



3R MATRIX

	+	=	-
Right Sector (RS)	✓	■	■
Right Quality (RQ)	✓	■	■
Right Valuation (RV)	■	✓	■

+ Positive = Neutral - Negative

What has changed in 3R MATRIX

	Old		New
RS	■	↔	■
RQ	■	↔	■
RV	■	↔	■

Reco/View

	Change
Reco: Buy	↔
CMP: Rs. 303	
Price Target: Rs. 360	↑

↑ Upgrade ↔ Maintain ↓ Downgrade

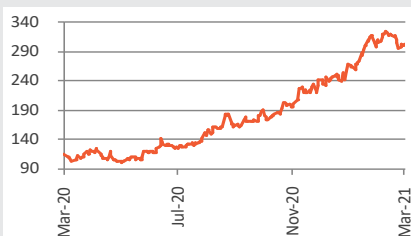
Company details

Market cap:	Rs. 6,734 cr
52-week high/low:	Rs. 340/100
NSE volume: (No of shares)	5.7 lakh
BSE code:	532548
NSE code:	CENTURYPLY
Free float: (No of shares)	20.0 cr

Shareholding (%)

Promoters	73
FII	5
DII	12
Others	10

Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	-1.6	25.8	81.2	163.6
Relative to Sensex	0.1	22.3	52.2	99.2

Sharekhan Research, Bloomberg

Summary

- We retain a Buy on Century Plyboards Limited with a revised PT of Rs. 360, as we see further room for an upside, given a strong demand outlook and healthy balance sheet.
- Demand for wood panel industry remains buoyant driven by domestic consumption, declining imports and rising exports of furniture.
- The rise in key inputs costs have led by multiple price hikes which may continue for some time. Pressure on unorganised sector to benefit in terms of market share gains.
- Plans of brownfield and greenfield expansion in MDF along with equipment re-balancing to enhance capacities of Plywood, laminates and particle board to aid in capturing high demand.

Century Plyboards Limited (Century) is expected to benefit from continued strong demand for plywood, laminates and MDF, as new house construction remained buoyant and as demand for readymade furniture stayed high. The MDF and particle board capacities are running at over 100% as compared to 60-65% during January 2020. Further, the domestic furniture industry is having government's focus on boosting local furniture manufacturing, which is well aided by a y-o-y fall in furniture imports since February 2020 and a rise in exports of the same since July 2020. Key inputs such as (phenol, formaldehyde, melamine, face veneers) have risen sharply led by rise in crude prices along with higher sea freight rates (also aided by container shortages). The sharp rise in input costs has affected the unorganised sector leading to market share gains for organised players such as Century having a strong balance sheet (debt-free with Rs. 140 crore worth of treasury assets and low working capital cycle days of 51 days). The strong domestic demand for furniture, lower imports and rising raw materials costs have led to multiple price hikes undertaken by the wood panel industry. As per industry reports, the wood panel industry has taken price hikes in the range of 5-15% in laminates and MDF with further price hikes not being ruled out. We expect Century to benefit from a strong demand for plywood, laminates and MDF and higher realizations during Q4FY2021 and ahead. The company is optimistic on maintaining double digit volume growth in plywood and maintaining a higher OPM in laminates and MDF. The company is on an expansion spree with 400cubic metres/day MDF brownfield expansion in Punjab unit, Greenfield expansion planned in South India for MDF of 700cbm/day plus capacity and brownfield expansions in particle board, laminates and plywood through equipment re-balancing. In totality, the company would be incurring Rs. 650-700 crore capex over the next two years. The MDF brownfield expansion is expected in less than a year with peak revenue potential of Rs. 400 crores. The stock is currently trading at a P/E of 27.7x and 23.1x its FY2022E and FY2023E earnings, which we believe provides further room for upside, considering its strong growth outlook and healthy balance sheet. Hence, we have maintained our Buy rating on the stock with a revised price target of Rs. 360.

