

13 November 2017

## Century Ply Boards

*New capacities to propel growth; Hold*

With its new MDF capacity going on-stream and helping expand the margin, Century Ply Boards is poised for strong growth, aided by its laminates capacity expansion and new door capacity that would drive profitability over FY17-20. We revise our target to ₹320 (earlier ₹318), while changing our rating to a Hold as we believe expected earnings growth has already been priced in the stock.

**Laminates division outperformed while plywood de-grew.** 9.4% growth in the Laminates division (mainly exports) to ₹1.24bn and 17.5% y/y growth in the Logistics division led to 2.6% y/y overall growth in revenue. As industry expected the GST rate on plywood to come down to 18%, dealers maintained low inventory, resulting in poor performance of the division in Q2. With mounting demand, and better capacity utilisation, we expect revenue to record a 17% CAGR over FY17-20. Ahead, the company expects a ~25-30% EBIDTA margin from the high-margin MDF division.

**Expansions to fuel revenue growth.** The MDF plant at Hoshiarpur has commenced trial production and commercial production is stabilising. The facility would contribute to revenue from the next quarter. Further, plans to expand two of its lines in the laminates division would be operational this financial year. It plans to set up a door unit in collaboration with a Chinese company.

**Outlook.** Century planned capex of ₹0.8bn for H2 FY18, and ~₹1.2bn for FY19. Volumes are likely to rise on the expected demand pick-up, capacity expansion, allocation for Housing-for-All. Further, reduction in GST on plywood from 28% earlier to 18% is expected to be positive for the sector and will benefit organized players.

**Valuations.** We assign a PE of 24x to FY20e, and change our rating to Hold as we believe expected growth in earnings is priced in stock price. **Risks.** Currency fluctuations, substitutes.

| Key financials (YE Mar) | FY16   | FY17   | FY18e  | FY19e  | FY20e  |
|-------------------------|--------|--------|--------|--------|--------|
| Sales (₹ m)             | 16,357 | 17,825 | 19,111 | 23,914 | 27,835 |
| Net profit (₹ m)        | 1,698  | 1,856  | 1,854  | 2,491  | 2,963  |
| EPS (₹)                 | 7.6    | 8.3    | 8.3    | 11.2   | 13.3   |
| PE (x)                  | 38.9   | 35.6   | 35.6   | 26.5   | 22.3   |
| EV / EBITDA (x)         | 24.9   | 24.5   | 23.0   | 17.7   | 14.9   |
| PBV (x)                 | 12.6   | 9.3    | 7.8    | 6.2    | 5.1    |
| RoE (%)                 | 36.0   | 30.1   | 23.8   | 26.1   | 25.2   |
| RoCE (%)                | 23.4   | 19.2   | 15.6   | 18.0   | 18.8   |
| Dividend yield (%)      | 0.3    | 0.3    | 0.5    | 0.5    | 0.8    |
| Net debt / equity (x)   | 0.8    | 0.8    | 0.8    | 0.6    | 0.4    |

Source: Company, Anand Rathi Research

Rating: **Hold**

Target Price: ₹320

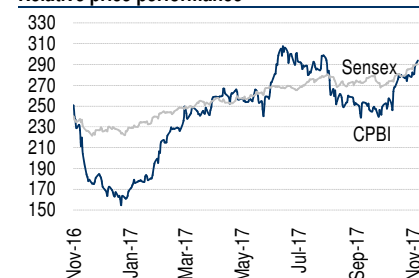
Share Price: ₹297

| Key data           | CPBI IN / CNTP.BO |
|--------------------|-------------------|
| 52-week high / low | ₹314 / ₹154       |
| Sensex / Nifty     | 33315 / 10322     |
| 3-m average volume | \$1.8m            |
| Market cap         | ₹66 bn / \$1014m  |
| Shares outstanding | 222m              |

| Shareholding patter (%) | Sep'17 | Jun'17 | Mar'17 |
|-------------------------|--------|--------|--------|
| Promoters               | 72.0   | 72.0   | 72.0   |
| - of which, Pledged     | -      | 1.9    | 1.4    |
| Free Float              | 28.0   | 28.0   | 28.0   |
| - Foreign Institutions  | 11.4   | 12.2   | 11.5   |
| - Domestic Institutions | 3.8    | 4.5    | 5.3    |
| - Public                | 12.8   | 11.2   | 11.2   |

| Estimates revision (%) | FY18e  | FY19e  |
|------------------------|--------|--------|
| Sales                  | (16.0) | (10.1) |
| EBITDA                 | (20.3) | (16.9) |
| PAT                    | (18.7) | (15.5) |

