Sharekhan by BNP PARIBAS

Powered by the Sharekhan 3R Research Philosophy



# Century Plyboards Limited

## Firing from all cylinders

| Building Materials | Sharekhan code: CENTURYPLY | Result Update |
|---|---|---|

| 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. 293** | |
| Price Target: **Rs. 340** | ↑ |

↑ Upgrade ↔ Maintain ↓ Downgrade

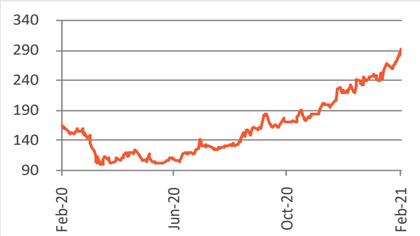
**Company details**

| | |
|---|---|
| Market cap: | Rs. 6,502 cr |
| 52-week high/low: | Rs. 300/95 |
| NSE volume: (No of shares) | 5.7 lakh |
| BSE code: | 532548 |
| NSE code: | CENTURYPLY |
| Free float: (No of shares) | 20.0 cr |

**Shareholding (%)**

| | |
|---|---|
| Promoters | 73 |
| FII | 5 |
| DII | 12 |
| Others | 10 |

**Price chart**




**Price performance**

| (%) | 1m | 3m | 6m | 12m |
|---|---|---|---|---|
| Absolute | 17.3 | 58.3 | 118.2 | 76.1 |
| Relative to Sensex | 13.2 | 40.6 | 84.6 | 51.6 |

*Sharekhan Research, Bloomberg*

**Summary**

- We retain our Buy rating on Century Plyboards Limited (Century) with a revised PT of Rs. 340, as we see further room for an upside considering its strong growth outlook and healthy balance sheet.
- Q3FY2021 numbers beat expectations on all front led by strong revenue growth and expansion in OPM in its key business verticals.
- Strong demand momentum is expected to continue going ahead along with sustaining OPM. The company becomes practically debt free with lowest working capital cycle days.
- Plans of brownfield and Greenfield expansion in MDF. Equipment re-balancing to enhance capacities of Plywood, laminates and particle board.

**Century Plyboards Limited (Century) reported a strong outperformance on revenues, OPM and net profit in Q3FY2021 led by strong revenue growth and OPM expansion in key business verticals. The company's standalone revenue rose 9.9% y-o-y to Rs. 654 crore (better than estimate), aided by strong revenue growth in MDF (up 20.6% y-o-y), plywood (up 10.6% y-o-y) and laminate (up 4.4% y-o-y). The revenues from Particle board and CFS were up 4.8% y-o-y and down 5.2% y-o-y respectively. Century reported strong beat in OPM, which stood at 18.5% (up 278 bps y-o-y), which was also led by strong OPM in MDF (up 219 bps y-o-y to 27.7%), Plywood (up 267bps y-o-y to 15.1% y-o-y) and Laminate (up 538bps y-o-y to 19.2% y-o-y). Hence, operating profit rose by 29.3% y-o-y to Rs. 121 crore. Healthy operational performance led to adjusted net profit (adjusting for Rs. 12 crore income reversal in Q3FY2021 and Rs. 46 crore impairment loss in Q3FY2020) growth of 18% y-o-y to Rs. 77 crore despite higher effective tax rate (29.6% vs 19.1% in Q3FY2020). Century has seen strong pent up demand along with possible market share gains during Q3 which had led to strong volume growth across its key verticals. The strong demand momentum is expected to sustain going ahead with new projects expected to start from Q4FY2021, budget impetus on infrastructure and housing sectors, and demand recovery seen in all metros. The company undertook price hikes in almost all business divisions. It is also optimistic on maintaining double digit volume growth in plywood and maintaining OPM at elevated levels in laminates and MDF. On the balance sheet front, the company practically became debt free with Rs. 140 crore treasury assets and operated at historically low working capital cycle days of 51 days. The company is on expansion spree with 400cbm/day MDF brownfield expansion in Punjab unit, Greenfield expansion planned in South india for MDF of 700cbm/day plus capacity and brownfield expansions in particle board, laminates and plywood through equipment re-balancing. In totality, the company would be incurring Rs. 650-700 crore capex over the next two years. The MDF brownfield expansion is expected in less than a year with peak revenue potential of Rs. 400 crores. We have revised our earnings estimates upwards for FY2021E-FY2023E factoring improved demand outlook coupled with better OPM. The stock is currently trading at a P/E of 26.7x and 22.3x 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. 340.**

**Key positives**

- Strong outperformance in revenues and OPM in Plywood, laminate and MDF.
- Practically debt free with treasury assets of Rs. 140 crore.
- Working capital cycle lowest at 51 days.

