Sharekhan by BNP PARIBAS

Powered by the Sharekhan 3R Research Philosophy

Stock Update

Result Update

Century Plyboards Ltd

In-line Q3; Favourable valuation

Building Materials	Sharekhan code: CENTURYPLY

Reco/View: Buy	↔	CMP: **Rs. 517**	Price Target: **Rs. 620**	↓

↑ Upgrade ↔ Maintain ↓ Downgrade

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 Dec 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. 1,1475 cr
52-week high/low:	Rs. 749/476
NSE volume: (No of shares)	5.8 lakh
BSE code:	532548
NSE code:	CENTURYPLY
Free float: (No of shares)	20.6 cr

Shareholding (%)

Promoters	73
FII	6
DII	13
Others	7

Price chart

Price performance

(%)	1m	3m	6m	12m
Absolute	0.2	-12.0	-14.1	-19.2
Relative to Sensex	0.3	-11.4	-17.3	-22.9

Sharekhan Research, Bloomberg

Summary

- For Q3FY2023, Century Plyboards clocked in-line numbers, led by better performance of Plywood segment, while MDF and particleboard segments were hit by higher imports.
- Management trimmed down revenue guidance for FY2023 for MDF and particleboard, while OPM guidance across products owing to higher raw material prices, near term demand challenges and high imports.
- Capacity expansion plans in MDF, laminates and particleboards stay intact. Expansion of core business to capture industry growth potential over long term while MDF and particle board face near-term headwinds.
- We retain a Buy on Century Plyboards with a revised price target of Rs. 620, owing to a downward revision in earnings estimates and assigning lower valuation multiple to factor in near-term challenges.

Century Plyboards Limited reported broadly in-line performance for Q3FY2023. Standalone revenues stood at Rs. 877 crore (up 3.4% y-o-y), aided by revenue growth in plywood and laminates segments (up 10% and 5.5% y-o-y) while MDF and particle board (down 7% and 8% y-o-y) reported weak performance. OPM stood at 14.5%, (down 320 bps y-o-y) owing to sharp q-o-q contraction of the OPMs of particleboard (down 812 bps), laminates (down 306 bps) and MDF (down 284 bps). Consequently, standalone operating profit/adjusted net profit declined by 15%/13.5% y-o-y. The management trimmed down revenue guidance for FY2023 for MDF and particle board while OPM guidance across products owing to higher raw material prices (Plywood), demand challenges (laminates) and high imports (MDF and particleboard). The company's 350 cbm/day MDF brownfield and 950 cbm greenfield MDF capacities are expected by March 2023 and H2FY2024, respectively. Phase-I of the four million sheets per annum greenfield laminate capacity is expected in Q2FY2024. Its 3,60,000 cbm p.a. particleboard greenfield unit in Tamil Nadu is expected in Q4FY2025.

Key positives

- Plywood and laminates divisions reported a revenue growth of 10% y-o-y and 5.5% y-o-y, respectively.
- Company further tightened its working capital cycle by three days q-o-q. Net cash remained strong at Rs. 208 crores.

Key negatives

- MDF and particleboard divisions witnessed dip in revenues and operating margins affected by high imports.
- Laminate EBITDA margins contracted 306 bps q-o-q owing to higher decorative paper costs and absence of operating leverage.

Management Commentary

- Segment-wise growth guidance for FY2023 is revised downwards as follows 1) Plywood – volume growth 15%, value growth 20% 2) Laminates – volume growth 5%+ (earlier 15%) and value growth of 15% 3) MDF – volume growth of 5%+ (earlier 20%+) and value growth of 15% (earlier 20%+) 4) Particleboard – volume growth flat (earlier 10%), value growth 12-15% (earlier 20%).
- Segment-wise OPM guidance for FY2023 is revised downwards as follows – Plywood – 12-14% (earlier 13-15%), laminate – 13-15% (earlier 14-16%) while MDF and Particle board at 20-25% (earlier 25%+).
- In particleboard, it lowered prices for pre-lam boards by 4.5% in November, plain boards by 10% in December, plain boards by 10% in January and pre-lam boards by 5-10% in January.

