

Century Plyboards (India) (CENPLY)

CMP: ₹ 575

Target: ₹ 670 (17%)

Target Period: 12 months

BUY

May 17, 2023

Healthy performance driven by plywood segment...

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

- It derives majority of revenues from plywood (56% of FY23 revenue), followed by laminates (18%), and MDF (18%) segments while balance is contributed by fibre cement boards and particle board divisions along with the container freight division

Q4FY23 Results: Century reported a healthy set of numbers.

- The standalone topline was up 37.4% YoY to ₹ 961.8 crore on a healthy base (three-year CAGR of 22.4%). Plywood revenues grew 19% YoY to ₹ 567 crore with three-year CAGR being 27%. MDF, laminate revenues, however, declined 7.7%, 1.1% YoY at ₹ 161 crore, ₹ 160 crore, respectively
- Adjusted EBITDA margin (adjusted for Myanmar impairment), at 16.9% (down ~100 bps YoY & up 240 bps QoQ) was aided by superior ply margins
- Overall, PAT was up 23.9% YoY to ₹ 112.8 crore

What should investors do? Century's share price has grown at ~17% CAGR over the past five years.

- Century has led the industry on most metrics and remains a superior player in the segment. The input price concern along with possible MDF supply led pricing pressure overhang remains risk. However, we are enthused by strategic expansion plans across segments and relatively diversified positioning of the company. Thus, we upgrade from HOLD to BUY.

Target Price and Valuation: We value Century at ₹ 670/share, with target P/E multiple at 28x FY25E.

Key triggers for future price performance:

- We expect ~13.2% CAGR in FY23-25 in plywood revenues to ₹ 2572 crore, led by stable demand and market share gain
- MDF revenues to witness ~32% CAGR in FY23-25 to ₹ 1111 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



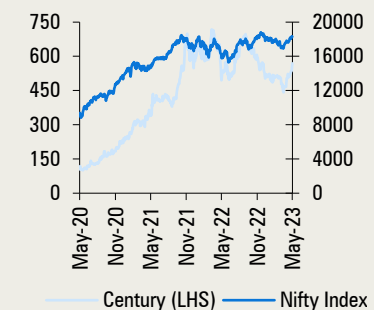
Particulars

Particular	Amount (₹ crore)
Market Capitalization	12,775
Total Debt (FY23)	265
Cash & Inv (FY23)	260
EV	12,780
52 week H/L (₹)	710 / 436
Equity capital	22.3
Face value (₹)	1.0

Shareholding pattern

	Jun-22	Sep-22	Dec-22	Mar-23
Promoters	73.0	73.0	73.0	73.0
DII	11.8	12.4	13.3	13.7
FII	7.0	6.6	6.1	5.8
Other	8.2	8.0	7.5	7.5

Price Chart



Key Risks

Key Risk: (i) MDF supply glut; (ii) sustained high timber price

Research Analyst

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Key Financial Summary

₹ crore	FY20	FY21	FY22	FY23E	5 yr CAGR (FY18-23)	FY24E	FY25E	2 yr CAGR (FY23-25E)
Net Sales	2,282.7	2,113.5	3,000.9	3,620.7	13.0%	4,270.9	4,923.4	16.6%
Adj. EBITDA	304.1	335.4	534.6	586.0	13.9%	656.5	786.6	15.9%
Adj. EBITDA Margin (%)	13.3	15.9	17.8	16.2		15.4	16.0	
PAT	158.2	203.9	325.3	366.8	18.6%	419.9	528.8	20.1%
EPS (₹)	7.1	9.2	14.6	16.5		18.9	23.8	
P/E	80.8	62.7	39.3	34.8		30.4	24.2	
EV/EBITDA	42.8	37.9	23.8	23.8		20.3	16.8	
RoNW (%)	14.7	16.1	20.8	19.3		18.5	19.2	
RoCE (%)	19.1	20.7	27.3	23.1		20.2	21.9	

