

# Century Plyboards (I) Ltd

Industry Paper & forest product  
Bloomberg CPBI IN  
BSE CODE 532548

**Higher sales growth; sacrificing profitability to gain market**

<b>RATING</b>	<b>NEUTRAL</b>
<b>CMP</b>	<b>163</b>
<b>Price Target</b>	<b>170</b>
<b>Potential Upside</b>	<b>4%</b>

<b>Rating Change</b>	
<b>Estimate Change</b>	
<b>Target Change</b>	

## Stock Info

52wk Range H/L	364/150
Mkt Capital (Rs Cr)	3616
Free float (%)	28%
Avg. Vol 1M (,000)	267
No. of Shares (Cr)	22
Promoters Pledged %	0%

## Research Analyst

**PRATIK PODDAR**

pratik.poddar@narnolia.com

+91-22-62701207

## 3QFY19 Result Update

- CENTURYPLY reported a net sales growth of 13.5% YoY at Rs 579 crores with MDF now contributing 16% to the total sales. Ex-MDF, net sales grew by 6% YoY.
- On segment basis, Plywood segment de-grew by 2.3% primarily on account of poor commercial veneer performance, Laminates grew by strong 24% led by mix of both volumes and realisations, a whopping 88% & 58% YoY growth was achieved in MDF and particle board on the back of strong volumes.
- Gross margins came in lower at 46.7%, down 220bps YoY and 110bps QoQ due to a mix of lower realisations in few segments and higher RM costs in few.
- The company reported an EBITDA margin of 13.1%, lower by 410bps YoY due to poor EBITDA margins reported in plywood and laminates segment, partially saved by better margins achieved in MDF and particle board segment.
- Company reported a PAT margin of 7.2% and PAT of Rs 41 crores, lower by 11.3% YoY.
- The laminates expansion was completed in quarter three. The company has announced that it is looking to set-up a particle board and MDF facility in UP.

## View and Valuation

CENTURYPLY reported mixed set of numbers in quarter three with its sales growing by 13.5% YoY while its profitability falling by 11.3% YoY due to poor margins. The management stated that the overall industry environment continues to be challenging and Indian market has entered into election mode. It also affirmed that GST compliance has improved, however it still has a long way to go. In the plywood segment, the company has changed its strategy and would focus on mid-market segment as they find better growth prospects there; however that would lead to lower margins in the near term. The laminate segment showed strong volume & realization growth and going ahead, the margins should improve with the higher RM costs now covered in prices. MDF continues to be a heavily competitive segment due to over-capacities in the market. However, the management believes that the demand/supply gap would narrow down eventually with pricing power helping the players gain better margins on improving capacity utilization. The particle board segment reported 58% YoY topline growth driven by higher volumes with improved margins sequentially and YoY. With the company's strategy to gain market sacrificing margins in the short term, we lower our FY19/FY20 PAT estimates by 4.5%/10%. We value CENTURYPLY at 11x FY20e EV/EBITDA to arrive at a target price of Rs 170 and maintain our NEUTRAL stance.

## 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	2268	2435
EBITDA	284	292	306	326	380
EBIT	240	240	225	277	322
PAT	169.8	185.6	156.6	172.5	211.5
EPS (Rs)	8	8	7	8	10
EPS growth (%)	13%	9%	-16%	10%	23%
ROE (%)	36%	30%	20%	19%	20%
ROCE (%)	27%	22%	17%	19%	20%
BV	24	32	38	44	52
EV/EBITDA (x)	14.7	21.4	25.3	12.7	10.6
P/E (x)	22.3	31.0	46.3	21.0	17.1

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**3Q FY 19 Results**  
**Mix numbers**
**Lower EBITDA Margins**

