI IN
Face Value (Rs)	1
Shares outstanding (mn)	222
52 Week H/L	244 / 135
M Cap (Rs bn/USD bn)	47 / 0.71
Daily Avg Volume (nos.)	9,60,786
Daily Avg Turnover (US\$ mn)	3.3

Shareholding Pattern Jun '16	
Promoters	73.3%
FIIs	8.5%
DIIIs	7.6%
Public and Others	10.5%

Price Performance				
(%)	1M	3M	6M	12M
Absolute	-	14	51	3
Rel. to Nifty	(3)	3	32	4



Source: Bloomberg

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Exhibit 1: Actual V/s estimate

(in Rs mn)	Actual	Estimate (Emkay)	Consensus estimate	% variation		Comment
				Emkay	Consensus	
Sales	4,058	4,111	4,069	-1%	0%	Largely in line with estimates as higher growth from plywood segment compensated for weak growth in laminates segment
EBITDA	661	709	727	-7%	-9%	Lower than estimate due to lower margins in plywood segment
EBITDA, margin	16.3%	17.2%	17.9%	(90 bps)	(160 bps)	
PAT	431	406	405	6%	6%	Higher than estimated led by lower interest and depreciation cost

Source: Company, Emkay Research

Revenue growth driven by increase in volumes

In Q1 FY17, Century Plyboards reported 10% yoy growth in revenues to Rs 4 bn mainly on the back of 18% and 16% yoy volume growth in overall Plywood and laminates segment respectively. Volumes in plywood segment was driven by strong growth in volumes of SAINIK brand (+30%) and moderate growth in premium segment (+7%).

The volume growth in laminates segment was led by growth in domestic market as exports market saw de-growth in volumes by 10% yoy. Growth in exports market was temporarily impacted due to festive season (Ramzan) in June and is likely to see healthy growth in coming quarters.

Realisations were impacted by change in product mix

Revenue growth during the quarter was restricted to 10% yoy mainly because both plywood and laminates segment saw fall in average realisations by ~5% each. The fall in realisations in both the segments was on account of change in product mix. While plywood segment realisation were down due to increasing share of SAINIK brand, introduction of new low value product (0.8 mm) in laminates segment impacted average realisations.

PAT growth supported by lower depreciation and interest cost

EBITDA margins at 16.3% was down by 90 bps yoy during the quarter on account of fall in plywood segment's margins by ~200 bps yoy. The fall in margins was mainly because of high margin base of last year (company was benefiting from extraordinary margins) and increasing competition from unorganized segment. Consequently, the EBITDA growth by ~2% to Rs 683 mn was below our estimate of Rs 709 mn. However, lower than estimated depreciation and interest cost led to increase in PAT by 6% yoy to Rs 431 mn (higher than estimate of Rs406 mn).

Particle board/MDF segment will support growth from FY17/FY18 onwards

Company's Particle board unit at Chennai started commercial production at the end of Q1 FY17. Further, the MDF plant is likely to commission by February 2017. Company is positive on growth prospects of both particle board and MDF plant. Company's MDF segment is likely to benefit from increasing usage of MDF and recent imposition of anti—dumping duty on MDF imports. We have estimated revenue growth of 24% CAGR over FY16-18E driven by healthy growth from plywood and laminates segment. Further, commissioning of particle board unit and MDF plant is likely to support healthy growth.

Exhibit 2: Key assumptions

Parameters	FY14	FY15	FY16	FY17E	FY18E
Revenues of Plywood segment (Rs mn)	9,648	11,471	11,735	13,096	14,799
Growth (yoy)	17%	19%	2%	12%	13%
EBIT Margins of Plywood segment	11.1%	16.3%	15.6%	14.8%	14.8%
Revenues of Laminates segment (Rs mn)	2,367	2,935	3,353	3,966	4,759
Growth (yoy)	12%	24%	14%	18%	20%
EBIT Margins of Laminates segment	3.4%	7.8%	13.3%	14.1%	14.2%

