

**BUY**

TP: Rs 200 | ▲ 52%

**CENTURY PLYBOARDS**

Construction Materials

14 August 2019

## MDF and laminate segments shore up growth

Century Plyboards' (CPBI) standalone revenue growth for Q1FY20 was better than estimates at 6.8% YoY, aided by the MDF (+32%) and laminate (+17%) divisions. Standalone operating margins were stable YoY at 16.1%, accompanied by a 7%/6% YoY increase in EBITDA/PAT. Management retained guidance of 10%+ revenue growth in FY20 backed by MDF and laminates, with better blended operating margins of 15%. We largely maintain our estimates and roll over to an unchanged Jun'20 TP of Rs 200. **BUY.**

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**MDF and laminate segments step up; plywood underperforms:** CPBI's standalone revenues grew 6.8% YoY to Rs 5.7bn, underpinned by the MDF (+32%) and laminate (+17%) segments. The plywood segment was up just 1% YoY, whereas commercial veneer sales declined 33% due to sluggish demand. Management has guided for blended revenue growth of 10%+, with ~5% growth in plywood (earlier 10%), 15% growth in laminates and ~90% utilisation in MDF for FY20.

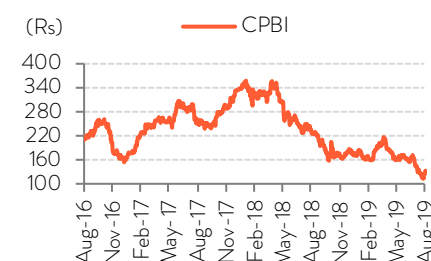
**EBITDA margins flat YoY:** CPBI's gross margins increased 34bps YoY whereas other expenditure rose 29bps YoY, yielding EBITDA/PAT growth of 7%/6% YoY. Plywood margins declined 270bps YoY (+480bps QoQ) to 14.6%, while laminate margins increased 110bps YoY (160bps QoQ) on lower raw material cost. MDF saw a 1,050bps surge to 23.5% due to higher capacity utilisation and a better product mix. Management has guided for 15% blended operating margins in FY20, with plywood at ~14% and MDF margins to remain robust at ~20% (on better utilisation).

**Maintain BUY:** We continue to like CPBI for its comprehensive product portfolio, strong brand and wide distribution. Our estimates remain broadly intact and our TP unchanged at Rs 200, set at 20x one-year forward P/E.

Ticker/Price	CPBI IN/Rs 132
Market cap	US\$ 411.9mn
Shares o/s	223mn
3M ADV	US\$ 0.4mn
52wk high/low	Rs 238/Rs 112
Promoter/FPI/DII	73%/8%/20%

Source: NSE

## STOCK PERFORMANCE



Source: NSE

## KEY FINANCIALS

Y/E 31 Mar	FY18A	FY19P	FY20E	FY21E	FY22E
Adj. net profit (Rs mn)	1,598	1,485	1,800	2,184	2,441
Adj. EPS (Rs)	7.2	6.7	8.1	9.8	11.0
Adj. EPS growth (%)	(5.4)	(7.1)	21.2	21.3	11.8
Adj. ROAE (%)	20.4	16.3	17.1	17.9	17.3
Adj. P/E (x)	18.3	19.7	16.3	13.4	12.0
EV/EBITDA (x)	10.4	11.5	9.9	8.4	7.2

Source: Company, BOBCAPS Research

**BOB Capital Markets Ltd is a wholly owned subsidiary of Bank of Baroda**

Important disclosures, including any required research certifications, are provided at the end of this report.



