ANAND RATHI

India I Equities

Plywood
Company Update

Change in Estimates ☑ Target ☑ Reco ☐

30 July 2018

Century Plyboards

Rating: **Buy**
Target Price: ₹301
Share Price: ₹249

Lower depreciation boosted profits in Q1 FY19; maintaining a Buy

Century reported in-line operating performance in Q1 FY19 while PAT was boosted 33% y/y on the lower depreciation (policy changed to SLM vs. WDV earlier). The higher plywood margin (due to lower core veneer costs) more than offset the impact of lower margins in laminate (rising input costs) and MDF (price cut). We expect CAGRs over FY18-20 of 16%, 21% and 31% in respectively revenue, EBITDA and PAT. While short-term challenges are visible, we are optimistic about long-term structural growth. We maintain our Buy rating on the stock.

Operating performance in line; lower depreciation boosted profits. Revenue grew 22.5% y/y, driven by laminates (up 15.4% y/y) and additional revenue from MDF (₹699m). Lower realisations (on an inferior mix) impacted plywood revenue (down 7.3% y/y). Margins in plywood expanded due to lower costs of core veneer and offset lower margins in laminates (due to rising input costs) and MDF (price cut to combat competition). Thus, the blended EBITDA margin expanded 218bps y/y, 83bps q/q, to 16.1%.

MDF, laminate, other businesses to drive short-term growth. MDF plant utilisation was ~66%, expected to touch 80% by end-FY19. Though manifold growth is expected in MDF, domestic manufacturing over-capacity has led to a short-term squeeze on realisations/margins. Century will sacrifice margins for a while to secure volume growth and market share. It increased laminate capacity by 25% in Jan'18 and is further increasing it by 25% in Q1 FY19.

Outlook. Major capex is nearly complete and growth would depend on demand revival across segments. Benefits of the e-way bill implementation are yet to be seen. While short-term challenges such as rising input costs and keener competition (mainly in plywood and MDF) can be seen, the structural long-term growth outlook is intact.

Valuation. We expect PAT to register a 31% CAGR over FY18-20. We retain our Buy rating, with a revised target of ₹301 (25x FY20e EPS). **Risks:** Rising input costs, currency fluctuations

Key financials (YE Mar)	FY16	FY17	FY18	FY19e	FY20e
Sales (₹ m)	16,357	17,825	19,672	22,883	26,431
Net profit (₹ m)	1,698	1,856	1,567	2,070	2,682
EPS (₹)	7.6	8.3	7.0	9.3	12.1
PE (x)	33.9	31.1	36.8	27.8	21.5
EV / EBITDA (x)	21.7	21.5	20.4	16.7	13.4
PBV (x)	11.0	8.1	6.9	5.8	4.8
RoE (%)	32.3	26.2	18.7	20.9	22.5
RoCE (%)	24.8	20.2	14.8	18.2	20.1
Dividend yield (%)	0.4	0.4	0.6	0.6	1.0
Net debt / equity (x)	0.7	0.7	0.6	0.5	0.2

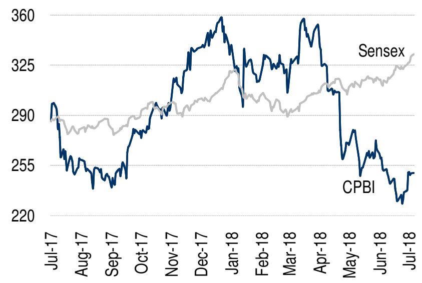
Source: Company, Anand Rathi Research

Key data	CPBI IN / CNTP.BO
52-week high / low	₹364 / 224
Sensex / Nifty	37494 / 11320
3-m average volume	$1.1m
Market cap	₹56bn / $808.9m
Shares outstanding	222m

Shareholding patter (%)	Jun'18	Mar'18	Dec'17
Promoters	72.3	72.0	72.0
- of which, Pledged	-	-	-
Free float	27.7	28.0	28.0
- Foreign institutions	10.3	11.2	11.1
- Domestic institutions	5.4	4.9	4.7
- Public	12.1	11.9	12.2

Estimates revision (%)	FY19e	FY20e
Sales	-4.6	-5.4
EBITDA	-7.9	-5.5
PAT	-6.6	-1.3

