

Company update and
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Wood Panel

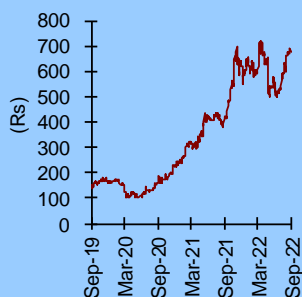
Target price: Rs750

Shareholding pattern

	Dec '21	Mar '22	Jun '22
Promoters	73.0	73.0	73.0
Institutional investors	18.7	18.0	19.0
MFs and others	11.7	9.8	10.5
Insurance Cos.	1.4	1.3	1.3
FII	5.6	6.9	7.2
Others	8.3	9.0	8.0

Source: BSE

Price chart



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Century Plyboards India

ADD

Downgrade from BUY

Rs677

Demand trend remains steady

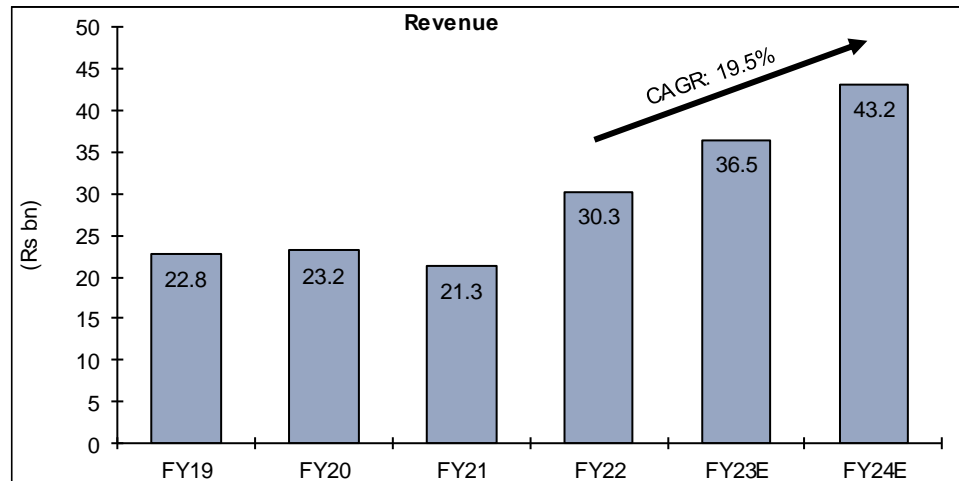
Our recent interaction with dealers and industry players indicates that in the ongoing Q2FY23 (Jul-Sep'22), demand trends remain steady in the wood panel sector led by continuous momentum in the residential market and higher spending on home improvement post the pandemic. We believe demand will continue to remain healthy going ahead (post the festival season, too) as underlying drivers are intact. In the ongoing quarter (Q2FY23), Century Plyboards (CPBI) has not taken any price increase (so far) in its key categories of plywood, laminate and MDF. However, the price hike announced in Q1 for plywood and laminate has been implemented, which will enable margins to remain steady. In plywood segment, demand for mass market products continues to remain higher as compared to premium products due to the inflationary environment and is likely to remain so in the near term. We maintain estimates, but downgrade our rating from Buy to ADD post the strong rally of ~22% in the stock price over the past 3 months with an unchanged Mar'23E target price of Rs750, set at 35x PER FY24E.

