Sharekhan by BNP PARIBAS

Powered by the Sharekhan 3R Research Philosophy

# Century Plyboards Ltd

## An in-line performance, Retain BUY

| Building Materials | Sharekhan code: CENTURYPLY |
|---|---|
| Reco/View: Buy ⇔ | CMP: Rs. 749 |
| | Price Target: Rs. 840 ⇔ |

↑ Upgrade ⇔ Maintain ↓ Downgrade

Stock Update

Result Update

| 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. 16,639 cr |
| 52-week high/low: | Rs. 939/614 |
| NSE volume: (No of shares) | 5.7 lakh |
| BSE code: | 532548 |
| NSE code: | CENTURYPLY |
| Free float: (No of shares) | 20.9 cr |

**Shareholding (%)**

| | |
|---|---|
| Promoters | 73 |
| FII | 4 |
| DII | 17 |
| Others | 6 |

**Price chart**


**Price performance**

| (%) | 1m | 3m | 6m | 12m |
|---|---|---|---|---|
| Absolute | -17.6 | 2.5 | 13.0 | 17.2 |
| Relative to Sensex | -12.2 | 4.4 | 6.9 | -0.9 |

Sharekhan Research, Bloomberg


### Summary

- We retain BUY on Century Plyboards with an unchanged PT of Rs. 840, considering its strong earnings growth outlook over the next 2-3 years.
- For Q2FY2024, Century reported broadly in-line standalone performance, led by strong revenue growth and expansion in operating margins in plywood. MDF and laminates stayed weak.
- For H2FY2025, management targets strong growth in MDF and Plywood, decent for laminates and flattish for particle board. The company has taken price hike in MDF.
- Deleveraging balance sheet to commence from Q1FY2026 with capex plans coming to an end by FY2025 end with commencement of particle board unit.


**Century reported in-line standalone revenues were in-line at Rs. 1063 crore (up 7.6% y-o-y) led by strong performance by plywood (revenues were up 21.1% y-o-y) while laminates (down 6.4% y-o-y) and MDF (down 2.7% y-o-y) stayed weak. Standalone OPM at 11.6% (down 236 bps y-o-y) was tad lower than our estimate of 11.9%. Strong OPMs in plywood (up 176 bps y-o-y to 15%) compensated for weak laminate (down 413 bps y-o-y), MDF (down 413 bps y-o-y) and particleboard (down 11 ppts y-o-y). Loss of market share and higher marketing spends impacted laminate business. Standalone operating profit/adjusted net profit declined by 10.6%/12.6% (2%/4% lower than our estimate) to Rs. 123.5 crore/Rs. 78 crore. Management targets strong growth in MDF and Plywood, decent growth in laminates and flattish for particle board for H2FY2025. Post its particle board capacity coming up in Q4FY2024, it would be focusing on deleveraging balance sheet over 12-18 months. Meanwhile, it would be ramping up newly commissioned capacities in MDF, laminates, and PVC housed under its subsidiary, Century Panel.**

### Key positives

- Plywood revenues grew by 21.1% y-o-y, led by 19.3% y-o-y volume growth, while it reported 176 bps y-o-y expansion in EBITDA margins.
- MDF segment's consolidated revenues grew by 36.5% y-o-y and 28.1% q-o-q with scale up of operations at newly commissioned MDF plant.

### Key negatives

- Laminates reported 6.4% y-o-y decline in revenues and 413 bps contraction in OPMs, led by loss of market share and higher marketing spends.
- Particleboard OPMs contracted by 11 ppts y-o-y and 255 bps q-o-q to 11.1%.

### Management Commentary

- Segment-wise guidance for standalone business segments for H2FY2025 is as follows Plywood (value growth of 12% y-o-y with OPM of 12-14%), laminate (10% in value growth with OPM of 10-12%), MDF segment (40%+ value growth with 15% OPM), and particleboard (flat revenues with OPM of 12-14%).
- It took 3% price hike in MDF in the domestic market last week. In plywood, it has taken 2% price hike with effect from August 1, 2024.
- Leverage is expected to come down each quarter from Q1FY2026 with completion of particle board plant in Q4FY2024. De-leveraging would be done over 12-18 months.

