

# Century Plyboards (India)

**Reco: Buy**

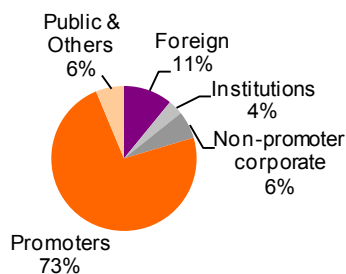
## Stock Update

**Weak demand, brand building underway; maintain Buy**
**CMP: Rs150**

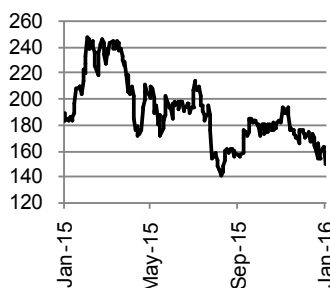
### Company details

Price target:	Rs215
Market cap:	Rs3,333 cr
52-week high/low:	Rs261/138
NSE volume: (No of shares)	6.6 lakh
BSE code:	532548
NSE code:	CENTURYPLY
Sharekhan code:	CENTURYPLY
Free float: (No of shares)	5.9 cr

### Shareholding pattern



### Price chart



### Price performance

(%)	1m	3m	6m	12m
Absolute	-7.3	-9.0	-15.3	-7.0
Relative to Sensex	-2.2	1.2	-5.0	10.8

### Key points

- Muted demand affects revenue:** For Q3FY2016, Century Plyboards (Century) posted a muted top-line growth of 1.2% YoY, which was the reflection of weak off-take in the plyboard business. The plyboard sales declined by 2% YoY; while the laminate business growth was also weak for this quarter which grew at a mere 8.1% YoY (this was after posting double-digit revenue growth for the last five consecutive quarters). Across the board, the home improvement business has witnessed deceleration and contraction in the volumes, coupled with weak demand festive season (Diwali, Dusshera) further played havoc on the volumes.
- Though GPM expands; higher overheads affect net earnings:** Aided by soft raw material and lower logistical cost, the gross profit margin (GPM) improved by 340BPS YoY, resulting in an 8.2% Y-o-Y growth in the gross profit. Despite gross profit expansion, higher employee cost (+20% YoY; on account of increase in the minimum wages in three states) and other expenditure (+13% YoY), the operating profit declined by 4.6% YoY. A weak operating performance translated into the earnings, which adjusted for a foreign exchange (forex) gain of Rs3 crore for the quarter, declined by 2% on a Y-o-Y basis.
- Revise earnings downwards and introduce FY2018:** Taking cognizance of the weak demand in the plyboard business, along with full fledged recovery being still two to three quarters away, we have reduced our volume growth estimates for the plywood division (which constitutes around 70% to the top line) from 6% growth earlier to a flat growth for the year, while margins are likely to sustain at the current levels. This results in a 16% CAGR in net earnings over FY2015-18.
- Maintain Buy:** We believe that Century with its top-of-the-mind brand recall is well positioned to ride the economic revival-driven recovery in demand, and increase its market dominance in the plywood and laminate segments. Along with the brand salience and brand building efforts of Century, we like it's ahead-of-the-curve approach in securing the critical raw material base (via expansion in Myanmar, Laos and also in Indonesia) and expanding its product profile (has ventured into MDF expansion in Punjab), these attributes would translate into healthy growth ahead. We expect it to post a 16% earnings CAGR over FY2015-18. The implementation of GST would provide a fillip to the revenue and earnings performance. In view of these positives, we have maintained our Buy rating on the stock with a revised price target of Rs215 (earlier at Rs240).