**Key negatives**

- Particle board and CFS business performance remained muted.

**Our Call**

**Valuation –Maintain Buy with a revised PT of Rs. 340:** Like some of its industry peers, Century has been able to gain from strong demand momentum seen in Q3FY2021. Further, the demand outlook going ahead remains buoyant with the Government's focus on infrastructure and housing sectors. The company's strong operational performance is expected to sustain going ahead led by recent price hikes and cost efficiencies. The capacity expansion in MDF is expected to provide next leg of growth. The company has been able to generate strong operating cash flows increasing treasury surplus which should aid in capacity expansions going ahead. The stock is currently trading at a P/E of 26.7x and 22.3x 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. 340.

**Key Risks**

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 | 1,995 | 2,348 | 2,687 |
| OPM (%) | 14.7 | 15.8 | 15.9 | 16.4 |
| Adjusted PAT | 209 | 204 | 244 | 291 |
| % y-o-ygrowth | 26 | (2) | 19 | 20 |
| Adjusted EPS (Rs.) | 9.4 | 9.2 | 10.9 | 13.1 |
| P/E (x) | 31.2 | 31.9 | 26.7 | 22.3 |
| P/B (x) | 6.0 | 5.1 | 4.4 | 3.7 |
| EV/EBITDA (x) | 20.5 | 21.5 | 18.0 | 14.9 |
| RoNW (%) | 17.8% | 15.1% | 15.8% | 16.4% |
| RoCE (%) | 15.3% | 14.0% | 15.2% | 16.0% |

*Source: Company; Sharekhan estimates*

**Strong performance across key verticals**

The company's standalone revenue rose 9.9% y-o-y to Rs. 654 crore (better than estimate), aided by strong revenue growth in MDF (up 20.6% y-o-y), plywood (up 10.6% y-o-y) and laminate (up 4.4% y-o-y). The revenues from Particle board and CFS were up 4.8% y-o-y and down 5.2% y-o-y respectively. Century reported strong beat in OPM, which stood at 18.5% (up 278 bps y-o-y), which was also led by strong OPM in MDF (up 219 bps y-o-y to 27.7%), Plywood (up 267bps y-o-y to 15.1% y-o-y) and Laminate (up 538bps y-o-y to 19.2% y-o-y). Hence, operating profit rose by 29.3% y-o-y to Rs. 121 crore. Healthy operational performance led to adjusted net profit (adjusting for Rs. 12 crore income reversal in Q3FY2021 and Rs. 46 crore impairment loss in Q3FY2020) growth of 18% y-o-y to Rs. 77 crore despite higher effective tax rate (29.6% vs 19.1% in Q3FY2020). On the balance sheet front, the company practically became debt free with Rs. 140 crore treasury assets and operated at historically low working capital cycle days of 51 days.

**Strong growth outlook; Expansion plans firmed up**

Century has seen strong pent up demand along with possible market share gains during Q3FY21 which had led to strong volume growth across its key verticals. The strong demand momentum is expected to sustain going ahead with new projects expected to start from Q4FY2021, budget impetus on infrastructure and housing sectors, and demand recovery seen in all metros. The company undertook price hikes in almost all business divisions. It is also optimistic on maintaining double digit volume growth in plywood and maintaining OPM at elevated levels in laminates and MDF. The company is on expansion spree with 400cbm/day MDF brownfield expansion in Punjab unit, Greenfield expansion planned in South india for MDF of 700cbm/day plus capacity and brownfield expansions in Particle board, laminates and Plywood through equipment re-balancing. In totality, the company would be incurring Rs. 650-700 crore capex over the next two years. The MDF brownfield expansion is expected in less than a year with peak revenue potential of Rs. 400 crores.

