

**HOLD**

TP: Rs 395 | ▼ 5%

**CENTURY PLYBOARDS**

Construction Materials

11 August 2021

**In-line quarter**

- Q1 standalone revenue growth robust at 124% YoY off a low base, with strong growth across segments
- EBITDA grew to Rs 612mn (vs. Rs 8.4mn YoY) as margins expanded in all three major businesses
- We roll over to a Jun'22 TP of Rs 395 (vs. Rs 370). Upgrade to HOLD from SELL on limited downside

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**Low base aids strong growth YoY:** CPBI reported standalone Q1FY22 revenue growth of 124% YoY to Rs 4.5bn, with plywood/MDF/laminates growing at 125%/118%/200% aided by a Covid-hit base quarter. Volumes in the plywood segment grew 123% YoY, laminates 103% and MDF 155%. Working capital days increased by 40 days to 108 primarily due to higher inventory which should normalise by end-Q2. MDF plant expansion in Punjab will now commence production in H1FY23 vs. Q1FY23 earlier. The greenfield capacity in Andhra Pradesh has also been delayed due to Covid and should become operational within 18 months of receiving approvals.

**Demand trends improving:** As per management, demand was healthy till mid-April but gradually petered out thereafter as the pandemic resurfaced. Sales have improved in the second half of June while July has been normal for the company. CPBI expects demand trends to remain strong due to a pick-up in housing activity across geographies.

**Gross margin expands:** Q1 operating margin recovered to 13.6% with gross margin increasing 295bps YoY primarily due to a better product mix and price hikes across categories (~2% in plywood, ~6% in MDF and ~3% in laminates). MDF gross margin increased by 280bps QoQ and operating margin by 130bps QoQ due to price increases and a favourable product mix. Gross margin in the plywood segment was steady QoQ whereas laminates saw a 560bps QoQ drop as RM cost increased. Management sees sustainable operating margins at 13-15% in plywood, 15-17% in laminates and 26-28% in MDF.

**Upgrade from HOLD to SELL:** We broadly maintain estimates and roll forward to a revised Jun'22 TP of Rs 395 (earlier Rs 370), based on an unchanged 25x one-year forward P/E, in line with the stock's five-year average. We continue to like CPBI for its broad wood panel product portfolio, improved balance sheet and healthy return ratios. Upgrade from SELL to HOLD as downside looks limited at current valuations of 28.1x FY23E EPS.

**Key changes**

Target	Rating
▲	▲

Ticker/Price	CPBI IN/Rs 415
Market cap	US\$ 1.2bn
Free float	27%
3M ADV	US\$ 1.7mn
52wk high/low	Rs 459/Rs 130
Promoter/FPI/DII	73%/5%/22%

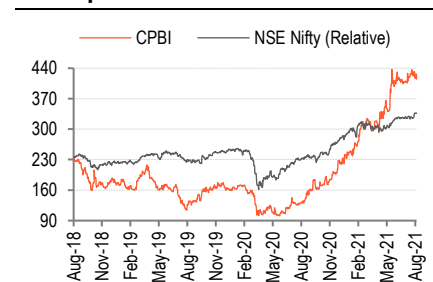
Source: NSE | Price as of 11 Aug 2021

**Key financials**

Y/E 31 Mar	FY21P	FY22E	FY23E
Total revenue (Rs mn)	21,304	25,467	30,401
EBITDA (Rs mn)	3,355	4,476	5,380
Adj. net profit (Rs mn)	1,996	2,666	3,279
Adj. EPS (Rs)	9.0	12.0	14.8
Consensus EPS (Rs)	9.0	12.1	15.2
Adj. ROAE (%)	16.9	19.2	19.7
Adj. P/E (x)	46.2	34.6	28.1
EV/EBITDA (x)	28.6	20.8	17.2
Adj. EPS growth (%)	26.4	33.6	23.0