### Results

Particulars	Q3Y16	Q3Y15	YoY (%)	Q2FY16	QoQ (%)
Income from operations	390.6	385.8	1.2	442.2	(11.7)
COGS	183.8	194.7	-5.6	234.4	(21.6)
Gross profit	206.8	191.2	8.2	207.8	(0.5)
Gross margin (%)	53.0	49.5	340	47.0	595.5
Employee cost	59.5	49.4	20.4	56.8	4.8
Other expenditure	77.8	68.8	13.1	77.2	0.7
Total expenditure	321.0	312.9	2.6	368.4	(12.8)
Operating profit	69.6	73.0	-4.6	75.1	(7.3)
Operating profit margin (%)	17.8	18.9	(110)	17.0	83.1
Finance cost	10.7	14.5	-26.2	13.5	(20.7)
Depreciation	11.6	11.6	0.1	10.7	8.1
Non operating income	0.7	0.9	-23.4	0.5	45.4
PBT	48.0	47.81	0.4	51.4	(6.6)
Tax	6.4	6.4	-0.8	3.9	65.7
Reported PAT	41.6	41.4	0.6	46.3	(10.1)
Adjusted PAT	39.0	39.8	-2.0	46.3	(15.7)

## Valuations

Particulars	FY14	FY15	FY16E	FY17E	FY18E
Net sales	1,348	1,588	1,721	1,940	2,231
Growth (%)	14	18	8	13	15
Adjusted EBITDA	179	274	301	334	378
EBITDA margin (%)	13.3	17.2	17.5	17.2	17.0
Adjusted PAT	77	149	173	197	232
Growth (%)	47	94	16	14	18
Adjusted EPS	3.5	6.7	7.8	8.9	10.4
PER	55	22.3	19.3	16.9	14.3
RoCE (%)	15.4	23.1	22.8	21.2	20.4
RoE (%)	23.1	44.0	37.0	30.3	26.9

## Key conference call takeaways

- ♦ **Expansion in Laos facility underway:** Along with Myanmar, Century pre-empted to secure and diversify its raw material base and thus entered into Laos. Currently, under the 51% joint venture, Laos Veener unit is under the expansion with current 10 peeling lines which would increase to 20-25 with increase in the units from currently one to three by next quarter. The company has expended Rs30 crore for the expansion.
- ♦ **Next leg of expansion in Indonesia:** After completion of Laos expansion in its drive to further diversify its raw material requirement, the company is looking to enter the Indonesian market which is still in the exploratory stage.
- ♦ **Particle board capacity to come onstream by March 2016:** Century is in the process to put up a particle board capacity, which was expected to be onstream by June 2016, the company has expedited its expansion efforts and now the facility is likely to be on stream, three months ahead of the schedule by March 2016. We like the strong execution capability of Century.
- ♦ **MDF plant commissioning process expedited, likely to start by January 2017:** In July 2015, Century spelled out its intention to enter the medium-density fibreboard (MDF) segment (which is likely to be the next growth driver, and a substitute for low-end plywood and particle board), with a capacity to produce 1.8 lakh cubic meters, for an overall cost of Rs400 crore. The MDF plant normally takes 30-36 months for erection and commission, but the company is now confident of operationalising the plant within 18 months and expects the same to come on stream by January 2017.

- ♦ **Strengthening economy brand Sainik to gain market share:** Century is taking efforts to strengthen its economy brand Sainik, which is fast gaining popularity amongst the low entry-level plywood market. Thus, we believe that the company is taking all efforts to get itself ready before the Goods and Service Tax (GST) comes into play to gain from the same.

## Result highlights

**Subdued revenue growth:** In Q3FY2016, the top line of Century grew by 1.2% year on year (YoY), led by weak growth from plywood as well as laminate businesses. The plywood business declined by 2% YoY, while the laminate business posted a single-digit growth at 8.1% YoY after registering a robust double-digit growth for the preceding five quarters consecutively. This moderation in growth of the plywood business is on account of weak consumer demand and lack of off-take at the ground level. With an improvement in the consumer sentiment and uptake in the end-users, we expect the demand revival to get reflected in the results.

**GPM expanded, led by soft raw material prices:** The gross profit margin (GPM) expanded by 340 basis points (BPS) YoY from 49.5% in Q3FY2015 to 53% in Q3FY2016. This strong improvement was mainly on account of savings in raw material and logistics cost. This resulted in an 8.1% year-on-year (Y-o-Y) growth in the gross profit.

