India Midcaps

RESULT UPDATE

CENTURY PLYBOARDS

Near-term visibility weak; long-term thesis intact

India Equity Research| Home Decor

Edelweiss
Ideas create, values protect

Century Plyboards (CPBI) reported a dismal Q4FY18. Muted volume growth in plywood (8% YoY) and margin pressure in non-plywood categories, primarily due to forex loss, led to EBITDA and PAT missing estimates 16% and 33%, respectively. The quarter's numbers were dented by forex loss (INR70mn) and the unorganised sector gaining market share in the absence of E-way bill. Poor surveillance post GST and lack of E-way bill implementation have led to lower-than-expected growth for home décor companies, including CPBI. Hence, we revise down FY19/20E EPS 24%/23%, respectively. However, we believe, with increase in surveillance, organised players will benefit and clock higher than industry growth. Reiterate 'BUY' with revised TP of INR341 (INR442 earlier) based on 27x FY20E EPS.

Q4FY18: Key highlights

1) While plywood volumes rose 8% YoY, realisations fell 10% impacted by change in product mix; 2) laminates volume growth was healthy at 17%, but margin dipped to 10% impacted by higher raw material cost; and 3) MDF business was impacted by initial quality stabilisation issues; hence, reported INR24mn EBIT loss.

Management confident of 25% top line growth in FY19

Management has guided for 25% YoY growth leading to net turnover of INR25bn in FY19. The spurt is envisaged to be led by 13-14% growth in plywood, 20% plus surge in laminates, 10% growth in CFS segment and INR2.5bn addition from MDF & particleboard division.

Outlook and valuations: MDF to drive growth; maintain 'BUY'

We believe, CPBI will be key beneficiary of demand shift from unorganised to organised players riding strong branding, widening distribution reach, growing share of mid-end plywood brand *Sainik* and ensured raw material security. However, to factor in the near-term weak environment, we revise our FY19/20E EPS down 24%/23%, respectively. We reiterate **'BUY'** with revised TP of INR341 (INR442 earlier) based on 27x FY20E EPS.

Financials (Consolidated) **(INR mn)**

Year to March	Q4FY18	Q4FY17	*% change*	Q3FY18	*% change*	FY18	FY19E	FY20E
Net rev.	5,441	4,885	*11.4*	5,099	*6.7*	20,239	24,959	28,922
EBITDA	832	838	*(0.7)*	878	*(5.3)*	3,311	4,012	4,869
Adj. PAT	357	559	*(36.1)*	467	*(23.4)*	1,631	1,892	2,811
Adj. Dil. EPS (INR)	1.6	2.5	*(36.1)*	2.1	*(23.4)*	7.3	8.5	12.6
Diluted P/E (x)						36.8	31.7	21.4
EV/EBITDA (x)						19.7	16.0	12.8
ROAE (%)						20.8	20.3	24.8

EDELWEISS RATINGS

Absolute Rating	**BUY**
Investment Characteristics	Growth

MARKET DATA *(R: CNTP.BO, B: CPBI IN)*

CMP	: INR 269
Target Price	: INR 341
52-week range (INR)	: 364 / 235
Share in issue (mn)	: 222.2
M cap (INR bn/USD mn)	: 60 / 881
Avg. Daily Vol. BSE/NSE ('000)	: 353.1

SHARE HOLDING PATTERN (%)

	Current	Q3FY18	Q2FY18
Promoters *	72.0	72.0	72.0
MF's, FI's & BKs	4.9	4.7	3.8
FII's	11.2	11.1	11.4
Others	11.9	12.2	12.8

** Promoters pledged shares (% of share in issue) : NIL*

PRICE PERFORMANCE (%)

	BSE Midcap Index	Stock	Stock over Index
1 month	(3.9)	(21.1)	(17.2)
3 months	(2.8)	(15.9)	(13.0)
12 months	7.0	1.6	(5.4)

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Q4FY18 conference call: Key highlights

Outlook: Management is guiding for 25% YoY top line growth led by 13-14% surge in the plywood segment, 20% plus growth in laminates division, 10% growth in CFS segment and ~INR2.5bn addition from MDF & particleboard division. Thus, the company is targeting net turnover of INR25bn in FY19. Further, margins in plywood and laminates are likely to be largely stable, whereas for MDF, the company is targeting 20% EBITDA margin in FY19.

