FIRST LIGHT

14 June 2021

RESEARCH

Century Plyboards | Target: Rs 370 | –12% | SELL

Strong quarter; downgrade to SELL on rich valuations

Cera Sanitaryware | Target: Rs 4,145 | –5% | REDUCE

Good quarter; cut to REDUCE on limited upside

Mayur Uniquoters | Target: Rs 560 | +10% | ADD

Stellar quarter; recent rally caps upside – downgrade to ADD

BOB Economics Research | IIP

Industrial output steady over a 2-year horizon

Daily macro indicators

Indicator	Current	2D (%)	1M (%)	12M (%)
US 10Y yield (%)	1.45	(4bps)	(9bps)	76bps
India 10Y yield (%)	6.02	0bps	0bps	25bps
USD/INR	73.06	(0.1)	0.7	3.5
Brent Crude (US$/bbl)	72.30	0.2	5.8	73.1
Dow	34,466	0.1	(1.0)	27.6
Shanghai	3,611	0.5	5.0	22.0
Sensex	52,334	0.8	5.6	51.7
India FII (US$ mn)	**09-Jun**	**MTD**	**CYTD**	**FYTD**
FII-D	(287.1)	(389.7)	(2,970.3)	(943.1)
FII-E	81.9	1,221.9	7,808.0	481.6

Source: Bank of Baroda Economics Research

SUMMARY

Century Plyboards

- CPBI reported robust standalone revenue growth of 41% YoY off a soft base, with the plywood/MDF/laminate segments growing 43%/41%/44%
- Gross margin declined 200bps whereas operating margin increased 380bps on the back of lower employee and other expenses
- We raise FY22/FY23 PAT 2%/5% and revise our Mar'22 TP to Rs 370 (vs. Rs 310), but lower our rating to SELL from ADD as valuations look full

Click here **for the full report.**

Cera Sanitaryware

- CRS reported Q4FY21 consolidated revenue growth of 47% YoY off a tepid base, with the sanitaryware/faucet segments increasing 47%/62%
- Despite gross margin contraction, operating margin expanded 180bps YoY to 16% due to lower employee/other expenses
- We raise FY22/FY23 PAT 2%/6% and revise our TP to Rs 4,145 (vs. Rs 3,900) – cut to REDUCE from BUY as upside looks limited post the recent rally

Click here **for the full report.**

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Mayur Uniquoters

- MUNI's standalone Q4FY21 revenue grew 35% YoY as volumes increased 26% aided by a low base
- Operating margin expanded 325bps YoY to 28.9% with gross margin up 36bps and employee/other expenses declining 155bps/135bps YoY
- We raise FY22/FY23 PAT 8%/12% on better margin guidance and revise our TP to Rs 560 (vs. Rs 495), but move from BUY to ADD on limited upside

Click here for the full report.

India Economics: IIP

Industrial output reported a 134.4% jump in Apr'21 on account of a low base (-57.3% in Apr'20). Notably, over a 2-year horizon, IIP has risen by 0.1% in Apr'21. Within this, electricity output rose by 6.8%. Intermediate and FMCG goods have increased by 11.5% and 1.6% respectively (over Apr'19). Infra/ construction is also resilient. However, capital goods and durables have contracted (over Apr'19). India's industrial sector seems to have emerged stronger from the second wave. We expect GDP growth at 9.7% in FY22.

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SELL

TP: Rs 370 | ⩔ 12%

CENTURY PLYBOARDS | Construction Materials | 11 June 2021

Strong quarter; downgrade to SELL on rich valuations

- **CPBI reported robust standalone revenue growth of 41% YoY off a soft base, with the plywood/MDF/laminate segments growing 43%/41%/44%**
- **Gross margin declined 200bps whereas operating margin increased 380bps on the back of lower employee and other expenses**
- **We raise FY22/FY23 PAT 2%/5% and revise our Mar'22 TP to Rs 370 (vs. Rs 310), but lower our rating to SELL from ADD as valuations look full**

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Strong revenue growth across segments: CPBI reported standalone revenue growth of 41% YoY to Rs 7.4bn, with plywood/MDF/laminates growing at 43%/41%/44% aided by a lockdown-hit base quarter. Volume growth in plywood was 44% YoY, laminates 38% and MDF 24%. For FY21, CPBI's standalone revenue declined 7% as the plywood and laminate segments fell 9% and 10% respectively while MDF grew just 2.5%. Working capital days increased marginally by 2 days to 69 in FY21 and look sustainable, per management.

As per management, Q4 has been the best quarter in the history of the company. Q1FY22 has been soft thus far due to Covid-19 lockdowns, but management expects strong demand revival post unlocking. For FY22, growth is guided at 10-15% in plywood and ~15% in laminates, with full utilisation in MDF (i.e. ~20% growth YoY).

