



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	■	↔	■

ESG Disclosure Score NEW

ESG RISK RATING 40.83
Updated Jul 08, 2022

Severe Risk

NEGL	LOW	MED	HIGH	SEVERE
0-10	10-20	20-30	30-40	40+

Source: Morningstar

Company details

Market cap:	Rs. 12,895 cr
52-week high/low:	Rs. 749 / 352
NSE volume: (No of shares)	22.2 lakh
BSE code:	532548
NSE code:	CENTURYPLY
Free float: (No of shares)	20.4 cr

Shareholding (%)

Promoters	73
FII	7
DII	12
Others	8

Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	16.2	-8.6	-5.0	35.8
Relative to Sensex	8.7	-5.9	-1.8	30.5

Sharekhan Research, Bloomberg

Century Plyboards Ltd

Strong demand environment expected to sustain

Building Materials	Sharekhan code: CENTURYPLY		
Reco/View: Buy	↔	CMP: Rs. 580	Price Target: Rs. 700 ↔
↑ Upgrade		↔ Maintain	
		↓ Downgrade	

Summary

- In Q1FY2023, Century Plyboards reported a strong beat on standalone net revenues and net profit although OPM lagged due to weak margins of plywood segment.
- Management reiterated its over 20% y-o-y revenue growth forecast, retaining segment-wise volume and value guidance. Led by a strong start to FY23, the company would endeavour to grow at double digits for 9MFY2023 surpassing full-year guidance.
- Capacity expansion plans in MDF and laminates on track. Company to carry out de-bottlenecking in Plywood. The decision on particle board expansion is yet to be taken.
- We retain a Buy on Century Plyboards with an unchanged PT of Rs. 700.

Century Plyboards reported strong beat on net revenues and net profit although OPM lagged expectations for Q1FY2023. MDF (sales/volumes/realizations were up 71%/42%/20% y-o-y), Plywood (up 113%/106%/4%), laminates (up 86%/60%/16%) and particleboard segments (up 115%/72%/25%) reported strong numbers. Standalone OPM at 16.5% (up 300 bps y-o-y, down 130 bps q-o-q) was below estimate led by lower OPM in plywood (10.4%, owing to delayed price hikes and frontloading of A&P spends). OPM of MDF (35%) and Particleboard (36%) segments touched historical highs. Standalone operating profit/adjusted net profit were up 140%/187% at Rs. 145 crore/Rs. 98 crore. The company retained its earlier guidance of overall 20% y-o-y revenue growth for FY2023 despite a strong Q1. Its 350 cbm/day brownfield and 950 cbm greenfield (Rs. 600 crore capex) MDF capacities are expected in October 2022 and H2FY2024. The 4-million sheets per annum greenfield laminate capacity at a capex of Rs. 200 crores is expected to commission in two phases (phase I in Q2FY2024).

Key positives

- Standalone revenues just dropped 1.5% q-o-q led by strong revenue growth across all key segments.
- OPM in MDF and Particleboard were at lifetime high of 35% and 36% in Q4FY2022.

Key negatives

- Plywood segment's OPM stood at just 10.4% affected by delay in price hikes and front loading of A&P spends during Q1FY2023.
- Final decision on particleboard expansion plan is yet to taken while the company is certain about its expansion.

Management Commentary

- Management retained segment-wise growth guidance for FY2023 as follows - 1) Plywood – volume growth of 15%, value growth of 20% 2) Laminates – volume and value growth of 15% 3) MDF – volume and value of 20% 4) Particleboard – volume growth of 10%, value growth of 20%. Overall it expects to grow by over 20% y-o-y for FY2023.
- The company hiked Plywood prices by 2-3% during Q1FY2023. In premium plywood segment it undertook 2% hike, in Sainik 3% and in Sainik MR 7%. In laminates, it took 4% hike in 1mm and 3% in 0.8mm. In MDF, it did not hike prices while in particleboard segment it undertook 9% price hike in two phases of 5% and 4%.
- The working capital improved by 5 days q-o-q to 58 days. Net cash position remain strong at Rs. 184 crores.

Revision in estimates – We have retained our estimates for FY2023-FY2024.

