

CENTURY PLYBOARDS

Margin pressure singes profitability

India Equity Research | Home Decor



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Century Plyboards' (CPBI) Q4FY19 numbers came below estimate on account of mere 7% YoY (16% estimate) sales growth and margin contraction across segments. Higher input cost and focus on market share gain over margin affected overall profitability. As management shifts focus to expanding distribution network and market share gain, we believe margin pressure will sustain in the near term. Hence, we revise down FY20/21E EPS 15%/13% and roll forward to September 2021E with revised target price of INR214 (INR217 earlier) while maintaining target multiple at 20x. Having said that, we believe CPBI's market share gain strategy will help the company consolidate its leadership in the wood panel industry and bolster long-term growth. Maintain 'BUY'.

Q4FY19: Key highlights

1) Plywood segment disappointed with volume decline of 3% YoY and 350bps YoY margin dip to 11% on account of shift towards mid-end segment, leading to 24% fall in plywood's EBIT; 2) although laminates' revenue growth at 17% YoY came in line with estimate, margin fall to 7.8% due to higher raw material cost (adhesives) led to 16% slip in laminates' EBIT; 3) CFC business was also impacted by higher competitive intensity, which led to dip in revenue and EBIT by 6% and 49% YoY, respectively; and 4) MDF business reported INR760mn revenue and EBIT margin of 8%.

Focus on market share gains dent margin

CPBI's margin contracted across segments as it shifted focus to market share gain. Management guided for margins in plywood, CFS and MDF businesses to remain at FY19 level; however, due to prices hikes, laminates segment's margin is likely to increase. Further, in the MDF business, to strengthen its position, CPBI is mulling increase in capacity via brownfield expansion.

Outlook and valuation: Focus on market share gain; maintain 'BUY'

We revise down FY20/21E EPS 15%/13% to factor margin pressure and roll forward to September 2021E with TP of INR214 while maintaining target multiple at 20x. We estimate EPS CAGR of 35% with ROCE jumping to 22% in FY21. We maintain 'BUY'.

EDELWEISS RATINGS

Absolute Rating	BUY
Investment Characteristics	Growth

MARKET DATA (R: CNTP.BO, B: CPBI.IN)

CMP	: INR 173
Target Price	: INR 214
52-week range (INR)	: 284 / 150
Share in issue (mn)	: 222.2
M cap (INR bn/USD mn)	: 38 / 1,180
Avg. Daily Vol. BSE/NSE ('000)	: 252.5

SHARE HOLDING PATTERN (%)

	Current	Q3FY19	Q2FY19
Promoters *	72.7	72.7	72.3
MF's, FI's & BKs	6.2	6.2	5.2
FII's	8.7	8.7	10.0
Others	12.4	12.4	12.6
* Promoters pledged shares (% of share in issue)	:		NIL

PRICE PERFORMANCE (%)

	BSE Midcap Index	Stock	Stock over Index
1 month	(6.3)	(17.4)	(11.0)
3 months	0.4	(5.8)	(6.3)
12 months	(11.6)	(47.7)	(36.1)

Financials

Year to March	Q4FY19	Q4FY18	% Chg	Q3FY19	% Chg	FY19	FY20E	FY21E	(INR mn)
Net revenues	5,832	5,441	7.2	5,789	0.7	22,804	26,066	29,381	
EBITDA	637	832	(23.4)	759	(16.2)	3,016	3,492	4,269	
Adjusted Profit	342	357	(4.4)	414	(17.5)	1,485	2,049	2,714	
Adjusted Diluted EPS	1.5	1.6	(4.4)	1.9	(17.5)	6.7	9.2	12.2	
Diluted P/E (x)						25.8	18.7	14.1	
EV/EBITDA (x)						14.3	12.3	9.8	
ROAE (%)						15.9	18.9	21.1	

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Q4FY19 conference call: Key highlights

Q4FY19 performance: Net sales grew 7% YoY to INR5.8bn, below our INR6.3bn estimate. The miss was on account of flat sales in plywood segment (6% growth estimate), MDF (INR760mn versus INR1bn), particle board (INR241mn versus INR270mn) and CFS (INR219mn versus INR240mn). Laminates segment's (INR1.23bn versus INR1.24bn) revenue came in line with our estimate.

