

Century Plyboards

Marginally lower volumes; positive margin surprise

Century Plyboards' 2QFY15 PAT was marginally higher than our estimate. Decline in commercial veneer sales led to lower-than-expected plyboard volume growth (5.5% YoY as against our expectation of 10%). Laminate volumes grew sharply (up 17% YoY) post the recent capacity expansions. Plyboard/laminates realisation grew by 8%/6% led by price hikes in 1HFY15. EBITDA margin (ex-forex) was 110bps higher than our estimate, supported by strong EBIT margin expansion in laminates (due to operating leverage). We currently build in 24%/28% revenue CAGR/EBITDA CAGR over FY14-16 and RoE of 36% in FY14 (vs 28% in FY14), which might need upgrades for better-than-expected realisations and margins. Our recent channel checks indicate continued traction for Century's brand. Moreover, enhanced capacities and raw material security (from Burma and timber peeling unit in Laos, Vietnam) would facilitate market share gains, as unorganised players lose competitiveness. The stock is trading at 15.5x FY16 EPS. Our TP of Rs133 implies 16.5x FY16 EPS. We retain BUY.

Results overview - Strong margin expansion

Century's plyboard volume growth was up 5.5% YoY (5% lower than our estimate). Whilst the key retail brands (Architect, Sainik and Maxima) grew fairly strongly (up 9.5% YoY), commercial veneer sales dropped by 10% YoY, which led to lower overall volume growth. Laminates volume grew by 17% YoY, post the recent capacity expansions. Plyboard/laminates realisation grew by 8%/6% YoY post the price hikes in 1HFY15. EBITDA margin (ex-forex) was 110bps higher than our estimate supported by strong EBIT margin expansion in laminates (up 360bps YoY to 9.8%), driven by operating leverage-led cost savings. EBITDA margin (ex-forex) dropped 148bps YoY due to a significant increase in other expenses (up 28% YoY) from a significant increase in advertisement spending. PAT grew 62% YoY to Rs358mn led by higher EBITDA and forex gains of Rs24mn as against a loss of Rs151mn last year. In 1HFY15, the company's sales, EBITDA and PAT have grown by 23%, 112% and 245%, respectively, primarily due to no forex loss burden.

Where do we go from here? Set to sustain strong growth

We reiterate that Century's elevated scale, strong brand and horizontal expansion of product lines (entry in the affordable segment and ready-made furniture/modular kitchen) will help it to gain further market share, especially when raw material sourcing is getting tough for unorganised players and expected regulations like GST would adversely impact their cost competitiveness. In the plyboards business, we expect 17% volume CAGR in FY14-16 and build in realisation growth of 6-7%. In the laminates segment, we have built in 23%/6% volume/realisation CAGR over FY14-16. We highlight that in 2QFY15, most home building materials categories (including plyboards) have slowed down due to high channel inventory and no major demand growth in tier-II/III cities. However, we see this as a temporary blip and expect demand to recover in a couple of quarters as housing construction gathers pace.

We have built in EBITDA margin of 13.6% in FY15 and 14.1% in FY16 as against 13.1% in FY14 (adjusted for forex loss). We highlight that margin in 1HFY15 was at 13.9% (despite a significant increase in advertisement costs) and if the company sustains it higher margins, we would need to upgrade our margin assumptions. We hear that the company has taken another round of price hikes (3%) in September 2014, which will support sales growth and margin expansion in the coming quarters. Moreover, we see the timber peeling JV in Laos, Vietnam, as a positive, as it would provide long-term raw material security and render stability to the business. We will get to know more about the terms of the JVs post the management commentary in its earnings call. Our recent channel checks indicate continued traction for Century's products and hence we believe that the company would continue to outpace the industry demand growth as demand of home building products picks up, post the blip in 2QFY15.

BUY

Result Update

Stock Information

Bloomberg Code:	CPBI IN
CMP (Rs):	125
TP (Rs):	133
Mcap (Rs bn/US\$ bn):	461/0.5
3M ADV (Rs mn/US\$ mn):	60/1.0

Stock Performance (%)

	1M	3M	12M	YTD
Absolute	10	52	342	401
Rel. to Sensex	7	48	312	372

Source: Bloomberg, Ambit Capital research

Ambit Estimates (Rs bn)

	FY14	FY15	FY16
Revenues	13.5	16.8	20.5
EBITDA	1.8	2.3	2.9
EPS (Rs)	2.7	5.7	8.0

Source: Bloomberg, Ambit Capital research

Analysts

Achint Bhagat

achintbhagat@ambitcapital.com
Tel: +91 22 3043 3178

Nitin Bhasin

nitinbhasin@ambitcapital.com
Tel: +91 22 3043 3241

Valuation and recommendation - Multiples expansion possibility if it sustains strong growth and RoCEs