### Relative price performance



Source: Bloomberg

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## Quick Glance – Financials and Valuations

**Fig 1 – Income statement (₹ m)**

| Year-end: Mar               | FY16         | FY17         | FY18e        | FY19e        | FY20e        |
|-----------------------------|--------------|--------------|--------------|--------------|--------------|
| Net revenues (₹ m)          | 16,357       | 17,825       | 19,111       | 23,914       | 27,835       |
| Growth (%)                  | 4.5          | 9.0          | 7.2          | 25.1         | 16.4         |
| Direct costs                | 9,677        | 10,575       | 11,447       | 14,300       | 16,618       |
| SG&A                        | 3,845        | 4,329        | 4,511        | 5,526        | 6,433        |
| <b>EBITDA</b>               | <b>2,835</b> | <b>2,920</b> | <b>3,152</b> | <b>4,087</b> | <b>4,785</b> |
| EBITDA margins (%)          | 17.3         | 16.4         | 16.5         | 17.1         | 17.2         |
| - Depreciation              | 437          | 524          | 623          | 807          | 875          |
| Other income                | 65           | 227          | 135          | 193          | 143          |
| Interest expenses           | 465          | 286          | 317          | 320          | 300          |
| PBT                         | 1,998        | 2,337        | 2,347        | 3,154        | 3,754        |
| Effective tax rate (%)      | 15.0         | 20.6         | 21.0         | 21.0         | 21.0         |
| + Associates / (minorities) | -            | -            | -            | -            | -            |
| Net income                  | 1,698        | 1,856        | 1,854        | 2,491        | 2,966        |
| Adjusted income             | 1,698        | 1,856        | 1,854        | 2,491        | 2,966        |
| WANS                        | 223          | 223          | 223          | 223          | 223          |
| FDEPS (₹ / sh)              | 7.6          | 8.3          | 8.3          | 11.2         | 13.3         |
| FDEPS growth                | 12.6         | 9.3          | (0.1)        | 34.3         | 19.0         |
| Gross margin (%)            | 48.5         | 48.5         | 48.0         | 48.0         | 48.0         |

**Fig 3 – Cash-flow statement (₹ m)**

| Year-end: Mar                 | FY16  | FY17  | FY18e | FY19e | FY20e |
|-------------------------------|-------|-------|-------|-------|-------|
| PBT                           | 1,998 | 2,337 | 2,347 | 3,154 | 3,754 |
| + Non-cash items              | 437   | 524   | 623   | 807   | 875   |
| Oper. prof. before WC         | 2,435 | 2,861 | 2,971 | 3,960 | 4,629 |
| - Incr. / (decr.) in WC       | (236) | 53    | 425   | 1,410 | 1,287 |
| Others incl. taxes            | 300   | 481   | 493   | 662   | 788   |
| Operating cash-flow           | 2,372 | 2,326 | 2,053 | 1,888 | 2,553 |
| - Capex (tang.+ intang.)      | 1,105 | 2,955 | 2,500 | 1,200 | 800   |
| Free cash-flow                | 1,267 | (629) | (447) | 688   | 1,753 |
| Acquisitions                  |       |       |       |       |       |
| - Div.(incl. buyback,& taxes) | 267   | 267   | 417   | 417   | 651   |
| + Equity raised               | 0     | -     | -     | -     | -     |
| + Debt raised                 | (446) | 1,494 | 500   | (400) | (400) |
| - Fin investments             | 44    | 463   | -     | -     | -     |
| - Misc. (CFI + CFF)           | 489   | (214) | (0)   | (0)   | 0     |
| Net cash-flow                 | 20    | 348   | (363) | (129) | 702   |

