

Industry	Paper & forest product
Bloomberg	CPBI IN
BSE CODE	532548

High RM costs, Poor realisations hurt margins

RATING	NEUTRAL
CMP	172
Price Target	181
Potential Upside	5%

Rating Change	↓
Estimate Change	↓
Target Change	↓

Stock Info

52wk Range H/L	364/150
Mkt Capital (Rs Cr)	3815
Free float (%)	28%
Avg. Vol 1M (,000)	383
No. of Shares	22
Promoters Pledged %	0%

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Key Highlights -

- CENTURYPLY reported a net sales growth of 18.9% YoY at Rs 564 crores against our estimate of Rs 621 crores. Ex-MDF, net sales grew by ~6% YoY.
- High RM costs and lower realisations due to competitive intensity led to Gross margins at 47.8%. Operating profit stood at Rs 74 crores with margins at 13.2% against our estimate of 15.7%.
- Company reported a PAT of Rs 38 crores, margin at 6.7%.

2Q FY19 Results-

The company's net sales grew by 18.9%YoY to Rs 564 crores against our estimates of Rs 621 crores. The shortfall from estimates was led by poor show in MDF and laminates segment. A combination of high RM costs and lower realisations chasing higher volumes in competitive market resulted in lower Gross margins at 47.8% (30bps higher than estimated). Even then the EBITDA margins came lower than expected at 13.2% due to higher other expenses. The company reported a lower PAT of Rs 38 crores against an estimate of Rs 58 crores.

View and Valuation

CENTURYPLY reported a 18.9% YoY growth in the topline while the net profit degrew by 5.8% due to continued pressure on the margins. The ply segment reported better than expected margins of 15.5% with realisations rising 2.2% from focus on mid-premium segment and cheaper sourcing from Africa. The laminate industry is facing heavy competition leading to poor pricing power in higher RM costs environment has deteriorated margins to 8% even after realisations rising 4.1% YoY / 7.2% QoQ. The much anticipated heavy growth MDF segment continues to face pressures in an over-capacity market, clocking lower volumes leading to poor 5.9% EBITDA margins on lower capacity utilisation. The particle board segment reported strong topline growth driven by higher volumes, however lower realisations in pursuit to gain market impacted EBITDA margins to 18.9%. The forex exposure of the company is now completely hedged and won't lead to any losses further. While Ply segment continues to be strong and little unaffected due to company's presence in premium segment, Laminates is suffering from high RM costs and heavy competition, MDF and particle board segment continue to face industry headwinds in terms of realisations impacting margins. The current cost environment with higher capacities in the market and slower than expected growth of the market demand raises our concern on the margins front and so we lower our FY19/FY20 PAT estimates by 19%/16.7%. We value CENTURYPLY at 11x FY20e EV/EBITDA to arrive at a target price of Rs 181 and downgrade our rating to NEUTRAL.

Key Risks to our rating and target

- Continue to face pricing pressures due to heavy competition.
- Raw material prices remain high impacting margins.

KEY FINANCIAL/VALUATIONS	FY16	FY17	FY18	FY19E	FY20E
Net Sales	1636	1782	1967	2262	2477
EBITDA	284	292	306	329	399
EBIT	240	240	225	284	346
PAT	169.8	185.6	156.6	180.7	234.9
EPS (Rs)	8	8	7	8	11
EPS growth (%)	13%	9%	-16%	15%	30%
ROE (%)	36%	30%	20%	20%	21%
ROCE (%)	27%	22%	17%	20%	22%
BV	24	32	38	45	54
EV/EBITDA (x)	14.7	21.4	25.3	13.1	10.5
P/E (x)	22.3	31.0	46.3	21.1	16.3

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2Q FY 19 Results Lower than estimates

