

# Century Plyboards (India) (CENPLY)

CMP: ₹ 595

Target: ₹ 695 (17%)

Target Period: 12 months

BUY

November 13, 2022

## Healthy outlook ahead!

**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 along with container freight division.

**Q2FY23 Results:** Century reported a healthy set of numbers.

- The topline was up 96.4% YoY to ₹ 881.5 crore on a benign base (three year CAGR of 15.4%). MDF, plywood, Laminate revenues grew 27.9%, 9.3%, 7.3% YoY to ₹ 156.3 crore, ₹ 485.6 crore, ₹ 174 crore, respectively with three year CAGR being 26.3%, 15.4%, 9.4%, respectively
- EBITDA margin, was down 314 bps YoY to 16.7% with weakness owing to 240 bps decline in gross margins to 45.8%, owing to high timber prices and softness in MDF margins
- Reported PAT was down 26% YoY to ₹ 76.2 crore owing to impairment loss of ₹ 47 crore taken in Myanmar subsidiary

**What should investors do?** Century's share price has grown at ~15% CAGR over the past five years

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

**Target Price and Valuation:** We value Century at ₹ 695/share

### Key triggers for future price performance:

- Strong growth traction in MDF with ~27% CAGR in FY22-25 in MDF revenues to ₹ 1144 crore, also aided by new capacity offtake
- We expect ~15% CAGR in FY22-25 in plywood revenues to ₹ 2383 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 ₹ 595



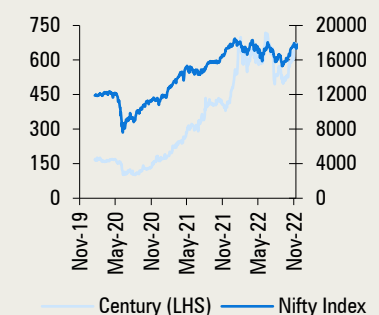
### Particulars

Particular	Amount (₹ crore)
Market Capitalization	13,226
Total Debt (FY22)	196
Cash & Inv (FY22)	250
EV	13,173
52 week H/L (₹)	749 / 484
Equity capital	22.3
Face value (₹)	1.0

### Shareholding pattern

	Dec-21	Mar-22	Jun-22	Sep-22
Promoters	73.0	73.0	73.0	73.0
DII	13.0	11.1	11.8	12.4
FII	5.5	6.9	7.0	6.6
Other	8.4	9.1	8.2	8.0

### Price Chart



### Key Risks

**Key Risk:** (i) Any 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	FY25E	3 yr CAGR (FY22-25E)
Net Sales	2,282.7	2,113.5	3,000.9	11.0%	3,567.9	4,209.8	4,741.0	25.7%
EBITDA	304.1	335.4	534.6	12.9%	605.7	735.0	829.5	24.6%
EBITDA Margin (%)	13.3	15.9	17.8		17.0	17.5	17.5	
PAT	158.2	203.9	325.3	11.9%	403.6	459.5	513.2	25.6%
EPS (₹)	7.1	9.2	14.6		18.2	20.7	23.1	
P/E	83.6	64.9	40.7		32.8	28.8	25.8	
EV/EBITDA	44.3	39.3	24.6		22.7	18.9	16.8	
RoNW (%)	14.7	16.1	20.8		20.9	19.6	18.2	
RoCE (%)	19.1	20.7	27.3		22.2	21.4	19.8	

