

# Century Plyboards

## Revenues surprise positively; upgrade to BUY

- Top-line grew by 12% yoy to Rs4.3bn, above our and consensus estimates led by healthy revenue performance in both plywood (+11% yoy) and laminates (+22% yoy). CPBI benefited from demand shift in favor of organized segment induced by demonetization.
- Decline in margins by ~170bps yoy attributable to operating performance pressure in the laminates segment took a toll of EBITDA (Rs673mn; +1% yoy). PAT at Rs373mn is down 9% yoy, depressed by surge in depreciation and interest cost.
- Management expects strong growth momentum in both plywood and laminates segments to continue, while upcoming MDF segment is likely to further add to growth drawing benefits from GST implementation and shift from unorganized to organized segment.
- CPBI is sanguine of outperforming industry growth and attain sustainable market share gains. While we have maintained our FY17E EPS, we have cut our FY18E EPS by 5% factoring in conservatism in plywood segment growth. We upgrade our rating to BUY with a revised TP of Rs300 as we roll forward to FY19E (22x EPS – Rs13.6).

### Revenues above our and consensus estimates

CPBI reported revenue growth of 12% yoy to Rs4.3bn for Q3FY17, above our and consensus estimates, as the company benefited from the demonetisation influenced demand shift from unorganised to organised sector. Cash crunch due to demonetisation compelled many unorganised players to stall operations which resulted in scarcity of supply, thus benefiting organised players like CPBI. Revenues were supported by 12% yoy and 6% yoy increase in realisations of plywood and laminates segments respectively. Although EBITDA (Rs673mn) growth was quite muted (+1% yoy) but still above our estimate of Rs573mn. The growth was impacted by fall in operational margins by 170bps yoy to 15.8% attributable to the margin constriction in the laminates segment by 290bps qoq/70bps yoy to 12.5%. Further, PAT at Rs373mn declined by 9% yoy hurt by escalation in depreciation and interest costs due to the recently commissioned particle board plant. Management expects growth momentum in both plywood and laminates segments to continue supported by demand shift in favor of the organized sector. Further, commissioning of MDF plant in March 2017 will support earnings growth from FY18.

### Growth drivers in place; Upgrade to BUY

While we maintain FY17E EPS, we have cut our FY18E EPS by 5%, factoring in conservatism in plywood segment growth and slight decline in laminates segment margins. We believe that organized players like CPBI will be key beneficiaries of GST implementation as it will drive a demand shift in favour of the organized players. Gains on this account should be significant considering that 70% value market share and 80% volume market share in plywood sector is currently held by unorganized players. We upgrade our rating to BUY with a revised TP of Rs300 as we roll forward to FY19E (22x EPS – Rs13.6).

### Financial Snapshot (Standalone)

(Rs mn)	FY15	FY16	FY17E	FY18E	FY19E
Revenue	15,648	16,585	17,889	24,772	28,315
EBITDA	2,498	2,829	2,971	4,353	5,171
EBITDA Margin (%)	16.0	17.1	16.6	17.6	18.3
APAT	1,508	1,681	1,617	2,359	3,029
EPS (Rs)	6.8	7.6	7.3	10.6	13.6
EPS (% chg)	125.3	11.4	(3.8)	45.9	28.4
ROE (%)	44.4	36.7	27.7	32.5	32.3
P/E (x)	30.3	27.2	28.2	19.4	15.1
EV/EBITDA (x)	20.1	17.5	17.2	11.9	9.7
P/BV (x)	11.8	8.6	7.2	5.6	4.3

Source: Company, Emkay Research

<b>CMP</b> Rs206	<b>Target Price</b> Rs300 (▲)
<b>Rating</b> BUY (▲)	<b>Upside</b> 45.9 %

### Change in Estimates

EPS Chg FY17E/FY18E (%)	NA/(5)
Target Price change (%)	22.4
Previous Reco	ACCUMULATE

