

Century Plyboards (India)

Reco: Buy

Stock Update

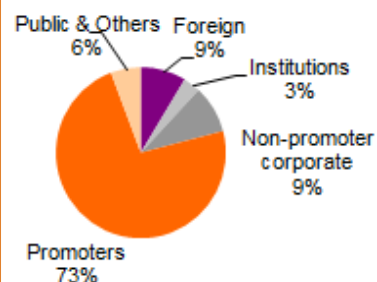
Q4FY2015 performance robust, maintain Buy

CMP: Rs205

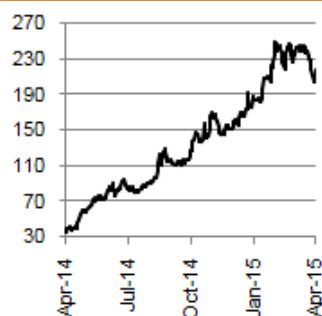
Company details

Price target:	Rs290
Market cap:	Rs4,543 cr
52-week high/low:	Rs262/35
NSE volume: (No of shares)	5.8 lakh
BSE code:	532548
NSE code:	CENTURYPLY
Sharekhan code:	CENTURYPLY
Free float: (No of shares)	5.9 cr

Shareholding pattern



Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	-8.7	10.7	65.6	427.5
Relative to Sensex	-7.9	20.5	64.4	328.7

Key points

- Century Plyboards' Q4FY2015 performance was strong with the overall top line growing by 19.3% YoY aided by a robust 30.5% Y-o-Y growth in the laminate business even as the plyboard business posted a muted growth of 10.6% YoY. A healthy top line performance aided by soft raw material prices (the raw material cost to sales ratio fell by 853BPS YoY during the year) led to an expansion of 663BPS in the OPM from 10.7% in Q4FY2014 to 17.4% in Q4FY2015. The strong operational performance coupled with a low interest cost were reflected in the earnings, which grew at 63.2% on a Y-o-Y basis. The reported earnings for both the quarters included an element of forex gain adjusting for which the earnings showed a growth of 278% YoY.
- The management remains confident of the growth momentum and continues to guide for a 22-25% top line growth for the company on the back of a strong volume growth in the plyboard and laminate businesses. Further, the benefits of soft raw material prices and of exploration of newer strategic locations like Laos and Africa for raw material sources would enable the company to clock margins in the range of 16.5-16.8%.
- We believe that Century Plyboards with its top-of-the-mind brand recall is well positioned to ride the economic revival-driven recovery in demand and increase its market dominance in the plywood and laminate segments. The robust revenue growth and the margin expansion play would enable the company to deliver a strong growth ahead. We expect it to post a 31.3% earnings CAGR over FY2015-17. The implementation of GST would provide a fillip to the revenue and earnings performance. In view of these positives, we maintain our Buy rating on the stock with an unchanged price target of Rs290 (valued at 25x FY2017E).

Results

Particulars	Rs cr				
	Q4FY15	Q4FY14	YoY %	Q3FY15	QoQ %
Income from operations	409.2	342.9	19.3	385.8	6.1
COGS	210.3	205.5	2.4	194.7	8.0
Gross profit	198.9	137.4	44.8	191.2	4.0
Gross margin (%)	48.6	40.1	853BPS	49.5	(94.5)BPS
Employee cost	52.4	39.4	33.0	49.4	6.0
Other expenditure	75.4	61.2	23.3	70.7	6.6
Adjusted operating profit	71.0	36.8	93.0	71.0	0.1
Adjusted operating profit margin (%)	17.4	10.7	663BPS	18.4	(103.8)BPS
Forex loss/(gain)	(8.3)	(23.1)	-64.0	(2.0)	321.5
Operating profit	79.3	59.9	32.5	73.0	8.8
Operating profit margin (%)	19.4	17.5	192BPS	18.9	48.1BPS
Finance cost	9.0	20.6	-56.1	14.5	(37.7)
Depreciation	11.9	8.9	33.8	11.6	2.2
Non operating income	0.9	0.7	20.2	0.9	(7.6)
PBT	59.3	31.2	90.2	47.8	24.1
Tax	11.4	1.8	532.9	6.4	76.2
Reported PAT	48.0	29.4	63.2	41.4	16.0
Tax adjusted forex	(6.6)	(18.5)	-64.0	(1.6)	321.5
Adjusted PAT	41.3	10.9	278.5	39.8	3.9