Lower EBITDA Margins

Financials	2QFY18	3QFY18	4QFY18	1QFY19	2QFY19	YoY %	QoQ%	FY17	FY18	YoY %
Net Sales	475	510	544	537	564	18.9%	5.1%	1,782	1,967	10.4%
Other Income	1	4	1	1	1	61.4%	72.4%	23	7	-70.5%
Total Revenue	475	514	545	538	565	19.0%	5.1%	1,805	1,974	9.3%
COGS	254	261	274	275	294	15.7%	6.9%	918	1,023	11.4%
Gross Margin	46%	49%	50%	49%	48%	1.5%	-0.9%	48%	48%	-0.5%
Employee Cost	68	72	75	79	84	24.3%	6.3%	257	284	10.6%
Other Expenses	78	89	112	96	112	42.4%	16.0%	316	354	12.2%
EBITDA	74	88	83	87	74	0.2%	-14.2%	292	306	4.8%
EBITDA Margin	16%	17%	15%	16%	13%	-2.5%	-3.0%	16%	16%	-0.8%
Depreciation	14	26	28	11	11	-18.6%	4.0%	52	81	54.7%
EBIT	60	61	55	76	63	4.6%	-16.8%	240	225	-6.1%
Interest	8	6	12	13	16	95.7%	15.2%	29	33	14.1%
PBT	53	59	45	63	48	-8.4%	-22.9%	234	199	-14.8%
Exceptional	-	-	-	-	-	0.0%	0.0%	-	-	0%
Tax	13	13	9	17	11	-17%	-39.1%	48	42	-12.0%
PAT	40	47	36	45	38	-6%	-16.6%	186	157	-15.6%
PAT Margin	8%	9%	7%	8%	7%	-1.8%	-1.7%	10%	8%	-2.4%

Segments	2QFY17	3QFY17	4QFY17	1QFY18	2QFY18	3QFY18	4QFY18	1QFY19	2QFY19
Plywood	73%	72%	72%	74%	66%	64%	61%	61%	59%
Laminates	22%	21%	20%	16%	24%	18%	19%	17%	20%
MDF	0%	0%	0%	0%	0%	9%	12%	13%	11%
Particle Board	1%	2%	2%	4%	5%	3%	4%	3%	5%
CFS	5%	5%	5%	6%	5%	5%	4%	5%	5%

Sales growth on the back of volume growth

The revenue The company's net sales grew by 18.9%YoY to Rs 564 crores against our estimates of Rs 621 crores. Ex-MDF, net sales grew by ~6% YoY. The plywood segment showed overall good performance with volumes growing 4% YoY. Higher last year base of laminates made its sales look flat. MDF continued to face competitive pressures reporting only Rs 61 crores net sales against our estimate of Rs 91 crores. Particle board reported strong volume growth of ~40%.

Lower realisations affect EBITDA margins

A combination of high RM costs and lower realisations chasing higher volumes in competitive market resulted in lower Gross margins at 47.8% (30bps higher than estimated). Even then the EBITDA margins came lower than expected at 13.2% due to higher other expenses. The company reported a lower PAT of Rs 38 crores against an estimate of Rs 58 crores. Major impact on profitability was due to laminates division - heavy competition affecting pricing power in high RM costs, MDF - overcapacity market affecting realisations and Particle board - lower realisations to gain more market. Higher finance costs due to forex loss impact affect PAT further, partially offset by tax benefits available at Assam plant.

Concall Highlights

- Management expects 20% overall revenue growth and margins to be at 16% for FY19.
- For Ply, the company has stopped its operations at Laos; Myanmar is working on limited capacity and mostly through stock lying there. The sourcing has been shifted to Africa for Acumen veneer. The company expects PLY EBITDA margin to be at 15% for the whole year.
- Lower Laminates volume growth is due to exceptional performance(GST) in base quarter. Steep rise in phenol prices continue to hamper gross margins. Company has taken price hike of 3.5% in Q3. The company is looking at 10-12% volume growth and EBITDA margin to be 12%+.
- Excess capacity in industry continue to impact realisations. They expect FY19 revenue to be in the range of 250-300 crores and EBITDA to be 12%+ and utilisation to improve to 80% for H2FY19. The earlier planned expansion of MDF plant is yet not finalized.
- Particle Board profitability was low as the focus is more on gaining market share. They are planning to take price hikes to improve margins.
- This quarter profitability was impacted by forex loss of Rs 10.82 crores. The company has reduced its foreign exchange exposure to Rs 209 crores and is now fully hedged.
- Tax rate to continue in the range of 22-28% due to tax benefits at Assam plant depending on the profitability there.