### Emkay vs Consensus

EPS Estimates		
	FY17E	FY18E
Emkay	7.3	10.6
Consensus	7.8	8.0
Mean Consensus TP	Rs 233	

### Stock Details

Bloomberg Code	CPBI IN
Face Value (Rs)	1
Shares outstanding (mn)	222
52 Week H/L	268 / 135
M Cap (Rs bn/USD bn)	46 / 0.68
Daily Avg Volume (nos.)	3,51,416
Daily Avg Turnover (US\$ mn)	1.0

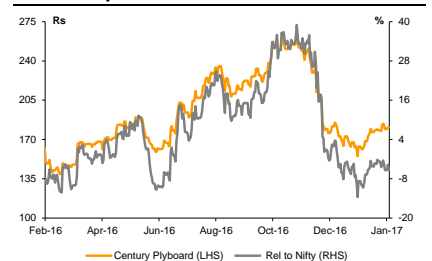
### Shareholding Pattern Dec '16

Promoters	72.0%
FII's	10.1%
DII's	6.6%
Public and Others	11.3%

### Price Performance

(%)	1M	3M	6M	12M
<b>Absolute</b>	19	(15)	(9)	40
<b>Rel. to Nifty</b>	13	(17)	(9)	21

### Relative price chart



Source: Bloomberg

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**Exhibit 1: Actual V/s estimate**

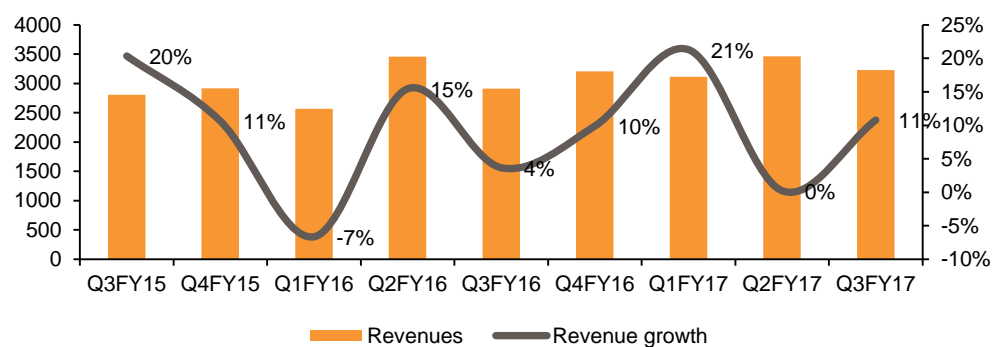
(in Rs mn)	Actual	Estimate (Emkay)	Consensus estimate	% variation		Comment
				Emkay	Consensus	
Sales	4,255	3,504	3,706	21%	15%	Above estimates led by increase in realisations of plywood and laminates segment and healthy volume growth in laminates business
EBITDA	673	573	653	17%	3%	Above estimates supported by healthy topline growth
EBITDA margin	15.8%	16.4%	17.6%	(50 bps)	(180 bps)	Lower than estimates due to weak margins in laminates segment
PAT	373	319	375	17%	-1%	Higher than estimate led by healthy topline growth

Source: Company, Emkay Research

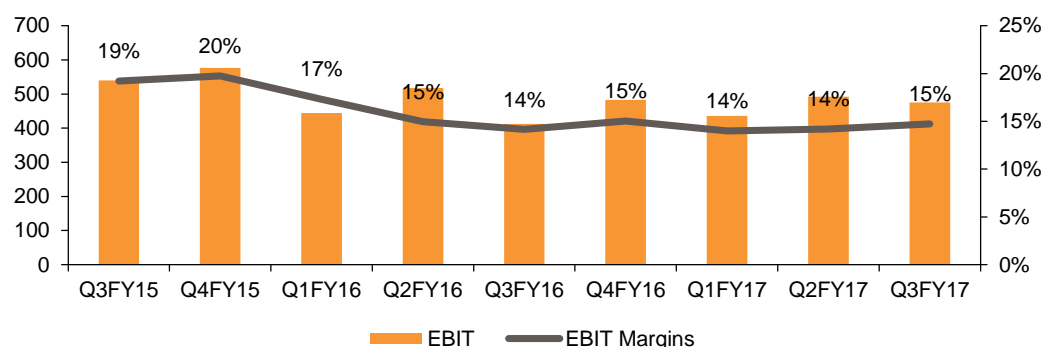
**Plywood segment benefits from demand shift in favor of organized sector**

