

Current Reco	: BUY
Previous Reco	: BUY
CMP	: INR281
Target Price	: INR334
Potential Return	: 19%

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Market data	
Sensex	: 33,600
Sector	: Mid Cap
Market Cap (INRbn)	: 62.3
Market Cap (USDbn)	: 0.962
O/S Shares (m)	: 222.2
52-wk HI/LO (INR)	: 314/154
Avg Daily Vol ('000)	: 405
Bloomberg	: CPBI IN

Source: Bloomberg

Valuation			
	FY18e	FY19e	FY20e
EPS (INR)	7.8	10.9	13.3
PE	35.9	25.8	21.1
P/BV	7.3	5.9	4.7
EV/EBITDA	21.6	15.9	13.1
Dividend Yield (%)	0.4	0.4	0.5

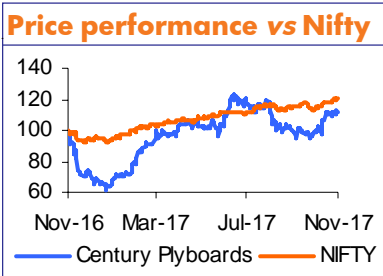
Source: Bloomberg

Returns (%)				
	1m	3m	6m	12m
Absolute	12	(0)	9	12
Relative	5	(3)	(3)	(7)

Source: Bloomberg

Shareholding pattern	
Promoters	: 72%
Public	: 28%
Others	: 0%

Source: Bloomberg



Source: Bloomberg, Indexed to 100

2QFY18 RESULT REVIEW

Century Plyboards (I) Limited

Ply segment suffer on account of demand disruption continuation post GST; laminates recover well

Century Plyboards (I) Ltd. (CPBI) reported lower than expected earnings at INR401mn against estimate of INR495mn, down 18% YoY. Revenue was higher than the expectation at INR4.74bn, up a modest ~2.5% YoY. Plywood segment (adjusted for commercial veneer) registered revenue drop of 8% whereas laminates segment grew substantially at ~22%. Overall, EBITDA margin was largely flattish, down ~60bps YoY at 15.6% with plywood margin shrinking by 160bps and laminates margin remaining flat at 18.4%. We believe high raw material prices due to supply disruption in Assam and reduced availability from Myanmar and Laos resulted in lower margin in the ply segment along with weak pricing power in the market presently. EBITDA came in at INR740mn, down 1% YoY (Antique: INR811 mn).

We have cut our FY19e earnings by 17% led by 10% reduction in revenue estimate & cut margin by 60bps led by the weak ply demand environment and the delay in kick starting of operations of the Punjab MDF facility from July to October this year. However, we are rolling over to FY20e based earnings and revise our target price to INR334/share (INR319 earlier), valuing CPBI at 25x FY20E EPS. We maintain our BUY recommendation on the stock.

Strong growth in laminate volume; plywood volume weak on back of delay in e-way bill implementation and lack of visibility on final GST rate

Plywood segment saw a contraction in both volume and EBITDA margin, dropping ~6.5% and 160bps respectively. Continued uncertainty over GST rates and a possibility of a rate reduction prompted dealers to delay restocking of inventory, shrinking the volume off-take for Century Plyboards. Also, increased raw material costs from the Assam Plant and reduced supply from Myanmar and Laos contributed to the shrinkage of gross margin YoY amid lack of pricing power. Additionally lack of supply of tradable high margin commercial veneer resulted in margin impact.

Improved supply chain of Veneer and rise in mix of higher margin MDF expected to revive blended ahead

Going forward the blended margin is expected to revive on account of potential decline in domestic timber prices which are currently on the higher side and the commencement of high margin MDF facility. Also, the improvement in capacity utilization at the MDF facility (guided at 70% in 2HFY18) is expected to further boost the margin.

Other Salient Conference Call Highlights:

- Domestic timber prices to go down gradually in the remaining fiscal improving margin
- MDF EBITDA margin expected to be 30-35% due to lower RM costs at optimal utilisation levels down the line. MDF turnover to be INR1500-2000mn in FY18 and around INR4500mn in FY19(including value addition). MDF plant will be running at 70% capacity in 2HFY18. The realization from MDF is expected to be INR23,000/CBM. Current MDF capacity is about 200,000 CBM per annum.
- Revenue from the laminate segment is expected to see 25% growth in FY19 over FY18.
- Going forward, potentially introduction of the e-way bill and the rationalisation of GST rates for ply from 28% to 18% will have a major positive impact on plywood demand
- Myanmar government logging ban has been removed. Laos ban on export of veneer is not expected to be removed soon and thus CPBI has converted its veneer plant in Laos into Ply plant to circumvent the ban.

