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Wood Panel

Target price Rs267

Earnings revision

(%)	FY17E	FY18E
Sales	↓ 2.3%	↓ 8.2
EBITDA	↓ 1.9%	↓ 11.6
EPS	↓ 6.0%	↓ 21.7

Target price revision

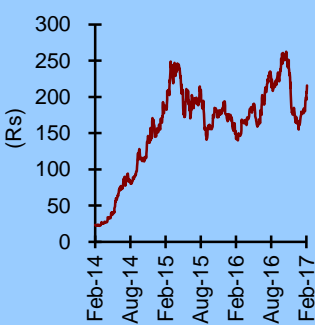
Rs267 from Rs218

Shareholding pattern

	Jun '16	Sep '16	Dec '16
Promoters	73.3	72.2	72.0
Institutional investors	13.3	15.4	15.7
MFs and UTI	4.3	5.2	6.6
FIs/Banks	0.5	0.0	0.0
Insurance	-	-	-
FII	8.5	10.2	10.1
Others	13.4	12.4	12.5

Source: NSE

Price chart



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INDIA

ICICI Securities

Century Plyboards

BUY

Upgrade from Hold

Core segments deliver impressively despite 'demon' **Rs216**

Reason for report: Q3FY17 result review and recommendation change

Century Plyboards' (CPBI) core business segments – plywood and laminates – surprised positively with an impressive performance despite the challenging environment. Despite other SBUs (CFS, PLPB and others) diluting the overall performance to some extent, the company managed to post a beat on all fronts. Plywood and laminates posted impressive YoY volume growth of 1% and 16.5%, respectively, with realisations also heading northwards across SBUs, driving an overall 11.8% YoY growth in 3Q vs. our estimate of 4% growth YoY. Margins at 16.6%, up 20bps QoQ, also surprised positively vs. our estimates of 15.3%. To factor in the demonetisation move, we revise revenue/earnings estimates downwards by 2.3%/8.2% and 6%/21.7% for FY17/FY18, respectively, and roll over the earnings to FY19E. Going forward, we expect the company to report revenue and PAT CAGR of 17.2% (vs. 19.1% earlier) and 17.3% (vs. 20.4% earlier), respectively, over FY16-FY18E. At CMP, the stock trades at 17.8x FY19E earnings. We upgrade the stock to BUY from *Hold* with revised target price of Rs267 (Rs218 earlier), valuing the stock at 22x FY19E (vs. 20x earlier) earnings.

- **Core business segments deliver strong numbers despite challenging environment.** CPBI surprised the street with plywood and laminates division revenues growing by 11% and 22% respectively in Q3 led by strong realisation growth (largely due to steep jump in commercial veneer realisations) in plywood and impressive volumes in laminates division. Management attributed the growth in both the divisions to market share gains from the unorganised sector in particular, post the demonetisation move which impacted the supplies of unorganised players. The plywood margin for the quarter too were higher by 50bps to 14.7% while laminates EBIT margins were lower by 70bps largely due to inferior product mix.
- **Other SBUs partially offset strong core performance.** CPBI's CFS division posted sluggish performance in Q3FY17 with 17.5% YoY volume de-growth leading to ~52% YoY cut in segmental EBIT. Particle board (PB) as well as others segment reported losses at EBIT level due to initial start-up costs in PB unit and phasing out of the furniture business (reported under the 'others' segment) which impacted revenues by 39% YoY. Management expects the PB unit to achieve PBT break-even in Q1FY18 while 'others' segment is expected to trim losses significantly post Q3FY17 with the company finally opting out of the furniture segment.
- **MDF project commissioning as per schedule.** The company is investing close to Rs3.8bn on putting up an MDF plant in Punjab. Management expects the plant to commence production in Apr'17 and achieve revenues to the tune of Rs4bn (at 80% utilisation rate) in FY18. However, we have factored in MDF revenues to the tune of Rs1.9bn in FY18 at 40% utilisation rate.

