

Century Plyboards (India) (CENPLY)

CMP: ₹ 580

Target: ₹ 675 (16%)

Target Period: 12 months

July 22, 2022

BUY

Healthy performance...

About the stock: Century Plyboards is India's leading plywood manufacturer with a market share of ~25% in the country's organised segment of plywood sector.

- It derives majority of revenues from plywood (53% of FY22 revenue), followed by Laminates (19%), and MDF (18.5%) segments while balance is contributed by fibre cement boards and particle board divisions. Century also operates a CFS with the capacity to handle 156,000 TEUs containers and contributed ~3% to the overall FY21 revenues

Q1FY23 Results: Century reported healthy set of numbers

- The topline was up 96.4% YoY to ₹ 881.5 crore on a benign base (3 year CAGR of 15.4%). MDF/Plywood/Laminate revenues grew 70.9%/113.3%/86.1% YoY to ₹ 155.6/474.7/163.6 crore, respectively with 3 year CAGR being 19.2%/14.6%/15.1%, respectively.
- EBITDA margin, was up by 285 bps YoY (but down 150 bps QoQ) to 16.5% with sequential weakness owing to 150 bps QoQ decline in gross margins to 47.2%, owing to lag in price hike absorption. Overall, Reported PAT was up 184.7% YoY to ₹ 96.5 crore.

What should investors do? Century's share price has grown at ~14% CAGR over the past five years

- We maintain BUY as it continues to report industry leading growth, stable margins and net cash balance sheet with internal accruals fuelling the expansion.

Target Price and Valuation: We value Century at ₹ 675/share (32x FY23 P/E).

Key triggers for future price performance:

- Strong growth traction in MDF with ~26% CAGR in FY22-24 in MDF revenues to ₹ 876 crore, also aided by new capacity offtake in FY23/FY24.
- We expect ~16% CAGR in FY22-24 in plywood revenues to ₹ 2135 crore, led by pent-up demand and market share gain

Alternate Stock Idea: Besides Century, we like Brigade Enterprises in the Real Estate & Building materials space.

- Strong play on Bengaluru real estate market
- BUY with a target price of ₹ 550



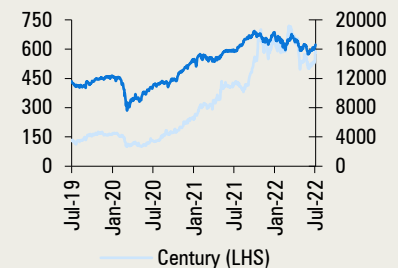
Particulars

Particular	Amount (₹ crore)
Market Capitalization	12,889
Total Debt (FY22)	196
Cash & Inv (FY22)	250
EV	12,836
52 week H/L (₹)	749 / 342
Equity capital	22.3
Face value (₹)	1.0

Shareholding pattern

	Sep-21	Dec-21	Mar-22	Jun-22
Promoters	73.0	73.0	73.0	73.0
DII	13.0	13.0	11.1	11.8
FII	5.1	5.5	6.9	7.0
Other	8.9	8.4	9.1	8.2

Price Chart



Key Risks

Key Risk: (i) Slowdown in demand; (ii) Supply glut in MDF ahead and its impact on pricing

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Key Financial Summary

₹ crore	FY20	FY21	FY22	5 yr CAGR (FY17-22)	FY23E	FY24E	2 yr CAGR (FY22-24E)
Net Sales	2,282.7	2,113.5	3,000.9	11.0%	3,604.9	4,123.8	17.2%
EBITDA	304.1	335.4	534.6	12.9%	630.8	741.7	17.8%
EBITDA Margin (%)	13.3	15.9	17.8		17.5	18.0	
PAT	158.2	203.9	325.3	11.9%	418.6	467.1	19.8%
EPS (₹)	7.1	9.2	14.6		18.8	21.0	
P/E	81.5	63.2	39.6		30.8	27.6	
EV/EBITDA	43.1	38.3	24.0		21.2	18.0	
RoNW (%)	14.7	16.1	20.8		21.5	19.7	
RoCE (%)	19.1	20.7	27.3		22.9	23.0	

