

Century Plyboards | HOLD

Steady quarter

Century Plyboards' (Century) 3QFY20 performance was modestly below expectations (EBITDA 3% below JMFe) on account of lower-than-expected volume growth of laminate and MDF. While core plywood volume grew 8% YoY, laminate / MDF volumes grew merely 6% / 4% YoY respectively in 3QFY20, albeit on a higher base. Management remains hopeful about the future with expectations of a double-digit volume growth across segments with a stable-to-improving margin trajectory. While management finalised greenfield capacity at Sitapur (Uttar Pradesh; 900cbm/600cbm per day fungible capacity for particleboard/MDF respectively), approval from UP government is under suspension. We maintain HOLD and roll-forward to a Mar'21 TP of INR 190. Higher than expected ply/MDF volume is key risk.

- 3QFY20 summary:** Total revenue was up 3% YoY (in line with JMFe) on the back of ply / MDF revenue growth of 3% / 9% YoY respectively, while EBITDA grew 23% YoY (3% below JMFe) due to gross margin expansion (+230bps YoY). EBITDA margin expanded to 15.7% in 3QFY20 (+260bps YoY, 30bps below JMFe). Adjusted for the impairment loss of INR 456mn (towards investment in Laos), net income grew 35% YoY to INR 523mn (9% above JMFe). In 9MFY20, Revenue / PBT grew 5% / 9% YoY respectively.
- Ply volume growth surprises; margins decline YoY:** Plywood revenue grew 3% YoY (+2% QoQ; 3% above JMFe), led by core plywood (+9% YoY; volume growth of 8%). EBITDA declined 2% YoY (-8% QoQ) as margin contracted moderately by 60bps YoY to 12.4%. Century's Gabon operations is expected to commence in 4QFY20 and the prime veneer grades will be captively consumed while the lower grades will be sold to third parties. Company has kept the plan for Plywood Plant at Punjab in abeyance.
- MDF volume growth lower; margins improve significantly:** MDF revenue grew by 9% YoY (capacity utilisation at 84%) on higher realisations (+6%; -1% QoQ) while volume grew 4% (higher base in 3QFY19). While prelam MDF volume growth continues to be impressive at 26% YoY, plain MDF volumes grew merely by 1% YoY. EBITDA margin expanded 930bps YoY (+290bps QoQ) to 25.1% on lower resin cost and operating leverage. While management finalised greenfield capacity at Sitapur (Uttar Pradesh; 900cbm/600cbm per day fungible capacity for particleboard/MDF respectively), approval from UP government is under suspension. The company guides for commissioning of the project within 15-16 months once the approvals are in place.
- Laminates volume growth slows down, margins improve:** Core laminate revenue remained flat YoY as volume growth of 6% (10% below JMFe) was offset by 6% decline in realisation (product mix). EBITDA margins expanded 480bps YoY to 13.5% (+40bps QoQ; 100bps above JMFe) on the back of lower chemicals cost. The management has guided for double-digit volume growth and stable margins in FY21.
- Tweak estimates; maintain HOLD:** We tweak EPS estimates to reflect the company's 3QFY20 performance. We value Century Ply at 20x Mar'22EPS and roll-forward to Mar'21 TP of INR 190. We maintain HOLD as we await a better price point.



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Recommendation and Price Target

Current Reco.	HOLD
Previous Reco.	HOLD
Current Price Target (12M)	190
Upside/(Downside)	12.2%
Previous Price Target	190
Change	0.0%

Key Data – CPBI IN

Current Market Price	INR169
Market cap (bn)	INR37.6/US\$0.5
Free Float	18%
Shares in issue (mn)	222.5
Diluted share (mn)	222.5
3-mon avg daily val (mn)	INR49.0/US\$0.7
52-week range	222/112
Sensex/Nifty	40,789/11,980
INR/US\$	71.3

Price Performance

%	1M	6M	12M
Absolute	1.2	43.7	4.5
Relative*	2.9	30.7	-6.3

* To the BSE Sensex

Financial Summary

Y/E March	FY18A	FY19A	FY20E	FY21E	FY22E
Net Sales	19,672	22,608	23,623	25,151	26,696
Sales Growth (%)	10.4	14.9	4.5	6.5	6.1
EBITDA	3,107	3,044	3,745	3,922	4,176
EBITDA Margin (%)	15.8	13.5	15.9	15.6	15.6
Adjusted Net Profit	1,619	1,689	2,004	2,120	2,153
Diluted EPS (INR)	7.3	7.6	9.0	9.5	9.7
Diluted EPS Growth (%)	-8.9	4.2	18.6	5.8	1.6
ROIC (%)	15.1	14.8	17.2	16.3	14.4
ROE (%)	20.9	18.7	19.3	17.7	15.7
P/E (x)	23.2	22.3	18.8	17.7	17.5
P/B (x)	4.5	3.9	3.4	2.9	2.6
EV/EBITDA (x)	13.8	14.0	10.9	10.4	10.0
Dividend Yield (%)	0.6	0.6	0.7	0.8	0.9

Source: Company data, JM Financial. Note: Valuations as of 04/Feb/2020

JM Financial Research is also available on:
Bloomberg - JMFR <GO>,
Thomson Publisher & Reuters,
S&P Capital IQ, FactSet and Visible Alpha

Please see Appendix I at the end of this report for Important Disclosures and Disclaimers and Research Analyst Certification.

