

# Century Plyboards

Refer to important disclosures at the end of this report

## Capacity expansion to drive growth; Retain Buy

<b>CMP</b> Rs 275 as of (August 3, 2017)	<b>Target Price</b> Rs 300 (■) 12 months
<b>Rating</b> BUY (■)	<b>Upside</b> 9.2 %

- Top-line grew by 8.1% yoy to Rs4.36bn, in line with our estimates led by healthy revenue performance in plywood (+10% yoy)
- Plywood & Laminated reported subdued operating performance impacted by increase in input cost and higher exports in laminate segment. Gross margin and EBITDA margin declined by 290bps marred by higher inputs and unfavorable mix.
- Management expects growth momentum in both plywood and laminates segments in ensuing quarters supported by demand shift in favour of the organized sector. Further, commissioning of MDF plant in July 2017 will provide a fillip to growth
- CPBI has aggressive expansion with commissioning of MDF plant, addition of 2 lines in Laminates and setting up a door unit in collaboration with a Chinese company. We reduce our earnings by 15%/4% for FY18/19E on account of lower margins and delay in ramping MDF. However, earnings CAGR remains healthy at 25%, retain BUY with TP of Rs 300

### Revenue in-line however margins disappointing

Century Plyboards (CPBI) reported Q1FY18 revenue growth of 8.1% yoy to Rs 4.4bn in-line with our estimates. Revenue growth healthy despite challenging market conditions with growth seen even in the month of June and July on back of market activation. Company expects GST would result in increased compliance which would impact unorganised players. Revenues were supported by growth in the plywood segment up 10.7%. EBITDA declined by 10.6% yoy to Rs 611mn and EBITDA margins contracted by 290bps yoy to 13.9%, partially aided by discount provision write back. Plywood EBIT margins corrected by 280bps yoy to 11.2%, while Laminates EBIT margins corrected by 290bps yoy. APAT stood at Rs 341.2mn, down 21% yoy. Management expects growth momentum in both plywood and laminates segments to continue supported by demand shift in favour of the organized sector. Further, commissioning of MDF plant in July 2017 will provide a fillip to both revenues and earnings in FY18E. Company is also planning a price increase in plywood segment in Q3FY18 to pass on the increase of raw material cost (veneer) and glue.

### Capacity expansion to drive growth; Retain Buy

CPBI has an aggressive expansion with commissioning of MDF plant, addition of 2 lines in Laminates and setting up a door unit in collaboration with a Chinese company. Management believes despite a 28% GST rate for plywood, implementation of GST will impact the unorganized players and company will benefit from 18% GST in laminates. We factor in marginal delay in commencement of MDF plant and reduced our earnings by 15%/4% for FY18/19E. Our earnings CAGR for FY17-19E remains healthy at 25%, we continue to maintain BUY with a target price of Rs 300/share.

#### Financial Snapshot (Standalone)

(Rs mn)	FY15	FY16	FY17	FY18E	FY19E
Revenue	15,648	16,357	17,825	21,807	26,617
EBITDA	2,498	2,835	2,904	3,635	5,184
EBITDA Margin (%)	16.0	17.3	16.3	16.7	19.5
APAT	1,508	1,701	1,839	1,992	2,901
EPS (Rs)	6.8	7.7	8.3	9.0	13.1
EPS (% chg)	125.3	12.8	8.1	8.3	45.6
ROE (%)	44.4	37.3	29.8	26.5	31.8
P/E (x)	40.5	35.9	33.2	30.6	21.0
EV/EBITDA (x)	26.2	22.9	22.7	18.6	12.7
P/BV (x)	15.7	11.6	8.6	7.7	5.9

Source: Company, Emkay Research

#### Change in Estimates

EPS Chg FY18E/FY19E (%)	(14.3)/(3.7)
Target Price change (%)	NA
Target Period (Months)	12
Previous Reco	BUY

#### Emkay vs Consensus

EPS Estimates		
	FY18E	FY19E
Emkay	9.0	13.1
Consensus	9.5	12.3
Mean Consensus TP (12M)	Rs 307	

