CLSA

Century Ply

Rs253.80 - BUY

Chirag Shah
chirag.shah@clsa.com
+91 22 6650 5055

24 August 2017

India
Materials

Reuters	CNTP.NS
Bloomberg	CPBI IN

Priced on 22 August 2017
CNX Nifty @ 9,765.6

12M hi/lo Rs308.35/155.10

12M price target Rs315.00
±% potential +24%

Shares in issue 222.5m
Free float (est.) 28.0%

Market cap US$879m

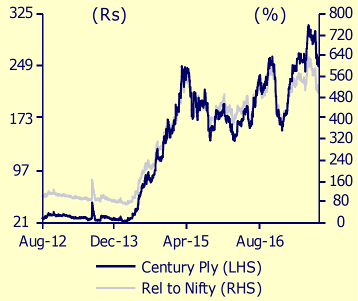
3M average daily volume
Rs97.7m (US$1.5m)

Foreign s'holding 13.2%

Major shareholders
Promoters 72.0%
FPIs 13.2%

Stock performance (%)

	1M	3M	12M
Absolute	(11.5)	(0.7)	18.7
Relative	(10.1)	(4.0)	4.9
Abs (US$)	(11.1)	0.0	24.5



Source: Bloomberg

www.clsa.com

Initiating coverage

Rising phoenix

BUY into the correction

Century Plyboards (Century) is transitioning from a market leader in plywood to a complete interior infrastructure solutions provider by leveraging its brand strength and distribution network. A diversified raw material sourcing capability is Century's key competitive advantage. A confluence of factors such as GST-related initial issues, lag in material cost hike pass-through and commissioning costs of a new MDF unit will likely impact FY18 profitability. However, we expect a sharp earnings rebound post-FY18 with 27% EPS Cagr during FY18-20CL. Valuations at 26x FY19CL PE appear attractive especially after a 18% stock correction since June '17. Initiate with BUY and a Rs315 target.

Leadership position in an expanding market

Century is the market leader in the plywood industry in India with a 25% market share of the organised sector. Branding of the commoditised product coupled with a strong distribution reach, differentiated products and strong raw material sourcing advantage has led to industry-leading growth for the company. Strong expansion in the fast-growing laminate segment (50% capacity increase) and entry into the MDF market (commissioning in 2QFY18) should help Century register a robust 17% revenue Cagr over FY17-20CL.

Expect strong earnings rebound post a tough FY18

We expect FY18 profitability to be impacted by multiple factors. Gross margin is likely to be under pressure given raw-material supply constraints in veneer sourcing. Also, an inability to pass on cost increases to consumers with the unorganised sector benefitting from GST-related initial issues (an e-way bill system is yet to be implemented) can further pressurise margins in the near term. Scaling up of its particle board unit, commencement of MDF and easing of raw-material supply should ease the pressure on margins from 4Q.

Good entry point post recent correction

Century's stock has corrected ~18% since June '17 (vs a 1% rise in the Nifty) on near-term growth concerns. This offers a good entry point in the franchise which we believe can deliver a robust 27% EPS Cagr over FY18-20. Valuations at 26x FY19CL PE look attractive in the backdrop of a strong ROE profile compared to other building materials franchises. Initiate with BUY and Rs315 TP based on 30x June '19CL. Regulatory uncertainty on sourcing raw material is the key risk.

Financials

Year to 31 March	16A	17A	18CL	19CL	20CL
Revenue (Rsm)	16,409	18,187	20,443	24,393	28,032
Ebitda (Rsm)	2,895	3,120	3,117	3,978	4,833
Net profit (Rsm)	1,698	1,935	1,738	2,197	2,815
EPS (Rs)	7.6	8.7	7.8	9.9	12.6
CL/consensus (7) (EPS%)	-	-	83	78	88
EPS growth (% YoY)	13.8	14.0	(10.2)	26.4	28.1
PE (x)	33.3	29.2	32.5	25.7	20.1
PB (x)	10.7	7.9	6.3	5.3	4.4
ROE (%)	37.0	31.1	21.6	22.4	24.0
Net debt/equity (%)	71.7	69.3	69.1	48.6	26.6
Dividend yield (%)	0.0	0.0	0.0	0.0	0.0

Source: CLSA

We would like to thank Evalueserve for its help in preparing our research reports. Aniket Sethi (Cement, Oil & Gas); Dhruvesh Shah (Capital Goods, Utilities, Power) and Nikhil Gada (Midcaps) provide research support services to CLSA.

Investment summary

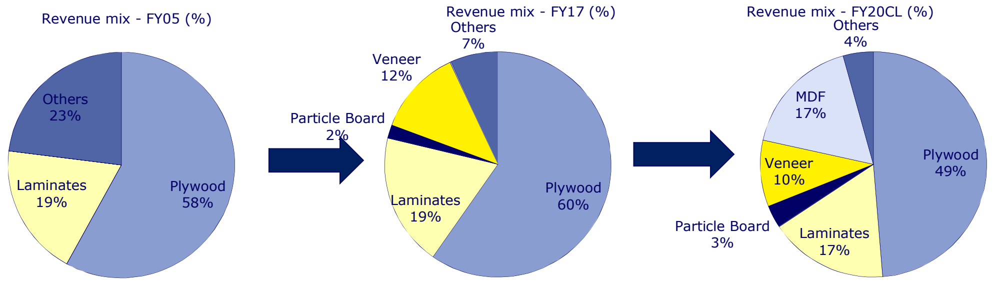
Century is transitioning from a plywood manufacturer to a complete interior infrastructure solutions provider by leveraging its strong brand presence and distribution network. FY18 is likely to be impacted on account of multiple factors but we expect a strong 27% FY18-20 EPS Cagr with improving FCF generation and a rising returns ratio, in our view. Initiate with BUY and TP of Rs315.

Transitioning to a diversified interior infra solutions provider

Century has emerged as one of the leading players across the wood panel industry. It has been able to establish itself as a formidable franchise by turning a commodity product into multiple brands with strong recall. Century has now significantly diversified its offerings by entering into Laminates and MDF.

Figure 1

Century's is rapidly diversifying its product mix



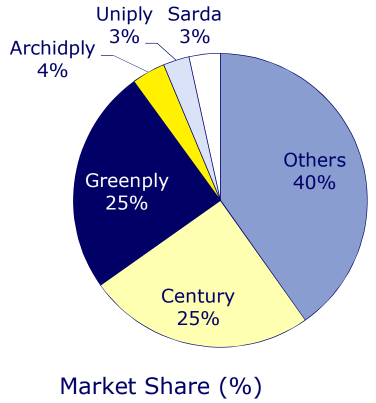
Source: Company, CLSA

Plywood – leadership position; material sourcing a competitive edge

Century is the market leader in the plywood segment in India. Its market leading capacity, well diversified product portfolio across price points and improving geographical penetration should help to gain market share in the segment. Century's better raw material sourcing capabilities due to its arrangements across various countries, like Myanmar, Indonesia and Laos, give it a strong competitive advantage over its peers.

Figure 2

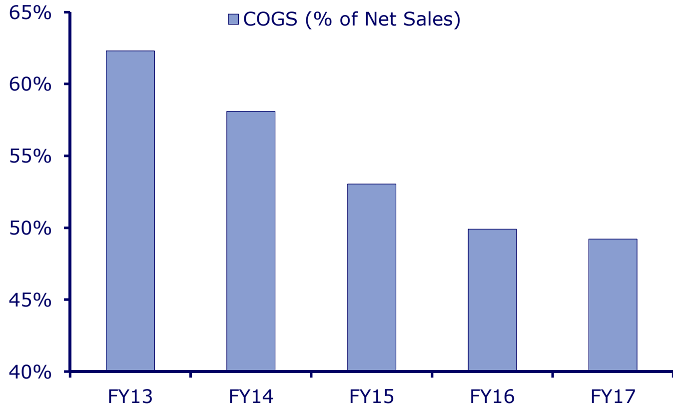
Century's controls ~25% of the organised market share in Plywood



Source: Companies data, CLSA

Figure 3

Reduced input cost through sourcing arrangement



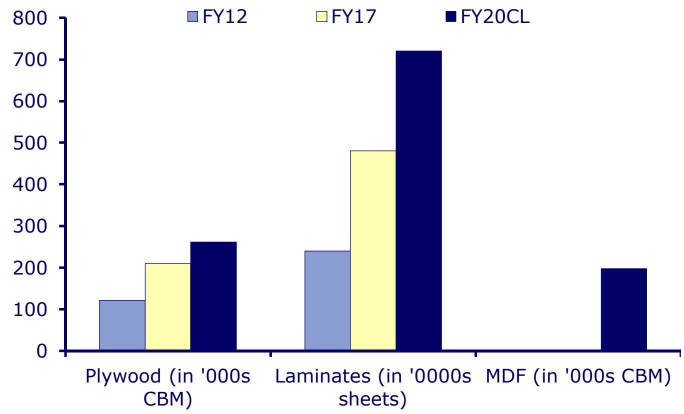
Source: Company, CLSA

Laminates and MDF – the growth drivers

Century has significantly scaled up its operations in the Laminates business and is in the process of further expanding its capacity ~50% to 7.2m sheets by FY18CL. It has also made a strong entry into the MDF market with 198KCBM capacity installation which is ~35-40% of the total Indian MDF capacity. We expect Laminates to see a 15% Cagr and MDF an 80% Cagr over FY18-20.

Figure 4

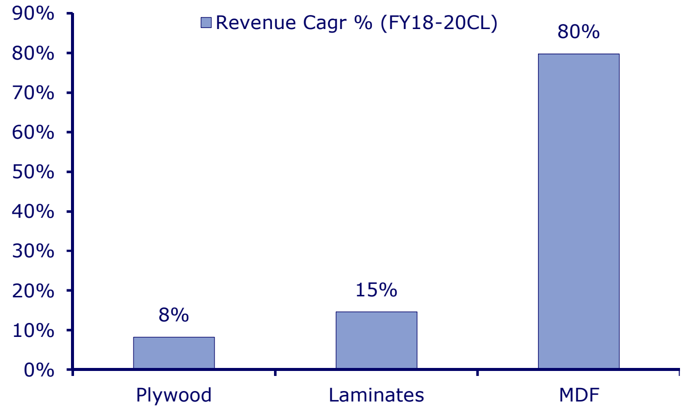
Strong capacity expansion across segments – focus on MDF and Laminates



Source: Company, CLSA

Figure 5

Expected revenue Cagr across segments



Source: Company, CLSA

FY18 will be a challenging year

Century is focusing on sustaining market share at the expense of margins in the backdrop of headwinds faced from GST-related transition. It has deferred its price hike in the plywood segment (~2-5% impact due to GST), while it has completely passed on the benefits from lower tax rates on laminates. Further, given that e-way bill is yet to be implemented, in the near term Century faces unhealthy competition from unorganised players and this is likely to normalise only in 2HFY18. We build in 12% revenue growth YoY in FY18.

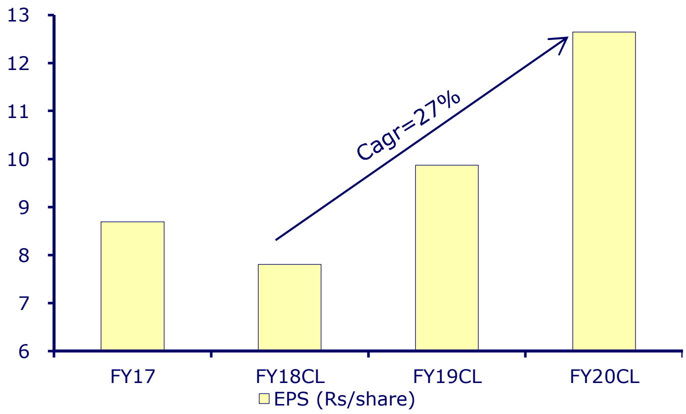
Century's Ebitda margin declined 150bp YoY in 1QFY18 due to higher raw material costs (temporary deforestation ban in Myanmar and a ban on exports of timber and veneers from Laos), delay in GST-led price hikes to achieve higher volumes and one-off GST transition related channel costs. Lack of availability of low-cost veneer, volume pressure due to GST and losses from MDF commissioning will impact margins 1.9ppt YoY in FY18, in our view. Overall, we are building in lower than consensus earnings for FY18.

