

CENTURY PLYBOARDS

RESULT UPDATE

KEY DATA

Rating	BUY
Sector relative	Outperformer
Price (INR)	185
12 month price target (INR)	213
Market cap (INR bn/USD bn)	41/0.6
Free float/Foreign ownership (%)	2,715.0/717.2
What's Changed	
Target Price	↑
Rating/Risk Rating	—

QUICK TAKE

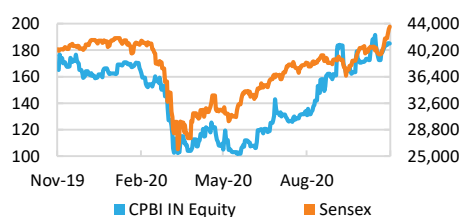
	Above	In line	Below
Profit	●		
Margins	●		
Revenue Growth	●		
Overall	●		

FINANCIALS

(INR mn)

Year to March	FY20A	FY21E	FY22E	FY23E
Revenue	23,170	19,113	23,784	26,538
EBITDA	3,307	2,575	3,648	4,160
Adjusted profit	1,835	1,420	2,261	2,542
Diluted EPS (INR)	8.2	6.4	10.2	11.4
EPS growth (%)	29.6	(22.6)	59.3	12.4
RoAE (%)	14.3	12.4	17.5	17.0
P/E (x)	22.4	29.0	18.2	16.2
EV/EBITDA (x)	13.1	16.1	11.6	9.8
Dividend yield (%)	0.7	0.7	0.7	0.7

PRICE PERFORMANCE



Explore:



Financial model



Podcast



Corporate access



Video

MDF business spearheads spurt

Century Plyboards' (CPBI) Q2FY21 numbers surpassed our and consensus revenue/EBITDA/PAT estimates led by faster-than-expected recovery across segments, especially MDF (revenue up 20% YoY). Margin increased too, up 120bps YoY to 16.6%, owing to operating leverage & and cost control. Balance sheet strengthened led by dip in working capital, reflected in total debt at >INR1bn falling 46% vis-a-vis Q4FY20.

Factoring CPBI's strong Q2FY21 numbers and balance sheet improvement, we revise up FY21/22E EPS 41%/13% and target multiple (from 18x) to 21x. Maintain 'BUY' with revised TP of INR213 (INR162 earlier).

Plywood recovering; MDF shining

After reporting 65% YoY fall in revenue in Q1FY21, CPBI has seen fast recovery with revenue fall in Q2FY21 restricted to 13% YoY. The recovery was across segments, especially in the MDF segment, which reported strong growth. i) Plywood segment reported 17% YoY decline in revenue (volume down 12%). ii) Laminates' revenue slid 25% YoY (volume down 22%). iii) Revenue of CFS business fell 9% YoY (volume down 18%). iv) Particle board's revenue declined 2% YoY (volume up 6%). v) The MDF segment fared way better with revenue jumping 20% YoY (volume up 19%). Although CPBI's MDF and particle board divisions were already back on growth track, plywood and laminates divisions have resumed healthy growth from September/October.

MDF segment drives margin expansion; capex under finalisation

CPBI's EBITDA margin increased 120bps YoY to 16.6% led by jump in margins of the MDF segment, which surged ~600bps YoY to 28%. Further, although margins across other segments posted sharp sequential improvement, they were down YoY on account of fall in utilisation rates: i) plywood margin down 240bps YoY to 13.1%; ii) laminates margin down 100bps YoY to 13.4%; and iv) CFS margin plunged 230bps YoY to 30%. Given the sustained strong growth in MDF, management is considering capex in the South or UP, which will be finalised by December.

Outlook and valuation: Gaining heft; maintain 'BUY'

Factoring CPBI's strong Q2FY21 numbers and balance sheet improvement, we are raising FY21/22E EPS 41%/13% and the target multiple from 18x to 21x given the market leadership in wood panels and strong brand. We maintain 'BUY' with revised target price of INR213 (INR162 earlier).

Financials

Year to March	Q2FY21	Q2FY20	% Change	Q1FY21	% Change
Net Revenue	5,222	5,995	(12.9)	2,030	157.2
EBITDA	865	920	(6.0)	(6)	n.a.
Adjusted Profit	502	484	3.7	(114)	n.a.
Diluted EPS (INR)	2.3	2.2	3.7	(0.5)	n.a.

