

Management considers expansion of MDF and PB unit

Century Plyboard's (CPIL) topline grew 6.8% YoY to ₹ 573.7 crore. Plywood division revenue growth was flattish YoY at ₹ 315.7 crore while MDF division revenues grew 31.5% YoY to ₹ 91.9 crore. EBITDA margin was flattish YoY at 16.1% on account of better margin growth in the MDF division. Overall, PAT grew 6.0% YoY to ₹ 48.1 crore in Q1FY20.

MDF division shows improvement in EBITDA margins

CPIL's MDF facility operated at ~82% capacity utilisation in Q1FY20. MDF EBITDA margins rose to 23.4% in Q1FY20 on account of a number of factors: a) 3-4% hike taken in thicker MDF during the quarter; b) operating leverage on account of higher utilisation; c) cost benefits as prices of adhesives & raw materials have come down & electricity consumption reduced to 250 units/CBM vs. 350 units/CBM earlier. Also, there have been no notable price cuts in the industry recently. With this, the management expects margins to sustain at current levels, going ahead. Also, it aims to achieve 90% utilisation and has guided at 30% MDF volume growth in FY20E. Overall, we expect MDF revenues to grow 19.9% CAGR to ₹ 424.0 crore in FY19-21E.

Plywood division growth to remain subdued

CPIL's plywood volumes grew just 1% YoY to 56,642 CBM on account of 33% YoY decline in commercial veneer sales to 3,471 CBM in Q1FY20. On a positive note, plywood division EBITDA margins expanded 490 bps to 16.3% in Q1FY20 on account of 1% price hike taken for plywood products in Q1FY20 and lower cost of raw materials as prices of phenol, formalin and face veneers have come down. The management expects plywood growth to be subdued at 7-8% in FY20E. Overall, we expect plywood revenues to grow at 6.9% CAGR to ₹ 1,454.3 crore in FY19-21E.

Contemplating particle boards & MDF capacity expansion

CPIL has got licence from the Uttar Pradesh government to put up 500 CBM/day capacity each for MDF and PB for a total capex of ₹ 400-450 crore at Sitapur, which is rich in plantation timber. Manufacturing capacities for both products will be put up at a single location and is expected to take ~15 months for setup to be complete.

Valuation & Outlook

CPIL reported a strong operating performance in Q1FY20 especially on the MDF operating margins front. However, we would like to see consistency in its margin amid supply glut in the MDF market. Overall, we expect revenues, PAT to grow at a CAGR of 10.0%, 13.3% to ₹ 2,737.1 crore, ₹ 203.9 crore, respectively, in FY19-21E. We maintain our **HOLD** recommendation on the stock with a revised target price of ₹ 150/share (16x FY21E EPS).

Key Financial Summary

₹ crore	FY17	FY18	FY19E	FY20E	FY21E	CAGR FY19-21E
Net Sales	1,782.5	1,967.2	2,263.8	2,484.3	2,737.1	10.0%
EBITDA	292.0	306.1	300.4	351.8	387.7	13.6%
EBITDA Margin (%)	16.4	15.6	13.3	14.2	14.2	
PAT	185.6	156.6	158.8	185.7	203.9	13.3%
EPS (₹)	8.4	7.1	7.1	8.4	9.2	
P/E	16.0	19.0	18.8	16.0	14.6	
EV/EBITDA	11.5	10.9	11.4	9.5	8.4	
RoNW (%)	26.2	18.7	16.4	16.8	16.2	
RoCE (%)	24.5	20.3	18.6	19.8	18.8	

Source: Company, ICICI Direct Research



Particulars

Particular	Amount (₹ crore)
Market Capitalization	2,977.1
Total Debt	458.5
Cash	23
EV	3,413.0
52 week H/L (₹)	235 / 112
Equity capital	22.3
Face value (₹)	1.0

Key Highlights

- Topline grew 6.8% YoY to ₹ 573.7 crore
- MDF division EBITDA margins rose to 23.4% in Q1FY20 on account of price hike taken in thicker MDF and several cost benefits
- Plywood segment volumes grew just 1% YoY to 56,642 CBM in Q1FY20
- Maintain HOLD with target price of ₹ 150/share

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Exhibit 1: Variance Analysis

