Sharekhan by BNP PARIBAS

Powered by the Sharekhan 3R Research Philosophy

3R MATRIX	+	=	-
Right Sector (RS)	✓		
Right Quality (RQ)	✓		
Right Valuation (RV)		✓	

+ Positive = Neutral - Negative

Reco/View	Change
Reco: **Buy**	↔
CMP: **Rs. 185**	
Price Target: **Rs. 215**	↑

↑ Upgrade ↔ Maintain ↓ Downgrade

Company details

Market cap:	Rs. 4,108 cr
52-week high/low:	Rs. 197/95
NSE volume: (No of shares)	5.8 lakh
BSE code:	532548
NSE code:	CENTURYPLY
Free float: (No of shares)	19.9 cr

Shareholding (%)

Promoters	73
FII	6
DII	11
Others	11

Price chart

Price performance

(%)	1m	3m	6m	12m
Absolute	8.1	41.4	76.1	11.4
Relative to Sensex	0.7	27.8	37.1	2.8

Sharekhan Research, Bloomberg

Stock Update

Century Plyboards (India) Limited

Strong outperformance led by MDF

Building Materials | Sharekhan code: CENTURYPLY | Result Update

Summary

- We retain our Buy rating on Century with a revised PT of Rs. 215, as we see further room for an upside considering its strong growth outlook and healthy balance sheet.
- Q2FY2021 numbers beat expectations considering shift recovery in revenues along with sharp rise in OPM, led by exceptionally strong performance from the MDF segment.
- September sales equate same period last year, while October is said to be historical. Management has retained its guidance on possible uncertainties by the second wave of Covid-19 pandemic.
- Steep de-leveraging and normalising of working capital. The company expects to be debt free by FY2021 end. Greenfield expansion of MDF in South to be firmed up by December 2020.

Century Plyboards (India) Limited (Century) reported shift recovery in revenues along with sharp recovery in OPM, led by exceptionally strong performance by the MDF segment. The company's standalone revenue declined 11.8% y-o-y to Rs. 520 crore (better than estimate), aided by strong revenue growth in MDF (up 20% y-o-y), while plywood and laminate declined by 15% y-o-y and 25% y-o-y, respectively. Century reported strong beat in OPM, which stood at 16.5% (up 125 bps y-o-y), which was also led by strong OPM in MDF (up 581 bps y-o-y to 28.1%). Hence, operating profit declined at a lower rate of 4.5% y-o-y to Rs. 86 crore. Healthy operational performance along with lower effective tax rate led to adjusted net profit of Rs. 50.4 crore (down 2.7% y-o-y, adjusting for forex gain/loss). Century has seen a sharp improvement in Q2 with September 2020 sales almost equal to same period last year, while October 2020 sales are said to be an all-time high in the history of the company. However, due to current uncertainty on the second wave of Covid-19 pandemic, management retained its earlier guidance of normal revenue run-rate by Q4FY2021. The company has also significantly improved its balance sheet with debt getting trimmed down from Rs. 244 crore in Q1FY2021 to just Rs. 85 crore (average borrowing cost below 3%) in Q2FY2021 and further expects to be debt free by FY2021 end (versus earlier guidance of FY2022 end). Working capital has also normalised at 2.3 months. On the capex front, the company will now be firming up Greenfield capacity for MDF (earlier fungible capacity for MDF and particle board) in Southern India (earlier U.P.) by December 2020. The company is optimistic on pent-up demand across India sustaining, while its new technology feature, VIROKILL, in its products will help gain market share. Further, going ahead, the government's initiatives to enhance domestic furniture manufacturing and making it globally competitive would provide strong growth avenues. We have fine tuned our earnings estimates for FY2021E. Century has almost risen by 65% since we upgraded the stock to Buy in our Q4FY2020 review report dated April 9, 2020. The stock is currently trading at a P/E of 22.6x and 18.6x its FY2022E and FY2023E earnings, which we believe provides further room for upside, considering its strong growth outlook and healthy balance sheet. Hence, we have maintained our Buy rating on the stock with a revised price target of Rs. 215.

Key positives

- Exceptionally strong performance from MDF in terms of revenue growth and OPM.
- Steep reduction in debt from Rs. 244 crore in Q1 to just Rs. 85 crore in Q2.
- October sales said to be all-time high in the history of the company.
- Firming up of capex plans for MDF by December 2020.

Key negatives

- Laminates revenue dipped 25% y-o-y, although it is expected to perform well, being a lag to plywood.
- Fungible capacity plans at U.P. scraped as of now due to delay in getting license.

