

13 August 2020

## Century Plyboards

*Weak quarter, though outlook optimistic; maintaining a Buy*Rating: **Buy**

Target Price: ₹171

Share Price: ₹135

After almost no sales in April and May in all its major categories, Century's weak Q1 was broadly as expected. Despite the poor Q1 sales, positive EBITDA was encouraging. Its stretched working capital and increase in debt would normalise as sales rise. We expect cost savings on several measures taken to continue in FY22 and reflect in our margin estimates (downside risk, if not). We like Century for its leading positions in its product categories, strong balance-sheet and healthy FCF generation. At ~12x FY22e P/E, it is our preferred pick in the wood-panel segment. We retain our Buy rating, with a target of ₹171 (earlier ₹169), valued at 15x FY22e P/E. Growth/margin recovery across segments and capex in MDF/PB are key monitorables.

**Weak Q4, broadly in line though.** Standalone revenue/EBITDA plunged 65%/99% y/y while PAT was a negative ₹85m. Also, subsidiaries performances were impacted. While Q1 was weak, the positive EBITDA despite poor sales was encouraging. CFS, being an essential category, was the least hit. Working capital was stretched by inventory build-up and resulted in debt increasing (by ₹550m q/q). We believe these would be normal as sales improve. Decisions regarding capex and the Laos unit will be made soon.

**All divisions declined 62-69% y/y.** On almost nil sales in April and May, sales in all categories plunged 62-69% y/y, excl. CFS (down only 10%). However, good pent-up demand for products was seen on markets opening. While we expect growth to return gradually, capacity constraints in MDF/PB may restrict growth in case of a strong bounce-back in FY22.

**Cost-saving steps to support margins.** Several cost-reduction steps taken (aiming to save ~₹80m a month) would help the company sail through a tough FY21. We expect these savings to continue in FY22 and reflect in our margin expansion estimates (downside risk if they do not persist).

**Valuation.** We like Century for its diversified product range, leading position in key products and disciplined balance sheet. We retain our Buy recommendation. **Risks:** Rising input costs, currency fluctuations.

Key financials (YE Mar)	FY18	FY19	FY20	FY21e	FY22e
Sales (₹ m)	20,238	22,804	23,170	18,267	23,611
Net profit (₹ m)	1,660	1,489	1,252	1,377	2,536
EPS (₹)	7.5	6.7	5.6	6.2	11.4
PE (x)	18.1	20.2	24.0	21.8	11.8
EV / EBITDA (x)	10.6	11.4	9.8	11.4	6.7
3PBV (x)	3.5	3.1	2.8	2.5	2.1
RoE (%)	19.5	15.3	11.5	11.3	17.4
RoCE (%) – after tax	11.6	11.1	13.1	9.4	14.4
Dividend yield (%)	0.7	0.7	0.7	0.1	0.7
Net debt / equity (x)	0.6	0.4	0.2	-0.1	-0.2

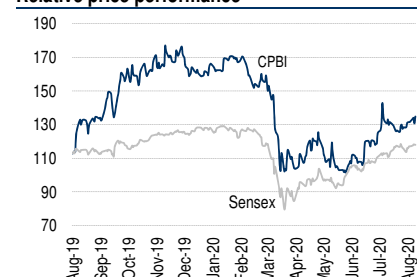
Source: Company, Anand Rath Research

Key data	CPBI IN / CNTP.BO
52-week high / low	₹182 / 95
Sensex / Nifty	38321 / 11306
3-m average volume	\$1.1m
Market cap	₹30bn / \$400.4m
Shares outstanding	222m

Shareholding pattern (%)	Jun'20	Mar'20	Dec'19
Promoters	73.1	73.1	72.9
- of which, Pledged	-	-	-
Free float	27.0	27.0	27.2
- Foreign institutions	6.4	6.9	7.2
- Domestic institutions	9.1	8.2	7.3
- Public	11.5	11.8	12.6

Estimates revision (%)	FY21e	FY22e
Sales	(1)	1
EBITDA	(4)	1
PAT	0	1

### Relative price performance



Source: Bloomberg

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## Quick Glance – Financials and Valuations (Consol.)