Our Call

Valuation –Maintain Buy with a revised PT of Rs. 360: Century has been able to gain from strong demand momentum seen in Q3FY2021 which is expected to continue in Q4FY2021. Further, demand outlook remains buoyant with the government's focus on infrastructure and housing sectors. The company's strong operational performance is expected to sustain going ahead led by price hikes and cost efficiencies. The capacity expansion in the MDF segment is expected to provide next leg of growth. The company has been able to generate strong operating cash flows increasing treasury surplus which should aid in capacity expansions going ahead. The stock is currently trading at a P/E of 27.7x and 23.1x its FY2022E and FY2023E earnings, which we believe provides further room for upside, considering its strong growth outlook and healthy balance sheet. Hence, we have maintained our Buy rating on the stock with a revised price target of Rs. 360.

Key Risks

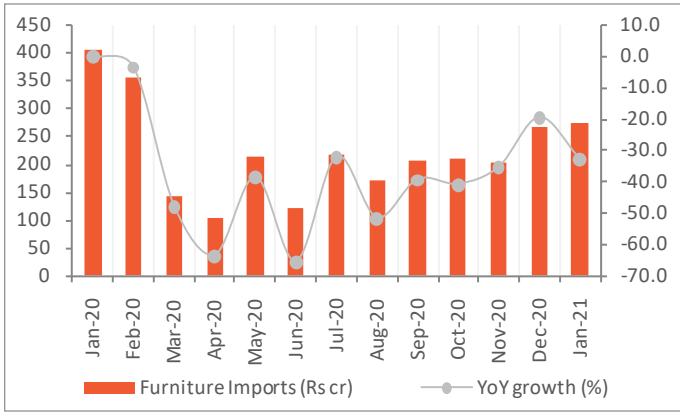
Weak macro environment, volatility in currency, and erosion in profitability of its business verticals.

Valuation (Consolidated)

Particulars	Rs cr			
	FY20	FY21E	FY22E	FY23E
Revenue	2,317	1,995	2,348	2,687
OPM (%)	14.7	15.8	15.9	16.4
Adjusted PAT	209	204	244	291
% y-o-growth	26	(2)	19	20
Adjusted EPS (Rs.)	9.4	9.2	10.9	13.1
P/E (x)	32.3	33.1	27.7	23.1
P/B (x)	6.2	5.3	4.5	3.9
EV/EBITDA (x)	21.2	22.3	18.7	15.4
RoNW (%)	17.8%	15.1%	15.8%	16.4%
RoCE (%)	15.3%	14.0%	15.2%	16.0%

