

**BUY**

TP: Rs 205 | ▲ 24%

**CENTURY PLYBOARDS**

Construction Materials

11 November 2019

## Laminates and MDF perform well; plywood disappoints

Century Plyboards' (CPBI) standalone revenue growth for Q2FY20 was in line with estimates at 4.4% YoY, aided by the MDF (+27%) and laminate (+22%) segments. Standalone operating margins expanded 260bps to 15.7%, accompanied by a 25%/38% YoY increase in EBITDA/PAT. Management expects MDF and laminates to continue to steer growth in the near term while plywood remains soft. We broadly maintain our PAT estimates and roll forward to a Sep'20 TP of Rs 205 (earlier Rs 200). Retain BUY.

Arun Baid

research@bobcaps.in

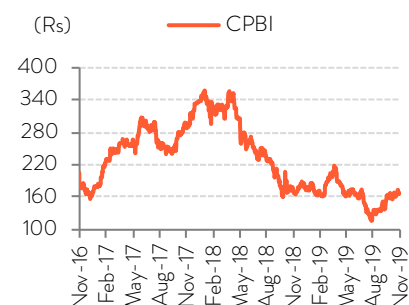
**MDF and laminate segments step up; plywood underperforms:** CPBI's standalone revenue grew 4.4% YoY to Rs 5.9bn, led by the MDF (+27%) and laminate (+22%) businesses. The plywood segment declined 1.8% YoY as commercial veneer sales plunged 36% due to sluggish demand. Management has guided for ~2% growth in plywood (earlier 5%), ~15% growth in laminates and ~20% utilisation in MDF for FY20.

Ticker/Price	CPBI IN/Rs 165
Market cap	US\$ 513.1mn
Shares o/s	223mn
3M ADV	US\$ 0.5mn
52wk high/low	Rs 222/Rs 112
Promoter/FPI/DII	73%/7%/20%

Source: NSE

**EBITDA margins expand:** CPBI's gross margins increased 200bps YoY whereas other expenditure declined 72bps YoY, yielding EBITDA/PAT growth of 25%/38% YoY. Laminate EBITDA margins expanded 640bps YoY (390bps QoQ) to 14.4% on lower raw material cost. MDF saw a 16ppt surge to 22.3% (-120bps QoQ) due to higher capacity utilisation and a better product mix. Management has guided for plywood margins at ~14%, MDF margins at ~20% (on better utilisation) and laminates at 12% due to a decline in raw material cost in FY20.

## STOCK PERFORMANCE



Source: NSE

**Maintain BUY:** We broadly maintain our PAT estimates and roll over to a Sep'20 TP of Rs 205 (Rs 200 earlier). We continue to like CPBI for its comprehensive product portfolio, strong brand and wide distribution. BUY.

## KEY FINANCIALS

Y/E 31 Mar	FY18A	FY19A	FY20E	FY21E	FY22E
Total revenue (Rs mn)	20,239	22,804	23,911	26,195	28,718
EBITDA (Rs mn)	3,334	3,124	3,682	4,062	4,511
Adj. net profit (Rs mn)	1,598	1,542	1,790	2,184	2,445
Adj. EPS (Rs)	7.2	6.9	8.1	9.8	11.0
Adj. EPS growth (%)	(5.4)	(3.5)	16.1	22.0	12.0
Adj. ROAE (%)	20.4	16.9	17.0	17.9	17.3
Adj. P/E (x)	22.9	23.7	20.4	16.8	15.0
EV/EBITDA (x)	12.6	13.5	11.3	9.9	8.6

