

Margin continue to remain under pressure...

Century Plyboard's (CPIL) topline grew 7.3% YoY to ₹ 583.2 crore (our estimate: ₹ 616.8 crore). Plywood division revenue growth was flattish YoY at ₹ 323.5 crore while MDF division revenues grew only 17.4% YoY to ₹ 76.0 crore. EBITDA margin contracted 437 bps to 10.9% due to lower EBITDA margin in logistics division & plywood division. PAT de-grew 4.4% YoY to ₹ 34.2 crore on account of contraction in EBITDA margin.

MDF margins remain under pressure

CPIL's MDF facility operated at 68% capacity utilisation in Q4FY19. It could not achieve targeted 80% utilisation as the plant was shut 15 days due to technical fault in Q4FY19. MDF realisations declined 2% QoQ to ₹ 21,469/CBM in Q4FY19 due to stiff competition. Consequently, MDF EBITDA margins declined 60 bps QoQ to 15.3% in Q4FY19. With no price cuts taken by MDF players in the last 45-60 days, the management expects prices to remain stable. Also, it aims 90% capacity utilisation by Q2FY20E. Overall, we expect MDF revenues to grow 19.9% CAGR to ₹ 424.0 crore in FY19-21E.

Higher share of mid-segment product drags plywood margins

CPIL's plywood facility operated at 75-80% utilisation in Q4FY19. Plywood volumes declined 6.5% YoY to 62,349 CBM on account of 34% YoY decline in commercial veneer sales to 5,123 CBM in Q4FY19. Also, higher sales contribution from mid-segment Sainik brand and ~₹ 15 crore cumulative impact of expenditure related to CSR & sales-related expenses led to 390 bps EBITDA margins contraction in plywood margins to 9.7% in Q4FY19. While management expects double-digit revenue growth in FY20E, higher sales from Sainik will keep EBITDA margins flattish. Overall, we expect plywood revenues to grow at 10.2% CAGR to ₹ 1,546.0 crore in FY19-21E.

Contemplating on particle boards & MDF capacity expansion

CPIL is chalking out plans to add 400 CBM/day MDF capacity in North India at a capital outlay of ₹ 150 crore. Furthermore, it has got licence from UP government to setup 500 CBM/day particle boards (PB) at a capital outlay of ₹ 120-125 crore. While this is still in planning stage, management expects commissioning of the PB plant within 12 months of finalising the plan.

Valuation & Outlook

While we are positive on CPIL's long-term growth, EBITDA margins have come under pressure amid stiff competition in MDF and shift of focus on low-margin plywood products. With margins expected to further remain under pressure, we expect revenues, PAT to grow at 11.7%, 14.8% CAGR to ₹ 2,824.7 crore, ₹ 209.4 crore, respectively, in FY19-21E. Hence, we maintain **HOLD** rating on the stock with a target price of ₹ 170/share.

Key Financial Summary

₹ crore	FY17	FY18	FY19E	FY20E	FY21E	CAGR FY19-21E
Net Sales	1,782.5	1,967.2	2,263.8	2,533.3	2,824.7	11.7%
EBITDA	292.0	306.1	300.4	344.8	387.4	13.6%
EBITDA Margin (%)	16.4	15.6	13.3	13.6	13.7	
PAT	185.6	156.6	158.8	191.1	209.4	14.8%
EPS (₹)	8.4	7.1	7.1	8.6	9.4	
P/E	20.4	24.1	23.8	19.8	18.0	
EV/EBITDA	14.2	13.5	13.7	12.0	10.5	
RoNW (%)	26.2	18.7	16.6	17.4	16.7	
RoCE (%)	24.5	20.3	18.0	18.7	18.2	

Source: Company, ICICI Direct Research



Particulars

Particular	Amount (₹ crore)
Market Capitalization	3,776.9
Total Debt	360.3
Cash	17
EV	4,120.7
52 week H/L (₹)	364 / 150
Equity capital	22.3
Face value (₹)	1.0

Key Highlights

- CPIL's topline grew 7.3% YoY to ₹ 583.2 crore
- Plywood division revenue growth was flattish YoY at ₹ 323.5 crore, while MDF division revenues grew only by 17.4% YoY to ₹ 76.0 crore
- Plywood segment 390 bps EBITDA margins contracted 390 bps to 9.7%, while MDF EBITDA margins declined 60 bps QoQ to 15.3% in Q4FY19
- Maintain **HOLD** with a target price of ₹ 170/share

