

Century Plyboards

MDF expected to drive growth; maintain Accumulate

CMP Rs227	Target Price Rs245 (▲)
Rating ACCUMULATE (■)	Upside 7.9 %

- In Q2FY17, revenue grew 5.5% yoy to Rs4.6bn; the same is below our estimate mainly on account of flat yoy sales in plywood segment. The laminates segment continued to post healthy growth, ie of 18% yoy.
- EBITDA at Rs748mn was below our estimate of Rs814mn due to weak top-line growth and drop in margins in the plywood segment. Further, a higher tax rate offset the benefit accrued out of lower interest cost. PAT rose 5% yoy to Rs493mn (below est of Rs529mn).
- Management expects strong growth momentum in laminates segment to continue, while plywood segment is likely to remain sluggish in the near term impacted by slowdown in real-estate segment. Further, MDF segment is expected to drive growth from FY18.
- For FY17, we have reduced our estimates by 9% given the weakness in H1FY17. However, increase in FY18E EPS by 9% is led by lower than estimated depreciation and interest cost. Subsequently, we have increased our TP to Rs245 (based on 22x FY18E EPS). Maintain ACCUMULATE.

Q2FY17 impacted by weak volumes in plywood segment

Century Plyboards reported revenue growth of 5% yoy to Rs4.6bn for Q2FY17, lower than our estimate on account of flat revenues of plywood segment. The segment underwent a sharp decline in realisations in commercial veneers (-27% yoy) owing to an unfavourable demand-supply equation. Further, a slowdown in real-estate segment also hurt plywood segment volumes (-3% yoy). Laminates segment posted a growth of 18% yoy led by introduction of newer products that are driving sales. Overall EBITDA margin at 16.2% is down 90bps yoy mainly weighed down by drop in plywood segment's margins by 80bps yoy, while laminates segment reported margin expansion of 450bps yoy to 15.4%. Drop in margins of plywood segment is due to high margin base of last year and tough competition from unorganized segment. Further, higher tax rate offset the positive impact of lower interest cost. The company reported 5% yoy increase in PAT to Rs493mn, lower than our estimate of Rs529mn. The Management expects strong growth momentum in the laminates segment to continue, while plywood segment will see revival post GST implementation.

Upgrade target price; Maintain Accumulate

We believe organized players like Century Plyboards will be key beneficiaries of the GST implementation as 70% of the market share in plywood sector is cornered by the unorganized players. For FY17, we have reduced our estimates by 9% given the weakness in H1FY17. However, increase in FY18E EPS by 9% is led by lower than estimated depreciation and interest cost. Subsequently, we have increased our TP to Rs245 (based on 22x FY18E EPS). Maintain ACCUMULATE.

Financial Snapshot (Standalone)

(Rs mn)	FY14	FY15	FY16	FY17E	FY18E
Revenue	12,840	15,648	16,585	18,105	25,209
EBITDA	1,482	2,498	2,829	3,061	4,492
EBITDA Margin (%)	11.5	16.0	17.1	16.9	17.8
APAT	669	1,508	1,681	1,656	2,480
EPS (Rs)	3.0	6.8	7.6	7.5	11.2
EPS (% chg)	27.1	125.3	11.4	(1.4)	49.7
ROE (%)	24.7	44.4	36.7	28.4	33.8
P/E (x)	75.4	33.5	30.0	30.5	20.3
EV/EBITDA (x)	36.9	22.0	19.2	18.4	12.6
P/BV (x)	17.3	13.0	9.5	7.9	6.1

Source: Company, Emkay Research

Change in Estimates

EPS Chg FY17E/FY18E (%)	(9)/9
Target Price change (%)	9
Previous Reco	ACCUMULATE

Emkay vs Consensus

EPS Estimates		
	FY17E	FY18E
Emkay	7.5	11.2
Consensus	8.5	10.3
Mean Consensus TP	Rs 238	

Stock Details

Bloomberg Code	CPBI IN
Face Value (Rs)	1
Shares outstanding (mn)	222
52 Week H/L	268 / 135
M Cap (Rs bn/USD bn)	50 / 0.76
Daily Avg Volume (nos.)	2,67,608
Daily Avg Turnover (US\$ mn)	0.9

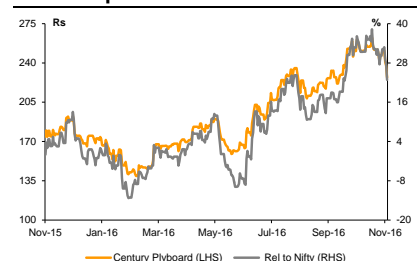
Shareholding Pattern Sep '16

Promoters	72.2%
FIIs	12.8%
DIIIs	5.2%
Public and Others	9.7%

Price Performance

(%)	1M	3M	6M	12M
Absolute	(13)	7	21	26
Rel. to Nifty	(9)	8	12	23

Relative price chart



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	4,627	4,964	4,862	-7%	-5%	Below estimate due to weak top-line for plywood segment
EBITDA	748	813	837	-8%	-11%	Lower than estimated due to weak top-line growth and a narrow miss on margins.
EBITDA margin	16.2%	16.4%	17.2%	(20 bps)	(100 bps)	Misses estimates due to weak margins in plywood segment.
PAT	493	529	519	-7%	-5%	Lower than estimated due to weak operating profit.

