



INDEPENDENT EQUITY RESEARCH

Century Plyboards (India) Ltd

Q2FY12 Result Update

Enhancing investment decisions

Explanation of CRISIL Fundamental and Valuation (CFV) matrix

The CFV Matrix (CRISIL Fundamental and Valuation Matrix) addresses the two important analysis of an investment making process – Analysis of Fundamentals (addressed through Fundamental Grade) and Analysis of Returns (Valuation Grade) The fundamental grade is assigned on a five-point scale from grade 5 (indicating Excellent fundamentals) to grade 1 (Poor fundamentals) The valuation grade is assigned on a five-point scale from grade 5 (indicating strong upside from the current market price (CMP)) to grade 1 (strong downside from the CMP).

CRISIL Fundamental Grade	Assessment	CRISIL Valuation Grade	Assessment
5/5	Excellent fundamentals	5/5	Strong upside (>25% from CMP)
4/5	Superior fundamentals	4/5	Upside (10-25% from CMP)
3/5	Good fundamentals	3/5	Align (+-10% from CMP)
2/5	Moderate fundamentals	2/5	Downside (- 10-25% from CMP)
1/5	Poor fundamentals	1/5	Strong downside (<-25% from CMP)

Analyst Disclosure

Each member of the team involved in the preparation of the grading report, hereby affirms that there exists no conflict of interest that can bias the grading recommendation of the company.

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Century Plyboards (India) Ltd

Forex loss impacts profits

Fundamental Grade 3/5 (Good fundamentals)
Valuation Grade 5/5 (CMP has strong upside)

Industry Industrial Conglomerates

Century Plyboards (India) Ltd's (Century's) Q2FY12 revenues were in line with CRISIL Research's expectations. All the major businesses of the company reported good revenue growth. However, forex loss impacted profitability. After adjusting for forex and MAT credit during the quarter, net profit was in line with our expectations. While we maintain our revenues and EBIT estimates, we have factored in forex loss for FY12. As a leading player in the plywood business, we expect the company to benefit from strong growth envisaged in the sector. We maintain the fundamental grade of **3/5**.

Q2FY12 result analysis

- Q2FY12 revenues grew by 21.2% y-o-y (down 5.8% q-o-q) to Rs 3,924 mn driven by growth across all the key segments. The plywood business' revenues were up by 20.7% y-o-y and cement revenues were up by 16.5% y-o-y. The drop in q-o-q revenues was due to a seasonally weak quarter for the cement business.
- EBIT margin declined by 603 bps y-o-y (down 296 bps q-o-q) owing to a sharp fall in EBIT margin in the cement (down to 12.6% from 35.2% in Q2FY11) business. The plywood business' EBIT margin expanded by 231 bps to 11.9%. The 29% y-o-y increase in raw material costs combined with 26% increase in employee costs led to an overall decline in EBIT margin.
- Century booked forex loss of Rs 267 mn (of which Rs 185 mn is unrealised) on account of foreign exchange fluctuations which impacted its foreign currency liabilities.
- Tax expenses were negative Rs 22 mn as the company booked Rs 77 mn of MAT credit during the quarter. Adjusted PAT declined by 2.7% y-o-y (6.3% q-o-q). Adjusted EPS was Rs 1.8.

Earnings estimates for FY12 revised downwards due to forex loss

While we maintain our revenue and EBIT estimates, we have revised our reported PAT estimate for FY12 down by 22.5%. We have assumed that the company will realise forex loss of Rs 267 mn for FY12.

Valuations: Current market price has strong upside

We continue to value Century based on the sum-of-the-parts method. We maintain the fair value of Rs 73 per share. Our valuation grade is **5/5**.

