

BUY

TP: Rs 150 | ▲ 25%

CENTURY PLYBOARDS

Construction Materials

29 June 2020

Core business declines but MDF, laminates prop up margins

Century Plyboards' (CPBI) standalone Q4FY20 revenue growth disappointed with a 10% YoY drop, marked by 14% declines in the plywood/laminate segments. Higher MDF margins aided operating margin expansion of 245bps YoY to 13.4% (standalone), fuelling a 10%/6% YoY rise in EBITDA/PBT. Management did not offer FY21 guidance but is hopeful of normalcy in sales from Q3FY20. We tweak PAT estimates for FY21/FY22 by -1%/-2% and lower our Mar'21 TP slightly to Rs 150 (earlier Rs 155). Retain BUY.

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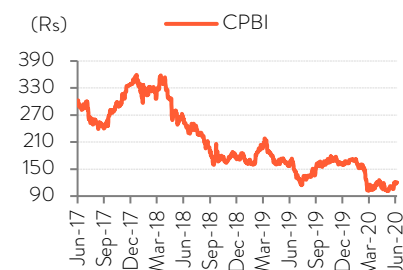
Lockdown depresses revenue: CPBI's standalone revenue declined 10% YoY to Rs 5.2bn, with the core plywood/laminate businesses both slipping 14% (volumes down 7%/12%) whereas MDF grew at 11% (volumes up 5%). The lockdown coincided with the busy Q4 season, leading to revenue loss of ~Rs 900mn, per management. On easing of the lockdown, CPBI clocked ~30% of normal sales in May and ~50% in June. In FY20, the company reduced debt by ~Rs 3bn and improved working capital days by ~19 days to 67.

Ticker/Price	CPBI IN/Rs 120
Market cap	US\$ 354.1mn
Shares o/s	223mn
3M ADV	US\$ 0.7mn
52wk high/low	Rs 182/Rs 95
Promoter/FPI/DII	73%/7%/20%

Source: NSE

Healthy margins led by MDF: CPBI's gross margins increased 304bps YoY and other expenditure dipped 159bps whereas employee cost rose 218bps – this led to 245bps YoY expansion in operating margins to 13.4%, aiding EBITDA/PBT growth of 10%/6% YoY. Laminate EBITDA margins rose 620bps YoY (+120bps QoQ) to 15.1% on lower RM cost. MDF saw a 1ppt YoY surge to 25.4% (-50bps QoQ) owing to higher utilisation and a better product mix. Management stated that cost rationalisation measures should cushion FY21 margins to some extent.

STOCK PERFORMANCE



Source: NSE

Maintain BUY: We tweak FY21/FY22 PAT estimates and move to a new Mar'21 TP of Rs 150. We like CPBI for its comprehensive product portfolio, strong brand and wide distribution reach, but remain cognizant of near-term demand challenges arising from the Covid-19 situation.

KEY FINANCIALS

Y/E 31 Mar	FY18A	FY19A	FY20P	FY21E	FY22E
Total revenue (Rs mn)	20,239	22,804	23,170	18,835	22,635
EBITDA (Rs mn)	3,334	3,124	3,307	2,334	3,360
Adj. net profit (Rs mn)	1,598	1,542	1,647	968	1,678
Adj. EPS (Rs)	7.2	6.9	7.4	4.4	7.6
Adj. EPS growth (%)	(5.4)	(3.5)	6.8	(41.2)	73.3
Adj. ROAE (%)	20.4	16.9	16.0	8.5	13.4
Adj. P/E (x)	16.7	17.3	16.2	27.6	15.9
EV/EBITDA (x)	9.5	10.3	9.7	13.0	8.4

Source: Company, BOBCAPS Research

BOB Capital Markets Ltd is a wholly owned subsidiary of Bank of Baroda

Important disclosures, including any required research certifications, are provided at the end of this report.