Figure 6

FY18 EPS to decline 10% YoY

Figure 7

Century's EPS is likely to see a 27% Cagr over FY18-20



Source: Company, CLSA

Post FY18CL decline, EPS to rebound 27% Cagr over FY18-20CL

We build in a revenue Cagr of 17% over FY18-20, on the back of growth in core plywood, increasing contribution from MDF and Particle boards business and increase in laminate production capacity. Utilisation increase in new capacities, lower raw material costs and improving product mix should lead to a margin rebound post FY18. We expect a 27% EPS Cagr over FY18-20.

Figure 8

Rationale for our revenue growth assumptions, by segment

Segment	Revenue Cagr FY18-20CL (%)	Ebit margin - FY19/20CL (%)	Remarks
Plywood	8%	13.5/14.0	○ Expansion in capacity in Plywood coupled with robust demand outlook will lead to strong growth in the segment ○ Backward integration has led to margin expansion in the segment. However, we expect margins to be flattish due to higher GST rates and changing product mix in favour of value products
Laminates	15%	14.0/15.0	○ Expansion in capacity, lower GST rates and strong demand outlook will lead to significant growth in the segment. ○ Higher capacity utilisation coupled with operating leverage benefits will lead to strong margin expansion
MDF*	80%	8.0/12.0	○ MDF is a new business area for Century. However, given India's limited production capacity, we believe Century can grow at a robust pace ○ Century's focus would be to achieve scale due to its high capacity addition and hence we do not expect any margin expansion initially
Particle board	23%	5.0/8.0	○ Particle board will continue to see strong traction as demand for readymade furniture increases
CFS	10%	29.0/29.0	○ Capacity utilisation to increase as container traffic growth at Kolkata port improves

Source: Company, CLSA.*Note: MDF revenue Cagr estimate over FY18-20

Good entry point post correction; initiate with BUY

Century's stock price has corrected ~18% since June '17 on near-term growth concerns. This provides a good entry point in the franchise which we believe can deliver a robust 27% EPS Cagr over FY18-20. Valuations at 26x FY19CL PE look attractive in the backdrop of 21% FY19CL ROCE profile compared to other building materials franchise. That said, regulatory uncertainty on raw material sourcing is the key risk. Also, given lower customer connect, we assign a lower multiple (30x June ’19CL) vis-à-vis our target multiples for other building material franchisees under our coverage.

Figure 9

Century’s valuations are attractive compared to peers in the building materials space

Company name	Price (LC)	Mcap ($m)	Rating	PE (x)		PEG (x)	EV/Ebitda		PB		ROE (%)		EPS Cagr %
				FY18	FY19	FY19	FY18	FY19	FY18	FY19	FY18	FY19	(FY18-20)
Wood Panel													
Century Ply	**254**	**879**	**BUY**	**32.5**	**25.7**	**1.0**	**20.0**	**15.4**	**6.3**	**5.3**	**22**	**22**	**27**
Greenply	272	516	N/R	23.2	20.7	1.7	14.1	11.3	3.6	3.1	17	17	12
Greenlam	900	337	N/R	32.4	23.5	0.6	13.7	11.4	6.2	5.0	21	23	17
Light Electricals													
Havells	472	4,624	SELL	43.2	35.1	1.5	27.6	22.6	9.3	8.1	23	25	23
Crompton Consumer	217	2,213	BUY	35.1	28.5	1.2	23.4	19.4	18.6	13.9	62	56	19
Bajaj Electricals	333	540	N/R	18.5	14.4	0.5	11.2	9.3	3.3	2.5	17	19	31
Finolex Cables	531	1,269	N/R	14.7	12.4	0.7	13.5	11.3	2.6	2.2	19	19	19
Paints													
Asian Paints	1,129	17,020	SELL	49.6	43.0	2.8	31.7	27.7	12.6	10.9	27	27	11
Berger Paints	237	3,563	N/R	38.2	32.9	2.1	23.4	20.4	9.4	8.1	26	26	19
Kansai Nerolac	455	3,858	N/R	43.1	37.5	2.5	28.4	24.1	7.8	6.8	19	19	15
Akzo Nobel	1,749	1,318	N/R	26.5	22.3	1.2	18.4	15.8	7.4	6.5	26	26	16
Pipes													
Astral	644	1,233	BUY	43.6	32.9	1.0	24.2	19.1	8.2	6.6	21	22	25
Supreme	1,130	2,213	N/R	25.0	21.5	1.3	14.7	12.7	6.2	5.6	26	27	19
Finolex Industries	590	1,144	N/R	21.2	19.6	2.3	14.4	13.4	3.0	2.8	14	15	10
Adhesives													
Pidilite	819	6,526	O-PF	46.3	39.5	2.3	30.3	26.1	10.6	9.0	25	25	18
Ceramics													
Kajaria	640	1,600	N/R	28.3	22.8	0.9	16.1	13.4	6.1	5.2	23	24	24
Somany	769	514	N/R	23.1	19.5	1.1	13.0	11.8	4.5	na	21	22	29
Sanitaryware													
HSIL	360	415	N/R	16.5	15.7	3.1	8.0	7.2	1.7	1.5	11	10	17
Cera	2,786	594	N/R	31.1	25.7	1.2	18.4	15.6	6.1	5.1	21	21	18

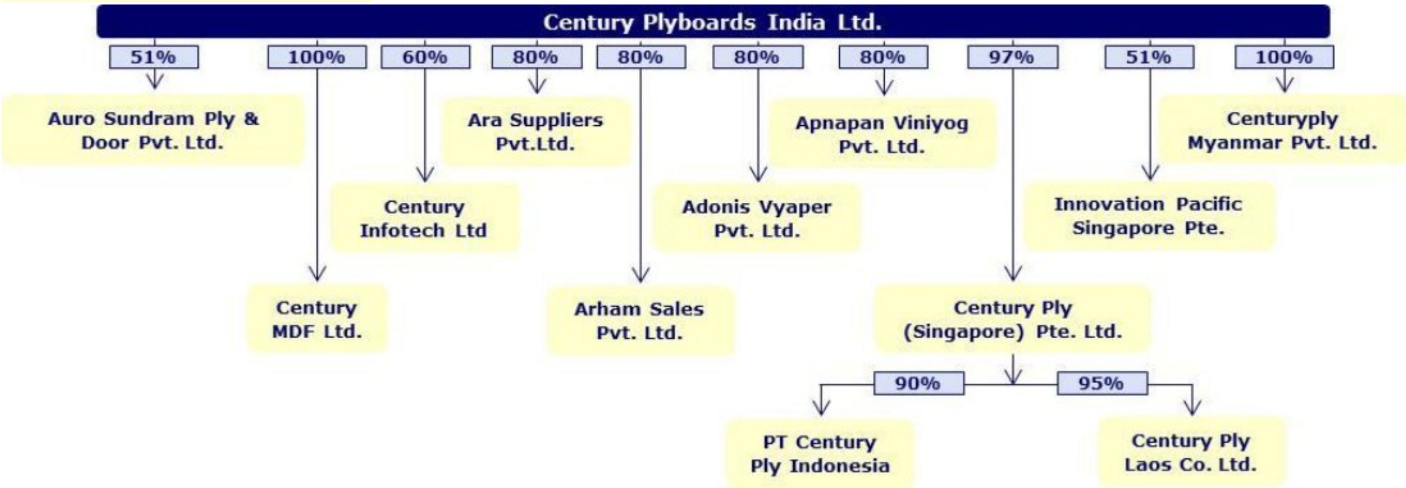
Source: Bloomberg (for the non-rated stocks), CLSA (for the rated ones). Priced as on close of business 22 August ’17

Company background

Century entered the plywood market in 1986 and gradually has emerged as the market leader in the segment. Century has diversified its offerings by entering into Laminates (in 2004) and MDF (in 2017). The company is now aggressively pushing itself in the international market, with a focus on SE-Asia. Century is also engaged in the container freight station (CFS) at Kolkata port. Century ventured into the readymade furniture market in 2013. It also acquired a 50% stake in Century Infotech in 2014 (60.06% currently).

Figure 10

Century Plyboards India – company structure



Source: Company, CLSA

Figure 11

Company structure snapshot

Company	Remarks	% share in consolidated revenue FY17
Auro Sundram Ply & Door Pvt Ltd	ASPDPL is operating a plywood unit at Raipur Industrial Area, Roorkee, Uttarakhand. This unit is manufacturing plywood and allied products from eco-friendly agro-forestry timber.	4.6%
Century MDF Ltd	CML was formed to set up its MDF business which started its own production in FY18.	0.00%
Centuryply Myanmar Pvt Ltd	CMPL is operating a veneer and plywood unit near Yangon city, in Myanmar.	4.4%
Century Ply (Singapore) Pte Ltd	CPSPL has been incorporated with the object of trading in timber, manufacturing and trading in plywood and other wood products and also leasing of machineries and equipment and providing related services.	2.7%
Century Infotech Ltd	Century Infotech Ltd is engaged in the business of e-commerce, e-shopping, online information services, online application integration including buying, selling, marketing, trading and dealing in various kinds of products and services on the internet.	0.13%
CPSPL Subsidiaries: PT Century Ply Indonesia Century Ply Laos Co. Ltd	These have been incorporated with the object of trading in timber, manufacturing and trading in all wood products & materials and providing related services.	0.18%

Source: Company data, CLSA

Leadership position in expanding market

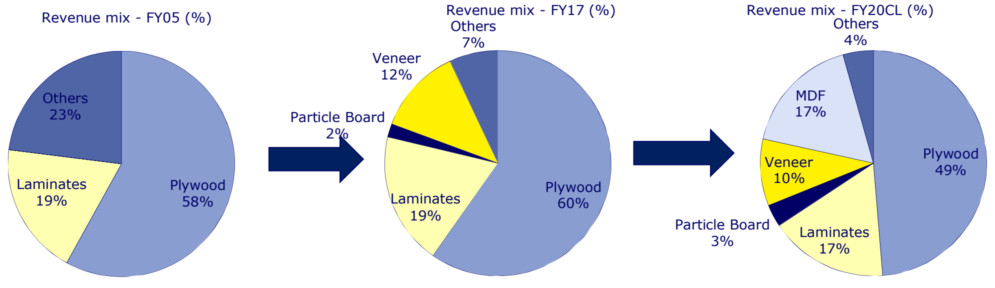
Century Plyboards India Limited (CPIL) has transformed itself into a complete infrastructure solutions provider. Branding, distribution and better raw material accessibility have been its key strengths. It has achieved scale through focused capacity expansion. An industry shift towards the organised segment should help Century to gain market share due to its superior positioning in the wood panel market.

Transitioning to a diversified interior infra solutions provider

Century, has transformed itself into a complete interior infrastructure solution provider with product presence across the entire wood industry value chain. It has established itself as a formidable franchise by turning a commodity product into multiple brands with a strong recall. Innovation-led track record, strong intermediary channel connect and better raw material accessibility has been the core of Century's success. Focus on future growth segments like MDF and readymade furniture should help Century to grow at much faster rate than the industry.

Figure 12

Century's is rapidly diversifying its product mix



Source: Company, CLSA

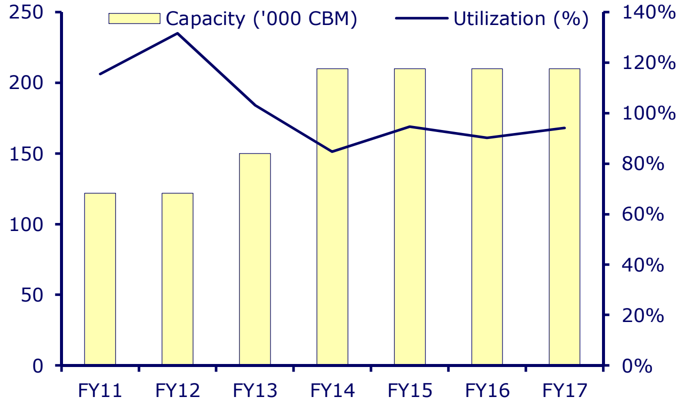
Achieved scale through focused capacity expansion

Century has constantly invested in building its manufacturing capabilities to achieve scale in its core wood panel business. It has expanded its plywood capacity by more than ~8x in the last decade (210000 CBM capacity in FY17).

In Laminates, Century doubled its production capacity (from 2.4m in FY12 to 4.8m in FY14) and is adding another~2.4m sheets to its present facilities which is due to be operational by FY18. It has also identified MDF as a future growth driver for the company and has installed a capacity of ~198,000 CBM at its Hoshiarpur plant, the largest among its peers.