Source: Company, Bloomberg, BOBCAPS Research | P – Provisional

**Stock performance**



Source: NSE



**Fig 1 – Standalone quarterly performance**

(Rs mn)	Q1FY22	Q1FY21	YoY (%)	Q4FY21	QoQ (%)
<b>Total revenues</b>	<b>4,489</b>	<b>2,007</b>	<b>123.7</b>	<b>7,386</b>	<b>(39.2)</b>
Total raw material consumed	1,982	946	109.6	3,757	(47.2)
% of sales	44.2	47.1	(296bps)	50.9	(671bps)
Employee exps	887	566	56.8	1,003	(11.6)
% of sales	19.8	28.2	(844bps)	13.6	618bps
Other exp	1,008	487	106.9	1,358	(25.8)
% of sales	22.4	24.3	(182bps)	18.4	406bps
Total expenditure	3,877	1,998	94.0	6,118	(36.6)
% of sales	86.4	99.6	(1322bps)	82.8	354bps
<b>EBITDA</b>	<b>612</b>	<b>8</b>	<b>7,207.2</b>	<b>1268</b>	<b>(51.7)</b>
% of sales	13.6	0.4	1,322bps	17.2	(354bps)
Depreciation	163	143	14.5	159	2.6
Other income	49	46	6.4	37	33.8
Interest cost	27	51	(46.4)	29	(6.2)
<b>PBT</b>	<b>471</b>	<b>(139)</b>	<b>NA</b>	<b>1117</b>	<b>(57.8)</b>
Taxes	132	(54)	(345.4)	291	(54.7)
Effective tax rate (%)	28.0	38.8	NA	26.0	197bps
<b>PAT before extraordinary</b>	<b>339</b>	<b>(85)</b>	<b>NA</b>	<b>826</b>	<b>(59.0)</b>
Less: extraordinary items	0	0	NM	6	NM
<b>RPAT</b>	<b>339</b>	<b>(85)</b>	<b>NM</b>	<b>832</b>	<b>(59)</b>

Source: Company, BOBCAPS Research

**Fig 2 – Standalone segmental performance**

(Rs mn)	Q1FY22	Q1FY21	YoY (%)	Q4FY21	QoQ (%)
<b>Revenue</b>					
Plywood & Allied products	2,226	988	125.3	3,992	(44.2)
Laminates	879	403	118.2	1,529	(42.5)
MDF	910	303	200.2	1,191	(23.5)
Particle Board	238	83	186.0	300	(20.6)
Container Freight Station	184	203	(9.2)	219	(15.9)
Others	63	32	95.4	166	(62.3)
Total	4,500	2,012	123.6	7,397	(39.2)
Less: Inter Segment revenue	11	6	101.8	10	7.9
<b>Net revenues</b>	<b>4,489</b>	<b>2,007</b>	<b>123.7</b>	<b>7,386</b>	<b>(39.2)</b>
<b>EBIT</b>					
Plywood & Allied products	142	(77)	(284.5)	603	(76.4)
Laminates	120	2	6081.0	371	(67.7)
MDF	212	(25)	(955.1)	299	(29.2)
Particle Board	49	1	4064.3	47	4.1
Container Freight Station	9	42	(77.6)	33	(71.4)
Others	2	(7)	(127.7)	21	(90.5)
<b>Total</b>	<b>534</b>	<b>(64)</b>	<b>(932.2)</b>	<b>1,373</b>	<b>(61.1)</b>
<b>EBIT Margin (%)</b>					
Plywood & Allied products	6.4	(7.8)	1,419bps	15.1	(872bps)
Laminates	13.6	0.5	1,313bps	24.2	(1,062bps)
MDF	23.3	(8.2)	3,143bps	25.1	(1,85bps)
Particle Board	20.5	1.4	1,907bps	15.6	487bps
Container Freight Station	5.1	20.7	(1,558bps)	14.9	(986bps)