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Exhibit 1: Variance Analysis

Particular	Q4FY19	Q4FY19E	Q4FY18	YoY Chg (%)	Q3FY19	QoQ Chg (%)	Comments
Net Sales	583.2	616.8	544.1	7.2	578.9	0.7	Topline growth can be attributed to incremental contribution from MDF division
Other Income	2.9	1.2	1.3	123.9	1.6	84.7	
Material Consumed	235.7	246.7	227.3	3.7	253.5	-7.0	
Purchase of Stock in Trade	67.8	80.2	71.0	-4.5	64.4	5.3	
Employee Benefit Expenses	83.7	86.2	75.2	11.3	81.0	3.3	
Other Expenses	133.0	122.7	111.9	18.8	113.2	17.5	
EBITDA	63.7	80.9	83.2	-23.4	75.9	-16.2	
EBITDA Margin (%)	10.9	13.1	15.3	-437 bps	13.1	-220 bps	Margin contraction was on account of significant margin decline in logistics & plywood division
Depreciation	14.3	13.6	27.7	-48.4	13.6	5.1	
Interest	9.4	8.7	12.2	-23.1	6.3	50.1	
PBT	42.9	59.9	44.5	-3.7	57.7	-25.6	
Taxes	8.7	16.9	8.8	-0.9	16.3	-46.3	
PAT	34.2	43.0	35.7	-4.4	41.4	-17.5	De-growth was led by EBITDA margin contraction

Source: Company, ICICI Direct Research

Exhibit 2: Change in estimates

Particulars (₹ crore)	FY18	FY19	FY20E		Change	FY21E Introduced	Comments
			Old	New			
Revenue	1,967.2	2,263.8	2,562.3	2,533.3	-1.1	2,824.7	We introduce FY21E estimates
EBITDA	306.1	300.4	344.8	344.8	0.0	387.4	
EBITDA Margin (%)	15.6	13.3	13.5	13.6	11 bps	13.7	
PAT	156.6	158.8	173.5	191.1	10.2	209.4	
EPS (₹)	7.1	7.1	7.8	8.6	10.2	9.4	

Source: Company, ICICI Direct Research

Exhibit 3: Assumptions

Volume Assumptions	FY17	FY18	FY19E	Current Introduced		Earlier FY20E	Comments
				FY20E	FY21E		
Plywood & Veneer(In CBM)	251,720	253,922	252,637	271,333	292,626	284,096	We introduce FY21E estimates
MDF (CBM)	0	48,307	132,229	179,955	199,950	179,955	
Laminate Sheets (In Mn)	5.0	5.5	5.9	6.4	7.4	6.3	
Pre-laminated Boards (In Mn SQM)	0.9	1.4	0.0	0.0	0.0	0.0	