Furthermore, EBITDA margin fell 440bps YoY and 220bps QoQ to 10.9%, below our 13.3% estimate. This was on account of dip in margins across divisions - plywood (11.3% estimates 12.0% expectation), laminates (7.8% estimates 9.0% expectation), CFS (14.8% estimates 23.0% expectation) and MDF (8.3% estimates 11.0% expectation). Hence, EBITDA declined 23% YoY to INR637mn, below our INR840mn estimate. Further, PAT slipped 32% YoY to INR342mn versus our estimate of INR503mn and consensus estimate of INR447mn.

Plywood: Plywood division reported flat revenues YoY as 3% drop in volume was offset by increase in realisation. FY19 volume grew 6% YoY and realisation remained under pressure on account of shift towards mid-end segment. Further, EBITDA margin in this segment fell by 70bps YoY to 13.6% in FY19 leading to 4% fall in EBITDA of the plywood business. The fall in margin was due to one-off expense of INR150mn (some of the expenses were proportionately added in each segment) including INR60mn CSR expense and as focus towards mid-end segment reduces margin. Going ahead as well, management expects margin pressure to continue as the company's new strategy will focus on mid-end plywood segment with lower focus on profitability and thus has guided for margin similar to FY19. The share of *Sainik* brand stood at 31% in FY19 versus 25% in FY18.

Laminates: Revenue increased by 17% YoY led by 7% increase in volume coupled with increase in realisation. EBITDA margin declined 370bps YoY due to higher raw material prices, mainly phenol's. In FY19, margin dipped 700bps YoY to 8.8% on account of higher prices of crude oil and imported craft paper. Going forward, management expects gradual pick up in margin.

MDF: Revenue came in at INR760mn, lower than our expectation of INR1bn. Furthermore, the company reported an EBIT profit of INR63mn versus our INR110mn estimate. FY19 revenue stood at INR2.95bn with 13% EBITDA margin. The lower profitability is attributable to increase in competition during the year. In FY20, management expects margin in this segment to remain at similar level, after which the company sees improvement led by favourable demand-supply dynamics. Further, the company expects 90% utilisation in this segment in FY20. Given CPBI's plant is close to optimum utilisation, the company is planning brown field capacity expansion to 1,000cubic meters from 600cubic meters currently with capex of INR1.5bn.

CFS business: Revenue came in at INR219mn, lower than our expectation of INR240mn mainly on account of decline in volume by 19% YoY. Furthermore, EBIT margin fell to 15% from 27% in the corresponding quarter last year. The segment was impacted by: i) lower traffic growth at Calcutta port; 2) increase in competitive intensity with entry of two new players; and 3) divergence of traffic from Calcutta to Haldia port.

Table 1: Segmental snapshot

Year to March	Q4FY19	Q4FY18	YoY(%)	Q3FY19	QoQ(%)
Revenues					
Plywood and Allied Products	3,235	3,230	0.1	3,143	2.9
Laminate and Allied Products	1,231	1,056	16.6	1,138	8.2
MDF	760	648	16.6	882	(13.8)
Particle Board	241	190	16.6	265	(8.9)
Container Freight Station Services	219	233	(5.8)	250	(12.3)
Others	154	98	57.2	121	27.2
Total	5,840	5,454	7.1	5,799	0.7
EBIT					
Plywood and Allied Products	365	480	(23.9)	385	(5.1)
Laminate and Allied Products	96	115	(16.4)	89	8.2
MDF	63	(24)	n.m.	95	(33.7)
Particle Board	50	(12)	n.m.	45	13.0
Container Freight Station Services	32	62	(47.8)	54	(39.7)
Others	11	(14)	n.m.	8	8.2
Total	618	606	2.1	675	(8.4)
Margins					
Plywood and Allied Products	11.3	14.9		12.3	
Laminate and Allied Products	7.8	10.8		7.8	
MDF	8.3	(3.7)		10.8	
Particle Board	20.9	(6.6)		16.8	
Container Freight Station Services	14.8	26.7		21.5	
Others	7.4	(14.6)		6.9	
Total	10.6	11.1		11.6	

