

Century Plyboards | HOLD

MDF performance surprise positively

Century Ply (Century) reported revenue/EBITDA growth at 20%/30% for 3QFY18, respectively led by contribution from MDF segment (1st quarter of commercial operation). Ex-MDF, revenue/EBITDA were up 9%/12% YoY respectively led by steady volume growth and margin improvement in other businesses, though partly offset by weak plywood margins (continue to be impacted by higher RM prices at Assam unit). While MDF reported lower than expected revenue at INR 476mn (guidance was of INR 1.5-2.0bn in FY18), EBITDA margins came in at 25.7% in the 1st quarter of operations itself. Overall Adj PAT grew 21% YoY (negligible contribution from MDF due to high depreciation) further aided by lower net interest cost. Management is optimistic about E-Way Bill implementation as it expects curtailment in rampant tax evasion from unorganised players and increase in pace of market share shift to organised players (especially in economy brand – 'Sainik'). We maintain HOLD and await better price for entry/accumulation.

- Ex-MDF revenue up 9% YoY led by laminates volume growth:** Century reported revenue (ex-MDF) at INR 4.6bn (+9% YoY) led by 12% volume growth in laminates segment (similar growth in domestic and export market), but plywood segment was weak (+5% YoY) as 'Sainik' brand continue to witness strong competition from unorganised players post GST (tax evasion by unorganised players was rampant given removal of check-posts without implementation of E-Way Bill). However, management remains optimistic about E-Way Bill implementation and expects tax evasion to reduce considerably resulting into faster market share shift towards organised players. Commercial veneer volumes grew 22% YoY on low base but revenue declined 21% YoY as company shifted sourcing from high quality Laos timber to relatively inferior quality Solomon Island timber. Surprisingly, CFS segment registered 35% revenue growth despite 9% volume growth. On MDF front, company reported revenue at INR 476mn, significantly below expectations of INR 800mn as guided by management in 2QFY18 implying FY18 revenues in the range of INR 1-1.5bn vs earlier guidance of INR 1.5-2bn. Management highlighted that product quality has been appreciated by channel and expects capacity utilisation at 80% in FY19.
- Margins improve across segments except Plywood:** Century's EBITDA margins expanded 130bps YoY led by higher margins in MDF in-line with management guidance of 25-30% (25.7% vs 15-16% margins on blended basis for other segments). Ex-MDF margins expanded 40bps YoY to 16.3% mainly due to improvement in Laminate margins (+50bps YoY; remains volatile as declined 420bps QoQ – past 8 quarters reported margins between 11%-18%) despite absence of price hikes amid rising RM cost scenario. CFS/Particle Board (PB)/others also witnessed significant margin expansion (PB and others reported positive EBITDA vs losses YoY), but it was completely offset by decline in plywood margins (-270bps YoY) due to higher timber cost in Assam unit (lower availability of timber in Nagaland) and lower margins in commercial veneer (due to change in veneer quality) apart from increasing RM cost (no price hike effected). Resultantly, Ex-MDF EBITDA was up 12% YoY (12% above JMFe; overall EBITDA up 30% YoY) and Adj. PAT was up 21% YoY (16% above JMFe), further aided by lower net finance cost (-35% YoY).



Achal Lohade CFA

achal.lohade@jmfl.com | Tel: (91 22) 66303081

Manish Agrawal

manish.agrawal@jmfl.com | Tel: (91 22) 66303068

Recommendation and Price Target

Current Reco.	HOLD
Previous Reco.	HOLD
Current Price Target (12M)	340
Upside/(Downside)	3.6%
Previous Price Target	280
Change	21.4%

Key Data – CPBI IN

Current Market Price	INR328
Market cap (bn)	INR72.9/US\$1.1
Free Float	21%
Shares in issue (mn)	222.2
Diluted share (mn)	222.2
3-mon avg daily val (mn)	INR114.8/US\$1.8
52-week range	363/220
Sensex/Nifty	34,300/10,540
INR/US\$	64.3