Our Call

Valuation – Maintain Buy with an unchanged PT of Rs. 700: Century Plywood is expected to ride on strong growth envisaged for wood panel industry over the next five years driven by structural growth tailwinds in the domestic residential market. Aggressive capital expenditure across core businesses would help it capture industry growth potential although it is likely to face capacity constraints in Plywood and Particleboard segments. The company has been able to withstand rising input costs through its ability to increase prices, gain market share from unorganised segment and cost reduction initiatives undertaken internally. We maintain a Buy on the stock with an unchanged price target of Rs. 700.

Key Risks

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

Valuation (Consolidated)

Particulars	Rs cr			
	FY21	FY22	FY23E	FY24E
Revenue	2,130	3,027	3,514	3,920
OPM (%)	16.3	18.1	18.0	18.1
Adjusted PAT	202	311	405	462
% y-o-y growth	(3)	54	30	14
Adjusted EPS (Rs.)	9.1	14.0	18.2	20.8
P/E (x)	63.9	41.6	31.9	27.9
P/B (x)	10.2	8.3	6.7	5.4
EV/EBITDA (x)	38.9	24.5	20.8	18.0
RoNW (%)	17.1%	22.0%	23.2%	21.5%
RoCE (%)	15.9%	20.2%	21.1%	19.9%

Source: Company; Sharekhan estimates

Strong beat on revenues and net profitability

Standalone revenues for Q1FY2023 rose 96.4% y-o-y (-1.5% q-o-q) at Rs. 881.5 crore which was much higher than our estimate. Plywood revenues stood at Rs. 475 crore (+113% y-o-y, -0.4% q-o-q), laminate segment's revenues at Rs. 164 crore (+86.1% y-o-y, -5.8% q-o-q), MDF at Rs. 156 crore (+70.9% y-o-y, -4.4% q-o-q), particle board at Rs. 51 crore (+114.8% y-o-y, +8.6% q-o-q) and CFS at Rs. 21 crore (+13.6% y-o-y, -3.7% q-o-q). Standalone OPM stood at 16.5% (+300 bps y-o-y) which was lower than our estimate of 18.7%. Plywood (-462bps q-o-q) witnessed pressure on OPM sequentially to 10.4%. Other segments Laminate (+113bps q-o-q to 13.4%), MDF (+219bps q-o-q to 35%), Particle board (+755bps q-o-q to 36.3%) and CFS (up 528 bps q-o-q to 28.1%) reported improvement in operating margins sequentially. Overall, standalone operating profit grew 140.1% y-o-y (down 8.7% q-o-q) to Rs. 145 crore which was much higher than our estimate. Strong operational performance y-o-y led to 189% y-o-y growth (up 7.6% q-o-q) in standalone adjusted net profit at Rs.97.8 crore, which was much higher than our estimate.

Capacity expansion plans on track

Its Hoshiarpur brownfield expansion of MDF is expected to complete by October 2022. The South MDF plant is expected to complete by H2FY2024. The first phase of Greenfield laminate plant is expected by Q2FY2024. It is yet to take a final decision on capacity expansion in the particleboard segment, which is expected in one to one and half months. Plywood capacity will be increased to 330,000 cbm from 300,000 cbm this year through de-bottlenecking.