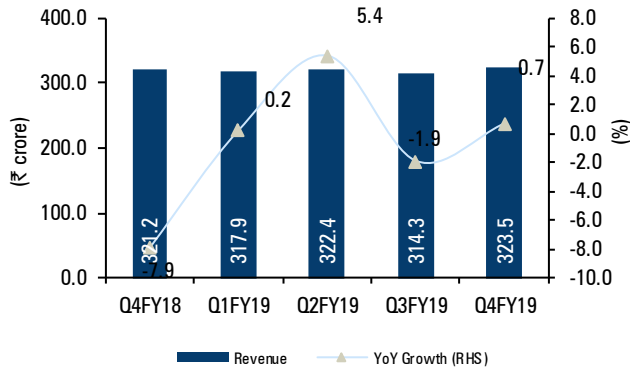
Source: Company, ICICI Direct Research

Conference call Highlights

- Management guidance:** CPIL took 1% price hikes across its product portfolio in May, 2019. The management has guided for double digit revenue growth across all segments (excluding logistics & CFS) in FY20E. On the margin front, it aims at slightly better EBITDA margins than FY19
- MDF sector update & CPIL's strategy:** MDF industry size is at 20 lakh CBM in volume terms. Average MDF realisation in North India is ₹ 20,000/CBM, while that in South India is ₹ 14,000-15,000/CBM. Lower realisation in South Indian market is on account of higher imports of lower-priced MDF products on account of proximity to ports. The management expects South Indian MDF market to remain intensively competitive for some time while North Indian MDF market could stabilise faster. Hence, CPIL would be increasing its focus more on the North Indian market, going ahead.
- MDF division:** CPIL's MDF facility operated at 68% capacity utilisation in Q4FY19 (65% in FY19). On account of technical fault, the plant was shut for 15 days in Q4FY19. Hence, it could not meet its targeted 80% utilisation during the quarter. MDF EBITDA margins were lower as cost increase could not be passed on due to MDF oversupply in the market. With no price cuts taken by MDF players in the last 45-60 days, the management expects no more price cuts for MDF from hereon. Overall, it expects to achieve 90% capacity utilisation by Q2FY20E and expects double-digit MDF revenue growth in FY20E. Going ahead, CPIL is chalking out plans to add 60% more MDF capacity (400 CBM/day) in North India at a capital outlay of ₹ 150 crore
- Plywood division:** CPIL has 2,10,000 CBM standalone plywood capacity (2,40,000 CBM consolidated capacity). The plywood facility operated at 75-80% capacity utilisation in Q4FY19. Plywood division EBITDA margins contracted 390 bps to 9.7% in Q4FY19. Overall plywood EBITDA margins were lower in FY19 on account of higher sales contribution from mid-segment Sainik plywood. Sainik, which is 20-25% cheaper than CPIL's higher-end plywood brands, contributed ~31% to the plywood sales in FY19 vs. 25% in FY18. While market for premium plywood grew at a moderate 4-5%, Sainik's market grew at double-digits in FY19
- Logistics division:** With two new players - All Cargo and CWC, now entering Kolkata market, competition for CPIL has increased in the logistics division. Secondly, the collapse of a major port-connecting bridge in Kolkata has impacted the volume growth in logistics business
- Particle Boards:** CPIL is running at 100%+ utilisation levels in FY19. The company has got licence from the Uttar Pradesh government to set up a particle boards (500 CBM/day) plant in UP at a capital outlay of ₹ 120-125 crore. While the expansion is still in planning stage, the management expects commissioning of the plant within 12 months of finalising the plan.
- EBITDA margins:** EBITDA margins were lower in Q4FY19 on account of lower margins in its logistics business and ~₹ 15 crore cumulative impact of expenditure related to CSR (₹ 6 crore) and sales-related expenses (₹ 9 crore) in Q4FY19
- Forex loss:** CPIL faced forex loss impact to the tune of ₹ 16.28 crore in FY19. Of this, ₹ 9.22 crore was treated as borrowing cost and ₹ 7.06 was impact on EBITDA margin

