

Century Plyboards (India) (CENPLY)

CMP: ₹ 547

Target: ₹ 660 (21%) Target Period: 12-18 months

May 18, 2022

BUY

Healthy show!

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. Century also operates a CFS with capacity to handle 156,000 TEUs containers and contributed ~3% to overall FY22 revenues

Q4FY22 Results: Century reported a healthy set of numbers.

- The topline was up 21.2% YoY to ₹ 895.3 crore, with overall growth in FY21 at ~42% YoY. MDF, plywood, laminate revenues grew 36.7%, 19.4%, 13.5% YoY to ₹ 163 crore, ₹ 477 crore, ₹ 174 crore, respectively
- EBITDA margin expanded 80 bps YoY to 18% on account of operating leverage
- Overall, reported PAT was up 9.4% YoY to ₹ 91 crore, given the healthy operating performance

What should investors do? Century's share price has grown at 16% CAGR over the past five years.

- Post 24% correction in the last two months, we upgrade from HOLD to **BUY** as it continues to report industry leading growth stable margins and net cash balance sheet with internal accruals fuelling the expansion

Target Price and Valuation: We value Century at ₹ 660/share (32x FY24 P/E).

Key triggers for future price performance:

- Strong growth traction in MDF with ~26% CAGR in FY22-24 in MDF revenues to ₹ 876 crore, also aided by new capacity offtake in FY23, FY24
- We expect ~15% CAGR in FY22-24 in plywood revenues to ₹ 2079 crore, led by a) pent-up demand, b) benefits arising due to *ViroKill* technology and market share gain

Alternate Stock Idea: Besides Century, we like Phoenix Mills in the real estate & building materials space.

- Leading retail developer with strong expansion ahead
- BUY with a target price of ₹ 1230



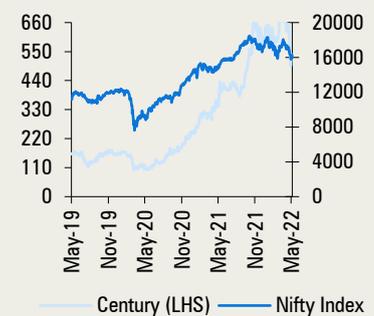
Particulars

Particular	Amount (₹ crore)
Market Capitalization	12,153
Total Debt (FY22)	196
Cash & Inv (FY22)	250
EV	12,100
52 week H/L (₹)	749 / 335
Equity capital	22.3
Face value (₹)	1.0

Shareholding pattern

	Jun-21	Sep-21	Dec-21	Mar-22
Promoters	73.1	73.0	73.0	73.0
DII	11.8	13.0	13.0	11.1
FII	5.0	5.1	5.5	6.9
Other	10.2	8.9	8.4	9.1

Price Chart



Key Risks

Key Risk: (i) 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	2 yr CAGR (FY22-24E)
Net Sales	2,282.7	2,113.5	3,000.9	11.0%	3,566.3	4,024.9	15.8%
EBITDA	304.1	335.4	534.6	12.9%	640.7	746.3	18.2%
EBITDA Margin (%)	13.3	15.9	17.8		18.0	18.5	
PAT	158.2	203.9	325.3	11.9%	417.1	457.2	18.6%
EPS (₹)	7.1	9.2	14.6		18.8	20.6	
P/E	76.8	59.6	37.4		29.1	26.6	
EV/EBITDA	40.7	36.1	22.6		19.7	16.8	
RoNW (%)	14.7	16.1	20.8		21.4	19.4	
RoCE (%)	19.1	20.7	27.3		22.8	22.9	

