

Industry Paper & forest product  
Bloomberg CPBI IN  
BSE CODE 532548

## Sluggish performance continues; Challenges persist

RATING	NEUTRAL
CMP	170
Price Target	180
Potential Upside	6%
Rating Change	↔
Estimate Change	↓
Target Change	↓

STOCK INFO	
52wk Range H/L	284/150
Mkt Capital (Rs Cr)	3767
Free float (%)	28%
Avg. Vol 1M (,000)	176
No. of Shares (Cr.)	22
Promoters Pledged %	0%

### 4QFY19 Result Update

- CENTURYPLY reported a net sales growth of 7.2% YoY at Rs 583 crores. While FY19 sales grew by 15% YoY, as much as 9% of it was due to MDF segment.
- On segment basis, Plywood segment remained flat YoY with volumes down 6.5% YoY, Laminates grew by 19% primary due to higher realisations from price hikes, MDF and particle board grew by 17% and 27% respectively on the back of strong volumes.
- Gross margins came in lower by 160bps YoY at 48.1%.
- The company reported an EBITDA margin of 10.9%, lower by 440bps YoY due to poor gross margins and a charge of Rs ~15 crores for uneven sales related expense like catalogue and CSR.
- Company reported a PAT margin of 5.9% and PAT of Rs 34 crores, lower by 4.4% YoY for the quarter.
- The company has announced that it is looking to set-up a particle board and MDF facility in UP.

### View and Valuation

FY19 has been a challenging year for CENTURYPLY with the overall challenging industry environment, rising raw material prices and a depreciating rupee. While the revenue grew by 15% YoY (ex-MDF 6%), poor margins EBITDA margins at 13.3%, down 230bps YoY led to downfall in operating profit by 1.85%. The sluggish demand environment led to volumes being flat YoY for the plywood. The revenue growth in laminate segment was primarily on account on higher realisations due to price hikes, however the input prices were much higher and impacted margins. The much anticipated MDF segment growth was affected due to heavily competitive environment form over-capacities in the market. However, the management believes that the demand/supply gap would narrow down eventually with pricing power helping the players gain better margins on improving capacity utilization. The stand out segment Particle board grew by 33% with improving operational margins. They key challenges of slow demand environment, heavy competition and high input prices still persist in the industry impacting growth prospects for the company. We lower our FY20 PAT estimates by 7% due to poor margin profile of the segments. We continue to value CENTURYPLY at 12x FY20e EV/EBITDA to arrive at a target price of Rs 180 and maintain our NEUTRAL stance

### Key Risks to our rating and target

- Poor demand environment, competitive pricing pressures.
- Raw material prices remain high impacting margins.

KEY FINANCIAL/VALUATIONS	FY16	FY17	FY18	FY19	FY20E
Net Sales	1636	1782	1967	2264	2460
EBITDA	284	292	306	300	358
EBIT	240	240	225	250	303
PAT	169.8	185.6	156.6	158.8	202.6
EPS (Rs)	8	8	7	7	9
EPS growth (%)	13%	9%	-16%	1%	28%
ROE (%)	36%	30%	20%	18%	19%
ROCE (%)	27%	22%	17%	18%	20%
BV	24	32	38	44	52
EV/EBITDA (x)	14.7	21.4	25.3	16.9	11.4
P/E (x)	22.3	31.0	46.3	29.2	18.6

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## Poor EBITDA margins

### 4QFY19 Results Lower than estimates

FINANCIALS	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19	YoY %	QoQ%	FY18	FY19	YoY %
Net Sales	544	537	564	579	583	7.2%	0.7%	1,967	2,264	15.1%
Other Income	1	1	1	2	3	123.9%	84.7%	7	6	-9.5%
Total Revenue	545	538	565	580	586	7.5%	1.0%	1,974	2,270	15.0%
COGS	274	275	294	309	303	10.6%	-1.9%	1,023	1,182	15.5%
Gross Margin	50%	49%	48%	47%	48%	-1.6%	1.4%	48%	48%	-0.2%
Employee Cost	75	79	84	81	84	11.3%	3.3%	284	328	15.4%
Other Expenses	112	96	112	113	133	18.8%	17.5%	354	454	28.2%
EBITDA	83	87	74	76	64	-23.4%	-16.1%	306	300	-1.9%
EBITDA Mar.	15%	16%	13%	13%	11%	-4.4%	-2.2%	16%	13%	-2.3%
Depreciation	28	11	11	14	14	-48.4%	5.1%	81	50	-38.3%
EBIT	55	76	63	62	49	-10.9%	-20.8%	225	250	11.3%
Interest	12	13	16	6	9	-23.1%	50.1%	33	45	36.4%
PBT	45	63	48	58	43	-3.7%	-25.6%	199	212	6.5%
Excpt Item	-	-	-	-	-	0.0%	0.0%	-	-	0%
Tax	9	17	11	16	9	-1%	-46.2%	42	53	25.3%
PAT	36	45	38	41	34	-4%	-17.5%	157	159	1.3%
PAT Margin	7%	8%	7%	7%	6%	-0.7%	-1.3%	8%	7%	-0.9%