Financial Statements

Income Statement (INR mn)

Year to March	FY20A	FY21E	FY22E	FY23E
Total operating income	23,170	19,113	23,784	26,538
Gross profit	11,565	9,170	11,866	13,454
Employee costs	3,585	3,155	3,628	4,172
Other expenses	4,673	3,440	4,590	5,122
EBITDA	3,307	2,575	3,648	4,160
Depreciation	763	757	846	1,016
Less: Interest expense	389	143	95	97
Add: Other income	128	100	120	130
Profit before tax	1,772	1,774	2,826	3,177
Prov for tax	551	355	565	635
Less: Other adj	0	0	0	0
Reported profit	1,474	1,420	2,261	2,542
Less: Excp.item (net)	361	0	0	0
Adjusted profit	1,835	1,420	2,261	2,542
Diluted shares o/s	223	223	223	223
Adjusted diluted EPS	8.2	6.4	10.2	11.4
DPS (INR)	1.3	1.3	1.3	1.3
Tax rate (%)	31.1	20.0	20.0	20.0

Important Ratios (%)

Year to March	FY20A	FY21E	FY22E	FY23E
Ply rev growth	(4.5)	(22.1)	20.8	8.0
Laminate rev growth	5.2	(11.9)	18.1	12.0
Logistic rev growth	(13.0)	(28.5)	25.0	8.0
EBITDA margin (%)	14.3	13.5	15.3	15.7
Net profit margin (%)	7.9	7.4	9.5	9.6
Revenue growth (% YoY)	1.6	(17.5)	24.4	11.6
EBITDA growth (% YoY)	9.7	(22.1)	41.6	14.0
Adj. profit growth (%)	29.6	(22.6)	59.3	12.4

Assumptions (%)

Year to March	FY20A	FY21E	FY22E	FY23E
GDP (YoY %)	4.8	(4.0)	7.0	0
Repo rate (%)	4.4	3.0	4.0	0
USD/INR (average)	70.7	75.0	73.0	0
MDF revenue growth	18.4	(9.1)	47.1	17.3
Ply EBITDA (%)	9.1	10.0	12.5	13.0
Laminate EBITDA (%)	13.8	12.5	13.0	13.5
Logistics EBITDA (%)	33.9	32.5	32.0	32.0
MDF EBITDA (%)	24.8	23.0	23.5	23.5
Tax rate as % of PBT	29.3	20.0	20.0	20.0

Valuation Metrics

Year to March	FY20A	FY21E	FY22E	FY23E
Diluted P/E (x)	22.4	29.0	18.2	16.2
Price/BV (x)	3.8	3.4	3.0	2.6
EV/EBITDA (x)	13.1	16.1	11.6	9.8
Dividend yield (%)	0.7	0.7	0.7	0.7

Source: Company and Edelweiss estimates

Balance Sheet (INR mn)

Year to March	FY20A	FY21E	FY22E	FY23E
Share capital	223	223	223	223
Reserves	10,684	11,755	13,668	15,862
Shareholders funds	10,906	11,978	13,891	16,084
Minority interest	(17)	(17)	(17)	(17)
Borrowings	2,362	1,462	1,262	1,162
Trade payables	1,515	1,308	1,469	1,613
Other liabs & prov	1,521	1,306	1,011	1,265
Total liabilities	16,600	16,349	17,928	20,420
Net block	7,825	8,293	8,947	9,431
Intangible assets	22	9	9	9
Capital WIP	160	0	0	0
Total fixed assets	8,007	8,302	8,956	9,440
Non current inv	2	2	2	2
Cash/cash equivalent	248	1,158	161	1,430
Sundry debtors	2,568	2,095	2,932	3,272
Loans & advances	208	208	208	208
Other assets	5,567	4,584	5,669	6,068
Total assets	16,600	16,349	17,928	20,420

Free Cash Flow (INR mn)

Year to March	FY20A	FY21E	FY22E	FY23E
Reported profit	1,474	1,420	2,261	2,542
Add: Depreciation	763	757	846	1,016
Interest (net of tax)	261	96	64	65
Others	2,350	2,015	(4,201)	(779)
Less: Changes in WC	847	1,034	(2,056)	(341)
Operating cash flow	4,001	3,254	1,026	3,184
Less: Capex	(235)	(1,065)	(1,500)	(1,500)
Free cash flow	3,766	2,189	(474)	1,684