Figure 13

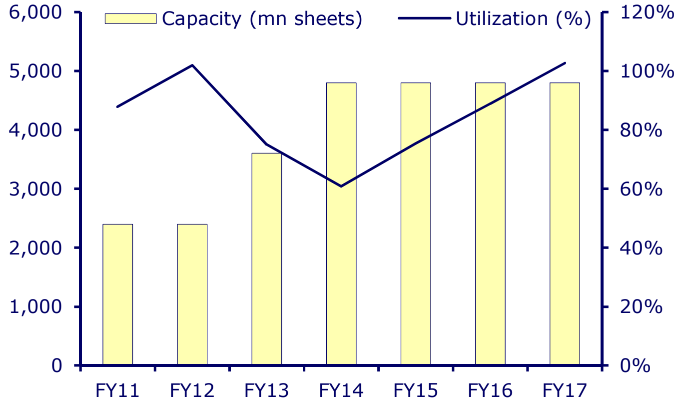
Plywood - strong expansion in capacity



Source: Company data, CLSA

Figure 14

Laminates - staying ahead of the demand curve



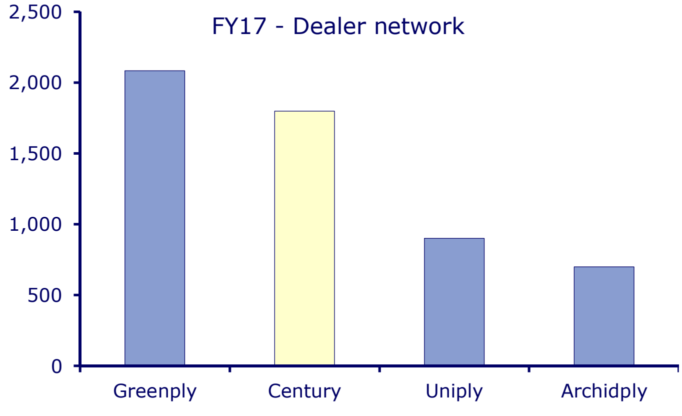
Source: Company data, CLSA

Focus on branding & distribution

Century has significantly invested in its brand campaigns and distribution network to achieve higher product penetration. It has ramped up its distributor and dealer networks by 1.8x in the past four years by entering into new geographical locations. Century has created strong intermediary connect with its influencers (carpenters and interior designers) leading to a demand pull for its products. Century is focusing on improving product visibility through brand campaigns and has also created a strong brand recall for its products.

Figure 14

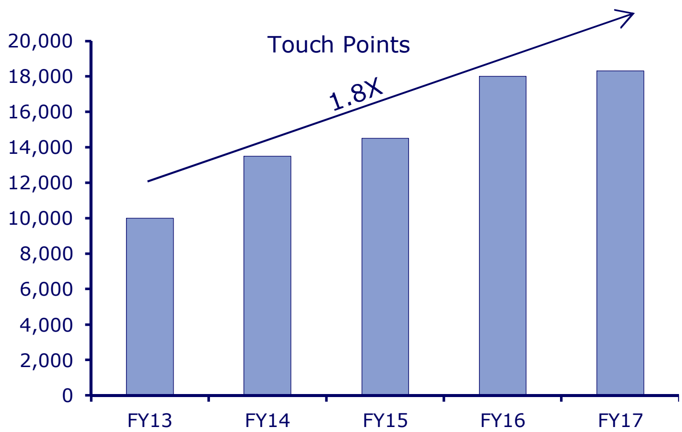
Century has a strong dealer network



Source: Company data, CLSA

Figure 15

Century has considerably increased it touch points to improve accessibility in new areas



Source: Company data, CLSA

Figure 17

Century has a strong brand recall due to its aggressive branding strategy

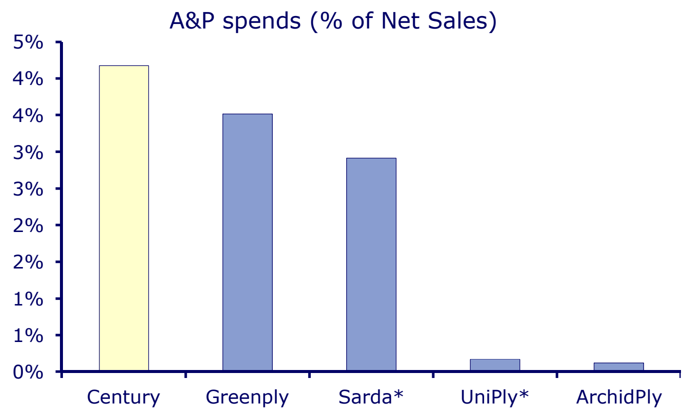
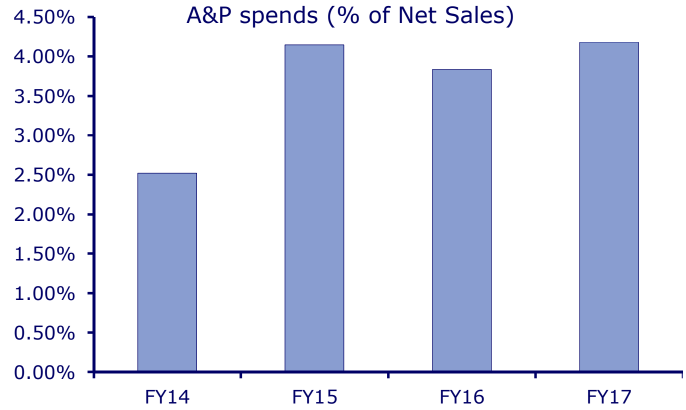


Figure 18

High ad spend with a focus on improving product penetration



Source: Company, CLSA. Note:* A&P spend as % of net sales as of FY16.

Market share gains through product presence across the value chain

Century's aggressive product launches and innovative offerings have helped the company gain strong market share in the wood panel market in India. Century had differentiated its offerings from its peers in the premium plywood market which accounts for 19% of the plywood market. It has also launched a value brand like 'Sainik', which targets the mass plywood segment accounting for a 58% share of the market, still largely dominated by the unorganised segment (85%). Century has also invested in innovative technologies (glue line protection) to create differentiated products to improve market share gains.

Figure 20

Presence in the plywood market

Plywood Segment	Price Range* (Rs/sq.ft)	Market Size (Rs bn)	Share in plywood market	Share of organised players	Century's Presence
Premium Plywood	100-140	35	19%	70%	Club Prime, Architect Plywood, Elasto, 710+ BWP, Marine Plywood, Fire Safe
Mass Plywood	70-90	105	58%	15%	Maxima, Sainik
Low-end Plywood	40-60	40	22%	0%	

*Thickness of the plywood is 19mm

Source: Company data, CLSA

Century to benefit from government affordable housing push, GST

As mentioned in our recent 'Housing boom ahead' report dated April '17, we highlight that wood panel industry should see a 12% Cagr over FY17-24 (vs 1% Cagr over FY14-17) led by the government's big push for affordable housing. Century has launched mass market brands like 'Sainik' and 'Maxima' that may see strong demand from the affordable housing segment, in our view. The company should also benefit from expanding presence in the MDF and readymade furniture market which may also see a demand surge from affordable housing.

Segmental analysis

Century is the market leader in the plywood segment in India. A diversified raw material sourcing capability is the key competitive advantage for Century. Century is in the process of expanding its laminates capacity by ~50% and has also set up its first MDF plant with 198K CBM capacity (~35-40% of total MDF capacity in India).

Leadership in Plywood

Century is a market leader in the plywood segment in India. The plywood market is seeing an increasing shift from the unorganised to the organised sector with strong demand potential from the government's housing related schemes. Century is well positioned to benefit from this demand influx, due to its market-leading capacity, its well diversified product portfolio across price points and its improving geographical penetration.

Figure 15

Century controls ~25% of the organised market share in Plywood

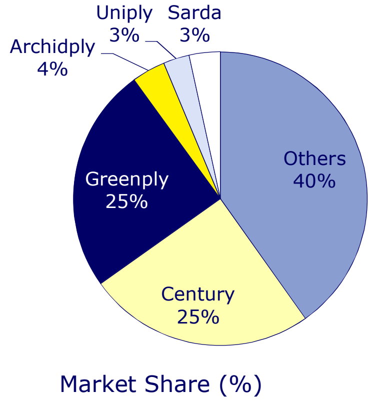
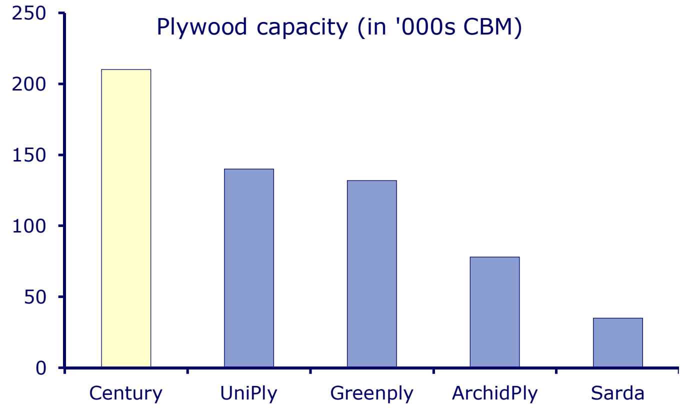


Figure 16

Century is the industry leader in Plywood with 210K CBM manufacturing capacity



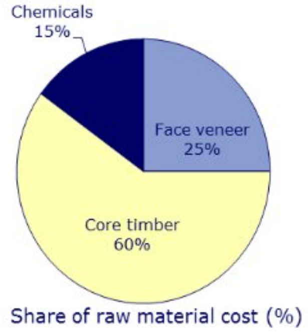
Source: Company data, CLSA. *Market share data based on FY16 revenues

Raw material accessibility - Century's biggest competitive advantage

Century's better raw material accessibility due to its raw material arrangements across various countries like Myanmar, Indonesia and Laos gives it a strong competitive advantage over its peers. This has not only provided a cushion against any export and deforestation ban but also allowed Century to expand its margin by reducing its input costs. Century has also expanded its raw material procurement base by importing PQ-timber from the Solomon Islands, which is similar to Keruing (imported from Myanmar and Laos in the form of veneers).

Figure 17

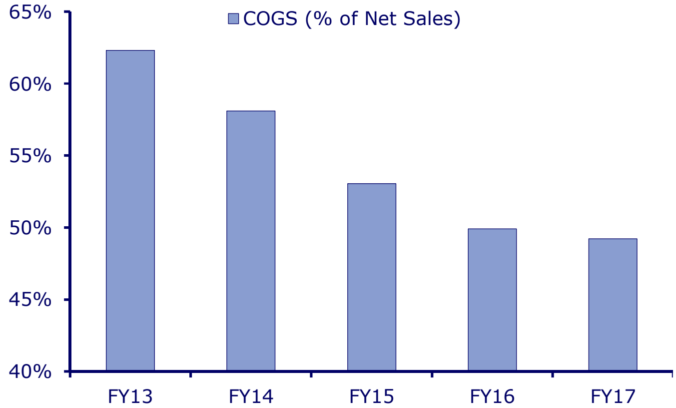
Industry raw material cost structure



Source: Industry sources, CLSA

Figure 18

Reduced input cost through sourcing arrangement



Source: Company, CLSA

Century's raw material sourcing capabilities

For plywood manufacturing, three key raw materials are used: a) face veneer (~25% of raw materials cost) – the outermost layer; b) core veneer (~60% of cost) – middle layer; and c) chemicals and adhesives (~14% of cost). Face veneers are largely imported from countries like Myanmar whereas core veneer is largely sourced from the domestic market.

Myanmar has been one of the key providers of timber logs to Indian players. However, in Apr '14, Myanmar introduced a ban on export of raw timber which created a production shortfall in plywood manufacturing. Again in 2016, Myanmar introduced a ban on deforestation due to presence of excess inventory in the market. Myanmar lifted the ban on cutting of trees in Apr '17 but as per its new guidelines, all loggers need to sell their logged timber to Myanmar Timber Enterprise, which would in turn auction it. The raw material stock should be available from 4QFY18.

Century Ply was the first to establish a face veneer plant in 2013 thus creating a cushion from the ban. This sourcing capability has not only allowed Century Ply easy access to the key raw material but also provided it with a cost advantage. The raw timber loses around 30% moisture when made into face veneer and another 30% weight is lost during peeling, resulting in enhanced transport efficiency.

Century has also expanded its sourcing facility by first entering into Laos through a sourcing agreement and later set up its own subsidiary for supply of face veneer. The Laos government also imposed ban on exports of timber logs and veneer in May '16. The ban is still in force.