Relative price performance



Source: Bloomberg

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Quick Glance – Financials and Valuations (standalone)

Fig 1 – Income statement (₹ m)

Year-end: Mar	FY16	FY17	FY18	FY19e	FY20e
Net revenues	16,357	17,825	19,672	22,883	26,431
Growth (%)	*4.5*	*9.0*	*10.4*	*16.3*	*15.5*
Direct costs	9,677	10,575	11,862	13,714	15,788
SG&A	3,845	4,329	4,749	5,437	6,186
EBITDA	**2,835**	**2,920**	**3,061**	**3,731**	**4,458**
EBITDA margins (%)	*17.3*	*16.4*	*15.6*	*16.3*	*16.9*
- Depreciation	437	524	810	445	546
Other income	65	227	67	96	114
Interest expenses	465	286	327	508	352
PBT	1,998	2,337	1,991	2,874	3,674
Effective tax rate (%)	*15.0*	*20.6*	*21.3*	*28.0*	*27.0*
+ Associates / (minorities)	-	-	-	-	-
Net income	1,698	1,856	1,567	2,070	2,682
Adjusted income	1,698	1,856	1,567	2,070	2,682
WANS	223	223	223	223	223
FDEPS (₹ / sh)	7.6	8.3	7.0	9.3	12.1
FDEPS growth (%)	*12.6*	*9.3*	*(15.5)*	*32.1*	*29.5*
Gross margins (%)	*48.5*	*48.5*	*48.0*	*48.3*	*48.5*

Fig 2 – Balance sheet (₹ m)

Year-end: Mar	FY16	FY17	FY18	FY19e	FY20e
Share capital	223	223	223	223	223
Net worth	5,251	7,086	8,379	9,891	11,922
Total debt	4,049	5,573	5,029	4,909	3,889
Minority interest	-	-	-	-	-
DTL / (assets)	(655)	(689)	(690)	(690)	(690)
Capital employed	**8,644**	**11,971**	**12,718**	**14,110**	**15,121**
Net tangible assets	1,952	2,480	5,412	7,067	7,021
Net intangible assets	12	7	-	-	-
Goodwill	-	-	-	-	-
CWIP (tang. & intang.)	942	2,849	1,205	708	408
Investments (strategic)	497	960	960	960	960
Investments (financial)	0	0	-	-	-
Current assets (ex cash)	7,199	8,032	8,168	8,714	9,197
Cash	164	530	157	413	1,851
Current liabilities	2,120	2,888	3,184	3,752	4,316
Working capital	5,079	5,144	4,983	4,962	4,880
Capital deployed	**8,644**	**11,971**	**12,718**	**14,110**	**15,121**
Contingent liabilities	733	841	-	-	-

Fig 3 – Cash-flow statement (₹ m)

Year-end: Mar	FY16	FY17	FY18	FY19e	FY20e
PBT	1,998	2,337	1,991	2,874	3,674
+ Non-cash items	837	583	1,070	857	784
Oper. prof. before WC	2,835	2,920	3,061	3,731	4,458
- Incr. / (decr.) in WC	(273)	65	(161)	(22)	(81)
Others incl. taxes	300	481	424	803	992
Operating cash-flow	2,808	2,374	2,798	2,949	3,547
- Capex (tang. + intang.)	1,105	2,955	2,092	1,602	200
Free cash-flow	1,704	(581)	707	1,347	3,347
Acquisitions					
- Div.(incl. buyback & taxes)	267	267	417	417	651
+ Equity raised	-	-	-	-	-
+ Debt raised	(508)	1,524	(544)	(120)	(1,020)
- Fin investments	44	463	0	-	-
- Misc. (CFI + CFF)	889	(155)	119	555	238
Net cash-flow	(5)	366	(373)	256	1,439

