

# Century Plyboards | HOLD

## Concerns on margins emerge

Century Ply (Century) reported disappointing 1QFY18 earnings as EBITDA/net profit declined 2%/10% YoY (19%/18% below JMFe), despite 8% revenue growth. While destocking by trade partners in general was prevalent during GST transition phase, Century's ply volume grew 12% YoY as it focused on volume growth/market share gain. However, its EBITDA margin contracted 150bps YoY (ply gross/EBITDA margins declined 570bps/220bps YoY, respectively) on account of higher RM import costs and a delayed price increase (yet to effect and hence margin pressure to continue in 2Q as well). The MDF plant, commissioned on 29Jul'17, will start commercial production from 1Oct'17. Management remains optimistic on demand prospects but short-term uncertainty due to the GST transition in the trade channel might impact profitability. We maintain HOLD and await better price for entry/accumulation.

- 1QFY18 disappoints on margins front:** Century reported revenue at Rs4.4bn (+8% YoY) led by strong plywood volume growth (+12% YoY vs -12% YoY for Greenply) as it focused on volume growth and market share gain amid trade channel disturbances on GST implementation. However, unavailability of excess face veneer at low costs from Myanmar (stock is sufficient for self-consumption only) led to a decline in commercial veneer volumes (-32% YoY) and a lower GST rate in laminates (18% vs 28%) and destocking in the segment (volumes declined 11% YoY). Management continues to expect 20% volume growth in FY18 for its plywood business, along with a revival in laminates volumes after the GST hiccup (demand from domestic and export markets is intact). However, management cut guidance for FY18 MDF revenue to Rs1.8bn (vs Rs4bn in 4Q17) due to a delay in commissioning the MDF plant (trial run in Jul'17; expect commercial sales to start in Oct'17). It remains bullish on MDF substituting the low/medium segment plywood market in the long term as it foresees an adequate consumption appetite in the Indian market despite additional capacities planned to be set up by competitors and themselves.
- Concerns on operating margins emerge (-150bps YoY):** While gross margins declined 290bps YoY to 46.7%, EBITDA margins were 14.8% (-150bps/-240bps YoY/QoQ; absolute EBITDA down 2% YoY to Rs648mn) mainly due to a decline in plywood margins (-220bps/-590bps YoY/QoQ) on: a) unavailability of sufficient lower-cost face veneer from Myanmar (trading of commercial veneer yields higher margins and availability of low-cost quality veneer is facing long-term challenges given frequent bans by high-quality timber rich countries such as Myanmar and Laos) and b) a raw-material cost increase (local/imported timber) and delayed price increase to gain volumes. Consequently, the adj. PAT declined 10% YoY to Rs72mn (19% below JMFe).

Management indicated near-term pressure on margins in the plywood segment (also to be impacted in the long term by shifting towards more trading sales in plywood and a manufacturing shifting in favour of MDF). Yet, it remains hopeful on sufficient availability of low-cost veneer from 4QFY18, which can again boost margins. While laminates margins are expected to remain stable (15%-16%), MDF margins are expected to be above 30%, which we believe, is very difficult to achieve, given the increase in competitive intensity in the near term on capacity additions by peers.



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### Recommendation and Price Target

Current Reco.	HOLD
Previous Reco.	HOLD
Current Price Target (12M)	280
Upside/(Downside)	7.4%
Previous Price Target	300
Change	-6.7%

### Key Data – CPBI IN

Current Market Price	Rs261
Market cap (bn)	Rs57.9/US\$0.9
Free Float	28%
Shares in issue (mn)	222.2
Diluted share (mn)	222.2
3-mon avg daily val (mn)	Rs82.5/US\$0.1
52-week range	314/154
Sensex/Nifty	32,325/10,066
Rs/US\$	63.6

### Price Performance

%	1M	6M	12M
Absolute	-10.5	20.9	22.3
Relative*	-13.6	5.6	4.9

\* To the BSE Sensex

JM Financial Research is also available on:  
Bloomberg - JMFR <GO>,  
Thomson Publisher & Reuters  
S&P Capital IQ and FactSet

Please see Appendix I at the end of this report for Important Disclosures and Disclaimers and Research Analyst Certification.

