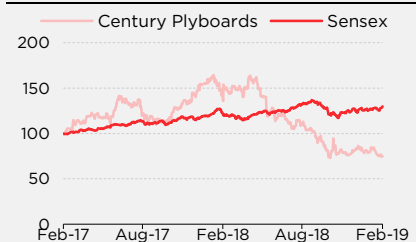


**6 February 2019**
**BSE Sensex: 36975**
**Sector: Home Improvement**
**Stock data**

CMP (Rs)	163
Mkt Cap (Rs bn/USD m)	36.2 /505
Target Price (Rs)	222
Change in TP (%)	(8.8)
Potential from CMP (%)	36.5
Earnings change (%)	
FY19E	(1.1)
FY20E	(8.5)

Bloomberg code	CPBI IN
1-yr high/low (Rs)	364/150
6-mth avg. daily volumes (m)	0.3
6-mth avg. daily traded value (Rsm/USDm)	54.5/0.8
Shares outstanding (m)	222.2
Free float (%)	27.7
Promoter holding (%)	72.3

**Price performance - relative & absolute**


(%)	3-mth	6-mth	1-yr
CPBI IN	(5.1)	(33.0)	(45.1)
BSE Sensex	5.7	(1.9)	8.1

**Q3FY19 Standalone Highlights**

- Rev. at ~Rs5.8bn was up 13.5% yoy (2% miss), mainly propelled by MDF ramp-up (80% utilization in Q3). Plywood rev. was down 2.6% yoy (8% miss), while PB revenue was up 57.7% yoy (5% miss). Laminates revenue was up 28.6% yoy (5% beat) while MDF rev. was up 85% yoy/44% qoq (18% beat).
- Plywood volume was flat yoy (excl. veneer, volume grew 9% yoy), while blended realisation fell 2.1% yoy. Commercial veneer volumes fell 44.5% yoy (high base effect/shutdowns in Myanmar/Laos). Ply EBITDA margins fell ~200bps yoy to 12.1%.
- Laminates (excluding Prelam) volume grew 9.7% yoy while blended realisation improved ~17.4% yoy (better product mix). However, higher raw material prices (crude linked) led to Laminate EBITDA margins dropping 640 bps yoy to 9.0% (although it rose 100 bps qoq).
- Particle Board (incl. Prelam) volume grew ~62% yoy while realisation dropped marginally by 3% yoy. However, weak product mix meant that PB EBITDA margins dropped ~640 bps to 20.8%.
- MDF volume/revenue shot up 48.5%/44.0% qoq due to capacity ramp-up and strong sales efforts. Margins too have shot up ~10% points qoq to 15.9% as a result.
- Overall EBITDA fell 13.5% yoy to ~Rs759m (17% miss) due to weakness in Plywood/Laminate/PB margins. Cons. EBITDA margin fell ~410bps yoy to 13.1% (IDFCe: 15.5%). PAT, however, fell only 11.2% yoy to ~Rs414m due to higher other income (+57% beat) and lower interest expense (48% lower than est; includes ~Rs40m MTM gain).

**Key positives:** Strong MDF/Laminates performance.

**Key negatives:** Plywood segmen performance weak.

**Impact on financials:** Cut FY19E/20E EPS by 1%/9% each respectively.

**Valuation & view**

Although plywood performance was surprisingly disappointing (led by commercial veneer), we were impressed by the performance of the MDF business. Although realisations have seen some shrinkage in Q3 (and possibly expected in Q4 as well), the company's focus on volume-growth over pricing should keep capacity utilization high which in-turn would put a floor on overall margins. Delayed, albeit improving implementation of the eWay Bill should aid large organized players over the longer run, and given that CPBI's major capex investments are now behind it, we believe that the company could very well be on the road to improve its return ratios from current levels. We maintain our OP rating with a revised TP of Rs222 (22.5x FY20E EPS).