Source: Company, BOBCAPS Research

**Fig 3 – Consolidated quarterly performance**

(Rs mn)	Q1FY22	Q1FY21	YoY (%)	Q4FY21	QoQ (%)
<b>Total revenues</b>	<b>4,575</b>	<b>2,030</b>	<b>125.4</b>	<b>7,450</b>	<b>(38.6)</b>
Total raw material consumed	1,965	932	110.9	3,693	(46.8)
% of sales	43.0	45.9	(294bps)	49.6	(662bps)
Employee exps	930	586	58.6	1,055	(11.8)
% of sales	20.3	28.9	(855bps)	14.2	616bps
Other exp	1,078	518	108.1	1,444	(25.3)
% of sales	23.6	25.5	(196bps)	19.4	419bps
Total expenditure	3,973	2,036	95.1	6,192	(35.8)
% of sales	86.8	100.3	(1,345bps)	83.1	373bps
<b>EBITDA</b>	<b>602</b>	<b>(6)</b>	<b>(1,0389)</b>	<b>1259</b>	<b>(52.2)</b>
% of sales	13.2	(0.3)	1,345bps	16.9	(373bps)
Depreciation	181	157	15.0	176	2.4
Other income	52	46	14.4	102	(48.8)
Interest cost	31	55	(42.9)	34	(8.8)
<b>PBT</b>	<b>443</b>	<b>(172)</b>	<b>(357.8)</b>	<b>1150</b>	<b>(61.5)</b>
Taxes	132	(54)	(345.6)	287	(54.1)
Effective tax rate (%)	29.8	31.3	(149bps)	25.0	483bps
<b>PAT</b>	<b>311</b>	<b>(118)</b>	<b>NA</b>	<b>863</b>	<b>(64.0)</b>
Less: Extraordinary items	0	0	NM	6	NM
Less: Minority interest	3	(5)	NA	(3)	(193.7)
PAT after minority interest	314	(113)	NA	866	(63.8)

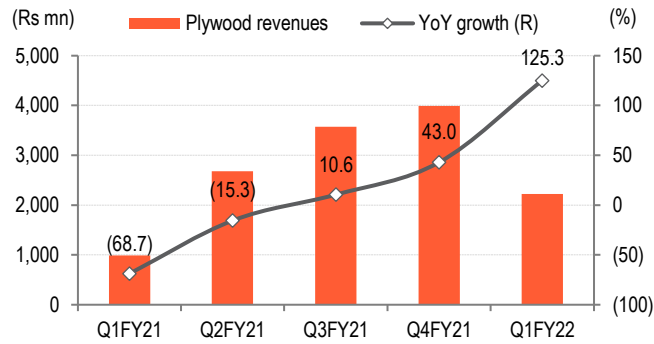
Source: Company, BOBCAPS Research

**Fig 4 – Consolidated segmental performance**

(Rs mn)	Q1FY22	Q1FY21	YoY (%)	Q4FY21	QoQ (%)
<b>Revenue</b>					
Plywood & Allied products	2,313	1,012	128.6	4,056	(43.0)
Laminates	879	403	118.2	1,529	(42.5)
MDF	910	303	200.2	1,191	(23.5)
Particle Board	238	83	186.0	300	(20.6)
Container Freight Station	184	203	(9.2)	219	(15.9)
Others	63	32	95.4	166	(62.3)
<b>Total</b>	<b>4,587</b>	<b>2,036</b>	<b>125.3</b>	<b>7,460</b>	<b>(38.5)</b>
Less: Inter Segment revenue	11	6	101.8	10	7.9
<b>Net revenues</b>	<b>4,575</b>	<b>2,030</b>	<b>125.4</b>	<b>7,450</b>	<b>(38.6)</b>
<b>EBIT</b>					
Plywood & Allied products	116	(106)	(208.8)	643	(82.0)
Laminates	120	2	6081.0	371	(67.7)
MDF	212	(25)	(955.1)	299	(29.2)
Particle Board	49	1	4064.3	47	4.1
Container Freight Station	9	42	(77.6)	33	(71.4)
Others	5	(7)	(165.8)	20	(76.6)
<b>Total</b>	<b>510</b>	<b>(93)</b>	<b>(647.5)</b>	<b>1,412</b>	<b>(63.9)</b>
<b>EBIT Margin (%)</b>					
Plywood & Allied products	5.0	(10.5)	1,549bps	15.8	(1,085bps)
Laminates	13.6	0.5	1,313bps	24.2	(1,062bps)
MDF	23.3	(8.2)	3,143bps	25.1	(185bps)
Particle Board	20.5	1.4	1,907bps	15.6	487bps
Container Freight Station	5.1	20.7	(1,558bps)	14.9	(986bps)

