

Industry Paper & forest product  
Bloomberg CPBI IN  
BSE CODE 532548

## Margin expansion led by MDF and Laminates

RATING	NEUTRAL
CMP	170
Price Target	176
Potential Upside	4%
Rating Change	↔
Estimate Change	↓
Target Change	↔

STOCK INFO	
52wk Range H/L	222/112
Mkt Capital (Rs Cr)	3775
Free float (%)	28%
Avg. Vol 1M (,000)	272
No. of Shares (Cr.)	22
Promoters Pledged %	NA

### 2QFY19 Result Update

- CENTURYPLY reported numbers in line with our estimates; Sales grew by 4.4% to Rs 589 cr (vs. expect. Rs 602 cr) led by growth in Laminates (contri. 23% to total revenue) and MDF (contri. 23% to total revenue) of 23% and 13% respectively.
- Plywood, particle board and logistics de-grew by 2%, 9% and 16% respectively. Plywood segment is impacted by de-growth in commercial veneer and is still under pressure.
- Gross margin expanded by 199 bps to 49.8% (vs. expect. 49.6%) led by GM expansion in Laminates, MDF and Particle board.
- EBITDA margin also expanded by 259 bps YoY to 15.7% (vs. expect. 15.1%) led by gross margin expansion and decline in other expenses by 72 bps although employee expenses was up by 12 bps on YoY basis.
- PAT stood at Rs 52 cr (vs. expect. Rs 54 cr), up 37.9% on YoY basis and PAT margin was at 8.8%.
- The company's total borrowings stood at Rs 396 cr with long term debt of Rs 112 cr as on September 30, 2019 and company is still very low geared at Long term debt/equity ratio of 0.11.

### View and Valuation

Despite subdued market scenario, company reported moderate sales growth of 4.4% in 2QFY20 driven by Laminate & MDF segment. Going ahead, Laminate & MDF segment are expected to remain the key drivers of growth while plywood segment will need some more time to recover. Further revival is expected for the company post government initiatives undertaken to strengthen the country's economy. Favorable crude prices led to stabilized prices of phenol which forms major raw material constituent for laminate and this is expected to continue going ahead leading to margin expansion for the company. Considering the current demand scenario, we reduce our sales estimates by 3% for FY20/FY21 and reduce PAT estimate by 4%/1% for FY20/FY21. We value the stock at 10x FY21e EV/EBITDA (previously 11x FY20e) to arrive at a target price of Rs 176 and maintain NEUTRAL rating.

### Key Risks to our rating and target

- Continued slowdown and liquidity crunch impacting demand.
- Increase in input prices.

Stand./Fig in Rs Cr

KEY FINANCIAL/VALUATIONS	FY17	FY18	FY19	FY20E	FY21E
Net Sales	1782	1967	2264	2352	2507
EBITDA	292	306	300	356	389
EBIT	240	225	250	300	329
PAT	186	157	159	210	263
EPS (Rs)	8	7	7	9	12
EPS growth (%)	9%	-16%	1%	32%	25%
ROE (%)	30%	20%	18%	20%	21%
ROCE (%)	22%	17%	18%	21%	21%
BV	32	38	44	52	62
EV/EBITDA (x)	21.4	25.3	16.9	11.4	10.0
P/E (x)	31.0	46.3	29.2	18.0	14.3

The views expressed above accurately reflect the personal views of the authors about the subject companies and its(their) securities. The authors have not and will not receive any compensation for providing a specific recommendation or view. Narnolia Financial Advisors Ltd. does and seeks to do business with companies covered in its research reports. As a result, investors should be aware that the firm may have a conflict of interest that could affect the objectivity of this report. Investors should consider this report as only a single factor in making their investment decision.