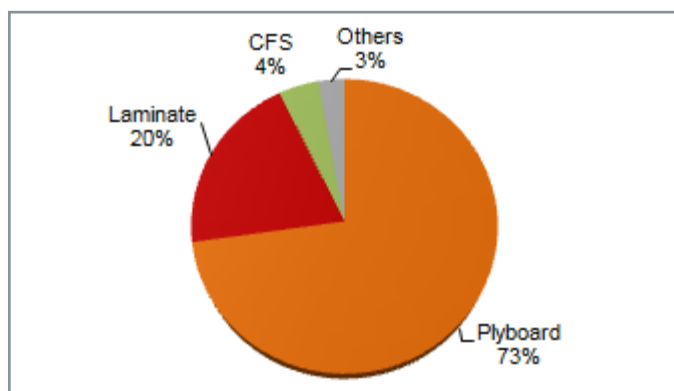
Valuations (consolidated)

Particulars	FY13	FY14	FY15	FY16E	FY17E
Net sales (Rs cr)	1,182	1,348	1,588	1,957	2,384
Growth (%)	(29)	14	18	23	22
Adj EBITDA (Rs cr)	128	179	274	324	401
EBITDA margin (%)	10.8	13.3	17.2	16.6	16.8
Adjusted PAT (Rs cr)	53	77	149	194	257
Growth (%)	(57)	47	94	30	32
Adjusted EPS (Rs)	2.4	3.5	6.7	8.7	11.5
PER (x)	83	76	30.6	23.5	17.8
RoCE (%)	7.1	15.4	23.5	25.4	25.8
RoE (%)	11.7	23.1	40.8	36.2	33.7

Result highlights

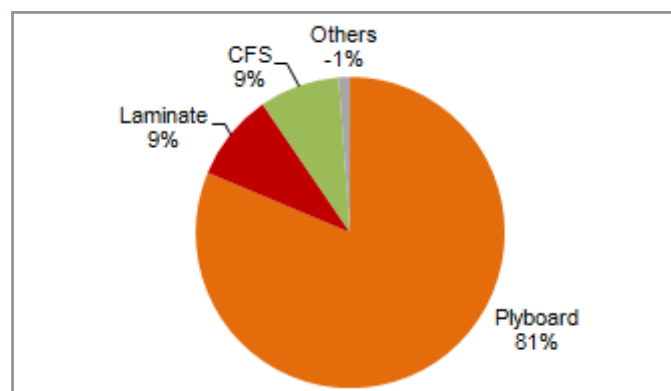
Laminate business led the top line growth: In Q4FY2015 the top line of Century Plyboards grew by 19.6% year on year (YoY), led by a strong 30.5% growth in the laminate business. Over the last three quarters, the laminate business has been growing rapidly averaging a growth of 30% YoY, led by improved capacity utilisation. For the quarter, the plyboard business posted a muted 10.6% year-on-year (Y-o-Y) growth, which was lower than expected. This moderation in growth of the plyboard business is on account of weak consumer demand and lack of offtake at the ground level. With an improvement in the consumer sentiment and uptake in the end-users, we expect the demand revival to get reflected in the results.

Q4FY2015 revenue break-up (%)



Margins expanded led by soft raw material prices: The core operating profit margin (OPM; excluding the impact of the foreign exchange [forex] gain) expanded by 663 basis points (BPS) YoY from 10.7% in Q4FY2014 to 17.4% in Q4FY2015. This strong improvement was mainly on account of savings on the raw material cost front. The raw material cost to sales ratio was down 853BPS YoY, resulting in an equal expansion in the gross profit margin. Consequently, a strong sales performance and a robust margin expansion together resulted in a 93% Y-o-Y growth in the core operating profit of the company.

