

13 May 2016

Century Plyboards

Robust top line; subdued margins; capex to drive growth; Buy

Century Plyboards' Q4 FY16 sales rose 11.1% yoy to ₹4.5bn, with a 17% margin. At ₹405m, PAT fell 15.5% yoy. Capex over FY17-18 for the MDF plant it is setting up is ~₹4bn. We change our estimates.

Growth across segments. Century's Q4 FY16 revenue grew 11% yoy to ₹4.54bn (8.9% above our estimate) boosted by the increase in revenue of its mainstay plywood business (9.9% yoy), laminates (up 14.7% yoy) and logistics (up 36.6% yoy). It expects volumes to pick up in FY17, with revenue growth at ~12-15% over FY17-18. FY16 sales grew 6% to ₹16.5bn.

Shrinking operational efficiency. The operating margin slipped 238bps yoy to 17% due to higher employee costs and other expenses. The FY16 margin increased 51bps to 17.3%. Management expects to hold the margin through more value-added products and greater sales of the Sainik brand plywood.

Dip in profitability. Because of the higher interest cost, tax rate and falling other income, Q4 profit dropped 15.5% yoy to ₹405m. In 4QFY16 the tax rate was 26% (19% a year ago). FY16 PAT improved 11.4% yoy to ₹1.68bn.

Future plans. In Laos, three units have been commissioned, and three are in erection mode. The particle-board plant in Chennai, at ₹0.6bn capex would be operational from Jun'16 and fetch ~₹0.75bn revenue in FY17. The company is setting up an MDF plant, at ₹4bn capex, at Hoshiarpur. This is likely to start by Jul'17. The company is insistently campaigning for Sainik. It expects laminates/ plywood to register double-digit growth in FY17.

Valuations. Demand for premium products has been affected while the economy product is doing well in the market; overall, increasing demand is expected from FY17 and, on the GST implementation, capacity is likely to be fully utilized. We maintain a Buy, assigning a PE of 19.5x FY18e, and arrive at a target of ₹202. It trades at a PE of 19.9x FY17e and 16.6x FY18e. **Risks:** Currency fluctuations, substitutes, high interest rates.

Rating: **Buy**

Target Price: ₹202

Share Price: ₹171

Key data	CPBI IN / CNTP.BO
52-week high / low	₹219 / ₹135
Sensex / Nifty	25490 / 7815
3-m average volume	US\$0.7m
Market cap	₹38bn / \$571m
Shares outstanding	222m

Shareholding pattern (%)	Mar'16	Dec'15	Sep'15
Promoters	73.3	73.3	73.3
- of which, Pledged	-	-	-
Free Float	26.7	26.7	26.7
- Foreign institutions	9.6	8.1	10.7
- Domestic institutions	5.8	5.9	3.4
- Public	11.3	12.7	12.5

Estimates revision (%)	FY17e	FY18e
Sales	(0.4)	4.4
EBITDA	(0.9)	4.4
EPS	(9.2)	(10.3)
Target Multiple (x)	-	-

Financials (YE Mar)	FY17e	FY18e
Sales (₹ m)	19,306	23,708
Net profit (₹ m)	1,939	2,315
EPS (₹)	8.7	10.4
Growth (%)	15.4	19.4
PE (x)	19.9	16.6
PBV (x)	5.9	4.6
RoE (%)	32.8	30.9
RoCE (%)	23.2	24.2
Dividend yield (%)	0.9	0.9
Net Gearing	1.1	0.8

Source: Anand Rathi Research

Quarterly results (YE Mar)	Q4 FY15	Q4 FY16	% yoy	FY15	FY16	% yoy
Sales (₹ m)	4,092	4,547	11.1	15,648	16,585	6.0
EBITDA (₹ m)	793	773	-2.5	2,633	2,875	9.2
EBITDA margin (%)	19.4	17.0	-238bps	16.8	17.3	51bps
Interest (₹ m)	90	103	14.3	433	467	7.9
Depreciation (₹ m)	119	122	3.0	448	446	-0.4
Other income (₹ m)	9	1	-89.9	46	16	-64.7
PBT (₹ m)	593	549	-7.5	1,798	1,978	10.0
Tax (₹ m)	114	144	26.6	290	297	2.4
Tax rate (%)	19	26	704bps	16	15	-111bps
PAT (₹m)	480	405	-15.5	1,508	1,681	11.4