## 2QFY19 Results Largely inline

Stand./Fig in Rs Cr

FINANCIALS	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20	YoY %	QoQ%	FY18	FY19	YoY %
Net Sales	564	579	583	574	589	4.4%	2.7%	1,967	2,264	15.1%
Other Income	1	2	3	1	9	755.4%	651.7%	7	6	-9.5%
COGS	294	309	303	292	296	0.4%	1.2%	1,023	1,182	15.5%
Gross Margin	48%	47%	48%	49%	50%	2.0%	0.7%	48%	48%	-0.2%
Empl. Cost	84	81	84	84	88	5.2%	4.6%	284	328	15.4%
Other Exp.	112	113	133	104	112	0.6%	7.6%	354	454	28.2%
EBITDA	74	76	64	93	93	25.0%	0.2%	306	300	-1.9%
EBITDA Mar.	13%	13%	11%	16%	16%	2.6%	-0.4%	16%	13%	-2.3%
Depreciation	11	14	14	17	17	51.2%	0.5%	81	50	-38.3%
EBIT	63	62	49	76	76	20.3%	0.1%	225	250	11.3%
Interest	16	6	9	9	11	-30.3%	20.7%	33	45	36.4%
PBT	48	58	43	68	73	51.6%	8.3%	199	212	6.5%
Excep. Item	-	-	-	-	-	-	-	-	-	-
Tax	11	16	9	20	21	100.4%	8.1%	42	53	25.3%
PAT	38	41	34	48	52	37.9%	8.3%	157	159	1.3%
PAT Margin	7%	7%	6%	8%	9%	2.1%	0.5%	8%	7%	-0.9%

## Revenue Mix:

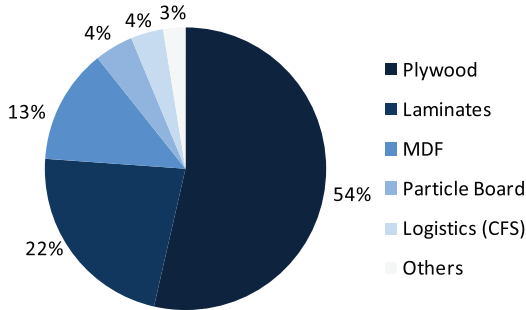
SEGMENTS	2QFY18	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20
Plywood	64%	63%	59%	59%	57%	54%	55%	55%	54%
Laminates	23%	18%	19%	17%	19%	19%	21%	18%	23%
MDF	0%	9%	12%	13%	11%	15%	13%	16%	13%
Particle Board	4%	3%	3%	3%	5%	5%	4%	4%	4%
Logistics (CFS)	4%	5%	4%	5%	4%	4%	4%	4%	4%
Others	3%	2%	3%	3%	3%	3%	3%	3%	3%

## Concall Highlights

- The company has added 2 large format company-owned stores in Morbi & Bangalore of 12000
- Plywood segment still under pressure and company is seeing flattish performance in this.
- ILP program was launched in 3 branches, it has shown very good result and company will be rolling out 4 – 5 new branches by H1CY20. Real estate sector growth is expected in times to come which help in growing business of this kind substantially.
- CFS division has faced issues to new competition, and it will take 1-2 year to absorb the capacity which is newly introduced and performance to come back to normal. The GDP of West Bengal is one of the best in India due to its lower base and it will certainly reflect in our CFS division.
- Intro of GST & its implementation and corrective reforms will certainly deliver robust growth in time to come.
- TAX: As the company is having carried forward net credit, so it is continuing with the old tax system.
- Company's forex exposure was hedged as on September 30, 2019 and it will take suitable measures to counter forex risk as and when needed.
- Plywood: Expected to grow ~6% for H2 and 2-3% for FY20 maintain EBITDA at 14% plus.
- MDF: It will be maintain 20% plus growth and 20% plus EBITDA margin.
- Particleboard: company is looking at a 10% growth and maintaining 25% of EBITDA margin.
- Laminate margins: company is looking at 15% plus growth and 12% plus margin for FY20.
- It will be starting production in Gabon in February or early March, capacity ~2000 cubic meter of timber and 1500 cubic meter of veneer on per month basis.

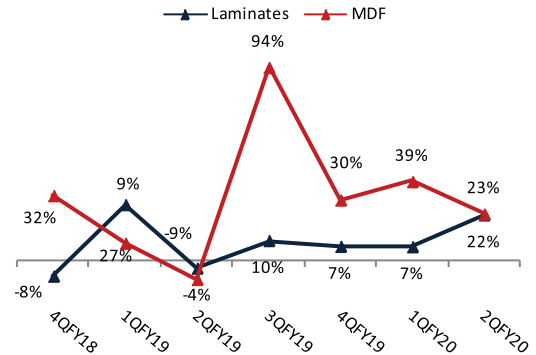
### Exhibit: Revenue Mix

Revenue share of Laminates & MDF segment is 22% & 13% respectively.