Source: Company, ICICI Direct Research

## Key business highlight and outlook

- Overall business:** CPL has achieved highest ever quarterly revenue of ₹ 900 crore (up 12% YoY) on a standalone basis during Q2FY23. The strong topline is largely backed by healthy demand witnessed across majority of 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 **EBITDA margin (adjusted for impairment loss of ₹ 47 crore taken in Myanmar subsidiary, and entry tax reversal to the extent of ₹ 14.3 crore) declined to 15.2% (vs. 19.9% reported in Q2FY22) mainly due to input cost pressure in most of the wood panel segments**
- MDF:** The **27.9% YoY revenue growth in MDF division (revenue: ₹ 156.3 crore) was aided by 7.3% YoY volume growth (to 45,109 CBM) and 19.2% YoY growth in realization (to ₹ 34,649/CBM)**. Better product mix largely aided realisation growth. However, **EBITDA margin declined to 26.8% (vs 34.6% in Q2FY22) impacted by steady rise in timber and key chemical prices, and operating deleverage (due to break down in plant)**. Going forward, the management expects MDF demand to remain healthy (despite rise in imports in the recent times) in the near term to medium term with higher consumptions, and better acceptance from consumers. **With these, the company has guided for 20% YoY volume/value growth during FY23. Additionally, the management has indicated towards softening in timber prices and chemical prices (such as Phenol, Melamine) post Q2FY23, which is likely to aid its operating margin going forward. The guided sustainable margin is 25%+**
- Plywood:** Revenues in the **plywood segment have improved 9.3% YoY to ₹ 485.6 crore driven by 2.7% and 7.7% volume growth** witnessed in the plywood and deco ply segment,, respectively. However, commercial veneer product segment reported 37.6% decline in segmental revenue due to 13.8% drop in volumes and 27.6% decline in realisation. Additionally, EBITDA margin (adjusted to impairment loss in Myanmar subsidiary amounting to ₹ 47 crore) has improved to 14% (up 360 bps) QoQ. Going forward, the **company has guided for 15% YoY volume growth and 20% YoY sales growth during FY23. Additionally, its margin is expected to sustain at 13-15%**
- Laminates:** Net sales in the laminates division in Q2FY23 improved 7.3% YoY (₹ 174 crore) driven by 16.5% YoY growth in volumes and 6.8% YoY growth in realisation (to ₹ 864). Additionally, its margin improved on sequential basis to 16.6% (vs 12.7% in Q1 FY23) owing to higher realisation. Going forward, **the company has guided for 15% YoY volume, sales growth during FY23. Additionally, the management expects margin to sustain at 14-16%**
- Particle boards:** Segmental revenue in **particle boards has improved 23.9% YoY largely due to 33.6% YoY (to ₹ 24,675) improvement in average realization. Volume during Q2FY23, however, declined 7.3% YoY (to 19,157 CBM) due to moderation in demand**. Additionally, the EBITDA margin in the segment improved to 28.9% (up 270 bps YoY), however, dropped 740 bps on QoQ basis due to steadily rising timber and key chemical prices, and operating deleverage. Going forward, the **company has guided for 10% YoY volume and 20% sales growth during FY23. Additionally, the management expects sustenance of margin at the moderated level of 25%+ going ahead with the possibility of softening of product prices**
- Volatility in key raw material prices and price hikes:** As per the management, **prices of some of the key raw material such as timber and chemical such as Phenol and Melamine has remained at an elevated level during Q2FY23**. However, the **prices have started softening post Q2FY23 on gradual basis, which would aid company in better margins going ahead**. In terms of product prices, the company has not taken any major price hikes during Q2FY23
- MDF import:** Imports in the MDF segment have increased in the recent times due to fall in freight cost, which has largely impacted product demand based in southern states of India. However, the company has not witnessed any meaningful pressure due to rise in imports
- Opportunities in particle boards:** The overall market size of particle board stands currently at 1,500 crore CBM in India with unorganised players

playing a major role. Southern market is a major hub with better acceptance from OEMs and consumers

- **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 November 2022-end (estimated capex: ₹ 220 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 H2FY24 (capacity: 950 CBM/day; estimated capex: ₹ 600 crore). Currently, the requisite machineries have been ordered with receipt of necessary approvals to set up a plant. Additionally, the company has also finalised setting up of a greenfield laminate manufacturing facility in two phases with overall installed capacity to manufacture 40 lakhs sheets at a capex of ₹ 200 crore. The management expects both phases to get commissioned by Q2FY24. Recently, the company got approval to set up a new unit of 360,000 CBM/year capacity in Tamil Nadu for manufacturing of particle board with an approximate investment of ₹ 550 crore (current capacity: 75,000 CBM/annum). The management expects capacity come on stream by FY25-end. 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
- **Divestment:** The company has decided to dispose of its investments in its non-material subsidiary, Centuryply Myanmar Pvt Ltd (CPML) at an estimated valuation of ₹ 10 crore to any prospective buyer due to disruption in operations resulting out of adverse political developments. The agreement for sale has not yet been entered. However, the sale is expected to be completed within the next three months. The gross turnover for FY22 was ₹ 30.8 crore (constitutes 1.02% of the consolidated turnover). For these investment, the company has taken an impairment loss to the extent of ₹ 47 crore during Q2FY23
- **Working capital cycle:** Working capital cycle at Q2FY23 remained healthy at 55 days (vs. 58 days at Q1 FY23-end) backed by decline in inventory days (50 days at Q2FY23-end vs 52 days at Q1 FY23 end). Payable and debtors days largely remained stable at 32 days and 38 days respectively. Going forward, the management expects working capital cycle days to stabilise at ~50-60 days
- **Liquidity position:** CPL holds a net cash surplus position with ₹ 176 crore cash balance as on September 30, 2022

