

Margins to be muted in near term...

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 the balance is contributed by fibre cement boards and particle board divisions along with container freight division

Q3FY23 Results: Century reported a muted set of numbers.

- The topline was up 3.4% YoY to ₹ 881.5 crore on a healthy base (three-year CAGR of 13.8%). Plywood/laminate revenues grew 10%, 5% YoY to ₹ 481 crore, ₹ 156 crore, respectively, with three-year CAGR being 14.3%, 11%, respectively. MDF revenues declined 8% YoY to ₹ 165 crore
- EBITDA margin was down 336 bps YoY to 14.5% with weakness owing to 216 bps decline in gross margins to 45.4%, owing to high timber prices and softness in MDF margins (down 810 bps to 22.4%)
- Overall, PAT was down 16% YoY to ₹ 81.4 crore

What should investors do? Century's share price has grown at ~10% CAGR over the past five years.

- While Century remains a superior player in the segment, the input price concern along with possible MDF supply led pricing pressure overhang is likely to play a spoilsport. Thus, **we downgrade** from BUY to HOLD

Target Price and Valuation: We value Century at ₹ 570/share, as we lower our earnings estimate and cut our target P/E multiple to 27x FY25E vs. 30x FY25, earlier.

Key triggers for future price performance:

- We expect ~14.6% CAGR in FY22-25 in plywood revenues to ₹ 2375 crore, led by stable demand and market share gain
- MDF revenues to witness ~25% CAGR in FY22-25 to ₹ 1092 crore, largely aided by new capacity offtake

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 ₹ 620



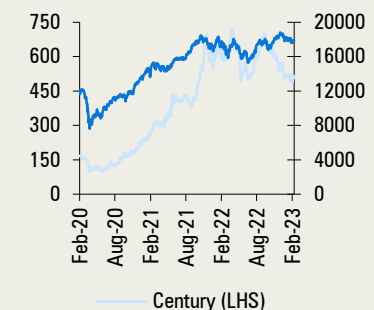
Particulars

Particular	Amount (₹ crore)
Market Capitalization	11,244
Total Debt (FY22)	196
Cash & Inv (FY22)	250
EV	11,191
52 week H/L (₹)	749 / 476
Equity capital	22.3
Face value (₹)	1.0

Shareholding pattern

	Mar-22	Jun-22	Sep-22	Dec-22
Promoters	73.0	73.0	73.0	73.0
DII	11.1	11.8	12.4	13.3
FII	6.9	7.0	6.6	6.1
Other	9.1	8.2	8.0	7.5

Price Chart



Key Risks

Key Risk: (i) Better than anticipated demand; (ii) Lowering of timber price

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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%	3,544.8	4,108.5	4,673.3	15.9%
EBITDA	304.1	335.4	534.6	12.9%	565.6	657.2	748.9	11.9%
EBITDA Margin (%)	13.3	15.9	17.8		16.0	16.0	16.0	
PAT	158.2	203.9	325.3	11.9%	385.3	411.2	472.3	13.2%
EPS (₹)	7.1	9.2	14.6		17.3	18.5	21.3	
P/E	71.1	55.2	34.6		29.2	27.3	23.8	
EV/EBITDA	37.7	33.3	20.9		20.8	17.8	15.3	
RoNW (%)	14.7	16.1	20.8		20.1	18.0	17.4	
RoCE (%)	19.1	20.7	27.3		21.2	20.6	21.2	

