

ANANDRATHI

“Century Plywoods (India) Limited Q1 Financial
Year 2015 Earnings Conference Call”

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Moderator: Ladies and gentlemen good day and welcome to the Century Plyboards Limited Q1 FY 2015 Earnings Conference Call, hosted by Anand Rathi Share and Stock Brokers Limited. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing “*” then “0” on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Girish Solanki from Anand Rathi Share and Stock Brokers Limited. Thank you and over to you Mr. Solanki!

Girish Solanki: Thanks a lot. Good afternoon friends. I would like to welcome Mr. Sajjan Bhajanka, the Chairman of Century Ply and the CFO, Mr. Arun Julasaria. Over to you Sir!

Sajjan Bhajanka: Good afternoon friends. I am Sajjan Bhajanka; Chairman of the Company and our CFO, Mr. Arun Julasaria had also joined me in welcoming you. This first quarter results call of Century Plyboards. Our CFO, Mr. Julasaria will take you through the results and business highlights, post which we will be free to answer your queries and questions. Now I request Mr. Arun Julasaria to brief you about the results.

Arun Julasaria: Good afternoon gentlemen. This is our first concall with the investors and I might have met some of you and some of you might not have met us. So I will start with brief introduction about the company and the business, but before this I would like to mention that this concall is just to discuss historical numbers and future plans of the company and hence it should be taken its forward-looking statement. This should not be taken with any recommendation invitation to invest in the company.

Now about the company, we are about 30-year-old company and known to be leader of plywood. All of you might have heard the name, must have heard the name of the Century Ply. We started with Veneer which is an intimated product for making plywood and then turned into an integrated full-fledged plywood company.

Our revenue mix is near about 75% from plywood, 20% from laminates and balance from Container Freight service operations. We have five manufacturing units in India and one unit in Myanmar, Burma which was earlier called. All our

units are typically located across all parts of India for maximum logistic advantage and smooth supply chain. Our one unit is located near Calcutta in Eastern part of India, one near Chennai in the Southern part of India, one near Karnal in Haryana in Northern part of India, one near Kandla Port in Western part of India and one near Guwahati in North Eastern part of India, and remaining one in Uttarakhand in Central part of India.

Our Myanmar factory is more for securing raw material supply although we can make plywood also there. We have a varied distribution network across India. We have 33 marketing officers in almost all major cities of India, each marketing offices have adequate warehousing facility attached to it. We have near about 5000 dealers and sub dealers to sell products to end customers; our major revenue comes from retail sales and hardly 10% from institutional sales.

We have now capacity to produce near about 210000 cubic meter of plywoods and 4.8 million sheets of laminates. We have augmented our capacity in last two years and now viewed for demand scope which is likely to come for the leaders. Mr. Bhajanka will elaborate.

Sajjan Bhajanka:

To tell you brief about plywood market segment, plywood market we estimate near about 15000 Crores although no authentic data is available and out of the 20% is estimated to be unorganized and 30% organized. So out of the 30% organized, half of the organized sales is covered by two national players Century Ply and Green Ply with branded and organized players are region based and confined to one or two states only.

At national level there is almost oligopoly of two players Century and Green but with competition. Industry is regulated and as such there is entry barrier. In last 10 years industry grow such near about 10% but altogether sector growth was 25% plus. For the reasons increased branch awareness, e-governance etc., post GST unorganized sector will have to be at level playing so far taxation structure is concerned and as a result organized sector will grow faster than unorganized sector and mainly that unorganized sector will shrink.

In laminate we are among top four players but market perceives us number one so far as quality is concerned. We also operate two container freighting stations near Calcutta Port, our old promoters are first gen promoters and our completely

involved with our company and our demerged business company Star Ferro and Cement limited. Promoters sold near about 75% of total shareholding of the company.

On raw material part, the raw material for plywood are timber and chemicals with plywood wood treated with chemicals and glue together with the help of additives for making plywood we required both matured and short cycle timber. Matured timber we import it and short cycle timber is both imported and indigenously available. The raw material for laminating paper and chemicals are partly imported and partly available locally.

So now I would like to come to the numbers. I will first discuss financial highlights year-on-year that means performance for Q1 FY 2015 compared to Q1 FY 2014. The net sales grew from 283.7 Crores to 362.74 Crores. This net sales includes other operating incomes also and resulting on a growth of near about 28% in total. PBT grew from lowest 5.56 Crores to profit of 30.71 Crores. The PAT grew from loss of 4.21 Crores to profit of 25.72 Crores. Overall EBITDA margin including forex differences grew from 5.5% to 13.4% and revenue which was plywood 76%, laminate 18% and CFS is 4% and balance others.

Now I would like to inform you about foreign exchange difference in FY 2014 first quarter company booked a segmental foreign exchange loss of 23.99 Crores. In the current quarter there is no foreign exchange loss and rather company has booked from a steep gain of near about 1.80 Crores.

Now I would like to throw some highlights on segmental performances of the company. First I would like to take up our major segment plywood. During the current quarter income from plywood segment was Rs.275.17 Crores against 203.87 Crores showing a growth of about 35%.

EBITDA margins including foreign exchange difference increased from 4.5% to 14.3%. EBITDA margins excluding forex difference remained almost at the same level of 14%.

Coming to laminate segment, the total net revenue from laminate segment increased from Rs.59.26 Crores to Rs 64.12 Crores showing a growth of near about 8%. The EBITDA margin laminate segment including foreign exchange

difference improved from 4% to 10.4%. EBITDA margin after considering forex different remained at almost same level of 10%.

