



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

Reco: Buy	Change
CMP: Rs. 246	↔
Price Target: Rs. 295	↑

↑ Upgrade ↔ Maintain ↓ Downgrade

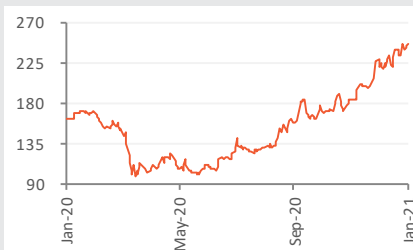
Company details

Market cap:	Rs. 5,461 cr
52-week high/low:	Rs. 252 / 95
NSE volume: (No of shares)	5.8 lakh
BSE code:	577763
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	11.2	42.5	72.0	50.9
Relative to Sensex	5.7	22.8	39.6	33.1

Sharekhan Research, Bloomberg

Summary

- We retain a Buy on Century Plyboards Limited (Century) with a revised PT of Rs. 295.
- Healthy residential realty launches and sales across India in Q3FY2021 to benefit its Plywood and laminates business.
- Centre's focus on affordable housing and various state government incentives to the residential housing sector is expected to maintain growth momentum.
- Capex in MDF space to provide next leg of growth. Strong balance sheet and healthy cash flow generation capabilities.

Century Plyboards Limited (Century) is expected to benefit from strong traction being witnessed in the residential real estate sector. As per Anarock, a real estate consultancy, the new launches and sales during Q3FY2021 across seven major cities have seen a 62% and 72% y-o-y jump. Century's products viz. MDF, Plywood and laminates are expected to benefit from the improving demand in residential realty. The plywood division (around 90% sales towards new housing) is expected to witness healthy demand with rising new housing supply. The laminate division has also begun to recover after suffering from sluggish demand environment in Q2FY2021. We expect Q3FY2021 to be better for plywood and laminates after witnessing one of the best months in October 2020. However, Century is expected to be affected by the ongoing farmer agitation in the Northern region as its sole MDF unit is located in Hoshiarpur (Punjab). MDF demand has been strong during Oct-Nov period. However, the loss of sales in December may impact overall Q3FY2021 revenues. However, we expect Q4FY2021 (considering resolution of farmer agitation) and FY2022 to be strong periods for the company as it benefits from strong demand environment and low base. The company would be undertaking capacity expansion in South India for Greenfield unit of MDF and would incur capex of Rs. 400-450 crore depending on the price of the land. The company has healthy liquidity position with debt is already below Rs. 100 crore at an interest cost of ~2% and has been investing the cash flows in 4-5% liquid funds. Future capacity expansion is expected to be majorly 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. State government initiatives to enhance domestic furniture manufacturing and making it globally competitive would provide strong growth avenues. The stock is currently trading at a P/E of 27.0x and 21.3x its FY2022E and FY2023E earnings which we believe leaves room for further upside. Hence, we maintain our Buy rating on the stock with revised price target of Rs. 295.

Our Call

Valuation –Maintain Buy with a revised PT of Rs. 295: Century Plyboards is expected to benefit from strong traction seen in residential segment pan-India. The central government's focus on affordable housing and various state government incentives to the residential housing sector is expected to maintain the momentum going forward. 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 the government's plans of enhancing domestic manufacturing and making it globally competitive. The stock is currently trading at a P/E of 27.0x and 21.3x its FY2022E and FY2023E earnings, which we believe leaves room for further upside. Hence, we maintain our Buy rating on the stock with a revised price target of Rs. 295.

Key risk

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

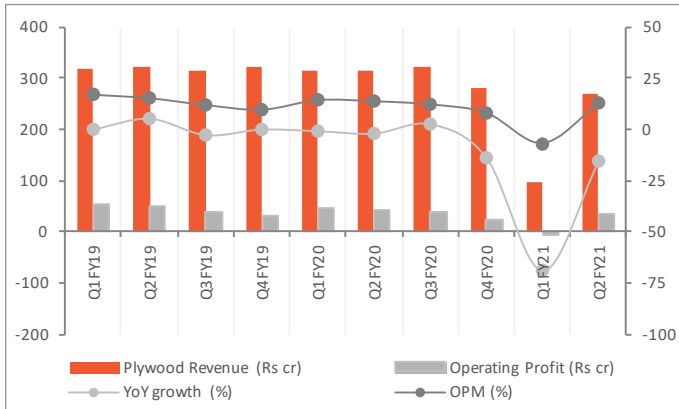
Valuation (Consolidated)