- **Demand trend in woodpanel remains healthy:** The demand for wood panel products has remained steady in Q2FY23 despite strong H1CY22, as per our interaction with dealers and industry participants, driven by the continuous uptick in residential market and higher spending on home improvement post the pandemic. Plywood market has continued seeing higher demand for mass market brands like *Sainik* due to inflationary environment which may continue in the near term. Demand in MDF segment, too, remained steady due to increased acceptance of readymade furniture. We believe demand should improve for woodpanel market post the festival period as underlying drivers continue to remain favourable. We model revenue CAGR of 19.5% over FY22-24E for CPBI aided by expansion in MDF segment.
- **Margins to remain steady due to earlier price hikes:** CPBI has not taken any price increases in the ongoing quarter but will get the full benefit of price increase of ~2-7% in plywood and ~3-4% in laminate taken in Q1FY23. Plywood margins may see some pressure in near term (but still be better than the low base of Q1FY23) due to higher demand for mass products (which have lower margins) whereas MDF margins will decline ~120bps YoY to 30.5% in FY23 on account of higher raw material cost. Laminate margins will increase QoQ due to tepid base, steady raw material prices and benefit of price hike taken earlier. We have modelled blended margins of 17.2%/17.4% for FY23/24E (vs 17.6% in FY22), respectively.
- **Downgrade from Buy to ADD:** We continue to like CPBI for its strong growth prospects, high return ratios and healthy balance sheet and believe it will be a major beneficiary of the uptick in housing demand and higher spending on home improvement post the pandemic. However, we downgrade the stock from Buy to ADD due to strong rally in the stock price (~22% over the last 3 months). We maintain estimates and Mar'23E target price of Rs750, set at unchanged 35x PER FY24E. Key risks to our call: 1) Slowdown in housing demand, 2) continuous higher input prices, which may adversely affect demand / profitability.

Market Cap	Rs150bn/US\$1.9bn	Year to Mar	FY21	FY22	FY23E	FY24E
Reuters/Bloomberg	CNTP.BO/CPBI IN	Revenue (Rs mn)	21,304	30,270	36,542	43,205
Shares Outstanding (mn)	222.2	EBITDA (Rs mn)	3,355	5,324	6,303	7,529
52-week Range (Rs)	720/411	Net Income (Rs mn)	1,887	3,082	4,028	4,773
Free Float (%)	27.0	EPS (Rs)	8.5	13.9	18.1	21.4
FII (%)	7.2	% Chg YoY	3.0	63.3	30.7	18.5
Daily Volume (US\$'000)	2,451	P/E (x)	79.8	48.9	37.4	31.6
Absolute Return 3m (%)	22.1	EV/E (x)	45.0	28.2	23.9	20.1
Absolute Return 12m (%)	61.3	Dividend Yield	0.1	0.2	0.3	0.5
Sensex Return 3m (%)	9.2	RoCE (%)	14.1	19.2	21.0	21.3
Sensex Return 12m (%)	3.8	RoE (%)	16.0	21.8	23.2	22.5