SEGMENTS	4QFY17	1QFY18	2QFY18	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19
Plywood	72%	74%	66%	64%	61%	61%	59%	55%	57%
Laminates	20%	16%	24%	18%	19%	17%	20%	20%	21%
MDF	0%	0%	0%	9%	12%	13%	11%	16%	13%
Particle Board	2%	4%	5%	3%	4%	3%	5%	5%	4%
CFS	5%	6%	5%	5%	4%	5%	5%	4%	4%

### Poor revenue growth with plywood sales being flat YoY

Company reported a net sales growth of 7.2% YoY at Rs 583 crores, lower than our estimates of Rs 613 crores. While FY19 sales grew by 15% YoY, as much as 9% of it was due to MDF segment.

Plywood segment remained flat YoY at Rs 323 crores (est. 345 crores) in value terms with volumes down 6.5% YoY.

Laminates grew by 19% YoY to Rs 123 crores, in line with our estimates, primary due to higher realisations from price hikes.

MDF segment grew by 17.3% to Rs 76 crores (est. Rs 83 crores) with volumes growing 30% YoY. MDF now contributes ~13% to the total revenue for the whole year.

Particle board segment reported 27% YoY growth in revenue to Rs 24 crores (est. Rs 25 crores) with overall volumes growing by 31% YoY.

The revenues from CFS continued to fall down to Rs 22 crores in Q4 due to heavy competition and poor volume growth in port.

### Poor EBITDA margins continue

Gross margins came in better than our estimates of 46.8% at 48.1%, down 160bps YoY and up 140bps QoQ. The company reported an EBITDA margin of 10.9% against our estimate of 15.2% due to poor EBITDA margins reported in plywood and laminates segment, partially saved by better margins achieved in MDF and particle board segment. The overall margins were affected by a Rs 15 crore charge for the sales related expenses like Catalogue and CSR expenses which are not evenly distributed for the year. Charged on the turnover basis to segments, plywood segment margins were impacted the most and came at 9.7%. Laminate division reported yet another quarter of EBITDA margin at 8.9% due to high RM costs. EBITDA margin for MDF came in line with our estimates at 15.3% and is expected to be higher on back of better utilization levels in future. The expansion in EBITDA margin for particle board segment continued with higher operational leverage resulting in EBITDA margin to 25.4% for the quarter.

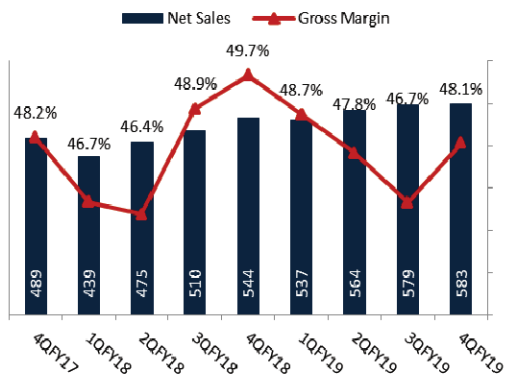
Company reported a PAT margin of 5.9% and PAT of Rs 34 crores against our estimate of Rs 51 crores.