Source: Company, ICICI Direct Research

Key business highlight and outlook

- Expansion outline and status:** CPL's work on MDF expansion in its existing unit at Hoshiarpur is ongoing and in full swing (overall estimated capex: ₹ 220 crore; spent till FY22-end: ₹ 145.6 crore) and is expected to come up by October 2022-end. Further, the company has commenced greenfield expansion for MDF product at Andhra Pradesh under its 100% subsidiary 'Century Panels Ltd' and the requisite machinery has been ordered. The capacity of the first phase of the MDF plant will be 950 CBM/day with an investment of ₹ 600 crore and is expected to get commissioned by Q2FY24 (incurred capex of ₹ 36.1 crore till FY22-end). Additionally, the company has also finalised setting up a greenfield laminate manufacturing facility in two phases with an overall installed capacity to manufacture 40 lakh sheets at a capex of ₹ 200 crore. The management expects both phases in laminates to be commissioned by October 2024. 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
- Overall business:** After a bit of slowness in January 2022 due to the third wave of Covid-19, CPL witnessed strong product demand with normalisation in business environment, gained traction in the real-estate sector, robust brand recall with upped branding exercise, and better conversion of lead to sales. Additionally, the company was able to maintain gross margin and EBITDA margin on a QoQ basis, largely driven by passing-on of the input costs and better operating leverage
- Plywood:** Revenues in the plywood segment have improved 19.4% YoY to ₹ 475.8 crore, driven by 13% and 23.1% volume growth witnessed in the plywood, and commercial veneer product segment, respectively. Revenue in the deco ply product segment also shown improved strength registering 12.7% YoY growth (to ₹ 41.3 crore) mainly aided by 15.1% YoY improvement in realisation amid muted volumes (down 2% YoY). The operating margin also improved to 15% during Q4FY22 (vs. 14.5% in Q3FY22; 12.8% in Q4FY21). Going forward, the management has guided for 20% YoY revenue growth (15% volume growth) in the plywood segment during FY23 with improved product demand. Margins are likely to sustain at 13-15%
- MDF:** The 36.7% YoY revenue growth in MDF division (revenue: ₹ 162.6 crore) was aided by 4.8% YoY volume growth (to 48,137 CBM) and 30.5% YoY growth in realisation (to ₹ 33,787/CBM). Average price hike and better product mix aided realisation growth. EBITDA margin also remained elevated at 32.8% (vs. 30.5% in Q3FY22; 26.8% in Q4FY21). Going forward, the management expects MDF demand to remain strong with higher consumptions and acceptance from consumers. The company desires to achieve 25% revenue growth in FY23. However, margins are likely to moderate to ~25-28% in the near-to-medium term with the possibility of softening of product prices due to higher incremental supplies coming from various industry players
- Laminates:** Net sales in the laminates division improved 12% YoY (₹ 168.9 crore) mainly driven by 10.8% YoY growth in realisation (to ₹ 828) amid muted volumes (up 1.1% YoY to 19,52,579 units, albeit on higher base) during Q4FY22. However, segmental margin declined drastically to 11.2% (vs. 12.2% in Q3FY22; 22.3% in Q4FY21) owing to considerable increase in phenol and melamine prices, and expense related to BCG project. Going forward, the management endeavours to achieve ~15% YoY revenue, volume growth during FY23 with sustainable margin at 14-16%.
- Particle boards:** Improvement in particle board volumes by 22.9% YoY (to 20,509 CBM) and average realisation by 26.9% YoY (to ₹ 22,795) has resulted in 56% YoY growth in net sales (to ₹ 46.8 crore) during Q4FY22. Additionally, the margin in the segment improved to 28.6% backed by better realisation. Going forward, the management is aiming to achieve sales volume of 77,000-80,000 CBM during FY23 (vs. 72,934 CBM in FY22). With better realisation, the management expects 20% revenue growth in FY23. Margins are likely to remain at ~24-25% over the near to medium term

- **Price Hike:** Raw material costs required for most of its product portfolio are moving northwards consistently. In order to partly offset hike in input costs, the company has undertaken price hikes across its product portfolio during FY22, which includes 7-8% prices in plywood, 13-14% in laminates, 20% in MDF and 15% in particle boards. Additionally, CPL has undertaken 2.5-3% price hikes in plywood, 3-4% in laminates and 5% in particle boards post FY22
- **Working capital cycle:** Working capital cycle at FY22-end remained healthy at 53 days (vs. 48 days at Q3-end) backed by steady debtor (36 days at FY22-end vs. 35 days at Q3-end) and inventory (50 days at FY22-end vs. 51 days at Q3-end). Payable days has declined to 32 days at FY22-end (vs. 38 days at Q3-end). 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 ₹ 175 crore cash balance at FY22-end
- **Taxes:** CPL has adopted new tax regime of ~25.17% from Q4FY22 onwards

Post 24% correction in the last two months, we upgrade from HOLD to 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 unchanged TP of ₹ 660/share (32x FY24 P/E).