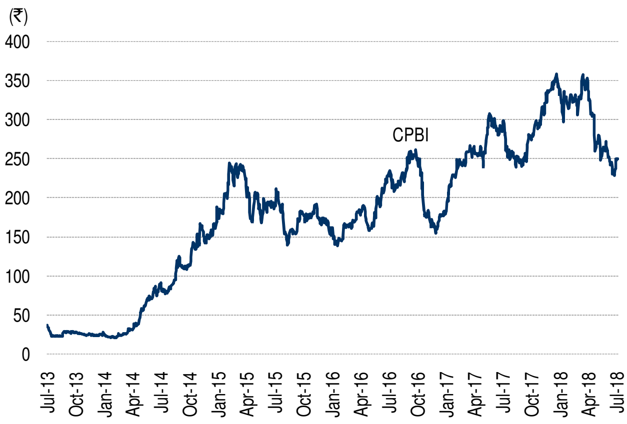
Source: Company, Anand Rathi Research

Fig 4 – Ratio analysis

Year-end: Mar	FY16	FY17	FY18	FY19e	FY20e
P/E (x)	33.9	31.1	36.8	27.8	21.5
EV / EBITDA (x)	21.7	21.5	20.4	16.7	13.4
EV / sales (x)	3.8	3.5	3.2	2.7	2.3
P/B (x)	11.0	8.1	6.9	5.8	4.8
RoE (%)	32.3	26.2	18.7	20.9	22.5
RoCE (%) - after tax	24.8	20.2	14.8	18.2	20.1
RoIC	25.3	20.9	15.2	18.6	21.8
DPS (₹ / sh)	1.0	1.0	1.6	1.6	2.5
Dividend yield (%)	0.4	0.4	0.6	0.6	1.0
Dividend payout (%) - incl. DDT	13.1	12.0	22.7	17.2	20.7
Net debt / equity (x)	0.7	0.7	0.6	0.5	0.2
Receivables (days)	64	69	58	58	56
Inventory (days)	61	54	63	58	58
Payables (days)	46	57	57	58	58
CFO : PAT %	165.4	127.9	178.5	142.5	132.3

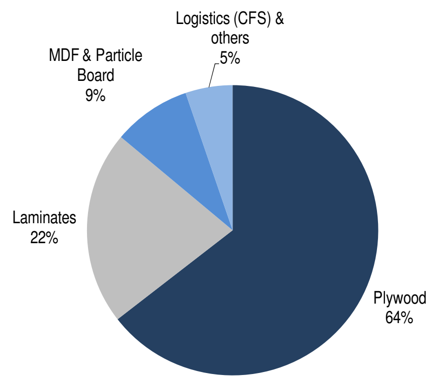
Source: Company, Anand Rathi Research

Fig 5 – Price movement



Source: Bloomberg

Fig 6 – FY18 revenue break-up (standalone)



Source: Company

Key Concall Highlights (Q1 FY19)

MDF

- Profitability in Q1 FY19 was impacted by lower realisation due to rising competition. Key manufacturers added capacities and reduced prices by up to 6% to sell more.
- At present, the company's focus is to gain market share rather than to increase profitability.
- Capacity utilization was 66% and should end-FY19 at 80%.
- The 30-35% gross margin is sustainable in this segment for the next 12-months, and then should rise.
- Century sells 70% volumes in north India and 10% each in the south, east and west India.
- It aims to sell all MDF in pre-lam form for better prices/margins.

Industry scenario

- Current domestic capacity is ~4,500 cb.metres/day (~1.5m cbm annually) running at ~70% peak capacity.
- The MDF market is growing fast. However, doubling of domestic capacities in the last six months has compelled key manufacturers to cut prices to see volumes.
- Competition is higher in the south than in the north due to capacity addition by Greenply (Jul'18) and Rushil (in 2019). The price difference between imported MDF and in the south has narrowed to 5-6% (considering the ~6% rupee depreciation).
- Anti-dumping duty continues.
- Its increasing acceptance has led to MDF now being widely available in retail shops.

Plywood

- Average realization was down due to more sales of low grade products. This was the case in Q4 FY18 as well.
- Core veneer prices have come down, benefitting the plywood segment.
- Supply of core veneer has increased as units have come up in North India, the hub of core veneer and quality products, available at reasonable prices.
- Myanmar and Laos are still faced with operational challenges. The company is looking at other sources such as the Solomon Islands and Gabon for okoume grade timber/face veneer, which is ~15% cheaper as well.
- The focus will continue on retail growth, but ad spend will be lower due to end-users' low involvement.

