

Q1FY20 Result Update Century Plyboards Ltd

MDF spurt leads to strong quarter

Century Ply has reported strong numbers above estimates inspite of a weak demand environment in real estate. Standalone sales at INR 574 cr grew by 7% YoY and this was in line with our and street estimates. Consolidated revenues also grew 7% YoY. Standalone EBITDA at INR 93 cr grew 8% YoY and was ahead of our estimates of an 8% de-growth. Hence standalone EBITDA margins improved 10 bps to 16.2% YoY. Consolidated EBITDA also grew 1% YoY to INR 89 Cr. Reported PAT of INR 48 Cr grew 6% YoY which was ahead of our and street estimates of a slight dip in PAT. Consolidated profit was largely flat around INR 40 Cr. These results are in line with our Q4FY19 Quarterly update wherein we had mentioned that numbers have broadly bottomed out and margins would improve gradually in various segments. We retain BUY and arrive at a TP of INR 253.

Plywood muted on expected lines

Plywood YoY volume growth has grown by 1% YoY and a flat realization led to flattish revenue growth. EBITDA margins at 14.5% were broadly in line with estimates. Slowdown in premium plywood is expected to keep plywood growth subdued at around 7% and hence plywood growth will be driven by the mid segment plywood (as was the case in this quarter too). We expect plywood margins to improve materially from Q4FY20 as raw material sourcing from the Gabon peeling unit (capex of INR 30 Cr) should begin. Currently as there are sourcing issues from Laos, the company has been purchasing face veneer from Myanmar.

Laminates shows improvement; CFS witnessing pain

Laminate revenues of INR 102 Cr registered robust 7% volume growth and 9% realization growth leading to a 16% YoY growth. EBITDA margins improved YoY from 9.4% in Q1FY19 to 10.7% in Q1FY20 in line with the estimates. We estimate margins to gradually keep improving as raw material prices are stable while price hikes have been taken. We expect a strong growth of 15% plus in this segment. CFS was muted with a 17% YoY de-growth in revenues and margins were lower by 500 bps at 35% YoY but margins in CFS still were higher QoQ.

MDF and Particleboard show robust performance

MDF clocked utilization of 83% (highest ever) which led to a 35% volume growth YoY and this was much higher than estimates. After many quarters of price fall, MDF prices finally increased by ~4% on a QoQ basis and management expects prices to remain at the current levels. Operating margins improved from 13% in Q1FY19 to 23% in Q1FY20 due to operating leverage. Management expects to clock 90% utilization in FY20 in MDF. Particleboard also saw 37% YoY growth with margins improving from 27% in Q1FY19 to 28% in Q1FY20. As MDF and particleboard are both seeing good traction, management has planned a capex of ~INR 400 Cr for Greenfield expansion in particleboard and MDF in Uttar Pradesh which should be ready in 15 months.

Outlook and valuations: 'BUY'

Of late, demand environment has been weak, GST has worked reverse to expectations, raw material prices rose sharply across product lines and there was a supply glut in MDF and laminates. However the headwinds are reducing and numbers look to have bottomed out. Steep price correction factors in all the pain and hence we retain BUY with a TP of INR 253 valuing the company at 20x FY21E P/E. The company is currently trading at 12x and 10x P/E based on estimated EPS of INR 10 and INR 12.7 for FY20E and FY21E respectively.

Year to March	Q1FY20	Q1FY19	% change	Q4FY19	% change	FY19	FY20E	FY21E
Net sales (INR cr)	574	537	7%	583	-2%	2,280	2,504	2,820
Growth (%)						10.7	9.8	12.6
EBITDA (INR cr)	93	86	8%	63	48%	301	376	443
Adj PAT (INR cr)	48	45	6%	35	37%	149	224	282
Growth (%)						-12	51	25
Dil. EPS (INR)						7	10	13
Diluted P/E (x)						20	12	10
EV/EBITDA (x)						12	8	7
ROAE (%)						16	21	22

Kshitij Kaji
Research Analyst
kshitij.kaji@edelweissfin.com

Praveen Sahay
Research Analyst
Praveen.sahay@edelweissfin.com

CMP INR: 132

Rating: BUY

Target INR: 253

Upside: 90%

Bloomberg:	CPBI:IN
52-week range (INR):	238/112
Share in issue (cr):	22
M cap (INR cr):	2,930
Avg. Daily Vol. BSE/NSE :('000):	200
Promoter Holding (%)	73

Date: 14th August, 2019

Century Plyboards Ltd.

