

Century Plyboards | HOLD

Challenging quarter

Century Plyboards' (Century) 4QFY19 performance was disappointing with EBITDA/PAT decline of 31%/26% YoY respectively. Plywood volume declined 3% YoY while MDF realisation declined 3% QoQ. Operating margins declined 50-400bps QoQ on account of higher sales related expenditure and CSR spend. Management continues to remain hopeful about future with expectation of double digit volume growth across segments with stable to improving margin trajectory. It is in the midst of finalising capex relating to MDF (in existing location) and Particleboard (UP). Given volatile performance for several quarters in recent past and current valuation, we maintain **HOLD** and await a better price for entry.

- 4QFY19 Summary:** Total Revenue was up 7% YoY (5% below JMFe) on the back of laminate/MDF revenue growth of 17% each, while EBITDA declined by 31% YoY (20% down QoQ; 28% below JMFe) due to higher other expenses (+27% YoY/20% QoQ; sales related and CSR spend). EBITDA margin contracted to 10.5% in 4QFY19 (-580bps YoY, 330bps below JMFe). Adj. net income fell by 26% YoY (-19% QoQ; 25% below JMFe), despite lower depreciation (change in accounting policy w.e.f. 1st April, 2018).
- Ply volume growth weak; margins decline sharply:** Plywood Revenue remained flat YoY (+3% QoQ; 4% below JMFe) while EBITDA declined 45% YoY (-28% QoQ; 34% below JMFe). Core Plywood revenue grew 2% YoY as improvement in realisations (+6%; product mix) was offset by decline in volumes (-3%). Management had guided for a double digit volume growth in plywood segment in early FY19. EBITDA margin contracted sharply by 390bps QoQ (-750bps YoY) to 9.2% (vs management guidance of 15-15.5%) on the back of sales related expenses, CSR spend (including political donations) in 4QFY19. Management now guide for double digit volume growth with stable margins.
- Laminates volume growth steady; margins remain flat QoQ:** Core laminate revenue grew 14% YoY on the back of volume/realisation growth of 7% each. Laminate EBITDA margins remained flat QoQ (-450bps YoY; 210bps below JMFe). Management has guided for double digit volume growth and 100-200bps improvement in EBITDA margins.
- MDF volume growth disappoints; margins decline sequentially:** MDF revenue declined by 14% QoQ (Capacity utilisation at 72%) as volumes/realisations declined by 12%/2% QoQ respectively. Due to lower realisations, EBITDA margin contracted by 50bps QoQ to 15.3%. Management continues to be positive for MDF segment and is considering capacity addition (400cbm per day) at a capex of INR 1.5bn and yet to firm up timelines. The company now guides for c.80% utilisation in FY20 (c.67% in FY19) with stable margins as it believes realisations have bottomed out.
- Tweak estimates; maintain HOLD:** We tweak EPS estimates to reflect the company's 4QFY19 performance and outlook. We continue to value Century Ply at 20x FY21 EPS with a Mar'20 TP of INR 190. We maintain **HOLD** as we await consistent performance and a better price point. Higher than expected ply volume and MDF margins are key risks to our call.



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Recommendation and Price Target

Current Reco.	HOLD
Previous Reco.	HOLD
Current Price Target (12M)	190
Upside/(Downside)	9.7%
Previous Price Target	200
Change	-5.0%

Key Data – CPBI IN

Current Market Price	INR173
Market cap (bn)	INR38.5/US\$0.6
Free Float	8%
Shares in issue (mn)	222.2
Diluted share (mn)	222.5
3-mon avg daily val (mn)	INR38.8/US\$0.6
52-week range	284/150
Sensex/Nifty	39,750/11,929
INR/US\$	69.7

Price Performance

%	1M	6M	12M
Absolute	-3.3	-0.1	-37.7
Relative*	-5.0	-10.2	-44.9

* 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	FY19A	FY20E	FY21E
Net Sales	17,825	19,672	22,608	24,615	26,650
Sales Growth (%)	9.0	10.4	14.9	8.9	8.3
EBITDA	2,920	3,107	3,044	3,410	3,723
EBITDA Margin (%)	16.4	15.8	13.5	13.9	14.0
Adjusted Net Profit	1,777	1,619	1,689	1,822	2,110
Diluted EPS (INR)	8.0	7.3	7.6	8.2	9.5
Diluted EPS Growth (%)	-4.0	-8.9	4.2	7.9	15.8
ROIC (%)	18.7	15.1	15.1	15.6	17.0
ROE (%)	28.8	20.9	18.7	17.4	17.5
P/E (x)	21.6	23.7	22.8	21.1	18.2
P/B (x)	5.4	4.6	4.0	3.4	3.0
EV/EBITDA (x)	15.0	14.0	14.1	12.2	10.8
Dividend Yield (%)	0.0	0.6	0.6	0.7	0.8