Source: Company, ICICI Direct Research

Key business highlight and outlook

- Expansion outline & status:** MDF expansion work at its existing unit at Hoshiarpur (Punjab) is ongoing currently and the new capacity is likely to get commissioned by October'22-end (estimated capex: ₹ 220 crore; spent till Q1 FY23: ~₹ 191 crore). Further, the company has commenced greenfield expansion for MDF product at Andhra Pradesh under its 100% subsidiary 'Century Panels Ltd' and is expected to come on-stream by Q2 FY24 (capacity: 950 CBM/day; estimated capex: ₹ 600 crore; incurred till Q1 FY23: ₹ 57 crore). Currently, the requisite machineries have been ordered with receipt of necessary approvals to set up a plant. Additionally, the company has also finalized setting up of a greenfield laminate manufacturing facility in 2 phases with an overall installed capacity to manufacture 40 lakhs sheets at a capex of ₹ 200 crore. The management expects both phases to get commissioned by Q2 FY24. Further, the company is undergoing a debottlenecking exercise in one of its existing plant of the laminates division which is likely to increase the overall capacity from 3,00,000 CBM to 3,30,000 CBM by FY23-end.
- Overall business:** Despite Q1 being a leanest quarter in a financial year, CPL has achieved just 1.5% lower revenue in Q1 FY23 (to ₹ 881.5 crore) compared to strongest Q4 (FY22) topline. The robust topline achieved in Q1 FY23 is largely backed by healthy demand witnessed across its product segments with a) gained traction in the real-estate sector, b) robust brand recall with upped branding exercise, and c) better conversion of lead to sales. However, its overall EBITDA margin declined to 17.2% (down 140 bps QoQ) due to input cost pressure in core segments of Plywood and Laminates, and higher branding spends (partly aided by corresponding increase in prices and better operating leverage).
- Plywood:** Revenues in the Plywood segment have improved by 113.3% YoY to ₹ 474.8 crore driven by 107% and 97.4% volume growth witnessed in the Plywood, and Commercial Veneer product segment, respectively. Revenue in the Deco Ply product segment also shown improved strength registering 107.5% YoY growth (to ₹ 42.3 crore) mainly aided by 81.9% YoY growth in volumes and 14.1% YoY improvement in realization. However, EBITDA margin on QoQ basis declined 460 bps to 10.4% (up 270 bps YoY) impacted by the lag in passing-on price hikes, increase in key input costs such as Timber and Phenol, and higher brand spend (150 bps impact on margin). Going forward, its margin is expected to sustain at 13-15% (despite reporting 10.4% in Q1 FY23) due to front loading of A&P spends, full absorption of price hikes taken in Q1 FY23 and expected operating leverage.
- MDF:** The 70.8% YoY revenue growth in MDF division (revenue: ₹ 155.4 crore) was aided by 42.3% YoY volume growth (to 45,309 CBM) and 20% YoY growth in realization (to ₹ 34,296/CBM). Better product mix largely aided realization growth. Additionally, EBITDA margin remained at an elevated level at 34.9% (vs 28.1% in Q1 FY22; 32.7% in Q4 FY22). Going forward, the management expects MDF demand to remain strong in the near term to medium term with higher consumptions, better acceptance from consumers, and nil imports (due to higher freight cost). Margins are likely to sustain at current level in FY23 before moderating to ~25% in FY24 with the possibility of softening of product prices due to higher incremental supplies coming from various industry players.
- Laminates:** Net sales in the laminates division during Q1 FY23 improved 85.5% YoY (₹ 161.9 crore) driven by 160.5% YoY growth in volumes and 14.4% YoY growth in realization (to ₹ 839). Additionally, its margin improved on sequential basis to 12.7% (vs 11.2% in Q4 FY22; 14.9% in Q1 FY22) owing to higher realization. Also, adjusted for BCG expenses, EBITDA margin stood at 16.4%. Going forward, the management expects margin to sustain at 14-16%.
- Particle boards:** Improvement in particle board volumes by 72.4% YoY (to 21,537 CBM) and average realization by 24.6% YoY (to ₹ 23,713) has resulted in 114.8% YoY growth in net sales (to ₹ 51.1 crore). Additionally, the margin in the segment improved to 36.3% backed by better realization. Going forward, its margin is likely to sustain at current level in FY23 before moderating to ~25% in FY24 with the possibility of softening of product

prices. CIL is also contemplating on increasing its capacity and decision on same is likely to be taken over next few months.