KEY FORECAST

(Rs mn)	FY09	FY10	FY11	FY12E	FY13E
Operating income	10,925	12,159	14,316	16,124	26,226
EBITDA	2,010	2,532	2,576	2,586	5,341
Adj PAT	601	1,464	1,526	1,209	2,280
Adj EPS-Rs	2.7	6.6	6.8	5.4	10.2
EPS growth (%)	(52.5)	143.4	3.7	(20.8)	88.7
Dividend yield (%)	0.7	2.4	2.4	1.4	3.5
RoCE (%)	20.7	21.7	17.1	12.5	17.1
RoE (%)	14.1	27.3	21.9	14.5	22.6
PE (x)	18.5	7.6	7.3	9.2	4.9
P/BV (x)	2.4	1.8	1.4	1.3	1.0
EV/EBITDA (x)	7.8	6.3	7.0	8.2	5.5

NM: Not meaningful; CMP: Current market price

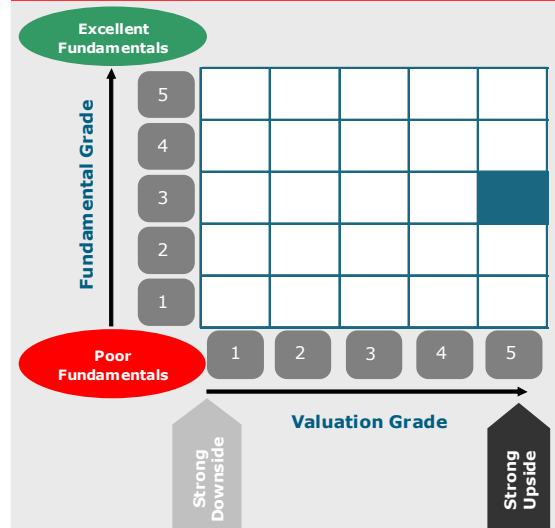
Source: Company, CRISIL Research estimate

November 28, 2011

Fair Value Rs 73

CMP Rs 50

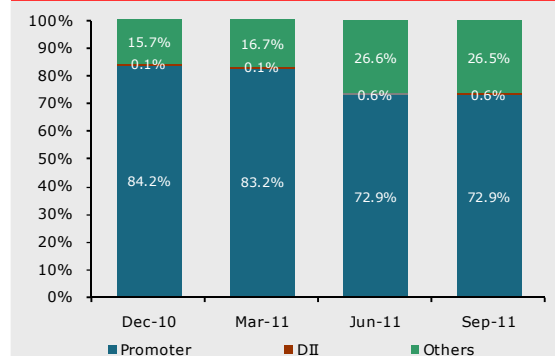
CFV MATRIX



KEY STOCK STATISTICS

NIFTY / SENSEX	4851/16167
NSE / BSE ticker	CENTURYPLY/ CENTPLY
Face value (Rs per share)	1
Shares outstanding (mn)	223.2
Market cap (Rs mn)/(US\$ mn)	11,160/226
Enterprise value (Rs mn)/(US\$ mn)	16,466/334
52-week range (Rs) (H/L)	77/49
Beta	0.79
Free float (%)	27.1%
Avg daily volumes (30-days)	31,663
Avg daily value (30-days) (Rs mn)	1.9

SHAREHOLDING PATTERN



PERFORMANCE VIS-À-VIS MARKET

	Returns			
	1-m	3-m	6-m	12-m
Century Plyboards	-17%	-18%	-24%	-19%
NIFTY	-10%	2%	-11%	-16%

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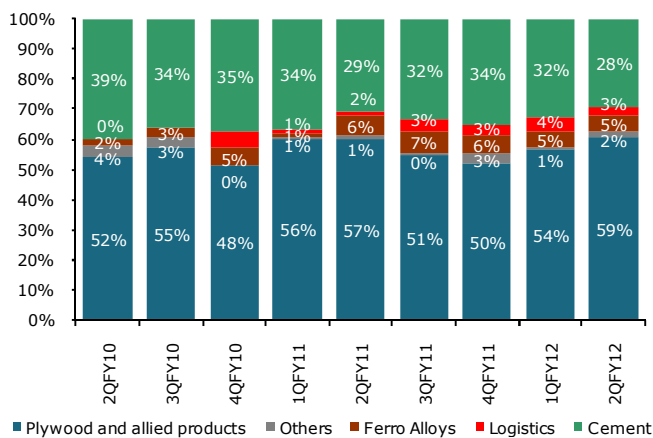
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Q2FY12 Result Summary

