

Rating matrix

Rating	:	Hold
Target	:	₹ 155
Target Period	:	12-18 months
Potential Upside	:	-8%

What's Changed?

Target	Changed from ₹ 195 to ₹ 155
EPS FY19E	Changed from ₹ 8.1 to ₹ 7.6
EPS FY20E	Changed from ₹ 9.7 to ₹ 7.8
Rating	Unchanged

Quarterly Performance

(₹ crore)	Q3FY19	Q3FY18	YoY (%)	Q2FY19	QoQ (%)
Revenue	578.9	509.9	13.5	564.4	2.6
EBITDA	75.9	87.7	-13.5	74.2	2.3
EBITDA (%)	13.1	17.2	-409 bps	13.1	-3 bps
PAT	41.4	46.6	-11.2	37.8	9.5

Key Financials

(₹ Crore)	FY17	FY18	FY19E	FY20E
Net Sales	1,782.5	1,967.2	2,268.2	2,562.3
EBITDA	292.0	306.1	317.2	344.8
Net Profit	185.6	156.6	168.8	173.5
EPS (₹)	8.4	7.1	7.6	7.8

Valuation summary

(x)	FY17	FY18	FY19E	FY20E
P/E	20.1	23.8	22.1	21.5
Target P/E	18.6	22.0	20.4	19.8
EV / EBITDA	14.0	13.3	12.7	11.9
P/BV	5.3	4.5	3.9	3.4
RoNW (%)	26.2	18.7	17.5	15.8
RoCE (%)	24.5	20.3	21.5	19.9

Stock data

Particular	Amount (₹ crore)
Market Capitalization	3,732.5
Total Debt	360.3
Cash	17
EV	4,076.3
52 week H/L (₹)	364 / 150
Equity capital	22.3
Face value (₹)	1.0

Price performance (%)

(%)	1M	3M	6M	12M
Greenply Industries	(16.5)	(33.8)	(47.4)	(22.5)
Century Plyboard	(6.1)	(27.9)	(25.9)	(12.0)

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Century Plyboards (India) (CENPLY) ₹ 168

Continued pressure on margins...

- Century Plyboards (CPIL) topline grew 13.5% YoY to ₹ 578.9 crore, mainly led by better utilisation in MDF division. MDF division clocked revenues of ₹ 88.2 crore in Q3FY19 vs. ₹ 47.3 crore in Q3FY18
- EBITDA margins were flattish QoQ at 13.1% (our expectation: 14.5%) due to lower EBITDA margin in plywood division (12.1% in Q3FY19)
- PAT de-grew 11.2% YoY to ₹ 41.4 crore (our expectation: ₹ 44.6 crore) mainly on account of a contraction in EBITDA margin

MDF margin improves sequentially despite pressure on realisation...

CPIL's MDF facility operated at ~80% utilisation while sales volumes grew at a healthy 42.7% QoQ to 42312 CBM in Q3FY19. Though operationally it was a good quarter, MDF realisations were down 7.9% QoQ at ₹ 20835/CBM as manufacturers including Century Ply took more price cuts. As per the management, MDF realisations could further correct by ~3%. MDF EBITDA margins grew 10 percentage points to 15.9% in Q3FY19 as the company got cost advantages from i) installation of new machine that helped CPIL cut glue consumption by 20%; and ii) electricity charges negotiated at ₹ 5/unit from ₹ 6.5/unit earlier. Going ahead, the management aims to maintain 14-15% margins for this division. Overall, we build in MDF revenues at ₹ 305.5 crore & ₹ 376.2 crore in FY19E & FY20E, respectively.

Focus on mid-segment plywood to impact plywood EBITDA margins...

CPIL's plywood division utilisation was at ~80%. Volumes remained flattish YoY at 62217 CBM in Q3FY19 while realisations de-grew 2.1% YoY to ₹ 50325/ CBM due to a change in the product mix. Hence, ply revenues de-grew 2.3% YoY to ₹ 313.1 crore while EBITDA margins contracted 214 bps YoY to 12.1% in Q3FY19. The company has further stepped up its intent to aggressively expand its share in mid-segment plywood market. To cater to this segment, it will source Okume timber from Gabon that is 35% cheaper than timber from Myanmar. Going ahead, the management expects EBITDA margins to soften on account of higher share of mid-segment products. Overall, we expect plywood segment revenues to grow moderately at 6.4% CAGR to ₹ 1429.3 crore in FY18-20E.

Expansion plans on the cards...

To support its plans of aggressively entering the mid-segment market, CPIL is undertaking expansion of Okume timber peeling facility in Gabon, incurring a capex of ₹ 30 crore in Q4FY19E. Its commencement is expected after next six months. Secondly, the company is planning to set up a new 400 CBM/day particle boards manufacturing plant in Uttar Pradesh, incurring a capex of ₹ 100 crore. Apart from this, with MDF utilisation at ~80% in Q3FY19, CPIL's management is contemplating on expanding its MDF capacity in Uttar Pradesh.