Laminates – in expansion mode

Century has been a late entrant in the Laminates, a segment dominated by Greenlam (erstwhile division of Greenply). However, since its entry the company has scaled up and is currently one of the top 3 players in the segment. As Laminates and plywood sell through the same channel, Century has been able to leverage its strong distribution network and new product introductions to double its market share from 6% in FY11 to 13% as of FY17. We believe Century will post a strong 15% Cagr over FY18-20 led by expansion in capacity to 7.2m sheets by FY18CL end (4.8m sheets currently).

Figure 19

Rapid market share gains in Laminates

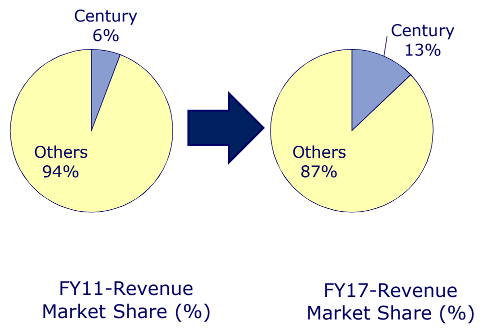
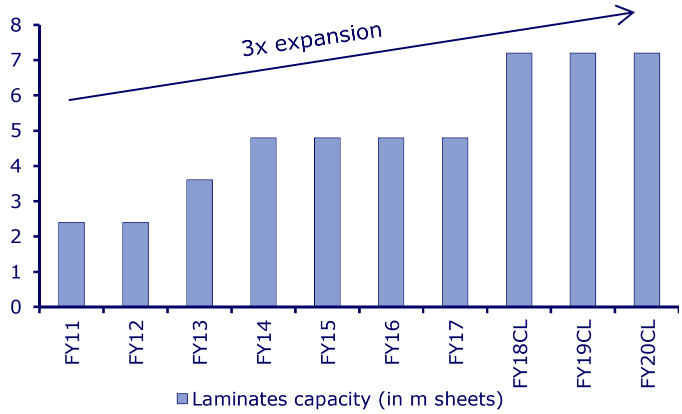


Figure 20

Century to expand capacity by 50% over FY17-20CL



Source: Company, CLSA

MDF – future growth driver

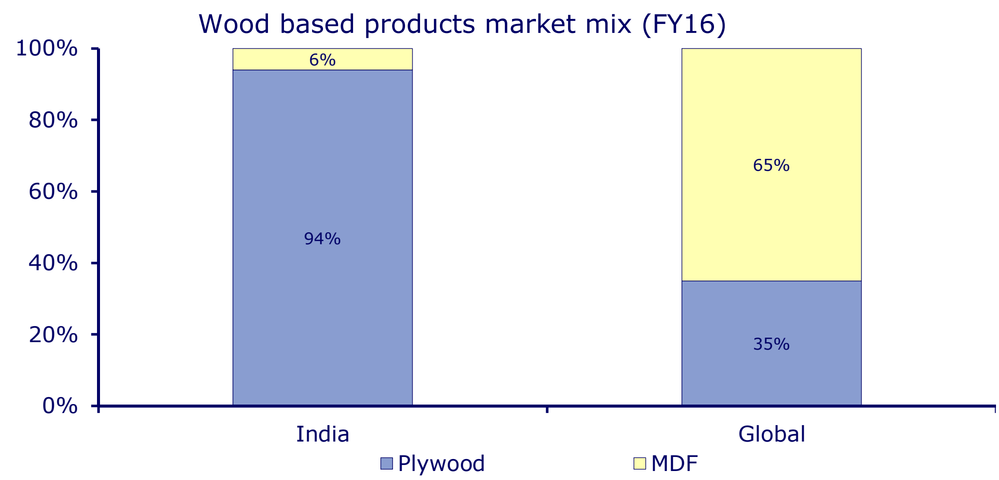
Century has installed industry leading capacity of 198k CBM in MDF which is due to be operational in FY18. We believe an increasing consumer preference for readymade furniture will lead to strong growth in this segment. Century should be one of the biggest beneficiaries as the market is completely dominated by organised players.

MDF industry in India

According to industry estimates, MDF in India will see a 15% Cagr over FY16-FY21 to stand at Rs30bn from Rs15bn currently. The MDF industry is completely consolidated with organised players controlling 100% of the segment. MDF has an advantage over plywood in terms of lower cost and also machinability. However, it cannot be used for handcrafted furniture. Thus, it is highly dependent on the readymade furniture market in India. With brands like Ikea, entering the Indian market and the advent of e-tailers, this segment is ripe for growing demand. Presently, MDF accounts for only 6% of the wood-based product mix in India while it accounts for 65% of the global wood product mix.

Figure 21

India vs global MDF consumption



Source: Greenply, CLSA

Imposition of anti-dumping duty

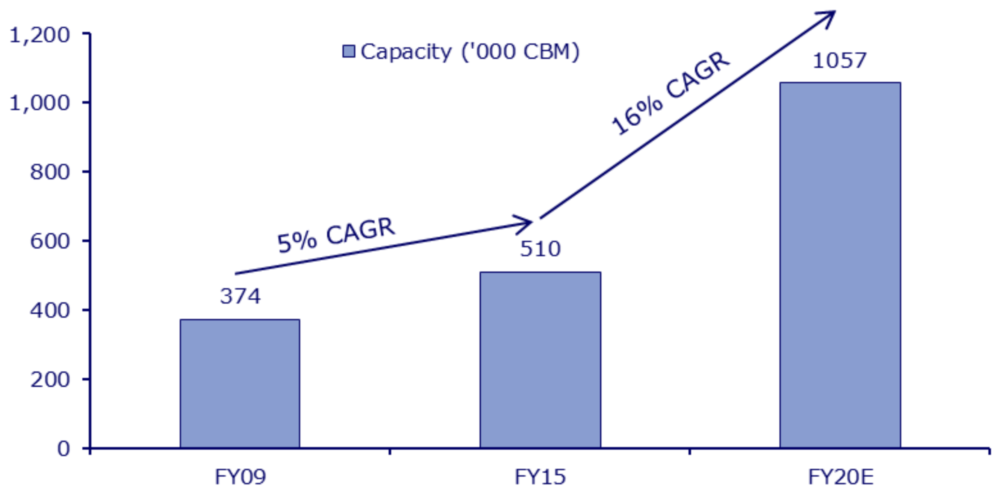
Anti-dumping duty of $0-$64.35/CBM is levied on plain MDF boards imported from Indonesia and Vietnam (valid till July '21) for panel board thickness of 6mm and above. This duty gives a competitive advantage to domestic manufacturers over imported products.

Accelerated capacity expansion plan

According to industry estimates, India's MDF capacity will see a 16% Cagr over FY15-20. Rising demand for readymade furniture could be the biggest growth driver for the MDF industry. Leading organised players like Century and Greenply expect MDF to be the next growth driver of the wood panel industry.

Figure 38

India's expected capacity expansion



Source: Industry sources, CLSA

Century's plant is strategically located plant in North India

Owing to proximity to ports, major imports take place through South India and West India whereas realisations in the north are better due to a logistics cost advantage (over imports). Century's plant is strategically located near the sourcing base in North India which gives it an advantage in the second-largest market.

Figure 36

Import threat is lower in North India due to a logistics cost advantage

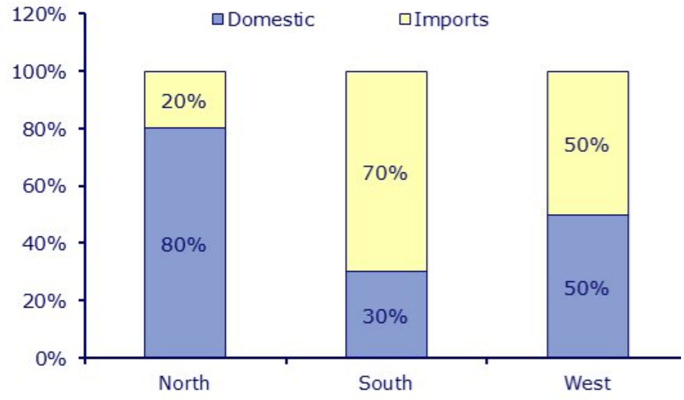
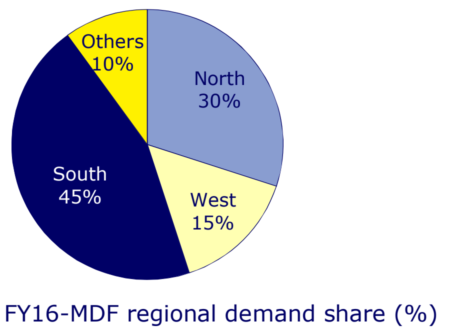


Figure 37

MDF demand split by region



Source: Greenply Nov '16 presentation, CLSA

Competitive scenario

Century, Greenply and Greenlam together control ~60-70% of the total organised wood panel market in India. Although players like Uniply, Sarda and Archidply have gained scale, competitive pressure from these organised players is not intense. Century is the market leader in the plywood segment and one of the leading players in Laminates. With its 198,000CBM installed capacity in MDF, it has now emerged as the leading player in MDF.

Figure 27

Competitive intensity in wood panel market

Company	Remarks
Century	○ Pioneer in plywood segment with a strong manufacturing base ○ Has strong raw material sourcing arrangements with plants in Myanmar, Laos and Indonesia ○ The focus is on capturing the northern and western India markets' MDF manufacturing from FY18 ○ Marks a strong entry into the MDF segment with a 198k CBM plant ○ Strong distribution network coupled with a focus on branding strategies has been key to Century's success
Greenply and Greenlam	○ Asia market leader in the Laminates segment ○ Diversified portfolio of product and does not depend on one segment for its revenues ○ Strong distributor and retailer network with more than 22,000 touch points ○ It is the biggest competitor to Century due to a Pan India presence with regional balance ○ Strong international presence even in USA and Europe gives it international recognition
Uniply	○ Recently acquired Euro decor and is aggressively building its capacity- looking to increase it three-fold ○ It has also acquired a Mumbai-based architecture firm, Vector Projects, to provide end-to-end solutions ○ The focus is on the western and northern Indian markets
Merino	○ Merino is the second-largest laminates player in India and its revenue share from the laminates segment is nearly same as that of Greenlam ○ With rising pressure from Century, Merino has been aggressive in its product launches and capacity additions ○ Merino is expanding its international presence by featuring in fashion weeks

Source: CLSA

Figure 28

Century business metrics comparison with peers

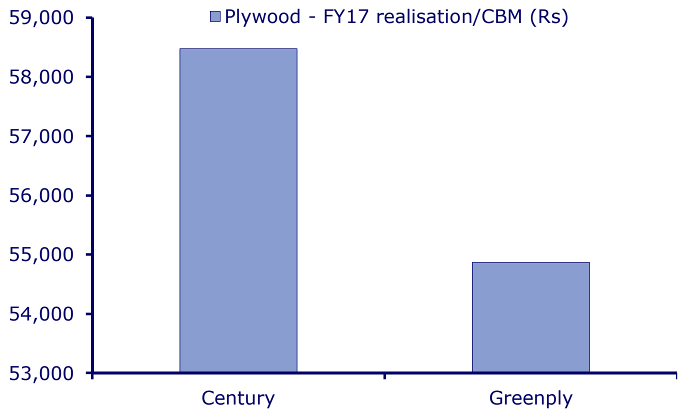
Company	Capacity	Raw material Security	No. of plants	Ad spend	Distribution strength	Regional strength (India)	Revenue mix^
Century	Plywood - 210k CBM, Laminates - 4.8m sheets, MDF - 198k CBM, Particle boards - 54k CBM	Strong - Myanmar, Laos, Solomon Islands**	8	4.2%	18,300	East & South	Plywood - 60%, Laminates - 19%, MDF - 0%
Greenply	Plywood - 132k CBM, Laminates - 12.02m Sheets, MDF - 180k CBM	Moderate - Myanmar	5	3.5%	10,000	North, South & West	Plywood - 43%, MDF - 18%
Greenlam	Laminates - 12.02m	NA	2	4.2%	14,000	North, South & West	Laminates - 40%
ArchidPly	Plywood - 78k CBM, Laminates - 3m sheets	Weak	3	0.1%	2,600	NA	Plywood - 65% Laminates - 29%
UniPly	Plywood - 140k CBM	Weak	3	0.2%	1,000	East & South	-
Sarda	Plywood - 35k CBM	Weak	2	2.9%	2,000	NA	-

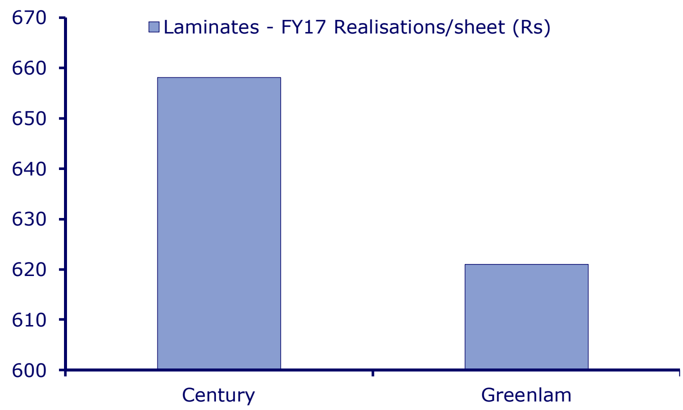
** Solomon Islands has provided them choice for alternative timber – pencil cedar which is as good as Keruing from Myanmar.
^ Revenue mix for Greenply and Greenlam has been derived by adding revenues of both the organisations
Source: Company data, CLSA

Figure 22

Figure 23

Century had higher realisations compared to its closest competitor in both Plywood and Laminates





Source: Company data, CLSA. Note: Greenply volume converted from m sqm to CBM

Other businesses

Century, post-demerger from cement and ferro-alloy businesses, has majorly concentrated on the wood panel industry but has simultaneously developed its other business as well. In the finished goods segment, Century engages in agri-products, phenol and a recently started furniture business. It also operates a container freight station and shipping services. Out of all these businesses, Container Freight Station (CFS) stands out for Century.