(Rs mn)	Q2FY12	Q1FY12	Q2FY11	q-o-q (%)	y-o-y (%)	H1FY12	H1FY11	y-o-y (%)
Operating income	3,924	4,167	3,234	(5.8)	21.3	8,090	6,358	27.2
Consumption of Raw Materials	1,744	1,631	1,353	6.9	29.0	3,375	2,552	32.3
(Increase) / Decrease in Stock in Trade	(56)	12	(79)	NM	NM	(44)	(151)	(70.6)
Raw material as a % of sales	43%	39%	37%	357 bps	586 bps	41%	37%	453 bps
Other expenses	1,308	1,490	1,192	(12.2)	9.7	2,798	2,226	25.7
Employees Cost	323	281	256	14.7	26.3	604	491	23.2
EBITDA	605	752	707	(19.5)	(14.4)	1,357	1,435	(5.4)
EBITDA margin	15.4%	18.0%	21.9%	(262) bps	(646) bps	16.8%	21.9%	(513) bps
Depreciation	137	131	126	4.4	8.7	268	238	12.6
EBIT	468	621	581	(24.5)	(19.4)	1,089	1,197	(9.0)
EBIT margin	11.9%	14.9%	18.0%	(296) bps	(603) bps	13.5%	18.3%	(481) bps
Interest and finance charges	70	65	45	8.5	56.5	135	99	36.3
Operating PBT	398	556	536	(28.4)	(25.7)	954	1,098	(13.1)
Other Income	13.3	21.9	15.7	(39.1)	(15.1)	35.2	23.0	53.1
Extraordinary Income/(expense)	(267.2)	-	-	NM	NM	(267)	-	NM
PBT	144	578	552	(75.0)	(73.9)	722	1,121	(35.6)
Tax	(22)	41	24	NM	NM	19	79	(76.0)
PAT	166	537	528	(69.1)	(68.5)	703	1,042	(32.5)
Minority Interest	25	101	108	(75.5)	(77.1)	125	210	(40.1)
PAT after Minority Interest	141	436	420	(67.6)	(66.3)	578	832	(30.6)
Adj PAT after Minority Interest	409	436	420	(6.3)	(2.7)	845	832	1.5
Adj PAT margin	10.4%	10.5%	12.2%	(5) bps	(183) bps	10.4%	12.7%	(226) bps
No of equity shares (mn)	222.5	222.5	222.5	-	(0.0)	222.5	222.5	(0.0)
Adj EPS (Rs) - diluted	1.8	2.0	1.9	(6.3)	(2.7)	3.8	3.7	1.5

