

Century Plyboards

Better-than-expected results but requires clarity

Century reported better-than-expected results with revenue/PAT growth of 9%/34% YoY vs our expectation of 4% growth/12% decline respectively. The extent of this beat has to be understood from the management, as we seek clarity on the extent of foreign exchange benefits embedded in the 'other income' (surged to Rs141mn) which possibly led to 20%+ EBITDA margin in the plywood segment. Though EBITDA margin was flat YoY at 17%, it exceeded our expectation of 15.5% due to higher commercial veneer revenue (14% of ply revenue) and reversal of channel incentives. Whilst debt/equity remained stable and working capital improved marginally, lower interest expense (beyond foreign exchange benefits) requires clarity from management. We continue to like Century given its focused efforts around new launches, brand building activities and ability to gain from the unorganised. However, given the higher-than-expected GST rate of 28% and delays in MDF plant commissioning, we'll revisit our numbers after the earnings call. Our last published price of Rs260, implies 20x FY19 earnings.

Read across from balance sheet

The total debt/equity ratio for the company remains stable at 0.85x, with an ending gross debt of Rs5.6bn. Working capital days calculated by the management are 65 days, however, excluding the 'buyer's credit' they are 100 days. Total capex incurred during the year was Rs3bn; the CWIP balance has increased significantly to Rs2.8bn in FY17 (vs Rs0.9bn in FY16) on account of the MDF plant.

We expect revisions to FY18 estimates for delays in MDF commercialisation

We see two key risks to our estimates:

(a) risks to 10% ply volume growth that we are building; clearly we were hoping at least 4-5% of this 10% growth will be on account of the market-share gains backed by reduction in prices. However, with the 28% GST rate, similar to the current tax incidence, such gains do not seem easy.

(b) lower-than-expected capacity utilisation in MDF plant: MDF plant will go into trial production by June-17, implying that the commercial production at 65% will be only available for 6-7months (adjusting for gradual ramp-up), as compared to 65% utilization built in for the entire year. We are presently building a revenue of Rs3.1bn from MDF plant and 20% margin; given lower operational period, fixed cost absorption will be lower, impacting margins more adversely

Questions for the management

We urge investors to understand the following from the management in the earnings conference call:

- **Would higher GST rate limit gains from the unorganised:** As opposed to industry expectations of an 18% rate (lower than the current tax incidence of 26-29%), the GST rate for ply came in higher at 28%. Hence, the rationale that a lower price would help gain share from the unorganised stands at risk? How do you see this impacting market-share gains and operations of the unorganised?
- **Laminates realisation drop:** What is the reason for the drop in laminates realisations (3% YoY decline in domestic sales, and 11% in exports)? Did the company give discounts to the channel in order to maintain volume growth?
- **Particle board ramp-up:** How soon can the company reach full utilisation in its particle board business? Can the company post revenues in line with management's initial estimates (Rs800-1,000mn annual revenues)? The company seems to be behind the expected ramp-up of utilisation here.

BUY

Result Update

Stock Information

Bloomberg Code:	CBPI IN
CMP (Rs):	248
TP (Rs):	260
Mcap (Rs bn/US\$ mn):	55/853
3M ADV (Rs mn/US\$ mn):	60.0/0.9

Stock Performance (%)

	1M	3M	12M	YTD
Absolute	(5.7)	9.2	56.1	47.1
Rel. to Sensex	(9.1)	4.1	35.7	33.1

Source: Bloomberg, Ambit Capital research

Research Analysts

Nitin Bhasin
nitin.bhasin@ambit.co
Tel: +91 22 3043 3241

Girisha Saraf
girisha.saraf@ambit.co
Tel: +91 22 3043 3211

- **Commercial veneer realisations:** What is the reason for sharp rise in commercial veneer realisations over the last two quarters? Would the assumption that this not sustainable be correct?
- **MDF utilisation:** What is the realistic capacity utilisation for the MDF plant that the company is looking out for in the first year post commencement (FY18), given several delays in commissioning?

Exhibit 1: Quarterly Summary

Particulars (Rs mn unless mentioned)	4QFY17	3QFY17	4QFY16	YoY (%)	QoQ (%)	Ambit Est	Dev (%)
Net Sales	4,885	4,255	4,471	9.3	14.8	4,659	4.9
Operating costs	4,026	3,595	3,741	7.6	12.0	3,937	2.3
EBITDA	859	660	730	17.7	30.2	722	19.0
EBITDA margin	17.6	15.5	16.3	126 bps	208 bps	15.5	209 bps
EBITDA (ex-forex)	838	673	760	10.2	24.5	722	16.0
EBITDA margin (ex-forex)	17.1	15.8	17.0	14 bps	133 bps	15.5	165 bps
Other income	141	33	14	945.3	327.3	10	1,314.8
Depreciation	156	149	120	29.9	4.1	160	(2.8)
EBIT	845	543	624	35.5	55.5	572	47.7
Interest cost	47	99	71	(33.8)	(52.3)	110	(57.2)
PBT	798	445	553	44.4	79.5	462	72.7
Tax	239	72	137	75.0	233.5	74	
PAT	559	373	416	34.4	49.9	388	44.0
PAT (adjusted for forex gains/losses)	544	384	439	23.9	41.6	388	40.1
EPS (adjusted)	2.4	1.7	2.0	23.9	41.6	2	40.1