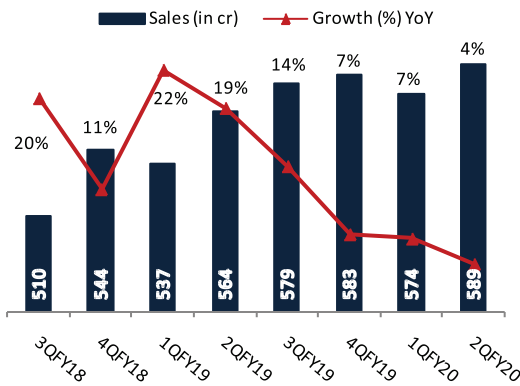
### Exhibit: Volume Growth (%) YoY

Laminates & MDF Volume grew by 22.2% & 23.1% respectively on YoY basis.



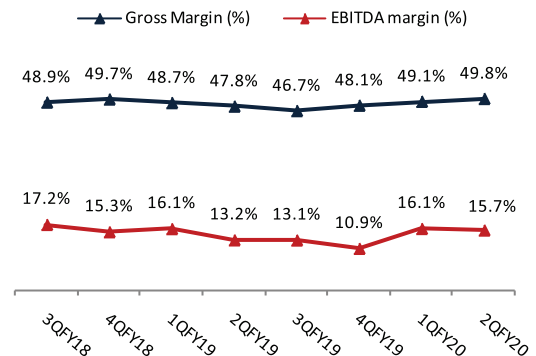
### Exhibit: Sales and Sales Growth (%)

Sales grew by 4.4% backed by strong volume growth in Laminates & MDF segment.



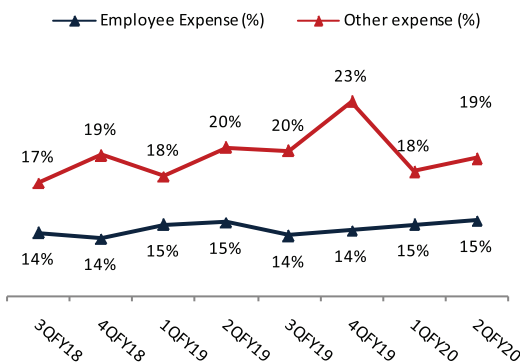
### Exhibit: Gross and EBITDA Margin (%)

Gross margin expanded by 199 bps and EBITDA margin expanded by 249 bps.



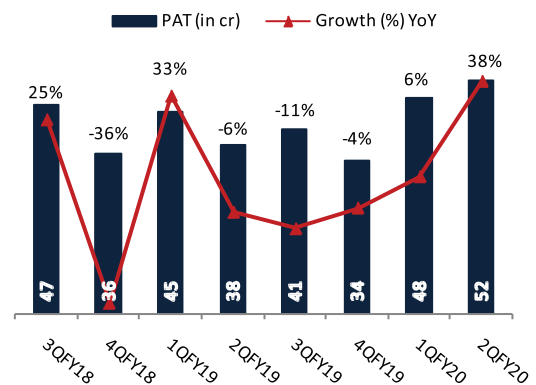
### Exhibit: Expenses as % of Sales

Other expense declined by 72 bps and employee expense was up by 12 bps on YoY basis.



### Exhibit: PAT and PAT Growth (%)

PAT stood at Rs 52 cr, up 37.9% on YoY basis.



## Financial Details

### Balance Sheet

Stand./Fig in Rs Cr

Y/E March	FY14	FY15	FY16	FY17	FY18	FY19	FY20E	FY21E
Share Capital	22	22	22	22	22	22	22	22
Reserves	269	395	503	686	816	947	1,130	1,362
<b>Networth</b>	<b>291</b>	<b>417</b>	<b>525</b>	<b>709</b>	<b>838</b>	<b>969</b>	<b>1,153</b>	<b>1,384</b>
Debt	446	456	405	557	502	469	317	240
Other Non Current Liab	2	0	0	11	11	3	3	3
<b>Total Capital Employed</b>	<b>739</b>	<b>873</b>	<b>930</b>	<b>1,276</b>	<b>1,351</b>	<b>1,440</b>	<b>1,472</b>	<b>1,626</b>
Net Fixed Assets (incl CWIP)	231	224	290	534	662	747	753	777
Non Current Investments	-	45	50	96	96	97	97	97
Other Non Current Assets	109	95	128	113	107	99	99	99
<b>Non Current Assets</b>	<b>339</b>	<b>364</b>	<b>468</b>	<b>743</b>	<b>865</b>	<b>944</b>	<b>949</b>	<b>974</b>
Inventory	293	320	275	264	338	401	407	432
Debtors	205	266	287	335	314	294	305	325
Cash & Bank	18	17	19	54	17	20	45	146
Other Current Assets	62	79	93	159	126	108	100	105
<b>Current Assets</b>	<b>578</b>	<b>682</b>	<b>674</b>	<b>812</b>	<b>795</b>	<b>822</b>	<b>858</b>	<b>1,008</b>
Creditors	59	65	84	141	176	163	165	175
Provisions	32	3	7	1	2	10	10	11
Other Current Liabilities	87	105	121	136	130	154	160	170
<b>Curr Liabilities</b>	<b>178</b>	<b>173</b>	<b>212</b>	<b>278</b>	<b>308</b>	<b>326</b>	<b>335</b>	<b>356</b>
<b>Net Current Assets</b>	<b>400</b>	<b>509</b>	<b>462</b>	<b>533</b>	<b>486</b>	<b>496</b>	<b>523</b>	<b>653</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>1,767</b>	<b>1,807</b>	<b>1,982</b>