Source: Company, Anand Rathi Research

**Fig 5 – Price movement**


Source: Bloomberg

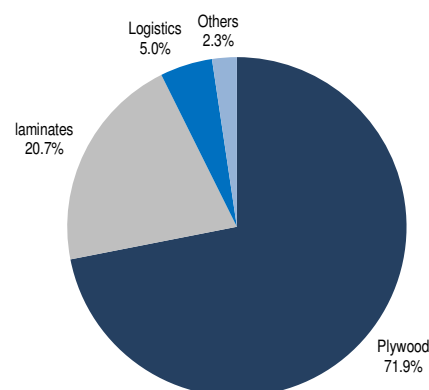
**Fig 2 – Balance sheet (₹ m)**

| Year-end: Mar            | FY16         | FY17          | FY18e         | FY19e         | FY20e         |
|--------------------------|--------------|---------------|---------------|---------------|---------------|
| Share capital            | 223          | 223           | 223           | 223           | 223           |
| Net worth                | 5,251        | 7,086         | 8,524         | 10,599        | 12,914        |
| Total debt               | 4,599        | 6,093         | 6,593         | 6,193         | 5,793         |
| Minority interest        | -            | -             | -             | -             | -             |
| DTL / (assets)           | (655)        | (689)         | (689)         | (689)         | (689)         |
| <b>Capital employed</b>  | <b>9,195</b> | <b>12,490</b> | <b>14,428</b> | <b>16,103</b> | <b>18,018</b> |
| Net tangible assets      | 1,963        | 2,487         | 6,213         | 7,106         | 7,032         |
| Net intangible assets    | 12           | 7             | -             | -             | -             |
| Goodwill                 | -            | -             | -             | -             | -             |
| CWIP (tang. & intang.)   | 930          | 2,842         | 1,000         | 500           | 500           |
| Investments (strategic)  | 497          | 960           | 960           | 960           | 960           |
| Investments (financial)  | 0            | 0             | -             | -             | -             |
| Current assets (ex cash) | 7,172        | 8,024         | 8,602         | 10,634        | 12,402        |
| Cash                     | 190          | 538           | 175           | 46            | 749           |
| Current liabilities      | 1,570        | 2,368         | 2,522         | 3,143         | 3,624         |
| Working capital          | 5,602        | 5,655         | 6,080         | 7,490         | 8,777         |
| <b>Capital deployed</b>  | <b>9,195</b> | <b>12,490</b> | <b>14,428</b> | <b>16,103</b> | <b>18,018</b> |
| Contingent liabilities   | 733          | 841           | -             | -             | -             |

**Fig 4 – Ratio analysis @ ₹297**

| Year-end: Mar                   | FY16  | FY17  | FY18e | FY19e | FY20e |
|---------------------------------|-------|-------|-------|-------|-------|
| P/E (x)                         | 38.9  | 35.6  | 35.6  | 26.5  | 22.3  |
| EV / EBITDA (x)                 | 24.9  | 24.5  | 23.0  | 17.7  | 14.9  |
| EV / sales (x)                  | 4.3   | 4.0   | 3.8   | 3.0   | 2.6   |
| P/B (x)                         | 12.6  | 9.3   | 7.8   | 6.2   | 5.1   |
| RoE (%)                         | 36.0  | 30.1  | 23.8  | 26.1  | 25.2  |
| RoCE (%) - after tax            | 23.4  | 19.2  | 15.6  | 18.0  | 18.8  |
| RoIC                            | 23.9  | 19.9  | 16.1  | 18.1  | 19.2  |
| DPS (₹ / sh)                    | 1.0   | 1.0   | 1.6   | 1.6   | 2.5   |
| Dividend yield (%)              | 0.3   | 0.3   | 0.5   | 0.5   | 0.8   |
| Dividend payout (%) - incl. DDT | 13.1  | 12.0  | 19.2  | 14.3  | 18.8  |
| Net debt / equity (x)           | 0.8   | 0.8   | 0.8   | 0.6   | 0.4   |
| Receivables (days)              | 64    | 69    | 69    | 67    | 67    |
| Inventory (days)                | 61    | 54    | 54    | 54    | 54    |
| Payables (days)                 | 40    | 53    | 53    | 54    | 54    |
| CFO: PAT %                      | 139.7 | 125.4 | 110.7 | 75.8  | 86.1  |