FIG 1 – STANDALONE QUARTERLY PERFORMANCE

(Rs mn)	Q4FY20	Q4FY19	YoY (%)	Q3FY20	QoQ (%)	FY20	FY19	YoY (%)
Total revenues	5,242	5,832	(10.1)	5,954	(12.0)	22,827	22,638	0.8
Total raw material consumed	2,563	3,029	(15.4)	3,041	(15.7)	11,483	11,816	(2.8)
% of sales	48.9	51.9	(304bps)	51.1	(218bps)	50.3	52.2	(189bps)
Employee exp	866	837	3.5	846	2.4	3,441	3,277	5.0
% of sales	16.5	14.3	218bps	14.2	232bps	15.1	14.5	60bps
Other exp	1,112	1,330	(16.4)	1,124	(1.1)	4,405	4,542	(3.0)
% of sales	21.2	22.8	(159bps)	18.9	233bps	19.3	20.1	(76bps)
Total expenditure	4,541	5,196	(12.6)	5,012	(9.4)	19,330	19,635	(1.6)
% of sales	86.6	89.1	(245bps)	84.2	247bps	84.7	86.7	(205bps)
EBITDA	700.7	636.7	10.1	942.7	(25.7)	3,497.3	3,003.7	16.4
% of sales	13.4	10.9	245bps	15.8	(247bps)	15.3	13.3	205bps
Depreciation	162.7	143.0	13.8	173.2	(6.0)	675.5	499.9	35.1
Other income	1.1	29.0	(96.1)	12.8	(91.1)	110.8	60.5	83.2
Interest cost	82.6	93.8	(11.9)	92.2	(10.4)	372.4	445.8	(16.4)
PBT	456.5	428.9	6.4	690.1	(33.9)	2,560.1	2,118.6	20.8
Taxes	68.5	87.3	(21.5)	42.9	59.8	522.1	531.0	(1.7)
Effective tax rate (%)	15.0	20.4	(535bps)	6.2	880bps	20.4	25.1	(467bps)
PAT before extraordinary	387.9	341.6	13.6	647.2	(40.1)	2038.0	1587.6	28.4
Less: extraordinary items	0.00	0	NA	(456)	NA	(456.3)	0	NA
RPAT	387.9	341.6	14	190.9	103	1,581.7	1,587.6	0

Source: Company, BOBCAPS Research

FIG 2 – STANDALONE SEGMENTAL PERFORMANCE

(Rs mn)	Q4FY20	Q4FY19	YoY (%)	Q3FY20	QoQ (%)	FY20	FY19	YoY (%)
Revenue								
Plywood & Allied products	2,792	3,235	(13.7)	3,229	(13.5)	12,343	12,781	(3.4)
Laminates	1,061	1,231	(13.8)	1,149	(7.7)	4,633	4,390	5.5
MDF	843	760	11.0	966	(12.7)	3,505	2,954	18.7
Particle Board	231	241	(4.4)	250	(7.6)	991	975	1.7
Container Freight Station	204	219	(6.6)	220	(7.1)	870	1,037	(16.1)
Others	120	154	(22.0)	149	(19.3)	518	534	(3.1)
Total	5,251	5,840	(10.1)	5,963	(11.9)	22,860	22,670	0.8
Less: Inter Segment revenue	9	8	19.3	9	5.9	33	32	4.1
Net revenues	5,242	5,832	(10.1)	5,954	(12.0)	22,827	22,638	0.8
EBIT								
Plywood & Allied products	219	365	(40.0)	(56)	(492.0)	1,084	1,829	(40.8)
Laminates	146	96	52.7	141	3.8	561	337	66.4
MDF	164	63	160.7	196	(16.1)	685	200	242.4
Particle Board	38	50	(23.9)	56	(31.6)	194	177	9.3
Container Freight Station	42	32	29.5	38	9.1	151	260	(41.7)
Others	(12)	11	(204.3)	15	(179.7)	24	27	(13.7)
Total	598	618	(3.3)	390	53.3	2,698	2,831	(4.7)
EBIT Margin (%)								
Plywood & Allied products	7.9	11.3	(345bps)	(1.7)	958bps	8.8	14.3	(553bps)
Laminates	13.8	7.8	601bps	12.3	153bps	12.1	7.7	443bps
MDF	19.5	8.3	1118bps	20.3	(79bps)	19.5	6.8	1277bps
Particle Board	16.6	20.9	(426bps)	22.4	(584bps)	19.5	18.2	136bps
Container Freight Station	20.5	14.8	572bps	17.5	305bps	17.4	25.1	(766bps)

