

Century Plyboards | HOLD

MDF springs a surprise

Century Plyboards' (Century) 3QFY19 performance was a mixed bag. While MDF segment witnessed a sharp uptick in volume/revenue (+56%/+44% respectively), gross margins performance was a pleasant surprise (+780bps QoQ), despite a sharp realisation decline (-8% QoQ) and rise in input costs. Plywood revenue growth was muted (volume was offset by lower realisation) and EBITDA margins declined 270bps QoQ on product mix and higher input costs. Adj. Net income came in at INR 386 mn (-4% YoY/ -17% QoQ) in line with JMFe but 18% below Bloomberg consensus. We maintain HOLD and await a better price for entry.

- 3QFY19 Summary:** Total Revenue was up 14% YoY (3% up QoQ; 5% above JMFe) on the back of laminate/MDF revenue growth of 14%/85% YoY respectively, while EBITDA declined by 9% YoY (1% down QoQ; in line with JMFe) due to decline in plywood/laminate EBITDA by 6%/29% respectively. EBITDA margin contracted to 13.1% in 3QFY19 (330bps down YoY, 70bps below JMFe). Adj. net income fell by 4% YoY (17% down QoQ; 1% below JMFe), despite lower depreciation (change in accounting policy w.e.f. 1st April, 2018)
- MDF segment springs a surprise:** MDF revenue increased by 44% QoQ (Capacity utilisation at 95%) as volumes grew 56% though offset by realisation (-8%). Despite lower realisations, Gross/EBITDA margin rose by 780bps/960bps QoQ to 33.5%/15.8% respectively, thus implying lower raw material cost
- Ply volume growth steady; margins decline sequentially:** Plywood Revenue declined 3% YoY (-3% QoQ; 2% above JMFe) while EBITDA declined 6% (-19% QoQ; 11% below JMFe). Core Plywood revenue was flat YoY as volume growth (+7%) was offset by decline in realisations (-6%). Management had earlier guided for a double digit volume growth in plywood segment. EBITDA margin contracted by 270bps QoQ to 13.1% (vs management guidance of 15-15.5%)
- Laminates margins improve sequentially:** Core laminate revenue grew 24% YoY on the back of volume/realisation growth of 10%/14% respectively. Laminate EBITDA margins declined by 530bps YoY though it improved by 100bps QoQ to 8.7% as it undertook select price increase
- Tweak estimates; maintain HOLD:** We tweak EPS estimates to reflect the company's 3QFY19 performance. We continue to value Century Ply at 20x FY21EPS and roll forward to Mar'20 TP of INR 200. We maintain HOLD as we await signs of recovery and a better price point. Higher than expected ply volume and MDF margins are key risks to our call



Achal Lohade

achal.lohade@jmfl.com | Tel: (91 22) 66303081

Shrenik Bachhawat

shrenik.bachhawat@jmfl.com | Tel: (91 22) 66303074

Manish Agrawal

manish.agrawal@jmfl.com | Tel: (91 22) 66303068

Recommendation and Price Target

Current Reco.	HOLD
Previous Reco.	HOLD
Current Price Target (12M)	200
Upside/(Downside)	23.3%
Previous Price Target	200
Change	0.0%

Key Data – CPBI IN

Current Market Price	INR162
Market cap (bn)	INR36.0/US\$0.5
Free Float	9%
Shares in issue (mn)	222.2
Diluted share (mn)	222.5
3-mon avg daily val (mn)	INR46.5/US\$0.6
52-week range	364/150
Sensex/Nifty	36,617/10,934
INR/US\$	71.6

Price Performance

%	1M	6M	12M
Absolute	-5.3	-32.3	-46.5
Relative*	-7.7	-30.5	-49.2

* To the BSE Sensex

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

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

Financial Summary					(INR mn)
Y/E March	FY17A	FY18A	FY19E	FY20E	FY21E
Net Sales	17,825	19,672	22,855	24,507	26,191
Sales Growth (%)	9.0	10.4	16.2	7.2	6.9
EBITDA	2,920	2,994	3,297	3,660	3,932
EBITDA Margin (%)	16.4	15.2	14.4	14.9	15.0
Adjusted Net Profit	1,777	1,486	1,804	2,003	2,271
Diluted EPS (INR)	8.0	6.7	8.1	9.0	10.2
Diluted EPS Growth (%)	-4.0	-16.4	21.2	11.0	13.4
ROIC (%)	18.7	14.1	15.3	15.0	16.1
ROE (%)	28.8	19.2	20.0	19.2	18.8
P/E (x)	20.3	24.2	20.0	18.0	15.9
P/B (x)	5.1	4.3	3.7	3.2	2.8
EV/EBITDA (x)	14.2	13.8	12.7	11.2	10.0
Dividend Yield (%)	0.0	0.6	0.9	1.0	1.2