Margins to stay under pressure in near term; maintain HOLD...

We are positive on CPIL's long-term growth given its strong brand recall, wide array of products & wide distribution network and is poised to reap benefits from unorganised to organised shift & e-way bill implementation. However, in the interim, stiff competition in MDF, shift of focus to low-margin plywood products weigh on margins. Consequently, we downgrade our EPS estimates by 5.8%, 19.7% to ₹ 7.6, ₹ 7.8 in FY19E, FY20E, respectively. Also, we would be keenly watching CPIL's plan on capacity addition (in UP) in the already oversupplied MDF market. Hence, we maintain **HOLD** rating on the stock with a revised target price of ₹ 155 (20x FY20E EPS).

Variance analysis

Particular	Q3FY19	Q3FY19E	Q3FY18	YoY Chg (%)	Q2FY19	QoQ Chg (%)	Comments
Net Sales	578.9	578.7	509.9	13.5	564.4	2.6	Topline growth can be attributed to incremental contribution from MDF division
Other Income	1.6	1.3	4.2	-62.9	1.0	57.0	
Material Consumed	253.5	257.5	204.0	24.3	239.7	5.8	
Purchase of Stock in Trade	64.4	63.4	84.0	-23.3	61.8	4.2	
Employee Benefit Expenses	81.0	83.9	72.3	12.1	84.0	-3.6	
Other Expenses	113.2	89.2	89.2	26.9	111.7	1.3	
EBITDA	75.9	83.7	87.7	-13.5	74.2	2.3	
EBITDA Margin (%)	13.1	14.5	17.2	-409 bps	13.1	-3 bps	Margin contraction was on account of significant margin decline in plywood division
Depreciation	13.6	11.3	26.3	-48.3	11.3	20.8	
Interest	6.3	10.0	6.3	-0.3	15.5	-59.7	
PBT	57.7	63.7	59.4	-2.9	48.5	19.0	
Taxes	16.3	19.1	12.8	27.5	10.6	52.6	
PAT	41.4	44.6	46.6	-11.2	37.8	9.5	De-growth was led by EBITDA margin contraction

Source: Company, ICICI Direct Research

Change in estimates

Particulars (₹ crore)	FY18		FY19E			FY20E			Comments
		% change	Old	New	% change	Old	New	% change	
Revenue	1,967.2	-8.8	2,301.0	2,268.2	-1.4	2,670.2	2,562.3	-4.0	We factor in management guidance
EBITDA	306.1	-8.9	345.0	317.2	-8.1	402.6	344.8	-14.4	
EBITDA Margin (%)	15.6	-4 bps	15.0	14.0	-102 bps	15.1	13.5	-164 bps	We factor in lower margins in line with management commentary
PAT	156.6	-19.0	179.1	168.8	-5.8	216.1	173.5	-19.7	Downward revision of EBITDA margins and higher tax rate led to lower PAT growth
EPS (₹)	7.1	-19.0	8.1	7.6	-5.8	9.7	7.8	-19.7	

Source: Company, ICICI Direct Research

Assumptions

Volume Assumptions	Current			Earlier		Comments
	FY16	FY17	FY18	FY19E	FY20E	
Plywood & Veneer(In CBM)	241,794	251,720	253,922	260,338	284,096	266,664 292,271 We tweak our estimates
MDF (CBM)	0	0	48,307	141,743	179,955	127,668 162,000 We increase our MDF volume estimates given the higher utilization and improved performance in Q3FY19
Laminate Sheets (In Mn)	4.3	5.0	5.5	5.7	6.3	5.7 6.6
Pre-laminated Boards (In Mn SQM)	1.0	0.9	1.4	0.0	0.0	0.0 0.0