Source: Company, Ambit Capital research

Exhibit 2: Volumetrics

Segment	4QFY16	3QFY17	4QFY17	YoY%	QoQ%
Plyboards segment					
Volume (in CBM)					
Plywood	50,725	47,590	52,284	3%	10%
Deco	2,301	1,927	2,436	6%	26%
Commercial Veneer (Face)	11,719	9,045	10,628	-9%	18%
Sales (Rs mn)					
Plywood	2,526	2,182	2,624	4%	20%
Deco	314	263	361	15%	38%
Commercial Veneer (Face)	368	560	503	37%	-10%
Realisation (Rs/CBM)					
Plywood	49,792	45,850	50,184	1%	9%
Deco	136,289	136,378	148,358	9%	9%
Commercial Veneer (Face)	31,368	61,924	47,337	51%	-24%
Laminates segment					
Volumes					
Domestic (Nos.)	844,135	817,267	958,560	14%	17%
Exports (Nos.)	366,504	376,739	400,782	9%	6%
Pre-lam (Sqm)	249,631	285,082	257,412	3%	-10%
Exteria (Nos.)	1,713	1,846	3,361	96%	82%
Sales (Rs mn)					
Domestic	588	558	647	10%	16%
Exports	232	205	227	-2%	11%
Pre-lam	91	103	90	-1%	-12%
Exteria	12	12	20	73%	66%
Realisation (Rs/sheet or sqm)					
Domestic	696	682	675	-3%	-1%
Exports	634	543	566	-11%	4%
Pre-lam	363	360	350	-4%	-3%
Exteria	6,830	6,609	6,010	-12%	-9%
Pure branded wood business	3,530	3,117	3,743	6%	20%

Source: Company, Ambit Capital research; Pure branded wood business is total ply+lam sales minus laminate exports minus commercial veneer

Exhibit 3: Segment results

Particulars	4QFY17	3QFY17	4QFY16	YoY (%)	QoQ (%)
Segmental Sales (Rs mn)					
Plyboard	3,484	3,013	3,149	10.6	15.6
Laminates	995	892	928	7.3	11.5
Particle board	79	65	-	-	21.1
CFS	234	200	242	(3.1)	16.9
Others	89	80	145	(38.7)	10.8
Segmental EBITDA (Rs mn)					
Plyboard	703	499	506	38.8	40.9
Laminates	124	143	159	(22.2)	(13.5)
Particle board	23	21	-	-	9.5
CFS	88	69	105	(16.3)	26.8
Others	(21)	(27)	(9)	130.8	(23.1)
Segmental EBITDA Margin (%)					
Plyboard	20.2	16.6	16.1	410 bps	362 bps
Laminates	12.4	16.0	17.1	-470 bps	-360 bps
Particle board	29.2	32.3	-	-	-310 bps
CFS	37.6	34.7	43.5	-593 bps	293 bps
Others	(23.6)	(34.0)	(6.3)	-1733 bps	1040 bps

Source: Company, Ambit Capital research

Exhibit 4: Our assumptions (last published estimates to be revised after concall tomorrow)

Particulars (Rs mn unless mentioned)	Assumptions		
	FY17	FY18	FY19
Volume growth			
Ply	5%	10%	12%
Laminates	14%	10%	20%
Realisation growth			
Ply	-0.6%	2.5%	3.0%
Laminates	-3.8%	3.0%	4.0%
Net revenue (in Rsmn)			
Ply	12,377	13,926	16,042
Laminates	3,689	4,180	5,216
Particle board	120	960	1,008
MDF	-	3,159	4,549
Others	1,253	1,316	1,382
EBITDA (in Rsmn)			
EBITDA	2,956	4,111	5,077
EBITDA growth	2%	39%	23%
EBITDA margin	16.9%	17.5%	18.0%
Interest	371	489	508
Depreciation	528	844	901
PAT	1,764	2,183	2,847
EPS (in Rs)			
EPS	7.9	9.8	12.8
EPS growth	5%	24%	30%
Profitability ratios			
RoCE	18.1%	19.6%	21.0%
RoE	28.7%	28.0%	28.8%
ROIC	22.8%	22.9%	23.1%

Source: Ambit Capital research

Balance sheet (last published estimates to be revised after concall tomorrow)

Rs mn unless mentioned	FY16	FY17	FY18E	FY19E
Share capital	223	223	223	223
Reserves and surplus	5,104	6,650	8,474	10,849
Total Networth	5,327	6,872	8,696	11,072
Loans	4,194	5,194	5,444	5,594
Deferred tax liability (net)	(130)	(130)	(130)	(130)
Sources of funds	9,481	12,035	14,118	16,653
Net block	2,627	2,685	7,282	7,149
Investments	2	31	31	31
Cash and bank balances	389	318	236	2,572
Sundry debtors	2,873	2,650	3,442	3,966
Inventories	2,975	2,891	3,832	3,888
Loans and advances	1,523	1,445	1,948	2,255
Total Current Assets	8,002	7,546	9,701	12,924
Current liabilities and provisions	2,175	2,170	2,896	3,451
Net current assets	5,827	5,375	6,805	9,473
Application of funds	9,481	12,035	14,118	16,653