- **Other highlights:** a) Working capital days reduced significantly to 65 (86 in Mar'19) mainly due to drop in inventory days from 65 in Mar'19 to 51 in Dec'19, b) Estimated net capex for FY20 is INR 0.62bn (INR 0.19bn for Gabon veneer unit), out of which company has already spent INR 0.53bn in 9MFY20)

Exhibit 1. 3QFY20 Quarterly Performance (Standalone)

INR mn	3Q19	3Q20	YoY	2Q20	QoQ	3Q20E	Var	9MFY19	9MFY20	YoY
Net Sales	5,789	5,954	3%	5,894	1%	6,005	-1%	16,776	17,585	5%
MDF	882	965	9%	777	24%	990	-3%	2,191	2,660	21%
Ex-MDF	4,907	4,990	2%	5,117	-2%	5,014	0%	14,585	14,925	2%
Raw Material Cost	3,088	3,041	-2%	2,958	3%	3,032	0%	8,787	8,920	2%
Gross Profit	2,701	2,913	8%	2,936	-1%	2,972	-2%	7,989	8,665	8%
Gross Margin	46.7%	48.9%	230 bps	49.8%	-90 bps	49.5%	-60 bps	47.6%	49.3%	170 bps
Employee cost	810	846	4%	884	-4%	883	-4%	2,440	2,575	6%
% of sales	14.0%	14.2%	20 bps	15.0%	-80 bps	14.7%	-50 bps	14.5%	14.6%	10 bps
Other expenses	1,130	1,130	0%	1,155	-2%	1,128	0%	3,117	3,338	7%
% of sales	19.5%	19.0%	-50 bps	19.6%	-60 bps	18.8%	20 bps	18.6%	19.0%	40 bps
Total Expenditure	5,028	5,017	0%	4,996	0%	5,043	-1%	14,344	14,833	3%
EBITDA	761	937	23%	897	4%	961	-3%	2,432	2,752	13%
EBITDA margin	13.1%	15.7%	260 bps	15.2%	50 bps	16.0%	-30 bps	14.5%	15.7%	120 bps
MDF EBITDA	139	242	74%	173	40%	198	22%	292	630	116%
MDF margin	15.8%	25.1%	930 bps	22.3%	290 bps	20.0%	510 bps	13.3%	23.7%	1040 bps
Ex-MDF EBITDA	622	695	12%	724	-4%	763	-9%	2,141	2,122	-1%
Ex-MDF margin	12.7%	13.9%	120 bps	14.2%	-20 bps	15.2%	-130 bps	14.7%	14.2%	-50 bps
Depreciation	136	173	27%	170	2%	170	2%	357	513	44%
EBIT	625	764	22%	727	5%	791	-3%	2,075	2,240	8%
Net finance cost	89	67	-25%	68	-1%	75	-11%	217	216	-1%
Other Income	16	13	-19%	16	-18%	10	28%	31	40	26%
Interest	105	80	-24%	83	-4%	85	-6%	249	256	3%
PBT	536	697	30%	659	6%	716	-3%	1,858	2,024	9%
Tax Expense	162	43	-74%	213	-80%	236	-82%	444	454	2%
Tax Rate	30.3%	6.2%	-2420 bps	32.4%	-2620 bps	33.0%	-2680 bps	23.9%	22.4%	-150 bps
XO Inc/-Exp	41	-463		76		0		-169	-376	
Reported Net Profit	414	191	-54%	521	-63%	480	-60%	1,246	1,194	-4%
Adjusted Net Profit	386	523	35%	470	11%	480	9%	1,383	1,466	6%

