

July 25, 2014

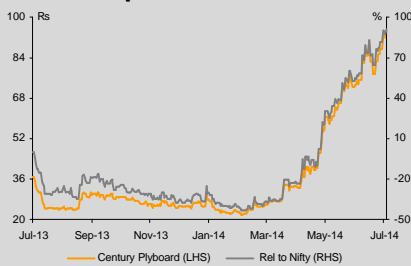
<b>Rating</b>	<b>Previous Reco</b>
Buy	Buy
<b>CMP</b>	<b>Target Price</b>
Rs90	Rs110
EPS Chg FY15E/FY16E (%)	4.2 / 6.6
Target Price change (%)	38
Nifty	7,831
Sensex	26,272

### Price Performance

(%)	1M	3M	6M	12M
Absolute	28	185	250	130
Rel. to Nifty	24	148	182	76

Source: Bloomberg

### Relative price chart



Source: Bloomberg

### Stock Details

Sector	Diversified
Bloomberg	CPBI IB
Equity Capital (Rs mn)	222
Face Value(Rs)	1
No of shares o/s (mn)	222
52 Week H/L	96/ 22
Market Cap (Rs bn/USD mn)	21/ 349
Daily Avg Volume (No of sh)	1,597,551
Daily Avg Turnover (US\$mn)	1.7

### Shareholding Pattern (%)

	Jun'14	Mar'14	Dec'13
Promoters	74.5	72.9	72.9
FII/NRI	2.9	1.2	1.2
Institutions	0.5	N/A	N/A
Private Corp	11.7	14.0	12.9
Public	10.4	11.9	13.1

Source: Bloomberg

- **Revenues at Rs 3.63 bn (+28% yoy) beats estimate by 11%. Plywood revenues grew 35% yoy to Rs 2.74 bn largely led by volume growth. Laminate revenue +7.5% yoy still to pick up**
- **EBITDA (adjusted for forex) at Rs 454 mn (+18% yoy), inline with estimate. Adj EBITDA margin of 12.5% (vs. estimate of 13.5%) led by high than expected ad spend**
- **APAT at Rs 280 mn (vs loss of Rs 42 mn yoy) beats estimate by 20% led by higher other income and lower interest cost**
- **20% expansion in plywood and 2x expansion in laminate capacity, along with commensurate expansion in distribution network, to drive healthy 18% revenue and 55% EPS CAGR**
- **FY15e/16e EPS revised upwards by 4.2%/6.6%. Stock trades at PER of 12.4x FY16e over 30% discount to its building materials peers. GST remain a game change. Retain Buy**

### Solid start to FY15 revenues up 28% yoy; plywood revenues up 35% yoy

CPIL started FY15 on a solid note with its 1QFY15 revenues at Rs3.63 bn growing by a staggering +28% yoy (+6% qoq), significantly ahead of our estimate of Rs 3.27 bn. The growth was contributed by Plywood segment revenues (which contributes ~75% to the total revenues) that grew 35% yoy to Rs 2.74 bn driven by 27% growth in volume. The company has gain market share as its largest competitor GreenPly saw a tepid 10% revenue growth in revenues and a meager 0.4% growth in volumes. Similarly laminates segment revenues (contributes ~20% to the revenues) grew by 7.5% yoy to Rs 627 mn entirely drive by 7% growth in volumes. Greenply saw 6.2% yoy growth in Laminates revenues while its laminate volumes declined 2.3%.

### Adjusted EBITDA inline; Plywood EBIT margin jumped 970 bps yoy

EBITDA at Rs 472 mn (including forex gain) grew 5x as compared to Rs 90 mn in Q1FY14. However adjusting for the Rs18 mn of forex gain (and a forex loss of Rs305 mn in Q1FY14), EBITDA stood at Rs454 mn +15% yoy, which was in line with our estimate of Rs 440 mn. EBITDA margins (ex-forex) stood at 12.5% (vs estimate of 13.5%) declined 140 bps yoy as others cost increased 41% yoy to Rs 609 mn led by significant rise in advertisement expenses (Rs100 mn vs nil last Year) as Century launched its new campaign. Excluding the ad spend EBITDA margins stood at 15.3% +136 bps yoy. EBIT margins for plywood segment stood at 12.6% + 970 bps yoy (large forex losses in Q1FY14). Laminates segment margins stood at 5.9% (+ 582 bps yoy).