Q1FY20 Result Highlights

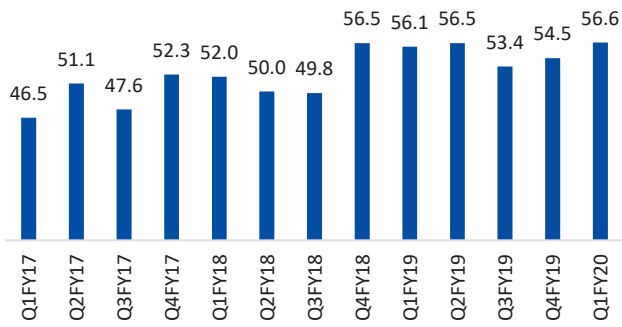
Particulars	Q1FY20	Q1FY19	% change	Q4FY19	% change	FY19	FY20E	FY21E
Income from operations	574	537	7%	583	-2%	2,280	2,504	2,820
Cost of goods sold	291	275	6%	303	-4%	1,151	1,252	1,410
Employee expenses	85	79	8%	84	1%	346	376	423
Other expenses	105	96	9%	133	-21%	482	501	544
Total operating expenses	481	451	7%	520	-8%	1,979	2,128	2,378
EBITDA	93	86	8%	63	48%	301	376	443
Depreciation and amortization	17	11	57%	14	21%	59	63	67
EBIT	76	76	1%	49	55%	242	312	375
Interest expenses	9	13	-33%	9	0%	47	31	20
Other income	1	1	67%	3	-67%	7	10	10
PBT	68	63	9%	43	58%	202	291	366
Provision for tax	20	18	14%	8	150%	53	67	84
Core profit	48	45	6%	35	37%	149	224	282
Extraordinary items	0	0	NA	0	NA	0	0	0
Adjusted net profit	48	45	6%	35	37%	149	224	282
No. of shares (Cr)						22	22	22
Diluted EPS (INR)						7	10	13

Century Plyboards Ltd.

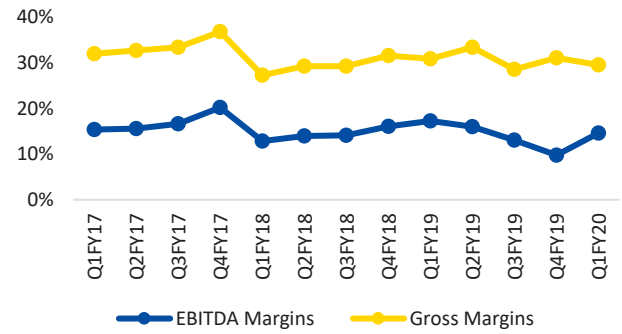
Q1FY20 Result Highlights

Financial Charts

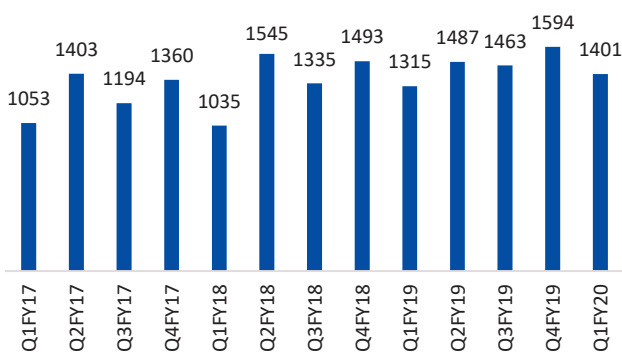
Plywood Volume ('000 CBM)



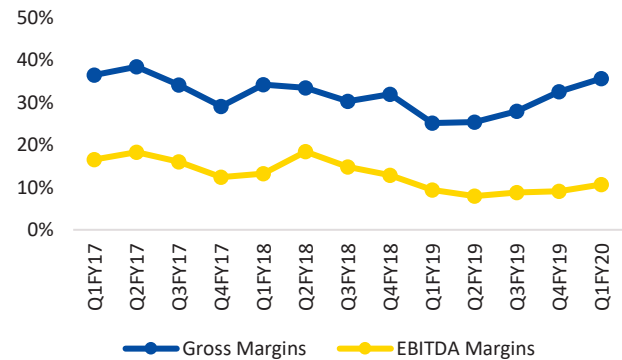
Plywood margins



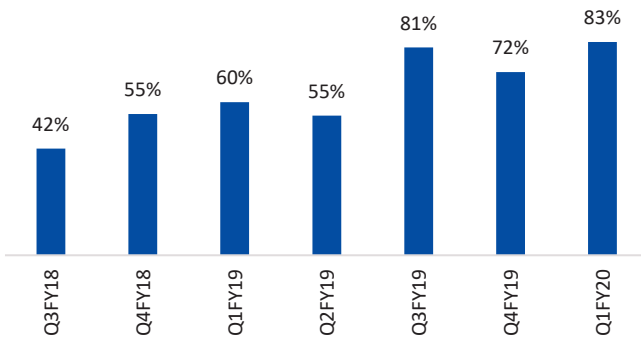
Volumes ('000)



