

31 May 2017

Century Plyboards

Fresh capacities to boost revenues; Buy

The next leg of Century Plyboards' growth would come from its new MDF capacity going on-stream by Jun'17. Its expansion plans in laminates and new capacity for doors would further add to revenue and profitability over FY17-19. An improved product mix favouring MDF is expected to lead to margin betterment. We expect the company to report a 26% CAGR in profitability over next two years. We raise our target to ₹318, while retaining our Buy call.

Strong growth in laminates; curtailed plywood volumes. Robust 16% volume growth in laminates supported the company's growth in FY17. Plywood volumes, however, at 4% during the year were restrained. Logistics reported subdued revenue growth in FY17. With a greater contribution from the MDF plant and other expansion, we expect a 22% revenue CAGR over FY17-19.

Expansions to fuel growth. The MDF plant at Hoshiarpur is likely to commence operations from Jul'17. Also, the company has established a factory at Guwahati, which has commenced production, and would obtain NE-region benefits for the next 10 years. To overcome capacity constraints, the company is ramping up its laminates capacity by 50%, to be completed by Sep'17. Further, it plans to set up a doors unit in collaboration with a Chinese company.

Outlook. Century has planned capex of ₹2.2bn for FY18 and ~₹0.6bn for FY19. Volumes are likely to rise on the expected demand pick-up, capacity expansion, allocation for Housing-for-All and benefits of input sourcing from Myanmar and Laos. GST implementation would drive capacity utilisation.

Valuations. The stock is trading at a P/E of 19.2x FY19e. We assign a PE of 24x to FY19e, and arrive at a revised target of ₹318 (earlier ₹279). **Risks:** Currency fluctuations, substitutes, high interest rates.

Key financials (YE Mar)	FY15	FY16	FY17	FY18e	FY19e
Sales (₹ m)	15,648	16,357	17,825	22,763	26,602
Net profit (₹ m)	1,508	1,698	1,856	2,280	2,947
EPS (₹)	6.8	7.6	8.3	10.2	13.2
Growth (%)	125.3	12.6	9.3	22.9	29.3
PE (x)	37.5	33.3	30.5	24.8	19.2
PBV (x)	14.6	10.8	8.0	6.3	4.9
RoE (%)	44.4	37.2	30.1	28.4	28.9
RoCE (%)	26.7	28.1	25.5	25.5	27.9
Dividend yield (%)	0.8	0.4	0.4	0.6	0.7
Net debt/equity (x)	1.3	0.7	0.7	0.7	0.4

Source: Company, Anand Rathi Research

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Rating: **Buy**

Target Price: ₹318

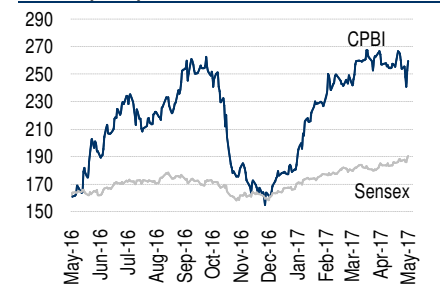
Share Price: ₹254

Key data	CPBI IN / CNTP.BO
52-week high/low	₹271 / ₹154
Sensex/Nifty	31154 / 9625
3-m average volume	\$1.0m
Market cap	₹59bn/ \$914m
Shares outstanding	222m

Shareholding pater (%)	Mar'17	Dec'16	Sep'16
Promoters	72.0	72.0	72.2
- of which, Pledged	1.4	6.3	6.3
Free Float	28.0	28.0	27.8
- Foreign Institutions	11.5	10.1	10.2
- Domestic Institutions	5.3	6.6	7.9
- Public	11.2	11.3	9.7

Estimates revision (%)	FY18e	FY19e
Sales	(2.2)	(0.7)
EBITDA	(2.2)	4.4
PAT	(1.5)	4.4

Relative price performance



Source: Bloomberg

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Quick Glance – Consolidated Financials and Valuations

Fig 1 – Income statement (₹m)

