

Century Plyboards

Maintains growth focus; upgrading estimates

Century Plyboards reported volume growth of 10%/19% YoY in plyboards/laminates in 3QFY15, significantly higher than the industry growth rates, led by market share gains. The management is adding further levers to revenue growth by expanding product portfolios and setting up a particle board manufacturing plant in Chennai for Rs600mn, which can potentially add Rs1.2bn to revenues and Rs250mn to EBITDA in FY17 (~5% increase). Lower raw material prices, especially crude-linked inputs (down 50% YoY) supported margin expansion of 850bps YoY in 3Q, which could sustain (albeit partially), given benign raw material prices. Not only does Century have access to low-cost veneer from its Myanmar and Laos units, but it is also developing alternative sources of face timber (from Papua New Guinea and Solomon Islands) to ensure raw material availability. We increase our FY16/FY17 EPS estimates by 13%/7%, building in higher laminate revenues and 60-100bps margin expansion over FY15-17E. Our revised target price of Rs215 (vs Rs180 earlier) implies 14.2x FY17 EPS.

Key highlights from the 3QFY15 earnings conference call:

Maintains strong volume growth in both segments

Century's 9MFY15 volumes in plyboard/laminates grew by 10%/19% owing to capacity additions, ramp-up in dealer network and marketing initiatives. The company's laminate unit in Kolkata is currently running at 100% capacity utilisation and the management is expecting capacity expansion in west India (2.4mn sheets) to be commissioned in 2HFY15.

Adding levers to revenue growth

The company is adding a particle board manufacturing unit in its Chennai plyboard unit which will utilise the by-products from plyboard manufacturing for 50% of the raw material needs and 50% from nearby saw mills. The company would incur capex of Rs600mn for a 180 cubic meter/day capacity and management estimates sales of Rs1.2bn from this plant and Rs250mn EBITDA (~5%/5.3% of our FY17 sales/EBITDA estimates). The company has retained its revenue growth guidance of at least 25% in FY16. Particle boards is a low-value panel product and is used largely in modular furniture; its capital intensity is much lower than MDF (2x asset turnover as against 1x in MDF).

Raw material cost savings can sustain for the next 3-4 quarters

Margin expansion in 3QFY15 was led by a sharp drop in crude-linked input costs - ~50% drop in phenol prices (to ~US\$950 in 3QFY15 as against US\$1,800/tonne last year). Moreover, the company benefitted from lower core timber prices (due to Euro depreciation, leading to cheaper landed cost from Germany). Management estimates that it would be able to retain the savings largely and would only partially share the benefits with consumers and hence it expects EBITDA margins of ~17% in FY16.

Developing alternative sources for face timber

Currently the company has face timber inventory till Mar-15 (at US\$400/CBM), post which the cost of procuring raw timber would increase to US\$650/CBM. However, Century's capacities in Myanmar and Laos indicate that the company would continue to procure face veneer (semi-processed logs) at lower costs for its own manufacturing needs. Apart from this, the company is developing alternative sources of raw materials in Papua New Guinea and the Solomon Islands to procure face veneer (albeit of a lower quality as compared to the Gurjan wood procured from Myanmar) to ensure long-term raw material availability. The company currently has a tie-up with a local saw-mill in Laos for face veneer and its timber peeling plant (through a JV) would be commissioned in 2-3 quarters.

BUY

Result Update

Stock Information

Bloomberg Code:	CPBI IN
CMP (Rs):	185
TP (Rs):	215
Mcap (Rs bn/US\$ bn):	38/0.6
3M ADV (Rs mn/US\$ mn):	99/1.6

Stock Performance (%)

	1M	3M	12M	YTD
Absolute	11	51	480	9
Rel. to Sensex	5	43	445	4

Source: Bloomberg, Ambit Capital research

Ambit Estimates (Rs bn)

	FY14	FY15	FY16
Revenues	13.5	16.8	21.6
EBITDA	1.8	2.6	3.5
EPS (Rs)	2.7	6.7	10.3

Source: Bloomberg, Ambit Capital research

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Forex exposure remains unhedged!

The company currently has outstanding forex loans of Rs2bn; debt of Rs1.2bn is towards buyers credit and the balance is outstanding ECB debt. The company has kept these outstanding unhedged, which leaves it susceptible to currency volatilities. Note that the company incurred Rs40mn forex loss in 3QFY15. We highlight this as a clear risk.

