

11 June 2021

Century Plyboards

Good Q4, large capex in MDF planned over FY21-23; retaining a Hold

Rating: Hold

Target Price: Rs444

Share Price: Rs418

Strong volumes in ply/laminates/MDF, price hikes, low-cost inventory (laminated) and cost-control aided Century's Q4 revenue (up 41% y/y) and margins (17.2%). Its net-cash status and FCFs were other positives. Healthy double-digit growth and high margins will persist, per management. Huge capex (Rs7bn) is planned over FY21-23 mainly to augment MDF capacity. While we like Century for its leading positions across wood-panel categories, healthy FCFs and improving financials (22%/32% revenue/PAT CAGRs over FY21-23 after a flattish FY16-21), at 26x FY23e P/E, we see low margin of safety. Our new TP is Rs444 (28x FY23e P/E, the five-year mean). Growth/margins across segments and the MDF capacity expansion are key monitorables.

Q4, the best quarter. Revenue/EBITDA/PAT grew 41%/81%/115% y/y on strong volumes, better pricing across segments and cost-reduction steps. Despite RM cost pressure, the EBITDA margin held high (17.2%) and will continue on the various measures taken. Also, net-cash status was achieved.

Strong volumes across segments. Ply/laminate/MDF revenues were driven by good volumes (up 39%/38%/24% y/y) and better pricing. These, along with cost controls and operating leverage aided the healthy EBITDA margin (Century/ply/laminate/MDF: 17.2%/12.8%/22.3%/26.8%). The high Q4 laminate margin will return to the normal 16-18%, per management.

Large capex in MDF. The Rs7bn capex over FY21-23 (to be funded by internal accruals) will be mainly in MDF (Rs2.5bn in Punjab for 400cbm by Q4 FY22, Rs5bn in AP for 700cbm by Q4 FY23). Ply/laminate capacities will increase by line balancing and adding a few machines. Face-veneer production at Gabon started in Feb'21 and will be used in the economy plywood range.

Robust outlook largely priced in. After a flattish FY16-21, we expect 22%/30%/32% CAGRs in revenue/EBITDA/adj. PAT over FY21-23 driven by growth/margin-expansion across segments, healthy FCFs and a ~20% RoE. At 26x FY23e P/E, we see low margin of safety.

Key financials (YE Mar)	FY19	FY20	FY21	FY22e	FY23e
Sales (Rsm)	22,804	23,170	21,304	27,147	31,664
Net profit (Rsm)	1,485	1,506	1,910	2,984	3,530
EPS (Rs)	7	7	9	13	16
P/E (x)	63	62	49	31	26
EV / EBITDA (x)	32	29	27	19	16
P/BV (x)	10	9	7	6	5
RoE (%)	15	14	15	20	19
RoCE (%) after tax	12	14	15	19	18
Dividend yield (%)	0	0	-	0	0
Net debt / equity (x)	0	0	(0)	(0)	(0)

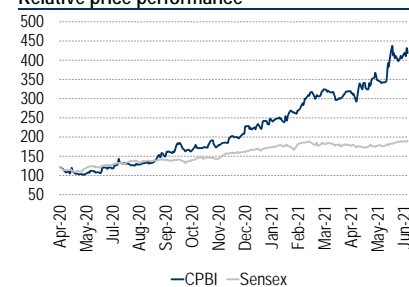
Source: Company, Anand Rathi Research

Key data	CPBI IN / CNTP.BO
52-week high / low	Rs447 / 101
Sensex / Nifty	52475 / 15799
3-m average volume	\$1.9m
Market cap	Rs93bn / \$1273.3m
Shares outstanding	222m

Shareholding pattern (%)	Mar'21	Dec'20	Sep'20
Promoters	73.0	73.0	73.1
- of which, Pledged	-	-	-
Free float	27.0	27.0	27.0
- Foreign institutions	4.8	4.7	5.9
- Domestic institutions	12.4	12.1	10.6
- Public	9.8	10.2	10.5

Estimates revision (%)	FY22e	FY23e
Sales	3	5
EBITDA	4	7
PAT	2	3

Relative price performance



Source: Bloomberg

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Quick Glance – Financials and Valuations (Consol.)