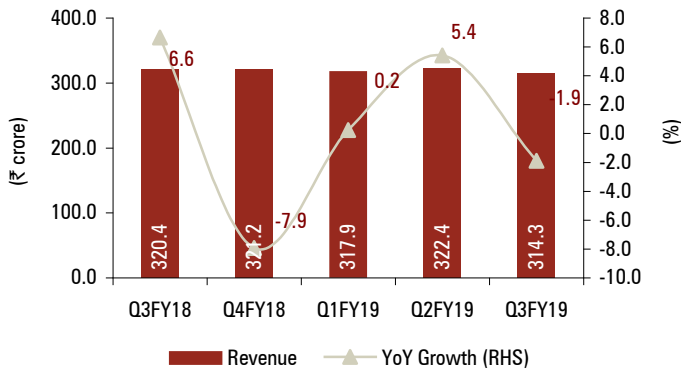
Source: Company, ICICI Direct Research

Conference Call Highlights

- **Business strategy:** CPIL has strategised to aggressively penetrate the mid-segment plywood market, which is ~45% of the overall plywood industry. It finds immense opportunity from the affordable housing to cater to. In the particle boards segment, it is planning to set up a new 400 CBM/day manufacturing plant in UP at a capex of ₹ 100 crore
- **Plywood performance:** Plywood & allied products division's utilisation was at ~80%. Volume remained flattish YoY at 62217 CBM in Q3FY19 while realisations de-grew 2.1% YoY to ₹ 50325/CBM due to a change in product mix. As a result, ply revenues de-grew 2.3% YoY to ₹ 313.1 crore in Q3FY19. EBITDA margins contracted 214 bps YoY to 12.1%. The company has shifted its focus to the mid-segment plywood products and plans to aggressively increase its share in this segment as well. With this, the management guided that margins will take a hit in the medium term.
- **MDF division:** CPIL's MDF facility operated at ~80% utilisation, while sales volumes grew 42.7% QoQ to 42312 CBM in Q3FY19. With manufacturers including Century Ply taking more price cuts, MDF realisations for the company were down by 5% in Q3FY19. The management indicated that MDF realisations could further correct by ~3%. On a positive note, MDF margins are back in double-digits at 15.9% (from 5.9% in Q2FY19), albeit much lower than previously anticipated margins of 20%+. It is also contemplating on MDF capacity expansion and could come out with a decision on this front soon.
- **Cost control measures in MDF:** CPIL installed a machine that has reduced glue consumption. As a result, glue consumption has gone down by 20%. Additionally, glue costs have gone down in the past month. Also, the company had a dispute on per unit electricity cost with the electricity board, which has now been settled. As an outcome, the negotiated rate has been settled at ₹ 5 per unit from ₹ 6.5/ unit earlier. Glue and electricity cost are the two major cost components in MDF manufacturing. With cost for both these components reduced, the company aims to maintain 14-15% EBITDA margins for MDF
- **Timber peeling expansion:** Okume timber from Gabon is 35% cheaper than timber from Myanmar. Gabon Okume is adequate raw material for mid-segment products. Hence, to support its plans of aggressively entering the mid-segment market, the company is undertaking expansion of Okume timber peeling facility in Gabon incurring a capex of ₹ 30 crore in Q4FY19E. Expected commencement is after 6 months
- **Forex losses:** CPIL incurred forex losses to the tune of ₹ 19.86 crore in 9MFY19. Of this, ₹ 10.34 crore is borrowing cost and ₹ 9.52 crore has been booked at EBITDA level
- **Debt:** The company's debt is at ₹ 468 crore as of Q3FY19. The net D/E of the company stands at 0.2
- **Distribution network:** CPIL has a distribution network of 18000 for laminates and 5000-5500 for plywood. The company aims to increase this reach to 30000 and 15000 for laminates and plywood, respectively in the next 1-1.5 years