Price Performance

%	1M	6M	12M
Absolute	-7.5	29.0	44.9
Relative*	-6.8	17.4	19.7

* 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

Y/E March	FY16A	FY17A	FY18E	FY19E	FY20E
Net Sales	16,357	17,825	20,251	24,738	28,486
Sales Growth (%)	4.5	9.0	13.6	22.2	15.2
EBITDA	2,835	2,920	3,237	4,253	5,044
EBITDA Margin (%)	17.3	16.4	16.0	17.2	17.7
Adjusted Net Profit	1,851	1,777	1,725	2,251	2,703
Diluted EPS (INR)	8.3	8.0	7.8	10.1	12.1
Diluted EPS Growth (%)	33.3	-4.0	-2.9	30.3	20.1
ROIC (%)	24.5	19.0	16.1	18.3	20.1
ROE (%)	40.6	28.8	22.1	23.6	23.0
P/E (x)	39.4	41.0	42.3	32.4	27.0
P/B (x)	13.9	10.3	8.5	6.9	5.6
EV/EBITDA (x)	27.0	26.7	24.0	18.2	14.9
Dividend Yield (%)	0.3	0.3	0.3	0.3	0.3

Source: Company data, JM Financial. Note: Valuations as of 12/Feb/2018

- **Maintain HOLD:** We marginally tweak our FY18-FY20 estimates by 2%-4% to reflect 3QFY18 performance. We now value Century at 28x to reflect 3 year history (back tested with DCF based valuation analysis) amid improving outlook. We arrive at a Mar'19TP of Rs340 and maintain our HOLD rating. While the near term is expected to be challenging for plywood business on account of the GST transition (delayed E-Way bill) 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. 3Q18 / 9M18 Financial Performance

INR mn	3Q17	3Q18	YoY	2Q18	QoQ	3Q18E	Var	9M17A	9M18A	YoY
Net Sales	4,255	5,099	20%	4,746	7%	5,273	-3%	12,939	14,231	10%
Ex-MDF	4,251	4,623	9%	4,744	-3%	4,468	3%	12,910	13,747	6%
MDF	4	476	NM	1	NM	805	-41%	30	483	NM
Raw Material Cost	2,200	2,607	18%	2,545	2%	2,742	-5%	6,650	7,491	13%
% of sales	51.7%	51.1%		53.6%		52.0%		51.4%	52.6%	
Gross Margin	48.3%	48.9%	60 bps	46.4%	250 bps	48.0%	90 bps	48.6%	47.4%	-120 bps
Employee cost	637	723	13%	676	7%	701	3%	1,899	2,087	10%
% of sales	15.0%	14.2%	-80 bps	14.2%	-10 bps	13.3%	90 bps	14.7%	14.7%	
Other expenses	741	892	20%	816	9%	1,059	-16%	2,295	2,418	5%
% of sales	17.4%	17.5%	10 bps	17.2%	30 bps	20.1%	-260 bps	17.7%	17.0%	
Total Expenditure	3,578	4,222	18%	4,037	5%	4,503	-6%	10,844	11,996	11%
EBITDA	676	878	30%	709	24%	771	14%	2,095	2,235	7%
EBITDA margin	15.9%	17.2%	130 bps	14.9%	230 bps	14.6%	260 bps	16.2%	15.7%	-50 bps
Ex-MDF EBITDA	676	755	12%	709	7%	674	12%	2,090	2,114	1%
Ex-MDF margin	15.9%	16.3%	40 bps	14.9%	140 bps	15.1%	130 bps	16.2%	15.4%	-80 bps
MDF EBITDA	0	122	NM	0	NM	97	27%	5	121	NM
MDF margin	0.0%	25.7%	NM	0.0%	NM	12.0%	1370 bps	16.5%	25.0%	NM
Depreciation	149	263	76%	138	90%	190	38%	368	533	45%
EBIT	527	615	17%	571	8%	581	6%	1,727	1,702	-1%
Net finance cost	103	67	-35%	45	49%	115	-42%	231	158	-32%
Other Income	8	14	74%	6	134%	5	189%	29	26	-10%
Interest	111	81	-27%	51	60%	120	-33%	260	184	-29%
XO Inc/-Exp	21	46		3		0		43	1	
PBT	445	594	34%	529	12%	466	28%	1,539	1,545	0%
Tax Expense	72	128	78%	128	0%	93	37%	242	336	39%
Tax Rate	16.1%	21.5%	540 bps	24.2%	-270 bps	20.0%	150 bps	15.7%	21.7%	600 bps
Reported Net Profit	373	467	25%	401	16%	373	25%	1,296	1,209	-7%
Adjusted Net Profit	356	431	21%	399	8%	373	16%	1,261	1,212	-4%