Fig 1 – Income statement (Rsm)

Year-end: Mar	FY19	FY20	FY21	FY22e	FY23e
Net revenues	22,804	23,170	21,304	27,147	31,664
<i>Growth (%)</i>	12.7	1.6	(8.1)	27.4	16.6
Direct costs	11,509	11,605	10,405	13,192	15,381
SG&A	8,279	8,258	7,543	9,201	10,615
EBITDA	3,016	3,307	3,355	4,755	5,668
<i>EBITDA margins (%)</i>	13.2	14.3	15.7	17.5	17.9
- Depreciation	595	763	687	731	908
Other income	71	128	173	125	145
Interest expenses	469	389	128	130	153
PBT	2,023	1,772	2,596	4,019	4,752
<i>Effective tax rates (%)</i>	26.4	29.3	26.3	25.5	25.5
+ Associates / (Minorities)	-	-	-	-	-
Net income	1,485	1,506	1,910	2,984	3,530
Adjusted income	1,485	2,017	2,028	2,984	3,530
WANS	223	223	223	223	223
FDEPS (Rs / sh)	6.7	6.8	8.6	13.4	15.9
<i>FDEPS growth (%)</i>	(10.6)	1.4	26.8	56.3	18.3
<i>Gross margins (%)</i>	49.5	49.9	51.2	51.4	51.4

Fig 2 – Balance sheet (Rs m)

Year-end: Mar	FY19	FY20	FY21	FY22e	FY23e
Share capital	223	223	223	223	223
Net worth	9,749	10,906	12,674	15,213	18,298
Debt	4,816	2,574	1,288	1,488	1,688
Minority interest	253	(17)	(12)	(10)	(8)
DTL / (Assets)	12	5	1	1	1
Capital employed	14,830	13,468	13,951	16,692	19,979
Net tangible assets	8,348	7,764	7,538	9,607	11,699
Net intangible assets	16	22	20	20	20
Goodwill	-	-	-	-	-
CWIP (tang. & intang.)	268	160	285	485	685
Investments (strategic)	-	-	-	-	-
Investments (financial)	64	63	1,169	1,569	1,819
Current assets (ex cash)	9,159	8,344	8,195	8,562	9,758
Cash	262	248	908	878	921
Current liabilities	3,288	3,132	4,165	4,429	4,923
Working capital	5,870	5,211	4,030	4,133	4,835
Capital deployed	14,830	13,468	13,951	16,692	19,979
Contingent liabilities	435	706	-	-	-

Fig 3 – Cash-flow statement (Rsm)

Year-end: Mar	FY19	FY20	FY21	FY22e	FY23e
EBIT (excluding other income)	2,565	2,806	2,716	4,013	4,747
+ Non-cash items	595	763	687	731	908
Oper. prof. before WC	3,160	3,569	3,402	4,744	5,655
- Incr. / (decr.) in WC	22	(793)	(755)	97	697
Others incl. taxes	480	362	452	1,027	1,212
Operating cash-flow	2,658	4,001	3,705	3,620	3,746
- Capex (tang. + intang.)	1,636	1,219	639	3,000	3,200
Free cash-flow	1,022	2,782	3,066	620	546
Acquisitions	-	-	-	-	-
- Div. (incl. buyback & taxes)	268	535	0	445	445
+ Equity raised	-	-	-	-	-
+ Debt raised	(512)	(2,838)	(1,273)	200	200
- Fin investments	(63)	(969)	1,202	400	250
- Misc. (CFI + CFF)	276	396	547	5	8
Net cash-flow	29	(18)	44	(31)	43

Source: Company, Anand Rathi Research

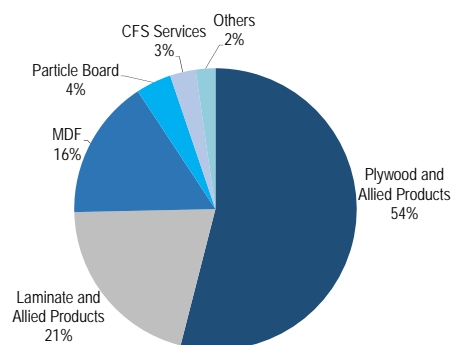
Fig 4 – Ratio analysis

Year-end: Mar	FY19	FY20	FY21	FY22e	FY23e
P/E (x)	62.7	61.8	48.7	31.2	26.3
EV / EBITDA (x)	32.3	28.8	27.5	19.4	16.2
EV / Sales (x)	4.3	4.1	4.3	3.4	2.9
P/B (x)	9.5	8.5	7.3	6.1	5.1
RoE (%)	15.2	13.8	15.1	19.6	19.3
RoCE (%) - after tax	12.4	14.0	15.0	18.5	18.3
RoIC	12.9	13.6	15.9	21.4	21.0
DPS (Rs / sh)	1.0	1.0	-	2.0	2.0
Dividend yield (%)	0.2	0.2	-	0.5	0.5
Dividend payout (%) - incl. DDT	15.0	14.8	-	14.9	12.6
Net debt / equity (x)	0.4	0.2	(0.1)	(0.1)	(0.1)
Receivables (days)	47	40	52	40	40
Inventory (days)	74	63	63	55	55
Payables (days)	26	24	36	30	30
CFO : PAT %	179	198	183	121	106

