

4 February 2020

Century Plyboards

Strong MDF offset weak laminates; maintaining a Buy

Strong MDF revenue/margin offset weak laminates performance in Q3 FY20. Management expects MDF and laminates to support growth in the near term and plywood to recover only gradually. While the company hopes to start MDF/PB capex in UP soon, any further delay would restrict growth in the segment. We introduce FY22e and expect a 26% earnings CAGR over FY19-22. Healthy FCF generation and RoE (crossing 21%) are other positives. We retain our Buy recommendation with a target of ₹215 (earlier ₹223), valuing it at 16x FY22e P/E. Plans for MDF capacity addition is the key monitorable.

Operationally in-line quarter. Excluding the ₹456m impairment loss on the Laos unit, revenue/EBITDA/PBT rose 3%/24%/20% y/y. The 3% revenue growth was driven by 3%/10% growth in plywood/MDF; flat laminate sales disappointed. The EBITDA margin at 15.8% (up 272bps y/y) was driven by a strong uptick in the MDF margin (to ~25%), resulting in a 226bp expansion in the gross margin. After pre-paying all term loans taken for the MDF facility, debt is expected to shrink further on the strong cash-flow generation.

MDF/particle board capex likely to begin soon. Management says all issues relating to approval of licenses regarding the wood-based industry by the UP government are expected to be sorted out soon. It plans to set up MDF/PB capacities of 600/900cb.metres/day each, at ~₹4.5bn, in UP. It will take ~1.5 years to start production from the day of finalisation.

We expect 26% EPS CAGRs over FY19-22. After two years of weakness, FY20 is likely to be strong (PAT up 36% y/y). While short-term challenges (dull demand and competition in MDF) persist, the structural long-term growth outlook is intact. Thus, we introduce FY22e and expect 9%/17%/26% CAGRs in consolidated revenue/EBITDA/PAT over FY19-22. The healthy FCF generation and RoE (crossing 21%) are other positives.

Valuation. We are upbeat about Century for its diversified product range, leading position in key products and disciplined balance sheet. We retain our Buy recommendation. **Risks:** Rising input costs, currency fluctuations.

Key financials (YE Mar)	FY18	FY19	FY20e	FY21e	FY22e
Sales (₹ m)	20,239	22,804	23,875	26,762	29,272
Net profit (₹ m)	1,661	1,489	2,026	2,644	2,991
EPS (₹)	7.5	6.7	9.1	11.9	13.4
PE (x)	22.1	24.7	18.1	13.9	12.3
EV / EBITDA (x)	12.6	13.7	10.6	8.4	7.3
3PBV (x)	4.3	3.8	3.2	2.7	2.2
RoE (%)	19.5	15.3	17.7	19.2	18.2
RoCE (%) – after tax	11.6	11.1	13.4	14.9	14.6
Dividend yield (%)	0.6	0.6	0.7	0.8	1.0
Net debt / equity (x)	0.6	0.4	0.2	0.1	0.1

Source: Company, Anand Rathi Research

Rating: **Buy**

Target Price: ₹215

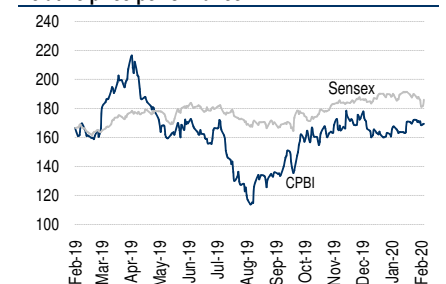
Share Price: ₹165

Key data	CPBI IN / CNTP.BO
52-week high / low	₹222 / 112
Sensex / Nifty	40789 / 11980
3-m average volume	\$0.7m
Market cap	₹38bn / \$527.3m
Shares outstanding	222m

Shareholding pattern (%)	Dec'19	Sep'19	Jun'19
Promoters	72.9	72.9	72.8
- of which, Pledged	-	-	-
Free float	27.2	27.2	27.3
- Foreign institutions	7.2	7.3	7.7
- Domestic institutions	7.3	6.8	6.8
- Public	12.6	13.0	12.7

Estimates revision (%)	FY20e	FY21e
Sales	(2.0)	(0.0)
EBITDA	(6.0)	(2.9)
PAT	(7.1)	(4.0)

Relative price performance



Source: Bloomberg

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Quick Glance – Financials and Valuations (consol.)