Q4FY18: Net sales grew 11% YoY to INR5.44bn, below our INR6.36bn estimate. The subdued growth was largely on account of 7% drop in revenue of plywood division versus our estimate of 5% increase and slower–than-expected top line growth in CFS (flat versus 20% growth estimated) and MDF division (INR648mn versus INR750mn expected revenue). Further, EBITDA margins were down 190bps YoY and QoQ each to 15.3% resulting in stable EBITDA YoY at INR832mn. Q4FY18 was also impacted by forex loss of INR70mn. Further, higher–than-expected depreciation and interest cost led to PAT slipping 36%. Further, lower other income also restricted PAT at INR357mn (below our estimate of INR532mn).

Plywood: Despite increase in volumes by 8% YoY, revenue of core plywood division dipped 2% YoY mainly on account of fall in realisation by 10% YoY. The dip was mainly due to product mix change as Sainik volumes grew at a faster pace than the premium segment. Further, revenue for overall plywood and allied division declined 7% largely on account of fall in revenue of veneer by 33% YoY. Margin in this segment dipped 500bps to 15% largely impacted by forex loss. Ex-forex loss, margin stood at 16.7%.

Going forward, management has guided for 13-14% YoY volume growth in this segment. However, H1 is expected to be challenging as management expects steady recovery with 8-10% YoY growth in Q1FY19 and 10-12% YoY growth in Q2FY19. Further, margins are likely to be largely stable at 14.5-15%.

Laminates: Robust 20% YoY revenue growth was on account of 13.5% spurt in the laminates division (17% volume growth and 3% fall in realisation). Growth was supported by strong sales surge in the pre-laminated division (now ~18% of total revenue). However, margin in this segment declined 150bps YoY largely on account of higher raw material prices, mainly phenol. Going forward, management expects increase in raw material prices to be passed on and estimates this segment to continue with strong volume growth of 20% YoY. Further, volume growth will be supported by recent capacity addition (25%), while another 25% capacity will be added in the current quarter.

MDF: Revenue came at INR648mn versus our expectation of INR750mn primarily because of initial quality stabilisation issues. Further, profitability for the quarter was impacted because of substandard quality of board produced during initial stabilisation period. Going forward, with robust growth outlook for this division, the company is planning to expand current capacity from 600CBM to 1,000CBM with minimum capex requirement of INR1.2bn. In FY19, the company is targeting 80% utilisation of current capacity that will lead to revenue of ~INR3bn with EBITDA margin of 20%.

Financial snapshot (INR mn)

Year to March	Q4FY18	Q4FY17	YoY(%)	Q3FY18	QoQ(%)	FY18	FY19E	FY20E
Revenues	5,441	4,885	*11.4*	5,099	*6.7*	20,239	24,959	28,922
Raw material	2,738	2,531	*8.2*	2,607	*5.0*	9,860	12,459	14,173
Staff costs	752	667	*12.7*	723	*4.0*	3,129	3,692	4,357
Others	1,119	850	*31.8*	892	*25.5*	3,940	4,796	5,522
TotBA expenditure	4,610	4,048	*13.9*	4,222	*9.2*	16,929	20,947	24,052
EBITDA	832	838	*(0.7)*	878	*(5.3)*	3,311	4,012	4,869
Depreciation	277	156	*78.2*	263	*5.4*	907	1,145	1,140
EBIT	554	682	*(18.7)*	615		2,404	2,867	3,729
Less: Interest Expense	122	26	*377.3*	63	*94.5*	358	542	256
Add: Other income	13	141	*(90.8)*	42	*(69.4)*	79	83	87
Profit Before Tax	445	798	*(44.2)*	594	*(25.1)*	2,124	2,407	3,561
Less: Provision for Tax	88	239	*(63.1)*	128	*(31.0)*	463	481	712
Less: Minority Interest						31	34	37
Reported Profit	357	559	*(36.1)*	467	*(23.4)*	1,631	1,892	2,811
Adjusted net profit	357	559	*(36.1)*	467	*(23.4)*	1,631	1,892	2,811
No. of Diluted shares outstanding	223	223		223		223	223	223
Adjusted Diluted EPS	1.6	2.5	*(36.1)*	2.1	*(23.4)*	7.3	8.5	12.6
P/E (x)						36.8	31.7	21.4
EV/EBITDA (x)						19.7	16.0	12.8
As % of net revenues								
Raw material	50.3	51.8		51.1		48.7	49.9	49.0
Staff expenses	13.8	13.7		14.2		15.5	14.8	15.1
Other expenses	20.6	17.4		17.5		19.5	19.2	19.1
EBITDA	15.3	17.1		17.2		16.4	16.1	16.8
Net profit	6.6	11.4		9.2		8.1	7.6	9.7