Financial Summary	(Rs mn)				
Y/E March	FY16A	FY17A	FY18E	FY19E	FY20E
Net Sales	16,357	17,825	21,158	25,401	29,289
Sales Growth (%)	4.5	9.0	18.7	20.1	15.3
EBITDA	2,835	2,920	3,225	4,171	4,815
EBITDA Margin (%)	17.3	16.4	15.2	16.4	16.4
Adjusted Net Profit	1,851	1,777	1,769	2,314	2,660
Diluted EPS (Rs.)	8.3	8.0	8.0	10.4	12.0
Diluted EPS Growth (%)	33.3	-4.0	-0.4	30.8	15.0
ROIC (%)	24.5	19.0	16.5	18.6	20.7
ROE (%)	40.6	28.8	22.5	24.0	22.4
P/E (x)	31.3	32.6	32.8	25.1	21.8
P/B (x)	11.0	8.2	6.7	5.4	4.4
EV/EBITDA (x)	21.8	21.6	19.9	15.0	12.5
Dividend Yield (%)	0.4	0.4	0.4	0.4	0.4

Source: Company data, JM Financial. Note: Valuations as of 05/Aug/2017

- **Maintain HOLD:** We cut our FY18-FY20 estimates by 5%-9% to reflect a) weak 1QFY18 performance, b) expectations of lower margins in the ply segment, and c) lower revenue in MDF (delayed start of MDF). We continue to value Century at 25x to arrive at a Sep'18 TP of Rs280 and maintain our HOLD rating. While the near term is expected to be challenging on account of the GST transition and RM price pressures, we expect Century to be one of the largest beneficiaries of the market shift from unorganised to organised players and the emergence of MDF as a substitute for the low-end/medium-end ply segment. We await a better price for entry and stock accumulation.

## Centuryply Quarterly performance

### Exhibit 1. 1QFY18 financial performance

Rs mn	1Q17	1Q18	YoY	4Q17	QoQ	1Q18E	Var
<b>Net Sales</b>	<b>4,058</b>	<b>4,386</b>	<b>8%</b>	<b>4,885</b>	<b>-10%</b>	<b>4,604</b>	<b>-5%</b>
Raw Material Cost	2,045	2,339	14%	2,531	-8%	2,348	0%
% of sales	50.4%	53.3%		51.8%		51.0%	
Gross Margin	49.6%	46.7%	-290 bps	48.2%	-150 bps	49.0%	-230 bps
Employee cost	638	689	8%	667	3%	702	-2%
% of sales	15.7%	15.7%	0 bps	13.7%	200 bps	15.2%	50 bps
Other expenses	713	710	0%	850	-16%	751	-5%
% of sales	17.6%	16.2%	-140 bps	17.4%	-120 bps	16.3%	-10 bps
Total Expenditure	3,396	3,738	10%	4,048	-8%	3,800	-2%
<b>EBITDA</b>	<b>661</b>	<b>648</b>	<b>-2%</b>	<b>838</b>	<b>-23%</b>	<b>804</b>	<b>-19%</b>
EBITDA margin	16.3%	14.8%	-150 bps	17.1%	-240 bps	17.5%	-270 bps
Depreciation	93	132	43%	156	-15%	160	-18%
EBIT	569	516	-9%	682	-24%	644	-20%
Other Income	9	5	-42%	83	NM	10	NM
PBIT	578	522	-10%	765	-32%	654	-20%
Interest	89	63	-29%	47	34%	90	-30%
XO Inc/-Exp	21	-38		80		0	
PBT	510	421	-17%	798	-47%	564	-25%
Tax Expense	80	80	1%	239	-66%	101	-21%
Tax Rate	15.6%	19.0%	340 bps	30.0%	-1090 bps	18.0%	100 bps
<b>Reported Net Profit</b>	<b>431</b>	<b>341</b>	<b>-21%</b>	<b>559</b>	<b>-39%</b>	<b>462</b>	<b>-26%</b>
<b>Adjusted Net Profit</b>	<b>413</b>	<b>372</b>	<b>-10%</b>	<b>506</b>	<b>-26%</b>	<b>462</b>	<b>-19%</b>