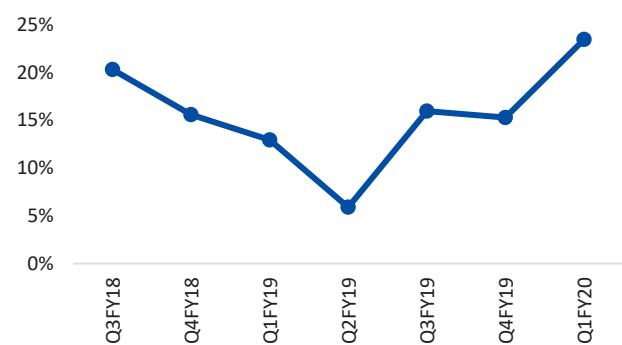
Laminates Margins



MDF Utilization



MDF EBITDA Margins



Source: Edelweiss Professional Investor Research

Previous Outlook

Q4FY19: Century is a leader across various wood panel segments. While it was expected that GST and affordable housing would provide tailwinds, there have actually been headwinds which has led to repeated cuts in estimates. Demand environment has been weak, GST has worked reverse to expectations, raw material prices rose sharply across product lines and there was a supply glut in MDF and laminates. However we feel that these headwinds are reducing and numbers could have bottomed out. Steep price correction factors in all the pain and hence we retain BUY with a TP of INR 253 valuing the company at 20x FY21E P/E.

Q3FY19: Century is a leader across various wood panel segments and is expected to outpace industry growth. GST at 18% and government's thrust on affordable housing are potent tailwinds for this segment. In spite of superior return ratios compared to other building material peers and high free cash flow generation, Century is trading at attractive valuations than most peers. Given the shift in management strategy to gain market share and expand distribution network, margins expected to be under pressure which is to some extent can be compensated by volume improvement going forward. We have revised our earnings downward by 4.5%/9% for FY19/20E. We value it at 14x FY20E earnings and thus arrive at a revised target price of INR 226.

Income statement						(INR crs)
Year to March	FY17	FY18	FY19	FY20E	FY21E	
Income from operations	1,819	2,060	2,280	2,504	2,820	
Direct costs	938	986	1,151	1,252	1,410	
Employee costs	273	312	346	376	423	
Other expenses	296	430	482	501	544	
Total operating expenses	1,507	1,728	1,979	2,128	2,378	
EBITDA	312	332	301	376	443	
Depreciation and amortisation	59	90	59	63	67	
EBIT	253	242	242	312	375	
Interest expenses	30	36	47	31	20	
Other income	23	8	7	10	10	
Profit before tax	245	214	202	291	366	
Provision for tax	52	45	53	67	84	
Core profit	193	169	149	224	282	
Extraordinary items	(0)	0	0	0	0	
Profit after tax	193	169	149	224	282	
Minority Interest	(3)	(3)	(3)	(3)	(3)	
Share from associates	0	0	0	0	0	
Adjusted net profit	190	166	146	221	279	
Equity shares outstanding (mn)	22	22	22	22	22	
EPS (INR) basic	9	8	7	10	13	
Diluted shares (Cr)	22	22	22	22	22	
EPS (INR) fully diluted	9	8	7	10	13	
Dividend per share	0	1	1	1	1	
Dividend payout (%)	0	12	12	12	12	

Common size metrics- as % of net revenues

Year to March	FY17	FY18	FY19	FY20E	FY21E
Operating expenses	82.8	83.9	86.8	85.0	84.3
Depreciation	3.3	4.4	2.6	2.5	2.4
Interest expenditure	1.7	1.7	2.1	1.2	0.7
EBITDA margins	17.2	16.1	13.2	15.0	15.7
Net profit margins	10.5	8.1	6.4	8.8	9.9

Growth metrics (%)

Year to March	FY17	FY18	FY19	FY20E	FY21E
Revenues	10.8	13.3	10.7	9.8	12.6
EBITDA	7.8	6.4	(9.3)	24.8	17.9
PBT	22.4	(12.6)	(5.7)	44.3	25.5
Net profit	14.0	(12.5)	(11.9)	50.6	25.5
EPS	12.6	(11.1)	(11.9)	50.6	25.5

Balance sheet

(INR cr)

