

# Century Plyboards | HOLD

Another disappointing quarter-this time it's MDF and laminates



Century Plyboards (Century) reported another disappointing quarter with EBITDA of INR753mn, 13% below JMFe (+6% YoY on low base). The company reported 1% increase in ply volume QoQ (+13% YoY on low base; +5% 2yr CAGR) while EBITDA margins contracted 220bps (15.8% vs 15% JMFe), despite 240ps expansion in gross margins. MDF too reported a weak performance with contraction in volume (-4% QoQ), realisation (-4%) and hence EBITDA margins (-1040bps to 6.1%), well below management guidance and our estimates. We have a HOLD rating on the stock.

- **2QFY19 Summary:** Total Revenue was up 6% QoQ (19% up YoY; 2% below JMFe; as the base was low in 2QFY18 due to ply business) while EBITDA declined by 14% QoQ (6% up YoY; 13% below JMFe) on back of poor performance in MDF and Laminate segment. EBITDA margin contracted to 13.3% in 2QFY19 (300bps down QoQ, 130bps below JMFe). Adj. net income fell by 16% QoQ (3% down YoY; 9% below JMFe). Company has changed its depreciation policy from Written Down Value (WDV) to Straight Line Method (SLM) from 1<sup>st</sup> April, 2018.
- **Plywood performance just steady:** Plywood Revenue was up by 2% QoQ (5% up YoY; 2% below JMFe) while, EBITDA declined by 11% QoQ (24% up YoY; 3% above JMFe; low base in 2QFY18).
  - Core Plywood volumes grew by 1% QoQ (13% up YoY) while, Commercial veneer volumes were flat QoQ (42% down YoY)
  - Overall realisations grew by 1% QoQ (1% up YoY) while, commercial veneer realisations fell by 14% QoQ (18% down YoY)
  - While gross margins expanded to 33.5% (250bps up QoQ) but EBITDA margin contracted to 15.8% (220bps down QoQ)
- **MDF segment sees further weakness:** MDF revenue declined by 12% QoQ (17% below JMFe) and EBITDA fell by 67% QoQ (65% below JMFe) on back of poor volumes and realisation. Capacity utilisation was at 55% in 2QFY19 (60% in 1QFY19), as against guidance between 60-65%.
  - MDF volumes declined by 9% QoQ (16% below JMFe) along with drop in realisations of 4% QoQ
  - Gross margin contracted to 25.7% (340bps down QoQ) and EBITDA margin contracted to 6.1% (1,035bps down QoQ)
- **Laminates volume springs a negative surprise:** Laminate Revenue was up by 21% QoQ (11% down YoY; 20% below JMFe) and EBITDA grew by 11% QoQ (63% down YoY; 44% below JMFe) mainly due to poor volume growth.
  - Core laminate volumes grew by 13% QoQ (4% down YoY; 16% below JMFe) while realisations grew by 7% QoQ (4% YoY)
  - Gross margins marginally expanded to 25.5% (25bps up QoQ) while EBITDA margins contracted to 7.7% (70bps down QoQ)
- **Working capital steady:** Net working capital days marginally increased to 72days in 2QFY19 (69days in 1QFY19; creditor days fell from 42days in 1QFY19 to 39days in 2QFY19). Net debt reduced to INR 4.7bn in 2QFY19 (INR 4.9bn in Mar'18). Company has guided for capital expenditure of INR 1.5bn in FY19 (INR 0.8bn spent in 1HFY19) and INR 0.9bn in FY20.
- The company is hosting a conference call tomorrow, Tuesday 6<sup>th</sup> Nov at 2.30PM IST. Dial in details: (India- 91 22 6280 1148; USA- 1866 746 2133; UK- 0808 101 1573; Singapore- 800 101 2045 and Hong Kong- 800 964 448). At CMP of INR 174, the stock trades at 17.1 x FY20E EPS. We have a HOLD rating.

