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Company update

Wood Panel

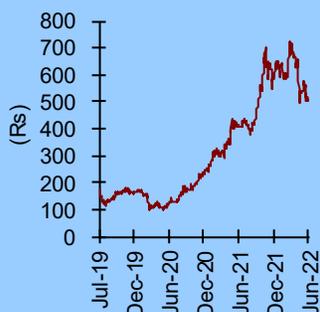
Target price: Rs747

Shareholding pattern

	Sep '21	Dec '21	Mar '22
Promoters	73.0	73.0	73.0
Institutional investors	18.2	18.7	18.0
MFs and others	11.7	11.7	9.8
Insurance Cos.	1.3	1.4	1.3
FIs	5.2	5.6	6.9
Others	8.8	8.3	9.0

Source: BSE

Price chart



Century Plyboards India

BUY
Maintain
Rs511

Demand trends remain favourable

We re-iterate BUY on Century Plyboards (CPBI) as demand continues to remain healthy for wood panel products. Our recent interaction with dealers and the management of Century Plyboards (CPBI) indicates that in the currently ongoing Q1FY23, demand trends are steady across segments like plywood, laminates and MDF on continued pick-up in residential market and higher spend on home improvement post the pandemic. CPBI has taken price increase of ~2-4% in plywood segment and ~3-4% in laminates during Q1FY23, which should enable it to mitigate the raw material price pressures and thus, enable margin to remain steady going ahead. CPBI management had earlier guided for 15-25% revenue growth across segments in FY23. We maintain estimates and our BUY rating on the stock with an unchanged Mar'23E target price of Rs747.

- **Demand trend remains steady:** The demand for wood panel products remains steady in Q1FY23 driven by continued uptick in residential housing market in India and higher spend on home improvement post the pandemic, as per our interaction with dealers and company management. MDF demand continues to remain healthy as ready-made furniture market continues to do well due to its increased acceptance. Plywood demand, too, has been steady with housing market continuing to revive post the pandemic. CPBI management has guided for ~20% revenue growth in plywood, 25% in MDF and ~15% in laminates segment for FY23. We model revenue CAGR of 18% during FY22-24E aided by growth in MDF segment.
- **Price increase in plywood and laminates to aid margin sustenance:** CPBI has taken price increase of ~2-4% in plywood and ~3-4% in laminates during the ongoing quarter (Q1FY23). This price increase will help negate the increased prices of wood and other materials and enable the company to maintain margins going ahead. CPBI management believes margins will be in their guided range of 13-15% for plywood, 14-16% for laminates and 25%+ for MDF in FY23. We model 30bps improvement in margins over FY22-24E due to increased contribution of high margin MDF segment on account of commissioning of new capacities.
- **Capacity addition on schedule:** CPBI's ongoing MDF brownfield expansion in Hoshiarpur, Punjab is expected to commission by Oct'22 and its greenfield expansion in Andhra Pradesh is likely to commission in H2FY24. Greenfield laminates capacity first phase of expansion in Andhra Pradesh will commence production in Q2FY24. All the announced capex is on schedule and the management plans to fund them primarily from internal accruals.
- **Maintain BUY:** 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 spend on home improvement post the pandemic. Maintain estimates and Mar'23E target price of Rs747, set at unchanged 35x PER FY24E. Key risks to our call: 1) Slowdown in housing demand, 2) continuing higher input prices, which may adversely affect demand / profitability.

