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**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**  
Updated Aug 08, 2022 40.83

**Severe Risk**

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

Source: Morningstar

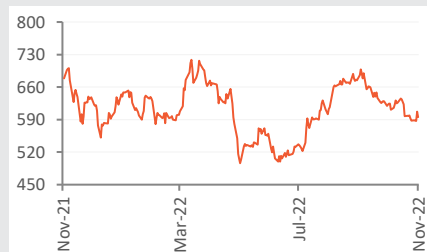
**Company details**

Market cap:	Rs. 13,228 cr
52-week high/low:	Rs. 749/485
NSE volume: (No of shares)	577763 lakh
BSE code:	532548
NSE code:	CENTURYPLY
Free float: (No of shares)	20.6 cr

**Shareholding (%)**

Promoters	73
FII	7
DII	13
Others	8

**Price chart**



**Price performance**

(%)	1m	3m	6m	12m
Absolute	-4.6	-3.5	20.0	-12.3
Relative to Sensex	-11.8	-7.4	3.3	-14.1

Sharekhan Research, Bloomberg

**Century Plyboards Ltd**  
**A one-off weak Q2; Growth plans intact**

<b>Building Materials</b>	<b>Sharekhan code: CENTURYPLY</b>		
<b>Reco/View: Buy</b>	↔	<b>CMP: Rs. 595</b>	<b>Price Target: Rs. 700</b>
↑ Upgrade	↔ Maintain	↓ Downgrade	

**Summary**

- For Q2FY2023, Century Plyboards Limited (Century Plyboards) reported in-line standalone revenue, led by strong growth in MDF and particle boards. However, OPM lagged estimates, led by sharp q-o-q correction of OPM in MDF and particle board along with one-off impairment loss.
- Management reiterated its over 20% y-o-y revenue growth forecast, retaining segment-wise volume and value guidance.
- Capacity expansion plans in MDF and laminates are on track. The company announced particle board greenfield expansion in Tamil Nadu at a capex of Rs. 550 crore. Century Plyboards is scouting for land in Hoshiarpur for plywood expansion.
- We retain our Buy rating on Century Plyboards with an unchanged price target of Rs. 700, considering strong earnings growth over FY2022-FY2025E, led by healthy demand, capacity additions, and market share gains from the unorganised sector.

Century Plyboards Limited (Century Plyboards) reported in-line standalone revenue of Rs. 900 crore (up 11% y-o-y), aided by strong revenue growth in MDF (up 23% y-o-y) and particle board (up 24% y-o-y). However, the company disappointed on the operating profit margin (OPM) front, which stood at 11.7% (down 789bps y-o-y) owing to sharp q-o-q contraction of OPM in MDF (down 813 bps y-o-y) and particle board (down 744 bps y-o-y) along with Rs. 47 crore impairment loss taken in its Myanmar subsidiary. Consequently, standalone operating profit/adjusted net profit declined by 33%/23% y-o-y, which was much below our as well as street's estimates. However, the company has retained its earlier guidance of overall 20% y-o-y revenue growth for FY2023, maintaining segment-wise value and volume growth. The company's 350 cbm/day MDF brownfield and 950 cbm greenfield MDF capacities are expected by November 2022 end and H2FY2024, respectively. Phase-I of the four million sheets per annum greenfield laminate capacity is expected in Q2FY2024. The company also announced 3,60,000 cbm p.a. particle board greenfield unit in Tamil Nadu at a capex of Rs. 550 crore, which is expected in Q4FY2025. The company continues to scout for land in Hoshiarpur for plywood expansion.

**Key positives**

- Standalone revenue remained in-line with estimates, led by strong revenue growth of 23% y-o-y and 24% y-o-y in MDF and particle board, respectively.
- The company has further tightened its working capital days by three days q-o-q. Net cash remained strong at Rs. 176 crore after taking an impairment loss of Rs. 47 crore in Myanmar subsidiary.

**Key negatives**

- MDF and particle board witnessed 813 bps y-o-y and 744 bps y-o-y dip in OPM to 26.8% and 28.9%, respectively.
- The impairment of Rs. 47 crore in Myanmar subsidiary weakened overall OPM further.