Fig 1 – Income statement (₹ m)

Year-end: Mar	FY18	FY19	FY20e	FY21e	FY22e
Net revenues	20,239	22,804	23,875	26,762	29,272
Growth (%)	11.3	12.7	4.7	12.1	9.4
Direct costs	9,860	11,509	11,738	12,891	14,266
SG&A	7,069	8,279	8,403	9,360	10,176
EBITDA	3,311	3,016	3,734	4,512	4,831
EBITDA margins (%)	16.4	13.2	15.6	16.9	16.5
- Depreciation	907	595	788	832	873
Other income	79	71	152	225	394
Interest expenses	358	469	397	380	365
PBT	2,124	2,023	2,701	3,525	3,988
Effective tax rate (%)	21.8	26.4	25.0	25.0	25.0
+ Associates / (Minorities)	-	-	-	-	-
Net income	1,661	1,489	2,026	2,644	2,991
Adjusted income	1,661	1,489	2,026	2,644	2,991
WANS	223	223	223	223	223
FDEPS (₹ / sh)	7.5	6.7	9.1	11.9	13.4
FDEPS growth (%)	(14.1)	(10.4)	36.1	30.5	13.1
Gross margins (%)	51.3	49.5	50.8	51.8	51.3

Fig 3 – Cash-flow statement (₹ m)

Year-end: Mar	FY18	FY19	FY20e	FY21e	FY22e
EBIT (excluding other income)	2,124	2,023	2,701	3,525	3,988
+ Non-cash items	971	664	818	872	913
Oper. prof. before WC	3,095	2,687	3,518	4,397	4,901
- Incr. / (decr.) in WC	729	-97	386	862	673
Others incl. taxes	-407	216	437	643	763
Operating cash-flow	2,773	2,568	2,696	2,893	3,464
- Capex (tang. + intang.)	2,610	1,474	550	450	300
Free cash-flow	163	1,094	2,146	2,443	3,164
Acquisitions					
- Div. (incl. buyback & taxes)	267	267	320	312	356
+ Equity raised	-	-	-	-	-
+ Debt raised	-318	-530	-1,300	-300	-300
- Fin investments	0	3	205	1,405	2,505
- Misc. (CFI + CFF)	39	243	241	240	240
Net cash-flow	-461	51	79	186	-237

Source: Company, Anand Rathi Research

Fig 5 – Price movement


Source: Bloomberg

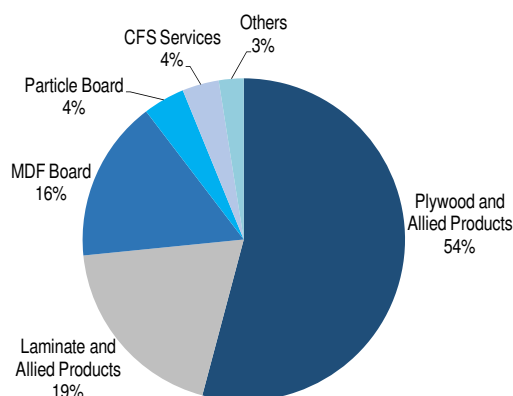
Fig 2 – Balance sheet (₹ m)

Year-end: Mar	FY18	FY19	FY20e	FY21e	FY22e
Share capital	223	223	223	223	223
Net worth	8,516	9,749	11,454	13,787	16,421
Debt	5,346	4,816	3,516	3,216	2,916
Minority interest	184	253	283	323	363
DTL / (Assets)	23	12	14	17	20
Capital employed	14,069	14,830	15,267	17,342	19,720
Net tangible assets	6,475	8,348	8,160	7,828	7,255
Net intangible assets	18	16	16	16	16
Goodwill	-	-	-	-	-
CWIP (tang. & intang.)	1,261	268	218	168	168
Investments (strategic)	-	-	-	-	-
Investments (financial)	61	64	269	1674	4,179
Current assets (ex cash)	9,228	9,159	9,534	10,513	11,371
Cash	211	262	342	528	291
Current liabilities	3,186	3,288	3,273	3,385	3,561
Working capital	6,042	5,870	6,261	7,128	7,810
Capital deployed	14,069	14,830	15,267	17,342	19,720
Contingent liabilities	825	435	-	-	-