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 ₹ 695/share (30x FY25E P/E).

Exhibit 1: Variance Analysis

Particular	Q2FY23	Q2FY22	YoY Chg (%)	Q1FY23	QoQ Chg (%)	Comments
Net Sales	900.2	808.3	11.4	881.5	2.1	
Other Income	19.5	6.8	185.6	6.0	225.4	
Material Consumed	318.7	280.9	13.5	347.5	-8.3	
Purchase of Stock in Trade	133.0	108.5	22.6	133.5	-0.4	
Employee Benefit Expenses	113.8	99.6	14.3	115.2	-1.2	
Other Expenses	147.5	128.9	14.4	155.4	-5.1	
EBITDA	150.7	160.7	-6.2	145.3	3.7	
EBITDA Margin (%)	16.7	19.9	-314 bps	16.5	26 bps	
Depreciation	17.8	16.8	5.7	17.8	-0.1	
Interest	3.4	1.6	120.3	3.9	-11.1	
PBT	148.9	149.1	-0.1	129.6	14.9	
Taxes	25.7	46.1	-44.2	33.1	-22.3	
PAT	76.2	103.1	-26.1	96.5	-21.0	

Source: Company, ICICI Direct Research

Exhibit 2: Change in estimates

Particulars (₹ crore)	FY22		FY23E		FY24E		FY25E		Comments
	Old	New	Old	New	Old	New	Old	New	
Revenue	3,000.9	3,604.9	3,567.9	-1.0	4,123.8	4,209.8	2.1	4,741.0	Realign estimates post Q2
EBITDA	534.6	630.8	605.7	-4.0	741.7	735.0	-0.9	829.5	
EBITDA Margin (%)	17.8	17.5	17.0	-52 bps	18.0	17.5	-53 bps	17.5	
PAT	325.3	418.6	403.6	-3.6	467.1	459.5	-1.6	513.2	
EPS (₹)	14.6	18.8	18.2	-3.6	21.0	20.7	-1.6	23.1	

