

07 February 2019

Century Plyboards

*Weak quarter, optimistic outlook; maintaining a Buy*Rating: **Buy**

Target Price: ₹216

Share Price: ₹168

Century's Q3 was slightly below estimates, with EBITDA/PAT down 13%/11% y/y, held back primarily by lower revenues and poor margins in Plywood (inferior mix). MDF, on the other hand, saw sharp revenue jump (up 85% y/y) and margin expansion (~16%). We broadly maintain our estimates. Expecting a gradual recovery in margins (on a price hike in laminates, stable raw material prices and normalisation of pricing pressure in MDF), we now expect a 24% EPS CAGR over FY18-21. We maintain a Buy with a lower target of ₹216 (16x FY21e P/E).

Margin pressure continues. Revenue increased 14% y/y mainly driven by MDF (up 85% y/y to ₹882m). Plywood saw lower sales (down 2.6% y/y) despite a 7% y/y increase in volumes, impacting its EBITDA margin (down 200bps y/y, 340bps q/q, to 12.1%). The Q3 overall margin contracted 410bps y/y, flat q/q, to 13.1% (14.1% in 9M, 15.6% in FY18). Thus, EBITDA/PAT declined 13%/11% y/y. At end-Dec'19, despite lower debtor days, the working-capital cycle lengthened due to lower creditor days as the company wanted to reduce hedging and forex exposure. Debt increased by ₹1.1bn in 9M to ₹4.68bn.

Outlook. Considering high demand in the mid-segment plywood, coming from affordable housing, Century is aiming at more outsourcing of the *Sainik* brand. Prices of key raw materials have stabilised and margin recovery is expected. After crossing 80% utilisation in MDF, the company is planning further capex at the existing location. Capacity enhancement of Particle Board is also on the cards. While short-term challenges such as rising input costs and keener competition in MDF can be seen, the structural long-term growth outlook is intact.

Valuation. We like Century for its diversified product portfolio, leadership positions in key product segments and disciplined balance sheet. At the CMP, the stock is attractively valued (12.5x, 8.4x FY21e P/E, EV/EBITDA), considering a 24% PAT CAGR over FY18-21 and RoE crossing 20%. We maintain our Buy rating on it. **Risks:** Rising input costs, currency fluctuations.

Key financials (YE Mar)	FY17	FY18	FY19e	FY20e	FY21e
Sales (₹ m)	17,825	19,672	23,137	26,092	29,463
Net profit (₹ m)	1,856	1,566	1,850	2,432	3,003
EPS (₹)	8.3	7.0	8.3	10.9	13.5
PE (x)	20.1	23.9	20.2	15.4	12.5
EV / EBITDA (x)	14.5	13.8	12.7	10.0	8.4
PBV (x)	5.3	4.5	3.9	3.3	2.7
RoE (%)	26.2	18.7	19.1	21.2	21.8
RoCE (%) – after tax	20.2	14.8	16.1	18.6	20.2
Dividend yield (%)	0.6	1.0	1.0	1.5	1.5
Net debt / equity (x)	0.7	0.6	0.5	0.4	0.3

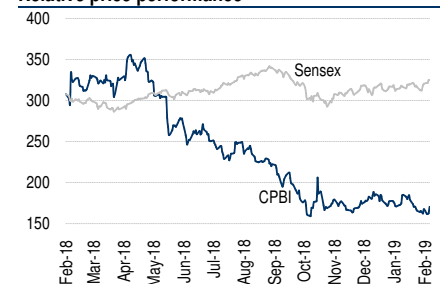
Source: Company, Anand Rathi Research

Key data	CPBI IN / CNTP.BO
52-week high / low	₹364 / 150
Sensex / Nifty	36971 / 11069
3-m average volume	\$0.6m
Market cap	₹38bn / \$531m
Shares outstanding	222m

