

## Sector: Building Materials

## Result Update

|                                   |        |
|-----------------------------------|--------|
|                                   | Change |
| Reco: <b>Buy</b>                  | ↔      |
| CMP: <b>Rs. 120</b>               |        |
| Price Target: <b>Rs. 145</b>      | ↑      |
| ↑ Upgrade ↔ No change ↓ Downgrade |        |

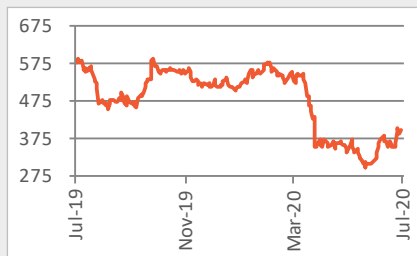
## Company details

|                            |             |
|----------------------------|-------------|
| Market cap:                | Rs. 2668 cr |
| 52-week high/low:          | Rs. 182/95  |
| NSE volume: (No of shares) | 25.2 lakh   |
| BSE code:                  | CENTURYPLY  |
| NSE code:                  | 532548      |
| Sharekhan code:            | 532548      |
| Free float: (No of shares) | 19.6 cr     |

## Shareholding (%)

|           |    |
|-----------|----|
| Promoters | 73 |
| FII       | 7  |
| DII       | 8  |
| Others    | 12 |

## Price chart



## Price performance

| (%)                | 1m   | 3m   | 6m    | 12m   |
|--------------------|------|------|-------|-------|
| Absolute           | 27.0 | 11.4 | -22.2 | -31.4 |
| Relative to Sensex | 19.2 | -7.2 | -7.0  | -19.5 |

Sharekhan Research, Bloomberg

## Century Plyboards (India) Limited

## Improved balance sheet expected to tide over COVID-19 led disruption

Century Plyboards (Century) reported a 10% y-o-y decline in standalone revenue for Q4FY2020 as the quarter was affected by COVID-19 related lockdown during last two weeks of March 2020 (which is considered the peak sales period as dealers stock up to avail annual turnover discounts). Consequently, plywood and laminate divisions registered 13.5%+ y-o-y decline in revenues. The company expects overall Rs. 90 crore loss of revenue due to lockdown. The OPM expanded by 333 bps y-o-y led by improved margins in laminate and MDF verticals. However, OPM was lower by 192 bps q-o-q which came in lower than our estimate. Further, lower interest expense (down 64% y-o-y, adjusted for forex loss) led to adjusted standalone net profit growth of 36.6% y-o-y to Rs. 43.4 crore (adjusting for forex) which was marginally lower than our estimate. The company has seen gradual improvement in sales since May 2020 but expects normalcy post Q2FY2021. It has started cost reduction measures across departments which is expected to reduce its fixed costs per month from Rs. 30 crore to Rs. 22 crore. It is also seeing increase in exports as globally it has not seen stricter restrictions compared to domestic. The company's capacity expansion in MDF and particle board is currently in abeyance as the Green bench had quashed licenses issued by U.P. government for wood based industry. However, it expects a positive outcome in three months expecting state government to permit it without going for license process. At the end of FY2020, the company reduced its total consolidated debt (excluding current maturities) by Rs. 279 crore leading to D/E at 0.22x (Vs 0.49x in FY2019). The company also improved upon its working capital with reduction in debtor and inventory days. We have lowered our estimates for FY2021-FY2022 factoring weak sales during H1FY2021. Post earnings downgrade, Century is currently trading at 14.1x its FY2022E earnings which is much lower than its historical average multiple. Considering its healthy balance sheet and expected bounce back in earnings in FY2022, we maintain our Buy rating on the stock with revised price target of Rs. 145.

## Key positives

- ♦ Improvement in balance sheet health led by debt reduction and working capital improvement.
- ♦ Laminate and MDF maintains sequential OPMs.

## Key negatives

- ♦ Clarity on MDF and particle board expansion expected over three months time period.
- ♦ Debt free status to take some more time versus earlier guidance of Q1FY2021

## Our Call

**Valuation –Maintain Buy with revised PT of Rs. 145:** Century like its industry peers is expected to be affected by a decline in sales during FY2021. However, we expect healthy bounce back in FY2022 with normalcy in sales expected from Q3FY2021 onwards. The company also improved its balance sheet health with reduction in debt and improvement in working capital which is expected to aid in sailing through the near term weak macro environment. We have lowered our estimates for FY2021-FY2022 factoring weak sales during H1FY2021. Post earnings downgrade, Century is currently trading at 14.1x its FY2022E earnings which is much lower than its historical average multiple. Considering its healthy balance sheet and expected bounce back in earnings in FY2022, we maintain our Buy rating on the stock with revised price target of Rs. 145.

