

Century Plyboards (India) (CENPLY)

CMP: ₹ 420

Target: ₹ 470 (12%)

Target Period: 12 months

August 12, 2021

MDF capacity addition delayed owing to Covid...

About the stock: Century Plyboards is India's leading plywood manufacturers with a market share of ~30%+ in the country's organised segment of plywood sector.

- It derives majority of revenues from plywood (53% of FY21 revenue), followed by laminates (19%), and MDF (17%) segments while balance is contributed by fibre cement boards and particle board divisions. Century also operates a CFS with capacity to handle 156,000 TEUs containers and contributed ~4% to overall FY21 revenues

Q1FY22 Results: Century reported weak Q1FY22 sequential results.

- Topline was up 124% YoY (down 39% QoQ) to ₹ 448.9 crore. MDF, plywood, laminate revenues grew 200%, 125%, 118% YoY to ₹ 91 crore, ₹ 223 crore, ₹ 88 crore, respectively. QoQ decline in MDF, plywood, laminate segment was 24%, 44%, 43%, respectively
- EBITDA margin expanded 1320 bps YoY to 13.6% (down 360 bps QoQ) on account of operating leverage
- Reported PAT was at ₹ 33.9 crore vs. loss in Q1FY21 and down 59% QoQ

What should investors do? Century's share price has grown by 99% over the past five years (from ~₹ 220 in August 2016 to ~₹ 415 levels in August 2021).

- We assign HOLD (vs. BUY, earlier) on the stock

Target Price and Valuation: We value Century at ₹ 470/share (32x FY23 P/E).

Key triggers for future price performance:

- Growth traction in MDF wherein we expect ~25% CAGR in FY21-23E in MDF revenues to ₹ 564 crore, also aided by new capacity offtake in FY23E
- We expect ~15% CAGR in FY21-23E in plywood revenues to ₹ 1477 crore, led by a) pent-up demand, b) benefits arising due to ViroKill technology and c) market share gain
- Normalisation in working capital as operations pick up

Alternate Stock Idea: Besides Century, we like Kajaria Ceramics in the building materials space.

- Quality play on improving growth potential of tiles sector
- BUY with a target price of ₹ 1185

Key Financial Summary

₹ crore	FY19	FY20	FY21	5 yr CAGR (FY16-21)	FY22E	FY23E	2 yr CAGR (FY21-23E)
Net Sales	2,263.8	2,282.7	2,113.5	5.0%	2,479.2	2,858.1	16.3%
EBITDA	300.4	304.1	335.4	3.5%	420.6	513.5	23.7%
EBITDA Margin (%)	13.3	13.3	15.9		17.0	18.0	
PAT	158.8	158.2	203.9	3.9%	268.2	327.6	26.8%
EPS (₹)	7.1	7.1	9.2		12.1	14.7	
P/E	58.8	59.0	45.8		34.8	28.5	
EV/EBITDA	32.5	31.3	27.6		22.1	18.4	
RoNW (%)	16.4	14.7	16.1		17.8	18.3	
RoCE (%)	18.6	19.6	20.9		23.1	23.8	

Source: Company, ICICI Direct Research

HOLD



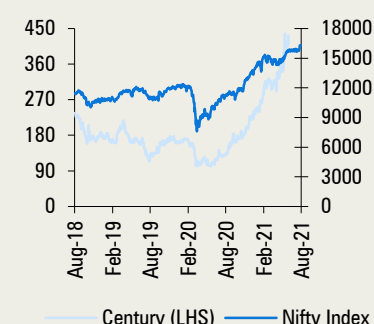
Particulars

Particular	Amount (₹ crore)
Market Capitalization	9,331.3
Total Debt (FY21)	109.5
Cash & Inv (FY21)	186.3
EV	9,254.5
52 week H/L (₹)	459 / 130
Equity capital	22.3
Face value (₹)	1.0

Shareholding pattern

	Sep-20	Dec-20	Mar-21	Jun-21
Promoters	73.1	73.1	73.1	73.1
DII	10.4	12.0	12.2	11.8
FII	5.9	4.7	4.8	5.0
Other	10.6	10.3	9.9	10.2

Price Chart



Key Risks

Key Risk: (i) Faster growth than anticipated; (ii) Supply glut in MDF and its impact on pricing

