

Century Plyboards

Market share gains drive revenue growth

Century's revenue growth of 10% was higher than industry due to market share gains from unorganised peers. Whilst ply revenue grew by 9% YoY, laminate revenue increased only 3% YoY (lowest in the last 10 quarters) possibly due to capacity/ mix improvement constraints. EBITDA margin (ex-forex) declined 140bps YoY due to lower margin on sales of face veneer, yet was materially higher than Greenply's (9.8%). PAT grew by 8% YoY. Whilst Century continues to gain market share and extend its brand (particle board, MDF), post the recent re-rating, stock trades at 29x FY17E EPS and we see little room for near-term multiple expansion since: (a) demand for building materials remains weak, (b) mega MDF capex will increase leverage and earnings volatility if demand does not pick up, (c) increasing capital deployment outside Indian could increase unpredictability; and (d) cash conversion cycle remains stretched at 121 days. We put our stance/estimates/TP under review and will publish updated view next week.

Results overview: market share gains in ply, laminates growth decelerates

Century's sales grew by 9% YoY, led by 11% YoY plyboard revenue growth but a muted 3% revenue growth in the laminate business. CFS revenue expanded by 35% YoY. EBITDA margin (ex-forex) declined by 140bps YoY to 16.4%. PAT increased 7% YoY (ex-forex). Depreciation declined to Rs90mn as against Rs101mn last year. However, note that the company's PAT adjusted for the IndAS adjustment is Rs390mn as against Rs363mn.

Plyboard segment: Sales grew by 11% YoY, which could be a function of market share gains in the mid-segment category (similar to Greenply) and sales contribution from face veneer. EBIT margin in this segment declined by 180bps YoY, which again could be on account of lower margin on face veneer (last year's margin was an aberration) and increasing mix of mid-segment ply. Whilst the management is yet to share the volume details, we think that volume growth will be 12-13%.

Laminates segment: Laminate revenue growth was the lowest in the last ten quarters (+3% YoY). Whilst the laminate growth in the last few quarters was driven by rising utilisation post the expansion, low growth in this quarter suggests that the company is facing capacity constraints to grow its revenues. EBIT margin in this segment improved by 165bps YoY, led by savings in crude-linked RM costs (40% of overall RM cost for the company) and superior realisation due to improving brand recall post aggressive marketing for the last one year.

CFS segment: Revenue grew by 35% YoY, EBIT margin expanded by 256bps and absolute EBIT grew by 46%. However, the growth is from a low based of last year and despite the strong growth, the container terminals are operating at sub-50% capacity utilisation.

Where do we go from here? Too many things at once

Our preference for Century Plyboards despite an evident slowdown in building materials is premised on the company's initiatives such as scale and channel expansion, continuous improvement in marketing and distribution architecture, and securing long-term availability of raw material. The company has built the largest capacity of face veneer by an Indian player, in Myanmar (32,000 CBM) and Laos (currently 48,000 CBM, likely to double over the next 2-3 years), with low capital intensity (Rs500mn invested in Laos); it has strategically partnered with a local player in Laos for physical infrastructure (barring machinery) and managing production.

However, our concerns emanate from the company's high capex in the next two years (Rs4.5bn-5bn), which will require the company to take debt of ~Rs2.5bn. This could lead to earnings erosion (high interest charge) if demand fails to pick up. Moreover, after Century's and Greenply's expansion in MDF, the installed capacity of the industry will exceed the demand, which will hinder capacity utilisation of Century and could lead to price wars and margin erosion.

UNDER REVIEW

Result Update

Stock Information

Bloomberg Code:	CPBI IN
CMP (Rs):	225
TP (Rs):	UR
Mcap (Rs bn/US\$ bn):	51/0.8
3M ADV (Rs mn/US\$ mn):	108.5/1.6

Stock Performance (%)

	1M	3M	12M	YTD
Absolute	13	25	10	36
Rel. to Sensex	9	16	11	28

Source: Bloomberg, Ambit Capital research

Ambit Estimates (Rs bn)

	FY16	FY17	FY18
Revenues	16.6	18.7	25.2
EBITDA	2.9	3.1	4.2
EPS (Rs)	7.5	8.0	10.9

Source: Bloomberg, Ambit Capital research

Research Analysts

Achint Bhagat, CFA
 achintbhagat@ambitcapital.com
 Tel: +91 22 3043 3178

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

Our last published estimates imply 17%/18%/17% revenue/EBITDA/PAT CAGR and 30% RoEs over FY17-18 (as against 34% in FY16).

