July 31, 2020 (Revised)

Century Plyboards (India) Limited: Ratings reaffirmed at [ICRA]AA-/[ICRA]A1+; outlook revised to Stable; Commercial Paper rating withdrawn

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action[1]
CP Programme[2]	100.00	-	[ICRA]A1+; Reaffirmed and withdrawn
Fund Based Limits- TL	82.25	70.00	[ICRA]AA- Reaffirmed; outlook revised to Stable from Positive
Fund Based Limits- Cash Credit	390.00	145.00	[ICRA]AA- Reaffirmed; outlook revised to Stable from Positive
Non-Fund Based Limits	371.00	285.00	[ICRA]A1+; Reaffirmed
Total Limits	**943.25**	**500.00**	

**Instrument details are provided in Annexure-1*

Rationale

The revision in the rating outlook takes into account the tepid near-term demand conditions on the back of a weak macroeconomic outlook following the Covid-19 pandemic, which is likely to have an impact on the company's scale of operations and consequently the level of profits and cash accruals. Sub-optimal utilisation of assets is also likely to adversely impact the business returns of the company. Nonetheless, given the strong business profile, driven by its dominant position in the plywood industry, a diversified product portfolio coupled with a conservative capital structure, ICRA expects Century Plyboards (India) Limited's (CPIL) debt coverage indicators to remain healthy in FY2021.

The ratings factor in CPIL's healthy financial performance in FY2020, with an improvement in the operating profit margin (OPM) by around 113 bps to reach ~14.8% on the back of an improved capacity utilisation of the medium density fibre (MDF) plant coupled with easing of cost pressure and an increase in volume in the laminate division. The consolidated interest coverage and Total Debt/OPBDITA also improved to around 8.8 times and 0.8 times, respectively in FY2020 compared to 6.7 times and 1.7 times, respectively in FY2019. ICRA also notes that the company has pre-paid its term loans, given the healthy cash accruals. As on date, CPIL's long-term debt stood low at ~Rs. 70 crore.

While the production was impacted in April and May 2020, the capacity utilisation of various plants improved in June 2020. Nonetheless, it remained significantly low compared to the previous year and thus the total revenue is expected to be impacted materially in the full year, given the volume decline till date, coupled with an adverse demand outlook from the end-user industries. Consequently, absolute profits and cash accruals will also be impacted despite various cost-reduction initiatives undertaken by the company. However, given the conservative capital structure, the debt protection metrics and liquidity position of the company would remain healthy. ICRA expects CPIL's cash flows to remain comfortable relative to its debt service obligations, going forward.

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[1] *For complete rating scale and definitions, please refer to ICRA's website www.icra.in or other ICRA Rating Publications*

[2] *Please also note, that in accordance with ICRA's policy on withdrawal and suspension, as there is no amount outstanding against the CP Programme, the outstanding rating of [ICRA]A1+ (pronounced ICRA A one plus) has been reaffirmed and stands withdrawn*

The ratings continue to derive comfort from CPIL's strong business risk profile, driven by its dominant position in the plywood industry, a large product portfolio with multiple brands positioned across the price spectrum. The product profile has been further diversified after the commissioning of the MDF and particle board plants in the last 2-3 years. The manufacturing units are also strategically located in various regions of the country, which along with strong raw-material linkages support the operating profile of the company. The ratings also incorporate CPIL's wide distribution network and its brand strength, which helped the company achieve a compounded annual growth rate (CAGR) of around 9% in revenue in the last five years despite strong competition from the unorganised sector. The ratings continue to consider more than three decades of experience of the promoters in the plywood and laminate industry. The above strengths are partially offset by the intense competition from a large number of unorganised and organised players in the plywood industry. ICRA also notes that the company's operations remain working capital intensive and it is exposed to fluctuations in exchange rates, given a sizeable import of raw materials and some amount of foreign currency debt in its books. ICRA also notes that CPIL has plans to undertake capital expenditure (capex) for setting up another MDF plant in Uttar Pradesh. However, given the current situation, the project has been kept in abeyance till the situation improves. ICRA estimates that CPIL's cash flows will be impacted in the current year, but the debt protection metrics and liquidity position of the company would remain comfortable.