**Fig 1 – Income statement (₹ m)**

Year-end: Mar	FY18	FY19	FY20	FY21e	FY22e
Net revenues	20,238	22,804	23,170	18,267	23,611
Growth (%)	11.3	12.7	1.6	-21.2	29.3
Direct costs	9,860	11,509	11,605	8,832	11,201
SG&A	7,069	8,279	8,258	6,871	8,257
<b>EBITDA</b>	<b>3,310</b>	<b>3,016</b>	<b>3,307</b>	<b>2,564</b>	<b>4,153</b>
EBITDA margins (%)	16.4	13.2	14.3	14.0	17.6
- Depreciation	907	595	763	690	772
Other income	79	71	128	161	160
Interest expenses	358	469	389	218	179
PBT	2,123	2,023	1,772	1,817	3,363
Effective tax rate (%)	21.8	26.4	29.3	24.2	24.6
+ Associates / (Minorities)	-	-	-	-	-
<b>Net income</b>	<b>1,660</b>	<b>1,489</b>	<b>1,252</b>	<b>1,377</b>	<b>2,536</b>
Adjusted income	1,660	1,489	1,763	1,377	2,536
WANS	223	223	223	223	223
FDEPS (₹ / sh)	7.5	6.7	5.6	6.2	11.4
FDEPS growth (%)	(14.2)	(10.3)	(15.9)	9.9	84.2
Gross margins (%)	51.3	49.5	49.9	51.7	52.6

**Fig 3 – Cash-flow statement (₹ m)**

Year-end: Mar	FY18	FY19	FY20	FY21e	FY22e
EBIT (excluding other income)	2,467	2,490	1,763	1,894	3,402
+ Non-cash items	971	664	493	710	792
Oper. prof. before WC	3,438	3,154	2,255	2,604	4,193
- Incr. / (decr.) in WC	729	-97	-802	-1,120	1,133
Others incl. taxes	-407	216	631	413	805
Operating cash-flow	3,115	3,035	2,427	3,311	2,256
- Capex (tang. + intang.)	2,610	1,474	76	200	280
Free cash-flow	505	1,561	2,351	3,111	1,976
Acquisitions	-	-	-	-	-
- Div.(incl. buyback & taxes)	267	267	267	45	223
+ Equity raised	-	-	-	-	-
+ Debt raised	-318	-530	-2,242	-500	-400
- Fin investments	0	3	-1	2,000	1,500
- Misc. (CFI + CFF)	382	710	(142)	107	69
Net cash-flow	-461	51	-15	459	-216

Source: Company, Anand Rathi Research

**Fig 5 – Price movement**



Source: Bloomberg

**Fig 2 – Balance sheet (₹ m)**

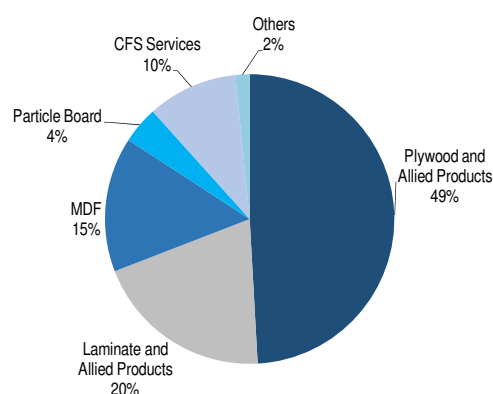
Year-end: Mar	FY18	FY19	FY20	FY21e	FY22e
Share capital	223	223	223	223	223
Net worth	8,516	9,749	10,906	12,238	14,552
Debt	5,346	4,816	2,574	2,074	1,674
Minority interest	184	253	-17	3	23
DTL / (Assets)	23	12	5	7	9
<b>Capital employed</b>	<b>14,069</b>	<b>14,830</b>	<b>13,468</b>	<b>14,322</b>	<b>16,257</b>
Net tangible assets	6,475	8,348	7,764	7,374	6,902
Net intangible assets	18	16	22	22	22
Goodwill	-	-	-	-	-
CWIP (tang. & intang.)	1,261	268	160	60	40
Investments (strategic)	-	-	-	-	-
Investments (financial)	61	64	63	2,063	3,563
Current assets (ex cash)	9,228	9,159	8,344	6,820	8,309
Cash	211	262	248	707	491
Current liabilities	3,186	3,288	3,132	2,724	3,070
Working capital	6,042	5,870	5,211	4,096	5,239
<b>Capital deployed</b>	<b>14,069</b>	<b>14,830</b>	<b>13,468</b>	<b>14,322</b>	<b>16,257</b>
Contingent liabilities	825	435	-	-	-