**FIG 1 – STANDALONE QUARTERLY PERFORMANCE**

(Rs mn)	Q1FY20	Q1FY19	YoY (%)	Q4FY19	QoQ (%)
<b>Total revenues</b>	<b>5,737</b>	<b>5,373</b>	<b>6.8</b>	<b>5,832</b>	<b>(1.6)</b>
Total raw material consumed	2,921	2,754	6.1	3,029	(3.6)
% of sales	50.9	51.3	(34bps)	51.9	(101bps)
Employee expense	845	790	6.9	837	1.0
% of sales	14.7	14.7	2bps	14.3	38bps
Other expense	1,045	963	8.5	1,330	(21.4)
% of sales	18.2	17.9	29bps	22.8	(459bps)
Total expenditure	4,811	4,507	6.7	5,196	(7.4)
<b>EBITDA</b>	<b>926.2</b>	<b>865.4</b>	<b>7.0</b>	<b>636.7</b>	<b>45.5</b>
% of sales	16.1	16.1	4bps	10.9	523bps
Depreciation	169.4	108.3	56.4	143.0	18.4
Other income	11.4	5.8	96.9	29.0	(60.8)
Interest cost	89.5	134.5	(33.4)	93.8	(4.5)
<b>PBT</b>	<b>678.7</b>	<b>628.4</b>	<b>8.0</b>	<b>428.9</b>	<b>58.2</b>
Taxes	197.3	174.7	12.9	87.3	126.0
Effective tax rate (%)	29.1	27.8	127bps	20.4	872bps
<b>APAT</b>	<b>481.4</b>	<b>453.7</b>	<b>6.1</b>	<b>341.6</b>	<b>40.9</b>

Source: Company, BOBCAPS Research

**FIG 2 – STANDALONE SEGMENTAL PERFORMANCE**

(Rs mn)	Q1FY20	Q1FY19	YoY (%)	Q4FY19	QoQ (%)
<b>Revenue</b>					
Plywood & Allied products	3,157	3,179	(0.7)	3,235	(2.4)
Laminates	1,071	915	17.1	1,231	(13.0)
MDF	919	699	31.5	760	20.9
Particle Board	249	182	36.5	241	3.2
Container Freight Station	225	304	(26.0)	219	2.7
Others	125	99	25.9	154	(18.6)
<b>Total</b>	<b>5,746</b>	<b>5,378</b>	<b>6.8</b>	<b>5,840</b>	<b>(1.6)</b>
Less: Inter Segment revenue	9	6	56.3	8	19.2
Net revenues	5,737	5,373	6.8	5,832	(1.6)
<b>EBIT</b>					
Plywood & Allied products	470	554	(15.1)	365	28.7
Laminates	96	78	23.0	96	0.4
MDF	169	47	262.6	63	168.4
Particle Board	56	38	44.7	50	10.7
Container Freight Station	39	103	(62.0)	32	21.0
Others	8	0	1,718.2	11	(29.1)
<b>Total</b>	<b>838</b>	<b>821</b>	<b>2.1</b>	<b>618</b>	<b>35.6</b>
<b>EBIT Margin (%)</b>					
Plywood & Allied products	14.9	17.4	(254bps)	11.3	360bps
Laminates	9.0	8.5	43bps	7.8	119bps
MDF	18.4	6.7	1,173bps	8.3	1,012bps
Particle Board	22.4	21.1	127bps	20.9	151bps
Container Freight Station	17.4	33.9	(1,651bps)	14.8	263bps

Source: Company, BOBCAPS Research

**FIG 3 – CONSOLIDATED QUARTERLY PERFORMANCE**

(Rs mn)	Q1FY20	Q1FY19	YoY (%)	Q4FY19	QoQ (%)
<b>Total revenues</b>	<b>5,823</b>	<b>5,424</b>	<b>7.4</b>	<b>5,920</b>	<b>(1.6)</b>
Total raw material consumed	2,967	2,698	10.0	2,781	6.7
% of sales	51.0	49.7	121bps	47.0	399bps
Employee expense	880	839	4.9	883	(0.4)
% of sales	15.1	15.5	(36bps)	14.9	19bps
Other expense	1,105	1,013	9.0	1,453	(24.0)
% of sales	19.0	18.7	29bps	24.5	(557bps)
Total expenditure	4,952	4,550	8.8	5,117	(3.2)
% of sales	85.0	83.9	115bps	86.4	(139bps)
<b>EBITDA</b>	<b>870.9</b>	<b>873.5</b>	<b>(0.3)</b>	<b>803.5</b>	<b>8.4</b>
% of sales	15.0	16.1	(115bps)	13.6	139bps
Depreciation	192.6	155.3	24.0	91.6	110.2
Other income	13.3	8.7	53.3	39.7	(66.5)
Interest cost	93.4	140.9	(33.7)	102.0	(8.4)
<b>PBT</b>	<b>598.2</b>	<b>586.0</b>	<b>2.1</b>	<b>649.6</b>	<b>(7.9)</b>
Taxes	199.1	174.7	13.9	89.7	121.9
Effective tax rate (%)	33.3	29.8	346bps	13.8	1,947bps
<b>APAT</b>	<b>399.1</b>	<b>411.3</b>	<b>(3.0)</b>	<b>560.0</b>	<b>(28.7)</b>