Source: Company, ICICI Direct Research

Key business highlight and outlook

- MDF:** The 1% YoY revenue decline in MDF division (revenue: ₹ 161 crore) was owing to 3% volume decline. The EBITDA margin declined to 26% (down 670 bps YoY) impacted by a rise in timber and key chemical prices YoY. On a QoQ basis, softening in chemical prices aided margins sequentially. Going forward, the management expects MDF demand to remain healthy (despite rise in imports in recent times) as the industry is expected to grow ~25% in the near term to medium term with higher consumption and better acceptance from consumers. **It has guided for 30% volume, value growth in FY24 aided by offtake from new capacity. The guided sustainable margin is 20-25%. This segment will be a key monitorable, in our view, given the capacity expansion across key players**
- Plywood:** Revenues in the plywood segment have grown 19% YoY to ₹ 567 crore, driven by 12.4% volume growth. Additionally, the EBITDA margin was at 15.9%, up 90 bps YoY and 370 bps QoQ led by superior product mix, price hike (2% undertaken in January, 2023) and operating leverage. For FY24, the management has guided for volume, value growth of 13%, 25% YoY, respectively, for plywood (vs. industry level volume growth of 5-6%) driven by healthy traction in the mass segment. Additionally, its margin is expected to sustain at normalised levels of 12-14%
- Laminates:** Net sales in the laminates division during Q4FY23 declined 7.7% YoY (₹ 160 crore) with ~9.2% decline in volumes. Additionally, its margin at 13.5% was up 230 bps YoY but down 130 bps QoQ. **As a part of the strategy to relook the laminate segment, the company has planned two new large sized laminates, which will be commissioned from its upcoming plant in AP, catering to the export markets. Additionally, the company has launched "Sainik" brand of laminates and hopes to replicate the success of Sainik plywood in the mass segment of laminates.** Going forward, the company has guided for ~25% YoY volume, sales growth, respectively, during FY24. Additionally, the management expects margins to be at 12-14% in FY24
- Particle boards:** Segmental revenue in particle boards fell ~20.8% YoY to ₹ 47 crore owing to ~18% decline in volumes. Additionally, the EBITDA margin in the segment declined to 18.1% (down 1050 bps YoY). We note that the company had cut prices by 5-10% in Q3 and by a further 5-10% in January, 2023. **The management had earlier 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 sales during FY24. Additionally, the management expects sustenance of margin at the moderated level of ~20%, going ahead
- Volatility in key raw material prices and price hikes:** As per the management, timber prices remain elevated and are expected to remain so in the near term. Chemical prices, however, have softened, which saw some respite on margin pressure
- MDF import:** Imports in the MDF segment have increased in recent times due to a fall in freight cost, which has largely impacted product demand in southern India. However, the company has not witnessed any meaningful pressure due to a rise in imports in the north region. Recently, export prices have gone up ~7%, which bodes well for the sector
- Capex:** The capex in F23 was at ₹ 510 crore, largely towards MDF, particle board and laminate expansion. Going ahead, expected capex is ₹ 1045 crore in FY24 (MDF, plywood and particle board expansion) and ₹ 348 crore in FY25 (largely towards particle board plant in Chennai)

- **Expansion outline & status:**
 1. Currently, the aggregate capacity for plywood was 330,000 CBM, laminates - 8.8 million sheets, MDF - 313,500 CBM and particle board is 72,000 CBM
 2. MDF expansion work at its existing unit at Hoshiarpur (Punjab) has been completed and the new capacity was commissioned by March, 2023 (capex: ₹ 255 crore). The company expects the plant to see substantial ramp up in production over the next few quarters
 3. 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: ₹ 700 crore vs. ₹ 600 crore planned earlier **due to a change in design to accommodate future expansion**)
 4. Additionally, the company is also setting up of **a greenfield laminate manufacturing facility in AP in two phases** with an overall installed capacity to manufacture 40 lakh sheets at a capex of ₹ 200 crore. The management expects the first phase to get commissioned by Q3FY24
 5. The company is also setting up **a new unit of 800 CBM/day (down from ₹ 1200 CBM/day planned earlier) capacity in Tamil Nadu for manufacturing particle board** with an approximate investment of ₹ 500 crore. The management expects the capacity to come on stream by FY25-end
 6. In the plywood segment, incremental capacity expansion planned is 15,000-20,000CBM every year in existing facilities and greenfield expansion of 60,000CBM at Hoshiarpur (commissioning by FY24 end)
- **Working capital cycle:** The working capital cycle **remained healthy at 53 days (vs. 63 days at FY22)**. 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 ₹ 145 crore cash balance as of FY23 end

