



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	✗	↔	✗

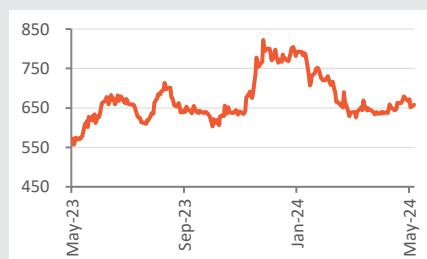
Company details

Market cap:	Rs. 14,616 cr
52-week high/low:	Rs. 849 / 552
NSE volume: (No of shares)	22.2 lakh
BSE code:	532548
NSE code:	CENTURYPLY
Free float: (No of shares)	20.7 cr

Shareholding (%)

Promoters	73
FII	6
DII	15
Others	7

Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	3.0	-7.9	3.6	14.9
Relative to Sensex	2.4	-11.8	-10.0	-4.7

Sharekhan Research, Bloomberg

Century Plyboards (India) Ltd

Tide seems to be turning, upgrade to BUY

Building Materials

Sharekhan code: CENTURYPLY

Reco/View: Buy



CMP: Rs. 658

Price Target: Rs. 765



Upgrade



Maintain



Downgrade

Summary

- We upgrade our rating to Buy on Century Plyboards with an unchanged PT of Rs. 765, as the recent correction in the stock and strong earnings growth outlook over the next 2-3 years.
- For Q4FY2024, Century reported marginally lower-than-expected standalone revenues. OPMs surprised negatively due to impairments. Hence, net earnings lagged.
- For FY2025, the management targets double-digit revenue growth aided by strong revenue growth in MDF and laminates and steady performance in plywood. OPMs to remain under pressure for FY2025.
- We expect demand revival during FY2025 as realty projects launched post COVID-19 starts getting delivered. OPMs revival to follow suit.

Century reported marginally lower than expected standalone revenues at Rs. 1026 crore (up 9.3% y-o-y). Standalone revenues were driven by strong revenue growth of 22.5% in MDF, 14% y-o-y in particleboard and decent 6.7% y-o-y growth in Plywood (revenues across verticals were driven by volume growth). Standalone OPM surprised negatively at 11.7% (down 457 bps y-o-y), on account of Rs. 24.1 crore impairments, while adjusting for the same, adjusted OPM at 14.1% came in higher than our estimate of 13%. Overall, reported standalone operating profit/net profit at Rs. 120 crore/ Rs. 75 crore came in 12%/11% lower than our estimate. The management expects double digit revenue growth for FY2025 which will be driven by strong revenue growth of 40% y-o-y in MDF, 20% y-o-y in laminate, 10% y-o-y in Plywood while particle board revenues stay flattish. The OPMs barring MDF may remain under pressure (Laminates – 10-12%, MDF and particleboard – 15%) owing to oversupply and sustained high timber prices (not expected to come down for next 18 months). Demand for wood panel in expected to revive in FY2025 (as realty projects launched post COVID-19 starts getting delivered).

Key positives

- Plywood EBITDA margins were up 566 bps q-o-q at 15.1% higher than our estimate.
- MDF revenues were up 23% y-o-y to Rs. 197 crore led by strong volume growth of 34% y-o-y.

Key negatives

- Standalone reported OPMs at 11.7% surprised negatively owing to Rs. 24.1 crore impairments (Rs. 19.6 crore related to overseas plywood assets and Rs. 4.46 crore for another subsidiary Century Infotech).
- Timber prices to remain firm for the next 18 months. MDF and particleboard margins are expected to remain at ~15% for FY2025 due to oversupply.

Management Commentary

- For FY2025, the company expects double-digit revenue growth y-o-y overall. Segment wise - Plywood is expected to grow by 10% y-o-y in value (8-8.5% y-o-y volume growth) with OPM of 12-14%, Laminate by 20% in value with OPM of 10-12%, MDF by 40% in value (volume growth to be higher than 40% y-o-y) with 15% OPM and particle board is expected to report flattish revenues.
- Greenfield particleboard unit at Chennai is expected to commission by FY2025 end. It has currently put Plywood project in Punjab on hold due to raw material issue. It may or may not undertake the said project.
- Company is currently facing increased cost of timber. Timber prices are not expected to come down over the next 18 months.

Revision in estimates – We have lowered our net earnings estimates for FY2025 factoring lower OPMs in MDF and particle board. We have fine-tuned our estimates for FY2026.

Our Call

Valuation – Upgrade to Buy with an unchanged PT of Rs. 765: Century Plyboards is expected to be affected by a sluggish demand environment and pressure on OPMs in the near term, especially MDF and particleboard. However, it is likely to regain revenue growth and OPMs with expected demand pick up from mid-FY2025 as realty projects launched post COVID-19 starts getting delivered. Further, capacity additions done in MDF and laminate along with upcoming particle board capacity would help capture incremental demand. The stock has corrected by ~8% over trailing three months and is currently trading at a P/E of 41x/29x its FY2025E/FY2026E earnings, which we believe provides room for upside. Hence, we upgrade the stock to Buy with an unchanged PT of Rs. 765.