**Revision in estimates** – We have broadly retained our net earnings estimates for FY2025-FY2027.

### Our Call

**Valuation – Retain Buy with an unchanged PT of Rs. 840:** Century is expected to be affected by a sluggish demand environment and pressure on OPMs in the near term, especially MDF and particleboard. However, the company is likely to regain revenue growth and OPM with expected demand pick up from H2FY2025, as realty projects launched post-COVID-19 start getting delivered. Further, capacity additions done in MDF and laminate segments along with the upcoming particle board capacity would help capture incremental demand. The stock is currently trading at a P/E of 31x/25x its FY2026E/FY2027E earnings, which we believe provides room for upside. Hence, we retain BUY on the stock with an unchanged price target (PT) of Rs. 840.

### Key Risks

Strong demand, OPM expansion, and declining imports.

**Valuation (Consolidated)** Rs cr

| Particulars | FY24 | FY25E | FY26E | FY27E |
|---|---|---|---|---|
| Revenue | 3,886 | 4,538 | 5,255 | 6,101 |
| OPM (%) | 13.1 | 12.9 | 15.1 | 16.0 |
| Adjusted PAT | 321 | 377 | 538 | 675 |
| y-o-y growth (%) | (15) | 17 | 43 | 26 |
| Adjusted EPS (Rs.) | 14.4 | 16.9 | 24.2 | 30.3 |
| P/E (x) | 51.9 | 44.3 | 31.0 | 24.7 |
| P/B (x) | 7.5 | 6.5 | 5.4 | 4.5 |
| EV/EBITDA (x) | 34.0 | 30.0 | 21.5 | 17.0 |
| RoNW (%) | 15.5% | 15.7% | 19.0% | 19.8% |
| RoCE (%) | 13.3% | 12.8% | 15.3% | 16.6% |

Source: Company; Sharekhan estimates

## Key Conference Call Takeaways

- **Guidance:** Segment-wise guidance for standalone business segments for H2FY2025 is as follows Plywood (value growth of 12% y-o-y with OPM of 12-14%), laminate (10% in value growth with OPM of 10-12%), MDF segment (40%+ value growth with 15% OPM), and particleboard (flat revenues with OPM of 12-14%).
- **Q2FY25 highlights:** Standalone revenues grew 10.6% y-o-y to Rs. 1063 crores, consolidated revenues grew by 18.7% y-o-y to Rs. 1183 crores. Plywood revenues were up 21.1% y-o-y while OPM stood at 15% despite higher raw material prices led by favourable product mix and higher volumes. Laminates reported q-o-q revenue growth while OPM stood at 7% affected by higher marketing spends and loss of market share. MDF consolidated operations saw 75% y-o-y volume growth. Particle board was affected by high competitive intensity.
- **Plywood:** Company has 8% market share and would like to target market share of not less than 13-14%. The company had taken 2% price hike on August 1, 2024.
- **MDF:** Forex loss impacted consolidated operational performance. The difference in realisations between Northern and Southern plants is 5-10%. The landed imported price for MDF is Rs. 18,000. The company has taken a blended 3% price hike last week. Standalone operations will have 15% OPM while consolidated to have 10% for H2FY2025. Forex loss was on account of import of machinery for new plant. The MDF demand is growing at 15-20% p.a. The new plant is operating at 55-60% capacity utilisation.
- **Laminates:** Company missed out on volume guidance due to weakness in domestic and international demand. Adverse product mix impacted realisations. Marketing spends in H2FY2025 will be lower than H1FY2025. It is looking at 50% capacity utilisation for new plant in H2FY2025. It has increased team size, launched new catalogues and increased supply chain network to address loss of market share.
- **Particleboard segment:** Adjusted OPM without forex loss was 11%. Higher cost of timber has been affecting OPMs. Its upcoming plant is expected to reach 50% capacity utilisation in first year of operations. It is likely to shut down its existing plant once new plant becomes operational owing to operational efficiencies expected from new plant.
- **Timber prices:** Timber prices remain high especially in South India. They are expected to remain firm over 12-18 months.
- **Deleveraging:** The company's leverage is expected to come down each quarter from Q1FY2026 with completion of particle board plant in Q4FY2024. Deleveraging would be done over 12-18 months.
- **Forex loss:** Standalone forex loss stood at Rs. 1 crore while consolidated forex loss was Rs. 13 crore.