Source: Company, Emkay Research

Exhibit 3: Financial highlights

Rs mn	Q1 FY16	Q4 FY16	Q1 FY17	YoY (%)	QoQ (%)	YTD FY17	YTD FY16	YoY (%)
Revenue	3695	4547	4058	9.8	-10.8	4058	3695	9.8
Operating Expenditure	3037	3787	3396	11.8	-10.3	3396	3037	11.8
as % of sales	82%	83%	84%			84%	82%	
Consumption of RM	1956	2294	2045	4.5	-10.9	2045	1956	4.5
as % of sales	53%	50%	50%			50%	53%	
Employee expenses	510	626	638	25.1	1.9	638	510	25.1
as % of sales	14%	14%	16%			16%	14%	
Other expenses	570	866	713	25.0	-17.7	713	570	25.0
as % of sales	15%	19%	18%			18%	15%	
EBITDA	659	760	661	0.4	-13.0	661	659	0.4
Depreciation	99	122	93	-6.6	-24.2	93	99	-6.6
EBIT	560	638	569	1.6	-10.9	569	560	1.6
Other Income	4	1	8	97.4	823.4	8	4	97.4
Interest	122	103	89	-27.4	-13.9	89	122	-27.4
PBT	442	536	488	10.5	-8.9	488	442	10.5
Total Tax	53	144	80	50.9	-44.5	80	53	50.9
Adjusted PAT	389	392	408	5.1	4.1	408	389	5.1
(Profit)/loss from JV's/Ass/MI	-	-	-	-	-	-	-	-
APAT after MI	-	-	-	-	-	-	-	-
Extra ordinary items	-12	-13	-22		71.8	-22	-12	
Reported PAT	401	405	431	7.3	6.3	431	401	7.3
Reported EPS	1.8	1.8	1.9	7.3	6.3	1.9	1.8	7.3

Margins (%)			(bps)	(bps)			(bps)	
EBIDTA	17.8	16.7	16.3	-153.1	-42.1	16.3	17.8	-153.1
EBIT	15.1	14.0	14.0	-112.9	-1.6	14.0	15.1	-112.9
EBT	12.0	11.8	12.0	8.1	24.3	12.0	12.0	8.1
PAT	10.5	8.6	10.1	-45.5	143.8	10.1	10.5	-45.5
Effective Tax rate	12.0	26.8	16.3	437.1	-1047.5	16.3	12.0	437.1

(Y/E Mar, Rs mn)	Q1 FY16	Q4 FY16	Q1 FY17	YoY (%)	QoQ (%)	YTD FY17	YTD FY16	YoY (%)
Net Sales								
Plywood	2,566	3,207	2,866	11.7	-10.6	2,866	2,566	11.7
laminates	768	923	795	3.4	-13.8	795	768	3.4
Logistics	174	238	234	34.5	-1.6	234	174	34.5
Others	165	150	148	-10.2	-1.4	148	165	-10.2

EBIT								
Plywood	444	482	436	-1.8	-9.6	436	444	-1.8
laminates	103	136	118	14.2	-13.5	118	103	14.2
Logistics	54	87	79	45.5	-9.8	79	54	45.5
Others	-1	-11	-4	149.0	-65.3	-4	-1	149.0

EBIT Margins								
Plywood	17.3	15.0	15.2	-209.2	17.9	15.2	17.3	-209.2
laminates	13.4	14.7	14.8	139.7	5.6	14.8	13.4	139.7
Logistics	31.0	36.6	33.6	253.9	-302.6	33.6	31.0	253.9
Others	-0.9	-7.0	-2.5	-158.3	455.1	-2.5	-0.9	-158.3

Source: Company, Emkay Research

Key Financials (Standalone)**Income Statement**

Y/E Mar (Rs mn)	FY14	FY15	FY16	FY17E	FY18E
Net Sales	12,840	15,648	16,469	18,740	25,244
Expenditure	11,358	13,150	13,756	15,687	20,752
EBITDA	1,482	2,498	2,829	3,181	4,624
Depreciation	332	448	446	520	980
EBIT	1,149	2,050	2,382	2,661	3,644
Other Income	95	181	16	28	32
Interest expenses	551	433	467	502	960
PBT	693	1,798	1,931	2,186	2,716
Tax	24	290	297	339	449
Extraordinary Items	0	0	0	0	0
Minority Int./Income from Assoc.	0	0	0	0	0
Reported Net Income	669	1,508	1,634	1,847	2,267
Adjusted PAT	669	1,508	1,634	1,847	2,267

Balance Sheet

Y/E Mar (Rs mn)	FY14	FY15	FY16	FY17E	FY18E
Equity share capital	223	223	223	228	228
Reserves & surplus	2,692	3,653	5,066	6,228	7,894
Net worth	2,914	3,876	5,289	6,455	8,122
Minority Interest	0	0	0	0	0
Loan Funds	4,478	4,587	4,098	6,798	6,798
Net deferred tax liability	(5)	(70)	(136)	(136)	(136)
Total Liabilities	7,386	8,392	9,251	13,117	14,784
Net block	2,120	2,089	2,975	6,022	5,582
Investment	379	451	497	497	497
Current Assets	6,480	7,662	7,852	9,164	12,127
Cash & bank balance	180	170	190	71	154
Other Current Assets	212	113	244	244	244
Current liabilities & Provision	1,780	2,037	2,073	2,571	3,427
Net current assets	4,700	5,625	5,779	6,593	8,700
Misc. exp	0	0	0	5	5
Total Assets	7,386	8,392	9,251	13,117	14,784

