

January 12, 2024

## Century Plyboards (India) Ltd: Ratings reaffirmed; rated amount enhanced

### Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Fund-based limits- TL	15.00	100.00	[ICRA]AA (Stable); reaffirmed/ assigned for enhanced amount
Long term - Fund based /Non- fund based - Others	0.00	200.00	[ICRA]AA (Stable); assigned
Fund-based limits- Cash credit	145.00	145.00	[ICRA]AA (Stable); reaffirmed
Long term-Proposed Fund-based limits- Cash credit	0.00	255.00	[ICRA]AA (Stable); assigned
Non-fund-based Limits	280.00	280.00	[ICRA]A1+; reaffirmed
Short Term-Proposed Non-fund- based Limits	0.00	80.00	[ICRA]A1+; assigned
<b>Total</b>	<b>440.00</b>	<b>1,060.00</b>	

\*Instrument details are provided in Annexure-I

### Rationale

While assigning the ratings, ICRA has taken a consolidated view of Century Plyboards (India) Ltd (CPIL) and its wholly owned subsidiary Century Panels Limited (CPL), given the strong business and financial linkages, and CPL acts as an extended arm for CPIL.

The reaffirmed ratings factor in CPIL's strong business risk profile driven by its dominant position in the plywood industry (29% market share within the organised segment), a large product portfolio across the price spectrum, a wide distribution network of more than 3,800 dealers and 14,000 retailers across India and its brand strength with premium pricing across products. Further, the manufacturing plants are strategically located near raw material sources, ensuring adequate availability of raw materials and leading to lower freight costs. CPIL's financial profile is expected to remain strong backed by revenue growth of 5-7%, healthy operating profits and strong debt coverage metrics in FY2024. While its operating margins moderated in H1 FY2024 to 14.7% (from 16.1% in FY2023) due to an increase in input costs and selling expenses, the margins are expected to increase from these levels for the full year, FY2024. This is supported by the price hikes implemented by the company (although with a lag) and better absorption of overheads. The ratings consider the favourable growth prospects across product categories, supported by healthy demand from real estate, ready-made furniture and increased spend on interior works in residential dwelling units. Additionally, the commencement of the greenfield medium-density fireboard (MDF) and laminate plant in its subsidiary CPL in Q4 FY2024 is likely to support revenue growth of 16-18% in FY2025 while the operating margins are likely to sustain around 16%. Given the ongoing debt-funded capex, the leverage metric (total debt/EBITDA) is expected to increase to 1.3-1.4 times as of March 2024 and March 2025, up from 0.6 times as of March 2023. However, it is expected to remain comfortable. The debt coverage metrics are expected to remain strong with DSCR estimated in the range of 18-20 times as of March 2024 and 8-10 times as of March 2025 compared to 10 times in March 2023. The ratings continue to consider the vast experience of the promoters spanning more than three decades in the plywood and allied products industry.

The ratings are, however, constrained by CPIL's exposure to the inherent project implementation risk for the ongoing capex, and post-implementation risk related to the ramp-up and stabilisation of the new plants. CPIL has large capex plans of around Rs. 1,500 crore over FY2024-FY2025, with major portion towards setting up a greenfield particle board plant in Chennai, greenfield MDF and laminate plant in its subsidiary CPL in Andhra Pradesh. With high proportion of imports and lumpy capacity addition by other leading wood panel players in India, coupled with threats from imports, CPIL faces offtake risks for its upcoming particle board plant and MDF capacities. While higher shipping costs and raw material price hikes improved the cost

competitiveness of domestic MDF compared to imports (historically, imports accounted for a sizeable share in South India), the threat from cheaper imports remains in the near to medium term. The ramp-up of the upcoming capacities would remain critical for sustaining its ROCE at healthy levels. The company's operations are working capital-intensive in nature and remain exposed to fluctuations in exchange rates, given the sizeable import of raw materials. ICRA also notes the intense competition in the plywood industry from many unorganised and organised players, restricting CPIL's pricing flexibility.

The Stable outlook on the [ICRA]AA rating reflects that CPIL will continue to benefit from its strong business profile in the domestic market, leadership position in the plywood industry and robust coverage metrics.