Source: Company, JM Financial

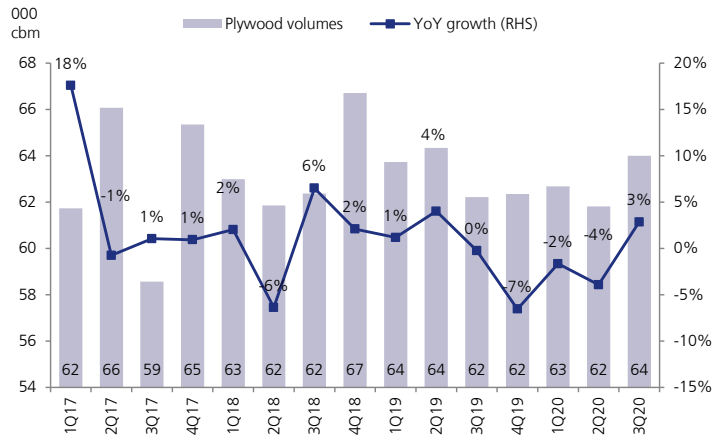
Exhibit 2. Segmental Information

INR mn	3Q19	3Q20	YoY	2Q20	QoQ	3Q20E	Var	9MFY19	9MFY20	YoY
Volume										
Plywood and Allied (cbm)	62,217	63,996	3%	61,812	4%	61,177	5%	190,288	188,486	-1%
Core Plywood	53,385	57,736	8%	55,868	3%	54,987	5%	165,906	170,246	3%
Deco Ply	2,720	2,633	-3%	2,852	-8%	2,829	-7%	7,919	8,050	2%
Commercial Veneer	6,112	3,627	-41%	3,092	17%	3,362	8%	16,463	10,190	-38%
Laminates (mn Nos)	1.46	1.55	6%	1.82	-15%	1.71	-10%	4.26	4.76	12%
MDF (cbm)	40,138	41,554	4%	33,271	25%	43,065	-4%	96,834	116,002	NM
Realisation										
Plywood and Allied (INR/cbm)	50,325	50,298	0%	51,094	-2%	50,976	-1%	49,969	50,533	1.1%
Core Plywood (INR/cbm)	46,792	47,161	1%	46,925	1%	46,792	1%	140,419	140,583	0.1%
Deco Ply (INR/cbm)	148,603	140,942	-5%	148,843	-5%	149,346	-6%	143,314	146,174	2.0%
Commercial Veneer (INR/cbm)	37,467	34,436	-8%	36,255	-5%	36,343	-5%	36,937	36,300	-1.7%
Laminates (INR/sheet)	742	700	-6%	709	-1%	720	-3%	711	711	0.1%
Exteria	5,676	5,272	-7%	5,643	-7%	5,674	-7%	5,779	5,512	-4.6%
MDF	21,964	23,216	6%	23,342	-1%	23,000	1%	22,630	22,927	1.3%
Net revenues	5,789	5,954	3%	5,894	1%	6,005	-1%	16,776	17,585	5%
Plywood and Allied	3,131	3,219	3%	3,158	2%	3,119	3%	9,509	9,525	0%
Core Plywood	2,498	2,723	9%	2,622	4%	2,573	6%	7,766	7,978	3%
Deco Ply	404	371	-8%	425	-13%	422	-12%	1,135	1,177	4%
Commercial Veneer	229	125	-45%	112	11%	122	2%	608	370	-39%
Laminates	1,138	1,149	1%	1,352	-15%	1,290	-11%	3,159	3,573	13%
MDF	882	965	9%	777	24%	990	-3%	2,191	2,660	NM
Particle Board	265	250	-6%	262	-5%	286	-13%	734	760	4%
Logistics- CFS	246	219	-11%	218	0%	209	4%	779	659	-15%
Others	113	141	25%	119	19%	110	28%	362	378	4%
Segmental EBITDA	761	937	23%	897	4%	961	-3%	2,432	2,752	13%
Plywood and Allied	410	401	-2%	433	-8%	452	-11%	1,486	1,292	-13%
Laminates	99	155	57%	178	-13%	161	-4%	261	442	69%
MDF	139	242	74%	173	40%	198	22%	292	630	NM
Particle Board	55	67	23%	76	-11%	80	NM	160	211	NM
Logistics- CFS	72	76	6%	70	9%	59	30%	252	223	-11.7%
Others	6	15	156%	12	22%	11		20	34	
EBITDA Margins	13.1%	15.7%	260 bps	15.2%	50 bps	16.0%	-30 bps	14.5%	15.7%	120 bps
Plywood and Allied	13.1%	12.4%	-60 bps	13.7%	-130 bps	14.5%	-210 bps	15.6%	13.6%	-210 bps
Laminates	8.7%	13.5%	480 bps	13.1%	40 bps	12.5%	100 bps	8.3%	12.4%	410 bps
MDF	15.8%	25.1%	930 bps	22.3%	290 bps	20.0%	510 bps	13.3%	23.7%	1040 bps
Particle Board	20.7%	26.9%	620 bps	28.9%	-200 bps	28.0%	-110 bps	21.9%	27.7%	590 bps
Logistics- CFS	29.2%	34.9%	570 bps	32.0%	290 bps	28.0%	690 bps	32.4%	33.8%	140 bps
Others	5.1%	10.3%	530 bps	10.1%	20 bps	10.0%	30 bps	5.6%	8.9%	330 bps