Change in Estimates

	FY19E			FY20E			
	New	Old	*% change*	New	Old	*% change*	Comments
Net Revenue	24,960	26,294	*(5.1)*	28,922	31,591	*(8.5)*	Realisations likely to remain stable going forward vs. increase of 4-5% estimated earlier
EBITDA	4,012	4,597	*(12.7)*	4,870	6,010	*(19.0)*	Margins are likely to fall with drop in realisations
EBITDA Margin	*16.1*	*17.5*		*16.8*	*19.0*		
Adjusted Profit After Tax	1,892	2,517	*(24.8)*	2,811	3,646	*(22.9)*	
Net Profit Margin	*7.7*	*9.7*		*9.8*	*11.7*		
Capex	(279)	(1,000)	*(72.1)*	(950)	(950)	*0.0*	Margins are likely to fall with drop in realisations

Company Description

CPBI is the largest plywood manufacturer in India with 25% share in the organised plywood market. The company is also India's third largest laminate producer with 4.8mn units capacity. With entry in MDF and particle boards segments, CPBI has become the only domestic integrated player in the wood and panel industry with presence across plywood, laminates, veneer and particle boards. Further, the company is extending its brand presence to panel products like PVC sheets, cement fibre boards and allied products like wooden flooring & doors by offering complete bouquet of wood panel products.

Investment Theme

Century Plyboards (CPBI) is an integrated player with presence in plywood, laminates, and particle boards. The company has aggressively expanded presence in fast-growing segments like medium-end plywood (via Sainik brand) & laminates and successfully leveraged its strong brand & distribution network to expand product basket to MDF and other associated products. CPBI has also prudently ensured raw material supply by procuring it from diverse geographies. We estimate CPBI, underpinned by strong business model, to post revenue, EBITDA and PAT CAGR of 20%, 24% and 28%, respectively, over FY17-20. Moreover, improvement in RoCE to 27% from 22% and strong cash flow generation entail robust rerating potential, in line with premium valuations enjoyed by peers in the home décor space.

Key Risks

Raw material security: Raw material security acts as a strong entry barrier as procuring face veneer or setting up manufacturing units in Myanmar and Laos is a complex process entailing many regulatory approvals.

Foreign currency risk: CPIB imports 60-65% of its raw material requirement without entering into forward cover or hedging its forex exposure. Hence, volatility in foreign exchange could impact the company's profitability.

Lower level of GST compliance by unorganised players: Historically, the plywood sector has been dominated by unorganised players with slow pace of shift towards the organised segment. Lower level of compliance will not change industry dynamics and organised players may still continue to suffer.

Excessive competition in MDF could lead to slower volume growth and lower realisations: CPBI is adding MDF capacity along with significant expansion plans by Action Tesa, Greenply and Rushil Decor. With all the capacities likely to come on stream over the next 2-3 years, the industry may face some pricing pressure till the market absorbs the new capacity.

Sustained slowdown in realty sector: Over the past 2-3 years, slowdown in real estate activity has taken a toll on company's growth. However, volumes could face further pressure if the real estate market continues to remain weak.