**Key Conference Call Takeaways**

- **Demand environment:** There is pent-up demand and also market share gain due to Virokill technology in Q3. New projects are expected to start from Q4 aiding demand growth. All metros have recovered.
- **Price hikes:** The company took ~7% price increase in laminates, ~2% in panel, 8-10% in particle board and 10% in MDF.
- **Plywood outlook:** The company is optimistic on delivering double digit volume growth in plywood going ahead. Higher capacity utilization led to better OPM for Plywood. It expects to maintain Q3 OPM over next few months before reverting back to normal levels. The company is bullish on plywood demand for 7-8 months. The lower realization in plywood was on account of higher contribution from economy product segment (28% value share). Premium products grew at double- digit but economy segment grew at higher pace.
- **Laminate:** The strong OPM rise in laminate was on account of lowest raw material costs, pricing, discounting to dealers and cost cutting measures. 17-18% OPM is sustainable for laminates.
- **Brownfield expansion:** The company is undertaking brownfield capacity expansion at its Hosiarpur unit in Punjab of 400cbm/day at a capex of Rs. 200 crore. The capacity is expected to start commercial operations in less than a year. The cost of timber for the expanded capacity is expected to be higher by 25paise to 30paise per k.g. which is expected to lead to 3% lower OPM than current capacity. The company expects revenue potential of Rs. 400 crore from brownfield capacity at peak capacity. The company is also increasing particle board capacity from 180cbm/day to 250cbm/day through equipment balancing.
- **Capex:** The company would incur Rs. 600-625 crore capex in MDF for two new lines and Rs. 50-70 crore in Plywood and laminate to increase capacity through equipment balancing over two years.
- **Greenfield expansion:** The company would also be undertaking Greenfield expansion in South India with dedicated capacity towards MDF of 700cbm/day plus in few months time. The RoE and RoCE of Greenfield capacity to be very similar to existing capacity.
- **Distribution reach:** The company's strategy is to reach 1 lakh towns for sainik product. It is planning to add 500 more channels compared to today.
- The company would be investing in brand building and would launch strong brand campaign next year.
- The Myanmar factory is operational despite military taking on government. It has started a Gabon unit which will provide right raw material.
- In MDF, only one plant of 600cbm/day is expected to start in South and its own 400cbm/day capacity to be added after a year. Apart from this, the company does not see any capacity addition in MDF over two years.

**Results (Standalone)** **Rs cr**

| Particulars | Q3FY21 | Q3FY20 | y-o-y (%) | Q2FY21 | q-o-q (%) |
|---|---|---|---|---|---|
| **Income from operations** | **654.4** | **595.4** | **9.9** | **519.8** | **25.9** |
| COGS | 328.2 | 304.1 | 7.9 | 261.0 | 25.8 |
| **Gross profit** | **326.2** | **291.3** | **12.0** | **258.9** | **26.0** |
| Gross margin (%) | 49.9 | 48.9 | 93 | 49.8 | 5.1 |
| Employee cost | 85.0 | 84.6 | 0.5 | 76.4 | 11.3 |
| Other expenditure | 120.0 | 113.0 | 6.2 | 96.8 | 23.9 |
| Total expenditure | 533.2 | 501.7 | 6.3 | 434.2 | 22.8 |
| **Operating profit** | **121.2** | **93.7** | **29.3** | **85.6** | **41.5** |
| Operating profit margin (%) | 18.5 | 15.7 | 278 | 16.5 | 204.3 |
| Finance cost | 1.6 | 8.0 | -79.5 | 3.1 | (48.1) |
| Depreciation | 16.2 | 17.3 | -6.4 | 16.2 | 0.0 |
| Non-operating income | 1.2 | 1.3 | -7.5 | 1.2 | (4.3) |
| Forex loss/(gain) | 11.0 | 46.1 | | (1.1) | |
| **PBT** | **93.5** | **23.6** | **296.2** | **68.6** | **36.4** |
| Tax | 27.6 | 4.5 | 512.4 | 17.1 | 61.4 |
| **Reported PAT** | **65.9** | **19.1** | **245.1** | **51.4** | **28.1** |
| **Adjusted PAT** | **76.9** | **65.2** | **17.9** | **50.4** | **52.6** |

*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 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.