Source: Company, BOBCAPS Research

FIG 3 – CONSOLIDATED QUARTERLY PERFORMANCE

(Rs mn)	Q4FY20	Q4FY19	YoY (%)	Q3FY20	QoQ (%)	FY20	FY19	YoY (%)
Total revenues	5,302	5,925	(10.5)	6,050	(12.4)	23,170	22,804	1.6
Total raw material consumed	2,545	2,847	(10.6)	3,136	(18.9)	11,605	11,509	0.8
% of sales	48.0	48.0	(6bps)	51.8	(384bps)	50.1	50.5	(38bps)
Employee exps	901	884	1.9	885	1.8	3,585	3,456	3.7
% of sales	17.0	14.9	207bps	14.6	237bps	15.5	15.2	32bps
Other exp	1,182	1,396	(15.3)	1,189	(0.6)	4,673	4,822	(3.1)
% of sales	22.3	23.6	(127bps)	19.6	265bps	20.2	21.1	(98bps)
Total expenditure	4,627	5,127	(9.7)	5,209	(11.2)	19,863	19,788	0.4
% of sales	87.3	86.5	74bps	86.1	117bps	85.7	86.8	(105bps)
EBIDTA	675.0	797.9	(15.4)	841.3	(19.8)	3,307.5	3,016.0	9.7
% of sales	12.7	13.5	(74bps)	13.9	(117bps)	14.3	13.2	105bps
Depreciation	177.3	91.8	93.2	200.0	(11.3)	763.1	594.8	28.3
Other income	12.9	39.7	(67.5)	13.1	(1.6)	127.6	71.5	78.6
Interest cost	87.5	102.0	(14.2)	95.6	(8.5)	389.0	469.4	(17.1)
PBT	423.0	643.9	(34.3)	558.8	(24.3)	2,283.0	2,023.3	12.8
Taxes	60.3	89.7	(32.7)	44.2	36.7	519.3	534.6	(2.9)
Effective tax rate (%)	14.3	13.9	34bps	7.9	636bps	22.7	26.4	(367bps)
PAT	362.7	554.2	(34.6)	514.6	(29.5)	1,763.7	1,488.7	18.5
Less: Extrarodinary items	0.0	0.0	NA	(510.8)	(100.0)	(510.8)	0.0	NA
Less: Minority interest	(7.4)	9.21	(180.2)	(246.2)	(97.0)	(253.0)	4.21	NA
PAT after minority interest	370.1	545.0	(32.1)	249.9	48.1	1,505.8	1,484.5	1.4

Source: Company, BOBCAPS Research

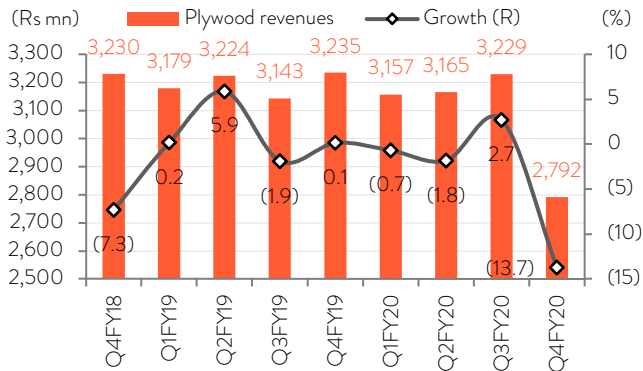
FIG 4 – CONSOLIDATED SEGMENTAL PERFORMANCE

(Rs mn)	Q4FY20	Q4FY19	YoY (%)	Q3FY20	QoQ (%)	FY20	FY19	YoY (%)
Revenue								
Plywood & Allied products	2,852	3,327	(14.3)	3,325	(14.2)	12,686	12,942	(2.0)
Laminates	1,061	1,231	(13.8)	1,149	(7.7)	4,633	4,390	5.5
MDF	843	760	11.0	966	(12.7)	3,505	2,954	18.7
Particle Board	231	241	(4.4)	250	(7.6)	991	975	1.7
Container Freight Station	204	219	(6.6)	220	(7.1)	870	1,037	(16.1)
Others	120	154	(21.8)	149	(19.3)	518	539	(3.8)
Total	5,311	5,932	(10.5)	6,059	(12.3)	23,204	22,836	1.6
Less: Inter Segment revenue	9	8	19.3	9	5.9	33	32	4.1
Net revenues	5,302	5,925	(10.5)	6,050	(12.4)	23,170	22,804	1.6
EBIT								
Plywood & Allied products	194	595	(67.4)	(235)	(182.5)	776	1,758	(55.9)
Laminates	146	96	52.7	141	3.8	561	337	66.4
MDF	164	63	160.7	196	(16.1)	685	200	242.4
Particle Board	38	50	(23.9)	56	(31.6)	194	177	9.3
Container Freight Station	42	32	29.5	38	9.1	151	260	(41.7)
Others	(17)	8	(316.7)	13	(230.2)	17	29	(43.6)
Total	567	845	(32.8)	209	171.1	2,384	2,762	(13.7)
EBIT Margin (%)								
Plywood & Allied products	6.8	17.9	(1,109bps)	(7.1)	1,387bps	6.1	13.6	(747bps)
Laminates	13.8	7.8	601bps	12.3	153bps	12.1	7.7	443bps
MDF	19.5	8.3	1,118bps	20.3	(79bps)	19.5	6.8	1,277bps
Particle Board	16.6	20.9	(426bps)	22.4	(584bps)	19.5	18.2	136bps
Container Freight Station	20.5	14.8	572bps	17.5	305bps	17.4	25.1	(766bps)