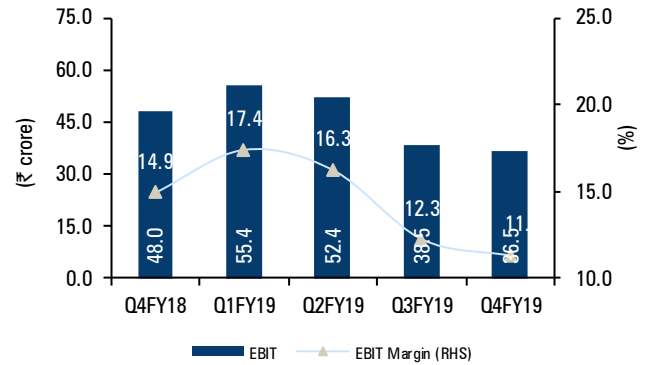
Company Analysis

Exhibit 4: Quarterly plywood & allied products revenue



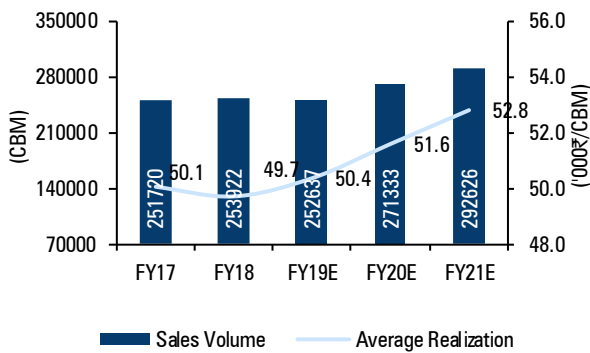
Source: Company, ICICI Direct Research

Exhibit 5: Quarterly plywood & allied products EBIT trend



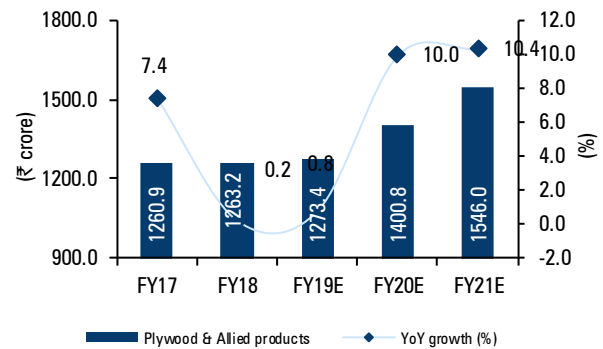
Source: Company, ICICI Direct Research

Exhibit 6: Plywood sales volume & average realisation



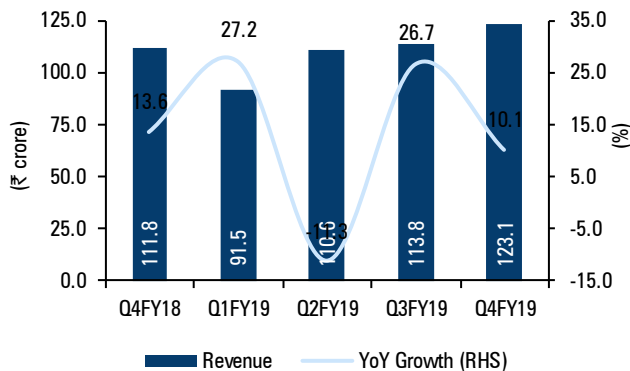
Source: Company, ICICI Direct Research

Exhibit 7: Plywood revenue and growth trend



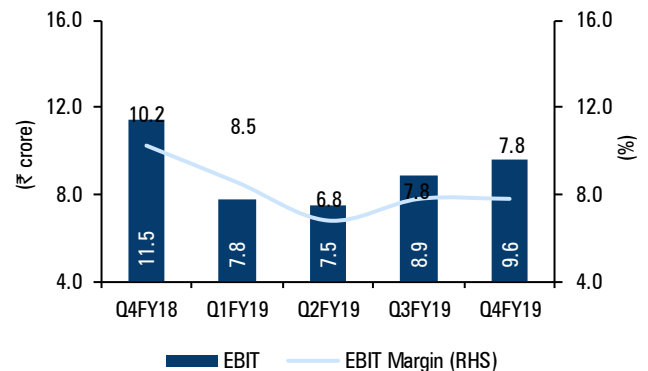
Source: Company, ICICI Direct Research

Exhibit 8: Quarterly laminates & allied products revenue



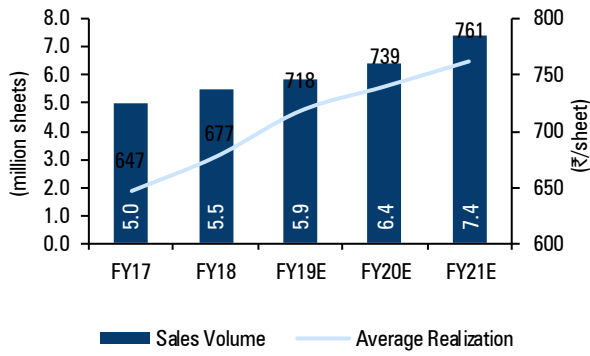
Source: Company, ICICI Direct Research

Exhibit 9: Quarterly laminates & allied products EBIT trend



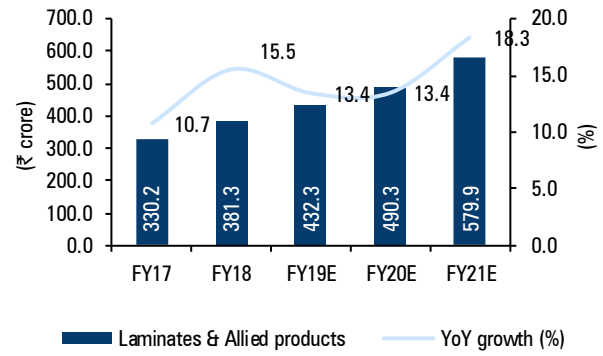
Source: Company, ICICI Direct Research