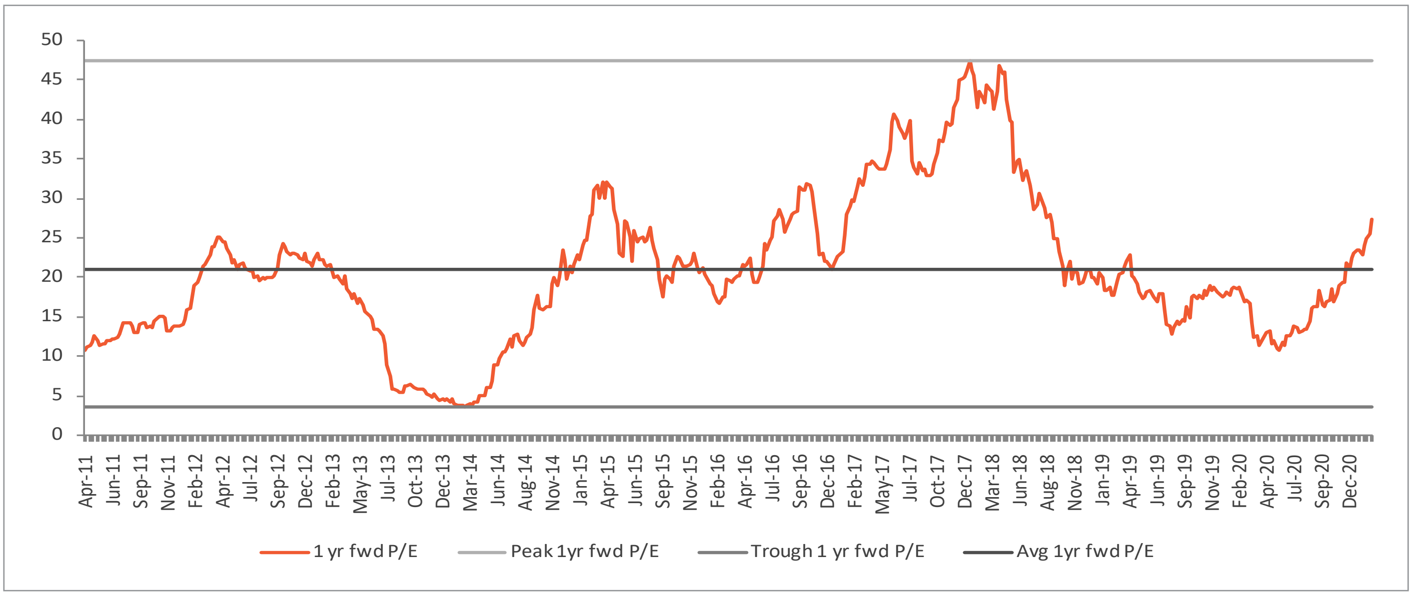
### ■ Company outlook - Poised for strong growth aided by capacity expansion

Century has seen strong pent up demand along with possible market share gains during Q3 which had led to strong volume growth across its key verticals. The strong demand momentum is expected to sustain going ahead with new projects expected to start from Q4FY2021, budget impetus on infrastructure and housing sectors, and demand recovery seen in all metros. The company undertook price hikes in almost all business divisions. It is also optimistic on maintaining double digit volume growth in plywood and maintaining OPM at elevated levels in laminates and MDF. The company is on expansion spree with 400cbm/day MDF brownfield expansion in Punjab unit, Greenfield expansion planned in South india for MDF of 700cbm/day plus capacity and brownfield expansions in Particle board, laminates and Plywood through equipment re-balancing. In totality, the company would be incurring Rs. 650-700 crore capex over the next two years.

### ■ Valuation - Maintain Buy with a revised PT of Rs. 340

Century, like some of its industry peers, has been able to gain from strong demand momentum seen in Q3FY2021. Further, the demand outlook going ahead remains buoyant with government's focus on infrastructure and housing sectors. The company's strong operational performance is expected to sustain going ahead led by recent price hikes and cost efficiencies. The capacity expansion in MDF is expected to provide next leg of growth. The company has been able to generate strong operating cash flows increasing treasury surplus which should aid in capacity expansions going ahead. The stock is currently trading at a P/E of 26.7x and 22.3x 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. 340.

**One-year forward P/E (x) band**




*Source: Sharekhan Research*

**Peer valuation**

| Particulars | P/E (x) | | EV/EBITDA (x) | | P/BV (x) | | RoE (%) | |
|---|---|---|---|---|---|---|---|---|
| | FY22E | FY23E | FY22E | FY23E | FY22E | FY23E | FY22E | FY23E |
| Century Plyboards | 26.7 | 22.3 | 18.0 | 14.9 | 4.4 | 3.7 | 15.8 | 16.4 |
| Greenlam Industries | 19.8 | 15.9 | 11.0 | 9.4 | 3.2 | 2.7 | 17.7 | 18.8 |
| Kajaria Ceramics | 38.1 | 32.1 | 22.4 | 18.9 | 7.3 | 6.4 | 20.2 | 21.4 |

*Source: Company, 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

Century, like some of its industry peers, has been able to gain from strong demand momentum seen in Q3FY2021. Further, the demand outlook going ahead remains buoyant with government's focus on infrastructure and housing sectors. The company's strong operational performance is expected to sustain going ahead led by recent price hikes and cost efficiencies. The capacity expansion in MDF is expected to provide next leg of growth. The company has been able to generate strong operating cash flows increasing treasury surplus which should aid in capacity expansions going ahead.

## Key Risks

- Slowdown in macro-economics, especially in the 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*

**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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