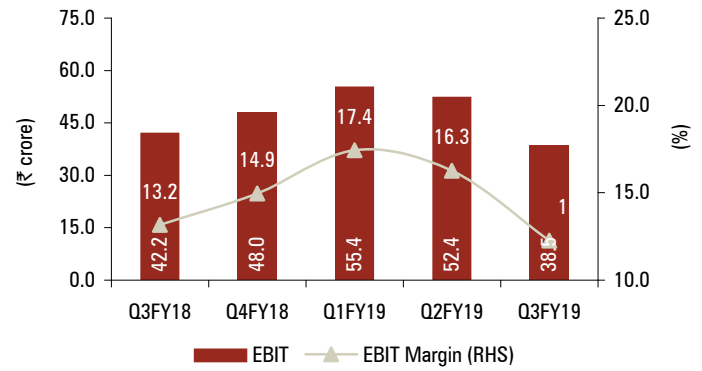
Company Analysis

Exhibit 1: Quarterly plywood & allied products revenue



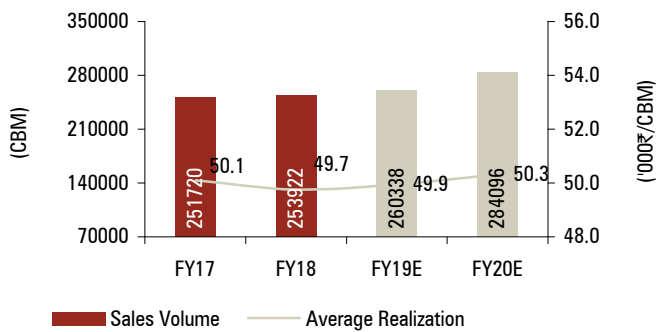
Source: Company, ICICI Direct Research

Exhibit 2: Quarterly plywood and allied products EBIT & EBIT margin



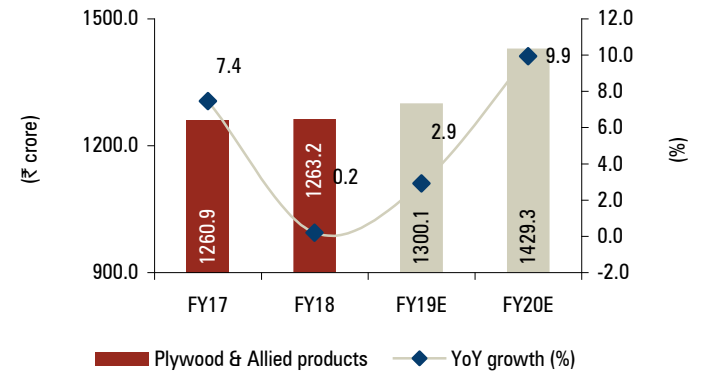
Source: Company, ICICI Direct Research

Exhibit 3: Plywood sales volume and average realisation



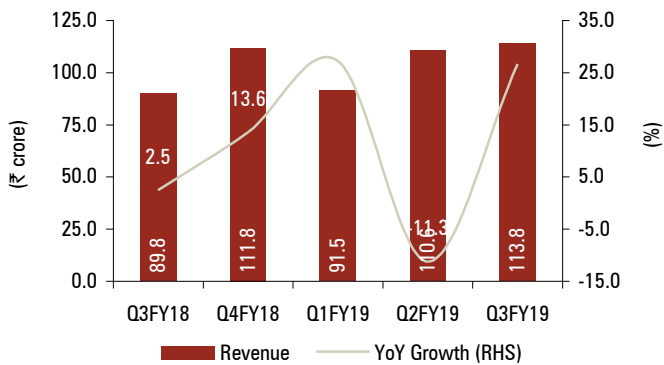
Source: Company, ICICI Direct Research

Exhibit 4: Plywood revenue and growth trend



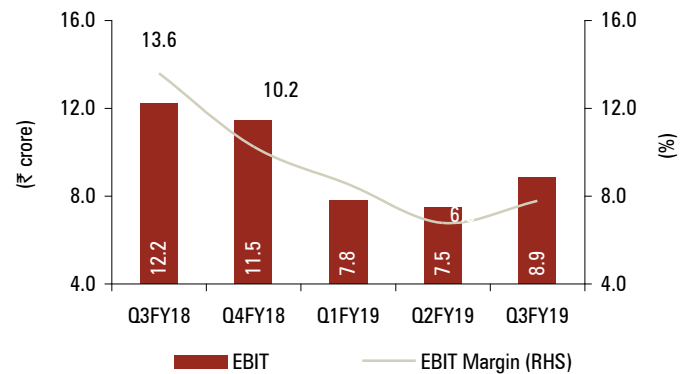
Source: Company, ICICI Direct Research

Exhibit 5: Quarterly laminate & allied products revenue



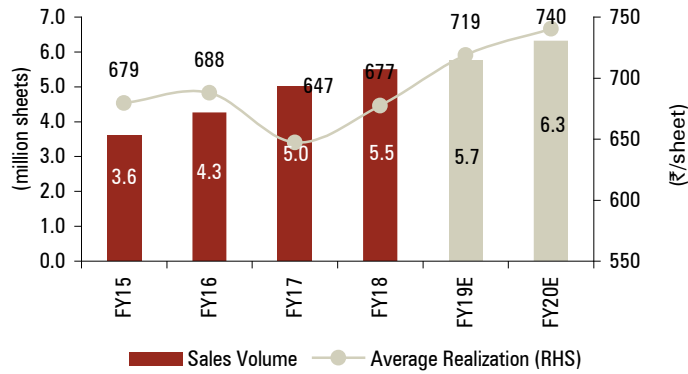
Source: Company, ICICI Direct Research

Exhibit 6: Quarterly laminate & allied products EBIT & EBIT margin



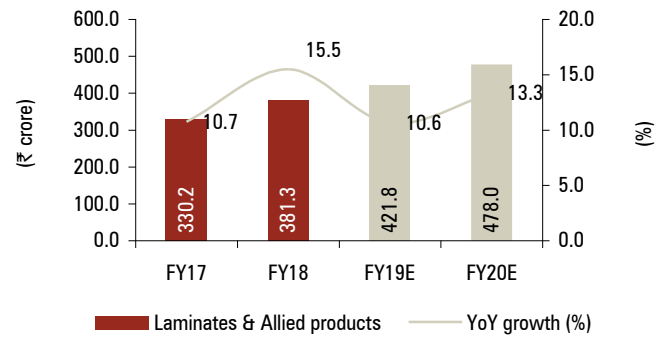