### APAT beats estimate by 20% on forex gain and lower interest cost

Depreciation increased 39% yoy to Rs 104 mn, which includes additional depreciation charge of Rs 25.35 mn on account of change in depreciation policy in line with new requirement of Schedule II of companies act 2013 WEF April 2014. Adjusted for forex gain and additional depreciation, PBT came at Rs314 mn +26% yoy as compared to our estimate of Rs245 mn. APAT came at Rs 283 mn (against loss of Rs 42 mn in Q1FY14), ~20% higher than our estimate on account of forex gain of Rs 18 mn and lower interest cost which came at Rs 74 mn (-46% yoy) vs our estimate of Rs 130 mn. Reported PAT came at Rs257 mn vs loss of Rs42 mn in Q1FY14.

### Financial Snapshot (Standalone)

(Rsmn)

YE-	Net Sales	EBITDA (Core)	EBITDA (%)	APAT	EPS (Rs)	EPS % chg	RoE (%)	P/E	EV/ EBITDA	P/BV
Mar										
FY13A	11,311	1,128	10.0	527	2.4	-12.4	18.7	38.0	21.2	8.0
FY14A	12,840	1,482	11.5	669	3.0	27.1	24.7	29.9	16.7	6.9
FY15E	15,084	1,951	12.9	1,250	5.6	86.7	37.9	16.0	12.8	5.4
FY16E	17,859	2,539	14.2	1,611	7.3	28.9	38.6	12.4	9.7	4.3

## Exhibit 1: Quarterly Financials

(Y/E Mar, Rs mn)	Q1FY14	Q2FY14	Q3FY14	Q4FY14	Q1FY15	YoY (%)	QoQ (%)	FY14	FY13	%(YoY)
<b>Net Sales</b>	<b>2,837</b>	<b>3,518</b>	<b>3,056</b>	<b>3,429</b>	<b>3,627</b>	<b>27.9</b>	<b>5.8</b>	<b>12,840</b>	<b>11,311</b>	<b>14%</b>
<b>Expenditure</b>	<b>2,747</b>	<b>3,086</b>	<b>2,695</b>	<b>2,830</b>	<b>3,156</b>	<b>14.9</b>	<b>11.5</b>	<b>11,358</b>	<b>10,183</b>	<b>12%</b>
as % of sales	96.8%	87.7%	88.2%	82.5%	87.0%			88.5%	90.0%	
Consumption of RM	1,419	1,719	1,540	1,672	1,712	20.7	2.4	6,349	5,790	10%
as % of sales	50.0%	48.9%	50.4%	48.8%	47.2%			49.5%	51.2%	
Employee Cost	333	392	395	394	415	24.6	5.2	1,514	1,184	28%
as % of sales	11.7%	11.1%	12.9%	11.5%	11.4%			11.8%	10.5%	
Purchase of finished goods	259	326	276	383	438	69.1	14.1	1,244	1,268	-2%
as % of sales	9.1%	9.3%	9.0%	11.2%	12.1%			9.7%	11.2%	
Others cost	433	498	540	612	609	40.9	-0.4	2,083	1,941	7%
as % of sales	15.2%	14.2%	17.7%	17.8%	16.8%			16.2%	17.2%	
Loss on forex	305	151	-57	-231	-18	-105.9	-92.2	167	0	
as % of sales	10.7%	4.3%	-1.9%	-6.7%	-0.5%			1.3%	0.0%	
<b>EBITDA</b>	<b>90</b>	<b>432</b>	<b>360</b>	<b>599</b>	<b>472</b>	<b>423.5</b>	<b>-21.3</b>	<b>1,482</b>	<b>1,128</b>	<b>31%</b>
Depreciation	75	82	88	89	79	5.5	-11.0	333	267	24%
<b>EBIT</b>	<b>15</b>	<b>351</b>	<b>273</b>	<b>510</b>	<b>393</b>	<b>2466.9</b>	<b>-23.0</b>	<b>1,149</b>	<b>861</b>	<b>33%</b>
Other Income	66	10	11	7	13	-79.9	84.9	95	73	30%
Interest	137	131	77	206	74	-46.3	-64.2	551	390	41%
<b>PBT</b>	<b>-56</b>	<b>230</b>	<b>207</b>	<b>312</b>	<b>332</b>	<b>NA</b>	<b>6.6</b>	<b>693</b>	<b>544</b>	<b>27%</b>
Total Tax	-14	10	9	18	50	NA	178.2	24	17	38%
<b>Adjusted PAT</b>	<b>-42</b>	<b>220</b>	<b>197</b>	<b>294</b>	<b>283</b>	<b>NA</b>	<b>-3.9</b>	<b>669</b>	<b>527</b>	<b>27%</b>
Extra ordinary items	0	0	0	0	25			0	0	
<b>Reported PAT</b>	<b>-42</b>	<b>220</b>	<b>197</b>	<b>294</b>	<b>257</b>	<b>NA</b>	<b>-12.5</b>	<b>669</b>	<b>527</b>	<b>27%</b>
<b>Adjusted EPS</b>	<b>-0.19</b>	<b>0.99</b>	<b>0.89</b>	<b>1.32</b>	<b>1.27</b>	<b>NA</b>	<b>-3.9</b>	<b>3.0</b>	<b>2.4</b>	<b>27%</b>