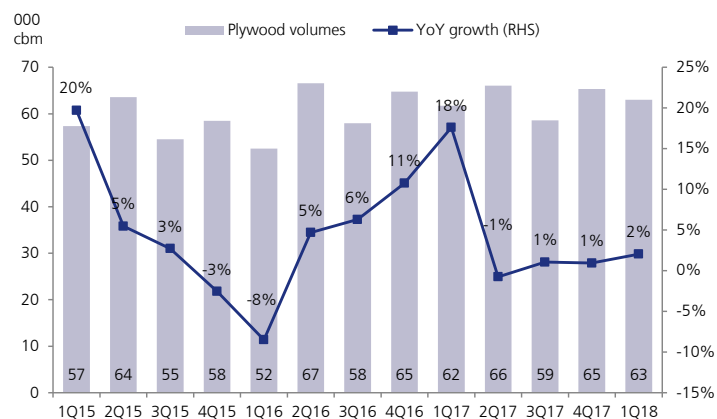
Source: Company, JM Financial

**Exhibit 2. Quarterly segmental performance**

Rs mn	1Q17	1Q18	YoY	4Q17	QoQ	1Q18E	Var
<b>Volume</b>							
Plywood and Allied (cbm)	61,735	62,990	2%	65,348	-4%	65,857	-4%
Laminate and Allied							
Laminates (mn Nos)	1.05	1.04	-2%	1.36	-24%	1.15	-10%
Prelam sheets (sqm)	2,17,578	2,42,649	12%	2,57,412	-6%	2,28,457	6%
<b>Net revenues</b>	<b>4,058</b>	<b>4,386</b>	<b>8%</b>	<b>4,885</b>	<b>-10%</b>	<b>4,604</b>	<b>-5%</b>
Plywood and Allied	2,869	3,173	11%	3,485	-9%	3,393	-6%
Laminate and Allied	795	807	2%	995	-19%	840	-4%
Laminates	719	699	-3%	894	-22%	760	-8%
Prelam sheets	76	108	42%	101	7%	80	35%
Others	394	406	3%	406	0%	371	9%
<b>Segmental EBITDA</b>	<b>661</b>	<b>648</b>	<b>-2%</b>	<b>838</b>	<b>-23%</b>	<b>804</b>	<b>-19%</b>
Plywood and Allied	442	419	-5%	666	-37%	577	-27%
Laminate and Allied	127	123	-3%	107	16%	126	-2%
Others	93	106	14%	65	61%	101	5%
<b>EBITDA Margins</b>	<b>16.3%</b>	<b>14.8%</b>	<b>-150 bps</b>	<b>17.1%</b>	<b>-240 bps</b>	<b>17.5%</b>	<b>-270 bps</b>
Plywood and Allied	15.4%	13.2%	-220 bps	19.1%	-590 bps	17.0%	-380 bps
Laminate and Allied	15.9%	15.3%	-70 bps	10.7%	460 bps	15.0%	30 bps
Others	23.5%	26.0%	250 bps	16.1%	990 bps	27.2%	-120 bps

