

Q2FY20 Result Update Century Plyboards Ltd

MDF, laminates boost growth

Century Ply has reported strong numbers inspite of a weak demand environment in real estate. Standalone sales at INR 589 cr grew by 4% YoY and this was slightly below our and street estimates. Standalone EBITDA at INR 93 cr grew 24% YoY and was ahead of our estimates of a 20% growth. Hence standalone EBITDA margins improved 250 bps to 15.8% YoY and ahead of estimates by 80 bps. Reported PAT of INR 53 Cr grew 40% YoY which was in line street estimates. These results are in line with our Q4FY19 Quarterly update wherein we had mentioned that numbers have broadly bottomed out and margins would improve gradually in various segments. We retain BUY and arrive at a TP of INR 253.

Plywood muted on expected lines

Plywood YoY volume growth has de-grown by 1% YoY and a flat realization led to -2% YoY de-growth and slightly below estimates. EBITDA margins at 15% were slightly above our estimates driven by a fall in raw material (Gurjan) prices. Slowdown in premium plywood is expected to keep plywood growth subdued at around 5-7% and hence plywood growth will be driven by the mid segment plywood. We expect plywood margins to improve further as Gurjan prices have fallen on a YoY basis and from Q4FY20, Century will start sourcing Ocume from Gabon which is cheaper than Gurjan.

Laminates shows strong growth; CFS subdued

Laminate revenues of INR 129 Cr registered robust 22% volume growth and flattish realization leading to growth of 21% YoY which was ahead of estimates of a 15% growth. EBITDA margins improved YoY from 8% in Q2FY19 to 14.7% in Q2FY20 which were also ahead of estimates of ~12%. We estimate margins to gradually keep improving as raw material prices are stable while price hikes have been taken. We expect a strong growth of 15% plus in this segment. CFS was muted with a 12% YoY de-growth in revenues and margins were lower by 200 bps at 32% YoY and the management expects CFS segment performance to be muted due to an increase in the competition.

MDF and Particleboard continue strong run

MDF utilization fell QoQ from 83% to 67%, however realizations improved 5% QoQ which led to strong margins of ~22% inspite of lower utilization. On a YoY basis, MDF utilization improved by 1200 bps leading to 27% revenue growth and a 1600 bps margin improvement due to fall in glue prices. Realization improvement in 2 successive quarters signals stability in this business. Particleboard saw muted revenue growth but margins jumped 1000 bps YoY to 25% plus. As MDF and particleboard are both seeing good traction, management has planned a capex of INR 400 Cr for Greenfield expansion in particleboard and MDF in Uttar Pradesh which should be ready in 15 months from the date of commencement. The management plans to make an announcement on the same shortly.

Outlook and valuations: 'BUY'

Inspite of a weak demand environment, Century is showing good tractions in all the major verticals except plywood. Given strong visibility in MDF and laminates and an improvement in plywood margins due to low base, we retain BUY with a TP of INR 253 valuing the company at 20x FY21E P/E. The company is currently trading at 17x and 14x P/E based on estimated EPS of INR 10 and INR 12.7 for FY20E and FY21E respectively.

Year to March	Q2FY20	Q2FY19	% change	Q1FY20	% change	FY19	FY20E	FY21E
Net sales (INR cr)	589	565	4%	574	3%	2,280	2,504	2,820
Growth (%)						10.7	9.8	12.6
EBITDA (INR cr)	93	75	24%	93	0%	301	376	443
Adj PAT (INR cr)	53	38	39%	48	10%	149	224	282
Growth (%)						-11.9	50.6	25.5
Dil. EPS (INR)						6.7	10.1	12.7
Diluted P/E (x)						25.2	16.8	13.4
EV/EBITDA (x)						14.0	10.8	8.8
ROAE (%)						16.3	20.8	21.7