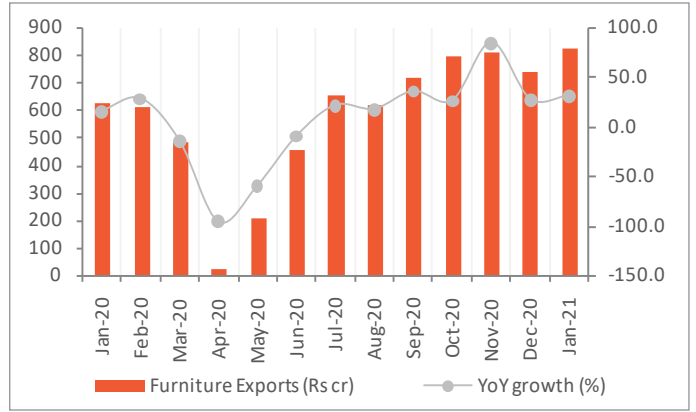
Source: Company; Sharekhan estimates

Furniture Imports trend



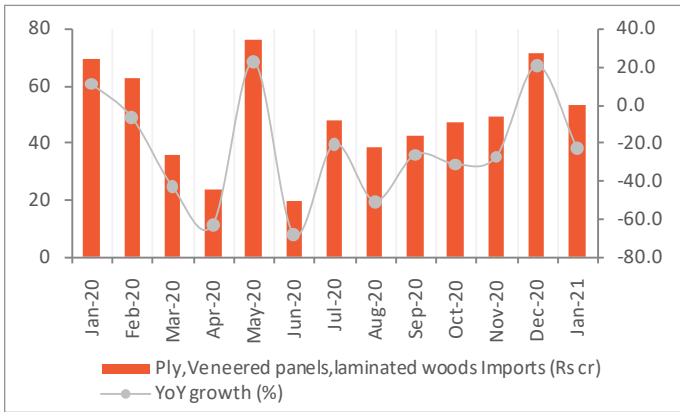
Source: Industry; Sharekhan Research

Furniture Exports trend



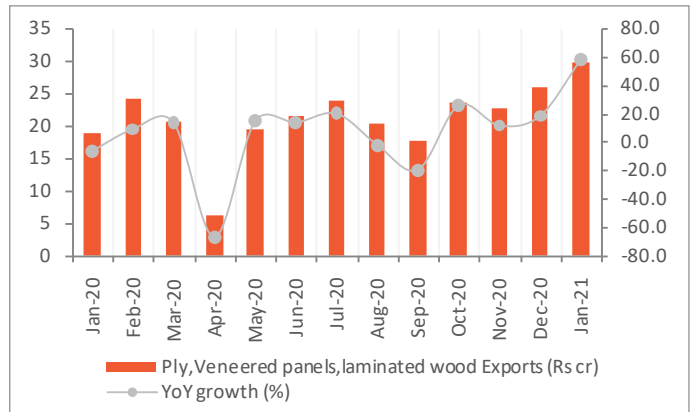
Source: Industry; Sharekhan Research

Ply,Veneered panels,laminated wood imports



Source: Industry; Sharekhan Research

Ply,Veneered panels,laminated wood exports



Source: Industry; Sharekhan Research

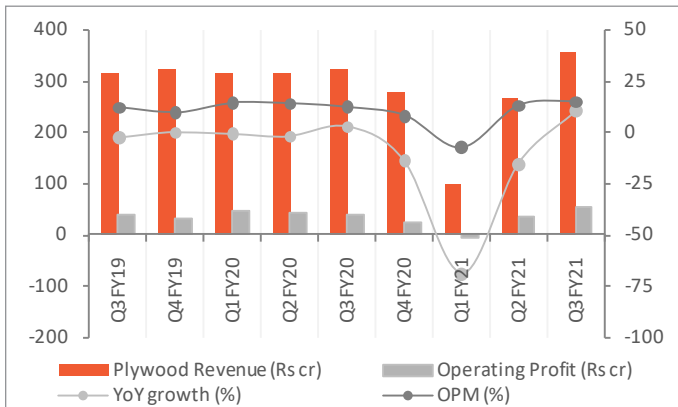
PlywoodPrice trend



Source: Industry; Sharekhan Research

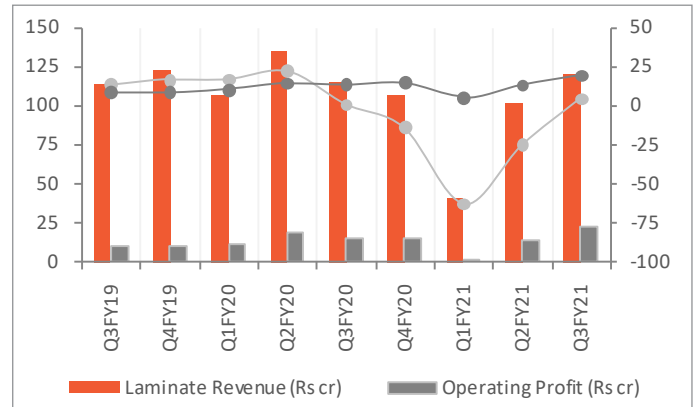
Financials in charts

Plywood trend



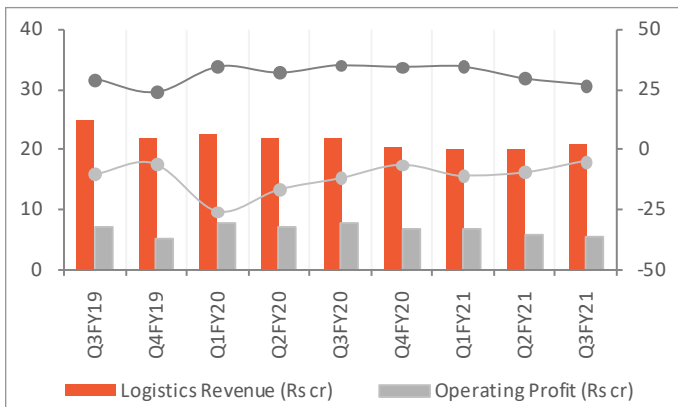
Source: Company, Sharekhan Research

Laminate trend



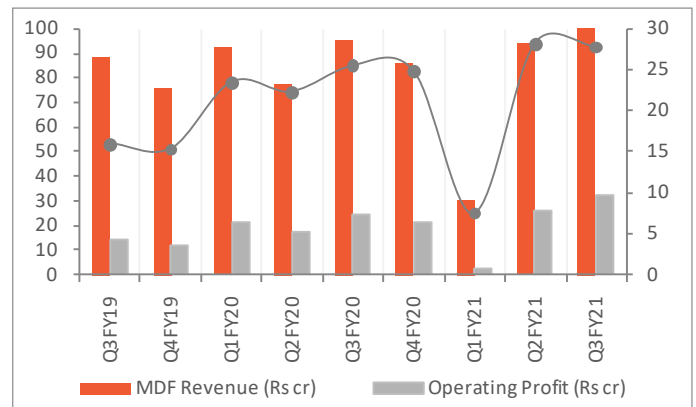
Source: Company, Sharekhan Research

Logistics trend



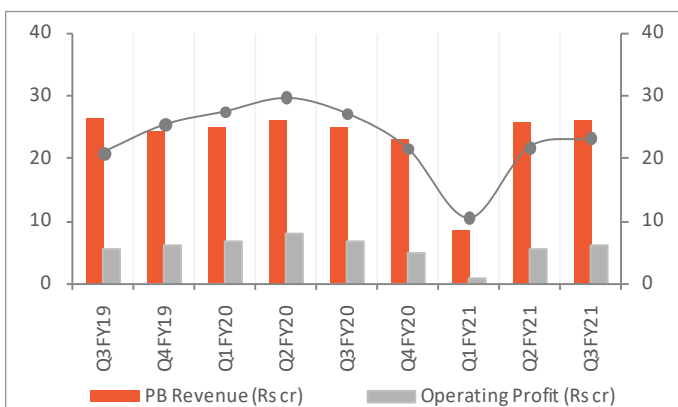
Source: Company, Sharekhan Research

MDF trend



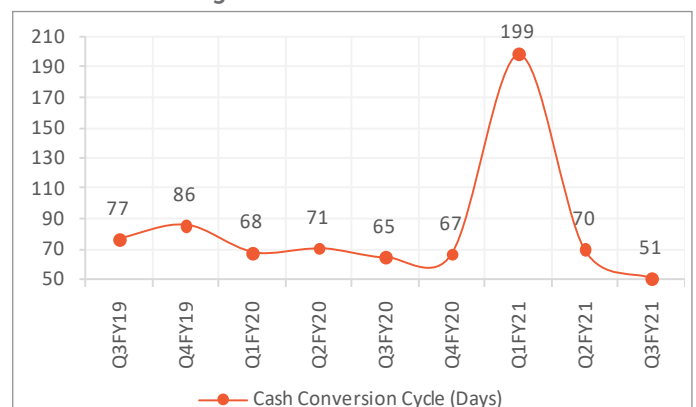
Source: Company, Sharekhan Research

Particle Board trend



Source: Company, Sharekhan Research

Cash conversion cycle trend



Source: Company, Sharekhan Research

Outlook and Valuation

■ Sector view - Expect faster recovery in operations

The building materials industry was severely affected by COVID-19-led lockdown during Q1FY2021, which had affected its peak sales period of the year. Additionally, its high fixed cost structure had affected OPM, dragging down net earnings. However, from June, the sector has been one of the fastest in recovery with easing of lockdowns domestically. The sector witnessed resumption of dealer and distribution networks and a sharp improvement in capacity utilisation levels. Most players have begun to see demand and revenue run-rate reaching 80-90% as compared to pre-COVID levels. Scaling up of revenue is also expected to lead to better absorption of fixed costs going ahead, aiding net earnings recovery. The industry is expected to rebound with strong growth in FY2022.