Exhibit 1: Variance Analysis

Particular	Q4FY22	Q4FY21	YoY Chg (%)	Q3FY22	QoQ Chg (%)	Comments
Net Sales	895.3	738.6	21.2	848.5	5.5	
Other Income	5.2	3.7	42.1	5.8	-10.5	
Material Consumed	366.3	283.4	29.2	327.7	11.8	
Purchase of Stock in Trade	106.6	110.5	-3.5	134.2	-20.6	
Employee Benefit Expenses	111.7	100.3	11.4	99.9	11.8	
Other Expenses	163.1	135.8	20.1	152.1	7.3	
EBITDA	160.9	126.8	26.9	151.7	6.1	
EBITDA Margin (%)	18.0	17.2	81 bps	17.9	10 bps	
Depreciation	17.2	15.9	8.0	17.2	0.2	
Interest	3.2	2.9	10.9	2.1	49.5	
PBT	145.8	111.7	30.5	138.2	5.4	
Taxes	54.7	28.4	92.3	41.0	33.6	
PAT	91.0	83.2	9.4	97.3	-6.4	

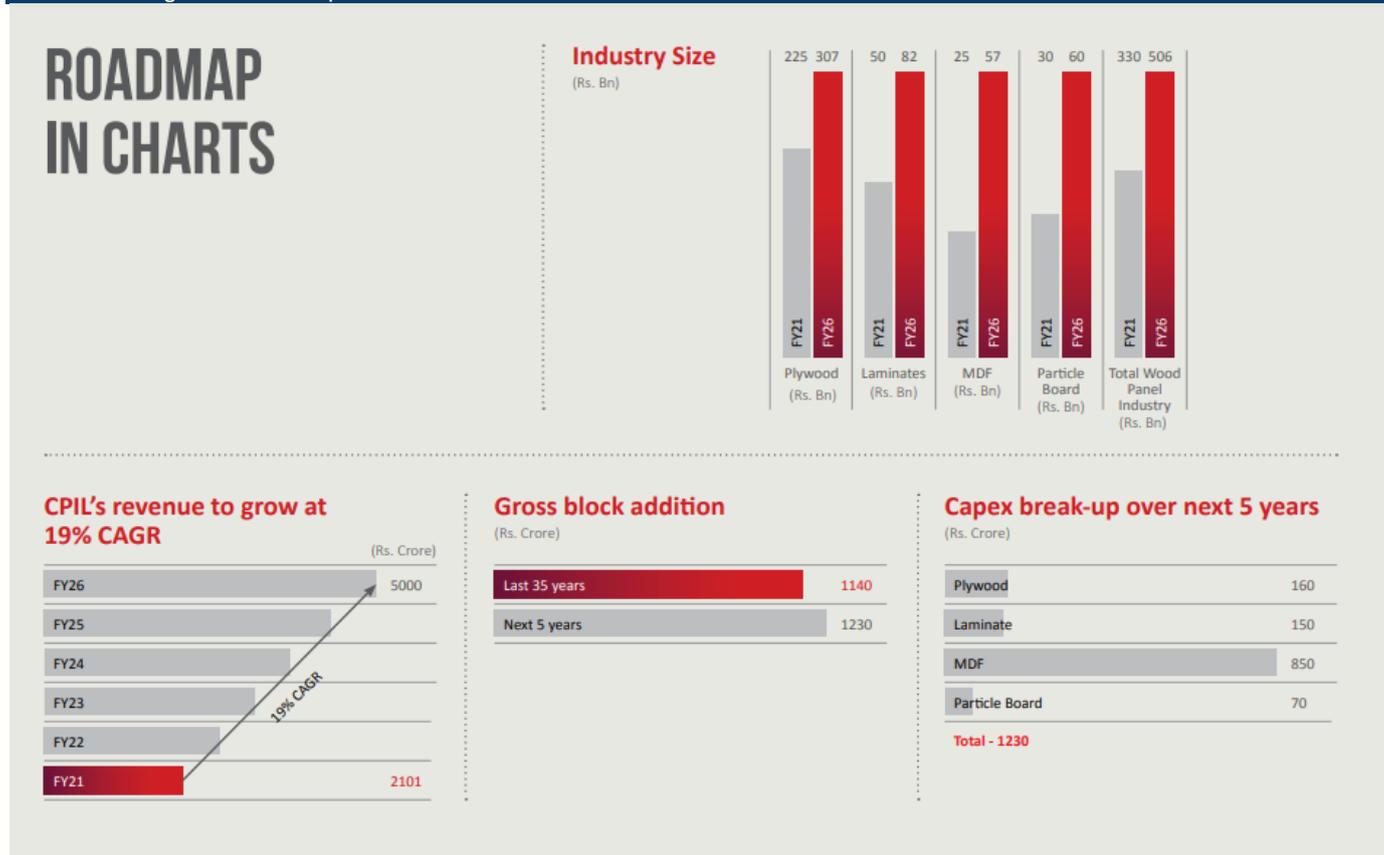
Source: Company, ICICI Direct Research

Exhibit 2: Change in estimates

Particulars (₹ crore)	FY22		FY23E		FY24E		Comments	
	Old	New	Change	Old	New	Change		
Revenue	3,000.9	3,326.9	3,566.3	7.2	3,765.6	4,024.9	6.9	Realign estimates post Q4
EBITDA	534.6	617.0	640.7	3.8	698.2	746.3	6.9	
EBITDA Margin (%)	17.8	18.5	18.0	-58 bps	18.5	18.5	0 bps	
PAT	325.3	408.7	417.1	2.1	457.7	457.2	-0.1	
EPS (₹)	14.6	18.4	18.8	2.1	20.6	20.6	-0.1	