Key business highlight and outlook

- **MDF:** The 8% YoY revenue decline in MDF division (revenue: ₹ 165.4 crore) was owing to 14% volume decline. The EBITDA margin declined to 22.4% (down 810 bps YoY) impacted by rise in timber and key chemical prices, and operating leverage. 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. It has guided for 5% volume growth in FY23 with revenue growth being at 15% aided by realisation growth. The guided sustainable margin is 20-25% vs. earlier indicated range of 25+%. This segment will be a key monitorable, in our view
- **Plywood:** Revenues in the plywood segment have improved by 10.2% YoY to ₹ 481.4 crore driven by 6% volume growth. Additionally, EBITDA margin (adjusted to impairment loss in Myanmar subsidiary amounting to ₹ 2.4 crore) was at 12.2%, down 230 bps due to high timber prices. The company took a price hike of 4% in Sainik MR plywood in November 2022 and hike of 2% across other plywood segments in January 2023. For FY23, the management has maintained its guidance for volume, value growth of 15%, 20% YoY, respectively, for plywood. Additionally, its margin is expected to sustain at 12-14% (vs. 13-15% earlier)
- **Laminates:** Net sales in the laminates division during Q3FY23 improved 5.1% YoY (₹ 156.3 crore) with 3% decline in volumes. Additionally, its margin improved was at 14.3%. Going forward, the company has guided for 15% YoY volume, sales growth during FY23. Additionally, the management expects margin to sustain at 13-15% vs. earlier guidance at 14-16%
- **Particle boards:** Segmental revenue in particle boards fell 8.2% YoY to ₹ 38.4 crore owing to ~19% decline in volumes. Additionally, the EBITDA margin in the segment improved to 20.6% (down 650 bps YoY). For particle board, the company has cut prices by 5-10% in Q3 and by a further 5-10% in January, 2023. The management indicated that OEMs are major consumers of particle board in India, which is why imports have resulted in price cuts. Going forward, the company has guided for flat volume and 20% sales growth during FY23. Additionally, the management expects sustenance of margin at the moderated level of ~20% going ahead with the softening of product prices
- **Volatility in key raw material prices and price hikes:** As per the management, timber prices remain elevated and are expected to trend higher in Q4FY23 and in near term. The chemical prices, however, have softened in Q3 and are expected to further soften in Q4
- **MDF Import:** Imports in the MDF segment have increased in recent times due to fall in freight cost, which has largely impacted product demand based in southern India. However, the company has not witnessed any meaningful pressure due to rise in imports in the north region
- **Expansion outline & status:**
 1. **MDF expansion work** at its existing unit at Hoshiarpur (Punjab) has been delayed and the new capacity is likely to get commissioned by March, 2023 vs. November 2022-end (estimated capex: ₹ 220 crore)
 2. 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)
 3. Additionally, the company has also finalised setting up of a greenfield laminate manufacturing facility in AP in two phases with an overall installed capacity to manufacture 40 lakhs sheets at a capex of ₹ 200 crore. The management expects first phase to get

commissioned by Q2FY24. 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**

4. The company has also got approval **to set up a new unit of 360,000 CBM/year capacity in Tamil Nadu for manufacturing particle board** with an investment of ~₹ 550 crore (current capacity: 75,000 CBM/annum). The management expects capacity to come on stream by FY25-end
- **Working capital cycle:** Working capital cycle at **Q3FY23 remained healthy at 52 days (vs. 55 days at Q2FY23-end)** backed by decline in inventory days and better operational efficiency. 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 ₹ 208 crore cash balance as of Q3 end

While Century has led the industry in most metrics and remains a superior player in the segment, the input price concern along with possible MDF supply led pricing pressure overhang is likely to play a spoilsport. Thus, we downgrade from BUY to HOLD. We value Century at ₹ 570/share, as we lower our earnings estimate and cut our target multiple to 27x FY25E vs. 30x FY25, earlier.

Exhibit 1: Variance Analysis

Particular	Q3FY23	Q3FY22	YoY Chg (%)	Q2FY23	QoQ Chg (%)	Comments
Net Sales	877.2	848.5	3.4	900.2	-2.6	
Other Income	6.1	5.8	4.2	19.5	-68.8	
Material Consumed	352.7	327.7	7.6	318.7	10.7	
Purchase of Stock in Trade	121.9	134.2	-9.1	133.0	-8.3	
Employee Benefit Expenses	108.9	99.9	9.0	113.8	-4.3	
Other Expenses	162.2	152.1	6.6	147.5	10.0	
EBITDA	127.4	151.7	-16.0	150.7	-15.5	
EBITDA Margin (%)	14.5	17.9	-336 bps	16.7	-222 bps	
Depreciation	18.0	17.2	5.1	17.8	1.2	
Interest	4.0	2.1	85.1	3.4	15.2	
PBT	111.5	138.2	-19.4	148.9	-25.1	
Taxes	27.7	41.0	-32.2	25.7	7.9	
PAT	81.4	97.3	-16.4	76.2	6.7	