Laminates

- While domestic volumes saw strong growth, export volumes were subdued due to plant-related issues (which should normalize soon).
- The EBITDA margin was impacted (down 570bps) as key raw materials (paper, chemicals) were on a rising trend.

Other highlights

- Other businesses such as Deco Veneer, CFS and particle board did well.
- Particle board reported 13% y/y revenue growth, along with significant margin expansion.
- There was some re-classification of the pre-lam boards business between the laminate and particle board divisions.
- The logistics (CFS) business reported 27% y/y revenue growth, along with margin expansion.
- The company reduced its foreign currency borrowing (buyers' credit) and re-stated its hedges @ ₹68.58 to the dollar and @ ₹79.85 to the euro.

Outlook

- The benefits of the e-way bill have yet to be seen but things are moving in the right direction.
- The company maintains its 25% revenue growth for FY19 (~₹5bn addition) ~16% EBITDA margin and ~10% PAT margin. The revenue growth would be driven by
  - ₹2.5bn addition from MDF + particle board to ₹4bn;
  - ₹1.5bn addition in plywood (from the new Guwahati plant + optimising existing plants);
  - ₹750m in laminates from the capacity addition'
  - ₹100m from CFS and others.
- We see 25% revenue growth in FY19 as an aggressive target and estimate ~16% growth.
- Plywood will see ~9% volume growth in FY19. Price hikes are not easy.
- Depreciation will be lower, at ~₹450m in FY19, vs. ₹810m charged in FY18 due to a change in the policy to SLM, from the WDV method earlier. The policy was changed due to capex in capital-intensive projects.
- The effective tax rate will go up to ~28% as tax benefits are ending at one unit in Assam. The rate will go down as the contribution from the second unit increases.

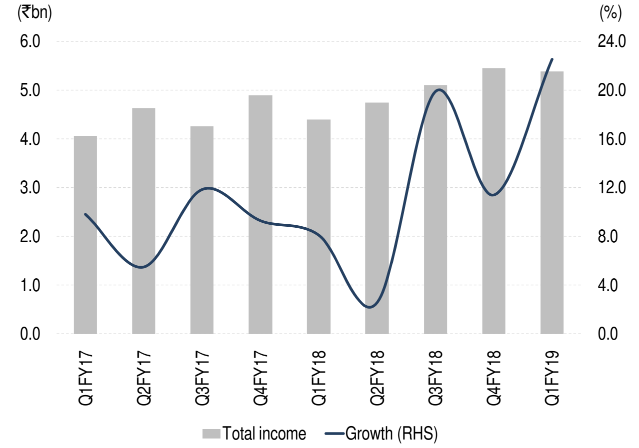
Financial highlights

Fig 7 – Financials (standalone)

(₹ m)	Q1 FY18	Q2 FY18	Q3 FY18	Q4 FY18	Q1 FY19	% Y/Y	% Q/Q	FY17	FY18	% Y/Y
Income	4,386	4,746	5,099	5,441	5,373	22.5	(1.3)	17,825	19,672	10.4
EBITDA	611	740	878	832	865	41.7	4.1	2,952	3,060	3.7
PBT	132	138	263	277	108	(17.9)	(60.9)	524	810	54.7
PAT	421	529	594	445	628	49.1	41.1	2,337	1,990	(14.8)
EPS (calculated)	341	401	467	357	454	33.0	27.0	1,856	1,566	(15.6)
As % of income						**bps YoY**	**bps QoQ**			**bps YoY**
Gross margin	46.7	46.4	48.9	49.7	48.7	207	(94)	48.5	48.0	(49)
Employee cost	15.7	14.2	14.2	13.8	14.7	(100)	89	14.4	14.4	3
Other expenses	17.0	16.5	17.5	20.6	17.9	88	(265)	17.5	18.0	48
EBITDA margin	**13.9**	**15.6**	**17.2**	**15.3**	**16.1**	**218**	**83**	**16.6**	**15.6**	**(101)**
PBT margin	9.6	11.2	11.7	8.2	11.7	209	351	13.1	10.1	(299)
Effective tax rate	19.0	24.2	21.5	19.8	27.8	878	802	20.6	21.3	70
PAT margin	7.8	8.5	9.2	6.6	8.4	67	188	10.4	8.0	(245)
Segment-wise results										
Revenue (₹ m)						**% Y/Y**	**% Q/Q**			**% Y/Y**
Plywood and allied products	3,427	3,059	3,227	3,230	3,179	(7.3)	(1.6)	13,557	12,944	(4.5)
Laminate and allied products	793	1,246	999	1,056	915	15.4	(13.3)	4,106	4,094	(0.3)
Medium-density fibre board	6	1	476	648	699	-	7.9	36	1,131	3,079.2
Particle board	181	145	100	190	182	0.6	(4.0)	252	616	144.4
CFS services	239	250	276	233	304	27.3	30.7	883	997	12.8
Others	94	110	75	98	99	5.2	1.5	436	378	(13.4)
EBITDA margins (%)						**bps Y/Y**	**bps Q/Q**			**bps Y/Y**
Plywood and allied products	12.9	14.0	14.1	16.1	17.3	441	119	16.8	14.3	(250)
Laminate and allied products	15.1	18.4	14.8	12.6	9.4	(566)	(315)	15.8	15.4	(42)
Medium-density fibre board			20.3	15.6	12.9		(269)		17.9	
Particle board	4.7	31.7	24.0	18.1	26.6	2,189	853	19.1	18.7	(44)
CFS services	38.4	37.2	40.1	37.7	40.2	180	247	39.1	38.4	(68)