Source: Company, ICICI Direct Research

Exhibit 7: Laminate sales volume and average realisation trend



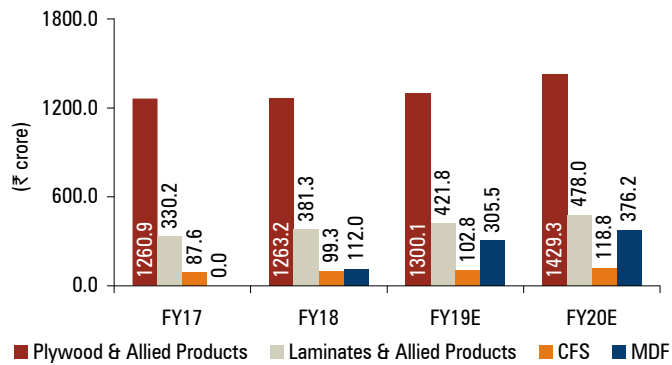
Source: Company, ICICI Direct Research

Exhibit 8: Laminate revenue and growth trend



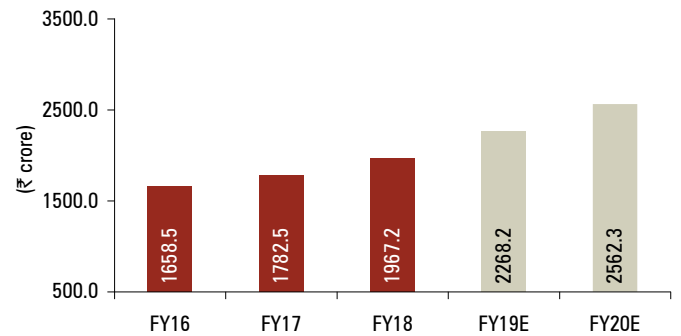
Source: Company, ICICI Direct Research

Exhibit 9: Segmental net revenue trend



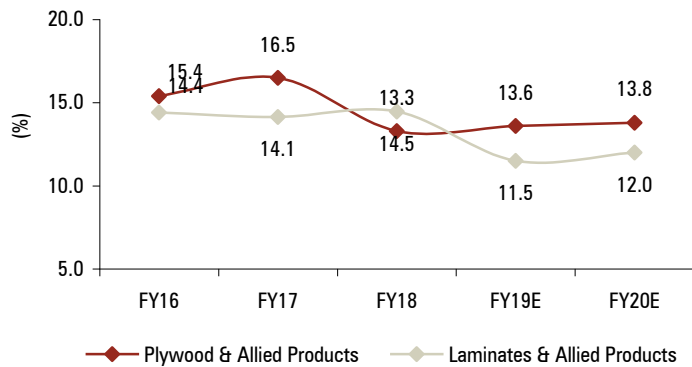
Source: Company, ICICI Direct Research

Exhibit 10: Total net revenue trend



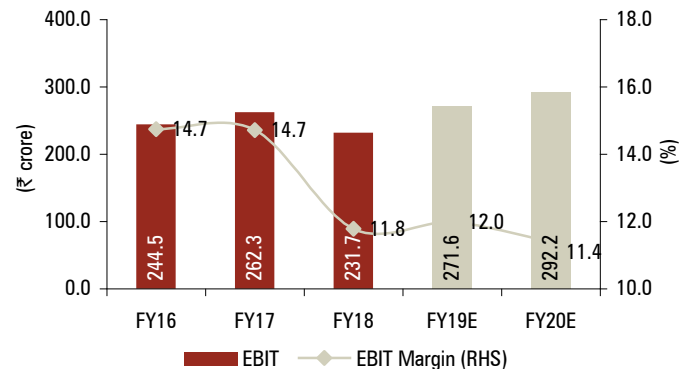
Source: Company, ICICI Direct Research

Exhibit 11: Segmental EBIT trend



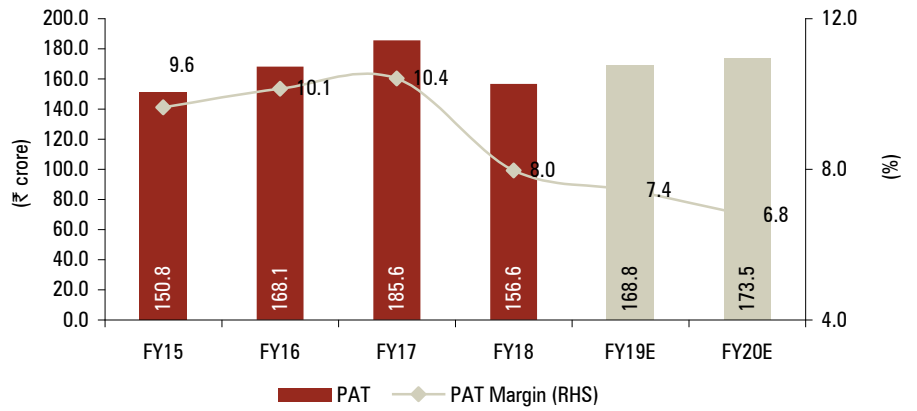
Source: Company, ICICI Direct Research

Exhibit 12: EBIT margin trend



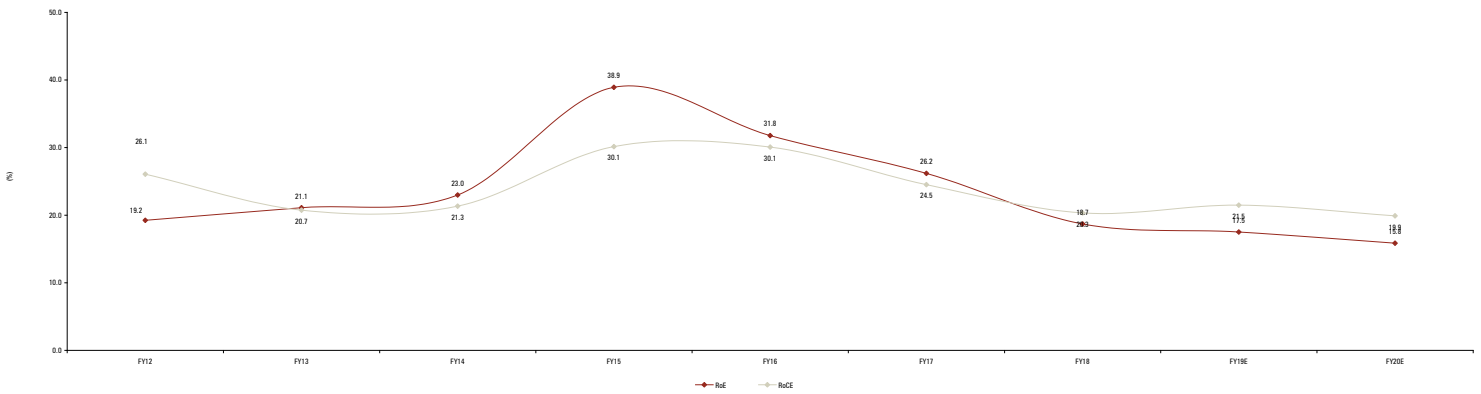
Source: Company, ICICI Direct Research

Exhibit 13: PAT growth trend



Source: Company, ICICI Direct Research

Exhibit 14: RoE and RoCE trend