## Margins (%)

EBITDA	3.2	12.3	11.8	17.5	13.0	983	-446	11.5	10.0	157
EBIT	0.5	10.0	8.9	14.9	10.8	1029	-406	9.0	7.6	134
EBT	(2.0)	6.5	6.8	9.1	9.2	1113	7	5.4	4.8	59
PAT	(1.5)	6.3	6.5	8.6	7.8	927	-78	5.2	4.7	56
Effective Tax rate	24.3	4.3	4.5	5.8	15.0	-927	926	3.4	3.2	25

Source: Company, Emkay Research

## Exhibit 2: Performance adjusted for forex and additional depreciation

Rs mn	Q1FY14	Q2FY14	Q3FY14	Q4FY14	Q1FY15	YoY (%)	QoQ (%)	FY14	FY13	YoY
Sales	2,837	3,518	3,056	3,429	3,627	27.9	5.8	12,840	11,311	14%
EBITDA (Adjusted for forex)	395	583	304	368	454	15.0	23.3	1,649	1,128	46%
Adj EBITDA margin (%)	13.9	16.6	9.9	10.7	12.5	-140 bps	178 bps	12.8	10.0	287 bps
Adjusted PBT	249	381	150	81	314	26.3	288.5	860	544	58%
Adj PBT margin (%)	8.8	10.8	4.9	2.4	8.7	-10 bps	631 bps	6.7	4.8	189 bps

Source: Company, Emkay Research Note: EBITDA is adjusted for forex and PBT is adjusted for forex and depreciation