Market Cap	Rs113bn/US\$1.4bn	Year to Mar	FY21	FY22	FY23E	FY24E
Reuters/Bloomberg	CNTP.BO/CPBI IN	Revenue (Rs mn)	21,304	30,270	35,422	41,982
Shares Outstanding (mn)	222.2	EBITDA (Rs mn)	3,355	5,308	6,099	7,474
52-week Range (Rs)	749/352	Net Income (Rs mn)	1,887	3,141	3,890	4,751
Free Float (%)	27.0	EPS (Rs)	8.5	14.1	17.5	21.4
FII (%)	6.9	% Chg YoY	3.0	66.4	23.9	22.1
Daily Volume (US\$'000)	2,325	P/E (x)	60.2	36.2	29.2	23.9
Absolute Return 3m (%)	(25.0)	EV/E (x)	34.0	21.3	18.6	15.2
Absolute Return 12m (%)	26.1	Dividend Yield	0.2	0.3	0.3	0.6
Sensex Return 3m (%)	(7.1)	RoCE (%)	14.1	19.3	20.4	21.3
Sensex Return 12m (%)	2.1	RoE (%)	16.0	22.2	22.5	22.5

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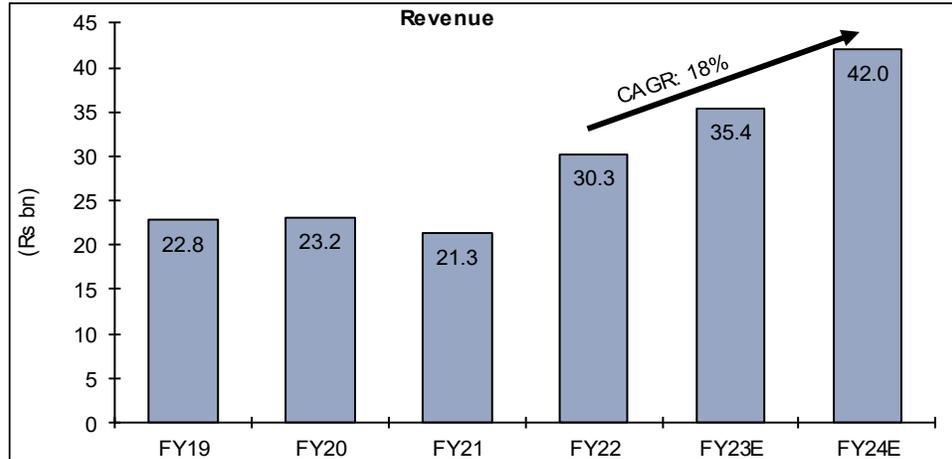
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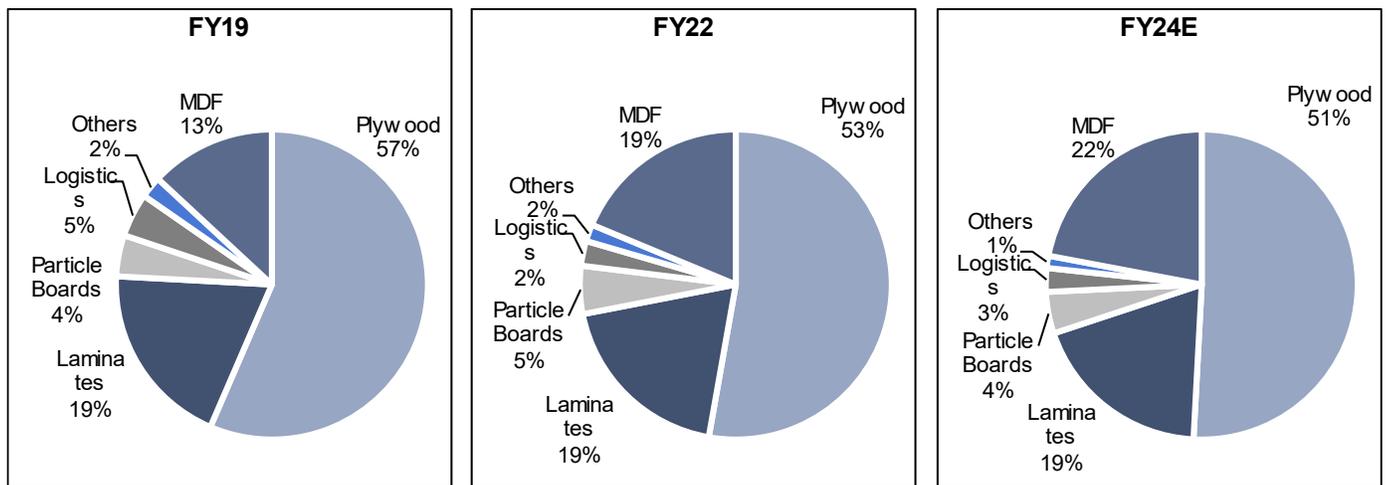
Key charts

