

ADD

TP: Rs 200 | ▲ 8%

CENTURY PLYBOARDS

Construction Materials

12 November 2020

Healthy quarter; upside limited – cut to ADD

Century Plyboards' (CPBI) standalone revenue decreased 12% YoY in Q2FY21, in line with estimates. Standalone operating margins expanded 78bps to 16.5%, while EBITDA/PBT fell 7%/6% YoY. October has been a record month for sales and management anticipates better growth ahead. We increase FY21-FY23 PAT estimates by 16-19% due to significant improvement in working capital and roll forward to a Dec'21 TP of Rs 200 (earlier Rs 160). Valuations at 18.6x FY23E EPS offer limited upside – downgrade from BUY to ADD.

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MDF steps up; plywood and laminates underperform: CPBI's standalone revenue dropped 12% YoY to Rs 5.2bn, with laminates/plywood down 25%/15% and MDF growing 20% (off a low base). As per management, demand has improved significantly and October has been the best month in the company's history. With plywood also witnessing growth, CPBI expects a better H2. The company will decide on MDF expansion by Dec'20.

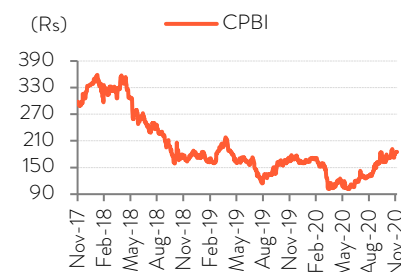
EBITDA margins expand: CPBI's operating margins increased 78bps YoY due to lower employee cost (-30bps YoY) and other expenditure (-49bps YoY). However, EBITDA/PBT dipped 7%/6% YoY due to decline in sales. MDF margins surged 500bps YoY to 28.1% due to higher capacity utilisation and a better product mix. Management has guided for better margins ahead.

Downgrade to ADD: During Q2, the company reduced debt by ~Rs 1.6bn to Rs 850mn and plans to be debt-free by end-FY21. Working capital has also normalised during the quarter. We raise FY21-FY23 EBITDA by 4-9% and PAT by 16-19% due to the significant improvement in working capital. We like CPBI for its product portfolio, strong brand and wide distribution but cut to ADD due to limited upside potential at current valuations of 18.6x FY23E EPS.

Ticker/Price	CPBI IN/Rs 185
Market cap	US\$ 553.9mn
Shares o/s	223mn
3M ADV	US\$ 1.1mn
52wk high/low	Rs 197/Rs 95
Promoter/FPI/DII	73%/6%/21%

Source: NSE

STOCK PERFORMANCE



KEY FINANCIALS

Y/E 31 Mar	FY19A	FY20A	FY21E	FY22E	FY23E
Total revenue (Rs mn)	22,804	23,170	19,555	23,605	26,091
EBITDA (Rs mn)	3,124	3,308	2,437	3,671	4,141
Adj. net profit (Rs mn)	1,542	1,579	1,124	1,999	2,206
Adj. EPS (Rs)	6.9	7.1	5.1	9.0	9.9
Adj. EPS growth (%)	(3.5)	2.4	(28.8)	77.9	10.3
Adj. ROAE (%)	16.9	15.3	9.9	15.7	15.2
Adj. P/E (x)	26.6	26.0	36.6	20.6	18.6
EV/EBITDA (x)	14.9	14.0	18.4	11.7	10.3