Particular	Q1FY20	Q1FY20E	Q1FY19	YoY Chg (%)	Q4FY19	QoQ Chg (%)	Comments
Net Sales	573.7	587.7	537.3	6.8	583.2	-1.6	Topline growth can be attributed to revenue growth in MDF division
Other Income	1.1	1.6	0.6	96.9	2.9	-60.8	
Material Consumed	232.2	235.1	217.6	6.7	235.7	-1.5	
Purchase of Stock in Trade	59.4	88.2	51.5	15.4	67.8	-12.3	
Employee Benefit Expenses	84.5	85.1	79.0	6.9	83.7	1.0	
Other Expenses	104.5	157.3	96.3	8.5	133.0	-21.4	
EBITDA	92.6	80.8	86.6	7.0	63.7	45.5	
EBITDA Margin (%)	16.1	13.8	16.1	3 bps	10.9	523 bps	Margins expanded sequentially on account of improvement in MDF EBITDA margins
Depreciation	16.9	14.3	10.8	56.4	14.3	18.4	
Interest	9.0	9.4	13.4	-33.4	9.4	-4.5	
PBT	67.9	58.7	62.9	8.0	42.9	58.2	
Taxes	19.7	15.3	17.5	12.9	8.7	126.0	
PAT	48.1	43.5	45.4	6.0	34.2	40.9	

Source: Company, ICICI Direct Research

Exhibit 2: Change in estimates

Particulars (₹ crore)	FY18	FY19	FY20E			FY21E			Comments
			Old	New	Change	Old	New	Change	
Revenue	1,967.2	2,263.8	2,533.3	2,484.3	-1.9	2,824.7	2,737.1	-3.1	We tweak our estimates
EBITDA	306.1	300.4	344.8	351.8	2.0	387.4	387.7	0.1	
EBITDA Margin (%)	15.6	13.3	13.6	14.2	56 bps	13.7	14.2	43 bps	
PAT	156.6	158.8	191.1	185.7	-2.8	209.4	203.9	-2.6	
EPS (₹)	7.1	7.1	8.6	8.4	-2.8	9.4	9.2	-2.6	

Source: Company, ICICI Direct Research

Exhibit 3: Assumptions

Volume Assumptions	FY17	FY18	FY19E	Current Introduced		Earlier	Earlier	Comments
				FY20E	FY21E	FY20E	FY21E	
Plywood & Veneer(In CBM)	251,720	253,922	252,637	260,311	273,910	271,333	292,626	We tweak our estimates
MDF (CBM)	0	48,307	132,229	179,955	199,950	179,955	199,950	
Laminate Sheets (In Mn)	5.0	5.5	5.9	6.4	7.4	6.4	7.4	
Pre-laminated Boards (In Mn SQM)	0.9	1.4	0.0	0.0	0.0	0.0	0.0	