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## Exhibit 1. Quarterly Financial Summary (Standalone)

INR mn	2Q18	2Q19	YoY	1Q19	QoQ	2Q19E	Var	1HFY18	1HFY19	YoY
<b>Net Sales</b>	<b>4,746</b>	<b>5,644</b>	<b>19%</b>	<b>5,343</b>	<b>6%</b>	<b>5,869</b>	<b>-4%</b>	<b>9,132</b>	<b>10,987</b>	<b>20%</b>
MDF		612	NM	698	-12%	734	-17%	8	1,310	NM
Ex-MDF	4,746	5,033	6%	4,644	8%	5,136	-2%	9,124	9,677	6%
Raw Material Cost	2,545	2,945	16%	2,754	7%	3,111	-5%	4,884	5,699	17%
Gross Profit	2,201	2,700	23%	2,589	4%	2,759	-2%	4,248	5,288	24%
Gross Margin	46.4%	47.8%	150 bps	48.5%	-60 bps	47.0%	80 bps	46.5%	48.1%	160 bps
Employee cost	676	840	24%	790	6%	777	8%	1,365	1,630	19%
% of sales	14.2%	14.9%	60 bps	14.8%	10 bps	13.2%	160 bps	14.9%	14.8%	
Other expenses	816	1,106	36%	923	20%	1,119	-1%	1,526	2,029	33%
% of sales	17.2%	19.6%	240 bps	17.3%	230 bps	19.1%	50 bps	16.7%	18.5%	
Total Expenditure	4,037	4,891	21%	4,467	9%	5,007	-2%	7,774	9,359	20%
<b>EBITDA</b>	<b>709</b>	<b>753</b>	<b>6%</b>	<b>875</b>	<b>-14%</b>	<b>862</b>	<b>-13%</b>	<b>1,357</b>	<b>1,628</b>	<b>20%</b>
EBITDA margin	14.9%	13.3%	-160 bps	16.4%	-300 bps	14.7%	-130 bps	14.9%	14.8%	0 bps
MDF EBITDA		38	NM	115	-67%	106	-65%	0	153	NM
MDF margin		6.1%	NM	16.5%	-1040 bps	14.5%	-840 bps	0.0%	11.7%	NM
Ex-MDF EBITDA	709	716	1%	760	-6%	756	-5%	1,357	1,476	9%
Ex-MDF margin	14.9%	14.2%	-70 bps	16.4%	-210 bps	14.7%	-50 bps	14.9%	15.3%	40 bps
Depreciation	138	113	-19%	108	4%	115	-2%	270	221	-18%
EBIT	571	641	12%	767	-16%	747	-14%	1,087	1,408	29%
Net finance cost	45	145	226%	129	13%	127	14%	91	274	200%
Other Income	6	10	61%	6	73%	8	25%	12	16	35%
Interest	51	155	206%	134	15%	135	15%	103	290	182%
XO Inc/-Exp	3	-11		-10		-80		-45	-21	
PBT	529	485	-8%	628	-23%	540	-10%	951	1,113	17%
Tax Expense	128	106	-17%	175	-39%	174	-39%	208	281	35%
Tax Rate	24.2%	22.0%	-220 bps	27.8%	-580 bps	32.1%	-1020 bps	21.9%	25.3%	340 bps
<b>Reported Net Profit</b>	<b>401</b>	<b>378</b>	<b>-6%</b>	<b>454</b>	<b>-17%</b>	<b>366</b>	<b>3%</b>	<b>743</b>	<b>832</b>	<b>12%</b>
<b>Adjusted Net Profit</b>	<b>399</b>	<b>387</b>	<b>-3%</b>	<b>461</b>	<b>-16%</b>	<b>424</b>	<b>-9%</b>	<b>780</b>	<b>848</b>	<b>9%</b>