As on 31st March	FY17	FY18	FY19	FY20E	FY21E
Equity share capital	22	22	22	22	22
Preference Share Capital	0	0	0	0	0
Reserves & surplus	693	830	955	1,153	1,402
Shareholders' funds	715	852	977	1,176	1,424
Secured loans	521	544	489	339	189
Unsecured loans	97	0	0	0	0
Borrowings	619	544	489	339	189
Minority interest	12	18	25	25	25
Sources of funds	1,345	1,414	1,491	1,540	1,638
Gross block	412	843	1,090	1,180	1,270
Depreciation	106	196	255	318	385
Net block	306	647	835	862	884
Capital work in progress	299	126	27	0	0
Total fixed assets	605	773	862	862	884
Unrealised profit	0	0	0	0	0
Investments	6	34	38	38	38
Inventories	301	382	461	432	487
Sundry debtors	342	357	296	425	479
Cash and equivalents	67	21	26	26	40
Loans and advances	160	85	79	80	80
Other current assets	0	0	0	0	0
Total current assets	870	845	862	964	1,086
Sundry creditors and others	219	275	292	343	386
Provisions	19	34	42	44	46
Total CL & provisions	238	309	334	387	433
Net current assets	633	536	528	577	653
Net Deferred tax	67	71	63	63	63
Misc expenditure	34	0	0	0	0
Uses of funds	1,345	1,414	1,491	1,540	1,638
Book value per share (INR)	32	38	44	53	64

Cash flow statement

(INR crs)

Year to March	FY17	FY18	FY19	FY20E	FY21E
Net profit	194	169	149	224	282
Add: Depreciation	59	90	59	63	67
Add: Misc expenses written off/Other Assets	5	34	0	0	0
Add: Deferred tax	(2)	(4)	8	0	0
Add: Others	(3)	(3)	(3)	(3)	(3)
Gross cash flow	252	286	213	285	346
Less: Changes in W. C.	55	(51)	(13)	48	63
Operating cash flow	197	337	226	236	283
Less: Capex	312	258	148	90	90
Free cash flow	(115)	79	78	146	193

Ratios

Year to March	FY17	FY18	FY19	FY20E	FY21E
ROAE (%)	31	22	16	21	22
ROACE (%)	23	18	17	22	25
Debtors (days)	69	63	47	62	62
Current ratio	4	3	3	2	3
Debt/Equity	0.9	0.6	0.5	0.3	0.1
Inventory (days)	60	68	74	63	63
Payable (days)	44	49	47	50	50
Cash conversion cycle (days)	85	82	74	75	75
Debt/EBITDA	2	2	2	1	0
Adjusted debt/Equity	0.8	0.6	0.5	0.3	0.1

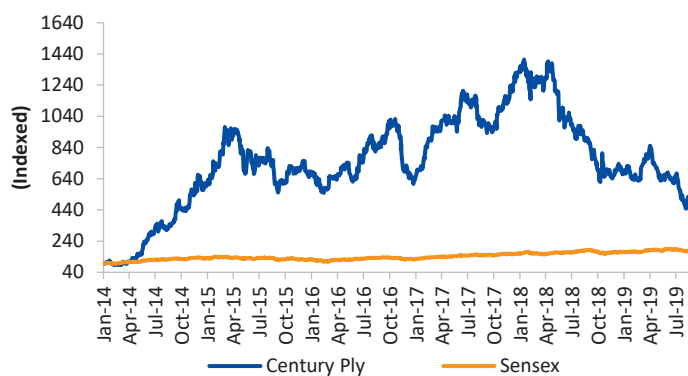
Valuation parameters

Year to March	FY17	FY18	FY19	FY20E	FY21E
Diluted EPS (INR)	8.6	7.6	6.7	10.1	12.7
Y-o-Y growth (%)	12.6	(11.1)	(11.9)	50.6	25.5
CEPS (INR)	11.2	11.6	9.3	12.9	15.7
Diluted P/E (x)	15.8	16.4	20.2	12.4	9.9
Price/BV(x)	4.2	3.3	2.8	2.4	2.0
EV/Sales (x)	2.0	1.7	1.5	1.2	1.0
EV/EBITDA (x)	11.4	10.6	11.5	8.2	6.6
Diluted shares O/S	22.3	22.3	22.3	22.3	22.3
Basic EPS	8.6	7.6	6.7	10.1	12.7
Basic PE (x)	15.8	16.4	20.2	12.4	9.9
Dividend yield (%)	0.0	0.6	0.5	0.8	1.0

Edelweiss Broking Limited, 1st Floor, Tower 3, Wing B, Kohinoor City Mall, Kohinoor City, Kirool Road, Kurla(W)
 Board: (91-22) 4272 2200

Vinay Khattar
 Head Research
 vinay.khattar@edelweissfin.com

Rating	Expected to
Buy	appreciate more than 15% over a 12-month period
Hold	appreciate between 5-15% over a 12-month period
Reduce	Return below 5% over a 12-month period



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