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 RESULT

(Rs mn)	Q2FY21	Q2FY20	YoY (%)	Q1FY20	QoQ (%)	H1FY20	H1FY21	YoY (%)
Total revenues	5,198	5,894	(11.8)	2,007	159.0	11,631	7,205	(38.1)
Total raw material consumed	2,610	2,958	(11.8)	946	176.0	5,879	3,555	(39.5)
% of sales	50.2	50.2	2bps	47.1	308bps	50.5	49.3	(120bps)
Employee exps	764	884	(13.6)	566	35.0	1,729	1,330	(23.1)
% of sales	14.7	15.0	(31bps)	28.2	(1,350bps)	14.9	18.5	359bps
Other exp	966	1,124	(14.1)	487	98.4	2,169	1,453	(33.0)
% of sales	18.6	19.1	(49bps)	24.3	(568bps)	18.6	20.2	152bps
Total expenditure	4,340	4,966	(12.6)	1,998	117.2	9,777	6,338	(35.2)
% of sales	83.5	84.3	(78bps)	99.6	(1,610bps)	84.1	88.0	391bps
EBITDA	859	928	(7.4)	8	10,150.0	1,854	867	(53.2)
% of sales	16.5	15.7	78bps	0.4	1,610bps	15.9	12.0	(391bps)
Depreciation	162	170	(4.7)	143	13.7	340	305	(10.2)
Other income	12	86	(85.5)	46	(73.2)	97	58	(39.6)
Interest cost	18	108	(83.5)	50	(64.6)	198	68	(65.4)
PBT	691	735	(6.0)	(139)	(598.2)	1,414	552	(60.9)
Taxes	176	213	(17.3)	(54)	(428.3)	411	123	(70.1)
Effective tax rate (%)	25.5	29.0	(350bps)	38.8	(1,322bps)	29.1	22.2	(684bps)
PAT before extraordinaries	514	521	(1.4)	(85)	(705.8)	1,003	429	(57.2)

Source: Company, BOBCAPS Research

FIG 2 – STANDALONE SEGMENTAL REVENUES

(Rs mn)	Q2FY21	Q2FY20	YoY (%)	Q1FY20	QoQ (%)	H1FY20	H1FY21	YoY (%)
Revenue								
Plywood & Allied products	2,680	3,165	(15.3)	988	171.2	6,322	3,669	(42.0)
Laminates	1,018	1,352	(24.7)	403	152.7	2,423	1,421	(41.4)
MDF	935	777	20.4	303	208.4	1,696	1,238	(27.0)
Particle Board	256	262	(2.1)	83	208.5	511	340	(33.5)
Container Freight Station	199	220	(9.5)	203	(1.7)	445	402	(9.6)
Others	115	124	(7.1)	32	260.1	249	147	(40.9)
Total	5,205	5,900	(11.8)	2,012	158.6	11,646	7,217	(38.0)
Less: Inter Segment revenue	6	7	(2.6)	6	14.1	16	12	(23.8)
Net revenues	5,198	5,894	(11.8)	2,007	159.0	11,631	7,205	(38.1)
EBIT								
Plywood & Allied products	342	450	(24.0)	(77)	(543.6)	920	265	(71.2)
Laminates	113	178	(36.3)	2	5,765.5	274	115	(57.9)
MDF	213	133	60.6	(25)	(961.2)	302	189	(37.6)
Particle Board	42	66	(36.7)	1	3,500.7	122	43	(64.6)
Container Freight Station	32	32	(1.0)	42	(24.8)	71	73	3.4
Others	19	13	55.0	(7)	(366.3)	21	12	(41.2)
Total	762	872	(12.6)	(64)	(1,288.1)	1,710	698	(59.2)
EBIT Margin (%)								
Plywood & Allied products	12.8	14.2	(146bps)	(7.8)	2,056bps	14.6	7.2	(733bps)
Laminates	11.2	13.2	(202bps)	0.5	1,067bps	11.3	8.1	(319bps)
MDF	22.8	17.1	572bps	(8.2)	3,098bps	17.8	15.2	(258bps)
Particle Board	16.4	25.4	(898bps)	1.4	1,501bps	23.9	12.7	(1,118bps)
Container Freight Station	15.8	14.5	135bps	20.7	(485bps)	16.0	18.3	230bps