Chart 1: Revenue CAGR of 18% over FY22-FY24E aided by expansion in MDF segment



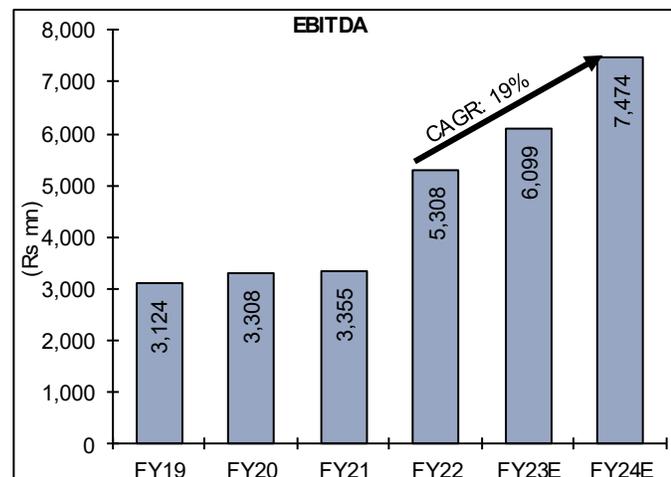
Source: Company Data, I-Sec research

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



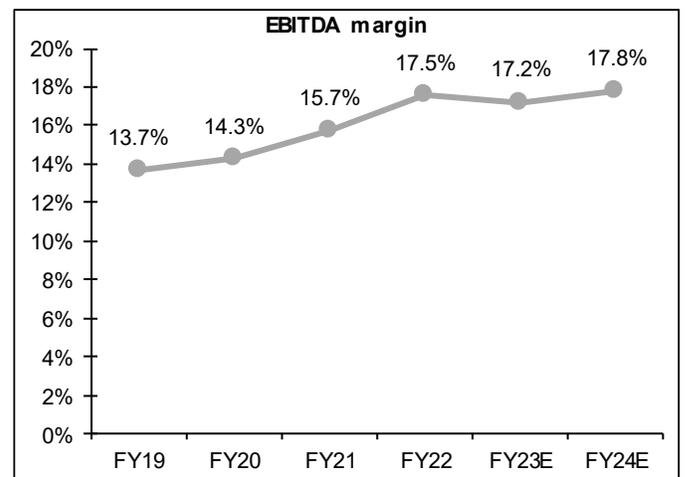
Source: Company data, I-Sec research

Chart 3: Cons EBITDA to grow at a CAGR of 19% over FY22-FY24E



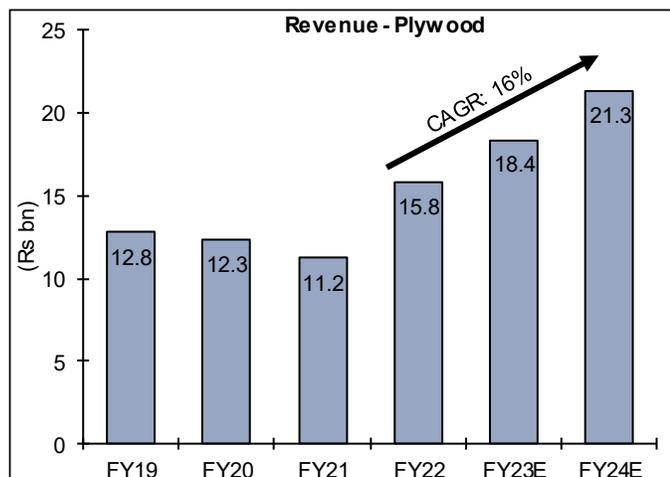
Source: Company data, I-Sec research

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



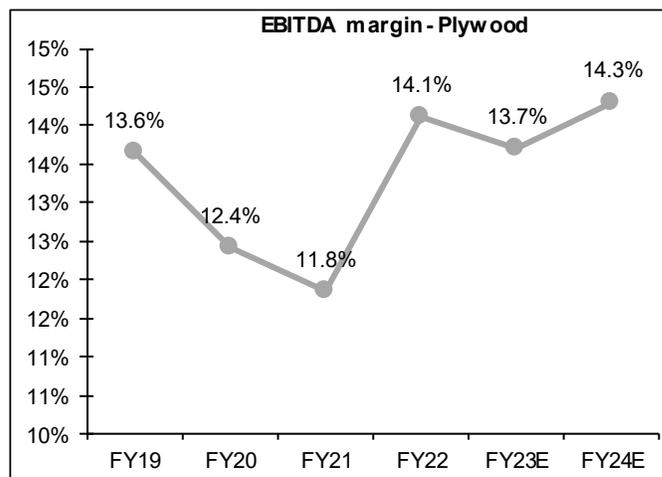
Source: Company data, I-Sec research

Chart 5: Plywood segment revenue CAGR at 16% over FY22-FY24E with margin improvement