Source: Company, JM Financial

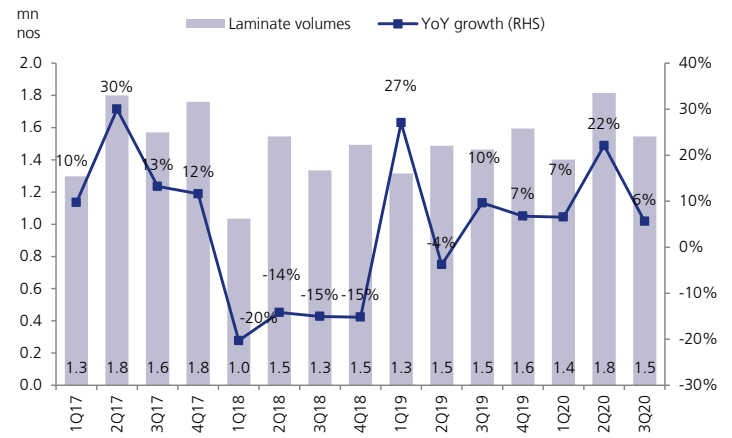
Quarterly charts

Exhibit 3. Plywood volume growth trend



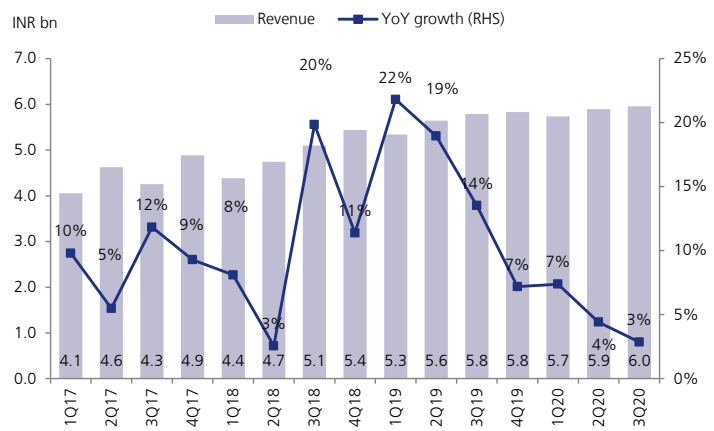
Source: Company, JM Financial

Exhibit 4. Laminates volume growth trend



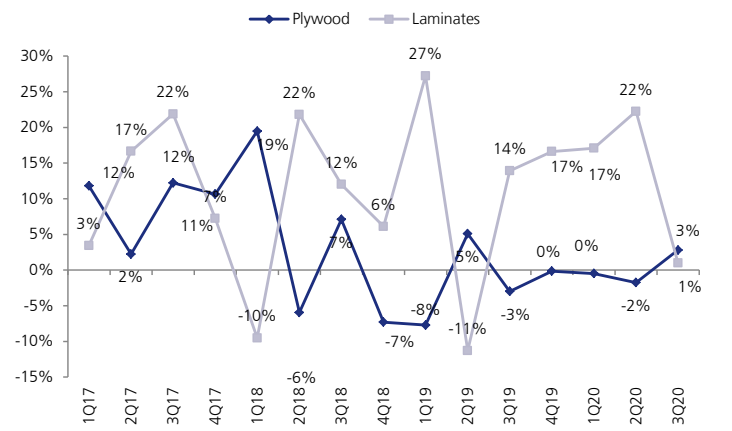
Source: Company, JM Financial

Exhibit 5. Overall revenue growth trend



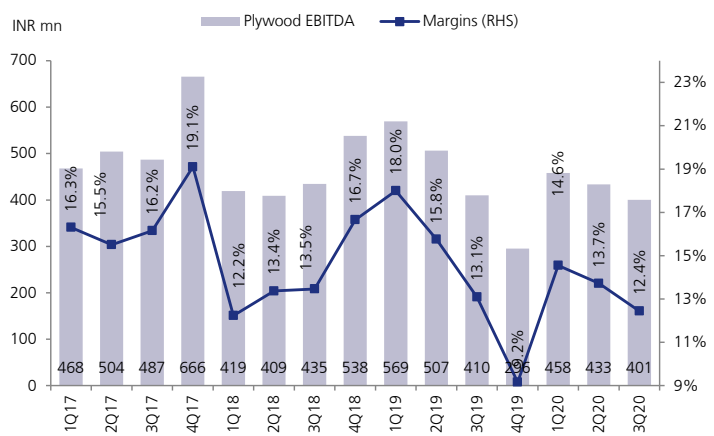
Source: Company, JM Financial

Exhibit 6. Plywood and Laminates revenue growth trend



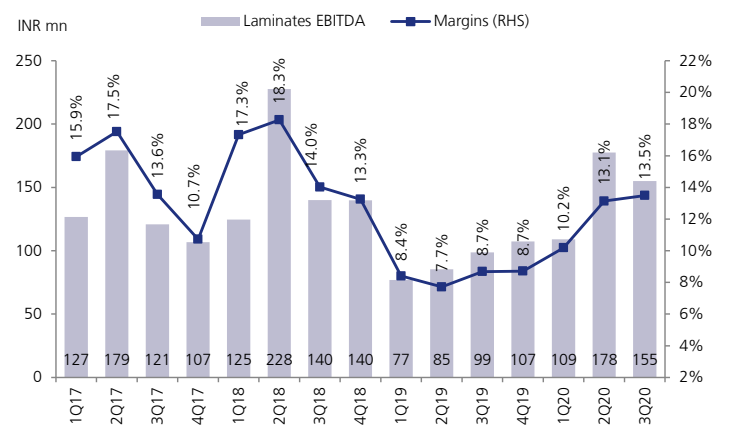
Source: Company, JM Financial

Exhibit 7. Plywood EBITDA and margin trend



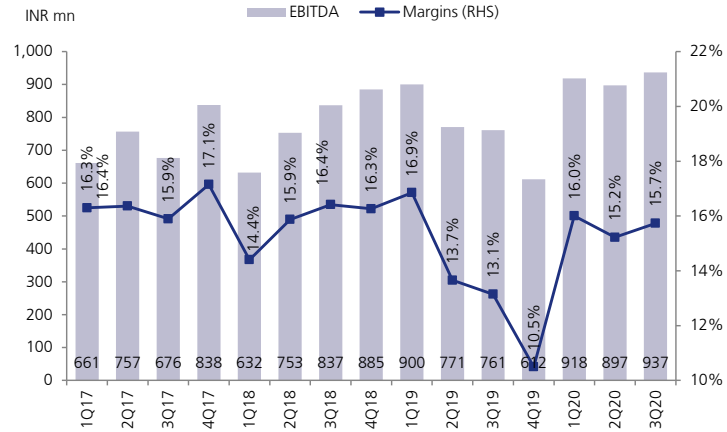
Source: Company, JM Financial

Exhibit 8. Laminates EBITDA and margin trend



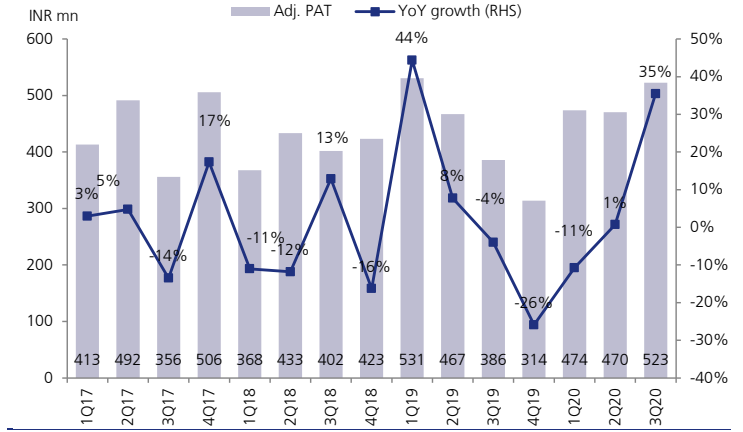
Source: Company, JM Financial

Exhibit 9. Overall EBITDA and margin trend



Source: Company, JM Financial

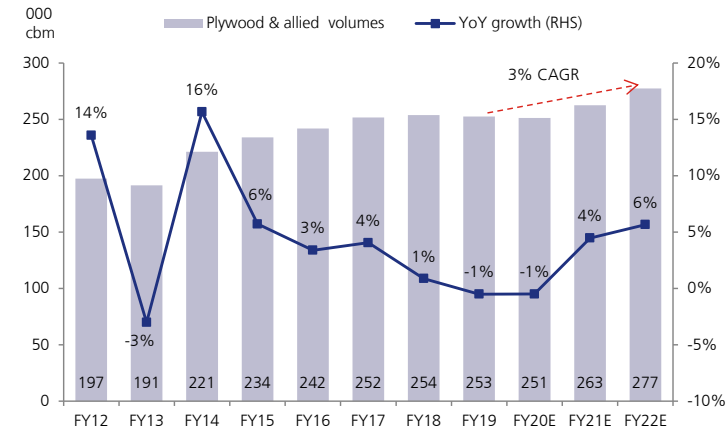
Exhibit 10. Profitability growth trends



Source: Company, JM Financial

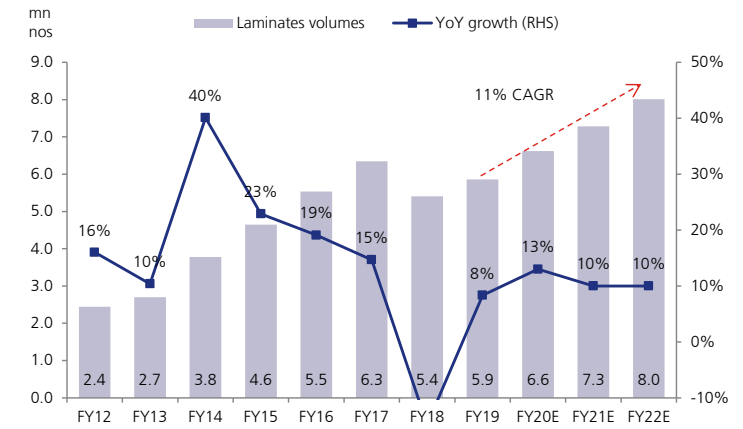