Source: Company, Anand Rathi Research

Fig 5 – Price movement


Source: Bloomberg

Fig 6 – Q4FY21 revenue break-up


Source: Company

Financial highlights

Fig 7 – Financials (standalone)

(Rs m)	Q4 FY20	Q1 FY21	Q2 FY21	Q3 FY21	Q4 FY21	% Y/Y	% Q/Q	FY21	FY20	% Y/Y
Income	5,242	2,007	5,198	6,544	7,386	41	13	21,135	22,827	(7)
RM costs	2,563	946	2,610	3,282	3,757	47	14	10,594	11,483	(8)
Employee costs	866	566	764	850	1,003	16	18	3,183	3,441	(8)
Other expenses	1,112	487	966	1,193	1,358	22	14	4,004	4,405	(9)
EBITDA	701	8	859	1,218	1,268	81	4	3,354	3,497	(4)
Depreciation	163	143	162	162	159	(2)	(2)	626	676	(7)
Finance costs	83	50	18	11	29	(65)	169	108	372	(71)
Other income	1	46	12	12	37	3,120	210	107	111	(3)
Exceptional items	-	-	-	(118)	-	-	-	(118)	(456)	(74)
PBT	456	(139)	691	939	1,117	145	19	2,608	2,104	24
Tax	69	(54)	176	280	284	315	1	688	522	32
PAT	388	(85)	514	659	832	115	26	1,921	1,582	21
EPS (calculated) (Rs)	1.7	(0.4)	2.3	3.0	3.7	115	26	8.6	7.1	21
As % of income						bps y/y	bps q/q			bps y/y
Gross margins	51.1	52.9	49.8	49.9	49.1	(198)	(72)	49.9	49.7	18
Employee costs	16.5	28.2	14.7	13.0	13.6	(295)	58	15.1	15.1	(2)
Other expenses	21.2	24.3	18.6	18.2	18.4	(283)	15	18.9	19.3	(35)
EBITDA margins	13.4	0.4	16.5	18.6	17.2	380	(145)	15.9	15.3	55
Depreciation	3.1	7.1	3.1	2.5	2.2	(95)	(32)	3.0	3.0	0
Finance costs	1.6	2.5	0.3	0.2	0.4	(119)	23	0.5	1.6	(112)
Other income	0.0	2.3	0.2	0.2	0.5	47	32	0.5	0.5	2
PBT	8.7	(6.9)	13.3	16.2	15.1	641	(104)	12.9	11.2	168
Effective tax rate	15.0	38.8	25.5	29.9	25.5	1,046	(439)	26.4	24.8	154
PAT margins	7.4	(4.2)	9.9	10.1	11.3	387	120	9.1	6.9	216
Revenue, by segment (Rs m)						%Y/Y	%Q/Q			%Y/Y
Plywood and allied products	2,792	988	2,680	3,571	3,992	43	12	11,232	12,343	(9)
Laminate and allied products	1,061	403	1,018	1,200	1,529	44	27	4,150	4,633	(10)
Medium-density fibre boards	843	303	935	1,165	1,191	41	2	3,594	3,505	3
Particle boards	231	83	256	262	300	30	15	901	991	(9)
CFS services	204	203	199	209	219	7	5	830	870	(5)
Others	120	32	115	146	166	38	13	459	518	(11)
Revenue mix (%)										
Plywood and allied products	53.2	49.1	51.5	54.5	54.0	80	(53)	53.1	54.0	(93)
Laminate and allied products	20.2	20.0	19.6	18.3	20.7	48	236	19.6	20.3	(66)
Medium-density fibre boards	16.1	15.1	18.0	17.8	16.1	4	(168)	17.0	15.3	165
Particle boards	4.4	4.1	4.9	4.0	4.1	(34)	6	4.3	4.3	(8)
CFS services	3.9	10.1	3.8	3.2	3.0	(93)	(22)	3.9	3.8	12
Others	2.3	1.6	2.2	2.2	2.2	(4)	1	2.2	2.3	(9)
EBITDA margins (%)										
Plywood and allied products	8.5	(9.6)	13.1	15.1	12.8	429	(230)	11.6	12.4	(77)
Laminate and allied products	15.8	4.2	13.5	19.1	22.3	649	320	17.4	13.2	429
Medium-density fibre boards	25.4	7.4	28.1	27.7	26.8	142	(91)	25.8	24.3	149
Particle boards	22.1	9.9	21.6	23.2	18.6	(353)	(454)	20.0	24.9	(488)
CFS services	34.1	34.5	29.6	26.6	27.1	(695)	52	29.4	33.8	(439)
EBIT (Rs m)										
Plywood and Allied Products	219	(77)	342	417	603	175	45	1,285	1,084	19
Laminate and Allied Products	146	2	113	210	371	153	77	696	561	24
Medium Density Fibre Board	164	(25)	213	277	299	82	8	764	670	14
Particle Board	38	1	42	49	47	22	(4)	139	208	(33)
CFS Services	42	42	32	28	33	(22)	17	134	151	(11)
EBIT margins (%)						bps y/y	bps q/q			bps y/y
Plywood and Allied Products	7.9	(7.8)	12.8	11.7	15.1	725	344	11.4	8.8	266
Laminate and Allied Products	13.8	0.5	11.2	17.5	24.2	1,044	677	16.8	12.1	465
Medium Density Fibre Board	19.5	(8.2)	22.8	23.7	25.1	564	137	21.3	19.1	215
Particle Board	16.6	1.4	16.4	18.6	15.6	(100)	(303)	15.4	21.0	(562)
CFS Services	20.5	20.7	15.8	13.4	14.9	(557)	157	16.2	17.4	(125)
Others	(9.9)	(22.8)	16.9	17.8	12.8	2,271	(508)	12.9	4.6	836
Total	11.4	(3.2)	14.7	15.4	18.6	718	322	14.6	11.8	274
Un-allocable (as % revenue)	(1.1)	(1.2)	(1.0)	(0.9)	(3.1)	(196)	(223)	(1.7)	(1.0)	(73)