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Key business highlight and outlook

- **Second wave impact:** The second wave of Covid-19 has impacted overall sales and profitability during Q1FY22 due to lockdown like scenarios in many states. Demand recovery has picked up from mid-June 2021 with pick-up in construction activities post gradual unlocking of economies. **However, the management has refrained from providing revenue/margin guidance due to higher uncertainties owing to Covid-19 pandemic**
- **Plywood:** Revenues in the plywood segment have improved 126% YoY to ₹ 223 crore driven by 123%, 72%, and 75% volume growth witnessed in the plywood, deco ply and commercial veneer product segment, respectively, albeit on the lower base of Q1 FY21. On a QoQ basis, segmental revenue declined 44.2%. Operating margin was at 7.7% during Q1FY22
- **MDF:** The 200% YoY revenue growth in MDF division (revenue: ₹ 91 crore) was aided by 155% YoY volume growth (to 31,836 CBM) and 17.8% YoY growth in realization (to ₹ 28,572/CBM). Average price hike of ~6% and better product mix aided realisation growth. Additionally, EBITDA margin improved to 28.1% (by 130 bps QoQ). Going forward, the management expects demand uptick for MDF with normalised level of margins of ~26-28% in the near term
- **Laminates:** Net sales in the laminates division improved 123% YoY (₹ 87 crore) mainly backed by healthy 103% YoY volume growth (at 11,46,575 units) witnessed during Q1. Blended realisation, however, remained muted on QoQ basis at ₹ 734. Segmental margin also normalised to 14.9%. Going forward, the management has guided for 15-18% sustainable margin
- **Particle boards:** Improvement in particle board volumes by 130% YoY (to 12,496 CBM) and average realisation by 24.5% YoY (to ₹ 19,030) has resulted in 186.2% YoY growth in net sales to ₹ 24 crore. Additionally, the margin in the segment improved to 25.3% backed by better realisation
- **MDF expansion delayed:** The expansion plan of the MDF Board unit in Hoshiarpur, Punjab (estimated capex: ₹ 200 crore) has been delayed and the plant is likely to get commissioned by H1 FY23. The existing operating capacity of the plant is 600 cbm per day, which is expected to increase to 1000 cbm per day. As per the management, the incremental capacity addition of 400 cbm per day has annual revenue potential of ₹ 400 crore at peak capacity utilisation. **Greenfield expansion at Andhra Pradesh estimated to have 700+ cbm per day capacity has also been postponed due to delay in getting approvals owing to Covid-19 pandemic.** It would require 18 months to begin commercial operations from the date of commencement of construction activities
- **Price Hike:** Raw material costs required for most of its product portfolio are moving northwards consistently. The company has undertaken average price hike of 2%, 3%, 3% in the plywood, laminates, and particle board, respectively, in order to partly offset hike in input costs
- **Working capital cycle:** It has stretched to 108 days (vs 69 days at Q4-end) mainly due to increase in inventories as CPIL didn't stop production despite muted demand, which kept inventories high at 100 days (up 43 days QoQ). However, the inventories have started depleting constantly with pick-up in demand. Receivable largely remained steady at ~52 days. Going ahead, working capital is likely to normalise at ~65-70 days
- **Net debt:** At the end of Q1, net debt for the company was at ~₹ 48 crore. Going forward, the management does not expect a significant jump in debt despite having capex plans (to be funded by internal accruals). CPIL incurred a capex of ₹ 20 crore during Q1FY22. The management expects ₹ 278 crore of capex during remaining period of FY22 mainly required for a) MDF expansion at Hoshiarpur (₹ 202 crore), b) plywood at Punjab (₹ 51 crore), c) Gabon - veneer unit (₹11 crore) and d) solar plant (₹ 14 crore). Additionally, it is likely to incur ~₹ 450 crore of capex for MDF greenfield expansion at the Andhra Pradesh location over the next couple of years

The medium to long term growth outlook commentary remains positive with capacity expansion in place to capitalise on the opportunity. We, however, cut FY23 earnings by ~4% to account for new MDF capacity delays. MDF pricing on new capacity addition is also a key monitorable. We also await strategy outlook commentary (likely by Q2). We downgrade to HOLD (from BUY) with a target price of ₹ 470/share (32x FY23E EPS) vs. ₹ 490/share earlier.