**Fig 4 – Ratio analysis**

Year-end: Mar	FY18	FY19	FY20	FY21e	FY22e
P/E (x)	18.1	20.2	24.0	21.8	11.8
EV / EBITDA (x)	10.6	11.4	9.8	11.4	6.7
EV / Sales (x)	1.7	1.5	1.4	1.6	1.2
P/B (x)	3.5	3.1	2.8	2.5	2.1
RoE (%)	19.5	15.3	11.5	11.3	17.4
RoCE (%) - after tax	11.6	11.1	13.1	9.4	14.4
RoIC	14.9	12.9	13.6	11.5	18.2
DPS (₹ / sh)	1.0	1.0	1.0	0.2	1.0
Dividend yield (%)	0.7	0.7	0.7	0.1	0.7
Dividend payout (%) - incl. DDT	13.4	14.9	17.8	3.2	8.8
Net debt / equity (x)	0.6	0.4	0.2	-0.1	-0.2
Receivables (days)	64	47	40	40	40
Inventory (days)	69	74	63	60	60
Payables (days)	32	26	24	24	24
CFO : PAT %	187.6	203.9	137.7	240.5	89.0

Source: Company, Anand Rathi Research

**Fig 6 – Q1 FY21 revenue break-up (standalone)**



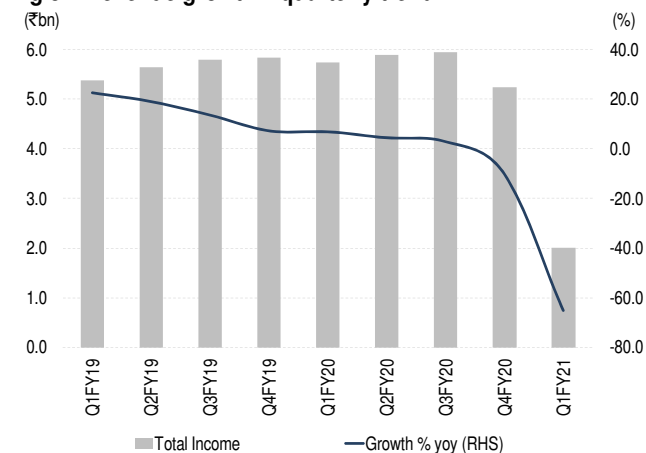
Source: Company

## Financial highlights

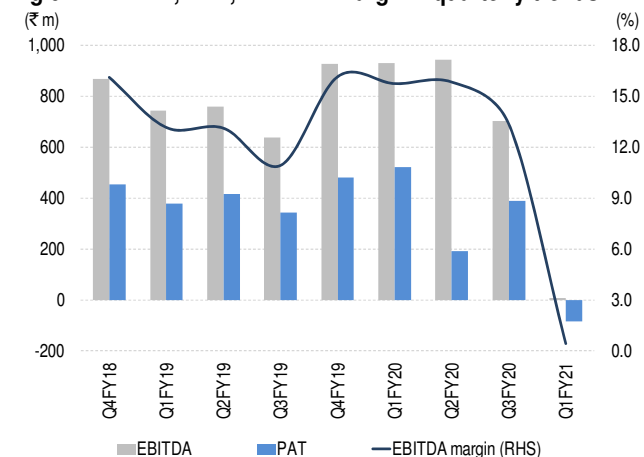
Fig 7 – Financials (standalone)