**Results (Standalone)** Rs cr

| Particulars | Q2FY25 | Q2FY24 | y-o-y (%) | Q1FY25 | q-o-q (%) |
|---|---|---|---|---|---|
| **Income from operations** | **1,063.2** | **987.9** | **7.6** | **952.2** | **11.7** |
| COGS | 615.0 | 519.9 | 18.3 | 540.5 | 13.8 |
| **Gross profit** | **448.1** | **468.0** | **-4.2** | **411.8** | **8.8** |
| Gross margin (%) | 42.2 | 47.4 | (522) | 43.2 | (109) |
| Employee cost | 149.5 | 130.0 | 15.0 | 142.8 | 4.7 |
| Other expenditure | 175.2 | 200.0 | -12.4 | 153.8 | 13.9 |
| Total expenditure | 939.7 | 849.8 | 10.6 | 837.1 | 12.3 |
| **Operating profit** | **123.5** | **138.1** | **-10.6** | **115.1** | **7.3** |
| Finance cost | 7.7 | 4.9 | 56.9 | 8.2 | (6.7) |
| Depreciation | 21.7 | 22.1 | -1.8 | 21.2 | 2.5 |
| Non-operating income | 10.9 | 8.8 | 24.6 | 13.9 | (21.3) |
| Forex loss/(gain) | 2.3 | (1.1) | - | (2.9) | - |
| **PBT** | **102.7** | **121.0** | **-15.1** | **102.5** | **0.2** |
| Tax | 27.0 | 30.7 | -11.8 | 28.6 | (5.4) |
| Reported PAT | 75.7 | 90.3 | -16.2 | 73.9 | 2.4 |
| **Adjusted PAT** | **78.0** | **89.2** | **-12.6** | **71.0** | **9.9** |
| **Margin (%)** | | | **BPS** | | **BPS** |
| OPM (%) | 11.6 | 14.0 | (236) | 12.1 | (47) |
| NPM (%) | 7.3 | 9.0 | (169) | 7.5 | (12) |
| Tax rate (%) | 26.3 | 25.3 | 97 | 27.9 | (158) |

Source: Company, Sharekhan Research

## Outlook and Valuation

### ■ Sector view - 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, the company's 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.