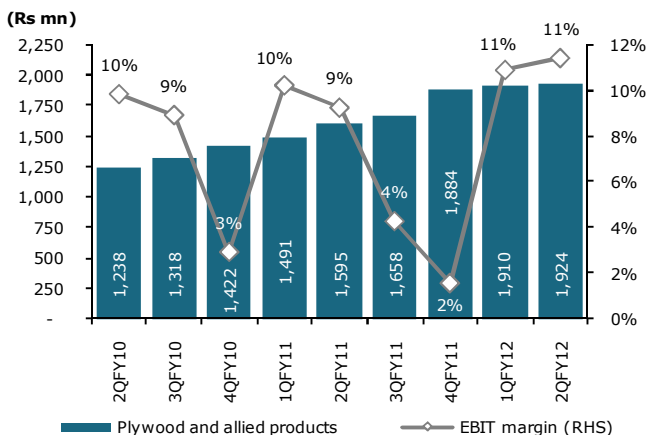
Source: Company, CRISIL Research

Revenue mix over the quarters



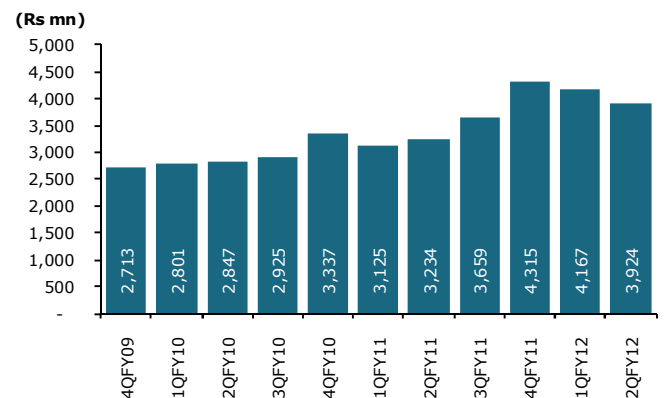
Source: Company, CRISIL Research

Plywood segment's quarterly revenue trend



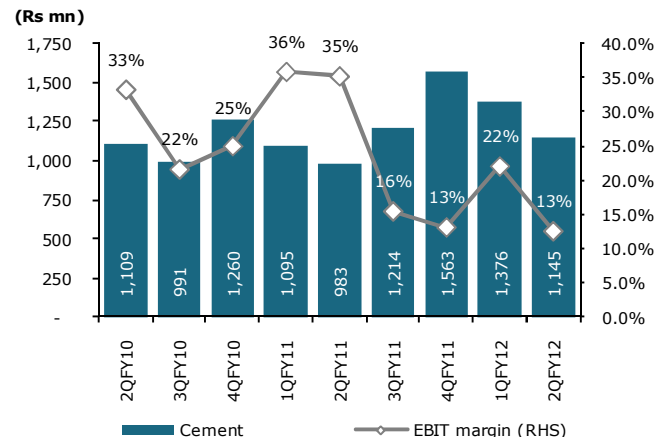
Source: Company, CRISIL Research

Revenues down q-o-q



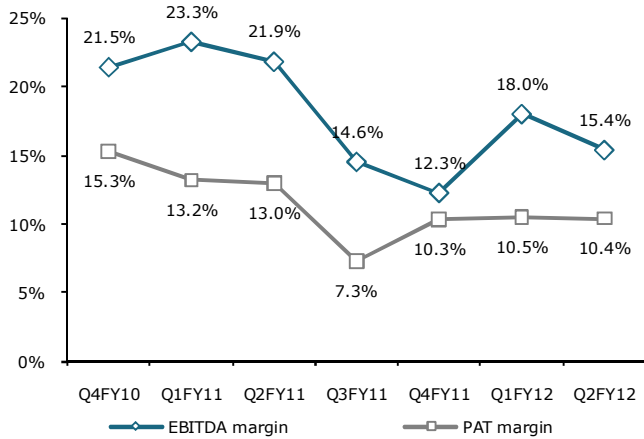
Source: Company, CRISIL Research

Cement revenues up y-o-y but down q-o-q



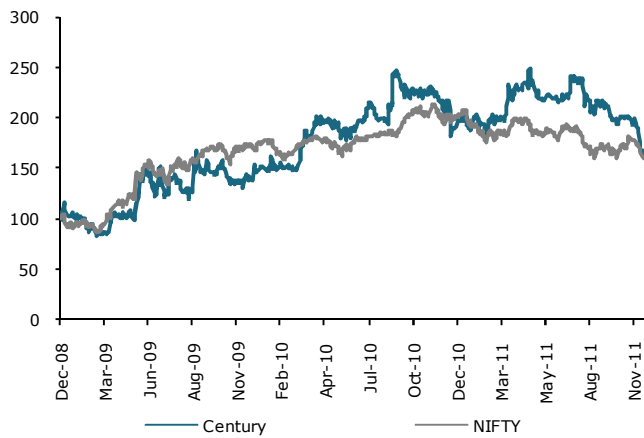
Source: Company, CRISIL Research

Rising costs exert pressure on margins



Source: Company, CRISIL Research

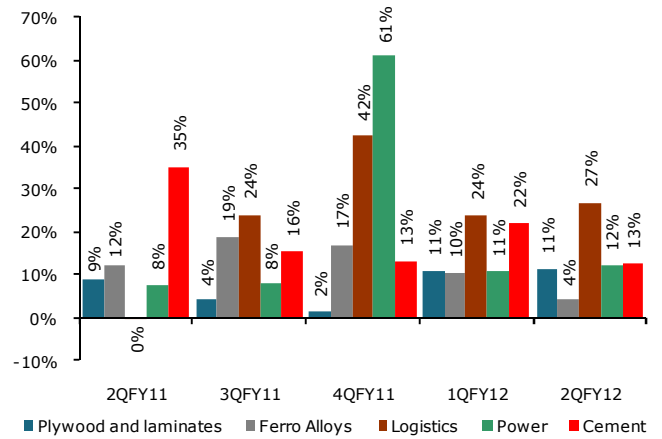
Share price movement



-indexed to 100

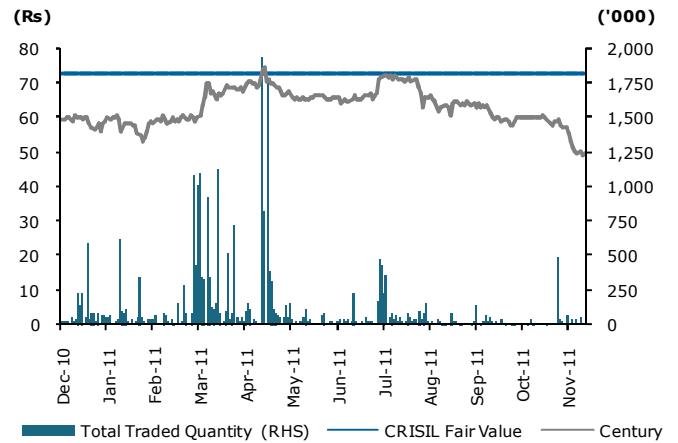
Source: NSE, CRISIL Research

Quarterly segmental EBIT margin



Source: Company, CRISIL Research

Fair value movement since initiation



Source: NSE, CRISIL Research

KEY DEVELOPMENTS

Land acquisition issues in Bihar, Gujarat continue

Land acquisition for the 1.6 mtpa grinding plant in Bihar is pending. The company has started looking for another land in the same location. The management expects the plant to be commissioned by December 2012. Our projections have factored in the delay in commissioning of this plant.