Market Cap	Rs47.9bn/US\$711mn	Year to Mar	FY16	FY17E	FY18E	FY19E
Reuters/Bloomberg	CNTP.BO /CPBI IN	Revenue (Rs mn)	16,637	17,802	21,743	26,683
Shares Outstanding (mn)	222.2	Rec. Net Income (Rs mn)	1,672	1,798	1,898	2,701
52-week Range (Rs)	267/135	EPS (Rs)	7.5	8.1	8.5	12.1
Free Float (%)	28.0	% Chg YoY	12.2	7.5	5.6	42.3
FII (%)	10.1	P/E (x)	28.7	26.7	25.3	17.8
Daily Volume (US\$/'000)	1,100	CEPS (Rs)	9.7	10.4	12.0	16.7
Absolute Return 3m (%)	6.5	EV/E (x)	18.1	18.7	14.8	10.6
Absolute Return 12m (%)	27.2	Di-*/vidend Yield (%)	0.9	1.2	1.2	1.2
Sensex Return 3m (%)	3.0	RoCE (%)	25.5	20.7	20.9	26.7
Sensex Return 12m (%)	18.3	RoE (%)	35.7	30.1	26.7	31.0

Please refer to important disclosures at the end of this report

Table 1: Q3FY17 result review*(Rs mn, year ending March 31)*

Particulars	Q3FY17	Q3FY16	YoY (%)	Q2FY17	QoQ (%)	9MFY17	9MFY16	YoY (%)
Net Sales	4,229	3,784	11.8	4,593	(7.9)	12,858	11,805	8.9
Other Op. Income	25	20	25.3	34	(26.1)	81.3	81.1	0.2
Total Op. Income	4,255	3,804	11.8	4,627	(8.0)	12,939	11,886	8.9
Expenditure	3,549	3,109	14.2	3,870	(8.3)	10,793	9,778	10.4
Raw Materials	1,464	1,226	19.4	1,513	(3.2)	4,415	4,652	(5.1)
Cost of traded goods	737	612	20.5	892	(17.4)	2,235	1,486	50.4
Staff Cost	637	587	8.5	624	2.1	1,899	1,657	14.6
Other Expenditure	711	683	4.1	841	(15.5)	2,243	1,983	13.1
Operating Profit	706	696	1.4	757	(6.8)	2,146	2,108	1.8
<i>OPM (%)</i>	<i>16.6</i>	<i>18.3</i>	<i>-170bps</i>	<i>16.4</i>	<i>20bps</i>	<i>16.6</i>	<i>17.7</i>	<i>-110bps</i>
Other Income	0	8	(96.4)	13	(97.8)	21.5	17.9	19.9
Interest	112	110	1.7	60	85.7	261	363	(28.1)
Depreciation	149	114	31.6	126	18.4	368	318	16.0
Exceptional income	0	0		0		0	0	
PBT	445	480	(7.4)	584	(23.8)	1,539	1,446	6.4
Tax	72	69	4.3	91	(21.1)	242	163	48.2
PAT	373	412	(9.4)	493	(24.3)	1,297	1,282	1.1
<i>NPM (%)</i>	<i>8.8</i>	<i>10.9</i>	<i>-210bps</i>	<i>10.7</i>	<i>-190bps</i>	<i>10.1</i>	<i>10.9</i>	<i>-80bps</i>

Source: Company data, I-Sec research

Table 2: Segment reporting*(Rs mn, year ending March 31)*

Particulars	Q3FY17	Q3FY16	YoY (%)	Q2FY17	QoQ (%)	9MFY17	9MFY16	YoY (%)
Segment revenue								
Plywood & allied products	3,227	2,913	10.8	3,465	(6.9)	9,805	9,180	6.8
Laminate & allied products	979	801	22.3	1,110	(11.8)	2,962	2,555	15.9
Particle board	103	-	#DIV/0!	32	219.6	135	-	0.0
MDF	2	15	(87.7)	12	(84.6)	28	65	(57.0)
CFS	201	235	(14.6)	211	(4.8)	646	610	5.9
Others	82	134	(39.0)	113	(27.8)	342	413	(17.1)
Total	4,562	4,087	11.6	4,926	(7.4)	13,864	12,797	8.3
Segment EBIT								
Plywood & allied products	475	412	15.4	492	(3.4)	1,404	1,373	2.2
Laminate & allied products	123	106	15.7	171	(28.2)	409	306	33.7
Particle board	(24)	-	0.0	(12)	0.0	(36)	-	0.0
MDF	(0)	3	(105.5)	3	(106.1)	5	10	(53.9)
CFS	41	84	(51.9)	56	(28.0)	175	195	(9.8)
Others	(28)	(1)	4,841.0	(24)	17.2	(55)	(6)	779.8
Total	587	605	(3.1)	686	(14.5)	1,901	1,878	1.2
EBIT margin (%)			YoY (bps)		QoQ (bps)			YoY (bps)
Plywood & allied products	14.7	14.2	58	14.2	54	14.3	15.0	-65
Laminate & allied products	12.5	13.3	-72	15.4	-288	13.8	12.0	183
Particle board	-23.6	0.0	0	0.0	0	-26.9	0.0	0
MDF	-8.4	18.7	-2,710	21.2	-2,957	17.3	16.2	117
CFS	20.2	35.9	-1,569	26.7	-651	27.2	31.9	-473
Others	-34.3	-0.4	-3,388	-21.1	-1,317	-16.2	-1.5	-1,469
Total	12.9	14.8	-194	13.9	-107	13.7	14.7	-96
RoCE (%)			YoY (bps)		QoQ (bps)			YoY (bps)
Plywood & allied products	35.5	29.9	568	35.5	1	35.0	33.2	181
Laminate & allied products	30.2	25.7	449	44.2	-1,400	33.5	24.7	884
Particle board	-16.0	0.0	-1,596	-7.0	-898	-7.9	0.0	-795
MDF	0.0	3.4	-340	0.7	-71	0.3	4.2	-386
CFS	29.6	53.4	-2,382	38.8	-921	42.8	41.1	165
Others	-161.7	-6.6	-15,503	-114.0	-4,765	-106.9	-24.6	-8,228
Total	22.7	28.3	-558	27.6	-486	24.6	29.3	-473