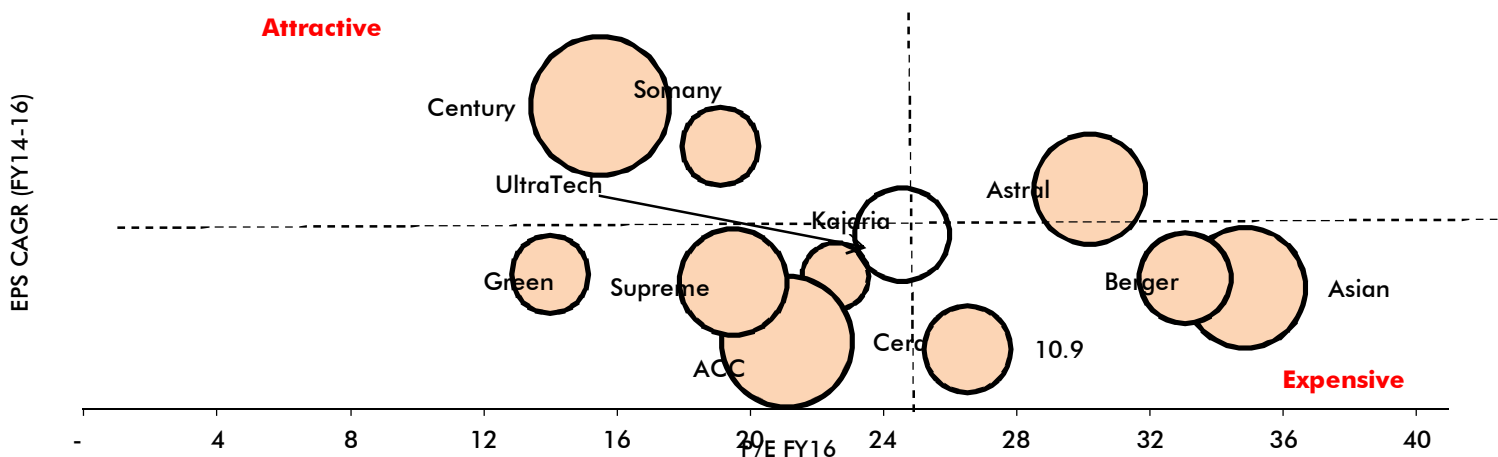
The stock is trading at 15.5x FY16 EPS, a 15-35% discount to other home building materials, like paints, tiles, and pipes; most of the home building material companies/sectors went through multiple re-ratings, as brand association with customers rose and the share of the unorganised market shrunk. Century's P/E multiple will settle at the high-teens, with strong and sustained earnings growth but more importantly from its ability to scale the brand profitably. Our TP of ₹133 implies 16.5x FY16 EPS.

Quarterly snapshot (Rs mn unless mentioned)

Particulars (Rs mn unless mentioned)	2QFY14	1QFY15	2QFY15	YoY (%)	QoQ (%)	Ambit Est	Dev (%)	Comments
Net Sales	3,499	3,608	4,048	15.7	12.2	4,207	(3.8)	Revenue was lower than our estimate due to lower volumes
Operating costs	3,086	3,156	3,432	11.2	8.8	3,634	(5.6)	Lower-than-expected cost was a significant improvement in operating leverage especially in laminates
EBITDA	432	472	638	47.6	35.3	592	7.8	
EBITDA margin	12.4	13.1	15.8	341 bps	269 bps	14.1	170 bps	Higher-than-expected margin was a function of better realisations and operating leverage benefits
EBITDA (ex-forex)	583	454	614	5.4	35.4	592	3.9	
EBITDA margin (ex-forex)	16.7	12.6	15.2	-148 bps	260 bps	14.1	112 bps	
Other income	10	13	15	49.7	12.1	15	(0.6)	
Depreciation	81	104	109	33.9	4.7	103	6.2	Marginally higher on an absolute basis
EBIT	361	381	544	50.7	42.8	489	11.2	Strong EBIT growth was a function of lower forex loss
Interest cost	131	74	124	(5.0)	68.8	84	47.6	
PBT	230	307	420	82.5	36.6	420	(0.0)	PBT was in line with our expectation
Tax	10	50	62	531.8	24.1	76	(18.0)	
PAT	220	257	358	62.5	39.0	344	3.9	Marginally higher-than-expected PAT growth due to better margins
EPS	1.0	1.2	1.6	62.5	39.0	1.5	3.9	

Source: Company, Ambit Capital research

Century continues to be attractive relative to peers



Source: Company, Bloomberg Ambit Capital Research

Significant improvement in laminate EBIT margin

Segmental Sales (Rs mn)	2QFY14	1QFY15	2QFY15	YoY (%)	QoQ (%)
Plyboard	2,641	2,749	2,994	13.4	8.9
Laminates	642	627	788	22.7	25.6
CFS	155	154	194	25.2	25.7
Others	68	84	82	20.0	(1.9)
Segmental EBIT (Rs mn)					
Plyboard	314	348	403	28.4	15.9
Laminates	40	37	77	94.0	109.5
CFS	55	33	65	18.4	94.9
Others	(7)	(3)	(8)	27.7	182.2
Segmental EBIT (%)					
Plyboard	11.9	12.6	13.5	158 bps	81 bps
Laminates	6.2	5.9	9.8	360 bps	392 bps
CFS	35.3	21.6	33.4	-192 bps	1187 bps
Others	(9.6)	(3.5)	(10.2)	-62 bps	-666 bps