Coming to our last segment of container Freighting Station, the net income from this segment increased from 14.12 Crores to 15.08 Crores, showing a growth of about 7%. Our EBITDA margins in this segment came down from 49% to 39%.

During the quarter due to depreciative recomputation requirements of the new company's debt there is additional burden on the profitability of the company by an amount of Rs.2.5 Crores approximate and in Q1 FY 2014 we also had a dividend income from one of our subsidiary company amounting to Rs.427 Crores which is not there in the Q1 of FY 2015.

During this current quarter company also incurred approximate Rs.10 Crores on account of advertising on loans of its new Nana Patekar TVC whereas in the previous quarter because of loss we did not have such expenditure.

That concludes the highlights and introduction part. I now request you to start question and answer session. Thank you. Please address the question, if that is the question relative to numbers it should be addressed to CFO and if it is a qualitative question please address to Mr. Bhajanka, Chairman of the Company.

Moderator: Thank you very much. We will now begin the question and answer session. The first question is from the line of Avinash Agarwal from Sundaram Mutual Fund. Please go ahead.

Avinash Agarwal: Good afternoon Sir. Sir this question is regarding our sales number in this quarter so I just wanted to understand have we booked any revenue from the Burma Veneer plant that we had set up there?

Arun Julasaria: Burma Veneer plant as I mentioned this is just only to secured raw material supply. So whatever Burma is producing that is coming to India so that is contained in our numbers.

Avinash Agarwal: Because that is a separate entity I believe that will come under consolidated entity?

Arun Julasaria: That is a 100% subsidiary of this company and its entire production comes to India to our parent company.

- Sajjan Bhajanka:** So far Burma is not very much we have regulated and they are just experimenting the promotion of industry. So they have lot of regulations and they have fixed their price in Burma, we cannot export above that price. So that price is almost our cost at Burma, so indirectly due to this compulsion the profit transfers to the parent company. It is Century India.
- Avinash Agarwal:** Thank you for that Sir. Sir in terms of the logs that we had imported last year at lower price and we were expected to get some gains from that whenever we produce and sell it in India, I just wanted to understand from a timing perspective has that reflected in our Q1 to some extent?
- Arun Julasaria:** I mean to say Sir I should correct you that last year whatever we imported we do not import at lesser price because ban was announced so there was a rush to buy timber at Burma rather we imported at a higher price. So the inventory which we are having we import it till March before the ban came into force is rather of a bit high price.
- Sajjan Bhajanka:** That is more particularly Burma. So Burma we had to buy at par with their export price, but now with the exporting ban we are getting timber in Burma much cheaper than the earlier rate, earlier we may be buying at \$850 - \$900 per tonne now it is available around \$600 per tonne.
- Avinash Agarwal:** But what would be the price in India Sir if someone wants to import today from Burma we cannot import?
- Sajjan Bhajanka:** Now we cannot import, after April 1, the export of timber from Myanmar is totally banned, so there are some small source alternative source like some timbers comes from Malaysia but there again price increase and then from Laos, Cambodia and Vietnam, some timber comes, but it is totally inadequate to meet the Indian demand but as you all know that we have built a good inventory that will last up to December at least and then we are continuing with the sourcing from the alternative source so we still manage but maybe some there is color, and quality issue maybe there so that I think really market will adjust to the new environment and we are sourcing raw material now from Africa also. So from Africa and the other Asean countries maybe gradually things will settle. To add to this for making quality plywood which is acceptable in India is still we require timber from Burma for putting the fleece plyers and we have got enough timber till December and post

December our Myanmar factory will meet whole lot of requirement although we cannot bring timber from Myanmar but we can bring it into the form of intermittent product which is Veneer we call it. So far raw material supply is concerned we are completely safe for our enhanced capacity.

Avinash Agarwal: Sir now that you mentioned that we had actually imported this timber at a higher price last year?

Sajjan Bhajanka: So teaks are into GURJAN timber.

Avinash Agarwal: GURJAN timber yes Sir.

Arun Julasaria: But you know that the price was higher in comparison to the last year but again the market of the Veneer, it increased again substantially and there is good profit still at the higher rate of timber converted into the Veneer again it would be good provision because veneer prices also in India is almost doubled in comparison to the last year.

Avinash Agarwal: Sir on this advertising part you mentioned that we have spent about Rs 10 Crores this quarter on advertising on the TV commercial, but I see FY 2013 I think you had an advertising and promotion etc?

Sajjan Bhajanka: That in first quarter we did not.

Avinash Agarwal: No I am talking about FY 2013 sir, FY 2014 number I do not have FY'13 was what I have?

Sajjan Bhajanka: Yes in FY 2014 first quarter that we were running into loss so we preferred to and we did not spend on it.

Avinash Agarwal: So what was the advertising and promotion for FY 2014 full year?

Sajjan Bhajanka: We usually spend 4% of our net turnover.

Arun Julasaria: Net revenue from plywood. So usually our budget is 4% with net revenue from plywood and we advertised all along last three years. We always spend in brand but this last quarter somehow we did not spend so once we compare quarter-to-quarter results there it would reflect but in the other quarters you will see that

corresponding but our new campaign is well received so and it has been generating good sales also so maybe this year spending on advertising would be little more.

Avinash Agarwal: Sir so broadly can we assume something between 4% and 5%, is that correct to assume for this year?