Source: Company data, JM Financial. Note: Valuations as of 05/Feb/2019

- **Other highlights:** a) Increase in working capital days from 72 in 2QFY19 to 77 in 3QFY19 (Debtor days reduced from 52 in 2QFY19 to 48 in 3QFY19 whereas Creditor days declined from 39 in 2QFY19 to 32 in 3QFY19), b) Company has taken board approval for MDF and particleboard unit in Uttar Pradesh but it is not reflected in the capex plan for FY20 (await clarity), c) Company has changed its depreciation policy from Written Down Value (WDV) to Straight Line Method (SLM) from 1st April, 2018
- The company is hosting a conference call tomorrow, Wednesday Feb6, at 3.30PM IST. Dial in details: (India- 91 22 6280 1271; USA- 1866 746 2133; UK- 0808 101 1573; Singapore- 800 101 2045 and Hong Kong- 800 964 448)

Exhibit 1. Quarterly Financials

INR mn	3Q18	3Q19	YoY	2Q19	QoQ	3Q19E	Var	9MFY18	9MFY19	YoY
Net Sales	5,099	5,789	14%	5,644	3%	5,518	5%	14,231	16,776	18%
Raw Material Cost	2,607	3,088	18%	2,945	5%	2,842	9%	7,491	8,787	17%
Gross Profit	2,492	2,701	8%	2,700	0%	2,676	1%	6,740	7,989	19%
Gross Margin	48.9%	46.7%	-220 bps	47.8%	-120 bps	48.5%	-180 bps	47.4%	47.6%	30 bps
Employee cost	723	810	12%	840	-4%	831	-3%	2,087	2,440	17%
% of sales	14.2%	14.0%	-20 bps	14.9%	-90 bps	15.1%	-110 bps	14.7%	14.5%	
Other expenses	932	1,130	21%	1,089	4%	1,082	4%	2,430	3,117	28%
% of sales	18.3%	19.5%	120 bps	19.3%	20 bps	19.6%	-10 bps	17.1%	18.6%	
Total Expenditure	4,262	5,028	18%	4,874	3%	4,755	6%	12,009	14,344	19%
EBITDA	837	761	-9%	771	-1%	763	0%	2,222	2,432	9%
EBITDA margin	16.4%	13.1%	-330 bps	13.7%	-50 bps	13.8%	-70 bps	15.6%	14.5%	-110 bps
Depreciation	263	136	-48%	113	21%	115	18%	533	357	-33%
EBIT	574	625	9%	658	-5%	648	-4%	1,689	2,075	23%
Net finance cost	67	89	34%	65	36%	120	-26%	158	217	38%
Other Income	14	16	8%	10	57%	10	57%	26	31	21%
Interest	81	105	30%	75	39%	130	-19%	184	249	35%
XO Inc/-Exp	87	41		-108		0		13	-169	
PBT	594	577	-3%	485	19%	528	9%	1,545	1,690	9%
Tax Expense	128	162	27%	106	53%	137	18%	336	444	32%
Tax Rate	21.5%	28.2%	670 bps	22.0%	620 bps	26.0%	220 bps	21.7%	26.3%	450 bps
Reported Net Profit	467	414	-11%	378	10%	391	6%	1,209	1,246	3%
Adjusted Net Profit	402	386	-4%	467	-17%	391	-1%	1,203	1,383	15%