Key rating drivers and their description

Credit strengths

Favourable financial risk profile – The financial performance of CPIL remained strong with healthy profits and cash generation in the last three financial years. The company had prepaid the major portion of its term loan, leading to a conservative capital structure in FY2020. The OPM also improved in FY2020 by around 113 bps to reach ~14.8% on the back of an improved capacity utilisation of the MDF plant, coupled with subsiding cost pressure and an increase in volume in the laminate division. The consolidated interest coverage and Total Debt/OPBDITA also improved to around 8.80 times and 0.85 times, respectively in FY2020 compared to 6.70 times and 1.70 times, respectively in FY2019. The overall business returns were also comfortable with a consolidated RoCE of 15% in FY2020. In the current fiscal, the total revenue is expected to fall, given the volume decline till date, coupled with lower demand from the end-user industries. Consequently, the absolute profits and cash accruals will also be impacted. However, given the conservative capital structure, the debt protection metrics and liquidity position of the company would remain comfortable.

Leading manufacturer of plywood – The Indian plywood industry is dominated by unorganised players, which account for around 70% of the total plywood market. However, CPIL commands around 25% market share within the organised segment. The product profile is further diversified with the commissioning of MDF and particle board plants in the last 2-3 years.

Wide distribution network and an established brand name strengthen CPIL's operating profile – The established brand name of Century helps the company command higher prices. CPIL has an extensive network of 2,100 dealers and 25,000 retailers across India, which coupled with its brand strength helped the company achieve a CAGR of around 9% in revenue in the last five years despite strong competition from the unorganised sector.

Strategic location of all the manufacturing units with strong raw material linkage – The plywood plants are strategically located near the sources of raw materials (i.e. West Bengal, Gujarat, Haryana, Chennai and Assam) and are adjacent to ports. This ensures adequate availability of raw materials. CPIL also has backward integrated units in Myanmar (veneer plant) and Laos (veneer plant) and is in the process of setting up another veneer plant in Gabon to ensure raw material availability. However, the Laos entity remains non-operational at present.

Experienced promoters and management team with successful track record of delivering stable performance – Incorporated in 1982, CPIL has established itself 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. The company has started manufacturing particle board from July 2016 and MDF from October 2017, further diversifying the existing product range.

Credit challenges

Highly fragmented nature of the plywood industry; demand outlook for end-user industries is currently negative – The tepid near-term demand conditions in the end-user industries, on the back of a weak macroeconomic outlook following the Covid-19 pandemic, are likely to result in a volume decline and consequently a moderation in the levels of absolute profits and cash accruals for the company in FY2021 compared to earlier expectations. 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.

Working capital intensive nature of business – CPIL's operations remain working capital (WC) intensive owing to high inventory requirement for various products and SKUs. The same is reflected by working capital intensity (net working capital/operating income (NWC/OI)) of around 22% in FY2020. However, the working capital intensity improved from around 25% in FY2019, primarily led by higher MDF volumes as the WC requirement is lower in MDF compared to plywood. Given the expected decline in the scale of operation in the current fiscal, the working capital intensity is likely to increase. However, at an absolute level, the working capital requirement is expected to moderate given the likely decline in the scale of operations.

Exposed to currency fluctuation as a sizeable portion of raw materials is imported – The profitability of the company remains exposed to forex risks, given the sizeable import of raw materials and some amount of foreign currency debt 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 is **strong** with healthy cash flow from operations of nearly Rs. 330 crore in FY2020. The company had deleveraged by pre-paying its term loans, given the healthy cash accruals in FY2020. In the current fiscal, though the absolute profits and cash accruals are expected to decline, the liquidity position is likely to remain comfortable, given the limited debt repayment and capex requirement. The working capital utilisation also remained moderate, which provides additional liquidity buffer. ICRA expects CPIL's cash flows to remain comfortable relative to its debt service obligations, going forward.

Rating sensitivities

Positive triggers – CPIL's long-term rating can be upgraded if there is a sustained improvement in demand condition from the end-user industries. Specific triggers for the upgrade would be a consolidated RoCE above 20%, an interest coverage over 10 times and net debt to OPBDITA of less than 1 on a sustained basis.