## Exhibit 3: Segmental performance

(Y/E Mar, Rs mn)	Q1FY14	Q2FY14	Q3FY14	Q4FY14	Q1FY15	YoY (%)	QoQ (%)	FY14	FY13	%(YoY)
<b>Net Sales</b>	<b>2,829</b>	<b>3,506</b>	<b>3,041</b>	<b>3,409</b>	<b>3,614</b>	<b>27.7</b>	<b>6.0</b>	<b>12,785</b>	<b>11,243</b>	<b>14%</b>
Plywood	2,035	2,641	2,335	2,638	2,749	35.1	4.2	9,648	8,261	17%
laminates	583	642	525	617	627	7.6	1.7	2,367	2,109	12%
Logistics	146	155	125	120	154	5.3	28.2	547	585	-7%
Others	65	68	56	34	84	29.7	143.9	223	288	-23%
<b>EBIT</b>	<b>101</b>	<b>402</b>	<b>278</b>	<b>492</b>	<b>415</b>	<b>310.6</b>	<b>-15.7</b>	<b>1,273</b>	<b>994</b>	<b>28%</b>
Plywood	60	314	259	436	348	480.2	-20.3	1,069	615	74%
laminates	0	40	8	33	37	NA	11.0	81	192	-58%
Logistics	51	55	21	28	33	-34.6	18.6	155	216	-28%
Others	-10	-7	-9	-6	-3	-70.3	-48.5	-32	-29	8%
<b>EBIT Margins</b>	<b>3.6</b>	<b>11.5</b>	<b>9.2</b>	<b>14.4</b>	<b>11.5</b>	<b>790</b>	<b>-295</b>	<b>10.0</b>	<b>8.8</b>	<b>112</b>
Plywood	2.9	11.9	11.1	16.5	12.6	970	-390	11.1	7.4	364
laminates	0.1	6.2	1.4	5.4	5.9	582	49	3.4	9.1	-570
Logistics	34.7	35.4	16.8	23.3	21.6	-1315	-175	28.3	36.9	-861
Others	-15.5	-9.6	-16.6	-16.8	-3.5	1196	1326	-14.2	-10.1	-405

Source: Company, Emkay Research

### Structural shift in favour of organized players; GST potential Game Changer

Plywood market today is largely controlled by the unorganized sector which accounts for 75% of the market. However, driven by lower price differential and increasing preference for branded wood panel products there is a clear shift, with the organized players growing at 15.2% over FY08-13 as compared to industry growth of 6-8%. We believe that implementation of GST is a potential "Game Changer" for plywood manufacturers as further lowering differential in indirect taxes would mean acceleration in the pace of consumer shift from unorganized players to branded organized market which in turn would improve the growth trajectory for players like CPL.

### Capacity expansions and distribution to drive 55% earnings CAGR

With 20% capacity expansion in plywood division (taking capacity to 200K CBMs) and a massive 2x expansion in the laminates segment (taking capacity to 4.8 mn sheets), coupled with a commensurate expansion in the distribution network, we expect CPL to deliver a healthy 18% revenue CAGR over FY14-16e. With improving utilization for the Kandla Plant and Kolkata laminate capacity, coupled with minimal forex loss (FY14 forex loss at Rs440 mn) we expect CPL to see earnings CAGR of 55% over FY14-16e with EPS of Rs7.3 in FY16.

### Estimates revised upwards

We have upgraded our EPS estimates for FY15e/16e by 4.2%/6.6% to factor in the higher revenues from the plywood segment and lower interest cost. Our FY16e EPS stands at 7.3.

**Exhibit 4: FY15e/16e EPS estimates revised upwards up 4.2%/6.6%**

	FY15E			FY16E		
	Earlier	Revised	change	Earlier	Revised	change
Sales	14880	15084	1.4%	17414	17859	2.6%
EBIDTA	1938	1951	0.7%	2483	2539	2.2%
EBIDTA (%)	13.0	12.9		14.3	14.2	
Net Profit	1209	1250	3.4%	1503	1611	7.2%
EPS	5.4	5.6	4.2%	6.8	7.3	6.6%

Source: Company, Emkay Research

### Compelling value proposition; Retain BUY- Target Rs110

CPL is trading at PER of 12.4x its FY16E EPS (over 30% discounts to the average of 16.5x by its peers), which we believe is unjustified given the fact that the company's return ratios are similar to its peers. We believe the strong earnings trajectory, improving return ratios, improving cash flow and decent payouts will drive the re-rating for the stock. We maintain BUY rating with a revised target price of Rs110. We now value the stock at 15x FY16E (as against 12x earlier), a 10% discount to average PER of 16.5x commanded by its peers.

