Sharekhan by BNP PARIBAS

Powered by the Sharekhan 3R Research Philosophy

Century Plyboards (India) Limited

Structural growth intact amidst short-term hurdles

Building Materials | Sharekhan code: CENTURYPLY | Company Update

Summary

- We retain our Buy rating on Century Plyboards Limited (Century) with a revised PT of Rs. 250, factoring in the upwardly revised estimates led by strong growth outlook and healthy balance sheet.
- Demand environment during November remained healthy post a historically high October 2020. Demand environment contributed almost equally by pent-up demand and structural demand.
- Near term headwind led by farmer agitation in Northern India majorly on MDF business. FY2022 to benefit from structural demand and low base.Greenfield expansion of MDF in South yet to be firmed up.
- Century has a robust balance sheet led by minimal debt at low cost and has the ability of healthy cash flow generation.

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

\+ Positive = Neutral - Negative

What has changed in 3R MATRIX

	Old		New
RS		↔	
RQ		↔	
RV		↔	

Reco/View	Change
Reco: **Buy**	↔
CMP: **Rs. 228**	
Price Target: **Rs. 250**	↑

↑ Upgrade ↔ Maintain ↓ Downgrade

Company details

Market cap:	Rs. 5,054 cr
52-week high/low:	Rs. 236/95
NSE volume: (No of shares)	22.2 cr
BSE code:	532548
NSE code:	CENTURYPLY
Free float: (No of shares)	19.9 cr

Shareholding (%)

Promoters	73
FII	6
DII	11
Others	10

Price chart

Price performance

(%)	1m	3m	6m	12m
Absolute	22.6	24.2	114.3	40.1
Relative to Sensex	15.2	4.7	75.5	27.3

Sharekhan Research, Bloomberg

We interacted with Mr. Arun Kumar Julasaria, CFO, Century Plyboards Limited (Century) to get business update about the recent developments and future outlook of the company. Like its industry peers in building materials sector, Century has witnessed healthy demand for MDF, Plywood and laminate business. After witnessing one of the best months in October 2020, the demand remained reasonably good during November 2020. The plywood segment (around 90% sales towards new housing segment) benefitted from traction witnessed in new housing supply. The MDF segment which is majorly led by demand from renovation and replacement markets too witnessed strong demand being a product with a shelf life of 3 to 6 years. The laminate division has also begun to recover after suffering from sluggish demand environment in Q2FY2021. However, Century is expected to be affected in the near term by the ongoing farmer agitation in the Northern region as its sole MDF unit is located in Hosiarpur (Punjab) and one of its Plywood unit at Karnel (Haryana). If the ongoing agitation continues for a longer duration, the disruption in transportation of materials can affect the MDF business (18% sales mix, 30% operating profit mix in Q2FY2021). Although, the demand environment remains healthy comprising both pent-up demand and structural demand. We expect Q4FY2021 (considering resolution of farmer agitation) and FY2022 to be strong periods for the company as it benefits from a strong demand environment and low base. On the capacity expansion front, the company has yet not firmed up expansion plans in South India for Greenfield unit of MDF. The company would incur capex of Rs. 400-450 crore depending on the price of the land. Its debt is already below Rs. 100 crore at an interest cost of ~2% due to which it has not been paying off debt entirely and investing the cash flows in 4-5% liquid funds. The future capacity expansion is expected majorly to be funded through internal accruals owing to healthy cash flow generation over the next two years. We expect the company to gain from structural demand driven by affordable housing segment. Its new technology feature, VIROKILL, in its products will help gain market share. The government's initiatives to enhance domestic furniture manufacturing and making it globally competitive would provide strong growth avenues. We have revised our estimates upwards for FY2022 and FY2023 factoring improved growth outlook of the company. Centuryhas risen by 2x since we upgraded the stock to Buy in our Q4FY2020 preview report dated April 9, 2020. The stock is currently trading at a P/E of 25.0x and 19.7x its FY2022E and FY2023E earnings. We maintain our Buy rating on the stock with revised price target of Rs. 250 factoring upwardly revised estimates, strong growth outlook and healthy balance sheet.

Our Call

Valuation –Maintain Buy with a revised PT of Rs. 250: Century, is expected to benefit from continuing healthy demand environment after witnessing a historical strong October 2020. We expect Century to benefit in FY2022 from a low base and structural demand growth drivers in the affordable housing segment as pent-up demand gradually eases out. Its balance sheet remains strong with minimal debt having low cost of funding, strong operating cash flow generation and capex to be spread over 18-24 months. 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 risen by 2x since we upgraded the stock to Buy in our Q4FY2020 preview report dated April 9, 2020. The stock is currently trading at a P/E of 25.0x and 19.7x its FY2022E and FY2023E earnings. We maintain our Buy rating on the stock with revised price target of Rs. 250 factoring upwardly revised estimates, strong growth outlook and healthy balance sheet.