Source: Company

Girish Solanki
Research Analyst

+9122 6626 6712
girishsolanki@rathi.com

Anand Rathi Share and Stock Brokers Limited (hereinafter "ARSSBL") is a full-service brokerage and equities-research firm and the views expressed therein are solely of ARSSBL and not of the companies which have been covered in the Research Report. This report is intended for the sole use of the Recipient. Disclosures and analyst certifications are present in the Appendix.

Quick Glance – Financials and Valuations

Fig 1 – Income statement (₹ m)

Year-end: Mar	FY14	FY15	FY16	FY17e	FY18e
Net revenues	12,840	15,648	16,585	19,306	23,708
Revenue growth (%)	13.5	21.9	6.0	16.4	22.8
- Oper. expenses	11,358	13,150	13,710	15,881	19,456
EBIDTA	1,482	2,498	2,875	3,424	4,253
EBITDA margins (%)	11.5	16.0	17.3	17.7	17.9
- Interest	551	433	467	509	732
- Depreciation	332	448	446	697	787
+ Other income	95	181	16	90	90
- Tax	24	290	297	369	508
Effective tax rate (%)	3.4	16.1	15.0	16.0	18.0
+ Associates / (minorities)					
Adjusted PAT	669	1,508	1,681	1,939	2,315
+ Extraordinary items	-	-	-	-	-
Reported PAT	669	1,508	1,681	1,939	2,315
Adj. FDEPS (₹ / sh)	3.0	6.8	7.6	8.7	10.4
Adj. FDEPS growth (%)	27.1	125.3	11.5	15.4	19.4

Source: Company, Anand Rathi Research

Fig 2 – Balance sheet (₹ m)

Year-end: Mar	FY14	FY15	FY16	FY17e	FY18e
Share capital	223	223	223	223	223
Reserves & surplus	2,692	3,653	5,066	6,329	8,228
Net worth	2,914	3,876	5,289	6,551	8,450
Total debt	4,931	5,047	4,898	7,818	6,818
Minority interest	0	0	0	0	0
Def. tax liab. (net)	-5	-70	-136	-136	-136
Capital employed	7,839	8,853	10,051	14,233	15,132
Net fixed assets	2,307	2,316	2,975	5,728	5,491
Investments	379	451	497	497	497
- of which, Liquid					
Working capital	4,973	5,915	6,389	7,342	8,835
Cash	180	170	190	667	310
Capital deployed	7,839	8,853	10,051	14,233	15,132
Net debt / equity	1.6	1.3	0.9	1.1	0.8
W C turn (days)	141	138	141	139	136
Book value (₹ / sh)	13	17	24	29	38

Source: Company, Anand Rathi Research

Fig 3 – Cash-flow statement (₹ m)

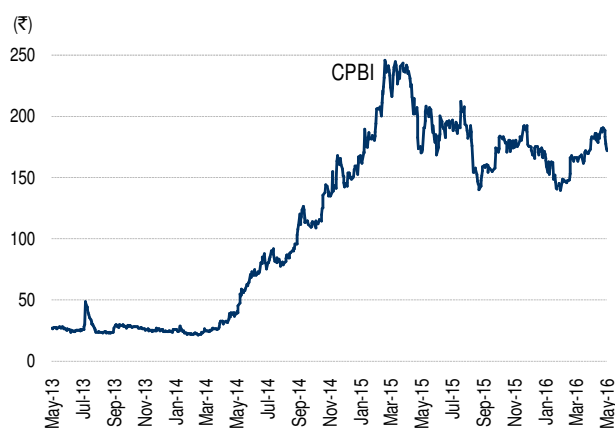
Year-end: Mar	FY14	FY15	FY16	FY17e	FY18e
PAT	669	1,508	1,681	1,939	2,315
+ Non-cash items	329	383	381	697	787
Cash profit	998	1,891	2,062	2,636	3,103
- Incr./decr. in WC	960	943	473	953	1,493
Operating cash-flow	38	948	1,589	1,683	1,610
- Capex	423	457	1,105	3,450	550
Free cash-flow	-385	492	483	-1,767	1,060
- Dividend	252	534	260	417	417
+ Equity raised	-0	-12	-7	-260	0
+ Debt raised	242	117	-150	2,920	-1,000
- Investments	222	72	46	0	0
- Misc. items	0	0	0	0	0
Net cash-flow	-617	-10	20	476	-357
+ Op. cash & bank bal.	797	180	170	190	667
Cl. Cash & bank bal.	180	170	190	666	310

