

BUY

TP: Rs 160 | ▲ 18%

CENTURY PLYBOARDS

Construction Materials

13 August 2020

Tough quarter, potential normalcy by Q4

Century Plyboards' (CPBI) standalone Q1FY21 revenues contracted 65% YoY, with all major product segments declining by over 60%. Operating profit crashed 99% YoY to Rs 8.4mn due to negative operating leverage, yielding a pre-tax loss of Rs 139mn. June/July sales have returned to 60%/75% of normal levels. Management expects MoM sales improvement to continue and is hopeful of a normal quarter in Q4. We maintain estimates and roll over to a new Sep'21 TP of Rs 160 (earlier Rs 150). Retain BUY.

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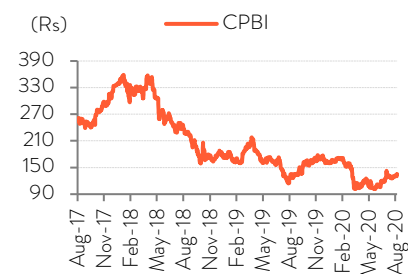
Lockdown depresses revenue: CPBI's standalone revenue declined 65% YoY to Rs 2bn, with all its core business segments of plywood, laminate and MDF slumping by 60-68% YoY due to the lockdown. As per management, while April was a washout and May saw some demand, June and July recovered to 60% and 75% of year-ago sales respectively. MDF demand momentum has remained strong. Management stated that cash collection has been much better than expected in Q1 and the working capital cycle should improve as sales pick up. Demand during Q1 was driven more by upcountry markets.

Ticker/Price	CPBI IN/Rs 136
Market cap	US\$ 403.9mn
Shares o/s	223mn
3M ADV	US\$ 1.1mn
52wk high/low	Rs 182/Rs 95
Promoter/FPI/DII	73%/6%/21%

Source: NSE

Margin decline leads to pre-tax loss: EBITDA plunged 99% YoY to Rs 8.4mn due to negative operating leverage from lower sales – this caused a pre-tax loss of Rs 139mn. Management expects margins to improve as sales gather traction and cost-cutting initiatives yield results.

STOCK PERFORMANCE



Source: NSE

Maintain BUY: We expect CPBI's performance to improve QoQ as unlocking progresses. We remain positive on the company given its comprehensive product portfolio, strong brand and wide distribution reach. On rollover, we move to a Sep'21 TP of Rs 160 (earlier Rs 150), based on an unchanged 20x one-year forward P/E multiple.

KEY FINANCIALS

Y/E 31 Mar	FY19A	FY20P	FY21E	FY22E	FY23E
Total revenue (Rs mn)	22,804	23,170	18,835	22,635	25,305
EBITDA (Rs mn)	3,124	3,307	2,334	3,360	3,840
Adj. net profit (Rs mn)	1,542	1,647	968	1,678	1,881
Adj. EPS (Rs)	6.9	7.4	4.4	7.6	8.5
Adj. EPS growth (%)	(3.5)	6.8	(41.2)	73.3	12.1
Adj. ROAE (%)	16.9	16.0	8.5	13.4	13.4
Adj. P/E (x)	19.6	18.3	31.2	18.0	16.0
EV/EBITDA (x)	11.4	10.7	14.5	9.5	8.3

Source: Company, BOBCAPS Research

BOB Capital Markets Ltd is a wholly owned subsidiary of Bank of Baroda

Important disclosures, including any required research certifications, are provided at the end of this report.



FIG 1 – STANDALONE QUARTERLY PERFORMANCE

(Rs mn)	Q1FY21	Q1FY20	YoY (%)	Q4FY20	QoQ (%)
Total revenues	2,007	5,737	(65.0)	5,242	(61.7)
Total raw material consumed	946	2,921	(67.6)	2,563	(63.1)
% of sales	47.1	50.9	(380bps)	48.9	(177bps)
Employee exps	566	845	(33.0)	866	(34.7)
% of sales	28.2	14.7	1,347bps	16.5	1,166bps
Other exp	487	1,045	(53.4)	1,112	(56.2)
% of sales	24.3	18.2	606bps	21.2	306bps
Total expenditure	1,998	4,811	(58.5)	4,541	(56.0)
% of sales	99.6	83.9	1,573bps	86.6	1,295bps
EBITDA	8.4	926.2	(99.1)	700.7	(98.8)
% of sales	0.4	16.1	(1,573bps)	13.4	(1,295bps)
Depreciation	142.7	169.4	(15.8)	162.7	(12.3)
Other income	46.1	11.4	305.4	1.1	3950.5
Interest cost	50.5	89.5	(43.6)	82.6	(38.9)
PBT	(138.7)	678.7	(120.4)	456.5	(130.4)
Taxes	(53.7)	197.3	(127.2)	68.5	(178.4)
Effective tax rate (%)	38.8	29.1	968bps	15.0	2374bps
PAT before extraordinaries	(84.9)	481.4	(117.6)	387.9	(121.9)