Shareholding patter (%)	Dec'18	Sep'18	Jun'18
Promoters	72.7	72.3	72.3
- of which, Pledged	-	-	-
Free float	27.3	27.7	27.7
- Foreign institutions	8.7	10.0	10.3
- Domestic institutions	6.2	5.2	5.4
- Public	12.4	12.6	12.1

Estimates revision (%)	FY19e	FY20e
Sales	2.3	0.3
EBITDA	(3.2)	(2.9)
PAT	(1.5)	(2.9)

Relative price performance



Source: Bloomberg

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Quick Glance – Financials and Valuations

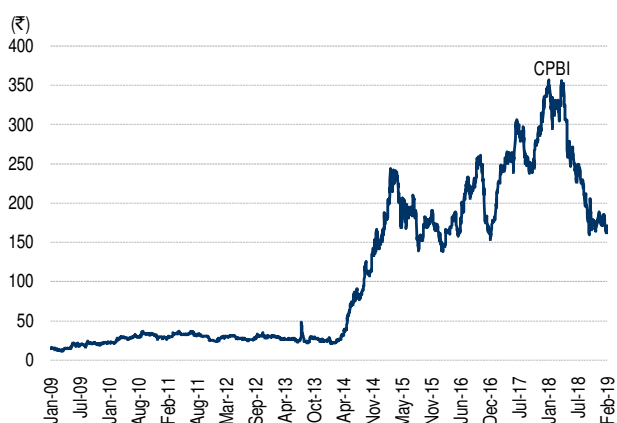
Fig 1 – Income statement (₹ m)

Year-end: Mar	FY17	FY18	FY19e	FY20e	FY21e
Net revenues	17,825	19,672	23,137	26,092	29,463
Growth (%)	9.0	10.4	17.6	12.8	12.9
Direct costs	9,181	10,230	12,053	13,567	15,246
SG&A	5,723	6,382	7,736	8,358	9,350
EBITDA	2,920	3,060	3,348	4,167	4,867
EBITDA margins (%)	16.4	15.6	14.5	16.0	16.5
- Depreciation	524	810	495	541	569
Other income	227	67	51	116	183
Interest expenses	286	327	410	411	368
PBT	2,337	1,990	2,495	3,331	4,113
Effective tax rate (%)	20.6	21.3	25.9	27.0	27.0
+ Associates / (Minorities)	-	-	-	-	-
Net income	1,856	1,566	1,850	2,432	3,003
Adjusted income	1,856	1,566	1,850	2,432	3,003
WANS	223	223	223	223	223
FDEPS (₹ / sh)	8.3	7.0	8.3	10.9	13.5
FDEPS growth (%)	9.3	(15.6)	18.1	31.5	23.5
Gross margins (%)	48.5	48.0	47.9	48.0	48.3

Fig 3 – Cash-flow statement (₹ m)

Year-end: Mar	FY17	FY18	FY19e	FY20e	FY21e
EBIT (excluding other income)	2,397	2,250	2,853	3,626	4,299
+ Non-cash items	524	810	495	541	569
Oper. prof. before WC	2,920	3,060	3,348	4,167	4,867
- Incr. / (decr.) in WC	65	(161)	795	(105)	748
Others incl. taxes	481	424	645	899	1,111
Operating cash-flow	2,374	2,797	1,907	3,372	3,009
- Capex (tang. + intang.)	2,955	2,092	1,102	600	500
Free cash-flow	(581)	706	805	2,772	2,509
Acquisitions					
- Div.(incl. buyback & taxes)	267	417	417	651	651
+ Equity raised	-	-	-	-	-
+ Debt raised	1,524	(544)	-	(500)	(500)
- Fin investments	463	0	-	1,000	1,000
- Misc. (CFI + CFF)	(155)	118	501	295	185
Net cash-flow	366	(373)	(113)	326	172