- **Utilization:** Capacity utilization across CPL's product categories remained at an elevated level aided by robust product demand. Utilization during Q1 FY23 in a) Plywood stood at 82% (vs 84% in Q4 FY22), b) Laminates: 89% (vs 97% in Q4 FY22) c) MDF: 98% (vs 97% in Q4 FY22) and Particle Boards: 120% (115% in Q4 FY22).
- **Volatility in key raw material prices and price hikes:** As per the management, prices of some of the key raw material has softened a little bit during Q1 FY23 but remained at an elevated level. Paper and Phenol prices continued to increase on MoM basis while timber prices stood at an elevated level (up 5% QoQ, but stable now). Thus, in order to offset hikes in input costs, CIL has undertaken price hikes across its product portfolio during Q1 FY23 which includes 2-7% in Plywood (2% in Premium, 3% in Sainik and 7% in Sainik MR), 3-4% in Laminates, and 9% in Particle boards.
- **Working capital cycle:** Working capital cycle at Q1 FY23 remained healthy at 58 days (vs 63 days at FY22-end) backed by decline in debtor days (38 days at Q1 FY23 vs 42 days at FY22-end) and inventory (52 days at Q1 FY23 end vs 60 days at FY22-end). Payable days has also declined to 32 days at Q1 FY23-end (vs 39 days at FY22-end). Going forward, the management expects working capital cycle days to stabilize at ~50-60 days.
- **Liquidity position:** CPL holds a net cash surplus position with ₹ 184 crore cash balance at Q1 FY23-end.

We maintain BUY as it continues to report industry leading growth stable margins and net cash balance sheet with internal accruals fuelling the expansion. We value Century at ₹ 675/share (32x FY24 P/E).

Exhibit 1: Variance Analysis

Particular	Q1FY23	Q1FY22	YoY Chg (%)	Q4FY22	QoQ Chg (%)	Comments
Net Sales	881.5	448.9	96.4	895.3	-1.5	
Other Income	6.0	4.9	21.9	5.2	14.8	
Material Consumed	347.5	246.7	40.9	366.3	-5.1	
Purchase of Stock in Trade	133.5	57.0	134.1	106.6	25.3	
Employee Benefit Expenses	115.2	88.7	29.9	111.7	3.2	
Other Expenses	155.4	100.8	54.2	163.1	-4.8	
EBITDA	145.3	61.2	137.4	160.9	-9.7	
EBITDA Margin (%)	16.5	13.6	285 bps	18.0	-150 bps	
Depreciation	17.8	16.3	9.1	17.2	3.7	
Interest	3.9	2.7	42.9	3.2	20.9	
PBT	129.6	47.1	175.2	145.8	-11.1	
Taxes	33.1	13.2	151.0	54.7	-39.5	
PAT	96.5	33.9	184.7	91.0	6.0	

