September 30, 2021

Century Plyboards (India) Ltd: Long-term rating upgraded to [ICRA]AA(Stable); short term rating reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Fund Based Limits- TL	70.00	50.00	[ICRA]AA(Stable); Upgraded from [ICRA]AA-(Stable)
Fund Based Limits- Cash Credit	145.00	150.00	[ICRA]AA(Stable); Upgraded from [ICRA]AA-(Stable)
Non-Fund Based Limits	285.00	300.00	[ICRA]A1+; Reaffirmed
Total	**500.00**	**500.00**	

**Instrument details are provided in Annexure-1*

Rationale

The rating upgrade factors in Century Plyboard (India) Limited's (CPIL's/the company's) strong financial performance in FY2021, which is expected to further improve in FY2022. CPIL's revenues are likely to increase by around 14-15% in FY2022 surpassing the pre-Covid levels and the operating profitability is likely to sustain despite an increase in raw material prices, driven by an increase in the net sales realisations, supported by a strong demand from the end user segments. Consequently, ROCE is also expected to improve in FY2022 to above 20% levels. With an increase in absolute profits and cash accruals, the company's debt protection metrics and liquidity position of the company are likely to improve in FY2022. In FY2021, despite a revenue decline of 8% owing to pandemic-led disruptions, the operating profitability improved by around 145 bps to 15.8% on the back of lower input cost, which along with the decline in total debt levels by 44% to Rs. 166.2 crore as on March 31, 2021, resulted in improved debt coverage metrics in FY2021—interest cover stood healthy at 26.3 times (8.50 times in FY2020) and TD/OPBIDTA at 0.5 times (0.9 times in FY2020).

The ratings continue to derive comfort from CPIL's strong business risk profile, driven by its dominant position in the plywood industry (25% market share within the organised segment), a large product portfolio with multiple brands positioned across the price spectrum, a wide distribution network of 2,200 dealers and 18,500 retailers across India and brand strength with premium pricing across products. The manufacturing units are also strategically located in various regions of the country where raw material is abundantly available and freight costs are low. The ratings continue to consider more than three decades of experience of the promoters in the plywood and allied products industry.

The ratings are, however, constrained by the large capex plans of around Rs. 206 crore undertaken to expand the MDF plant in Punjab, which would commence in Q2FY2023 and another Rs. 1000 crore for a greenfield MDF plant in Andhra Pradesh during FY2023 to FY2026 (0.9x times of gross block as on March 31, 2021) to be carried out in three phases. While ICRA notes that the proposed capex is expected to be funded by internal accruals, the timely commencement and ramp up of the upcoming capacities would remain critical to sustain the ROCE at healthy levels. Nonetheless, CPIL's capital structure and coverage metrics are likely to remain strong over the medium term. The company's operations also remain working capital intensive and it is exposed to fluctuations in exchange rates, given the sizeable import of raw materials and foreign currency debt (39% of total debt as on March 31, 2021) in its books. However, the natural hedge in the form of export of laminates and hedging of its forex exposure as and when required, mitigates the risk to some extent. ICRA also notes the intense competition in the plywood industry from a large number of unorganised and organised players, which restricts CPIL's pricing flexibility.

The Stable outlook on the [ICRA]AA rating reflects ICRA's opinion that CPIL will continue to benefit from its strong market position in the domestic market, generate healthy cash accruals from the business as well as maintain a healthy liquidity position.

Key rating drivers and their description

Credit strengths

Strong financial risk profile – CIPL's revenues are likely to increase by 14-15% in FY2022, surpassing the pre-covid levels supported by the strong demand from the end user segments. Despite an increase in the raw material prices such as phenol in the current year, the operating profit margins in FY2022 are expected to largely sustain at previous year levels (15.8% in FY2021) backed by an increase in the net sales realisations. Consequently, ROCE is also expected to improve in FY2022 to above 20% levels. With an increase in absolute profits and cash accruals, the debt protection metrics and liquidity position of the company are likely to improve in FY2022. In FY2021, despite reporting a decline in revenues by 8% owing to pandemic led disruptions, the operating profit improved in FY2021 by around 145 bps to ~15.8% on the back of lower input cost, which along with the decline in total debt levels by 44% to Rs. 166 crore as on March 31, 2021 resulted in improved debt coverage metrics in FY2021 - interest cover stood healthy at 26.3 times (8.50 times in FY2020), TD/OPBIDTA of 0.5 times (0.9 times in FY2020).