**Key financials (quarterly)**

(Rs m)	Q3FY18	Q2FY19	Q3FY19	% ch qoq	% ch yoy	% var from est
Total Revenue	5,099	5,644	5,789	2.6	13.5	(2.0)
EBITDA	878	742	759	2.3	(13.5)	(17.1)
OPM (%)	17.2	13.2	13.1	(0.0)	(4.1)	
Depreciation	263	113	136	20.8	(48.3)	13.3
Other Income	42	10	16	56.9	(62.9)	57.0
Interest	63	155	62	(59.7)	(0.3)	(47.9)
PBT	594	485	577	19.0	(3.0)	(15.9)
PAT	467	378	414	9.5	(11.2)	(22.6)
PAT Margin (%)	9.2	6.7	7.2	0.5	(2.0)	
EPS (Rs)	2.1	1.7	1.9	9.5	(11.2)	(22.6)

*Source: Company, IDFC Securities Research*
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## Exhibit 1: Quarterly results (standalone)

(Rsm)	Q2FY18	Q3FY18	Q4FY18	Q1FY19	Q2FY19	Q3FY19	Comments
<b>Total Revenue</b>	<b>4,746</b>	<b>5,099</b>	<b>5,441</b>	<b>5,373</b>	<b>5,644</b>	<b>5,789</b>	2% miss due to weak Plywood performance, MDF performance strong
YoY (%)	2.6	19.9	11.4	22.5	18.9	13.5	
RM Costs (incl. Stock)	1,675	1,767	2,028	2,239	2,327	2,444	Inferior mix, lower MDF realisation led to GM compression of ~220 bps yoy to 46.7%
Purchase of Traded Goods	870	840	710	515	618	644	
Personnel Expenses	676	723	752	790	840	810	
Other Expenses	784	892	1,119	963	1,117	1,132	
Total Expenditure	4,005	4,222	4,610	4,507	4,902	5,030	
<b>EBITDA</b>	<b>740</b>	<b>878</b>	<b>832</b>	<b>865</b>	<b>742</b>	<b>759</b>	17% miss due to weak Plywood performance
<b>EBITDA Margin (%)</b>	<b>15.6</b>	<b>17.2</b>	<b>15.3</b>	<b>16.1</b>	<b>13.2</b>	<b>13.1</b>	
Depreciation	138	263	277	108	113	136	
Other Income	6	42	13	6	10	16	57% higher than est.
Interest	79	63	122	134	155	62	48% lower than est. due to MTM gains
PBT	529	594	445	628	485	577	
Tax	128	128	88	175	106	162	
Tax Rate (%)	24.2	21.5	19.8	27.8	22.0	28.2	Higher than expected tax rate
<b>Profit After Tax</b>	<b>401</b>	<b>467</b>	<b>357</b>	<b>454</b>	<b>378</b>	<b>414</b>	11% miss - lower versus EBITDA due to high OI/low fin. Cost
YoY (%)	(18.6)	25.1	(36.1)	33.0	(5.8)	(11.2)	
PAT Margin (%)	8.5	9.2	6.6	8.4	6.7	7.2	

Source: Company, IDFC Securities Research

## Exhibit 2: Segment details

(Rsm)	Q2FY18	Q3FY18	Q4FY18	Q1FY19	Q2FY19	Q3FY19	YoY (%)
<b>Plywood:</b>							
Revenue	3,059	3,227	3,230	3,179	3,224	3,143	(2.6)
EBITDA	428	456	520	549	500	380	(16.7)
EBITDA Margin (%)	14.0	14.1	16.1	17.3	15.5	12.1	
<b>Laminates:</b>							
Revenue	1,246	999	1,056	915	1,106	1,138	28.6
EBITDA	230	148	133	86	88	102	(25.5)
EBITDA Margin (%)	18.4	14.8	12.6	9.4	8.0	9.0	
<b>Particle Board:</b>							
Revenue	125	144	190	182	286	265	57.7
EBITDA	40	34	34	49	54	55	20.6
EBITDA Margin (%)	31.7	24.0	18.1	26.6	18.9	20.8	
<b>MDF:</b>							
Revenue	-	577	621	699	613	882	85.4
EBITDA	-	117	97	90	36	141	20.3
EBITDA Margin (%)	-	20.3	15.6	12.9	5.9	15.9	
<b>Container Freight</b>							
Revenue	249	275	232	302	262	248	(9.9)
EBITDA	93	110	87	121	89	72	(34.8)
EBITDA Margin (%)	37.2	40.1	37.7	40.2	33.9	29.0	
<b>Others:</b>							
Revenue	106	68	86	95	154	113	65.6
EBITDA	1	3	(14)	0	7	8	147.1
EBITDA Margin (%)	0.6	5.0	(16.6)	0.4	4.8	7.4	

Source: Company, IDFC Securities Research; Note: Laminates/Prelam YoY/QuoQ nos adjusted for segment readjustment.