Source: Company, JM Financial

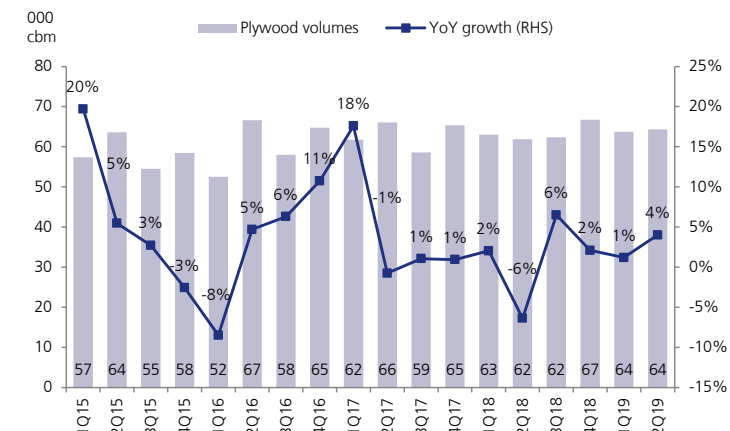
## Exhibit 2. Segmental Information

INR mn	2Q18	2Q19	YoY	1Q19	QoQ	2Q19E	Var	1HFY18	1HFY19	YoY
<b>Volume</b>										
Plywood and Allied (cbm)	61,858	64,337	4%	63,734	1%	64,633	0%	1,24,848	1,28,071	3%
Plywood	50,024	56,466	13%	56,055	1%	55,026	3%	1,02,035	1,12,521	10%
Deco Ply	2,939	2,690	-8%	2,509	7%	3,380	-20%	4,949	5,199	5%
Commercial Veneer	8,895	5,181	-42%	5,170	0%	6,227	-17%	17,864	10,351	-42%
Laminates (mn Nos)	1.54	1.49	-4%	1.31	13%	1.78	-16%	2.58	2.80	9%
MDF (cbm)		27,037	NM	29,659	-9%	32,175	-16%	0	56,696	NM
<b>Realisation</b>										
Plywood and Allied (Rs/cbm)	49,447	49,963	1%	49,627	1%	50,739	-2%	51,952	49,796	-4.2%
Plywood (Rs/cbm)	46,070	47,064	2%	46,563	1%	46,300	2%	94,392	93,627	-0.8%
Deco Ply (Rs/cbm)	1,27,084	1,41,970	12%	1,39,020	2%	1,41,063	1%	2,69,174	2,80,990	4.4%
Commercial Veneer (Rs/cbm)	41,282	33,797	-18%	39,458	-14%	40,456	-16%	41,424	36,624	-11.6%
Laminates	689	717	4%	669	7%	683	5%	678	694	2.5%
Exteria	3,697	5,760	56%	5,706	1%	5,518	4%	5,777	5,734	-0.7%
MDF	NM	22,617	NM	23,544	-4%	22,800	-1%	NM	23,102	
<b>Net revenues</b>										
	<b>4,746</b>	<b>5,644</b>	<b>19%</b>	<b>5,343</b>	<b>6%</b>	<b>5,869</b>	<b>-4%</b>	<b>9,132</b>	<b>10,987</b>	<b>20%</b>
Plywood and Allied	3,059	3,215	5%	3,163	2%	3,279	-2%	6,486	6,377	-2%
Plywood	2,305	2,658	15%	2,610	2%	2,548	4%	4,818	5,268	9%
Deco Ply	374	382	2%	349	9%	477	-20%	659	731	11%
Commercial Veneer	367	175	-52%	204	-14%	252	-30%	740	379	-49%
Laminates	1,246	1,106	-11%	915	21%	1,375	-20%	1,966	2,021	3%
MDF	1	612	NM	698	-12%	734	-17%	8	1,310	NM
Particle Board	125	286	130%	182	57%	150	91%	286	469	64%
Logistics- CFS	249	260	4%	272	-4%	262	-1%	488	532	9%
Others	106	154	45%	95	61%	70	119%	200	249	24%
<b>Segmental EBITDA</b>										
	<b>709</b>	<b>753</b>	<b>6%</b>	<b>875</b>	<b>-14%</b>	<b>862</b>	<b>-13%</b>	<b>1,357</b>	<b>1,628</b>	<b>20%</b>
Plywood and Allied	409	507	24%	569	-11%	492	3%	828	1,076	30%
Laminates	228	85	-63%	77	11%	151	-44%	352	162	-54%
MDF	0	38	NM	115	NM	106	-65%	0	153	NM
Particle Board	29	55	89%	51	8%	30	NM	47	106	NM
Logistics- CFS	93	89	-4%	92	-3%	81	9%	184	180	-2.2%
Others	1	12	1917%	3	365%	1		-3	15	-559.4%
<b>EBITDA Margins</b>										
	<b>14.9%</b>	<b>13.3%</b>	<b>-160 bps</b>	<b>16.4%</b>	<b>-300 bps</b>	<b>14.7%</b>	<b>-130 bps</b>	<b>14.9%</b>	<b>14.8%</b>	<b>0 bps</b>
Plywood and Allied	13.4%	15.8%	240 bps	18.0%	-220 bps	15.0%	80 bps	12.8%	16.9%	410 bps
Laminates	18.3%	7.7%	-1060 bps	8.4%	-70 bps	11.0%	-330 bps	17.9%	8.0%	-990 bps
MDF	NM	6.1%	NM	16.5%	NM	14.5%	-840 bps	0.0%	11.7%	NM
Particle Board	23.3%	19.2%	-420 bps	27.9%	-870 bps	20.0%	-80 bps	16.5%	22.6%	610 bps
Logistics- CFS	37.2%	34.1%	-310 bps	33.6%	50 bps	31.0%	310 bps	37.8%	33.9%	-390 bps
Others	0.6%	7.9%	730 bps	2.7%	520 bps	2.0%	590 bps	-1.6%	5.9%	750 bps