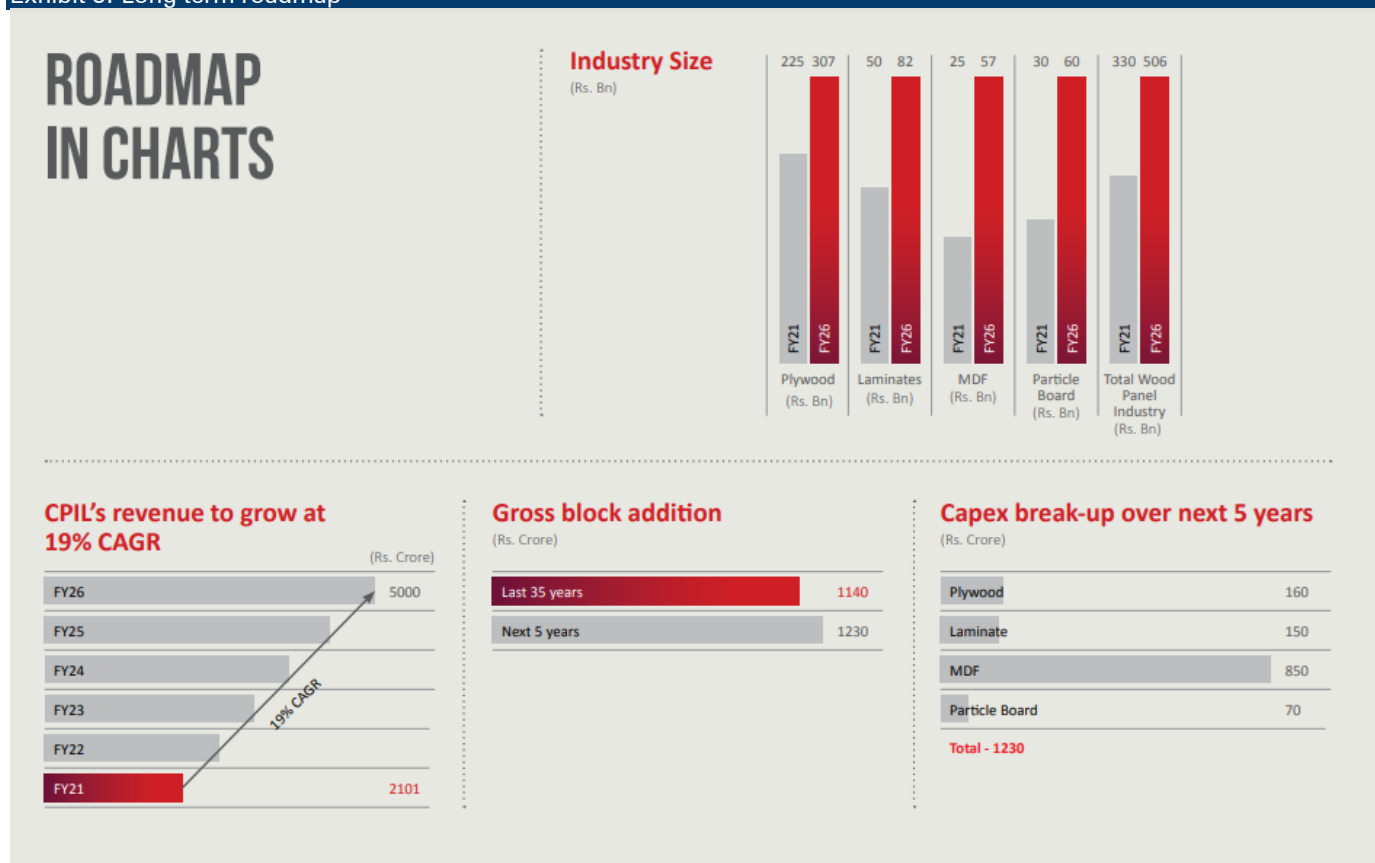
Source: Company, ICICI Direct Research

Exhibit 2: Change in estimates

Particulars (₹ crore)	FY23E		FY24E		FY25E		Comments
	New	Old	New	Change	Old	New Change	
Revenue	3,544.8	4,209.8	4,108.5	-2.4	4,741.0	4,673.3	-1.4 Realign estimates post Q3
EBITDA	565.6	735.0	657.2	-10.6	829.5	748.9	-9.7
EBITDA Margin (%)	16.0	17.5	16.0	-146 bps	17.5	16.0	-147 bps Lower the margins as per the guidance
PAT	385.3	459.5	411.2	-10.5	513.2	472.3	-8.0
EPS (₹)	17.3	20.7	18.5	-10.5	23.1	21.3	-8.0