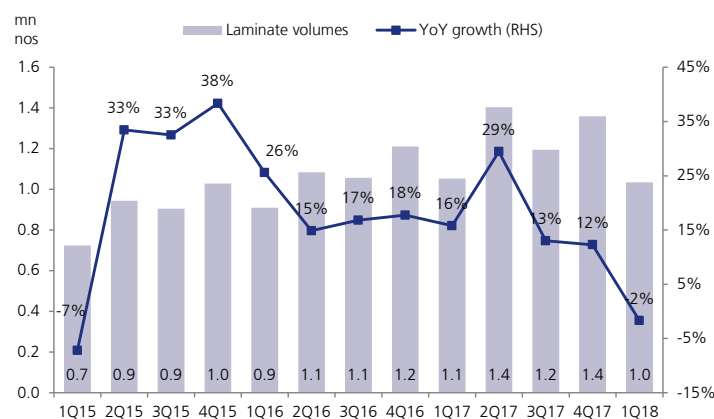
Source: Company, JM Financial

**Exhibit 3. Plywood volume growth trend – Quarterly**



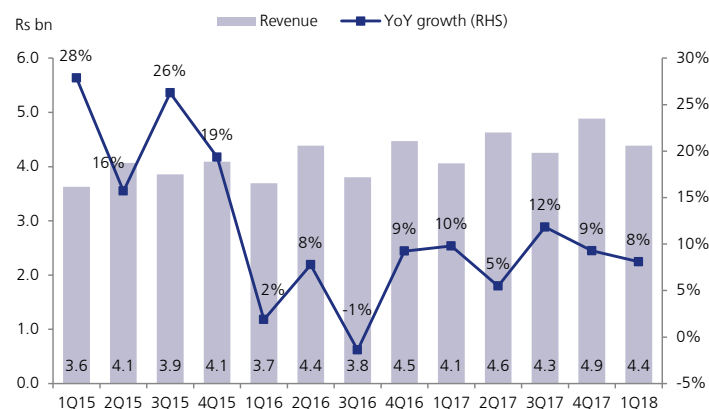
Source: Company, JM Financial

**Exhibit 4. Laminates volume growth trend - Quarterly**



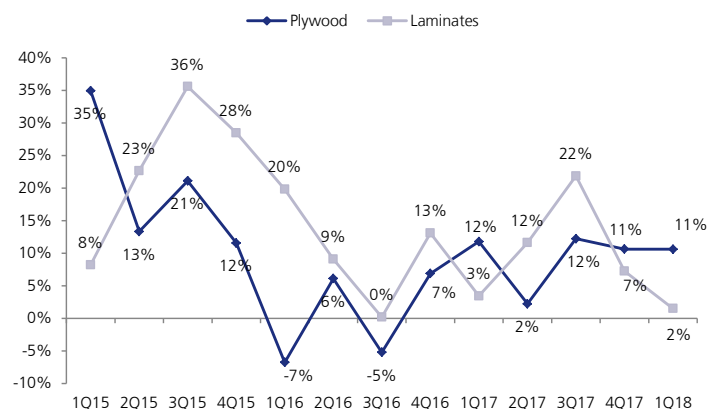
Source: Company, JM Financial

**Exhibit 5. Overall revenue growth trend – Quarterly**



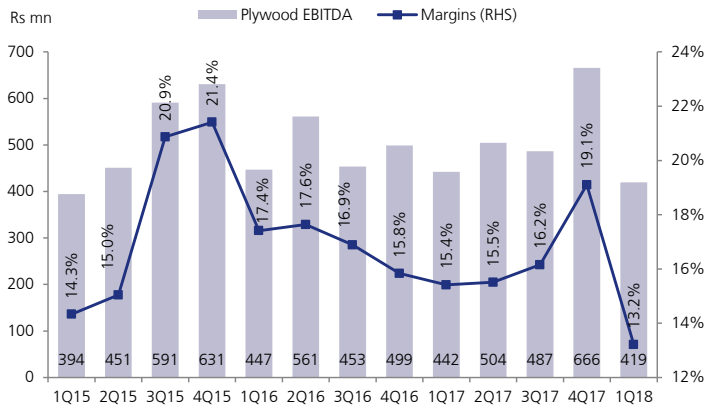
Source: Company, JM Financial

**Exhibit 6. Plywood and Laminates revenue growth trend – Quarterly**



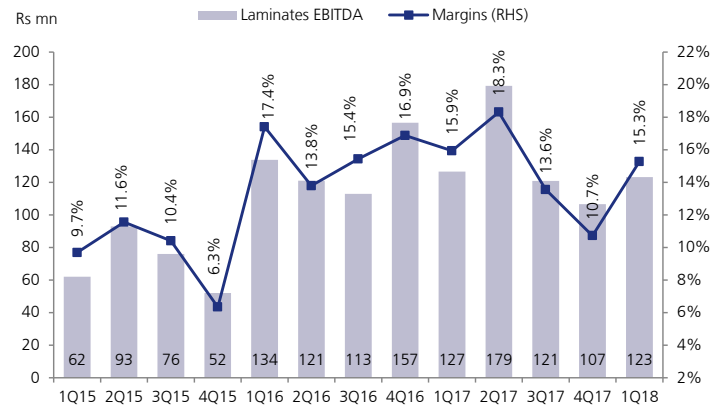