Source: Company, ICICI Direct Research

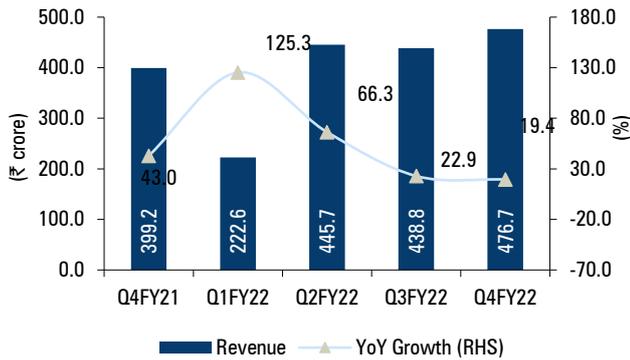
Exhibit 3: Long term roadmap



Source: Company, ICICI Direct Research

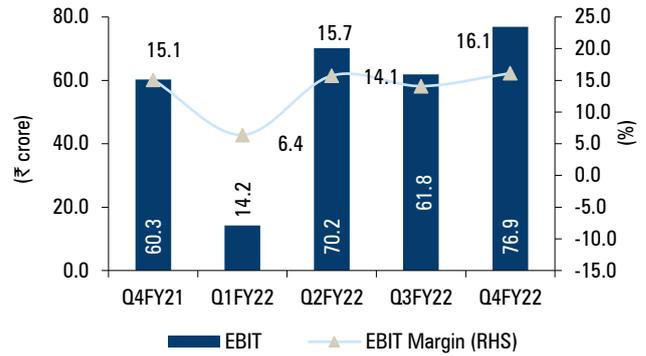
Company Analysis

Exhibit 4: Quarterly plywood & allied products revenue



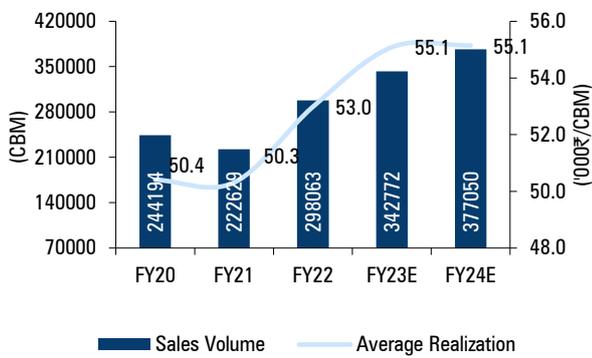
Source: Company, ICICI Direct Research

Exhibit 5: Quarterly plywood & allied products EBIT trend



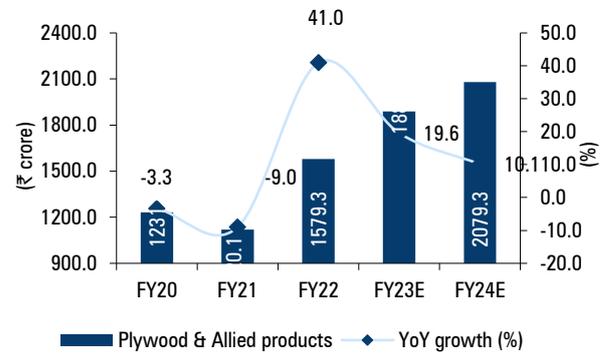
Source: Company, ICICI Direct Research

Exhibit 6: Plywood sales volume & average realisation



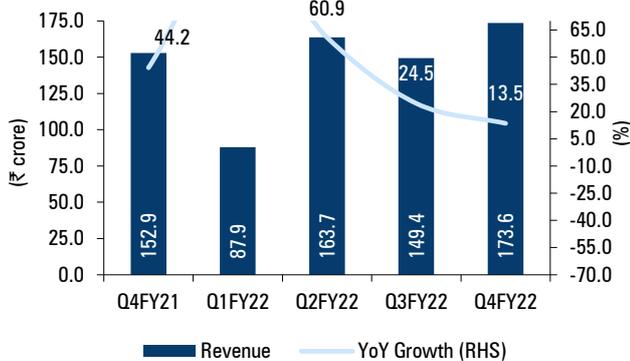
Source: Company, ICICI Direct Research

Exhibit 7: Plywood revenue and growth trend



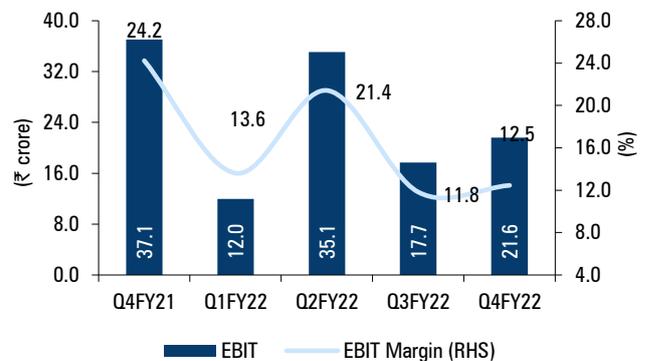
Source: Company, ICICI Direct Research