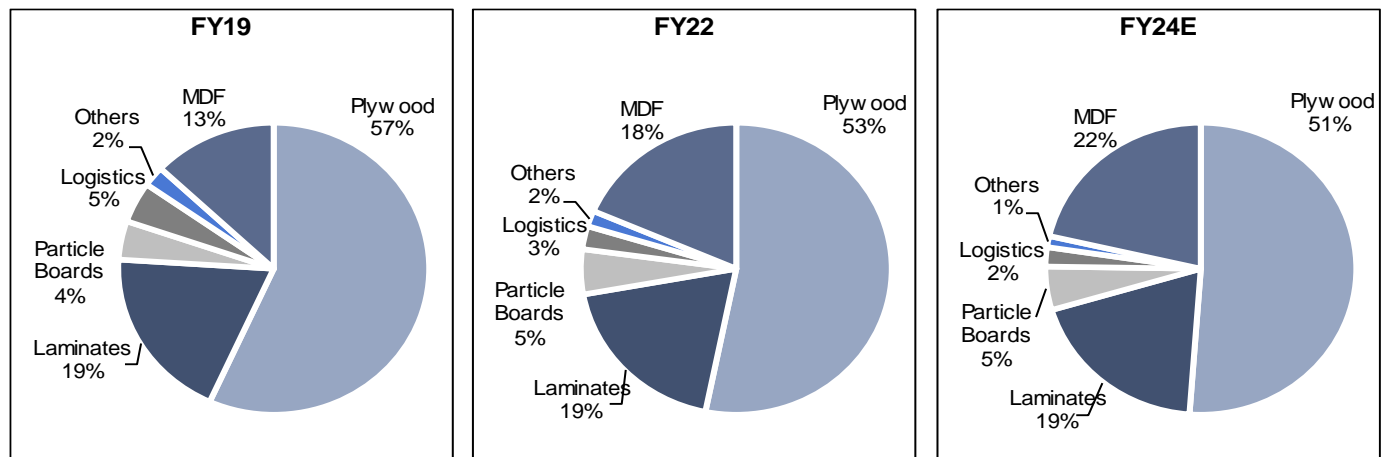
Key charts

Chart 1: Revenue CAGR of 19.5% over FY22-FY24E aided by expansion in MDF segment



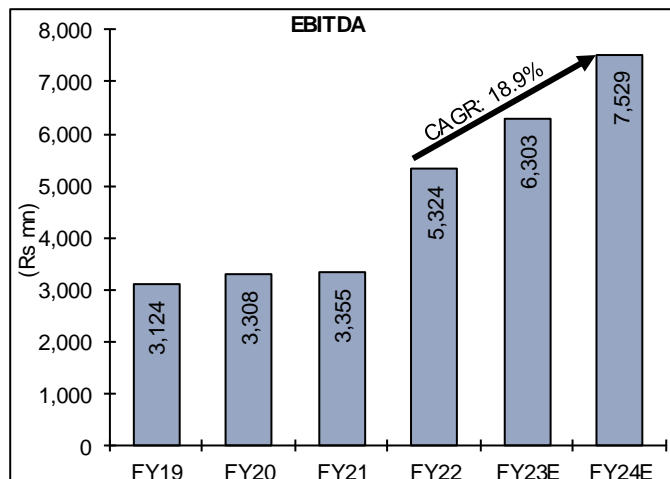
Source: Company Data, I-Sec research

Chart 2: MDF revenue share set to increase with expansion in capacities



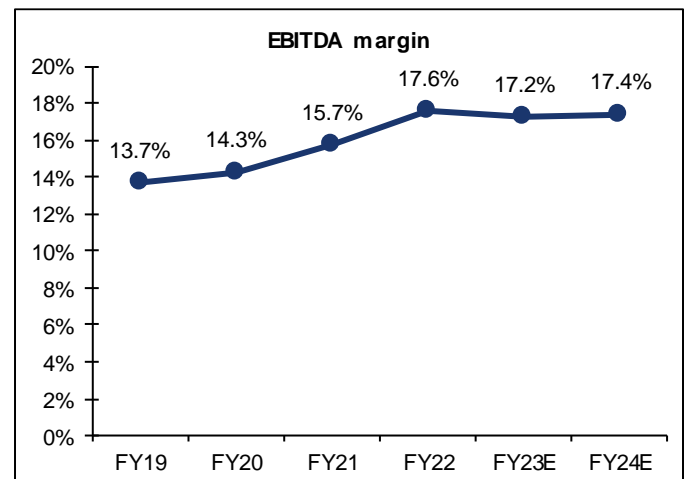
Source: Company data, I-Sec research

Chart 3: Cons EBITDA to grow at a CAGR of 18.9% over FY22-FY24E



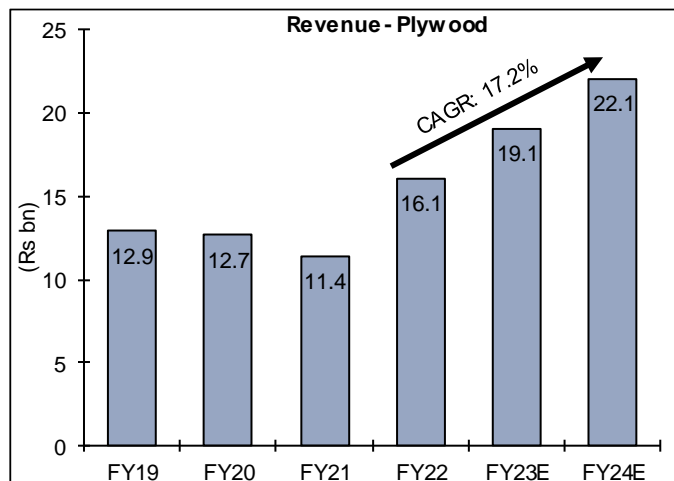
Source: Company data, I-Sec research

Chart 4: EBITDA margin to sustain at high levels over FY22-FY24E aided by high MDF contribution