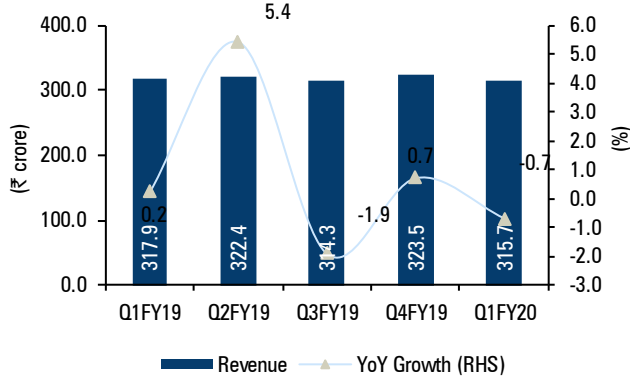
Source: Company, ICICI Direct Research

Conference call Highlights

- **Management guidance:** CPIL expects Q2FY20E to be impacted on account of the flood situation in Kerala – one of the major markets for the company. Overall, the management has guided for 10% topline growth in FY20E. On the margin front, it aims at 15% EBITDA margins in FY20E
- **MDF sector update & CPIL's strategy:** The management expects South Indian MDF market to remain intensively competitive for some time while North Indian MDF market could stabilise faster. Hence, CPIL would be increasing its focus more on the North Indian market, going ahead
- **MDF division:** CPIL's MDF facility operated at ~82% capacity utilisation in Q1FY20. The management aims to achieve 90% utilisation in FY20E. MDF EBITDA margins rose to 23.4% in Q1FY20 on account of a number of factors: a) CPIL took a 3-4% hike in thicker MDF during the quarter; b) operating leverage on account of higher utilisation; c) prices of adhesives and raw materials viz. glue, formaldehyde, melamine etc. have come down; d) electricity consumption has come down to 250 units per CBM vs. 350 units per CBM earlier; e) robust increase in MDF demand and no notable MDF supply in the market. The management expects margins to sustain at these levels, going ahead. On the volumes front, it expects 30% MDF volume growth in FY20E
- **Plywood division:** Plywood division EBITDA margins expanded 490 bps to 16.3% in Q1FY20 on account of a) 1% price hike taken for plywood products in Q1FY20; b) lower cost of raw materials as prices of phenol, formalin and face veneers have come down. Sainik brand, which is 20-25% cheaper than CPIL's higher-end plywood brands, contributed ~30% to the plywood sales value in Q1FY20. Going ahead, the management expects growth of plywood division to be subdued and expects 7-8% growth in this division in FY20E
- **Logistics division:** With the entry of new players in the Kolkata market, competition for CPIL has increased the supply in the logistics division. As per the management, it could take a couple of years for the impact to stabilise
- **Particle boards:** CPIL achieved 35% YoY volume growth to 15,277 CBM in its particle boards division in Q1FY20. The plant is running at 100%+ utilisation levels as of Q1FY20 and the company is planning to expand PB capacity by 500 CBM/day in Uttar Pradesh
- **Laminates division:** CPIL's laminates division is operating at 100% capacity for five of production lines. The company has six installed lines and is aiming to reach 100% utilisation for all six lines by Q4FY20E. The management indicated that currently it does not plan to increase laminates capacity
- **Expansion plans:** CPIL's management is contemplating an expansion of MDF and particle boards manufacturing plants. It has got licence from the state government to put up capacity of 500 CBM/day each for MDF and PB (at single location) for a total capex of ₹ 400-450 crore at Sitapur (Uttar Pradesh). The company chose this location as the region is rich in plantation timber. For this investment, CPIL could be eligible for tax benefits (with regards to state GST) up to 200% of the invested value for 10 years from commencement of operations. It will take more than a year to set up the plant