Robust margin gains: Despite a 200bps YoY drop in gross margin, CPBI's standalone operating margin expanded 380bps to 17.2% as employee/other expenses declined 295bps/283bps. This yielded EBITDA/PBT growth of 81%/145% YoY. Operating margin increased across segments with plywood up 470bps YoY to 12.8% (operating leverage), laminates up 800bps to 23.1% (one-off low-cost inventory) and MDF seeing 140bps expansion to 26.8% (better capacity utilisation).

For FY22, management expects higher plywood margins of 13.5-14% due to increased turnover and price hikes effected, with laminates at 16-18% and MDF margin sustaining at 25-26%.

Downgrade to SELL on full valuations: We increase FY22/FY23 PAT estimates by 2%/5% and raise our target FY23E P/E from 22x to 25x, in line with the five-year average due to improvement in balance sheet health and growth prospects– this translates to a revised Mar'22 TP of Rs 370 (vs. Rs 310). Current valuations at 28.5x FY23E EPS look full, leading us to downgrade the stock from ADD to SELL. We continue to like CPBI for its broad wood panel product portfolio, improved balance sheet and healthy return ratios, but await a better entry point.

Key changes

Target	Rating
▲	▼

Ticker/Price	CPBI IN/Rs 419
Market cap	US$ 1.3bn
Free float	0%
3M ADV	US$ 1.8mn
52wk high/low	Rs 447/Rs 102
Promoter/FPI/DII	73%/5%/22%

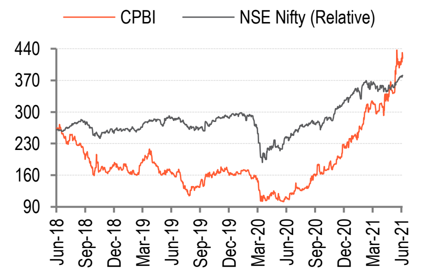
Source: NSE | Price as of 11 Jun 2021

Key financials

Y/E 31 Mar	FY21P	FY22E	FY23E
Total revenue (Rs mn)	21,304	25,467	30,401
EBITDA (Rs mn)	3,355	4,476	5,380
Adj. net profit (Rs mn)	1,996	2,652	3,261
Adj. EPS (Rs)	9.0	11.9	14.7
Cons. EPS (Rs)	8.1	11.7	13.8
Adj. ROAE (%)	16.9	19.1	19.6
Adj. P/E (x)	46.6	35.1	28.5
EV/EBITDA (x)	28.9	21.0	17.3
Adj. EPS growth (%)	26.4	32.8	23.0

Source: Company, Bloomberg, BOBCAPS Research | P – Provisional

Stock performance



Source: NSE

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REDUCE
TP: Rs 4,145 | ▼ 5%

CERA SANITARYWARE | Construction Materials | 11 June 2021

Good quarter; cut to REDUCE on limited upside

- **CRS reported Q4FY21 consolidated revenue growth of 47% YoY off a tepid base, with the sanitaryware/faucet segments increasing 47%/62%**
- **Despite gross margin contraction, operating margin expanded 180bps YoY to 16% due to lower employee/other expenses**

We raise FY22/FY23 PAT 2%/6% and revise our TP to Rs 4,145 (vs. Rs 3,900) – cut to REDUCE from BUY as upside looks limited post the recent rally

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Strong revenue growth aided by tepid base: CRS reported a 47% YoY increase in consolidated revenue to Rs 4.4bn in Q4 aided by a tepid base due to the lockdown last year. The sanitaryware segment grew 47% YoY, faucets 62% and tiles 39%. For FY21, CRS has reported flat revenue with faucets growing ~10% whereas the tiles segment declined 7% and sanitaryware was flat YoY. As per management, sanitary-ware revenue growth could have been ~Rs 350mn higher but was hampered by labour issues in Q3. The plant ran at ~85% utilisation in Q4 and is now fully operational.

Management outlook upbeat: Management believes demand will remain strong and has guided for 17-18% revenue growth in FY22, with sales lost in April-May due to the second pandemic wave likely to be recouped during the rest of the year. The company has a target of doubling the topline over the next five years. Working capital improved by 22 days YoY to 52 days during FY21 but may increase going ahead due to build-up of inventory to meet the strong demand.

Operating margin expands: Despite gross margin shrinkage of 490bps YoY, CRS's consolidated EBITDA margin increased 180bps YoY to 16% due to lower employee/ other expenses (-411bps/-255bps YoY) – this aided EBITDA and PBT growth of 66% and 79% YoY respectively. Gross margin contracted due to higher raw material prices and also due to costs incurred on moulds in the sanitaryware plant. Other expenses declined on the back of cost rationalisation measures. Management expects operating margin to hold at 14.5-15.5% as it has taken price hikes to cover the higher RM cost.