Source: Company data, JM Financial. Note: Valuations as of 28/May/2019

- **FY19 Performance:** Revenue grew by 15% YoY led by MDF (INR 3bn in FY19 vs INR 1.1bn in FY18) and Laminate (+16%) while Plywood revenue remained flat. Plywood/laminate volumes grew by 6%/8% respectively. Plywood EBITDA remained flat and EBITDA margins contracted by 30bps to 14%. Laminate EBITDA declined by 40% due to sharp decline in EBITDA margins by 770bps to 8.4% due to significant RM cost pressures, though it has been able to recover margins to some extent through price hikes. Overall EBITDA margins contracted by 230bps to 13.5%. Adj. Pat came at INR 1.7bn (+4%)
- **Other highlights:** a) Working capital days reduced from 88 in FY18 to 86 in FY19 (Debtor days reduced from 58 in FY18 to 47 in FY19 whereas Creditor days declined from 33 in FY18 to 26 in FY19 as it focused on reduction of foreign currency exposure (buyers credit), b) Company has got the licence for setting up particleboard unit in Uttar Pradesh but it is not reflected in the capex plan for FY20, c) Estimated capex for FY20 is INR 0.26bn (INR 0.24bn for Gabon veneer unit) and d) Company has taken a price hike of 1% across its product portfolio from 20th May'19.

Exhibit 1. Quarterly financials

INR mn	4Q18	4Q19	YoY	3Q19	QoQ	4Q19E	Var	FY18	FY19	YoY
Net Sales	5,441	5,832	7%	5,789	1%	6,125	-5%	19,672	22,608	15%
MDF	648	760	17%	882	-14%	890	-15%	1,128	2,951	NM
Ex-MDF	4,794	5,072	6%	4,907	3%	5,235	-3%	18,544	19,657	6%
Raw Material Cost	2,738	3,029	11%	3,088	-2%	3,122	-3%	10,230	11,816	16%
Gross Profit	2,703	2,803	4%	2,701	4%	3,003	-7%	9,443	10,793	14%
Gross Margin	49.7%	48.1%	-160 bps	46.7%	140 bps	49.0%	-100 bps	48.0%	47.7%	-30 bps
Employee cost	752	837	11%	810	3%	825	1%	2,839	3,277	15%
% of sales	13.8%	14.3%	50 bps	14.0%	40 bps	13.5%	90 bps	14.4%	14.5%	
Other expenses	1,066	1,354	27%	1,130	20%	1,333	2%	3,496	4,471	28%
% of sales	19.6%	23.2%	360 bps	19.5%	370 bps	21.8%	150 bps	17.8%	19.8%	
Total Expenditure	4,556	5,220	15%	5,028	4%	5,280	-1%	16,565	19,564	18%
EBITDA	885	612	-31%	761	-20%	844	-28%	3,107	3,044	-2%
EBITDA margin	16.3%	10.5%	-580 bps	13.1%	-270 bps	13.8%	-330 bps	15.8%	13.5%	-230 bps
MDF EBITDA	128	116	-9%	139	-16%	107	9%	229	408	NM
MDF margin	19.7%	15.3%	-440 bps	15.8%	-50 bps	12.0%	330 bps	20.3%	13.8%	-640 bps
Ex-MDF EBITDA	757	496	-35%	622	-20%	738	-33%	2,879	2,636	-8%
Ex-MDF margin	15.8%	9.8%	-600 bps	12.7%	-290 bps	14.1%	-430 bps	15.5%	13.4%	-210 bps
Depreciation	277	143	-48%	136	5%	133	7%	810	500	-38%
EBIT	608	469	-23%	625	-25%	711	-34%	2,297	2,544	11%
Net finance cost	83	76	-8%	89	-15%	93	-18%	241	293	22%
Other Income	13	29	124%	16	85%	9	241%	39	61	55%
Interest	96	105	10%	105	0%	101	4%	280	354	26%
XO Inc/-Exp	-80	36		41		0		-66	-133	
PBT	445	429	-4%	577	-26%	618	-31%	1,990	2,119	6%
Tax Expense	88	87	-1%	162	-46%	200	-56%	424	531	25%
Tax Rate	19.8%	20.4%	60 bps	28.2%	-780 bps	32.4%	-1200 bps	21.3%	25.1%	380 bps
Reported Net Profit	357	342	-4%	414	-18%	418	-18%	1,566	1,588	1%
Adjusted Net Profit	423	314	-26%	386	-19%	418	-25%	1,619	1,689	4%