Source: Company, BOBCAPS Research

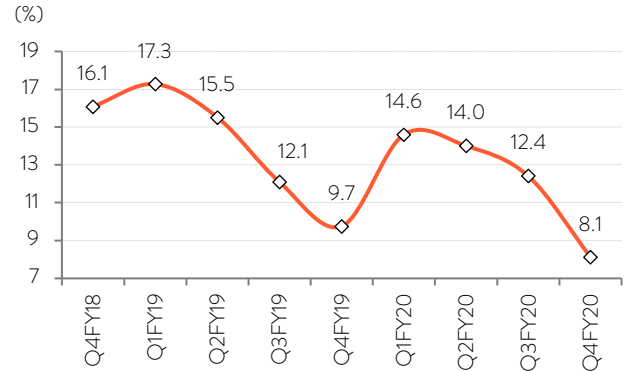
STANDALONE QUARTERLY TRENDS

FIG 5 – PLYWOOD REVENUES



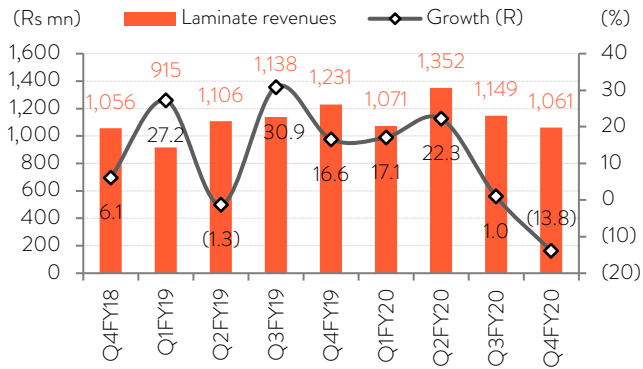
Source: Company, BOBCAPS Research

FIG 6 – PLYWOOD EBITDA MARGINS



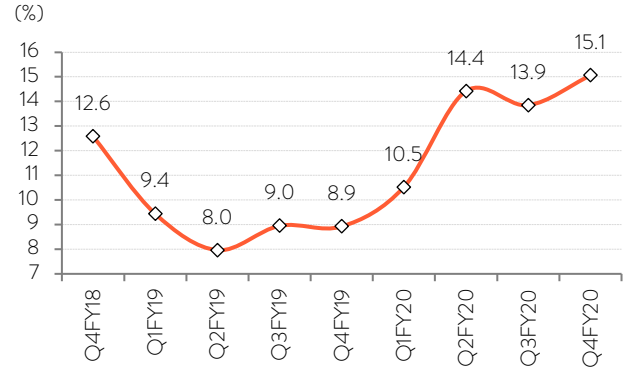
Source: Company, BOBCAPS Research

FIG 7 – LAMINATE REVENUES



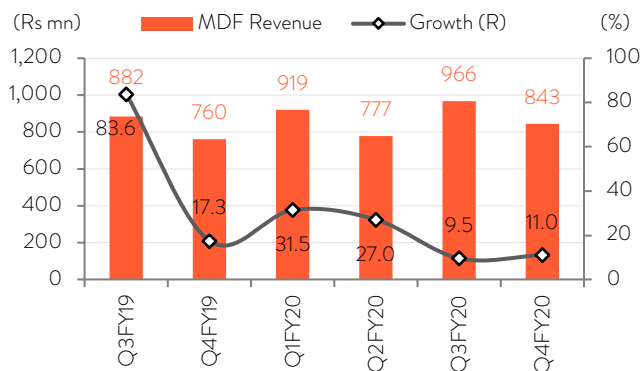
Source: Company, BOBCAPS Research

FIG 8 – LAMINATE EBITDA MARGINS



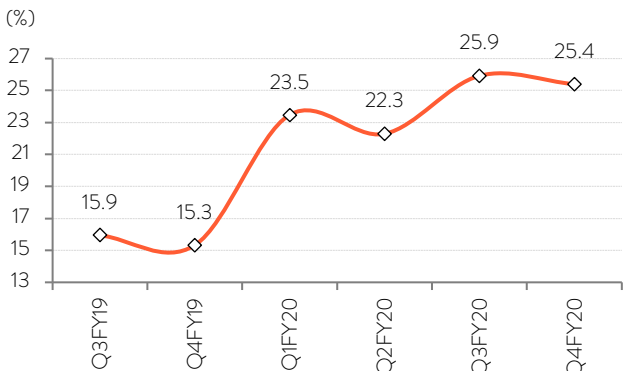
Source: Company, BOBCAPS Research

FIG 9 – MDF REVENUES

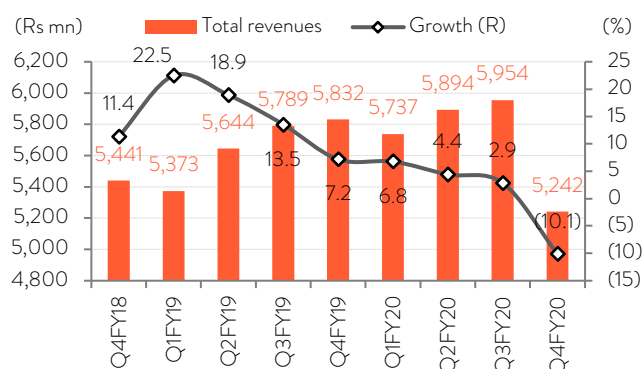


Source: Company, BOBCAPS Research

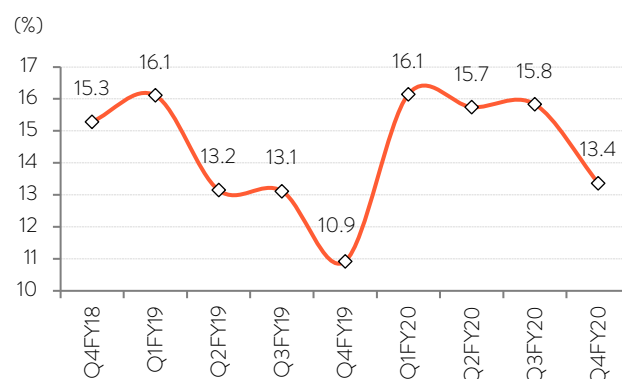
FIG 10 – MDF EBITDA MARGINS



Source: Company, BOBCAPS Research

FIG 11 – TOTAL REVENUES

Source: Company, BOBCAPS Research

FIG 12 – EBITDA MARGINS

Source: Company, BOBCAPS Research

Earnings call highlights

- CPBI estimates that it lost sales of Rs 900mn in Q4FY20 due to the lockdown. The second-half of March is crucial for sales as dealers strive to meet yearly incentive targets.
- No guidance has been proffered for FY21 considering the uncertain situation though management is hopeful of normal sales from Q3FY21.
- Management believes current sales are from projects that were scheduled to be completed. If new projects do not start from mid-August, revenue could slump.
- The company expects Covid-19 fears to lend an impetus to the readymade furniture market. Also, government efforts to push furniture exports will boost demand for MDF and particle board.
- CPBI has monthly fixed costs of Rs 300mn and has recently taken cost control measures that are driving savings of ~Rs 80mn/month. Most of these savings are from salaries but the company intends to roll back the cuts as soon as it is profitable.
- Expansion plans for the MDF and particle board plants are in abeyance due to court orders in Uttar Pradesh. CPBI is hopeful of a solution over the next three months after which it will proceed with the expansion.
- The company has prepaid MDF plant debt. Management highlighted that the target of being debt-free by H1FY21 will be delayed due to Covid-19.
- Working capital cycle has improved by 19 days to 67 days in FY20 with inventory/debtors reducing by 8 days/6 days.
- CPBI has chosen to remain under the old income-tax regime as it has some MAT credit.