Downgrade to REDUCE on limited upside: CRS's Q4 results have been better than our expectations – we raise FY22/FY23 PAT estimates by 2%/6%, which translates to a new Mar'22 TP of Rs 4,145 (vs. Rs 3,900). We continue to value the stock at 30x FY23E P/E, in line with the five-year average. Though we like CRS for its strong brand, wide distribution, comprehensive portfolio and robust balance sheet, we downgrade the stock from BUY to REDUCE as upsides look capped following the 30% run-up in stock price over the past 4 months. CRS is currently trading at 31.6x FY23E EPS.

Key changes

Target	Rating
▲	▼

Ticker/Price	CRS IN/Rs 4,360
Market cap	US$ 776.1mn
Free float	46%
3M ADV	US$ 0.9mn
52wk high/low	Rs 4,895/Rs 2,121
Promoter/FPI/DII	54%/15%/30%

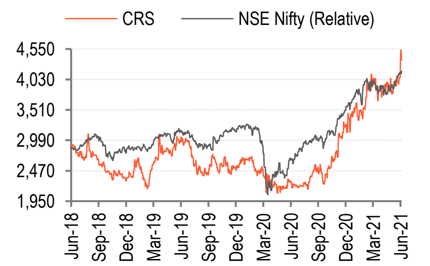
Source: NSE | Price as of 11 Jun 2021

Key financials

Y/E 31 Mar	FY21P	FY22E	FY23E
Total revenue (Rs mn)	12,243	14,436	16,500
EBITDA (Rs mn)	1,581	2,178	2,538
Adj. net profit (Rs mn)	1,008	1,501	1,796
Adj. EPS (Rs)	77.5	115.4	138.1
Cons. EPS (Rs)	74.2	112.9	135.4
Adj. ROAE (%)	12.3	16.2	17.1
Adj. P/E (x)	56.3	37.8	31.6
EV/EBITDA (x)	35.4	25.7	22.1
Adj. EPS growth (%)	(0.6)	49.0	19.7

Source: Company, Bloomberg, BOBCAPS Research | P – Provisional

Stock performance



Source: NSE

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ADD

TP: Rs 560 | 10%

MAYUR UNIQUOTERS | Textiles | 13 June 2021

Stellar quarter; recent rally caps upside – downgrade to ADD

- **MUNI's standalone Q4FY21 revenue grew 35% YoY as volumes increased 26% aided by a low base**
- **Operating margin expanded 325bps YoY to 28.9% with gross margin up 36bps and employee/other expenses declining 155bps/135bps YoY**
- **We raise FY22/FY23 PAT 8%/12% on better margin guidance and revise our TP to Rs 560 (vs. Rs 495), but move from BUY to ADD on limited upside**

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Strong topline growth aided by volumes: MUNI reported standalone revenue growth of 35% YoY to Rs 1.9bn in Q4 as volumes increased 26% aided by a lockdown-hit base quarter. This was the best-ever reported quarter for the company with exports growing 23%, domestic auto OEM sales 35%, auto replacement 44% and footwear 70% YoY. FY21 revenue dipped 3% as volumes declined 9% YoY. The PU plant is yet to see traction as its commissioning in Mar'20 was followed by Covid-related lockdowns that dampened the footwear market.

Supplies to Mercedes have begun: Per management, MUNI saw good demand traction till Apr'21 from both the auto and footwear segments, but lockdowns across markets ate into sales in May and June. The company is hopeful of better demand post unlocking from Q2. MUNI has started supplies to Mercedes, South Africa, largely from Q1FY22 and expects business to ramp up further from Q3. BMW has also approved its products and supplies should start from Q1FY23. The export automotive OEM market has seen some pressure in Q1 due to a shortage of chips in the US, which MUNI's customers expect will normalise by July-August.

Operating margin up 325bps YoY: Operating margin expanded 325bps YoY to 28.9% with gross margin up 36bps and employee/other expenses declining 155bps/135bps YoY. EBITDA/PBT grew 53%/47% YoY. Gross margin increased due to a better product mix whereas other expenses and employee cost declined as a percentage of sales due to operating leverage. For FY21, MUNI has reported a 335bps rise in operating margin to 24% and EBITDA/PBT growth of 13%/12%. Management believes ~24% margins are sustainable due to a rising share of higher margin customers in the sales mix.