### Income Statement

Stand./Fig in Rs Cr

Y/E March	FY14	FY15	FY16	FY17	FY18	FY19	FY20E	FY21E
<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>2,264</b>	<b>2,352</b>	<b>2,507</b>
Change (%)	14%	22%	5%	9%	10%	15%	4%	7%
Other Income	9	18	6	23	7	6	16	50
<b>EBITDA</b>	<b>148</b>	<b>250</b>	<b>284</b>	<b>292</b>	<b>306</b>	<b>300</b>	<b>356</b>	<b>389</b>
Change (%)	0	69%	13%	3%	5%	-2%	18%	9%
Margin (%)	0	16%	17%	16%	16%	13%	15%	16%
Depr & Amor.	33	45	44	52	81	50	55	60
<b>EBIT</b>	<b>115</b>	<b>205</b>	<b>240</b>	<b>240</b>	<b>225</b>	<b>250</b>	<b>300</b>	<b>329</b>
Int. & other fin. Cost	55	43	46	29	33	45	36	27
<b>EBT</b>	<b>69</b>	<b>180</b>	<b>200</b>	<b>234</b>	<b>199</b>	<b>212</b>	<b>281</b>	<b>352</b>
Exp Item	-	-	-	-	-	-	-	-
Tax	2	29	30	48	42	53	71	89
Reported PAT	67	151	170	186	157	159	210	263
<b>Adjusted PAT</b>	<b>67</b>	<b>151</b>	<b>170</b>	<b>186</b>	<b>157</b>	<b>159</b>	<b>210</b>	<b>263</b>
<b>Change (%)</b>	<b>0</b>	<b>125%</b>	<b>13%</b>	<b>9%</b>	<b>-16%</b>	<b>1%</b>	<b>32%</b>	<b>25%</b>
Margin(%)	0	10%	10%	10%	8%	7%	9%	11%

## Financial Details

### Key Ratios

Y/E March	FY14	FY15	FY16	FY17	FY18	FY19	FY20E	FY21E
Current Ratio	3	3.9	3.2	2.9	2.6	2.5	2.6	2.8
Debt-Equity Ratio	2	1.1	0.8	0.8	0.6	0.5	0.3	0.2
Interest Coverage Ratio	2	5	5.2	8.4	6.9	5.6	8.4	12.1
Capital Turnover Ratio	3.1	3	2.8	2.1	2.0	2.1	1.8	1.7
Fixed Asset Turnover Ratio	5.7	7	6.4	4.3	3.3	3.2	3.1	3.3
Inventory Days outstanding	140.7	137	119	105	121	124	124	124
Accounts Receivable Days outstanding	58.2	62	64	69	58	47	47	47
Accounts Payable Days outstanding	28.4	28	37	56	63	50	50	50
ROCE	0.2	25%	27%	22%	17%	18%	21%	21%
ROE	0.2	43%	36%	30%	20%	18%	20%	21%
FCF per Share	(1)	3	7.2	(4.5)	3.9	4.4	9.9	8.4
Price / EPS	9	35	22.3	31.0	46.3	29.2	18.0	14.3
Price / Book Value	2	12	7.2	8.1	8.7	4.8	3.3	2.7
EV/EBITDA	7	23	14.7	21.4	25.3	16.9	11.4	10.0
EV/Sales	0.8	3.6	2.5	3.5	3.9	2.2	1.7	1.5
Div Yield	0.0	0.9%	0.6%	0.4%	0.3%	0.5%	0.7%	0.9%