Source: Company, Anand Rathi Research

Fig 5 – Price movement


Source: Bloomberg

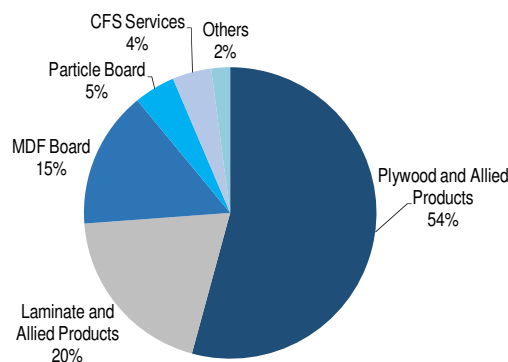
Fig 2 – Balance sheet (₹ m)

Year-end: Mar	FY17	FY18	FY19e	FY20e	FY21e
Share capital	223	223	223	223	223
Net worth	7,086	8,379	9,669	11,450	13,802
Debt	5,573	5,029	5,029	4,529	4,029
Minority interest	-	-	-	-	-
DTL / (Assets)	(689)	(690)	(690)	(690)	(690)
Capital employed	11,971	12,718	14,008	15,289	17,141
Net tangible assets	2,480	5,412	6,517	6,877	6,808
Net intangible assets	7	-	-	-	-
Goodwill	-	-	-	-	-
CWIP (tang. & intang.)	2,849	1,205	708	408	408
Investments (strategic)	960	960	960	1,960	2,960
Investments (financial)	0	-	-	-	-
Current assets (ex cash)	8,032	8,168	8,304	8,650	9,767
Cash	530	157	44	370	542
Current liabilities	2,888	3,184	2,525	2,976	3,345
Working capital	5,144	4,983	5,779	5,674	6,422
Capital deployed	11,971	12,718	14,008	15,289	17,141
Contingent liabilities	841				

Fig 4 – Ratio analysis

Year-end: Mar	FY17	FY18	FY19e	FY20e	FY21e
P/E (x)	20.1	23.9	20.2	15.4	12.5
EV / EBITDA (x)	14.5	13.8	12.7	10.0	8.4
EV / Sales (x)	2.4	2.1	1.8	1.6	1.4
P/B (x)	5.3	4.5	3.9	3.3	2.7
RoE (%)	26.2	18.7	19.1	21.2	21.8
RoCE (%) - after tax	20.2	14.8	16.1	18.6	20.2
RoIC	20.9	15.2	16.2	18.9	20.8
DPS (₹ / sh)	1.0	1.6	1.6	2.5	2.5
Dividend yield (%)	0.6	1.0	1.0	1.5	1.5
Dividend payout (%) - incl. DDT	12.0	22.7	19.2	22.9	18.5
Net debt / equity (x)	0.7	0.6	0.5	0.4	0.3
Receivables (days)	69	58	50	50	50
Inventory (days)	54	63	58	58	58
Payables (days)	57	57	38	40	40
CFO : PAT %	127.9	178.6	103.1	138.7	100.2

Source: Company, Anand Rathi Research

Fig 6 – Q3 FY19 revenue break-up (standalone)


Source: Company

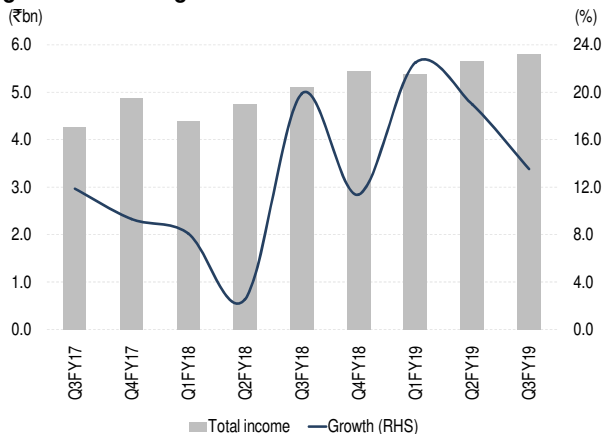
Financial highlights

Fig 7 – Financials (standalone)