Exhibit 1: Variance Analysis

Particular	Q1FY22	Q1FY21	YoY Chg (%)	Q4FY21	QoQ Chg (%)	Comments
Net Sales	448.9	200.7	123.7	738.6	-39.2	
Other Income	4.9	4.6	6.4	3.7	33.8	
Material Consumed	246.7	68.8	258.7	283.4	-13.0	
Purchase of Stock in Trade	57.0	18.8	202.8	110.5	-48.4	
Employee Benefit Expenses	88.7	56.6	56.8	100.3	-11.6	
Other Expenses	100.8	48.7	106.9	135.8	-25.8	
EBITDA	61.2	0.8	7,207.2	126.8	-51.7	
EBITDA Margin (%)	13.6	0.4	1322 bps	17.2	-354 bps	
Depreciation	16.3	14.3	14.5	15.9	2.6	
Interest	2.7	5.0	-46.4	2.9	-6.2	
PBT	47.1	-13.9	-439.5	111.7	-57.8	
Taxes	13.2	-5.4	-345.4	28.4	-53.6	
PAT	33.9	-8.5	-499.1	83.2	-59.3	

Source: Company, ICICI Direct Research

Exhibit 2: Change in estimates

Particulars (₹ crore)	FY20	FY21	FY22E			FY23E			Comments
			Old	New	Change	Old	New	Change	
Revenue	2,282.7	2,113.5	2,455.8	2,479.2	1.0	2,945.9	2,858.1	-3.0	Bake in delay in new capex
EBITDA	304.1	335.4	414.7	420.6	1.4	531.7	513.5	-3.4	
EBITDA Margin (%)	13.3	15.9	16.9	17.0	8 bps	18.0	18.0	-8 bps	
PAT	158.2	203.9	265.0	268.2	1.2	340.8	327.6	-3.9	
EPS (₹)	7.1	9.2	11.9	12.1	1.2	15.3	14.7	-3.9	

Source: Company, ICICI Direct Research

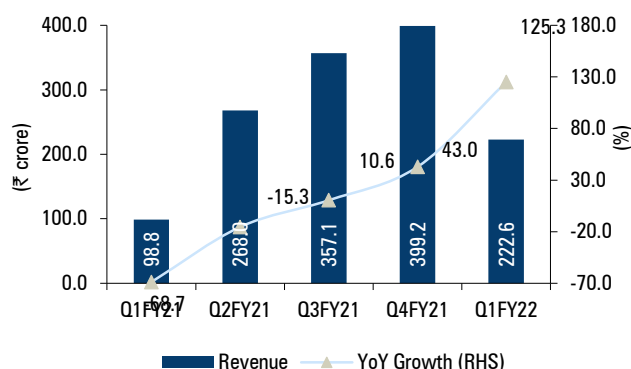
Exhibit 3: Assumptions

Volume Assumptions							Comments
	FY18	FY19	FY20	FY21	FY22E	FY23E	
Plywood & Veneer(In CBM)	2,53,922	2,52,637	2,44,194	2,22,629	2,49,569	2,87,004	
MDF (CBM)	48,307	1,32,229	1,53,175	1,47,251	1,73,957	2,16,613	
Laminate Sheets (In Mn)	5.5	5.9	6.2	5.5	6.3	6.9	