#### Stock Details

Bloomberg Code	CPBI IN
Face Value (Rs)	1
Shares outstanding (mn)	222
52 Week H/L	314 / 154
M Cap (Rs bn/USD bn)	61 / 0.96
Daily Avg Volume (nos.)	2,87,433
Daily Avg Turnover (US\$ mn)	1.3

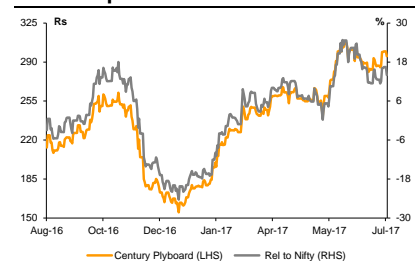
#### Shareholding Pattern Jun '17

Promoters	72.0%
FIIIs	13.2%
DIIIs	3.6%
Public and Others	11.2%

#### Price Performance

(%)	1M	3M	6M	12M
<b>Absolute</b>	(6)	7	27	25
<b>Rel. to Nifty</b>	(9)	-	12	7

#### Relative price chart



Source: Bloomberg

This report is solely produced by Emkay Global. The following person(s) are responsible for the production of the recommendation:

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## Exhibit 1: Actual V/s estimate

(in Rs mn)	Actual	Estimate (Emkay)	Consensus estimate	% variation		Comment
				Emkay	Consensus	
Sales	4,386	4,422	4,559	-1%	-4%	Revenue in-line with estimate
EBITDA	611	738	769	-17%	-21%	
EBITDA, margin	13.9%	16.7%	16.9%	2.8%	2.9%	EBITDA margin impacted by higher input cost of veneer and glue.
PAT	341	417	453	-18%	-25%	Higher other income boosted earnings

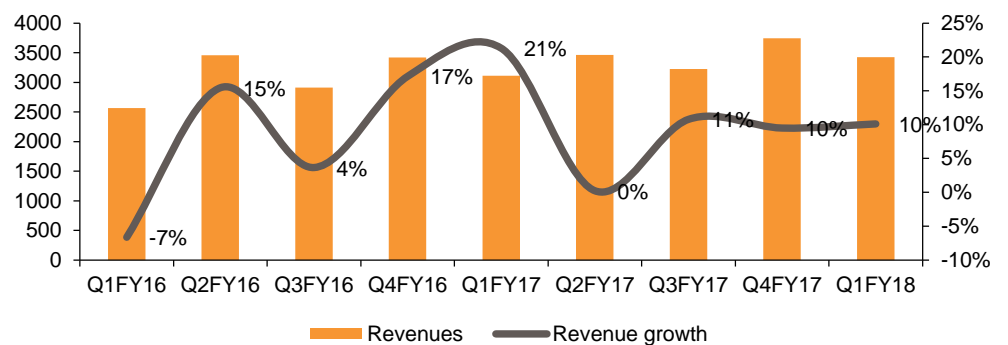
Source: Company, Emkay Research

### Strong revenue growth despite GST implementation.

In Q1FY18, plywood segment revenues increased by 10.7% yoy to Rs 3.4bn on the back strong volume growth in the basic plywood at 12%. Deco ply declined by 3.3% in volumes and realization increased by 12.8%. Commercial veneer witnessed a 24.8% increase in realizations. Growth in plywood segment was backed by market activation as company adopted a Go to Market strategy. Margin impacted due to higher veneer prices as there has been some supply constraints. This resulted in a sharp increase in realizations of commercial veneer largely due to the ban on felling timber in Myanmar. The ban has been lifted and supply from Myanmar are expected to resume by H2FY18. Company expects strong traction in the plywood segment driven by shift from unorganized to organized and is looking to expand capacity. . In lieu of this rising demand for branded plywood.

