

Stock Update

Unfavourable change of guard; Downgrade to Hold with revised PT of Rs. 180

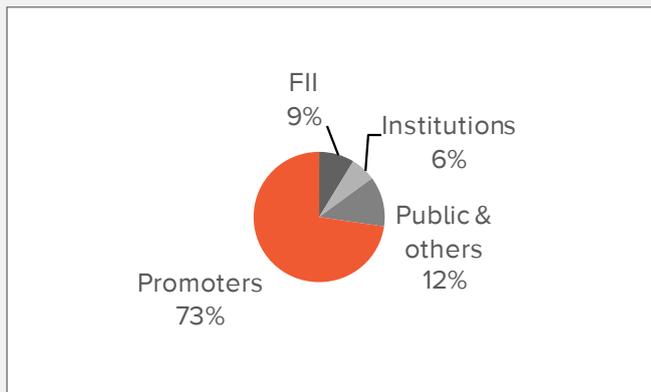
Century Plyboards (India)

Reco: Hold | CMP: Rs163

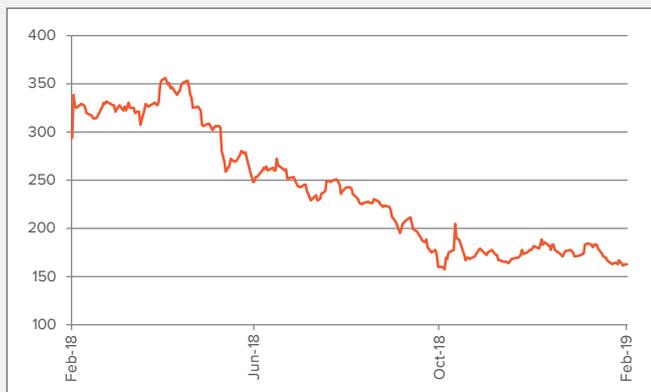
Company details

Price target:	Rs180
Market cap:	Rs3,615 cr
52-week high/low:	Rs364/150
NSE volume: (No of shares)	2.7 lakh
BSE code:	532548
NSE code:	CENTURYPLY
Sharekhan code:	CENTURYPLY
Free float: (No of shares)	6.1 cr

Shareholding pattern



Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	-5.3	-7.2	-32.0	-46.2
Relative to Sensex	-7.7	-11.5	-30.5	-49.6

Key points

- Operating margin pressure across segments barring MDF continues to dent net earnings:** Century Plyboards India (Century) posted growth of 13.5% y-o-y in net sales to Rs. 579 crore in Q3FY2019. Revenue growth was led by the higher contribution of the medium density fibre (MDF) segment (Rs. 88 crore vs Rs. 48 crore in Q3FY2018) and laminate (up 13.9% y-o-y). The plywood division reported a decline of 2.6% y-o-y in revenues as realizations remained under pressure (due to a change in product mix with higher share of mid-market products). Further, the operating margin (OPM) contracted by 273 bps (adjusting for the forex loss/gain) owing to margin erosion across segments barring MDF (which benefited from lower input cost). Further, lower other income and higher interest expense led to a decline of 5.0% y-o-y decline in adjusted net profit to Rs. 38.7 crore.
- Product mix change in Plywood and lower margins in MDF remain a concern area:** Century has shifted its focus in Plywood from selling premium to mid-market products (currently 35-40% share). These changes have led to lower realization (as mid-market product is ~25% cheaper than premium) and is expected to continue going ahead. Century will also be aligning its distribution channels accordingly in order to penetrate into deeper regions to cater to the affordable segment. Consequently, in Plywood the operating margins are expected to tread lower. The MDF segment which operated at ~78% capacity utilization is expected to sustain. The realizations in MDF continue to suffer leading to shelving of capacity expansion plans by other players in the industry. However, the operating margins may remain ~14% (which was initially at 25%) for a longer period of time due to surplus capacity available. Overall, we believe overall operating margins may remain muted owing to lower margins in Plywood and MDF.
- Capacity expansion plans in MDF and particle board on the envil:** Century would be undertaking capex of Rs. 30 crore for rest of FY2019 and Rs. 80 crore in FY2020 (Plywood unit in Punjab and Investment in Gabon Veneer unit). Also, it has also chalked out plans of 400 cubic metre per day capacity for particle board

in U.P. at a cost of Rs. 100 crore. Century can add 400 cu.mt./day capacity at its MDF unit (current capacity of 600 cu.mt/day) at a cost of Rs. 130 crore but plans are still on the drawing board. The management highlighted that the Greenfield MDF plant at U.P. will be decided later. The management has shelved the door project.

