

Century Plyboards India - BUY

Q3FY19 seems to be inflection point for earnings up cycle

CPBI's Q3FY19 revenues grew 13.5% yoy to Rs 5.8bn led by 85%/14% growth in MDF and laminate segments respectively. Plywood volumes grew 7% yoy led by mid market segment while realizations fell 6% yoy due to unfavorable product mix. Q3 EBITDA margin came at 13.1%, down 409bps yoy on account of RM inflation pressures both in plywood & laminate segments, and realization pressures in MDF business. Q3 PAT declined 11% yoy to Rs414mn due to weak operational performance. Laminates margins are likely to improve hereon with an expected drop in crude-linked phenol, formaldehyde and resin prices and possible reversals of MTM losses related to FX borrowings due to INR appreciation. MDF market is growing at 25-30% CAGR currently, and CPBI believes that the current overcapacity situation should be easily absorbed in the next 2-3 quarters.

We think CPBI's earnings are at an inflection point given that MDF prices have largely bottomed out & unorganized plywood players are struggling to maintain margins. We expect 12%+ plywood volume growth in FY20 through market share gains as CPBI has shifted its focus towards fastest growing mid-market segment. We expect CPBI's sales/EBITDA/PAT to grow at a CAGR of 15%/17%/19%, respectively, over FY19E-21E. At CMP of Rs163, the stock is trading at P/E of 18x/15x on FY20E/FY21E earnings. We maintain BUY rating with a Mar'20 TP of Rs216 set at 24x PE on EPS of Rs9 as valuations have become attractive.

Key risks: Demand slowdown, MDF pricing war & RM prices volatility

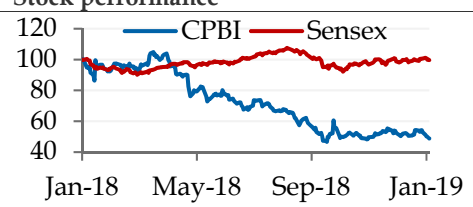
CMP (Rs) 163		12-mts Target (Rs) 216		Upside 33%	
Stock data (As on Feb 06, 2019)				Sector: Building Materials	
Sensex:	36,975	Stock performance			
52 Week h/l (Rs)	364/150				
Market cap (Rs bn)	36	Jan-18 May-18 Sep-18 Jan-19			
Enterprise value (Rs bn)	41	Shareholding pattern (As of Dec'18 end)			
6m Avg t/o (Rs mn):	61	Promoter 72.7%			
FV (Rs):	1	FII+DII 14.9%			
Div yield (%):	0.6	Others 12.4%			
Bloomberg code:	CPBI IN				
BSE code:	532548				
NSE code:	CENTURYPLY				

Exhibit 1: Result table (Standalone)

(Rs mn)	Q3FY19	Q2FY19	% qoq	Q3FY18	% yoy
Total sales	5,789	5,644	2.6	5,099	13.5
EBITDA	759	742	2.3	878	(13.5)
EBITDAM (%)	13.1	13.2	-3bps	17.2	-409bps
Depreciation	(136)	(113)	20.8	(263)	(48.3)
Interest	(62)	(155)	(59.7)	(63)	(0.6)
Other income	16	10	56.9	42	(62.9)
PBT	577	485	19.0	594	(2.9)
Tax	(162)	(106)	52.6	(128)	27.3
Adjusted PAT	414	378	9.5	466	(11.2)
Exceptional item	0	0		0	
Reported PAT	414	378	9.5	466	(11.2)
PATM (%)	7.2	6.7	45bps	9.1	-199bps
EPS (Rs)	1.9	1.7	9.5	2.1	(11.2)

Source: Company, YSL

Exhibit 2: Cost analysis

As a % of net sales	Q3FY19	Q2FY19	bps qoq	Q3FY18	bps yoy
COGS	53.3	52.2	116.4	51.1	220.9
Employee cost	14.0	14.9	(89.0)	14.2	(18.2)
Other expenses	19.6	19.8	(24.1)	17.5	206.7
Total costs	86.9	86.8	3.3	82.8	409.4

Source: Company, YSL

Expect 12% plywood volume growth in FY20 as company shifts its focus towards fastest growing mid-market segment