Source: Company, ICICI Direct Research

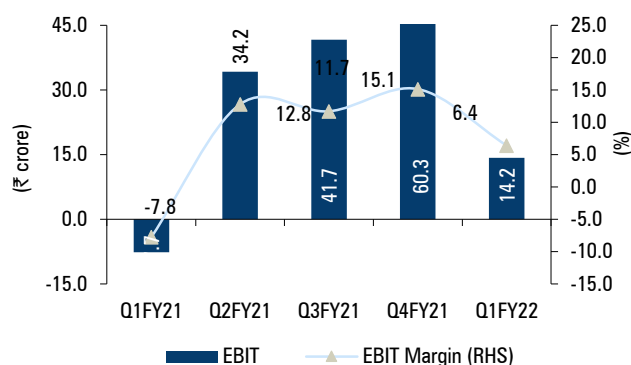
Company Analysis

Exhibit 4: Quarterly plywood & allied products revenue



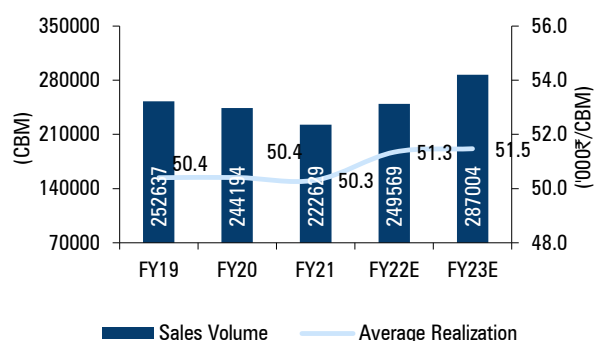
Source: Company, ICICI Direct Research

Exhibit 5: Quarterly plywood & allied products EBIT trend



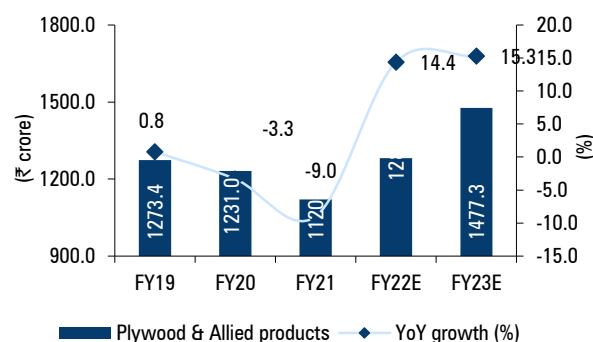
Source: Company, ICICI Direct Research

Exhibit 6: Plywood sales volume & average realisation



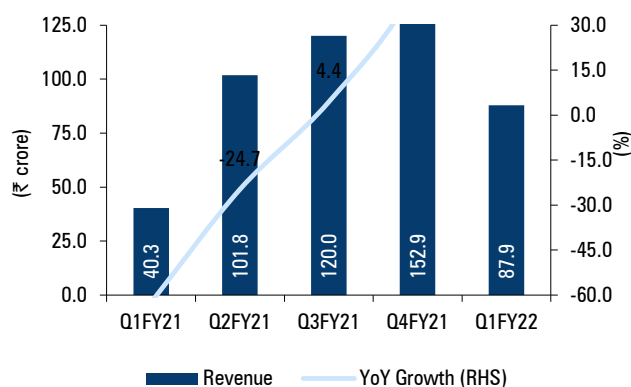
Source: Company, ICICI Direct Research

Exhibit 7: Plywood revenue and growth trend



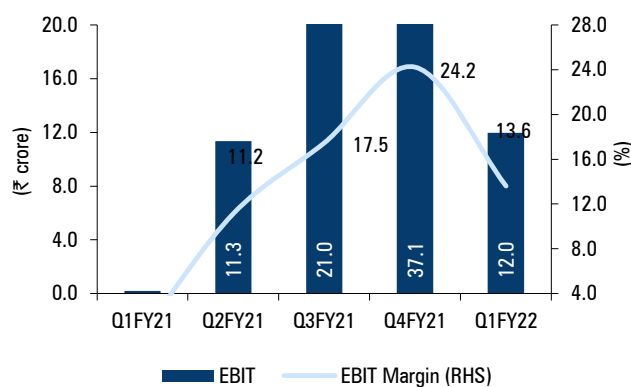
Source: Company, ICICI Direct Research

Exhibit 8: Quarterly laminates & allied products revenue



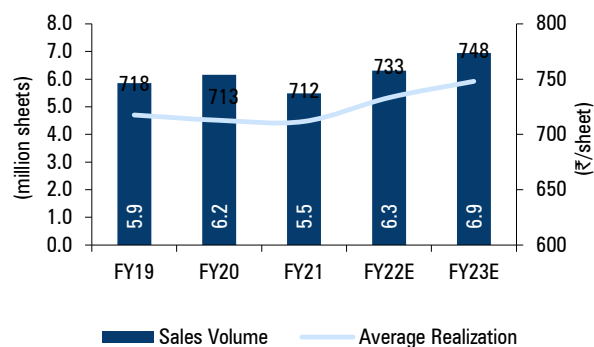
Source: Company, ICICI Direct Research

Exhibit 9: Quarterly laminates & allied products EBIT trend



