

Century Plyboards

An unexpected rise in raw material cost

Whilst Century reported 8% revenue growth (in line with our expectation), EBITDA margin was materially lower than expected (13.9% vs 16.5% expected). Ply margin decline of 300bps YoY to 13%, on account of lower gross margins (27.3% vs 33%), was shocking. Though we seek more clarity, the management mentioned that price of domestically available core timber has shot up; it accounts for 30-40% of total RM cost, but at best 60-70% of this is sourced domestically. This needs to be better understood; some gross margin loss can be due to rise in other RM costs or sunset of excise exemption in subsidiaries/contract-manufacturers. We worry that if this hike in core prices is structural (generally tends to be sticky), then we might be staring at margin reductions (for ply and overall) along with the continued pressure on revenues as a result of: (a) delays in MDF commissioning; and (b) weak demand for building material products. Our last published estimates of 25% revenue and earnings CAGR over FY17-19 need to be revised post the earnings call. Stock trades at 21-23X FY19 earnings, which could be revised lower.

Where do we go from here?

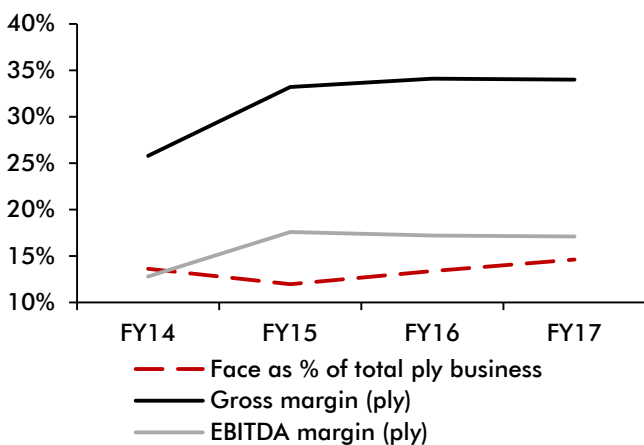
Though realisations have held, our estimates stand at risk and need to be revisited. In the past, there have been revenue misses, but margins have held through mainly on account of ply margins; however, this time even the margins stand at risk. We are already witnessing delays to MDF revenues, and now margins too have declined.

Exhibit 1: Historically, revenues were downgraded or overestimated but margins held through; if not revenues, EBITDA margins for FY18 would be downgraded

Consensus estimates	FY16		FY17			FY18	
	-1 year	Actual	-2 year	-1 year	Actual	-1 year	Now
Revenue	20,719	16,409	25,146	18,708	18,187	22,314	22,549
EBITDA margin	16.4%	16.6%	16.9%	17.4%	17.0%	17.8%	17.9%
EPS	9.4	7.6	12.5	8.5	8.7	9.6	10.5

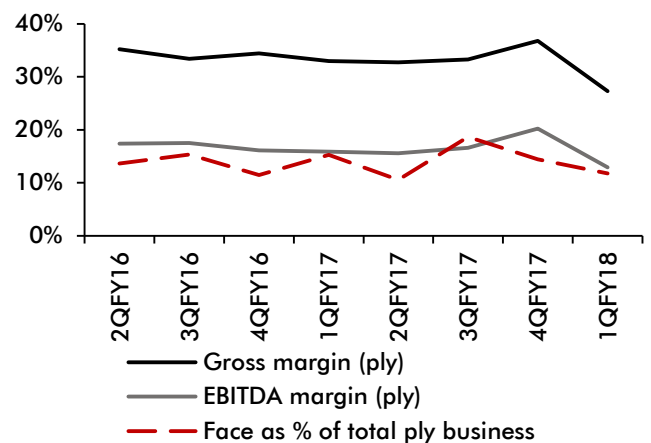
Source: Bloomberg, Ambit Capital research; Note: FY18 margins may not be fully comparable on account of high margins from MDF plant

Exhibit 2: Face veneer has supported some gross margin expansion



Source: Company, Ambit Capital research

Exhibit 3: Could it be sharp decline in face veneer sales in 1QFY18 have contributed to some GM decline?