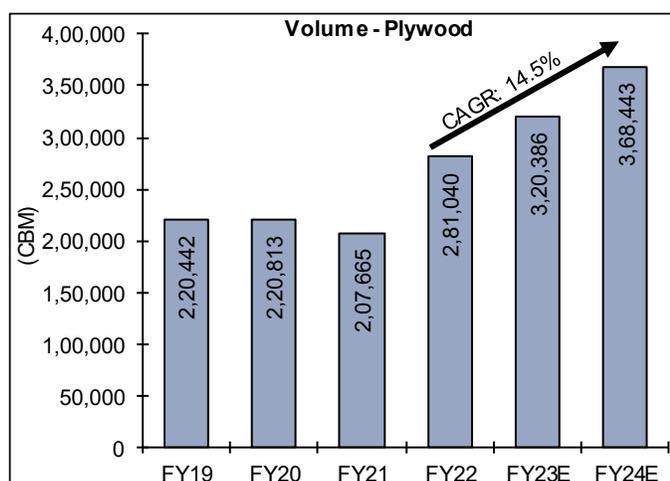
Source: Company data, I-Sec research

Chart 6: Plywood segment EBITDA margin to improve



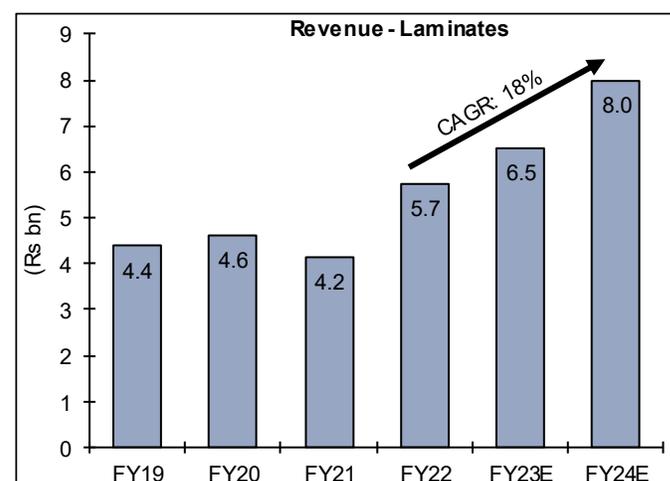
Source: Company data, I-Sec research

Chart 7: Plywood sales volumes to grow at 14.5% CAGR over FY22-24E



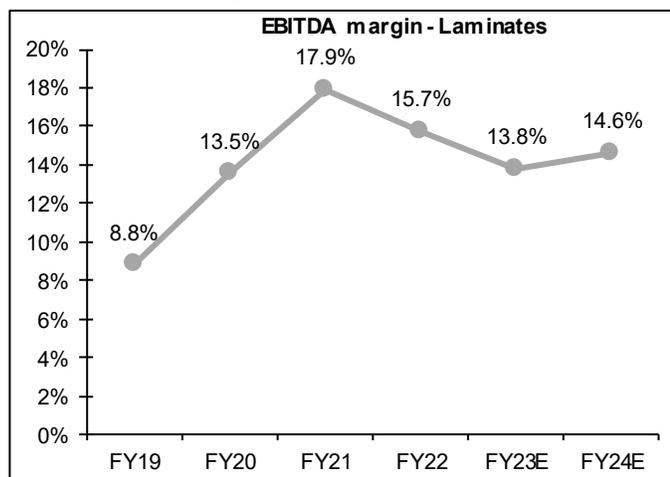
Source: Company data, I-Sec research

Chart 8: Laminates revenue CAGR at 18% over FY22-FY24E