Source: Company, JM Financial

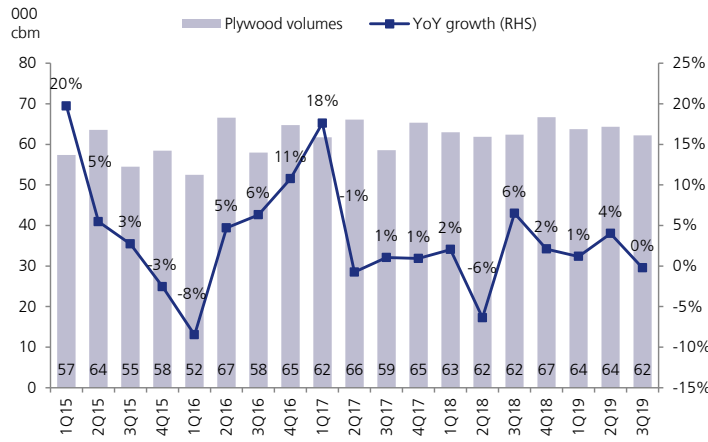
Exhibit 2. Segmental Information

INR mn	3Q18	3Q19	YoY	2Q19	QoQ	3Q19E	Var	9MFY18	9MFY19	YoY
Volume										
Plywood and Allied (cbm)	62,366	62,217	0%	64,337	-3%	62,497	0%	1,87,214	1,90,288	2%
Plywood	49,859	53,385	7%	56,466	-5%	55,842	-4%	1,51,894	1,65,906	9%
Deco Ply	1,502	2,720	81%	2,690	1%	2,253	21%	6,451	7,919	23%
Commercial Veneer	11,005	6,112	-44%	5,181	18%	4,402	39%	28,869	16,463	-43%
Laminates (mn Nos)	1.33	1.46	10%	1.49	-2%	1.53	-5%	3.91	4.26	9%
MDF (cbm)	20,639	42,312	105%	27,037	56%	34,650	22%	20,639	99,008	NM
Realisation										
Plywood and Allied (INR/cbm)	51,746	50,325	-3%	49,963	1%	48,953	3%	51,884	49,969	-3.7%
Plywood (INR/cbm)	50,011	46,792	-6%	47,064	-1%	46,510	1%	1,44,403	1,40,419	-2.8%
Deco Ply (INR/cbm)	1,77,297	1,48,603	-16%	1,41,970	5%	1,38,292	7%	4,46,471	4,29,593	-3.8%
Commercial Veneer (INR/cbm)	40,400	37,467	-7%	33,797	11%	33,532	12%	41,034	36,937	-10.0%
Laminates (INR/sheet)	654	742	14%	717	4%	719	3%	670	711	6.2%
Exteria	4,343	5,849	35%	5,760	2%	5,813	1%	5,817	5,779	-0.6%
MDF	23,053	20,836	NM	22,617	-8%	22,300	-7%	23,420	22,134	-5.5%
Net revenues	5,099	5,789	14%	5,644	3%	5,518	5%	14,231	16,776	18%
Plywood and Allied	3,227	3,131	-3%	3,215	-3%	3,059	2%	9,713	9,509	-2%
Plywood	2,494	2,498	0%	2,658	-6%	2,597	-4%	7,311	7,766	6%
Deco Ply	266	404	52%	382	6%	312	30%	925	1,135	23%
Commercial Veneer	445	229	-48%	175	31%	148	55%	1,185	608	-49%
Laminates	999	1,138	14%	1,106	3%	1,146	-1%	2,965	3,159	7%
MDF	476	882	85%	612	44%	773	14%	483	2,191	NM
Particle Board	143	265	85%	286	-8%	201	32%	429	734	71%
Logistics- CFS	275	246	-10%	260	-5%	289	-15%	763	779	2%
Others	68	113	66%	154	-27%	50	126%	268	362	35%
Segmental EBITDA	837	761	-9%	771	-1%	763	0%	2,222	2,432	9%
Plywood and Allied	435	410	-6%	507	-19%	459	-11%	1,263	1,486	18%
Laminates	140	99	-29%	85	16%	115	-14%	492	261	-47%
MDF	122	139	14%	38	271%	54	157%	122	292	NM
Particle Board	32	55	69%	55	0%	36	NM	80	160	NM
Logistics- CFS	110	72	-35%	89	-19%	98	-27%	295	252	-14.4%
Others	3	6	68%	12	-53%	1		0	20	
EBITDA Margins	16.4%	13.1%	-330 bps	13.7%	-50 bps	13.8%	-70 bps	15.6%	14.5%	-110 bps
Plywood and Allied	13.5%	13.1%	-40 bps	15.8%	-270 bps	15.0%	-190 bps	13.0%	15.6%	260 bps
Laminates	14.0%	8.7%	-530 bps	7.7%	100 bps	10.0%	-130 bps	16.6%	8.3%	-830 bps
MDF	25.7%	15.8%	NM	6.1%	960 bps	7.0%	880 bps	25.3%	13.3%	NM
Particle Board	22.6%	20.7%	-190 bps	19.2%	150 bps	18.0%	270 bps	18.5%	21.9%	330 bps
Logistics- CFS	40.1%	29.2%	-1090 bps	34.1%	-490 bps	34.0%	-480 bps	38.6%	32.4%	-620 bps
Others	5.0%	5.1%	10 bps	7.8%	-280 bps	2.0%	310 bps	0.1%	5.6%	550 bps