Key Ratios

Year to March	FY20A	FY21E	FY22E	FY23E
RoE (%)	14.3	12.4	17.5	17.0
RoCE (%)	18.6	14.4	20.5	20.2
Inventory days	135	128	108	119
Receivable days	44	45	39	43
Payable days	49	52	43	43
Working cap (% sales)	20.4	19.3	24.2	23.0
Gross debt/equity (x)	0.2	0.1	0.1	0.1
Net debt/equity (x)	0.2	0	0.1	0
Interest coverage (x)	6.5	12.7	29.4	32.4

Valuation Drivers

Year to March	FY20A	FY21E	FY22E	FY23E
EPS growth (%)	29.6	(22.6)	59.3	12.4
RoE (%)	14.3	12.4	17.5	17.0
EBITDA growth (%)	9.7	(22.1)	41.6	14.0
Payout ratio (%)	19.6	20.4	12.8	11.4

Q2FY21 conference call: Key highlights

Demand

- The company achieved 88% of last year's sales in Q2FY20 with performance near normal in the month of September.
- Plywood sales was 6% YoY higher in the month of September 2020. October has been even better and has been one of the best month in the history of CPBI
- Growth has come from across India from cities as well as upcoming towns. This is partially led by pent-up demand which has come as everyone wanted to renovate home before Diwali and thus the company has seen sudden spike in the month of September and October
- The company is also seeing benefit of advertisements (on air from Aug, Sept and Oct – and plan is to be on air) with higher sales compared to competition

Plywood

- The reason for growth in September and October for plywood is led by pent up demand, Viro kill technology product which has gained traction and media activity that the company has done around virokill
- Going ahead, the company expects this technology will keep CPBI at top of peoples mind since plywood is the type of commodity where getting in new technology is difficult
- The company has not increased prices in any of the product despite offering virokill technology for the entire product range
- Despite the cost increase, CPBI has been able to maintain margins mainly led by operating leverage

Laminates

- In Q2FY21, while both exports and domestic market saw decline, the domestic market was more impacted compared to exports market
- Laminates sales will have lag impact and the company's sales in the month of October has been strong with more than 10% YoY growth

MDF

- YoY margins are better even after lower utilisation compared to last year mainly as the company has taken various cost control measures and sales has improved
- Govt of India is working very hard and curtailing imports of ready made furniture benefitting MDF sales
- While the company has already Increased prices in particle board segment, its planning to increase prices in MDF segment too
- Furniture imports has been made costly in India and thus there is more demand for made in India furniture driving MDF growth.
- All products shipping rates have gone off the roof because of which import cost is increasing.
- Further, with no new capacity coming in MDF for the next two years except one in South, price hike at periodic level is possible which will aid margins further.

India MDF dynamics

- In India, 1 million cubic meter is installed capacity and in next 4-5 years this can go to 4-5 million cubic meters
- Many states in India do not allow the manufacturing of wood panel products.
- Further, many companies have tried earlier and failed manufacturing MDF. Capex intensive business with asset turns of mere 1.1x-1.2x creates inventory barriers

Capacity expansion by Century Plyboards in MDF

- The company is currently exploring two geographies for MDF capacity expansion- Sitapur, UP and South India
- Although UP was the first choice led by cheaper raw material cost; the reason for looking at capacity addition in South India was cheap raw material compared to North plant and ADD imposition in South India on thin MDF giving Indian manufacturers opportunity to replace imports
- The company is also looking at South plant to reduce geographical freight cost and benefit from lower raw material cost
- The company is likely to take a call on location by December 2020
- If the company selects South location, most likely it will go for only MDF capacity at capex of INR3.5bn
- The company has confidence of scaling up utilisations in South India also similar to North just by gaining operating efficiency that are far higher compared to peers
- Once the company commences the construction of MDF plant, it will take 1.5 years for completion of project.

Market share gains

- Unorganised sector is taking time to restart also because of labour issues
- In any division, CPBI would have higher capacity utilisation and higher sales compared to competition that speaks on market share gains

Face veneer

- Myanmar facility is still operating and supplying the company with Garjan face veneer largely used internally
- Currently there is shortage of Okume Veneer in the market and thus the price difference between Okume and Garjan has reduced significantly
- In Gabon, the operations are not viable at this time, but CPBI will start when things pick-up

CRISIL

- Withdrawn arrangement with CRISIL long back; they have already rectified and put this on their website also
- Now the company is having credit rating from ICRA