Cash Flow

Y/E Mar (Rs mn)	FY14	FY15	FY16	FY17E	FY18E
PBT (Ex-Other income) (NI+Dep)	598	1,617	1,915	2,158	2,684
Other Non-Cash items	0	0	0	0	0
Chg in working cap	(522)	(1,000)	(199)	(933)	(2,024)
Operating Cashflow	936	1,040	2,696	1,804	2,047
Capital expenditure	(423)	(457)	(1,105)	(3,568)	(540)
Free Cash Flow	513	584	1,591	(1,764)	1,507
Investments	(223)	(72)	(46)	0	0
Other Investing Cash Flow	0	0	0	0	0
Investing Cashflow	(551)	(348)	(1,135)	(3,540)	(508)
Equity Capital Raised	0	0	0	5	0
Loans Taken / (Repaid)	(200)	109	(489)	2,700	0
Dividend paid (incl tax)	(251)	(379)	(585)	(586)	(501)
Other Financing Cash Flow	0	0	0	0	0
Financing Cashflow	(1,002)	(702)	(1,541)	1,617	(1,461)
Net chg in cash	(617)	(10)	20	(119)	78
Opening cash position	797	180	170	190	71
Closing cash position	180	170	190	71	149

Key Ratios

Profitability (%)	FY14	FY15	FY16	FY17E	FY18E
EBITDA Margin	11.5	16.0	17.1	16.9	18.2
EBIT Margin	9.0	13.1	14.4	14.1	14.4
Effective Tax Rate	3.4	16.1	15.4	15.5	16.5
Net Margin	5.2	9.6	9.9	9.8	8.9
ROCE	17.1	28.3	27.2	24.0	26.4
ROE	24.7	44.4	35.7	31.5	31.1
RoIC	18.4	28.9	29.6	25.2	27.3

Per Share Data (Rs)	FY14	FY15	FY16	FY17E	FY18E
EPS	3.0	6.8	7.4	8.3	10.2
CEPS	4.5	8.8	9.4	10.7	14.6
BVPS	13.1	17.4	23.8	29.0	36.5
DPS	0.3	1.0	2.0	2.3	2.3

Valuations (x)	FY14	FY15	FY16	FY17E	FY18E
PER	70.8	31.4	29.0	25.6	20.9
P/CEPS	47.3	24.2	22.8	20.0	14.6
P/BV	16.3	12.2	9.0	7.3	5.8
EV / Sales	4.0	3.3	3.1	2.9	2.1
EV / EBITDA	34.9	20.7	18.1	17.0	11.7
Dividend Yield (%)	0.1	0.5	0.9	1.1	1.1

Gearing Ratio (x)	FY14	FY15	FY16	FY17E	FY18E
Net Debt/ Equity	1.5	1.1	0.7	1.0	0.8
Net Debt/EBIDTA	2.9	1.8	1.4	2.1	1.4
Working Cap Cycle (days)	128.5	127.2	123.0	126.2	122.9

Growth (%)	FY14	FY15	FY16	FY17E	FY18E
Revenue	13.5	21.9	5.2	13.8	34.7
EBITDA	31.3	68.6	13.2	12.4	45.4
EBIT	33.5	78.3	16.2	11.7	37.0
PAT	27.1	125.3	8.4	13.0	22.7

Quarterly (Rs mn)	Q1FY16	Q2FY16	Q3FY16	Q4FY16	Q1FY17
Revenue	3,709	4,422	3,906	4,547	4,058
EBITDA	668	738	696	773	683
EBITDA Margin (%)	18.0	16.7	17.8	17.0	16.8
PAT	397	463	416	405	431
EPS (Rs)	1.8	2.1	1.9	1.8	1.9

Shareholding Pattern (%)	Jun-15	Sep-15	Dec-15	Mar-16	Jun-16
Promoters	73.3	73.3	73.3	73.3	73.3
FIIIs	8.8	10.7	10.6	12.1	8.5
DIIIs	3.1	3.4	3.4	3.3	7.6
Public and Others	14.7	12.5	12.7	11.3	10.5

Emkay Rating Distribution

BUY	Expected total return (%) (Stock price appreciation and dividend yield) of over 25% within the next 12-18 months.
ACCUMULATE	Expected total return (%) (Stock price appreciation and dividend yield) of over 10% within the next 12-18 months.
HOLD	Expected total return (%) (Stock price appreciation and dividend yield) of upto 10% within the next 12-18 months.
REDUCE	Expected total return (%) (Stock price depreciation) of upto (-) 10% within the next 12-18 months.
SELL	The stock is believed to underperform the broad market indices or its related universe within the next 12-18 months.

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