Source: Company, JM Financial

**Exhibit 7. Plywood EBITDA and margin trend – Quarterly**



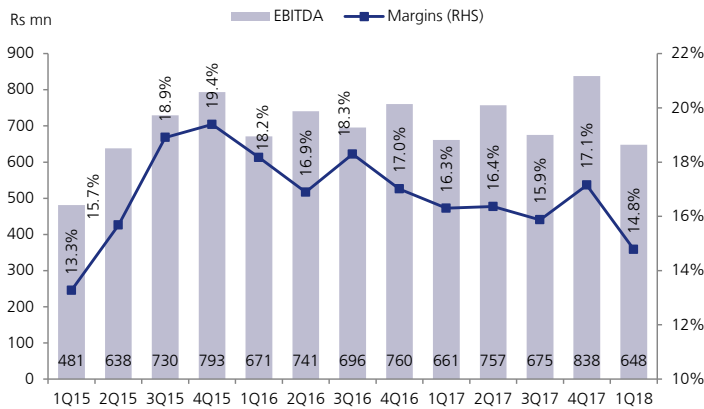
Source: Company, JM Financial

**Exhibit 8. Laminates EBITDA and margin trend – Quarterly**



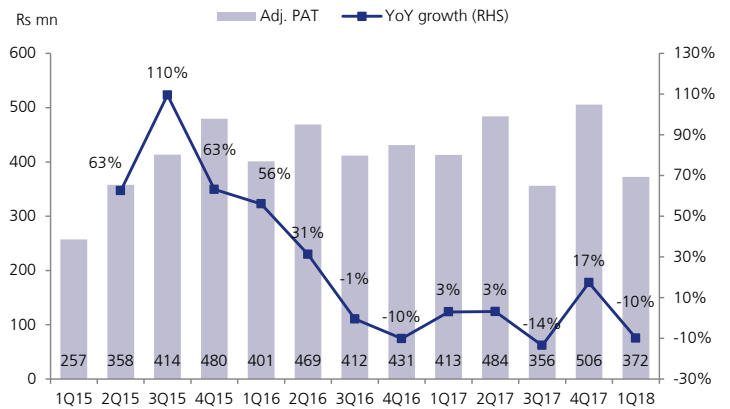
Source: Company, JM Financial

**Exhibit 9. Overall EBITDA and margin trend – Quarterly**



Source: Company, JM Financial

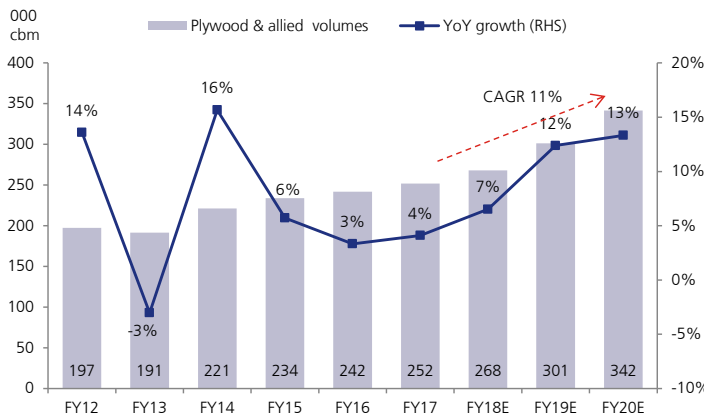
**Exhibit 10. Profitability growth trends – Quarterly**