Exhibit: Net Sales (Rs. Crore) and Gross Margin trend

High RM costs and lower realisations impact gross margins; sales growth through better volumes to be watched for

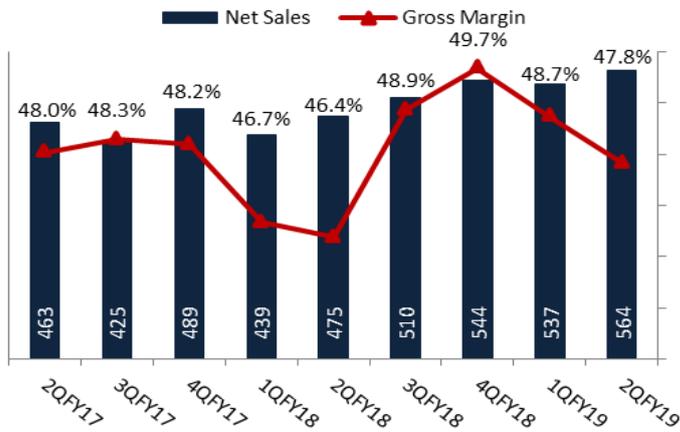


Exhibit: EBITDA (Rs. Crore) and EBITDA Margin trend

Suppressed EBITDA margins due to lower gross margins and higher than expected other expenses

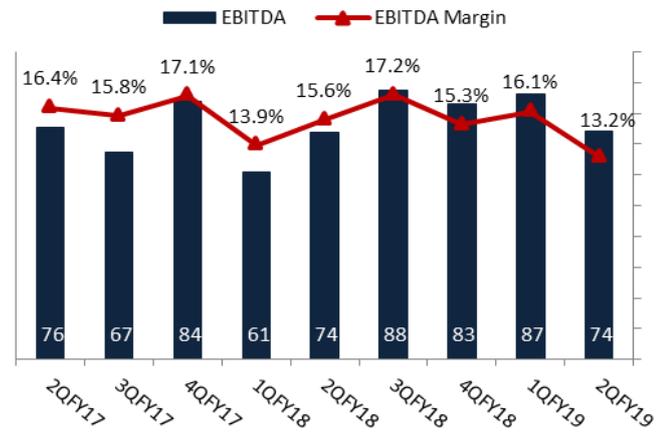


Exhibit: Sales (Rs. Crore) and PAT (Rs. Crore)

Poor operational margins is affecting the bottomline

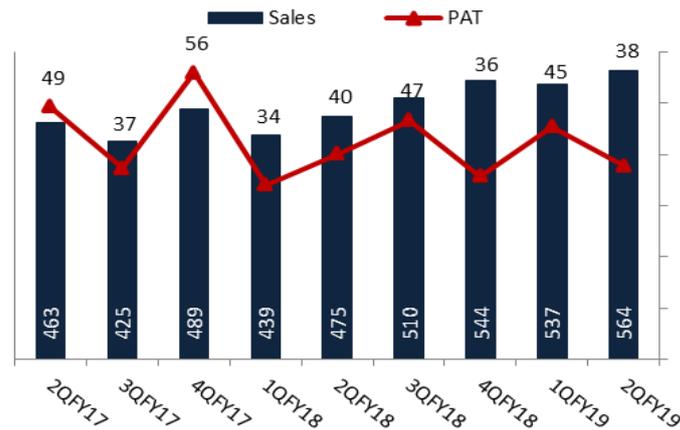


Exhibit: PAT (Rs. Crore) and PAT Margin trend

Higher finance costs due to depreciating rupee added to troubles, partially offset by lower tax rate