Source: Company, BOBCAPS Research

FIG 3 – CONSOLIDATED QUARTERLY RESULTS

(Rs mn)	Q2FY21	Q2FY20	YoY (%)	Q1FY20	QoQ (%)	H1FY20	H1FY21	YoY (%)
Total revenues	5,222	5,995	(12.9)	2,030	157.2	11,818	7,253	(38.6)
Total raw material consumed	2,558	2,958	(13.5)	932	174.6	5,925	3,490	(41.1)
% of sales	49.0	49.3	(35bps)	45.9	309bps	50.1	48.1	(201bps)
Employee exps	789	919	(14.2)	586	34.6	1,799	1,375	(23.6)
% of sales	15.1	15.3	(23bps)	28.9	(1,376bps)	15.2	19.0	373bps
Other exp	1,010	1,197	(15.7)	518	94.9	2,302	1,528	(33.6)
% of sales	19.3	20.0	(64bps)	25.5	(619bps)	19.5	21.1	159bps
Total expenditure	4,357	5,074	(14.1)	2,036	114.0	10,026	6,393	(36.2)
% of sales	83.4	84.6	(122bps)	100.3	(1,686bps)	84.8	88.1	330bps
EBITDA	865	920	(6.0)	(6)	NA	1,791	860	(52.0)
% of sales	16.6	15.4	122bps	(0.3)	1,686bps	15.2	11.9	(330bps)
Depreciation	177	193	(8.4)	157	12.6	386	334	(13.4)
Other income	13	88	(85.3)	46	(71.7)	102	59	(42.3)
Interest cost	24	112	(79.1)	55	(56.9)	206	78	(62.1)
PBT	678	703	(3.6)	(172)	NA	1,301	506	(61.1)
Taxes	175	216	(18.8)	(54)	(426.2)	415	122	(70.7)
Effective tax rate (%)	25.9	30.7	(484bps)	31.3	(544bps)	31.9	24.0	(787bps)
PAT	503	487	3.2	(118)	NA	886	385	(56.6)
Less: Minority interest	0	3	(85.3)	(5)	(107.8)	1	(5)	(949.5)
PAT after minority interest	502	484	3.7	(113)	(546.4)	886	390	(56.0)