The company has completed the process of conversion of land in Gujarat (plywood business) from commercial use to industrial use. However, a final approval from the committee on land allocation is pending. The company expects to receive the same within a couple of months.

EARNINGS ESTIMATES REVISED DOWNWARDS

Particulars	Unit	FY12E			FY13E		
		Old	New	% change	Old	New	% change
Operating income	(Rs mn)	16,124	16,124	0.0%	26,226	26,226	0.0%
EBIT	(Rs mn)	1,948	1,948	0.0%	3,988	3,988	0.0%
EBIT margin	%	12.1	12.1	0 bps	15.2	15.2	0 bps
Forex gain / (loss)	Rs mn	0	-267	NM	0	0	NM
Reported PAT	Rs mn	1214	942	-22.5%	2304	2280	-1.0%
Adj. PAT	(Rs mn)	1,214	1,209	-0.5%	2,304	2,280	-1.0%
Adj. PAT margin	%	7.5	7.5	(4) bps	8.7	8.7	(9)bps
Adj. EPS	Rs	5.4	5.4	-0.5%	10.2	10.3	-1.0%

Source: CRISIL Research

Reasons for change in estimates

The standalone business reported EBIT margin of 10.3% in H1FY12. Since the company imports raw materials for its plywood business, it is expected to face margin pressure due to depreciation of the rupee. We expect EBIT margin for the standalone company to contract by 150-200 bps to 8% in H2FY12. Hence, we maintain our FY12 EBIT margin estimate of 9.4% for the standalone business.