Sajjan Bhajanka: Broadly 4% and 5% in what Sir.

Avinash Agarwal: Of the plywood revenue Sir?

Sajjan Bhajanka: More about 4% of our plywood revenue I mean to say gross revenue in fact revenue which after 4% gross is near about 25%.

Avinash Agarwal: I will come back with more questions.

Moderator: Thank you. The next question is from the line of Mayur Gathani from OHM Group. Please go ahead.

Mayur Gathani: Thank you for the opportunity Sir. Sir I just wanted to check why are we looking at other sources of raw material from other places if we have a factory in Burma we can get the intermediate product from Burma export it to India and continue with the normal work that we were doing earlier. Why do we need to look out at other sources?

Sajjan Bhajanka: The plywood we make there are two layer components one is fleece, one is so the premium timber which need we need to source from Burma so that gets almost 50% fleece 50%, but our requirement of fleece is only 10% so 14% surplus sales we need to sell to other small players that is in India and there we control almost 30% of the market so other way you can say that 30% of small manufacturers of plywood they buy fleece veneer so much and from the Burma factory we still have sufficient veneer for our own requirement but to sale to the market and to meet market requirements we have to source timber because now onward that the market requirement in India would be there and that we need sales veneer to make plywood. So that will bring the market leader, it will be our responsibility to arrange raw material from wherever it is available nearest to the India's requirement and to continue our market leadership.

Mayur Gathani: So that is the reason why you are looking at alternative options of importing?

- Sajjan Bhajanka:** In fact if we do not look the industry will look so we will have to be front driver.
- Mayur Gathani:** Sir regarding laminate EBITDA margins how do we see that moving up Sir?
- Arun Julasaria:** Laminate EBITDA margins last year suffered only last year it suffered due to conditional year because we increased our capacity from 2.4 million sheets to 2.8 million sheets but now those are back to normal of 10% and could improve that to made about 13% - 14% by the year end.
- Mayur Gathani:** Thank you very much Sir.
- Moderator:** Thank you. The next question is from the line of Achint Bhagat from Ambit Capital. Please go ahead.
- Achint Bhagat:** Good afternoon Sir. Sir just one question that you mentioned you are fairly well covered on raw material import from Burma since you have your own plant what are the competitors doing sir the larger ones Green Ply where are they sourcing their veneers from?
- Sajjan Bhajanka:** Recently Green Ply also established one unit in Myanmar so I think they will also be able to meet their one requirement from that unit. Green Ply was not a major player in the veneer market so they were confining so far mostly could their own requirement.
- Achint Bhagat:** This new capacity that their set up will be is enough to suffice their own needs?
- Sajjan Bhajanka:** Yes, but like this our capacity will be started this two lanes so we have already start third lane and we have taken permission for the fourth lane also. So once we commission the fourth lane then we shall have additional capacity after meeting our own requirement may be it is 30% requirement of our earlier supplies we can need from this and then we will continue manufacturing veneer in India from the timber source from alternative source based in countries so that would be fair then its requirements.
- Achint Bhagat:** So once the fourth lane is complete you are saying that you will easily be able to meet your needs plus you will have the surplus so supposing how much extra will you have 30% - 40% extra?

Sajjan Bhajanka: Like the fourth lane commissioned then it will be the fleece veneer available from that unit would be double our requirements and now like total what we produce and out of 50% or out of the total 20% we consume ourself and 80% we sell is the market. So with this added capacity almost after meeting our requirement so in comparison to earlier times 20% suppose comes from our requirement another 20% should be available for meeting the requirement of our buyers of veneer and then for 60% we have to arrange timber from different sources and to meet their requirement and until December we have timber stock. So we have time until December to make the elements for additional sourcing of timber.

Achint Bhagat: Sir in terms of forex loss so I understand that you do not hedge any of your positions so basically this time that last year you had a fairly large forex loss what gives you the confident that there will be no, I mean what is the benefit of not going for a hedge and keeping it open because that risk will always loom given you have such high imports?

Arun Julasaria: This last year we would have hedged then our hedging cost would have been 35 Crores and the loss is 45 Crores so only we have incurred additional loss of 10 Crores only and this quarter almost we said that amount by not hedging and our hedging cost for this quarter along would have been around 99 Crores so that way we until 2004 we were totally hedged from 1991 to 2004 that time when they are hedging was 22% that time also we were fully hedged then rupee increased from 18 to 25 to 35 to 43 so all along that period we were hedged until rupee reached Rs.48 then it is 48 and started declining we stopped hedging then onwards we are maintaining a policy of non-hedge so all along we gain except in three years. So during that period of ten years in three years we lost the money and seven years we gained and hedging cost we saved all ten years.

Achint Bhagat: Right so basically this because the rupee were to depreciate further from here on you would still incur some forex losses supposing in the next quarter if incase there is any rupee depreciation you are completely open to it?

Arun Julasaria: Now I think for the coming four years under Mr. Modi directed I do not see rupee is depreciating substantially.

Achint Bhagat: These are my questions. Thank you.