Year-end: Mar	FY15	FY16	FY17	FY18e	FY19e
Net revenues	15,648	16,357	17,825	22,763	26,602
Revenue growth (%)	21.9	4.5	9.0	27.7	16.9
- Oper. expenses	13,150	13,522	14,904	18,807	21,683
EBIDTA	2,498	2,835	2,920	3,956	4,919
EBITDA margins (%)	16.0	17.3	16.4	17.4	18.5
- Interest	433	465	286	466	558
- Depreciation	448	437	524	703	767
+ Other income	181	65	227	98	137
- Tax	290	300	481	606	783
Effective tax rate (%)	16.1	15.0	20.6	21.0	21.0
+ Associates / (minorities)					
Adjusted PAT	1,508	1,698	1,856	2,280	2,947
+ Extraordinary items	-	-	-	-	-
Reported PAT	1,508	1,698	1,856	2,280	2,947
Adj. FDEPS (₹ / sh)	6.8	7.6	8.3	10.2	13.2
Adj. FDEPS growth (%)	125.3	12.6	9.3	22.9	29.3

Source: Company, Anand Rathi Research

Fig 2 – Balance sheet (₹m)

Year-end: Mar	FY15	FY16	FY17	FY18e	FY19e
Share capital	223	223	223	223	223
Reserves & surplus	3,653	5,028	6,864	8,727	11,206
Net worth	3,876	5,251	7,086	8,949	11,428
Total debt	5,047	4,049	5,571	6,071	5,671
Minority interest	0	0	0	0	0
Def. tax liab. (net)	-70	-655	-689	-689	-689
Capital employed	8,853	8,644	11,968	14,332	16,410
Net fixed assets	2,316	2,905	5,336	6,833	6,766
Intangible assets					
Investments	451	497	960	960	960
- of which, Liquid					
Working capital	5,915	5,052	5,133	6,427	7,293
Cash	170	190	538	111	1,391
Capital deployed	8,853	8,644	11,968	14,332	16,410
Working capital (days)	138	113	105	103	100
Book value (₹ / sh)	17	24	32	40	51

Source: Company, Anand Rathi Research

Fig 3 – Cash-flow statement (₹m)

Year-end: Mar	FY15	FY16	FY17	FY18e	FY19e
Adjusted PAT	1,508	1,698	1,856	2,280	2,947
+ Non-cash items	383	(148)	490	703	767
Cash profit	1,891	1,550	2,346	2,983	3,714
- Incr. / (decr.) in WC	943	(863)	81	1,293	866
Operating cash-flow	948	2,413	2,265	1,690	2,848
- Capex	457	1,026	2,955	2,200	700
Free cash-flow	492	1,387	(690)	(510)	2,148
- Dividend	534	267	267	417	469
+ Equity raised	-	0	-	-	-
+ Debt raised	117	(998)	1,522	500	(400)
- Investments	72	46	463	-	-
- Misc. items	12	56	(248)	0	(0)
Net cash-flow	(10)	20	348	(427)	1,279
+ Op. cash & bank bal.	180	170	190	538	111
Cl. Cash & bank bal.	170	190	538	111	1,391

Source: Company, Anand Rathi Research

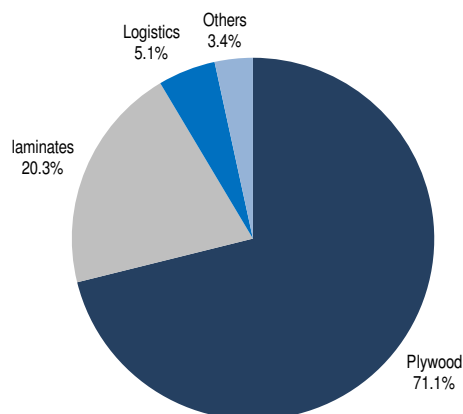
Fig 4 – Ratio analysis @ ₹254

Year-end: Mar	FY15	FY16	FY17	FY18e	FY19e
P/E (x)	37.5	33.3	30.5	24.8	19.2
Cash P/E (x)	28.9	26.5	23.8	18.9	15.2
EV/EBITDA (x)	24.6	21.3	21.1	15.8	12.4
EV/sales (x)	3.9	3.7	3.5	2.7	2.3
P/B (x)	14.6	10.8	8.0	6.3	4.9
RoE (%)	44.4	37.2	30.1	28.4	28.9
RoCE (%)	26.7	28.1	25.5	25.5	27.9
Dividend yield (%)	0.8	0.4	0.4	0.6	0.7
Dividend payout (%)	29.5	13.1	12.0	15.6	13.6
Net debt/equity (x)	1.3	0.7	0.7	0.7	0.4
Debtor (days)	55	61	63	64	64
Inventory (days)	71	66	55	56	56
Payables (days)	30	43	59	59	59
Working cap (days)	138	113	105	103	100
Fixed asset T/O (x)	6.8	5.6	3.3	3.3	3.9

Source: Company, Anand Rathi Research

Fig 5 – Price movement


Source: Bloomberg

Fig 6 – FY17 revenue break-up (standalone)


Source: Company

Company update

In FY17 the company’s laminates volume growth was robust. Domestic laminates grew 17%, exports 12%. Exterior-grade laminate volumes grew 27% on a small base. The company has planned expansion of two additional lines in laminates, expected to become operational in FY18.