(₹ m)	Q4 FY17	Q1 FY18	Q2 FY18	Q3 FY18	Q4 FY18	Q1 FY19	Q2 FY19	Q3 FY19	% Y/Y	% Q/Q	9M FY19	9M FY18	% Y/Y
Total Income	4,885	4,386	4,746	5,099	5,441	5,373	5,644	5,789	14	3	16,806	14,231	18
RM Costs	2,531	2,339	2,545	2,607	2,738	2,754	2,945	3,088	18	5	8,787	7,491	17
Employee Cost	667	689	676	723	752	790	840	810	12	(4)	2,440	2,087	17
Other expenses	850	747	784	892	1,119	963	1,117	1,132	27	1	3,212	2,424	33
EBITDA	838	611	740	878	832	865	742	759	(13)	2	2,367	2,229	6
Depreciation	156	132	138	263	277	108	113	136	(48)	21	357	533	(33)
Interest Cost	26	63	79	63	122	134	155	62	(0)	(60)	352	205	72
Other Income	141	5	6	42	13	6	10	16	(63)	57	31	54	(42)
PBT	798	421	529	594	445	628	485	577	(3)	19	1,690	1,545	9
Tax	239	80	128	128	88	175	106	162	27	53	444	336	32
PAT	559	341	401	467	357	454	378	414	(11)	10	1,246	1,209	3
EPS (Calculated)	2.5	1.5	1.8	2.1	1.6	2.0	1.7	1.9	(11)	10	5.6	5.4	3
As % of income									bps YoY	bps QoQ			bps YoY
Gross margins	48.2	46.7	46.4	48.9	49.7	48.7	47.8	46.7	(221)	(116)	47.7	47.4	36
Employee costs	13.7	15.7	14.2	14.2	13.8	14.7	14.9	14.0	(18)	(89)	14.5	14.7	(15)
Other expenses	17.4	17.0	16.5	17.5	20.6	17.9	19.8	19.6	207	(24)	19.1	17.0	208
EBITDA margins	17.1	13.9	15.6	17.2	15.3	16.1	13.2	13.1	(409)	(3)	14.1	15.7	(158)
Depreciation	3.2	3.0	2.9	5.2	5.1	2.0	2.0	2.3	(281)	35	2.1	3.7	(162)
EBIT margin	14.0	10.9	12.7	12.1	10.2	14.1	11.2	10.8	(128)	(39)	12.0	11.9	5
Interest	0.5	1.4	1.7	1.2	2.2	2.5	2.7	1.1	(15)	(167)	2.1	1.4	66
Other income	2.9	0.1	0.1	0.8	0.2	0.1	0.2	0.3	(56)	9	0.2	0.4	(19)
PBT	16.3	9.6	11.2	11.7	8.2	11.7	8.6	10.0	(169)	137	10.1	10.9	(80)
Effective tax rate	30.0	19.0	24.2	21.5	19.8	27.8	22.0	28.2	670	621	26.3	21.7	453