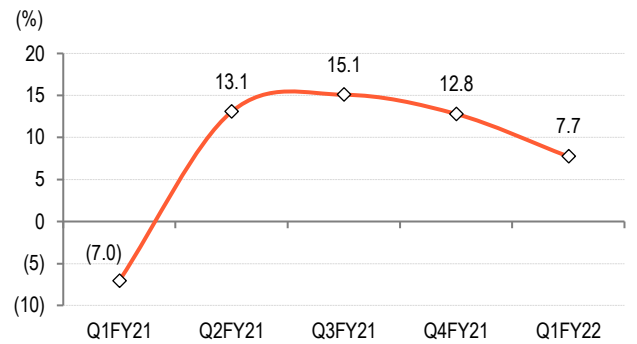
Source: Company, BOBCAPS Research

**Fig 5 – Standalone plywood revenues**



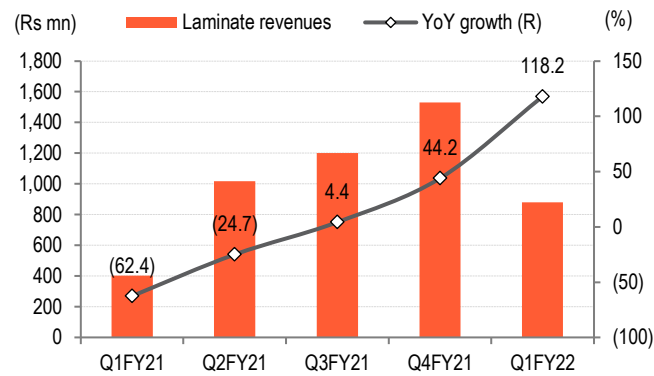
Source: Company, BOBCAPS Research

**Fig 6 – Plywood EBITDA margin**



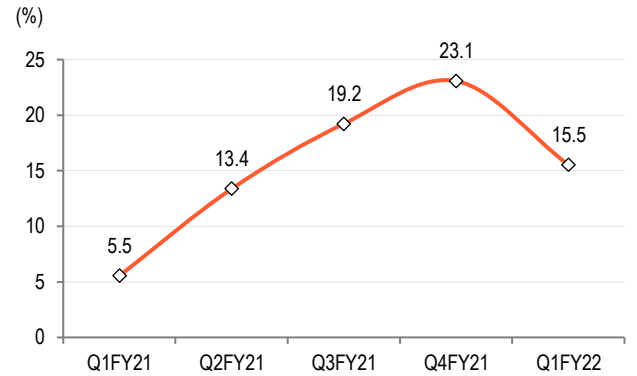
Source: Company, BOBCAPS Research

**Fig 7 – Laminate revenues**



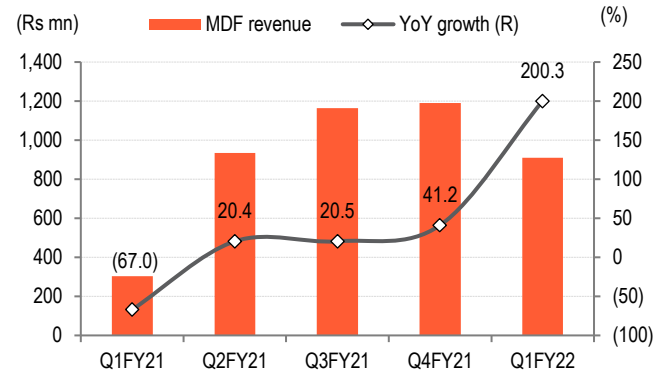
Source: Company, BOBCAPS Research

**Fig 8 – Laminate EBITDA margin**



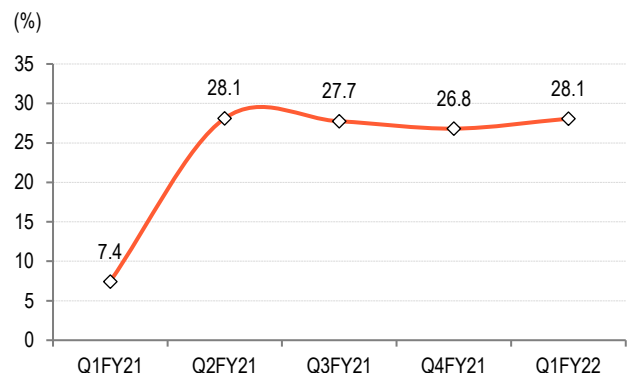
Source: Company, BOBCAPS Research

**Fig 9 – MDF revenues**



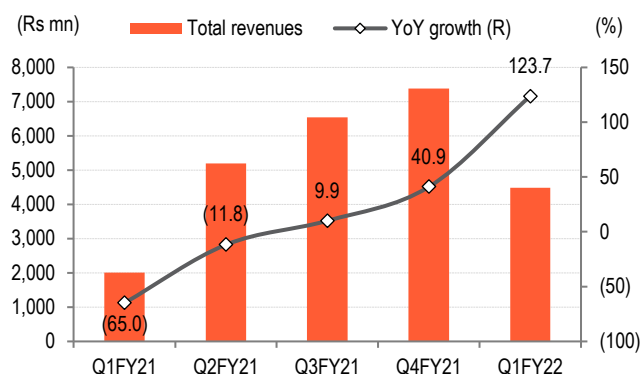
Source: Company, BOBCAPS Research

**Fig 10 – MDF EBITDA margin**



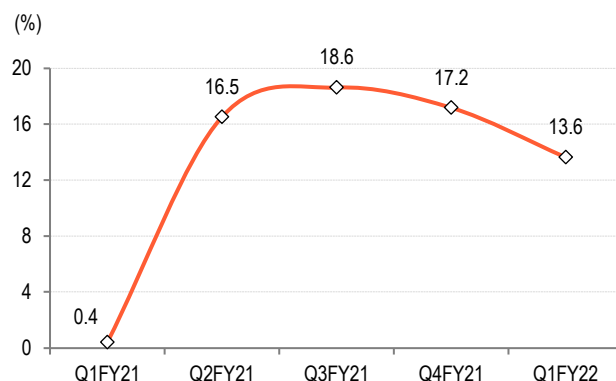
Source: Company, BOBCAPS Research

Fig 11 – Total revenues



Source: Company, BOBCAPS Research

Fig 12 – EBITDA margin



Source: Company, BOBCAPS Research

## Earnings call highlights

- Q1FY22 was better than CPBI expected despite the second Covid wave. Demand has been improving since mid-June with a return to normalcy in July and healthy early-August sales as well.
- Management expects demand to remain strong provided there is no further disturbance due to the pandemic.
- Working capital days increased to 108 days in Q1 primarily due to buildup of inventory. Per management, this should normalise by end-Q2.
- MDF brownfield expansion will become operational by H1FY23 (earlier Q1FY23), raising capacity to 1,000cbm/day from 600cbm/day currently. The South India MDF plant will be commissioned within 18 months of requisite approvals.