Source: Company, Anand Rathi Research

**Fig 6 – FY17 revenue break-up (standalone)**


Source: Company

## Company Update

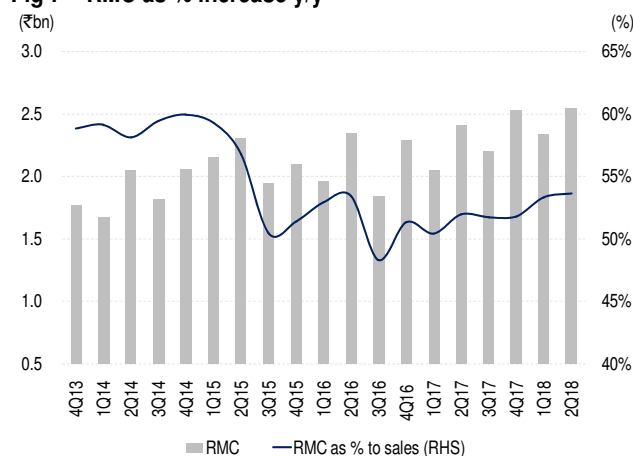
In FY17 volume growth in laminates was robust; Q2 FY18 saw 5.4% domestic laminates volume growth and 21.8% y/y export volume growth. The non-availability of cheaper raw material from Myanmar and Laos affected the plywood margins. The company expects its plywood margins to hold at ~17%, growth coming in primarily from greater volumes.

In Jul'17 the company started trial runs at the MDF plant (capacity: 600cbm a day). The expected capacity utilisation of the plant would be ~75% in Q3 FY18 and increase further to 85-90% in Q4 FY18. The expected contribution from MDF would be ₹1.5bn-2bn in FY18, with a 25-30% margin.

Century has entered into a JV (60:40) with a Chinese company, “Goldea”, to manufacture MDF doors. The project is on track and the company expects the unit to be established in the next six months. The first phase of the investment would be ~₹0.6bn. Also, the company plans to introduce flooring tiles and other value-added products.

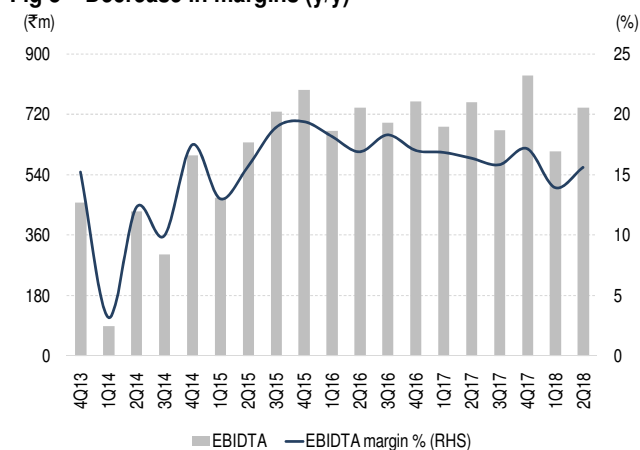
The company is setting up rooftop solar panels on its plants at capex of ₹350m. This, it believes, would save 5-10% in electricity costs.

**Fig 7 – RMC as % increase y/y**



Source: Company

**Fig 8 – Decrease in margins (y/y)**



Source: Company

### Concall Highlights

- Revenue for the quarter was mainly driven by the laminates division. The company expects this division to report ~15-20% growth in revenue.
- Non-availability of low-priced raw material from Myanmar and Laos curtailed plywood margins during the quarter. Also, the dealers expected a decline in the GST rate, from 28% to 18%; hence, they maintained low inventories impacting the plywood division's performance.
- The increase in commercial veneer realisations was chiefly because of greater sales of quality timber in the open market.
- The high-margin MDF division is expected to contribute from Q3 FY18 with ~₹1.5bn-2bn in revenue and realisations of ₹23,500/cbm. Management expects ~25-30% margins from MDF. The plant is expected to operate at 75% capacity utilisation in Q3 FY18 and 85-90% in Q4 FY18.

- The GST rate for laminates is 18% (28% earlier). To stay competitive and further penetrate the market, the company cut its laminate prices accordingly.
- Also, it has started producing value-added pre-laminated particle-board. Expecting ~₹700m-800m in revenue from particle boards (incl. value-added products).
- Management clarified that in Apr'17 the Myanmar government removed the ban (on cutting of timber). The company expects that after all government approvals, from Jan'18, it would receive material at a lower cost, which would result in higher margins. Exports of veneer have been banned in Laos so the company is converting that veneer into plywood and exporting it to India.