Annual charts

Exhibit 11. Plywood volume growth trend



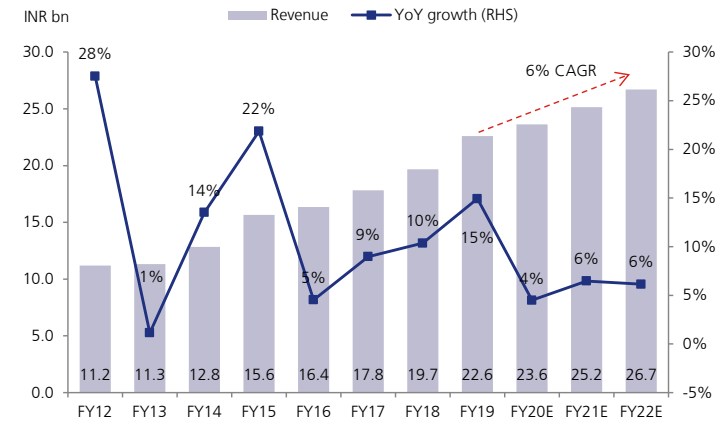
Source: Company, JM Financial

Exhibit 12. Laminates volume growth trend



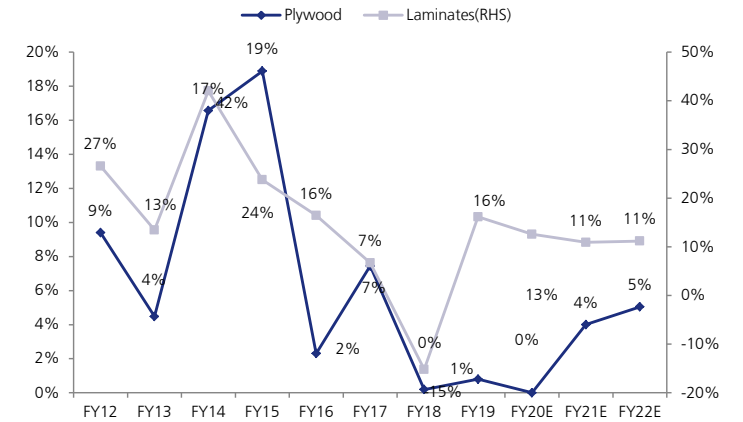
Source: Company, JM Financial

Exhibit 13. Overall revenue growth trend



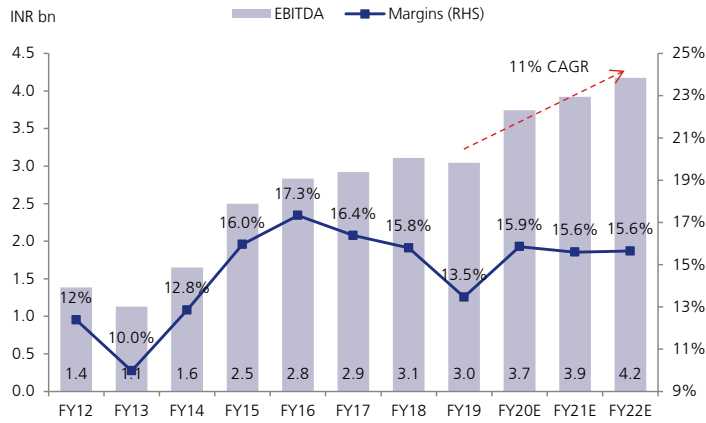
Source: Company, JM Financial

Exhibit 14. Plywood and Laminate revenue growth trend



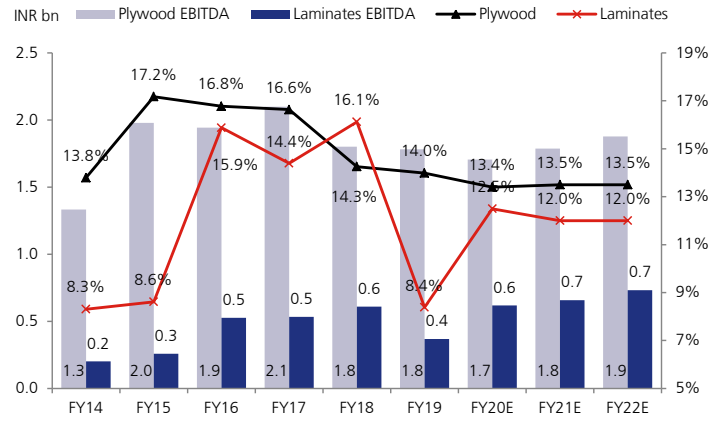
Source: Company, JM Financial

Exhibit 15. Overall EBITDA and margin trend



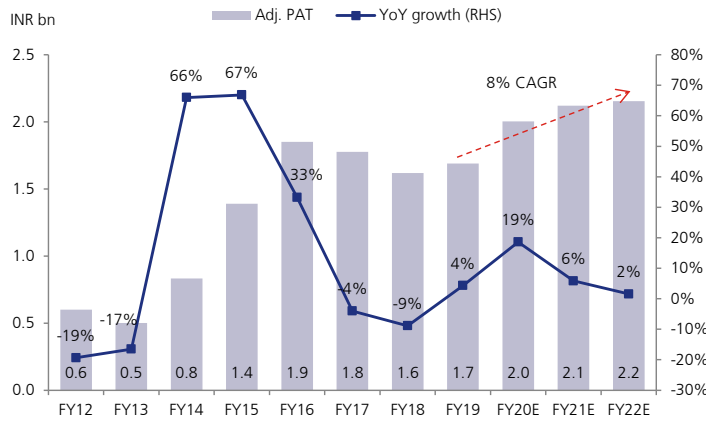
Source: Company, JM Financial

Exhibit 16. Plywood and Laminate EBITDA and margin trend



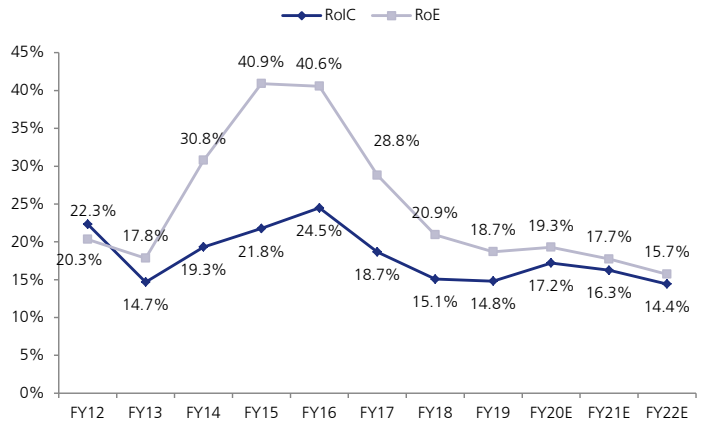
Source: Company, JM Financial

Exhibit 17. Profitability growth trend



Source: Company, JM Financial

Exhibit 18. Return ratios



Source: Company, JM Financial

Financial Tables (Standalone)

Income Statement		(INR mn)				
Y/E March	FY18A	FY19A	FY20E	FY21E	FY22E	
Net Sales	19,672	22,608	23,623	25,151	26,696	