Source: Company, Anand Rathi Research * Note: Segment EBIT margin is as per reported figures and not adjusted for the un-allocable expenses/income.

Q4FY21 Concall KTAs

Outlook

- While demand was robust till Mar'21, Covid 2.0 has slowed down the momentum since Apr; it should pick up from Q2
- Management expects CAGRs of 10-15% in ply and 15%+ in laminates over the next five years. MDF revenue will be 3x in three years, with great potential in the long term.

Cost-reduction measures

- Well on track regarding cost-reduction steps advised by the consultant (BCG) especially in its MDF business.
- Key area identified are travel, logistics, supply-chain, channel efficiencies, etc.
- Will also extend to laminates for similar exercises.

Margins, price hikes

- The 23% Q4 laminate margin benefitted from low-cost stocks and price hikes. The 16-18% range, though, is sustainable.
- RM prices in ply were broadly stable while PB (75% pre-laminate mix) was hurt by the steep rise in melamine prices.
- Ply prices raised 2-3% (little scope for more); 3-4% in laminates from Apr'21; very little in MDF

Market-share gains across categories

- *Sainik*, being in the mid-ply segment, gained good market share and has great potential to increase more in coming years from smaller brands/the informal sector.
- Laminate also benefitted from operational issues faced by small non-regulated manufacturers.
- Focus on product launches to fill gaps and on network expansion continues.

MDF

- Sees very high demand; thus, any capacity additions will be absorbed without hurting pricing (unlike in FY19/20).
- Capex at Punjab already begun – should be commissioned in Q4 FY22. Greenfield unit in AP is in the final stage; likely to be commissioned by Q4 FY23.
- BCG is helping improve efficiencies at plants and in market and through cost rationalization.
- Will continue to look for more capacities in coming years.
- Aspires to be in the 26-28% EBITDA margin range.

Capex

- Targets Rs7bn over FY22 (~Rs2.5bn on MDF Punjab expansion) and FY23 (Rs5bn on MDF AP greenfield project).
- Will add ~30% capacity in ply and ~10% in laminate from line-balancing and adding some machinery.