### Cash Flow Statement

Stand./Fig in Rs Cr

Y/E March	FY14	FY15	FY16	FY17	FY18	FY19	FY20E	FY21E
<b>PBT</b>	<b>69.3</b>	<b>180</b>	<b>200</b>	<b>234</b>	<b>199</b>	<b>212</b>	<b>281</b>	<b>352</b>
(inc)/Dec in Working Capital	(110)	(92)	37	(28)	25	(29)	(13)	(40)
Non Cash Op Exp	27.8	41	53	35	81	53	39	9
Int Paid (+)	55	43	46	29	33	45	36	27
Tax Paid	(11.2)	(34)	(46)	(46)	(54)	(54)	(62)	(77)
<b>CF from Op. Activities</b>	<b>30.6</b>	<b>138</b>	<b>289</b>	<b>223</b>	<b>283</b>	<b>226</b>	<b>281</b>	<b>271</b>
(inc)/Dec in FA & CWIP	(62.5)	(68)	(129)	(322)	(197)	(128)	(60)	(84)
Free Cashflow	(31.8)	69	161	(99)	86	98	220	187
(Pur)/Sale of Inv	4.8	0	0	0	2	-	-	-
others	4.4	6	0	1	(2)	-	16	50
<b>CF from Inv. Activities</b>	<b>(53.3)</b>	<b>(62)</b>	<b>(129)</b>	<b>(321)</b>	<b>(197)</b>	<b>(128)</b>	<b>(44)</b>	<b>(34)</b>
inc/(dec) in NW	-	-	-	-	-	-	-	1
inc/(dec) in Debt	22.4	12	(52)	161	(64)	(32)	(152)	(77)
Int. Paid	(55.8)	(42)	(47)	(29)	(33)	(35)	(36)	(27)
Div Paid (inc tax)	(5.7)	(46)	(60)	(0)	(27)	(27)	(27)	(32)
others	-	-	-	-	-	-	-	(1)
<b>CF from Fin. Activities</b>	<b>(39.1)</b>	<b>(76)</b>	<b>(159)</b>	<b>133</b>	<b>(123)</b>	<b>(94)</b>	<b>(214)</b>	<b>(136)</b>
<b>Inc(Dec) in Cash</b>	<b>(61.7)</b>	<b>(1)</b>	<b>2</b>	<b>35</b>	<b>(37)</b>	<b>4</b>	<b>22</b>	<b>101</b>
Add: Opening Balance	79.7	18	17	19	53	16	23	45
<b>Closing Balance</b>	<b>18.0</b>	<b>17</b>	<b>19</b>	<b>54</b>	<b>16</b>	<b>20</b>	<b>45</b>	<b>146</b>

Narnolia Financial Advisors Ltd. is a SEBI registered Research Analyst having SEBI Registration No. INH300006500. The Company/Analyst (s) does/do not have any holding in the stocks discussed but these stocks may have been recommended to clients in the past. Clients of Narnolia Financial Advisors Ltd. may be holding aforesaid stocks.

The stocks recommended are based on our analysis which is based on information obtained from public sources and sources believed to be reliable, but no independent verification has been made nor is its accuracy or completeness guaranteed.

Disclosures: Narnolia Financial Advisors Ltd. (NFAL) (Formerly Microsec Capital Ltd.) is a SEBI Registered Research Analyst having registration no. INH300006500. NFAL is engaged in the business of providing Stock Broking, Depository Participant, Merchant Banking, Portfolio Management & distribution of various financial products. Details of associate entities of NFAL is available on the website at [www.narnolia.com](http://www.narnolia.com)