Healthy demand prospects likely to support near-to medium-term growth - Although in Q1FY2022, CPIL reported a 39% decline in sales QoQ (YoY growth of 125%) on account of slowdown in demand, given the state-wise lockdowns due to the second wave of Covid-19 the pandemic, the performance in Q2FY2022 in terms of revenues as well as profits is expected to witness significant improvement supported by the pent-up demand and the pick-up in the demand from end user industries. The decline in the import of ready-made furniture following the operational disruptions due to the pandemic as well as significant increase in shipping costs along with an increase in demand in the affordable housing segment and urban real estate is likely to support the demand in the near to medium term.

Established brand name, wide distribution network and strategic location of manufacturing units strengthen CPIL's operating profile – The Indian plywood industry is dominated by unorganised players, which account for around 70% of the total plywood market. CPIL commands around 25% market share within the organised plywood segment. CPIL's strong business risk profile is driven by its dominant position in the plywood industry, a large product portfolio with multiple brands positioned across the price spectrum, wide distribution network of 2,200 dealers and 18,500 retailers across India, and brand strength with premium pricing across products. Furthermore, the manufacturing plants are strategically located near the sources of raw materials (i.e. West Bengal, Gujarat, Haryana, Chennai and Assam), ensuring adequate availability of raw materials and and also leads to lower freight cost. CPIL also has backward integrated units in Myanmar and Gabon for supply of veneer.

Experienced promoters and management team with successful track record of delivering stable performance – Incorporated in 1982, CPIL's promoters have extensive experience in the plywood and allied products industry which has helped in establishing CPIL as a renowned brand in the veneers, plywood and laminates industry. The company offers a wide range of products in various segments like commercial, decorative, plywood, laminate, particle board and MDF. CPIL offers products across different price points, which enable it to cater to a broader customer base. Within the organised sector, CPIL remains one of the largest manufacturers of plywood in India.

Credit challenges

Large capital expenditure plans; ramp up of new unit would remain critical from sustenance of ROCE at healthy levels - CPIL has capex plans of ~Rs. 206 crore for expansion of the MDF plant in Punjab in FY2022, which is expected to be funded from internal accruals and is likely to commence operations from Q2FY2023. Further, CPIL has outlined plans to invest Rs 1,000 crore (0.9x of the existing gross block as on March 2021) in setting up a greenfield MDF plant in Andhra Pradesh during FY2023-FY2026, to be carried out in three phases. The first phase is likely to start from FY2023 and will be completed within a period of 18 months, at a cost of Rs. 500 crore which will also be funded through internal accruals. The timely commencement and ramp up of the upcoming capacities would remain critical from sustenance of ROCE at healthy levels. Nonetheless, CPIL's capital structure and coverage metrics are likely to remain strong over the medium term.

Working capital intensive business – CPIL's operations remain working capital intensive, with working capital intensity at 18% in FY2021, owing to high inventory requirement for various products. With the company manufacturing a wide range of products in plywood, laminates, MDF and particleboard segment, it needs to stock a large volume of raw material and also finished goods to cater to the demand.

Highly fragmented nature of the plywood industry; margins also exposed to currency fluctuation as a sizeable portion of raw materials is imported – The unorganised sector accounts for a substantial part (around 70% of the total market size) of the plywood industry. Though, the Century brand name commands premium prices, intense competition from a large number of unorganised and organised players restricts CPIL's pricing flexibility. The profitability of the company remains exposed to forex risks, given the sizeable import of raw materials and some amount of foreign currency debt (39% of total debt as on March 31, 2021) on its books. However, the company hedges its forex exposure as and when required, which mitigates the risk to an extent. Also, the export of laminate products provides a natural hedge to an extent.

Liquidity position: Strong

CPIL's liquidity profile is strong backed by cash and liquid investments of around Rs. 201.38 crore as on March 31, 2021. Additionally, the company's working-capital lines worth around Rs. 120.0 crore remain largely undrawn. The company has large capex plans of around Rs. 700-800 crore in FY2022-FY2024, which is expected to be met through internal accruals. CPIL had external term loans of around Rs. 50 crore on its books as on March 31, 2021; of which Rs. 26 crore is scheduled to be repaid in FY2022 and Rs. 24 crore in FY2023. The payments are likely to be comfortably met from cash flow from operations.

Rating sensitivities

Positive factors: ICRA could upgrade CPIL's rating if a significant ramp-up in the operations of the upcoming capacities improves the company's revenues and earnings on a sustained basis and ensures strong debt coverage metrics.

