

Stock Update

Operationally weak quarter; Maintain Hold with revised PT of Rs. 190

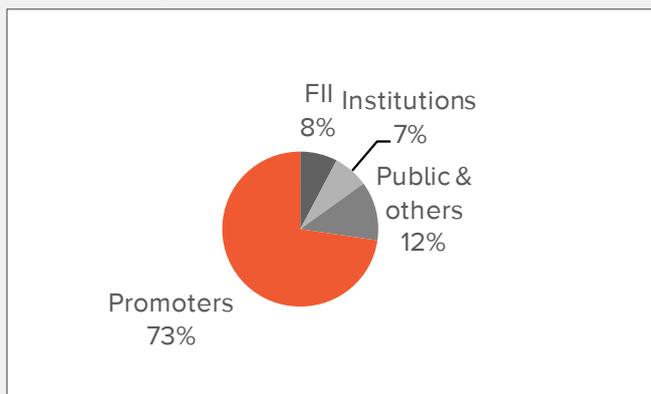
Century Plyboards (India)

Reco: Hold | CMP: Rs170

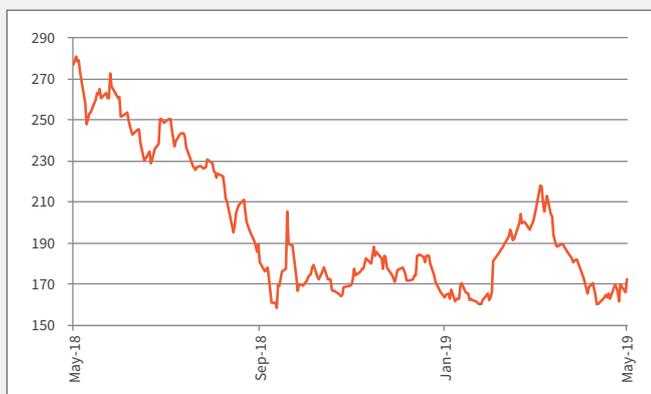
Company details

Price target:	Rs190
Market cap:	Rs3,777 cr
52-week high/low:	Rs283/150
NSE volume: (No of shares)	2.0 lakh
BSE code:	532548
NSE code:	CENTURYPLY
Sharekhan code:	CENTURYPLY
Free float: (No of shares)	6.1 cr

Shareholding pattern



Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	-3.3	3.5	-0.1	-37.4
Relative to Sensex	-5.1	-6.8	-10.5	-45.3

Key points

- Weak operational performance led by high other expenses dents net earnings:** Century Plyboards India (Century) saw standalone revenue grow by 7.2% to Rs. 583 crore. Growth was driven by laminates (revenue up 16.6% y-o-y), medium-density fibreboard - MDF (revenue up 17.35 y-o-y) and particleboard (revenue up 27% y-o-y). Plywood revenue growth was flat on account of a 6.5% y-o-y fall in volumes. Operating margin contracted by 577 bps y-o-y to 10.5% as gross profit margins declined by 161 bps y-o-y and other expense rose 27% y-o-y as company booked Rs. 15 crore on sales and CSR activities. Hence, operating profit declined by 30.8% y-o-y to Rs. 61.2 crore. A 48% y-o-y fall in depreciation and lower effective tax rate (18.1% Vs 24.2% in Q4FY2018) stemmed the fall in pre-tax profits to 11.6% y-o-y. However, adjusting for forex gains in Q4FY2019 versus a forex loss during Q4FY2018, adjusted net profit declined by 22.6% y-o-y to Rs. 31.8 crore.
- MDF and Particle board capacity to rise:** Century is planning to increase its capacities in MDF and Particle board verticals. As MDF unit is expected to operate at a 90% capacity utilisation during FY2020 (68% during Q4FY2019), Century may undertake a Rs. 150 crore capex plan to increase MDF capacity by 400 cubic metre to 1,000 cubic metres, in less than a year (as Century has already land in place). Further, the particle board unit is operating over 100% capacity utilization currently and so Century can undertake a Rs. 120-125 crore capex plan to increase capacity by 500 cubic metre per day which can be done in a year.
- Outlook – Focus on reviving growth and operating margins in FY2020:** Century is targeting for a 13-14% y-o-y growth in revenue in FY2020 by targeting double-digit growth across the plywood, MDF and laminate verticals. Century will focus on increasing plywood volumes and increase capacity utilisation of MDF while the laminate division is expected to sustain double-digit revenue growth. Further, the company expects operating margins to improve led by better laminate margins, absence of further pricing pressure on MDF and flat plywood margins.