Century has led the industry on most metrics and remains a superior player in the segment. The input price concern along with possible MDF supply led pricing pressure overhang remains a risk. However, we are enthused by strategic expansion plans across segments and relatively diversified positioning of the company. Thus, we upgrade from HOLD to BUY. We value Century at ₹ 670/share, assigning a target multiple of 28x FY25E vs. 27x FY25, earlier.

Exhibit 1: Variance Analysis

Particular	Q4FY23	Q4FY22	YoY Chg (%)	Q3FY23	QoQ Chg (%)	Comments
Net Sales	961.8	895.3	7.4	877.2	9.6	Topline growth led by robust Ply volumes
Other Income	13.6	5.2	160.9	6.1	124.0	
Material Consumed	382.8	366.3	4.5	352.7	8.5	
Purchase of Stock in Trade	113.1	106.6	6.1	121.9	-7.3	
Employee Benefit Expenses	119.6	111.7	7.1	108.9	9.9	
Other Expenses	219.3	163.1	34.4	162.2	35.3	
EBITDA	113.3	160.9	-29.6	127.4	-11.0	There was one-time loss on impairment in Myanmar. Adjusted Margins were 16.9%
EBITDA Margin (%)	11.8	18.0	-619 bps	14.5	-274 bps	
Depreciation	18.7	17.2	8.9	18.0	3.9	
Interest	4.1	3.2	27.8	4.0	3.3	
PBT	104.1	145.8	-28.6	111.5	-6.6	
Taxes	40.7	54.7	-25.6	27.7	46.7	
PAT	112.8	91.0	23.9	81.4	38.6	

Source: Company, ICICI Direct Research

Exhibit 2: Change in estimates

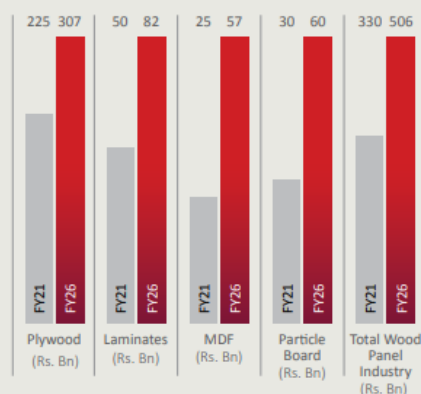
Particulars (₹ crore)	FY24E			FY25E			Comments
	Old	New	Change	Old	New	Change	
Revenue	4,108.5	4,270.9	4.0	4,673.3	4,923.4	5.4	Realign estimates
EBITDA	657.2	656.5	-0.1	748.9	786.6	5.0	
EBITDA Margin (%)	16.0	15.4	-62 bps	16.0	16.0	-5 bps	
PAT	411.2	419.9	2.1	472.3	528.8	12.0	
EPS (₹)	18.5	18.9	2.1	21.3	23.8	12.0	

Source: Company, ICICI Direct Research

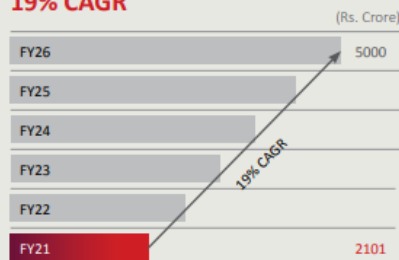
Exhibit 3: Long term roadmap

ROADMAP IN CHARTS

Industry Size (Rs. Bn)