Fig 4 – Ratio analysis

Year-end: Mar	FY18	FY19	FY20e	FY21e	FY22e
P/E (x)	22.1	24.7	18.1	13.9	12.3
EV / EBITDA (x)	12.6	13.7	10.6	8.4	7.3
EV / Sales (x)	2.1	1.8	1.7	1.4	1.2
P/B (x)	4.3	3.8	3.2	2.7	2.2
RoE (%)	19.5	15.3	17.7	19.2	18.2
RoCE (%) - after tax	11.6	11.1	13.4	14.9	14.6
RoIC	14.9	12.9	15.8	18.5	18.0
DPS (₹ / sh)	1.0	1.0	1.2	1.4	1.6
Dividend yield (%)	0.6	0.6	0.7	0.8	1.0
Dividend payout (%) - incl. DDT	13.4	14.9	13.2	11.8	11.9
Net debt / equity (x)	0.6	0.4	0.2	0.1	-0.1
Receivables (days)	64	47	47	47	47
Inventory (days)	69	74	74	74	74
Payables (days)	32	26	26	26	26
CFO : PAT %	166.9	172.5	133.1	109.4	115.8

Source: Company, Anand Rathi Research

Fig 6 – Q3 FY20 revenue break-up (standalone)


Source: Company

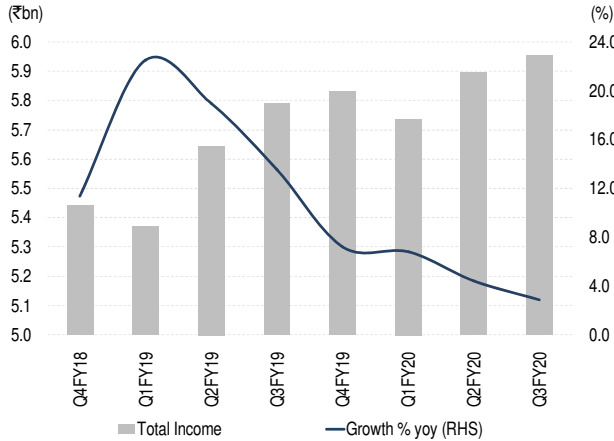
Financial highlights

Fig 7 – Financials (standalone)