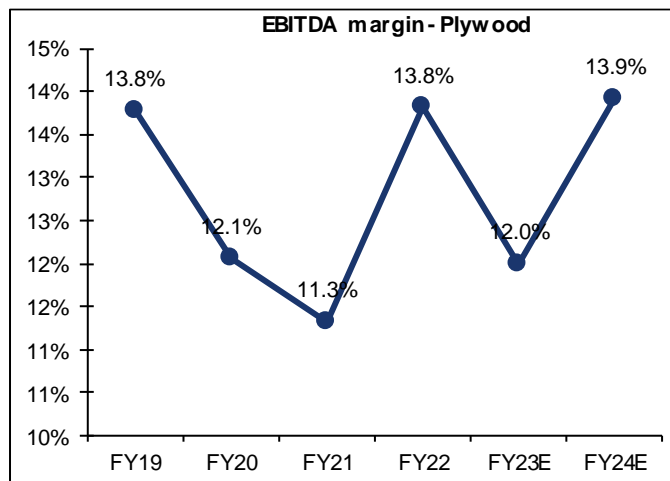
Source: Company data, I-Sec research

Chart 5: Plywood segment revenue CAGR at 17.2% over FY22-FY24E with margin improvement



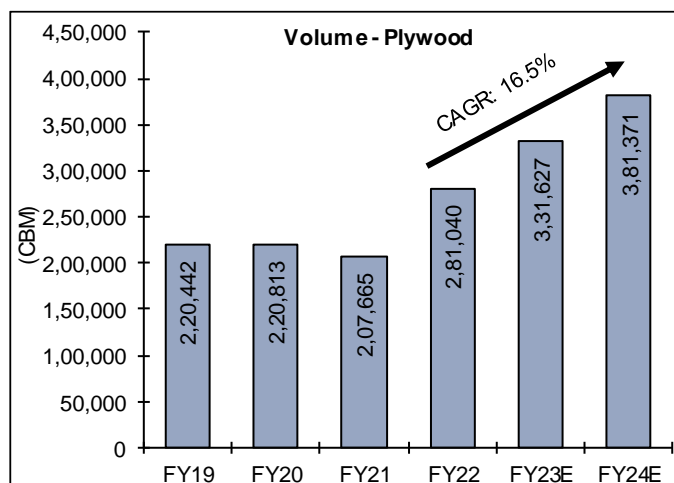
Source: Company data, I-Sec research

Chart 6: Plywood segment EBITDA margin to face near-term headwinds



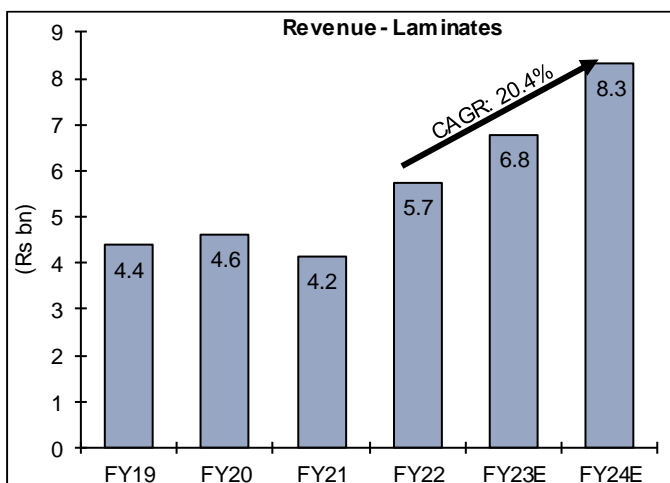
Source: Company data, I-Sec research

Chart 7: Plywood sales volumes to grow at 16.5% CAGR over FY22-24E



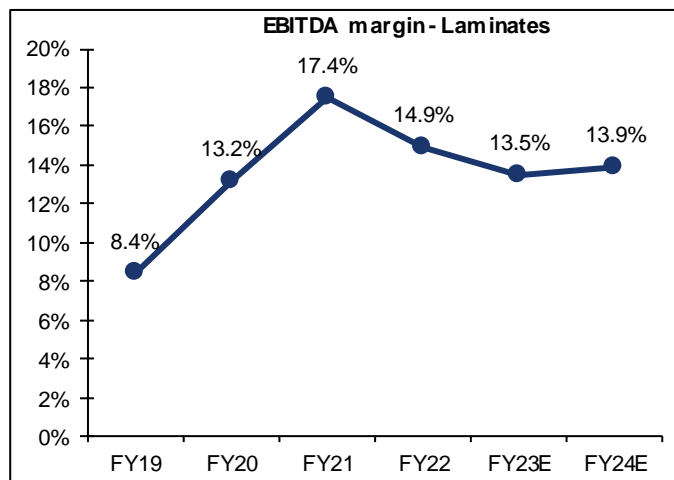