## Key rating drivers and their description

### Credit strengths

**Established brand name, wide distribution network and strategic location of manufacturing units strengthen CPIL's operating profile** – CPIL has a dominant position in the plywood industry (29% market share within the organised segment), a large product portfolio across the price spectrum, a wide distribution network of more than 3,800 dealers and 14,000 retailers across India and brand strength with premium pricing across products. Further, the manufacturing plants are strategically located near raw material sources, ensuring adequate availability of raw materials and leading to lower freight costs. CPIL also has backward-integrated units in Gabon for the supply of veneer. The growth across product categories is expected to be supported by healthy demand from the end-user industries such as real estate, ready-made furniture and increased spend on interior works in residential dwelling units.

**Strong financial risk profile** – CPIL's financial profile is expected to remain strong backed by revenue growth of 5-7%, healthy operating profits and strong debt coverage metrics in FY2024. While its operating margins moderated in H1 FY2024 to 14.7% (from 16.1% in FY2023) due to an increase in input costs and selling expenses, the margins are expected to increase from these levels for the full year, FY2024. This is supported by the price hikes implemented by the company (although with a lag) and better absorption of overheads. CPIL is backed by favourable growth prospects across product categories, supported by healthy demand from real estate, ready-made furniture and increased spend on interior works in residential dwelling units. Additionally, the commencement of the greenfield MDF and laminate plant in its subsidiary CPL in Q4 FY2024 is likely to support revenue growth of 16-18% in FY2025 while the operating margins are likely to sustain around 16%. Given the ongoing debt-funded capex, the leverage metric (total debt/EBITDA) is expected to increase to 1.3-1.4 times as of March 2024 and March 2025, up from 0.6 times as of March 2023. However, it is expected to remain comfortable. The debt coverage metrics are expected to remain strong with DSCR estimated in the range of 18-20 times as of March 2024 and 8-10 times as of March 2025 compared to 10 times in March 2023.

**Experienced promoters and management team with successful track record of delivering stable performance:** Incorporated in 1982, CPIL's promoters have extensive experience in the plywood and allied products industry, which has helped in establishing CPIL as a renowned brand in the veneers, plywood and laminates industry. The company offers a wide range of products in various segments such as commercial, decorative, plywood, laminate, particle board and MDF. CPIL offers products across different price points, enabling it to cater to a broader customer base. Within the organised sector, CPIL remains one of the largest manufacturers of plywood in India.

### Credit challenges

**Large capex underway, ramp-up of new units remain critical for sustenance of ROCE at healthy levels** – CPIL is exposed to the inherent project implementation and post-implementation risks for the ongoing capex, related to the ramp-up and stabilisation of the new plants. CPIL has large capex plans of around Rs. 1,500 crore over FY2024-FY2025 with a major portion towards setting up a greenfield particle board plant in Chennai, greenfield MDF and laminate plant in its subsidiary CPL in Andhra Pradesh. With high proportion of imports and lumpy capacity addition by other leading wood panel players in India and threats from imports, CPIL faces offtake risks for its upcoming particle board plant and MDF capacities. While the higher shipping costs and raw material price hikes improved the cost competitiveness of domestic MDF compared to imports

(historically, imports accounted for a sizeable share in South India), the threat from cheaper imports remains in the near to medium term. The ramp-up of the upcoming capacities would remain critical for sustaining its ROCE at healthy levels.

**Working capital-intensive business** – CPIL has working capital-intensive operations, with working capital intensity at 17% in FY2023, attributed to high inventory requirements for various products. Given the company's diverse set of manufacturing products in plywood, laminates, MDF and particleboard segments, it necessitates stocking a large volume of raw materials and finished goods to cater to the demand.

**Highly fragmented nature of the plywood industry; margins also exposed to currency fluctuations** – The unorganised sector accounts for a substantial part (around 76% of the total market size) of the plywood industry. Though, the Century brand name commands premium prices, intense competition from many unorganised and organised players restricts CPIL's pricing flexibility. The profitability of the company remains exposed to forex risks, given the sizeable import of raw materials and some amount of foreign currency debt on its books. However, the company hedges its forex exposure as and when required, which mitigates the risk to an extent.

