

Robust recovery, impressive debt reduction...

Century Plyboard's (CPIL) Q2FY21 performance was highlighted by robust MDF division growth coupled with debt collection and improved working capital. The topline declined 11.8% YoY to ₹ 519.8 crore. MDF revenue grew 20.4% YoY to ₹ 93.5 crore while plywood revenues de-grew 15% YoY to ₹ 268 crore. EBITDA margin expanded 80 bps YoY to 16.5% on account of better margin growth in the MDF division (MDF EBITDA margin expanded 580 bps YoY to all-time high of 28.1%) as well as overall cost rationalisation. Overall, PAT was down merely 1.3% YoY to ₹ 51.4 crore.

MDF division witnesses strong growth

MDF division revenues growth of ~20.4% YoY was a function of volume growth of 19% YoY to 39,599 CBM coupled with realisations growth of 1.2% YoY to ₹ 23,612/CBM, which is encouraging. MDF EBITDA margin expanded 580 bps YoY to 28.1%. This was primarily backed by comparatively higher capacity utilisation and some cost rationalisation. The management has indicated towards strong push from Government of India towards domestic ready-made furniture market. This has, in-turn, improved demand for MDF and particle boards. It is currently exploring two geographical locations to set up its plants: a) Sitapur (Uttar Pradesh) and b) a favourable region in south India. The final decision is expected by December 2020 (~18 months thereafter to set up the plant) after evaluating demand scenarios, transportation benefits and raw material availability. This would double the current capacity at the estimated capex of ~₹ 350 crore. Overall, we expect MDF revenues to grow at 10% CAGR to ₹ 424 crore in FY20-22E.

Company expects "ViroKill" traction to boost Plywood

CPIL's overall plywood division volumes de-grew 13.2% YoY to 53,682 CBM on account of 11.8%, 30.9%, 21.7% decline in plywood, decoply, commercial veneer, respectively. Plywood EBITDA margins were down 250 bps YoY at 13.1% but a marked improvement from EBITDA losses in Q1. Laminates division volumes fell 22.2% YoY to 14,17,205 units. Revenue from this segment fell 25.4% YoY to ₹ 99.1 crore. The company expects a strong recovery in plywood demand led by a) pent-up demand, b) benefits arising due to introduction of ViroKill technology and c) market share gain with increasing advertisement and marketing activities.

Valuation & Outlook

CPIL's results are praiseworthy on the MDF business front (coupled with overall outlook ahead), while plywood division recovery commentary is also encouraging. We are also impressed by the sharp improvement in balance sheet wherein CPIL has significantly reduced its debt level from ₹ 243.5 crore in Q1FY21 to ₹ 85 crore in Q2FY21. Hence, we upgrade the stock from HOLD to **BUY**, with a revised target price of ₹ 230/share (22x FY22E EPS).



Particulars

Particular	Amount (₹ crore)
Market Capitalization	4,339.0
Total Debt	221.2
Cash	21.2
EV	4,539.0
52 week H/L (₹)	197 / 95
Equity capital	22.3
Face value (₹)	1.0

Key Highlights

- Revenues de-grew 11.8% YoY to ₹ 519.8 crore on account of Covid 19 and extended monsoon but margins expanded 80 bps YoY to 16.5%, driven by strong MDF division performance
- Upgrade from HOLD to BUY with target price of ₹ 230/share

Price performance



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Key Financial Summary

₹ crore	FY18	FY19	FY20	FY21E	FY22E	CAGR FY20-22E
Net Sales	1,967.2	2,263.8	2,282.7	1,905.3	2,316.4	0.7%
EBITDA	306.1	300.4	304.1	276.6	385.6	12.6%
EBITDA Margin (%)	15.6	13.3	13.3	14.5	16.6	
PAT	156.6	158.8	158.2	147.7	231.1	20.9%
EPS (₹)	7.1	7.1	7.1	6.6	10.4	
P/E	27.7	27.3	27.4	29.4	18.8	
EV/EBITDA	15.3	15.9	14.9	15.7	11.0	
RoNW (%)	18.7	16.4	14.7	12.3	16.5	
RoCE (%)	20.3	18.6	19.6	17.4	22.6	