Source: Company, BOBCAPS Research

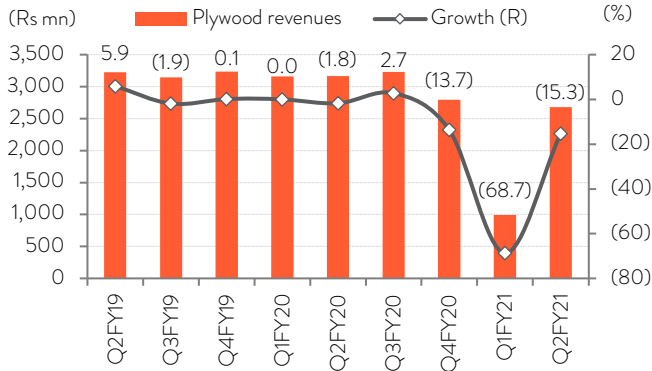
FIG 4 – CONSOLIDATED SEGMENTAL RESULTS

(Rs mn)	Q2FY21	Q2FY20	YoY (%)	Q1FY20	QoQ (%)	H1FY20	H1FY21	YoY (%)
Revenue								
Plywood & Allied products	2,705	3,266	(17.2)	1,012	167.3	6,509	3,716	(42.9)
Laminates	1,018	1,352	(24.7)	403	152.7	2,423	1,421	(41.4)
MDF	935	777	20.4	303	208.4	1,696	1,238	(27.0)
Particle Board	256	262	(2.1)	83	208.5	511	340	(33.5)
Container Freight Station	199	220	(9.5)	203	(1.7)	445	402	(9.6)
Others	115	124	(7.1)	32	260.1	250	147	(41.0)
Total	5,229	6,001	(12.9)	2,036	156.8	11,833	7,265	(38.6)
Less: Inter Segment revenue	6	7	(2.6)	6	14.1	16	12	(23.8)
Net revenues	5,222	5,995	(12.9)	2,030	157.2	11,818	7,253	(38.6)
EBIT								
Plywood & Allied products	335	423	(20.7)	(106)	(415.6)	817	229	(72.0)
Laminates	113	178	(36.3)	2	5,765.5	274	115	(57.9)
MDF	213	133	60.6	(25)	(961.2)	302	189	(37.6)
Particle Board	42	66	(36.7)	1	3,500.7	122	43	(64.6)
Container Freight Station	32	32	(1.0)	42	(24.8)	71	73	3.4
Others	19	12	54.9	(7)	(368.0)	21	12	(40.9)
Total	755	844	(10.6)	(93)	(910.7)	1,607	662	(58.8)
EBIT Margin (%)								
Plywood & Allied products	12.4	12.9	(55bps)	(10.5)	2,288bps	12.6	6.2	(640bps)
Laminates	11.2	13.2	(202bps)	0.5	1,067bps	11.3	8.1	(319bps)
MDF	22.8	17.1	572bps	(8.2)	3,098bps	17.8	15.2	(258bps)
Particle Board	16.4	25.4	(898bps)	1.4	1,501bps	23.9	12.7	(1,118bps)
Container Freight Station	15.8	14.5	135bps	20.7	(485bps)	16.0	18.3	230bps