## Key Risks

Weak macro environment, volatility in currency and erosion in profitability in its business verticals.

## Valuation (Consolidated)

| Particulars        | Rs cr |       |       |       |
|--------------------|-------|-------|-------|-------|
|                    | FY19  | FY20  | FY21E | FY22E |
| Revenue            | 2,280 | 2,317 | 1,960 | 2,262 |
| OPM (%)            | 13.8  | 14.7  | 13.7  | 14.5  |
| Adjusted PAT       | 166   | 209   | 149   | 190   |
| % YoY growth       | (4)   | 26    | (29)  | 27    |
| Adjusted EPS (Rs.) | 7.5   | 9.4   | 6.7   | 8.5   |
| P/E (x)            | 16.1  | 12.8  | 17.9  | 14.1  |
| P/B (x)            | 2.7   | 2.5   | 2.2   | 1.9   |
| EV/EBITDA (x)      | 10.1  | 8.8   | 10.8  | 8.8   |
| RoNW (%)           | 18.2% | 17.8% | 10.7% | 12.7% |
| RoCE (%)           | 14.1% | 15.3% | 10.9% | 12.6% |

Source: Company; Sharekhan estimates

**Expansion in OPM compensates for muted revenue growth boosting adjusted net profit:** Century Plyboard reported standalone net revenue decline of 10.1% y-o-y to Rs. 524 crore for Q4FY2020 on account of decline in revenue in its laminate (down 13.8% y-o-y) and plywood (down 13.7% y-o-y) divisions. The revenue was adversely affected by the COVID-19 related lockdown during the last two weeks in March 2020 which is the crucial sales period as dealers procure maximum volume to meet their yearly targets. The OPM improved 333 bps y-o-y to 13.8% (although lower 192 bps q-o-q) led by sustained OPM in laminate (up 614 bps y-o-y) and MDF (up 952 bps y-o-y). Hence, operating profit rose 18.4% y-o-y to Rs. 72.4 crore. Further, lower interest expense (down 64% y-o-y, adjusted for forex loss) led to adjusted standalone net profit growth of 36.6% y-o-y to Rs. 43.4 crore (adjusting for forex) which was marginally lower than our estimate.

**Clarity on MDF and particle board expansion expected in three months time:** The company was planning a fungible green field capacity for MDF (600 cubic metre/day) and Particle Board (900 cubic metre/day) in Uttar Pradesh at an estimated cost of Rs. 450 crore as both the verticals are currently operating at optimum capacity utilisation. However, the green bench has quashed all licenses issued by the state government for wood based industry which has led the company to put its expansion plan in abeyance as of now. The company expects positive outcome to come within three months regarding permission for wood based industries based on pure agro forestry timber without going for license process.

### Key conference call takeaways

- ◆ **FY2021 outlook:** The month of April 2020 was a complete washout on account of COVID-19 related lockdown while May 2020 and June 2020 has shown improvement with 30% and 50% of normal business operations, respectively. The management expects the situation to get back to normal during Q3FY2021 onwards. Due to the current uncertainties, the management did not give any guidance for FY2021.
- ◆ **Q4FY2020 performance:** The company like its peers was significantly affected by COVID-19 related lockdown during last ten days of March 2020, being a crucial period for dealers to procure maximum volume. The management estimates revenue loss of Rs. 90 crores due to the same.
- ◆ **Balance sheet improvement:** The company reduced its total debt excluding current maturities to Rs. 188.8 crore as on FY2020 end as against Rs. 468.23 crores as on FY2019. However, its earlier target to be debt free by Q1FY2021 is expected to take some more time. The company also reduced its working capital cycle to 67 days in FY2020 from 86 days in FY2019 aided by inventory and debtor days reduction by 8 days and 6 days respectively.
- ◆ **Cost reduction measures:** The company during the trailing two months have been able to save Rs. 10 crore per month. The company is undertaking cost reduction measures in all departments which is expected to lead to reduction in fixed cost per month from Rs. 30 crore to Rs. 22 crore.
- ◆ **Capacity expansion of MDF and Particle board in abeyance as of now:** The company was planning a fungible green field capacity for MDF (600 cubic metre/day) and Particle Board (900 cubic metre/day) in Uttar Pradesh at an estimated cost of Rs. 450 crore. However, the green bench has quashed all licenses issued by the state government for wood based industry. The company expects positive outcome to come within three months regarding permission for wood based industries based on pure agro forestry timber without going for license process.
- ◆ **MDF and particle board to revive faster:** The company expects MDF and particle board to revive faster as exposure to contractors is very less in these segments. Additionally, ready-made furniture mostly uses MDF and particle board which is expected to perform well during the current environment.