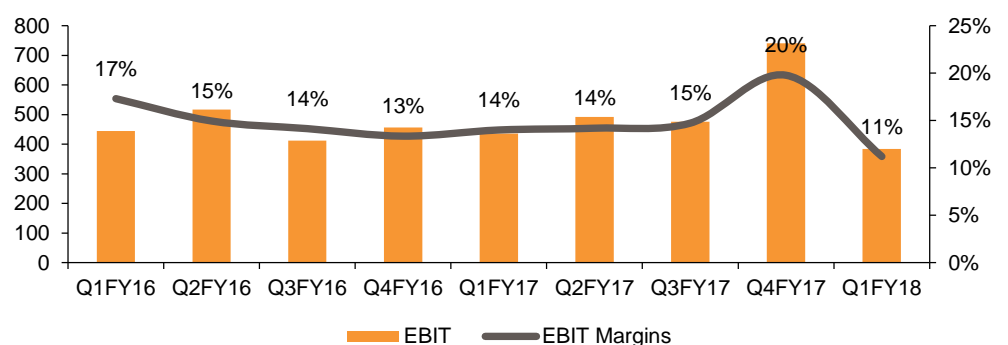
EBITDA margins in plywood segment decreased by 280bps yoy to 12.9% during Q1FY18 impacted by increase in price of inputs like veneer and glue. Management expects prices for its products to increase in ensuing quarters once GST related trade disruption settles.

### Exhibit 2: Plywood segment's revenue growth stable at 10% for Q1FY18



Source: Company, Emkay Research

### Exhibit 3: Multi-quarter high EBIT margins for Plywood segment



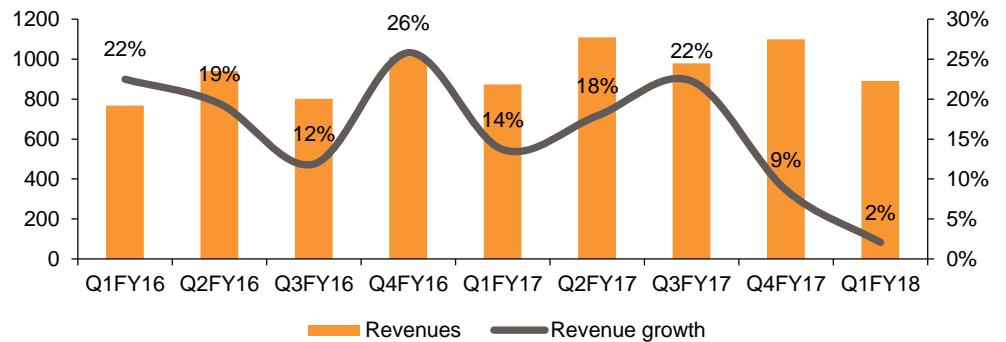
Source: Company, Emkay Research

### Capacity constraints impacts laminates growth

In Q1FY18, the laminates segment reported an increase of 2% yoy to Rs 891mn led by 3% growth in realizations which was offset by 1% decline by volume. Volume growth in the export market outpaced domestic growing at 28.6% yoy (versus 10.9% yoy decline in exports). The operating performance was impacted due to higher share of export. Further, realization in the export market (down 13.2% yoy) was impacted by increased competition. To keep pace with increasing demand and capacity constraints faced by the company, CPBI is expanding its capacity in laminates by 50% and is expected to be commissioned by October'17.

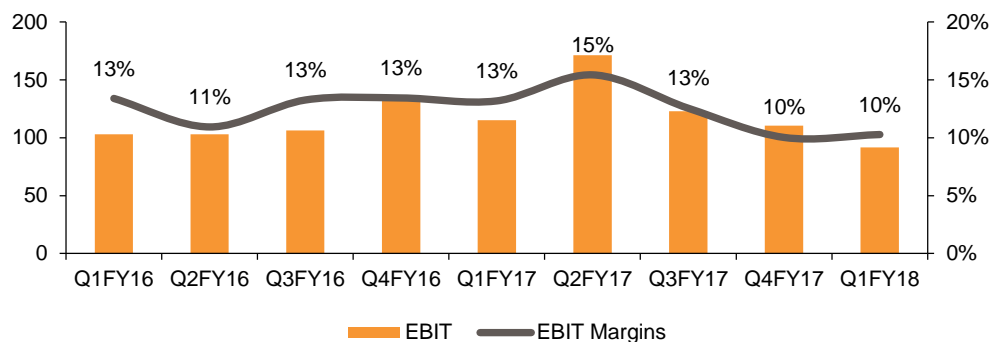
EBITDA margins in the laminates segment declined by 360bps yoy to 13.3% due to rising input costs and lower contribution from high margin domestic business.