Source: Company, ICICI Direct Research

We have a **HOLD** recommendation on CPIL with a target price of ₹ 155/share. Our target price implies 20x FY20E EPS.

Valuation

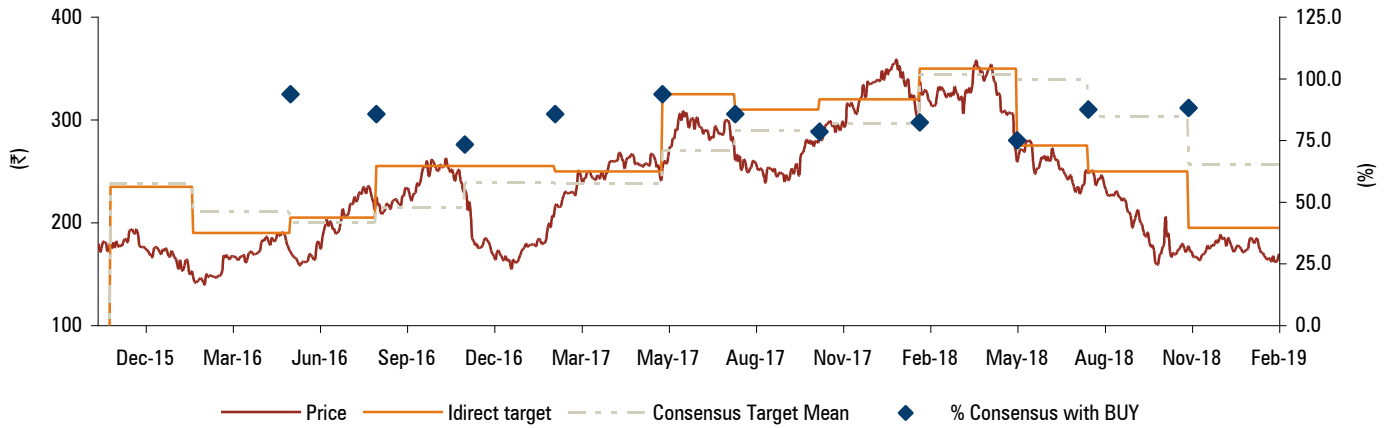
We are positive on CPIL's long-term growth given its strong brand recall, wide array of products & wide distribution network and is poised to reap benefits from unorganised to organised shift & e-way bill implementation. However, in the interim, stiff competition in MDF, shift of focus to low-margin plywood products have weighed on CPIL's margins. Consequently, we downgrade our EPS estimates by 5.8%, 19.7% to ₹ 7.6, ₹ 7.8 in FY19E, FY20E, respectively. Also, we would keenly watch CPIL's plan on capacity addition (in Uttar Pradesh) in the already oversupplied MDF market. Hence, we maintain **HOLD** recommendation on the stock with a revised TP of ₹ 155 (20x FY20E EPS).