Plywood

- As per management, plywood being a large US\$ 3bn market offers ample scope for growth.
- In FY20, premium plywood accounted for 71% of CPBI's sales (vs. 75% in FY19).
- Debtor days in the business are higher than that in MDF.
- Unlike the West where the cost of manpower is high and hence readymade furniture is preferred, availability of cheap labour in India has meant furniture is usually made at home by hiring skilled carpenters.

Laminates

- Laminate margins of 15-16% under normal circumstances are sustainable.
- Exports account for 20-25% of laminate segment turnover.
- The company is seeing 90% of normal export sales in June.

MDF

- The new MDF plant in Uttar Pradesh will be under a new company and hence eligible for the new tax rate of 15%.
- The current plant located at Hoshiarpur, Pujab has ramped up from 90% utilisation to optimum capacity.
- As per management, MDF margins of ~25% are sustainable due to rupee depreciation which makes imports costlier.
- MDF's major usage is currently in commercial real estate whereas plywood has higher application in residential markets.
- MDF is a B2B business for CPBI at present, but B2C is gradually picking up.

Valuation methodology

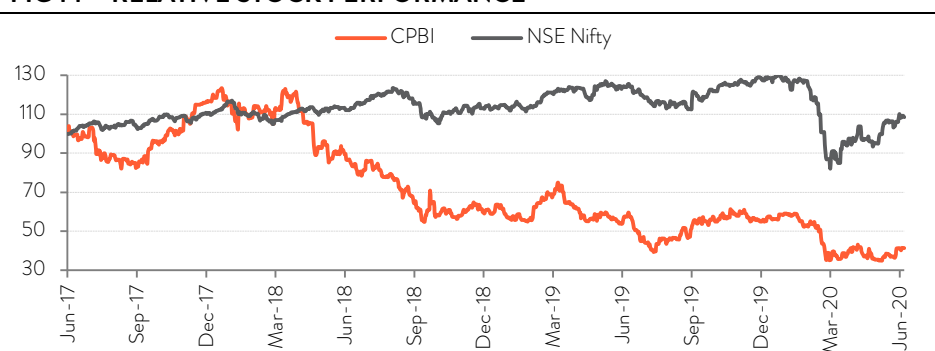
CPBI is the joint market leader in India's organised plywood industry along with Greenply Industries (MTLM IN). It is also the third largest laminate player and has recently set up an MDF plant in the country. With this, CPBI has evolved into the largest integrated wood panel company in India, equipped with a wide distribution reach, strong brand focus and comprehensive portfolio. We tweak FY21/FY22 PAT estimates by -1%/-2% post the Q4 results and move to a new Mar'21 target price of Rs 150 (from Rs 155), set at an unchanged 20x forward P/E. Maintain BUY.

FIG 13 – REVISED ESTIMATES

(Rs mn)	New		Old		Change (%)	
	FY21E	FY22E	FY21E	FY22E	FY21E	FY22E
Revenues	18,835	22,635	19,729	24,197	(4.5)	(6.5)
EBITDA	2,334	3,360	2,395	3,414	(2.6)	(1.6)
PAT	968	1,678	979	1,712	(1.1)	(2.0)

Source: BOBCAPS Research

FIG 14 – RELATIVE STOCK PERFORMANCE



Source: NSE

Key risks

- **Regulatory concerns on raw material sourcing:** Wood is a key raw material for plywood and MDF manufacturing. Any regulatory restriction on sourcing of wood or face veneer will affect the company's profitability.
- **Sharp rise in raw material prices:** Higher raw material prices and an inability to pass these on to consumers may hurt profitability.
- **Prolonged slowdown in housing market:** A continued slowdown in the housing market would hit growth prospects.
- **Significant capex in MDF:** Any decision by the company to significantly expand its MDF capacity may affect future profitability from this segment.
- **Prolonged Covid-19 outbreak:** If pandemic fears prevail for a prolonged period of time, revenues will be adversely affected.