n.m. - not meaningful

Source: Company, Edelweiss research

Financial snapshot (INR mn)								
Year to March	Q4FY19	Q4FY18	% change	Q3FY19	% change	FY19	FY20E	FY21E
Net revenues	5,832	5,441	7.2	5,789	0.7	22,804	26,066	29,381
Staff costs	837	752	11.3	810	3.3	3,456	3,871	4,451
Other expenses	1,330	1,119	18.8	1,132	17.5	4,822	5,418	6,097
EBITDA	637	832	(23.4)	759	(16.2)	3,016	3,492	4,269
Depreciation	143	277	(48.4)	136	5.2	595	572	667
EBIT	494	554	(11.0)	623	(20.8)	2,421	2,920	3,602
Interest	94	122	(23.1)	62	50.0	469	335	302
Other income	29	13	124.2	16	85.0	71	82	99
Profit before tax	429	445	(3.7)	577	(25.6)	2,023	2,667	3,398
Provision for taxes	87	88	(0.9)	162	(46.3)	535	613	680
Minority interest	-	-		-		4	5	5
Reported net profit	342	357	(4.4)	414	(17.5)	1,485	2,049	2,714
Adjusted Profit	342	357	(4.4)	414	(17.5)	1,485	2,049	2,714
Diluted shares (mn)	223	223		223		223	223	223
Adjusted Diluted EPS	1.5	1.6	(4.4)	1.9	(17.5)	6.7	9.2	12.2
Diluted P/E (x)	-	-		-		25.8	18.7	14.1
EV/EBITDA (x)	-	-		-		14.3	12.3	9.8
ROAE (%)	-	-		-		15.9	18.9	21.1
As % of net revenues	1	1		1		1	1	1
Employee cost	14.3	13.8		14.0		15.2	14.8	15.2
Other expenses	22.8	20.6		19.6		21.1	20.8	20.8
EBITDA	10.9	15.3		13.1		13.2	13.4	14.5
Reported net profit	5.9	6.6		7.2		6.5	7.9	9.2

Change in Estimates

	FY20E			FY21E			
	New	Old	% change	New	Old	% change	Comments
Net Revenue	26,066	26,047	0.1	29,381	29,657	(0.9)	
EBITDA	3,492	3,923	(11.0)	4,268	4,598	(7.2)	Due to pressure on margins across segments
<i>EBITDA Margin</i>	<i>13.4</i>	<i>15.1</i>		<i>14.5</i>	<i>15.5</i>		
Adjusted Profit	2,049	2,418	(15.2)	2,714	3,120	(13.0)	Due to lower operating profits
After Tax							
<i>Net Profit Margin</i>	<i>7.9</i>	<i>9.4</i>		<i>9.3</i>	<i>10.7</i>		
Capex	(622)	(150)	314.4	(1,225)	(1,375)	(10.9)	

Company Description

CPBI is the largest plywood manufacturer in India with 25% share in the organised plywood market. The company is also India's third largest laminate producer with 7.2mn units capacity. With entry in MDF and particle boards segments, CPBI has become the only domestic integrated player in the wood and panel industry with presence across plywood, laminates, veneer and particle boards. Further, the company is extending its brand presence to panel products like PVC sheets, cement fibre boards and allied products like wooden flooring & doors by offering complete bouquet of wood panel products.

Investment Theme

Century Plyboards (CPBI) is an integrated player with presence in plywood, laminates, and particle boards. The company has aggressively expanded presence in fast-growing segments like medium-end plywood (via Sainik brand) & laminates and successfully leveraged its strong brand & distribution network to expand product basket to MDF and other associated products. CPBI has also prudently ensured raw material supply by procuring it from diverse geographies. We estimate CPBI, underpinned by strong business model, to post revenue, EBITDA and PAT CAGR of 13%, 9% and 22%, respectively, over FY18-20. Moreover, improvement in RoCE to 23% from 18% and strong cash flow generation entails robust rerating potential, in line with premium valuations enjoyed by peers in the home décor space.

Key Risks

Raw material security: Raw material security acts as a strong entry barrier as procuring face veneer or setting up manufacturing units in Myanmar and Laos is a complex process entailing many regulatory approvals.

Foreign currency risk: CPIB imports 60-65% of its raw material requirement without entering into forward cover or hedging its forex exposure. Hence, volatility in foreign exchange could impact the company's profitability.