Key Risks

Strong demand, OPM expansion, and declining imports.

Valuation (Standalone)

Particulars	FY23	FY24	FY25E	FY26E
Revenue	3,647	3,886	4,538	5,255
OPM (%)	15.3	13.1	12.9	15.1
Adjusted PAT	380	321	358	511
% y-o-y growth	22	(15)	12	43
Adjusted EPS (Rs.)	17.1	14.4	16.1	23.0
P/E (x)	38.5	45.6	40.9	28.6
P/B (x)	7.7	6.6	5.8	4.8
EV/EBITDA (x)	26.2	30.0	26.6	19.4
RoNW (%)	22.0	15.5	15.0	18.3
RoCE (%)	19.4	13.3	12.3	14.7

Source: Company; Sharekhan estimates

Key Conference Call Takeaways

- ♦ **Guidance:** For FY2025, the company expects double-digit revenue growth y-o-y. Segment-wise – Plywood segment is expected to grow by 10% y-o-y in value (8-8.5% y-o-y volume growth) with OPM of 12-14%, Laminate by 20% in value with OPM of 10-12%, MDF segment by 40% in value (volume growth to be higher than 40% y-o-y) with 15% OPM and particle board is expected to report flattish revenues.
- ♦ **Expansions:** It commenced operations at its greenfield laminate and MDF units at Andhra Pradesh. The greenfield particleboard unit at Chennai is expected to commission by FY2025 end. It has currently put Plywood project in Punjab on hold due to raw material issue. It may or may not undertake the said project.
- ♦ **Laminates:** As new capacities would gradually ramp-up, it has given lower OPM guidance of 10-12%. The overall exports share in laminates space will increase to ~25%.
- ♦ **Plywood:** The segment is operating at 87% capacity utilisation in Q4FY2024 and at 81% in FY2024. It has taken a 2% price hike effective May 1, 2024. It has taken a 2% price hike in July 2023. Plywood being a branded product, was able to pass on some cost increase to end consumers.
- ♦ **MDF:** New MDF capacity would reach full capacity utilisation next year. The A.P. plant would have pre-lam MDF and other value-added products. Overall capacity utilisation for MDF is expected to be 70% in FY2025 (including the new unit).
- ♦ **Timber prices:** Company is currently facing increased cost of timber. Timber prices are not expected to come down over the next 18 months.
- ♦ **Q4FY2024 performance:** Standalone revenues were up 9% y-o-y at Rs. 1026 crore, OPMs contracted by 457 bps y-o-y to 11.7% while adjusted net profit was down 29% y-o-y to Rs. 75 crore. During the quarter, the company entered into a binding sale agreement for sale of its investment in subsidiary company Century Singapore Pvt Ltd holding overseas plywood related assets. This resulted into a loss of Rs 19.60 crore which is shown as impairment loss in Plywood segment. Apart from this an impairment loss of Rs 4.46 crore is also taken for another subsidiary Century Infotech Ltd and is taken into unallocatable common expenses.
- ♦ **CFS division:** The scheme of arrangement for hiving off of company's CFS division was approved. As the scheme is effective from appointed date of April 1, 2022, the company has transferred its Container Freight Division (CFS division) to Century Infra Limited (CIL) a wholly owned subsidiary company with effect from April 1, 2022, all together with the assets, liabilities and manpower comprised therein on a slump sale basis. To give the impact of the sanctioned schemes the company has restated the previous year/period figures by taking out assets & liabilities so transferred to CIL.

Results (Standalone)				Rs cr	
Particulars	Q4FY24	Q4FY23	Y-o-Y (%)	Q3FY24	Q-o-Q (%)
Income from operations	1,025.6	938.6	9.3	909.7	12.7
COGS	569.9	509.5	11.9	503.5	13.2
Gross profit	455.7	429.2	6.2	406.2	12.2
Gross margin (%)	44.4	45.7	(129)	44.7	(22)
Employee cost	128.7	117.0	10.0	126.0	2.2
Other expenditure	206.6	159.1	29.9	177.4	16.5
Total expenditure	905.3	785.6	15.2	806.8	12.2
Operating profit	120.4	153.1	-21.4	102.9	17.0
Finance cost	6.8	3.1	122.7	6.2	11.0
Depreciation	20.9	16.7	24.9	20.6	1.3
Non-operating income	12.1	13.6	-11.4	8.8	37.7
Forex loss/(gain)	(2.3)	(1.9)	-	(0.4)	-
PBT	107.0	148.8	-28.1	85.3	25.5
Tax	30.0	41.4	-27.7	21.7	37.7
Reported PAT	77.0	107.3	-28.2	63.5	21.3
Adjusted PAT	74.7	105.5	-29.1	63.1	18.5
Margin (%)			BPS		BPS
OPM (%)	11.7	16.3	(457)	11.3	43
NPM (%)	7.3	11.2	(395)	6.9	35
Tax rate (%)	28.0	27.8	16	25.5	250

Source: Company; Sharekhan Research

Outlook and Valuation

■ Sector View – Expect operations to recover faster

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 rise 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 revenue is also expected to lead to better absorption of fixed costs, aiding a recovery in net earnings. The industry is expected to rebound with strong growth in FY2022.