**Concall Highlights**

- The sales growth for FY19 has been 15% YoY, of which 9% growth is due to MDF
- For FY19, the total adverse forex impact was Rs 16.28 crores as against Rs 6.61 crores last year. Of this, Rs 9.22 crores is taken in borrowing costs and balance is taken to EBITDA. Out of total, MTM loss is Rs 6.4 crores and balance is Realised loss.
- In order to de-risk from foreign currency exposure, company continues to reduce its forex exposure to Rs 109 crores against Rs 365 crores as on March, 2018. 82% of the total exposure is in USD and majority balance is in EURO.
- The fall in payable days is due to company de-risking its forex exposures.
- Q4: EBITDA margin impacted due to various sales expenditures (CSR, marketing material) amounting to Rs 15 crores not evenly incurred through the year
- The company would announce the MDF and particle board expansion details as and when finalized.
- Plywood FY19: lower value growth than volume growth due to lower product mix
- Current capacity utilization in plywood is 80-85%
- Sainik is around 30-32% in the plywood product mix. Last year it was around 25%. Of the 6% growth in plywood segment, 4% is driven by premium segment and 2% is driven by Sainik segment.
- MDF has entered in every household and every professional/carpenter is using it. MDF has more or less replaced the whole lower end of plywood market. Due to MDF, lower end plywood manufactures are impacted, atleast 10% manufactures in Haryana and Punjab have closed down.
- MDF: Capacity utilization at 65% for FY19, 68% for Q4FY19. Target of 80% utilization not achieved due to plant breakdown in Q4. Expect to reach 90% capacity utilization in FY20.
- Do not expect further price reductions in MDF. Continue to hold dominant position in market
- Particle Board has reached over 100% utilization and desired profitability margin. Looking to expand capacity and will be announced shortly
- CFS: Witnessing lower volumes due to higher competition from 2 new players and lower volumes growth at Kolkata port.
- Subsidiary Financials: Laos operations accounted for loss of Rs 7 crores, Myanmar for Rs 6 crores. Rourkee made profit of Rs 3 crores. Total Rs 10 crores was the loss
- The company has taken 1% price increase across all products from 20/05/19

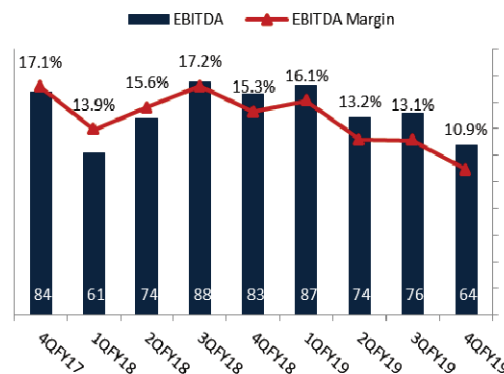
### Exhibit: Net Sales (Rs. Crore) and Gross Margin trend

Sales grew by 7.2% YoY, due to plywood segment sales being flat



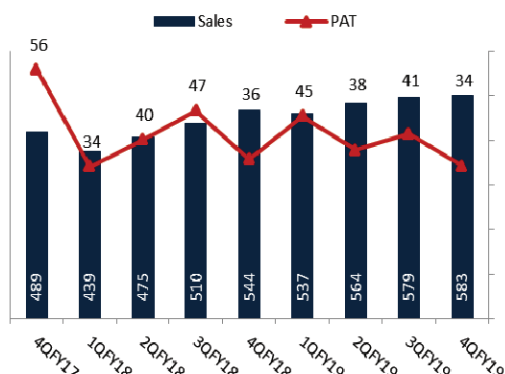
### Exhibit: EBITDA (Rs. Crore) and EBITDA Margin trend

EBITDA margins are further impacted by a charge of Rs 15 crores towards marketing expense and CSR



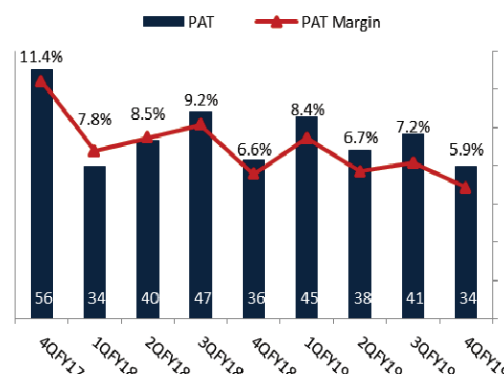
### Exhibit: Sales (Rs. Crore) and PAT (Rs. Crore)

Poor operational margins is affecting the bottomline



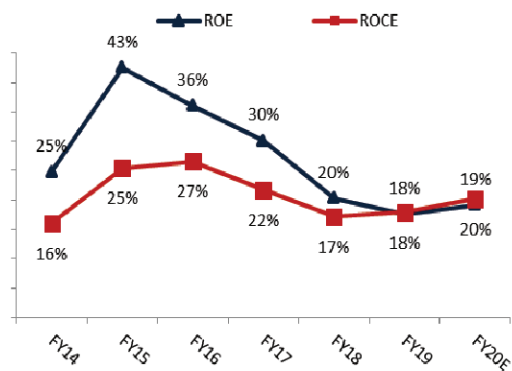
### Exhibit: PAT (Rs. Crore) and PAT Margin trend