Revision in estimates – We have lowered our net earnings estimates for FY2023-FY2025 factoring weak margins in MDF and particleboard.

Our Call

Valuation – Maintain Buy with a revised PT of Rs. 620: Century Plyboards is expected to witness weak demand and margin pressure in laminates, MDF and particleboard in the near to medium term while Plywood is better placed. The company's northern operations in MDF has led to lower effect of MDF imports while it has lowered particle board prices to landed import prices. Overall, we believe in the near term, it may face OPM headwinds especially in MDF and particle board, yet it is relatively well placed due to its diversified product offering in wood panel industry. Its capacity expansions across core businesses would help it capture industry growth potential over a longer period. Stock has corrected over 25% over trailing five months and is currently trading at a P/E of 28x/23x its FY2024E/FY2025E earnings. We believe it provides an opportunity to buy considering over 20% CAGR in net earnings over FY2023E-FY2025E. Hence, we retain a Buy with a revised PT of Rs. 620 owing to downward revision in earnings estimates and assigning lower valuation multiple to factor in near-term challenges.

Key Risks

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

Valuation (Consolidated) Rs cr

Particulars	FY22	FY23E	FY24E	FY25E
Revenue	3,027	3,552	4,036	4,629
OPM (%)	18.1	15.4	16.0	16.7
Adjusted PAT	311	348	414	504
% y-o-y growth	*54*	*12*	*19*	*22*
Adjusted EPS (Rs.)	14.0	15.6	18.6	22.6
P/E (x)	37.0	33.1	27.7	22.8
P/B (x)	7.4	6.1	5.1	4.2
EV/EBITDA (x)	21.8	21.9	17.8	14.4
RoNW (%)	22.0%	20.3%	20.0%	20.1%
RoCE (%)	20.2%	18.4%	18.5%	18.9%

Source: Company; Sharekhan estimates

Broadly in-line performance

Standalone revenues for Q3FY2023 grew 3.4% y-o-y (-2.6% q-o-q) at Rs. 877 crore which was 6% higher than our estimate. Plywood revenues stood at Rs. 483 crore (+10% y-o-y, -1% q-o-q), Laminate at Rs. 158 crore (+6% y-o-y, -11% q-o-q), MDF at Rs. 167 crore (-7% y-o-y, +6% q-o-q), particle board at Rs. 39 crore (-8% y-o-y, -19% q-o-q) and CFS at Rs. 20 crore (-3% y-o-y, +13% q-o-q). Standalone OPM stood at 14.5% (-320 bps y-o-y) was tad lower than our estimate of 15%. Laminates (-306 bps q-o-q), MDF (-284 bps q-o-q) and Particle board (-812 bps q-o-q) witnessed pressure on OPM sequentially. Other segments Plywood (+736 bps q-o-q to 11.7%) and CFS (+694 bps q-o-q to 28.8%) reported improvement in operating margins sequentially. Overall, standalone operating profit declined by 15.3% y-o-y (up 20.6% q-o-q) to Rs. 127 crore which was largely in-line with our estimate. Weak operational performance y-o-y led to 13.5% y-o-y decline (up 6.7% q-o-q) in standalone adjusted net profit at Rs.83.5 crore, which was largely in-line with our estimate.