**Exhibit 4: Laminates segment's revenue growth subdued at 9% yoy for Q4FY17**



Source: Company, Emkay Research

**Exhibit 5: Laminates segment EBIT margins impacted by higher input costs**



Source: Company, Emkay Research

### MDF plant commissioned in July'17 expected to ram-up by end of Q2FY18

CPBI's MDF plant has started trail production on 29th July and the plant is expected to ramp-up by end of Q2FY18. The global trend shift towards MDF, low share of MDF in India and the potential growth trajectory in the country continues to enthuse the company. The company expects the MDF division to report revenues of Rs 1.7bn in FY18E which is lower than the earlier estimate mainly due to delay in ramp-up.

**Exhibit 6: Changes in earnings estimates**

(Rsmn)	FY18E			FY19E		
	Old	New	% change	Old	New	% change
Revenues	22,533	21,807	-3%	26,732	26,617	0%
EBITDA	4,175	3,635	-13%	5,335	5,184	-3%
EBITDA margins, %	18.5%	16.7%	-1.9%	20.0%	19.5%	0.5%
Net profits	2,345	1,992	-15%	3,024	2,900	-4%
EPS	10.5	9.0	-15%	13.6	13.0	-4%

Source: Company, Emkay Research

**Exhibit 7: Quarterly Performance**

Rs mn	Q1FY17	Q4FY17	Q1FY18	YoY (%)	QoQ (%)
<b>Revenue</b>	<b>4,058</b>	<b>4,885</b>	<b>4,386</b>	<b>8.1</b>	<b>(10.2)</b>
<b>Expenditure</b>	<b>3374</b>	<b>4048</b>	<b>3775</b>	<b>11.9</b>	<b>(6.7)</b>
as % of sales	83%	83%	86%		
Consumption of RM	2,045	2,531	2,339	14.4	(7.6)
as % of sales	50%	52%	53%		
Employee Cost	638	667	689	8.0	3.2
as % of sales	16%	14%	16%		
Other expenditure	691	850	747	8.2	(12.0)
as % of sales	17%	17%	17%		
<b>EBITDA</b>	<b>683</b>	<b>838</b>	<b>611</b>	<b>(10.6)</b>	<b>(27.1)</b>
Depreciation	93	156	132	42.5	(15.2)
<b>EBIT</b>	<b>591</b>	<b>682</b>	<b>479</b>	<b>(19.0)</b>	<b>(29.8)</b>
Other Income	8	141	5	(32.1)	(96.1)
Interest	89	26	63	(29.0)	146.3
Forex (gain) / loss	-22	0	0		
<b>PBT</b>	<b>532</b>	<b>798</b>	<b>421</b>	<b>(20.9)</b>	<b>(47.2)</b>
Total Tax	80	239	80	0.6	(66.5)
<b>PAT</b>	<b>453</b>	<b>559</b>	<b>341</b>	<b>(24.6)</b>	<b>(39.0)</b>
Extra ordinary items	0	0	0		
<b>Reported PAT</b>	<b>453</b>	<b>559</b>	<b>341</b>	<b>(24.6)</b>	<b>(39.0)</b>
<b>AEPS</b>	<b>1.9</b>	<b>2.5</b>	<b>1.5</b>	<b>(20.8)</b>	<b>(39.0)</b>
<b>Margins (%)</b>					<b>(bps)</b>
Gross Margins	49.6	48.2	46.7	(292)	(153)
EBIDTA	16.8	17.1	13.9	(292)	(323)
EBIT	14.6	14.0	10.9	(365)	(305)
EBT	13.1	16.3	9.6	(351)	(673)
PAT	11.2	11.4	7.8	(338)	(367)
Effective Tax rate	15.0	30.0	19.0	405	(1,093)