No penalties have been levied on NFAL by any Regulatory/Statutory authority. NFAL, its associates, Research Analyst or their relative may have financial interest in the subject company. NFAL and/or its associates and/or Research Analyst may have beneficial ownership of 1% or more securities in the subject company at the end of the month immediately preceding the date of publication of the Research Report. NFAL and its associate company(ies), their directors and Research Analyst and their relatives may; (a) from time to time, have a long or short position in, act as principal in, and buy or sell the securities or derivatives thereof of companies mentioned herein. (b) be engaged in any other transaction involving such securities and earn brokerage or other compensation or act as a market maker in the financial instruments of the company(ies) discussed herein or act as an advisor or lender/borrower to such company(ies) or may have any other potential conflict of interests with respect to any recommendation and other related information and opinions.; however the same shall have no bearing whatsoever on the specific recommendations made by the analyst(s), as the recommendations made by the analyst(s) are completely independent of the views of the associates of NFAL even though there might exist an inherent conflict of interest in some of the stocks mentioned in the research report. Research Analyst may have served as director/officer, etc. in the subject company in the last 12 month period. NFAL and/or its associates may have received compensation from the subject company in the past 12 months. In the last 12 months period ending on the last day of the month immediately preceding the date of publication of this research report, NFAL or any of its associates may have: a) managed or co-managed public offering of securities from subject company of this research report, b) received compensation for investment banking or merchant banking or brokerage services from subject company of this research report, c) received compensation for products or services other than investment banking or merchant banking or brokerage services from the subject company of this research report. d) Subject Company may have been a client of NFAL or its associates during 12 months preceding the date of distribution of the research report. NFAL and its associates have not received any compensation or other benefits from the Subject Company or third party in connection with the research report. NFAL and / or its affiliates may do and seek to do business including Investment Banking with companies covered in the research reports. As a result, the recipients of this report should be aware that NFAL may have a potential conflict of interest that may affect the objectivity of this report. Compensation of Research Analysts is not based on any specific Merchant Banking, Investment Banking or Brokerage service transactions. Research Analyst's views on Subject Company may vary based on Fundamental research and Technical Research. Proprietary trading desk of NFAL or its associates maintains arm's length distance with Research Team as all the activities are segregated from NFAL research activity and therefore it can have an independent view with regards to subject company for which Research Team have expressed their views.

Analyst Certification The views expressed in this research report accurately reflect the personal views of the analyst(s) about the subject securities or issues, and no part of the compensation of the research analyst(s) was, is, or will be directly or indirectly related to the specific recommendations and views expressed by research analyst(s) in this report.

#### Disclosure of Interest Statement-

Analyst's ownership of the stocks mentioned in the Report	NIL
---	-----

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, 5th 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, 2nd Floor, 236B, AJC 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.

#### Disclaimer:

This report has been prepared by Narnolia Financial Advisors Ltd. (NFAL) and is meant for sole use by the recipient and not for public circulation. The report and information contained herein is strictly confidential and may not be altered in any way, transmitted to, copied or distributed, in part or in whole, to any other person or to the media or reproduced in any form, without prior written consent of NFAL. The report is based on the facts, figures and information that are considered true, correct, reliable and accurate. The intent of this report is not recommendatory in nature. The information is obtained from publicly available media or other sources believed to be reliable. Such information has not been independently verified and no guaranty, representation of warranty, express or implied, is made as to its accuracy, completeness or correctness. All such information and opinions are subject to change without notice. The report is prepared solely for informational purpose and does not constitute an offer document or solicitation of offer to buy or sell or subscribe for securities or other financial instruments for the clients. Nothing in this report constitutes investment, legal, accounting and tax advice or a representation that any investment or strategy is suitable or appropriate to your specific circumstances. The securities discussed and opinions expressed in this report may not be suitable for all investors, who must make their own investment decisions, based on their own investment objectives, financial positions and needs of specific recipient. Certain transactions -including those involving futures, options, another derivative products as well as non-investment grade securities - involve substantial risk and are not suitable for all investors. Each recipient of this document should make such investigations as it deems necessary to arrive at an independent evaluation of an investment in the securities of companies referred to in this document (including the merits and risks involved), and should consult his/her/its own advisors to determine the merits and risks of such an investment. Though disseminated to all the customers simultaneously, not all customers may receive this report at the same time. NFAL will not treat recipients as customers by virtue of their receiving this report. Neither the Company, nor its directors, employees, agents or representatives shall be liable for any damages whether direct or indirect, incidental, special or consequential including lost revenue or lost profits or lost opportunities that may arise from or in connection with the use of the information/report. The person accessing this information specifically agrees to exempt NFAL or any of its affiliates or employees from, any and all responsibility/liability arising from such misuse and agrees not to hold NFAL or any of its affiliates or employees responsible for any such misuse and further agrees to hold NFAL or any of its affiliates or employees free and harmless from all losses, costs, damages, expenses that may be suffered by the person accessing this information due to any errors and delays.

This report is not directed or intended for distribution to or use by any person or entity resident in a state, country or any jurisdiction, where such distribution, publication, availability or use would be contrary to law, regulation or which would subject NFAL & its group companies to registration or licensing requirements within such jurisdictions.