**Financials (Standalone)**

| Particulars                        |              |              |              |              |               | Rs cr |
|------------------------------------|--------------|--------------|--------------|--------------|---------------|-------|
|                                    | Q4FY20       | Q4FY19       | % y-o-y      | Q3FY20       | % q-o-q       |       |
| <b>Income from operations</b>      | <b>524.2</b> | <b>583.2</b> | <b>-10.1</b> | <b>595.4</b> | <b>(12.0)</b> |       |
| COGS                               | 256.3        | 302.9        | -15.4        | 304.1        | (15.7)        |       |
| <b>Gross profit</b>                | <b>267.9</b> | <b>280.3</b> | <b>-4.4</b>  | <b>291.3</b> | <b>(8.0)</b>  |       |
| Gross margin (%)                   | 51.1         | 48.1         | 304          | 48.9         | 218.5         |       |
| Employee cost                      | 86.6         | 83.7         | 3.5          | 84.6         | 2.4           |       |
| Other expenditure                  | 108.8        | 135.4        | -19.7        | 113.0        | (3.7)         |       |
| Total expenditure                  | 451.7        | 522.0        | -13.5        | 501.7        | (10.0)        |       |
| <b>Operating profit</b>            | <b>72.4</b>  | <b>61.2</b>  | <b>18.4</b>  | <b>93.7</b>  | <b>(22.7)</b> |       |
| Operating profit margin (%)        | 13.8         | 10.5         | 333          | 15.7         | (191.7)       |       |
| Finance cost                       | 3.8          | 10.5         | -64.0        | 8.0          | (52.5)        |       |
| Depreciation                       | 16.3         | 14.3         | 13.8         | 17.3         | (6.0)         |       |
| Non-operating income               | 0.1          | 2.9          | -96.1        | 1.3          | (91.1)        |       |
| Forex loss/(gain)/exceptional item | 4.6          | (2.4)        |              | 46.1         |               |       |
| <b>PBT</b>                         | <b>47.9</b>  | <b>41.7</b>  | <b>14.9</b>  | <b>23.6</b>  | <b>103.0</b>  |       |
| Tax                                | 9.1          | 7.5          | 20.7         | 4.5          | 101.9         |       |
| <b>Reported PAT</b>                | <b>38.8</b>  | <b>34.2</b>  | <b>13.6</b>  | <b>19.1</b>  | <b>103.2</b>  |       |
| <b>Adjusted PAT</b>                | <b>43.4</b>  | <b>31.8</b>  | <b>36.6</b>  | <b>65.2</b>  | <b>(33.4)</b> |       |