Exhibit 8: Quarterly laminates & allied products revenue



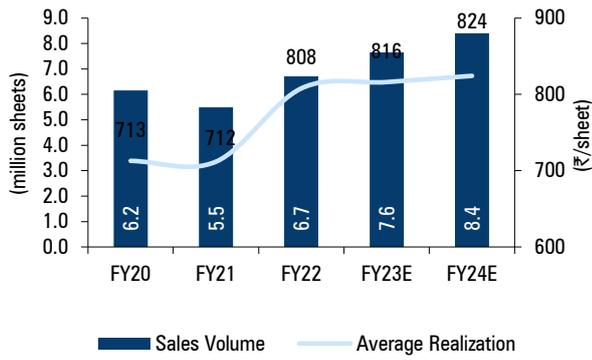
Source: Company, ICICI Direct Research

Exhibit 9: Quarterly laminates & allied products EBIT trend



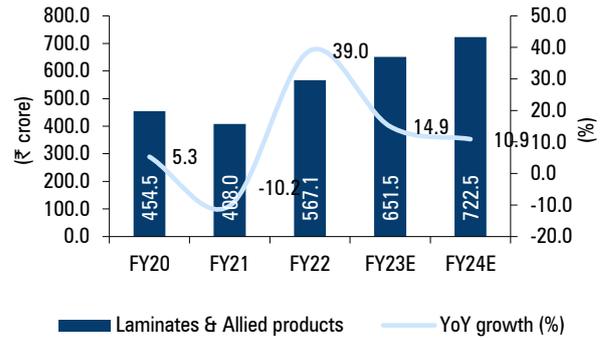
Source: Company, ICICI Direct Research

Exhibit 10: Laminates sales volume & average realisation



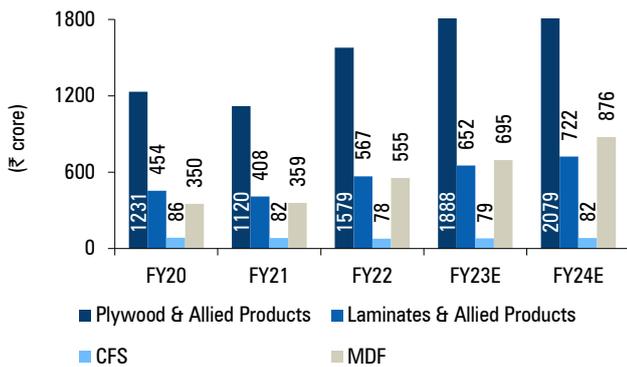
Source: Company, ICICI Direct Research

Exhibit 11: Laminates revenue and growth trend



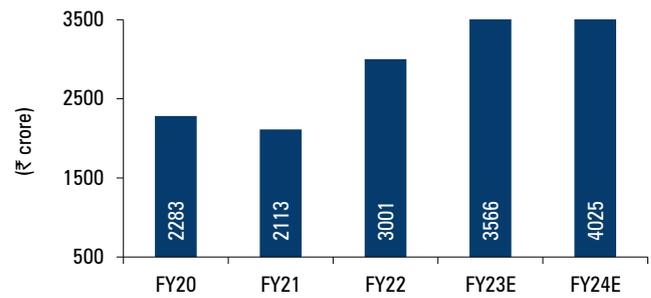
Source: Company, ICICI Direct Research

Exhibit 12: Segmental net revenue trend



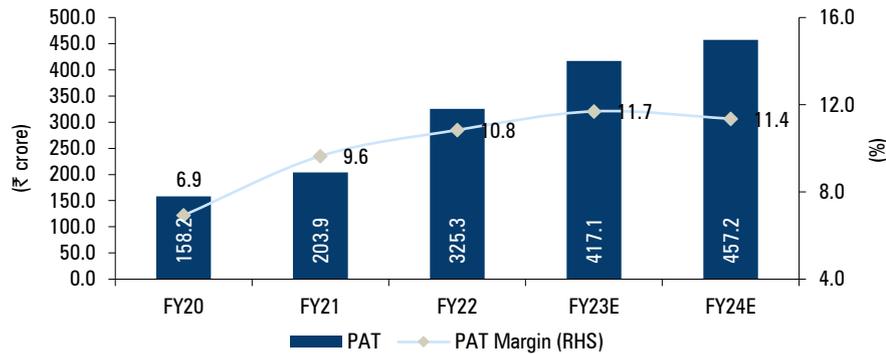
Source: Company, ICICI Direct Research

Exhibit 13: Total net revenue trend