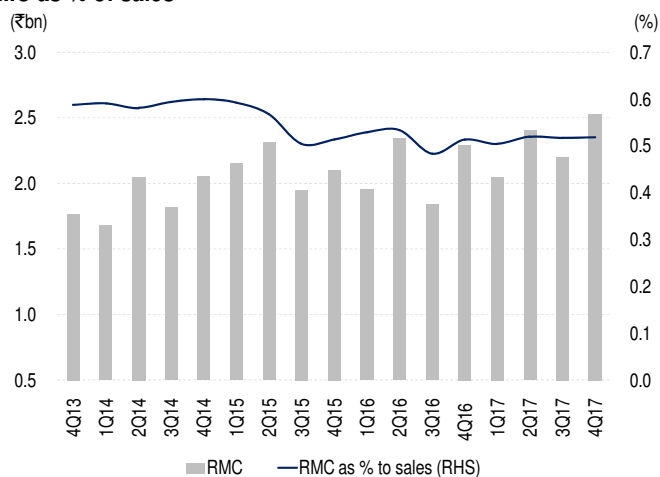
Plywood segment volumes were constrained in FY17 with plywood volumes growing 4% while revenue grew 6%. Commercial veneers did well on account of better realisations due greater sales of quality timber in the open market aided by using cheaper timber, though of good quality.

The MDF plant is expected to be operational in Jul’17, which would add considerably to revenue. Of ₹3.8bn capex, the company has incurred ₹2.8bn till Mar’17. Management expects the MDF segment to report revenue of ₹2.5bn in FY18.

The company is planning to set up a doors unit in collaboration with a Chinese company at ₹500m capex. It is expected to come up in FY19.

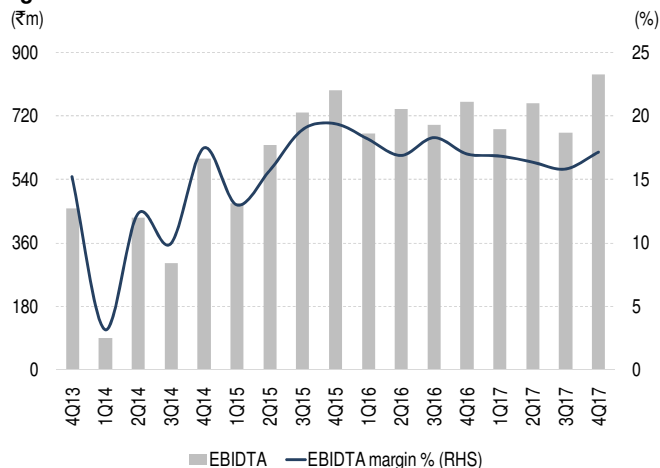
We believe that higher capacities and greater utilisation are likely to boost growth in coming years.

Fig 7 – RMC as % of sales



Source: Company

Fig 8 – Margin trend



Source: Company

Concall Highlights

- Revenue for the quarter was mainly driven by 12.3% yoy growth in laminate volumes and a 3.1% yoy increase in plywood volumes.
- The increase in commercial veneer realisations was chiefly because of greater sales of quality timber in the open market, aided by using cheaper timber of good quality.
- Plywood margins for the quarter were a high ~19.8% up 642bps and included a 1% increase due to forex gains, some savings in RMC costs for veneers and provisions written back for channel discounts.
- The company expects its plywood margins to hold at ~17%, growth coming in primarily from greater volumes.
- Sales volumes in “Sainik” in Q4 were 14,441cb.mtr; for the full year they were 52,000cb.mtr.
- The GST rate for plywood is likely to be 28%, and 18% for laminates and commercial veneers.
- The tax rate for the quarter was higher, at 30%, chiefly because of greater forex gains, fully taxable as they relate to tax-paying units.
- Century has entered into channel financing with SBI at 9%. This would be a win-win situation for the company as the cash-discount rate is higher than the channel-financing rate.
- The MDF plant (capacity: 600cb.mtr.a day) is expected to be commissioned by July'17 and management expects it to contribute ₹2.5bn to total FY18 revenues.