Source: Company, JM Financial

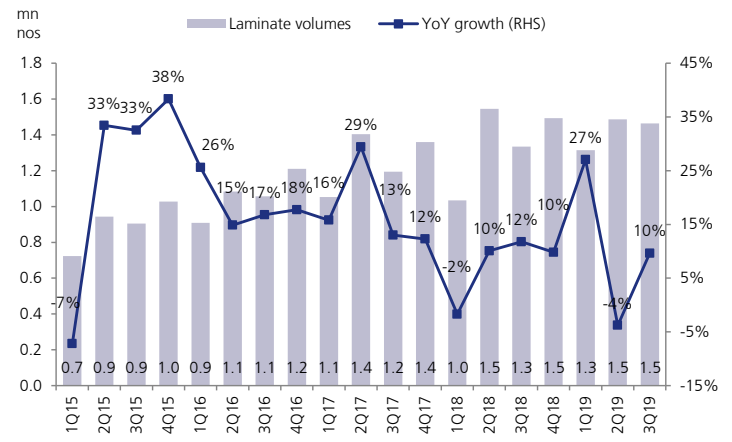
Quarterly charts

Exhibit 1. Plywood volume growth trend



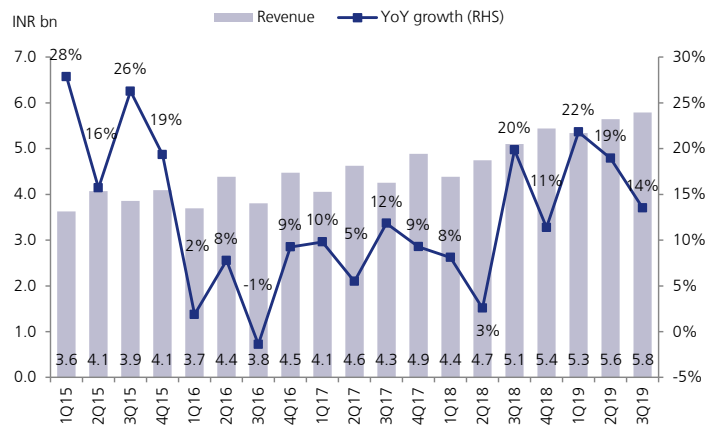
Source: Company, JM Financial

Exhibit 2. Laminates volume growth trend



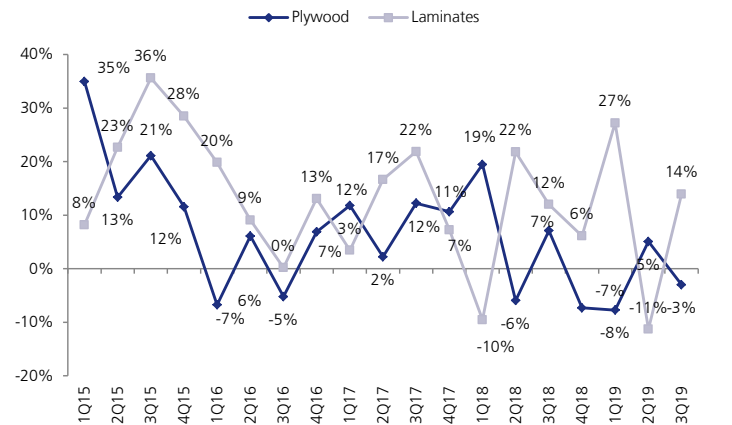
Source: Company, JM Financial

Exhibit 3. Overall revenue growth trend



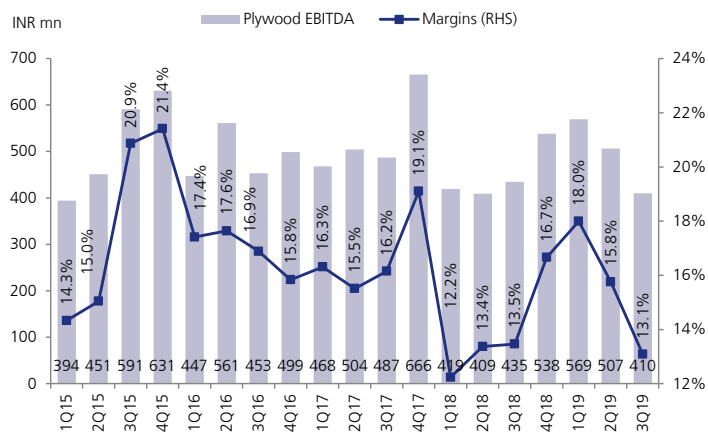
Source: Company, JM Financial

Exhibit 4. Plywood and Laminates revenue growth trend



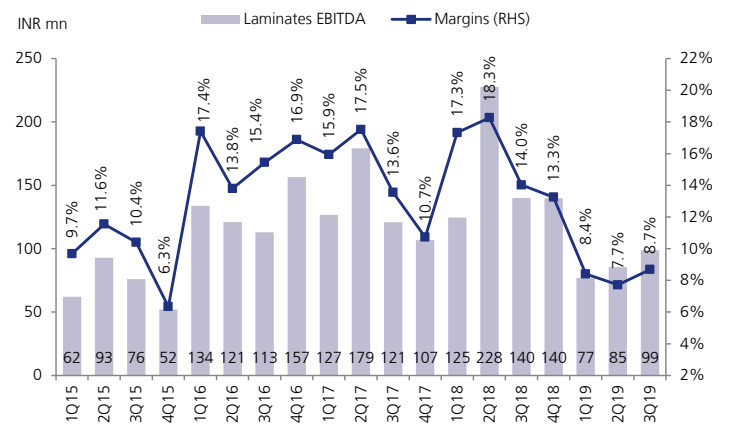
Source: Company, JM Financial

Exhibit 5. Plywood EBITDA and margin trend



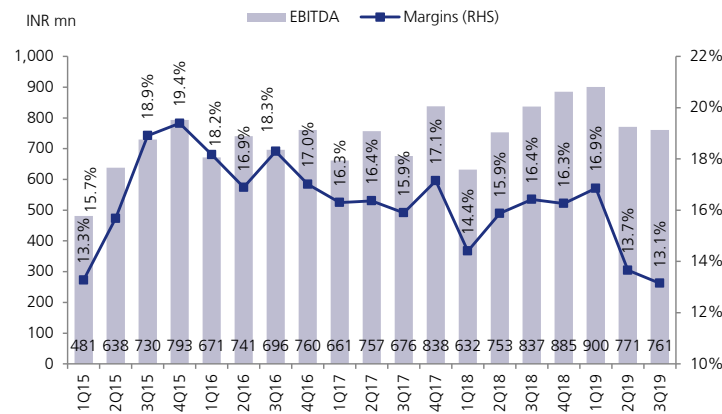
Source: Company, JM Financial

Exhibit 6. Laminates EBITDA and margin trend



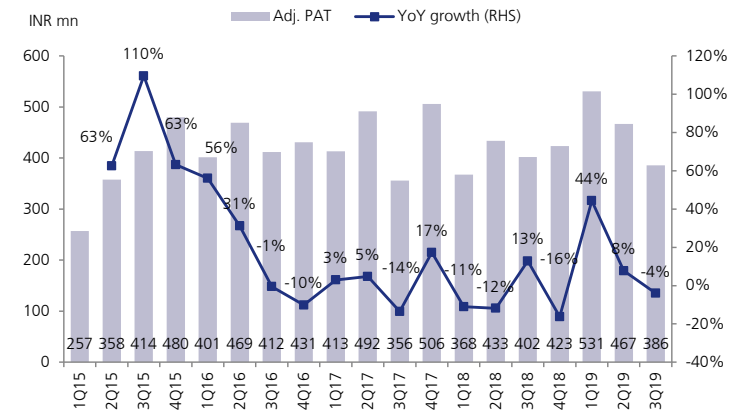
Source: Company, JM Financial

Exhibit 7. Overall EBITDA and margin trend



Source: Company, JM Financial

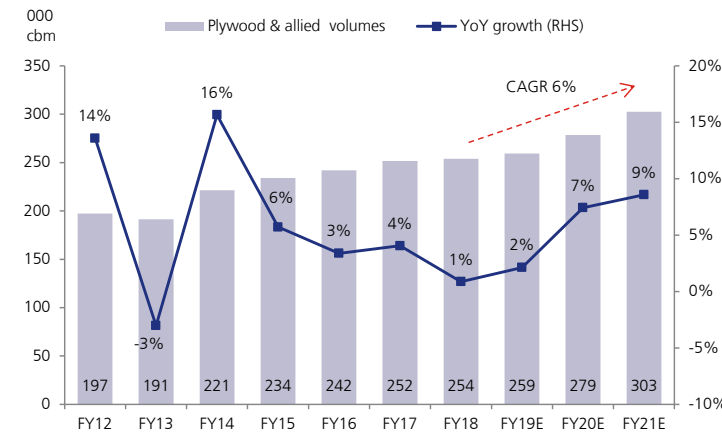
Exhibit 8. Profitability growth trends



Source: Company, JM Financial

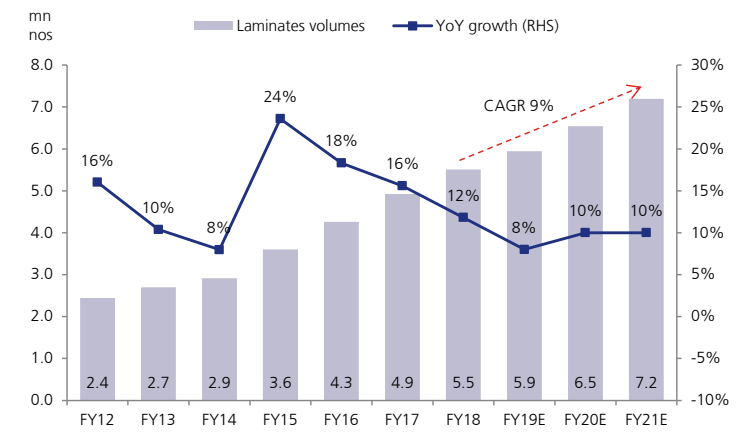
Annual charts