Source: Company, ICICI Direct Research

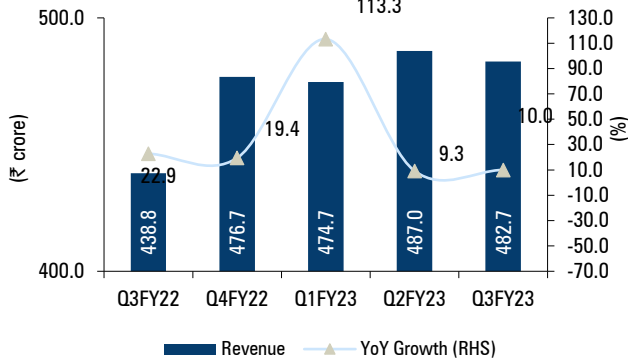
Exhibit 3: Long term roadmap



Source: Company, ICICI Direct Research

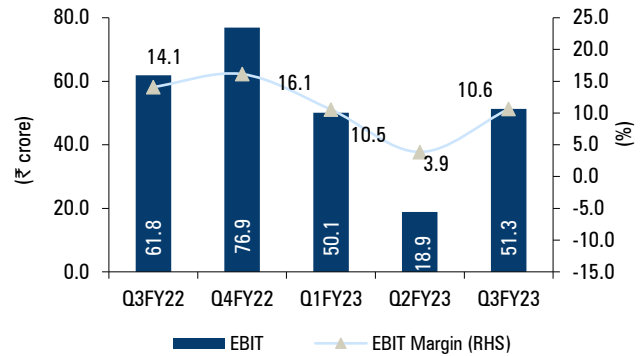
Company Analysis

Exhibit 4: Quarterly plywood & allied products revenue



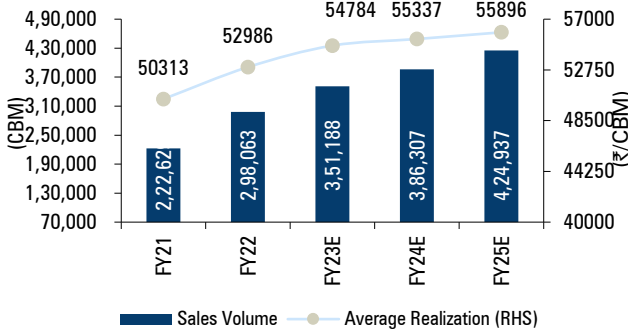
Source: Company, ICICI Direct Research

Exhibit 5: Quarterly plywood & allied products EBIT trend



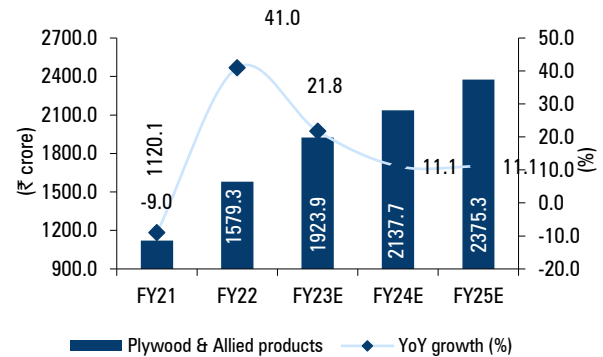
Source: Company, ICICI Direct Research *Q2FY23 impacted by Gabon writeoff