Source: Company, JM Financial

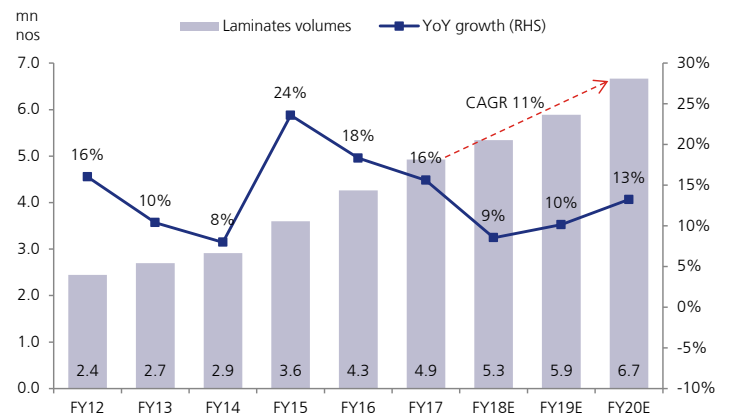
**Centuryly Annual charts**

**Exhibit 11. Plywood volume growth trend**



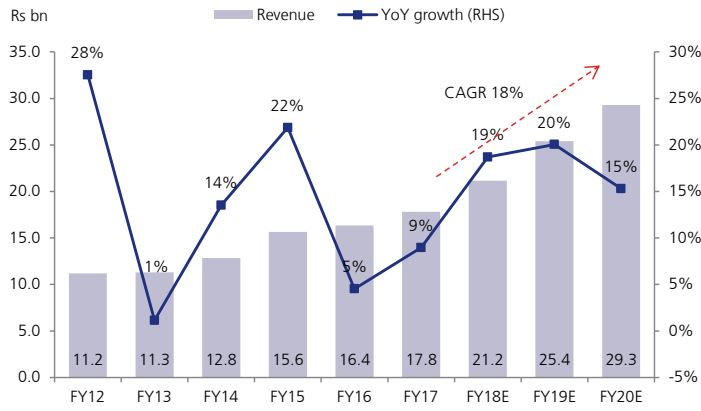
Source: Company, JM Financial

**Exhibit 12. Laminates volume growth trend**



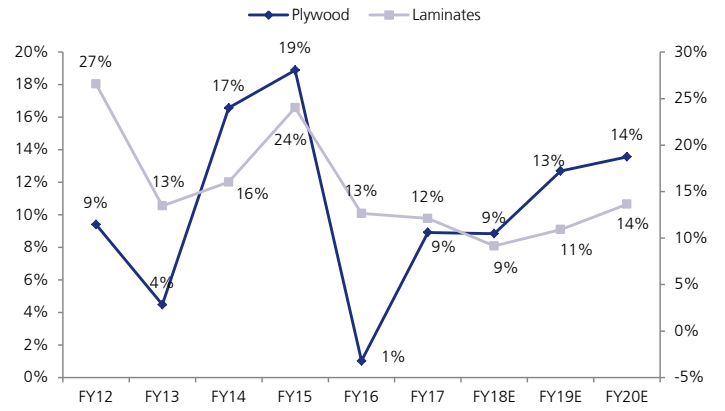
Source: Company, JM Financial

Exhibit 13. Overall revenue growth trend



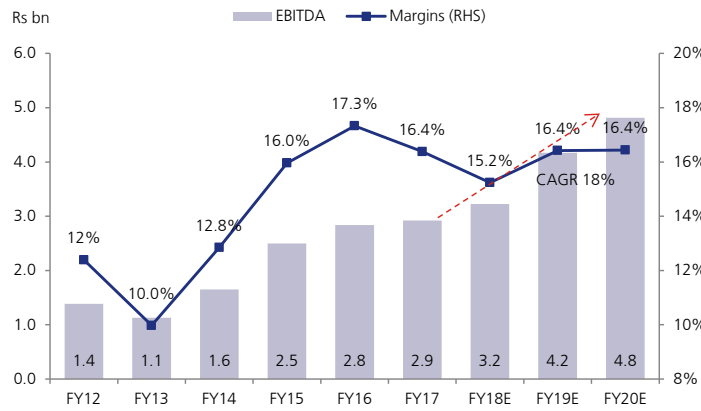
Source: Company, JM Financial

Exhibit 14. Plywood and Laminate revenue growth trend



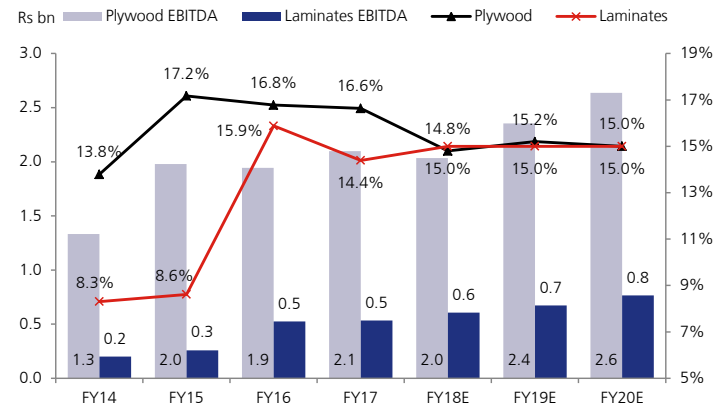
Source: Company, JM Financial

Exhibit 15. Overall EBITDA and margin trend



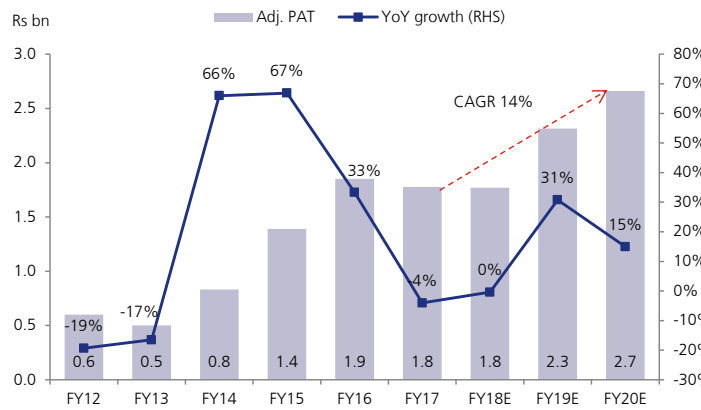
Source: Company, JM Financial

Exhibit 16. Plywood and Laminate EBITDA and margin trend



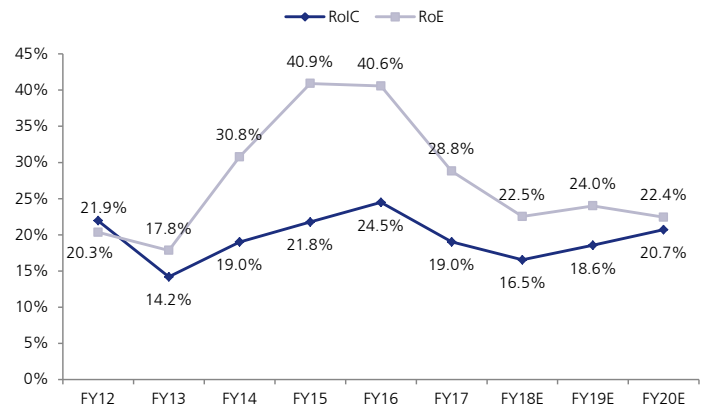
Source: Company, JM Financial

Exhibit 17. Profitability growth trend



Source: Company, JM Financial

Exhibit 18. Return ratios



Source: Company, JM Financial

## Financial Tables (Standalone)

Income Statement		(Rs mn)				
Y/E March	FY16A	FY17A	FY18E	FY19E	FY20E	
Net Sales	16,357	17,825	21,158	25,401	29,289	
Sales Growth	4.5%	9.0%	18.7%	20.1%	15.3%	
Other Operating Income	0	0	0	0	0	
<b>Total Revenue</b>	<b>16,357</b>	<b>17,825</b>	<b>21,158</b>	<b>25,401</b>	<b>29,289</b>	
Cost of Goods Sold/Op. Exp	8,432	9,181	11,045	13,208	15,230	
Personnel Cost	2,278	2,567	2,823	3,106	3,416	
Other Expenses	2,811	3,157	4,066	4,915	5,827	
<b>EBITDA</b>	<b>2,835</b>	<b>2,920</b>	<b>3,225</b>	<b>4,171</b>	<b>4,815</b>	
EBITDA Margin	17.3%	16.4%	15.2%	16.4%	16.4%	
EBITDA Growth	13.5%	3.0%	10.4%	29.4%	15.4%	
Depn. & Amort.	437	524	700	1,000	1,150	
EBIT	2,398	2,397	2,525	3,171	3,665	
Other Income	65	107	25	50	60	
Finance Cost	287	267	400	400	400	
PBT before Excep. & Forex	2,176	2,236	2,150	2,821	3,325	
Excep. & Forex Inc./Loss(-)	0	0	0	0	0	
PBT	2,176	2,236	2,150	2,821	3,325	