Source: Company, Emkay Research

Revenue growth impacted by fall in realisations for Commercial veneer

In Q2FY17, Century Plyboards reported a 5% yoy growth in revenues to Rs4.6bn, below our estimate of Rs5bn, mainly on account of sharp fall in realisations in commercial veneer by 27% yoy. Such fall in realisations was mainly on account of increase in supply as was reflected in an 8% yoy rise in Century ply volumes. The Management expects prices of commercial veneers to stabilize at current levels. Further, decline in plywood segment's volume by 3% yoy was more than offset by 9% yoy increase in realisations as the company had taken price increases in Q3 and Q4FY16. However, slowdown in volumes for plywood segment remains a big concern. The Management has a positive outlook for this segment with the GST implementation on the anvil given that the segment is currently dominated by unorganized players which hold a 70% market share.

Laminates segment is likely to continue with robust performance

Laminates segment reported revenue growth of 18% yoy to Rs1.1bn led by sharp increase in volumes. The growth in this segment is led by multiple initiatives taken by the company like introduction of new catalogues, early delivery within 24 hours across India, etc. The Management expects the growth momentum to continue (higher double digit growth on a low base). Further, current market share of 5-6% in this segment leaves immense scope for growth.

PAT growth impacted by weak top-line and higher tax rate

EBITDA margin at 16.2% was down 90bps yoy during the quarter on account of fall in plywood segment's margins by 75bps yoy. The fall in margin was mainly because of high base of last year and increased competition from the unorganized segment. Consequently, the EBITDA remained flat yoy at Rs748mn vs our estimate of Rs814mn. Further, higher tax rate offset the positive impact of lower interest cost; the company reported 5% yoy increase in PAT to Rs493mn, lower than our estimate of Rs529mn.

Upgrade target price; Maintain Accumulate

For FY17, we have reduced our estimates by 9% given the weakness in H1FY17. However, increase in FY18E EPS by 9% is led by lower than estimated depreciation and interest cost. Subsequently, we have increased our TP to Rs245 (based on 22x FY18E EPS). Maintain ACCUMULATE. We believe that organised players like Century Plyboards will be key beneficiaries of GST implementation as 70% of the market share in plywood sector is held by unorganized players. Further, introduction of MDF plant from FY18 will support company's growth. We maintain ACCUMULATE with revised TP of Rs245 based on 22x FY18E.

Exhibit 2: Change in earnings estimate

All fig in Rs mn (except % and EPS)	FY17E			FY18E		
	Old	New	% change	Old	New	% change
Revenues	18,868	18,105	-4%	25,376	25,209	-1%
EBITDA	3,181	3,061	-4%	4,624	4,492	-3%
EBITDA margins, %	16.9%	16.9%		18.2%	17.8%	(40 bps)
Net profits	1,847	1,687	-9%	2,267	2,479	9%
EPS	8.3	7.6	-9%	10.2	11.1	9%

Source: Company, Emkay Research

Exhibit 3: Key assumptions

Parameters	FY14	FY15	FY16	FY17E	FY18E
Revenues of Plywood segment (Rs mn)	9,648	11,471	11,994	13,015	14,984
Growth (yoy)	17%	19%	5%	9%	15%
EBIT Margins of Plywood segment	11.1%	16.3%	15.4%	14.1%	14.2%
Revenues of Laminates segment (Rs mn)	2,367	2,935	3,409	4,019	4,822
Growth (yoy)	12%	24%	16%	18%	20%
EBIT Margins of Laminates segment	3.4%	7.8%	13.1%	14.5%	14.8%