Source: Company, JM Financial

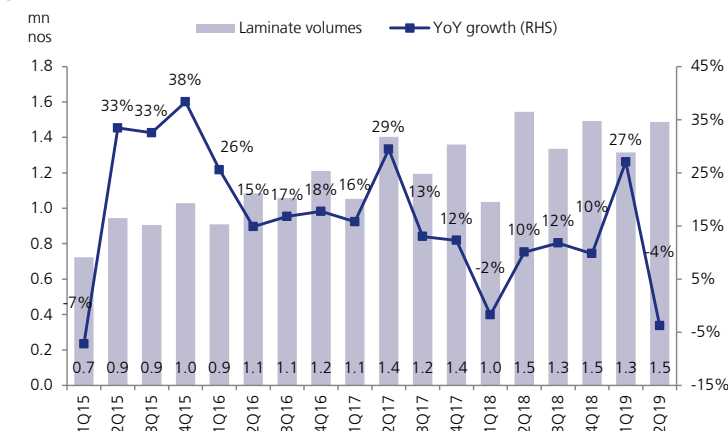
## Quarterly charts

Exhibit 1. Plywood volume growth trend



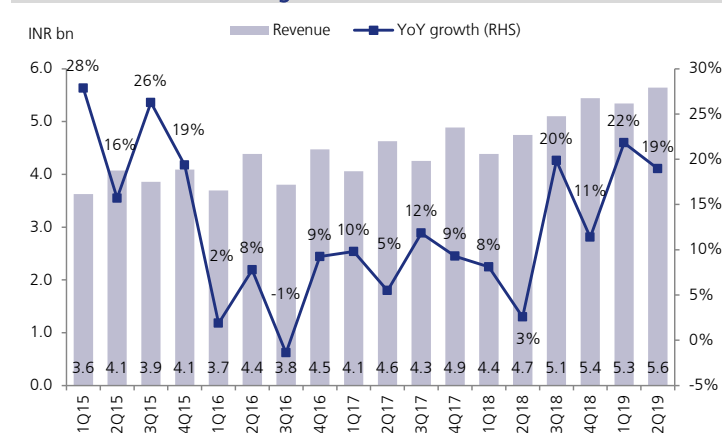
Source: Company, JM Financial

Exhibit 2. Laminates volume growth trend



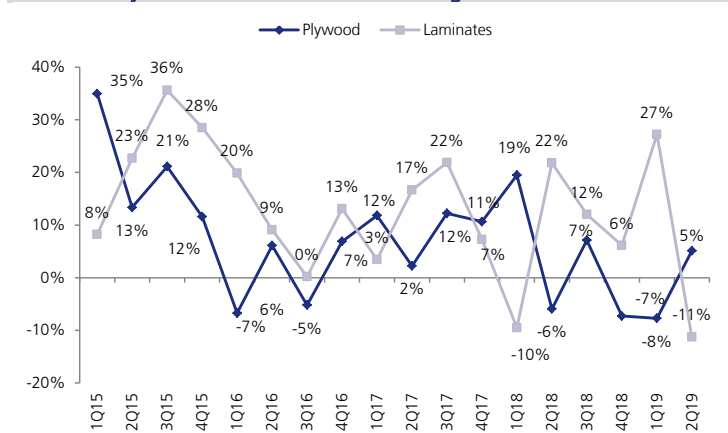
Source: Company, JM Financial

Exhibit 3. Overall revenue growth trend



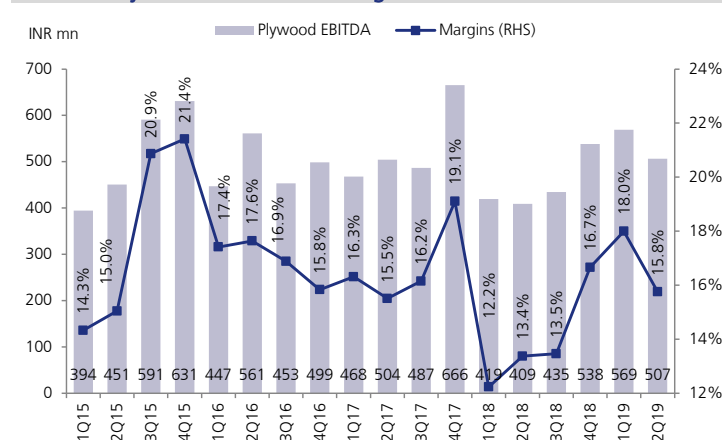
Source: Company, JM Financial

Exhibit 4. Plywood and Laminates revenue growth trend