Exhibit 10: Laminates sales volume & average realisation



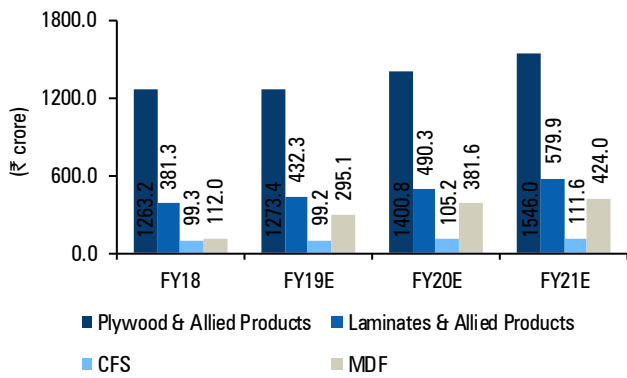
Source: Company, ICICI Direct Research

Exhibit 11: Laminates revenue and growth trend



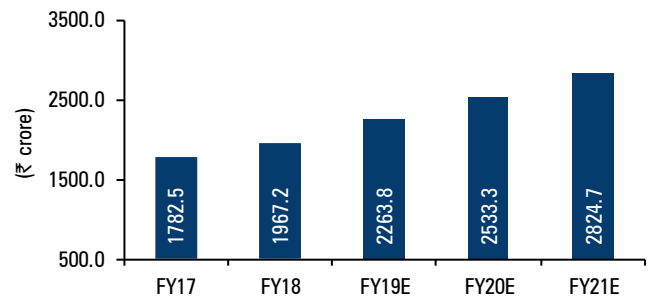
Source: Company, ICICI Direct Research

Exhibit 12: Segmental net revenue trend



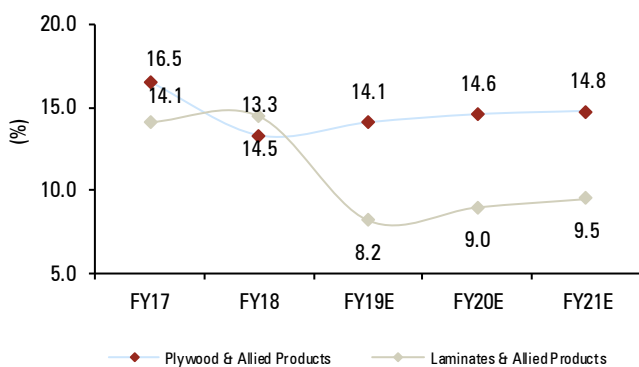
Source: Company, ICICI Direct Research

Exhibit 13: Total net revenue trend



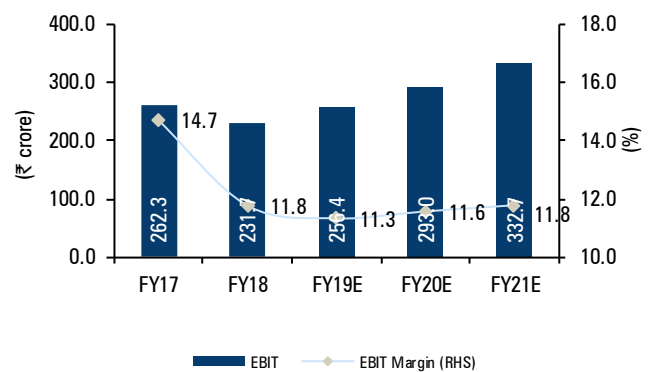
Source: Company, ICICI Direct Research

Exhibit 14: Segmental EBIT trend



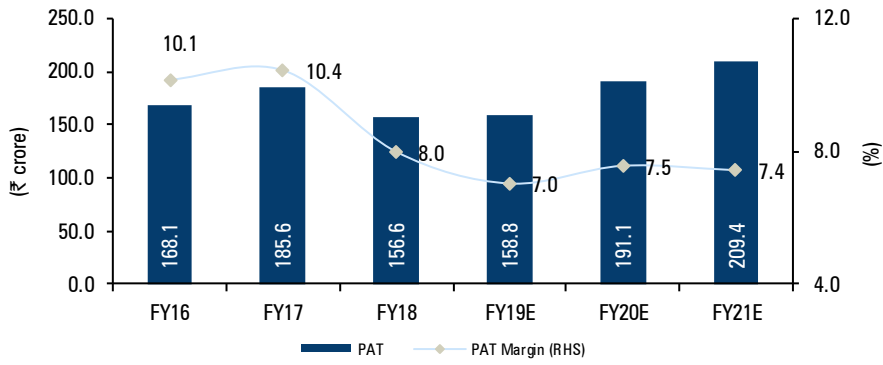
Source: Company, ICICI Direct Research

Exhibit 15: EBIT margin trend



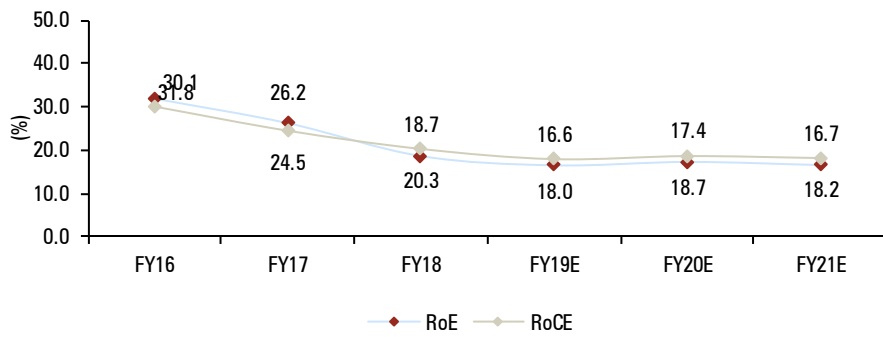
Source: Company, ICICI Direct Research

Exhibit 16: PAT growth trend



Source: Company, ICICI Direct Research

Exhibit 17: RoE and RoCE growth trend



Source: Company, ICICI Direct Research