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)	Q2FY20	Q2FY19	YoY (%)	Q1FY20	QoQ (%)
<b>Total revenues</b>	<b>5,894</b>	<b>5,644</b>	<b>4.4</b>	<b>5,737</b>	<b>2.7</b>
Total raw material consumed	2,958	2,945	0.4	2,921	1.2
% of sales	50.2	52.2	(199bps)	50.9	(74bps)
Employee expense	884	840	5.3	845	4.6
% of sales	15.0	14.9	12bps	14.7	28bps
Other expense	1,124	1,117	0.6	1,045	7.6
% of sales	19.1	19.8	(72bps)	18.2	87bps
Total expenditure	4,966	4,902	1.3	4,811	3.2
% of sales	84.3	86.8	(259bps)	83.9	-
<b>EBITDA</b>	<b>928</b>	<b>742</b>	<b>25.0</b>	<b>926</b>	<b>0.2</b>
% of sales	15.7	13.2	259bps	16.1	(40bps)
Depreciation	170	113	51.2	169	0.5
Other income	86	10	755.1	11	651.7
Interest cost	108	155	(30.3)	90	20.7
<b>PBT</b>	<b>735</b>	<b>485</b>	<b>51.6</b>	<b>679</b>	<b>8.3</b>
Taxes	213	106	100.4	197	8.1
Effective tax rate (%)	29.0	22.0	707bps	29.1	(4bps)
<b>APAT</b>	<b>521</b>	<b>378</b>	<b>37.9</b>	<b>481</b>	<b>8.3</b>

Source: Company, BOBCAPS Research

**FIG 2 – STANDALONE SEGMENTAL PERFORMANCE**

(Rs mn)	Q2FY20	Q2FY19	YoY (%)	Q1FY20	QoQ (%)
<b>Revenue</b>					
Plywood & Allied products	3,165	3,224	(1.8)	3,157	0.3
Laminates	1,352	1,106	22.2	1,071	26.2
MDF	777	612	26.8	919	(15.4)
Particle Board	262	286	(8.6)	249	5.2
Container Freight Station	220	264	(16.6)	225	(2.0)
Others	124	160	(22.5)	125	(0.8)
<b>Total</b>	<b>5,900</b>	<b>5,653</b>	<b>4.4</b>	<b>5,746</b>	<b>2.7</b>
Less: Inter Segment revenue	7	9	(25.9)	9	(28.5)
Net revenues	5,894	5,644	4.4	5,737	2.7
<b>EBIT</b>					
Plywood & Allied products	450	524	(14.1)	470	(4.3)
Laminates	178	75	137.7	96	85.3
MDF	133	(5)	NA	169	(21.5)
Particle Board	66	44	51.9	56	19.4
Container Freight Station	32	71	(54.9)	39	(18.7)
Others	13	7	73.6	8	54.6
<b>Total</b>	<b>872</b>	<b>716</b>	<b>21.8</b>	<b>838</b>	<b>4.0</b>
<b>EBIT Margin (%)</b>					
Plywood & Allied products	14.2	16.3	(204bps)	14.9	(68bps)
Laminates	13.2	6.8	640bps	9.0	420bps
MDF	17.1	(0.8)	NA	18.4	(131bps)
Particle Board	25.4	15.3	1,011bps	22.4	302bps
Container Freight Station	14.5	26.8	(1,230bps)	17.4	(296bps)

Source: Company, BOBCAPS Research

**FIG 3 – CONSOLIDATED QUARTERLY PERFORMANCE**

(Rs mn)	Q2FY20	Q2FY19	YoY (%)	Q1FY20	QoQ (%)
<b>Total revenues</b>	<b>5,995</b>	<b>5,664</b>	<b>5.8</b>	<b>5,823</b>	<b>3.0</b>
Total raw material consumed	2,958	2,944	0.4	2,967	(0.3)
% of sales	49.3	52.0	(265bps)	51.0	(162bps)
Employee expense	919	887	3.7	880	4.5
% of sales	15.3	15.7	(32bps)	15.1	23bps
Other expense	1,197	1,194	0.3	1,105	8.4
% of sales	20.0	21.1	(110bps)	19.0	100bps
Total expenditure	5,074	5,025	1.0	4,952	2.5
% of sales	84.6	88.7	(408bps)	85.0	(40bps)
<b>EBITDA</b>	<b>920</b>	<b>639</b>	<b>44.1</b>	<b>871</b>	<b>5.7</b>
% of sales	15.4	11.3	408bps	15.0	40bps
Depreciation	193	162	19.6	193	0.3
Other income	88	11	716.1	13	562.6
Interest cost	112	157	(28.2)	93	20.4
<b>PBT</b>	<b>703</b>	<b>331</b>	<b>112.2</b>	<b>598</b>	<b>17.5</b>
Taxes	216	109	97.2	199	8.4
Effective tax rate (%)	30.7	33.0	(234bps)	33.3	(258bps)
<b>PAT</b>	<b>487</b>	<b>222</b>	<b>119.6</b>	<b>399</b>	<b>22.1</b>
Less: Minority interest	2.9	8.8	(67.0)	(2.3)	NA
PAT after minority interest	484	213	127.3	401	20.7