## Key Financials (Standalone)

## Income Statement

Y/E Mar (Rsmn)	FY13A	FY14A	FY15E	FY16E
<b>Net Sales</b>	<b>11,311</b>	<b>12,840</b>	<b>15,084</b>	<b>17,859</b>
<i>Growth (%)</i>	1.1	13.5	17.5	18.4
<b>Expenditure</b>	<b>10,183</b>	<b>11,358</b>	<b>13,134</b>	<b>15,321</b>
Employee Cost	1,184	1,514	1,697	1,900
Other Exp	0	0	0	0
SG&A	0	0	0	0
<b>EBITDA</b>	<b>1,128</b>	<b>1,482</b>	<b>1,951</b>	<b>2,539</b>
<i>Growth (%)</i>	-10.0	31.3	31.6	30.1
<b>EBITDA margin (%)</b>	<b>10.0</b>	<b>11.5</b>	<b>12.9</b>	<b>14.2</b>
Depreciation	267	333	355	373
<b>EBIT</b>	<b>861</b>	<b>1,149</b>	<b>1,596</b>	<b>2,166</b>
<b>EBIT margin (%)</b>	<b>7.6</b>	<b>9.0</b>	<b>10.6</b>	<b>12.1</b>
Other Income	73	95	105	120
Interest expenses	390	551	380	446
<b>PBT</b>	<b>544</b>	<b>693</b>	<b>1,321</b>	<b>1,840</b>
<b>Tax</b>	<b>17</b>	<b>24</b>	<b>72</b>	<b>229</b>
<i>Effective tax rate (%)</i>	3.2	3.4	5.4	12.5
<b>Adjusted PAT</b>	<b>527</b>	<b>669</b>	<b>1,250</b>	<b>1,611</b>
<i>Growth (%)</i>	-12.4	27.1	86.7	28.9
<b>Net Margin (%)</b>	<b>4.7</b>	<b>5.2</b>	<b>8.3</b>	<b>9.0</b>
(Profit)/loss from JVs/Ass/MI	0	0	0	0
<b>Adj. PAT After JVs/Ass/MI</b>	<b>527</b>	<b>669</b>	<b>1,250</b>	<b>1,611</b>
E/O items	0	0	0	0
<b>Reported PAT</b>	<b>527</b>	<b>669</b>	<b>1,250</b>	<b>1,611</b>
<b>PAT after MI</b>	<b>527</b>	<b>669</b>	<b>1,250</b>	<b>1,611</b>
<i>Growth (%)</i>	-12.4	27.1	86.7	28.9

## Cash Flow

Y/E Mar (Rsmn)	FY13A	FY14A	FY15E	FY16E
<b>PBT (Ex-Other income)</b>	<b>471</b>	<b>598</b>	<b>1,216</b>	<b>1,720</b>
Depreciation	267	333	355	373
Interest Provided	390	551	380	446
Other Non-Cash items	0	0	0	0
Chg in working cap	-594	-957	-1,110	-925
Tax paid	-58	44	61	-89
<b>Operating Cashflow</b>	<b>476</b>	<b>569</b>	<b>902</b>	<b>1,525</b>
Capital expenditure	-377	-423	-200	-200
<b>Free Cash Flow</b>	<b>99</b>	<b>146</b>	<b>702</b>	<b>1,325</b>
Other income	73	95	105	120
Investments	577	-222	0	0
<b>Investing Cashflow</b>	<b>-940</b>	<b>-594</b>	<b>-190</b>	<b>-180</b>
Equity Capital Raised	-5	0	0	0
Loans Taken / (Repaid)	1,133	234	184	250
Interest Paid	-390	-551	-380	-446
Dividend paid (incl tax)	130	-251	-469	-584
Income from investments	0	0	0	0
Others	0	0	0	0
<b>Financing Cashflow</b>	<b>868</b>	<b>-568</b>	<b>-665</b>	<b>-779</b>
<b>Net chg in cash</b>	<b>403</b>	<b>-593</b>	<b>47</b>	<b>565</b>
Opening cash position	421	797	181	174
<b>Closing cash position</b>	<b>797</b>	<b>181</b>	<b>201</b>	<b>740</b>