Key Conference call takeaways

- **Guidance trimmed down:** Segment-wise growth guidance for FY2023 is revised downwards as follows 1) Plywood – volume growth 15%, value growth 20% 2) laminate – volume growth 5%+ (earlier 15%) and value growth of 15% 3) MDF – volume growth of 5%+ (earlier at over 20%) and value growth of 15% (earlier 20%+) 4) Particle board – volume growth flat (earlier 10%), value growth 12-15% (earlier 20%). The segment wise OPM guidance is revised downwards as follows – ***Plywood –*** 12-14% (earlier 13-15%), ***laminate –*** 13-15% (earlier 14-16%) while MDF and Particle board at 20-25% (earlier over 25%). It did not give guidance for FY2024 owing to capacity additions and weak demand environment in the near term.
- **Q2FY2023 performance:** Consolidated revenues were up 3.4% y-o-y to Rs. 877 crores. Plywood and laminate revenues were up 10% y-o-y and 5.5% y-o-y while MDF and particle board revenues were lower 7% y-o-y and 8% y-o-y. Gross margins and operating margins contracted 216 bps y-o-y and 320 bps y-o-y. Plywood and laminate EBITDA margins declined by 180 bps q-o-q and 310 bps q-o-q while MDF and particleboard EBITDA margins contracted by 280 bps q-o-q and 810 bps q-o-q. Timber prices treaded higher while chemical prices softened during Q3FY2023.
- **Product pricing:** It increased Plywood Sainik MR prices by 4% in November while it took 2% price hike across products in January 2023. In particle board, it lowered prices for pre-lam boards by 4.5% in November, plain boards by 10% in December, plain boards by 10% in January and pre-lam boards by 5-10% in January.
- **Capacity expansion:** The MDF brownfield expansion at Hoshiarpur has already manufactured its first board & is likely to commence commercial production in March 2023. With regards to the upcoming greenfield MDF project at Andhra Pradesh, the project is running as per schedule and is likely to commission in H2FY24. The laminate greenfield project at Andhra Pradesh is also expected to come on stream in Q2FY24.
- **Myanmar impairment:** It took Rs. 2.37 crore impairment for Myanmar operations in Q3 post Rs. 47 crore undertaken during Q2. With this, it has completed the total impairment of Myanmar operations.
- **MDF industry expansion:** There are three MDF units to commission during this fiscal as follows Greenply in Western region, Action in North and Century Plyboards in South. The company expects to maintain 20-25% EBITDA margins in MDF till the upcoming capacities comes on stream.
- **Particle board:** The particleboard OPM has been revised downwards from 25%+ to 20-25% owing to imports and price conscious OEMs clients. Currently, particleboard prices are equal to landed cost of imports.

- **MDF:** The MDF OPM has been revised downwards from 25%+ to 20-25% owing to higher imports. The domestic imports during October stood at 18000 cbm, November 21000 cbm and December 18000 cbm.
- **Plywood:** Plywood margins are affected by an increase in raw materials cost domestically.
- **Laminates:** Demand environment remains challenging. It expects to see much better demand from Q2FY2024.

Results (Standalone) Rs cr

Particulars	Q3FY23	Q3FY22	% yoy	Q2FY23	% qoq
Income from operations	**877.2**	**848.5**	**3.4**	**900.2**	**(2.6)**
COGS	478.8	444.8	7.6	488.2	(1.9)
Gross profit	**398.4**	**403.6**	**-1.3**	**412.0**	**(3.3)**
Gross margin (%)	45.4	47.6	(216)	45.8	(34.5)
Employee cost	108.9	99.9	9.0	113.8	(4.3)
Other expenditure	162.2	153.5	5.7	192.6	(15.8)
Total expenditure	749.8	698.1	7.4	794.6	(5.6)
Operating profit	**127.4**	**150.3**	**-15.3**	**105.6**	**20.6**
Finance cost	3.1	1.9	62.3	2.2	39.9
Depreciation	18.0	17.2	5.1	17.8	1.2
Non operating income	6.1	5.8	4.2	19.5	(68.8)
Forex loss/(gain)	2.1	(0.8)		2.1	
PBT	**110.2**	**137.8**	**-20.1**	**102.9**	**7.0**
Tax	28.8	40.6	-29.0	26.7	7.7
Reported PAT	81.4	97.3	-16.4	76.2	6.7
Adjusted PAT	**83.5**	**96.5**	**-13.5**	**78.3**	**6.7**
Margin (%)			**BPS**		**BPS**
OPM (%)	14.5	17.7	(320)	11.7	279
NPM (%)	9.5	11.4	(185)	8.7	82
Tax rate (%)	26.1	29.4	(329)	26.0	18

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 revenues 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.