FINANCIALS

Income Statement

Y/E 31 Mar (Rs mn)	FY18A	FY19A	FY20P	FY21E	FY22E
Total revenue	20,239	22,804	23,170	18,835	22,635
EBITDA	3,334	3,124	3,307	2,334	3,360
Depreciation	(907)	(595)	(763)	(779)	(800)
EBIT	2,428	2,529	2,544	1,555	2,560
Net interest income/(expenses)	(358)	(469)	(389)	(230)	(243)
Other income/(expenses)	23	22	128	70	77
Exceptional items	0	0	0	0	0
EBT	2,092	2,081	2,283	1,395	2,395
Income taxes	(463)	(535)	(519)	(377)	(647)
Extraordinary items	32	(58)	(511)	0	0
Min. int./Inc. from associates	(31)	(4)	253	(50)	(70)
Reported net profit	1,631	1,484	1,506	968	1,678
Adjustments	(32)	58	142	0	0
Adjusted net profit	1,598	1,542	1,647	968	1,678

Balance Sheet

Y/E 31 Mar (Rs mn)	FY18A	FY19A	FY20P	FY21E	FY22E
Accounts payables	1,753	1,595	1,515	1,342	1,550
Other current liabilities	904	1,070	1,579	929	1,240
Provisions	120	120	250	94	113
Debt funds	5,754	5,319	2,362	1,750	2,700
Other liabilities	0	0	0	0	0
Equity capital	223	223	223	223	223
Reserves & surplus	8,293	9,527	10,684	11,551	12,997
Shareholders' fund	8,516	9,749	10,906	11,773	13,219
Total liabilities and equities	17,231	18,107	16,596	15,921	18,926
Cash and cash eq.	211	262	248	805	287
Accounts receivables	3,572	2,957	2,568	2,477	3,225
Inventories	3,828	4,613	3,980	3,715	4,155
Other current assets	1,138	974	1,217	980	1,116
Investments	61	64	2	2	2
Net fixed assets	6,471	8,346	7,828	7,189	9,389
CWIP	1,264	268	160	160	160
Intangible assets	18	18	18	18	18
Deferred tax assets, net	667	603	573	573	573
Other assets	0	0	0	0	0
Total assets	17,231	18,107	16,596	15,921	18,926

Source: Company, BOBCAPS Research

Cash Flows

Y/E 31 Mar (Rs mn)	FY18A	FY19A	FY20P	FY21E	FY22E
Net income + Depreciation	2,537	2,079	2,269	1,747	2,478
Interest expenses	358	469	389	230	243
Non-cash adjustments	0	0	0	0	0
Changes in working capital	164	2	1,068	(388)	(784)
Other operating cash flows	72	133	(42)	50	70
Cash flow from operations	3,132	2,684	3,684	1,640	2,007
Capital expenditures	(2,610)	(1,474)	(137)	(140)	(3,000)
Change in investments	0	(3)	62	0	0
Other investing cash flows	0	0	0	0	0
Cash flow from investing	(2,610)	(1,477)	(75)	(140)	(3,000)
Equities issued/Others	0	0	0	0	0
Debt raised/repaid	(360)	(435)	(2,958)	(612)	950
Interest expenses	(358)	(469)	(389)	(230)	(243)
Dividends paid	(267)	(257)	(535)	(151)	(302)
Other financing cash flows	3	6	258	50	70
Cash flow from financing	(983)	(1,155)	(3,624)	(943)	475
Changes in cash and cash eq.	(461)	51	(15)	557	(518)
Closing cash and cash eq.	211	262	248	805	287

Per Share

Y/E 31 Mar (Rs)	FY18A	FY19A	FY20P	FY21E	FY22E
Reported EPS	7.3	6.7	6.8	4.4	7.6
Adjusted EPS	7.2	6.9	7.4	4.4	7.6
Dividend per share	1.0	1.0	1.0	0.6	1.1
Book value per share	38.3	43.8	49.0	52.9	59.4

Valuations Ratios

Y/E 31 Mar (x)	FY18A	FY19A	FY20P	FY21E	FY22E
EV/Sales	1.6	1.4	1.4	1.6	1.2
EV/EBITDA	9.5	10.3	9.7	13.0	8.4
Adjusted P/E	16.7	17.3	16.2	27.6	15.9
P/BV	3.1	2.7	2.5	2.3	2.0

