

# Century Plyboards

**BUY**
**Q3 a mixed bag; focus on mid-segment plywood now**

## Summary

Century Plyboards reported weaker than expected Q3FY19 results due to lower than expected sales/ margins in Plywood segment. Nevertheless, strong sales/ profitability improvement in MDF segment is commendable given the oversupply and ongoing price-war in the domestic market. Century's net sales at Rs5.8 bn was in-line with our forecast. However, EBITDA at Rs759 mn was 15.1% below our forecast. MDF segment sales jumped 44.0% QoQ to Rs882 mn, while segment EBIT stood at Rs95 mn vs. loss of Rs5 mn in Q2FY19. Plywood segment sales were weak at Rs3,143 mn (-2.6% YoY, -2.5% QoQ) and segment EBIT also fell to Rs385 mn (-8.6% YoY, -26.5% QoQ).

We cut our FY19 sales and PAT estimates to account for weaker than expected Q3FY19 results. For FY20, we lower Plywood margin estimates but raise our MDF margin forecast (given improvement in Q3FY19 to sustain). We are cutting our target price to Rs210 (earlier Rs220); Maintain BUY.

## Key Investment Rationale

- Plywood margins impacted by higher costs:** Segment EBIT margin fell 400bps QoQ to 12.3% due to cost pressures from crude related derivatives and lack of tax incentives at its plant. Nevertheless, the company expects margins to recover over the coming 2-3 quarters.
- Century to focus on mid-segment plywood:** Century aims to focus on mid-market plywood (*Sainik*) where it foresees high growth. This strategy is likely to take its own time given that Century has to penetrate newer dealers/ architects in smaller regions. In MDF segment, it expects utilization at 80% in Q4FY19 (78% in Q3FY19).
- Outlook and valuation:** For Century, FY20 is likely to be a year of consolidation with focus to improve profitability in Plywood and MDF. We expect Century's EBITDA/PAT to grow at a CAGR of 20%/26%, respectively, over FY18-20E. The stock is trading at a attractive P/E multiple of 15.3x FY20E. **We value the stock at a PE multiple of 20.0x on our FY20 EPS estimate to derive a target price of Rs210.**

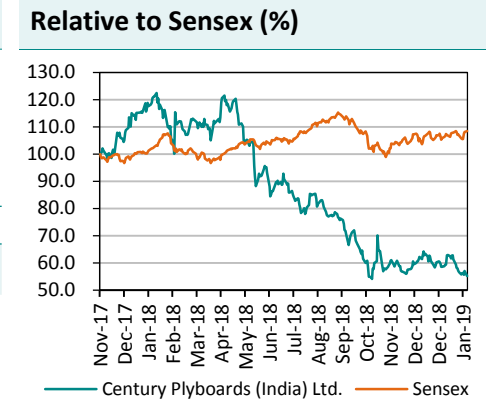
<b>TP</b>	<b>Rs210</b>
<b>CMP</b>	<b>Rs163</b>
Potential upside / downside	+29%
Previous Rating	BUY

V/s Consensus		
EPS (Rs)	FY19E	FY20E
IDBI Capital	8.3	10.6
Consensus	8.2	10.8
% difference	1.2	(2.3)

Shareholding Pattern (%)	
Promoters	72.7
FII	8.7
DII	5.3
Public	13.3

Price Performance (%)			
	-1m	-3m	-12m
Absolute	(5.3)	(6.5)	(46.7)
Rel to Sensex	(8.9)	(12.3)	(53.1)

Key Stock Data	
Bloomberg/Reuters	CPBI IN /CNTP.BO
Sector	Midcap
Shares o/s (mn)	222
Market cap. (Rs mn)	36,136
Market cap. (US\$ mn)	504
3-m daily average value (Rs mn)	162
52-week high / low	Rs 364 / 150
Sensex / Nifty	36,975 / 11,062