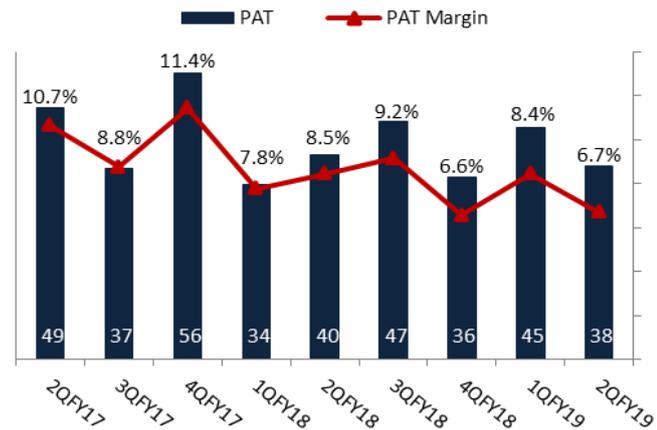


Exhibit: Return Ratios

Return ratios to rise going ahead with reducing debt aiding ROCE

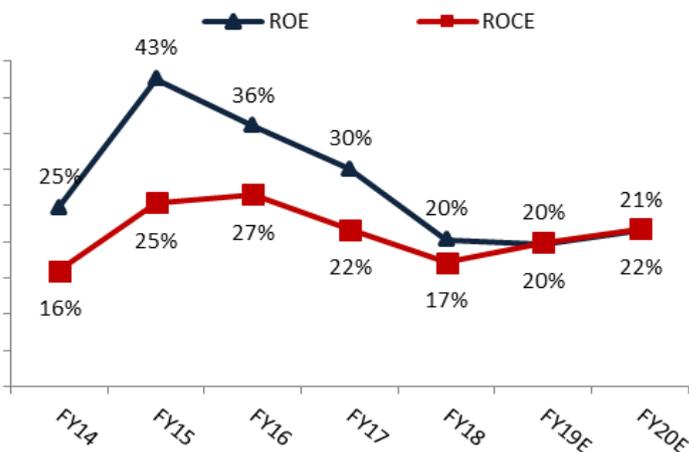
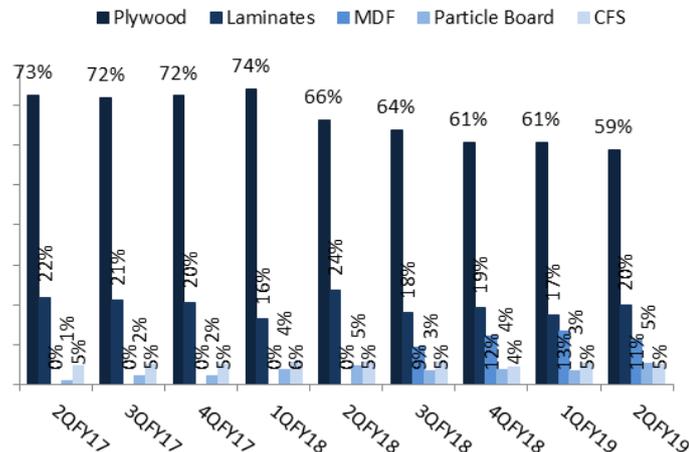


Exhibit: Segment Contribution

The product mix shift over the past quarters shows the reducing revenue reliance on plywood and laminates business alone



Financial Details

Balance Sheet

Y/E March	FY14	FY15	FY16	FY17	FY18	FY19E	FY20E
Share Capital	22	22	22	22	22	22	22
Reserves	269	395	503	686	816	970	1,172
Net Worth	291	417	525	709	838	992	1,195
Debt	446	456	405	557	502	501	463
Other Non Current Liab	2	0	0	11	11	11	11
Total Capital Employed	739	873	930	1,276	1,351	1,503	1,669
Net Fixed Assets (incl CWIP)	231	224	290	534	662	765	805
Investment in Subsidiaries	-	45.1	49.7	96.0	96.0	96.0	96.0
Other non-current assets	109	95	128	113	107	107	107
Non Current Assets	339	364	468	743	865	968	1,007
Inventory	293	320	275	264	338	382	407
Debtors	205	266	287	335	314	351	384
Cash & Bank	18	17	19	54	17	28	107
Other Current Assets	62	79	93	159	126	148	166
Current Assets	578	682	674	812	795	910	1,065
Creditors	59	65	84	141	176	217	231
Provisions	32	3	7	1	2	2	2
Other Current Liabilities	87	105	121	136	130	155	170
Curr Liabilities	178	173	212	278	308	374	403
Net Current Assets	400	509	462	533	486	535	661
Total Assets	917	1,047	1,142	1,555	1,659	1,878	2,072