Source: Company, ICICI Direct Research

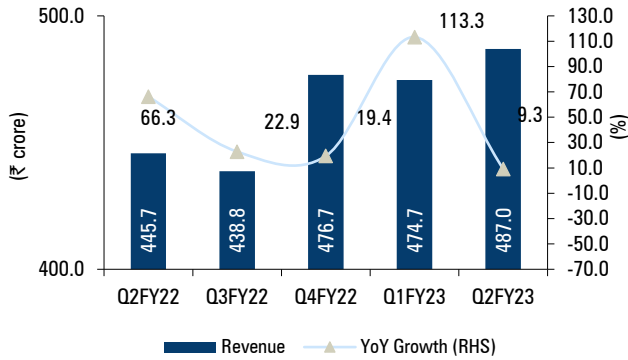
Exhibit 3: Long term roadmap



Source: Company, ICICI Direct Research

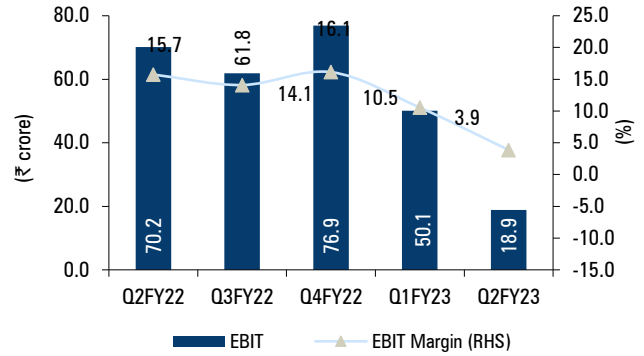
## Company Analysis

Exhibit 4: Quarterly plywood & allied products revenue



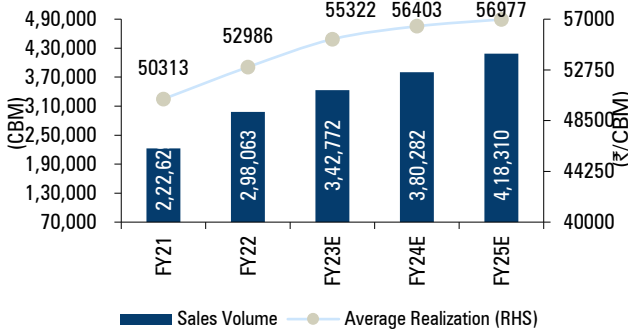
Source: Company, ICICI Direct Research

Exhibit 5: Quarterly plywood & allied products EBIT trend



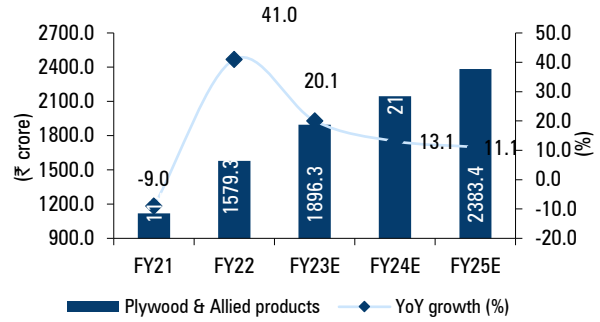
Source: Company, ICICI Direct Research \*Q2FY23 impacted by Gabon writeoff