Financial Statements

Key Assumptions

Year to March	FY17	FY18	FY19E	FY20E
Macro				
GDP(Y-o-Y %)	6.6	6.5	7.1	7.6
Inflation (Avg)	4.5	3.8	4.5	5.0
Repo rate (exit rate)	6.3	6.0	6.0	6.5
USD/INR (Avg)	67.1	64.5	65.0	66.0
Sector				
Org.Sector growth (%) (Sector)	12.0	29.6	29.6	29.6
Unorg. Sector growth (%) (Sector)	(2.8)	5.9	4.8	3.3
Industry Value wise growth (%)	8.7	11.0	11.0	11.0
Industry Org.Sector growth (%)	15.0	15.6	15.6	15.6
Industry Unorg. Sector growth (%)	2.3	5.8	5.3	4.7
Company				
Plywood revenue growth (YoY)	10.8	(3.1)	8.8	15.0
Laminates revenue growth (YoY)	13.1	6.9	17.5	19.7
Logistics revenue growth (YoY)	4.6	13.4	10.2	12.2
MDF revenue growth (YoY)	-	-	169.8	17.8
Plywood EBITDA Margins (%)	15.5	13.4	14.0	14.5
Laminates EBITDA Margins (%)	14.5	14.6	15.0	15.5
Logistics EBITDA margins (%)	44.5	42.0	45.0	50.0
MDF EBITDA margins (%)	-	18.9	19.0	20.0
Raw Material (% net rev)	49.2	48.7	49.9	49.0
Employee (% of net rev)	15.0	15.5	14.8	15.1
Sales Promotion as % of N. Sales	4.2	4.5	4.5	4.5
Transport cost as % of N. Sales	4.0	4.1	3.7	3.6
Admin exp (% of rev)	10.5	10.9	11.0	11.0
Dep (% of Avg GFA)	16.9	14.5	12.7	11.2
Int (% of avg G.debt)	5.6	6.3	11.2	8.0
Capex (INR mn)	(3,068)	(5,057)	(279)	(950)
Net borrowings (INR mn)	5,445	5,135	4,139	1,936

Income statement (INR mn)

Year to March	FY17	FY18	FY19E	FY20E
Net revenue	18,187	20,239	24,959	28,922
Materials costs	8,951	9,860	12,459	14,173
Gross profit	9,236	10,380	12,501	14,748
Employee costs	2,730	3,129	3,692	4,357
Other Expenses	3,387	3,940	4,796	5,522
Operating expenses	6,117	7,069	8,489	9,879
Total operating expenses	15,068	16,929	20,947	24,052
EBITDA	3,120	3,311	4,012	4,869
Depreciation	593	907	1,145	1,140
EBIT	2,526	2,404	2,867	3,729
Less: Interest Expense	302	358	542	256
Add: Other income	24.65	78.73	82.67	86.81
Profit Before Tax	2,450	2,124	2,407	3,561
Less: Provision for Tax	515	463	481	712
Less: Minority Interest	30	31	34	37
Add: Exceptional items	201	-	-	-
Reported Profit	1,905	1,631	1,892	2,811
Exceptional Items	159	-	-	-
Adjusted Profit	1,746	1,631	1,892	2,811
Shares o /s (mn)	223	223	223	223
Adjusted Basic EPS	7.8	7.3	8.5	12.6
Diluted shares o/s (mn)	223	223	223	223
Adjusted Diluted EPS	7.8	7.3	8.5	12.6
Adjusted Cash EPS	10.6	11.4	13.6	17.8
Dividend per share (DPS)	1.0	1.2	1.3	1.3
Dividend Payout Ratio(%)	14.0	19.7	18.4	12.4

Common size metrics

Year to March	FY17	FY18	FY19E	FY20E
Gross margin	50.8	51.3	50.1	51.0
Operating expenses	33.6	34.9	34.0	34.2
EBITDA margins	17.2	16.4	16.1	16.8
EBIT margins	13.9	11.9	11.5	12.9
Interest Expense	1.7	1.8	2.2	0.9
Net Profit margins	9.8	8.2	7.7	9.8

Growth ratios (%)

Year to March	FY17	FY18	FY19E	FY20E
Revenues	10.8	11.3	23.3	15.9
EBITDA	7.8	6.1	21.2	21.4
PBT	22.4	(13.3)	13.3	47.9
Adjusted Profit	5.8	(6.6)	16.0	48.6
EPS	5.8	(6.6)	16.0	48.6

Balance sheet (INR mn)