Key risk

A 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	2,188	2,548
OPM (%)	14.7	13.9	15.8	16.6
Adjusted PAT	209	139	203	257
% y-o-ygrowth	26	(34)	46	27
Adjusted EPS (Rs.)	9.4	6.2	9.1	11.5
P/E (x)	24.2	36.5	25.0	19.7
P/B (x)	4.6	4.2	3.7	3.1
EV/EBITDA (x)	16.0	21.1	15.4	12.3
RoNW (%)	17.8%	9.9%	13.7%	15.5%
RoCE (%)	15.3%	10.2%	13.5%	15.2%

Source: Company; Sharekhan estimates

Demand continue to remain healthy post Q2FY2021

As per our interaction with the management of Century Plyboards, the demand environment continues to remain healthy during November 2020 after witnessing a historically strong October 2020. Its plywood division has benefitted from demand emanating from supply of new housing units. The laminate division which had witnessed sluggish demand during Q2FY2021 has started to see improvement in demand. The MDF segment which reported strong volume growth during Q2FY2021 continue to see healthy demand especially in renovation/replacement segments. However, the farmer's agitation in the Northern region has affected its goods transportation as its sole MDF unit is based at Hosiarpur, Punjab. We believe the issue to get resolved in the near term limiting its impact on company's MDF business operations. Further, we expect the company to benefit in FY2022 led by structural demand in housing segment and low base.

Capex yet to firm up, balance sheet remain strong

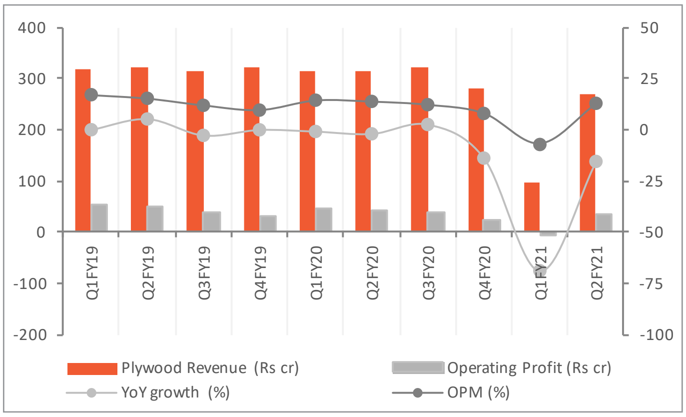
On the Greenfield capacity expansion plan, the companyis yet to finalize plans of setting up a MDF unit in Southern India.The company intends to incur Rs. 400-450 crore capex on the expansion depending on the price of land. The company has the ability to execute the project at a faster rate within 18 months once the land is finalized. The company's debt currently stands below Rs. 100 crore with an interest cost of ~2%. Hence, the company has not been paying off the entire debt and parking the cash flows in liquid funds generating 4-5% yield. The company expects the future capex to be majorly financed through internal accruals with expectation of strong operating cash flow generation going ahead.

Key Conference call takeaways

- **Farmer agitation impact on MDF:** The company's only MDF unit at Hosiarpur, Punjab (installed capacity 198000cbm) has been affected by the ongoing Famer's agitation in Punjab. The unit supplies material to Delhi/NCR regions which has been come to halt. The company is awaiting the resolution of the issue. However, the demand for MDF is there it is not able to supply. MDF contributed 18% of sales and 30% of operating profit in Q2FY2021. The MDF demand has been strong during Oct-Nov period. However, the loss of sales in December would impact overall Q3FY2021 revenues. Additionally, the company's Plywood unit at Karnal, Haryana has also been affected by the Farmer agitation. The management is not able to give any future guidance on account of the current situation.
- **Demand environment:** The demand environment has remained healthy. 90% of the company's plywood sales is to new homes which is seeing good demand. The MDF segment generally goes to OEM manufactures and is led by renovation/replacement demand which has also been good. The laminate division has begun to see growth after a sluggish second quarter. The company mainly caters to metro and tier I cities and is making efforts to make inroads in lower tier cities. The efforts are however affected by the current pandemic.
- **Capacity expansion:** The company has yet not finalized capacity expansion plan for MDF in South India. It intends to incur capex of Rs. 400-450 crore depending on the price of the land. The company is likely tocomplete the Greenfield unit in 18 months after getting the land in hand. The company's first preference for expansion is U.P. but is it is awaiting the removal of legal hurdles in the state for capacity expansion.
- **Leverage:** The company's current debt is below Rs. 100 crore at an interest cost of 2%. Hence, it is currently deploying cash in liquid funds at 4-5% rather than paying off the debt. The future capacity expansion would be done majorly through internal accruals on account of strong estimated future cash flows.
- **Imports:** Though the price of landed products has risen due to high cost of shipping and dollar appreciation, the company is not affected by imports. Major imports are in South India while the company majorly caters to Northern India. Almost 50% of the domestic demand is catered by imports.