Exhibit 6: Plywood sales volume & average realisation



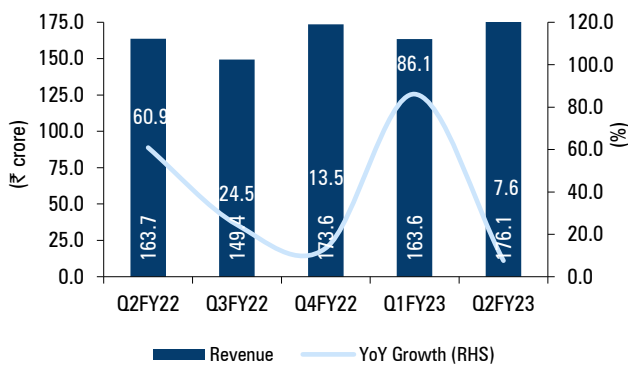
Source: Company, ICICI Direct Research

Exhibit 7: Plywood revenue and growth trend



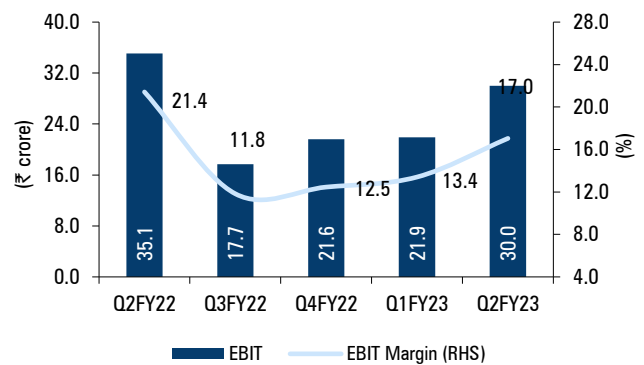
Source: Company, ICICI Direct Research

Exhibit 8: Quarterly laminates & allied products revenue



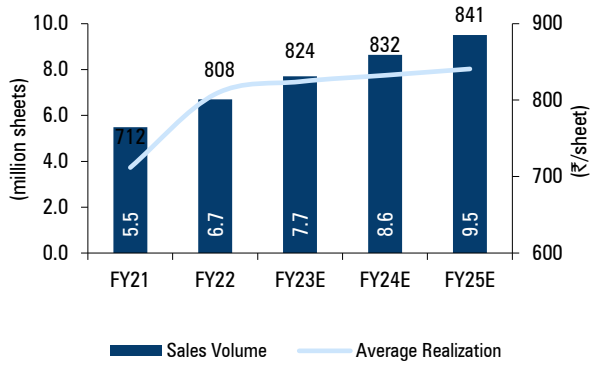
Source: Company, ICICI Direct Research

Exhibit 9: Quarterly laminates & allied products EBIT trend



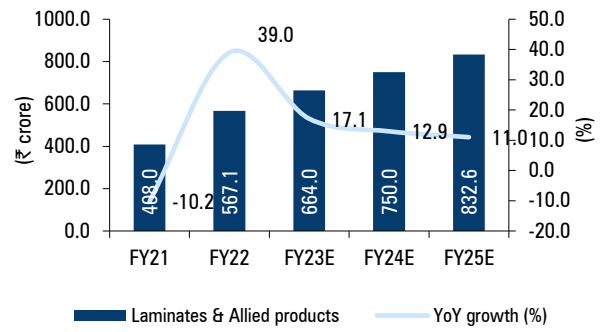
Source: Company, ICICI Direct Research

Exhibit 10: Laminates sales volume & average realisation



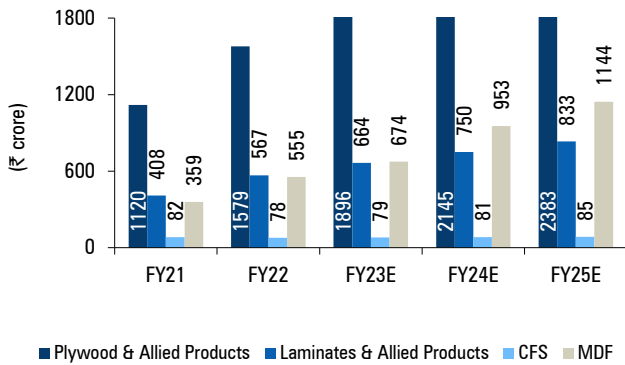
Source: Company, ICICI Direct Research

Exhibit 11: Laminates revenue and growth trend



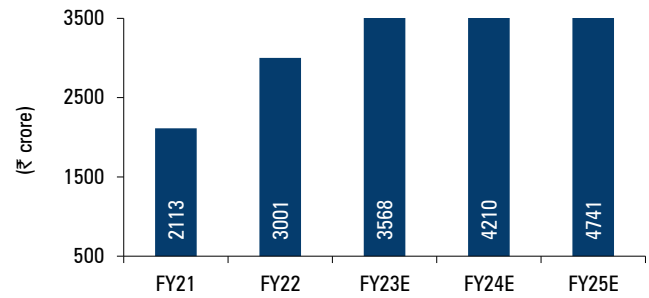
Source: Company, ICICI Direct Research

Exhibit 12: Segmental net revenue trend



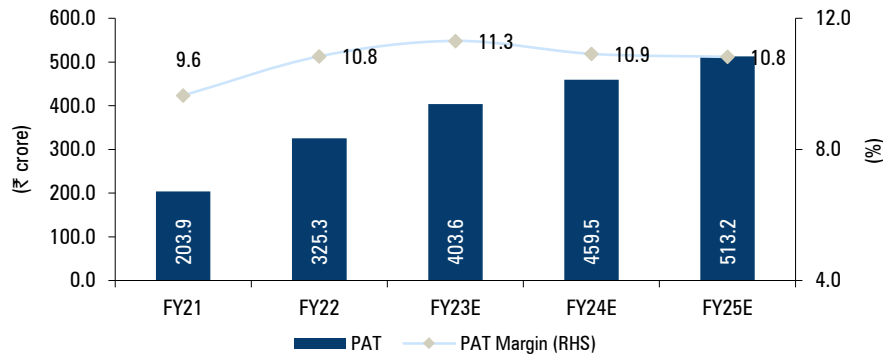
Source: Company, ICICI Direct Research

Exhibit 13: Total net revenue trend



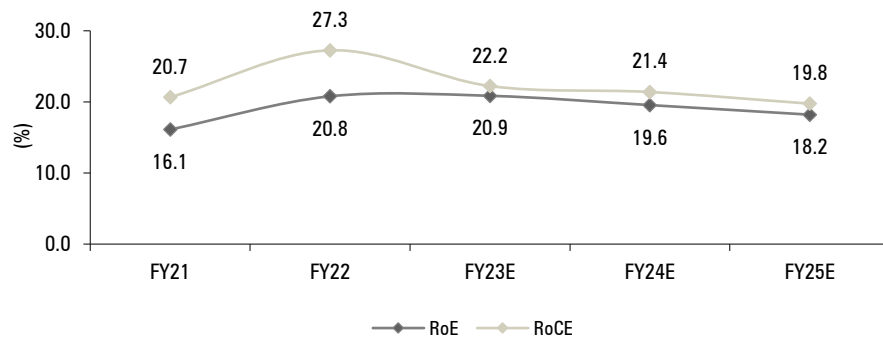
Source: Company, ICICI Direct Research

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)	FY22	FY23E	FY24E	FY25E
<b>Net Sales</b>	<b>3,000.9</b>	<b>3,567.9</b>	<b>4,209.8</b>	<b>4,741.0</b>
Raw Material Expense	1,115.4	1,407.2	1,661.6	1,877.4
Purchase of Traded Goods	406.2	481.7	568.3	640.0
Employee benefit expenses	399.8	474.5	568.3	640.0
Other Expenses	544.8	598.8	676.6	754.0
Total Expenses	2,466.3	2,962.2	3,474.9	3,911.5