Plywood and allied products volumes remained flat yoy in Q3FY19 however sales dropped by 2% yoy due to realization pressures in all the segments. Gross margin came at 28.4%, down 90bps yoy on the account of higher core veneer prices (higher use of Okoume, PQ cedar) and adverse product mix. Commercial veneer trading volumes/sales fell 44%/48% with a shift in some face veneer sourcing to Okoume/PQ cedar (cheaper than Gurjan veneer, hence lower realizations). We expect contribution from this division to decline gradually. While real estate demand remains subdued from metros and tier-I cities, CPBI has been seeing traction in both its mid and premium plywood segments in tier II & III cities/towns. Though the government is taking some positive steps, market shift from unorganized to branded plywood would take more time than anticipated due to lax E-way Bill compliance. We expect CPBI to post core plywood volume/revenue CAGR of 12%/12% over FY19E-FY21E.

Growth in laminates to continue; RM prices are cooling off now

Laminate volumes/revenues grew by 10%/24% in Q3FY19, but EBITDA margin dropped 508bps yoy due to higher chemical & paper prices. We expect margins to improve gradually from Q4FY19 with the recent correction in crude prices, prices of phenol, formaldehyde and

melamine (chemicals form ~40% of laminate production costs). CPBI has also taken a price hike of 3.5% from Nov'18 to counter higher RM prices though some roll back might be expected if chemical prices continue to correct. The Company management hopes to install the sixth laminate line with a capacity of 1.5mn sheets over the next few months and achieve full utilization by FY20. We expect laminate revenues to increase to Rs 5.7bn by FY21E with a 13% volume CAGR.

Seeing an evident demand supply gap in MDF, however management expects pricing power to return soon

The MDF plant contributed Rs882mn to Q3FY19 revenues with ~78% capacity utilization. However, EBITDAM slid to ~16% as realization pressures kicked in (9% price decline in Q3) with competitive intensity amid excess capacity in North India. As of now MDF industry pricing is largely stable (~0.5-1% decline on average). This is in sharp contrast to earlier (including 1HFY19) price cuts of 3-5% in a single go. CPBI believes that prices will stabilize at these levels as it becomes increasingly uneconomical to run high capital-intensive businesses like MDF below the 15% EBITDA margin level. Company has launched WWR (water proof MDF), which garners higher realization (+30%) compared to standard MDF. Higher share of VAP products coupled with improving utilization level and stable pricing scenario should result in margin expansion hereon. Over the longer-run, MDF margins for the industry would stabilize in the 15-20% range. Q3 has begun on a positive note – MDF plant utilization is at ~90% (vs. ~65% in H1FY19) and, at these levels of utilization, it has ~15% operating margins. CPBI aims to achieve 70-75% utilization for FY19. MDF market is growing at 25-30% CAGR currently, and CPBI believes that the current overcapacity situation should be easily absorbed in the next 3-4 quarters. We expect MDF revenues to grow from ~Rs3bn to ~Rs4.6bn over FY19-FY21E.

