

Stock Update

Near-term pain to weigh on operating margins

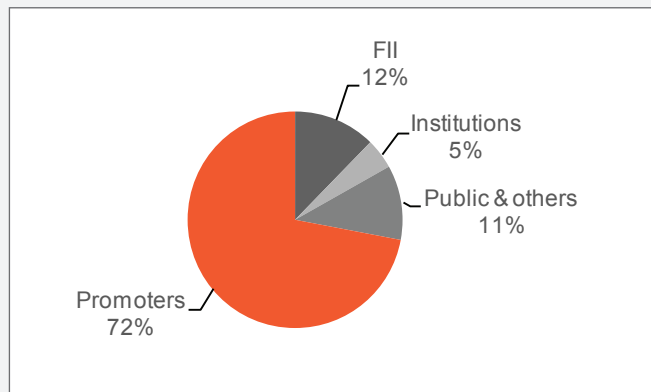
Century Plyboards (India)

Reco: Hold | CMP: Rs275

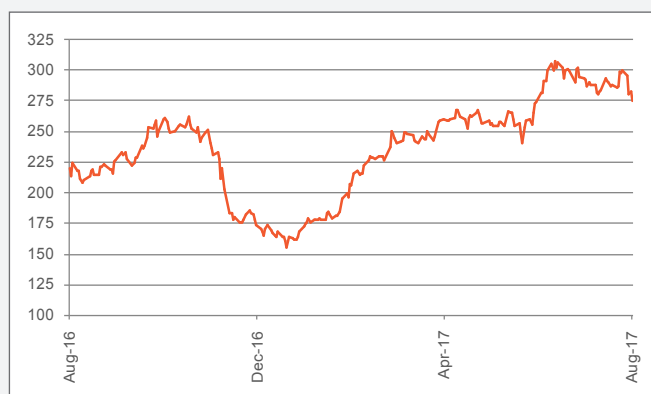
Company details

Price target:	Rs280
Market cap:	Rs6,114 cr
52-week high/low:	Rs313/155
NSE volume: (No of shares)	2.4 lakh
BSE code:	532548
NSE code:	CENTURYPLY
Sharekhan code:	CENTURYPLY
Free float: (No of shares)	6.2 cr

Shareholding pattern



Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	-3.2	10.4	38.6	26.8
Relative to Sensex	-8.1	0.9	19.3	7.8

Key points

- GST-related initial issues along with raw-material supply constraints affects overall operating performance:** Century Plyboards (India) Limited (Century Plyboards) reported standalone net sales growth of 8.1% YoY to Rs.438.6 crore in Q1FY2018. The topline was supported by the plywood division (revenue up 10.0% YoY), led by higher volume. The laminate division's revenue was flat YoY on account of reduction in tax rate due to GST (from 29-30% to 18%), resulting in channel destocking. The company's OPM contracted by 238BPS on account of lower gross profit margin in plywood and laminate divisions. The laminate division suffered due to lower capacity utilisation (production issues faced in April and May 2017), while the plywood division suffered on account of higher raw-material costs (chemicals and veneer), which were not passed on to customers. Further, higher depreciation charge (up 42.5% YoY due to commissioning of particle board plant) and higher effective tax rate (19.0% as against 14.4%) led to an 18.4% YoY decline in adjusted net profit.
- Capacity expansion across units during FY2018-FY2019:** The MDF unit is expected to commence commercial operations by early October 2017, which has the potential to generate revenue of Rs.170 crore with an OPM of over 30% in H2FY2018. Further, expansion in laminates (two additional lines) is expected to be operational in the current fiscal. The company is also planning the doors venture with a Chinese company. The company is planning to set up rooftop solar panel on its plants (at a cost of Rs.35 crore), which can save 5-10% of its electricity cost (first to be implemented at its Chennai plant of 1.06MW at a cost of ~Rs.5 crore.)
- Outlook – Near-term pressure on operating margin to remain:** Century Plyboards' operating margin is expected to be under pressure in the near term, with raw-material supply constraints faced in Myanmar and Laos leading to contraction in gross profit margin. Further, the inability to pass on the increase in cost to consumers with the unorganised sector benefitting from GST-related initial issues (e-way bills yet to be implemented) can further pressurise margins in the near term. The scaling of particle board unit, commencement of MDF unit during H2FY2018 and easing of raw-material supply from Q4FY2018 are expected to ease pressure on margins.
- Valuation – Downgrade to hold with unchanged PT of Rs.280:** We have adjusted earnings estimates for FY2018-FY2019, factoring in delay in commencement of MDF unit and increased raw-material price affecting overall operating margins. Considering the above-mentioned, challenges in the near term, we have downgraded the stock to Hold with an unchanged price target of Rs.280.