Source: Company, Anand Rathi Research

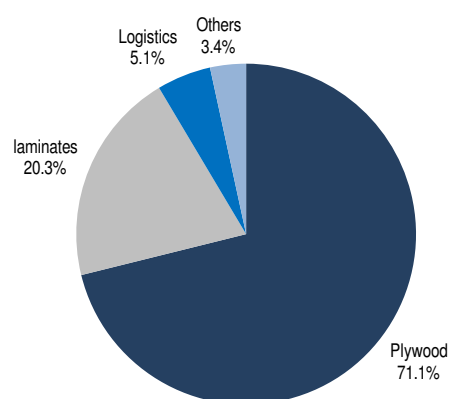
Fig 4 – Ratio analysis @ ₹171

Year-end: Mar	FY14	FY15	FY16	FY17e	FY18e
P/E (x)	57.5	25.5	22.9	19.9	16.6
Cash P/E (x)	38.4	19.7	18.1	14.6	12.4
EV / EBITDA (x)	29.2	17.4	15.0	13.3	10.6
EV / sales (x)	3.4	2.8	2.6	2.4	1.9
P/B (x)	13.2	9.9	7.3	5.9	4.6
Dividend yield (%)	0.6	1.2	0.6	0.9	0.9
Dividend payout (%)	33.2	29.5	13.2	18.4	15.4
RoE (%)	24.7	44.4	36.7	32.8	30.9
RoCE (%)	16.6	26.7	25.9	23.2	24.2
Debtor days	54	55	61	60	60
Inventory days	83	75	61	68	70
Payables days	34	30	31	28	28
Working capital days	141	138	141	139	136
Fixed asset T/O (x)	5.6	6.8	5.6	3.4	4.3
Debt-to-equity (x)	1.7	1.3	0.9	1.2	0.8

Source: Company, Anand Rathi Research

Fig 5 – Price movement


Source: Bloomberg

Fig 6 – Revenue break-up (FY16)


Source: Company

Result Highlights

Robust sales growth in Q4, margins impacted

For Q4 FY16 Century delivered ₹4.54bn revenue (up 11.1% yoy), 8.9% above our estimate. This was due to robust growth across all its divisions. Despite lower raw material costs, the EBITDA margin slipped 238bps yoy to 17% as employee costs and other expenses increased.

With the focus on more value-added products and with a stable currency, operating margins are likely to be the same, if not improve. Because of the higher interest cost and tax rate, and declining other income, Q4 profit fell 15.5% yoy to ₹405m (13.4% below our estimates). The EBIT margins of the logistics and laminates divisions grew 237bps and 671bps yoy respectively to 36.6% and 14.7%, while margins in plywood fell 471bps yoy to 15%. With rising capacity and greater utilization, return ratios could improve. The company is expected to deliver a healthy, ~30%, RoE in the next 2-3 years