Downgrade to ADD on capped upside: We raise FY22/FY23 PAT 8%/12% to factor in above-expected margin guidance and increase our Mar'22 TP to Rs 560 (vs. Rs 495). We continue to value MUNI at 20x FY23E P/E, on par with the five-year average. Although we like the company for its growth prospects and strong balance sheet, we see limited upside in the wake of a 26% run-up in stock price over the past four months (current valuations at 18.2x FY23E). We thus downgrade the stock from BUY to ADD.

Key changes

Target	Rating
▲	▼

Ticker/Price	MUNI IN/Rs 508
Market cap	US$ 309.6mn
Free float	38%
3M ADV	US$ 0.9mn
52wk high/low	Rs 532/Rs 157
Promoter/FPI/DII	62%/1%/37%

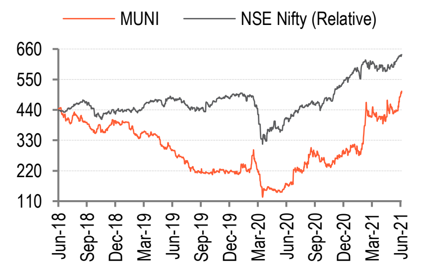
Source: NSE | Price as of 11 Jun 2021

Key financials

Y/E 31 Mar	FY21P	FY22E	FY23E
Total revenue (Rs mn)	5,127	6,230	7,176
EBITDA (Rs mn)	1,252	1,439	1,720
Adj. net profit (Rs mn)	934	1,033	1,243
Adj. EPS (Rs)	20.9	23.2	27.9
Cons. EPS (Rs)	17.8	25.7	31.8
Adj. ROAE (%)	15.6	15.7	16.8
Adj. P/E (x)	24.2	21.9	18.2
EV/EBITDA (x)	16.6	14.4	11.8
Adj. EPS growth (%)	42.7	10.6	20.3

Source: Company, Bloomberg, BOBCAPS Research | P – Provisional

Stock performance



Source: NSE

IIP

11 June 2021

Industrial output steady over a 2-year horizon

Industrial output reported a 134.4% jump in Apr'21 on account of a low base (-57.3% in Apr'20). Notably, over a 2-year horizon, IIP has risen by 0.1% in Apr'21. Within this, electricity output rose by 6.8%. Intermediate and FMCG goods have increased by 11.5% and 1.6% respectively (over Apr'19). Infra/ construction is also resilient. However, capital goods and durables have contracted (over Apr'19). India's industrial sector seems to have emerged stronger from the second wave. We expect GDP growth at 9.7% in FY22.

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IIP sees a slight rebound in Apr'21 over a 2-year horizon: On a low base (-57.3% in Apr'20), industrial output rose by 134.4% in Apr'21. It would be more meaningful to look at growth over a 2-year period. On this count, IIP has risen by 0.1%. This was led by 6.8% increase in electricity output. Mining output is higher by 0.2% over Apr'19. Manufacturing is lower only by 0.9% over Apr'19. Within manufacturing, tobacco, basic metals, food, rubber and plastic products, chemicals, wood products and pharmaceuticals have registered an increase over a 2-year horizon, thus indicating that economic impact of second wave on manufacturing is far more limited than the first wave.

Intermediate goods and FMCG outperform: Over a 2-year horizon, intermediate goods have shown an increase of 11.5% in Apr'21. Production of consumer non-durables (FMCG) is also up by 1.6%. Primary goods output has increased by 0.7%. On the other hand, capital goods output declined sharply by 14.3% in Apr'21 (over Apr'19). Even during FY21 capital goods saw a decline of 16.7%. So is the case with durable goods which contracted by 11.6% in Apr'21 (over Apr'19). In FY21 it declined by 12.2%. Infra/construction output was resilient and fell by only 0.1% in Apr'21 over a 2-year horizon. Notably, construction sector grew by 14.5% in Q4FY21.

Industrial output to rebound: During Apr-Aug'20, IIP index fell by 25% over the previous year. The low base will ensure high growth rate in H1. Interestingly, over a 2-year horizon, the index is holding up despite the restrictions placed by state governments, implying lower than anticipated impact on the economy. Even exports over a 2-year horizon are up by 8% and non-oil-non-gold imports fell by only 3%. While industrial output will show elevated growth in H1 on a low base, we expect growth to sustain in H2 as current restrictions are gradually removed and consumer confidence improves with vaccinations.

KEY HIGHLIGHTS

- Industrial output rises by 134.4% in Apr'21 on account of a low base. Over a 2-year horizon, IIP rose by 0.1% in Apr'21
- Decline in capital and durable goods over a 2-year horizon.
- Industrial activity is expected to sustain even in H2FY22.

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Recommendation scale: 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)

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