Source: Company, BOBCAPS Research

FIG 2 – STANDALONE SEGMENTAL PERFORMANCE

(Rs mn)	Q1FY21	Q1FY20	YoY (%)	Q4FY20	QoQ (%)
Revenue					
Plywood & Allied products	988	3,157	(68.7)	2,792	(64.6)
Laminates	403	1,071	(62.4)	1,061	(62.0)
MDF	303	919	(67.0)	843	(64.0)
Particle Board	83	249	(66.6)	231	(64.0)
Container Freight Station	203	225	(9.8)	204	(0.7)
Others	32	125	(74.4)	120	(73.3)
Total	2,012	5,746	(65.0)	5,251	(61.7)
Less: Inter Segment revenue	6	9	(39.0)	9	(39.0)
Net revenues	2,007	5,737	(65.0)	5,242	(61.7)
EBIT					
Plywood & Allied products	(77)	470	(116.4)	219	(135.2)
Laminates	2	96	(98.0)	146	(98.7)
MDF	(25)	177	(114.0)	164	(115.1)
Particle Board	1	48	(97.6)	38	(96.9)
Container Freight Station	42	39	7.0	42	0.0
Others	(7)	8	(190.0)	(12)	(38.8)
Total	(64)	838	(107.6)	598	(110.7)
EBIT Margin (%)					
Plywood & Allied products	(7.8)	14.9	(2,270bps)	7.9	(1,565bps)
Laminates	0.5	9.0	(849bps)	13.8	(1,331bps)
MDF	(8.2)	19.2	(2,740bps)	19.5	(2,764bps)
Particle Board	1.4	19.3	(1,791bps)	16.6	(1,520bps)
Container Freight Station	20.7	17.4	324bps	20.5	15bps

Source: Company, BOBCAPS Research

FIG 3 – CONSOLIDATED QUARTERLY PERFORMANCE

(Rs mn)	Q1FY21	Q1FY20	YoY (%)	Q4FY20	QoQ (%)
Total revenues	2,030	5,823	(65.1)	5,302	(61.7)
Total raw material consumed	932	2,967	(68.6)	2,545	(63.4)
% of sales	45.9	51.0	(506bps)	48.0	(210bps)
Employee exps	586	880	(33.4)	901	(34.9)
% of sales	28.9	15.1	1,376bps	17.0	1,188bps
Other exp	518	1,105	(53.1)	1,182	(56.1)
% of sales	25.5	19.0	655bps	22.3	324bps
Total expenditure	2,036	4,952	(58.9)	4,627	(56.0)
% of sales	100.3	85.0	1,524bps	87.3	1,302bps
EBIDTA	(5.9)	870.9	(100.7)	675.0	(100.9)
% of sales	(0.3)	15.0	(1,524bps)	12.7	(1,302bps)
Depreciation	157.0	192.6	(18.5)	177.3	(11.5)
Other income	45.7	13.3	243.1	12.9	254.3
Interest cost	54.6	93.4	(41.6)	87.5	(37.6)
PBT	(171.7)	598.2	(128.7)	423.0	(140.6)
Taxes	(53.7)	199.1	(127.0)	60.3	(189.1)
Effective tax rate (%)	31.3	33.3	(198bps)	14.3	1,703bps
PAT	(118.0)	399.1	(129.6)	362.7	(132.5)
Less: Minority interest	(5.44)	(2.30)	136.0	(7.39)	(26.4)
PAT after minority interest	(112.5)	401.4	(128.0)	370.1	(130.4)