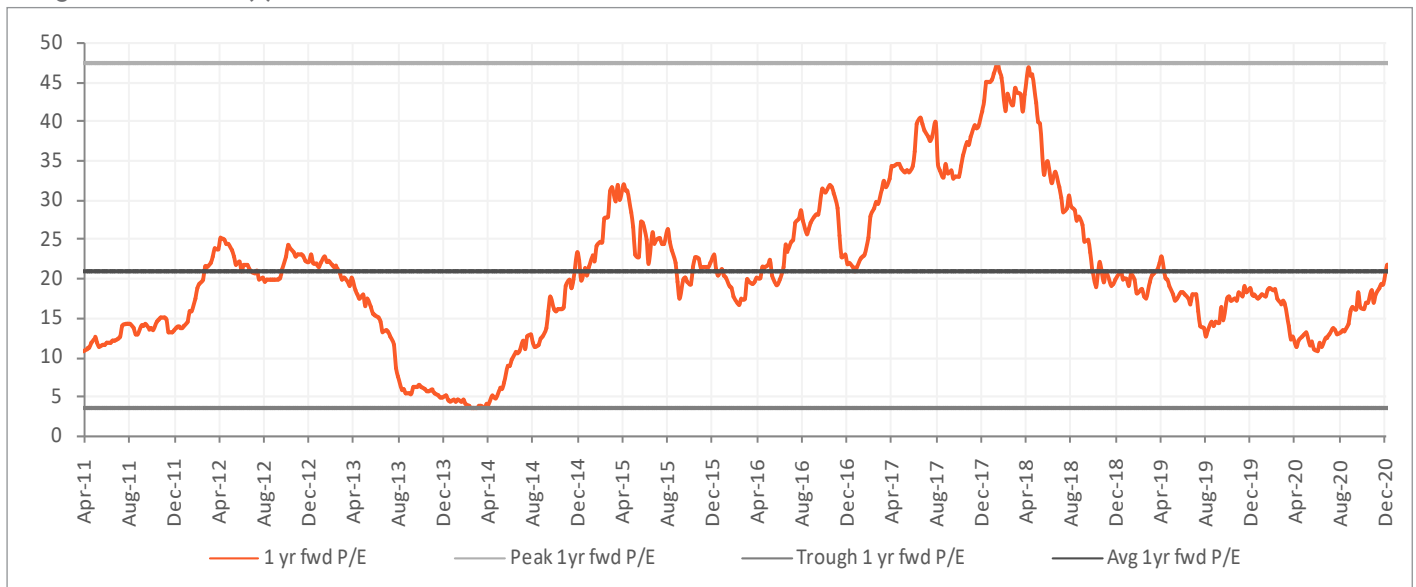
■ Company outlook - Poised for strong growth aided by capacity expansion

Century has seen strong pent-up demand along with possible market share gains during Q3 which had led to strong volume growth across its key verticals. The strong demand momentum is expected to sustain going ahead with new projects expected to start from Q4FY2021, budget impetus on infrastructure and housing sectors and a demand recovery seen in all metros. The company undertook price hikes in almost all business divisions. It is also optimistic on maintaining double-digit volume growth in plywood and maintaining OPM at elevated levels in laminates and MDF. The company is on expansion spree with 400cbm/day MDF brownfield expansion in the Punjab unit. A greenfield expansion planned in South India for MDF of 700cbm/day plus capacity and brownfield expansions in particleboard, laminates and Plywood through equipment re-balancing. In totality, the company would be incurring a Rs. 650-700 crore capex over the next two years.

■ Valuation - Maintain Buy with a revised PT of Rs. 360

Century has been able to gain from strong demand momentum seen in Q3FY2021 which is expected to continue in Q4FY2021. Further, demand outlook remains buoyant with the government's focus on infrastructure and housing sectors. The company's strong operational performance is expected to sustain going ahead led by price hikes and cost efficiencies. The capacity expansion in the MDF segment is expected to provide next leg of growth. The company has been able to generate strong operating cash flows increasing treasury surplus which should aid in capacity expansions going ahead. The stock is currently trading at a P/E of 27.7x and 23.1x its FY2022E and FY2023E earnings, which we believe provides further room for upside, considering its strong growth outlook and healthy balance sheet. Hence, we have maintained our Buy rating on the stock with a revised price target of Rs. 360.