Valuation & Outlook

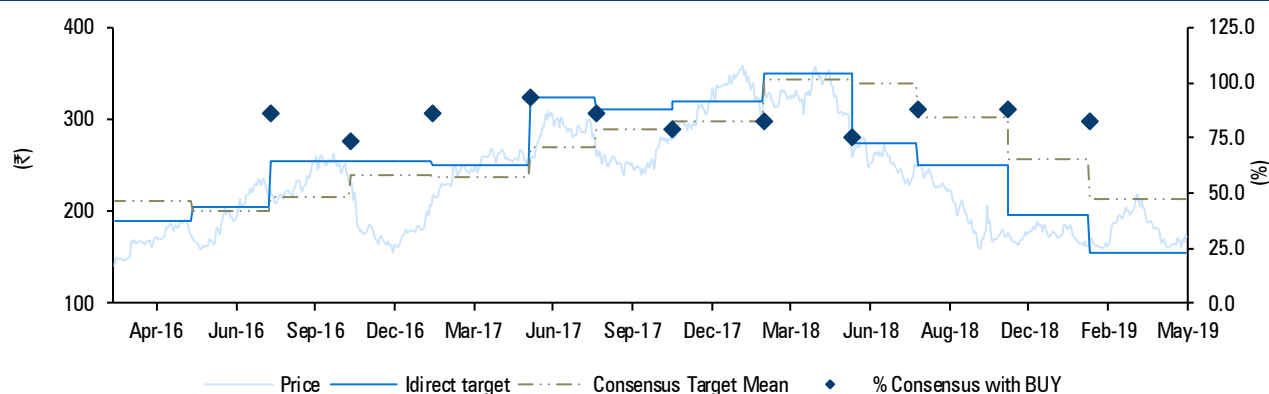
While we are positive on CPIL's long-term growth, EBITDA margins have come under pressure amid stiff competition in MDF and shift of focus on low-margin plywood products. With margins expected to further remain under pressure, we expect revenues, PAT to grow at 11.7%, 14.8% CAGR to ₹ 2,824.7 crore, ₹ 209.4 crore, respectively, in FY19-21E. Hence, we maintain **HOLD** rating on the stock with a target price of ₹ 170/share.

Exhibit 18: Valuation metrics

	Sales (₹ cr)	Growth (%)	EPS (₹)	Growth (%)	PE (x)	EV/EBITD (x)	RoNW (%)	RoCE (%)
FY16	1658.5	6.0	7.6	11.4	22.5	14.3	31.8	30.1
FY17	1782.5	7.5	8.4	10.4	20.4	14.2	26.2	24.5
FY18	1967.2	10.4	7.1	-15.6	24.1	13.5	18.7	20.3
FY19E	2263.8	15.1	7.1	1.4	23.8	13.7	16.6	18.0
FY20E	2533.3	11.9	8.6	20.4	19.8	12.0	17.4	18.7
FY21E	2824.7	11.5	9.4	9.6	18.0	10.5	16.7	18.2