Source: Company, Emkay Research

**Exhibit 8: Quarterly Segmental Performance**

(Y/E Mar, Rs mn)	Q1FY17	Q4FY17	Q1FY18	YoY (%)	QoQ (%)
<b>Net Sales</b>					
Plywood	3112.6	3743.0	3427.4	10.1	(8.4)
laminates	873.5	1099.4	891.4	2.0	(18.9)
MDF	13.9	5.9	6.1	(56.2)	3.4
Particle board	0.0	117.3	111.1	-	(5.3)
Logistics	234.3	234.7	238.9	2.0	1.8
Others	147.7	91.5	94.5	(36.1)	3.3
<b>EBIT</b>					
Plywood	436.1	740.3	384.5	(11.8)	(48.1)
laminates	115.2	110.3	91.7	(20.4)	(16.9)
MDF	2.4	-6.4	-1.8	(175.4)	(71.4)
Particle board	0.0	-33.2	-37.3		12.4
Logistics	78.6	59.9	67.1	(14.6)	12.1
Others	-3.7	-21.3	-3.9	7.9	(81.5)
<b>EBIT Margins</b>					
Plywood	14.0	19.8	11.2	(279)	(856)
laminates	13.2	10.0	10.3	(290)	25
Logistics	33.6	25.5	28.1	(546)	258
Others	-2.5	-23.3	-4.2	(170)	1,912

Source: Company, Emkay Research

**Key Financials (Standalone)****Income Statement**

Y/E Mar (Rs mn)	FY15	FY16	FY17	FY18E	FY19E
<b>Revenue</b>	<b>15,648</b>	<b>16,357</b>	<b>17,825</b>	<b>21,807</b>	<b>26,617</b>
<b>Expenditure</b>	<b>13,150</b>	<b>13,522</b>	<b>14,920</b>	<b>18,172</b>	<b>21,433</b>
<b>EBITDA</b>	<b>2,498</b>	<b>2,835</b>	<b>2,904</b>	<b>3,635</b>	<b>5,184</b>
Depreciation	448	437	524	712	1,010
<b>EBIT</b>	<b>2,050</b>	<b>2,398</b>	<b>2,380</b>	<b>2,923</b>	<b>4,174</b>
Other Income	181	65	227	14	12
Interest expenses	433	465	286	503	636
<b>PBT</b>	<b>1,798</b>	<b>1,998</b>	<b>2,321</b>	<b>2,434</b>	<b>3,550</b>
Tax	290	297	481	443	649
Extraordinary Items	0	0	0	0	0
Minority Int./Income from Assoc.	0	0	0	0	0
<b>Reported Net Income</b>	<b>1,508</b>	<b>1,701</b>	<b>1,839</b>	<b>1,992</b>	<b>2,901</b>
<b>Adjusted PAT</b>	<b>1,508</b>	<b>1,701</b>	<b>1,839</b>	<b>1,992</b>	<b>2,901</b>

**Balance Sheet**

Y/E Mar (Rs mn)	FY15	FY16	FY17	FY18E	FY19E
Equity share capital	223	223	223	223	223
Reserves & surplus	3,653	5,028	6,864	7,742	10,056
<b>Net worth</b>	<b>3,876</b>	<b>5,251</b>	<b>7,086</b>	<b>7,965</b>	<b>10,279</b>
<b>Minority Interest</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>Loan Funds</b>	<b>4,587</b>	<b>4,049</b>	<b>5,571</b>	<b>6,964</b>	<b>6,004</b>
Net deferred tax liability	(70)	(655)	(689)	(689)	(689)
<b>Total Liabilities</b>	<b>8,392</b>	<b>8,644</b>	<b>11,968</b>	<b>14,240</b>	<b>15,594</b>
<b>Net block</b>	<b>2,089</b>	<b>1,975</b>	<b>2,497</b>	<b>6,171</b>	<b>5,761</b>
<b>Investment</b>	<b>451</b>	<b>497</b>	<b>960</b>	<b>960</b>	<b>960</b>
<b>Current Assets</b>	<b>7,662</b>	<b>7,363</b>	<b>8,562</b>	<b>9,987</b>	<b>12,555</b>
Cash & bank balance	170	190	538	324	1,303
Other Current Assets	113	1,431	1,886	2,075	2,282
<b>Current liabilities &amp; Provision</b>	<b>2,037</b>	<b>2,120</b>	<b>2,890</b>	<b>3,077</b>	<b>3,882</b>
<b>Net current assets</b>	<b>5,625</b>	<b>5,243</b>	<b>5,672</b>	<b>6,909</b>	<b>8,673</b>
Misc. exp	0	0	0	0	0
<b>Total Assets</b>	<b>8,392</b>	<b>8,644</b>	<b>11,968</b>	<b>14,240</b>	<b>15,594</b>