Container Freight Station (CFS)

Century entered into the business in 2008-09, seeing an opportunity in the heavily congested Kolkata port owing to traffic growth. Covering 100k square meters, the CFS has a capacity of 156,000 TEUs with 15 days' dwelling time and has expanded at a Cagr of 21% over FY11-16. The low-risk business is likely to expand its Ebitda margin, as container traffic at Kolkata port is likely to see a Cagr of 25%. The Ebitda has expanded at a Cagr of 14% over FY13-FY17 with margins ranging between 40% and 45%.

Figure 39

Century's CFS business saw a robust 17% Cagr over FY14-17

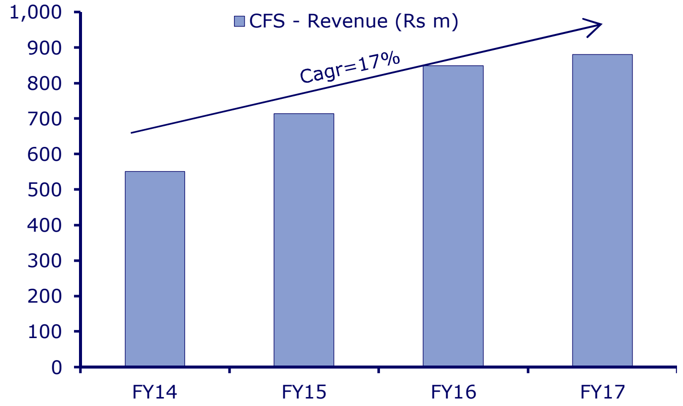
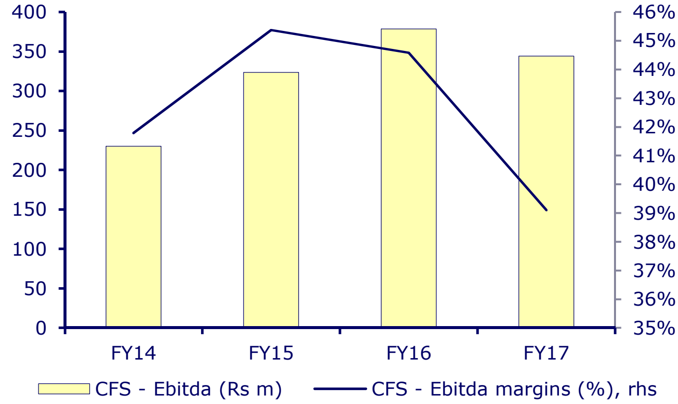


Figure 24

CFS business Ebitda Cagr of 14% over FY14-17



Source: Company data, CLSA

Readymade furniture

Century is moving up the value chain by tapping finished goods product categories like doors/panels, shelves, lockers and other timber-based housing products. Century plans to expand its positioning in the segment through new product introductions.

Good entry point; re-rating potential

Century's stock price has corrected ~18% since June '17 on near-term margin concerns. This provides a good entry point in the franchise which we believe can deliver a robust 27% EPS Cagr over FY18-20. Valuations at 26x FY19CL look attractive in the backdrop of 21% FY19CL ROCE profile compared to other building materials franchises. Initiate with BUY and Rs315 TP based on 30x June '19CL. Regulatory uncertainty on sourcing raw material is the key risk.

FY18 will be a challenging period

Century is focusing on achieving strong volume growth at the expense of margins in the backdrop of headwinds from the transition to GST. It has deferred its price hikes in the plywood segment (~2-5% impact due to GST), while it has completely passed on benefits from lower tax rates (18% compared to ~27-29% previously) on laminates to the consumers. We believe that even though the focus would be to grow the top line, GST-related channel pressure will continue over 2QFY18 and normalisation is likely to be achieved by 2HFY18. We build in 12% revenue growth YoY in FY18.

Figure 25

GST rates of various segments in the wood panel market

Particulars	Pre GST tax incidence	GST rates
Plywood	~25%	28%
Laminates	27-29%	18%
MDF	27-29%	28%

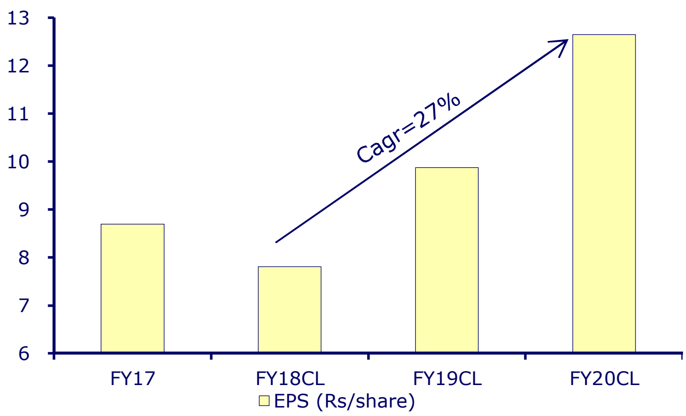
Source: Industry sources, CLSA

Figure 26

FY18 EPS to decline 10% YoY

Figure 27

Century's EPS is likely to see a 27% Cagr over FY18-20



Source: Company, CLSA

Century's Ebitda margin declined 150bp YoY in 1QFY18 due to higher raw material costs (ban on imports of face veneer and high-quality timber from Myanmar and Laos), delay in GST-led price hikes to achieve higher volumes and one-off GST-transition-related channel costs. Lack of availability of low-cost veneer, volume pressure due to GST and losses from MDF commissioning should impact FY18 margin 1.9ppt YoY, in our view.

Post FY18 decline, EPS to rebound at a 27% Cagr over FY18-20CL
We build in a revenue Cagr of 17% over FY18-20, on the back of growth in core plywood, increasing contribution from its MDF & Particle boards business and increase in laminate production capacity. Utilisation increase in new capacities, lower raw material costs and improving product mix should lead to a margin rebound post FY18. We expect a 27% EPS Cagr over FY18-20.

Figure 28
Rationale for our revenue growth assumptions, by segment

Segment	Revenue Cagr FY18-20CL (%)	Ebit margins - FY19/20CL (%)	Remarks
Plywood	8%	13.5/14.0	○ Expansion in capacity in Plywood coupled with robust demand outlook should lead to strong growth in the segment ○ Backward integration has led to margin expansion in the segment. However, we expect margins to be flattish due to higher GST rates and changing product mix in favour of value products
Laminates	15%	14.0/15.0	○ Expansion in capacity, lower GST rates and strong demand outlook should lead to significant growth in the segment. ○ Higher capacity utilisation coupled with operating leverage benefits should lead to strong margin expansion
MDF*	80%	8.0/12.0	○ MDF is a new business area for Century. However, given India's limited production capacity, we believe Century can grow at a robust pace ○ Century's focus would be to achieve scale due to its high capacity addition and hence we do not expect any margin expansion initially
Particle board	23%	5.0/8.0	○ Particle board should continue to see strong traction as demand for readymade furniture increases
CFS	10%	29.0/29.0	○ Capacity utilisation to increase as container traffic growth at Kolkata port improves

Source: Company, CLSA. *Note: MDF revenue Cagr estimates over FY18-20

Figure 29
Expect revenue Cagr of 17% over FY18-20

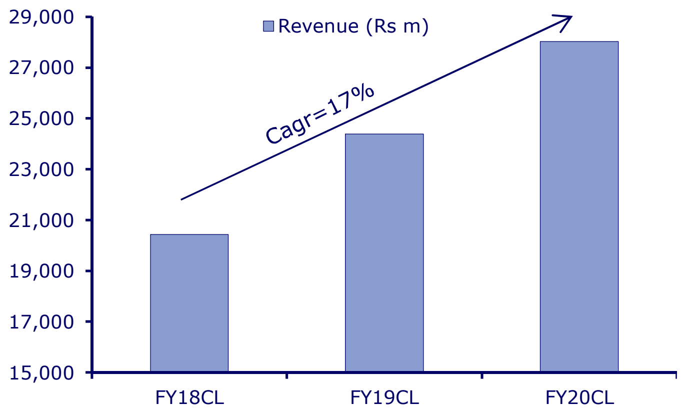
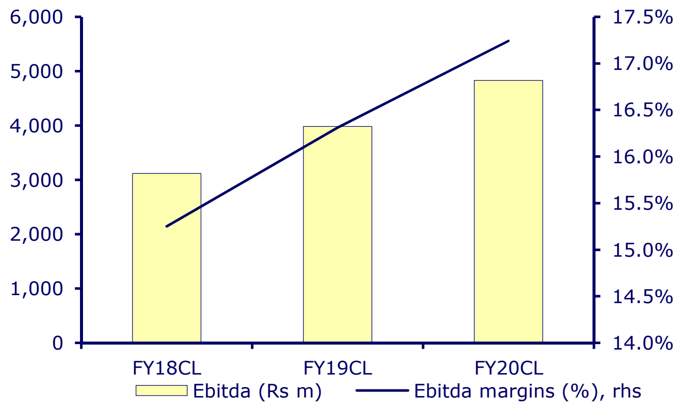


Figure 30
Expect Ebitda margin to expand 199bp over FY18-20



Source: Company, CLSA

Figure 31

Key assumptions table

(in Rs m, unless specified)	FY16	FY17A	FY18CL	FY19CL	FY20CL
Consolidated revenue break-up (Rs m)					
Plywood & Blockboard	10,892	11,548	12,454	13,497	14,577
Laminates	3,254	3,680	3,868	4,352	5,078
Pre-Laminated Boards	329	371	640	926	975
Veneer	1,688	2,394	2,079	2,503	2,861
Medium Density Fibre Board	86	34	1,594	3,604	5,148
Logistics	837	876	811	819	983
Others	535	433	381	343	309
Total	**17,621**	**19,337**	**21,828**	**26,045**	**29,931**
Revenue growth (%)					
Plywood & Blockboard	2%	6%	8%	8%	8%
Laminates	18%	13%	5%	13%	17%
Pre-Laminated Boards	-10%	13%	72%	45%	5%
Veneer	-2%	42%	-13%	20%	14%
Medium Density Fibre Board	-6%	-61%	4637%	126%	43%
Logistics	19%	5%	-7%	1%	20%
Others	-15%	-19%	-12%	-10%	-10%
Total	**4%**	**10%**	**13%**	**19%**	**15%**

Source: Company, CLSA

Figure 32

Profit & Loss statement

(Rsm)	FY16	FY17CL	FY18CL	FY19CL	FY20CL
Net revenue	16,409	18,187	20,443	24,393	28,032
COGS	8,191	8,951	10,124	12,138	13,914
Gross profit	8,218	9,236	10,319	12,255	14,117
Employee expenses	2,362	2,730	2,964	3,488	3,924
Other expenses	2,961	3,387	4,237	4,789	5,360
Ebitda	**2,895**	**3,120**	**3,117**	**3,978**	**4,833**
Ebitda margin (%)	**17.6%**	**17.2%**	**15.2%**	**16.3%**	**17.2%**
Depreciation	475	593	705	1,002	1,100
Finance cost	479	302	399	397	360
Other income	60	226	202	220	214
Taxes	304	515	465	588	753
Profit after tax	1,698	1,935	1,750	2,212	2,834
Minority interest	0	0	12	15	19
Net profit	**1,698**	**1,935**	**1,738**	**2,197**	**2,815**
Adj EPS (Rs/share)	**7.6**	**8.7**	**7.8**	**9.9**	**12.6**
% growth in EPS	**14%**	**14%**	**-10%**	**26%**	**28%**

Source: Company, CLSA

Channel financing to lead to working capital cycle improvement

Although Century undertook aggressive capacity expansion and its inventory levels in FY16 were impacted (by a temporary deforestation ban in Myanmar and a ban on exports of timber and veneers from Laos), it has been able to improve its working capital cycle from 126 days in FY11 to 103 days in FY17. We believe Century will be able to further improve its working capital cycle (95 days by FY20CL) as its channel financing initiatives will lower debtor days, a lifting of the ban in Myanmar will improve inventory and as utilisation of new capacity improves.