**Exhibit 3: Plywood/Laminates - Operating Metrics**

Particulars	Q2FY18	Q3FY18	Q4FY18	Q1FY19	Q2FY19	Q3FY19	YoY (%)
Plywood Volume (cbm):	61,858	62,366	66,712	63,734	64,337	62,217	(0.2)
- Plywood	50,024	49,859	56,488	56,055	56,466	53,385	7.1
- Deco Ply	2,939	1,502	2,422	2,509	2,690	2,720	81.1
- Commercial Veneer	8,895	11,005	7,802	5,170	5,181	6,112	(44.5)
Plywood Realisation (Rs/cbm):	49,230	51,381	48,141	49,627	49,963	50,327	(2.1)
- Plywood	46,070	50,011	45,319	46,563	47,064	46,792	(6.4)
- Deco Ply	127,084	177,297	129,604	139,020	141,970	148,603	(16.2)
- Commercial Veneer	41,282	40,400	43,284	39,458	33,797	37,467	(7.3)
Laminates Volume (sheets):	1,548,556	1,338,999	1,496,788	1,318,930	1,491,204	1,469,058	9.7
- Domestic	1,544,859	1,334,656	1,492,657	1,314,619	1,486,638	1,463,382	9.6
- Exteria	3,697	4,343	4,131	4,311	4,566	5,676	30.7
Laminates Realisation (Rs/sheet):	699.9	649.4	701.0	685.0	732.3	762.2	17.4
- Domestic	688.4	632.4	687.1	668.6	716.9	742.5	17.4
- Exteria	5,518.0	5,871.5	5,737.1	5,706.3	5,760.0	5,849.2	(0.4)

Source: Company, IDFC Securities Research

**Exhibit 4: Particle Board/MDF - Operating Metrics**

Particulars	Q2FY18	Q3FY18	Q4FY18	Q1FY19	Q2FY19	Q3FY19	YoY (%)
PB:							
- Volume (cbm)	13,893	10,026	11,308	11,357	19,435	16,254	62.1
- Realisation (Rs/cbm)	15,152	16,746	16,785	16,052	14,736	16,291	(2.7)
MDF:							
- Volume (cbm)	-	20,639	27,250	29,659	27,037	40,138	94.5
- Realisation (Rs/cbm)	-	23,276	23,765	23,544	22,617	21,964	(5.6)

Source: Company, IDFC Securities Research

**Conference Call Highlights**

- Premium plywood growth to slow down; focus would be on mid-market segment:** Given that the industry as a whole on the premium segment would slow down in the future, CPBI is expecting ~5-7% yoy growth in that particular segment. It is however, getting more bullish on the mid-market segment (where it envisages growth of 20-25% per year in the near-term). In the near-term, the company would focus on volume-growth/market-share in this particular segment and thus would be flexible in terms of pricing and margins.
- MDF expansion plans being considered but no concrete decision yet:** CPBI has received a license to set up a MDF and PB plant in the state of UP and has taken board approval for the same. Given the improved capacity utilization of its North India MDF plant (~80% utilization in Q3; 80%+ target for Q4), CPBI is actively considering plans to expand capacity at its existing North India MDF plant, and may decide to set up a new MDF plant in UP by the end of FY20E. Once finalized, CPBI plans to increase its north India MDF capacity by ~400 cbm/day with a capex budget of ~Rs1bn.
- Plywood/Laminate margins weak due to crude linked RM pressures:** Due to the adverse movement of crude oil prices as well as INR depreciation over Q2 and part of Q3, CPBI has seen pressure on crude-linked raw materials into Q3 as well. This has been a key reason for margins coming under pressure for both segments. CPBI expects RM pressure to abate over Q4.
- MDF realisations to fall in Q4 as well, but hopeful of maintaining 14-15% segment EBITDA margin:** MDF blended realisations have fallen ~3% qoq and ~6% yoy due to excess supply in the market. CPBI expects a further 2-3% qoq fall in realisations into Q4 as well. However, lower RM costs (especially on the glue front - new glue saving equipment installed) and lower electricity charges (dispute resolved with state electricity board) would help CPBI target an EBITDA margin of 14-15% in MDF in Q4 (Q3

margin at 15.9%).