Source: Company, BOBCAPS Research

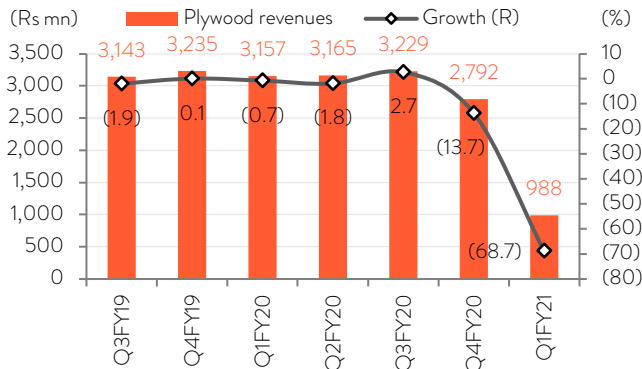
FIG 4 – CONSOLIDATED SEGMENTAL PERFORMANCE

(Rs mn)	Q1FY21	Q1FY20	YoY (%)	Q4FY20	QoQ (%)
Revenue					
Plywood & Allied products	1,012	3,242	(68.8)	2,852	(64.5)
Laminates	403	1,071	(62.4)	1,061	(62.0)
MDF	303	919	(67.0)	843	(64.0)
Particle Board	83	249	(66.6)	231	(64.0)
Container Freight Station	203	225	(9.8)	204	(0.7)
Others	32	126	(74.5)	120	(73.3)
Total	2,036	5,832	(65.1)	5,311	(61.7)
Less: Inter Segment revenue	6	9	(39.0)	9	(39.0)
Net revenues	2,030	5,823	(65.1)	5,302	(61.7)
EBIT					
Plywood & Allied products	(106)	394	(126.9)	194	(154.7)
Laminates	2	96	(98.0)	146	(98.7)
MDF	(25)	169	(114.6)	164	(115.1)
Particle Board	1	56	(97.9)	38	(96.9)
Container Freight Station	42	39	7.0	42	0.0
Others	(7)	8	(190.0)	(17)	(58.3)
Total	(93)	763	(112.2)	567	(116.4)
EBIT Margin (%)					
Plywood & Allied products	(10.5)	12.2	(2,266bps)	6.8	(1,729bps)
Laminates	0.5	9.0	(849bps)	13.8	(1,331bps)
MDF	(8.2)	18.4	(2,658bps)	19.5	(2,764bps)
Particle Board	1.4	22.4	(2,097bps)	16.6	(1,520bps)
Container Freight Station	20.7	17.4	324bps	20.5	15bps