Exhibit 6: Plywood sales volume & average realisation



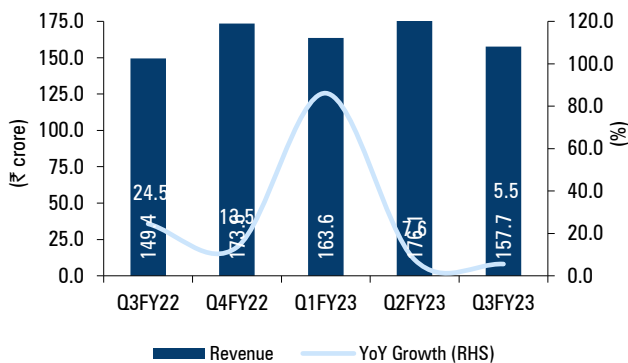
Source: Company, ICICI Direct Research

Exhibit 7: Plywood revenue and growth trend



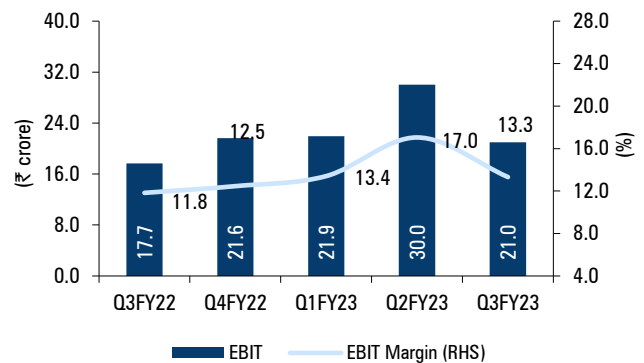
Source: Company, ICICI Direct Research

Exhibit 8: Quarterly laminates & allied products revenue



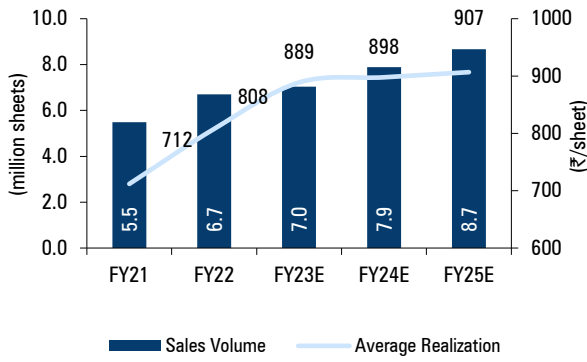
Source: Company, ICICI Direct Research

Exhibit 9: Quarterly laminates & allied products EBIT trend



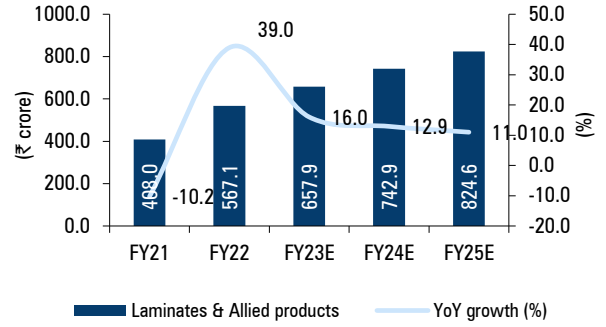
Source: Company, ICICI Direct Research

Exhibit 10: Laminates sales volume & average realisation



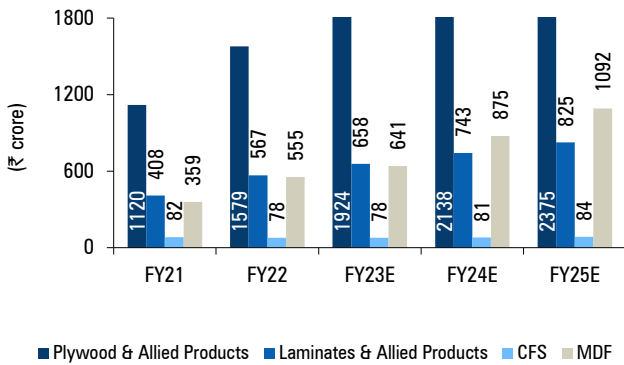
Source: Company, ICICI Direct Research

Exhibit 11: Laminates revenue and growth trend



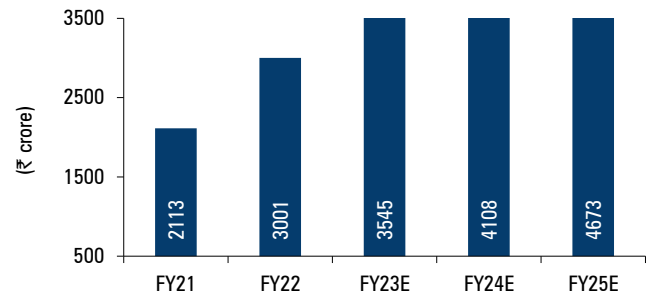
Source: Company, ICICI Direct Research

Exhibit 12: Segmental net revenue trend