Source: Company, BOBCAPS Research

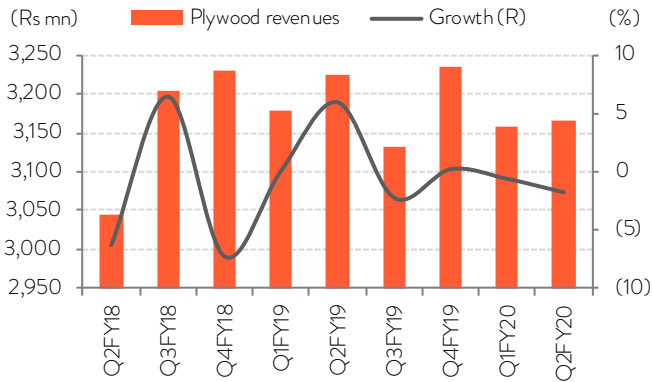
**FIG 4 – CONSOLIDATED SEGMENTAL PERFORMANCE**

(Rs mn)	Q2FY20	Q2FY19	YoY (%)	Q1FY20	QoQ (%)
<b>Revenue</b>					
Plywood & Allied products	3,266	3,242	0.8	3,242	0.7
Laminates	1,352	1,106	22.2	1,071	26.2
MDF	777	612	26.8	919	(15.4)
Particle Board	262	286	(8.6)	249	5.2
Container Freight Station	220	264	(16.6)	225	(2.0)
Others	124	162	(23.4)	126	(1.2)
<b>Total</b>	<b>6,001</b>	<b>5,673</b>	<b>5.8</b>	<b>5,832</b>	<b>2.9</b>
Less: Inter Segment revenue	7	9	(25.9)	9	(28.5)
Net revenues	5,995	5,664	5.8	5,823	3.0
<b>EBIT</b>					
Plywood & Allied products	423	375	12.8	394	7.1
Laminates	178	75	137.7	96	85.3
MDF	133	(5)	NA	169	(21.5)
Particle Board	66	44	51.9	56	19.4
Container Freight Station	32	71	(54.9)	39	(18.7)
Others	12	8	64.4	8	55.7
<b>Total</b>	<b>844</b>	<b>567</b>	<b>48.9</b>	<b>763</b>	<b>10.7</b>
<b>EBIT Margin (%)</b>					
Plywood & Allied products	12.9	11.6	138bps	12.2	77bps
Laminates	13.2	6.8	640bps	9.0	420bps
MDF	17.1	(0.8)	NA	18.4	(131bps)
Particle Board	25.4	15.3	1011bps	22.4	302bps
Container Freight Station	14.5	26.8	(1,230bps)	17.4	(296bps)