Source: Company, Ambit Capital research

BUY

Result Update

Stock Information

Bloomberg Code:	CBPI IN
CMP (Rs):	280
TP (Rs):	268
Mcap (Rs bn/US\$ mn):	62/971
3M ADV (Rs mn/US\$ mn):	73.8/1.1

Stock Performance (%)

	1M	3M	12M	YTD
Absolute	(4.7)	9.0	22.0	66.4
Rel. to Sensex	(10)	0.2	5.6	44.0

Source: Bloomberg, Ambit Capital research

Ambit Estimates (Rs bn)

	FY17	FY18E	FY19E
Revenues	18.2	23.1	28.5
EBITDA	3.1	3.9	5.2
EPS (Rs)	8.7	9.4	13.5

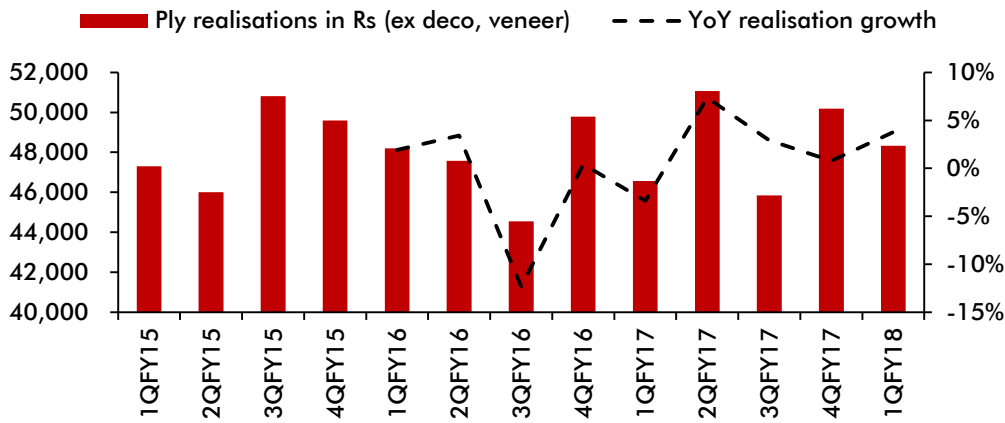
Source: Bloomberg, Ambit Capital research

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Exhibit 4: Plyboard realisations have held strong



Source: Company, Ambit Capital research

Five questions for the management for the earnings call on Thursday:

- When do you expect the MDF plant to finally start commercial production? What sort of capacity ramp-up do you expect over the next one year? Have you started setting up your distribution network for the product?
- How much has the core price moved over the quarter? What is the reason for the same and could this be structural? Can the company shift to global sourcing? Can this rise in core prices impact raw material cost for the upcoming MDF plant?
- In the last earnings call you mentioned plans to start trading plyboard – could you please provide an update on your outsourcing model?
- What is your face veneer sourcing strategy for the next one year? How should one understand the marginal decline in sales of commercial face veneer? Is this because of decline in overall production of plywood for the quarter?
- Have you noticed any GST-led shut down of plyboard capacities? Can these be acquired by any organised players?

Exhibit 5: Quarterly Summary

Particulars (Rs mn unless mentioned)	1QFY18	4QFY17	1QFY17	YoY (%)	QoQ (%)	Ambit Est	Dev (%)
Net Sales	4,386	4,885	4,079	7.5	(10.2)	4,301	2.0
Operating costs	3,775	4,026	3,396	11.2	(6.2)	3,591	5.1
EBITDA	611	859	683	(10.5)	(28.9)	710	(13.9)
EBITDA margin	13.9	17.6	16.7	-281 bps	-367 bps	16.5	-258 bps
EBITDA (ex-forex)	611	838	683	(10.5)	(27.1)	710	(13.9)
EBITDA margin (ex-forex) (%)	13.9	17.1	16.7	-281 bps	-323 bps	16.5	-258 bps
Other income	5	141	8	(32.1)	(96.1)	10	(45.5)
Depreciation	132	156	93	42.5	(15.2)	120	9.9
EBIT	484	845	598	(19.0)	(42.7)	600	(19.2)
Interest cost	63	47	89	(29.0)	33.6	50	25.9
PBT	421	798	510	(17.3)	(47.2)	550	(23.3)
Tax	80	239	80	0.6	(66.5)	90	
PAT	341	559	430	(20.6)	(39.0)	460	(25.8)
PAT (adjusted for forex gains/losses)	341	544	430	(20.6)	(37.3)	460	(25.8)
EPS (adjusted) (Rs)	1.5	2.4	1.9	(20.6)	(37.3)	2	(25.8)