Source: Company, BOBCAPS Research

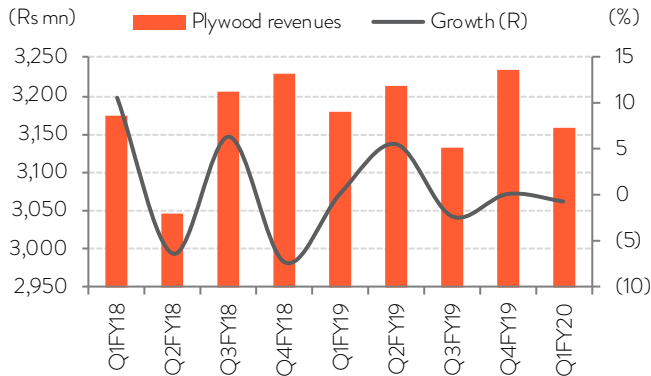
**FIG 4 – CONSOLIDATED SEGMENTAL PERFORMANCE**

(Rs mn)	Q1FY20	Q1FY19	YoY (%)	Q4FY19	QoQ (%)
<b>Revenue</b>					
Plywood & Allied products	3,242	3,227	0.5	3,323	(2.4)
Laminates	1,071	915	17.1	1,231	(13.0)
MDF	919	699	31.5	760	20.9
Particle Board	249	182	36.5	241	3.2
Container Freight Station	225	304	(26.0)	219	2.7
Others	126	102	22.6	154	(18.2)
<b>Total</b>	<b>5,832</b>	<b>5,430</b>	<b>7.4</b>	<b>5,928</b>	<b>(1.6)</b>
Less: Inter Segment revenue	9	6	56.3	8	19.2
Net revenues	5,823	5,424	7.4	5,920	(1.6)
<b>EBIT</b>					
Plywood & Allied products	394	512	(23.0)	601	(34.4)
Laminates	96	78	23.0	96	0.4
MDF	169	47	262.6	63	168.4
Particle Board	56	38	44.7	50	10.7
Container Freight Station	39	103	(62.0)	32	21.0
Others	8	6	25.2	8	0.4
<b>Total</b>	<b>763</b>	<b>785</b>	<b>(2.9)</b>	<b>850</b>	<b>(10.3)</b>
<b>EBIT Margin (%)</b>					
Plywood & Allied products	12.2	15.9	(371bps)	18.1	(592bps)
Laminates	9.0	8.5	43bps	7.8	119bps
MDF	18.4	6.7	1,173bps	8.3	1,012bps
Particle Board	22.4	21.1	127bps	20.9	151bps
Container Freight Station	17.4	33.9	(1,651bps)	14.8	263bps