Source: Company, BOBCAPS Research

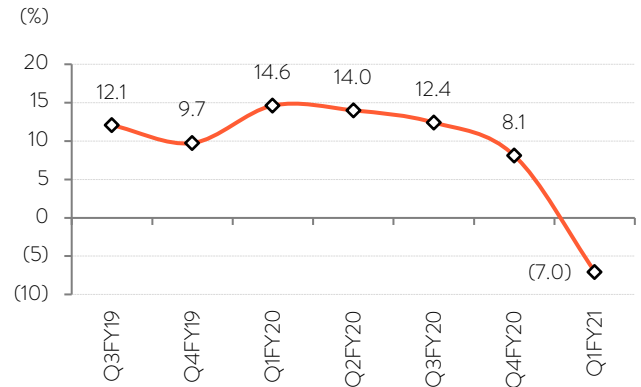
STANDALONE QUARTERLY TRENDS

FIG 5 – PLYWOOD REVENUES



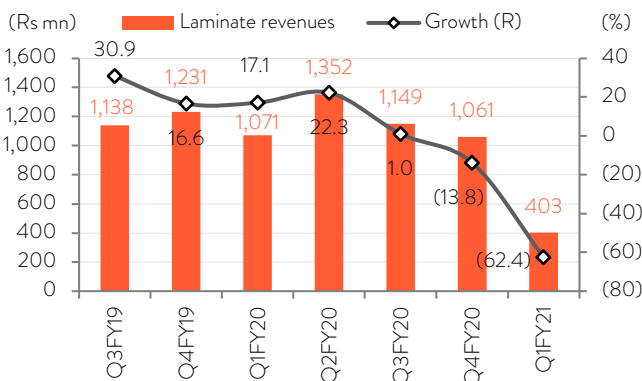
Source: Company, BOBCAPS Research

FIG 6 – PLYWOOD EBITDA MARGINS



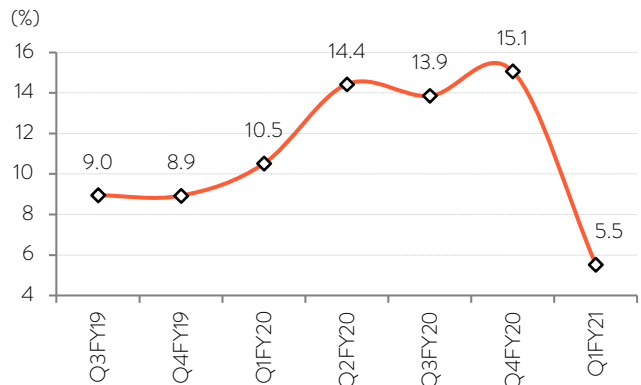
Source: Company, BOBCAPS Research

FIG 7 – LAMINATE REVENUES



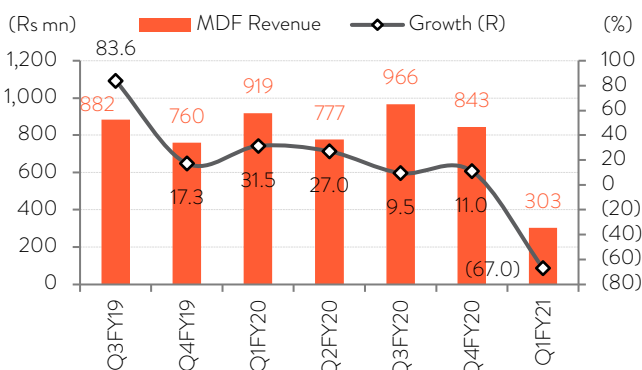
Source: Company, BOBCAPS Research

FIG 8 – LAMINATE EBITDA MARGINS



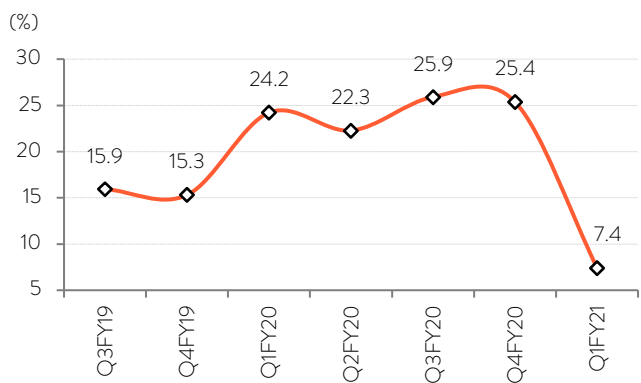
Source: Company, BOBCAPS Research

FIG 9 – MDF REVENUES

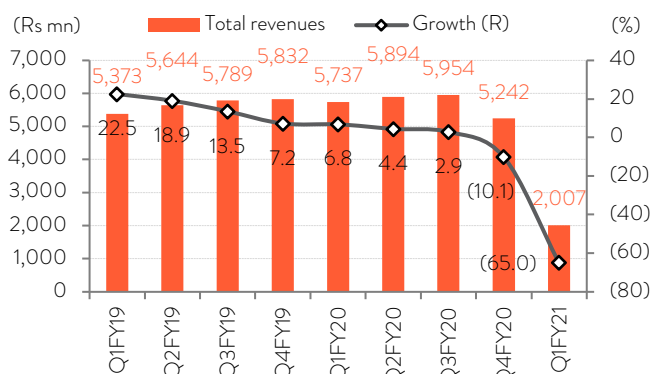


Source: Company, BOBCAPS Research

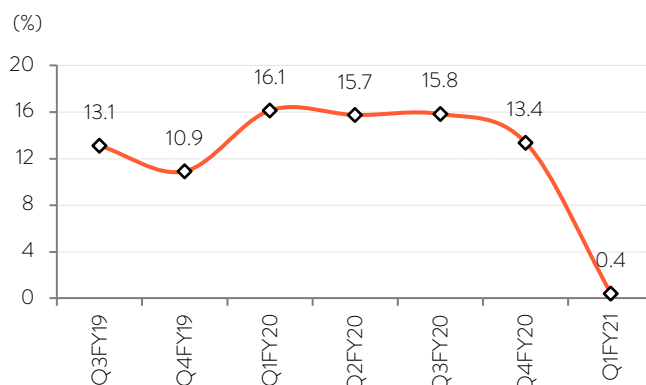
FIG 10 – MDF EBITDA MARGINS



Source: Company, BOBCAPS Research

FIG 11 – TOTAL REVENUES

Source: Company, BOBCAPS Research

FIG 12 – EBITDA MARGINS

Source: Company, BOBCAPS Research

Earnings call highlights

- While sales were negligible over April-May, easing of lockdown restrictions has led to progressive MoM improvement from June.
- CPBI expects Covid-19 fears to lend an impetus to the readymade furniture market. Also, government efforts to push furniture exports will boost demand for MDF and particle board.
- The company has cut salaries but this will be reversed once it achieves 80% of normal sales in a quarter.
- Plans to be debt-free by Aug'20 now stand postponed to next year due to the pandemic.
- Healthy cash collections in Q1 have alleviated fears of high bad debts.
- Working capital and debt increased during the quarter due to the lockdown but are expected to normalise going ahead.
- Expansion plans for the MDF and particle board plants are in abeyance owing to court orders in Uttar Pradesh. CPBI is hopeful of a solution by December.
- The company has no major expansion plans in the near future besides the MDF and particle board plants.
- Gabon expansion for face veneer has been delayed due to market conditions.

Plywood

- CPBI has launched 'VIROKILL' plywood and laminates in Q1.
- Per management, the unorganised plywood manufacturers' supply chain has been impacted due to the pandemic.