(₹ m)	Q1 FY20	Q2 FY20	Q3 FY20	Q4 FY20	Q1 FY21	% Y/Y	% Q/Q	FY20	FY19	% Y/Y
<b>Income</b>	<b>5,737</b>	<b>5,894</b>	<b>5,954</b>	<b>5,242</b>	<b>2,007</b>	<b>(65)</b>	<b>(62)</b>	<b>22,827</b>	<b>22,638</b>	<b>1</b>
RM costs	2,921	2,958	3,041	2,563	946	(68)	(63)	11,483	11,816	(3)
Employee costs	845	884	846	866	566	(33)	(35)	3,441	3,277	5
Other expenses	1,045	1,124	1,124	1,112	487	(53)	(56)	4,405	4,542	(3)
<b>EBITDA</b>	<b>926</b>	<b>928</b>	<b>943</b>	<b>701</b>	<b>8</b>	<b>(99)</b>	<b>(99)</b>	<b>3,497</b>	<b>3,004</b>	<b>16</b>
Depreciation	169	170	173	163	143	(16)	(12)	676	500	35
Finance costs	90	108	92	83	50	(44)	(39)	372	446	(16)
Other income	11	86	13	1	46	305	3,950	111	61	83
Exceptional items	-	-	(456)	-	-	-	-	(456)	-	-
<b>PBT</b>	<b>679</b>	<b>735</b>	<b>234</b>	<b>456</b>	<b>(139)</b>	<b>(120)</b>	<b>(130)</b>	<b>2,104</b>	<b>2,119</b>	<b>(1)</b>
Tax	197	213	43	69	(54)	(127)	(178)	522	531	(2)
<b>PAT</b>	<b>481</b>	<b>521</b>	<b>191</b>	<b>388</b>	<b>(85)</b>	<b>(118)</b>	<b>(122)</b>	<b>1,582</b>	<b>1,588</b>	<b>(0)</b>
EPS (calculated) (₹)	2.2	2.3	0.9	1.7	(0.4)	(118)	(122)	7.1	7.1	(0)
<b>As % of income</b>						<b>bps y/y</b>	<b>bps q/q</b>			<b>bps y/y</b>
<b>Gross margins</b>	<b>49.1</b>	<b>49.8</b>	<b>48.9</b>	<b>51.1</b>	<b>52.9</b>	<b>380</b>	<b>177</b>	<b>49.7</b>	<b>47.8</b>	<b>189</b>
Employee costs	14.7	15.0	14.2	16.5	28.2	1,347	1,166	15.1	14.5	60
Other expenses	18.2	19.1	18.9	21.2	24.3	606	306	19.3	20.1	(76)
<b>EBITDA margins</b>	<b>16.1</b>	<b>15.7</b>	<b>15.8</b>	<b>13.4</b>	<b>0.4</b>	<b>(1,573)</b>	<b>(1,295)</b>	<b>15.3</b>	<b>13.3</b>	<b>205</b>
Depreciation	3.0	2.9	2.9	3.1	7.1	416	401	3.0	2.2	75
Finance costs	1.6	1.8	1.5	1.6	2.5	95	94	1.6	2.0	(34)
Other income	0.2	1.5	0.2	0.0	2.3	210	228	0.5	0.3	22
<b>PBT</b>	<b>11.8</b>	<b>12.5</b>	<b>11.6</b>	<b>8.7</b>	<b>(6.9)</b>	<b>(1,874)</b>	<b>(1,562)</b>	<b>11.2</b>	<b>9.4</b>	<b>186</b>
Effective tax rate	29.1	29.0	18.3	15.0	38.8	968	2,374	24.8	25.1	(24)
<b>PAT margins</b>	<b>8.4</b>	<b>8.8</b>	<b>3.2</b>	<b>7.4</b>	<b>(4.2)</b>	<b>(1,262)</b>	<b>(1,163)</b>	<b>6.9</b>	<b>7.0</b>	<b>(8)</b>
<b>Revenue, by segment (₹ m)</b>						<b>% Y/Y</b>	<b>% Q/Q</b>			<b>% Y/Y</b>