Source: Company, BOBCAPS Research

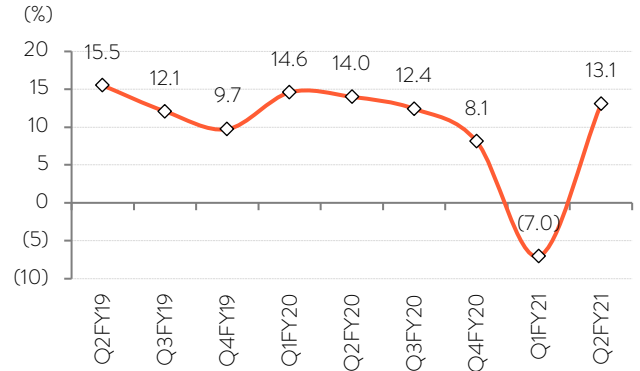
STANDALONE QUARTERLY TRENDS

FIG 5 – PLYWOOD REVENUES



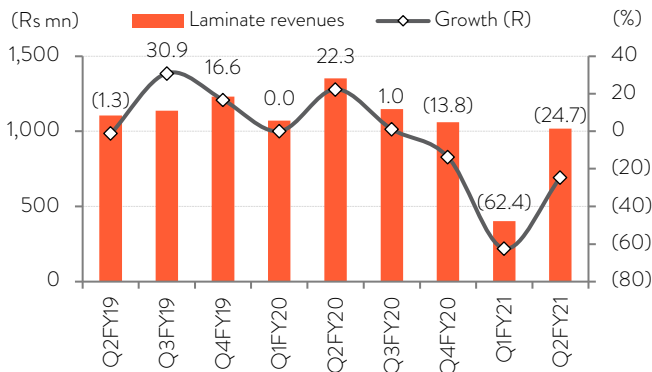
Source: Company, BOBCAPS Research

FIG 6 – PLYWOOD EBITDA MARGINS



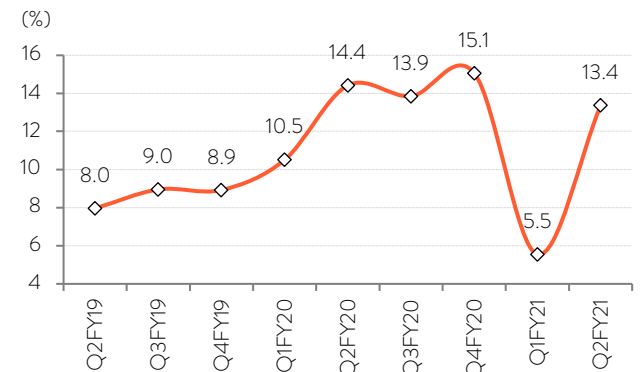
Source: Company, BOBCAPS Research

FIG 7 – LAMINATE REVENUES



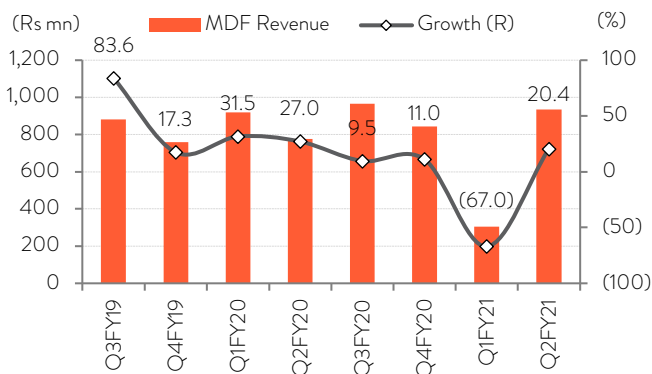
Source: Company, BOBCAPS Research

FIG 8 – LAMINATE EBITDA MARGINS



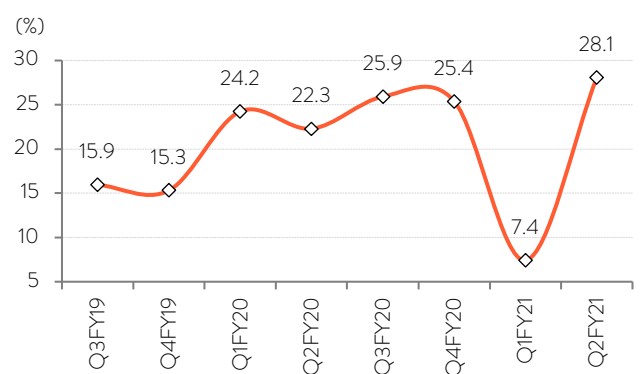
Source: Company, BOBCAPS Research

FIG 9 – MDF REVENUES

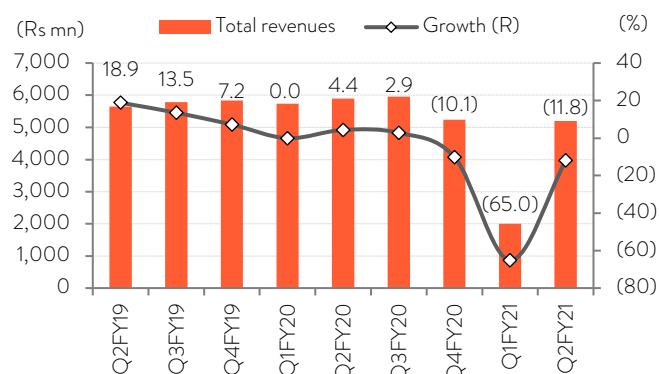


Source: Company, BOBCAPS Research

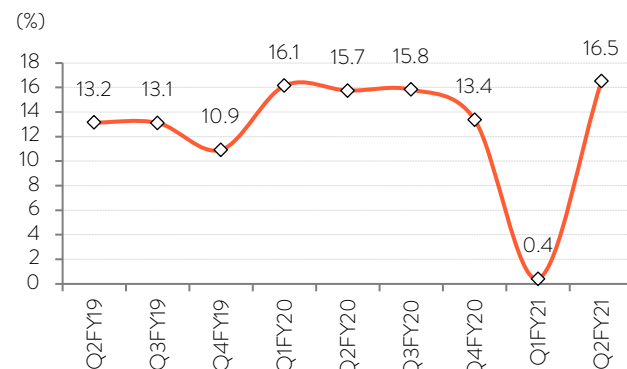
FIG 10 – MDF EBITDA MARGINS



Source: Company, BOBCAPS Research

FIG 11 – TOTAL REVENUES

Source: Company, BOBCAPS Research

FIG 12 – EBITDA MARGINS

Source: Company, BOBCAPS Research

Earnings call highlights

- CPBI's September sales have retraced to year-ago levels whereas October has been a record growth month.
- Covid-19 fears are expected to lend impetus to the readymade furniture market. Also, government efforts to push furniture exports will boost demand for MDF and particle board.
- The company has reinstated salaries during Q2.
- Working capital has normalised during the quarter and management expects it to remain under control.
- 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 is looking at South India as a possible other location for the MDF facility due to delays in Uttar Pradesh. It will take 18 months for CPBI to commission the plant once it gets the requisite land.
- Gabon expansion for face veneer has been delayed due to market conditions.

Plywood

- Plywood revenue grew 6% YoY in September and the momentum continued in October.