Exhibit 15: Valuation Metrics

	Sales (₹ cr)	Growth (%)	EPS (₹)	Growth (%)	PE (x)	EV/EBITDA (x)	RoNW (%)	RoCE (%)
FY16	1658.5	6.0	7.6	11.4	22.2	14.2	31.8	30.1
FY17	1782.5	7.5	8.4	10.4	20.1	14.0	26.2	24.5
FY18	1967.2	10.4	7.1	-15.6	23.8	13.3	18.7	20.3
FY19E	2268.2	15.3	7.6	7.8	22.1	12.7	17.5	21.5
FY20E	2562.3	13.0	7.8	2.8	21.5	11.9	15.8	19.9

Source: Company, ICICI Direct Research

Recommendation History vs. Consensus chart



Source: Bloomberg, Company, ICICI Direct Research

Key events

Date	Event
FY04	Rights issue 40% at ₹ 30 premium
FY04	Bonus 1:2 ratio
FY07	Acquires 51% stake in Auro Sundaram
FY08	Stock split 1:10
FY08	Acquisition of Star Ferro & Cement Ltd
FY09	CFS business becomes operational
FY10	Acquires 51% stake in Aegis Business
FY13	Demerger of Star Ferro and Cement Ltd
FY13	Ventures into readymade furniture business
FY14	Acquires 50% stake in Century Infotech
FY14	Demerger of Aegis business
Nov-15	Plans to build an MDF facility in Punjab with annual capacity of 1,80,000 CBM with capital expenditure of ~₹ 400 crore

Source: Company, ICICI Direct Research

Top 10 Shareholders

Rank	Name	Latest Filing Date	% O/S	Position (m)	Change (m)
1	Bhajanka (Sajjan)	31-Dec-18	11.6%	25.7	0.5
2	Agarwal (Sanjay)	31-Dec-18	11.1%	24.8	0.4
3	Agarwal (Divya)	31-Dec-18	7.5%	16.7	0.0
4	Bhajanka (Santosh)	31-Dec-18	7.0%	15.4	0.0
5	Khemani (Vishnuprasad)	31-Dec-18	5.7%	12.7	0.0
6	Sriram Vanijya Pvt. Ltd.	31-Dec-18	3.8%	8.5	0.0
7	Brijdham Merchants Pvt. Ltd.	31-Dec-18	3.5%	7.7	0.0
8	Sumangal International Pvt. Ltd.	31-Dec-18	3.5%	7.7	0.0
9	Sumangal Business Pvt. Ltd.	31-Dec-18	3.1%	6.8	0.0
10	Sriram Merchants Pvt. Ltd.	31-Dec-18	3.0%	6.7	0.0

Shareholding Pattern

(in %)	Mar-18	Jun-18	Sep-18	Dec-18
Promoter	72.0	72.3	72.3	72.3
Public	28.0	27.7	27.7	27.7
Others	0.0	0.0	0.0	0.0
Total	100.0	100.0	100.0	100.0

Source: Reuters, ICICI Direct Research

Recent Activity

Buys			Sells		
Investor name	Value (m)	Shares (m)	Investor name	Value (m)	Shares (m)
Pictet Asset Management Ltd.	1.4	0.6	Agarwala (Hari Prasad)	-4.1	-1.6
Bhajanka (Sajjan)	1.3	0.5	Lazard Asset Management, L.L.C.	-1.8	-0.7
Agarwal (Sanjay)	1.0	0.4	Aditya Birla Sun Life AMC Limited	-0.8	-0.3
Mirae Asset Global Investments (India) Pvt. Ltd.	1.0	0.4	Northern Trust Investments, Inc.	-0.6	-0.2
HDFC Asset Management Co., Ltd.	0.9	0.3	Union Asset Management Company Private Limited	-0.3	-0.1

Source: Reuters, ICICI Direct Research

Financial summary

Profit and loss statement (₹ Crore)

(₹ Crore)	FY17	FY18	FY19E	FY20E
Net Sales	1,782.5	1,967.2	2,268.2	2,562.3
Raw Material Expense	602.6	691.7	839.1	957.4
Purchase of Traded Goods	315.5	331.3	385.6	435.6
Employee benefit expenses	256.7	283.9	327.4	369.8
Other Expenses	315.7	354.3	399.0	454.7
Total Expenses	1,490.4	1,661.2	1,951.1	2,217.5
EBITDA	292.0	306.1	317.2	344.8
EBITDA Margin (%)	16.4	15.6	14.0	13.5
Interest	28.6	32.7	43.5	51.2
Depreciation	52.4	81.0	50.0	57.2
Other income	22.7	6.7	4.3	4.6
PBT	233.7	199.0	228.1	241.0
Taxes	48.1	42.4	59.3	67.5
PAT	185.6	156.6	168.8	173.5
PAT Growth rate (%)	10.4	(15.6)	7.8	2.8
Adjusted EPS (Diluted)	8.4	7.1	7.6	7.8

Source: Company, ICICI Direct Research

Balance sheet (₹ Crore)