Change in estimates

We keep our plyboard revenue estimates unchanged and increase our laminate revenue estimate by 4% each in FY16 and FY17. We increase our EBITDA margin estimates by 120bps/130bps/66bps in FY15/FY16/FY17 owing to a sharp reduction in raw material prices. These revisions lead to a 13% PAT increase in FY15E and FY16E and 7% increase in FY17E. Our estimates imply 25% sales CAGR and 35%/41% EBITDA/PAT CAGR over FY15-17E. We expect RoCE of 35-37% in FY15-17E.

Exhibit 1: Changes in assumptions

Particulars (Rs mn unless mentioned)	New Estimates			Old Estimates			Change (%)			Comments
	FY15	FY16	FY17	FY15	FY16	FY17	FY15	FY16	FY17	
Plyboard	207,929	249,515	286,942	207,929	249,515	286,942	0%	0%	0%	We keep plyboard volume unchanged and increase laminate volume by 4% each in FY16 and FY17 on account of earlier-than-expected ramp up of utilisation
Laminate	3,625,000	4,893,750	5,627,813	3,625,000	4,712,500	5,419,375	0%	4%	4%	
Realisation										
Plyboard (Rs/CBM)	64	67	72	64	67	72	0%	0%	0%	We keep realisation growth estimates unchanged at 7%/6% in FY15/FY16
Laminate (Rs/sheet)	945	1,002	1,072	945	1,002	1,072	0%	0%	0%	
Financials										
Net Sales	16,816	21,554	26,231	16,816	21,386	26,025	0%	1%	1%	Increase in sales on account of higher laminate volumes
Reported EBITDA	2,556	3,536	4,381	2,347	3,229	4,174	9%	10%	5%	
Reported EBITDA margin (%)	15.2%	16.4%	16.7%	14.0%	15.1%	16.0%	124 bps	131 bps	66 bps	We increase our EBITDA margin estimate based on operating leverage benefits in laminates
Adjusted EBITDA	2,556	3,536	4,381	2,347	3,229	4,174	9%	10%	5%	
Adjusted EBITDA margin (%)	15.2%	16.4%	16.7%	14.0%	15.1%	16.0%	124 bps	131 bps	66 bps	
Depreciation	412	419	454	412	419	454	0%	0%	0%	
Interest	337	317	301	337	317	301	0%	0%	0%	
PAT	1,496	2,283	2,977	1,321	2,025	2,792	13%	13%	7%	We increase our PAT estimates by 3%/6% in FY15/FY16 on account of higher EBITDA margin and revenue growth
PAT margin (%)	8.9%	10.6%	11.4%	7.9%	9.5%	10.7%	104 bps	112 bps	62 bps	
Cash flow parameters										
CFO	2,168	1,771	2,484	1,998	1,572	2,333	9%	13%	6%	CFO increase on account of higher EBITDA
Capex	(358)	(497)	(498)	(358)	(497)	(498)	0%	0%	0%	Capex unchanged
Profitability Ratios										
RoCE	20.9%	25.9%	27.5%	19.0%	23.9%	26.9%	186 bps	199 bps	58 bps	
RoE	35.9%	37.7%	35.0%	32.8%	35.6%	34.9%	306 bps	216 bps	9 bps	Improvement in EBIT margins leading to higher profitability for the company
ROIC	23.0%	30.1%	33.3%	20.8%	27.2%	31.6%	223 bps	295 bps	175 bps	
Target Price	215			180			19%			

Source: Ambit Capital research, Company

Valuation and recommendation—Growth and profitability levers support mid-teen multiples

Post the recent re-rating, the stock is trading at 18.5x FY16 EPS, a 15-25% discount to other home building material companies like paints and tiles, despite high RoEs of 35-37% and visibility of 40% earnings CAGR over FY15-17E. We highlight that most of the home building material companies/sectors went through multiple re-ratings, as brand association with customers rose and the share of the unorganised market shrunk. We increase our target price by 19% to build in marginally higher growth and margin expansion in FY16 and FY17; we expect strong volume growth and margins to sustain beyond FY16 as well, given that the company is increasing scale, adding product-lines and assuring long-term raw material procurement. **Our revised target price is Rs215 implies 14.2 FY17 EPS.**