Exhibit 3: Segment wise quarterly break-up details

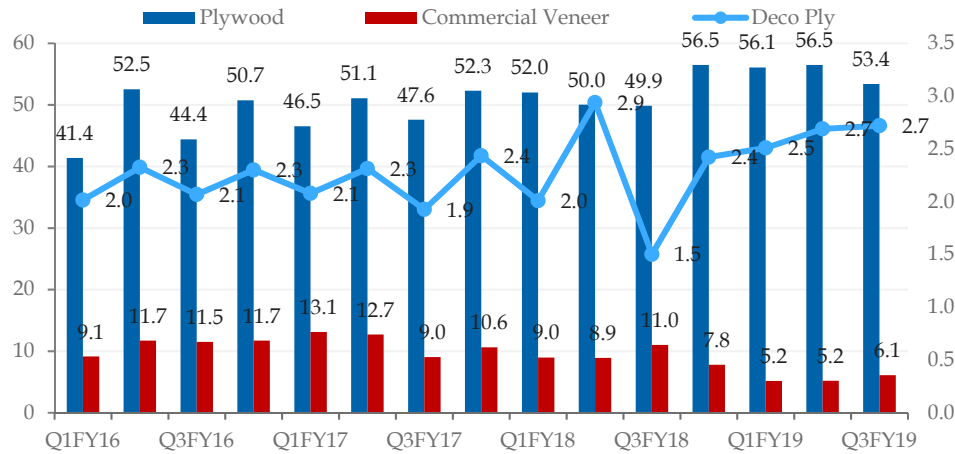
Particulars (in Rs mn)	Q1FY17	Q2FY17	Q3FY17	Q4FY17	Q1FY18	Q2FY18	Q3FY18	Q4FY18	Q1FY19	Q2FY19	Q3FY19
Revenues											
Plywood and Allied Products	3,116	3,251	3,013	3,743	3,427	3,059	3,227	3,230	3,179	3,224	3,143
Laminate and Allied Products	891	979	892	892	891	1,246	999	1,194	915	1,106	1,138
CFS	235	211	202	202	239	249	276	233	304	264	250
MDF	14	12	4	6	6	1	476	648	699	612	882
Particle Board	0	20	111	117	111	145	100	109	182	286	265
Others	148	113	80	91	94	110	75	98	99	160	121
Total Segment Revenue	4,403	4,586	4,302	5,051	4,769	4,810	5,153	5,511	5,378	5,652	5,799
Less: Intersegment Revenue	7	17	31	33	35	66	53	70	6	9	10
Net Sales/ Income from Operations	4,397	4,569	4,271	5,018	4,734	4,745	5,099	5,441	5,372	5,644	5,789
Gross Profit											
Plywood and Allied Products	946	1,064	1,003	1,281	866	896	944	1,020	982	1,077	894
Laminate and Allied Products	291	394	304	290	277	418	303	396	231	282	314
CFS	205	187	175	205	208	222	242	205	265	221	212
MDF	2	2	1	1	1	0	209	212	203	157	296
Particle Board	0	4	28	30	13	44	41	28	69	80	87
Others	19	6	(2)	14	14	12	20	2	13	18	22
Total	1,463	1,657	1,509	1,820	1,378	1,591	1,758	1,863	1,763	1,835	1,824
EBITDA											
Plywood and Allied Products	455	507	499	703	408	428	456	520	549	500	380
Laminate and Allied Products	132	188	143	124	107	230	148	146	86	88	102
CFS	103	83	69	88	92	93	110	87	121	89	72
MDF	0	0	0	0	0	0	0	0	0	0	0
Particle Board	0	3	21	23	(2)	40	34	21	49	54	55
Others	(3)	(23)	(27)	(21)	(21)	1	3	(14)	0	7	8
Total	688	758	705	917	585	791	752	760	805	738	617

Particulars (in Rs mn)	Q1FY17	Q2FY17	Q3FY17	Q4FY17	Q1FY18	Q2FY18	Q3FY18	Q4FY18	Q1FY19	Q2FY19	Q3FY19
EBIT											
Plywood and Allied Products	436	492	476	740	385	403	422	480	554	524	385
Laminate and Allied Products	115	171	123	110	92	210	122	107	78	75	89
CFS	79	56	41	60	67	68	85	62	103	71	54
MDF	2	3	(0)	(6)	(2)	0	1	(24)	47	(5)	95
Particle Board	0	(12)	(24)	(33)	(37)	2	8	(5)	38	44	45
Others	(4)	(24)	(28)	(21)	(4)	1	3	(14)	0	7	8
Total	629	686	587	850	500	684	642	606	821	716	675

Segment Assets - Segment Liabilities											
Plywood and Allied Products	5,232	5,539	5,352	5,397	5,427	5,715	5,399	4,427	4,286	4,642	5,164
Laminate and Allied Products	1,594	1,549	1,628	1,603	1,741	1,919	1,932	2,013	1,924	2,054	2,188
Container Freight Station Service / Logistic	531	580	547	495	446	455	428	400	427	426	473
MDF	587	1,502	2,110	2,645	3,258	3,570	3,307	3,635	3,671	3,631	3,528
Particleboard	558	687	607	567	541	506	502	502	680	658	651
Others	53	84	69	56	46	70	78	93	88	102	37
Total	8,556	9,941	10,313	10,763	11,460	12,235	11,646	11,070	11,076	11,513	12,042