Valuation:

We expect earnings to grow at 31% CAGR in FY18-20e driven by introduction of high margin MDF segment, revival in pricing power of ply, recovery in commercial veneer segment and increased share of better margin particle board segment. Though we have cut our FY19e earnings by 17%, we have revised up our price target to INR INR334/share (INR319 earlier) by rolling over to FY20e earnings, valuing CPBI at 25x earnings. We maintain our BUY on CPBI.

Financial Performance

Particulars (INRm)	2QFY18	2QFY17	YoY (%)	1QFY18	QoQ (%)
Net Sales	4,746	4,627	2.6	4,386	8.2
Other Op. Income	0	0		0	
Total Op. Income	4,746	4,627	2.6	4,386	8.2
Expenditure	4,005	3,879	3.3	3,775	6.1
Raw Materials	1,675	1,513	10.7	1,447	15.7
Cost of traded goods	870	892	(2.4)	892	(2.4)
Staff Cost	676	624	8.3	689	(1.9)
Other Expenditure	784	850	(7.7)	747	5.0
Operating Profit	740	748	(1.0)	611	21.2
OPM (%)	15.6	16.2	-57 bps	13.9	167 bps
Depreciation	138	126	9.5	132	4.7
Other Income	6	22	(71.9)	5	14.7
Interest	79	63	25.8	60	32.0
Exceptional income	0	0		0	
PBT	529	581	(8.9)	424	24.7
Tax	128	91	40.7	80	59.4
PAT	401	490	(18.1)	344	16.6
Adjusted PAT	401	490	(18.1)	344	16.6
NPM (%)	8.5	10.6	-214 bps	7.8	61 bps

Source: Company, Antique

Segment revenue

Particulars (INRm)	2QFY18	2QFY17	YoY (%)	1QFY18	QoQ (%)
Plywood & Allied Products	3,045	3,252	(6.4)	3,173	(4.0)
Laminates & Allied Products	1,246	1,023	21.8	807	54.5
CFS	249	213	17.3	238	4.5
Others	190	157	21.0	161	17.7
Net Sales	4,731	4,645	1.9	4,380	8.0
Less: Intersegment	-	-		-	
Total	4,731	4,645	1.9	4,380	8.0

Source: Company, Antique

EBIT

Particulars (INRm)	2QFY18	2QFY17	YoY (%)	1QFY18	QoQ (%)
Plywood & Allied Products	403	492	(18.1)	385	4.7
Laminates & Allied Products	210	171	22.7	92	129.0
CFS	68	56	20.2	67	0.9
Others	(7)	(33)	(77.8)	(41)	(82.0)
Total	673	686	(1.9)	503	34.0

Source: Company, Antique

EBIT Margin (%)

Particulars (INRm)	2QFY18	2QFY17	YoY (%)	1QFY18	QoQ (%)
Plywood & Allied Products	13.2	15.1	-189 bps	12.1	110 bps
Laminates & Allied Products	16.8	16.7	12 bps	11.4	548 bps
CFS	27.2	26.5	66 bps	28.1	-98 bps
Others	(3.9)	(21.2)	1,731 bps	(25.5)	2,165 bps
Total	14.2	14.8	-54 bps	11.5	276 bps

Source: Company, Antique

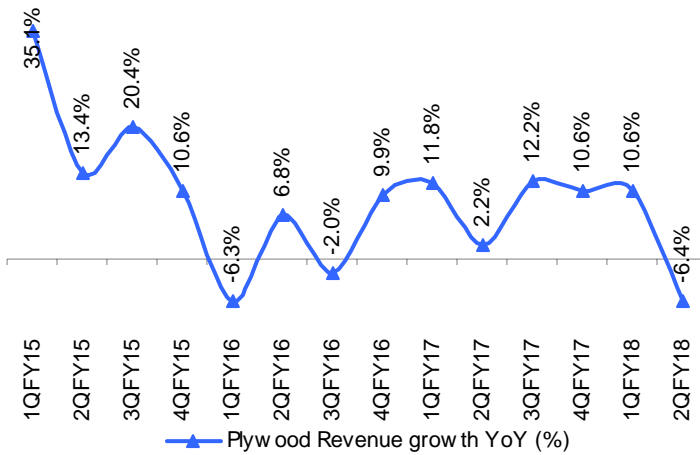
ROCE (%)

