

## ONE YEAR OUTLOOK

### BUSINESS & EARNINGS ▲

- We maintain our BUY rating on Century Plyboards (CPBI) given market leadership in all wood panel categories, strong balance sheet and free cash flow despite tough times & cheap valuations.
- Demand for wood panel products started recovering gradually from Q2FY21 as CPBI posted a moderate revenue decline of 12% y-o-y. Going forward, we expect robust demand from rural/semi-urban pocket and very low channel inventory to aid in growth for all wood panel sub-categories. Hence, we factor in growth of 13% y-o-y in 2HFY21E and 20% in FY22E (on a low base). Expect Laminates & Medium-density fiberboard (MDF) to post swifter recovery given improving exports and market share gains from imported MDF.
- We expect EBITDA margins of 13% in FY21E and improving to 15% in FY22E led by (1) Cost savings in Plywood owing to sourcing of face veneer from Gabon plant; (2) Operating leverage owing to high utilisations in Laminates; and (3) Pricing discipline among North MDF players on the back of higher utilisations.
- CPBI managed the working capital quite well in FY20 and 1HFY21 resulting in strong cash flow generation. This would lead to negligible net debt by FY21E (Rs.5bn in FY19). Going ahead, we expect CPBI to generate Rs.3bn operating cash flow annually which would be more than enough for upcoming MDF capex. RoEs to expand to 18-19% by FY22-23E after falling to 13% in FY21E.

### VALUATION MULTIPLES ◀▶

- CPBI trades at 18x FY22E EPS (bottom quartile valuations) versus historical five-year average multiple of 22x. We attribute an exit multiple of 20x to Sept-22E EPS given market leadership, steady margins & improving return metric profile and arrive at a TP of Rs.240/share.

### FINANCIAL SUMMARY

Year	Revenues (Rs. mn)	EBITDA (Rs. mn)	PAT (Rs. mn)	EPS (Rs.)	P/E (x)	RoE (%)
FY20	22,827	3,497	2,038	9.2	20.2	20%
FY21E	19,818	2,569	1,466	6.6	28.1	13%
FY22E	23,706	3,537	2,311	10.4	17.8	18%

## THREE YEAR OUTLOOK

### BUSINESS & EARNINGS ▲

- While COVID-19-led disruption has impacted building material categories growth in the near-term, we expect recovery to be swifter led by steady demand from semi-urban/rural pocket and increased completion rate in urban areas. We remain positive on the long-term prospects of the organized players in the wood panel industry given the gradual structural shift to organized players led by (1) better product quality, (2) increasing brand awareness and (3) superior distribution set-up.
- CPBI not only offers the entire gamut of wood panel products but also is among the top three market leaders in each of the sub-category. It has gradually diversified out of low-growth plywood business into high-growth MDF and particle board segments.
- We expect revenues & profits to grow at 7% and 12% respectively over FY20-24E led by continuing market share gains in plywood, ramp-up from expanded capacities in non-plywood segments & demand recovery in real estate from low base by FY22E.
- While capex intensity would be lower in the medium-term, CPBI would embark on MDF and particle board expansion from FY22E due to high utilisation at existing plants. Nonetheless, we expect internal accrual to take care of further expansion.

### VALUATION MULTIPLES ◀▶

- We attribute an exit multiple of 20x given market leadership, improving margin/return metrics profile and strong free cash flows.

KEY ESTIMATE REVISION	FY21E			FY22E		
	Old	New	Chg	Old	New	Chg
Revenues (Rs.mn)	18,917	19,818	5%	21,922	23,706	8%
EBITDA (Rs.mn)	2,005	2,569	28%	3,255	3,537	9%
PAT (Rs.mn)	957	1,466	53%	1,955	2,311	18%
EPS (Rs.)	4.3	6.6	53%	8.8	10.4	18%
Target P/E (x)	Before Result :		20.0x	After Result :		20.0x

## OUTLOOK REVIEW 2QFY21 12 November 2020

Industry	BUILDING MATERIAL
CMP	Rs.185
Target Price	Rs.240
Key Stock Data	
Bloomberg	CPBI in EQUITY
Shares o/s	222mn
Market Cap	Rs. 41bn
52-wk High-Low	Rs. 197-95
3m ADV	Rs. 86mn
Index	BSE 500

	Q4	Q1	Q2
Promoters	73.1	73.1	73.1
Institutions	15.1	15.4	16.5
Public	11.8	11.5	10.4
Pledge	0.0	0.0	0.0

## RESEARCH ANALYSTS

GIRISH CHOUDHARY

girish@sparkcapital.in

+91 44 4344 0021

GAURAV NAGORI

gaurav@sparkcapital.in

+91 44 4344 0072

## Quarterly Financial Statement

Revenues from plywood segment (52% of total revenues this quarter) declined 15% y-o-y, Laminates segment (20% of total revenues this quarter) declined 25% y-o-y. MDF segment (18% of total revenue this quarter) revenues grew 20% y-o-y.