Exhibit 9. Plywood volume growth trend



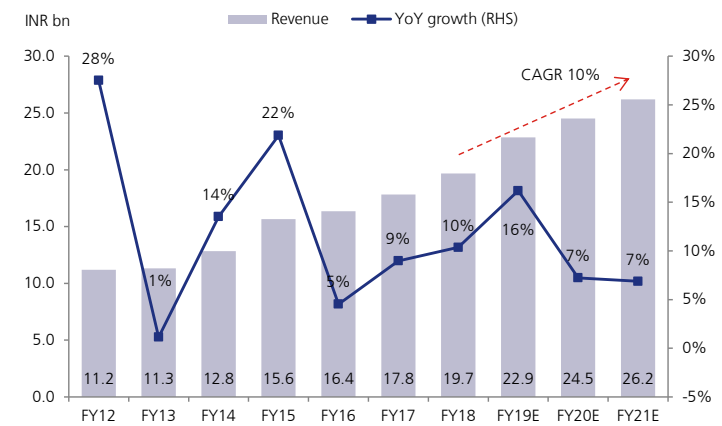
Source: Company, JM Financial

Exhibit 10. Laminates volume growth trend



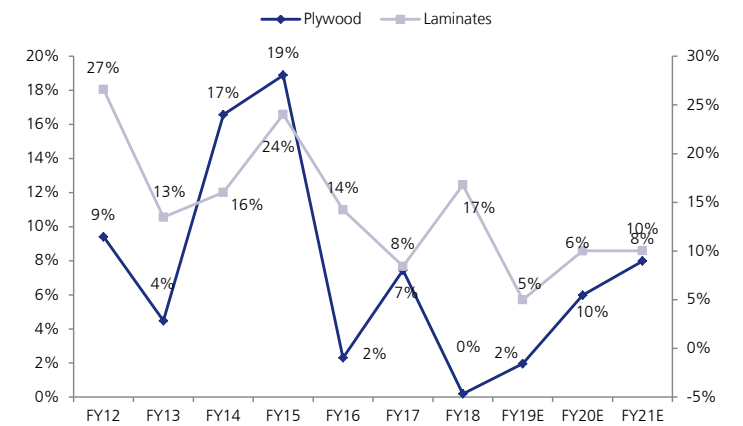
Source: Company, JM Financial

Exhibit 11. Overall revenue growth trend



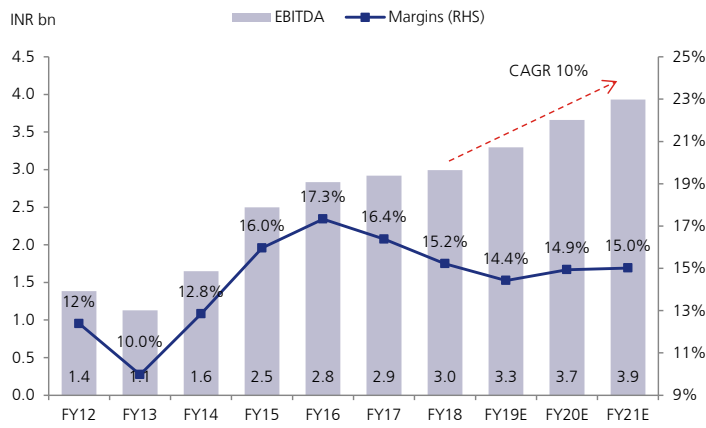
Source: Company, JM Financial

Exhibit 12. Plywood and Laminate revenue growth trend



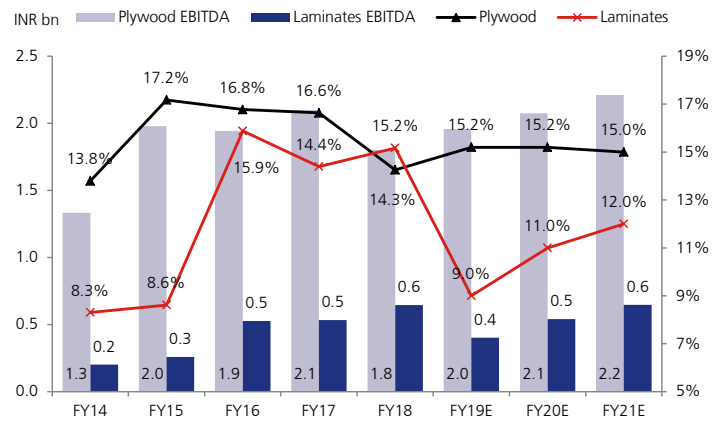
Source: Company, JM Financial

Exhibit 13. Overall EBITDA and margin trend



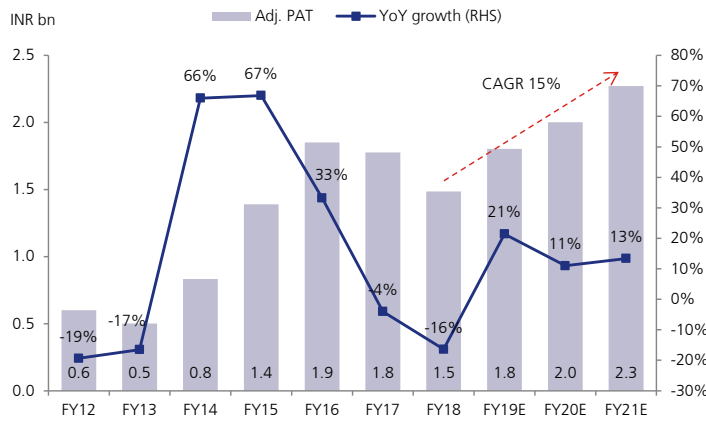
Source: Company, JM Financial

Exhibit 14. Plywood and Laminate EBITDA and margin trend



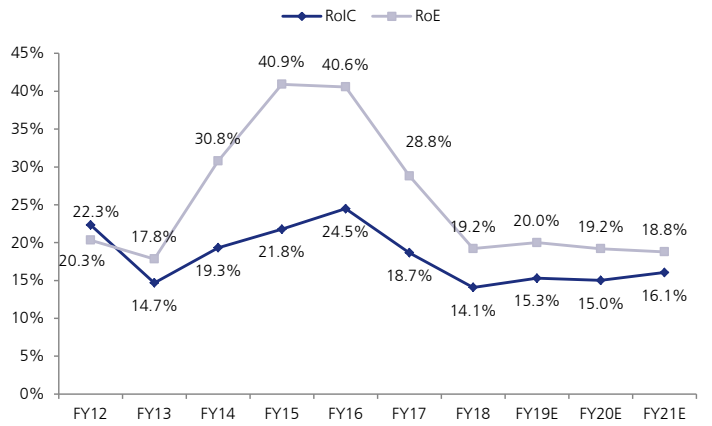
Source: Company, JM Financial

Exhibit 15. Profitability growth trend



Source: Company, JM Financial

Exhibit 16. Return ratios



Source: Company, JM Financial

Financial Tables (Standalone)

Income Statement		(INR mn)				
Y/E March	FY17A	FY18A	FY19E	FY20E	FY21E	
Net Sales	17,825	19,672	22,855	24,507	26,191	
Sales Growth	9.0%	10.4%	16.2%	7.2%	6.9%	