PAT margins continue to be affected due to contracting operational margins



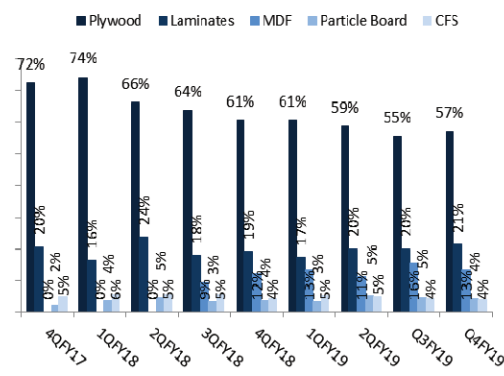
### Exhibit: Return Ratios

Return ratios to rise going ahead with reducing debt aiding ROCE



### Exhibit: Segment Contribution

The product mix shift over the past quarters shows the reducing revenue reliance on plywood and laminates business



## Financial Details

### Balance Sheet

Y/E March	FY14	FY15	FY16	FY17	FY18	FY19	FY20E
Share Capital	22	22	22	22	22	22	22
Reserves	269	395	503	686	816	947	1,123
<b>Net Worth</b>	<b>291</b>	<b>417</b>	<b>525</b>	<b>709</b>	<b>838</b>	<b>969</b>	<b>1,145</b>
Debt	446	456	405	557	502	469	412
Other Non Current Liab	2	0	0	11	11	3	3
<b>Total Capital Employed</b>	<b>739</b>	<b>873</b>	<b>930</b>	<b>1,276</b>	<b>1,351</b>	<b>1,440</b>	<b>1,560</b>
Net Fixed Assets (incl CWIP)	231	224	290	534	662	747	742
Investment in Subsidiaries	-	45.1	49.7	96.0	96.0	97.5	97.5
Other non-current assets	109	95	128	113	107	99	99
<b>Non Current Assets</b>	<b>339</b>	<b>364</b>	<b>468</b>	<b>743</b>	<b>865</b>	<b>944</b>	<b>939</b>
Inventory	293	320	275	264	338	401	433
Debtors	205	266	287	335	314	294	319
Cash & Bank	18	17	19	54	17	20	112
Other Current Assets	62	79	93	159	126	108	109
<b>Current Assets</b>	<b>578</b>	<b>682</b>	<b>674</b>	<b>812</b>	<b>795</b>	<b>822</b>	<b>974</b>
Creditors	59	65	84	141	176	163	176
Provisions	32	3	7	1	2	10	10
Other Current Liabilities	87	105	121	136	130	154	167
<b>Curr Liabilities</b>	<b>178</b>	<b>173</b>	<b>212</b>	<b>278</b>	<b>308</b>	<b>326</b>	<b>353</b>
<b>Net Current Assets</b>	<b>400</b>	<b>509</b>	<b>462</b>	<b>533</b>	<b>486</b>	<b>496</b>	<b>621</b>
<b>Total Assets</b>	<b>917</b>	<b>1,047</b>	<b>1,142</b>	<b>1,555</b>	<b>1,659</b>	<b>1,767</b>	<b>1,913</b>

### Income Statement

Y/E March	FY14	FY15	FY16	FY17	FY18	FY19	FY20E
<b>Revenue from Operation</b>	<b>1,284</b>	<b>1,565</b>	<b>1,636</b>	<b>1,782</b>	<b>1,967</b>	<b>2,264</b>	<b>2,460</b>
Change (%)	14%	22%	5%	9%	10%	15%	9%
Other Income	9	18	6	23	7	6	8
<b>EBITDA</b>	<b>148</b>	<b>250</b>	<b>284</b>	<b>292</b>	<b>306</b>	<b>300</b>	<b>358</b>
Change (%)	31%	69%	13%	3%	5%	-2%	19%
Margin (%)	12%	16%	17%	16%	16%	13%	15%
Depr & Amor.	33	45	44	52	81	50	55
<b>EBIT</b>	<b>115</b>	<b>205</b>	<b>240</b>	<b>240</b>	<b>225</b>	<b>250</b>	<b>303</b>
Int. & other fin. Cost	55	43	46	29	33	45	40
<b>EBT</b>	<b>69</b>	<b>180</b>	<b>200</b>	<b>234</b>	<b>199</b>	<b>212</b>	<b>270</b>
Exp Item	-	-	-	-	-	-	-
Tax	2	29	30	48	42	53	68
Reported PAT	67	151	170	186	157	159	203
<b>Adjusted PAT</b>	<b>67</b>	<b>151</b>	<b>170</b>	<b>186</b>	<b>157</b>	<b>159</b>	<b>203</b>
Change (%)	27%	125%	13%	9%	-16%	1%	28%
Margin(%)	5%	10%	10%	10%	8%	7%	8%