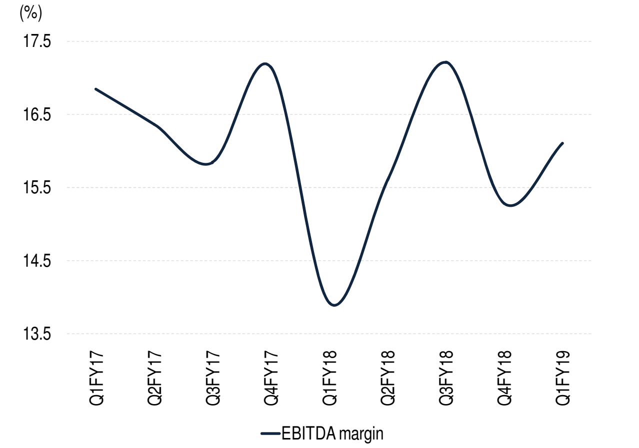
Source: Company, Anand Rathi Research

Fig 8 – Income – growth trend



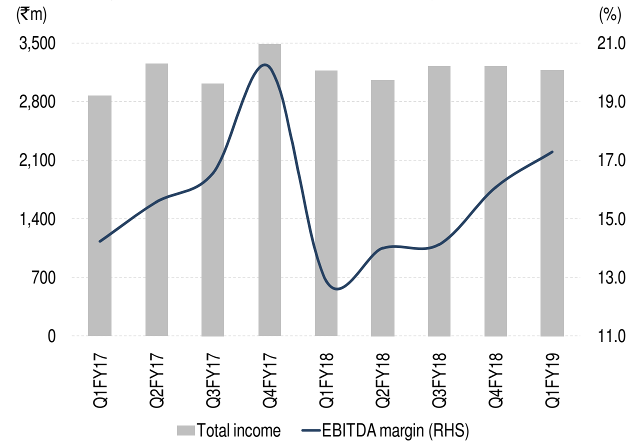
Source: Company, Anand Rathi Research

Fig 9 – EBITDA margin trend



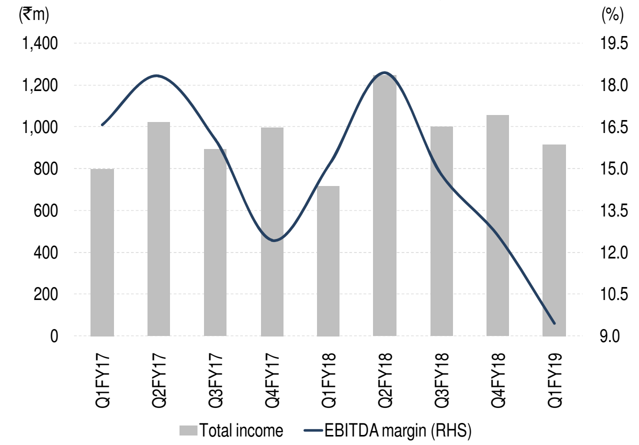
Source: Company, Anand Rathi Research

Fig 10 – Plywood – revenue, EBITDA margin trend



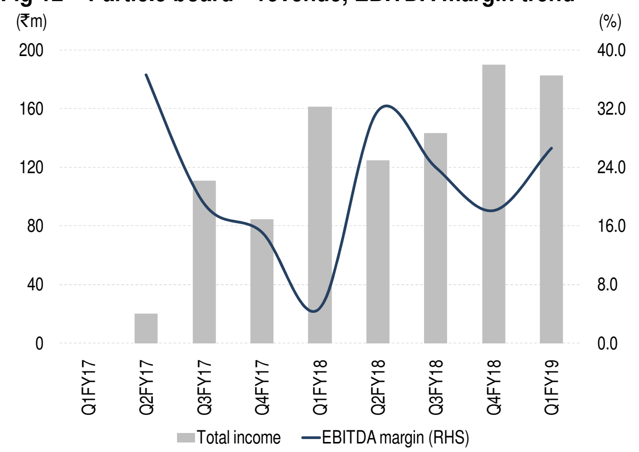
Source: Company, Anand Rathi Research

Fig 11 – Laminate – revenue, EBITDA margin trend



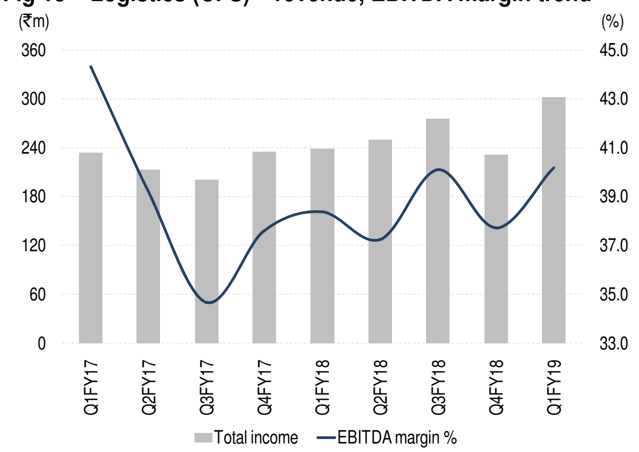
Source: Company, Anand Rathi Research

Fig 12 – Particle board – revenue, EBITDA margin trend



Source: Company, Anand Rathi Research

Fig 13 – Logistics (CFS) – revenue, EBITDA margin trend



Source: Company, Anand Rathi Research