Result (standalone)					Rs cr	
Particulars	Q1FY18	Q1FY17	YoY %	Q4FY17	QoQ %	
Income from operations	438.6	405.8	8.1	488.5	(10.2)	
COGS	233.9	204.5	14.4	253.1	(7.6)	
Gross profit	204.7	201.2	1.7	235.5	(13.1)	
Gross margin (%)	46.7	49.6	(292)	48.2	(152.8)	
Employee cost	68.9	63.8	8.0	66.7	3.2	
Other expenditure	74.7	71.3	4.8	85.0	(12.0)	
Total expenditure	377.5	339.6	11.2	404.8	(6.7)	
Operating profit	61.1	66.1	-7.7	83.8	(27.1)	
OPM (%)	13.9	16.3	(238)	17.1	(322.5)	
Finance cost	6.3	8.9	-29.0	4.7	33.6	
Depreciation	13.2	9.3	42.5	15.6	(15.2)	
Other income	0.5	0.8	-32.1	0.1	268.3	
Forex loss/(gain)	-	(1.5)		(10.8)		
PBT	42.1	50.3	-16.2	74.5	(43.4)	
Tax	8.0	7.2	10.7	18.6	(56.8)	
Reported PAT	34.1	43.1	-20.8	55.9	(39.0)	
Adjusted PAT	34.1	41.8	-18.4	45.1	(24.3)	

Segmental performance					Rs cr	
Particulars	Q1FY18	Q1FY17	YoY %	Q4FY17	QoQ %	
Plyboards						
Revenue	342.7	311.6	10.0	374.3	(8.4)	
EBIT	38.5	43.6	(11.8)	74.0	(48.1)	
EBIT margin (%)	11.2	14.0	(278)	19.8	856	
Capital employed	542.7	523.2	3.7	539.7	0.6	
RoCE (%)	28.3	33.3	(500)	54.9	(2,653)	
Laminates						
Revenue	89.1	89.1	0.1	109.9	(18.9)	
EBIT	9.2	11.5	(20.4)	11.0	(16.9)	
EBIT margin (%)	10.3	12.9	(265)	10.0	(25)	
Capital employed	174.1	159.4	9.2	160.3	8.6	
RoCE (%)	21.1	28.9	(783)	27.5	(646)	
CFS						
Revenue	23.9	23.5	1.6	23.5	1.8	
EBIT	6.7	7.9	(14.6)	6.0	12.1	
EBIT margin (%)	28.1	33.5	(535)	25.5	(258)	
Capital employed	44.6	53.1	(16.0)	49.5	(10.0)	
RoCE (%)	60.2	59.2	99	48.4	1,186	
MDF Boards						
Revenue	0.6	1.4	(56.2)	0.6	3.4	
EBIT	(0.2)	0.2	-	(0.6)	-	
EBIT margin (%)	(29.9)	17.4	-	(108.1)	-	
Capital employed	325.8	58.7	455.1	264.5	23.2	
RoCE (%)	(0.2)	1.6		(1.0)		
Particle Boards						
Revenue	11.1	-	-	11.7	(5.3)	
EBIT	(3.7)	-	-	(3.3)	12.4	
EBIT margin (%)	(33.6)	-	-	(28.3)	530	
Capital employed	54.2	55.9	(3.0)	56.7	(4.5)	
RoCE (%)	(27.6)	-		(23.4)		

Valuation (consolidated)

Particulars	Rs cr				
	FY15	FY16	FY17	FY18E	FY19E
Net sales	1,588	1,641	1,819	2,135	2,583
Growth YoY (%)	18	3	11	17	21
Adjusted EBITDA	274	295	315	384	509
EBITDA margin (%)	17.2	18.0	17.3	18.0	19.7
Adjusted PAT	149	181	178	192	271
Growth YoY (%)	145	21	(1)	8	41
Adjusted EPS (Rs)	6.7	8.1	8.0	8.6	12.2
P/E (x)	41.1	36.2	32.2	31.9	22.6
RoCE (%)	23.0	21.9	19.7	16.9	18.8
RoE (%)	44.0	37.0	31.1	24.4	27.3

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