Source: Company, BOBCAPS Research

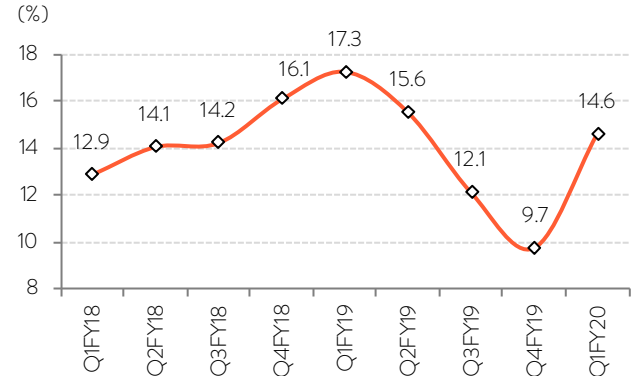
**STANDALONE QUARTERLY TRENDS**

**FIG 5 – PLYWOOD REVENUES**



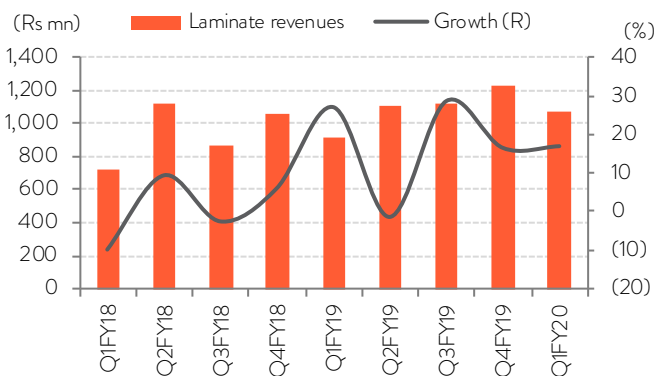
Source: Company, BOBCAPS Research

**FIG 6 – PLYWOOD EBITDA MARGINS**



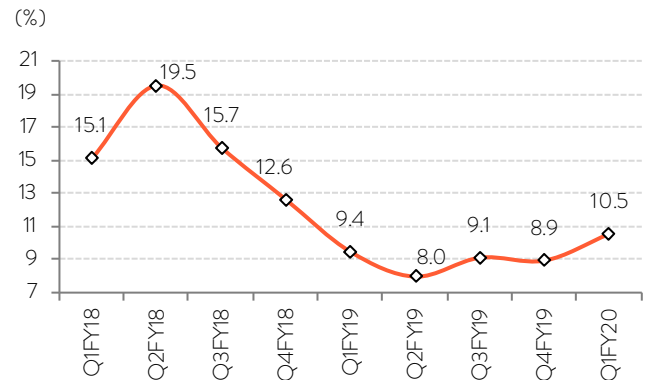
Source: Company, BOBCAPS Research

**FIG 7 – LAMINATE REVENUES**



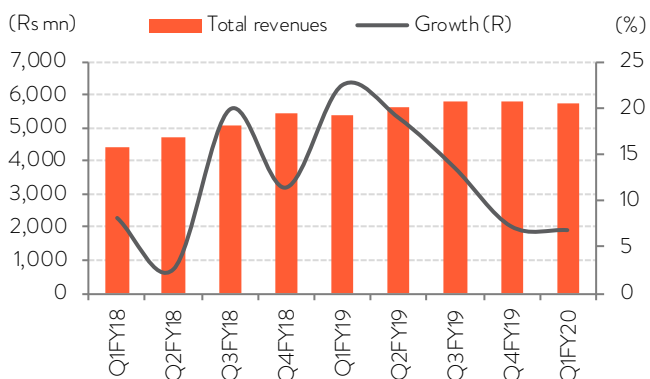
Source: Company, BOBCAPS Research

**FIG 8 – LAMINATE EBITDA MARGINS**



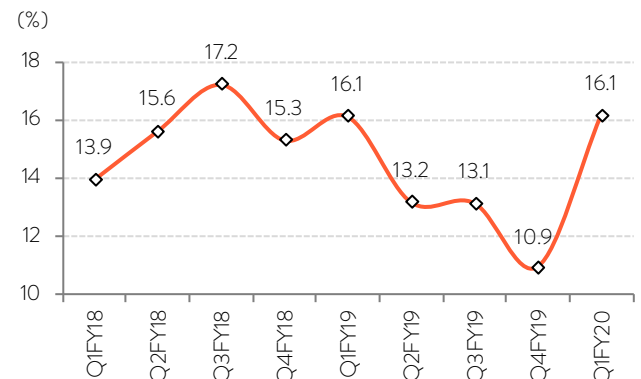
Source: Company, BOBCAPS Research

**FIG 9 – TOTAL REVENUES**



Source: Company, BOBCAPS Research

**FIG 10 – EBITDA MARGINS**



Source: Company, BOBCAPS Research

## Earnings call highlights

- CPBI expects blended revenue growth of 10%+ for FY20 driven by the MDF and laminate segments.
- Q2FY20 could be tepid as major markets such as Kerala have suffered from floods.
- The difference between consolidated and standalone profitability in Q1FY20 was mainly due to Myanmar operations. Management has guided for higher consolidated vs. standalone profitability in FY20 as Myanmar business is now seeing traction due to a fall in face veneer prices.
- The company is contemplating setting up a new MDF and particle board facility in Uttar Pradesh at a capex of Rs 4bn-4.5bn that will expand capacity by 500cbm/day in each of these products. Land for the plant has not yet been acquired and the facility will take 15 months to become operational once work commences.
- Management expects the CFS business to remain under pressure for the next 1-2 years due to new competition, and margins to normalise only thereafter.
- The company is looking at options for usage of its Rs 762.5mn investment in the Laos subsidiary.