Our Call

Valuation –Maintain Buy with a revised PT of Rs. 215: Century, like some of its industry peers, has been able to steeply recover in Q2 with strong traction continuing in October 2020. Further, the company has significantly improved its balance sheet. The company has key positive triggers lying ahead in terms of government's plans of enhancing domestic manufacturing and making it globally competitive. Century has almost risen 65% since we upgraded the stock to Buy in our Q4FY2020 review report dated April 9, 2020. The stock is currently trading at a P/E of 22.6x and 18.6x its FY2022E and FY2023E earnings, respectively, which we believe provides further room for upside considering its strong growth outlook and healthy balance sheet. Hence, we maintain our Buy rating on the stock with a revised PT of Rs. 215.

Key risk

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

Valuation (Consolidated) Rs cr

Particulars	FY20	FY21E	FY22E	FY23E
Revenue	2,317	1,832	2,095	2,389
OPM (%)	14.7	13.9	15.2	15.7
Adjusted PAT	209	139	182	221
% y-o-ygrowth	26	(34)	31	22
Adjusted EPS (Rs.)	9.4	6.2	8.2	9.9
P/E (x)	19.7	29.7	22.6	18.6
P/B (x)	3.8	3.4	3.0	2.6
EV/EBITDA (x)	13.2	17.2	13.7	11.4
RoNW (%)	17.8%	9.9%	12.2%	13.4%
RoCE (%)	15.3%	10.2%	12.2%	13.3%

Source: Company; Sharekhan estimates

Strong recovery across segments and exceptional MDF performance lead to beat on net earnings: Standalone net revenue declined by 11.8% y-o-y to Rs. 520 crore for Q2FY2020,which was above our expectation. The company's key verticals –plywood and laminates – reported 15.3% y-o-y and 24.7% y-o-y decline in revenueto Rs. 268 crore and Rs. 102 crore, respectively. However, MDF did exceptionally well with 20.4% y-o-y rise in revenue to Rs. 93.5 crore. The CFS and particle board segments reported 9.5% y-o-y and 2.1% y-o-y dip in revenue to Rs. 20 crore and Rs. 26 crore, respectively. Century reported strong beat on the OPM front, which stood at 16.5% (up 125 bps y-o-y). Here too, MDF reported 581 bps y-o-y rise in OPM at 28.1%, led by higher utilisation and lower costs. Plywood and laminates reported 93bps and 104bps y-o-y decline in OPM, respectively. Hence, overall operating profit declined at a lower rate of 4.5% y-o-y to Rs. 86 crore, which was much higher than our estimates. Further, the reduction in interest expense was offset by lower other income. Healthy operational performance along with lower effective tax rate (25% versus 28.9% in Q2FY2020) led to adjusted net profit of Rs. 50.4 crore (down 2.7% y-o-y, adjusting for forex gain/loss).

Guidance retained; Capacity expansion and debt reduction: The company saw shift in recovery of sales during Q2, especially during September 2020, where overall sales equated to September 2019 sales. The company has been seeing pent-up demand across India, while its Virokill technology is said to have led to market share gains during H1FY2021. Additionally, sales during October 2020 were at all-time high in the history of the company. However, due to current uncertainties with respect to COVID-19pandemic, management has maintained its earlier guidance of Q4FY2021 and expects it to be a normal quarter in terms of sales. On the Greenfield capacity expansion plan, the company is now finalising setting up a unit in Southern India as there has been a delay in getting license for setting up a unit in U.P. Moreover, the company would be undertaking only MDF capacity expansion as earlier plans of fungible capacity (MDF and particle board). However, these concrete plans are expected to be finalised by December 2020. The company has significantly reduced its debt level from Rs. 244 crore in Q1FY2021 to just Rs. 85 crore in Q2FY2021. Century now expects to become completely debt free by FY2021 end (as against earlier target of FY2022).

Key Conference call takeaways

- **Strong recovery:** Q2FY2021 revenue stood at 88% of Q2FY2020. The MDF segment did exceptionally well. Overall, September 2020's topline was equal to September 2019. Plywood sales grew by 6% y-o-y during September 2020. Laminate sales grew by 10% y-o-y during October. However, October 2020, as per management has been one of the best months in the history of the company. The company also attributes growth to its Virokill technology, which is now used in all its products. The company is of the view that it has gained market share during H1FY2021.
- **Guidance retained:** Management has retained its guidance that in Q4FY2021, it should have equal revenue as that of last year same quarter. The company is seeing pent-up demand across India and that is just not limited to tier I or II cities. The company expects OPM to improve in the coming quarters, as Q2 did not have the benefit of operating leverage.
- **Price hikes:** The company took a 3% price hike in particle board. Similar price hike can be expected in MDF going ahead. Further, barring South, as there is no major capacity of MDF coming up for the next two years, there can be sporadic increases in MDF prices.
- **Debt reduction:** The company's debt stood at Rs. 189 crore as of March 2020, which had increased to Rs. 243.5 crore as ofJune 2020 and now has been reduced to just Rs. 85 crore as of September 2020. The company's average borrowing cost is just 2% per annum, as working capital (packing credit) debt is at 2% (post subvention) and ECB debt is at less than 2% per year.
- **Government focus on furniture:** The government has been consulting with industry players on ways of improving domestic manufacturing of furniture and making it globally competitive.