In Q3FY17, plywood segment revenues increased by 11% yoy to Rs3.2bn on the back of a 7% increase in plywood volumes and sharp increase in realisations of commercial veneer. The increase in volumes was led by demand shift in favor of the organized segment as the unorganized segment saw shutdowns of many plants. CPBI expects this trend in demand shift to continue as January sales have also seen 5% yoy increase in volumes. Further, increase in prices by unorganized players will benefit CPBI. The Management has guided for a volume growth of 10% for FY18.

Margins in plywood segment increased by 60bps yoy to 14.7% during Q3FY17 benefitting from a change in product mix and decline in raw material expenses. Volumes for SAINIK brand declined by 4% yoy. Management expects prices for its products to largely remain stable given the GST rate expected to come at ~18%.

**Exhibit 2: Plywood segment's revenues (Rs mn) and Revenue growth (%)**

Source: Company, Emkay Research

**Exhibit 3: Plywood segment's EBIT (Rs mn) and EBIT margins (%)**

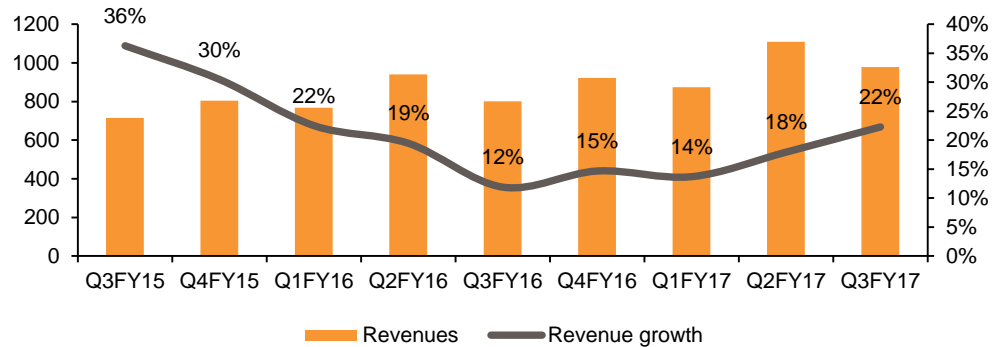
Source: Company, Emkay Research

**Laminates segment revenues increase sharply; margins disappoints**

In Q3FY17, revenues for laminates segment increased sharply by 22% yoy to Rs979mn mainly led by 13% increase in volumes and 6% increase in realisations. Volume increase was equally strong in the domestic as well as export markets. While, realisations in export markets have seen some pressure, the domestic market benefitted from change in product mix. CPBI focused on increasing its market share instead of focusing only on profitability. This has led to decline in margins by 70bps yoy to ~13%.

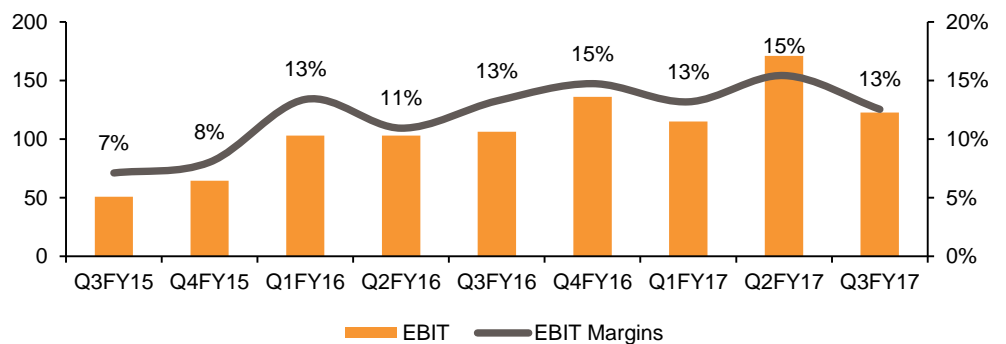
The Management expects the growth momentum to continue (higher double-digit growth on a low base). Further, current market share of 5-6% in this segment leaves immense scope for growth.