- CPBI has launched 'Virokill' technology plywood and laminates in Q1. Per management, Virokill has enabled the company to capture consumer mindshare and increase sales. Aggressive marketing during this time has also aided plywood segment performance.

Laminates

- Laminates declined in Q2 due to domestic demand issues. Exports fell at a slower pace than domestic sales.
- In October, the laminates segment grew 10% YoY.

MDF

- MDF demand is going strong as this product is consumed largely by B2B players who have come back to markets faster.
- The company plans to take a price hike in this product category going ahead. If it can do so, then margins will increase further.
- Higher sea-freight rates and an increase in global MDF prices have made imports costlier, bolstering demand for domestic manufacturers.
- Management sees no significant capacity additions in the MDF sector over the next two years and thus believes prices can go up.

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.

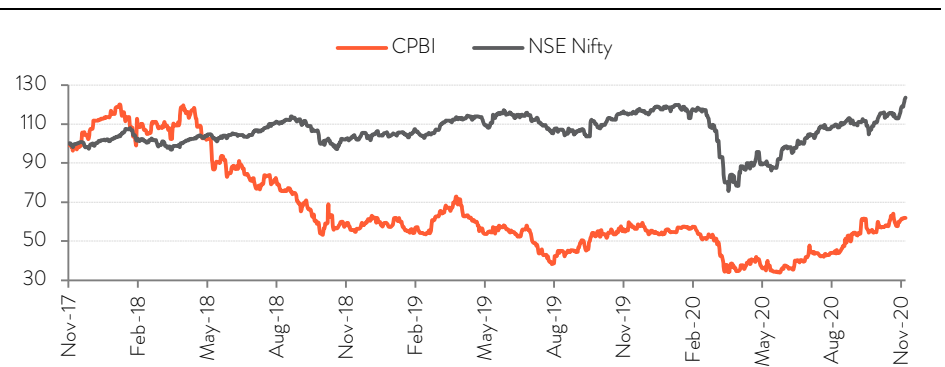
During Q2FY21, the company reduced debt by ~Rs 1.6bn to Rs 850mn and plans to be debt-free by end-FY21. Working capital has also normalised during the quarter. We increase FY21-FY23 EBITDA estimates by 4-9% and PAT estimates by 16-19% due to the significant improvement in working capital. On rollover, we arrive at a new Dec'21 target price of Rs 200 (from Rs 160), set at an unchanged 20x forward P/E. We like CPBI for its strong brand, product portfolio and improving balance sheet, but downgrade the stock from BUY to ADD on limited upside potential after the recent run-up.

FIG 13 – REVISED ESTIMATES

(Rs mn)	New			Old			Change (%)		
	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E
Revenues	19,555	23,605	26,091	18,835	22,635	25,305	3.8	4.3	3.1
EBITDA	2,437	3,671	4,141	2,334	3,360	3,840	4.4	9.3	7.8
PAT	1,124	1,999	2,206	968	1,678	1,881	16.1	19.1	17.3