- **Capacity expansion in MDF:** The company will be finalising expansion of Greenfield MDF unit in Southern region by December 2020, as against earlier plans of setting up a fungible capacity (MDF and particle board) in U.P. on account of delay in getting the license. South is a high-growth area, but realisations are lower than North. The company estimates the time period of setting up a MDF unit of 16-18 months versus earlier estimate of 14 months.
- **MDF margins:** Strong MDF margins during Q2 can be attributed to higher utilisation and lower costs.
- **Theory of constraints:** The company's entire pan-India plywood and laminate branches are on theory of constraints. The theory of constraints is implemented for the entire supply chain management.
- **B2C and B2B:** In plywood, 90%-100% of sales are going to consumers through retailers. In MDF and particle board, sales mostly go to OEM.
- **MDF mix:** The company's higher density MDF, Premium +, is water proof and accounts for 20% of total MDF sales. It has the highest price in India. The lower grade MDF is 8%-10% premium to smaller players.
- **Forest cover in India:** India's forest cover has risen by 16% over 10 years. Every farmer does plantation bordering to their farms. Hence, there is no dearth of domestic timber.
- **Gabon update:** The company has put Gabon unit on hold and it is likely to start soon.
- **Laos and Myanmar:** It had already taken write-off for Laos unit. Myanmar unit is still operational and has been supplying raw material.

Results (Standalone) **Rs cr**

Particulars	Q2FY21	Q2FY20	% y-o-y	Q1FY21	% q-o-q
Income from operations	519.8	589.4	-11.8	200.7	159.0
COGS	261.0	295.8	-11.8	94.6	176.0
Gross profit	258.9	293.6	-11.8	106.1	144.0
Gross margin (%)	49.8	49.8	(2) bps	52.9	(308) bps
Employee cost	76.4	88.4	-13.6	56.6	35.0
Other expenditure	96.8	115.5	-16.1	51.8	86.8
Total expenditure	434.2	499.6	-13.1	203.0	113.9
Operating profit	85.6	89.7	-4.5	(2.3)	-
Operating profit margin (%)	16.5	15.2	125 bps	(1.1)	-
Finance cost	3.1	8.3	-62.2	4.0	(22.3)
Depreciation	16.2	17.0	-4.7	14.3	13.7
Non-operating income	1.2	8.6	-85.5	4.6	(73.2)
Forex loss/(gain)	(1.1)	(0.4)		(1.4)	
PBT	68.6	73.3	-6.5	(14.6)	-
Tax	17.1	21.2	-19.0	(6.1)	-
Reported PAT	51.4	52.1	-1.4	(8.5)	-
Adjusted PAT	50.4	51.8	-2.7	(9.9)	-

Source: Company; Sharekhan Research

Outlook and Valuation

■ Sector View – Expect faster recovery in operations

The building materials industry was severely affected by COVID-19-led lockdown during Q1FY2021, which had affected its peak sales period of the year. Additionally, its high fixed cost structure had affected OPM, draggingdown net earnings. However, from June, the sector has been one of the fastest in recovery with easing oflockdowns domestically. The sector witnessed resumption of dealer and distribution networks and a sharp improvement in capacity utilisation levels. Most players have begun to see demand and revenue run-rate reaching 80%-90% compared to pre-COVID levels. Scaling up of revenue is also expected to lead to better absorption of fixed costs going ahead, aiding net earnings recovery. The industry is expected to rebound with strong growth in FY2022.