Kshitij Kaji
Research Analyst
kshitij.kaji@edelweissfin.com

Praveen Sahay
Research Analyst
Praveen.sahay@edelweissfin.com

CMP INR: 169

Rating: BUY

Target INR: 253

Upside: 49%

Bloomberg:	CPBI:IN
52-week range (INR):	222 / 112
Share in issue (cr):	22
M cap (INR cr):	3,659
Avg. Daily Vol. BSE/NSE :('000):	200
Promoter Holding (%)	72.85

Date: 11th November, 2019

Standalone

Particulars (INR Cr)	Q2FY20	Q2FY19	% change	Q1FY20	% change	H1FY19	H1FY20	% change
Income from operations	589	565	4%	574	3%	1,102	1,163	6%
Cost of goods sold	296	295	0%	291	2%	570	587	3%
Employee expenses	88	84	5%	85	4%	163	173	6%
Other expenses	112	111	1%	105	7%	207	217	5%
Total operating expenses	496	490	1%	481	3%	941	977	4%
EBITDA	93	75	24%	93	0%	161	186	15%
Depreciation and amortization	17	11	55%	17	0%	22	34	56%
EBIT	76	64	19%	76	0%	140	152	9%
Interest expenses	11	16	-31%	9	22%	29	20	-32%
Other income	9	1	NA	1	800%	2	10	525%
PBT	74	49	51%	68	9%	112	142	27%
Provision for tax	21	11	91%	20	5%	29	41	44%
Core profit	53	38	39%	48	10%	83	101	21%
Extraordinary items	0	0	NA	0	NA	0	0	NA
Adjusted net profit	53	38	39%	48	10%	83	101	21%

Previous Outlook

Q1FY20: Of late, demand environment has been weak, GST has worked reverse to expectations, raw material prices rose sharply across product lines and there was a supply glut in MDF and laminates. However the headwinds are reducing and numbers look to have bottomed out. Steep price correction factors in all the pain and hence we retain BUY with a TP of INR 253 valuing the company at 20x FY21E P/E. The company is currently trading at 12x and 10x P/E based on estimated EPS of INR 10 and INR 12.7 for FY20E and FY21E respectively.

Q4FY19: Century is a leader across various wood panel segments. While it was expected that GST and affordable housing would provide tailwinds, there have actually been headwinds which has led to repeated cuts in estimates. Demand environment has been weak, GST has worked reverse to expectations, raw material prices rose sharply across product lines and there was a supply glut in MDF and laminates. However we feel that these headwinds are reducing and numbers could have bottomed out. Steep price correction factors in all the pain and hence we retain BUY with a TP of INR 253 valuing the company at 20x FY21E P/E.

Q3FY19: Century is a leader across various wood panel segments and is expected to outpace industry growth. GST at 18% and government's thrust on affordable housing are potent tailwinds for this segment. In spite of superior return ratios compared to other building material peers and high free cash flow generation, Century is trading at attractive valuations than most peers. Given the shift in management strategy to gain market share and expand distribution network, margins expected to be under pressure which is to some extent can be compensated by volume improvement going forward. We have revised our earnings downward by 4.5%/9% for FY19/20E. We value it at 14x FY20E earnings and thus arrive at a revised target price of INR 226.

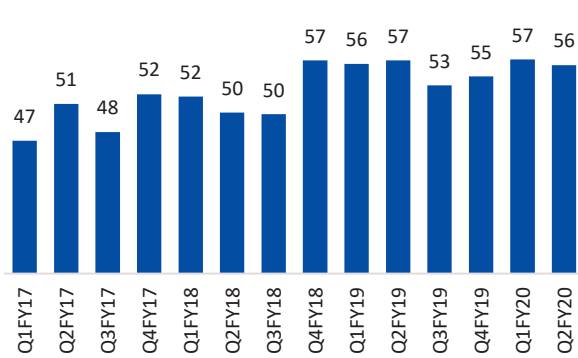


Century Plyboards Ltd.