Source: Company, JM Financial

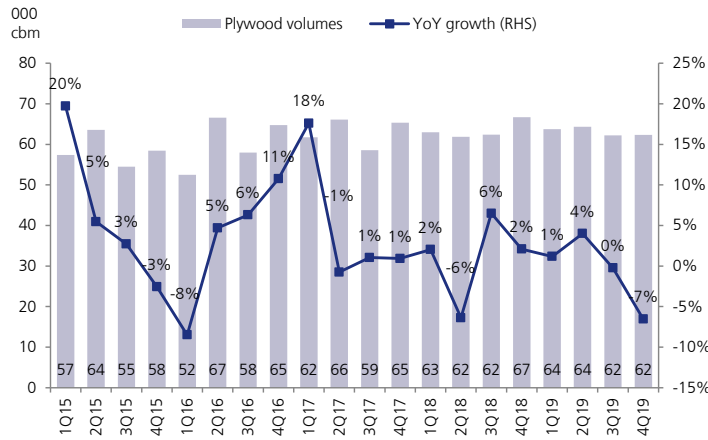
Exhibit 2. Segmental Information

INR mn	4Q18	4Q19	YoY	3Q19	QoQ	4Q19E	Var	FY18	FY19	YoY
Volume										
Plywood and Allied (cbm)	66,712	62,349	-7%	62,217	0%	69,055	-10%	2,53,926	2,52,637	-1%
Core Plywood	56,488	54,536	-3%	53,385	2%	61,230	-11%	2,08,382	2,20,442	6%
Deco Ply	2,422	2,690	11%	2,720	-1%	2,285	18%	8,873	10,609	20%
Commercial Veneer	7,802	5,123	-34%	6,112	-16%	5,540	-8%	36,671	21,586	-41%
Laminates (mn Nos)	1.49	1.59	7%	1.46	9%	1.68	-5%	5.41	5.86	8%
MDF (cbm)	27,250	35,395	30%	40,138	-12%	40,500	-13%	48,307	1,32,229	NM
Realisation										
Plywood and Allied (INR/cbm)	48,420	51,731	7%	50,325	3%	48,830	6%	49,751	50,404	1.3%
Core Plywood (INR/cbm)	45,319	48,021	6%	46,792	3%	46,265	4%	47,372	47,107	-0.6%
Deco Ply (INR/cbm)	1,29,604	1,44,981	12%	1,48,603	-2%	1,48,877	-3%	1,39,671	1,43,736	2.9%
Commercial Veneer (INR/cbm)	43,284	42,260	-2%	37,467	13%	35,323	20%	41,512	38,201	-8.0%
Laminates (INR/sheet)	687	736	7%	742	-1%	751	-2%	669	718	7.3%
Exteria	4,131	5,375	30%	5,849	-8%	5,838	-8%	5,794	5,656	-2.4%
MDF	23,765	21,469	-10%	21,964	-2%	21,964	-2%	23,351	22,320	-4.4%
Net revenues										
	5,441	5,832	7%	5,789	1%	6,125	-5%	19,672	22,608	15%
Plywood and Allied	3,230	3,225	0%	3,131	3%	3,372	-4%	12,633	12,734	1%
Core Plywood	2,560	2,619	2%	2,498	5%	2,833	-8%	9,871	10,384	5%
Deco Ply	314	390	24%	404	-4%	340	15%	1,239	1,525	23%
Commercial Veneer	338	217	-36%	229	-5%	196	11%	1,522	825	-46%
Laminates	1,056	1,231	17%	1,138	8%	1,299	-5%	3,780	4,390	16%
MDF	648	760	17%	882	-14%	890	-15%	1,128	2,951	NM
Particle Board	190	241	27%	265	-9%	266	-9%	729	975	34%
Logistics- CFS	232	217	-6%	246	-12%	253	-14%	993	992	0%
Others	98	147	51%	113	31%	88	67%	348	509	46%
Segmental EBITDA										
	885	612	-31%	761	-20%	844	-28%	3,107	3,044	-2%
Plywood and Allied	538	296	-45%	410	-28%	446	-34%	1,801	1,781	-1%
Laminates	140	107	-23%	99	9%	140	-23%	609	368	-40%
MDF	128	116	-9%	139	-16%	107	9%	229	408	NM
Particle Board	38	60	58%	55	10%	50	NM	141	221	NM
Logistics- CFS	87	52	-40%	72	-28%	73	-29%	382	334	-12.5%
Others	-14	13	-196%	6	132%	-11	-16	-16	34	
EBITDA Margins										
	16.3%	10.5%	-580 bps	13.1%	-270 bps	13.8%	-330 bps	15.8%	13.5%	-230 bps
Plywood and Allied	16.7%	9.2%	-750 bps	13.1%	-390 bps	13.2%	-410 bps	14.3%	14.0%	-30 bps
Laminates	13.3%	8.7%	-450 bps	8.7%	0 bps	10.8%	-210 bps	16.1%	8.4%	-770 bps
MDF	19.7%	15.3%	-440 bps	15.8%	-50 bps	12.0%	330 bps	20.3%	13.8%	-640 bps
Particle Board	20.1%	25.0%	480 bps	20.7%	430 bps	19.0%	600 bps	19.3%	22.6%	340 bps
Logistics- CFS	37.7%	23.9%	-1380 bps	29.2%	-530 bps	28.7%	-480 bps	38.5%	33.7%	-480 bps
Others	-14.1%	9.0%	2310 bps	5.1%	390 bps	-12.8%	2180 bps	-4.5%	6.6%	1110 bps