One-year forward P/E (x) band



Source: Sharekhan Research

Peer valuation

Particulars	P/E (x)		EV/EBITDA (x)		P/BV (x)		RoE (%)	
	FY22E	FY23E	FY22E	FY23E	FY22E	FY23E	FY22E	FY23E
Century Plyboards	27.7	23.1	18.7	15.4	4.5	3.9	15.8	16.4
Greenlam Industries	20.7	16.6	11.4	9.8	3.3	2.8	17.7	18.8
Kajaria Ceramics	37.7	31.7	22.1	18.7	7.2	6.3	20.2	21.4

Source: Company, Sharekhan Research

About company

Century was founded in 1986 by Mr. Sajjan Bhajanka and Mr. Sanjay Agarwal. Today, the company is the largest seller of multi-use plywood with a market share of ~25% and decorative veneers in the Indian organised plywood market. The company also has a laminate, particle board, and MDF division having a capacity of 600 cubic metres/day.

Investment theme

Century, like some of its industry peers, has been able to gain from strong demand momentum seen in Q3FY2021. Further, the demand outlook going ahead remains buoyant with government's focus on infrastructure and housing sectors. The company's strong operational performance is expected to sustain going ahead led by recent price hikes and cost efficiencies. The capacity expansion in MDF is expected to provide next leg of growth. The company has been able to generate strong operating cash flows increasing treasury surplus which should aid in capacity expansions going ahead.

Key Risks

- ◆ Slowdown in macro-economics, especially in the real estate sector, could affect volume offtake for its products.
- ◆ Unavailability or increased cost of sourcing raw materials such as Veneer affects OPM negatively.
- ◆ Inability to gain market share in the post GST era may dampen future growth outlook.

Additional Data

Key management personnel

Mr. Sajjan Bhajanka	Chairman
Mr. Hari Prasad Agarwal	Vice Chairman
Mr. Sanjay Agarwal	Managing Director
Arun Kumar Julasaria	Chief Financial Officer
Sundeep Jhunjhunwala	Company Secretary & Compliance Officer

Source: Company

Top 10 shareholders

Sr. No.	Holder Name	Holding (%)
1	Bhajanka Sajjan	11.8
2	Agarwal Sanjay	11.2
3	AGARWAL DIVYA	7.54
4	BHAJANKA SANTOSH	6.95
5	Khemani Vishnu	5.76
6	KHEMANI VISHNUPRASAD	5.76
7	Sriram Vanijya Pvt Ltd	3.83
8	Brijdham Merchants Pvt Ltd	3.49
9	Sumangal International Pvt Ltd	3.45
10	Sumangal Business Pvt Ltd	3.07

Source: Bloomberg

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Understanding the Sharekhan 3R Matrix

Right Sector	
Positive	Strong industry fundamentals (favorable demand-supply scenario, consistent industry growth), increasing investments, higher entry barrier, and favorable government policies
Neutral	Stagnancy in the industry growth due to macro factors and lower incremental investments by Government/private companies
Negative	Unable to recover from low in the stable economic environment, adverse government policies affecting the business fundamentals and global challenges (currency headwinds and unfavorable policies implemented by global industrial institutions) and any significant increase in commodity prices affecting profitability.
Right Quality	
Positive	Sector leader, Strong management bandwidth, Strong financial track-record, Healthy Balance sheet/cash flows, differentiated product/service portfolio and Good corporate governance.
Neutral	Macro slowdown affecting near term growth profile, Untoward events such as natural calamities resulting in near term uncertainty, Company specific events such as factory shutdown, lack of positive triggers/events in near term, raw material price movement turning unfavourable
Negative	Weakening growth trend led by led by external/internal factors, reshuffling of key management personal, questionable corporate governance, high commodity prices/weak realisation environment resulting in margin pressure and deteriorating balance sheet
Right Valuation	
Positive	Strong earnings growth expectation and improving return ratios but valuations are trading at discount to industry leaders/historical average multiples, Expansion in valuation multiple due to expected outperformance amongst its peers and Industry up-cycle with conducive business environment.
Neutral	Trading at par to historical valuations and having limited scope of expansion in valuation multiples.
Negative	Trading at premium valuations but earnings outlook are weak; Emergence of roadblocks such as corporate governance issue, adverse government policies and bleak global macro environment etc warranting for lower than historical valuation multiple.

Source: Sharekhan Research

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