Whilst GST implementation should theoretically benefit plyboard manufacturers, given the high proportion of unorganised sector, we believe that there still clarifications required around the rate and whether it will make the unorganised sector entirely non-competitive, given the political ramifications. We have not factored in any non-linear acceleration in market share due to GST.

Valuation: Limited upgrade possibilities

We continue to believe ply is a large addressable market whose unorganised share is shrinking; this bodes well for a market leader like Century Plyboards. Stock trades at 29x FY17E and 21x FY18 EPS, which are at a discount to leading franchises in other building material categories like tiles, paints and electricals (20-35% discount). Our previously published target price implied 19x FY18E EPS. We will take a relook at our valuation in an updated note next week.

Questions for the management

We urge investors to understand the following from the management in the earnings conference call to be held on Thursday at 4pm. Dial-in details: +91 22 6746 5878.

- **Raw material:** The company has set up a large face veneer capacity in Laos and also contemplating expansions in Indonesia. How is this business progressing and is the company committing further capital in expanding its face veneer capacities? Does the company see the face veneer business as an alternate revenue source or a raw material linkage – what is the long-term plan here? Is there a likelihood of disruption in raw material sources such as Myanmar and Laos and the company's strategy to combat that? We also hear that face veneer despatches from Myanmar were impacted in 1QFY17 due to regulatory head-winds, what is the progress on that?
- **Particle board:** How soon can the company reach full utilisation in its particle board business– can the company meet revenues in-line with management's initial estimates (Rs800-1,000mn annual revenues)?
- **Laminates business:** The growth in the laminates business was significantly lower than previous quarters. What led to this, is it because of weak demand or capacity constraints?
- **Margin compression:** What has resulted in low EBIT margin for plyboards for the third consecutive quarter? Has the margin on face veneer sales reduced materially?
- **Forex exposure:** What is the current forex exposure of the company and what is the unhedged Buyers credit? Why is the company not hedging its forex exposure, despite volatile INR?
- **Capex and funding:** The company has a large capex commitment in the next two years (Rs4.5-5bn), how does it plan to fund it, especially given that internal accruals might remain weak if demand weakness persists? Is the company looking to add capacities in the laminates business as well?

Exhibit 1: Quarterly summary

Particulars (Rs mn unless mentioned)	1QFY16	4QFY16	1QFY17	YoY (%)	QoQ (%)	Ambit Est	Dev (%)
Net Sales	3,666	4,512	4,036	10.1	(10.6)	4,060	(0.6)
Operating costs	3,024	3,774	3,374	11.6	(10.6)	3,386	(0.3)
EBITDA	671	773	683	1.8	(11.6)	694	(1.6)
EBITDA margin	18.3	17.1	16.9	-138 bps	-20 bps	17.1	-17 bps
EBITDA (ex-forex)	659	760	661	0.4	(13.0)	694	(4.8)
EBITDA margin (ex-forex)	18.0	16.9	16.4	-159 bps	-46 bps	17.1	-72 bps
Other income	4	1	8	97.4	823.4	10	(19.7)
Depreciation	99	122	93	(6.6)	(24.2)	120	(22.9)
EBIT	576	652	569	(1.3)	(12.8)	584	(2.7)
Interest cost	122	103	89	(27.4)	(13.9)	100	(11.3)
PBT	454	549	510	12.4	(7.0)	484	5.3
Tax	53	144	80	50.9	(44.5)	121	
PAT	401	405	431	7.3	6.3	363	18.5
PAT (adjusted for forex gains/losses)	390	396	366	(6.2)	(7.5)	371	(1.3)
EPS	1.8	1.8	1.9	7.3	6.3	2	18.5