Exhibit 1: Variance Analysis

Particular	Q2FY21	Q2FY20	YoY Chg (%)	Q1FY21	QoQ Chg (%)	Comments
Net Sales	519.8	589.4	-11.8	200.7	159.0	MDF revenue grew by 20.4% YoY to ₹ 93.5 crore, while Plywood revenues de-grew 15% YoY to ₹ 268 crore.
Other Income	1.2	8.6	-85.5	4.6	-73.2	
Material Consumed	182.2	204.2	-10.8	68.8	165.0	
Purchase of Stock in Trade	50.4	91.5	-44.9	18.8	167.7	
Employee Benefit Expenses	76.4	88.4	-13.6	56.6	35.0	
Other Expenses	96.6	112.4	-14.1	48.7	98.4	
EBITDA	85.8	92.8	-7.4	0.8	10,149.3	
EBITDA Margin (%)	16.5	15.7	78 bps	0.4	1610 bps	
Depreciation	16.2	17.0	-4.7	14.3	13.7	
Interest	1.8	10.8	-83.5	5.0	-64.6	
PBT	69.1	73.5	-6.0	-13.9	NM	
Taxes	17.6	21.3	-17.3	-5.4	NM	
PAT	51.4	52.1	-1.3	-8.5	NM	

Source: Company, ICICI Direct Research

Exhibit 2: Assumptions

Volume Assumptions	FY17	FY18	FY19	FY20	FY21E	FY22E	Comments
Plywood & Veneer(In CBM)	2,51,720	2,53,922	2,52,637	2,44,194	1,98,602	2,35,578	
MDF (CBM)	0	48,307	1,32,229	1,53,175	1,35,966	1,79,955	
Laminate Sheets (In Mn)	5.0	5.5	5.9	6.2	5.1	5.8	