- **MTM gain of ~Rs40m in Q3:** CPBI has booked a ~Rs40m gain in finance cost on account of MTM forex movements during the quarter. The company has reduced its forex loan exposure to ~Rs1.42bn (versus ~Rs2.1bn as of Q2) of which most is hedged (either naturally or through forward covers).
- **Plans to set up a timber peeling unit in Gabon going ahead:** CPBI is setting up a timber peeling unit in Gabon. This would not only improve RM security for the company, but the lower cost/higher yielding okume variety of timber in this geography would mean that CPBI's timber RM costs could fall by 5-10%.
- **CFS performance weak:** Increased restrictions of container traffic movement around Kolkata port (which diverted traffic to Haldia port where CPBI has no presence) and the presence of Allcargo Logistics starting operations here has hampered CPBI's performance in the CFS segment. Competition would be a key monitorable for the performance of this division in the future.

#### Exhibit 5: Change in Estimates

(Rsm)	FY19E			FY20E		
	Previous	Revised	% Change	Previous	Revised	% Change
Revenue	22,919	22,902	0.1	26,526	26,502	0.1
EBITDA	3,497	3,461	(0.8)	4,420	4,134	(6.3)
EBITDA Margin (%)	15.3	15.1		16.7	15.6	
PAT	1,872	1,844	(1.1)	2,409	2,198	(8.5)
EPS (Rs)	8.4	8.3	(1.1)	10.8	9.9	(8.5)

Source: Company, IDFC Securities Research

**Income statement**

Year to 31 Mar (Rs m)	FY16	FY17	FY18	FY19E	FY20E
<b>Net sales</b>	<b>16,409</b>	<b>18,187</b>	<b>20,239</b>	<b>22,902</b>	<b>26,502</b>
% growth	3.3	10.8	11.3	13.2	15.7
Operating expenses	13,515	15,068	16,929	19,441	22,368
<b>EBITDA</b>	<b>2,895</b>	<b>3,120</b>	<b>3,311</b>	<b>3,461</b>	<b>4,134</b>
% change	7.1	7.8	6.1	4.5	19.5
Other income	60	226	79	47	52
Net interest cost	479	302	358	516	560
Depreciation	475	593	907	492	615
Pre-tax profit	2,001	2,450	2,124	2,500	3,011
Deferred tax	0	0	0	0	0
Current tax	304	515	463	625	783
<b>Profit after tax</b>	<b>1,698</b>	<b>1,935</b>	<b>1,661</b>	<b>1,875</b>	<b>2,228</b>
Preference dividend	0	0	0	0	0
Minorities	(8)	(30)	(31)	(31)	(31)
<b>Adjusted net profit</b>	<b>1,689</b>	<b>1,905</b>	<b>1,631</b>	<b>1,844</b>	<b>2,198</b>
Non-recurring items	0	0	0	0	0
<b>Reported net profit</b>	<b>1,689</b>	<b>1,905</b>	<b>1,631</b>	<b>1,844</b>	<b>2,198</b>
% change	13.4	12.7	(14.4)	13.1	19.1

**Balance sheet**

As on 31 Mar (Rs m)	FY16	FY17	FY18	FY19E	FY20E
<b>Paid-up capital</b>	<b>223</b>	<b>223</b>	<b>223</b>	<b>223</b>	<b>223</b>
Preference capital	0	0	0	0	0
Reserves & surplus	5,066	6,927	8,293	9,870	11,801
<b>Shareholders' equity</b>	<b>5,379</b>	<b>7,269</b>	<b>8,699</b>	<b>10,308</b>	<b>12,269</b>
Total current liabilities	1,573	2,259	2,648	2,912	3,362
<b>Total debt</b>	<b>4,696</b>	<b>6,114</b>	<b>5,754</b>	<b>7,150</b>	<b>6,850</b>
Deferred tax liabilities	0	0	0	0	0
Other non-current liabilities	105	207	153	165	178
Total liabilities	6,373	8,580	8,555	10,226	10,390
<b>Total equity &amp; liabilities</b>	<b>11,752</b>	<b>15,849</b>	<b>17,254</b>	<b>20,534</b>	<b>22,659</b>
Net fixed assets	3,524	6,050	7,754	10,026	11,111
Investments	63	61	61	61	61
Cash	389	672	211	343	(33)
Other current assets	6,801	8,133	8,370	9,246	10,661
Deferred tax assets	660	689	690	690	690
Other non-current assets	316	244	168	168	168
Net working capital	5,617	6,547	5,934	6,677	7,266
<b>Total assets</b>	<b>11,752</b>	<b>15,849</b>	<b>17,254</b>	<b>20,534</b>	<b>22,659</b>