Source: Company, Ambit Capital research

Unitary trends – category-wise

Rs mn unless mentioned	2QFY14	1QFY15	2QFY15	YoY (%)	QoQ (%)
Plyboard					
Plyboard volume (CBM) – Category-wise					
Plywood except Sainik	36,029	38,978	39,615	10.0	1.6
Plywood Sainik	11,970	8,496	12,919	7.9	52.1
DV	408	382	405	(0.7)	6.1
Commercial veneer	11,892	9,511	10,655	(10.4)	12.0
Export	11	19	19	72.0	-
Total	60,311	57,386	63,613	5.5	10.9
Plyboard sales (Rs mn) – Category-wise					
Plywood except Sainik	1,815	2,021	2,015	11.0	(0.3)
Plywood Sainik	459	333	533	16.1	59.9
DV	37	38	42	13.5	9.4
Commercial veneer	329	354	419	27.5	18.3
Export	1	1	1	(7.3)	(1.6)
Total	2,641	2,749	3,010	14.0	9.5
Plyboard Realisation (per CBM) – Category-wise					
Plywood except Sainik	50,382	51,862	50,871	1.0	(1.9)
Plywood Sainik	38,361	39,238	41,253	7.5	5.1
DV	89,931	99,748	102,823	14.3	3.1
Commercial veneer	27,648	37,251	39,341	42.3	5.6
Export	129,956	71,144	70,026	(46.1)	(1.6)
Total	43,796	47,896	47,323	8.1	(1.2)
Laminates and Pre-lam boards					
Volumes					
Laminates (sheets)	492,188	639,077	574,659	16.8	(10.1)
Prelam (sqm)	407,854	352,185	334,195	(18.1)	(5.1)
Exteria (sheets)	728	1,248	4,479	515.2	258.9
Export (sheets)	215,192	196,557	283,570	31.8	44.3
Laminates (Rs mn) – Sales					
Laminates	376	385	466	23.7	21.1
Prelam	132	114	116	(12.2)	1.8
Exteria	4	8	28	685.7	263.8
Export	129	121	178	37.5	47.2
Laminates – Realisation					
Laminates	765	602	810	5.9	34.7
Prelam	325	324	348	7.1	7.2
Exteria	4,896	6,168	6,252	27.7	1.4
Export	602	615	628	4.3	2.1

Source: Company, Ambit Capital research

Balance Sheet

Year to March (₹ Mn)	FY14	FY15E	FY16E	FY17E
Total Networth	2,931	3,827	4,993	6,485
Loans	5,276	4,776	4,526	4,176
Sources of funds	8,314	8,743	9,693	10,872
Net block	3,164	3,334	3,397	3,427
Investments	31	31	31	31
Total Current Assets	6,793	7,794	9,202	10,842
Current liabilities and provisions	1,914	2,417	2,937	3,428
Net current assets	4,879	5,378	6,265	7,414
Application of funds	8,314	8,743	9,693	10,872

Source: Company, Ambit Capital research

Income statement

Year to March (₹ Mn)	FY14	FY15E	FY16E	FY17E
Revenue	13,477	16,816	20,531	24,038
Total expenses	11,961	14,536	17,635	20,516
EBITDA	1,766	2,280	2,895	3,522
Net depreciation / amortisation	387	411	417	451
EBIT	1,416	1,916	2,539	3,137
PBT	629	1,579	2,222	2,836
Adjusted PAT	786	1,262	1,788	2,289
EPS diluted (₹)	3	6	8	10

Source: Company, Ambit Capital research

Cash flow statement

Year to March (₹ Mn)	FY14	FY15E	FY16E	FY17E
PBT	629	1,579	2,222	2,836
Change in working capital	(1,168)	(52)	(919)	(977)
Direct taxes paid	(117)	(284)	(400)	(511)
CFO	338	1,943	1,576	2,034
Capex	643	341	480	481
CFI	(706)	(294)	(419)	(415)
Proceeds from borrowings	372	(500)	(250)	(350)
CFF	(281)	(1,204)	(1,189)	(1,447)
Net increase in cash	(649)	446	(32)	172
FCF	(305)	1,603	1,096	1,554

Source: Company, Ambit Capital research

Ratio analysis / Valuation parameters

Year to March	FY14	FY15E	FY16E	FY17E
EBITDA growth	43.1	29.1	27.0	21.6
RoCE	19	23	25	27
RoE	33	36	35	35
P/E (x)	35.4	22.0	15.5	12.1
P/B(x)	9.1	7.0	5.4	4.1
Debt/Equity(x)	1.7	1.2	0.9	0.6
Net debt/Equity(x)	1.6	1.0	0.7	0.5
EV/EBITDA(x)	18.5	13.9	10.9	8.8

Source: Company, Ambit Capital research