(₹ m)	Q3 FY19	Q4 FY19	Q1 FY20	Q2 FY20	Q3 FY20	% Y/Y	% Q/Q	9M FY20	9M FY19	% Y/Y
Total income	5,789	5,832	5,737	5,894	5,954	3	1	17,585	16,806	5
RM costs	3,088	3,029	2,921	2,958	3,041	(2)	3	8,920	8,787	2
Employee costs	810	837	845	884	846	4	(4)	2,575	2,440	6
Other expenses	1,132	1,330	1,045	1,124	1,124	(1)	0	3,293	3,212	3
EBITDA	759	637	926	928	943	24	2	2,797	2,367	18
Depreciation	136	143	169	170	173	27	2	513	357	44
Finance costs	62	94	90	108	92	48	(15)	290	352	(18)
Other income	16	29	11	86	13	(19)	(85)	110	31	249
Exceptional items	-	-	-	-	(456)	-	-	(456)	-	-
PBT	577	429	679	735	234	(59)	(68)	1,647	1,690	(3)
Tax	162	87	197	213	43	(74)	(80)	454	444	2
PAT	414	342	481	521	191	(54)	(63)	1,194	1,246	(4)
EPS (calculated) (₹)	1.9	1.5	2.2	2.3	0.9	(54)	(63)	5.4	5.6	(4)
As % of income						bps y/y	bps q/q			bps y/y
Gross margins	46.7	48.1	49.1	49.8	48.9	226	(89)	49.3	47.7	156
Employee costs	14.0	14.3	14.7	15.0	14.2	22	(79)	14.6	14.5	12
Other expenses	19.6	22.8	18.2	19.1	18.9	(67)	(19)	18.7	19.1	(38)
EBITDA margins	13.1	10.9	16.1	15.7	15.8	272	9	15.9	14.1	182
Depreciation	2.3	2.5	3.0	2.9	2.9	56	2	2.9	2.1	79
Finance costs	1.1	1.6	1.6	1.8	1.5	47	(29)	1.6	2.1	(45)
Other income	0.3	0.5	0.2	1.5	0.2	(6)	(124)	0.6	0.2	44
PBT	10.0	7.4	11.8	12.5	11.6	163	(88)	12.0	10.1	191
Effective tax rate	28.2	20.4	29.1	29.0	18.3	(983)	(1,069)	27.5	26.3	128
PAT margins	7.2	5.9	8.4	8.8	3.2	(395)	(564)	6.8	7.4	(63)
Segment-wise revenue (₹ m)						% Y/Y	% Q/Q			% Y/Y
Plywood and allied products	3,143	3,235	3,157	3,165	3,229	3	2	9,551	9,546	0
Laminate and allied products	1,138	1,231	1,071	1,352	1,149	1	(15)	3,573	3,159	13
Medium-density fibre boards	882	760	919	777	966	10	24	2,662	2,194	21
Particle boards	265	241	249	262	250	(6)	(5)	760	734	4
CFS services	250	219	225	220	220	(12)	(0)	665	818	(19)
Others	121	154	125	124	149	23	20	398	380	5
Revenue mix (%)						bps y/y	bps q/q			bps y/y
Plywood and allied products	54.2	55.4	54.9	53.6	54.2	(6)	51	54.2	56.7	(248)
Laminate and allied products	19.6	21.1	18.6	22.9	19.3	(35)	(363)	20.3	18.8	152
Medium-density fibre boards	15.2	13.0	16.0	13.2	16.2	99	304	15.1	13.0	208
Particle boards	4.6	4.1	4.3	4.4	4.2	(38)	(25)	4.3	4.4	(4)
CFS services	4.3	3.7	3.9	3.7	3.7	(61)	(4)	3.8	4.9	(108)
Others	2.1	2.6	2.2	2.1	2.5	41	39	2.3	2.3	(0)
EBITDA margins (%)						bps y/y	bps q/q			bps y/y
Plywood and allied products	12.1	9.7	14.6	15.5	(1.7)	(1,380)	(1,722)	13.6	14.3	(63)
Laminate and allied products	9.0	8.9	10.5	14.4	13.9	490	(57)	8.8	10.6	(179)
Medium-density fibre boards	15.9	15.3	23.5	22.3	25.1	917	284	13.0	17.9	(489)
Particle boards	20.8	25.4	27.4	29.7	27.1	628	(262)	22.4	19.0	344
CFS services	29.0	23.9	34.2	31.9	34.9	590	303	32.4	38.4	(597)
EBIT (₹ m)						% Y/Y	% Q/Q			% Y/Y
Plywood and Allied Products	385	365	470	450	(56)	(115)	(112)	864	1,463	(41)
Laminate and Allied Products	89	96	96	178	141	59	(21)	415	242	72
Medium Density Fibre Board	95	63	169	133	196	106	47	498	137	263
Particle Board	45	50	56	66	56	26	(16)	178	127	41
CFS Services	54	32	39	32	38	(28)	21	109	228	(52)
EBIT Margin (%)						bps y/y	bps q/q			bps y/y
Plywood and Allied Products	12.3	11.3	14.9	14.2	(1.7)	(1,398)	(1,595)	9.0	15.3	(628)
Laminate and Allied Products	7.8	7.8	9.0	13.2	12.3	447	(92)	11.6	7.6	397
Medium Density Fibre Board	10.8	8.3	18.4	17.1	20.3	949	317	18.7	6.2	1,245
Particle Board	16.8	20.9	22.4	25.4	22.4	563	(294)	23.4	17.3	615
CFS Services	21.5	14.8	17.4	14.5	17.5	(406)	300	16.5	27.8	(1,137)
Others	6.9	7.4	6.5	10.1	10.1	316	(4)	8.9	4.2	474
Total	11.7	10.6	14.6	14.8	6.6	(511)	(824)	11.9	13.2	(122)
Un-allocable (as % revenue)	(0.6)	(1.6)	(1.2)	(0.5)	(1.1)	(45)	(59)	(0.9)	(1.0)	9