**Cash flow**

Year to 31 Mar (Rs m)	FY16	FY17	FY18	FY19E	FY20E
Pre-tax profit	2,001	2,450	2,124	2,500	3,011
Depreciation	475	593	907	492	615
Chg in Working capital	336	(574)	228	(612)	(965)
Total tax paid	(304)	(515)	(463)	(625)	(783)
Net Interest	479	302	358	516	560
Others	(4)	6	12	0	0
<b>Operating cash flow</b>	<b>2,982</b>	<b>2,359</b>	<b>3,100</b>	<b>2,283</b>	<b>2,452</b>
Capital expenditure	(1,351)	(3,119)	(2,610)	(2,764)	(1,700)
<b>Free cash flow (a+b)</b>	<b>1,631</b>	<b>(761)</b>	<b>490</b>	<b>(481)</b>	<b>752</b>
Chg in investments	4	2	0	0	0
Debt raised/(repaid)	(440)	1,418	(360)	1,396	(300)
Net interest	(479)	(302)	(358)	(516)	(560)
Capital raised/(repaid)	0	0	0	(189)	0
Dividend (incl. tax)	(445)	0	(222)	(223)	(223)
Other items	(284)	(73)	(44)	145	(45)
<b>Net chg in cash</b>	<b>14</b>	<b>284</b>	<b>(461)</b>	<b>132</b>	<b>(376)</b>

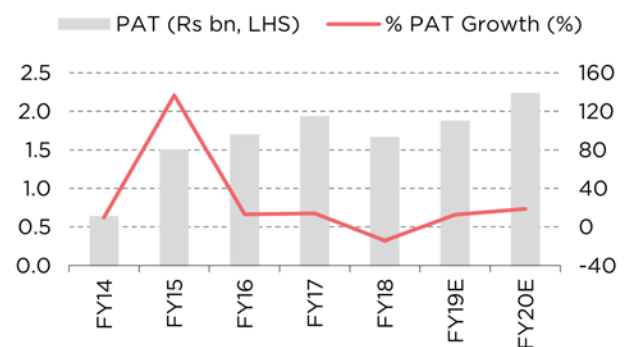
**Key ratios**

Year to 31 Mar	FY16	FY17	FY18	FY19E	FY20E
EBITDA margin (%)	17.6	17.2	16.4	15.1	15.6
EBIT margin (%)	14.7	13.9	11.9	13.0	13.3
PAT margin (%)	10.3	10.5	8.1	8.1	8.3
RoE (%)	35.1	30.1	20.4	19.4	19.5
RoCE (%)	24.6	21.3	17.1	18.4	19.1
Gearing (x)	0.8	0.7	0.6	0.7	0.6
Net debt/ EBITDA (x)	1.5	1.7	1.7	2.0	1.7
FCF yield (%)	4.5	(2.1)	1.4	(1.3)	2.1
Dividend yield (%)	1.2	0.0	0.6	0.6	0.6

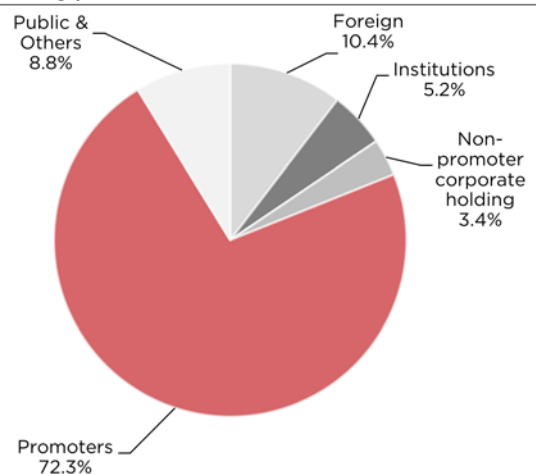
**Valuations**

Year to 31 Mar	FY16	FY17	FY18	FY19E	FY20E
<b>Reported EPS (Rs)</b>	<b>7.6</b>	<b>8.6</b>	<b>7.3</b>	<b>8.3</b>	<b>9.9</b>
Adj. EPS (Rs)	7.6	8.6	7.3	8.3	9.9
PE (x)	21.4	19.0	22.2	19.6	16.5
Price/ Book (x)	6.7	5.0	4.2	3.5	3.0
EV/ Net sales (x)	2.5	2.3	2.1	1.9	1.6
EV/ EBITDA (x)	14.0	13.4	12.7	12.5	10.5
EV/ CE (x)	4.0	3.1	2.9	2.5	2.2

**PAT growth to revive from FY19E**



**Shareholding pattern**



As of Sep 18

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