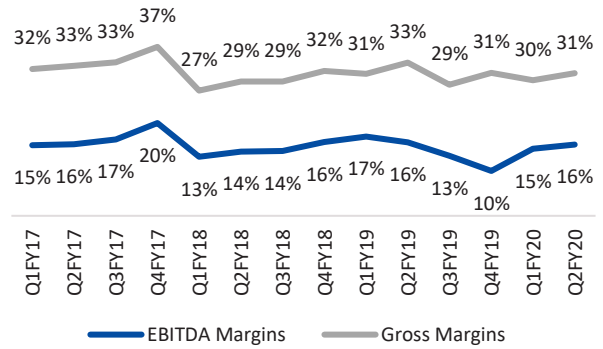
Charts

Financial Charts

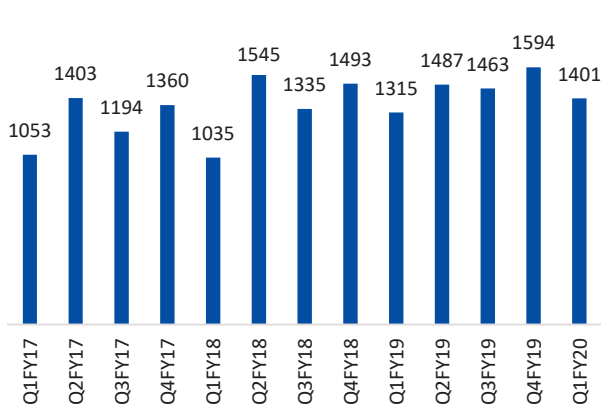
Plywood Volume ('000 CBM)



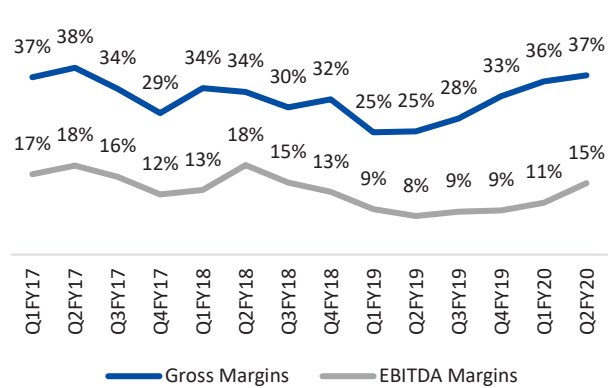
Plywood margins



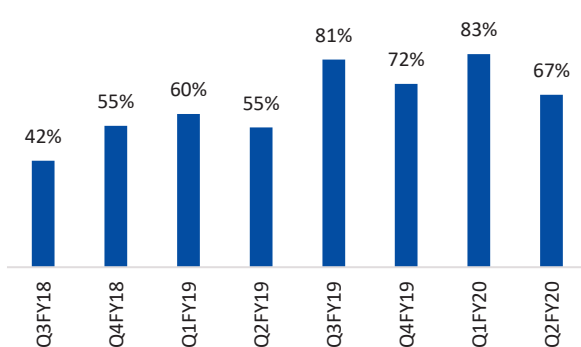
Volumes ('000)



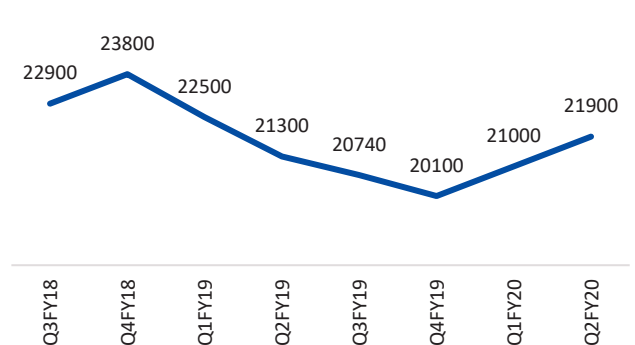
Laminates Margins



MDF Utilization



MDF Realization per CBM)



Source: Edelweiss Professional Investor Research

Century Plyboards Ltd.