PAT margins	11.4	7.8	8.5	9.2	6.6	8.4	6.7	7.2	(200)	45	7.4	8.5	(108)
Segment-wise results													
Revenue (₹ m)									% Y/Y	% Q/Q			% Y/Y
Plywood and allied products	3,743	3,427	3,059	3,227	3,230	3,179	3,224	3,143	(2.6)	(2.5)	9,546	9,713	(2)
Laminate and allied products	1,099	793	1,246	999	1,056	915	1,106	1,138	13.9	2.9	3,159	3,039	4
Medium-density fibre boards	6	6	1	476	648	699	612	882	85.4	44.0	2,194	483	354
Particle boards	117	181	145	100	190	182	286	265	164.7	(7.6)	734	426	72
CFS services	235	239	250	276	233	304	264	250	(9.4)	(5.6)	818	764	7
Others	91	94	110	75	98	99	160	121	61.4	(24.5)	380	280	36
Revenue mix (%)									bps Y/Y	bps Q/Q			bps Y/Y
Plywood and allied products	70.7	72.3	63.6	62.6	59.2	59.1	57.0	54.2	(843)	(283)	56.7	66.1	(933)
Laminate and allied products	20.8	16.7	25.9	19.4	19.4	17.0	19.6	19.6	24	6	18.8	20.7	(190)
Medium-density fibre boards	0.1	0.1	0.0	9.2	11.9	13.0	10.8	15.2	598	438	13.0	3.3	975
Particle boards	2.2	3.8	3.0	1.9	3.5	3.4	5.1	4.6	262	(50)	4.4	2.9	146
CFS services	4.4	5.0	5.2	5.3	4.3	5.7	4.7	4.3	(104)	(37)	4.9	5.2	(34)
Others	1.7	2.0	2.3	1.5	1.8	1.8	2.8	2.1	63		2.3	1.9	36
EBITDA margins (%)									bps Y/Y	bps Q/Q			bps Y/Y
Plywood and allied products	20.2	12.9	14.0	14.1	16.1	17.3	15.5	12.1	(204)	(343)	15.0	13.7	131
Laminate and allied products	12.4	15.1	1.9	15.4	12.6	9.4	8.0	9.0	(649)	100	8.7	9.8	(106)
Medium-density fibre boards				20.3	15.6	12.9	5.9	15.9	(435)	1,009	12.2	20.3	(812)
Particle boards	15.1	4.7	24.2	27.2	18.1	26.6	18.9	20.8	(641)	195	21.5	19.3	215
CFS services	37.6	38.4	37.2	40.1	37.7	40.2	33.9	29.0	(1,108)	(483)	34.7	38.6	(390)