## Valuation

The Housing-for-All initiative and the pick-up in demand would boost its growth. It has been promoting its brands (especially its mid-range “Sainik”). The separate campaigns for laminates and the Sainik brand would help spruce up operational efficiency. The recent capacity expansions would power revenue growth in coming years.

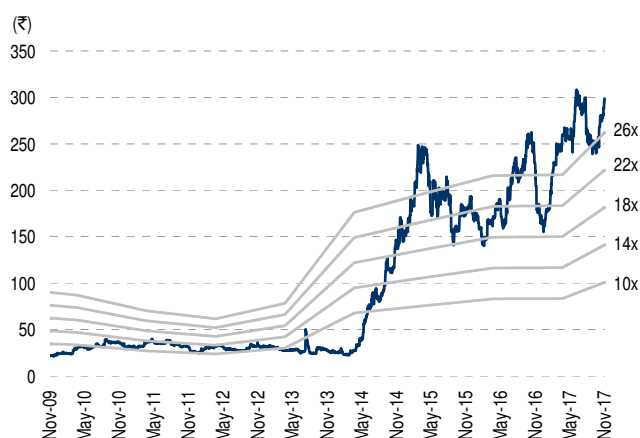
We introduce our FY20 estimates and roll forward our valuation. We believe that the strong return ratios, improving free cash-flows and constant payouts would drive growth. However, we believe that the positives have already been priced in the stock, and change our rating to a Hold assigning a PE of 24x to FY20e earnings and arrive at a revised price target of ₹320 (earlier ₹318).

**Fig 9 – Change in estimates**

| (₹ m)   | Old estimates |        | New estimates |        | Change (%) |        |
|---------|---------------|--------|---------------|--------|------------|--------|
|         | FY18e         | FY19e  | FY18e         | FY19e  | FY18e      | FY19e  |
| Revenue | 22,763        | 26,602 | 19,111        | 23,914 | (16.0)     | (10.1) |
| EBITDA  | 3,956         | 4,919  | 3,152         | 4,087  | (20.3)     | (16.9) |
| PAT     | 2,280         | 2,947  | 1,854         | 2,491  | (18.7)     | (15.5) |

Source: Anand Rathi Research

**Fig 10 – PE band**



Source: Bloomberg, Anand Rathi Research

### Risks

- **Currency volatility.** Since the company imports a major portion of its raw material, currency fluctuations would affect its margin.
- **Threat from substitutes.** The shifting focus of consumers from plywood to multi-density fibreboard (MDF, less expensive than ply) would pose a threat.
- **Higher interest rate.** Century Plyboards’ exposure to interest-rate fluctuations in its foreign-currency borrowing could hurt it.

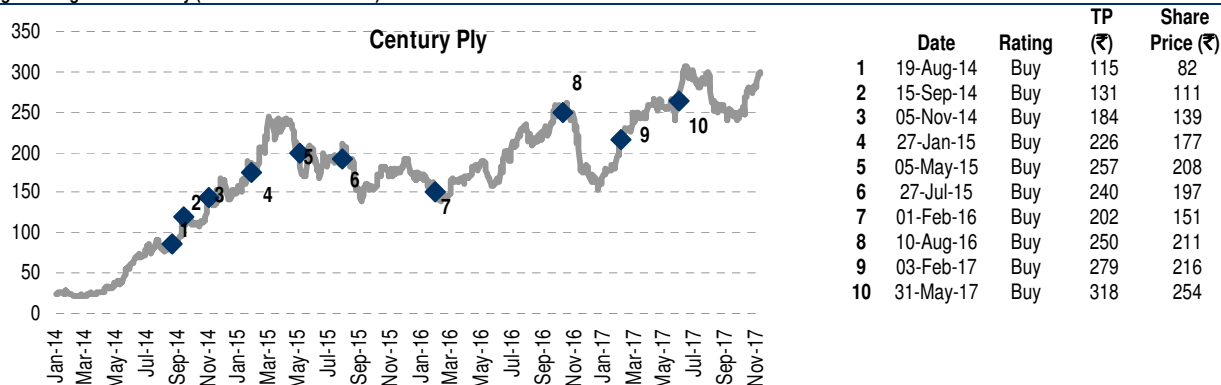
## Appendix

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|---------------------------|------|-------|------|
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