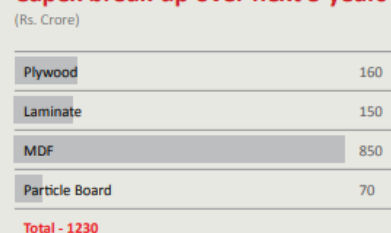
CPII's revenue to grow at 19% CAGR



Gross block addition



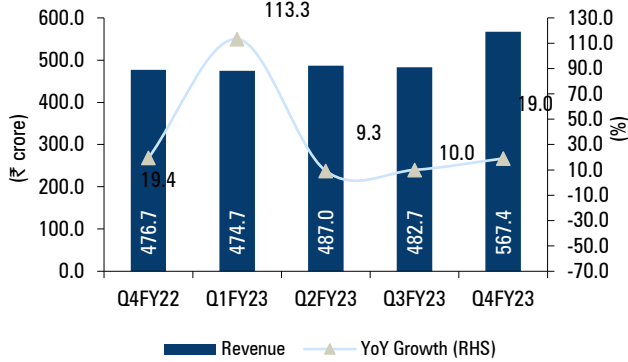
Capex break-up over next 5 years



Source: Company, ICICI Direct Research

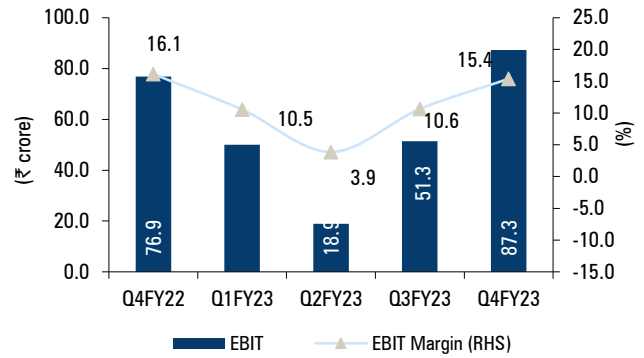
Company Analysis

Exhibit 4: Quarterly plywood & allied products revenue



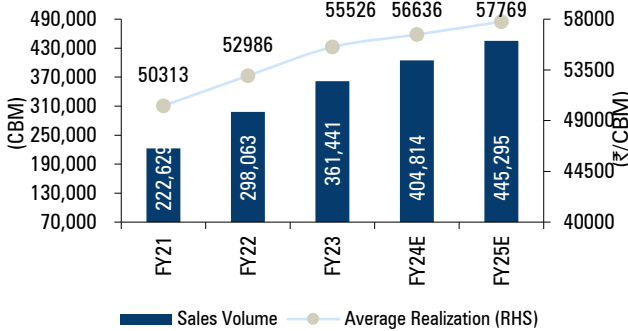
Source: Company, ICICI Direct Research

Exhibit 5: Quarterly plywood & allied products EBIT trend



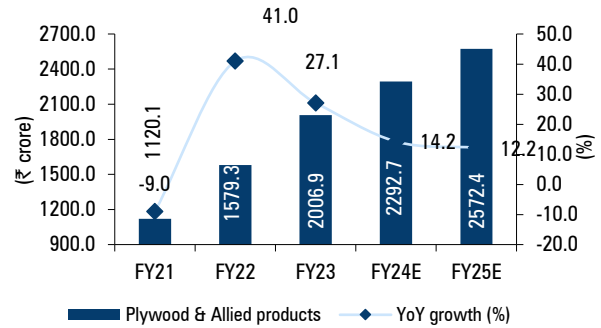
Source: Company, ICICI Direct Research *Q2FY23 impacted by Gabon writoff