## Financial Details

### Key Ratios

Y/E March	FY14	FY15	FY16	FY17	FY18	FY19	FY20E
Current Ratio	3.2	3.9	3.2	2.9	2.6	2.5	2.8
Debt-Equity Ratio	1.5	1.1	0.8	0.8	0.6	0.5	0.4
Interest Coverage Ratio	2	4.7	5.2	8.4	6.9	5.6	7.5
Capital Turnover Ratio	3	3.1	2.8	2.1	2.0	2.1	2.0
Fixed Asset Turnover Ratio	6	6.9	6.4	4.3	3.3	3.2	3.3
Inventory Days outstanding	141	137	119	105	121	124	124
Accounts Receivable Days outstanding	58	62	64	69	58	47	47
Accounts Payable Days outstanding	28	28	37	56	63	50	50
ROCE	16%	25%	27%	22%	17%	18%	20%
ROE	25%	43%	36%	30%	20%	18%	19%
FCF per Share	(1)	3.8	7.4	(2.9)	4.1	4.4	9.4
Price / EPS	9	34.5	22.3	31.0	46.3	29.2	18.6
Price / Book Value	2	12.5	7.2	8.1	8.7	4.8	3.3
EV/EBITDA	7	22.6	14.7	21.4	25.3	16.9	11.4
EV/Sales	0.8	3.6	2.5	3.5	3.9	2.2	1.7
Div Yield	3.6%	0.9%	0.6%	0.4%	0.3%	0.5%	0.8%

### Cash Flow Statement

Y/E March	FY14	FY15	FY16	FY17	FY18	FY19	FY20E
<b>PBT</b>	<b>69</b>	<b>180</b>	<b>200</b>	<b>234</b>	<b>199</b>	<b>212</b>	<b>270</b>
(inc)/Dec in Working Capital	(110)	(92)	37	(28)	25	(20)	(40)
Non Cash Op Exp	28	41	53	35	81	43	47
Int Paid (+)	55	43	46	29	33	45	40
Tax Paid	(11)	(34)	(46)	(46)	(54)	(47)	(59)
<b>CF from Op. Activities</b>	<b>31</b>	<b>138</b>	<b>289</b>	<b>223</b>	<b>283</b>	<b>233</b>	<b>258</b>
(inc)/Dec in FA & CWIP	(46)	(53)	(125)	(288)	(192)	(135)	(50)
Free Cashflow	(15)	85	164	(65)	91	97	208
(Pur)/Sale of Inv	5	0	0	0	2	-	-
others	(12)	(9)	(3)	(33)	(7)	11	8
<b>CF from Inv. Activities</b>	<b>(53)</b>	<b>(62)</b>	<b>(129)</b>	<b>(321)</b>	<b>(197)</b>	<b>(125)</b>	<b>(42)</b>
inc/(dec) in NW	-	-	-	-	-	-	-
inc/(dec) in Debt	22	12	(52)	161	(64)	(34)	(56)
Int. Paid	(56)	(42)	(47)	(29)	(33)	(45)	(40)
Div Paid (inc tax)	(6)	(46)	(60)	(0)	(27)	(27)	(27)
others	-	-	-	-	-	-	-
<b>CF from Fin. Activities</b>	<b>(39)</b>	<b>(76)</b>	<b>(159)</b>	<b>133</b>	<b>(123)</b>	<b>(105)</b>	<b>(124)</b>
<b>Inc(Dec) in Cash</b>	<b>(62)</b>	<b>(1)</b>	<b>2</b>	<b>35</b>	<b>(37)</b>	<b>3</b>	<b>93</b>
Add: Opening Balance	80	18	17	19	54	17	20
<b>Closing Balance</b>	<b>18</b>	<b>17</b>	<b>19</b>	<b>54</b>	<b>17</b>	<b>20</b>	<b>112</b>

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