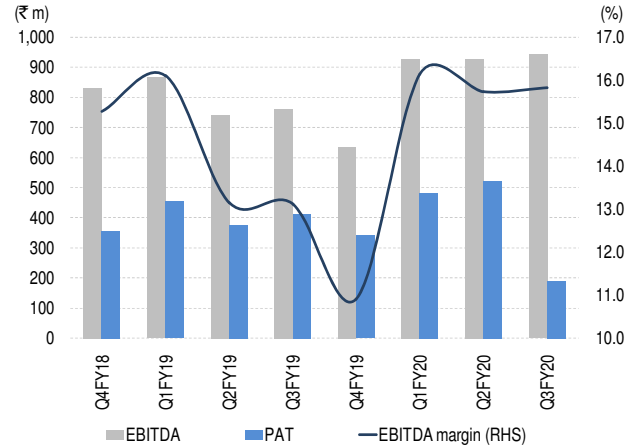
Source: Company, Anand Rathi Research

Fig 8 – Revenue growth – quarterly trend



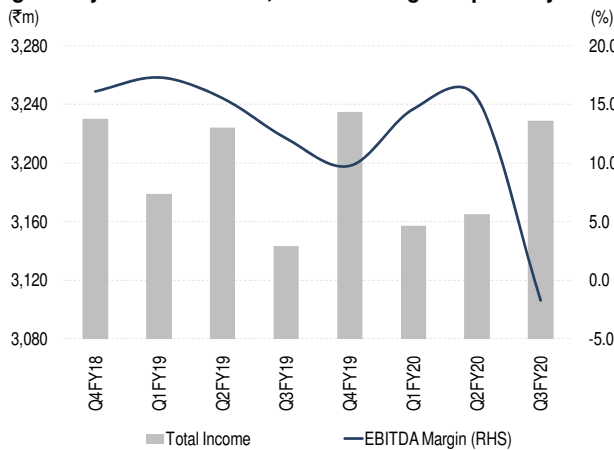
Source: Company, Anand Rathi Research

Fig 9 – EBITDA, PAT, margin - quarterly trend



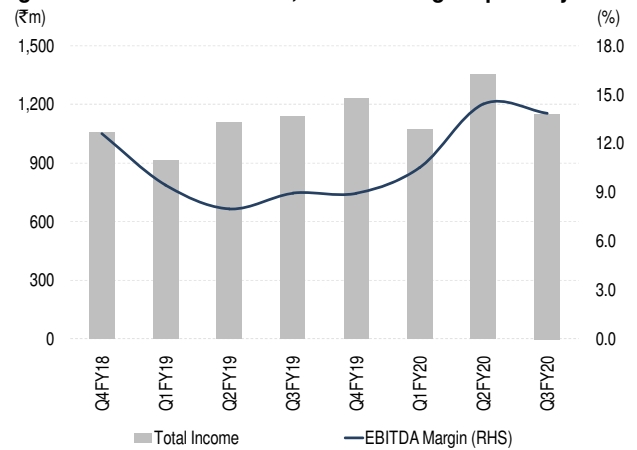
Source: Company, Anand Rathi Research

Fig 10 -Plywood – revenue, EBITDA margin – quarterly trend



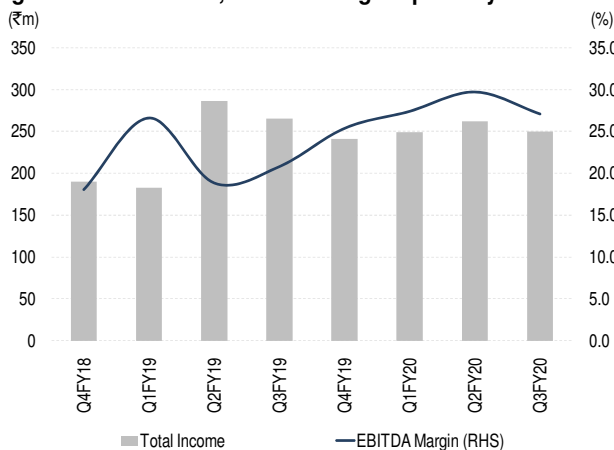
Source: Company, Anand Rathi Research

Fig 11 -Laminates – revenue, EBITDA margin- quarterly trend



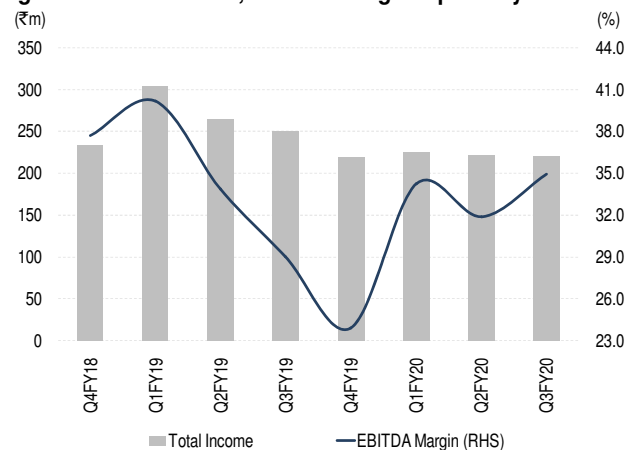
Source: Company, Anand Rathi Research

Fig 12 – PB – revenue, EBITDA margin- quarterly trend



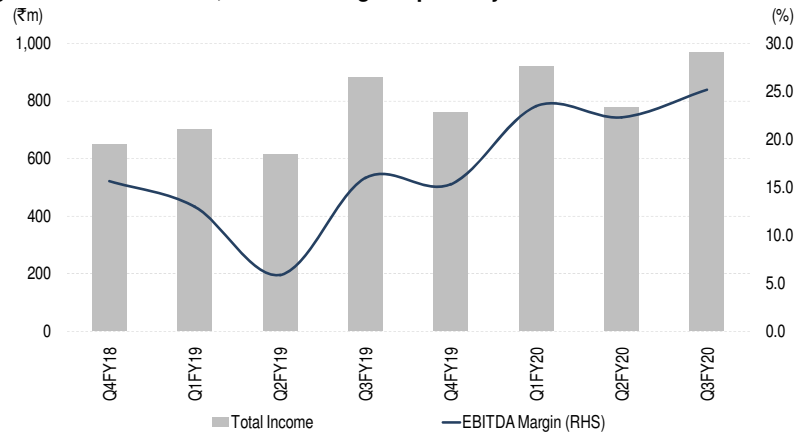
Source: Company, Anand Rathi Research