Income Statement

Y/E March	FY14	FY15	FY16	FY17	FY18	FY19E	FY20E
Revenue from Operation	1,284	1,565	1,636	1,782	1,967	2,262	2,477
Change (%)	14%	22%	5%	9%	10%	15%	9%
Other Income	9	18	6	23	7	7	8
EBITDA	148	250	284	292	306	329	399
Change (%)	31%	69%	13%	3%	5%	7%	21%
Margin (%)	12%	16%	17%	16%	16%	15%	16%
Depr & Amor.	33	45	44	52	81	45	53
EBIT	115	205	240	240	225	284	346
Int. & other fin. Cost	55	43	46	29	33	55	53
EBT	69	180	200	234	199	236	301
Exp Item	-	-	-	-	-	-	-
Tax	2	29	30	48	42	55	66
Reported PAT	67	151	170	186	157	181	235
Adjusted PAT	67	151	170	186	157	181	235
Change (%)	27%	125%	13%	9%	-16%	15%	30%
Margin(%)	5%	10%	10%	10%	8%	8%	9%

Financial Details

Key Ratios

Y/E March	FY14	FY15	FY16	FY17	FY18	FY19E	FY20E
Current Ratio	3.2	3.9	3.2	2.9	2.6	2.4	2.6
Debt-Equity Ratio	1.5	1.1	0.8	0.8	0.6	0.5	0.4
Interest Coverage Ratio	2	4.7	5.2	8.4	6.9	5.1	6.5
Capital Turnover Ratio	3	3.1	2.8	2.1	2.0	2.0	1.9
Fixed Asset Turnover Ratio	6	6.9	6.4	4.3	3.3	3.2	3.2
Inventory Days outstanding	141	137	119	105	121	120	120
Accounts Receivable Days outstanding	58	62	64	69	58	57	57
Accounts Payable Days outstanding	28	28	37	56	63	68	68
ROCE	16%	25%	27%	22%	17%	20%	22%
ROE	25%	43%	36%	30%	20%	20%	21%
FCF per Share	(1)	3.8	7.4	(2.9)	4.1	3.9	8.7
Price / EPS	9	34.5	22.3	31.0	46.3	21.1	16.3
Price / Book Value	2	12.5	7.2	8.1	8.7	3.9	3.2
EV/EBITDA	7	22.6	14.7	21.4	25.3	13.1	10.5
EV/Sales	0.8	3.6	2.5	3.5	3.9	1.9	1.7
Div Yield	3.6%	0.9%	0.6%	0.4%	0.3%	0.7%	0.9%

Cash Flow Statement

Y/E March	FY14	FY15	FY16	FY17	FY18	FY19E	FY20E
PBT	69	180	200	234	199	236	301
(inc)/Dec in Working Capital	(110)	(92)	37	(28)	25	(41)	(47)
Non Cash Op Exp	28	41	53	35	81	38	45
Int Paid (+)	55	43	46	29	33	55	53
Tax Paid	(11)	(34)	(46)	(46)	(54)	(52)	(66)
CF from Op. Activities	31	138	289	223	283	236	286
(inc)/Dec in FA & CWIP	(46)	(53)	(125)	(288)	(192)	(149)	(92)
Free Cashflow	(15)	85	164	(65)	91	87	194
(Pur)/Sale of Inv	5	0	0	0	2	-	-
others	(12)	(9)	(3)	(33)	(7)	7	8
CF from Inv. Activities	(53)	(62)	(129)	(321)	(197)	(142)	(84)
inc/(dec) in NW	-	-	-	-	-	-	-
inc/(dec) in Debt	22	12	(52)	161	(64)	(1)	(38)
Int. Paid	(56)	(42)	(47)	(29)	(33)	(55)	(53)
Div Paid (inc tax)	(6)	(46)	(60)	(0)	(27)	(27)	(32)
others	-	-	-	-	-	-	-
CF from Fin. Activities	(39)	(76)	(159)	133	(123)	(83)	(123)
Inc(Dec) in Cash	(62)	(1)	2	35	(37)	11	79
Add: Opening Balance	80	18	17	19	54	17	28
Closing Balance	18	17	19	54	17	28	107

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