Source: Company, JM Financial

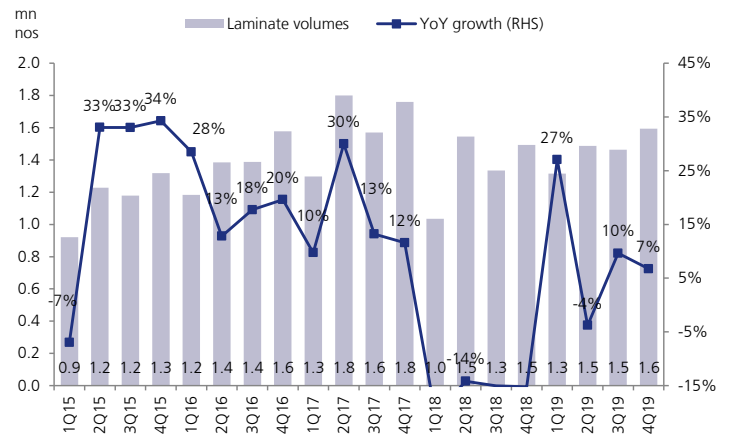
Quarterly charts

Exhibit 1. Plywood volume growth trend



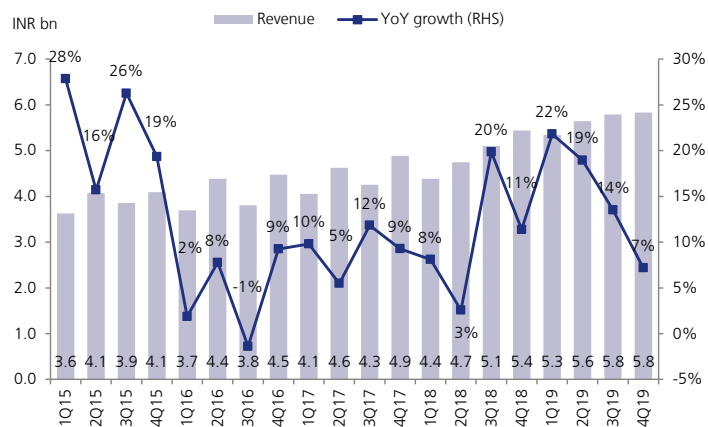
Source: Company, JM Financial

Exhibit 2. Laminates volume growth trend



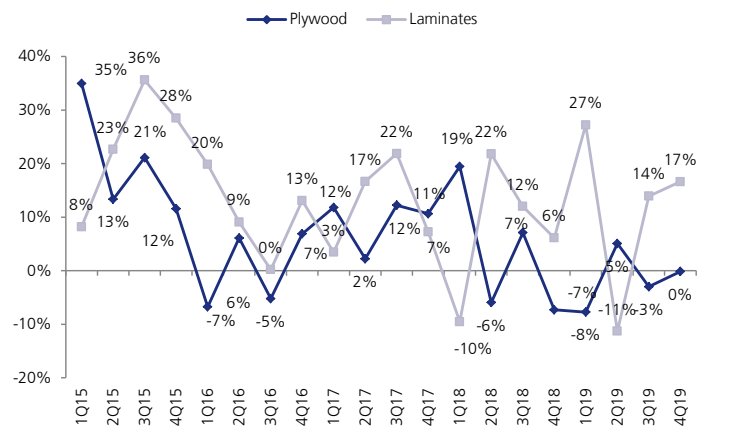
Source: Company, JM Financial

Exhibit 3. Overall revenue growth trend



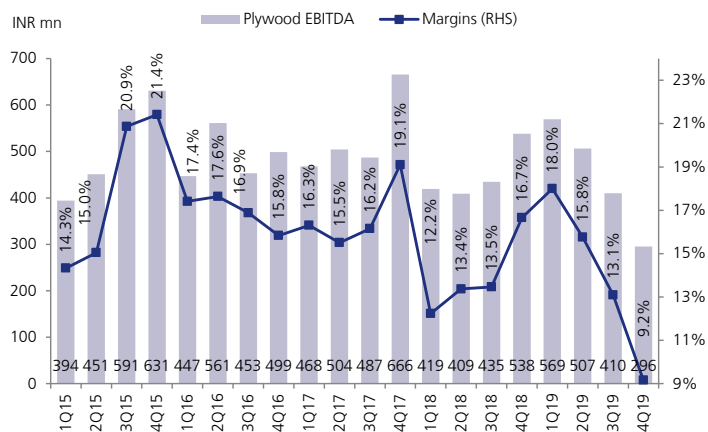
Source: Company, JM Financial

Exhibit 4. Plywood and Laminates revenue growth trend



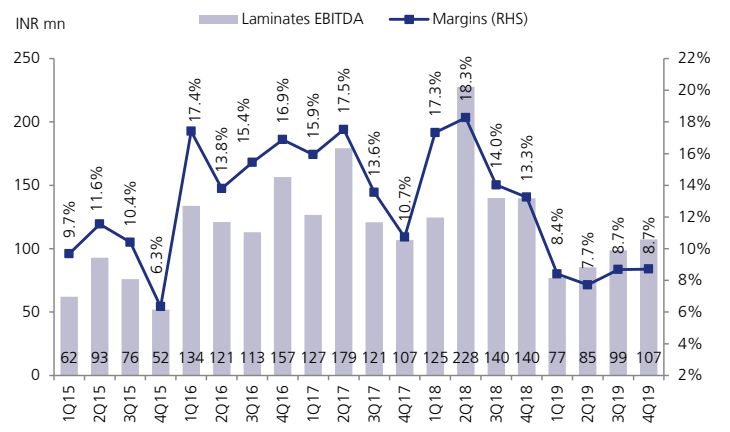
Source: Company, JM Financial

Exhibit 5. Plywood EBITDA and margin trend



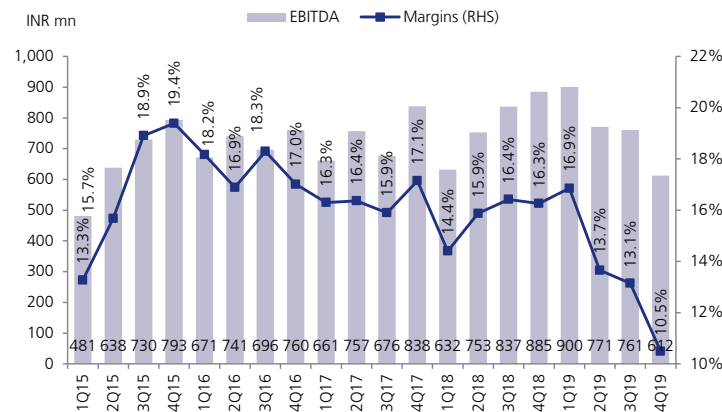
Source: Company, JM Financial

Exhibit 6. Laminates EBITDA and margin trend



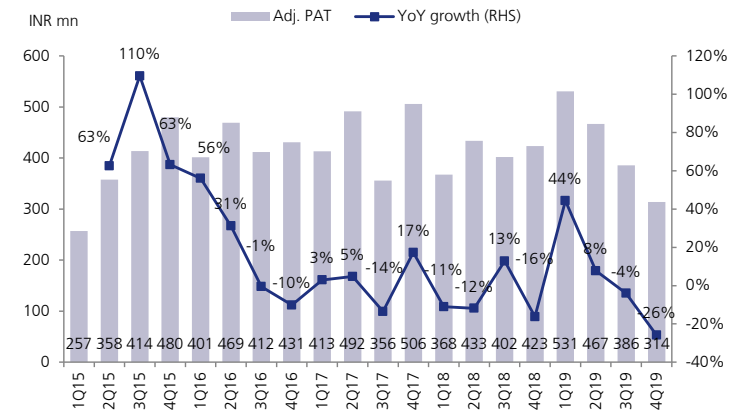