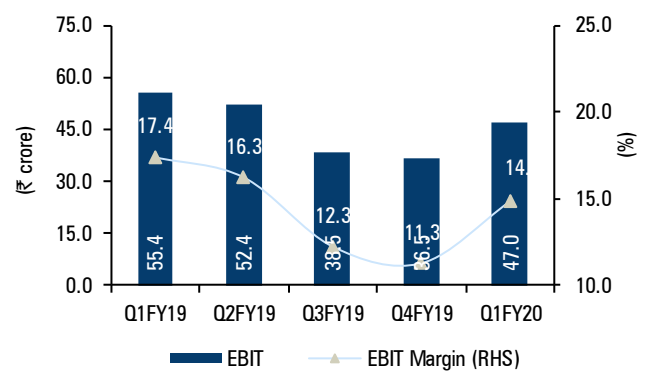
Company Analysis

Exhibit 4: Quarterly plywood & allied products revenue



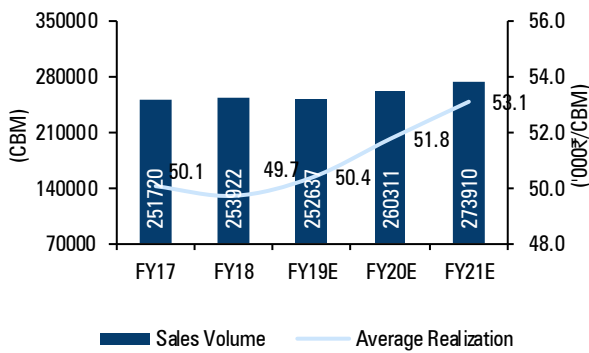
Source: Company, ICICI Direct Research

Exhibit 5: Quarterly plywood & allied products EBIT trend



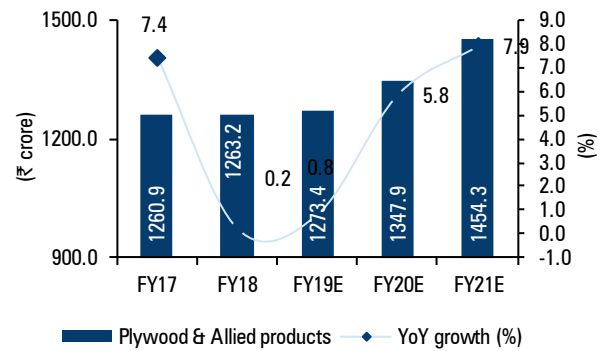
Source: Company, ICICI Direct Research

Exhibit 6: Plywood sales volume & average realisation



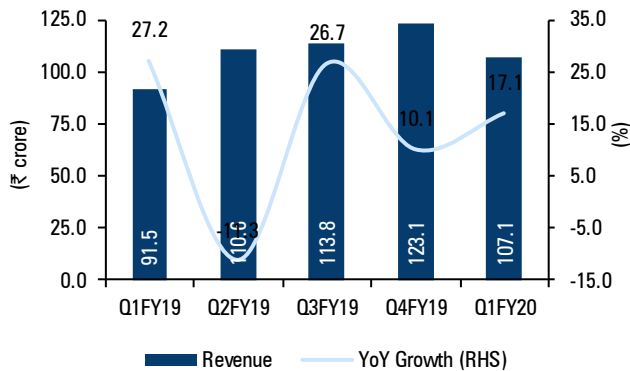
Source: Company, ICICI Direct Research

Exhibit 7: Plywood revenue and growth trend



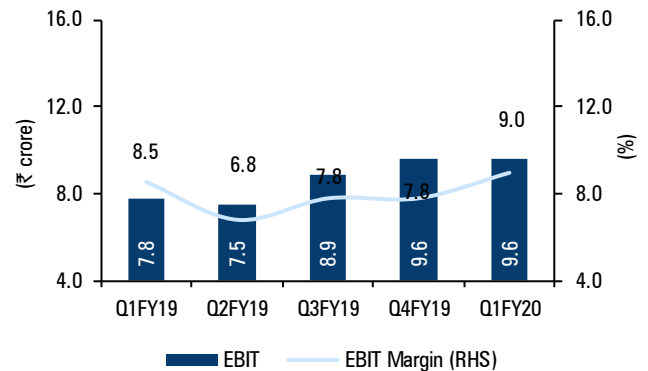
Source: Company, ICICI Direct Research

Exhibit 8: Quarterly laminates & allied products revenue



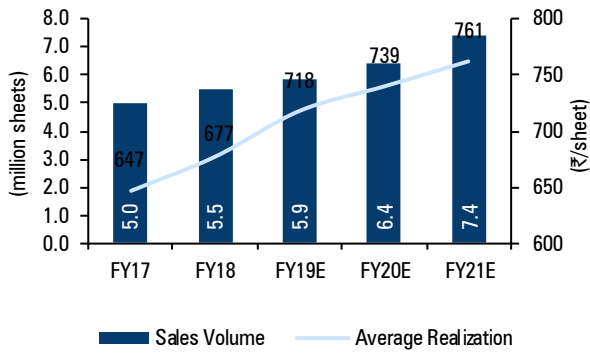
Source: Company, ICICI Direct Research

Exhibit 9: Quarterly laminates & allied products EBIT trend



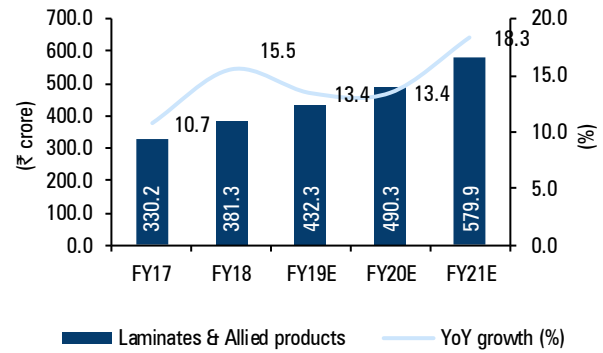
Source: Company, ICICI Direct Research