Plywood EBIT margins fell from 14.2% last year to 12.8% this quarter. Laminates margin declined to 11.2% from 13.2% last year while MDF margins increased to 22.8% from 18.0% last year.

Company generated OCF of Rs.1.3bn in 1HFY21 versus Rs.1.8bn same time last year.

Rs. mn \ Period	Sep-20	Sep-19	Y-o-Y %	Jun-20	Q-o-Q %	1HFY20	1HFY21	Y-o-Y %
<b>Revenues</b>	<b>5,198</b>	<b>5,894</b>	<b>-12%</b>	<b>2,007</b>	<b>159%</b>	<b>11,631</b>	<b>7,205</b>	<b>-38%</b>
Raw material	2,105	2,043	3%	757	178%	4,363	2,510	-42%
Purchased goods	504	915	-45%	188	168%	1,509	693	-54%
Stock Adjustment	283	1	NM	70	306%	6	353	
Employee costs	764	884	-14%	566	35%	1,729	1,330	-23%
Other expenditure	966	1,124	-14%	487	98%	2,169	1,453	-33%
<b>EBITDA</b>	<b>859</b>	<b>928</b>	<b>-7%</b>	<b>8</b>	<b>NM</b>	<b>1,854</b>	<b>867</b>	<b>-53%</b>
Margins%	17%	16%		0%		16%	12%	
Other income	12	86	-86%	46	-73%	97	58	-40%
Interest	18	108	-83%	50	-65%	198	68	-65%
Depreciation	162	170	-5%	143	14%	340	305	-10%
<b>PBT</b>	<b>691</b>	<b>735</b>	<b>-6%</b>	<b>-139</b>	<b>NM</b>	<b>1,414</b>	<b>552</b>	<b>-61%</b>
PBT margins %	13%	12%		-7%		12%	8%	
Tax	176	213		(54)		411	123	-70%
Effective tax rate	26%	29%		39%		29%	22%	
<b>PAT</b>	<b>514</b>	<b>521</b>	<b>-1%</b>	<b>(85)</b>	<b>NM</b>	<b>1,003</b>	<b>429</b>	<b>-57%</b>
Margins	10%	9%		-4%		9%	6%	
EPS (Rs.)	2.3	2.3	-1%	-0.4	NM	4.5	1.9	-57%