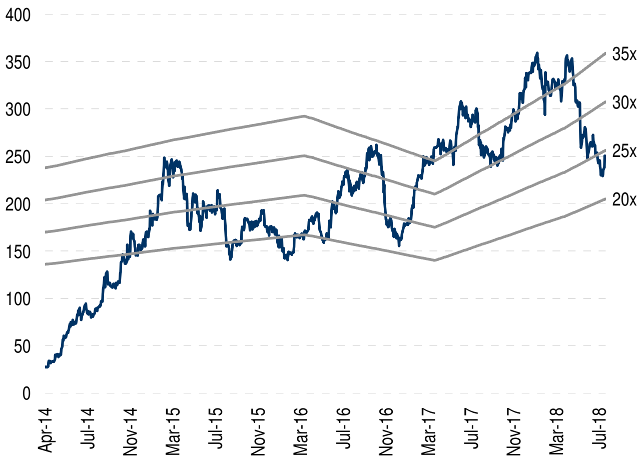
Valuation

We believe in the long-term structural growth story of the company, supported by macro factors (rising disposable incomes, the government's focus on Housing-for-All, etc). With a strong brand image (especially its mid-range *Sainik*), product launches under the *Century Bond* brand (in between the premium *Club* and mid-segment *Sainik*) and planned capex, Century is set to gain from demand revival across products.

The lower GST and the successful implementation of the e-way bill would support demand shifting to the regulated sector. On the other hand, huge capacity additions of MDF by domestic manufacturers are posing risks to margins. While some short-term challenges persist, the structural long-term growth outlook is intact.