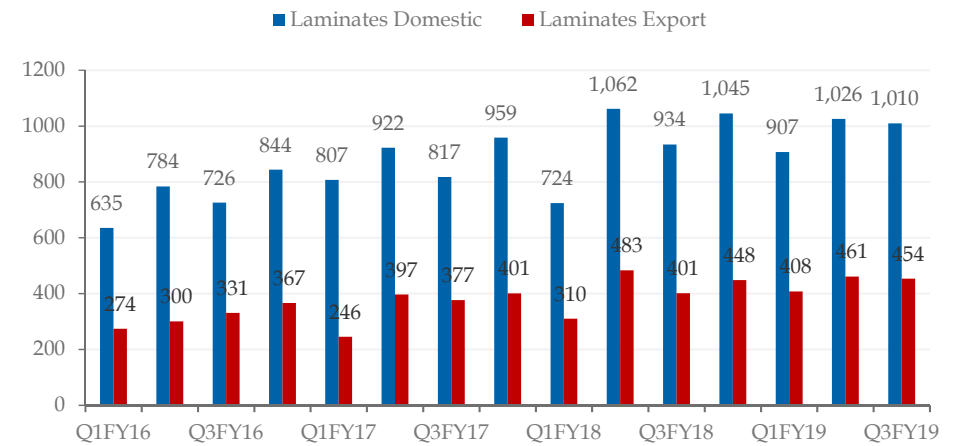
Source: Company, YSL

Exhibit 4: Plywood & allied products volume (in '000s cbm)



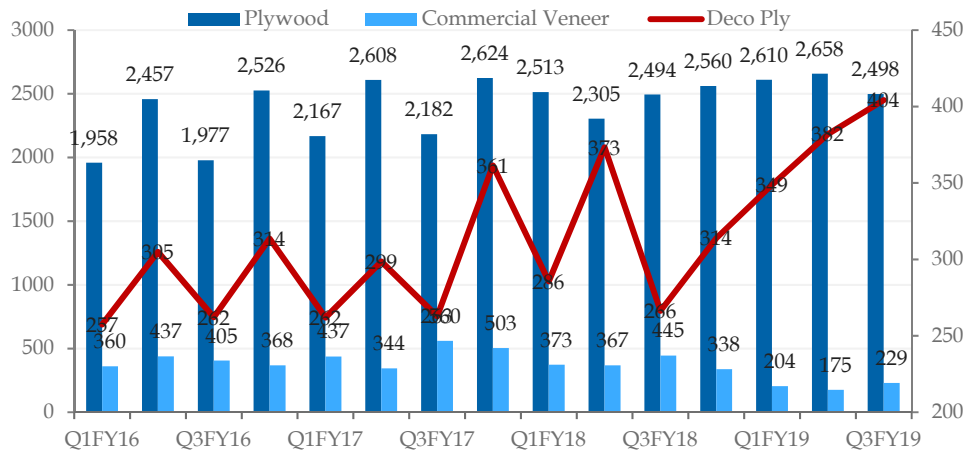
Source: Company, YSL

Exhibit 6: Laminate products volume (in '000s cbm)



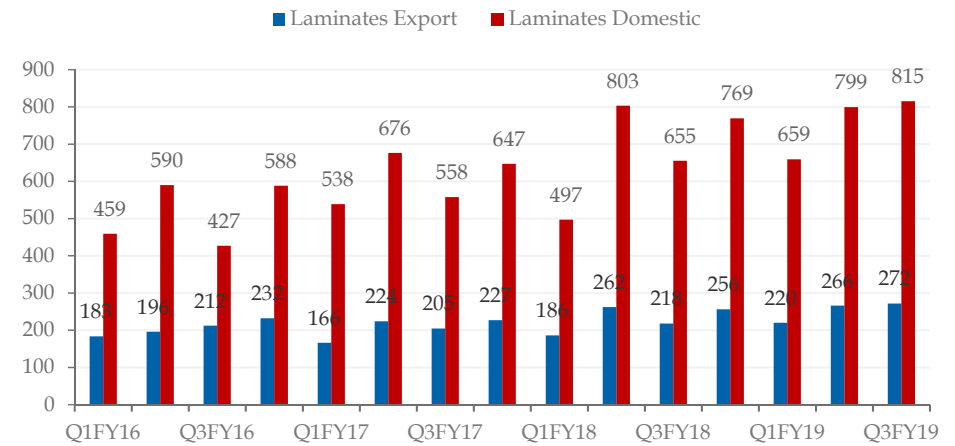
Source: Company, YSL

Exhibit 5: Plywood & allied product value growth (Rs mn)