Particulars (INRm)	2QFY18	2QFY17	YoY (%)	1QFY18	QoQ (%)
Plywood & Allied Products	28.2	35.5	-732 bps	28.4	-17 bps
Laminates & Allied Products	43.8	44.2	-41 bps	21.1	2,271 bps
CFS	59.5	38.8	2,068 bps	60.2	-66 bps
Others	(0.7)	(5.9)	515 bps	(4.7)	400 bps

Source: Company, Antique

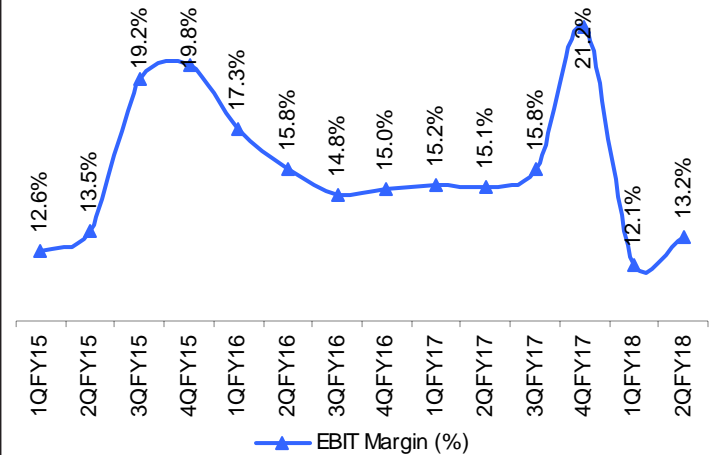
Plywood division performance

Revenue Growth Trend



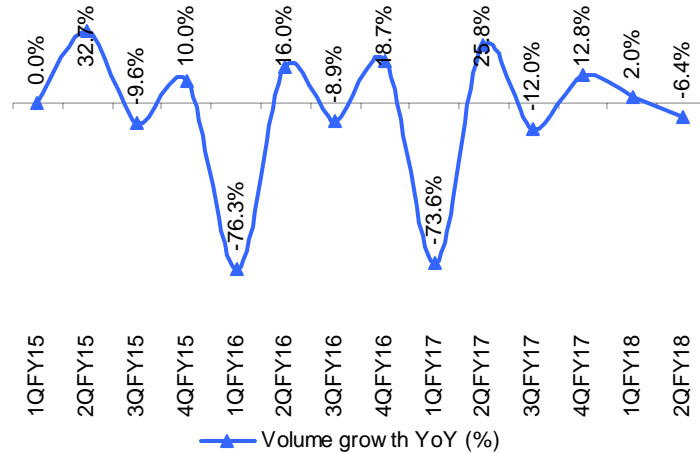
Source: Company, Antique

EBIT Margin Trend



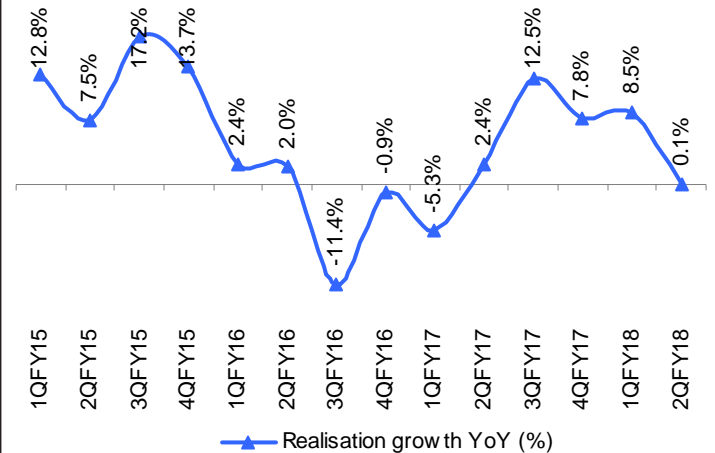
Source: Company, Antique

Total Volume Growth Trend



Source: Company, Antique

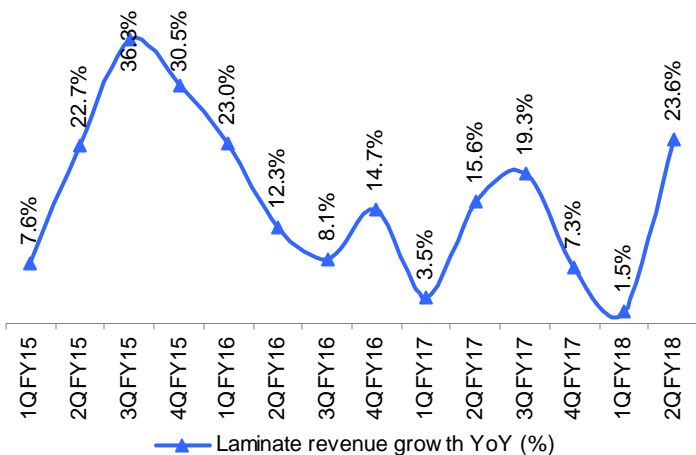
Blended Realisation Growth Trend



Source: Company, Antique

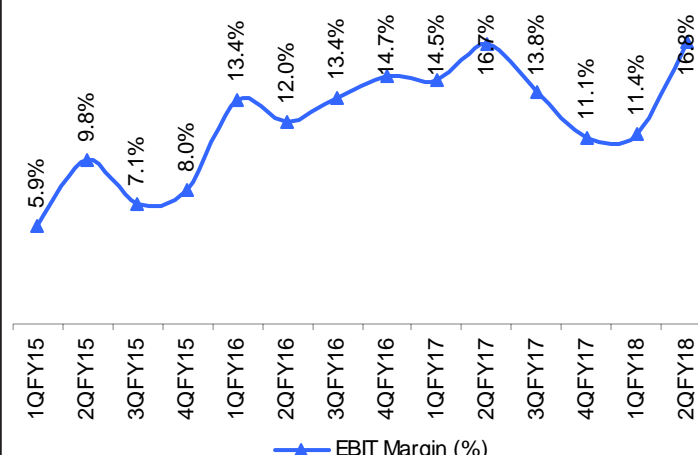
Laminate division performance

Revenue Growth Trend



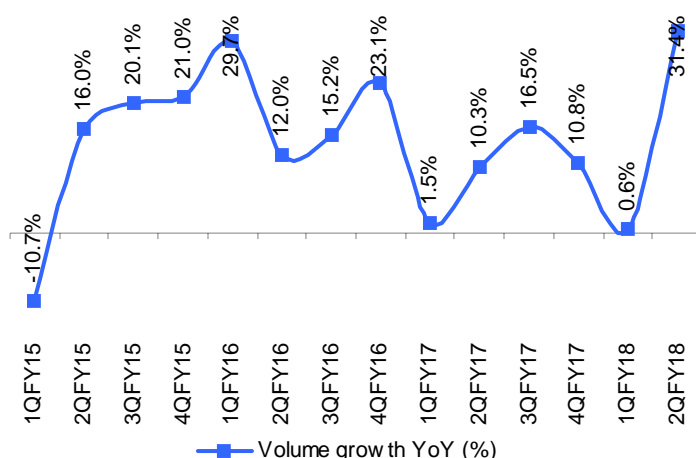
Source: Company, Antique