Plywood and allied products	3,157	3,165	3,229	2,792	988	(69)	(65)	12,343	12,781	(3)
Laminate and allied products	1,071	1,352	1,149	1,061	403	(62)	(62)	4,633	4,390	6
Medium-density fibre boards	919	777	966	843	303	(67)	(64)	3,505	2,954	19
Particle boards	249	262	250	231	83	(67)	(64)	991	975	2
CFS services	225	220	220	204	203	(10)	(1)	870	1,037	(16)
Others	125	124	149	120	32	(74)	(73)	518	534	(3)
<b>Revenue mix (%)</b>										
Plywood and allied products	54.9	53.6	54.2	53.2	49.1			54.0	56.4	
Laminate and allied products	18.6	22.9	19.3	20.2	20.0			20.3	19.4	
Medium-density fibre boards	16.0	13.2	16.2	16.1	15.1			15.3	13.0	
Particle boards	4.3	4.4	4.2	4.4	4.1			4.3	4.3	
CFS services	3.9	3.7	3.7	3.9	10.1			3.8	4.6	
Others	2.2	2.1	2.5	2.3	1.6			2.3	2.4	
<b>EBITDA margins (%)</b>										
Plywood and allied products	14.6	15.5	(1.7)	8.1	(7.0)			9.1	13.6	(455)
Laminate and allied products	10.5	14.4	13.9	15.1	5.5	(498)	(953)	13.5	8.8	473
Medium-density fibre boards	23.5	22.3	25.9	25.3	7.5	(1,594)	(1,779)	24.3	13.0	1,135
Particle boards	24.4	29.7	23.9	21.5	10.5	(1,392)	(1,099)	25.0	22.4	254
CFS services	34.2	31.9	34.9	34.1	34.5	29	45	33.8	32.4	134
<b>EBIT (₹ m)</b>										
Plywood and Allied Products	470	450	(56)	219	(77)			1,084	1,829	(41)
Laminate and Allied Products	96	178	141	146	2	(98)	(99)	561	337	66
Medium Density Fibre Board	169	133	204	164	(25)			670	200	235
Particle Board	56	66	48	38	1	(98)	(97)	208	177	18
CFS Services	39	32	38	42	42	7	(0)	151	260	(42)
<b>EBIT Margin (%)</b>						<b>bps y/y</b>	<b>bps q/q</b>			<b>bps y/y</b>
Plywood and Allied Products	14.9	14.2	(1.7)	7.9	(7.8)			8.8	14.3	(553)
Laminate and Allied Products	9.0	13.2	12.3	13.8	0.5	(849)	(1,331)	12.1	7.7	443
Medium Density Fibre Board	18.4	17.1	21.1	19.5	(8.2)			19.1	6.8	1,235
Particle Board	22.4	25.4	19.2	16.6	1.4	(2,097)	(1,520)	21.0	18.2	285
CFS Services	17.4	14.5	17.5	20.5	20.7	324	15	17.4	25.1	(766)
Others	6.5	10.1	10.1	(9.9)	(22.8)			4.6	5.1	(56)
<b>Total</b>	<b>14.6</b>	<b>14.8</b>	<b>6.6</b>	<b>11.4</b>	<b>(3.2)</b>	<b>(1,781)</b>	<b>(1,460)</b>	<b>11.8</b>	<b>12.5</b>	<b>(68)</b>
Un-allocable (as % revenue)	(1.2)	(0.5)	(1.1)	(1.1)	(1.2)			(1.0)	(1.2)	20