Source: BOBCAPS Research

FIG 14 – 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	FY20A	FY21E	FY22E	FY23E
Total revenue	22,804	23,170	19,555	23,605	26,091
EBITDA	3,124	3,308	2,437	3,671	4,141
Depreciation	(595)	(763)	(765)	(787)	(939)
EBIT	2,529	2,545	1,672	2,884	3,202
Net interest income/(expenses)	(469)	(389)	(141)	(142)	(182)
Other income/(expenses)	22	43	77	93	111
EBT	2,081	2,199	1,608	2,835	3,131
Income taxes	(535)	(519)	(434)	(765)	(845)
Extraordinary items	(58)	(427)	0	0	0
Min. int./Inc. from associates	(4)	253	(50)	(70)	(80)
Reported net profit	1,484	1,506	1,124	1,999	2,206
Adjustments	58	73	0	0	0
Adjusted net profit	1,542	1,579	1,124	1,999	2,206

Balance Sheet

Y/E 31 Mar (Rs mn)	FY19A	FY20A	FY21E	FY22E	FY23E
Accounts payables	1,595	1,515	1,393	1,617	1,787
Other current liabilities	1,070	1,284	964	1,229	1,358
Provisions	120	227	98	118	130
Debt funds	5,319	2,681	1,350	2,700	2,500
Equity capital	223	223	223	223	223
Reserves & surplus	9,527	10,684	11,682	13,392	15,280
Shareholders' fund	9,749	10,906	11,905	13,614	15,503
Total liabilities and equities	18,107	16,596	15,742	19,380	21,461
Cash and cash eq.	262	248	338	350	637
Accounts receivables	2,957	2,568	2,572	3,363	3,717
Inventories	4,613	3,980	3,857	4,333	4,789
Other current assets	974	1,217	1,018	1,164	1,287
Investments	64	63	63	63	63
Net fixed assets	8,346	7,767	7,142	9,355	10,217
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	15,742	19,380	21,461

Source: Company, BOBCAPS Research

Cash Flows

Y/E 31 Mar (Rs mn)	FY19A	FY20A	FY21E	FY22E	FY23E
Net income + Depreciation	2,079	2,269	1,889	2,787	3,144
Interest expenses	469	389	141	142	182
Non-cash adjustments	0	0	0	0	0
Changes in working capital	2	749	(253)	(904)	(621)
Other operating cash flows	133	236	50	70	80
Cash flow from operations	2,684	3,643	1,827	2,094	2,785
Capital expenditures	(1,474)	(235)	(140)	(3,000)	(1,800)
Change in investments	(3)	1	0	0	0
Other investing cash flows	0	0	0	0	0
Cash flow from investing	(1,477)	(234)	(140)	(3,000)	(1,800)
Equities issued/Others	0	0	0	0	0
Debt raised/repaid	(435)	(2,639)	(1,331)	1,350	(200)
Interest expenses	(469)	(389)	(141)	(142)	(182)
Dividends paid	(257)	(535)	(175)	(360)	(397)
Other financing cash flows	6	139	50	70	80
Cash flow from financing	(1,155)	(3,424)	(1,597)	918	(699)
Changes in cash and cash eq.	51	(15)	90	12	286
Closing cash and cash eq.	262	248	338	350	637

Per Share

Y/E 31 Mar (Rs)	FY19A	FY20A	FY21E	FY22E	FY23E
Reported EPS	6.7	6.8	5.1	9.0	9.9
Adjusted EPS	6.9	7.1	5.1	9.0	9.9
Dividend per share	1.0	1.0	0.7	1.3	1.5
Book value per share	43.8	49.0	53.5	61.2	69.7

Valuations Ratios

Y/E 31 Mar (x)	FY19A	FY20A	FY21E	FY22E	FY23E
EV/Sales	2.0	2.0	2.3	1.8	1.6
EV/EBITDA	14.9	14.0	18.4	11.7	10.3
Adjusted P/E	26.6	26.0	36.6	20.6	18.6
P/BV	4.2	3.8	3.5	3.0	2.7