As on 31st March	FY17	FY18	FY19E	FY20E
Share capital	223	223	223	223
Reserves & Surplus	6,927	8,293	9,837	12,300
Shareholders' funds	7,149	8,516	10,059	12,523
Minority Interest	120	184	184	184
Long term borrowings	1,467	1,669	669	169
Short term borrowings	4,650	3,677	3,677	1,877
Total Borrowings	6,118	5,346	4,346	2,046
Long Term Liabilities	6	133	133	133
Def. Tax Liability (net)	(675)	(690)	(690)	(690)
Sources of funds	**12,718**	**13,488**	**14,032**	**14,195**
Gross Block	4,078	8,419	9,659	10,759
Net Block	3,041	6,475	6,569	6,529
Capital work in progress	545	1,261	300	150
Intangible Assets	18	15	12	12
Total net fixed assets	3,604	7,751	6,881	6,691
Non current investments	2,505	61	61	61
Cash and Equivalents	672	211	207	110
Inventories	3,006	3,828	4,096	4,466
Sundry Debtors	3,422	3,572	4,308	4,754
Loans & Advances	1,182	254	254	254
Other Current Assets	766	885	885	885
Current Assets (ex cash)	8,377	8,538	9,542	10,358
Trade payable	1,410	1,753	1,536	1,670
Other Current Liab	1,033	1,320	1,124	1,355
Total Current Liab	2,442	3,073	2,660	3,025
Net Curr Assets-ex cash	5,936	5,465	6,882	7,333
Uses of funds	**12,718**	**13,488**	**14,032**	**14,195**
BVPS (INR)	32.1	38.3	45.2	56.3

Free cash flow (INR mn)

Year to March	FY17	FY18	FY19E	FY20E
Reported Profit	1,905	1,631	1,892	2,811
Add: Depreciation	593	907	1,145	1,140
Interest (Net of Tax)	202	240	363	171
Others	40	70	130	35
Less: Changes in WC	536	457	1,419	451
Operating cash flow	2,205	2,390	2,111	3,706
Less: Capex	(3,068)	(5,057)	(279)	(950)
Free Cash Flow	**(863)**	**(2,666)**	**1,833**	**2,756**

Cash flow metrics

Year to March	FY17	FY18	FY19E	FY20E
Operating cash flow	2,205	2,390	2,111	3,706
Financing cash flow	1,122	(1,351)	(1,898)	(2,914)
Investing cash flow	(3,043)	(1,685)	(273)	(950)
Net cash Flow	284	(646)	(59)	(157)
Capex	(3,068)	(5,057)	(279)	(950)
Dividend paid	-	(321)	(348)	(348)

Profitability and efficiency ratios

Year to March	FY17	FY18	FY19E	FY20E
ROACE (%)	21.8	18.1	20.6	26.0
ROAE (%)	28.1	20.8	20.3	24.8
Inventory Days	122	126	116	110
ROA	15.8	12.4	13.7	19.9
Debtors Days	63	63	58	57
Payable Days	46	59	48	41
Cash Conversion Cycle	138	131	126	126
Current Ratio	3.7	2.8	3.7	3.5
Debt/EBITDA (x)	2.0	1.6	1.1	0.4
Debt/Equity (x)	0.8	0.6	0.4	0.2
Adjusted Debt/Equity	0.8	0.6	0.4	0.2
Interest Coverage Ratio	8.4	6.7	5.3	14.6
LT debt /Cap empl. (%)	48.1	39.6	31.0	14.4
Debt / Cap employed (%)	62.0	57.3	45.0	30.9

Operating ratios

Year to March	FY17	FY18	FY19E	FY20E
Total Asset Turnover	1.6	1.5	1.8	2.0
Fixed Asset Turnover	6.5	4.2	3.8	4.4
Equity Turnover	2.9	2.6	2.7	2.5

Valuation parameters

Year to March	FY17	FY18	FY19E	FY20E
Adj. Diluted EPS (INR)	7.8	7.3	8.5	12.6
Y-o-Y growth (%)	*5.8*	*(6.6)*	*16.0*	*48.6*
Adjusted Cash EPS (INR)	10.6	11.4	13.6	17.8
Diluted P/E (x)	34.3	36.7	31.6	21.3
P/B (x)	8.4	7.0	6.0	4.8
EV / Sales (x)	3.6	3.2	2.6	2.1
EV / EBITDA (x)	21.0	19.7	16.0	12.7
Dividend Yield (%)	0.4	0.4	0.5	0.5