Source: Company, JM Financial

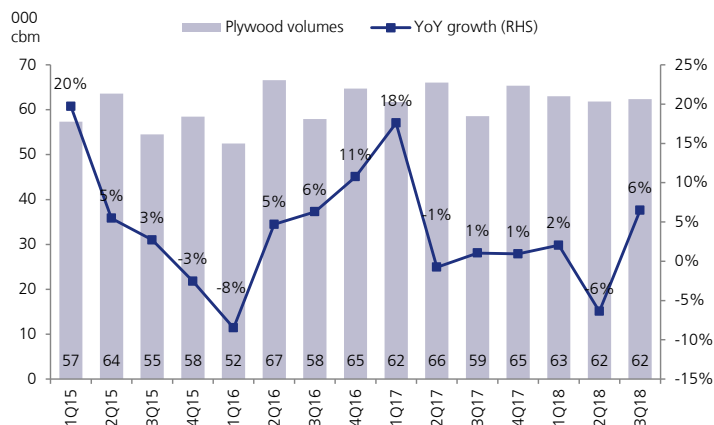
Exhibit 2. 3Q18 / 9M18 Segmental Performance

INR mn	3Q17	3Q18	YoY	2Q18	QoQ	3Q18E	Var	9M17A	9M18A	YoY
Volume										
Plywood and Allied (cbm)	58,562	62,366	6%	61,858	1%	62,609	0%	1,86,372	1,87,214	0%
Laminate and Allied										
Laminates (mn Nos)	1.20	1.34	12%	1.55	-14%	1.40	-4%	3.66	3.92	7%
Prelam sheets (sqm)	2,85,082	2,60,198	-9%	3,76,665	-31%	3,42,098	-24%	6,46,285	8,79,512	36%
MDF (cbm)	0	20,639	NM	0	NM	35,000	-41%	0	21,057	NM
Net revenues	4,255	5,099	20%	4,746	7%	5,273	-3%	12,939	14,231	10%
Plywood and Allied	3,013	3,227	7%	3,059	6%	3,056	6%	9,134	9,459	4%
Laminate and Allied	892	999	12%	1,246	-20%	1,032	-3%	2,710	3,052	13%
Laminates	775	898	16%	1,086	-17%	921	-2%	2,408	2,683	11%
Prelam sheets	117	101	-14%	161	-37%	111	-9%	302	369	22%
MDF	0	476	NM	1	NM	805	-41%	12	483	NM
Others	350	397	14%	439	-9%	380	5%	1,084	1,236	14%
Segmental EBITDA	676	878	30%	709	24%	771	14%	2,095	2,235	7%
Plywood and Allied	487	435	-11%	409	6%	403	8%	1,459	1,263	-13%
Laminate and Allied	121	140	16%	228	-38%	165	-15%	427	491	15%
MDF	0	122	NM	0	NM	97	27%	5	121	NM
Others	69	181	163%	72	151%	106	71%	204	360	76%
EBITDA Margins	15.9%	17.2%	130 bps	14.9%	230 bps	14.6%	260 bps	16.2%	15.7%	-50 bps
Plywood and Allied	16.2%	13.5%	-270 bps	13.4%	10 bps	13.2%	30 bps	16.0%	13.4%	-260 bps
Laminate and Allied	13.6%	14.0%	50 bps	18.3%	-420 bps	16.0%	-200 bps	15.8%	16.1%	30 bps
MDF	NM	25.7%	NM	0.0%	NM	12.0%	1370 bps	40.7%	25.0%	NM
Others	19.6%	45.5%	2590 bps	16.4%	2910 bps	27.8%	1770 bps	18.8%	29.1%	1030 bps