Financials	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19	YoY %	QoQ%	FY17	FY18	YoY %
Net Sales	510	544	537	564	579	13.5%	2.6%	1,782	1,967	10.4%
Other Income	4	1	1	1	2	-62.9%	57.0%	23	7	-70.5%
Total Revenue	514	545	538	565	580	12.9%	2.7%	1,805	1,974	9.3%
COGS	261	274	275	294	309	18.4%	4.8%	918	1,023	11.4%
Gross Margin	49%	50%	49%	48%	47%	-2.2%	-1.2%	48%	48%	-0.5%
Employee Cost	72	75	79	84	81	12.1%	-3.6%	257	284	10.6%
Other Expenses	89	112	96	112	113	26.9%	1.3%	316	354	12.2%
EBITDA	88	83	87	74	76	-13.5%	2.3%	292	306	4.8%
EBITDA Mar.	17%	15%	16%	13%	13%	-4.1%	0.0%	16%	16%	-0.8%
Depreciation	26	28	11	11	14	-48.3%	20.8%	52	81	54.7%
EBIT	61	55	76	63	62	1.4%	-1.0%	240	225	-6.1%
Interest	6	12	13	16	6	-0.3%	-59.7%	29	33	14.1%
PBT	59	45	63	48	58	-3.0%	18.9%	234	199	-14.8%
Excpt Item	-	-	-	-	-	0.0%	0.0%	-	-	0%
Tax	13	9	17	11	16	27%	52.5%	48	42	-12.0%
PAT	47	36	45	38	41	-11%	9.5%	186	157	-15.6%
PAT Margin	9%	7%	8%	7%	7%	-2.0%	0.5%	10%	8%	-2.4%

Segments	3QFY17	4QFY17	1QFY18	2QFY18	3QFY18	4QFY18	1QFY19	2QFY19	Q3FY19
Plywood	72%	72%	74%	66%	64%	61%	61%	59%	55%
Laminates	21%	20%	16%	24%	18%	19%	17%	20%	20%
MDF	0%	0%	0%	0%	9%	12%	13%	11%	16%
Particle Board	2%	2%	4%	5%	3%	4%	3%	5%	5%
CFS	5%	5%	6%	5%	5%	4%	5%	5%	4%

**Higher than expected sales with MDF growing 88% YoY**

Company reported a net sales growth of 13.5% YoY at Rs 579 crores, better than our estimates of Rs 557 crores. Ex-MDF, net sales grew by 6% YoY.

Plywood segment de-grew by 2.3% YoY in value terms primarily on account of poor commercial veneer performance.

Laminates grew by strong 24% YoY led by mix of both volumes growing 9.7% YoY and realisations growing 13.3% YoY. Such higher realisations would now help company to report better margins for the segment.

MDF segment reported a whopping 88% YoY growth with volumes growing 54.6% YoY and it now contributes ~16% to the total revenue.

Particle board segment reported 58% YoY growth with overall volumes growing by 62% YoY and realisations lower by 2.7% YoY while better on sequential basis by 10.6%.

The CFS segment reported lower sales at Rs 25 crore, primarily on account of poor volumes on operational challenges.

**Lower realisations affect EBITDA margins**

Gross margins came in lower than our estimates of 48% at 46.7%, down 220bps YoY and 110bps QoQ due to a mix of lower realisations and product mix in few segments and higher RM costs in few. The company reported an EBITDA margin of 13.1% against our estimate of 13.8% due to poor EBITDA margins reported in plywood and laminates segment, partially saved by better margins achieved in MDF and particle board segment. The 12.1% reported EBITDA margin in plywood is lowest since FY16 due to product mix and high RM costs. Laminate division reported yet another quarter of EBITDA margin at 9% due to high RM costs, however expects the margins to improve going forward. EBITDA margin for MDF came in higher at 15.9% and is expected to be higher on back of better utilisation levels in future. The EBITDA margin in particle board segment have been strong at 20.8%

The depreciation expense came in higher at Rs 14 crores with the corporate office and laminate expansion commencement in the quarter. Management expects this run-rate to continue going forward.

Company reported a PAT margin of 7.2% and PAT of Rs 41 crores against our estimate of Rs 42 crores.

## Concall Highlights

### Demand Environment:

- The third quarter was quite challenging and India is in the election mode now.
- GST compliance has now improved; however, it has a long way to go.

### Results:

- The sales growth for 9MFY19 has been 18% YoY, of which 12% growth is due to MDF
- For 9MFY19, the total adverse forex impact was Rs 19.86 crores as against favorable Rs 1.34 crores. Of this, Rs 10.34 crores is taken in borrowing costs and balance is taken to EBITDA. Out of total, Realized loss if Rs 10.05 crores and balance is MTM loss. For Q3FY19, forex loss was Rs 4 crores.
- In order to de-risk from foreign currency exposure, company continues to reduce its forex exposure to Rs 142 crores against Rs 365 crores as on March, 2018 and Rs 209 crores as on September, 2018. 83% of the total exposure is in USD and majority balance is in EURO. As on date, this forex exposure is completely hedged either naturally or through forwards.
- The fall in payable days is due to company de-risking its forex exposures.