Face veneer

- The Myanmar plant continues to be faced with disruption from the political unrest. However, it has 2-3 months of stocks.
- Supply from Gabon (Okume grade) can help ease the poor availability issue to some extent

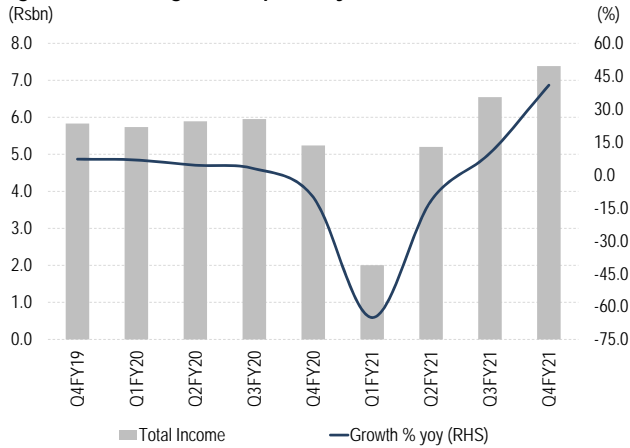
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- **NWC days** should be stable at ~70. Higher MDF revenue will reduce debtors but will increase inventories.
- **Now a net-cash company** on strong operating performance and strict working-capital management.

Q4 FY21 Key Highlights

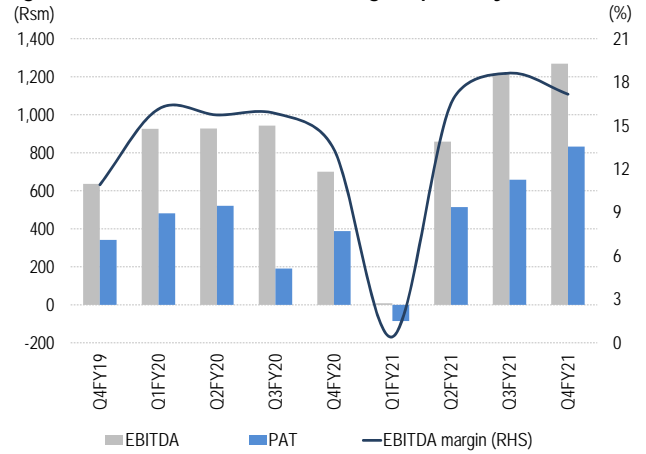
- **Q4 was the best quarter**, driven by strong ply/laminate volumes and an exceptionally high laminate margin, partially offset by the lower ply margin.
- **Ply.** Volumes/value up 39%/43% y/y (above ARE); Rs/unit up ~4% q/q and y/y; the EBITDA margin dipped ~200bps q/q to 12.8%.
- **Laminates.** Volumes/value up 38%/44% y/y (well above ARE); Rs/unit up ~4% q/q and y/y; the EBITDA margin expanded considerably to ~23% on operating leverage as the gross margin was stable q/q.
- **MDF.** Volumes/value up 24%/41% y/y (in-line); Rs/unit up 9% q/q, 14% y/y; EBITDA margin: 27%.
- **PB.** Volumes/value up 11%/30% y/y; Rs/unit up 9% q/q, 18% y/y; EBITDA margin: ~19%
- **CFS.** Volumes/value up 7%/5% y/y; EBITDA margin: 27%.