<b>EBITDA</b>	<b>534.6</b>	<b>605.7</b>	<b>735.0</b>	<b>829.5</b>
EBITDA Margin (%)	17.8	17.0	17.5	17.5
Interest	9.6	20.0	45.0	45.0
Depreciation	67.5	76.2	110.7	133.5
Other income	22.8	30.0	35.0	35.0
PBT	480.2	539.5	614.3	686.1
Taxes	154.9	136.0	154.8	172.9
<b>PAT</b>	<b>325.3</b>	<b>403.6</b>	<b>459.5</b>	<b>513.2</b>
PAT Growth rate (%)	59.5	24.1	13.9	11.7
<b>Adjusted EPS (Diluted)</b>	<b>14.6</b>	<b>18.2</b>	<b>20.7</b>	<b>23.1</b>

Source: Company, ICICI Direct Research

Exhibit 17: Cash flow statement				
₹ crore				
(₹ Crore)	FY22	FY23E	FY24E	FY25E
Profit after Tax	325.3	403.6	459.5	513.2
Depreciation	67.5	76.2	110.7	133.5
Interest	9.6	20.0	45.0	45.0
Others	(169.1)	(158.9)	(187.1)	(205.6)
Cash Flow before wc changes	388.3	476.8	582.9	658.9
Net Increase in Current Assets	(8.6)	(7.0)	(2.7)	(2.3)
Net Increase in Current Liabilities	(168.0)	(74.7)	(103.0)	(85.2)
<b>Net CF from operating activities</b>	<b>211.7</b>	<b>395.1</b>	<b>477.2</b>	<b>571.4</b>
(Purchase)/Sale of Fixed Assets	(225.4)	(913.6)	(590.0)	(570.0)
<b>Net CF from Investing activities</b>	<b>(71.1)</b>	<b>(898.9)</b>	<b>(560.3)</b>	<b>(539.4)</b>
Dividend	(22.2)	(33.3)	(44.4)	(44.4)
Interest paid	(9.6)	(20.0)	(45.0)	(45.0)
Inc / (Dec) in Loans	71.8	350.0	150.0	150.0
<b>Net CF from Financing activities</b>	<b>40.0</b>	<b>296.7</b>	<b>60.6</b>	<b>60.6</b>
Net Cash flow	173.8	(207.1)	(22.5)	92.6
Opening Cash	75.5	249.3	42.1	19.6
<b>Closing Cash/ Cash Equivalent</b>	<b>249.3</b>	<b>42.1</b>	<b>19.6</b>	<b>112.3</b>

