

India

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Neutral (no change)**Highlighted Companies****Century Plyboards****REDUCE, TP Rs595, Rs707 close**

Wood panel pricing and margins are expected to stay under pressure over the next six months owing to supply exceeding demand and no respite seen for high timber prices. The existing imported channel inventory for the industry in case of MDF and PB would take 3-4 months to be fully liquidated. We would monitor the new capacity addition timeline and BIS certificate issuance to importers closely that are key determinants of a revival in profitability.

Summary Valuation Metrics

P/E (x)	Mar24-F	Mar25-F	Mar26-F
Century Plyboards	50.31	41.58	31.59
P/BV (x)	Mar24-F	Mar25-F	Mar26-F
Century Plyboards	7.18	6.18	5.21
Dividend Yield	Mar24-F	Mar25-F	Mar26-F
Century Plyboards	0.14%	0.14%	0.14%

Building Materials

MDF profitability to stabilize from 2QFY25F

- We did a channel check to dig deeper into the current MDF demand-supply imbalance. Pricing/margins likely to stay under pressure, at least till Jun 2024F.
- About 750k/400kcbm of new MDF plants are expected to start commercial production in FY25F/26F, respectively, over the existing base of ~2.5mcbm.
- Domestic demand has stayed weak while the supply from regional brands & imports have risen over the last six months. Stay cautious over the near term.

Pricing and margins weak due to oversupply and costly timber

- Since Apr 2023, national/regional wood panel brands have expanded their medium density fibreboard or MDF manufacturing capacities. The estimated annual consumption is ~2mcbm vs. saleable capacity of 2.5mcbm currently.
- Greenply commissioned its greenfield facility at Vadodara with a capacity of 240kcbm while Century Plyboards India expanded its existing Hoshiarpur plant capacity by 100k+ cbm.
- Regional brands like Pioneer panel products, Trenox laminates and Crosta panels have rolled out a variety of MDF products for sale in India.
- Key raw material eucalyptus and poplar wood fibre prices have risen by 50%+ over the past two years in India due to lower plantation wood availability.
- North India's MDF producers are buying timber at an average price of Rs6-6.5/kg while procurement prices are ~Rs4.8-5.2/kg in South India.
- The demand-supply imbalance and high input costs led to lower MDF pricing/margins.

Expect over 1m+ cbm of new capacity to be added over FY25F-26F

- Century Plyboards India's greenfield MDF plant in South India (300kcbm) is expected to start operations in 1QFY25F. Greenply plans to add 200kcbm capacity at its Gujarat plant.
- E3 (160kcbm per year), Sudama wood panel (160k), Metro CrossBond (100k) and ArchidPly (60k) are the regional brands adding new MDF capacity, largely in North India.

New BIS regulations to ensure limited imports

- The Government of India has made it mandatory for MDF plants outside India to get a Bureau of Indian Standards (BIS) certificate to comply with minimum quality standards.
- From 29 Feb 2024, imports of only BIS-certified wood panels will be allowed. However, the importers' association has requested that customs department's clearance for the goods that are in transit currently should be granted.
- Annual MDF imports stood at ~250-275kcbm (CY23), ~12-13% of annual demand.
- Existing imported inventory would take three-to-four months to be fully liquidated. Starting Jul 2024F, we expect the gap in import volume to be filled by domestic brands.

Timber prices should cool off in CY25F

- Higher timber prices led to higher plantation acreage by farmers.
- Over 1bn+ trees have been planted pan-India over the last two years. This should help cool timber prices.
- As regards MDF or plywood, a tree needs at least three years and six years of ageing, respectively, to reach appropriate maturity.
- Hence, timber supply is expected to improve from 1QCY25F.

Remain cautious over the near term

- We expect weak financial performance over 4QFY24F/1QFY25F for wood panel companies and a gradual pick-up from 2QFY25F. We have a REDUCE rating on Century Plyboards India with a target price of Rs595.

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