Source: Company, Ambit Capital research

Exhibit 6: Volume metrics

Segment	1QFY17	4QFY17	1QFY18	YoY%	QoQ%
Plyboards segment					
Volume (in CBM)					
Plywood	46,533	52,284	52,011	12%	-1%
Deco	2,079	2,436	2,010	-3%	-17%
Commercial Veneer (Face)	13,123	10,628	8,969	-32%	-16%
Sales (Rs mn)					
Plywood	2,167	2,624	2,513	16%	-4%
Deco	262	361	286	9%	-21%
Commercial Veneer (Face)	437	503	373	-15%	-26%
Realisation (Rs)					
Plywood	46,563	50,184	48,322	4%	-4%
Deco	125,974	148,358	142,090	13%	-4%
Commercial Veneer (Face)	33,293	47,337	41,565	25%	-12%
Laminates segment					
Volumes					
Domestic (Nos.)	807,149	958,560	718,918	-11%	-25%
Exports (Nos.)	245,511	400,782	315,828	29%	-21%
Pre-lam (Sqrm)	217,578	257,412	242,649	12%	-6%
Exteria (Nos.)	1,994	3,361	2,258	13%	-33%
Sales (Rs mn)					
Domestic	538	647	500	-7%	-23%
Exports	166	227	186	12%	-18%
Pre-lam	76	90	85	12%	-5%
Exteria	14	20	14	-2%	-31%
Realisation (Rs)					
Domestic	667	675	695	4%	3%
Exports	677	566	588	-13%	4%
Pre-lam	349	350	352	1%	0%
Exteria	7,172	6,010	6,200	-14%	3%

Source: Company, Ambit Capital research

Exhibit 7: Segment results

Particulars	1QFY18	4QFY17	1QFY17	YoY (%)	QoQ (%)
Segmental Sales (Rs mn)					
Plyboard	3,173	3,485	2,869	11	(8.9)
Laminates	807	995	797	1	(18.9)
Particle board	73	79	-	-	(7.3)
CFS	238	234	233	2	1.8
Others	88	87	143	(39)	0.9
Segmental EBITDA (Rs mn)					
Plyboard	408	703	455	(10)	(41.9)
Laminates	107	124	132	(19)	(13.3)
Particle board	(2)	23	-	-	(106.9)
CFS	92	88	103	(12)	4.0
Others	(4)	(21)	(3)	34	(81.4)
Segmental EBITDA Margin (%)					
Plyboard	12.9	20.2	15.9	-299 bps	-731 bps
Laminates	13.3	12.4	16.6	-328 bps	86 bps
Particle board	(2.2)	29.2	-	-	-3135 bps
CFS	38.4	37.6	44.3	-594 bps	79 bps
Others	(4.4)	(24.1)	(2.0)	-241 bps	1967 bps

Source: Company, Ambit Capital research

Balance sheet (need to be revised)

Rs mn unless mentioned	FY16	FY17	FY18E	FY19E
Share capital	223	223	223	223
Reserves and surplus	5,066	6,927	8,756	11,373
Total Networth	5,288	7,149	8,979	11,595
Loans	4,194	5,664	6,064	5,764
Deferred tax liability (net)	(653)	(675)	(675)	(675)
Sources of funds	8,920	12,258	14,497	16,823
Net block	2,500	3,057	6,731	6,630
Investments	233	830	31	31
Cash and bank balances	389	672	1,575	3,901
Sundry debtors	2,842	3,422	3,219	3,746
Inventories	2,975	3,006	3,724	3,902
Loans and advances	1,132	1,182	1,893	2,185
Total Current Assets	7,337	8,283	10,654	13,976
Current liabilities and provisions	2,172	2,902	2,880	3,775
Net current assets	5,165	5,380	7,774	10,201
Application of funds	8,920	12,258	14,497	16,823

Source: Company, Ambit Capital research

Income statement

Rs mn unless mentioned	FY16	FY17	FY18E	FY19E
Revenue	16,409	18,187	23,097	28,543
Plyboards	11,664	12,609	13,800	15,897
Laminates	3,363	3,636	4,119	5,141
MDF	-	-	2,187	4,296
Total expenses	13,515	15,068	19,148	23,360
EBITDA	2,717	3,100	3,949	5,183
Depreciation	475	593	805	862
EBIT	2,302	2,733	3,271	4,554
Other income	60	226	126	232
Adj PBT	2,001	2,450	2,735	4,012
Provision for taxation	304	515	629	1,003
Adjusted PAT	1,672	1,926	2,097	3,000
EPS basic (Rs)	7.5	8.7	9.4	13.5