- ♦ **Valuation – Maintain Hold with revised PT of Rs. 190:** We have lowered our FY2020 estimates factoring the pressure on operating margins in the laminates and plywood divisions. We also introduce FY2021 earnings estimate in this note. We expect the company to face operating margin pressure in the near term considering excess

MDF capacities, declining plywood volumes and volatile crude oil prices that increases input costs. Further, capacity expansion is still a year away. Hence we maintain our Hold rating on the stock with a revised price target (PT) of Rs. 190, rolling forward our valuation multiple to FY2021.

Results (Standalone)

Particulars	Rs cr				
	Q4FY19	Q4FY18	y-o-y (%)	Q3FY19	QoQ (%)
Income from operations	583.2	544.1	7.2	578.9	0.7
COGS	302.9	273.8	10.6	308.8	(1.9)
Gross profit	280.3	270.3	3.7	270.1	3.8
Gross margin (%)	48.1	49.7	(161)	46.7	140.3
Employee cost	83.7	75.2	11.3	81.0	3.3
Other expenditure	135.4	106.6	27.1	113.0	19.8
Total expenditure	522.0	455.6	14.6	502.8	3.8
Operating profit	61.2	88.5	-30.8	76.1	(19.6)
OPM (%)	10.5	16.3	(577)	13.1	(265.2)
Finance cost	10.5	9.6	9.6	10.5	0.1
Depreciation	14.3	27.7	-48.4	13.6	5.2
Other income	2.9	1.3	124.2	1.6	85.0
Forex loss/(gain)	(2.4)	5.3		(2.7)	
PBT	41.7	47.2	-11.6	56.3	(25.9)
Tax	7.5	11.4	-34.0	14.9	(49.3)
Reported PAT	34.2	35.7	-4.4	41.4	(17.5)
Adjusted PAT	31.8	41.0	-22.6	38.7	(17.9)

Source: Company data, Sharekhan Research

Valuations (consolidated)

Particulars	Rs cr			
	FY18	FY19	FY20E	FY21E
Net sales	2,024	2,280	2,582	2,903
Growth y-o-y (%)	11	13	13	12
Adjusted EBITDA	341	316	362	416
EBITDA margin (%)	16.8	13.8	14.0	14.3
Adjusted PAT	173	166	177	212
Growth y-o-y (%)	(3)	(4)	6	20
Adjusted EPS (Rs)	7.8	7.5	7.9	9.5
P/E (x)	22.6	22.9	21.5	18.0
RoCE (%)	15.0%	14.1%	13.7%	14.6%
RoE (%)	21.9%	18.2%	16.9%	17.4%

Source: Company data, Sharekhan Research

Segmental performance					Rs cr
Particulars	Q4FY19	Q4FY18	y-o-y (%)	Q3FY19	QoQ (%)
Plyboards					
Revenue	323.5	323.0	0.1	314.3	2.9
EBIT	36.5	48.0	(23.9)	38.5	(5.1)
EBIT margin (%)	11.3	14.9	(356)	12.3	95
Capital employed	530.1	442.7	19.7	516.4	2.6
RoCE (%)	27.6	43.4	(1,579)	29.8	(225)
Laminates					
Revenue	123.1	105.6	16.6	113.8	8.2
EBIT	9.6	10.7	(10.5)	8.9	8.2
EBIT margin (%)	7.8	10.1	(236)	7.8	0
Capital employed	225.4	184.3	22.3	218.8	3.0
RoCE (%)	17.0	23.2	(622)	16.2	81
CFS					
Revenue	21.9	23.3	(5.8)	25.0	(12.3)
EBIT	3.2	6.2	(47.8)	5.4	(39.7)
EBIT margin (%)	14.8	26.7	(1,188)	21.5	673
Capital employed	45.2	40.0	13.1	47.3	(4.5)
RoCE (%)	28.7	62.1	(3,340)	45.4	(1,674)
MDF Boards					
Revenue	76.0	64.8	17.3	88.2	(13.8)
EBIT	6.3	(2.4)	LTP	9.5	(33.7)
EBIT margin (%)	8.3	(3.7)	-	10.8	249
Capital employed	338.0	363.5	(7.0)	352.8	(4.2)
RoCE (%)	7.5	(2.7)		10.8	
Particle Boards					
Revenue	24.1	19.0	27.0	26.5	(8.9)
EBIT	5.0	(0.5)	LTP	4.5	13.0
EBIT margin (%)	20.9	(2.6)	-	16.8	(404)
Capital employed	64.9	67.2	(3.5)	65.1	(0.4)
RoCE (%)	31.0	(2.9)		27.3	

Source: Company data, Sharekhan Research

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