Financial snapshot						(Rs mn)
Year	FY16	FY17	FY18	FY19E	FY20E	
Net sales	16,357	17,825	19,672	23,023	26,829	
EBITDA	2,898	3,147	3,127	3,526	4,254	
EBITDA (%)	17.7	17.7	15.9	15.3	15.9	
Adj. PAT	1,699	1,856	1,567	1,853	2,364	
EPS (Rs)	7.6	8.4	7.1	8.3	10.6	
EPS Growth (%)	12.7	9.2	(15.6)	18.3	27.6	
PE (x)	21.3	19.5	23.1	19.5	15.3	
Dividend Yield (%)	1.4	0.6	0.9	1.0	1.3	
EV/EBITDA (x)	13.8	13.1	13.1	11.7	9.6	
RoE (%)	37.2	30.1	20.3	20.4	22.2	
RoCE (%)	28.1	24.5	17.6	21.4	23.6	

Source: Company; IDBI Capital Research

**Exhibit 1: Quarterly Snapshot**

(Rs mn)

Year-end: March	Q3Y19	Q2Y19	QoQ (%)	Q3FY18	YoY (%)
<b>Net sales</b>	<b>5,789</b>	<b>5,644</b>	<b>2.6</b>	<b>5,099</b>	<b>13.5</b>
Expenditure	5,030	4,902	2.6	4,222	19.1
<b>EBITDA</b>	<b>759</b>	<b>742</b>	<b>2.3</b>	<b>878</b>	<b>(13.5)</b>
<i>EBITDA margin (%)</i>	<i>13.1</i>	<i>13.2</i>	<i>(3)bps</i>	<i>17.2</i>	<i>(409)bps</i>
Interest	62	155	(59.7)	63	(0.3)
Depreciation	136	113	20.8	263	(48.3)
<b>PBT</b>	<b>577</b>	<b>485</b>	<b>19.0</b>	<b>594</b>	<b>(3.0)</b>
Tax	162	106	52.6	128	27.3
<b>PAT</b>	<b>414</b>	<b>378</b>	<b>9.5</b>	<b>467</b>	<b>(11.2)</b>
<b>Adj. diluted EPS (Rs)</b>	<b>1.9</b>	<b>1.7</b>	<b>9.5</b>	<b>2.1</b>	<b>(11.2)</b>

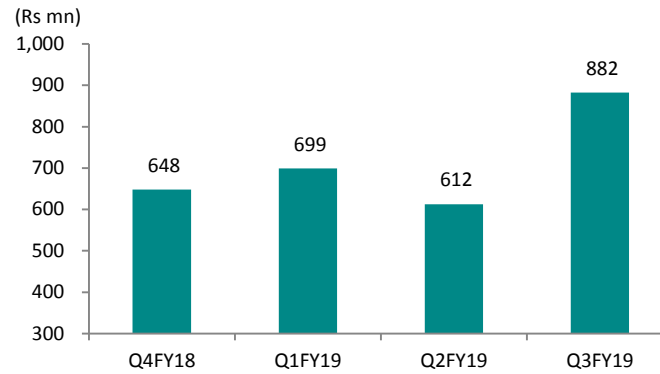
Source: Company; IDBI Capital Research

**Exhibit 2: Actual vs. Estimates**

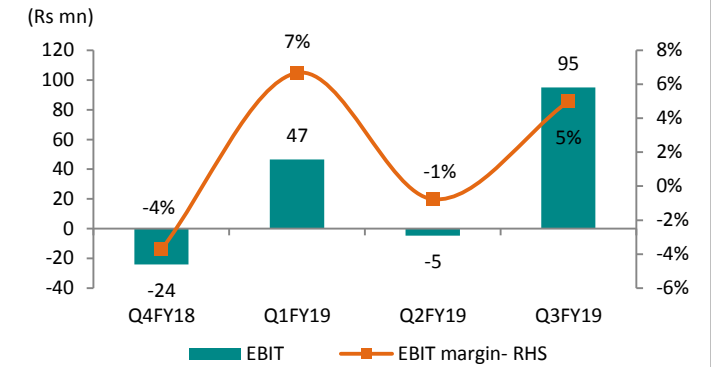
(Rs mn)