Key Conference Call Takeaways

- ◆ **Guidance:** Management retained segment-wise growth guidance for FY2023 which is as follows 1) Plywood – volume growth of 15%, value growth of 20% 2) Laminates – volume and value growth of 15% 3) MDF – volume and value growth of 20% 4) Particleboard – volume growth at 10%, value growth at 20%. Overall, the company expects to grow at more than 20% y-o-y for FY2023. However, it would endeavour to grow at double digit for 9MFY2023.
- ◆ **Price hikes:** The company undertook a 2-3% price hike in the plywood segment, while it hiked premium plywood prices by 2%, Sainik plywood by 3% and those of Sainik MR 7%. In laminates, it took 4% hike in 1mm and 3% in 0.8mm. In MDF, it did not take price hike while in particleboard segment it undertook 9% price hike in two phases of 5% and 4%.
- ◆ **Plywood margins:** The plywood segment's margins stood at 10.4% impacted by the lag impact of price hikes- and front loading of A&P spends. IPL-related spends hit the Plywood division by 1.5%. The company maintained plywood margins at 13-14% for FY2023.
- ◆ **MDF and Particle board:** The MDF and particleboard segments' operating margins were at historical highs of 35% and 36% respectively. Good demand for MDF and particleboard is expected to continue for a year.
- ◆ **MDF imports:** The inward freight for MDF is still high at \$100 versus \$22-23 two years back. Hence, it does not expect imports of MDF in foreseeable future. It expects to export MDF in two years time. The MDF market is expected to grow at 20% y-o-y each year. The new capacities in MDF would reach 100% capacity utilisation in first three years. The realisation of plain MDF is Rs. 31,000/cbm while pre-lam MDF is Rs. 44,000/cbm. However, mix of pre-lam MDF is 20% for the company.
- ◆ **Raw material prices:** The craft paper and phenol prices has surged on m-o-m basis during Q1FY2023 while timber prices remained at elevated levels but has stabilised now.
- ◆ **Capacity expansions:** Its Hoshiarpur brownfield expansion of MDF is expected to complete by October 2022. The South MDF plant is expected to be completed by H2FY2024. The first phase of Greenfield laminate plant is expected by Q2FY2024. It is yet to take a final decision on capacity expansion in particle board, which is expected in one to one and half months. Plywood capacity will be increased to 330,000 cbm from 300,000cbm this year through de-bottlenecking.
- ◆ **Working capital and cash:** Working capital cycle improved by 5 days q-o-q to 58 days. Net cash position remain strong at Rs. 184 crore.

Results (Standalone)					Rs cr	
Particulars	Q1FY23	Q1FY22	Y-o-Y %	Q4FY22	Q-o-Q %	
Income from operations	881.5	448.9	96.4	895.3	(1.5)	
COGS	465.6	198.2	134.9	459.5	1.3	
Gross profit	415.9	250.6	65.9	435.7	(4.6)	
Gross margin (%)	47.2	55.8	(866)	48.7	(149.6)	
Employee cost	115.2	88.7	29.9	111.7	3.2	
Other expenditure	155.4	101.5	53.1	165.0	(5.8)	
Total expenditure	736.3	388.4	89.6	736.2	0.0	
Operating profit	145.2	60.5	140.1	159.1	(8.7)	
Finance cost	1.8	2.0	-8.6	1.6	11.2	
Depreciation	17.8	16.3	9.1	17.2	3.7	
Non operating income	6.0	4.9	21.9	5.2	14.8	
Forex loss/(gain)	1.3	0.0		(0.2)		
PBT	130.2	47.1	176.6	145.7	(10.6)	
Tax	33.8	13.2	155.9	54.6	(38.2)	
Reported PAT	96.5	33.9	184.7	91.0	6.0	
Adjusted PAT	97.8	33.9	188.6	90.9	7.6	
Margin (%)			BPS		BPS	
OPM (%)	16.5	13.5	300	17.8	(130)	
NPM (%)	11.1	7.6	355	10.1	95	
Tax rate (%)	25.9	28.0	(210)	37.5	(1,159)	

Source: Company; Sharekhan Research

Outlook and Valuation

■ Sector View – Expect operations to recover faster

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 its net earnings. However, from June, the sector has been one of the fastest in recovery with easing of lockdowns domestically. The sector has witnessed the 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 a recovery in net earnings. The industry is expected to rebound with strong growth in FY2022.