The stock trades at ~21x FY20e EPS on revised estimates. We maintain Buy rating on it, with a revised target price of ₹301 (25x FY20e EPS).

Fig 14 – PE band



Source: Bloomberg, Anand Rathi Research

Fig 15 – Peer comparison

	M-cap	CAGR (FY18-20e) %		EBITDA margin %		RoE %		P/E (x)	
	(₹ bn)	Revenue	PAT	FY19	FY20	FY19	FY20	FY19	FY20
Century Ply (AR est)	56.0	15.9	30.8	16.3	16.9	20.9	22.5	26.9	20.7
Century Ply	56.0	16.2	29.3	15.9	16.8	22.6	23.2	26.6	21.4
Greenply	26.7	15.2	16.4	14.8	15.2	12.8	14.5	21.0	17.8
Greenlam	22.1	19.4	37.2	13.5	14.5	20.0	21.6	29.4	22.3

Source: Bloomberg, Anand Rathi Research

Risks

- **Unfavourable price movement, availability of key raw materials.** Sourcing of key raw materials (face veneers, etc.) at reasonable prices is the key challenge due to environmental concerns. Also, a few of its raw materials such as phenol follows crude-oil prices, which are now in an uptrend. These things pose risks to margins.
- **Currency volatility.** Since the company imports the most of its raw material, currency fluctuations could cut into its margins.
- **Higher interest rate.** Exposure to interest-rate fluctuations in its foreign-currency borrowing could hurt it.

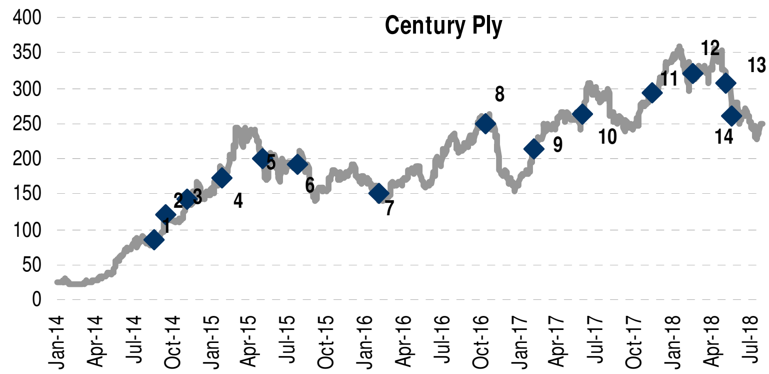
Appendix

Analyst Certification

The views expressed in this Research Report accurately reflect the personal views of the analyst(s) about the subject securities or issuers and no part of the compensation of the research analyst(s) was, is, or will be directly or indirectly related to the specific recommendations or views expressed by the research analyst(s) in this report. The research analysts are bound by stringent internal regulations and also legal and statutory requirements of the Securities and Exchange Board of India (hereinafter "SEBI") and the analysts' compensation are completely delinked from all the other companies and/or entities of Anand Rathi, and have no bearing whatsoever on any recommendation that they have given in the Research Report.

Important Disclosures on subject companies

Rating and Target Price History (as of 30 July 2018)



	Date	Rating	TP (₹)	Share Price (₹)
1	19-Aug-14	Buy	115	82
2	15-Sep-14	Buy	131	111
3	05-Nov-14	Buy	184	139
4	27-Jan-15	Buy	226	177
5	05-May-15	Buy	257	208
6	27-Jul-15	Buy	240	197
7	01-Feb-16	Buy	202	151
8	10-Aug-16	Buy	250	211
9	03-Feb-17	Buy	279	216
10	31-May-17	Buy	318	254
11	13-Nov-17	Hold	320	297
12	16-Feb-18	Hold	345	327
13	07-May-18	Buy	373	307
14	19-May-18	Buy	330	259

Anand Rathi Ratings Definitions

Analysts' ratings and the corresponding expected returns take into account our definitions of Large Caps (>US$1bn) and Mid/Small Caps (<US$1bn) as described in the Ratings Table below:

Ratings Guide (12 months)	Buy	Hold	Sell
Large Caps (>US$1bn)	>15%	5-15%	<5%
Mid/Small Caps (<US$1bn)	>25%	5-25%	<5%

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