**Management Commentary**

- Management has retained segment-wise growth guidance for FY2023 as follows - 1) **Plywood** – volume growth of 15% and 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% and value growth of 20%.
- The company's board approved the proposal for setting up a new particle board manufacturing unit having 3,60,000 cbm p.a. in Tamil Nadu at a capex of Rs. 550 crore, which will be financed through internal accruals. The company expects to generate Rs. 600 crore turnover at full capacity utilisation over two-and-a-half to three years.
- Timber prices remain elevated and are expected to be firm over the next couple of years, led by supply crunch. Chemical prices have started to cool off slightly.

**Revision in estimates** – We have lowered our net earnings estimates for FY2023, factoring in weak margins in MDF and particle board. We broadly retain our estimates for FY2024.

**Our Call**

**Valuation – Maintain Buy with an unchanged PT of Rs. 700:** Century Plywood is expected to ride on strong growth envisaged for the 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 over a longer period. However, OPM in the MDF and particle board are expected to normalise from its historical peak seen in Q1FY2023. We have introduced our FY2025E earnings in this note. We maintain our Buy rating on the stock with an unchanged price target (PT) of Rs. 700, considering strong earnings growth over FY2022-FY2025E, led by healthy demand, capacity additions, and market share gains from the unorganized sector.

**Key Risks**

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

**Valuation (Consolidated)**

Particulars	FY22	FY23E	FY24E	FY25E
Revenue	3,027	3,513	4,029	4,632
OPM (%)	18.1	16.5	17.4	18.0
Adjusted PAT	311	369	457	548
% y-o-y growth	54	19	24	20
Adjusted EPS (Rs.)	14.0	16.6	20.5	24.6
P/E (x)	42.6	35.9	29.0	24.2
P/B (x)	8.5	7.0	5.7	4.6
EV/EBITDA (x)	25.2	23.9	18.8	15.4
RoNW (%)	22.0%	21.3%	21.6%	21.2%
RoCE (%)	20.2%	19.5%	20.0%	19.9%

Source: Company; Sharekhan estimates

## Revenue in line with estimates, while OPM disappoints

Standalone revenue for Q2FY2023 rose by 11.4% y-o-y (+2.1% q-o-q) at Rs. 900 crore, which was in line with our estimates. Plywood revenue stood at Rs. 487 crore (+9.3% y-o-y, +2.6% q-o-q). The laminate segment's revenue stood at Rs. 176 crore (+7.6% y-o-y, +7.7% q-o-q). Revenue of the MDF segment stood at Rs. 157 crore (+23% y-o-y, +0.7% q-o-q). Particle board reported revenue of Rs. 47 crore (+24.1% y-o-y, -7.3% q-o-q) and CFS registered revenue of Rs. 18 crore (-1.4% y-o-y, -14.7% q-o-q). Standalone OPM stood at 11.7% (down 789bps y-o-y), much below street as well as our estimates owing to the sharp q-o-q contraction of OPM in MDF (down 813bps y-o-y) and particle board (down 744bps y-o-y) along with Rs. 47 crore impairment loss taken in its Myanmar subsidiary. Consequently, standalone operating profit/adjusted net profit declined by 33%/23% y-o-y, which was much below street as well as our estimates.