Retail versus institutional mix

- Plywood - 95% of sales are through retail channels and it will remain as retail market product. 16 MM calibrated plywood though goes to OEM but that is in limited quantity
- MDF – Most of the sales are through OEMs and does not go to customers directly

Margins

- MDF margins – operating leverage driving margins, along with lower expenses like travelling, etc. With prices increasing, margins can further improve
- Salary cuts were reversed in Q2FY21 as the company's utilisation was more than 80% as previously targeted. Overall margins should improve with operating leverage coming in

Plywood mix

- SAINIK brand by volume is 35-40% and by value is 25% of revenues. Further, going ahead too, the growth in SAINIK will be higher than premium plywood

Debt

- The total debt has come down from INR2.43bn in June 2020 to INR850mn by September 30 2020
- After taking subvention, the cost of debt is ~2% p.a. Further, ECB is also 2% p.a.
- Thus, the sharp fall in interest cost is likely to sustain at these levels

CENTURY PLYBOARDS

Exhibit 1: Financial Snapshot (INR mn)

Year to March	Q2FY21	Q2FY20	YoY (%)	Q1FY21	YoY (%)	YTD FY21	FY21E	FY22E
Revenues	5,222	5,995	(12.9)	2,030	157.2	7,253	19,113	23,784
Raw material	2,558	2,958	(13.5)	932	174.6	3,490	9,943	11,918
Staff costs	789	919	(14.2)	586	34.6	1,375	3,155	3,628
Others	1,010	1,197	(15.7)	518	94.9	1,528	3,440	4,590
Total expenditure	4,357	5,074	(14.1)	2,036	114.0	6,393	16,538	20,137
EBITDA	865	920	(6.0)	-6		860	2,575	3,648
Depreciation	177	193	(8.4)	157	12.6	334	757	846
EBIT	689	727	(5.3)	-163		526	1,818	2,802
Less: Interest Expense	24	112	(79.1)	55	(56.9)	78	143	95
Add: Other income	13	88	(85.3)	46	(71.7)	59	100	120
Profit Before Tax	678	703	(3.6)	-172	(494.9)	506	1,774	2,826
Less: Provision for Tax	175	216	(18.8)	-53	(432.4)	123	355	565
Less: Minority Interest	0	3		-5		-5	0	0
Less: exception item	0					0		
Reported Profit	502	484	3.7	-114	(542.4)	389	1,420	2,261
Adjusted net profit	503	487	3.2	-114	(542.8)	389	1,420	2,261
Equity capitBA (FV INR 1)	223	223		223		223	223	223
No. of Diluted shares outstanding (mn)	223	223		223		223	223	223
Adjusted Diluted EPS	2.3	2.2	3.2	(0.5)	(542.8)	1.7	6.4	10.2
P/E (x)							26.8	16.8
EV/EBITDA (x)							14.9	10.7
As % of net revenues								
Raw material	49.0	49.3		45.9		48.1	52.0	50.1
Staff expenses	15.1	15.3		28.9		19.0	16.5	15.3
Other expenses	19.3	20.0		25.5		21.1	18.0	19.3
EBITDA	16.6	15.4		(0.3)		11.9	13.5	15.3
Net profit	9.6	8.1		(5.6)		5.4	7.4	9.5

Source: Company, Edelweiss Research

Exhibit 2: Segmental snapshot (INR mn)

Year to March	Q2FY21	Q2FY20	YoY (%)	Q1FY21	QoQ (%)
Revenues					
Plywood and Allied Products	2,705	3,266	(17.2)	1,012	167.3
Laminate and Allied Products	1,018	1,352	(24.7)	403	152.7
MDF	935	777	20.4	303	208.4
Particle Board	256	262	(2.1)	83	208.5
Container Freight Station Services	199	220	(9.5)	203	(1.7)
Others	115	124	(7.1)	32	260.1
Total	5,229	6,001	(12.9)	2,036	156.8
EBIT					
Plywood and Allied Products	335	423	(20.7)	(106)	n.a.
Laminate and Allied Products	113	178	(36.3)	2	n.a.
MDF	213	133	60.6	(25)	n.a.
Particle Board	42	66	(36.7)	1	n.a.
Container Freight Station Services	32	32	(1.0)	42	n.a.
Others	19	12	54.9	(7)	n.a.
Total	755	844	(10.6)	(93)	n.a.
Margins					
Plywood and Allied Products	12.4	12.9		(10.5)	
Laminate and Allied Products	11.2	13.2		0.5	
MDF	22.8	17.1		(8.2)	
Particle Board	16.4	25.4		1.4	
Container Freight Station Services	15.8	14.5		20.7	
Others	16.8	10.1		(22.6)	
Total	14.4	14.1		(4.6)	

Source: Company, Edelweiss Research

Additional Data

Management

Chairman & MD	Sajjan Bhajanka
CEO & MD	Sanjay Agarwal
MD	Vishnu Khemani
MD	Prem Bhajanka
Auditor	Singhi & Co.

