

Century Plyboards (India) Limited

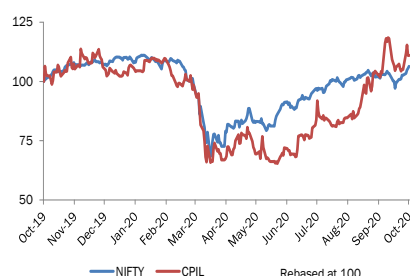
09 October 2020

Market leader poised to benefit from demand recovery and MDF's growth

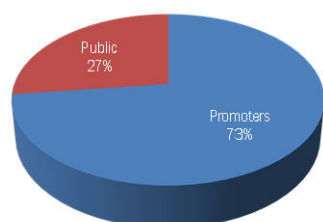
BUY

Sector	: Wood Products
Target Price	: Rs 206
Current Market Price	: Rs 171
Market Cap	: Rs 3,797 crore
52-week High/Low	: Rs 192/95
Daily Avg Vol (12M)	: 4,43,153
Face Value	: Rs 1
Beta	: 1.02
Pledged Shares	: 0%
Year End	: March
BSE Scrip Code	: 532548
NSE Scrip Code	: CENTURYPLY
Bloomberg Code	: CPBI IN
Reuters Code	: CNTP.NS
Nifty	: 11,914
BSE Sensex	: 40,509
Analyst	: Ritwik Bhattacharjee

Price Performance



Shareholding Pattern



Introductory Note

Investment Summary

- Century Plyboards (India) Limited (CPIL) has evolved from an eastern India-based regional player to a pan-India company with international presence. The company has expanded its footprint through a network of branch offices and distributors across the country and has also successfully established manufacturing facilities in different parts of India.
- CPIL has transformed itself from a single-product to multi-product company with almost a half of total revenues coming from non-plywood products such as laminates, decorative veneer, MDF and particle board.
- CPIL is a market leader in plywood with a share of ~25% in India's organised plywood market.
- Cost reduction measures will help tide over the tough market conditions amidst the COVID-19 outbreak.
- CPIL's target to go debt-free by 1H FY22 will further strengthen its balance sheet and positively impact margins.
- Atmanirbhar Bharat initiatives will benefit CPIL in the medium-to-long term, especially for MDF and particle board. CPIL is a market leader in India's MDF market, where the unorganised segment has no presence. Low penetration will drive strong growth for MDF going forward.
- We expect revenue and EBITDA to witness a decline in FY21 due to the COVID-19 outbreak. We have modelled an improvement in PAT owing to the effect of the impairment loss on last FY's PAT. We expect strong growth recovery in FY22 driven by revival of demand coupled with improvements in margin. The targeted full repayment of long-term debt will boost PAT margin incrementally. Basis its industry leadership position in plywood and MDF, and healthy margin profile, we value CPIL at a target P/E multiple of 20.0x FY22E EPS. This generates a price target of Rs 206 with an upside of 21% and informing a BUY rating.

Key Financial Metrics (Consolidated)

Rs crore	FY18A	FY19A	FY20A	FY21E	FY22E
Operating revenue	2,024	2,280	2,317	1,835	2,351
Growth		12.7%	1.6%	-20.8%	28.1%
EBITDA	331	302	331	251	348
EBITDA margin	16.4%	13.2%	14.3%	13.7%	14.8%
PAT	166	149	125	138	233
PAT margin	8.2%	6.5%	5.4%	7.5%	9.9%
Diluted EPS (Rs)	7.34	6.68	6.78	6.05	10.32

Source: Company data; Khambatta Research

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CPIL has 7 manufacturing units in India and 5 outside the country

Company Profile

Established in 1986, Century Plyboards (India) Limited (CPIL) is a manufacturer of engineered wood and laminates. The Kolkata-headquartered company controls more than a fourth of India's organised plywood market. Besides plywood, CPIL manufactures medium density fibreboard (MDF) and particle board in engineered wood. Across 12 manufacturing units (7 in India and 5 outside the country), the company has installed capacities for 2.4 lakh CBM of plywood, 2.0 lakh CBM of MDF, 54,000 CBM of particle board, and 75 lakh sheets of laminates. It has 2 container freight stations located near the Kolkata port. CPIL exports its product to Singapore, Indonesia, Thailand, Vietnam, the UAE, Israel, the US, Canada, Mexico, Venezuela and other countries.

Investment Thesis

CPIL has evolved from an eastern India-based regional player to a pan-India company with international presence. CPIL started out as a Kolkata-based local plywood manufacturer and a regional player focusing on eastern India. Over the years, the company has expanded its footprint through a network of branch offices and distributors across the country and has also successfully established manufacturing facilities in different parts of India. Besides selling its products pan-India, CPIL exports to countries in Asia-Pac, the Middle East, and North, Central and South Americas.

Non-plywood products like laminates, decorative veneer, MDF and particle board accounted for 46% of FY20 revenues

Transformation from a single-product to multi-product company with almost a half of total revenues coming from non-plywood products. In its early life CPIL was a predominantly plywood business. Over the years, however, the company has successfully launched products across other categories. CPIL's product portfolio now includes laminates, decorative veneer, MDF and particle board with the company changing its positioning from a plywood player to an interior infrastructure company. With revenues from the non-plywood segments rising, these products accounted for 46% of total revenues in FY20.