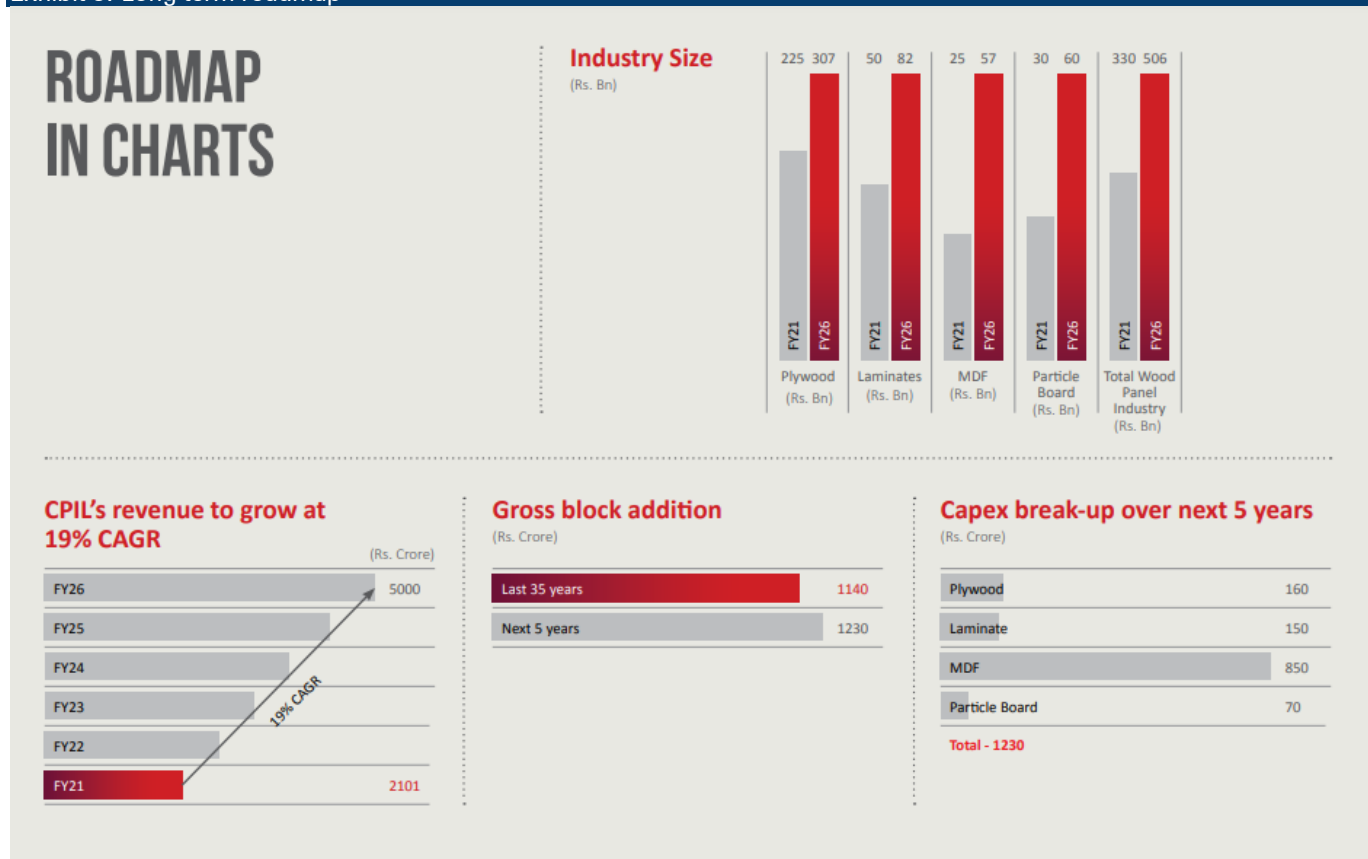
Source: Company, ICICI Direct Research

Exhibit 2: Change in estimates

Particulars (₹ crore)	FY22		FY23E		FY24E		Comments
	Old	New	Change	Old	New	Change	
Revenue	3,000.9	3,566.3	3,604.9	1.1	4,024.9	4,123.8	2.5 Realign estimates post Q1
EBITDA	534.6	640.7	630.8	-1.5	746.3	741.7	-0.6
EBITDA Margin (%)	17.8	18.0	17.5	-47 bps	18.5	18.0	-55 bps
PAT	325.3	417.1	418.6	0.4	457.2	467.1	2.1
EPS (₹)	14.6	18.8	18.8	0.4	20.6	21.0	2.1

