

Stock Update

Business headwinds yet to get resolved; maintain Hold

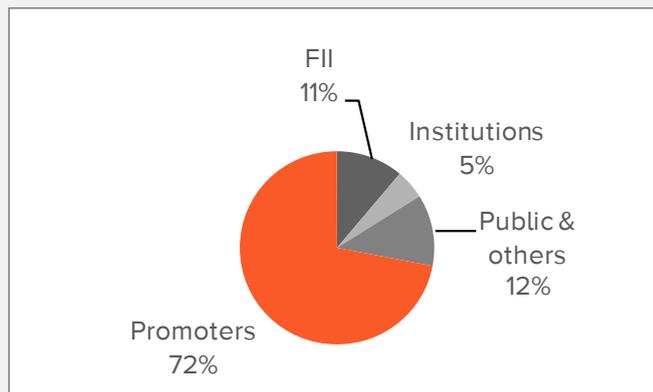
Century Plyboards (India)

Reco: Hold | CMP: Rs270

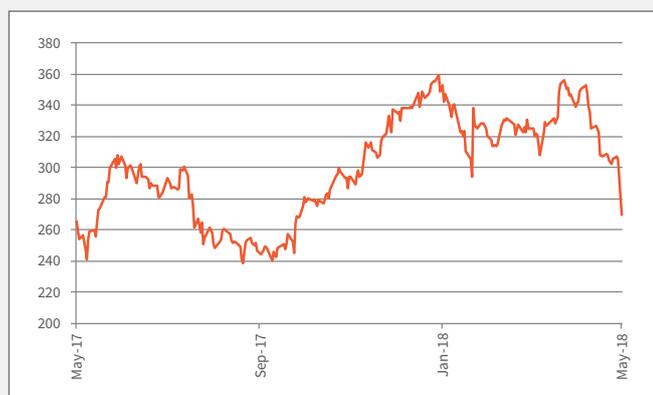
Company details

Price target:	Rs290
Market cap:	Rs5,993 cr
52-week high/low:	Rs364/235
NSE volume: (No of shares)	2.5 lakh
BSE code:	532548
NSE code:	CENTURYPLY
Sharekhan code:	CENTURYPLY
Free float: (No of shares)	6.2 cr

Shareholding pattern



Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	-17.3	-12.5	-5.2	5.6
Relative to Sensex	-19.8	-16.0	-11.5	-9.9

Key points

- Pressure on operating margins along with commissioning of new unit leads to a decline in earnings:** The net sales of Century Plyboards (India) Ltd (Century) grew 11.4% y-o-y to Rs. 544 crore in Q4FY2018. Revenue growth was led by the contribution of its MDF segment (that began commercial operations in October 2017) of Rs 65 crores. Plywood division posted 13.7% y-o-y decline in revenues, while the laminates division grew 8.6% y-o-y. The company's operating margin (OPM) contracted by 89 bps (adjusting for the forex loss/gain) owing to lower realization in plywood, higher raw material price in laminates and lower margins in MDF segment during the quarter. Further, adjusted net profit declined by 9.0% y-o-y owing to: 1) a higher depreciation charge (up 78% y-o-y due to commissioning of MDF plant); and 2) a higher interest expense (up 103% y-o-y).
- Capacity ramp-up and higher utilization to aid FY2019 revenue growth:** The company aims to achieve incremental Rs. 150 crore and Rs. 75 crore revenue from capacity additions in Plywood and laminate division during FY2019. While MDF and particle board together is expected to add another Rs. 250 crore with higher utilization of MDF unit (currently operating at 60%+ utilization). Overall, it seeks to achieve Rs. 2500 crore revenue for FY2019. We expect Century to achieve 15% CAGR growth in revenues over FY2018-2020 factoring intense competitive pressures in Plywood and MDF capping the realizations.
- Outlook – Industry to undergo gradual correction during FY2019 before achieving stability:** Century is expected to face pressure on its operating margins in Q1FY2019 due to an increase in raw material prices (raw material scarcity and higher crude prices) and preference for lower grade materials. Further, Century will have to push MDF initially while the industry is also undergoing expansion which is likely to lead to lower realization. The implementation of e-way bill and its likely positive impact on the organized sector is yet to be witnessed. The management believes it will take a year, as the above issues gradually get resolved.
- Valuation – Maintain hold with revised PT of Rs. 290:** We have lowered our earnings estimate for FY2019-2020E primarily lowering operating margins due to an increase in raw material prices, lower realization and lower operating margins in MDF. Consequently, we have revised our price target downwards to Rs290. We maintain Hold rating on the stock.