- Furniture imports from China should come down due to initiatives expected from the government over the next 3-5 years, which augurs well for domestic plywood/MDF players.

Laminates

- In Q1, exports accounted for ~40% of laminate turnover (vs. 20-25% normally). Margins here are higher as compared to domestic markets.
- CPBI's major markets for exports are in Southeast Asia.

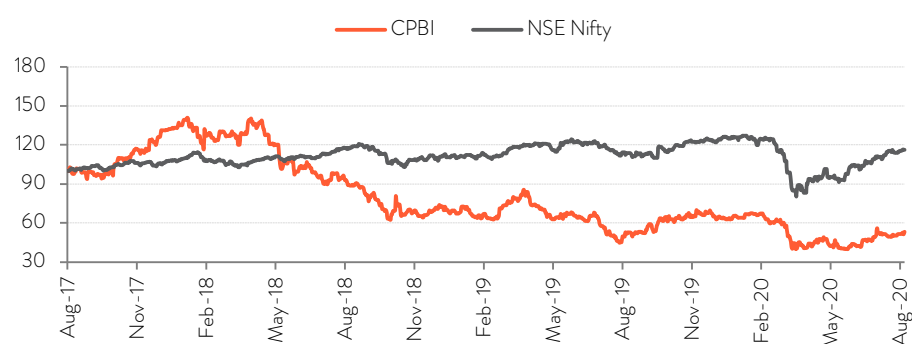
MDF

- MDF demand is going strong as this product is consumed largely by B2B players who have come back to markets faster.
- Management expects MDF demand to recover faster than plywood.
- The company can produce 200,000cbm from its MDF plant at peak utilisation.

Valuation methodology

CPBI is the joint market leader in India's organised plywood industry along with Greenply Industries (MTLM IN). It is also the third largest laminate player and has recently set up an MDF plant in the country. With this, CPBI has evolved into the largest integrated wood panel company in India, equipped with a wide distribution reach, strong brand focus and comprehensive portfolio. Post the Q1 results, we maintain estimates and roll over to a new Sep'21 target price of Rs 160 (from Rs 150), set at an unchanged 20x forward P/E. Maintain BUY.

FIG 13 – RELATIVE STOCK PERFORMANCE



Source: NSE

Key risks

- **Regulatory concerns on raw material sourcing:** Wood is a key raw material for plywood and MDF manufacturing. Any regulatory restriction on sourcing of wood or face veneer will affect the company's profitability.
- **Sharp rise in raw material prices:** Higher raw material prices and an inability to pass these on to consumers may hurt profitability.
- **Prolonged slowdown in housing market:** A continued slowdown in the housing market would hit growth prospects.
- **Significant capex in MDF:** Any decision by the company to significantly expand its MDF capacity may affect future profitability from this segment.
- **Prolonged Covid-19 outbreak:** If pandemic fears prevail for a prolonged period of time, revenues will be adversely affected.