Sales Growth	10.4%	14.9%	4.5%	6.5%	6.1%	
Other Operating Income	0	0	0	0	0	
Total Revenue	19,672	22,608	23,623	25,151	26,696	
Cost of Goods Sold/Op. Exp	10,230	11,816	11,929	12,827	13,615	
Personnel Cost	2,839	3,277	3,474	3,751	4,052	
Other Expenses	3,496	4,471	4,475	4,651	4,853	
EBITDA	3,107	3,044	3,745	3,922	4,176	
EBITDA Margin	15.8%	13.5%	15.9%	15.6%	15.6%	
EBITDA Growth	6.4%	-2.0%	23.0%	4.7%	6.5%	
Depn. & Amort.	810	500	690	731	900	
EBIT	2,297	2,544	3,055	3,190	3,276	
Other Income	39	61	50	55	65	
Finance Cost	280	354	350	300	350	
PBT before Excep. & Forex	2,056	2,251	2,755	2,945	2,991	
Excep. & Forex Inc./Loss(-)	0	0	0	0	0	
PBT	2,056	2,251	2,755	2,945	2,991	
Taxes	424	531	661	825	837	
Extraordinary Inc./Loss(-)	-66	-133	-376	0	0	
Assoc. Profit/Min. Int.(-)	0	0	0	0	0	
Reported Net Profit	1,566	1,588	1,718	2,120	2,153	
Adjusted Net Profit	1,619	1,689	2,004	2,120	2,153	
Net Margin	8.2%	7.5%	8.5%	8.4%	8.1%	
Diluted Share Cap. (mn)	222.2	222.5	222.5	222.5	222.5	
Diluted EPS (INR)	7.3	7.6	9.0	9.5	9.7	
Diluted EPS Growth	-8.9%	4.2%	18.6%	5.8%	1.6%	