Lower level of GST compliance by unorganised players: Historically, the plywood sector has been dominated by unorganised players with slow pace of shift towards the organised segment. Lower level of compliance will not change industry dynamics and organised players may still continue to suffer.

Excessive competition in MDF could lead to slower volume growth and lower realisations: CPBI is adding MDF capacity along with significant expansion plans by Action Tesa, Greenply and Rushil Decor. With all the capacities likely to come on stream over the next 2-3 years, the industry may face some pricing pressure till the market absorbs the new capacity.

Sustained slowdown in realty sector: Over the past 2-3 years, slowdown in real estate activity has taken a toll on company's growth. However, volumes could face further pressure if the real estate market continues to remain weak.

Financial Statements

Key Assumptions

Year to March	FY18	FY19	FY20E	FY21E
Macro				
GDP(Y-o-Y %)	6.7	7.1	7.1	7.3
Inflation (Avg)	3.6	3.7	4.0	4.5
Repo rate (exit rate)	6.0	6.3	5.8	5.8
USD/INR (Avg)	64.5	70.0	72.0	72.0
Sector				
Org.Sector growth (%) (Sector)	29.6	29.6	29.6	-
Unorg. Sector growth (%) (Sector)	5.9	4.8	3.3	-
Industry Value wise growth (%)	11.0	11.0	11.0	11.0
Industry Org.Sector growth (%)	15.6	15.6	15.6	15.6
Industry Unorg. Sector growth (%)	5.8	5.3	4.7	4.1
Company				
Plywood revenue growth (YoY)	(3.5)	2.1	6.5	10.2
Laminates revenue growth (YoY)	4.9	13.5	9.2	14.8
Logistics revenue growth (YoY)	13.4	3.7	0.2	5.0
MDF revenue growth (YoY)	-	-	12.5	18.8
Plywood EBITDA Margins (%)	13.5	12.7	13.0	14.0
Laminates EBITDA Margins (%)	14.0	8.0	10.0	11.0
Logistics EBITDA margins (%)	38.5	32.4	30.0	32.0
MDF EBITDA margins (%)	18.9	13.0	15.0	17.0
Raw Material (% net rev)	48.7	50.5	51.0	49.6
Employee (% of net rev)	15.5	15.2	14.8	15.2
Sales Promotion as % of N. Sales	2.7	3.5	4.5	4.5
Transport cost as % of N. Sales	5.4	5.4	5.3	5.3
Admin exp (% of rev)	11.3	12.3	11.0	11.0
Dep (% of Avg GFA)	14.5	6.2	5.0	5.4
Int (% of avg G.debt)	6.0	8.8	7.0	7.0
Capex (INR mn)	(2,501)	(1,475)	(622)	(1,225)
Net borrowings (INR mn)	5,612	4,554	4,336	3,341

Income statement (INR mn)

Year to March	FY18	FY19	FY20E	FY21E
Net revenue	20,239	22,804	26,066	29,381
Materials costs	9,860	11,509	13,286	14,564
Gross profit	10,380	11,295	12,780	14,817
Employee costs	3,129	3,456	3,871	4,451
Other Expenses	3,940	4,822	5,418	6,097
Operating expenses	7,069	8,279	9,289	10,548
Total operating expenses	16,929	19,788	22,575	25,112
EBITDA	3,311	3,016	3,492	4,269
Depreciation	907	595	572	667
EBIT	2,404	2,421	2,920	3,602
Less: Interest Expense	358	469	335	302
Add: Other income	78.39	71.45	82.17	98.61
Profit Before Tax	2,124	2,023	2,667	3,398
Less: Provision for Tax	463	535	613	680
Less: Minority Interest	31	4	5	5
Add: Exceptional items	-	-	-	-
Reported Profit	1,631	1,485	2,049	2,714
Exceptional Items	-	-	-	-
Adjusted Profit	1,630	1,485	2,049	2,714
Shares o/s (mn)	223	223	223	223
Adjusted Basic EPS	7.3	6.7	9.2	12.2
Diluted shares o/s (mn)	223	223	223	223
Adjusted Diluted EPS	7.3	6.7	9.2	12.2
Adjusted Cash EPS	11.4	9.0	11.8	15.2
Dividend per share (DPS)	1.0	1.3	1.3	1.3
Dividend Payout Ratio(%)	16.4	23.4	17.0	12.8