Source: Company data, I-Sec research

Chart 8: Laminate revenue CAGR at 20.4% over FY22-FY24E



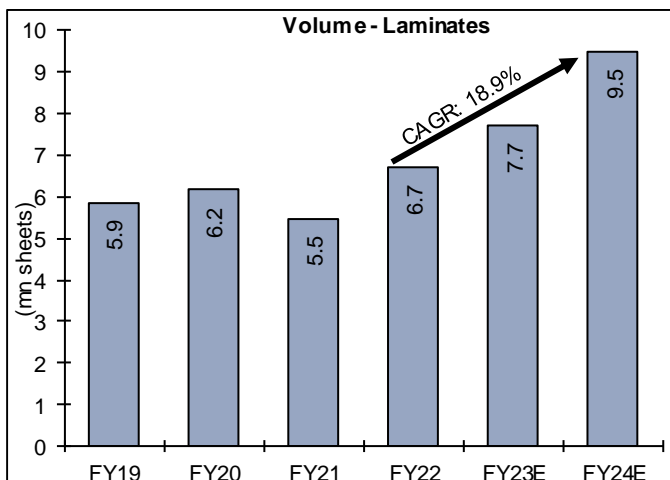
Source: Company data, I-Sec research

Chart 9: Laminate segment EBITDA margin to decline due to high base



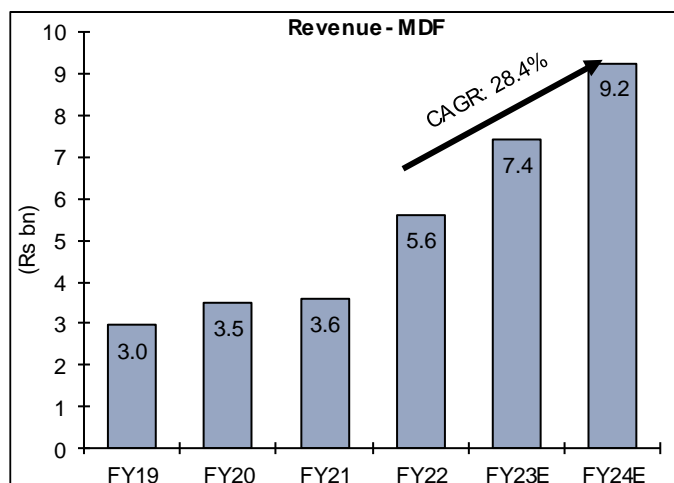
Source: Company data, I-Sec research

Chart 10: Laminate volume to grow at 18.9% CAGR over FY22-24E



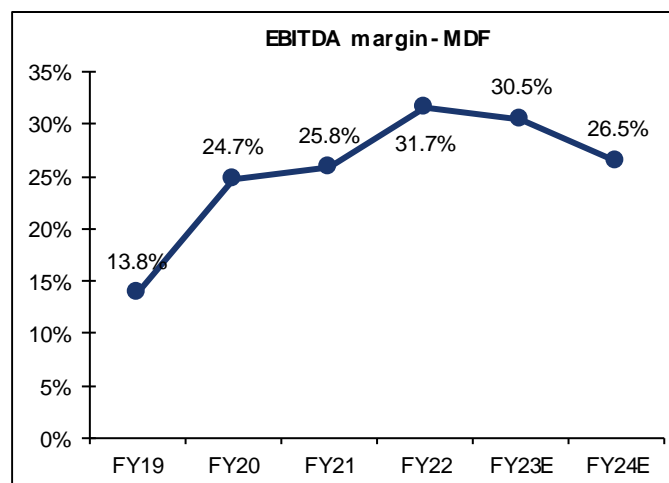
Source: Company data, I-Sec research