Source: Company, Ambit Capital research

Cash Flow

Rs mn unless mentioned	FY16	FY17	FY18E	FY19E
PBT	1,981	2,450	2,735	4,012
Depreciation	484	593	805	862
Interest paid	481	283	535	541
CFO before change in WC	3,037	3,100	3,949	5,183
Change in working capital	359	98	(1,490)	(101)
Direct taxes paid	(468)	(537)	(629)	(1,003)
CFO	2,928	2,662	1,830	4,079
Net capex	1,533	3,119	1,488	761
CFI	(1,389)	(3,490)	(564)	(529)
Proceeds from borrowings	(461)	1,470	400	(300)
Change in share capital	20	(36)	-	-
Interest & finance charges paid	(272)	(283)	(535)	(541)
Dividends paid	(601)	-	(268)	(383)
CFF	(1,525)	1,151	(403)	(1,224)
Net increase in cash	14	323	864	2,327
FCF	1,395	(457)	341	3,318

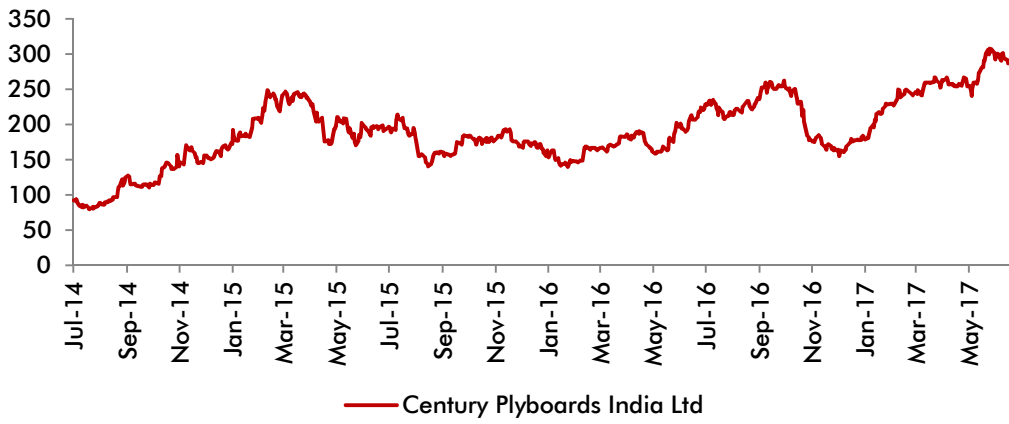
Source: Company, Ambit Capital research

Ratios

Particulars	FY16	FY17	FY18E	FY19E
Revenue growth (%)	3.3	10.8	27.0	23.6
EBITDA growth (%)	6.2	14.1	27.4	31.2
PAT growth (%)	12.0	15.2	8.9	42.9
EPS norm (dil) growth (%)	12.1	15.2	8.9	43.0
EBITDA margin (%)	16.6	17.0	17.1	18.2
EBIT margin (%)	14.0	15.0	14.2	16.0
Net margin (%)	10.2	10.6	9.1	10.5
RoCE (%)	22.1	19.4	17.9	20.9
RoIC (%)	25.3	22.9	25.2	29.4
RoE (%)	35.7	32.0	25.6	28.8
Working capital turnover (x)	2.9	3.3	3.5	3.2
Debt/Equity (x)	0.8	0.8	0.7	0.5
Net debt/Equity (x)	0.7	0.6	0.5	0.2
Valuation metrics				
P/E (x)	37.2	32.3	25.5	17.9
P/B (x)	11.5	8.6	5.9	4.6
EV/Sales (x)	4.0	3.7	2.5	1.9
EV/EBITDA (x)	22.9	21.7	14.7	10.7

Source: Company, Ambit Capital research

Century Plyboards India Ltd (CPBI IN, BUY)



Source: Bloomberg, Ambit Capital research

Explanation of Investment Rating

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BUY	>10%
SELL	≤10%
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