Balance Sheet

Year to March (Rs mn)	FY14	FY15E	FY16E	FY17E
Total Networth	2,931	4,166	6,052	8,511
Loans	5,276	4,776	4,526	4,176
Sources of funds	8,314	9,082	10,752	12,898
Net block	3,164	3,350	3,427	3,471
Investments	31	31	31	31
Total Current Assets	6,793	8,118	10,374	13,130
Current liabilities and provisions	1,914	2,417	3,080	3,735
Net current assets	4,879	5,701	7,294	9,395
Application of funds	8,314	9,082	10,752	12,898

Source: Company, Ambit Capital research

Income statement

Year to March (Rs mn)	FY14	FY15E	FY16E	FY17E
Revenue	13,477	16,816	21,554	26,231
Total expenses	11,961	14,261	18,017	21,850
EBITDA	1,766	2,556	3,536	4,381
Net depreciation / amortisation	387	412	419	454
EBIT	1,416	2,201	3,213	4,068
PBT	629	1,864	2,896	3,767
Adjusted PAT	786	1,496	2,283	2,977
EPS diluted (Rs)	2.7	6.7	10.3	13.4

Source: Company, Ambit Capital research

Cash flow statement

Year to March (Rs mn)	FY14	FY15E	FY16E	FY17E
PBT	629	1,864	2,896	3,767
Change in working capital	(1,168)	(52)	(1,186)	(1,144)
Direct taxes paid	(117)	(335)	(579)	(753)
CFO	338	2,168	1,771	2,484
Capex	643	358	497	498
CFI	(706)	(300)	(401)	(358)
Proceeds from borrowings	372	(500)	(250)	(350)
CFF	(281)	(1,098)	(964)	(1,169)
Net increase in cash	(649)	770	406	957
FCF	(305)	1,810	1,274	1,986

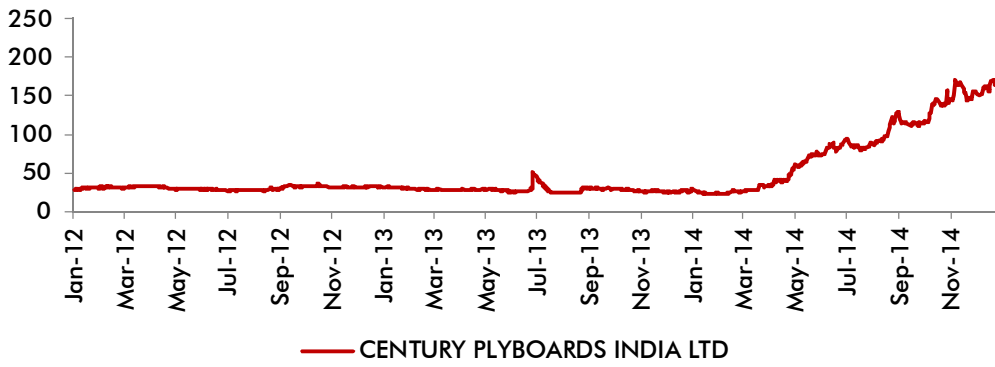
Source: Company, Ambit Capital research

Ratio analysis / Valuation parameters

Year to March	FY14	FY15E	FY16E	FY17E
EBITDA growth	43	45	38	24
PAT growth	10	141	52	30
EBITDA margin	13	15	16	17
RoCE	21	26	28	28
RoE	36	37.7	35.0	33
Debt/Equity(x)	1.7	1.1	0.7	0.5
Net debt/Equity(x)	1.6	0.8	0.5	0.2
P/E (x)	53.8	28.2	18.5	14.2
P/B(x)	13.9	9.8	6.8	4.8
EV/EBITDA(x)	26.7	17.9	12.8	10.0

Source: Company, Ambit Capital research

Century Plyboards (CPBI IN, BUY) - Stock price performance



Source: Bloomberg, Ambit Capital research

Explanation of Investment Rating

Investment Rating	Expected return (over 12-month)
BUY	>5%
SELL	≤5%
NO STANCE	We have forward looking estimates for the stock but we refrain from assigning valuation and recommendation
UNDER REVIEW	We will revisit our recommendation, valuation and estimates on the stock following recent events
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