Chart 11: MDF revenue CAGR at 28.4% over FY22-FY24E aided by capacity addition



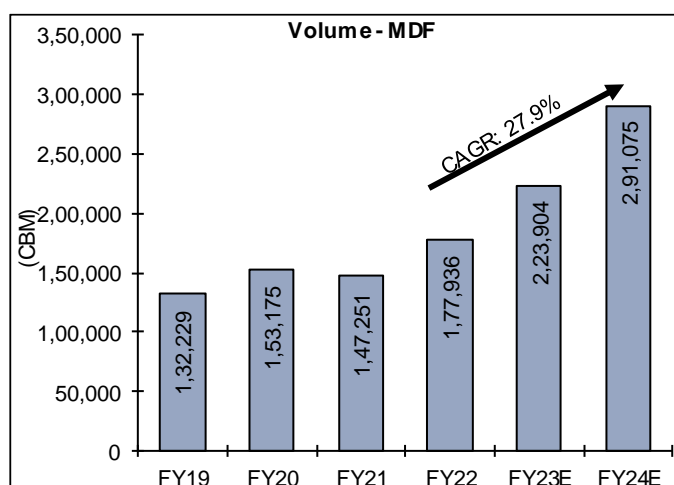
Source: Company data, I-Sec research

Chart 12: MDF EBITDA margin to remain healthy



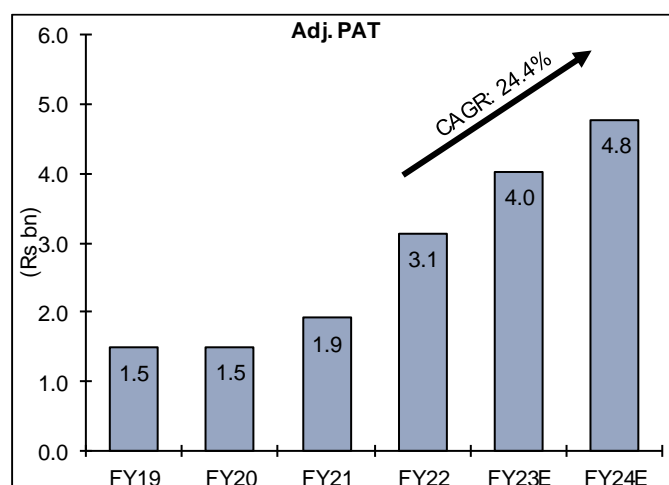
Source: Company data, I-Sec research

Chart 13: MDF sales volume to grow at 27.9% CAGR over FY22-FY24E



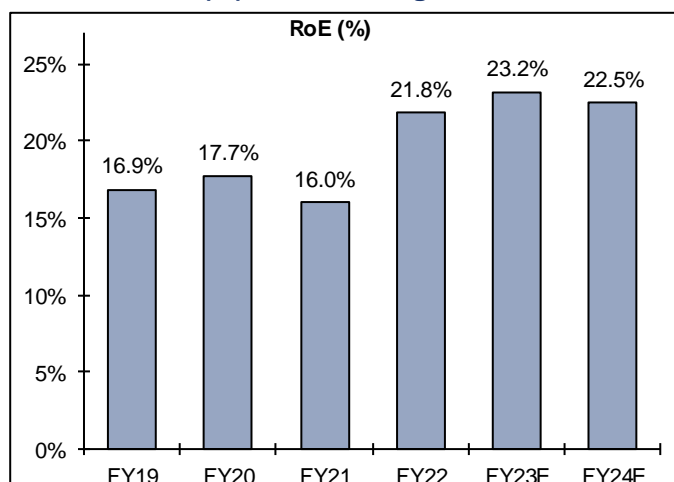
Source: Company data, I-Sec research

Chart 14: Adj. PAT CAGR at 24.4% over FY22-FY24E led by strong revenue growth and margin increase