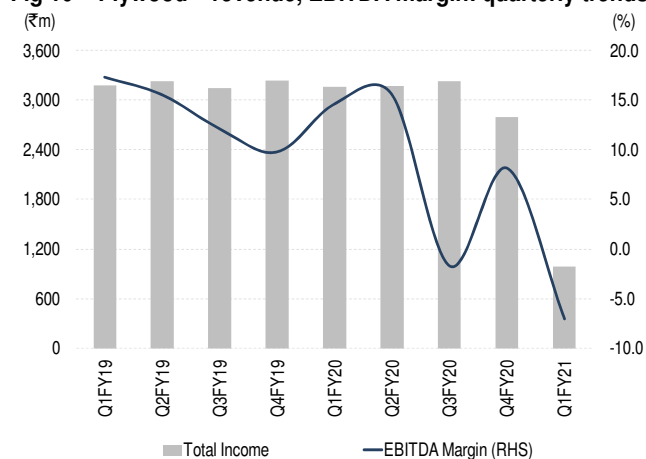
Source: Company, Anand Rathi Research

**Fig 8 – Revenue growth – quarterly trend**

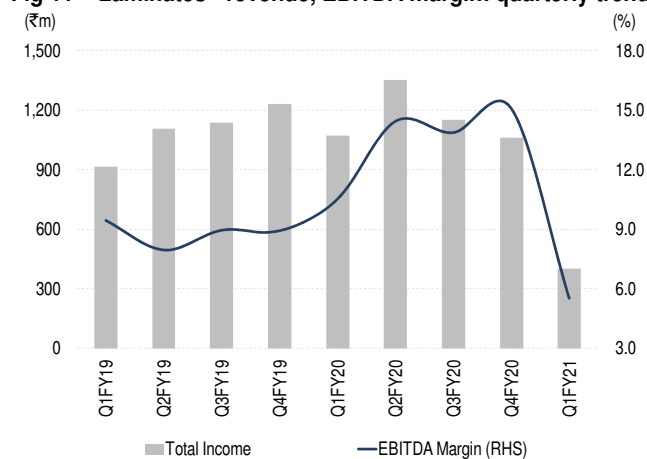
Source: Company, Anand Rathi Research

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

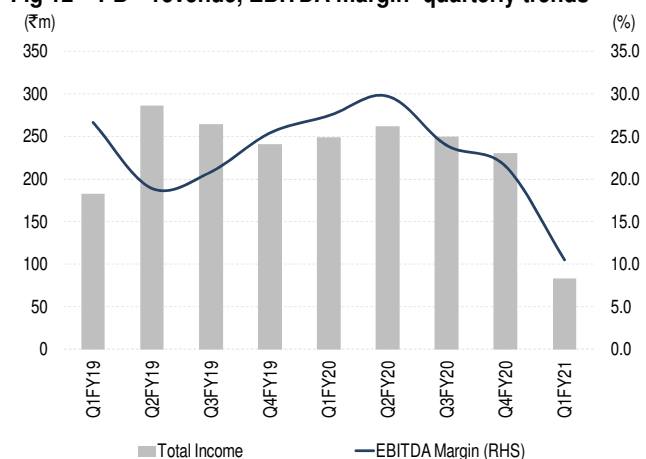
Source: Company, Anand Rathi Research

**Fig 10 – Plywood – revenue, EBITDA margin: quarterly trends**

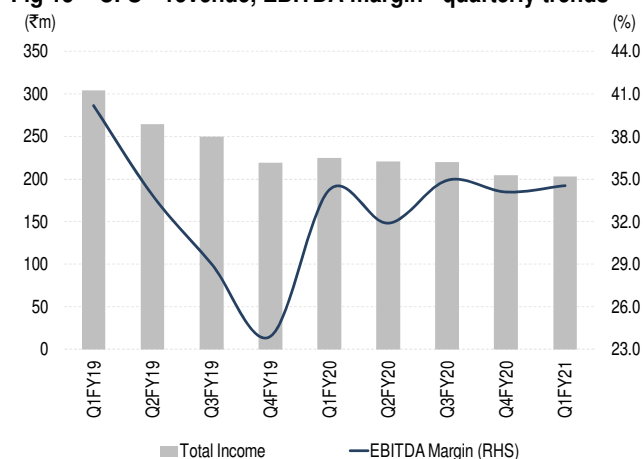
Source: Company, Anand Rathi Research

**Fig 11 – Laminates - revenue, EBITDA margin: quarterly trend**

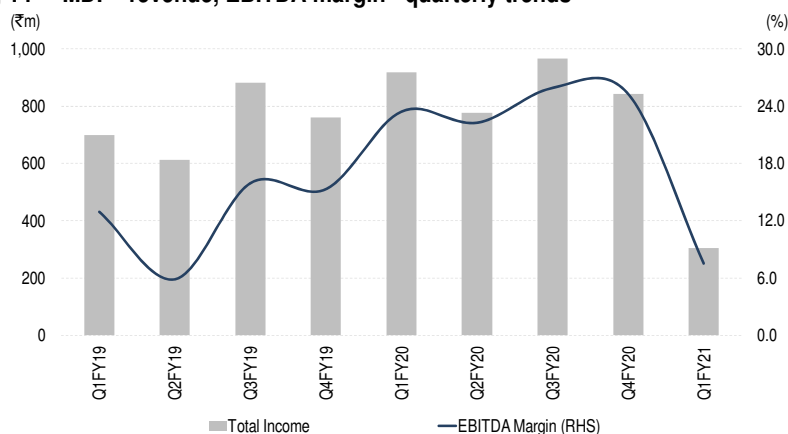
Source: Company, Anand Rathi Research

**Fig 12 – PB – revenue, EBITDA margin- quarterly trends**

Source: Company, Anand Rathi Research

**Fig 13 – CFS – revenue, EBITDA margin - quarterly trends**

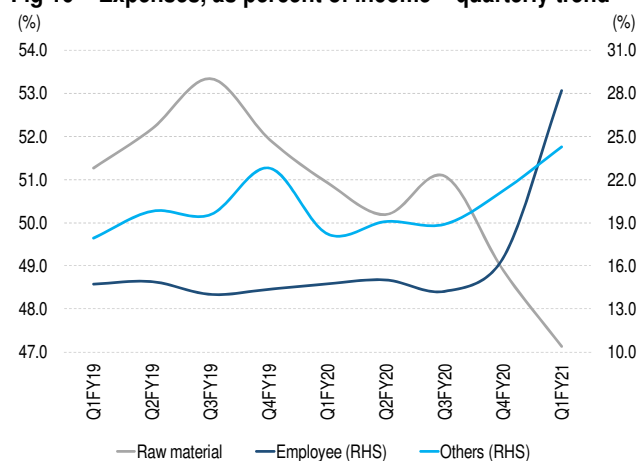