(₹ Crore)	FY17	FY18	FY19E	FY20E
Liabilities				
Equity Capital	22.3	22.3	22.3	22.3
Reserve and Surplus	686.4	815.7	942.3	1,072.4
Total Shareholders funds	708.6	837.9	964.5	1,094.7
Total Debt	422.9	360.3	358.5	431.9
Deferred Tax Liability	(61.9)	(69.0)	(69.0)	(69.0)
Total Liabilities	1,070.0	1,129.0	1,254.0	1,458.0
Assets				
Gross Block	542.2	715.3	1,051.6	1,143.6
Less Acc. Dep	293.5	174.1	431.7	488.9
Net Block	248.7	541.2	619.9	654.7
Net Intangibles Assets	0.7	0.5	1.1	1.9
Expenditure on new projects	244.4	-	-	-
Capital WIP	39.6	119.8	130.3	130.3
Total Fixed Assets	533.4	661.5	751.3	786.9
Investments	96.1	96.0	96.0	96.0
Inventory	263.8	338.2	365.1	440.5
Sundry Debtors	335.3	314.5	337.7	409.6
Loans & Advances	14.6	25.6	29.5	61.4
Cash & Bank Balances	53.8	16.5	49.5	67.8
Other Current Assets	188.6	137.6	154.7	185.5
Total Current Assets	856.2	832.4	936.6	1,164.8
Trade Payable	281.2	318.4	367.1	414.7
Other Current Liabilities	123.4	141.2	161.1	180.6
Provisions	11.5	1.5	1.8	(5.0)
Net Current Assets	440.1	371.4	406.6	574.6
Total Assets	1,070.0	1,129.0	1,254.0	1,458.0

Source: Company, ICICI Direct Research

Cash flow statement (₹ Crore)

(₹ Crore)	FY17	FY18	FY19E	FY20E
Profit after Tax	185.6	156.6	168.8	173.5
Depreciation	52.4	81.0	50.0	57.2
Interest	28.6	32.7	43.5	51.2
Others	(56.5)	(137.6)	(90.1)	(13.6)
Cash Flow before wc changes	258.2	175.1	231.4	335.8
Net Increase in Current Assets	(14.3)	88.6	26.4	(58.4)
Net Increase in Current Liabilities	(3.0)	14.2	(0.5)	(133.8)
Net CF from operating activities	240.9	277.9	257.4	143.5
(Purchase)/Sale of Fixed Assets	(98.1)	(373.6)	(128.6)	(92.0)
Net CF from Investing activities	(301.7)	(192.4)	(136.9)	(104.0)
Dividend	(26.7)	(39.2)	(42.2)	(43.4)
Interest paid	(28.6)	(32.7)	(43.5)	(51.2)
Inc / (Dec) in Loans	130.0	(62.6)	(1.8)	73.5
Net CF from Financing activities	74.6	(134.5)	(87.5)	(21.1)
Net Cash flow	13.8	(49.0)	33.0	18.3
Opening Cash	19.0	53.8	16.5	49.5
Closing Cash/ Cash Equivalent	53.8	16.5	49.5	67.8

Source: Company, ICICI Direct Research

Key ratios

	FY17	FY18	FY19E	FY20E
Per Share Data (₹)				
EPS - Diluted	8.4	7.1	7.6	7.8
Cash EPS	10.7	10.7	9.8	10.4
Book Value	31.9	37.7	43.4	49.3
Dividend per share	1.2	1.8	1.9	2.0
Operating Ratios (%)				
EBITDA / Net Sales	16.4	15.6	14.0	13.5
PAT / Net Sales	10.4	8.0	7.4	6.8
Inventory Days	54	63	59	63
Debtor Days	69	58	54	58
Creditor Days	58	59	59	59
Return Ratios (%)				
RoE	26.2	18.7	17.5	15.8
RoCE	24.5	20.3	21.5	19.9
RoIC	24.5	22.4	24.6	22.6
Valuation Ratios (x)				
EV / EBITDA	14.0	13.3	12.7	11.9
P/E (Diluted)	20.1	23.8	22.1	21.5
EV / Net Sales	2.3	2.1	1.8	1.6
Market Cap / Sales	2.1	1.9	1.6	1.5
Price to Book Value	5.3	4.5	3.9	3.4
Dividend Yield	0.7	1.0	1.1	1.2
Solvency Ratios (x)				
Net Debt / Equity	0.5	0.4	0.3	0.3
Debt / EBITDA	1.4	1.2	1.1	1.3
Current Ratio	1.8	1.7	1.6	1.8
Quick Ratio	1.2	1.0	0.9	1.0

Source: Company, ICICI Direct Research

ICICI Direct Research coverage universe (Plywood)

Sector / Company	CMP		Rating	M Cap (₹ Cr)	EPS (₹)			P/E (x)			EV/EBITDA (x)			P/B (x)			RoE (%)	
	(₹)	TP(₹)			FY18	FY19E	FY20E	FY18	FY19E	FY20E	FY18	FY19E	FY20E	FY18	FY19E	FY20E	FY18	FY19E
Century Plyboard (CENPLY)	168	155	Hold	3733	7.1	7.6	7.8	23.8	22.1	21.5	13.3	12.7	11.9	4.5	3.9	3.4	18.7	17.5
Greenply (MTML)	204	220	Hold	2481	11.2	11.2	10.5	18.4	18.3	19.6	11.0	12.9	10.4	3.2	2.7	2.4	17.2	14.8

Source: Company, ICICI Direct Research

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Buy: > 10%/15% for large caps/midcaps, respectively;

Hold: Up to +/-10%;

Sell: -10% or more;



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