DuPont Analysis

Y/E 31 Mar (%)	FY19A	FY20A	FY21E	FY22E	FY23E
Tax burden (Net profit/PBT)	74.1	71.8	69.9	70.5	70.4
Interest burden (PBT/EBIT)	82.3	86.4	96.2	98.3	97.8
EBIT margin (EBIT/Revenue)	11.1	11.0	8.5	12.2	12.3
Asset turnover (Revenue/Avg TA)	129.1	133.5	120.9	134.4	127.8
Leverage (Avg TA/Avg Equity)	1.9	1.7	1.4	1.4	1.4
Adjusted ROAE	16.9	15.3	9.9	15.7	15.2

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

Ratio Analysis

Y/E 31 Mar	FY19A	FY20A	FY21E	FY22E	FY23E
YoY growth (%)					
Revenue	12.7	1.6	(15.6)	20.7	10.5
EBITDA	(6.3)	5.9	(26.3)	50.7	12.8
Adjusted EPS	(3.5)	2.4	(28.8)	77.9	10.3
Profitability & Return ratios (%)					
EBITDA margin	13.7	14.3	12.5	15.6	15.9
EBIT margin	11.1	11.0	8.5	12.2	12.3
Adjusted profit margin	6.8	6.8	5.7	8.5	8.5
Adjusted ROAE	16.9	15.3	9.9	15.7	15.2
ROCE	12.6	13.5	9.1	14.2	13.5
Working capital days (days)					
Receivables	52	44	48	46	50
Inventory	134	135	143	123	124
Payables	31	29	31	28	28
Ratios (x)					
Gross asset turnover	2.4	2.1	1.8	1.9	1.8
Current ratio	1.3	1.5	2.3	2.2	2.4
Net interest coverage ratio	5.4	6.5	11.9	20.3	17.6
Adjusted debt/equity	0.5	0.2	0.1	0.2	0.1

Source: Company, BOBCAPS Research

Disclaimer

Recommendations and Absolute returns (%) over 12 months

BUY – Expected return >+15%

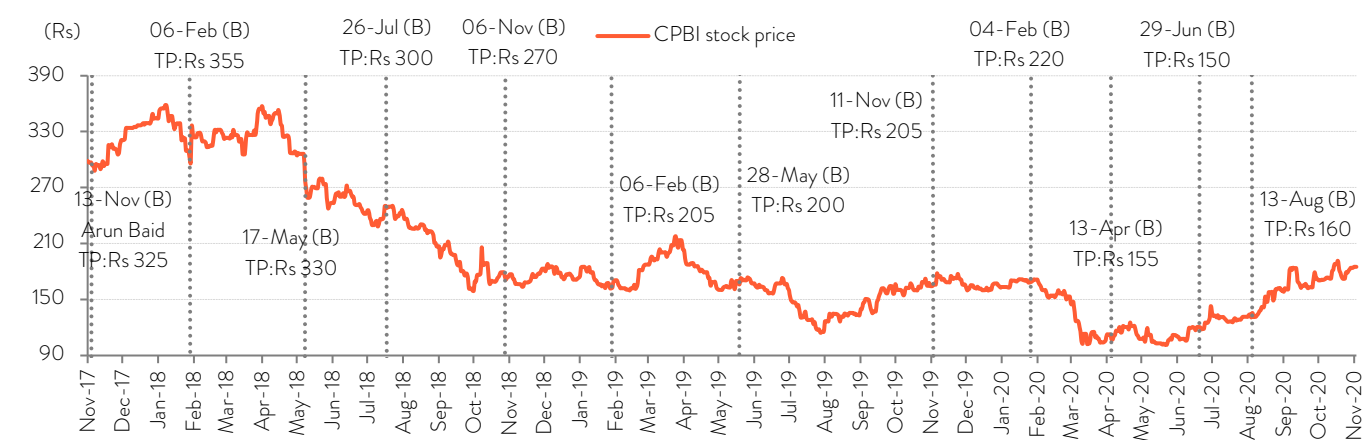
ADD – Expected return from >+5% to +15%

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 (=2.)



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

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