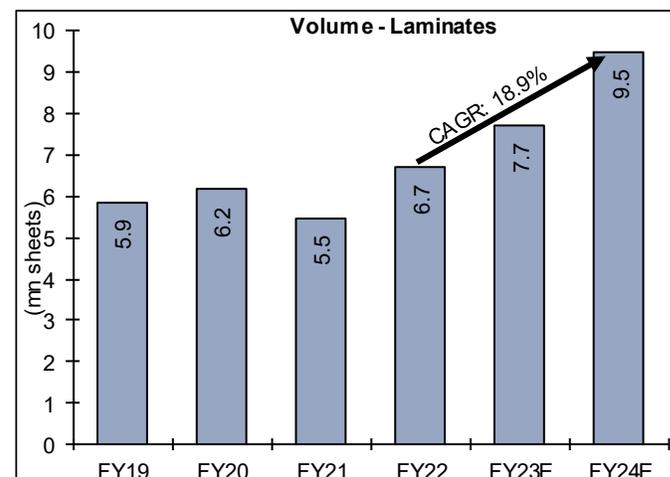
Source: Company data, I-Sec research

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



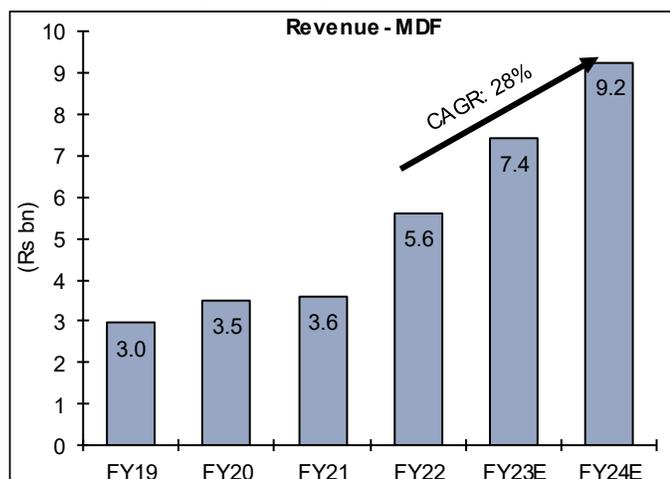
Source: Company data, I-Sec research

Chart 10: Laminates volumes to grow at 18.9% CAGR over FY22-24E



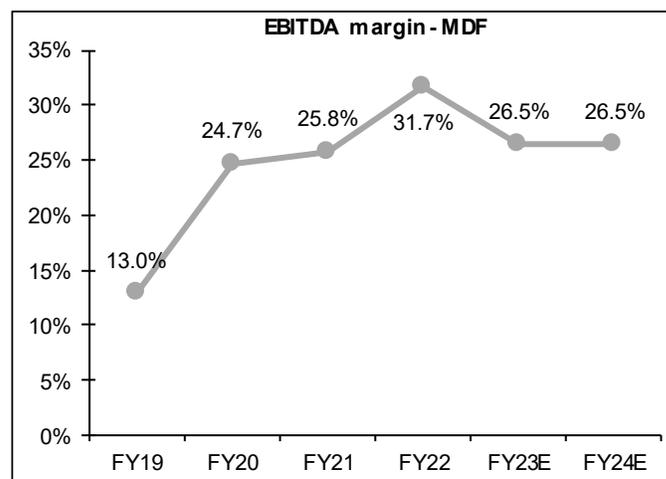
Source: Company data, I-Sec research

Chart 11: MDF revenue CAGR at 28% over FY22-FY24E aided by capacity addition