- The company is facing face veneer procurement difficulties in Myanmar due to political disturbance there and is thus using its Gabon facility for sourcing.
- Net debt stood at Rs 484.5mn as of 30 Jun 2021.
- Management plans to present a roadmap for growth over the next three years during the Q2FY22 earnings conference call.

## Plywood

- CPBI expects to see good demand for plywood over the next few years alongside a gradual shift from unorganised to organised players.
- The company has ~30% market share of India's organised plywood market.
- Plywood prices were hiked 2% in Q1 due to raw material price pressure.

## Laminates

- Management believes 15-17% operating margins are sustainable in laminates.
- The BCG study commissioned by the company should result in cost savings of Rs 180mn-200mn for this business when implemented.

- CPBI took a price hike of ~3% in laminates during Q1.

#### **MDF**

- The MDF plant is currently running at full utilisation and the company expects continued strong demand.
- Margins in the segment are guided to remain at 26-28% in FY22.
- CPBI took a blended price increase of ~6% in this segment during Q1.
- If the government imposes a countervailing duty on imports as planned, it will become easier for MDF players to take price hikes in future.
- Management believes imports have slowed in the country over the past 12 months due to high prices globally.
- Currently, 70-73% of the company's MDF sales come from North India and the rest are distributed across West/East/South India.