**Operating profit affected by higher cost & provisioning:** A weak revenue environment coupled with increased overhead cost (employee cost +20% YoY, on account of increase in the minimum wages in three states) and other expenditure (+13% YoY) resulted in 4.6% decline in the operating profit. Consequently, the margins contracted by 110 basis points (BPS) YoY from 18.9% in Q3FY2015 to 17.8% in Q3FY2016.

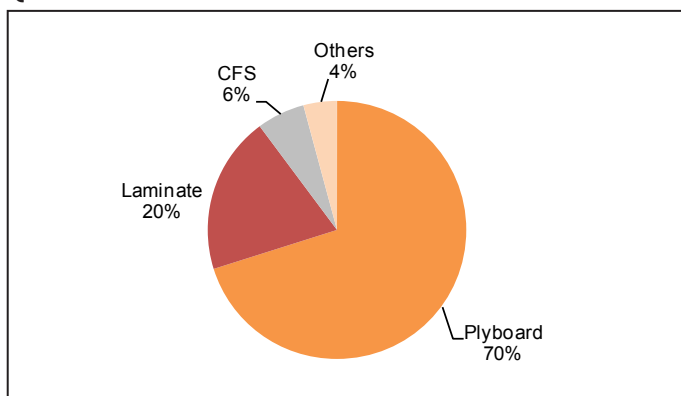
**Reported earnings flat, adjusted declined by 2% YoY:** The weak operational performance reflected in the flat earnings for the quarter. The reported earnings also included a gain of Rs3 crore on forex fluctuation, which adjusted, the net earnings declined by 2% on a Y-o-Y basis.

Plyboard	Q3	Q3	YoY	Q2	QoQ
	Y16	FY15	(%)	FY16	(%)
Top line	275.3	281.0	(2.0)	319.9	(13.9)
EBIT	40.8	54.0	(24.4)	50.7	(19.4)
EBIT margin	14.8	19.2	(439.5)	15.8	101.0
Capital employed	560.0	479.8	16.7	573.2	(2.3)
RoCE	29.2	45.0	(1,587.5)	35.4	619.5

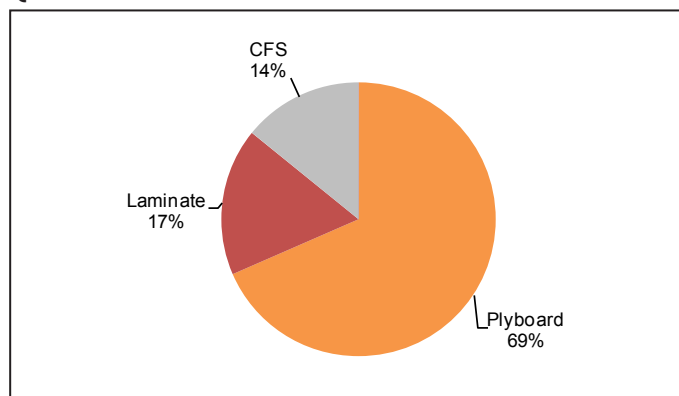
Laminate	Q3 Y16	Q3 FY15	YoY (%)	Q2 FY16	QoQ (%)
Topline	77.4	71.6	8.1	88.5	(12.6)
EBIT	10.4	5.1	104.0	10.6	(2.1)
EBIT margin	13.4	7.1	631.0	12.0	(143.8)
Capital employed	231.0	181.0	27.6	176.7	30.7
RoCE	18.0	11.2		24.0	

CFS	Q3 Y16	Q3 FY15	YoY (%)	Q2 FY16	QoQ (%)
Topline	23.5	18.6	26.5	20.1	17.0
EBIT	8.4	6.0	40.3	5.6	50.0
EBIT margin	35.9	32.3	352	28.0	(789)
Capital employed	63.1	60.2	4.9	61.8	2.1
RoCE	53.5	40.0		36.4	

Q3FY2016 revenue mix



Q3FY2016 PBIT mix



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