Common size metrics

Year to March	FY18	FY19	FY20E	FY21E
Gross margin	51.3	49.5	49.0	50.4
Operating expenses	34.9	36.3	35.6	35.9
Interest Expense	1.8	2.1	1.3	1.0
EBITDA margins	16.4	13.2	13.4	14.5
EBIT margins	11.9	10.6	11.2	12.3
Net Profit margins	8.2	6.5	7.9	9.3

Growth ratios (%)

Year to March	FY18	FY19	FY20E	FY21E
Revenues	11.3	12.7	14.3	12.7
EBITDA	6.1	(8.9)	15.8	22.2
PBT	(13.3)	(4.8)	31.8	27.4
Adjusted Profit	(6.6)	(8.9)	38.0	32.4
EPS	(6.6)	(8.9)	38.0	32.4

Balance sheet (INR mn)				
As on 31st March	FY18	FY19	FY20E	FY21E
Share capital	223	223	223	223
Reserves & Surplus	8,293	9,527	11,228	13,593
Shareholders' funds	8,516	9,749	11,450	13,816
Minority Interest	184	253	253	253
Long term borrowings	1,669	1,323	1,323	323
Short term borrowings	4,154	3,493	3,493	3,493
Total Borrowings	5,824	4,816	4,816	3,816
Long Term Liabilities	(1)	-	-	-
Def. Tax Liability (net)	(667)	(615)	(615)	(615)
Sources of funds	13,855	14,203	15,904	17,270
Gross Block	8,408	10,876	11,766	12,991
Net Block	6,475	8,348	8,666	9,225
Capital work in progress	1,261	268	-	-
Intangible Assets	15	16	14	14
Total net fixed assets	7,751	8,633	8,680	9,239
Non current investments	61	64	64	64
Cash and Equivalents	211	262	480	475
Inventories	3,828	4,613	5,096	5,586
Sundry Debtors	3,572	2,957	3,571	4,186
Loans & Advances	254	194	194	194
Other Current Assets	885	780	780	780
Current Assets (ex cash)	8,538	8,544	9,641	10,746
Trade payable	1,753	1,595	1,638	1,796
Other Current Liab	953	1,705	1,322	1,458
Total Current Liab	2,706	3,300	2,960	3,254
Net Curr Assets-ex cash	5,832	5,243	6,680	7,492
Uses of funds	13,855	14,203	15,904	17,270
BVPS (INR)	38.3	43.8	51.5	62.1

Free cash flow (INR mn)				
Year to March	FY18	FY19	FY20E	FY21E
Reported Profit	1,631	1,485	2,049	2,714
Add: Depreciation	907	595	572	667
Interest (Net of Tax)	240	314	225	202
Others	51	88	33	6
Less: Changes in WC	(218)	(527)	1,437	812
Operating cash flow	3,046	3,008	1,441	2,777
Less: Capex	(2,501)	(1,475)	(622)	(1,225)
Free Cash Flow	545	1,533	820	1,552

Peer comparison valuation

Name	Market cap	Diluted P/E (X)	EV / EBITDA (X)		P/B (X)		
	(USD mn)	FY20E	FY21E	FY20E	FY21E	FY20E	FY21E
Century Plyboards	38,552,800	18.8	14.2	12.4	9.9	3.4	2.8
Greenlam Industries	20,995,048	21.8	18.5	11.4	9.8	4.1	3.4
Greenply Industries	20,454,184	9.3		5.5		1.6	
Median	-	20.3	17.7	11.2	9.8	3.0	3.1
AVERAGE	-	19.4	17.3	10.7	9.8	3.1	2.9

Source: Edelweiss research

Additional Data

Directors Data

Sri Sajjan Bhajanka	Chairman & MD	Sri Hari Prasad Agarwal	Vice Chairman & Executive Director
Sri Sanjay Agarwal	Managing Director	Sri Prem Kumar Bhajanka	Managing Director
Sri Vishnu Khemani	Managing Director	Mr. Keshav Bhajanka	Executive Director
Smt. Nikita Bansal	Executive Director	Sri Ajay Baldawa	Executive Director
Sri Manindra Nath Banerjee	Director	Sri Mangi Lal Jain	Director
Mr. Santanu Roy	Director	Mr. Samrendra Mitra	Director
Mr. Asit Pal	Director	Mrs. Mamta Binani	Director
Sri J. P. Dua	Director	Sri Vijay Chhibber	Director

Auditors - Singhi & Co.