**Exhibit 4: Laminates segment's revenues (Rs mn) and Revenue growth (%)**



Source: Company, Emkay Research

**Exhibit 5: Laminates segment's EBIT (Rs mn) and EBIT margins (%)**



Source: Company, Emkay Research

### MDF segment to contribute to growth from FY18

CPBI's upcoming MDF project is on track and company expects commissioning by March 2017. Management continues to remain positive on prospects of this business on the back of GST implementation which will lead to shift in demand from cheaper grades of plywood to MDF. Further, CPBI plans to introduce various other product categories like pre-laminated MDF, Flooring, Furniture, Doors made from MDF will drive growth in this segment. Management expects MDF segment to generate revenues of Rs4bn in FY18 and Rs6bn with complete utilization and value addition.

### Demand shift in favor of organised sector now a reality; Upgrade to BUY

While we have maintained EPS for FY17E, we have cut our FY18E EPS estimates by 5% factoring in slight moderation in plywood segment growth and slight decline in margins for laminates segment. However, Management continues with to target its previous growth rates of 10% yoy increase in prices and 15% yoy increase in volumes. We believe that organised players like CPBI will be key beneficiaries of GST implementation as 70% value wise market share and 80% volume wise market share in plywood sector is held by unorganized players. We upgrade our rating to BUY with revised TP of Rs300 as we roll forward to FY19E (22x EPS – Rs13.6).

**Exhibit 6: Change in earnings estimate**

All fig in Rs mn (except % and EPS)	FY17E			FY18E			FY19E
	Old	New	% Chg.	Old	New	% Chg.	New
Revenues	18,105	17,889	-1%	25,209	24,772	-2%	28,315
EBITDA	3,061	2,971	-3%	4,492	4,353	-3%	5,171
EBITDA margins, %	16.9%	16.6%	(30 bps)	17.8%	17.6%	(20 bps)	18.3%
Net profits	1,687	1,681	0%	2,479	2,358	-5%	3,028
EPS	7.6	7.6	0%	11.1	10.6	-5%	13.6

Source: Company, Emkay Research

**Exhibit 7: Key assumptions**

Parameters	FY15	FY16	FY17E	FY18E	FY19E
Revenues of Plywood segment (Rs mn)	11,471	12,153	13,204	14,777	16,511
Growth (yoy)	19%	6%	9%	12%	12%
EBIT Margins of Plywood segment	16.3%	15.2%	14.4%	14.2%	14.2%
Revenues of Laminates segment (Rs mn)	2,935	3,436	4,069	4,802	5,762
Growth (yoy)	24%	17%	18%	18%	20%
EBIT Margins of Laminates segment	7.8%	13.0%	13.7%	13.8%	14.5%