Fig 8 – Revenue growth, quarterly trend



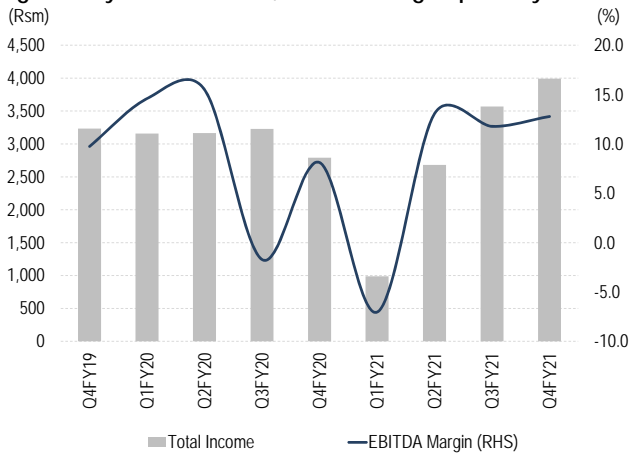
Source: Company, Anand Rathi Research

Fig 9 – EBITDA, PAT, EBITDA margin, quarterly trends



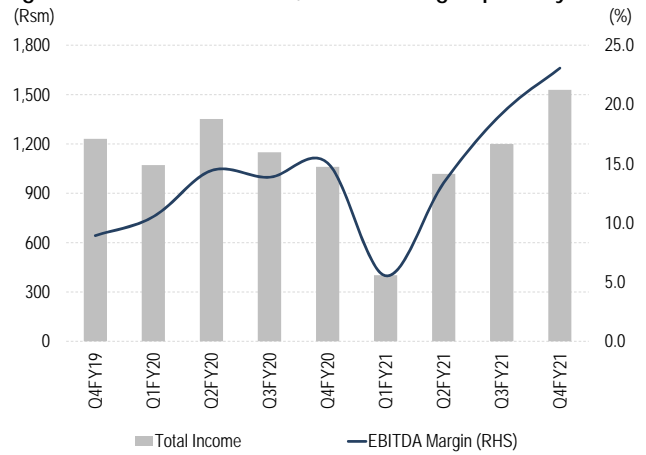
Source: Company, Anand Rathi Research

Fig 10 – Plywood: revenue, EBITDA margin quarterly trends



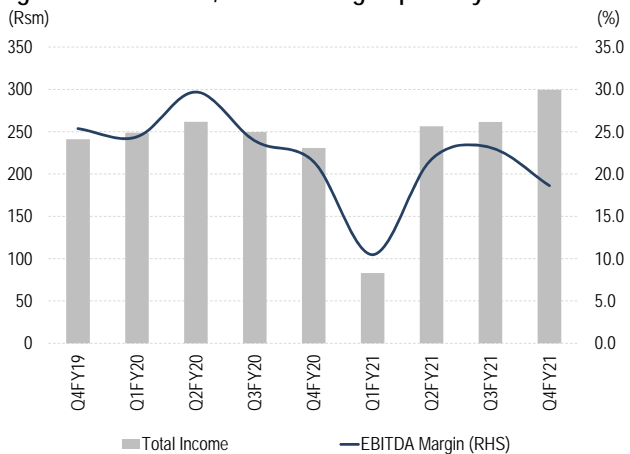
Source: Company, Anand Rathi Research

Fig 11 – Laminates: revenue, EBITDA margin quarterly trends



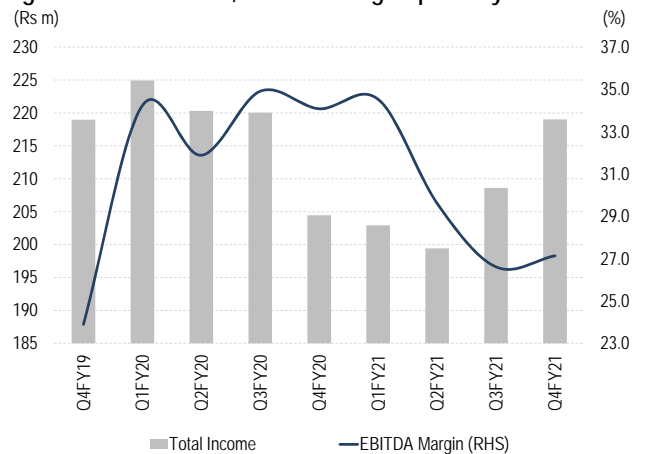
Source: Company, Anand Rathi Research

Fig 12 – PB: revenue, EBITDA margin quarterly trends



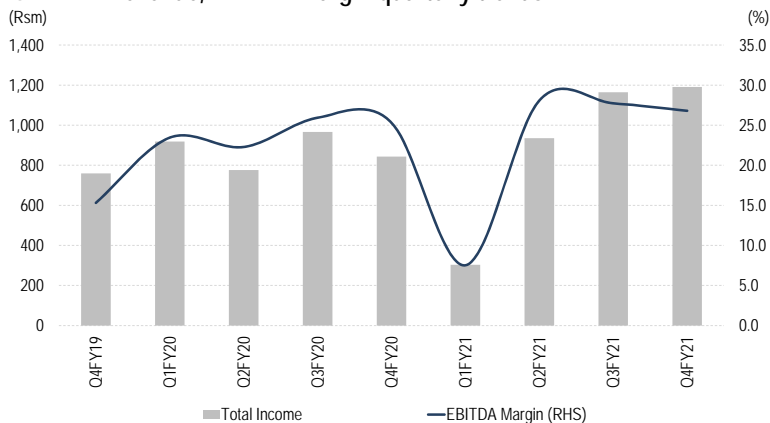
Source: Company, Anand Rathi Research

Fig 13 – CFS: revenue, EBITDA margin quarterly trends



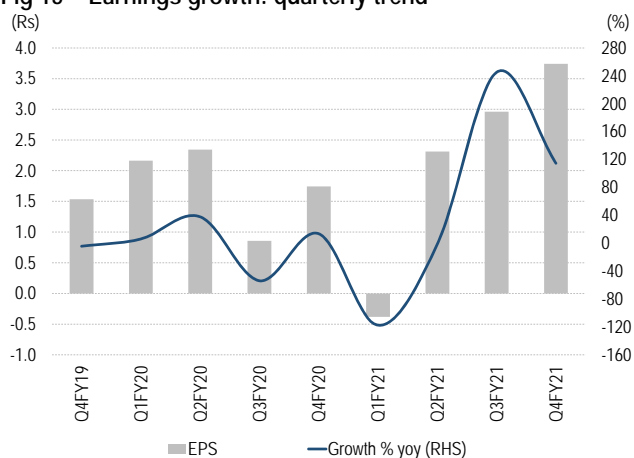
Source: Company, Anand Rathi Research