Figure 33

Channel financing to lead to lower debtor days…

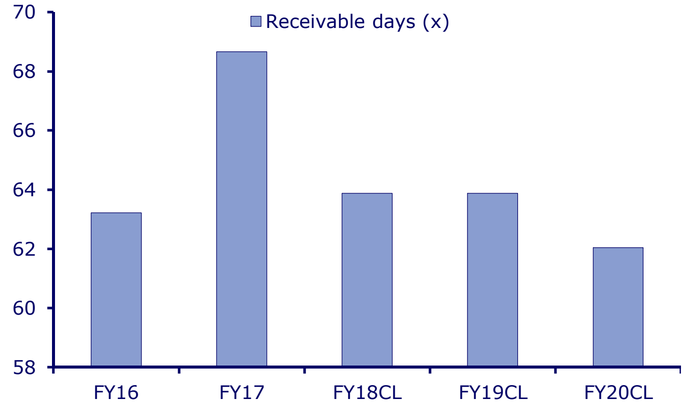
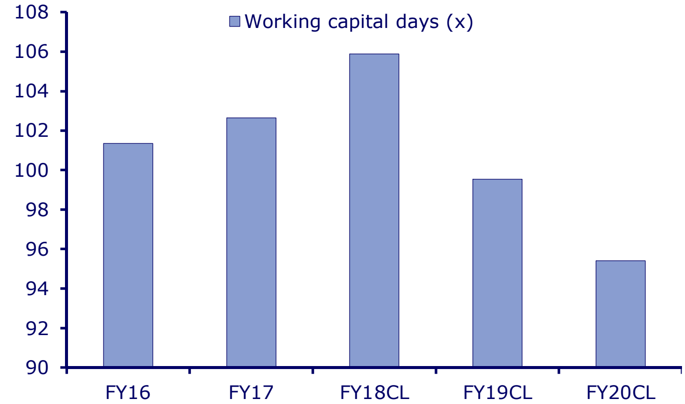


Figure 34

… leading to improvement in working capital cycle



Source: Company, CLSA

ROCE to be impacted in FY18; expect 545bp improvement

We expect FY18 ROCE to be impacted by higher capex and margin correction. Capex requirements are likely to drop significantly post FY18. This coupled with improving utilisation of MDF/laminates should lead to a ROCE rebound, in our view. Also, we expect the company to turn FCF positive in FY19, leading to a further drop in gearing.

Figure 35

Expect ROCE to expand 545bp over FY18-20

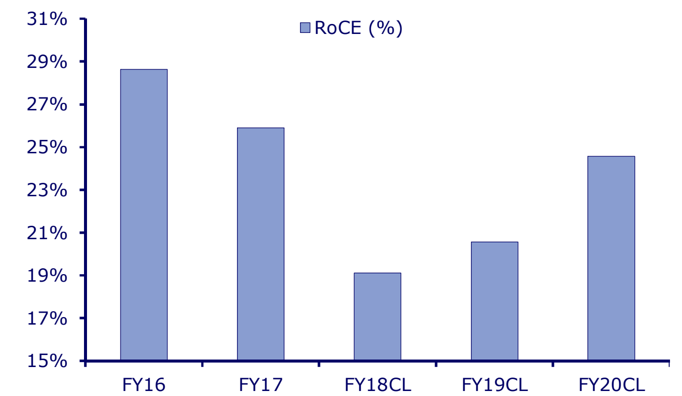
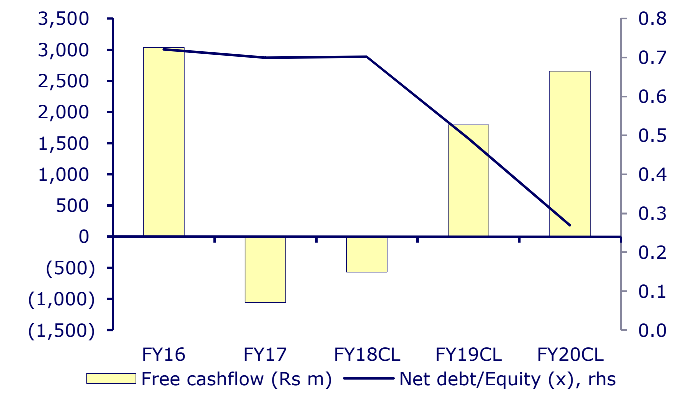


Figure 36

Net debt/equity to decline to 0.3x by FY20CL led by significant FCF generation



Source: Company, CLSA

Figure 37

Balance sheet summary

(Rsm)	FY16	FY17CL	FY18CL	FY19CL	FY20CL
Shareholders' funds	5,288	7,149	8,930	10,652	12,791
Equity capital	223	223	223	223	223
Reserves	5,066	6,927	8,707	10,430	12,569
Minority interest	90	120	132	147	166
Debt	3,811	4,997	6,262	5,244	3,443
Long term	647	1,474	1,500	1,500	1,500
Short term	3,553	4,196	5,100	4,100	2,500
Deferred Tax liabilities	7	14	14	14	14
Total Current liabilities and provisions	2,167	2,897	3,300	3,937	4,468
Total liabilities and equity	**11,752**	**15,849**	**18,975**	**20,350**	**21,439**
Gross block	2,978	4,121	6,331	7,031	7,631
Accumulated depreciation	476	1,061	1,767	2,769	3,869
Net block	**2,503**	**3,060**	**4,564**	**4,262**	**3,762**
Capital Work-in-Progress	388	545	545	545	545
Net fixed assets	3,607	6,130	7,555	7,253	6,753
Investments	0	0	0	0	0
Long term loans & advances	76	103	920	1,220	1,402
Cash & Bank balances	389	672	338	356	557
Inventory	2,975	3,006	3,271	3,781	4,345
Inventory days	66	60	58	57	57
Accounts Receivable	2,842	3,422	3,578	4,269	4,765
Receivable days	63	69	64	64	62
Other current assets	864	1,564	1,564	1,564	1,564
Short term loans & advances	40	39	818	976	1,121
Net current assets	4,945	5,787	6,269	7,008	7,884
Net current asset days (ex-cash)	4,557	5,115	5,930	6,652	7,327
Total assets	**11,752**	**15,849**	**18,975**	**20,350**	**21,439**
Net debt/equity (x)	**0.72**	**0.70**	**0.70**	**0.49**	**0.27**
ROE (%)	**37.0%**	**31.1%**	**21.6%**	**22.4%**	**24.0%**
ROCE (%)	**28.6%**	**25.9%**	**19.1%**	**20.6%**	**24.6%**

Source: Company, CLSA

Figure 38

Cashflow statement

(Rsm)	FY16	FY17CL	FY18CL	FY19CL	FY20CL
Ebit	2,420	2,526	2,412	2,976	3,733
Operating adjustments	60	226	202	220	214
Plus depreciation	475	593	705	1,002	1,100
Change in working capital	224	476	-613	570	673
Interest expenses	224	-559	-815	-722	-675
Tax paid	-305	-508	-465	-588	-753
Other non-cash operating items	-295	3	-295	75	0
Net operating cashflow	**146**	**1,091**	**2,100**	**2,052**	**1,640**
Capital expenditure	936	(3,112)	(2,210)	(700)	(600)
Net investments	4	0	0	0	0
Interest income	0	0	0	0	0
Other net non-operating income	-102	-69	-461	-300	-182
Net investing cashflow	**1,198**	**(3,181)**	**(2,671)**	**(1,000)**	**(782)**
Loan repayment	-506	1,469	931	-1,000	-1,600
Loan drawdown	0	0	0	0	0
Dividends paid	-602	0	-313	-474	-676
New ordinary equity	0	0	0	0	0
Other financing items	-2,177	-56	79	0	0
Net financing cashflow	**(191)**	**(1,255)**	**(3,284)**	**1,413**	**697**
Net increase/(decrease) in cash	**14**	**284**	**-334**	**18**	**201**
Cash at beginning of period	374	389	672	338	356
Cash at end of period	389	672	338	356	557
Free cashflow	**14**	**284**	**(334)**	**18**	**201**

Source: Company, CLSA

Good entry point post correction; strong re-rating potential

Century's stock price has corrected ~18% since June '17 on near-term growth concerns. This provides a good entry point in the franchise which we believe can deliver a robust 27% EPS Cagr over FY18-20. Valuations at 26x FY19CL PE look attractive in the backdrop of a 21% FY19CL ROCE profile compared to other building materials franchises. That said, regulatory uncertainty on raw material sourcing is the key risk. Also, given lower customer connect, we assign a lower multiple (30x June '19CL, +1sd above its long-term average) vis-à-vis our target multiples for other building material franchisees under our coverage.

Century trades at 29.7x 1yr forward PE multiple, above +1sd from its long-term average

Figure 39

Century 1yr forward PE multiple

Source: Evalu@tor

Figure 40

Century's valuations are attractive compared to peers in the building materials space

Company name	Price (LC)	Mcap ($m)	Rating	PE (x)		PEG (x)	EV/Ebitda		PB		ROE (%)		EPS Cagr %
				FY18	FY19	FY19	FY18	FY19	FY18	FY19	FY18	FY19	(FY18-20)
Wood Panel													
Century Ply	**254**	**879**	**BUY**	**32.5**	**25.7**	**1.0**	**20.0**	**15.4**	**6.3**	**5.3**	**22**	**22**	**27**
Greenply	272	516	N/R	23.2	20.7	1.7	14.1	11.3	3.6	3.1	17	17	12
Greenlam	900	337	N/R	32.4	23.5	0.6	13.7	11.4	6.2	5.0	21	23	17
Light Electricals													
Havells	472	4,624	SELL	43.2	35.1	1.5	27.6	22.6	9.3	8.1	23	25	23
Crompton Consumer	217	2,213	BUY	35.1	28.5	1.2	23.4	19.4	18.6	13.9	62	56	19
Bajaj Electricals	333	540	N/R	18.5	14.4	0.5	11.2	9.3	3.3	2.5	17	19	31
Finolex Cables	531	1,269	N/R	14.7	12.4	0.7	13.5	11.3	2.6	2.2	19	19	19
Paints													
Asian Paints	1,129	17,020	SELL	49.6	43.0	2.8	31.7	27.7	12.6	10.9	27	27	11
Berger Paints	237	3,563	N/R	38.2	32.9	2.1	23.4	20.4	9.4	8.1	26	26	19
Kansai Nerolac	455	3,858	N/R	43.1	37.5	2.5	28.4	24.1	7.8	6.8	19	19	15
Akzo Nobel	1,749	1,318	N/R	26.5	22.3	1.2	18.4	15.8	7.4	6.5	26	26	16
Pipes													
Astral	644	1,233	BUY	43.6	32.9	1.0	24.2	19.1	8.2	6.6	21	22	25
Supreme	1,130	2,213	N/R	25.0	21.5	1.3	14.7	12.7	6.2	5.6	26	27	19
Finolex Industries	590	1,144	N/R	21.2	19.6	2.3	14.4	13.4	3.0	2.8	14	15	10
Adhesives													
Pidilite	819	6,526	O-PF	46.3	39.5	2.3	30.3	26.1	10.6	9.0	25	25	18
Ceramics													
Kajaria	640	1,600	N/R	28.3	22.8	0.9	16.1	13.4	6.1	5.2	23	24	24
Somany	769	514	N/R	23.1	19.5	1.1	13.0	11.8	4.5	na	21	22	29
Sanitaryware													
HSIL	360	415	N/R	16.5	15.7	3.1	8.0	7.2	1.7	1.5	11	10	17
Cera	2,786	594	N/R	31.1	25.7	1.2	18.4	15.6	6.1	5.1	21	21	18

Source: Bloomberg (for the non-rated stocks), CLSA (for the rated ones). Priced as on close of business 22 August '17

Figure 41

Earnings and balance-sheet risk scores (lower the better)

	Score	Comments
Earnings-quality flags		
Capex indiscipline	1	Major capacity expansion in Laminates and MDF
Cash burn	0	
Rising non-core or intangibles	0	
Rising working capital	1	Inventory build-up due to ban in Myanmar
Poor cash conversion	0	
Earnings-quality risk score (EQRS)	**2/5**	
Balance-sheet-quality flags		
Cash burn	0	
Excessive leverage	0	
Frequent fundraising	0	
Liquidity concerns	0	
Operational stress	0	
Balance-sheet-quality risk score (BQRS)	**0/5**	

Source: CLSA

Valuation details

We value Century Ply at 30x Jun-19CL PE. Our valuations factors in Century's strong EPS growth potential, improving return ratios and strong FCF generation.