Source: Company, ICICI Direct Research

Exhibit 19: Recommendation History vs. Consensus



Source: Bloomberg, Company, ICICI Direct Research

Exhibit 20: Top 10 Shareholders

Rank	Name	Latest Date	Filing % O/S	Position (m)	Change (m)
1	Bhajanka (Sajjan)	31-Mar-19	11.6%	25.7	0.0
2	Agarwal (Sanjay)	31-Mar-19	11.1%	24.8	0.0
3	Agarwal (Divya)	31-Mar-19	7.5%	16.7	0.0
4	Bhajanka (Santosh)	31-Mar-19	7.0%	15.4	0.0
5	Khemani (Vishnuprasad)	31-Mar-19	5.7%	12.7	0.0
6	Sriram Vanijya Pvt. Ltd.	31-Mar-19	3.8%	8.5	0.0
7	Brijdham Merchants Pvt. Ltd.	31-Mar-19	3.5%	7.7	0.0
8	Sumangal International Pvt. Ltd.	31-Mar-19	3.5%	7.7	0.0
9	Sumangal Business Pvt. Ltd.	31-Mar-19	3.1%	6.8	0.0
10	Sriram Merchants Pvt. Ltd.	31-Mar-19	3.0%	6.7	0.0

Source: Reuters, ICICI Direct Research

Exhibit 21: Recent Activity

Buys			Sells		
Investor name	Value (m)	Shares (m)	Investor name	Value (m)	Shares (m)
Aditya Birla Sun Life AMC Limited	0.6	0.2	Lazard Asset Management, L.L.C.	-1.8	-0.7
Mirae Asset Global Investments (India) Pvt. Ltd.	0.5	0.2	Reliance Nippon Life Asset Management Limited	-0.9	-0.4
Kotak Mahindra Asset Management Company Ltd.	0.2	0.1	Capital Investment Trust Corporation	-0.3	-0.1
BlackRock Institutional Trust Company, N.A.	0.2	0.1	HDFC Asset Management Co., Ltd.	-0.2	-0.1
BOI AXA Investment Managers Private Limited	0.1	0.0	Taurus Asset Management Co. Ltd.	-0.1	0.0

Source: Reuters, ICICI Direct Research

Exhibit 22: Shareholding Pattern

(in %)	Jun-18	Sep-18	Dec-18	Mar-19
Promoter	72.3	72.3	72.3	72.3
Public	27.7	27.7	27.7	27.7
Others	0.0	0.0	0.0	0.0
Total	100.0	100.0	100.0	100.0

Source: Company, ICICI Direct Research

Financial summary

Exhibit 23: Profit and loss statement ₹ crore

(₹ Crore)	FY18	FY19E	FY20E	FY21E
Net Sales	1,967.2	2,263.8	2,533.3	2,824.7
Raw Material Expense	691.7	936.0	937.6	1,032.0
Purchase of Traded Goods	331.3	245.5	430.7	480.2
Employee benefit expenses	283.9	327.7	366.7	408.9
Other Expenses	354.3	454.2	453.5	516.2
Total Expenses	1,661.2	1,963.5	2,188.6	2,437.3
EBITDA	306.1	300.4	344.8	387.4
EBITDA Margin (%)	15.6	13.3	13.6	13.7
Interest	32.7	44.6	34.8	41.9
Depreciation	81.0	50.0	58.1	61.3
Other income	6.7	6.1	6.4	6.7
PBT	199.0	211.9	258.3	290.8
Taxes	42.4	53.1	67.1	81.4
PAT	156.6	158.8	191.1	209.4
PAT Growth rate (%)	(15.6)	1.4	20.4	9.6
Adjusted EPS (Diluted)	7.1	7.1	8.6	9.4

Source: Company, ICICI Direct Research

Exhibit 24: Cash flow statement ₹ crore

(₹ Crore)	FY18	FY19E	FY20E	FY21E
Profit after Tax	156.6	158.8	191.1	209.4
Depreciation	81.0	50.0	58.1	61.3
Interest	32.7	44.6	34.8	41.9
Others	(137.6)	66.7	(13.4)	(66.3)
Cash Flow before wc changes	175.1	373.1	337.7	327.7
Net Increase in Current Assets	88.6	(125.9)	(60.1)	(21.8)
Net Increase in Current Liabilities	14.2	(188.6)	(107.8)	(73.4)
Net CF from operating activities	277.9	58.6	169.8	232.6
(Purchase)/Sale of Fixed Assets	(373.6)	(152.8)	(86.4)	(64.0)
Net CF from Investing activities	(192.4)	21.1	(96.3)	(77.2)
Dividend	(39.2)	(39.7)	(47.8)	(52.4)
Interest paid	(32.7)	(44.6)	(34.8)	(41.9)
Inc / (Dec) in Loans	(62.6)	98.2	(1.5)	100.0
Net CF from Financing activities	(134.5)	13.9	(84.1)	5.8
Net Cash flow	(49.0)	93.7	(10.6)	161.1
Opening Cash	53.8	16.5	110.2	99.7
Closing Cash/ Cash Equivalent	16.5	110.2	99.7	260.8