Source: Company, ICICI Direct Research

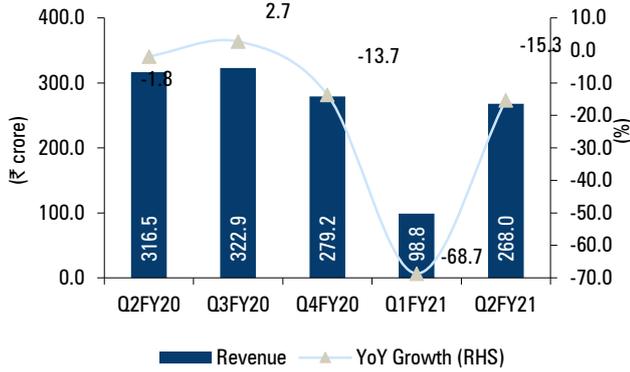
Conference call Highlights

- **Q2FY21 performance highlight:** Contrary to management belief, CPIL witnessed a sharp recovery in sales in Q2FY21. Overall topline de-grew merely ~12% YoY. The topline performance is largely driven by strong traction across its business verticals with a pick-up seen in economic and construction activity. The management has indicated towards flat YoY revenue growth in September 2020 with further sign of growth during October 2020. Additionally, its operating margin in Q2FY21 was at an elevated level of 16.8% (down 40 bps YoY). The management expects it to improve further with operating leverage and better mix
- **Plywood business:** CPIL's overall plywood division volumes de-grew 13.2% YoY to 53,682 CBM on account of 11.8%, 30.9%, 21.7% decline in plywood, decoply, commercial veneer, respectively. Plywood EBITDA margins were down 250 bps YoY at 13.1% but a marked improvement from EBITDA losses in Q1. Sainik brand (non-premium category wherein decline has been lesser than premium category) contributed 35-40% in volume and 25-30% in value for the quarter. During Q2FY21, CPIL did not increase prices in plywood product categories. The company indicated that efforts such as salesforce automation and introduction of Virokill technology have led to growth recovery from October. The company expects a demand recovery led by a) pent-up demand, b) benefits arising due to ViroKill technology and c) market share gain with increasing advertisement and marketing activities. The company has said the commercial veneer unit at Gabon has been kept on hold due to increased availability of commercial veneer across the globe
- **Laminates division:** CPIL's laminates division (including exterior grade laminates) volumes de-grew 22.2% YoY to 14,17,215 units in Q2FY21. Revenues from the segment declined 25% YoY to ₹ 132.9 crore in Q2FY21. The management has indicated towards a decent MoM recovery and registered 10% YoY growth in October 2020 corresponding to October 2019. CPIL expects laminate demand to follow plywood with a lag with H2 likely to be better
- **MDF division:** MDF division revenue growth of ~20.4% YoY was a function of volume growth of 19% YoY to 39,599 CBM coupled with realisations growth of 1.2% YoY to ₹ 23,612/CBM. EBITDA margin improved 490 bps to 28.1% in Q2FY21 backed by comparatively higher capacity utilisation. Going forward, the company is planning to increase MDF prices in the near term. This is likely aid its realisations and operating margin performance. The management has indicated towards strong push from the Government of India towards domestic ready-made furniture market. This has, in turn, improved demand for MDF and particle boards. It expects the current MDF capacity in India to grow from ~1 million (mn) CBM to 4-5 mn CBM over the next five years
- **Capacity expansion in MDF business:** CPIL is currently exploring two geographical locations to set up its plant: a) at Sitapur (Uttar Pradesh) and b) a favourable region in south India. The final decision is expected by December 2020 after evaluating demand scenarios, transportation benefits and raw material availability. The total time needed to set up the plant would be ~18 months after finalising the location/land and the estimated capex is ~₹ 350 crore. This would result in doubling of present capacity. Also, as per the management, the entry barrier in MDF business is comparatively high, which is likely to benefit organised players like Century Ply in the growing market

- **Particle boards (PB):** PB volumes grew 5.8% YoY to 16,966 CBM in Q2FY21. However, its average realisation fell ~7.4% YoY to ₹ 15,118, impacting total sales (de-grew 2.1% to ₹ 25.7 crore)
- **Laos facility:** The Laos government has asked CPIL to commence plywood production at the facility set up by the company in Laos. The company is analysing the prospects of going ahead with the production as it believes that the plant would become economically viable only if it is allowed to export surplus veneer from the plant, which the government would decide only after the production commences
- **Debt and working capital:** CPIL has significantly reduced its debt level from ₹ 243.5 crore in Q1FY21 to ₹ 85 crore in Q2FY21. Also, its average cost of borrowing has reduced to <2% per annum. The management aims to become debt free by March 2021. Also, its working capital normalised to ~70 days at the end of Q2FY21 (vis-à-vis 199 days reported at the end of Q1FY21)