Source: Company, Anand Rathi Research

**Fig 14 – MDF - revenue, EBITDA margin - quarterly trends**

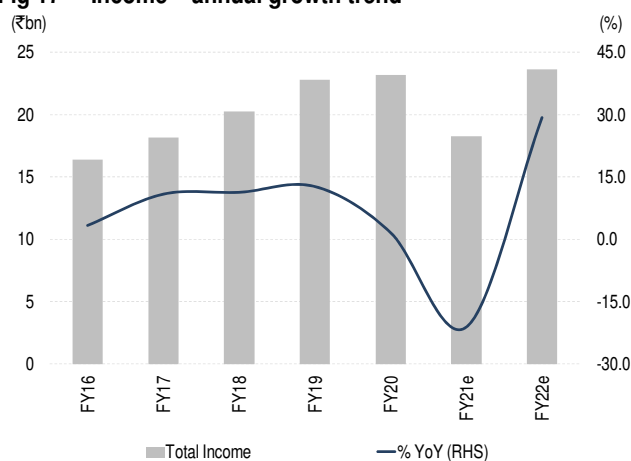
Source: Company, Anand Rathi Research

**Fig 15 – Earnings growth – quarterly trend**

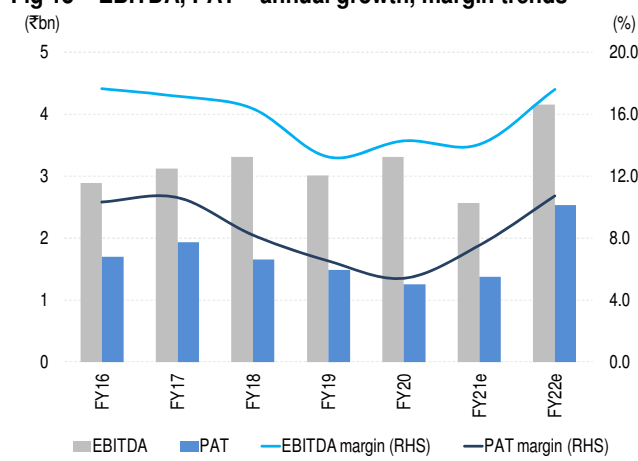
Source: Company, Anand Rathi Research

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

Source: Company, Anand Rathi Research

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

We like Century Ply for its leading positions across its product categories, strong balance-sheet and healthy FCF generation. At ~12x FY22e P/E, we find valuations attractive. Thus, we maintain our Buy rating with a price target of ₹171 (earlier ₹169), valued at 15x FY22e P/E. Growth and margin recovery across segments and the MDF capacity-expansion plan are key monitorables.