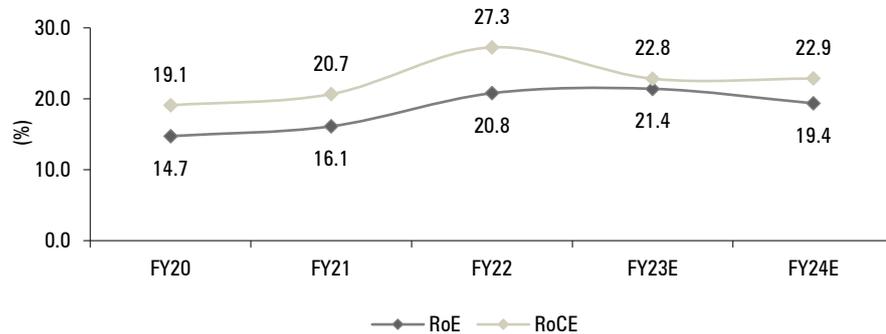
Source: Company, ICICI Direct Research

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)	FY21	FY22	FY23E	FY24E
Net Sales	2,113.5	3,000.9	3,566.3	4,024.9
Raw Material Expense	802.0	1,115.4	1,371.5	1,526.0
Purchase of Traded Goods	257.4	406.2	481.4	543.4
Employee benefit expenses	318.3	399.8	474.3	543.4
Other Expenses	400.4	544.8	598.3	665.9
Total Expenses	1,778.1	2,466.3	2,925.6	3,278.6
EBITDA	335.4	534.6	640.7	746.3
EBITDA Margin (%)	15.9	17.8	18.0	18.5
Interest	10.8	9.6	20.0	50.0
Depreciation	62.6	67.5	87.1	110.0
Other income	10.7	22.8	24.0	25.0
PBT	272.6	480.2	557.6	611.3
Taxes	68.8	154.9	140.5	154.0
PAT	203.9	325.3	417.1	457.2
PAT Growth rate (%)	28.9	59.5	28.2	9.6
Adjusted EPS (Diluted)	9.2	14.6	18.8	20.6