### Capex:

- The company would announce the MDF and particle board expansion details as and when finalized.
- The company has dropped door plan as a whole for now as their pilot round suggested the demand is low, however, they would continue to trade through imports.
- The plywood plant in Punjab has been delayed as the company is upgrading its current plants to improve quality and that is also releasing lot of capacities.
- The shift of 110 crores from CWIP to fixed assets relates to corporate office and laminate expansion.

### Plywood:

- The value growth was flat due to change in Product mix. The company is now focusing on the mid-market range as the growth prospects are little better there. Downfall in commercial veneer has affected growth in the plywood segment. Here the priority is creating their mark in this new opportunity with short term dip in profitability.
- Gross Margins were lower as Phenol/crude related prices play role in plywood to a certain extent and lack of tax benefits at Guwahati. The company expects margins to remain lower in near term.
- Accumen timber from Gabon is around 35% cheaper than Myanmar which results in lower cost by 5% for plywood. The company has decided to put up a plant at Gabon for a cost of Rs 30 crores and expect it to commence in next 6 months. This expansion is basically to secure RM sourcing

### Laminates:

- Design paper and phenol prices have been high over the past six months impacting margins. The situation has now improved with the price hikes and the RM costs settling down. Company expects margins should improve going ahead.

### MDF:

- The plant was running at 78% utilization for Q3 and at 64% for 9MFY19.
- In MDF, demand/supply gap is huge and so pricing pressure continues. Witnessed around 5% QoQ price correction last quarter. They expect further price correction of 2-3% in the coming quarter. In the market, Century MDF is treated as the best quality MDF. The demand for MDF is growing very fast and we expect that very soon the demand/supply gap will be narrowed down and every market player will have pricing power.
- The company is hopeful to maintain EBITDAM at 14-15%.
- The gross margins expanded by 800 bps even after lower price realization is due to three reasons viz. installed a new machine which consumes lower glue by 20% and glue prices are down, lower electricity prices at Rs 5/ unit and exemption of GST on electricity in state, recalibration showed lower timber usage by 10-15%.

### CFS:

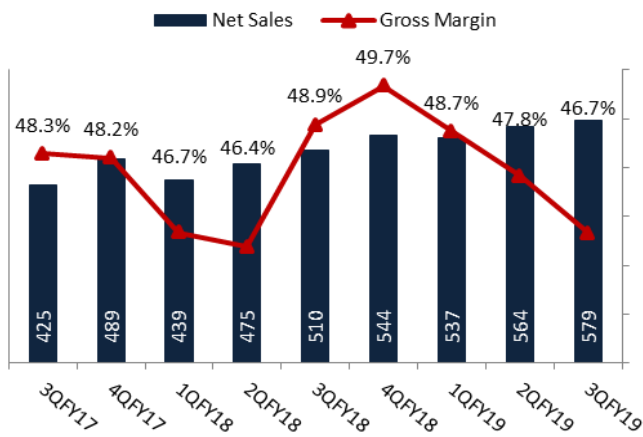
- Lower volume is attributable to following reasons: containers are being restricted due to congestion in Kolkata leading to shift to Haldia, bridge collapse which was used to connect to the station and entry of ALLCARGO in Kolkata

### Other key points:

- The company is looking to expand its customer reach with the mid-market strategy in place. Currently, touch points for laminates are 18000+ and for plywood around 5000. The company aims to expand the reach to 30000 for laminates and 15000 for plywood.

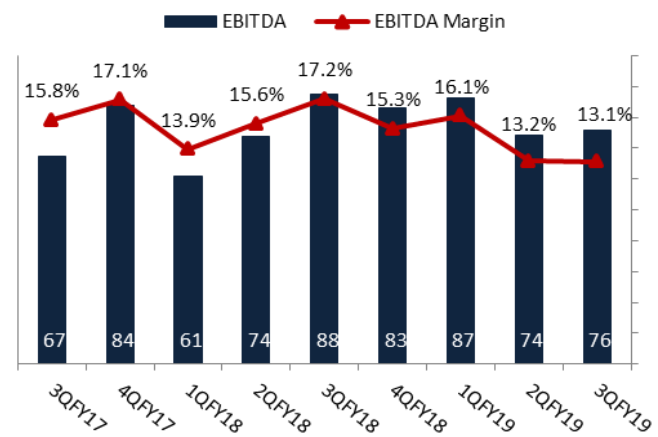
## Exhibit: Net Sales (Rs. Crore) and Gross Margin trend