Holdings – Top 10*

	% Holding		% Holding
Kotak AMC	2.60	Aditya Birla	1.39
Mirae AMC	1.81	Sundaram AMC	1.31
Norges Bank	1.70	Kuwait Invest	1.30
Govt Pens Fund	1.69	HDFC Life	1.13
DSP Invest	1.40	Pictet	1.12

*Latest public data

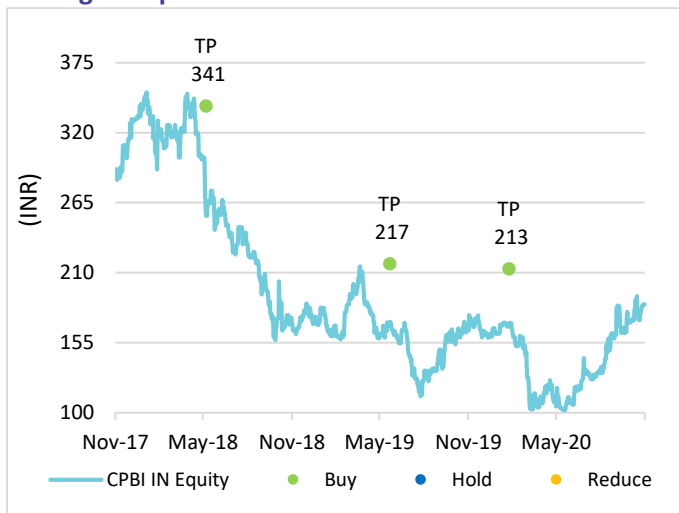
Recent Company Research

Date	Title	Price	Reco
14-Aug-20	Cost control countervails volume compression; <i>Result Update</i>	136	Buy
30-Jun-20	Touch wood: Surprise margin expansion softens blow; <i>Result Update</i>	120	Buy
27-Mar-20	Leader in the woods, but not lost; <i>Company Update</i>	115	Buy

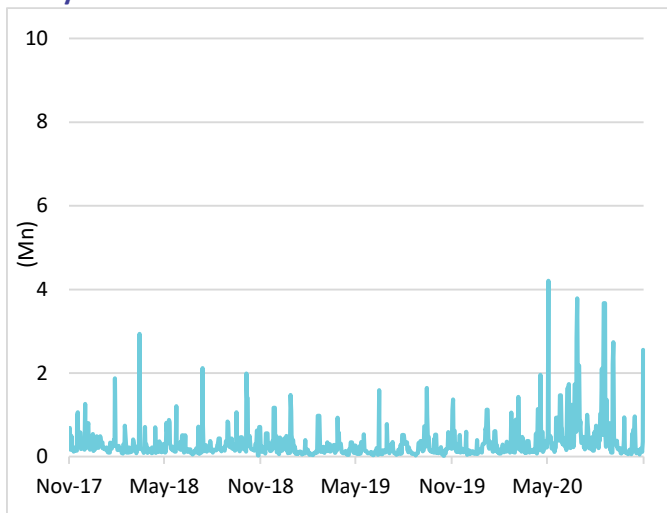
Recent Sector Research

Date	Name of Co./Sector	Title
06-Nov-20	Somany Ceramics	In focus: Balance sheet improvement; <i>Result Update</i>
04-Nov-20	Prince Pipes	Beneficiary of market consolidation; <i>Result Update</i>
03-Nov-20	Greenlam Industries	Faster-than-expected recovery; <i>Result Update</i>

Rating Interpretation



Daily Volume



Rating Distribution: Edelweiss Research Coverage

	Buy	Hold	Reduce	Total
Rating Distribution*	163	62	14	239
	>50bn	>10bn and <50bn	<10bn	Total
Market Cap (INR)	176	59	11	246

* stocks under review

Rating Rationale

Rating	Expected absolute returns over 12 months
Buy:	>15%
Hold:	>15% and <-5%
Reduce:	<-5%

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