	Q3FY19E	Q3FY19A	Variance (%)
Net sales	5,959	5,789	(2.8)
EBTIDA	894	759	(15.1)
<i>Margin (%)</i>	<i>15.0</i>	<i>13.1</i>	<i>(189)bps</i>
PAT	497	414	(16.6)
Adj. diluted EPS (Rs)	2.2	1.9	(16.6)

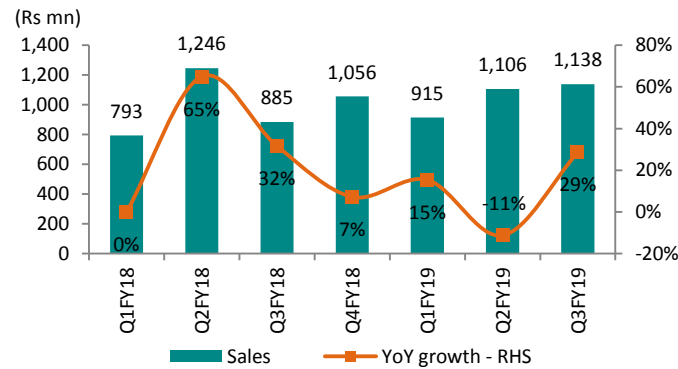
Source: Company; IDBI Capital Research

**Exhibit 3: MDF sales were up by 44% QoQ...**


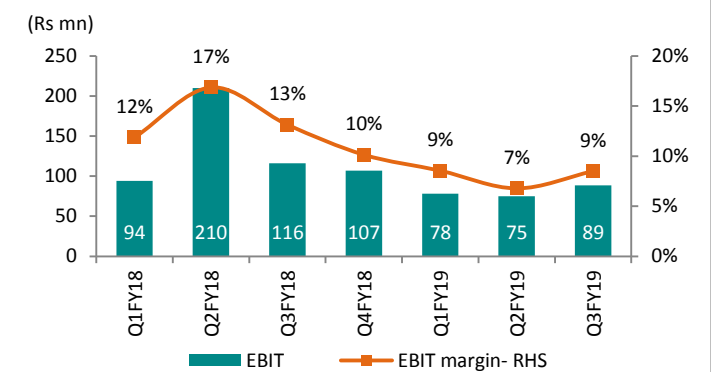
Source: Company; IDBI Capital Research

**Exhibit 4: ...and segment EBIT at 5%**


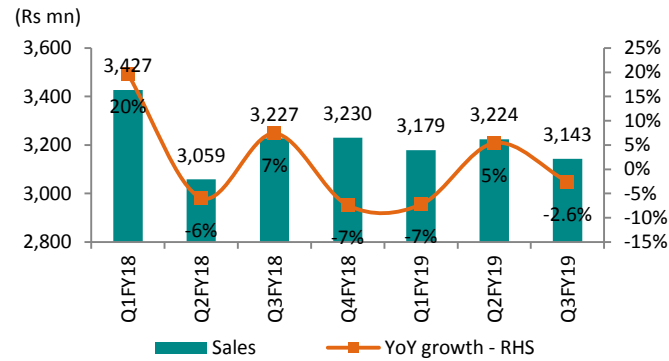
Source: Company; IDBI Capital Research

**Exhibit 5: Laminates sales increased by 29% YoY..**


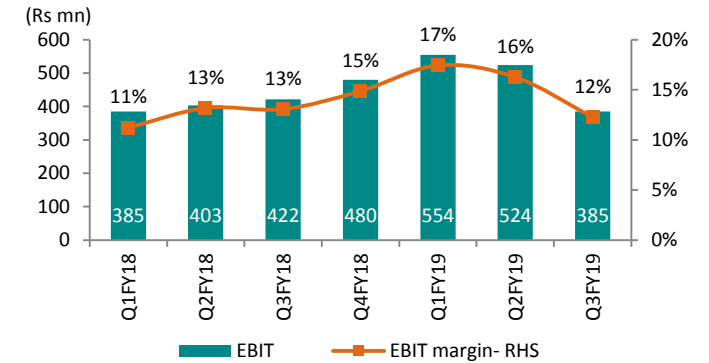
Source: Company; IDBI Capital Research

**Exhibit 6: ...and segment EBIT margins improved**


Source: Company; IDBI Capital Research

**Exhibit 7: Plywood sales were weak..**


Source: Company; IDBI Capital Research

**Exhibit 8: .. and segment profitability also declined**


Source: Company; IDBI Capital Research

**Exhibit 9: Change in estimates**

	FY19E			FY20E		
	Old	New	(%) Chg	Old	New	(%) Chg
Revenue (Rs mn)	24,039	23,023	(4.2)	27,431	26,829	(2.2)
EBIT (Rs mn)	3,385	3,086	(8.8)	4,277	3,760	(12.1)
EBIT margin (%)	14.1	13.4	(69)bps	15.6	14.0	(158)bps
Net profit (Rs mn)	2,050	1,853	(9.6)	2,479	2,364	(4.6)
EPS (Rs)	9.2	8.3	(9.6)	11.2	10.6	(5.0)

Source: Company; IDBI Capital Research

## Financial Summary

### Profit & Loss Account

(Rs mn)

Year-end: March	FY17	FY18	FY19E	FY20E
<b>Net sales</b>	<b>17,825</b>	<b>19,672</b>	<b>23,023</b>	<b>26,829</b>
<i>Growth (%)</i>	9.0	10.4	17.0	16.5
Operating expenses	(14,904)	(16,612)	(19,570)	(22,656)