Source: Company data, I-Sec research

Table 3: Change in estimates*(Rs mn)*

Estimates	Old		New		% change	
	FY17E	FY18E	FY17E	FY18E	FY17E	FY18E
Revenue	18,105	23,540	17,686	21,618	-2.3%	-8.2%
EBITDA	3,001	4,195	2,945	3,709	-1.9%	-11.6%
PAT	1912	2425	1,798	1,898	-6.0%	-21.7%
EPS	8.6	10.9	8.1	8.5	-6.0%	-21.7%

Source: Company data, I-Sec research

Key takeaways from management concall

Plywood division

- Premium segment outperformed the commercial grade (Sainik) segment in terms of growth. Sainik volumes for the quarter stood at 11,819 CBM vs 12,037 CBM YoY.
- Commercial veneer volumes got impacted this quarter due to lower demand from the unorganised sector which got severely impacted from demonetisation. However, the segment revenues still grew 38% YoY led by higher realisations (up 76% YoY) due to significantly higher external sales of A grade (premium) veneers.
- Focus during the quarter was more on gaining market share from the reeling unorganised sector, and thus the outperformance in terms of growth.
- Price hike in plywood looks difficult at the moment; possible only post GST implementation.

Laminates division

- Growth continues to gain traction despite the challenging scenario, largely led by focus on high value adds in the domestic market.
- Realisations in exports were lower due to inferior product mix.
- Guides to grow at 20% YoY in FY18 as well.

MDF and Particle boards division

- Particle boards achieved 17.9% EBIDTA margins during the quarter. However, the segment suffered loss of Rs24mn at PBT level due to interest and depreciation charged during the quarter.
- Expects to set up 2nd line in 9x6 feet pre-laminated particle boards (for the OEM segment) where the competitive intensity is far lower compared to 8x4 feet segment. This will aid strong margins for the segment going forward.
- Expect particle board division to break even (at PBT level) from April, where the company expects to clock 100% utilisation rate.
- MDF plant moving as per schedule. The plant is expected to commission in Mar'17, while production to start from Apr'17.
- Management expects 40% value-add from MDF revenues by FY19 with focus on laminated flooring, doors and furniture.

Others

- Jan'17 has fared better YoY despite the challenging environment. Management expects FY18 to be a better year than FY17 led by recent demonetisation move and expected benefits of GST implementation.
- Demand in South and East has been significantly better than North and West (which were impacted on account of demonetisation).
- CPBI has finally opted out of the loss making furniture business and has taken all the relevant write-downs in the current quarter.

Financial summary

Table 4: Profit & Loss statement

(Rs mn, year ending March 31)

	FY16	FY17E	FY18E	FY19E
Net Revenues	16,637	17,802	21,743	26,683
Operating Expenses	13,749	14,858	18,034	21,645
EBITDA	2,888	2,944	3,709	5,038
% margins	17.4%	16.5%	17.1%	18.9%
Depreciation & Amortisation	484	523	777	1,013
Gross Interest	481	340	604	518
Other Income	58	39	43	47
Recurring PBT	1,981	2,121	2,372	3,554
Less: Taxes	301	323	474	853
Less: Minority Interest	8	-	-	-
Add: Share of Profit of Associates	-	-	-	-
Net Income (Reported)	1,672	1,798	1,898	2,701
Extraordinaries (Net)	-	-	-	-
Recurring Net Income	1,672	1,798	1,898	2,701

Source: Company data, I-Sec research

Table 5: Balance sheet

(Rs mn, year ending March 31)