Source: Company, Ambit Capital research

Exhibit 2: Segmental performance

Segmental Sales (Rs mn)	1QFY16	4QFY16	1QFY17	YoY (%)	QoQ (%)
Plyboard	2,576	3,207	2,866	11.2	(10.6)
Laminates	772	923	795	3.0	(13.8)
CFS	174	238	234	34.5	(1.6)
Others	165	150	148	(10.2)	(1.4)
Segmental EBIT (Rs mn)					
Plyboard	438	482	436	(0.5)	(9.6)
Laminates	101	136	118	16.0	(13.5)
CFS	54	87	79	45.6	(9.8)
Others	(1)	(11)	(4)	149.0	(65.3)
Segmental EBIT (%)					
Plyboard	17.0	15.0	15.2	-179 bps	18 bps
Laminates	13.1	14.7	14.8	165 bps	6 bps
CFS	31.0	36.6	33.6	256 bps	-303 bps
Others	(0.9)	(7.0)	(2.5)	-158 bps	455 bps
Capital Employed (Rs mn)					
Plyboard	5,277	5,017	5,232	(0.9)	4.3
Laminates	1,748	1,572	1,594	(8.8)	1.4
CFS	558	595	531	(4.8)	(10.8)
Others	143	118	54	(62.4)	(54.2)
Segmental RoCE (TTM EBIT/CE)					
Plyboard	37.1	36.6	35.0	-206 bps	-154 bps
Laminates	16.8	28.4	29.1	1224 bps	63 bps
CFS	42.8	47.3	57.7	1494 bps	1037 bps

Source: Company, Ambit Capital research

Balance Sheet

Rs mn unless mentioned	FY14	FY15	FY16	FY17E	FY18E
Total Networth	2,931	3,894	5,275	6,740	8,732
Loans	5,276	4,677	4,527	5,827	6,577
<i>Of which Buyers credit</i>	2,002	1,500	1,100	800	800
Sources of funds	8,314	8,564	9,804	12,578	15,331
Net block	3,164	2,456	3,478	6,567	8,038
Total Current Assets	6,793	7,819	8,004	7,875	9,875
Current liabilities and provisions	1,914	2,041	2,036	2,221	2,939
Net current assets	4,879	5,777	5,968	5,654	6,935
Application of funds	8,314	8,564	9,804	12,578	15,331

Source: Company, Ambit Capital research

Income statement

Rs mn unless mentioned	FY14	FY15	FY16	FY17E	FY18E
Revenue	13,477	15,727	16,469	18,022	24,101
<i>Plyboards</i>	10,480	12,458	12,364	13,661	16,371
<i>MDF/particle board</i>	-	-	-	600	3,552
<i>Laminates</i>	2,587	3,213	3,947	4,602	5,811
Total expenses	11,961	13,326	13,709	15,056	20,083
EBITDA	1,766	2,559	2,875	3,074	4,210
EBITDA margin	13.1%	16.3%	17.5%	17.1%	17.5%
Depreciation	387	485	446	690	787
EBIT	1,416	2,251	2,445	2,598	3,626
Other income	37	177	16	214	204
Adj PBT	629	1,795	1,978	2,229	3,028
Provision for taxation	124	338	297	446	606
Adjusted PAT	786	1,491	1,672	1,774	2,412
EPS basic (Rs)	4	7	8	8	11

Source: Company, Ambit Capital research

Cash flow statement

Rs mn unless mentioned	FY14	FY15	FY16	FY17E	FY18E
PBT	629	1,796	1,978	2,229	3,028
Change in working capital	(1,168)	(877)	311	64	(1,499)
Direct taxes paid	(117)	(337)	(297)	(446)	(606)
CFO	338	1,488	2,889	2,692	2,106
Net capex	643	(68)	1,468	3,779	2,259
CFI	(706)	128	(1,479)	(3,565)	(2,055)
Interest & finance charges paid	(287)	(335)	(467)	(369)	(598)
Dividends paid	(60)	(462)	(291)	(309)	(420)
CFF	(281)	(1,577)	(908)	623	(268)
Net increase in cash	(649)	39	502	(250)	(217)
FCF	(305)	1,556	1,421	(1,087)	(153)
Opening cash balance	983	334	374	875	625
Closing cash balance	334	374	875	625	408

Source: Company, Ambit Capital research

Ratio analysis / Valuation parameters

	FY14	FY15	FY16	FY17E	FY18E
RoCE	19	22	21	18	21
RoIC	23	23	20	22	23
RoE	36	43	36	29	31
Working capital turnover	2.5	3.0	2.8	3.1	3.8
Debt/Equity(x)	1.7	1.2	0.8	0.9	0.7
Net debt/Equity(x)	1.6	1.1	0.7	0.8	0.7
P/E (x)	51.2	27.0	24.1	22.7	16.7
P/B(x)	13.2	10.2	7.5	5.9	4.6
EV/EBITDA(x)	25.6	17.4	15.3	14.8	11.0

Source: Company, Ambit Capital research