CPIL is the market leader in plywood with ~25% share

CPIL is a market leader in plywood. CPIL commands a market share of ~25% in India's organised plywood market. Greenply has approximately the same market share as CPIL. National Plywood, Kitply and Uniply are some of the other organised players but none of these companies has a market share of more than 5%. (Source: *Televisory*). While the organised segment accounts for only a fourth of the overall plywood market in India, the unorganised market primarily caters to the more price-sensitive markets/customers due to their lower pricing (which also means lower quality). Notwithstanding some degree of competition between the organised and unorganised players, the two market segments' primary target audiences are different. The rationalisation of GST on plywood from 28% to 18% has potentially driven some customers from the unorganised to the organised market.

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Cost reduction measures will help tide over the tough market conditions amidst the COVID-19 outbreak. CPIL has taken measures to manage operating expenses in the wake of the COVID-19 outbreak and its impact on sales. The company has effected salary cuts across the board and spending less on travel. CPIL looks to reverse the pay cuts once sales are back to 80% of average quarterly run-rate. We believe these steps will help the company tide over the tough times with greater ease.

Target to go debt-free will further strengthen balance sheet and positively impact margins. CPIL has a healthy balance sheet with decent working capital position. The company has successfully brought down its long-term debt from Rs 167 crore in FY18 to Rs 53 crore at the end of FY20. Working capital loans came down from Rs 350-370 crore range during FY18-FY19 to ~Rs 180 crore in FY20. This could be attributed to lower debtor levels by Rs 100 crore (from Rs 357 crore in FY18 to Rs 257 crore in FY20). The company now targets to go debt-free by 1H FY22, which will further strengthen the balance sheet and positively impact PAT margin.

Atmanirbhar Bharat initiatives will benefit the MDF segment where CPIL is a market leader. We believe the Government of India's *Atmanirbhar Bharat* initiatives will benefit CPIL in the medium-to-long term, especially for MDF and particle board. Approximately 30% of MDF consumed in India is imported. The MDF market in India is still in an emerging phase with low penetration, offering stronger growth potential going forward. Compared with an MDF-to-plywood consumption ratio of 65:35 globally, India's MDF consumption is only 10%. CPIL and Greenply are market leaders in MDF, each commanding ~25% market share. (Source: *Televisory*). The unorganised segment does not have a presence in India's MDF market. The impact of *Atmanirbhar Bharat* on plywood and laminates is not expected to be as much as the import of these products is limited.

Valuation

At 20.0x FY22E EPS, we rate CPIL a BUY with a target price of Rs 206 and an upside potential of 21%. CPIL's 1Q FY21 was significantly affected due to the COVID-related lockdown, Cyclone Amphan which hit West Bengal's coastal region and Kolkata, and demand slowdown, especially from the real estate segment. The company reported 65% y-o-y decline in sales, a virtual washout at the operating profit level and a loss at the PAT level. Demand for CPIL's products are primarily driven by the building construction end market. While the demand scenario has been improving since 1Q FY21, we expect revenue and EBITDA to witness a decline over the full year. We have modelled an improvement in PAT owing to the effect of the impairment loss on last FY's PAT. With July revenue run-rate reaching 75% on a y-o-y basis, we anticipate steady sequential improvement in sales through 4Q FY21. Thereafter, we expect strong growth recovery in FY22 driven by revival of demand coupled with improvements in margin. The targeted full repayment of long-term debt will boost PAT margin incrementally. Basis its industry leadership position in plywood and MDF, and healthy margin profile,

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Abridged Profit & Loss Account (Consolidated)

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Key Risks

- Any significant loss in market share will lead to underperformance of our forecasts.
- Any disruption based on new product technologies leading to a change in consumer preferences have the potential to significantly affect demand for CPIL's products.
- An extended economic downturn, especially continued demand slowdown in the real estate sector, owing to / as a fallout of the COVID-19 pandemic may lead to underperformance of our forecasts.

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Guide to Khambatta's research approach

Valuation methodologies

We apply the following absolute/relative valuation methodologies to derive the 'fair value' of the stock as a part of our fundamental research:

DCF: The Discounted Cash Flow (DCF) method values an estimated stream of future free cash flows discounted to the present day, using a company's WACC or cost of equity. This method is used to estimate the attractiveness of an investment opportunity and as such provides a good measure of the company's value in absolute terms. There are several approaches to discounted cash flow analysis, including Free Cash Flow to Firm (FCFF), Free Cash Flow to Equity (FCFE) and the Dividend Discount Model (DDM). The selection of a particular approach depends on the particular company being researched and valued.

ERE: The Excess Return to Equity (ERE) method takes into consideration the absolute value of a company's return to equity in excess of its cost of equity discounted to the present day using the cost of equity. This methodology is more appropriate for valuing banking stocks than FCFF or FCFE methodologies.

Relative valuation: In relative valuation, various comparative multiples or ratios including Price/Earnings, Price/Sales, EV/Sales, EV/EBITDA, Price/Book Value are used to assess the relative worth of companies which operate in the same industry/industries and are thereby in the same peer group. Generally our approach involves the use of two multiples to estimate the relative valuation of a stock.

Other methodologies such as DuPont Analysis, CFROI, NAV and Sum-of-the-Parts (SOTP) are applied where appropriate.

Stock ratings

Buy recommendations are expected to improve, based on consideration of the fundamental view and the currency impact (where applicable) by at least 15%.

Hold recommendations are expected to improve, based on consideration of the fundamental view and the currency impact (where applicable) between 5% and 15%.

Sell recommendations are expected to improve up to 5% or deteriorate, based on consideration of the fundamental view and the currency impact (where applicable).

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