



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, 2023

23.43

Medium Risk

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

Source: Morningstar

Company details

Market cap:	Rs. 14,112 cr
52-week high/low:	Rs. 721/437
NSE volume: (No of shares)	5.7 lakh
BSE code:	532548
NSE code:	CENTURYPLY
Free float: (No of shares)	20.7 cr

Shareholding (%)

Promoters	73
FII	6
DII	14
Others	7

Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	-0.6	1.9	15.4	4.6
Relative to Sensex	1.1	3.1	10.6	-2.5

Sharekhan Research, Bloomberg

Century Plyboards (India) Ltd

Mixed Q2; Upgrade to Hold

Building Materials

Sharekhan code: CENTURYPLY

Reco/View: Hold



CMP: Rs. 635

Price Target: Rs. 710



Upgrade



Maintain



Downgrade

Summary

- We upgrade Century Plyboards to Hold with a revised price target of Rs. 710, rolling forward our valuation to September 2025E earnings.
- For Q2FY2024, Century Plyboards reported better-than-expected standalone revenues, although OPMs lagged, leading to in-line PAT.
- For H2, management target double digit revenue growth for Plywood and laminate while MDF revenue guidance was upped to 25% y-o-y and particle board expected to remain flattish.
- Capacity expansion plans in MDF, laminates and particleboards stay on track, while Plywood expansion might get delayed by a quarter.

Century Plyboards Limited reported better-than-expected standalone revenues although lagged on OPM, leading to in-line PAT. Standalone revenues stood at Rs. 988 crores (up 9.7% y-o-y), aided by solid growth in revenues in MDF (up 25.5% y-o-y) followed by Plywood (up 11.2% y-o-y) while laminates (down 2.5% y-o-y) and particle board (down 19% y-o-y) were weak. OPM surprised negatively at 14% (although up 225 bps y-o-y) on account of lower MDF adjusted OPMs of 22.6%. Laminate OPMs improved q-o-q while Plywood remained flattish. Overall, standalone operating profit/adjusted net profit was up 30.8% y-o-y/14.1% y-o-y, respectively, in line with our estimates. For H2FY2024, Plywood and laminate are expected to grow in double digits y-o-y in revenues with 13-15% OPM, while MDF guidance was upped to 25% y-o-y revenue growth with 25% OPMs. The particle board is expected to remain flattish in H2 with 20% plus OPMs. For FY2025, it targets overall revenue growth of 20% y-o-y. MDF, laminate and particle board capacity additions remain on track, while there might be a quarter delay in Plywood expansion.

Key positives

- Plywood segment revenue was up 11% y-o-y with OPM expansion of 893 bps y-o-y.
- MDF revenues grew strongly by 25.5% y-o-y and 17.9% q-o-q to Rs. 197 crore.

Key negatives

- Laminate revenues declined 2.5% y-o-y with OPM contraction of 619 bps y-o-y.
- Adjusted MDF OPMs were lower by 262 bps y-o-y at 22.6%. Particle board OPMs were lower by 613 bps y-o-y at 22.4%.

Management Commentary

- For H2FY2024, Plywood and laminate are expected to see double-digit revenue growth y-o-y along with 13-15% OPM. The MDF segment is expected to grow at 25% in revenues with 25% OPM, while Particle Board volumes are expected to remain flattish with 20% plus OPM.
- The upcoming MDF and laminate units at A.P. stay on track for commissioning in Q4FY2024 and Q3FY2024, respectively. However, the Hoshiarpur Plywood unit may be delayed to Q2FY2025 from Q1FY2025 earlier due to weak Q1. The particle board capacity in Tamil Nadu is expected to be commissioned by Q4FY2025.
- MDF margins at 26.5% were higher on account of Rs. 7.5 crore arrears received for electricity subsidy about six month period. Adjusted OPM stands at 22.6%.

Revision in estimates – We have fine-tuned our earnings estimates for FY2024-FY2025.

Our Call

Valuation – Upgrade to Hold with a revised PT of Rs. 710: Century Plyboards is expected to get affected by a sluggish demand environment and higher imports in the near term. Further, capacity expansion by major organised players in the wood panel industry will likely limit the pricing power to pass on the raw material price hikes. However, the long-term outlook for the wood panel sector remains positive, led by realty upcycle. We have introduced our FY2026E earnings in this note. The stock currently trades at a P/E of 31x/25x its FY2025E/FY2026E earnings, providing limited upside potential. We upgrade the stock to Hold with a revised PT of Rs. 710 as we roll forward our valuation multiple to September 2025E earnings.

Key Risks

Strong demand environment, expansion in OPMs and declining imports.