Source: Company, BOBCAPS Research

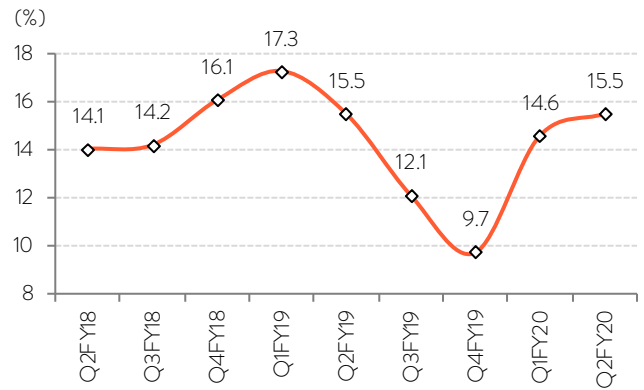
**STANDALONE QUARTERLY TRENDS**

**FIG 5 – PLYWOOD REVENUES**



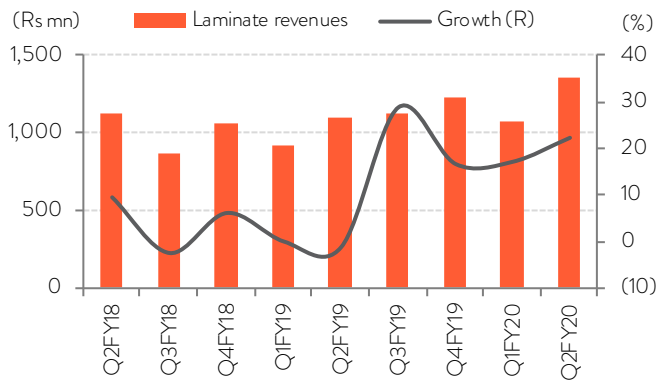
Source: Company, BOBCAPS Research

**FIG 6 – PLYWOOD EBITDA MARGINS**



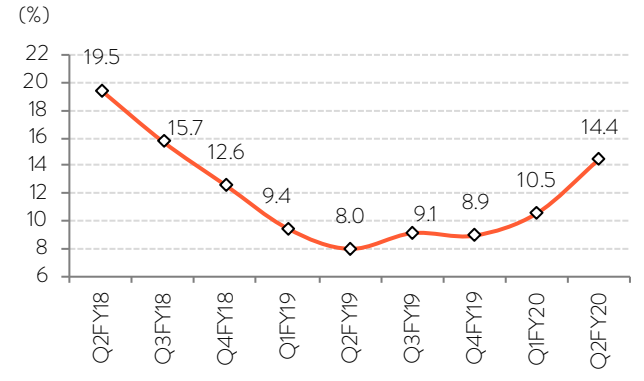
Source: Company, BOBCAPS Research

**FIG 7 – LAMINATE REVENUES**



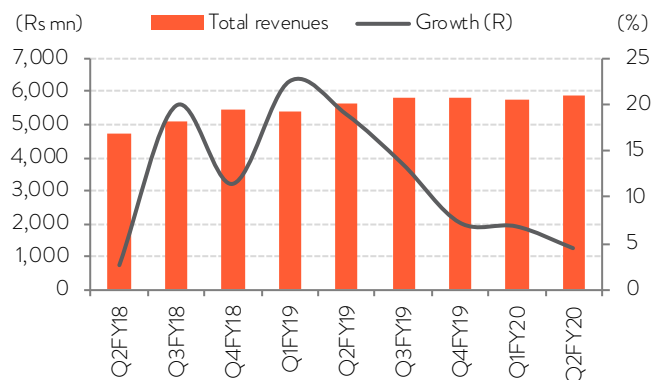
Source: Company, BOBCAPS Research

**FIG 8 – LAMINATE EBITDA MARGINS**



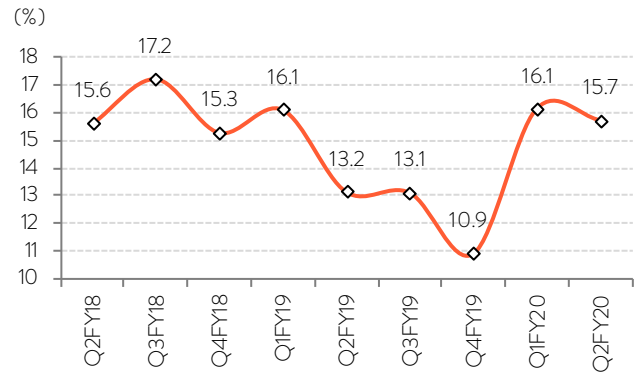
Source: Company, BOBCAPS Research

**FIG 9 – TOTAL REVENUES**



Source: Company, BOBCAPS Research

**FIG 10 – EBITDA MARGINS**



Source: Company, BOBCAPS Research

## Earnings call highlights

- CPBI is contemplating setting up a new MDF and particle board facility in Uttar Pradesh. Details of this expansion are yet to be finalised.
- 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 has decided to carry on under the old taxation regime.