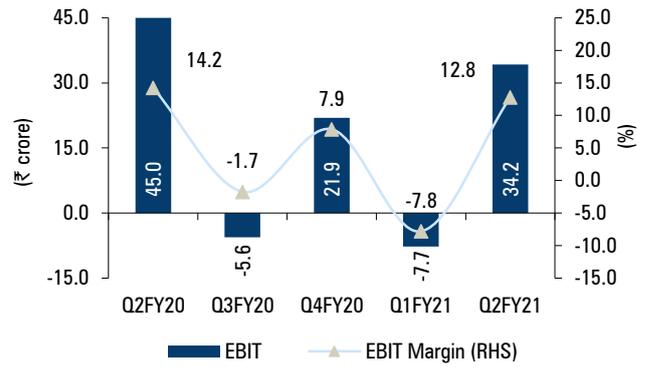
Company Analysis

Exhibit 3: Quarterly plywood & allied products revenue



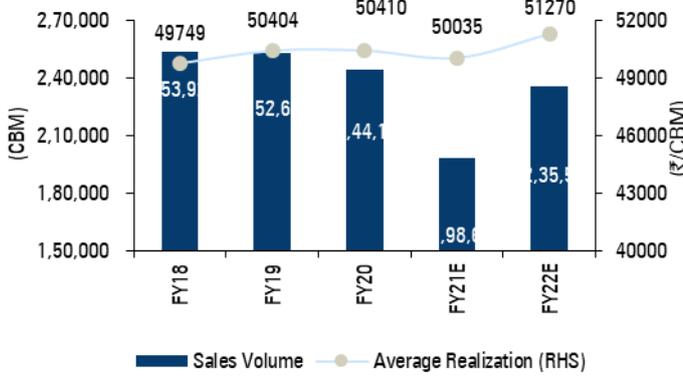
Source: Company, ICICI Direct Research

Exhibit 4: Quarterly plywood & allied products EBIT trend



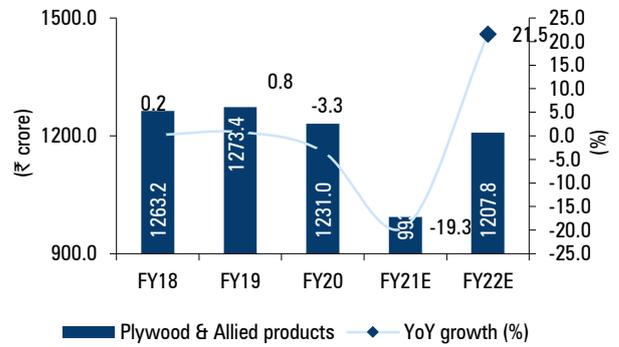
Source: Company, ICICI Direct Research

Exhibit 5: Plywood sales volume & average realisation



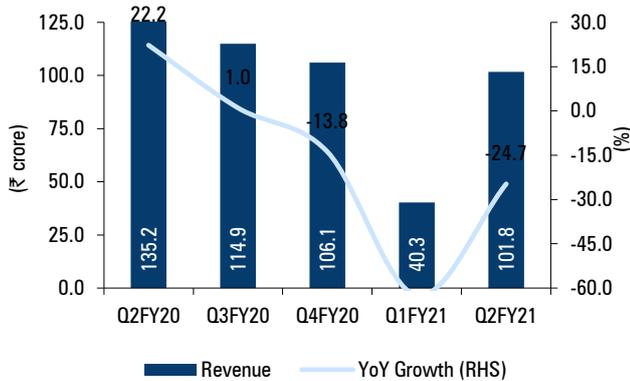
Source: Company, ICICI Direct Research

Exhibit 6: Plywood revenue and growth trend



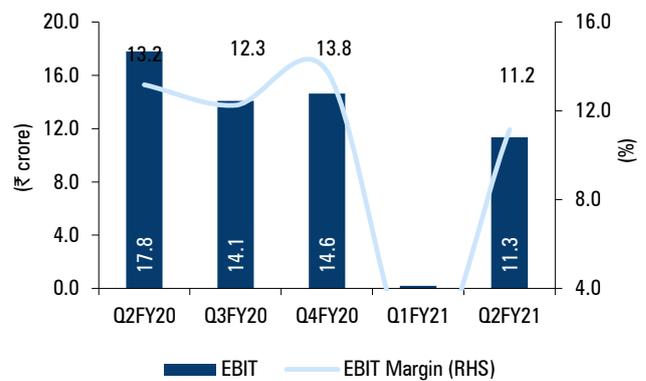
Source: Company, ICICI Direct Research

Exhibit 7: Quarterly laminates & allied products revenue



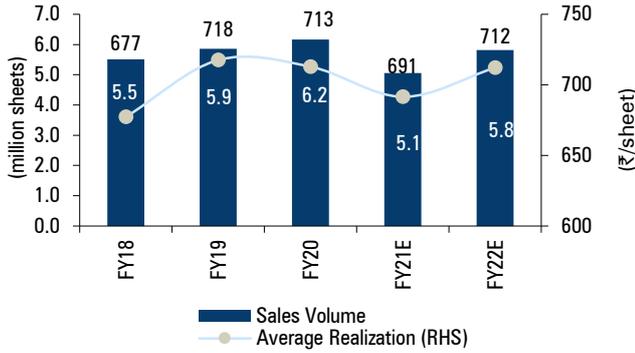
Source: Company, ICICI Direct Research

Exhibit 8: Quarterly laminates & allied products EBIT trend



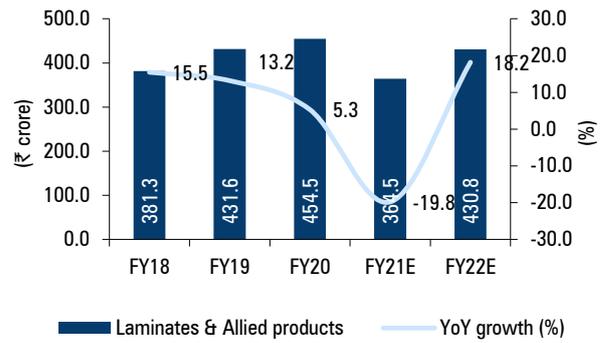