## Plywood

- CPBI expects the plywood segment to grow at ~5% in FY20. Growth was muted in Q1FY20 as competition was undercutting prices, which the company refrained from doing.
- About 45% of revenues are derived from premium plywood sales.
- Management has guided for plywood operating margins of ~14% in FY20 aided by cost-cutting measures, lower prices of key inputs such as chemicals and face veneer, and a ~1% price hike taken in plywood.
- Face veneer prices in Myanmar have fallen from US\$ 1,100 to US\$ 700/cbm; thus, the company anticipates increased profitability from its Myanmar facility in FY20.
- CPBI is setting up a face veneer facility in Gabon that will be operational by CY19-end and will aid growth in the company's trading business.
- Management expects eventual formalisation of the sector post-GST to fuel growth for players in this segment.

### Laminates

- CPBI has guided for 15% revenue growth in laminates in FY20 alongside margin improvement.
- The company has no capex plans for the year in this segment as the sixth line is yet to see optimum utilisation.

### MDF

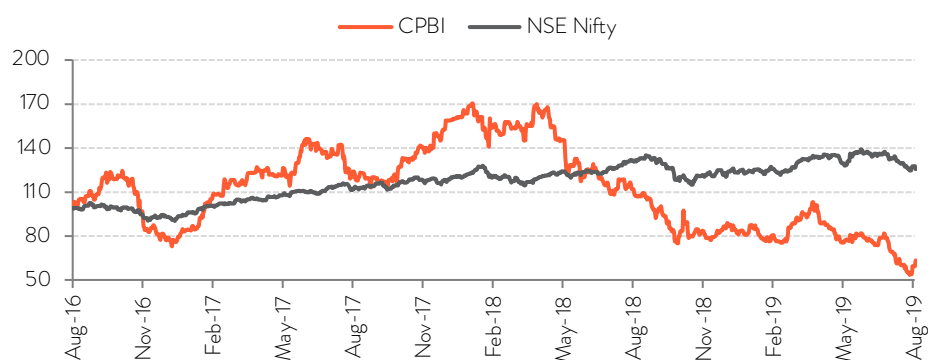
- CPBI took a 3-4% price increase in thick MDF in northern markets on 15 Jun. Thick MDF (over 6mm) accounts for 75% of revenues and North India accounts for 70-75% of the company's MDF sales.
- Margins improved sharply in Q1 due to higher utilisation (~90%), a better product mix and some operational improvements (such as reduction in power consumption from 350 units to 250 units/cbm and lower glue requirement).
- Management has guided for 90% utilisation in FY20 with operating margins at ~20% in MDF.

## Valuation methodology

CPBI is the joint market leader in India's organised plywood industry along with Greenply Industries (MTLM IN). It is also the third largest laminate player in India and has recently set up an MDF plant in the country. With this, CPBI has evolved into the largest integrated wood panel company in India, equipped with a wide distribution reach, strong brand focus and comprehensive product portfolio.

Following a healthy Q1FY20, we largely maintain our PAT estimates. Rolling valuations forward, our Jun'20 target price remains at Rs 200, set at an unchanged 20x one-year forward P/E multiple. Maintain BUY.

**FIG 11 – RELATIVE STOCK PERFORMANCE**



Source: NSE

## Key risks

- **Regulatory concerns on raw material sourcing:** Wood is a key raw material for plywood and MDF manufacturing. Any regulatory restriction on sourcing of wood or face veneer will affect the company's profitability.
- **Sharp rise in raw material prices:** Higher raw material prices and an inability to pass these on to consumers may hurt profitability.
- **Prolonged slowdown in housing market:** A continued slowdown in the housing market would hit growth prospects.

## FINANCIALS

### Income Statement

Y/E 31 Mar (Rs mn)	FY18A	FY19P	FY20E	FY21E	FY22E
<b>Total revenue</b>	<b>20,239</b>	<b>22,804</b>	<b>24,473</b>	<b>26,814</b>	<b>29,660</b>
EBITDA	3,334	3,016	3,414	3,873	4,312
EBIT	2,428	2,421	2,744	3,167	3,473
Net interest income/(expenses)	(358)	(469)	(381)	(293)	(254)
Other income/(expenses)	23	71	75	83	87
Exceptional items	0	0	0	0	0
EBT	2,092	2,023	2,438	2,957	3,305
Income taxes	(463)	(535)	(634)	(769)	(859)
Extraordinary items	32	0	0	0	0
Min. int./Inc. from associates	(31)	(4)	(4)	(4)	(4)
<b>Reported net profit</b>	<b>1,631</b>	<b>1,485</b>	<b>1,800</b>	<b>2,184</b>	<b>2,441</b>
Adjustments	(32)	0	0	0	0
<b>Adjusted net profit</b>	<b>1,598</b>	<b>1,485</b>	<b>1,800</b>	<b>2,184</b>	<b>2,441</b>