Source: Company, JM Financial

Exhibit 7. Overall EBITDA and margin trend



Source: Company, JM Financial

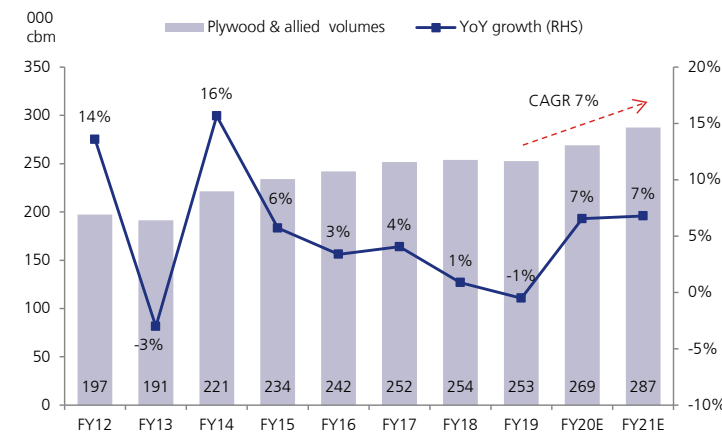
Exhibit 8. Profitability growth trends



Source: Company, JM Financial

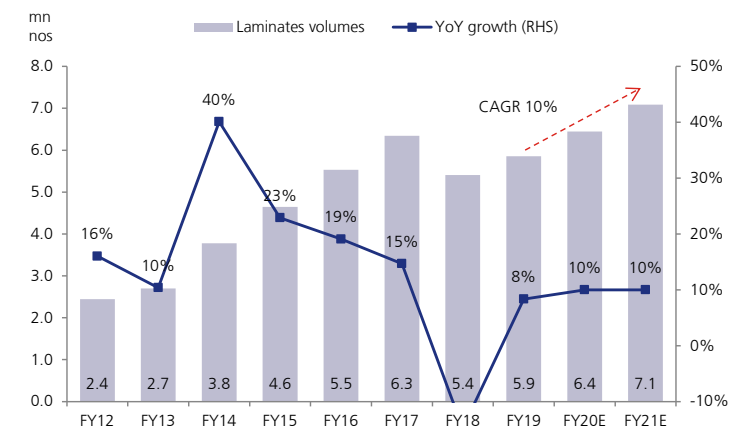
Annual charts

Exhibit 9. Plywood volume growth trend



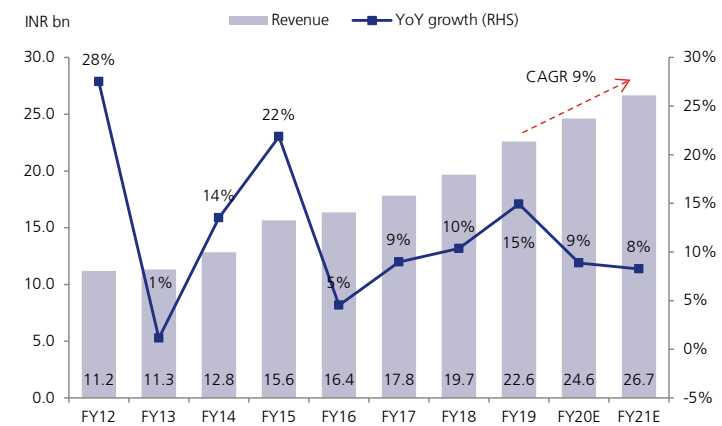
Source: Company, JM Financial

Exhibit 10. Laminates volume growth trend



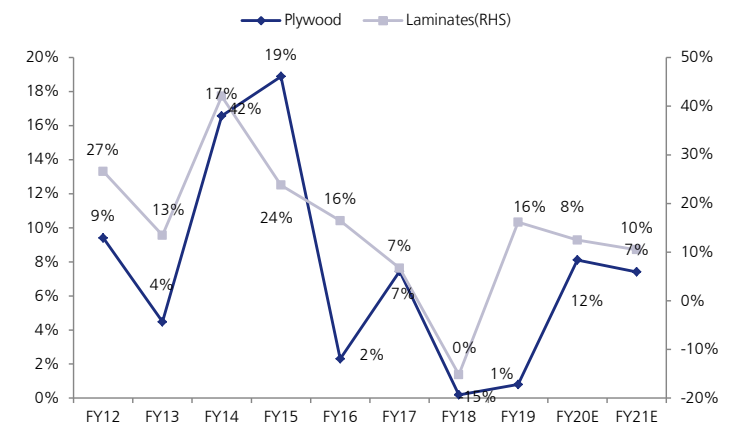
Source: Company, JM Financial

Exhibit 11. Overall revenue growth trend



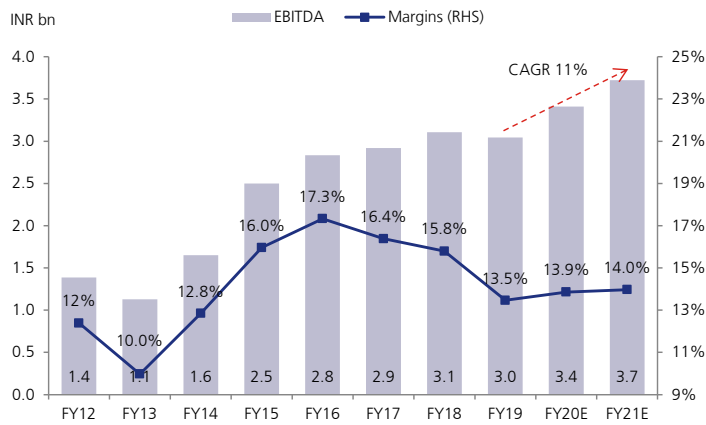
Source: Company, JM Financial

Exhibit 12. Plywood and Laminate revenue growth trend



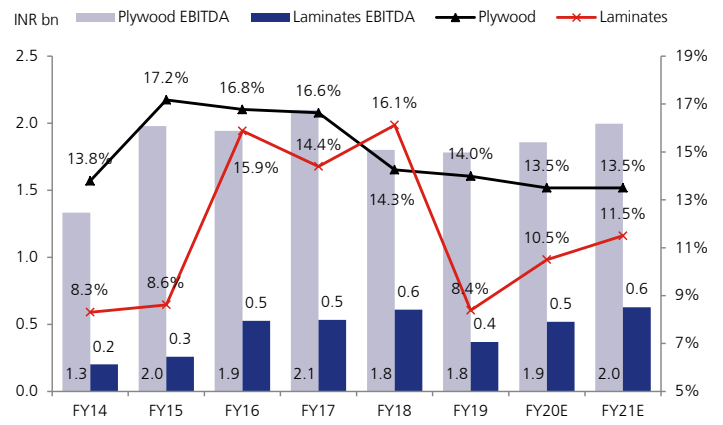
Source: Company, JM Financial