Source: Company, ICICI Direct Research

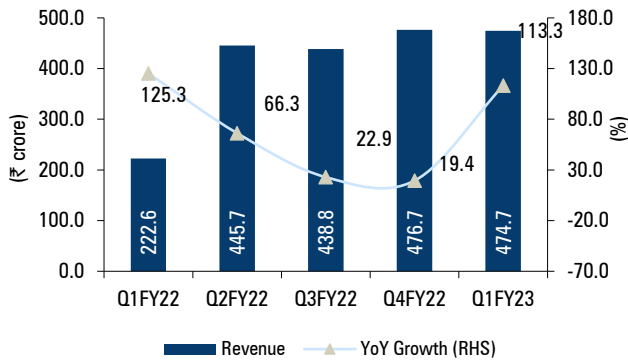
Exhibit 3: Long term roadmap



Source: Company, ICICI Direct Research

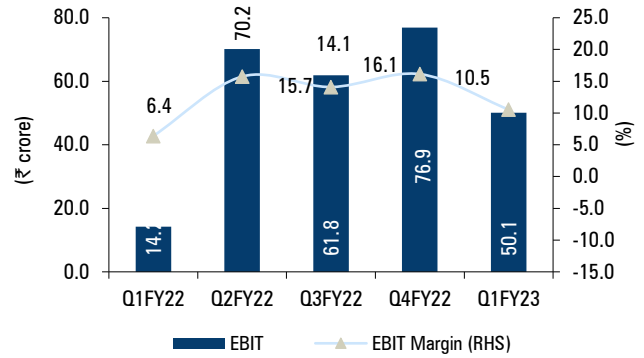
Company Analysis

Exhibit 4: Quarterly plywood & allied products revenue



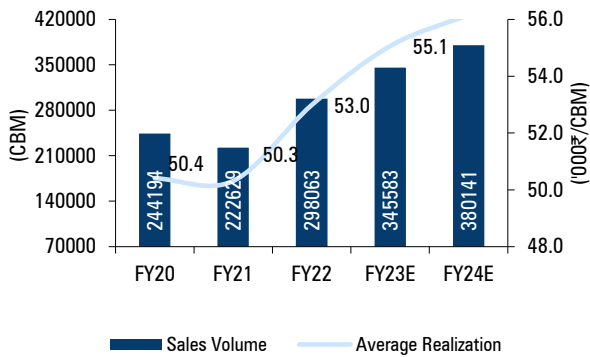
Source: Company, ICICI Direct Research

Exhibit 5: Quarterly plywood & allied products EBIT trend



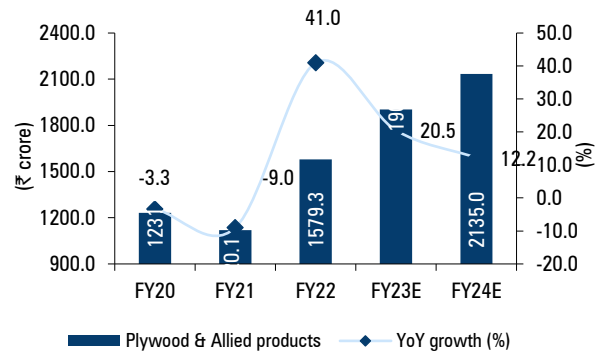
Source: Company, ICICI Direct Research

Exhibit 6: Plywood sales volume & average realisation



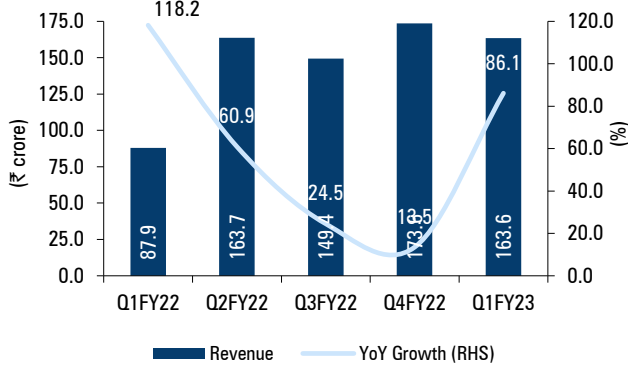
Source: Company, ICICI Direct Research

Exhibit 7: Plywood revenue and growth trend



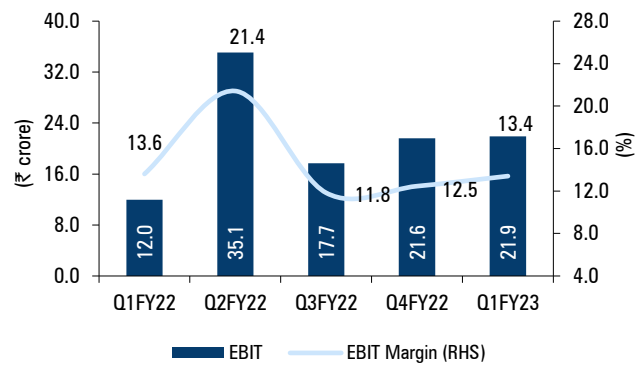
Source: Company, ICICI Direct Research

Exhibit 8: Quarterly laminates & allied products revenue



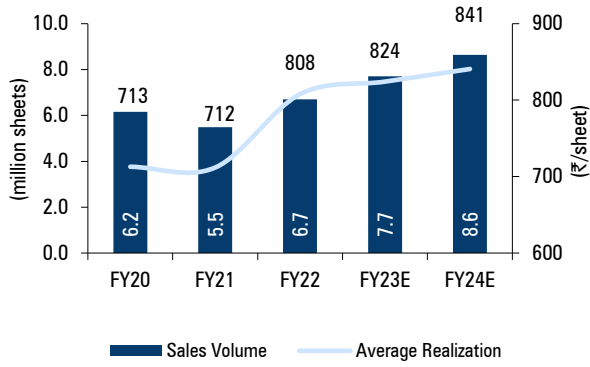
Source: Company, ICICI Direct Research

Exhibit 9: Quarterly laminates & allied products EBIT trend



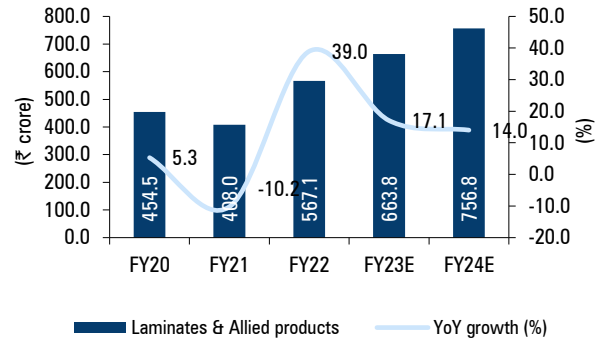
Source: Company, ICICI Direct Research

Exhibit 10: Laminates sales volume & average realisation



