

Current Reco	: BUY
Previous Reco	: BUY
CMP	: INR262
Target Price	: INR319
Potential Return	: 22%

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Market data	
Sensex	: 32,325
Sector	: Mid Cap
Market Cap (INRbn)	: 57.9
Market Cap (USDbn)	: 0.911
O/S Shares (m)	: 222.2
52-wk HI/LO (INR)	: 314/154
Avg Daily Vol ('000)	: 402
Bloomberg	: CPBI IN

Source: Bloomberg

Valuation			
	FY17	FY18e	FY19e
EPS (INR)	8.6	9.1	12.7
P/E(x)	30.6	28.7	20.5
P/BV(x)	8.2	6.5	5.1
EV/EBITDA(x)	20.3	17.9	13.0
Dividend yield (%)	0.4	0.4	0.5

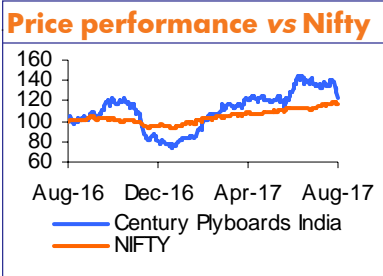
Source: Bloomberg

Returns (%)				
	1m	3m	6m	12m
Absolute	(11)	2	21	22
Relative	(14)	(5)	6	5

Source: Bloomberg

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

Source: Bloomberg



Source: Bloomberg, Indexed to 100

1QFY18 RESULT REVIEW

Century Plyboards (I) Limited

Margin got impacted as GST transition resulted in adverse product mix; structural story intact

Century Plyboards (I) Ltd. (CPBI) reported lower than expected earnings at INR342mn against estimate of INR374mn as 32% YoY decline in commercial veneer volume impacted the segmental margin by 310bps YoY and overall EBITDA margin by 300bps in turn. Revenue was largely in line at INR4.38bn, up a modest ~9% YoY. Plywood (adjusted for commercial veneer) registered revenue growth of 15% on back of a core plywood volume growth of 11% whereas laminates segment remained largely flattish. Overall, EBITDA margin was down ~300bps YoY at 13.9% with both plywood and laminates segment seeing ~300bps YoY EBITDA margin decline. We believe a 32% YoY decline in relatively better margin commercial veneers resulted in the margin decline in the ply segment whereas flat volume and GST related transition costs impacting domestic sales resulted in the margin decline in the laminates segment. EBITDA came in at INR609mn, down 11% YoY (Antique: INR690mn), the decline coming primarily on back of weakness in product mix change led weaker margin.

We have cut our FY19E earnings estimate by 5% on back of the slight delay in kick starting of operation of the Punjab MDF facility from July to October this year. Consequently, we cut our target price to INR319/share (INR334 earlier), valuing CPBI at 25x FY19E EPS. We maintain our BUY recommendation on the stock.

Strong growth in ply volume as compared to peer; major decline in commercial veneer and flat laminate volume impact margin

Although volume growth for core plywood was pretty strong at 15% on back of a strong 11% growth in volume and rest being better mix led realization increase, the 32% decline in commercial veneer sales resulted in the overall ply segment reporting revenue growth of 11% and most importantly lead to a ~300bps YoY decline in segmental margin. Despite being challenged by the GST transition at ground level, we believe it was a commendable achievement of clocking a double digit volume growth in this quarter. With focus towards creating branded premium market in the INR80-90/sq.ft segment through brand Bond, CPBI is sourcing cheaper veneers from alternate markets like Solomon Islands, Papua New Guinea etc to manage its margin and outperform market growth. With ban of exports of processed veneers from Myanmar, CPBI will make the finished plywood there and export that to India thus resulting in need for alternate markets for veneer sourcing. With Laos ban still on and incremental cost of logistics for sourcing the processed plywood fully from Myanmar, CPBI is focusing on alternate sources. In the laminates segment on back of decline in GST rates destocking at retail level impacted off-take along with some labor troubles impacting production partly. Thus despite a ~30% growth in exports, weak domestic volume impacted scale and thus overall margin declined by 300bps in the segment.