Financials

Income statement

(INR cr)

Year to March	FY17	FY18	FY19	FY20E	FY21E
Income from operations	1,819	2,060	2,280	2,504	2,820
Direct costs	938	986	1,151	1,252	1,410
Employee costs	273	312	346	376	423
Other expenses	296	430	482	501	544
Total operating expenses	1,507	1,728	1,979	2,128	2,378
EBITDA	312	332	301	376	443
Depreciation and amortisation	59	90	59	63	67
EBIT	253	242	242	312	375
Interest expenses	30	36	47	31	20
Other income	23	8	7	10	10
Profit before tax	245	214	202	291	366
Provision for tax	52	45	53	67	84
Core profit	193	169	149	224	282
Extraordinary items	(0)	0	0	0	0
Profit after tax	193	169	149	224	282
Minority Interest	(3)	(3)	(3)	(3)	(3)
Share from associates	0	0	0	0	0
Adjusted net profit	190	166	146	221	279
Equity shares outstanding (mn)	22	22	22	22	22
EPS (INR) basic	9	7.6	7	10.1	12.7
Diluted shares (Cr)	22	22	22	22	22
EPS (INR) fully diluted	8.6	7.6	6.7	10.1	12.7
Dividend per share	0	1	1	1	1
Dividend payout (%)	0	12	12	12	12

Common size metrics- as % of net revenues

Year to March	FY17	FY18	FY19	FY20E	FY21E
Operating expenses	82.8	83.9	86.8	85.0	84.3
Depreciation	3.3	4.4	2.6	2.5	2.4
Interest expenditure	1.7	1.7	2.1	1.2	0.7
EBITDA margins	17.2	16.1	13.2	15.0	15.7
Net profit margins	10.5	8.1	6.4	8.8	9.9

Growth metrics (%)

Year to March	FY17	FY18	FY19	FY20E	FY21E
Revenues	10.8	13.3	10.7	9.8	12.6
EBITDA	7.8	6.4	(9.3)	24.8	17.9
PBT	22.4	(12.6)	(5.7)	44.3	25.5
Net profit	14.0	(12.5)	(11.9)	50.6	25.5
EPS	12.6	(11.1)	(11.9)	50.6	25.5

Century Plyboards Ltd.

Financials

Balance sheet

(INR cr)

As on 31st March	FY17	FY18	FY19	FY20E	FY21E
Equity share capital	22	22	22	22	22
Preference Share Capital	0	0	0	0	0
Reserves & surplus	693	830	955	1,153	1,402
Shareholders funds	715	852	977	1,176	1,424
Secured loans	521	544	489	339	189
Unsecured loans	97	0	0	0	0
Borrowings	619	544	489	339	189
Minority interest	12	18	25	25	25
Sources of funds	1,345	1,414	1,491	1,540	1,638
Gross block	412	843	1,090	1,180	1,270
Depreciation	106	196	255	318	385
Net block	306	647	835	862	884
Capital work in progress	299	126	27	0	0
Total fixed assets	605	773	862	862	884
Unrealised profit	0	0	0	0	0
Investments	6	34	38	38	38
Inventories	301	382	461	432	487
Sundry debtors	342	357	296	425	479
Cash and equivalents	67	21	26	26	40
Loans and advances	160	85	79	80	80
Other current assets	0	0	0	0	0
Total current assets	870	845	862	964	1,086
Sundry creditors and others	219	275	292	343	386
Provisions	19	34	42	44	46
Total CL & provisions	238	309	334	387	433
Net current assets	633	536	528	577	653
Net Deferred tax	67	71	63	63	63
Misc expenditure	34	0	0	0	0
Uses of funds	1,345	1,414	1,491	1,540	1,638
Book value per share (INR)	32	38	44	53	64