Exhibit 10: Laminates sales volume & average realisation



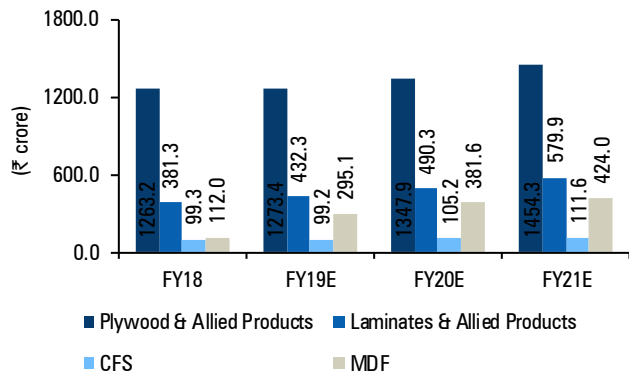
Source: Company, ICICI Direct Research

Exhibit 11: Laminates revenue and growth trend



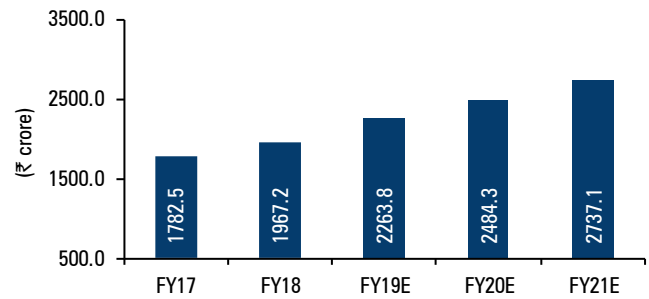
Source: Company, ICICI Direct Research

Exhibit 12: Segmental net revenue trend



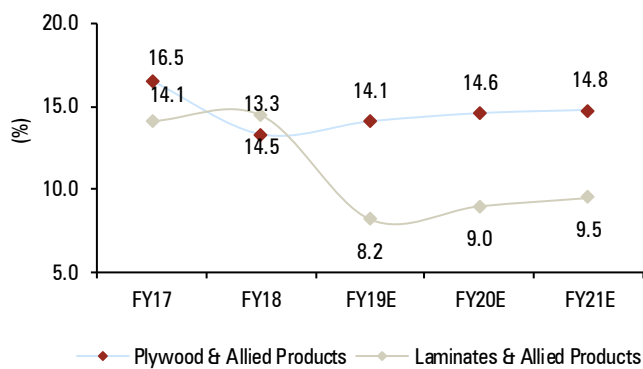
Source: Company, ICICI Direct Research

Exhibit 13: Total net revenue trend



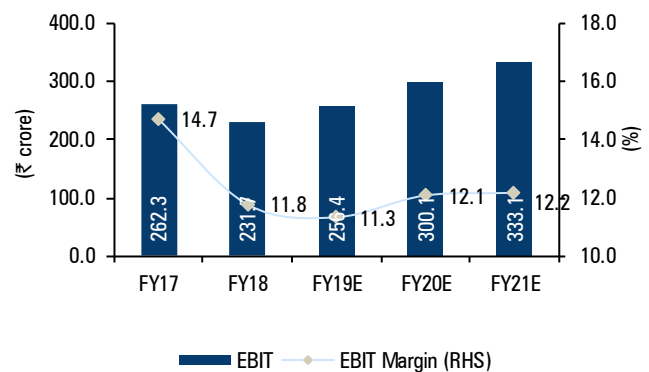
Source: Company, ICICI Direct Research

Exhibit 14: Segmental EBIT trend



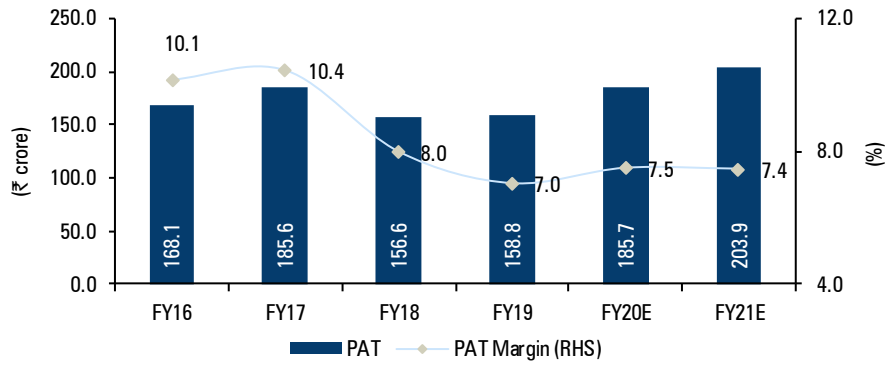
Source: Company, ICICI Direct Research

Exhibit 15: EBIT margin trend



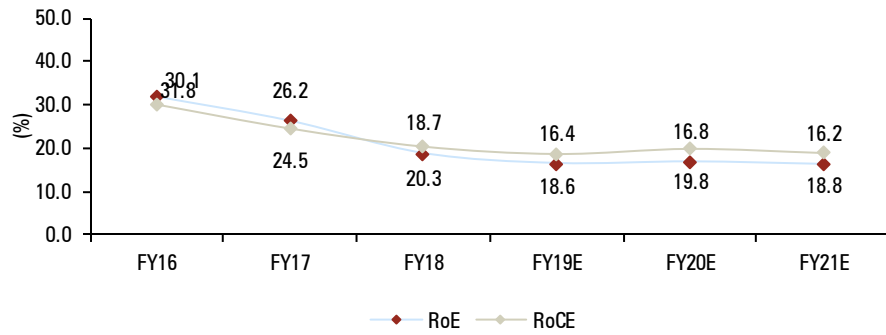
Source: Company, ICICI Direct Research

Exhibit 16: PAT growth trend



Source: Company, ICICI Direct Research

Exhibit 17: RoE and RoCE growth trend



Source: Company, ICICI Direct Research