	FY16	FY17E	FY18E	FY19E
Assets				
Total Current Assets	8,139	8,402	9,728	11,318
of which cash & cash eqv.	389	119	342	376
Total Current Liabilities & Provisions	1,671	1,772	1,978	2,358
Net Current Assets	6,468	6,631	7,750	8,960
Investments	2	2	2	2
Net Fixed Assets	2,624	3,117	6,883	6,519
Capital Work-in-Progress	1,026	3,792	250	-
Goodwill	3	-	-	-
Total Assets	10,122	13,542	14,885	15,481
Liabilities				
Borrowings	4,698	7,025	7,175	5,775
Deferred Tax Liability	7	7	7	7
Minority Interest	90	90	90	90
Equity Share Capital	223	223	223	223
Face Value per share (Rs)	1	1	1	1
Reserves & Surplus*	5,104	6,197	7,390	9,387
Less: Misc. Exp. n.w.o.	-	-	-	-
Net Worth	5,327	6,420	7,613	9,609
Total Liabilities	10,122	13,542	14,885	15,481

*Excluding revaluation reserves

Source: Company data, I-Sec research

Table 6: Quarterly trend (consolidated)

(Rs mn, year ending March 31)

	Mar-16	Jun-16	Sep-16	Dec-16
Net revenues	4,547	4,058	4,627	4,255
% growth (YoY)	11.1	9.8	5.5	11.8
EBITDA	773	683	757	706
Margin (%)	17.0	16.8	16.4	16.6
Other income	1	8	13	21
Extraordinaries (Net)	-	-	-	-
Net profit	405	431	493	373

Source: Company data, I-Sec research

Table 7: Cashflow statement

(Rs mn, year ending March 31)

	FY16	FY17E	FY18E	FY19E
Operating Cashflow	2,476	2,510	2,674	3,715
Working Capital Changes	(109)	(432)	(897)	(1,176)
Capital Commitments	(1,320)	(3,780)	(1,000)	(400)
Free Cashflow	1,046	(1,702)	777	2,139
Cashflow from Investing Activities	2	-	-	-
Issue of Share Capital	-	(189)	-	-
Inc (Dec) in Borrowings	(440)	2,327	150	(1,400)
Dividend paid	(593)	(705)	(705)	(705)
Change in Deferred Tax Liability	(1)	-	-	-
Chg. in Cash & Bank balance	14	(269)	222	34

Source: Company data, I-Sec research

Table 8: Key ratios

(Year ending March 31)

	FY16	FY17E	FY18E	FY19E
Per Share Data (in Rs.)				
EPS	7.5	8.1	8.5	12.1
Cash EPS	9.7	10.4	12.0	16.7
Dividend per share (DPS)	2.0	2.5	2.5	2.5
Book Value per share (BV)	23.5	29.3	34.6	43.6
Growth (%)				
Net Sales	4.9	7.2	22.2	22.9
EBITDA	6.8	2.0	26.0	35.8
PAT	12.2	7.5	5.6	42.3
Cash EPS	9.0	7.3	15.2	38.9
Valuation Ratios (x)				
P/E	28.7	26.7	25.3	17.8
P/CEPS	22.2	20.7	18.0	12.9
P/BV	9.2	7.4	6.2	5.0
EV / EBITDA	18.1	18.7	14.8	10.6
EV / Sales	3.2	3.1	2.5	2.0
Operating Ratios				
Raw Material / Sales (%)	54.5	54.5	54.4	52.4
Employee cost / Sales (%)	12.8	12.6	12.8	12.8
SG&A / Sales (%)	14.9	12.6	12.1	12.1
Other Income / PBT (%)	2.9	1.8	1.8	1.3
Effective Tax Rate (%)	15.2	15.2	20.0	24.0
Working Capital (days)	110.1	107.0	101.0	97.0
Inventory Turnover (days)	65.8	62.0	60.0	57.0
Receivables (days)	63.5	65.0	60.0	60.0
Payables (days)	19.2	20.0	19.0	20.0
Net D/E Ratio (x)	0.8	1.1	0.9	0.6
Profitability Ratios (%)				
Net Income Margins	10.2	10.2	8.8	10.2
RoACE	25.5	20.7	20.9	26.7
RoAE	35.7	30.1	26.7	31.0
Dividend Payout	35.5	39.2	37.1	26.1
Dividend Yield	0.9	1.2	1.2	1.2
EBITDA Margins	17.5	16.6	17.2	19.0

Source: Company data, I-Sec research

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ANALYST CERTIFICATION

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