Source: Company, JM Financial

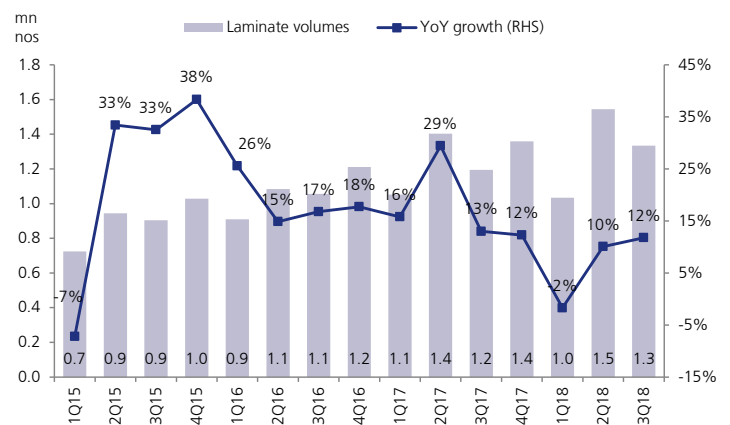
Centuryply Quarterly charts

Exhibit 3. Plywood volume growth trend – Quarterly



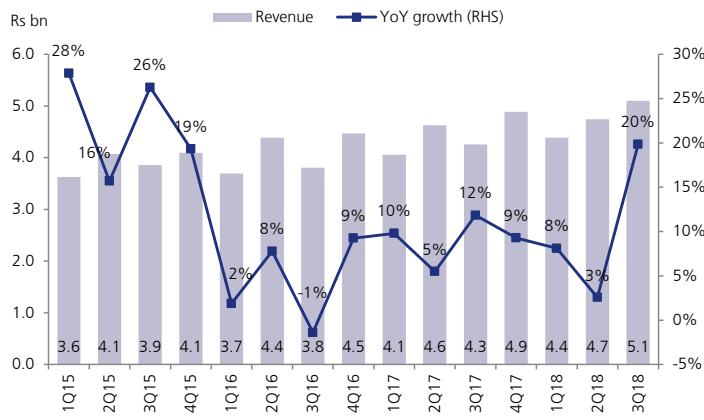
Source: Company, JM Financial

Exhibit 4. Laminates volume growth trend - Quarterly



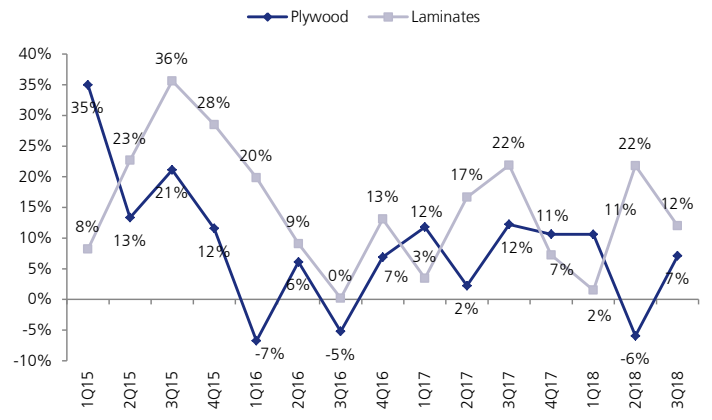
Source: Company, JM Financial

Exhibit 5. Overall revenue growth trend – Quarterly



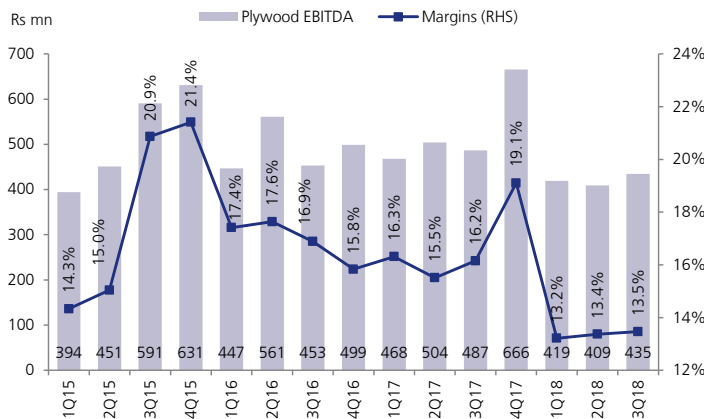
Source: Company, JM Financial

Exhibit 6. Plywood and Laminates revenue growth trend – Quarterly