Total Dividend + Tax	267	268	321	375	429	
Dividend Per Share (INR)	1.0	1.0	1.2	1.4	1.6	

Source: Company, JM Financial

Cash Flow Statement		(INR mn)				
Y/E March	FY18A	FY19A	FY20E	FY21E	FY22E	
Profit before Tax	1,990	2,251	2,755	2,945	2,991	
Depn. & Amort.	810	422	690	731	900	
Net Interest Exp. / Inc. (-)	288	293	300	245	285	
Inc (-) / Dec in WCap.	164	-206	162	-251	-259	
Others	126	-58	-266	177	179	
Taxes Paid	-544	-531	-661	-825	-837	
Operating Cash Flow	2,834	2,171	2,980	3,022	3,259	
Capex	-1,921	-1,278	-700	-2,200	-3,700	
Free Cash Flow	913	893	2,280	822	-441	
Inc (-) / Dec in Investments	17	-17	0	0	0	
Others	-70	61	50	55	65	
Investing Cash Flow	-1,974	-1,235	-650	-2,145	-3,635	
Inc / Dec (-) in Capital	0	-8	0	0	0	
Dividend + Tax thereon	-267	-268	-321	-375	-429	
Inc / Dec (-) in Loans	-641	-245	-1,500	0	1,100	
Others	-326	-354	-350	-300	-350	
Financing Cash Flow	-1,233	-875	-2,171	-675	321	
Inc / Dec (-) in Cash	-373	61	158	202	-54	
Opening Cash Balance	538	165	226	384	587	
Closing Cash Balance	165	226	384	587	533	