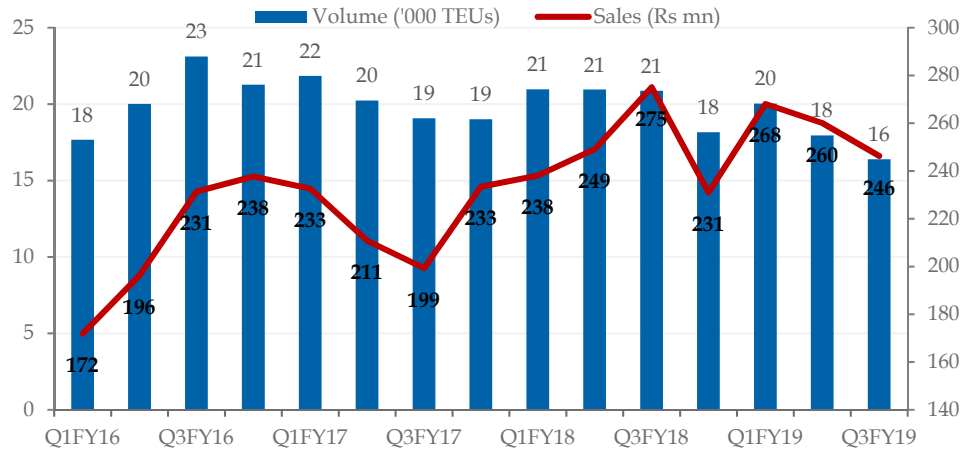
Source: Company, YSL

Exhibit 7: Laminate products value (Rs mn)