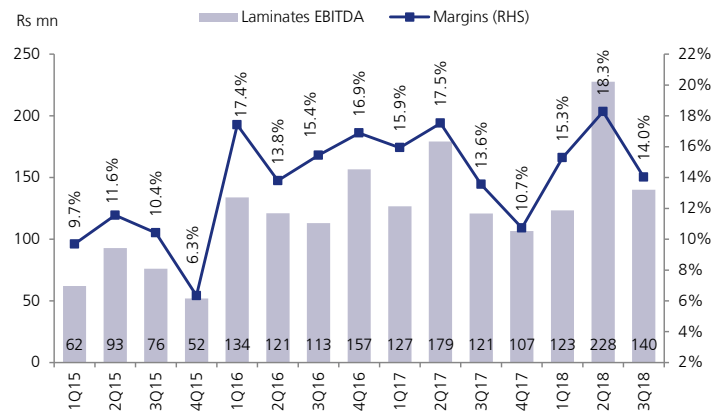
Source: Company, JM Financial

Exhibit 7. Plywood EBITDA and margin trend – Quarterly



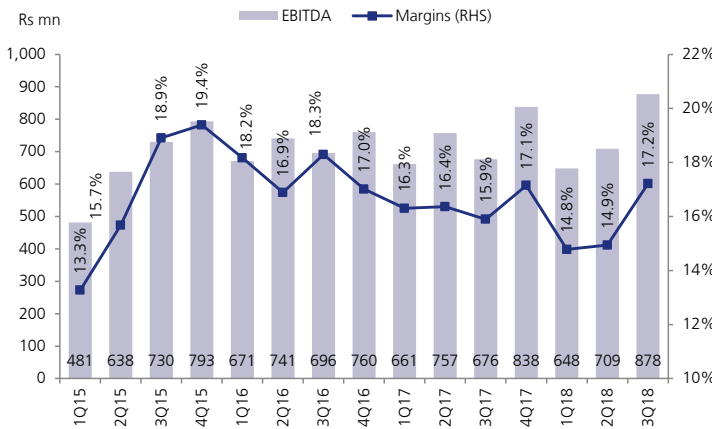
Source: Company, JM Financial

Exhibit 8. Laminates EBITDA and margin trend – Quarterly



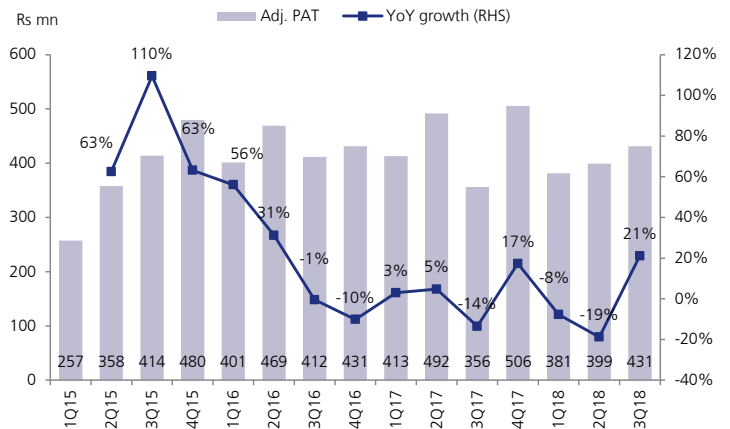
Source: Company, JM Financial

Exhibit 9. Overall EBITDA and margin trend – Quarterly



Source: Company, JM Financial

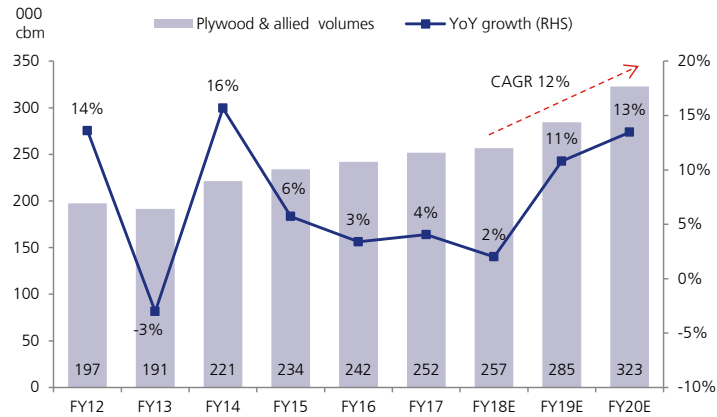
Exhibit 10. Profitability growth trends – Quarterly