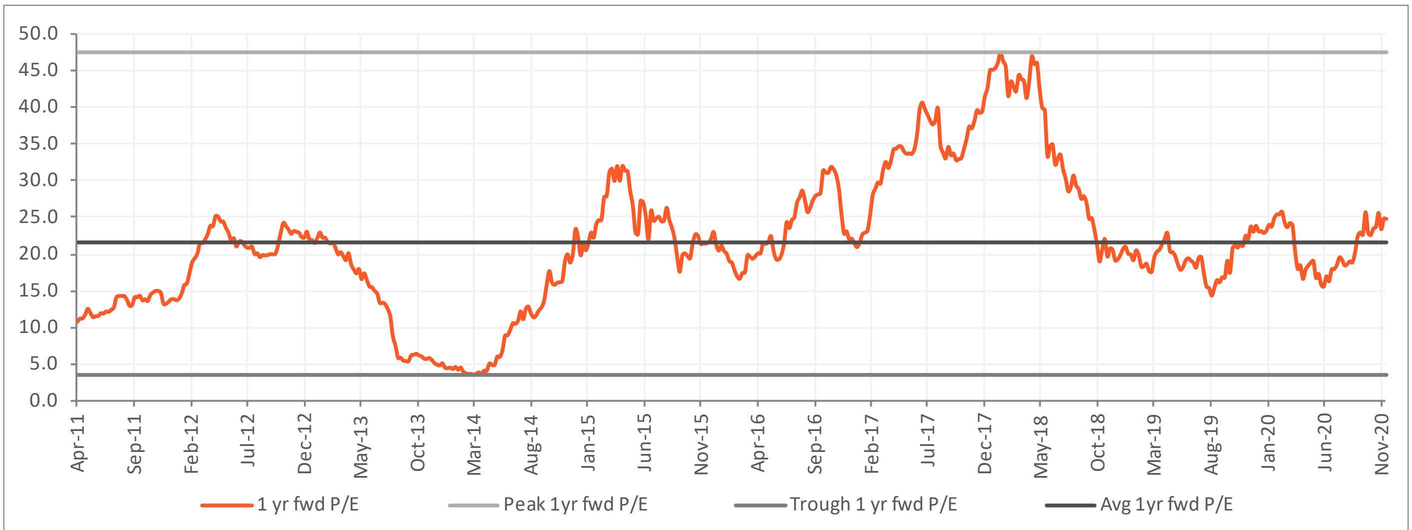
■ Company Outlook – Conservatively, expect normal revenue run-rate by Q4FY2021

The company saw shift in recovery of sales during Q2, especially during September 2020, where overall sales equated to September 2019 sales. The company has been seeing pent-up demand across India, while its Virokill technology is said to have led to market share gains during H1FY2021. Additionally, sales during October 2020 were at all-time high in the history of the company. However, due to current uncertainties with respect to COVID-19 pandemic, management maintained its earlier guidance of Q4FY2021 to be a normal quarter in terms of sales. The company has significantly reduced its debt level from Rs. 243 crore in Q1FY2021 to just Rs. 85 crore in Q2FY2021. The company now expects to become completely debt free by FY2021 end (as against earlier target of FY2022).

■ Valuation – Maintain Buy with a revised PT of Rs. 215

Century, like some of its industry peers, has been able to steeply recover in Q2 with strong traction continuing in October 2020. Further, the company has significantly improved its balance sheet. Century has key positive triggers lying ahead in terms of government's plans of enhancing domestic manufacturing and making it globally competitive. Century has almost risen by 65% since we upgraded the stock to Buy in our Q4FY2020 review report dated April 9, 2020. The stock is currently trading at a P/E of 22.6x and 18.6x its FY2022E and FY2023E earnings,respectively,which we believe provides further room for upside considering its strong growth outlook and healthy balance sheet. Hence, we have maintained our Buy rating on the stock with a revised PT of Rs. 215.

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, Century has been affected by COVID-19 led disruption, which is expected to lead to a decline in earnings during FY2021. However, the company 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 finalised soon, which would help provide the next leg of growth. Further, 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

Understanding the Sharekhan 3R Matrix

Right Sector	
Positive	Strong industry fundamentals (favorable demand-supply scenario, consistent industry growth), increasing investments, higher entry barrier, and favorable government policies
Neutral	Stagnancy in the industry growth due to macro factors and lower incremental investments by Government/private companies
Negative	Unable to recover from low in the stable economic environment, adverse government policies affecting the business fundamentals and global challenges (currency headwinds and unfavorable policies implemented by global industrial institutions) and any significant increase in commodity prices affecting profitability.
Right Quality	
Positive	Sector leader, Strong management bandwidth, Strong financial track-record, Healthy Balance sheet/cash flows, differentiated product/service portfolio and Good corporate governance.
Neutral	Macro slowdown affecting near term growth profile, Untoward events such as natural calamities resulting in near term uncertainty, Company specific events such as factory shutdown, lack of positive triggers/events in near term, raw material price movement turning unfavourable
Negative	Weakening growth trend led by led by external/internal factors, reshuffling of key management personal, questionable corporate governance, high commodity prices/weak realisation environment resulting in margin pressure and detoriating balance sheet
Right Valuation	
Positive	Strong earnings growth expectation and improving return ratios but valuations are trading at discount to industry leaders/historical average multiples, Expansion in valuation multiple due to expected outperformance amongst its peers and Industry up-cycle with conducive business environment.
Neutral	Trading at par to historical valuations and having limited scope of expansion in valuation multiples.
Negative	Trading at premium valuations but earnings outlook are weak; Emergence of roadblocks such as corporate governance issue, adverse government policies and bleak global macro environment etc warranting for lower than historical valuation multiple.

Source: Sharekhan Research

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