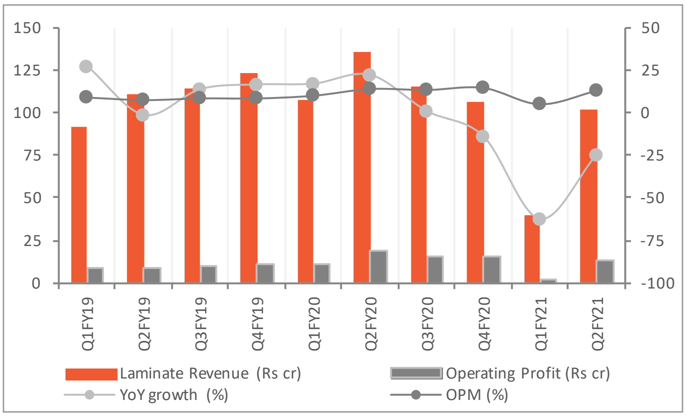
Financials in charts

Plywood trend



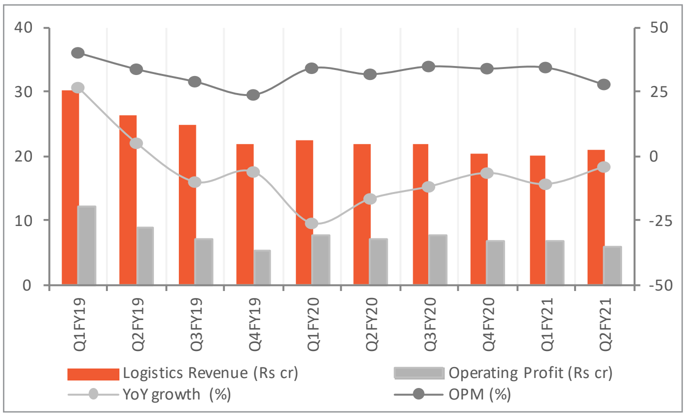
Source: Company, Sharekhan Research

Laminate trend



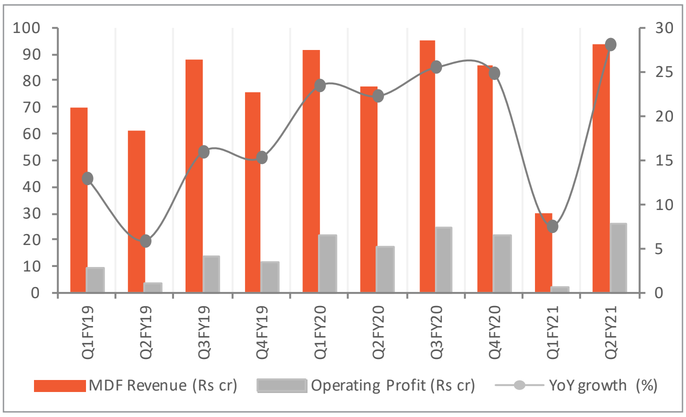
Source: Company, Sharekhan Research

Logistics trend



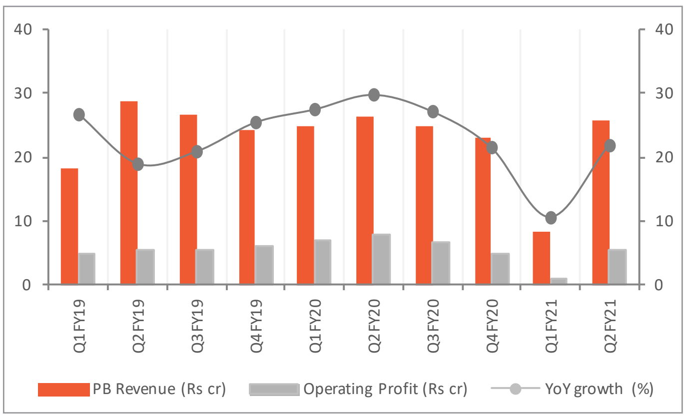
Source: Company, Sharekhan Research

MDF trend



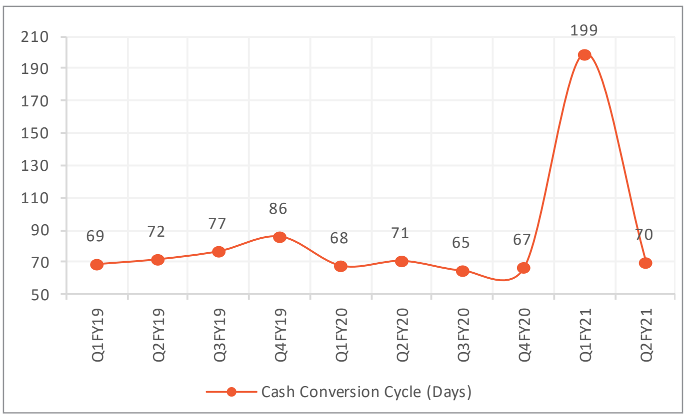
Source: Company, Sharekhan Research

Particle Board trend



Source: Company, Sharekhan Research

Cash conversion cycle trend



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 its net earnings. However, from June, the sector has witnessed speedy recovery with the easing of lock down 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.