MDF plant set to kick start commercial production from 2H likely; trial runs already started from July

The green field MDF plant in Punjab is expected to start commercial production from October and management expects it to run at ~50% utilization in 2HFY18, catering primarily to domestic market with prime target being North Indian markets in order to maximize margin by saving on logistics costs. Commissioning of the three new laminates lines in the same premises going as per schedule and CPBI in the meanwhile is extending to a seven day production of laminates post discussing with the work force. With domestic MDF supply set to almost double in next couple of years, CPBI is focusing towards market creation through substitution of lower end ply market and rising acceptance of MDF in general and strategically CPBI would prefer selling bulk of the MDF in the domestic market to keep high ROCE on the MDF project. Laminates segment demand has recovered completely in 2H July and is making new highs as the 8-9% duty rate cut getting passed on is creating demand elasticity for organized players in the space.

Valuation

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Financial Performance

Particulars (INRm)	1QFY18	1QFY17	YoY (%)	4QFY17	QoQ (%)
Net Sales	4,384	4,036	8.6	4,885	(10.3)
Other Op. Income	0	21		0	
Total Op. Income	4,384	4,058	8.1	4,885	(10.3)
Expenditure	3,775	3,374	11.9	4,048	(6.7)
Raw Materials	1,447	1,439	0.6	1,611	(10.2)
Cost of traded goods	892	606	47.1	920	(3.1)
Staff Cost	689	638	8.0	667	3.2
Other Expenditure	747	691	8.1	850	(12.1)
Operating Profit	609	683	(10.9)	838	(27.3)
OPM (%)	13.9	16.8	-295 bps	17.1	-325 bps
Depreciation	132	93	42.7	156	(15.1)
Other Income	5	8	(32.8)	141	(96.2)
Interest	60	89	(32.4)	26	134.8
Exceptional income	0	(6)		0	
PBT	423	505	(16.2)	798	(47.1)
Tax	80	80	0.6	239	(66.5)
PAT	342	425	(19.4)	559	(38.8)
Adjusted PAT	342	431	(20.5)	559	(38.8)
NPM (%)	7.8	10.6	-280 bps	11.4	-363 bps

Source: Company, Antique

Segment revenue

Particulars (INRm)	1QFY18	1QFY17	YoY (%)	4QFY17	QoQ (%)
Plywood & Allied Products	3,173	2,869	10.6	3,485	(8.9)
Laminates & Allied Products	807	795	1.5	995	(18.9)
CFS	238	233	2.2	234	1.8
Others	161	143	12.6	166	(3.0)
Net Sales	4,380	4,040	8.4	4,880	(10.2)
Total	4,380	4,040	8.4	4,880	(10.2)

Source: Company, Antique

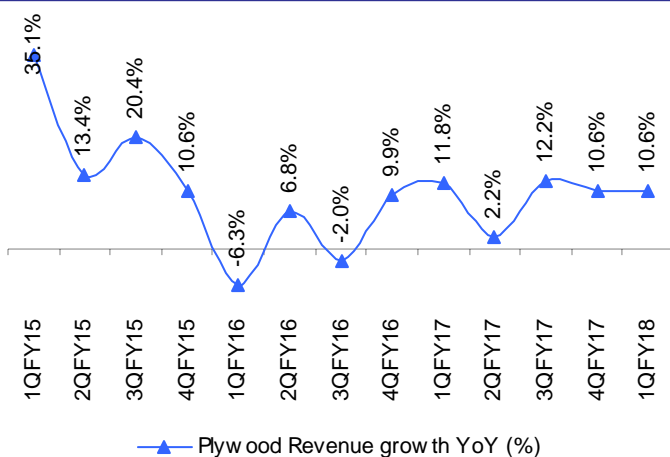
EBIT margin (%)

Particulars (INRm)	1QFY18	1QFY17	YoY (bps)	4QFY17	QoQ (bps)
Plywood & Allied Products	12.1	15.2	-307 bps	21.2	-911 bps
Laminates & Allied Products	11.4	14.5	-313 bps	11.1	28 bps
CFS	28.1	33.7	-555 bps	25.6	256 bps
Others	(25.5)	(2.6)	-2,299 bps	(32.8)	723 bps
Total	11.5	15.5	-402 bps	17.5	-606 bps