**Fig 19 – Change in estimates**

(₹ m)	Old estimates		New estimates		% Var	
	FY20e	FY21e	FY20e	FY21e	FY20e	FY21e
Income	18,426	23,348	18,267	23,611	(1)	1
EBITDA	2,667	4,106	2,564	4,153	(4)	1
PAT	1,374	2,508	1,377	2,536	0	1

Source: Anand Rath Research

**Fig 20 – One-year-forward – PE band and Standard deviation**



Source: Company, Anand Rath Research

## Risks

- **Continuing slowdown in real-estate activity.** Home renovations/purchases are the prime drivers for ply-laminate-MDF. Thus, a continuing slowdown may keep the company's growth in the slow lane.
- **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.

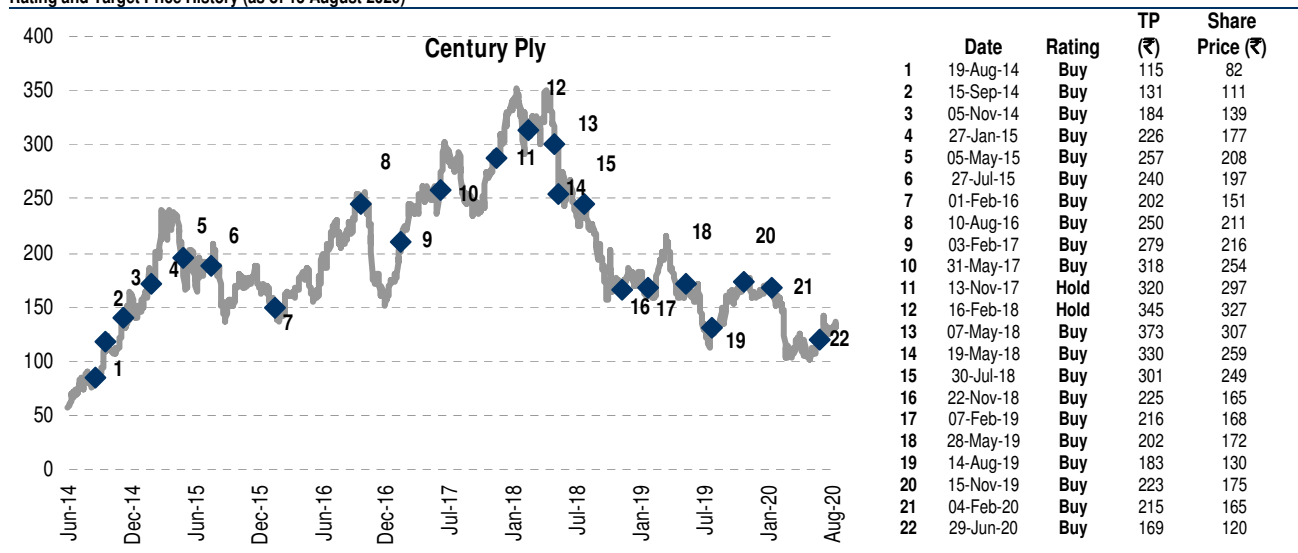
## Appendix

### Analyst Certification

The views expressed in this Research Report accurately reflect the personal views of the analyst(s) about the subject securities or issuers and no part of the compensation of the research analyst(s) was, is, or will be directly or indirectly related to the specific recommendations or views expressed by the research analyst(s) in this report. The research analysts are bound by stringent internal regulations and also legal and statutory requirements of the Securities and Exchange Board of India (hereinafter "SEBI") and the analysts' compensation are completely delinked from all the other companies and/or entities of Anand Rathi, and have no bearing whatsoever on any recommendation that they have given in the Research Report.

### Important Disclosures on subject companies

#### Rating and Target Price History (as of 13 August 2020)



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Analysts' ratings and the corresponding expected returns take into account our definitions of Large Caps (>US\$1bn) and Mid/Small Caps (<US\$1bn) as described in the Ratings Table below:

#### Ratings Guide (12 months)

	Buy	Hold	Sell
Large Caps (>US\$1bn)	>15%	5-15%	<5%
Mid/Small Caps (<US\$1bn)	>25%	5-25%	<5%

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