Fig 7 – Quarterly results

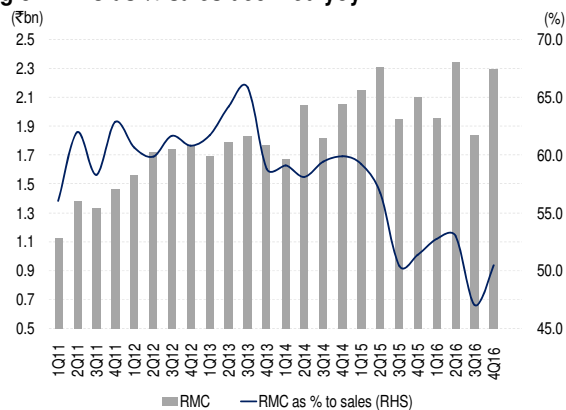
(₹m)	Q4FY15	Q4FY16	% var	Q3FY16	% var	Q4FY16e	% var
Sales	4,092	4,547	11.1	3,906	16.4	4,174	8.9
EBIDTA	793	773	(2.5)	696	11.1	760	1.8
PBT	593	549	(7.5)	480	14.4	551	(0.3)
PAT	480	405	(15.5)	416	(2.6)	468	(13.4)

Source: Anand Rathi Research

Other Concall Highlights

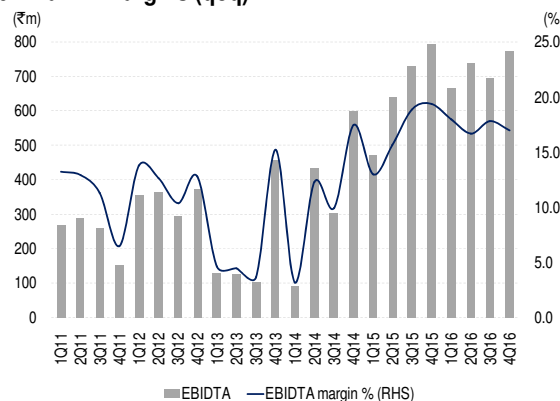
- The present capacity utilisation of the plywood plant is ~85%, that of laminates is ~89%.
- Raw material security arises because of the Myanmar subsidiary. The company is focused on improving efficiency.
- Margins declined in Q4 on account of provisioning for discounts, employee cost and ad spend. According to the management, the current margins are sustainable.
- On the commissioning of the MDF plant, the tax rate is likely to come at ~18-19%. Capex for the plywood plant in Punjab is ~₹640m.
- The company will take on ~₹2.9bn debt for its MDF plant by FY17.
- Of exports, 20% are of its own brand, 80% is sourced. Working capital is likely to improve.

Fig 8 – RMC as % sales declined yoy



Source: Company

Fig 9 – Fall in margins (qoq)



Source: Company

Valuation

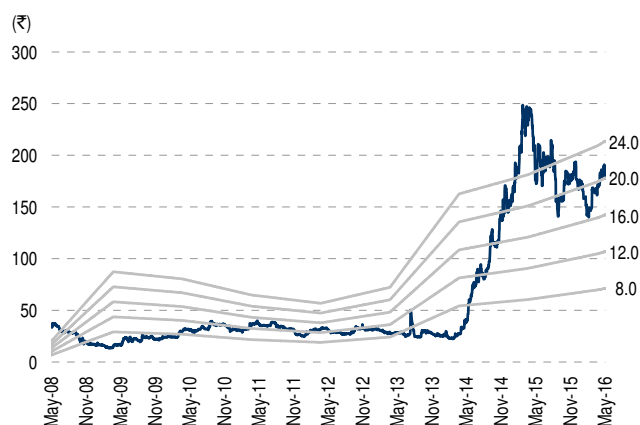
The GST implementation is expected to lead to a shift from the unregulated to the regulated sector, adding to the company's prospects. It is insistent in its brand publicity and has begun to promote its brands (especially its mid-range "Sainik"). The separate campaign for laminates and the Sainik brand would help improve operational efficiency. The recent capacity expansions would drive the revenue growth in coming years. With the Housing-for-All campaign, advertising for laminates, advantages in input sourcing from Myanmar and Laos, and expanding capacities, volumes are likely to increase.

At the ruling price of ₹171, the stock trades at 16.6x FY18e P/E and 10.6x EV/EBITDA. We believe that the strong return ratios, improving free-cash-flows and constant payouts would drive growth. On the above analysis, we maintain a Buy on the stock, assigning a PE of 19.5x FY18e earnings and arrive at a price target of ₹202.