<b>EBITDA</b>	<b>3,147</b>	<b>3,127</b>	<b>3,526</b>	<b>4,254</b>
<i>Growth (%)</i>	8.6	(0.6)	12.8	20.6
Depreciation	(524)	(810)	(440)	(494)
<b>EBIT</b>	<b>2,623</b>	<b>2,317</b>	<b>3,086</b>	<b>3,760</b>
Interest paid	(286)	(327)	(616)	(608)
Other income	-	-	-	-
<b>Pre-tax profit</b>	<b>2,337</b>	<b>1,990</b>	<b>2,471</b>	<b>3,152</b>
Tax	(481)	(424)	(618)	(788)
<i>Effective tax rate (%)</i>	20.6	21.3	25.0	25.0
Minority Interest	-	-	-	-
<b>Net profit</b>	<b>1,856</b>	<b>1,567</b>	<b>1,853</b>	<b>2,364</b>
<b>Adjusted net profit</b>	<b>1,856</b>	<b>1,567</b>	<b>1,853</b>	<b>2,364</b>
<i>Growth (%)</i>	9.2	(15.6)	18.3	27.6
<i>Shares o/s (mn nos)</i>	222	222	222	222

### Cash Flow Statement

(Rs mn)

Year-end: March	FY17	FY18	FY19E	FY20E
Pre-tax profit	2,337	1,990	2,471	3,152
Depreciation	524	(153)	440	494
Tax paid	(531)	(425)	(618)	(788)
Chg in working capital	867	(329)	(588)	(690)
Other operating activities	-	-	-	-
<b>Cash flow from operations (a)</b>	<b>3,196</b>	<b>1,082</b>	<b>1,705</b>	<b>2,169</b>
Capital expenditure	(2,958)	(1,128)	(1,182)	(900)
Chg in investments	(464)	(0)	-	-
Other investing activities	-	-	-	-
<b>Cash flow from investing (b)</b>	<b>(3,422)</b>	<b>(1,128)</b>	<b>(1,182)</b>	<b>(900)</b>
Equity raised/(repaid)	-	-	-	-
Debt raised/(repaid)	1,525	(544)	500	(500)
Dividend (incl. tax)	267	392	463	591
Chg in minorities	-	-	-	-
Other financing activities	-	-	-	-
<b>Cash flow from financing (c)</b>	<b>1,792</b>	<b>(152)</b>	<b>963</b>	<b>91</b>
<b>Net chg in cash (a+b+c)</b>	<b>1,566</b>	<b>(198)</b>	<b>1,486</b>	<b>1,360</b>