Other Operating Income	0	0	0	0	0	
Total Revenue	17,825	19,672	22,855	24,507	26,191	
Cost of Goods Sold/Op. Exp	9,181	10,230	11,885	12,621	13,619	
Personnel Cost	2,567	2,839	3,265	3,657	4,096	
Other Expenses	3,157	3,609	4,408	4,569	4,544	
EBITDA	2,920	2,994	3,297	3,660	3,932	
EBITDA Margin	16.4%	15.2%	14.4%	14.9%	15.0%	
EBITDA Growth	3.0%	2.5%	10.1%	11.0%	7.4%	
Depn. & Amort.	524	810	490	529	572	
EBIT	2,397	2,184	2,807	3,131	3,360	
Other Income	107	67	40	40	50	
Finance Cost	267	327	350	350	300	
PBT before Excep. & Forex	2,236	1,924	2,497	2,821	3,110	
Excep. & Forex Inc./Loss(-)	0	0	0	0	0	
PBT	2,236	1,924	2,497	2,821	3,110	
Taxes	481	424	649	818	840	
Extraordinary Inc./Loss(-)	101	-66	-169	0	0	
Assoc. Profit/Min. Int.(-)	0	0	0	0	0	
Reported Net Profit	1,856	1,434	1,679	2,003	2,271	
Adjusted Net Profit	1,777	1,486	1,804	2,003	2,271	
Net Margin	10.0%	7.6%	7.9%	8.2%	8.7%	
Diluted Share Cap. (mn)	222.2	222.2	222.5	222.5	222.5	
Diluted EPS (INR)	8.0	6.7	8.1	9.0	10.2	
Diluted EPS Growth	-4.0%	-16.4%	21.2%	11.0%	13.4%	