Fig 14 – MDF: revenue, EBITDA margin quarterly trends



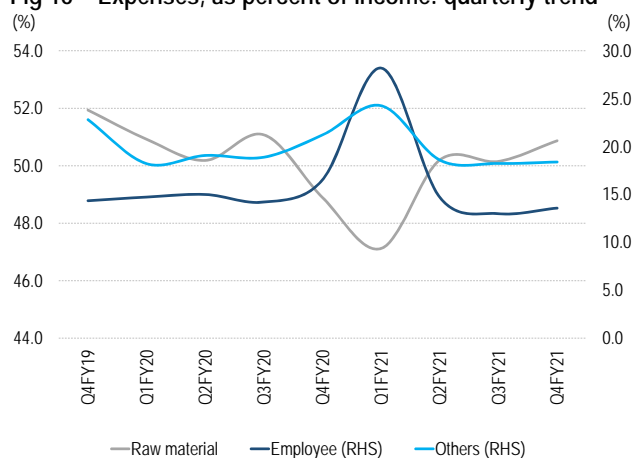
Source: Company, Anand Rathi Research

Fig 15 – Earnings growth: quarterly trend



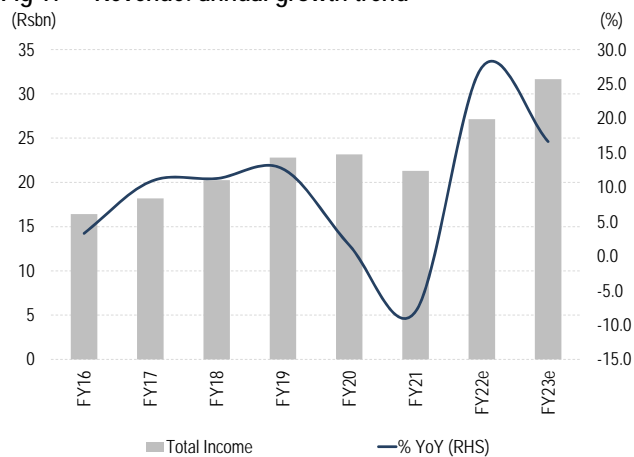
Source: Company, Anand Rathi Research

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



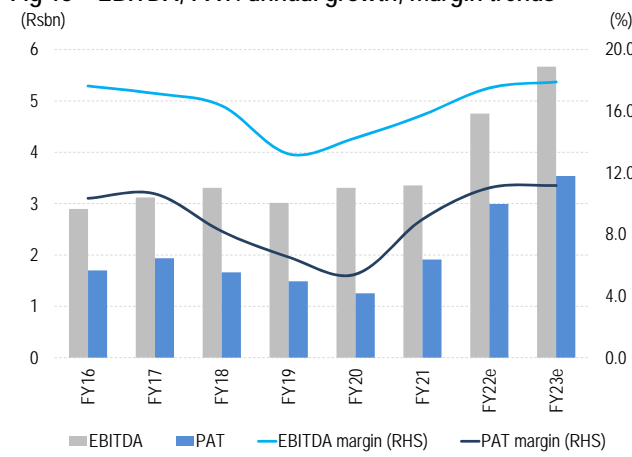
Source: Company, Anand Rathi Research

Fig 17 – Revenue: 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 (the premium-range *Century Club* and the mid-range *Sainik* in plywood) and a diversified product range, it is set to gain from demand revival.

After flattish FY16-21, we expect 22%/30%/32% CAGRs in revenue/EBITDA/adj. PAT over FY21-23, driven by growth/margin-expansion across segments, healthy FCFs and a ~20% RoE.