## Valuation methodology

CPBI is the joint market leader in India's organised plywood industry along with Greenply Industries (MTLM IN). It is the third largest laminate player in the country and also has an MDF plant. Over the years, CPBI has evolved into the largest integrated wood panel company in India, equipped with a wide distribution reach, strong brand focus and comprehensive portfolio.

We broadly maintain estimates and roll forward to a revised Jun'22 TP of Rs 395 (earlier Rs 370), based on an unchanged 25x one-year forward P/E, in line with the stock's five-year average. We continue to like CPBI for its broad wood panel product portfolio, improved balance sheet and healthy return ratios. Upgrade from SELL to HOLD as downside looks limited at current valuations of 28.1x FY23E EPS.

**Fig 13 – Key assumptions**

(Rs mn)	FY20	FY21	FY22E	FY23E	FY24E
Plywood revenues	12,343	11,232	13,459	15,199	16,883
Growth (%)	(3.4)	(9.0)	19.8	12.9	11.1
Laminates revenues	4,633	4,150	5,145	5,919	6,810
Growth (%)	5.5	(10.4)	24.0	15.0	15.0
MDF	3,504	3,592	4,431	6,433	9,632
Growth (%)	18.7	2.5	23.3	45.2	49.7

Source: Company, BOBCAPS Research

**Fig 14 – Peer comparison**

Company	Ticker	Rating	Target Price (Rs)	Revenue CAGR FY21-23E (%)	EPS (Rs)		ROE (%)		Target P/E (x)
					FY22E	FY23E	FY22E	FY23E	
Kajaria Ceramics	KJC IN	HOLD	995	19.5	24.2	29.8	20.1	23.4	32
Somany Ceramics	SOMC IN	BUY	820	17.5	22.8	33.9	13.8	17.6	22
Greenply Industries	MTLM IN	HOLD	210	18.0	8.9	10.5	22.4	21.5	20
Century Plyboard	CPBI IN	HOLD	395	19.5	12.0	14.8	19.2	19.7	25
Greenpanel Industries	GREENP IN	BUY	315	25.1	12.2	16.4	14.3	18.6	18
Cera Sanitaryware	CRS IN	HOLD	4375	16.1	115.4	138.1	16.2	17.1	30
Astral Ltd	ASTRA IN	SELL	1400	19.1	21.3	26.4	26.0	29.4	50
Finolex Industries	FNXP IN	HOLD	185	4.2	7.3	7.5	13.9	13.2	24
Supreme Industries	SI IN	HOLD	1990	11.2	56.2	63.4	22.6	21.5	30

Source: BOBCAPS Research

## Key risks

Key upside risks to our estimates are:

- **Sharp decline in raw material prices:** Lower raw material prices may result in better-than-expected profitability.
- **Lower activity in unorganised market:** If the unorganised market witnesses below-expected traction, CPBI's growth could outperform estimates.

## Financials

### Income Statement

Y/E 31 Mar (Rs mn)	FY20A	FY21P	FY22E	FY23E	FY24E
<b>Total revenue</b>	<b>23,170</b>	<b>21,304</b>	<b>25,467</b>	<b>30,401</b>	<b>36,687</b>
EBITDA	3,308	3,355	4,476	5,380	6,821
Depreciation	(763)	(687)	(810)	(861)	(1,115)
EBIT	2,545	2,669	3,666	4,519	5,706
Net interest inc./(exp.)	(389)	(128)	(95)	(96)	(82)
Other inc./(exp.)	43	173	88	61	55
Exceptional items	0	0	0	0	0
EBT	2,199	2,714	3,658	4,484	5,679
Income taxes	(519)	(690)	(922)	(1,130)	(1,431)
Extraordinary items	(427)	(112)	0	0	0
Min. int./Inc. from assoc.	253	2	(70)	(75)	(80)
<b>Reported net profit</b>	<b>1,506</b>	<b>1,915</b>	<b>2,666</b>	<b>3,279</b>	<b>4,168</b>
Adjustments	73	82	0	0	0
<b>Adjusted net profit</b>	<b>1,579</b>	<b>1,996</b>	<b>2,666</b>	<b>3,279</b>	<b>4,168</b>