Total Dividend + Tax	0	267	402	455	509	
Dividend Per Share (INR)	0.0	1.0	1.5	1.7	1.9	

Source: Company, JM Financial

Cash Flow Statement		(INR mn)				
Y/E March	FY17A	FY18A	FY19E	FY20E	FY21E	
Profit before Tax	2,337	1,990	2,497	2,821	3,110	
Depn. & Amort.	524	810	490	529	572	
Net Interest Exp. / Inc. (-)	283	288	310	310	250	
Inc (-) / Dec in WCap.	-283	164	-1,003	-531	-361	
Others	-174	126	-44	141	93	
Taxes Paid	-457	-544	-649	-818	-840	
Operating Cash Flow	2,230	2,834	1,601	2,451	2,825	
Capex	-2,880	-1,921	-1,500	-700	-700	
Free Cash Flow	-650	913	101	1,751	2,125	
Inc (-) / Dec in Investments	-463	17	0	0	0	
Others	135	-70	40	40	50	
Investing Cash Flow	-3,208	-1,974	-1,460	-660	-650	
Inc / Dec (-) in Capital	0	0	0	0	0	
Dividend + Tax thereon	0	-267	-402	-455	-509	
Inc / Dec (-) in Loans	1,613	-641	617	-1,000	-1,000	
Others	-286	-326	-350	-350	-300	
Financing Cash Flow	1,326	-1,233	-134	-1,805	-1,809	
Inc / Dec (-) in Cash	348	-373	7	-14	366	
Opening Cash Balance	190	538	165	172	158	
Closing Cash Balance	538	165	172	158	524	