High RM costs, lower realisations and product mix impact gross margins



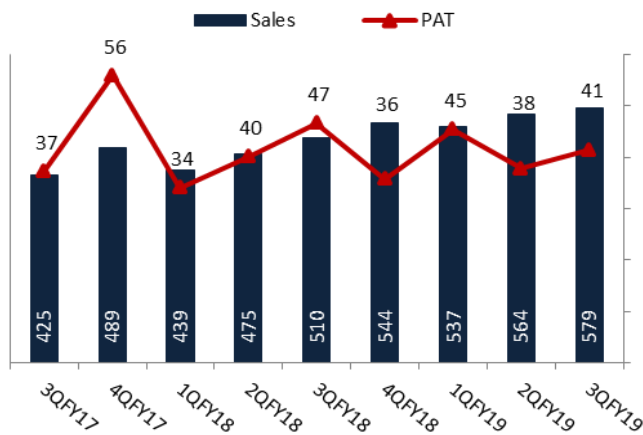
## Exhibit: EBITDA (Rs. Crore) and EBITDA Margin trend

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



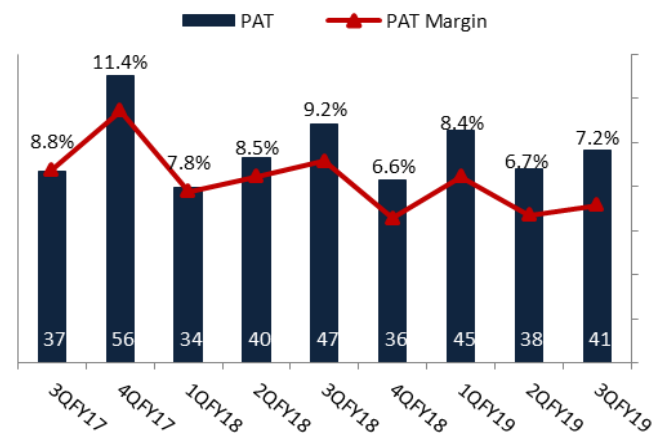
## Exhibit: Sales (Rs. Crore) and PAT (Rs. Crore)

Poor operational margins is affecting the bottomline



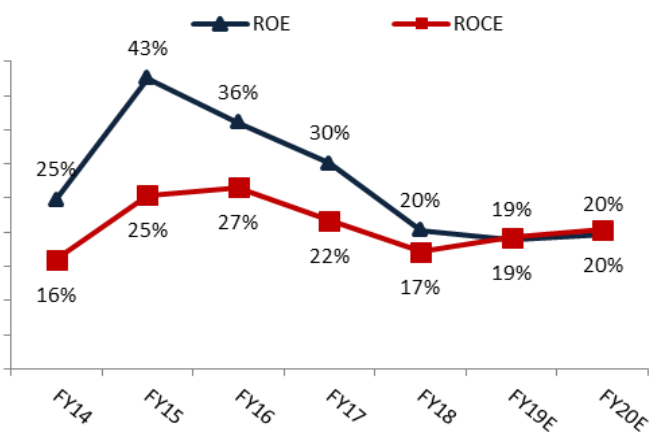
## Exhibit: PAT (Rs. Crore) and PAT Margin trend

Higher depreciation and tax rate impacted PAT, partially offset by lower finance costs