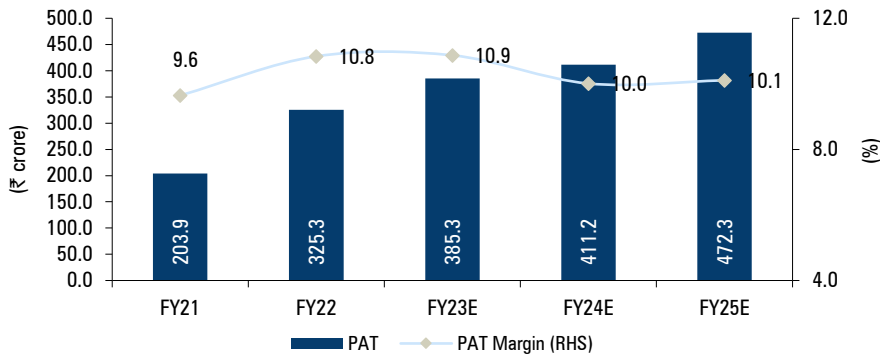
Source: Company, ICICI Direct Research

Exhibit 13: Total net revenue trend



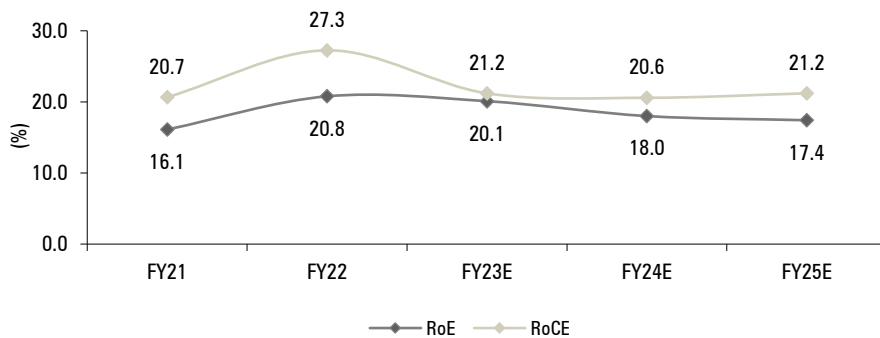
Source: Company, ICICI Direct Research

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
Net Sales	3,000.9	3,544.8	4,108.5	4,673.3
Raw Material Expense	1,115.4	1,383.6	1,658.0	1,898.7
Purchase of Traded Goods	406.2	531.7	554.6	630.9
Employee benefit expenses	399.8	453.7	554.6	630.9
Other Expenses	544.8	610.1	684.0	763.9
Total Expenses	2,466.3	2,979.2	3,451.3	3,924.4
EBITDA	534.6	565.6	657.2	748.9
EBITDA Margin (%)	17.8	16.0	16.0	16.0
Interest	9.6	16.0	40.0	35.0
Depreciation	67.5	71.9	103.4	118.4
Other income	22.8	36.0	36.0	36.0
PBT	480.2	513.8	549.8	631.5
Taxes	154.9	128.4	138.5	159.1
PAT	325.3	385.3	411.2	472.3
PAT Growth rate (%)	59.5	18.5	6.7	14.9
Adjusted EPS (Diluted)	14.6	17.3	18.5	21.3