Holding Top -10

	Perc. Holding		Perc. Holding
Government Pension Fund	2.12	Dimensional Fund Advisors	1.00
Norges Bank	2.12	HDFC Asset management	0.86
Aditya Birla Sunlife Asset Management	1.50	Reliance Capital Trustee	0.64
Pictet Funds	1.31	Mirae Asset Global Investment	0.50
Sundaram Asset Management	1.25	Kotak Mahindra Asset Management	0.45

*as per last available data

Bulk Deals

Data	Acquired / Seller	B/S	Qty Traded	Price
No Data Available				

*as per last available data

Insider Trades

Reporting Data	Acquired / Seller	B/S	Qty Traded
28 Sep 2018	Sanjay Agarwal	Buy	405618.00
28 Sep 2018	Sajjan Bhajanka	Buy	500000.00
05 Jul 2018	Sonu Kajaria	Buy	17500.00
12 Jun 2018	Sajjan Bhajanka	Buy	24550.00
12 Jun 2018	Sanjay Agarwal	Buy	24550.00

*as per last available data

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Coverage group(s) of stocks by primary analyst(s): Home Decor

Asian Granito, Century Plyboards, Greenlam Industries, Kajaria Ceramics, Greenply Industries, Supreme Industries, Somany Ceramics

Recent Research

Date	Company	Title	Price (INR)	Recos
22-May-19	Somany Ceramics	Stellar margins steal the show; <i>Result Update</i>	380	Buy
15-May-19	Kajaria Ceramics	Burnished prospects; <i>Company Update</i>	586	Buy
10-May-19	Kajaria Ceramics	Volumes rise despite challenges; margin expansion key; <i>Result Update</i>	583	Buy

Distribution of Ratings / Market Cap

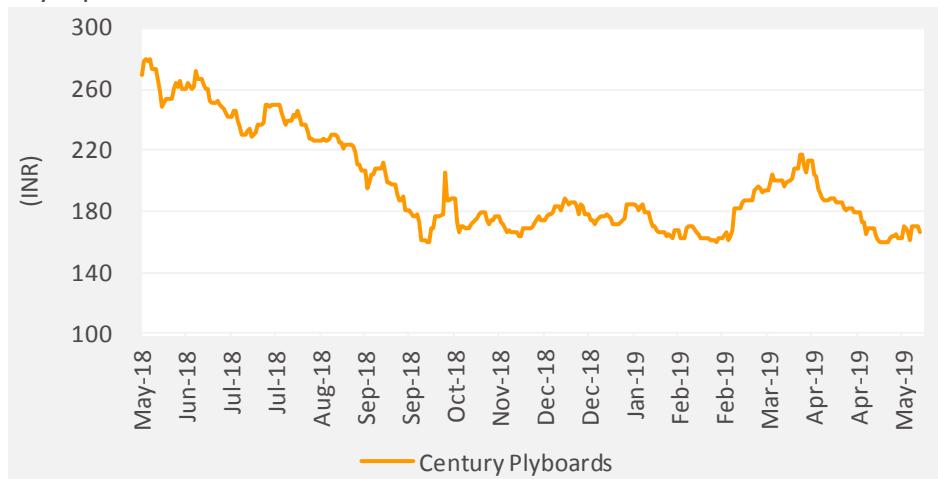
Edelweiss Research Coverage Universe

	Buy	Hold	Reduce	Total
Rating Distribution*	161	67	11	240
* 1stocks under review				
> 50bn		Between 10bn and 50 bn		< 10bn
Market Cap (INR)	156	62	11	

Rating Interpretation

Rating	Expected to
Buy	appreciate more than 15% over a 12-month period
Hold	appreciate up to 15% over a 12-month period
Reduce	depreciate more than 5% over a 12-month period

One year price chart



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