### Balance Sheet

Y/E 31 Mar (Rs mn)	FY18A	FY19P	FY20E	FY21E	FY22E
Accounts payables	1,753	1,595	1,877	2,057	2,275
Other current liabilities	904	1,574	1,274	1,396	1,544
Provisions	120	119	122	134	148
Debt funds	5,754	4,816	3,750	2,750	2,900
Other liabilities	0	0	0	0	0
Equity capital	223	223	223	223	223
Reserves & surplus	8,293	9,527	11,050	12,898	14,904
Shareholders' fund	8,516	9,749	11,273	13,120	15,127
<b>Total liabilities and equities</b>	<b>17,231</b>	<b>18,107</b>	<b>18,554</b>	<b>19,719</b>	<b>22,261</b>
Cash and cash eq.	211	262	471	896	47
Accounts receivables	3,572	2,957	3,486	3,820	4,225
Inventories	3,828	4,613	4,291	4,481	4,957
Other current assets	1,138	974	1,274	1,396	1,544
Investments	61	3	3	3	3
Net fixed assets	6,471	8,407	8,138	8,233	10,594
CWIP	1,264	268	268	268	268
Intangible assets	18	18	18	18	18
Deferred tax assets, net	667	603	603	603	603
Other assets	0	0	0	0	0
<b>Total assets</b>	<b>17,231</b>	<b>18,107</b>	<b>18,554</b>	<b>19,719</b>	<b>22,261</b>

Source: Company, BOBCAPS Research



**Cash Flows**

Y/E 31 Mar (Rs mn)	FY18A	FY19P	FY20E	FY21E	FY22E
Net income + Depreciation	2,537	2,079	2,469	2,889	3,280
Interest expenses	358	469	381	293	254
Non-cash adjustments	0	0	0	0	0
Changes in working capital	164	505	(522)	(332)	(649)
Other operating cash flows	72	133	4	4	4
<b>Cash flow from operations</b>	<b>3,132</b>	<b>3,187</b>	<b>2,332</b>	<b>2,854</b>	<b>2,891</b>
Capital expenditures	(2,610)	(1,535)	(400)	(800)	(3,200)
Change in investments	0	58	0	0	0
Other investing cash flows	0	0	0	0	0
<b>Cash flow from investing</b>	<b>(2,610)</b>	<b>(1,477)</b>	<b>(400)</b>	<b>(800)</b>	<b>(3,200)</b>
Equities issued/Others	0	0	0	0	0
Debt raised/repaid	(360)	(938)	(1,066)	(1,000)	150
Interest expenses	(358)	(469)	(381)	(293)	(254)
Dividends paid	(267)	(267)	(281)	(341)	(439)
Other financing cash flows	3	16	4	4	4
<b>Cash flow from financing</b>	<b>(983)</b>	<b>(1,659)</b>	<b>(1,724)</b>	<b>(1,629)</b>	<b>(539)</b>
<b>Changes in cash and cash eq.</b>	<b>(461)</b>	<b>51</b>	<b>208</b>	<b>425</b>	<b>(849)</b>
<b>Closing cash and cash eq.</b>	<b>211</b>	<b>262</b>	<b>471</b>	<b>896</b>	<b>47</b>

**Per Share**

Y/E 31 Mar (Rs)	FY18A	FY19P	FY20E	FY21E	FY22E
Reported EPS	7.3	6.7	8.1	9.8	11.0
Adjusted EPS	7.2	6.7	8.1	9.8	11.0
Dividend per share	1.0	1.0	1.1	1.3	1.6
Book value per share	38.3	43.8	50.7	59.0	68.0

**Valuations Ratios**

Y/E 31 Mar (x)	FY18A	FY19P	FY20E	FY21E	FY22E
EV/Sales	1.7	1.5	1.4	1.2	1.1
EV/EBITDA	10.4	11.5	9.9	8.4	7.2
Adjusted P/E	18.3	19.7	16.3	13.4	12.0
P/BV	3.4	3.0	2.6	2.2	1.9