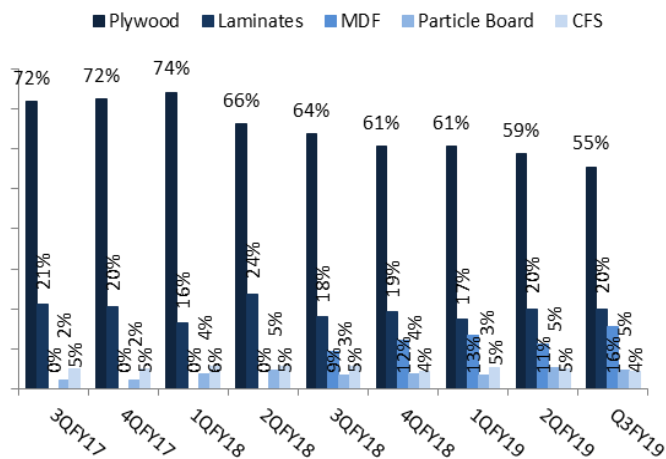
## Exhibit: Return Ratios

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
<b>Share Capital</b>	22	22	22	22	22	22	22
Reserves	269	395	503	686	816	962	1,144
<b>Net Worth</b>	<b>291</b>	<b>417</b>	<b>525</b>	<b>709</b>	<b>838</b>	<b>984</b>	<b>1,166</b>
Debt	446	456	405	557	502	524	465
Other Non Current Liab	2	0	0	11	11	11	11
<b>Total Capital Employed</b>	<b>739</b>	<b>873</b>	<b>930</b>	<b>1,276</b>	<b>1,351</b>	<b>1,519</b>	<b>1,642</b>
Net Fixed Assets (incl CWIP)	231	224	290	534	662	791	822
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
<b>Non Current Assets</b>	<b>339</b>	<b>364</b>	<b>468</b>	<b>743</b>	<b>865</b>	<b>993</b>	<b>1,025</b>
Inventory	293	320	275	264	338	388	411
Debtors	205	266	287	335	314	333	358
Cash & Bank	18	17	19	54	17	14	68
Other Current Assets	62	79	93	159	126	142	155
<b>Current Assets</b>	<b>578</b>	<b>682</b>	<b>674</b>	<b>812</b>	<b>795</b>	<b>878</b>	<b>992</b>
Creditors	59	65	84	141	176	195	206
Provisions	32	3	7	1	2	2	2
Other Current Liabilities	87	105	121	136	130	156	167
<b>Curr Liabilities</b>	<b>178</b>	<b>173</b>	<b>212</b>	<b>278</b>	<b>308</b>	<b>352</b>	<b>375</b>
<b>Net Current Assets</b>	<b>400</b>	<b>509</b>	<b>462</b>	<b>533</b>	<b>486</b>	<b>526</b>	<b>617</b>
<b>Total Assets</b>	<b>917</b>	<b>1,047</b>	<b>1,142</b>	<b>1,555</b>	<b>1,659</b>	<b>1,871</b>	<b>2,017</b>

## Income Statement

Y/E March	FY14	FY15	FY16	FY17	FY18	FY19E	FY20E
<b>Revenue from Operation</b>	<b>1,284</b>	<b>1,565</b>	<b>1,636</b>	<b>1,782</b>	<b>1,967</b>	<b>2,268</b>	<b>2,435</b>
Change (%)	14%	22%	5%	9%	10%	15%	7%
Other Income	9	18	6	23	7	6	7
<b>EBITDA</b>	<b>148</b>	<b>250</b>	<b>284</b>	<b>292</b>	<b>306</b>	<b>326</b>	<b>380</b>
Change (%)	31%	69%	13%	3%	5%	7%	17%
Margin (%)	12%	16%	17%	16%	16%	14%	16%
Depr & Amor.	33	45	44	52	81	49	57
<b>EBIT</b>	<b>115</b>	<b>205</b>	<b>240</b>	<b>240</b>	<b>225</b>	<b>277</b>	<b>322</b>
Int. & other fin. Cost	55	43	46	29	33	49	47
<b>EBT</b>	<b>69</b>	<b>180</b>	<b>200</b>	<b>234</b>	<b>199</b>	<b>234</b>	<b>282</b>
Exp Item	-	-	-	-	-	-	-
Tax	2	29	30	48	42	61	71
Reported PAT	67	151	170	186	157	173	212
<b>Adjusted PAT</b>	<b>67</b>	<b>151</b>	<b>170</b>	<b>186</b>	<b>157</b>	<b>173</b>	<b>212</b>
Change (%)	27%	125%	13%	9%	-16%	10%	23%
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	2.5	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	5.7	6.9
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	3.1	3.0
Inventory Days outstanding	141	137	119	105	121	120	120
Accounts Receivable Days outstanding	58	62	64	69	58	54	54
Accounts Payable Days outstanding	28	28	37	56	63	60	60
ROCE	16%	25%	27%	22%	17%	19%	20%
ROE	25%	43%	36%	30%	20%	19%	20%
FCF per Share	(1)	3.8	7.4	(2.9)	4.1	2.0	8.3
Price / EPS	9	34.5	22.3	31.0	46.3	21.0	17.1
Price / Book Value	2	12.5	7.2	8.1	8.7	3.7	3.1
EV/EBITDA	7	22.6	14.7	21.4	25.3	12.7	10.6
EV/Sales	0.8	3.6	2.5	3.5	3.9	1.8	1.6
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
<b>PBT</b>	<b>69</b>	<b>180</b>	<b>200</b>	<b>234</b>	<b>199</b>	<b>234</b>	<b>282</b>
(inc)/Dec in Working Capital	(110)	(92)	37	(28)	25	(52)	(45)
Non Cash Op Exp	28	41	53	35	81	43	51
Int Paid (+)	55	43	46	29	33	49	47
Tax Paid	(11)	(34)	(46)	(46)	(54)	(51)	(62)
<b>CF from Op. Activities</b>	<b>31</b>	<b>138</b>	<b>289</b>	<b>223</b>	<b>283</b>	<b>223</b>	<b>272</b>
(inc)/Dec in FA & CWIP	(46)	(53)	(125)	(288)	(192)	(178)	(89)
Free Cashflow	(15)	85	164	(65)	91	45	183
(Pur)/Sale of Inv	5	0	0	0	2	-	-
others	(12)	(9)	(3)	(33)	(7)	6	7
<b>CF from Inv. Activities</b>	<b>(53)</b>	<b>(62)</b>	<b>(129)</b>	<b>(321)</b>	<b>(197)</b>	<b>(172)</b>	<b>(82)</b>
inc/(dec) in NW	-	-	-	-	-	-	-
inc/(dec) in Debt	22	12	(52)	161	(64)	22	(59)
Int. Paid	(56)	(42)	(47)	(29)	(33)	(49)	(47)
Div Paid (inc tax)	(6)	(46)	(60)	(0)	(27)	(27)	(29)
others	-	-	-	-	-	-	-
<b>CF from Fin. Activities</b>	<b>(39)</b>	<b>(76)</b>	<b>(159)</b>	<b>133</b>	<b>(123)</b>	<b>(53)</b>	<b>(136)</b>
<b>Inc(Dec) in Cash</b>	<b>(62)</b>	<b>(1)</b>	<b>2</b>	<b>35</b>	<b>(37)</b>	<b>(3)</b>	<b>54</b>
Add: Opening Balance	80	18	17	19	54	17	14
<b>Closing Balance</b>	<b>18</b>	<b>17</b>	<b>19</b>	<b>54</b>	<b>17</b>	<b>14</b>	<b>68</b>