Source: Company, Antique

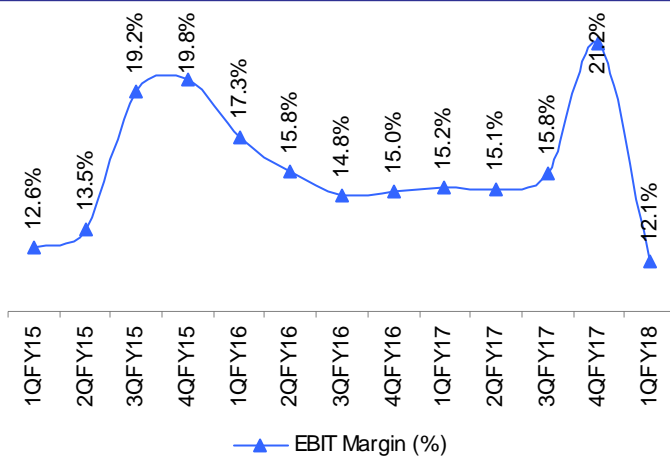
Plywood division performance

Revenue Growth Trend



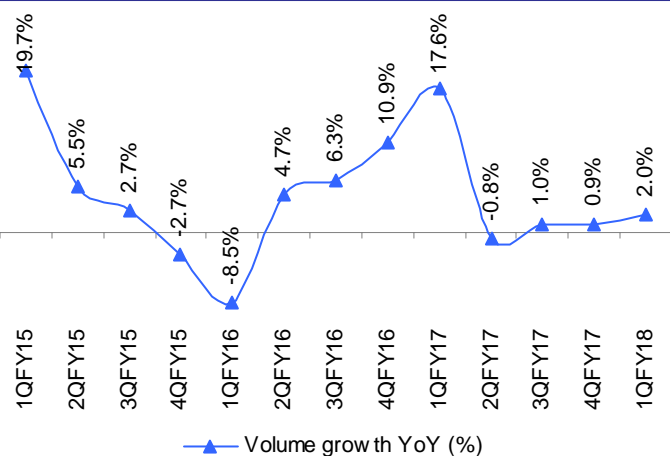
Source: Company, Antique

EBIT Margin Trend



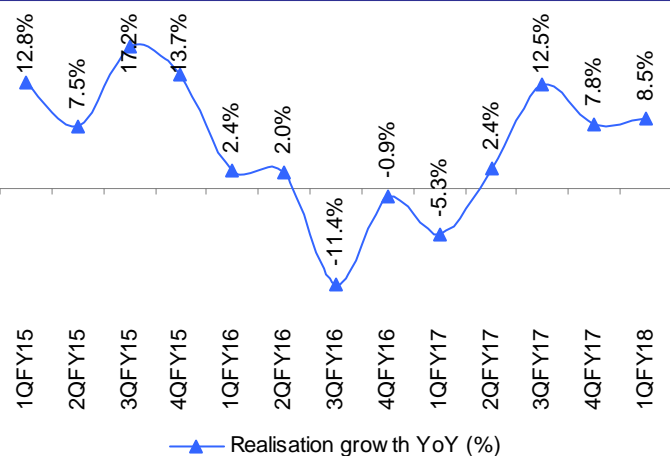
Source: Company, Antique

Total Volume Growth Trend



Source: Company, Antique

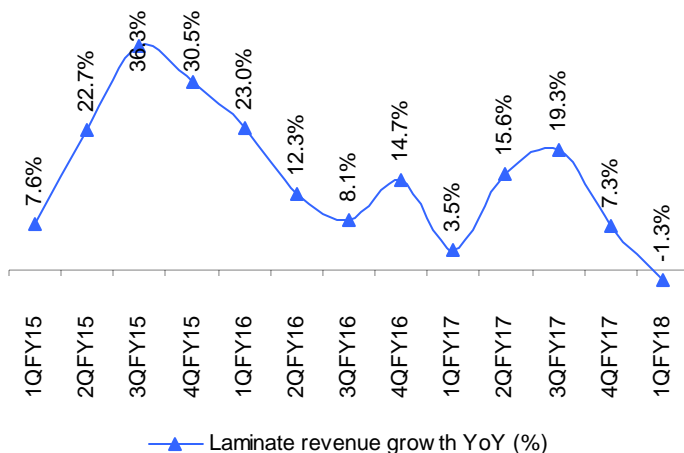
Blended Realisation Growth Trend



Source: Company, Antique

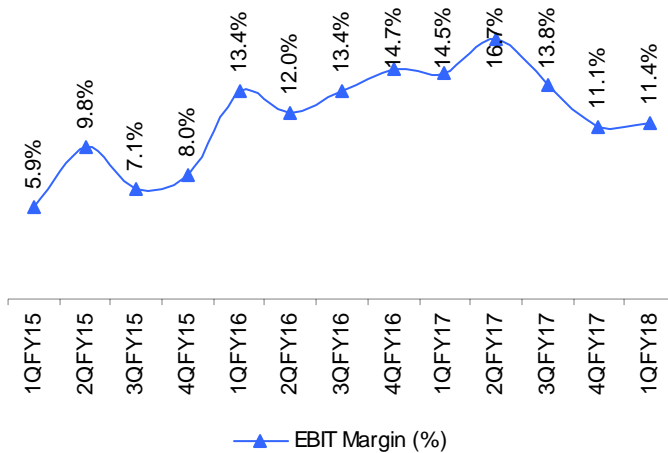
Laminate division performance

Revenue Growth Trend



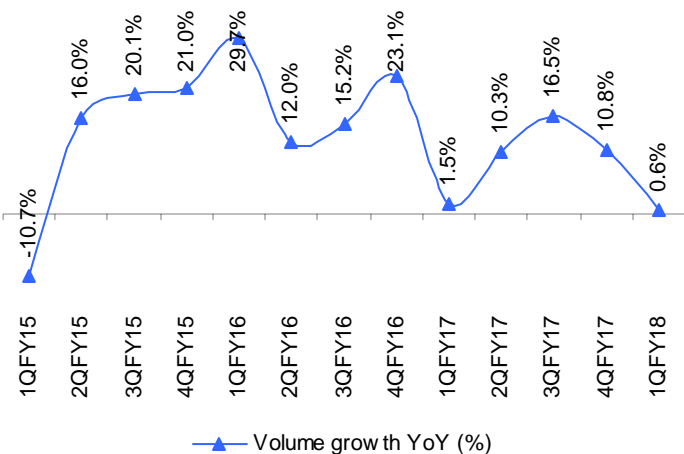
Source: Company, Antique

EBIT Margin Trend



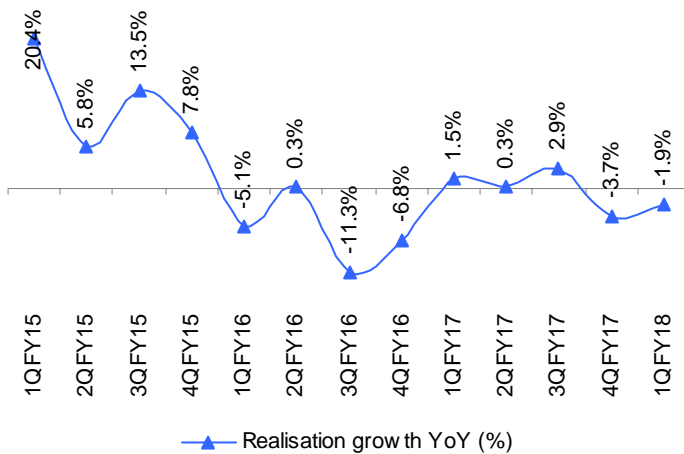
Source: Company, Antique

Total Volume Growth Trend



Source: Company, Antique

Blended Realisation Growth Trend



Source: Company, Antique

Financials

Profit and loss account (INRm)

Year ended 31 Mar	FY15	FY16	FY17	FY18e	FY19e
Net Revenue	15,884	16,409	18,187	21,623	26,054
Op. Expenses	13,181	13,515	15,068	18,054	21,300
EBITDA	2,703	2,895	3,120	3,569	4,755
Depreciation	485	475	593	767	1,021
EBIT	2,218	2,420	2,526	2,801	3,734
Other income	33	60	226	30	35
Interest Exp.	456	479	302	344	294
Reported PBT	1,796	2,001	2,450	2,487	3,475
Tax	296	304	515	448	625
Reported PAT	1,500	1,698	1,935	2,040	2,849
Minority Int./Profit (loss) Fm Associates	(10)	(8)	(30)	(10)	(12)
Net Profit	1,490	1,689	1,905	2,030	2,837
Adjusted PAT	1,490	1,689	1,905	2,030	2,837
Adjusted EPS (INR)	6.7	7.6	8.6	9.1	12.7

Balance sheet (INRm)