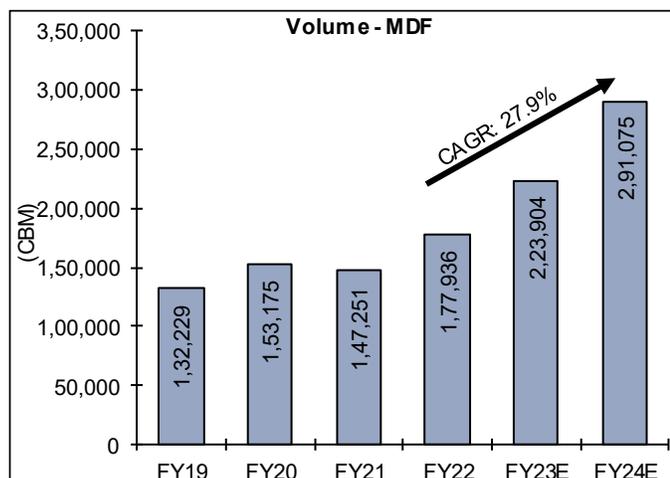
Source: Company data, I-Sec research

Chart 12: MDF EBITDA margin to remain high



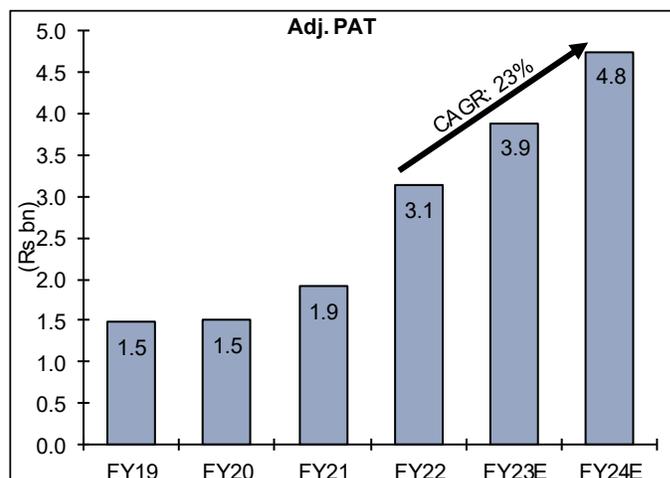
Source: Company data, I-Sec research

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



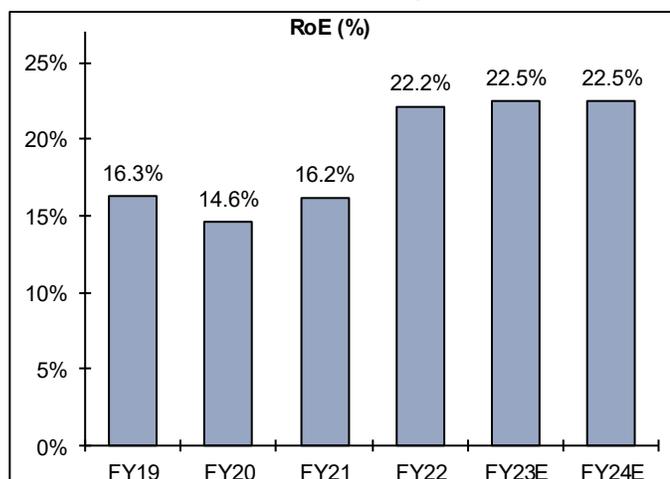
Source: Company data, I-Sec research

Chart 14: Adj. PAT CAGR at 23% over FY22-FY24E led by strong revenue growth and margin increase