Valuation & Outlook

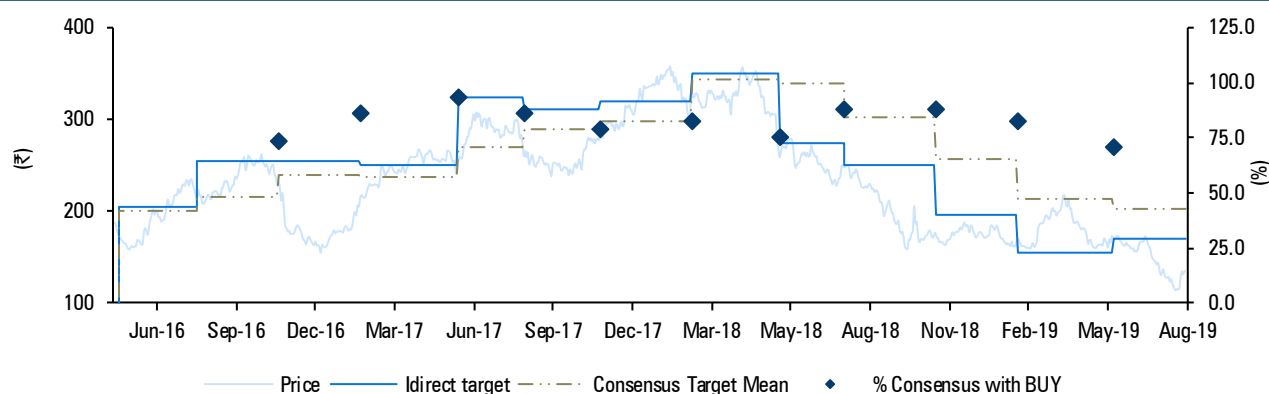
CPIL reported a strong operating performance in Q1FY20, especially on the MDF operating margins front. However, we would like to see consistency in its margin amid supply glut in the MDF market. Overall, we expect revenues, PAT to grow at a CAGR of 10.0%, 13.3% to ₹ 2,737.1 crore, ₹ 203.9 crore, respectively, in FY19-21E. We maintain our **HOLD** recommendation on the stock with a revised target price of ₹ 150/share (16x FY21E EPS).

Exhibit 18: Valuation metrics

	Sales (₹ cr)	Growth (%)	EPS (₹)	Growth (%)	PE (x)	EV/EBITD (x)	RoNW (%)	RoCE (%)
FY16	1658.5	6.0	7.6	11.4	17.7	11.5	31.8	30.1
FY17	1782.5	7.5	8.4	10.4	16.0	11.5	26.2	24.5
FY18	1967.2	10.4	7.1	-15.6	19.0	10.9	18.7	20.3
FY19E	2263.8	15.1	7.1	1.4	18.8	11.4	16.4	18.6
FY20E	2484.3	9.7	8.4	17.0	16.0	9.5	16.8	19.8
FY21E	2737.1	10.2	9.2	9.8	14.6	8.4	16.2	18.8