- Sajjan Bhajanka:** My liabilities are now mark-to-mark at Rs.60.10 per dollar so from the past movements you will find the rupee is trying to appreciate to level below 58 even and RBI is somehow holding it because they want to keep it between 58 and 60. So 60 is the upper band we can say. So considering these all happenings it is prudent to keep it open at the movement.
- Achint Bhagat:** That is I wanted to get a sense on that. Thank you.
- Moderator:** Thank you. The next question is from the line of Saurabh Kanodia from Smith Securities. Please go ahead.
- Saurabh Kanodia:** Good afternoon Sir. Thanks for the opportunity. Sir I would like to know that post implementation of GST if you can give us some color about how the dynamics are going to change for the industry and your company in particular, that will be helpful Sir?
- Sajjan Bhajanka:** As earlier like informed by Mr. Julasaria that there are two market segments the organized is only 30% and unorganized is 70% and like removal, other things are mainly reportable for the unorganized sectors, because they save on the duties and taxes and other things. So once GST in place and like everything is on the electronic platform so after that the chances of this manipulation would reduce and with that our market share will increase. So from 30% maybe you would reach 50% or something bigger market share would definitely help in better sales and better revenues and income.
- Saurabh Kanodia:** Sir can you help us with some sales guidance in respect to your segments of plywood and laminates separately and can you help me with some sales guidance for your revenues segment wise for plywood and laminates?
- Sajjan Bhajanka:** You want to know the revenue figures?
- Saurabh Kanodia:** Yes Sir this guidance.
- Sajjan Bhajanka:** Will I tell you again.
- Saurabh Kanodia:** Yes Sir.
- Sajjan Bhajanka:** This quarter revenue figures.

Saurabh Kanodia: I wanted some sales guidance we are targeting for FY 2015 for plywood and laminates.

Sajjan Bhajanka: You mean to say FY 2015 targets?

Saurabh Kanodia: Yes Sir.

Sajjan Bhajanka: We are targeting conservative growth of 25% and you will find that in this quarter our growth year-on-year is already 28% so 25% you can say is our conservative growth target, which we are most likely to achieve and our performance for this quarter four that we have already achieved 28%.

Saurabh Kanodia: Sir as you have rightly mentioned that the margins in the laminate divisions are expected to inch upward by the year end, what will be the key drivers going forward for this margin uptake?

Arun Julasaria: As I said last year was conditional year and this year will be normal year and the volume of sales will increase thereby the margins will increase. Like we had taken a major expansion during the previous year so we increased our capacity from 2 lakhs a month to 4 lakhs a month but it will not reflect into the sales last year and this year now we have already reached almost 25% of the capacity whereas the average capacity of last year was only up to the 100% of the earlier capacity or that is 50% of the expanded capacity so the movement within another two to three months we will reach almost 85% to 90% capacity. So this is the economy of scale the better this thing productivity and like the saving in the raw material during the bulk buying so these all will like translate into the better numbers.

Saurabh Kanodia: Thank you Sir. That is it from my side.

Moderator: Thank you. The next question is from the line of Devang Mehta from Canara Robeco. Please go ahead.

Devang Mehta: Good afternoon Sir. I wanted to understand better of the cost dynamics of the total cost of raw material what would be raw timber and what would be fleece. If you can give a percentage split between approximate split between both the costs. I was trying to understand what would be the cost difference between fleeced timber so out of the overall cost of raw materials what percentage would be fleeced timber and what percentage would be the timber?

- Arun Julasaria:** With March wise fleeced timber is near about 10% of total wood marsh and value wise fleeced timber is far more costlier in between core timber.
- Devang Mehta:** Can you give some approximate percentage?
- Arun Julasaria:** It is not readily available but may be the fleeced consists of maybe around 15% of the total cost, but exact figures are not available because we have not readily listed.
- Devang Mehta:** Can I have a comparison of timber short cycle timber which is available in India what would be the prices last year same quarter and how much it has raisin this year?
- Arun Julasaria:** In India like popular and the timber is more or less is stable last year and a half two year it is more or less is stable so there should not be any increase in that mix in Indian resourcing.
- Devang Mehta:** Have we seen any improvement in realization of the fleecce timber that we sell to other players?
- Arun Julasaria:** May be there is improvement because we are selling at a price if we compare from the first quarter of last year to this quarter the price of fleecce veneer will be almost double in the market.
- Devang Mehta:** Thank you. That is it from my side.
- Moderator:** Thank you. The next question is from the line of Vishal Gajwani from Birla Sun Life. Please go ahead.
- Vishal Gajwani:** Thanks a lot for taking my question. Sir I wanted to understand you mentioned about the growth of 25% in sales in FY'15, what will be the split between ply and laminates growth in ply and growth in laminates?
- Arun Julasaria:** Overall 28% growth and plywood.
- Vishal Gajwani:** It is for FY'15 not for Q1 FY'15, estimate for the full year FY'15.
- Arun Julasaria:** Q1 to Q1 comparison.

- Vishal Gajwani:** No I am talking about your estimate full year?
- Arun Julasaria:** For the whole year like this year growth in laminate would be more because we have increased the capacity although we also increased capacity in plywood because where we have started one unit in Kandla which is a new addition this year during the last financial year so it is now fully operated so if we see the results and again we are augmenting our capacity in various units so with that plywoods will also increased but to the increase in laminate would be more because we have doubled that capacity from 2.4 million to 4.8 million so if even we reach 80% of the capacity then also there would be 60% growth in laminate. So may be marketing challenges would be there but overall laminate would grow more. So if say the composite growth is 25% then may be plywood would be 22% and laminate would be 27% - 28% because our contribution from laminate is almost 20% of the plywood.
- Vishal Gajwani:** So you are saying laminate growth will be how much?
- Arun Julasaria:** Laminate growth would be may be in comparison to the last year it would be 50% the impact on this overall sales would be additional 3% which we have 25% the laminate would contribute to take the total sales to around 28%.
- Vishal Gajwani:** Sir just wanted to understand your laminate margins in FY'13 were 9% which came down to 3.4% in FY'14 and have started to go up now so what was the reason firstly of the fall in margins of laminates from FY'13 to FY'14?
- Arun Julasaria:** Technically we commissioned our enhanced capacity during the last financial year but for technical reasons it was commissioned like we commissioned third fleece may be somewhere in the January and the fourth fleece in March so as this were commissioned so we have to charge depreciation on the entire capacity whereas the contribution to the productivity was almost made and similarly if the investment was going on in the whole year and once we commissioned then we have to charge the entire interest to revenue. So that way the interest burden and the depreciation burden decrease our probability whereas there were no additional sales from the enhanced capacity.
- Vishal Gajwani:** No, I am talking about EBIT margin so only depreciation will come there and not interest?