**DuPont Analysis**

Y/E 31 Mar (%)	FY18A	FY19P	FY20E	FY21E	FY22E
Tax burden (Net profit/PBT)	76.4	73.4	73.8	73.9	73.9
Interest burden (PBT/EBIT)	86.2	83.6	88.8	93.4	95.2
EBIT margin (EBIT/Revenue)	12.0	10.6	11.2	11.8	11.7
Asset turnover (Revenue/Avg TA)	122.4	129.1	133.5	140.1	141.3
Leverage (Avg TA/Avg Equity)	2.1	1.9	1.7	1.6	1.5
Adjusted ROAE	20.4	16.3	17.1	17.9	17.3

Source: Company, BOBCAPS Research | Note: TA = Total Assets

**Ratio Analysis**

Y/E 31 Mar	FY18A	FY19P	FY20E	FY21E	FY22E
<b>YoY growth (%)</b>					
Revenue	11.3	12.7	7.3	9.6	10.6
EBITDA	6.5	(9.5)	13.2	13.4	11.3
Adjusted EPS	(5.4)	(7.1)	21.2	21.3	11.8
<b>Profitability &amp; Return ratios (%)</b>					
EBITDA margin	16.5	13.2	13.9	14.4	14.5
EBIT margin	12.0	10.6	11.2	11.8	11.7
Adjusted profit margin	7.9	6.5	7.4	8.1	8.2
Adjusted ROAE	20.4	16.3	17.1	17.9	17.3
ROCE	13.6	12.2	13.5	14.9	14.9
<b>Working capital days (days)</b>					
Receivables	63	52	48	50	50
Inventory	126	134	138	124	121
Payables	34	31	30	31	31
<b>Ratios (x)</b>					
Gross asset turnover	3.2	2.4	2.2	2.3	2.2
Current ratio	1.3	1.3	1.6	1.9	2.1
Net interest coverage ratio	6.8	5.2	7.2	10.8	13.7
Adjusted debt/equity	0.7	0.5	0.3	0.1	0.2

Source: Company, BOBCAPS Research

## Disclaimer

### Recommendations and Absolute returns (%) over 12 months

**BUY** – Expected return >+15%

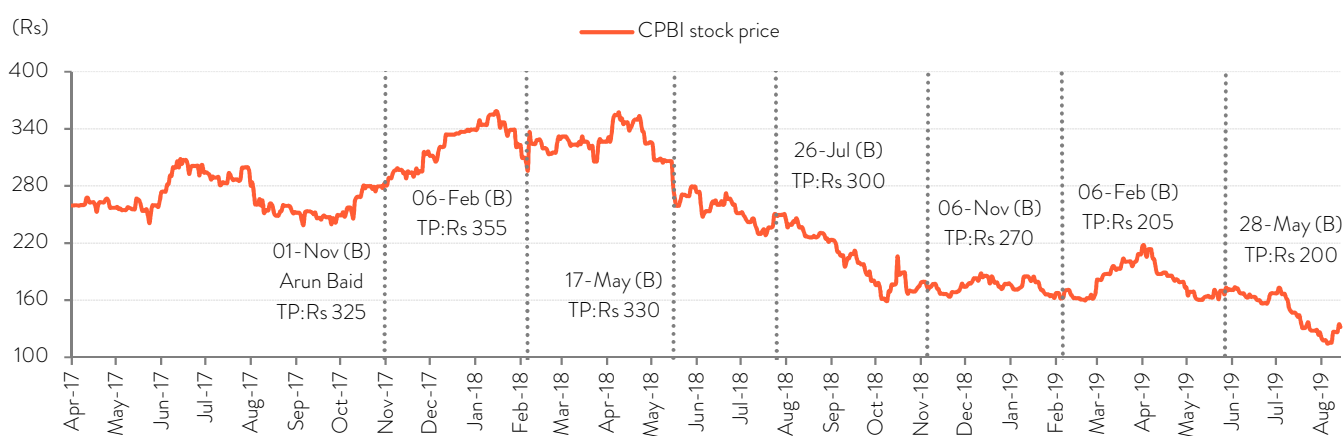
**ADD** – Expected return from >+5% to +15%

**REDUCE** – Expected return from -5% to +5%

**SELL** – Expected return <-5%

**Note:** Recommendation structure changed with effect from 1 January 2018 (Hold rating discontinued and replaced by Add / Reduce)

### HISTORICAL RATINGS AND TARGET PRICE: CENTURY PLYBOARDS (CPBI IN)



B – Buy, A – Add, R – Reduce, S – Sell

### Rating distribution

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