Negative triggers – Pressure on CPIL's ratings could arise in case of a higher-than-expected deterioration in demand, leading to a weakness in credit metrics on a sustained basis. Any major debt-funded capital expenditure / inorganic growth undertaken by the company, which leads to a weakening of the capital structure with the consolidated net debt to OPBITDA increasing to over 1.5 times may also result in a rating downgrade.

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, 2020, CPIL had eleven subsidiaries and three step-down subsidiaries, enlisted in Annexure 2.

About the company

CPIL was incorporated in January 1982 by Mr. Sajjan Bhajanka and Mr. Sanjay Agarwal. The company manufactures plywood, veneer, laminates, medium density fibre (MDF), particle board and allied products. The installed capacity of the plywood is 2,39,000 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 Laos. The Roorkee, Myanmar and Laos units operate through subsidiaries. In addition, the company operates two container freight stations in Kolkata. CPIL had set up an MDF board unit at Hoshiarpur, Punjab, which commenced production in October 2017.

Key financial indicators - Consolidated (audited)

	FY2018	FY2019	FY2020
Operating Income (Rs. crore)	2023.94	2280.39	2317.03
PAT (Rs. crore)	166.14	148.87	125.29
OPBDIT/OI (%)	16.47%	13.70%	14.82%
PAT/OI (%)	8.21%	6.53%	5.41%
Total Outside Liabilities/Tangible Net-Worth (times)	0.96	0.82	0.53
Total Debt/OPBDIT (times)	1.73	1.70	0.78
Interest Coverage (times)	9.30	6.65	8.83

Status of non-cooperation with previous CRA

CRA	Status of Non-Cooperation	Date of Press Release
CRISIL	CRISIL has withdrawn its CRISIL BBB+/Stable (Issuer not co-operating) rating of CPIL on the company's request and after receiving the no due certificate from banks. The rating action is in line with CRISIL's policy on withdrawal of its rating on bank loan facilities.	June 30, 2020

Any other information: None

Rating history for past three years

	Instrument	Current Rating (FY2021)				Rating History for the Past 3 Years		
		Type	Amount Rated	Amount Outstanding (as in March 2020)	Rating	FY2020	FY2019	FY2018
					31-Jul-2020	20-Jan-2020	07-Dec-2018	04-Oct-2017
1	Cash Credit	Long Term	145.00	NA	[ICRA]AA- (Stable)	[ICRA]AA- (Positive)	[ICRA]AA- (Stable)	[ICRA]AA- (Stable)
2	Term Loan	Long Term	70.00	78.67	[ICRA]AA- (Stable)	[ICRA]AA- (Positive)	[ICRA]AA- (Stable)	[ICRA]AA- (Stable)
3	Non-fund Based Limits	Short Term	285.00	NA	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+
4	Commercial Paper	Short Term	-	-	[ICRA]A1+ withdrawn	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+
5	Unallocated limits	Long-term/Short term	-		-	-	[ICRA]AA- (Stable)/[ICRA]A1+	-

Amount in Rs. crore

Complexity level of the rated instrument

ICRA has classified various instruments based on their complexity as "Simple", "Complex" and "Highly Complex". The classification of instruments according to their complexity levels is available on the website www.icra.in

Annexure-1: Instrument details

ISIN	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Cash Credit	NA	~8.0%	NA	145.00	[ICRA]AA- (Stable)
NA	Term Loan	FY2015-18	Libor linked	FY2023-24	70.00	[ICRA]AA- (Stable)
NA	Non-fund Based Limits	NA	NA	NA	285.00	[ICRA]A1+
NA	Commercial Paper	NA	NA	90 days	-	[ICRA]A1+ withdrawn

Source: Company

Annexure-2: List of entities considered for consolidated analysis

Company Name	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	90.60%	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

Corrigendum

Rationale dated July 31, 2020 has been corrected as below:

- Relationship contact has been updated

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About ICRA Limited:

ICRA Limited was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.

Today, ICRA and its subsidiaries together form the ICRA Group of Companies (Group ICRA). ICRA is a Public Limited Company, with its shares listed on the Bombay Stock Exchange and the National Stock Exchange. The international Credit Rating Agency Moody's Investors Service is ICRA's largest shareholder.

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