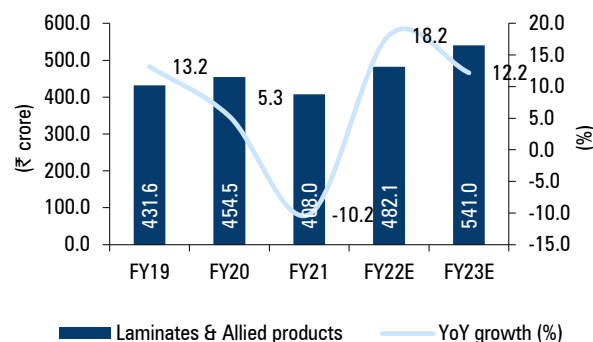
Source: Company, ICICI Direct Research

Exhibit 10: Laminates sales volume & average realisation



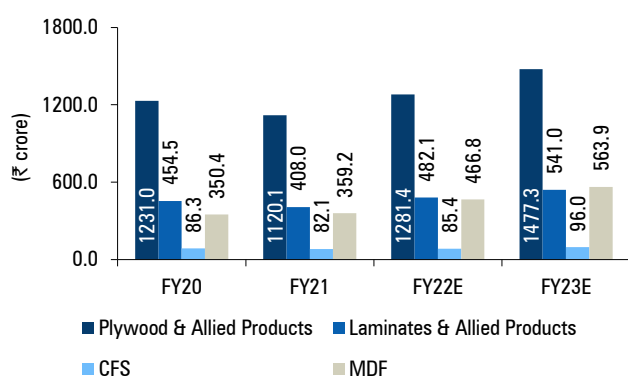
Source: Company, ICICI Direct Research

Exhibit 11: Laminates revenue and growth trend



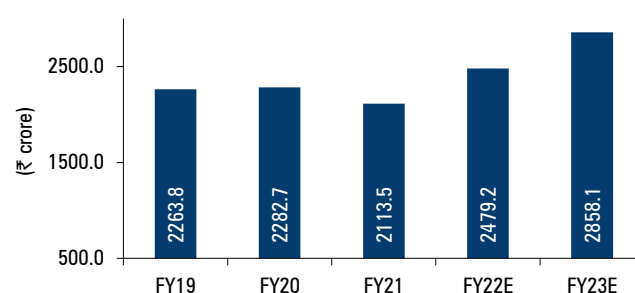
Source: Company, ICICI Direct Research

Exhibit 12: Segmental net revenue trend



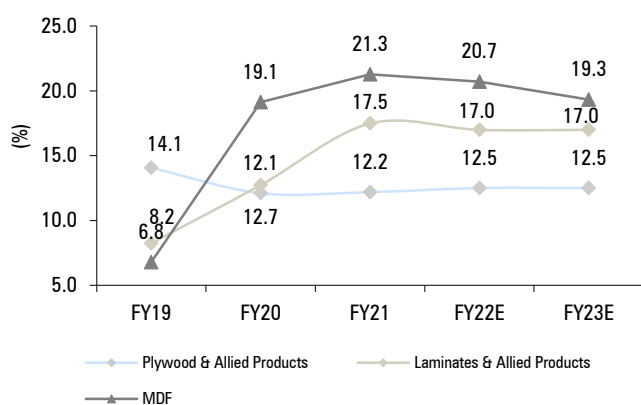
Source: Company, ICICI Direct Research

Exhibit 13: Total net revenue trend



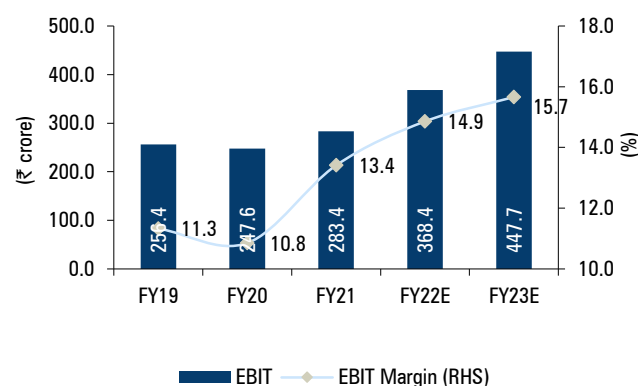
Source: Company, ICICI Direct Research

Exhibit 14: Segmental EBIT trend



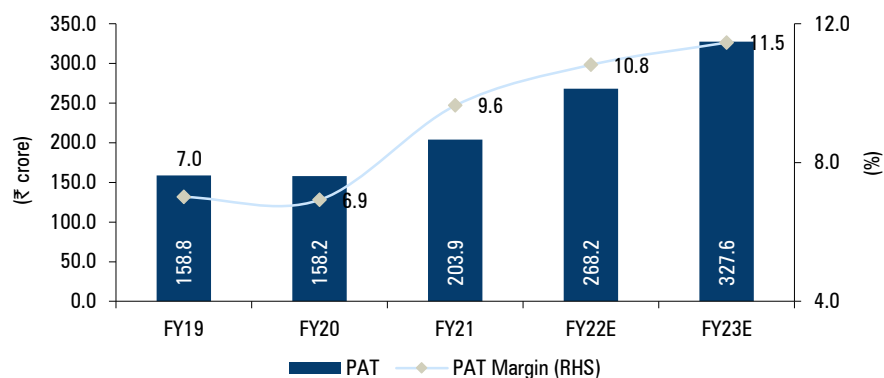
Source: Company, ICICI Direct Research

Exhibit 15: EBIT margin trend



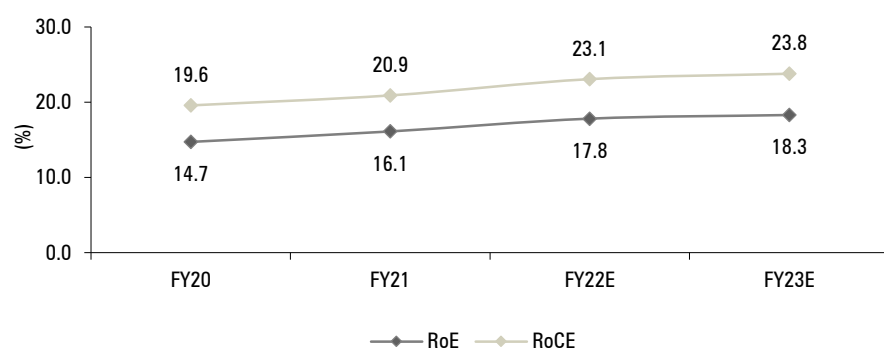
Source: Company, ICICI Direct Research