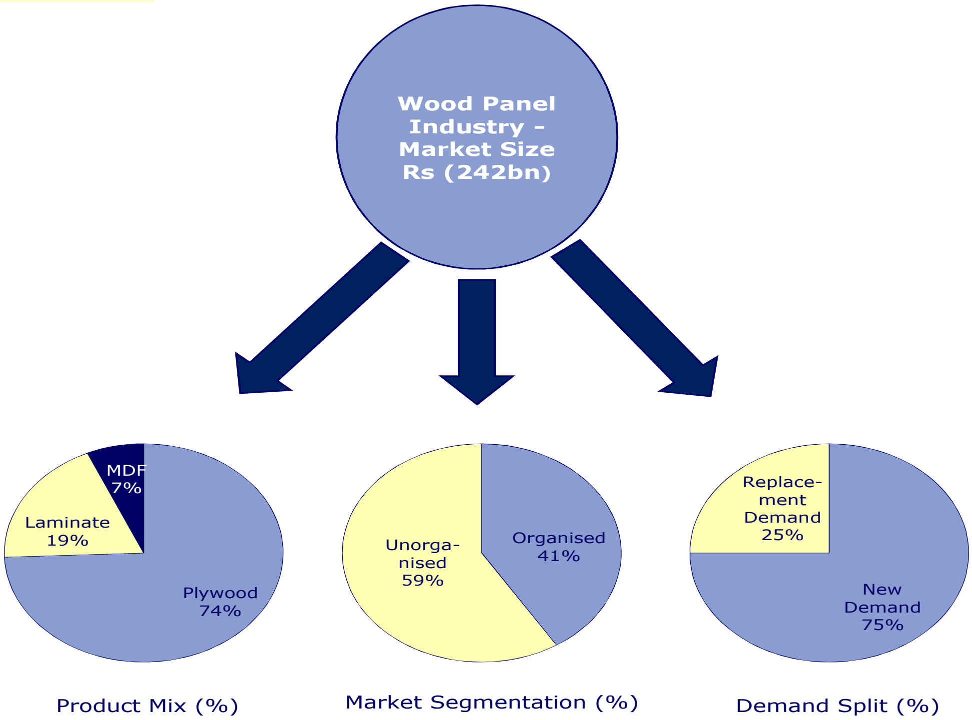
Investment risks

Key risks are: 1) Raw material accessibility issue due to much stricter export norms from governments of Myanmar and Laos 2) Higher than expected competitive intensity from the unorganised sector 3) Continued housing led demand slowdown 4) Any sharp rise in raw material costs could lead to margin pressure

Appendix

Figure 42

Wood panel industry – a snapshot



Source: Company data, CLSA

Figure 4

Break-up of wood panel industry based on performance

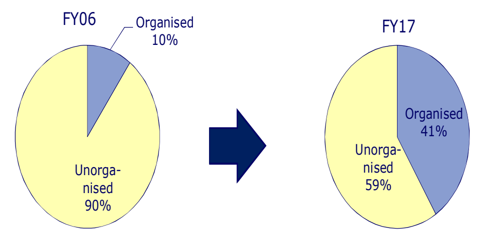
Product type	FY17 - market size (Rs bn)	Share of organised players	Remarks	Major players
Plywood	180	30%	Accounts for 74% of the wood panel market and recent challenges in sourcing raw materials has created stress on working capital	Century, Greenply, Archidply
Laminates	46	62%	Pegged to be the fastest-growing segment of the wood panel industry at the rate of ~20% annually	Greenlam, Merino, Century
MDF	16	70%	Has started to gain traction in the domestic industry; is the major demand generator for the wood-based products globally.	Greenply, National, Shirdi

Source: Company data

Organised segment has gained 30% market share in the last decade and while the industry growth was flat in FY13-16, the organised players still managed to clock a Cagr of 12%.

Figure 6

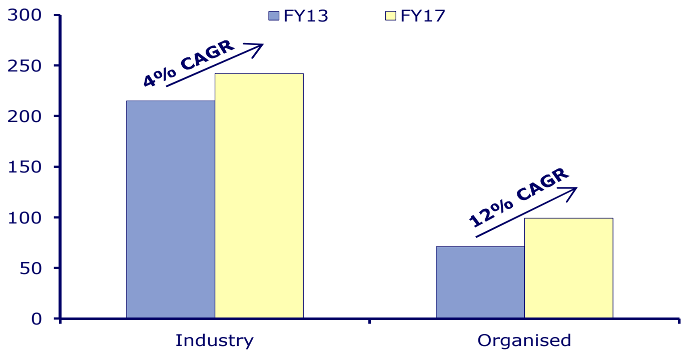
Gain in market share by organised players



Source: Industry sources, CLSA

Figure 7

Comparative growth curve - organised vs industry



Source: Industry sources, CLSA

evalu@tor
The Global Equities Database

Summary financials

Year to 31 March	2016A	2017A	2018CL	2019CL	2020CL
Summary P&L forecast (Rsm)					
Revenue	**16,409**	**18,187**	**20,443**	**24,393**	**28,032**
Op Ebitda	2,895	3,120	3,117	3,978	4,833
Op Ebit	2,420	2,526	2,412	2,976	3,733
Interest income	60	226	202	220	214
Interest expense	(479)	(302)	(399)	(397)	(360)
Other items	0	0	0	-	-
Profit before tax	**2,001**	**2,450**	**2,215**	**2,800**	**3,587**
Taxation	(304)	(515)	(465)	(588)	(753)
Minorities/Pref divs	-	-	(12)	(15)	(19)
Net profit	**1,698**	**1,935**	**1,738**	**2,197**	**2,815**
Summary cashflow forecast (Rsm)					
Operating profit	**2,420**	**2,526**	**2,412**	**2,976**	**3,733**
Operating adjustments	60	226	202	220	214
Depreciation/amortisation	475	593	705	1,002	1,100
Working capital changes	224	(559)	(815)	(722)	(675)
Net interest/taxes/other	(1,079)	(735)	(864)	(984)	(1,113)
Net operating cashflow	**2,100**	**2,052**	**1,640**	**2,492**	**3,258**
Capital expenditure	936	(3,112)	(2,210)	(700)	(600)
Free cashflow	**3,036**	**(1,060)**	**(570)**	**1,792**	**2,658**
Acq/inv/disposals	4	0	0	0	0
Int, invt & associate div	258	(69)	(461)	(300)	(182)
Net investing cashflow	**1,198**	**(3,181)**	**(2,671)**	**(1,000)**	**(782)**
Increase in loans	(506)	1,469	931	(1,000)	(1,600)
Dividends	(602)	0	(313)	(474)	(676)
Net equity raised/other	(2,177)	(56)	79	-	-
Net financing cashflow	**(3,284)**	**1,413**	**697**	**(1,474)**	**(2,276)**
Incr/(decr) in net cash	**14**	**284**	**(334)**	**18**	**201**
Exch rate movements	-	-	-	-	-
Opening cash	**374**	**389**	**672**	**338**	**356**
Closing cash	**388**	**673**	**338**	**356**	**557**
Summary balance sheet forecast (Rsm)					
Cash & equivalents	389	672	338	356	557
Debtors	2,842	3,422	3,578	4,269	4,765
Inventories	2,975	3,006	3,271	3,781	4,345
Other current assets	1,183	1,807	1,807	1,807	1,807
Fixed assets	2,891	3,604	5,109	4,807	4,307
Intangible assets	2	2	2	2	2
Other term assets	1,410	3,274	4,870	5,328	5,655
Total assets	**11,691**	**15,788**	**18,975**	**20,350**	**21,439**
Short-term debt	3,553	4,196	5,100	4,100	2,500
Creditors	2,099	2,782	3,169	3,781	4,289
Other current liabs	68	115	131	156	179
Long-term debt/CBs	647	1,474	1,500	1,500	1,500
Provisions/other LT liabs	7	14	14	14	14
Minorities/other equity	29	59	132	147	166
Shareholder funds	5,288	7,149	8,930	10,652	12,791
Total liabs & equity	**11,691**	**15,788**	**18,975**	**20,350**	**21,439**
Ratio analysis					
Revenue growth (% YoY)	3.3	10.8	12.4	19.3	14.9
Ebitda growth (% YoY)	13.1	7.8	(0.1)	27.6	21.5
Ebitda margin (%)	17.6	17.2	15.2	16.3	17.2
Net profit margin (%)	10.3	10.6	8.5	9.0	10.0
Dividend payout (%)	0.0	0.0	0.0	0.0	0.0
Effective tax rate (%)	15.2	21.0	21.0	21.0	21.0
Ebitda/net int exp (x)	6.9	40.7	15.8	22.5	33.1
Net debt/equity (%)	71.7	69.3	69.1	48.6	26.6
ROE (%)	37.0	31.1	21.6	22.4	24.0
ROIC (%)	23.6	18.7	13.8	15.0	18.2
EVA®/IC (%)	12.6	7.9	3.0	4.1	7.3

Source: CLSA

Research subscriptions
To change your report distribution requirements, please contact your CLSA sales representative or email us at cib@clsa.com. You can also fine-tune your Research Alert email preferences at https://www.clsa.com/member/tools/email_alert/.

Companies mentioned

Century Ply (CPBI IN - RS253.80 - BUY)
Adonis Vyaper (N-R)
Akzo Nobel (N-R)
Apnapan Viniyog (N-R)
Ara Suppliers (N-R)
Archidply (N-R)
Arham Sales (N-R)
Asian Paints (APNT IS - RS1,129.5 - SELL)
Astral (ASTRA IN - RS644.3 - BUY)
Auro Sundram Ply & Door (N-R)
Bajaj Electricals (N-R)
Berger Paints India (N-R)
Century Infotech (N-R)
Century MDF (N-R)
Century Ply (Singapore) Pte (N-R)
Century Ply Laos (N-R)
Centuryply Myanmar (N-R)
Cera Sanitaryware (N-R)
Crompton Consumer (CROMPTON IN - RS217.2 - BUY)
Finolex Cables (N-R)
Finolex Industries (N-R)
Greenlam Industries (N-R)
Greenply Industries (N-R)
Havells India (HAVL IB - RS471.9 - SELL)
HSIL (N-R)
Ikea (N-R)
Innovation Pacific Singapore (N-R)
Kajaria Ceramics (N-R)
KNP (N-R)
Merino (N-R)
Myanmar Timber Enterprise (N-R)
National Plywood (N-R)
Pidilite (PIDI IS - RS819.5 - O-PF)
PT Century Ply Indonesia (N-R)
Sarda Plywood (N-R)
Shirdi Industries (N-R)
Somany Ceramics (N-R)
Supreme Industries (N-R)
Uniply (N-R)
Vector Projects (N-R)

Analyst certification

The analyst(s) of this report hereby certify that the views expressed in this research report accurately reflect my/our own personal views about the securities and/or the issuers and that no part of my/our compensation was, is, or will be directly or indirectly related to the specific recommendation or views contained in this research report.

Important disclosures

The policy of CLSA (which for the purpose of this disclosure includes its subsidiary CLSA B.V.) and CL Securities Taiwan Co., Ltd. ("CLST") is to only publish research that is impartial, independent, clear, fair, and not misleading. Analysts may not receive compensation from the companies they cover. Regulations or market practice of some jurisdictions/markets prescribe certain disclosures to be made for certain actual, potential or perceived conflicts of interests relating to a research report as below. This research disclosure should be read in conjunction with the research disclaimer as set out at www.clsa.com/disclaimer.html and the applicable regulation of the concerned market where the analyst is stationed and hence subject to. This research disclosure is for your information only and does not constitute any recommendation, representation or warranty. Absence of a discloseable position should not be taken as endorsement on the validity or quality of the research report or recommendation.