**Balance Sheet**

(Rs mn)

Year-end: March	FY17	FY18	FY19E	FY20E
Net fixed assets	5,336	6,618	7,359	7,765
Investments	960	960	960	960
Other non-curr assets	1,132	1,067	1,067	1,067
<b>Current assets</b>	<b>8,119</b>	<b>7,947</b>	<b>9,650</b>	<b>11,135</b>
Inventories	2,638	3,382	3,958	4,613
Sundry Debtors	3,353	3,145	3,785	4,410
Cash and Bank	538	165	447	418
Loans and advances	46	139	163	190
<b>Total assets</b>	<b>15,547.225</b>	<b>16,592.76</b>	<b>19,037</b>	<b>20,928</b>
<b>Shareholders' funds</b>	<b>7,086</b>	<b>8,379</b>	<b>9,769</b>	<b>11,542</b>
Share capital	223	223	223	223
Reserves & surplus	6,864	8,157	9,547	11,320
<b>Total Debt</b>	<b>5,573</b>	<b>5,029</b>	<b>5,529</b>	<b>5,029</b>
Secured loans	5,571	5,022	5,522	5,022
Unsecured loans	2	7	7	7
Other liabilities	104	101	4	4
<b>Curr Liab &amp; prov</b>	<b>2,784</b>	<b>3,083</b>	<b>3,734</b>	<b>4,352</b>
Current liabilities	2,773	3,068	3,716	4,331
Provisions	11	15	18	21
<b>Total liabilities</b>	<b>8,461</b>	<b>8,213</b>	<b>9,268</b>	<b>9,385</b>
<b>Total equity &amp; liabilities</b>	<b>15,547</b>	<b>16,593</b>	<b>19,037</b>	<b>20,927</b>
<b>Book Value (Rs)</b>	<b>32</b>	<b>38</b>	<b>44</b>	<b>52</b>

Source: Company; IDBI Capital Research

**Financial Ratios**

Year-end: March	FY17	FY18	FY19E	FY20E
Adj EPS (Rs)	8.4	7.1	8.3	10.6
Adj EPS growth (%)	9.2	(15.6)	18.3	27.6
EBITDA margin (%)	17.7	15.9	15.3	15.9
Pre-tax margin (%)	13.1	10.1	10.7	11.7
ROE (%)	30.1	20.3	20.4	22.2
ROCE (%)	24.5	17.6	21.4	23.6
<b>Turnover &amp; Leverage ratios (x)</b>				
Asset turnover (x)	1.4	1.2	1.3	1.3
Leverage factor (x)	2.1	2.1	2.0	1.9
Net margin (%)	10.4	8.0	8.0	8.8
Net Debt / Equity (x)	0.7	0.6	0.5	0.4
<b>Working Capital &amp; Liquidity ratio</b>				
Inventory days	54	63	63	63
Receivable days	69	58	60	60
Payable days	35	39	39	39

**Valuation**

Year-end: March	FY17	FY18	FY19E	FY20E
P/E (x)	19.5	23.1	19.5	15.3
Price / Book value (x)	5.1	4.3	3.7	3.1
PCE (x)	15.2	15.2	15.8	12.6
EV / Net sales (x)	2.3	2.1	1.8	1.5
EV / EBITDA (x)	13.1	13.1	11.7	9.6
Dividend Yield (%)	0.6	0.9	1.0	1.3



# Notes

Dealing (91-22) 6836 1111 dealing@idbicapital.com

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**IDBI Capital Markets & Securities Ltd.**

**Equity Research Desk**

6th Floor, IDBI Tower, WTC Complex, Cufee Parade, Colaba, Mumbai – 400 005. Phones: (91-22) 2217 1700; Fax: (91-22) 2215 1787; Email: info@idbicapital.com

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**Compliance Officer:** Christina D’souza; Email: compliance@idbicapital.com; Telephone: (91-22) 2217 1907

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