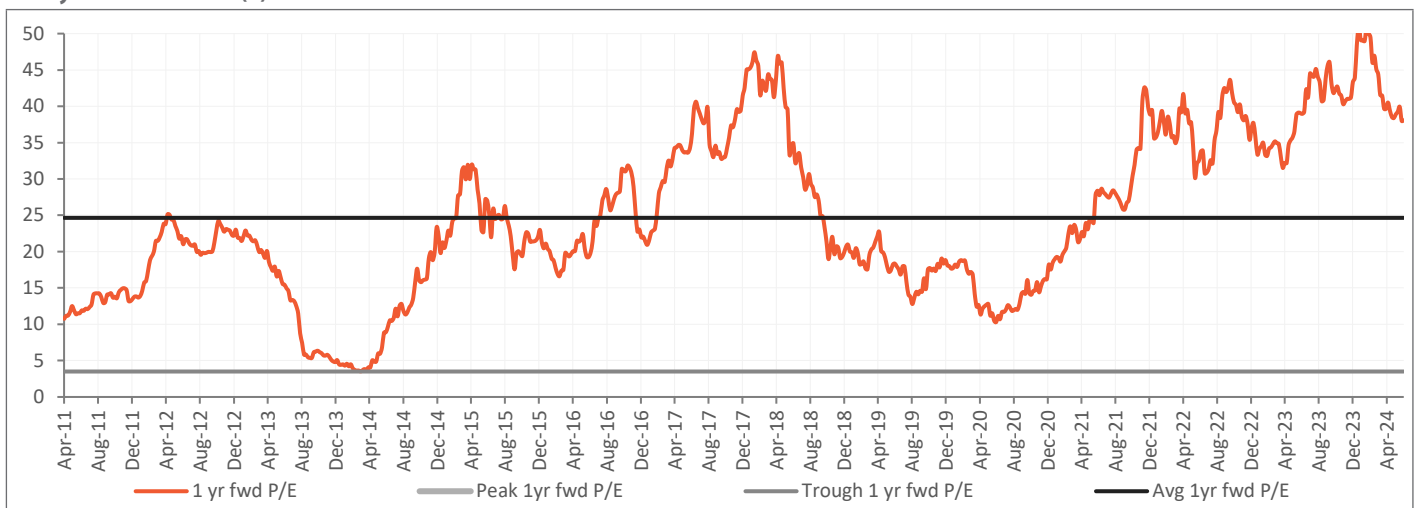
■ Company Outlook – Expect demand revival during FY2025

Century has been witnessing strong pent-up demand with possible market share gains, which led to 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. However, the long-term demand outlook remains intact, led by the realty upcycle, which is expected to sustain given structural triggers. The company is expected to benefit from demand revival expected during FY2025 as realty projects launched post COVID-19 starts getting delivered. The demand revival is also expected to ease pressure on OPMs especially on MDF and Particle board leading to overall OPM revival in FY2026.

■ Valuation – Upgrade to Buy with an unchanged PT of Rs. 765

Century Plyboards is expected to be affected by a sluggish demand environment and pressure on OPMs in the near term, especially MDF and particleboard. However, it is likely to regain revenue growth and OPMs with expected demand pick up from mid-FY2025 as realty projects launched post COVID-19 starts getting delivered. Further, capacity additions done in MDF and laminate along with upcoming particle board capacity would help capture incremental demand. The stock has corrected by ~8% over trailing three months and is currently trading at a P/E of 41x/29x its FY2025E/FY2026E earnings, which we believe provides room for upside. Hence, we upgrade the stock to Buy with an unchanged PT of Rs. 765.

One-year forward P/E (x) band



Source: Sharekhan Research

Peer Comparison

Particulars	P/E (x)		EV/EBITDA (x)		P/BV (x)		RoE (%)	
	FY25E	FY26E	FY25E	FY26E	FY25E	FY26E	FY25E	FY26E
Century Plyboards	40.9	28.6	26.6	19.4	5.8	4.8	15.0	18.3
Greenlam Industries	40.1	28.9	19.0	15.4	6.0	5.0	16.2	19.1

Source: Sharekhan Research

About company

Century was founded in 1986 by Sajjan Bhajanka and 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 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 amid weaker near-term demand and higher imports. However, we believe the long-term realty upcycle remains intact, providing growth opportunities to the company, while it may remain under pressure in the near term.

Key Risks

- ♦ A 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

Sajjan Bhajanka	Chairman
Hari Prasad Agarwal	Vice Chairman
Sanjay Agarwal	Managing Director
Arun Kumar Julasaria	Chief Financial Officer
Sundeep Jhunjhunwala	Company Secretary and Compliance Officer

Source: Company Website

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

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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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