Exhibit 16: PAT growth trend



Source: Company, ICICI Direct Research

Exhibit 17: RoE and RoCE growth trend



Source: Company, ICICI Direct Research

Financial summary

Exhibit 18: Profit and loss statement ₹ crore

(₹ Crore)	FY20	FY21	FY22E	FY23E
Net Sales	2,282.7	2,113.5	2,479.2	2,858.1
Raw Material Expense	863.2	802.0	818.4	926.8
Purchase of Traded Goods	285.1	257.4	421.5	485.9
Employee benefit expenses	344.1	318.3	366.9	423.0
Other Expenses	486.2	400.4	451.9	509.0
Total Expenses	1,978.6	1,778.1	2,058.6	2,344.7
EBITDA	304.1	335.4	420.6	513.5
EBITDA Margin (%)	13.3	15.9	17.0	18.0
Interest	37.2	10.8	10.0	10.0
Depreciation	67.6	62.6	67.2	87.8
Other income	11.1	10.7	15.0	22.0
PBT	210.4	272.6	358.4	437.7
Taxes	52.2	68.8	90.2	110.1
PAT	158.2	203.9	268.2	327.6
PAT Growth rate (%)	(0.4)	28.9	31.6	22.1
Adjusted EPS (Diluted)	7.1	9.2	12.1	14.7