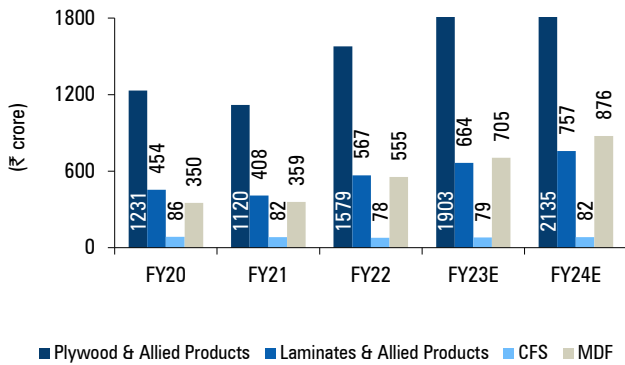
Source: Company, ICICI Direct Research

Exhibit 11: Laminates revenue and growth trend



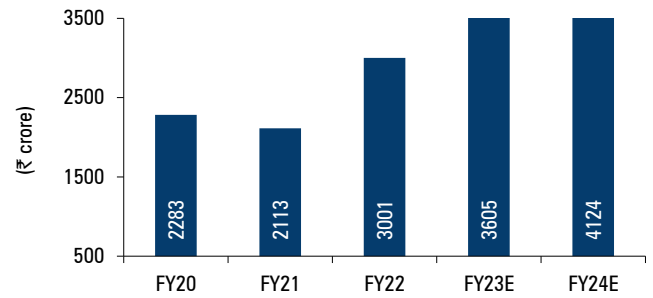
Source: Company, ICICI Direct Research

Exhibit 12: Segmental net revenue trend



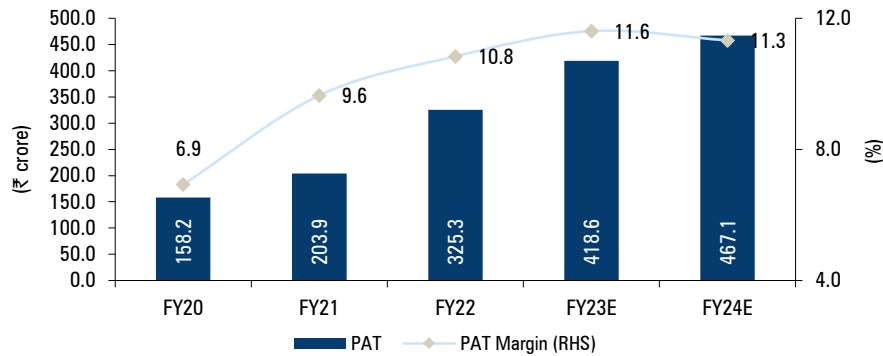
Source: Company, ICICI Direct Research

Exhibit 13: Total net revenue trend



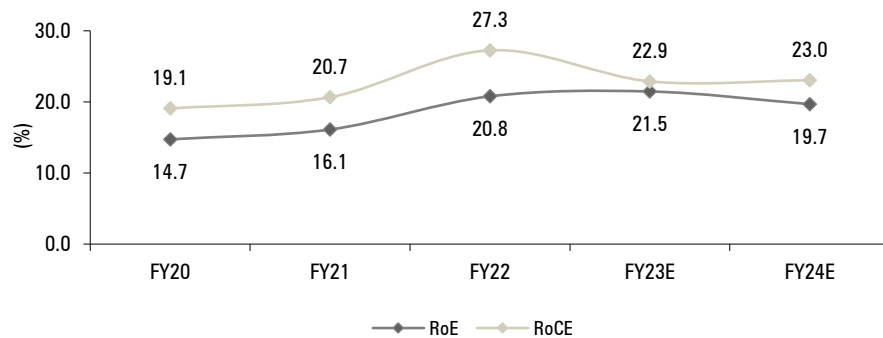
Source: Company, ICICI Direct Research

Exhibit 14: PAT growth trend



Source: Company, ICICI Direct Research

Exhibit 15: RoE and RoCE growth trend



Source: Company, ICICI Direct Research

Financial summary

Exhibit 16: Profit and loss statement				
₹ crore				
(₹ Crore)	FY21	FY22	FY23E	FY24E
Net Sales	2,113.5	3,000.9	3,604.9	4,123.8
Raw Material Expense	802.0	1,115.4	1,407.4	1,595.9
Purchase of Traded Goods	257.4	406.2	486.7	556.7
Employee benefit expenses	318.3	399.8	479.5	556.7
Other Expenses	400.4	544.8	600.6	672.7
Total Expenses	1,778.1	2,466.3	2,974.1	3,382.1
EBITDA	335.4	534.6	630.8	741.7
EBITDA Margin (%)	15.9	17.8	17.5	18.0
Interest	10.8	9.6	20.0	45.0
Depreciation	62.6	67.5	76.2	102.3