## Balance Sheet

Y/E Mar (Rsmn)	FY13A	FY14A	FY15E	FY16E
Equity share capital	223	223	223	223
Reserves & surplus	2,274	2,692	3,457	4,442
<b>Net worth</b>	<b>2,497</b>	<b>2,915</b>	<b>3,679</b>	<b>4,665</b>
<b>Minority Interest</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
Secured Loans	4,678	4,912	5,096	5,346
Unsecured Loans	0	0	0	0
<b>Loan Funds</b>	<b>4,678</b>	<b>4,912</b>	<b>5,096</b>	<b>5,346</b>
Net deferred tax liability	-2	-5	-5	-5
<b>Total Liabilities</b>	<b>7,172</b>	<b>7,821</b>	<b>8,770</b>	<b>10,005</b>
Gross Block	3,199	3,744	3,944	4,144
Less: Depreciation	1,342	1,624	1,979	2,352
<b>Net block</b>	<b>1,857</b>	<b>2,120</b>	<b>1,965</b>	<b>1,792</b>
Capital work in progress	360	188	188	188
<b>Investment</b>	<b>156</b>	<b>378</b>	<b>378</b>	<b>378</b>
<b>Current Assets</b>	<b>5,978</b>	<b>6,482</b>	<b>7,911</b>	<b>9,610</b>
Inventories	2,177	2,927	3,306	3,914
Sundry debtors	1,816	2,046	2,480	2,936
Cash & bank balance	797	181	174	658
Loans & advances	612	701	1,323	1,475
Other current assets	576	628	628	628
<b>Current lia &amp; Prov</b>	<b>1,179</b>	<b>1,346</b>	<b>1,672</b>	<b>1,963</b>
Current liabilities	1,090	1,243	1,582	1,873
Provisions	89	104	90	90
<b>Net current assets</b>	<b>4,799</b>	<b>5,136</b>	<b>6,239</b>	<b>7,648</b>
Misc. exp	0	0	0	0
<b>Total Assets</b>	<b>7,172</b>	<b>7,821</b>	<b>8,770</b>	<b>10,005</b>

## Key Ratios

Y/E Mar	FY13A	FY14A	FY15E	FY16E
<b>Profitability (%)</b>				
EBITDA Margin	10.0	11.5	12.9	14.2
Net Margin	4.7	5.2	8.3	9.0
ROCE	13.5	16.6	20.5	24.3
ROE	18.7	24.7	37.9	38.6
RoIC	15.6	17.8	21.1	25.8
<b>Per Share Data (Rs)</b>				
EPS	2.4	3.0	5.6	7.3
CEPS	3.6	4.5	7.2	8.9
BVPS	11.2	13.1	16.6	21.0
DPS	1.0	0.3	1.0	1.9
<b>Valuations (x)</b>				
PER	38.0	29.9	16.0	12.4
P/CEPS	25.2	20.0	12.5	10.1
P/BV	8.0	6.9	5.4	4.3
EV / Sales	2.1	1.9	1.7	1.4
EV / EBITDA	21.2	16.7	12.8	9.7
Dividend Yield (%)	1.1	0.3	1.1	2.1
<b>Gearing Ratio (x)</b>				
Net Debt/ Equity	1.6	1.6	1.3	1.0
Net Debt/EBIDTA	3.4	3.2	2.5	1.8
Working Cap Cycle (days)	129.1	140.8	146.7	142.8