## Environment and Social Risks

The manufacturing of wooden panel products involves substantial use of timber and wooden logs, primarily procured from timber plantations, with some dependence on imported forest wood. CPIL also emits formaldehyde during manufacturing and relies on fossil fuels for energy consumption. Increasing regulatory requirements to reduce greenhouse gas emissions and stricter air pollution standards may lead to higher costs for CPIL. The company's profitability and cash flows could be under pressure if it is unable to fully pass on the increased compliance costs to customers. In FY2023, CPIL derived 13% of its electricity requirements from renewable energy. The social risks relate to the safety of employees involved in the manufacturing and transportation of wood panel products, and CPIL has invested in mechanisation to enhance physical safety.

## Liquidity position: Adequate

CPIL's liquidity profile is adequate, supported by cash and liquid investments of around Rs. 45.0 crore as of September 2023 on a consolidated basis. Additionally, the company holds working capital limits of Rs. 145.0 crore, with utilisation remaining moderate at 63% for the last 12 months ending September 2023. The company has large capex plans of around ~Rs. 1,500 crore in FY2024-FY2025, which is expected to be met through Rs. 870 crore debt and balance through internal accruals. CPIL has low-term loan repayments of Rs. 2.3 crore in FY2024 and Rs. 11.4 crore in FY2025, which can be comfortably serviced from the estimated cash flow from operations.

## Rating sensitivities

**Positive factors** – ICRA could upgrade CPIL's rating if there is a significant ramp-up in the operations of the upcoming capacities, improving the company's revenues and earnings on a sustained basis and maintaining strong debt coverage metrics.

**Negative factors** – Pressure on CPIL's ratings could arise if a significant decline in revenues and earnings or any major debt-funded capital expenditure/inorganic growth undertaken by the company weakens the capital structure and debt coverage metrics on a sustained basis. Specific credit metric that could lead to a downgrade includes total debt to OPBITDA increasing to over 1.5 times.

## Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	<a href="#">Corporate Credit Rating Methodology</a>
Parent/Group support	Not applicable
Consolidation/Standalone	For arriving at the ratings, ICRA has consolidated the financials of the various Group entities (as mentioned in Annexure II), given the close business, financial and managerial linkages among them; the rating is therefore based on the consolidated financials of the parent company of the Group, Century Plyboards (India) Ltd.

## About the company

CPII was incorporated on January 5, 1982. The company manufactures and sells plywood, laminates, decorative veneers, pre-laminated boards and flush doors. The company also operates a container freight station, situated near the Haldia port in West Bengal. Besides, the company is also involved in the trading of chemicals, minerals, and readymade furniture. Earlier, CPII was also engaged in manufacturing of ferro-alloys and power generation. From April 2012, these businesses were demerged from CPII to Star Ferro and Cement Ltd.

### Key financial indicators (audited)

CPII (Consolidated)	FY2022	FY2023
Operating income	3,030.4	3,648.7
PAT	313.2	384.1
OPBDIT/OI	17.7%	16.1%
PAT/OI	10.3%	10.5%
Total outside liabilities/Tangible net worth (times)	0.4	0.4
Total debt/OPBDIT (times)	0.4	0.6
Interest coverage (times)	47.0	34.6

Source: Company, ICRA Research; All ratios as per ICRA's calculations; Amount in Rs. Crore; PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation

### Status of non-cooperation with previous CRA: Not applicable

Any other information: None

## Rating history for past three years

Instrument	Type	Current rating (FY2024)		Chronology of rating history for the past 3 years			
		Amount rated (Rs. crore)	Amount outstanding as of March 31, 2023 (Rs. crore)	Date & rating in FY2024	Date & rating in FY2023	Date & rating in FY2022	Date & rating in FY2021
				Jan 12, 2024	Oct 31, 2022	September 30, 2021	July 31, 2020
1 Cash credit	Long term	145.0	-	[ICRA]AA (Stable)	[ICRA]AA (Stable)	[ICRA]AA (Stable)	[ICRA]AA- (Stable)
2 Term loan	Long term	100.0	0.0	[ICRA]AA (Stable)	[ICRA]AA (Stable)	[ICRA]AA (Stable)	[ICRA]AA- (Stable)
3 Non-fund Based limits	Short-term	280.0	-	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+
4 Fund based /Non-fund based - Others	Long term	200.0	-	[ICRA]AA (Stable)	-	-	-
5 Proposed Fund-based limits- Cash credit	Long term	255.0	-	[ICRA]AA (Stable)	-	-	-
6 Proposed Non-fund-based limits	Short-term	80.0	-	[ICRA]A1+	-	-	-
7 Commercial paper	Short-term	-	-	-	-	-	[ICRA]A1+ withdrawn