Source: Company, ICICI Direct Research

Exhibit 18: Balance sheet				
₹ crore				
(₹ Crore)	FY22	FY23E	FY24E	FY25E
<b>Liabilities</b>				
Equity Capital	22.3	22.3	22.3	22.3
Reserve and Surplus	1,542.6	1,912.8	2,327.9	2,796.6
Total Shareholders funds	1,564.9	1,935.1	2,350.1	2,818.9
Total Debt	196.4	546.4	696.4	846.4
Deferred Tax Liability	16.8	16.8	16.8	16.8
<b>Total Liabilities</b>	<b>1,778.0</b>	<b>2,498.0</b>	<b>3,063.0</b>	<b>3,682.0</b>
<b>Assets</b>				
Gross Block	1,104.5	2,177.3	2,767.3	3,337.3
Less Acc. Dep	409.0	484.7	595.4	728.9
Net Block	695.5	1,692.6	2,171.9	2,608.4
Net Intangibles Assets	0.5	0.5	0.5	0.5
Expenditure on new projects	-	-	-	-
Capital WIP	164.8	5.0	5.0	5.0
Total Fixed Assets	860.7	1,698.1	2,177.4	2,613.9
Investments	154.7	154.7	154.7	154.7
Inventory	489.5	557.2	657.4	740.4
Sundry Debtors	348.9	439.9	519.0	584.5
Loans & Advances	17.3	39.1	46.1	52.0
Cash & Bank Balances	249.3	42.1	19.6	112.3
Other Current Assets	94.2	127.9	147.3	163.3
Total Current Assets	1,199.2	1,206.2	1,389.5	1,652.4
Trade Payable	254.5	342.1	403.7	454.6
Other Current Liabilities	164.6	194.9	222.1	247.8
Provisions	18.3	27.5	32.5	36.6
Net Current Assets	761.7	641.7	731.2	913.4
<b>Total Assets</b>	<b>1,778.0</b>	<b>2,498.0</b>	<b>3,063.0</b>	<b>3,682.0</b>

Source: Company, ICICI Direct Research

Exhibit 19: Key ratios				
	FY22	FY23E	FY24E	FY25E
<b>Per Share Data (₹)</b>				
EPS - Diluted	14.6	18.2	20.7	23.1
Cash EPS	17.7	21.6	25.7	29.1
Book Value	70.4	87.1	105.8	126.9
Dividend per share	1.0	1.5	2.0	2.0
<b>Operating Ratios (%)</b>				
EBITDA / Net Sales	17.8	17.0	17.5	17.5
PAT / Net Sales	10.8	11.3	10.9	10.8
Inventory Days	60	57	57	57
Debtor Days	42	45	45	45
Creditor Days	31	35	35	35
<b>Return Ratios (%)</b>				
RoE	20.8	20.9	19.6	18.2
RoCE	27.3	22.2	21.4	19.8
RoIC	33.8	21.4	20.4	19.4
<b>Valuation Ratios (x)</b>				
EV / EBITDA	24.6	22.7	18.9	16.8
P/E (Diluted)	40.7	32.8	28.8	25.8
EV / Net Sales	4.4	3.8	3.3	2.9
Market Cap / Sales	4.4	3.7	3.1	2.8
Price to Book Value	8.5	6.8	5.6	4.7
Dividend Yield	0.2	0.3	0.3	0.3
<b>Solvency Ratios (x)</b>				
Net Debt / Equity	(0.0)	0.3	0.3	0.3
Debt / EBITDA	0.4	0.9	0.9	1.0
Current Ratio	2.2	2.1	2.1	2.1
<b>Quick Ratio</b>	<b>1.0</b>	<b>1.0</b>	<b>1.0</b>	<b>1.0</b>

Source: Company, ICICI Direct Research

## RATING RATIONALE

ICICI Direct endeavours to provide objective opinions and recommendations. ICICI Direct assigns ratings to its stocks according to their notional target price vs. current market price and then categorizes them as Buy, Hold, Reduce and Sell. The performance horizon is two years unless specified and the notional target price is defined as the analysts' valuation for a stock

Buy: >15%

Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



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## ANALYST CERTIFICATION

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