Source: Company, ICICI Direct Research

Exhibit 19: Cash flow statement ₹ crore

(Year-end March)	FY20	FY21	FY22E	FY23E
Profit after Tax	15.0	57.7	107.0	127.6
Depreciation	59.0	61.3	63.6	75.6
Interest Paid	49.4	40.1	33.5	32.6
Cash Flow before WC changes	141.3	168.4	198.2	233.9
Net Increase in Current Assets	95.6	161.1	(118.8)	(118.5)
Net Increase in Current Liabilities	(49.9)	33.0	47.8	59.6
Net CF from Op. Activities	187.0	362.6	127.2	175.0
(Purchase)/Sale of Fixed Assets	(62.7)	(38.5)	(190.0)	(50.0)
Others	40.8	(41.7)	15.0	15.0
Net CF from Inv. Activities	(21.9)	(80.2)	(175.0)	(35.0)
Proceeds/Repayment of Debt	(75.0)	(86.0)	(40.0)	(10.0)
Dividend and Dividend Tax	(20.4)	(10.2)	(21.4)	(25.5)
Interest Paid	(49.4)	(40.1)	(33.5)	(32.6)
Net CF from Fin. Activities	(144.9)	(136.3)	(94.9)	(68.1)
Net Cash flow	20.3	129.0	(142.7)	71.8
Opening Cash/ Cash Equivalent	40.0	20.1	149.1	6.3
Cl. Cash/ Cash Equivalent	20.1	149.1	6.3	78.1

Source: Company, ICICI Direct Research

Exhibit 20: Balance sheet ₹ crore

(₹ Crore)	FY20	FY21	FY22E	FY23E
Liabilities				
Equity Capital	22.3	22.3	22.3	22.3
Reserve and Surplus	1,051.1	1,242.6	1,484.1	1,769.0
Total Shareholders funds	1,073.4	1,264.9	1,506.3	1,791.3
Total Debt	221.2	109.5	109.5	109.5
Deferred Tax Liability	(57.8)	(42.1)	(42.1)	(42.1)
Total Liabilities	1,237.0	1,332.0	1,574.0	1,859.0
Assets				
Gross Block	1,001.7	1,025.0	1,120.0	1,810.0
Less Acc. Dep	281.2	343.8	411.0	498.8
Net Block	720.5	681.2	709.0	1,311.2
Net Intangibles Assets	0.6	0.5	0.5	0.5
Expenditure on new projects	-	-	-	-
Capital WIP	8.3	21.2	224.2	5.0
Total Fixed Assets	729.4	702.9	933.7	1,316.7
Investments	113.7	227.4	116.6	116.6
Inventory	354.1	330.2	387.2	446.3
Sundry Debtors	258.2	297.0	339.6	391.5
Loans & Advances	20.4	20.8	27.2	31.3
Cash & Bank Balances	21.2	75.5	164.0	10.5
Other Current Assets	73.9	91.1	95.6	107.1
Total Current Assets	727.8	814.5	1,013.6	986.8
Trade Payable	161.1	213.9	251.3	289.7
Other Current Liabilities	153.8	181.0	211.5	240.1
Provisions	11.5	13.5	14.8	27.4
Net Current Assets	401.4	406.1	536.0	429.5
Total Assets	1,237.0	1,332.0	1,574.0	1,859.0

Source: Company, ICICI Direct Research

Exhibit 21: Key ratios

	FY20	FY21	FY22E	FY23E
Per Share Data (₹)				
EPS - Diluted	7.1	9.2	12.1	14.7
Cash EPS	10.2	12.0	15.1	18.7
Book Value	48.3	56.9	67.8	80.6
Dividend per share	2.4	-	1.2	1.9
Operating Ratios (%)				
EBITDA / Net Sales	13.3	15.9	17.0	18.0
PAT / Net Sales	6.9	9.6	10.8	11.5
Inventory Days	57	57	57	57
Debtor Days	41	51	50	50
Creditor Days	26	37	37	37
Return Ratios (%)				
RoE	14.7	16.1	17.8	18.3
RoCE	19.6	20.9	23.1	23.8
RoIC	19.1	23.7	29.2	22.8
Valuation Ratios (x)				
EV / EBITDA	31.3	27.6	22.1	18.4
P/E (Diluted)	59.0	45.8	34.8	28.5
EV / Net Sales	4.2	4.4	3.7	3.3
Market Cap / Sales	4.1	4.4	3.8	3.3
Price to Book Value	8.7	7.4	6.2	5.2
Dividend Yield	0.6	-	0.3	0.5
Solvency Ratios (x)				
Net Debt / Equity	0.2	(0.1)	(0.0)	0.1
Debt / EBITDA	0.7	0.3	0.3	0.2
Current Ratio	2.2	1.8	1.7	1.7
Quick Ratio	1.1	1.0	0.9	0.9

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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