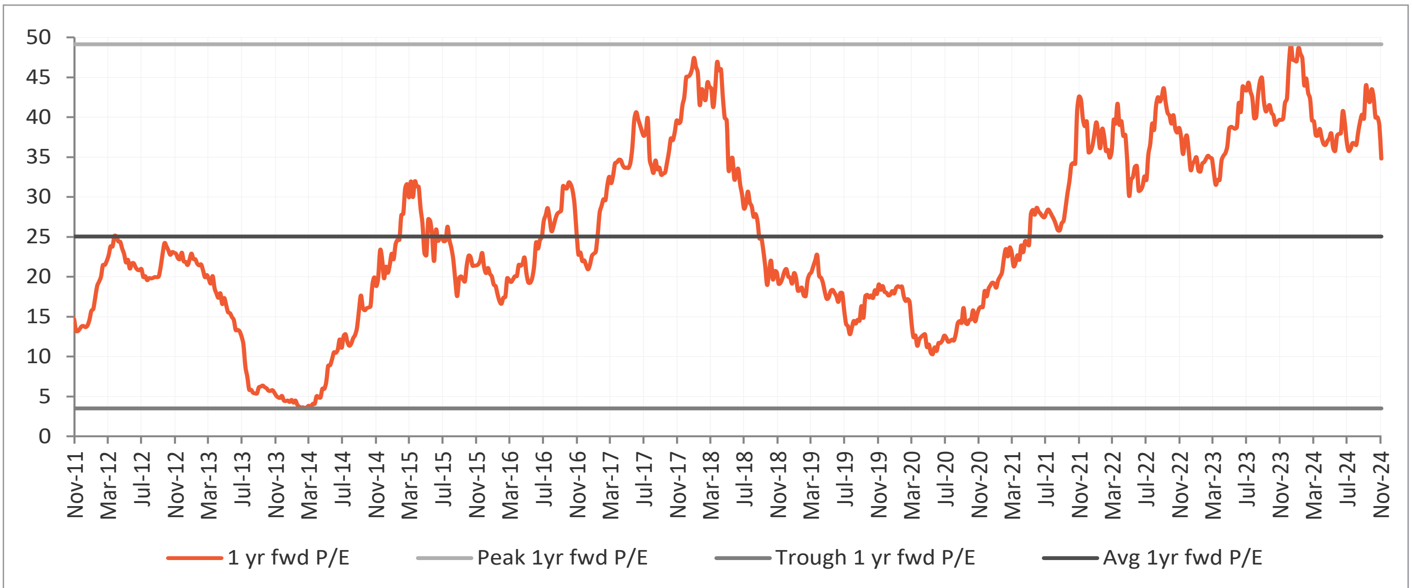
### ■ Company outlook - Expect demand revival during FY2025

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 start getting delivered. Demand revival is also expected to ease pressure on OPMs, especially on MDF and particle board, leading to overall OPM revival in FY2026.

### ■ Valuation - Retain Buy with an unchanged PT of Rs. 840

Century is expected to be affected by a sluggish demand environment and pressure on OPMs in the near term, especially MDF and particleboard. However, the company is likely to regain revenue growth and OPM with expected demand pick up from H2FY2025, as realty projects launched post-COVID-19 start getting delivered. Further, capacity additions done in MDF and laminate segments along with the upcoming particle board capacity would help capture incremental demand. The stock is currently trading at a P/E of 31x/25x its FY2026E/FY2027E earnings, which we believe provides room for upside. Hence, we retain BUY on the stock with an unchanged price target (PT) of Rs. 840.

**One-year forward P/E (x) band**




Source: Sharekhan Research

**Peer Comparison**

| Companies | P/E (x) | | EV/EBITDA (x) | | P/BV (x) | | RoE (%) | |
|---|---|---|---|---|---|---|---|---|
| | FY25E | FY26E | FY25E | FY26E | FY25E | FY26E | FY25E | FY26E |
| Century Plyboards | 44.3 | 31.0 | 30.0 | 21.5 | 6.5 | 5.4 | 15.7 | 19.0 |
| Greenlam Industries | 38.4 | 27.4 | 19.6 | 15.3 | 5.4 | 4.6 | 14.9 | 18.1 |

Source: Company; 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, the company 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

**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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Registration and Contact Details: Name of Research Analyst - Sharekhan Limited, Research Analyst Regn No.: INH000006183. CIN: - U99999MH1995PLC087498.

Registered Office: The Ruby, 18th Floor, 29 Senapati Bapat Marg, Dadar (West), Mumbai – 400 028, Maharashtra, INDIA. Tel: 022-6115000.

Correspondence/Administrative Office Address - Gigaplex IT Park, Unit No 1001, 10th Floor, Building No.9, TTC Industrial Area, Digha, Airoli-West, Navi Mumbai – 400708. Tel: 022 61169000 / 61150000, Fax No. 61169699.

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Compliance Officer: Ms. Binkle R. Oza; Tel: 022-62263303; email id: complianceofficer@sharekhan.com

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