EBIT Margin Trend



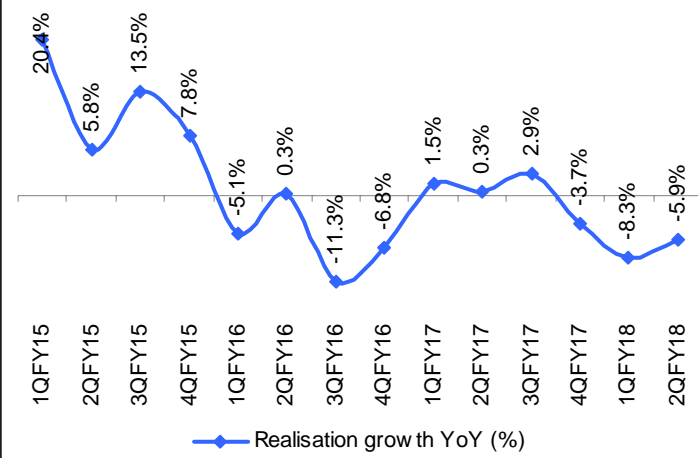
Source: Company, Antique

Total Volume Growth Trend



Source: Company, Antique

Blended Realisation Growth Trend



Source: Company, Antique

Financials

Profit and loss account (INRm)

Year ended 31 Mar	FY16	FY17	FY18e	FY19e	FY20e
Revenues	16,409	18,187	20,212	23,616	27,111
Expenses	13,515	15,068	17,065	19,452	22,200
Operating Profit	2,895	3,120	3,147	4,164	4,911
Other income	60	226	30	35	40
EBIDT	2,955	3,345	3,177	4,199	4,951
Depreciation	475	593	725	964	1,043
Interest expense	479	302	315	270	179
Profit before tax	2,001	2,450	2,137	2,965	3,729
Taxes incl deferred taxation	304	515	385	534	746
PAT before MI & EO Items	1,698	1,935	1,753	2,432	2,984
Minority Interest	8	30	10	12	14
Profit after tax	1,689	1,905	1,743	2,420	2,970
Reported EPS (INR)	7.6	8.6	7.8	10.9	13.3