Risks

- **High degree of currency volatility:** Since the company imports a major portion of its raw material, currency fluctuations would affect its margin. At present, raw material costs amount for ~60% of net sales.
- **Threat from substitutes:** The shifting consumer focus, from plywood to multi-density fibreboard (MDF, less expensive than plywood), poses a threat.
- **Higher interest rate:** Century Plyboards' exposure to interest-rate fluctuations in its foreign-currency borrowing could affect it.

Fig 10 – PE band



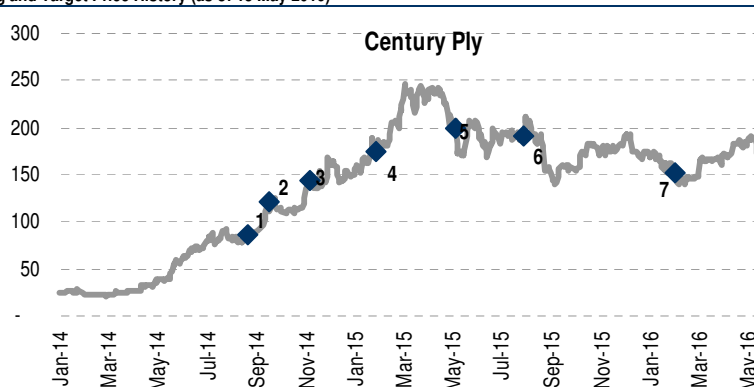
Source: Bloomberg, Anand Rathi Research

Appendix

Analyst Certification

The views expressed in this Research Report accurately reflect the personal views of the analyst(s) about the subject securities or issuers and no part of the compensation of the research analyst(s) was, is, or will be directly or indirectly related to the specific recommendations or views expressed by the research analyst(s) in this report. The research analysts are bound by stringent internal regulations and also legal and statutory requirements of the Securities and Exchange Board of India (hereinafter "SEBI") and the analysts' compensation are completely delinked from all the other companies and/or entities of Anand Rathi, and have no bearing whatsoever on any recommendation that they have given in the Research Report.

Important Disclosures on subject companies Rating and Target Price History (as of 13 May 2016)



	Date	Rating	TP (₹)	Share Price (₹)
1	19-Aug-14	Buy	115	82
2	15-Sep-14	Buy	131	111
3	05-Nov-14	Buy	184	139
4	27-Jan-15	Buy	226	177
5	05-May-15	Buy	257	208
6	27-Jul-15	Buy	240	197
7	01-Feb-16	Buy	202	151

Anand Rathi Ratings Definitions

Analysts' ratings and the corresponding expected returns take into account our definitions of Large Caps (>US\$1bn) and Mid/Small Caps (<US\$1bn) as described in the Ratings Table below:

Ratings Guide

	Buy	Hold	Sell
Large Caps (>US\$1bn)	>15%	5-15%	<5%
Mid/Small Caps (<US\$1bn)	>25%	5-25%	<5%

Anand Rathi Research Ratings Distribution (as of 13 May 2016)

	Buy	Hold	Sell
Anand Rathi Research stock coverage (196)	60%	27%	13%
% who are investment banking clients	4%	0%	0%

Research Disclaimer and Disclosure inter-alia as required under Securities and Exchange Board of India (Research Analysts) Regulations, 2014

Anand Rathi Share and Stock Brokers Ltd. (hereinafter refer as ARSSBL) (Research Entity) is a subsidiary of Anand Rathi Financial Services Ltd. ARSSBL is a corporate trading and clearing member of Bombay Stock Exchange Ltd, National Stock Exchange of India Ltd. (NSEIL), Multi Stock Exchange of India Ltd (MCX-SX), United Stock Exchange and also depository participant with National Securities Depository Ltd (NSDL) and Central Depository Services Ltd. ARSSBL is engaged in the business of Stock Broking, Depository Participant and Mutual Fund distributor.

The research analysts, strategists, or research associates principally responsible for the preparation of Anand Rathi research have received compensation based upon various factors, including quality of research, investor client feedback, stock picking, competitive factors and firm revenues.