## Standalone Financial Summary

Abridged Financial Statements										
Rs. mn	FY15	FY16	FY17	FY18	FY19	FY20	FY21E	FY22E	FY23E	
<b>Profit &amp; Loss</b>										
Revenue	15,228	16,357	17,825	19,672	22,638	22,827	19,818	23,706	27,375	
EBITDA	2,078	2,835	2,920	3,060	3,004	3,497	2,569	3,537	4,294	
Depreciation	448	437	524	810	500	676	630	640	708	
EBIT	1,630	2,398	2,397	2,250	2,504	2,822	1,939	2,897	3,586	
Other Income	196	65	227	64	61	111	178	284	329	
Interest expense	433	465	286	327	446	372	158	93	73	
Exceptional items	-	-	-	-	-	456	-	-	-	
PBT	1,393	1,998	2,337	1,987	2,119	2,104	1,959	3,088	3,842	
Reported PAT (after minority interest)	1,103	1,698	1,856	1,563	1,588	1,582	1,466	2,311	2,875	
Adj PAT	1,103	1,698	1,856	1,563	1,588	2,038	1,466	2,311	2,875	
EPS (Rs.)	5.0	7.6	8.3	7.0	7.1	9.2	6.6	10.4	12.9	
<b>Balance Sheet</b>										
Net Worth	3,876	5,251	7,086	8,379	9,691	10,734	11,979	14,085	16,636	
Deferred Tax	(70)	(655)	(689)	(690)	(615)	(578)	(578)	(578)	(578)	
Total debt	5,019	4,552	6,022	5,430	5,189	2,531	1,412	912	912	
Other liabilities and provisions	924	774	1,028	1,019	1,097	1,308	1,096	1,312	1,515	
<b>Total Net worth and liabilities</b>	<b>9,748</b>	<b>9,921</b>	<b>13,448</b>	<b>14,138</b>	<b>15,362</b>	<b>13,994</b>	<b>13,909</b>	<b>15,730</b>	<b>18,485</b>	
Gross Fixed assets	4,092	2,384	3,418	7,153	9,441	10,017	10,317	10,667	12,917	
Net fixed assets	2,089	1,975	2,494	5,417	7,286	7,211	6,881	6,591	8,133	
Capital work-in-progress	227	930	2,842	1,285	218	141	141	1,541	2,041	
Goodwill										
Investments	451	497	960	960	978	1,137	1,137	1,137	1,137	
Cash and Bank Balances	170	190	538	165	226	212	1,352	1,176	1,143	
Loans & advances and other assets	1,572	1,553	2,033	1,548	1,397	885	831	900	966	
Net working capital	5,239	4,776	4,580	4,762	5,257	4,409	3,567	4,386	5,064	
<b>Total assets</b>	<b>9,748</b>	<b>9,921</b>	<b>13,448</b>	<b>14,138</b>	<b>15,362</b>	<b>13,994</b>	<b>13,909</b>	<b>15,730</b>	<b>18,485</b>	
Capital Employed	8,894	9,803	13,108	13,810	14,880	13,265	13,391	14,997	17,548	
Invested Capital (CE - cash - CWIP)	8,497	8,682	9,728	12,360	14,436	12,912	11,897	12,280	14,364	
Net Debt	4,848	4,362	5,484	5,265	4,963	2,319	60	(263)	(231)	
<b>Cash Flows</b>										
Cash flows from Operations (Pre-tax)	1,668	3,195	2,711	3,258	2,790	4,782	3,431	3,149	4,081	
Cash flows from Operations (post-tax)	1,378	2,895	2,230	2,834	2,259	4,260	2,938	2,371	3,114	
Capex	(546)	(1,266)	(2,897)	(1,923)	(1,364)	(533)	(300)	(1,750)	(2,750)	
Free cash flows	832	1,629	(667)	911	896	3,726	2,638	621	364	
Free cash flows (post interest costs)	595	1,229	(727)	648	511	3,465	2,659	813	620	
Cash flows from Investing	(624)	(1,287)	(3,208)	(1,974)	(1,279)	(583)	(300)	(1,750)	(2,750)	
Cash flows from Financing	(764)	(1,588)	1,326	(1,233)	(942)	(3,687)	(1,498)	(798)	(396)	
Total cash & liquid investments	170	190	538	165	226	212	1,352	1,176	1,143	