DuPont Analysis

Y/E 31 Mar (%)	FY18A	FY19A	FY20P	FY21E	FY22E
Tax burden (Net profit/PBT)	76.4	74.1	72.2	69.4	70.1
Interest burden (PBT/EBIT)	86.2	82.3	89.7	89.7	93.5
EBIT margin (EBIT/Revenue)	12.0	11.1	11.0	8.3	11.3
Asset turnover (Revenue/Avg TA)	122.4	129.1	133.5	115.9	129.9
Leverage (Avg TA/Avg Equity)	2.1	1.9	1.7	1.4	1.4
Adjusted ROAE	20.4	16.9	16.0	8.5	13.4

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

Ratio Analysis

Y/E 31 Mar	FY18A	FY19A	FY20P	FY21E	FY22E
YoY growth (%)					
Revenue	11.3	12.7	1.6	(18.7)	20.2
EBITDA	6.5	(6.3)	5.9	(29.4)	44.0
Adjusted EPS	(5.4)	(3.5)	6.8	(41.2)	73.3
Profitability & Return ratios (%)					
EBITDA margin	16.5	13.7	14.3	12.4	14.8
EBIT margin	12.0	11.1	11.0	8.3	11.3
Adjusted profit margin	7.9	6.8	7.1	5.1	7.4
Adjusted ROAE	20.4	16.9	16.0	8.5	13.4
ROCE	13.6	12.6	13.8	8.5	12.6
Working capital days (days)					
Receivables	63	52	44	49	46
Inventory	126	134	135	146	123
Payables	34	31	29	32	27
Ratios (x)					
Gross asset turnover	3.2	2.4	2.1	1.7	1.8
Current ratio	1.3	1.3	1.5	2.2	2.1
Net interest coverage ratio	6.8	5.4	6.5	6.8	10.6
Adjusted debt/equity	0.7	0.5	0.2	0.1	0.2

Source: Company, BOBCAPS Research

Disclaimer

Recommendations and Absolute returns (%) over 12 months

BUY – Expected return >+15%

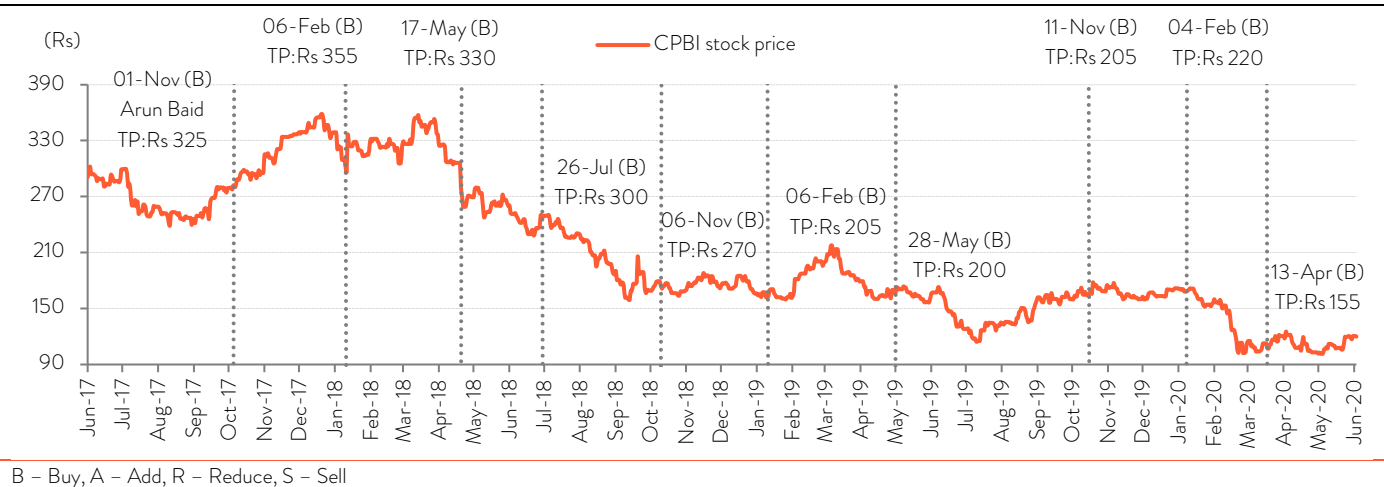
ADD – Expected return from >+5% to +15%

REDUCE – Expected return from -5% to +5%

SELL – Expected return <-5%

Note: Recommendation structure changed with effect from 1 January 2018 (Hold rating discontinued and replaced by Add / Reduce)

HISTORICAL RATINGS AND TARGET PRICE: CENTURY PLYBOARDS (CPBI IN)



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