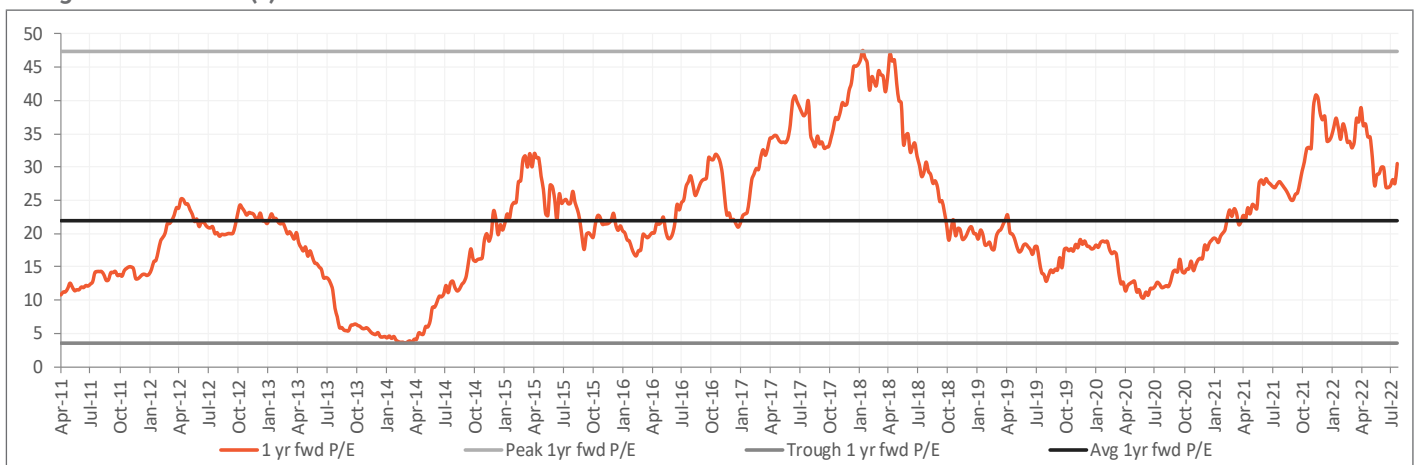
■ Company Outlook – Poised for healthy growth aided by capacity expansion

Century Plywood has seen a strong pent-up demand along with possible market share gains, which drove strong volume growth across key verticals. The management aims to achieve Rs. 5,000 crore in revenues in FY2026 at 19% CAGR over FY2021-FY2026. The MDF segment is expected to grow at 20% CAGR while other segments are expected to grow in teens. The company would strive to maintain 13-15% OPM in Plywood, 15-17% in laminates, 20% in particle board and 25%+ in MDF on a sustainable basis. The capex for FY2021-2026 is expected to be Rs. 1,230 crore versus Rs. 1,140 crore gross block accumulated over 35 years. The capex would be funded largely through internal accruals. The company continues to gain market share from unorganised players especially in its mid-level Sainik plywood brand, which is expected to grow at a higher pace with improvement in profitability. On the balance sheet front, the company has healthy treasury assets, which would be utilised for its future capex plans.

■ Valuation – Maintain Buy with an unchanged PT of Rs. 700

Century Plywood is expected to ride on strong growth envisaged for wood panel industry over the next five years driven by structural growth tailwinds in the domestic residential market. Aggressive capital expenditure across core businesses would help it capture industry growth potential although it is likely to face capacity constraints in Plywood and Particleboard segments. The company has been able to withstand rising input costs through its ability to increase prices, gain market share from unorganised segment and cost reduction initiatives undertaken internally. We maintain a Buy on the stock with an unchanged price target of Rs. 700.

One-year forward P/E (x) band



Source: Company, Sharekhan Research

Peer Comparison

Particulars	P/E (x)		EV/EBITDA (x)		P/BV (x)		RoE (%)	
	FY23E	FY24E	FY23E	FY24E	FY23E	FY24E	FY23E	FY24E
Century Plyboards	31.9	27.9	20.8	18.0	6.7	5.4	23.2	21.5
Greenlam Industries	42.1	27.3	20.2	14.0	5.9	4.9	15.1	20.0
Greenpanel Industries	20.1	15.3	11.7	10.0	5.0	3.9	28.3	28.7

Source: 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 and market share gains from unorganized players. 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 across its key product verticals 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 Jhunjunwala	Company Secretary & Compliance Officer

Source: Company Website

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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Compliance Officer: Ms. Priya Sonavane; Tel: 022-61150000; email id: compliance@sharekhan.com;

For any queries or grievances kindly email igc@sharekhan.com or contact: myaccount@sharekhan.com

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