General Disclaimer: This Research Report (hereinafter called "Report") is meant solely for use by the recipient and is not for circulation. This Report does not constitute a personal recommendation or take into account the particular investment objectives, financial situations, or needs of individual clients. The recommendations, if any, made herein are expression of views and/or opinions and should not be deemed or construed to be neither advice for the purpose of purchase or sale of any security, derivatives or any other security through ARSSBL nor any solicitation or offering of any investment/trading opportunity on behalf of the issuer(s) of the respective security (ies) referred to herein. These information / opinions / views are not meant to serve as a professional investment guide for the readers. No action is solicited based upon the information provided herein. Recipients of this Report should rely on information/data arising out of their own investigations. Readers are advised to seek independent professional advice and arrive at an informed trading/investment decision before executing any trades or making any investments. This Report has been prepared on the basis of publicly available information, internally developed data and other sources believed by ARSSBL to be reliable. ARSSBL or its directors, employees, affiliates or representatives do not assume any responsibility for, or warrant the accuracy, completeness, adequacy and reliability of such information / opinions / views. While due care has been taken to ensure that the disclosures and opinions given are fair and reasonable, none of the directors, employees, affiliates or representatives of ARSSBL shall be liable for any direct, indirect, special, incidental, consequential, punitive or exemplary damages, including lost profits arising in any way whatsoever from the information / opinions / views contained in this Report. The price and value of the investments referred to in this Report and the income from them may go down as well as up, and investors may realize losses on any investments. Past performance is not a guide for future performance. ARSSBL does not provide tax advice to its clients, and all investors are strongly advised to consult with their tax advisers regarding taxation aspects of any potential investment.

Opinions expressed are our current opinions as of the date appearing on this Research only. We do not undertake to advise you as to any change of our views expressed in this Report. Research Report may differ between ARSSBL's RAs and/ or ARSSBL's associate companies on account of differences in research methodology, personal judgment and difference in time horizons for which recommendations are made. User should keep this risk in mind and not hold ARSSBL, its employees and associates responsible for any losses, damages of any type whatsoever.

ARSSBL and its associates or employees may; (a) from time to time, have long or short positions in, and buy or sell the investments in/ security of company (ies) mentioned herein or (b) be engaged in any other transaction involving such investments/ securities of company (ies) discussed herein or act as advisor or lender / borrower to such company (ies) these and other activities of ARSSBL and its associates or employees may not be construed as potential conflict of interest with respect to any recommendation and related information and opinions. Without limiting any of the foregoing, in no event shall ARSSBL and its associates or employees or any third party involved in, or related to computing or compiling the information have any liability for any damages of any kind.

Details of Associates of ARSSBL and Brief History of Disciplinary action by regulatory authorities & its associates are available on our website i.e. www.rathionline.com

Disclaimers in respect of jurisdiction: This report is not directed to, or intended for distribution to or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction where such distribution, publication, availability or use would be contrary to law or regulation or which would subject ARSSBL to any registration or licensing requirement within such jurisdiction(s). No action has been or will be taken by ARSSBL in any jurisdiction (other than India), where any action for such purpose(s) is required. Accordingly, this Report shall not be possessed, circulated and/or distributed in any such country or jurisdiction unless such action is in compliance with all applicable laws and regulations of such country or jurisdiction. ARSSBL requires such recipient to inform himself about and to observe any restrictions at his own expense, without any liability to ARSSBL. Any dispute arising out of this Report shall be subject to the exclusive jurisdiction of the Courts in India.