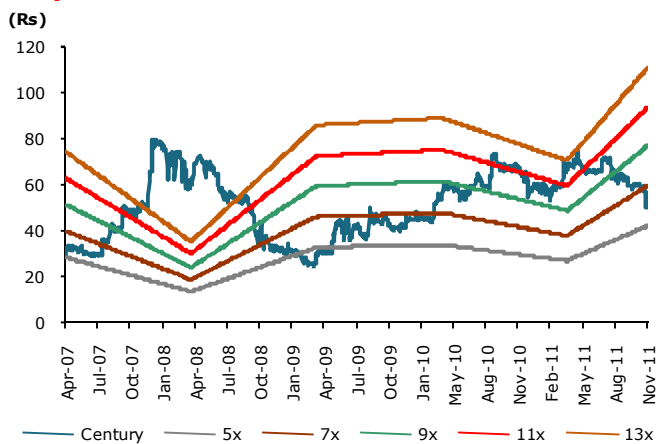
Century has booked a forex loss of Rs 267 during the quarter, of which Rs 185 mn is unrealised. As of end-September 2011 the company has exposure of US\$ 32.8 mn, Euro 10.5 mn, HK\$ 11 mn and Yen 8.6 mn. The exposure is primarily related to sundry creditors and buyer's credit for import of goods. We have assumed that the company will realise forex loss of Rs 267 mn in FY12. Reported PAT estimate for FY12 has been revised downwards by 22.5%. Sustained weakness in rupee may lead to higher forex losses than our estimates. The marginal change in adjusted PAT is on account of change in cash position leading to change in other income.

VALUATION

Based on the sum-of-the-parts method, we maintain our fair value estimate at Rs 73 per share. At this value, the implied P/E multiples are 13.4x FY12E and 7.1x FY13E earnings. The stock is currently trading at Rs 50, which indicates that the current market price has strong upside.

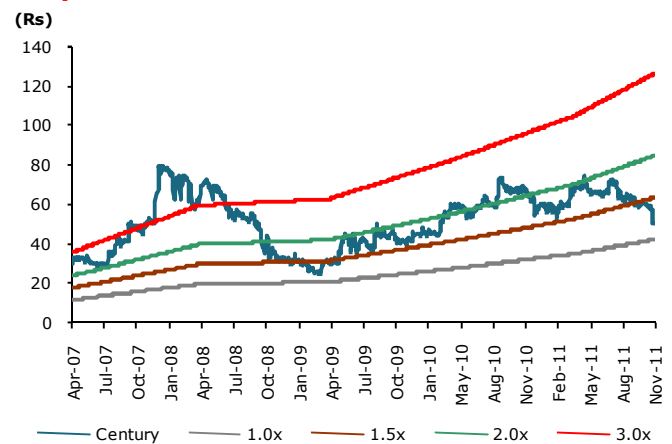
We have valued the 70% stake in Cement Manufacturing Company Ltd on a EV/tonne basis of US\$125 (Rs 5,625) based on FY13 estimates. We maintain our fair value estimate of Rs 30. For other businesses (Century Plyboards standalone), we have used the discounted cash flow method and arrived at a fair value of Rs 43 per share.