## Plywood

- CPBI saw continued demand pressure in the plywood segment during the quarter.
- Management expects segmental revenue to grow at ~2% in FY20 (vs. 5% earlier), with ~6% growth in H2FY20. Plywood operating margins are guided at ~14% aided by lower prices of key inputs such as chemicals and face veneer.
- CPBI is setting up a face veneer facility in Gabon that will be operational by Feb-Mar'20, aiding growth in the trading business.
- Gabon face veneer is ~30% cheaper than Gurjan. The company will continue to use Gurjan in premium plywood and Gabon face veneer in other categories.
- Management expects proper GST and e-way bill implementation to eventually result in higher growth from this segment.

## Laminates

- The laminates segment is guided to grow at 15% in FY20 alongside margin improvement.
- Prices of chemicals such as phenol have come down by 20% YoY during the quarter, aiding margins. The company expects to maintain ~12% operating margins in laminates for FY20.

## MDF

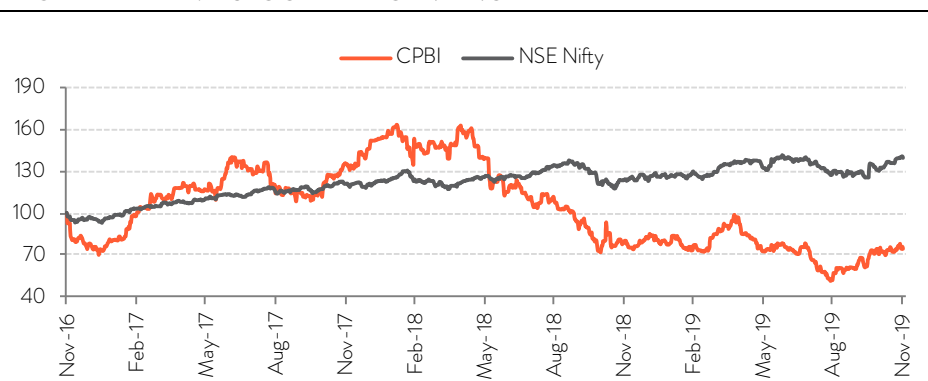
- CPBI believes that the MDF unit can be ramped up further in FY21 and is targeting over 100% capacity utilisation in this segment
- Management is confident that it can start a new MDF facility within 12-16 months of a decision. The new unit will not come up at the existing site as this can push up timber prices and thus affect profitability of the segment.

## 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.

We broadly maintain our estimates and roll over to a Sep'20 target price of Rs 205 (earlier 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.
- **Significant capex in MDF:** Any decision by the company to significantly expand its MDF capacity may affect future profitability from this segment.

## FINANCIALS

### Income Statement

Y/E 31 Mar (Rs mn)	FY18A	FY19A	FY20E	FY21E	FY22E
<b>Total revenue</b>	<b>20,239</b>	<b>22,804</b>	<b>23,911</b>	<b>26,195</b>	<b>28,718</b>
EBITDA	3,334	3,124	3,682	4,062	4,511
Depreciation	(907)	(595)	(778)	(827)	(960)
EBIT	2,428	2,529	2,904	3,235	3,551
Net interest income/(expenses)	(358)	(469)	(413)	(309)	(278)
Other income/(expenses)	23	22	109	71	82
Exceptional items	0	0	0	0	0
EBT	2,092	2,081	2,601	2,997	3,355
Income taxes	(463)	(535)	(806)	(809)	(906)
Extraordinary items	32	(58)	0	0	0
Min. int./Inc. from associates	(31)	(4)	(4)	(4)	(4)
<b>Reported net profit</b>	<b>1,631</b>	<b>1,484</b>	<b>1,790</b>	<b>2,184</b>	<b>2,445</b>
Adjustments	(32)	58	0	0	0
<b>Adjusted net profit</b>	<b>1,598</b>	<b>1,542</b>	<b>1,790</b>	<b>2,184</b>	<b>2,445</b>