## Complexity level of the rated instruments

Instrument	Complexity Indicator
Fund Based Limits- TL	Simple
Fund Based Limits- Cash credit	Simple
Non-Fund Based limits	Very simple
Long term - Fund based / Non-fund based - Others	Simple
Long Term-Proposed Fund-based limits- Cash credit	Simple
Short Term-Proposed Non-fund-based limits	Very simple

The Complexity Indicator refers to the ease with which the returns associated with the rated instrument could be estimated. It does not indicate the risk related to the timely payments on the instrument, which is rather indicated by the instrument's credit rating. It also does not indicate the complexity associated with analysing an entity's financial, business, industry risks or complexity related to the structural, transactional or legal aspects. Details on the complexity levels of the instruments are available on ICRA's website: [Click Here](#)

**Annexure I: Instrument details**

ISIN	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Cash credit	NA	NA	NA	145.00	[ICRA]AA(Stable)
NA	Term loan	Sep-2023	-	FY2032	100.00	[ICRA]AA(Stable)
NA	Non-fund Based Limits	NA	NA	NA	280.00	[ICRA]A1+
NA	Fund based / non-fund based – Others	NA	NA	NA	200.00	[ICRA]AA(Stable)
NA	Proposed Fund-based limits- Cash credit	NA	NA	NA	255.00	[ICRA]AA(Stable)
NA	Proposed Non-fund-based Limits	NA	NA	NA	80.00	[ICRA]A1+

Source: Company

[Please click here to view details of lender-wise facilities rated by ICRA](#)

**Annexure II: List of entities considered for consolidated analysis**

Company Name	CPIL Ownership	Consolidation Approach
Century MDF Limited	100.00%	Full Consolidation
Auro Sundram Ply & Door Pvt Limited	51.00%	Full Consolidation
Asis Plywood Limited (Step-down)	100.00%	Full Consolidation
Century Panels Limited	100.00%	Full Consolidation
Ara Suppliers Private Limited	80.00%	Full Consolidation
Century Ply Singapore Pte Limited	90.68%	Full Consolidation
Century Ply Laos Co. Limited (Step-down)	90.00%	Full Consolidation
Century Huesoulin Plywood Lao Co. Limited (Step-down)	51.00%	Full Consolidation
Arham Sales Private Limited	80.00%	Full Consolidation
Adonis Vyapar Private Limited	80.00%	Full Consolidation
Apnapan Viniyog Private Limited	80.00%	Full Consolidation
Century Infotech Limited	99.99%	Full Consolidation
Century Gabon SUARL	100.00%	Full Consolidation
Century Infra Limited	100.00%	Full Consolidation
Century Ports Ltd	100.00%	Full Consolidation
Century Adhesives & Chemicals Ltd.	100.00%	Full Consolidation

Source: Annual report of CPIL, ICRA research

## ANALYST CONTACTS

**Rajeshwar Burla**

+91 40 4547 4829

[rajeshwar.burla@icraindia.com](mailto:rajeshwar.burla@icraindia.com)

**Anupama Reddy**

+91 40 4547 4829

[anupama.reddy@icraindia.com](mailto:anupama.reddy@icraindia.com)

**Abhishek Lahoti**

+91 40 4547 4829

[abhishek.lahoti@icraindia.com](mailto:abhishek.lahoti@icraindia.com)

**Hemanth Vasishta Attaluri**

+91 40 4547 4829

[vasishta.attaluri@icraindia.com](mailto:vasishta.attaluri@icraindia.com)

## RELATIONSHIP CONTACT

**L. Shivakumar**

+91 22 6114 3406

[shivakumar@icraindia.com](mailto:shivakumar@icraindia.com)