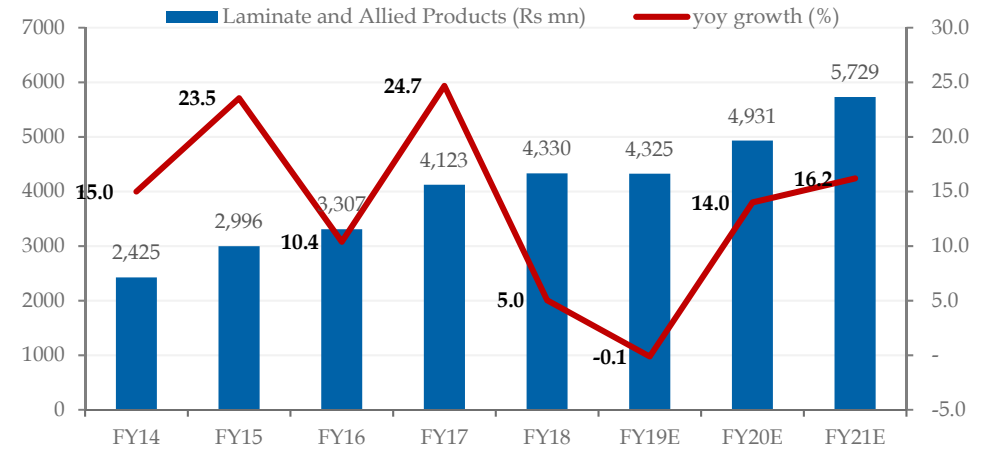
Source: Company, YSL

Exhibit 8: CFS business performance trend



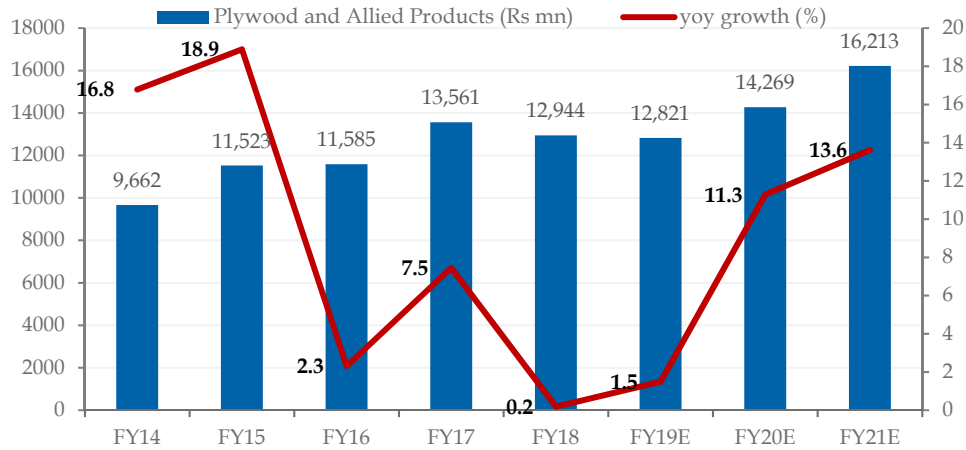
Source: Company, YSL

Exhibit 10: Expect laminate sales CAGR of 15% over FY19E-21E



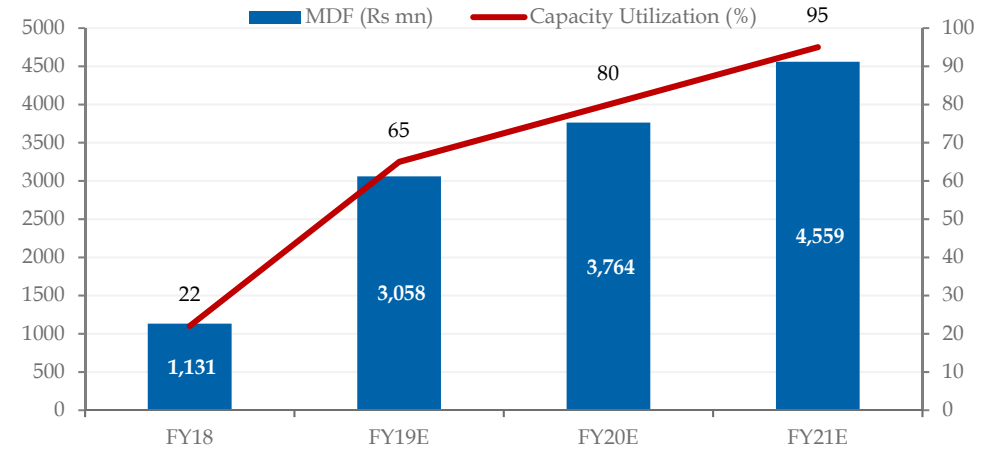
Source: Company, YSL

Exhibit 9: Expect plywood sales CAGR of 12% over FY19E-21E



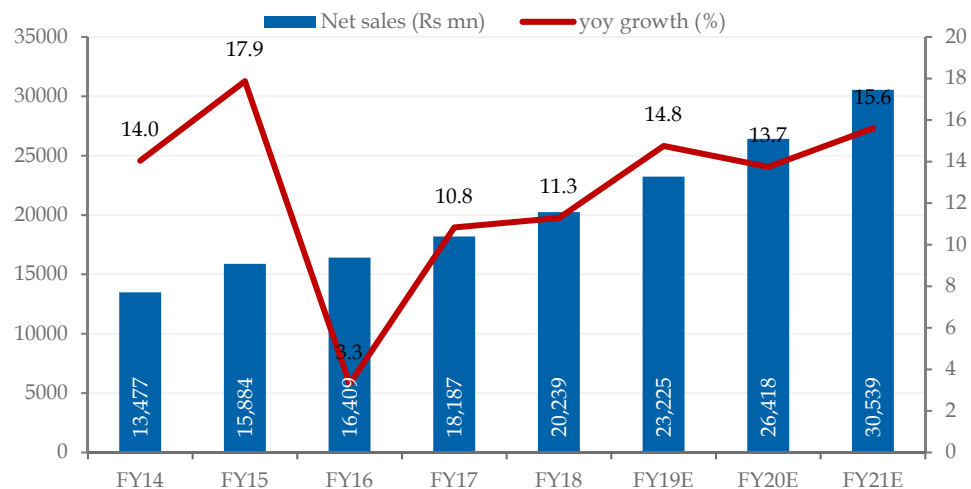
Source: Company, YSL

Exhibit 11: Expect MDF sales CAGR of 22% over FY19E-21E



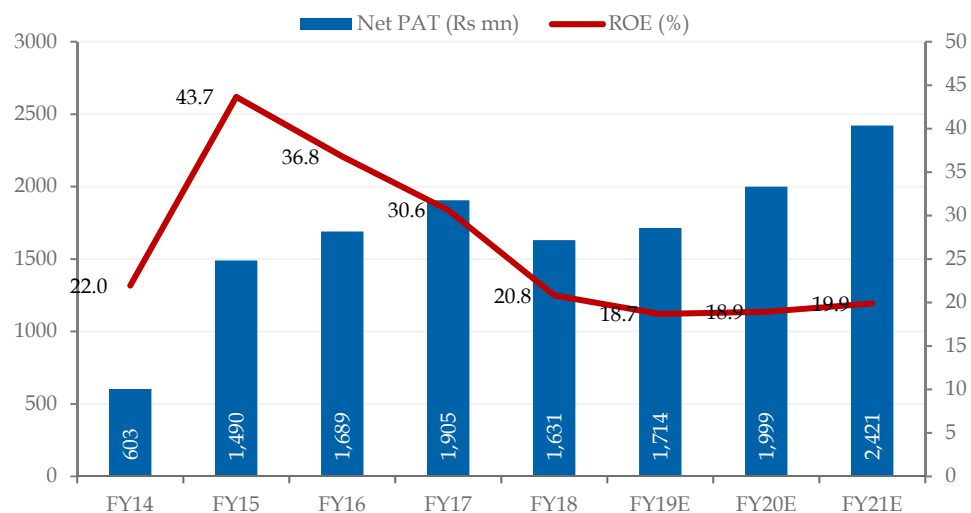
Source: Company, YSL

Exhibit 12: Net sales CAGR of 15% over FY19E-21E



Source: Company, YSL

Exhibit 13: Expect earnings CAGR of 19% over FY19E-21E



Source: Company, YSL

Exhibit 14: Income statement (Consolidated)

Y/e 31 Mar (Rs mn)	FY17	FY18	FY19E	FY20E	FY21E
Total operating revenues	18,187	20,239	23,225	26,418	30,539
Growth (%)	10.8	11.3	14.8	13.7	15.6
EBITDA	3,120	3,311	3,327	3,875	4,517
EBITDA margin (%)	17.2	16.4	14.3	14.7	14.8
Growth (%)	7.8	6.1	0.5	16.5	16.5
Depreciation & amortization	593	907	487	577	647
EBIT	2,527	2,404	2,840	3,299	3,870
EBIT margin (%)	13.9	11.9	12.2	12.5	12.7
Interest	302	358	552	630	590
Other income	226	79	49	77	89
Profit before tax	2,450	2,124	2,337	2,746	3,369
Tax	515	463	623	746	948
Associate income	0	0	0	0	0
Minority interest	(30)	(31)	(0)	(0)	(0)