Source: Company, ICICI Direct Research

Exhibit 17: Cash flow statement ₹ crore

(₹ Crore)	FY21	FY22	FY23E	FY24E
Profit after Tax	203.9	325.3	417.1	457.2
Depreciation	62.6	67.5	87.1	110.0
Interest	10.8	9.6	20.0	50.0
Others	(137.3)	(169.1)	(157.5)	(177.1)
Cash Flow before wc changes	208.7	388.3	507.2	594.2
Net Increase in Current Assets	57.9	(8.6)	(7.0)	(2.0)
Net Increase in Current Liabilities	85.2	(168.0)	(74.4)	(73.6)
Net CF from operating activities	351.8	211.7	425.8	518.6
(Purchase)/Sale of Fixed Assets	(36.2)	(225.4)	(913.6)	(380.0)
Net CF from Investing activities	(158.2)	(71.1)	(904.9)	(358.8)
Dividend	-	(22.2)	(33.3)	(44.4)
Interest paid	(10.8)	(9.6)	(20.0)	(50.0)
Inc / (Dec) in Loans	(128.6)	71.8	350.0	(50.0)
Net CF from Financing activities	(139.4)	40.0	296.7	(144.4)
Net Cash flow	54.3	173.8	(182.4)	15.4
Opening Cash	21.2	75.5	249.3	66.8
Closing Cash/ Cash Equivalent	75.5	249.3	66.8	82.3

Source: Company, ICICI Direct Research

Exhibit 18: Balance sheet ₹ crore

(₹ Crore)	FY21	FY22	FY23E	FY24E
Liabilities				
Equity Capital	22.3	22.3	22.3	22.3
Reserve and Surplus	1,242.6	1,542.6	1,926.4	2,339.2
Total Shareholders funds	1,264.9	1,564.9	1,948.6	2,361.4
Total Debt	124.5	196.4	546.4	496.4
Deferred Tax Liability	(42.1)	16.8	16.8	16.8
Total Liabilities	1,347.0	1,778.0	2,512.0	2,875.0
Assets				
Gross Block	1,022.6	1,104.5	2,177.3	2,557.3
Less Acc. Dep	341.5	409.0	495.6	605.6
Net Block	681.2	695.5	1,681.7	1,951.8
Net Intangibles Assets	0.5	0.5	0.5	0.5
Expenditure on new projects	-	-	-	-
Capital WIP	21.2	164.8	5.0	5.0
Total Fixed Assets	702.9	860.7	1,687.2	1,957.3
Investments	227.4	154.7	154.7	154.7
Inventory	330.2	489.5	556.9	628.5
Sundry Debtors	297.0	348.9	439.7	496.2
Loans & Advances	19.7	17.3	39.1	44.1
Cash & Bank Balances	75.5	249.3	66.8	82.3
Other Current Assets	92.2	94.2	127.9	141.7
Total Current Assets	814.5	1,199.2	1,230.4	1,392.8
Trade Payable	213.9	254.5	342.0	385.9
Other Current Liabilities	166.0	167.5	191.1	213.2
Provisions	13.5	14.8	18.3	27.5
Net Current Assets	421.1	762.4	679.1	766.2
Total Assets	1,347.0	1,778.0	2,512.0	2,875.0

Source: Company, ICICI Direct Research

Exhibit 19: Key ratios

	FY21	FY22	FY23E	FY24E
Per Share Data (₹)				
EPS - Diluted	9.2	14.6	18.8	20.6
Cash EPS	12.0	17.7	22.7	25.5
Book Value	56.9	70.4	87.7	106.3
Dividend per share	-	1.0	1.5	2.0
Operating Ratios (%)				
EBITDA / Net Sales	15.9	17.8	18.0	18.5
PAT / Net Sales	9.6	10.8	11.7	11.4
Inventory Days	57	60	57	57
Debtor Days	51	42	45	45
Creditor Days	37	31	35	35
Return Ratios (%)				
RoE	16.1	20.8	21.4	19.4
RoCE	20.7	27.3	22.8	22.9
RoIC	23.4	33.8	22.5	22.7
Valuation Ratios (x)				
EV / EBITDA	36.1	22.6	19.7	16.8
P/E (Diluted)	59.6	37.4	29.1	26.6
EV / Net Sales	5.7	4.0	3.5	3.1
Market Cap / Sales	5.8	4.0	3.4	3.0
Price to Book Value	9.6	7.8	6.2	5.1
Dividend Yield	-	0.2	0.3	0.4
Solvency Ratios (x)				
Net Debt / Equity	(0.0)	(0.0)	0.2	0.2
Debt / EBITDA	0.4	0.4	0.9	0.7
Current Ratio	1.9	2.2	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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