Additional Data

Directors Data

Sri Sajjan Bhajanka	Chairman & MD	Sri Hari Prasad Agarwal	Vice Chairman & Executive Director
Sri Sanjay Agarwal	Managing Director	Sri Prem Kumar Bhajanka	Managing Director
Sri Vishnu Khemani	Managing Director	Mr. Keshav Bhajanka	Executive Director
Smt. Nikita Bansal	Executive Director	Sri Ajay Baldawa	Executive Director
Sri Manindra Nath Banerjee	Director	Sri Mangi Lal Jain	Director
Mr. Santanu Roy	Director	Mr. Samrendra Mitra	Director
Mr. Asit Pal	Director	Mrs. Mamta Binani	Director
Sri J. P. Dua	Director	Sri Vijay Chhibber	Director

Auditors - Singhi & Co.

**as per last available data*

Holding Top -10

	Perc. Holding		Perc. Holding
Government Pension Fund	2.48	BNP Paribas	1.14
Norges Bank	2.47	Emerging Parvest Equity	1.13
Aditya Birla Sunlife Asset Management	1.7	HDFC Small Cap Fund	1.08
Sundaram Asset Management	1.36	Auroville Investments	0.83
Goldman Sachs	1.35	Dimensional Fund Advisors	0.71

**as per last available data*

Bulk Deals

Data	Acquired / Seller	B/S	Qty Traded	Price
No Data Available				

**as per last available data*

Insider Trades

Reporting Data	Acquired / Seller	B/S	Qty Traded
No Data Available			

**as per last available data*

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Coverage group(s) of stocks by primary analyst(s): Home Decor

Asian Granito, Century Plyboards, Greenlam Industries, Kajaria Ceramics, Greenply Industries, Somany Ceramics

Recent Research

Date	Company	Title	Price (INR)	Recos
14-May-19	**Kajaria Ceramics**	The shift: Delayed, but imminent; visit Note	542	Buy
08-May-18	**Kajaria Ceramics**	Bumpy ride; thesis intact; *Result Update*	530	Buy
04-Apr-18	**Home Décor**	Unorganised players play spoil sport; *Q4FY18 Result Preview*		

Distribution of Ratings / Market Cap

Edelweiss Research Coverage Universe

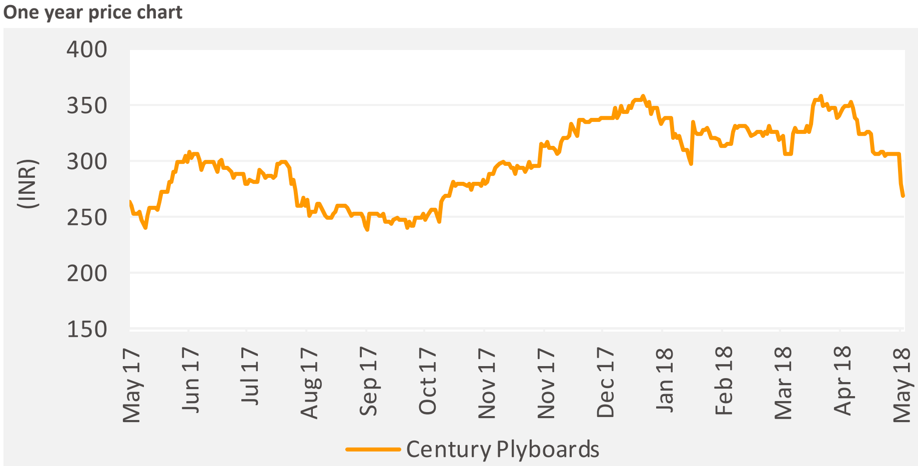
	Buy	Hold	Reduce	Total
Rating Distribution* * 1stocks under review	161	67	11	240

	> 50bn	Between 10bn and 50 bn	< 10bn
Market Cap (INR)	156	62	11

Rating Interpretation

Rating	Expected to
Buy	appreciate more than 15% over a 12-month period
Hold	appreciate up to 15% over a 12-month period
Reduce	depreciate more than 5% over a 12-month period

One year price chart



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