### Balance Sheet

Y/E 31 Mar (Rs mn)	FY20A	FY21P	FY22E	FY23E	FY24E
Accounts payables	1,515	2,089	1,954	2,166	2,613
Other current liabilities	1,284	1,617	1,605	1,916	2,312
Provisions	227	325	255	304	367
Debt funds	2,681	1,422	1,300	1,450	900
Other liabilities	0	0	0	0	0
Equity capital	223	223	223	223	223
Reserves & surplus	10,684	12,451	14,916	17,994	21,892
Shareholders' fund	10,906	12,674	15,138	18,217	22,114
<b>Total liab. and equities</b>	<b>16,596</b>	<b>18,114</b>	<b>20,310</b>	<b>24,185</b>	<b>28,519</b>
Cash and cash eq.	248	908	434	40	734
Accounts receivables	2,568	3,027	3,140	3,582	4,322
Inventories	3,980	3,692	4,535	5,414	6,533
Other current assets	1,217	1,476	1,605	1,916	2,312
Investments	63	1,169	64	64	64
Net fixed assets	7,777	7,551	10,240	12,879	14,264
CWIP	160	285	285	285	285
Intangible assets	9	8	8	8	8
Deferred tax assets, net	573	(1)	(1)	(1)	(1)
Other assets	0	0	0	0	0
<b>Total assets</b>	<b>16,596</b>	<b>18,114</b>	<b>20,310</b>	<b>24,185</b>	<b>28,519</b>

### Cash Flows

Y/E 31 Mar (Rs mn)	FY20A	FY21P	FY22E	FY23E	FY24E
<b>Cash flow from operations</b>	<b>3,643</b>	<b>3,884</b>	<b>2,339</b>	<b>3,253</b>	<b>4,096</b>
Capital expenditures	(235)	(535)	(3,500)	(3,500)	(2,500)
Change in investments	1	(1,106)	1,105	0	0
Other investing cash flows	0	0	0	0	0
<b>Cash flow from investing</b>	<b>(234)</b>	<b>(1,641)</b>	<b>(2,395)</b>	<b>(3,500)</b>	<b>(2,500)</b>
Equities issued/Others	0	0	0	0	0
Debt raised/repaid	(2,639)	(1,259)	(122)	150	(550)
Interest expenses	(389)	(128)	(95)	(96)	(82)
Dividends paid	(535)	(8)	(272)	(275)	(350)
Other financing cash flows	139	(187)	70	75	80
<b>Cash flow from financing</b>	<b>(3,424)</b>	<b>(1,582)</b>	<b>(419)</b>	<b>(147)</b>	<b>(902)</b>
<b>Chg in cash &amp; cash eq.</b>	<b>(15)</b>	<b>661</b>	<b>(474)</b>	<b>(394)</b>	<b>694</b>
<b>Closing cash &amp; cash eq.</b>	<b>248</b>	<b>908</b>	<b>434</b>	<b>40</b>	<b>734</b>

### Per Share

Y/E 31 Mar (Rs)	FY20A	FY21P	FY22E	FY23E	FY24E
Reported EPS	6.8	8.6	12.0	14.8	18.8
Adjusted EPS	7.1	9.0	12.0	14.8	18.8
Dividend per share	1.0	0.0	1.0	1.0	1.3
Book value per share	49.0	57.0	68.0	81.9	99.4

### Valuations Ratios

Y/E 31 Mar (x)	FY20A	FY21P	FY22E	FY23E	FY24E
EV/Sales	4.2	4.5	3.7	3.0	2.5
EV/EBITDA	29.5	28.6	20.8	17.2	13.7
Adjusted P/E	58.4	46.2	34.6	28.1	22.1
P/BV	8.5	7.3	6.1	5.1	4.2

### DuPont Analysis

Y/E 31 Mar (%)	FY20A	FY21P	FY22E	FY23E	FY24E
Tax burden (Net profit/PBT)	71.8	73.6	72.9	73.1	73.4
Interest burden (PBT/EBIT)	86.4	101.7	99.8	99.2	99.5
EBIT margin (EBIT/Revenue)	11.0	12.5	14.4	14.9	15.6
Asset turnover (Rev./Avg TA)	133.5	122.8	132.6	136.7	139.2
Leverage (Avg TA/Avg Equity)	1.7	1.5	1.4	1.3	1.3
Adjusted ROAE	15.3	16.9	19.2	19.7	20.7