**Cash Flow**

Y/E Mar (Rs mn)	FY15	FY16	FY17	FY18E	FY19E
<b>PBT (Ex-Other income) (NI+Dep)</b>	<b>1,617</b>	<b>1,933</b>	<b>2,094</b>	<b>2,420</b>	<b>3,538</b>
Other Non-Cash items	0	0	0	0	0
Chg in working cap	(1,000)	(183)	(114)	(1,452)	(785)
<b>Operating Cashflow</b>	<b>1,040</b>	<b>3,698</b>	<b>2,490</b>	<b>1,805</b>	<b>3,761</b>
Capital expenditure	(457)	(1,026)	(2,955)	(1,746)	(600)
<b>Free Cash Flow</b>	<b>584</b>	<b>2,672</b>	<b>(465)</b>	<b>59</b>	<b>3,161</b>
Investments	(72)	(46)	(463)	0	0
Other Investing Cash Flow	0	(104)	(2,320)	2,145	(12)
<b>Investing Cashflow</b>	<b>(348)</b>	<b>(1,111)</b>	<b>(5,512)</b>	<b>413</b>	<b>(600)</b>
Equity Capital Raised	0	0	0	0	0
Loans Taken / (Repaid)	109	(538)	1,522	1,393	(961)
Dividend paid (incl tax)	(379)	(45)	(586)	(586)	(586)
Other Financing Cash Flow	0	(1,520)	2,721	(2,738)	0
<b>Financing Cashflow</b>	<b>(702)</b>	<b>(2,568)</b>	<b>3,370</b>	<b>(2,433)</b>	<b>(2,183)</b>
<b>Net chg in cash</b>	<b>(10)</b>	<b>20</b>	<b>348</b>	<b>(215)</b>	<b>979</b>
Opening cash position	180	170	190	538	324
<b>Closing cash position</b>	<b>170</b>	<b>190</b>	<b>538</b>	<b>324</b>	<b>1,303</b>

Source: Company, Emkay Research

**Key Ratios**

<b>Profitability (%)</b>	<b>FY15</b>	<b>FY16</b>	<b>FY17</b>	<b>FY18E</b>	<b>FY19E</b>
EBITDA Margin	16.0	17.3	16.3	16.7	19.5
EBIT Margin	13.1	14.7	13.4	13.4	15.7
Effective Tax Rate	16.1	14.9	20.7	18.2	18.3
Net Margin	9.6	10.4	10.3	9.1	10.9
ROCE	28.3	28.9	25.3	22.4	28.1
ROE	44.4	37.3	29.8	26.5	31.8
RoIC	28.9	32.9	32.5	28.7	32.2

<b>Per Share Data (Rs)</b>	<b>FY15</b>	<b>FY16</b>	<b>FY17</b>	<b>FY18E</b>	<b>FY19E</b>
EPS	6.8	7.7	8.3	9.0	13.1
CEPS	8.8	9.6	10.6	12.2	17.6
BVPS	17.4	23.6	31.9	35.8	46.3
DPS	1.0	2.0	1.0	2.3	2.3

<b>Valuations (x)</b>	<b>FY15</b>	<b>FY16</b>	<b>FY17</b>	<b>FY18E</b>	<b>FY19E</b>
PER	40.5	35.9	33.2	30.6	21.0
P/CEPS	31.2	28.5	25.8	22.6	15.6
P/BV	15.7	11.6	8.6	7.7	5.9
EV / Sales	4.2	4.0	3.7	3.1	2.5
EV / EBITDA	26.2	22.9	22.7	18.6	12.7
Dividend Yield (%)	0.4	0.7	0.4	0.8	0.8