Exhibit 6: Plywood sales volume & average realisation



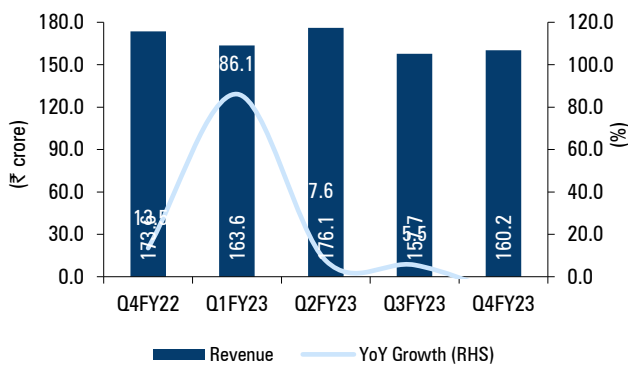
Source: Company, ICICI Direct Research

Exhibit 7: Plywood revenue and growth trend



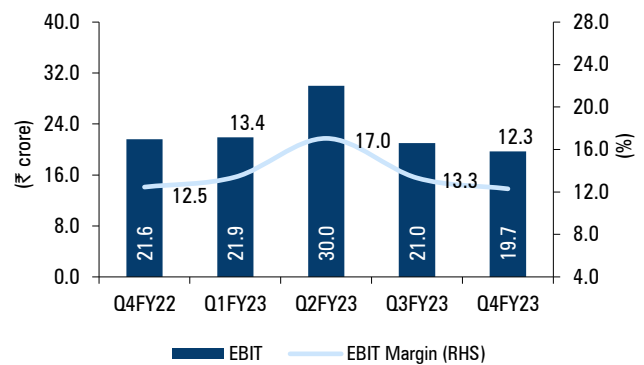
Source: Company, ICICI Direct Research

Exhibit 8: Quarterly laminates & allied products revenue



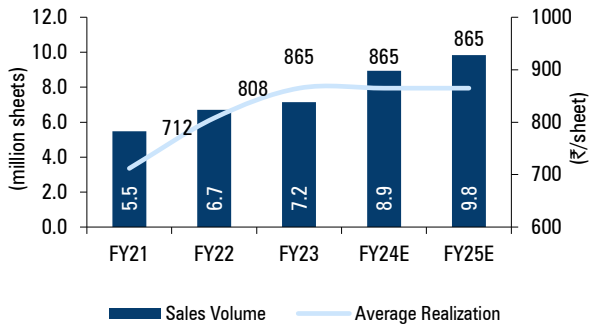
Source: Company, ICICI Direct Research

Exhibit 9: Quarterly laminates & allied products EBIT trend



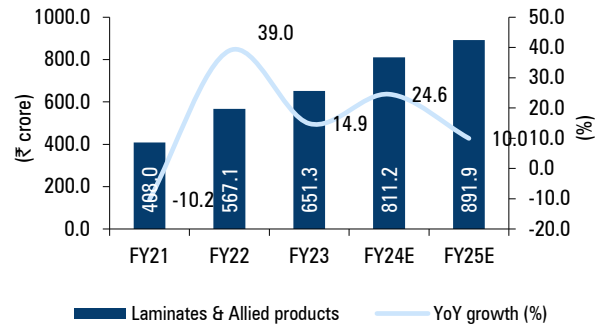
Source: Company, ICICI Direct Research

Exhibit 10: Laminates sales volume & average realisation



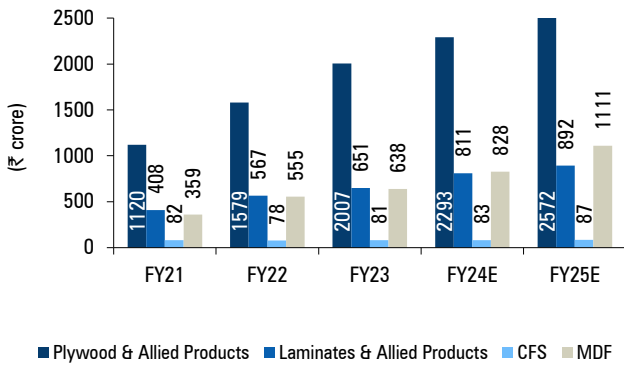
Source: Company, ICICI Direct Research

Exhibit 11: Laminates revenue and growth trend



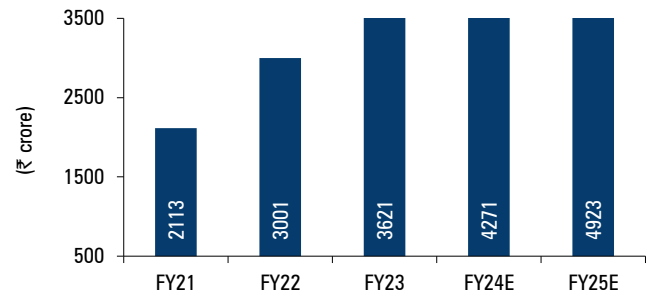
Source: Company, ICICI Direct Research

Exhibit 12: Segmental net revenue trend



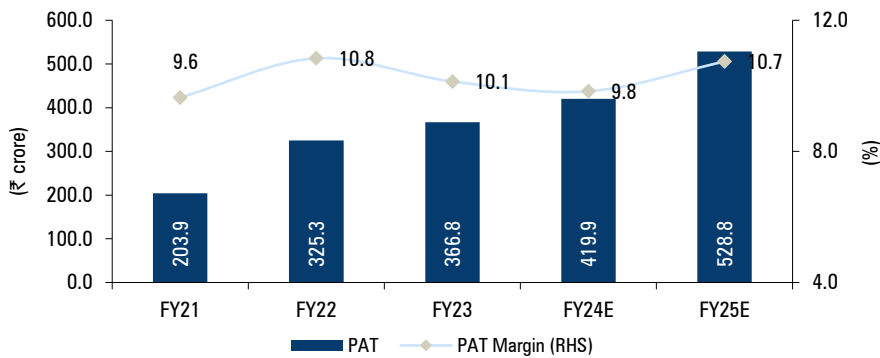
Source: Company, ICICI Direct Research

Exhibit 13: Total net revenue trend