Taxes	300	481	387	508	665	
Extraordinary Inc./Loss(-)	-178	101	38	0	0	
Assoc. Profit/Min. Int.(-)	0	0	0	0	0	
Reported Net Profit	1,698	1,856	1,800	2,314	2,660	
<b>Adjusted Net Profit</b>	<b>1,851</b>	<b>1,777</b>	<b>1,769</b>	<b>2,314</b>	<b>2,660</b>	
Net Margin	11.3%	10.0%	8.4%	9.1%	9.1%	
Diluted Share Cap. (mn)	222.2	222.2	222.2	222.2	222.2	
<b>Diluted EPS (Rs.)</b>	<b>8.3</b>	<b>8.0</b>	<b>8.0</b>	<b>10.4</b>	<b>12.0</b>	
Diluted EPS Growth	33.3%	-4.0%	-0.4%	30.8%	15.0%	
Total Dividend + Tax	267	267	267	267	267	
Dividend Per Share (Rs)	1.0	1.0	1.0	1.0	1.0	

Source: Company, JM Financial

Balance Sheet		(Rs mn)				
Y/E March	FY16A	FY17A	FY18E	FY19E	FY20E	
Shareholders' Fund	5,251	7,086	8,619	10,665	13,058	
Share Capital	223	223	223	223	223	
Reserves & Surplus	5,028	6,864	8,397	10,443	12,835	
Preference Share Capital	0	0	0	0	0	
Minority Interest	0	0	0	0	0	
Total Loans	4,049	5,571	6,700	5,100	4,100	
Def. Tax Liab. / Assets (-)	-655	-689	-689	-689	-622	
<b>Total - Equity &amp; Liab.</b>	<b>8,644</b>	<b>11,968</b>	<b>14,630</b>	<b>15,077</b>	<b>16,536</b>	
Net Fixed Assets	2,905	5,336	7,136	6,836	6,186	
Gross Fixed Assets	4,482	5,525	10,167	11,367	11,867	
Intangible Assets	0	0	0	0	0	
Less: Depn. & Amort.	2,507	3,031	3,731	4,731	5,881	
Capital WIP	930	2,842	700	200	200	
Investments	497	960	960	960	960	
Current Assets	7,363	8,562	9,945	11,372	14,107	
Inventories	2,752	2,638	3,478	4,175	4,815	
Sundry Debtors	2,868	3,353	3,942	4,523	5,216	
Cash & Bank Balances	190	538	493	640	2,044	
Loans & Advances	1,553	2,033	2,033	2,033	2,033	
Other Current Assets	0	0	0	0	0	
Current Liab. & Prov.	2,120	2,890	3,411	4,092	4,718	
Current Liabilities	2,029	2,705	3,188	3,828	4,413	
Provisions & Others	90	185	223	264	304	
Net Current Assets	5,243	5,672	6,534	7,280	9,389	
<b>Total - Assets</b>	<b>8,645</b>	<b>11,968</b>	<b>14,630</b>	<b>15,077</b>	<b>16,536</b>	