Source: Company, ICICI Direct Research

Exhibit 19: Recommendation History vs. Consensus



Source: Bloomberg, Company, ICICI Direct Research

Exhibit 20: Top 10 shareholders

Rank	Name	Latest Date	Filing % O/S	Position (m)	Change (m)
1	Bhajanka (Sajjan)	30-Jun-19	11.6%	25.8	0.1
2	Agarwal (Sanjay)	30-Jun-19	11.2%	24.8	0.1
3	Agarwal (Divya)	30-Jun-19	7.5%	16.7	0.0
4	Bhajanka (Santosh)	30-Jun-19	7.0%	15.4	0.0
5	Khemani (Vishnuprasad)	30-Jun-19	5.7%	12.7	0.0
6	Sriram Vanijya Pvt. Ltd.	30-Jun-19	3.8%	8.5	0.0
7	Brijdham Merchants Pvt. Ltd.	30-Jun-19	3.5%	7.7	0.0
8	Sumangal International Pvt. Ltd.	30-Jun-19	3.5%	7.7	0.0
9	Sumangal Business Pvt. Ltd.	30-Jun-19	3.1%	6.8	0.0
10	Sriram Merchants Pvt. Ltd.	30-Jun-19	3.0%	6.7	0.0

Source: Reuters, ICICI Direct Research

Exhibit 21: Recent Activity

Buys			Sells		
Investor name	Value (m)	Shares (m)	Investor name	Value (m)	Shares (m)
Kotak Mahindra Asset Management Company Ltd.	0.5	0.3	Reliance Nippon Life Asset Management Limited	-1.1	-0.6
Mirae Asset Global Investments (India) Pvt. Ltd.	0.2	0.1	Aditya Birla Sun Life AMC Limited	-0.7	-0.3
Bhajanka (Sajjan)	0.2	0.1	Florida State Board of Administration	-0.7	-0.2
Agarwal (Sanjay)	0.2	0.1	BNP Paribas Asset Management USA, Inc.	-0.2	-0.1
DHFL Pramerica Asset Managers Private Limited	0.2	0.1	HSBC Global Asset Management (India) Private Limited	-0.1	-0.1

Source: Reuters, ICICI Direct Research

Exhibit 22: Shareholding Pattern

(in %)	Sep-18	Dec-18	Mar-19	Jun-19
Promoter	72.3	72.3	72.3	72.3
Public	27.7	27.7	27.7	27.7
Others	0.0	0.0	0.0	0.0
Total	100.0	100.0	100.0	100.0

Source: Company, ICICI Direct Research

Financial summary

Exhibit 23: Profit and loss statement ₹ crore

(₹ Crore)	FY18	FY19	FY20E	FY21E
Net Sales	1,967.2	2,263.8	2,484.3	2,737.1
Raw Material Expense	691.7	936.0	898.9	975.0
Purchase of Traded Goods	331.3	245.5	422.3	465.3
Employee benefit expenses	283.9	327.7	359.6	396.2
Other Expenses	354.3	454.2	451.6	512.8
Total Expenses	1,661.2	1,963.5	2,132.5	2,349.3
EBITDA	306.1	300.4	351.8	387.7
EBITDA Margin (%)	15.6	13.3	14.2	14.2
Interest	32.7	44.6	34.7	41.8
Depreciation	81.0	50.0	58.1	61.3
Other income	6.7	6.1	6.4	6.7
PBT	199.0	211.9	265.3	291.3
Taxes	42.4	53.1	79.6	87.4
PAT	156.6	158.8	185.7	203.9
PAT Growth rate (%)	(15.6)	1.4	17.0	9.8
Adjusted EPS (Diluted)	7.1	7.1	8.4	9.2

Source: Company, ICICI Direct Research

Exhibit 24: Cash flow statement ₹ crore

(₹ Crore)	FY18	FY19E	FY20E	FY21E
Profit after Tax	156.6	158.8	185.7	203.9
Depreciation	81.0	50.0	58.1	61.3
Interest	32.7	44.6	34.7	41.8
Others	(137.6)	21.6	(33.7)	(80.1)
Cash Flow before wc changes	175.1	328.0	324.5	314.3
Net Increase in Current Assets	88.6	(80.8)	(52.3)	(14.0)
Net Increase in Current Liabilities	14.2	(143.5)	(91.3)	(58.8)
Net CF from operating activities	277.9	103.7	180.9	241.6
(Purchase)/Sale of Fixed Assets	(373.6)	(236.6)	(2.5)	(64.0)
Net CF from Investing activities	(192.4)	(123.3)	(12.3)	(76.3)
Dividend	(39.2)	(39.7)	(46.4)	(51.0)
Interest paid	(32.7)	(44.6)	(34.7)	(41.8)
Inc / (Dec) in Loans	(62.6)	98.2	(1.5)	100.0
Net CF from Financing activities	(134.5)	13.9	(82.7)	7.2
Net Cash flow	(49.0)	(5.6)	85.9	172.5
Opening Cash	53.8	16.5	22.6	108.5
Closing Cash/ Cash Equivalent	16.5	22.6	108.5	281.0