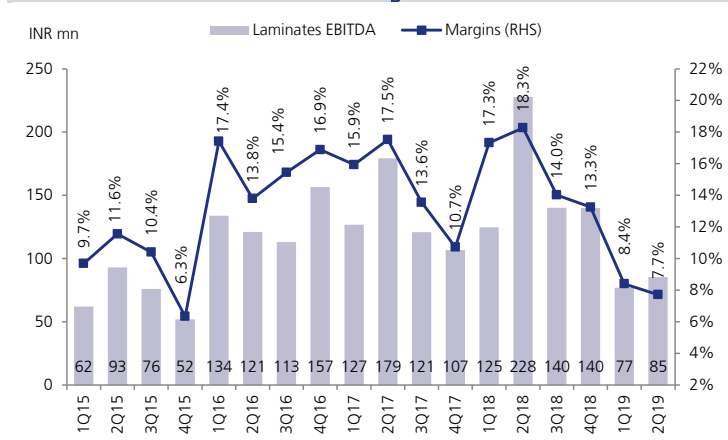
Source: Company, JM Financial

Exhibit 5. Plywood EBITDA and margin trend



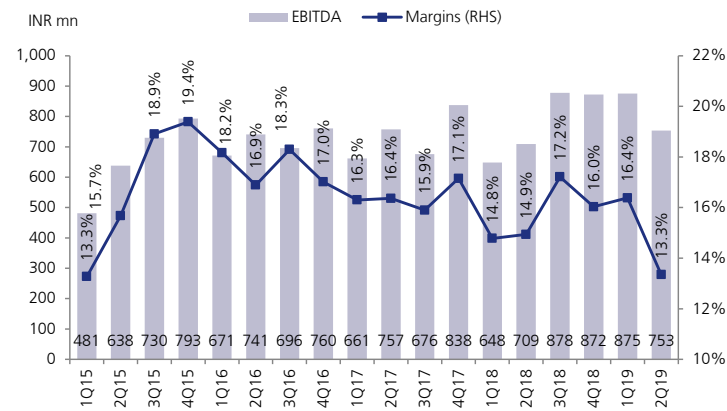
Source: Company, JM Financial

Exhibit 6. Laminates EBITDA and margin trend



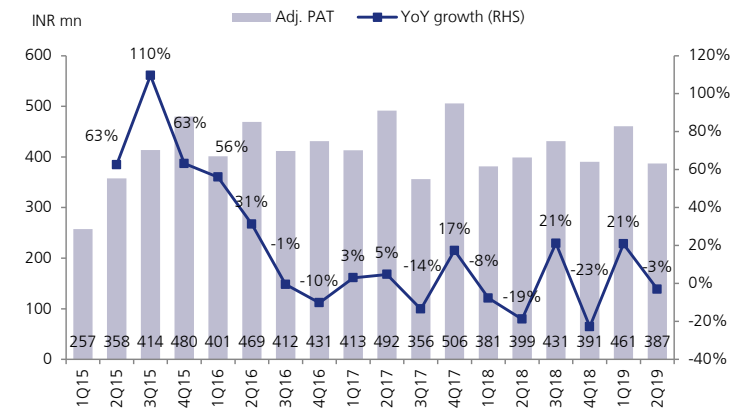
Source: Company, JM Financial

Exhibit 7. Overall EBITDA and margin trend



Source: Company, JM Financial

Exhibit 8. Profitability growth trends



Source: Company, JM Financial

## APPENDIX I

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