## MEDIA AND PUBLIC RELATIONS CONTACT

**Ms. Naznin Prodhani**

Tel: +91 124 4545 860

[communications@icraindia.com](mailto:communications@icraindia.com)

## Helpline for business queries

+91-9354738909 (open Monday to Friday, from 9:30 am to 6 pm)

[info@icraindia.com](mailto:info@icraindia.com)

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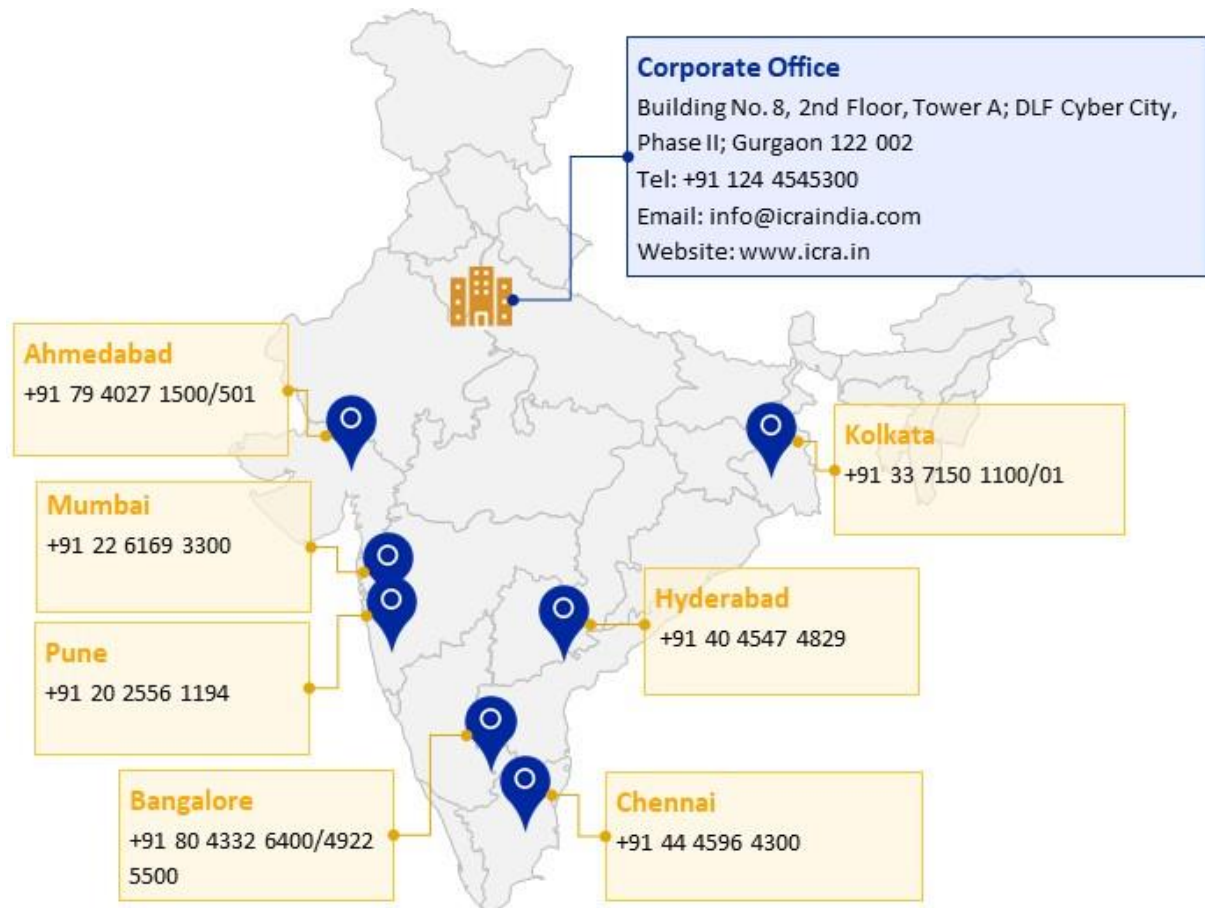
### Registered Office

B-710, Statesman House, 148, Barakhamba Road, New Delhi-110001

Tel: +91 11 23357940-45



### Branches



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