Source: Company, JM Financial

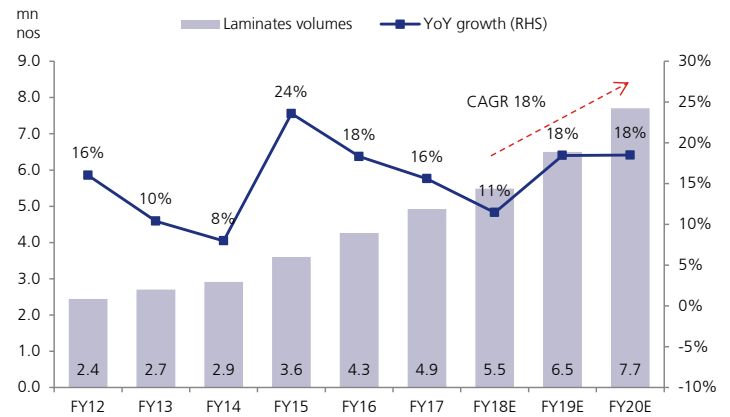
Centuryply Annual charts

Exhibit 11. Plywood volume growth trend



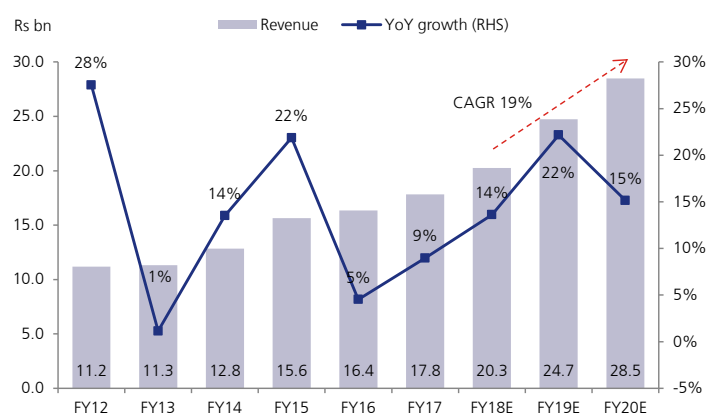
Source: Company, JM Financial

Exhibit 12. Laminates volume growth trend



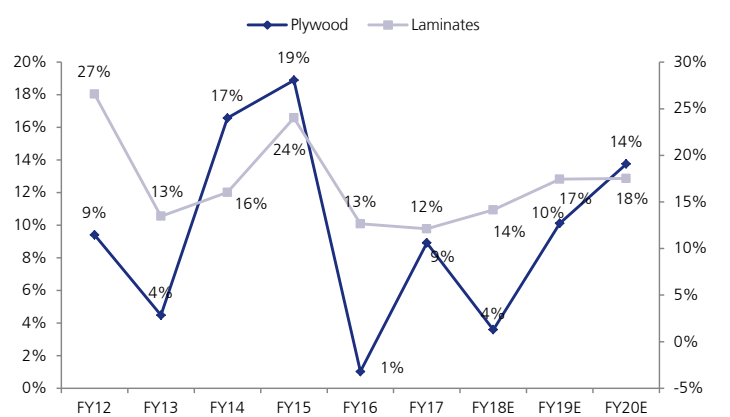
Source: Company, JM Financial

Exhibit 13. Overall revenue growth trend



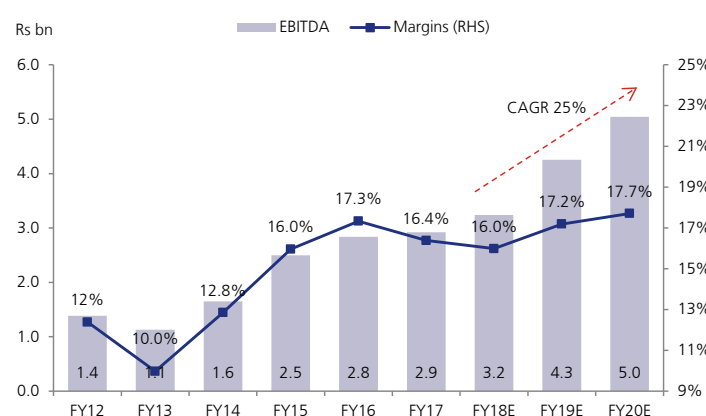
Source: Company, JM Financial

Exhibit 14. Plywood and Laminate revenue growth trend



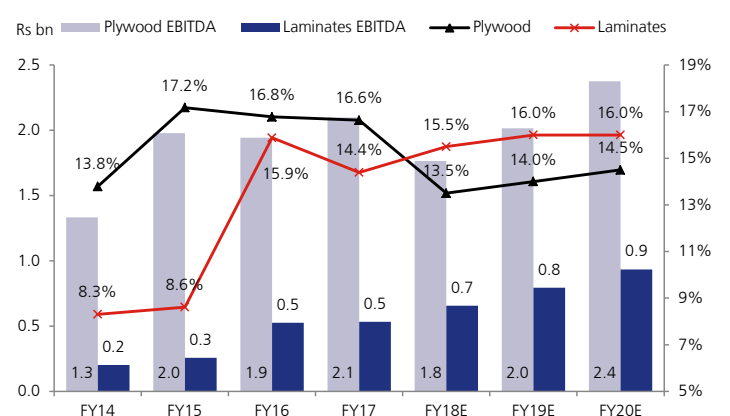
Source: Company, JM Financial

Exhibit 15. Overall EBITDA and margin trend



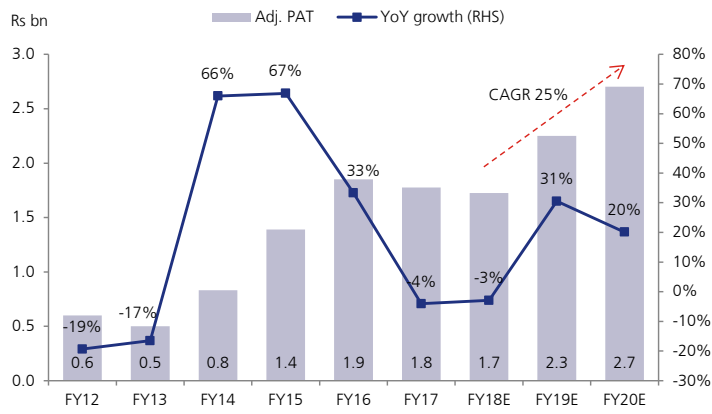
Source: Company, JM Financial

Exhibit 16. Plywood and Laminate EBITDA and margin trend



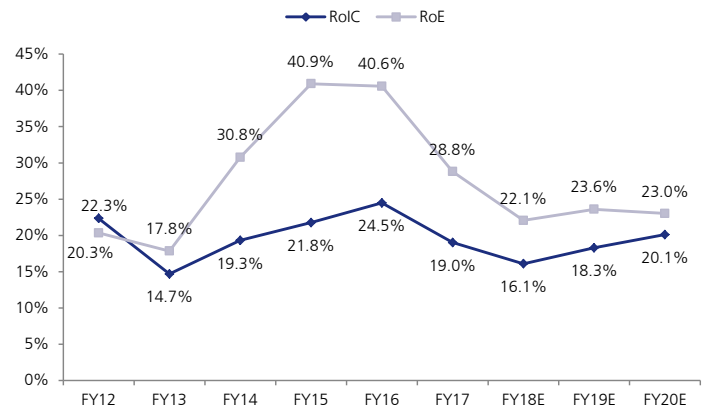
Source: Company, JM Financial

Exhibit 17. Profitability growth trend



Source: Company, JM Financial

Exhibit 18. Return ratios



Source: Company, JM Financial

Financial Tables (Standalone)

Income Statement					
	(INR mn)				
Y/E March	FY16A	FY17A	FY18E	FY19E	FY20E
Net Sales	16,357	17,825	20,251	24,738	28,486