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Analyst's ownership of the stocks mentioned in the Report	NIL
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A graph of daily closing prices of securities is available at [www.nseindia.com](http://www.nseindia.com), [www.bseindia.com](http://www.bseindia.com).

Correspondence Office Address: Arch Waterfront, 5<sup>th</sup> Floor, Block GP, Saltlake, Sector 5, Kolkata 700 091; Tel No.: 033-40541700; [www.narnolia.com](http://www.narnolia.com).

Registered Office Address: Marble Arch, Office 201, 2<sup>nd</sup> Floor, 236B, AIC Bose Road, Kolkata 700 020; Tel No.: 033-4050 1500; [www.narnolia.com](http://www.narnolia.com)

Compliance Officer: Manish Kr Agarwal, Email Id: [mkagarwal@narnolia.com](mailto:mkagarwal@narnolia.com), Contact No.:033-40541700.

Registration details of Company: Narnolia Financial Advisors Ltd. (NFAL): SEBI Stock Broker Registration: INZ000166737 (NSE/BSE/MSEI); NSDL/CDSL: IN-DP-380-2018; Research Analyst: INH300006500, Merchant Banking: (Registration No.: INM000010791), PMS: (Registration No.: INP000002304), AMFI Registered Mutual Fund distributor: ARN 3087

Registration Details of Group entities: G. Raj & Company Consultants Ltd (G RAJ)-BSE Broker INZ260010731; NSDL DP: IN-DP-NSDL-371-2014 || Narnolia Commerze Limited (Formerly Microsec Commerze Ltd.)-MCX/NCDEX Commodities Broker: INZ000051636 || NarnoliaVeloX Advisory Ltd.- SEBI Registered PMS: INP000005109 || Eastwind Capital Advisors Pvt Ltd. (EASTWIND)-SEBI Registered Investment Adviser: INA300005439 || Narnolia Insurance Brokers Limited (Formerly Microsec Insurance Brokers Ltd.)-IRDA Licensed Direct Insurance Broker (Life & Non-Life) Certificate No. 134, License No. DB046/02 || Narnolia Securities Ltd. (NSL)-AMFI Registered Mutual Fund distributor: ARN 20558, PFRDA NPS POP: 27092018 || Narnolia Capital Advisors Pvt. Ltd. - RBI Registered NBFC:B.05.02568.

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