### Balance Sheet

Y/E 31 Mar (Rs mn)	FY18A	FY19A	FY20E	FY21E	FY22E
Accounts payables	1,753	1,595	1,769	1,938	2,124
Other current liabilities	904	1,070	1,048	1,148	1,259
Provisions	120	120	120	131	144
Debt funds	5,754	5,319	3,750	2,750	3,100
Other liabilities	0	0	0	0	0
Equity capital	223	223	223	223	223
Reserves & surplus	8,293	9,527	11,042	12,889	14,898
Shareholders' fund	8,516	9,749	11,264	13,112	15,121
<b>Total liabilities and equities</b>	<b>17,231</b>	<b>18,107</b>	<b>18,208</b>	<b>19,341</b>	<b>22,014</b>
Cash and cash eq.	211	262	45	341	21
Accounts receivables	3,572	2,957	3,407	3,732	4,091
Inventories	3,828	4,613	4,389	4,808	5,271
Other current assets	1,138	974	1,245	1,364	1,495
Investments	61	64	64	64	64
Net fixed assets	6,471	8,346	8,168	8,141	10,181
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>18,208</b>	<b>19,341</b>	<b>22,014</b>

Source: Company, BOBCAPS Research

**Cash Flows**

Y/E 31 Mar (Rs mn)	FY18A	FY19A	FY20E	FY21E	FY22E
Net income + Depreciation	2,537	2,079	2,568	3,011	3,405
Interest expenses	358	469	413	309	278
Non-cash adjustments	0	0	0	0	0
Changes in working capital	164	2	(345)	(583)	(644)
Other operating cash flows	72	133	4	4	4
<b>Cash flow from operations</b>	<b>3,132</b>	<b>2,684</b>	<b>2,640</b>	<b>2,741</b>	<b>3,043</b>
Capital expenditures	(2,610)	(1,474)	(600)	(800)	(3,000)
Change in investments	0	(3)	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>(600)</b>	<b>(800)</b>	<b>(3,000)</b>
Equities issued/Others	0	0	0	0	0
Debt raised/repaid	(360)	(435)	(1,569)	(1,000)	350
Interest expenses	(358)	(469)	(413)	(309)	(278)
Dividends paid	(267)	(257)	(279)	(341)	(440)
Other financing cash flows	3	6	4	4	4
<b>Cash flow from financing</b>	<b>(983)</b>	<b>(1,155)</b>	<b>(2,257)</b>	<b>(1,645)</b>	<b>(363)</b>
<b>Changes in cash and cash eq.</b>	<b>(461)</b>	<b>51</b>	<b>(217)</b>	<b>296</b>	<b>(321)</b>
<b>Closing cash and cash eq.</b>	<b>211</b>	<b>262</b>	<b>45</b>	<b>341</b>	<b>21</b>

**Per Share**

Y/E 31 Mar (Rs)	FY18A	FY19A	FY20E	FY21E	FY22E
Reported EPS	7.3	6.7	8.1	9.8	11.0
Adjusted EPS	7.2	6.9	8.1	9.8	11.0
Dividend per share	1.0	1.0	1.0	1.3	1.6
Book value per share	38.3	43.8	50.6	58.9	67.9

**Valuations Ratios**

Y/E 31 Mar (x)	FY18A	FY19A	FY20E	FY21E	FY22E
EV/Sales	2.1	1.8	1.7	1.5	1.4
EV/EBITDA	12.6	13.5	11.3	9.9	8.6
Adjusted P/E	22.9	23.7	20.4	16.8	15.0
P/BV	4.3	3.8	3.3	2.8	2.4