Valuation

On implementation, the GST would lead to a shift from unorganised business to the organised sector, boosting the company's prospects. The Housing-for-All initiative would add to its growth. It has been promoting its brands relentlessly (especially its mid-range "Sainik"). The separate campaigns for laminates and the Sainik brand would help improve operational efficiency. The recent capacity expansions would drive top-line growth in coming years.

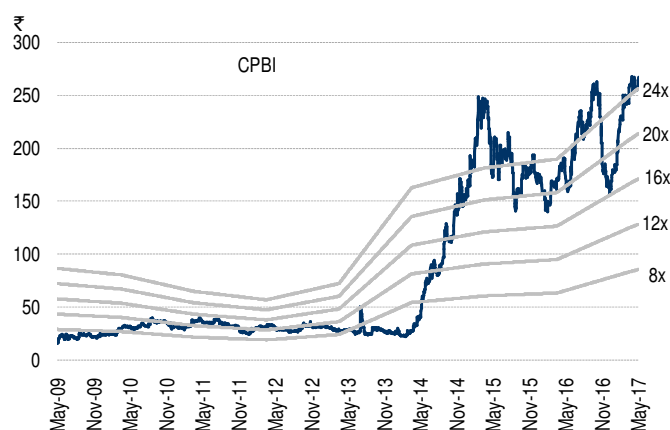
At the ruling price of ₹254, the stock is trading at 19.2x FY19e P/E and 12.4x EV/EBITDA. We believe that the strong return ratios, rising free cash-flows and constant payouts would drive growth. On the above analysis, we maintain a Buy on the stock, assigning a PE of 24x to FY19e earnings and arrive at a revised price target of ₹318 (earlier ₹279).

Fig 9 – Change in estimates

₹ m)	Old estimates		New estimates		Change (%)	
	FY18e	FY19e	FY18e	FY19e	FY18e	FY19e
Revenue	23,282	26,787	22,763	26,602	(2.2)	(0.7)
EBITDA	4,046	4,712	3,956	4,919	(2.2)	4.4
EPS (₹)	2,314	2,822	2,280	2,947	(1.5)	4.4

Source: Anand Rathi Research

Fig 10 – PE band



Source: Bloomberg, Anand Rathi Research

Risks

- **Currency volatility:** Since the company imports a large part of the raw material it requires, currency fluctuations would affect its margins. At present, raw material costs amount to ~50-52% of its net sales.
- **Threat from substitutes:** The shifting demand of consumers from plywood to multi-density fibreboard (MDF, less expensive than ply) would pose a threat.
- **Higher interest rate:** Century Plyboards' exposure to interest-rate fluctuations in its foreign-currency borrowing could hurt it.

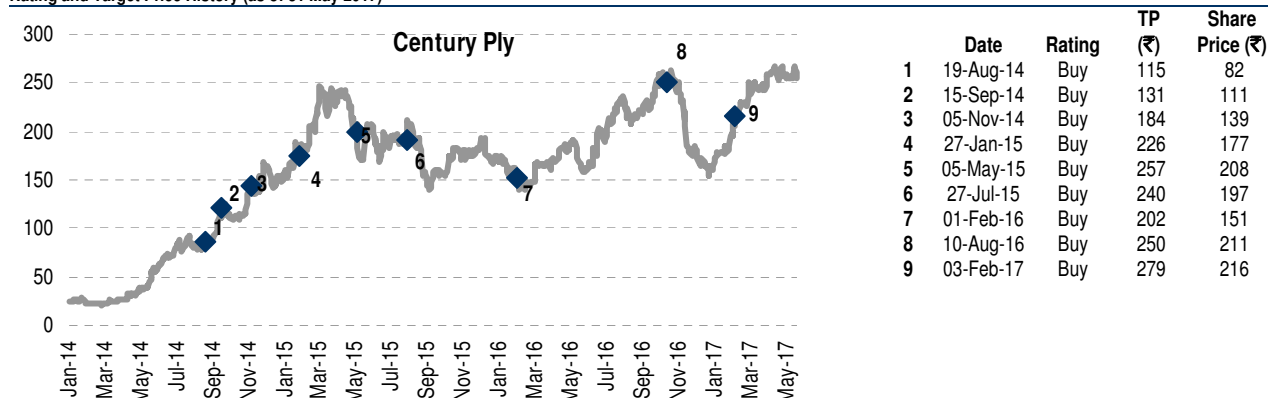
Appendix

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