## Key Conference call takeaways

- ◆ **Guidance:** Management has retained its overall revenue growth guidance of 20% y-o-y plus for FY2023. Segment-wise growth guidance for FY2023 is as follows: 1) Plywood – volume growth at 15%, value growth at 20%; 2) laminate – volume and value growth at 15%; 3) MDF – volume and value of 20%; 4) particle board – volume growth 10% and value growth at 20%. Segment wise OPM guidance is as follows – plywood – 13-15%, laminate – 14-16%, while MDF and particle board at 25%+.
- ◆ **Q2FY2023 performance:** The company generated strong cash flow of Rs. 223 crore in H1FY2023. Plywood and laminate reported 9% and 8% y-o-y revenue growth, respectively. MDF and particle board reported 23% and 24% y-o-y revenue growth, respectively. MDF and particle board reported 813bps and 744bps q-o-q dip in OPM, respectively, which along with Rs. 47 crore impairment loss for its Myanmar subsidiary led to weak operating margins for Q2FY2023.
- ◆ **Capacity expansion:** The work on brownfield MDF expansion at Hoshiarpur is on track and is likely to come on stream by November 2022-end. With regards to the upcoming greenfield MDF project at Andhra Pradesh, the project is likely to commission in H2FY2024. The laminate greenfield project at Andhra Pradesh is also expected to come on stream in Q2FY2024.
- ◆ **New capacity expansion:** The company's board approved the proposal for setting up a new particle board manufacturing unit having 3,60,000 cbm p.a. in Tamil Nadu at a capex of Rs. 550 crore, which will be financed through internal accruals. It expects to generate Rs. 600 crore turnover at full capacity utilisation over two-and-a-half to three years.
- ◆ **MDF:** The MDF segment's gross margins were affected by higher raw-material costs and lower operating leverage due to breakdown in its plant. Timber prices have gone up 10-12% since the start of the year, while one of the chemicals used in MDF rose by 20-25%. Timber prices remain elevated, while chemical prices have come off slightly. Capacity utilisation for MDF unit dropped to 80% in Q2FY2023 versus 89% in Q1FY2023. Currently, imported MDF prices are cheaper by 10-15% than domestic.
- ◆ **Plywood:** It expects single-digit y-o-y growth for H2FY2023. OPM for plywood was better q-o-q due to full effect of price hikes taken during April, May-end, and June in Q2FY2023 and nil costs related to IPL, which were in Q1FY2023. Further, core veneer prices have dropped by 2.5-3%. It is also searching for land in Hoshiarpur for expansion in the plywood segment.

Results (Standalone)					Rs cr	
Particulars	Q2FY23	Q2FY22	% yoy	Q1FY23	% qoq	
<b>Income from operations</b>	<b>900.2</b>	<b>808.3</b>	<b>11.4</b>	<b>881.5</b>	<b>2.1</b>	
COGS	488.2	419.1	16.5	465.6	4.9	
<b>Gross profit</b>	<b>412.0</b>	<b>389.2</b>	<b>5.8</b>	<b>415.9</b>	<b>(0.9)</b>	
Gross margin (%)	45.8	48.2	(239)	47.2	(141.2)	
Employee cost	113.8	99.6	14.3	115.2	(1.2)	
Other expenditure	192.6	131.0	47.0	155.4	23.9	
Total expenditure	794.6	649.7	22.3	736.3	7.9	
<b>Operating profit</b>	<b>105.6</b>	<b>158.6</b>	<b>-33.4</b>	<b>145.2</b>	<b>(27.3)</b>	
Finance cost	2.2	1.6	42.5	1.8	25.1	
Depreciation	17.8	16.8	5.7	17.8	(0.1)	
Non operating income	19.5	6.8	185.6	6.0	225.4	
Forex loss/(gain)	2.1	(1.4)	-	1.3	-	
<b>PBT</b>	<b>102.9</b>	<b>148.4</b>	<b>-30.6</b>	<b>130.2</b>	<b>(21.0)</b>	
Tax	26.7	45.4	-41.1	33.8	(20.8)	
Reported PAT	76.2	103.1	-26.1	96.5	(21.0)	
<b>Adjusted PAT</b>	<b>78.3</b>	<b>101.6</b>	<b>-23.0</b>	<b>97.8</b>	<b>(20.0)</b>	
<b>Margin (%)</b>			<b>BPS</b>		<b>BPS</b>	
OPM (%)	11.7	19.6	(789)	16.5	(474)	
NPM (%)	8.7	12.6	(388)	11.1	(240)	
Tax rate (%)	26.0	30.6	(459)	25.9	4	

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 recovery in net earnings. The industry is expected to rebound with strong growth in FY2022.