### Ratio Analysis

Y/E 31 Mar	FY20A	FY21P	FY22E	FY23E	FY24E
<b>YoY growth (%)</b>					
Revenue	1.6	(8.1)	19.5	19.4	20.7
EBITDA	5.9	1.4	33.4	20.2	26.8
Adjusted EPS	2.4	26.4	33.6	23.0	27.1
<b>Profitability &amp; Return ratios (%)</b>					
EBITDA margin	14.3	15.7	17.6	17.7	18.6
EBIT margin	11.0	12.5	14.4	14.9	15.6
Adjusted profit margin	6.8	9.4	10.5	10.8	11.4
Adjusted ROAE	15.3	16.9	19.2	19.7	20.7
ROCE	13.5	14.4	17.9	18.6	19.8
<b>Working capital days (days)</b>					
Receivables	44	48	44	40	39
Inventory	135	135	114	116	115
Payables	29	37	35	30	29
<b>Ratios (x)</b>					
Gross asset turnover	2.1	1.9	2.0	1.8	1.9
Current ratio	1.5	1.8	2.1	2.2	2.4
Net interest coverage ratio	6.5	20.9	38.5	46.9	69.4
Adjusted debt/equity	0.2	0.0	0.1	0.1	0.0

Source: Company, BOBCAPS Research | Note: TA = Total Assets



## Disclaimer

### Recommendation scale: Recommendations and Absolute returns (%) over 12 months

**BUY** – Expected return >+15%

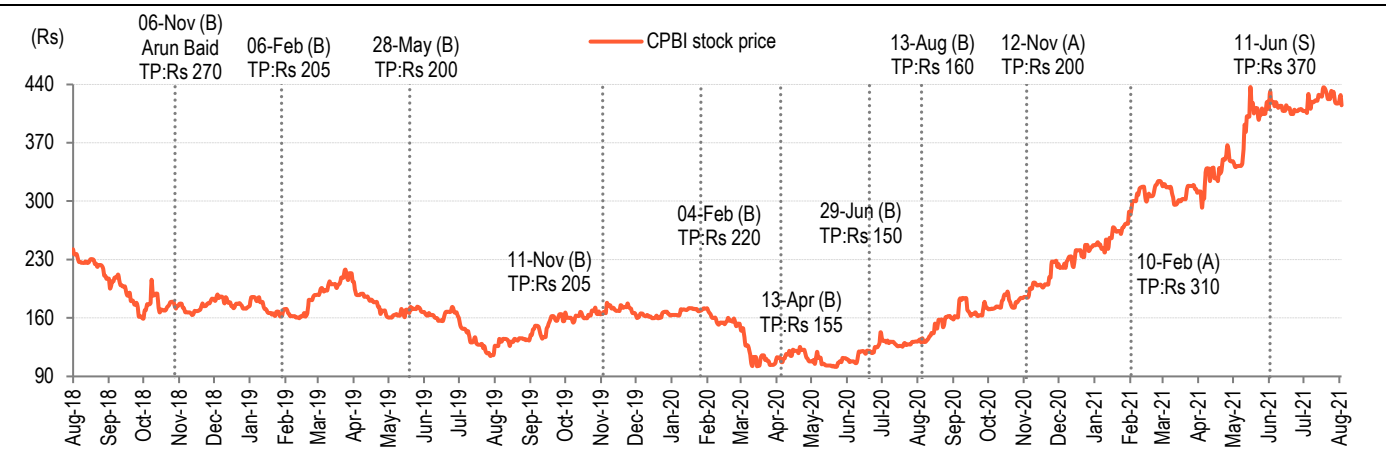
**HOLD** – Expected return from -6% to +15%

**SELL** – Expected return <-6%

**Note:** Recommendation structure changed with effect from 21 June 2021

Our recommendation scale does not factor in short-term stock price volatility related to market fluctuations. Thus, our recommendations may not always be strictly in line with the recommendation scale as shown above.

### Ratings and Target Price (3-year history): CENTURY PLYBOARDS (CPBI IN)



B – Buy, H – Hold, S – Sell, A – Add, R – Reduce

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