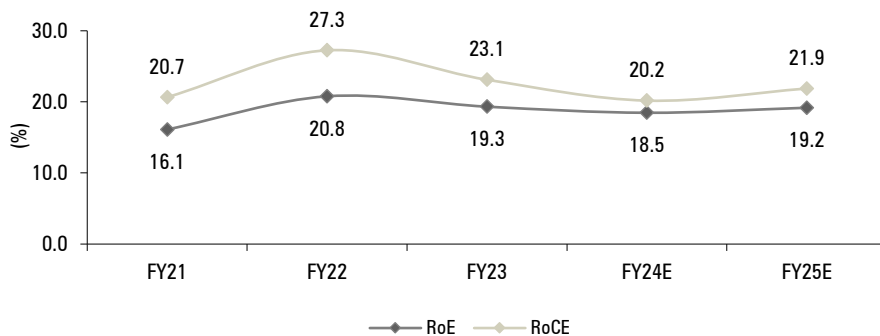
Source: Company, ICICI Direct Research

Exhibit 14: PAT growth trend



Source: Company, ICICI Direct Research

Exhibit 15: RoE and RoCE growth trend



Source: Company, ICICI Direct Research

Financial summary (standalone)

Exhibit 16: Profit and loss statement				
₹ crore				
(₹ Crore)	FY22	FY23	FY24E	FY25E
Net Sales	3,000.9	3,620.7	4,270.9	4,923.4
Raw Material Expense	1,115.4	1,440.7	1,783.9	2,047.9
Purchase of Traded Goods	406.2	501.5	576.6	664.7
Employee benefit expenses	399.8	457.5	555.2	640.0
Other Expenses	544.8	684.3	698.7	784.3
Total Expenses	2,466.3	3,083.9	3,614.4	4,136.8
EBITDA	534.6	536.7	656.5	786.6
EBITDA Margin (%)	17.8	14.8	15.4	16.0
Interest	9.6	15.4	60.0	40.0
Depreciation	67.5	72.4	83.1	94.6
Other income	22.8	45.1	48.0	55.0
PBT	480.2	494.1	561.4	707.0
Taxes	154.9	127.3	141.5	178.2
PAT	325.3	366.8	419.9	528.8
PAT Growth rate (%)	59.5	12.8	14.5	25.9
Adjusted EPS (Diluted)	14.6	16.5	18.9	23.8