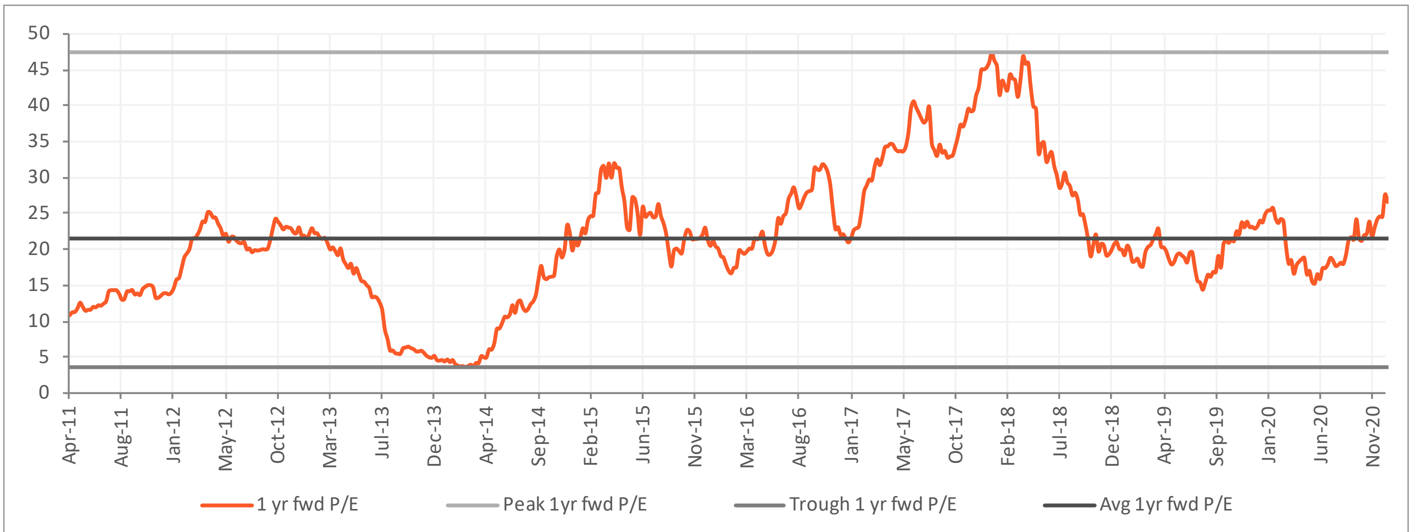
■ Company Outlook – Conservatively, expect normal revenue run-rate by Q4FY2021

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 COVID led uncertainties the 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. 250

Century, is expected to benefit from continuing healthy demand environment after witnessing a historical strong October 2020. We expect Century to benefit in FY2022 from low base and structural demand growth drivers in affordable housing segment as pent-up demand gradually eases out. Its balance sheet remains strong with minimal debt having low cost of funding, strong operating cash flow generation and capex to be spread over 18-24 months. 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 risen by 2x since we upgraded the stock to Buy in our Q4FY2020 preview report dated April 9, 2020. The stock is currently trading at a P/E of 25.0x and 19.7x its FY2022E and FY2023E earnings. We maintain our Buy rating on the stock with revised price target of Rs. 250 factoring upwardly revised estimates, strong growth outlook and healthy balance sheet.

One-year forward P/E (x) band



Source: Sharekhan Research

Peer Comparison

Particulars	P/E (x)		EV/EBITDA (x)		P/BV (x)		RoE (%)	
	FY22E	FY23E	FY22E	FY23E	FY22E	FY23E	FY22E	FY23E
Century Plyboards	25.0	19.7	15.4	12.3	3.7	3.1	13.7	15.5
Greenply Industries*	14.6	12.3	9.2	9.3	2.7	2.3	19.5	19.8
Greenpanel Industries*#	20.0	13.7	8.8	7.1	1.9	1.7	9.8	12.8

*Source: Sharekhan Research, *Bloomberg Estimates, #Standalone financials*

About company

Century was founded in 1986 by Mr. Sajjan Bhajanka and Mr. Sanjay Agarwal. Today, it is 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 & Managing Director
Mr. Sanjay Agarwal	Managing Director & CEO
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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