Particulars	Rs cr			
	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-y growth	26	(34)	46	27
Adjusted EPS (Rs.)	9.4	6.2	9.1	11.5
P/E (x)	26.2	39.4	27.0	21.3
P/B (x)	5.0	4.5	4.0	3.4
EV/EBITDA (x)	17.3	22.7	16.6	13.3
RoNW (%)	17.8	9.9	13.7	15.5
RoCE (%)	15.3	10.2	13.5	15.2

Source: Company; Sharekhan estimates

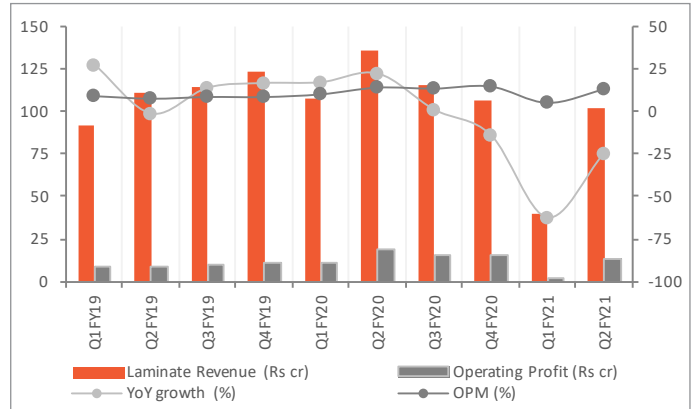
Financials in charts

Plywood trend



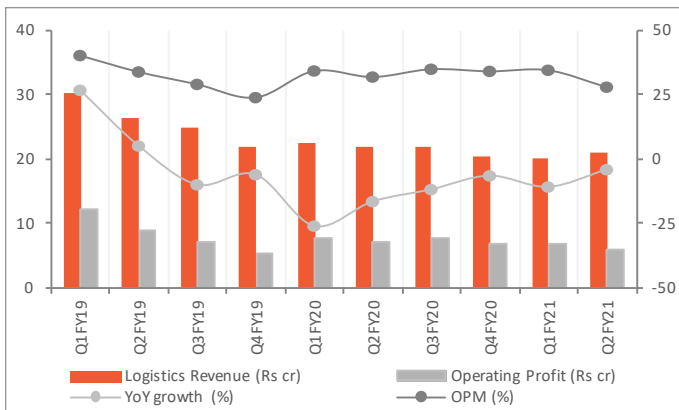
Source: Company, Sharekhan Research

Laminate trend



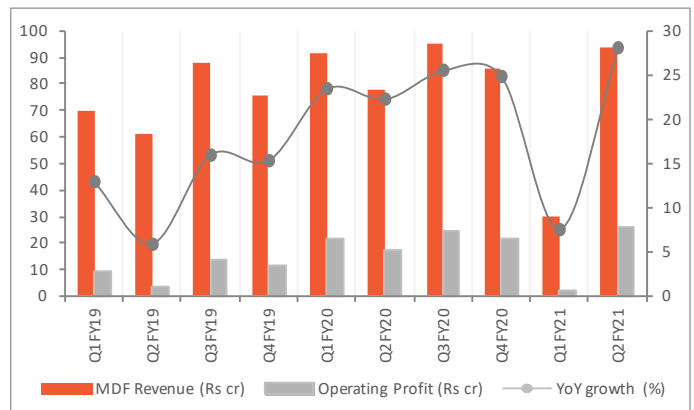
Source: Company, Sharekhan Research

Logistics trend



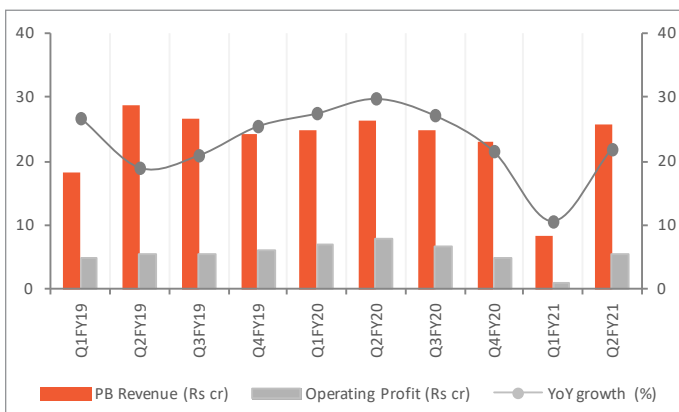
Source: Company, Sharekhan Research

MDF trend



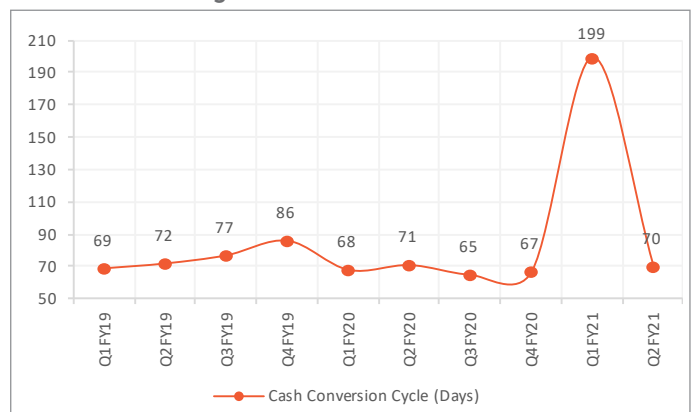
Source: Company, Sharekhan Research

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 hit by COVID-19-led lockdowns in Q1FY2021, which affected peak sales period for the year. Additionally, its high fixed cost structure had affected OPM, dragging down its net earnings. However, from June, the sector has witnessed speedy recovery with the easing of lockdowns. 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 a recovery in net earnings. The industry is expected to rebound with strong growth in FY2022.

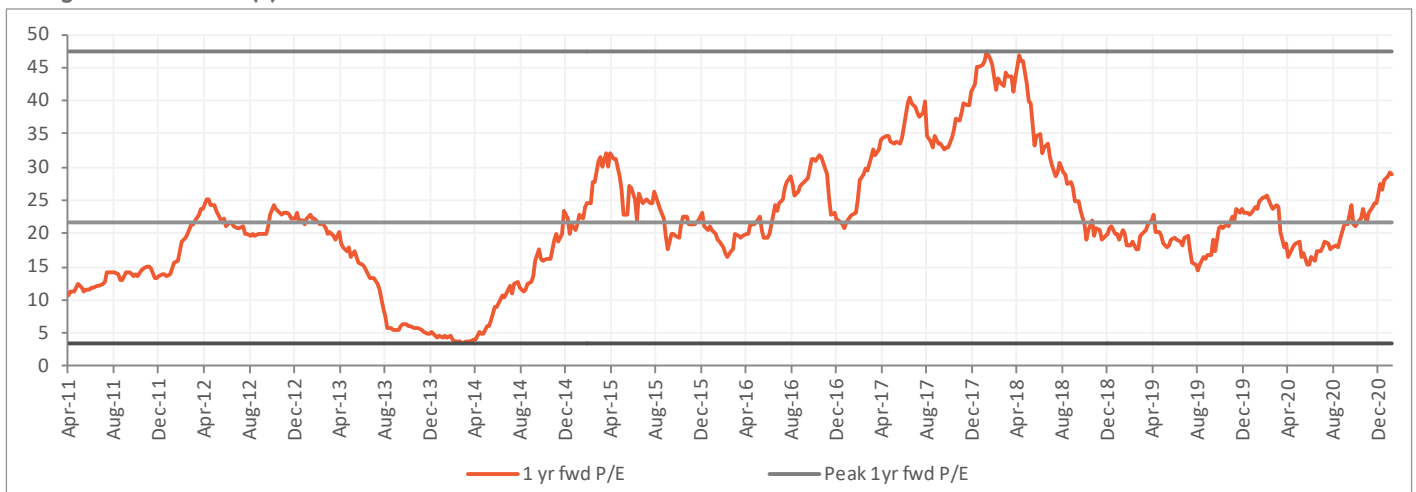
■ Company Outlook – Conservatively, expect normal revenue run-rate by Q4FY2021

The company saw shift in recovery of sales during Q2, especially during September 2020, where overall sales equaled 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. 295

Century Plyboards is expected to benefit from strong traction seen in residential segment pan-India. The central government's focus on affordable housing and various state government incentives to the residential housing sector is expected to maintain the momentum going forward. 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 the government's plans of enhancing domestic manufacturing and making it globally competitive. The stock is currently trading at a P/E of 27.0x and 21.3x its FY2022E and FY2023E earnings, which we believe leaves room for further upside. Hence, we maintain our Buy rating on the stock with a revised price target of Rs. 295.

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	27.0	21.3	16.6	13.3	4.0	3.4	13.7	15.5
Greenply Industries*	16.8	13.9	10.6	9.3	3.1	2.6	19.7	20.1
Greenpanel Industries*#	23.4	15.3	9.9	7.9	2.3	2.0	10.1	13.7

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 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

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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 deteriorating 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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