Source: Spark Capital

## Standalone Financial Summary

Growth and Ratios									
	FY15	FY16	FY17	FY18	FY19	FY20	FY21E	FY22E	FY23E
<b>Key variables (sector-specific)</b>									
Plywood revenues	11,471	11,735	12,609	12,633	12,781	12,307	10,283	12,333	14,105
Laminates revenues	2,515	2,982	3,369	3,700	4,322	4,546	3,928	4,727	5,304
MDF revenues				1,128	2,951	3,504	3,359	4,045	5,096
<b>Growth ratios</b>									
Revenue	23.3%	7.4%	9.0%	10.4%	15.1%	0.8%	-13.2%	19.6%	15.5%
EBITDA	109.0%	36.4%	3.0%	4.8%	-1.9%	16.4%	-26.5%	37.7%	21.4%
Adj PAT	413.1%	53.9%	9.3%	-15.7%	1.5%	28.4%	-28.1%	57.6%	24.4%
<b>Margin ratios</b>									
EBITDA	13.6%	17.3%	16.4%	15.6%	13.3%	15.3%	13.0%	14.9%	15.7%
Adj PAT	7.2%	10.4%	10.4%	7.9%	7.0%	8.9%	7.4%	9.7%	10.5%
<b>Performance ratios</b>									
Pre-tax OCF/EBITDA	80.3%	112.7%	92.8%	106.4%	92.9%	136.7%	133.6%	89.0%	95.0%
OCF/IC (%)	16%	33%	23%	23%	16%	33%	25%	19%	22%
RoE (%)	32%	37%	30%	20%	18%	20%	13%	18%	19%
RoCE (%)	17%	22%	18%	14%	13%	16%	12%	17%	18%
RoCE (Pre-tax)	22%	26%	23%	17%	18%	21%	16%	22%	24%
RoIC (Pre-tax)	20%	28%	26%	20%	19%	21%	16%	24%	27%
Fixed asset turnover (x)	7.2	8.1	8.0	5.0	3.6	3.1	2.8	3.5	3.7
Total asset turnover (x)	1.7	1.7	1.5	1.4	1.5	1.6	1.4	1.6	1.6
<b>Financial stability ratios</b>									
Net Debt to Equity (x)	1.3	0.8	0.8	0.6	0.5	0.2	0.0	(0.0)	(0.0)
Net Debt to EBITDA (x)	2.3	1.5	1.9	1.7	1.7	0.7	0.0	(0.1)	(0.1)
Interest cover (x)	3.2	6.2	7.8	8.7	5.1	11.4	18.6	25.5	42.7
Cash conversion days	126	107	94	88	85	70	66	68	68
Working capital days	141	124	114	98	90	64	61	61	60
<b>Valuation metrics</b>									
Fully Diluted Shares (mn)	223	223	223	223	223	223	223	223	223
Market cap (Rs.mn)	41,167	41,167	41,167	41,167	41,167	41,167	41,167	41,167	41,167
P/E (x)	37.3	24.2	22.2	26.3	25.9	20.2	28.1	17.8	14.3
P/OCF(x)	29.9	14.2	18.5	14.5	18.2	9.7	14.0	17.4	13.2
EV (Rs.mn) (ex-CWIP)	45,789	44,599	43,809	45,148	45,912	43,345	41,086	39,363	38,895
EV/ EBITDA (x)	22.0	15.7	15.0	14.8	15.3	12.4	16.0	11.1	9.1
EV/ OCF(x)	33.2	15.4	19.6	15.9	20.3	10.2	14.0	16.6	12.5
FCF Yield	1%	3%	-2%	1%	1%	8%	6%	2%	2%
Price to BV (x)	10.6	7.8	5.8	4.9	4.2	3.8	3.4	2.9	2.5
Dividend pay-out (%)	40%	16%	12%	14%	14%	14%	14%	14%	14%
Dividend yield (%)	1.1%	0.7%	0.5%	0.5%	0.5%	0.4%	0.4%	0.6%	0.8%

Source: Spark Capital

Crystal Ball Gazing

CPBI not only offers the entire gamut of wood panel products but also is among the top three market leaders on each of the sub-category. It has gradually diversified out of low-growth plywood business into high-growth MDF and particle board segments. We expect revenues & profits to grow at 7% and 12% respectively over FY20-24E led by continuing market share gains in plywood, ramp-up from expanded capacities in non-plywood segments & demand recovery in real estate from low base by FY22E.

Revenue CAGR of 7% over FY20-FY24E led by ramp-up in MDF, increased laminates exports and market share gains in plywood.

	FY11-FY14	FY14-FY18	FY19-FY23E
Revenues CAGR	11%	12%	5%
EBITDA CAGR	15%	18%	9%
EBITDA margin	11%	16%	14%
EPS CAGR	-4%	25%	16%
Total Asset Turnover (x)	1.66	1.58	1.54
Total WC days	127.6	121.3	67.1
Pre-tax OCF/EBITDA (%)	29%	91%	109%
Post Tax OCF as a % of IC	6%	23%	23%
Debt/EBITDA	2.98	1.86	0.44

Balance sheet would remain net cash by FY22E. Return metrics would improve from lows seen in FY21E to 18-19% over FY22E-23E.

	FY11-FY14	FY14-FY18	FY19-FY23E
RoE (%)	23%	33%	17%
RoCE (%)	16%	19%	15%
RoIC (%)	19%	26%	21%
<b>Average 1 yr fwd</b>			
PE (x)	13.5	20.7	
EV/EBITDA (x)	8.5	13.6	
<b>Peak 1 yr fwd</b>			
PE (x)	18.3	28.3	
EV/EBITDA (x)	10.2	19.1	

Multiples to sustain

PE multiple	FY24E EPS	Price target
18x	14.4	260
20x	14.4	288

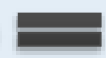
Entry = Rs. 185@ 18x FY22E EPS



Cumulative Dividends of Rs.5/share



EPS CAGR of ~12%, exit multiple of 20x on FY24E EPS



TOTAL RETURN OF ~62%