Source: Company, Emkay Research

Exhibit 4: Quarterly Financial Summary

Rs mn	Q2 FY16	Q1 FY17	Q2 FY17	YoY (%)	QoQ (%)	YTD FY17	YTD FY16	YoY (%)
Revenue	4386	4058	4627	5.5	14.0	8685	8082	7.5
Operating Expenditure	3636	3396	3879	6.7	14.2	7275	6673	9.0
as % of sales	82.9%	83.7%	83.8%	121.6%	101.3%	83.8%	82.6%	121.0%
Consumption of RM	2344	2045	2404	2.6	17.6	4450	4300	3.5
as % of sales	53.4%	50.4%	52.0%	47.2%	125.1%	51.2%	53.2%	46.7%
Employee expenses	560	638	624	11.5	-2.1	1262	1070	18.0
as % of sales	12.8%	15.7%	13.5%	208.9%	-15.2%	14.5%	13.2%	241.0%
Other expenses	733	713	850	16.1	19.2	1563	1303	20.0
as % of sales	16.7%	17.6%	18.4%	292.8%	137.0%	18.0%	16.1%	267.8%
EBITDA	750	661	748	-0.2	13.1	1410	1409	0.0
Depreciation	105	93	126	20.3	36.4	219	204	7.2
EBIT	645	569	622	-3.6	9.3	1191	1205	-1.2
Other Income	6	8	13	127.0	63.5	21	10	114.8
Interest	131	89	60	-53.8	-32.1	149	253	-41.1
PBT	520	488	575	10.5	17.8	1063	962	10.5
Total Tax	42	80	91	116.8	14.0	171	95	80.1
Adjusted PAT	478	408	484	1.2	18.5	892	867	2.9
(Profit)/loss from JV's/Ass/MI	-	-	-					
APAT after MI	478	408	484	1	18	892	867	3
Extra ordinary items	9	-22	-9	0	-59.6	-31	-3	855.9
Reported PAT	-9	22	9	-196.4	-59.6	31	392	-92.1
Reported EPS	2.1	1.9	2.2	5.0	14.5	4	4	6.1

Margins (%)				(bps)	(bps)			(bps)
EBIDTA	17.1	16.3	16.2	-92.9	-13.0	16.2	17.4	-120.3
EBIT	14.7	14.0	13.4	-126.6	-57.7	13.7	14.9	-119.8
EBT	11.9	12.0	12.4	56.0	39.2	12.2	11.9	33.7
PAT	10.9	10.1	10.5	-44.8	39.3	10.3	10.7	-45.5
Effective Tax rate	8.1	16.3	15.8	775.1	-52.5	16.0	9.8	620.0

Source: Company, Emkay Research

Exhibit 5: Segmental Financial Summary

(Y/E Mar, Rs mn)	Q2 FY16	Q1 FY17	Q2 FY17	YoY (%)	QoQ (%)	YTD FY17	YTD FY16	YoY (%)
Net Sales								
Plywood	3,458	3,113	3,465	0.2	11.3	6578	6023	9.2
laminates	941	873	1,110	17.9	27.0	1983	1709	16.0
Logistics	201	234	211	5.0	-9.9	445	375	18.7
Others	114	148	113	-1.4	-23.6	261	279	-6.6
EBIT								
Plywood	517	436	492	-4.8	12.8	928	961	-3.4
laminates	103	115	171	66.3	48.7	286	206	39.1
Logistics	56	79	56	0.2	-28.3	135	110	22.4
Others	-4	-4	-24	458.5	552.7	-28	-6	379.4
EBIT Margins								
Plywood	15.0	14.0	14.2	-75.7	18.7	14.1	16.0	-184.9
laminates	10.9	13.2	15.4	449.1	224.5	14.4	12.0	239.7
Logistics	28.0	33.6	26.7	-128.5	-686.3	30.3	29.4	91.5
Others	-3.7	-2.5	-21.1	-1740.1	-1865.8	-10.6	-2.1	-850.0

Source: Company, Emkay Research

Key Financials (Standalone)**Income Statement**

Y/E Mar (Rs mn)	FY14	FY15	FY16	FY17E	FY18E
Revenue	12,840	15,648	16,585	18,105	25,209
Expenditure	11,358	13,150	13,756	15,045	20,716
EBITDA	1,482	2,498	2,829	3,061	4,492
Depreciation	332	448	446	616	845
EBIT	1,149	2,050	2,382	2,445	3,647
Other Income	95	181	63	39	40
Interest expenses	551	433	467	489	696
PBT	693	1,798	1,978	1,995	2,991
Tax	24	290	297	339	511
Extraordinary Items	0	0	0	31	0
Minority Int./Income from Assoc.	0	0	0	0	0
Reported Net Income	669	1,508	1,681	1,687	2,480
Adjusted PAT	669	1,508	1,681	1,656	2,480