Year ended 31 Mar	FY15	FY16	FY17	FY18e	FY19e
Share Capital	223	223	223	223	223
Reserves & Surplus	3,671	5,066	6,927	8,680	11,216
Networth	3,894	5,288	7,149	8,902	11,439
Debt	5,138	4,193	5,663	5,800	4,000
Minority Interest	55	90	120	130	142
Net deferred Tax liabilities	8	7	14	14	14
Capital Employed	9,095	9,578	12,946	14,846	15,595
Gross Fixed Assets	4,607	5,130	6,281	10,770	11,920
Accumulated Depreciation	2,151	2,626	3,219	3,987	5,008
Capital work in progress	326	1,020	2,988	800	250
Net Fixed Assets	2,782	3,524	6,050	7,583	7,162
Investments	4	61	61	61	61
Non Current Investments	4	61	61	61	61
Current Assets, Loans & Adv	7,890	8,166	9,738	10,276	11,878
Inventory	3,322	2,975	3,006	3,614	4,354
Debtors	2,683	2,842	3,422	3,614	4,283
Cash & Bank balance	374	390	672	285	292
Loans & advances and others	1,510	1,959	2,637	2,764	2,949
Current Liabilities & Prov	1,581	2,174	2,903	3,074	3,506
Liabilities	1,152	2,082	2,716	2,887	3,319
Provisions	428	91	187	187	187
Net Current Assets	6,309	5,993	6,834	7,202	8,372
Application of Funds	9,095	9,578	12,946	14,846	15,595

Per share data

Year ended 31 Mar	FY15	FY16	FY17	FY18e	FY19e
No. of shares (m)	223	223	223	223	223
Diluted no. of shares (m)	223	223	223	223	223
BVPS (INR)	17.50	23.77	32.13	40.01	51.41
CEPS (INR)	8.92	9.76	11.36	12.61	17.39
DPS (INR)	1.76	1.00	1.00	1.10	1.20

Source: Company, Antique

Cash flow statement (INRm)

Year ended 31 Mar	FY15	FY16	FY17	FY18e	FY19e
PBT	1,796	1,993	2,420	2,477	3,463
Depreciation & amortisation	485	475	593	767	1,021
Interest expense	456	479	302	344	294
(Inc)/Dec in working capital	(877)	331	(552)	(755)	(1,163)
Tax paid	(337)	(304)	(515)	(448)	(625)
Less: Int/Div Income Received	(16)	-	-	-	-
Other operating Cash Flow	(19)	21	-	-	-
CF from operating activities	1,488	2,995	2,248	2,386	2,990
Capital expenditure	(751)	(1,217)	(3,119)	(2,300)	(600)
Inc/(Dec) in investments	43	(57)	0	-	-
Add: Int/Div Income Received	836	-	-	-	-
CF from investing activities	128	(1,274)	(3,119)	(2,300)	(600)
Inc/(Dec) in debt	(649)	(945)	1,470	137	(1,800)
Dividend Paid	(462)	(260)	(260)	(286)	(312)
Others	(517)	(499)	(56)	(324)	(270)
CF from financing activities	(1,629)	(1,705)	1,154	(473)	(2,382)
Net cash flow	(13)	16	282	(387)	7
Opening balance	387	374	390	672	285
Closing balance	374	390	672	285	292

Growth indicators (%)

Year ended 31 Mar	FY15	FY16	FY17	FY18e	FY19e
Revenue(%)	17.9	3.3	10.8	18.9	20.5
EBITDA(%)	70.8	7.1	7.8	14.4	33.2
Adj PAT(%)	147.2	13.4	12.7	6.6	39.8
Adj EPS(%)	147.2	13.4	12.7	6.6	39.8

Valuation (x)

Year ended 31 Mar	FY15	FY16	FY17	FY18e	FY19e
P/E	39.1	34.5	30.6	28.7	20.5
P/BV	15.0	11.0	8.2	6.5	5.1
EV/EBITDA	23.3	21.5	20.3	17.9	13.0
EV/Sales	4.0	3.8	3.5	3.0	2.4
Dividend Yield (%)	0.7	0.4	0.4	0.4	0.5

Financial ratios

Year ended 31 Mar	FY15	FY16	FY17	FY18e	FY19e
RoE (%)	42.6	36.2	30.1	28.2	27.7
RoCE (%)	25.0	26.5	24.4	24.3	26.2
Debt/Equity (x)	1.3	0.8	0.8	0.6	0.0
EBIT/Interest (x)	4.9	5.2	9.1	6.3	8.8

Margins (%)

Year ended 31 Mar	FY15	FY16	FY17	FY18e	FY19e
EBITDA Margin(%)	17.0	17.6	17.2	16.5	18.2
EBIT Margin(%)	14.0	14.7	13.9	13.0	14.3
PAT Margin(%)	9.4	10.3	10.3	9.4	10.9

Source: Company Antique

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