Source: Company, ICICI Direct Research

Exhibit 25: Balance sheet ₹ crore

(₹ Crore)	FY18	FY19E	FY20E	FY21E
Liabilities				
Equity Capital	22.3	22.3	22.3	22.3
Reserve and Surplus	815.7	934.8	1,078.1	1,235.2
Total Shareholders funds	837.9	957.0	1,100.4	1,257.4
Total Debt	360.3	458.5	456.9	556.9
Deferred Tax Liability	(69.0)	-	-	-
Total Liabilities	1,129.0	1,415.0	1,557.0	1,814.0
Assets				
Gross Block	715.3	1,075.7	1,162.1	1,226.1
Less Acc. Dep	174.1	431.7	489.8	551.1
Net Block	541.2	644.0	672.3	675.0
Net Intangibles Assets	0.5	1.1	1.9	3.0
Expenditure on new projects	-	-	-	-
Capital WIP	119.8	18.8	18.8	18.8
Total Fixed Assets	661.5	663.9	693.0	696.8
Investments	96.0	96.0	96.0	96.0
Inventory	338.2	401.0	448.7	500.3
Sundry Debtors	314.5	293.6	347.0	386.9
Loans & Advances	25.6	32.8	64.5	102.8
Cash & Bank Balances	16.5	110.2	99.7	260.8
Other Current Assets	137.6	125.8	151.5	181.4
Total Current Assets	832.4	963.3	1,111.4	1,432.3
Trade Payable	318.4	162.5	181.9	232.2
Other Current Liabilities	141.2	133.9	148.5	164.3
Provisions	1.5	11.5	12.8	14.3
Net Current Assets	371.4	655.5	768.2	1,021.5
Total Assets	1,129.0	1,415.0	1,557.0	1,814.0

Source: Company, ICICI Direct Research

Exhibit 26: Key ratios

	FY18	FY19E	FY20E	FY21E
Per Share Data (₹)				
EPS - Diluted	7.1	7.1	8.6	9.4
Cash EPS	10.7	9.4	11.2	12.2
Book Value	37.7	43.1	49.5	56.6
Dividend per share	1.8	1.8	2.2	2.4
Operating Ratios (%)				
EBITDA / Net Sales	15.6	13.3	13.6	13.7
PAT / Net Sales	8.0	7.0	7.5	7.4
Inventory Days	63	65	65	65
Debtor Days	58	47	50	50
Creditor Days	59	26	26	30
Return Ratios (%)				
RoE	18.7	16.6	17.4	16.7
RoCE	20.3	18.0	18.7	18.2
RoIC	22.4	19.3	19.8	21.1
Valuation Ratios (x)				
EV / EBITDA	13.5	13.7	12.0	10.5
P/E (Diluted)	24.1	23.8	19.8	18.0
EV / Net Sales	2.1	1.8	1.6	1.4
Market Cap / Sales	1.9	1.7	1.5	1.3
Price to Book Value	4.5	3.9	3.4	3.0
Dividend Yield	1.0	1.1	1.3	1.4
Solvency Ratios (x)				
Net Debt / Equity	0.4	0.4	0.3	0.2
Debt / EBITDA	1.2	1.5	1.3	1.4
Current Ratio	1.7	2.7	2.9	2.7
Quick Ratio	1.0	1.4	1.5	1.5

Source: Company, ICICI Direct Research

Exhibit 27: ICICI Direct coverage universe (Plywood)

Sector / Company	CMP			M Cap (₹ Cr)	EPS (₹)			P/E (x)			3Y/EBITDA (x)			P/B (x)			RoE (%)		
	(₹)	TP(₹)	Rating		FY19	FY20E	FY21E	FY19	FY20E	FY21E	FY19	FY20E	FY21E	FY19	FY20E	FY21E	FY19	FY20E	FY21E
Century Plyboard (CENPLY)	170	170	Hold	3733	7.1	8.6	9.4	23.8	19.8	18.0	13.7	12.0	10.5	3.9	3.4	3.0	16.6	17.4	16.7
Greenply (MTML)	204	220	Hold	2481	11.2	11.2	10.5	18.4	18.3	19.6	11.0	12.9	10.4	3.2	2.7	2.4	17.2	14.8	12.3

Source: Company, ICICI Direct Research

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Buy: >15%

Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



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