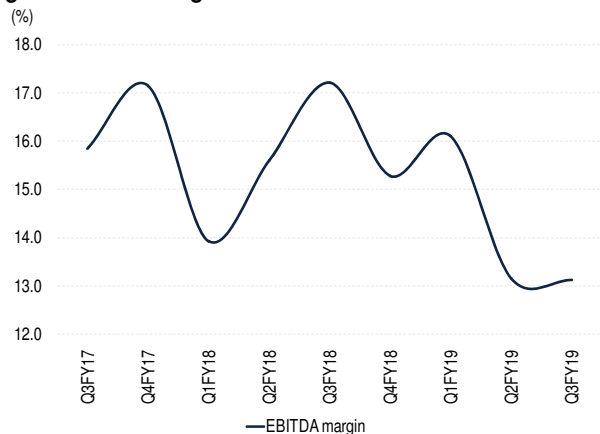
Source: Company, Anand Rathi Research

Fig 8 – Revenue – growth trend



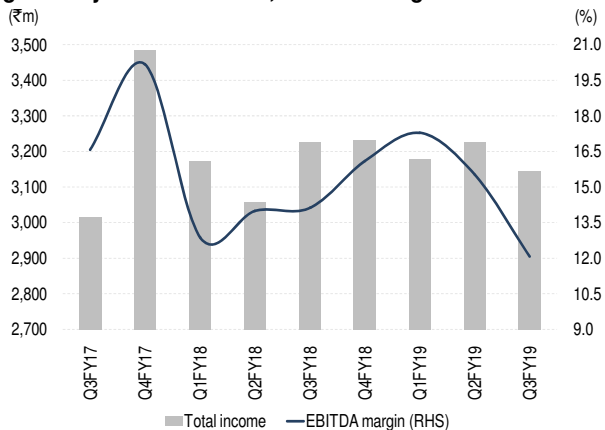
Source: Company, Anand Rathi Research

Fig 9 – EBITDA-margin trend



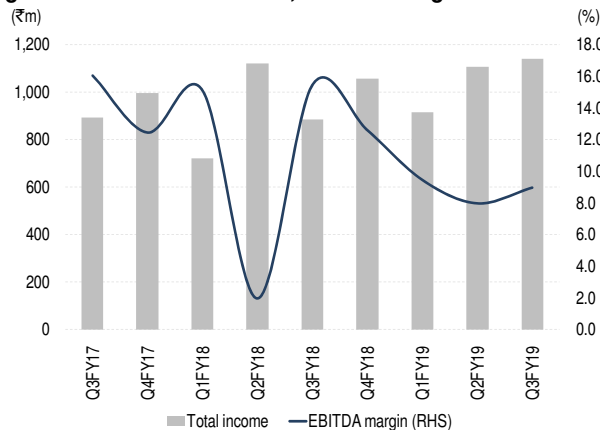
Source: Company, Anand Rathi Research

Fig 10 – Plywood – revenue, EBITDA-margin trends



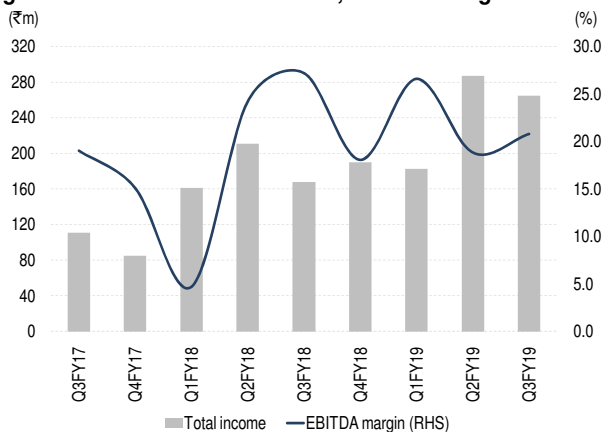
Source: Company, Anand Rathi Research

Fig 11 – Laminates – revenue, EBITDA-margin trends



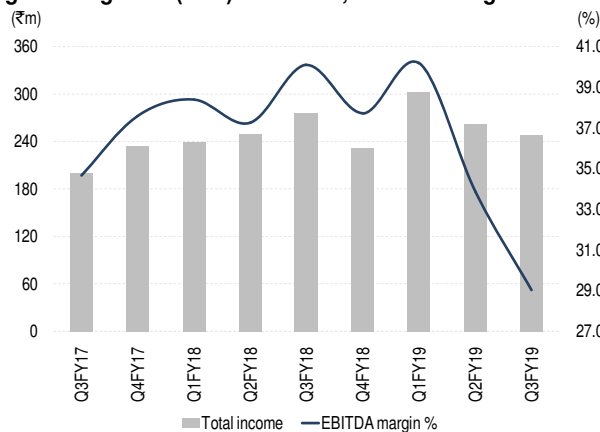
Source: Company, Anand Rathi Research

Fig 12 – Particle boards – revenue, EBITDA-margin trends



Source: Company, Anand Rathi Research

Fig 13 – Logistics (CFS) – revenue, EBITDA-margin trends



Source: Company, Anand Rathi Research

Valuation

While the building materials industry is currently faced with several challenges, we believe in Century's long-term structural growth, supported by macro-economic factors (rising disposable incomes, the government's focus on housing for all, etc.). With a strong brand image (premium-range *Century Club* and the mid-range *Sainik* under plywood) and a diversified product range, 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 MDF capacity additions by domestic manufacturers are squeezing margins, expected only gradually to improve. While some short-term challenges persist, the structural long-term growth outlook is intact.