Source: Company, Emkay Research

**Exhibit 8: Quarterly Financial Summary**

Rs mn	Q3 FY16	Q2 FY17	Q3 FY17	YoY (%)	QoQ (%)	YTD FY17	YTD FY16	YoY (%)
Revenue	3804	4627	4255	11.8	-8.0	12939	11886	8.9
Operating Expenditure	3139	3879	3582	14.1	-7.7	10857	9812	10.7
as % of sales	83%	84%	84%			84%	83%	
Consumption of RM	1838	2404	2200	19.7	-8.5	6650	6138	8.3
as % of sales	48%	52%	52%			51%	52%	
Employee expenses	587	624	637	8.5	2.1	1899	1657	14.6
as % of sales	15%	13%	15%			15%	14%	
Other expenses	714	850	744	4.2	-12.5	2307	2017	14.4
as % of sales	19%	18%	17%			18%	17%	
EBITDA	666	748	673	1.1	-10.0	2083	2075	0.4
Depreciation	114	126	149	31.6	18.4	368	318	16.0
EBIT	552	622	524	-5.2	-15.8	1714	1757	-2.4
Other Income	8	13	0	-96.4	-97.8	21	18	19.9
Interest	110	60	112	1.7	85.7	261	363	-28.1
PBT	450	575	412	-8.5	-28.3	1475	1412	4.5
Total Tax	69	91	72	4.3	-21.1	242	163	48.2
Adjusted PAT	381	484	340	-10.8	-29.7	1233	1249	-1.3
(Profit)/loss from JV's/Ass/MI	-	-	-	-	-	-	-	-
APAT after MI	-	-	-	-	-	-	-	-
Extra ordinary items	-30	-9	-33	8.5	268.1	-64	-34	90.5
Reported PAT	412	493	373	-9.4	-24.3	1297	1282	1.1
Reported EPS	1.8	2.2	1.7	-9.4	-24.3	6	6	1.1

Margins (%)					(bps)					(bps)
EBIDTA	17.5	16.2	15.8	-167.9	-35.1	16.1	17.5	-135.9		
EBIT	14.5	13.4	12.3	-220.7	-113.7	13.2	14.8	-153.3		
EBT	11.8	12.4	9.7	-214.8	-274.2	11.4	11.9	-48.1		
PAT	10.0	10.5	8.0	-202.6	-246.3	9.5	10.5	-97.8		
Effective Tax rate	15.3	15.8	17.4	212.7	159.1	16.4	11.6	484.8		

Source: Company, Emkay Research

**Exhibit 9: Segmental Financial Summary**

(Y/E Mar, Rs mn)	Q3 FY16	Q2 FY17	Q3 FY17	YoY (%)	QoQ (%)	YTD FY17	YTD FY16	YoY (%)
<b>Net Sales</b>								
Plywood	2,913	3,465	3,227	10.8	-6.9	9805	8936	9.7
laminates	801	1,110	979	22.3	-11.8	2962	2510	18.0
Logistics	235	211	201	-14.6	-4.8	646	610	5.9
Others	134	113	82	-39.0	-27.8	342	413	-17.1
<b>EBIT</b>								
Plywood	412	492	475	15.4	-3.4	1404	1373	2.2
laminates	106	171	123	15.7	-28.2	409	312	31.1
Logistics	84	56	41	-51.9	-28.0	175	195	-9.8
Others	-1	-24	-28	4841.0	17.2	-55	-6	779.8
<b>EBIT Margins</b>								
Plywood	14.2	14.2	14.7	58.4	53.6	14.3	15.4	-105.4
laminates	13.3	15.4	12.5	-71.7	-288.2	13.8	12.4	138.2
Logistics	35.9	26.7	20.2	-1568.9	-651.5	27.2	31.9	-472.9
Others	-0.4	-21.1	-34.3	-3387.7	-1316.8	-16.2	-1.5	-1468.7

Source: Company, Emkay Research

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

Y/E Mar (Rs mn)	FY15	FY16	FY17E	FY18E	FY19E
<b>Revenue</b>	<b>15,648</b>	<b>16,585</b>	<b>17,889</b>	<b>24,772</b>	<b>28,315</b>
<b>Expenditure</b>	<b>13,150</b>	<b>13,756</b>	<b>14,917</b>	<b>20,419</b>	<b>23,144</b>
<b>EBITDA</b>	<b>2,498</b>	<b>2,829</b>	<b>2,971</b>	<b>4,353</b>	<b>5,171</b>
Depreciation	448	446	595	845	910
<b>EBIT</b>	<b>2,050</b>	<b>2,382</b>	<b>2,376</b>	<b>3,508</b>	<b>4,261</b>
Other Income	181	63	30	40	48
Interest expenses	433	467	451	696	636
<b>PBT</b>	<b>1,798</b>	<b>1,978</b>	<b>1,956</b>	<b>2,852</b>	<b>3,673</b>
Tax	290	297	338	493	644
Extraordinary Items	0	0	64	0	0
Minority Int./Income from Assoc.	0	0	0	0	0
<b>Reported Net Income</b>	<b>1,508</b>	<b>1,681</b>	<b>1,681</b>	<b>2,359</b>	<b>3,029</b>
<b>Adjusted PAT</b>	<b>1,508</b>	<b>1,681</b>	<b>1,617</b>	<b>2,359</b>	<b>3,029</b>