Valuation (Consolidated)

Rs cr

Particulars	FY23	FY24E	FY25E	FY26E
Revenue	3,647	4,001	4,636	5,384
OPM (%)	16.6	15.6	16.2	17.0
Adjusted PAT	387	383	457	559
% y-o-y growth	25	(1)	19	22
Adjusted EPS (Rs.)	17.4	17.2	20.5	25.1
P/E (x)	36.5	36.9	30.9	25.3
P/B (x)	7.4	6.2	5.2	4.4
EV/EBITDA (x)	25.3	24.1	20.3	16.6
RoNW (%)	22.3	18.3	18.4	18.9
RoCE (%)	19.8	16.4	16.3	16.7

Source: Company; Sharekhan estimates

Key Conference Call Takeaways

- ♦ **Guidance:** For H2FY2024, Plywood and laminate are expected to see double-digit revenue growth y-o-y along with 13-15% OPM. The MDF segment is expected to grow at 25% in revenues with 25% OPM while Particle Board volumes are expected to remain flattish with 20% plus OPM. For FY2025, the overall company targets 20% y-o-y revenue growth, while OPMs for Plywood and laminate are expected at 13-15%, MDF at 25% and particle board at 20%.
- ♦ **Expansion:** The upcoming greenfield MDF unit at A.P. stays on track for commissioning in Q4FY2024. The greenfield laminate, too stays on track for commissioning in Q3FY2024. However, the Hoshiarpur Plywood unit may be delayed to Q2FY2025 from Q1FY2025 earlier due to weak Q1FY2024. The particle board capacity in Tamil Nadu is expected to be commissioned by Q4FY2025.
- ♦ **Plywood:** Plywood business witnessed demand recovery during Q2. The company also made changes in its product strategy. Domestic Timber prices saw a major rise in Q2 which led to the company going for higher imports. During Q3, it has seen five paise decline on Rs. 2/unit timber prices. Plywood margins are lower owing to investment in marketing and advertising, especially in digital media and Cinemas. It took a 2-2.5% price hike in July 2023, post which it did not increase the price.
- ♦ **Laminate:** The premium segment did not grow in Q2 which led to lower realisations. The company expects recovery in laminate business during H2, but the pace may not be as fast as earlier expected. Sainik laminates has higher pricing than average laminate products, although margins will get higher through scaling up. Sainik laminates are expected to comprise 40% of overall laminate sale over the next 2-3 years.
- ♦ **MDF:** The capacity utilisation stood at 70% in Q2 which it expects to reach over 80% throughout H2FY2024. MDF margins at 26.5% was higher on account of Rs. 7.5 crore arrears received for electricity subsidy of a month period. Adjusted OPM stands at 23%.
- ♦ **Particle Board:** The upcoming unit would have an asset turnover of 1x while it would target for 20% RoCE.
- ♦ **CFS divestment:** It is awaiting port operations to start. Once it receives the correct value for the business, it will look for divestment. CFS profitability was impacted by Rs. 3 crore additional rent paid to Kolkata authorities about earlier years.
- ♦ **Other expense:** Higher other expense was on account of Rs. 7.5 crore payment done under the Amnesty scheme related to contingent liabilities (Rs. 14 crore plus interest and penalty totalling Rs. 30-35 crore).

Results (Standalone)

Particulars	Q2FY24	Q2FY23	% yoy	Q1FY24	% qoq
Income from operations	987.9	900.2	9.7	882.4	12.0
COGS	519.9	488.2	6.5	464.5	11.9
Gross profit	468.0	412.0	13.6	417.9	12.0
Gross margin (%)	47.4	45.8	161	47.4	1
Employee cost	130.0	113.8	14.2	127.0	2.3
Other expenditure	200.0	192.6	3.8	164.2	21.8
Total expenditure	849.8	794.6	6.9	755.7	12.5
Operating profit	138.1	105.6	30.8	126.7	9.0
Finance cost	4.9	2.2	118.1	4.8	1.0
Depreciation	22.1	17.8	24.1	21.8	1.2
Non operating income	8.8	19.5	-55.0	9.9	(11.5)
Forex loss/(gain)	(1.0)	2.1		(1.7)	
PBT	120.8	102.9	17.4	111.7	8.2
Tax	30.5	26.7	14.3	27.6	10.7
Reported PAT	90.3	76.2	18.5	84.1	7.4
Adjusted PAT	89.3	78.3	14.1	82.4	8.5
Margin (%)			BPS		BPS
OPM (%)	14.0	11.7	225	14.4	(38)
NPM (%)	9.0	8.7	35	9.3	(29)
Tax rate (%)	25.3	26.0	(69)	24.7	57

Source: Company, Sharekhan Research

Outlook and Valuation

■ Sector Outlook – Expect operations to recover faster

The building materials industry was severely affected by the COVID-19-led lockdown during Q1FY2021, which affected its peak sales period. Additionally, its high fixed cost structure had affected OPM, dragging down its net earnings. However, since June, the sector has been one of the fastest in recovery with the 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 seeing demand and revenue run-rate reaching 80-90% compared to pre-COVID levels. Scaling-up of revenues is also expected to lead to better absorption of fixed costs, aiding recovery in net earnings. The industry is expected to rebound with strong growth in FY2022.