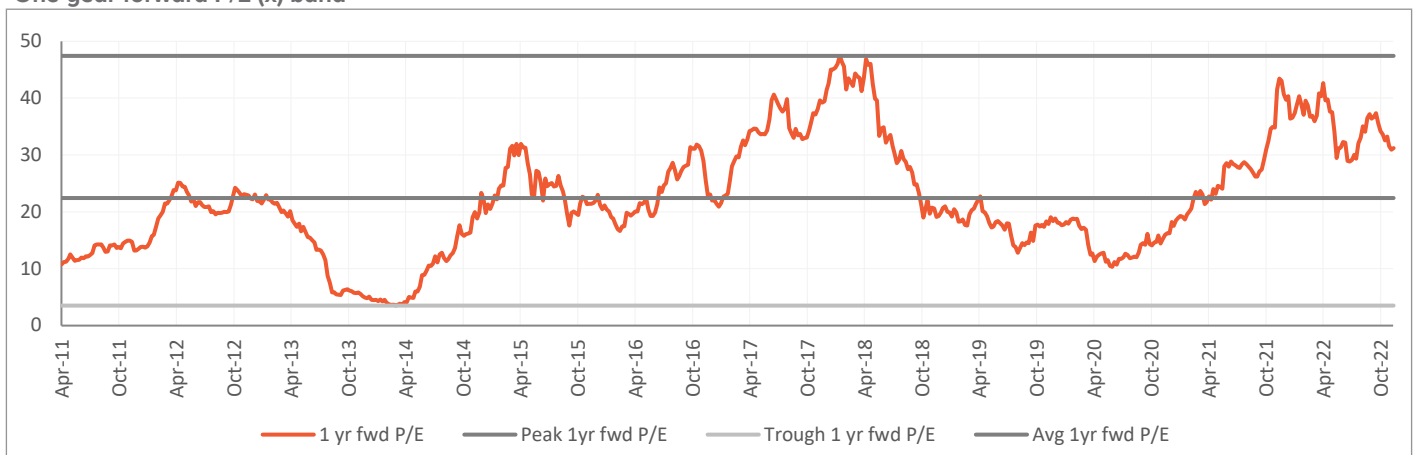
### ■ Company Outlook – Poised for healthy growth aided by capacity expansion

Century Plywood has seen strong pent-up demand along with possible market share gains, which drove strong volume growth across key verticals. Management aims to achieve Rs. 5,000 crore in revenue in FY2026 at a 19% CAGR over FY2021-FY2026. The MDF and particle board segments are expected to post a 20% CAGR, while other segments are expected to grow in teens. The company would strive to maintain 13-15% OPM in plywood, 14-16% in laminates, and over 25% in MDF and particle board on a sustainable basis. The company's capacity expansion plans in MDF and laminates remain on track. The company announced particle board greenfield expansion in Tamil Nadu at a capex of Rs. 550 crore. Century Plyboards is scouting for land in Hoshiarpur for plywood expansion. 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.

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

Century Plyboards is expected to ride on strong growth envisaged for the 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 over a longer period. However, OPM in the MDF and particle board are expected to normalise from its historical peak seen in Q1FY2023. We have introduced our FY2025E earnings in this note. We maintain our Buy rating on the stock with an unchanged price target (PT) of Rs. 700, considering strong earnings growth over FY2022-FY2025E, led by healthy demand, capacity additions, and market share gains from the unorganized sector.

One-year forward P/E (x) band



Source: 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	35.9	29.0	23.9	18.8	7.0	5.7	21.3	21.6
Greenlam Industries	36.1	23.0	17.1	11.9	5.1	4.3	15.3	20.5
Greenpanel Industries	14.4	11.2	8.9	7.7	3.7	2.8	29.4	29.0

Source: Sharekhan Research

## About company

Century Plyboards 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 Plyboards, like some of its industry peers, has been able to gain from strong demand momentum and market share gains from unorganised players. Further, the demand outlook going ahead 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 recent price hikes and cost efficiencies. Capacity expansion across its key product verticals is expected to provide the next leg of growth. The company has been able to generate strong operating cash flows increasing its treasury surplus, which should aid in capacity expansion going ahead.

## Key Risks

- ◆ Slowdown in macroeconomics, 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 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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