Exhibit 13. Overall EBITDA and margin trend



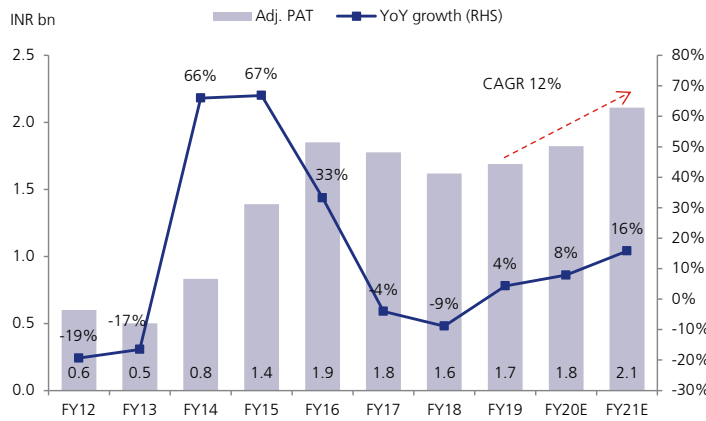
Source: Company, JM Financial

Exhibit 14. Plywood and Laminate EBITDA and margin trend



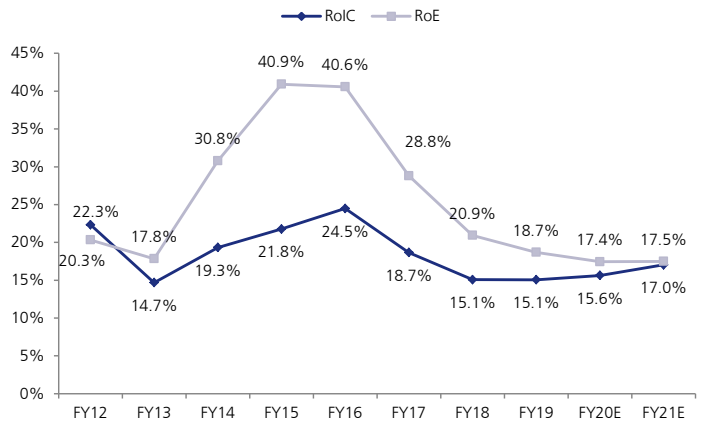
Source: Company, JM Financial

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	FY19A	FY20E	FY21E	
Net Sales	17,825	19,672	22,608	24,615	26,650	
Sales Growth	9.0%	10.4%	14.9%	8.9%	8.3%	
Other Operating Income	0	0	0	0	0	
Total Revenue	17,825	19,672	22,608	24,615	26,650	
Cost of Goods Sold/Op. Exp	9,181	10,230	11,816	12,800	13,858	
Personnel Cost	2,567	2,839	3,277	3,670	4,111	
Other Expenses	3,157	3,496	4,471	4,735	4,959	
EBITDA	2,920	3,107	3,044	3,410	3,723	
EBITDA Margin	16.4%	15.8%	13.5%	13.9%	14.0%	
EBITDA Growth	3.0%	6.4%	-2.0%	12.0%	9.2%	
Depn. & Amort.	524	810	500	540	583	
EBIT	2,397	2,297	2,544	2,870	3,140	
Other Income	107	39	61	40	50	
Finance Cost	267	280	354	380	300	
PBT before Excep. & Forex	2,236	2,056	2,251	2,530	2,890	
Excep. & Forex Inc./Loss(-)	0	0	0	0	0	
PBT	2,236	2,056	2,251	2,530	2,890	
Taxes	481	424	531	709	780	
Extraordinary Inc./Loss(-)	101	-66	-133	0	0	
Assoc. Profit/Min. Int.(-)	0	0	0	0	0	
Reported Net Profit	1,856	1,566	1,588	1,822	2,110	
Adjusted Net Profit	1,777	1,619	1,689	1,822	2,110	
Net Margin	10.0%	8.2%	7.5%	7.4%	7.9%	
Diluted Share Cap. (mn)	222.2	222.2	222.5	222.5	222.5	
Diluted EPS (INR)	8.0	7.3	7.6	8.2	9.5	
Diluted EPS Growth	-4.0%	-8.9%	4.2%	7.9%	15.8%	
Total Dividend + Tax	0	267	268	321	375	
Dividend Per Share (INR)	0.0	1.0	1.0	1.2	1.4	