Reported net profit	1,935	1,661	1,714	1,999	2,421
Extraordinary items	24	4	0	0	0
Adjusted net profit	1,881	1,626	1,714	1,999	2,421
Adjusted net margin (%)	10.3	8.0	7.4	7.6	7.9
Diluted EPS (INR)	8.6	7.3	7.7	9.0	10.9
Growth (%)	12.8	(14.4)	5.1	16.7	21.1

Source: Company, YSL

Exhibit 15: Balance sheet (Consolidated)

Y/e 31 Mar (Rs mn)	FY17	FY18	FY19E	FY20E	FY21E
SOURCE OF FUNDS					
Share capital	222	222	222	222	222
Reserve & Surplus	6,927	8,293	9,606	11,070	12,823
Total shareholder's funds	7,149	8,515	9,828	11,292	13,045
Minority Interest	120	184	184	184	184
Debt	6,167	6,370	4,703	4,516	4,116
Deferred tax liabilities/(assets)	20	133	830	797	726
TOTAL	13,456	15,202	15,545	16,789	18,072
APPLICATION OF FUNDS					
Fixed assets	6,339	10,612	11,462	12,412	13,362
Less: Depn. and amort.	3,219	4,125	4,612	5,189	5,836
Net block	3,120	6,487	6,850	7,223	7,526
Capital WIP	2,988	1,264	850	500	300
Long term investments	0	0	0	0	0
Other long-term assets	1,038	1,046	910	1,260	1,460
Inventories	3,006	3,828	4,581	4,922	5,355
Debtors	3,422	3,572	4,136	4,560	5,187
Cash & cash equivalents	672	211	366	539	789
Loans & advances	805	245	891	869	837
Other current assets	797	601	52	134	81
Total current liabilities	2,393	2,052	3,092	3,218	3,463
Net current assets	6,310	6,406	6,935	7,806	8,786
TOTAL	13,456	15,202	15,545	16,789	18,072