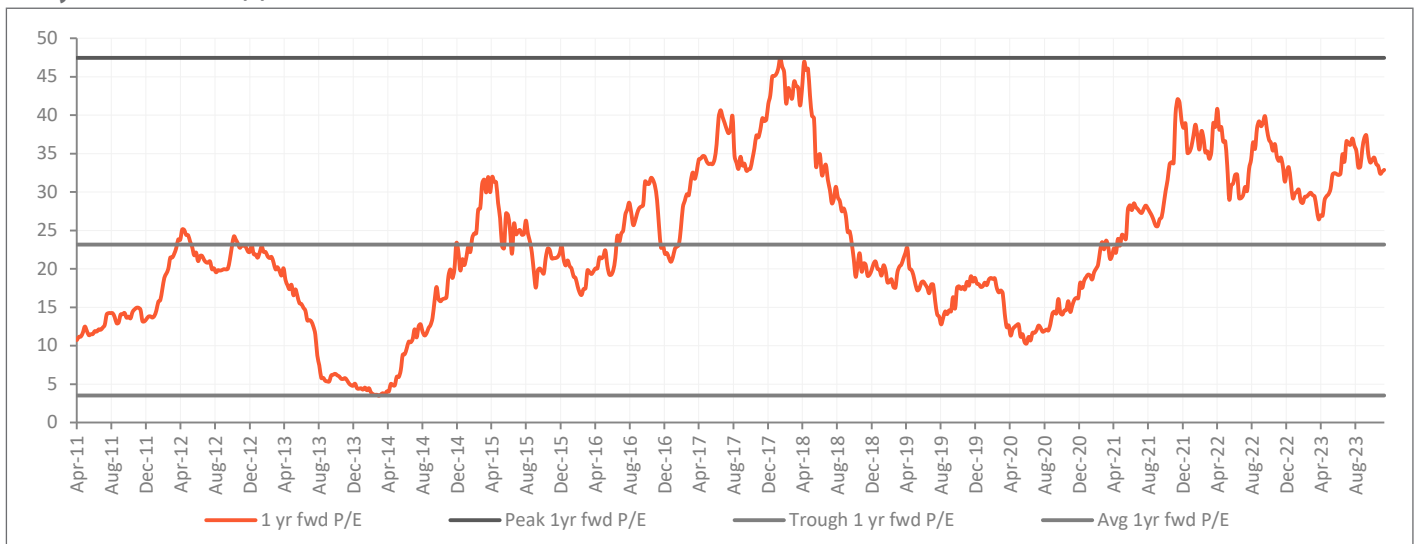
■ Company Outlook – Near-term demand headwinds stay

Century Plywood has been witnessing strong pent-up demand with possible market share gains, which had driven strong volume growth across key verticals in the past. However, it is facing a sluggish domestic demand environment as end-consumers feel the impact of increased interest rates. Further, the wood panel industry has been on expansion mode, with major players eyeing to capture market share from unorganised players. The increased imports post correction in global freight rates have contained the pricing power of the domestic industry while it faces spikes of raw material price increase. However, the long-term demand outlook remains intact, led by the realty upcycle, which is expected to sustain given structural triggers and possibilities of interest rate cuts from the next calendar year.

■ Valuation – Upgrade to Hold with a revised PT of Rs. 710

Century Plyboards is expected to get affected by a sluggish demand environment and higher imports in the near term. Further, capacity expansion by major organised players in the wood panel industry will likely limit the pricing power to pass on the raw material price hikes. However, the long-term outlook for the wood panel sector remains positive led by realty upcycle. We have introduced our FY2026E earnings in this note. The stock is currently trading at a P/E of 31x/25x its FY2025E/FY2026E earnings providing limited upside potential. We upgrade the stock to Hold with a revised PT of Rs. 710, as we roll forward our valuation multiple to September 2025E earnings.

One-year forward P/E (x) band



Source: Sharekhan Research

Peer Comparison

Company	P/E (x)		EV/EBITDA (x)		P/BV (x)		RoE (%)	
	FY24E	FY25E	FY24E	FY25E	FY24E	FY25E	FY24E	FY25E
Century Plyboards	36.9	30.9	24.1	20.3	6.2	5.2	18.3	18.4
Greenlam Industries	47.6	36.3	22.7	17.4	6.4	5.5	14.4	16.4

Source: Sharekhan Research

About the 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 with 600 cubic metres/day capacity.

Investment theme

Like some of its industry peers, Century Plyboards has gained from strong demand momentum and market share gains from unorganised players in the past. However, the company is likely to be affected by sluggish demand in the near term, led by increased domestic interest rates felt by the housing segment and increasing imports led by global freight rate corrections. Further, it is expected to face higher competitive intensity with major players expanding capacities amidst weaker near-term demand and higher imports. However, we believe long-term realty upcycle remains intact, providing growth opportunities to the company while it may remain under pressure in the near term.

Key Risks

- ♦ Slowdown in macroeconomics, especially in the real estate sector, could affect the 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	Agarwal Sanjay	11.2
2	Bhajanka Sajjan	10.9
3	Khemani Vishnu	8.5
4	Agarwal Divya	7.5
5	Bhajanka Santosh	6.7
6	Kotak Mahindra Asset Management Co	4.4
7	Sriram Vanijya Pvt Ltd	3.8
8	Brijdham Merchants Pvt Ltd	3.5
9	Sumangal International Pvt Ltd	3.5
10	DSP Investment Managers Pvt Ltd	3.4

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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