- ♦ **Downgrade to Hold with revised PT of Rs. 180:** We have revised our net earnings estimates for FY2019-2020 factoring significantly lower margins in Plywood and MDF divisions. We believe the pressure on operating margins is expected to continue over the next 3-4 quarters due to a change of overall strategy by the management. Hence, our price target stands revised to Rs. 180. We downgrade the stock to Hold.

Results (Standalone)					Rs cr	
Particulars	Q3FY19	Q3FY18	y-o-y (%)	Q2FY19	QoQ (%)	
Income from operations	578.9	509.9	13.5	564.4	2.6	
COGS	308.8	260.7	18.4	294.5	4.8	
Gross profit	270.1	249.2	8.4	270.0	0.1	
Gross margin (%)	46.7	48.9	(221)	47.8	(116.4)	
Employee cost	81.0	72.3	12.1	84.0	(3.6)	
Other expenditure	113.0	96.0	17.7	108.9	3.8	
Total expenditure	502.8	429.0	17.2	487.4	3.2	
Operating profit	76.1	80.9	-6.0	77.1	(1.3)	
OPM (%)	13.1	15.9	(273)	13.7	(51.0)	
Finance cost	10.5	8.1	29.5	7.5	39.1	
Depreciation	13.6	26.3	-48.3	11.3	20.8	
Other income	1.6	4.2	-62.9	1.0	56.9	
Forex loss/(gain)	(2.7)	(5.8)		7.2		
PBT	56.3	56.6	-0.4	52.0	8.2	
Tax	14.9	9.9	50.4	14.2	4.8	
Reported PAT	41.4	46.7	-11.2	37.8	9.5	
Adjusted PAT	38.7	40.9	-5.3	45.1	(14.2)	

Segmental performance					Rs cr
Particulars	Q3FY19	Q3FY18	y-o-y (%)	Q2FY19	QoQ (%)
Plyboards					
Revenue	314.3	322.7	(2.6)	322.4	(2.5)
EBIT	38.5	42.2	(8.7)	52.4	(26.5)
EBIT margin (%)	12.3	13.1	(81)	16.3	400
Capital employed	516.4	539.9	(4.3)	464.2	11.2
RoCE (%)	29.8	31.2	(141)	45.2	(1,533)
Laminates					
Revenue	113.8	99.9	13.9	110.6	2.9
EBIT	8.9	12.2	(27.5)	7.5	18.2
EBIT margin (%)	7.8	12.2	(444)	6.8	(100)
Capital employed	218.8	193.2	13.3	205.4	6.5
RoCE (%)	16.2	25.3	(909)	14.6	159
CFS					
Revenue	25.0	27.6	(9.4)	26.4	(5.6)
EBIT	5.4	8.5	(36.9)	7.1	(24.0)
EBIT margin (%)	21.5	30.9	(937)	26.8	523
Capital employed	47.3	42.8	10.5	42.6	11.1
RoCE (%)	45.4	79.5	(3,411)	66.4	(2,098)
MDF Boards					
Revenue	88.2	47.6	85.4	61.2	44.0
EBIT	9.5	0.1	9,007.0	(0.5)	(2,129.4)
EBIT margin (%)	10.8	0.2	1,056	(0.8)	(1,154)
Capital employed	352.8	330.7	6.7	363.1	(2.8)
RoCE (%)	10.8	0.1		(0.5)	
Particle Boards					
Revenue	26.5	10.0	164.7	28.6	(7.6)
EBIT	4.5	0.8	435.3	4.4	1.7
EBIT margin (%)	16.8	8.3	850	15.3	(154)
Capital employed	65.1	50.2	29.7	65.9	(1.1)
RoCE (%)	27.3	6.6		26.6	

Valuations (consolidated)					Rs cr
Particulars	FY17	FY18	FY19E	FY20E	
Net sales	1,819	2,024	2,325	2,616	
Growth y-o-y (%)	11	11	15	13	
Adjusted EBITDA	315	341	339	388	
EBITDA margin (%)	17.3	16.8	14.6	14.8	
Adjusted PAT	178	173	183	198	
Growth y-o-y (%)	(1)	(3)	6	8	
Adjusted EPS (Rs)	8.0	7.8	8.2	8.9	
P/E (x)	19.2	21.7	20.0	18.5	
RoCE (%)	19.7%	15.0%	15.1%	14.9%	
RoE (%)	31.1%	21.9%	20.1%	18.6%	

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