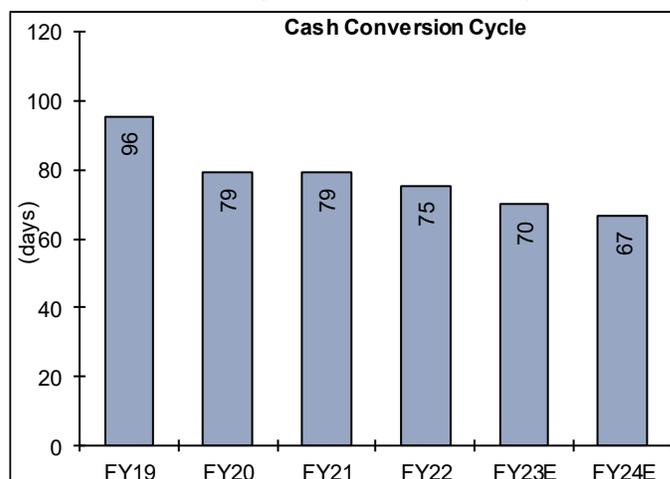
Source: Company data, I-Sec research

Chart 15: RoE (%) to remain high



Source: Company data, I-Sec research

Chart 16: Improving cash conversion cycle



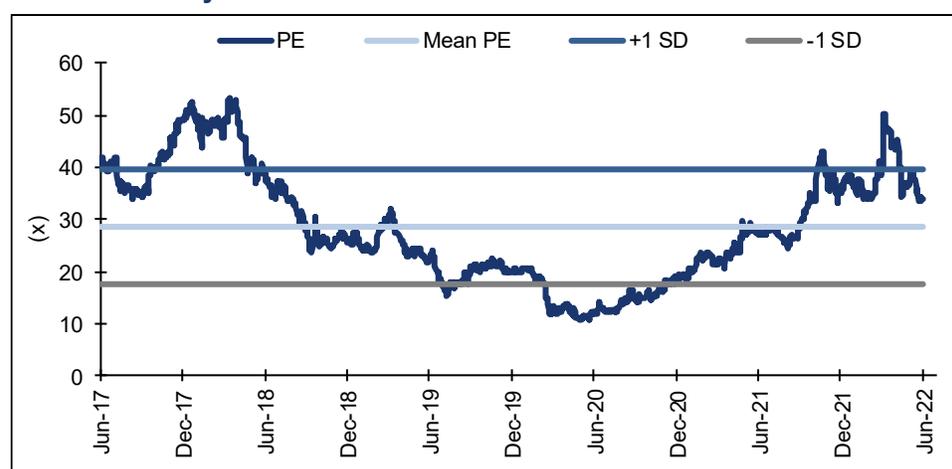
Source: Company data, I-Sec research

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/EBIDTA CAGR of 18%/19% 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. Maintain BUY with an unchanged Mar'23E target price of Rs747, set at 35x FY24E P/E (~20% premium to its five-year average, 1-year forward P/E). We believe CPBI can trade at a premium to its historical averages due to high growth prospects and significantly improved balance sheet.