Source: Company, JM Financial

Cash Flow Statement		(INR mn)				
Y/E March	FY17A	FY18A	FY19A	FY20E	FY21E	
Profit before Tax	2,337	1,990	2,251	2,530	2,890	
Depn. & Amort.	524	810	500	540	583	
Net Interest Exp. / Inc. (-)	283	288	293	340	250	
Inc (-) / Dec in WCap.	-283	164	245	-79	-311	
Others	-174	126	-58	127	87	
Taxes Paid	-457	-544	-531	-709	-780	
Operating Cash Flow	2,230	2,834	2,700	2,749	2,718	
Capex	-2,880	-1,921	-1,357	-700	-700	
Free Cash Flow	-650	913	1,344	2,049	2,018	
Inc (-) / Dec in Investments	-463	17	-17	0	0	
Others	135	-70	61	40	50	
Investing Cash Flow	-3,208	-1,974	-1,314	-660	-650	
Inc / Dec (-) in Capital	0	0	-8	0	0	
Dividend + Tax thereon	0	-267	-268	-321	-375	
Inc / Dec (-) in Loans	1,613	-641	-696	-1,000	-1,000	
Others	-286	-326	-354	-380	-300	
Financing Cash Flow	1,326	-1,233	-1,326	-1,701	-1,675	
Inc / Dec (-) in Cash	348	-373	61	388	393	
Opening Cash Balance	190	538	165	226	614	
Closing Cash Balance	538	165	226	614	1,007	

Source: Company, JM Financial

Balance Sheet		(INR mn)				
Y/E March	FY17A	FY18A	FY19A	FY20E	FY21E	
Shareholders' Fund	7,086	8,379	9,691	11,192	12,926	
Share Capital	223	223	223	223	223	
Reserves & Surplus	6,864	8,157	9,469	10,969	12,704	
Preference Share Capital	0	0	0	0	0	
Minority Interest	0	0	0	0	0	
Total Loans	5,955	5,383	4,686	3,686	2,686	
Def. Tax Liab. / Assets (-)	-689	-690	-615	-489	-402	
Total - Equity & Liab.	12,352	13,072	13,762	14,389	15,211	
Net Fixed Assets	5,337	6,618	7,474	7,635	7,751	
Gross Fixed Assets	3,447	7,184	9,553	10,241	10,941	
Intangible Assets	0	0	0	0	0	
Less: Depn. & Amort.	953	1,767	2,267	2,806	3,389	
Capital WIP	2,843	1,201	188	200	200	
Investments	960	960	978	978	978	
Current Assets	8,562	8,324	8,598	9,602	10,620	
Inventories	2,638	3,382	4,010	4,366	4,727	
Sundry Debtors	3,353	3,145	2,936	3,196	3,460	
Cash & Bank Balances	538	165	226	614	1,007	
Loans & Advances	2,033	1,633	1,426	1,426	1,426	
Other Current Assets	0	0	0	0	0	
Current Liab. & Prov.	2,506	2,831	3,288	3,825	4,139	
Current Liabilities	1,411	1,764	1,625	2,023	2,190	
Provisions & Others	1,095	1,066	1,663	1,802	1,949	
Net Current Assets	6,056	5,494	5,310	5,777	6,481	
Total - Assets	12,353	13,072	13,762	14,389	15,211	

Source: Company, JM Financial

Dupont Analysis						
Y/E March	FY17A	FY18A	FY19A	FY20E	FY21E	
Net Margin	10.0%	8.2%	7.5%	7.4%	7.9%	
Asset Turnover (x)	1.7	1.5	1.7	1.7	1.8	
Leverage Factor (x)	1.7	1.6	1.5	1.3	1.2	
RoE	28.8%	20.9%	18.7%	17.4%	17.5%	

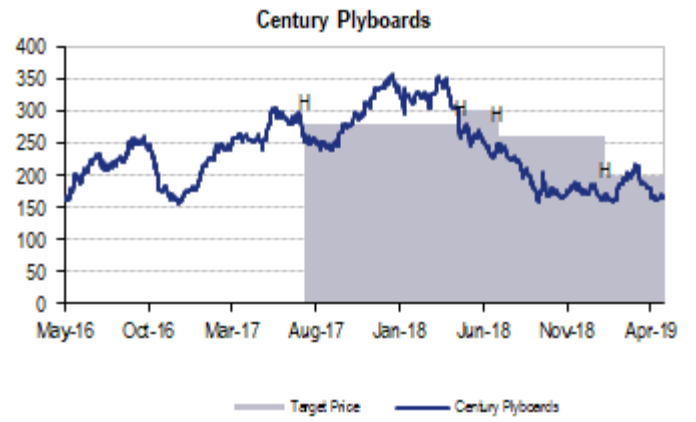
Key Ratios						
Y/E March	FY17A	FY18A	FY19A	FY20E	FY21E	
BV/Share (INR)	31.9	37.7	43.6	50.3	58.1	
ROIC	18.7%	15.1%	15.1%	15.6%	17.0%	
ROE	28.8%	20.9%	18.7%	17.4%	17.5%	
Net Debt/Equity (x)	0.8	0.6	0.5	0.3	0.1	
P/E (x)	21.6	23.7	22.8	21.1	18.2	
P/B (x)	5.4	4.6	4.0	3.4	3.0	
EV/EBITDA (x)	15.0	14.0	14.1	12.2	10.8	
EV/Sales (x)	2.5	2.2	1.9	1.7	1.5	
Debtor days	69	58	47	47	47	
Inventory days	54	63	65	65	65	
Creditor days	35	39	30	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
5-Feb-19	Hold	200	-23.1

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

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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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