Source: Company, JM Financial

Balance Sheet		(INR mn)				
Y/E March	FY17A	FY18A	FY19E	FY20E	FY21E	
Shareholders' Fund	7,086	8,379	9,657	11,204	12,966	
Share Capital	223	223	223	223	223	
Reserves & Surplus	6,864	8,157	9,434	10,982	12,743	
Preference Share Capital	0	0	0	0	0	
Minority Interest	0	0	0	0	0	
Total Loans	5,955	5,383	6,000	5,000	4,000	
Def. Tax Liab. / Assets (-)	-689	-690	-565	-424	-331	
Total - Equity & Liab.	12,352	13,072	15,091	15,780	16,635	
Net Fixed Assets	5,337	6,618	7,628	7,798	7,927	
Gross Fixed Assets	3,447	7,184	9,684	10,384	11,084	
Intangible Assets	0	0	0	0	0	
Less: Depn. & Amort.	953	1,767	2,257	2,786	3,357	
Capital WIP	2,843	1,201	200	200	200	
Investments	960	960	960	960	960	
Current Assets	8,562	8,324	9,804	10,368	11,323	
Inventories	2,638	3,382	3,929	4,213	4,503	
Sundry Debtors	3,353	3,145	4,070	4,364	4,664	
Cash & Bank Balances	538	165	172	158	524	
Loans & Advances	2,033	1,633	1,633	1,633	1,633	
Other Current Assets	0	0	0	0	0	
Current Liab. & Prov.	2,506	2,831	3,300	3,347	3,576	
Current Liabilities	1,411	1,764	2,050	2,014	2,153	
Provisions & Others	1,095	1,066	1,251	1,333	1,423	
Net Current Assets	6,056	5,494	6,503	7,021	7,747	
Total - Assets	12,353	13,072	15,091	15,780	16,635	

Source: Company, JM Financial

Dupont Analysis						
Y/E March	FY17A	FY18A	FY19E	FY20E	FY21E	
Net Margin	10.0%	7.6%	7.9%	8.2%	8.7%	
Asset Turnover (x)	1.7	1.5	1.6	1.6	1.6	
Leverage Factor (x)	1.7	1.6	1.6	1.5	1.3	
RoE	28.8%	19.2%	20.0%	19.2%	18.8%	

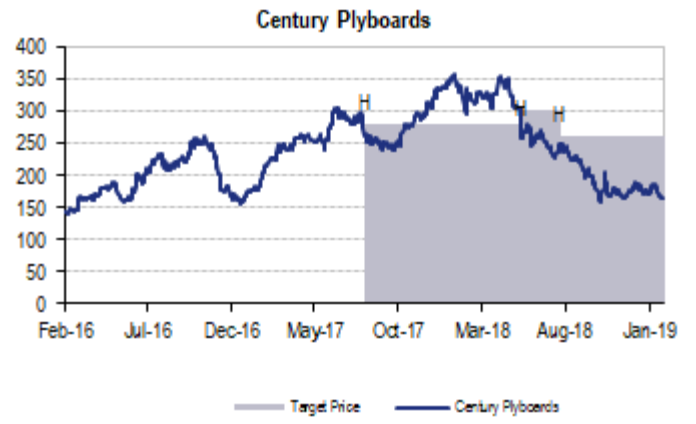
Key Ratios						
Y/E March	FY17A	FY18A	FY19E	FY20E	FY21E	
BV/Share (INR)	31.9	37.7	43.4	50.3	58.3	
ROIC	18.7%	14.1%	15.3%	15.0%	16.1%	
ROE	28.8%	19.2%	20.0%	19.2%	18.8%	
Net Debt/Equity (x)	0.8	0.6	0.6	0.4	0.3	
P/E (x)	20.3	24.2	20.0	18.0	15.9	
P/B (x)	5.1	4.3	3.7	3.2	2.8	
EV/EBITDA (x)	14.2	13.8	12.7	11.2	10.0	
EV/Sales (x)	2.3	2.1	1.8	1.7	1.5	
Debtor days	69	58	65	65	65	
Inventory days	54	63	63	63	63	
Creditor days	35	39	38	35	35	

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

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

Registered Office: 7th Floor, Cnergy, Appasaheb Marathe Marg, Prabhadevi, Mumbai 400 025, India.

Board: +9122 6630 3030 | Fax: +91 22 6630 3488 | Email: jmfinancial.research@jmfl.com | www.jmfl.com

Compliance Officer: Mr. Sunny Shah | Tel: +91 22 6630 3383 | Email: sunny.shah@jmfl.com

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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