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 continued 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	35,422	41,982
Operating Expenses	17,948	24,962	29,323	34,509
EBITDA	3,355	5,308	6,099	7,474
% margins	15.7	17.5	17.2	17.8
Depreciation & Amortisation	687	743	898	1,121
Interest Cost	128	114	150	108
Other Income	24	231	157	120
Recurring PBT	2,565	4,682	5,208	6,364
Less: Taxes	690	1,535	1,312	1,604
Less: Minority				
Interest/Extraordinary Items	-40	17	5	9
Net Income (Reported)	1,915	3,131	3,890	4,751
Net Income (Adjusted)	1,887	3,141	3,890	4,751

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	12,771	14,137
of which cash & cash eqv.	908	2,610	1,708	1,024
Total Current Liabilities	5,189	6,575	5,486	6,425
Net Current Assets	3,493	6,195	7,285	7,712
Investments	1,169	64	64	64
Net Fixed Assets	7,558	7,704	10,956	14,535
Total Assets	18,114	22,137	25,390	30,335
Liabilities				
Borrowings	1,430	2,182	1,350	1,200
Total Liabilities	5,452	6,595	6,336	7,225
Equity Share Capital	223	223	223	223
Face Value per share (Rs)	1	1	1	1
Reserves & Surplus	12,451	15,346	18,852	22,900
Net Worth	12,674	15,568	19,075	23,122
Minority Interest	-12	-26	-21	-12
Total Liabilities & Shareholders' Equity	18,114	22,137	25,390	30,335

Source: Company data, I-Sec research

Table 3: Quarterly trend

(Rs mn, year ending March 31)

	Jun'21	Sep'21	Dec'21	Mar'22
Net sales	4,575	8,136	8,548	9,011
% growth (YoY)	125	56	29	21
EBITDA	602	1,598	1,501	1,607
EBITDA Margin (%)	13.2	19.6	17.6	17.8
Other Income	52	65	59	54
Extraordinary Items	0	0	0	-15
Net profit	314	991	941	895

Source: Company data

Table 4: Cashflow statement

(Rs mn, year ending March 31)

	FY21	FY22	FY23E	FY24E
Operating Cashflow				
Working Capital Changes	987	-1,996	-330	-1,010
Capex	-535	-2,576	-4,150	-4,700
Free Cashflow	2,234	1,094	464	279
Cashflow from Investing Activities	-1,641	-1,471	-4,150	-4,700
Issue of Share Capital	0	0	0	0
Inc (Dec) in Borrowings	-1,250	752	-832	-150
Dividend paid	-8	-223	-389	-713
Chg. in Cash & Cash equivalents	661	1,702	-903	-683

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	14.1	17.5	21.4
CEPS (Cash EPS)	11.6	17.5	21.5	26.4
Dividend per share (DPS)	1.0	1.5	1.7	3.2
Book Value per share (BV)	57.0	70.0	85.7	103.9
Growth Ratios (%)				
Operating Income	-8.1	42.1	17.0	18.5
EBITDA	1.4	58.2	14.9	22.5
Adjusted Net Income	3.0	66.4	23.9	22.1
EPS (Diluted Adjusted)	3.0	66.4	23.9	22.1
Valuation Ratios (x)				
P/E	60.2	36.2	29.2	23.9
P/CEPS	44.1	29.2	23.7	19.3
P/BV	9.0	7.3	6.0	4.9
EV / EBITDA	34.0	21.3	18.6	15.2
EV / Operating Income	5.4	3.7	3.2	2.7
Operating Ratios				
Other Income / PBT (%)	0.9	4.9	3.0	1.9
Effective Tax Rate (%)	26.9	32.8	25.2	25.2
NWC / Total Assets (%)	20.7	26.0	23.9	23.4
Net D/E Ratio (x)	-0.1	0.0	0.0	0.0
Return/Profitability Ratios (%)				
Adjusted Net Income Margins	8.9	10.4	11.0	11.3
RoCE	14.1	19.3	20.4	21.3
RoE	16.0	22.2	22.5	22.5
Dividend Yield	0.2	0.3	0.3	0.6
EBITDA Margins	15.7	17.5	17.2	17.8

Source: Company data, I-Sec research

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