Source: Company, ICICI Direct Research

Exhibit 17: Cash flow statement				
₹ crore				
(₹ Crore)	FY22	FY23	FY24E	FY25E
Profit after Tax	325.3	366.8	419.9	528.8
Depreciation	67.5	72.4	83.1	94.6
Interest	9.6	15.4	60.0	40.0
Others	(169.1)	(26.6)	(286.0)	(224.4)
Cash Flow before wc changes	388.3	555.3	418.5	617.2
Net Increase in Current Assets	(8.6)	(145.8)	96.5	(8.8)
Net Increase in Current Liabilities	(168.0)	(159.6)	3.0	(100.0)
Net CF from operating activities	211.7	249.9	518.0	508.4
(Purchase)/Sale of Fixed Assets	(225.4)	(244.2)	(1,016.7)	(348.0)
Net CF from Investing activities	(71.1)	(256.0)	(992.0)	(298.4)
Dividend	(22.2)	(33.3)	(44.4)	(44.4)
Interest paid	(9.6)	(15.4)	(60.0)	(40.0)
Inc / (Dec) in Loans	71.8	68.3	500.0	(150.0)
Net CF from Financing activities	40.0	19.6	395.6	(234.4)
Net Cash flow	173.8	13.5	(78.4)	(24.4)
Opening Cash	75.5	249.3	259.6	181.2
Closing Cash/ Cash Equivalent	249.3	259.6	181.2	156.9

Source: Company, ICICI Direct Research

Exhibit 18: Balance sheet				
₹ crore				
(₹ Crore)	FY22	FY23	FY24E	FY25E
Liabilities				
Equity Capital	22.3	22.3	22.3	22.3
Reserve and Surplus	1,542.6	1,875.7	2,251.2	2,735.6
Total Shareholders funds	1,564.9	1,898.0	2,273.5	2,757.9
Total Debt	196.4	264.7	764.7	614.7
Deferred Tax Liability	16.8	27.9	27.9	27.9
Total Liabilities	1,778.0	2,191.0	3,066.0	3,400.0
Assets				
Gross Block	1,096.7	1,473.4	2,517.4	2,865.4
Less Acc. Dep	401.3	473.6	556.7	651.3
Net Block	695.5	999.8	1,960.7	2,214.1
Net Intangibles Assets	0.5	0.4	0.4	0.4
Expenditure on new projects	-	-	-	-
Capital WIP	164.8	32.3	5.0	5.0
Total Fixed Assets	860.7	1,032.5	1,966.1	2,219.6
Investments	154.7	208.7	208.7	208.7
Inventory	489.5	503.3	596.8	687.9
Sundry Debtors	348.9	384.7	468.0	539.6
Loans & Advances	17.3	123.0	46.8	54.0
Cash & Bank Balances	249.3	259.6	181.2	156.9
Other Current Assets	94.2	125.1	141.5	157.9
Total Current Assets	1,199.2	1,395.7	1,434.3	1,596.2
Trade Payable	254.5	283.6	351.0	404.7
Other Current Liabilities	164.6	154.7	175.1	196.7
Provisions	18.3	14.5	19.6	22.6
Net Current Assets	761.7	942.9	888.5	972.2
Total Assets	1,778.0	2,191.0	3,066.0	3,400.0

Source: Company, ICICI Direct Research

Exhibit 19: Key ratios				
	FY22	FY23	FY24E	FY25E
Per Share Data (₹)				
EPS - Diluted	14.6	16.5	18.9	23.8
Cash EPS	17.7	19.8	22.6	28.1
Book Value	70.4	85.4	102.3	124.1
Dividend per share	1.0	1.5	2.0	2.0
Operating Ratios (%)				
EBITDA / Net Sales	17.8	14.8	15.4	16.0
PAT / Net Sales	10.8	10.1	9.8	10.7
Inventory Days	60	51	51	51
Debtor Days	42	39	40	40
Creditor Days	31	29	30	30
Return Ratios (%)				
RoE	20.8	19.3	18.5	19.2
RoCE	27.3	23.1	20.2	21.9
RoIC	33.8	24.3	19.8	21.3
Valuation Ratios (x)				
EV / EBITDA	23.8	23.8	20.3	16.8
P/E (Diluted)	39.3	34.8	30.4	24.2
EV / Net Sales	4.2	3.5	3.1	2.7
Market Cap / Sales	4.3	3.5	3.0	2.6
Price to Book Value	8.2	6.7	5.6	4.6
Dividend Yield	0.2	0.3	0.3	0.3
Solvency Ratios (x)				
Net Debt / Equity	(0.0)	0.0	0.3	0.2
Debt / EBITDA	0.4	0.5	1.2	0.8
Current Ratio	2.2	2.5	2.2	2.2
Quick Ratio	1.0	1.4	1.1	1.1

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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