Source: Company, ICICI Direct Research

Exhibit 9: Laminates sales volume & average realisation



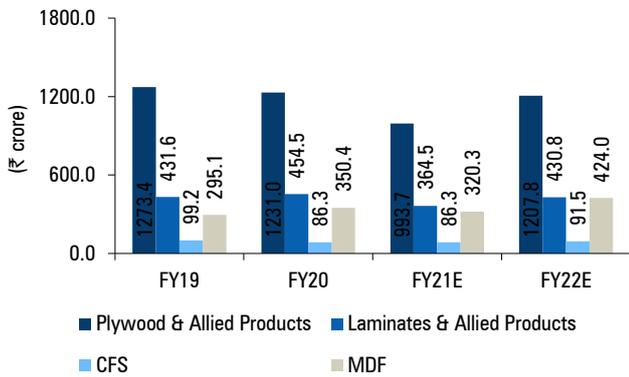
Source: Company, ICICI Direct Research

Exhibit 10: Laminates revenue and growth trend



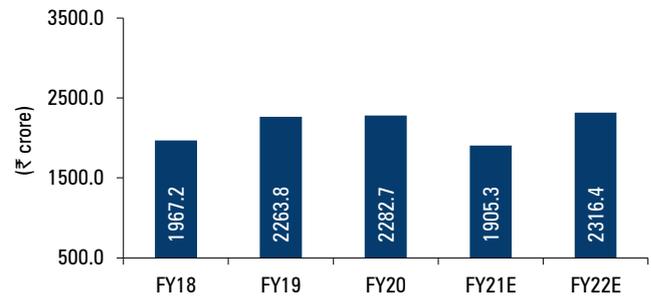
Source: Company, ICICI Direct Research

Exhibit 11: Segmental net revenue trend



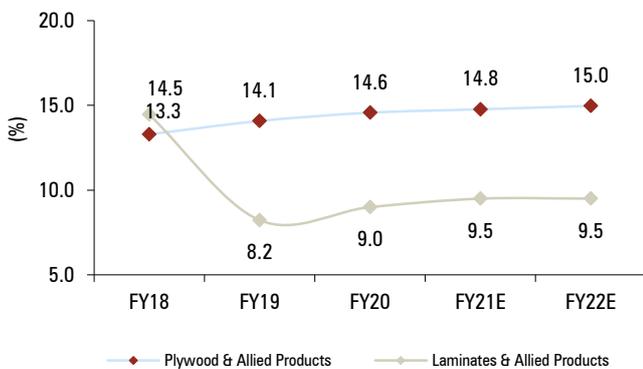
Source: Company, ICICI Direct Research

Exhibit 12: Total net revenue trend



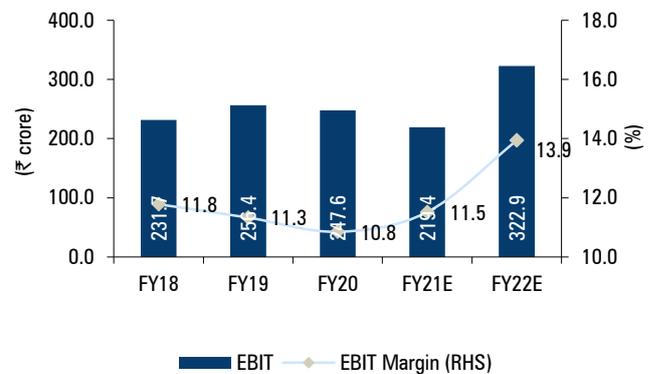
Source: Company, ICICI Direct Research

Exhibit 13: Segmental EBIT trend



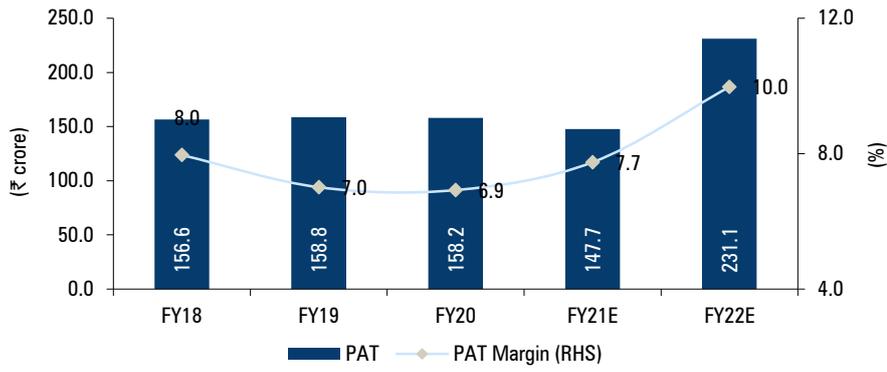
Source: Company, ICICI Direct Research

Exhibit 14: EBIT margin trend



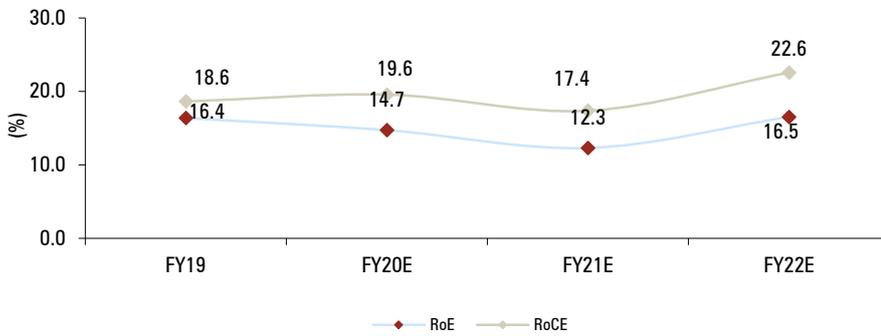
Source: Company, ICICI Direct Research

Exhibit 15: PAT growth trend



Source: Company, ICICI Direct Research

Exhibit 16: RoE and RoCE growth trend



Source: Company, ICICI Direct Research

Financial summary

Exhibit 17: Profit and loss statement				
	₹ crore			
(₹ Crore)	FY19	FY20	FY21E	FY22E
Net Sales	2,263.8	2,282.7	1,905.3	2,316.4
Raw Material Expense	936.0	863.2	637.7	752.4
Purchase of Traded Goods	245.5	285.1	323.9	393.8
Employee benefit expenses	327.7	344.1	287.2	349.2
Other Expenses	454.2	486.2	379.8	435.4
Total Expenses	1,963.5	1,978.6	1,628.7	1,930.8
EBITDA	300.4	304.1	276.6	385.6
EBITDA Margin (%)	13.3	13.3	14.5	16.6
Interest	44.6	37.2	22.0	14.0
Depreciation	50.0	67.6	67.2	73.7
Other income	6.1	11.1	10.0	11.0
PBT	211.9	210.4	197.4	308.9
Taxes	53.1	52.2	49.7	77.8
PAT	158.8	158.2	147.7	231.1
PAT Growth rate (%)	1.4	(0.4)	(6.6)	56.5
Adjusted EPS (Diluted)	7.1	7.1	6.6	10.4