Fig 13 – CFS – revenue, EBITDA margin - quarterly trend



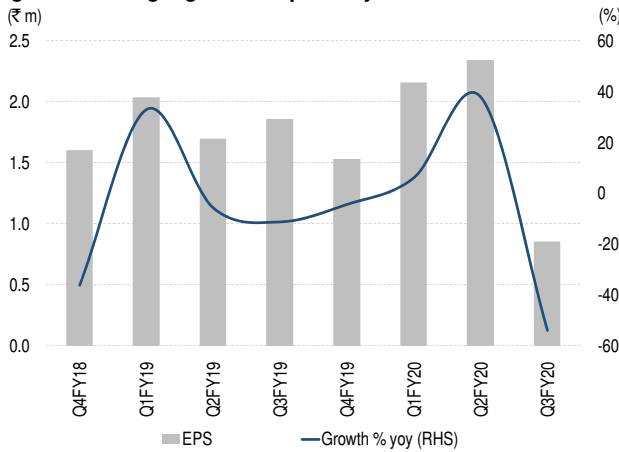
Source: Company, Anand Rathi Research

Fig 14 – MDF - revenue, EBITDA margin - quarterly trend



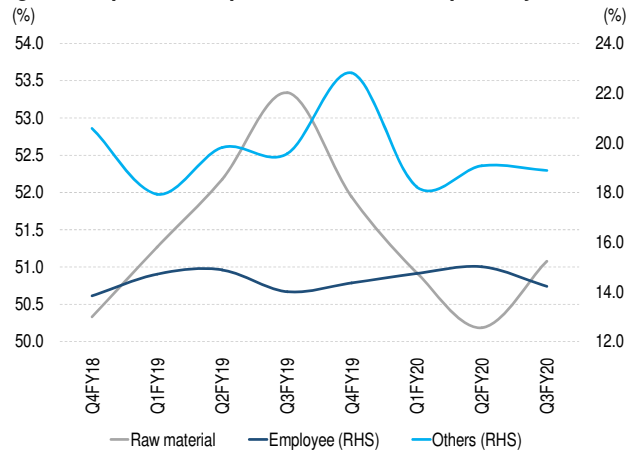
Source: Company, Anand Rathi Research

Fig 15 – Earnings growth – quarterly trend



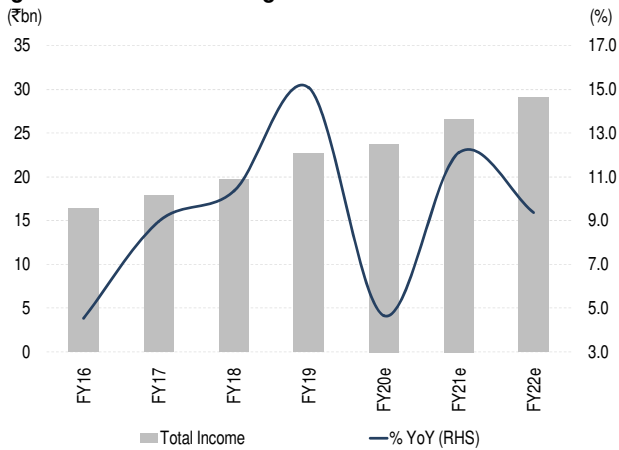
Source: Company, Anand Rathi Research

Fig 16 – Expenses, as percent of income – quarterly trend



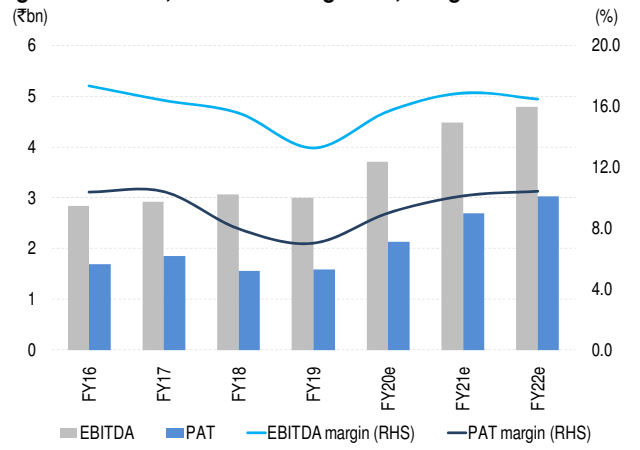
Source: Company, Anand Rathi Research

Fig 17 – Income – annual growth trend



Source: Company, Anand Rathi Research

Fig 18 – EBITDA, PAT – annual growth, margin trends



Source: Company, Anand Rathi Research

Valuation

The building materials sector is faced with several challenges. Yet, we believe in Century's long-term structural growth, supported by macro-economic factors (rising disposable incomes, the government's focus on housing for all, etc.). With its strong brand image (premium-range *Century Club* and the mid-range *Sainik* in plywood) and a diversified product range, it is set to gain from demand revival.

The lower GST and successful e-way bill implementation would aid demand shifting to the regulated sector. On the other hand, huge MDF capacity additions by domestic manufacturers are squeezing margins, expected to improve only gradually. While some short-term challenges persist, the structural long-term growth outlook is intact.