Q4FY2015 PBIT break-up



Plyboard

Particulars	Q4 FY15	Q4 FY14	YoY %	Q3 FY15	QoQ %
Top line	291.8	263.8	10.6	281.0	3.8
EBIT	57.6	43.6	32.1	54.0	6.7
EBIT margin (%)	19.8	16.5	321BPS	19.2	(53)BPS
Capital employed	559.8	470.1	19.1	479.8	16.7
RoCE (%)	41.2	37.1	405BPS	45.0	385BPS

Laminate

Particulars	Q4 FY15	Q4 FY14	YoY %	Q3 FY15	QoQ %
Top line	80.5	61.7	30.5	71.6	12.4
EBIT	6.5	3.3	94.7	5.1	26.9
EBIT margin (%)	8.0	5.4	265.0BPS	7.1	(91.8)BPS
Capital employed	170.5	162.2	5.1	181.0	(5.8)
RoCE (%)	15.2	8.2	698BPS	11.2	34.8BPS

CFS

Particulars	Q4 FY15	Q4 FY14	YoY %	Q3 FY15	QoQ %
Top line	17.4	12.0	45.0	18.6	(6.2)
EBIT	6.0	2.8	112.9	6.0	(0.8)
EBIT margin (%)	34.2	23.3	1,092BPS	32.3	(187)BPS
Capital employed	60.0	62.0	(3.3)	60.2	(0.3)
RoCE (%)	39.8	18.1	2,171BPS	40.0	(0.4)BPS

Reported earnings grew by 63.2% YoY: The strong operational performance coupled with a low interest cost (down 56.1% YoY and 37.7% QoQ) was reflected in the earnings, which grew at 63.2% YoY. The reported earnings for both the quarters included an element of forex gain adjusting for which the earnings grew 278% YoY.

Key management takeaways

- **Particle board unit to be set up in Chennai:** A particle board plant will be set up at the company's Chennai factory with a capacity of 180 tonne cubic metre per

day. The plant will be commissioned within the next year. There will be a minimal capital expenditure (capex; around Rs60 crore) for the same. The proposed plant will use wastage from the other plants to make particle board. The company expects sales of Rs125 crore from the plant going forward. The particle board business will lead to an overall margin increase of half a percent and the produce would be sold to furniture factories.

- **On ground demand still muted:** There is not much demand at the ground level according to the management but the demand for Century Plyboards' products is very good. Key reforms by the government like the implementation of the Goods and Services Tax (GST) and housing reforms will have a major impact on the demand going forward.
- **EBITDA margin guidance:** Crude oil related raw materials constitute around 12% of the raw material cost for the company and their prices have fallen by 50% which has led to an expansion in the margins. Further, the earnings before interest, tax, depreciation and amortisation (EBITDA) margin is likely to expand and the management has guided for a sustainable 16-17% margin.
- **Laminate capacity expansion on anvil:** The company is planning to expand its current laminate capacity and add another two lines in the current year increasing the capacity by 50%. It is also looking at the other locations, such as the western areas. Maybe it will put up one unit in the western region in the next financial year. Gujarat is the hub of the laminate industry. The laminate business is running at 100% capacity and the company is running short of capacity due to excessive demand.
- **Continue to enjoy MAT rate:** The company would continue to pay the minimum alternate tax (MAT) owing to the taxation benefits enjoyed by its plant at Guwahati along with all the plants at Myanmar and Laos. It has also availed of MAT credit which is likely to bring down the effective tax rate to 15-16% over the next two years.
- **Volume guidance:** The volume guidance for the plywood and laminate businesses is 15% each and the realisation growth guidance for both is 10%. This results in a revenue growth guidance of 25% for the company.

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