- Arun Julasaria:** Yes, so depreciation was also the company has and which will drive and we have moved annual rate. As we says that last year was conditional year and last year also there were high forex losses across all segments which are not likely to there this year so margins will improve apart from this when the volume will increase volume growth will come and EBITDA margins will also increase.
- Vishal Gajwani:** What is the kind of margin that you are looking at for FY'15 both the plywood and laminates separately?
- Sajjan Bhajanka:** I mean to say in plywood we feel that EBITDA margins will be near about 14% and in laminate we should be near about 13% by the year end.
- Vishal Gajwani:** Sir your advertising you said your Nana Patekar advertising was around 10 Crores in Q1 so for the full year what is the advertising budget that you are carrying?
- Sajjan Bhajanka:** We have a policy of expanding near about 4% of our net turnover on advertising of plywood.
- Vishal Gajwani:** So last year was it 40 Crores advertising spend.
- Sajjan Bhajanka:** This year's budget.
- Vishal Gajwani:** In FY'14 your ply sales were around 960 Crores.
- Sajjan Bhajanka:** Yes FY'14 was something like this I do not have readily figure but near about previous year the same but in current year we are having budget of 40 Crores plus effect.
- Vishal Gajwani:** Sir ply margins that you mentioned 14% does this includes the benefit of higher realizations from the fleece veneer because the prices have doubled there?
- Sajjan Bhajanka:** Fleece constitute only 10% of our total turnover so that will definitely contribute but the proportion of turnover the whole turnover is not that big.
- Vishal Gajwani:** Sir structurally, do you think that you can grow by around 25% in FY'16 also is that possible?
- Sajjan Bhajanka:** This year we must grow 25%.

Arun Julasaria: Here already like there is change in the outlook of the market so, so far India was struggling in the first two sectors that is rupee and kapada so now they are moving close to third sector makkan so with their new government their trust on the infrastructure and housing with already higher exemptions they have announced from 50000 to 150000 in the income tax and with like up to housing loans up to 50 Crores against house cost of 65 lakhs and up to 50 lakhs loan component is now taken into the infrastructure category where bank had not to give any CRR or SLR or the priority in lending so banks cost is coming now other than lower cast on the housing loan, housing like the offtake of the inventories would increase and we come in the picture once the house is delivered. So now there is lot of transitions are taking place and there is buoyancy in the market and with the more housing units sold definitely there would be greater demand for plywood. So we foresee unit demand and our challenges would be to arrange for the raw materials and to meet the market requirement so that we are working very hard to secure raw material for our company. We are going all the way given the boundaries to the Asean countries to Papua New Guinea, to Sullivan Island, to African Island, to Latin America so we are foreseeing we are securing our cost and we are ready to meet any demand.

Vishal Gajwani: Sir thanks a lot for such an elaborate reply. Sir one last question from my side, this might be a very basic question. You are saying that laminates growth will be very high in FY'15 because of the capacity availability. So I wanted to understand why are you falling short of meeting the demand because of capacity is constraints in the first place. Because I believe laminates will be branded products so why do you constrained of capacity to begin within FY'14 why do you not able to supply laminates despite higher demand?

Sajjan Bhajanka: There are two reasons first thing like where is the commodity market and there is a brand market so ours is a branded product so like to increase the sales for a branded product in a short span of time like commodity is not possible, commodity is only price sensitive whereas in our case this is branding we have a channel, we have a network of distributors, dealers, and then there is a network of the influences where the carpenter, interior decorators, architects they all are there so this channel cannot expand overnight so although we have increased our capacity from say 2.4 million to 4.8 million but we cannot achieve the sales as per the capacity because the offtake would gradually increase during the year and maybe it will take us another year to reach the full capacity. So we are expanding

we are going now from tier one to tier two city to tier three cities. We are appointing dealers, sub dealers in tier three cities also because now we had capacity and earlier we were restricting like even we have two segments. We sell in the domestic markets and in laminates will be export also to Asean countries to Singapore, Hong Kong, even the Middle East and even to Europe. So earlier we had limited capacity so we are declining the order and when the earlier the balance was 50/50 when our Indian demand increase so we reduced exporting and now once we have capacity wise available we have approached those buyers whom will could not supply in between to get them back again was very difficult so we are now expanding to new countries, new players and we are trying to motivate our existing buyers to buy more in the export segment and similarly in domestic segment we are expanding our capacity but you know there is over capacity in Indian markets and there is huge competition in laminates. So we have to consider this fact also.

Vishal Gajwani: So how much of laminates is expected to be exported in FY 2015?