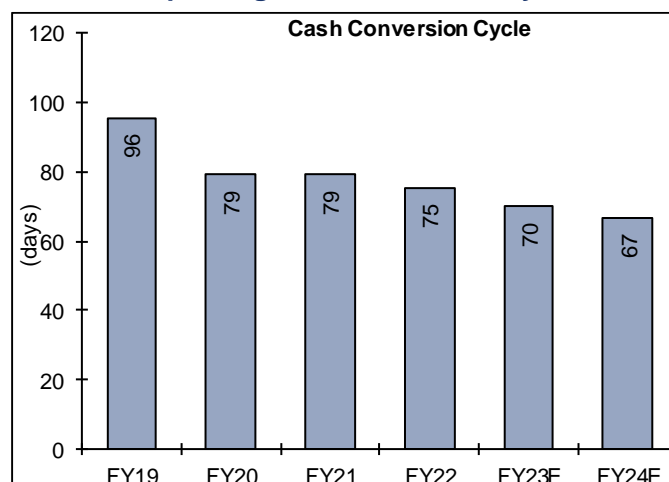
Source: Company data, I-Sec research

Chart 15: RoE (%) to remain high



Source: Company data, I-Sec research

Chart 16: Improving cash conversion cycle



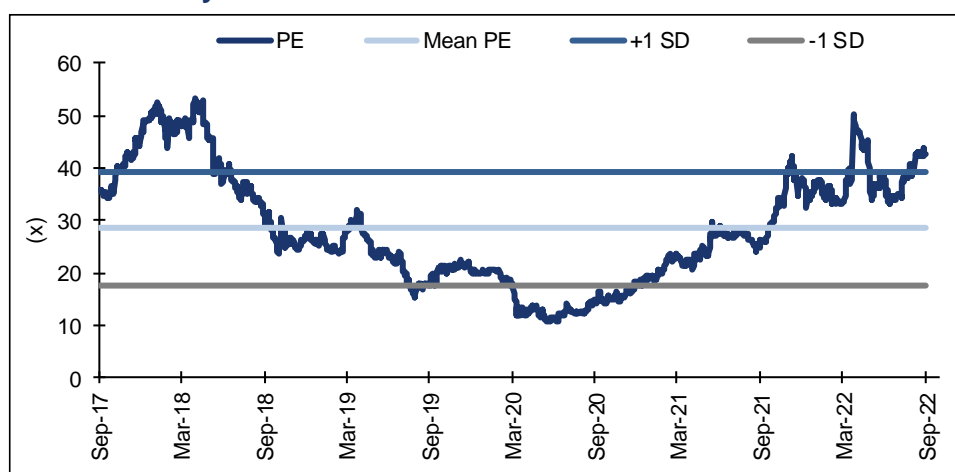
Source: Company data, I-Sec research

Valuations

CPBI is a play on the growing interior infrastructure market in India. With its comprehensive product portfolio, strong brand and wide distribution reach, the company is well placed to capitalise on demand pick up in the housing sector.

The company is expected to witness revenue/APAT CAGR of 19%/24% over FY22-FY24E with a strong balance sheet and impressive return ratios. We continue to like CPBI for its comprehensive product portfolio, wide distribution and strong brand name. However, we downgrade the stock from Buy to **ADD** post the strong rally of ~22% in the stock price over the past 3 months. Maintain estimates with an unchanged Mar'22 target price of Rs750, set at 35x PER FY24E.

Chart 17: One-year forward P/E band



Source: Bloomberg, I-Sec research

Key risks

- **Regulatory concerns on raw material sourcing:** Wood is a key raw material for plywood and MDF manufacturing. Any regulatory restriction on the sourcing of wood or face veneer will affect the company's profitability.
- **Sharp rise in raw material prices:** Higher raw material prices and inability to pass these on to consumers may hurt profitability.
- **Prolonged slowdown in housing market:** A continuous slowdown in the housing market would hit growth prospects.
- **MDF imports:** Due to unexpected slowdown in global economies, there is a risk of MDF being dumped in Indian markets, thus, hampering the growth prospects of domestic manufacturers.
- **Resurgence of pandemic:** A resurgence of the covid pandemic will adversely affect near-term growth prospects of the company.