Balance sheet (INRm)

Year ended 31 Mar	FY16	FY17	FY18e	FY19e	FY20e
Share Capital	223	223	223	223	223
Reserves & Surplus	5,066	6,927	8,393	10,512	13,131
Networth	5,288	7,149	8,615	10,735	13,354
Minority Interest	90	120	130	142	156
Debt	4,193	5,663	5,800	4,000	2,500
Deferred Tax Liability	7	14	14	14	14
Capital Employed	9,578	12,946	14,559	14,890	16,023
Gross Fixed Assets	5,130	6,281	10,770	11,920	12,620
Accumulated Depreciation	2,626	3,219	3,944	4,908	5,951
Net Assets	2,504	3,062	6,826	7,011	6,668
Capital work in progress	1,020	2,988	800	250	250
Investments	61	61	61	61	61
Deferred Tax Assets	660	689	689	689	689
Current Assets					
Inventory	2,975	3,006	3,378	3,947	4,531
Debtors	2,842	3,422	3,378	3,882	4,457
Cash & Bank balance	390	672	330	136	624
Loans & advances and others	1,299	1,949	2,075	2,260	2,420
Current Liabilities & Prov					
Creditors	864	1,410	1,384	1,553	1,783
Other liabilities & provisions	1,310	1,493	1,593	1,793	1,893
Net Current Assets	5,333	6,146	6,184	6,879	8,355
Application of Funds	9,578	12,946	14,559	14,890	16,023

Per share data

Year ended 31 Mar	FY16	FY17	FY18e	FY19e	FY20e
No. of shares (m)	223	223	223	223	223
BVPS (INR)	23.8	32.1	38.7	48.2	60.0
CEPS (INR)	9.7	11.2	11.1	15.2	18.0
DPS (INR)	1.0	1.0	1.1	1.2	1.4

Source: Company, Antique

Cash flow statement (INRm)

Year ended 31 Mar	FY16	FY17	FY18e	FY19e	FY20e
EBT	1,993	2,420	2,127	2,953	3,715
Depreciation & amortisation	475	593	725	964	1,043
Interest expense	479	302	315	270	179
Other Adjustments	21	-	-	-	-
(Inc)/Dec in working capital	331	(552)	(380)	(890)	(989)
Tax paid	(304)	(515)	(385)	(534)	(746)
CF from operating activities	2,995	2,248	2,403	2,764	3,203
Capital expenditure	(1,217)	(3,119)	(2,300)	(600)	(700)
Net Investments	(57)	0	-	-	-
CF from investing activities	(1,274)	(3,119)	(2,300)	(600)	(700)
Inc/(Dec) in debt	(945)	1,470	137	(1,800)	(1,500)
Dividends & Interest paid	(739)	(563)	(602)	(582)	(543)
Other Adjustments	(21)	246	20	24	28
CF from financing activities	(1,705)	1,154	(445)	(2,358)	(2,015)
Net cash flow	16	282	(342)	(194)	487
Opening balance	374	390	672	330	136
Closing balance	390	672	330	136	624

Growth indicators (%)

Year ended 31 Mar	FY16	FY17	FY18e	FY19e	FY20e
Revenue	4.3	10.8	11.1	16.8	14.8
EBITDA	7.1	7.8	0.9	32.3	17.9
PAT	13.4	12.7	(8.5)	38.9	22.7
EPS	13.4	12.7	(8.5)	38.9	22.7

Valuation (x)

Year ended 31 Mar	FY16	FY17	FY18e	FY19e	FY20e
PE	37.0	32.8	35.9	25.8	21.1
P/BV	12.0	8.8	7.3	5.9	4.7
EV/EBITDA	22.9	21.6	21.6	15.9	13.1
EV/Sales	4.0	3.7	3.4	2.8	2.4
Dividend Yield (%)	0.4	0.4	0.4	0.4	0.5

Financial ratios

Year ended 31 Mar	FY16	FY17	FY18e	FY19e	FY20e
RoE (%)	36.2	30.1	21.8	24.7	24.4
RoCE (%)	26.5	24.4	17.8	22.0	25.3
Debt/Equity (x)	0.8	0.8	0.7	0.2	0.2
EBIT/Interest (x)	5.2	9.1	7.8	12.0	21.9

Margins (%)

Year ended 31 Mar	FY16	FY17	FY18e	FY19e	FY20e
EBITDA	17.6	17.2	15.6	17.6	18.1
EBIT	15.1	15.1	12.1	13.7	14.4
PAT	10.3	10.5	8.6	10.2	11.0

Source: Company Antique

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