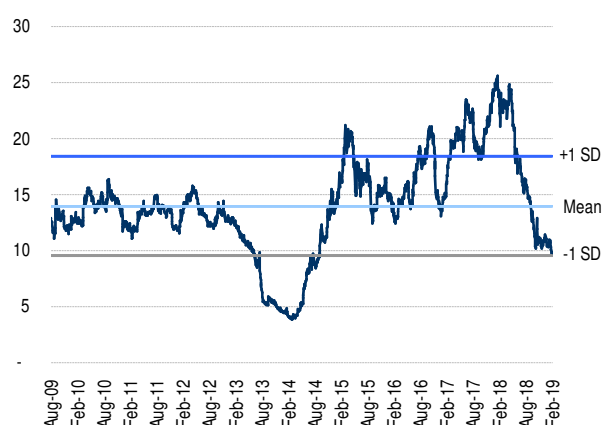
Following a 33% earnings CAGR over FY14-18, the stock has been significantly re-rated. We introduce FY21e and expect a ~24% earnings CAGR over FY18-21. At the CMP the stock quotes at ~12.5x P/E and ~8x EV/EBITDA on FY21e earnings, significantly below the mean of the last ten years owing to the near- to mid-term challenges and earnings risks. We maintain our Buy recommendation on it, with a lower target price of ₹216, valuing it at 16x FY21e P/E (implying ~10x EV/EBITDA).

Fig 14 – Change in estimates

₹ m	Old estimates		New estimates		% Var	
	FY19e	FY20e	FY19e	FY20e	FY19e	FY20e
Income	22,616	26,010	23,137	26,092	2.3	0.3
EBITDA	3,459	4,292	3,348	4,167	(3.2)	(2.9)
EBITDA margins %	15.3	16.5	14.5	16.0		
PAT	1,878	2,503	1,850	2,432	(1.5)	(2.9)
EPS	8.4	11.2	8.3	10.9	(1.5)	(2.9)

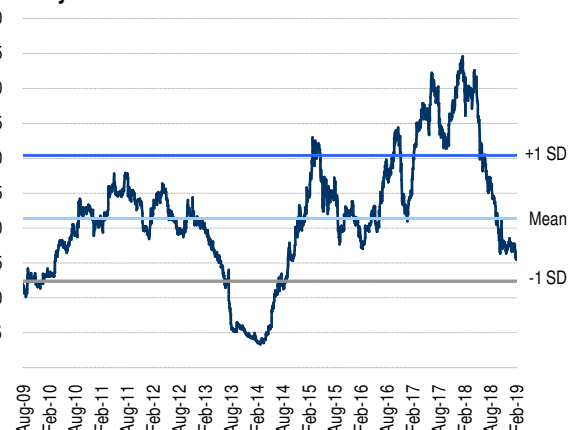
Source: Anand Rathi Research

Fig 15 – 1-year forward EV/EBITDA band & standard deviation



Source: Company, Anand Rathi Research

Fig 16 – 1-year forward P/E band & standard deviation



Source: Company, 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 the raw materials such as phenol follows crude-oil prices, which are volatile. These pose risks to margins.
- **Currency volatility.** Since the company imports most of its raw

material, currency fluctuations could pare its margins.

- **Higher interest rate.** Exposure to interest-rate fluctuations in its foreign-currency borrowing could hurt it.

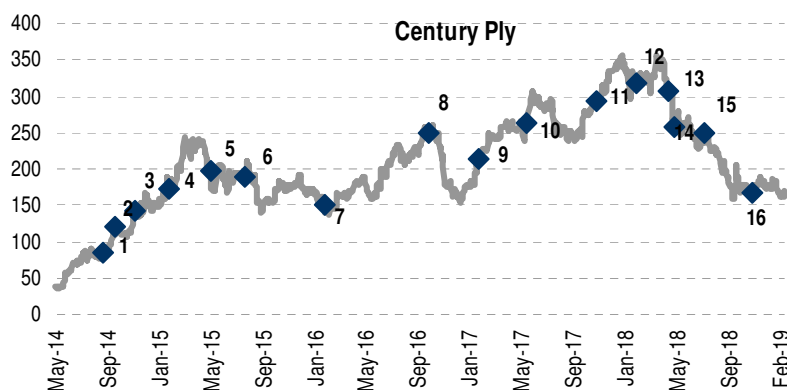
Appendix

Analyst Certification

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Important Disclosures on subject companies

Rating and Target Price History (as of 7 February 2019)



	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
15	30-Jul-18	Buy	301	249
16	22-Nov-18	Buy	225	165

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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