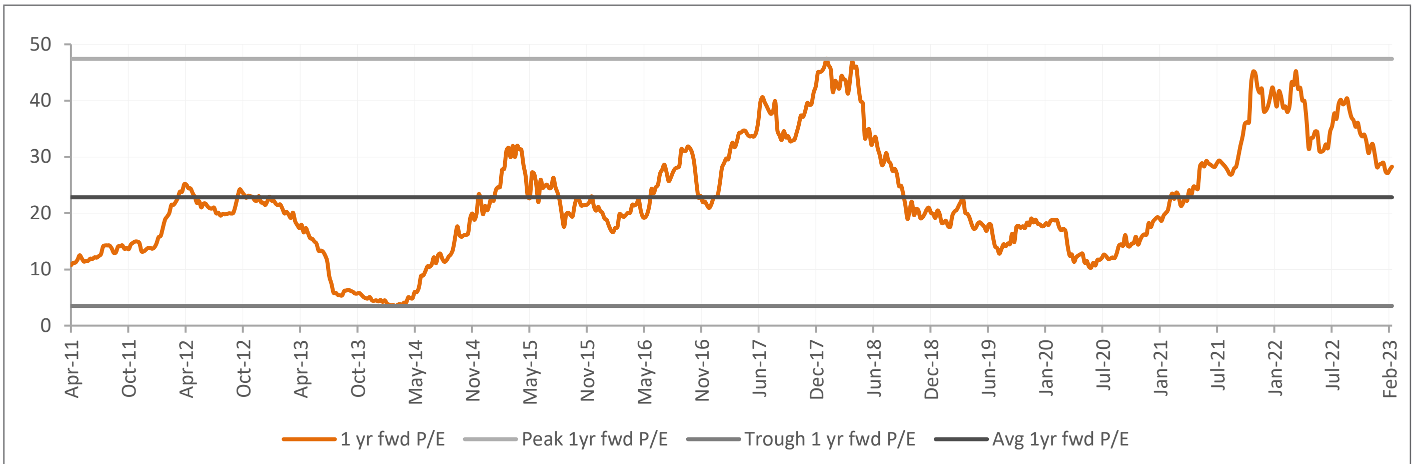
■ Company Outlook – Poised for healthy growth aided by capacity expansion

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 company faces near term headwinds in MDF and particle board due to high imports although its long term growth outlook is expected to stay intact. 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 a revised PT of Rs. 620

Century Plyboards is expected to see weak demand and margin pressure in laminates, MDF and particle board in the near to medium term, while Plywood is better placed. Northern operations in the MDF segment have led to lower impact of MDF imports while it has lowered particle board prices to landed import prices. Overall, we believe in the near term, it may face OPM headwinds especially in MDF and particle board, yet it is relatively well placed due to its diversified product offering in wood panel industry. Its capacity expansions across core businesses would help it capture industry growth potential over a longer period. The stock has corrected over 25% over trailing five months and is currently trading at a P/E of 28x/23x its FY2024E/FY2025E earnings. We believe it provides an opportunity to buy considering over a 20% CAGR in net earnings over FY2023E-FY2025E. Hence, we retain Buy with a revised PT of Rs. 620 owing to downward revision in earnings estimates and assigning lower valuation multiple to factor in near-term challenges.

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	33.1	27.7	21.9	17.8	6.1	5.1	20.3	20.0
Greenlam Industries	35.5	25.4	18.3	12.7	4.2	3.6	14.0	15.5

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*

Top 10 shareholders

Sr. No.	Holder Name	Holding (%)
1	Agarwal Sanjay	11.20
2	Bhajanka Sajjan	10.88
3	Khemani Vishnu	8.46
4	Agarwal Divya	7.54
5	Bhajanka Santosh	6.68
6	Kotak Mahindra Asset Management Co	4.37
7	Sriram Vanijya Pvt Ltd	3.83
8	Brijdham Merchants Pvt Ltd	3.49
9	Sumangal International Pvt Ltd	3.45
10	DSP Investment Managers Pvt Ltd	3.40

Source: Bloomberg

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 detoriating 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. Binkle Oza; Tel: 022-61150000; email id: complianceofficer@sharekhan.com;

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