**DuPont Analysis**

Y/E 31 Mar (%)	FY18A	FY19A	FY20E	FY21E	FY22E
Tax burden (Net profit/PBT)	76.4	74.1	68.8	72.9	72.9
Interest burden (PBT/EBIT)	86.2	82.3	89.5	92.6	94.5
EBIT margin (EBIT/Revenue)	12.0	11.1	12.1	12.3	12.4
Asset turnover (Revenue/Avg TA)	122.4	129.1	131.7	139.5	138.9
Leverage (Avg TA/Avg Equity)	2.1	1.9	1.7	1.5	1.5
Adjusted ROAE	20.4	16.9	17.0	17.9	17.3

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



**Ratio Analysis**

Y/E 31 Mar	FY18A	FY19A	FY20E	FY21E	FY22E
<b>YoY growth (%)</b>					
Revenue	11.3	12.7	4.9	9.6	9.6
EBITDA	6.5	(6.3)	17.9	10.3	11.1
Adjusted EPS	(5.4)	(3.5)	16.1	22.0	12.0
<b>Profitability &amp; Return ratios (%)</b>					
EBITDA margin	16.5	13.7	15.4	15.5	15.7
EBIT margin	12.0	11.1	12.1	12.3	12.4
Adjusted profit margin	7.9	6.8	7.5	8.3	8.5
Adjusted ROAE	20.4	16.9	17.0	17.9	17.3
ROCE	13.6	12.6	13.1	15.0	15.0
<b>Working capital days (days)</b>					
Receivables	63	52	49	50	50
Inventory	126	134	143	133	133
Payables	34	31	30	31	31
<b>Ratios (x)</b>					
Gross asset turnover	3.2	2.4	2.2	2.2	2.1
Current ratio	1.3	1.3	1.6	2.0	2.2
Net interest coverage ratio	6.8	5.4	7.0	10.5	12.8
Adjusted debt/equity	0.7	0.5	0.3	0.2	0.2

Source: Company, BOBCAPS Research

## Disclaimer

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

**BUY** – Expected return >+15%

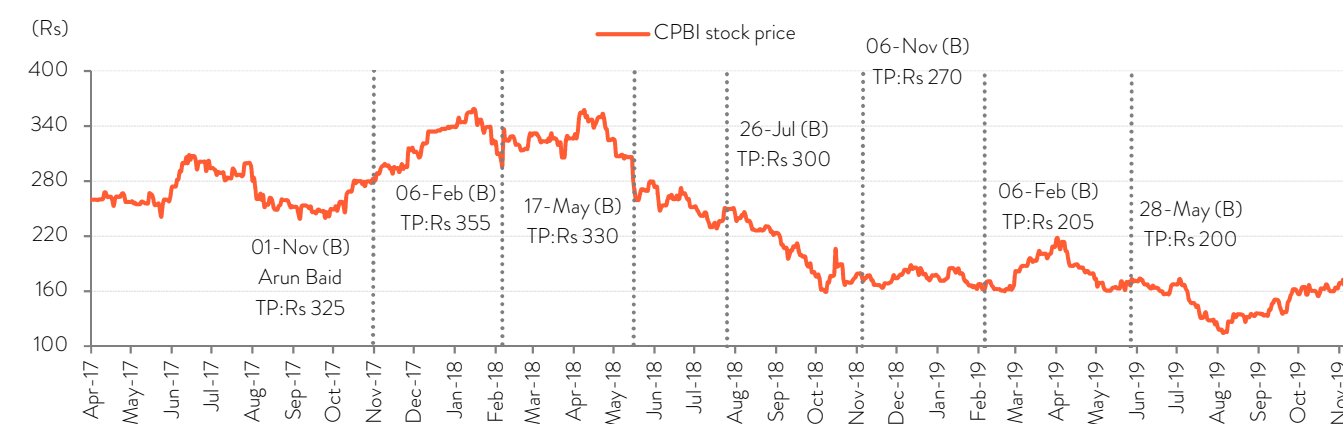
**ADD** – Expected return from >+5% to +15%

**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

As of 31 October 2019, out of 79 rated stocks in the BOB Capital Markets Limited (BOBCAPS) coverage universe, 48 have BUY ratings, 18 are rated ADD, 7 are rated REDUCE and 6 are rated SELL. None of these companies have been investment banking clients in the last 12 months.

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