Cash flow statement

(INR cr)

Year to March	FY17	FY18	FY19	FY20E	FY21E
Net profit	194	169	149	224	282
Add: Depreciation	59	90	59	63	67
Add: Misc expenses written off/Other Assets	5	34	0	0	0
Add: Deferred tax	(2)	(4)	8	0	0
Add: Others	(3)	(3)	(3)	(3)	(3)
Gross cash flow	252	286	213	285	346
Less: Changes in W. C.	55	(51)	(13)	48	63
Operating cash flow	197	337	226	236	283
Less: Capex	312	258	148	90	90
Free cash flow	(115)	79	78	146	193

Financials

Ratios

Year to March	FY17	FY18	FY19	FY20E	FY21E
ROAE (%)	30.6	21.6	16.3	20.8	21.7
ROACE (%)	22.7	18.5	17.5	21.5	24.6
Debtors (days)	68.7	63.3	47.4	62.0	62.0
Current ratio	3.7	2.7	2.6	2.5	2.5
Debt/Equity	0.9	0.6	0.5	0.3	0.1
Inventory (days)	60.3	67.7	73.8	63.0	63.0
Payable (days)	43.9	48.7	46.7	50.0	50.0
Cash conversion cycle (days)	85.1	82.2	74.4	75.0	75.0
Debt/EBITDA	2.0	1.6	1.6	0.9	0.4
Adjusted debt/Equity	0.8	0.6	0.5	0.3	0.1

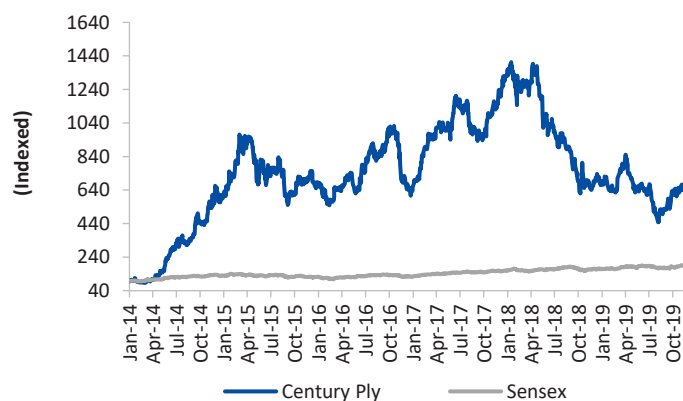
Valuation parameters

Year to March	FY17	FY18	FY19	FY20E	FY21E
Diluted EPS (INR)	8.6	7.6	6.7	10.1	12.7
Y-o-Y growth (%)	12.6	(11.1)	(11.9)	50.6	25.5
CEPS (INR)	11.2	11.6	9.3	12.9	15.7
Diluted P/E (x)	19.7	22.2	25.2	16.8	13.4
Price/BV(x)	5.3	4.4	3.8	3.2	2.6
EV/Sales (x)	2.4	2.1	1.9	1.6	1.4
EV/EBITDA (x)	13.8	12.9	14.0	10.8	8.8
Diluted shares O/S	22.3	22.3	22.3	22.3	22.3
Basic EPS	8.6	7.6	6.7	10.1	12.7
Basic PE (x)	19.7	22.2	25.2	16.8	13.4
Dividend yield (%)	0.0	0.4	0.4	0.6	0.7

Edelweiss Broking Limited, 1st Floor, Tower 3, Wing B, Kohinoor City Mall, Kohinoor City, Kirool Road, Kurla(W)
 Board: (91-22) 4272 2200

Vinay Khattar
 Head Research
 vinay.khattar@edelweissfin.com

Rating	Expected to
Buy	appreciate more than 15% over a 12-month period
Hold	appreciate between 5-15% over a 12-month period
Reduce	Return below 5% over a 12-month period



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