Source: Company, Ambit Capital research

Income statement (last published estimates to be revised after concall tomorrow)

Rs mn unless mentioned	FY16	FY17	FY18E	FY19E
Revenue	16,637	17,640	23,763	28,444
Plyboards	11,836	12,609	14,186	16,343
Laminates	3,394	3,636	4,119	5,141
MDF	-	-	3,159	4,549
Total expenses	13,749	14,647	19,621	23,333
EBITDA	2,888	2,984	4,141	5,111
Depreciation	484	524	844	901
EBIT	2,462	2,656	3,369	4,355
Other income	58	196	71	146
Adj PBT	1,981	2,361	2,880	3,848
Provision for taxation	364	481	662	962
Adjusted PAT	1,672	1,871	2,208	2,876
EPS basic (Rs)	7.5	8.4	9.9	12.9

Source: Company, Ambit Capital research

Cash Flow (last published estimates to be revised after concall tomorrow)

Rs mn unless mentioned	FY16	FY17	FY18E	FY19E
PBT	1,981	2,361	2,880	3,848
Depreciation	484	524	844	901
Interest paid	481	295	489	508
CFO before change in WC	3,037	2,984	4,141	5,111
Change in working capital	359	381	(1,511)	(332)
Direct taxes paid	(468)	(481)	(662)	(962)
CFO	2,928	2,883	1,968	3,818
Net capex	1,533	3,500	1,497	769
CFI	(1,389)	(3,333)	(1,426)	(623)
Proceeds from borrowings	(461)	1,000	250	450
Change in share capital	20	-	-	-
Interest & finance charges paid	(272)	(295)	(489)	(508)
Dividends paid	(601)	(326)	(384)	(500)
CFF	(1,525)	380	(623)	(858)
Net increase in cash	14	(71)	(82)	2,336
FCF	1,395	(617)	471	3,048

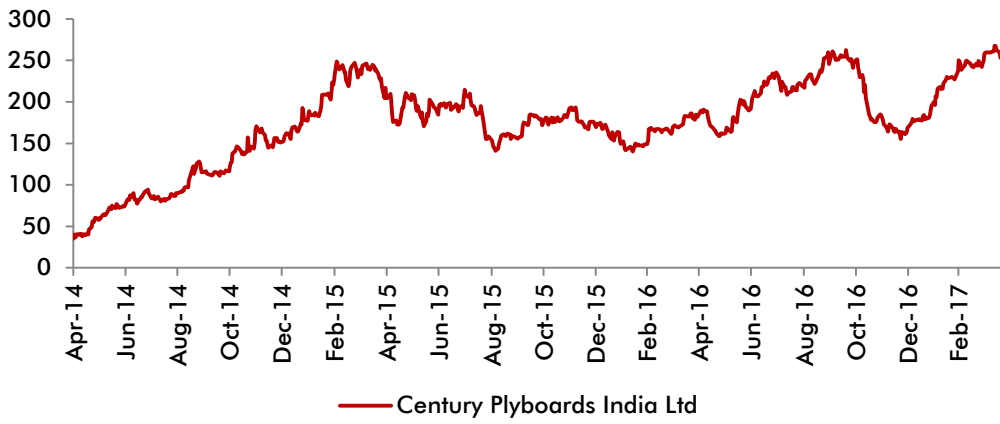
Source: Company, Ambit Capital research

Ratios

Particulars	FY16	FY17	FY18E	FY19E
Revenue growth (%)	4.7	6.0	34.7	19.7
EBITDA growth (%)	12.9	3.3	38.8	23.4
PAT growth (%)	12.0	11.9	18.0	30.1
EPS norm (dil) growth (%)	12.1	11.9	18.0	30.2
EBITDA margin (%)	17.4	16.9	17.4	18.0
EBIT margin (%)	14.8	15.1	14.2	15.3
Net margin (%)	10.0	10.6	9.3	10.1
RoCE (%)	22.1	19.5	19.6	21.1
RoIC (%)	24.5	23.1	23.2	27.4
RoE (%)	35.7	30.2	28.0	28.8
Working capital turnover (x)	2.9	3.1	3.9	3.5
Debt/Equity (x)	0.8	0.7	0.6	0.5
Net debt/Equity (x)	0.7	0.7	0.6	0.3
Valuation metrics				
P/E (x)	33.4	29.8	25.3	19.4
P/B (x)	10.3	8.0	6.3	5.0
EV/Sales (x)	3.6	3.5	2.6	2.1
EV/EBITDA (x)	20.6	20.3	14.7	11.5

Source: Company, Ambit Capital research

Century Plyboards India Ltd (CPBI IN, BUY)



Source: Bloomberg, Ambit Capital research

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BUY	>10%
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