To maintain the independence and integrity of CLSA's research, our Corporate Finance, Sales Trading and Research business lines are distinct from one another. This means that CLSA's Research department is not part of and does not report to CLSA Corporate Finance (or "investment banking") department or CLSA's Sales and Trading business. Accordingly, neither the Corporate Finance nor the Sales and Trading department supervises or controls the activities of CLSA's research analysts. CLSA's research analysts report to the management of the Research department, who in turn report to CLSA's senior management.

CLSA has put in place a number of internal controls designed to manage conflicts of interest that may arise as a result of CLSA engaging in Corporate Finance, Sales and Trading and Research activities. Some examples of these controls include: the use of information barriers and other information controls designed to ensure that confidential information is only shared on a "need to know" basis and in compliance with CLSA's Chinese Wall policies and procedures; measures designed to ensure that interactions that may occur among CLSA's Research personnel, Corporate Finance and Sales and Trading personnel, CLSA's financial product issuers and CLSA's research analysts do not compromise the integrity and independence of CLSA's research.

Neither analysts nor their household members/associates/may have a financial interest in, or be an officer, director or advisory board member of companies covered by the analyst unless disclosed herein. In circumstances where an analyst has a pre-existing holding in any securities under coverage, those holdings are grandfathered and the analyst is prohibited from trading such securities.

Unless specified otherwise, CLSA/CLST did not receive investment banking/non-investment banking income from, and did not manage/co-manage a public offering for, the listed company during the past 12 months, and it does not expect to receive investment banking compensation from the listed company within the coming three months. Unless mentioned otherwise, CLSA/CLST does not own a material discloseable position, and does not make a market, in the securities.

As analyst(s) of this report, I/we hereby certify that the views expressed in this research report accurately reflect my/our own personal views about the securities and/or the issuers and that no part of my/our compensation was, is, or will be directly or indirectly related to the specific recommendation or views contained in this report or to any investment banking relationship with the subject company covered in this report (for the past one year) or otherwise any other relationship with such company which leads to receipt of fees from the company except in ordinary course of business of the company. The analyst/s also state/s and confirm/s that he/she/they has/have not been placed under any undue influence, intervention or pressure by any person/s in compiling this research report. In addition, the analysts included herein attest that they were not in possession of any material, nonpublic information regarding the subject company at the time of publication of the report. Save from the disclosure below (if any), the analyst(s) is/are not aware of any material conflict of interest.

Key to CLSA/CLST investment rankings: BUY: Total stock return (including dividends) expected to exceed 20%; O-PF: Total expected return below 20% but exceeding market return; U-PF: Total expected return positive but below market return; SELL: Total return expected to be negative. For relative performance, we benchmark the 12-month total forecast return (including dividends) for the stock against the 12-month forecast return (including dividends) for the market on which the stock trades.

We define as "Double Baggers" stocks we expect to yield 100% or more (including dividends) within three years at the time the stocks are introduced to our "Double Bagger" list. "High Conviction" Ideas are not necessarily stocks with the most upside/downside, but those where the Research Head/Strategist believes there is the highest likelihood of positive/negative returns. The list for each market is monitored weekly.

Overall rating distribution for CLSA/CLST only Universe:

Overall rating distribution: BUY / Outperform - CLSA: 64.52%; CLST only: 67.61%, Underperform / SELL - CLSA: 35.48%; CLST only: 32.39%, Restricted - CLSA: 0.00%; CLST only: 0.00%. Data as of 30 June 2017.

Investment banking clients as a % of rating category: BUY / Outperform - CLSA: 4.77%; CLST only: 0.00%, Underperform / SELL - CLSA: 2.98%; CLST only: 0.00%, Restricted - CLSA: 0.00%; CLST only: 0.00%. Data for 12-month period ending 30 June 2017.

There are no numbers for Hold/Neutral as CLSA/CLST do not have such investment rankings.

For a history of the recommendations and price targets for companies mentioned in this report, as well as company specific disclosures, please write to: (a) CLSA, Group Compliance, 18/F, One Pacific Place, 88 Queensway, Hong Kong and/or; (b) CLST Compliance (27/F, 95, Section 2 Dun Hua South Road, Taipei 10682, Taiwan, telephone (886) 2 2326 8188). © 2017 CLSA Limited and/or CLST.

This publication/communication is subject to and incorporates the terms and conditions of use set out on the www.clsa.com website (www.clsa.com/disclaimer.html.). Neither the publication/communication nor any portion hereof may be reprinted, sold, resold, copied, reproduced, distributed, redistributed, published, republished, displayed, posted or transmitted in any form or media or by any means without the written consent of CLSA group of companies ("CLSA") and/or CLST.

CLSA and/or CLST have produced this publication/communication for private circulation to professional, institutional and/or wholesale clients only. This publication/communication may not be distributed or redistributed to retail investors. The information, opinions and estimates herein are not directed at, or intended for distribution to or use by, any person or entity in any jurisdiction where doing so would be contrary to law or regulation or which would subject CLSA and/or CLST to any additional registration or licensing requirement within such jurisdiction. The information and statistical data herein have been obtained from sources we believe to be reliable. Such information has not been independently verified and we make no representation or warranty as to its accuracy, completeness or correctness. Any opinions or estimates herein reflect the judgment of CLSA and/or CLST at the date of this publication/communication and are subject to change at any time without notice. Where any part of the information, opinions or estimates contained herein reflects the views and opinions of a sales person or a non-analyst, such views and opinions may not correspond to the published view of CLSA and/or CLST. This is not a solicitation or any offer to buy or sell. This publication/communication is for information purposes only and does not constitute any recommendation, representation, warranty or guarantee of performance. Any price target given in the report may be projected from one or more valuation models and hence any price target may be subject to the inherent risk of the selected model as well as other external risk factors. This is not intended to provide professional, investment or any other type of advice or recommendation and does not take into account the particular investment objectives, financial situation or needs of individual recipients. Before acting on any information in this publication/communication, you should consider whether it is suitable for your particular circumstances and, if appropriate, seek professional advice, including tax advice. CLSA and/or CLST do/does not accept any responsibility and cannot be held liable for any person's use of or reliance on the information and opinions contained herein. To the extent permitted by applicable securities laws and regulations, CLSA and/or CLST accept(s) no liability whatsoever for any direct or consequential loss arising from the use of this publication/communication or its contents. Where the publication does not contain ratings, the material should not be construed as research but is offered as factual commentary. It is not intended to, nor should it be used to form an investment opinion about the non-rated companies.

Subject to any applicable laws and regulations at any given time, CLSA, CLST, their respective affiliates or companies or individuals connected with CLSA /CLST may have used the information contained herein before publication and may have positions in, may from time to time purchase or sell or have a material interest in any of the securities mentioned or related securities, or may currently or in future have or have had a business or financial relationship with, or may provide or have provided investment banking, capital markets and/or other services to, the entities referred to herein, their advisors and/or any other connected parties. As a result, investors should be aware that CLSA, CLST and/or their respective affiliates or companies or such individuals may have one or more conflicts of interest. Regulations or market practice of some jurisdictions/markets prescribe certain disclosures to be made for certain actual, potential or perceived conflicts of interests relating to research reports. Details of the discloseable interest can be found in certain reports as required by the relevant rules and regulation and the full details are available at http://www.clsa.com/member/research_disclosures/. Disclosures therein include the position of CLSA and CLST only. Unless specified otherwise, CLSA did not receive any compensation or other benefits from the subject company covered in this publication/communication, or from any third party in connection with this report. If investors have any difficulty accessing this website, please contact webadmin@clsa.com on +852 2600 8111. If you require disclosure information on previous dates, please contact compliance_hk@clsa.com.

This publication/communication is distributed for and on behalf of CLSA Limited (for research compiled by non-US and non-Taiwan analyst(s)), and/or CLST (for research compiled by Taiwan analyst(s)) in Australia by CLSA Australia Pty Ltd; in Hong Kong by CLSA Limited; in India by CLSA India Private Limited, (Address: 8/F, Dalamal House, Nariman Point, Mumbai 400021. Tel No: +91-22-66505050. Fax No: +91-22-22840271; CIN: U67120MH1994PLC083118; SEBI Registration No: INZ000001735; in Indonesia by PT CLSA Sekuritas Indonesia; in Japan by CLSA Securities Japan Co., Ltd; in Korea by CLSA Securities Korea Ltd; in Malaysia by CLSA Securities Malaysia Sdn Bhd; in the Philippines by CLSA Philippines Inc (a member of Philippine Stock Exchange and Securities Investors Protection Fund); in Thailand by CLSA Securities (Thailand) Limited; in Taiwan by CLST and in the United Kingdom by CLSA (UK).

India: CLSA India Private Limited, incorporated in November 1994 provides equity brokerage services (SEBI Registration No: INZ000001735), research services (SEBI Registration No: INH000001113) and merchant banking services (SEBI Registration No.INM000010619) to global institutional investors, pension funds and corporates. CLSA and its associates may have debt holdings in the subject company. Further, CLSA and its associates, in the past 12 months, may have received compensation for non-investment banking securities and/or non-securities related services from the subject company. For further details of "associates" of CLSA India please contact Compliance-India@clsa.com.

United States of America: Where any section is compiled by non-US analyst(s), it is distributed into the United States by CLSA solely to persons who qualify as "Major US Institutional Investors" as defined in Rule 15a-6 under the Securities and Exchange Act of 1934 and who deal with CLSA Americas. However, the delivery of this research report to any person in the United States shall not be deemed a recommendation to effect any transactions in the securities discussed herein or an endorsement of any opinion expressed herein. Any recipient of this research in the United States wishing to effect a transaction in any security mentioned herein should do so by contacting CLSA Americas.

Canada: The delivery of this research report to any person in Canada shall not be deemed a recommendation to effect any transactions in the securities discussed herein or an endorsement of any opinion expressed herein. Any recipient of this research in Canada wishing to effect a transaction in any security mentioned herein should do so by contacting CLSA Americas.

United Kingdom: In the United Kingdom, this research is a marketing communication. It has not been prepared in accordance with the legal requirements designed to promote the independence of investment research, and is not subject to any prohibition on dealing ahead of the dissemination of investment research. The research is disseminated in the EU by CLSA (UK), which is authorised and regulated by the Financial Conduct Authority. This document is directed at persons having professional experience in matters relating to investments as defined in Article 19 of the FSMA 2000 (Financial Promotion) Order 2005. Any investment activity to which it relates is only available to such persons. If you do not have professional experience in matters relating to investments you should not rely on this document. Where the research material is compiled by the UK analyst(s), it is produced and disseminated by CLSA (UK). For the purposes of the Financial Conduct Rules this research is prepared and intended as substantive research material.

Singapore: In Singapore, research is issued and/or distributed by CLSA Singapore Pte Ltd (Company Registration No.: 198703750W), a Capital Markets Services licence holder to deal in securities and an exempt financial adviser, solely to persons who qualify as an institutional investor, accredited investor or expert investor, as defined in s.4A(1) of the Securities and Futures Act. Pursuant to Paragraphs 33, 34, 35 and 36 of the Financial Advisers (Amendment) Regulations 2005 of the Financial Advisers Act (Cap 110) with regards to an institutional investor, accredited investor, expert investor or Overseas Investor, sections 25, 27 and 36 of the Financial Adviser Act (Cap 110) shall not apply to CLSA Singapore Pte Ltd. Please contact CLSA Singapore Pte Ltd (telephone No.: +65 6416 7888) in connection with queries on the report. MCI (P) 033/11/2016

The analysts/contributors to this publication/communication may be employed by any relevant CLSA entity, CLST or a subsidiary of CITIC Securities Company Limited which is different from the entity that distributes the publication/communication in the respective jurisdictions.

MSCI-sourced information is the exclusive property of Morgan Stanley Capital International Inc (MSCI). Without prior written permission of MSCI, this information and any other MSCI intellectual property may not be reproduced, redisseminated or used to create any financial products, including any indices. This information is provided on an "as is" basis. The user assumes the entire risk of any use made of this information. MSCI, its affiliates and any third party involved in, or related to, computing or compiling the information hereby expressly disclaim all warranties of originality, accuracy, completeness, merchantability or fitness for a particular purpose with respect to any of this information. Without limiting any of the foregoing, in no event shall MSCI, any of its affiliates or any third party involved in, or related to, computing or compiling the information have any liability for any damages of any kind. MSCI, Morgan Stanley Capital International and the MSCI indexes are service marks of MSCI and its affiliates. The Global Industry Classification Standard (GICS) was developed by and is the exclusive property of MSCI and Standard & Poor's. GICS is a service mark of MSCI and S&P and has been licensed for use by CLSA.

EVA® is a registered trademark of Stern, Stewart & Co. "CL" in charts and tables stands for CLSA and “CT” stands for CLST estimates unless otherwise noted in the source.