**Balance Sheet**

Y/E Mar (Rs mn)	FY15	FY16	FY17E	FY18E	FY19E
Equity share capital	223	223	223	223	223
Reserves & surplus	3,653	5,066	6,161	7,934	10,376
<b>Net worth</b>	<b>3,876</b>	<b>5,289</b>	<b>6,384</b>	<b>8,157</b>	<b>10,599</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>4,098</b>	<b>6,641</b>	<b>6,534</b>	<b>5,574</b>
Net deferred tax liability	(70)	(136)	(136)	(136)	(136)
<b>Total Liabilities</b>	<b>8,392</b>	<b>9,251</b>	<b>12,889</b>	<b>14,555</b>	<b>16,037</b>
<b>Net block</b>	<b>2,089</b>	<b>2,041</b>	<b>4,945</b>	<b>5,498</b>	<b>4,988</b>
<b>Investment</b>	<b>451</b>	<b>497</b>	<b>497</b>	<b>497</b>	<b>497</b>
<b>Current Assets</b>	<b>7,662</b>	<b>7,852</b>	<b>9,890</b>	<b>11,908</b>	<b>14,366</b>
Cash & bank balance	170	190	1,205	203	1,131
Other Current Assets	113	244	244	244	244
<b>Current liabilities &amp; Provision</b>	<b>2,037</b>	<b>2,073</b>	<b>2,442</b>	<b>3,348</b>	<b>3,814</b>
<b>Net current assets</b>	<b>5,625</b>	<b>5,779</b>	<b>7,447</b>	<b>8,560</b>	<b>10,552</b>
Misc. exp	0	0	0	0	0
<b>Total Assets</b>	<b>8,392</b>	<b>9,251</b>	<b>12,889</b>	<b>14,555</b>	<b>16,037</b>

**Cash Flow**

Y/E Mar (Rs mn)	FY15	FY16	FY17E	FY18E	FY19E
<b>PBT (Ex-Other income) (NI+Dep)</b>	<b>1,617</b>	<b>1,915</b>	<b>1,925</b>	<b>2,812</b>	<b>3,625</b>
Other Non-Cash items	0	0	0	0	0
Chg in working cap	(1,000)	(199)	(653)	(2,116)	(1,063)
<b>Operating Cashflow</b>	<b>1,040</b>	<b>2,110</b>	<b>1,980</b>	<b>1,743</b>	<b>3,463</b>
Capital expenditure	(457)	(1,105)	(2,566)	(1,398)	(400)
<b>Free Cash Flow</b>	<b>584</b>	<b>1,005</b>	<b>(586)</b>	<b>346</b>	<b>3,063</b>
Investments	(72)	(46)	0	0	0
Other Investing Cash Flow	0	0	0	0	0
<b>Investing Cashflow</b>	<b>(348)</b>	<b>(1,088)</b>	<b>(2,535)</b>	<b>(1,358)</b>	<b>(352)</b>
Equity Capital Raised	0	0	0	0	0
Loans Taken / (Repaid)	109	(489)	2,543	(107)	(961)
Dividend paid (incl tax)	(379)	(45)	(586)	(586)	(586)
Other Financing Cash Flow	0	0	64	0	0
<b>Financing Cashflow</b>	<b>(702)</b>	<b>(1,002)</b>	<b>1,571</b>	<b>(1,388)</b>	<b>(2,183)</b>
<b>Net chg in cash</b>	<b>(10)</b>	<b>20</b>	<b>1,015</b>	<b>(1,003)</b>	<b>929</b>
Opening cash position	180	170	190	1,205	203
<b>Closing cash position</b>	<b>170</b>	<b>190</b>	<b>1,205</b>	<b>203</b>	<b>1,131</b>