Sajjan Bhajanka: Almost 40% of our total production would be exported and 60% to be about the domestic market.

Vishal Gajwani: Exports margins I would suspect will be lower because there you might not be selling under your own brand is that right?

Sajjan Bhajanka: But even though it is not in our own brand but it is a through established channel where they have a brand and they have consistency of quality because last so many years like some dealers in Singapore so he is mostly selling our product and they need back-to-back arrangement and now new market which we are opening we are opening with our brand name. So those markets we are starting at a lower margin but once our brand is established margin will increase and now where we sell its commodity or without our brands and which is branded by other players, other buyers so in that case we will get good margin and last year due to the bouncy in the dollar and the this things we had rather better contribution from exports then from our domestic sales and now also the margins are at part in domestic market also and export also.

Vishal Gajwani: So you are saying 40% of laminate sales will be exports in FY'15.

Sajjan Bhajanka: That will be our target.

- Vishal Gajwani:** What was that number in FY'14?
- Arun Julasaria:** FY'14 we exported the value of 64 Crores out of total revenue of 210 Crores so it is about 25%.
- Sajjan Bhajanka:** Because until last year we had limited materials. It was with some difficulty meeting domestic requirement so we were containing our exports and now we are trying everywhere exports also we have opened the new market so we are targeted that 40% we shall export and 60% we will sell indigenously. Maybe the ultimate figure it will depend how much successful we are there in the both the markets so it may vary may be 5% here and there.
- Moderator:** Thank you. The next question is from the line of Achint Bhagat from Ambit Capital. Please go ahead.
- Achint Bhagat:** Sir just one thing your 35% growth in the plywood segment on a year-on-year basis could you break it up into value and volumes?
- Sajjan Bhajanka:** Value growth will be near about 5% in volume should be near about 20% in a rough estimate it can be even with 2% here and there.
- Achint Bhagat:** I see say that around at close to 35% growth on a year-on-year basis right in plywood?
- Sajjan Bhajanka:** Yes.
- Achint Bhagat:** The 25% and 5% does not stack up?
- Sajjan Bhajanka:** 25% yes.
- Achint Bhagat:** Sir what was the volumes in this quarter compared to last year if you could share that with me?
- Sajjan Bhajanka:** Meanwhile we can take another question. I will share with you.
- Achint Bhagat:** I think this is one of my primary questions.
- Sajjan Bhajanka:** The volume growth increase on the plywood year-on-year is near about 24%.

- Achint Bhagat:** So basically your realization heart rate is close to 11% overall.
- Sajjan Bhajanka:** Yes out of 34% around total value growth 24% is the volume growth and balance is the value growth.
- Achint Bhagat:** Sir how are you seen the markets now after these three months are now and now we have already through July and the centering August this month have you seen any demand moderation which are the pockets where you are seeing demand from?
- Sajjan Bhajanka:** Market is gradually picking up, everyday market is gradually picking up.
- Achint Bhagat:** So sir when you say gradually picking up, I mean you are coming off from a 24% growth so you are seeing more growth than this in this quarter?
- Sajjan Bhajanka:** At the moment almost all our factories they are running at the highest levels that. This morning I was talking with my Guwahati plant this year, this month they are going to cross 8 lakhs square meters which is ever highest production in the month and there would be ever highest dispatch from our Guwahati lead in the month. So similarly our Chennai unit all the units they are running almost at the peak so there is demand and still after running all the factories into 85% - 90% capacity still we are not able to meet all the orders so that way demand is there. Earlier we are struggling for the orders and sometimes we had to reduce the production due to the paucity of orders so that thing we do not see anymore and particularly this particular quarter is otherwise also need to be the best quarter for us because the seasonal demand for housing majorly peoples are target Dasara or Diwali so this quarter we just preceding that. So otherwise also this is best quarter maybe some challenges in the third quarter.
- Achint Bhagat:** This is specific to Century or you think the industry itself is doing very, very well?
- Sajjan Bhajanka:** We feel there will be quarter-on-quarter consequent growth except the third quarter, which is festivity season things are a bit subdued otherwise quarter-on-quarter there will be entirely growth.
- Achint Bhagat:** Sir in terms of volume you were to share the exact volumes if you could give me this quarter and previous quarter last year not growth the volume?

- Sajjan Bhajanka:** Volume of plywood?
- Achint Bhagat:** Plywood and laminate both that if you could share sir please?
- Sajjan Bhajanka:** First quarter of June 2014, June 2013 we produced around 32000 cubic meter of plywood and this time we have produced near about 39000 cubic meter of plywood.
- Achint Bhagat:** Sir laminates?
- Sajjan Bhajanka:** It is about 571,000 sheets and 6,39,000 sheets.
- Achint Bhagat:** Sir just one last question so I believe your capacity currently in plywood is close?
- Sajjan Bhajanka:** I mentioned you the sales figure.
- Achint Bhagat:** Yes, so your capacity in plywood I believe would be close to 2.2 lakh cubic meters right?
- Sajjan Bhajanka:** Yes, plywood we can produce near about 2 lakh cubic meter per annum, so 50000 cubic meter per quarter you can say that way.
- Achint Bhagat:** Sir incrementally from hereon next year you will start facing capacity constraints?
- Sajjan Bhajanka:** Our capacity is picking up everyday.
- Achint Bhagat:** So will you be increasing the capacity?
- Sajjan Bhajanka:** Demand, capacity is picking up everyday; we have created enough capacity for year-on-year growth of 25% value wise and 20% volume wise for next two years.
- Arun Julasaria:** Like our Myanmar plant we have not yet be started plywood manufacturing although we have created the capacity but shortage of manpower and trade manpower and being challenges were there and then there was good margin in Veneer so until now we are manufacturing only Veneer, but now we can start the plywood manufacturing also so that will like compliment our plywood capacity and in Kandla unit because it was started during the middle of the last year so now it has reached almost 60% capacity so it will also reached say normal 80% - 85% capacity at which we have older plants, older plants are running.