FINANCIALS

Income Statement

Y/E 31 Mar (Rs mn)	FY19A	FY20P	FY21E	FY22E	FY23E
Total revenue	22,804	23,170	18,835	22,635	25,305
EBITDA	3,124	3,307	2,334	3,360	3,840
Depreciation	(595)	(763)	(779)	(800)	(951)
EBIT	2,529	2,544	1,555	2,560	2,888
Net interest income/(expenses)	(469)	(389)	(230)	(243)	(283)
Other income/(expenses)	22	128	70	77	81
Exceptional items	0	0	0	0	0
EBT	2,081	2,283	1,395	2,395	2,686
Income taxes	(535)	(519)	(377)	(647)	(725)
Extraordinary items	(58)	(511)	0	0	0
Min. int./Inc. from associates	(4)	253	(50)	(70)	(80)
Reported net profit	1,484	1,506	968	1,678	1,881
Adjustments	58	142	0	0	0
Adjusted net profit	1,542	1,647	968	1,678	1,881

Balance Sheet

Y/E 31 Mar (Rs mn)	FY19A	FY20P	FY21E	FY22E	FY23E
Accounts payables	1,595	1,515	1,342	1,550	1,733
Other current liabilities	1,070	1,579	929	1,178	1,317
Provisions	120	250	94	113	127
Debt funds	5,319	2,362	1,750	2,700	2,500
Other liabilities	0	0	0	0	0
Equity capital	223	223	223	223	223
Reserves & surplus	9,527	10,684	11,551	12,997	14,619
Shareholders' fund	9,749	10,906	11,773	13,219	14,842
Total liabilities and equities	18,107	16,596	15,921	18,864	20,701
Cash and cash eq.	262	248	805	225	211
Accounts receivables	2,957	2,568	2,477	3,225	3,605
Inventories	4,613	3,980	3,715	4,155	4,645
Other current assets	974	1,217	980	1,116	1,248
Investments	64	2	2	2	2
Net fixed assets	8,346	7,828	7,189	9,389	10,238
CWIP	268	160	160	160	160
Intangible assets	18	18	18	18	18
Deferred tax assets, net	603	573	573	573	573
Total assets	18,107	16,596	15,921	18,864	20,701

Source: Company, BOBCAPS Research

Cash Flows

Y/E 31 Mar (Rs mn)	FY19A	FY20P	FY21E	FY22E	FY23E
Net income + Depreciation	2,079	2,269	1,747	2,478	2,832
Interest expenses	469	389	230	243	283
Non-cash adjustments	0	0	0	0	0
Changes in working capital	2	1,068	(388)	(846)	(667)
Other operating cash flows	133	(42)	50	70	80
Cash flow from operations	2,684	3,684	1,640	1,945	2,528
Capital expenditures	(1,474)	(137)	(140)	(3,000)	(1,800)
Change in investments	(3)	62	0	0	0
Other investing cash flows	0	0	0	0	0
Cash flow from investing	(1,477)	(75)	(140)	(3,000)	(1,800)
Equities issued/Others	0	0	0	0	0
Debt raised/repaid	(435)	(2,958)	(612)	950	(200)
Interest expenses	(469)	(389)	(230)	(243)	(283)
Dividends paid	(257)	(535)	(151)	(302)	(339)
Other financing cash flows	6	258	50	70	80
Cash flow from financing	(1,155)	(3,624)	(943)	475	(742)
Changes in cash and cash eq.	51	(15)	557	(580)	(14)
Closing cash and cash eq.	262	248	805	225	211

Per Share

Y/E 31 Mar (Rs)	FY19A	FY20P	FY21E	FY22E	FY23E
Reported EPS	6.7	6.8	4.4	7.6	8.5
Adjusted EPS	6.9	7.4	4.4	7.6	8.5
Dividend per share	1.0	1.0	0.6	1.1	1.3
Book value per share	43.8	49.0	52.9	59.4	66.7

Valuations Ratios

Y/E 31 Mar (x)	FY19A	FY20P	FY21E	FY22E	FY23E
EV/Sales	1.6	1.5	1.8	1.4	1.3
EV/EBITDA	11.4	10.7	14.5	9.5	8.3
Adjusted P/E	19.6	18.3	31.2	18.0	16.0
P/BV	3.1	2.8	2.6	2.3	2.0