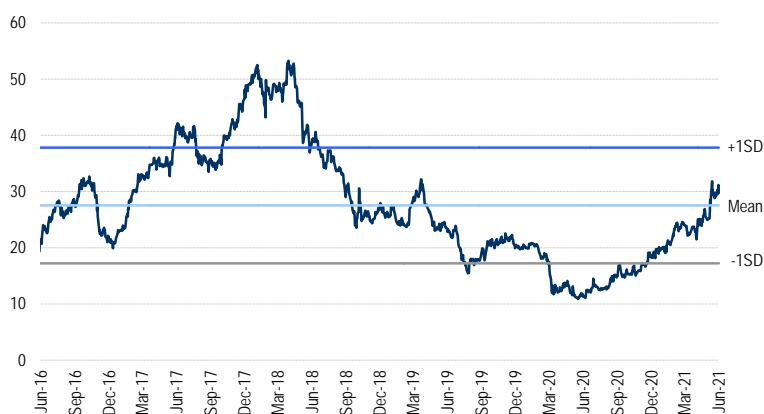
We like Century Ply for its leading positions across its product categories, strong balance sheet and healthy FCFs. At 26x FY23e P/E, we retain our Hold recommendation on it, at a target price of Rs444 (28x FY23e P/E, the five-year mean), earlier Rs340. Growth/margin recovery across segments and the MDF capacity expansion are key monitorables.

Fig 19 – Change in estimates

(Rs m)	Old estimates		New estimates		% Var	
	FY22	FY23	FY22	FY23	FY22	FY23
Income	26,310	30,123	27,147	31,664	3	5
EBITDA	4,590	5,282	4,755	5,668	4	7
<i>EBITDA margins %</i>	<i>17.4</i>	<i>17.5</i>	<i>17.5</i>	<i>17.9</i>		
PAT	2,924	3,438	2,984	3,530	2	3

Source: Anand Rathi Research

Fig 20 – One-year-forward- PE band, Standarddeviation



Source: BSE, Company, Anand Rathi Research

Risks

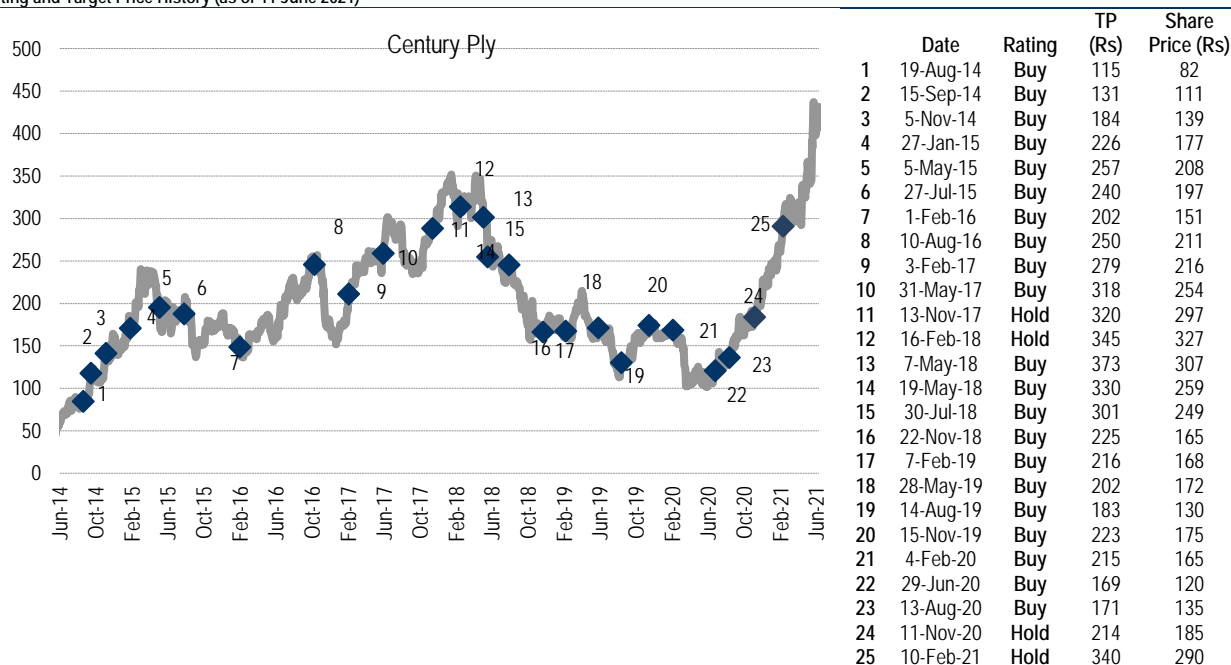
- **Slowdown in real-estate activity** will eat into demand for ply-laminate-MDF as home renovations/ purchases are the prime drivers.
- **Unfavourable price movement, availability of key raw materials.** Sourcing of key raw materials (face veneers, etc.) at reasonable prices is the key challenge due 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.

Appendix

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