We introduce FY22e and expect a 26% earnings CAGR over FY19-22 (following 19% over FY14-19), driven by growth and margin expansion in key segments. Healthy FCF generation and RoE (crossing 21%) are other positives. We are upbeat about the company and maintain our Buy recommendation with a price target of ₹215 (earlier ₹223), valued at 16x FY22e P/E. Growth and margin recovery across segments and the capacity-expansion plan in MDF are key monitorables.

Fig 19 – Change in estimates

₹ m)	Old estimates		New estimates		% Var	
	FY20e	FY21e	FY20e	FY21e	FY20e	FY21e
Income	24,366	26,770	23,875	26,762	(2.0)	(0.0)
EBITDA	3,974	4,645	3,734	4,512	(6.0)	(2.9)
PAT	2,181	2,754	2,026	2,644	(7.1)	(4.0)
EPS (₹)	9.8	12.4	9.1	11.9	(7.1)	(4.0)

Source: Anand Rathi Research

Fig 20 – EV/EBITDA - one-year-forward band



Source: Company, Anand Rathi Research

Fig 21 – P/E - one-year-forward band



Source: Company, Anand Rathi Research

Risks

- **Unfavourable price movement, availability of key raw materials.** Sourcing of key raw materials (face veneers, etc.) at reasonable prices is the key challenge due to environmental concerns. Also, a few of the raw materials such as phenol are linked to crude-oil prices, which are volatile. These pose risks to margins.
- **Currency volatility.** Since the company imports most of its raw material, currency fluctuations could pare its margins.
- **Higher interest rate.** Exposure to interest-rate fluctuations in its foreign-currency borrowing could hurt it.

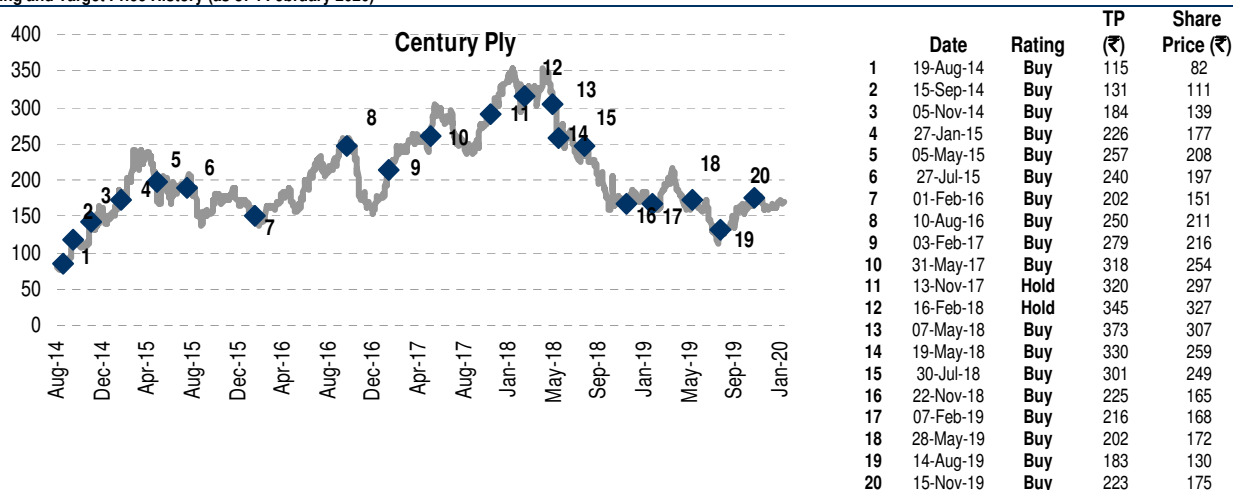
Appendix

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Rating and Target Price History (as of 4 February 2020)



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Analysts' ratings and the corresponding expected returns take into account our definitions of Large Caps (>US\$1bn) and Mid/Small Caps (<US\$1bn) as described in the Ratings Table below:

Ratings Guide (12 months)

	Buy	Hold	Sell
Large Caps (>US\$1bn)	>15%	5-15%	<5%
Mid/Small Caps (<US\$1bn)	>25%	5-25%	<5%

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