Source: Company, JM Financial

Balance Sheet		(INR mn)				
Y/E March	FY18A	FY19A	FY20E	FY21E	FY22E	
Shareholders' Fund	8,379	9,691	11,087	12,833	14,558	
Share Capital	223	223	223	223	223	
Reserves & Surplus	8,157	9,469	10,865	12,610	14,335	
Preference Share Capital	0	0	0	0	0	
Minority Interest	0	0	0	0	0	
Total Loans	5,383	5,137	3,637	3,637	4,737	
Def. Tax Liab. / Assets (-)	-690	-615	-505	-328	-149	
Total - Equity & Liab.	13,072	14,213	14,220	16,142	19,146	
Net Fixed Assets	6,618	7,474	7,484	8,953	11,753	
Gross Fixed Assets	7,184	9,474	10,163	12,363	16,063	
Intangible Assets	0	0	0	0	0	
Less: Depn. & Amort.	1,767	2,188	2,878	3,610	4,510	
Capital WIP	1,201	188	200	200	200	
Investments	960	978	978	978	978	
Current Assets	8,324	8,598	8,930	9,593	10,004	
Inventories	3,382	4,010	4,013	4,272	4,535	
Sundry Debtors	3,145	2,936	3,107	3,307	3,511	
Cash & Bank Balances	165	226	384	587	533	
Loans & Advances	1,633	1,426	1,426	1,426	1,426	
Other Current Assets	0	0	0	0	0	
Current Liab. & Prov.	2,831	2,837	3,173	3,382	3,589	
Current Liabilities	1,764	1,625	1,942	2,067	2,194	
Provisions & Others	1,066	1,212	1,231	1,315	1,395	
Net Current Assets	5,494	5,761	5,757	6,211	6,415	
Total - Assets	13,072	14,213	14,220	16,142	19,146	

Source: Company, JM Financial

Dupont Analysis						
Y/E March	FY18A	FY19A	FY20E	FY21E	FY22E	
Net Margin	8.2%	7.5%	8.5%	8.4%	8.1%	
Asset Turnover (x)	1.5	1.7	1.7	1.7	1.5	
Leverage Factor (x)	1.6	1.5	1.4	1.3	1.3	
RoE	20.9%	18.7%	19.3%	17.7%	15.7%	

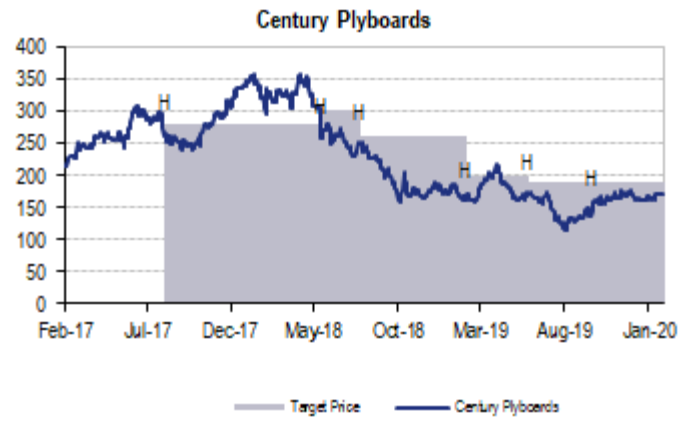
Key Ratios						
Y/E March	FY18A	FY19A	FY20E	FY21E	FY22E	
BV/Share (INR)	37.7	43.6	49.8	57.7	65.4	
ROIC	15.1%	14.8%	17.2%	16.3%	14.4%	
ROE	20.9%	18.7%	19.3%	17.7%	15.7%	
Net Debt/Equity (x)	0.6	0.5	0.3	0.2	0.3	
P/E (x)	23.2	22.3	18.8	17.7	17.5	
P/B (x)	4.5	3.9	3.4	2.9	2.6	
EV/EBITDA (x)	13.8	14.0	10.9	10.4	10.0	
EV/Sales (x)	2.2	1.9	1.7	1.6	1.6	
Debtor days	58	47	48	48	48	
Inventory days	63	65	62	62	62	
Creditor days	39	30	36	36	36	

Source: Company, JM Financial

History of Earnings Estimate and Target Price

Date	Recommendation	Target Price	% Chg.
7-Aug-17	Hold	280	
18-May-18	Hold	300	7.1
25-Jul-18	Hold	260	-13.3
5-Feb-19	Hold	200	-23.1
28-May-19	Hold	190	-5.0
23-Sep-19	Hold	190	0.0

Recommendation History



APPENDIX I

JM Financial Institutional Securities Limited

(formerly known as JM Financial Securities Limited)

Corporate Identity Number: U67100MH2017PLC296081

Member of BSE Ltd., National Stock Exchange of India Ltd. and Metropolitan Stock Exchange of India Ltd.

SEBI Registration Nos.: Stock Broker - INZ000163434, Research Analyst – INH000000610

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Definition of ratings	
Rating	Meaning
Buy	Total expected returns of more than 15%. Total expected return includes dividend yields.
Hold	Price expected to move in the range of 10% downside to 15% upside from the current market price.
Sell	Price expected to move downwards by more than 10%

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