Financial summary

Table 1: Profit and loss statement

(Rs mn, year ending March 31)

	FY21	FY22	FY23E	FY24E
Operating Income (Sales)	21,304	30,270	36,542	43,205
Operating Expenses	17,948	24,946	30,239	35,676
EBITDA	3,355	5,324	6,303	7,529
% margins	15.7	17.6	17.2	17.4
Depreciation & Amortisation	687	743	924	1,127
Interest Cost	128	114	161	108
Other Income	24	127	185	111
Recurring PBT	2,565	4,594	5,404	6,404
Less: Taxes	690	1,535	1,362	1,614
Less: Minority				
Interest/Extraordinary Items	-40	-71	14	18
Net Income (Reported)	1,915	3,131	4,028	4,773
Net Income (Adjusted)	1,887	3,082	4,028	4,773

Source: Company data, I-Sec research

Table 2: Balance sheet

(Rs mn, year ending March 31)

	FY21	FY22	FY23E	FY24E
Assets				
Total Current Assets	8,682	12,770	12,997	14,222
of which cash & cash eqv.	908	2,610	1,584	728
Total Current Liabilities	5,189	6,575	5,644	6,600
Net Current Assets	3,493	6,195	7,353	7,622
Investments	1,169	64	64	64
Net Fixed Assets	7,558	7,704	11,030	14,803
Total Assets	18,114	22,137	25,689	30,688
Liabilities				
Borrowings	1,430	2,182	1,350	1,200
Total Liabilities	5,452	6,595	6,494	7,400
Equity Share Capital	223	223	223	223
Face Value per share (Rs)	1	1	1	1
Reserves & Surplus	12,451	15,346	18,985	23,060
Net Worth	12,674	15,568	19,208	23,282
Minority Interest	-12	-26	-12	5
Total Liabilities & Shareholders' Equity	18,114	22,137	25,689	30,688

Source: Company data, I-Sec research

Table 3: Quarterly trend

(Rs mn, year ending March 31)

	Sep'21	Dec'21	Mar'22	Jun'22
Net sales	8,136	8,548	9,011	8,888
% growth (YoY)	56	29	21	94
EBITDA	1,598	1,501	1,607	1,431
EBITDA Margin (%)	19.6	17.6	17.8	16.1
Other income	65	59	54	60
Extraordinary Items	0	0	-15	0
Net profit	991	941	895	923

Table 4: Cashflow statement

(Rs mn, year ending March 31)

Cash Flow	FY21	FY22	FY23E	FY24E
Operating Cashflow				
Working Capital Changes	987	-1,996	-522	-1,025
Capex	-535	-2,576	-4,250	-4,900
Free Cashflow	2,234	1,094	355	101
Cashflow from Investing Activities	-1,641	-1,471	-4,250	-4,900
Issue of Share Capital	0	0	0	0
Inc (Dec) in Borrowings	-1,250	752	-832	-150
Dividend paid	-8	-223	-403	-716
Chg. in Cash & Cash equivalents	661	1,702	-1,027	-856

Source: Company data, I-Sec research

Table 5: Key ratios

(Year ending March 31)

	FY21	FY22	FY23E	FY24E
Per Share Data (Rs)				
EPS (Diluted Adjusted)	8.5	13.9	18.1	21.4
CEPS (Cash EPS)	11.6	17.2	22.3	26.5
Dividend per share (DPS)	1.0	1.5	1.8	3.2
Book Value per share (BV)	57.0	70.0	86.3	104.6
Growth Ratios (%)				
Operating Income	-8.1	42.1	20.7	18.2
EBITDA	1.4	58.7	18.4	19.4
Adjusted Net Income	3.0	63.3	30.7	18.5
EPS (Diluted Adjusted)	3.0	63.3	30.7	18.5
Valuation Ratios (x)				
P/E	79.8	48.9	37.4	31.6
P/CEPS	58.5	39.4	30.4	25.5
P/BV	11.9	9.7	7.8	6.5
EV / EBITDA	45.0	28.2	23.9	20.1
EV / Operating Income	7.1	5.0	4.1	3.5
Operating Ratios				
Other Income / PBT (%)	0.9	2.8	3.4	1.7
Effective Tax Rate (%)	26.9	33.4	25.2	25.2
NWC / Total Assets (%)	20.7	26.0	24.4	23.8
Net D/E Ratio (x)	-0.1	0.0	0.0	0.0
Return/Profitability Ratios (%)				
Adjusted Net Income Margins	8.9	10.2	11.0	11.0
RoCE	14.1	19.2	21.0	21.3
RoE	16.0	21.8	23.2	22.5
Dividend Yield	0.1	0.2	0.3	0.5
EBITDA Margins	15.7	17.6	17.2	17.4

Source: Company data, I-Sec research

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