Negative factors: Pressure on CPIL's ratings could arise if a decline in the revenues and earnings or any major debt-funded capital expenditure/inorganic growth undertaken by the company weakens the capital structure and debt coverage metrics on a sustained basis. Specific credit metric that could lead to a downgrade includes net debt to OPBITDA increasing to over 1.2 times.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology
Parent/Group Support	Not Applicable
Consolidation/Standalone	The ratings are based on CPIL's consolidated financial profile. As on March 31, 2021, CPIL had eleven subsidiaries and three step-down subsidiaries, enlisted in Annexure 2.

About the company

Incorporated in January 1982, CPIL manufactures plywood, veneer, laminates, medium density fibre (MDF), particle board and allied products. The installed capacity of plywood division is 3,00,000 cubic metre (CBM). CPIL's plywood manufacturing units are located in Joka (West Bengal), Guwahati (Assam), Kandla (Gujarat), Chennai (Tamil Nadu), Karnal (Haryana), Roorkee

(Uttarakhand), Myanmar and Gabon. The Roorkee, Myanmar and Gabon units operate through subsidiaries. In addition, the company operates two container freight stations in Kolkata.

Key financial indicators (Audited)

CPIL (consolidated)	FY2020	FY2021
Operating Income (Rs. crore)	2318.3	2131.2
PAT (Rs. crore)	125.3	191.2
OPBDIT/OI (%)	14.3%	15.8%
PAT/OI (%)	5.4%	9.0%
Total Outside Liabilities/Tangible Net Worth (times)	0.5	0.4
Total Debt/OPBDIT (times)	0.9	0.5
Interest Coverage (times)	8.5	26.3

PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current Rating (FY2022)				Chronology of Rating History for the past 3 years		
		Type	Amount Rated (Rs. crore)	Amount Outstanding as of June 30, 2021 (Rs. crore)	Date & Rating in	Date & Rating in FY2021	Date & Rating in FY2020	Date & Rating in FY2019
					September 30, 2021	July 31, 2020	Jan 20, 2020	Dec 7, 2018
1	Cash Credit	Long-term	150.00	-	[ICRA]AA (Stable)	[ICRA]AA- (Stable)	[ICRA]AA- (Positive)	[ICRA]AA- (Stable)
2	Term Loan	Long-term	50.00	44.09	[ICRA]AA (Stable)	[ICRA]AA- (Stable)	[ICRA]AA- (Positive)	[ICRA]AA- (Stable)
4	Non-fund Based Limits	Short-term	300.00	-	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+

Complexity level of the rated instruments

Instrument	Complexity Indicator
Cash Credit	Simple
Term Loan	Simple
Non-fund Based Limits	Very Simple

The Complexity Indicator refers to the ease with which the returns associated with the rated instrument could be estimated. It does not indicate the risk related to the timely payments on the instrument, which is rather indicated by the instrument's credit rating. It also does not indicate the complexity associated with analyzing an entity's financial, business, industry risks or complexity related to the structural, transactional, or legal aspects. Details on the complexity levels of the instruments, is available on ICRA's website: www.icra.ins

Annexure-1: Instrument details

ISIN No	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs Crore)	Current Rating and Outlook
NA	Cash Credit	-	-	-	150.00	[ICRA]AA (Stable)
NA	Term Loan	FY2015-18	Libor linked	FY2023-24	50.00	[ICRA]AA (Stable)
NA	Non-fund Based Limits	-	-	-	300.00	[ICRA]A1+

Source: *CPIL*

Annexure-2: List of entities considered for consolidated analysis: Not Applicable

Company Name	BCL Ownership	Consolidation Approach
Auro Sundram Ply & Door Pvt Ltd	51.00%	Full Consolidation
Asis Plywood Ltd (Step-down)	100.00%	Full Consolidation
Century Panel Ltd	100.00%	Full Consolidation
Century MDF Ltd	100.00%	Full Consolidation
Ara Suppliers Pvt.Ltd	80.00%	Full Consolidation
Century Ply Singapore Pte Ltd	90.65%	Full Consolidation
Century Ply Laos Co Ltd (Step-down)	90.00%	Full Consolidation
Century Huesoulin Plywood Lao Co Ltd (Step-down)	51.00%	Full Consolidation
Arham Sales Pvt Ltd	80.00%	Full Consolidation
Adonis Vyapar Pvt Ltd	80.00%	Full Consolidation
Centuryply Myanmar Pvt Ltd	100.00%	Full Consolidation
Apnapan Viniyog Pvt Ltd	80.00%	Full Consolidation
Century Infotech Ltd	60.06%	Full Consolidation
Century Gabon SUARL	100.00%	Full Consolidation

Source: *CPIL*

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