DuPont Analysis

Y/E 31 Mar (%)	FY19A	FY20P	FY21E	FY22E	FY23E
Tax burden (Net profit/PBT)	74.1	72.2	69.4	70.1	70.0
Interest burden (PBT/EBIT)	82.3	89.7	89.7	93.5	93.0
EBIT margin (EBIT/Revenue)	11.1	11.0	8.3	11.3	11.4
Asset turnover (Revenue/Avg TA)	129.1	133.5	115.9	130.1	127.9
Leverage (Avg TA/Avg Equity)	1.9	1.7	1.4	1.4	1.4
Adjusted ROAE	16.9	16.0	8.5	13.4	13.4

Source: Company, BOBCAPS Research | Note: TA = Total Assets

Ratio Analysis

Y/E 31 Mar	FY19A	FY20P	FY21E	FY22E	FY23E
YoY growth (%)					
Revenue	12.7	1.6	(18.7)	20.2	11.8
EBITDA	(6.3)	5.9	(29.4)	44.0	14.3
Adjusted EPS	(3.5)	6.8	(41.2)	73.3	12.1
Profitability & Return ratios (%)					
EBITDA margin	13.7	14.3	12.4	14.8	15.2
EBIT margin	11.1	11.0	8.3	11.3	11.4
Adjusted profit margin	6.8	7.1	5.1	7.4	7.4
Adjusted ROAE	16.9	16.0	8.5	13.4	13.4
ROCE	12.6	13.8	8.5	12.6	12.6
Working capital days (days)					
Receivables	52	44	49	46	49
Inventory	134	135	146	123	123
Payables	31	29	32	27	28
Ratios (x)					
Gross asset turnover	2.4	2.1	1.7	1.8	1.7
Current ratio	1.3	1.5	2.2	2.2	2.3
Net interest coverage ratio	5.4	6.5	6.8	10.6	10.2
Adjusted debt/equity	0.5	0.2	0.1	0.2	0.2

Source: Company, BOBCAPS Research

Disclaimer

Recommendations and Absolute returns (%) over 12 months

BUY – Expected return >+15%

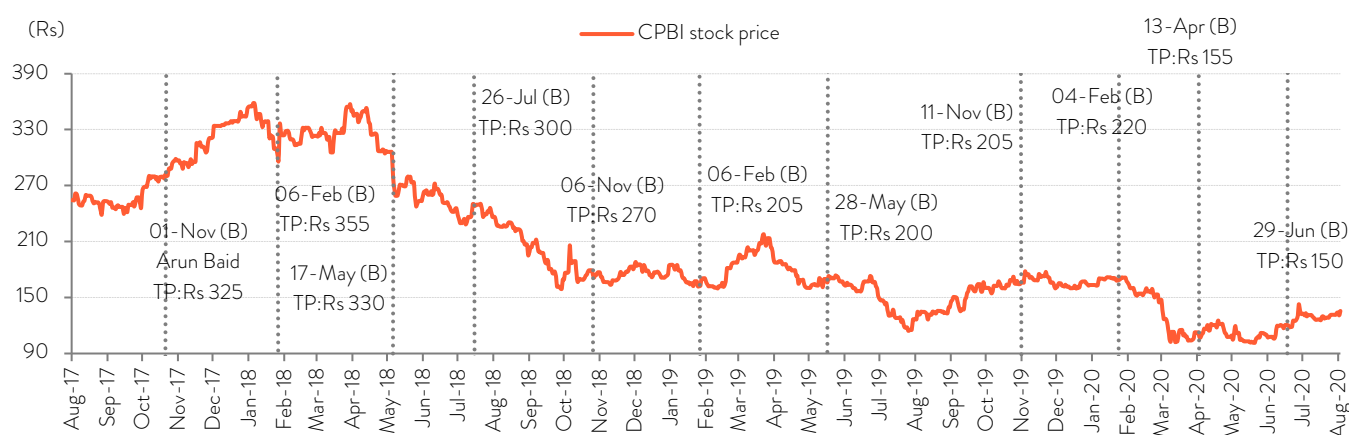
ADD – Expected return from >+5% to +15%

REDUCE – Expected return from -5% to +5%

SELL – Expected return <-5%

Note: Recommendation structure changed with effect from 1 January 2018 (Hold rating discontinued and replaced by Add / Reduce)

RATINGS AND TARGET PRICE (3-YEAR HISTORY): CENTURY PLYBOARDS (CPBI IN)



B – Buy, A – Add, R – Reduce, S – Sell

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