Other income	10.7	22.8	25.0	30.0
PBT	272.6	480.2	559.6	624.4
Taxes	68.8	154.9	141.0	157.4
PAT	203.9	325.3	418.6	467.1
PAT Growth rate (%)	28.9	59.5	28.7	11.6
Adjusted EPS (Diluted)	9.2	14.6	18.8	21.0

Source: Company, ICICI Direct Research

Exhibit 17: Cash flow statement				
₹ crore				
(₹ Crore)	FY21	FY22	FY23E	FY24E
Profit after Tax	203.9	325.3	418.6	467.1
Depreciation	62.6	67.5	76.2	102.3
Interest	10.8	9.6	20.0	45.0
Others	(137.3)	(169.1)	(158.8)	(185.1)
Cash Flow before wc changes	208.7	388.3	497.0	586.6
Net Increase in Current Assets	57.9	(8.6)	(7.2)	(2.2)
Net Increase in Current Liabilities	85.2	(168.0)	(80.6)	(83.2)
Net CF from operating activities	351.8	211.7	409.2	501.1
(Purchase)/Sale of Fixed Assets	(36.2)	(225.4)	(913.6)	(380.0)
Net CF from Investing activities	(158.2)	(71.1)	(904.2)	(354.3)
Dividend	-	(22.2)	(33.3)	(44.4)
Interest paid	(10.8)	(9.6)	(20.0)	(45.0)
Inc / (Dec) in Loans	(128.6)	71.8	350.0	(50.0)
Net CF from Financing activities	(139.4)	40.0	296.7	(139.4)
Net Cash flow	54.3	173.8	(198.4)	7.4
Opening Cash	21.2	75.5	249.3	50.9
Closing Cash/ Cash Equivalent	75.5	249.3	50.9	58.3