One-year forward P/E band



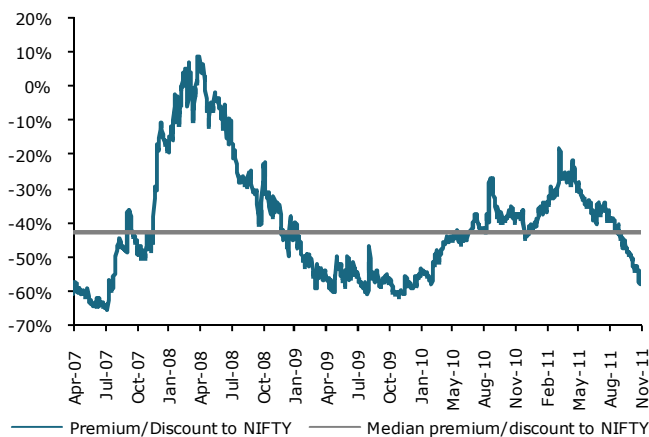
Source: NSE, CRISIL Research

One-year forward P/B band



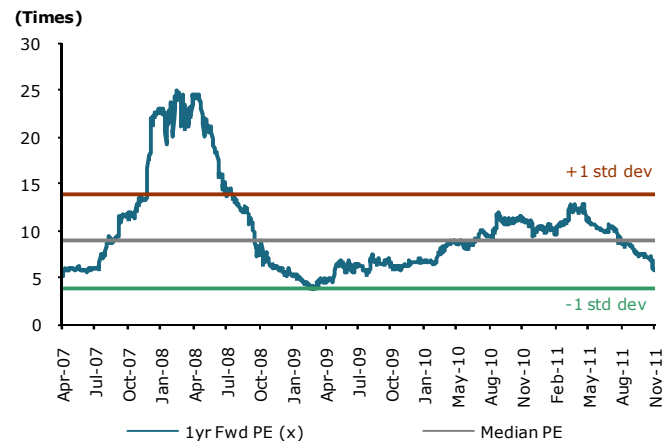
Source: NSE, CRISIL Research

P/E – premium/discount to NIFTY



Source: NSE, CRISIL Research

P/E movement



Source: NSE, CRISIL Research

CRISIL IER reports released on Century Plyboards (India) Ltd

Date	Nature of report	Fundamental grade	Fair value	Valuation grade	CMP (on the date of report)
22-Dec-10	Initiating coverage*	3/5	Rs 73	4/5	Rs 59
07-Mar-11	Q3FY11 result update	3/5	Rs 73	4/5	Rs 59
15-Jun -11	Q4FY11 result update	3/5	Rs 73	4/5	Rs 66
19-Sep-11	Q1FY12 result update	3/5	Rs 73	4/5	Rs 64
28-Nov-11	Q2FY12 result update	3/5	Rs 73	5/5	Rs 50

* For detailed initiating coverage report please visit: www.ier.co.in

CRISIL Independent Equity Research reports are also available on Bloomberg (CRI <go>) and Thomson Reuters.

FINANCIALS

Income statement

(Rs mn)	FY09	FY10	FY11	FY12E	FY13E
Operating income	10,925	12,159	14,316	16,124	26,226
EBITDA	2,010	2,532	2,576	2,586	5,341
EBITDA margin	18.4%	20.8%	18.0%	16.0%	20.4%
Depreciation	416	499	548	638	1,352
EBIT	1,594	2,033	2,027	1,948	3,988
Interest	715	(6)	233	298	596
Operating PBT	878	2,039	1,794	1,651	3,392
Other income	7	10	43	31	48
Exceptional inc/(exp)	44	(3)	(7)	(267)	-
PBT	929	2,046	1,830	1,415	3,440
Tax provision	(5)	214	(59)	229	474
Minority interest	288.3	370.0	370.0	244.3	685.3
PAT (Reported)	646	1,462	1,518	942	2,280
Less: Exceptionals	44	(3)	(7)	(267)	-
Adjusted PAT	601	1,464	1,526	1,209	2,280

Ratios

	FY09	FY10	FY11	FY12E	FY13E
Growth					
Operating income (%)	25.9	11.3	17.7	12.6	62.7
EBITDA (%)	(7.2)	26.0	1.7	0.4	106.5
Adj PAT (%)	(46.6)	143.4	4.2	(20.8)	88.7
Adj EPS (%)	(52.5)	143.4	3.7	(20.8)	88.7
Profitability					
EBITDA margin (%)	18.4	20.8	18.0	16.0	20.4
Adj PAT Margin (%)	5.5	12.0	10.7	7.5	8.7
RoE (%)	14.1	27.3	21.9	14.5	22.6
RoCE (%)	20.7	21.7	17.1	12.5	17.1
RoIC (%)	22.1	20.6	19.2	11.9	16.4
Valuations					
Price-earnings (x)	18.5	7.6	7.3	9.2	4.9
Price-book (x)	2.4	1.8	1.4	1.3	1.0
EV/EBITDA (x)	7.8	6.3	7.0	8.2	5.5
EV/Sales (x)	1.5	1.4	1.3	1.4	1.2
Dividend payout ratio (%)	12.6	18.5	17.7	16.7	17.3
Dividend yield (%)	0.7	2.4	2.4	1.4	3.5
B/S ratios					
Inventory days	77	90	91	103	102
Creditors days	41	58	64	66	71
Debtor days	34	36	34	57	60
Working capital days	129	130	124	118	102
Gross asset turnover (x)	2.6	2.4	2.4	1.8	1.6
Net asset turnover (x)	3.9	3.7	3.7	2.7	2.1
Sales/operating assets (x)	3.2	2.7	2.2	1.7	1.8
Current ratio (x)	5.1	4.1	3.4	3.1	3.5
Debt-equity (x)	0.9	0.7	0.7	1.0	1.5
Net debt/equity (x)	0.8	0.6	0.7	0.9	1.4
Interest coverage	5.5	8.2	8.7	6.5	6.7