Source: Company, YSL

Exhibit 16: Cash flow statement (Consolidated)

Y/e 31 Mar (Rs mn)	FY17	FY18	FY19E	FY20E	FY21E
PBT	2,450	2,124	2,337	2,746	3,369
Depreciation	593	907	487	577	647
Others	(24)	(4)	0	0	0
Tax Paid	(515)	(463)	(623)	(746)	(948)
Changes in Working Capital	(577)	(557)	(374)	(698)	(730)
Net Cash from Operations	1,927	2,007	1,826	1,878	2,338
Capex	(3,099)	(2,557)	(300)	(950)	(950)
Change in Investment	0	0	0	0	0
Others	0	0	0	0	0
Net Cash from Investing	(3,099)	(2,557)	(300)	(950)	(950)
Change in debt	1,470	203	(1,667)	(187)	(400)
Change in Equity	247	8	0	0	0
Others	(261)	(121)	296	(568)	(739)
Net Cash from Financing	1,456	89	(1,371)	(755)	(1,139)
Net Change in Cash	283	(461)	155	173	250
Ending Cash Balance	672	211	366	539	789
Free cash flow (FCF)	(934)	(270)	1,931	1,387	1,812

Source: Company, YSL

Exhibit 17: Key financial ratios (Consolidated)

Y/e 31 Mar (%)	FY17	FY18	FY19E	FY20E	FY21E
PROFITABILITY RATIOS					
EBITDA Margin (%)	17.2	16.4	14.3	14.7	14.8
Adjusted net margin (%)	10.5	8.1	7.4	7.6	7.9
Return on invested capital (%)	17.1	13.2	13.5	14.9	19.0
Return on equity (%)	30.6	20.8	18.7	18.9	19.9
EFFICIENCY RATIOS					
Asset Turnover	3.0	2.6	3.0	3.4	3.4
Debt to equity	0.9	0.7	0.5	0.4	0.3
Net debt to equity	0.8	0.7	0.4	0.4	0.3
Interest coverage	8.4	6.7	5.1	5.2	6.6
Debtor days	68.7	64.4	65.0	63.0	62.0
Inventory days	60.3	69.0	72.0	68.0	64.0
Payable days	57.5	64.9	66.0	60.0	55.0
PER SHARE DATA					
Diluted EPS (INR)	8.6	7.3	7.7	9.0	10.9
Book value per share (INR)	32.2	38.3	44.2	50.8	58.7
DPS (INR)	1.0	1.0	1.5	2.0	2.5
VALUATION RATIOS					
P/E	19.0	22.2	21.1	18.1	14.9
P/BV	5.1	4.2	3.7	3.2	2.8
EV/EBITDA	13.3	12.8	12.2	10.4	8.7
Dividend Yield (%)	0.6	0.6	0.9	1.2	1.5

Source: Company, YSL

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BUY > 15%

ADD 5% to 15%

HOLD -15% to +5%

SELL > - 15%

NOT RATED

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Tel: +91-22-71123123 | **Email:** research@yessecuritiesltd.in | **Website:** www.yesinvest.in

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4	Research Analyst has served as an officer, director or employee of the subject company(ies)	No
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8	Research Analyst or YSL has been engaged in market making activity for the subject company(ies)	No

Since YSL and its associates are engaged in various businesses in the financial services industry, they may have financial interest or may have received compensation for investment banking or merchant banking or brokerage services or for any other product or services of whatsoever nature from the subject company(ies) in the past twelve months or associates of YSL may have managed or co-managed public offering of securities in the past twelve months of the subject company(ies) whose securities are discussed herein.

Associates of YSL may have actual/beneficial ownership of 1% or more and/or other material conflict of interest in the securities discussed herein.

CIN: U74992MH2013PLC240971 | SEBI Single Registration No.: NSE & BSE:
INZ000185632 | MERCHANT BANKER: INM000012227 | RESEARCH ANALYST:
INH000002376 | INVESTMENT ADVISER: INA000007331 | AMFI ARN Code - 94338 |

Details of Compliance Officer: Name: Vaibhav Purohit,
Email id: compliance@yessecuritiesltd.in, Contact No-+91-22-33479208