Balance Sheet

Y/E Mar (Rs mn)	FY14	FY15	FY16	FY17E	FY18E
Equity share capital	223	223	223	223	223
Reserves & surplus	2,692	3,653	5,066	6,167	8,061
Net worth	2,914	3,876	5,289	6,390	8,283
Minority Interest	0	0	0	0	0
Loan Funds	4,478	4,587	4,098	6,715	6,534
Net deferred tax liability	(5)	(70)	(136)	(136)	(136)
Total Liabilities	7,386	8,392	9,251	12,969	14,682
Net block	2,120	2,089	2,041	5,211	5,356
Investment	379	451	497	497	497
Current Assets	6,480	7,662	7,852	9,733	12,235
Cash & bank balance	180	170	190	953	336
Other Current Assets	212	113	244	244	244
Current liabilities & Provision	1,780	2,037	2,073	2,471	3,405
Net current assets	4,700	5,625	5,779	7,262	8,829
Misc. exp	0	0	0	0	0
Total Assets	7,386	8,392	9,251	12,969	14,682

Cash Flow

Y/E Mar (Rs mn)	FY14	FY15	FY16	FY17E	FY18E
PBT (Ex-Other income) (NI+Dep)	598	1,617	1,915	1,956	2,951
Other Non-Cash items	0	0	0	0	0
Chg in working cap	(522)	(1,000)	(199)	(721)	(2,184)
Operating Cashflow	936	1,040	2,110	2,001	1,796
Capital expenditure	(423)	(457)	(1,105)	(2,852)	(990)
Free Cash Flow	513	584	1,005	(851)	806
Investments	(223)	(72)	(46)	0	0
Other Investing Cash Flow	0	0	0	0	0
Investing Cashflow	(551)	(348)	(1,088)	(2,812)	(950)
Equity Capital Raised	0	0	0	0	0
Loans Taken / (Repaid)	(200)	109	(489)	2,618	(181)
Dividend paid (incl tax)	(251)	(379)	(45)	(586)	(586)
Other Financing Cash Flow	0	0	0	31	0
Financing Cashflow	(1,002)	(702)	(1,002)	1,574	(1,463)
Net chg in cash	(617)	(10)	20	762	(617)
Opening cash position	797	180	170	190	953
Closing cash position	180	170	190	953	336

Key Ratios

Profitability (%)	FY14	FY15	FY16	FY17E	FY18E
EBITDA Margin	11.5	16.0	17.1	16.9	17.8
EBIT Margin	9.0	13.1	14.4	13.5	14.5
Effective Tax Rate	3.4	16.1	15.0	17.0	17.1
Net Margin	5.2	9.6	10.1	9.1	9.8
ROCE	17.1	28.3	27.7	22.4	26.7
ROE	24.7	44.4	36.7	28.4	33.8
RoIC	18.4	28.9	31.4	25.5	28.8

Per Share Data (Rs)	FY14	FY15	FY16	FY17E	FY18E
EPS	3.0	6.8	7.6	7.5	11.2
CEPS	4.5	8.8	9.6	10.2	15.0
BVPS	13.1	17.4	23.8	28.8	37.3
DPS	0.3	1.0	2.0	1.0	2.3

Valuations (x)	FY14	FY15	FY16	FY17E	FY18E
PER	75.4	33.5	30.0	30.5	20.3
P/CEPS	50.4	25.8	23.7	22.2	15.2
P/BV	17.3	13.0	9.5	7.9	6.1
EV / Sales	4.3	3.5	3.3	3.1	2.3
EV / EBITDA	36.9	22.0	19.2	18.4	12.6
Dividend Yield (%)	0.1	0.4	0.9	0.4	1.0

Gearing Ratio (x)	FY14	FY15	FY16	FY17E	FY18E
Net Debt/ Equity	1.5	1.1	0.7	0.9	0.7
Net Debt/EBIDTA	2.9	1.8	1.4	1.9	1.4
Working Cap Cycle (days)	128.5	127.2	123.0	127.2	123.0

Growth (%)	FY14	FY15	FY16	FY17E	FY18E
Revenue	13.5	21.9	6.0	8.4	39.4
EBITDA	31.3	68.6	13.2	8.2	46.8
EBIT	33.5	78.3	16.2	2.6	49.2
PAT	27.1	125.3	11.4	0.4	47.0

Quarterly (Rs mn)	Q2FY16	Q3FY16	Q4FY16	Q1FY17	Q2FY17
Revenue	4,422	3,906	4,547	4,058	4,627
EBITDA	738	696	773	683	757
EBITDA Margin (%)	16.7	17.8	17.0	16.8	16.4
PAT	463	416	405	431	493
EPS (Rs)	2.1	1.9	1.8	1.9	2.2

Shareholding Pattern (%)	Sep-15	Dec-15	Mar-16	Jun-16	Sep-16
Promoters	73.3	73.3	73.3	73.3	72.2
FIIIs	10.7	10.6	12.1	8.5	12.8
DIIIs	3.4	3.4	3.3	7.6	5.2
Public and Others	12.5	12.7	11.3	10.5	9.7

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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