Results (standalone)					Rs cr	
Particulars	Q4FY18	Q4FY17	y-o-y (%)	Q3FY18	QoQ (%)	
Income from operations	544.1	488.5	11.4	509.9	6.7	
COGS	273.8	253.1	8.2	260.7	5.0	
Gross profit	270.3	235.5	14.8	249.2	8.5	
Gross margin (%)	49.7	48.2	148	48.9	80.2	
Employee cost	75.2	66.7	12.7	72.3	4.0	
Other expenditure	106.6	85.0	25.5	96.0	11.1	
Total expenditure	455.6	404.8	12.6	429.0	6.2	
Operating profit	88.5	83.8	5.6	80.9	9.3	
OPM (%)	16.3	17.1	(89)	15.9	38.8	
Finance cost	9.6	4.7	103.2	8.1	18.3	
Depreciation	27.7	15.6	78.2	26.3	5.4	
Other income	1.3	0.1	774.4	4.2	(69.4)	
Forex loss/(gain)	5.3	(10.8)		(5.8)		
PBT	47.2	74.5	-36.7	56.6	(16.6)	
Tax	11.4	18.6	-38.4	9.9	15.4	
Reported PAT	35.7	55.9	-36.1	46.7	(23.5)	
Adjusted PAT	41.0	45.1	-9.0	40.9	0.4	

Segmental performance					Rs cr	
Particulars	Q4FY18	Q4FY17	y-o-y (%)	Q3FY18	QoQ (%)	
Plyboards						
Revenue	323.0	374.3	(13.7)	322.7	0.1	
EBIT	48.0	74.0	(35.2)	42.2	13.9	
EBIT margin (%)	14.9	19.8	(492)	13.1	(180)	
Capital employed	442.7	539.7	(18.0)	539.9	(18.0)	
RoCE (%)	43.4	54.9	(1,150)	31.2	1,214	
Laminates						
Revenue	119.4	109.9	8.6	99.9	19.5	
EBIT	11.5	11.0	3.8	12.2	(6.2)	
EBIT margin (%)	9.6	10.0	(44)	12.2	263	
Capital employed	201.3	160.3	25.6	193.2	4.2	
RoCE (%)	22.8	27.5	(476)	25.3	(252)	
CFS						
Revenue	23.3	23.5	(0.9)	27.6	(15.6)	
EBIT	6.2	6.0	3.6	8.5	(27.1)	
EBIT margin (%)	26.7	25.5	116	30.9	422	
Capital employed	40.0	49.5	(19.2)	42.8	(6.7)	
RoCE (%)	62.1	48.4	1,367	79.5	(1,745)	
MDF Boards						
Revenue	64.8	0.6	10,900.6	47.6	36.1	
EBIT	(2.4)	(0.6)	-	0.1	-	
EBIT margin (%)	(3.7)	(108.1)	-	0.2	-	
Capital employed	363.5	264.5	37.4	330.7	9.9	
RoCE (%)	(2.7)	(1.0)		0.1		
Particle Boards						
Revenue	10.9	11.7	(7.2)	10.0	8.8	
EBIT	(1.2)	(3.3)	-	0.8	-	
EBIT margin (%)	(11.4)	(28.3)	-	8.3	-	
Capital employed	50.2	56.7	(11.5)	50.2	0.0	
RoCE (%)	(9.9)	(23.4)		6.6		

Valuation (consolidated)

Particulars	Rs cr			
	FY17	FY18	FY19E	FY20E
Net sales	1,819	2,024	2,409	2,690
Growth y-o-y (%)	11	11	19	12
Adjusted EBITDA	315	341	431	495
EBITDA margin (%)	17.3	16.8	17.9	18.4
Adjusted PAT	178	173	219	258
Growth y-o-y (%)	(1)	(3)	27	18
Adjusted EPS (Rs)	8.0	7.8	9.8	11.6
P/E (x)	31.5	35.6	27.4	23.2
RoCE (%)	19.7%	15.0%	17.0%	17.6%
RoE (%)	31.1%	21.9%	23.4%	22.5%

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Compliance Officer: Mr. Joby John Meledan; Tel: 022-61150000; For any queries or grievances kindly email

igc@sharekhan.com or contact: myaccount@sharekhan.com

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