Statements on ownership and material conflicts of interest, compensation - ARSSBL and Associates

Answers to the Best of the knowledge and belief of ARSSBL/ its Associates/ Research Analyst who is preparing this report

ARSSBL/its Associates/ Research Analyst/ his Relative have any financial interest in the subject company? Nature of Interest (if applicable)	No
ARSSBL/its Associates/ Research Analyst/ his Relative have actual/beneficial ownership of one per cent or more securities of the subject company	No
ARSSBL/its Associates/ Research Analyst/ his Relative have any other material conflict of interest at the time of publication of the research report or at the time of public appearance?	No
ARSSBL/its Associates/ Research Analyst/ his Relative have received any compensation from the subject company in the past twelve months	No
ARSSBL/its Associates/ Research Analyst/ his Relative have managed or co-managed public offering of securities for the subject company in the past twelve months	No
ARSSBL/its Associates/ Research Analyst/ his Relative have received any compensation for investment banking or merchant banking or brokerage services from the subject company in the past twelve months	No
ARSSBL/its Associates/ Research Analyst/ his Relative have received any compensation for products or services other than investment banking or merchant banking or brokerage services from the subject company in the past twelve months	No
ARSSBL/its Associates/ Research Analyst/ his Relative have received any compensation or other benefits from the subject company or third party in connection with the research report	No

Other Disclosures pertaining to distribution of research in the United States of America

This material was produced by ARSSBL, solely for information purposes and for the use of the recipient. It is not to be reproduced under any circumstances and is not to be copied or made available to any person other than the recipient. It is distributed in the United States of America by Enclave Capital LLC (19 West 44th Street, Suite 1700, New York, NY 10036) and elsewhere in the world by ARSSBL or an authorized affiliate of ARSSBL (such entities and any other entity, directly or indirectly, controlled by ARSSBL, the "Affiliates"). This document does not constitute an offer of, or an invitation by or on behalf of ARSSBL or its Affiliates or any other company to any person, to buy or sell any security. The information contained herein has been obtained from published information and other sources, which ARSSBL or its Affiliates consider to be reliable. None of ARSSBL or its Affiliates accepts any liability or responsibility whatsoever for the accuracy or completeness of any such information. All estimates, expressions of opinion and other subjective judgments contained herein are made as of the date of this document. Emerging securities markets may be subject to risks significantly higher than more established markets. In particular, the political and economic environment, company practices and market prices and volumes may be subject to significant variations. The ability to assess such risks may also be limited due to significantly lower information quantity and quality. By accepting this document, you agree to be bound by all the foregoing provisions.

1. ARSSBL or its Affiliates may or may not have been beneficial owners of the securities mentioned in this report.
2. ARSSBL or its affiliates may have or not managed or co-managed a public offering of the securities mentioned in the report in the past 12 months.
3. ARSSBL or its affiliates may have or not received compensation for investment banking services from the issuer of these securities in the past 12 months and do not expect to receive compensation for investment banking services from the issuer of these securities within the next three months.
4. However, one or more of ARSSBL or its Affiliates may, from time to time, have a long or short position in any of the securities mentioned herein and may buy or sell those securities or options thereon, either on their own account or on behalf of their clients.
5. As of the publication of this report, ARSSBL does not make a market in the subject securities.
6. ARSSBL or its Affiliates may or may not, to the extent permitted by law, act upon or use the above material or the conclusions stated above, or the research or analysis on which they are based before the material is published to recipients and from time to time, provide investment banking, investment management or other services for or solicit to seek to obtain investment banking, or other securities business from, any entity referred to in this report.

Enclave Capital LLC is distributing this document in the United States of America. ARSSBL accepts responsibility for its contents. Any US customer wishing to effect transactions in any securities referred to herein or options thereon should do so only by contacting a representative of Enclave Capital LLC.

© 2014. This report is strictly confidential and is being furnished to you solely for your information. All material presented in this report, unless specifically indicated otherwise, is under copyright to ARSSBL. None of the material, its content, or any copy of such material or content, may be altered in any way, transmitted, copied or reproduced (in whole or in part) or redistributed in any form to any other party, without the prior express written permission of ARSSBL. All trademarks, service marks and logos used in this report are trademarks or service marks or registered trademarks or service marks of ARSSBL or its affiliates, unless specifically mentioned otherwise.

Additional information on recommended securities/instruments is available on request.

ARSSBL registered address: 4th Floor, Silver Metropolis, Jaicoach Compound, Opposite Bimbisar Nagar, Goregaon (East), Mumbai - 400 063.
Tel No: +91 22 4001 3700 | Fax No: +91 22 4001 3770 | CIN: U67120MH1991PLC064106.