Per share

	FY09	FY10	FY11	FY12E	FY13E
Adj EPS (Rs)	2.7	6.6	6.8	5.4	10.2
CEPS	4.6	8.8	9.3	8.3	16.3
Book value	20.8	27.5	35.1	39.6	50.8
Dividend (Rs)	0.4	1.2	1.2	0.7	1.8
Actual o/s shares (mn)	222.2	222.2	223.2	223.2	223.2

Balance Sheet

(Rs mn)	FY09	FY10	FY11	FY12E	FY13E
Liabilities					
Equity share capital	222	222	222	222	222
Reserves	3,420	4,639	6,009	6,767	8,584
Minorities	973	1,240	1,610	1,854	2,539
Net worth	3,642	4,860	6,230	6,988	8,806
Convertible debt	-	-	-	-	-
Other debt	3,968	4,075	5,674	8,857	17,507
Total debt	3,968	4,075	5,674	8,857	17,507
Deferred tax liability (net)	2	14	7	7	7
Total liabilities	8,585	10,189	13,521	17,706	28,859
Assets					
Net fixed assets	3,011	3,484	4,255	7,691	17,515
Capital WIP	976	1,677	3,546	3,991	64
Total fixed assets	3,987	5,162	7,801	11,681	17,579
Investments	23	40	115	115	115
Current assets					
Inventory	1,699	2,105	2,517	2,959	4,295
Sundry debtors	1,095	1,286	1,522	2,791	4,792
Loans and advances	2,482	2,719	3,550	2,268	4,881
Cash & bank balance	390	495	368	670	1,687
Marketable securities	-	-	-	-	-
Total current assets	5,666	6,605	7,957	8,689	15,655
Total current liabilities	1,105	1,629	2,360	2,785	4,496
Net current assets	4,561	4,976	5,597	5,904	11,159
Intangibles/Misc. expenditure	14	11	7	5	5
Total assets	8,585	10,189	13,521	17,706	28,859

Cash flow

(Rs mn)	FY09	FY10	FY11	FY12E	FY13E
Pre-tax profit	885	2,049	1,837	1,682	3,440
Total tax paid	(35)	(203)	51	(229)	(474)
Depreciation	416	499	548	638	1,352
Working capital changes	(610)	(310)	(749)	(5)	(4,239)
Net cash from operations	657	2,035	1,688	2,086	79
Cash from investments					
Capital expenditure	(1,519)	(1,670)	(3,184)	(4,516)	(7,250)
Investments and others	178	(18)	(75)	-	-
Net cash from investments	(1,341)	(1,688)	(3,259)	(4,516)	(7,250)
Cash from financing					
Equity raised/(repaid)	25	-	-	-	-
Debt raised/(repaid)	1,067	107	1,599	3,183	8,650
Dividend (incl. tax)	(81)	(270)	(269)	(184)	(463)
Others (incl. extraordinary)	(110)	(79)	113	(267)	-
Net cash from financing	901	(242)	1,443	2,732	8,187
Change in cash position	216	105	(127)	302	1,016
Closing cash	390	495	368	670	1,687

Quarterly financials

(Rs mn)	Q2FY11	Q3FY11	Q4FY11	Q1FY12	Q2FY12
Operating income	3,234	3,659	4,315	4,167	3,924
Change (q-o-q)	3.5%	13.2%	17.9%	-3.4%	-5.8%
EBITDA	707	533	531	752	605
Change (q-o-q)	-3.0%	-24.6%	-0.4%	41.6%	-19.5%
EBITDA margin	21.9%	14.6%	12.3%	18.0%	15.4%
PAT	528	340	515	537	166
Adj PAT	420	268	445	436	409
Change (q-o-q)	1.8%	-36.2%	66.3%	-2.1%	-6.3%
PAT margin	13.0%	7.3%	10.3%	10.5%	10.4%
EPS	1.9	1.2	2.0	2.0	1.8

Note: All ratios are computed on Adj PAT

Source: Company, CRISIL Research estimate

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