Achint Bhagat: Sir from Myanmar if you were to import into India would it change your costing materially or your margin would remain the same whether you sell it from importing from Myanmar or you manufacture it in India by importing only veneer from Myanmar?

Sajjan Bhajanka: In Myanmar you can compare with the India's of 1980 so that time but the mindless regulations were there other things were there so now if we buy anything from Myanmar or even our own units we have to get prior approvals for every consignment and before giving approvals they ensure that the entire payment has been received into the country. So first even though it is our unit we have send advanced payment for buying the timber, but we have to for that material we have to send advanced payment and then they have to say prior approvals at what quantity at what rate we are selling rate they have restricted. So due to that restriction in the rate so far there is no profit generated in the Myanmar units and because if the rate restrictions it is transferred to the Indian unit so prolong with that this will not continue very long, because if they are changing very fast they are opening up they are changing they are bringing the reforms so may be very soon it will be open market and that time they will withdraw the restrictions on the billing so then the Myanmar profit would be booked in the Myanmar if we import anything into India because that is our 100% subsidiary and that is attempted in Myanmar. So there would not be any income tax in Myanmar or on the Myanmar unit and that profit we can transfer to our like holding company Indian company and again that will be at a conditional debt because the dividend from overseas subsidiary to the principle in India is taxed at 50%. So that advantage would be there and that money we can use in our dividend payment so there we can step the dividend tax also, if we receive dividend from Myanmar like dividend tax on that would be 15% and then that dividend will reduce our liability on dividend by 20%. So if suppose we receive 20 Crores form Myanmar or say and that we distribute to our shareholders so on that amount only we have to pay 15% tax and whereas dividend would be augmented.

Moderator: Thank you. The next question is from the line of Thomas Joseph from Ambit Investment Advisors. Please go ahead.

Thomas Joseph: Thanks for taking my question Sir. Just two questions I wanted to understand the fleece veneer which you supply to the domestic market smaller players are we to assume that this is in the organized market?

Sajjan Bhajanka: We are supplying fleeced veneer to organize market and that is your précised question.

Thomas Joseph: Yes that is what I am trying to ask there is an organized market you are supplying to or unorganized market you are supplying to?

Sajjan Bhajanka: Fleece we are supplying to probably unorganized markets. The organized player in India they have their one fleeced capacity and most of the other peers they are also imported timber they have their one stock and so they really do not buy veneer.

Thomas Joseph: Just an extension of this question if that is the case then is it because we have existing or historical relationship with these guys will then unorganized market and if their supply constraints as such sales is a concern they will obviously have face problems going forward if you do not supply to them. So I just wanted to understand that logic are rational as to why you keep supplying this to them?

Sajjan Bhajanka: No there are lot of other players like in the veneer market there are 35 units in India and the 35 units they run almost 70 filling land, and we run around 19 filling land out of that. So other 51 filling lands are there with the different players and out of them more than 50% are unorganized sectors. So even if we do not supply the organized players then also they have sourced in the veneer segment where there exclusively veneer manufacturer only they import timber they make veneer fleece veneer and core veneer, fleece veneer they supply to unorganized play, and core veneer they supply to us or the organized manufacturers.

Thomas Joseph: So you are saying that if nobody else supplies to these unorganized there will be somebody at the end of the day will supply to the unorganized market players?

Sajjan Bhajanka: Yes we will supply and now market is dynamic so this scarcity and this thing will gradually things would settle and now people they are start basically and the other countries and gradually that has started proliferating into the Indian market. So after a year or two again it will become the normal thing. Everybody will have the sourcing from we people or from the people in India or from import of the veneer.

Thomas Joseph: Just one final question what percentage of your sales will supply to if it a very small percentage to supply to these small unorganized players fleece veneer?

- Sajjan Bhajanka:** It is hardly 10% of our total turnover, because fleece veneer requirement in plywood and particularly the unorganized players they made the thicker plywood they made block wood in the plantation areas, they make a thicker plywood so the thicker the plywood fleece requirement is less, fleece requirement for 3 mm is 0.6 mm and fleece requirement for 18 mm is also 0.6 mm. So thicker the plywood fleece percentage reduces so for these people they need only 5% fleece whereas we need 10% fleece because we make all the thicknesses and the unorganized people they make mostly the thicker plywood so where the fleece component is less so that way the total quantum of sales is not very big.
- Thomas Joseph:** It is a small number and you expect this was near 10% going forward.
- Sajjan Bhajanka:** Yes, and to add to these apart from these in order to ensure a best quality to do fleece we keep the higher grade fleece and use it for making our own plywood and sale the lower grade fleece.
- Thomas Joseph:** That is it. Thank you.
- Moderator:** Thank you. The next question is from the line of Avinash Agarwal from Sundaram Mutual Fund. Please go ahead.
- Avinash Agarwal:** Sir on this laminate part the volume growth seems to be closer to 12% but value growth is only 8% so can you just explain Sir is it because of some mix change?
- Sajjan Bhajanka:** Yes, laminate it consist of number of SKUs number of sizes, so it is difficult to say what the exact class so basically I can tell you that only the board numbers.
- Avinash Agarwal:** Sure sir, sir this 40% - 50% kind of growth that we are hoping for this year would that in more in volume terms or in value terms Sir?
- Sajjan Bhajanka:** Actually because we have increase the capacity and earlier we had capacity constraint so that time we are competing to premium products only like one hand we known either premium products in laminates we are not making enough 0.8 mm or we were not at all making 0.6 mm so each 0.8 mm and 0.6 mm are the cheaper versions but now as we have additional capacity and we are not likely to consume our entire capacity for the premium product this year so we sell like some cheaper products also. So the growth in the value would be comparatively less than the growth in volume.