<b>Gearing Ratio (x)</b>	<b>FY15</b>	<b>FY16</b>	<b>FY17</b>	<b>FY18E</b>	<b>FY19E</b>
Net Debt/ Equity	1.1	0.7	0.7	0.8	0.5
Net Debt/EBIDTA	1.8	1.4	1.7	1.8	0.9
Working Cap Cycle (days)	127.2	112.7	105.1	110.2	101.1

<b>Growth (%)</b>	<b>FY15</b>	<b>FY16</b>	<b>FY17</b>	<b>FY18E</b>	<b>FY19E</b>
Revenue	21.9	4.5	9.0	22.3	22.1
EBITDA	68.6	13.5	2.4	25.2	42.6
EBIT	78.3	17.0	(0.7)	22.8	42.8
PAT	125.3	12.8	8.1	8.3	45.6

<b>Quarterly (Rs mn)</b>	<b>Q1FY17</b>	<b>Q2FY17</b>	<b>Q3FY17</b>	<b>Q4FY17</b>	<b>Q1FY18</b>
Revenue	4,058	4,627	4,255	4,885	4,386
EBITDA	683	757	706	838	611
<b>EBITDA Margin (%)</b>	<b>16.8</b>	<b>16.4</b>	<b>16.6</b>	<b>17.1</b>	<b>13.9</b>
PAT	431	493	373	559	341
<b>EPS (Rs)</b>	<b>1.9</b>	<b>2.2</b>	<b>1.7</b>	<b>2.5</b>	<b>1.5</b>

Source: Company, Emkay Research

<b>Shareholding Pattern (%)</b>	<b>Jun-16</b>	<b>Sep-16</b>	<b>Dec-16</b>	<b>Mar-17</b>	<b>Jun-17</b>
Promoters	73.3	72.2	72.0	72.0	72.0
FIs	8.5	12.8	10.1	12.8	13.2
DIs	7.6	5.2	6.6	4.0	3.6
Public and Others	10.5	9.7	11.3	11.2	11.2

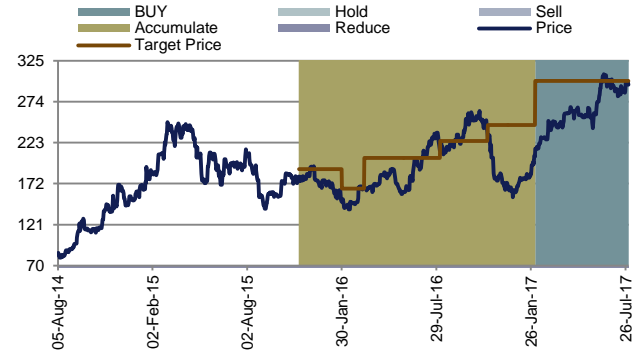
Source: Capitaline

**RECOMMENDATION HISTORY TABLE**

Date	Closing Price	TP	Period (months)	Rating	Analyst
24-May-17	241	300	12m	Buy	Amit Purohit
03-Feb-17	216	300	12m	Buy	Rohan Gupta
04-Nov-16	230	245	12m	Accumulate	Rohan Gupta
05-Aug-16	224	225	12m	Accumulate	Rohan Gupta
13-Mar-16	167	204	12m	Accumulate	Rohan Gupta
30-Jan-16	150	166	12m	Accumulate	Rohan Gupta
09-Nov-15	181	190	12m	Accumulate	Rohan Gupta

Source: Company, Emkay Research

**RECOMMENDATION HISTORY CHART**



Source: Bloomberg, Company, Emkay Research

## Emkay Rating Distribution

BUY	Expected total return (%) (Stock price appreciation and dividend yield) of over 25% within the next 12-18 months.
ACCUMULATE	Expected total return (%) (Stock price appreciation and dividend yield) of over 10% within the next 12-18 months.
HOLD	Expected total return (%) (Stock price appreciation and dividend yield) of upto 10% within the next 12-18 months.
REDUCE	Expected total return (%) (Stock price depreciation) of upto (-) 10% within the next 12-18 months.
SELL	The stock is believed to underperform the broad market indices or its related universe within the next 12-18 months.

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