Sales Growth	4.5%	9.0%	13.6%	22.2%	15.2%
Other Operating Income	0	0	0	0	0
Total Revenue	16,357	17,825	20,251	24,738	28,486
Cost of Goods Sold/Op. Exp	8,432	9,181	10,632	13,111	15,098
Personnel Cost	2,278	2,567	2,875	3,306	3,703
Other Expenses	2,811	3,157	3,507	4,068	4,641
EBITDA	2,835	2,920	3,237	4,253	5,044
EBITDA Margin	17.3%	16.4%	16.0%	17.2%	17.7%
EBITDA Growth	13.5%	3.0%	10.8%	31.4%	18.6%
Depn. & Amort.	437	524	800	1,100	1,250
EBIT	2,398	2,397	2,437	3,153	3,794
Other Income	65	107	40	50	60
Finance Cost	287	267	280	280	250
PBT before Excep. & Forex	2,176	2,236	2,197	2,923	3,604
Excep. & Forex Inc./Loss(-)	0	0	0	0	0
PBT	2,176	2,236	2,197	2,923	3,604
Taxes	300	481	472	672	901
Extraordinary Inc./Loss(-)	-178	101	1	0	0
Assoc. Profit/Min. Int.(-)	0	0	0	0	0
Reported Net Profit	1,698	1,856	1,725	2,251	2,703
Adjusted Net Profit	1,851	1,777	1,725	2,251	2,703
Net Margin	11.3%	10.0%	8.5%	9.1%	9.5%
Diluted Share Cap. (mn)	222.2	222.2	222.2	222.5	222.5
Diluted EPS (INR)	8.3	8.0	7.8	10.1	12.1
Diluted EPS Growth	33.3%	-4.0%	-2.9%	30.3%	20.1%
Total Dividend + Tax	267	267	268	268	268
Dividend Per Share (INR)	1.0	1.0	1.0	1.0	1.0