**Key Ratios**

<b>Profitability (%)</b>	<b>FY15</b>	<b>FY16</b>	<b>FY17E</b>	<b>FY18E</b>	<b>FY19E</b>
EBITDA Margin	16.0	17.1	16.6	17.6	18.3
EBIT Margin	13.1	14.4	13.3	14.2	15.0
Effective Tax Rate	16.1	15.0	17.3	17.3	17.5
Net Margin	9.6	10.1	9.0	9.5	10.7
ROCE	28.3	27.7	21.7	25.9	28.2
ROE	44.4	36.7	27.7	32.5	32.3
RoIC	28.9	31.4	25.3	28.0	30.1

<b>Per Share Data (Rs)</b>	<b>FY15</b>	<b>FY16</b>	<b>FY17E</b>	<b>FY18E</b>	<b>FY19E</b>
EPS	6.8	7.6	7.3	10.6	13.6
CEPS	8.8	9.6	10.0	14.4	17.7
BVPS	17.4	23.8	28.7	36.7	47.7
DPS	1.0	2.0	1.0	2.3	2.3

<b>Valuations (x)</b>	<b>FY15</b>	<b>FY16</b>	<b>FY17E</b>	<b>FY18E</b>	<b>FY19E</b>
PER	30.3	27.2	28.2	19.4	15.1
P/CEPS	23.4	21.5	20.6	14.3	11.6
P/BV	11.8	8.6	7.2	5.6	4.3
EV / Sales	3.2	3.0	2.9	2.1	1.8
EV / EBITDA	20.1	17.5	17.2	11.9	9.7
Dividend Yield (%)	0.5	1.0	0.5	1.1	1.1

<b>Gearing Ratio (x)</b>	<b>FY15</b>	<b>FY16</b>	<b>FY17E</b>	<b>FY18E</b>	<b>FY19E</b>
Net Debt/ Equity	1.1	0.7	0.9	0.8	0.4
Net Debt/EBIDTA	1.8	1.4	1.8	1.5	0.9
Working Cap Cycle (days)	127.2	123.0	127.4	123.1	121.4

<b>Growth (%)</b>	<b>FY15</b>	<b>FY16</b>	<b>FY17E</b>	<b>FY18E</b>	<b>FY19E</b>
Revenue	21.9	6.0	7.2	38.6	14.4
EBITDA	68.6	13.2	5.0	46.5	18.8
EBIT	78.3	16.2	(0.3)	47.6	21.4
PAT	125.3	11.4	0.0	40.3	28.4

<b>Quarterly (Rs mn)</b>	<b>Q3FY16</b>	<b>Q4FY16</b>	<b>Q1FY17</b>	<b>Q2FY17</b>	<b>Q3FY17</b>
Revenue	3,906	4,547	4,058	4,627	4,255
EBITDA	696	773	683	757	706
<b>EBITDA Margin (%)</b>	<b>17.8</b>	<b>17.0</b>	<b>16.8</b>	<b>16.4</b>	<b>16.6</b>
PAT	416	405	431	493	373
<b>EPS (Rs)</b>	<b>1.9</b>	<b>1.8</b>	<b>1.9</b>	<b>2.2</b>	<b>1.7</b>

<b>Shareholding Pattern (%)</b>	<b>Dec-15</b>	<b>Mar-16</b>	<b>Jun-16</b>	<b>Sep-16</b>	<b>Dec-16</b>
Promoters	73.3	73.3	73.3	72.2	72.0
FII's	10.6	12.1	8.5	12.8	10.1
DII's	3.4	3.3	7.6	5.2	6.6
Public and Others	12.7	11.3	10.5	9.7	11.3

## 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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