Source: Company, ICICI Direct Research

Exhibit 17: Cash flow statement				
₹ crore				
(₹ Crore)	FY22	FY23E	FY24E	FY25E
Profit after Tax	325.3	385.3	411.2	472.3
Depreciation	67.5	71.9	103.4	118.4
Interest	9.6	16.0	40.0	35.0
Others	(169.1)	(157.5)	(172.1)	(192.7)
Cash Flow before wc changes	388.3	444.1	521.0	592.2
Net Increase in Current Assets	(8.6)	(6.9)	(2.4)	(2.4)
Net Increase in Current Liabilities	(168.0)	(71.0)	(90.4)	(90.6)
Net CF from operating activities	211.7	366.2	428.2	499.1
(Purchase)/Sale of Fixed Assets	(225.4)	(913.6)	(284.0)	(230.0)
Net CF from Investing activities	(71.1)	(892.7)	(252.6)	(198.6)
Dividend	(22.2)	(33.3)	(44.4)	(44.4)
Interest paid	(9.6)	(16.0)	(40.0)	(35.0)
Inc / (Dec) in Loans	71.8	350.0	-	(150.0)
Net CF from Financing activities	40.0	300.7	(84.4)	(229.4)
Net Cash flow	173.8	(225.8)	91.1	71.1
Opening Cash	75.5	249.3	23.5	114.6
Closing Cash/ Cash Equivalent	249.3	23.5	114.6	185.7

Source: Company, ICICI Direct Research

Exhibit 18: Balance sheet				
₹ crore				
(₹ Crore)	FY22	FY23E	FY24E	FY25E
Liabilities				
Equity Capital	22.3	22.3	22.3	22.3
Reserve and Surplus	1,542.6	1,894.6	2,261.4	2,689.3
Total Shareholders funds	1,564.9	1,916.9	2,283.7	2,711.6
Total Debt	196.4	546.4	546.4	396.4
Deferred Tax Liability	16.8	16.8	16.8	16.8
Total Liabilities	1,778.0	2,480.0	2,847.0	3,125.0
Assets				
Gross Block	1,104.5	2,177.3	2,461.3	2,691.3
Less Acc. Dep	409.0	480.4	583.7	702.2
Net Block	695.5	1,697.0	1,877.6	1,989.2
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	1,702.5	1,883.1	1,994.7
Investments	154.7	154.7	154.7	154.7
Inventory	489.5	553.6	641.6	729.8
Sundry Debtors	348.9	437.0	506.5	576.2
Loans & Advances	17.3	38.8	45.0	51.2
Cash & Bank Balances	249.3	23.5	114.6	185.7
Other Current Assets	94.2	127.2	144.2	161.2
Total Current Assets	1,199.2	1,180.2	1,451.9	1,704.1
Trade Payable	254.5	339.9	394.0	448.1
Other Current Liabilities	164.6	193.8	217.2	244.5
Provisions	18.3	27.3	31.7	36.0
Net Current Assets	761.7	619.1	809.1	975.4
Total Assets	1,778.0	2,480.0	2,847.0	3,125.0

Source: Company, ICICI Direct Research

Exhibit 19: Key ratios				
	FY22	FY23E	FY24E	FY25E
Per Share Data (₹)				
EPS - Diluted	14.6	17.3	18.5	21.3
Cash EPS	17.7	20.6	23.2	26.6
Book Value	70.4	86.3	102.8	122.0
Dividend per share	1.0	1.5	2.0	2.0
Operating Ratios (%)				
EBITDA / Net Sales	17.8	16.0	16.0	16.0
PAT / Net Sales	10.8	10.9	10.0	10.1
Inventory Days	60	57	57	57
Debtor Days	42	45	45	45
Creditor Days	31	35	35	35
Return Ratios (%)				
RoE	20.8	20.1	18.0	17.4
RoCE	27.3	21.2	20.6	21.2
RoIC	33.8	20.0	20.2	21.4
Valuation Ratios (x)				
EV / EBITDA	20.9	20.8	17.8	15.3
P/E (Diluted)	34.6	29.2	27.3	23.8
EV / Net Sales	3.7	3.3	2.8	2.5
Market Cap / Sales	3.7	3.2	2.7	2.4
Price to Book Value	7.2	5.9	4.9	4.1
Dividend Yield	0.2	0.3	0.4	0.4
Solvency Ratios (x)				
Net Debt / Equity	(0.0)	0.3	0.2	0.1
Debt / EBITDA	0.4	1.0	0.8	0.5
Current Ratio	2.2	2.1	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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