- Avinash Agarwal:** And sir do we have any Forex component in the interest in this quarter sir.
- Sajjan Bhajanka:** No not in this quarter, we had a 1.8 Crores forex gain this quarter so none of the Forex loss is booked as a finance cost.
- Avinash Agarwal:** And in terms of interest how much should we assume for this year sir in tax rate.
- Sajjan Bhajanka:** Pardon.
- Avinash Agarwal:** What should you assume for tax rate sir this year?
- Sajjan Bhajanka:** It will depend upon the revenue mix from different unit but it should be somewhere between 10% to 15%, PBT, PAT different would be somewhere between 10% to 15% depending upon the revenue mix from different units because some of our units are tax dependent and now the more and more revenue will come from new risks so the gate which was mainly 3% - 4% last year will definitely widen.
- Avinash Agarwal:** And sir this last question on this Burma unit from where we are supplying veneer right now what is the kind of turnover that unit can do sir this year.
- Sajjan Bhajanka:** It could be somewhere near of 150 Crores.
- Avinash Agarwal:** Thank you sir and all the best.
- Moderator:** Thank you. The next question is from the line of Nehal Shah from Antique Stock Broking. Please go ahead.
- Nehal Shah:** Good afternoon Sir. Sir one question can you give us the breakup in plywood turnover with respect to plywood decorative veneer, fleece veneer?
- Sajjan Bhajanka:** I do not have the micro figures at the movement I can tell you only segmental figures, sub segmental figures at the movement I will give.
- Nehal Shah:** Fine I will take it later sir and one more thing like fleece veneer currently which is there in the inventory is obviously at higher levels which were try to band so at around \$850 to \$900 when are we expected to exhaust all these high cost inventories by what time.

Sajjan Bhajanka: Of December, but Nehal we procure it at a higher rate but the price of the sales it is in the market is even higher so we are have no loss in that so we shall get some profit only. The Century and because now very few people are like us we have inventory up to December so now people are trying for the alternative ailment but at the movement no like secure ailment is there by the other units but at the same time there the existing inventory of the imported timber is depleting very fast. So many of the small manufacturers they are going out of the stock. So that way by December I think the price of veneer may increase little more so with that may give us some additional profits and even that can add some additional profits from Myanmar unit, because Myanmar now pricing is stable it is stable around \$600 - \$650 which is there procurement for as tax and cost and around \$400 duty to anti Myanmar timber enterprise that is Myanmar government so they charge around \$400 duty and then their construction and others like the all manufacturing cost, other things transpiration cost their profit so this will now stabilize around \$650 in Myanmar and with that and Indian price getting some margins.

Nehal Shah: So what is the currently ruling price in Indian market fleece veneer?

Sajjan Bhajanka: Current price is depending on the grade it is from Rs.15 to Rs.25 per square meter.

Nehal Shah: No, if we want to have equivalent pricing as is there in the inventory which is 850 to \$900 that is little complex calculation with one of its fund which cost will be around \$900 so that gives around 1 cubic meter of fleece veneer and 1 cubic meter of fleece veneer is equal to 3333 square meters of 0.3 fleece veneer. So 3333 x say average Rs.20 so it become 6000 something and then in addition to this there is a 40% coat (ph) so that also fleece revenue. So that way revenue from this timber would be around Rs.85000 to Rs.90000 although almost \$1400 then we have some manufacturing cost, some transportation cost, it is little complex because there are many variations it is not like fairly converted to right so you have one product to one product we have there are various grade of fleece then there is four then there is other component.

Nehal Shah: But roughly just to compare with the existing inventory costing of \$850 to \$900 current price is around \$1000 it is a rough understanding.

Sajjan Bhajanka: Yes.

Nehal Shah: And after December our cost is to further go down to around \$600 to \$650 per ton.

Sajjan Bhajanka: Yes for Myanmar therefore from \$200 the manufacturing component the transportation component so our blended cost and that is even it is converted to veneer so maybe and have the \$150 so it will be less than \$800 in comparison to the present import of 900 plus manufacturing in India, so which is another \$100 in India so that way there would be minimum 20 to 25% clear margin in our Myanmar unit.

Nehal Shah: Thanks a lot for the question.

Moderator: Thank you. As there are no further questions I would now like to hand the floor over to Mr. Girish Solanki for closing comments.

Girish Solanki: Thanks a lot sir for taking your time out Mr. Bhajanka and Mr. Julasaria. We really appreciate to taking your time out.

Sajjan Bhajanka: Thank you very much all the participants.

Moderator: Thank you. On behalf of Anand Rathi Share and Stock Brokers Limited that concludes this conference. Thank you for joining us and you may now disconnect your lines.