Source: Company, JM Financial

Balance Sheet					
	(INR mn)				
Y/E March	FY16A	FY17A	FY18E	FY19E	FY20E
Shareholders' Fund	5,251	7,086	8,544	10,527	12,962
Share Capital	223	223	223	223	223
Reserves & Surplus	5,028	6,864	8,321	10,304	12,740
Preference Share Capital	0	0	0	0	0
Minority Interest	0	0	0	0	0
Total Loans	4,049	5,571	5,500	4,800	4,300
Def. Tax Liab. / Assets (-)	-655	-689	-667	-608	-536
Total - Equity & Liab.	8,644	11,968	13,377	14,718	16,726
Net Fixed Assets	2,905	5,336	6,436	7,036	6,686
Gross Fixed Assets	4,482	5,525	9,567	11,767	12,667
Intangible Assets	0	0	0	0	0
Less: Depn. & Amort.	2,507	3,031	3,831	4,931	6,181
Capital WIP	930	2,842	700	200	200
Investments	497	960	960	960	960
Current Assets	7,363	8,562	9,444	10,924	13,747
Inventories	2,752	2,638	3,329	4,067	4,683
Sundry Debtors	2,868	3,353	3,606	4,405	5,073
Cash & Bank Balances	190	538	477	419	1,959
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	3,464	4,202	4,668
Current Liabilities	843	1,411	1,775	2,169	2,341
Provisions & Others	1,276	1,479	1,688	2,033	2,326
Net Current Assets	5,243	5,672	5,981	6,722	9,079
Total - Assets	8,645	11,968	13,377	14,718	16,726

Source: Company, JM Financial

Cash Flow Statement					
	(INR mn)				
Y/E March	FY16A	FY17A	FY18E	FY19E	FY20E
Profit before Tax	1,998	2,337	2,197	2,923	3,604
Depn. & Amort.	437	524	800	1,100	1,250
Net Interest Exp. / Inc. (-)	456	278	240	230	190
Inc (-) / Dec in WCap.	366	-283	-370	-799	-818
Others	101	-169	23	58	72
Taxes Paid	-463	-457	-472	-672	-901
Operating Cash Flow	2,895	2,230	2,417	2,840	3,398
Capex	-1,253	-2,880	-1,900	-1,700	-900
Free Cash Flow	1,641	-650	517	1,140	2,498
Inc (-) / Dec in Investments	-44	-463	0	0	0
Others	11	135	40	50	60
Investing Cash Flow	-1,287	-3,208	-1,860	-1,650	-840
Inc / Dec (-) in Capital	0	0	0	0	0
Dividend + Tax thereon	-601	0	-268	-268	-268
Inc / Dec (-) in Loans	-518	1,613	-71	-700	-500
Others	-469	-286	-280	-280	-250
Financing Cash Flow	-1,588	1,326	-619	-1,248	-1,018
Inc / Dec (-) in Cash	20	348	-62	-58	1,540
Opening Cash Balance	170	190	538	477	419
Closing Cash Balance	190	538	477	419	1,959

Source: Company, JM Financial

Dupont Analysis					
Y/E March	FY16A	FY17A	FY18E	FY19E	FY20E
Net Margin	11.3%	10.0%	8.5%	9.1%	9.5%
Asset Turnover (x)	1.9	1.7	1.6	1.8	1.8
Leverage Factor (x)	1.9	1.7	1.6	1.5	1.3
RoE	40.6%	28.8%	22.1%	23.6%	23.0%

Key Ratios					
Y/E March	FY16A	FY17A	FY18E	FY19E	FY20E
BV/Share (INR)	23.6	31.9	38.5	47.3	58.2
ROIC	24.5%	19.0%	16.1%	18.3%	20.1%
ROE	40.6%	28.8%	22.1%	23.6%	23.0%
Net Debt/Equity (x)	0.7	0.7	0.6	0.4	0.2
P/E (x)	39.4	41.0	42.3	32.4	27.0
P/B (x)	13.9	10.3	8.5	6.9	5.6
EV/EBITDA (x)	27.0	26.7	24.0	18.2	14.9
EV/Sales (x)	4.7	4.4	3.8	3.1	2.6
Debtor days	64	69	65	65	65
Inventory days	61	54	60	60	60
Creditor days	23	35	38	39	36

Source: Company, JM Financial

History of Earnings Estimate and Target Price

Date	FY18E EPS (INR)	% Chg.	FY19E EPS (INR)	% Chg.	Target Price	% Chg.
27-Dec-16	6.7		9.5		190	
9-Jun-17	8.2	22.4	11.0	15.8	300	57.9
6-Aug-17	8.0	-2.4	10.4	-5.5	280	-6.7

Recommendation History