Source: Company, ICICI Direct Research

Exhibit 18: Balance sheet				
₹ crore				
(₹ Crore)	FY21	FY22	FY23E	FY24E
Liabilities				
Equity Capital	22.3	22.3	22.3	22.3
Reserve and Surplus	1,242.6	1,542.6	1,927.9	2,350.5
Total Shareholders funds	1,264.9	1,564.9	1,950.1	2,372.8
Total Debt	124.5	196.4	546.4	496.4
Deferred Tax Liability	(42.1)	16.8	16.8	16.8
Total Liabilities	1,347.0	1,778.0	2,513.0	2,886.0
Assets				
Gross Block	1,022.6	1,104.5	2,177.3	2,557.3
Less Acc. Dep	341.5	409.0	484.7	587.0
Net Block	681.2	695.5	1,692.6	1,970.3
Net Intangibles Assets	0.5	0.5	0.5	0.5
Expenditure on new projects	-	-	-	-
Capital WIP	21.2	164.8	5.0	5.0
Total Fixed Assets	702.9	860.7	1,698.1	1,975.8
Investments	227.4	154.7	154.7	154.7
Inventory	330.2	489.5	563.0	644.0
Sundry Debtors	297.0	348.9	444.4	508.4
Loans & Advances	19.7	17.3	39.5	45.2
Cash & Bank Balances	75.5	249.3	50.9	58.3
Other Current Assets	92.2	94.2	129.0	144.7
Total Current Assets	814.5	1,199.2	1,226.9	1,400.6
Trade Payable	213.9	254.5	345.7	395.4
Other Current Liabilities	166.0	167.5	192.9	218.0
Provisions	13.5	14.8	18.3	27.8
Net Current Assets	421.1	762.4	670.0	759.4
Total Assets	1,347.0	1,778.0	2,513.0	2,886.0

Source: Company, ICICI Direct Research

Exhibit 19: Key ratios				
	FY21	FY22	FY23E	FY24E
Per Share Data (₹)				
EPS - Diluted	9.2	14.6	18.8	21.0
Cash EPS	12.0	17.7	22.3	25.6
Book Value	56.9	70.4	87.8	106.8
Dividend per share	-	1.0	1.5	2.0
Operating Ratios (%)				
EBITDA / Net Sales	15.9	17.8	17.5	18.0
PAT / Net Sales	9.6	10.8	11.6	11.3
Inventory Days	57	60	57	57
Debtor Days	51	42	45	45
Creditor Days	37	31	35	35
Return Ratios (%)				
RoE	16.1	20.8	21.5	19.7
RoCE	20.7	27.3	22.9	23.0
RoIC	23.4	33.8	22.4	22.5
Valuation Ratios (x)				
EV / EBITDA	38.3	24.0	21.2	18.0
P/E (Diluted)	63.2	39.6	30.8	27.6
EV / Net Sales	6.1	4.3	3.7	3.2
Market Cap / Sales	6.1	4.3	3.6	3.1
Price to Book Value	10.2	8.2	6.6	5.4
Dividend Yield	-	0.2	0.3	0.3
Solvency Ratios (x)				
Net Debt / Equity	(0.0)	(0.0)	0.3	0.2
Debt / EBITDA	0.4	0.4	0.9	0.7
Current Ratio	1.9	2.2	2.1	2.1
Quick Ratio	1.0	1.0	1.0	1.0

Source: Company, ICICI Direct Research

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Buy: >15%

Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



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