Source: Company; Sharekhan Research

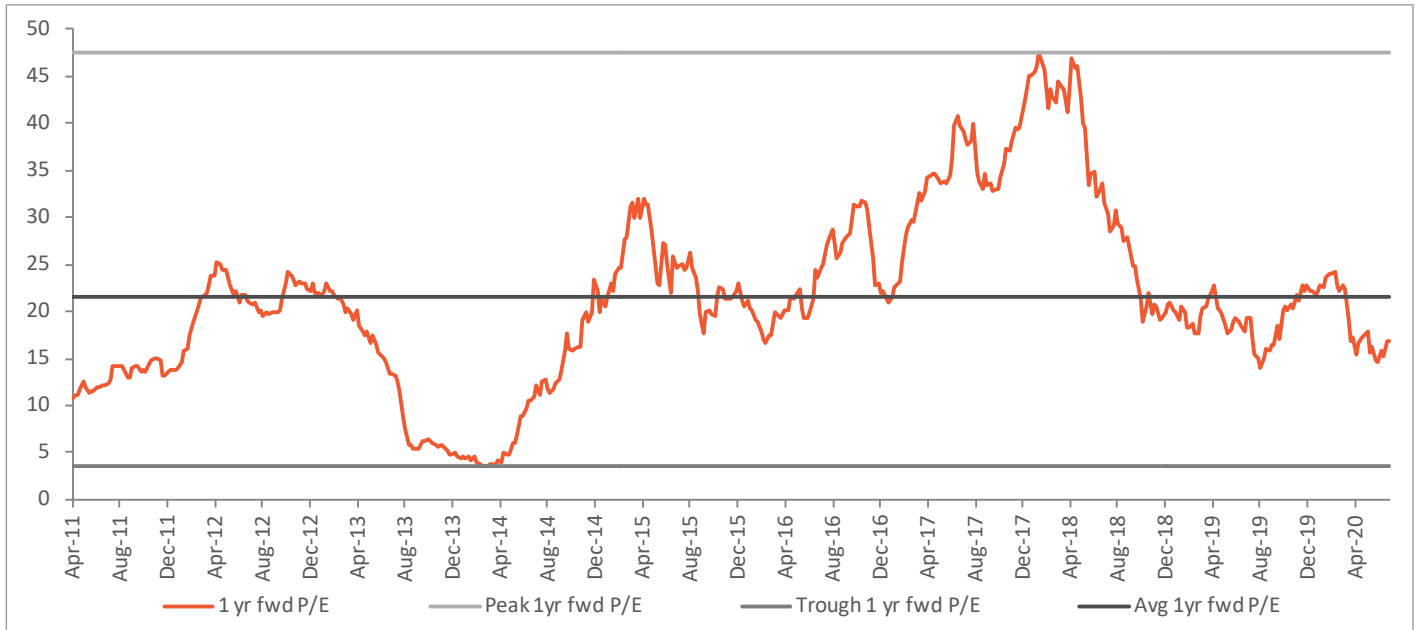
**Outlook**

**Expect normalcy post Q2FY2021:** The month of April 2020 was a complete washout for the on account of the COVID-19 related lockdown. However, May 2020 and June 2020 has shown improvement with 30% and 50% of normal business operations respectively. The management expects situation to get back to normal from Q3FY2021 onwards. Due to the current uncertainties, the management did not provide any guidance for FY2021. We expect the company to fall back to its growth trajectory from FY2022 onwards assuming normalcy returns from Q3FY2021 onwards.

**Valuation**

**Maintain Buy with revised PT of Rs. 145:** Century, like its industry peers is expected to be affected by decline in sales during FY2021. However, we expect a healthy bounce back in FY2022 with normalcy in sales expected from Q3FY2021 onwards. The company also improved its balance sheet health with a reduction in debt and an improvement in working capital which is expected to help it sail through the near term weak macro environment. We have lowered our estimates for FY2021-FY2022 factoring weak sales during H1FY2021. Post the earnings downgrade, Century is currently trading at 14.1x its FY2022E earnings which is much lower than its historical average multiple. Considering its healthy balance sheet and expected bounce back in earnings in FY2022, we maintain our Buy rating on the stock with revised price target of Rs. 145.

One-year forward P/E (x) band



Source: Sharekhan Research

## About company

Century was founded in 1986 by Mr. Sajjan Bhajanka and Mr. Sanjay Agarwal. Today, the company is the largest seller of multi-use plywood with a market share of ~25% and decorative veneers in the Indian organised plywood market. The company also has a laminate, particle board and MDF division having a capacity of 600 cubic metres/day.

## Investment theme

Like its industry peers, the company has been affected by COVID-19 led disruption which is expected to lead to a decline in earnings during FY2021. However, it is expected to return to normal operations post Q2FY2021. We expect healthy earnings bounce back in FY2022. The company has improved upon its balance sheet health by reducing debt and improving working capital. The company's expansion plan in MDF and particle board is expected to be finalized soon which would help in providing next leg of growth. Further, the GST benefits are expected to accrue although at a slower pace.

## Key Risks

- ◆ Slowdown in macro-economics, especially real estate sector, could affect volume offtake for its products.
- ◆ Unavailability or increased cost of sourcing raw materials such as Veneer affects OPM negatively.
- ◆ Inability to gain market share in the post GST era may dampen future growth outlook.

## Additional Data

### Key management personnel

|                         |  |
|-------------------------|--|
| Mr. Sajjan Bhajanka     | Chairman                               |
| Mr. Hari Prasad Agarwal | Vice Chairman                          |
| Mr. Sanjay Agarwal      | Managing Director                      |
| Arun Kumar Julasaria    | Chief Financial Officer                |
| Sundeep Jhunjhunwala    | Company Secretary & Compliance Officer |

Source: Company Website

### Top 10 shareholders

| Sr. No. | Holder Name                    | Holding (%) |
|---------|--------------------------------|-------------|
| 1       | Bhajanka Sajjan                | 11.8        |
| 2       | Agarwal Sanjay                 | 11.2        |
| 3       | AGARWAL DIVYA                  | 7.54        |
| 4       | BHAJANKA SANTOSH               | 6.95        |
| 5       | Khemani Vishnu                 | 5.76        |
| 6       | KHEMANI VISHNUPRASAD           | 5.76        |
| 7       | Sriram Vanijya Pvt Ltd         | 3.83        |
| 8       | Brijdham Merchants Pvt Ltd     | 3.49        |
| 9       | Sumangal International Pvt Ltd | 3.45        |
| 10      | Sumangal Business Pvt Ltd      | 3.07        |

Source: Bloomberg

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by BNP PARIBAS

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Compliance Officer: Mr. Joby John Meledan; Tel: 022-61150000; email id: [compliance@sharekhan.com](mailto:compliance@sharekhan.com);

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