Source: Company, ICICI Direct Research

Exhibit 18: Cash flow statement				
	₹ crore			
(₹ Crore)	FY19	FY20	FY21E	FY22E
Profit after Tax	158.8	158.2	147.7	231.1
Depreciation	50.0	67.6	67.2	73.7
Interest	44.6	37.2	22.0	14.0
Others	21.6	(108.2)	(37.9)	(78.6)
Cash Flow before wc changes	328.0	206.9	248.7	318.0
Net Increase in Current Assets	(80.8)	44.9	(21.9)	(10.2)
Net Increase in Current Liabilities	(143.5)	91.8	36.7	(74.0)
Net CF from operating activities	103.7	343.7	263.5	233.8
(Purchase)/Sale of Fixed Assets	(236.6)	(60.2)	(32.0)	(100.0)
Net CF from Investing activities	(133.5)	(12.4)	(28.1)	(93.5)
Dividend	(22.9)	(22.8)	(21.3)	(33.3)
Interest paid	(44.6)	(37.2)	(22.0)	(14.0)
Inc / (Dec) in Loans	108.3	(247.4)	(129.0)	(30.0)
Net CF from Financing activities	40.9	(307.4)	(172.2)	(77.3)
Net Cash flow	11.1	23.9	63.2	63.0
Opening Cash	16.5	22.6	21.2	84.5
Closing Cash/ Cash Equivalent	22.6	21.2	84.5	147.4

Source: Company, ICICI Direct Research

Exhibit 19: Balance sheet				
	₹ crore			
(₹ Crore)	FY19	FY20	FY21E	FY22E
Liabilities				
Equity Capital	22.3	22.3	22.3	22.3
Reserve and Surplus	946.9	1,051.1	1,177.5	1,375.3
Total Shareholders funds	969.1	1,073.4	1,199.8	1,397.6
Total Debt	468.6	221.2	92.3	62.3
Deferred Tax Liability	(61.5)	(57.8)	(57.8)	(57.8)
Total Liabilities	1,377.0	1,237.0	1,234.0	1,402.0
Assets				
Gross Block	944.1	1,001.7	1,033.7	1,133.7
Less Acc. Dep	216.3	281.2	348.4	422.1
Net Block	727.9	720.5	685.3	711.6
Net Intangibles Assets	0.8	0.6	0.6	0.6
Expenditure on new projects	-	-	-	-
Capital WIP	18.8	8.3	8.3	8.3
Total Fixed Assets	747.4	729.4	694.2	720.5
Investments	97.79	113.68	113.46	113.46
Inventory	401.0	354.1	295.6	359.3
Sundry Debtors	293.6	258.2	234.9	285.6
Loans & Advances	19.3	20.39	36.5	44.4
Cash & Bank Balances	22.6	21.2	84.5	147.4
Other Current Assets	123.3	73.9	64.6	77.0
Total Current Assets	859.8	727.8	716.0	913.7
Trade Payable	162.5	161.1	135.7	165.0
Other Current Liabilities	154.8	159.5	138.2	161.7
Provisions	11.5	13.5	16.0	19.5
Net Current Assets	531.0	393.7	426.1	567.6
Total Assets	1,377.0	1,237.0	1,234.0	1,402.0

Source: Company, ICICI Direct Research

Exhibit 20: Key ratios				
	FY19	FY20	FY21E	FY22E
Per Share Data (₹)				
EPS - Diluted	7.1	7.1	6.6	10.4
Cash EPS	9.4	10.2	9.7	13.7
Book Value	43.6	48.3	54.0	62.9
Dividend per share	1.0	1.0	1.0	1.5
Operating Ratios (%)				
EBITDA / Net Sales	13.3	13.3	14.5	16.6
PAT / Net Sales	7.0	6.9	7.7	10.0
Inventory Days	65	57	57	57
Debtor Days	47	41	45	45
Creditor Days	26	26	26	26
Return Ratios (%)				
RoE	16.4	14.7	12.3	16.5
RoCE	18.6	19.6	17.4	22.6
RoIC	18.8	19.1	17.9	24.5
Valuation Ratios (x)				
EV / EBITDA	15.9	14.9	15.7	11.0
P/E (Diluted)	27.3	27.4	29.4	18.8
EV / Net Sales	2.1	2.0	2.3	1.8
Market Cap / Sales	1.9	1.9	2.3	1.9
Price to Book Value	4.5	4.0	3.6	3.1
Dividend Yield	0.5	0.5	0.5	0.8
Solvency Ratios (x)				
Net Debt / Equity	0.5	0.2	0.0	(0.1)
Debt / EBITDA	1.6	0.7	0.3	0.2
Current Ratio	2.4	2.2	2.3	2.3
Quick Ratio	1.2	1.1	1.2	1.2

Source: Company, ICICI Direct Research

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Buy: >15%

Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



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