Source: Company, JM Financial

Cash Flow Statement		(Rs mn)				
Y/E March	FY16A	FY17A	FY18E	FY19E	FY20E	
Profit before Tax	1,978	2,236	2,150	2,821	3,325	
Depn. & Amort.	446	524	700	1,000	1,150	
Net Interest Exp. / Inc. (-)	222	160	375	350	340	
Inc (-) / Dec in WCap.	382	-81	-908	-599	-705	
Others	331	-33	38	0	66	
Taxes Paid	-463	-481	-387	-508	-665	
<b>Operating Cash Flow</b>	<b>2,895</b>	<b>2,325</b>	<b>1,968</b>	<b>3,065</b>	<b>3,511</b>	
Capex	-1,253	-2,955	-2,500	-700	-500	
Free Cash Flow	1,641	-630	-532	2,365	3,011	
Inc (-) / Dec in Investments	0	-463	0	0	0	
Others	-33	207	25	50	60	
<b>Investing Cash Flow</b>	<b>-1,287</b>	<b>-3,211</b>	<b>-2,475</b>	<b>-650</b>	<b>-440</b>	
Inc / Dec (-) in Capital	0	248	0	0	0	
Dividend + Tax thereon	-601	-267	-267	-267	-267	
Inc / Dec (-) in Loans	-518	1,522	1,129	-1,600	-1,000	
Others	-469	-267	-400	-400	-400	
<b>Financing Cash Flow</b>	<b>-1,588</b>	<b>1,235</b>	<b>462</b>	<b>-2,267</b>	<b>-1,667</b>	
<b>Inc / Dec (-) in Cash</b>	<b>20</b>	<b>348</b>	<b>-46</b>	<b>147</b>	<b>1,404</b>	
Opening Cash Balance	170	190	538	493	640	
Closing Cash Balance	190	539	493	640	2,044	

Source: Company, JM Financial

Dupont Analysis						
Y/E March	FY16A	FY17A	FY18E	FY19E	FY20E	
Net Margin	11.3%	10.0%	8.4%	9.1%	9.1%	
Asset Turnover (x)	1.9	1.7	1.6	1.7	1.9	
Leverage Factor (x)	1.9	1.7	1.7	1.5	1.3	
RoE	40.6%	28.8%	22.5%	24.0%	22.4%	

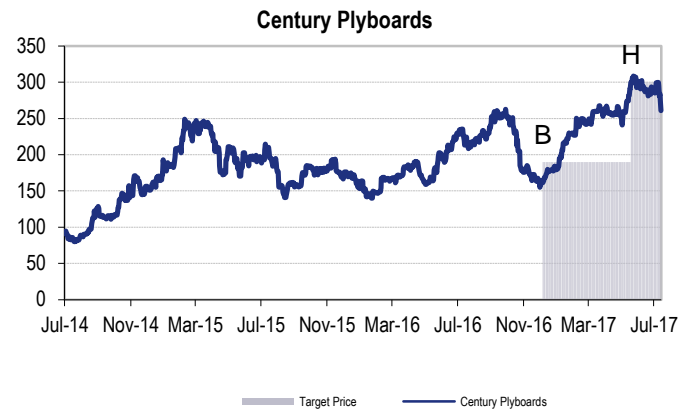
Key Ratios						
Y/E March	FY16A	FY17A	FY18E	FY19E	FY20E	
BV/Share (Rs.)	23.6	31.9	38.8	48.0	58.8	
ROIC	24.5%	19.0%	16.5%	18.6%	20.7%	
ROE	40.6%	28.8%	22.5%	24.0%	22.4%	
Net Debt/Equity (x)	0.7	0.7	0.7	0.4	0.2	
P/E (x)	31.3	32.6	32.8	25.1	21.8	
P/B (x)	11.0	8.2	6.7	5.4	4.4	
EV/EBITDA (x)	21.8	21.6	19.9	15.0	12.5	
EV/Sales (x)	3.8	3.5	3.0	2.5	2.0	
Debtor days	64	69	68	65	65	
Inventory days	61	54	60	60	60	
Creditor days	55	66	65	66	66	

Source: Company, JM Financial

History of Earnings Estimate and Target Price

Date	FY18E EPS (Rs)	% Chg.	FY19E EPS (Rs)	% Chg.	Target Price	% Chg.
27-Dec-16	5.6		6.7		190	
9-Jun-17	8.0	42.9	8.2	22.4	300	57.9

Recommendation History



## APPENDIX I

## JM Financial Institutional Securities Limited

Corporate Identity Number: U65192MH1995PLC092522

Member of BSE Ltd. and National Stock Exchange of India Ltd. and Metropolitan Stock Exchange of India Ltd.

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Rating	Meaning
Buy	Total expected returns of more than 15%. Total expected return includes dividend yields.
Hold	Price expected to move in the range of 10% downside to 15% upside from the current market price.
Sell	Price expected to move downwards by more than 10%

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