Source: Company, ICICI Direct Research

Exhibit 25: Balance sheet ₹ crore

(₹ Crore)	FY18	FY19E	FY20E	FY21E
Liabilities				
Equity Capital	22.3	22.3	22.3	22.3
Reserve and Surplus	815.7	946.9	1,086.2	1,239.1
Total Shareholders funds	837.9	969.1	1,108.4	1,261.4
Total Debt	360.3	458.5	456.9	556.9
Deferred Tax Liability	(69.0)	(61.5)	(61.5)	(61.5)
Total Liabilities	1,129.0	1,366.0	1,504.0	1,757.0
Assets				
Gross Block	715.3	1,075.7	1,162.1	1,226.1
Less Acc. Dep	174.1	431.7	489.8	551.1
Net Block	541.2	727.8	672.3	675.0
Net Intangibles Assets	0.5	0.8	1.9	3.0
Expenditure on new projects	-	-	-	-
Capital WIP	119.8	18.8	18.8	18.8
Total Fixed Assets	661.5	747.4	693.0	696.8
Investments	96.0	97.5	97.5	97.5
Inventory	338.2	401.0	440.0	484.8
Sundry Debtors	314.5	293.6	340.3	374.9
Loans & Advances	25.6	19.3	48.4	83.3
Cash & Bank Balances	16.5	22.6	108.5	281.0
Other Current Assets	137.6	123.3	146.6	174.2
Total Current Assets	832.4	859.8	1,083.9	1,398.2
Trade Payable	318.4	162.5	178.3	225.0
Other Current Liabilities	141.2	165.0	180.1	197.3
Provisions	1.5	11.5	12.6	13.9
Net Current Assets	371.4	520.7	712.9	962.1
Total Assets	1,129.0	1,366.0	1,504.0	1,757.0

Source: Company, ICICI Direct Research

Exhibit 26: Key ratios

	FY18	FY19E	FY20E	FY21E
Per Share Data (₹)				
EPS - Diluted	7.1	7.1	8.4	9.2
Cash EPS	10.7	9.4	11.0	11.9
Book Value	37.7	43.6	49.9	56.8
Dividend per share	1.8	1.8	2.1	2.3
Operating Ratios (%)				
EBITDA / Net Sales	15.6	13.3	14.2	14.2
PAT / Net Sales	8.0	7.0	7.5	7.4
Inventory Days	63	65	65	65
Debtor Days	58	47	50	50
Creditor Days	59	26	26	30
Return Ratios (%)				
RoE	18.7	16.4	16.8	16.2
RoCE	20.3	18.6	19.8	18.8
RoIC	22.4	20.0	21.2	22.2
Valuation Ratios (x)				
EV / EBITDA	10.9	11.4	9.5	8.4
P/E (Diluted)	19.0	18.8	16.0	14.6
EV / Net Sales	1.7	1.5	1.3	1.2
Market Cap / Sales	1.5	1.3	1.2	1.1
Price to Book Value	3.6	3.1	2.7	2.4
Dividend Yield	1.3	1.3	1.6	1.7
Solvency Ratios (x)				
Net Debt / Equity	0.4	0.4	0.3	0.2
Debt / EBITDA	1.2	1.5	1.3	1.4
Current Ratio	1.7	2.4	2.6	2.5
Quick Ratio	1.0	1.2	1.3	1.3

Source: Company, ICICI Direct Research

Exhibit 27: ICICI Direct coverage universe (Plywood)

Sector / Company	CMP		M Cap (₹ Cr)	EPS (₹)			P/E (x)			EV/EBITDA (x)			P/B (x)			RoE (%)			
	(₹)	TP(₹)		Rating	FY19	FY20E	FY21E	FY19	FY20E	FY21E	FY19	FY20E	FY21E	FY19	FY20E	FY21E	FY19	FY20E	FY21E
Century Plyboard (CENPLY)	134	150	Hold	2622	7.1	8.4	9.2	18.8	16.0	14.6	11.4	9.5	8.4	3.1	2.7	2.4	16.4	16.8	16.2
Greenply (MTML)	166	175	Hold	2003	8.4	9.1	13.3	19.9	18.3	12.1	8.2	10.8	14.0	2.0	1.8	1.6	10.0	9.9	13.1

Source: Company, ICICI Direct Research

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Buy: >15%

Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



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